cocoa barometer

Executive Summary

2022
**Introduction**

After two decades of discussions on sustainability in the cocoa sector, the question rises “why haven’t we solved these problems yet?” Indeed, it sometimes feels as if every two years the Cocoa Barometer writes about the same issues. In fact, additionally challenges have been added over the years.

Several interrelated challenges come to the foreground around environmental protection. Deforestation and loss of biodiversity are driven by cocoa production, climate change is both affecting cocoa production and made worse by cocoa-driven deforestation, and agrochemical use is causing both environmental damage and is hazardous to those applying them.

Child labour continues to be a challenge in West African cocoa production, where children are involved in age-inappropriate and hazardous labour. Gender inequality raises barriers for women, both as rightsholders and as agents for change.

The two branches of the cocoa problem tree - environmental protection and human rights - both stand on a tree trunk of farmer poverty. This poverty is exacerbated by the current cost-of-living crisis.

Living income as a concept has become a key objective for the cocoa sector in the past few years, however it hasn’t changed core business activities so far. The Ivorian-Ghanaian government collaboration to drive up market prices is an important step, but so far farm gate prices are nowhere near remunerable.

Too often, sustainability decisions are made far from the reality of cocoa growers. Decisions are made by those in power, ensuring that these decisions are in line with their interests. As such, decades of calls for higher prices have so far not been answered. Instead, approaches have been pursued focussing on what the farmer needs to do differently, such as higher yields and diversified production.
Research from this Barometer shows that the favoured approaches so far to raising farmer poverty are not going to bridge the income gap; higher yields do not necessarily lead to increased net income but do lead to greater risks for farmers. Without significantly higher farm gate prices, sustainability in the cocoa sector is a pipe dream.

In order for cocoa to truly become sustainable - where cocoa farming households are able to earn a living income, where nature is protected and flourishing, and where all rights (including those of children, women, and other marginalised groups) are safeguarded - real change is necessary. Systemic change.

In that light, the development of supply chain legislation in cocoa consuming nations is a very positive development, although their level ambition as well as the way they will be implemented will determine whether they will have the desired outcome.

The sector change that is needed cannot just come through better farming; a key approach needs to be to look at the enabling environment of the cocoa sector. Systemic changes and improvement are necessary in governance policies and in purchasing practices. Only when these are in place is there a business case for thriving farmers.

**Living Income**

Living Income is a human right in and of itself, and also the necessary precondition for all the other challenges in the cocoa sector; farmer poverty is a driver of issues such as deforestation, child labour, and gender inequality. Living income is the minimum level of decency for a household, as such, it should be the starting point, not a finish line. Still, most farmers are very far from earning a living income, and not even moving towards it.

Despite significant evidence that current approaches to raise farmer income have marginal impact at best, most cocoa and chocolate companies continue to operate business as usual. There is an unspoken assumption that farmers of commodities are expected by default to be poor, although many companies report record profits.

**Gender**

Many of the households that have been identified as ‘high risk’ for poverty are headed by females. To tackle this, women need have the same rights and opportunities as their male counterparts. 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.

**Productivity, labour, farm size**
Increasing productivity is necessary but insufficient to raise net income. Often the resources (labour and capital) to invest in higher productivity are not available or affordable. The added costs of hired labour and inputs make it very hard to reach a higher net income simply by growing more cocoa. The argument that farms might be too small is also very hard to maintain when data is analysed; the larger the farm, the more labour is necessary, while cocoa households have a finite amount of labour available. Increasing productivity does raise the risk for farmers, as investments are done up front. Issues of costs, availability of labour, and risk are also reasons why diversification into other commodities does not prove a sufficient solution, although it is an important strategy for resilience.

**Price**
Paying a higher price is inevitable if the living income gap is to be breached. Supply and demand do not seem to work properly to remunerate farmers. Interventions such as the Ivorian-Ghanaian Living Income Differential are necessary first steps to ensure the farm gate price goes up.

**Environmental Protection**
Environmental concerns are relatively recent additions to the global sustainability discourse in cocoa, although they have been felt and challenged by communities in the Global South for many years.

**Deforestation**
Though the rate of deforestation in Côte d’Ivoire and Ghana slowed down briefly in the late 2010’s, they have been on the rise again. Furthermore, rainforests in Indonesia, the Amazon Basin, and the Congo Basin are all under pressure from encroaching cocoa farms. Deforestation causes loss of biodiversity, quickens climate change, and reduces carbon capture. Key tools to tackle deforestation are traceability and regulation. Care must be taken to ensure that measures to combat deforestation do not violate human rights, and also take smallholders into consideration.

**Climate change**
Climate change is a second major environmental challenge, which is already changing the parts of the world that are suitable for cocoa production. Combined with the result of West Africa’s deforestation, rainfall patterns have already been significantly altered there. New varieties and agroforestry are key parts of the mitigation and adaptation needed, as is reforestation.

