International Labour Organization

Financing responsibly the cocoa supply chain in Côte d'Ivoire: the "leverage" role of the financial sector in eliminating child labour

Terms of reference

ACCEL Africa Project – Côte d'Ivoire

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▶ 1. Introduction

ILO ACCEL Africa Project

Accelerating Action for the Elimination of Child Labour in Supply Chains in Africa (ACCEL Africa) is a Dutch-funded regional project implemented from 2019 to 2022. The Project aims to address the root causes of child labour and has the overarching goal to accelerate the elimination of child labour in Africa, through targeted actions in selected supply chains in Côte d'Ivoire (cocoa and gold mining), Egypt (cotton), Malawi (coffee and tea), Mali (cotton and gold mining), Nigeria (cocoa and gold mining) and Uganda (coffee and tea). To achieve this goal, the Project has identified four inter-related components: three outcomes and one cross-cutting knowledge component. The proposed three Outcomes are the following:

- Outcome 1: Policy, legal and institutional frameworks are improved and enforced to address child labour in global supply chains.
- Outcome 2: Innovative and evidence-based solutions that address the root causes of child labour in supply chains are institutionalized.
- Outcome 3: Strengthening partnership and knowledge sharing among global supply chain actors working in Africa.

Under outcome 1, the project seeks to map opportunities for mainstreaming child labour concerns into national and sectoral policies, like those applying to the finance sector set and regulated by Central Bank or other international mandatory and voluntary initiatives. The ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (MNE Declaration) provides guidance to private enterprises, including financial sector actors, in the application of international labour standards. In particular, the paragraph 65 mentions that *"Multinational enterprises should use their leverage to encourage their business partners to provide effective means of enabling remediation for abuses of internationally recognized human rights."*

In Côte d'Ivoire, ACCEL Africa Project has partnered with *Agence de Promotion de l'Inclusion Financière de Côte d'Ivoire* (APIF-CI), a public agency hosted by Ministry of Economy and Finance with the mandate to implement the National Financial Inclusion Strategy 2019-2024. As part of this collaboration, ILO seeks to promote responsible and sustainable finance practices within the financial sector and cocoa supply chain in order to address social risks like child labour, and hence support the Ivorian and EU initiative on Sustainable Cocoa.

EU Sustainable Cocoa Initiative

European Union is the world's largest market for cocoa and Côte d'Ivoire is its main supplier (67% of Ivorian cocoa exports go to the EU), resulting in strong commercial relationships between both markets. Hence, European consumers are increasingly aware of sustainability issues and the consequences of their consumption (EU Green deal).

On September 2020, the European Commission launched with EU stakeholders an inclusive dialogue on sustainable cocoa production in Côte d'Ivoire and Ghana. The dialogue brings together key EU stakeholders, including representatives of Member States, the European Parliament, industry and civil society organizations. The objective of the multi-stakeholder dialogue is to foster progress in the elimination of child labour and child trafficking in cocoa supply chains, enhancing the protection and restorations of forests in cocoa-producing regions, and ensuring a living income for cocoa farmers. In particular, the multi-stakeholder dialogue will also discuss ways to encourage responsible practices of EU businesses involved in cocoa supply chains, including the financial sector.

2. Background

Cocoa supply chain in Côte d'Ivoire

In 2019, Côte d'Ivoire produced 2.2 million tons of cocoa beans, accounting for more than USD 3.5 billion of exports value. Today, cocoa production engages 800,000 farmers, and provides livelihoods to around 4.5 million people (19 percent of the population), concentrated mostly in the East and South West of the country. Around 50% of total cocoa produced is certified and quasi-entirely bought by a very small group of multinational exporters like Barry Callebaut, Cargill and Olam, who can pay a premium (from USD 70 to 200 per ton) on top of the minimum price of USD 1.5 per kilogram of cocoa set for the campaign 2019/2020. Hence, numerous exporters, mostly local and of different sizes, buy the other 50% of conventional or non-certified cocoa. In 2020, the Conseil Café Cacao has accredited 84 exporters, including 54 commercial societies and 30 cooperative societies, to operate in the cocoa supply chain.

