

# NO SILVER BULLETS:

## Closing the \$10 billion income gap in cocoa calls for cross-sector action

### EXECUTIVE SUMMARY PAPER

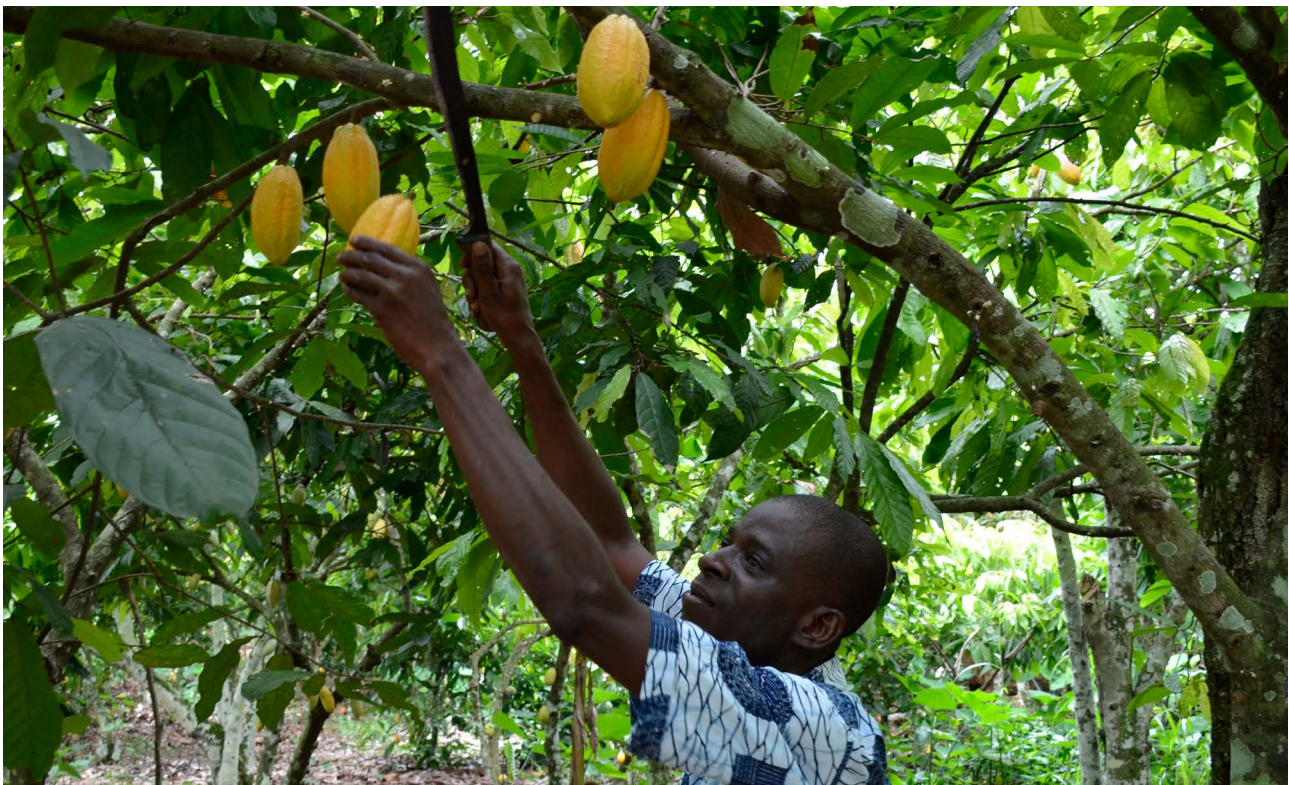
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# ABSTRACT

This paper is intended to offer a point of view, supported by new insights, that will contribute to sector discussion around Living Income for cocoa farmers in Ghana and Côte d'Ivoire - the largest cocoa producing countries in the world. It presents key insights from research and data gathered by the author organizations Cocoa Life, Mondelez International's cocoa sustainability program, and Wageningen University & Research. A full report outlining this data in greater detail will follow.

Cocoa growing is a major income provider for many households in West Africa. For cocoa farmers, earning a Living Income is a critical enabler to building a sustainable livelihood. However, income itself cannot be looked at in isolation. Living Income interventions must be considered in the context of their impact on the other building blocks of a sustainable livelihood, so that we ensure that interventions do not have counter-productive long-term impacts.

