



LIVING INCOME: FROM RIGHT TO REALITY

Essential issues and
recommendations for business

ISSUE 1

BRIEFINGS FOR BUSINESS
ON INEQUALITY IN
FOOD VALUE CHAINS



OXFAM

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For further information on the issues raised in this paper please email advocacy@oxfaminternational.org

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Foreword



Irit Tamir
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Rising inequality is one of the defining issues of our time. The COVID-19 pandemic is hammering home the inequities of an economic model—the global food system, built on food value chains—that benefits few and does not deliver for many.

Inequality will continue to define the next decade. The issue has captured the public imagination and risen to the top of the corporate sustainability agenda. This is important given the prevalence of inequality in food value chains. Examples abound: for some agricultural products, such as Indian tea and Kenyan green beans, the average earnings of small-scale farmers or workers are less than half of what is needed to ensure a basic but decent standard of living.¹ Brazil's official Dirty List continues to contain reports of slavery-like working conditions in coffee production.² Female workers earn 28.7 percent less than their male counterparts in Thai seafood supply chains.³ Climate change risks pushing 132 million people—mostly rural farmers in developing countries—below the poverty line by 2030.⁴ The largest 1 percent of farms operate more than 70 percent of the world's farmland, much of it for agricultural commodity production, leaving less and less land for smallholder farmers.⁵

Meanwhile, many of the companies that buy raw agricultural commodities for their products—food and beverage companies, food retailers, agribusinesses, and others—are seeing profits flow, even during the pandemic. Eight of the biggest food and beverage companies paid out over US\$18 billion to their shareholders in the first half of 2020, over ten times the amount of food and agriculture assistance funds requested at the time in the UN's COVID-19 humanitarian appeal.⁶ The Walton family, owners of Walmart, saw their fortune grow by US\$3 million per hour on average from 2019–2020 and had a combined wealth of US\$215 billion in 2020.⁷ But it's not just that. Land, agriculture, and food systems more broadly are responsible for close to 30 percent of global emissions.⁸ These emissions are largely driven by industrial agriculture.

Many in the business sector are recognizing the business and ethical challenges rising inequality poses for their ability to continue to operate successfully. Unilever CEO Alan Jope has called "social inequality" one of the two biggest threats to the world.⁹ The other, also an issue of inequality, is climate change.

➤ BOX 1: INEQUALITY

Inequality refers to the uneven distribution of power, resources and opportunities among people and groups based on divides such as class, caste, age, disability, race, ethnicity, religion, education, geography, gender and sexual orientation. It means abundance for the few, and injustice for the many. Inequality keeps poor people poor and powerless; and denies millions their rights. An inequality lens acknowledges the inter-connection between the multiple dimensions of inequality and consistently asks who does and does not have access to power, resources and opportunities, and why.¹⁰ –*Oxfam Global Strategic Framework 2020-2030*



While business grappling with inequality is a promising step forward, there are at least two major gaps. First, there is little rigorous attention to how inequality plays out among different parts of agricultural commodity value chains. To date, there has been greater focus on the unequal distribution of rights, opportunities, and resources among population groups or countries.

Second, the responsibility for solving the inequality problem has been placed almost exclusively on the shoulders of the public sector—either through regulation, social protection systems, or redistributive (e.g., tax) mechanisms. Governments indeed have this duty. The role of companies in driving inequality and potentially reversing it has been less thoroughly analyzed. Few resources exist that help analyze a company’s inequality footprint and what it should do about it.

Oxfam aims to address these gaps through a new series called *Briefings for Business on Inequality in Food Value Chains*. Each briefing in the series will focus on an issue relevant to inequality in food value chains. Our aim is to be a “critical friend” to businesses. We set out key considerations, provide examples of companies doing well or poorly, and offer recommendations for what companies can do to address inequality in a way that will drive real impact.

LIVING INCOME: FROM RIGHT TO REALITY is the first in the series. This particular topic was chosen to lead the series because living income is trending. And while it’s encouraging that more companies are focusing on living income, it’s a complex topic to navigate. There are even some dangerous distractions that risk giving pretense of action and impact when in reality the situation remains unchanged for farmers. Our hope is that this *Briefing for Business* helps companies better engage on the topic, so as to ensure their interventions truly benefit farmers.

There is little rigorous attention to how inequality plays out among different parts of agricultural commodity value chains.



Above: Farmers planting rice. Bontomanai village in Bantaeng, South Sulawesi, Indonesia. Photo: Tri Saputro/CIFOR

FROM RIGHT TO REALITY

Living income is trending. More and more food and agriculture companies are adopting living income commitments, and others should follow suit. But it's a complex topic in practice. Effective interventions go beyond the farm to address the inequality of market power and risks that farmers experience. Here are **eight essential issues companies confront on living income**, with recommendations for ensuring interventions benefit farmers.

APPROACH LIVING INCOME AS A HUMAN RIGHT



1

Adopt a human rights due diligence approach to living income

Companies often struggle to 1) understand their (context-specific) level of responsibility for ensuring farmers earn and 2) mitigate risks of negatively affecting farmers' ability to earn a living income. To both understand responsibility and mitigate risks, companies should:

- Recognize living income as a human rights issue and integrate living income into human rights due diligence processes;
- follow the due diligence process by setting policy, assessing impacts, addressing findings, and tracking the effectiveness of adopted measures and communicating the results to stakeholders;
- establish strong feedback loops and grievance mechanisms accessible to at-risk farmers, and ensure access to remedy.

2

Ensure living income strategies benefit the most vulnerable farmers

While living income is rooted in concerns over farmer poverty, the poorest farmers tend not to be the ones to gain from most existing living income interventions. Make sure to:

- Include living income of *marginalized* farmers in human rights due diligence processes;
- tailor interventions to farmers' needs and capabilities, including strategies to benefit vulnerable farmers;
- develop progress indicators based on disaggregated data (e.g., by gender, farm size) and focused on measuring relative income gains.

CHANGE THE WAY YOU DO BUSINESS



3

Integrate living income in procurement practices

Interventions historically focus on farmer productivity and alternative income sources. In addition, focus on procurement practices (contract length, price guarantees and premiums, direct trading relationships), and:

- Analyze how a company's supply chain structure and procurement practices are affecting value distribution and farmer incomes across the supply chain;¹¹
- integrate living income into procurement strategies and objectives, including setting living income key performance indicators (KPIs) for procurement managers and include living income in procurement costs;
- deepen supply chain relationships, establishing more direct and long-term trading relationships with farmers and addressing price decline/volatility through price guarantees and premiums.

4

Elevate pricing as a living income strategy

Low and volatile farm gate prices impede farmers' ability to earn a living income. Pricing interventions can help shift value to farmers and enable higher incomes¹² but require more industry support to succeed. Companies can:

- Analyze the impact of price mechanisms and practices on the ability of farmers to earn a living income;
- adopt pricing practices that contribute to a living income, including paying a Living Income Reference Price;
- support structural reform efforts towards more farmer-friendly pricing mechanisms, including government interventions such as price guarantees and premiums.

LEVEL THE PLAYING FIELD



5

Make living income gender inclusive

Living income strategies can contribute significantly to women's economic empowerment if designed and implemented with a strong gender analysis. Without one, they can reinforce gender inequalities. To be gender inclusive:

- Make women an explicit target beneficiary group of strategies, ensure resources flow directly to and benefit women, be transparent about your approach to embedding gender and learnings;
- work with women and women's rights organizations when designing and implementing strategies and assessing their impact, engage men and boys as part of the solution;
- conduct a thorough gender analysis to inform strategy, including collecting gender-disaggregated data on income levels and sources, land tenure, roles across the value chain, access to and control over finances, and unpaid care work.

