

Child Labour in Cocoa



Child Labour in Cocoa Thematic Engagement

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 The 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, by the cocoa industry, governments, and others, 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. Despite these developments, child labour remains widespread at the millions of small-scale farms involved in cocoa farming in West Africa.

Investee companies linked to child labour represent a reputational risk, not only for the companies themselves but also for their investors. Cocoa and chocolate companies must also secure a stable supply by enabling lucrative cocoa farming, by paying farmers adequately so that they can sustain themselves and their families.

Sustainalytics’ revamped thematic engagement on Child Labour in Cocoa started in Q3 2019 and was concluded in August 2022. 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 a living income for cocoa-growing farmers.

Developments in 2022

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. This includes negative global developments concerning poverty and child labour. On the latter, a June 2021 report 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 in 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 are another related impact of the pandemic.

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>

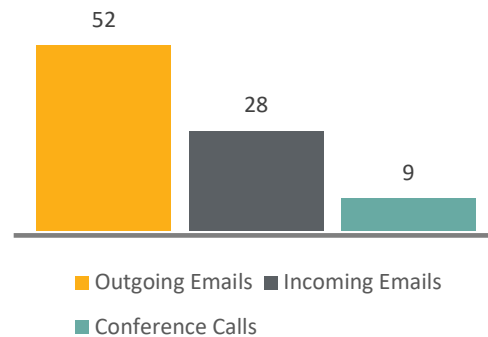
³https://cocoainitiative.org/wp-content/uploads/2016/10/Harkin_Engel_Protocol.pdf

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 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. It is no understatement that increased private sector action against child labour is crucial.

Engagement Update

As visible in the chart, we actively pursued dialogue with the companies from January 2022 to the end of this thematic engagement in August 2022. We held nine calls with the seven companies engaged within the theme, and maintained a continuous conversation over email. During the same period, we also coordinated an investor endorsement of living income and living wage roadmaps led by IDH, which gained strong support – from 45 investors from around the globe, with an AUM of USD 6.3 trillion. We also spoke at various events, mostly on living income, and continued to contribute to the Living Income Community of Practice Advisory Board, as well as in an OECD expert group. Moreover, Sustainalytics supported the company Fairphone’s collaborative letter to the EU, calling for a meaningful living wage and income wording to be included in the upcoming EU proposal for a Directive on corporate sustainability due diligence. We signed the letter and also circulated it in our investor and company networks – with several positive responses. All in all, it was a very well-supported letter by 63 companies, investors and civil society organizations. Lastly, to round off this thematic engagement, we sent an investor letter in June 2022, to both recognize the actions taken by companies to address child labour in cocoa, and also to communicate investor expectations on the challenges remaining. The letter was well supported by investors, with 22 signatories with a combined AUM of USD 3.1 trillion.

Engagement Dialogues
January to August 2022



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

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

Company Performance

We can conclude that at the time of our baseline assessment in November 2019, the overall KPI fulfilment rate for all companies combined was 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. The latter is visible in the diagram below.

In terms of child labour monitoring and remediation, companies have improved both in effectiveness, i.e., having a robust methodology in implementing CLMRS, and in terms of the scale of CLMRS roll-out. With regards to access to education, a major announcement was made in the spring of 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 (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 the 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 communicate 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

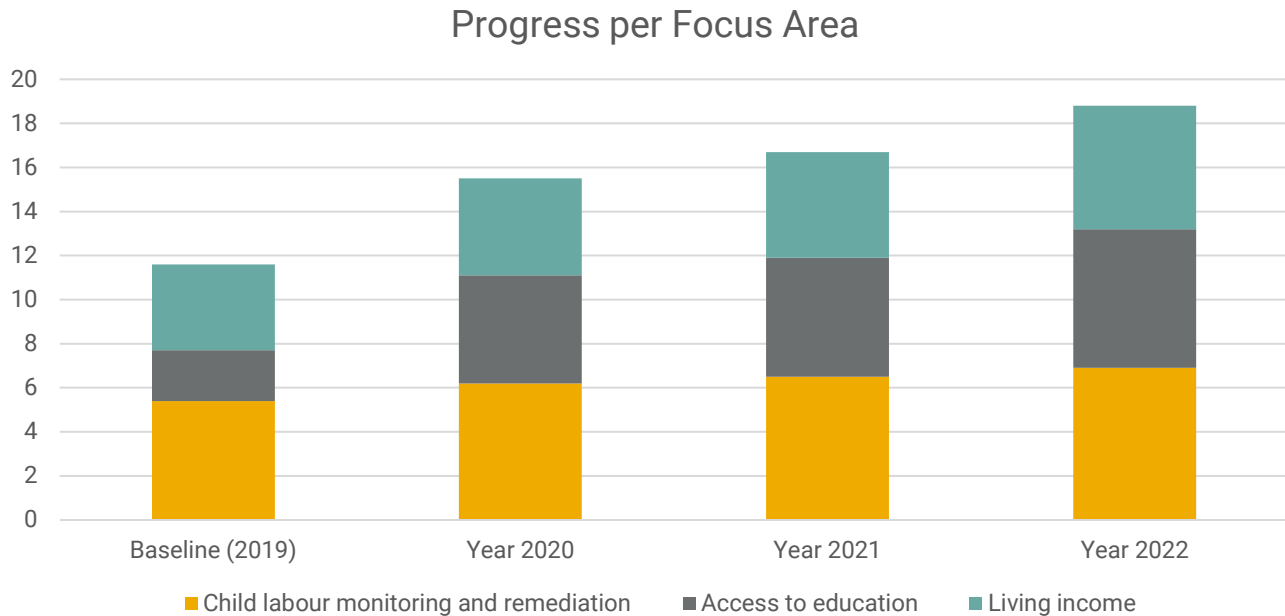
⁶<https://jacobsfoundation.org/en/activity/clef-elan/>

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

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

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.



Case Study – Nestlé’s Income Accelerator Program

During the course of the engagement, Sustainalytics has continuously advocated for substantial advancement of living income-related activities that have tangible outcomes and impact for cocoa-growing farmers. Several of the engaged companies have taken meaningful steps towards this. An interesting new such initiative was introduced by one of the engaged companies, Nestlé, in 2022. Through its “Income Accelerator Program”, a cash incentive will be paid directly to cocoa-farming households for certain activities such as enrollment of children in school, diversified income activities, and good agricultural and agroforestry practices. By engaging in these practices, families can additionally earn up to CHF 500 (about 515 USD) annually for the first two years of the program. The idea is that the higher incentive at the start would help accelerate the implementation of good agricultural practices to build future impact. The cash transfer is not paid based on the volume of cocoa sold, thereby benefitting smaller (and generally more vulnerable) cocoa farming households equally as their peers with larger land areas. By dividing the payments between the farmer and the spouse, Nestlé’s program helps empower women and improve gender equality. The program follows an initial pilot in 2020 with 1,000 farmers in Côte d’Ivoire, in 2022 Nestlé will expand the

program to include 10,000 families in the country, before extending it to Ghana in 2024. The company will subsequently assess the results again and adapt where necessary, before moving to reach all cocoa-farming families in its direct global cocoa supply chain by 2030.⁹

⁹<https://www.nestle.com/sustainability/human-rights/living-income/cocoa>

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