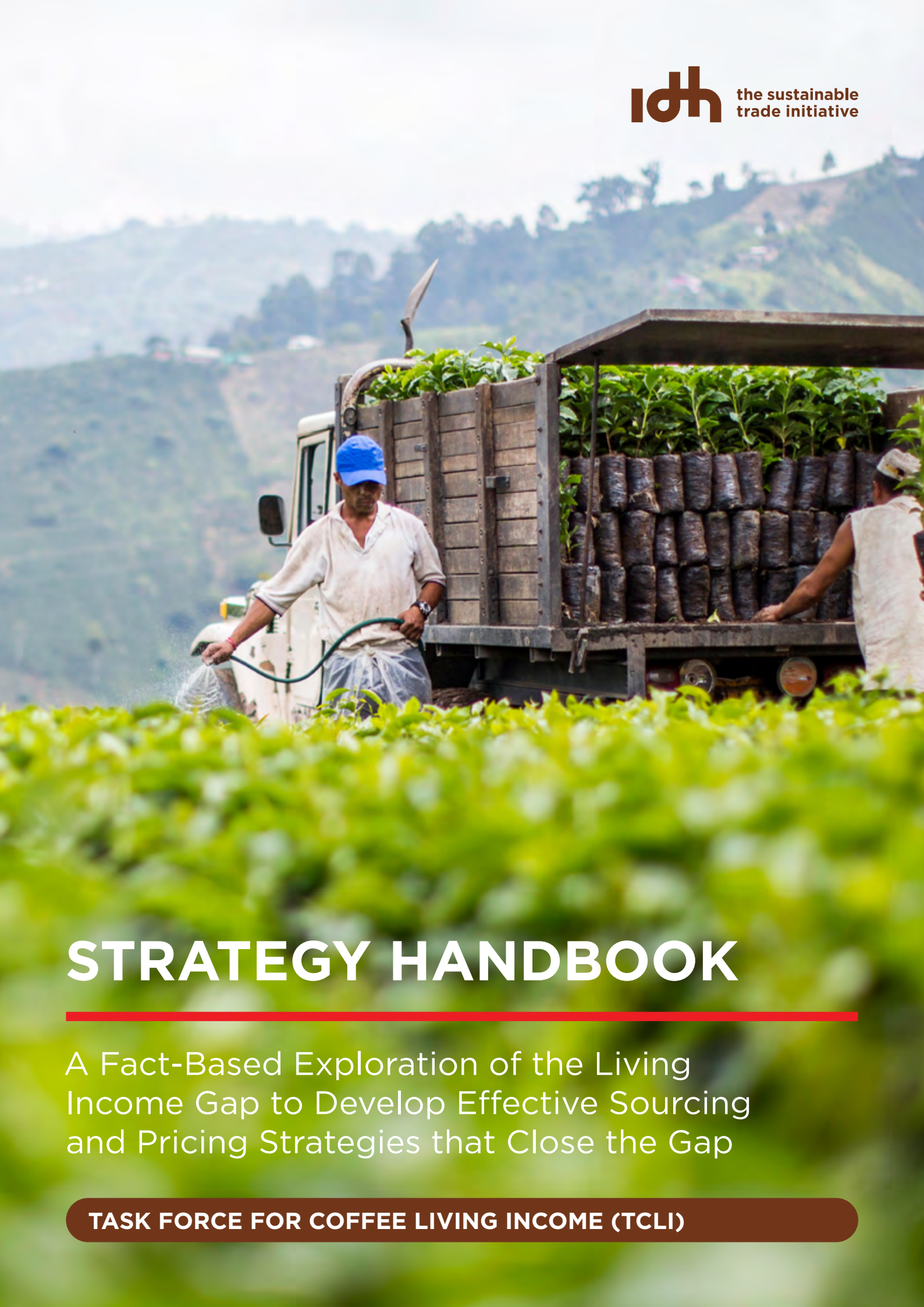


the sustainable trade initiative

STRATEGY HANDBOOK

A Fact-Based Exploration of the Living Income Gap to Develop Effective Sourcing and Pricing Strategies that Close the Gap

TASK FORCE FOR COFFEE LIVING INCOME (TCLI)

Foreword

It is both *critical* and *urgent* to move international commodity markets toward practices that contribute more effectively to Living Incomes and Living Wages.

Coffee is a clear example. The long-term price of coffee in the futures market has remained roughly the same for the last 47 (!!) years, resulting in a massive decrease in farmers´ purchasing power. Growing public pressure has led to retailers and brands to rethinking their pricing and sourcing strategies. Additionally, the threat of future scarcity of coffee (especially arabica), and climate change build a business case for the coffee industry to leverage the full potential of their business practices to contribute to work towards Living Income (and Living Wage) in their value chain.

Since 2013, IDH has piloting business models in several sectors including flowers, tea, fruits and cocoa to work towards Living Wage and Living Income[1]. We recently established IDH Farmfit, which provides technical assistance and insights to improve farmer engagement models to their full impact potential and de-risked finance models to banks and businesses to scale these models

We have proven that reducing the Living Wage gap is possible when all value chain partners are committed and agree on a joint roadmap of concerted, multiple interventions. We have learned along the way that data on Living Wage gaps per country and instruments to identify the role of producers, off-takers and policy makers to close the gap are cornerstones for success. We have documented improvement in smallholder livelihoods in many of IDH's public impact reports.

Still the world is faced with ongoing poverty, especially in rural agricultural communities in developing countries. To mitigate rural poverty, we need to think bigger, look beyond our individual interests and work together. We need scale to accelerate and mainstream. And scale comes from the commitment and engagement of many.

Against this background, we are very pleased with the massive engagement from roasters, trade, producers and NGO's when we began convening this **Taskforce for Coffee Living Income** in May 2019.

We are proud of the report in front of you. It is the result of a collective journey to gather and interpret the current data on coffee farmer income, and to indicate how the Living Income gap can be closed with innovative sourcing practices and enabling policies.

We sincerely want to thank all of the contributing organizations mentioned on page 35 and New Foresight as lead consultant. This report would not have been possible without their valuable contributions of data and insights.

Needless to say that this beautiful report is useless if we don't act on the recommendations and change 'business as usual'. We trust the sector actors and taskforce participants will hold each other accountable for that. IDH is looking forward to working together with all of you to make that happen.

Jordy van Honk,

IDH Global Director Agriculture Commodities Coffee, Cocoa & Tea

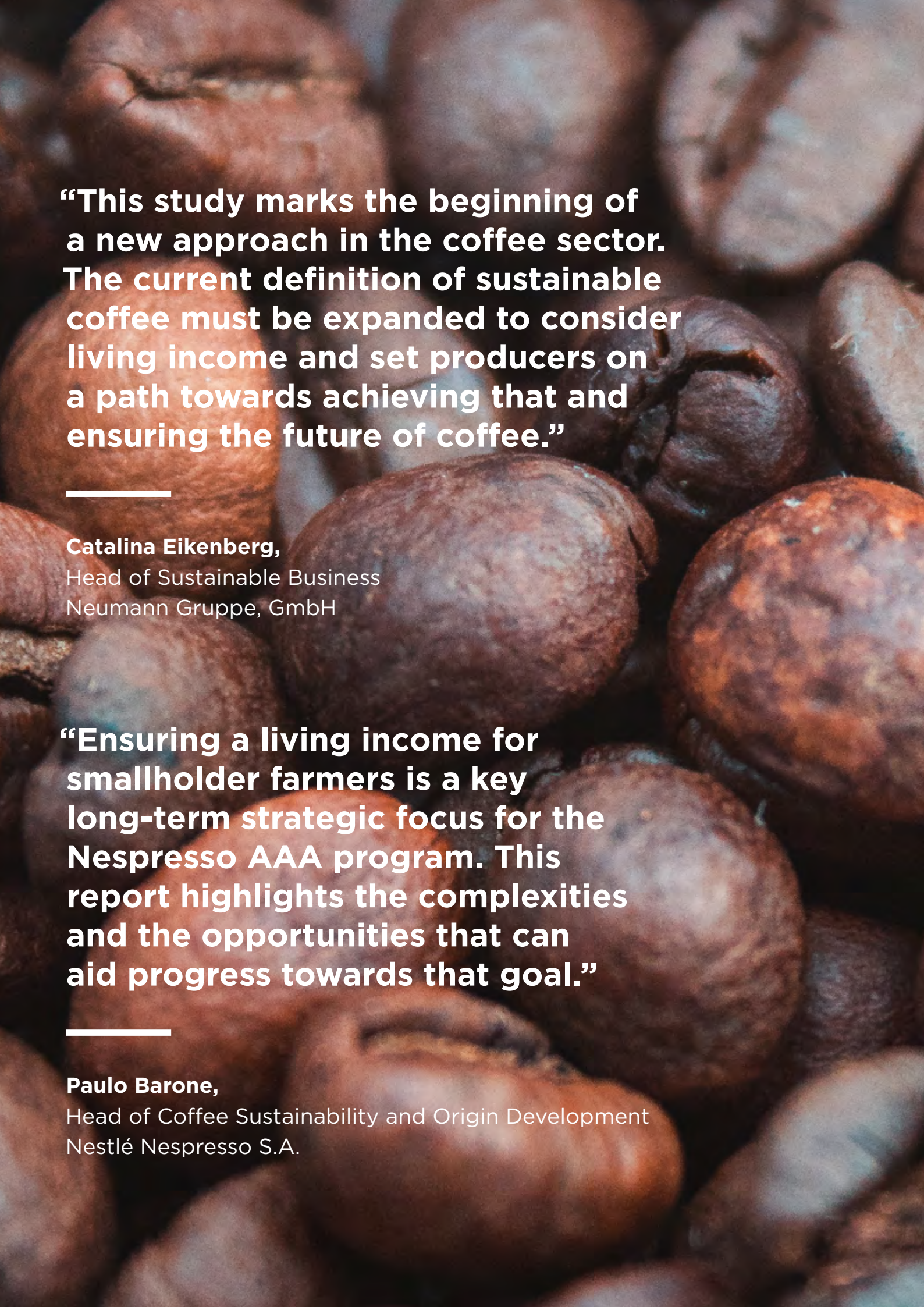
1. https://www.idhsustainabletrade.com/?s=Living+wage

Contents

"The Living Income Community of Practice appreciates the depth of analysis in the TCLI report. The analysis and stakeholder process has tangibly advanced the conversation on closing income gaps in the coffee sector. We remain committed to supporting the TCLI and the coffee sector on methodological and process issues as we move forward."

