



# Cocoa Living Income Compendium

A **Cocoa Barometer** Consultation Paper / September 2022

Living income<sup>1</sup> is a human right, and as such deserves a centred position in any conversations around the changes needed in the cocoa sector.<sup>2</sup>

<sup>3</sup> Living income is also the necessary precondition for all the other challenges in the cocoa sector to

be properly addressed. When farmers must choose between feeding their family, and not cutting down old growth trees, it is not a choice. When they must choose between feeding their family or sending them to school, it is not a choice

<sup>1</sup> Living Income is the net annual income required for a household in a particular place to afford a decent standard of living for all members of that household. Elements of a decent standard of living include food, water, housing, education, health care, transport, clothing, and other essential needs including provision for unexpected events (Living Income Community of Practice 2020).

<sup>2</sup> Though living income is a human right, the sustainability legislations that have been or are being developed, such as the French Devoir de Vigilance and the EU Human Rights Due Diligence Guidance at

best obliquely refer to living income. It must be unambiguously clear that living income is a key requirement for any multinational to comply to their obligations of Business and Human Rights.

<sup>3</sup> Recommendation: Living Income should be enshrined as a fundamental human right in legislation. Due Diligence Regulations must include Living Income as a key criterium, requiring the development and implementation of time-bound action plans.

either. Without a living income for cocoa farmers, cocoa will never be sustainable.<sup>4 5</sup>

The past years have seen a series of major developments on the topic of living income; the introduction of the Living Income Differential by Ghana and Côte d'Ivoire in 2019; the development of Living Income Reference Prices by amongst others Fairtrade and Tony's Chocolonely; Living Income Benchmarks becoming available for the major cocoa producing countries by the Living Income Community of Practice; many different reports on the topic; and a whole range of programs developed by various companies aimed at increasing farmer incomes. The conversation has also moved from questions around the measurement of living income towards discussing strategies of closing the gap. And, increasingly, farm gate prices are becoming elevated as topic of debate.

In short, living income has become an accepted goal for the cocoa sector.<sup>6</sup>

However, there is an overall lack of open discussions leading to concrete commitments towards a living income, either by individual companies, by governments, or by sector-wide initiatives. Company purchasing practices have tried to circumvent or avoid higher prices such as the LID or Living Income Reference Prices. There has been very little public conversation about the industry's business model, including about how

they set the prices they pay. There is an increasing focus on better-off farmers, ignoring the plight of the lower income farmers. A top-down approach is adopted and there are precious few farmer voices heard in this conversation, while gender equality is largely side-lined in this conversation.

It is therefore no surprise that many farmers are still not earning a living income. In fact, most are very far from earning a living income, and not even moving towards it. And many actors are largely pointing at what others need to change in their approach, rather than being willing to change themselves.<sup>7</sup>

Both industry and governments will need to significantly change their business as usual. Let us be very clear; not a single stakeholder group is currently doing what they should be doing to ensure farmers achieve a living income.

Resistance to the necessary change is real. A lot of this resistance has found its way into a wide range of assumptions, simplifications, and sometimes plain wrong ideas around why living income hasn't been achieved yet.

The first part of this Living Income Compendium tries to answer these "myths"<sup>8</sup> in a concise but clear manner, as a Frequently Asked Questions of sorts. The second part suggests a way forward, outlining actions for all actors involved, as well as providing a prioritisation of actions.

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<sup>4</sup> However, most sustainability programmes - as well as proposed legislations - only aim to address living income in cocoa through either indirect approaches - often as a result of buying into the myths described below - or by skipping living income directly and trying to tackle issues such as child labour or deforestation without a holistic approach to solving the underlying poverty.

<sup>5</sup> Recommendation: company sustainability programmes should not consider a living income for farmers to be an unattainable ideal but should all develop time-bound action plans that make a living income achievable for all suppliers in their value chain.

<sup>6</sup> Both the Dutch Initiative on Sustainable Cocoa (DISCO) and the Belgian Beyond Chocolate national platform have living income as unequivocal goals.

<sup>7</sup> In the words of a former senior cocoa executive, "it seems that these old-style sustainability interventions have been superb at guaranteeing future supplies for factories whilst keeping prices low. The unintended consequence has been the perpetuation of the main challenge that farmers face: poverty."

<sup>8</sup> The use of the word 'myth' doesn't mean that these arguments are always wrong, it just means they are never completely right. The truth is generally a lot more complex than many of the simplifications and arguments brought forward.



## Myths on increasing income

### Most farmers are destined to be poor

A living income is the minimum level of decency for a household. As such, it should be abundantly clear that a living income is the starting point of a conversation on farmer livelihood, not a finish line. However, most sustainability approaches see living income as an aspirational goal that will most likely not be achieved any time in the near future.

Many recent reports from the cocoa sector (Such as WUR/Mondelez 2021 and FCIP 2021) show that only a small percentage of cocoa farmers are able to earn a living income.<sup>9</sup> There is an unspoken assumption that farmers of commodities, whether it be cocoa, soy, coffee, palm oil, or any other commodity, by default are

poor. Commodity farmers are expected to barely scrape by.

The stark contrast with employees further down the supply chain is striking. Middle managers of a chocolate company, earn a comfortable livelihood. CEOs, owners of chocolate companies, and retailers, can even become the richest families in their country.

They earn a comfortable livelihood because of the cocoa supply chain they are engaged in, while only the outlier cocoa farmers are expected to even reach the baseline of a living income.

Part of the reason why living income is considered merely aspirational is that companies only consider a very limited set of solutions (and predominantly at farm level). The

use of sharecroppers, tenants, and labourers, who most definitely are not earning a living income.

<sup>9</sup> And these reports are incomplete, as there is a good chance that most of these farmers are actually earning money from other sources and are making

cocoa/chocolate sector is highly profitable, these profits are just not shared equitably.

*Most readers of this paper would not accept a status of living income for their own household. Why should it be acceptable for cocoa farmers? A mediocre cocoa farmer should be able to earn a living income, outliers should be able to become quite comfortable growing cocoa. Some may think that this farmer poverty is a fact of life that is impossible to change. "It was always this way". However, it doesn't have to be this way. The issue of farmer poverty can be changed provided there is sufficient will to do so. This paper offers a variety of recommendations how this could be achieved.*

## Higher yields close the income gap

The main approach of cocoa companies has been to try to increase farm productivity<sup>10</sup>. There are two main reasons why this is an insufficient approach.