6

Increase farmers' bargaining power on living income

Farmers lack voice and bargaining power in their engagement with buyers, including in living income discussions. Yet they carry most of the risks and burden of making necessary changes on their farms to achieve a living income. To remedy this:

- Support strengthening farmer organizations and cooperatives, helping ensure farmers have a collective voice and bargaining power;
- foster the active participation and leadership of farmers and their representative organizations in the design and implementation of living income strategies;
- make robust farmer feedback loops and grievance mechanisms central to assessing the progress and success of living income strategies.

ENGAGE AND ENABLE OTHERS



7

Share data and insights on living income

The evidence base on how to achieve income changes remains elusive. Living income strategies will be more impactful if they are based on mutual learning, including sharing of methodologies, income data, and lessons learned. To do this:

- Collaborate with industry peers and other stakeholders. Agree upon a common methodology and share (pre-competitive) information on income levels and outcomes of interventions;
- commission and publish third-party living income benchmarks and gap assessments;
- be open about "what hasn't worked" in order to build the collective knowledge base and prevent others from making the same mistakes. Share and scale what has worked.

8

Enable strong government and sector-level action on living income

Governments play a leading role when it comes to living income. They create the enabling environment in which farmers can thrive. Companies can hinder or help. To help:

- Make government and sector-level engagement and advocacy part of the living income strategy and align political activities and positions with sustainability and human rights goals;
- use your political voice and economic weight to promote (and not hinder) strong government and sector-level action on living income;
- ensure that your business practices and living income strategies do not hinder—but rather complement and facilitate—strong government and sector-level action on living income.

REPORT KEY



Throughout the report you will see colour coded tabs relating to the four themes above.

SECTION 1

Introduction



Living income is trending.¹³ More and more companies in the food and agriculture sector (including agri-traders, food manufacturers, and retailers) are engaging on the issue as a sustainability priority for their supply chains. This development is a timely one, as farmer poverty remains widespread in the global food system.¹⁴ If the food and agriculture sector wants to fulfill its responsibility to respect human rights and meaningfully contribute to the achievement of Sustainable Development Goal (SDG) 1 (no poverty), a concerted effort to significantly improve farmer incomes is indispensable.

BOX 2: WHAT IS LIVING INCOME?

“Living income is 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.”¹⁵

-The Living Income Community of Practice

Important elements of this definition include its focus on the household level, the consideration of costs of production (net income) and different income streams (on-farm and off-farm), and its context specificity (i.e., living income can vary from place to place due to varying costs of living). The concept of living income thus goes a step beyond traditional notions of poverty alleviation that are concerned with basic subsistence and survival. It puts a strong emphasis on the idea of decency and earning enough income to live comfortably. That said, living income still represents a minimum standard and is in many instances still a far distance from the idea of thriving farmers.

Income gap analyses are the backbone of living income interventions. Living income benchmarks are calculated as the average income that a household needs to have to maintain a decent standard of living, including sufficient good food and drinking water, decent housing, access to affordable health care and education, decent clothing, necessary transport, other essential needs, and a provision for unexpected events and/or contingencies.

Supply chains are the critical link between the global food sector and farmer poverty. Through their design and power dynamics, the gains from agricultural production and trade are distributed in a very unequal way, to the benefit of large agri-traders, food manufacturers, and retailers while squeezing small-scale producers and workers.¹⁶ Women carry the heaviest poverty burden,

as they are concentrated in the lowest paid, least secure roles across the agri-food supply chains, providing a reserve of cheap or even unpaid labor and care work on which modern food supply chains are built.¹⁷

The precarious situation of farmers participating in global agri-food supply chains violates internationally recognized human rights standards. The right to an adequate standard of living, which a living income enables, is codified in international human rights treaties and instruments (Article 25 of the UDHR Universal Declaration of Human Rights and article 11 of the International Covenant on Economic, Social and Cultural Rights). The relevance of living income for human rights is also reinforced by the fact that farmer poverty is a root cause for many other human rights issues in global agri-food supply chains (e.g., child labor, forced labor, right to food, right to education).¹⁸

Below: A women carries a basket of freshly cut cocoa pods, followed by her husband, at a farm in the Kokoado community of Asikuma Adoben Brakwa, Central Region, Ghana. Photo: Barbara Johnston/ University of Notre Dame



⇒ BOX 3: LIVING INCOME IS AN ISSUE OF INEQUALITY

The growing attention on living income has brought back into focus how little of the value created in agricultural supply chains ends up with the producers of agricultural raw materials. Oxfam research has found that the distribution of value in many global food value chains has become increasingly skewed since the 1990s, benefitting supermarkets and large brands while squeezing workers and small-scale farmers. Farmers often get only 5–10 percent of the total value of products sold to consumers, while companies with downstream activities (processing, manufacturing, retailing) capture most of the value added in global agri-food supply chains.¹⁹

More and more companies are recognizing that engaging on living income is not a choice. It is their responsibility, per the UN Guiding Principles on Business and Human Rights, and is also in their business interest. The dependence on raw materials grown by vulnerable (and often small-scale) farmers makes procurement a high-risk business function. Without stable, living incomes for farmers, even small shocks (e.g., price, weather, disease) can disrupt supply. Low incomes can pose existential challenges to farmers, leading them to not invest in their farms, to not meet quality standards, or even to leave the sector.

With momentum building around living income across commodity sectors, we are nearing an inflection point. The mainstreaming of living income represents both an opportunity and a risk: an opportunity to ensure companies translate the right to a living income into a reality, and a risk of companies misunderstanding or watering down the concept and applying it in a way that is either ineffective or even harmful to farmers, and that reinforces rather than reduces social and economic inequalities.

For companies, the concept of living income presents a number of complexities. Among them are a lack of insight into the income conditions of farmers, the diversity of income sources of many farmer households, a resulting lack of clarity regarding their own responsibility on living income, and a lack of understanding of effective strategies to help raise farmer incomes. Realizing that the concept of living income is actually more complicated than oftentimes assumed, many companies do not see themselves (yet) in a position to make full-fledged commitments to living income in their supply chains. They are instead opting for exploratory and small-scale engagements and initiatives under the banner of living (or farmer) income.

It is standard business practice to pilot approaches and conduct markets tests for a new product or business process, then scale up once they have proven successful. This practice also applies to how companies are approaching living income.

To be impactful, companies must step up and scale up their engagement on living income and approach living income with a holistic lens that places the farmer—her rights, needs, capabilities, and constraints—at the center of living income strategies. The struggles of small-scale farmers to attain a living income cannot be solely addressed through discrete interventions at the farm level. Also required are addressing the inequality of market power and risks that characterize farmers’ participation in many supply chains and commodity sectors.²¹ Behind the key determinants of farmer income (e.g., productivity, sales, price, costs) stands an architecture that to date has been designed to deliver profits for food and agriculture companies and cheap food for consumers, but not a living income for farmers.²²

Our goal is to help move the living income agenda forward by highlighting a set of essential issues surrounding living income and laying out concrete recommendations for companies on how to navigate them. The next section provides a short synthesis of the current state of play on living income. Section 3 outlines the essential issues companies need to consider when engaging on living income within their supply chains and beyond in collaboration with others.



