



Food and Agriculture  
Organization of the  
United Nations

## Brief assessment of the living income concept

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Rome, 2024

Required citation:

Cruickshank, D. & Bammann, H. 2024. *Brief assessment of the living income concept*. Rome, FAO. <https://doi.org/10.4060/cd0148en>

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## Acknowledgements

The authors extend gratitude to all Food and Agriculture Organization of the United Nations (FAO) peers and living income practitioners who provided valuable feedback. We are thankful for the contributions made by Ana Paula de la O Campos and Jana Dietershagen (Agrifood Economics and Policy Divisions [ESA], FAO); Ileana Grandelis, Marwan Benali, Omar Benammour, Hitomi Ho and Leo Keller (Rural Transformation and Gender Equality Division [ESP], FAO); David Naven (Agrifood Systems and Food Safety Division [ESF], FAO); Victor Prada (Trades and Markets Division [EST], FAO) and Omardath Maharaj from the FAO Subregional Office for the Caribbean.

A special thanks goes to key informants and Stephanie Daniels (Sustainable Food Lab) who shared their experiences and insight. We also appreciate the editorial support of Carlota Monteiro Vilalva (ESA, FAO) and Daniela Verona (ESA, FAO), who also coordinated the publishing process.

## Abbreviations

CSDDD	Corporate Sustainability Due Diligence Directive
FIL	Farmer Income Lab
GAP	Good Agricultural Practices
GIZ	The Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH
GLWC	Global Living Wage Coalition
HIHI	Hand-in-Hand Initiative
ICO	International Coffee Organization
IDH	Sustainable Trade Initiative
INA	Initiative for Sustainable Agricultural Supply Chains
ISEAL	ISEAL Alliance
LICoP	Living Income Community of Practice
LID	living income differential
VOICE	Voice of Organizations in Cocoa
WUR	Wageningen University and Research



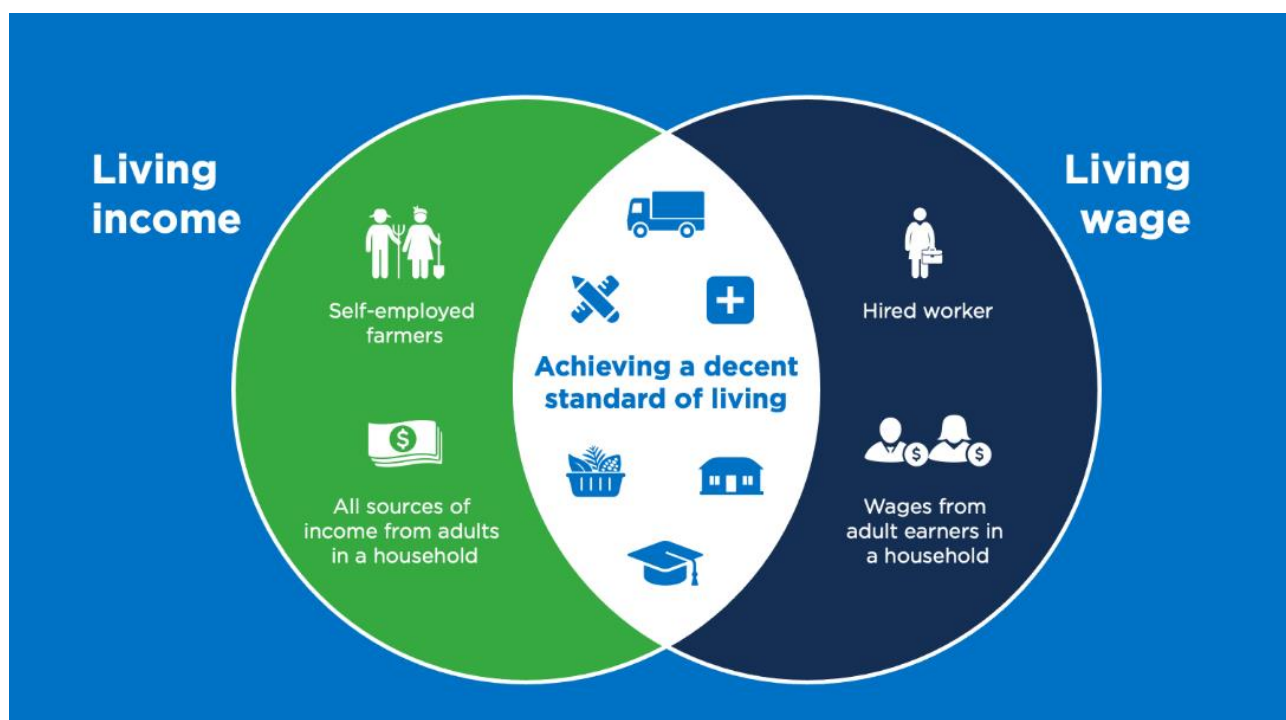
# 1 Introduction

The living income concept continues to garner the attention of many development agencies, civil society organizations, companies and governments seeking effective strategies to improve the standard of living for smallholder farmers supplying global commodity agrifood value chains.

The living income concept is a derivative and expansion of the living wage concept and was initially inspired by the living wage discussions in the garment sector (Senathirajah, 2023). The living wage concept is applied in the context of hired workers (farms, factories etc.) and the living income concept is applied to the context of self-employed workers such as farmers, fisherfolks, small scale producers and their entire households (LlCoP, 2023a).

Both the living wage and living income concepts have the same end goal of achieving a decent standard of living for households (Figure 1). Living income is defined as “the net annual income required for a household in a particular place to afford a decent standard of living for all members of that household” (LlCoP, 2023c). Under this definition a “decent standard of life” includes housing, healthcare, education, nutritious food, water, clothing, transportation, unplanned events and other essential needs of the household (LlCoP, 2023c).

**Figure 1. Comparison: living income and living wage**



Source: IDH (The Sustainable Trade Initiative). 2023. Roadmap on Living Income. In: IDH. [Cited 20 May 2023]. <https://www.idhsustainabletrade.com/roadmap-on-living-income>

Although there are similarities between both concepts there are distinct differences between the target groups, the composition of wages and incomes, the methodologies for calculating the living income and living wage benchmarks and measuring the gaps (see Annex A, Figure A1). A successful example and application of the living wages concept within agricultural food value chains is the work the World Banana Forum is doing to secure living wages for hired banana workers. These wages are fair remuneration based on the employees’ real costs of living. Whereas income for self-employed smallholder farmers supplying global food chains do not cover the real costs of living for their own farming households. This then has the ripple effect on the wages the self-employed farmers can afford to pay to their workers who are among the worst paid employees and most underrepresented.

The International Labour Organization (ILO, 2022) noted that the promotion of “living incomes” – instead of “living wages” – through varying initiatives ensures that self-employed smallholder farmers can afford the cost of their needs through market sales of their goods and services. The current living income dialogues among stakeholders

are shining spotlights on the disproportionate distribution of remuneration and income in agrifood value chains. The challenges farmers face from existing trade practices, low commodity prices, short-term contracts, archaic farming practices, climate change, poverty, and poor working conditions are also being highlighted and discussed.

The current incomes of smallholder farming households are very low and insufficient for farmers to invest in education for their families, in good nutrition, reinvest in their farms to increase productivity and pay living wages to the workers they employ. Deforestation, gender inequality and child labour are direct results of farmer poverty (Fountain and Huetz-Adams, 2022). The households are unable to afford a decent standard of living. This is in violation of their human rights according to Article 25 of the United Nations Declaration on Human Rights (Box 1) and Article 11 of the International Covenant on Economic, Social and Cultural Rights (Gneiting, 2021).

#### **Box 1. Article 25: Universal Declaration of Human Rights**

Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control.

Source: United Nations. The smallest farms in low-income countries appear to be more productive than farms that are slightly bigger. On the other hand, in the developed world, productivity increases with scale. In: *United Nations*. [Cited 15 February 2023]. <https://www.un.org/en/about-us/universal-declaration-of-human-rights>

As a key element of human rights and environmental due diligence, the living income approach has spawned debates about the standard of living of smallholder farming households supplying global agrifood value chains. Some advocates, example those in the Voice of Organizations in Cocoa (VOICE) network, argue that living income is aspirational and may not be realized fast enough. While others, notably those within the International Coffee Organization (ICO), argue that the living income bar, representing a minimum standard, is too low and farmers should be seeking higher prosperous incomes to ensure the engagement of the next generation in farming. However, the LICoP adopts the current view that living income is a milestone on the road to achieving prosperity for smallholder farming households. Living income is not the goal nor the ceiling but the income required to afford a decent standard of living.

The LICoP acknowledges the fact that income alone does not guarantee a decent quality of life and effective public and private sector services that provide access to adequate healthcare, education, infrastructure etc. are also required. The living income approach contributes to the larger sustainable livelihood approach (Palomino, 2023) which considers all factors that directly and indirectly impact the quality of life of poor households. There is need for more collaboration of all relevant stakeholders to provide social protection interventions, civil society support for women's empowerment and stronger producer organizations.

The living income concept is primarily applied in the context of export commodities (tea, cocoa, vanilla, coffee etc.) of formal agrifood value chains with great traction in the cocoa sector. The initial focus of the living income concept was on smallholder farming households, but the Living Income Community of Practice (LICoP) has recently been broadening its scope to include fisheries, mining and textiles sectors and hosted workshops to discuss whether the living income concept can be adopted in non-agricultural sectors. However, this report reviews living income in the context of smallholder farming households supplying commodities for global agrifood value chains.

### **1.1 Rationale for adopting the living income approach**

In addition to the benefits of a better life that will accrue to the farmers, their households and their hired workers, there are motivating factors for governments and private companies to adopt and apply the concept. Governments can use living income data for strategic planning and for the design of economic development and poverty alleviation programmes and policies (Hanke *et al.* 2022 – Annex A, Figure A2). While for companies the incorporation of the living income approach into business strategies is becoming the stark reality to ensure a good

reputation, the stability of raw materials supply and compliance with the United Nations Business due diligence and Human Rights responsibilities (IDH,2023 - Annex A, Figure A3).

Though country and context specific, the quantifiable data produced by the application of the living income concept gives good evidence as the basis for challenging debates around pricing and system level changes required to address the structural root causes that keep smallholder farmers poor. Thus far, many positive changes have been observed (Section 3.1) and big outcomes such as a move towards greater gender equality are expected. As the movement continues it is hoped that it will deliver on expectations and achieve its objectives.

