



## **4.20 Promote living incomes and wages in value chains for small-scale farmers and agricultural workers**

### **1. What, in brief, is the solution?**

Secure sustainable livelihoods for smallholder farmers and agricultural workers by ensuring living incomes, fair prices and fair wages. Consider broader structural constraints to the achievement of a living income including weak social protection schemes, the lack of risk management mechanisms and structural deficiencies that undermine farmers' bargaining power. Help increase farm yields and income resilience in a sustainable manner.

Income and sustainability are closely related. To enjoy sustainable livelihoods, small-scale farmers and workers need to earn sufficient income for a decent standard of living, so they can afford healthy diets, send their children to school, invest in their farms or in off-farm activities, have some savings for unexpected setbacks, retain future generations in farming and allow elders to retire with dignity.

### **2. What was/were the source(s) from which this solution emerged?**

The provision of living incomes is one of the pathways, which is strongly supported by farmers' organizations, civil society, innovative private firms, and a coalition of donors and countries to make our food systems more equitable and sustainable.

In the 'Universal Declaration of Human Rights' Article 23 stipulates that: "Everyone who works has the right to just and favourable remuneration ensuring for himself and his family an existence worthy of human dignity, and supplemented, if necessary, by other means of social protection." Article 25 says that "Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control".

A living income is defined as sufficient income to afford a decent standard of living for all household members – including a nutritious diet, clean water, decent housing, education, health care and other essential needs, plus a little extra for emergencies and savings – once farm costs are covered.

The 2017 FAO State of Food and Agriculture report highlights the importance of "leveraging food systems for inclusive rural transformation". The development of strategies to raise farm gate prices and increase/diversify incomes for farmers is crucial to ensure sustainability and equity in agricultural supply chains. The CFS Principles for Responsible Investment in Agriculture and Food Systems (RAI principles) and the CFS Policy Recommendation on How to increase food security and smallholder sensitive investments in agriculture provide policy guidance.

### **3. What problem is it trying to address within food systems?**

The vast majority of the world farms are small or very small scale. Smallholder farmers produce 70–80% of the world food<sup>1</sup>, are central to conserving crop diversity, and yet are largely poor and food insecure<sup>2</sup>. Smallholder farmers have virtually no control over global market prices, feeble negotiating power, and are at the mercy of price volatility. Prolonged periods of low prices have disastrous effects on farmers'

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<sup>1</sup> FAO, 2014. The State of Food and Agriculture 2014: Innovation in Family Farming Food and Agriculture Organization of the United Nations.

<sup>2</sup> IFAD and UNEP, 2013. Smallholders, food security and the environment.



livelihoods and the long-term sustainability of supply. Farmers producing cash crops destined for international supply chains are usually only getting a thin share of the value added generated.

When trapped in poverty farmers cannot afford to invest in more efficient, productive or sustainable farming methods. They cannot pay workers a decent wage, or worse, they may resort to using children for cheap labour. Some may turn to illegal deforestation or growing illicit crops in an attempt to increase their incomes. Others even abandon their land in search of alternative livelihood opportunities in cities or abroad. Besides, farmers bear most of the risks of losses caused by extreme weather patterns, pests and crop diseases, making their businesses even more vulnerable.

#### **4. Why is addressing that problem important for achieving the goal of your working group?**

Ensuring living incomes and living wages is an effective mean to reduce poverty of those furthest behind and has a positive impact on livelihoods, food security, resilience and risk reduction.

#### **5. How can this solution address that problem (theory of change)?**

Ensuring living incomes can invert the poverty trap for smallholders.

Sustainable pricing/revenue mechanisms or increased sales on fair trade terms can help ameliorate the distribution of the value added along the supply chains. Possible price mechanisms include agreements between actors at the local/national/international level, government initiatives or state-guaranteed agreements (see the case of coffee and Costa Rica) and trade agreements between countries (market access for smallholder farmers, standards, quality, prices, etc.). Additionally, revenue mechanisms include the diversification of financing sources, prices of agricultural inputs and payments for environmental services (see CAP, Costa Rica experiences with Fonafifo, etc.).

Moreover, the organisation of small-scale farmers needs to be supported and their capacity strengthened. Through better farmers' organizations, smallholder farmers can engage in collective marketing, achieve economies of scale, learn successful farming techniques and skills, be efficient business partners, share risks and improve their bargaining power. This will allow farmgate prices to increase.

Additionally, broader structural constraints to the achievement of a living income need to be considered:

- The need for income diversification, public services (education, health), access to markets (for input, output, and capital) and social protection (unemployment insurance and pension schemes) to boost farmers' resilience.
- The need for risk management mechanisms to protect farmers from price volatility or the increasingly unpredictable weather patterns that have resulted from climate change.
- Structural deficiencies that undermine farmers' bargaining power and lead to inequitable distribution of value along the supply chain, including supply chain fragmentation, market imperfections and asymmetrical information, informality and a general failure of farmers' organizations to pool resources and bargain collectively.

Finally, public investments combined with the adoption of sustainable agriculture practices such as agroecology can help increase farm yields and income resilience.

A combination of these mechanisms, adapted to the particularities of each commodity and region, will allow improving small-scale farmers' incomes. This could create a virtuous cycle of outcomes and impacts; mutually reinforcing with other Action Tracks' goals.



## **6. Why does this solution align to the definition and criteria for a ‘game changing solution’ developed by the Summit?**

This solution is aligned with the criteria defined by the UN FSS for game changing solution. This proposal is about change at scale by including millions of small farmers across a range of value chains and regions. Experiences and scientific evidences have demonstrated the actionability of this proposal, and living incomes are all about sustainability and equity.

## **7. Existing evidence supporting the argument that this solution will work, or at least achieve the initial outcomes**

Best practice examples exist and provide evidences for upscaling the adoption of living incomes. There are coalitions of actors supporting the idea of living incomes. One example is the use of ‘fair trade’- like labelling. Another is the recent Initiative on cocoa prices launched by Côte d’Ivoire and Ghana that led to an agreement with the cocoa and chocolate industry to create a Living Income Differential (LID) to ensure decent revenue to local farmers. At this stage, it is a US\$400/ton premium paid beyond the price of the cocoa futures markets. Cameroon has also expressed interest to join the initiative. Building on this initiative the European Union engaged in a partnership with Côte d'Ivoire, Ghana and Cameroon to link this price increase to further actions aiming at reinforcing the overall sustainability of cocoa production, and particularly halting deforestation and eradicating child labour in cocoa production.

Other examples include the Costa Rican law dictating the split of the added value in the coffee branch or the “Interprofessions” in France that regroup various actors from producers to distributors in a given value chain. A more historic example is the European Union Common Agricultural Policy (CAP) that in the 1960s guaranteed farmers prices set at a level, which ensured a living income to farmers, who could invest, increase their income and for many, leave poverty.

## **8. What is the current and/or likely political support for this idea?**

This solution is supported by member states and EU (e.g. for cocoa), international networks and organisation and research alliances. Additionally, the growing importance of CSR gives companies economic incentives to improve the well-being of their workers, suppliers and farmers at all steps of the value chain.

## **9. Are there certain contexts for which this solution is particularly well suited, or, not well-suited.**

The solution is well suited for value chains related to products generating high added value (cocoa, coffee, agroecological product, milk, etc.) without transparency to manage the distribution of added value.