



Cocoa Living Income Task Force:

Potential strategies to bridge the income gap

A new multi-stakeholder initiative will be launched to jointly address this Living Income challenge systemically

These organizations expressed interest to join the initiative

Consuming countries

Status:

Agreed to join  Outreach in progress 

Germany



Switzerland:



Swiss Platform for Sustainable Cocoa



Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra



Netherlands:



Ministry of Foreign Affairs of the Netherlands



United Kingdom:



Department for International Development



Belgium:



Producing countries

Ivory Coast



Ghana



Standards



Industry



FERRERO BARRY CALLEBAUT

Mondelēz International Cargill

Nestlé Olam MARS

Farmer organizations



To be decided

Sector organizations



World Cocoa Foundation



The Living Income Community of Practice



Retail



More to follow..

Facilitator:
NewForesight

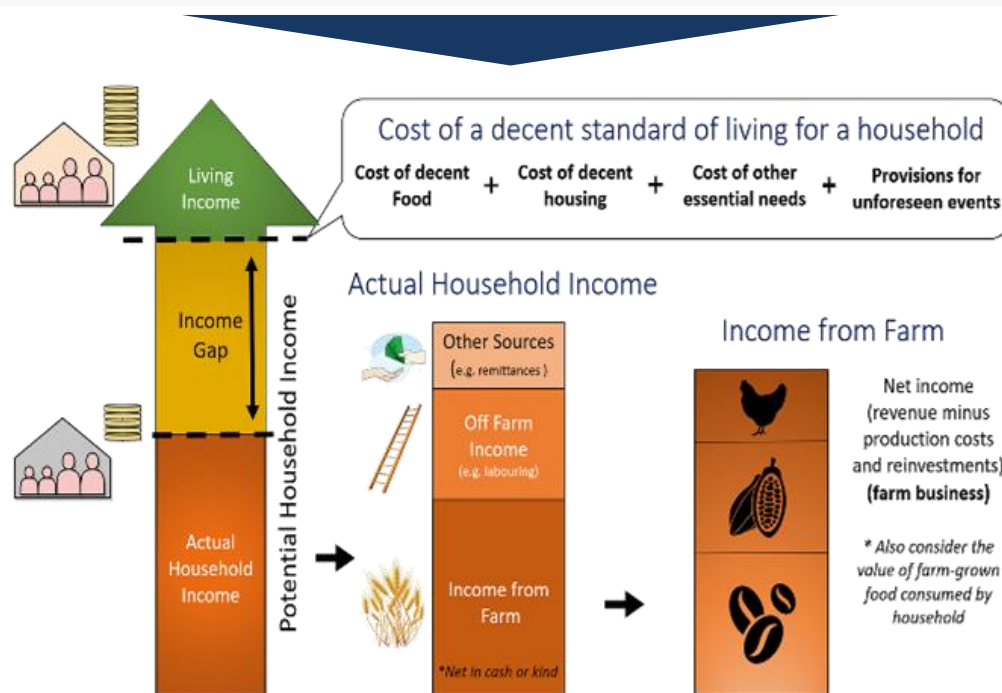
To identify the elements influencing Living Income we consider its definition, how it is calculated, and established benchmarks



“Living income is the net income a household would need to earn to enable all members of the household to afford a decent standard of living.”



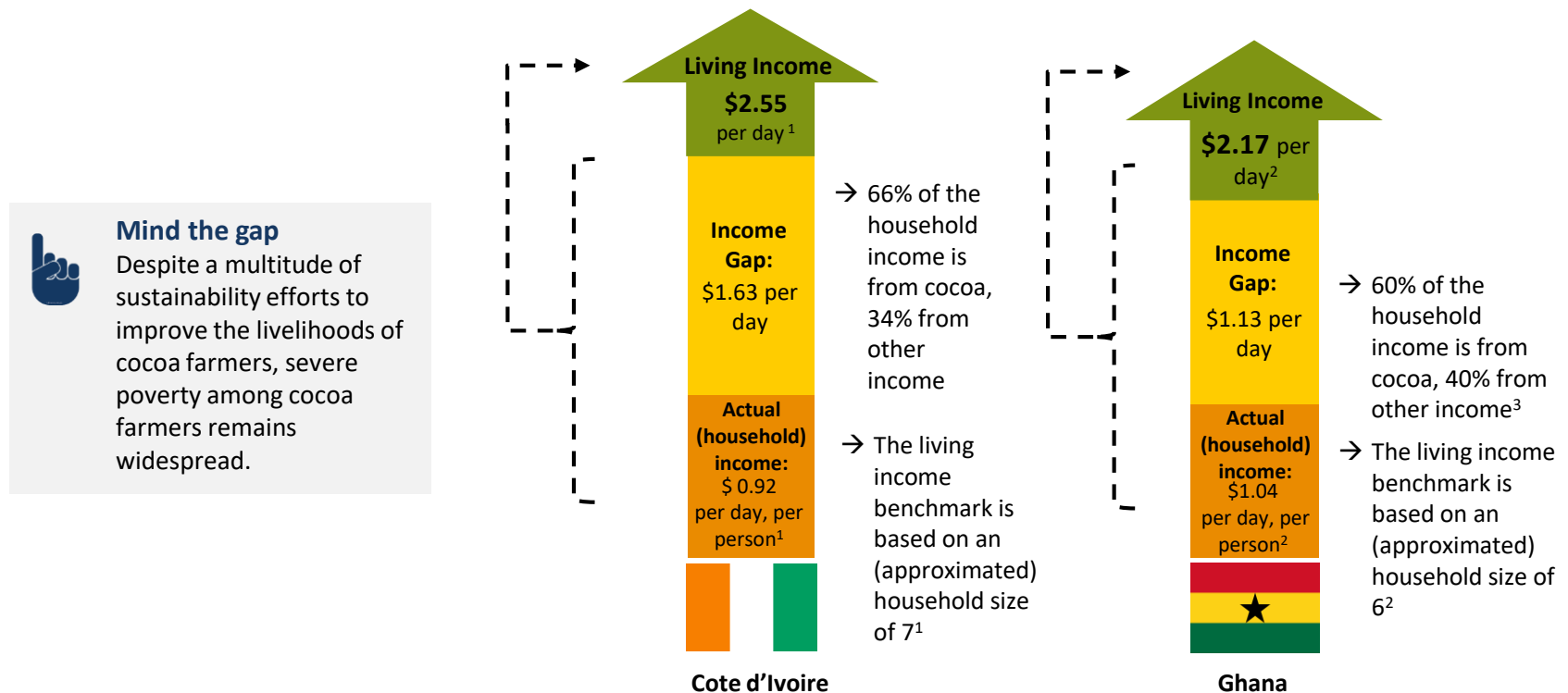
To operationalize the definition, The Anker Methodology has been established and applied by the Living Income Community of Practice to determine a Living Income Benchmark.



Created by:

Despite current initiatives, there is a gap to fill to contribute to a living income of cocoa farmers in West-Africa

Illustration: Gap between actual and living income for a typical cocoa producing household in Côte d'Ivoire and Ghana



Sources:

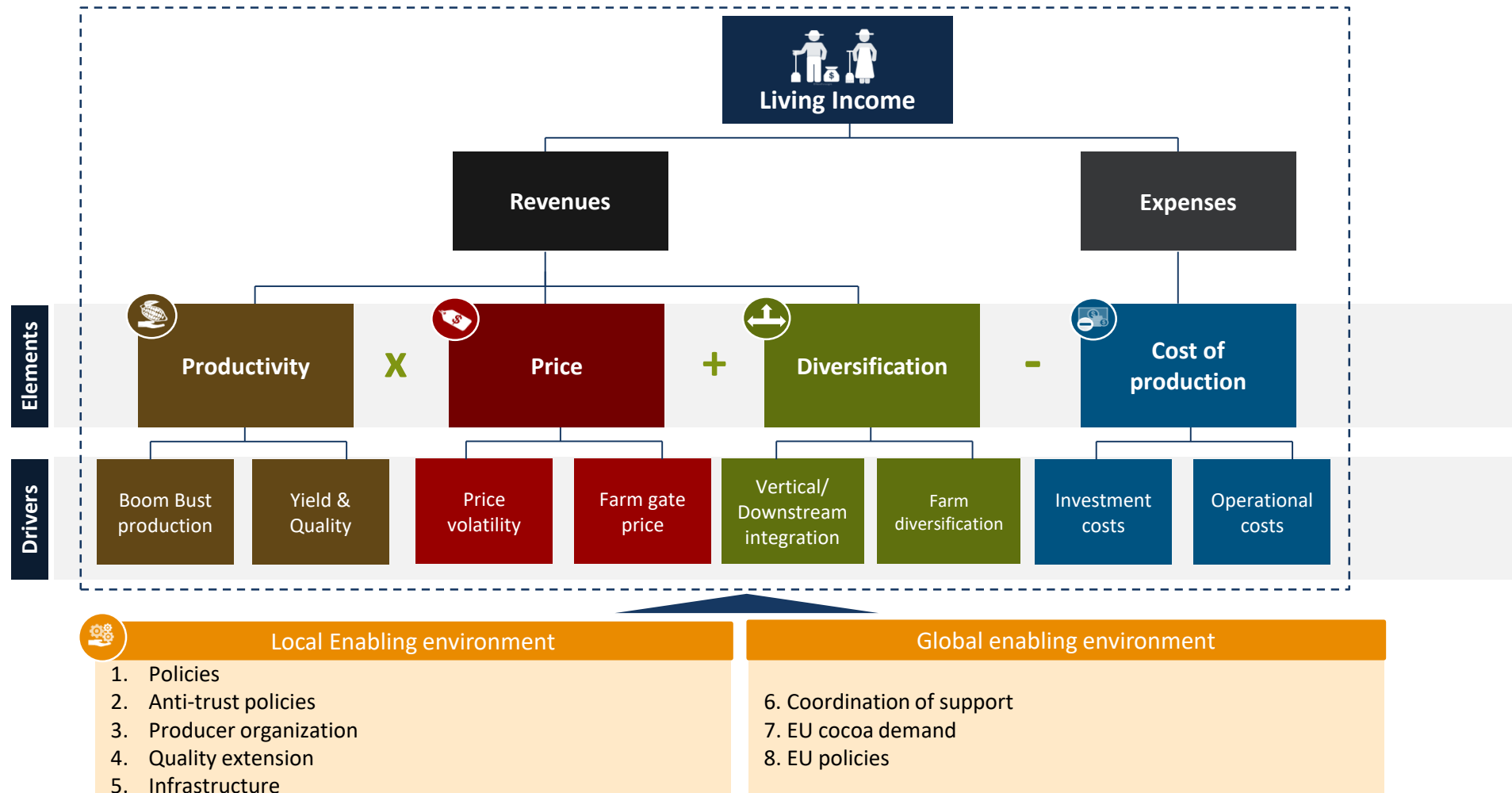
¹ KIT (2018): Analysis of the income gap of cocoa producing households in Côte d'Ivoire: Comparison of actual incomes with the Living Income Benchmark

² KIT (2018): Analysis of the income gap of cocoa producing households in Ghana: Comparison of actual incomes with the Living Income Benchmark

³ <https://cocoainitiative.org/news-media-post/cocoa-farmers-in-ghana-experience-poverty-and-economic-vulnerability>

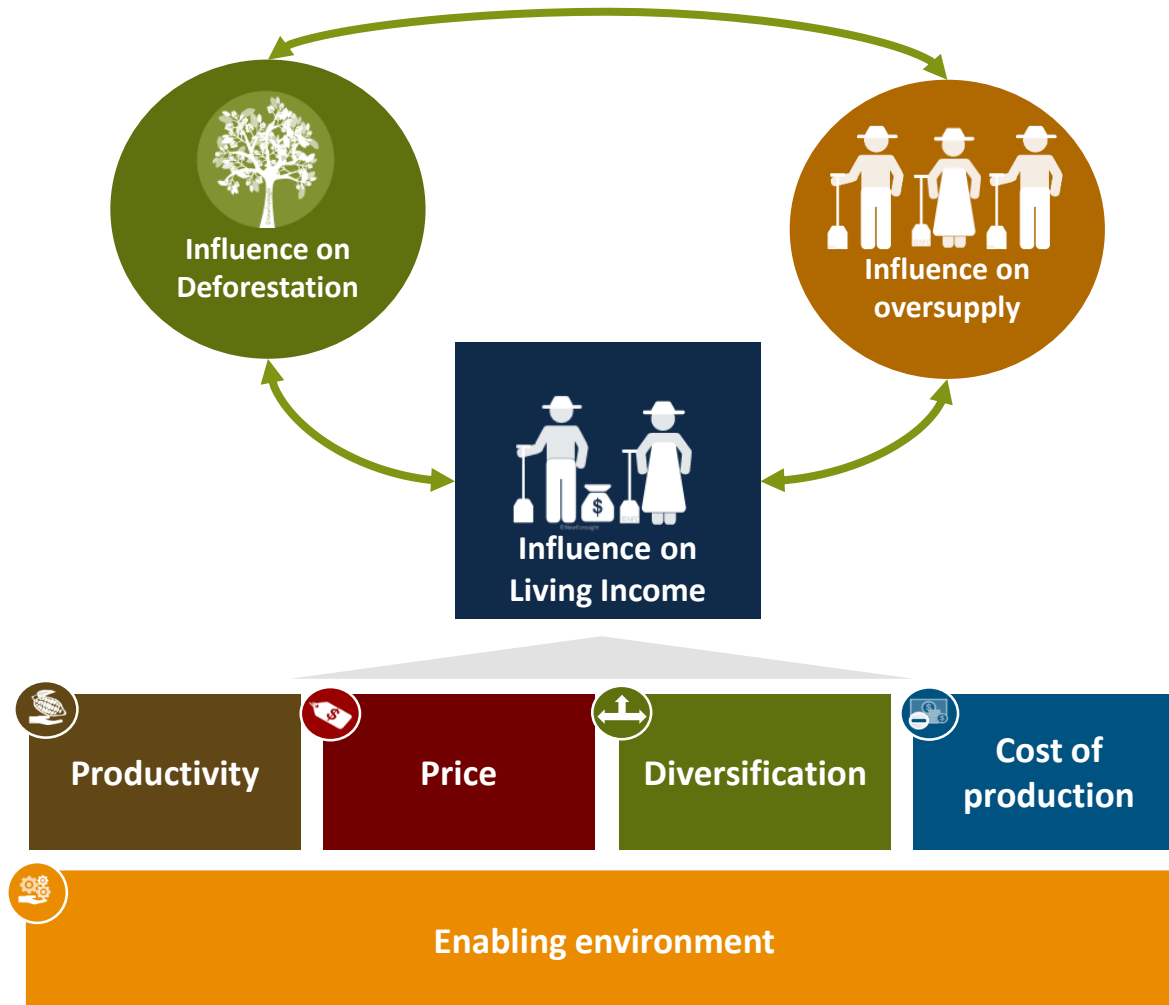
To systemically address living income, we need to understand the multitude of elements that contribute to a living income