Buyers and exporters follow two sourcing channels. Big exporters prefer sourcing from cooperatives societies, as they are relatively well structured and organized. The others however follow a less formal and unstructured channel working with intermediaries or as well known as pisteurs. More than 3,000 cooperative societies collect cocoa beans from their members and can offer a number of services (inputs, trainings, credits), including a certification programme. Cooperatives seek to promote a loyalty culture among their members in order to buy the maximum of their total cocoa volume produced. Sometimes, however, members prefer selling to pisteurs deviating some of their produce from the more formal channel. As over 90% of cocoa sale transactions are still done in cash (CGAP, 2016), cocoa farmers prefer selling their produce to the operator (cooperative or pisteur) who can pay at the right moment instead of waiting a couple of days or weeks. In order to be more competitive, buyers and exporters prefinance their cocoa supply chain injecting thousands of millions of dollars in cash in the field in a very short time of period[1]. They hence go for loans from international and local financial institutions to finance their operations or sourcing transactions.

According to a new report from NORC at the University of Chicago in 2020, qualitative findings indicate that households are using more agro-chemicals in their cocoa production practices in Côte d'Ivoire. Usage of pesticides and herbicides (percentage of household reporting using the input) each saw increases of over 20 percentage points overall, with over 20 percentage points in just five years. Fertilizer usage increased less, by 13 percentage points. Households reported that good agricultural practices training significantly changed their cocoa production practices, as they were encouraged to use agrochemicals to maximize yield and manage pest and diseases. At the same time, access to inputs financing (in form of credit) has tremendously increased by the support of parallel initiatives led by

[1] In Ghana, over 90% of farmer-level transactions in Ghana take place in cash, representing more than GH¢7 billion, or US$1.26 billion of payments annually. Better Than Cash Alliance, 2020, The Hidden Costs of Cash to Ghana's Cocoa Sector

the Government but also by the private sector. Efforts to increase cocoa productivity by increased use of agro-chemical products (through credit) is likely to increase children's exposure to agro-chemicals as well as to hazardous work, and may have unintended implications on the child labour rates, especially on the worst forms of child labour.

As described above, the financial sector is involved at two levels in financing the cocoa supply chain. The first level finances the operations of various (formal and informal) actors, including exporters, buyers, and cooperatives, in sourcing cocoa beans from farm gates to importing countries. The second level finances the cocoa farming activities at the level of the producers, mainly smallholder farmers, mostly through Microfinance Institutions who are pushing the financial inclusion agenda in Côte d'Ivoire. However, smallholders struggle to get access to financing as they are perceived as high-risk clients, hence representing a small portion of the total financing volume injected in cocoa supply chain. **The Terms of Reference of this assignment will strictly focus on the first level, so assessing the financing of the sourcing operations and the role of "the" financial sector actors in eliminating child labour.**

Child labour in the cocoa supply chain

Child Labour is defined by ILO Conventions 138 on the Minimum Age for Admission to Employment and 182 on the Worst Forms of Child Labour (WFCL). These key international conventions prohibit the employment of children below a minimum age (as established by national legislation), define the worst forms of child labour, prohibit older children who are permitted to work from engaging in hazardous work which is likely to harm the health and safety of children, protect all children under 18 from WFCL, and forbid hazardous unpaid household services. Child labour is a significant violation of children's rights, fundamental labour rights, and human rights. The latest global estimates, jointly published by ILO and UNICEF in June 2021, indicate that 92 million children – 40 million girls and 52 million boys – were in child labour in Africa at the beginning of 2020, accounting for more 1 in 5 of all children in Africa (21.6%). The vast majority of children in child labour in Sub-Saharan Africa work in agriculture (81.5%)[2].

According to UNICEF, 3 million children between the ages of 5 and 17 live in cocoa-producing communities: of these, approximately 1.3 million children between the ages of 5 and 17 are working in the cocoa sector, and 30.9% of them are engaged in hazardous work in cocoa production (MICS, 2016). Child labour is driven by root causes such as poverty and socio-economic vulnerability, lack of access to livelihood services and quality education, and gender-based discrimination. Addressing these root causes that perpetuate households' dependency on child labour is a pre-condition to ensure sustainability of child labour elimination.

Over the past ten years, the Ivorian government has designed three successive national action plans to fight child labour and trafficking of children, with a major impact on reducing child labour. In 2019, Côte d'Ivoire was one of 12 countries that received from USDOL the highest assessment of "Significant Advancement" for its work on child labour in cocoa production in addition to other efforts to address the worst forms of child labour. Moreover, the role of international media and the increase in consumer awareness on the issues of working conditions and environmental sustainability spurred a series of initiatives, led by the international cocoa industry, to respond to these problems.

