

## ICI BRIEFING PAPER

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### Declining Cocoa Prices and Potential Child Labour Risks



Source: <https://tradingeconomics.com>

Recent declines in world cocoa prices are likely to place additional pressure on already financially-constrained smallholder cocoa farmers in West Africa if they result in sustained lower farm-gate prices paid to farmers. Several studies indicate that the majority of cocoa farmers live in extreme poverty, earning a per capita daily cocoa income of between \$0.40-1.60<sup>1</sup>. Any further lowering of farmer incomes as a result of declining cocoa prices could exacerbate the risk of child labour for a number of reasons.

Firstly, household decisions about whether a child works or not are significantly determined by household income levels<sup>2</sup>. Research suggests that poor households have a greater propensity to use child labour to help them meet their basic needs, and that once these have been met, parents choose for their children not to engage in child labour<sup>3</sup>. However, even in the previous context of higher world cocoa prices, it seemed that the basic needs of cocoa farming households were not met (see table 1). Although income from cocoa accounts for 71% of total household income, total household expenditure (cocoa and non-cocoa) provides for only 51% of the real household needs, already indicating a standard vulnerability of farmers to economic shocks<sup>4</sup>. This vulnerability is exacerbated by the fact that the majority of farmers do not save any money<sup>5</sup> and that farmers' cash flows are irregular<sup>6</sup>.

<sup>1</sup> GIZ (2014). M. Gbongué ; M. Abi & P. Coulibaly. *Analyse du Revenu Minimum d'Existence des Cacaoculteurs en Côte d'Ivoire*. ; Fountain, A.C. & Hütz-Adams, F. (2014): *Defining a Decent Living. Living Income for Smallholder Cocoa Farmers in West Africa*; AFD (2017). G. Balineau; S. Bernath & V. Pahuatini. *Cocoa farmers' agricultural practices and livelihoods in Côte d'Ivoire: Insights from cocoa farmers and community baseline surveys conducted by Barry Callebaut between 2013 and 2015*; IDH and True Price (2015). *The True Price of Cocoa From the Ivory Coast*.

<sup>2</sup> Krauss, A. (2013). *Understanding child labor beyond poverty: the structure of the economy, social norms and no returns to rural basic education*. World Bank Poverty Reduction and Economic Management Network, June 2013, Policy research working paper 6513

<sup>3</sup> Basu, K., and Van, P. (1998). 'The Economics of Child Labor'. *American Economic Review* (88): 412-27.

<sup>4</sup> GIZ (2014). M. Gbongué; M. Abi & P. Coulibaly. *Analyse du Revenu Minimum d'Existence des Cacaoculteurs en Côte d'Ivoire*, p.14

<sup>5</sup> IFC (2015). *Opportunities for Digital Financial Services in the Cocoa Value Chain, Côte d'Ivoire*. "65 percent of farmers claimed not to set aside any of their income", p9.

<sup>6</sup> International Labour Rights Forum (2014). *The Fairness Gap : Farmer Incomes and Root Cause Solutions to Ending Child Labor in the Cocoa Industry*.

**Table 1: Breakdown of Real Basic Household Needs (in F CFA)**

Item	Household expenditure (in F CFA)	Share of expenditure (in %)	Real/Actual household needs (in F CFA)	Coverage of needs (in %)
Equipment/input	458 400	23,2	884 755,8	51,8
Food	582 683,5	29,4	797 250,8	73,1
Rent	12 844,7	0,6	94 302,5	13,0
Health	154 528,9	7,8	694 211,9	22,3
Education	201 226,2	10,2	570 914,1	35,2
Water	20 327,8	1,0	41 914,1	48,5
Transport	104 018,4	5,3	139 000,2	74,8
Electricity	52 544,0	2,7	89 274,7	58,9
Clothing	112 707,4	5,7	237 122,3	47,5
Communication	119 978,3	6,1	111 324,0	107,8
Transfer	103 762,9	5,2	144 944,6	71,6
Leisure	56 869,0	2,9	79 910,7	71,2
<b>Total</b>	<b>1 979 891,1</b>		<b>3 884 925,7</b>	<b>51,0</b>

