Fairtrade Living Income Reference Price for Coffee from Uganda

October 2022

EXPLANATORY NOTE

Introduction

This document explains the figures and validation process behind the Fairtrade Living Income Reference Price for arabica coffee, as well as the proxy values for robusta coffee from Uganda. Living Income Reference Prices play a pivotal role within Fairtrade's holistic **Living Income Strategy**. They are instrumental for raising awareness around the fundamental need for sustainable pricing as part of a smart mix of interventions to enable living incomes, and they inform price setting mechanisms for Fairtrade and other actors committed to sustainable trade.

Fairtrade began to develop the first Living Income Reference Prices for coffee in a context of historically low futures market prices. In March 2019, the World Coffee Producers Forum condemned these and called for immediate action to avoid a humanitarian crisis for some 25 million smallholder families around the world. They warned that by allowing the impoverishment of producers, the coffee industry was compromising its own future. Later that year, the International Coffee Organization (ICO) committed to foster responsible sourcing of sustainably grown and traded coffee, enabling a living income for coffee producers.[1]

By establishing Living Income Reference Prices, Fairtrade addresses the economic conditions for a sustainable coffee sector and brings the true cost of socially just and environmentally sound production practices into the equation.

Following the completion of the first multi-stakeholder price discovery process in Colombia in June 2021 and in Aceh, Indonesia in March 2022, a Fairtrade Living Income Reference Price for arabica coffee and a proxy for robusta coffee from Uganda were determined in collaboration with the technical roundtable set up for this purpose.

The Price Model

A Living Income Reference Price indicates the price needed for a typical farmer household with a viable farm size and a sustainable productivity level to make a living income from the sales of their crop.

The model is derived from the universal human right for everyone who works to a just and favourable remuneration, ensuring an existence worthy of human dignity. Hence, a full-time farmer should be able to make a living income from their farm revenues.

A Living Income Reference Price is based on the following key parameters:

1. Cost of a decent standard of living (living income benchmark)
2. Sustainable yields (productivity benchmark)
3. Viable farm size (to fully employ the available household labour)
4. Cost of sustainable production (in order to achieve above mentioned yields)

A price that allows an average farmer household with a viable farm size and a sustainable productivity level to earn a living income can be calculated with the following equation:

$$\text{living income reference price} = \frac{\text{cost of decent living + cost of sustainable production}}{\text{viable land area} \times \text{sustainable yields}}$$

Establishing Living Income Reference Prices

In order to assess the farm economic metrics, Fairtrade introduced farm record-keeping among coffee farmers, initially in Colombia, Uganda and Indonesia. Their farm investments and outputs were tracked throughout a year during 2019-2020 in record-keeping books. These baseline data served as a primary source for subsequent analysis and establishment of Living Income Reference Prices.

In Uganda, baseline data for organic arabica coffee production were collected from a sample of approximately 300 farmers from two cooperatives in the Rwenzori and Mount Elgon regions, which are the main arabica-producing regions in Uganda. An additional dataset was collected for organic robusta coffee from 40 farmers in the South-Western region.

A technical roundtable was set up in Uganda in April 2022, comprised of coffee experts representing producers, industry, NGOs and research institutions. After a virtual presentation of the baseline results, a two-day in-person workshop was held to analyse the baseline results and complementary datasets, pool local knowledge and expertise and agree on the values for each of the variables in the price model.

Based on these variables, a Fairtrade Living Income Reference Price for organic arabica coffee and proxy for organic robusta from Uganda were established.

Variable 1: Living income benchmark

Living income is defined as **sufficient income generated by a household to afford a decent standard of living for the household members**. Elements of a decent standard of living include: a nutritious diet, decent housing, education, healthcare, transport, clothing and other essential needs, including a provision for unexpected events.

Our baseline data show a typical coffee farmer household to be composed of 7-8 members, with four working age adults and 3-4 children.

The living income for a typical household in Uganda was estimated based on a comparative analysis of several calculations of the costs of decent living in Uganda, including a recent study by The Shift conducted in three coffee growing regions. The respective benchmarks have been updated to 2022, applying official inflation rates. The below table shows an overview of the comparison.

