

COCOA FARMER INCOME: THE HOUSEHOLD INCOME OF COCOA FARMERS IN CÔTE D'IVOIRE AND STRATEGIES FOR IMPROVEMENT

Response from the commissioning agency Fairtrade International

THE STUDY AT A GLANCE

INTRODUCTION

A 'living income' is defined as sufficient income generated by a rural household to afford a decent standard of living for all the household members, including food, housing, clothing, healthcare, children's education, and some additional costs. Although there has been growing awareness that many cocoa farmers live in poverty, the actual gap between current incomes and a living income, as well as data on various types of household income and costs, have not been as well researched. To develop a better understanding of how Fairtrade can support cocoa farmers move towards a living income, Fairtrade International worked with the Committee on Sustainability Assessment (COSA) and GeoTraceability to design a survey and collect farmer household data, and with True Price on the assessment of household incomes in one of the main cocoa-producing countries, Côte d'Ivoire.

This research allows Fairtrade to gain insight into the current household income of cocoa farmers and creates a baseline measure of Fairtrade certified farmer household income in Côte d'Ivoire. In addition, the study also identifies the key drivers of household income amongst various sources. The findings of this research will inform Fairtrade's cocoa-specific Living Income Strategy and, as part of this, is being used to strengthen the current Fairtrade cocoa pricing model with the aim to improve Fairtrade cocoa farmer incomes. In addition, it will also support discussions across the cocoa sector on how supply chain actors can contribute to achieve a living income for cocoa farmers.

RESEARCH METHODS

The methodology of the data analysis was co-developed by True Price and Fairtrade, which is based on similar research into [household income for coffee](#) (published in 2017). The four main elements of the income model are: net income from cocoa, financial farm income from other crops, in-kind farm income and off-farm income. In 2016, 3,202 Fairtrade certified farmers were surveyed in Côte d'Ivoire, covering 23 producer cooperatives. The data were collected both at farmer household level as well as at the cooperative level, allowing in depth analysis. The results of this research include: descriptive statistics on all surveyed farmers, the composition of an average cocoa household income, a living income benchmark estimation, the average cost of cocoa production as well as analysis of other income sources, correlations and thresholds.

KEY FINDINGS

In this section, we present a summary of the main research findings, followed by our response to the findings in the next section.

1. The average cocoa farmer in Côte d'Ivoire does not earn a living income.

According to True Price's Living Income Benchmark calculation for this study, based on the Anker methodology, a living income in Côte d'Ivoire is 7,318 USD per year. This living income level is based on a median household size of eight people (4.3 adults and 3.7 children), and thus works out to roughly 2.5 USD per person per day. The median household model consists of 2.7 full-time working adults (or the equivalent workload shared across the adults in the household). Seven percent of households surveyed achieve or exceed a living income.

2. The typical cocoa farming household is predominantly reliant on cocoa sales for income, but supplements with other activities.

Cocoa accounts for 74 percent of total household income for the average cocoa producing household. The annual net profit from cocoa production is approximately 2,000 USD for the average household.

Other sources of income include profit from other cash crops (six percent), in-kind income from food crops for the household’s own consumption (10 percent), and off-farm income¹ (10 percent). Fifty-five percent of cocoa farmers in the study grow various crops (mainly cassava, maize, plantain, yam) and/or keep livestock (mainly chickens) as an additional revenue source or for domestic consumption. Twenty-five percent of households supplement their income with off-farm activities, e.g., as labourers or keeping small businesses.

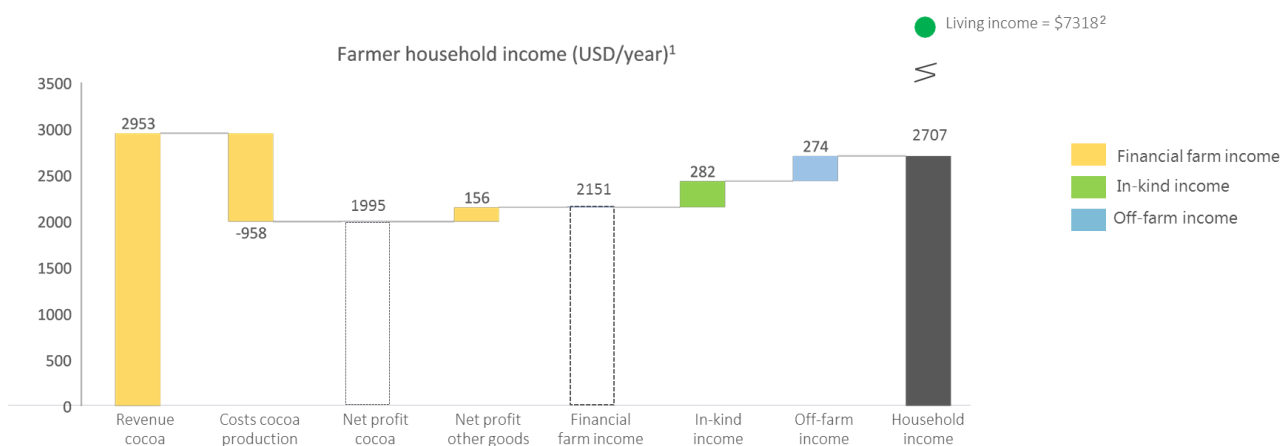


Figure 1: Average household income breakdown

3. Cocoa farmers benefit from investments to improve productivity, particularly fertilizer use, although current inputs for production are relatively low.

