ASEAN EU Coffee Summit:

Improving Incomes *(Living Prosperous Income)*

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Session Overview:

ICO's Coffee Private Public Task Force

Living Income Tool

Closing Income Gap Process

Potential Next Steps

Case Studies: Improving Incomes

INTERNATIONAL COFFEE ORGANIZATION

ASEAN COFFEE SECTOR: Impressive Growth!

❖ Revenue in Coffee Market projected to reach US$806.80m in 2024 (**18,03% Change 2024**)

❖ Revenue - **annual growth rate of 11.15%; Projected market volume of US$1,369.00m by 2029.**

❖ **User penetration** 4.7% in 2024; expected to hit **6.1% by 2029**

USERS   PENETRATION RATE

Total   Instant Coffee   Roast Coffee
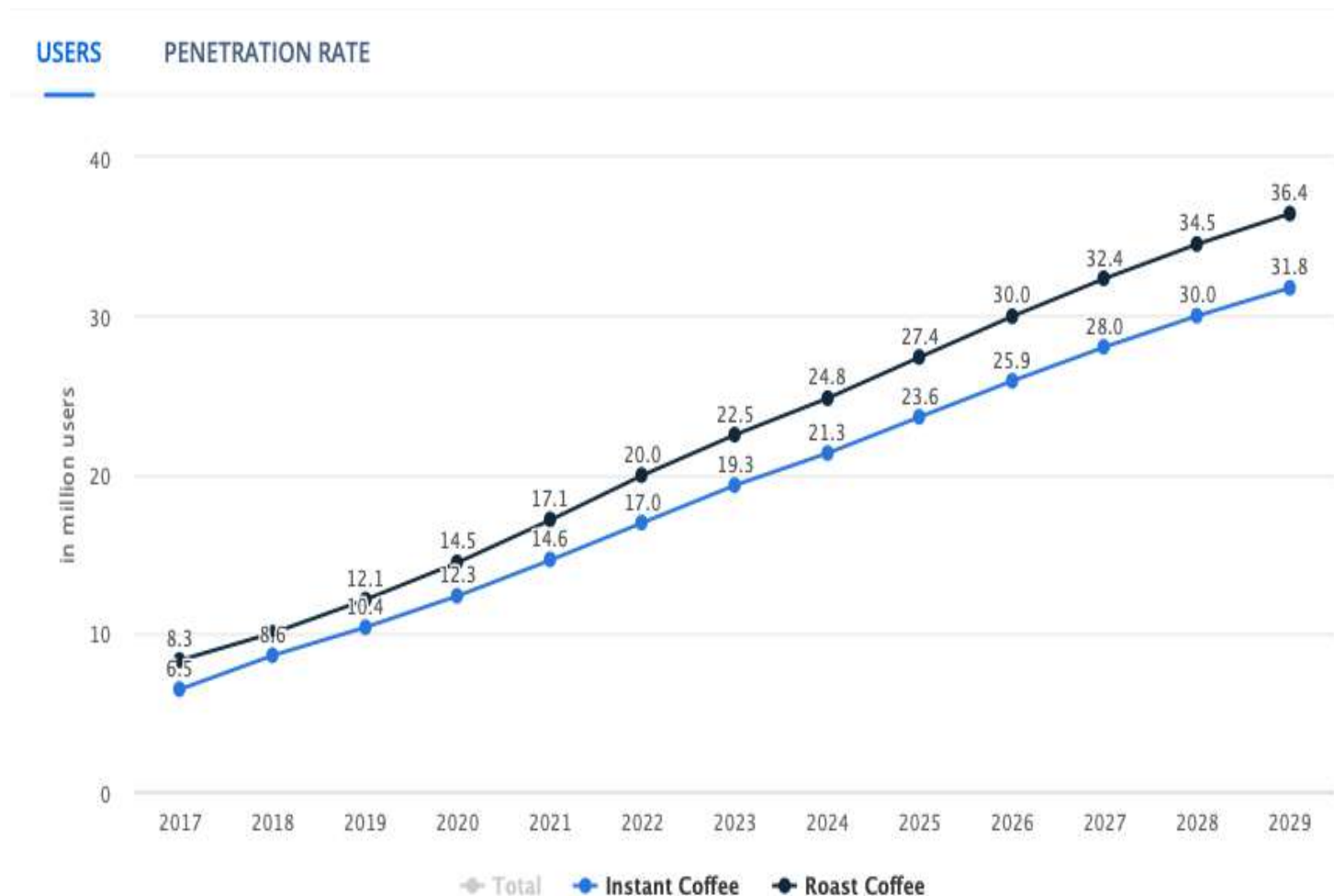
Most recent update: Apr 2024

Source: Statista Market Insights

Great Coffee Experiences!

