



# PRICE INTERVENTIONS AS A PART OF LIVING INCOME STRATEGIES

Lessons learned from piloting a price premium  
mechanism for basmati rice farmers in Pakistan

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Cover photo: Working to transplant rice in Punjab province, Pakistan. Photo: Oxfam in Pakistan.

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# SUMMARY

Small-scale farmers produce many globally important products such as rice, cocoa, cotton and vanilla. Poverty is widespread in these smallholder sectors and farmers are often unable to meet their basic needs. There is a pressing need to increase the incomes of small-scale farmers globally. A living income – defined as ‘the net annual income required for a household in a particular place to afford a decent standard of living for all members of that household’<sup>1</sup> is a human right. As such, the topic deserves to be central to discussions about the changes needed within the global food system – including changes to the unequal distribution of power and value within supply chains and the low and declining prices paid to farmers.

It is increasingly recognized that paying a living income is the responsibility of businesses and should not be seen as an optional choice, even where there is no formal legal obligation for them to do so. Companies should ensure that their own conduct does not prevent farmers from earning a living income. This responsibility extends to all farmers, including the most vulnerable (and often small-scale) farmers. Pricing decisions are especially important when it comes to ensuring living incomes, as incomes depend largely on the prices that farmers receive for their products.

But while the issue of pricing has received increased attention, the idea of increasing the prices paid to farmers is still treated with a degree of scepticism. Higher prices may benefit mostly larger and better-off farmers, or may be too costly when aspiring to make a meaningful contribution to farmers’ incomes. In long supply chains in particular, the cost of increasing incomes for farmers can be seriously inflated by the time products reach the consumer due to the so-called compounding price escalation effect, which happens when each actor in the value chain adds a percentage as a margin on turnover. This makes increases in farm-gate prices more costly than they need to be. Because of these concerns, few companies are currently using pricing as a core strategy to address farmer incomes.

This paper presents lessons learned from the piloting of a novel price premium mechanism in Pakistan. The goal of the price intervention, which targeted basmati rice farmers in Punjab province, was to make a meaningful contribution to the incomes of the most vulnerable small-scale farmers, while at the same time identifying appropriate mechanisms to minimize costs to retailers and/or consumers. A key part of the mechanism was the direct transfer of a premium payment to farmers. By ringfencing the cost of the premium in an open-book ‘triangle agreement’ between the retailer, the importer and the exporter, outside of the usual business transaction, the premium could be transferred directly from the retailer/wholesaler to the farmers, thus avoiding the price escalation effect.

This price intervention benefited the most vulnerable small-scale farmers, who face significant gaps in earning a living income from rice. These farmers were part of a wider programme intervention that is supporting farmers to achieve higher yields, among other improvements. Analysis of data disaggregated by farm size, however, showed that increases in yields alone would be insufficient for small-scale farmers with less than 10 acres of land to achieve a living income from rice. The mechanism was therefore piloted as a small-scale project to test its feasibility.

The pilot indicates that price, in combination with other complementary measures, can effectively contribute to closing the income gap for even the most vulnerable small-scale farmers. However, the success of a price intervention depends on many factors. This report concludes that price is a critical element in farmers making a living income, but while increasing prices might seem relatively simple to do in theory, it is a complex issue to navigate in practice. The paper draws on the pilot project to identify eight key factors for success. It then puts forward recommendations for stakeholders interested in designing and implementing price interventions that can make a meaningful contribution to the ability of women and men farmers to earn a living income.

# APPLYING A HUMAN RIGHTS LENS

**1. Benefiting the most vulnerable farmers:** As the degree of benefit from price interventions is usually relative to a household's level of production, it tends not to be the poorest farmers who gain from existing price interventions. As expectations rise for farmers in their supply chains to earn a living income, companies may have an incentive to focus their efforts on larger, better-off farmers as their income gaps are smaller and easier to close, which may potentially harm already vulnerable smaller-scale farmers. To avoid this, companies should take the following actions:

- Adopt a human rights due diligence approach to living incomes and price interventions to ensure that a living income for marginalized farmers is a primary element (and does not just go to the farmers who are easiest to help).
- Collect and analyse disaggregated data to gain a better understanding of the needs of different farmer groups (e.g. by farm size) and tailor price interventions to farmers' needs and capabilities.
- Take a holistic approach to the issue and identify interventions beyond price that are key in supporting vulnerable farmers to achieve a living income.
- Be transparent with farmers about how and why price interventions are tailored towards certain groups, and set up robust feedback loops and grievance mechanisms for farmers as part of such interventions to address problems proactively as they arise, before they risk eroding the trust of local communities.

**2. Supporting women:** Price interventions risk reinforcing gender inequalities. Supporting women farmers and tailoring price interventions to meet their needs should be a key priority. To do this, companies should:

- Adopt a human rights due diligence approach to living incomes and price interventions to ensure that women benefit and are not negatively affected (e.g. by gender-blind interventions).
- Analyse the ability of women farmers to benefit from price interventions to ensure equal access to price interventions, and tailor price interventions to meet their needs.
- Actively support women (e.g. by addressing adverse gender norms) to make price interventions gender-inclusive.
- Make it a priority to conduct a comprehensive gender analysis and to collect gender-disaggregated data to inform the design and implementation of price interventions.

## ALIGNING SUPPLY CHAINS WITH LIVING INCOMES

**3. Overcoming fragmentation:** A traceable value chain with direct trading relationships with farmers is key to effectively transferring a premium to farmers. For many companies, overcoming fragmentation in their supply chains and the transactional relationships they often have with farmers is, therefore, a critical step. To do this, companies should:

- Shorten supply chains and establish more direct trading relationships with farmers.
- Engage with and understand the situation of farmers in order to identify any constraints they are facing that hinder them from establishing direct trading relationships with buyers.
- Actively address the identified constraints that farmers are facing.

**4. Investing in longer-term trading relationships:** Long-term contracts with farmers are essential if price interventions are to have a more sustained impact on farmers' incomes and give them more security to invest in their farms. Longer-term contracts based on open-book approaches between suppliers can enable the direct transfer of premiums between retailers and farmers, while giving

security to suppliers and creating greater transparency around how prices are set – all essential elements in innovative price interventions. To do this, companies should:

- Deepen trading relationships with farmers and make sure that they and their growers' organizations (GOs) actively participate in the design and implementation of price interventions.
- Put the needs of farmers and the constraints they face at the centre of price interventions. If engagement is based on contract farming, favourable contract terms are key to truly benefit farmers and increase their resilience and power.
- Prioritize common values and ambitions of supply chain actors in order to establish successful long-term engagements. This will also enable the building of trust, which will be needed when considering new business arrangements such as open-book contracts.
- Integrate living incomes into procurement strategies and objectives. Procurement teams often have few incentives to create longer-term strategies that generate sustainable gains in income for farmers supplying the company, as the goals and incentive structures of procurement are geared towards short-term cost savings and supply chain efficiency.

## GETTING THE DATA RIGHT

**5. Prioritizing data transparency:** Having transparent and accurate information available enables business partners to define effective price intervention strategies tailored to each context. Price interventions require transparency on key data points from all suppliers. Data transparency at the farm level is another essential prerequisite to closing the gap in living incomes. To achieve data transparency, companies should:

- Be transparent about key data relevant to the design and effectiveness of price interventions (including the identity and location of suppliers, volumes sourced, prices paid, margins, and so on).
- Consider asking GOs or an independent local partner to collect and verify the data needed at the farm level. The competence of a GO or an independent partner can be an important factor in designing effective price interventions.
- Consider effective mechanisms for data validation and verification at the project design stage.

**6. Including workers:** Price interventions should include farm workers/labourers to ensure that their needs and living wages are factored into the living income of farmers. The inclusion of workers will also ensure that value is truly redistributed throughout the chain. To include workers, companies should:

- Make workers an explicit target group to benefit from any price intervention and ensure their active engagement.
- Collect data on workers as part of the design and implementation of price interventions.
- Mobilize resources for decent working conditions and living wages.

## PRIORITIZING BUSINESS TRANSFORMATION AND ACTION AT VARIOUS LEVELS

**7. Transforming business:** The successful implementation of innovative price interventions has potential to establish a new benchmark for the food retail sector and inspire action at scale. Given current prevailing business models, companies may see various barriers to sustaining fairer prices. To enable business transformation, companies should:

- Adopt a human rights due diligence approach to living incomes and assess how purchasing practices, including pricing decisions, can make it difficult for farmers to achieve a living income.
- Prioritize reforms to purchasing practices that will contribute to fairer prices and living incomes.
- Consider how the marketing of products to consumers can support businesses in reflecting the costs of fairer prices in their products.
- Incorporate the costs of fairer prices into the cost of doing business in order to align expectations on margins and profitability with living incomes for farmers.

**8. Taking action at various levels:** To achieve living incomes and fairer prices for farmers at scale, there is a need to 'raise the floor' for the food and agriculture sector as a whole. Beyond stand-alone price interventions, companies should work at various levels. To achieve structural change, companies should:

- Facilitate and support strong sector-wide action on fair prices and living incomes.
- Adopt a public advocacy role on fair prices and living incomes.
- Advocate for government action on fair prices and living incomes.
- Advocate for more ambitious certification schemes that make the payment of living incomes a prerequisite for certain certifications.



Women farmers/labourers manually transplanting rice seedlings in paddy fields in Punjab province, Pakistan. Photo: Oxfam in Pakistan.

# 1 INTRODUCTION

In just a few years, the idea of a living income has gone from being seen as a relatively progressive idea to one that is increasingly recognized as essential to sustainability. The concept has gained support from a wide range of actors, including sustainability initiatives, civil society, regulators, investors<sup>2</sup> and governments.<sup>3</sup> Major international companies<sup>4</sup> are also making commitments to ensure that living incomes (and living wages) are paid across their supply chains. All this would have been difficult to imagine just a couple of years ago.

## **Living incomes are most relevant in smallholder sectors where farmer poverty is widespread.<sup>5</sup>**

The World Bank estimates that there are about 500 million smallholder farmer households globally, accounting for up to two billion people, many of whom live below the \$2 a day poverty line.<sup>6</sup> Using a different metric, IDH, a social enterprise that promotes sustainable trade, puts the number of smallholder farmers globally at about 270 million, of whom between 50% and 95% earn less than a living income.<sup>7</sup> While cocoa is the sector where most of the major developments on living incomes are taking place, actors in other commodity sectors with a strong reliance on small-scale farmers – including coffee, vanilla and cotton – have also started to focus on the issue.<sup>8</sup> In other industries with many smallholder farmers, such as the rice sector, the living income debate is still in its infancy, although farmers' needs and the constraints they face are similar to those in other smallholder sectors. Smallholder rice farmers with less than three acres of land (~144 million people) produce around 90% of the global rice supply, but they are often among the poorest people in society and are barely able to cover their own basic needs.<sup>9</sup>

## **A living income is a human right and the responsibility of companies.**

Living incomes are intrinsically connected with the right of people to work and the right to a decent standard of living, and are also a precondition for the realization of other human rights.<sup>10</sup> It is increasingly recognized that paying a living income is the responsibility of businesses, and not just an optional choice, even where there is no formal legal obligation for them to do so – as addressed in the UN's Guiding Principles on Business and Human Rights<sup>11</sup> and in the OECD Guidelines for Multinational Enterprises.<sup>12</sup> Companies are also increasingly subject to mandatory due diligence requirements on addressing human rights in their supply chains,<sup>13</sup> all of which creates more and more incentives for them to support a living income.

## **Small-scale farmers are part of that responsibility.**

Companies' responsibilities with regards to a living income are nevertheless contested when it comes to marginal farmers with significant income gaps (e.g. due to small farm size). In these instances, companies have argued that they cannot be held accountable for whether or not farmers achieve a living income. It has even been argued that favouring more productive farmers is beneficial for the market as it strengthens their businesses, while less productive farmers are incentivized to leave the market. However, in agriculture, many small-scale farmers are unable to exit the market because they depend on a single crop as their main source of income and have no alternatives.<sup>14</sup>

While farm size can be a complicating factor, it does not eliminate the responsibility of companies to help ensure that farmers are able to earn a living income. Individual companies might not be responsible for closing the whole of the gap towards a living income (e.g. if they purchase only one crop and the farmer produces several different crops). Yet, at a minimum, companies have an obligation to ensure that their practices and business relationships do not negatively affect farmers' ability to earn a living income, for example by stopping sourcing from them, paying low prices or inadvertently contributing to the further marginalization of, or negative impacts on, certain farmer segments.<sup>15</sup>

## Supporting smallholder farmers can improve their livelihoods, and this makes business sense.

According to the UN Global Compact, for farmers, lack of access to living incomes may be the most salient sustainability risk in agribusiness value chains that engage with smallholder agriculture.<sup>16</sup> Smallholder farmers are extremely vulnerable to market dynamics and to factors such as weather and unexpected life events.<sup>17</sup> The situation is only getting worse, with more frequent and more intense climate-related shocks. For companies, this means that even small shocks (e.g. price spikes, weather events) can lead to disruptions in supply in smallholder sectors.<sup>18 19 20</sup> Smallholder farmers normally face a number of barriers – including limited access to inputs and little or no access to credit – which mean that they are unable to make their farm operations more productive and sustainable, leaving them trapped in poverty.<sup>21</sup>

Investing in a stable living income for farmers can significantly reduce supply chain risks for companies.<sup>22</sup> This offers a compelling rationale for them to support smallholder farmers, and some of the leading companies across sectors and countries have built more inclusive supply chains to secure a more stable supply.<sup>23</sup> In the rice sector, food companies such as Mars and Kellogg's and agribusiness Olam were among the first businesses involved in setting up the Sustainable Rice Platform (SRP) to improve smallholder livelihoods. By introducing sustainable practices in rice cultivation, SRP aims to boost farmer incomes (although it currently does not aim to achieve a living income; see section 4.5) and increase rice yields to assure the global supply of rice in a world where demand for it is growing.<sup>24</sup>

### Box 1: What is a living income?

A living income is defined as 'the net annual income required for a household in a particular place to afford a decent standard of living for all members of that household'.<sup>25</sup> Living income initiatives target small-scale farmers and their households whose primary income source is from agricultural production. Elements of a decent standard of living include food, water, housing, education, healthcare, transport, clothing and other essential needs, including provision for unexpected events. The concept is centred on decency, going beyond basic survival needs. However, in many cases a living income still does not equate to thriving farmers and it should be understood as a minimum standard, not an end goal.<sup>26</sup>