SECTION 2

Living income— the state of play

An idea whose time has come

Just a few years ago, the idea of living income was a fringe idea promoted primarily by civil society advocates. Fast forward to 2021. Living income has gone mainstream and has been embraced by some of the most powerful actors in the global food and agriculture sector. An ecosystem of organizations and initiatives has formed that is elevating the momentum around living income. At a sector level, industry platforms such as the World Business Council on Sustainable Development,²³ the World Cocoa Foundation,²⁴ and the Sustainable Coffee Challenge²⁵ have made living income a key priority issue. The Living Income Community of Practice continues to function as a space for information exchange, discussion, and capacity building.²⁶ Some governments are championing the issue as a policy tool to help capture more value from agricultural trade.²⁷ Multilateral forums, such as the recent UN Food Systems Summit, are elevating living income as a key sustainable development topic.^{28,29}

What explains the growing attention on living income? The momentum behind living income has several roots:

- The recognition of poverty as a root cause for many other sustainability challenges (e.g., deforestation, child labor) and as a key sourcing risk (e.g., farmers abandoning agriculture);
- the realization that existing approaches to raise the incomes of farmers, particularly certification and corporate sustainability programs that mainly focus on productivity increase, have not reached significant social impact;
- the development of standardized living income methodologies and guidance documents available to companies and other stakeholders;
- the ambition of moving beyond the bare minimum level of survival, subsistence, and minimum wage towards the acceptance that everyone has the right to a decent life and thus to an income that enables him/her to have a decent life;
- the experience and relative success of the living wage movement (and the argument that farmers also need to earn the equivalent in their situation, i.e., a living income);

Living income has gone mainstream and has been embraced by some of the most powerful actors in the global food and agriculture sector.



- the growing awareness of the skewed distribution of value across global food supply chains;
- the attractiveness of the concept as a tangible, measurable objective tied to an internationally recognized human right (i.e., a decent standard of living);
- the growing attention by investors on living wage and income in environmental, social and governance (ESG) reporting requirements.³⁰

Below: Cocoa farmers from the ABOCFA union describe how they grow and harvest organic cocoa beans, Suhum, Eastern Region, Ghana. The ABOCFA union is the first organic and fair trade association in Ghana. Photo: Barbara Johnston/University of Notre Dame



+ BOX 4: MOMENTUM ON LIVING INCOME IS SPREADING ACROSS SECTORS

Cocoa has been the sector with the most pronounced momentum on living income. Civil society has put the topic on the agenda, highlighting the vast inequalities that characterize the sector, particularly when it comes to the situation of women farmers.³¹ As a result, several companies and national-level initiatives for sustainable cocoa (ISCOs) have elevated living income as a key priority.³²

Living income has also started to infuse discussions involving companies in other commodity sectors with a strong presence of small-scale farmers. Momentum is building in coffee, for example, where the International Coffee Association has initiated a pledge in support of living income for coffee³³ and created a sector-wide platform (International Coffee Organization Coffee Public-Private Task Force) aiming at shifting the coffee sector towards a prosperous income for coffee farmers.³⁴ Other smallholder sectors, such as vanilla and cotton, also have started to take up the issue of living income.³⁵

BOX 5: A WELCOME DEVELOPMENT

The move of living income from niche to mainstream is a welcome development. Living income has served as a vehicle for mobilizing new debates, engagements, and initiatives aimed at raising the standard of living of farmers in agri-food supply chains. Its high level of ambition has led to recognition that achieving a living income for farmers at scale requires innovative and system-level change processes involving both business and government. Living income has brought thorny issues such as pricing up for debate. It has created momentum around data collection and analysis to create a better understanding of the nature and levels of farmer poverty across supply chains. The essential issues identified in this paper should not detract from the progress achieved to date.

Existing company commitments on living income

A small but growing number of leading companies have made public living income commitments. Interestingly, these companies sit across the food value chain (i.e., they include retailers, food manufacturers, and agribusinesses), highlighting the relevance of living income for the entire food and agriculture sector. Their peers, suppliers, and buyers should take note and follow suit.

Despite this progress, there are opportunities—and a need—for leading companies to continue to improve the quality of their commitments. The approach that some companies have taken to date has been one of caution. Commitments are limited, focused on commissioning living income benchmarks and gap assessments, publication of position statements, launch of pilot projects, and the participation in multi-stakeholder spaces, such as the Living Income Community of Practice. While these are encouraging first steps, to see real impact, companies must go further.

Some of the examples of company commitments and opportunities for improvement are around:

- **Level of specificity:** Companies can increase the level of specificity of their commitments. For example, Unilever has made a timebound commitment that “everyone who directly provides goods and services to Unilever earns at least a living wage or living income by 2030.”³⁶ Germany’s largest food retailers, including Aldi, Lidl, and REWE, have made commitments to “work towards the realization of living income and living wages for farmers and workers in global supply chains.”³⁷ Stronger company commitments would clarify who is covered by these commitments, how progress will be assessed, by when the goal will be achieved, and through what strategies it will be achieved.
- **level of ambition:** Even the more concrete living income commitments to date do not cover the majority of farmers. For instance, Olam has announced that it wants to help 150,000 cocoa farmers in its supplier network achieve a living income by 2030 (60,000 by 2024) through its [Cocoa Compass](#) plan. This effort represents less than 25 percent of the farmers in its cocoa supply chain (the company sources from a total of

The approach that some companies have taken to date has been one of caution.



650,000 cocoa farmers).³⁸ Other companies, such as Mars and The Hershey Company, have published position statements in support of farmers earning a living income (e.g., “farmers should,” “farmers deserve the opportunity”) without making a concrete, timebound commitment and accompanying action plan to realize it.³⁹

- **a focus on pilots vs. efforts across value chains:** Even the companies that have made living income commitments have focused their visible implementation efforts on discrete pilot projects or product initiatives to date. For example, both Lidl⁴⁰ and Aldi⁴¹ have launched chocolate bars, which aim to pay a living income to small number of cocoa farmers. Nestlé has made living income pilots the centerpiece of its public living income strategy.⁴² Pilots can play important roles in helping companies improve their approaches, but they should be linked to concrete plans for implementing commitments that cover companies’ entire agricultural value chains.
- **strengthening the focus on gender:** None of the living income commitments reviewed to date have been focused on women farmers as the primary target group. In fact, many appear gender blind, as no gender-disaggregated data related to living income are available to companies. In fact, gender and living income continue to sit separately in many companies’ sustainability strategies.⁴³ Companies are missing a key opportunity to deliver greater impact, as investment in women is a key pathway to better performance of agriculture sectors.⁴⁴

➡ BOX 6: STRONG COMPANY COMMITMENTS ON LIVING INCOME ARE:



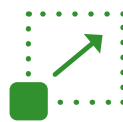
SPECIFIC

They are clear about who is covered by the commitment, how progress will be assessed, by when the goal will be achieved, and through what strategies.



AMBITIOUS

They cover the majority of farmers in a companies’ value chain, including the most vulnerable farmers.



FOCUSED ON SCALE

They include a plan to move beyond pilots to implement commitments across the companies’ value chain.



GENDER INTEGRATED

They include gender-inclusive strategies.

The lack of specificity, ambition, supply chain-wide action, and gender focus in existing company commitments may be driven by the complexity the issue of living income poses for companies. While careful analysis and deliberation are well justified before embarking on a living income journey, it imbues risks of non-implementation and limited impact—challenges other sustainability

issues are also facing.⁴⁵ When we have seen transformative change, it is often through the mandate given by a strong commitment and action plan to achieve it, that sparks action and change within companies and sectors.

