

A close-up photograph of a person's hands holding several bright red coffee cherries. The background is slightly blurred, showing green coffee leaves and a woven basket filled with more cherries. A white network graphic, consisting of interconnected dots and lines, is overlaid on the entire image. The text is centered and written in a large, white, sans-serif font.

Driving improvements in wages and working conditions in the coffee sector



Foreword



This report was authored by NewForesight. NewForesight is a strategy consultancy specialized in sustainability and market transformation. NewForesight seeks to drive innovation in the field of sustainability. Over the past years we have worked with companies, sector initiatives and platforms, standards organizations, governments, donors, and investors to push the decent work agenda, through our work measuring wage gaps, developing wage improvement strategies to close the gaps, convening the stakeholders required, and developing practical tools for partners to make it actionable closing the wage gap.

At NewForesight we believe that today's deep-rooted sustainability issues can only be solved with market-driven solutions. To create change that lasts, sustainability needs to be an integrated part of sourcing and the entire supply chain. But for this to happen, one needs to thoroughly understand the business case for companies. At NewForesight we do precisely that: We understand not just the sustainability issues on the ground, but also how it impacts and is impacted by supply chains and markets. We understand the intricacies of supply chains and the inherent differences across market segments. We have a deep understanding of the market dynamics and develop solutions that fits within the economic reality and competitive nature of companies.

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Introduction

1.1 The context of this report

This report is one of three in a research series on the challenge of improving wages and working conditions in different sectors, including tea, coffee, and banana. The reports seek to contribute to a better understanding of the state of work in these selected sectors and supply chains, identifying opportunities for social dialogue and stakeholder actions that offer a way forward for progress on decent work.

This research series is intended to advance understanding on the context of working conditions and wage improvements in selected sectors and supply chains to feed into the knowledge base for social dialogue and the setting of adequate minimum wages, statutory or negotiated. The reports are undertaken as part of an ILO project on Indicators and methodologies for wage setting supported by the Ministry of Foreign Affairs of the Netherlands – and Rainforest Alliance is one of its partners.¹ The aim of the project is to support the capacity of government and social partners to negotiate and set adequate wages and to enable committed industry-wide initiatives or enterprises to leverage better wages for the lowest-paid workers.

1.2 The purpose of this report

The purpose of this report is to examine how market dynamics affect working conditions and wage levels in the coffee sector, and formulate suggestions on which wage improvements are needed, who should drive them, and how. The report provides an overview of the working conditions in the coffee sector with a focus on how systems dynamics affect the payment of better wages and improved working conditions. In the final chapter, a set of leverage points and recommendations are identified to trigger wage improvements. Just as there is no single issue or actor responsible for the issues facing coffee workers, the solution requires similarly broad involvement and buy-in of the entire sector. These can be used by committed sector-wide stakeholders as a launchpad for discussion and action.

¹ ILO. (2020). Indicators and Methodologies for Wage Setting. Available online at: https://www.ilo.org/global/topics/wages/minimum-wages/WCMS_736786/lang--en/index.htm

1.3 The methodology of this report

The drivers shaping prevailing working conditions for coffee workers cannot be understood by focusing on isolated causes or a single set of actors. Prevailing wages and working conditions in the

Figure 1 The four forces driving sector sustainability²



Source: NewForesight (2018)

coffee sector are driven by systems dynamics which together shape and reinforce wages and working conditions outcomes for coffee workers.

There are four main forces that determine root causes for labour conditions in coffee supply chains. These also can be used to identify the leverage points for change. These are:

Production: Production forces refer to the conditions for being a successful producer including the barriers to entry and market success. These conditions influence how producers organize operations (including the workers they hire, level of mechanization, etc.), the producer business case, and the capacity to pay for the costs associated with wages and working conditions. Key dimensions of

production include the organization of the production base, factors affecting the producer business case, and the implications for workers and productivity.

Labour market: Labour market forces refer to the dynamics and workforce characteristics which influence outcomes related to wages and working conditions. Key dimensions of labour market include the types of jobs available for workers, characteristics of the labour force including gender, informality, age and education levels, prevailing contract and wage structures, and the structure of the labour market including opportunities for alternative livelihoods.

Enabling environment: Enabling environment forces refer to the actors, institutions, laws, policies, regulations, and infrastructure which shape the mandatory and voluntary conditions under which producers and workers operate. Key dimensions of enabling environment include the influence on workers of the national institutional and regulatory environment including the national minimum wage, the quality of social dialogue, and voluntary initiatives including certification and industry-wide activities.

Markets: Market forces are shaped by supply and demand. Consumer product preferences and market demand for sustainability shape the incentive structure for producers about which markets to target and whether to pursue quality and sustainability. Key dimensions of market dynamics include value chain pricing, consumer demand preferences, sourcing archetypes, and the connection to working conditions.

1.4 The structure of this report

The structure of this report is as follows:

1. Chapter II examines three of the four forces—the **production, labour market and enabling environment drivers**—that shape working conditions in the coffee sector. It will break down the types of workers and their key socio-economic characteristics, combined with global wage

² NewForesight (2018). “The Secret Ingredients of Effective Sector Strategies: How to Leverage a Sector’s Shape and Market Forces”. *NewForesight Insight Series*. [Accessed at <https://www.newforesight.com/wp-content/uploads/2018/04/NFC-Insight-Shapes-and-Forces-The-secret-ingre.pdf>]

levels and factors in the production systems, labour market dynamics, and enabling environment driving varying wage levels. The outcome of this section is a comprehensive understanding of the main non-market factors influencing workers' conditions and wages.

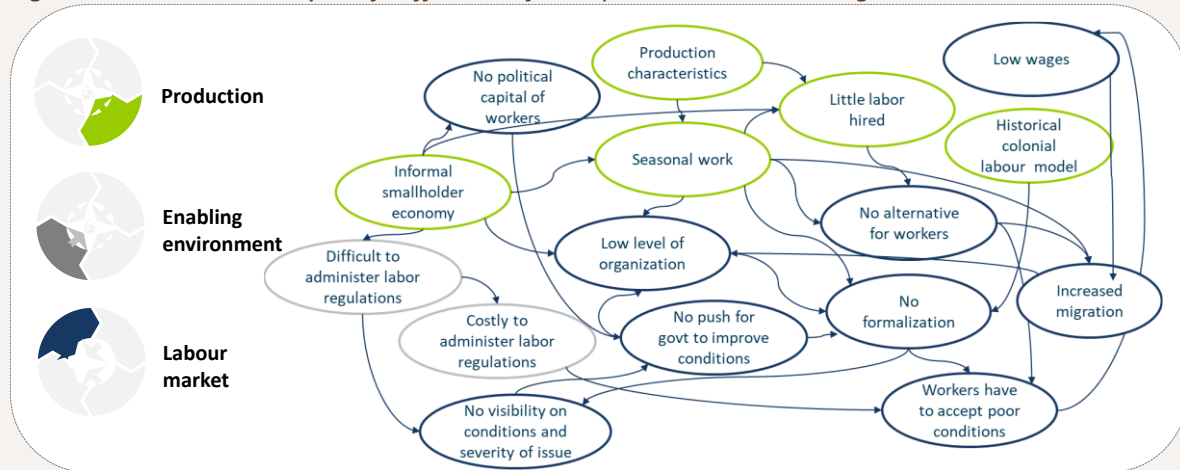
2. Chapter III will explore the fourth and final category—**market drivers**—and how these interact with other dynamics to influence wages and working conditions. Sector sourcing models are defined and are used to examine the relationship between sourcing practices and outcomes for workers.
3. Chapter IV combines the findings in Chapters II and III to **identify improvement levers** in the coffee sector that can contribute towards improved wages and working conditions. It will target leverage points within the influence of key stakeholders, including governments of major producing and importing countries, the social partners, the private sector, civil society, and certification agencies. The outcome of this will be **a set of possible recommendations**, accompanied by best practice examples, that can be used as input for social dialogue and a high-level improvement agenda for discussion and action among key stakeholders in the sector to bring about positive change for workers.
4. The annex contains a **deep dive into the Ethiopian context – one of the five ILO project's focus countries** – to illustrate and investigate the trends and hypotheses introduced in earlier chapters on the workforce of a major coffee producer. It will look in-depth at the major production and labour market dynamics of the Ethiopian coffee sector, describe the implications on coffee workers in terms of their wages and working conditions, and analyze the link between market dynamics and outcomes for coffee workers.

2 Production, labour market and enabling environment drivers of working conditions in the coffee sector

Key takeaways

- ✓ **Average hourly wages are above the minimum wage** in all countries except Indonesia and in Ethiopia (where no minimum wage exists). However, despite average hourly wages being above the minimum wage, minimum wage compliance remains an issue.
- ✓ **Coffee is primarily a smallholder-based production system.** The reliance on smallholders for majority of the world's production imply a high degree of informal employment which, in turn, has implications for workers' rights and working conditions.
- ✓ **In-kind benefits are mostly applicable to workers on plantations,** but several reports indicate that plantations are reducing benefits, particularly housing, to reduce cost and limit compliance burden.
- ✓ **Historically, working conditions have been very poor in coffee production due to colonial origins.** Coffee as a non-native crop was primarily planted and cultivated by colonial powers across their colonies. Production was plantation-based, managed by settlers, with an exploitative economic model based on slavery and low cost of labour. This formed a sector based upon low cost of production.

Figure 2: Root cause analysis of coffee workforce: producer and enabling environment drivers



*The boxes are colour coded to correspond to the type of driver (green for production, grey for enabling environment, and blue for labour market)

2.1 Production-level drivers of prevailing wages and working conditions in the coffee sector

Labour force profiling and production drivers impacting workers

There are approximately six million workers employed across the five ILO focus countries listed in Table 1, with Ethiopia accounting for the largest amount with 2.6 million workers, followed by Indonesia with 1.5 and Viet Nam with 1.44 million workers. According to these estimates, India and particularly Costa Rica appear to account for a much smaller number of workers with 400,000 and 46,000, respectively.

Female workers account for nearly half of all employment in the coffee sector globally. Within the ILO focus countries, the share of women formally hired in the coffee sector varies between 8%-40% but their role in unpaid and informal labour is consistently more than half. Many of the activities in the coffee sector are gender-specific and women tend to be over-represented particularly in harvesting and post-harvest processing in the form of drying and hand-sorting the beans.

Table 1: The coffee sector, estimated number of workers and importance at the national level

Country	Number	Share of all workers (%)	Share of women (%)	MT	Workers per MT
<i>Costa Rica, 2018</i>	46,140	2.19	8.65	77,880	0.59
<i>Ethiopia, 2016</i>	2,612,508	6.56	42.11	390,900	6.68
<i>India, 2012</i>	411,791	0.1	17.21	306,000	1.35
<i>Indonesia, 2018</i>	1,500,670	1.2	40.2	636,000	2.36
<i>Viet Nam, 2018</i>	1,439,712	2.67	43.96	1,794,000	0.80
<i>Aggregated</i>	6,010,821	3.81	40.11	3,204,780	3.78

Source: Luis Pinedo Caro (2020).

Note: The last two columns shown in gray have been added by NewForesight, based upon USDA FAS reports for the respective years (2012, 2016, and 2018), and authors' calculations.

Coffee is a very labour-intensive crop, and most workers are employed in the field. Coffee requires 3.25 times as much labour compared to rice and 4.9 times as much labour compared to sugarcane production.³ The majority of work is devoted to harvesting by hand, a time-consuming activity to preserve the quality of the product. The share of educated and higher-level positions is relatively limited in coffee. Production systems with a relatively larger number of plantations, such as Brazil and Costa Rica, have a higher share of professionals and technicians employed.

Table 2: Occupations of coffee workers, by country

Country	Costa Rica	Ethiopia	India	Indonesia	Viet Nam
<i>Professionals and technicians</i>	0.9	0	1.1	0	0.1
<i>Salesmen, clerks</i>	0.9	0	0	0.1	0
<i>Factory workers</i>	2.1	0	4.2	0.2	0.2
<i>Field workers</i>	96.1	100	94.7	99.7	99.8

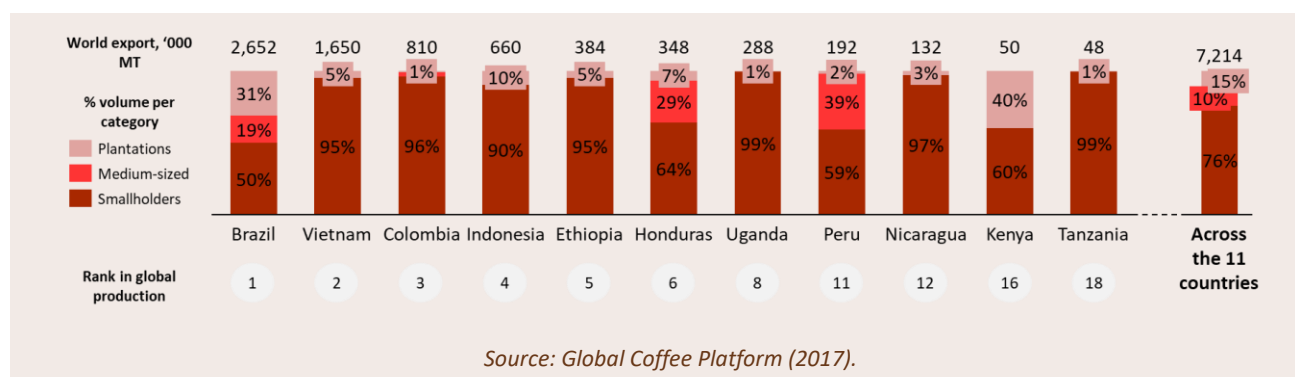
Source: Luis Pinedo Caro (2020).