Source: GIZ survey data, cited in GIZ (2014) and translated, p.4

Consequently, in a context of lower world and farm-gate cocoa prices, farmers may be further constrained in their labour choices due to the high costs of hiring local adult labourers (ILO, 2012; ICI, 2016). Given the dependency of households on cocoa production, increasing children’s labour input on the farm (especially to meet basic needs) and/or withdrawing children from school may thus be viewed as the most viable coping mechanism for farmers struggling to afford to hire adult labour, pay for children’s schooling and meet other basic needs when incomes are depressed. Evidence shows that the household income of cocoa farmers is mostly used for food, equipment, education and health<sup>7</sup>. Since average incomes generated from cocoa farming already appear to have been “too low to support a family”<sup>8</sup>, as stated by Fountain, A.C. and Hütz-Adams, “declining farm revenue because of lower cocoa prices could mean that farmers have to choose between investments in their farm over investments in the future of their children or in providing adequate nutrition to their families”<sup>9</sup>.

Secondly, many farmers borrow money to purchase inputs for their crops, pay for school fees and cover regular household expenditures before the main harvest (since harvest incomes do not always last throughout the year)<sup>10</sup>. According to a recent AFD study<sup>11</sup>, “40% of farmers report that they are used to requesting credit....to cover school and health expenditures”. Thus there is a dependence on cocoa harvest income for repayments, daily sustenance and farm preparation (with the use of labour and non-labour inputs) for the next season<sup>12</sup>. Delays in payments and lower payments may therefore also have significant ramifications on the current and future child labour risk, as a lack of farm

<sup>7</sup> GIZ (2014). Conference on the Cocoa Market Outlook Presentation: Can Ivorian cocoa producers live on their income?

<sup>8</sup> International Labour Rights Forum (2014). *The Fairness Gap : Farmer Incomes and Root Cause Solutions to Ending Child Labor in the Cocoa Industry*, p2

<sup>9</sup> Fountain, A.C. and Hütz-Adams, F. (2014): Defining a Decent Living. Living Income for Smallholder Cocoa Farmers in West Africa, p2

<sup>10</sup> GIZ (2014). Conference on the Cocoa Market Outlook Presentation: Can Ivorian cocoa producers live on their income? ; IFC (2015). Opportunities for Digital Financial Services in the Cocoa Value Chain, Côte d’Ivoire. “65 percent of farmers claimed not to set aside any of their income”, p9

<sup>11</sup> AFD (2017). G. Balineau; S. Bernath & V. Pahuatini. *Cocoa farmers’ agricultural practices and livelihoods in Côte d’Ivoire: Insights from cocoa farmers and community baseline surveys conducted by Barry Callebaut between 2013 and 2015*, p.31

<sup>12</sup> SEO Amsterdam Economics (2016). Market Concentration and Price Formation in the Global Cocoa Value Chain

preparation due to persistent and deepening debt could lead to lower yields, lower production and consequently lower incomes for the next harvest, thereby compromising children's futures as a result of those coping mechanisms earlier mentioned. At the same time, some argue that anecdotal reports of farmers leaving pods on trees to rot and not harvesting due to the fall in prices or the cut-back in trade could have a short-term positive impact on the risk of cocoa-related child labour, since there may have been temporarily less work to do during the recent harvest or during the imminent mid-crop. However, given the dependency of cocoa farmers on cocoa farming income, the relatively high costs of schooling for poor farmers and the need for children's labour to meet the basic household needs, this could equally result in a detrimental substitution effect, with child labourers in cocoa-growing households simply moving to another (potentially more hazardous, less monitored) sector or activity to make ends meet.

