

# Living Income Position Paper

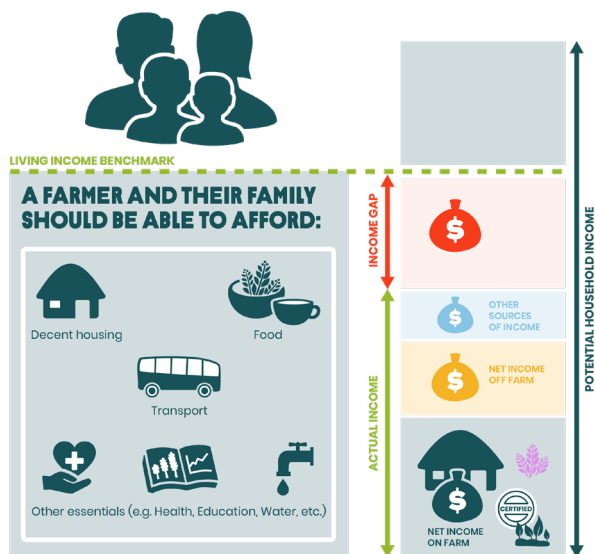
Sustainable Livelihoods for Farmers – A Living Income and Beyond

The Rainforest Alliance is an international non-profit organization working in more than 70 countries at the intersection of business, agriculture and forests. We are building an alliance to create a better future for people and nature by making responsible business the new normal.



# Introduction

More than 1.4 billion people around the world—the majority of them in rural areas—live in extreme poverty and depend on agriculture for their livelihoods. Empowering farmers and forest communities to earn sustainable livelihoods is one of the most effective ways to lift rural people out of poverty and nourish a global population expected to reach 9.8 billion by 2050. The livelihoods of farmers, farm workers, and farming communities are also intricately linked to some of the world's most diverse ecosystems, which is why creating better livelihoods is key to our vision of a world where people and nature thrive in harmony.



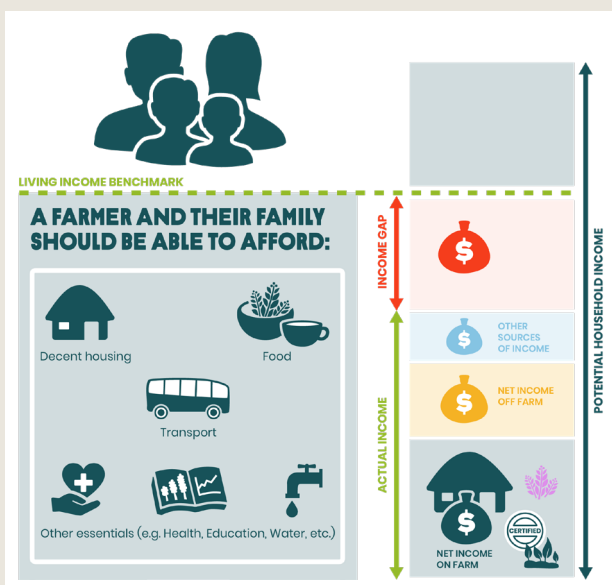
Relying on agriculture comes with many challenges. Farmers and forest communities all over the world are fighting climate change, which is creating higher temperatures, drought, unpredictable rainfall, wildfires, pests, diseases, and extreme weather events. Additionally, many farmers have limited access to services, inputs and markets to improve their profitability which dramatically impacts their ability to put food on the table or afford basic healthcare and education for their children. Being able to save and invest for the future is an essential part of building sustainable and thriving communities.



## What is a Living Income?

A living income is a benchmark that indicates the net income required for a household in a particular place to afford a decent standard of living for all members. This amount varies greatly by country and even region, because the cost of food, housing, and other necessities differ from place to place. To determine the sufficient amount, we use the living income benchmarks calculated by the Living Income Community of Practice in accordance with the Anker Methodology.

The graph below explains the components that constitute a living income benchmark according to the Anker Methodology and endorsed by the Living Income Community of Practice.



## What is a sustainable livelihood?

Farmers having a sustainable livelihood means that they have the means, capacity, and income that covers their basic needs – meaning that is at least a living income. Additionally, they also need to be economically resilient – meaning they are able to withstand or recover from shocks and unexpected events without undermining natural resources<sup>1</sup>.