Living Income Model: 5 elements and supporting drivers

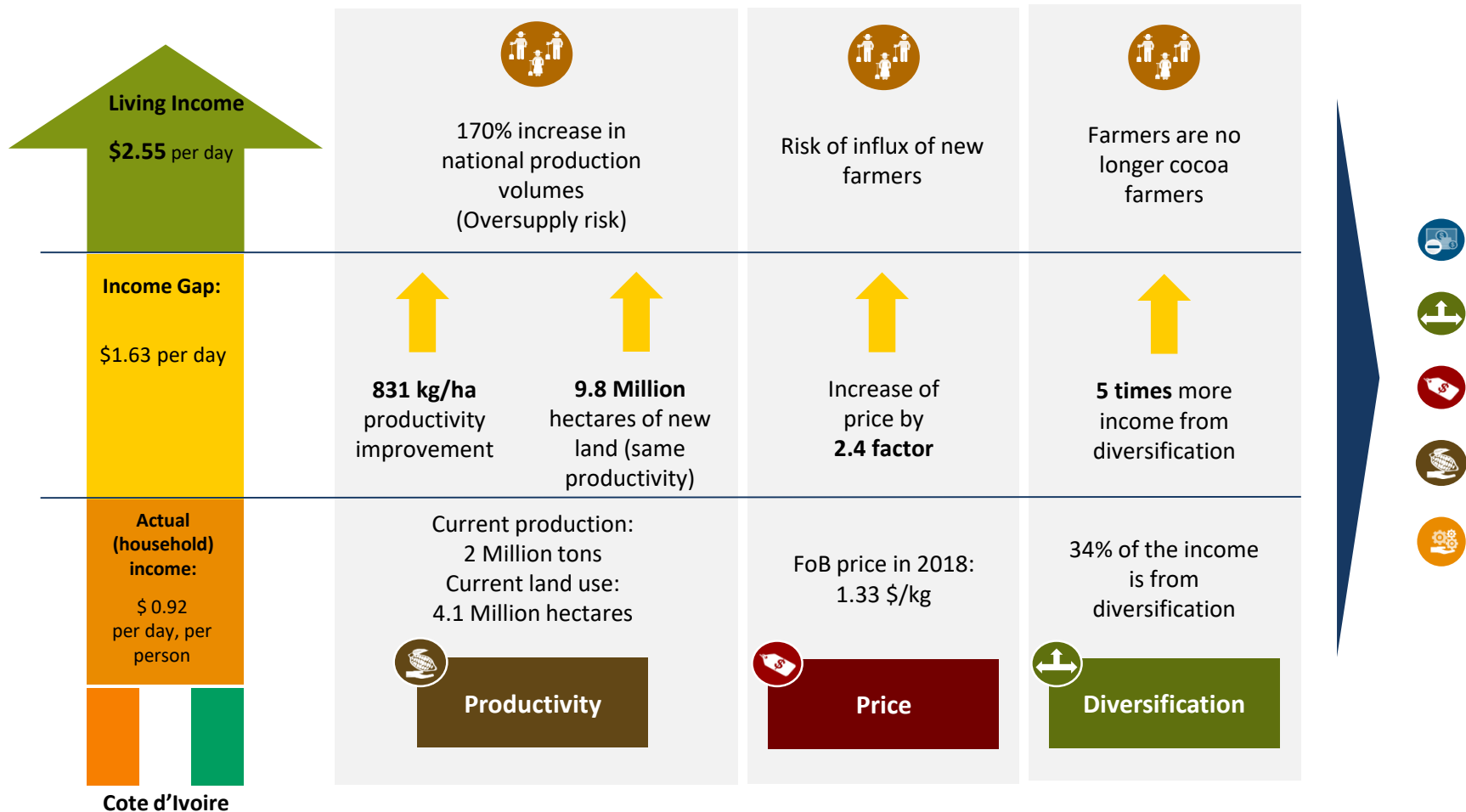


The issue of living income is complex and part of an open system where each intervention has multiple effects

Ensuring a living income is related to deforestation and oversupply in the sector

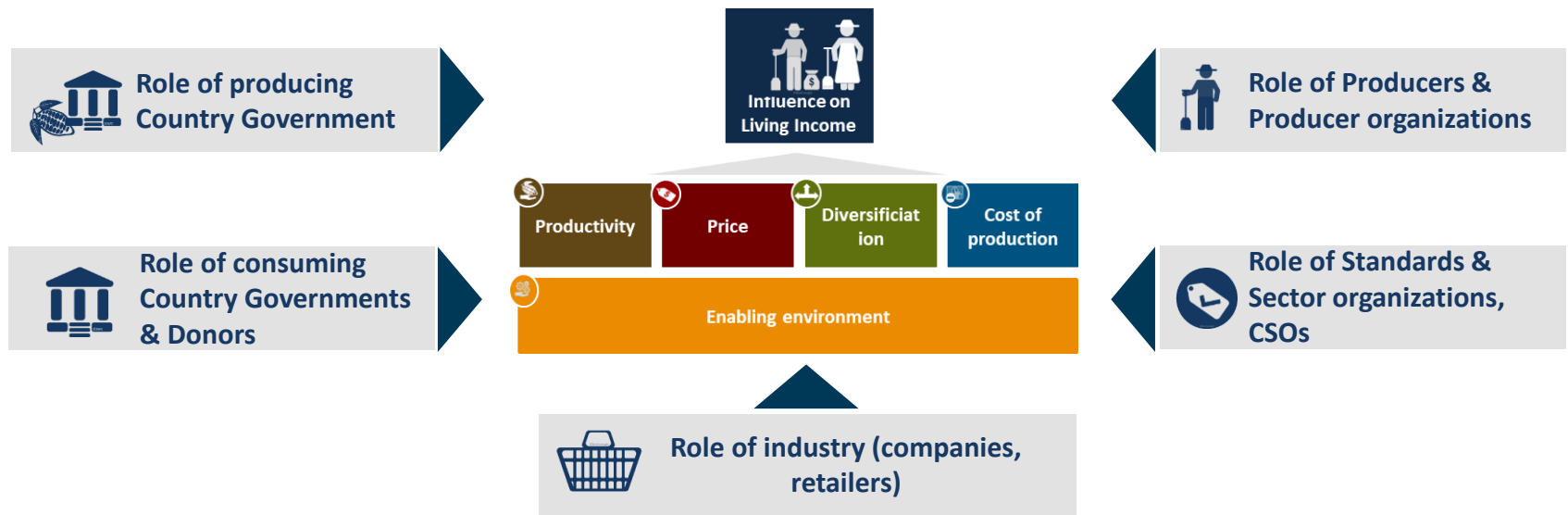


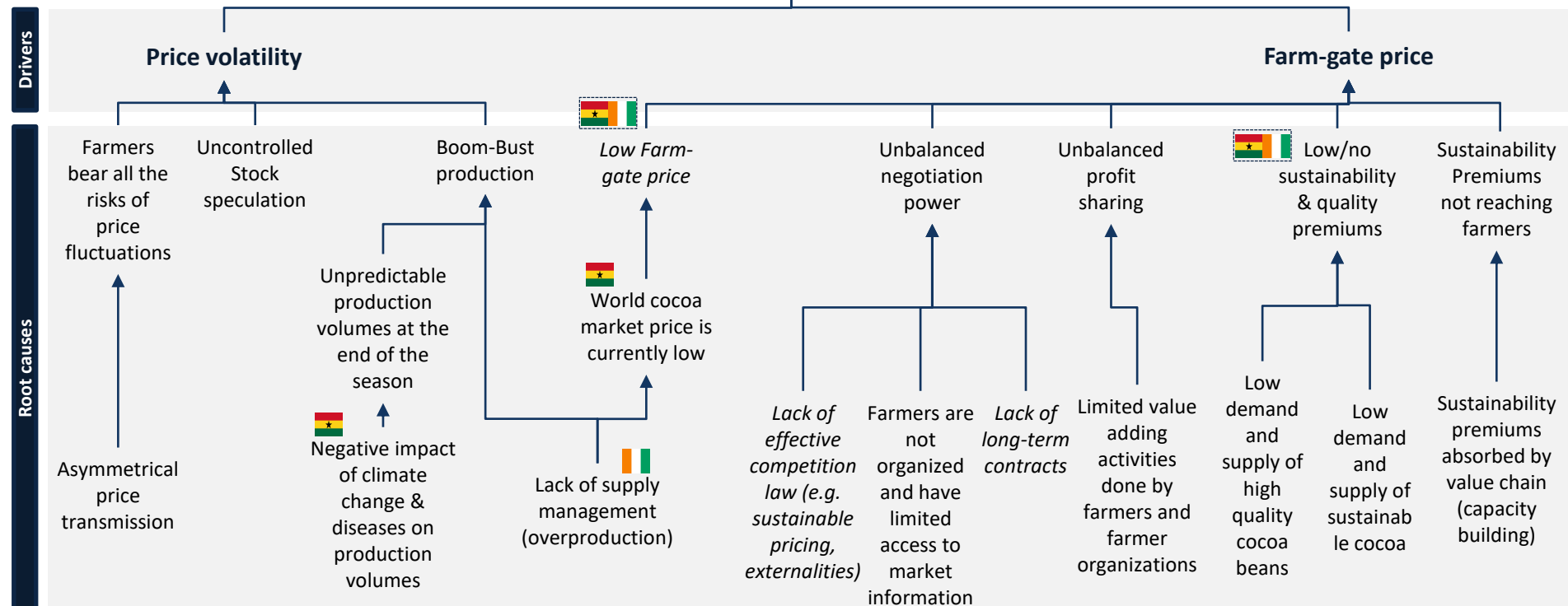
Closing the Living Income gap requires the joint consideration of all elements that contribute to the net income of farmers



