

Executive Summary:

Accelerating change through our global coalition on living income: Building a framework for action

May 25, World Economic Forum, Davos





Growing inequality threatens livelihoods and the stability of the global economy; rising food and energy prices, the ongoing pandemic, global conflict and the climate crisis only exacerbate the problem. In agricultural supply chains, inequality manifests itself in many smallholder farming communities where poverty is fueled by inadequate income and few productive alternatives. Finding pathways to achieve living incomes with smallholders is high on the inequality agenda.

A living income is when a household generates enough income to support a decent standard of living. Currently, smallholders in global supply chains fall short of a living income. The resulting income gap translates into hundreds to thousands of dollars on a monthly basis.

Global supply chains are complex and often opaque, which can lead to uncoordinated and varied results in efforts to close income gaps. Large scale action requires coordination among a diverse set of stakeholders, including farmers, farmer organizations, traders and processors, manufacturers, retailers, governments in producing and consuming countries, investors, financial service providers, NGOs and civil society.

IDH introduced the [Living Income Roadmap](#) to support stakeholder from the private and public sector, investors and financiers, NGOs and civil society organizations to close living income gaps with farmer households using a range of steps, guidance questions, and data-driven tools. IDH and Wageningen University & Research are now teaming up with stakeholder groups to co-create a Multi-stakeholder Framework for Action on Living Income.

The framework will identify critical pathways for improvement, ideas for effective interventions, and suggestions for collaboration among stakeholders that can dramatically improve income for different types of farmer households. The framework will be rooted in a shared understanding of the challenges and opportunities for improvement among different stakeholders. This understanding will help to clarify the roles and responsibilities of each stakeholder group on an individual basis, and in concert with each other. The framework will be a key tool for step 4 (taking action) of the Roadmap.

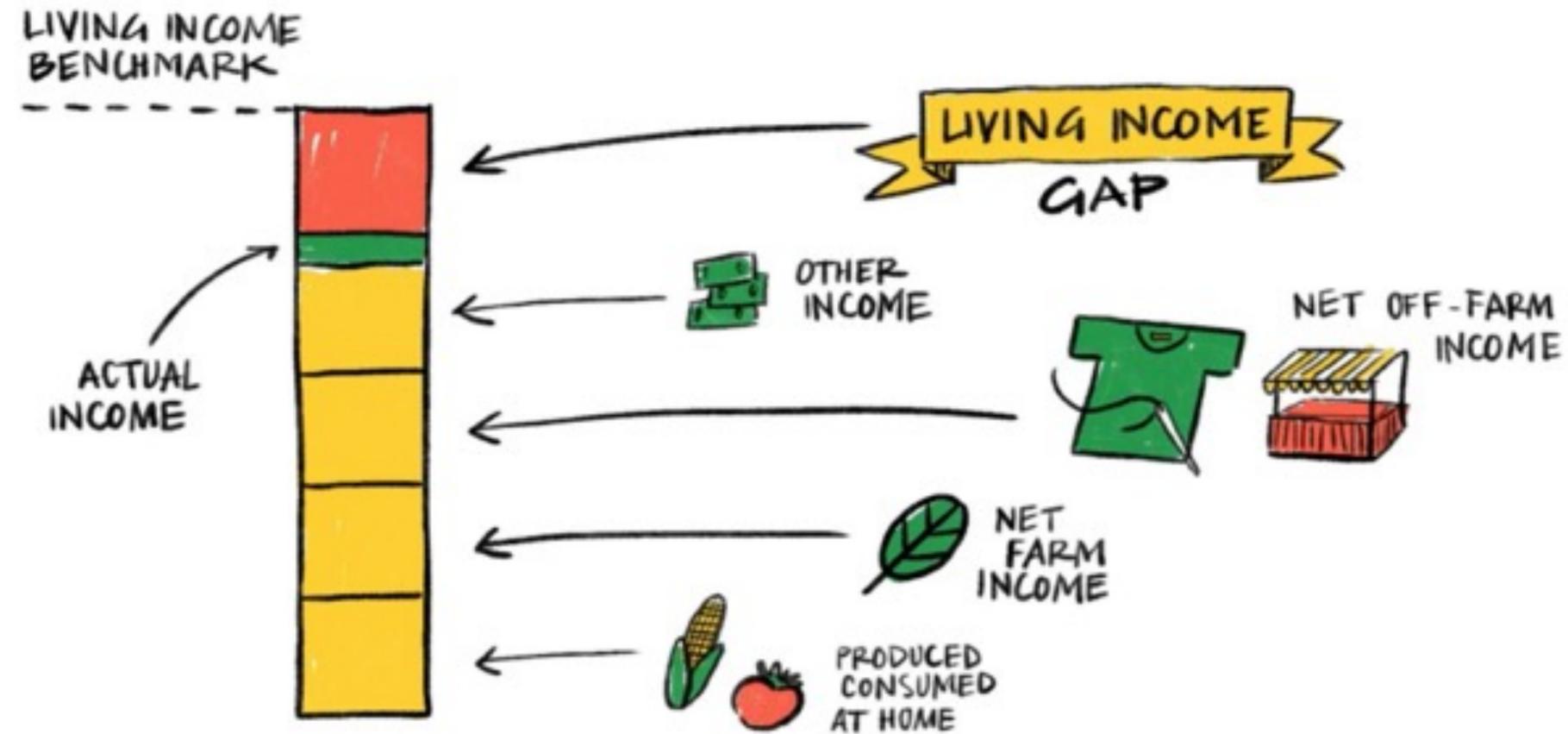
The latest step in our journey occurred on May 25 at a session in Davos with her Majesty Queen Máxima, Special Advocate for Inclusive Finance for Development (UNSGSA), gathering with key leaders from the private and public sector to accelerate action on living income. The inspiring and fruitful discussion focused on individual and collaborative efforts to close living income gaps. The session also contributed to the co-creation process of the multi-stakeholder framework for action.

