

STANDARD OPERATING PROCEDURE FOR Fairtrade LIRPs

To be approved by: Fairtrade Standards Committee (SC)

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Audience: Fairtrade stakeholders

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1) References and templates

General reference:

- [SOP Development of Fairtrade Prices](#)
- [COSP Guidance document](#)

General public templates:

- [Pricing Project request form](#)
- [SOP complaints form](#)

Abbreviations

ARI	Anker Research Institute
COP	Cost of Production
FET	Fairtrade Executive Team
FLIRP	Fairtrade Living Income Reference Price
FMP	Fairtrade Minimum Price
FP	Fairtrade Premium
FT products	Fairtrade products
GPPP	Global Products, Programs and Policy Unit
LIRP	Living Income Reference Price
NFO	National Fairtrade Organization
PN	Fairtrade Producer Networks
POs	Producer Organizations
PU	Pricing Unit
SC	Standards Committee
SOP	Standard Operating Procedure
S&P	Standards and Pricing
SU	Standards Unit

2) Introduction

The Standards and Pricing Team (S&P) within Fairtrade International is responsible for developing (i.e. preparing, reviewing, amending, adapting) and revising Fairtrade Standards. The term Fairtrade Standards refers to: (a) Producer and Trader Standards; (b) Product Standards; (c) Fairtrade Minimum Prices (FMP) and Fairtrade Premiums (FP) and (d) Fairtrade Wage Floors.

The purpose of this document is to describe the procedures by which Fairtrade LIRPs (the Living Income Reference Prices PU set for a country) are developed and revised by Fairtrade and to provide a level of formal accountability for team members, roles and responsibilities for all steps, and timelines; ensure operational efficiency to use standardized processes with space to revise and optimize them; reduce the learning curve of new personnel involved in this SOP; ensure service continuity in the event of staff turnover or unavailability and ensure quality & control by reducing errors or variations.

This procedure for developing Fairtrade LIRPs is based on the “Standard Operating Procedure for the Development of Fairtrade Minimum Prices and Premiums”. The SOP development for Fairtrade Standards and Prices was designed in compliance with principles laid down in the “ISEAL Code of Good Practice for Setting Social and Environmental Standards”. However, the scope of this code does not apply to the development of Fairtrade LIRPs, as it doesn’t for the Fairtrade Minimum Price.

Any complaints concerning this procedure shall be addressed to the S&P Team. Complaints can be submitted at any time by sending the appropriately filled in “Complaint Form” to standards-pricing@fairtrade.net. The “[Complaint Form](#)” can be downloaded from the Fairtrade International website (<http://www.fairtrade.net>) or requested directly from the S&P Team by writing to standards-pricing@fairtrade.net. The complaints received will be evaluated and, if necessary, will lead to a revision of the current version of the SOPs. A regular review is undertaken by S&P to ensure that the SOP reflects the actual S&P practices. Material changes of the SOP are approved by the Standards Committee, while approval of non-substantive changes (small operational details, edits) is delegated to the Director of Standards & Pricing. The Director of Standards & Pricing consults with the Chair of the SC in case of doubt whether a change is material or not. For more information, see the “[SOP Complaints against Fairtrade Standard Setting](#)”.

3) Overview of the Fairtrade LIRP methodology

The basics of a Living Income and a Living Income Reference Price are defined in the LI strategy 2.0¹, approved by the FET in 2022.

The LIRP definition is based on the principle that a Living Income is a human right. A Living Income is defined as sufficient income to afford a decent standard of living for all household members – including a nutritious diet, clean water, decent housing, education, health care and other essential needs, plus a little extra for emergencies and savings – once farm costs are covered. The Living Income Reference Price is the price a typical farmer household with a viable crop area and a sustainable yields level needs in order to earn a living income from the sales of their crop.

The Living Income Reference Price model is based on four key parameters:

- Cost of a decent standard of living (Living Income benchmark)
- Sustainable yields (productivity benchmark)
- Viable crop area (to fully employ the available household labour)
- Cost of production (in order to achieve above mentioned yields)

LIRP values are calculated using the following equation:

$$\text{Living Income Reference Price} = \frac{\text{Cost of decent living} + \text{Cost of production}}{\text{Viable crop area} \times \text{Sustainable target yield}}$$

Fairtrade has two different ways of setting Living Income Reference Prices: First, there are the official 'Fairtrade LIRPs' that are defined on country level for Fairtrade products taking into account a representative sample of Fairtrade certified producer organizations. Second, there are the 'LIRPs on demand' (also called 'fast-track LIRPs') that are an offer to business service to calculate LIRPs for specific products and supply chains or a specific region for a specific service fee and follow a different procedure. This SOP will focus on the Fairtrade LIRPs for coffee, cocoa and banana as these were decided to fall under Pricing Unit's responsibility of the price setting.