Living Income can not be tackled by interventions on one single dimension. Therefore, a systemic approach is needed in order to find the optimal trade-off within the different elements

It needs to be a complimentary, multi-stakeholder approach and effectively leverage a multitude of stakeholders that can ensure that farmers earn a living income





Local Enabling environment

1. Low enforcement of policies (*Land tenure & ownership*)
2. Low enforcement of Anti-trust policies
3. Lack of (well functioning) producer organizations
4. Lack of quality extension (quality inputs)
5. Lack of infrastructure (e.g. road, warehouses, etc.)
6. *Lack of landscape governance*
7. *Lack of accountability framework*

Global enabling environment

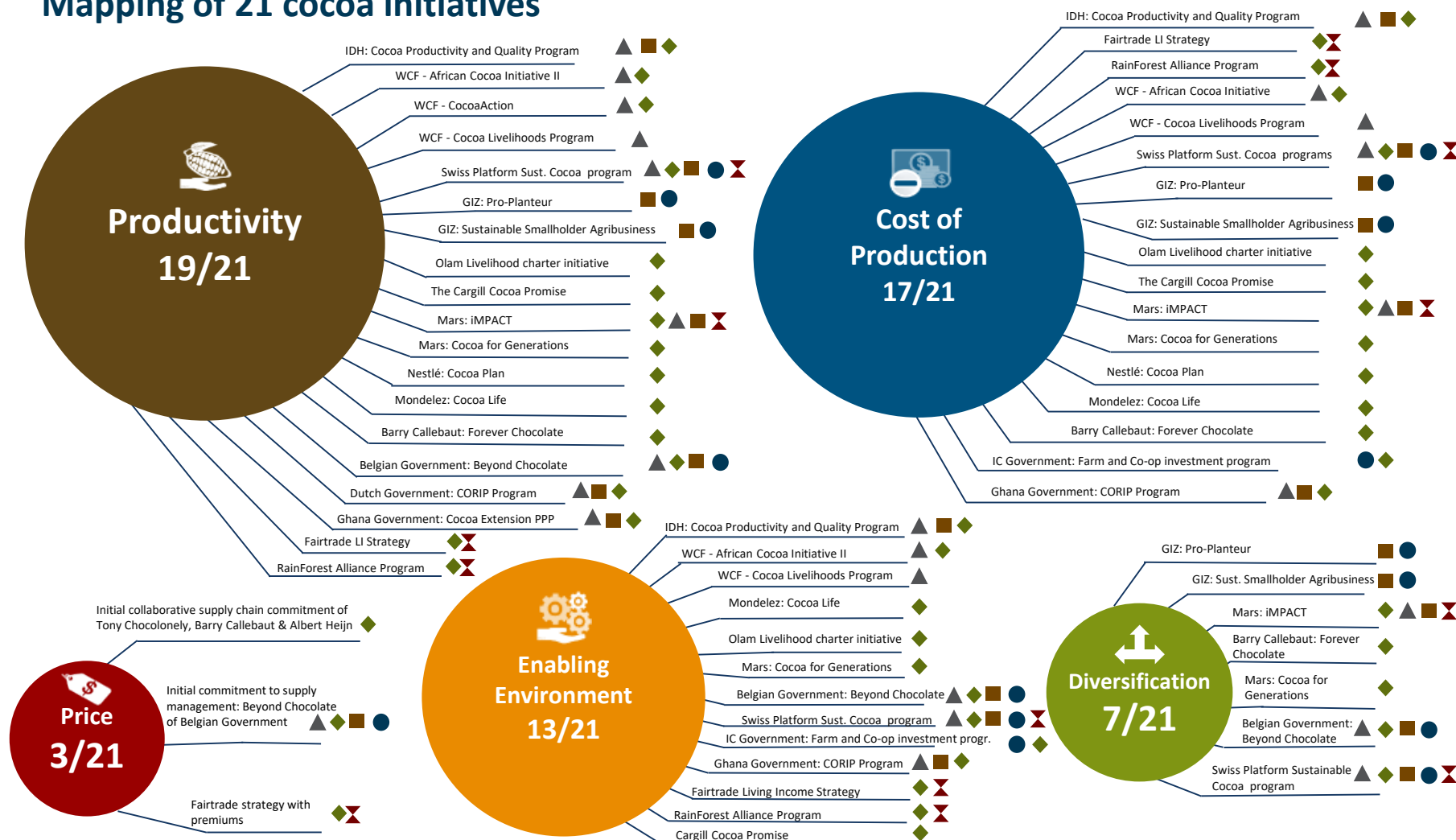
1. Low level of coordination of sustainability initiatives, support, and donor efforts
2. EU cocoa demand under pressure because of health issues
3. EU policies not yet designed to promote equitable profit sharing

Most current initiatives in the cocoa sector target productivity, cost of production and the enabling environment

Legend stakeholders involved

- ▲ Sector organization
- Producing Government
- Consuming Government
- ◆ Industry
- ✕ Standards

Mapping of 21 cocoa initiatives



We have conducted several steps in order to develop the Living Income Task Force draft strategic agenda



Test strategies during stakeholder outreach



Several criteria were co-defined by the participants before to start exploring potential strategies

Based on these criteria, the strategies of the Task Force should be:



Aspirational



Focused



Achievable



Systemic



Impactful

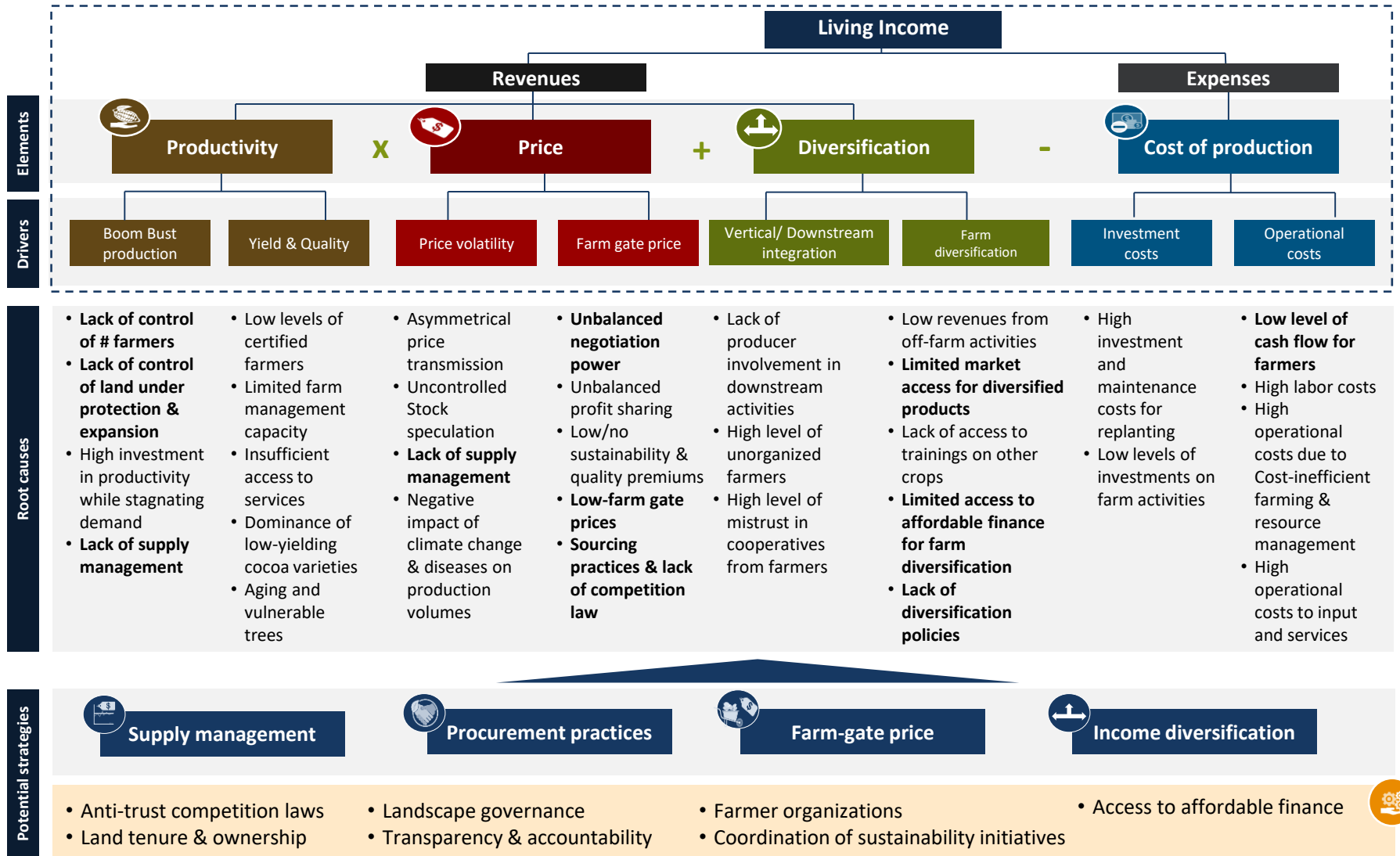


Multi-stakeholder driven



Complimentary

During the Task Force workshop, key root causes were identified and linked to potential strategies for the Task Force



A first selection of potential Task Force strategies have been defined



Income diversification

Create the conditions for viable and effective diversification in terms of policies, strategies and infrastructure



Supply management

Establish a solid monitoring mechanism to manage supply at national level



Procurement practices

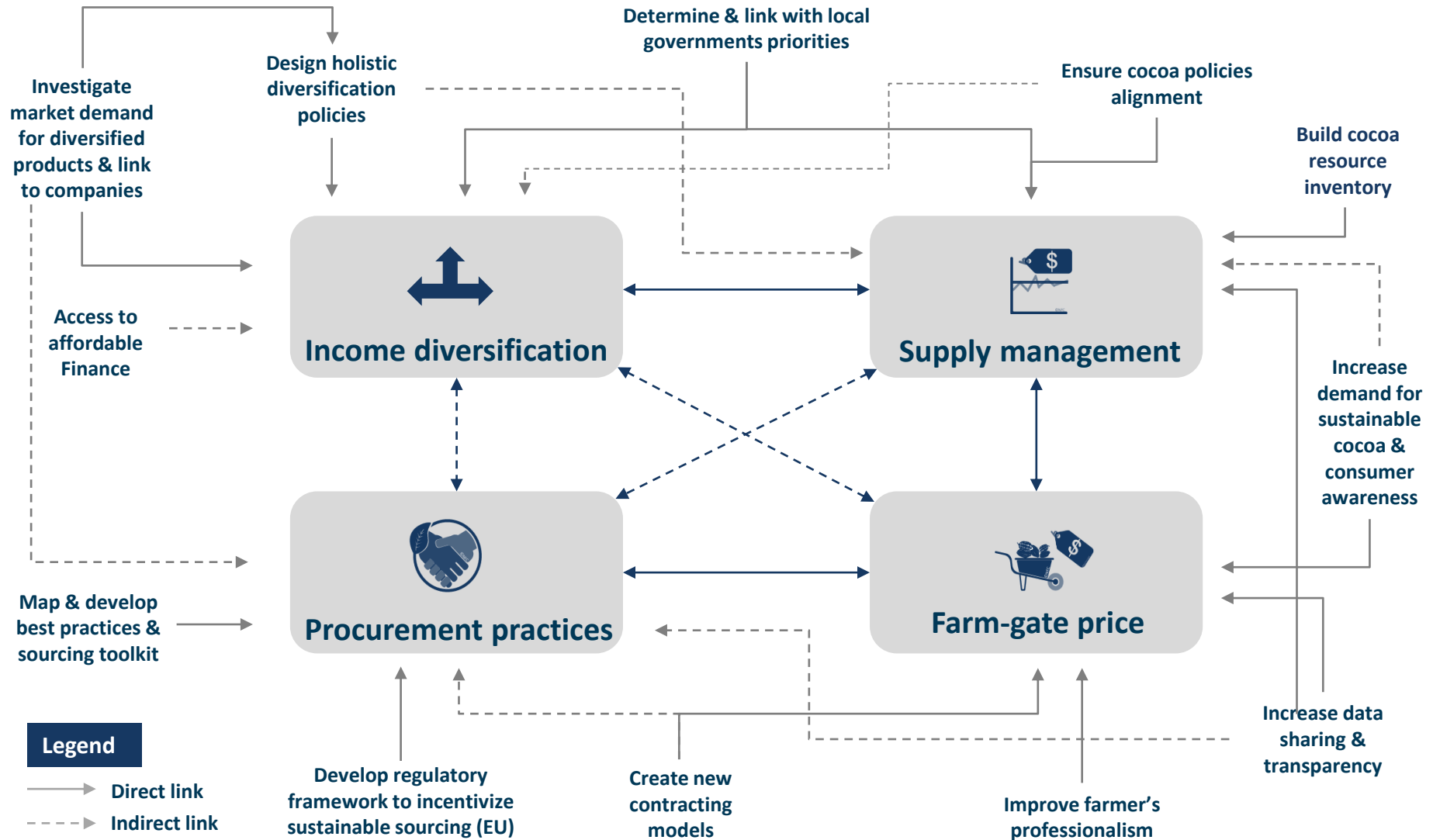
Enhance sustainable sourcing practices to ensure structural change