Strong commitments are thus foundational. Commitments, though, are also only the first step, and their implementation is complex, as the next section explores. The following eight essential issues are topics companies need to consider when engaging on living income. Corresponding recommendations provide guidance to companies on how to ensure their interventions lead to greater impact for farmers.

BOX 7: LIVING INCOME VS. LIVING WAGE: OVERLAPS AND DIFFERENCES

There are many similarities between the concepts of living income and living wage. Therefore they are often used interchangeably or grouped together by companies in their communication and commitments.

Wages and incomes also come together in the reality of many farming households where income sources can include wage labor and the sale of agricultural or other goods. Wages of farm workers are also an expense for many farming households.

However, there are important differences, which need to be considered by companies when designing living income vs. living wage strategies:

- Target groups are distinct (despite overlaps). While living income targets small-scale producers and their households whose primary income source is agricultural production, living wage is focused on workers whose primary income source is paid labor. This target group includes companies' own employees and supply chain workers;
- the sources and composition of wages and incomes vary. While the remuneration of workers include wages, bonuses, and in-kind benefits, income streams of producers can include crop sales, off-farm income (including wage labor), or remittances;
- producers earn incomes through market transactions, in contrast to workers who earn wages through employment. This difference is why responsibility held by buyers as duty bearers can be more difficult to articulate for living income than for living wage;
- living income and living wage have benchmark methodologies, which, while similar, differ in the details. For instance, while living income benchmarks consider costs of production (to arrive at net income), living wage benchmarks consider taxes, deductions, and benefits;
- strategies to bridge income and wage gaps are likely to differ. Living income strategies usually require addressing several income streams, while addressing living wage gaps is generally focused on one employer-worker relationship. Yet both require supply chain interventions, including buyers.

Vehicles for collective mobilization and bargaining are critical for both living incomes and living wages. However, they differ for producers and workers. While producers join together in cooperatives or other farmer-led organizations, workers join unions or other worker-led organizations.



BOX CONTINUED...

	LIVING INCOME 	LIVING WAGE 
PRIMARY RIGHTS HOLDER GROUP	Small-scale producers (supply chain)	Hired workers (operations and supply chain)
COMPOSITION	Crop sales, off-farm income, remittances	Wages, benefits, in-kind benefits
SOURCE OF INCOME/WAGE	Market transaction	Employment
BENCHMARK	Includes costs of production	Includes taxes and deductions
PRIMARY STRATEGY	Requires changes at different levels (farm, supply chain, sector)	Requires changes at different levels (farm, supply chain, sector)
VEHICLES FOR COLLECTIVE BARGAINING	Cooperatives/Associations	Unions

SECTION 3

Essential issues for business action

This represents a critical moment in the living income journey. The directions set now by companies will shape the field's trajectory for years to come. The elevation of living income as a sustainability issue over the last few years has been promising. However, without an honest conversation about remaining gaps and tensions, the living income community risks being exposed to varying interpretations, a lack of individual and collective action, limited impact, and under-specified risks.

8 essential issues for business action on living income



Approach living income as a human right

- 1 Adopt a human due diligence approach to living income
- 2 Ensure living income strategies benefit the most vulnerable farmers



Change the way you do business

- 3 Integrate living income in procurement practices
- 4 Elevate pricing as a living income strategy



Level the playing field

- 5 Make living income gender-inclusive
- 6 Increase farmers' bargaining power on living income



Engage and enable others

- 7 Share data and insights on living income
- 8 Enable strong government and sector-level action on living income

BOX 8: MISINTERPRETATIONS OF LIVING INCOME

Despite the growing consensus around basic definitions and measurement approaches, there are varying interpretations regarding the application of living income in practice. They include:

- **A North star vs. a timebound objective?** Due to the significant income gaps and constraints of many farmers, living income can be an ambitious benchmark, which is why some have interpreted it as a long-term aspiration rather than a concrete objective. While achieving a living income might take time, getting there still requires specific, time-bound milestones and timelines;
- **a methodology vs. a strategy?** The technical aspects of living income have dominated much of the discussion on living income to date. While rigorous measurement methodologies are critical, there is a risk that the focus on the technical aspects of living income sidelines the strategic implications of living income as a pathway to fighting farmer poverty;
- **a choice vs. a responsibility?** Living income engagements are oftentimes presented as discretionary initiatives by companies. It is important to recognize the responsibility of companies to help ensure a living income for farmers in their supply chain and to apply a due diligence approach (as with other human rights issues);
- **an equivalent to poverty vs. an element of it?** Farmer income tends to be used synonymously for poverty when in fact living income represents an alternative (and higher) benchmark to poverty lines. Cash income is only one element of a holistic understanding of multidimensional poverty and sustainable livelihoods.

Living income aims to provide a standardized methodology and benchmark for actors to coalesce around. However, in reality, living income is not an exact science but is often based on assumptions and estimates regarding key concepts, such as “average farmer,” “reasonable productivity,” “typical household size,” or “viable farm size.” Variations in each of these can lead to vastly different results, which is why living income benchmarks and gap assessments should always be critically analyzed and debated.

Oxfam has identified eight essential issues and developed recommendations with the potential to drive meaningful impact and to bring living income from right to reality. These are discussed below.

APPROACH LIVING INCOME AS A HUMAN RIGHT

1 Adopt a human rights due diligence approach to living income

The relationship between living income and companies’ responsibility to respect human rights has remained fraught with uncertainties and misunderstandings. To date, living income has not featured prominently in existing human rights due diligence processes.⁴⁶ Compared to living wage, which more directly affects companies’ operations (not just their supply chains) and is more closely anchored in the labor rights arena, living income tends to be seen as a second-tier issue and one that is delinked from human rights due diligence processes.

Companies have struggled with defining their responsibility for farmers earning a living income given the composite nature of a farmer household's incomes and the market-based (vs. employment-based) relationship with farmers. The complexity associated with farmers reaching a living income and companies' individual responsibility in this process resulted in a lack of concrete commitments to, and significant investments in, living income to date.

Questions regarding companies' responsibility around living income become particularly contested when it comes to marginal farmers with significant income gaps (e.g., due to small land size) or where the cash crop purchased by global buyers constitutes only a small share of farmers' household incomes. In these instances, companies have argued that they can't be held accountable for farmers achieving a living income.

While farm size and income diversity can be complicating factors, they do not eliminate companies' responsibility vis-à-vis farmers to help ensure their ability to earn a living income. Individual companies might not be responsible for closing the entire gap towards a living income (e.g., if farmers only spend a small amount of their labor on the target crop). Yet, at a minimum, companies have the imperative to ensure that their practices and business relationships are not negatively affecting farmers' ability to earn a living income. This imperative includes avoiding procurement practices that impose disproportionate risks on farmers (e.g., debt, volatility), withhold critical resources from farmers (e.g., low prices), create barriers to entry for marginalized farmers (e.g., standard requirements), or inadvertently contribute to the further marginalization of, or negative impacts on, women farmers (e.g., through gender-blind interventions).

