



Child Labour in Cocoa

2021 ANNUAL SUMMARY

– APPROVED FOR PUBLIC DISCLOSURE

Child Labour in Cocoa Thematic Engagement

Ivory Coast and Ghana are the world's leading cocoa producing countries, accounting for almost 70 percent of cocoa production worldwide.¹ However, despite various efforts by the industry, governments and others, child labour remains widespread at the millions of small-scale cocoa farms in these countries.² Besides the human costs and the reputational risk that child labour poses on companies and their investors, in order to attract and retain a workforce and a stable supply, the cocoa industry also needs to ensure that cocoa farming is lucrative, enabling farmers to sustain themselves and their families.

In September 2021, Sustainalytics concluded the second of three years of its revamped thematic engagement on Child Labour in Cocoa. Together with a large group of investors, we have engaged major cocoa and chocolate companies in the three focus areas of this engagement: child labour monitoring and remediation, access to education for children in cocoa-growing communities and living income for cocoa-growing farmers.

Developments in 2021

In June 2021, an important report was released on the topic of child labour, by the ILO and UNICEF. The report summarizes statistics on the status of child labour globally, based on data until the year of 2020, following a previous report from 2016. The overall picture is disheartening, with a first increase in child labour noted in 20 years. According to the statistics, there are 160 million children in child labour in the world, an increase by 8.4 million since 2016. As before, most child labour happens in the agricultural sector, more than two-thirds is family-based, and most child labour occurs in Sub-Saharan Africa. A large portion of the increase is explained by the economic downturn following the COVID-19 pandemic, in particular income losses among vulnerable families. School closures is another related impact from the pandemic.³

With regards to poverty, there are also concerning reports. In 2019, the Ivorian and Ghanaian governments introduced a premium to the cocoa price, called the Living Income Differential (LID) 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. After being tested in a harvest season, farmgate prices in the Ivory Coast have been lowered by the national governing body, the Conseil Cafe-Cacao, by as much as 25%, due to decreasing demand.⁴ This development, together with a likely impact on poverty levels from the pandemic, makes the situation dire for many cocoa-growing farmers.

Engagement Update

Besides several bilateral dialogues, the main engagement effort in 2021 was a co-organized roundtable, together with one of our investor clients, on 'Accelerating farmer livelihoods'. Several cocoa and chocolate companies, industry and multi-stakeholder initiatives, the OECD and several investors participated in the roundtable. We heard inspiring keynotes from representatives of the European Parliament, a block-chain

¹ <https://www.icco.org/>

² <https://www.norc.org/Research/Projects/Pages/assessing-progress-in-reducing-child-labor-in-cocoa-growing-areas-of-côte-d'ivoire-and-ghana.aspx>

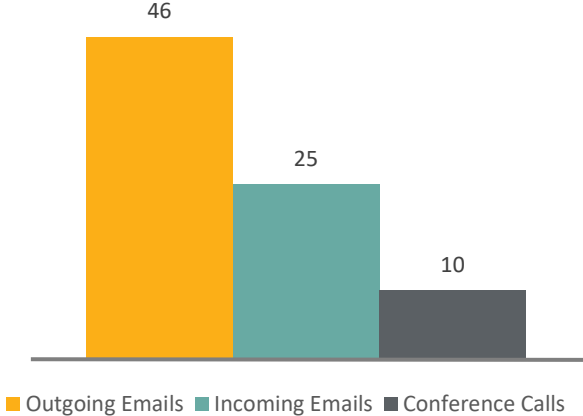
³ <https://data.unicef.org/resources/child-labour-2020-global-estimates-trends-and-the-road-forward/>

⁴ <https://www.bloomberg.com/news/articles/2021-03-31/ivory-coast-cuts-farmers-pay-by-25-for-smaller-harvest>

company which provides a traceability and farmer-centric supply chain tool and a beverage company which uses the tool to improve farmer livelihoods.

In 2021, Sustainalytics engaged with seven cocoa and chocolate companies. There were 46 outgoing emails, 25 incoming emails and a total of 10 conference calls. Apart from the roundtable and bilateral meetings with the companies, we also provided feedback to recently drafted corporate policy documents by chocolate companies, on childrens’ rights and on living income. Moreover, we reconnected with a number of key stakeholders and initiated an investor endorsement of corporate living income and living wage roadmaps, led by the multistakeholder organization IDH.