Table 1: Comparative analysis of living income benchmark calculations for Uganda, updated to March 2022

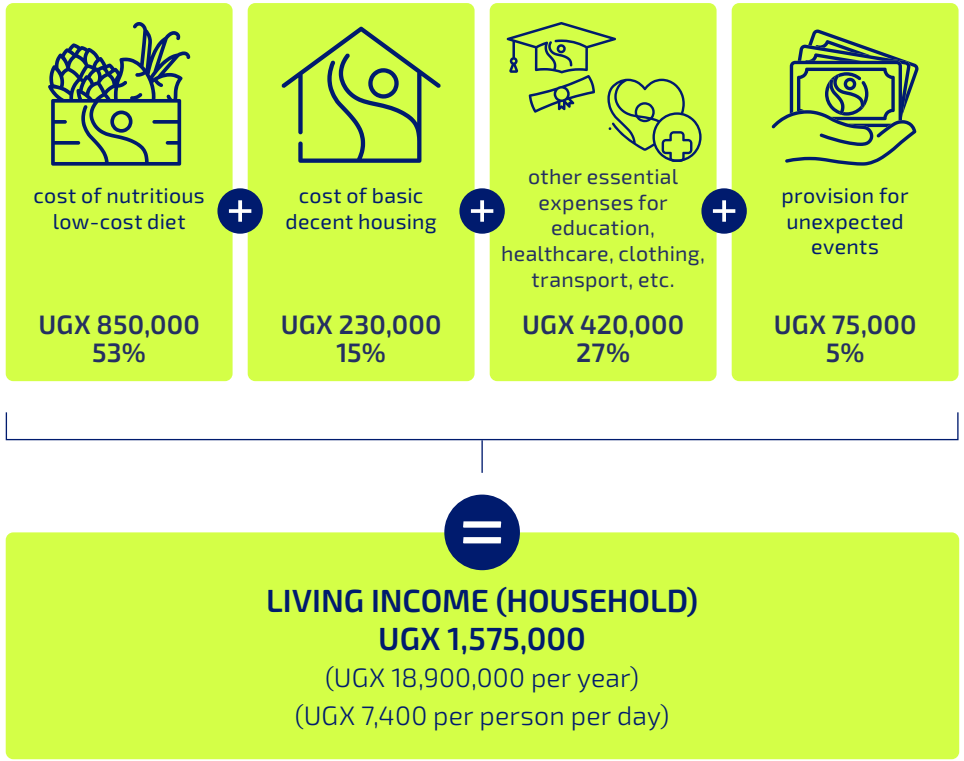
benchmark study	GLWC	Hanke	Shift	Shift	Shift	NF
Region	Lake Victoria	Rwenzori	Rwenzori	Mt Elgon	Phaidra	Mbale
Product	Floriculture	Vanilla	Coffee	Coffee	Coffee	Peri-urban
Household size	5	6.6	7.7	7.4	7	6.7
# Working age adults in household	2	3.2	3.6	3.4	2.9	2
monthly cost of decent living (in Ugandan shillings, UGX)						
Food costs	543,893	1,143,165	967,887	807,235	850,959	657,380
Housing costs	207,087	669,725	229,881	148,727	160,652	328,690
Other essentials	259,980	741,771	580,335	315,010	364,034	299,473
Provision (5%)	50,548	127,733	88,905	63,549	68,782	62,086
Total per household	1,061,508	2,682,394	1,867,008	1,334,521	1,444,427	1,347,628
Yearly costs of decent living	12,738,091	32,188,724	22,404,093	16,014,252	17,333,122	16,171,540
Cost of decent living (per person per day)	6,980	13,362	7,972	5,929	6,784	6,613

With the exception of Hanke's study, who calculated a much higher cost of decent living, all results fell into a range between 6,000 and 8,000 shillings per person per day. The roundtable reviewed the benchmark comparison with a focus on the results from the coffee study and agreed to use the mid-range for the costs of food and other essential needs, while adopting the high end cost for housing. This resulted in an applicable **living income benchmark of 18.9 million shillings** (US$ 4,974[2]) per year for a 7-member household, or a daily cost of living of 7,400 shillings per person.