Café SINOUK Pakse, Lao

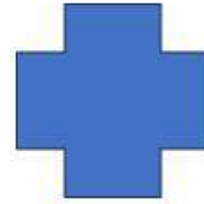**Lu La Lao Coffee**, Luang Prabang

103 Coffee Kuala Lumpur, Malaysia

Quality (ACF Success!) + Environmental + Social = Total Quality

Members

Private Sector A-Z (18)

Signatories London Declaration

Coffee sector initiatives

- GLOBAL COFFEE PLATFORM for a sustainable coffee world
- SUSTAINABLE COFFEE CHALLENGE

Private Sector Consultative Board

- INDIA COFFEE TRUST
- nca NATIONAL COFFEE ASSOCIATION USA EST. 1911

ICO Member countries A-Z (17)

Brazil	**Colombia**	**Côte d'Ivoire**
Ethiopia	**EU**	**Honduras**
India	**Indonesia**	**Kenya**
Mexico	**Nicaragua**	**PNG**
Peru	**Rwanda**	**Switzerland**
Togo	**Vietnam**	

Observers
co-signatories,
civil society organizations &
International Organizations

Secretariat

INTERNATIONAL COFFEE ORGANIZATION

Supporters and partnerships

- Schweizerische Eidgenossenschaft / Confédération suisse / Confederazione Svizzera / Confederaziun svizra — Swiss Confederation — Federal Department of Economic Affairs, Education and Research EAER — **State Secretariat for Economic Affairs SECO**
- giz Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH — On behalf of — Federal Ministry for Economic Cooperation and Development
- European Commission
- UNDP GREEN COMMODITIES PROGRAMME
- SUSTAINABLE FOOD LAB
- COSA Committee On Sustainability Assessment
- idh transforming markets
- SUSTAINABLE COFFEE CHALLENGE
- GLOBAL COFFEE PLATFORM for a sustainable coffee world

Improving incomes:

❖ Scale of challenge requires Collaboration & Shared Responsibility
❖ Basis to address other issues (i.e. deforestation)
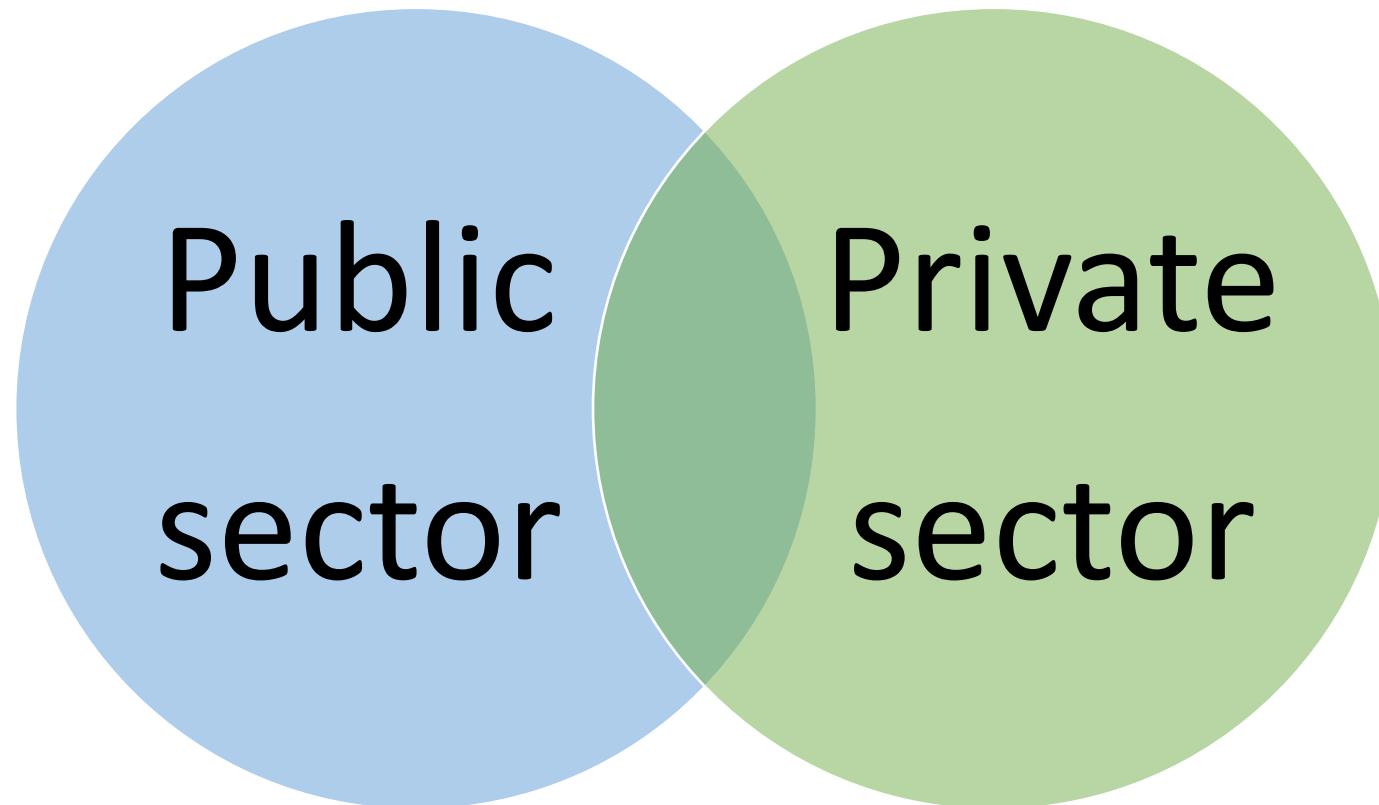
Living Prosperous Income Steps

Identify income Gap
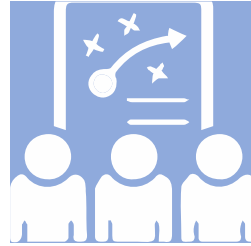
Learn from & replicate in interested countries

Work together to Identify:
a. **Income drivers**
b. **Existing actions/programs**
b. **Key stakeholders**
c. **National, Regional & International action**
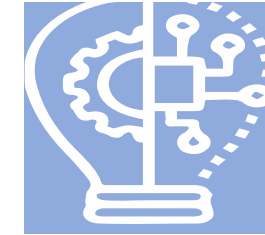
Develop national & regional strategies & inform international action

Commitments on Living Prosperous Income:

❖ CPPTF (ICO Council Approved):

Establish LI Benchmarks in at least 80% of ICO member producing countries by 2025; 100% by 2030.

Close income gap for target producers in at least 50% of the ICO producing countries by 2030

❖ Market Policy: Trend towards increased transparency, risk assessment & value chain management

Examples:

EUDR: recommendation on Living Income

EU's Corporate Sustainability Due Diligence Directive (CS3D)
    - Includes Living Wage and Living Income

❖ Global Coffee Platform: Living Income key focus-

"1 million coffee farmers achieve transformational change towards prosperity by 2030"

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Living Income Tool (Step 1: Benchmark)