The concept of a living income has many similarities with the concept of a living wage. But there are also important differences, as the sources and composition of wages and incomes are different. A living wage is focused on workers whose primary income source is paid labour and, while wages are usually an agreed lump sum based on hours worked, farmers' incomes are often made up of multiple sources that vary from sector to sector, region to region and family to family. Strategies to bridge income gaps and wage gaps are therefore also different.<sup>27</sup>

## 1.1 PRICING IN CURRENT DEBATES ON LIVING INCOME

**It is increasingly recognized that higher prices are a key instrument in achieving a living income.**

A company can contribute to the ability of its suppliers to earn a living income in a number of ways, such as increasing their resilience through capacity building and other support measures. However, one of the main areas where a company can have a significant impact is price. Stakeholders increasingly recognize that prices are the most direct way of increasing the incomes of farmers, as price increases translate into a net increase in income.<sup>28 29</sup> Various actors have recently introduced new price interventions. Fairtrade, for example, has launched a Living Income Reference Price (LIRP) for cocoa and coffee<sup>30</sup> to make more meaningful contributions to farmers' incomes.<sup>31</sup> In the Fairtrade structure, LIRPs are often significantly higher than the current Fairtrade Minimum Price or

market prices.<sup>32</sup> Meanwhile, the governments of Ghana and Côte d'Ivoire have introduced the Living Income Differential (LID) for cocoa exports to help increase farmers' incomes.<sup>33</sup>

Other income drivers that affect the ability of farmers to earn a living income – including farm size, production costs and income from other activities – are often more difficult to influence, and interventions aimed at doing so have had limited success. In particular, certification and corporate sustainability programmes that focus mainly on increasing productivity have not had any significant social impact, despite years of providing technical support to farmers.<sup>34</sup> More often, such efforts have resulted in increased production costs in return for only marginal increases in income.<sup>35</sup>

At the same time, an estimated 50% of producers globally (not just smallholder farmers, but farmers across sectors) are paid prices for their crops that are lower than the costs of production.<sup>36</sup> Asymmetrical power relations mean that, often, they do not have the bargaining power to negotiate an increase. Research by Oxfam shows that for a range of globally traded commodities (including cocoa, coffee and rice), small-scale farmers often receive only a 5–10% share of the end consumer price, while companies further downstream (in processing, manufacturing and retailing) capture most of the value. This distribution of value has become increasingly skewed since the 1990s. Supermarkets have captured an ever-greater share, while for many farmers their share has increasingly been squeezed.<sup>37</sup>

This already worrying trend has been exacerbated by the COVID-19 pandemic. Many food businesses at one end of the supply chain made huge profits, while many farmers were left in a vulnerable situation.<sup>38</sup> More recently, inflation and increases in the cost of living and the costs of production<sup>39</sup> have exacerbated the already dire situation of many small-scale farmers. Growing inequality in global food supply chains acts as a powerful barrier to raising the incomes of small-scale farmers to a decent level.<sup>40</sup> Paying higher prices would be a first step towards counteracting soaring inequality and supporting farmers to work their way out of poverty.

#### Box 2: A variety of price interventions exist

There are various strategies that stakeholders can adopt to directly increase the prices paid to farmers or to mitigate the impacts of an unfavourable price environment.<sup>41</sup> Examples of mechanisms include:

- **Price setting** – mechanisms that set prices. Examples include fixed prices and minimum or floor prices. Fairtrade, for instance, sets fixed Fairtrade Minimum Prices for different products. In West Africa, the governments of Côte d'Ivoire and Ghana have imposed a fixed Living Income Differential to help boost payments to cocoa farmers.<sup>42</sup>
- **Premiums** – mechanisms that involve the payment of premiums in addition to the price of a product. Examples include fixed premiums and flexible premiums. In the cocoa sector, for instance, the company Tony's Chocolonely pays government-set fixed prices for cocoa from Ghana and Côte d'Ivoire, plus the Fairtrade Premium, plus an additional premium.<sup>43</sup>
- **Subsidies** – mechanisms that subsidize the costs of production or complement producer income. Examples include input subsidies or income subsidies.

Mechanisms differ in:

- **Objective** – mechanisms can aim to reduce or protect against price volatility or to increase value capture by specific actors. A mechanism can have one or more objectives.<sup>44</sup>
- **Ambition** – mechanisms do not necessarily aim to pay prices based on what farmers should earn to achieve a living income.
- **Scale** – mechanisms can be introduced at supply chain, sector or country level.

## **Many stakeholders are struggling to find practical ways to pay fairer prices that will have an impact.**

While much attention has been paid to fairer prices, few actors have adopted pricing as a key strategic tool to help farmers achieve living incomes.<sup>45</sup> There are a number of common concerns that keep actors from implementing price interventions as a key part of living income strategies:

- **How to benefit small-scale farmers?**

Concerns have been raised that higher prices favour mostly better-off farmers while the impact for small-scale farmers – who are in the majority – is limited. Most price interventions are tied to production levels, i.e. paying more to farmers who have larger and/or more productive farms.<sup>46</sup> The more pronounced the inequality in terms of production levels between farmers, the less impact price interventions have in addressing the needs of the poorest and most vulnerable farming households.<sup>47</sup> Companies that are members of the Living Income Community of Practice<sup>48</sup> have been grappling with the question of how to ensure that the needs of various groups of farmers are met.<sup>49</sup> Questions have also been raised about how paying higher prices fits with other living income interventions such as increases in productivity – is paying higher prices a ‘silver bullet’ to solving farmer poverty or should it be seen as one approach among many?

- **How to make a meaningful contribution?**

Another challenge is that, to date, price interventions have been too modest to have any real impact for farmers. Many of the price interventions associated with certification systems or with company sustainability programmes pay only a modest fixed sum to farmers, which is not necessarily set at a level that helps them reach a living income, and in fact generally provides only marginally higher incomes.<sup>50</sup> Many price interventions, therefore, have been insufficient to countervail price dynamics in commodity markets or to offset global reductions in prices.<sup>51</sup>

- **How to avoid inflating costs for consumers?**

Companies have raised concerns that paying higher prices could affect their competitiveness if higher prices for farmers result in higher prices for consumers, who then might shift to buying other products.<sup>52</sup> This can be a particular concern for supply chains that have a number of different actors, as each actor usually adds a certain percentage as a profit margin on turnover.<sup>53</sup> This multiplier effect, or ‘compounding price escalation’, means that marginal price increases for farmers can result in significantly higher costs for consumers. Some companies therefore fear that paying higher prices could simply be too costly.

### **Box 3: What is the compounding price escalation effect?**

The introduction of premiums at farm-gate level can cause prices to escalate throughout the value chain. Companies often define their selling price by calculating costs and/or margins as a percentage of the price quoted at the previous step. If premium payments to farmers are added, this practice will result in a much larger price differential for the consumer than the original premium paid to the farmer. Particularly in long supply chains, the cost of increases to farmers’ incomes can be seriously inflated by the time the product reaches the consumer – of which the additional premium paid to farmers is only a small part. This makes increases in farm-gate prices more costly than they need to be.<sup>54 55</sup>

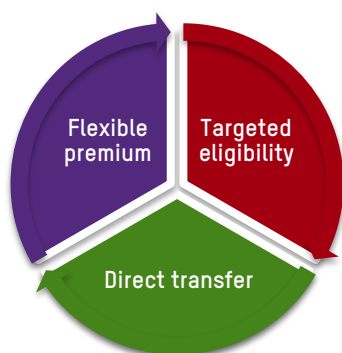
## 1.2 PILOTING A NOVEL PRICE MECHANISM TO SUPPORT A LIVING INCOME FOR VULNERABLE FARMERS

To advance the debate and our understanding of the potential for pricing interventions to contribute to closing the living income gap for farmers, we need to test, experiment with and learn from innovative approaches. Oxfam had the ambition to pilot a price intervention that would make a substantial contribution to achieving a living income for farmers, benefiting in particular the most vulnerable, while at the same time minimizing costs to retailers and consumers – thus addressing common concerns around existing price interventions and some of their shortcomings.

Oxfam’s price intervention was based on a segmentation approach designed to analyse the needs of small-scale farmers, and involved the design of a novel price premium mechanism which avoided the compounding price escalation effect, differentiating it from other common price interventions. The key characteristics of the pilot project are briefly outlined in Box 4. The reasons why this particular approach and design were chosen are explored in more detail in section 2.

The ongoing regional programme **Gender Transformative and Responsible Agribusiness Investments** in **South-East Asia** (GRAISEA II),<sup>56</sup> implemented by Oxfam, presented a unique opportunity to test a novel price premium mechanism of this kind. In Pakistan, one of the aims of this five-year programme (2018–23) is to improve the livelihoods of small-scale basmati rice farmers by building more responsible and inclusive value chains. The existing engagement of actors at each stage of the GRAISEA value chain – from farmer to retailer – made it possible to pilot alternative commercial arrangements to address the structural weakness of small-scale farmers in the global value chain. GRAISEA II interventions also target other drivers of a living income – such as enabling better market access for small-scale farmers and supporting them to improve their yields and the quality of their rice – and so it was possible to test the potential of pricing to help close the income gap as a complementary intervention.

**Box 4: Key characteristics of the pilot price intervention**



- **Targeted eligibility** to make meaningful contributions to the living income of small-scale farmers, who face the greatest vulnerability. Only small-scale farmers (with  $\leq 10$  acres) were eligible for the premium, as previous Oxfam analysis showed that these farmers face a significant income gap while larger-scale farmers generally earn a living income.
- **Direct transfer** to enable higher farmer prices, supported by a redistribution of value-added while minimizing costs to retailers and consumers. A direct transfer in the form of an additional premium from retailer to farmer avoids the compounding price escalation effect.
- A **flexible premium** to support farmers to earn a living income from rice despite fluctuations in market prices. When market prices were low, the premium was higher, and when market prices were high, the premium was lower.

### **Targeted eligibility to make impactful contributions to small-scale farmers, who face the greatest vulnerability**

The price intervention targeted small-scale farmers ( $\leq 10$  acres), who face the greatest vulnerability. GRAISEA II interventions (e.g. training on productivity, improved market access) were targeted towards all farmers taking part in the programme, but Oxfam's analysis showed that for small-scale farmers in the Punjab region of Pakistan the income gap was significant and that increases in yield – achievable by adopting farming techniques aligned with SRP standards – were insufficient on their own for these farmers to achieve a living income from rice (mostly due to the smaller amount of land at their disposal). By contrast, larger-scale farmers ( $> 10$  acres) in the GRAISEA II programme were able to earn a living income from rice.

This segmentation approach was important in ensuring that the needs of smallholder farmers would be met. As the level of benefits gained from price interventions is usually relative to a household's level of production, farmers producing low volumes will often benefit the least from higher prices or premiums.<sup>57</sup> If there had been no eligibility requirements and large-scale farmers were included, this might not only have increased inequality between farmers, but might also have minimized the impact for those who were more vulnerable (as premium calculations are often based on averages, obscuring the needs of different farmer segments).

### **A direct transfer mechanism to enable higher prices, supported by a fairer distribution of value-added while minimizing costs to retailers and/or consumers**

Oxfam's analysis also showed that small-scale farmers in the GRAISEA II basmati rice value chains receive no more than 10% of the end retail price, while the largest share is captured in the country of consumption (see section 2.3). Therefore, increases in farm-gate prices, which are very significant to small-scale farmer incomes, were relatively marginal as a share of the value of rice purchased by retailers. This is significant, as it means that a relatively small redistribution of value-added within these chains could contribute to enabling higher prices for small-scale farmers without necessitating significantly lower margins for companies and/or significant price increases for consumers – as long as appropriate mechanisms were designed to benefit smallholders.

A direct transfer mechanism was therefore designed to facilitate the redistribution of value-added to small-scale farmers in the most efficient way possible – in the form of an additional premium. The premium costs were ringfenced in an open-book 'triangle agreement' between the retailers, the importer and the exporter taking part in the GRAISEA II programme, outside of their usual business transactions, to enable the retailer/wholesaler to pay the premium directly to the small-scale farmers producing the rice. This direct transfer minimized costs for the retailer and for consumers as it avoided the compounding price escalation effect that can complicate price interventions.<sup>58</sup>

### **A flexible premium to support a living income from rice despite market price volatility**

To make a meaningful contribution, the premium was designed to be responsive to the living income situation of farmers. The intervention was based on a target price, which was set to help small-scale farmers progressively reach the benchmark for a living income from rice. (As most farmers have multiple sources of income, the price intervention used the benchmark for rice only.) To reach the target price, a premium was paid on top of the market price that farmers received for each kilogram of paddy rice sold. Since market prices fluctuate, the amount of the premium was flexible: when market prices were low, the premium was higher, and when market prices were high, the premium was lower. In cases where the market price was sufficient for farmers to achieve a living income from rice, no premium would be paid, in order to maintain stable prices.

This is different from the way that other premiums work. For example, the Rainforest Alliance and many company sustainability programmes use fixed premiums, a flat amount of money paid to farmers.<sup>59</sup> Fixed premiums have had limited effects on the income of farmers, as often when world market prices have fallen for certain products, such as cocoa, this has not been accompanied by an increase in premiums.<sup>60</sup>

### A separate premium for women workers

The pilot also included an additional premium for women workers in order to truly shift power and value within the basmati rice value chain. Women play a major role in rice farming in Pakistan. They perform many of the physically demanding tasks required, especially during the rice planting season (which lasts around 30 days), which requires a lot of bending. Farmers consider women to be more suitable for this role than men.<sup>61</sup> Despite women's important role in rice farming, they receive very low pay and on a per hectare, rather than hourly, rate. Research has shown that women working on farms earn about half the wages of men, and younger women even less. They have no negotiating power with employers and face unsafe working environments and long hours. They are also responsible for performing unpaid care work as well as their farm labour.<sup>62 63</sup> To support these women workers, the premium was set to guarantee a living wage from rice for the rice sowing season (see section 2.4).

### A small-scale pilot to test feasibility

The price intervention was piloted over two harvesting seasons (2020/21 and 2021/22) as a small-scale project to test the feasibility of this novel price mechanism. The goal was to progressively close the living income gap for small-scale farmers by means of higher target prices, alongside improvements in yield supported through the GRAISEA II programme. The pilot project included private sector partners involved in the GRAISEA II supply chain – the Pakistani exporter Galaxy Rice Mills, the Polish importer Rol-Ryz, the Norwegian wholesaler Unil and the Swedish retailer Axfood – together with Oxfam in Pakistan and local partner Association for Gender Awareness & Human Empowerment (AGAHE) as implementing partner (in close collaboration with grower organizations), and Oxfam Sweden as overall coordinator.