**Agrochemicals**
The use of agrochemicals is pushed heavily by industry to increase productivity, however so far often with no net income increase. Farmers run a risk of not being able to recover their investments, however. Furthermore, health risks through exposure are high, especially to women and children. The environmental harm is significant as well.

**Agroforestry**
Agroforestry is an important part of any sustainable cocoa production landscape. Low adoption and tree survival rates as well as a lack of common definitions currently impede the deployment of diverse agroforestry systems at scale.

**Solutions**
Diverse agroforestry systems, organic farming, Integrated Pest Management (IPM), landscape approaches on joint monitoring and transparent data sharing on deforestation hotspots, as well as regulation in both producing and consuming countries are part of a tapestry of approaches needed to start tackling the environmental challenges in cocoa. As with other issues in the cocoa sector, ensuring a living income for cocoa farmers would also go a long way towards relieving the pressure on forests, wildlife, water, and soils.

**Human Rights**
Although the focus on human rights violations in the cocoa sector often is on child labour, there is a wide range of problems facing families in the cocoa sector. Gender inequality, (infant) malnutrition, lack of access to education, insufficient health care facilities and sanitation, insecurity of land and tree tenure and rule of law, labour rights violations for smallholders, workers, and tenants; the list is long and by no means comprehensive.

**Child labour**
Understanding what does and does not constitute child labour is an important first step in this conversation. However, there are 1.5 million children in Côte d’Ivoire and Ghana on cocoa farms that are performing age-inappropriate labour, most involved in hazardous labour, which also makes it the Worst Forms of Child Labour.
On average, children are involved in fewer kinds of hazardous activities, and the amount of hours they are working on the farms is also reducing. However, due to the strong increase of numbers of households involved in cocoa production, the absolute number of children involved in (the worst forms of) child labour is still growing.

There is an important role for national governments and development agencies in combatting child labour, especially around access to education, awareness raising, and rule of law. Investments and ambitions - of both companies and governments - must be increased by several magnitudes if targets on child labour are ever going to be more than greenwashing and empty words. These increased ambitions must be coupled with mandatory regulations.

Prevention approaches through community outreach are a key part of these interventions, as are supply-based approaches - child labour monitoring and remediation systems (CLMRS). When done properly, CLMRSs identify around 60% of the children in a community involved in child labour. Both community development and supply chain responsibility are needed. They are not mutually exclusionary.

Poverty is one of the driving forces for a long list of human rights violations and is a key driver for child labour in the cocoa supply. Without ensuring a living income for cocoa growing households, tackling the issue of child labour becomes significantly harder to tackle.

**Gender equality**

Women run many cocoa farms in West Africa, but their role is often not recognised or remunerated accordingly. Additionally, women are often confronted with sociocultural systems which do not enable them to run their cocoa farm as a successful business. Unless specifically designed to do so, cocoa sustainability programmes will often fail to reach the women in cocoa growing communities. Gender agnostic interventions might even lead to greater inequality between men and women.

**Racism, representation, and decolonisation**

The current reality of the global cocoa trade - and the injustices and inequality that it contains - cannot be understood without the context of the past; the history of colonization informs trade structures that have transitioned into our era. The current cash crop driven economies in West Africa are a direct result of both colonial rule as well as by extensive interventions by the IMF and World Bank.

Though Europe and North America send so called development aid towards the Global South, this is dwarfed by the value extracted from the Global South in cheap labour, agricultural products, and other commodities. The Global North still appropriates the vast majority of the wealth of its former colonies.

Furthermore, representation matters. All too often, the conversation is about farmers, without having farmers at the table. It is about African or Latin American interests, without these interests being represented by African or Latin American organisations and governments.

**Market Developments**

Though the world is going through economically difficult times, chocolate and cocoa companies are not merely stable, they are thriving. For farmers, however, times are desperate, with cost of living and cost of production skyrocketing while the price they receive for their cocoa is relatively stable.

**Production / Imports**

*Source: ICCO 2022, Table 3.9*
The enormous market concentration of cocoa trader and grinder puts a burden of responsibility on the leading companies. An important part of that responsibility is to ensure full traceability throughout the supply chain.

Companies
The levels of traceability vary strongly between companies, but all have a significant portion of indirect – and therefore untraceable – sourcing. At chocolate company level, traceability seems to be higher, because they concentrate their procurement on sources that are more transparent, leaving the untraceable cocoa to other market actors.

Supply management
Globally, production of cocoa continues to increase, primarily driven by growth in Côte d’Ivoire and Latin America. Despite chocolate and cocoa companies always pointing to supply and demand as being the main determinant for cocoa prices, the discussion on supply management policies is largely absent. Though it is not a silver bullet, supply management must be part of the toolkit of policy measures to increase sustainability in the cocoa sector.
Standards
Even though at least a third, perhaps even more than half, of all the global cocoa production is grown under a certification label or an own company sustainability label, major problems persist; chocolate companies and retailers tend to look for the cheapest label, neglecting the potential negative effects of this price pressure. Claiming sustainability off the back of a certification system is misleading. However, the terms “certified cocoa” and “sustainable cocoa” are still often - wrongly - used interchangeably.

