

Fairtrade Living Income Reference Prices for Cocoa

update October 2022

Introduction

Fairtrade Living Income Reference Prices (LIRP) for cocoa from Ghana and Côte d'Ivoire were first established in 2018, and revised in 2019, following the publication of living income benchmarks by the Living Income Community of Practice (LICOP). This resulted in farmgate prices of US\$ 2.10 per kilogramme of cocoa for Ghana and US\$ 2.20 for Côte d'Ivoire, calculated to enable living incomes for cocoa farmers based on a holistic approach. (see [explanatory note](#))

Fairtrade has been testing this approach with frontrunner companies who committed to voluntarily paying the LIRP to their supply chain partners. Through pilot projects, the assumptions underlying the LIRP calculation are closely monitored. Based on the findings, a review of the Fairtrade Living Income Reference Prices is planned to take place next year.

However, the current global inflation calls for a more timely correction. Fertilizer and other input costs have soared, as have costs of living for farmers. LICOP recently updated the Ghanaian and Ivorian living income benchmarks, and Fairtrade has applied a corresponding inflation correction to the LIRPs, as a preliminary adjustment of the prices that allow cocoa farmers to still invest in their farms and afford a decent standard of living. We recognize that companies that have already committed to the previous LIRP levels for the coming cocoa season may not be able to immediately adopt the adjusted LIRPs.

Updated costs of decent living

The Living Income Community of Practice (LICOP) updated the Living Income benchmarks for Ghana and Côte d'Ivoire in June 2022¹. The costs of decent living in local currency increased by 59% and 14% respectively for Ghana and Côte d'Ivoire.

However, the steep inflation for Ghana was compensated by an inverse trend in exchange rate to the US dollar and therefore the cost of living, if expressed in US dollars, actually decreased from \$2.16 to \$1.96 per person per day.

Ghana	March 2018 (original study date)		June 2022 (Anker update)	
	Ghanaian Cedi	USD	Ghanaian Cedi	USD
Currency				
Monthly Living Income per family (2 adults and 3 children)	1,464	329	2,324	298
Daily living income per person	9.60	2.16	15.28	1.96
Exchange Rate to USD		4.45		7.80
Inflation rate			1.59	0.91

With the Ivorian currency tied to the Euro, there was no major exchange rate difference until June 2022 in Côte d'Ivoire when the Living Income benchmark was updated. However, during the past few months the Ivorian franc devaluated 7% against the US dollar and therefore the exchange rate of October 1st has been applied to convert the updated cost of decent living into dollars, resulting in a Living Income benchmark of \$2.45 per person per day.

Côte d'Ivoire	March 2018 (original study date)		June 2022 (Anker update)	
	CFA	USD	CFA	USD
Currency				
Monthly Living Income for a family (2 adults and 4 children)	262,056	454	298,983	447
Daily living income per person	1,436	2.49	1,638	2.45
Exchange Rate to USD		576.81		669.52
Inflation rate			1.14	0.98

For the LIRP calculation, the living income benchmarks were converted to typical household sizes of 6 and 8 members for Ghana and Côte d'Ivoire.

The prorated value of food produced on farm for domestic consumption was discounted from the financial cost of living, as per the original LIRP model (see [explanatory notes of earlier calculations for details](#)).

The same inflation rates were applied to the hired labour costs, since the living wage is derived from the living income benchmark.

Corrected costs of agricultural inputs

The main farm investment to sustain adequate productivity levels is fertilizer. Based on historical fertilizer prices across Africa, published by the Africa Fertilizer Initiative², the inflation rate was estimated. For Côte d'Ivoire, the average US dollar price of fertilizer applied in cocoa production went up by 57% since 2018 and compared to 2019 there was even a 67% increase. Consultation with several cooperatives confirmed price increases of around 50-60%.

Similar data from the Africa Fertilizer Initiative for Ghana were not available, but according to COCOBOD, fertilizer prices in local currency have nearly tripled since 2019 in Ghana³, which represents an inflation of 52% in US dollars.

In order to align production costs and minimize price differences between Ghana and Côte d'Ivoire, an average inflation correction of 57% has been applied for both countries to all input costs except the cost of seedlings in the calculation of the cost of sustainable production in the price model.

