

Verified Living Income

Transforming Procurement for Improved Farmer Livelihoods

Poverty in the coffee industry is an enduring crisis.

Evidence demonstrates systemically low prices are the predominant root cause of poverty amongst coffee farmers. For years the call to pay higher and fairer prices has been reverberating in the background of the \$200-\$250B coffee industry. Yet, the nominal price of coffee remains close to the price it was over 40 years ago—in real terms, it has declined almost 67%.

The C-Market has valued Arabica below the average cost of production for almost three consecutive years. The unsustainably low prices farmers are paid exist concurrently against a steady drumbeat of volatility—coffee leaf rust (*roya*), incessant market fluctuations, the omnipresent effects of climate change, mounting investment needs, a growing shortage of migrant workers, and increasing opportunity costs that are forcing droves of farmers to seek other work altogether, often in other countries. Change is the only constant in coffee production, yet prices remain stagnant.

Despite an immense amount of resources funneled into livelihoods at origin and claims around “ethical sourcing,” poverty rates are virtually unchanged in the Coffeelands. More than an exercise in benevolence, paying more equitable prices for coffee is an investment in a supply stability and key to the future of a thriving, sustainable, and diverse coffee industry.

“The nominal price of coffee remains close to the price it was over 40 years ago—in real terms, it has declined almost 67%”

Redefining prices with Verified Living Income.

Verified Living Income (VLI) is a new initiative focused on developing a truly transparent, economically viable method of determining how much to pay for green coffee based on farmers' livelihood needs.

VLI is the minimum price (farmgate or FOB-equivalent) required to close the living income gap given current production realities. Calculated via sensitivity analysis, developed by Heifer International, a living income benchmark is overlaid onto full production costs, land size, and productivity. The resulting price reflects the per-pound coffee price necessary to reach a living income without changing crop outputs or available resources.

Living income-based pricing is essential to inclusive, equitable price discovery as it represents three necessary shifts:

1. Equalizing power dynamics between buyers (traditionally price setters) and producers (traditionally price takers).
2. Evolving procurement practices to directly address economic sustainability at origin, rather than focusing exclusively on projects that do not materially confront prices.
3. Providing the economic infrastructure necessary for farmers to transition away from merely surviving to actively thriving.

VLI provides the economic infrastructure necessary for farmers to transition away from merely surviving to actively thriving

Living Income



LIVING INCOME BENCHMARK

Diagram by Heifer International

Results from the pilot study in Tolima, Colombia.

To explore this pricing premise, a pilot was launched with ASOPEP, a cooperative in the Tolima department of Colombia, who collected comprehensive data from 38 randomly selected farmers on the costs associated with producing coffee and maintaining their farms for an entire year. The results of the cost of production data, overlaid with the Living Income Benchmark, yielded the following results.

The shift to a thriving coffee future.

Inextricably tying living income to pricing turns the traditional, patently unsuccessful notion of poverty alleviation on its head by providing the necessary economic infrastructure to ensure coffee can cease being a poverty crop.

Living income looks beyond the international poverty line to understand the amount a family needs to earn each year to live with dignity, resilience, and self-reliance. This includes: nutritious food, clean water, appropriate housing, education, healthcare, transportation, clothing, and other essential needs, including funds for emergencies or unexpected events.

Living income benchmarks (LIBs) are calculated based on the Anker Methodology, which determines the total cost per capita of a basic-but-decent standard of living over the course of a year and scales it to arrive at a cost for a typical family size in the area. The methodology critically allows for different estimates in rural and urban areas and need to be recalculated every few years to account for inflation and changing costs—making LIBs exceptionally context-specific.

Living Income-based Pricing for ASOPEP

Total production cost

\$10,522 usd

+

Living Income Benchmark

\$4,464 usd

÷

3.34

hectares
(farm size)

×

2883*

pounds
(yield)

=

VLI Farmgate Price

\$1.89 /LB**

\$2.24/LB VLI FOB**

* dry parchment

** green equivalent



Bellwether's Commitment to Verified Living Income

Bellwether's buying philosophy has always been rooted in paying farmers fairly for the products they purchase. Historically, Bellwether's buying principles emulated the industry's best standards— basing price structures on best available information, building partnerships with values-aligned speciality coffee importers, and paying competitive market rates (often even higher). However, Bellwether weren't content to settle for what the industry defined as best practices in coffee buying. Committed to doing better and wanting to develop a fair and transparent way to pay for coffee, Bellwether proactively supported VLI to drive data-driven procurement decisions, rather than a gut-level understanding of what was "fair."

The data from the Verified Living Income pilot indicated the need for Bellwether to pay 20% more for its 2021 contracts with ASOPEP than paid previously. Bellwether did just that. Bellwether is committed to scaling and expanding VLI throughout its supply chain, with the long-term intention of ensuring that the majority of all coffees purchased for the green coffee marketplace are based on living income pricing.

Next steps for an equitable coffee industry.

The Verified Living Income pilot is the first step in reforming the way the industry pays for green coffee. This new price discovery method represents a viable, evidence-based approach that will promote much needed economic infrastructure upstream. If broadly adopted, this will allow the industry to move from ambitious talks and ambiguous commitments to implement concerted, clearly defined actions to address the fundamental disparities that threaten the industry's longevity—committing to paying producers economical ethical prices is not only a strategic investment but foundational to a more sustainable coffee industry.

Verified Living Income requires full collaboration of actors across the value chain, from producer to buyer. Rather than seeing living income as a far-off end, only achievable through dramatic production improvements and extreme diversification, we can meet farmers where they currently are in terms of output and expansion and focus on using data-driven pricing to close the gap. Ultimately, transforming procurement to center on living income is key in creating the economic stability necessary to ensure that coffee provides a viable livelihood for the generations of coffee farmers to come.

Bellwether discovered the need to pay 20% more to meet the VLI farmgate price

2020 = \$1.57 farmgate 2021 = \$1.89 farmgate

For more details on the methodology, limitations, implications, and industry recommendations, see the [whitepaper](#).

Partners: Asociación de Productores Agropecuarios de Café Especial de Planadas (ASOPEP), Bellwether Coffee, The Latin American and Caribbean Network of Fair Trade Small Producers and Workers (CLAC), Heifer International, and Sustainable Harvest.

All photographs provided courtesy of Sustainable Harvest and ASOPEP