Firstly, despite significant investments and countless efforts within sustainability programmes,<sup>11</sup> average productivity is not going up significantly at all.<sup>12</sup>

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<sup>10</sup> Common approaches to this are training in good agricultural practices, the distribution of cocoa and shade tree seedlings, and making available agrochemical inputs such as fertilisers and pesticides.

<sup>11</sup> Companies have had sky-high ambitions to see a tripling of yields, with some programmes claiming that 1,500 kg per hectare should be possible for most farmers. However, a variety of causes such as high costs, insecure land tenure, a lack of access to labour and affordable inputs and credit, and a range of other challenges – as described elsewhere in this document – keep adoption rates extremely low.

<sup>12</sup> One of the few exceptions to this is Tony's Chocology. The hypothesis of the authors of this paper is that this is because of the changed incentive structure in this system; because of much better purchasing practices it is more remunerative for farmers to grow more cocoa.

<sup>13</sup> It is important to state that though higher yields don't always lead to higher net incomes, they need to be part of the equation if farmers want to raise their incomes. Especially coupled with diversification, access to finance, input subsidies, etc. Furthermore, a healthy resilient plantation should not be measured only by productivity, but rather by a variety of parameters that together create the necessary enabling environment to earn a living income.

Secondly, recent reports show that productivity increase programmes do not have an inherent positive effect on the net income of cocoa farming households (WUR/Mondelez 2021, FCIP 2021, Dalberg 2018). After two decades, these are devastating outcomes, considering this has been the key strategy of the cocoa industry to solve its biggest challenge.

There are several reasons why increased productivity on its own cannot be the key strategy to bridging the living income gap.<sup>13</sup>

Firstly, increasing productivity requires significant investments in resources, which are neither available nor affordable for most cocoa farmers.<sup>14</sup> Even if they were available and affordable, these come with significant risks, compared to the possible return on investment.<sup>15</sup>

Secondly, increasing productivity requires an increase in labour hours.<sup>16</sup> Even with current production levels, many cocoa farmers in major producing countries find it difficult to find enough labour for their farms during peak times. This is, not coincidentally also one of the reasons why families revert to household members to

<sup>14</sup> In order to achieve a productivity increase, fertilisers, seedlings, and other inputs need to be available and affordable. This is not the case in most of the West African cocoa growing regions. Even if these materials were available, farmers would have to invest money and labour to obtain and apply these inputs. This requires access to affordable credit, which is not available to most farmers. In addition, credits are risky for farmers, as low harvests – due to diseases, unfavourable weather conditions, a decrease of farm gate price, or a combination of these factors – might leave the farmer with debts he cannot pay off.

<sup>15</sup> Barry Callebaut recently stated that doubling productivity from current levels would require an increase of investment from \$70 per hectare to \$470 per hectare. This basically means an investment of \$400 to achieve a net income increase of at most \$200 per hectare, provided all other costs remain equal (something that is very unlikely).

<sup>16</sup> Unfortunately, there are presently no publicly available reliable data on the relation between labour days and productivity per hectare. However, published and unpublished data of companies and research institutions available to the authors of this publication show that an increase to about 800 kilograms per hectare would require an increased amount of labour of at least 50%.

help with the farming, which implies engaging children on their farms.

Both of these challenges can be overcome, provided the return on investment will be high enough, and provided the risks are manageable. However, farm gate prices are too low and often uncertain.<sup>17</sup>

Even if yield increases were to be achieved, a next problem would arise; a situation of oversupply, leading to lower prices. If only 10% of all farmers would double productivity and by this fulfil the requirements of many companies, prices would fall drastically, thereby undoing any potential improvement of net income.

Furthermore, both the risks of crop failure and of market collapse are fully borne by farmers. Achieving higher net incomes through higher yields, all in all, seems like an approach that requires farmers to do a lot of extra work, at high risk, with a very uncertain positive outcome for farmers.

*Any claims that poverty is being tackled through increased productivity should be accompanied by robust calculations on the impact of these productivity increases - including transparency on increased production costs, both for labour and resources.*

## **Diversification raises farmer income**

Increasing farm diversity is an important element of strengthening the resilience of farmer income.

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<sup>17</sup> In Ghana and Cote d'Ivoire there are many reports of farmers receiving far less than the guaranteed farm gate price. The authors of this paper have regularly heard of farmers being compelled to sign documents stating they received higher farm gate prices than in reality. Additionally, many farmers are cheated by the use of manipulated scales at buying stations.

<sup>18</sup> These include protection of biodiversity, reduction of reliance on agrochemicals through appropriate Integrated Pest Management, and stronger climate change adaptation possibilities. An extensive discussion on the benefits, possibilities and limitation of agroforestry can be found [in our 2020 consultation paper](#).

<sup>19</sup> Closely linked to this is the myth that farmers can escape poverty by producing higher quality cocoa, for example for the fine flavour market. Though this might help a few individual farmers on a micro scale, there simply isn't enough demand globally for fine/flavour chocolate. Most consumers just want low

In the case of price collapses, crop diseases, or adverse weather conditions, having alternative sources of income provides a stability that only growing cocoa could not offer. Furthermore, diversifying through agroforestry can lower input cost, increase access to food and fuel wood, and provide significant environmental benefits.<sup>18</sup> However, diversification alone won't solve the problem of increasing the income of cocoa farmers.<sup>19</sup>

Urging cocoa farmers to grow other cash crops - such as coffee, banana, pineapple, rubber, or palm oil - to solve poverty is an outsourcing of responsibility; if cocoa farming itself is not remunerative, we need to fix the cocoa farming part first.

Diversified production requires a healthy market for diversified products.<sup>20</sup> However, farmers of possible diversification cash crops generally are also poor. This signifies a feedback loop of poverty, with many different sectors not able to provide a living income, all looking to other crops to solve their problem.<sup>21</sup>

*Diversification is an important element of good agricultural practices on any cocoa farm to strengthen resilience. It is not a solution to making cocoa more remunerative.*

## **Pilot projects lead to living income**

The dominant approach taken by companies so far has been to set up small-scale projects

grade chocolate products with lots of sugar and milk in it.