³ Basic (2018). Coffee: The Hidden Crisis Behind the Success. Study on Sustainability Within the Coffee Industry. Research report.

Cost of production is rising, partially due to increased labour cost. Costs have risen an average of 3% per year in real terms since 2005, while farmgate prices have fallen during that time. Urban migration in some coffee producing countries seems to be contributing to increasing wages of rural workers, hence putting further strain on cost of production (for which labour cost is often 60-70% of total cost of production). Other reasons for rising production costs are the price of inputs such as fertilizer and pesticides having increased, and more capital goods used in the production process.⁴

Coffee is primarily a smallholder-based production system. The figure below illustrates the production base among 11 of the world's 18 largest producers.⁵ With a few notable exceptions being Brazil, Honduras, Peru, and Kenya, 90-95% of production is produced by smallholder producers. Across the 11 countries, a total of 76% is produced by smallholders, 10% by medium-sized farms, and 15% by large plantations.

Figure 3: Production base among 11 coffee-producing countries



2.2 Labour market-level drivers of prevailing wages and working conditions in the coffee sector

As noted by the ILO in its report on Decent Work in Global Supply Chains⁶, the rise of global supply chains has been accompanied by use of forms of employment which may not be compliant with labour legislation. More layers of complexity in global supply chains means that control over working conditions and wages is now more diffuse. The complexity of global supply chains has created difficulties in ensuring coherence in decent work across types of workers and has contributed to governance gaps of which the coffee sector is an example.

Prevailing wages in the coffee sector

Monthly wages vary substantially among the five focus countries. Ethiopia accounts for the lowest average monthly wage of 37.5 USD and Costa Rica provides the highest wages of 382.1 USD per month. This is a ten-fold difference between the highest and lowest wages, with the difference being between three to five times between Costa Rica and Indonesia, India, and Vietnam, respectively.

⁴ International Coffee Organization, 2019. Coffee Development Report (2019). Growing for Prosperity - Economic viability as the catalyst for a sustainable coffee sector.

⁵ The remaining seven countries in the top 18 are India (#7), Mexico (#9), Guatemala (#10), China (#13), Ivory Coast (#14), Costa Rica (#15), and Papua New Guinea (#17). These countries were left out due to ease of data availability.

⁶ ILO (2016). Decent Work in Global Supply Chains. International Labour Conference, 105th Session, 2016. Available online at: https://www.ilo.org/wcmsp5/groups/public/---ed_norm/---relconf/documents/meeting_document/wcms_468097.pdf.

Table 3: Monthly labour earnings in the coffee sector, by status in employment

Country	Average			Median		
	Employee	OAW	Employer	Employee	OAW	Employer
Costa Rica	382.1	331.7	594.9	349.7	226.9	393.9
Ethiopia	37.5	43.1	220.2	20.5	18.9	138.3
India	104.4	167.7	N/A	109.6	162.5	N/A
Indonesia	86.2	100.1	N/A	76.2	73.3	N/A
Viet Nam	125.2	222.3	446.6	115.6	184.9	308.2

Source: Luis Pinedo Caro (2020).

The substantial differences in wage levels can be explained by a range of production and macroeconomic factors:

- **Quality of coffee:** Costa Rica produces one of the highest qualities of coffee in the world, a quality substantially higher than India, Indonesia, and Vietnam. The quality is awarded by the market with a higher (positive) differential to the world market price.⁷
- **Farm productivity:** Part of the low wages may be explained by the relatively low productivity of farms. Ethiopia, on average, produces 390 kg GBE per hectare⁸, Indonesia 700 kg GBE/ha⁹, India 766¹⁰ kg GBE/ha compared to Costa Rica with 1,100 kg GBE/ha¹¹ and Vietnam of 2,430 kg GBE/ha¹².
- **Labour productivity (output per worker):** The labour productivity differs substantially across the five countries measured by number of workers employed per metric tonne of coffee produced. This is likely to depend largely on country-specific characteristics. Costa Rica and Viet Nam use relatively less labour with 0.59 and 0.8 workers per MT produced (see table 1 above). Costa Rican efficiency is likely explained by the relative dependence on mechanized, plantation-based production leading to a larger output per worker, while Viet Nam is considered a high input-high output system with the highest yields globally enabling a higher output for the same amount of labour use per hectare. Both Ethiopia and Indonesia use relatively low levels of (agro-chemical) inputs driving down yields.
- **Production system:** Pinedo (2020) finds that, on average, larger farms offer higher wages (14.5% of average) and more hours of work (12.6 on average). The workforce also tends to be better educated and, more importantly, bigger companies make use of specialists, i.e. individuals in high-skilled occupations, which probably has a positive effect on companies' profit level. On a more

Figure 4: Yield and price differential among selected countries



Source: ResponsAbility (2015)

⁷ ResponsAbility (2015). Costa Rica: How quality pays for coffee farmers: Case study. Available online: <https://www.responsability.com/sites/default/files/2017-03/rA-CoffeeStudy-EN.pdf>

⁸ Global Coffee Platform (2017). Quick scan on improving the Economic Viability of Coffee Farming. Individual country reports available online: <https://www.globalcoffeeplatform.org/resources/a-quick-scan-on-improving-the-economic-viability-of-coffee-farming>

⁹ Global Coffee Platform (2017)

¹⁰ Food and Agriculture Organization of the United Nations. FAOSTAT Statistical Database. [Rome]: FAO, 2020.

¹¹ ResponsAbility (2015). Costa Rica: How quality pays for coffee farmers: Case study. Available online: <https://www.responsability.com/sites/default/files/2017-03/rA-CoffeeStudy-EN.pdf>

¹² Global Coffee Platform (2017)

macro level, countries with more large-scale plantation style farms will have more employees and non-field workers (India, Costa Rica) whereas countries with more small-scale farmers have self-employed farmers and informal field workers. It is important to note that while plantation style farms offer non-field employment, it is very minimal compared to the amount of field work offered.

- **Cost of living:** Wages in different countries are reflective of the income level and the cost of living of the country where workers live.
- **Formalization of the informal economy:** Bargaining power and local labour market conditions enable workers to receive higher relative wages. The ILO Global Wage Report 2020/21 shows that workers in the informal economy on average earn significantly lower wages when compared to workers engaged in the formal economy.
- **Alternative income opportunities**

Definitions

Minimum wage: The ILO has adopted several Conventions and Recommendations on the subject of minimum wages. The latest one being the Minimum Wage Fixing Convention 1970 (no. 131), which encourages ILO member States to establish a system of minimum wages that offers a broad scope of application and is based on the principle of full consultation, or direct participation, of social partners (see the ILO minimum wage policy guide).

Minimum wages have been defined as the minimum amount of remuneration that an employer is required to pay wage earners for the work performed during a given period, which cannot be reduced by collective agreement or an individual contract.

According to ILO Convention No.131, minimum wages should be set at levels that take into account the needs of workers and their families as well as economic factors, such as levels of productivity and the need to maintain high levels of employment. This can explain why a minimum wage may not in all cases fully satisfy the needs of workers and their families.

Living wage: The notion of a living wage appears at each of the key moments in the history of the International Labour Organization, starting with the Preamble of the ILO Constitution in 1919 that included the goal to ensure “the provision of an adequate living wage”. The Declaration of Philadelphia in 1944 included a call for “minimum living wages”. The notion of a living wage was, however, never made the subject of an ILO Convention or Recommendation, only the concept of a minimum wage (see Reynaud, 2017).

The prime promoters of living wages are now the Global Living Wage Coalition (GLWC) and its members: Fairtrade International, GoodWeave International, the Rainforest Alliance, and Social Accountability International (SAI), in partnership with the ISEAL Alliance.

The GLWC defines a living wage as the remuneration required for a standard workweek in a particular place sufficient to afford a decent standard of living for the worker and her or his family. Elements of a decent standard of living include food, water, housing, education, health care, transportation, clothing, and other essential needs including provision for unexpected events.

Poverty line: As a lower alternative to a living wage, various poverty measures are used to define a minimum level of living standard. A poverty line offers a benchmark for minimum needs and is usually based on the cost of basic requirements for adequate nutrition and other non-food essentials such as clothing and shelter (ILO, 2017). However, poverty line measures do not take into account the level of decency in the basic requirements and therefore often offer a lower standard of living than other wage definitions.

Monthly wages for coffee workers conceal number of hours worked. Firstly, in the coffee sector many workers are hired as casual labour on a per-day or per-task basis which does not cover a full month of

labour. Secondly, a majority of workers are hired for harvesting which is paid based upon kilos harvested per day. Since labour productivity can differ substantially between countries and even between regions – for example due to differences in landscapes and sloping, or tree density – monthly wages may vary. Lastly, the hours worked per country and per worker vary greatly as well as amount of days worked per month, which influence the monthly wage levels. Estimated hours worked in the coffee sector range from 35.4 hours in Costa Rica, 39.4 hours in Viet Nam, 40.5 hours in Indonesia, to 48.7 hours in India.

Table 4: Weekly hours worked in the coffee sector

Country	Employees			Own-account workers			Workweek
	Coffee	Agri	Country	Coffee	Agri	Country	
Costa Rica	35.4	46.3	44.4	37.3	37.5	36	48
Ethiopia			39.9	18.3	22.6	24.6	48
India	48.7	47.6	51	47.8	50.6	51.3	48
Indonesia	40.5	39.9	44.4	38.1	33	40.9	40
Viet Nam	39.4	44.2	47.4	40.9	33.3	39	48

Source: Luis Pinedo Caro (2020).

A more accurate overview is provided by looking at hourly wages. **The wage differences among the countries are widened when hourly wages are considered instead of monthly wages.** Table 5 provides an overview of hourly wages in the coffee sector, agriculture sector, and country-wide wage levels, compared against the legal minimum wage levels. The table illustrates two key findings regarding the comparison with minimum wages:

- **In all countries studied except Indonesia (and Ethiopia, where no minimum wage exists), average hourly wages are above the minimum wages.**
- **Own-account workers in Costa Rica and Indonesia do not earn an income above the minimum wage,** highlighting the low profitability of smallholder coffee farming. This is consistent with findings in many other coffee producing countries. IDH (2020) finds that the average conventional coffee farmer earns a net income far below the living income, facing a gap of 85% to the living income benchmark. True Price (2017) find that Fairtrade-certified coffee producers in Tanzania, Uganda, and Kenya, on average, earn less than the poverty line, with none of the Kenyan producers earning a living income.¹³

Table 5: Hourly earnings and minimum wage in the coffee sector, by status in employment

Country	Hourly wages (employees)			Minimum wage	Hourly earnings (OAW)		
	Coffee	Agriculture	Country		Coffee	Agriculture	Country
Costa Rica	2.53	2.87	4.51	2.38	2.16	2.34	3.23
Ethiopia	0.18	na	0.90	na	0.21	0.30	0.32
India	0.49	0.37	0.74	0.31-0.51	0.80	0.70	0.72
Indonesia	0.51	0.77	1.29	0.77-1.44	0.67	1.07	1.17
Viet Nam	0.77	0.75	1.10	0.51	1.28	0.87	1.09

Source: Luis Pinedo Caro (2020).

¹³ True Price (2017). Assessing Coffee Farmer Household Income. Study commissioned by Fairtrade International.

Despite average hourly wages being above the minimum wage, minimum wage compliance remains an issue. The below table shows the share of employees and own-account workers earning below 95 per cent, between 95 and 105 per cent, and above 105 per cent of the legal minimum wage in the respective countries. Non-compliance with minimum wages is most severe in Indonesia with 91% of employees reporting wages below the applicable minimum wage, followed by Costa Rica with 45%. The issue is relatively less severe in India and Vietnam with 17.7 and 25.9%, respectively.

Table 6: Minimum wage compliance in the coffee sector

Minimum wage	Costa Rica		India		Indonesia		Viet Nam	
	Employees	OAW	Employees	OAW	Employees	OAW	Employees	OAW
<95%	45.4	74.3	17.7	9.1	91	84.9	25.9	11.6
95%-105%	14.3	5.2	0	0	2.8	2.9	4.8	2.7
>105%	40.3	20.6	82.2	90.9	6.2	12.2	69.4	85.7

Source: Luis Pinedo Caro (2020).

Regarding gender differences, we observe that female workers are faced with a sizeable gender pay gap. Equal remuneration between men and women is among the ILO fundamental principles and rights at work, and ensuring gender equality and non-discrimination are two key strategic objectives of the ILOs Decent Work Agenda.¹⁴ However, hourly gender wage gaps show that women earn less in all countries although the gap is not uniform. It ranges from 39.2 per cent in Costa Rica and 32.5 per cent in India to 8.3 per cent in Viet Nam. The difference between the gaps of Costa Rica and Viet Nam might suggest the existence of varying degrees of discrimination (Pinedo Caro, 2020).

Table 7: Gender pay gap in the coffee sector

Country	Gender Pay Gap (%)		Hours Worked	Workers receiving less than minimum wage (%)
	Monthly	Hourly		
Ethiopia				N/A
Viet Nam	12.4	8.3	39.4	25.9
Costa Rica	44.5	39.2	35.4	45.4
Indonesia	34.9		40.5	91
India	23.3	32.5	48.7	17.7

Source: Luis Pinedo Caro (2020).

