



Child Labour in Cocoa

Final Executive Summary – Approved for Public Disclosure
August 2022

EXECUTIVE SUMMARY

The issue at hand

Ivory Coast and Ghana are the world's leading cocoa producing countries¹, accounting for almost 70% of cocoa production worldwide. However, it is estimated that in these countries combined, over 1.5 million children work in hazardous conditions in the cocoa supply chain alone.²

This issue is not new, but it is persistent. The Harkin-Engel protocol³ (a commitment from the cocoa industry to combat child labour in its supply chain) was introduced in 2001 and in 2010, the industry reaffirmed its commitment in a joint declaration to reduce the worst forms of child labour by 70% by 2020. Various programmes aimed at increasing productivity and improving the livelihood of cocoa-growing farmers have been scaled up over the years and targeted measures to combat cases of child labour have been developed. Across the supply chain, the cocoa industry, governments and others continue to deploy significant efforts. Despite these developments, child labour remains widespread at the millions of small-scale farms involved in cocoa farming in West Africa and efforts must therefore continue, and be scaled up, so that commitments to eradicate child labour can be met.

Investee companies linked to child labour represent a reputational risk, not only for the companies themselves, but also for their investors. This is particularly the case in cocoa production, where there are widespread and well documented instances of child labour. Cocoa and chocolate companies must also secure a stable farmer base. In recent years, macro trends such as urbanization and aging farmer population in cocoa-producing countries have put a strain on the sector. In order to attract and retain a workforce and a stable supply, the cocoa industry needs to ensure that cocoa farming is lucrative by paying farmers adequately so that they can sustain themselves and their families.

Developments and engagement efforts September 2019 – August 2022

Sustainalytics' revamped thematic engagement on Child Labour in Cocoa started in Q3 2019. Together with a group of more than 30 institutional investors, we engaged major cocoa and chocolate companies in the three focus areas of this engagement: child labour monitoring and remediation, access to education and living income for cocoa-growing farmers. Since 2019, we conducted more than 40 engagement meetings, aligned more than 30 global institutional investors to sign and support investor letters on, and an investor endorsement of, corporate living income and living wage roadmaps. In addition, we organized a roundtable named '*Accelerating farmer livelihoods*' as well as webinars on living income, all with very good level of participation by companies and leading topic experts. Furthermore, we developed good practice materials, and spoke at various sector and topic relevant events and a podcast. We are also represented in multistakeholder expert groups on living income.

It is probably fair to say that the challenges the world is facing are probably larger today, than they were three years ago at the inception of this thematic engagement, not the least negative global developments with regards to poverty and child labour. On the latter, a June 2021 report

¹ <https://www.icco.org/>

² <https://www.norc.org/NewsEventsPublications/PressReleases/Pages/increase-in-hazardous-child-labor-in-cocoa-production-amid-an-expansion-of-cocoa-farming-in-cote-d'ivoire-and-ghana.aspx>

³ https://cocoainitiative.org/wp-content/uploads/2016/10/Harkin_Engel_Protocol.pdf

from the ILO and UNICEF points to the first increase in child labour in 20 years. According to the statistics, there are 160 million children in child labour in the world, accounting for nearly 10% of the world's children. Most, 70%, of child labour happens in the agricultural sector. Child labour is increasingly concentrated to Sub-Saharan Africa. A large portion, but not all, is explained by the economic downturn following the COVID-19 pandemic, in particular income losses among vulnerable families. School closures is another related impact from the pandemic. According to the ILO, there is also a knock-on effect on child labour when poverty levels increase. Based on historical data, a 1% increase in poverty equals to at least a 0.7% increase in child labour.⁴ According to estimates by the World Bank, poverty levels are increasing globally. It estimates that an additional 75 million to 95 million people could be living in extreme poverty in 2022 compared to pre-COVID-19 projections.⁵ With the correlation between poverty and child labour, it means increases in poverty globally will lead to an estimated increase in child labour globally of about 52 million to 67 million children.

A child labour in cocoa specific survey was also released during the course of this thematic engagement, commissioned by the US Department of Labour and conducted by the NORC research institute at the University of Chicago (often referred to as the NORC study) and released in October 2020. It concludes that the number of children working in cocoa farming in Ivory Coast and Ghana has not decreased, but remained stable amid an increase in cocoa production. On a positive note, the report states that school attendance among children in agricultural households increased. A separate study by NORC, commissioned by the World Cocoa Foundation (WCF), suggested that hazardous child labour has been reduced by one-third in communities where company programs are in place.

We can conclude that at the time of our baseline assessment in November 2019, the overall KPI fulfilment rate for all companies combined was at 43%. By the time of the final report in August 2022, this had improved to 70%. All three KPIs/focus areas: child labour monitoring and remediation, access to education and living income, improved.

In terms of child labour monitoring and remediation, companies have improved both on effectiveness, i.e., having a robust methodology in implementing CLMRS, and in terms of scale of CLMRS roll-out. With regards to access to education, a major announcement was made in spring 2020, with several cocoa companies committing to support two new programmes by the Jacobs Foundation in Ivory Coast.⁶ The main programme aims to reach five million children in cocoa-growing areas and beyond, focusing on access to quality primary education.