<sup>20</sup> Ghana and Côte d'Ivoire are both net food importing countries, which is a strange fact considering their economies are largely agriculture focused. As such, there is a real argument to be made for agricultural and rural development policies that are much more aimed at strengthening local markets.

<sup>21</sup> Closely linked to this is the argument that cocoa producing countries should focus more efforts on cocoa processing in country. Firstly, this ignores the fact that both Ghana and Côte d'Ivoire already process significant amounts of cocoa themselves. For example, Cote d'Ivoire is regularly the world's number one cocoa processing country. Secondly, increasing the share of processing does nothing to directly influence the economic situation of cocoa farmers themselves.

implemented over a number of years with significant investment. There are several fallacies with this approach.

Firstly, setting up pilots raises the impressions that we don't know how to raise incomes, whereas a lot of knowledge by now is available (such as that we know that higher prices will have a positive impact, that productivity increase only helps if the market is remunerative enough etc).

Secondly, working through pilot projects assumes that what works in the small-scale will work on a large scale, which won't be the case necessarily. Instead, there is a risk that the Living Income pilots will only extend to a preferred group of farmers.

Thirdly, they usually take a project approach that sits apart from a company's core supply chain and procurement practices.

*Pilots can be useful ways of testing innovative solutions, but they should not be the only way of working towards a living income.*

## **Bigger farms lead to living income**

Some farms, the argument goes, are too small to be economically viable. However, this argument misses several important elements.

There is a limit to how big a farm can efficiently be managed by a single household. Viability is closely connected with labour input, and not only with farm size. Provided a farm is achieving standard productivity of 550 Kg/ha at around 90 labour days per hectare, a single household could manage up to 3 ha without hired labour. For achieving medium productivity of 800 kilo per hectare, much more work is necessary, probably closer to 125 labour days per hectare, which would give a maximum viable size of 2 hectares.

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<sup>22</sup> If a family spends 40% of their available time on the cocoa farm, the farm only needs to bring in 40% of a living income.

<sup>23</sup> This would suggest that small farms might actually be more viable than large farms. However, efficiencies of scale could benefit larger farms. More data is needed to provide a conclusive answer either way.

If the farm requires more labour than is available, this often leads to higher incidences of child labour. On the other end of the spectrum, a farm that is too small to support an entire household will not require all the time of the household, and therefore will also not have to earn a full household living income.<sup>22</sup>

Furthermore, there is an inverse correlation between farm size and productivity per hectare; farmers grow more cocoa per hectare on a smaller farm than on a bigger one.<sup>23</sup> This might be caused by low cocoa prices, as there isn't a return on investment to hire the necessary labour required to achieve higher productivity.

Additionally, in currently available datasets<sup>24</sup>, it is highly likely that most farmers that seem to be earning a living income are helped by sharecroppers or tenants. However, their needs are not factored into the calculations.

Cocoa is a labour-intensive crop; the work has to be done one way or another. If it isn't grown by smallholder farmers, it will have to be done by hired labourers, who will need to be receiving a living wage.<sup>25</sup>

Additionally, the costs of inputs, which farmers cannot avoid in order to maintain large cocoa farms are becoming increasingly expensive. Even if there had been a business case for larger farms, increasing costs due to the Covid pandemic and the economic effects of the Russian invasion in Ukraine would be reducing profit margins to zero.

*Labour is as limiting a physical factor as is farm size. Any argument about farm size must be coupled with data around the amount of labour and cost of inputs.*

## **Some farmers will have to leave cocoa**

Companies are increasingly segmenting farmers into various categories<sup>26</sup>, identifying both top-tier

<sup>24</sup> Such as data made available in the 2021 WUR/Mondelez report.

<sup>25</sup> Additionally, workers also need access to labour rights, including the right to freedom of association, which is often under pressure in cocoa growing countries.

<sup>26</sup> Identifying which households are currently better off than others, which have larger farms, identifying

and bottom-tier farmers. The argument is often heard that there is no place in the supply chain for the smallest or poorest farmers<sup>27</sup>. A 'Just Transition' would be needed, with fewer farmers left on bigger farms, all of them able to earn a living income.

Even if the cocoa sector would need to make a transition to less farmers<sup>28</sup>, cocoa and chocolate companies would have the responsibility – both on moral as well as on legal grounds – to ensure that these farmers can earn a decent livelihood elsewhere.

Morally speaking, the cocoa sector has made very good profits over the back of farmer poverty<sup>29</sup> for the past decades. Now that companies are starting to be held accountable for this, they cannot simply walk away from the poorest farmers.

Moreover, under the concept of due diligence, companies have the responsibility to remedy the harm they have caused.<sup>30</sup> We argue that this includes the harm of farmer poverty.

*Vulnerable groups must be helped to reach a living income, not further marginalised, or pushed out of the cocoa value chain.*

## Higher prices solve everything

An often-heard statement in conversations is that we shouldn't *only* talk about price as the driver to living income. This, however, is largely a false statement, aimed at deflecting away from the key

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groups of farmers that can more easily reach a living income – or sometimes even already are doing so.

Part of the argument to do so is that it is easier this way to design specific interventions, or even to learn from the more successful farmers. However, there are quite a few dangers to this approach.

Farmers in the 'higher' segments are not one homogenous block, clustered in specific geographies. They are usually spread across all the other sourcing areas. Choosing these farmers to target is impractical at best, and probably impossible in most cases. Even if it were possible, companies that choose to focus their sustainability efforts on the better performing segments, create a selection bias in the reporting of how well programmes are working. The danger for greenwashing here is significant.

<sup>27</sup> Companies, however, have very little hesitation to buy cocoa beans from these farmers.

point, which is that higher prices definitely must be part of the solution.

So far there has only one been a single attempt to drive up farmer income by only looking at the price of cocoa.

After decades of promises and programs from the private sector and public development aid that have not led to income increases, the Ghanaian and Ivorian governments attempted to address low farm gate prices by introducing the Living Income Differential, the LID. By imposing a levy of \$400 per tonne on all cocoa sales from Côte d'Ivoire and Ghana, more money would be able to be passed on to cocoa farmers through a guaranteed minimum price.

