



ICCO-Cocoa Market Outlook
London, 22nd September 2015

The long way to a living income

(Based on: Cocoa Barometer 2015)

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Definitions

A simple definition: Cocoa created a living income

Text from a song in the 1950s (Ghana)

If you want to send your children to school, it is cocoa

If you want to build your house, it is cocoa

If you want to marry, it is cocoa

If you want to buy cloths, it is cocoa

If you want to buy a lorry, it is cocoa

Whatever you want to do in this world

It is cocoa money that you do it

Definitions

Do we need this debate in the cocoa sector?

YES!

We need it to

- Define a sustainable income to have a benchmark for projects :
 - Do they support farmers to reach a better livelihood and a decent income?
 - Is the income sufficient to invest in a better cocoa production?
 - Do they generate enough income to attract young people?

Definitions

Living Wage: The remuneration (*in cash and kind*) received for a **standard work week** by a **worker**, sufficient to afford a **decent standard of living** for the worker and her or his family.

Decent standard of living include food, water, housing, education, health care, transport, clothing, and other essential needs including provision for unexpected events.

Ongoing Work: Asia Floor Wage Campaign / ISEAL / GIZ / Ethical Tea Partnership / Banana Forum / Cotton made in Africa

SA 8000 / UTZ Certified / Fairtrade / Rainforest Alliance-SAN

Definitions

Living **Wage** Calculation

Labour income

- volume (amount of hours/days) x wage rate

Consumption

- Number of “consumption units“ of a household (HH)
 - E.g. The Asian Floor Wage is based on 3 consumption units (2 adults and 2 young children)

Levers

- Wage rate fixing (e.g. minimum wage)
- Indirectly: Improving negotiation power of workers (e.g. through labour unions)

Definitions

Living Income: Income (*in cash and kind*) sufficient to afford a decent standard of living for the **income earner and his family**. Applies to entrepreneurs, and/or self-employed people, such as small-holder farmers.

Decent standard of living include food, water, housing, education, health care, transport, clothing, and other essential needs including provision for unexpected events.

Ongoing Work: GIZ/ISEAL/SustainableFoodlab / SA 8000
UTZ Certified / Fairtrade / Rainforest Alliance-SAN

Definitions

Living **Income** Calculation:

Income = selling products

- Volume and price of a range of agricultural products
- Available work force (labor units) and **labor costs**
- Available land and natural conditions: e.g. rain, soil fertility
- Socio-economic conditions: farmer's knowledge and skills
- infrastructure, access to inputs (**costs!**) and financial services

Consumption

- Number of household members (consumption units) (**– food production for own consumption**)

Levers

- Price = farmer is “price-taker”
- Possible: increase volume and quality; strong cooperatives = economies of scale
- Switch from one commodity to another and/or diversification

Methodology

Establish the Living Income Line

- **Determine household & farm composition**
 - Number of consumption units and work force
 - Resource base: farm size and crop areas
- **Calculate household income**
 - Gross margin calculation
 - Calculate for current & improved production level
- **Calculate household expenditures**
- **Gap – Analysis**
 - Compare available income/costs with Living Income Line
 - If there is a gap: Calculate necessary price and productivity increase necessary for attaining Living Income

Activities

Farmers

- **Improve farm management and operations**
 - Farm entrepreneurship and agronomy
 - Good agricultural practices
 - Diversification
 - Increase in quality, productivity and scale
 - Financial services: Saving and credit facilities
- **Form producer groups**
- ...

