



FAIRTRADE  
INTERNATIONAL

# Fairtrade Living Income

PROGRESS REPORT 2023





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# Executive summary

Achieving sustainable livelihoods for smallholder farmers and workers is at the core of Fairtrade's mission. In order to enjoy sustainable livelihoods, farmers need to earn sufficient income to practice sustainable agriculture and afford a decent standard of living. In reality the gap to a living income is still large for many farmers in the countries where Fairtrade works.



Our holistic living income strategy encompasses three interconnected building blocks:

- **Sustainable production**
- **Responsible procurement**
- **Enabling environment**

This report describes our actions in each of these areas, and the progress we've made to date.

For instance, Fairtrade producer networks and project partners work with cooperatives to strengthen services to their farmer members. These include coaching on better farm management, and support for productivity improvement (such as cocoa cooperatives subsidising "labour brigades" to help with pruning, the sustainable banana programme in Latin America or investment in a biofertilizer plant by Red Ecolsierra in Colombia). It also includes enabling income diversification (such as through a dynamic agroforestry project in Ghana or an incubator hub for alternative income generation by ECAM in Côte d'Ivoire).

Under responsible procurement, we have made significant progress in establishing Living Income Reference Prices, which are what a full-time farmer needs to be paid to earn a living income, assuming a sustainable productivity level is reached. To date we have set country-level reference prices for cocoa in two countries, coffee in seven countries, vanilla in two countries, and coconuts in one country. We have also developed supply-chain specific reference prices on demand for companies and their supplying cooperatives for a range of products and origins, including cashews, oranges for juice, robusta coffee and fine flavour cocoa. As intended, these prices are

serving as a "reference" for the industry; we know a number of other companies are using our reference prices to inform their own internal pricing strategies.

This report includes promising results from the first two years of the Living Income Learning project with Tony's Open Chain and Ben & Jerry's and six partner cocoa cooperatives, which combine activities to improve farm profitability towards the target values for cocoa yields, crop diversification and cost efficiency, alongside the companies paying the Living Income Reference Price. The participating farmers earned on average 15 percent more compared to the government-regulated farmgate prices, while cooperatives that sold more than average earned up to 47 percent higher cocoa revenues.

Advocacy efforts have also advanced, from the "ISCOs" (national multi-stakeholder initiatives for sustainable cocoa), to European Union legislation on human rights and environmental due diligence, to changes to European competition law that allow collaboration on sustainability initiatives. We hosted a farmer-led summit in May in Abidjan, which resulted in a joint declaration calling for sustainable procurement practices and policies that support living incomes and enforcement of laws to protect people and the environment.

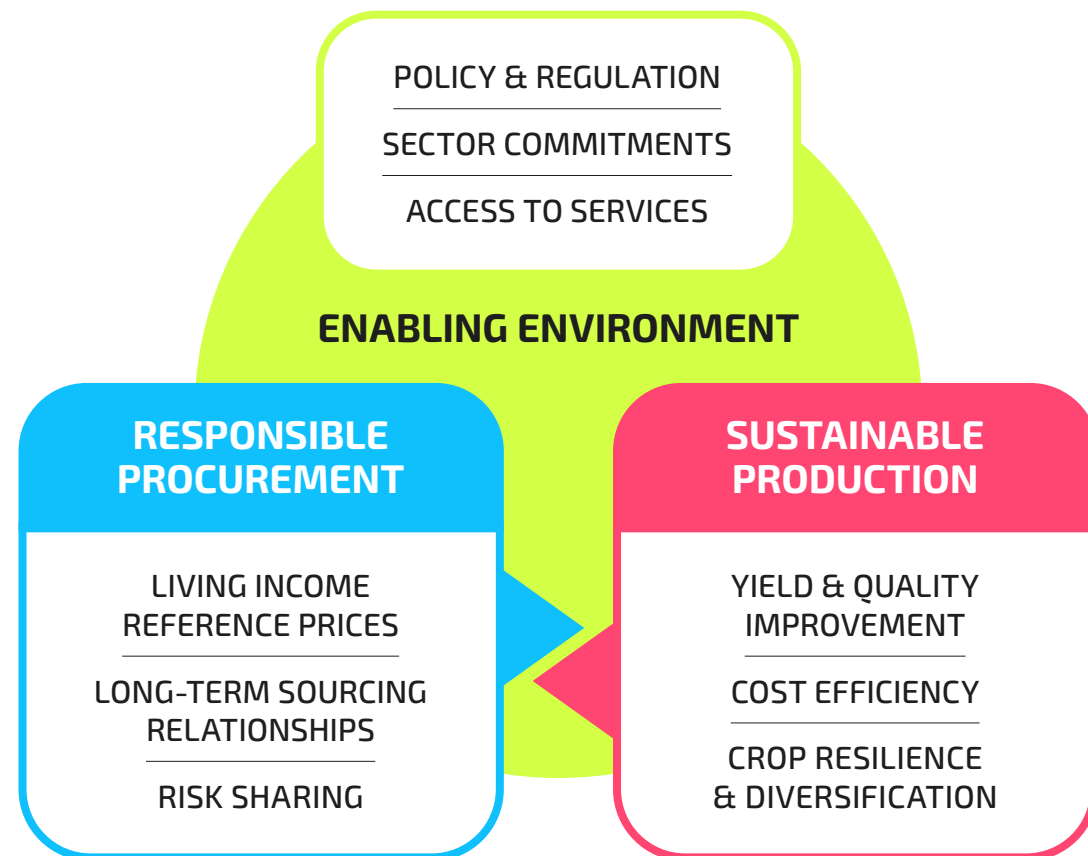
We look forward to continuing our work and collaborations in 2024, including continuing to dive into data and learnings, channelling resources into scaling up what works, setting reference prices, and developing ways to highlight the additional commitments and progress that companies and cooperatives are making toward living incomes.

# Fairtrade's Living Income Strategy: Reflecting progress and learnings

Achieving sustainable livelihoods for smallholder farmers and workers is at the core of Fairtrade's mission. In order to enjoy sustainable livelihoods, small-scale farmers need to earn sufficient income to practice sustainable agriculture and afford a decent standard of living. In reality the gap to a living income is still large for a majority of smallholder farmers in the global south. The painful results of a large household income study among cocoa farmers in Côte d'Ivoire served as a wake-up call, upon which Fairtrade launched in 2017 its first roadmap to make progress towards living incomes.

Last year this Living Income Strategy was updated to capitalize on early learnings from implementation and to incorporate developments in the sustainability landscape. The strategy encompasses three interconnected building blocks:

- **sustainable production** to optimize farm yields, efficiency and resilience, in harmony with the natural environment
- **responsible procurement** to enable farmers and their organisations plan their business and secure a decent return on their investment, by establishing long-term sourcing partnerships and paying living income based prices
- **enabling environment** that creates the conditions for farmers to produce sustainably and drives collective action by putting in place policies that level the playing field for the entire industry.





Closing the gap between farmers' current average incomes and living incomes requires an **integrated multi-stakeholder approach**, in which farmers and producer organisations play an active role.