LIVING INCOME BENCHMARK

Cost of a basic, decent standard of living for a household

FOOD FOR MODEL DIET

DECENT HOUSING

OTHER ESSENTIAL NEEDS

UNEXPECTED EVENTS

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Living Prosperous Income:
Stepwise approach to achieve prosperity
Clear, credible, comparable data
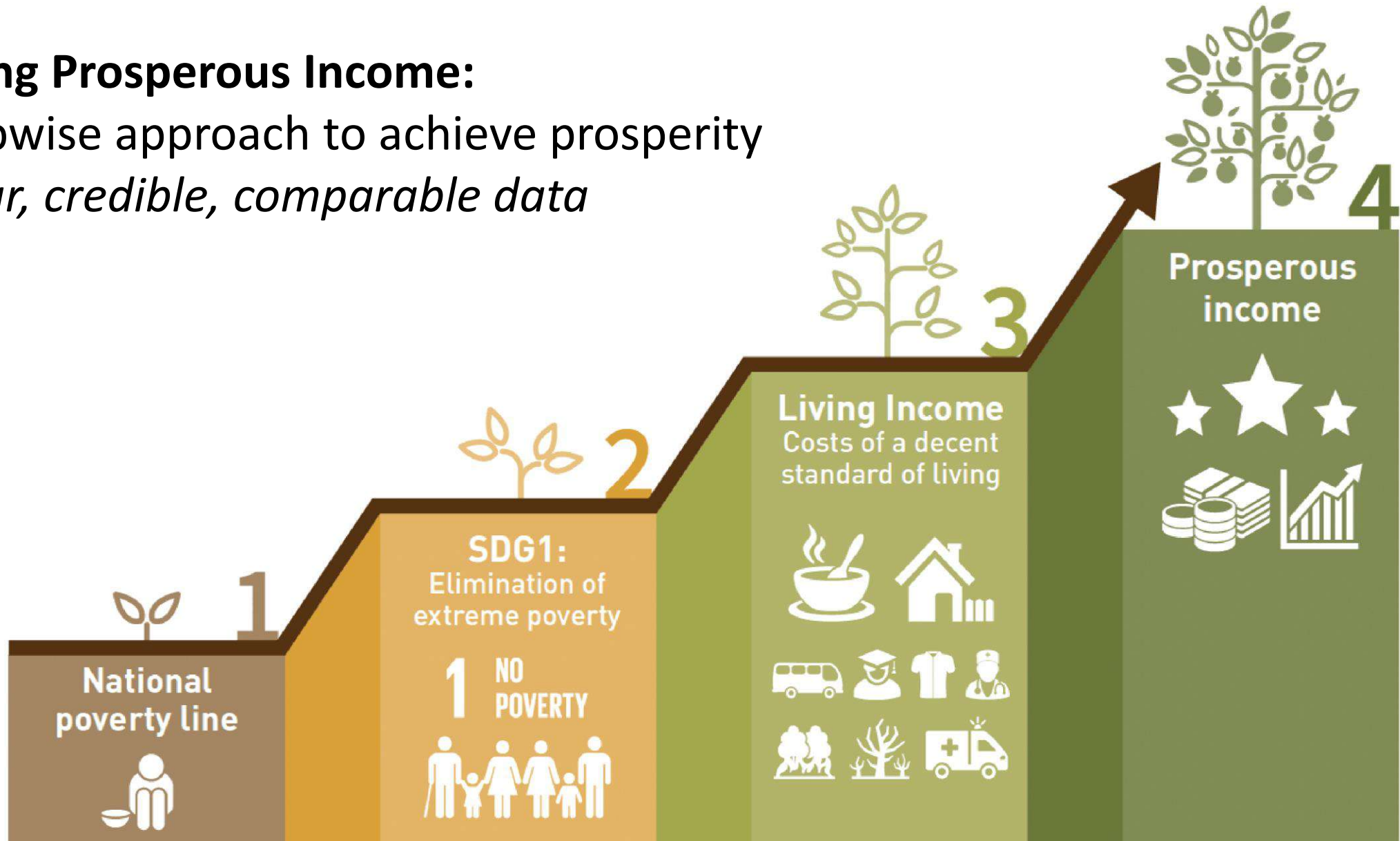
LPI Income Tool (Step 2 Identify Income GAP)

Prosperous Income

Potential household income

LIVING INCOME BENCHMARK

Cost of a basic, decent standard of living for a household

FOOD FOR MODEL DIET

DECENT HOUSING

OTHER ESSENTIAL NEEDS

UNEXPECTED EVENTS

INCOME GAP

ACTUAL INCOME

OTHER INCOME

NET OFF FARM INCOME

NET FARM INCOME

OTHER SOURCES OF INCOME

NET OFF-FARM INCOME

PRIMARY CASH CROP INCOME

SECONDARY CROP INCOME

PRODUCE CONSUMED AT HOME

Source: www.living-income.com

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Existing Benchmarks: Identify and build on available information:

ICO Member Country Benchmarks

■ Benchmark Exists   ■ Forthcoming   ■ No Benchmark Exists   ■ Reference Value or other Study Exists

Benchmark done in coffee growing regions of the country
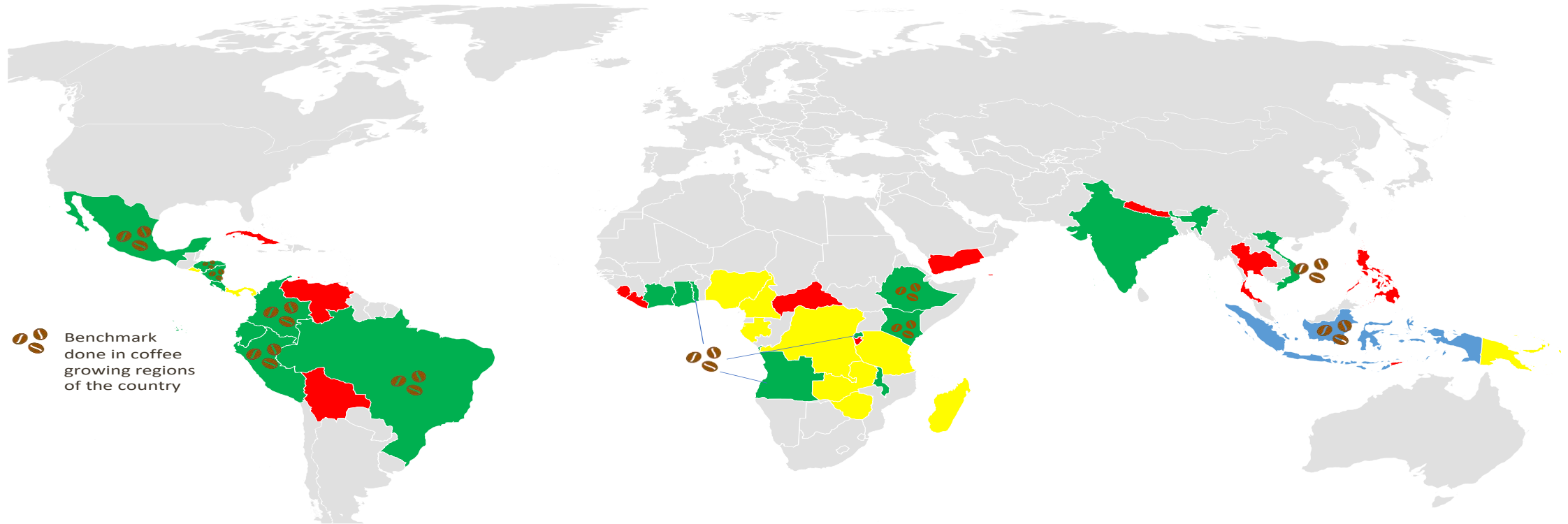
Align Tool: Global information on Living Wage and Living Income for many commodities
https://align-tool.com/source-map?commodities=coffee#

Global Living Wage: https://www.globallivingwage.org

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Living Income tool Step 3: Develop holistic, comprehensive approach

PRODUCTION AND QUALITY
- Professional producer orgs
- Improved quality
- Farm service delivery
- Access to finance
- Risk mitigation tools
- Value Addition
- Income diversification

PRICE & TRADING PRACTICES
- Supplier management
- Pricing and transparency
- Certifications and quality premiums
- Minimum pricing
- Public reporting
- Consumer engagement
- New product development
- Access to new markets
- Contracting

LANDSCAPE & COMMUNITY DEVELOPMENT
- Watershed / forest protection
- Community based income projects
- Social protection
- Land tenure
- Women's economic empowerment

SECTOR & GOVERNMENT POLICY
- National sector strategies
- Sector price mechanisms
- Supply management
- Rural economic development policy
- Due Diligence legislation

Farm and Value Chain Strategies

Community, Landscape, Sector Strategies

Requires collaboration at scale!

