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# Guidance Document on Income Diversification Interpretation Fairtrade Standard for Cocoa Version 27.09.2023\_2.2

**Practical Guidelines for Small-Scale Producer  
Organizations (SPOs) in the Cocoa Sector to Set Up Income  
Diversification Activities for Members  
Version 12.01.2024\_1.0**

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## 1. Introduction

### 1.1 Purpose of this Document

The purpose of this document is to assist Producer Organizations (POs) in **setting up income diversification activities** for their members to assist members to generate an income in addition to their income from cocoa production. Income diversification activities can be part of an income resilience strategies, which is a requirement in the Fairtrade Standard for Cocoa<sup>1</sup>. According to requirement 3.5.5, as PO you need to:

- Support members with income resilience strategies including income diversification;
- Give special attention to the participation of women and youth;
- Implement the strategy gradually starting with a manageable number of members for your PO.

The ideas suggested in this document will mainly focus on agribusinesses activities and are based on current practices of POs in Côte d'Ivoire and Ghana. This document will only discuss income diversification for members and not for POs as entity.

### 1.2 Terminology Used

**Income resilience** is the ability to withstand **and recover from temporary hardships and disruptions that affect your income, investments, and/or assets**. Building resilience will not make difficulties or challenges go away but producers will be better prepared for the negative consequences.

**Income diversification** is a strategy that can help members to become income resilient by increasing their income, reducing their dependence on a single source, and protecting their income from market fluctuations. It means that in addition to their income from cocoa production, members will gain an income from other type of activities, for example soap making and gari production (see Chapter 2.1 for more ideas).

### 1.3 Benefits of Income Diversification

Life is full of unexpected events. Having different sources of income will help members to deal with unexpected:

- Loss of income, for example, when part of the yield is destroyed by a pest or diseases or weather conditions, or prices of cocoa drop.

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<sup>1</sup> Version 27.09.2023\_v2.1



- Increase of expenses, for example, when costs of labour, agrochemicals or other inputs become more expensive.
- Life events, for example, the death of a partner or relative, health problems, or damage to the living quarters.

## 2. Useful Information to Know

**Diversification of income** means that members do not depend on one source of income. In case one source of income falls away or is reduced, producers will have other sources of income to rely on. Producer organisations can support these initiatives with capacity building and access to equipment, but also with planning and market analysis. Chapter 3, 4 and 5 provide a detailed description how an PO can support its members with income diversification.

### 2.1 Examples of Income Diversification Activities

There are different types of activities that can generate an additional income to cocoa farming, including:

- **Crop production:** maize, vegetables, cassava, rice, bananas, plantain, etc. Some crops can be planted within the cocoa farm while other crops perform better on a separate piece of land.
- **Adding value to crops**
  - o Plantain chips
  - o Fruit juices
  - o Gari processing
- **Agroforestry**, planting trees in your cocoa farm (see Annex for suitable trees):
  - o Fruit trees for fruits
  - o Timber trees (long term)
  - o Medicinal trees
- **Animal farming**
  - o Livestock: cattle (cows)
  - o Poultry: chicken (broilers, layers) for meat and/or eggs, guinea fowl, turkey
  - o Small ruminants: goats, sheep
  - o Piggery
  - o Aquaculture: tilapia, catfish
  - o Grasscutters
  - o Rabbits



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- Beekeeping for honey production
- Snail rearing
- **Other agribusiness**
  - Mushroom farming
- **Other business**
  - Soap making
  - Bread making
  - Water sachet production
  - Basket weaving
  - Services such as pounding fufu (with a machine), grinding maize or rice, etc.

These are just examples and therefore this list is not exhaustive. Which type of activity is suitable and attractive for your members depends on several factors which will be discussed in Chapter 3.1.

In this document, we mainly talk about products, while it is also possible to sell services.

## 2.2 Individual Versus Group Activities

Some activities will only be viable and feasible if they are operated by a group, for example activities for which a high initial investment is needed (to purchase equipment). Other activities can be done by individuals. Because capacity building and often the purchase of raw materials or inputs are required, it is also possible to organize some preparative actions as a group while the actual activity will be done by individuals. For example, for fruit trees planting, the group can purchase seedlings in bulk, organize transport of the seedlings to the community, and follow a training on how to plant the seedlings together. All other actions (planting and managing the trees, selling the fruits) can be done at individual level. It is also possible to start together as a group and work for one or two seasons together and then use the profits to set up individual activities.

Often, members assume that income diversification activities can only be done as a group. It is strongly advised to explore the possibilities to implement activities on a more individual basis. This is because one of the main lessons learned by POs that have implemented income diversification activities is to avoid doing the activity as a group because of the challenges (see chapter 6). However, having members collaborate on certain aspects of the activity might reduce the initial costs and will stimulate sharing of knowledge. The willingness to work in a group might be region specific because in some regions people already collaborate while in other regions people tend to work as individuals.