Christina Archer,
Strategic Adviser
Sustainable Food Lab

On behalf of the Living Income community of practice, co-hosted by ISEAL, GIZ and the Sustainable Food Lab
http://www.living-income.com



“This study marks the beginning of a new approach in the coffee sector. The current definition of sustainable coffee must be expanded to consider living income and set producers on a path towards achieving that and ensuring the future of coffee.”

Catalina Eikenberg,
Head of Sustainable Business
Neumann Gruppe, GmbH

“Ensuring a living income for smallholder farmers is a key long-term strategic focus for the Nespresso AAA program. This report highlights the complexities and the opportunities that can aid progress towards that goal.”

Paulo Barone,
Head of Coffee Sustainability and Origin Development
Nestlé Nespresso S.A.

Introduction

Across the coffee sector, many coffee producers and their families live well below recognized "living income" benchmarks. The Task Force for Coffee Living Income (TCLI) acknowledges this challenge and aims to answer a pivotal question:

What are effective sourcing and pricing practices that coffee companies can adopt to help close the living income gap?

This handbook is a summary of the full report from the TCLI and presents a framework for measuring the living income gap and outlines effective pricing and sourcing strategies for closing the gap. Recommendations are based on the case study of coffee producers in Colombia summarized in Chapter 1 of this report.

The TCLI has identified four distinct sourcing archetypes represented in Colombia. The sourcing archetypes are differentiated through four key characteristics: market segment; sourcing relations along the value chain; value chain structure; and recognition of quality and sustainability. The four archetypes range in the spectrum from conventional, mainstream coffee to specialty coffee and are termed Archetype 1 - Conventional, Archetype 2 - Conventional with product value recognition, Archetype 3 - High value consumer experience, and Archetype 4 - Specialty. The study analyzes the living income gap of producers supplying to each sourcing archetypes and across small, medium, and large producers.

The results of the study suggest that most conventional *small* producers (selling mostly into archetype 1) face an insurmountable living income gap that cannot be solved with technical assistance and price support alone. For *small* producers with more exposure to technical assistance, certification or producing higher quality coffee (archetypes 2 and 3) the living income gap could be narrowed with a mix of higher prices, improved sourcing practices and policy support. *Small* producers of specialty coffee (archetype 4) meanwhile earn a living income due to higher yields and prices. In general, medium and large-scale producers currently earn a living income.

This report is therefore a call to action for companies and policy makers to work together to effectively close the living income gap. Many of these farmers and their families struggle with food security, health and education needs. This report puts forward recommendations of sustainable sourcing and pricing practices within each sourcing archetype that companies are strongly urged to adopt in their supply chains to close the living income gap. While better sourcing and pricing practices can help narrow the income gap, complementary policy initiatives will be needed to help create conditions where producers can achieve a living income.

It is hoped that the work presented in this report can be replicated in other countries to spread the impact across multiple origins. This will require the development of standardized metrics for comparing data among stakeholders and assessing costs of coffee production across origins; sector collaboration to ensure the comprehensiveness of studies and limit data duplication; and a trusted, neutral third-party to conduct the study.

Living income as a goal for the coffee sector

A prolonged period of extremely low coffee prices – often below the cost of production – over the past two years has left many coffee producers with little to show for their work, both in and outside of Colombia.

Since 2016, the global coffee price for Arabica beans (the 'C' price) has decreased 30%.[2] At the same time, the cost of production for Colombian coffee producers, for example, has remained constant, and has even increased in some years.[3] This threatens the economic viability of farming for producers who often rely on coffee for over 70% of their annual income. This has been intensified by a rise in the cost of living for producers.

Due to the asymmetries of economic power, producers remain the most vulnerable to the effects of low and volatile prices, which threaten livelihoods and limit long-term farm investments. Between 1982 and 2018, the 'C' price dropped by 27%. In the same period, roasted coffee in the U.S. experienced an average price increase of 98%.[4-5]

There is a growing awareness of the overlap between farmers' capacity to earn a living income and structural issues in the coffee sector.[6] The Task Force's effort to develop a data-driven approach to living income and assuring the economic sustainability of producers is a vital path for the long-term sustainability of the coffee sector.

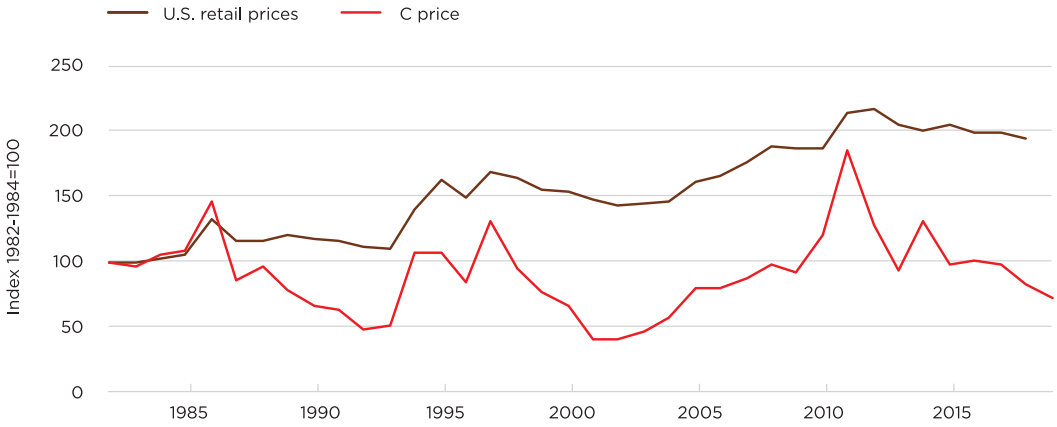
DEFINITION OF LIVING INCOME

"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."

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

Source: *Living Income Community of Practice (2019)*

FIGURE 1: COFFEE WORLD MARKET (GREEN) PRICES (C) VS. CONSUMER PRICE INDEX: RETAIL COFFEE IN U.S. CITY, ALL URBAN CONSUMERS



2. As of Oct 30 2019 where the market closed in at 99 US cents/lb GBE. As of 17 December 2019, the C price has risen again to 133.7 US cents/lb GBE.
3. Solidaridad (2018). Costos de producción de café 2011-2018, p. 30. International Coffee Organization (2016). "Assessing the economic sustainability of coffee growing"
4. Calculation based upon U.S. Bureau of Labor Statistics, Consumer Price Index: Coffee in U.S. City Average, All Urban Consumers [CUUR0000SEFP01], retrieved from FRED, Federal Reserve Bank of St. Louis
5. Macrotrends (Nov. 29, 2019). "Coffee Prices - 45 Year Historical Chart"
6. For example, the signing of the London Declaration in September 2019 by a large share of the coffee sector, explicitly mentions its aim to "enable a living income for coffee producers" (London Declaration, 2019). A few months earlier, the 2nd World Coffee Producers Forum of July 2019 addressed issues such as "growers' economic sustainability" and "the revenue of coffee growers" (WCPF, 2019).

Reaching an equitable sector: Defining a living income for coffee producers

Low income results from many interrelated factors; there are no easy structural solutions to achieving a living income. It requires a systemic analysis of the root causes and long-term action by all key stakeholders.

In recent years great strides have been made across other sectors, such as cocoa, to define and measure minimum-acceptable standards of living for smallholders. This has resulted in internationally recognized approaches to calculating living income benchmarks. Living income benchmarks provide a common language and define a collective target for all sector stakeholders.

The concept of living income

The concept of living income goes beyond traditional notions of poverty alleviation that focus on basic subsistence and survival.

The main difference between a living income and poverty lines is the additional income required for a decent standard of living. This goes beyond traditional poverty thresholds to include education, clothing, savings for unexpected events (e.g. hospital visits), and an increase in access to and consumption of more nutritious food. The living income concept is based on international standards for what constitutes a decent living.

Achieving a living income can derive from multiple sources. In the case of smallholder coffee producers, income can be earned through the sales of a primary crop (such as coffee) and secondary crops, off farm business (for example, laboring on other farms), remittances, and consumption of food grown by the household. These income sources combined equal the total household income available to cover the costs of a decent livelihood.

DEFINITION OF LIVING INCOME AND LIVING WAGE

Living Income: "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."

Source: *Living Income Community of Practice (2019)*

Living Wage: "Remuneration received for a standard work week by a worker in a particular place sufficient to afford a decent standard of living for the worker and her or his family."