Earning a living income is an essential step in helping farmers achieve sustainable livelihoods but it is not the only goal. Farmers earning a living income are able to cover their basic needs and make a living; however, to achieve a sustainable livelihood, they also need to invest in their farm or business to have enough for the future as well. The difference between surviving and thriving is economic resilience. This is why we focus on a number of interventions that create the conditions for farmers to earn a living income while building more resilience at the same time.

## Calculating a Living Income

To ensure the necessary actions are taken by supply chain actors and farmers to enable living incomes, it is first necessary to know what the living income benchmark is in a particular country or region.

The Rainforest Alliance is a founding member of the [Living Income Community of Practice](#)<sup>2</sup> which has defined a method of calculating living income benchmarks that draws on the Anker Methodology for estimating living wages. The estimates are context-specific and aligned with local and international standards.

To calculate a living income benchmark, we assess how much it costs for a household to afford a decent standard of living by adding up the cost of a low-cost nutritious diet that fits local food preferences and the child development level of a country, the cost of decent housing in the area, and the costs of other essential needs. These are assessed through a method of extrapolation. A small margin above the total cost is then added to account for unexpected events such as illnesses and accidents—this helps ensure that events like these do not throw farmers into poverty.

The living income benchmarks provide a reference point to compare the net income of households in a specific context and identify existing gaps.

The net income of a household is defined as the total amount of income earned by family members over the course of a year—including cash income and non-cash income (for example, food that is produced by family members for their own consumption, in-kind payment for labor, etc.)—minus the costs associated with the earning of that income.

Knowing the living income gap is critical in order to find strategies to improve farmers' livelihoods and bridge this gap.