Uganda farmers typically grow a variety of food crops for domestic consumption intercropped with coffee, which can be considered as an in-kind income. It was further discussed what percentage of the household's food needs can realistically be produced on an average coffee farm and consensus was reached that one third of the value of a nutritious diet can be farm produced.

The **living wage** for hired labour is derived from the living income benchmark by dividing the yearly cost of decent living by the number of full-time equivalent workers in a rural family. Assuming the equivalent of 3 full-time workers (this is 75% of the working-age adults in the average household) and 246 working days per year, the daily living wage is estimated at 18,900,000 / 738, rounded to **25,000 UGX** (US$ 6.58).

Figure 1: Approximation of the cost of decent living for a 7-member household in Uganda



Variable 2: Sustainable yields

A sustainable productivity level is defined as a feasible target yield that can be attained when sustainable agricultural practices are implemented Both economic and environmental aspects have been considered. By balancing the economic benefits of high yields with the medium- and long-term effects on natural resources and climate resilience, an optimum productivity target is determined. For Uganda, we have focused on organic farming practices.

Key factors affecting productivity are the coffee variety, tree density and shade management, applied rehabilitation practices (pruning and replanting) and fertilizer use. The roundtable agreed on an optimal tree density of 640 and 400 trees per acre for arabica and robusta respectively, in line with common intercropping practices. Required crop rehabilitation practices include stumping every 7-10 years and yearly replanting of 10% of the trees, in order to achieve and maintain adequate productivity levels.

Baseline results for arabica coffee show an average coffee yield of 350 kg of dried parchment / 1,750 kg of cherry per acre, but with large variations within the sample. 15% of the baseline sample produce 500 kg/acre or more.

Secondary sources find current productivity levels between 200-250 kgDP/acre for arabica, while feasible levels are considered to be between 500 kgDP/acre on a mid-term to 700 kgDP/acre as a longer term target. The Uganda Coffee Development Agency (UCDA) reports current yields of 250–800 kgDP/acre for arabica beans across Uganda (0.4–1.2kg of parchment per tree).

The roundtable experts discussed feasible target yields, based on an optimal tree density of 640 trees/acre and up to 2 kg of dried parchment achievable per tree, which would produce 1280 kg/acre. However, considering the actual productivity levels, a more **realistic target yield on a mid-term of 640 kg/acre** was agreed for arabica production.

In case of robusta coffee, the average yield of our sample was nearly 450 kg of Fair Average Quality (FAQ) / 2250 kg of cherry per acre. According to UCDA the yields in the country range from 300-600kgFAQ/acre (0.7-1.4 kg/tree).

The roundtable debated adequate tree densities to allow for sufficient intercropping, and decided upon 400 trees per acre. Each tree can produce up to 2.5 kg FAQ, amounting to a yield of **1000 kgFAQ/acre**. Despite the steep gap between current yields, the roundtable reached consensus about maintaining this target yield.

Biira Zirian of Kabonero Mountainous Coffee Growers Co-operative Society Ltd, Uganda
Photo credit: © Fairtrade

Variable 3: Viable farm size

In accordance with the universal right to remuneration for work that provides a decent living[3], a hired worker is entitled to a 'living wage'. Consistent with this logic, self-employed farmers should earn the equivalent of a living wage for their work on the farm. Hence, full-time farmers should be able to make a living income from their farm proceedings. Following this guiding principle, a farm that is big enough to fully absorb the available household labour should generate a living income. This is considered a viable farm size or a 'full-employment farm size'.

Likewise, producers with smaller plots of land would earn a share of a living income proportional to their time invested in farm work. In those cases, the household would have time available to supplement their income with other activities.

The viable or full-employment coffee area is calculated by dividing the available household labour force by the time household members spend working on an acre of land. However, the typical household composition in Uganda with four working age adults on average and thus a large available labour force, paired with very small land areas, called for an adjusted approach.