In Côte d'Ivoire, the higher prices only lasted for a season. Though Ghana is still keeping the price at the same level as when the LID was introduced, inflation and increased costs of living mean that in real terms this is a real decline in value.<sup>31</sup> Furthermore, the government's commitment to the LID and stable farm gate prices in the midst of high inflation, decreasing market prices and the de facto elimination of the country differential means that the Ghanaian government is subsidizing the current farm gate price, rendering it close to insolvency. Though it is an important step in harnessing the power of the

<sup>28</sup> And as we have argued earlier in this paper, that is a big if, because cocoa is a labour-intensive crop, and **somebody** will need to do the work.

<sup>29</sup> For decades, cocoa production has followed as well as driven poverty, which is argued in the 2020 Cocoa Barometer. This poverty has been a major driver for harms such as child labour and deforestation. Cocoa and chocolate companies are not innocent onlookers here but have been active agents in this process as well.

<sup>30</sup> This is clearly put forward in the UN Guiding Principles on Business and Human Rights. The third principle states that victims of violations must have access to remedy. It is not a remedy if poor and vulnerable farmers are abandoned by the companies that have purchased their cocoa for decades.

<sup>31</sup> There are many signals that the guaranteed minimum price is often not paid at farm gate level in either country.

world's largest cocoa producing nations,<sup>32</sup> the LID has had a limited impact.

In addition to the LID, there are other differentials on the terminal markets, such as country and quality differentials. These other differentials have been negotiated downwards, to the level that any increase by the LID has been completely negated. Additionally, there are persisting rumours that companies have tried to circumvent the LID by a range of different tricks on the terminal markets.<sup>33</sup>

Furthermore, price interventions must be coupled with supply management<sup>34</sup> if they are to have any success in the medium to long term. Not only are supply management strategies currently absent, but many producing countries are also actively trying to promote an increase of national cocoa production.<sup>35</sup>

*There is a real need to raise farm gate prices, and there is a key role for producer governments to play in supply management. However, the UN Guiding Principles are clear that even when governments do not fulfil their duty to protect human rights, this does not absolve corporations from their responsibility to respect human rights. Companies cannot hide behind the absence of supply management when it comes to their responsibility to pay farmers a fair price.*

### Gender and income

Many of the households that have been identified as 'high risk' for poverty are headed by females.

The solution for these households is not to transition them out of cocoa, but to ensure that women have the same rights and opportunities as their male counterparts.

The way most programmes so far have approached gender and income is primarily through Village Savings and Loans Associations (VSLAs) and/or alternative income generating activities focused on women. Very little is done to strengthen the position of women as cocoa farmers themselves.

Another key short-term challenge in that regard is to strengthen the position of women in male headed households.<sup>36</sup> The work that women undertake on farms, as well as household care, is often invisible and unpaid. Women shouldn't be looked at as merely wives of cocoa farmers or 'helpers' or 'supporters' of their husbands, doing 'light tasks' on their husbands' farm; they are very much essential to cocoa farms.<sup>37</sup> Despite this contribution they can have little to no say on how income is spent because they are often not the recipient of the payments; usually, the male household members sell the cocoa, while women work on the farm, meaning that the money does not directly get to the woman.

In Ghana and Côte d'Ivoire there are many factors that contribute to the fact that women earn significantly less than men and male-headed households.

<sup>32</sup> The VOICE Network released [a paper in support of the LID](#), when the mechanism was introduced. This paper also outlined a range of parallel policies that are necessary to ensure that it has a chance of success. Very few of these additional policies have been implemented so far.

<sup>33</sup> The most visible of these events was when the Ivorian and Ghanaian governments temporarily halted all of [Hershey's sustainability programmes](#) when it was discovered they had made uncharacteristically large purchases outside of the LID. It is commonly understood in the sector that almost all companies have been involved in these kinds of practices in some way or another, though proof is largely absent.

<sup>34</sup> These supply management strategies should be part of a broader government strategy for rural development and agricultural policies.

<sup>35</sup> Most of these countries, such as Nigeria, Peru, and Ecuador, are not part of the LID system. However,

Ghana persists in a desire to increase its their production by more than 50%, although it is highly unlikely they will be able to achieve this. Meanwhile, production in Peru and Ecuador is indeed rising significantly, as is production in Côte d'Ivoire.

<sup>36</sup> **Recommendation:** Strategies need to be developed how to redistribute part of the benefits from cocoa farming to the women and how to strengthen their access to rights and inclusion.

<sup>37</sup> Their work often includes planting, weeding, harvesting, and fermenting cocoa beans, collecting water and wood for fuel, carrying the plucked/fermented cocoa beans through a long-distance for drying at homes before they are further sent for weighing at sheds, caring for children and elders, washing the clothes - particularly gear of those working on farm. All of this before sunset, cooking and taking the food to the male farmers in the cocoa groves, etc.

Women have much higher rates of illiteracy and innumeracy, and also have a reduced access to markets. They do not have the same access to credit and inputs needed to professionalise. Women often lack representation in cooperatives as well as community governance, especially in leadership. Even when women are the direct recipient of interventions, prevailing social norms contribute to a lack of socio-economic visibility, agency and power. Social norms and the design of trainings often also does not account or accommodate for women farmers unpaid care work.

Women do not automatically benefit from higher incomes. Therefore, every single programme and intervention must have a gender-specific approach, ensuring rewards are distributed equally, and risks are shared justly.

### **There is too much attention on higher prices**

The reality is that very few company programmes include even a hint of higher farm gate prices.<sup>38</sup> This is a grave omission, especially considering price is the most direct way of supporting farmers. Any additional price increase translates into net income increase (unlike for the other income drivers).<sup>39</sup>

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<sup>38</sup> Fairtrade has developed a Living Income Reference Price, but this has found very little market uptake, and Tony's Chocolonely has a significant pricing component in their Open Chain system, that has by now been taken up by several retailers, including Ahold and ALDI.

<sup>39</sup> We note with concern that farm gate cocoa prices – and even living income in general – are also at present not included in any of the regulatory frameworks that are being developed in consuming countries.

<sup>40</sup> During the price crash of 2016, some cocoa companies advised their farmers to no longer use fertilisers, as there was no return on investments.

