

Addressing human rights due diligence through closing living income gaps

Concept note template – Annex 1

14 March 2022



IG KAFFEE SCHWEIZ
CI CAFE SUISSE
CI CAFFÈ SVIZZERA
CI COFFEE SWITZERLAND



Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra
Swiss Confederation

Federal Department of Economic Affairs,
Education and Research EAER
State Secretariat for Economic Affairs SECO

idh the sustainable
trade initiative

Project proposals towards closing the living income gap

Available tools and explanation on what to consider when implementing activities to improve smallholder farmer household income

Purpose of this document

- This document is an annex to the concept note template of the CIC-SECO-IDH Initiative
- Concept notes can be submitted as part of the call for proposals under the Initiative
- This document contains information on:
 - Definition of living income and the living income gap
 - Outlining the approach to close living income gaps: the income driver approach
 - Available tools to close the living income gap through field-level projects
- Q&As on the Call for Proposals will be organized on:
 - March 29, 2022
 - April 11, 2022
- For more information and questions, please contact Marlies Huijssoon: huijssoon@idhtrade.org

Short recap: why living income?



leverage opportunities

**BUSINESS
INCENTIVES**

mitigate risks

Lead on SDGs
(1, 2, 3, 4, 6, 7, 8, 11)

Meet due diligence
and reporting requirements

Enhance brand value and build
stronger reputation

Secure customer loyalty and
attract new customers

Increase market share and
command higher prices

Receive more favorable financing terms from
investors and unlock
new sources of financing

Improve supply volumes
and quality specifications

Incentivize new
producers

Human
rights

Reputation

Supply
security

Underpayment
of farmers and
farm workers

Use of forced labor
or child labor

Controversy and negative
publicity

Consumer boycotting

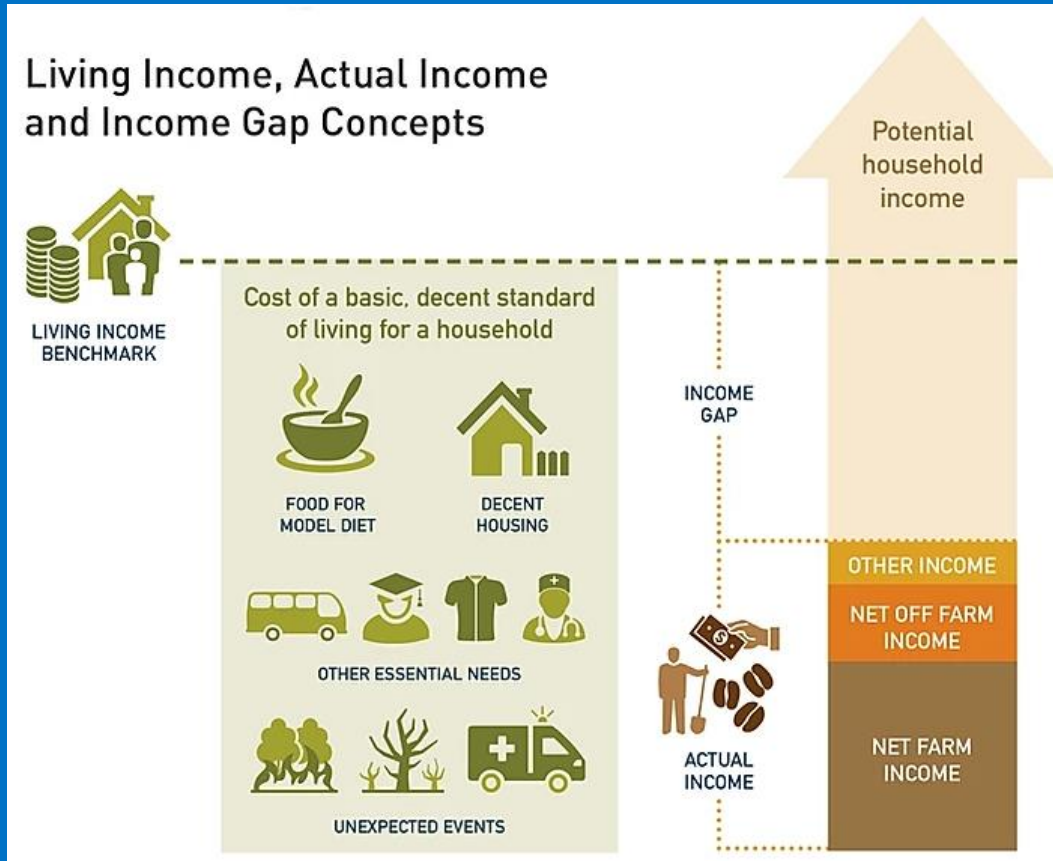
Divestment and costlier
access to credit

Destabilized supply chain actors
undermine quality
and delivery

Low return on
sustainability investments

Short recap: basics of Living Income

The Living Income Community of Practice (LICOP) provides a definition, methodology and learning on living income. Consult [their website](#) for more information



Living income is defined as **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.** This is referred to as the living income benchmark.