The roundtable members examined the reality of arabica coffee farming households and the family members actually involved in coffee farmers. Many young adults in the households are either studying or having alternative off-farm income generating activities, which complement the household income. In reality only two adults – usually the couple – work on the farm.

It was therefore assumed that farm income will have to generate 50% of a living income, while the other 50% should come from off-farm income sources earned by the household members who do not work on the farm.

Assuming two household members dedicated to farming, the equivalent of 1.5 full-time workers multiplied by 246 working days a year for a total of 369 labour days was taken as the available household labour force.

Based on previously identified sustainable agricultural practices needed to attain the productivity benchmark, the labour requirements for each activity were analyzed, as well as the proportion of the work carried out by family labour (see Table 3).

Throughout the year, except for the harvest, the family members can take care of most of the farming activities. Hired labour is only needed for stumping and spraying. With maximum use of their own labour, family members would have 185 workdays per acre. Hence, **to fully absorb the available labour of two household members in coffee farming, a farm size of (369/185) 2 acres would be required** in case of arabica farms.

Table 2: Overview of labour requirements to produce the target sustainable yield of 640 kg of arabica coffee per acre

Household labour utilization (arabica)			
	Required practice	Family labour (days/acre)	Hired labour (days/acre)
Fertilization	Application of manure / dried cow dung / composite organic fertilizer once a year	10	0
Pest management	Farm cleaning, pest scouting & preparation of biochemical, hired labour for spraying	5	5
Weed control	Manual weeding twice a year	16	0
Rejuvenation	De-suckering and cleaning throughout the year; pruning after main harvest; hired labour for stumping 60 trees per year	8	10
Harvest	Red cherry picking with support of hired labour	40	40
Post-harvest	Processing (floating, pulping, fermentation, hand picking, drying, storing) twice a year	80	0
Replanting	Replacement / gap filling with new coffee seedlings: hole digging & planting of 64 trees per year	20	0
Admin & misc	General supervision	6	0
Total number of days x acre		185	55

The context for robusta farmers is a little different with relatively larger farm sizes and higher dependency on farm income. The average household has 6 members, of which 4 are working-age adults who are largely engaged in farm work. The viable farm size for robusta coffee was therefore calculated based on an available household labour force of three full-time equivalent workers or 738 available labour days per year.

The agricultural practices needed to achieve the target yield and the number of workdays required to implement these are presented in table 4 below, totaling 249 workdays per acre. **This results in a full-employment farm size of (738/249) 3 acres for robusta farmers.**

Table 3: Overview of labour requirements to produce the target sustainable yield of 1125 kg of robusta coffee per acre

Household labour utilization (robusta)			
	Required practice	Family labour (days/acre)	Hired labour (days/acre)
Fertilization	Application of farm yard manure once a year	20	0
Pest management	Integrated past management	48	0
Weed control	4 days of mechanical weeding 6 times per year; mulching (12 days)	36	0
Rejuvenation	4 days per month for de-suckering, cleaning, pruning	48	0
Harvest	Red cherry picking with support of hired labour	50	30
Post-harvest	90 half days throughout the season for drying	45	0
Replanting	Hole digging & planting of 40 trees per year	2	0
Admin & misc	General supervision	0	0
Total number of days x acre		249	30

Table 4: Summary of influencing factors and agreed viable land areas for arabica and robusta coffee

Viable land size		
	arabica	robusta
household size	7 members / 4 adults	6 members / 4 adults
available household labour	738 days	738 days
available for coffee production	**1.5 FTEz 369 days**	**3 FTE 738 days**
labour days required per acre	185 days	249 days
viable coffee area	2 acres	3 acres
income generated from coffee area	**50%** living income	**100%** living income
food produced for household consumption	1/3 nutritious diet	1/3 nutritious diet

Jane Kikonde, Harriet Bidira, Jeremiah Asire from Mt Elgon Agroforestry Communities Cooperative Enterprise Ltd, Uganda

Photographer: Wilson Wanda

Variable 4: Cost of sustainable production

The cost of sustainable production is calculated based on the crop investments needed to reach the targeted sustainable productivity level. Hired labour remuneration is factored in at a living wage, so that the Living Income Reference Price not only allows coffee farmers to earn a living income, but also to pay their workers a living wage.