<sup>41</sup> Such as Rainforest Alliance and Fairtrade, who now both have fixed premiums of \$70 and \$240, respectively, per tonne. However, most of this amount must be seen as a compensation for the extra costs to comply to these standards.

<sup>42</sup> Almost every chocolate and cocoa company has an in-house sustainability programme, some working together with the certification systems, others more

The chocolate industry, by and large, is unwilling to pay higher farm gate prices as part of the solution.

For investments in good agricultural practices to be remunerative, farm gate prices need to be high and stable enough.<sup>40</sup> Data from Tony Chocolonely suggests that when farmers are paid a higher price consistently over time, productivity per hectare does indeed increase. Price, as cocoa farmers often say, is the best fertiliser.

One modest way that higher payments to farmers has been attempted is through the premiums associated with certification systems<sup>41</sup> and with company sustainability programmes.<sup>42</sup> However, these premiums generally only provide marginally higher income for farmers and are insufficient to bridge the gap to a living income.<sup>43</sup>

Some reports<sup>44</sup> suggest that higher prices won't help cocoa farmers significantly, and in fact might be detrimental to farmers in the long term.<sup>45</sup> However, all of these reports have looked at marginal price increases that are well within the range of price swings within the current market.<sup>46</sup>

independent. However, they often are extremely untransparent about the payment of premiums, or of the impact of their interventions on farmer income.

<sup>43</sup> On the other hand, certification premiums are an essential part of the income of cooperatives. As such, the financing provided through these systems are a key ingredient in helping farmers organise and provide the infrastructure needed for a lot of other necessary interventions, as we argue in our [2019 consultation paper](#).

<sup>44</sup> Such as the WUR/MDLZ paper and the Dalberg (2015) paper. The authors of this paper note that reports downplaying the impact of higher farm gate prices are generally financed and/or commissioned by large chocolate companies.

<sup>45</sup> The argument being that higher prices will lead to more farmers wanting to grow cocoa, which could lead to both deforestation and oversupply.

<sup>46</sup> The world market price has been between \$2,000 and \$2,400 in the past few years. The farm gate price is a lot lower than even that. WUR/MDLZ has looked at the effects of a 17% price increase.

The prices needed<sup>47</sup> are far higher than any of these reports have calculated.

*It can't only be about farm gate prices, but it must also be about farm gate prices. "Price is the engine of sustainability,"<sup>48</sup> but so far, the conversation about how to raise farm gate prices is not being had at all.*

## Higher prices only help better farmers

Another often heard argument against raising prices is that this primarily helps already successful farmers more than struggling farmers in less successful segments. Though this is partly true<sup>49</sup> it is hardly an argument not to increase farm gate prices.<sup>50</sup>

While raising prices might not help the struggling farmers to completely reach a living income, it will nonetheless help them increase income, sometimes by significant percentages.

Furthermore, this shows that struggling farmers indeed need additional interventions besides

higher farm gate prices. Many of these additional interventions are not necessarily based on the amount of cocoa that these farmers can sell but are a lot more about the enabling environment. Gender equality, land, and tree tenure security, as well as other household-based interventions need to be a part of this.<sup>51</sup>

## Supply and demand ensure fair prices for farmers

In response to the 2015 Cocoa Barometer, the Dutch government commissioned a study (SEO 2016) on the role of market concentration and price formation in the global cocoa sector. One of the key outcomes of this report was that supply and demand don't work for cocoa farmers.<sup>52</sup>

Already in 1991, a former president of the European Commission argued (Mansholt 1991) that in agriculture, "the price mechanism does not correspond very well to the ideal-typical neo-classical market concept."<sup>53</sup> This is even more the

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<sup>47</sup> For the [previous Cocoa Barometer](#) we have calculated that the farm gate price should be around \$3,100 in both Ghana and Côte d'Ivoire. In the meantime, better availability of data indicated that farmers are smaller than expected, average yields have been declining, and costs of living and inflations have risen dramatically, indicating that this price could probably be erring on the low side.

<sup>48</sup> The words of a Ghanaian cocoa farmer in a consultation workshop hosted by the VOICE Network in February of 2022

<sup>49</sup> Even farmers selling only very low volumes of cocoa will profit from rising prices although this single action alone will not lift them above the living income line. And as argued in the previous myths, it would be a mistake to **only** focus on price.

<sup>50</sup> Unless one believes that successful cocoa farmers are not allowed to become rich, see also the first myth.

<sup>51</sup> A good example is Nestlé's recently launched 'Living Income Accelerator' programme, that provides direct cash transfers to households separate of the amount of cocoa the household has sold. What makes this even stronger is the fact that half of the cash transfers are directly paid to the women in the household. However, this programmes sadly fails to include any pricing component.

<sup>52</sup> "The supply of cocoa is inelastic in the short run and [...] cocoa is produced by millions of small farmers. As a result, individual farmers are price takers with little or no bargaining power vis-à-vis local

cocoa buyers. In addition, most cocoa farmers have very few options for alternative income generating activities. As a result, they will likely continue to produce cocoa at very low prices."

<sup>53</sup> Sicco Mansholt was a Dutch farmer, politician, and diplomat, and is considered the 'Father of the Common Agricultural Policy'.

In an op-ed in the early 1990's, he stated that "*In agriculture [...] the price mechanism does not correspond very well to the ideal-typical neo-classical market concept. [...] production decisions are made in millions of small enterprises, which work predominantly with family labour. [...]. In addition, the social and psychological bond to the farm is very strong, which leads to strong immobility of labour and capital. As a result, production capacity is rather insensitive to price changes.*

*In a free market this will lead to a structural under-remuneration of labour and wealth. [...] technical developments exacerbate the problems of overproduction and income arrears. [...]... The price mechanism appears to be insufficiently able to keep supply developments in line with the demand side of the market. These imbalances are further exacerbated by the low price elasticity of demand for agricultural commodities, such as grains and oilseeds. All in all, an almost complete set of conditions for extremely unbalanced market developments."*

Although Mansholt makes these arguments in the context of Western European agriculture, these

case for tree crops than in annual crops, as farmers are even more tied to their production.