## 1.3 PURPOSE AND STRUCTURE OF THIS PAPER

This paper shares lessons learned from the small-scale pilot, asking the question, **'What are the key success factors and challenges identified from this pilot that are of relevance for stakeholders designing price interventions as part of living income strategies?'** The eight lessons learned, and the corresponding recommendations, are intended to contribute to the discussion around price interventions and to support stakeholders interested in designing and implementing price interventions that will make a meaningful contribution to the ability of women and men farmers to earn a living income.

The paper sets out to identify lessons learned that are applicable across different contexts and to different commodities. In presenting a novel price mechanism, it also serves as a conversation-starter about more equitable business models. It is written for all stakeholders interested in price interventions, but it may be of particular interest to companies. It draws on findings from internal analysis conducted as part of the GRAISEA programme, together with an external evaluation that was conducted after the completion of the pilot during the period May–August 2022 and a learning event organized by Oxfam in Pakistan in July 2022, as well as from literature on other price interventions.



## 2 CONTEXT AND DESIGN OF THE PRICE PREMIUM MECHANISM

This section explains in more detail why a price intervention was needed to support small-scale basmati rice farmers taking part in the GRAISEA II programme in Pakistan, and describes the context and the design of the price premium mechanism that was piloted.

### 2.1 BASMATI RICE SUPPLY CHAINS AND THE VULNERABILITY OF SMALL-SCALE FARMERS

Pakistan is a major global exporter of basmati rice, with volumes exceeded only by those of India, Vietnam and Thailand. Basmati rice, which in Pakistan is grown mainly in Punjab province, is an essential source of livelihoods for many smallholder farmers and an important export crop.<sup>64</sup> Pakistan's competitive edge in the world market for this commodity, however, has been eroded in recent years due to productivity and quality constraints. High production costs and declining yields have made the cultivation of basmati rice progressively less profitable for farmers, even though, at the same time, demand for the crop has been increasing worldwide.<sup>65</sup>

Only a small proportion of the rice grown in Pakistan is produced on modernized farms within structured supply chains; the vast majority is grown in fragmented, low-productivity value chains by smallholder farmers.<sup>66</sup> <sup>67</sup> Earning a decent living is hard for these farmers, and they face a number of barriers to improving their income from rice. Small-scale farmers are often trapped in unequal relationships with traders, millers and other actors along the value chain, and lack the power to negotiate for a fair share of the value of their crop. Rising input costs, unsustainable production methods and climate change are all adding to the risks and vulnerability they face.<sup>68</sup> Large fluctuations in prices for basmati rice mean that farmers can never be sure of their incomes and are unable to plan or invest. Pakistan has no national pricing mechanism for rice, as it does for wheat. Instead, prices and standards are set by local markets or millers on a daily basis. Small-scale farmers have limited access to certified seed, credit facilities, agricultural inputs or mechanization.<sup>69</sup>

The situation is worse for women. In the Punjab districts of Gujranwala and Sheikhupura, almost half of all households are female-headed, but these women often struggle to feed themselves and their families. Research by Oxfam conducted in 2017 found that more than eight out of 10 women workers and farmers growing rice in Pakistan were severely food-insecure.<sup>70</sup> Social norms and customary laws often prevent women from fully owning land. Even when they have sole responsibility for rice production, they can be excluded from access to critical productive resources and services, including credit, farm inputs and information. Meanwhile, the low incomes associated with rice cultivation drive a significant number of men to migrate to urban areas in search of better-paid work. This creates a shortage of labour during the growing season and increases women's workload on farms and their care work at the household level.<sup>71</sup>

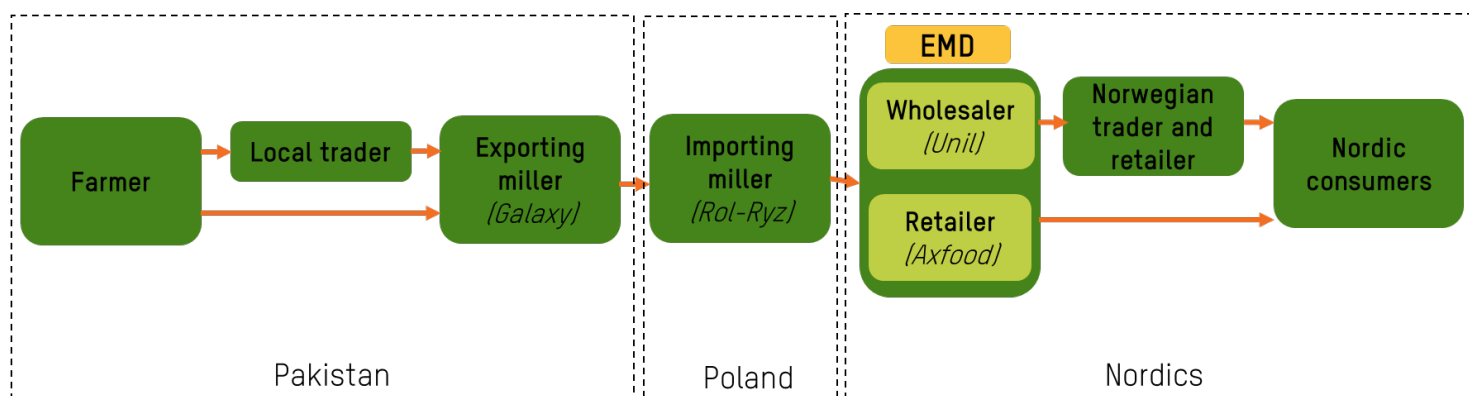
Paddy rice (harvested but unprocessed rice) is traditionally sold by small-scale farmers to local traders known as *arthi*. Often farmers also depend on these traders for the provision of seeds and loans. The traders set prices for inputs, along with the terms of loans and the price they will pay for the rice, which leaves farmers open to exploitation. Because they lack storage facilities and face pressure from traders to repay their debts, small-scale farmers often have to sell their rice immediately after harvesting, when market prices are usually at their lowest.<sup>72</sup> They also lack the means to transport their produce to rice mills and are therefore dependent on the traders for transportation and have to accept whatever price they offer. With the milling sector becoming more concentrated and small village mills disappearing, this problem is getting worse.<sup>73</sup> The exploitative practices of traders are one of the main barriers to increasing the incomes of small-scale farmers. However, even if farmers are able to sell directly to millers, they do not necessarily receive much better prices. Formal contractual agreements between millers and farmers are often lacking and prices are again offered at the time of harvest, which means that farmers receive lower prices than they could have obtained later.<sup>74</sup>

The rise of supermarkets both domestically and internationally could potentially offer a major opportunity for rice farmers to engage in new markets. Unfortunately, the evidence indicates that, to date, small-scale producers are only being further squeezed by these changes, with the creation of additional barriers.<sup>75</sup> International competition and the concentration of power in the global value chain for basmati rice often mean that small-scale farmers are the weakest link in the chain. Because they lack negotiating power, they again have to accept the price they are offered, whether or not this means that they can secure their livelihoods. An analysis conducted in 2018 by the Bureau for the Appraisal of Societal Impacts for Citizen information (BASIC) on behalf of Oxfam showed that in global value chains Pakistani rice farmers have been trapped between the high costs of production and fluctuating farm-gate prices, while actors further downstream have fared much better.<sup>76</sup>

## **THE GRAISEA II PAKISTAN–NORDIC BASMATI RICE SUPPLY CHAIN**

The GRAISEA II programme brings together actors at each stage of the value chain, from farmer to retailer. The actors involved in the pilot project were GRAISEA II farmers in Pakistan, the exporting miller Galaxy Rice Mills in Pakistan, the importing miller Rol-Ryz in Poland and Unil, a wholesaler in Norway, and Axfood, a retailer in Sweden that sells imported basmati rice as a private-label product<sup>77</sup> (Figure 1). They were supported by Oxfam in Pakistan and local development partners.

**Figure 1: Structure of the GRAISEA II basmati rice supply chain and private sector partners participating in the pilot project**



EMD = European Marketing Distribution

In all, around 2,500 farmers are involved in the GRAISEA II programme. Oxfam’s analysis of a baseline survey conducted among participating farmers in 2019 (n=188<sup>78</sup>) indicated that 70% of respondents in the districts of Gujranwala and Sheikhpura were small-scale farmers, which in this case is defined as having a farm size of 10 acres or less; the median size is three acres. Most rice farmers are highly dependent on the crop for their livelihoods, relying on it for approximately 50–60% of their household incomes.<sup>79</sup> Rice is a seasonal crop, and most farmers grow two different crops a year. Sequential cropping of rice and wheat is one of the most common cropping systems in Punjab province.<sup>80</sup>

More than 80% of the farmers who responded to the baseline survey reported that they sold their produce to local traders. The GRAISEA II programme has focused on cutting out exploitative relationships with traders, and has tried to link farmers directly with exporting millers such as Galaxy. As a result, the proportion of farmers selling directly to exporters has increased significantly. Millers dry and de-husk the paddy rice and then sell it in domestic and export markets.

Importing millers such as Rol-Ryz process and package basmati rice in their own countries for further export. The processing and packing stage in Europe is quite concentrated, with 21 companies and three national rice milling associations accounting for 90% of the European rice milling industry.<sup>81</sup> Rol-Ryz alone accounts for around 35% of the European basmati rice market.<sup>82</sup>

The retailer Axfood in Sweden and the wholesaler Unil in Norway are large players in their respective markets. Unil, part of wholesaling group NorgesGruppen, is the largest player in the Norwegian market, with a market share of roughly 44%,<sup>83</sup> while Axfood is the second largest food retailer in Sweden, with a market share of around 20% in 2020.<sup>84</sup> Through engagement in the European Marketing Distribution (EMD) buying group, Axfood and Unil, together with other retailers, have effectively combined their purchasing power to negotiate better prices.<sup>85</sup>

## 2.2 WHY A PRICE INTERVENTION?

From the outset, before the pilot was implemented, GRAISEA II included a number of interventions aimed at increasing the bargaining power of small-scale farmers and indirectly increasing the prices they receive for paddy rice. Through the establishment of grower organizations (GOs), GRAISEA II farmers are being supported, among other aims, to:

- strengthen their bargaining position by engaging directly with exporters in order to benefit from higher prices. Linking farmers with exporters also helps to eliminate the exploitative practices of local traders;

- improve their yields and the quality of their rice by adopting farming techniques aligned with Sustainable Rice Platform (SRP) standards.

Oxfam’s analysis of the GRAISEA II baseline survey from 2018 indicates that these interventions have the potential to secure better prices for farmers, reduce input costs and increase rice production, ultimately improving farmers’ livelihoods. However, the analysis also indicates that these interventions on their own would not be sufficient to close the living income gap for small-scale farmers and that a price intervention was also needed.<sup>86</sup>

**Box 5: The Sustainable Rice Platform**

The Sustainable Rice Platform (SRP)<sup>87</sup> is a global, multi-stakeholder initiative on rice that aims to facilitate the widespread adoption of sustainable best practices in the global rice sector. The mission of SRP is to provide private, non-profit and public actors in the global rice sector with sustainable production standards and outreach mechanisms that contribute to an increase in the global supply of affordable rice, improved livelihoods for rice producers and a reduction in the environmental impact of rice production. Oxfam is working to address shortcomings in the Standard by influencing SRP in four strategic areas: gender justice, small-scale producer voice, environmental sustainability and corporate accountability.<sup>88</sup>

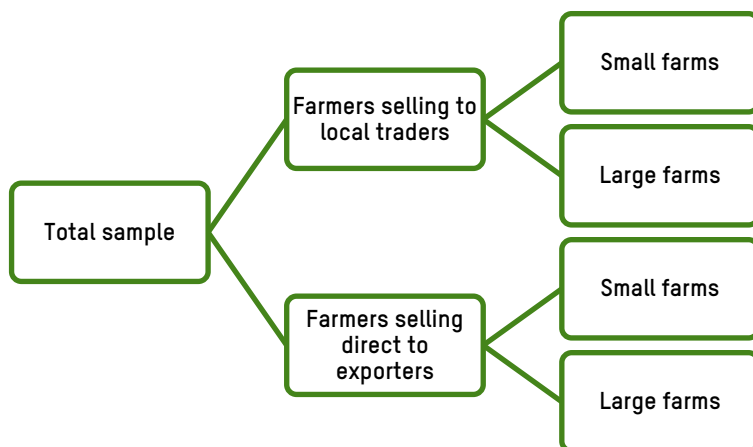
## WHAT IS THE INCOME OF BASMATI RICE FARMERS?

The analysis presented here is based on the GRAISEA II baseline survey. Oxfam’s analysis of these data showed that approximately 70% of farmers participating in the programme were small-scale ( $\leq 10$  acres), with a median farm size of three acres. Just under 20% of all farmers reported that they sold their produce directly to exporters; of these, 40% were small-scale farmers. Most rice farmers depend on rice for approximately 50–60% of their household incomes.

To analyse the baseline survey data, basmati rice farmers were segmented in two ways (Figure 2):

- between small farms, defined in this study as having 10 acres or less, and large farms, defined as having 10 acres or more;
- between farmers who sold their produce directly to exporters participating in the GRAISEA II programme in the 2018/19 harvest season and those who did not.

Figure 2: Segmentation of farmers in the analysis



The segmentation according to whether farmers sold their rice directly to exporters or to local traders was intended to help estimate potential increases in income if the exploitative practices of middlemen were eliminated. The segmentation according to farm size was due to the importance of farm sizes and the range of sizes in the data. While most farmers (70%) were small-scale with a

median farm size of three acres, larger farms (30% of the total) ranged from 11 acres to 275 acres, with a median size of 20 acres. The farm size of 10 acres was discussed with all participating partners and was agreed upon as a reasonable benchmark for differentiating relatively small farmers.

Farmer income was calculated for each of the segments using median values<sup>89</sup> for farm size, yield, farm-gate price, costs of production and the proportion of income from rice earned by farmers in each segment, using the following equations:

$$[(\text{Land} \times \text{Yield}) \times \text{Price}] - \text{Costs of production} = \text{Net income from rice}$$

$$(\text{Net income from rice} / \text{Proportion of income from rice}) \times 100 = \text{Total income}$$

The analysis showed that the net income of a farmer selling directly to exporters was more than double that of the median farmer selling to other actors. However, the results mask significant variations between small- and large-scale farmers in each group. The net income from rice of large-scale farmers in both groups was significantly above €4,000 per annum (p.a.), with a total household income of around €7–8,000 p.a. This was sufficient to reach the living income benchmark of €2,036 p.a. used in this study. This is significant, and it was therefore decided to focus on small-scale farmers.