For farmers to earn a Living Income and ultimately build a sustainable livelihood, a healthy rural economy is necessary. In writing this paper, we asked ourselves whether interventions by a single actor within the sector to promote a Living Income can create the transformational change needed to build a healthy rural economy. Concluding no, this paper argues that the path forward to more effective action lies in a joint understanding of the magnitude and nature of those challenges and a joint response coordinated by government leadership.

**To progress towards closing what this paper estimates as a \$10 billion US annual income gap, we call on all cocoa sector actors, governments, and beyond to join us in action to:**

- **Develop a strategy to accelerate stimulation and diversification of rural economies;**
- **Develop data and science driven frameworks that identify individual roles and targets, for tangible contribution by all actors;**
  - We want to evolve towards appropriate actionable commitments that are based on a recognition of the full extent of the Living Income challenge
- **Explore practical tools that allow meaningful collaboration on initiatives within and beyond the cocoa sector;**
  - Multi-stakeholder coalitions that implement integrated landscape approaches
  - Encourage the cocoa industry to provide good and clear terms of trade and access to market
  - Financial institutions providing affordable credit and financing
  - Governments supporting an enabling environment for business and economic development
- **Step up cross-sector sharing of data and learnings, enabling faster progress;**
- **And most importantly, continue to provide choices to smallholder families to be at their best**

**We hope that this paper presents useful data and viewpoints, informing conversations about future responses and action across the cocoa sector and beyond.**

**A Living Income:**

The net annual income that enables a family to “afford a decent standard of living for all members of that household” (LCoP, 2020). It takes into account food, water, healthcare, education and other essential needs, including provision for unexpected events.

**Sustainable livelihoods:**

This concept takes into account environmental and social contexts, as well as income. A sustainable livelihood is one that enables subsequent generations of cocoa farmers to access the resources needed to lead a life free of deprivation and realize their potential, without undermining natural resources. A sustainable livelihood is an ideal that spans all areas of sustainability work and provides the lens for a holistic approach when working on any area within a sustainable livelihood framework, such as Living Income (WCED, 1987; Chambers et al, 1992; DFID, 1999).

# RELIEVING POVERTY IN COCOA GROWING COMMUNITIES

**Farmer poverty is one of the most complex challenges faced by rural agricultural communities across the world.**

The governments of Côte d'Ivoire and Ghana have identified the issue of low farmer incomes from commodity chains such as cocoa in their national development plans<sup>1,2</sup> and made clear their intention to strengthen their position in cocoa while diversifying the economy and stabilizing incomes. Recent developments such as the Living Income Differential or the African Regional Standard for sustainable cocoa are concrete measures to contribute to this vision while creating a level playing field at true scale. That is why since its launch, Cocoa Life has supported the Living Income Differential (Confectionery News, 2019) and, as part of its holistic approach, includes an additional premium to farming households (Cocoa Life & Fairtrade Partnership Report, 2020).

Meanwhile, industry actors continue to implement sustainability programs and certification activities aiming to impact farmers' incomes. Increasingly, these separate activities are working to become better coordinated through collaborative platforms. As of yet, however, meaningful avenues for including country governments in these platforms and aligning industry efforts with national plans have not been found.

## **Living Income Differential:**

An additional sum of \$400 US per tonne of cocoa on top of the floor price, to be paid by cocoa buyers as of the 2020/21 season, as defined by the Ivorian and Ghanaian governments. It is designed to enable the governments to guarantee a fixed price to farmers.

Although we have and are seeing progress, low incomes and poverty among cocoa farmers persists. This paper argues that a combination of complementary approaches embedded in a larger rural development strategy is needed to address low farmer incomes, looking at different methods currently in use, and drawing on data to assess their impact and potential for scaling-up.

## **a. An expansive challenge, underpinned by resource inequality**

Across the cocoa sector, many are working on initiatives that aim to help cocoa farmers earn a Living Income. However, the size of this challenge is so large that resolving it requires collective action. It is estimated that in Ghana and Côte d'Ivoire combined, up to 2,000,000 smallholder farmers produce cocoa (Voice Network, 2018). The income gap between the average income of those farmers and recent Living Income benchmarks equals about \$5.21 billion US per year, which comes close to matching the total combined income of both nations from all cocoa bean exports in 2018 – estimated at roughly \$5.31 billion US (OEC, 2020).