Engagement Dialogues 2021

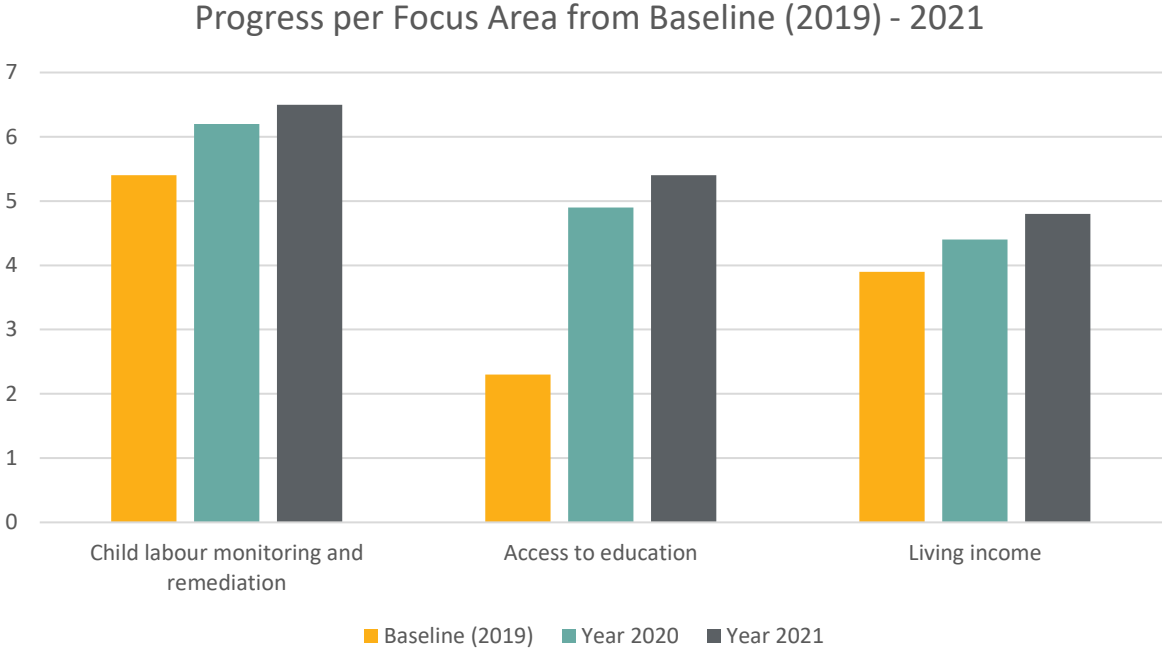


Company Performance

Aligned with recommendations made by the ILO and UNICEF, our Child Labour in Cocoa Thematic Engagement has continued to focus on improved income for cocoa-growing farmers, as well as access to school. It is generally clear that the topic of living income has picked up speed among cocoa and chocolate companies with serious thinking and efforts being rolled out not only focusing on increased productivity among farmers but looking at farm-level interventions from the income lens. Drawing from dialogues with the companies, there is also more and more of a convergence in how the companies approach living income, with productivity, diversification, access to finance, land tenure and size, premiums and farmer organization being seen as the income drivers by the industry, generally.

The talks to roll-out large-scale school programmes, led by the Jacob Foundation, noted in our previous reports, looks more constructive again. Individual companies also continue to contribute to school constructions, making birth-certificates available (a prerequisite to start school), providing school kits etc. Engaged companies also continue to report further roll-out of child labour monitoring and remediation systems (CLMRS). Most companies are currently well above 50 percent roll-out of CLMRS, or similar, in cocoa-growing communities in Ivory Coast and Ghana. There is also an industry level commitment by the sustainable cocoa industry organization the World Cocoa Foundation (WCF) to have CLMRS, or similar systems, rolled out by 2025 or earlier.

In 2022, we will continue engaging the companies for further roll-out of CLMRS, and more efforts from the industry to enable access to education for children in cocoa-growing communities and living income for cocoa-growing farmers.



Case study

In early 2021, one of the engaged companies contacted Sustainalytics to solicit feedback on its Living Wage and Income Position Statement under development. Sustainalytics provided input based on emerging industry best practice and the statement is now publicly disclosed on the company website, including specific action the company is taking to address the income gap among cocoa-growing farmers in Ivory Coast and Ghana to earn a living income. Sustainalytics recognizes the effort, which provides a clearer direction of the company on the topic and is likely to guide it towards more on-the-ground-actions.

Similar feedback was given to another chocolate company who reached out requesting input on a guidance document on child protection to its suppliers. Later in the year, the company invited Sustainalytics to a consultation on its wider human rights strategy developments. The main recommendation to the company was to think beyond human rights compliance and towards making a positive contribution for rights-holders in its area of influence. At the time of writing, results were expected shortly. It is positive to see that companies are proactively reaching out to Sustainalytics, as an investor representative, for guidance. More importantly, the policy and strategy developments signal deepened commitment to key topics included in this thematic engagement, which should ultimately impact farming communities, and more prosperous and secure cocoa supply chains.



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