## **1.2 Research objective and methodology**

This report is a rapid review of the living income concept, its application, methodology, tools, successes and challenges. The objective of this research was twofold i) to investigate the merits of the living income concept for adoption into FAO programmes and field projects related to sustainable value chains and agrifood systems development as a tool for strengthening farmer-market linkages within inclusive business models, and ii) to determine if it may be a tool that also could be adapted (and supported) by other FAO units and programmes.

A mixed methodology was applied with the combination of desk review of literature, other secondary data accessed through internet searches and key informant interviews. A combination of a snowball selection method based on the recommendations of key informants and deliberate selection of both proponents and opponents by the authors. Invitations were extended and some were accepted while some interviewees were unavailable. The range of informants included personnel from buying companies, development agencies, NGOs, Cooperatives, Research Institutions and staff from various FAO units. They were invited to share successes, challenges, catalysts to move the work forward and recommendations for FAO.

The cocoa commodity sector was the first sector to apply the living income approach and piloted the methodology and tools, as such, most of the programmes and literature reviewed originated from this sector. Five programmes from select companies and agencies implementing living income projects were reviewed to gain a better understanding of the application of the approach. The programmes and their strategies to close the living income gap were examined against four success factors; bundling interventions, tailoring programmes to farmers' needs and contexts, developing tighter connections across the supply chain and partner for change. For this section of the research, key informant interviews including farmers from cooperatives in Côte d'Ivoire and Ghana and information available on the internet were the primary source of data.

The initial findings were discussed and validated in two different virtual workshops: one for the informants and partners consulted and one internal session with FAO colleagues from different units, including decentralized offices.

## 2 Living income methodologies and tools

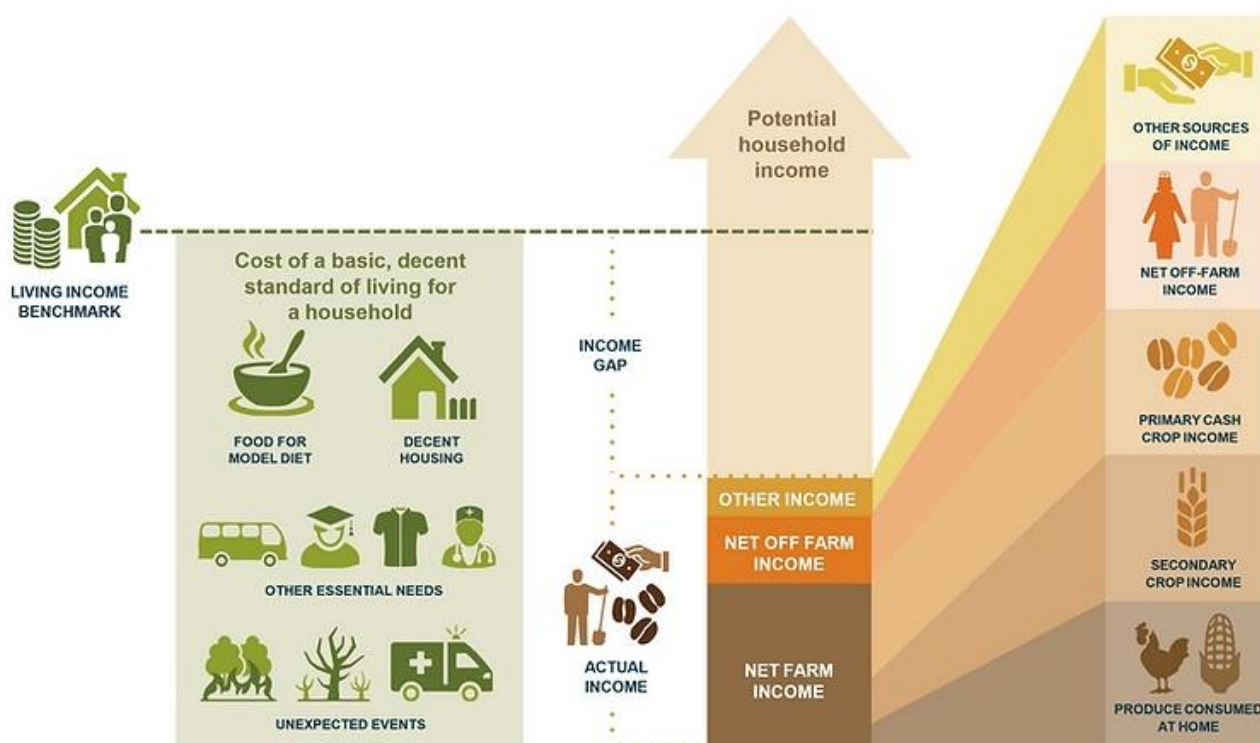
The current mainstream definition of living income was established by the LICoP. This alliance of civil society organizations and industry partners was founded in 2015 to provide a platform to debate and formalize definitions, metrics and strategies for living income for small farmers and independent informal workers (LICoP, 2023c). This community, founded by the Sustainable Food Lab, GIZ, and ISEAL, builds on the work of the Global Living Wage Coalition.

The components of a decent standard of living (housing, healthcare, education, nutritious food, water, clothing, transportation, unplanned events and other essential needs of the household) are defined according to the Anker Methodology<sup>1</sup> used in the definition of the living wage benchmarks by the Global Living Wage Coalition (GLWC).

The living income concept focuses on the ‘idea of decency and earning enough income to live comfortably’ (LICoP, 2023c) which extends beyond basic subsistence and survival captured by national and global poverty lines. The income of the entire household is also emphasized and all sources of income both on and off farm businesses and remittances are considered (Figure 2).

Figure 2 depicts the living income story of an “average” farming household and illustrates the cost components considered under a decent standard of life, sources of income (on and off farm), the income gap, potential household income and the living income benchmark.

**Figure 2. The living income story**



Source: LICoP (Living Income Community of Practice). 2023. Living Income Graphics. In: *LICoP*. [Cited 15 February 2023]. <https://www.living-income.com/living-income-graphics>

<sup>1</sup> Developed by experts Richard and Martha Anker (Anker, R. and Anker, M., 2017).

## 2.1 Living income values

Living income values can be derived using different methodologies including living income benchmarks and living income proxies.<sup>2</sup> This chapter presents the methodology endorsed by the LICoP and the three distinct methodological steps to follow when determining living income values:

1. Living income benchmark (**Anker methodology**) to calculate the costs of a decent standard of living.
2. Actual income measurement to calculate the net household income:  
(*net household income = total household revenue – costs*)
3. Income gap assessment to compare the benchmark and actual income:  
(*income gap = living income benchmark – median of net household income*)

### 2.1.1 LIVING INCOME BENCHMARKS

A living income benchmark is an estimate of the income required to support a basic and decent standard of life for a “typical” household. The minimum costs for food, housing, clothes, transportation, healthcare and unexpected essential needs for the entire household are calculated. Benchmarks are typically established for a specific country or regions within a country for a particular sector (Waarts *et al.*, 2021). These benchmarks are considerably higher values than the national or global poverty lines (van De Ven *et al.*, 2020).

#### Box 2. Living income benchmarking methodologies

**Anker reference values** are based on a regression analysis of forty (40) quality-assured Anker methodology living wage and income studies that have been carried out so far. These values provide a credible estimate of living wage or income at a country level, for rural and urban areas. Anker reference values are much less expensive to produce than full studies, and though they have a plus or minus ten percent (+/-10 percent) margin of error using a ninety-five percent (95 percent) confidence interval they are none-the-less still internationally comparable and easily updated every year.

**WUR living income methodology:** This methodology was adapted from the Anker living wage methodology and focuses on a rapid calculation of living income benchmarks in rural households in low-income countries while attempting to improve standardization and simplify the assessment procedures. It relies on a mixture of methods, triangulating information from household surveys, key informant interviews and secondary reports to assess the annual income required per adult equivalent to afford a decent standard of living. Assessment of a living income is expressed in per adult equivalent per day (AE/day) (van de Ven *et al.*, 2020).

Source: LICoP. 2023. *Living Income Community of Practice*. [Cited 15 February 2023]. [www.living-income.com](http://www.living-income.com)

Three benchmarking methodologies can be used, namely, Anker living income benchmarks (see Section 2.1.1), Anker living reference values and WUR living income methodology (Box 2). LICoP recommends the Anker Methodology for calculating the living income benchmarks as the Gold Standard with values currently available in 50 countries. This methodology was established by the Global Living Wage Coalition (GLWC) and was designed to estimate living wages but now is also applied to estimate the living income for households (LICoP, 2023b). Built on years of work from the World Health Organization (WHO) and ILO, it is considered a robust methodology as it employs good validation processes, thorough on the ground research and strong quality controls.

This mixed methodology collects data from national and regional statistics and information through field research to calculate how much it will cost the household to afford a decent standard of living (van de Ven *et al.*, 2020). This value is then considered the living income benchmark and it is considerably more than the poverty line

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<sup>2</sup> Living income proxy: This method uses the existing poverty lines as proxy. In this case, the cost of a decent standard of living is not calculated, and instead international and/or national poverty lines are multiplied by a factor to account for other areas of spending not considered in the original poverty calculation (e.g. non-food expenses). This factor is usually determined using national or regional expenditure data (LICoP, 2023).

benchmarks. Living income studies are built on national data and governments that collect economic data from their population can apply the methodology.

The living income benchmark calculations vary between regions and within countries and are useful references that can be used standalone or with other data to inform the planning of companies, projects and policies. Additional uses of the benchmark are outlined in Box 3.

In addition to the 50 country benchmarks established by the GLWC, other benchmark studies were conducted by LICoP and Heifer International Hanke *et al.* 2022. Heifer international also uses the Anker Methodology to calculate similar benchmarks for their projects during the design phase and considers the specific needs of the project participants.

The 2018 living income benchmarking report conducted for Ghanaian cocoa farmers by the LICoP depicts a good example of the application of the Anker methodology (LICoP, 2023a). The report provided details and explanations for the calculation and estimation of the benchmark and all data sources accessed.

### 2.1.2 ACTUAL INCOME

The income for smallholder households may originate from various sources and comprise both on-farm and off farm incomes (LICoP, 2023b). They may include farm revenue, remittances, remuneration as hired labour etc. There are varying income data collection tool kits which offer a range of different ways to measure income based on resources. These include farmer field book assessments and record keeping, farm level household recall surveys, focus group discussion, key informant interviews, secondary data sourcing, extrapolation and modelling (Romo, 2022).