This document includes the key take-aways from the session and the next steps in the co-creation process.

What is a living income for farming households

A living income is when a household generates enough income to cover all expenses for a decent standard of living such as, food and housing, education, transportation, as well as provision for unexpected events.

The living income gap is the difference between what's needed for a decent standard of living and what a household earns.



Multistakeholder Framework for Action

Current State

Large living income gaps, climate & natural resource crises, inequality

Root Causes

Patterns:

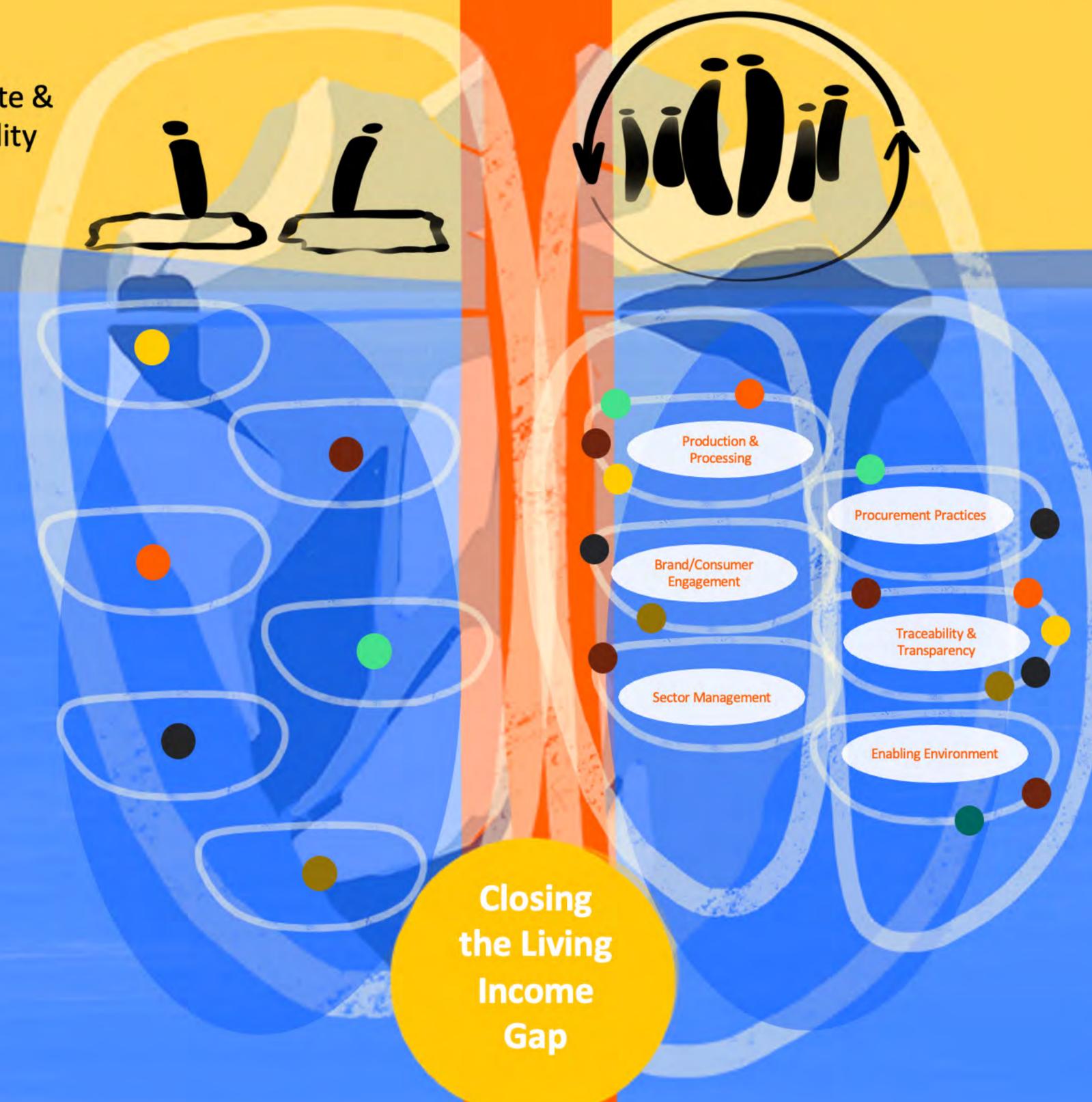
Focus on productivity, unfair distribution of value and risk in supply chains and between societies, blaming other stakeholders, withholding data and information

