

# TOWARDS A LIVING INCOME FOR COCOA FARMERS IN GHANA

## Assessing companies' efforts to date

This report analyzes existing strategies and interventions implemented by cocoa and chocolate companies operating in Ghana to raise the income of cocoa farmers in their supply chains. It has two main aims: first, to complement companies' learning efforts by pulling together and distilling lessons and insights from across the sector; and second, to strengthen transparency and accountability around living incomes by bringing greater visibility to companies' efforts and their impact on raising the incomes of farmers in their supply chains to date.

The analysis covers six of the largest chocolate manufacturers (buyers) and four of the largest cocoa traders/processors (suppliers) operating in Ghana. The report covers three main areas:

- 1 **Mapping of companies' living income strategies** – synthesis of companies' existing strategies and interventions to raise farmer incomes within their sustainability programs.
- 2 **Assessment of farmer income conditions** – analysis of key income trends (productivity, costs, price) of farmers participating in companies' sustainability programs.
- 3 **Analysis of the effectiveness and impact of companies' living income strategies** – distillation of insights on the ability of companies to meaningfully raise the incomes of cocoa farmers in their supply chains in Ghana.

The findings might not necessarily be new for individual companies that have been implementing sustainability programs in Ghana for many years. However, the lessons that companies have learned have rarely been shared with a wider audience. This research aims to make these lessons more visible across the sector and create a joint foundation of knowledge upon which to build future living income strategies.



## Key findings

### 1. COMPANIES FOLLOW A BLUEPRINT APPROACH TO RAISING FARMER INCOMES THAT REMAINS CENTERED ON PRODUCTIVITY

**There is much similarity in how companies approach the issue of farmer income within their sustainability strategies.** Sustainability programs are the primary vehicle through which companies work to raise farmer incomes. These programs have grown in importance and scale over the past few years. The programs of the four traders/processors in this study alone reach an estimated 429,000 farmers – over half of the Ghanaian cocoa farmer population. Nine of the ten companies in the study have committed to sourcing 100% of their cocoa from farmers participating in their sustainability programs, and currently source between 60% to 90% of their cocoa from such farmers.

**All companies work on raising farmer incomes, but lack clear commitments to achieving a living income.** While raising farmer incomes is a priority goal of all 10 companies' sustainability programs, only one company has made a concrete, public commitment for farmers in its sustainability program to reach a living income. The fact that companies have not yet mainstreamed sustainability interventions with a living income ambition conflicts with their stated support of a living income for cocoa farmers, including their participation in the national Initiatives for Sustainable Cocoa in Europe (ISCOs).<sup>1</sup>

**Raising farmers' productivity remains at the center of companies' efforts to help raise farmer incomes (followed by income diversification).** Around 98% of the farmers surveyed had participated in productivity interventions, particularly training on good agricultural practices (GAPs). There has also been a growing emphasis by companies on supporting farming households in diversifying their incomes (both on and off-farm) through training and providing inputs. However, the percentage of farmers benefitting from interventions targeting income diversification has remained low (at 21%).

**Lowering farmers' production costs has so far been less-consistently emphasized by companies.** The degree of production cost support by companies ranged from 39% of farmers participating in relevant interventions for the highest scoring company, to 4% of farmers for the lowest scoring company. This wide variability was echoed by observations at community visits. While two companies reported expanding their production cost support by providing farm services to farmers (e.g. pruning and spraying gangs), the field staff of two other companies admitted to discontinuing efforts to provide inputs on credits due to low repayment rates.

**Pricing did not emerge as a prioritized pathway companies used to raise farmer incomes.** While all companies briefly mention premium payments and their support of the living income differential (LID) in their sustainability reports, there is little detail on the reach, size and impact of these payments. While 77% of farmers said that they had received sustainability and/or loyalty premium payments during the last harvesting season, farmers across several company programs also reported that premium payments had been disrupted during COVID-19 and were either never reinstated or significantly reduced (although this has been difficult to validate).

Out of all 10 companies, only one company has made a concrete, public commitment for farmers in its sustainability program to reach a living income.