Working at scale to close income gaps:

National ⟷ **Regional** ⟷ **International**

Actions to close Income Gaps

National
- Internal consumption
- Research
- Precision agriculture
- Value addition
- Direct trade
- Organization

Regional (ACF ASEAN COFFEE FEDERATION)
- Knowledge sharing (National-International)
- Common challenges, needs & solutions
- Enabling regional trade and policy

International (INTERNATIONAL COFFEE ORGANIZATION | COFFEE PUBLIC-PRIVATE TASK FORCE)
- Ecosystem services
- Value recognition
- Value addition
- Enabling Sector Policy

Commercialization
Internal/Export Trading/Purchasing practices

Differentiation
Production/ Social/ Environmental

Positioning
Cup quality Sustainability

Supply, Demand, and Pricing

Cross-Regional Exchange

Opportunity to:
- ❖ **Share information**
- ❖ **Identify & address common challenges, needs**

Tool: Facilitator's Guide to Close Income Gaps

Objective: Guide process to create a holistic, national & regional strategy for a prosperous coffee sector.

Steps:

Diagnose/Analysis	Strategize	Implement & Measure

Identify available income data (or gather)	Distinguish farmer type Economic modelling	Examine income drivers and identify key stakeholders	Key stakeholders develop and implement national strategy (M & E system)	Inform regional and national strategies
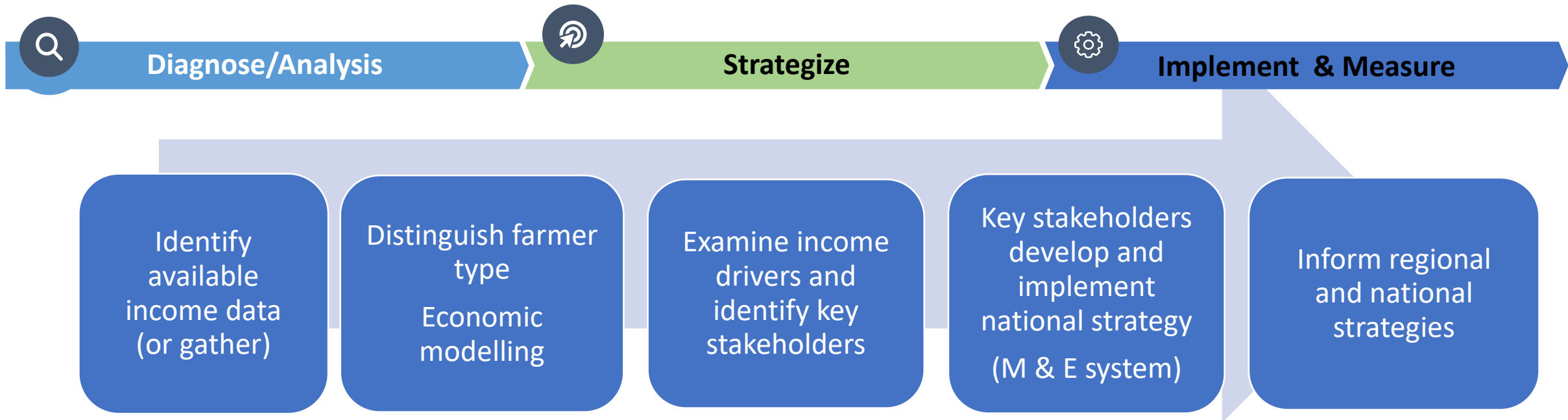
What is next: the Living Income Guide – Example

Step 5: Identify the solutions: Identify drivers to close the LI Gap at farm-, supply-chain-, or sector-level

