

# Defining a Decent Living

## Living Income for Smallholder Cocoa Farmers

### Introduction

There are two fundamental reasons to ensure that a decent livelihood is earned by smallholder cocoa farmers; the business imperative to ensure the long term viability of the cocoa supply chain, and the value-based imperative to ensure the fundamental human rights to a decent livelihood. Both deserve a more thorough discussion than presently is taking place in the sustainability conversation around cocoa production.

This document is a means to by European civil society to contribute to this conversation. Its focus is on West Africa, as the bulk of the world's cocoa is produced in this region, predominantly by smallholder farmers living near or under the poverty line.

### Decent living: a business imperative

As long as it is not known which income level attracts farmers to continue to grow cocoa and - more importantly - attracts young people to take over the cocoa plantations, there is no reliable base to develop projects which guarantee a sustainable and reliable supply. Farmers will change crops or abandon their farms as soon as they see other opportunities, and the youth will not be interested in taking over the family farm but search for other work.

### Attracting farmers

There is broad consensus that in order to ensure future supply for cocoa, it is necessary to once again make cocoa farming an attractive profession. If existing problems are not overcome, this could lead to a disaster for the future cocoa supply. Meanwhile, the lack of data on the real income and living costs of farmers, both men and women, has delayed the debate on living income within the cocoa sector.

### Farms as profitable businesses

Of the many sustainability programmes in cocoa, most integrate yield increase, and some include crop diversification. None seem to include basic needs or expected net income calculations based on household size and real income needs. Simply put, much of the farmer training has not been

going into making them better businessmen, able to care of their dependents.

### Decent living: a human right

„The labourer is worth his wages“<sup>i</sup> This line from the Book of Leviticus is the first mention in a long history of moral debate surrounding decent income. Philosophers such as Plato, Aristotle, Thomas of Aquinas and Adam Smith all discussed the imperative of decent remuneration.<sup>ii</sup>

### International Conventions

The preamble to the founding document of the International Labour Organisation in 1919 declares the necessity for a “payment adequate to maintain a reasonable standard of living that is understood in their time and country”.

The Universal Declaration of Human Rights states that “just and favourable remuneration” is a basic right, not just for the labourer, but also for the labourer's family.<sup>iii</sup> The UN International Covenant on Economic, Social and Cultural rights is even more specific, naming a “decent living for themselves and their family” a basic right.<sup>iv</sup>

Furthermore, the ‘UN Guiding Principles on Business and Human Rights’ state that it is the duty of governments to protect people from human rights violations, and that it is the responsibility of companies to respect these human rights.

### Shared responsibility

The formulation of a basic right is not a guarantee that it will be upheld. Anyone involved in the cocoa supply chain knows that West African cocoa growing communities can be typified as extremely poor. In fact, it does not seem possible for an average cocoa farmer to earn a ‘decent living’. Clearly, action is needed.

Who, then, is responsible to ensure that a decent living is possible? Of course, farmers have a responsibility to work hard and efficiently, and to deliver a good product. However, due to their weak economic position, and a market concentration further upstream, the part they can play is often marginal. They have very little direct impact on broader market developments that directly influence their possibility to earn a decent living.

There is an increasing acceptance within the cocoa industry that there is a shared responsibility for all actors to ensure that the sector is sustainable. This shared responsibility does not in the first place mean that is someone else's problem to deal with; on the contrary, it requires every actor to look at what they can do themselves.

## Decent living: needs

In cocoa the majority of labour is performed by self-employed smallholder farmers. These are not wage workers, and therefore do not fall under the categories covered by living wage or minimum wage indicators. Nonetheless, the extant definitions on how to calculate a decent wage can partly be applied to find a definition for a decent income.

The first two stages of Maslow's hierarchy of needs define some material elements which could constitute the basis of a 'decent living'; access to food, water, housing, sanitation, and healthcare.

The ILO's basic standards for a decent wage include the cost of living (such as the material elements of Maslow's hierarchy), social security benefits, the relative living standards of other social groups, and "requirements of economic development, levels of productivity and the desirability of attaining and maintaining a high level of employment".<sup>v</sup>

Currently, the three major standards (UTZ, FairTrade and Rainforest Alliance) have introduced or are introducing living wage indicators in their revised standards, as part of the joint Living Wage Project.

## Savings

For cocoa farmers an income which allows them to save money is vital, due to the high volatility of cocoa prices and fluctuating yields caused by weather conditions and diseases.