**Farmers** are primarily responsible for increasing farm productivity and resilience by implementing sustainable agricultural practices, supported by their organisations. **Producer organisations** create value for their members by delivering the services they need, such as technical assistance, access to subsidized inputs or loans, to improve farming practices and quality or diversify their incomes.

**Companies** are in the first place responsible for sustainable purchasing practices, including establishing long-term sourcing relations and paying sustainable prices. This way, producer organisations can plan their business and pay their members a price that supports their farm investments and a decent standard of living.

Finally, the required collective action to fulfil these conditions at scale can be driven by **governments** putting in place policies that level the playing field for the entire industry.



Given the above, Fairtrade's new strategy lays out what needs to be done *beyond* Fairtrade business as usual to deliver on our ambition. It describes **six interdependent areas** of interventions that we are focusing on for the coming years.

1. **Standards** – Fairtrade Standards form the backbone of all our work and provide a solid basis for accomplishing our strategic goals, including living incomes. Standards are continuously reviewed and new requirements for traders and producers will be considered for inclusion once voluntary interventions have proven effective. This way, elements of the strategy may move from being voluntary to becoming embedded in our business as usual.
2. **Living Income Reference Prices** – Sustainable pricing is a critical component of Fairtrade's Living Income Strategy. Living Income Reference Prices indicate the price a typical farmer household with a viable farm size and a sustainable productivity level needs to earn a living income from the sales of their crop. The price discovery process is based on an assessment of current yields, cultivated land areas and farm investments, to set realistic targets for each of these key income drivers. Reference prices will co-exist with the Fairtrade Minimum Price and Premium as a complementary pricing and advocacy tool, which companies can decide to pay on a voluntary basis.

3. **Bespoke business services** – Beyond Fairtrade Standards, industry partners who want to go a step further in assuming their responsibility for living incomes in their supply chains can work with Fairtrade to develop bespoke projects that suit their sourcing partners and shared priorities. We offer committed commercial partners a range of possible interventions from which a customised project can be designed.
4. **Producer support programmes** – Expanding on successful programmes that Fairtrade's Producer Networks already provide, services to strengthen producer organisations will be scaled up so that these organisations in turn are better equipped to support their farmer members in increasing their incomes. This includes organisational capacity building in areas such as entrepreneurial skills, productivity improvement, climate resilience, gender and youth inclusion.
5. **Advocacy** – An enabling environment so that industries can take the required collective action is crucial to bring about income improvement at scale. Fairtrade advocates for raising the bar at multiple local, national and regional initiatives. Opportunities include integrating living income-supporting requirements into human rights and environmental due diligence legislation, and influencing sector agreements to include ambitious living income commitments for the industry.



6. **Monitoring, evaluation and learning** – Collecting farm economic baseline data and assessing gaps to living incomes are key to understanding the levers to improve farmers' incomes and designing appropriate strategies and establishing sustainable price levels. Then closely monitoring income improvement for households that participate in any of our living income-related projects is crucial to evaluate the effectiveness of our interventions, learn what works best and build on successes. Through transparent reporting on key performance indicators, Fairtrade aims to show the way to living incomes and encourage businesses to come on board.

## Engaging with businesses on living income

There are many ways for businesses to work with Fairtrade on their journey towards living incomes that go beyond certification, addressing one or more of the strategic pillars for attaining living income goals.

The most straightforward way is to adopt Fairtrade Living Income Reference Prices wherever these are set and commit to not purchase products below these price levels. FLOCERT offers independent verification services of these payments, as well as tracking payments made to farmers.

In case a reference price has not yet been established for the product or origin of interest, Fairtrade offers a fast-track methodology to calculate 'proxy' Living Income Reference Prices for specific supply chains and/or for less common Fairtrade products at a fee for service.

Various combinations of interventions are also already being implemented with cocoa and coffee farmers, distinguishing between **living income projects** which include the payment of a Living Income Reference Price, and **income improvement projects** that do not.



## Ways of working with Fairtrade on living income

- **Living income projects**, encompassing interventions in all aspects of the living income roadmap by supply chain actors
- **Income Improvement projects**, partially implementing the living income roadmap depending on priorities identified by the respective partners
- **Living income innovation fund** for common, experimental and scalable projects, especially suitable for commercial partners with non-traceable supply chains, many different sourcing partners or those who source only small volumes and would not deliver significant measurable impact on their own.
- **Living Income Reference Price establishment**, either supporting baseline and gap analysis for country-level price discovery or customized calculations for customers who wish to know what price is needed to enable living incomes in specific supply chains.
- **Programme support** through investments in targeted producer facing interventions towards strengthening producer organisations, optimizing farm profitability and resilience, income diversification, fostering gender inclusive household economic management, etc.
- **Campaigning** to raise awareness and increase pressure for living income commitments.

# Sustainable production

Increased productivity – in harmony with the surrounding environment and resilient against shocks due to changing climate conditions – is an important lever to improve farmer incomes. In most producer realities there is potential for significant income improvement through optimizing farm yields and efficiencies, whether of their main crop or diversified income sources. Yet, numerous programmes aiming at productivity improvement over the past decades have not been successful in lifting smallholder farmers out of poverty.

Fairtrade believes in the power of farmer ownership and self determination to enhance sustainable agriculture, enabled through fair trading practices. Stable, long-term trade relationships provide the security for farmers to take the risk that come with doing things differently on their farms, like renovating trees and wait for a few years before they become productive. This starts with gaining a better understanding of the economics of their small-scale farming business and the medium and long term effects of certain investment decisions.

## **Better farm management through record keeping**

Through the implementation of farm records, farmers gain better insight into the various expenditures and revenue flows, and learn how to manage their farms and their household budgets more efficiently. Farm record tools have been introduced to farmer households, who – with the help of coaches from their organisations – have learnt to track their expenses, labour and incomes. Special attention was paid to making sure that couples were jointly involved in this exercise to get a complete picture of the family business and more recognition of the work done by women and the income they generate for the household. The assumption was that this would lead to women having a stronger say in running the farm and deciding how the household money is spent.

A gender inclusive household economics training module was developed to strengthen the involvement of women in farm management and overall economic decision making.

***“As a couple participating in this training, we can say that this training opened our eyes to many aspects of couple life. It’s as if our relationship has been renewed. In any case, the project has been of considerable benefit to us.”***

Mr and Ms Koko, CAPRESSA

***“The project created a single vision within the couples regarding the economic management of the household. Now there is transparency and good communication between the woman and the man who put together their different incomes to manage it for the benefit of the household. In the past, only the man made the decisions. With the training, we have understood that we must always involve women in decision-making.”***

CAPRESSA

***“We are very happy to have participated in this living income project, because since the passage of coaches and the training we received, we follow our farm records regularly and the financial management is going well. I now involve my wife in the management of the household and harmony and cohesion reign in our household.”***

Daouda Coulibaly, producer, ECOJAD





### **Sustainable yields in the mix**

A sustainable yield from a farmer's available land is part of the living income equation. Productivity targets for a crop in a specific context are set by analysing the current productivity, and then consulting with farmers and local experts to determine what can realistically be achieved, given the circumstances in the country. Producer organisations play an important role to reach these.