The actual income<sup>3</sup> / net household income – is calculated by subtracting costs from the total household revenue.

$$\text{Net household income} = \text{total household revenue} - \text{costs}$$

### 2.1.3 INCOME GAP

Once a benchmark is established and the actual income determined, the income gap can be assessed. This is the additional amount of income required to afford a decent standard of living and is the difference between the living income benchmark and the actual income of the household (LICoP, 2023b). It represents the income distribution and the median farmer income against the benchmark.

$$\text{Income gap} = \text{living income benchmark} - \text{median of net household income}$$

This quantifiable data can then be used to inform strategies to increase the income of the entire farming household and policies for a better enabling environment to close the gap.

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<sup>3</sup> The methodology to calculate the living income benchmark is very context specific and establishes benchmarks used to determine the living income gap. There are other existing methodologies applied to calculate farm household incomes which are mainly used for policy analysis purposes. One example applied by FAO is the methodology used to establish the Rural Income Generating Activities (RIGA) dataset (available at [https://www.fao.org/fileadmin/templates/riga/docs/Country\\_survey\\_information/RIGA-L\\_Methodology.pdf](https://www.fao.org/fileadmin/templates/riga/docs/Country_survey_information/RIGA-L_Methodology.pdf)), while the World Bank uses Living Standards Measurement Studies (LSMS) (available at <https://www.worldbank.org/en/programs/lsms/income>).



### **Box 3. Uses of the living income benchmark**

A living income benchmark in and of itself is a useful reference for evaluation, however when compared with other information it becomes an even more powerful tool. If you have data on existing income levels then a living income benchmark can be used to monitor how specific farming households, or a whole farming sector, are performing in relation to it.

A living income benchmark can also be used as a target or reference in farm economics models, where changes to farming systems and other drivers of household income can be tested (modelled) to see how much specific improvements could move farming households toward a living income. In other words, a living income benchmark could be a target for broader livelihood interventions.

One can also use benchmarks to establish crop income targets. For example, if one crop in an area on average contributes 70 percent of total farm income and another crop 30 percent, appropriate and realistic revenue targets can be set for the respective crops. These targets can then be used in farm economics models to estimate how much change in land area, price, or productivity would be needed to get average farmer incomes up to this benchmark.

Benchmarks can be used further to determine what the return to household labour would need to be in order to ensure that remuneration of all available household labour hours would be equivalent to a living wage, or that the household is able to earn a living income with all available working hours (assuming workers work an acceptable number of working hours, with time for rest, etc.).

Source: LICoP. 2023. The Concept. In: *LICoP*. [Cited 18 July 2022]. <https://www.living-income.com/the-concept>

#### **2.1.4 LIVING INCOME REFERENCE PRICE**

The living income benchmarks can be used to determine prices for commodities. The farm gate price necessary for a producer to attain a particular income benchmark can be estimated by calculating a reference price (LICoP, 2023b). Organizations such as the German Development Agency (GIZ) and Fairtrade designed tools to estimate a living income reference price. GIZ developed a living income reference price estimator to calculate the estimated reference prices in up to three different production scenarios at once. Fairtrade International established a Fairtrade Living Income Reference Price model based on the cost of a decent standard of living (living income benchmark), sustainable yields, viable farm size and the cost of sustainable production. This model includes the living wage of hired labour which is important to ensure that remuneration is fairly redistributed.

## **2.2 Closing the income gap**

Since the start of the living income movement, there is now greater alignment and consensus around the tools and methodology and the current living income debates are moving more towards solutions and strategies to increase incomes and close the income gaps. Some of the interventions to increase incomes discussed and analysed by Waarts and Kiewisch (2021), include: increasing price and premiums, diversification of income sources, increasing productivity, improving the enabling environment (land governance, social protection systems), increasing household resilience (micro savings and loans, unconditional and conditional cash transfers, local capacity building and upskilling, food security, strengthening communities), and multistakeholder collaboration and coordination.

A highly debated intervention is “price and premiums increases” where the opportunities, limitations and risks are broadly discussed (Waarts and Kiewisch, 2021; Fountain, 2022; Brack, 2020; Alestig, 2023; Gneiting and Arhin, 2023). As noted in the Cocoa Barometer “Paying a higher price is inevitable if the living income gap is to be breached. Supply and demand do not seem to work properly to remunerate farmers. Interventions such as the Ivorian-Ghanaian living income differential<sup>4</sup> are necessary first steps to ensure the farm gate price goes up” (Fountain and Huetz-Adams, 2022, p. 6).

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<sup>4</sup> Living income differential: An additional sum of USD 400 per tonne of cocoa on top of the floor price, to be paid by cocoa buyers as of the 2020–2021 season, as defined by the Ivorian and Ghanaian Governments. It is designed to enable the governments to guarantee a fixed and higher minimum price to farmers.

The payment of premiums above the farmgate prices via direct cash transfers to farmers is another short-term solution to bridge the gap between actual income and the benchmarks, placing more money into the hands of farmers. Price and premium increases can lead to income increases but over a period of time this intervention can also have adverse effects on the markets resulting in excess produce as buyers seek new suppliers, lowering of farmgate prices and increased deforestation (Waarts *et al.*, 2019). As stated by Alestig (2023, p. 40), “traceability, transparency and longer-term trading relationships across supply chains are key conditions for price interventions to be successful.” However, given that price is not the only factor that affects farmer’s incomes, any successful strategy to close the living income gap would be a combination of interventions that address the other factors such as land reform, access to finance, trade policies, etc.

The engagement of different stakeholders and actors is required to address the many factors of poverty and low incomes. Each stakeholder has different contributions and defined roles to play in addressing the systemic problems. As noted by Brack (2020, p. 4), “No single policy instrument will achieve the aim by itself, but multiple simultaneous and mutually reinforcing interventions are required.” It will take the cooperation of governments, non-government organizations (NGOs), civil society organizations (CSOs), producer organizations, companies, and all stakeholders working in tandem. Arising out of this recognition for cooperation, multi-stakeholder coalitions such as the World Banana Forum, Alliance on Living Income in Cocoa, International Coffee Organization’s (ICO) technical workstream on living prosperous income, are leading sector changes.

With an understanding of the different roles each actor and stakeholder have to play, guidance is provided to companies and governments to assist them in formulating and supporting strategies that will contribute to reducing the living income gap. Lessons and best practices are also shared to encourage faster adoption of the concept and implementation of strategies. Recommendations for policy and regulation changes, investments and facilitation of an enabling environment are also provided to governments. Links to guidance material and toolkits for companies and governments are listed in Annex B.

FAO, 2023a notes that “social protection is not only about social development, but it is also contributing to economic transformation, increasing the purchasing capacities of the poorest households and boosting economic growth by stimulating and increasing demand for food and other goods and services”. Social protection is one of the services the government is expected to provide to poorer farmers to ensure their resilience to external shocks. Services such as school feeding programmes, food subsidies, child grants, free health care, cash transfers can assist to lower the cost for a decent standard of living and assist in closing the living income gap of the most vulnerable farming households.

The living income concept provides a monetary measure for understanding the level of poverty of a family however, to gain a better picture, it is necessary to also review their access to services, social exclusion, material wellbeing and assets. As such, the synergies between the living income concept and the Multidimensional Poverty Index (MPI) are being explored by the LICoP for a more comprehensive understanding of a family’s level of poverty.



### 3 Implementation of the living income concept

To gain a better understanding of the living income concept and its application, living income programmes implemented by large purchasing companies, cooperatives, development agencies, and other actors were reviewed. The Farmer Income Lab study, *What works to increase smallholder farmers' income? A landscape review* (Dalberg and WUR, 2018) identified four success factors that support meaningful improvements of farmer's income. They include bundling interventions to tackle the multi-dimensional nature of poverty, tailoring programmes to farmers' local needs and contexts, developing tighter connections across the supply chain and partner for change (Dalberg and WUR, 2018). These factors were used as criteria for selecting five living income programmes with strategies to close the living income gap.

Specific focus was also placed on selecting programmes implemented in the cocoa sector of Côte d'Ivoire and Ghana with established living income benchmarks.<sup>5</sup> Given the disruptions in global agrifood value chains caused by the COVID-19 pandemic some of the programmes experienced delays and extrapolated lessons were not available at the time of reporting.

Key informants were also invited to reflect on the overall successes and challenges of the living income concept and its application. These summarized reflections are presented first then the strategies to close the living income gap adopted by the five programmes.

#### 3.1 Successes

The living income movement has gained great momentum and has acquired support, commitments and actions from varying actors. With metrics to measure the living income benchmarks and quantifiable data available, more honest dialogues about truly successful strategies to close the living income gap are happening. Previously, the ambitions within purchasing companies and organizations were set very low but now with more available information and data, and increased advocacy work, things are beginning to change.

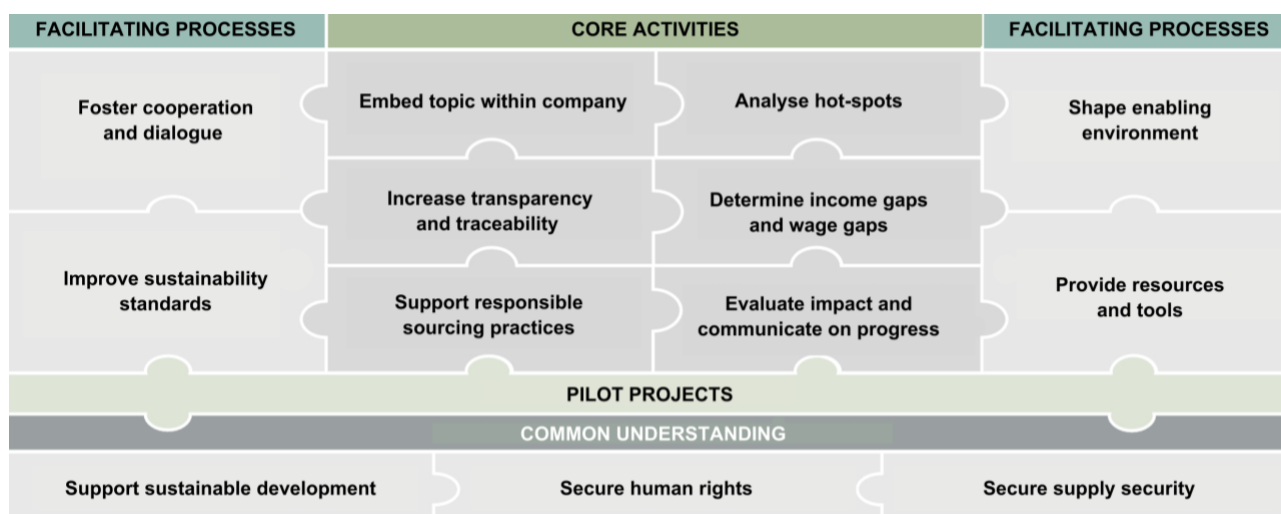
One major success is the mainstreaming of the living income concept, its relevance, acceptance and use. There is now shared understanding and application of the concept where leading companies across different sectors are making corporate commitments and are embedding the concept in their work as part of their human rights and sustainability approaches. Large purchasing companies are using it to define their strategies and to identify the mix of interventions and investments required to achieve a living income for all farmers in their value chains. In consumer countries, powerful retailers in Germany and the Netherlands are aligning and making ambitious commitments to begin levelling the playing field of actors. The German Retailers' Working Group<sup>6</sup> on living income and living wages has committed to implementing responsible procurement practices in their global food chains to ensure a living income for smallholders and workers along their supply chains. Starting with a pilot in the banana sector, they will assess wage gaps and implement strategies, such as price premiums to close the gaps. Their action framework is outlined in Figure 3.