<sup>1</sup> Côte d'Ivoire "National Development Plan 2016-2020"

<sup>2</sup> Ghana "Shared Growth and Development Agenda 2014-2017"

**Living Income benchmarks:**

The benchmark, as defined by the Living Income Community of Practice, that would afford families a Living Income. With an emphasis on “decent standard of living” it is significantly higher than poverty benchmarks, which outline only what is needed for survival. Living Income benchmarks are not targets in themselves, and are not accompanied by an accountability framework or action plan.

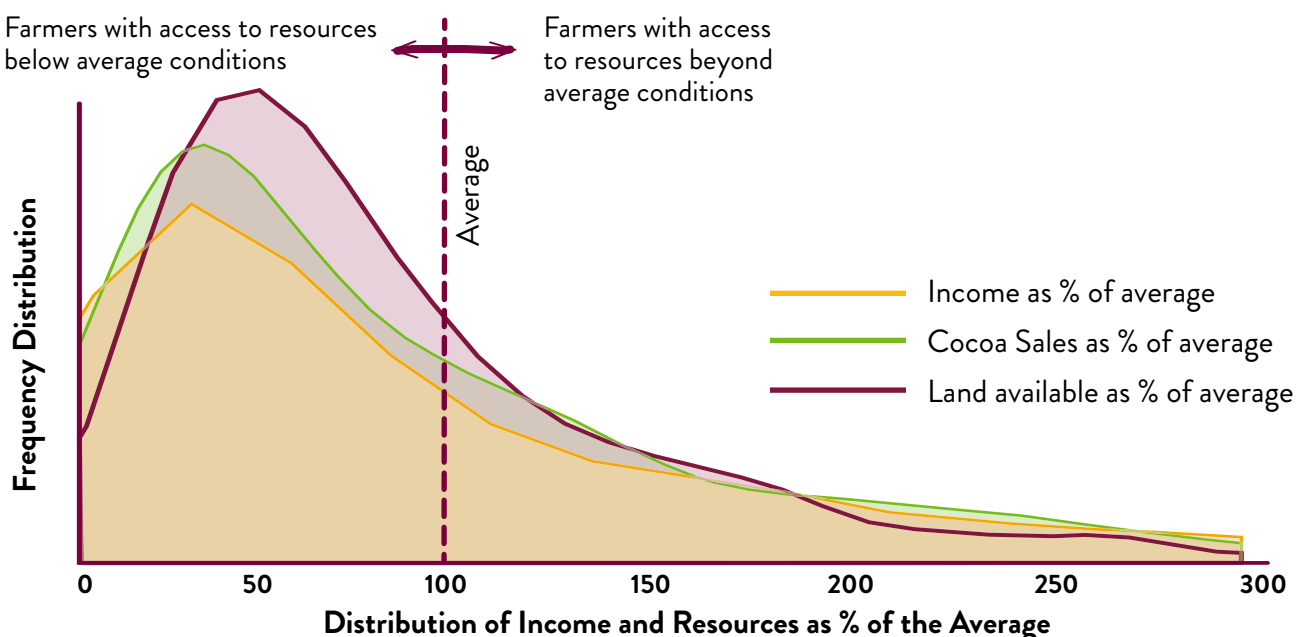
**The income gap:**

This refers to the difference between average (mean) farming household income and the (mean) Living Income Benchmark in a particular location. Actual household income is typically composed of net farm income (from cocoa and other crops), off-farm income, and any other income.

Cocoa Life data and third party research also show us that the real magnitude of the poverty challenge is compounded by marked inequality among rural households in access to the resources needed to grow cocoa (resource inequality), notably land and assets, which impacts cocoa production volumes because farmers do not have sufficient land to produce large volumes, and they cannot invest enough to achieve good yields (KIT, 2018; Waarts, 2019).