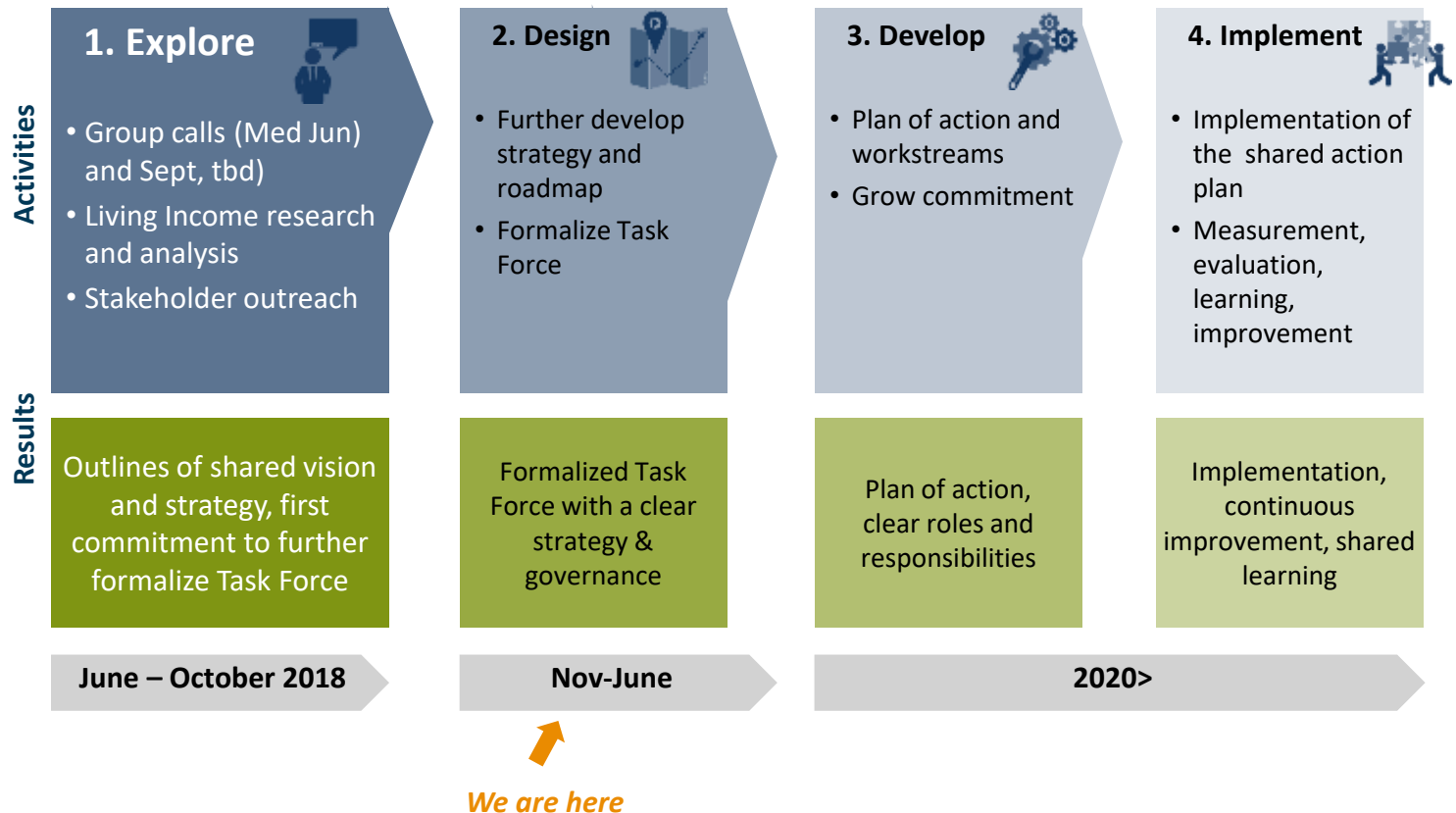
Farm-gate price

Preparing the ground for establishing farm-gate prices that are enablers of a Living Income

The strategies are deeply interconnected, due to the systemic nature of Living Income

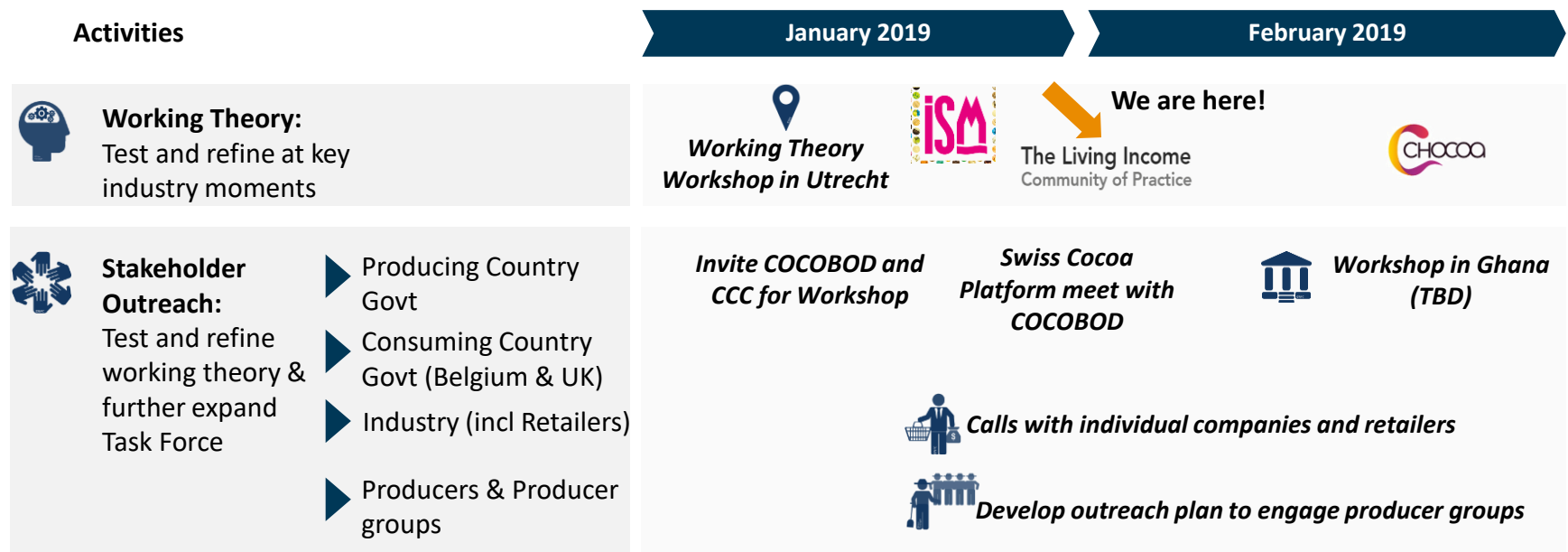


The realization of this envisioned Task Force is divided into four phases and we are performing the Phase 2 activities



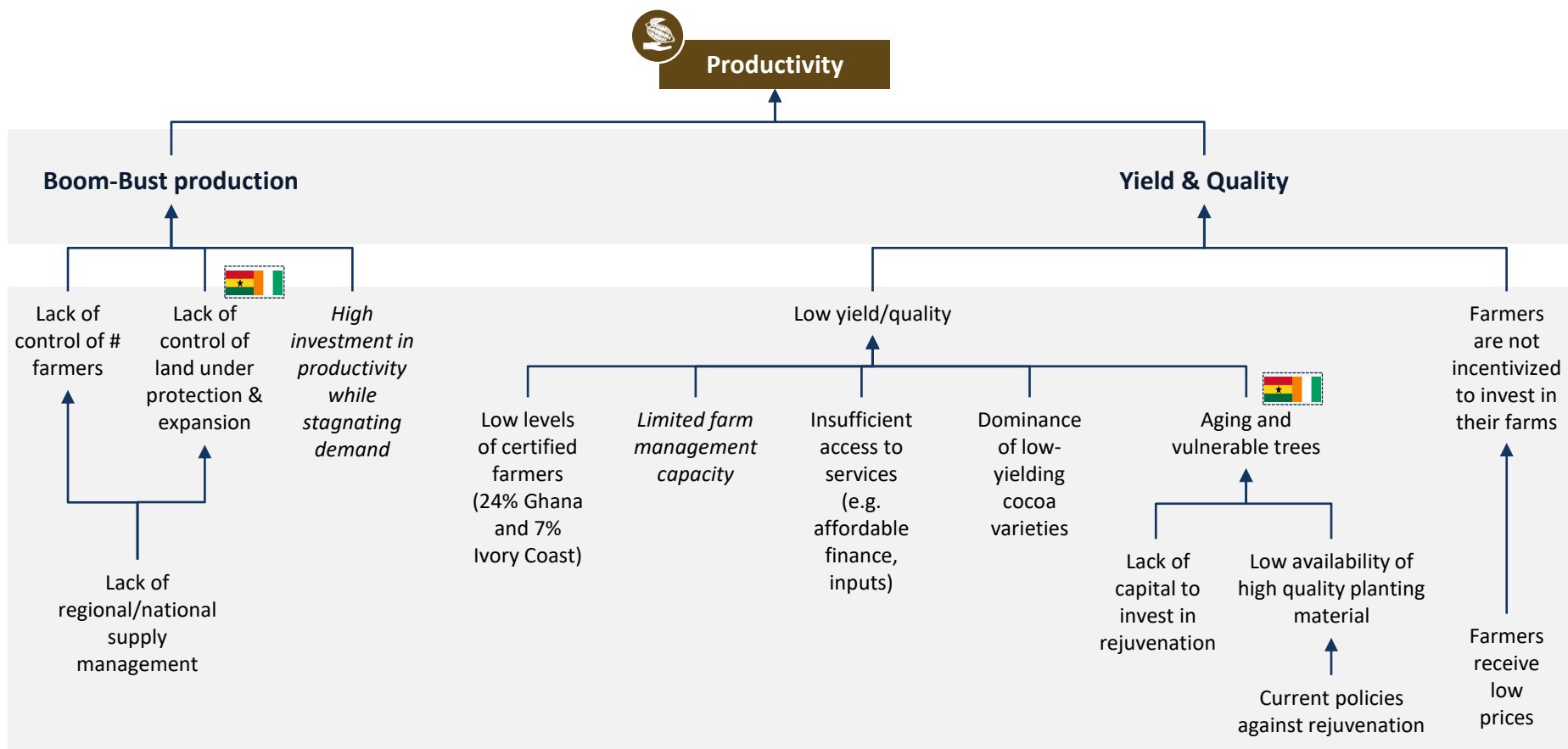
The next steps related to the Working Theory consist of testing the theory at several events and further stakeholder outreach

• Roadmap until February





Thank you!