Source: *Global Living Wage Coalition (2019)*

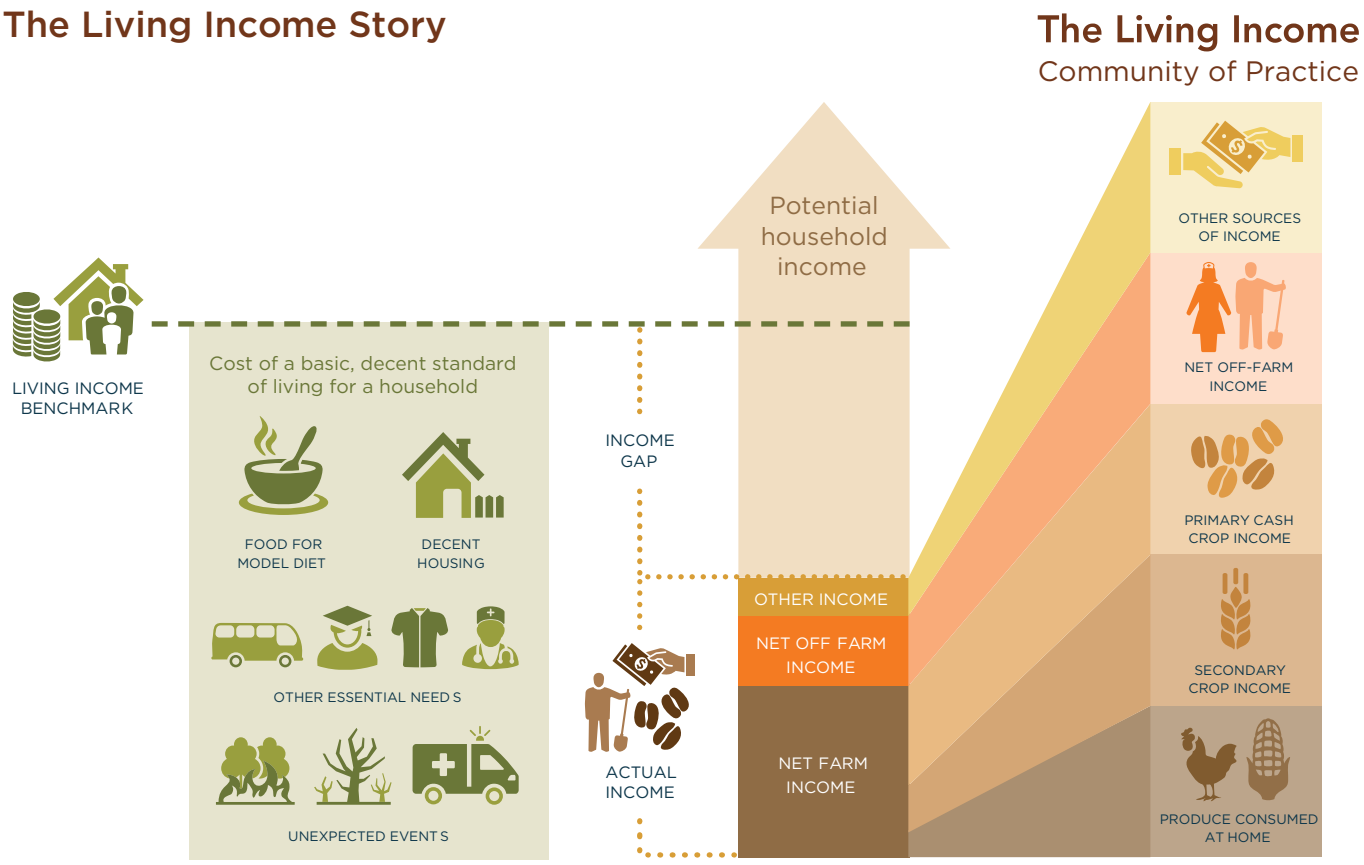
In both definitions, elements of a decent standard of living include food, water, housing, education, healthcare, transport, clothing, and other essential needs, including a provision for unexpected events.

Figure 5 illustrates the concept of a **living income gap**. The living income gap is the difference between the established living income benchmark (see table 1 below for benchmarks in Colombia), i.e. the income level required for a decent standard of living, and the total household income. Thus, the living income gap represents the additional income required to reach a decent standard of living, as defined by the living income benchmark.

“Living income is an important topic for the coffee industry, especially after the long period of low prices we have seen recently. It is obvious that the industry must ensure that farmers are economically sustainable, which means that they can earn an adequate income from coffee. This report aims to address this key challenge with concrete recommendations on different actions to increase farmer incomes, especially for smallholders who represent the great majority of producers and are most at risk.”

Juan Antonio Rivas,
Senior Vice-President & Global Head – Sustainability and Business Development - Coffee
Olam International Limited

FIGURE 5: LIVING INCOME COMPONENTS ILLUSTRATED



For more information and to join the community visit:
www.living-income.com
Contact: livingincome@isealalliance.org

Supported by the Federal Ministry for Economic Cooperation and Development
Implemented by giz Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH

A complex reality: Introducing sourcing archetypes

To acknowledge the enormous differentiation in market segments of the coffee sector and related pricing and sourcing models, we classified coffee buyers and producers organized in different sourcing models into stylized "archetypes" according to the particular end market they serve.

The TCLI analyzes coffee across four (international) sourcing archetypes functioning in Colombia, including Archetype 1 (Conventional), Archetype 2 (Conventional with product value recognition), Archetype 3 (High value consumer experience) and Archetype 4 (Specialty) (see Figure 3).[7]

Attention: *We use the archetypes to better understand the impact of sourcing models on farmer income for various farmer segment. However in reality, coffee produced by a farmer may produce serve a mix of very different market segments and value chains (archetypes).*

Note: *Detailed descriptions of each archetype is provided in the full report*

Members of the Task Force provided the majority of the data for this study. Aggregation and classification by sourcing archetypes respects the privacy of individual companies and yields important insights that cannot be gained by treating coffee as a singular product. The four sourcing archetypes are differentiated through four characteristics: market segment; sourcing relations; value chain structure; and recognition of quality and sustainability.

Market segment refers to how the coffee is marketed and ranges from pure commodity to specialty product.

Sourcing relations cover the nature of the sourcing contracts between buyers and producers, ranging from low visibility, short-term to high visibility (and hence traceability), long-term commitments.

Value chain structure refers to the complexity and number of actors in a coffee value chain.

Recognition of quality and sustainability entails the degree to which quality and sustainability requirements and premiums result in additional value creation with the coffee product.

7. These archetypes have been designed for the case of Colombia; however, it is assumed that the core segmentations apply across origins and can therefore serve as the base for subsequent analyses in other origins (see also chapter 5 on the replicability of this study to other origins)

FIGURE 3: OVERVIEW OF SOURCING ARCHETYPES FUNCTIONING IN COLOMBIA

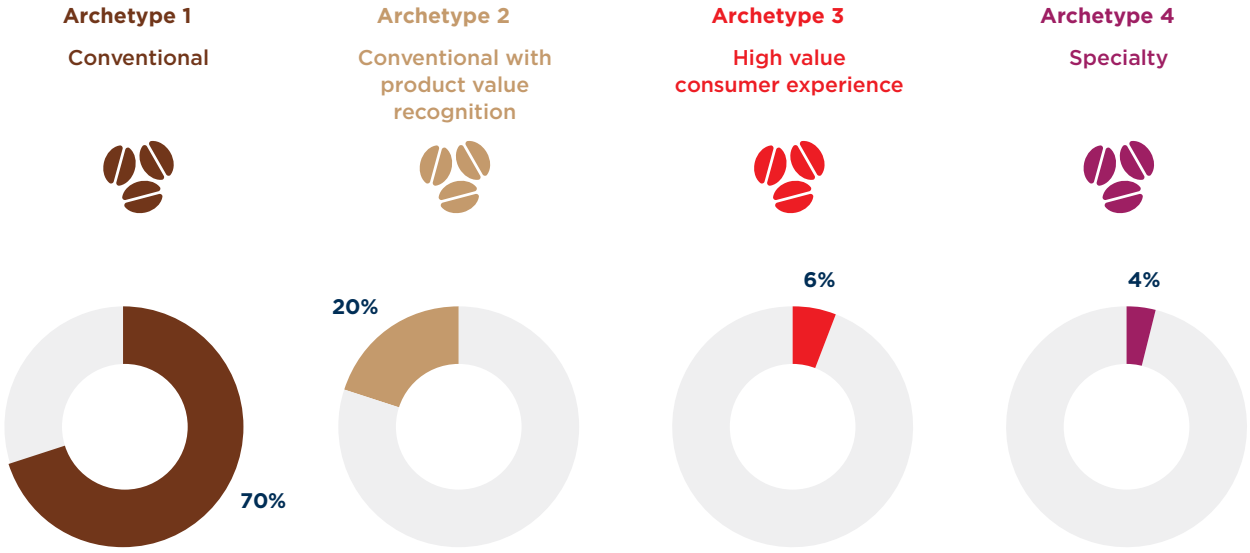
CHARACTERISTICS

	ARCHETYPE 1 Conventional	ARCHETYPE 2 Conventional with product value recognition	ARCHETYPE 3 High value consumer experience	ARCHETYPE 4 Specialty
Description	Coffee sold in ground blend with relatively minor brand premium to end consumer. Traded in long value chain, via middlemen, without any direct relation with producers and little to no transparency.	High Volume – often certified coffee – where product qualities and transparency are (partly) being valued. Roasters work with selected traders, often in longer-term relationships.	Aiming at single-serve market segment, importance is paid to brand name and inherent sustainability strategy. Traceability and long-term relations play important role.	Specialty coffee catering high-value niche consumer market, mostly sold in coffee shops. Roasters buy directly from producers or with minimal actors, offering long-term contracts and often supporting on-farm improvements.
Market segment	PURE COMMODITY – SPECIALITY	PURE COMMODITY – SPECIALITY	PURE COMMODITY – SPECIALITY	PURE COMMODITY – SPECIALITY
Sourcing relations	SHORT-TERM – LONG-TERM	SHORT-TERM – LONG-TERM	SHORT-TERM – LONG-TERM	SHORT-TERM – LONG-TERM
Value chain structure	SHORT VC – LONG VC	SHORT VC – LONG VC	SHORT VC – LONG VC	SHORT VC – LONG VC
Recognition of quality and sustainability	SEPARATE – INTEGRATED	SEPARATE – INTEGRATED	SEPARATE – INTEGRATED	SEPARATE – INTEGRATED

Note: *The chart organizes various coffee trading practices into logical archetypes. In reality numerous variations can be found of the archetypes and their underlying characteristics. Individual companies are likely to find themselves sourcing among multiple archetypes.*

It is estimated that roughly 70% of the world's coffee production is sourced and marketed within sourcing archetype 1. Coffee traded as archetype 2 represents roughly 20%, archetype 3 represents 6%, and archetype 4 accounts for 4% of global production. The percentages will differ for Colombia being a "high-quality origin" with relatively less archetype 1.