Although this approach may change over time; as additional products might be included or the country scope of existing products widens, this SOP is equally applicable and will be amended if deemed necessary.

¹ The summary of the strategy can be found [here](#).

4) Procedure for developing Fairtrade Living Income Reference Prices

The common steps in price setting

The Standard Operating Procedure for setting Fairtrade LIRPs (hereafter SOP and Fairtrade LIRPs, or FLIRPs) defines Fairtrade International's approach to set Fairtrade LIRPs for new origins and to revise FLIRPs for existing products and origins. The Pricing Unit and the designated Project Leader follows a six-step process consisting of:

1. Submission and assessment of a Fairtrade LIRP request
2. Definition of project scope and planning
3. Research
4. Validation
5. Approval
6. Announcement

The six-step process outlined in the Pricing SOP is applicable for any price setting within the Standards and Pricing Unit. Chapter 5 explains the process of how these prices will be updated. Annex 1 shows a flow chart that indicates the steps and timeline for the entire process.

1. Submission and assessment of Fairtrade LIRP request

The project teams for banana, coffee and cocoa will decide for which countries to include a new Fairtrade LIRP definition or review into their agreed review cycles. The Project leader will do this assessment together with PNs and NFOs based on available resources and stated priorities.

Fairtrade LIRPs for additional countries or reviews can be requested through the submission of a price request form addressed to standards-pricing@fairtrade.net that can be found on the [Fairtrade Website of the Standards and Pricing Unit](#). Requests must be submitted through Producer Networks (PNs), National Fairtrade Organizations (NFOs), Fairtrade International, or other parties accepted by the Standards and Pricing Unit. There are 2 forms of requests: 1) Fairtrade LIRP for new origins; 2) Review Existing Fairtrade LIRP values. The review of existing FLIRP values can be done either following a full review process similar to setting a new FLIRP or updating the FLIRP following the approach describes in chapter 5.

The request should contain a justification of the need for the price. It should outlines the needs for this project, envisioned timelines and includes an assessment of the risks associated with the project and how to mitigate those. The requesting party should take into account that coffee, cocoa and bananas have pre-agreed review cycles of reviewing the FMP and existing Fairtrade LIRPs and additional requests outside of these cycles might be out of capacity to deliver.

The Head of Pricing will consider the request, taking into account organizational capacity and S&P objectives, relevance as well as an exchange with the Senior Advisor for Sustainable Livelihoods from the Global Products, Programs and Policy Unit (GPPP) (hereafter Senior Advisor). Requests for Fairtrade LIRPs for regions where no Fairtrade producers are currently registered, are not possible.

In case a Fairtrade LIRP is requested outside the scope of a product price review cycle, the PU will undertake the same procedure and evaluate if a stand-alone project is feasible or not. PU can forward the request to GPPP who will evaluate if an offer to business for an additional service charge is possible.

2. Definition of project scope and planning

Once a FLIRP request has been approved, the head of Pricing will appoint a senior project manager as the Project Leader. The project leader identifies the relevant parties to the project, the definition how they are going to be engaged, the way of communication and the setting of stakeholder participation targets. The project manager also consults relevant stakeholders (Senior Advisor for Sustainable Livelihoods, PNs, NFOs, Global Product Managers) to define the project scope precisely and sets a timeframe for the project.

During the scoping phase of a FLIRP project, the different production models, processing modalities and geographies for the focus commodity are assessed, in order to determine the various products for which a FLIRP is required, for example:

- Production models: Variety(s) of the product; conventional / organic; mono- / intercropped
- Modalities: Form in which the product is sold by the farmer, type and level of processing taking place at farm level
- Geographies: Which producing countries are to be considered (based on market / producer interest); identification of potential significant variations within countries

The research needs will be defined after taking stock of relevant available data sources. This can be, for instance, existing farm level data from farm record data available and/or COP data, or secondary research and industry statistics for the key parameter values as additional source of information. This step also includes making an inventory of available living income and living wage benchmark studies for the target origins. The planning is summarized in a project assignment containing the rationale and justification of the project; clarifying its scope, objectives and expected impact as well as information about the planned process and timelines. It can be combined with the project assignment written for the FMP project in the form of a RASCI.

