

Fairtrade Living Income Reference Price for Vanilla

(2024 update for Madagascar)

Context

Since liberalization in the 1990s, the vanilla market has been characterized by high price volatility. Following a long period of low vanilla prices during which there was minimal investment in production, supplies became tight and the market entered a “boom” period with exceptionally high prices between 2014 and 2019, reaching as high as 500 euro per kilo of cured vanilla. High prices, not unexpectedly, created incentives for farmers to increase their vanilla production as well as drawing new farmers into vanilla. Due to natural production delays (takes 3 years for a new vine to come into production), new production came online significantly starting in 2019, in the face of falling global demand, creating global vanilla oversupply and significant downward pressure on farmgate prices in Madagascar. By 2023, the market was significantly oversupplied, with farmgate prices for green vanilla falling to less than €2.

It is in this context that the Fairtrade Living Income Reference Price - first established in 2019 - provided the vanilla sector with an important 3rd party reference to inform the discussion on what farmers needed to earn a decent standard of living. The study found that farmers were doing relatively well during the peak price years, but that they were very vulnerable to market changes because of low productivity, high dependency on vanilla/ insufficient livelihood diversification, and a market history of extreme price volatility.

Given the high dependence on vanilla income in the vanilla growing regions, the price drops meaningfully changed the costs of living, which led to a revised vanilla Living Income Reference Price for Madagascar for 2024. In order to update the Living Income Reference Price for vanilla from Madagascar, a focused field study in the SAVA region was conducted in November / December 2023. Food prices were collected at 12 local markets, 12 focus groups were conducted to estimate other costs, and 480 randomly selected farmers were interviewed on income strategies and the vanilla business in general.¹

The Living Income Reference Price continues to be a valuable reference tool for different stakeholders to discuss and support living income as the sector navigates through a difficult supply and demand rebalancing.

¹ [Living Income Reference Price for Vanilla from Madagascar, a 2024 update](#); Dr. Hendrik Hänke

Parameter 1: Living Income benchmark

Following the vanilla price drop, the cost of living has changed significantly, with a mix of deflation in the cost of local goods and inflation in some services and imported goods. Based on market surveys, the cost of a nutritious, low-cost model diet was recalculated. The total annual food cost for an average Malagasy household showed a decrease from €1,905 in 2020 to €1,597 (7,691,951 MGA) in 2023.

The other cost elements included in the living income benchmark calculation from 2020, such as housing, healthcare, transportation, education, and other essential needs, were also adjusted based on focus groups with farmers and local market costs.

The applicable living income benchmark therefore decreased from €4,668 per year (2020) **to €3,466 (16,6934,214 MGA)** for an average household of 4.2 members.

The cost of a nutritious diet makes up for approximately 55% of the total living costs. Farm-produced food for domestic consumption (mostly rice, subsistence crops, and livestock) is considered as in-kind income. Its value increased from €303 in 2020 to €737 (3,548,460 MGA) in 2023.

Deducting the value for home-grown food from the living income brings down the financial cost of a decent standard of living for an average Malagasy household to **€2,729 (13,145,529 MGA) per year**.

Parameter 2: Sustainable yields

The previously established sustainable yield level of **350 kg of green vanilla per hectare** has remained unchanged. Despite the continued low productivity results, this is still considered to be a realistic target yield.

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Parameter 3: Viable farm size

The maximum vanilla area that can be managed primarily with family labour was estimated at **1 hectare**. This full-employment farm size was not changed.

Parameter 4: Cost of Sustainable Production

The cost of sustainable vanilla production covers the labour and material investments needed to implement good agricultural practices and achieve the productivity target of 350kg/ha. Hired labour – remunerated at a living wage of €7.51 / 36,124 MGA per labour-day² - forms the bulk of the cost of sustainable production with materials and transport making only a small portion of the total costs. Fertilizers and crop protection are generally not used in vanilla production. The average cost of sustainable production in 2023 is €988.8 per hectare per year (4,762,555 MGA), of which €969 correspond to hired labour costs.

Living Income Reference Price for Vanilla (2024)

The main differences affecting the Living Income Reference Price for vanilla between the 2020 update and the 2024 update are the significantly lower costs for locally produced goods (food and building material) and a decline in the value of the Ariary³.

Parameter	2020	2024
Living income benchmark	€4,668	€3,466
Minus value of farm-grown food	€303	€737
Financial cost of decent living	€4,365	€2,729
Sustainable yields	350 kg/ha	350 kg/ha
Viable farm size	1 ha	1 ha
Cost of sustainable production	€392.7	€988.8
LIRP (not considering other cash farm income)	€13.59 / kg	€10.62/kg
Other farm cash revenue	€150	€159
LIRP (considering other cash farm income)	€13.16 / kg	€10.17/kg

The parameter values described above lead to an updated **Fairtrade Living Income Reference Price of € 10.17 (48,979 MGA) per kilo of green vanilla at farm gate for Madagascar.**

² Based on the living income of €3,466 for an average household of 4.2 members, a living wage of €7.5 per labour-day is derived as follows: the average household is composed of 2.5 adults and 1.7 children. As a rule of thumb, 75% of the adult full-time equivalent workforce is considered as available labour (based on 246 working days per FTE per year, allowing for some leave and sickness). Thus, there would

be a total of 461 working days (1.875 × 246 days) available in a household to make a living income, translating into a daily living wage of EUR €7.51.

³ Average exchange rate 2023: 1€ = 4,816.5 MGA