



Improve the quality of life of people in our supply chain

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Proportion of contracted farmers supplying tobacco to PMI who make a living income

KPI description

To foster socioeconomic well-being and address social inequality and labor-related issues in our tobacco supply chain, we seek to ensure that all contracted farmers supplying tobacco to PMI make a living income by 2025. To measure progress toward this aim, income data for contracted farmers supplying tobacco to PMI are collected by PMI leaf operations, third-party leaf suppliers, or third-party partners in all countries where PMI sources tobacco, and assessed against the relevant living income benchmark.

Definitions

Business for Social Responsibility (BSR) benchmarks Living wage benchmarks in higher-income countries from which we source tobacco. BSR uses the living wage estimates, adjusted based on the reference family size, to define the relevant living income benchmarks.

Living income The net annual income required for a household to afford a decent standard of living for all its members. The living income value can be the result of a full benchmark, a reference value, or an internal desktop exercise.

Anker full benchmark A study conducted in line with the methodology of [Anker Research Institute \(ARI\)](#), or similar methodology in case the ARI methodology can no longer be used, and specific for low- and middle-income countries. Full benchmarks are developed through analysis of secondary data, and adjusted using on-the-ground field visits.

Anker reference values A type of desktop benchmark provided by the ARI, based on a regression analysis of 40 quality-assured studies, relevant for low- and middle-income countries, and can be utilized as an alternative to the full benchmark. The reference values represent typical or average living incomes for rural and urban areas within each country. They are not location-specific, and so are not representative of region or city.

Anker regional adjustments Are created by splitting the country into regions that share similar characteristics, and use Anker full benchmark assessments as a basis. If needed, ARI complements these benchmarks with on-the-ground adjustments. The regional adjustments are specific to low- and middle-income countries.

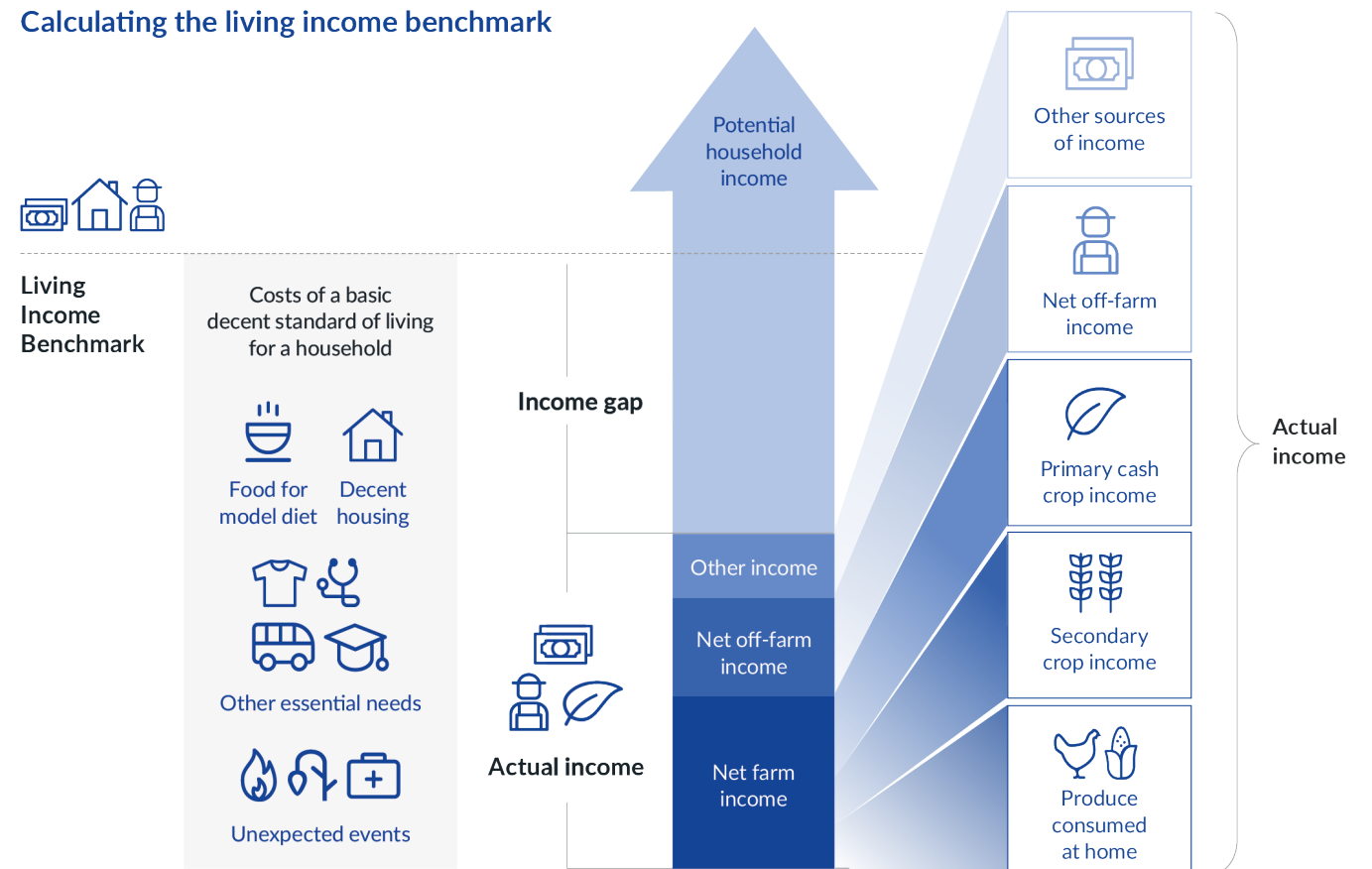
Internal desktop exercise value The value that is calculated internally by following the Anker methodology, in absence of an official calculation (full benchmark, reference value, regional adjustment, or BSR Benchmark).