[2] International Labour Office and United Nations Children's Fund, Child Labour: Global estimates 2020, trends and the road forward, ILO and UNICEF, New York, 2021.

Since 2012, the International Cocoa Initiative (ICI) promotes due diligence in supply chains through Child Labour Monitoring and Remediation Systems (CLMRS). According to ICI, these systems cover about 170,000 farmers across Côte d'Ivoire, Ghana, and Cameroon[3]. Some sustainability progress reports of the industry show that CLMRS has been put in place in 25 to 30% of cooperatives working with them. The emergence of these industry led systems allowed the private sector and implementing partners to test different approaches to fight child labour and improve sustainability in **their** cocoa supply chain. The main shortcoming of these industry-led systems (mainly multinational exporters), however, is that they follow a pure supply-chain led model: industry players naturally concentrate their focus on their suppliers, leaving out those that are too small, less structured, and often sourcing the less formal channel. Local medium and small size exporters barely implement such systems because of the nature of their business (less formal and with high number of intermediaries), lack of awareness, or low external pressure of compliance on social and environmental standards within their supply chain.

Financial sector and its role in the fight against child labour

The UN Guiding Principles on Business and Human Rights[4], endorsed by the UN Human Rights Council, make clear that financial sector actors—whether private banks, public pension funds, export-credit agencies or cooperative savings organizations—have the responsibility to:

1. *avoid causing or contributing to adverse human rights impacts through their own activities, and address such impacts when they occur; and*
2. *seek to prevent or mitigate adverse human rights impacts that are directly linked to their operations, products or services by their business relationships, even if they have not contributed to those impacts. It should be noted that a situation of direct linkage can occur beyond the first tier of a client relationship – for example, if the client uses the bank's financial products or services to fund another business or entity that causes adverse impacts*

These responsibilities apply to all business enterprises, including commercial banks and other entities in the financial sector, regardless of "size, sector, operational context, ownership and structure". Equally, they apply to any company or commercial vehicle from any other sector that may be a client of, or enter into a business relationship with, a bank. To meet this responsibility, banks should have in place "policies and processes appropriate to their size and circumstances", including a "human rights due diligence process to identify, prevent, mitigate and account for how they address their impacts on human rights." A bank cannot meet its responsibility to respect human rights if it causes or contributes to adverse human rights impact and then fails to enable its remediation. It should be emphasized that attribution of responsibility, and thus responsibility for remediation, in the UNGPs is distinct from issues of legal liability and enforcement, which remain defined largely by national law provisions in relevant jurisdictions

Of course, financial institutions may have limited resources—time, money, personnel—to conduct in-depth human rights due diligence. Existing guidance makes clear that "a bank's human rights policies and systems should be developed with an aim to provide a minimum level of screening for all types of activities, with the more detailed analysis prioritized for high-risk clients or transactions." Where a financial institution is exposed or linked to an industrial sector, business or geographic location that is

[3] International Cocoa Initiative. (2019). Annual Report 2019.
[4] Guidance note on UNGP for banks: https://www.banktrack.org/download/letter_from_ohchr_to_banktrack_on_application_of_the_un_guiding_principles_in_the_banking_sector/banktrack_response_final.pdf

known to have a high risk of Target 8.7 violations, in-depth human rights due diligence may be required.

But banks and financial institutions ***also have the responsibility to use their leverage where they are not causing or contributing to an adverse impact, but are otherwise directly linked to it****: for example, "where a bank has provided finance to a client and the client, in the context of using this finance, acts in such a way that it causes (or is at risk of causing) an adverse impact." If, for example, a bank is one of several financiers to a project where a client, in breach of agreed standards and the client's own policies, engages in conduct amounting to modern slavery or labour trafficking, then the bank may not have contributed to that outcome, but may be directly linked to it, and should use any leverage it has over the client to seek to prevent or mitigate the impact. This can also go beyond first-tier relationships—for instance, if the client uses the financial institution's products or services to fund another business or entity that causes adverse impacts.* [5]