As shown in the graph below, we estimate using Cocoa Life data from Ghana (2019) that only about one-third of farmers reaches or exceeds ‘average’ resource conditions. For these farmers, it is easier to earn a Living Income from cocoa. For the majority of farmers however, who have below average access to resources, earning a living Income is extremely challenging.

If we would focus on paying a majority of farmers a Living Income instead of the average farmer - for example 75% of all farming households - and would pay everyone an amount that would take even the poorest of those to a Living Income, this would require \$10 billion US per year. That’s almost double the total 2018 cocoa export figure for Ghana and Côte d’Ivoire mentioned above (\$5.31 billion US).





## b. Increasing the price paid for cocoa alone will not be enough to enable the majority of farmers to reach a Living Income

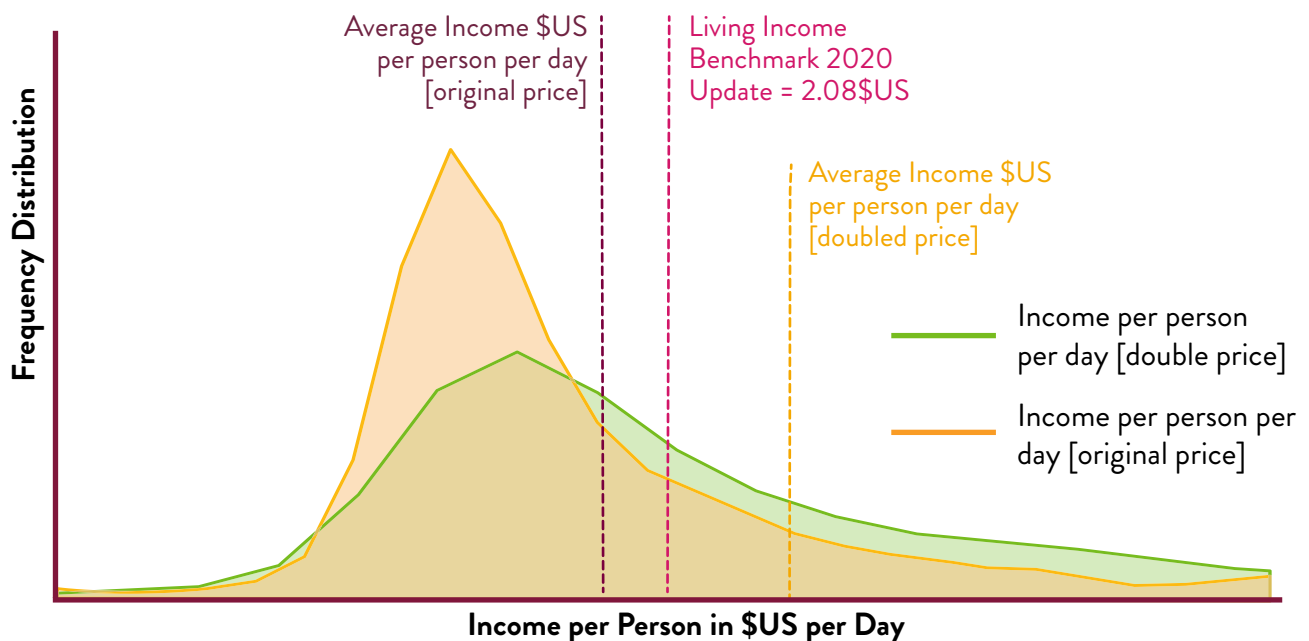
Above, we see that paying all farmers the same specific price per kilogram, defined by the ‘average’ farmer, will not lift the majority of farmers to a Living Income. This is because they do not have sufficient resources (e.g. their land does not permit them to grow sufficient cocoa) for the higher price of cocoa to sufficiently increase their income.

So, this resource inequality means that measures focused entirely on cocoa, such as price and premium increases, will not be effective in lifting the majority of cocoa farmers to a Living Income.

Waarts’ (2019) data supports this, looking at smallholder cocoa and tea farmers. Cocoa Life data also confirms this view, with the example of Ghana in the chart below as well as a forthcoming study using KIT data (Van Vliet, upcoming). Even a doubling of market prices would only lift an estimated 17% of additional farmers to a Living Income despite the average income exceeding the Living Income Benchmark established for the Living Income Community of Practice. As there are a lot of producers who produce very little, even if cocoa prices were higher, they wouldn’t make much more money as they don’t have much to sell to begin with. Of the total 41% of farmers who would earn a Living Income if prices were doubled, most did so already, before the doubling of the price (currently 24% of farmers reach a Living Income in the Ghana dataset). Two-thirds of the households with the lowest incomes benefit the least out of these measures.

