

Demystifying Income Drivers- Diversified Income

Terms of Reference (TOR)

IDH, March 6th, 2023

1. Background on IDH

IDH is an organization (Foundation) that works with businesses, financiers, governments, and civil society to realize sustainable trade in global value chains, including cotton, coffee, tea, cocoa, palm oil, food crops and food ingredients. We believe that action-driven coalitions will drive impact on the Sustainable Development Goals and create value for all. We currently reach over 4 million farmers in 30 countries.

In global agri-commodity supply chains, many smallholder farmers do not earn a Living Income (LI). There is a gap between what farmers currently earn and the level of income required for them to afford a decent standard of living for all members of their households. Closing this Living Income gap is increasingly seen as a key factor through which other social and environmental issues can be addressed. In many sectors this has driven the increasing momentum among value chain actors to address the LI gap.

IDH has been a frontrunner in bringing Living Income issues to the forefront of sustainable livelihoods. IDH is a recognized leader, having supported numerous companies in their journeys to close Living Income gaps in their supply chains. IDH has also spearheaded several initiatives to drive sector-wide industry action on Living Income. IDH's efforts have resulted in the creation of several landmark industry commitments to close Living Income gaps in various key sectors (e.g. Cash crops, food grains, spices, floriculture, fruits and vegetables, aquaculture).

Recognizing that value chain actors may not take effective action through commitments alone, IDH has gone to great lengths to contribute to a supportive environment. Through the initiation of programs and provision of practical tools such as the *Income Driver Calculator* and *Income Measurement Survey*, these actors are supported in their efforts to address Living Wage and Living Income issues in their supply chains. IDH's dual capacity to drive sector-wide commitments on Living Income, while offering support to practically implement these commitments, has proven successful.



2. Background on Better Income

IDH has 4 broad impact themes – Better Jobs, Better Income, Better Environment and Gender. IDH is working to secure Better Income for smallholder farmers in several sectors and landscapes. IDH's Better Income impact pathway has three categories of Better Income:

- **More income** for women and men to be able to alleviate poverty towards a living income.
- **Stable income** to be resilient against shocks and other risks throughout and over the years
- **Equitable income**, to ensure that men, women and youth have equal chances on a better income while not harming the environment, local communities and generations to come.

IDH follows a sector agnostic **Income Driver framework** to access and support the design of effective interventions to improve household incomes towards the broader goal of closing Living Income gaps. The framework consists of 5 Income drivers – Land, Price, Volume, Cost of Production and Diversified Income. Each of these income drivers has a significant influence on household income, and they are often inter-connected.



The scope of this assignment will deal primarily with the income driver of diversified income and the following information may be useful for building some context.

Diversified income refers to sources of income in addition to the focus/primary crop grown by the farmer. It can broadly be classified into on-farm and off-farm income. Diversified income is usually calculated at a household level. Sources of diversified income include on-farm income from non-focus crop, off-farm income through various other activities ex. Wage work, jobs, income from financial activities of other family members and any other form of income.



The ambition for diversifying income varies as we move from a household to system level.

Household level – The ambitions for small-holder households are to maximize incomes earned per household, from an optimal mix of relevant and available income sources and labour utilization. This could be achieved through both on and off farm diversification. Diversification not only generates new streams of income for the household but also helps reduce risks that arise due to over dependency on a primary crop. Diversifying incomes can also allow household to have a steadier cash flow through the year leading to a more stable income. For example, during off season of the primary crop or in the event of a bad season. Diversifying income also can ensure households are able to maximise the utilization of the household workforce.

System level – The ambitions for supply-chain actors are to support smallholder households to earn the highest incomes possible from relevant and available income sources and achieve a living income from all sources, while maintaining or enhancing environmental integrity. For example, a company committing to a social sustainability target may not be able to achieve this by simply improving productivity and offering better prices for the primary crop alone. In certain cases, the ambitions could also be towards value chain development, building loyalty among small-holders to ensure stability in procurement. Or even through strategic sourcing that enables a company to source multiple ingredients to their product from the same household. The ambitions for **government and institutions** can be to ensure overall welfare, meeting political commitments and reaching socio-economic development goals.

At IDH, we strongly believe that multiple actors have a role to play and for systems-change we need to go beyond changing farmer behaviour. Practically, we expect that not only will farmers & farmer groups need to take certain actions, but others will need to share value through investment (value/risk sharing, changes in procurement practice), sector governance, policy, etc.

Please refer to Annex 4. For a more general overview of various actors and what role they can play across the 'Smart-mix' of strategies.