Activities

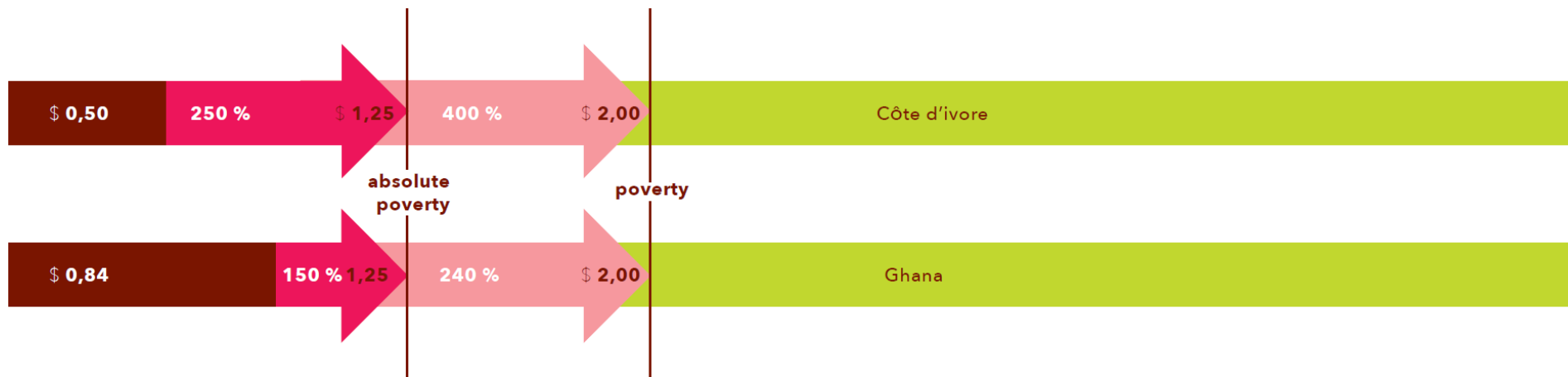
Governments

- Set the legal framework of the cocoa business
 - Control market concentration
- Reinvest (part of) the revenues from cocoa in producing regions in a transparent way
- Build roads, schools, medical care facilities
- Support availability of inputs, extensions services for GAP and the formation of farmer groups
- Provide reliable data on the situation of the farmers

Conclusions

Cocoa Barometer 2015:

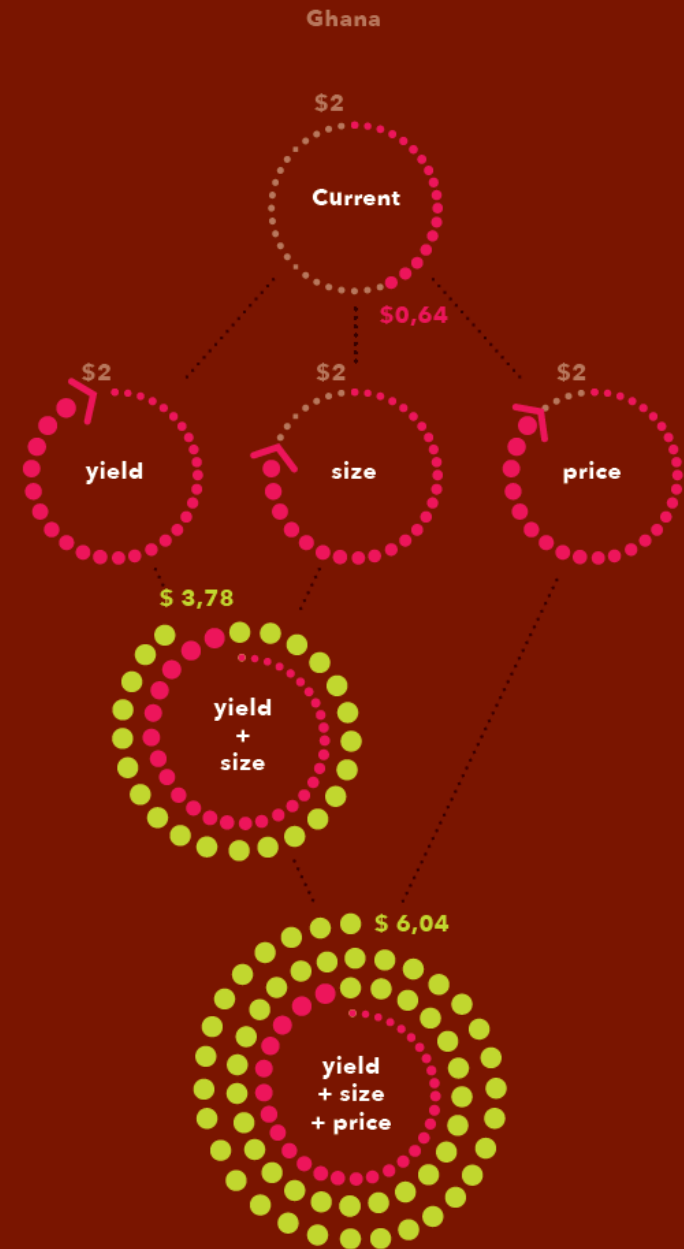
- Available database shows low **income per household member**
 - To escape the Poverty Lines defined by the World Bank a much higher income per household member is needed
- Source of the data and the calculation see:
<http://www.cocoabarometer.org>
- More research and data collection is needed!