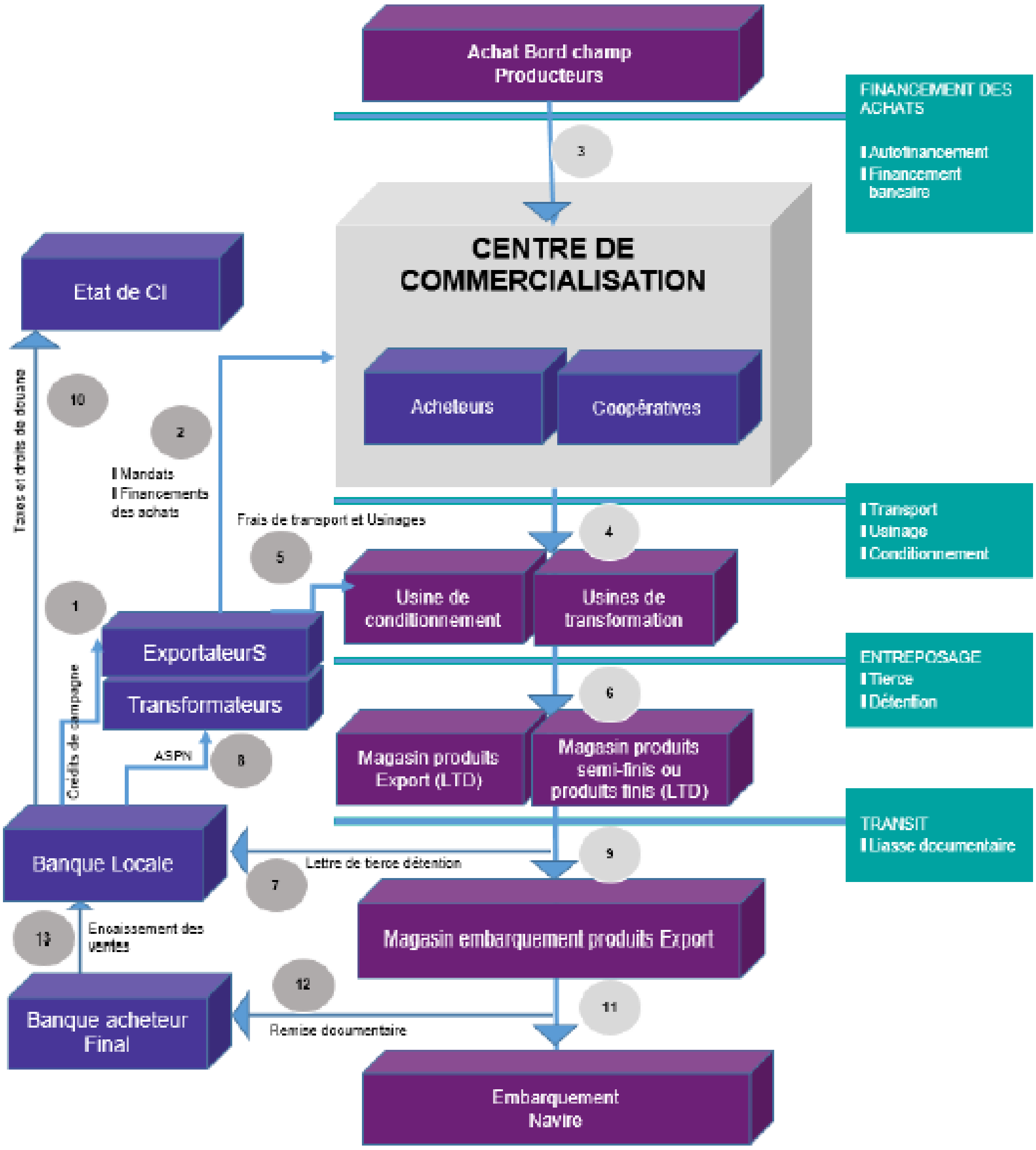

Figure 1. Le système de financement de la commercialisation (p. 288). Rapport d'évaluation de la réforme 2012 de la filière café-cacao. KPMG Côte d'Ivoire, 2020.