FIGURE 4: ESTIMATES OF GLOBAL VOLUMES OF THE FOUR SOURCING ARCHETYPES



Note: *The figures above are rough estimates based on interviews with industry representatives*

The state of the Colombian producers:

Measuring the cost of production, establishing the living income gap

The recommendations in this report are based on an extensive analysis of the costs of production and the living income gap among coffee producers in Colombia. Reference data for this study was based on three living income studies conducted in Colombia, as well as data from TCLI members, interviews and bilateral dialogue. The analysis resulted in the following findings:

A COMPLETE ANALYSIS OF THE RESULTS CAN BE FOUND IN THE FULL STUDY.

The living income gap for most small conventional producers in Colombia (0.5 - 5 ha) who sell into archetype 1 is too large to be solved with technical assistance and price support from buyers alone.[8] According to available data, a small average conventional producer would need to cultivate 12.4 hectares of coffee to reach a living income. Even under a very optimistic scenario with a simultaneous increase in yield from 910 to 1,183 kg GBE/ha (30%) and farmgate prices from 1.01 to 1.32 USD/lb GBE, a producer would not earn above the poverty line.

Producers with more exposure to technical assistance, certification or producing higher quality coffees (archetypes 2 and 3) could narrow the living income gap through a mix of higher prices, good sourcing practices, and public policy changes. The small average producer of specialty coffee (archetype 4) currently earns a living income.

The average archetype 2 producer could reach the poverty line with a simultaneous increase in yield from 1,325 to 1,590 kg GBE/ha (20%) and farmgate price from 1.03 to 1.24 USD/lb GBE. The *average* small archetype 3 producer would reach the poverty line with current yields of 1,530 kg GBE/ha and an increase in farmgate price from 1.09 to 1.31 USD/lb GBE; a living income would require an increase in farmgate price to 1.53 USD/lb or an increase of *both* yield from 1,530 to 1,836 kg GBE/ha (20%) and farmgate price from 1.09 to 1.31 USD/lb GBE (see figure 14).

TCLI data shows that 32% of the archetype 2, 3 and 4 producers earn an income above the poverty line, while 18% make a living income. The small *average* producers producing to sourcing archetypes 2 and 3 seem to be within reach of the poverty line, which can serve as an intermediate milestone to a living income.

The TCLI data suggests that the *average* medium archetype 3 and 4 producers earn a living income. The average large producer within archetypes 2, 3, and 4 all make a living income. This is primarily a result of the considerably larger farm size. An *average* medium archetype 2 producer faces a negligible living income gap that can be closed with an increase in farmgate prices from 1.03 to 1.14 USD/lb GBE *or* an increase in yields from 1,406 to 1,546 kg GBE/ha (10%). It is important to note that medium and large farms represent just 4% of the total Colombian coffee-growing area (across the four sourcing archetypes).

The TCLI results are indicative of the conditions for average producers and should only be used as an indication. The full report provides sensitivity analyses that test the robustness of the results under varying combinations of yield and price.

8. Within this report, small farms are defined as farms with coffee in production on 0-5 hectares. Medium farms consist of farms between +5 and 15 hectares. Large farms are considered above 15 hectares of coffee production.

Living income benchmarks are calculated for a four-person household. A larger farm may need to care for a larger family, which leads to a higher living income threshold. The data does not provide the level of detail needed to analyze this further.

Living Wage requires additional analysis: The TCLI data did not include a level of detail to analyze whether living wages were paid to laborers which, in turn, would potentially increase the cost of production.

Recommendations for closing the living income gap

This report is a call to action for companies to implement and scale sourcing and pricing practices within their value chains that can narrow the living income gap.

However, sustainable sourcing and pricing practices alone are insufficient for resolving the systemic issues of the coffee sector. They must be accompanied with effective, complementary policy initiatives that can create an enabling environment where producers can earn a living income.

The recommendations are divided into two sections, the first focusing on actions that companies can take toward closing the living income gap and contributing to better livelihoods. Recommendations in this section are organized according to the archetype where they would have the greatest potential for impact, however many of the recommendations can be applied to multiple archetypes. For example, we can assume that regardless of the archetype, producers can benefit from professionalization in larger economic clusters and from customer recognition of sustainable practices and quality. The second section provides input on sector-wide policies needed to create an enabling environment for achieving living incomes.

It is important to note that any of the actions recommended in this chapter must to be accompanied by a comprehensive understanding of the contextual and personal factors (e.g. culture, and producer-specific needs and aspirations) that may impede adoption of certain practices. Actions taken by a company, in a sector or at the government-level should be guided by an in-depth understanding of the economic and social situation, and the potential of households and producer groups. This will enable the design of more effective interventions and policies with a higher rate of success.

Note: *Detailed explanations of each recommendation are provided in the full report.*

On the importance of transparency

Transparency is necessary for the implementation of any of the following recommendations. Increasing sector transparency on the costs of production and living income contributes to more accurate benchmarks in origin countries and ensures a common understanding across the value chain. This leads to a greater understanding of the scope and scale of the living income gap, provides for informed decision-making, and enhances producers' bargaining power. All value chain actors must consider the promotion of sector transparency[9] on the cost of production and living income conditions (i.e. cost of a decent standard of living, anonymized actual income estimates).

The results in this report were only made possible thanks to strong contributions by important trade and industry players, and sector representatives, such as the National Federation of Coffee Growers of Colombia. In other origins, publicly available data is more limited and more sector collaboration is needed to align on methodology for measuring living income gaps to increase the common understanding of the challenge. Similar sector collaboration is needed in all origins to align on a methodology for measuring living income gaps and creating a common understanding of the challenge. Establishing collectively-agreed, standardized metrics on how and what to measure for costs of production can aid this process.

Value chain actors are also strongly encouraged to contribute to the work within the Living Income Community of Practice. Companies could partner with benchmarking organizations and (local) governments to support living income benchmarking and precompetitive sector baselines on actual incomes, as done in the West African cocoa sector.[10] This collaborative approach ensures that the benchmark can be used by all supply chain actors, as well as other stakeholders in the area.

GOOD PRACTICE DEEP DIVE: TRANSPARENCY

THE GLOBAL COFFEE DATA STANDARD

The project is a collaboration among the Global Coffee Platform, COSA, Rainforest Alliance, and Waterwatch Cooperative, and funded by the ISEAL Innovations Fund.

The aim is to streamline the collection of data across the coffee sector, reduce data transaction cost, and enable comparable reporting.

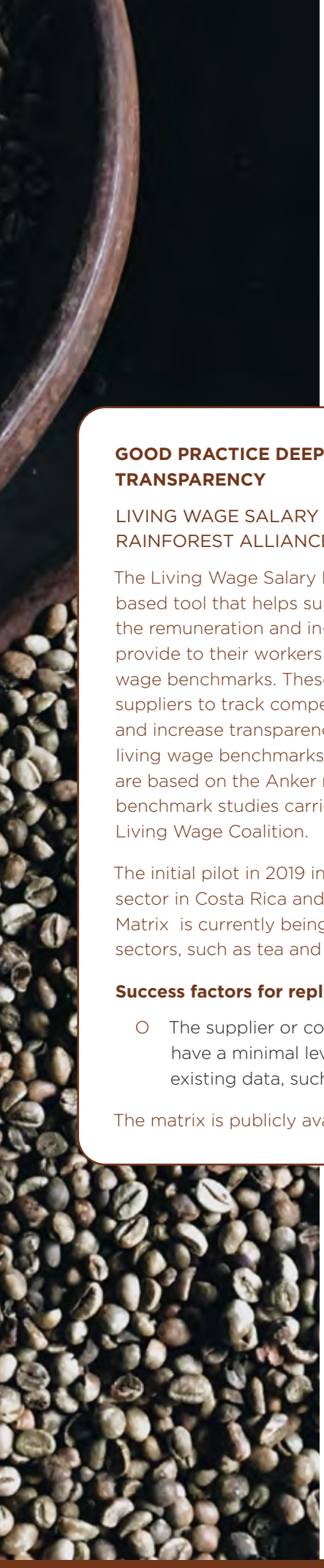
The project has two overarching objectives:

1. Define common denominators of indicators and develop practical metrics to operationalize the indicators so that they are functional across origins and comparable over time
2. Develop a technical standard for common metrics to facilitate data interoperability & exchange for collective impact reporting

Read more in the documentation for the standard:

http://datastandard.globalcoffeeplatform.org/en/latest/index.html

9. Transparency is defined as "relevant **information** made **available** to all elements of the value chain in a **standardized** way, which allows common understanding, accessibility, clarity and comparison." Source: UNECE (2019). "Transparency and Traceability for Sustainable Value Chains." BSR (2019) highlights that "supply chain transparency refers to the strategy of how to disclose supply chain and sourcing information to stakeholders. Transparency is defined by **what** data you are going to be transparent about, to **whom**, and how often, or when."
10. Living Income Community of Practice and KIT 2018. Benchmarks and Income Gap Assessments: Ghana and Cote d'Ivoire. https://www.living-income.com/papersandreports



Improved and more informed insights into the size and drivers of the costs of production and living income gap faced by coffee producers can help companies and organizations to develop more targeted and effective interventions. Increased transparency on prices, the costs of production, income sources, and the cost of a decent standard of living can also reduce the information asymmetry between producers and other value chain actors. This enables producers to negotiate prices from a more informed perspective.