### ***Better cooperative services supporting their members to be efficient farmers***

The three regional Fairtrade producer networks provide services that strengthen certified organisations to improve farming practices and increase productivity. Strong cooperatives can

reduce costs for their farmer members by organising purchases or services at scale. This saves farmers money, and can at the same time contribute to higher farm incomes by spreading good agricultural practices. In addition, farmers can be sure to receive the right inputs from a guaranteed source.

For example, several cocoa cooperatives in West Africa have organised and employed "labour brigades" that travel to members' farms and take care of tree pruning or other labour-intensive but productivity-improving practices. The well-equipped brigades, staffed by trained young members of the community and subsidized by the cooperatives offer high quality labour services. This represents a form of in-kind contribution to farmers' incomes, as it saves them hiring workers and increases their yields.

### **A better environment for farmers – and for bananas**

A collaboration between French retailer Carrefour, the French Development Agency, and Fairtrade producer network CLAC in the Latin America and Caribbean region is an example of improving yields, sustainability, and resilience at the same time. The Sustainable Banana Programme supports 11 small-scale banana cooperatives and more than 1,000 farmers in Peru and the Dominican Republic to increase their productivity in eco-friendly ways, to build business management skills, and to better include women in these opportunities.

CLAC conducted a number of workshops to train farmers on agricultural practices to increase soil fertility and to test crop diversification. Farmers are also learning how to identify and prevent the spread of Fusarium "wilt," an extremely harmful plant fungus, which is deterred in part by soil biodiversity. The project provides funds for the cooperatives to set up "microfactories" to produce organic fertilizers and biological pesticides for use by their members, both reducing costs as well as improving their ecological footprint.





### Income diversification

Sustainable production is not only focussed on increasing yields but also very much about improving farm and income resilience. Crop losses due to the effects of climate change or pests and diseases, price drops following market fluctuations, all have a severe impact on farmers incomes and can be mitigated by diversifying the sources of income, either on farm or off farm. Traditional intercropping practices, such as growing food crops in association with the main crop, are therefore strongly promoted. Dynamic agroforestry initiatives go a step further.



The **Sankofa project** in Ghana, implemented by Fairtrade Africa and its partners, is scaling up dynamic agroforestry methods within Fairtrade certified farmer union Kuapa Kokoo. The project aims to have a first cohort of 400 farmers each farming at least one hectare of land using dynamic agroforestry practices by 2025, with another 1,000 farmers started along the path as well. Planting fruit trees (mango, citrus, avocado) and timber provides shade for cocoa trees and keeps soil moist, while yam, cassava and cowpea can be grown on the same land and contribute additional income and food security. Farmers reported earning between 25 and 125 percent more thanks to the additional cash crops they have planted, besides the biodiversity wins.

Creating off-farm income generating opportunities is particularly important for large households, or those with very small plots of land, for whom farm revenues alone are unlikely to bring in enough to reach a living income. ECAM cocoa cooperative in Côte d'Ivoire shows how this can be done by setting up an incubator programme for its members, who receive training and seed funding to set up micro enterprises, like small scale food processing initiatives, dress making, shops, or poultry farms.



## Increased coffee yields and diversified incomes: a partnership between Fairtrade Original and Red Ecolsierra



Red Ecolsierra is a coffee producer cooperative in the Sierra Nevada de Santa Marta in Colombia. Since joining Fairtrade in 2011, they have oriented part of their Fairtrade Premium towards improving productivity and the quality of their coffee.

A milestone in this effort was the construction of a production plant for organic fertilizers, in order to improve the soil health and reduce production costs. Even better, these changes also made the farmers

more competitive to buyers and more resilient to climate change.

The “Biofabrica” compost factory has a capacity to produce 180,000 litres of soil-restoring bioferments to serve its nearly 400 members, who in total farm around 560 hectares of organic coffee. Based on the analysis of soils from members’ farms, they have developed 16 tailored fertilizer products.

Organic fertilizer or compost is quite expensive on the market and represents a high cost for organic coffee farmers. Through the investment in the compost factory, Red Ecolsierra has been able to reduce the cost of production for their members by 20 percent and they expect a yield increase of five percent already after only one year.

In addition, the cooperative is actively promoting income diversification among their members to reduce their dependency on coffee revenues. With co-investment from their commercial partner Fairtrade Original, who are also committed to paying a Living Income Reference Price, they have developed production packages and set up technical assistance services for cocoa, beekeeping and timber projects. Cocoa is particularly relevant as an alternative crop and source of income for farmers in the lower parts of the Sierra, which have become less suited for growing coffee due to rising temperatures caused by climate change.

With this two-pronged strategy of investing in organic production and diversification, Red Ecolsierra has been able to consolidate a healthy environment with sustainable organic production of a variety of crops, reducing soil and water pollution, while improving productivity and quality of their products and resilience of their farms.

# Responsible procurement

Long term sourcing agreements at reliable prices that cover the cost of sustainable production and allow farmers to provide for their families are critical for them to invest in their farms. In order to improve their yields farmers need the assurance of a decent return on their investment. A higher production at a lower price will not help them to achieve a decent income.

## A first step: Fairtrade Minimum Price and Premium

Fairtrade sets minimum prices for most of our major commodities, including cocoa, coffee, bananas, tea and cotton. The Fairtrade Minimum Price aims to cover the average costs of sustainable production and acts as a safety net when market prices drop, while producer organisations get the market price when this is higher and can always negotiate for more. The Fairtrade Premium is a fixed amount on top of the selling price. Producers jointly decide how to invest this premium to meet their priority business and community needs and can also opt for paying it out in cash to supplement farmer incomes.

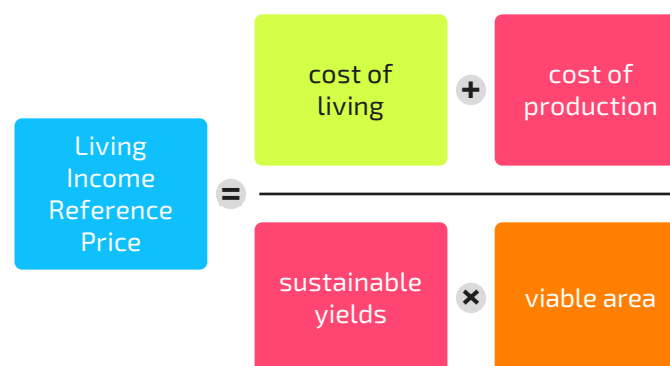
Fairtrade Minimum Prices and Premiums form a solid basis for helping producers improve their incomes, but they are not sufficient for realizing living incomes. The Fairtrade Minimum Price doesn't cover additional costs incurred to reach the target yield, to pay hired workers a living wage nor to remunerate own work with a living income.

## Living Income Reference Price model

This is why Fairtrade developed its holistic Living Income Reference Price model, a way to calculate what price a fulltime, productive farmer needs to receive to earn a living income. The model is based on the joint responsibility concept, in that farmers need to reach a sustainable productivity target and buyers have to pay a price that covers the costs involved.