Labour market dynamics

The reliance on smallholders for majority of the world's production implies a high degree of informal employment, which, in turn, has implications for workers' rights and working conditions. The lack of formalized workforce leads to a low level of organization. This is why, at its 104th Session (2015), the International Labour Conference adopted the Transition from the Informal to the Formal Economy Recommendation (No. 204). Recommendation No 204 provides a clear threefold objective to member States: (1) to facilitate the transition of workers from the informal to formal economy while respecting

¹⁴ ILO (2016). Decent Work in Global Supply Chains. International Labour Conference, 105th Session, 2016. Available online at: https://www.ilo.org/wcmsp5/groups/public/---ed_norm/---relconf/documents/meeting_document/wcms_468097.pdf

fundamental rights; (2) to create and preserve sustainable enterprises in decent jobs in the formal economy; and (3) to prevent the informalization of formal economy jobs. However, the complexity of global supply chains has created difficulties in ensuring coherence in decent work across types of workers and has contributed to governance gaps of which the coffee sector is an example. Labour brokers are frequently used¹⁵ to recruit migrant workers which leaves workers' vulnerable to exploitation and possibly, even, forced labour¹⁶.

In-kind benefits are mostly applicable to workers on plantations, but several reports indicate that plantations are reducing benefits, particularly housing, to reduce cost and limit compliance burdens.

Some studies found that in some cases plantation owners reduce housing of migrant workers to cut costs¹⁷ and that in extreme cases some workers are being expelled from the plantation housing, necessitating workers to reside off the plantation, to reduce labour and housing costs and to get around the requirement of providing schooling to children who reside year-round on the plantation.¹⁸ This increases the precarious nature of workers' economic status while complicating labour inspections that have historically focused significant attention on the housing conditions of workers.

Age among workers varies widely among countries, reflecting the varying degree of alternative employment opportunities.

Pinedo Caro (2020)¹⁹ finds that the average age of coffee workers in Ethiopia is 30 years, substantially lower than the four other countries studied (India, Indonesia, Costa Rica, and Viet Nam) who average ages of 39-47 years old of coffee workers. The average age of people employed in the coffee sector might be indicative of the availability of other employment opportunities. The high percentage of young workers in Ethiopia might indicate a lack of other waged work available, whereas in India and Indonesia the relatively old workforce (35+) might imply that young people are employed in other sectors, often migrating to cities in search of employment. Pinedo Caro (2020) also finds a weak employment growth in the five countries which might be linked to lack of young people willing to take on jobs in the coffee sector.

2.3 Enabling environment-level drivers of prevailing wages and working conditions in the coffee sector

An enabling environment is necessary for improving working conditions

Historically, working conditions have been very poor in coffee production due to its colonial origins.²⁰

Coffee as a non-native crop was primarily planted and cultivated by colonial powers across their colonies. Production was plantation-based, managed by settlers, with an exploitative economic model based on slavery and low cost of labour.

Labour law enforcement is weak or variable in many coffee-producing areas, an issue enhanced by the nature of informal smallholder production.²¹ The smallholder production base makes it more difficult to administer labour regulations and, in turn, makes it more costly for local authorities to

¹⁵ Verité (n.d.). Research on Indicators of Forced Labor in the Supply Chain of Coffee in Guatemala.

¹⁶ <http://gcrmag.com/profile/view/labour-issues-at-origin-whos-responsible>

¹⁷ Catholic Relief Services (2016). Farmworker Protections and Labour Conditions in Brazil's Coffee Sector. Exploring Isolated Cases of Modern Slavery.)

¹⁸ Verité (n.d.). Research on Indicators of Forced Labor in the Supply Chain of Coffee in Guatemala.

¹⁹ Luis Pinedo Caro (2020). Background note on wages and working conditions in the coffee sector in Costa Rica, Ethiopia, India, Indonesia, and Viet Nam. Paper for the ILO.

²⁰ Specialty Coffee Association (2019). Price Crisis Response Initiative: Summary of Work. December 2019.

²¹ Global Coffee Report (July 2019). Labour issues at origin: Who's responsible? Available online: <http://gcrmag.com/profile/view/labour-issues-at-origin-whos-responsible>

administer the labour regulations. Government capacity might be too weak to sufficiently monitor working conditions on farms and enforce compliance with labour laws in many rural areas.²²

Coffee has been documented to be one of the most prevalent sectors with child labour: 16 countries are currently listed due to child labour in coffee. The Bureau of International Labor Affairs (ILAB) at the U.S. Department of Labor periodically updates a list of goods and their source countries which it has reason to believe are produced by child labour or forced labour in violation of international standards.

Figure 5: Goods with Most Child Labour and Forced Labour Listings by Number of Countries and Production Sector, 2018



Coffee prices and lack of childcare options might influence producers' decision to use child labour on farms. A high number of migrant workers do not have childcare options during seasonal harvesting jobs in distant regions.²³ Case-studies also indicate that higher coffee prices lead to a decrease in the prevalence of child labour. Children are more likely to work on the family coffee farm when prices are low.²⁴

²² Sachs, et al. (2019). Ensuring Economic Viability & Sustainability of Coffee Production. Columbia Center on Sustainable Investment.

²³ Global Coffee Report (July 2019). Labour issues at origin: Who's responsible? Available online: <http://gcrmag.com/profile/view/labour-issues-at-origin-whos-responsible>

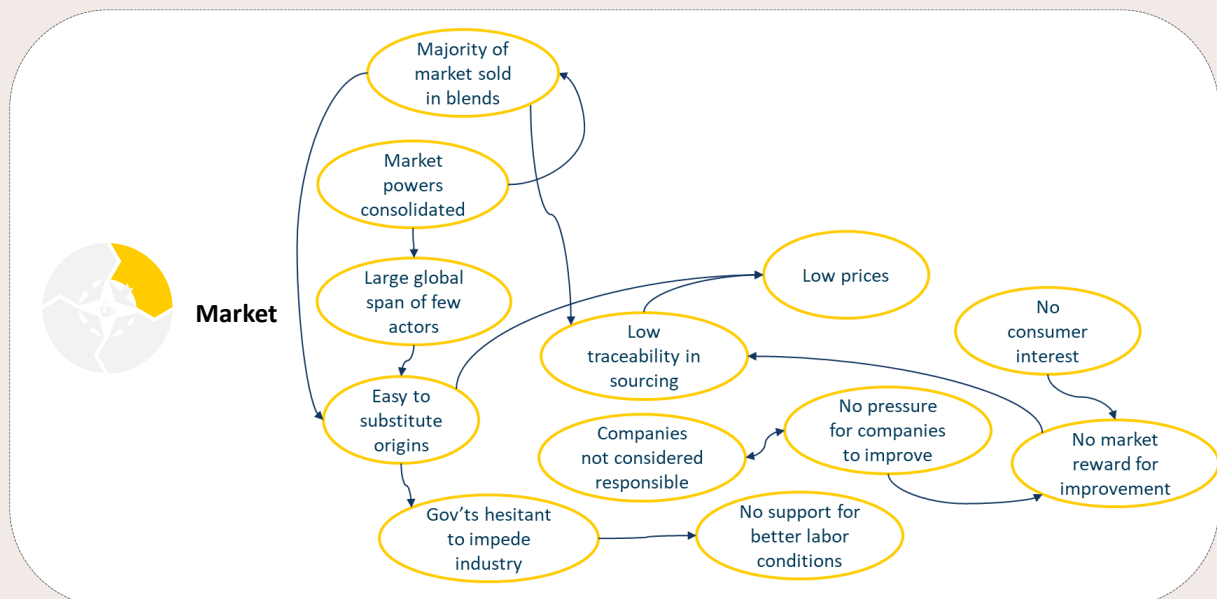
²⁴ International Coffee Organization (2019). Coffee Development Report (2019). Growing for Prosperity - Economic viability as the catalyst for a sustainable coffee sector.

3 Global dynamics and working conditions in the coffee sector

Key takeaways

- ✓ **World market prices are at a near-historically low level and below cost of production in many producing countries.** Low prices have decreased profit margins significantly for producers, putting pressure on coffee farmers and plantations to decrease all input costs, including labour, which is the largest cost category producers have control over. The low prices faced by producers combined with a relatively low share of the overall value created makes it practically impossible for the average producer to pay workers higher wages.
- ✓ **Value creation along the supply chain is highly concentrated in importing countries.** Farmers are price takers, dependent on the world market price, receiving somewhere between 5 to 20% of the final retail price depending on the share of FOB received – which is largely driven by supply chain efficiencies – and the quality produced.
- ✓ **Major shifts in consumption patterns drive changes in value distribution.** With the emergence of focus on the consumer experience and prominence of niche specialty coffee, value creation is changing. Yet, **even with higher prices paid to producers, producers are still limited in their ability to increase wages for farmworkers.** Producers can receive a higher absolute price for higher-value products (one example found a difference of 3.8 vs 2.7 USD/kg green coffee) but the relative share of the final retail price is almost five times lower as the product would retail at nearly six times more worth than conventional blend leaving majority of the value remaining in the consuming country.
- ✓ **Workers remain the worst off, and higher value coffee leaves little room for producers to improve wages of their workers.** A Brazilian plantation worker earns the equivalent of 0.14-0.26 USD per kg of roasted coffee beans during harvesting season, equivalent to 1% to 1.3% of the final retail price. It is difficult to assess the exact value accruing to workers across countries, which is likely to differ substantially between countries.

Figure 6: Root cause analysis of coffee workforce: market drivers

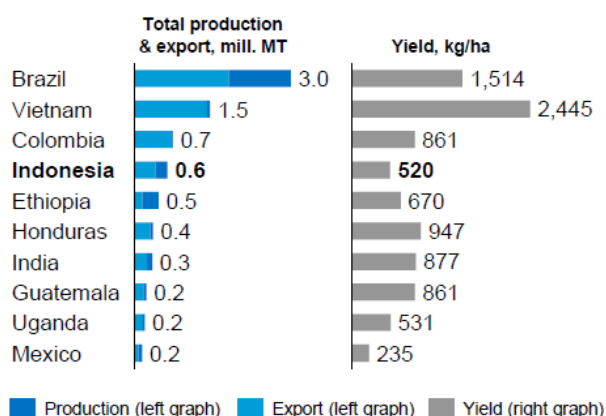


*The boxes are colour coded to correspond to the type of driver (yellow for market)

3.1 Market dynamics in the global coffee sector

Coffee production mostly takes place in countries around the equator. Coffee is grown in over 70 countries on 12.5 million farms, 80% of which are smallholders.²⁵ Brazil is the leading producer with average output of 53 million 60kg bags, followed by Vietnam (28 million bags), Colombia (14 million bags), Indonesia (12 million bags) and Ethiopia (7 million bags).²⁶

Figure 7: Production, export, and yield of the top 10 coffee producing countries



The top 5 producers account for more than 70% of global output and world production is increasingly dependent on Brazil and Vietnam. In 2018, Brazil and Vietnam produced over 50% of global production. Together, these countries represent 79% of the growth in production since 1990 (see figure 8). This is driven by increased production of low-grade Arabica coffee (commodity grade coffee) flooding the market and driving the Arabica futures price — traded on the ICE and known as the New York “C” — down.

Coffee species

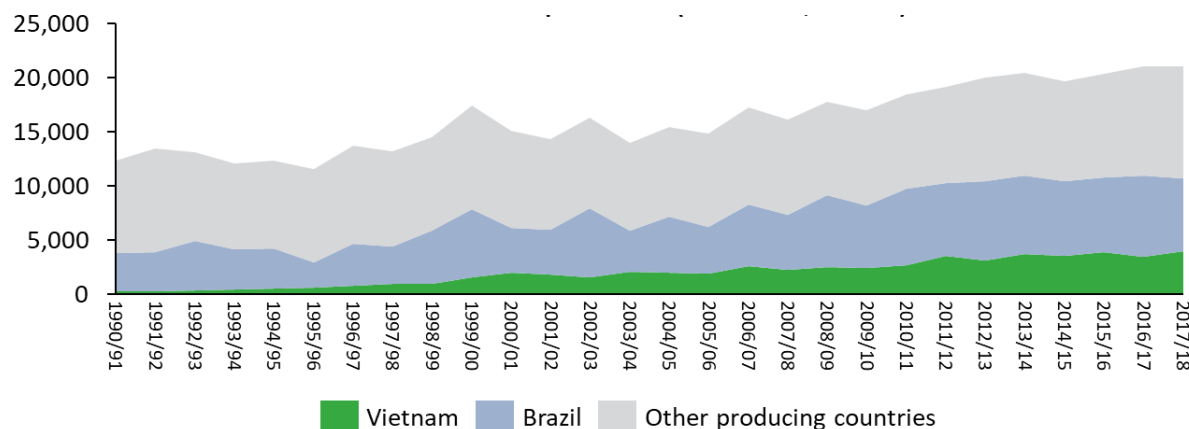
There are two main species of coffee grown for commercial markets: Arabica and Robusta, accounting for 99% of world’s trade.

Arabica beans are superior to Robusta in quality earning a higher market price relative to Robusta which is more commonly destined for lower-value segments of the market, particularly instant coffee. Quality and marketing are key factors in Arabica profitability, while high productivity and farm efficiency are the key factors in Robusta profitability.

Arabica is grown in higher altitudes (800- 2,000 m.a.s.l.) where temperatures are lower and more stable throughout the day and night. Robusta is grown in lower altitudes (0-800 m.a.s.l.) and has a higher resistance to pest and diseases and erratic weather.

Arabica accounts for 60% of world production, down from 70% just a decade ago. Due to climate change, the prevalence of Robusta relative to Arabica will increase as global warming will increase temperatures in higher altitudes where Arabica is currently grown.

Figure 8: Global coffee production (1990-2018, million pounds)



²⁵ Voora, V., Bermudez, S., Larrea, C. (2019). Global Market Report: Coffee. International Institute for Sustainable Development.

²⁶ International Coffee Organization, 2019. Coffee Development Report (2019). Growing for Prosperity - Economic viability as the catalyst for a sustainable coffee sector.