3. Objective of the Assignment

Building on this momentum, IDH seeks to deepen it's understanding of diversified income through extensive secondary and tertiary research. The broad aim of the assignment is to build intelligence, gather evidence and develop an analysis framework (sector agnostic) to promote thought leadership and support IDH in its role to close the income gap among households through changes at production level among farming



households and farming groups, but even more so through changes at sourcing, sector governance, policy, and eco-system levels.

The outputs of the research will directly contribute to the Better Income learning agenda and the development of actionable tools for use by IDH teams and industry partners. The focus of the outputs of this assignment are to inform practical action and not academic debate. The expectations are that the findings are evidence and data-based and are not rooted in assumptions and extrapolations.

4. Scope of the Assignment

This section highlights the expectations from the assignment. The section is further divided into sub-sections based on the varied nature of outputs expected.

The deliverable is fourfold:

1. A word document for the findings of the assignment including analysis framework
2. Powerpoint presentation summarizing key findings and explaining the analysis framework
3. A word document with short summaries of each of the most relevant literature sources
4. An excel sheet organized in the format of IDH's existing 'Evidence Base' for all newly identified interventions

Please note, the assignment's scope would be across all IDH relevant sectors (e.g. Cash crops, food grains, spices, floriculture, fruits and vegetables, aquaculture) and geographies.

The evidence gathered during the assignment can be quantitative, qualitative, or mixed. A balance across the 3 would be ideal with emphasis on quantitative data. When evaluating the available evidence, we would like to include not only academic standard evidence but also evidence found in grey literature (e.g. FAO, World Bank reports). Given the different levels of rigor across these sources we would like the consultant to highlight the reliability of key evidence used.

4.1. Research



The goal of the research is to build a strong evidence-based understanding of all aspects of diversified incomes as an important driver for farmer household incomes among. The research should cover the following (not exhaustive) –

- **Overview for Diversified Incomes**

- a. *Historic trends and developments* in the domain of diversified income in IDH relevant sectors (the role of colonization, political economy, geopolitics, development aid strategies, private sector investments including procurement practices & CSR/sustainability programs and technology advancements).
- b. *Trends and patterns of diversified incomes across various commodities and geographies* over the last two decades with quantitative evidence. Also considering entanglements with micro and macro-economic indicators.
For example – x% of small-holder interventions in Africa target on-farm diversification interventions, Off-farm diversification interventions across Asia have shown a x% impact on household income, comparison of the impact of on-farm vs off farm diversification on household income
- c. *Definitions, categories, segmentations, and types* of diversified income interventions among small-holder farmers along with their prevalence across sectors and geographies (including qualitative evidence such as spread (% wise) across different types of interventions across various geographies). Parameters and drivers for the same.
- d. *Prominent sociological debates* in the domain of Diversified incomes

- **Role of income diversification in achieving better income for smallholders, supported by quantitative evidence, including:**

- a. Positive and negative influence in increasing income and/or closing living income gaps. Support with quantitative evidence and conditions for success.
- b. Positive and negative influence on income stability
- c. Insights on the distribution of risks and benefits of targeting diversified incomes across different populations within the smallholder context, ie women, smallest landholders, indigenous communities, etc.
- d. Methods, tools and/or frameworks to help identify obtainable improvements to diversified incomes among various populations and smallholder contexts

- **Evaluating impact and limitations of specific income diversification strategies** (across different small holder segments)

- a. Payment for Ecosystem Services
- b. Carbon Credits



- c. Conditional and unconditional cash transfers
 - d. Value chain development
- **Role and limitations for producing country governments beyond agricultural based strategies for income diversification**
 - a. Geo-political influences from other governments (including lingering impacts of colonization)
 - b. Schemes for different social service
 - c. Government subsidies and other financial benefit schemes
 - d. Capacity building support (vocational training schemes, entrepreneurship training etc)
 - e. Financialization
- **Designing diversified income interventions (short and long-term) in context of improving household incomes.** (Examples to support the same)
 - a. Parameters for designing effective interventions
 - b. Key drivers/factors for success and failure
 - c. Considerations, challenges and limitations for small-holder farmers while adopting on and off farm diversification strategies
 - d. Role, influence, opportunities and limitations among various actors influencing diversified incomes, for example
 - i. Consuming country government policies on trade, taxation, due diligence, sustainability, investment and/or lending
 - ii. Producing country government policies on social services and subsidies, agriculture, trade, specialization vs diversification; and/or limitations in infrastructure investment due to GDP and debt payments and other geo-political factors
 - iii. Traders on inputs provided, procurement practices, traceability etc
 - iv. Processors and brands on inputs, procurement practices, traceability, risk sharing
 - v. Investors on investing in income diversification schemes on-off farm processing etc
 - vi. Banks on access to finance, innovation in financial products etc.