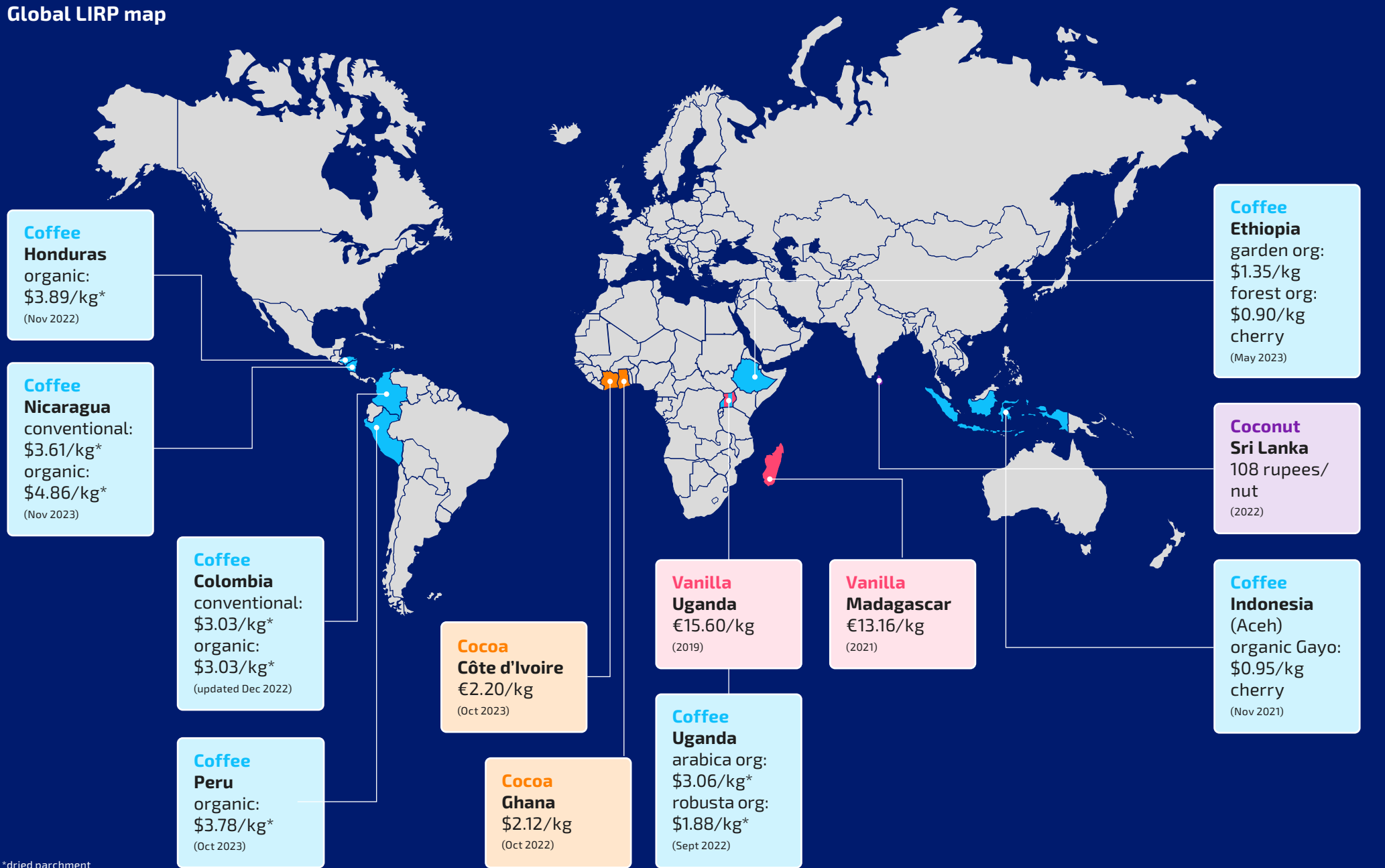
Country-level Living Income Reference Prices have been calculated for cocoa from Côte d'Ivoire and Ghana, coffee from Colombia, Indonesia, Uganda, Honduras, Ethiopia, Peru and Nicaragua, following a rigorous process of farm economic baseline analysis, based on farm records introduced among a representative sample of farmers, and stakeholder dialogue through technical roundtable workshops.

During this process, the current farming context is thoroughly analysed in order to define what sustainable production looks like in the given context and agree on realistic target yields, as well as the required investments to reach those productivity levels, including the payment of a living wage to hired workers. The third variable in the equation is a viable farm size, or the crop area needed for the household to fully depend on that crop for a living income. Smallholder farmers who do not have the enough land to be working on it fulltime may therefore need complementary income sources to make a living income.





Global LIRP map



\*dried parchment

## Living income technical roundtables

Hafursa Cooperative, part of Yirgacheffe Union, participated in Fairtrade's farm income baseline assessment for Ethiopian coffee farmers and subsequent living income technical roundtable workshop in Addis Abeba in May 2023. We interviewed coffee farmer and member, Mr. Tesema Mengesha, and cooperative manager Mr. Meskelu Gebre, about their experience with this reference price setting process.



### What have you learnt about your coffee farm by keeping track of your expenses and income?

Mr. Tesema: *We were previously unaware of the true cost required to maintain our farms and families. However, after receiving training and begin using the record book, we can now properly control and know the costs. If a person understands his expenses and income, he will know where he should go.*

Mr. Meskelu: *Our farmers' livelihoods are largely dependent on coffee, but they did not know how to separate their income and expenses for coffee production in the past. Based on this project, our farmers now have a better understanding of the costs and income associated with coffee production. The study findings were discouraging for coffee farmers as they realized they are not getting enough payment for the coffee they produce, so we are very happy that Fairtrade works to improve the price of coffee.*

### Did you gain any new/surprising insights?

Mr. Tesema: *Yes, it helped us to be more mindful of what we spend, especially for leisure, and not misuse our money. It assisted us in understanding the cost and income, and we realized that if we do it well in the future, it can bring about a change.*

Mr. Meskelu: *[Farmers] should cut costs, divide work at the family level, and use other crops that can generate income besides coffee or jobs that can generate more income until the price of coffee improves.*

### What was your experience participating in the living income roundtable workshop?

Mr. Tesema: *I've gained valuable experience that will allow me to serve as an example to other farmers and improve our livelihood by taking proper care of the farm in order to increase our income.*

Mr. Meskelu: *We admire the participatory approach of defining the price and the way Fairtrade involves producers in every step of the entire process. We are satisfied with the outcome of the workshop. The living income price will surely change the livelihoods of our farmers.*

### Have any concrete action points resulted from these insights?

Mr. Meskelu: *We are planning to start a beekeeping business in the future so that we can get more income as members of the cooperatives. Coffee naturally blooms well. When coffee blooms, it is possible to pollinate that flower and make good honey.*