Family size adjusted benchmark The adjustment to the average benchmark based on a specific family size and used in Household Dependency Modelling. The methodology for this calculation is sourced from the Organization for Economic Co-operation and Development (OECD) family equivalency scale.

Farmer income The income of a farmer, including both on-farm and off-farm income, net of production cost, as well as remittances, grants, other subsidies, or addbacks.

Housing addback Applied in those cases where farmers own their own houses and do not incur rental expenses that are included in the benchmark values.

Calculating the living income benchmark





Scope

Included Contracted farmers supplying tobacco to PMI.

Excluded

- Farmers (within PMI's supplier farm base and eligible farm base) who have not supplied tobacco to PMI
- PMI tobacco purchased volume for which monitoring data on farmer income is not available
- Supply chain Type 3 markets/suppliers¹
- New markets that PMI started sourcing from after 2021
- Volumes coming from crops prior to 2021/2022 (depending on crop calendar) that fell into calendar years prior to 2022

Calculation methodology

Farmer income PMI's third-party leaf suppliers and PMI leaf operations calculate farmer income, both tobacco and non-tobacco income, considering only legal sources of income both in terms of type of activity and minimum age limitations.

Tobacco income is estimated using data collected during the field monitoring and supplier or PMI leaf operations own estimates. Typically, income from tobacco is calculated considering the contracted hectares, yield, price, and cost of production. Nontobacco income is estimated through either third-party farmer income studies or internal desktop analyses.

- Farmer income studies are performed by third parties, specialized in data collection and familiar with the local context, culture, and language. These studies are based on a representative sample size selected from the eligible farmer base to represent the pre-defined segments (typically based on contracted tobacco area). Data collection consists of quantitative data (such as surveys to understand the different income sources (e.g., complementary crops, off-farm income, or remittances)) and/or qualitative data (such as individual farmer interviews and focus group discussions).
- Where farmer income studies are not available, PMI third-party leaf suppliers or PMI leaf operations perform internal desktop analyses. For internal desktop analysis, other nontobacco income sources are estimated based on averages using publicly available data (e.g., government-released statistics) or internal representative sample surveys.