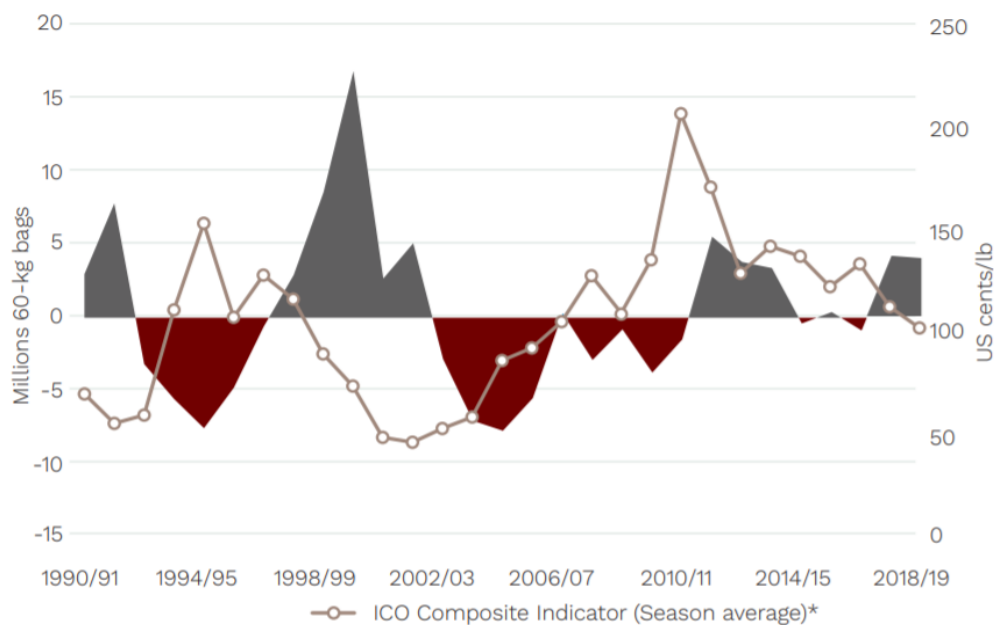
Price discovery mechanism in coffee

World market prices are established in the New York (Arabica) and London (Robusta) exchanges. Prices are determined by the market fundamentals of supply and demand.²⁷

World market prices are at a near-historically low level and below cost of production in many producing countries. Prices have been on a steady decline since July 2016 and were in July 2019 about 30% below the ten-year average. Low prices severely impact smallholder producers' ability to remain profitable and, in turn, the wages levels and employment opportunities for workers.

Prices are driven by a persistent disequilibrium of demand and supply and cyclical supply surplus and deficit. Demand has grown steadily by 2% annually while production is characterized by “boom and bust” cycles where high prices trigger the planting of more trees and better management of existing plots, resulting in increased production. Figure 9 shows the ICO Composite Indicator together with the market surplus (grey zone) / deficit (red zone). **The figure illustrates the low price-elasticity of coffee supply as supply responds with a time lag to changes in global prices.** Output adjusts only slowly to price signals due to the perennial nature of coffee. During high prices, producers will intensify production and new producers will plant additional trees; however, due to coffee trees only yielding 2-4 years after planting, supply will only materialize later.

Figure 9: Market (im)balance vs. ICO Composite Indicator



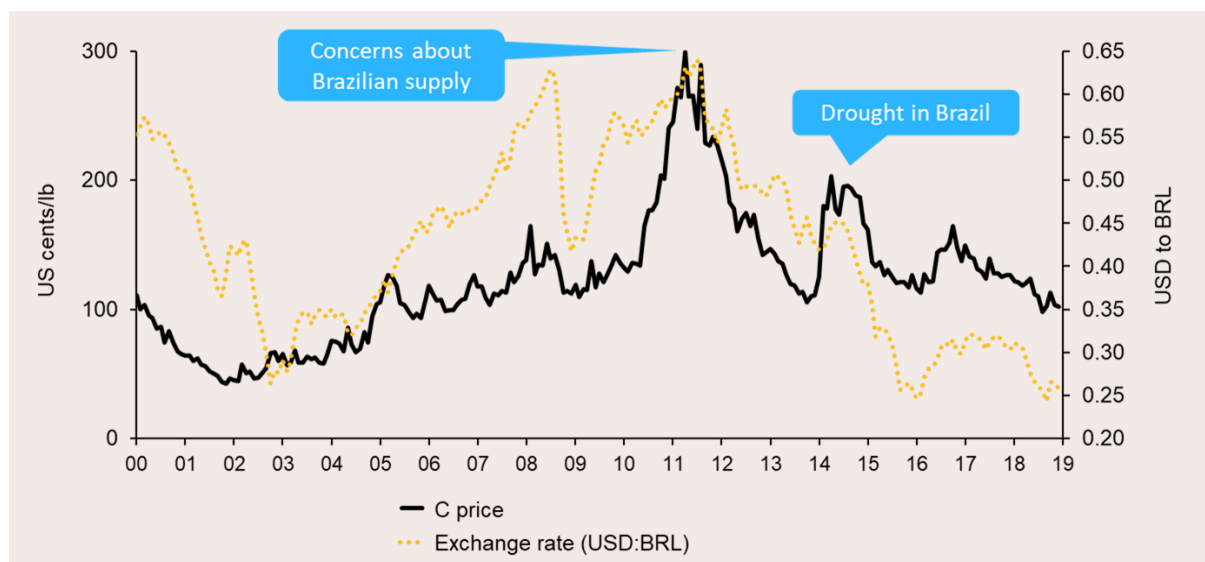
Source: ICO (2019)

The increasing reliance on Brazil and Vietnam in the world market – combined with the price elasticity – lead to highly volatile prices. Forecasts about good or bad harvests in Brazil, and to a lesser extent Vietnam, influence the world market prices due to the expected influence on the supply/demand (im)balance. Below figure illustrates the latest two peaks in world market prices caused by expectations about poor harvests in Brazil.

²⁷ There is a general misconception that speculation drives down low prices in the coffee market. Participation of investors or speculators in the futures markets may exacerbate price movements caused by fundamental factors (supply and demand), especially enhancing the issue of low prices, but does not lead to a down- or upward price trend in itself. See ICO (2019) for further explanation of how speculation influence the coffee price.

The cost of coffee in Brazil also influences the world market price. Fluctuations in the Brazilian currency, the Real, affect the price of Brazilian coffee, and in turn the world markets. When the Brazilian Real decreases in value, the world market price for coffee decreases.

Figure 10: Monthly C price (US cents/lb) vs. exchange rate of Brazilian Real (USD:BRL), 2000-2019

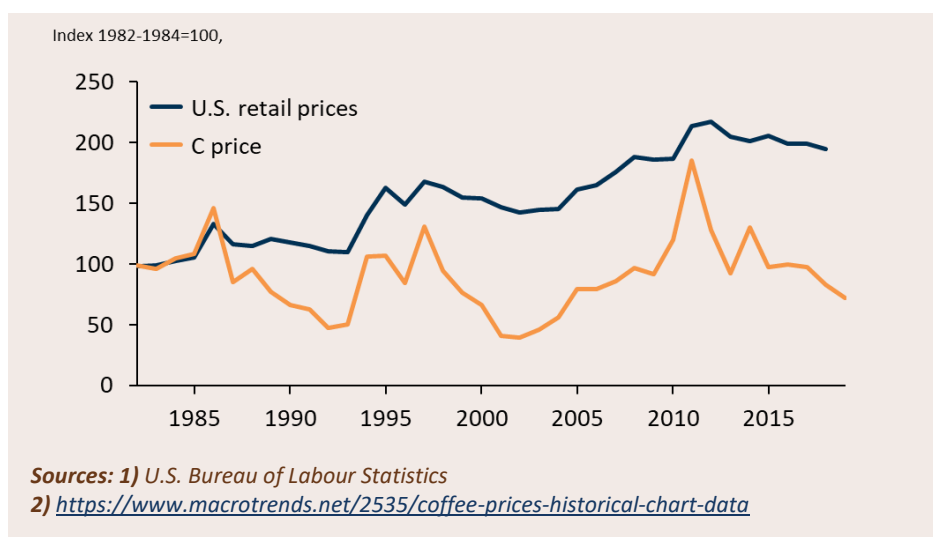


The low world market prices have been sustained for two interconnected reasons: First, the price discovery mechanism in the market distinguishes relatively little between characteristics of quality and origin-specific traits. Simply put, the FOB price is based on the 'C' price (the world market price for green unprocessed coffee) and a country-specific differential along with a possible certification premium. The differential reflects, among others, factors based upon country differences in quality and available supply. The differential is often in the range of -5% to +10% of the 'C' price (see Figure 4: "Yield and price differential among selected countries" further above), having a relatively low influence on the FOB price. Secondly, due to the uniform pricing, producing countries are primarily competing on cost-efficiency. Brazil and Vietnam have the most efficient production systems globally (see figure 7 above on yields) enabling the two countries as some of the few producers to reach cost of production below current prices hovering around 1 USD per pound of green coffee.

Price developments are leading to a growing inequality between producers and roasters & retailers

There is an increasing discrepancy between the price of green coffee and roasted coffee in the retail. Retail prices have consistently increased over the past four decades while producer prices show a downward trend. U.S. roasted coffee has experienced an average price increase of 98% from 1982 to 2018 while the C price (the world market price for green unprocessed coffee) saw a fall of 27%. The retail price for U.S. roasted coffee has developed independently of the C price with retail prices generally following peaks in the C price without equal downward adjustment during troughs in the C price.

Figure 11: Coffee world market (green) prices vs. Consumer Price Index: Retail Coffee in U.S. City, All Urban Consumers



Global price trends: Implications for workers of the low sustained prices

The number one challenge for coffee producers is the low world market prices. The low market prices have put pressure on the feasibility of smallholder production. The sustained low coffee prices since mid-2016 has rendered many producers outside Brazil and Vietnam unable to break even on their cost of production leading many producers, especially in Latin America, to leave coffee production.

Low prices have decreased profit margins significantly for producers, putting pressure on coffee farmers and plantations to decrease all input costs, including labour, which is the largest cost category producers have control over. Labour represents the highest share of total cost in coffee production and accounts for 60-70% of total cost of production. There are limited opportunities for economies of scale compared to other crops in most coffee producing countries as it is difficult to adopt mechanization due to the rugged terrain of most coffee production and small land sizes of producers.

Market prices impact wage levels of workers. A 2019 study by the International Coffee Organization (ICO) found that there is a statistically significant relationship between changes in the price of coffee and employment & wage levels.²⁸ Moreover, **the low prices faced by producers combined with a relatively low share of the overall value created makes it practically impossible for the average producer to pay workers higher wages.**

The low prices also influence employment opportunities. In Latin America, workers tend to migrate across the region. Given the low profitability of coffee producers scaling down intensity or fully abandoning coffee production, this has impacted a large population of migrant workers and consequently increased the migrant flows to North America. Anecdotal evidence suggests that the increased flows of migrants to the United States in 2018 and 2019 was at least partly caused by the low coffee prices.²⁹ According to the ICO study, a 1% increase in coffee prices leads to a 3% increase in

²⁸ International Coffee Organization, 2019. Coffee Development Report (2019). Growing for Prosperity - Economic viability as the catalyst for a sustainable coffee sector.

²⁹ This was first reported by Washington in a series of migration articles. Quartz found that “the number of Guatemalan families taken into custody at the southern US border, many of them from Huehuetenango, a major coffee-growing region in the country’s western highlands, has gone up 87% since 2016”, Quartz (January 14, 2019). The surprising way coffee is fueling migration to the US. Available online [accessed July 25, 2020]:

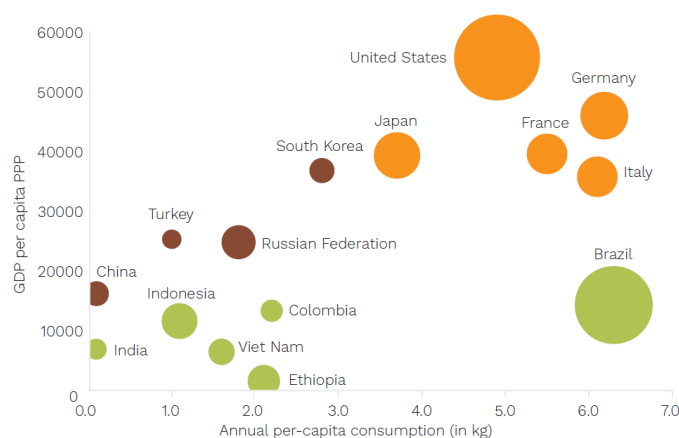
the rural employment rate. This sizeable positive effect on the non-urban labour market suggests that the coffee value chain provides employment for workers at the farm level (e.g. during harvest) and beyond (processing, handling, export).³⁰

The current market dynamics are not conducive for producers to improve wages for workers. The low market prices are themselves an outcome of oversupply, which creates a self-perpetuating challenge on improving the business case for producers.

Global consumption: Major shifts in consumption patterns drive changes in value distribution

Historically, coffee has been consumed in countries with a high per-capita consumption. The traditional consuming countries are European and North American countries together with Japan. Consumption in producing countries is limited, Brazil being the only exception.

Figure 12: Per-capita consumption across markets (2018)



NOTE: Size of the circles represents total annual consumption (in million bags). Categorization: traditional markets (orange), emerging markets (brown), exporting countries (green)

Source: ICO (2019).