For some activities, you need to keep in mind that having too many people of the same community involved in the same activities might result in too many products that cannot be sold. Another aspect to take into consideration is the physical distance between members of the group. It might be very challenging to implement (part of) activities as a group while people live far from each other.

### 2.3 Success Factors of Income Generating Activities

For a successful income generating activity, the following needs to be in place:

- **An existing or potential market** in the community or nearby communities for the product produced. Being able to sell the products is a condition to make any profit. A nearby market is preferred over a distant market to reduce transport costs and for easy logistics. Some markets are seasonal, for example sheep rearing for Eid-al-Adha or production of certain crops, while other activities can be done the whole year round. See Chapter 3.2 on Doing a simple business analysis
- **The activity needs to be profitability.** Even if a product or service sells well, it does not necessarily mean that it will generate an additional income for members. An activity will only be profitable if revenues are higher than the expenses (including earning back the initial investment and depreciation expenses<sup>2</sup>). See Chapter 3.3 on Doing a simple financial analysis.
- **Members need to be willing and committed to execute activities.** Having excellent ideas for income generating activities as a PO, does not guarantee that your members are equally enthusiastic. Maybe they do not want to engage or have no time available to spend on the activity or maybe they already have their own income diversification activities.
- **Members need to have ownership of the activity.** This means that members need to take the responsibility to operate and manage the activity and not rely on the PO to do the work for them or to solve all problems.
- **The activity needs to be relatively easy to set up.** Some activities you can start within a day while for others you need to organize space or land, buy raw materials and/or equipment, follow technical training, etc. Unless someone or a group is highly motivated to start the activity, a cumbersome process to set up the activity can demotivate those participating.
- **The initial investment needs to be reasonable.** Some activities might be highly profitable but need a large investment, for example in specialized equipment, to set it up. A high initial investment

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<sup>2</sup> Depreciation expenses are simply said an amount that you need to save each year to be able to replace equipment at the end of its user period.



is a risk because if activities do not turn out well, the money is lost. Therefore, it is better to start with activities that do not need large initial investments.

- **The required technical knowledge and skills to execute the activity should not be too specialized.** For some income generating activities you need minimal technical knowledge, such as snail rearing or mushroom farming, while for other activities more technical knowledge and skills are required. Since getting the required knowledge and skills is not always in reach for all members (including women and youth), you can start with activities that do not require much specialized knowledge.
- **Members need to have realistic expectations and a common understanding.** The main goal of income generating activities is to provide an additional income and to diversify the income. This means that cocoa farming will, for most members, remain their main source of income. It should be clear from the start that the income will not replace income from cocoa but will rather be additional. It is also important that members have a common understanding of how the activity will be implemented, what is expected from them, and the timeline of the project. Managing expectations is discussed in Chapter 4.3.
- **The activity needs to be accepted in the community.** Some activities might not be culturally or socially accepted in the community.
- For group activities: **Groups needs to have a common understanding and agreement on role division, and profit sharing.** Implementing income generating activities will be more challenging with groups than with individuals because if one person does not play his/her role it will affect the whole group and not just the individual. When setting up group activities, it is crucial to spend time and energy in agreeing on all aspects of the activities.

## 2.4 Summary of Steps to Prepare, Set Up, and Manage Activities

In chapter 4, 5, and 6 you will find the details of preparing, setting up, and managing income diversification activities, including the following steps:

- 1. Prepare income diversification activities**
  - a. Make a first selection.
  - b. Do a simple business analysis to check if the activity is viable.
  - c. Do a simple financial analysis to check profitability.
  - d. Do a risk assessment to check any potential challenges.
  - e. Develop an overview of potential activities.
- 2. Set up income diversification activities**



- a. Let the group make an initial selection
- b. Let the group verify collected information for their community.
- c. Manage expectations, fears, and challenges.
- d. Select an activity.
- e. Plan and budget the activity.
- f. Build capacity.

### 3. Manage income diversification activities

- a. Keep financial records.
- b. Monitor and evaluate the activity.
- c. Provide assistance.

## 3. Steps to Prepare Income Diversification Activities

When setting up income diversification activities for members, some POs start by consulting members what they would like to do. Although it is good to give members a choice, the main challenge is that most groups will not consider the marketability and profitability of selected activities. The result can be that communities select an activity that takes efforts and resources to set up but, in the end, do not generate any additional income.

To avoid challenges, you as PO can preselect a few activities of which the chance that they are successful is high and let members decide which of those activities they would like to implement. Before you can give your members a choice of activities, you need to do preparatory work. The preparatory work will take a lot of time and is not easily done. However, the better your preparations, the higher the chance that the income diversification activities will be successful.

The situation is different in every community and therefore it might not be possible to give one answer that applies for all communities to questions raised during the preparatory phase. If there are known differences, you need to describe all situations as best as possible. This will help members to select the most viable and profitable activities.

You as PO can take the following steps.