**When linking gender and income, companies prioritize strengthening women's non-cocoa income.** Overall, gender and income interventions are only loosely linked in practice as gender sits under the community pillar (not the livelihoods pillar) of most sustainability programs. While companies are increasingly mainstreaming gender within their sustainability programs (between 28% and 40% of participants in sustainability programs are women), and the analysis revealed a focus on non-cocoa related interventions targeted at women participants, especially village savings and loan associations (VSLAs).

## **2. DESPITE SIGNIFICANT EFFORTS BY COMPANIES, FARMERS' INCOMES HAVE BEEN DECLINING**

**Across the surveyed communities, farmers reported a decline in cocoa production over the past three harvesting seasons.** The average number of bags of cocoa<sup>2</sup> produced by farmers decreased by 23.9%, from 13.57 bags three years ago to 10.33 bags during the 2021/22 season. This finding aligns with aggregate figures on the production of cocoa in Ghana over the past three harvesting seasons, although the decline is more pronounced in this study's results.

**During the same time period, the average productivity of cocoa farmers in our sample decreased by almost 25%, from 373kg/ha to 281kg/ha.** Women farmers have seen a higher drop in productivity (27.8%) than men (22.4%). Farmers mainly reported unfavorable weather (66%) and their inability to purchase inputs (49%) as reasons why production has decreased. High levels of disease, pests, and lack of labor support were also frequently reported as factors that have affected crop production. On average, yield numbers were lower than what companies reported.

**Farmers have also been affected by a rapid increase in production costs, in particular the prices for fertilizer, agrochemicals, and hired labor.** Farmers reported an average unit cost increase of 43% for agrochemicals, 51% for hired labor and more than 200% for fertilizer. Farming household expenditures were also found to have increased sharply, particularly food (50%), education (60%) and transportation (104%).

**As a result of these two trends, farming households' net incomes have declined significantly. Overall, participating farmers' net income decreased by an estimated 16.38% between the 2019/20 and 2021/22 harvesting season.** Average net income declines were more pronounced for women farmers (21.44% versus 14.15% for men). The LID implemented by the Ghanaian government in 2019/20 helped to buffer income shocks as it increased the farmgate price by 28% in its first season. Nevertheless, nearly 90% of farmers said they are worse off when they compared their household's income today to three years ago.

## **3. SUSTAINABILITY PROGRAMS ARE NOT DELIVERING ON FARMER INCOMES**

Analyzing the disconnect between companies' efforts to raise farmer incomes and the observed decline of farmers' income over the past three years is complicated by the fact that robust, public data on the income effects of companies' interventions are virtually non-existent. Nevertheless, several limitations of companies' current income strategies and interventions can be identified.

**Farmers' net income decreased by an estimated 16.38% between the 2019/20 and 2021/22 harvesting season.**



**First, companies are still in the early stages of systematically tracking and reporting on their impacts on income.** Contrary to reporting requirements around child labor or deforestation, companies do not have sufficient incentives or pressure to consistently report their progress on actual farmers' income levels and changes. Only two companies have published income data for Ghana, and only one has published data over time (the other published a one-time income assessment comparing sustainability program participants with non-participants). The absence of a standardized approach used by companies to assess farmer incomes makes rigorous evaluation and comparisons of impacts unfeasible.

**Second, although companies have implemented productivity interventions for years and the practices and elements necessary for achieving higher productivity levels are well known, low productivity has remained a somewhat intractable challenge for companies.** In interviews, companies recognized the unresolved productivity challenge. Several companies admitted to not meeting their productivity targets and highlighted the uphill battle of merely stabilizing yields given ageing farms, changing weather patterns and the risk of disease. Companies also emphasized the challenge of high yield volatility, even for individual farmers, which makes it difficult both to sustainably improve productivity levels over time and to reliably measure progress over time.

Adoption challenges were the most frequently mentioned challenge by companies regarding their efforts to raise farmers' productivity through GAP training. Companies recognized that the focus on knowledge transfer through training alone is insufficient in triggering behavior change at scale. Unfortunately, only one company reported adoption rates (although for Côte d'Ivoire, not Ghana), which were very low at 18%. This is in line with our survey, which found that only 27% of farmers said they had been able to adopt and apply all recommended practices.