GOOD PRACTICE DEEP DIVE: TRANSPARENCY

LIVING WAGE SALARY MATRIX – IDH/ RAINFOREST ALLIANCE

The Living Wage Salary Matrix is an excel-based tool that helps suppliers identify how the remuneration and in-kind benefits they provide to their workers compare to living wage benchmarks. These insights allow suppliers to track compensation improvement and increase transparency with buyers. The living wage benchmarks used in the tool are based on the Anker methodology and benchmark studies carried out by the Global Living Wage Coalition.

The initial pilot in 2019 includes the banana sector in Costa Rica and Belize. The Salary Matrix is currently being tested in other sectors, such as tea and flowers.

Success factors for replication:

- The supplier or company owner must have a minimal level of insight into existing data, such as remuneration.

The matrix is publicly available here.

It is important to acknowledge that the ability to control and increase transparency often lies with one actor in the supply chain, and it is therefore not a given that transparency claims lead to greater spread of information among all actors in the supply chain. Current efforts are mostly consumer-facing and not producer-facing. For example, buyers may share green coffee prices with other buyers and customers, but do not share information of prices along the value chain with producers. It is important that any action or claims to transparency also make useful information available to producers and farmer organizations.

Concrete examples of transparency efforts

- The International Coffee Organization (ICO) has launched the Coffee Pledge to support a living income for coffee producers. The campaign aims to rally the voice of consumers to further mobilize funds and the political backing needed to address the price crisis. The ICO also aims to secure commitments from industry and governments to develop concrete solutions for coffee price levels, price volatility and the long-term sustainability of the coffee sector.
- The banana sector provides a concrete example of how transparency can lead to a sector commitment. Dutch supermarkets have committed to a living wage in the banana sector. An important tool used to trace the commitment is the IDH Salary Matrix that enables value chain actors to get an instant assessment of their progress on salaries and enhancing the ability of companies to track their progress towards living wages. The tool allows the user to calculate the gap between the current wages paid and the living wage benchmark. This will serve as the baseline for negotiating future wage increases.

Recommendations:

Archetype 1

Farmer organization professionalization:

Offer targeted capacity building and financial support

PROJECTED IMPACT

- **Better access to markets**
- **Improved services to producer**
- **Diversification options**

Professional, well-managed farmer organizations tend to offer better access to markets and improved services to their members. These organizations have stronger internal management systems that enable the provision of inputs and the ability to handle larger loans, enabling pre-financing for inputs and other services, as well as buffer savings. The benefit to traders is that professional farmer organizations tend to have a stronger membership base with less side-selling, greater quality control, and they can act as more reliable strategic sourcing partners for international buyers. Professionally run farmer organizations tend to be more profitable, more sustainable and have greater access to markets and finance. These factors have a positive impact on farmer organizations' members. More professional farmer organizations are also less likely to experience corruption or mismanagement. As these organizations mature, they often are able to build new market opportunities in other crops or services for their members.

It is important that value chain actors support capacity building to identify and develop strong management, and carefully consider how to engage with farmer organizations at different levels of professionalization.

In April 2019 the IWA29 Professional Farmer Organization – Guidelines were adopted as an ISO standard providing a standard framework for rating agencies to measure performance towards professionalization of farmer organizations. There is currently one company delivering assessments benchmarked against the IWA29 standards. SCOPEinsight, partnering with the International Finance Corporation, has developed a standardized, data-driven approach that helps farmer organizations and agribusinesses reach a higher level of professionalism. Certified assessors conduct assessments of the farmer organization, collecting data and business intelligence. With this data, a tailored capacity building program is created that helps improve internal management, operations, financial management, sustainability and other elements. Successful implementation relies on a minimum degree of stakeholder alignment between the farmer organization and related value chain actors (e.g. strong relations between the trader, financial institution and farmer organization).[11] Companies can tap into resources like SCOPEinsight and others through the AMEA Network – Agribusiness Market Ecosystem Alliance, which brings together 26 organizations working to accelerate farmer organization professionalization and incentivize service quality improvement.

11. SCOPEinsight (2019) https://scopeinsight.com/

Integration of producer support programs into sourcing:

Roasters and their supply chain partners should encourage, recognize and reward sustainability interventions that are integrated into sourcing operations.

PROJECTED IMPACT

Increased farm performance through best practices

The data suggests that producers that have been exposed to sustainability programs make a better living, not only due to the small premium related to certification, but because of the exposure to Good Agriculture Practices that result in better yields and access to markets. Traders – often supported by roasters – can establish supply chain structures that deliver services[12] to producers in a cost-efficient way that yields a return on investment in the long term. Integration requires value chain actors to make contractual agreements with producers to supply them with relevant professional services ahead of and during the season, in return for producers selling their produce to the service provider (often a trader) after harvest. The access to services enables higher income and helps producers to overcome issues of cashflow and financing of inputs.

Producer support programs – in the form of packaged service delivery – can increase the performance of farms.[13] Service packages can include a wide range of support, such as training on Good Agricultural Practices, financial management and focused investment, provision of fertilizer and crop protection, access to finance, and support for crop diversification. Effective service delivery can increase yields, improve quality, enable premiums, and improve farm resilience. The provision of improved services from producer organizations, traders, roasters or others can ultimately be self-financing with producers as clients. Potential benefits include revenues from service payments, increased loyalty, increased volume per producer (leading to potential sourcing efficiencies), and improved quality. Intermediaries (for example middlemen, lead farmers, entrepreneurial youth) can be employed to deliver services, lowering the running costs, while creating local jobs.

12. Services can for example be training, access to inputs (fertilizer, crop protection, planting material), access to finance, farmer group organization and capacity building, transportation of produce, etc. See also the example of BLOOM.
13. Sustainable Trade Initiative Service delivery models: https://www.idhsustainabletrade.com/approach/service-delivery-models/.

Price risk management scheme:

Enable cooperatives to mitigate the risks that producers face due to price volatility by creating price risk management schemes.

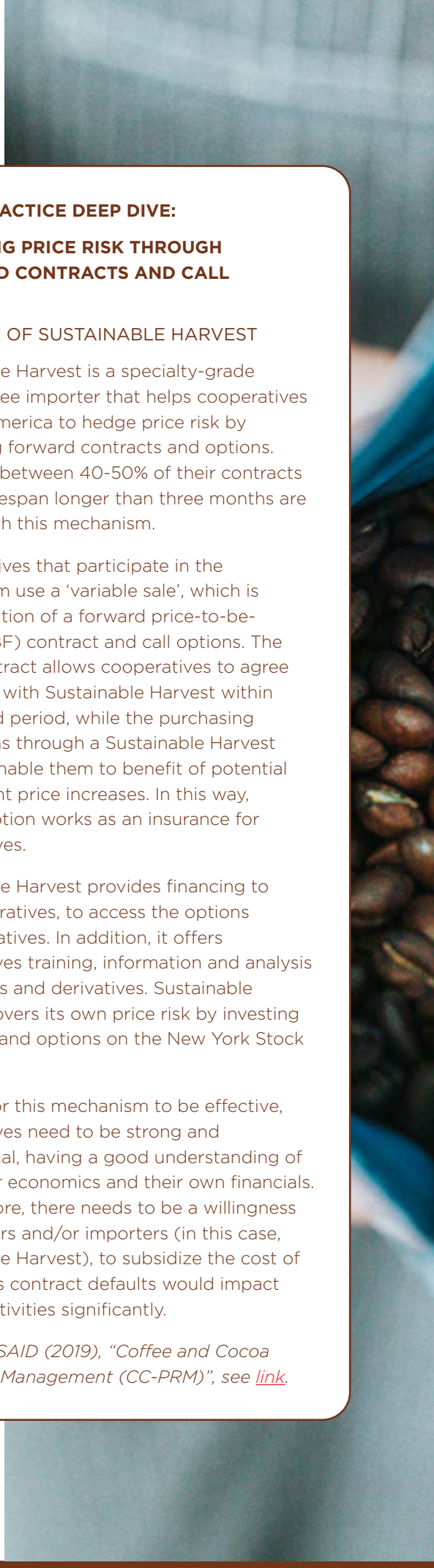
PROJECTED IMPACT

Mitigation of risks faced by producer

Improved capacity for long-term investments by producer

Cooperatives or farmer organizations can protect their members from price volatility by offering price risk management instruments, such as futures and options. Engaging in price risk management tools requires extreme discipline, professionalization, and knowledge. There is therefore a risk for inexperienced producer organizations wishing to engage with these tools.[14]

This approach relates to limiting the impact of price volatility, it is not designed to increase the producer's business case for negotiating higher prices in a low-price scenario. These instruments should be used to protect farmers in volatile markets while at the same time enabling them to profit from rising prices. Greater security on future prices can enable producers to take a long-term perspective and undertake investments that involve higher short-term costs (e.g. land renovation, machinery) that could generate higher revenues in the long run.



GOOD PRACTICE DEEP DIVE:

MANAGING PRICE RISK THROUGH FORWARD CONTRACTS AND CALL OPTIONS

THE CASE OF SUSTAINABLE HARVEST

Sustainable Harvest is a specialty-grade green coffee importer that helps cooperatives in Latin America to hedge price risk by combining forward contracts and options. Currently, between 40-50% of their contracts with a timespan longer than three months are traded with this mechanism.

Cooperatives that participate in the mechanism use a 'variable sale', which is a combination of a forward price-to-be-fixed (PTBF) contract and call options. The PTBF contract allows cooperatives to agree on a price with Sustainable Harvest within a specified period, while the purchasing call options through a Sustainable Harvest account enable them to benefit of potential subsequent price increases. In this way, the call option works as an insurance for cooperatives.

Sustainable Harvest provides financing to the cooperatives, to access the options to cooperatives. In addition, it offers cooperatives training, information and analysis on markets and derivatives. Sustainable Harvest covers its own price risk by investing in futures and options on the New York Stock Exchange.

In order for this mechanism to be effective, cooperatives need to be strong and professional, having a good understanding of the farmer economics and their own financials. Furthermore, there needs to be a willingness from buyers and/or importers (in this case, Sustainable Harvest), to subsidize the cost of options, as contract defaults would impact trading activities significantly.