Small-scale farmers earned significantly less than large-scale farmers. However, the net income from rice of small-scale farmers selling directly to exporters, of €515 p.a., was significantly higher than the income of those selling to other actors (€395 p.a.), principally as a result of slightly lower costs of production and higher yields<sup>90</sup> (see Table 1).

**Table 1: Median results for farm size, yield, price, costs of production and proportion of total income from rice, and corresponding estimates for net income from rice and total income (2018)**

	Small-scale farmers selling direct to exporters	Small-scale farmers selling to local traders
<i>Farm size (acres)</i>	3	3
<i>Yield (kg/acre)</i>	1,402	1,309
<i>Farm-gate price (€/kg)</i>	0.21	0.22
<i>Cost of production (€)</i>	385	456
<i>Net income from rice (€)</i>	515	395
<i>Share of income from rice</i>	60%	50%
<i>Total income (€)</i>	858	789

## WHAT IS THE LIVING INCOME GAP FOR SMALL-SCALE BASMATI RICE FARMERS?

This study adopts the definition of a living income agreed by the Living Income Community of Practice as ‘the net annual income required for a household in a particular place to afford a decent standard of living for all members of that household’.<sup>91</sup> The Anker methodology<sup>92</sup> is widely recognized as the most robust approach for estimating benchmarks for a living income. However, as robust estimates were lacking for the GRAISEA II region, the study uses a crude estimate of what a living income would be, based on WageIndicator.com’s<sup>93</sup> estimated costs of a decent standard of living for a typical household in Pakistan, including two adults and 3.7 children, of up to PKR 29,000 per month, or approximately €2,036 p.a. Alternative benchmarks for other rural areas in Pakistan indicate lower income levels,<sup>94</sup> although it is notable that the average number of children per household reported by respondents to the baseline survey was 7.2 – nearly twice the number assumed in the WageIndicator benchmark. The benchmark was validated by GRAISEA II stakeholders as a reasonable basis for analysis in this study.

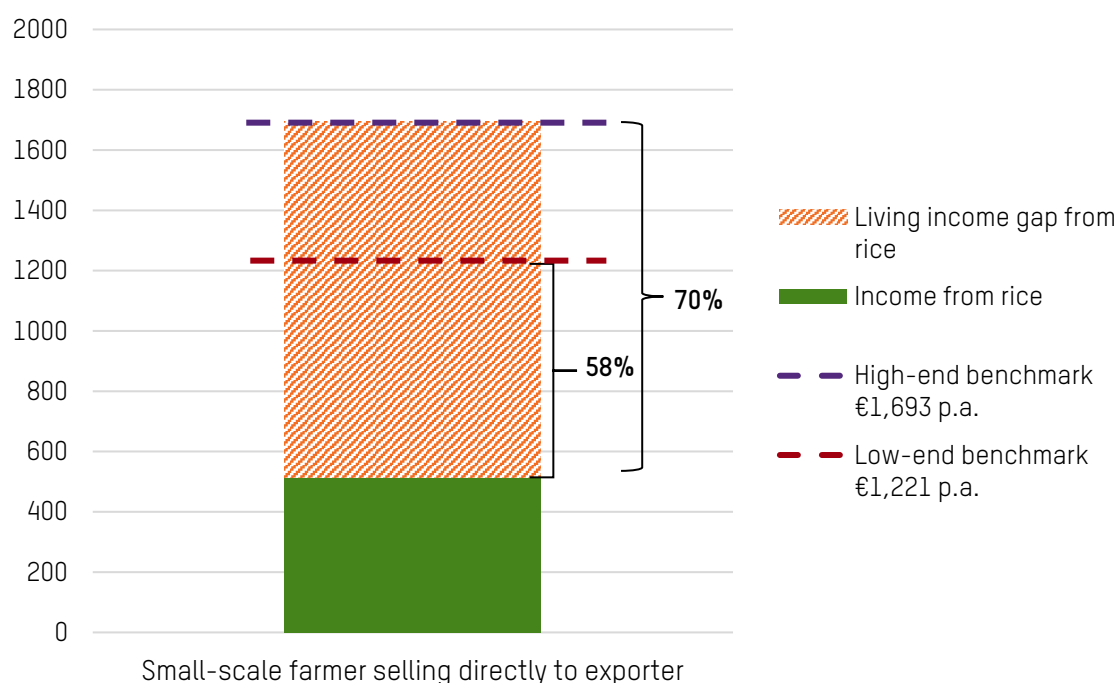
From this total, the study uses a low-end estimate of a living income from rice of €1,221 p.a., assuming that 60% of income is from rice, which was the median proportion reported in the baseline survey by farmers selling directly to exporters.

However, meeting the whole living income of €2,036 p.a. in this way would also entail very significant increases in non-rice sources of income for small-scale farmers, which may not be realistic. Therefore, the study also uses a high-end estimate of a living income from rice of €1,693 p.a., which assumes no increase in the median non-rice income of small-scale farmers selling directly to exporters, as reported in the baseline survey.

The living income gap is then calculated as a range between the low-end and high-end estimates, using the following equation:

$$\frac{(\text{Living income from rice} - \text{Net income from rice})}{\text{Living income from rice}} \times 100 = \text{Living income from rice gap (\%)}$$

**Figure 3: Low-end and high-end estimates of the living income gap from rice for small-scale farmers selling directly to exporter**



When the net income from rice earned by small-scale farmers selling directly to exporters was compared with the living income from rice benchmarks used for this study, it became apparent that these farmers – although earning more than small-scale farmers selling to traders – still faced a significant living income gap from rice, estimated at between 58% and 70% (€707 to €1,179) (see Figure 3). It was also apparent that eliminating the exploitative practices of middlemen was not sufficient in itself for small-scale farmers to earn a living income.

### LIMITATIONS

The analysis has a number of limitations that should be noted:

- The 10-acre cut-off for the segmentation of farmers was seen as reasonable by all involved stakeholders. Other cut-offs would have resulted in other estimates.
- In the baseline survey, the share of income from rice was based on estimates by responding farmers (later this was based on actual data collected in the pilot). Responses concerning the share of income from rice were converted for analytical purposes in the following way:

- responses indicating that less than 50% of income was from rice were treated as though 50% of income was from rice;
  - those indicating that 50–74% was from rice were treated as though 60% of income was from rice;
  - those indicating that 75–100% was from rice were treated as though 87.5% of income was from rice;
  - and those indicating rice was their only source of income were treated as though 100% of their income was from rice.
- Where there was no response regarding the share of income from rice, the median value from the total clean sample was used, and where a 0 was given – indicating no income from rice – from a respondent whose answers otherwise indicated an income from rice, this was adjusted to indicate less than 50% of income from rice.
  - The costs of production reported by respondents were assumed to include all operational costs of production for the season. It is, however, possible that some of the reported costs for the 2018 season included capital investments.
  - It is assumed that the reported costs of production also included any use of external hired labour.
  - The calculations assume that costs remain stable. However, higher production standards in line with SRP standards often result in reduced production costs.<sup>95</sup>
  - While the raw data is disaggregated by gender, it is assumed that women respondents could have been responding on behalf of a mixed-gender household. Therefore, no further conclusions have been drawn about the relative incomes of women compared with men's.
  - No allowance has been made for any in-kind farm income.
  - The sample size of 197 respondents is relatively small, which increases the margin of error. No attempt has been made at this stage to calculate the margin of error.
  - Mounds have been converted to kg based on a ratio of 1:37.5, and an average Pakistani Rupee to Euro exchange rate for 2018 has been used.<sup>96</sup> Alternative conversions (such as a 1:40 ratio, or exchange rates based on the time of sales) would have led to slightly different results, although no sensitivity analysis has been conducted.

## **THE LIMITATIONS OF INCREASING YIELDS AND THE DIFFERENCE THAT INCREASED FARM-GATE PRICES CAN MAKE**

An analysis by Oxfam in Pakistan further assessed what increases in yield might be achievable with the adoption of farming techniques promoted under the GRAISEA II programme. The analysis, based on data from the 2019/20 harvest season, showed that the adoption of farming techniques aligned with the SRP standards has the potential to increase yields from 1,400–1,480 kg/acre to 1,600–1,800 kg/acre. This represents at best an improvement of approximately 30% compared with the median yield in the baseline survey for farmers selling directly to exporters.

While such increases in yield would make a significant difference to the incomes of small-scale farmers, Oxfam's analysis showed that these alone would be insufficient to close the living income gap from rice. A 30% improvement in yield would – all else being equal – increase the income of small-scale farmers selling directly to exporters by €270 p.a. (an increase of 52%) and reduce the living income gap from rice from 58–70% to 36–54%. This is significant, but it demonstrates that improvements in yield alone are insufficient to close the gap.

It was concluded that the most feasible route to closing the living income gap from rice was through a combination of improvements in yield and increases in the farm-gate price. Table 2 presents different scenarios of increased price and/or yield.

**Table 2: Net income (€/year) for small-scale farmers selling directly to exporters in scenarios of increased price and/or yield**

Price increase	Yield increase			
	0	10%	20%	30%
0	515	605	694	784
10%	605	703	802	901
20%	694	803	910	1,018
30%	784	901	1,018	1,135
40%	874	1,000	1,126	1,252
50%	964	1,099	1,234	1,369
60%	1,054	1,198	1,342	1,486
70%	1,144	1,297	1,450	1,603
80%	1,234	1,396	1,558	1,720

Note: Scenarios consistent with the low-end living income from rice benchmark are shown in light green, and the scenario consistent with the high-end living income from rice benchmark is shown in dark green.

For example, a 30% improvement in yield together with a 40% increase in the farm-gate price would be sufficient for small-scale farmers to reach the low-end living income from rice benchmark (shown in light green). A slightly more conservative 20% improvement in yield – to 1,683 kg/acre – would require farm-gate prices to increase by 50% to reach the low-end living income from rice benchmark.

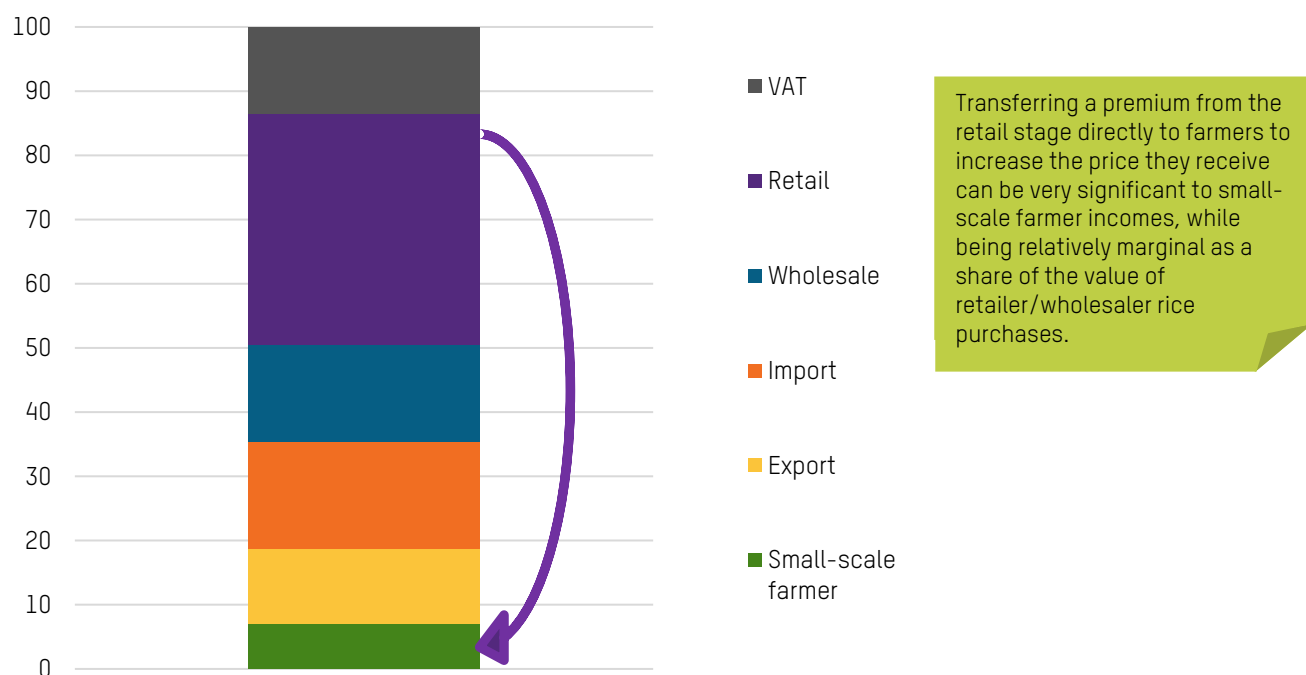
To reach the high-end living income benchmark (shown in dark green), small-scale farmers would require improvements in yield of 30%, combined with an 80% increase in price to approximately €0.38/kg.

## 2.3 HOW DOWNSTREAM SUPPLY CHAIN ACTORS CAN SUPPORT HIGHER FARM-GATE PRICES BY DISTRIBUTING VALUE MORE FAIRLY

Oxfam then estimated the distribution of value-added in GRAISEA II supply chains. This analysis is based on data shared by the private sector partners relating to their volume and value of purchases of basmati rice in 2018, in addition to the median farm-gate price for small-scale farmers selling directly to exporters in 2018, as reported in the baseline survey. All prices were converted to €/kg using average 2018 exchange rates. A conversion factor of paddy rice to milled rice of 70% was used, based on FAO estimates for high-quality paddy grains.<sup>97</sup> The value-added at each stage was calculated by subtracting the sales price from the purchase price, which was then converted to a percentage of the end retail price, exclusive of VAT.<sup>98</sup>

The analysis showed that small-scale farmers in the Axford and Unil supply chains receive no more than 10% of the end retail price, while by far the largest share of total value-added is captured in the country of consumption. The pattern of value-added distribution is similar to many other analyses that Oxfam has done in food supply chains.<sup>99</sup>

Figure 4: Distribution of value-added (%) in GRASEA II rice supply chains in 2018)<sup>100</sup>



Note: The purple arrow symbolizes a redistribution of value-added from the retail stage to the farm stage.