### Premium:

An additional sum of money paid by cocoa buyers over and above the market price for cocoa.



Increasing the price of cocoa alone is not the solution, but stabilizing and improving prices is still an important tool towards income improvement, especially if done at a national scale and in support of national economic development plans as defined by local governments. The recently announced Living Income Differential is one example from Ghana and Côte d’Ivoire.

### c. Improving cocoa agricultural practices will help to raise income for several households

There is a significant number of farmers who are already faring well, on their way to or already earning a Living Income with cocoa, and more who could increase their income significantly by improving the way they grow cocoa.

Limited assets, and therefore limited investment, leading to low farm efficiency is one of the key underlying issues of low income from farming. Independently of Cocoa Life, as part of the Mondelez International research project ‘Targeted Good Agricultural Practices’, it is estimated that about a third of farmers in Ghana and Côte d’Ivoire are in a good position to significantly benefit from farming improvements in the mid-term. During a project pilot in Côte d’Ivoire, applying very concentrated and coordinated measures on a carefully selected group of farms to increase cocoa output over three years, production on a sample of those farms increased on average by 190%, and net income from cocoa by over 125%. So, for some specific groups of farmers, carefully tailored approaches can make big improvements to cocoa farm efficiency, directly addressing one of the underlying issues behind low income.

As such, not only is a stable cocoa price in support of national development plans important, but also support to enable farmers to improve cocoa producing practices among those farmers who are situated well with cocoa.

### d. Limited access to viable alternatives to cocoa leads to an overreliance on cocoa, influencing income levels

Limited opportunities to pursue alternative income sources leads to overreliance and dependency on cocoa, posing a risk to farmer income because it creates a long-term vicious circle of decreasing world market prices. Cocoa is crucial for household income in rural Ghana and Côte d’Ivoire: the average cash income solely earned from cocoa is estimated at about 80-90% of the total household income for organized farmers (Cocoa Life 2019; Waarts, 2019).

This is unlikely to change without intervention. Even while the majority are poor, 90% of Cocoa Life farmers in Ghana and Côte d’Ivoire respond that they are satisfied or very satisfied working in cocoa compared to other income opportunities in their area, and the persistent drop-out rate from cocoa is only 0.5% year-on-year. Cocoa is often considered the best option for rural households in Ghana and Côte d’Ivoire (Bymolt, Laven, Tyszler, 2018).

The picture differs for countries like Indonesia where alternative economic opportunities are available. As a result, the drop-out rate from cocoa growing was 14% in 2019 in Indonesia and local satisfaction with cocoa only half as high as in Ghana and Côte d’Ivoire.

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**Cocoa is currently the ‘best option’ for most households in cocoa growing regions [in Ghana and Côte d’Ivoire].”**

Bymolt, Laven, Tyszler (2018)

### e. Both overdependency and cocoa-centric measures can accelerate and amplify boom & bust cycles

If there are few viable alternatives to growing cocoa, there is nothing to persuade farmers to resist unsustainable low prices through supply pressure (Oomes & Tieben et al, 2016). In this scenario, both low prices and high prices stimulate increasing production. Increasing production, however, presses market prices down in the long run—which may be met by further increasing production in case of over-dependency (Brown & Gibson, 2006). This may result in a downward spiral that can lead to boom and bust cycles and periods of very low cocoa prices leading to deepening poverty among farmers.