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<sup>5</sup> In 2018 – LICoP, the Anker Institute and cocoa actors in Côte d'Ivoire and Ghana including the governments conducted sector wide living income benchmarking and gap assessment studies. These were later updated by the Anker Institute in 2022. Also, Tony's Chocolonely calculated benchmarks for the cocoa sectors of Côte d'Ivoire and Ghana.

<sup>6</sup> The initial signature group included: ALDI Nord, ALDI Süd, REWE Group, Lidl, Kaufland, dm-drogerie markt and Tegut.

**Figure 3. Action framework of the German retailers' working group**



Source: INA (Initiative for Sustainable Agricultural Supply Chains). 2023. German Retailers Working Group on Living Income and Living Wages. In: INA. [Cited 12 February 2022]. <https://www.nachhaltige-agrarlieferketten.org/en/in-practice/german-retailers-working-group>

In addition to companies, governments in both producer and consuming countries are also paying attention and are adopting aspects of the concept, which are being translated into legislation. Some of the successes in this area include:

1. European Parliament voted (2023) on the Corporate Sustainability Due Diligence Directive (many initiatives are calling for the inclusion of living income and living wages).
2. Joint Declaration Jan 2021 Dutch and German Governments (Living income and living wages).
3. Both the Dutch Initiative on Sustainable Cocoa (DISCO) and the Belgian Beyond Chocolate national platform have living income as unequivocal goals (Fountain, 2022).
4. The German Supply Chain Act and the Corporate sustainability Due Diligence Directive.

The living income differential (LID)<sup>7</sup> – the living income benchmarks published for the Cocoa sector in Côte d'Ivoire and Ghana provided policymakers with a good reference for the LID prices and process. The LID implemented by the Ghanaian government in 2019–2020 helped to buffer income shocks (war in Ukraine and COVID-19 pandemic) as it increased the farmgate price by 28 percent in its first season (Gneiting and Arhin, 2023).

Through the work of the LICoP, the International Coffee Organization (an intergovernmental agency) started a task force to tackle very low coffee prices. The ICO contracted living income benchmarks for nine countries (Angola, Ethiopia, Honduras, Indonesia, Mexico, Peru, Togo, Rwanda and Vietnam,) and four are conducting income gap assessments as well (Brazil, Kenya, Mexico and Rwanda).

The adoption of the living income concept by governments and companies is evidence of the accomplishment of LICoP, which provides a platform for dialogue, exchanges of knowledge and experiences and dissemination of guidance material. Their advocacy work has helped change the perception of farm households as the spotlight is being shone on the cost required for a decent standard of living and the differences among the varying farming households.

Emanating from the living income dialogues and benchmarking exercises conducted in 2018 within the cocoa sector, several stakeholders from advocacy groups and industry started shared conversations and built a joint vision for Human Rights and Environmental Due Diligence regulations within the sector. This led to the publication

<sup>7</sup> Living income differential: an additional sum of USD 400 per tonne of cocoa on top of the floor price, to be paid by cocoa buyers as of the 2020–2021 season, as defined by the Ivorian and Ghanaian Governments. It is designed to enable the governments to guarantee a fixed and higher minimum price to farmers.

of the first general position paper in 2019, in support of an ambitious Corporate Sustainability Due Diligence Directive (CSDDD) as a stepping stone to make cocoa value chains more sustainable (VOICE, 2023). Since then, several other companies and organizations joined the Cocoa Coalition<sup>8</sup> and worked together to publish more detailed around their common vision for mandatory European Union Due Diligence requirements (VOICE, 2023). Their efforts are beginning to bear fruit with living income measures being debated for incorporation into the current European Union CSDDD which is now before the European Union parliament.

Major progress has been made within sectors where there is agreement around common comparable living income methodologies and alignment on standardized metrics and jargon/ language used. LICoP has contributed to a better understanding and transparency of the concept by providing guidance material on the use of the methodologies and tools. Under the Committee on Sustainability Assessment (COSA), LICoP collaborated with the Royal Tropical Institute (KIT), ISEAL Alliance, Sustainable Food Lab (SFL), and GIZ to provide practical guidance for assessing living income gaps, calculating and measuring actual incomes and living income benchmarks for smallholder households (COSA, 2023). As noted by COSA, “this guidance helps drive consistency and avoids common errors in how income gaps are measured, reported, and interpreted – paving the way to wider understanding and global scale of the living income measure” (COSA, 2023).

It was also very important to capture the successes of living income pilot projects from the perspective of beneficiaries. Views shared by two Cooperatives in West Africa (Ghana Fanteakwa Union and ECAM Côte d’Ivoire) included successes such as:

1. Capacity building of the Cooperatives and farmers through Good Agricultural Practices (GAP), financial and entrepreneurial trainings.
2. The construction of community projects such as a water borehole and schools which were financed from pooled funds received from the increase in farm gate prices (base living income premiums and reference prices).
3. Diversification of income streams for farmers who received cash payments/ bonus and entrepreneurial training (Fish retailing, hairdressers).
4. Investments for improvements of farmers’ housing; e.g. repairs, expansions and construction of new homes.
5. Through democratic processes, there were increased decision-making where autonomy was given to the farmers involved in the pilots to decide and prioritize how the additional funds were spent. Some went directly to the farmers (cash bonus), some to community projects and some to the cooperatives.

Another success of the living income movement in the gradual substitution of World Bank poverty benchmarks with living income and living wages benchmarks in commodity sectors (Waarts *et al.*, 2021). This change is spurred by the increasing interest of powerful stakeholders (donors, policy makers etc.) to support the achievement of a decent standard of living for all. The living income and living wages benchmarks are used as indicators to measure the effects of poverty interventions and for the assessment of poverty levels (Waarts *et al.*, 2021).

## 3.2 Challenges

The increasing acceptance and adoption of the living income concept is not without challenges. This section notes challenges raised in the literature and the interviews with the aim of improving them.

The first challenge is the misinterpretation of the concept itself. Unfortunately, it is misconceived, and some interpretations do not align with the standards being set and promoted by the LICoP. For example, the Fairtrade Reference Price Model is often misunderstood and thought to be focused solely on price. It has received criticism when in fact the increase in price paid as a premium is only one part of the holistic model Fairtrade and other

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<sup>8</sup> Composition of the Cocoa Coalition: a group of companies (Ferrero, Hershey, Mars Wrigley, Mondelēz International, Nestle, Tony’s Chocolonely, Unilever), certification organizations (Fairtrade International, Rainforest Alliance), NGOs (Fair Trade Advocacy Office, Solidaridad, VOICE Network) and multistakeholder organizations (International Cocoa Initiative) (VOICE, 2023).

partners of LICoP supports and promotes. Additionally, the different methodologies and tools available can cause confusion to actors.

According to the Cocoa Barometer 2022 (Fountain, 2022), living income for all farmers will not be achieved by project-based approaches but requires a systemic approach, and system changes. The income gaps are large and require both governments and private sector businesses to reflect and enact innovative system-level change processes (Gneiting, 2021). Without those in power understanding the hard and uncomfortable truths about the exploitation of small-scale farmers and producers, adequate solutions will not be found. However, these conversations are very sensitive. Topics such as the distribution of shared risks and benefits along the value chain, pricing and power imbalances must be transparent and information needs to be shared amongst value chain actors (in the living income context the farm households and first buyers). An adequate enabling environment with inter-sectoral and multi-stakeholder collaboration are also key to sustainable system changes but at present there are few multi-stakeholder initiatives focused on living income. Although, successful public private partnerships and value chain platforms exists to address these issues, alignment of visions and coordinated actions are required.

Costs associated with using the Anker methodology and implementation of the strategies to close the living income gap were noted as challenges. Costs are incurred during the thorough consultation process that ensures the consistency of benchmarks with national data and other published benchmarks. These stakeholder consultations can be time consuming and costly. Additionally, the cooperatives interviewed noted their high administrative costs to maintain the certifications under which their farmers operate, and high implementation costs attached to trainings and transportation. For companies seeking to implement tailored intervention to suit the varying segments of farmers, additional financial resources will be required.

The stability of main markets, farmers market share, and the overall conditions in other markets supplied by the farm households, are also important factors for the achievement of a living income. The focus on increased prices and yields without supply/demand and stabilizing market policies can lead to negative unintended consequences and externalities (Waarts *et al.*, 2019). According to Waarts *et al.* (2021, p. 3), “yield and price increases that are not connected to supply management are risky tools when applied at scale.”

The issue of transparency continues to be a challenge within agrifood value chains and is also a crucial component to help close the living income gaps. Although some living income projects are implementing and trialling digital sourcing and blockchain traceability applications, it is not yet the standard. Retailers should be able to trace the origin of the produce they purchase. In some supply chains the burden and expense will be placed on importers and smaller enterprises to implement digital systems and undergo regular audits and certification requirements.

Given that living income benchmarks are context specific, questions are raised about the use of the pre-calculated benchmarks, their flexibility and how often they are updated. Waarts *et al.* (2021, p. 1469) noted that “the circumstances within a particular year or season, cost of living, price changes over time, and inflation are considered.” Updated benchmarks do account for inflation to ensure living income estimates are sufficient for workers to continue to afford a basic yet decent standard of living (GLWC, 2022). However, what provisions are made for exchange rates and external shocks such as the COVID-19 pandemic and the war in Ukraine?

