



COMBATTING CHILD LABOUR IN COCOA

INVESTOR EXPECTATIONS AND CORPORATE GOOD PRACTICE

First published in June 2017

Stina Nilsson

G · E · S[®]

BACKGROUND TO CHILD LABOUR IN THE COCOA SUPPLY CHAIN	3
COMBATting CASES OF CHILD LABOUR THROUGH MONITORING AND REMEDIATION	7
ADDRESSING POVERTY AS THE ROOT CAUSE - TOWARDS A LIVING INCOME FOR COCOA GROWING FARMERS	9
CONCLUDING REMARKS	12

BACKGROUND TO CHILD LABOUR IN THE COCOA SUPPLY CHAIN

The purpose of this report is to convey investor expectations on the issue of child labour in the cocoa supply chain in West Africa. The target audience for this report includes companies operating within the cocoa industry, investors, industry bodies, NGOs, authorities in both producing countries as well as countries where cocoa is consumed and also certifying and standard setting organisations and others. The report also identifies areas of best practices that may serve as encouragement for further action towards meeting investor expectations.

Investors recognise that a lot of effort has been carried out to fight child labour in the cocoa supply chain. Ivory Coast (Côte d'Ivoire) and Ghana are the worlds' leading cocoa producing countries¹, accounting for almost 70 per cent of cocoa production worldwide. However, it is estimated that over two million children are working in strenuous and hazardous conditions in Côte d'Ivoire, Ghana and also in Cameroon, Sierra Leone, Nigeria and other neighbouring countries².

Since 2001 when the Harkin-Engel protocol (a commitment from the cocoa industry to combat child labour in its supply chain) was introduced, the industry has developed standards and made pledges to eliminate child labour in its supply chain. In 2010, the industry reaffirmed its commitment in a joint declaration to reduce the worst forms of child labour by 70 per cent by 2020. Various programmes aimed at increasing productivity and improving the livelihood of cocoa-growing farmers have been scaled up over the years. The development and implementation of widespread certification schemes have also acted as a tool for combating the risk of child labour. As such, certification, such as Fairtrade, the Rainforest Alliance and UTZ Certified has spread. In addition, specific systems to identify and remediate cases of child labour, have been rolled-out in parts of the cocoa supply chain in Côte d'Ivoire and Ghana. Across the cocoa supply chain, all parties involved - including the cocoa industry, governments and others continue to deploy significant efforts. However, as child labour is widespread among the millions of small-scale farms involved in cocoa farming in West Africa, efforts must continue so as to meet commitments to eradicate child labour.

Investor alignment with International norms

Investors believe that compliance with international human rights norms - including those relating to child labour, to be the minimum requirements needed to invest in a company. A growing number of investors expect companies to operate according to the UN Guiding Principles on Business and Human Rights, which state that:

*'Business enterprises should respect human rights. This means that they should avoid infringing on the human rights of others and should address adverse human rights impacts with which they are involved.'*³

International human rights norms are quite clear on child labour. The ILO Convention No. 182 on the worst forms of child labour (article 3d) defines hazardous child labour as *'work which, by its nature or the circumstances in which*

¹ <https://www.icco.org/>

² <http://www2.tulane.edu/news/releases/tulane-releases-report-on-child-labor-in-west-african-cocoa-production.cfm>

³ Chapter II, Principle 11 http://www.ohchr.org/Documents/Publications/GuidingPrinciplesBusinessHR_EN.pdf

it is carried out, is likely to harm the health, safety or morals of children⁴. UN Global Compact *Principle 5: the effective abolition of child labour* points to the responsibility of the private sector to respect children's rights⁵. Finally, child labour is specifically mentioned under *Sustainable Development Goal (SGD) 8 on Decent work and economic growth*. In relation to child labour, the goal sets out to:

'Take immediate and effective measures to eradicate forced labour, end modern slavery and human trafficking and secure the prohibition and elimination of the worst forms of child labour, including recruitment and use of child soldiers, and by 2025 end child labour in all its forms'⁶

Investee companies linked to child labour or other violations of international norms, represent a reputational risk for investors. Furthermore, in some instances, these violations can be contrary to investment policies or philosophies.

When violations to international norms are identified, investors expect companies to proactively adopt swift measures to address such situations.