Furthermore, whereas farmers do not have the option to momentarily switch their sources of production, many chocolate companies tend to substitute cocoa for cheaper ingredients when cocoa prices go up. The price of cocoa, it seems, isn't very troubled by supply and demand.<sup>54</sup>

Furthermore, across the developed world, governments have chosen to decouple the remuneration of work from the system of supply and demand through the introduction of minimum wages. This kind of protection should also be put in place for agricultural workers<sup>55</sup> in commodities.

Pricing doesn't take into consideration the true cost of production and that price transmission is asymmetrical<sup>56</sup>.

In that context, additionally, it is devastating for cocoa farming communities that in the global increase of cost of living that is spreading as this paper was written, all the costs of living and of producing cocoa are going up, but the price they receive for their cocoa is staying the same.

There is an increasing acceptance that the current system doesn't work for the farmer. At the same time, concrete proposals for how to reform the system remain scarce and companies continue to reap the benefits from this broken system. As governments in Europe pass legislations on environmental and human rights due diligence, it can no longer be enough to hide behind the argument that "this is how the market works". Living Income is key to fulfil Due Diligence requirements, and if the market fails to make this possible for producers, companies and governments need to find new systems despite the market. One such system could be that

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points are equally as relevant for West African cocoa farmers, if not more so.

<sup>54</sup> See <https://uk.investing.com/analysis/with-ample-beans-for-chocolate-makers-cocoa-shows-not-all-commodities-are-equal-200518292>

<sup>55</sup> ILO Convention 141 on Rural Workers' Organizations states that smallholder farmers should have the same rights as agricultural workers.

<sup>56</sup> I.e., farmers experience the dips but don't benefit from the increases of market prices.

producer governments completely decouple the cocoa price from the commodity exchange market, and fully set it themselves as a function of the costs of production, including what is required to provide a living income. This would of course require collaborate within all producer countries.

Though markets can work well to set proper price levels when all actors have countervailing power, it does not work for cocoa farmers. One of the key determinants for a farmer's income is therefore imposed on them. This asymmetrical power balance doesn't just lead to low farm gate prices, it also leads to a very skewed distribution of value in the supply chain; farmers live in extreme poverty in a multi-billion-dollar industry.

## There isn't enough money

Another often heard argument is that companies must follow the world market price, is that the chocolate sector is a competitive one, and that companies cannot afford to unilaterally pay higher prices.

To provide context

- In spring of 2022, Mondelez's CEO said their chocolate division "powers strong profitability", which is "driven by higher pricing"<sup>57</sup>
- In the second quarter of 2022, Hershey "made more money than before with a significant boost on sales that was only partially dulled by increased costs".<sup>58</sup>
- Barry Callebaut's latest annual earnings report was summarised as providing "strong volume, solid profitability and continued good cash generation."<sup>59</sup>

<sup>57</sup> See <https://seekingalpha.com/article/4503813-mondelez-international-inc-mdlz-ceo-dirk-van-de-put-on-q1-2022-results-earnings-call>

<sup>58</sup> See <https://bartalks.net/hershey-half-year-results-profit-boosted-despite-inflation-worries/>

<sup>59</sup> See [https://www.barry-callebaut.com/sites/default/files/2022-04/PRR%20Barry%20Callebaut%20Group%20Half-Year%20Results%20Fiscal%20Year%202022\\_0.pdf](https://www.barry-callebaut.com/sites/default/files/2022-04/PRR%20Barry%20Callebaut%20Group%20Half-Year%20Results%20Fiscal%20Year%202022_0.pdf)

- In the decade between 2010 and 2020, Nestlé has bought back around \$46 billion USD in stockholder shares. (Nestle Global 2020)
- In early 2020, the Ferrero family – Italy’s richest family – paid itself an annual dividend of €642 million.<sup>60</sup> That would be enough to give every single cocoa farming household they source from a living income. It would leave around €192 million to be paid out to its owning family. And though the data is missing, it’s fair to assume that other family-owned chocolate companies are also profiting nicely from their chocolate sales.<sup>61</sup>
- In 2021, Olam’s profit after tax grew to record levels, by 179.4%,<sup>62</sup> and Cargill reported the biggest profit in the 156-year history of the company.<sup>63</sup>

*It is a choice where companies spend their money. Presently, most brands spend per bar of chocolate much more on advertising campaigns than on cocoa. Additionally, often a relatively small part of the money paid by consumers would be sufficient to increase farmer income significantly.*

## **We can’t talk about price because of competition law**

When all other arguments have run out, and when there is broad consensus that farm gate prices are an essential part of the solution, and that companies have a role to play, companies often shut down the conversation citing antitrust concerns.

Competition law is rightly designed to protect consumers from price-fixing and other practices that can harm them. At the same time, competition law also limits the ability to tackle the issue of low farm gate prices. As such, some

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<sup>60</sup> See <https://www.theguardian.com/money/2020/jan/24/ferrero-scions-542m-dividend-under-fire-over-firms-tax-liability>

<sup>61</sup> Forbes [estimates](#) that the Mars family wealth increased from \$60 billion to almost \$94 billion from 2014-2020.

<sup>62</sup> According to their own annual report, their revenue rose by 31.2% thanks to “higher prices across most products and commodities, particularly grains, rice,

careful adaptation of antitrust legislation could be beneficial for the sustainability of cocoa and other commodities. (Soto Abril 2021)

An increasing number of voices are arguing that this doesn’t have to be the case, for a variety of reasons, although it would require further work to develop the concepts. (CPI Antitrust Chronicle 2020)

Farm gate prices are only a small part of the final sales price of chocolate, and as such higher prices at farm gate level do not directly have to lead to higher prices for consumers, which is what antitrust law is largely focused on.

Eradicating poverty should also be seen as being in the public’s interest, and as such could fall within a variety of anti-trust exemptions.<sup>64</sup>

But even if joint action on low farm gate prices would not be permissible, there is no excuse for individual companies not to engage in strategies to raise the farm gate prices they are individually paying to farmers.

*Antitrust law provides barriers to discussing higher farm gate prices, but ways should and probably can be found to ensure farmers receive a fair remuneration.*

## **Higher prices lead to deforestation**

Higher prices *could* lead to more deforestation because higher prices could provide an incentive to create new cocoa farms on former forest land. However, the argument can also be turned on its head: Farmers are often expanding their farms because the cocoa price is simply too low for them to earn a sufficient income on less hectares.