Please refer to Annex 4 for a more general overview of various actors and what role they can play across the 'Smart-mix' of strategies.

- **Measuring diversified incomes**
 - a. Various Methodologies available for design and assessment
 - b. Recent methodological developments



- c. Cost of production across focus and diversified crops (cost of inputs and labour)
 - d. key indicators/parameters to measure the efficiency and effectiveness of interventions
 - e. Methods/Strategies used by supply chain actors with limitations and challenges.
- **Impact of Innovation and technology on income diversification with evidence on their impact on household income from the last 2 decades.**
 - a. Evidence and insights should include conditions for success, risks and failures of implementation, and unintended consequences.
 - b. Major innovations, digital and non-digital technological advancements. Can be inclusive of small and large-scale reach, from improved farm-level processing technology managed by a household, new developments in national policy (trade, investments), value chains developments and landscape approaches.
- **Synergies and trade-offs between**
 - a. **Diversified income interventions and other income drivers**
 - b. **On-farm Vs off farm** diversified income interventions
 - c. **On-farm diversification interventions and environmental impact**
 - d. **Primary Vs diversified crop** (ex-sharing cost, labour, investment)
 - e. **Short-term Vs long-term effects** (of adopting income diversification interventions)

4.2 Contributing to IDH's Evidence base

IDH has developed an Evidence Base (for internal use) consisting of over 120 small holder interventions and their impact on household income. These interventions are organized and segregated across various parameters (See Annex 1). We would like the research from this assignment to further build on this evidence base as we recognize that some interventions are still missing in this evidence base and for some interventions there are still have gaps in information.

The consultant will contribute to the evidence base by assessment and organization of all interventions that will be identified during the implementation of the assignment in alignment with the structure of IDH's existing evidence base.

We foresee 2 scenarios -

- i. Intervention already exists in the Evidence base - The expectation in this scenario would be to add to the existing information and not reinvent the wheel.



- ii. Intervention does not exist in Evidence Base - The expectation in this scenario would be to define and organise the information in the Evidence base's existing format.

4.3 Framework for analysis

Based on the research, the expectation from the assignment is also to develop a framework for analysis for diversified income. This framework will support IDH and its partners to critically analyse the potential for diversified income to impact household income in a given sector and geographic context. Along with this the framework will also support evaluation of the most promising interventions for diversified income in specific geographic and sectoral context to maximise farmer household income. The framework would be built on the outputs from section 4.1 and 4.2.

The framework should be able to achieve the following:

- I. **Analyse:** Support in analysis on how to evaluate/analyse/identify the current state and desired state of income through diversified sources and to assess its potential to increase household income in any given sector and countries/regions. Potential methods/tools/frameworks to identify feasible levels (quantitative).
- II. **Approach selection:** Support in identifying a short list of interventions/approaches (from the evidence base) to effectively capitalise on the potential of diversified income as income drivers in any given geographic and sectoral context. The framework should be able to help classify interventions and approaches based on lead actor, value creation/value distributional effect, synergies and trade-off with other income drivers and ease of implementation (resources, time and expertise).
- III. **Country/Region specific approach development:** The framework should support the development of informed hypotheses for IDH team and partners on how to evaluate effectiveness of various potential interventions within diversified income in the any given sector countries/regions.

5. Profile of the consultant

The team of consultants need to fulfil the following minimum criteria:

- Expertise in monitoring, evaluation and learning and/or academic research



- Experience with IDH key sectors working on Better Income, including cocoa, coffee, tea, cotton, spices, aquaculture, and food crops
- Expertise in smallholder farming systems and private sector-led sourcing and sustainability initiatives
- Be independent and credible.
- Flexibility to adapt to changing scope.
- Analytical and Result-oriented.
- Critical on quality & reliability of information.
- Dedicated adherence to deadlines.
- Sensitivity how to treat confidential information and cognizant of data privacy regulations.
- Excellent written and spoken English, culturally sensitive, analytical.

6. Proposal

IDH is asking consultants/researchers to prepare a proposal (max. 5 content pages) in which it is explained how the consultant will organize its engagement and team (when applicable) to contribute to the objectives as explained above.

The proposal should at least contain:

- Your understanding of our needs and approach to the assignment.
- Team composition & track record.
- Proposed approach to evidence that balances rigor (I.e. RCTs) with reliable yet less rigorous insights and evidence.
- Proposal and workplan.
- Resource allocation, costs and budget indication per deliverable (man/days).



7. Selection criteria & procedure

The proposal will be assessed based on the following selection criteria:

- Quality of the proposal in line with the scope of work and deliverables of this assignment.
- Demonstrated experience of the team of consultants/researchers.
- Cost-effective budget, detailed per deliverable/service.