The analysis also indicates that, because value is distributed unequally, increases in the farm-gate price, which are very significant to small-scale farmer incomes, are relatively marginal as a share of the value of retailers' rice purchases. This is significant, because it means that a relatively small redistribution of value-added within these chains could contribute to enabling higher incomes for farmers – if appropriate mechanisms could be designed to benefit them – without requiring a significant (if any) change in the retail price to consumers.

## THE COSTS OF PAYING A PREMIUM

As an example, a 30% increase in the median farm-gate price for small-scale farmers selling directly to exporters would amount to an increase of €0.06/kg in the paddy price, which, assuming a 70% conversion factor in milling, would amount to an increase of €0.09/kg in the cost of processed rice. This €0.09/kg represents approximately 3.5% of the end retail price, exclusive of VAT, of an Axfood 1kg bag of basmati rice, and 1.5% of the end retail price, exclusive of VAT, of a Unil 2kg bag (see Table 3). The cost of the premium to redistribute value could in theory be paid by means of the retailer either cutting their margin and/or transferring the cost to the consumer.

Table 3: Cost of increasing median small-scale farmer farm-gate prices as a proportion of Axfood and Unil end retail prices (exclusive of VAT)

Proportional increase in median small-scale farmer paddy price in 2018	Proportion of end retail price, exclusive of VAT	
	Axfood 1kg bag	Unil 2kg bag
30%	3.5%	1.5%

A direct price premium transfer mechanism was considered to be the most efficient way of redistributing a small share of the total value-added from retailers/wholesalers to cover the costs of establishing a higher target price for small-scale farmers, while avoiding the compounding price escalation effect at each stage of the chain. By ringfencing the cost in an open-book 'triangle agreement' between the retailer, importer and exporter, the premium could be transferred directly from retailer/wholesaler to farmer. The exporter would hold the premium, paying it to the selected

farmers if the market price fell below the target price, and retaining it if it was higher than the target price, in order to keep prices stable.

#### **Box 6: Four steps to calculate the flexible premium**

- Calculate the net income from rice of all small-scale farmers ( $\leq 10$  acres) selling to Galaxy without a premium. The net income from rice depends, inter alia, on the market price paid to farmers, the costs of production and the proportion of rice vs non-rice income in a particular season.
- Calculate the household net income of all small-scale farmers selling to Galaxy without a premium.
- Calculate the size of the living income gap from rice of small-scale farmers selling to Galaxy without a premium.
- Calculate the median amount of premium per kg of paddy rice that should be paid to selected small-scale farmers in order to close the living income gap from rice.

\* Note: calculations were made for the group of (eligible) small-scale farmers, not for every farmer individually. Median values have been used throughout the analysis rather than mean averages, which tend to give a distorted picture due to the influence of outliers.

#### **LIMITATIONS**

The analysis has a number of limitations that should be noted:

- The results of the analysis of the distribution of value-added are based on the gross income of each actor in the supply chain. They do not take any account of costs incurred by any of the actors.
- For the small-scale farmers in the sample who reported receiving a price which was lower than the median price, the share of value-added was slightly lower, while for those who received a higher price, the share of value-added was slightly higher (although the results are robust to these variations, in that they do not significantly alter the share of value-added proportions captured by small-scale farmers).
- Figure 4 shows the mean value-added at each stage of both supply chains for the purpose of this paper, in order to avoid disclosing company-sensitive data. It should, however, be noted that the structures of the Axfood and Unil supply chains differ (with additional downstream actors in the Unil chain). The shares of value-added are therefore not meant to reflect accurate means, but to reflect the general pattern of value-added distribution in the two supply chains.

## **2.4 A SEPARATE PREMIUM FOR WOMEN WORKERS**

The pilot project also included a separate premium for women workers in order to truly shift power and value within the basmati rice value chain. Labourers working on rice farms are extremely vulnerable, with access only to seasonal employment, and very low wages.<sup>101</sup> In Gujranwala and Sheikhpura districts, women head close to half of all households and perform many of the physically demanding tasks in rice production, especially during the planting seasons. In addition, wages are not the same for men and women. In most cases, men get the money for work as heads of household, and in many cases this money is not transferred to women. Further, women often face abusive language and harassment while working.<sup>102</sup> They are not unionized and have no official collective voice to help them claim their rights, such as equal wages or medical support. Labour policies are rarely implemented across the informal agriculture sector, which leaves them further lacking in protection.<sup>103</sup>

All the actors involved in GRAISEA II were aware that achieving a living wage for informal seasonal workers would be difficult, but that a price premium would make a significant difference to their livelihoods. Estimates of living income gaps and costs also showed that only minor contributions would be needed to close the living wage gap for farm workers during the 30 days when rice was transplanted. Including the mostly female labourers in the pilot project was a good fit with the objectives of the programme, which aims to develop gender-transformative value chains to benefit both smallholder farmers and workers.

The living wage benchmark for workers was based on the most recent cost estimated by WageIndicator.com of a decent standard of living for a typical household in Pakistan, including two adults and 3.7 children. The premium was the difference between the current minimum wage set by the government and the target price to guarantee a living wage from rice, and was paid for one month when the transplanting of rice took place. In practice, workers are unlikely to receive the minimum wage. Wages are often set locally and can vary on the basis of the demand and supply of workers. However, as it was difficult to verify the exact wages received, it was decided to use the minimum wage set by the government as a basis to enable early action.

Workers were eligible to receive the premium if they were linked with interventions of the GRAISEA II programme and attended sessions on the SRP standards. The total premium amount for workers was transferred using the mechanism described above, together with the total premium amount for small-scale farmers, from the retailer to the exporter. In the next step, the premium was paid to eligible workers.



Women farmers/labourers manually transplanting rice seedlings in a paddy field in Punjab province.  
Photo: Oxfam in Pakistan.

# 3 RESULTS OF THE PRICE INTERVENTION

All the actors involved agreed to take part in a small-scale pilot project to test the feasibility of the price mechanism over two rice seasons, 2020/21 and 2021/22. They also agreed to a price increase of approximately 30% which would – depending on increases in yield – have the potential to reach the low end of the living income benchmark for small-scale farmers. The ambition was to reach about 200 small-scale farmers, whose total production would approximate to the volume of basmati rice purchased by Axfood in 2018. However, for various reasons (explained in section 4), the pilot involved only about 65 farmers in each season and did not benefit the same group of farmers each year (only about 20% participated in both years). Participation by women in the pilot was low (section 4.1 contains reflections on the gender aspect), but the women farmers taking part reported that they had sold direct to an exporter for the first time, which was an encouraging development. Although partners decided not to continue with the price intervention after the piloting phase, the experience with the pilot showed that a price increase can make a meaningful contribution to the ability of women and men farmers to earn a living income.

## 3.1 WHAT WAS THE IMPACT ON A LIVING INCOME FROM RICE?

In the first season, 68 farmers (65 men, three women) with a median farm size of 3.9 acres received a 30% increase in the median farm-gate price, taking it to PKR 71/kg (€0.29/kg). This amounted to an additional €0.08/kg on the median small-scale farmer paddy rice price in 2020/21, and cost €29,086 in total. The costs were split equally between the retailer Axfood and wholesaler Unil. The premium boosted farmers' average net income by €427 p.a., or 65%, and cut the average living income gap from rice from 44–70% to 0–46.8%.

In the second season, 64 small-scale farmers (58 men, six women) took part; they had farm sizes of between one and five acres (median of three acres) and an average net income from rice of PKR 66,639. This represented 36% of their total net income, which was a significantly lower figure than for farmers in the first season. Their living income gap from rice was significant (44–57.6%). These farmers received an increase in the median farm-gate price to PKR 66/kg (€0.31/kg), which represented an increase of 24%. This amounted to an additional €0.06/kg on the median small-scale farmer paddy rice price in 2021/22, costing a total of €15,694.

The premium needed to reach the low end of the living income benchmark from rice was lower compared with the first season, principally due a lower proportion of income from rice and higher incomes from wheat. The proportion of income from rice is impacted by various factors. Although most farmers in the region depend on rice for a majority of their income (usually more than 60%), the income from rice depends on the weather (yields), insect pest attacks, and price (income). The income received from wheat – the other major income source in the region which is harvested bi-annually – also impacts the proportion of income from rice. Unlike rice prices, the wheat price in Pakistan is controlled by the government and in 2021/22 the government significantly increased the price for wheat.<sup>104</sup> As a result, the total costs to close the living income gap from rice for Axfood and Unil were significantly lower in the second year. The premium boosted the farmers' average net income by €256 p.a., or 77%, and cut the average living income gap from rice from 44–64% to 0–31.6%.

**Table 4: Key data for small-scale farmers receiving the premium**

	Season 2020/21	Season 2021/22
<i>Number of farmers receiving the premium</i>	68 (65 men, three women)	64 (58 men, six women)
<i>Median farm size (acres)</i>	3.9	3.0
<i>Yield (kg/acre)</i>	1,531 (increase of approximately 10% in yield compared with the baseline)	1,400 (no increase in yield compared with the baseline)
<i>Proportion of net income from rice</i>	71%	36%
<i>Price received (PKR/kg)</i>	55	53.4
<i>Living income gap from rice, low to high end (%)</i>	44–64%	44–57.6%
<i>Paddy price needed to achieve living income from rice benchmark (PKR/kg)</i>	74–111	66–76

**Table 5: Impact of premium price payment on living income of small-scale farmers and costs to retailers**

	Season 2020/21	Season 2021/22
<i>Selected target price (PKR/kg)</i>	71	66.2
<i>Increase in farm-gate price</i>	+30%	+24%
<i>Additional average net income increase (€/year)</i>	428	256
<i>Living income gap from rice after premium payment (%)</i>	0–36.1%	0–24.8%
<i>Change in rice net income (%/year)</i>	+65%	+77%
<i>Change in total net income (%/year)</i>	+42%	+28%
<i>Cost of premium per kg of paddy (€)</i>	0.08	0.06
<i>Proportion of end retail price (€), exclusive of VAT</i>	4% Axfood 1kg bag 2% Unil 2kg bag	3% Axfood 1kg bag 2% Unil 2kg bag
<i>Total cost premium for farmers (€) (equally split between retailer Axfood and wholesaler Unil)</i>	29,086	15,694

While these price increases for farmers were significant, they were still lower than the peak price for Pakistani basmati paddy rice between 2014 and 2015, when the FAO recorded prices of over €0.5/kg.<sup>105</sup>

**Box 7: Farmer testimonies following the 2021/22 rice season**

One smallholder farmer said: ‘I was worried about meeting farm-level expenses for my upcoming rice crop. I met with middlemen and MFIs [microfinance institutions], but I could not meet their conditions. It is a blessing that the private sector company Galaxy Rice Mills supported me, and I was able to meet all my farm-level expenses and household needs.’

Another said: ‘We, the farmers, are very happy to receive this support. It is sowing season and we needed financial support to buy seeds and fertilizers. (...) We are highly indebted to all the partners in (this price intervention) for their support. We believe that the quality of the paddy will be increased with timely inputs and by following SRP standards. We believe that this will be continued in the upcoming seasons.’

The premium was well received by the small-scale farmers, who felt that it made a significant contribution – particularly due to the recent price hikes in farm inputs in Pakistan. Farmers reported they had used the premium amount to cover costs for, for example, seeds, fertilizers, pesticides, land preparation, transplantation and watering. Farmers also reported they had used parts of the premium to cover household expenses such as the cost of living, healthcare and education. Some farmers and labourers even reported that they had created additional livelihood opportunities such as setting up small-scale shops, trading in chemicals and purchasing raw material for stitching units (for rice bags) supported by the GRAISEA II programme.

Farmers reported that receiving the premium added to their motivation to follow farming practices in line with SRP standards. The mechanism also decreased the use of middlemen and borrowing from middlemen, as it motivated farmers to sell directly to Galaxy to receive the premium. The price intervention enabled farmers to buy farming inputs directly. It is common practice for middlemen to buy inputs such as fertilizer and seeds and give these to farmers as loans. At the time of harvest, the middleman buys the rice paddy at a low price to recover the debt. The premium enabled farmers to buy chemicals, fertilizer, and seeds on their own. Farmers reported that they got a better market price and that their profitability increased as a result. The timing of the premium payment played an important role here, as farmers received it just before the next sowing season.

The premium was paid on top of and separately to the rice price, after farmers had sold their rice and just in time for the next planting season. The timing of the premium payment was appreciated by the farmers as it allowed them to cover their input costs for the next rice season without having to borrow money from middlemen.<sup>106</sup>

#### **Box 8: Price interventions can make good business sense**

While the advantages for the producer are clear, the business case for other supply chain actors may be less obvious given the cost of paying higher prices. But there are also significant benefits for supply chain actors downstream – which arguably make price interventions a contributor to business success rather than a cost to mitigate. The companies involved in the pilot noted that a decent income for farmers was likely to encourage loyalty from farmers and stronger partnerships with suppliers, contributing to increased stability for buyers, lower long-term costs, and a higher-quality product.

Millers in the Punjab region already use various interventions to support farmers, including offering them small loans or subsidizing the costs of seeds, fertilizer and chemicals, but being paid higher prices seemed to be the most attractive option for farmers. Galaxy Rice Mills recorded a significant increase in the number of farmers willing to sell it paddy rice and reported that the pilot price intervention enabled it to build stronger business relationships with farmers, resulting in a more stable supply of quality paddy rice at a relatively low cost. The business case was so strong that Galaxy decided to continue paying farmers a premium of approximately 10% above the market price, even after the pilot ended. Other millers in the region followed its lead and are now paying higher prices to farmers.<sup>107 108</sup>

The other private sector partners who took part stressed that the longer-term engagement allowed them to strengthen and deepen business relationships with other supply chain actors, leading to increased predictability of supply and ease of doing business. In a world where disruptions due to climate change and other shocks are increasingly common, resilient supply chains will arguably become even more important. Investing to provide a stable, living income for farmers can significantly reduce supply chain risks.<sup>109</sup>

It has also been argued that supporting a living income can deliver benefits linked to brand image and customer loyalty, as consumers are increasingly demanding better social performance from businesses.<sup>110</sup> With mandatory due diligence also becoming more common, companies can avoid legal or regulatory risks – and thus significant financial risks – by investing in responsible business practices.<sup>111</sup> However, the business case also has limitations given the lack of a level playing field in the current food system, in which business models enable the making of profits and deliver cheap food for consumers, but do not provide fair remuneration for farmers. This is discussed further in section 4.