Below: Rice fields on a rainy day. Ubud, Indonesia.
Photo: Simon Fanger/
Unsplash



To understand their responsibility, address these risks, and ensure positive impact, it is important that companies embed living income into their human rights due diligence processes. Doing so will provide the company the critical information it needs to identify impacts, set policy, implement strategies, and address grievances.⁴⁷ Effective human rights due diligence processes will identify the most significant risks for farmers (not for the company), focus on the most vulnerable farmers within a given supply chain (not the ones easiest to help), and result in a clear and accountable process for addressing the identified risks and impacts.⁴⁸ Done right, these processes can facilitate strong feedback loops between farmers and companies, which are critical pathways for understanding and addressing farmers' needs and concerns.

A human rights due diligence approach will also facilitate the identification of more indirect ways companies are connected to the income situation of farmers in their supply chains (i.e., they can cause, contribute, or be linked to local human rights conditions). Beyond their own supply chains, companies can contribute to and reinforce structural conditions that limit farmers' ability to earn a living income. This can include advancing a model of agriculture in which many small-scale farmers with too little land are too dependent on one primary crop and a limited number of buyers. Or it can include companies' support of volatile price mechanisms that hurt farmers' ability to plan and invest.

Beyond their own supply chains, companies can contribute to and reinforce structural conditions that limit farmers' ability to earn a living income.



Better corporate practice is to:

- Recognize living income as a human rights issue and integrate living income into human rights due diligence processes;
- follow the due diligence process by setting policy, assessing impacts, addressing findings, and tracking the effectiveness of adopted measures and communicating the results to stakeholders;
- establish strong feedback loops and grievance mechanisms accessible to at-risk farmers and ensure access to remedy.

2 Ensure living income strategies benefit the most vulnerable farmers

The second essential issue when engaging on living income is a counterintuitive one. While living income is rooted in concerns over farmer poverty, the poorest farmers tend to not be the ones who gain from living income interventions. In fact, the high level of ambition of living income (in terms of needed income improvements) poses a threat to—rather than an opportunity for—the poorest farmers.

Faced with the expectation of achieving and demonstrating a living income for all (or most) farmers in their supply chain, companies have an incentive to focus their efforts on better-off farmers. Income gaps are smaller for better-off farmers and easier to close. These farmers are more likely be men since they are more often formally registered, part of a cooperative, easier to reach, and have better access to resources.

Common living income strategies implemented by companies, such as productivity enhancements or income diversification, can exclude the most marginalized farmers since these interventions require a certain level of excess income and time to invest. They are thus often targeted at larger and better-connected farmers who are more easily able to access and participate in these interventions.

The risk is that the very companies trying to eliminate poverty in their supply chains push out the poorest farmers, causing them harm. One common argument used is that farmers with the smallest land size are least likely to reach a living income. However, research suggests that productivity can be higher on smaller farms (since they allow for intensive cultivation).⁴⁹ Also, for a small-scale farmer whose primary income source is a cash crop procured by global buyers, transitioning out of agriculture is not a viable option with an alternative means of income generation, which many farmers currently don't have.

Since companies have for decades depended on farmers living in poverty as providers for their raw materials, they have a responsibility to not contribute to their further disenfranchisement as a result of their living income strategy.

Adopting a human rights due diligence approach to living income will help mitigate this risk. In addition, supporting the ability of marginal farmers to earn a living income requires a more diversified approach, including a stronger focus on non-market mechanisms and alternative income sources. While raising incomes generated by the primary cash crops remains a critical lever, bridging the remaining income gap might require complementary measures, including strong social protection programs that help ensure income stability and access to essential services. Companies can play a critical role in enabling non-market mechanisms by calling for, supporting, and contributing to government or sector-level action.

Finally, there is the issue of measuring success. Since measuring income gaps relies on averages, indicators oftentimes obscure the vast differences between farmers in terms of their income levels, composition, or farm sizes. Popular indicators applied by companies to date are focused on capturing the number or percentage of farmers earning above a living income. This type of indicator not only creates incentives to shift sourcing to better-off farmers but also disguises who the farmers are (e.g., women vs. men), whose income has improved (and whose hasn't), and by how much. Alternative indicators providing more meaningful insights would be based on collecting disaggregated data (e.g., by gender, farm size), considering other income variables (e.g., volatility), and measuring relative income gains rather than benchmark achievement.

Better corporate practice is to:

- Include living income of marginalized farmers as a primary element in human rights due diligence processes;
- tailor interventions to farmers' needs and capabilities, including strategies to benefit vulnerable farmers;
- develop the progress indicators based on disaggregated data (e.g., by gender, farm size) and focused on measuring relative income gains.

3 Integrate living income in procurement practices

Procurement is the business function with the greatest leverage over farmers.⁵⁰ How a company structures its supply chain and sources its raw materials affects farmers' access to markets, their terms of trade, and ultimately their ability to earn a living income. Spurred by the commodification of many agricultural crops over the past decades, efficiency and cost savings are the overriding concern of procurement teams (in addition to food safety and reliable quality).⁵¹ The procurement function responds to short-term market and financial pressures and is often only weakly linked to a company's sustainability function and goals, such as living income. As a result, the important role of procurement for raising farmer incomes is obscured in many living income strategies.

The standard procurement model is not fit for the task of enabling farmers to earn higher incomes. With their ability to coordinate and control vast sourcing networks, companies' procurement strategies focus on optimizing raw material costs and protecting the company against price, demand, and supply fluctuations through flexible and short-term transactions. Procurement and living income strategies can thus collide in practice since integrating farmers into long-term supply relationships is a critical success factor for higher farmer incomes.⁵²

Aligning procurement with living income requires companies to deepen their supply chain relationships. For companies to have better insights and greater influence on the income situation of farmers, overcoming the fragmentation of their supply chains and the transactional relationships they have with farmers is a critical step. Outsourcing their engagements with farmers to certification organizations or suppliers is not a sufficient approach to living income.

Aligning procurement with living income requires companies to deepen their supply chain relationships.

BOX 9: COVID-19: A REALITY CHECK FOR LIVING INCOME

The COVID-19 pandemic has highlighted the vulnerability of farmer incomes to shocks. With income declines reported across geographies and commodities, the pandemic highlighted the vulnerability of many farming communities and amplified pre-existing inequalities in global agri-food value chains.

The pandemic also put the spotlight on companies' procurement practices and their role in limiting farmer resilience and incomes. Attempting to minimize their own procurement risks and costs, some companies delayed or canceled orders, offered lower prices, or shifted to alternative sourcing locations, thereby effectively shifting the risks caused by the pandemic onto farmers. While flexible and efficiency-focused procurement strategies allowed buyers to manage the supply chain disruptions caused by the pandemic, most farmers did not have the same absorptive capacity and saw their incomes decline as a result.

Overall, farmers with close relationships to buyers tended to fare better than farmers in transactional relationships when it came to managing the disruption caused by COVID-19. These farmers were less at risk of losing access to markets, and buyers were quicker to react to the urgent needs of farmers.⁵³

A second step concerns adapting procurement practices to enable higher farmer incomes. Few living income strategies by companies are focused on procurement-related income factors, such as offering farmers longer-term contracts, guaranteeing minimum prices and premiums, engaging in more direct trading relationships with farmers, and supporting farmers' upgrading to higher value-added activities. Instead, many companies approach living income with a mix of farm-level interventions—mostly productivity trainings and projects targeting alternative income sources. These two strategies are not without merit, but they have in common that they do not address the role companies' core business practices play in shaping farmer incomes.