[5] Delta 8.7, *Julie Oppermann and James Cockayne*

As show in Figure 1, a recent study conducted by KPMG in Côte d'Ivoire in 2020 indicates that commercial banks play a key role injecting capital and providing cash to the 84 exporters and 187 buyers accredited to operate in the cocoa sector in 2020. However, when referring to cocoa supply chain actors, (international and local) financiers are often neglected despite their important and active role in the cocoa sourcing process, including in the less formal channel. Indeed, the finance sector serves the medium and small size (local) exporters, as well as the big multinationals. The financial sector has then a big responsibility vis-à-vis of their investments and the related social risks like child labour and other working conditions that may be unintendedly supported. **Hence, the financial sector should leverage their influence in their business relationships to play an active role in eliminating child labour.**

2. Objective of the study

The main objective is to assess the responsibility as well as legal obligations of financial sector actors in eliminating child labour in the cocoa supply chain in Côte d'Ivoire, in particular of those financing cocoa sourcing transactions at the level of (formal and informal) exporters, buyers, and cooperatives. Current practices and potential role to address this issue will also be assessed.

3. Scope of work

The external collaborator's scope of work will comprise the following tasks

1. Map the financing flows, the financial actors involved from local and international markets, and their business relationships with actors (multinationals and local exporters, buyers, cooperatives) in the cocoa supply chain;
2. Assess the responsibilities and legal obligations of different financial actors in the frame of international and national regulations, UN Guiding Principles of Human Rights, ILO MNE Declaration, OECD Guidelines for Multinationals, and upcoming regulations from their country of origin (like EU), with a strong focus on social risks and child labour;
3. Document current practices applied to assess the Environmental, Social, and Governance (ESG) risks by financial actors involved in the cocoa supply chain, with a strong focus on social risks and child labour;
4. Document support provided by financial actors to their *clients* (value chain actors and local financial institutions) to comply with international standards, conduct due diligence, and assess their responsibilities in the fight against child labour;
5. Conduct interviews and collect the views of the cocoa supply chain actors on how they use the financial sector and which constraints they currently have. This could be important to think about possible incentives financial actors could provide to make cocoa supply chain actors comply with international standards like child labour
6. Assess the level of influence of different types of financial actors to make their business relationships play a bigger role in the fight against child labour, and identify the most appropriate incentives;
7. Provide recommendations to develop operational tools that can be applied by local financial actors to address child labour risks in their financing flows. Tools will be mainly applied by

upfront staff (branch managers, credit officers) who are in close contact with end clients (multinationals and local exporters, buyers, cooperatives or cooperatives' members)

8. Present findings to Task Force Financial Sector and Child Labour and integrate their feedback to final report

The consultant is expected to produce a report on the basis of literature review, as well as interviews with international and local financial and cocoa supply chain actors, and other key informants as needed.

4. Expected outputs

The external collaborator is expected to deliver the following:

1. Methodological note and tentative outline for the report
2. A first draft of the report (maximum 30 pages)
3. A final report, integrating the comments provided by the ILO (maximum 30 pages)
4. An executive summary of the main takeaways from the report (maximum 4 pages)

The findings of the study will be disseminated in a validation workshop organized by *Agence de Promotion de l'Inclusion Financière* (APIF-CI) with support of the ILO ACCEL Africa Project.

5. Timeframe and management arrangements

The expected duration of the assignment is **20 working days** at a daily rate to be defined on the basis of the level of experience of the selected candidate. The consultant will report to Edgar Aguilar, Social Finance Officer, and ILO Social Finance Programme sustainable financing team based in Geneva. The assignment will be supervised by ACCEL Africa team based in Abidjan. The total fee will be paid upon delivery of the final output to the satisfaction of the ILO.

6. Required profile

The external collaborator should have the following characteristics:

- International consultant with minimum of 7 years of technical experience in trade financing, international and national regulations, responsible and sustainable finance
- Having done similar studies in supply chains
- Experience in Côte d'Ivoire financial market
- Experience assessing ESG risks, preference with a strong focus on child labour
- Experience in cocoa supply chain
- Strong language skills in French

7. Applications

Interested individuals are invited to send the following documents to info-accelafrica@ilo.org (copy to aguilarpaucar@ilo.org) before 15th of August 2021, midnight Abidjan time:

- Curriculum vitae of the expert who will conduct the study
- A technical proposal of 3 pages maximum, outlining the candidate's understanding of the assignment, proposed methodology, and calendar
- A financial proposal containing the required daily consultancy rate

The subject of the email should be formulated as follows: "responsible financing cocoa value chain"