The metrics to support the living income concept are “data heavy” and depends on solid micro-level/farm level and market price data. Unfortunately, for some countries reliable public data are unavailable. The calculation of living income values is also based on informed assumptions of the average households and important distinctions such as male versus female headed households. Finer details about the exact size of the households may not always be considered. This critical point raised during the interviews, points to possible underestimation of the living income gap for some households, given that no family is an average family. In some cases, when the benchmark is applied to individual family sizes where the composition of adults and children is more than the average size, the living income gap is underestimated. The approach is based on the size of a typical nuclear family for a region, and it is challenging to apply it to extended families (van de Ven *et al.*, 2020).

Although there may be some challenges, the momentum is moving in the correct direction to increase the standard of living for farming households.

### 3.3 Review of living income programmes against success factors

The five programmes and their strategies to raise incomes and close the living income gap were reviewed against the four success factors that support meaningful improvements of farmer income: **bundling interventions, tailoring programmes to farmers' needs and contexts, developing tighter connections across the supply chain and partner for change** (Figure 4). It should be noted that further studies from the Farmer Income Lab *Boosting farmer income: Further insights from great cases* (Guijt, *et al.*, 2019) analysed factors for systemic change (power dynamics, government policies, resource flow etc.). However, due to the limitations of this research only the initial four success factors were used to select the five programmes to review.

**Figure 4. Selection criteria for living income programmes**

Partner	Customize	Adaptive evaluation and learning	Understanding farmer needs
			Understanding their operating environment
			Tailor interventions
	Bundle		Technical assistance
			Access to inputs
			Access to finance
	Connect		Access to markets
			Forming and strengthening farmers groups

Source: Guijt, J., Pfahl, H., Jenkins, B. & Gneiting, U. 2019. *Boosting farmer income: Further insights from great cases*. Farmer Income Lab. <https://www.mars.com/sites/g/files/jydpvr316/files/2023-05/Boosting%20farmer%20income%20further%20insights%20from%20great%20cases.pdf>

The Living Income programmes reviewed were: A Living Income for Cocoa Farmers in Côte d'Ivoire; Nestle Income Accelerator Programme; Living Income in Tree Crops; MARS – Responsible Cocoa Today & Sustainable Cocoa Tomorrow, Livelihood Ecosystem Advancement Programme (LEAP) – Côte d'Ivoire & Advancing Cocoa Agroforestry Towards Income, Value and Environmental Sustainability (ACTIVE) – Indonesia; and Tony's Open Chain. Annex C gives a summary of the five programmes examined, their specific strategies, interventions and the implementing organizations.

All five programmes include bundled interventions, which address varying needs and specific challenges of the farming households. For example, the MARS, LEAP and ACTIVE living income programmes included access to financial tools like market loans and mobile banking, as well as technical innovations such as agroforestry practices to address both climate change mitigation and adaptation and income diversification measures to overcome barriers to achieving a living income. Other programmes included trainings in good agricultural practices (GAP) to build the capacity of the cooperatives and the farmers to improve the quality and quantity of the raw materials. Village Saving Loan Associations (VSLA) were established to help facilitate access to finance, and business management training was offered to strengthen the cooperatives /producer organizations to become economically independent. Entrepreneurship training is also part of the bundled intervention to encourage household members to seek alternative livelihoods and income generating opportunities.

The five programmes are collaborative efforts and partnerships between different actors ranging from the end buyers, intermediary aggregators / cooperatives, local and international NGOs, certifiers (Fairtrade and Rainforest Alliance), local governments, research institutions and other advocates for living income. Action towards closing the income gap is required by all stakeholders and within each programme different actors play distinct roles. International NGOs in collaboration with local government ministries conducted trainings to improve farm management efficiency, increase farm productivity, income diversification, agroforestry and entrepreneurship.

Research institutions assisted with income measurements, application of the living income metrics and monitoring of the programmes. Companies made financial investments for traceability applications, provided resources for trainings and committed to paying premiums/ higher prices for the cocoa beans. All programmes demonstrated the effectiveness and positive impact of the success factor of partnering for change.

As part of the pricing strategy, some of the programmes used the certification requirements from certification bodies, such as Fairtrade and Rainforest Alliance, and built on it requiring the payment of extra premiums above the farm gate prices and the certification premiums to increase incomes. These funds were paid directly through cash transfers to the participating farmers and cooperatives. The terms of engagement were negotiated prior to the start of the programmes where end buyers agreed to pay extra premiums for the cocoa beans.

A very important component which is required for sustainability and accountability is traceability within the value chain. Tony's traceable beans is an essential requirement of Tony's Choclonely's mandatory five living income Sourcing Principles. In addition to Tony's Beantracker – a digital traceability platform, Global Positioning System (GPS) mapping and Child Labour Monitoring and Remediation System (CLMRS) tools are employed to track the volume of beans from each farmer. Other programmes reviewed also included traceability components. Tony's Choclonely and Ben and Jerry's are pioneers of the living income concept and are promoting open chain sourcing to ensure that participating producer groups have a greater chance selling 100 percent of their cocoa beans to buyers willing to pay the higher premiums and make commitments to invest more to increase farmer incomes.

Findings from the Farmer Income Lab's review of projects and programmes to increase farmer income showed that short-term interventions are ineffective at achieving sustainable change (Dalberg and WUR, 2018). This is being recognized by value chain actors and longer-term cooperative agreements with five to ten years commitments are being agreed to. This facilitates investments, reduces spot purchasing and side selling, and gives the farmers the security of a guaranteed market. Four out of the five programmes had longer-term contracts with the cooperatives.

Beyond the gap assessment and the identification of the living income benchmarks, the intricate task of designing applicable interventions require approaches specific to the local context and implementing company (Gneiting, 2021). The review of the five programmes identified some of the strategies adopted in current living income programmes and highlighted the range of tailored interventions implemented to meet the needs of the farmers. The collaboration and investment of partners indicate their commitment and shift towards living income-oriented approaches.

## 4 The way forward

The living income concept is becoming more mainstream, and the momentum is expected to continue in the intended forward direction. The LICoP guidelines for companies and governments include specific actions that can be adopted to change and implement new practices that can contribute to closing the living income gap for farming households. In addition to such specific recommendations noted in the literature, key informants were invited to identify catalysts to propel the living income movement forward for faster results at farm household level and greater engagement of all actors.

### 4.1 Catalysts and recommendations

For continued success of the living income movement, several interviewees noted that farmers ought to play a greater role and have a greater say in the trajectory of the movement. They ought to be treated and viewed as more than just beneficiaries but as organizing partners. More farmer capacity building in the form of education, trainings and awareness is needed to enable producers and their groups to make use of available information and data to better judge their own situation and articulate concrete adjustments needed in procurement modalities and farm gate prices. As more investments are made to strengthen and professionalize producer organizations, focus can also be placed on facilitating greater engagement and representation of farmers in the living income debates and decisions. The farmers know the best solutions to improve their lives and should be encouraged to negotiate and advocate on their own behalf instead of organizations in the Global North. Their perception of the living income concept matters and more can be done to secure and encourage greater participation in steering the direction and outcome of the living income movement. In addition to coordinated efforts among stakeholders and sharing lessons and data, Waarts *et al.* (2021, p. 1467) stated that “achieving living incomes based on smallholder commodity production requires more discussion and engagement with farmers and their households’ members and within their communities.” The policies and interventions emanating out of the movement ought to include the needs and ambitions of the farmers.

Equally important to hearing more from the farmers themselves is the need for more engagement of the governments of origin countries within the movement. Such engagement fosters a positive collaborative environment and lessens friction between origin and consumer countries. For governments, it is important to appreciate the implications of their policies, the enabling environment established and other interventions in support of (rural) economic development. Specialized technical assistance through the United Nations or bilateral programmes can assist governments in these areas and work with them to improve the effectiveness and efficiency of all sectors that support a decent standard of life for farmers including safety nets, access to education and good health care. Under FAO’s social protection approach (FAO, 2023a), it is noted that “social protection can generate a broad range of positive impacts on poor and vulnerable households and can benefit local communities.”

This type of intervention, increases access to social services, boosts the economic capacity of the most vulnerable and contributes to the improvement of local economies (FAO, 2023a). Evidence compiled by FAO further shows that coupling agriculture with social protection assists farmers to overcome some of the challenges that results from market failures. Farming households are then able to engage in income-generating opportunities that are sustainable (FAO, 2023a). The engagement of governments can be achieved through deliberate consultation and increased sensitization about the living income concept.

To address root causes responsible for the exploitation of smallholder farmer households’ major transformations by all actors are required for systemic changes. However, these changes, will not occur voluntarily. Fountain (2022, p. 1) stated that “it must be unambiguously clear that living income is a key requirement for any multinational to comply to their obligations of Business and Human Rights”. Although positive actions such as the Netherlands and Germany declaration on living income and living wages (INA, 2021) are being taken by consumer countries for legislation to hold companies accountable for human rights under their due diligence guidance, some of the paragraphs within these legislations are open to interpretation. If left optional companies may not adopt the changes in a timely manner. The Cocoa Barometer – Cocoa Living Income Compendium therefore recommends that “living income be enshrined as a fundamental human right in legislation” (Fountain, 2022, p. 1).

To uphold living income as a human right and for sustainable increases to the incomes of smallholder farmers, improvements in purchasing practices and governance policies of companies are required (Fountain, 2022). Gneiting and Arhin (2023, p.10) noted in a recent Oxfam assessment report (Towards a living income for cocoa farmers in Ghana) that “a procurement-oriented approach that aligns procurement goals with living income goals are needed to effectively address the living income gaps.” The change strategies adopted under this approach include longer term contracts with producers, traceable produce and increased prices (Gneiting and Arhin, 2023, p. 10).

In addition to the guidance materials available to assist companies wishing to incorporate living income into their business strategies, more awareness and persuasion is needed to change large retailers’ approach and purchasing practices for fresh food and commodities. This together with continued consumer awareness will further contribute to shifting the power balance and lead to sharing the consumer dollar with primary producers to the level they deserve.

The research and literature (Waarts and Kiewisch, 2021; Guijt *et al.*, 2019; Mason *et al.*, 2022), indicate that even with increased prices for raw materials and increased yields, a large proportion of farmers still will not attain the living income required for a decent standard of life. There are different segments of farmers and the poorest farmers often do not gain much from the existing living income interventions. As such, the Farmer Income Lab (FIL) (Mason *et al.*, 2022), advises that when designing living income programmes for farmers, they “should be tailored to varying sizes of smallholdings in different environments, contexts, and markets to meet farmers’ specific challenges with customized combinations of interventions.” This is called farmer segmentation and can be used by companies to improve their quality of services offered and their sourcing strategies (Mason *et al.*, 2022).