Elements of a decent standard of living include access to food, water, housing, education, healthcare, transport, clothing and other essential needs, including provision for unexpected events.

It is important to recognise that household income can come from multiple sources. In the case of smallholder farmers, income can be earned through off farm business or labour and remittances in addition to crop sales.

Therefore, actual income is a composition of the following elements: net farm income, net off-farm income and other sources of income.

The difference between the living income benchmark and actual income is referred to as the living income gap.

Living income gaps vary significantly across geographies but are understood to be significant in the food and agriculture sector.

How to determine the strategies and activities to close the living income gap in your project?

IDH has developed a Roadmap on Living Income and tools to support companies to take action on closing the living income gap in their supply chain. At the sector level, action can be taken on learning and (verification of) living income benchmark data and gaps.



**STEP 1:
IDENTIFY THE
LIVING INCOME
BENCHMARK**



**STEP 2:
ASSESS THE
LIVING INCOME GAP**



**STEP 3:
VERIFY THE
CALCULATIONS**



**STEP 4:
CLOSE THE GAP
AND TRACK
PROGRESS**



**STEP 5:
SHARE LEARNINGS**

Key steps of the Roadmap for your concept development

Work on living income benchmarks and validation can be picked up at the sector level, to ensure cost-effectiveness and an aligned approach on measuring the size of the gap.



STEP 2 Assess the Living Income Gap

Gather comprehensive income data for your priority area(s), including actual income and income drivers, to identify the living income gap.

Result: Clarity on size of gap and a direction for your actions.



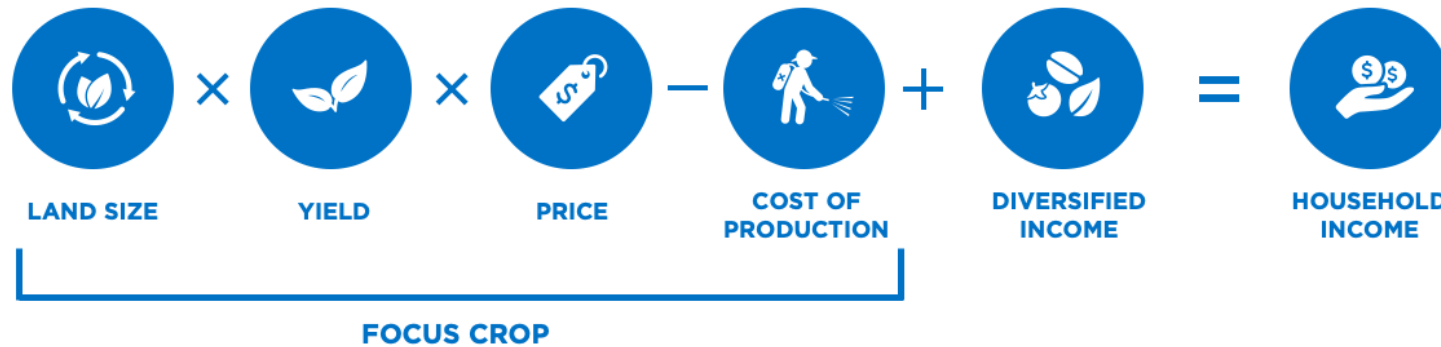
STEP 4 Close the gap and track progress

Work towards improving the current situation to achieve a decent standard of living for farming households, by implementing targets and action plans together with partners. A combination of interventions should be used.

Result: Solid targets, action plans and partnership goals towards closing the living income gap.

The benefits of a data-driven approach for project design

The actual income of a farmer household is composed of diverse income streams: **the income drivers**. Income drivers form a key part of the data you will need. To obtain actual household income, IDH recommends collecting data on the income drivers to understand the total household income, the contribution of the focus crop to total income, and to have useful data that will drive strategic action to close living income gaps.



- Focus crop land size
- Focus crop yield
- Focus crop price
- Focus crop cost of production
- Diversified income

- To identify the living income gap, you will need access to **farmer income data which could be found from a range of sources**: within your company’s database, amongst your partners, and/or through publicly available data. You may find that data points are missing. If needed you can use secondary data to estimate actual incomes and living income gaps. IDH can support you in defining what data you have available, and what is still missing.
- It is possible that data might need to be collected, either through surveys, Farmer Field Books or other means. Each data collection approach has pros and cons related to accuracy, reliability, representativeness, time and cost – for data collectors and farmers. **IDH has tools to support data collection (see slide 10)**
- **Don’t let perfection get in the way of progress.** Take action based on what you know. Make a commitment to use more specific, accurate and/or detailed information as you progress.

Translate income drivers into project proposals

A set of questions to link your project and ideas to closing the living income gap

An income driver approach enables partners to initiate, improve and combine interventions that are most impactful and feasible for farming households. The following questions can help guide an initial basic assessment of relevant interventions:

- Which interventions can we leverage to realise improvement for each driver?
- Are the interventions aimed specifically at driving incomes or are there other intentions?
- What assumptions are we making on how interventions can impact one or several income drivers?
- What combination of interventions are needed to increase the impact on incomes?
- Which partners can be leveraged to strengthen interventions/enabling environment to realise improvement for each driver?
- To what extent do interventions take an inclusive household perspective especially towards women?



