

# Living Income Explainer

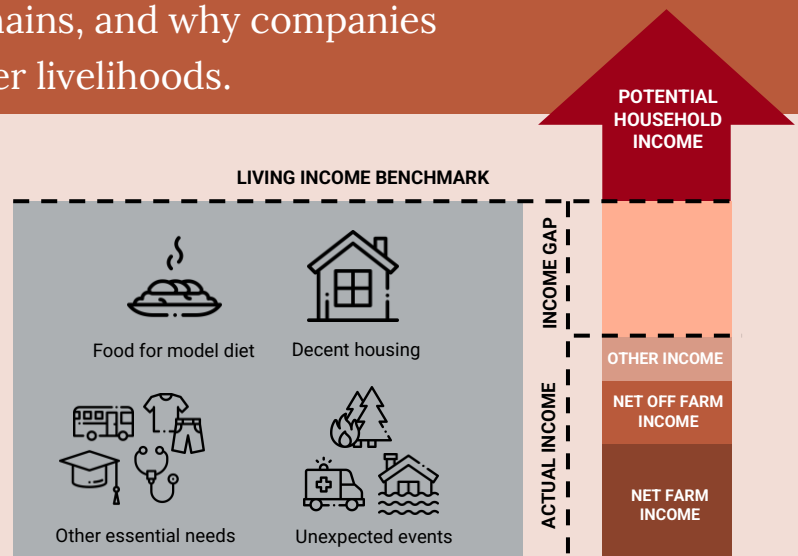
June 2024

This document introduces the concept of living income in agricultural commodity supply chains, and why companies should take action to enable better livelihoods.

Living income, according to the Living Income Community of Practice (LICOP), is “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>, seen in the visual to the right from the [Living Income Community of Practice](#). It is equivalent to the cost of living for a household, and is measured by comparing the living income benchmark with a farmer’s actual income, earned by all adult household members from their own farm, as well as any other off-farm income sources.

As the income received by producing agricultural commodities often falls far below the living income threshold, possibilities of income diversification are explored by farmers. This is taken into account in the potential household income (indicated in LICOP’s diagram), in the off-farm income sources, which can include agricultural labour, paid work in a different sector, and transfers and remittances.

For companies directly employing farm labour, the concept of a living wage may be relevant<sup>2</sup>. As living wage relates only to hired labour, it is often more relevant to talk about enabling a living income within commodity supply chains, as many producers are smallholders who are not employed, and therefore may not be paid a wage.



## Why should companies address living income?

### Global inequality

According to a [World Bank study](#), an estimated 63% of the extreme global poor (750 million people) work in agriculture. Therefore, agriculture is an important sector in driving real change to reduce global inequality. A lack of living income across global supply chains is considered by many as unjust and can contribute to sustaining global inequality. According to [a study by Development Initiatives](#), the poorest 50% of the world’s population share only 8% of the total income, whilst the richest 10% earn over 50% of the total income. If the estimated \$122 trillion of global income in 2021 was shared equally amongst all adults, [each would receive \\$23,280 annually](#), measure in 2017 purchasing power parity.

1. This definition is also used by the Accountability Framework initiative.
2. A living wage is remuneration received for hired labour, that allows the worker to afford a decent standard of living for themselves and their family. (IDH, Addressing Living Income and Living Wages, May 2021)

## Progress towards the UN's Sustainable Development Goals (SDGs)

Living income and better livelihoods are also relevant to the UN's Sustainable Development Goals (UN SDGs). Thus, addressing living income within a company's supply chain will contribute towards meeting these goals within a company's commitment. Addressing living income is directly relevant to SDGs 1 (No Poverty), 2 (Zero Hunger), 8 (Decent Work and Economic Growth), and 10 (Reduced Inequality), but would also create enabling conditions to increase progress towards others such as goal 3, which is 'Good Health and Well-being'.

### Crossover with existing legislation

By working towards compliance with incoming legislation, such as the [EU Deforestation Regulation \(EUDR\)](#) and the UK Forest Risk Commodities Regulation, many companies have prioritised addressing deforestation and conversion, but these actions can also provide opportunities to enable a living income. Although it is not a formal requirement, **recital 50 of the EUDR**<sup>3</sup> encourages actors throughout the supply chain to realise that enabling a living income would help to solve the root causes of deforestation and avoid farmers bearing the burden of increased costs of production.

To demonstrate compliance for these regulations, companies have had to increase traceability and transparency through their supply chains and implement changes required by regulation, along with their own environmental commitments. In doing so, it can provide opportunities for improving social benefits through a greater understanding of who is producing these commodities, and of

the living income gaps in commodity production and manufacturing. This progress will also increase companies' readiness if recital 50 were to be added to the formal requirements, and especially ahead of incoming social regulations such as the Corporate Sustainability Due Diligence Directive ([approved by the European Parliament in April 2024](#)) which will require European companies and non-European companies with substantial turnover in the EU to report on additional environmental and social impacts, such as living income.

### Further information

For further information on implementing living income commitments and measuring progress towards enabling a living income in your supply chain, check out other documents in this series, including the action guide, "Taking Action on Living Income", and commodity specific factsheets. For further information about Efeca's work on living income, please see the [webpage linked here](#). More information on forest risk commodities and their supply chains can be found on the [Efeca Sustainable Resource Hub](#).

3. Recital 50 of the EUDR: "when sourcing products, reasonable efforts should be undertaken to ensure that a fair price is paid to producers, in particular smallholders, so as to enable a living income and effectively address poverty as a root cause of deforestation".

