



**FAIRTRADE**  
INTERNATIONAL

**Fairtrade Living Income  
Reference Price for Vanilla**  
2021 UPDATE FOR MADAGASCAR

# Fairtrade Living Income Reference Price for Vanilla

## (2021 Update for Madagascar)

### Context

Since liberalization in the 1990s, the vanilla market has been characterized by high price volatility. Following a long period of low vanilla prices during which there was minimal investment in production, supplies became tight as the market entered a “boom” period with exceptionally high prices between 2014 and 2019, reaching as high as €500 per kilo of cured vanilla. High prices, not unexpectedly, created incentives for farmers to increase their vanilla production as well as drawing new farmers into vanilla. Due to natural production delays (e.g., it takes 3 years for a new vine to come into production), new production came online significantly starting in 2019 in the face of falling global demand, creating global vanilla oversupply and significant downward pressure on farmgate prices in Madagascar.

It is in this context that the Fairtrade Living Income Reference Price for vanilla – first established in 2019 – provided the sector with an important third-party reference to inform the discussion on what farmers needed to earn a decent standard of living. The study found that farmers were doing relatively well during the peak price years, but that they are very vulnerable to market changes because of low productivity, high dependency on vanilla/ insufficient livelihood diversification and a market history of extreme price volatility.

Given the high dependence on vanilla income in the vanilla growing regions, the price drops meaningfully changed the costs of living, which led to a revised vanilla Living Income Reference Price for Madagascar in 2021. In order to update the Living Income Reference Price for vanilla from Madagascar, a focused field study in the SAVA region was conducted in November 2020. Food prices were collected at 6 local markets and 60 randomly selected farmers were interviewed to assess the effects of the vanilla price drop in combination with the impact of COVID-19 on the costs of living and the vanilla business in general.<sup>1</sup>

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<sup>1</sup> Living Income Reference Price for Vanilla from Madagascar, a 2020 update; Dr. Hendrik Hänke

The Living Income Reference Price continues to be a valuable reference tool for different stakeholders to discuss and support living income as the sector navigates through a difficult supply and demand rebalancing.

### Parameter 1: Living income benchmark

Following the vanilla price drop, the cost of food decreased substantially since 2019, which was the primary reason for revising the Living Income Reference Price for Madagascar.

Based on market surveys, the cost of a nutritious, low-cost model diet was recalculated. With a current daily cost of 5,714 Ariary (€1.24) per person, the total food cost for an average Malagasy household showed a decrease from €2,597 in 2019 to 24,000 Ariary or €1,905 in 2020.

The other cost elements included in the living income benchmark calculation from 2019, such as housing, healthcare, transportation, education and other essential needs, have only been adjusted by applying an updated exchange rate for 2020<sup>2</sup>.

The applicable living income benchmark therefore decreased from €5,751 to **€4,668 per year** for an average household of 4.2 members.

The cost of a nutritious diet makes up for approximately 41% of the total living costs. Farm produced food for domestic consumption (mostly rice, subsistence crops and livestock) is considered as in-kind income. This in-kind income devaluated from €413 in 2019 to €303.

Deducting the value for home-grown food from the cost of living income brings down the financial cost of decent living for an average Malagasy household to **€4,365 per year**.

<sup>2</sup> 1€= 4,595 Ariary, oanda.com 2020



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## Parameter 2: Sustainable yields

The previously established sustainable yield level of **350 kg of green vanilla per hectare** has remained unchanged. Despite the continued low productivity results, this is still considered to be a realistic target yield.

## Parameter 3: Viable farm size

The maximum vanilla area that can be managed primarily with family labour was estimated at **1 hectare**. This full-employment farm size was not changed.

## Parameter 4: Cost of sustainable production

The costs of sustainable production decreased as a result of low vanilla prices affecting farmers' investment and labour decisions. While the cost for tools and equipment augmented from €32 to €59 per hectare, considerably less labour is hired for guarding the vanilla fields, which was the biggest expense in 2019. The required hired labour dropped from 135 to 88 days, which are factored in at a daily living wage of 17,820 Ariary<sup>3</sup> (equivalent to € 3.80 at current exchange rate) for a total hired labour cost of €334 per hectare, compared to €594 in 2019. This brought down the total cost of sustainable production from €626.8 to **€392.7 per hectare**.

## Fairtrade Living Income Reference Price for Vanilla (2021)

The main differences affecting the Living Income Reference Price for vanilla between the initial study in 2019 and the update in 2021 are the lower food costs and the savings on hired labour in Madagascar, as per below overview:

Parameter	2019	2021
Financial cost of decent living	€ 5338	€ 4365
Sustainable yields	350 kg/ha	350 kg/ha
Viable farm size	1 ha	1 ha
Cost of sustainable production	€ 626.8	€ 392.7
FLIRP (not considering other cash farm income)	€ 17.04 / kg	€ 13.59 / kg
Other farm cash revenue	€ 150	€ 150
FLIRP (considering other cash farm income)	€ 16.61 / kg	€ 13.16 / kg

The parameter values described above lead to an updated **Fairtrade Living Income Reference Price of € 13.16 per kilo of green vanilla at farm gate for Madagascar**.

<sup>3</sup> WageIndicator, 2019