Multiple strategies and activities can help closing the living income gap

Linking income drivers to interventions and project proposals

- A combination of income drivers, or “smart mix interventions”, is required to increase farming households’ income through a variety of drivers.
- This mix recognises there is more impact by **influencing all drivers in combination** rather than only a few in isolation, with value chain actors having specific influence over certain interventions.
- This will not be the same mix for all beneficiaries in the project. Determining this, requires **segmentation** of farmers to inform more effective strategies. The more refined the segmentation, the more relevant the smart mix interventions will be. Segments are groups of farmers with similar characteristics.



Farm Productivity

- Access to Finance (including women)
- Professionalisation of Cooperatives
- GAP Training (including women)
- Access to inputs and infrastructure
- Access to crop insurance
- Rejuvenation and renovation



Pricing

- Guaranteed off-take agreements & minimum guaranteed pricing
- Market price discovery mechanisms
- Premiums on top of Farmgate prices, Certification
- Living Income reference price on top of premiums
- Flexible living income premiums
- Access to Digital Payment



Production Costs

- Access to quality and affordable inputs: fertilizer, planting materials, crop protection, irrigation
- Access to affordable labour
- Access to land tenure security
- Mechanization



Farm Income Diversification

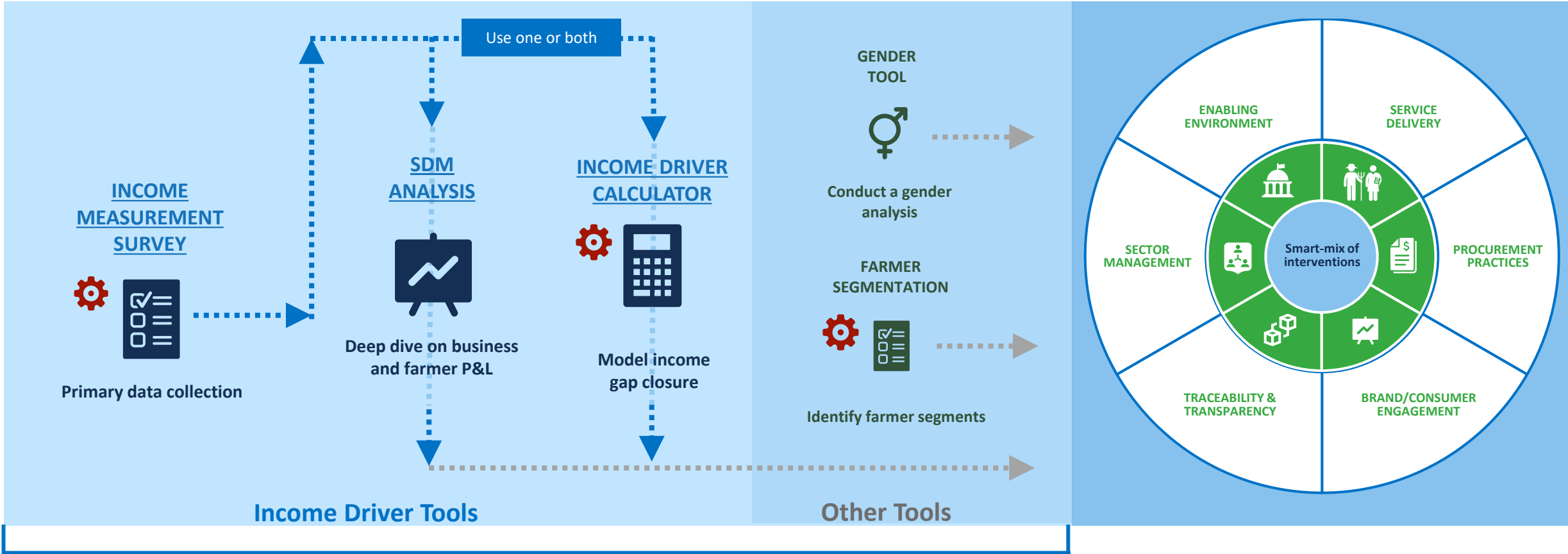
- Examples of diversification options include (1) Other crops; Livestock; Agroforestry (2) Enterprise income (e.g. starting a shop).
- Investing in women entrepreneurship (eg IGAs, VSLAs)

Interested in using one of the tools? For more information, contact the IDH team.

IDH toolkit to drive smart-mix of interventions

Through co-funding and sector-level work, IDH can deploy existing tools to gain insights in income drivers and the living income gap

 Tools being tested  More tools are under construction



Alignment and comparability across projects and sectors



For more information, please contact Marlies Huijssoon:

Huijssoon@idhtrade.org

[The IDH Roadmap on Living Income](#)