## Fairtrade Living Income Reference Prices and variables for cocoa and coffee

cocoa	year	target yield	viable land size	cost of production	living income benchmark	% income from cocoa	% food from farm	Living Income Reference Price (farmgate)
		kg/ha	ha	USD/ha	USD	%	%	USD/kg
Cote d'Ivoire (c)	2022 update	800	5.3	563	7154	100%	50%	2.39 (EUR 2.20)
Ghana (c)	2022 update	800	4.0	464	4292	100%	25%	2.12

coffee	year	target yield (green bean equivalent)	viable land size	cost of production	living income benchmark	% income from coffee	% food from farm	Living Income Reference Price (green bean equivalent at farmgate)
		kg/ha	ha	USD/ha	USD	%	%	USD/lbGBE
Colombia – conventional	2022 update	1340	2.8	2945	7039	100%	n/a	1.85
Colombia – organic	2022 update	1120	3.8	2694	7039	100%	n/a	1.85
Honduras – organic	2022	1200	3.0	3246	7619	100%	n/a	2.19
Peru – organic	2023	1100	3.5	2865	8205	100%	n/a	2.14
Nicaragua – conventional	2023	1340	2.1	2487	6897	100%	n/a	2.05
Nicaragua – organic	2023	950	2.1	3264	6897	100%	n/a	2.76
Uganda – organic	2022	1280	0.8	2467	4974	50%	33%	1.74
Ethiopia-garden – organic	2023	550	1.4	2164	4466	100%	50%	3.68
Ethiopia-forest – organic	2023	800	2.5	3054	4466	100%	50%	2.46
Indonesia-Aceh – organic	2022	1000	1.0	1622	5245	80%	n/a	2.59

More details on the calculation method and values can be found [here](#).

Setting Living Income Reference Prices doesn't only serve Fairtrade partners, but – as the name indicates – provides a reference to the entire industry. We are

therefore pleased to hear from multiple companies that are not necessarily Fairtrade certified who use Fairtrade reference prices to inform their own internal pricing strategies. This way more farmers can benefit, as paying Living Income Reference Prices should become the norm across all sectors.

In addition, after having worked with Ben & Jerry's and the Sustainable Vanilla Initiative since 2019 to determine LIRPs for vanilla from Madagascar and Uganda to help stabilize the extremely volatile market prices, we developed the "Living Income Reference Price on demand" service offer.

A range of reference prices have since been calculated for specific supply chains and minor product categories, in collaboration with commercial partners:

- Cashews from Tanzania with Johnny Cashew and from Burkina Faso with Coop Switzerland
- Coconut from Sri Lanka with Fairtrade Original
- Coffee from Guatemala with Bellwether and from Mexico with Coop Switzerland,
- Robusta coffee from Uganda with Fairtrade Original
- Oranges for juice from Brazil with Rewe
- Cocoa from Togo with Gebana

Coop Switzerland has been working with us on Living Income Reference Prices for a range of other new products and origins, from rice, to mango, to coconuts, as well as cocoa from Ecuador.

***"We pursue the vision of paying living wages along our supply chains and purchasing raw materials at prices that enable a living income."***

Aline Roth, Sustainability Expert at Coop Switzerland

## Setting custom Living Income Reference Prices

Bellwether Coffee recently announced their commitment to purchase 100% of their coffee at living income supporting prices and Fairtrade helps them calculating those prices for a number of their smallholder origins.

Through the introduction of our farm record books, coffee growers were taught how to keep track of their actual farm expenditures and revenues for better business planning. This in turn provided us with accurate data to analyse the economic situation of coffee farmers, based on which we can jointly agree on realistic productivity targets and estimate the costs incurred to reach these.

After having calculated a first living income price themselves, using farm record data from their Fairtrade supplier ASOPEP in Colombia, we partnered with Bellwether to repeat this price discovery exercise for their Guatemala supply chain. A sample of 30 farmers from ACODIHUE kept records for three years in a row, serving as a rich source of data for a deep dive with farmers and technical staff of the producer organisation to discuss pathways for bridging the income gap and establish what price farmers would need to receive for their coffee.

***“Paying producers a minimum price that enables them to earn a living income is the future of the coffee industry. Fairtrade International has been a great partner for Bellwether Coffee as we look to implement Living Income Pricing across all our supply chains by 2024. We are proud to partner with like-minded industry leaders to push the coffee sector forward and move the needle on better farmer outcomes.”***

Grayson Caldwell, Director of Sustainability & Impact, Bellwether Coffee

With an average net income of 32,350 quetzales against a 50,000 living income benchmark, there is considerable effort needed to close the gap and a Living Income Reference Price is a crucial lever. However, there are remaining challenges which a sustainable price alone won't solve. For example, many small-scale coffee farms in Guatemala today are run by elderly women, while the men and youth have migrated north and labour is scarce to support them with the heavy duties. Moreover, they often have tiny, inviable plots of land that simply produce too little for families to depend fully on farm revenues for their livelihoods and income diversification strategies are needed to complement.







## Transforming Tanzania's Cashew Supply Chain: Johnny Cashew and Fairtrade International's Innovative Partnership

In 2021, the pioneering Dutch startup Johnny Cashew embarked with Fairtrade on a journey to establish a Living Income Reference Price for their cashew nuts from Tanzania. Johnny Cashew sources cashew nuts from Fairtrade certified cooperative UWAMI in southern Tanzania and processes them in the country, instead of shipping the raw nuts to Asia for processing as is common practice. By processing locally, Johnny Cashew not only generates employment in the local community but also reduces carbon emissions.

The project pre-assessment phase revealed that farmers lacked information about their agricultural practices, expenses and income. So farmers collected economic data, while the costs of decent living were estimated by the University of Wageningen using primary data from local markets and farming communities. Cashew farmers and local technical experts participated in a validation workshop to provide invaluable feedback on the preliminary findings.

From there, we calculated a supply-chain specific Living Income Reference Price. Johnny Cashew currently buys all 1,000 metric tonnes of cashew

nuts they process from UWAMI cooperative, on Fairtrade terms and paying the Living Income Reference Price. Today Johnny Cashew's "Way to Go" nuts can be found on the shelves of LIDL stores in the Netherlands and Belgium as well as in other stores with their own brand. The demand is steadily increasing, allowing Johnny Cashew to expand and explore new origins for their operations.

***"For us as a company, establishing a Living Income Reference Price is crucial in increasing transparency in the chain and working towards economic sustainability. In our opinion, payment of the reference price is the best measure to effectively fight poverty among farmers. Fairtrade obviously plays an important role in the entire process, from conducting the research up to communication on the topic. The status of Fairtrade as a household name in the food industry cements the credibility of the research. Moreover, it also helps in communicating on the outcomes when Fairtrade is involved. It is therefore a key partner in the fight for more economic sustainability in food chains."***

*Cappi Wefers, Cashew Impactor, Johnny Cashew*

## Tracking progress: What do the data tell us?

With so many factors influencing farmers' incomes, progress can be difficult to monitor and evaluate in a way that does justice to this complexity.

The best information we have so far comes from detailed farm records kept by cocoa farmers participating in projects to test Fairtrade's holistic living income approach, including payment of the Living Income Reference Price. These records set the foundation for measuring income changes over time.