Income diversification is one of the strategies being implemented to close the living income gap. However, given the economic situation and level of poverty in some countries, particularly the rural areas, options to earn alternative incomes are very limited. Poor families face barriers to access land, labour and capital and this also reduces their opportunities to earn income from other sources (van Vliet *et al.* 2021). As such, some living income programmes include conditional and unconditional cash transfers to farmers as part of their bundle of interventions. Additional sources of income, suggested in a report by the Farm and Cooperative Investment Programme (Kuit, Tjiddink and van der Meer, 2021), being considered include, carbon credits, forest stewardship revenues and other payments for agricultural or non-agricultural diversification. Ultimately, living income strategies should include the development and stimulation of vibrant diversified rural economies (Waarts and Kiewisch, 2020).

To scale up the impact and to engage more companies and farmers in living income programmes, alliances and partnerships can be encouraged. One example is the Tony’s Chocolonely Open Chain which calls for competitors to become allies. More discussions and promotion of open chain approaches and similar concepts are needed to ensure that a larger percentage of produce from cooperatives and producer groups is sold under contracts with companies adopting the living income concept. For example, merging or crowd sourcing the purchase from a group of cooperatives or farmers will increase the chances of all farmers having a good standard of living.

Although there is collaboration, even more is needed as actors continue to coalesce around the general understanding and application of living income interventions. Stakeholders can share information and data to learn from each other as well as reduce costs and duplication of efforts and data. Waarts *et al.* (2019, p. 2) noted that when “designing effective and efficient interventions, findings should be shared between countries and across commodities on what works and also what failed to work. This includes the sharing of data and methodologies in order to avoid too much data being collected too many times, with too many farmers being interviewed too often, to satisfy the needs of various buyers and implementers.”

Recommendations are also made for stakeholders and companies to share, aggregate and standardize robust income collection methods and data. For female headed homes which are disproportionately affected by lower incomes, data collection should include indicators specific to women and gender disaggregated income data. To ensure that both risks and rewards are shared equitably, all programmes and interventions can incorporate a gender component (Fountain, 2022).



A landscape approach, defined as “a multifaceted integrated strategy that aims to bring together multiple stakeholders from multiple sectors to provide solutions at multiple scales” is recommended by Keiwisch and Waarts, 2020, to holistically address poverty and living income deficits faced by cocoa farmers. This approach tackles the many interrelated factors that affect a farmer’s income and allows multiple actors to plan and execute coordinated interventions effectively. Given the range of actors, from government, private sector, NGOs, civil society, it allows for the articulation and alignment of interventions with national development plans, yet still preserving the negotiation power of farmers (Keiwisch and Waarts, 2020). Van Vliet *et al.* (2021, p. 17) noted that the actions required by all stakeholders for structural changes “will need to be based on a shared assessment and understanding of the current income situation and resource availability of producers, underpinned by relevant and reliable data.” However, it is important to remain realistic about what can be achieved yet pushing the boundaries to get actionable commitments that are based on a recognition of the full extent of the living income challenge (Waarts and Keiwisch, 2021).

The Cocoa Barometer 2022 outlined key recommendation for all stakeholders within the cocoa sector to move the living income work forward. These recommendations noted in Annex D and can be broadly applied to all sectors.

## **4.2 Gaps in the living income work**

The living income concept documents the current situation of the farming household, identifies the “minimum” amount required to have a decent standard of life and the gap to achieve this. However, the “fair share” the farmer has to get from the sales of his produce to the main market (for some it might be a processor, for other products it might be the intermediary or even the retail market or supermarket in an importing country) is not discussed fully. Such quantifiable data can be determined through margin analysis based on the costs, revenues and risks incurred by all actors along value chains. Insufficient focus is placed on the intermediaries and the incentives and actions required by them to ensure farmers receive their “fair share.”

From the perspective of family and local food security in the origin countries, there is a gap with little to no discussion of the application of the living income concept to informal domestic markets. More deliberate and coordinated efforts with local governments and private sector companies are needed for the transition and repurposing of some of the small-scale farmers who supply global agrifood value chains to supply local and regional value chains. Options to supply different crops to the growing domestic and regional markets could be assessed, and if viable, also promoted and become part of the development package (or living income programme). As part of the income diversification trainings offered to these farmers focus can be placed on working with local governments and buyers, or agrifood businesses to facilitate the cultivation of crops for the local markets as well as crops to substitute imported foods. The current food system within the respective countries needs to be re-examined with a focus that gives local farmers more opportunities to contribute to their country’s food security. However, given that domestic markets are not the focus of the living income, additional research and debates will be required to understand the opportunities and challenges of applying the living income concept to informal domestic and regional markets.

Another gap and area for consideration is the implementation of the concept within Small Island Developing States (SIDS). SIDS face peculiar challenges due to their small sizes and vulnerabilities to climatic and external shocks. Given that these challenges can make agribusinesses uncompetitive in high-cost environments further research is needed to find out whether the concept can also be successfully applied in SIDS.

## 5 Recommendations and opportunities for FAO

Key informants were asked to make recommendations and suggest opportunities for FAO to incorporate living income into its work as well as assist with moving the cause forward. Their recommendations and reflections from FAO staff were summarized for FAO's consideration.

FAO's vision for sustainable food and agriculture prioritizes decent work and the organization is committed to support the implementation of internationally accepted labour standards (FAO, 2023b). The living income concept also seeks to secure decent work for, and eliminate the exploitation of, agriculture producers and workers. FAO's country offices, its interactions with local governments and its publications present opportunities to promote and further mainstream the living income concept internationally.

As noted from the literature, coordinated action and commitments from different sectors of the government are required to help close the income gap (Waarts and Kiewisch, 2021). Similar to FAO's role in the World Banana Forum, the organization can be a neutral convener facilitating cross-sectoral living income discussions in origin countries with the requisite actors at the table to discuss their roles. It was also noted that FAO can become instrumental to mobilise development partners at the local country levels to host discussions, debates and advocacy forums about the living income concept.

The metrics to support the living income concept is "data heavy" and depends on solid micro-level/farm level and market price data. LICoP and living income practitioners can benefit from the strengths of FAO Statistics (FAOSTAT) to assist with the collection, harmonization and global dissemination of living income data. Another opportunity for FAO is the creation and management of analytical tools for information sharing through dashboards. FAO can conduct impact assessments of projects and programmes currently applying the living income concept to provide valuable lessons to improve strategies going forward. If FAO adopts the concept, FAO can also share its own practical experiences of implementing the strategies. FAO can join and participate in discussions, learnings and solutions on platforms such as the LICoP.

The Agrifood Systems Transformation Accelerator (ASTA), Hand-in-Hand Initiative (HIHI) and FAO's Global Action on One Country One Priority Product (OCOP) are flagship programmes at FAO with the potential to benefit from applying the living income concept. Under these programmes, FAO's value chain approach is applied to identify economic opportunities and could be enhanced by incorporating living income in its analysis, upgrading actions and impact monitoring. With quantifiable living income data (such as the living income benchmarks, living income reference prices and premiums) for the specific value chains, more open and frank financial conversations can be facilitated among all value-chain actors. Living income data can also be used for impact monitoring purposes e.g. the benchmarks used as indicators.

Youth is a cross-cutting theme in FAO's Strategic Framework and high on the policy agenda in most member countries, especially in Africa. Youth-sensitive value chain development offers a targeted approach to respond to, the migration of youth from rural areas, scarcity of decent work and decent living opportunities for youth. If the concept is promoted as part of the Junior Farmer Field and Life School (JFFLS) methodology, young farmers can better understand their human right to earn a living income and will be equipped with data and information to advocate and negotiate for fairer prices of their produce.

The concept can also be incorporated into FAO's work programmes in fisheries, forestry and the bioeconomy sectors to help assess living income gaps, advocate for and implement cross sectoral strategies to close them. The living income of households whose livelihoods are based on these sectors can be assessed to ensure that fishers and small-scale producers receive fair remuneration. Increased household incomes will reduce the need for child labour and deforestation in these sectors. Additionally, the adoption of the concept can add value to larger FAO field projects, for example, to FISH4ACP's sustainability strategies to ensure higher incomes to attract the younger generations.

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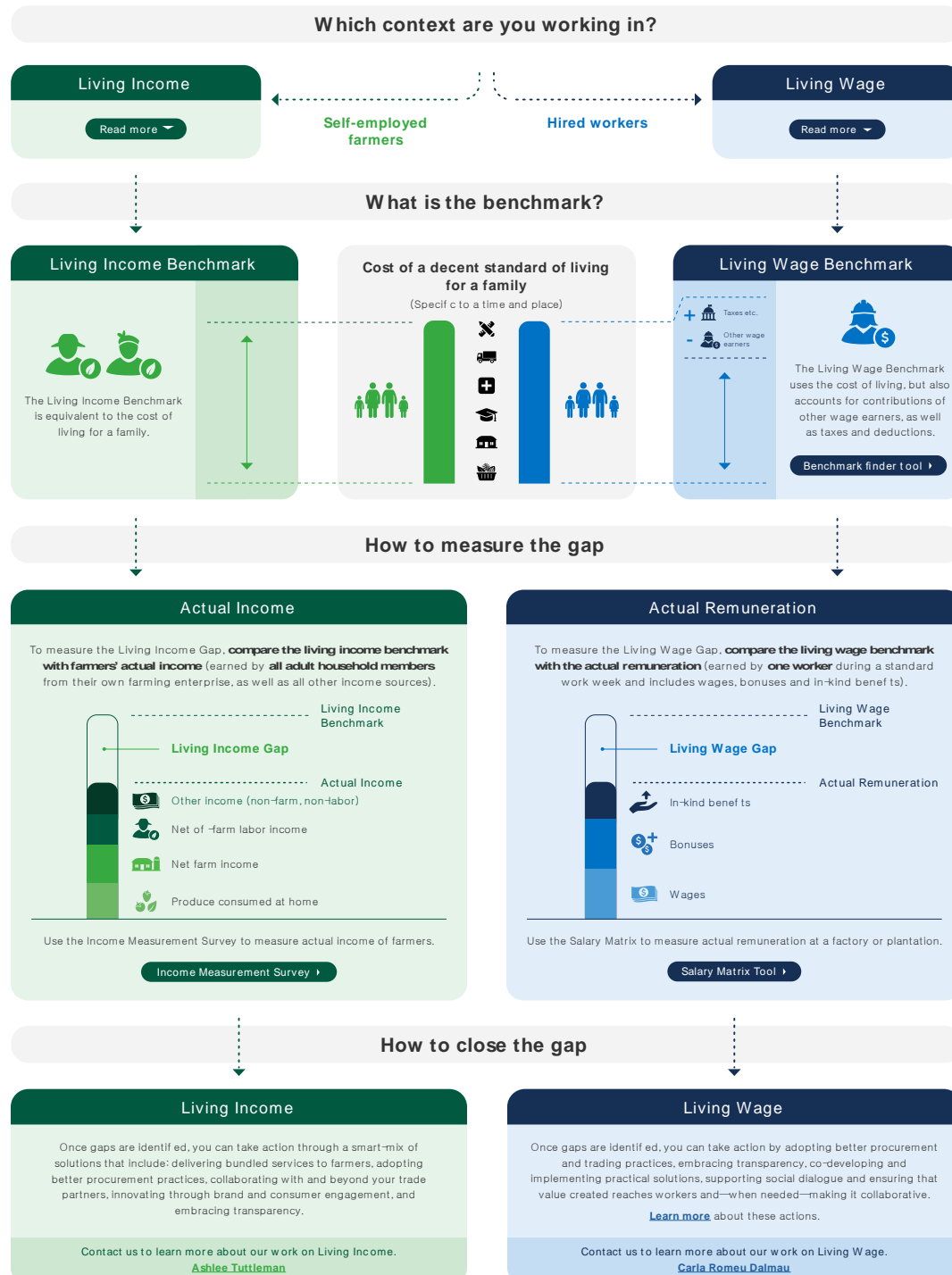
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## Annexes