Source: *USAID (2019), "Coffee and Cocoa Price Risk Management (CC-PRM)", see link.*

14. One recent example is the Colombian Cooperativa de Caficultores de Andes Ltda that accumulated losses of 90 billion pesos ($26 million).

Roasters recognize quality and support trading practices that reward quality attributes with higher differentials.

PROJECTED IMPACT

- Less downward pressure on differentials
- Higher FOB prices

This requires an internal company shift away from the mainstream practice of rewarding buyers who push down prices (differentials) using all available buying mechanisms and positions. This is a free business choice and the economic viability of this approach depends on the company's position on margin flexibility, public commitment to living income, and the expected return from higher brand premium from the consumer.

In common practice, the buyers' main focus is to negotiate the lowest price possible for the desired quality. Some buyers might be measured against this logic and remuneration schemes would evaluate performance on "cheap" differentials. Roasters who are willing to undertake this recommendation will need to review their remuneration logic for coffee buyers to streamline incentives and avoid constant pressure on differentials. The impact of this recommendation can be quite fast. Less downward pressure on differentials can lead to higher FOB prices. It would then need to be assessed if the higher FOB results in higher farmgate prices. It is crucial to design a traceability and transparency system to evaluate how the higher differentials are reach individual producers.

Recommendations:

Archetype 2

Preferred supplier status for sustainable coffee producers

Enable cooperatives to mitigate the risks that producers face due to price volatility by creating price risk management schemes.

PROJECTED IMPACT

Enabling the preferred supplier to receive a living income or cost-plus margin

Increased predictability and transparency

Roasters and retailers can confer preferred supplier status onto mainstream contracts, thus prioritizing firms that focus on social responsibility and ensure a living income or at minimum a cost-plus margin to producers in their supply chain, provided that they also meet all other requirements. Preferential treatment could be based according to a point system associated with level of inclusion and of economic or socio-environmental sustainability of producers. Preferential purchase relations may allow a measure of flexibility to adapt production and price levels over time to achieve the stipulated level of social responsibility. The preferred supplier approach in sourcing has proven to be very effective in addressing sustainability challenges at the production level in many agriculture and non-agriculture sectors (like electronics and apparel). Caution should be taken that the preferred rating system makes clear that simply excluding the poorest farmers is not an acceptable strategy.

Minimum price:

Ensure a minimum price related to a certain quality that covers producers' average costs of production, thereby providing a safety net that protects producers during volatile market periods.

PROJECTED IMPACT

Safety net for producer to avoid selling at a loss

A minimum price, in combination with a guaranteed off-take of the coffee at this price, increases predictability and security, enabling producers to engage in long-term investments that enhance profitability. Conversely, instituting minimum prices could incentivize more producers to enter the coffee sector and thus exacerbate the current oversupply and pricing pressure throughout the coffee sector. While companies should seek to improve the livelihood of coffee producers, there is also a need at a policy level to introduce supply management.

Two concrete examples of how minimum prices can be established are certification and a cost-plus pricing model.

- A minimum price can be defined by certifications for a certain quality and/or origin of the product. For example, Fairtrade certification guarantees a minimum price of 1.40 USD/lb FOB for washed Arabica[15] plus a 0.20 USD/lb social premium to cooperatives whose members meet a set of social and environmental criteria. The minimum FOB price however does not assure that individual producers receive a certain farmgate price. The share of the FOB price that individual producers receive differs widely across and within origins. The Fairtrade Premium is an amount on top of the minimum price paid directly to the producer organization for investment in community, environmental or organizational projects and priorities. It does not recognize price distinctions for differences in quality or distinctions in the cost of production among different regions.
- Cost-plus pricing contracts pay a pre-determined margin above the average cost of production. This model requires the establishment of average costs of production differentiated by origins, and an agreement among the value chain actors to ensure that the risk is shared. For buyers, the main risk in the cost-plus pricing model is that prices rise above the pre-determined price, which can result in producers side-selling to other buyers who pay market-conforming prices. One way to circumvent this risk is paying a flexible premium (see recommendation 9).

15. Fairtrade minimum price of 1.40 USD/lb plus a social premium of 0.20 USD/lb to the cooperative is added to the price, resulting in a total price of 1.60 USD/lb. Prices are slightly different for natural Arabica and washed/natural Robusta. In addition, Fairtrade offers a price differential of 0.30 USD/lb for organic production.

Develop a new, producer-driven logic to valorize sustainable coffee more adequately

PROJECTED IMPACT

Greater benefits for producers

Quality differentiation

Many of the current Voluntary Sustainability Standards and certification mechanisms are predominantly buyer-driven and have results mixed. Offtake of certified coffee is not guaranteed due to an over-supply of certified coffee. Current buyer-driven certification mechanisms are disconnected from other features that differentiate coffee, such as origin and quality distinctions.

Introducing producer-driven logic could bring the valorization of sustainability in coffee to a new level. This entails producers and traders of a specific origin collectively agreeing upon a set of origin-specific sustainability KPIs that are coherent with aligned targets across the coffee sector. Instead of buyers controlling the definition of sustainability and pricing, producers and traders set the terms and price premium to the buyer.

One example that contains elements of the proposed producer-given sustainability scheme is NKG BLOOM, which has established a long-term collaboration with producers to offer a set of services and impact financing. BLOOM sets the terms of sustainability with producers and sells this coffee at a premium to roasters and retail.

Long-term contracts:

Roasters and traders can engage in longer term, multiple year contracts with producers and/ or farmer organizations.

PROJECTED IMPACT

Provision of predictability, stability and trust in sourcing relationships

Longer term contracts provide greater stability and allow producers to plan activities over a complete harvest cycle at minimum, which enables forward-looking investments in production. Longer term contracts are assumed to provide predictability, stability and trust in the sourcing relationship between producer and buyer. It reduces overall price risk to the producer and enables them to obtain access to credit and develop a long-term mindset to conduct investments that may have high upfront costs. Roasters can benefit from greater supply chain management, direct and secure access to certain qualities, and the option to associate their brands with positive reputational characteristics.

Long-term contracts are found to be most effective as part of a portfolio strategy: one share of total supply is secured in long-term contracts, and another share is acquired through short-term contracts. For the buyer, such a portfolio ensures reduced pricing volatility and secured supply, while also maintaining the ability to buy elsewhere when short-term needs arise.[16] Longer term supply contracts are a standard improvement step in many sectors that struggle with low producer income (e.g. in cocoa, tea, apparel).

16. Clay, J. (2018) "How Long-Term Contracts can Help Drive More Sustainable Agriculture."

Recommendations:
Archetype 3 & 4

For all recommendations, it is recommended that companies seek opportunities to make value chains more inclusive of vulnerable smallholders since often only the most advantaged producers can access these markets on a consistent basis.

Engage in price transparency initiatives to support development new price discovery mechanisms for higher quality coffee

PROJECTED IMPACT

Provision of benchmark prices

Enhanced bargaining power of producer

Higher quality and specialty coffees are – to a large extent – priced against the ICE 'C' price, the market reference for commodity coffee. As the TCLI data suggests, production of higher quality coffees requires greater investment by producers. Properly acknowledging this increase in production costs requires decoupling price discovery from the commodity system.

Traders and roasters may want to consider joining sector initiatives to establish new benchmark pricing for specialty coffee. This **benchmark pricing** provides traders, roasters, producers and cooperatives with reference prices to determine fair prices for high-quality and specialty coffees. A better understanding what their coffee's value allows producers to negotiate fairer prices and earn a larger share of the value created.

A few examples contributing to greater sector transparency already exist:

- A group of coffee roasters and traders has initiated The Pledge to create a common code for transparency reporting in green coffee buying. Signatories are required to submit data on the producer/producer organization, the FOB price paid, the quality of the coffee, the lot size (volume), the length of the trading relationship, and the percentage of transparent coffees in relation to the total volume of coffee (in lbs./tonnes) sold in the stated year.
- The Specialty Coffee Transaction Guide provides an alternative reference price for specialty coffees with the aim of decoupling specialty coffee from the 'C' price. The guide uses contract data donated by 38 roasters and traders, which is anonymized and aggregated. The guide provides information on industry pricing behavior, including recent FOB prices based on lot size, quality, and origin.
- Specialty coffee roasters that register at Transparent Trade Coffees (TTC) provide price transparency for green coffee purchased. TTC publishes aggregate average green prices (GPP*), and the effective return to origin (RTO*) percentage for consumers to understand how much value makes it back to producers.
- Fair Trade Proof is a cooperative of 23 independent roasters in the United States that is committed to Fair Trade as a 'long-term partnership between roasters and producers. Central to this partnership is their website where roasters publish specific information from all specialty coffee contracts they make with the 69 individual producers and/or cooperatives in Latin America, Africa and Southeast Asia.

Ensure a (living income) premium is paid on top of the market price, leading to a higher value product, enabling pay back of living income to farmers.