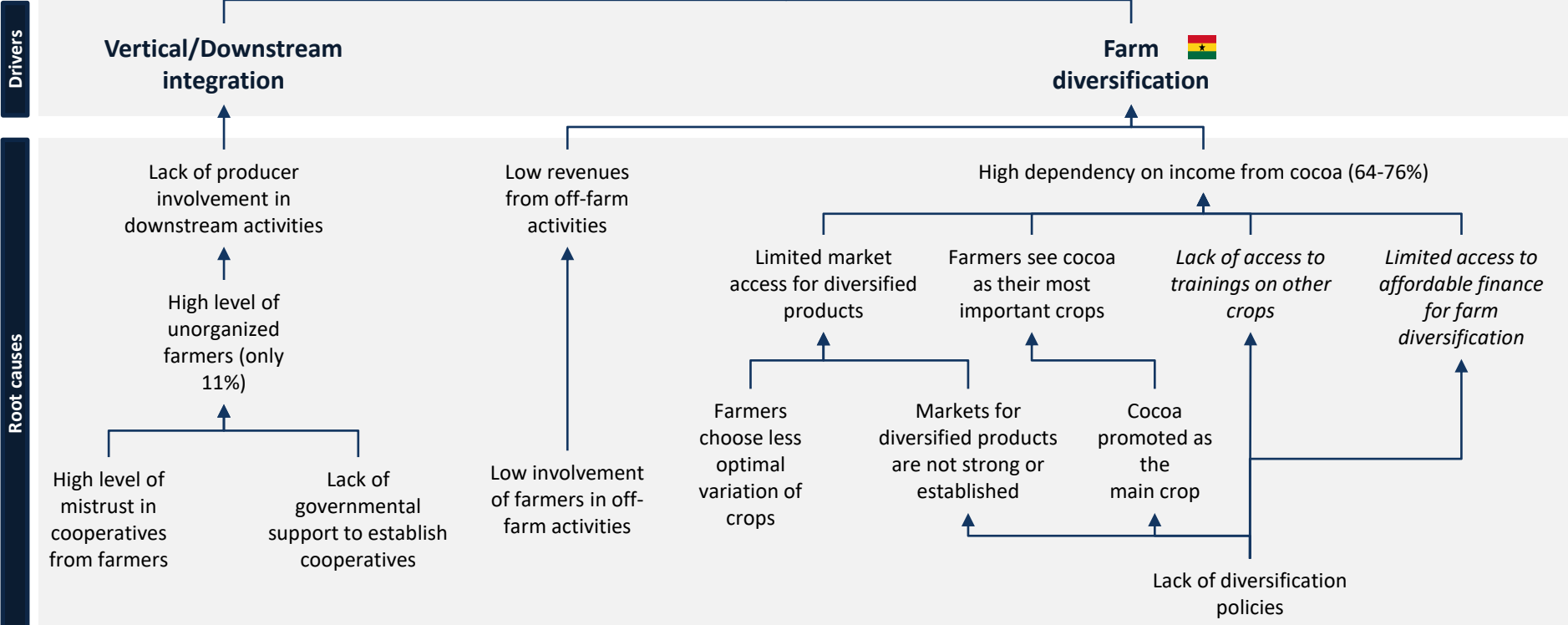
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Global enabling environment

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Diversification

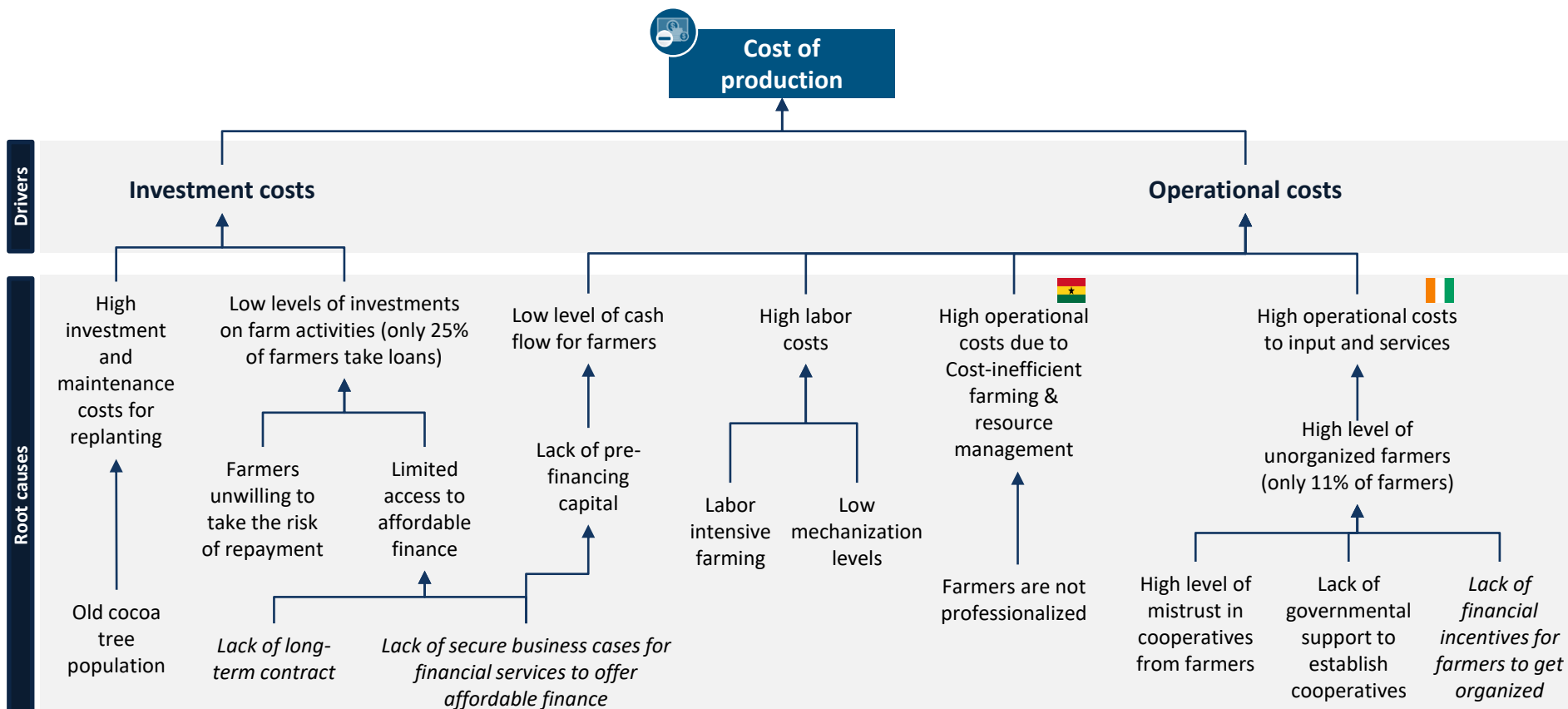


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Due to the systemic nature of the Living Income challenge, it will be crucial to align with producing country agenda's

Priorities of producing countries




Ghana¹



Collaboration on regional priorities² (Abidjan Declaration)



Ivory Coast³

-  Improve local productive and social infrastructure, **registry** of Cocoa Farmers and farms and set up modern management information systems
-  COCOBOD: Enable **price** control and target transparent subsidies
-  Improve Promote **diversified livelihoods & climate-smart cocoa** agro-forestry systems
-  Establish private sector input supply systems based on market prices.