Over the past three decades there has been a shift in consumption patterns:

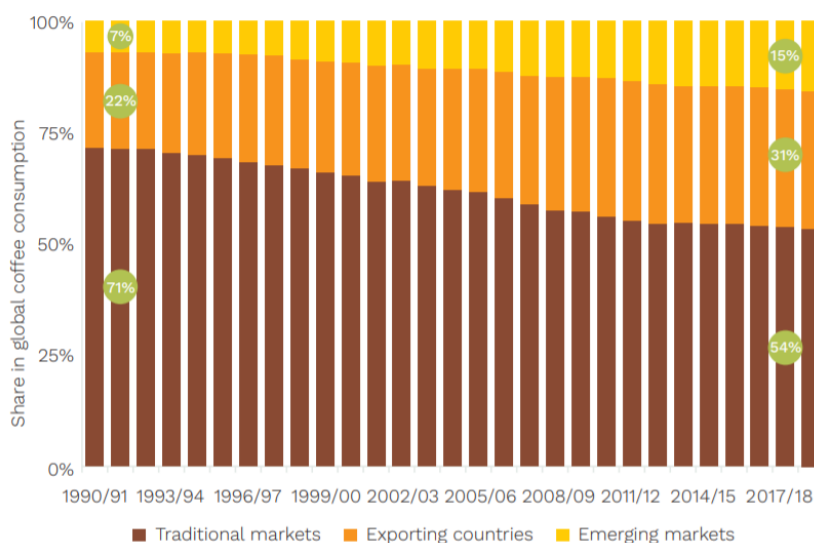
1. **First, growth in consumption volumes have stagnated in traditional markets while the value of coffee consumed has grown substantially.** The increase in value is driven by growth in specialty coffee and new innovations such as single-serve coffee (for example, capsules, pods, pads). The global market shares of traditional markets, namely the EU and US, is not expected to grow in volumes but the higher value specialty coffee will continue to grow. The global market shares of EU and the US has fallen to 65%, compared to 79% two decades ago. The maturity of these markets means that demand for conventional coffee has reached a point of stagnation, but the specialty coffee market is expected to grow.
2. **Secondly, there has been a shift in global consumption with increasing demand from non-traditional markets. Emerging and exporting markets experience increasing consumption of coffee.** Coffee is no longer predominately consumed in traditional markets and is increasingly demanded in emerging markets and exporting countries. There are growing imports from Asia, the Middle East, Arab states, and non-EU European countries. In addition, domestic consumption in producing countries grew at a faster rate than consumption in export markets.³¹

<https://qz.com/1522828/the-surprising-link-between-coffee-prices-and-immigration/>. This was later followed up by a new Washington Post article: Washington Post (June 11, 2019). The migration problem is a coffee problem. Available online [Accessed July 20, 2020]: <https://www.washingtonpost.com/world/2019/06/11/falling-coffee-prices-drive-guatemalan-migration-united-states/?arc404=true>.

³⁰ International Coffee Organization, 2019. Coffee Development Report (2019). Growing for Prosperity - Economic viability as the catalyst for a sustainable coffee sector.

³¹ International Coffee Organization, 2019. Coffee Development Report (2019). Growing for Prosperity - Economic viability as the catalyst for a sustainable coffee sector.

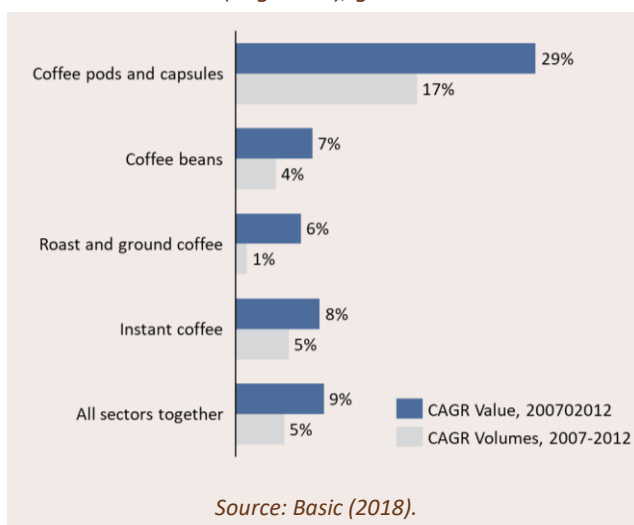
Figure 13: Evolution of global market shares in consumption



Source: ICO (2019).

With the emergence of focus on the consumer experience and prominence of niche specialty coffee, value creation is changing.

Figure 14: Average annual growth between 2007 and 2012 (% growth), global levels



Source: Basic (2018).

Between 2007 and 2012, coffee pods and capsules experienced the largest growth in both volume and value.

The value of coffee differs across coffee products. Most evidently, the value in coffee pods and capsules increased substantially more than the increase in volume. This illustrates the increasing creation of value in the product market led by innovations.³²

3.2 Coffee trading and impact on workers

Sourcing models in the global coffee sector

The global coffee sector can be separated into four distinct sourcing models (“sourcing archetypes”).³³ The sourcing archetypes face inherent differences in supply chain structure, traceability and transparency, pricing and value created which influence the scope of, and the available interventions for, supply chain actors to influence workers’ wages and working conditions. The sourcing archetypes are mostly determined by the end-product that influence the structure of supply chains.

³² Basic (2018) estimates that in the French market, value added created tripled between 1994 and 2017, rising from 1.2 billion euros to 2.6 billion euros. This contrasts with an estimated additional cost of 310 million euros for processing, packaging, and transport of coffee, significantly lower than the additional earnings of 1.4 billion euros garnered by coffee roasters and distributors.

³³ IDH (2020). A Fact-Based Exploration of the Living and Pricing Strategies that Close the Gap. Task Force for Coffee Living Income.

The three sourcing archetypes can be described as follows:

1. **Conventional.** Coffee is commoditized with limited differentiation in product characteristics, such as quality. The end-product is often sold in blends with beans that can be substituted from other countries, should supply be limited or prices increase. Opportunistic relationships are predominant in this archetype. Producers, middlemen, cooperatives, exporters, traders, roasters, retail, and end-customers are seeking an affordable, functional product with price as the predominant driver for the transaction.
2. **Conventional with product value recognition.** Coffee is differentiated by certification and/or verification (Voluntary Sustainability Standards, VSS), or value added to the end-product warranting a premium. Assuring certified volumes requires traders to establish separate supply chains (to separate from conventional, non-certified coffee). Premiums can provide producers with greater security and incentivize investment in farm improvements (provided certified coffee is also sold as such).
3. **High value consumer experience.** Emphasis is placed on the brand name and the inherent sustainability strategy, which primarily serves the single-serve market segment. Traceability and long-term relations play an important role for traders and roaster. This coffee is marketed as a premium product focused on consumer experience and exclusivity. Consumption is convenience-driven and consumed in coffee shops or at home in single-serve machines. Value chains are designed to facilitate control over quality and sustainability, both to provide a premium product and to enable credible storytelling in branding. A shortened value chain enables traders and roasters to have more input into production.
4. **Specialty.** Coffees cater to the high-value niche consumer market, mostly sold in coffee shops. Roasters buy either directly from producers or through a minimal number of actors, offering long-term contracts and often supporting on-farm improvements to secure the specific quality for future years. Coffee is branded as specialty or gourmet coffee and commonly served in high-end coffee shops. Offering is based on a single flavor profile and dependent on supply, which can be limited. Low supply of production in origin countries makes this an exclusive offering. A high level of traceability is a necessity for roasters to secure supply of specific coffee and to control quality. Given the high-quality requisite, only a portion of a producer's coffee tends to fall within this quality segment, which leaves producers to sell remaining production through other sourcing archetypes.

Figure 15: Overview of international coffee sourcing archetypes



Source: IDH (2020).

Importantly, the archetypes are used to better understand the structure and impact of different sourcing models as a result of different market segments. In reality, producers often cultivate different qualities of coffee on their farm and supply to more than one archetype. Likewise, countries produce varying shares of coffee across all four archetypes, and companies source and retail a mix of market segments (archetypes). Hence, an exact classification of which countries or companies belonging to a given archetype cannot be provided.

Market shares: Majority of coffee does not improve benefits for workers

In theory, sourcing models focusing on product differentiation and traceability have positive implications for workers. This potential rests on two levers: (1) selling products for higher prices which increase the potential value that can flow upstream to actors in the supply chain; and (2) traceability and certification systems which translate into greater scrutiny and transparency on working conditions.

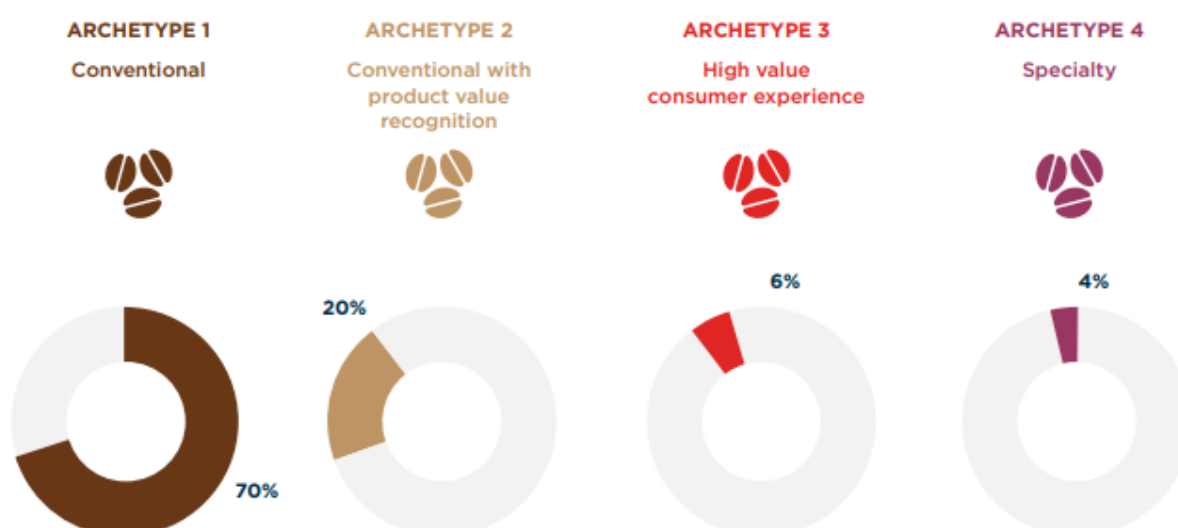
Even with higher prices paid to producers through sales of higher value produce, producers are still limited in their ability to increase wages for farmworkers due to the limited profitability. Table 5 in chapter 2 highlighted that producers (own-account workers) in Costa Rica and Indonesia do not earn an income above the minimum wage. Increasing wages could drastically increase cost of production

placing producers' own economic viability at risk—unless prices are high enough to cover both decent earnings for producers and decent wages for their workers.³⁴

The increased demand for higher value products is partly driven by more consumer awareness on sustainability. 87% of coffee consumers in the United States claim that their purchasing decision is influenced by a company's stance and actions towards improving issues they care about. Yet, this is still a relatively low market share, and **consumer willingness to pay for more sustainable coffee (including better working conditions) is still low for the bulk of coffee.**³⁵

Conventional coffee still accounts for 70% of world consumption leaving a great share of world production with limited traceability and ease of substitution for roasters to other origin countries. This has a counter-productive impact on the enabling environment and its ability and willingness to enforce stricter labour standards. The low traceability increases the cost of enforcement by authorities and monitoring for compliance of civil society organizations, in turn lowering the materiality of labour issues to companies.

Figure 16: Estimates of global volumes of the four sourcing archetypes



Source: IDH (2020).

Certification (archetype 2 coffee) has the potential to improve workers' conditions and wages as a voluntary mechanism by supply chain actors. Table 8 below provides an overview of requirements on labour issues by the three major certification schemes in coffee.

An estimated 40-45% of world's supply is certified, but only about half of the certified volumes are sold as certified due to lack of demand for certified volumes.³⁶ The over-supply of certified volumes is a result of several factors: From a producer perspective, obtaining multiple certifications serve as a diversification strategy to increase the likelihood of selling the coffee at a premium. For traders, the

³⁴ Sachs, et al. (2019). Ensuring Economic Viability & Sustainability of Coffee Production. Columbia Center on Sustainable Investment.

³⁵ See SCA's (2019) Appendix C: Causal Loop Diagrams for a well-articulated explanation of why consumers are perceived to not care about sustainability and how this influences their willingness to pay. Specialty Coffee Association (2019). Price Crisis Response Initiative: Summary of Work. December 2019.

³⁶ Panhuysen, S. and Pierrot, J. (2018). Coffee Barometer 2018.

tangible benefits are small of establishing and maintaining certified supply chains, with the share of certification premium received largely balancing out the cost of assuring separate certified supply chains (to separate from conventional, non-certified coffee). Instead, the benefit to traders lies in the establishment of longer-term relationship with roasters, that given their market power can easily choose another supplier.