As explained above, Fairtrade International follows 2 different approaches to define LIRPs based on the 2 different requests defined above:

1. A full Fairtrade LIRP review:
 - a. for setting a new Fairtrade LIRP for a new origin.
 - b. OR for updating an existing Fairtrade LIRP based on new cost of production data
2. A Fairtrade LIRP update using Economic Indicators

The process of a full Fairtrade LIRP review will be explained in the steps 3 to 6; the Fairtrade LIRP update will be explained in chapter 5.

3. Research

General description of a full Fairtrade LIRP review

The Project Leader is supported by the Producer Networks (PNs) and the Senior Advisor for Sustainable Livelihoods. Additionally, and if deemed necessary, an external consultant may be required to support the team conducting the research.

The 4 main components for an full Fairtrade LIRP setting and review are:

- **The cost of a decent standard of Living:** The cost of a decent standard of living are assessed to ensure that farmers can sustain a decent living for themselves and their families. The Living Income Benchmark captures and determines these costs.
- **The sustainable target yield:** The productivity levels that can be realistically reached by farmers in the target origin when applying sustainable agricultural practices.
- **The viable crop area:** A crop area that is big enough to fully absorb the average available household labour, while yielding sufficient product to generate a living income from that crop alone.
- **The cost of Production:** Values representing the production cost incurred at farm level and at central structure level to sustainably produce a product and complying to the Fairtrade Standards. These costs include for example farming inputs, tools, costs of hired labour remunerated at a living wage (after the household labour is fully utilized), and other product specific investments, required to attain the sustainable target yield.

The research phase to obtain data to define these components can be split into three parts:

- 3.1 LI benchmark definition and household composition data
- 3.2 Data collection of key LIRP parameters
- 3.3 Analysis of the COP data to implement a sustainable production model

3.1 LI benchmark definition and household composition data

Living Income Benchmark studies capture multiple indicators to define a benchmark for the costs of a decent standard of living. For benchmark studies, secondary sources are used. Studies conducted by the Anker Research Institute accredited Living Income benchmark studies for the targeted country or regions are preferred. Should no Anker benchmark study be available, the Fairtrade's Living Income Selection Approach guide² identifies the quality of alternative sources or how to alternatively set a LI benchmark as well as how to make LIRP study applicable.

For household composition data, we convert the Anker Benchmark to the actual typical farmer household using the OECD equivalency scales, as the Ankers Benchmark works with an assumption of a nuclear family of 2 adults and 2 children whereas our experience has shown that families often are larger. If not available, further data on household size and composition need to be collected together with the COP data.

3.2 Data collection for key LIRP parameters

The collection of key LIRP parameters is led by the Project Leader who can rely on active support from PNs. An external consultant may support the process undertaking the primary data collection research. The outcome of the research phase is compiled, summarized and added to the proposal of the Fairtrade LIRP.

As mapped during the project scoping and planning, it might be necessary to collect additional data to define key LIRP parameters such as the viable crop area and sustainable target yields. The data collection needs for the LIRP calculation need to be aligned with the COP data collection for the FMP per products and country through integration into the product specific COP sheet. Specific scopes of the update and updating cycles are to be defined as well through proposal by the project leader to the project team, including the Senior Advisor.

COP data is collected via submission of COP templates by SPOs or PN facilitators; each SPOs being responsible for collecting their organizational and farm level costs from members, following the FMP SOP.

3.3 Analysis of the COP data to implement a sustainable production model

All findings from the research phase are analysed by the project team in order to develop a proposal with target values for each parameter of the Fairtrade LIRP. These include the COP dataset and any other relevant secondary data as identified in the scoping phase for cross-checking.

² Available internally or upon request from the Senior Advisor.

The analysis focuses on current productivity levels to determine feasible yield targets and the farm investments (costs and labour) associated to attaining those yields. This may also include scenario modelling, in case of significant regional differences or different scenarios for household labour deployment and income reliance on the focus crop. Unless the regional differences are too large, the aim is to establish one price for the same product per origin by averaging out the resulting price.

The Project Leader prepares a Fairtrade LIRP proposal, summarizing the data collection and established Fairtrade LIRP parameters. The Project Leader can involve the technical staff appointed by the PN to participate in the drafting of the proposal.