1. **Make a first selection.** Because you need to do a thorough preparation that will take time and effort, you need to make a first selection of potential activities you would like to assess. You can start for example with three activities and add more if it turns out that none or few of your selected activities are viable and profitable.





2. **Do a simple business analysis** to check if the activity is viable. The activity needs to be viable in the sense that it should be possible to set up and operate.
3. **Do a simple financial analysis** to check profitability. The activity needs to be profitable so members will earn an additional income<sup>3</sup>.
4. **Do a risk assessment** to check potential challenges. You will check the probability of risks, the potential effect they can have, and mitigation measures.
5. **Develop an overview** with different activities that can be proposed to groups.

It is possible that during one of the steps you realize that an income diversification activity is not suitable for your members. In that case, you take out that activity and do not continue with the rest of the steps.

### 3.1 Making a First Selection

Although you will not have any detailed information yet when making your first selection, it is good to use some selection criteria for the first selection. You can think about:

- **The availability of a market.** In other words: can the product be sold? You will assess this in detail as part of your business analysis, as described in Chapter 3.2 but you might already have an idea.
- **The potential profitability.** Also this will be assessed in detail as part of your financial analysis in Chapter 3.3.
- **The suitability for your target group** (women and youth). Some activities might not be suitable for your target group (women and youth) because of cultural or practical aspect.
- **The potential interest of members.** You might already have an idea of what members want and which activities they are willing to try.
- **The easiness to start the activity.** Activities that need a large initial investment or advanced technical knowledge and skills to execute the activity might not be the most suitable to select.
- **Seasonality of the activity.** Because cocoa is a seasonal activity, activities that generate revenues all year round or during the lean cocoa season are preferred.
- **Ability to comply with regulatory requirements, if applicable.** For example, to ensure good marketability, registration with the Food and Drugs Authority (FDA) should be considered for certain value-added products.

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<sup>3</sup> An income additional to the income from cocoa farming.



## 3.2 Doing a Simple Business Analysis

A simple business analysis means that before you start an activity you will assess your idea to know who your customers and competitors are, and if the business is viable. You need to do a business analysis for every activity selected as described in Chapter 3.1. You can use the checklist below.

1. **Needed raw materials or agro inputs** (seeds, agrochemicals, fertilizers).
  - a. *What inputs do you need to produce the product?* If you want to produce gari, you will need cassava. In that case cassava is your input (or raw material). If you want to sell woven baskets, you need weaving materials for example rattan, grasses or vines.
  - b. *Is the raw material always available?* Especially if you process crops, you need to consider the seasonality of your raw materials. If you are looking for an activity that can provide an income year-round, this might be a limiting factor.
  - c. *Are there more suppliers of the raw material or is there only one?* In case there is only one supplier of the material, it might be a risk because there is no alternative if this supplier will stop supplying your raw material.
2. **Needed space**
  - a. *Do you need land to produce the product?* If you want to produce crops or start animal farming, you will need land. Ownership of land can be a challenge.
  - b. *Do you need any other space to produce the product?* For processing or other activities, you also need some physical space.
  - c. *Is it necessary to construct anything?* It might be necessary to build a working shed or cages for animals.
3. **Available market**
  - a. *Is there a need for the product in the community?* Maybe community members need to travel to other communities to get the product while they would prefer to purchase it in the community.
  - b. *Who would be interested in buying your product?* Try to describe potential customers. Are they young, old, do they have children, are they male or female, etc.
  - c. *How often would people be interested in buying the product?* Some products are bought weekly (think about rice, gari, tomatoes, onions), while other products will be purchased less frequently (think about soap or baskets).
  - d. *How many people would be interested in buying the product?* Although this might be hard to indicate, you can do an estimation.
  - e. *Where are potential customers:* in the community or also in nearby communities?



#### 4. Competition

- a. *Is there anyone else selling the same product in your community? And in nearby communities?*
- b. *If yes, can they always sell everything they have? If they produce more than they can sell, there is probably no possibility for you to sell your product.*
- c. *For what price do they sell the product? You can check the price and how prices are set (per kilogram or piece).*
- d. *Where do they sell their products? Do customers come to the sellers, or are products sold at markets?*

#### 5. Time required

- a. *How much time is required in terms of man days to set up the activity? This can help you to plan activities. You do not want to start an activity during the cocoa season that will take a month to set up.*
- b. *How much time is required in terms of man days to operate activities? Keep in mind that cocoa farming will still be the main business of members which limits the availability of time to spend on the activity, especially during the main season.*

You can collect all information by using your own network, visiting markets and shops, talking to people (including your members), etc.

Already during this stage, you can decide to take out selected activities because they turn out not to be viable, for example when there is no market or there is already too much competition.

### 3.3 Doing a Simple Financial Analysis

To contribute to income diversification, the activity needs to generate an income. You will only gain an income if more money comes in than goes out. With a financial analysis, you will estimate how much revenues you can generate and how many expenses you will have. You need to do a financial analysis for every selected activity. The checklist below can help you.