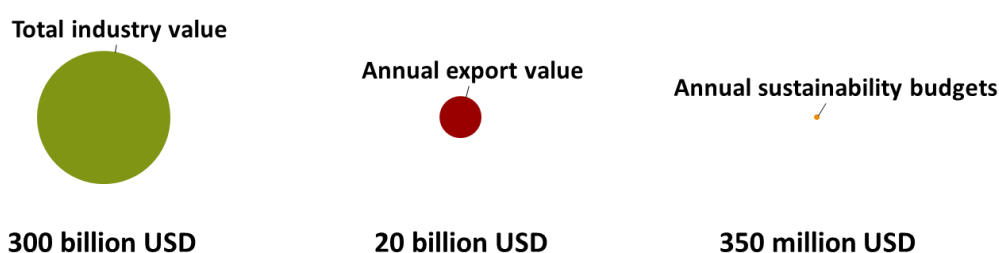
Table 8: Comparison of requirements on labour issues by the major certification schemes in coffee

Aspect	4C	Fairtrade	Rainforest Alliance
Discrimination	Positive action programs to secure equal rights with respect to gender, maternity, religion, ethnicity, physical conditions, and political views	No discrimination. Where discrimination is endemic the company is expected to take action towards removing it in policy or practice.	All forms of discrimination in labor, hiring, training, task assignment, labor benefits etc. are prohibited.
Child Labor	Children under age 15 attend school and light work is only accepted outside school hours	Does not employ children under the age of 15 or under the age defined by local law.	Worst forms of child labor are prohibited. Any task under 15, unless those that are traditional for children in the location, are prohibited.
Freedom of Association and Collective Bargaining	Permanently hired workforce and producers must have the right to belong to an independent organization of their choice. Ensure worker's right to bargain collectively, including regular consultations between employers and authorized workers' representatives	Must sign freedom of association protocol provided by Fairtrade which calls for no punishment, harassment, intimidation of union member and their representative, no discrimination against workers who in the past or currently belong to a union.	Workers have the right to establish and join workers organization of their own free choice, as well as the right to collectively negotiate employment conditions. (not applicable to smallholders)
Forced Labor	Forced or bonded labor is listed as an unacceptable practice	Forced or bonded labor is prohibited	All forms of forced, compulsory, or slave labor are prohibited.
Wages	Wages for permanently hired workers must comply with national laws or sector agreements, ideally living wages or wages above national minimum are paid. Seasonal or piece rate workers must receive equitable treatment with total salary paid equivalent to minimum wages, proven by record keeping.	Wages for permanent workers are set according to CBA regulations where they exist, or at regional average wages, or official minimum wages. For hourly wages, company must pay equivalent to average hourly work based on manageable workload. Information about this must be transparent and available. Payments occur on a regular basis and are documented.	Workers receive no less than the legal minimum wage or wages negotiated collectively. For piece work, established pay allows works to earn at least the minimum wage. No more than 30% of wage is paid in-kind. Cash wages are adjusted for inflation on an annual basis.

Contract	Permanently hired workers receive a written labor contract and know their rights.	All permanent workers have written contracts, temporary workers employed from 3+ months have a legally binding written contract. Workers must be aware of rights.	Terms of work are communicated in native language of the worker. All contracted workers must receive vacation leave, maternity leave.
Hours	Permanently hired workers comply with national laws or international conventions on working hours and overtime must be fully remunerated.	Workers do not work more than 48 hours, overtime is fully compensated.	Work hours do not exceed 48 hours a week, rest breaks are observed, overtime is voluntary and compensated.
Occupational Health	Ensures that hired workers are well informed and trained on health and safety issues, they have appropriate gear, facilities are safe, hazardous waste is collected and disposed of, and a health and safety program is implemented.	Risk areas and hazards are clearly identified, safety instructions are in place, safety equipment is provided for all workers. A Health and Safety officer is appointed, a Health and Safety Committee is created, training for hazardous work is provided.	Farm management implements an Occupational Health and Safety plan. Personal Protective Equipment is made available as needed. Access to potable water is afforded to all workers
Housing	Housing must have a separate bed for each worker, separate accommodation of sexes for single workers, drainage, sanitation, ventilation, water supply and to abide my national regulating relating size and building materials.	Housing ensures structural safety and reasonable levels of decency, privacy, security and hygiene, and includes regular upkeep and improvement of housing and related communal facilities.	Housing has separate beds, protection against weather conditions, absence of vermin and disease vectors, doors with locking mechanism.

Market powers: Traders and roasters increasingly consolidating

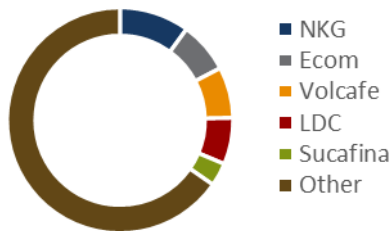
Value creation along the supply chain is highly concentrated in importing countries. It is estimated that the coffee industry creates an annual value exceeding 300 billion USD annually. 20 billion USD remains in the country of origin. Of the 280 billion USD earned by traders, roasters, and retailers, an estimated 350 million USD is spent on sustainability budgets annually.³⁷



³⁷ Panhuysen, S. and Pierrot, J. (2018). Coffee Barometer 2018.

Coffee trading and roasting have undergone a process of market concentration. The five largest trade houses have a combined global market share greater than 25%. Many stakeholders are concerned that an increase in market power could have a negative impact on the relationship between buyers of coffee and farmers.³⁸

Figure 17: Market shares of traders

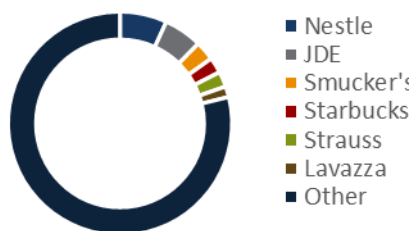


Source: Panhuysen, S. and Pierrot, J. (2018).

Trading houses operate with very thin margins and derive their incomes by dealing in very large volumes and are often vertically integrated owning a large part of the processing and storage facilities in most coffee producing countries. To reduce risk, especially from price volatility, trading houses are either vertically integrated or use price risk management tools to hedge against the world market price and its volatility. In recent years, all trading houses strengthened their local presence and supply networks to stimulate sustainably produced coffee in the countries of origin.³⁹ Specialty traders deal with much smaller quantities and can remain profitable due to the premiums paid for their beans.

Further downstream the value chain, the top 10 roasting companies process 35% of global coffee output. The diversity in consumers experience on the street and in grocery stores veils the underlying structure of the global coffee industry, which is highly consolidated. Nestle and JAB Holding are the largest roasters by far, followed by Lavazza.⁴⁰

Figure 18: Market shares of roasters



Source: Panhuysen, S. and Pierrot, J. (2018).

The maturity of the coffee sector, characterized by stagnating growth, pushes large players to acquire smaller companies to diversify their portfolio and generate growth. Between 2012-2018 Jacobs Douwe Egberts (JDE) acquired 37 companies. As roasters gain power in the supply chain, those operating downstream lose bargaining power and might be included to consolidate themselves to remain profitable.

Consolidation of roasters has meant that traders are catering to fewer clients and are forced to comply with roasters requests. Terms of payment has greatly worsened for traders with the period of payment increasing substantially as roasters singularly handle greater quantities of green beans. Traders used to wait 30 days to received payment for their beans, now they often wait 180 or even 300 days. This poses an undue financial burden on traders who have been forced to be more financially ardent and reduce funds invested in farmer's training programs of financial products.

Value distribution: Major shifts in consumption patterns drive changes in value distribution

Revenues of coffee roasters and retailers have increased significantly over the past two decades. However, the international price for green coffee has not shown any sustained upward trend (and real prices have fallen in some countries).⁴¹

³⁸ International Coffee Organization, 2019. Coffee Development Report (2019). Growing for Prosperity - Economic viability as the catalyst for a sustainable coffee sector.

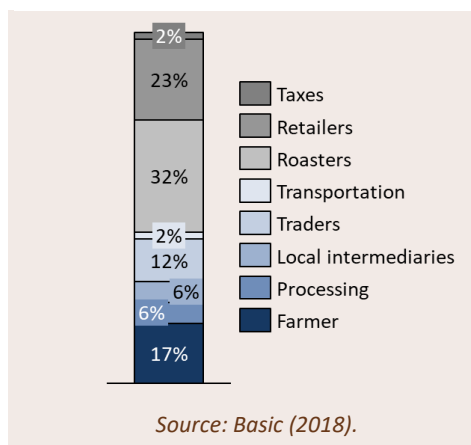
³⁹ Panhuysen, S. and Pierrot, J. (2018). Coffee Barometer 2018.

⁴⁰ Panhuysen, S. and Pierrot, J. (2018). Coffee Barometer 2018.

⁴¹ International Coffee Organization, 2019. Coffee Development Report (2019). Growing for Prosperity - Economic viability as the catalyst for a sustainable coffee sector.

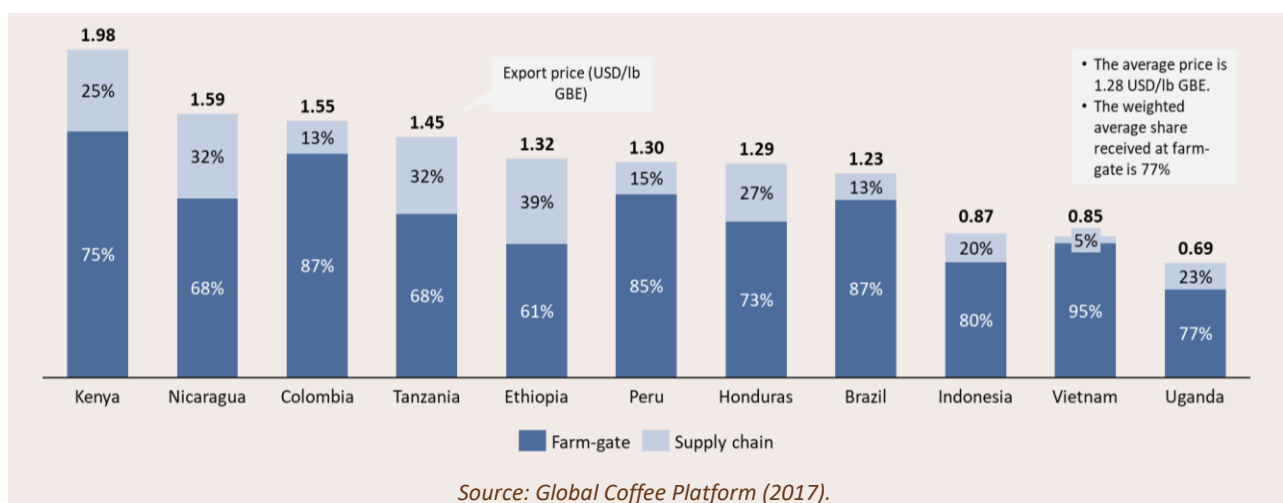
Roasters receive the largest share of the value creation (30-40%) followed by retailers (20-30%).⁴² Traders earn a relatively lower share due to the trading in very thin margins and lower value added. Producers often receive anything from 5-20% of the value created depending on the quality of coffee and the country of origin.

Figure 19: Distribution of value created



Farmers are price takers, dependent on the world market price. The price received by growers derives from the world market reference price with an adjustment for quality. Nonetheless, the share of the world market price transferred to farmers can vary significantly across individual producing countries depending on the efficiency of the supply chain as well as government policies.⁴³ The efficiency of supply chains in individual countries of origin influence the share of the export price (Free On Board price) that producers receive. The share of the FOB going to producers ranges between 61% in Ethiopia to 95% in Vietnam.

Figure 20: Export price (USD/lb GBE) and the share received by producers (farm-gate) and the remaining domestic supply chain, 2017



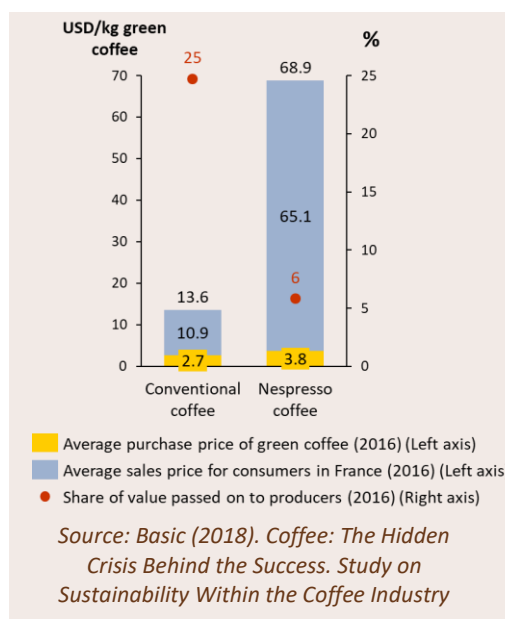
Workers remain the worst off, and higher value coffee leaves little room for producers to improve wages of hired labor. Danwatch (2016) estimates that a Brazilian plantation worker earns the equivalent of 0.14-0.26 USD per kg of roasted coffee beans during harvesting season, equivalent to 1% to 1.3% of the final retail price. It is difficult to assess the exact value accruing to workers across countries, which is likely to differ substantially between countries.

⁴² Basic (2018). Coffee: The Hidden Crisis Behind the Success. Study on Sustainability Within the Coffee Industry

⁴³ International Coffee Organization, 2019. Coffee Development Report (2019). Growing for Prosperity - Economic viability as the catalyst for a sustainable coffee sector.