Roundtable members discussed in focused groups the agricultural inputs, hired labour and other production costs incurred for implementing sustainable agricultural practices in arabica and robusta production. The below tables provide an overview of the costs of sustainable production per acre.

The main cost items for arabica coffee are organic fertilizer, including transportation, and hired labour. A total of 55 hired labour days per acre are required besides the household labour. Paid at a living wage of UGX 25,000 per day, the labour costs amount to UGX 1,375,000 per acre.

With a rounded input cost of UGX 1,400,000, plus UGX 1,375,000 for hired labour and UGX 500,000 for other variable costs, the total cost per acre is UGX 3,275,000. Fixed costs are rounded to UGX 600,000 for **a total cost of sustainable production of UGX 7,750,000 for a two-acre arabica farm.**

Robusta coffee production has the highest cost for mechanical weeding and mulching. Nearly all the work outside harvest can be taken care of by household members and only 30 days of hired labour are required during harvest.

The total input costs per acre are rounded to UGX 1,400,000. Hired labour paid at a living wage would cost UGX 750,000 per acre. Adding the other variable costs for transport and materials, the total cost per acre is approximately UGX 2,550,000. The fixed costs were increased to UGX 500,000 to arrive at a total cost of sustainable production for a three-acre robusta farm of UGX 8,150,000.

Table 5: Overview of sustainable production costs to produce 640 kg of arabica coffee per acre

Cost of sustainable production (arabica)					
Required practice		Agri inputs (UGX/acre)	Hired labour (days/acre)	Other variable costs (UGX/acre)	Fixed costs (UGX)
Fertilization	Application of manure / dried cow dung / composite organic fertilizer (depending on availability) 1x year	1,280,000	0	128,000	-
Pest management	Preparation and spraying of biochemical (centrally manufactured extract from local herbs) / in some cases copper is used (2.4 kg/acre)	120,000	5	-	-
Weed control	Manual weeding twice a year	-	0	-	60,000
Rejuvenation	Cycle management incl. stumping every 10 years; pruning after main harvest, de-suckering and cleaning throughout the year	-	10	-	25,000
Harvest	Red cherry picking	-	40	90,000	96,000
Post-harvest	Processing (floating, pulping, fermentation, hand picking, drying, storing) twice a year (done individually in Mt Elgon / central wash station in Rwenzori)	-	0	15,000	220,000
Replanting	Replacement / gap filling with new coffee seedlings (64 trees / 10% per year)	32,000	0	-	-
Admin & misc	Communication, security, membership fees, extension services	-	0	250,000	220,000
Total cost x acre		1,432,000	55	483,000	621,000

Table 6: Overview of sustainable production costs to produce 1125 kg of robusta coffee per acre

Cost of sustainable production (robusta)					
Required practice		Agri inputs (UGX/acre)	Hired labour (days/acre)	Other variable costs (UGX/ acre)	Fixed costs (UGX)
Fertilization	Application of farm yard manure: 10kg per tree per year (during peak productivity age of 5-7 year)	80,000	0	320,000	-
Pest management	Routine practices such as removing of diseased suckers, plucking of affected branches	-	0	-	-
Weed control	Mechanical weeding and mulching (5 trips x year)	1,250,000	0	-	-
Rejuvenation	Pruning, de-suckering	-	0	-	85,000
Harvest	Red cherry picking	-	30	-	-
Post-harvest	Drying	-	0	66,000	145,000
Replanting	Replacement / gap filling with new coffee seedlings (40 trees / 10% per year)	60,000	0	-	-
Admin & misc		-	0	-	10,000
Total cost x acre		1,390,000	30	483,000	240,000

Maate Ezrus of Kabonero Mountainous Coffee Growers Co-operative Society Ltd, Uganda
Photo credit: © Fairtrade

Living Income Reference Price modelling

With the variables defined in the previous chapters, Living Income Reference Prices at farm gate were modelled for organic arabica and robusta coffee from Uganda.