The easiest is to take a quantity (100 pieces, 10 kilograms, 5 bags) and calculate your expenditures and revenues for that quantity. The quantity you will use for your financial analysis should be approximately the quantity you are likely to sell in a year.

#### Step 1: List all costs

You can use the template in Annex 2. To get an insight in your costs, they are split into costs to set up the



activity and costs to operate the activity.

1. **List all the costs to set up the activity.** These are expenditures you need to make irrespective of the number or quantities you will produce. That means you have to make these costs, even before you will start producing. The costs can include (and are not limited to):
  - a. Rent for space or land.
  - b. Equipment to produce or process<sup>4</sup>.
  - c. Training to get the technical skills.
  - d. Ledgers for record keeping.
2. **List all the costs to operate the activity.** These are yearly expenditures that are directly related to the production of your product. The costs can include (and are not limited to):
  - a. Loan repayments. For example, for the money that you needed to set up your activity as described above. In case the initial investment is paid for example with the Fairtrade Premium, the repayment of loans can be taken out of the costs.
  - b. Electricity, water.
  - c. Maintenance of equipment, including replacement of parts.
  - d. Depreciation costs of equipment. This is an amount that you need to save each year to be able to replace equipment at the end of its user period. For example, if the costs of a piece of equipment is 100 and you can use the equipment for 5 years, it means your yearly depreciation costs is  $100/5 \text{ years} = 20$ .
  - e. Labour.
  - f. Inputs, including raw materials and agro inputs.
  - g. Packaging materials.
  - h. Transport costs for raw materials.
  - i. Transport costs to get your product to customers or market.

In case you sell seasonal products, you may want to calculate your operational costs for each month of the year to be able to calculate your yearly operational costs.

### Step 2: List potential revenues

Your revenues will come from sales of your products. You can use the template in Annex 2. How much revenues you will generate will depend on:

- **The quantities** (number, kilogram, or any other unit) of items you sell. This means you need to estimate how many units you can sell.

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<sup>4</sup> Of course if you would like to produce large quantities, you will need more processing equipment.



- **The price per unit.** That means you need to set a price per unit. In case the product is already sold by other suppliers, you can use current market price for your calculations.

In case you sell seasonal products, you may want to calculate your potential revenues for each month of the year to be able to calculate your yearly revenues.

### **Step 3: Calculate potential profits**

Your profit is your revenues minus your operational costs. If your operational costs are higher than your revenues, you are making a loss. If your operational costs are equal to your revenues, you break even which means you generate enough revenue to cover your operational costs. You can use the template in Annex 2 to calculate the potential profit of an activity. Because the repayment of loans and depreciation costs are added to the operational costs, you will only look at the operational costs to calculate your profit and not at the costs to set up the activity.

You can play around with the quantities which means that for several quantities (100 pieces, 200 pieces, 500 pieces), you will calculate the total operational costs and revenues, and then the profit or loss. This will give you an insight in how much you will need to produce to make a profit. It will also show if the quantities you need to produce to make a profit are feasible to produce. Especially for activities which require an initial investment (which means you need to repay a substantial loan and have high depreciation costs), you will need to produce high enough quantities to be able to make a profit.

You will notice that if costs to set up the activity are high, for example because you need expensive equipment, you will need to produce and sell a lot of products to make a profit. Keep in mind that even in case the PO will use for example the Fairtrade Premium for the initial investment, in a few years' time equipment will need to be replaced, which means you will not have any loan repayments, but you will have depreciation costs of equipment.

Also during this step, you can decide to remove selected activities because they are not profitable because the costs are too high or generated revenues are too low.

## **3.4 Doing a Risk Assessment**

A **risk assessment** is a systematic process of identifying and analysing any risks to income diversification activities. Some risks are common for every type of activity, while other risk might be specific for certain activities. Therefore, for each potential type of income diversification activity pre-selected as described in Chapter 3.1, you need to do a risk assessment.



In Annex 3, you will find a template for a risk assessment. The steps are as follows:

1. **List all risks** you can think of. A risk is the possibility that something can go wrong.
2. For each risk, you identify the **probability** or chance that the risk will happen. The probability can be high, medium, or low.
3. For each risk, you identify the **possible impact** or effect the risk can have on your activity. The impact can be high, medium, or low.
4. For each risk, you describe **mitigation measure(s)** which are actions or precautions you can take to avoid that the risk will happen or that will reduce the impact.

Depending on the results of your risk assessment, you can decide to remove activities because there are too many risks or high impact risks that are difficult to mitigate.

### 3.5 Developing an Overview

After your business and financial analysis and risk assessment, you hopefully have a few income diversification activities left that are potentially viable and profitable. In case you removed all initially selected activities during the process, you can start again at step 1 and select other activities and take them through step 2 to 4.