## 4 LESSONS LEARNED – KEY SUCCESS FACTORS AND CHALLENGES

The pilot project shows that flexible premiums can be an effective way to minimize living income gaps for even the most vulnerable farmers, and can have a positive impact on their livelihoods. However, price interventions can be more difficult to implement than might at first appear. While it might seem relatively simple in theory to increase prices, it is a much more complex issue to navigate in practice. This section shares lessons from the premium price intervention piloted in Pakistan, addressing the question **‘What are the key success factors and challenges identified from this pilot that are of relevance for stakeholders designing price interventions as part of living income strategies?’**.

### 4.1 APPLYING A HUMAN RIGHTS LENS

#### PRICE INTERVENTIONS SHOULD BE TAILORED TO FARMER SEGMENTS

Concerns have been raised that the recent focus on living incomes could actually pose a threat to the poorest farmers. With companies facing higher expectations to ensure a living income for farmers in their supply chains, they have an incentive to focus their efforts on better-off farmers, as their income gaps are smaller and easier to close.<sup>112</sup> Paradoxically, therefore, while the focus on living incomes is rooted in concerns about poverty among farmers, it could end up making their situation worse.

**To avoid this happening, it is important to adopt a human rights due diligence approach to living incomes and price interventions.** Effective human rights due diligence processes will identify the most significant risks for farmers in a company’s supply chains (not risks for the company), and will ensure that a living income for marginalized farmers is a primary element of any intervention (and not just for the farmers who are easiest to help).<sup>113</sup> In the GRAISEA II programme, the inclusion of small-scale and vulnerable farmers was encouraged and supported. One of the programme’s aims was to link small-scale farmers more directly with international markets by cutting out middlemen. The pilot project further incentivized small-scale farmers in the region to sell direct to Galaxy Rice Mills. The international buyers Axfood and Unil had probably never bought from these small-scale farmers before. While this can be seen as the companies ‘going beyond’ their obligations, all companies should at a minimum be paying a living income to all farmers involved in their supply chains.

### Box 9: Benefiting small-scale farmers in living income and price interventions

- Going beyond: Targeting living income and price interventions towards farmers outside of own supply chains.
- Minimum: Applying a human rights lens and paying a living income to all farmers in own supply chains, both small- and large-scale, and tailoring price interventions towards different groups of farmers to ensure they earn a living income.
- Avoid: Benefiting only better-off farmers in supply chains or even harming small-scale, more vulnerable farmers.

**Price interventions should be tailored according to different farmer segments to ensure that the needs of different groups of farmers are adequately met.** Measuring farmers' incomes alone can obscure vast differences between groups. For example, in the first season of the pilot the average living income gap from rice for farmers with 1–6 acres of land was as large as 44–64%. For farmers with up to 10 acres the average income gap from rice was only 20–40%, while farmers with up to 25 acres did not face an income gap. This shows the effect that using averages for groups of farmers can have.

Taking a segmented approach allows price interventions to be more effective as it provides more meaningful insights into who farmers are and what their income gaps are.<sup>114</sup> To this end, collecting and analysing disaggregated data is key, e.g. by farm size or gender. This helps to prevent a situation such as the one observed in the cocoa sector, where it is thought that even if living income policies were implemented, 50% of all income earned would go to just 12% of farmers, who are the best-off and have the largest farms.<sup>115</sup>

**Price interventions can make a significant contribution to the living income of even the most vulnerable farmers if the intervention is targeted and the level of ambition of the premium is high enough.** This is important, as one argument commonly advanced is that farmers with the smallest amount of land are the least likely to benefit significantly from price interventions.<sup>116</sup> In the pilot, the premium increased the average annual net income of small-scale farmers by 28–42%, which is a significant amount. Even farmers with the smallest land sizes of 1–2 acres saw their living income gap from rice shrink from 65–74% to 38–53%. Experience from the pilot suggests that while price interventions are not a 'silver bullet' solution to closing the gap for farmers with the smallest land size, they can make a significant contribution. This is important, as for many small-scale farmers it is not a viable option to transition out of agriculture, as they lack any alternative means of generating income.<sup>117</sup>

**The pilot also shows that price is a relevant element of living income strategies (i.e. increases in productivity alone will not be enough), but a focus on price and premium should not exclude supplementary measures.** Stakeholders should approach the issue of a living income with a holistic lens. Seeing price increases as a 'silver bullet' could create a risk of draining resources from other sustainability initiatives needed to support the most vulnerable farmers. For example, in the GRAISEA programme, support to farmers to increase the quality of their produce through the adoption of SRP standards was crucial to counteract decreasing yields and link farmers to international markets. The establishment of GOs was also important to increase the bargaining power of farmers.

**The deep engagement of farmers and GOs in the design and implementation of price interventions and transparency with farmer communities about how and why the price intervention is tailored towards certain groups of farmers are both important.** While targeting only small-scale farmers with price interventions can be effective in addressing farmer poverty if financial resources are limited, the pilot showed that it can also create tensions within communities if engagement and communication with farmers are not prioritized from the beginning and larger farmers feel overlooked. Also, excluding certain farmer groups might not make business sense. Galaxy voiced concerns that excluding larger farmers could have negative impacts on their sense of loyalty

towards the company.<sup>118</sup> Tailoring price interventions to the needs of different farmer groups, with higher premiums for small-scale farmers and lower premiums for large-scale ones, could be one solution, as long as farmers' needs are adequately met.

## **PRICE INTERVENTIONS REQUIRE TARGETED SUPPORT FOR WOMEN FARMERS**

**Adopting a human rights due diligence approach to living incomes and price interventions will help to ensure that such interventions do not have negative impacts on women farmers (i.e. if interventions are gender-blind).** Barriers to earning higher incomes are gender-specific. In Pakistan, many women are faced with limited access to land, a lack of control over household finances, adverse gender norms and time pressures due to care duties.<sup>119</sup> However, few price interventions thus far have targeted support for women and therefore they risk benefiting mostly men – who are more likely to be formally registered, be part of a cooperative and have better access to resources.<sup>120</sup> Gender-blind price interventions can in fact increase gender disparities.

**Stakeholders should analyse to what extent women farmers are likely to benefit from price interventions to ensure equal access with men.** In the pilot project, the transportation of paddy rice to exporters represented a major barrier for women farmers. With only small quantities of rice to sell, women reported that they faced challenges such as high costs for transport or that transport was simply not available. As well as taking account of constraints to farm-level activities, stakeholders should consider constraints external to farming, such as unpaid care work, faced by women farmers. Women reported having to tend to family matters, and the norms and values underpinning what is expected of them prevent them from travelling long distances.

Women farmers also reported long procedures and waiting times at the exporter's premises, which discouraged them from selling directly to Galaxy.<sup>121</sup> Because of these difficulties, they therefore often opted to send other family members to transport their paddy rice to Galaxy. This meant that the women's names were not recorded in Galaxy's database and receipts were issued in the names of their family members. This was one of the reasons why only six of the 64 farmers to benefit from the pilot in the second season were women. There were 15 other women farmers who did not receive the premium directly as they did not travel to Galaxy's premises to sell their rice themselves. As women often have little or no say on how income is spent within households, the price intervention was likely to have had limited benefits for these 15 women.

**Next, stakeholders should actively address any gender-specific constraints they are facing to make price interventions gender-inclusive.** Despite the constraints described above, more women farmers sold directly to exporters in the pilot, indicating that interventions under the GRAISEA II programme, which has a strong focus on women's economic empowerment (WEE), have successfully addressed social and cultural barriers that have previously kept women from taking a more active role in farming communities.<sup>122</sup> Gender-sensitive training and interventions to address adverse gender norms, for example, can be essential to making price interventions gender-inclusive.

The consultants evaluating the pilot also concluded that the price intervention further accelerated WEE, as women, often for the first time, engaged directly with Galaxy to sell their rice and also engaged with other market actors such as chemical, fertilizer and seed companies, and actively made decisions concerning their farms. In addition, the women taking part in the pilot were linked with a bank to which the premium amount was paid and, in interviews, said that they had deposited money as savings.<sup>123</sup> Although the number of women farmers who benefited from the price intervention was small, this is still encouraging and indicates that price interventions can contribute significantly to WEE if they are designed and implemented with a strong gender focus.

**Stakeholders should prioritize the collection of gender-disaggregated data to inform the design and implementation of price interventions.** In the pilot, the collection of data on women farmers was complicated by the fact that they sometimes used identification cards belonging to male members of the family when selling to the exporter. This made it challenging to accurately link data to gender, and potentially masked the important role that women play in farming. It is therefore

essential to prioritize conducting a comprehensive gender analysis to inform the design and implementation of price interventions in order to identify such challenges and ensure that interventions are gender-inclusive.

## 4.2 ALIGNING SUPPLY CHAINS WITH A LIVING INCOME

### PRICE INTERVENTIONS NEED TO OVERCOME FRAGMENTATION

**Stakeholders need to analyse how the structure of their supply chains affects the way in which farmers are likely to benefit from price interventions. Making supply chains shorter and establishing more direct trading relationships with farmers is in many instances likely to be an important first step.** Direct trading relationships with farmers are key in order to effectively transfer premiums to them, and so overcoming fragmentation in their supply chains and the transactional relationships that many companies have with farmers is a critical step. A serious barrier to many small-scale farmers in Pakistan benefiting from price interventions is the significant role played by middlemen and the relative remoteness of buyers from the farm level. The GRAISEA II programme successfully reduced the role played by middlemen, and the price intervention further accelerated the new development of farmers selling more to exporters directly.<sup>124</sup> In many cases, however, this is unlikely to be enough to achieve a living income.

**It is important to engage with and understand the situation of women and men farmers and to identify any constraints they are facing that hinder them from establishing direct trading relationships with buyers.** In the pilot, the costs of transporting paddy rice to the exporter or the lack of transport still represented major barriers for the most vulnerable farmers, even if they intended to sell to Galaxy rather than to middlemen. In the pilot's second season, an additional 52 farmers were initially identified by GOs as having sold directly to Galaxy. Given the small scale of the pilot, this was a significant number of farmers. However, during the validation process with Galaxy it was found that these farmers had sold their paddy *indirectly* to Galaxy. The 52 farmers had sold to other farmers, who were collecting paddy rice from them and then transporting it to Galaxy on their behalf. These 52 farmers had to be excluded from being paid the premium as they did not obtain a receipt from Galaxy and the company could not validate their sales volumes or other key data.

**A next step is to then actively address any constraints that farmers are facing.** Solutions can differ according to sector, region or value chain. In the case of Pakistan, one solution proposed after the pilot was to set up collection centres in each of the villages to reduce the barrier of transport costs. GOs could validate farmers' names and ensure that volumes are audited.<sup>125</sup>

**Stakeholders should make the traceability of products in their supply chain a priority.** 23 farmers were identified as having collected paddy from other farmers. These farmers also had to be excluded from being paid the premium (leaving 64 eligible farmers, see section 3.1). This was the only way to ensure that the price intervention included only those farmers who practised SRP-approved methods and sold volumes that were audited. It also ensured that an accurate volume of paddy rice was validated, i.e. without any double-counting. This was important, not least because the volume affected the cost of the total premium payment. In other commodities, such as cocoa, traceability can be a major obstacle since companies often cannot trace their cocoa down to the farm level.<sup>126</sup> There are, however, examples such as Tony Chocology's Beantracker,<sup>127</sup> which show that scalable solutions can be found even in sectors where traceability is challenging.

## PRICE INTERVENTIONS REQUIRE INVESTMENT IN LONGER-TERM TRADING RELATIONSHIPS

Long-term contracts with farmers are essential to enable a more sustained impact on their incomes and to give them greater security to invest in their farms.<sup>128</sup> The private sector partners involved in the pilot agreed that stable and long-term trading relationships between all parties engaged in the value chain were a key success factor for any price intervention. Long-term relationships enable the building of trust, which is needed when it comes to considering new business arrangements such as open-book contracts, and greater transparency around price setting. Long-term relationships also give suppliers more security to make the significant investment in time and resources that comes with price interventions worthwhile and reduce risk.

**Stakeholders should deepen their trading relationships with farmers and make the active participation of farmers and their GOs an essential part of the design and implementation of price interventions.** It is easy to forget the importance of this part of a price intervention. Who would not be happy to be told that they will receive more money for their work? But for the intervention to be truly empowering and also to identify potential challenges, the active participation of farmers is key. For example, during the pilot project it became apparent that farmers did not like to be seen as simply receiving handouts. Adjusting communication to farmers about the purpose of the premium was key to ensuring the success of the price intervention.

**Stakeholders should put farmers' needs at the centre of any intervention. If a price intervention involves contract farming, favourable contract terms are key to truly benefit farmers and increase their resilience and power.** Another crucial point for farmers is being able to diversify their trade, even when a price intervention is to their advantage. Experience from other crop sectors and different inclusive business models shows that situations where farmers risk becoming dependent on a single buyer should be avoided.<sup>129</sup> This also became apparent in the pilot. Although the farmers taking part reported that they felt more motivated to sell directly to Galaxy in order to benefit from the premium, some of those who sold their rice to the company in the first season did not do so in the second season. Instead, they sold either to other exporters or to middlemen,<sup>130</sup> giving as their reasons the lengthy procedures at Galaxy or delays in the processing of payments.

It is not uncommon to see opportunistic behaviour across sectors, as farmers often need fast access to market channels or quick payment.<sup>131</sup> Risks beyond the control of farmers, such as weather patterns, can also have an impact on how they commit to buyers. As contract farming becomes more common in the project region, this is an important point to consider. To avoid increasing the vulnerability of farmers, forward-looking companies in other sectors have explored options such as offering favourable trading terms (including pre-finance), rapid payments and flexibility to access other buyers.<sup>132</sup>

It is also important to provide opportunities for farmers to voice their concerns, e.g. through robust farmer feedback loops and grievance mechanisms. For instance, in the pilot one challenge was to determine who exactly sold paddy rice and how much (as described in the previous section). In the first year, two farmers bought paddy rice at the market price from other farmers and sold it on as their own to profit from the premium. It was important for farmers to be able to voice their concerns about this, and for the stakeholders to address such problems before they risked eroding the trust of the local community. In the second year, stakeholders were careful with selecting only farmers who transported their own paddy rice to Galaxy (as described in the previous section).