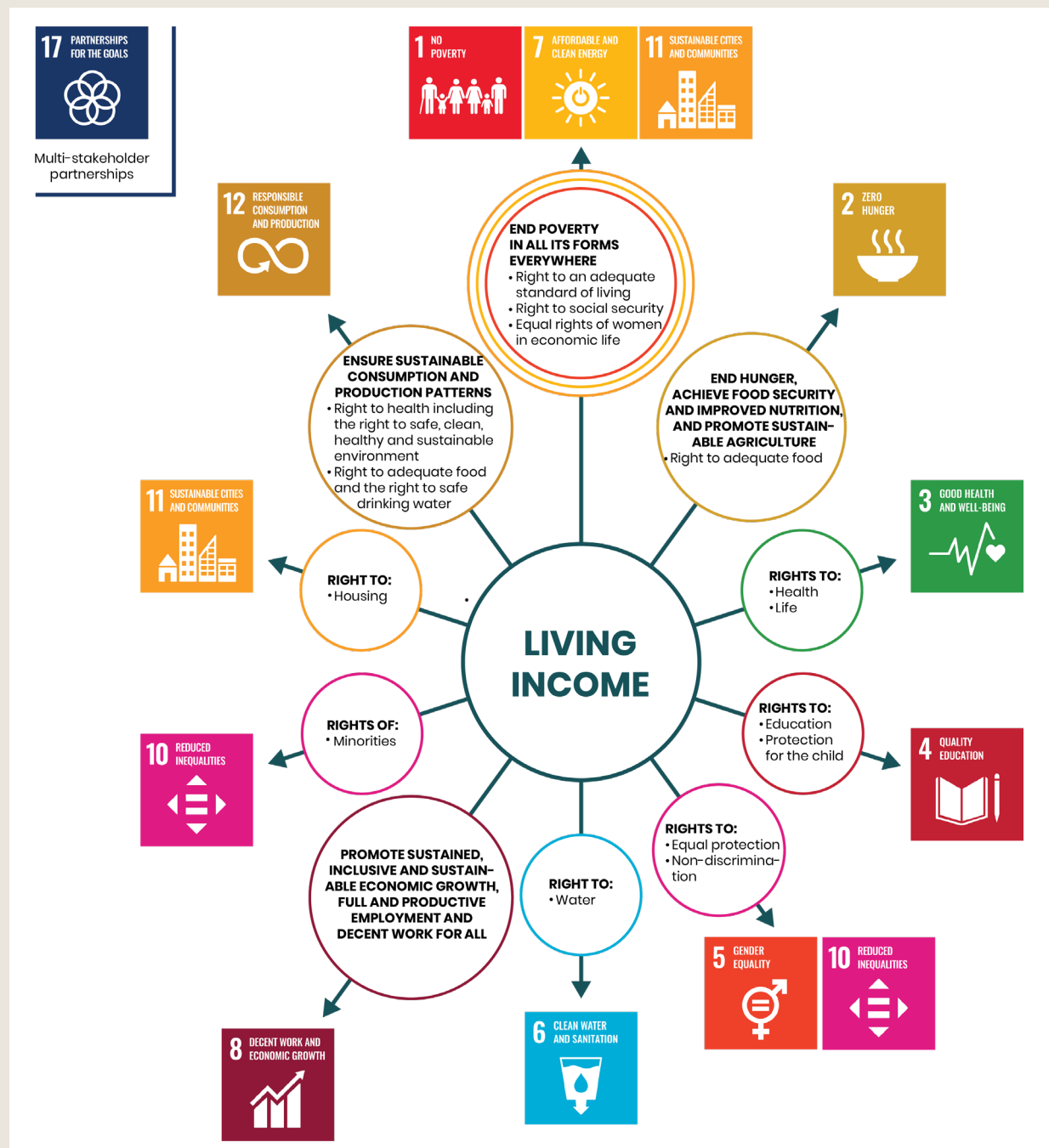
## Living Income as a Human Right

The right to an adequate standard of living and access to basic needs is embedded in various human rights declarations and conventions, including the [United Nations \(UN\) Universal Declaration of Human Rights \(UDHR\)](#)<sup>3</sup>, the UN International Covenant on Economic, Social and Cultural Rights (1966), and several ILO Conventions and Recommendations.

The UDHR proclaimed by the United Nations General Assembly in 1948 sets out, for the first time, fundamental

human rights to be universally protected. It states that “Everyone who works has the right to just and favorable remuneration ensuring for himself and his family an existence worthy of human dignity, and supplemented, if necessary, by other means of social protection.”

As illustrated in the graph below, achieving a living income is part of a collective effort to achieving the UN Sustainable Development Goals as it ensures that individuals’ fundamental rights and basic needs are covered<sup>4</sup>.



# Living income—our vision and position

The Rainforest Alliance's vision is a world in which people and nature thrive in harmony. Critical to achieving this is ensuring that the agricultural farmers, workers, and communities are able to achieve a decent and sustainable livelihood for themselves and their families.

The Rainforest Alliance's theory of change for achieving sustainable livelihoods for farmers is built around three pillars:

1. **Profitable and Resilient Farmers:** Helping farmers strengthen their farming business is a cornerstone of our vision and strategy to enabling sustainable livelihoods.
2. **Market Incentives and Shared Responsibility:** Our program is built on a market-based model that aims to drive more value to farmers. Strong demand for certified products gives farmers more access to high value markets and create a business incentive for sustainable production. We recognize that all actors have a responsibility to create inclusive, sustainable supply chains where costs and benefits and risks are shared.
3. **An Enabling Environment:** Since poverty is a systemic issue, producers organisations, sector platforms and governments. have a pivotal role to play in building an enabling policy environment. Aligning sectors on common commitments and empowering local civil society organizations to create more accountability and transparency are essential steps for lasting solutions.

## INTERVENTIONS USED BY THE RAINFOREST ALLIANCE TO IMPROVE FARMER INCOME AND LIVELIHOOD

At the Rainforest Alliance, we take a multi-faceted approach to improving the livelihoods of the farmers we work with.

### PILLAR ONE: PROFITABLE AND RESILIENT FARMERS

#### *Sustainable productivity—a tailored approach*

Through our program, farmers have access to trainings and support to improve their farm productivity and profitability. We strive to ensure that the knowledge and services provided are tailored to the specific contexts and needs of the farmers and their families.

We also support farmers by helping them achieve sustainable productivity. "Sustainable productivity" is a term that refers to **the ratio between farm outputs (yield) and inputs** (such as land, labor, fertilizer, pesticides etc.). It measures how efficiently inputs are used compared to the production. Usually, when increasing productivity is discussed, the focus is on the profitability of farming, but increasing (certified) volumes or yields (=kg/ha) does not necessarily lead to an increase in a farmer's income if input costs are greater than the returns. To prevent this, we have drawn on our years of experience to expand our approach and

criteria in the new Rainforest Alliance 2020 Sustainable Agriculture Standard.