The following table summarizes the agreed key parameter values of the price model and the respective Living Income Reference Prices with varying levels of income dependency on coffee. Four scenarios were compared for arabica coffee:

i. 100% income dependency on coffee

ii. 100% of financial income dependent on coffee, but producing 1/3 of the household's dietary needs on farm

iii. 75% of financial income dependent on coffee and producing 1/3 of the household's dietary needs on farm

iv. 50% of financial income dependent on coffee and producing 1/3 of the household's dietary needs on farm

v. 25% of financial income dependent on coffee and producing 1/3 of the household's dietary needs on farm (actual average land size)

Table 7: Living Income Reference Price modelling for arabica coffee with varying crop areas and respective percentage of living income to be generated from coffee sales. *hired labour cost @UGX25,000 per day.

Scenario		I	II	III	IV	V
Food needs farm-grown		n/a	1/3	1/3	1/3	1/3
Household income from coffee		100%	100%	75%	50%	25%
(A) Viable coffee area	acre	4.5	4.0	3.0	2.0	1.0
(B) Sustainable yields	KgDP/acre	640	640	640	640	640
cost of agricultural inputs	UGX/acre	1,400,000	1,400,000	1,400,000	1,400,000	1,400,000
hired labour cost* non-harvest	UGX/acre	375,000	375,000	375,000	375,000	375,000
harvest labour cost*	UGX/acre	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
other variable costs	UGX/acre	500,000	500,000	500,000	500,000	500,000
total variable costs x acre	UGX/acre	3,275,000	3,275,000	3,275,000	3,275,000	3,275,000
fixed costs	UGX	600,000	600,000	600,000	600,000	600,000
(C) Cost of sust production	UGX	15,337,500	13,700,000	10,425,000	7,150,000	3,875,000
value of farm-grown food	UGX	-	3,400,000	3,400,000	3,400,000	3,400,000
(D) living income	UGX	18,900,000	15,500,000	11,625,000	7,750,000	3,025,000
(C+D/AxB) LIRP	UGX/KgDP	11,888	11,406	11,484	11,641	10,781
equivalent price for cherry	UGX/kg cherry	2,378	2,281	2,297	2,328	2,156

The resulting reference prices for each scenario – with exception of the latter - are very similar. This gives a good level of confidence that the price discovery model works for different producer realities. Based on the previously agreed viable farm size of 2 acres, the **Fairtrade Living Income Reference Price for arabica coffee from Uganda is established at UGX 11,640** (US$ 3.06) per kilo of dried parchment (equivalent to UGX 2,328 for a kilo of cherry) at farmgate.

Similarly, for **robusta** coffee the following scenarios were analyzed:

i. 100% income dependency on coffee

ii. 100% of financial income dependent on coffee, but producing 1/3 of the household's dietary needs on farm

iii. 75% of income dependency on coffee

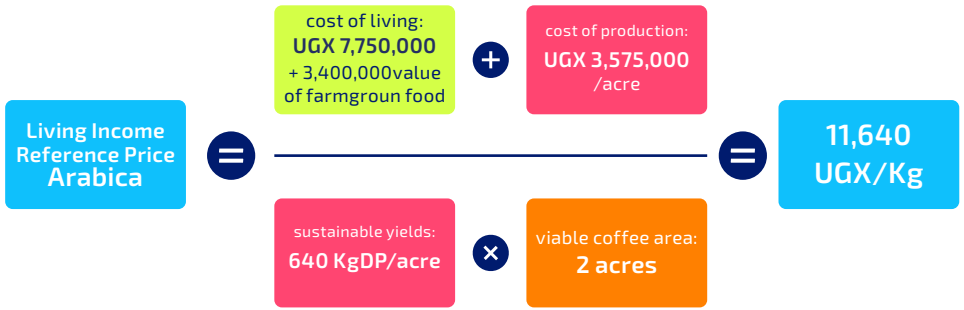
iv. 75% of financial income dependent on coffee and producing 1/3 of the household's dietary needs on farm

Table 8: Living Income Reference Price modelling for robusta coffee with varying crop areas and respective percentage of living income to be generated from coffee sales. *hired labour costs @UGX25,000 per day. **approximate conversion rate 1.8:1.