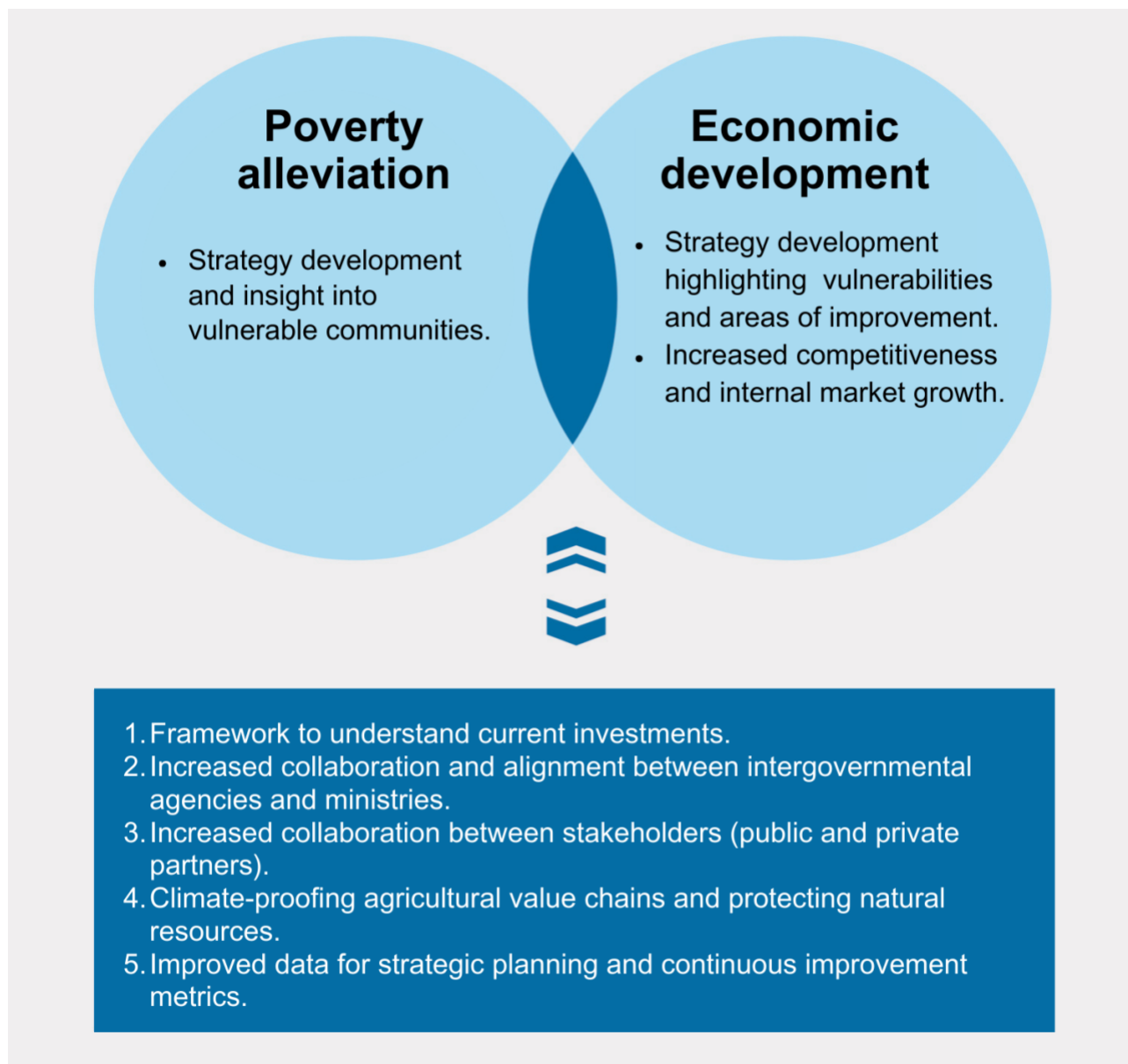
### Annex A. Living income concept: The difference to living wages and incentives to apply

Figure A1. Comparison between living income and living wages



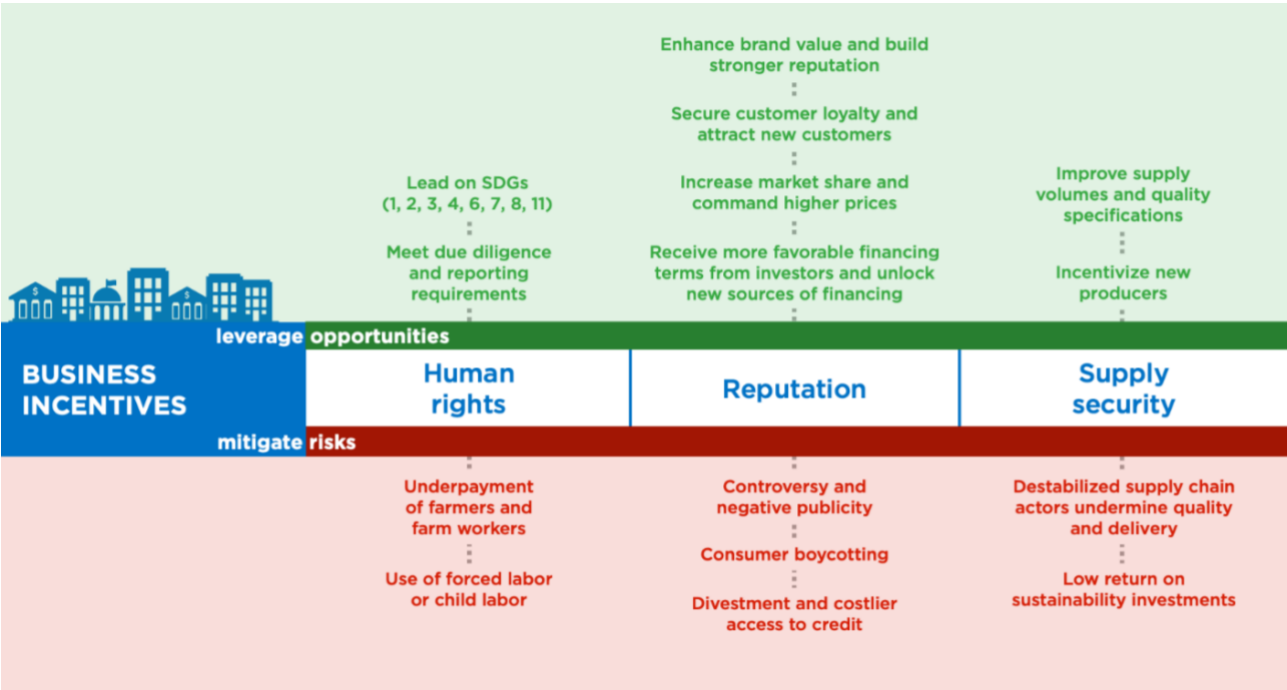
Source: IDH (The Sustainable Trade Initiative). 2021. *Addressing living income and living wages. What is the difference?*  
[https://www.idhsustainabletrade.com/uploaded/2021/05/IDH\\_Addressing-LW-LI-final.pdf](https://www.idhsustainabletrade.com/uploaded/2021/05/IDH_Addressing-LW-LI-final.pdf)

**Figure A2. Incentives for governments to consider living income commitments**



Source: Hanke, H., Sustainable Food Lab & Fairtrade Office. 2022. *The Role of Governments in Enabling Living Income in Global Agriculture Value Chains: Guidance for Public Policy Makers*. [https://www.researchgate.net/publication/362733608\\_The\\_Role\\_of\\_Governments\\_in\\_Enabling\\_Living\\_Income\\_in\\_Global\\_Agriculture\\_Value\\_Chains\\_Guidance\\_for\\_Public\\_Policy\\_Makers](https://www.researchgate.net/publication/362733608_The_Role_of_Governments_in_Enabling_Living_Income_in_Global_Agriculture_Value_Chains_Guidance_for_Public_Policy_Makers)

Figure A3. Incentives for businesses to integrate living income within their supply chain



Source: IDH (The Sustainable Trade Initiative). 2023. Roadmap on Living Income. In: IDH. [Cited 12 February 2023]. <https://www.idhsustainabletrade.com/roadmap-on-living-income>



## Annex B. Guidance and toolkits on living income methodologies and strategies

In addition to LICoP, other agencies are producing additional guidance material to assist all stakeholders understand their roles and strategies they can effectively incorporate and advocate for to achieve the goal of living incomes for farming households.