In the new standard, we continue to promote good agricultural practices that have proven to increase farm productivity and profitability<sup>5</sup>. At the same time, certified farmers will be incentivized and trained to implement more sustainable farming practices. The major agronomic issues are addressed through the standard criteria aimed at improving soil health and fertility, using improved crop varieties, increase adoption of integrated pest management, increase diversification through multi and intercropping, and more efficient water utilization.

#### *Improving farm management and household economics*

Harnessing the power of data to better map risks and opportunity and improve farming and farm management is an important feature introduced in the 2020 Standard. Our new approach is less focused on defining specific practices that need to be implemented and more focused on situational assessments. This allows for more context-specific training and implementation and shifts the focus to outcomes and continuous improvement. With more specific knowledge, farm group management are better equipped to tailor their services to meet the expressed needs of their farmers. In turn, farmers then receive better advice on how to improve their livelihoods through the certified crops they produce as well as through other sources of income.

Beyond the income earned from their certified crops, farmers often rely on other sources of income to make ends meet. To support our farmers in making informed decisions on how to best diversify and improve their net household income, we are collecting data to analyze the overall economics of each farm.

For many smallholder farmers, high dependency on a single cash crop increases their vulnerability to economic and natural shocks, including climate change. Understanding the household economics and potential for diversification of income sources is critical to support their livelihood, food security, and nutrition, particularly outside of the main harvest season.

In our new 2020 Certification Program, we have introduced more thorough risk assessment tools to identify farmers' needs, particularly in terms of access to knowledge, input and finance, and tailored support. Depending on the risk levels identified, group management will be equipped with the right knowledge and tools to advise and support their members. Management will be able to help their farmers assess the costs and benefits of their business, suggest steps to increase their crop profitability, and provide guidance on when it is most lucrative to diversify their income sources within or outside the farm.

#### *Increasing resilience to climate change*

The Rainforest Alliance has long been at the forefront of developing and implementing [climate-smart agriculture solutions](#)<sup>6</sup>. Climate-smart methods are part of our 2017 Sustainable Agriculture Standard and are even more central in our new 2020 standard.

Climate-smart agriculture isn't distinct from sustainable agriculture; rather, it's a way of combining various sustainable methods to tackle the specific climate challenges of a specific farming community.

Our certification program trains and guides farmers on how to assess the risks posed by climate change and how to adopt farming methods to increase their resilience to these risks. Climate-smart methods help protect the environment too—for example, by planting new trees, introducing new crop varieties, and improving soil management.

Beyond our certification program, we are also involved with other climate efforts. In 2018, we created publicly accessible, science-based training materials for specific cocoa-growing regions in collaboration with the World Cocoa Foundation and our research partners at the International Center for Tropical Agriculture and the International Institute for Tropical Agriculture. We're currently working on more guides for other landscapes and crops as well.

Next to our certification program, we set up landscape intervention that go beyond the farm or production unit. Such interventions are set up in collaboration with a broad-based of private and public players willing to invest to address issues in the wider producing landscape to improve the farmers income, create agro-business opportunities while preserving the natural habitat.

### ***Creating transparency on the gap to a living income***

Achieving a living income and enabling a sustainable livelihood for all producers is a process of continuous improvement. Measuring progress along this journey is key in order to identify risks and where more investment is needed.

In the 2020 Rainforest Alliance Sustainable Agriculture Standard, we have introduced self-selected living income requirements, where group management has the option to calculate production costs and assess net income against a Living Income benchmark.

Building on the learnings from the Living Income Monitoring Tool that was previously piloted for cocoa supply chains in Côte d'Ivoire and Ghana, the Rainforest Alliance is developing a producer-led tool that allows users to determine whether their economic needs are met. This tool will simultaneously support companies in taking the first steps of due diligence by helping them map their risks, identify changes they can make, and monitor improvements. Together, farm groups and their buyers can implement the necessary intervention strategies and make investments to mitigate and remediate any identified risks.

### **Box 3**

## **FarmGrow—Building a Better Family Business**

Farm grow is one example of a large partnership we have set up to allow farmers to improve their livelihood and income. The vast majority of the world's cocoa is produced by smallholder farmers, who often live in severe poverty. Low and declining yields—the result of poor planting material, aging cocoa trees, decreased soil fertility, lowered tolerance for pests and diseases, combined with changing weather patterns—make it hard for cocoa farmers to make a decent living. Farmers lack support in planning farm improvements and do not receive personal coaching to overcome difficulties.