## Food price volatility

The dependency of farmers on cocoa for cash income and food purchasing differs per region.<sup>vi</sup> As such, vulnerability to volatile prices of both cocoa and the food they purchase varies. In Ghana, for example, cocoa farmers declared that despite rising cocoa prices their real income decreased between 2010 in 2012 due to rising costs for food and non-food items.<sup>vii</sup>

## Needs indicators

Combining these various sources and needs, a general shortlist of 'decent living' needs should cover the following.

- Decent housing
- Clean drinking water and sanitation
- A nutritious low-cost diet
- Adequate clothing and footwear
- Access to affordable basic social services
- Access to infrastructure
- Savings to ensure economic resilience

## General Approaches

While the necessity to cover the costs for food and water is undisputed and the costs are relatively easy to calculate, it is much more difficult to find out the costs of non-food items. One approach argues that on average people in developing countries spend fifty percent of their income on non-food, and an additional 5%-10% of income is required as 'discretionary income' or savings.<sup>viii</sup> Another approach could be to follow the World Bank poverty lines; under \$2 per capita per day means that a person lives in poverty, below \$1.25 in extreme poverty.

These methods, however, will only allow a broad impression of the living standard and is not sufficient for a reliable assessment. In order to properly calculate a decent living it is necessary to make calculations of material costs needs based on local variables.

Currently, low quality of statistics and a lack of data make it difficult to make these calculations. An additional complication is that there is often a strong variance in access to basic infrastructure and social services. This differs not only per country, but often by region, and sometimes even by village.<sup>ix</sup>

## Decent living: costs

A farmer's income cannot be compared to a wage worker's income, since a farmer has operational costs as part of running his enterprise. The costs of production for a cocoa farmer can have negative effects on expenditure on other needs. Declining farm revenue because of lower cocoa prices could mean that farmers have to choose between investments into their farm over investments into the future of the children or in providing adequate nutrition to their families.

## Yield increase

Much of the debate around farmer income increase has revolved around increasing productivity of cocoa farms. Although increased productivity is necessary for several reasons, it would be a mistake to assume that an increased yield always leads to a significant income increase. Increasing productivity requires significant investment by a cocoa farmer in training and inputs. Additionally, these costs are

usually upfront, requiring access to credit, which is a challenge for most farmers.

### Land and labour

Many farmers are sharecroppers or tenants of the land they till, and pay for the use of the land either in cash or with a percentage of their harvested cocoa. There is also a lot of seasonal labour, especially in harvest time .

### Subsidies and taxes

Whereas most agricultural crops around the world rely partly on state subsidies, these are largely absent in cocoa, with the exception of state subsidised fertiliser and pesticides in Ghana.

### Costs indicators

Combining the above issues, the business costs as part of a living income calculation should cover the

	Côte d'Ivoire	Ghana	Nigeria
Farm Size	2,6 ha	1,8 ha	2,2 ha
Yield per ha	500 kg	500 kg	400 kg
Total Yield	1.300 kg	900 kg	900 kg
Price per ton	€ 1.328	€ 1.474	€ 1.839
Revenue	€ 1.743	€ 1.302	€ 1.618
Input costs	€ 866	€ 209	€ 726
<b>Net Income</b>	<b>€ 877</b>	<b>€ 1.093</b>	<b>€ 892</b>

following elements;

- Inputs: seedlings, pesticides, fertiliser
- Knowledge: training, certification, auditing
- Labour and land; hired seasonal labour, rent etc
- Access to credit

### Decent living: revenue

A smallholder cocoa farmer is no different from any other enterprise. Income is dependent on just a few core metrics; cost of production, quantity and quality of produce, and selling price. As such, a general calculation per country can be attempted. (See Table 1: calculated current annual farmer income).