**Third, companies are not paying sufficient attention to production costs, especially in the current climate.** Exploding costs are exacerbating the existing farm investment gap in Ghana. Companies recognized that the level of farm investment has remained too low and that a multiple of current investment is needed to meaningfully and sustainably raise farmers' yields. Although cutting costs is the first thing most companies do when trying to increase their profitability, this has remained sidelined in companies' farmer income strategies.

High costs were also identified as the primary barrier for higher adoption rates. Implementing GAPs requires the application of both farm inputs and labor – with cost implications that often go beyond the resource capacity of individual farmers. In our survey, 80% of farmers stated that applying GAPs also significantly increased their production costs.

**Pricing is a neglected income lever in companies' current strategies.** There remains a significant gap between the elevation of the topic in global cocoa debates and companies' current implementation of pricing interventions in their supply chains. There are several shortcomings in how companies currently intervene on price. First, there is a lack of transparency on premium payments. None of the companies publish detailed data on premium payments on a country-by-country basis (e.g. number of farmers, amount per bag).

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**There is a discrepancy between the premiums that companies report paying and the amounts farmers receive.** Companies disclosing their premium payments report paying \$70 in premiums per ton on average. However, most farmers stated that they receive between GHC (Ghanaian cedi) 13 and GHC 15 per bag, which translates into \$35 to \$40 per ton. Only one company appeared to consistently pay GHC 25 per bag, which comes close to \$70 per ton.

**The price premiums paid by companies are too low to make a significant difference in farmers' incomes.** A farmer producing ten bags of cocoa per year receives between \$20 and \$42 in total in premium payments. Considering the average living income gap per household in Ghana is more than \$2,600 a year,<sup>3</sup> current premiums do not make a significant contribution to closing farmers' living income gaps. As a result, two-thirds (65%) of farmers who received premiums indicated that they did not increase their income levels. Significant gaps in premium payments also remain, as almost a quarter of farmers (23.4%) reported not receiving premiums during the last harvesting season.

**Evaluating the success of companies' diversification strategies is hampered by a lack of data.** Only three of the ten companies published or shared selective data regarding the impact of their diversification interventions on income. While these few data points indicate a positive contribution of diversification to farmers' incomes, representatives across companies expressed humility when asked about the impact of their diversification interventions from a living income perspective.

Key barriers mentioned by farmers and companies limiting the potential of diversification as a way to raise farmer incomes include limited markets for on-farm non-cocoa produce, limited capital or finance to operate off-farm trading activities, and poor (road) infrastructure which further limits buyers and affects the transportation of goods to market centers. Companies are grappling with their role, given the vast range of support functions that must be in place in order to successfully grow and market alternative income-generating activities.

**In their current form, companies' sustainability programs are unlikely to substantially improve women's incomes position as cocoa farmers** due to the prevalent focus on strengthening women's non-cocoa roles. There is also the risk that companies' approach of focusing living income efforts on better-off farmers will have a negative impact on women, who on average have less land and lower yields than men.

**Lastly, the effectiveness of interventions targeting farmer incomes is affected by the fragmented and competitive landscape in which companies are implementing their strategies.** Traders/processors play a key role in designing and implementing income interventions. Yet, despite the need for greater collaboration to achieve a living income, they generally do not collaborate on implementation. In Ghana, it is not uncommon for several traders/processors to operate side-by-side within the same communities – each working with a separate group of farmers but implementing similar interventions. This is not only inefficient but also creates highly transactional farmer-company relationships, which prevent long-term support and accompaniment for individual farmers.

Despite the need for greater collaboration to achieve a living income, traders/processors generally do not collaborate on implementation.



## Towards a more holistic approach to living income

This report's findings present a sobering but not necessarily surprising picture: despite significant efforts by companies to raise the incomes of cocoa farmers in their supply chains in Ghana, there is little evidence that farmer incomes have increased as a result.