Enabling Environment

Legislation in consuming countries
Consumer countries, particularly the EU and UK, are introducing “due diligence” legislation to try to break the link between cocoa production and child labour and deforestation, either at generic level, or with specific topics in mind such as on deforestation or child labour. The EU has developed regulations on both deforestation as well as a broader Due Diligence regulation. Many other European countries are also in the process of setting up legal frameworks.

Legislation and institution in producing countries
In producing countries, there are two legal challenges; the gaps in legislation that still need to be filled or improved upon, and the challenges of enforcing legislation that is already in place. Additionally, institutions need to be strengthened or implemented.

Cooperatives
Almost all efforts in cocoa reach only farmers that are already organised in cooperatives. Most cocoa farmers, however, are not organised, and are not being reached. Strong autonomous farmer organizations should become the bedrock of the sector. For cooperatives to play the positive role that they could play, they must be farmer-led, professionally run, gender-equal, and accountable to their members.

Deliberative inclusion
Strategies for an enabling environment must be developed and defined collaboratively at a national and sometimes local level.

Transparency and accountability
Transparency and accountability are essential to make sustainability efforts both credible and effective. A first key step towards transparency & accountability is the setting up of credible national traceability systems. Beyond covering geolocation data, these systems need to be coupled to a variety of socioeconomic statistics, such as household composition, income, farm gate prices paid, child labour data, etc.

The Path to Living Income in Cocoa
Living income is a right, and should be regulated
Though it has become an accepted goal for the cocoa sector, there is a lack of concrete and time-bound commitments towards a living income, either by individual companies, by governments, or by sector-wide initiatives. Living income must become mandatory, and therefore enshrined in the due diligence regulations being drafted presently.

Changed business model
In all this, there is very little conversation about the industry’s business model, including about how they set the prices they pay. As a result, most farmers are still not earning a living income, and not a single stakeholder group is currently doing what they should be doing to ensure farmers achieve a living income.

Start with governance and purchasing practices
Action is necessary on three separate dimensions at the same time: good agricultural practices, good governance policies, and good purchasing practices. However, not all three dimensions have an equal status. Good Agricultural Practices are only a worthwhile strategy if cocoa is sufficiently remunerative. The burden to first move lies squarely with the companies and the governments in the cocoa sector.
Key recommendations

**For all stakeholders**
- Scale up efforts significantly, to reflect the size and urgency of the problem.
- Implement a sector wide commitment to living income.
- Implement a global moratorium on deforestation.
- Ensure that the enabling environment of purchasing practices and governance policies are strongly improved before good agricultural practices are emphasised.
- Involve farmers and civil society as co-decision makers in all sustainability collaborations through inclusive and deliberative processes.
- Develop effective transparency and accountability mechanisms.
- Support a shift from monoculture to diversified production.
- Support capacity of farming communities to self-organise and have a bigger voice.
- Ensure that all sustainability approaches are tailored to include women and youth.

**For companies**
- Develop a time-bound living income action plan that includes purchasing practices.
- Commit to a living income reference price.
- Engage farmers in long-term asymmetric contracts.
- Implement transparent and effective CLMRs to cover the entire supply chain.
- Implement full supply chain traceability to farm level.
- Implement holistic environmental and human rights Due Diligence policies.
- Full supply chain transparency on sustainability payments, including Living Income Differentials, country differentials and certification premiums.

**For voluntary standards**
- Make Living Income and the payment of a living income reference price a key requirement.
- Strengthen and enforce the Trader Codes of Conduct, requiring as much change from multinationals as cocoa farmers need to.

**For governments of cocoa consuming nations**
- Enshrine living income as a key part of any Human Rights and Environmental Due Diligence regulation, requiring time-bound action plans by corporations.
- Support representation of civil society and farmers.
- Provide sustained financial and technical support to build producing country capacity, and to tackle farmer poverty, and to facilitate appropriate implementation of mandatory human rights and environmental due diligence.

**For governments of cocoa producing countries**
- Cooperate and work towards a LID, decoupling the price of cocoa from the commodity market to reflect the costs of production - including a living income.
- Implement supply management solutions.
- Significantly increase transparency and accountability of how public funds are collected spent.
- Develop and implement national cocoa monitoring and traceability systems on both deforestation and child labour.
- Enforce protection of remaining forests.
- Embed cocoa plans in national rural and agricultural development strategies that focus on food sovereignty and rural infrastructure.
- Disclose annually the tonnages of cocoa sold, price received for cocoa sales, including all differentials, and price setup of farm gate price vs. world market price.

Colophon:
This is the executive summary of the 2022 Cocoa Barometer, which can be found at www.cocoabarometer.org.