Lastly, on living income, living income benchmarks are in place, conducted by ISEAL, GIZ and the Sustainable Food Lab, and have been updated during the course of the engagement. Based on the living income benchmarks, calculations have been made by Fair Trade on what would constitute a "Living Income Reference Price", i.e., the price needed for an average farmer household with a viable farm size and an adequate productivity level to make a living income from the sales of their crop.⁷ A couple of years ago, the government of Ivory Coast and Ghana also introduced a "Living Income Differential (LID)", i.e., an additional premium to the normal

⁴ https://www.ilo.org/wcmsp5/groups/public/--ed_norm/--ipecc/documents/publication/wcms_747421.pdf

⁵ <https://www.worldbank.org/en/topic/poverty/overview>

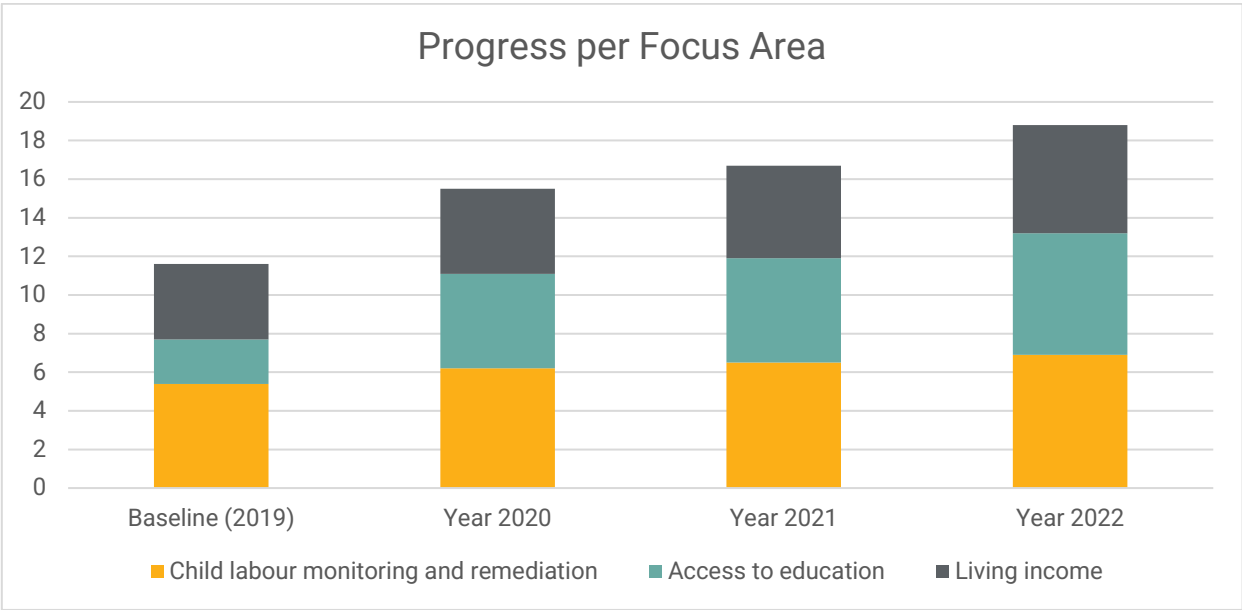
⁶ <https://jacobsfoundation.org/en/activity/clef-elan/>

⁷ https://files.fairtrade.net/2019_RevisedExplanatoryNote_FairtradeLivingIncomeReferencePriceCocoa.pdf

(farm-gate) cocoa price, with the aim to enable farmers to earn a living income. The LID was generally accepted and welcomed by the industry and other cocoa stakeholders, although it was widely deemed as insufficient to enable farmers to earn a living income and is lower than Fair Trade’s living income reference price. Also, after it was tested in a first harvest season, farmgate prices in Ivory Coast were lowered by the national governing body, Le Conseil Cafe-Cacao, by as much as 25% due to decreasing demand. However, after negotiations with cocoa and chocolate companies earlier this year, an agreement was reached in June (2022). Companies will pay the extra premium, the LID, on all cocoa contracts sold by Ivory Coast or Ghana. Buyers will also pay a country premium, enabling the countries to reach a target floor price, of which farmers would earn a minimum of 70%.⁸

Some companies have living income commitments in place and all companies we have engaged with communicates a number of activities in relation to the enablement of living income for cocoa-growing farmers. Several companies are explicitly measuring farmer income as a part of monitoring their respective farmer programmes in West Africa and some companies have reported initial income related data of farmers in communities reached by their farmer programmes.

As part of its recently initiated Human Rights Accelerator Thematic Engagement, Sustainalytics will continue engaging the cocoa sector on the issues of child labour and living income.



Average score per KPI for all companies in this engagement. Development from baseline 2019 to August 2022.

⁸ <https://www.reuters.com/world/africa/cocoa-buyers-subsidise-ivory-coast-ghanas-cocoa-premium-2022-07-09/>

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