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**They [cocoa farmers in West Africa] have few alternative options for income generating activities. Without alternatives, they will continue to produce cocoa even at very low prices.”**

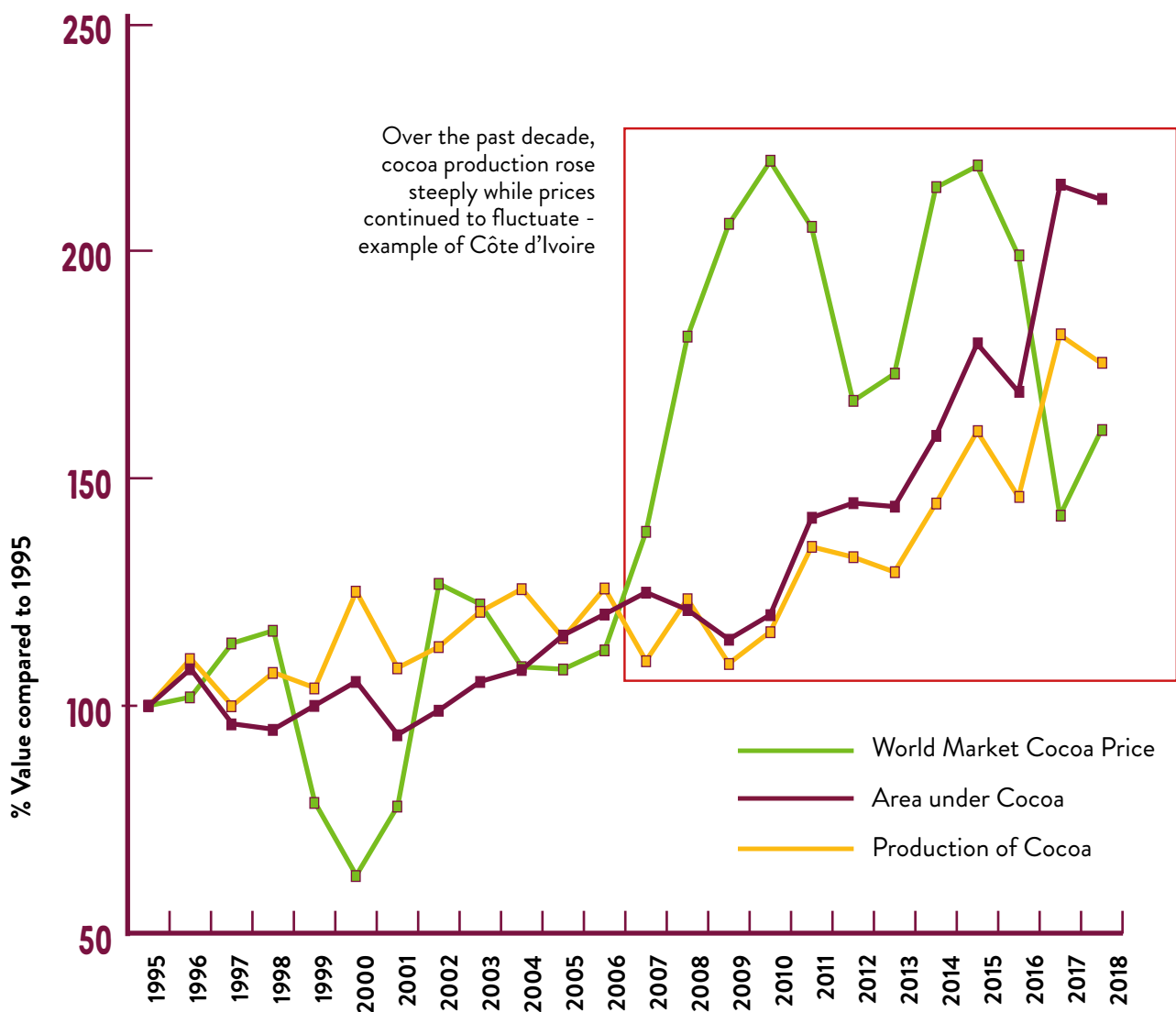
Oomes & Tieben et al (2016)

#### Boom and bust cycle:

Commodity boom and bust cycles describe the phenomenon of the sequence of two economic phases which each can vary in intensity and impact. The boom phase is marked by distinct growth of a commodity market often correlated to an increase in the price of the commodity and demand expectations which can last for years. The boom is followed by a bust phase, which is typically thought of as shorter and more extreme and as related to an over-heating of the commodity market where supply outstrips demand and the commodity market contracts rapidly alongside falling future expectations and commodity prices. Observations of boom and bust cycles—not only in commodity markets—have become so prevalent that they are also termed the economic or business cycle. In independent papers, both Jacks D.S. (2019) and the International Monetary Fund, Spatafora & Tytell (2009), have traced and described boom and bust cycles across over 40 commodity terms of trade in over 150 countries along a timeline of over 100 years, clearly establishing the relevance for the commodity sector.



