Questions during the Coffee Living Income webinar 2020-3-10

1. If these farmers are earning so much below the living income range, how do they even survive? Do we understand that?

   It is important to clarify that living income is not about survival or not. Living income is about a decent standard a living which includes, among other things, access to a varied, nutritious food basket and decent housing (i.e. no holes in the roof, etc).

   We also compared the results against the poverty line. With the low prices at the time of writing, many producers also feel below the poverty line. Coffee prices have been depressed for 2.5 years and it has had an impact. In May 2019, Reuters reported that producers equivalent to 40,000 hectares of planted coffee area had left the Colombian coffee sector over the past 18 months (late-2017 to early-2019). Since then even more have left (no precise statistics available).

2. On the different archetypes, the farms size is not the same. This is probably affecting a lot the income beyond the product type. How to remove size from the equation to compare the "apple to apple"? is it possible'

   We used different farm sizes for two reasons:

   1. Our data showed that farm sizes differ between the producers supplying into each of the archetypes. One could 'normalize' the results around a per hectare P&L to make the performance more comparable, but it would ignore the fact that higher quality and specialty producers tend to have larger farm sizes which is also an important finding.
   2. The living income concept focuses on a total household income. To make the living income benchmark comparable with the farm income, we would need the total farm income, not the per hectare income. To circumvent this, one could normalize the living income benchmark to a per hectare amount but that would then become an issue since farm size differ as per #1.

      The finding in #1 was tested with the FNC and traders operating in Colombia and everyone confirmed this.

      Nonetheless, in terms of per hectare profitability we see the same results: a progressively increasing net income from producers supplying into archetype 1 increasing towards producers supplying into archetype 4.

3. Is it typical that coffee farmers usually only maintain one such small farm per household?

   We have insufficient data to understand exactly the possible “other income” of poor small farmers (for example hired work for other farmers), however from experience these farmers typically don’t have the luxury to have more farming plots outside their main (small) farm.

4. Which is or can be the relative contribution of productivity increase as one of the factors for producers to move towards LI?

   In the report (see the full version) we include sensitivity analyses where we test the impact of potential yield increases.

   Previous studies (Technoserve and GCP) have found that the average Colombian producer should be able to increase yields with 20% with relatively simple measures such as adoption of good agricultural practices. In our consultation with traders and roasters they requested us to test yield increases up to 50% which some deemed feasible based upon their sustainability programs.

   That being said, yield increases alone will not move the average farmer into a living income. It needs to be combined with improved sourcing and pricing practices, and in some cases public policies too.

5. How does one convince the CEO of a major (listed) coffee trader to pay a 'flexible premium’?

   We spent quite some time with the TCLI participants in the August meeting in Amsterdam on the *internal roadblocks* in companies to take corrective action towards LI. In essence it was concluded that *maximizing (short term) shareholder value* and related *incentive schemes* should be reconsidered at upper management level to support more effective LI approaches. From many media articles we know that (also in USA) this trend is clearly visible.
   https://www.nytimes.com/2019/08/19/business/business-roundtable-ceos-corporations.html
   https://hbr.org/2020/01/making-stakeholder-capitalism-a-reality

6. Tony’s seems to be a model of very small scale in the market, and very little focus on quality, at least in terms of consumer or specialty chocolate in the U.S. market. Is this a model for coffee or just specialty coffee?

   Tony’s model is not niche in the market t represents already the largest market share for chocolate bars in the Netherlands, 18%. The scalability is underpinned by the fact that one leading retailers in the Netherlands, Albert Heijn, is using the Tony’s open chain platform. However, we don’t present it as 100% blueprint for coffee and to replicate this the specific “fair” quality recognition in coffee needs to be taken into account.

7. What is the minimum size of an economically viable coffee farm according to your research?

   We found that an average small conventional producer supplying into archetype 1 would need 12.4 hectares to make a living income.

   On the size of an “economically viable” farm size: This depends on the definition of economically viable which will arguably become an ethical question; The emergence of living income is essentially a response to a farm only being profitable if it can provide for the farmer and his/her household (taking into account other income sources).

8. In the context of archetype 1 how do you see the private sector able to provide traceability or additional services, and ultimately transfer more money to the farmers, without roasters willingness to pay a premium for such coffee. It may work in archetype 3 but with lower quality conventional coffee.

   The creation of sourcing archetypes and tailored recommendations to each archetype is a response to this question though. We recognize the inherent differences in the operating realities of traders and roasters and therefore the recommendations viable for archetype 3 will likely not be viable for archetype 1. Therefore, we have given tailored archetype 1 recommendations in the report.

9. What is sustainability certifications' role in all of this? Would you say that they contribute to reduction of the living income gap?

   Leading certification standards have been actively participating in the taskforce and are clearly looking for ways to include LI in their schemes. Especially Fairtrade has developed further the concept of the *Living Income benchmark price*. They can tell best themselves about the status of this work in relation to their standard.