Household dependency modelling During 2022, as our Living Income Program became more sophisticated and mature, we developed a more granular approach to analyze farmers' income, based on extensive research on existing methodologies. More specifically, we explored ways to further segment our most vulnerable farmer base in order to account for household size (instead of relying on averaged family size data). Doing this enables us to compare, in a more granular way, the farmers' income with the relevant family size adjusted benchmark and assess whether they achieve the equivalent living income benchmark for their family size or not, thereby allowing us to better identify potential income gaps and help focus our efforts on the most vulnerable households.

This second layer of segmenting was introduced in 2023² and is only conducted on those segments of farmers who are below living income, where further granularity is required to determine which of the farmers in these segments are truly below the living income value relevant for their family size.

Living income benchmark At PMI, the Anker methodology has been identified as the foundational methodology to establish living income benchmarks in the identified priority and low- and middle-income countries sourcing markets. It is the predominant methodology used and is widely accepted in the living income community. Where a living income benchmark (full benchmark, reference value, or regional adjustment) is established by the Anker Research Institute, PMI suppliers and PMI leaf operations shall use the same value for the respective sourcing location.

In case full benchmarks or reference values are not (yet) available, an internal desktop analysis is performed as a starting point by applying the Anker methodology and using secondary data available from official websites (government, universities, or reputable organizations). The benchmark is updated annually, to account for the volatility of the country's economy, measured by economic indicators such as inflation.

As the current Anker methodology is not applicable in higher-income countries, for these, PMI uses benchmarks from BSR.

Consolidated KPI On an annual basis, inputs from each region are consolidated globally to calculate the number of farmers achieving a living income as a proportion of the total contracted farmer base supplying to PMI, within the respective period. The calculation is based on an analysis of the farmer base which is typically segmented at market level according to the contracted tobacco area:

- If the average farmer income is greater than the living income benchmark, then all farmers within the segment are reported as achieving the living income benchmark.
- If the average farmer income is lower than the living income benchmark, then all farmers within the segment are considered as not achieving a living income benchmark. In these cases we conduct a second layer of household dependency modelling, where we sub-segment this group of farmers further based on family size and assess, using family size specific benchmarks, which sub-segments are still not meeting the living income value required for their specific family size. Those sub-segments that are still below the specific family size adjusted benchmark are considered as not achieving living income, while those sub-segments that are above their family size adjusted benchmark are considered as achieving the living income.

¹ Those markets/suppliers where there is an intermediary entity between PMI's suppliers and the farmers. This intermediary can be in the form of a, but not limited to, governmental organization, auction provider, or third-party supplier.

² The methodology requires updated family size definitions for our farm profile data, and a resulting detailed and robust set of family size data for each farmer's family. Considering this preparatory work, we were only able to implement this secondary layer of modelling for Indonesia in 2023. As of 2024, household dependency modelling will be applied for all markets/farmer segments below living income.



This analysis is repeated for each segment and the final percentage of farmers achieving a living income is calculated.

Proportion of contracted farmers supplying tobacco to PMI who make a living income is calculated as:

$$= \left(\frac{\text{Number of contracted farmers supplying tobacco to PMI at (or above) the living income benchmark}}{\text{Total number of contracted farmers supplying tobacco to PMI}} \right) \times 100\%$$

Data management

All data regarding farmer income are collected and managed by PMI third-party leaf suppliers or PMI leaf operations monitoring systems. On an annual basis, following the conclusion of the tobacco packing completion in each sourcing market, the final data for all contracted farmers supplying tobacco to PMI are uploaded into PMI's reporting system. The reporting on living incomes is based on the 12-month period preceding the end of the tobacco crop season in the respective country.

Each PMI regional leaf team validates the farmer income data uploaded by PMI's third-party leaf suppliers and, upon successful review, PMI leaf operations and central team aggregates and validates the global results for annual reporting.

Data verification The KPI, as published in [PMI's Value Report 2025](#), has been assured by PwC (limited assurance).

 [See the independent practitioner's limited assurance report](#)