Structures:

Misaligned institutions and companies (company: separation of procurement & sustainability), power imbalance between Global North-South

Thinking:

Individual actors and independent actions can solve the problem



Future State

Families earn a living income, natural resources are conserved, socio-economic equality

Practical Actions

Patterns:

Value and risk are fairly distributed, collective action among stakeholders, radical transparency

Structures:

Institutional alignment within and between actors unlocks catalytic action

Thinking:

Stakeholders take independent and aligned actions where they can lead, influence and invest

Closing the Living Income Gap

Key take-aways

1

The need for a shared understanding

Successful efforts to close living income gaps will be based on a shared understanding of the system and systemic action. Participants highlighted a variety of systemic issues and possible actions, including:

- **Inequitable distribution of value** – Smallholder households often receive a very small percentage of the total profit created in value chains. More equitable value distribution could take place for example at the time of purchase or through direct cash transfers.
- **Shared risk** – Smallholder households shoulder the greatest burden of risk in supply chains, yet they are the least prepared to manage it. Insurers could play an important role supporting farmers to manage risks associated with price volatility, crop loss and a changing climate. Risk can also be better distributed with innovative procurement practices, transparent pricing mechanisms or longer-term contracts. Climate adaptation measures can help smallholder households adapt to climate risks.
- **Existing market mechanisms** – Price discovery in many commodity sectors, such as cocoa and coffee, is often de-linked from the physical product, which allows for heavy speculation. Addressing the deficiencies in existing market mechanisms, such as the ICE and LIFFE futures markets, will allow us to address one the root causes of inequality.

2

The need for all to contribute

Transformation of the existing system hinges on the development of smart mixes of interventions by the entire supply chain and key enablers, such as governments and financiers. Beyond the stakeholder groups identified in the introduction, there are four other important stakeholder groups to consider:

- **Consumers** play a key role in demanding that companies support a living income for smallholder households.
- **Insurers** can help smallholder households to manage agricultural risks and health, disability and death risks.
- **Telecoms** can facilitate digital payments and support farmers as they develop their digital identities to access financial and other services.
- **Digital platforms** can transform the sector by providing affordable service delivery to smallholder households at their doorstep and at scale.

The need for a holistic approach

In highly volatile markets, financial inclusion and production support are insufficient for closing income gaps. Households face a wide variety of shocks that extend well beyond production, including life events (birth, marriage, sickness, death) and external shocks (price, climate, policy change). Holistic solutions could help them effectively manage cash flow, become food secure, adapt to climate change and invest in their farms.

For example, with increases in food insecurity, farmer support for local food production can contribute to household and regional food security. Similarly, an increase in prices for key import crops provides an opportunity to focus and promote consumption of nutritious alternative food crops. Local government can promote these alternatives locally and companies support smallholder households through services that enable them to invest in producing these alternative crops.