### Crop diversity and household size

A decent living income calculation is not just about the independent farmer's net income. It is also dependent on the household size and reliance on other sources of revenue. Statistics on average household size and levels of monoculture vary, both in between countries and within specific countries,

for a variety of reasons.<sup>x</sup> As such, per capita calculations can be problematic. A larger amount of dependents creates a lower per capita income. However, an unrealistically low amount of dependents and/or dependency on cocoa for income will result in income estimates that might not reflect the reality of poverty in cocoa growing communities. Bearing these variables in mind, an income calculation per dependent can also be attempted. This real income is far below the current definitions of absolute poverty. (See Table 2: real income per dependent)

### Farm size and land tenure

Increasing farm size is a necessity. One simply cannot run a viable cocoa farm on an acre and a half.<sup>xi</sup> The viability of too-small cocoa farms is an

**Table 2: Real income per dependent**

	Côte d'Ivoire	Ghana	Nigeria
Net Cocoa Income	€ 877	€ 1.093	€ 892
Household size	7	7	7
Reliance on monoculture	90%	80%	66%
Total net income	€ 974	€ 1.366	€ 1.352
Daily income per dependent	€ 0,38	€ 0,53	€ 0,53

issues that must be discussed. This will require significant improvement in issues surrounding land tenure and land security.

### Certification

Premiums paid by major standards bodies will only go a short way to solving the problem of price. On average, we calculate the financial benefits of certification after costs are between €85 and €115 per tonne, at best increasing a farmer's income by 10%.

### Price

Even if one were to significantly change variables such as crop diversity, yield and farm size, the possibility for a cocoa farmer to escape poverty is only marginal if the price received by farmers stays at current levels. Increasing the price received by farmers would be the quickest way to ensure a decent living is attainable by cocoa farmers.

## Recommendations

A decent living for cocoa farmers is a long-term business imperative, and a basic human right. Companies and governments have a responsibility to ensure that a decent living is possible in cocoa farming. To achieve this, several urgent actions to be taken.

- A common definition of a 'living income' should be agreed on.
- It is essential to improve the accuracy of data on this subject. Governments, companies, research institutions, NGO's, and standards organisations should start sharing the knowledge and data they have. Preferably, a pre-competitive collaboration would lead to 'crowd sourced' data tool, that can be universally to the conversation.
- Baseline studies and evaluations of projects should include figures on the composition of revenue, cost of farming and cost of living.
- Reliable data on the number of household members are essential for a fact-based debate about the future of the cocoa production.
- The roll out of basic services such as healthcare, access to clean drinking water and education would greatly reduce the costs to provide for a living income for cocoa farmers.
- Land tenure reform, a decrease in household size, and diversification of income should become priorities of both producing nations and companies that operate within them.
- Every company sustainability programme should include a requirement for a basic 'living income calculation'.

- Training curriculums for farmers should be adapted to not only include agronomic aspects, but also to incorporate living needs assessments.
- On the short term, efforts should be made to investigate how to raise prices at farm level to ensure that farmers and their dependents can actually start earning a decent livelihood.

### Colofon

This think piece is published simultaneously with a think piece on 'Value Distribution in the Cocoa Supply Chain'. These two documents are complementary to each other and will be integrated into the upcoming Cocoa Barometer, to be released in the fall of 2014.

As this is a first attempt at creating an overview, there will be gaps and faults in the data. As such, the authors welcome any and all contributions to improve the facts and figures presented. Comments can be submitted via e-mail to [antonie@voicenetwork.eu](mailto:antonie@voicenetwork.eu).

This paper was issued on behalf of the Barometer Consortium: VOICE Network (FNV Bondgenoten, Südwind Institut, Berne Declaration, Oxfam Novib, Oxfam Wereldwinkels, Stop The Traffik), Solidaridad, HIVOS.

**Authors:** Friedel Hütz-Adams (Südwind Institut), Antonie Fountain (VOICE Network)

**Citation:** Fountain, A.C, and Hütz-Adams, F. (2014): Defining a Decent Living. Living Income for Smallholder Cocoa Farmers in West Africa.

**Sources:** a bibliography as well as an extensive dataset for the calculations used for this paper can be found at [www.cocoabarometer.org](http://www.cocoabarometer.org)

<sup>i</sup> Leviticus 19:13

<sup>ii</sup> Anker 2011: 1

<sup>iii</sup> UN 1948: Article 23(3)

<sup>iv</sup> UN 1966: Article 7

<sup>v</sup> ILO Convention No. 131, Article 3, 1970

<sup>vi</sup> Nelson et al. 2013: 43

<sup>vii</sup> Nelson et al. 2013: 37

<sup>viii</sup> Berenschot 2012: 3

<sup>ix</sup> Anker 2011: 40

<sup>x</sup> Anker 2011: 44-47

<sup>xi</sup> Anker 2013: 5 "there may be a farm size below which a living income might not be realistic".