(Living) Income	=	Price	×	Yield	×	Land	−	Cost of Production	+	Diversification
		Farm-gate price		Coffee per hectare		Productive coffee land		Cost per kg or ha		On-farm and off-farm income
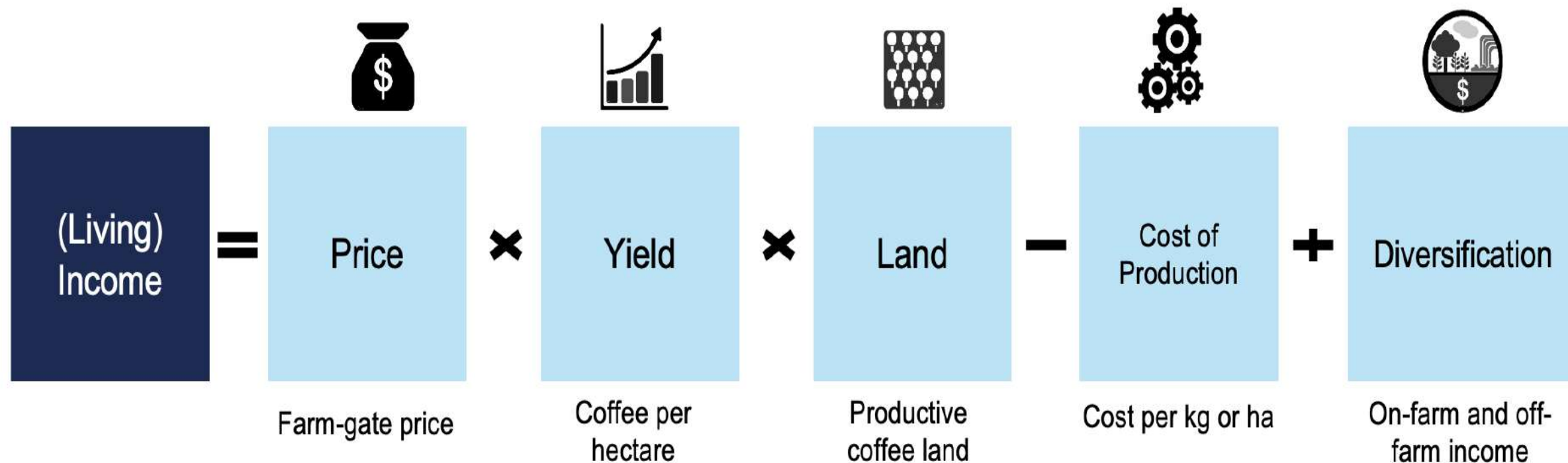
Generates information to guide strategies and develop solutions:

Identify farmer type	Determine the effect of changing 2 variables	Define a 'smart mix' of drivers	Explore effect of specific interventions

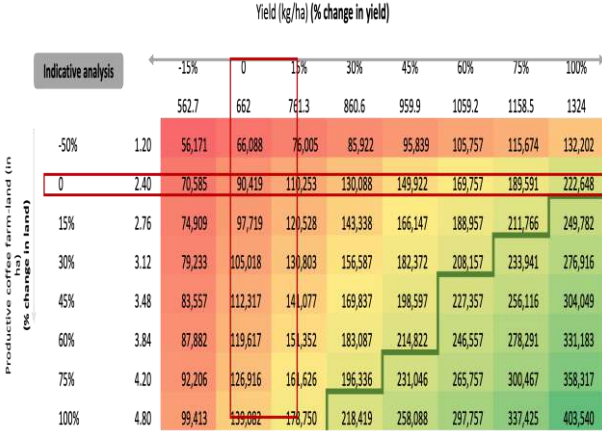Based on income drivers identify different **Types of farmers**

Calculate effect of **changing variables**, keeping the other variables constant

Calculate the effect of a **'smart mix' of income drivers**, by incorporating all five driver

Determine which **interventions can be effective** in reaching the required 'smart mix' of drivers (other steps in Guide help determine **which stakeholders** can help acheive which interventions)

Example Visualization

In XX, 94% of farmers are smallholders, owning 7 hectares of coffee land or less. These individuals collectively produce 64% of the national coffee production.

Nearly 6% of the farmers are 'mid-sized' farmers, holding 7-35 ha of land and producing 29% of the XX coffee.

~300 farms in XX are 'large' farms with area above 35 ha. 7% of the XX coffee volume is produced on these farms.

