What is the Living Income/Fair Price method?

A methodology to identify price constraints in the development of small-holders agriculture

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Difference between Fair prices and market prices

Market prices are based on supply and demand

may be influenced by market distortions

Fair prices are based on production costs and costs of living

based on real costs

Why are fair prices important for producers?

Benefits of payment of ‘fair’ prices

- Higher income producers
- Improved food security
- More investment possibilities peasant, leading to higher and better quality yields
- Rural development because of multiplier effects

What is a “fair” price for agricultural producers?

- a “fair” price for the producer is a price for a product that includes all production costs and at least a *‘Living’ Income* for the farmer and all workers involved: *an income sufficient to enable the worker a decent life for himself and for his family, including food-security, education, health care, shelter etc.*
- The payment should be based on a complete working week spent on this production, and the product is a product that is useful.

Fair prices as a tool for policy makers

FAIR PRICE

- Indicates the price the farmer should receive in order to live a decent life
- Encourages further investigation of the value chain
- Encourages an investigation in power relations
- Emphasises the need for further reflection about necessity and possibilities of support to peasants and the creation of alternative rural income

Definition ‘fair’ price

- A “fair” price for the producer is a price received that includes all production costs and at least a *‘Living’ Income* (LI)
- Living Income is derived from the Living Wage concept and applied to agriculture
- The LI concept takes into account the local context, on which a decent standard of living is defined.

Living Wage Formula

$$\frac{\text{Average household size x (cost of food + cost of non-food per person)}}{\text{Average number of adult earners per household}} + \text{savings (set at 10\% of income)}$$

Relationship Living Wage / Living Income

- Living Wage:
  - Basic needs include essential expenses such as food, clean water, clothes, shelter, medical care, transport, education and a discretionary income.
  - The local average household size (which can be different from a standard family) and the average number of adult earners per household are used.
- Living Income:
  - In order to allow the farmer to invest, for the farmer the Living Wage is raised by another 10% in order to be able to invest.

Calculation ‘Fair Price’

Steps

1. Calculation of production, marketing, storage and other costs
2. Calculation of Living Income required
3. Production in kg of target crop
4. Calculation of price/kg that will lead to a Living Income.

This price is the so-called ‘Fair Price’.

Identification of a major reason of stagnation

- Now that the ‘fair’ price is known, comparison of ‘fair’ price with market price
- When fair prices are below market prices, a major reason of lack of investment by the small farmer, and for stagnation of rural development has been identified.

Next step

- Research into causes for the difference between fair price and market price

Further reading

“Towards an integrated approach for project analysis for small farmers: the Living Income / Fair Price method” , *InfoBridge*, 2014
http://www.infobridge.org/home/index.php/about-us/news/306-integrated-project-analysis-the-li-fp-approach

“'Fair' Prices : Peasants and the possibilities of a Living Income (including a case study of Burkina Faso)”, *InfoBridge*, 2013
http://www.share4dev.info/kb/output_view.asp?outputID=5194

Thanks for your attention

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