There is also a financial incentive for investors in ensuring that companies remedy such practices. There is growing evidence of a correlation between sustainable ESG practices and company performance. Well-governed companies are worth more over the long-term⁷. Companies integrating key ESG risks are also likely to achieve better and more long term, sustainable returns. This is particularly true for the cocoa sector, when investee companies are able to secure a stable farmer base. In recent years, the macro trends in cocoa producing countries that have put a strain on the sector are urbanisation and the aging farmer population. In order to attract and retain a workforce, the cocoa industry needs to ensure that cocoa farming is lucrative by paying farmers adequately so that they can sustain themselves and their families.

INVESTOR EXPECTATIONS

Expectations are formulated with the aim to both identify and remediate in a sustainable manner cases of child labour as well as address poverty, the underlying root causes of child labour in cocoa.

These expectations for cocoa companies include:

- *The communication by cocoa companies of a detailed plan, including an expected timeline, on how child labour identification and remediation systems will be rolled out to the majority of their farmer bases in Côte d'Ivoire and Ghana by 2020; in addition, companies should ensure a continuous roll-out of the plan beyond 2020 so that it eventually covers their entire farmer base in the two countries;*
- *Demonstrate progress towards a living income for farmers in Côte d'Ivoire and Ghana, by reporting on the impact of farmer programmes and other initiatives on farmer income, and;*
- *Lastly, report to what extent current income levels match a living income for cocoa-growing farmers in the two countries.*

⁴ http://www.ilo.org/dyn/normlex/en/f?p=1000:12100::NO:12100:P12100_INSTRUMENT_ID:312327;http://www.ilo.org/ipec/facts/WorstFormsofChildLabour/Hazardouschildlabour/lang--en/index.htm?ssSourceSiteId=global

⁵ <https://www.unglobalcompact.org/what-is-gc/mission/principles>

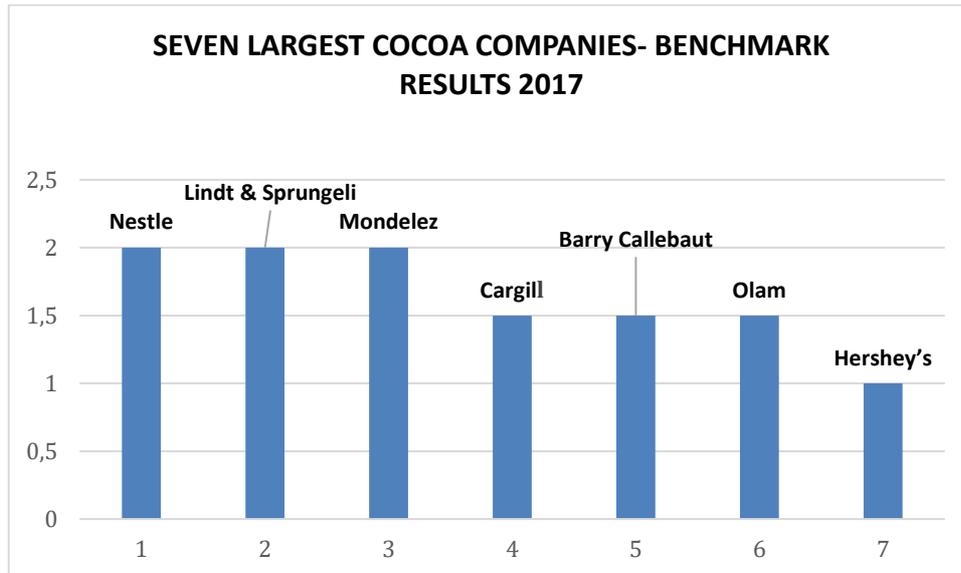
⁶ <http://www.un.org/sustainabledevelopment/economic-growth/>

⁷ Deutsche Bank Beyond the Numbers, London Business School /European Corporate Governance Institute, Finance Working Paper: "Returns to Shareholder Activism"

Current status – benchmarking the largest listed players

Based on the expectations set above, seven of the largest companies in the cocoa industry have been benchmarked (see also below). Only listed companies and companies issuing bonds are included in the benchmark so as to ensure sufficient relevance from an investor point of view. The companies have been scored 0-4 based on how well they currently meet investor expectations on:

1. identification and remediation of child labour, and;
2. support provided by the company towards a living income for cocoa-growing farmers in its supply chain⁸.



⁸ Scoring scale 0-4 on investor expectation on child labour monitoring and remediation:

0 = No work on child labour monitoring and remediation; 1 = Pilot work on child labour monitoring and remediation; 2 = Substantial work on child labour monitoring and remediation, likely to reach a majority of its farmer base in Côte d'Ivoire and Ghana by 2020.; 3 = Substantial work on child labour monitoring and remediation with a clear plan to reach the majority of its farmer base in Côte d'Ivoire and Ghana by 2020. Transparent disclosure of targets, mid-term targets and plans until 2020.; 4 = Substantial work on child labour monitoring and remediation with a clear plan to reach the majority of its farmer base in Côte d'Ivoire and Ghana by 2020. Transparent disclosure of targets, mid-term targets and plans until 2020 and disclosure on the scope and implementation beyond 2020.