It takes up to five years from setting up a cocoa farm until the first harvest, so it would be wrong to assume that raising price directly translates

cotton, **cocoa** and edible oils in 2021”. (Emphasis ours)

<sup>63</sup> See <https://www.bnnbloomberg.ca/crop-giant-cargill-reports-biggest-profit-in-156-year-history-1.1637594>

<sup>64</sup> The German anti-competition authority’s [recent decision](#) on the permissibility of companies setting common standards on living wages in the banana sector is a prime example.

into more production and therefore more deforestation. In fact, deforestation rates have been high in Côte d'Ivoire and Ghana in the last years regardless of whether the cocoa price has been high or low.

In Côte d'Ivoire deforestation rates dropped considerably in 2015, while the cocoa price was very high, and then increased until 2018, while the cocoa price fell by around 30 percent. During the same period, deforestation rates in Ghana shifted dramatically between 2016 and 2019, while the farm-gate price guaranteed by the state to cocoa farmers remained stable at 7600 Cedi.

It is the responsibility of producing country governments to ensure that national laws against illegal deforestation are respected. At the same time, chocolate companies also have a responsibility as part of their environmental due diligence to avoid that cocoa from illegally deforested areas ends up in their supply chains - which has been the case for every single major cocoa and chocolate company. All major cocoa and chocolate companies have signed the Cocoa and Forests Initiative (CFI) in 2017, pledging to end deforestation for cocoa. As most of the big chocolate companies are by now claiming that a large part of the cocoa is sourced "sustainably", they need to ensure that this cocoa does not originate from deforested areas.

### **Higher prices lead to overproduction**

Higher cocoa prices could indeed lead to overproduction because they create an incentive for farmers to produce more. However, while this argument is often made, the volumes of cocoa produced in different countries show that there is often no direct link between cocoa price and increasing production.

Cocoa prices were significantly higher during the period 2009/10- 2011/12 and again 2013/14 and 2015/16 than in recent years. In these years and the following seasons, cocoa production in Côte d'Ivoire rose significantly, while it stagnated in

Ghana, significantly decreased in Indonesia, and grew only slightly in Cameroon and Nigeria. In Peru and Ecuador, government programs stipulated rising cocoa production. Why could this increase in Côte d'Ivoire happen? Was it really the price or was it the political and economic situation in the country? As the industry never tires to emphasise: the matter is complex.

Furthermore, it takes up to 5 years from planting a cocoa tree to the first harvest, so it would be naïve to assume that price fluctuations immediately translate to production levels. Most farmers know from their own experience that prices fluctuate strongly, and they do not trust short phases of higher prices, as they know that this could be very different when their crop is finally ready to be harvested.

### **Higher prices for cocoa lead to higher prices for chocolate**

The price of cocoa only makes up a small portion of the retail price of chocolate. Several years ago, the 2015 Cocoa Barometer calculated that cocoa farmers only receive 6-7% of the final consumer price (Fountain, Huetz-Adams 2015).

According to a recent study by Le Basic and the FAO on the distribution of value and costs along European chocolate chains, cocoa farmers only receive on average 11% of the final retail price of a dark chocolate bar, while 70% of the total value and 90% of the total margins generated accrue to the last two actors in the chain: brands and retailers. (FAO/Basic 2020 p6)

For products containing only very low percentages of chocolate (e.g. candy bars such as KitKat, Snickers, Lion etc.) would be even more marginal.

This implies that it would theoretically be possible to double the price farmers receive with a very low impact on shelf prices for chocolate products.



## The Path to Living Income in Cocoa

In order for living income to become a reality for cocoa farmers, action is necessary on three separate dimensions at the same time: good agricultural practices, good governance policies, and good purchasing practices. Any corporate or government effort that does not move significantly on all three dimensions at the same time will not be an adequate response to the challenge.

### Good Agricultural Practices

Focussing on Good Agricultural Practices (GAP) has been the strategy that has seen by far the

most attention over the past two decades, as argued in the previous part of this Living Income Compendium. For GAP to be part of a path to living income in cocoa, there are still key issues to be improved.

- Concepts for GAP should include calculations of changes of the net income of farmer<sup>65</sup> and an analysis of the true costs (social and ecological) of the changes.
- A shift from monoculture towards diversified production is necessary, particularly towards diverse agroforestry systems.<sup>66</sup>

<sup>65</sup> Including robust calculations on the impact of the expected productivity increases, including transparency on increased production costs, both for labour and resources.

<sup>66</sup> There is a lot of confusion about what agroforestry is, with many different definitions currently being used. A suggested way forward on complex/diverse

- GAP trainings – and input providers – should move away from the use of highly hazardous pesticides<sup>67</sup> towards more holistic Integrated Pest Management, where the use of HHPs are reduced to a minimum.
- Each cocoa farmer should be coached to implement an individual farm development plan, that is based on local specifics such as soil types, elevation, local climate, and shade crops, rather than on generic approaches and generic inputs.
- All farmers should have access to savings institutions, affordable credit, and inputs, so that they can invest in and develop their farms. Financial inclusion mechanisms need to be developed specifically for smallholders, and for female headed households.

## Good Governance Policies

Increasingly, the topic of good governance is being discussed within the cocoa sector. This dimension is all about the enabling environment within which a living income can be achieved. All the items in this category require government action of some sort. Many – if not most – also require corporate action.<sup>68</sup>

- Governments of cocoa producing countries should cooperate and work towards either a LID in all producing countries which guarantees a living income, or even work towards decoupling the price of cocoa from

the commodity market altogether, instead reflecting the costs of production – including the costs of a living income.

- It is a matter of high urgency that the cocoa producing countries start acknowledging that supply management solutions<sup>69</sup> are part and parcel of any successful living income policy. As a global issue, governments should align on common strategies to ensure transparent policies that put farmers first.
- These strategies should be firmly embedded in national rural and agricultural development strategies in cocoa producing countries<sup>70</sup> that focus on both food sovereignty as well as on rural infrastructure<sup>71</sup>.
- Governments in producing and importing countries need significantly increased transparency and accountability of how public funds – including the LID – are collected and directed to support a transformation in the cocoa sector. Supply chain transparency is also an essential part of this.<sup>72</sup>
- Governments in consuming nations need to make living income a key part of any Human Rights and Environmental Due Diligence regulation, requiring time-bound action plans by corporations.
- Governments in consuming countries, international organisations, and donors need

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agroforestry systems can be found in the [2020 Cocoa Barometer Consultation Paper on Agroforestry](#).