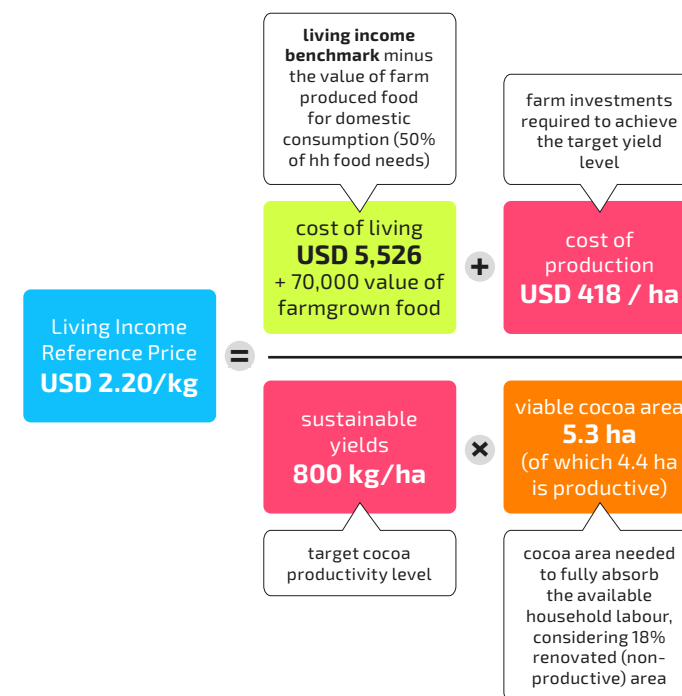
### Living Income learning project: cocoa in West Africa

Since the start of the cocoa season in October 2020, six Ivorian cooperatives: CAPRESSA, COOPAZA, ECAM, ECOJAD, KAPATCHIVA and SOCOOPACDI, have been involved in a Living income learning project, with the objective to **test and validate the assumptions underlying the Living Income Reference Price model as a key component within a holistic living income approach, through the introduction of a farm management tool.**

Through the implementation of a multi-dimensional living income approach with Tony's Open Chain and Ben & Jerry's, we aim to demonstrate what is needed to deliver on living incomes, and confirm that an increased price is a necessary element to be successful. In order to validate the model, supply chain partners implement a range of activities to support farmers in improving farm productivity towards the target values for cocoa yields, crop diversification and cost efficiency, as established in the model, while cocoa is sold at the Living Income Reference Price.

A representative sample of 1,200 households (200 in each cooperative) have continuously kept records of their farm expenditures, worktime investment, production and sales, and these farm records were compiled, analyzed and compared against the assumptions made for the Living Income Reference Price calculation during two consecutive years.

The original living income study<sup>1</sup> for Côte d'Ivoire commissioned by the Living Income Community of Practice was adopted as a benchmark.



<sup>1</sup> See the study [here](#). The living income benchmark applied in 2020 was \$7271 for a typical 8-member household in CDI. Please note that Living Income Reference Price values have been updated since then, in parallel with published updates of this study. A revised Living Income Reference Price came into force in October 2022, based on [this benchmark](#).





**After the first year of implementation, 21% of farmer households had reached a living income,** with an average net income of \$4,735. **However, the percentage dropped to 18% in the second year** with an average of \$4,220. This comes in a year where severe droughts caused production losses and the farmgate price set by the government dropped from 1000 to 825 francs per kilo of cocoa beans for the main harvest season and farmers received on average only \$1.38/kg at farmgate versus \$1.63/kg the previous year, impacting the incomes of all cocoa farmers greatly.

Even though the price drop was cushioned by the higher differential paid by their commercial partners, topping up the regulated farmgate price to the level of

the Living Income Reference Price, this couldn't prevent farmers from being worse off than the year before.

Apart from the price component, Fairtrade Africa and implementing partners Tony's Open Chain, Ben & Jerry's and Barry Callebaut have strengthened cooperative capacity to deliver adequate services to their members, such as personalized coaching on farm administration or productivity packages with subsidized inputs, technical assistance and labour services in times of overall labour scarcity. Specialized, well-equipped pruning and spraying brigades were set up to help farmers keep their cocoa plantations in good shape, while creating attractive employment opportunities for rural youth.

***"When making a comparison between the producers who have been involved in the Living Income project and those who have not been directly involved, there is a difference in the way their farms and their households are managed. There is an awareness of the function of producer, better planning of activities, better participation of women in the decision-making process."***

Mme Kambou, coach, Kapatchiva cooperative, Côte d'Ivoire

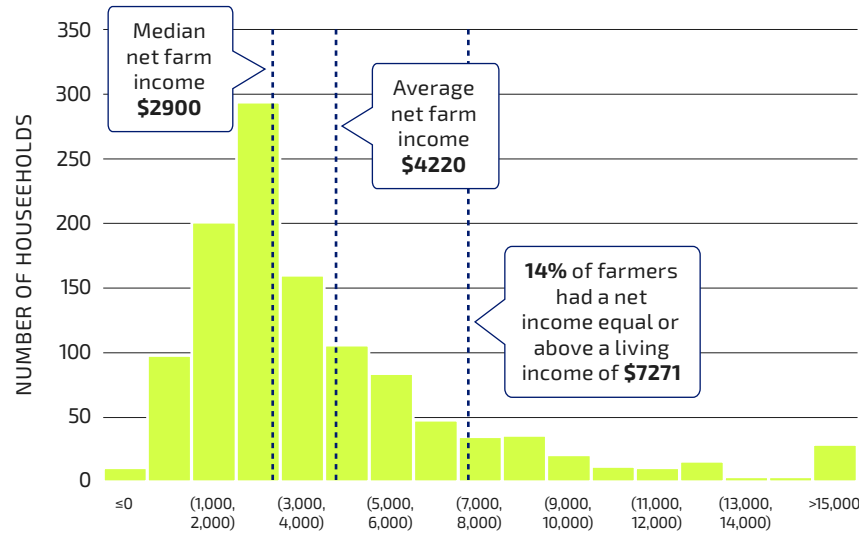
***"Before the project we spent without calculations or planning. We had no control over our expenses. Now I know how to keep records and plan my business. I know how to define clear, realistic and achievable financial objectives and I am able to find out if my farm makes a profit."***

Kouadio Yao Emmanuel, farmer, Kapatchiva

**Project interventions have also boosted farm diversification, reducing farmers' dependency on cocoa income.** While the Living Income Reference Price calculation considers half of the household's food needs to be produced on the farm for own consumption, equivalent to approximately a quarter of the costs of decent living, the first year results already showed 36% of diversified farm income, which further increased to an average of 45% last year.