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Updated Living Income Reference Price calculations

	Ghana			
	2019 (USD)	2019 (GHC)	2022 (USD)	2022 (GHC)
household size	6	6	6	6
sustainable yield (kg/ha)	800	800	800	800
total cocoa area (ha)	4.0	4.0	4.0	4.0
productive cocoa area (ha)	3.3	3.3	3.3	3.3
total cocoa yields (kg)	2,640	2,640	2,640	2,640
total input costs farm	859	3,822	1,330	10,369
hired labour costs farm	372	1,655	338	2,632
other (fixed) farm costs	200	890	181	1,415
total COSP farm	1,431	6,368	1,849	14,417
Living Income (pppd)	2.16	9.60	1.96	15.28
Living Income costs (hhr)	4,118	18,325	3,737	29,142
FLIRP (farmgate, per kg)	2.10	9.35	2.12	16.50
exchange rate		4.45		7.798

Overview table of updated LIRP variables for Ghana. The revised values are highlighted in green if based on the updated Living Income benchmark or in red, where the inflation correction for inputs is applied.

The above mentioned adjustments to the cost of decent living, hired labour and agricultural input costs result in **updated Living Income Reference Prices per kilogramme of cocoa at farmgate of US\$ 2.12 for Ghana and US\$ 2.39 for Côte d'Ivoire, applicable as from October 2022.**

	Côte d'Ivoire			
	2019 (USD)	2019 (CFA)	2022 (USD)	2022 (CFA)
household size	8	8	8	8
sustainable yield (kg/ha)	800	800	800	800
total cocoa area (ha)	5.3	5.3	5.3	5.3
productive cocoa area (ha)	4.4	4.4	4.4	4.4
total cocoa yields (kg)	3,520	3,520	3,520	3,520
total input costs	1,393	803,749	2,176	1,457,075
hired labour costs	573	330,852	564	377,736
other (fixed) farm costs	250	144,250	246	164,691
total COSP farm	2,216	1,278,850	2,986	1,999,502
Living Income (pppd)	2.49	1,436	2.45	1,638
Living Income costs (hhr)	5,526	3,187,341	5,437	3,640,207
FLIRP (farmgate, per kg)	2.20	1,269	2.39	1,602
exchange rate		576.81		669.52

Overview table of updated LIRP variables for Côte d'Ivoire. The revised values are highlighted in green if based on the updated Living Income benchmark or in red, where the inflation correction for inputs is applied.

¹ https://www.living-income.com/_files/ugd/0c5ab3_ccd80a4924e44ae797ea4c0966c02fc9.pdf; https://www.living-income.com/_files/ugd/0c5ab3_9aef39b2ef654ab6a8f7bc4dd2bdb026.pdf

² <https://africafertilizer.org>

³ source: COCOBOD market survey: price of granular inorganic fertilizer was Cedi 180 per bag of 50 kg in 2018 and Cedi 480 in 2022.

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Annex: What does this mean for voluntary LIRP commitments by Fairtrade buyers?

For the cocoa season 01.10.2022 to 31.03.2023, the following differentials are recommended for voluntary commitments to the payment of Living Income Reference Prices for cocoa from Ghana and Côte d'Ivoire, based on the farmgate prices established by COCOBOD and Conseil du Café et Cacao respectively per October 1st 2022.

Ghana	USD/MT	GHS/MT
Fairtrade Living Income Reference Price	2,120	22,165
Regulated farmgate price	1,225	12,800
LIRP differential	895	9,356
<i>Applied exchange rate (OANDA 01.10.22)</i>	<i>1 GHS = 0.095684375 USD</i>	

Côte d'Ivoire	USD/MT	XOF/MT
Fairtrade Living Income Reference Price	2,390	1,600,000
Regulated farmgate price	1,344	900,000
LIRP differential	1,046	700,000
Fairtrade Minimum Price differential ⁱ	311	
LIRP differential minus FMP differential ⁱⁱ	735	
<i>Applied exchange rate (OANDA 01.10.22)</i>	<i>1 XOF = 0.001493612 USD</i>	

ⁱ https://files.fairtrade.net/standards/2022-10-05_Cocoa_FMPdifferential_Announcement_EN-Final.pdf

ⁱⁱ The FMP differential will be fully passed from the FT-certified SPO to the cocoa farmer. Therefore, Fairtrade commercial partners already paying the FMP differential can subtracted it from the FLIRP differential for the volumes they aim to source under LIRP-terms.