At the end, you can list all activities that have the potential to be developed (meaning: you did not remove them). You can give a short description of each activity including:

- A description of the activity
- A summary of your business analysis
- A summary of your financial analysis
- A summary of your risk assessment

Below you will find feedback from POs in Ghana and Côte d'Ivoire on a few income diversification activities.



### Experience of POs in income diversification activities

The following activities are experienced by POs as successful:

- **Snail rearing:** relatively low starting capital needed, easy and cheap to implement, mainly implemented by youth, market available in communities, profitable.
- **Mushroom farming:** mainly implemented by women and youth, cheap to implement, profitable.
- **Soap making:** mainly implemented by females, profitable.
- **Improving ongoing activities:** look at what is done in the community and try to improve the situation so members can make a higher profit.

Other activities are done but either less easy to implement or less profitable:

- **Bee keeping:** profitable, mainly implemented by women, local market is available but not very large, needs an initial investment, takes time and effort.
- **Bread making:** mainly implemented by females, local market available.
- **Piggery:** there might not always be a market.
- **Gari processing:** adds value to cassava and there is a local market. Some initial investment in equipment is needed and therefore must be done in a group.
- **Sachet water production:** local market available but needs initial investments and therefore must be done in a group.
- **Production of other crops** such as maize, cassava, rice, bananas, garden vegetables. A limiting factor might be availability of land. Vegetable gardens are often not generating income but will help in reducing household expenses.
- **Small livestock** such as goats and sheep. A limiting factor might be availability of land to keep the animals.
- **Piggery:** very profitable but needs a large initial investment, proper technical knowledge and skills, and enough land.

Some activities are very successful in some groups but a failure in other groups:

- **Poultry** (chicken, guinea fowl): expensive to start and difficult to implement because of high mortality rate because of diseases. However, when an expert is available to assist the group, it can be highly profitable and there is always a local market.
- **Rabbits:** not difficult to set up but high mortality rates, market is not always available.

Some activities are **not recommended**, including:

- **Farmer service centre** with youth selling services to farmers. The idea is great because it provides income to youth, and it helps members to increase their production. However, it is difficult to set up because youth need thorough technical and business training, and their services need to be promoted among farmers. Instead of the PO setting up this service, it is recommended to involve an external partner with experience.



## 4. Steps to Set Up Income Diversification Activities

After you have shared the list with potential activities (see Chapter 3.5), you can continue with the second phase, namely setting up income diversification activities for your members. You can compare it with setting up a project because there are several actions need to set up the activity, including:

1. **Let the group make an initial selection.**
2. **Let the group verify collected information for their community.**
3. **Manage expectations, fears, and challenges.** People can have high and/or unrealistic expectations and can be highly disappointed if their assumption are not true. Members can foresee several problems which will hold them back.
4. **Set up the activity.**
5. **Build capacity.**

### 4.1 Letting the Group Make an Initial Selection

Based on your overview, the group can make an initial selection of two or three income diversification activities. Important is to see in which activities the group might be interested. In case an activity sounds very promising but there is no interest from the group to pursue the activity (for whatever reason), do not push the group to select the activity. The group will need to execute the activity, so it needs to be their choice.

You as PO can guide this process to discuss with the group what is important to them: do they want activities that can be implemented by women and youth, is the group willing to invest their own resources to set up activities, do they already have knowledge on certain activities, etc. The better the group know what they want and not want, the easier it will be to make the initial selection.

It might be that none of the income diversification activities suggested by the PO is in line with the interest of the group. In that case, the group can suggest any other activity and do a simple business and financial analysis, and risk assessment to check its viability and profitability.

### 4.2 Verifying Collected Information for their Community

Although you did preparatory work to ensure that members can select viable and profitable activities, communities or groups will need to verify your findings, i.e. the business and financial analysis and the risk





assessment. This is necessary because the situation in each community is different which means that an activity that is profitable in one community can be loss-making in another community. It is possible that you have described different scenarios or situations in your overview (see Chapter 3.5), but the group or community still needs to verify your information and adapt where necessary.

This step will ensure that for potential income diversification activities the collected information is localized to the specific situation in a community. This will provide a realistic insight in the viability and profitability of the activities. The process will also create ownership among members, which is a key factor for success (see Chapter 2.3). During this step, the PO can check if the group is willing and committed to start income diversification activities. If you have (serious) doubts, it can be a reason to discontinue the process with that group.

### 4.3 Managing Expectations, Sustainability, Fears and Challenges

For each of the initially selected activities that still seems viable and profitable after the group has verified all information, you need to manage expectations. You can use the financial analysis to give people an idea of possible profits. You should also discuss how much time is required to set up and operate the activities, and the period of the activity. The idea of income diversification activities is that they will generate additional income to members continuously and not just for one season. That means that members should realize that part of the revenues need to be used to set up the next cycle. For example, if the PO provides initial funding to set up a space and buy food to start snail farming, members need to realize that the activity does not stop when all snails are sold but they should get ready for the next cycle.