Scoring scale 0-4 on investor expectation towards living income:

0 = No efforts to increase farmer income.; 1 = Programmes in place to increase farmer income, but difficult to estimate number of farmers reached and/or impacts by programmes on farmer income.; 2 = Programmes in place and initial results disclosed on impacts on farmers income.; 3 = Programmes in place, disclosure of impacts on farmer income over a number of years, showing an increase in farmer income.; 4 = Programmes in place, disclosure of impacts on farmer income over a number of years, showing an increase in farmer income. Disclosure of comparison between actual farmer income and living income, as well as an action plan to close any gaps.

Company	Ranking	Average	Child labour monitoring and remediation	Towards a living income
NESTLÉ	1	2	3	1
LINDT & SPRUNGELI	1	2	3	1
MONDELEZ	1	2	2	2
CARGILL	4	1,5	1	2
BARRY CALLEBAUT	4	1,5	2	1
OLAM	4	1,5	2	1
HERSHEY'S	7	1	1	1

Emerging good practices – towards meeting the expectations

A number of good practices have emerged. The promotion of these practices and lessons learned should facilitate the successful meeting of expectations, i.e. the move towards an industry that is child labour free. A number of examples deserve to be highlighted and are further outlined under specific sections in this report.

COMBATTING CASES OF CHILD LABOUR THROUGH MONITORING AND REMEDIATION

Given the fact that child labour is a violation of international norms, a minimum requirement that can be expected from companies is that they develop systems that identify and remediate such cases, in particular when the issue of hazardous child labour has been reported as widespread⁹. Remediating the situation would also align corporate practices with the UN Guiding Principles on Business and Human Rights calling for companies to ‘address adverse human rights impacts with which they are involved’.¹⁰ This also includes human rights impacts in the company’s supply chain.¹¹

INVESTOR EXPECTATIONS

The communication by cocoa companies of a detailed plan, including an expected timeline, on how child labour identification and remediation systems will be rolled out to the majority of their farmer bases in Côte d'Ivoire and Ghana by 2020; in addition, companies should ensure a continuous roll-out of the plan beyond 2020 so that it eventually covers its entire farmer base in the two countries.

Good practice – towards meeting the expectation

Rolling out child labour monitoring and remediation systems

In 2012, International Cocoa Initiative (ICI) together with Nestlé, started piloting what was to become a child labour monitoring and remediation system (CLMRS) for cocoa farmers in Côte d'Ivoire. At the end of 2016, the ICI/Nestlé system reached more than 40'000 farmers in 69 coops. A community member, usually a farmer, is selected to become the “community facilitator”, i.e. the person monitoring child labour in the community. Should cases of child labour be identified, the CLMRS provides remediation measures appropriate for the specific case, such as access to school or income generating activities for the family. Since the start, more than 4000 cases of child labour have been followed up with remedial measures. Nestlé has committed to roll out CLMRS to all farmer co-ops participating in its Nestlé Cocoa Plan in Côte d'Ivoire. Several other cocoa companies have now followed Nestlé’s example and started implementing CLMRS, with ICI covering 62,000 farmers in 90 coops in total as at end-2016.

http://www.nestle.com/asset-library/documents/library/documents/corporate_social_responsibility/nestle-csv-full-report-2016-en.pdf

⁹ <http://www2.tulane.edu/news/releases/tulane-releases-report-on-child-labor-in-west-african-cocoa-production.cfm>

¹⁰ Chapter II, Principle 11 http://www.ohchr.org/Documents/Publications/GuidingPrinciplesBusinessHR_EN.pdf

¹¹ Chapter II, Principles 13b http://www.ohchr.org/Documents/Publications/GuidingPrinciplesBusinessHR_EN.pdf

UTZ has started to integrate CLMRS into their sustainability programme and has transparently disclosed how it is designed. <https://utz.org/wp-content/uploads/2015/12/Child-labor-guidance-document-UTZ.pdf>

Topics for engagement with companies

For investors wishing to drive change in the cocoa industry towards the realisation of the expectations, the questions found below are recommended as discussion points with relevant companies.