Procurement and living income need to be aligned at the strategic goals level. Rewarded on short-term cost savings and supply chain efficiency, procurement teams have few incentives to create longer-term strategies that generate sustainable income gains for supplying farmers. Revising procurement teams' incentive structures can help generate new ways to benefit farmers, such as pricing in the true cost of raw material production (including a living income for farmers) in the procurement costs.⁵⁴ Similar to other sustainability issues, such as climate change, living income should be elevated to the executive and board level of companies and become integrated into standard risk management analysis and ESG reporting practices.

Better corporate practice is to:

- Analyze how a company's supply chain structure and procurement practices are affecting value distribution and farmer incomes across the supply chain. Tools, such as Shift's Business Model Red Flags, can be useful in helping companies to identify core business practices that shift risks onto vulnerable stakeholders;⁵⁵
- integrate living income into procurement strategies and objectives. Doing so includes setting living income KPIs for procurement managers and including living income in procurement costs;
- deepen supply chain relationships. Set up more direct trading relationships with farming communities, offer long-term relationships to farmers, and address price decline and volatility through price guarantees and premiums.

4 Elevate pricing as a living income strategy

Related to the omission of procurement as a lever to raise farmer income is the omission of pricing mechanisms in many living income strategies and initiatives.

Pricing interventions play a key role in shifting value to farmers and enabling higher incomes.⁵⁶ Low and volatile farm gate prices have limited the impact of farm-level interventions for many years, decreasing farmers' capabilities and incentives to invest in their farms. Since "price is the best fertilizer,"⁵⁷ the potential of price interventions to contribute to more productive and sustainable farm practices is significant. And given the small proportion of raw materials costs in the final retail price of many manufactured food products, shifting significantly more value to farmers through price mechanisms does not necessarily imply significantly lower margins for companies or huge price increases for consumers.⁵⁸

The recent progress around the development and implementation of new pricing interventions at a supply chain, sector, and country level is encouraging.⁵⁹ Price interventions are no longer a taboo topic for companies. However, companies have remained hesitant to elevate pricing mechanism as a key strategic pathway for income improvements. Concerns have primarily focused on the unintended impacts of price interventions (e.g., over-supply) and on the limits of pricing interventions in raising farmer incomes.⁶⁰ However, concerns about over-production also apply to companies' investment in raising farmers' productivity. Price interventions, while not a "silver bullet," can in fact make a significant contribution to raising the incomes of farmers, especially since the costs of production for farmers has been rising in many countries (e.g., prices of fertilizer, fuel, etc.).⁶¹ The recent doubling of global market prices for coffee have arguably had a wider and more direct impact on the incomes of millions of coffee farmers around the world than all sustainability programs combined. The challenge of course is that these income gains are not sustainable, as global coffee prices remain volatile and price increases alone are insufficient for achieving a living income.⁶²

The experience of initiatives such as the Living Income Differential (LID)⁶³ on cocoa from Côte d'Ivoire and Ghana or Fairtrade's Living Income Reference Price (LIRP)⁶⁴ highlight the difficulty of implementing price interventions without strong industry support. Fairtrade's LIRP is currently not scalable, as Fairtrade would likely lose many of its buyers if it made paying the LIRP a requirement for companies.⁶⁵ Similarly, the LID demonstrates how governments are hampered in their ability to raise farm gate prices, as companies have greater bargaining power due to their ability to purchase their raw materials from other countries instead. In addition, existing living income reference prices are currently too low to actually enable farmers to earn a living income.⁶⁶

Furthermore, the effectiveness of price interventions implemented at the company or country level is often hindered by the countervailing price dynamics at commodity markets, which remain the dominant price-setting tools in many commodity sectors. These market mechanisms create significant price volatility and, in most instances, benefit buyers more than producers (e.g., by transmitting dips in commodity prices more directly to farmers than price increases). They also contribute to the drastic undervaluation of the true cost of food.⁶⁷

Companies should put their weight behind exploring alternative pricing mechanisms, which distribute risks and rewards more equitably and take into consideration farmers' costs of production, cost of living, and social and environmental externalities.⁶⁸



More and more companies are considering price interventions as part of a holistic approach to achieving a living income.

Better corporate practice is to:

- Analyze the impact of price mechanisms and practices on the ability of farmers to earn a living income;
- adopt pricing practices that contribute to a living income, including paying a Living Income Reference Price;
- support structural reform efforts towards more farmer-friendly pricing mechanisms, including government interventions, such as price guarantees and premiums.



⇒ LEVEL THE PLAYING FIELD

5 Make living income gender inclusive

For living income strategies to benefit women, companies must make a commitment to tackle gender inequality as part of their living income strategies.

This includes gender-specific steps in both the analysis of the challenge and in the design of potential solutions. Barriers to earning higher incomes are gender specific. For many women, limited access to land, lack of control over household finances, adverse gender norms, lack of time due to care duties, and barriers to acquiring technical expertise all hinder their ability to earn higher incomes more than they do for men.⁶⁹

Considering that women represent the majority of actors at the lower income levels of agri-based supply chains, living income interventions can contribute significantly to women's economic empowerment if designed and implemented with a gender frame. In practice, the opposite can be the case. Interventions can reinforce gender inequalities. Part of the reason lies in the nature of the living income concept, another in its application.

First, on the concept. Living income takes the household (not the individual) as its unit of analysis. While this focus has the benefit of capturing the diversity of income streams of farming families, it brushes over gender differences and dynamics when it comes to income-generating roles and contributions. Living income and its focus on cash income tend to ignore

Above: Women carries a basket of freshly cut cocoa pods on a farm in the Kokoado community in Asikuma Adoben Brakwa, Central Region, Ghana. Photo: Barbara Johnston/ University of Notre Dame

non-remunerated household work. Income contributions often differ by gender, as men are more likely to work on primary cash crops while women are more likely to be responsible for food crops used for consumption or sold locally. Living income assessments thus tend to undervalue the contribution of women to household incomes.

Second, in their application. “Typical” households in many agri-producing regions are often defined as male headed. Without a specific emphasis, living income interventions are not designed with women at the forefront. In practice, women farmers are often not consulted in a targeted way, and organizations with a strong gender focus (including women’s rights organizations) are seldomly selected as local partners. This hinders a gender-inclusive living income approach already in the design stage.

Female-headed households are often smaller households with less land and greater reliance on local food crops (vs. cash/export crops), and they have less access to productive resources such as labor, inputs, or land.⁷⁰ Instead of supporting women in assuming more proactive roles around cash crops (e.g., by conducting gender-sensitive trainings, addressing adverse gender norms, securing land rights for women), living income strategies oftentimes limit the focus on women to their participation in savings groups and alternate income-generating activities, thus potentially reinforcing rather than changing unequal gender norms.

When companies are assessing the success of their living income interventions, differences between women-led and men-led households are often not considered. As living income benchmarks rely on averages, they oftentimes brush over gender-specific difference in income levels, sources, and changes. As a result, living income benchmarks often conceal the income situation of women farmers and the degree to which they are benefitting from living income interventions.

Better corporate practice is to:

- Make women an explicit target beneficiary group of living income strategies and ensure that invested resources flow directly to and/or benefit women. Be transparent about what you are learning and how you are embedding a gender lens into your living income approach;
- work with women and women’s rights organizations when designing and implementing living income strategies and assessing their impact. Also, find opportunities to engage men and boys as part of the solution.
- Conduct a thorough gender analysis, including gender-disaggregated data on income levels and sources, land tenure, roles across the value chain, women’s access to and control over finances, and women’s unpaid care work and use this information to develop gender-inclusive living income strategies.