The better members realize what is required and what the potential gains are, the more informed their final decision will be which will contribute to the success of the activity. Therefore, it is important to take your time to manage expectations.

One way to manage expectations is to agree on realistic targets, for example expected income after 1 month, 2 months, 1 year, etc. Setting several targets over a longer period also makes people realize that often activities will not be profitable from the start because of initial costs but that it can take some time (and perseverance).

Once you have managed expectations, you should also take enough time to discuss any fears and expected challenges, and agree how best to handle them.



#### 4.4 Selecting an Activity

Based on all the information available from the business and financial analysis, the risk assessment, and discussions about expectations, fears, and challenges, the group should decide which income diversification activity they would like to pursue.

Although technically it is possible that community members will select different activities, practically it is more difficult because certain actions, for example training, will be done in a group. Executing different activities at the same time in a community might only be possible if members from different communities come together for training. Activities in which equipment is shared always needs to be implemented by a group.

#### 4.5 Planning and Budgeting the Activity

To ensure everyone will know what needs to be done, who should do it, and when and how it should be done, the group should make a detailed action plan plus budget. You can use the action plan template in Annex 4 and the budget template in Annex 5. As PO, you can assist to facilitate this process and you might be able to assist the group with for example bulk purchase of seedlings or equipment, and the organization of technical skill training. It is important that the group will take the lead in the process to increase ownership. Your role as PO is merely to assist them and to facilitate the process.

We have seen in Chapter 3.3 on the financial analysis that the higher the initial investment costs, the more difficult it will be to make a profit. The Fairtrade Premium can help as starting capital. It is important to add all expenses covered by the premium in the budget, so group members are aware of the initial costs.

Keep in mind when developing with the group the action plan and budget that some actions will be done by the group, while other actions are done by individuals. It is possible to make a common budget for group expenses (for example on training) and individual budgets so every member knows exactly how much they will spend on raw materials, other inputs, equipment, labour, etc. Individual budgets might be different among members because some members will produce more than others.

#### 4.6 Building Capacity

Having the technical knowledge to implement the income diversification activity is key for success. In addition to technical training, members should also learn how to keep records on sales and expenditures. Even if participants are illiterate, they still can keep basic records. For activities executed as a group, special sessions on working as a group are crucial.



It is possible to involve partner organizations during this step, for example for the provision of technical skill training. There might be projects or Non-Governmental Organizations (NGOs) that are offering training for free which will reduce the initial starting costs.

## 5. Steps to Manage Income Diversification Activities

Once the income diversification activity has been set up, the group and/or individuals need to manage the activity. The following needs to be done:

1. Financial record keeping
2. Monitoring & Evaluation
3. Providing assistance as PO

### 5.1 Financial Record Keeping

To be able to know if an income diversification activity is profitable or not, those participating in the activity need to keep their records. In Annex 6, you will find a template for simple financial records. The group can decide to do the record keeping together once a week to help each other.

It is suggested to compare expenses and revenues (sales) at the end of every week or every month to get an insight in the profitability (or loss) of the activity.

### 5.2 Monitoring & Evaluation

Especially when money from the PO is used, beneficiaries are accountable for how the money has been used. To know if money spent on an income diversification activity was spent well and successfully, the profitability of the activity is one aspect that can be measured. But it does not tell the full story. To know what has happened, and why certain activities might not work out well, it is advised to monitor the activity and evaluate the results after a season or year.

Monitoring means that you observe and check the progress of the activity, while with evaluation you assess the success of the activity. The first step with monitoring and evaluation is to know what you need to observe, check, and assess. This means that you list indicators that can measure if you are progressing or not, and if you have succeeded or not. The monitoring indicators will also ensure that you do not skip any steps.



Possible indicators to **monitor** are listed below. For each indicator, you can check if it was done, if it was done well, and in case it wasn't done, why not.

#### Preparations

- Initial activities selected by group.
- Business analysis verified by group.
- Financial analysis verified by group.
- Risk analysis verified by group.
- Final activity selected by the group.
- Expectations, fears, and challenges discussed.
- Action plan developed.
- Budget developed.

#### Setting up the activity

- Technical skill training completed.
- Record keeping training completed.
- Working as a group training completed.
- Space found or constructed.
- Equipment bought.
- Equipment installed.
- Inputs bought.
- Raw materials bought.

#### Operate the activity

- Weekly planned quantities are produced (you can add an average quantity or a quantity per member).
- Produced quantities are sold (you can add an average quantity or a quantity per member).

Possible indicators to **evaluate** the success of the activity are listed below.

- Yearly planned quantities are produced (you can add an average quantity or a quantity per member).
- Produced quantities are sold (you can add an average quantity or a quantity per member).
- All members of the group make a profit after XX months (you can add a specific amount).
- All members save money to be able to maintain and replace equipment (you can add a specific amount that needs to be saved every week or month).
- Members are willing to continue the activity.