In addition to price, productivity plays an important role in cocoa household income; as expected, this study found that yield is positively correlated with increased income. The average cost of production for the sampled cocoa households is relatively low, suggesting low levels of farm investment. The average household expenditure on agricultural inputs for cocoa production is 35 USD per hectare. The average yield in the study sample is 437 kilogrammes per hectare and can be characterized by tree densities of around 1,300 trees per hectare. Approximately half of the trees are at a productive age (between 5 and 25 years old), while 35 percent of the trees are older, and 13 percent are being renewed and not yet bearing fruit.

4. Fairtrade benefits for certified cocoa households include Fairtrade Premium payments and trainings that correlate with higher yields.

The Fairtrade Premium is an extra sum of money, paid on top of the selling price, which producer organizations invest in projects of their choice. They decide together how to spend the Fairtrade Premium to reach their goals, such as improving their farming, businesses, or health and education in their community. The Fairtrade Premium for cocoa is 200 USD per tonne. Cocoa producer cooperatives can choose to distribute part of the Premium to their member farmers as bonuses to supplement income. This study found that the Fairtrade Premium positively impacts cocoa farmers’ incomes, either directly, distributed as bonus cash payments to individual farmers, or indirectly, through training delivery and provision of inputs or other in-kind subsidies. Almost all trainings supported by Premium investment were correlated with higher yields.

¹ The survey did not ask respondents to specify off-farm income earned through their own work, as compared to off-farm income from other adults in the household. Therefore this answer may be an underestimation of the total off-farm income contribution.

FAIRTRADE'S RESPONSE TO THE RESEARCH FINDINGS

The findings of this household income baseline study reconfirm the urgency for Fairtrade – and other actors concerned with sustainability in the cocoa sector – to intensify our collective efforts towards achieving sustainable livelihoods for cocoa farmers in West Africa. We believe that a living income is a fundamental condition for a sustainable livelihood.

For several years now, a growing consensus has emerged across the industry that it is fundamentally unfair, as well as unsustainable, that most cocoa farmers earn less than a living income. Despite many different initiatives to improve the conditions for cocoa farmers in West Africa, which often focus on productivity and increasing yields, the situation has not improved enough. In fact, when this study was conducted in 2016, the farm-gate price for Ivorian cocoa was 850 West African francs (XOF) (1.61 USD) per kilogramme. At the time of publication (April 2018), the farm-gate price is 700 XOF (1.33 USD) per kilogramme. This means farmers are earning 17.6 percent less for a kilogramme of cocoa than they did when the study was undertaken. We can only assume that the situation for cocoa farmers has worsened, and it is time for price to be included in the sustainability equation for cocoa.

The breadth of this study, with more than 3,000 households included, provides a robust baseline of current incomes and allows us to quantify the gap between actual incomes and a living income for Côte d'Ivoire, based on the median household size. Because the study aimed for generalizability and therefore required a large sample size, it should be noted that the questionnaire relied on farmers' own recall.

Fairtrade International recently developed a [Living Income Strategy](#), which we are tailoring for cocoa and will start applying in West African cocoa as a priority. In taking this action we aim to create the environment where price, within a holistic approach, becomes recognized as a critical element in reaching a living income. Other elements include building Fairtrade sales, achieving sustainable yields, improving cost efficiency, and fostering an enabling environment of policies and market systems that support the needed changes.

Developing a reference price for achieving living income

One of the critical components of this strategy is a sustainable pricing model, guided by a reference price which supports average farmer households to escape poverty, and progress toward a living income from the sales of their farm produce. This model is based on parameters for adequate productivity and viable farm size that will support a living income. We are incorporating this concept into our current cocoa price review, which will be completed in late 2018.

Together with other members of the ISEAL Living Income Community of Practice, we are jointly undertaking full Living Income benchmark studies in Côte d'Ivoire and Ghana, expected to be finalized in the third quarter of this year. In the meantime, we will use the living income estimation from this study as a proxy, with one modification: excluding the cost of income taxes to better reflect the current reality in Côte d'Ivoire where the cocoa is taxed at the moment of sale. This results in an adjusted proxy living income benchmark of 6,133 USD per year for an eight-member household. Using this benchmark, 12 percent of households surveyed achieve or exceed a living income.

While we recognize that businesses will face conflicting pressures – to secure the long term future of the crop by ensuring cocoa farming is a viable profession for the next generation on the one hand, alongside market pressure on the other – it is critical that price is addressed. A living income simply cannot be realized with global cocoa prices at their current levels. We acknowledge that any new Fairtrade pricing model needs to take into account the regulation on farm-gate prices in Côte d'Ivoire.