FarmGrow is a digital application that functions as a long-term personal coaching plan, helping smallholder farmers use responsible methods to increase productivity on existing cocoa land as much as three-fold. FarmGrow combines very detailed farmer household profile data with the agronomic status of cocoa plots to create a business plan, complete with a profit-and-loss statement tailored to the individual farm and household. It uses detailed farmer profiling data that includes environmental conditions, household financing and production levels. What makes our approach unique is that we combine this data with "smart logic" which generates multi-year plans for each plot that guide smallholders' investment decisions to improve yields. These plans, similar to a profit and loss statement, are re-calibrated every year based on the adoption levels of the farmer and changes in cash flow or other household needs. Personal one on one coaching and monitoring by trained agronomic field agents further support on-farm adoption practices, and is novel compared to the more common group trainings, that lack tailored support and attention.



## PILLAR TWO: MARKET INCENTIVES AND SHARED RESPONSIBILITY

At the Rainforest Alliance, we recognize that sustainability is a long-term journey, and to make sectors truly sustainable, all supply chain actors need to play a role. An inclusive supply chain is one where both the value and the risks are shared. This requires a shift to a system where the farmers' costs and investments are covered and their efforts to make their farms and production more sustainable are rewarded.

### Pricing—the Sustainability Differential and Investments

A determining factor of a producer's income is the price they are able to achieve for their crop. The ability to produce a cash crop that has global market demand can offer many farmers an opportunity to increase their income. Looking closer, the prices and terms of trade they receive for those crops often play a large role in whether a producer can implement sustainable practices or become and remain economically viable.

We believe that a crop produced according to the Rainforest Alliance Sustainable Agriculture Standard is a better product, and therefore, should earn a higher price. We've accounted for this in our 2020 Sustainable Agriculture Standard through two new requirements for the buyers of Rainforest Alliance Certified commodities: the Sustainability Differential and Sustainability Investments

The **Sustainability Differential** is a mandatory additional cash payment made to certified producers over and above the market price of the commodity. The amount of the Sustainability Differential isn't fixed. When possible, it should be negotiated between the farm group/farmer and the market actor responsible for making the payment, which, in most instances, is the first buyer. The intention is that this payment recognizes the efforts and specific activities undertaken by the producer to meet the Farm Requirements of the Sustainable Agriculture Standard. It should incentivize the continued adoption of the sustainable production practices embodied in our standard.

The **Sustainability Investments** are mandatory cash or in-kind investments from buyers of Rainforest Alliance Certified products to certified producers for the specific purpose of helping them meet the Farm Requirements of the Sustainable Agriculture Standard.

These type of investments include those that are required for producers to fulfill core compliance or mandatory improvement criteria in the standard as well as the cost of achieving certification (i.e. implementation of the Digital Internal Management System and audit costs). The investments must go towards the needs identified by producers in their investment plans, and buyers must report on the investments they make.

### AN INNOVATIVE BUSINESS PROPOSITION: TAKING A MODULAR APPROACH TO LIVING INCOME

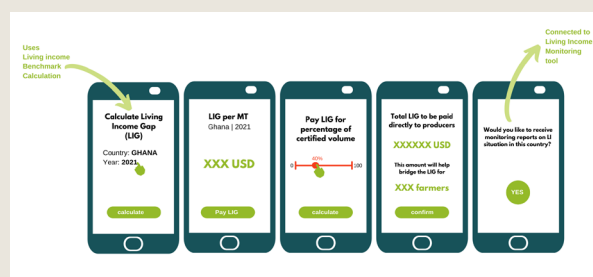
We understand how the market operates in different sectors and the need to account for these dynamics when

designing sustainable business solutions. Using our knowledge and state of the art technologies allow us to innovate and create scalable solutions to enable market players to contribute further in improving the lives of producers. The Rainforest Alliance is setting up a Living Income Modular tool that allows buyers of Rainforest Alliance Certified commodities to pay an extra amount to bridge the gap to a living income. The sustainability front-runners joining our pilot will have the assurance that their payments directly reach farmers in the form of cash and additional services. We are using cutting-edge technology to trace payments and report transparently on the impact they have on the livelihood of producers. In this way, we are testing a new business proposition that would give more investments and value to producers.