6 Increase farmers' bargaining power on living income

Many global agri-food supply chains are marked by stark power asymmetries between global buyers and local farmers, thus restricting farmers' ability to reliably access profitable markets (e.g., long-term contracts, barriers to entry), effectively negotiate the terms of trade (e.g., volumes, prices, payments), and diversify their income-earning activities (e.g., upgrading).⁷¹ This lack of farmers' bargaining power also applies to living income.

Farmers to date have been dealt the short end of the stick when it comes to living income. While farmers do not have a lot of visibility and decision-making power in many living income discussions, they carry most of the burden of making the necessary changes on their farms to achieve a living income (e.g., adopting new practices, investing in higher productivity). The mismatch between farmers' inability to shape the living income agenda and their central role in bringing about income improvements reflects and reinforces the vast inequality in risk and power prevalent in agri-food supply chains. Without a more open view on the role of politics and power within global supply chains, farmers will risk remaining passive recipients of living income agendas and interventions rather than being their drivers.

The central role of Northern companies and experts in driving living income discussions helps to explain why much of the energy to date has been more focused on the technical aspects of the concept rather than on analyzing and addressing the power imbalances at the root of persistently low farmer incomes. A prerequisite to greater bargaining power is strong and inclusive farmer organizations, including strong participation of women. Investments in strengthening farmer organizations can be an effective pathway to greater bargaining power, as they can offer farmers greater control over when and where to sell, and for what prices. The result of strong farmer organizations can be better access to markets, more beneficial terms of trade, higher product quality, and access to critical information and technical support (e.g., trainings, credit, storage)—all ingredients towards higher incomes.⁷²

Supporting farmers' ability to upgrade into higher value-added activities is another promising pathway towards greater bargaining power of farmers (and ultimately higher incomes). Moving beyond the production of raw materials can elevate the commercial and bargaining position of farmers within value chains. Upgrading can take many forms and can include moving into higher quality products, processing, marketing, or even manufacturing. Upgrading opportunities are difficult to realize, however, because doing so is often costly and requires significant capital investment.⁷³

Companies should welcome and promote authentic leadership of farmers on living income based on the principle of self-representation on all issues that affect their incomes. Without their active leadership, living income will remain a theoretical exercise, rather than a vehicle for change and accountability, and sustainable supply chains. Increasing the leadership of farmers requires active support of companies for stronger participation of farmer organizations in living income discussions, convenings, and strategy development—in particular women who are often not well represented in leadership positions of farmer groups.



Companies should welcome and promote authentic leadership of farmers on living income based on the principle of self-representation on all issues that affect their incomes.

Farmers as drivers of living income discussions

There are examples from around the world of farmer and civil society leadership on living income. Examples include the advocacy work of the Ghana civil society cocoa platform⁷⁴ or the active participation of coffee farmers and producer organizations in determining living income reference prices in Colombia.⁷⁵ Expanding these examples of farmers and their allies as drivers of living income agendas would shift the locus of debate closer to farmers' operating context, provide greater opportunity for farmers to voice their preferences and concerns, and ensure that interventions reflect farmers' realities and needs.

Below: Tea picking, Darjeeling, West Bengal, India. Photo: Rajat Sarki/Unsplash

Better corporate practice is to:

- Support strengthening farmer organizations and cooperatives as primary vehicles of farmers to have a collective voice and bargaining power;
- foster the active participation and leadership of farmers and their representative organizations in the design and implementation of living income strategies (going beyond sporadic and superficial engagements);
- make robust farmer feedback loops and grievance mechanisms a central part of assessing the progress and success of living income strategies.



7 Share data and insights on living income

Living income is an ambitious idea because of the significant income gaps many farmers face and the complexities associated with closing them. However, the evidence base on how to achieve income changes has remained elusive. With few exceptions,⁷⁶ there is no joint database or learning framework that allows different companies to compare notes, share insights, and draw guidance from. With few exceptions, there also isn't a robust literature on "what works" to raise farmer incomes.⁷⁷ Despite the momentum around promoting, assessing, and piloting living income interventions, there are few documented examples of farmers having reached a living income as a result of a targeted intervention.⁷⁸

There is a significant risk that without greater transparency and more robust learning processes, the resources poured into living income projects will yield little results. For example, of the many income diversification projects that have been implemented across smallholder sectors, which ones have actually achieved significant income increases? And how can such approaches be scaled so that we do not have a few isolated islands of excellence in a sea of inequality? Without external validation and a common methodology, validating and aggregating the lessons from individual interventions will be difficult. Stronger, more resilient supply chains will remain elusive.

The need for better public information is not only limited to rigorous evaluation of existing interventions and rigorous answers to the question of what works to raise farmer incomes. It also includes more robust and comparable information from the farm level including income levels and gaps but also other relevant information, such as production data or farm sizes. While many companies are conducting their own living income benchmarks, these data are rarely publicly available or gender disaggregated. Due to widespread informality in many agricultural sectors, governments also don't have at their disposal reliable income data on farmers.

The calculation of credible, third-party living income benchmarks based on a standardized methodology, and their public use, is a business-critical task companies should support. Similarly, basic supply chain information regarding sourcing locations, quantities, prices, and costs along different value chains is also necessary.⁷⁹ Our inability to more effectively help raise farmer incomes is thus intimately linked with the lack of traceability of many agri-food supply chains.

Due to widespread informality in many agricultural sectors, governments also don't have at their disposal reliable income data on farmers.



Better corporate practice is to:

- Collaborate with industry peers and other stakeholders, starting with agreeing on a common methodology and sharing (pre-competitive) information on income levels and existing interventions and their outcomes;
- commission third-party living income benchmarks and gap assessments and make them public within their own supply chains in order to gain more comprehensive and useable insights on farmers' income levels;
- be open about "what hasn't worked" in order to build the collective knowledge base and prevent others from making the same mistakes. Share and scale what has worked.

8 Enable strong government and sector-level action on living income

Achieving living incomes for farmers at scale requires structural change. Governments are the primary duty bearer when it comes to protecting human rights, including the right to an adequate standard of living for small-scale farmers. . They create the policy environment in which farmers operate and in which companies procure raw materials, and produce and market food. Producing and consuming country governments thus play a leading role when it comes to the structural changes needed to achieve living incomes at scale.

The contributions of government policy to living income are manifold, including the regulation of agricultural production and trade, investments in infrastructure and extension services, provision of secure land rights, establishment of pricing mechanisms and guarantees, and social protection programs for vulnerable groups. Policy initiatives, such as the Living Income Differential (LID) imposed for cocoa by the governments of Ghana and Cote d'Ivoire, or the EU's mandatory human rights due diligence legislation,⁸⁰ are recent examples of decisive government actions targeted at protecting vulnerable farmers and their families.

In theory, companies and governments are interdependent on each others' contributions to living income. Without an enabling environment for farmers to thrive, company living income efforts are likely to fail. Without the active engagement of companies, government support to farmers to earn a living income will be hampered by a lack of market opportunities. In practice, government and company approaches to living income either exist in separation or even clash, especially when government interventions come with costs for companies.

The example of the Living Income Differential (LID) on cocoa from Ghana and Cote d'Ivoire is illustrative. While many of the big chocolate companies publicly supported the LID, companies have since looked for ways to circumvent paying it.⁸¹ Instead of fully supporting strong government action on living income, companies appear to be using their bargaining power to limit it.

In theory, companies and governments are inter-dependent on each others' contributions to living income.