The findings indicate that business as usual will not improve farmer incomes in Ghana. Without more pronounced and ambitious efforts, a living income will remain an illusion for most farmers across companies' cocoa supply chains. There is an urgent need for companies to adopt a new approach to help raise cocoa farmers' incomes. Key elements of this new approach should include:

- **From farmer income to living income:** All efforts by companies to raise farmer incomes contribute to the goal of achieving a living income. However, they are not sufficient. Elevating living income as core priority for companies requires concrete policy commitments that embed living income in their sustainability programs and sourcing strategies.
- **From sustainability to procurement:** Even the best-designed sustainability program is unlikely to address the structural barriers to raising farmer incomes, which sit beyond the individual farm or community levels. Addressing the living income gaps of cocoa farmers in a meaningful way requires a procurement-oriented approach that aligns procurement goals with living income goals. This approach uses sourcing practices, such as higher prices, greater traceability, and long-term trading relationships with strong farmer organizations as levers for higher incomes.
- **From productivity to profitability:** From a living income perspective, productivity is not an end in itself. Increasing productivity might lead to higher income, but it also might not. Costs and prices are critical intervening variables between productivity and profitability. Companies should actively invest in effective solutions to reduce farmers' costs and raise farmgate prices in order to enable a pathway towards a living income.
- **From minimizing sourcing costs to increasing supply chain investments:** There is the urgent need for substantial investment in the Ghanaian cocoa sector to make a living income for cocoa farmers a realistic opportunity. Without a substantial increase in funding, there is a risk that companies will either focus their efforts on a small subset of farmers or that their investments in a broader number of farmers will remain superficial. Due to their high levels of profitability, companies have the resources to significantly increase their supply chain investments.
- **From data secrecy to income transparency:** Data availability and quality remains a major challenge to making progress on living income. Companies should invest in collecting robust income data and engage with other companies and stakeholders in sharing, aggregating and standardizing income data collection approaches. A particular focus should be on gender-disaggregated income data, including gender-specific indicators and targets.

Without more pronounced and ambitious efforts, a living income will remain an illusion for most farmers across companies' cocoa supply chains.



- **From fragmentation to collective action:** Companies need to overcome the fragmented and competitive landscape of sustainability interventions in order to support farmers in raising their incomes. Pre-competitive collaboration around living income (e.g. data sharing and learning, provision of farm services, and pricing reform) is critical since cost-benefit calculations around living income differ depending on if they are implemented by an individual company or by the sector as a whole.
- **From land size to land tenure:** Land is the income driver that companies have so far paid the least attention to. The relevance of land in the context of living income is not limited to land size (or even access) but rather land tenure and titling. Supporting the formalization of land ownership can be a powerful tool to incentivize farm investment and attract finance. Land is also an opportunity for companies to strengthen the gender focus of their living income strategies, since access to and tenure of land is more limited for women.
- **From gender as an add-on to gender-inclusive design:** Without a purposive gender-inclusive design, living income strategies are likely to benefit men rather than women. Companies should ensure the active participation of women in program design, tailor income interventions to women farmers, and strengthen the positions of women at the household, community and sector levels, including their unpaid care duties, land rights, access to finance, market participation and decision making.
- **From weak to strong farmer organizations:** The low level of farmer organization is a key hinderance to their ability to earn a living income, since farmers' bargaining power and access to support programs has remained limited. Companies should invest in more farmer-centric and farmer-led approaches to achieving a living income through strengthening farmer organizations.

## ENDNOTES

- 1 ISCO. (2022). *Terms of Reference – ISCO Living Income Working Group*. Retrieved 13 January 2023, from <https://www.idhsustainabletrade.com/uploaded/2022/07/ToR-ISCO-WG-Living-Income-CLEAN.pdf>
- 2 One bag of cocoa is 62.5kg.
- 3 Y. Waarts and M. Kiewisch. (2021). *Balancing the Living Income Challenge: Towards a Multi-actor Approach to Achieving a Living Income for Cocoa Farmers*. Retrieved 13 January 2023, from <https://edepot.wur.nl/557364>

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For further information on the issues raised in this paper, please email [advocacy@oxfaminternational.org](mailto:advocacy@oxfaminternational.org).

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