We also acknowledge that Fairtrade operates in an environment with other cocoa sustainability schemes that offer alternative solutions with lower premium levels and no fixed prices. We welcome all schemes and initiatives that contribute to more sustainable livelihoods for small-scale producers, and at the same time strongly believe that price needs to be part of a holistic solution. Any new Fairtrade pricing model will only be successful if it is effectively adopted by the market, hence the need for the sector as a whole to consider pricing. We are working with other like-minded organizations to build the case for an enabling environment to address price.

Building Fairtrade sales to increase benefits to farmers

While Fairtrade cocoa sales are growing in Côte d'Ivoire, many Fairtrade certified Ivorian farmers still only sell a fraction of their cocoa on Fairtrade terms each year, and only a handful of Fairtrade small producer organizations have consistent Fairtrade sales. This greatly limits the potential impact of Fairtrade's benefits, such as the Fairtrade Premium and the Fairtrade Minimum Price, which only materialize when sales are on Fairtrade terms.

Growing the market for Fairtrade cocoa continues to be one of the highest priorities for the Fairtrade movement. National Fairtrade organizations in consumer countries work to promote Fairtrade with consumers, and work with traders and brands to build new commitments to purchasing Fairtrade cocoa from key origins such as Côte d'Ivoire. Fairtrade Standards encourage long-term trading partnerships and stable contracts which support multi-year investments in cooperatives and farms. Fairtrade is also developing new business models that will help producers and businesses create greater value through these relationships. In addition, Fairtrade has scaled up support to cocoa cooperatives by the Fairtrade Africa producer network through our West Africa Cocoa Programme, which offers a range of training and advisory services to Fairtrade producer organizations. It aims to increase Fairtrade cocoa sales and profitability through supporting the development of strong and viable cooperatives that are responsive to the needs of both their members and their commercial partners.

The study findings also indicate that the Fairtrade Premium can contribute to the income of the farmer household, either through financing trainings or subsidizing agricultural inputs, or through direct pay-out of part of the Premium in cash to farmers. As part of the review of the Fairtrade Standard for Small Producer Organizations, Fairtrade is currently revisiting its guidelines for Premium use to optimize its long-term impact on farmer livelihoods.

Improving sustainable yields and cost efficiency

Efforts to improve productivity are not a replacement for addressing price, but rather a necessary part of the holistic model for achieving a living income. Working in consultation with farmers we are determining a feasible yield level to aim for, and what the additional production costs are to implement the required sustainable agricultural practices that would make these yields attainable. Part of this is recognizing that many smallholder farmers struggle to afford fertilizer or specialized labour needs. This study shows a current average productivity level of 437 kilogrammes per hectare, which certainly has room for improvement. The collected data on agricultural practices and associated yields, as well as costs of production, provide us the necessary insights into farmers' realities to establish a set of baseline conditions, along with the reference price, through which a farm should be able to generate a living income.

In order to contribute to yield and efficiency, Fairtrade's Living Income Strategy identifies several pathways for improvement, including: enhancing farm management capacity of farmers; making strategic use of the Fairtrade Premium to invest in farms; promoting farm diversification for improved income resilience; and strengthening the producer organizations so they can provide better services to their members. These pathways will be supported through capacity building, development of tools and, subject to consultation, changes to the Fairtrade Standards related to Premium use. We will also start testing new approaches with partners as pilot projects.

REFLECTIONS AND NEXT STEPS

Fairtrade commissioned this study because we wanted to understand the existing income picture for Fairtrade certified cocoa farmers in Côte d'Ivoire, and to inform our strategies to support farmers to achieve a living income. The reality is that Fairtrade certification alone does not guarantee that a farmer earns a living income, or even earns above the poverty level. As long as prices aren't high enough for farmers to invest in their farms and improve their yields, and the volume and stability of sales at those price levels are insufficient to make a difference, and there aren't more profitable income-generating alternatives to complement incomes from cocoa sales, cocoa farmers will continue to struggle to achieve a sustainable livelihood.

It was exactly to support marginalized and vulnerable communities to strengthen their positions in global trade in order to overcome poverty, inequality and economic hardship, that Fairtrade was established. We work in many regions where such risks exist because we feel that's where our work is most needed.

We are encouraged to see where Fairtrade does provide benefit to farmers' incomes, and are building on the results of this study to develop Fairtrade's Living Income Strategy for cocoa in West Africa. We are also incorporating these findings into the current review of the Fairtrade Minimum Price and Premium for cocoa and the revision of the Fairtrade Standard for Small Producer Organizations.

We acknowledge the seriousness of the current situation and the need for a holistic approach to make significant progress. Along with many other people in the industry, we also recognize that this problem is not one that Fairtrade – or any single organization or company – can solve alone.² The study findings emphasize the call for sector-wide coordination and bold steps to support cocoa farmers to escape poverty. Fairtrade is moving forward on this journey towards truly sustainable cocoa, and welcomes collaboration with all actors in the cocoa sector – including farmers themselves, companies, governments and civil society – to be able to effect the changes needed.

² See for instance a recent article in *Confectionery News*: <https://www.confectionerynews.com/Article/2018/02/20/What-does-going-beyond-certification-in-cocoa-sustainability-mean?>