The ongoing tensions that exist between government initiatives on living income focused on public policy and regulation (e.g., pricing interventions) and private sector approaches, which to a greater degree are relying on market dynamics (e.g., certification premiums, productivity interventions) are rooted in the misalignment between companies' sustainability goals, political engagements, and business models.

Government advocacy is rarely an element of companies' sustainability strategies, including living income, limiting companies' potential influence on the creation of a conducive policy environment. Instead of relying on stand-alone living income interventions, companies can significantly scale their impact by facilitating and supporting strong government action on living income.

Commodity sectors are also important to focus on to achieve structural change. Sector-wide collaboration and on key issues for living income, such as traceability or pricing mechanisms, can be a key lever to make commodity sectors operate in ways that are more beneficial to farmers. In addition, sector-wide collaboration can shift cost-benefit calculation for companies: An unprofitable strategy for an individual company (e.g. paying farmers higher prices) can become profitable when it is undertaken collectively by industry peers.

Better corporate practice is to:

- Make government and sector-level engagement and advocacy part of the living income strategy and align political activities and positions with sustainability and human rights goals;
- use their political voice and economic weight to promote (and not hinder) strong government and sector-level action on living income;
- ensure that your business practices and living income strategies do not hinder but complement and facilitate strong government and sector-level action on living income.

SECTION 4

Conclusion

The elevation of living income as a mainstream sustainability issue is a significant development that should not be taken for granted. Just a few years ago, it would be utopian to imagine companies making broad-based commitments to living income (and living wage) across their supply chains. Nor would it have been easy to imagine companies voluntarily agreeing to significant price increases for their raw materials, such as for cocoa in West Africa. These are promising first steps.

For living income to move from right to reality, actions and changes need to match the scale of the problem. Food and agriculture companies are critical actors in this process. They have the power to invoke changes in their own supply chains, they can stimulate sector-wide action, and they have an influence on public policy areas relevant for living income.

Below: A cocoa farmer removes pulp and seeds from a cocoa pod on a farm in the Kokoado community in Asikuma Adoben Brakwa, Central Region, Ghana. Photo: Barbara Johnston/University of Notre Dame



Living income is often first perceived as a straightforward benchmark, a simple measurement for what is needed for farmers to earn sufficient income for a decent standard of living. Yet this perception is deceiving. Defining a living income benchmark, measuring income gaps, and defining effective strategies to close these gaps are all complex tasks that require context- and company-specific approaches. It is important that business leans into these complexities—and listens to the voice of farmers.

This briefing aims to serve as conversation starter and as a guide for companies and other stakeholders interested in meaningfully engaging on the issue of living income in their supply chains. The eight essential issues identified and corresponding recommendations strive to help companies realize their ambition of making an impactful contribution to farmers' ability to earn a living income. Without achieving living incomes for farmers, the idea of sustainable supply chains will remain elusive.

BOX 10: USEFUL RESOURCES ON LIVING INCOME

Tools and guidance documents on living income continue to evolve as the topic is gaining worldwide traction. Following is a preliminary list of useful resources:

Resource compilation

- Living income Community of Practice (LICOP): www.living-income.com

Living income and human rights due diligence

- [Making Human Rights Due Diligence Work For Small Farmers and Workers in Global Supply Chains: An Analysis of Impact and Legal Options.](#)
- [OECD Due Diligence Guidance for Responsible Business Conduct](#)

Guidance for companies

- [Guiding steps towards living income in the supply chain](#)
- [IDH Roadmap to living income](#)

Measurement

- [Guidance on calculating household income](#)
- [Applying the Household Economy Analysis to Measure and Address Income Gaps in Agriculture Supply Chains](#)

Living Income Reference Price

- [Fairtrade Living Income Reference Price Model](#)

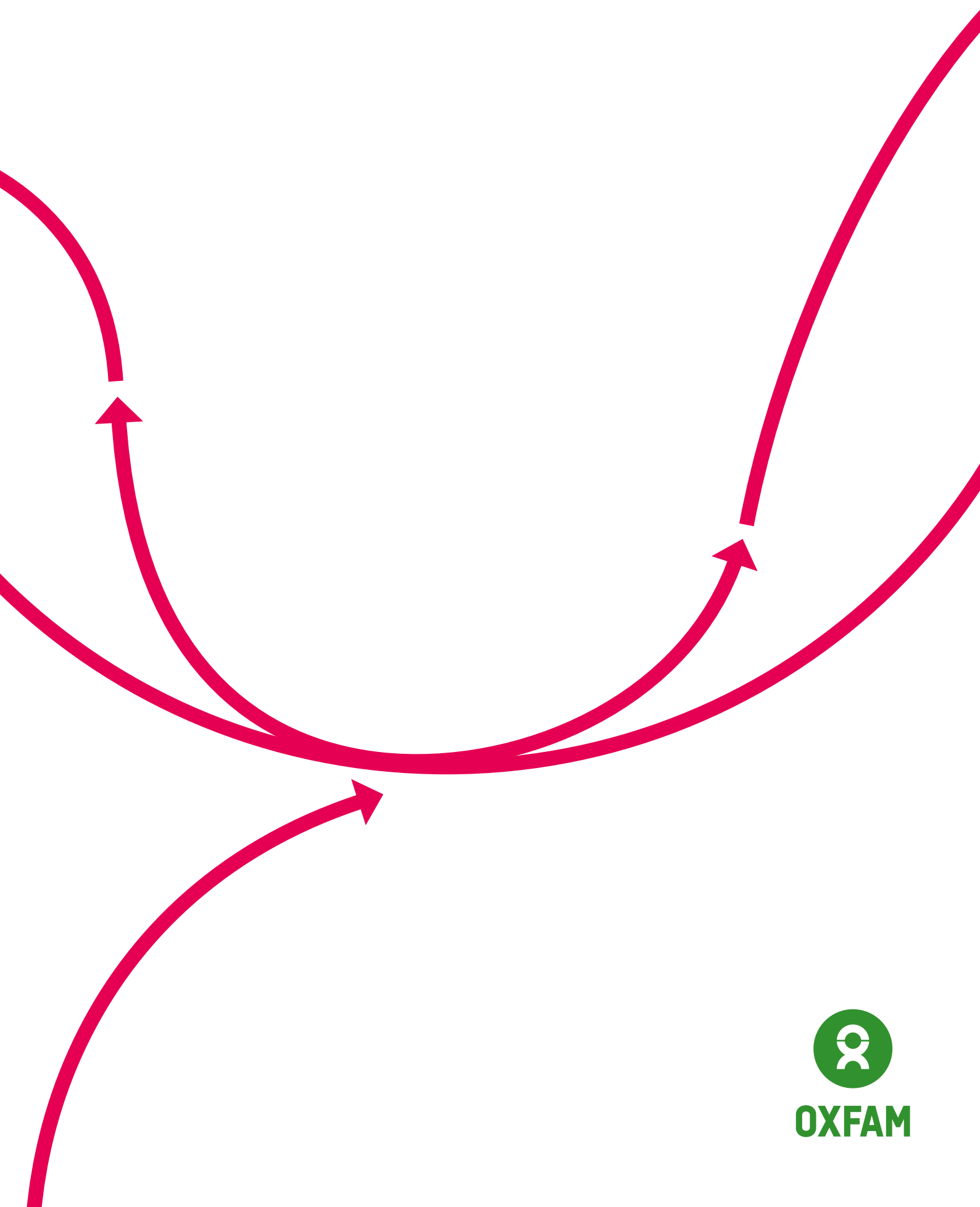
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