4. Validation via roundtable workshops

Once the data has been collected and proposals for the Fairtrade LIRP parameters have been calculated, technical roundtables are organized for each country to discuss, align and validate the parameter values. The Project Leader is supported by the PNs and Senior Advisor in preparing and facilitating the roundtable workshops. The list of invited stakeholders is discussed with the project team and comprises: A sample of SPO and farmer representatives with technical expertise, along with other technical experts and optionally representatives from government institutions and regional NGOs. The discussion is guided by PN facilitators, the project leader or Senior Advisor. The role of the facilitator is to guide the participants during the discussion to achieve a consensus based outcome of the FLIRP following the data assessed during the previous steps.

In case several production types like conventional and organic or different product varieties are in scope, the above exercise needs to be repeated for each production type. This can be done by splitting up the workshop participants according to the production type of their experience.

In exceptional circumstances when no consensus can be reached, the roundtable can agree to check a revised proposal via email or another virtual meeting ('an extraordinary remote roundtable meeting') to allow for the facilitator to check and revise the proposal and prepare further research if needed.

The validation ends with an agreement on the Fairtrade LIRP parameters and a summary of the process in a 'roundtable report' by the Project Leader, capturing the discussions and participants present at the roundtables.

5. Fairtrade LIRP proposal and approval

The Project Leader prepares a Fairtrade LIRP proposal document for decision on the basis of the roundtable report. The Proposal consists of a concise explanation of the research conducted, the scope of regions and samples, and definition of all 4 parameters of the Fairtrade LIRP model. It should summarize the research conducted, outcomes and main decision points of the round tables workshops made regarding the source of information, or any of the components of the model, as well as expected

implications of the Fairtrade LIRP approval on impacted stakeholders. The purpose of this document is to share the findings of the research and to enable decision making based on a transparently described process.

The final Fairtrade LIRP proposal is submitted to the Head of Pricing for decision. The Head of Pricing can decide to delegate the decision to the Standards Committee. SC can take the decision or may instead provide guidance on needed amendments or on further research required, in order for it to be approved.

6. Announcement

Upon approval of the proposal, the project leader drafts the Fairtrade LIRP announcement consisting of a concise explanation of the research conducted and the number of participants and their roles present at the roundtable, the scope of regions and samples, establishment of all 4 parameters of the LIRP model, and the assumptions and/or implications of the announced values if relevant. The purpose of this announcement is to publish the new values to the interested stakeholders.

The Fairtrade LIRP announcement is communicated to impacted stakeholders, and made publicly available on the Fairtrade International website. The publication of the LIRP is aligned with the FMP announcement.

Following their publication, a transition period may be determined before the Fairtrade LIRP(s) come into effect. This interval is crucial to afford stakeholders ample time to prepare for the implementation of the new values.

5) Updating the Fairtrade LIRP

Fairtrade LIRPs should be updated regularly. The definition of the review cycles is to be discussed for each product in the product specific team, considering the feedback of the Senior Advisor and members of the Fairtrade system. Included in the discussion is the kind of update needed (a full review following chapter 4 or update of the FLIRP following chapter 5), and the specific time of the update taking into account available inflation data as well as an announcement of the updated values ahead of the new implementation date. They are aligned with the general FMP review cycles of the product in question. The defined review cycle can only be changed upon substantial reasoning, or received complaints, through repeating this process.

The update of the Fairtrade LIRP(s) is based on corrections following the average changes of the consumer prices index or other available and appropriate economic index. The update follows the following steps:

1. The predefined Fairtrade LIRP(s) are adjusted via economic indicators. The Project Leader must ensure that the values presented are comparable.
2. Approval by the Head of Pricing.

The **Project Leader** gathers data of economic indicators to update the LIRP, e.g. inflation data related to the Consumer Price Index such as the most recent official numbers published by the IMF twice a year. If regional data is necessary, as differences in regional costs and regional inflation are high, data is typically collected and available from the national bureau of statistics or desk research. If needed, adjustments based on regional CPI are applied to transpose the collected values to the region of the target origin or farmer group.

The Project Leader shares the proposal for the updated Fairtrade LIRP(s) to the defined project team and the Senior Advisor for revision and to the Head of Pricing for decision. The Head of Pricing can delegate this decision to the SC, if deemed necessary. Updated Fairtrade LIRPs are officially announced on the FI web page.

6) Disclaimer

It's important to note that all individual data reported within the scope of this SOP, information processed in excel(s), and other research commissioned are strictly confidential. Access is granted solely to employees of Fairtrade International and the PNs with roles specified in this SOP, who are legally bound by a non-disclosure agreement to safeguard data confidentiality and privacy.

All project documents, calculations, announcement proposals generated during the project, and other pertinent documents are securely stored on the Fairtrade server.

Annex 1 Process and timeline