Main Income Drivers			
Area (ha)	2.4	18.7	35
Yield (kg/ha/year)	662	1080	1555
Price (XX/kg)	97.34	97.34	97.34
Cost of production (XX/ha/year)*	34,819	34,819	34,819
Diversification (XX/year)	48,838	491,470	588,712
	119,925	1,806,227	4,668,447

Yield (kg/ha) (% change in yield)

Indicative analysis

		-15%	0	15%	30%	45%	60%	75%	100%
		562.7	662	761.3	860.6	959.9	1059.2	1158.5	1324
-50%	1.20	56,171	66,088	76,005	85,922	95,839	105,757	115,674	132,202
0	2.40	70,585	90,419	110,253	130,088	149,922	169,757	189,591	222,648
15%	2.76	74,909	97,719	120,528	143,338	166,147	188,957	211,766	249,782
30%	3.12	79,233	105,018	130,803	156,587	182,372	208,157	233,941	276,916
45%	3.48	83,557	112,317	141,077	169,837	198,597	227,357	256,116	304,049
60%	3.84	87,882	119,617	151,352	183,087	214,822	246,557	278,291	331,183
75%	4.20	92,206	126,916	161,626	196,336	231,046	265,757	300,467	358,317
100%	4.80	99,413	139,082	178,750	218,419	258,088	297,757	337,425	403,540

Productive coffee farm-land (in ha) (% change in land)

Explanation: The numbers in the colored boxes show the household income (including non-coffee income). The horizontal axis shows variation in yields, while the vertical axis represents variation in productive coffee farm-land. The red boxes highlight the current levels. The green box indicates the income above the threshold of the Living Income.

Key improvements	Current average values	Scenario 1 Increasing yields more than twofold whilst augmenting price	Scenario 2 Increasing yields incrementally whilst doubling farm-size	Scenario 3 Increasing farm-size and price whilst keeping yields steady
Price (xx/kg)	83	97	80	90
Yield (kg/ha/year)	662	1562	875	663
Farm size (ha)	2.4	1.5	5	7
Cost of production (xx/ha/year)	34,819	34,810	34,817	34,819
Diversification (xx/year)	41,757	41,763	41,757	41,757
Net annual income (xx/year)	90,419	217,620	217,620	217,620
Living Income gap (xx/year)	127,201	0	0	0

	Effect per income driver	Explanation
Price (xx/kg)	+5%	Higher quality product
Yield (kg/ha/year)	+15%	Soil improvement noticeable after 3 years
Farm size (ha)	0	No noticeable change
Cost of production (xx/ha/year)	-10%	Cost of inputs such as fertilizer reduces due to use of organic inputs
Diversification (xx/year)	+20%	Sales of other crops and ecosystem services

Tool: Facilitator's Guide to Close Income Gaps

Implementation:

Interactive workshops with coffee stakeholders to review analysis and develop strategies adapted to local situation (building on existing activities and linked to regional and international action)

Current Status:

Now implementing, with national coffee institutions and coffee stakeholders, in target countries in Central America & West Africa.

Value (*I see*) in LPI approach:

Focus on "Foundational Income" to:

- Manage risks & motivate Investments
- Become sustainable suppliers
- Provide Environmental & Social Benefits
- Foundational basis to grow their own business (farm) & their income

Identify & Analyze Income drivers (incl. price) & Stakeholders

Accepted methodology/Comparable data

- Measure continuous improvement

Basis for collective strategic planning & action

- @ National/Regional & International level; Private & Public Sectors

Opportunity to work at scale!

- Address sector & global issues (i.e. price volatility, climate change etc.

Potential Next Steps for ACF on Improving (Living) Incomes:

☕ Share information/learning (ACF Regional Knowledge Hub).

☕ Further identify income gaps and solutions to close gaps in ASEAN region.

☕ Adapt <u>Facilitator's Guide to Close Income Gaps</u> to ASEAN region:

* Driver & Stakeholder Identification
* Collective action on income drivers
* Focus on solutions (@ Nat./Reg./Inter-Sector level)

☕ Exchange between regions & to sector level on common challenges to promote enabling environment and policy

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CASE Studies: Related to Living Prosperous Income

Ms. Laura Elphick: Starbucks Asia Pacific
❖ Director, Coffee Education & Engagement

Pak Danny F. Juddin, GIZ Indonesia
❖ Implementation Manager (SASCI+ & Coffee++)
Mr. Wouter De Smet, Nestle (*Virtual*)
❖ Manager, Green Coffee Farmer Connect