#### Box 4

### Living Income Tool: How does it work?

One of the innovative pilots we are engaged in is the living income tool. Using the living income tool brands are able to add a financial "top up" to the volumes of certified products they purchase which goes directly to farmers. Both the payment transaction and impact are transparent and accessible.



## PILLAR THREE: AN ENABLING POLICY ENVIRONMENT

An enabling policy environment at the national and international level is pivotal in addressing the systemic issue of poverty. Active and bold government interventions are needed to increase farmers' access to essential services and adequate infrastructure, such as roads, processing facilities, and ports, as well as to allow for the creation of employment opportunities, manage supply, and enact relevant agrarian reforms, among other things.

As an international non-profit organization that works at the intersection of business, agriculture, and forests, we recognize our role in informing and engaging in policy dialogue at the international and sector level. That's why we work together with farmers, retailers, and traders through our [Sector Partnerships Program](#)<sup>7</sup> to build the capacity of local civil society organizations and producer groups that can effectively advocate for the interests of these parties.

In producing countries, we empower producer associations and representatives alongside civil society to help ensure workers' voices are heard. One example of this is our long-standing membership and active support of the Global Coffee Platform. Over the past couple of years, we



have worked hand in hand with the platform to create chapters in many different countries, including in Kenya<sup>8</sup> and Honduras<sup>9</sup>. The national platforms play a key role in aligning the agenda of the sector on a national level and ensuring that farmers in origin countries are considered in key priority setting discussions on a sector-wide, international level.

By sharing our hands-on knowledge, research, and experience, we are able to successfully foster collaboration and joint action. We not only convene actors, but also enrich debate with facts and data about the situation in the field. This was the case in our collaboration with [The Living Income Community of Practice](#)<sup>10</sup>. This platform is working to create a common understanding of living income by sharing definitions and calculating living income country benchmarks. It has been a catalyst for gaining endorsements and commitments by governmental and private actors to help realize a living income for farmers.

We also engage with companies to encourage more responsible sourcing practices. The Rainforest alliance urges companies to commit to enabling farmers in their supply chain to achieve a living income. This is by using their leverage as buyers to create the economic conditions for their sourcing partners to have a stable and profitable business and as such contributing in improving their income.

Last but not least, through our seal and efforts to raise awareness of these issues, we are helping consumers be part of the solution. By providing them with better options on the shelf, we are empowering them to make more sustainable choices which in turn leads to better livelihoods for farmers.

## Conclusion: a long-term and systemic response is needed

There is no one quick fix to achieving sustainable livelihoods for farmers around the world. A smart mix of voluntary measures, regulations, investments, and financial incentives is needed.

Improving farm productivity and profitability is an essential part of the process which is why we provide farmers with access to trainings and support through our certification program. In that program, we are constantly working to ensure that the knowledge and services we share are comprehensive and tailored to the specific needs and contexts of farmers and their families.

We recognize that all supply chain actors have a role to play. Ongoing investments from and engagement with sourcing partners in order to share the risks and value of certification is key to creating sustainable and inclusive supply chains.

The responsibility of governments in producing and consuming countries can also not be overstated. Adequate policies, pre-competitive collaboration, investments, and funding are critical to our goal of creating living incomes and sustainable livelihoods for farmers.

At the Rainforest Alliance, we are committed to this long-term, multi-faceted approach to tackling this systemic global challenge—and we call on all actors to join us on this journey.

## Notes

- 1 Chamber R. and Gordon R. Conway – Sustainable rural livelihoods: practical concepts for the 21st century, January 1992
- 2 <https://www.living-income.com/>
- 3 <https://www.un.org/en/universal-declaration-human-rights/>
- 4 [https://www.ohchr.org/Documents/Publications/Session5\\_OHCHR\\_SDG\\_HR\\_Table.pdf](https://www.ohchr.org/Documents/Publications/Session5_OHCHR_SDG_HR_Table.pdf)
- 5 Bini et al. 2016, Barham & Weber 2012, Akoyi & Maertens 2017
- 6 <https://www.rainforest-alliance.org/articles/what-is-climate-smart-agriculture>
- 7 <https://www.rainforest-alliance.org/publication/sector-partnerships-factsheet>
- 8 <https://www.sautiyakahawa.org/>
- 9 <https://www.globalcoffeeplatform.org/country-platforms/honduras>
- 10 <https://www.living-income.com/>