**Stakeholders should prioritize common values and ambitions of supply chain actors in order to establish successful long-term engagement based on a shared vision.** In the pilot, the common values and ambitions of all the stakeholders involved facilitated the establishment of long-term trading relationships and trust. The price intervention required the active engagement of all stakeholders, and key decisions (such as whether to include farm workers, the level of price increases and how to draw up open-book contracts) had to be negotiated.<sup>133</sup> There must be substantial overlaps in the vision of each partner, and any divergences need to be known about and declared, if price interventions are to be successful.

Understanding other actors' motivations for participating in price interventions is also key. Companies, for example, might engage because they are interested in long-term sourcing, forging ties with producers or building their reputation by partnering with civil society entities. Ultimately, it is important for there to be overlaps in partners' objectives and that these are clearly defined in order to manage expectations and avoid disappointment, and also to build relationships based on mutual understanding and trust. This aspect is particularly important as price interventions by companies are still largely reliant on voluntary action.

**A specific arrangement with intermediaries might be an important first step in establishing better and long-term relations built on trust between all actors in the supply chain.** Oxfam and local partners played a key role in building trust between all the stakeholders involved. All the private sector partners found it valuable to have an independent third party who could validate farmers' data and make the premium calculations. Third-party validation can ensure trust in the information provided. Having an independent partner can, however, also mean that companies have limited ownership of calculations and data collection, potentially limiting their willingness to integrate the price intervention into their core business without continued support from an external partner.

**To be able to align trading relationships with a living income for farmers, it is important to integrate living incomes into procurement strategies and objectives.** Establishing longer-term engagements across supply chains may seem challenging at present as the goals and incentive structures of procurement are traditionally geared towards short-term cost savings and supply chain efficiency, rather than creating longer-term strategies that generate sustainable gains in income for supplier farmers.<sup>134</sup> Having short-term contracts with farmers and being able to change suppliers at short notice is still considered to be the most suitable strategy to reduce supply risks and deliver cheap products at the right quality to consumers.<sup>135</sup> Aligning procurement strategies and objectives with a living income for farmers can therefore be an important first step for many companies to enable the successful implementation of price interventions.

## 4.3 GETTING THE DATA RIGHT

### PRICE INTERVENTIONS REQUIRE DATA TRANSPARENCY

For price interventions, transparency – the disclosure of information needed to understand what is happening in the supply chain – is key. Having access to transparent and accurate information enables business partners to define effective price intervention strategies tailored to the context.

**Data transparency is needed from all actors in the supply chain. Transparency on, for example, the identity and location of suppliers, volumes sourced, and prices paid is a key condition for designing and implementing price interventions.** Data transparency also enables supply chain partners to jointly create novel business arrangements such as open-book contracts that can lead to more equitable outcomes in the supply chain.<sup>136</sup> In particular, data transparency on prices and margins can allow stakeholders to have a more informed discussion about how much a price intervention might cost a company in terms of profits. Only then can informed discussions be had about, for example, what 'reasonable' costs and profits might be in such a project. Otherwise, there is a risk that companies might argue that price interventions are simply too costly (see also section 4.5).

**Data transparency at the farm level is an essential prerequisite to close the living income gap.** Quite significant amounts of data are needed to calculate fair prices for farmers, as many different factors affect their ability to earn a living income (including farm size, costs and other income-generating activities). Implementing price interventions therefore requires the effective collection of data. While some data are relatively easy to collect (such as prices received), other information can be more difficult to obtain than it might at first appear.

**The competence of a GO or an independent local partner to collect and verify such data is therefore an important factor in price interventions.** Land size, for example, was a key data point that was difficult to validate in the pilot as official records of land size are often missing in Pakistan (as in many other countries). Another complicating factor was the common practice among farmers of borrowing land from other farmers for certain seasons, making land size non-static. An independent local partner or GO can support a project by, for example, measuring the exact size of farmland and keeping a record of who is borrowing land and how much.

This will mitigate some of the risks that come with having too few data or incorrect data. For example, the general lack of availability of data on variables relevant to farmer incomes (labour costs, costs of production, costs of inputs, etc.) has led to a lack of clarity and to incorrect assumptions about how to improve those incomes. It has long been assumed that increases in productivity would be sufficient to improve farmers' incomes. However, recent studies have shown that higher productivity can in fact lead to lower net incomes, due to higher costs.<sup>137</sup>

**An important next step is to consider effective mechanisms for data validation and verification at the project design stage.** Validating the data on farmers collected by GOs and the GRAISEA programme against the data collected by Galaxy did take some time. One key decision during the pilot was on when to record sales, as farmers did not all necessarily sell their paddy rice at the same time, and so in some instances records of sales differed between the GOs and Galaxy. Another issue was that small-scale farmers were selling to Galaxy for the first time and so validation took longer; this led to farmers being frustrated by the lengthy procedures involved in the final selection of farmers and payment of the premium.<sup>138</sup> In long-term price interventions this would be avoided by having a more stable group of farmers involved.

## **PRICE INTERVENTIONS REQUIRE THE INCLUSION OF WORKERS**

Many crops grown by small-scale farmers, such as rice and cocoa, are labour-intensive and the work is often done by hired labourers, who need to receive a living wage. However, farmers who do not earn a living income themselves are unable to pay workers a living wage when they hire them. The UN Committee on Economic, Social and Cultural Rights stresses in the General Comment on the right to just and favourable conditions of work that '[s]mall-scale farmers who rely on unpaid family labour to compensate for difficult working conditions deserve particular attention' and highlights the particular needs of self-employed women workers.<sup>139</sup>

**Stakeholders should make workers an explicit target group to benefit from living income price interventions.** Price interventions should include farm workers and ensure that their needs and living wages are factored into the living incomes of farmers. During the pilot, an additional separate premium was paid to farm workers to close their wage gap. As an alternative mechanism, premium payments to farmers could be made contingent on the payment of living wages to seasonal farm workers employed on small-scale farms. The costs of production, including the costs of hired labour, are often not taken into consideration in living income interventions,<sup>140</sup> although one example where this does happen is the Fairtrade Living Income Reference Price model, which includes living wages for workers in its living income calculations for farmers.<sup>141</sup>

**As a next step, stakeholders should prioritize the collection of data on workers as part of the design and implementation of price interventions.** One challenge, however, can be that few data are currently available on the cost of hired labour.<sup>142</sup> In the pilot, including farm workers was complicated, as they often lack stable or recurring working relationships with farmers. During the rice planting season, workers travel from village to village and from farm to farm, which makes record-keeping tricky. Without key data (exact wage received, wage costs per kg of rice sold, etc.), it is difficult to calculate the living wage gap from rice for workers. In the pilot, it was nevertheless decided to include workers and to use crude estimates of living wage gaps to enable early action to close them.

**The active engagement of workers should be a priority.** In the pilot, clear communication with workers who received the premium was complicated by the unstable working relationships between farmers and workers. Many workers who received a premium were surprised and had limited understanding of the price intervention and its intentions.<sup>143</sup> The active engagement of workers should be part of the design and implementation of price interventions from the start.

**Beyond factoring the costs of living wages into living income, a next step is to mobilize resources for decent working conditions and living wages.** Ensuring decent work and living wages for workers should also be part of any price intervention, and will make it easier to close the wage gap. As part of GRAISEA II, GOs have facilitated dialogue between workers and farmers and the building of links with local rice exporters, successfully mobilizing resources to provide decent working conditions (including the provision of mobile medical camps and water and food facilities). Wages have been negotiated with farmers in GO meetings and aligned with government structures for daily wages.<sup>144</sup> In other contexts, working with trade unions and civil society to monitor wage levels in supply chains (as well as supporting the role of collective bargaining) can be a crucial element in price interventions.

## 4.4 PRIORITIZING BUSINESS TRANSFORMATION AND ACTION AT VARIOUS LEVELS

### SUSTAINING PRICE INTERVENTIONS REQUIRES BUSINESS TRANSFORMATION

The successful implementation of innovative price interventions has the potential to establish a new benchmark for the food retail sector and inspire action at scale. But while the private sector partners involved in the project were willing to consider maintaining higher prices for farmers, it became apparent that they also saw various barriers to doing so. These barriers are likely to be relevant to other companies, and to be constraints to realizing price interventions at scale. Barriers and possible entry points for change include the following.

**A lack of clarity on companies' responsibility for fairer prices and a living income.** One key obstacle seems to be the fact that many companies view living incomes as a long-term aspiration and a choice, rather than as a concrete objective and a responsibility. Therefore, a first crucial step is for companies to acknowledge their responsibility to help ensure a living income for farmers in their supply chains.<sup>145</sup> The UN Guiding Principles on Business and Human Rights are clear that corporations need to respect human rights and that, as such, paying a fair price forms part of their responsibility.<sup>146</sup> Companies should adopt a due diligence approach to living incomes and integrate them into their due diligence processes on human rights. This includes an obligation to assess their own purchasing practices, including pricing decisions, at every step of the due diligence process.

**A lack of easily scalable solutions to deliver on fairer prices and a living income.** The private sector partners raised concerns that price interventions such as the one piloted might not be scalable, given the thousands of products that retailers and wholesalers sell and the thousands of suppliers they source from. Taking a due diligence approach and focusing on high-risk supply chains where living income gaps are largest can help to prioritize action. This should be based on an assessment of which products and in which regions there is an actual or potential risk that farmers in supply chains may not be able to earn a living income, and the extent to which farmers' incomes depend on the company's purchases. Finally, companies should also consider that contributing towards a living income may also serve as a prevention or mitigation measure to address other important issues (e.g. increasing the income of smallholders can contribute to reducing cases of child labour).

The perceived limited practicality of the price premium mechanism piloted was raised as a concern. As the premium was paid outside of normal business transactions with suppliers, transferring it required additional work by the companies' sustainability and purchasing teams. The feeling was

that payment of the premium was a ‘side project’ that was not easily transferable into the companies’ core business activities.

On their way to more sustainable business models, companies should put effort into identifying alternative business arrangements that can deliver a living income for farmers. Examples of price-related reforms to purchasing practices that can contribute to fairer prices and a living income, and are more scalable, are listed in Table 6. Taking a human rights due diligence approach and prioritizing action should create more clarity about how scalable a solution needs to be. A sound assessment should also establish whether credible living income benchmarks already exist, in which regions and for which products, or whether the company needs to make its own estimates. As an alternative to transferring a premium directly to farmers, end buyers could require suppliers not to add any margin to the premium, to avoid the compounding price escalation effect.

**Table 6: Examples of reforms to purchasing practices that can contribute to fairer prices and a living income in high-risk supply chains**

Prices and price benchmarking	Contracting
<ul style="list-style-type: none"> <li>• Pay price premiums in high-risk supply chains where the living income gap is largest and farmers depend to a large extent on income from produce.</li> <li>• Pay a Living Income Reference Price.</li> <li>• Use true pricing methodologies, which include estimates of a living income for price benchmarking.<sup>147</sup></li> <li>• Make use of established approaches to measuring living incomes across sectors. The Living Income Community of Practice, in collaboration with the ALIGN consortium, has prepared a database to provide updated and standardized living income benchmarks.<sup>148</sup></li> <li>• Require suppliers to disclose – at a minimum – farmers’ costs of production, including living wages for workers, as part of their price quotation to enable early action on fairer prices, while continuing to work to establish robust living income benchmarks.</li> </ul>	<ul style="list-style-type: none"> <li>• Stipulate that suppliers should not add any margin to the premium, to avoid the compounding price escalation effect.</li> <li>• Use longer-term contracts based on open-book approaches that provide more security to suppliers and more transparency around price-setting.</li> </ul>

**Limited resources and capacity of sustainability teams.** The private sector partners also raised concerns that implementing the price mechanism required a lot of engagement from their side, which was seen as a challenge given the limited resources and capacities of their sustainability teams, who often work on a wide variety of tasks (including reporting and working with suppliers). A living income, like other human rights issues, should not be the sole responsibility of sustainability teams. Transforming current purchasing practices could help purchasing staff to play a critical role in contributing to farmers earning a living income.

First, this requires empowering buyers with the knowledge, mandate and incentives to deliver on farmer incomes and fairer prices. Establishing new key performance indicators for buyers to incentivize them to deliver on living incomes is an important step in this regard. Enabling better cooperation between purchasing and sustainability teams and aligning their objectives and working practices is another essential step. Next, procurement and living incomes need to be aligned at the level of a company’s strategic goals.

**Profitability concerns and a lack of consumer awareness.** Another key concern was that a permanent price intervention might negatively affect profitability. A relatively small part of the money paid by consumers would be sufficient to increase farmers’ incomes significantly (a 2–4% increase in the end retail price exclusive of VAT in the pilot; see section 3.1), but the private sector actors raised concerns that even minimal price increases could lead to consumers choosing other

products. One important step, therefore, is to consider how marketing to consumers can support companies by reflecting the costs of fairer prices in their products. This may be easier for luxury products such as chocolate than for staple products such as rice, where it can be more difficult to market the product as 'premium', as consumers are more likely to look for the cheapest option.

Rather than transferring all of the cost to consumers, companies could also consider absorbing part of it themselves. The question is whether companies have enough financial space to increase payments to the sometimes millions of farmers they source from. It is difficult to put forward precise arguments as companies are often reluctant to be transparent about their margins on particular products. Some argue that companies can choose where they spend their money. For example, in the cocoa sector most brands currently spend, per bar of chocolate, more on advertising campaigns than on the raw material.<sup>149</sup> While the case may not be as extreme in other food sectors, it could be argued that it might be helpful to differentiate the maximum amount of profit from 'enough' profit.<sup>150</sup> Incorporating the costs of ethical production – including a living income – into the cost of doing business could help to change companies' perspectives on margins and profitability. If margins are relatively low on certain products (e.g. staple products), supermarkets should reconsider how they balance their profits over a large number of products and how adjustments to that market mix could accommodate price increases. Another key thing to reconsider is shareholder pay-outs. For example, research by Oxfam has shown that in 2020, during the COVID-19 pandemic, a reduction of less than 1% in shareholder pay-outs could have closed the gap between current wages and a living wage for workers in Brazil's largest coffee-producing state.<sup>151</sup>

**The absence of a level playing field.** Related to their concerns about profitability, companies raised concerns that paying higher prices in a highly competitive market could lead to loss of business, ultimately harming farmers more. However, through engagement and advocacy at sector and government levels, businesses can exert influence to establish a more level playing field (see below). This should be seen as complementary to companies' actions on living income and not as a substitute for it. The UN Guiding Principles are clear that corporations need to respect human rights.<sup>152</sup> As such, they cannot hide behind the absence of sector-wide or government actions when it comes to their responsibility to pay farmers a fair price.