<sup>67</sup> In normal times, agrochemicals were not available and affordable to most farmers. With the current price increases in agricultural inputs due to the Covid pandemic and the Russian invasion of the Ukraine, this has only become worse.

<sup>68</sup> In fact, the UN Guiding Principles on Human Rights explicitly state that even if governments do not fulfil their duty to protect human rights this does not provide corporations an excuse to not fulfil their obligations to respect human rights.

<sup>69</sup> Supply-management instruments can range from the extremes of bufferstocks and national production quotas – such as implemented in the cocoa sector for much of the 1970s and 1980s – through to more subtle tools such as rural development policies or

land reform. Even an announcement by the Ghanaian government that they will no longer pursue a production target of 1.5 million tons would be a step forward.

<sup>70</sup> Agricultural policies should have food sovereignty as their main focus. Despite being agricultural powerhouses, both Cote d'Ivoire and Ghana are net food importers. A just transition towards food sovereign agriculture is necessary. Cash crops, such as cocoa can play a major role in enabling this transition.

<sup>71</sup> Including healthcare, sanitation, and educational facilities.

<sup>72</sup> An extensive overview of the necessary changes in Transparency and Accountability can be found in a separate Cocoa Barometer Consultation Paper on this topic that is soon to be published.

to make available significant funds to tackle farmer poverty. Additionally, impact assessments are needed which prove that the money is used for poverty reduction and not to increase productivity only, so that only industry profits from low prices.

- Speculation on the terminal markets should be regulated to limit speculation off the back of farmer poverty.
- The capacity of farming communities should be supported and enabled to self-organise to have a bigger voice.
- Governments in consuming countries should review existing competition laws where these are hindering the ability to tackle farmer poverty (and other sustainability challenges.)
- Governments in producing countries and multinationals should adhere to existing regulations and standards in the cocoa supply chain.

## Good Purchasing Practices

The least developed of the three dimensions described here are Good Purchasing Practices. Although they also deal with the farm gate price<sup>73</sup> paid to farmers, purchasing practices range much wider.

Many of the holistic interventions that this paper calls for are long-term processes that will lead to change over time. However, (extreme) poverty is a daily reality for the vast majority of cocoa farmers. They cannot afford to wait until long-term processes – such as diversified income, higher productivity, or a better rural infrastructure – have come to pass.

Most Good Purchasing Practices do not require collective action, nor do they require a long development process; they can be implemented

on a relatively short term, by individual corporate actors.

There are two key objectives of Good Purchasing Practices. The first is to attempt to redress the unequal distribution of risks, where at present farmers bear virtually all the risks. The second is to redress the unequal distribution of rewards, of which at present farmers receive far too little.

- Every company should develop a time-bound living income action plan that includes purchasing practices – explicitly addressing farm gate pricing. Every cocoa and chocolate company should set up a guaranteed living income minimum price.
- Corporations should engage in long-term contracts with their suppliers, defining specifically the long-term purchasing responsibilities of the company and selling rights of the farmer/cooperative, so that sellers are less at risk from season to season.<sup>74</sup>
- Systems should be developed that make it possible to distribute the income of producers over the year, thereby reducing the vulnerability in the lean months.
- Methods need to be developed to ensure that extra price payments are redistributed throughout the community, so they can help the most vulnerable, such as women.
- Beyond procurement practices, companies need to critically review business functions and resource streams such as shareholder pay-outs, stock buybacks, tax avoidance/evasion practices, and marketing expenditures. As long as a significant part of their first suppliers are living well below a living income, any such individual enrichment practices are entirely immoral.

sustainability and procurement are seen as two separate divisions of a company, leading to the dichotomy of farmers being engaged in poverty alleviation programmes, whilst the company procurement divisions are aggressively downwardly negotiating the price they are paying.

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<sup>73</sup> The European Commission recently released [a report](#) where increasing cocoa farm-gate prices is mentioned as the first among the key solutions to reduce poverty among cocoa farmers. A decent and acceptable price is also mentioned as a “necessary but not a sufficient condition to address child labour”.

<sup>74</sup> This reform should ideally be directly coupled to KPIs of procurement teams in companies. Too often,

- Companies doing sustainability programmes should pay in-full whatever premium payment arrangement they have with farmers to enhance their living incomes levels and put in place systems to check these payments have taken place.

## **Purchasing and Governance first**

All three these dimensions - Good Agricultural Practices, Good Governance Policies, and Good Purchasing Practices - are needed to address the challenge of living income effectively.

However, not all three dimensions have an equal status. Good Agricultural Practices are only a worthwhile strategy if cocoa is sufficiently remunerative.

Historically, increases in scale and gains in efficiency have not led to better livelihoods for farmers, although they definitely tend to benefit supply chain actors further downstream.

Better agricultural practices might be making it easier to feed the world, they are not helping to better feed the farmer. Without a change in the power structures first, GAP will lead to higher profits for downstream stakeholders, not for farmers.

As such, the first step that needs to be taken to tackle the challenge of living income is for

corporations to start taking major steps forward on the Good Purchasing Practices. In a similar manner, we need governments (and corporations) making serious work on the Good Governance.

Only when both the responsibilities of corporations and governments are properly being met does it become fair to ask farmers to invest effort and money in improving their productivity. The burden to first move lies squarely with the companies and the governments in the cocoa sector. We cannot ask the poorest and most vulnerable link to take the biggest risks, with the least guarantee for reward. In that regard, the anti-poverty approaches in the cocoa sector have had exactly the wrong chronology for the past two decades. With an unsurprising, although unfortunate, outcome: they have failed.

What is essential to stress here, is that living income will not be reached by project-based approaches. Achieving a living income will require a systemic approach, and system, change.

*It is high time to tackle farmer poverty. And first to bat are the large corporations and the governments in producing and consuming countries.*

## Colophon

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The final responsibility for the content and the views expressed in this publication lies solely with the authors.

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