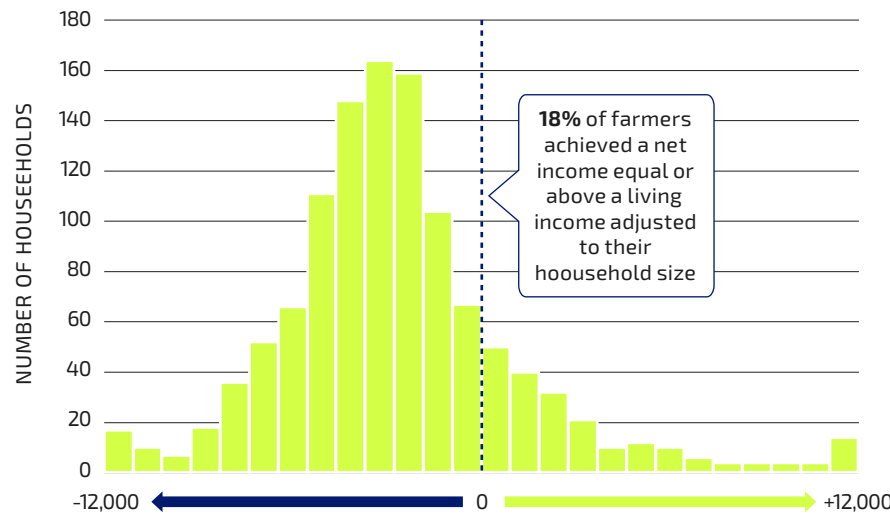
**Figure 1: Net farm income, 2021-2022 (in US dollars)**

*Distribution of net farm income across sampled farmers in 6 cooperatives during the cocoa season 2021-22 (applied exchange rate 609XOF: 1USD)*



**Figure 2: Income gap distribution, adjusted by household size, 2021-2022 (in US dollars)**

*Comparison of net farm income against household-size-adjusted living income benchmarks, for sampled farmers in 6 cooperatives during the cocoa season 2021-22*



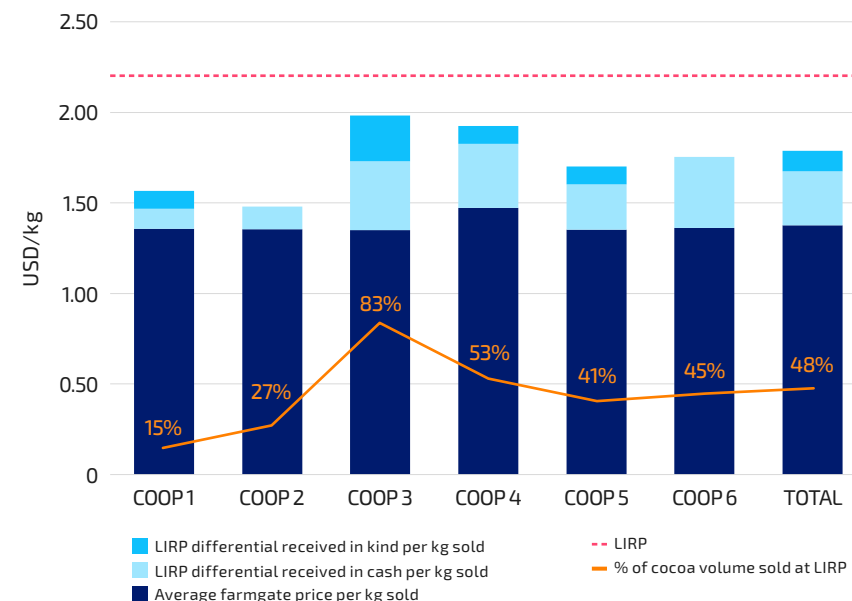


In any case, **the income increase farmers realized as a result of reference price payment has been significant.** With an average of 48% of total production volumes sold at a Living Income Reference Price by the cooperatives involved, farmers earned on average 15% more for all their cocoa sold. The cooperatives that sold an even larger share of their volumes at the reference price reached up to a 47% increase in cocoa revenues (see graph right). Per kilo sold at the Living Income Reference Price, farmers received on average 63% on top of the farmgate price split between extra cash and in-kind income.



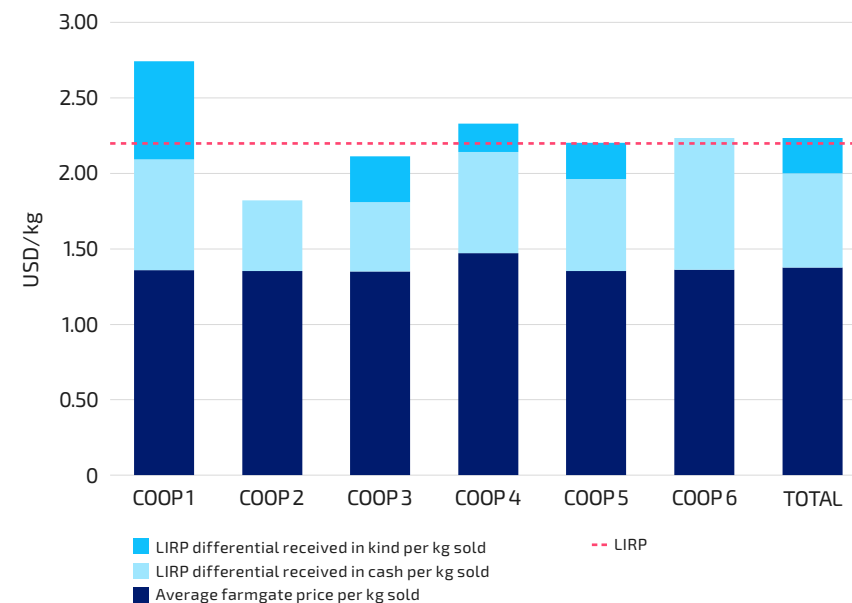
**Figure 3: Average price received by farmers based on total cocoa sold in 2021-2022 (USD/kg)**

*Breakdown of price components received on average by farmers per kilogramme of cocoa sold in total during the cocoa season 2021-22 versus reference price (applied exchange rate 609XOF:1USD)*



**Figure 4: Average price received by farmers based on cocoa sold at Living Income Reference Price in 2021-2022 (USD/kg)**

*Breakdown of price components received on average by farmers per kilogramme of cocoa sold at reference price during the cocoa season 2021-22 (applied exchange rate 609XOF:1USD)*



# Advocating for an enabling environment

Advocacy is a key pillar of Fairtrade's 2021-2025 global strategy. When it comes to living incomes, this involves:

- Amplifying the voices of farmers to address their issues;
- Building coalitions through multi-stakeholder initiatives
- Influencing national and regional policies such as on human rights due diligence;
- Establishing living income benchmarks;
- Working with like-minded partners to raise the profile of responsible procurement practices.

## Amplifying the voices of farmers: the first producer-led living income cocoa summit

On 11 May 2023, Fairtrade Africa and Fairtrade International organized the [first producer-led industry summit](#) on living incomes for cocoa farmers, held in Abidjan, Côte d'Ivoire. More than 100 participants took part in this one-day event, with about half being farmers or representing cooperatives, while the remainder came from business, government, civil society organisations and academics.

Producer panels debated issues related to income improvement, showcasing on the one hand what cooperatives can do themselves and making clear on the other hand what they need from buyers and policy makers to do this. Cooperative leaders presented best practices in driving sustainable solutions, created from the bottom up.