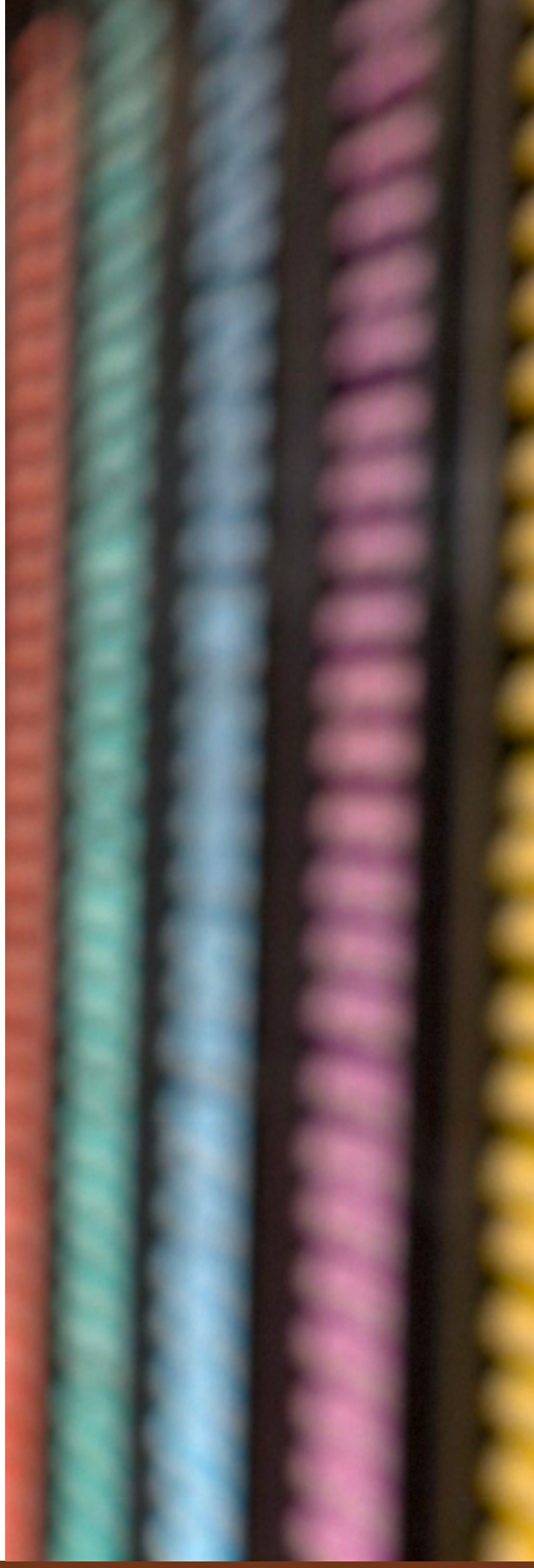
PROJECTED IMPACT

Enhanced income for producer

A flexible premium can ensure a minimum standard of living while minimizing value chain actors' risk exposure to side-selling. The premium is based upon the difference between the prevailing market price and a pre-determined target price based on a recognized living income benchmark for the particular country or region. The target price can be set ahead of the season guaranteeing producers a secure income.

This reflects the price that should be paid for the producer to achieve a living income, under a set of agreed assumptions. These could include a level of productivity or household income from non-coffee sources. The assumptions are made to balance the trade-off between buyers 'subsidizing' inefficient producers and creating an incentive for professionalization. The assumptions are often above the current levels of (inefficient) production, and as such, the premium does not necessarily ensure a net living income for the producer.

Offering a flexible (living income) premium can be a win-win for both producer and company, though companies must ensure that they have a strong business case for offering the premium.



Tony's Chocolonely:

Flexible living income premium and long-term contracts

Chocolate manufacturer Tony's Chocolonely strives to help producers earn a living income, by offering a premium of 15-20% above the market price. Producers are able to achieve a living income if they meet a set of assumptions.

Impact

In the 2017/2018 season, the Tony's premium in Ivory Coast was 400 USD/ton, while in Ghana it was 175 USD/ton. These amounts were paid on top of the Fairtrade premium of 200 USD/ton. In 2018 the average farmgate price in Ghana was 1,410 USD/ton.

Scale

Tony's has grown to become the largest brand of chocolate bars in the Netherlands. In 2018, Tony's purchased 7,106 MT of cocoa beans from 5 cooperatives (5,021 producers) in Côte d'Ivoire and Ghana.

	IVORY COAST	GHANA
Family size	8	6
Cost of living	$2.49	$2.16
Business costs	$2,216	$1,062
Farm size (net)	4.4	2.74
Productivity target	800	800
Income from other activities	$1,745	$1,183
Living Income Reference Price (per kg)	$2.20	$2.10

How it works

- Tony's pays the total price (farmgate + Fairtrade premium + Tony's additional premium) to the cooperative selling the cocoa, which is distributed amongst producers.
- Each year the premium is re-calculated, based on prevailing farmgate prices and the Fairtrade premium.
- The premium paid to farmers is calculated ahead of the season according to a fixed set of variables and assumptions. For a cocoa producer from Côte d'Ivoire, this would mean the following (obtained from the Tony's living income model:
- The costs of living are taken from living income benchmarks for Côte d'Ivoire that set by the Living Income Community of Practice and based on a family of 8 people.
- The costs of farming are assumed to be 418 USD per ha + 250 USD fixed cost per farm
- The productive farm size is 4.4 ha. This is based on the viable farm size that can employ the available family labor
- The realistically achievable yield is 800 kg/ha, based on correct use and amount of inputs and good agronomical practices
- Other income generated by the farming household through food production, sales of other crops and services is assumed to cover 25% of cost of living.

Note: In practice, few producers will be able to meet these assumptions and will therefore not actually reach a living income. For example, the average yield of cocoa in both countries is around 400-450 kg/ha; other income typically makes up 10-40% of total income; and household size may vary significantly from the benchmark. Tony's therefore work with cooperatives on long-term contracts of a minimum of five years while providing capacity building to ensure continued improvement of producers.

Source: *Information obtained from Tony's Annual Report 2018-2019 (2019).*

Traceability:

Enhance traceability of coffee as a steppingstone to greater market access and higher prices for producers.

PROJECTED IMPACT

More market access for producer

Higher prices

Traceability can allow a greater share of the price differentials to be transmitted through to producer organizations and individual producers. Traceability allows roasters to establish brand confidence and add value via consumer marketing. This does not directly result in a higher price to producers. Roasters would need to couple traceability with other efforts to empower producers.

The majority of traceability initiatives in agro-commodities have been smallscale pilots thus far. A promising larger scale project to be launched in 2020 is a Starbucks-Microsoft partnership to develop a blockchain-based supply chain tracking system making 100% of Starbucks' coffee traceable. The roaster is also developing a mobile app targeting consumers that will allow users to track the supply chain journey of the beans.

Counter Culture Coffee:

Name designation and credentials

Counter Culture Coffee (CCC) markets some of its coffees with name designation and credentials, allowing a higher retail price and value distribution. CCC focuses on relationship-specific investments where it invests in producers with its partner traders to improve quality over time and enable differentiation based on credentials. Awards, farm location and elevation, processing methods, and growing experience had the greatest impact on price premiums.

Impact

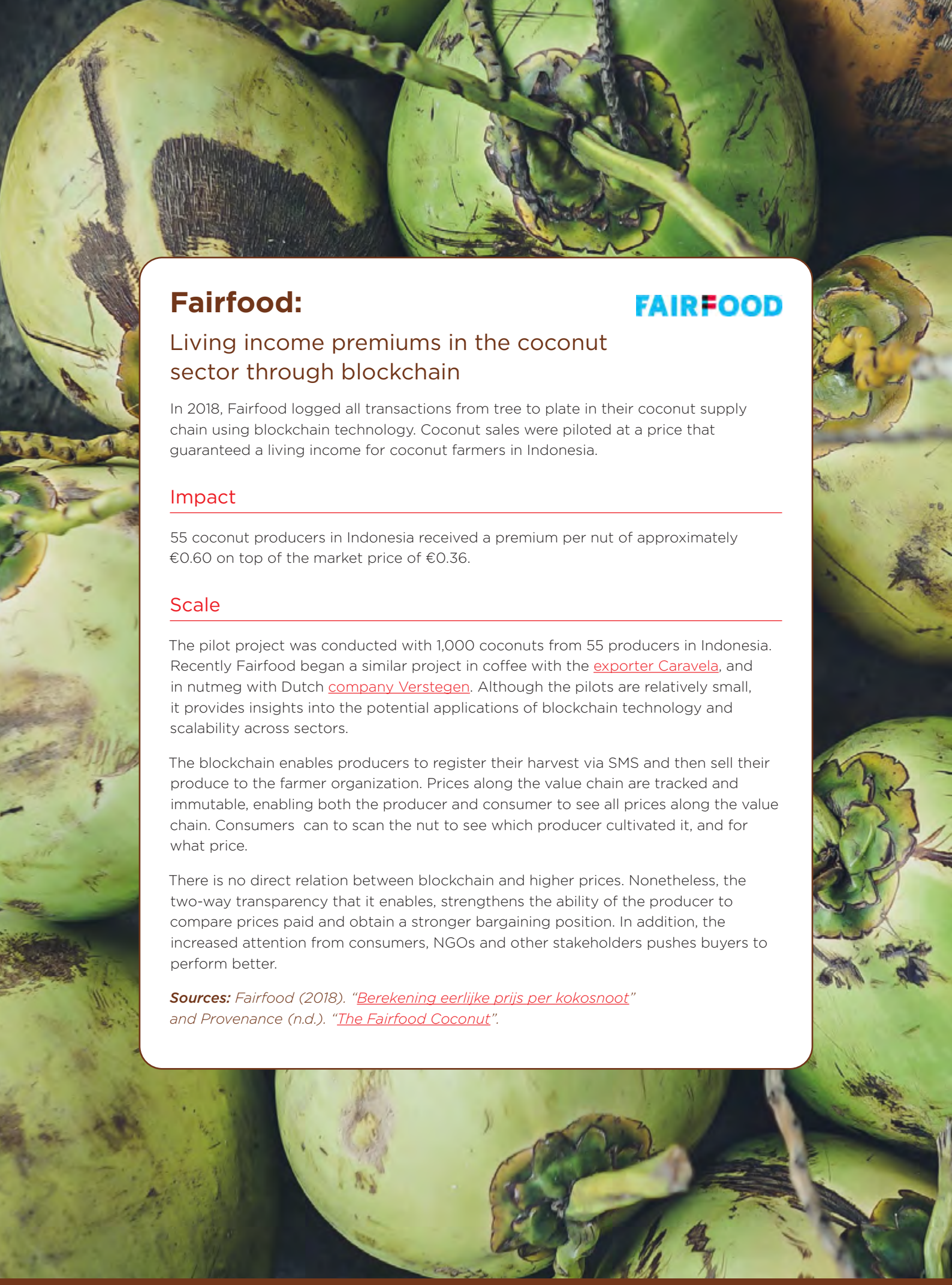
A study of CCC's retail coffees showed that coffees sold with credentials of the producers had several benefits:

- **Higher FOB:** Increase in average FOB price of $1.64 (a 46% premium) compared to blended specialty coffee. NB it is uncertain how big a share is transferred to producers.
- **Longer term relationships:** Producers experience additional security working longer with the same roaster (1.9 years longer on average)
- **Quality improvement over time:** Thanks to long-term relations and investment, producers experience higher prices and improved ability to market themselves as a single-producer coffee

	Blends (N = 178)	Named grower (N=115)	Difference
Avg. FOB price (USD/lb GBE)	$3.56	$5.21	+$1.64*
Avg. Quality score	85.0 points	87.0 points	+2.0 points
Avg. Quality Purchased	9,865 pounds	8,324 pounds	-1,541 pounds
Avg. Length of Relationship	3.9 years	5.8 years	+1.9 years

**Significant at p<0.01*

Source: *Transparent Trade Coffee (2018). "Naming Growers: Exploring the Pricing Implications for Green Coffees".*



Fairfood:

Living income premiums in the coconut sector through blockchain

In 2018, Fairfood logged all transactions from tree to plate in their coconut supply chain using blockchain technology. Coconut sales were piloted at a price that guaranteed a living income for coconut farmers in Indonesia.

Impact

55 coconut producers in Indonesia received a premium per nut of approximately €0.60 on top of the market price of €0.36.

Scale

The pilot project was conducted with 1,000 coconuts from 55 producers in Indonesia. Recently Fairfood began a similar project in coffee with the exporter Caravela, and in nutmeg with Dutch company Verstegen. Although the pilots are relatively small, it provides insights into the potential applications of blockchain technology and scalability across sectors.

The blockchain enables producers to register their harvest via SMS and then sell their produce to the farmer organization. Prices along the value chain are tracked and immutable, enabling both the producer and consumer to see all prices along the value chain. Consumers can to scan the nut to see which producer cultivated it, and for what price.

There is no direct relation between blockchain and higher prices. Nonetheless, the two-way transparency that it enables, strengthens the ability of the producer to compare prices paid and obtain a stronger bargaining position. In addition, the increased attention from consumers, NGOs and other stakeholders pushes buyers to perform better.

Sources: *Fairfood (2018). "Berekening eerlijke prijs per kokosnoot" and Provenance (n.d.). "The Fairfood Coconut".*

Public-private policy dialogue and enabling policies

Members of the TCLI task force identified these as some of the most feasible public policies for producing and consuming countries that could create an enabling environment for higher producer incomes.

GLOVAL LEVEL

A Improve the functioning of the New York and London 'C' market in favor of producers by increasing and stabilizing the 'C' price.

Extreme volatility and fluctuations could be reduced by limiting the speculative behavior of financial funds that aggravates price peaks and troughs. Re-establishing the connection between price and coffee quality could increase prices by more accurately acknowledging quality and origin differences. This measure is specifically urgent for archetype 1 and 2 coffees, which are primarily traded according to 'C' market prices.

Follow up: The Global Coffee Platform is facilitating dialogue with the Intercontinental Exchange (ICE) to increase knowledge and understanding of how coffee exchanges work as price discovery mechanisms and the role of futures markets, with the goal of enhancing the coffee futures contracts (Arabica and Robusta) as genuine and effective price discovery tools.

B Set up a global price stabilization fund that provides a safety net for producers in times of low-price periods.

This fund would subsidize producers when coffee prices are low while creating a buffer fund when prices are high. It will also enhance producers' ability to invest in capacity (e.g. by renovating aging farms and culitivating improved varieties) and in measures that mitigate the effects of climate change.

Follow up: Some leading trading companies have publicly stated the need for such a prize stabilization fund amongst others during the 125th Session of the International Coffee Council in London on 23 September 2019. Such a fund would require sector-wide collaboration to enable a level playing field, while being managed by an independent secretariat.[17] Further dialogue between ICO and international roaster and trade representatives on this topic seems a logical next step.

17. Varieties of the global price stabilization fund have been suggested in 2019, including the 'global coffee fund' in the report published by Jeffrey Sachs, among other traders OLAM's call for a safety net, and a 'multi-stakeholder funding mechanism' mentioned in the London Declaration on the long-term sustainability of the coffee sector.

C Enhance supply chain transparency and collaboration on data across the coffee sector

This could include fostering and sharing of collected data with commonly agreed metrics of farm economics, development of inter-operable digital systems (i.e. enabling different computer systems and software to exchange and make use of collected data in one common system), and develop a data tool to better compare farm-economics and facilitate income improvement.

Follow up: VSSs and the Global Coffee Platform are working on these themes already and alignment between them would be a good step forward.

D Avoid counter-productive taxes that redirect value from the coffee producing areas or hamper the equitable distribution of value along the supply chain.

There are numerous examples of government tax policies in producing and consuming countries that could be reduced, resulting in improved producer incomes. For example, in Germany, 45% of the coffee retail price is captured by the government through special taxes. The potential value of such an exemption is high (USD 2,13/kg GBE; equivalent to 70% of ICO's 5-year average price for Arabica of USD 3,05/kg GBE[18]). Reducing these taxes would have the potential to channel value back to the producers. Tax reduction can also be leveraged to enhance sustainable procurement practices by exempting companies from these taxes if their coffee has been sustainably produced.

Follow up: In the EU, living income and living wage has already received a significant amount of attention in political debates. It would therefore be logical for the EU Commission to take the lead as a political front-runner among consuming countries.

E Develop a Code of Ethics on Farm Data Management.

The code can consider current issues of limited data ownership, better control of access to and use of data, data rights, privacy, security and whether farm data should be considered 'personal' or not. The code would be voluntary and non-binding. Worldwide three major codes of conduct currently exist on the use of agriculture data: The US American Farm Bureau Federations' Privacy and Security Principles for Farm Data, the New Zealand Farm Data Code and the EU Code of conduct on agricultural data sharing by contractual agreement.

18. AidEnvironment (2018). "Ensuring a German coffee tax exemption benefits producers"

PRODUCING COUNTRIES

F

Invest in the improvement and efficiency of infrastructure and organization of the national coffee sector to reduce the gap between FOB and farmgate prices.

Governments should prioritize infrastructure that eases collection and transportation of coffee, as well as support the professionalization of producers and enhance the capacity of farmer organizations (marketing, price negotiation, service provision, hedging). Traders and roasters that source coffee from these countries can support these types of investments by strengthening, and collaborating with, national coffee organizations.

G

Support consolidation of smallholder producers into larger farms or economically viable collaborative groups through government-supported initiatives to overcome the systemic issue of their inability to achieve a living income.

Small farms of 1.3 ha are inherently resulting in poverty if coffee is the dominant source of income. For many producing countries this is clearly a tough, politically sensitive, nut that needs to be cracked by the governments of producing countries and calls for coffee sector reform. We recommend engaging actors in the international coffee sector at country-level public-private dialogues.

H

Adopt supply management practices and support economically non-viable coffee producers to transition into other livelihoods[19] to avoid exacerbation of over-supply as other stakeholders promote a living income.

There is also a need for governments to support diversification of remaining coffee producers to reduce vulnerability to price volatility, build income resilience, and provide more consistent cash flow. Land restoration and agro-forestry should be promoted in the process.

19. Coffee is not the only sector in which these types of measures are recommended. In the cocoa sector, it is increasingly being recognized that there is no business case for supporting small producers to reach a living income relying on cocoa production alone. Rather, these non-viable producers should be supported as they transition into larger farms (through land restoration), or by helping them transition into other livelihoods.

CONSUMING COUNTRIES

Follow-up on the below recommendations: In the EU, living income and living wage has already received a significant amount of attention in political debates. It would therefore be logical for the EU Commission to take the lead as a political front-runner among consuming countries.

I Work with sector stakeholders (starting at EU level) to develop standards on traceability, transparency and living income that require importers and roasters to comply with a minimum level of sustainability, gradually raising the bar of sustainability.

Coffee that does not comply with the required level of sustainable production cannot enter the consuming country/countries.

J Encourage sector commitments to living income for producers and living wages for hired labor on coffee farms.

Adherence to local labor laws ought to represent a core aspect of sustainable coffee contracts. Coffee contract provisions could include compliance criteria for national labor and ILO codes – including living wages paid to farm labor – as a requirement for demonstrating progress towards sustainability. These conditions cannot be resolved by voluntary coffee contracts or the price producers receive for their product and require adequate national legal protections and social programs that impose industry commitment.

Acknowledgements

IDH would like to express its sincere thanks to all the companies and organizations who have contributed to the creation of this report. The report would not have been possible without their openness and willingness to work together through this study. Living income and living wage is a cornerstone of IDH's objective to scale sustainable business practices. The companies and organizations listed below have shared their insights and offered critical feedback on the methodology. Many of these organizations shared data to help pave the way towards a living income for coffee producers by providing insight into their sourcing models and data on producers in their value chain. The final conclusions are not necessarily endorsed by these organizations.

Colophon

AUTHORS:

Daniel Pedersen and Joost Backer (NewForesight Consultancy)

Ted van der Put (IDH, the Sustainable Trade Initiative)

EDITOR:

Kyle Freund Consulting

CONVENING:

Jenny Kwan and Ted van der Put (IDH, the Sustainable Trade Initiative)

ANALYSIS:

NewForesight Consultancy

DESIGN:

Gerjo van Dam (Sgaar)

James Cooper (ONIC Design)

MEDIA INQUIRIES:

Gillian Evans
evans@idhtrade.org

DISCLAIMER


the sustainable
trade initiative