The increasing prevalence of high-value coffee products increased the value generated in the sector substantially but producers are only marginally better off. Basic (2018) studied the price points in Nespresso's Colombian value chain against conventional coffee sourced from Colombia (see figure 21). They found that producers received a higher absolute price (3.8 vs 2.7 USD/kg green coffee) but that the relative share of the final retail price is almost five times lower. Nespresso capsules retail at 65.1 USD/kg in French supermarkets compared to 13.6 USD/kg for a conventional coffee blend. Thus, the retailed product is nearly six times more worth, but majority of the value remains in the consuming country.⁴⁴

Figure 21: Value distribution of Colombian coffee

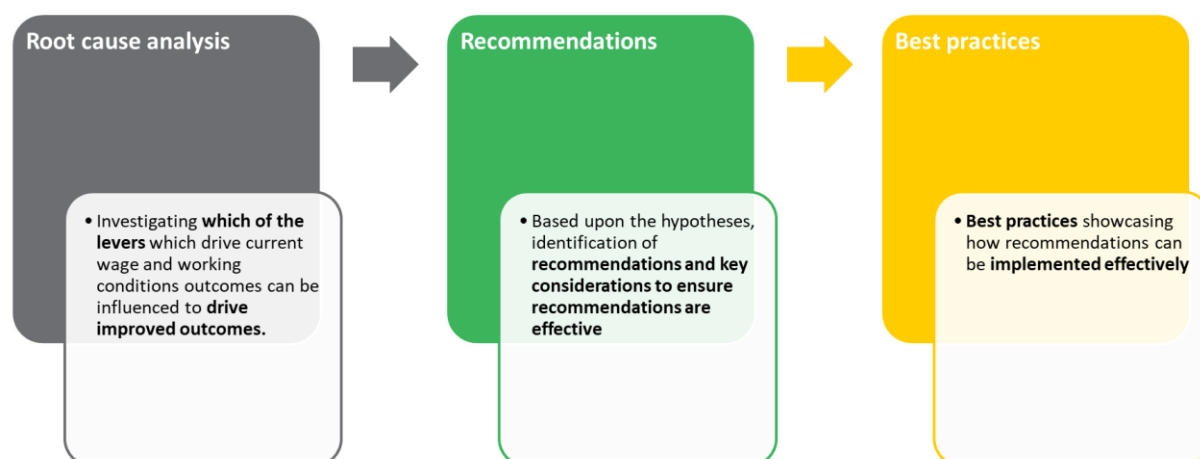


⁴⁴ Basic (2018). *Coffee: The Hidden Crisis Behind the Success. Study on Sustainability Within the Coffee Industry*. Research report.

4. Identifying improvement levers for the coffee sector

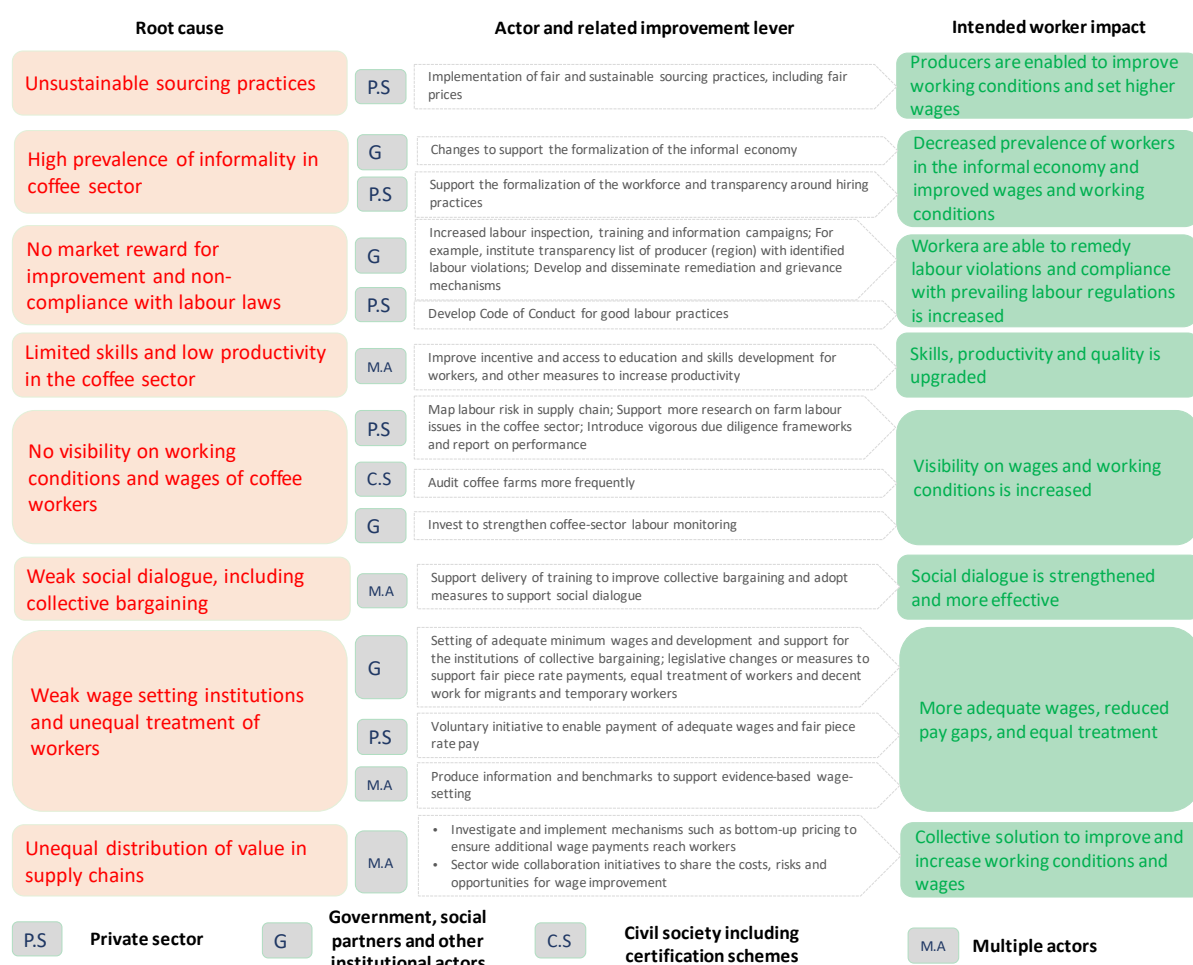
Translating the root cause issues into possible recommendations and best practices can be the basis of a potential improvement agenda for driving better wage and working conditions outcomes. A visual depiction of the recommendations framework to structure this section is shown in figure 22.

Figure 22 Recommendations framework



The improvement analysis is shown below with some ideas and suggestions that may serve as inputs for social dialogue and the development of an agreed framework highlighting areas that can be influenced to trigger wage improvements. Given the closely interconnected causal loops, only by tackling multiple rather than isolated root causes across the supply chain can these improvements be delivered.

Figure 23:3 Relationship between root cause, improvement lever, and intended impact on coffee workers



4.1 Possible recommendations and best practices

All stakeholders in the coffee sector – particularly supply chain actors, including traders, roasters and retailers – are strongly urged to ensure that their operations and suppliers’ operations are in compliance with the UN Guiding Principles on Business and Human Rights, as a bare minimum. In what is one of the most comprehensive overviews of business attitudes in Europe to date, the European Commission recently released a study on due diligence requirements through the supply chain. The study found that only a third of the surveyed companies are conducting broad-ranging due diligence – based on the framework set out in the UN Guiding Principles – in relation to their environmental and human rights impacts arising in their operations and supply chains.⁴⁵ The Guiding Principles should be at the core of any business dealings and sustainability programs within the coffee sector, and any other agricultural sectors.

Importantly, many of the recommendations are not new nor profoundly innovative. The coffee sector is faced with a set of root causes that perpetuate the challenges of low wages and poor working

⁴⁵ European Commission (2020). Study on due diligence requirements through the supply chain. Available online: <https://op.europa.eu/de/publication-detail/-/publication/8ba0a8fd-4c83-11ea-b8b7-01aa75ed71a1/language-en>.

conditions. Many—if not all—of these issues have been highlighted numerous times before in other studies yet progress on many basic issues remains elusive. Concerted, supply chain-wide action on critical areas such as those highlighted here are unavoidable. Without tackling these root causes, sector-wide systemic change will not prevail.

To ensure market- and supply chain-driven wage improvements, it is vital to engage the powerful coalition of coffee buyers aligned around a pre-competitive framework. The coffee market is not conducive to improve wages given the fierce competition on prices and low margins. The sector is dominated by a small number of powerful actors with the top 10 roasters accounting for more than 35% of global sales and the five largest traders accountable for 25% of world trade. Substantial changes require a systemic approach with strong sector coordination that can collectively exert leverage over suppliers, communicate common expectations and provide suppliers with the resources, frameworks, guidance, tools, and trainings needed to improve wages and working conditions.

The following recommendations should be considered a package, not a menu. Ensuring sustained change necessitates tackling all the root causes. One actor tackling one root cause will be insufficient. All relevant stakeholders need to be involved to tackle the impediments in the market, in production, in the enabling environment, and in the labour market.

The recommendations are developed to improve workers' wages and working conditions directly, but the need to improve overall profitability of producers should not be forgotten. The need for market- and supply chain-driven wage improvements is among other reasons borne by the fact that smallholder producers (the predominant employer in the coffee sector) make very low – if any – profit on coffee production under the current market conditions, making it impossible for many producers to improve wages of its workers. Improving the profitability of coffee production is a necessary prerequisite for better wages.

The recommendations apply to all key stakeholder groups. The three key groups of stakeholders — *Governments, social partners and other institutional actors / the private sector / Civil society including certification schemes* — have a specific role to play as well as limitations to what they can do. In line with these, they can make certain commitments and enact recommendations to further progress on decent work in the coffee sector.

Governments, social partners and other institutional actors

- **Actors:** This includes governments of major producing countries (e.g. Brazil, Viet Nam, Ethiopia), government of importing countries (e.g. EU, USA), government agencies (e.g. GIZ, IDH) and social partners (workers' and employers' organisations e.g. CONTAG/FETAGS, Oromia Cooperative Union).
- **Role:** Institutional actors are responsible for legislating and enforcing labour standards and creating a conducive environment for progress on decent work through social dialogue.
- **Limitations:** Institutional actors are not always able to enforce compliance given limited capacity of labour administration, inspection, and remediation systems. Representative social dialogue can be difficult given the complexity of global supply chains and the sometimes weak capacity of social partners. Governments and social dialogue partners have to balance competing interest with a primary incentive being the market pull for progress on decent work.
- **The required commitment:** to create a level playing field through industry-wide collective bargaining and/or by creating and enforcing legislation, such as adequate minimum wages, that makes decent work a rule-based requirement of doing business.
- **The recommendations:** (1) support the formalization of the informal economy; (2) increase labour inspection, training, and information campaigns; (3) institute transparency list of producer (region) with identified labour violations; (4) develop and disseminate remediation

and grievance mechanisms; (5) invest to strengthen coffee-sector labour monitoring (6) reform of wage-setting to ensure equal worker treatment and minimum wages that takes into account the needs of workers along with the economic factors; (7) support fair piece rate payments; (8) support to social partners to increase their capacity to negotiate wages and working conditions; (9) introduce standards to equalize treatment of migrants and temporary workers.

Private sector

- **Actors:** The key private sector actors are large traders (e.g. NKG, ECOM, Volcafe, Louis Dreyfus Company and Sucafina) and roasters (e.g. Nestle, JDE, Smucker's, Starbucks, Strauss, Lavazza).
- **Role:** As set out in the ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy, enterprises are responsible for compliance with applicable laws and respect for international labour standards across operations. Companies have developed private governance approaches to ensure compliance, including single-buyer initiatives as well as sectoral partnerships such as the Global Coffee Platform, ICO.
- **Limitations:** Private initiatives can help to increase capacity for compliance. However, even industry-wide action cannot institutionalize decent work or ensure strong industrial relations.
- **The required commitment:** to comply with labour legislation in a transparent manner and make progress on decent work a norm-based requirement for doing business, and link to and encourage institutional change on decent work.
- **The recommendations:** (1) develop a sector-wide code of conduct which enforces decent work principles and (3) map labour risks in supply chains and strengthen audits; and (3) support research on farm labour issues.

Civil society including certification schemes

- **Actors:** Key certification schemes in coffee (e.g. 4C, Fairtrade, Organic and Rainforest Alliance) and NGOs active in the coffee sector (e.g. Solidaridad, Conservation International)
- **Role:** Social labelling schemes are verification systems for social performance which are used by companies. Their role is to provide a visible way for companies to communicate and consumers to know about the conditions under which products were produced.
- **Limitations:** Certification schemes set standards around how products are produced and potentially pay premiums, collect data on product flows, give data assurance, and have traceability systems to provide proof of origin. Certification systems can improve standard stringency, enforcement, and transparency around system elements, but are limited in their impact on the non-certified supply chain and to incentivize further progress on decent work.
- **The required commitment:** to ensure certification standards on decent work are stringent and enforced, and support efforts that link to and encourage institutional change on decent work.
- **The recommendations:** audit more frequently based on risk mapping.