Examples of effective service delivery by cooperatives included personalized coaching and technical assistance, subsidising inputs and organizing labour brigades, setting up income diversification initiatives, all of which are vital for improving incomes. The active involvement of women and youth was frequently referred to as a critical condition for lasting impact.

***"We see it as our responsibility to implement good agricultural practices and improve the productivity, quality and resilience of our farms, producing cocoa and other crops."***

Joint Declaration of cocoa cooperatives

Responsible procurement was the main ask from business partners and producers spelled out what that means for them, from reliable long term commercial relationships and risk sharing across the supply chain to higher cocoa prices.

Furthermore, they warned for potential unintended negative consequences in new EU regulations around deforestation and human rights due diligence, if living incomes for farmers aren't embedded and secured.

***"We know how to promote good farming practices. We know how to encourage farmers to work on income diversification. But how can we better pay producers? That is the elephant in the room!"***

Alex Assanvo, Executive Secretary of the Côte d'Ivoire and Ghana Cocoa Initiative



Cocoa cooperatives and several Ivorian cocoa and coffee industry organisations agreed on a **joint declaration** calling on specific actions by companies, multi-stakeholder initiatives, and policymakers.

- **Companies:** engage in long-term sourcing partnerships and pay fair prices, and help invest in income diversification and climate change adaptation.
- **Multi-stakeholder sustainable cocoa initiatives:** create more space for producers to take part in dialogue and programme co-creation; take into account effective vs non-effective premium contributions in monitoring frameworks; set up grievance mechanisms to report company behaviour that harms livelihoods.
- **Policymakers of consuming countries:** enact legislation that recognises a living income as a human right; ensure farmers aren't harmed by due diligence legislation and "cut and run" effects; facilitate exemptions to competition policies; invest in agricultural and rural transformation.
- **Policy makers of producing countries:** enact bolder cocoa pricing strategies and increase transparency; enforce laws against deforestation and other environmental harms.



### **“ISCOS”: Fairtrade’s participation in national sustainable cocoa initiatives**

Civil society, government, and businesses have set up public-private sustainable cocoa platforms in Germany, Belgium, Switzerland, Netherlands and France. These ISCOs – which stand for “Initiatives for Sustainable Cocoa” – have similar goals and performance indicators, with ongoing efforts to align further. Fairtrade organisations participate in the various ISCOs, teaming up with civil society organisations to raise the bar of these joint commitments and increase the pressure on brands and retailers to assume their responsibility in terms of better purchasing practices that enable living incomes of farmers in their supply chains.

### **Procurement practices are part of DISCO’s Living Income Roadmap**

Signatories of the Dutch Initiative on Sustainable Cocoa (DISCO) acknowledge that cocoa procurement practices have great impact on cocoa sustainability. Responsible purchasing practices are key to achieving living income goals, complementing strategies around service delivery and contribute to creating an enabling environment. DISCO is currently working on a position paper defining responsible purchasing practices and agreeing on a set of key principles that will guide living income strategy of the DISCO signatories. Once finalized, DISCO will also use this position to influence other ISCOs to embrace the position and raise the bar across Europe.





## **Legislation to level the playing field: Influencing EU policy**

Fairtrade advocates at multiple levels for fairer trade legislation. In 2022 and into 2023, we have been advocating for the draft HREDD legislation in the European Union – the Corporate Sustainability Due Diligence Directive – to take into account smallholder farmer realities. This landmark legislation will define rules for companies that sell products in the European market, requiring them to address adverse impacts in their value chains inside and outside Europe. We are continuing to push for the directive to recognize **the importance of living incomes as a precondition to protect human rights and to foster meaningful dialogue between farmers, workers, and European companies.**

Competition law has been a stated blockade for companies to collaborate on discussing shared living income goals and initiatives, including the prices paid to farmers, as these were feared to violate antitrust and competition law. Since 2018, the Fair Trade Advocacy Office and its partners – including co-founder Fairtrade International, AIM and the Fair Wear Foundation – have been actively calling for change and clarity in the law so that companies would be able to cooperate on sustainability initiatives, including on social issues. Years of conferences and meetings resulted in a success in 2023: **inclusion of a chapter on “sustainability agreements” covering living income and living wages in the revised European Commission’s guidelines on horizontal cooperation agreements.** The next stage is implementation, where companies and other stakeholders must move forward with collaboration on living income progress.





### Setting benchmarks: the International Coffee Organisation's Living & Prosperous Income workstream

Facts are powerful to reinforce advocacy efforts and in order to advocate for living incomes we first need to know how much a living income is. With a benchmark we are able to quantify the gap and create a sense of urgency to mobilize policy makers and industry sectors to change their ways of doing business and enable living incomes. Credible Living Income benchmarks are not always available for the countries where we work. This is why we participate in the International Coffee Organisation's (ICO) [Living and Prosperous Income](#) technical workstream to coordinate living income studies for all the major coffee origins that do not have a benchmark established, so that the entire coffee industry can guide its income improvement goals and interventions by the same living income benchmarks.

Living Income benchmarks for coffee growing regions in Colombia and Peru are already published. Other benchmark studies for Honduras, Mexico, Indonesia, Vietnam, Ethiopia, Rwanda and Togo are underway and expected to be delivered in the course of 2023 and 2024.



### Joint call for responsible procurement practices

In a first-of-its-kind publication, several chocolate companies (Tony's Chocolonely and Jokolade), a retailer (Aldi), IDH and Fairtrade published a joint statement sharing evidence of the combined elements that work together to improve farmers' incomes in specific supply chains. One finding was that long-term commitments between buyers and producers, which Fairtrade Standards have long promoted, were found to have contributed to stronger, more effective cooperatives.

The statement emphasises the shared responsibility that different stakeholders in chocolate supply chains have in toward farmer living incomes, and that paying a fairer price must be a part of the equation. Such knowledge sharing and collaboration will continue to drive a race to the top for living incomes. Read the [full statement](#).





## Looking ahead

**Our aim for the next year is to take stock and reflect on what has been achieved so far.** This includes doing deep dives into data, assessing the effectiveness of the Living Income Reference Prices set so far, and use our lessons learned to develop a portfolio of income improvement services for businesses and producer organisations to engage with us in realizing living incomes for smallholder farmers. This includes the creation of a new Living Income Innovation Fund for implementing jointly funded scalable projects with considerable impact, allowing partners to take action and assume responsibility, learn by doing and contribute to enabling living incomes. Watch out for news on this new opportunity, providing an easy entrance allowing partners to work with Fairtrade on living income.

We will continue our reference price setting work in 2024, as demand continues to grow. For this we will further standardize Living Income Reference Price setting and implementation procedures to better align with Fairtrade Minimum Price reviews, finding efficiencies in the data collection and consultation processes for each.

Finally, we are also exploring the possibility of developing an add-on standard to reflect additional living income commitments by companies, so that these can be externally verified and distinguished.

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**To further your own living income journey, contact your national Fairtrade organisation, or Fairtrade International. We need you!**





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