- *Has the company started implementing a system to identify and remediate child labour?*
- *If yes:*
 - *what is the extent of the rolling out in your cocoa supply chain?*
 - *what are the plans for further rolling-out?*
 - *how do you measure the impact of your system(s)?*
 - *how does the company intend to keep investor and other stakeholders informed about progress?*
- *If no: please explain your company plans to identify and remediate cases of child labour in your cocoa supply chain in Côte d'Ivoire and Ghana and other relevant countries.*

ADDRESSING POVERTY AS THE ROOT CAUSE - TOWARDS A LIVING INCOME FOR COCOA GROWING FARMERS

A poverty reduction strategy is the long-term solution to child labour. From a material point of view, farmers with the means to sustain themselves and their families are more likely to provide a reliable supplier base, ensuring a long-term supply to the cocoa industry.

INVESTOR EXPECTATIONS

- *Demonstrate progress towards a living income for farmers in Côte d'Ivoire and Ghana, by reporting on the impact of farmer programmes and other initiatives on farmer income, and;*
- *Lastly, report to what extent current income levels match a living income for cocoa-growing farmers in the two countries.*

Good practices – towards meeting expectations

Setting the goal - pledge to lift 500,000 cocoa farmers out of poverty

In late 2016, Barry Callebaut pledged to, among other things, attempt to lift more than 500,000 cocoa-growing farmers out of poverty and to eradicate child labour in its cocoa supply chain by 2025. In order to reach its target, Barry Callebaut is working with farmers on diversification, tree replacement and good agricultural practices, among other things.

<https://www.barry-callebaut.com/sustainability/forever-chocolate/thats-what-forever-chocolate-all-about>

Measuring farmer income and economics

In a study by the French Development Agency and Barry Callebaut, 700 cocoa farmers were surveyed with regards to livelihood and agricultural practices. One of the main conclusions is that a rough estimate of a per capita daily cocoa income is CFA 568 (about 0.9 USD/day), whereas the national poverty line is CFA 737 (about 1.2 USD/day). The study also mentions a number of factors to explain the low income, such as old cocoa trees, plant diseases, access to fertilisers, small-sized farms and a lack of access to finances.

<http://www.afd.fr/webdav/site/afd/shared/Notes%20techniques/24-notes-techniques.pdf>

The report 'The true price of cocoa from Ivory Coast' by IDH and True Price, concludes that hired farm workers receive about 20 per cent of a living wage in Côte d'Ivoire. A farmer household earns around 40 per cent of a living income from its own farm. The annual living wage for an Ivorian worker, as calculated by IDH and True Price, is 2,869 Euro (about 3000 USD).

<http://trueprice.org/wp-content/uploads/2016/03/TP-Cocoa.pdf>

Through the CocoaAction initiative, World Cocoa Foundation (WCF) and nine of the world's largest chocolate and cocoa companies, along with consulting firm NewForesight, have developed a Farmer Economic Model that focuses on cocoa farming. The model helps advance understanding of what constitutes a viable farm economy for cocoa farmers and the impacts that can be expected from farm-level interventions. The model provides for a variety of farm-level variables and predicts about the agronomic and economic impact for the farm. The model does not set a benchmark for when a living income is achieved by a farmer.

<http://www.worldcocoafoundation.org/about-wcf/cocoaaction/farmer-economic-model/>

Methods and results in increasing farmer income

Advans Banque started to offer is "crédit cacao" to cooperatives in 2012. Today it has a loan portfolio of 1.6 billion CFA (2.7 million USD) and serves 12,500 farmers organized in 80 cooperatives. The average loan to farmers is about 215 USD. Loans are disbursed in combination with input packages that include training on how to apply products. Loans to individual farmers are channelled through the cooperatives who then pass them on to farmers. Advans provides training to cooperatives on how to manage cash flows and reimbursements.

[http://suedwind-institut.de/fileadmin/fuerSuedwind/Publikationen/2017/2017-](http://suedwind-institut.de/fileadmin/fuerSuedwind/Publikationen/2017/2017-06_Strengthening_the_competitiveness_of_cocoa_production_and_improving_the_income_of_cocoa_producers_in_West_and_Central_Africa.pdf)

[06_Strengthening_the_competitiveness_of_cocoa_production_and_improving_the_income_of_cocoa_producers_in_West_and_Central_Africa.pdf](http://suedwind-institut.de/fileadmin/fuerSuedwind/Publikationen/2017/2017-06_Strengthening_the_competitiveness_of_cocoa_production_and_improving_the_income_of_cocoa_producers_in_West_and_Central_Africa.pdf)