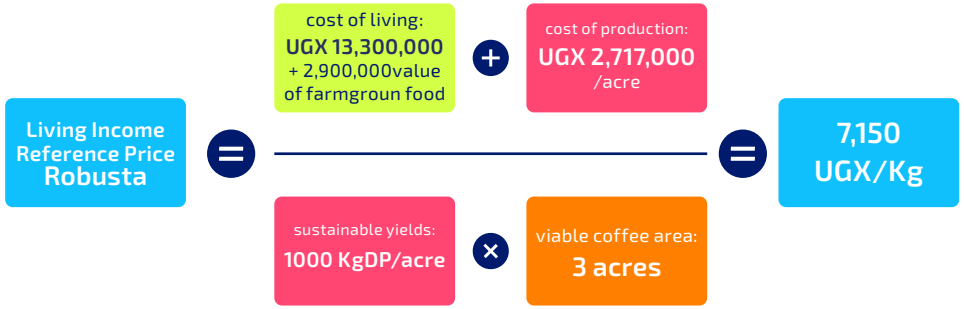
Scenario		I	II	III	IV
Food needs farm-grown		n/a	1/3	n/a	1/3
Household income from coffee		100%	100%	75%	75%
(A) Viable coffee area	acre	3.0	3.0	2.2	2.2
(B) Sustainable yields	KgDP/acre	1000	1000	1000	1000
cost of agricultural inputs	UGX/acre	1,400,000	1,400,000	1,400,000	1,400,000
hired labour cost* non-harvest	UGX/acre	-	-	-	-
harvest labour cost*	UGX/acre	750,000	750,000	750,000	750,000
other variable costs	UGX/acre	400,000	400,000	400,000	400,000
total variable costs x acre	UGX/acre	2,550,000	2,250,000	2,250,000	2,250,000
fixed costs	UGX	500,000	500,000	500,000	500,000
(C) Cost of sust production	UGX	8,150,000	8,150,000	6,110,000	6,110,000
value of farm-grown food	UGX	-	2,900,000	-	2,900,000
(D) living income	UGX	16,200,000	13,300,000	12,150,000	9,975,000
(C+D/AxB) LIRP	UGX/KgDP	8,117	7,150	8,300	7,311
equivalent price for cherry	UGX/kg cherry	4,509	3,972	4,611	4,062

Also here, resulting reference prices fall within a small range. Based on the full-employment farm size of 3 acres and the desirable scenario of coffee being intercropped with food crops, the **proxy Fairtrade Living Income Reference Price for robusta coffee from Uganda is established at UGX 7,150** (US$ 1.88) per kilo of Fair Average Quality (equivalent to approximately UGX 3,972 for a kilo of kiboko or unhulled dried cherry) at farmgate.

In summary, Living Income Reference Prices for Uganda coffee are established as follows. For arabica:



And the proxy for robusta:



Implementing Living Income Reference Prices

By establishing Living Income Reference Prices, Fairtrade quantifies the gap between market and sustainable prices at farmgate level and emphasizes the need to address price as a crucial factor to attain sustainable supply chains that enable farmers to earn a living income.

Current international coffee market prices are exceptionally high compared to when baseline data were collected. While in 2019/2020 a kilo of parchment arabica coffee was sold at less than 6,000 shilling on average, current farmgate prices range between 11,000 and 12,000 shilling in Uganda. Similarly, robusta FAQ currently sells at 6,800 – 7,300 shilling per kilo, thus fluctuating around the Living Income Reference Price. It is therefore encouraging to find that Living Income Reference Prices seem feasible in the coffee industry.

By applying average conversion factors, estimated operational costs of the producer organization for processing and export handling in Uganda and an exchange rate of 3,800 Uganda shilling to a dollar, an indicative FOB (free on board, or export) price of US$ 2.22 per pound of green arabica coffee (green bean equivalent or GBE) and US$ 2.92 per kilo of Fair Average Quality robusta coffee is estimated, based on a Living Income Reference Price paid at farmgate, as summarized in tables 9 and 10.