### BENCHMARKS

1. ALIGN (<https://align-tool.com>)
2. Global Living Wage Coalition (<https://www.globallivingwage.org>)
3. Heifer International Living Income Benchmarks (<https://www.heifer.org/our-work/living-incomes.html>)
4. New Foresight Living Income and Living Wage Benchmarking Methodology (<https://www.newforesight.com/newforesight-living-income-and-living-wage-benchmarking-methodology>)
5. Living Income Community of Practice (LICoP): Income measurement practitioner's guide; how to calculate living income reference prices of agricultural commodities; key trade-offs between income measurement toolkits; using the Anker methodology for living income Part I & II; estimating farmer household income (<https://www.living-income.com/licopresources>)
6. Living income methodology: Living income benchmarking of rural households in low-income countries (<https://link.springer.com/article/10.1007/s12571-020-01099-8>)

### GUIDANCE FOR COMPANIES

1. LICoP: Guiding steps towards living income in the supply chain: How to mainstream living income in your company's activities (<https://www.living-income.com/li-toolkit>)
2. Oxfam: Living Income: From right to reality essential issues and recommendations for business (<https://www.oxfamamerica.org/explore/research-publications/living-income-from-right-to-reality>)
3. Sustainable Trade Initiative (IDH): Living income roadmap (<https://www.idhsustainabletrade.com/roadmap-on-living-income>)
4. Initiative for Sustainable Agricultural Supply Chains/GIZ-INA/GIZ: GIZ Living Wage Costing Tool; GIZ Living Income Reference Price Estimator (<https://www.nachhaltige-agrarlieferketten.org/en/tips-tools>)
5. Farmer Income Lab: Enabling Smallholder – Based Agricultural Transformation – Lessons for companies from countries that have successfully reduced smallholder poverty at scale; Farmer segmentation: How Companies can effectively target support from smallholder farmers in global supply chains (<https://www.mars.com/sustainability-plan/thriving-people/increasing-farmer-income/farmer-income-lab-publications>)

### GUIDANCE FOR GOVERNMENTS

1. LICoP: The role of governments in enabling living income in global agricultural value chains – Guidance for public policymakers ([https://www.living-income.com/\\_files/ugd/0c5ab3\\_e8d4833fdef54e1bab33593617fd870f.pdf](https://www.living-income.com/_files/ugd/0c5ab3_e8d4833fdef54e1bab33593617fd870f.pdf))
2. Fairtrade International: Promoting living income in the cocoa sector: Policy options for consumer countries (<https://www.fairtrade.net/library/promoting-living-incomes-in-the-cocoa-sector-policy-options-for-consumer-countries>)

## Annex C. Comparison Living income programmes and strategies to close the income gap

Project title	Implementing organizations	Specific interventions
<b>A Living Income for Cocoa Farmers in Côte d'Ivoire</b>	<ul style="list-style-type: none"> <li>Sustainable Trade Initiative (IDH)</li> <li>Fairtrade Belgium</li> <li>Access Agriculture</li> <li>Agro-insight</li> <li>Rikolto International Puratos</li> <li>Enterprise Cooperative de St. Paul (ECSP)</li> </ul>	<p>Duration: 2020–2023.</p> <p>Scope: 102 cocoa growing households.</p> <p>Region: San Pedro, Daregba and Colonel Communities.</p> <p>Income drivers:</p> <ol style="list-style-type: none"> <li>1. Productivity: Training in Good Agricultural Practices (GAP) and agroforestry etc.</li> <li>2. Quality: Training on post-harvest handling, establishment of two drying and fermentation centres to produce high quality Gold Standard cocoa for farmers to receive the Cocoa Trace Premium.</li> <li>3. Income diversification (special focus on female entrepreneurship): Intercropping cocoa with cassava and cowpea, production of quality compost to reduce fertilizer use and production costs.</li> <li>4. Access to Finance: Establish four Village Savings Loans Association (VSLAs) and training to access finance.</li> <li>5. Agroforestry and reforestation: In partnership with state institutions ensure that 80 000 trees are planted on 1 000 hectares belonging to the ECSP Cocoa Trace Communities. Support women to establish forest tree nurseries</li> <li>6. Price: Farmers will be paid the living income reference price, living income premium on top of the farm gate price, Fairtrade Premium and Cocoa Trace premium.</li> </ol>
<b>Nestle Income Accelerator Programme</b>	<ul style="list-style-type: none"> <li>Nestle</li> <li>KIT Royal Tropical Institute International Cocoa Initiative</li> <li>IDH (The Sustainable Trade Initiative)</li> <li>Rainforest Alliance, local cooperatives and cocoa farmers, Governments of Côte d'Ivoire and Ghana.</li> </ul>	<p>Duration: 2020–2030.</p> <p>Scope: Test 10 000 cocoa farming families in Côte d'Ivoire then scale first to Ghana, then a global reach of 160 000 cocoa farming families globally.</p> <p>Specifics: A holistic approach to deliver long-lasting impact through conditional direct cash transfers by incentivizing:</p> <ol style="list-style-type: none"> <li>1. Enrolment of children in school.</li> <li>2. Advancing regenerative agriculture practices.</li> <li>3. Gender equality.</li> </ol>
<b>Living Income in Tree Crops</b>	<ul style="list-style-type: none"> <li>German REWE Retailer</li> <li>The German Federal Ministry for Economic Cooperation and Development (BMZ)</li> <li>Fairtrade</li> <li>Ministry of Agriculture Ghana</li> <li>The Cashew and Cotton Board in Côte d'Ivoire</li> <li>The Competitive Cashew Initiative</li> </ul>	<p>Duration: 2020–2022.</p> <p>Specifics: Two components – Cash Payments and New Business Plans:</p> <ol style="list-style-type: none"> <li>1. Traceable raw materials.</li> <li>2. Payment of high price.</li> <li>3. Income diversification.</li> <li>4. Farm record keeping.</li> <li>5. Productivity enhancement.</li> <li>6. Fair chocolate.</li> </ol> <p>One part of the project is a supply chain in which raw materials are separately traceable. Within such a segregated supply chain, the cocoa farmers of the Ghanaian Fanteakwa cooperative receive, in addition to the Fairtrade Premium and the Fairtrade Minimum Price, an additional cash payment to close the income gap between their earnings and a living income as calculated by Fairtrade.</p>

Project title	Implementing organizations	Specific interventions
<b>MARS - Responsible Cocoa Today &amp; Sustainable Cocoa Tomorrow Livelihood Ecosystem Advancement Programme (LEAP) – Côte d'Ivoire</b>	<ul style="list-style-type: none"> <li>• MARS</li> <li>• Fairtrade</li> <li>• ECOOKIM – Cooperative Union in Côte d'Ivoire</li> <li>• Ministry of Foreign Affairs of Finland</li> </ul>	<p>Duration: 5 years. Scope: 5 000 farmers. Specifics:</p> <ol style="list-style-type: none"> <li>1. Farmer segmentation strategy, activity bundling, and living income growth streams to meet unique farmer needs</li> <li>2. Cooperative strengthening with expanded capacity, business sustainability, and improved service delivery provision (i.e., training/coaching, governance, access to inputs, market access) to provide members with support needed to thrive.</li> <li>3. Diversified household income with both on-farm and off-farm activities, specifically focusing on women entrepreneurship and market-linked supply chain development.</li> <li>4. Expanded access to affordable finance through digital banking, a revolving micro-finance facility, and introduction of village savings and loan associations.</li> </ol>
<b>MARS - Responsible Cocoa Today &amp; Sustainable Cocoa Tomorrow</b>  <b>Advancing Cocoa Agroforestry Towards Income, Value and Environmental Sustainability (ACTIVE) – Indonesia</b>	<ul style="list-style-type: none"> <li>• MARS</li> <li>• I4DI: Institute for Development Impact</li> <li>• United States Agency for International Development (USAID)</li> </ul>	<p>Duration: 4 years. Scope: 9 000 farmers. Specifics:</p> <ol style="list-style-type: none"> <li>1. Equipping farmers to deploy scalable and evidence-based agroforestry systems to strengthen biodiversity and improve cocoa production.</li> <li>2. Facilitating a more diversified cocoa-farming ecosystem through recommending viable short-term and long-term crops, helping farmers acquire knowledge and tools to support these diversified crops, and working with local government, trade, and the private sector to facilitate a market to offer alternative income sources.</li> <li>3. Supporting financial inclusion and enabling farmers' access to digital financing and crop insurance solutions to help finance the shift towards a diversified cocoa-farming ecosystem.</li> <li>4. Convening a diversified group of key government, industry, and farmer groups to help create the market and regulatory conditions necessary for diversified cocoa-farming ecosystems to succeed.</li> <li>5. Implementing community-led approaches to foster socially and environmentally sustainable cocoa farming.</li> </ol>
<b>Tony's Open Chain</b>	<ul style="list-style-type: none"> <li>• Tony's Chocolonely</li> <li>• Fairtrade</li> <li>• Côte d'Ivoire and Ghana Cooperatives</li> <li>• Ben and Jerry (Ally)</li> <li>• The Flower Farm (Ally)</li> </ul>	<p>Duration: Until the problem is systematically fixed (5-year contracts at a time with cooperatives). Scope: 5 000 farmers. Five sourcing principles:</p> <ol style="list-style-type: none"> <li>1. Traceable beans: Purchasing from known partner cooperatives and known farmers. Tony's bean tracker digital traceability platform and Child Labour Monitoring Remediation System (CLMRS).</li> <li>2. Higher prices: Pay an additional premium on top of the certification premium and the basic cocoa bean prices.</li> <li>3. Strong farmers: Work together to professionalize farming cooperatives and farms, giving them more power to structurally change inequality.</li> <li>4. Longer term contracts: Engage in five-year commitments with cooperatives to facilitate investments.</li> <li>5. Productivity and quality: undertake productivity, diversification and quality programmes to improve the yield.</li> </ol>

Source: Author's own elaboration.

## Annex D. Summary of recommendation for all stakeholders

- Scale up efforts significantly, to reflect the size and urgency of the problem.
- Implement a sector wide commitment to living income.
- Implement a global moratorium on deforestation.
- Ensure that the enabling environment of purchasing practices and governance policies are strongly improved before good agricultural practices are emphasized.
- Involve farmers and civil society as co-decision-makers in all sustainability collaborations through inclusive and deliberative processes.
- Develop effective transparency and accountability mechanisms.
- Support a shift from monoculture to diversified production.
- Support capacity of farming communities to self-organize and have a bigger voice.
- Ensure that all sustainability approaches are tailored to include women and youth.

Source: Fountain, A.C. & Huetz-Adams, F. 2022. *Cocoa Barometer Executive Summary*. Cocoa Barometer Consortium. <https://cocoabarometer.org/wp-content/uploads/2022/12/Cocoa-Barometer-2022-Executive-Summary.pdf>



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