The following timelines apply to the procedure and assignment. Selected applicants will be invited to present and discuss their proposals with IDH. The proposal should be submitted to IDH via email by **20th March 2023**. A final decision will be made by the **7th April, 2023**.

8. Contact at IDH

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Annexures

Annex 1 – Parameters for adding information to the Evidence base

Scope of adding information to the existing evidence base would entail the following -

- i. Validate each intervention's categorization of intervention type(s) (see Annex 2 for definitions)
- ii. Validate each intervention's relationship to income driver(s)
- iii. Indicate directional relationship in short term versus long term (if different), e.g. rejuvenation of tree crops reduces yield in short term and increases yield in long term; whereas inputs increase cost of production while increasing yield
- iv. Validate each intervention's function (see Annex 3 for key functions and definitions), including validation of the function definitions and suggestion for additional functions if/as needed
- v. For each intervention, indicate the difference between what is effectively an intervention (extension services), and what is a way of delivering that intervention (digital extension services)
- vi. Validate each intervention's typical impact on income in terms of the way it effects income (more, stable, equitable) and the degree to which that can be achieved
- vii. Evaluate the available evidence of cost and risks associated with each intervention
- viii. Add maximum 10 “design tips” per intervention found in the literature that provides guidance on how the intervention is deployed to achieve the intended result on income, which might include but not be limited to the following:
 - a. Validate and build on common bundled interventions
 - b. Essential features
 - c. Context considerations/requirements
 - d. best practices
- ix. Validate each intervention's lead actor, including further specificity where useful
- x. Indicate where the evidence shows proof of interventions in specific regional or national contexts
- xi. For interventions identified but without descriptions, all categories of data should be developed based on existing evidence
- xii. Clear data sources linked to each intervention.



Annex 2 - Primary type(s) of intervention

Service Delivery/ Production and processing	Engagement between private sector and farmers/farmer groups at origin, focusing on key services such as training (farmers and cooperatives), inputs, financial products, information, processing and storage, equipment and mechanization, certification and market access.
Procurement Practices	Sourcing principles and actions often related to supply chain structure, relationship management and information exchange between suppliers/buyers, and contract terms including and especially pricing and volumes.
Brand/consumer engagement	Efforts around marketing and branding, route-to-market approaches, sales, and other downstream activities and strategies occurring closer to end-product sales and consumption.
Traceability & Transparency	Interventions which, deliberately or not, improve transparency in the supply chain. Often this is for the benefit of the consumer, downstream actors in the supply chain, though sometimes it can also work to the advantage of the producers who gain clearer market access and information.
Sector and landscape management	Voluntary actions by supply chain companies requiring alignment, coordination and/or collaboration across a sector, including traceability, certification, sector management, and landscape programmes. This is often initiated by downstream actors within the supply chain.
Enabling environment	The range of factors that together create the context in which an SDM operates and which can facilitate sourcing and service provision within a value chain, typically including infrastructure, policy and regulatory environment, investor environment. includes activities relating to volume and price management at the sectoral, national or international level.



Annex 3 - Value creation, value distribution, cost minimization and risk mitigation

Value creation	Expansion/enhancement or creation of value for farming households from activities
Value distribution	Change in value distribution across supply chain to the benefit of upstream actors, specifically farming households and/or farmer groups.
Cost minimization	Activities targeting cost reduction specifically, which may or may not contribute to value creation
Risk mitigation	Practices at farm level that are taken to either adapt or mitigate risks such as climate risks, disease risks, production risks

Annex 4 – Smart-mix strategies and role of actors



Annex 5 - IDH & Key Partner Sources for Review (not an exhaustive list)

- IDH Better Income Impact Pathway narrative
- IDH Evidence Base (will be shared upon final selection of the consultant)



- IDH Cocoa Traceability Brief:
<https://www.idhsustainabletrade.com/publication/technical-brief-on-cocoa-traceability/>
- The Sustainable Procurement Kit:
<https://www.idhsustainabletrade.com/sustainable-procurement-kit/>
- MARS Farmer Income Lab publications including but not limited to: Farmer income lab: what works to increase smallholder farmers' income?
- JPAL: <https://www.povertyactionlab.org/initiative/agricultural-technology-adoption-initiative>
- Wageningen University
- Evidensia: <https://www.evidensia.eco/>
- International Initiative for Impact Evaluations:
<https://gapmaps.3ieimpact.org/evidence-maps/agricultural-innovation>
- Agriculture in the Digital Age Evidence Maps:
<https://agricultureinthedigitalage.org/explore-data/>