### 5.3 Providing Assistance

Even though the group needs to have ownership of the income diversification activity, the PO can provide assistance to increase the chance to success. You can help with the following activities.

- **Ensure all steps to prepare an income diversification activity are implemented by the group**, including the verification of the market and financial analysis, risk analysis, action plan, budget, etc. Especially when groups are eager and enthusiastic to start, it might be tempting to skip certain steps. Keep in mind that every step will contribute to the success of the activity.
- **Purchase of equipment and inputs.** You as PO might have connections with suppliers which will facilitate the purchasing and delivering process. In addition, if other groups in the PO are interested in the same activity, the PO can purchase equipment and other inputs in bulk for a reduced price.
- **Organize technical skill, record keeping, and group dynamics training.** In case the PO has the knowledge and experience, you can train members. Another option is to ask partners for support.
- **Monitor activities.** This will help the group to check if they are on track and it will keep them on their toes. It will also help you to see which actions are difficult to implement which can help to improve future activities.
- **Evaluate activities.** The main objective is to diversify income for members. An evaluation can indicate if this income diversification activity is worth continuing or not.

## 6. Lessons Learned

Several Fairtrade POs have set up income diversification activities for their members. The following lessons were learned.

### Preparation phase

- Make a business case for each project. A business case includes a business and financial analysis and risk assessment. See Chapter 3.2, 3.3, and 3.5.
- Have activities for individuals rather than for groups. Activities for individuals work better because they take the responsibility.
- Select participating groups and individuals based on motivation and willingness.
- Check in advance if there is a market.



### **Setting up the activity**

- Ensure participating members have the technical knowhow. One PO mentioned that even when members claim they know what to do, it is still recommended to organize a technical skill training.
- Set up a proper accounting system to calculate if the activity really generates income for members. See chapter 5.1.
- Let groups help each other by sharing experiences.
- Have in every group one person who has the overall responsibility. This person needs to be literate.
- Have templates for financial records and reporting and explain them well in advance to the groups.

### **Implementing the activity.**

- Brand products. Branded products are easier to sell and you can increase the price.
- Put time and effort in monitoring. It will help to keep members motivated and it provides the insight to take action if necessary.
- Create strong market linkages and check customer satisfaction.
- Start with a small group to see how the activity works. Calculate if there are any financial benefits. If there are benefits, scale to other groups.



## Annexes

### Annex 1: Suitable Trees for Agroforestry

#### Suitable fruit trees

Name	Scientific name
Bush mango	<i>Irvingia gabonensis</i>
Coconut	<i>Cocos nucifera</i>
Avocado	<i>Persea Americana</i>
Oil palm	<i>Laeis guineensis</i>
Star Apple	<i>Chrysophyllum albidum</i>
African nutmeg	<i>Pycnanthus angolensis</i>
African oil-nut-tree	<i>Ricinodendron heudelotii</i>
Bitter kola	<i>Garcinia kola</i>
African plum	<i>Dacryodes edulis</i>
Allanblackia, tallow tree	<i>Allanblackia floribunda</i>
Orange	<i>Citrus sinensis</i>
Kola	<i>Cola nitida</i>

#### Suitable shade trees

Name	Scientific name	Type (service, fruits, timber)
African ash	<i>Pterygota macrocarpa</i>	Timber, medicine
African nutmeg / homba	<i>Pycnanthus angolensis</i>	Firewood, furniture, medicine
African peach	<i>Nauclea diderrichii</i>	Wood for marine construction
African Tulip Tree	<i>Spathodea campanulata</i>	Flowers for ornamental purposes
Albizia	<i>Albizia ferruginea</i>	Timber
Cherry mahogany	<i>Tieghemella heckelii</i>	Furniture, seed oil
False iroko	<i>Antiaris toxicaria</i>	Timber, edible fruits, tree bark for dye
Ijebu/tiama mahogany	<i>Entandrophragma Angolense</i>	Timber, furniture, firewood, medicine
Ivory Coast almond	<i>Terminalia ivorensis</i>	Timber, furniture, firewood



Kumbi	<i>Lannea welwitschii</i>	Timber, furniture
Lati	<i>Amphimas pterocarpoides</i>	Timber, medicine
Mahogany	<i>Khaya anthotheca</i>	Timber, furniture, firewood, medicine
Mahogany	<i>Khaya grandifoliola</i>	Timber, furniture, firewood, medicine
Mahogany	<i>Khaya ivorensis</i>	Timber, furniture, firewood, medicine
Mansonia	<i>Mansonia alttissima</i>	Furniture
Niagon	<i>Heritiera utilis</i>	Timber
Odum	<i>Milicia excelsa</i>	Timber, medicine, edible fruits, firewood

Name	Scientific name	Type (service, fruits, timber)
Ofram	<i>Terminalia superba</i>	Timber, furniture, firewood, animal fodder
Red sterculia	<i>Steculia rhinopetela</i>	Timber, furniture
Sapele	<i>Entandrophragma cylindricum</i>	Timber, furniture, firewood, medicine
Sinuro	<i>Alstonia boonei</i>	Timber, furniture, medicine
Triangle tops	<i>Blighia unijugata</i>	Timber, furniture, firewood
Utile	<i>Entandrophragma utile</i>	Timber, furniture, firewood, medicine

The following trees are NOT suitable to plant in cocoa fields.