Barry Callebaut is piloting an initiative on micro-credits to cocoa-growing farmers. It is based on the notion that farmers do not have the means to secure the services, labour and inputs needed to make their farms profitable. Less than 20 per cent of cocoa-growing farmers in West Africa has a bank account. Barry Callebaut is therefore opening a bank account for them and provide micro-credit loans. Loans are tailored for each farmer and are provided together with packages of training in good agricultural practices. A business plan is also developed together with the farmer. As a start, a one year package is provided but the company recognises the need to provide more long-term loans. Barry Callebaut, together with the International Finance Corporation (IFC) and The Sustainable Trade Initiative (IDH) has pledged to help more than 100,000 smallholder farmers in Côte d'Ivoire to access credit needed to improve their livelihoods, and to globally lift 500'000 farmers out of poverty with an approach centring around similar efforts.

<https://www.barry-callebaut.com/sustainability/forever-chocolate/2025-we-will-lift-more-500000-cocoa-farmers-out-poverty>

Since 2009, and with funding from the Bill & Melinda Gates Foundation, the Walmart Foundation and about a dozen chocolate and cocoa companies, WCF's Cocoa Livelihoods Program has provided good agricultural practices training to approximately 200,000 cocoa farmers in Cameroon, Côte d'Ivoire, Ghana and Nigeria. Observed productivity increases were about 29-55 per cent among participating farmers.

<http://www.worldcocoafoundation.org/wcf-cocoa-livelihoods-program/>

Mondelez has started to report results from its farmer programme, Cocoa Life, based on KPIs. Results from the first impact evaluation in Ghana, published in February 2016, show that yield increased 37 per cent

more than control communities, compared to the baseline year 2009.

<https://www.cocoalife.org/~media/cocoalife/Files/pdf/Library/Cocoa%20Life%20Progress%20Report>

In its 2015 Sustainability Report, Cargill reports that it is developing a methodology to calculate a living income for cocoa farmers. Cargill also states that farmer income increased by 194 USD in 2015 among farmers involved in a smaller pilot project, and that the company is aiming at collecting data on the net annual income for all farmers involved in its farmer programme.

<https://www.cargill.com/doc/1432076281572/ccp-full-report.pdf>

Topics for engagement with companies

For investors wishing to drive change in the cocoa industry towards the realisation of expectations, the questions found below are recommended as discussion points with relevant companies.

- *Has the company considered disclosing how the company's farmer programmes and other initiatives have an impact on farmer income in Côte d'Ivoire and Ghana?*
- *To what extent do current income levels match a living income for cocoa-growing farmers in the two countries?*
- *How do you measure the impact of your programmes?*
- *If there is no disclosure of impacts by company initiatives, how does the company ensure their effectiveness?*

CONCLUDING REMARKS

Even though the issue of child labour in the cocoa supply chain has been publicly known for almost two decades, there are still two million children working on cocoa farms in Côte d'Ivoire and Ghana. Investors expect more. The expectations in this report aim to respond to the issue of child labour in a long-term manner and across the cocoa supply chain. They are formulated both to identify and remediate actual cases of child labour and to tackle the underlying root causes of child labour in the cocoa industry, namely: poverty. It is our hope that this report spurs discussion and action from investors and other stakeholders to challenge companies towards the realisation of expectations, with the support of good practice examples and concrete questions to ask companies in the cocoa industry. For companies, we hope that the report both gives credit to the many efforts already made, but also clearly sets the bar for what is expected by investors. It is our ambition to use this document to continue constructive dialogues and actions towards eliminating child labour in the cocoa supply chain. We encourage investors and stakeholders in the cocoa sector to do the same.



GES is a leading provider of responsible investment and engagement services to institutional investors. We support asset owners and asset managers in developing and implementing integrated investment strategies with regard for environmental, social and governance (ESG) considerations. Representing €1 trillion of investments worldwide, GES acts as an owner-advocate by evaluating material ESG risks in clients' portfolios, providing voting support at general meetings, and engaging with company representatives.

GES is an independent company founded in 1992 with over 60 employees globally, of which 40 are dedicated to corporate engagement.

We have offices in the UK, Sweden, Denmark, Poland and Switzerland with engagement professionals based in a number of other European countries, as well as a strategic business partnership with oekom research in Germany.



The information in this report may not be reproduced, transmitted, redistributed, translated, sold, exploited commercially or otherwise reused in any way whatsoever without GES International AB's prior written consent, unless compelled by binding law. All copyright, database rights and other proprietary rights in the information remain the property of GES International AB.