However, the actual FOB prices will depend on the particular situation and cost structure of each producer organization and will have to be negotiated between seller and buyer, in order to factor in all relevant costs incurred by producer organizations, so they can pay their members a Living Income Reference Price at farmgate.

Fairtrade integrates voluntary payment of the Living Income Reference Prices in living income pilot projects with committed buyers and their supply chain partners. By implementing the holistic living income strategy on a controlled scale, Fairtrade seeks to demonstrate its effectiveness and validate the price component as a critical driver to achieve living incomes.

Table 9: Approximate farmgate – FOB price conversion for arabica coffee

Farmgate - FOB conversion arabica		UGX	USD
LIRP DP at farmgate	**/kg DP**	**11,640**	**3.06**
LIRP GBE at farmgate	/kg GBE	14,551	3.83
SPO operations, processing & export costs	/kg GBE	4,028	1.06
LIRP proxy GBE at FOB	/kg GBE	18,579	4.89
LIRP proxy GBE at FOB	**/pound GBE**	**8,445**	**2.22**

Table 10: Approximate farmgate – FOB price conversion for robusta coffee

Farmgate - FOB conversion robusta		UGX	USD
LIRP FAQ at farmgate	**/kg FAQ**	**7,150**	**1.89**
SPO operations, processing & export costs	/kg FAQ	3,955	1.04
LIRP proxy FAQ at FOB	**/kg FAQ**	**11,105**	**2.92**

It must be stressed that the Living Income Reference Price is just one tool, which - in combination with other interventions - is needed to close the income gap and therefore there is no guarantee that by paying a LIRP all farmers will earn a living income. Nonetheless, payment of a LIRP, along with long-term sourcing agreements, are considered essential purchasing practices that buyers are responsible for to enable living incomes for farmers in their supply chains. On the other end, farmers are equally responsible for implementing the sustainable agricultural practices to meet the productivity target.

With a current average coffee area of one acre, many arabica farmers in Uganda do not have a viable coffee area to generate a living income from their farm revenues only. Although these farmers can earn a proportional share of a living income from coffee sales, supplementary income generating opportunities will be needed to fully bridge the income gap.

Fairtrade recommends that the mandatory Fairtrade Premium is not counted towards the Living Income Reference Price, but is paid on top to the producer organization. The Fairtrade Premium is an important source of income for producer organizations to cover operational costs, including adequate service delivery to their members. Empowered producer organizations play a crucial role in supporting their members reach target yields, reduce costs, add value, diversify income sources and enhance farm resilience, all of which contribute to achieve living incomes.

Finally, most buyers do not purchase all the coffee produced by a producer organization and thus the Living Income Reference Price will only be received for part of the sales. This means that the price differential will get diluted over the total volumes, if not all buyers commit to paying the Living Income Reference Price. **Hence, this is a call to the coffee industry to jointly commit to sustainable prices, so that living incomes can become a reality for coffee farmers.**

The Living Income Reference Price model makes up an integral part of Fairtrade's Living Income Strategy. Fairtrade is constantly testing and improving its model in order to develop a standardized approach for establishing sustainable price levels for smallholder farmers, applicable to a wide range of commodities and regions. We welcome your feedback in this process.

For more information or comments, please contact:

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1 https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&ved=2a-hUKEwiL9L-Gz_HwAhV2DWMBHRn3Bj0QFjABegQIAhAD&url=https%3A%2F%2Fwww.ico.org%2Fdocuments%2Fcy2018-19%2Fwp-council-302e-london-declaration.pdf&usg=AOvVaw1raFtFOmZzmU-y07N-NqI8

2 Applied exchange rate 1USD = UGX3,800 (Uganda Shilling)

3 The Universal Declaration of Human Rights establishes: "Everyone who works has the right to just and favourable remuneration ensuring for himself and his family an existence worthy of human dignity."

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