Name	Scientific name
African corkwood/umbrella tree	<i>Musanga cecropioides</i>
Cola	<i>Chlamydocola chlamydantha</i> , <i>Cola chlamydantha</i> , <i>Cola gigantean</i>
Bitter cola	<i>Carapa procera</i>
God's heart	<i>Myrianthus arboreus</i>





## Annex 2: Template for Financial Analysis

Type of activity:

Planned quantities to produce:

### Step 1: List all costs

Type of costs	Unit price <sup>5</sup>	Number of units <sup>6</sup>	Total costs <sup>7</sup>
<b>Setting up costs</b>			
Equipment to produce or process			
Training to get the technical skills			
Ledgers for record keeping			
<i>Total setting up costs</i>			
<b>Operational costs</b>			
Loan repayments			
(Rent for) space or land			
Electricity, water			
Maintenance of equipment, including replacement of parts			
Depreciation costs of equipment			
Labour			
Raw materials			
Agro inputs			
Packaging materials			
Transport costs for raw materials			
Transport costs to get your product to the market			
<i>Total operational costs</i>			
<b>Grand total</b>			

<sup>5</sup> The unit price is the costs per item or time (day, month, year).

<sup>6</sup> The number of units is the number of items, days, months, years, etc.

<sup>7</sup> The total price is the unit price \* the number of units.



### Step 2: List potential revenues

Price per unit	
Quantity of products selling per month	
Quantity of products selling per year	
Total revenues per month	
Total revenues per year	

### Step 3: Calculate potential profit

	Quantity 1	Quantity 2	Quantity 3	Quantity 4
Operational costs per year				
Total revenues per year				
Profit/loss				

Calculate your profit or loss for different quantities.



### Annex 3: Template for Risk Assessment

Potential risk	Likelihood (high, medium, or low)	Impact (high, medium, or low)	Mitigation measures (what can you do about it?)
The production continues to fail.			Ensure to have the needed knowledge and skills to produce. Ask an expert for support.
The (processing) equipment breaks down.			Maintain the equipment well.
Weather conditions are unfavourable which reduces production.			Manage water well to avoid floods and draught.
There are not enough customers to buy the product.			Promote the product
The costs of raw materials or other inputs will increase.			Take into account annual inflation to be prepared for price fluctuations.
There is too much competition of people who sell the same product.			Try to differentiate the product with different features or quality.



## Annex 4: Template for Action Plan

This template can be used to develop an action plan for one income diversification activity. Depending on the activities, you might need to delete certain actions and add other actions.

<b>Action</b> <i>(what needs to be done)</i>	<b>Period</b> <i>(when will the action be done)</i>	<b>Implementer</b> <i>(who will do it)</i>	<b>Resources needed</b>	<b>Notes on implementation</b>
Allocate space for the activity				
Construct a work shed				
Purchase equipment				
Install equipment				
Purchase raw materials or input				
Organize technical training				
Organize record keeping training				
Organize training on working as a group				
Purchase ledgers for record keeping				
Purchase packaging materials				
Organize transport to market				



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Organize weekly group meetings				



## Annex 5: Template for Budget

Type of costs	Unit price <sup>8</sup>	Number of units <sup>9</sup>	Total costs <sup>10</sup>	Source of funds
<b>Setting up costs</b>				
Equipment to produce or process				
Training in technical skills				
Training in record keeping				
Training in group dynamics				
Ledgers for record keeping				
<i>Total setting up costs</i>				
<b>Operational costs</b>				
Loan repayments				
(Rent for) space or land				
Electricity, water				
Maintenance of equipment, including replacement of parts				
Depreciation costs of equipment				
Labour				
Raw materials				
Agro inputs				
Packaging materials				
Transport costs for raw materials				
Transport costs to get your product to the market				
<i>Total operational costs</i>				
<b>Grand total</b>				

<sup>8</sup> The unit price is the costs per item or time (day, month, year).

<sup>9</sup> The number of units is the number of items, days, months, years, etc.

<sup>10</sup> The total price is the unit price \* the number of units.



## Annex 6: Template for Financial Records

### Expenditures

Date	Description of expenses	Total amount	Payee

### Sales records

Date	Quantity sold	Unit price	Total amount

### Balance sheet

Month and year	Total expenditures	Total sales	Difference
January 2024			
February 2024			
March 2024			
April 2024			
May 2024			
June 2024			
July 2024			
August 2024			
September 2024			
October 2024			
November 2024			
December 2024			
<b>Total</b>			



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