-  Define a common strategy on **floor price** received by producers and concurrent cocoa season opening
-  CSSV research and cutting of infected trees
-  Joint ISO Sustainable and Traceable Cocoa Standard
-  Strong ambition towards forest preservation, rehabilitation and expansion: Cocoa & Forests Initiative (CFI).

-  CCC: Quantity, Quality, Growth program by valorizing Ivorian production on the national and international market.
-  Supply management: Limitation of the national production
-  CCC: Input management tool (SICOPS) that guarantees the efficiency and transparency of support to producers
-  CCC: Improve local productive and social infrastructure

Naturally, these priorities are implemented through the **enabling environment** element.

¹. Ghana Cocoa Sector Development Strategy. Ghana CSDS & Policy note

². Abidjan Declaration



Income diversification: Create the conditions for viable and effective diversification in terms of policies, strategies and infrastructure

Situation¹

Recent research showed that crop diversification is not a new phenomenon in cocoa farming communities in both Ivory Coast and Ghana. Respectively, 24 and 21% of the total income of a cocoa household comes from diversified crops. The typical cocoa farmer produces 6 (Ivory Coast) and 5 (Ghana) different crops, which is on average more than non-cocoa farmers.

Complication^{1,2}

Although cocoa farms in West Africa are, to some extent, diversified, cocoa is still considered the most important crop by farmers and it generates higher revenues as compared to other crops. Moreover, of all the different crops they produce, cocoa farmers are able to sell only 3.4 (Ivory Coast) and 2.8 (Ghana) crops on average. These numbers show that farmers have limited access to market for diversified products.

Potential impacts for diversification strategy^{1,2}

Several experts agree that diversification should be considered as a strategy for farmers to mitigate risks from cocoa price fluctuations, climate change, food insecurity and malnutrition. Potential strategies could include to re-think agricultural policies in order to support the stabilization of local markets for food crops as well as investing in local infrastructure to facilitate transportation of perishable products

Preliminary process steps to set up a diversification strategy³

- a. Identify successful examples of farm diversification
- b. Understand market demand for diversified products, both locally and internationally. Link to other market players on sourcing crops other than cocoa
- c. Understand what governments want to delve into and other types of markets to strengthen, in order to influence and unlock diversification policies
- d. Identify and systematically address policy opportunities for new markets
- e. Secure investments (PPP) and also make them more available to farmers (e.g. access to affordable finance specifically for diversification purposes)

1) Bymolt, R., A. Laven, and M. Tyzler. "Demystifying the Cocoa Sector in Ghana and Côte d'Ivoire." The Royal Tropical Institute (KIT): Amsterdam, The Netherlands (2018).



Supply management: Establish a solid monitoring mechanism to manage supply at national level

Situation^{1,2}

In the season 2016/2017, global cocoa production volumes increased by 15%. In Ivory Coast, cocoa production went up by 40%, translating into an additional 600,000 tons of cocoa in the global market. The main factors for such increased supply of cocoa were favorable weather conditions, large influx of new cocoa farmers established in protected forest areas over the past five years, and a major focus on productivity increase from certification and sustainability programs.

Complication^{1,2}

The instability of cocoa supply volumes, combined with a stalled demand for cocoa, leads to high price volatility. For instance, the cocoa price went down from over US\$3000 to below US\$2000 in the 2016/2017 season, significantly affecting cocoa farmers. Furthermore, high level of stock speculations played a significant role in further destabilizing the cocoa market.

Potential impacts for supply management strategy^{1,2}

Several experts agree that supply management based interventions have great potential to control cocoa production volumes and therefore to stabilize cocoa prices. In fact, if interventions would only focus on productivity increases, there might be the risk of a structural oversupply. Moreover, a supply management strategy could contribute to a more equally distribution of the risks of price volatility across the supply chain.

Preliminary process steps to set up a supply management strategy³

- a. Identify government ambitions and connect to their strategy, including the ICCO
- b. Align national cocoa policies and link them with current local initiatives (e.g. Cocoa & Forest initiative)
- c. Develop of new agricultural development policies on diversification
- d. Potential outcomes could include: Cocoa resource inventory, volume prediction capacity, aligned cocoa policies

1) Bymolt, R., A. Laven, and M. Tyzler. "Demystifying the Cocoa Sector in Ghana and Côte d'Ivoire." The Royal Tropical Institute (KIT): Amsterdam, The Netherlands (2018).



Procurement practices: Enhance sustainable sourcing practices to ensure structural change

Situation^{1,2}

In the last decade, more and more companies have started implementing their own initiatives and programs to increase the sustainability of the cocoa sector (e.g. Forever Chocolate, Cocoa Life, Nestle' Cocoa Plan, Cocoa for Generations etc.). Moreover, several companies have started to define key performance indicators for more sustainable cocoa sourcing practices.

Complication¹

Despite recent sustainability efforts, the impact of such sustainability initiatives is still limited and it has a major focus on productivity. Going forward, the main risk is that these current approaches, mainly voluntary, often non-inclusive and unaligned, could only lead to incremental changes, rather than contributing to a systematic re-arrangement of the cocoa sector.

Potential impacts for procurement practice strategy¹

A multi-stakeholder strategy on responsible procurement practices could facilitate the adoption of a holistic approach on how to design and promote cocoa sourcing activities as enablers of a Living Income. By providing guidelines on sustainable procurement practices to companies and by linking them to an incentive mechanism that encourages continuous improvement, companies will contribute more systematically to the sustainable transformation of the cocoa sector

Preliminary process steps to set up a procurement practices strategy³

- Map policies for responsible sourcing through guidelines of OECD, SDG's
- Map country-specific of current best procurement practices that are favorable to Living Income and identifying gaps, including considerations of completely new procurement models
- Develop a guide on actionable plans for companies on successful procurement practices to tackle Living Income (Toolkit). Map the practices that support a Living Income that can guide companies through voluntary mechanisms (e.g. standards) towards a Living Income.
- Create a regulatory framework that incentivize such responsible business practices (e.g. incentives for responsible practices or penalties for non-responsible practices)

1) Ingram, Verina, et al. "The Impacts of Cocoa Sustainability Initiatives in West Africa." Sustainability 10.11 (2018): 4249.



Farm-gate price: Preparing the ground for establishing farm-gate prices that are enablers of a Living Income

Situation

In Ivory Coast and Ghana, the price received by cocoa farmers is determined by national cocoa marketing boards. These governmental agencies set a fixed price at the start of the cocoa harvesting season in October, which are expected to be maintained across the year. Fixed prices are a guarantee to cocoa farmers when the world market price is declining during the season, but also it precludes cocoa farmers from earning additional revenues when prices are high

Complication

Present cocoa price is too low to close the Living Income gap. Fixed producer prices mean there is no room for farmers to negotiate prices or for prices to be differentiated based on quality. Moreover, fluctuations in the world market price have an immediate influence on the farm gate price. For instance, due to the price collapse, Ivorian cocoa farmers saw their farm-gate prices lowered by 36% in the 2016/2017 season, demonstrating the instability of the fixed price system

Potential impacts for farm-gate price strategy:

Experts agree that a sustainable farm-gate price should provide a living income for farmers. A strategy on farm-gate prices could create a stronger link between farmer net incomes and the Living Income benchmark, with the latest promoted as the main key performance indicator for the sector. Several multi-stakeholder interventions can be promoted in order to increase farm-gate price in a systemic way, including considerations on demand, market mechanisms, contracting etc.

Preliminary process steps to set up a farm-gate price strategy³

- a. Increase awareness towards consumer and corporate level
- b. Increase demand for sustainable premiums cocoa
- c. Create long-term contracts
- d. Increase data transparency related to premiums
- e. Link compensation models to the standards
- f. Increase level of farmer professionalism to increase bargaining power