Regenerative agriculture is another holistic solution that can support smallholder households to adapt to climate change and maintain production. Though such a transition needs time and finance, companies that are offsetting their carbon footprint can direct their investments towards areas where they source their products to support this transition.

3

The need for trust that drives innovation

Regardless the approach for closing income gaps, strategies will require collaboration built on trust and appreciation for the role of each stakeholder. Interventions focused on productivity and premiums have proven insufficient. Impact requires concurrent actions from multiple stakeholders. For example, collaboration between governments and the private sector could lead to new traceability systems that are harmonized for efficiency and support alignment on actions among stakeholders.

Moving forward from Davos

There was a lot of energy amongst the participants of the Living Income Session in Davos to get into action. The overview below shows some of the key action points highlighted by participants:

Catalyze sector-wide dialogue to tackle systemic issues

“Alongside investing in our holistic Cocoa Life program to help address the root causes of the challenges cocoa farming households face, we will catalyze sector-wide dialogue and action to tackle the systemic issues such as living income and help transform the sector.”

Cathy Pieters, Vice President Sustainable Ingredients, Mondelez

Invest in business models where profitability is aligned with decent livelihoods

“We look to invest in sustainable agribusinesses with business models whose profitability is aligned with decent livelihoods for small farmers. This could be through resilient supply networks and partnering with providers of patient capital that allows for innovative financing structures that match investment horizons and risk/return profiles with the special demands of the agri-sector.”

Mope Ogunsulire, Partner, Sahel Capital

Increase scale of current actions and focus on strengthening local markets and increased market linkage

“We believe that for any of our sustainable actions to truly make a difference, it must be through large-scale transformation. We focus on subsidized farm-inputs, supply chain mapping and working with Farmer Producer Organizations to strengthen local markets and increase market linkage.”

Milan Shah, Managing Director, Jayanti

Improve smallholder capacity to withstand internal and external shocks

“One Acre Fund will continue to innovate with sector stakeholders to improve smallholder capacity to withstand shocks. Asset growth and diversity, as well as an appropriately-designed insurance product and additional safety nets, are all essential for reducing farmer risk – a prerequisite for achieving food security and a living income.”

Sarah Lahaye, Director, Sustainable Food Systems Innovations & Partnerships, One Acre Fund

Create a new market mechanism that facilitates transparency, a fairer price to farmers and differentials for specific origins

“The absence of market-transparency is a major threat to the implementation of a decent income for cocoa/coffee farmers.”

Michael Ndoping, Director General at ONCC/NCCB Cameroon

Next steps

Following the successful event in Davos, IDH and WUR will continue the co-creation process for the Multi-stakeholder Framework for Action via bilateral conversations and through the upcoming [Living Income Summit](#) to be held June 14 in Amsterdam.

Following the summit, we will further collaborate with the Living Income Community of Practice and the different stakeholder groups through a series of workshops to further sharpen and build the Multi-stakeholder framework for action.

Once the general framework is developed, we will co-host, together with key partners from the public and private sector, NGOs and CSOs sector specific discussions that will account for the context specific factors. The completed Multi-stakeholder Framework for Action is projected to be launched by Autumn 2022.





Participant overview

Her Majesty Queen Máxima, Special Advocate for Inclusive Finance for Development (UNSGSA)

Pia Tayag, Executive Director, UNSGSA

Magdi Batato, Executive Vice President Head of Operations, Nestlé

Reginaldo Ecclissato, Chief Operations Officer, Unilever

Milan Shah, Chief Executive Officer, Jayanti Herbs & Spices

Andrea Illy, Chairman, Illycafé

Cathy Pieters, Vice President Sustainable Ingredients, Mondelez

Gilberto Tomazoni, Chief Executive Officer, JBS

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

Michael Ndoping, Director General, ONCC/NCCB Cameroon

James Gomme, Director, Equity Action & Member of the Extended Leadership Group at the World Business Council on Sustainable Development

Sarah Lahaye, Director Sustainable Food System Innovations & Partnerships, One Acre Fund

Mope Ogunsulire, Partner, Sahel Capital

Ashley Dorrington, Director or Public Affairs and Sustainability, Standard Chartered Bank

Daan Wensing, CEO, IDH

Iris van der Velden, Global Director Innovation & Insights, IDH

Judy Zwinkels, Director Communication, IDH

Yuca Waarts, Wageningen University & Research