The most recent significant price-bust event occurred in 2016/2017 following a steep increase in production and farmland used for cocoa as shown in the graph below. The impact of the price decline within one year accounted to over 30% in Côte d'Ivoire. In the season immediately following, there was no discernible decrease in average cocoa sales per Cocoa Life farmer; average cocoa sales per farmer in 2017/2018 was 98.7% of the 2016/2017 season. There was very little to no supply-side reaction to the low prices and, on the contrary, about 20% of farmers on average stated in 2019 that they were still interested in expanding cocoa growing further—further increasing production. If cocoa-centric interventions on price and farm efficiency also have the effect of increasing production at large scale, then this spiral is accelerated. Price increases at scale should therefore always be combined with some form of supply management to balance supply and demand (Waarts, 2019), which was already discussed by cocoa sector stakeholders (ICCO, 2018).



Development of World Market Price, against Area and Production of Cocoa in Côte d'Ivoire between 1995 to 2018

Data source for graph: UNCTADstat, <https://unctadstat.unctad.org/EN/>; FAO Stat <http://www.fao.org/faostat/en/>

## f. Diversification of income sources increases resilience and sustainability of income

Diversification of income sources besides cocoa, either on-farm or off-farm, thus plays a double role: it provides an approach that can address the sustainability risks of the lowest income cocoa farmers with insufficient access to productive resources and it can decrease the overall dependency on cocoa, providing opportunities to respond to price-bust cycles (Gibson, 2006).

Looking at successes and challenges in the Cocoa Life program, farmers typically self-report that income diversification (considering both on-farm and off-farm diversification projects) strengthens their household incomes directly, at least to a modest degree. From Cocoa Life's quantitative data, it can be observed that in countries where non-cocoa income generating activities (IGA) are more accessible, amongst groups that participate in IGA training, total non-cocoa income is higher. From Cocoa Life data (2019), Côte d'Ivoire farmers who participated in any form of support to diversify incomes within the past 12 months or earlier self-report on average 12% higher non-cocoa income than those who did not participate. In Ghana those farmers reported 53% higher non-cocoa income, and in Indonesia 45%.

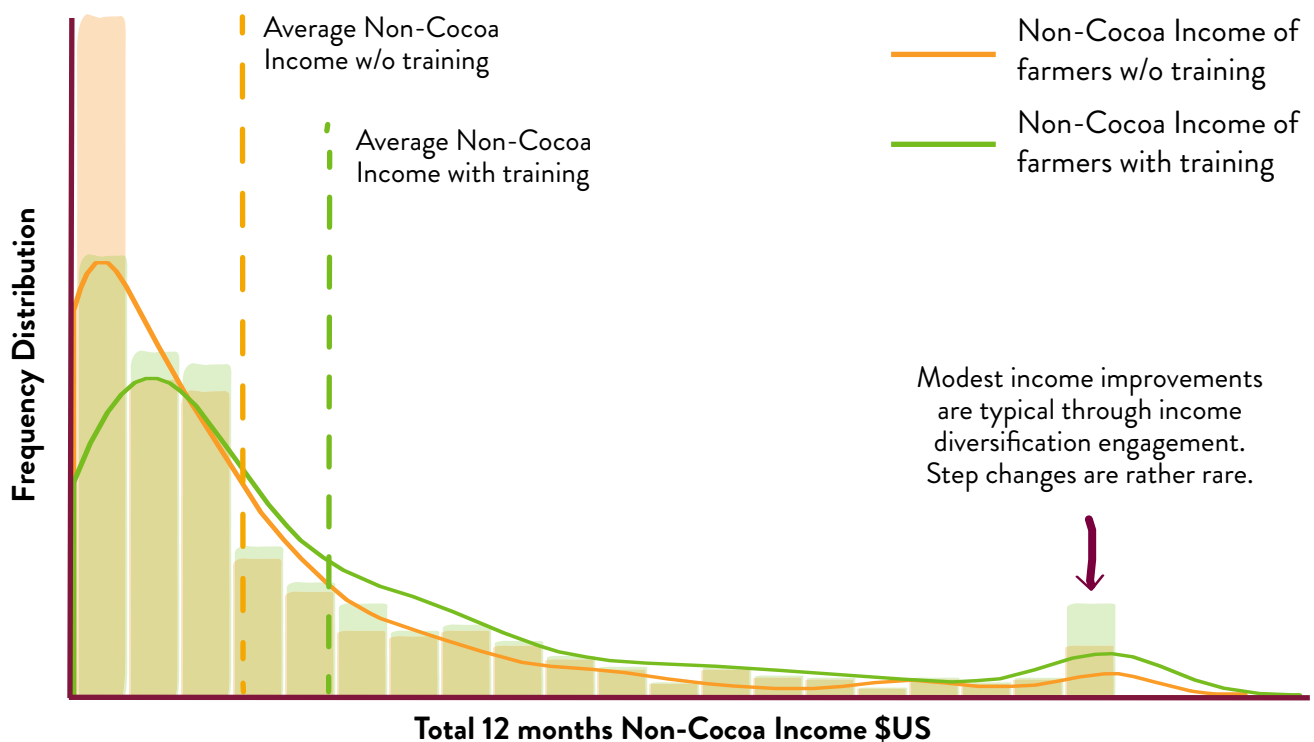
However, we must also recognize that the group of households seeing significant transformation is rather small and successes cannot easily be replicated, as shown by the example of Ghana (2019) in the graph below.