10. Being realistic about using a standard 'average' farm size assumes that farm sizes are normally distributed--I doubt that is usually true but rather that smallholder farm sizes and yields are skewed to the low end (some over-performers, a lot of under-performers). The premium calculation models will usually result in few larger farmers earning much more; some farmers around that average newly making the cut; but the largest part of farmers sitting on smaller or less productive farms still not meeting your benchmarks -> using 'average' sizes or yield in skewed distributions is misleading

This is a very valid question and indeed there is not a normal distribution. We presented the results using averages for three reasons:

1. We have compared the underlying data and results against a plethora of public sources (research studies, FNC and ICO data) and non-disclosed company reports to corroborate our findings. Essentially *all* public data available is presented using average farms (whether valid or not). For some company data we could only access average too. For these reasons using averages enabled us to increase the amount of sources to corroborate the findings.
2. Also, we separated our sample into small (0-5 ha), medium (5-15 ha), and large (+15 ha) farms. The report presents all the results. Making the separation removes a great deal of the skewed distribution so that the sample of small farms are closer to (albeit not fully) normally distributed.
3. Lastly, using the median is useful with a skewed farm size within small producers. However, looking at the medium and large farms the tail in the distribution is rather flat and therefore using the median instead of average would present results for a farm size larger than the data. It would have been confusing to show results for the median small farm but average medium and large farm. Another reason for using the

11. How is climate insurance and prevention of child labour being addressed in the LI pathways?

On climate we are inspired by the announcement of Nespresso in the webinar that they see a link between their net zero commitment, and the potential to work on insetting in their supply chain, generating value at the farmers end, albeit still a relatively unexplored topic, see 14.

One of the key recommendations in the report is to strengthen and professionalize farmer organizations in general to allow them to allow better management of "risks" (climate, ESG, finance, price volatility, off-take). In the example of the Tony (Archetype 3) model the sourcing principles imply longer term and close relations with professional producer groups (including ESG issues on gender based violence, child labor etc)
Its also our belief that getting closer to a living income (calculated based on household needs, including costs of education), will help in itself to prevent child labour.

12. Why are farmers still growing the coffee if it brings such little return? What's the opportunity cost of not doing sth else -- i.e. I wonder what alternative jobs around pay to compete with coffee?

See response to question 1 above. In addition, it should be emphasized that coffee is a perennial crop and therefore larger opportunity costs are entailed with leaving the sector.

That being said, as a collective we still need to understand better opportunities for alternative income sources and, where necessary, how to transition non-viable producers into other jobs/sectors.

13. Will IDH support similar analysis in other key coffee origins?

    This largely depends on the appetite of the companies or other funders to co-fund this work. IDH would like to balance this with its geographic priorities (e.g. for East Africa). In view of the phenomenal engagement we received with this first Colombia focused analysis IDH would expect and welcome expansion of this (data driven, multi stakeholder supported, archetype based) approach to other origins.

14. How NESPRESO make the payments NETZERO to coffee agroforestry farms? process and value- Johana

    On NETZERO, what we have been doing is investing on sinking some of our carbon in our supply chain, meaning planting trees and giving the benefit of the investment of the trees to the farmers' with new income coming from the trees, being from wood and so on so forth. What we intended to do in the past was having more engagement between our clients and farmers and having investments that is directly from our consumers to the farmers. But this is a new phase to us, our NETZERO commitment is new. We have been working on some steps, but the real strategy and implementation is still underway.

15. How are the real smallholder farmers themselves involved in living income discussions?

    One of the reasons to prototype this approach in Colombia was the presence and support of a strong producer organization (Federación Nacional de Cafeteros de Colombia). We agree that these analyses require active participation of a credible representation of producers.

16. Did you include the revenues coming from the intercropping in the calculation?

    Yes. Included non-coffee income. The data is in the report but income from coffee ranges from 70-90% of total household income.

    There is very limited data on non-coffee income though, and more data and general understanding is required.

17. The report suggest that the only producers of specialty Coffee are the ones that are crossing the poverty line. This means you are suggesting all must turn to produce specialty Coffee to receive a decent income?

    The report data and sensitivity analysis show that in theory all Archetypes can source form producers that earn LI. However, compared with Specialty coffee (Archetype 4) small producers that supply to the Archetype 1 segment will on average require much higher *productivity improvement* and *larger farms* to bring down costs and increase volume to the level of Living Income for the producer (with current prices).

18. Please do not forget that social certifications entail an increased (transaction) cost to producers (and other parties, depending on the certification system); such costs do not help in reaching a living income.

    This is mentioned in the description of the sourcing archetypes. From the data we see that the biggest benefit for producers from certification is the entrance into a sustainability program and the improved yields. Increased yields had a larger impact on the coffee income than the premium received from the certification. (This is only indicative though and a full study should be carried out to say anything conclusive on this.)

19. But Tony Chocolonely doesn't pay any certifications. Wouldn't it be a bit contrary about what you are supporting together with the certification authorities, do you just mentioned?

    Tony's pay the Fairtrade premium (next to a flexible Living Income premium).

Have additional questions?
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