Conclusions

Cocoa Barometer 2015 - Ghana:

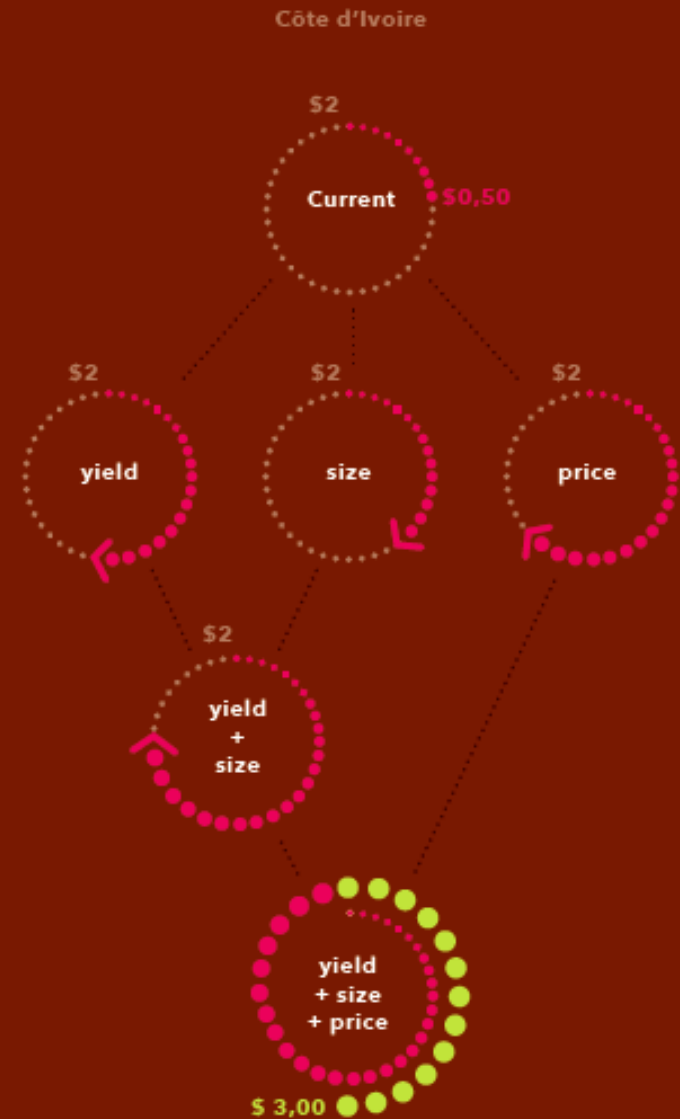
- Holistic approach necessary:
 - Higher farm gate price
 - Bigger Farms
 - Higher yields
- Diversification could be a game changer
- Source of the data and the calculation see:
<http://www.cocoabarometer.org>
- More research and data collection is needed!



Conclusions

Cocoa Barometer 2015 – Côte d'Ivoire:

- Holistic approach necessary:
 - Higher farm gate price
 - Bigger Farms
 - Higher yields
- Diversification could be a game changer
- Source of the data and the calculation see:
<http://www.cocoabarometer.org>
- More research and data collection is needed!



Conclusions

Juggling figures:

- Bigger Farms - higher yields – higher income?:
 - Low farm gate prices and escalating costs could even lead to losses
- Diversified production needs markets!

Farmer Revenue

Of which Cocoa %	Yield: per ha, kg	Farm size (ha)	Total Yield (t per farm)	gross income, \$2000 per ton	Input costs per ton	Input costs per farm	Net Income from cocoa	Income cocoa and others
100%	400	2,5	1	\$2.000	\$500	\$500	\$1.500	\$1.500
100%	400	5	2	\$4.000	\$500	\$1.000	\$3.000	\$3.000
100%	1000	2,5	2,5	\$5.000	\$500	\$1.250	\$3.750	\$3.750
100%	1000	5	5	\$10.000	\$500	\$2.500	\$7.500	\$7.500
100%	1000	2,5	2,5	\$5.000	\$1.000	\$2.500	\$2.500	\$2.500
100%	1000	5	5	\$10.000	\$1.000	\$5.000	\$5.000	\$5.000
50%	500	2,5	1,25	\$2.500	\$750	\$938	\$1.562	\$3.124
50%	500	5	2,5	\$5.000	\$750	\$1.875	\$3.125	\$6.250

gross income, \$1000 per ton	Input costs per farm	Net Income from cocoa	Income cocoa and others
\$1.000	\$500	\$1.000	\$1.000
\$2.000	\$1.000	\$1.000	\$1.000
\$2.500	\$1.250	\$1.250	\$1.250
\$5.000	\$2.500	\$2.500	\$2.500
\$2.500	\$2.500	\$0	\$0
\$5.000	\$5.000	\$0	\$0
\$1.250	\$938	\$312	\$1.874
\$2.500	\$1.875	\$625	\$3.750

Conclusions

Open Question:

Is there a way forward towards a decent income and sustainable farming?

What do we have to do:

- **Define a vision**
- **Work on a strategy**
 - **Set priorities**
- **Choose a team to do the work**



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Thank you!

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