As the Committee of World Food Security (HLPE, 2020) finds though, there are additional benefits to diversification, with on-farm diversification helping to improve households' food and nutrition security. In the absence of opportunities for improving income, such support could improve household resilience.

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**A consensus has emerged that diversifying income sources is the only way to truly address declining and volatile incomes among commodity-dependent households”.**

Gibson (2006)



## WHAT ALL OF THIS TELLS US

We return to the question we asked at the beginning: can approaches from a single sector actor effectively stimulate the transformation needed for a somewhat healthy rural economy in Ghana and Côte d'Ivoire?

There is evidence that this isn't possible. The data set out in this paper and through academic research (Dalberg and Wageningen University, 2018, van Berkum et al., 2018), underlines that any farmer income is affected by many interrelated factors like land governance, market access, infrastructure requirements, cross-sector wage and price levels, and so on.

To face the full extent of the poverty problem, it is necessary to address this variety of interrelated factors holistically. And it is our belief that to address a Living Income holistically, government leadership is needed to clarify the national strategy for cocoa, its place within the wider national development, and to highlight avenues for other actors to contribute to those plans through their own sustainability activities. Promises of quick and easy solutions and silver bullets by individual actors are counterproductive.

As a specific tool, landscape approaches can be a path to then allow multiple actors – in particular the private sector – to coordinate their sustainability interventions in a meaningful way. Landscape approaches also enable alignment with national development plans, while integrating into local structures, without negatively affecting the negotiation power of farmers to sell their produce to whomever they like to.

### **A landscape approach:**

A multifaceted integrated strategy that aims to bring together multiple stakeholders from multiple sectors to provide solutions at multiple scales. It can be broadly defined as a framework to address the increasingly widespread and complex environmental, economic, social and political challenges that typically transcend traditional management boundaries.

A sector—optimally cross-sector—wide, targets-based approach should also be considered to provide a framework to define the meaningful contribution everyone within the sector can play – and the different roles each player has – in an aligned and coordinated way. We look to what the Science Based Targets initiative has done to lead the way in addressing climate change as one example.

Crucially, we must continue talking to farmers and communities, supporting behavior change based on empowered choices by providing opportunities and alternatives based on farming families' individual contexts. Quantitative data and remote analysis cannot replace what cocoa farming means to individual families and their own aspirations for their livelihood journey. Not only must we continue to communicate with farmers and communities, we still have to improve how we communicate amongst one another, as we can support each other in doing all of this work more effectively by sharing our data and lessons learned.

We hope by sharing these insights we can contribute to the sector debate and stimulate action, so that we can come together cross-sectors, governments, and beyond to close the income gap.

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