Thirdly, while cocoa farmers are generally less poor than the average rural population (with 42 percent living below the national poverty line compared to 57 percent of the rural population of Côte d'Ivoire)<sup>13</sup>, workers who work for cocoa farm managers are even more "impoverished than the producers that employ them"<sup>14</sup>. According to the True Price report, "*hired workers receive an average total wage of €1.6/day, which is only about 20% of the living wage*" while other sources report lower estimates for hired workers, such as \$209<sup>15</sup> a year. Many workers migrate to cocoa villages from other communities, districts and neighbouring countries in search of work, and are often accompanied by their children, who also sometimes support their parent(s) with farming activities. The fact that producers may be even more unable to guarantee workers a basic wage (since their own incomes are depressed by lower prices), or even offer them any work at all, could also exacerbate the child labour risk amongst these children (especially those who are unable to attend school due to language barriers and insufficient income). The ICI Labour Market Research Study<sup>16</sup> indicated that children born outside the cocoa community are more likely to be engaged in hazardous child labour than a child born in the village. Thus, "this size of poverty is not only problematic for the livelihoods of workers and their families, but as well triggers other social issues, such as child and forced labour (Potts, et al., 2014)"<sup>17</sup>.

Fourth, even if producing governments manage to cushion farmers temporarily by maintaining pre-existing farm-gate prices (for instance by using stabilisation funds) or by targeting counter-cyclical social protection interventions, this can probably only be maintained for a limited period of time. In the event of protractedly depressed world market prices, maintaining these measures could drain government resources away from other sustainability or social investment programmes which, in turn, could have a negative impact on household incomes – and indirectly on child labour risk - (e.g. if fertiliser programmes are affected) or a direct negative impact on the child labour risk itself (e.g. if school construction programmes are curtailed).

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<sup>13</sup> IFC (2015). Opportunities for Digital Financial Services in the Cocoa Value Chain, Côte d'Ivoire. "65 percent of farmers claimed not to set aside any of their income", p7

<sup>14</sup> International Labour Rights Forum (2014). *The Fairness Gap : Farmer Incomes and Root Cause Solutions to Ending Child Labor in the Cocoa Industry*, p3

<sup>15</sup> Ibid, p3

<sup>16</sup> ICI (2016). *Researching the Impact of Increased Cocoa Production on the Child Labour Risk and Labour Market in Ghana and Côte d'Ivoire*.

<sup>17</sup> IDH and True Price (2015). *The True Price of Cocoa From the Ivory Coast*, p16.

Whilst there is no disputing the recent improvements in the management of child labour risks in the cocoa sector<sup>18</sup>, the progress and advancements made will almost certainly be curtailed if farmers and workers cannot earn adequate incomes in a timely fashion to meet their basic household needs and to avoid deepening debt. The current situation would urge that in addition to aiming to increase farmer incomes through cocoa sustainability efforts, significant attention is also needed to strengthen farmers' resilience to economic shocks such as cocoa price volatility.

Price volatility is a common occurrence in many global agricultural supply chains due to a variety of factors including government marketing policies, trade speculation, over-supply to meet demand and climate change. While there are government cocoa price stabilization mechanisms in Cote d'Ivoire and Ghana which help mitigate the larger global market volatility on smallholder cocoa farmers, there are other farm-level activities which can help these farmers become more resilient. Transparent pricing, market information, knowledge and training on good agricultural practices, farmer group marketing, crop and income diversification, and access to financial services are just a few examples of tools which can help farmers manage the risks which affect their income, whether these risks come from government policy, market volatility, or climate<sup>19</sup>.

Finally, according to SEO (2016) "even if farmers...were to receive the [*pre-crash*] (FoB) export price in full, their incomes would still not exceed the extreme poverty line"<sup>20</sup>. Given these two dimensions of volatility and viability, the need for income and livelihood diversification options for cocoa farmers, beyond cocoa, appears to be increasingly important. And, given the potential for child labour risks to increase in the current context, there is an ever greater urgency to scale up measures that prevent and address child labour, particularly through the expansion of child centered community development programmes, child protection capacities and child labour monitoring and remediation systems.

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<sup>18</sup> For instance, significant expansion in Child Labour Monitoring and Remediation, and increases in the numbers of children enrolled in school.

<sup>19</sup> See IFAD Platform for Agricultural Risk Management (<http://p4arm.org/>)

<sup>20</sup> SEO Amsterdam Economics (2016). Market Concentration and Price Formation in the Global Cocoa Value Chain, p97