## SCALING PRICE INTERVENTIONS REQUIRES ACTION AT VARIOUS LEVELS

To achieve living incomes for farmers at scale, there is a need to 'raise the floor' for the food and agriculture sector as a whole. This requires improving governance – coordinated management by public, private and civil society actors – across the sector. Companies can contribute to improving governance by establishing stakeholder dialogue and coordination and by developing and sharing knowledge. They can also influence public policy, regulation and investment to create the incentives and the level playing field needed for improvements at scale in terms of living incomes.

**Working towards strong sector action on living incomes.** Companies and stakeholders can support the scaling-up of successful price interventions by getting other lead companies and suppliers involved. Actors can also use their influence at the sector level to help mobilize more ambitious initiatives for collective change. One example of sector-wide change is the commitment by major Dutch,<sup>153</sup> German,<sup>154</sup> Belgian<sup>155</sup> and UK<sup>156</sup> retailers to promote living wages in their banana supply chains. Such joint commitments show that major competitors can work together on pre-competitive solutions to achieve a wider impact. Once sector-wide change has been achieved, what was once a potentially unprofitable strategy for an individual company can become profitable.<sup>157</sup> As support for implementing living incomes continues to grow, collaboration is likely to become easier over time. Other actors can also play a critical role in pushing for wider sector change. Investors, for example, can be powerful actors in helping to ensure a living income for farmers by including the issue at the core of their environmental, social and governance criteria.<sup>158</sup>

**Communication and public advocacy for fair prices and a living income.** Adopting a more public advocacy role can be key to shaping the debate and mobilizing wider support for the issue of farmers' incomes.<sup>159</sup> Companies making clear commitments to fairer prices and a living income and communicating about progress and lessons learned have a critical part to play in mobilizing wider support. Strong legislation on due diligence by the EU could make companies more inclined to publicly support efforts to address the living income challenge.

**Advocacy with governments.** Through advocacy, companies can exert influence on the creation of a conducive policy environment. Binding rules and regulations introduced by governments can have a significant impact on incomes for small-scale farmers and are more likely to reach them at scale. The purchasing power of buyers can be a key leverage mechanism here.<sup>160</sup>

Companies and stakeholders can engage with the governments of producing countries to support their efforts to introduce mechanisms targeted at farmers, including minimum commodity prices. In Pakistan, for example, the wheat price (often the other major income source for rice farmers) is controlled by the government, whereas the rice price is not. It has been argued, however, that country-level efforts such as minimum prices can reduce a country's competitive advantage, leading to companies moving their business to other countries and ultimately leaving farmers more vulnerable. The example of the Living Income Differential (LID) on cocoa in Ghana and Côte d'Ivoire is illustrative. While many major chocolate companies publicly supported the LID, they have since been accused of trying to avoid paying it.<sup>161</sup> Challenges of this kind call for improvements and realignments between buyers and governments, but the LID remains an important example of a policy measure aimed at improving the incomes of farmers at scale.

Companies and stakeholders can also engage with governments in the consuming country. The EU proposal for a directive on corporate sustainability due diligence (CSDDD) is one example where companies and stakeholders can use their influence to ensure that the planned CSDDD framework contributes to the achievement of living incomes in global value chains.<sup>162</sup> It has been argued that there is potentially a risk that companies will move their business activities to richer producing countries, where they can reach living incomes more easily.<sup>163</sup> However, while the current CSDDD framework risks being watered down, it remains an important example of a cross-country structural reform measure.

**Advocacy for certification and assurance schemes.** Many companies aim to use certification schemes to verify social standards for products within their supply chains, including the payment of higher prices to farmers. Credible schemes can have positive impacts for people in supply chains but still reach only a small section of the market. There is therefore a need to build up markets for these premium products but, more importantly, to raise standards across the board. For example, the private sector partners involved in the pilot see the SRP assurance scheme, the world's first in the rice sector, as an opportunity to increase incomes for rice farmers.<sup>164</sup> However, while switching to sustainable practices in rice cultivation in line with SRP standards can boost farmers' net incomes, SRP does not currently cover a living income and has no living income reference price.<sup>165</sup> Companies and stakeholders should consider opportunities to actively engage with certification and assurance schemes to expand their ambitions and make living incomes a prerequisite.<sup>166</sup> The recently introduced Fairtrade Living Income Reference Price (LIRP), for instance, is an important first step towards enabling farmers to earn a living income.

# 5 CONCLUSION: PRICE INTERVENTIONS ARE A CRITICAL ELEMENT IN ACHIEVING A LIVING INCOME

Prices have a determining influence on farmers' incomes and on their ability to make continuing investments in their farms. Nevertheless, for some, there is still scepticism as to whether higher prices make a meaningful contribution to farmers' incomes, with increases potentially benefiting mostly better-off farmers or being seen by companies as too costly. For others, simply paying higher prices might appear more straightforward than other living income strategies, which often involve farm-level variables over which they have little control, such as size of farm or the adoption of good agricultural practices.

Both these points of view, however, are mistaken. Experience from the pilot in Pakistan indicates that a transformative price intervention can be designed and can be an effective tool to significantly reduce or even close the living income gap for farmers relatively quickly, and without requiring any significant change in retail prices. Furthermore, the increase in farmers' incomes has the potential to strengthen their market position and improve their livelihoods.

Implementing price interventions is, however, a complex task that stakeholders need to take seriously. Most current business models, including supply chain structures and purchasing practices, are not suited to delivering living incomes for farmers. Traceability, transparency and longer-term trading relationships across supply chains are key conditions for price interventions to be successful. In this respect it is encouraging to see trends towards companies increasing traceability and transparency and building longer-term trading relationships, as well as making supply chains shorter. This comes partly in the wake of the COVID-19 pandemic, which exposed the vulnerabilities inherent in long and opaque supply chains, as well as in the context of stricter regulation/legislation on human rights and environmental due diligence.

The pilot project also shows that price interventions are not able to overcome all the problems experienced by women and men farmers in the value chain. For price interventions to effectively address the issue of a living income for small-scale farmers, stakeholders need a holistic strategy on farmer incomes that actively considers their needs, their capabilities and the constraints they face. Simply paying higher prices will not be enough: this is just one of many tools needed for farmers to achieve a living income. Price interventions need to be part of strategies that include complementary measures, such as targeted support for vulnerable farmers and women farmers. Otherwise, such interventions risk benefiting mostly better-off farmers or mostly men farmers, thus worsening inequality and poverty – the exact problem they are trying to solve. To have a real impact, stakeholders must increase the ambition of their engagement, while also thinking about how to reach scale and ensure that their price interventions are sustainable.

It is hoped that the eight lessons learned from this pilot, and the corresponding recommendations, will make a useful contribution to the discussion around price interventions, and will offer support to stakeholders interested in designing and implementing price interventions that make a meaningful contribution to the ability of women and men farmers to earn a living income from their work.

A rice field in Punjab province, Pakistan. Photo: Oxfam in Pakistan.



# NOTES

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- <sup>47</sup> Y. Waarts and M. Kiewisch. (2021) *Balancing the Living Income Challenge*, op. cit.
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- <sup>49</sup> Committee on Sustainability Assessment (COSA) (2020). *Is Living Income a real human rights issue?* <https://thecosa.org/is-living-income-a-real-human-rights-issue/>
- <sup>50</sup> A.C. Fountain. (2022). *2022 Cocoa Barometer Living Income Compendium*, op. cit.
- <sup>51</sup> F. Hütz-Adams. (2017). *Alternative approaches to achieve a living income: A roadmap for flexible premiums*. <https://suedwind-institut.de/files/Suedwind/Publikationen/2017/2017-23%20Alternative%20approaches%20to%20achieve%20a%20living%20income.%20A%20roadmap%20for%20flexible%20premiums.pdf>
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- <sup>55</sup> F. Hütz-Adams. (2017). *Alternative approaches to achieve a living income*, op. cit.
- <sup>56</sup> GRAISEA is a gender-transformative business investment programme that aims to improve the livelihoods of women and men small-scale producers in South and South-East Asia. For more information, see: <https://asia.oxfam.org/tags/graisea>
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- <sup>68</sup> M. Le Nguyet and R. Segal. (2019). *Unfair Harvest: The state of rice in Asia*. Oxfam. DOI: 10.21201/2019.4184. <https://policy-practice.oxfam.org/resources/unfair-harvest-the-state-of-rice-in-asia-620646/>
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- <sup>72</sup> Oxfam. (2021). *Not in this together*, op. cit.
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- <sup>76</sup> C. Alliot and T. Fechner. (2018). *Distribution of Value in Asian Rice Value Chains*, op. cit.
- <sup>77</sup> See: <https://www.garantskafferiet.se/vara-produkter/skafferieris--matgryn/basmatiris-1-kg/> [in Swedish].
- <sup>78</sup> This analysis is based on household survey data collected from 197 respondents by Oxfam partners in Pakistan for the GRAISEA 2 (G2) Baseline Survey in early 2019, with answers relating to the 2018/19 harvest season. The data were cleaned in the following way: respondents with no response or a response of 0 to one or more of the questions regarding farm-gate price, volume of production or costs of production were removed, and four respondents with clearly anomalous results were removed. There were 188 respondents in the clean sample.
- <sup>79</sup> GRAISEA II Baseline Survey data.
- <sup>80</sup> A.D. Sheikh and A. Abbas. (2007). *Barriers in efficient crop management in rice-wheat cropping system of Punjab. Pakistan Journal of Agricultural Sciences*, 44, 341–349.
- <sup>81</sup> See: Federation of European Rice Millers (FERM). <http://www.ferm-eu.org/>
- <sup>82</sup> Interview with representative of Rol-Ryz.
- <sup>83</sup> Nordic Credit Rating. *NorgesGruppen ASA*. [https://nordiccreditrating.com/issuer/norgesgruppen-asa?language\\_content\\_entity=en](https://nordiccreditrating.com/issuer/norgesgruppen-asa?language_content_entity=en)
- <sup>84</sup> Swedish Food Retail Index 2020.
- <sup>85</sup> See: European Marketing Distribution. *Our mission*. <https://www.emd-ag.com/mission/statement.html>
- <sup>86</sup> Section 2.2 is based on Oxfam’s analysis, which has been described previously in an internal report: T. Gore. (2020). *G2 Internal Report – Enabling a living income for Basmati rice farmers*.
- <sup>87</sup> Sustainable Rice Platform. *About Us*. <https://www.sustainablerice.org/>
- <sup>88</sup> M. Le Nguyet and R. Segal. (2019). *Unfair Harvest*, op. cit.
- <sup>89</sup> Given the wide variation in data across the sample in critical areas such as farm size, yield, farm-gate price and proportion of income earned from rice, median values have been used throughout the analysis rather than mean averages, which tend to give a distorted picture due to the influence of outliers.
- <sup>90</sup> When farmers sell to middlemen, they often have higher input costs, as middlemen tend to charge higher prices for inputs (even if farmers may receive higher prices from middlemen than from exporters). In addition, when farmers sell direct to exporters and sign long-term contracts, exporters usually invest in their farms to help them adopt sustainable production standards, such as SRP. The incomes of farmers often increase as a result due to reduced production costs and higher yields because of higher production

standards. Some exporters also provide cheaper inputs (e.g. seeds). (Information received from Oxfam rice expert and a representative of Galaxy Rice Mills.)

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- <sup>92</sup> The Living Income Community of Practice. *Measuring Living Income – the Anker Methodology*. <https://www.living-income.com/measurement-living-income>
- It is important to note that companies, by applying the Anker methodology, are bypassing workers' rights and their right to collective bargaining on price.
- <sup>93</sup> See Wage Indicator Foundation. <https://wageindicator.org/>
- <sup>94</sup> See Global Living Wage Coalition. *Living Wage for Rural Sialkot, Pakistan*. <https://globallivingwage.org/living-wage-benchmarks/rural-pakistan/>
- <sup>95</sup> See endnote 90.
- <sup>96</sup> Exchange rates. *Euro to Pakistani Rupee Spot Exchange Rates for 2018*. <https://www.exchangerates.org.uk/EUR-PKR-spot-exchange-rates-history-2018.html>
- <sup>97</sup> See <https://www.fao.org/3/x5427e/x5427e0h.htm>
- <sup>98</sup> The analysis of the distribution of value-added was based on the gross income of each actor in the supply chain and did not take account of costs incurred by any of the actors.
- <sup>99</sup> See, for example, R. Willoughby and T. Gore. (2018). *Ripe for Change*, op. cit.
- <sup>100</sup> Figure 4 shows the mean value-added at each stage of both supply chains for the purpose of this paper, in order to avoid disclosing company-sensitive data. It should, however, be noted that the structures of the Axfood and Unil supply chains differ (with additional downstream actors in the Unil chain). The shares of value-added are therefore not meant to reflect accurate means, but to reflect the general pattern of value-added distribution in the two supply chains.
- <sup>101</sup> GRAISEA bulletin 2022-2. <https://oxfam.app.box.com/s/sb5n0cwlzq2nbgvymq55olsftemb3kqb>
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- <sup>103</sup> GRAISEA bulletin 2022-2, op. cit.
- <sup>104</sup> Information from a representative of Galaxy Rice Mills.
- <sup>105</sup> See FAOSTAT. *Producer Prices*. <http://www.fao.org/faostat/en/#data/PP>
- <sup>106</sup> S. Kiran. (2022). *Review of the Premium Price intervention Pilot 2021-22*. Unpublished report.
- <sup>107</sup> Information received from Galaxy Rice Mills.
- <sup>108</sup> A. Nizami. (2021). *Country report – scoping study, Pakistan. Promoting Global Best Practices and Scaling of Low Emissions Technologies by Engaging the Private and Public Sectors in the Paddy Rice Sector*. UNEP Asia Pacific Office and Helvetas Swiss Intercooperation. <https://www.ccacoalition.org/en/file/8822/download?token=kBRFt6cF>
- <sup>109</sup> Shift. (2022). *ISSB Sustainability Reporting Standards*, op. cit.
- <sup>110</sup> World Economic Forum. (2022). *What's a 'living wage' and why's paying it good for businesses and workers?* <https://www.weforum.org/agenda/2022/05/living-wage-business-benefits-unilever/>
- <sup>111</sup> Shift. (2022). *ISSB Sustainability Reporting Standards*, op. cit.
- <sup>112</sup> U. Gneiting. (2021). *Living Income*, op. cit.
- <sup>113</sup> Ibid.
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- <sup>117</sup> Ibid.
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## OXFAM

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