Root cause tackled	Lead actor	Action	Expected worker impact	Best practice example
1. <i>Unsustainable sourcing practices</i>	Private sector	<p>Training and preferential sourcing practices to incentivise the adoption of sustainable purchasing practices:</p> <p>This can involve:</p> <ol style="list-style-type: none"> (1) Train company staff to understand the impact of purchasing practices on working conditions; (2) Channel greater value upstream, including through direct sourcing where possible, to ensure producers capture a portion of the product price that enables them to internalise social costs; (3) Coffee buyers incentivise good practices by buying more from suppliers who are proactive in raising labour standards or have good practices, such as support for unionizing. 	<p>Reform of purchasing practices</p> <p>The sourcing decisions and purchasing practices adopted by companies are consistent with ILO Conventions on wages and working conditions. Moreover, there are incentive and reward systems in place to encourage suppliers to go beyond fundamental compliance with basic standards towards best practices on decent work.</p>	
2. <i>Weak wage setting institutions and unequal treatment of workers</i>	Multiple actors	<p>Reform wage legislation and implement adequate minimum wages.</p> <p>Governments are responsible for ensuring enforcement of legislation and fundamental rights at work by ensuring policy coherence, including equal treatment of workers in national labour legislation.</p> <p>In the coffee sector, attention should be paid to action on the following issues, for which the ILO can offer technical support and capacity building:</p> <ol style="list-style-type: none"> (1) Harmonise labour legislation to ensure that it does not discriminate between types of workers with respect to benefits and entitlements. This should be part of a broader strategy to prevent informalisation of workers in line with the ILO's Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204). (2) Adopt adequate minimum wage systems, statutory or negotiated, which take into account the needs of workers and their families as well as economic factors 	<p>Balanced compensation which covers all workers</p>	<p>ILO technical assistance on minimum wage setting through the use of methodology to assess the needs of workers and their families as well as economic factors in order to inform a balanced and evidence-based wage fixing.</p> <p>Other initiatives to strengthen information on wages includes:</p> <ul style="list-style-type: none"> • Fair Wear's Wage Ladder tool allowing companies and factories to compare current wage levels to various benchmarks as input for negotiations with workers

Root cause tackled	Lead actor	Action	Expected worker impact	Best practice example
		<p>Information to support adequate wage setting</p> <p>Governments should be urged to adopt adequate minimum wages, as called for in the ILO Centenary Declaration for the Future of Work adopted in 2019. Such adequate minimum wages should take into account economic factors as well as indicators of the needs of workers and their families.</p> <p>In the absence of adequate statutory minimum wages, the coffee sector is strongly encouraged to support the development of Collective Bargaining Agreements (CBAs) to integrate needs-based salary as the minimum standard.</p>		<p>and management over an appropriate wage floor.</p> <ul style="list-style-type: none"> • Rainforest Alliance and IDH's Salary Matrix is a self-evaluation matrix where companies can determine worker remuneration and performance with respect to living wages which can be used for discussion and action to address gaps. • Living Wage Advocacy Initiative (LIWIN). The LIWIN is a pilot project in Ecuador and Ghana supported by Fairtrade International and the World Banana Forum. It seeks to reach national consensus on living wage benchmarks which can be fed into wage negotiations and wage-setting interventions.
3. Weak collective bargaining and social dialogue	<i>Multiple actors</i>	<p>Improve social dialogue and support delivery of training for local actors to engage more strongly in social dialogue</p> <p>Any tripartite social dialogue should be in line with the Tripartite Consultation (International Labour Standards) Convention, 1976 (No. 144).</p> <p>Due to the high prevalence of smallholder farmers in the coffee sector and lack of formalization of workers, it is important that any agreements are followed up with strong monitoring and enforcement to ensure compliance.</p>	<p>Collective bargaining is representative and effective</p> <p>Social dialogue promotes consensus building and democratic involvement among the main stakeholders to secure workers' fundamental rights and improve wages and conditions over time.</p>	<p>Malawi Tea 2020 is a multi-stakeholder partnership that aims to support workers and farmers to earn a living wage and income and has succeeded in closing the gap between tea wages and the living wage and the tea sector's first ever collective bargaining agreement between employers and workers.</p>

Root cause tackled	Lead actor	Action	Expected worker impact	Best practice example
		The coffee sector is characterized by a relatively low level of collective bargaining compared to many similar agricultural sectors. Support towards local workers' unions and training of union staff along with workers could help to build stronger workers' unions and ensure workers' understanding of and ability to claim their fundamental rights of freedom of association and collective bargaining.		
4. Non-compliance with labour laws and no market reward for improvement	Government, social partners, and other institutional actors as well as Private sector	<p>Labour inspection The enforcement of minimum wages falls within the scope and responsibilities of labour inspectorates. There are a number of indicators to assess the capacity of labour inspection systems, including: the number of inspectors, the number of inspections undertaken, and the number and amount of penalties imposed in practice. The effectiveness of labour inspection will also depend on whether inspectors are properly trained. Labour inspectors must be able to access enterprises subject to inspection, to inspect wage records and other documents, and conduct interviews with workers and management. Labour inspectors should be able to issue warnings or open administrative procedures so that they can impose penalties in cases of non-compliance.</p> <p>Develop and disseminate broadly remediation and grievance mechanisms. Grievance mechanisms are particularly important to address workers employed in informal smallholder-based production which is for a great part of world's coffee production sourced without traceability to farm-level and limited government enforcement of labour regulations. In other sectors, trade unions can function as a trusted channel to receive and handle complaints. However, given the low level of organization of coffee farmers, one vehicle to ensure broad dissemination would be via cooperatives and farmer organizations.</p>	<p>Compliance with minimum wages can be increased through targeted and reinforced labour inspection</p> <p>Incentivize producers and traders to comply with prevailing labour regulations.</p>	<p>Like most international roasters, Nestlé and Jacobs Douwe Egberts (JDE) – the two largest roasters – both have ethical guidelines obliging suppliers to comply; See Nestlé Responsible Sourcing Standard and JDE's Supplier Code of Conduct. The guidelines require the protection of human rights. Suppliers must also ensure proper working conditions, in which regulations regarding working hours are respected, and workers do not receive less than the minimum wage.</p> <p>Supplier Code of Conducts (COCs) alone are not enough though. A 2016 study by Danwatch found that some Brazilian plantations supplying to major coffee roasters with supplier CoCs were in violation of several international conventions on child labour and health and safety requirements for workplaces.⁴⁷</p>

⁴⁷ Danwatch (2016). BITTER KAFFE: Slavery-like Working Conditions and deadly Pesticides in Brazilian Coffee Plantations.

Root cause tackled	Lead actor	Action	Expected worker impact	Best practice example
		<p>Institute transparency list of producer(s) (regions) with identified labour violations [mostly relevant to plantation-based production]. Such list would support local authorities to tailor and target interventions towards high-risk areas. This would also support buyers to identify high-risk areas that, in turn, could increase dialogue with local suppliers on improvement of working conditions. Moreover, this would also support the risk-based sourcing auditing of certification schemes and companies.</p> <p>Develop Sector Code of Conduct for Good Labour Practices. A code of conduct helps align business partners around expectations for ethical business practices.</p> <p>The Code of Conduct should – as a minimum – be compliance-based, adhering to the eight fundamental ILO Conventions on child labour, forced labour, discrimination and freedom of association to secure the fundamental principles and rights at work.⁴⁶ Where applicable, the Code should be complemented by other workplace rights covered by the Universal Declaration of Human Rights, or the OECD Guidelines for Multinational Enterprises on employment and human rights. Lastly, the code should comply with relevant local labour laws.</p>		<p>The South African Commission for Conciliation, Mediation and Arbitration (CCMA). In the 2018/2019 financial year, nearly 200,000 cases were referred to the CCMA. Agriculture and farming accounts for 4% of all cases (~8,000 cases). The CCMA has a statutory obligation to hear cases within a timeframe of 30 days, with the CCMA taking, on average, 24 days to complete the conciliation process from the date of referral. The CCMA settled 74% of all cases heard and closed.⁴⁸</p> <p>In 2015 Keurig Green Mountain, Inc. initiated a two-year program in Guatemala to better understand rural labour market dynamics and farmworker needs. With its partners, Keurig supported the implementation of a Grievance Reporting and Information Dissemination (GRID) system that provided over 1,000 workers with information about their rights.⁴⁹ The GRID system promotes</p>

⁴⁶ The eight fundamental Conventions are: 1. [Freedom of Association and Protection of the Right to Organise Convention, 1948 \(No. 87\)](#); 2. [Right to Organise and Collective Bargaining Convention, 1949 \(No. 98\)](#); 3. [Forced Labour Convention, 1930 \(No. 29\)](#) (and its [2014 Protocol](#)); 4. [Abolition of Forced Labour Convention, 1957 \(No. 105\)](#); 5. [Minimum Age Convention, 1973 \(No. 138\)](#); 6. [Worst Forms of Child Labour Convention, 1999 \(No. 182\)](#); 7. [Equal Remuneration Convention, 1951 \(No. 100\)](#); 8. [Discrimination \(Employment and Occupation\) Convention, 1958 \(No. 111\)](#)

⁴⁸ Commission for Conciliation, Mediation and Arbitration (CCMA). Annual Report 2018/19. Available online: <https://www.ccma.org.za/About-Us/Reports-Plans/Annual-Reports>.

⁴⁹ Specialty Coffee Association (2018). Farmworkers & Coffee: The Case for Inclusion. An SCA White Paper. Available online: <https://www.scanews.coffee/wp-content/uploads/2018/06/a-blueprint-for-farmworker-inclusion.pdf>

Root cause tackled	Lead actor	Action	Expected worker impact	Best practice example
		<p>To be effective, employees responsible for sourcing should be incentivized to offer preferred supplier status to suppliers with a long-term proven track record of exceeding the minimum labour rights.</p> <p>The best practice of supplier Code of Conducts provides the basis for supply chain actors to align around the fundamental rights of labourers but have – despite the requirements of compliance to suppliers – failed to ensure that ILO conventions are adhered to within their supply chains. A stronger sector-wide Code combined with the other recommendations on robust mechanisms to track and monitor the supply chain and stronger legislation could enable larger pressure on suppliers to comply and for roasters and traders to scrutinize compliance. Progressive companies are also encouraged to incorporate norm-based standards into the Code of Conduct to support for example a Living Wage.</p> <p>The Sustainable Coffee Challenge – with its Action Network on Improved Labour Practices and Supply – could be an appropriate neutral vehicle to coordinate sector dialogue.</p>		<p>transparency in labour recruitment and give workers a channel for questions and information about their rights. It is designed to be a permanent and transparent platform to collect information about labour and recruitment practices in Guatemala’s coffee sector and will serve as a practical tool to help companies that support the ongoing implementation of the GRID system to more effectively manage supply chain risk.⁵⁰</p> <p>Brazil’s Dirty List: The Brazilian government has taken steps to address forced labour throughout their farming and manufacturing sectors. One of those steps is publishing an annual “Dirty List” of those found in violation of Brazilian law and what they have defined as modern slavery: forced labour, debt bondage, dangerous and degrading conditions, and debilitating work days.</p>
5. <i>No visibility on wages & working conditions of coffee workers</i>	Multiple actors	In order to address the limited visibility on wages and working conditions of coffee workers, Governments might take the following action:	The visibility on wages and working conditions of coffee workers is increased and there is a higher probability of	The Sustainability Consortium (TSC) has developed a risk assessment tool – the TSC Commodity Mapping Tool – designed to help members visualize

⁵⁰ Specialty Coffee Association (2018). Farmworkers & Coffee: The Case for Inclusion. An SCA White Paper. Available online: <https://www.scanews.coffee/wp-content/uploads/2018/06/a-blueprint-for-farmworker-inclusion.pdf>.

Root cause tackled	Lead actor	Action	Expected worker impact	Best practice example
		<p>1. Invest to strengthen wages and working conditions monitoring in the coffee sector: In some cases there is a lack of publicly available information on working conditions across many of the largest coffee producing countries. The lack of data and information is largest in areas predominantly smallholder-based. Governments of coffee producing country should aim at increasing transparency on the working conditions. This can be reached by allocating more resources to monitoring and enforcement actions for coffee-growing regions.</p> <p>In order to address the limited visibility on wages and working conditions of coffee workers, the private sector might take the following actions:</p> <p>1. Introduction of vigorous due diligence frameworks to adhere to companies' human rights obligations. Companies are strongly encouraged to adopt vigorous due diligence frameworks. Due diligence frameworks can be a powerful risk management tool to obtain assurance of the internal operations as well as supply chain partners' capacity, systems, policies, and processes adhere to the relevant human rights obligations of companies.</p> <p>For voluntary due diligence to be effective, a very strong focus on improvement of traceability of coffee and transparency of human rights violations and compliance is required. Majority of the world's coffee is not traceable to production level due to the complexity of supply chains, often with several intermediates between the farm and the exporting trader. There is often no capacity, nor interest, of local intermediates</p>	<p>identifying labour violations</p> <p>Due diligence frameworks creates a level-playing field for wage and working condition improvement and provides a clear market signal for sustainable production with a new competitive floor.</p>	<p>and communicate the risks present in their product supply chains.⁵²</p> <p>The new certification scheme for Rainforest Alliance will build upon risk-based assurance and contextualization. Risk analyses will be carried out at the farm and supply chain level and data submitted via the Rainforest Alliance Certification Platform at several different stages of the certification process.</p> <p>To stress the responsibility of companies, the new supply chain standard also includes workers' requirements on supply chain level.</p> <p>This is combined with Supply Chain Risk Assessment, evaluating the potential risks of a company's operations to determine the type and frequency of verification required.</p>

⁵² The Sustainability Consortium: <https://www.sustainabilityconsortium.org/projects/commodity-mapping/> [Accessed July 21, 2020]

Root cause tackled	Lead actor	Action	Expected worker impact	Best practice example
		<p>to introduce strong human rights compliance, enhancing the need for international traders and coffee roasters to enforce due diligence policies. This requires an increased level of traceability to investigate human rights violations across the supply chain down to the producing level.</p> <p>Due diligence requirements may be coupled with transparency legislation requiring companies to report on labour risk and violations in supply chains. Such legislation would require companies to establish greater traceability and transparency of their sourcing, especially pertaining to working conditions, which, in turn, would ensure greater materiality of labour violations.</p> <p>2. Support more research on farm labour issues in the coffee sector: Data and knowledge on farm workers in the coffee sector is still very limited and there is limited visibility on the severity of worker issues across countries. There is a need to better understand the issues and severity to form the basis of first social dialogue and more sector-wide action. This requires continued research on farm labour issues in the coffee sector to help narrow the collective knowledge gap where farm labour is concerned.</p> <p>3. Map labour risk in supply chains and strengthen labour dimension of supply chain audits: The risk map will support companies to identify, prioritize, and quantify risks of different labour rights violations. Based upon the risk mapping, companies can engage in dialogue about labour issues with supply chain partners at origin and together develop verification and mitigation strategies based upon the level and type of risk.</p>		

Root cause tackled	Lead actor	Action	Expected worker impact	Best practice example
		<p>In order to address the limited visibility on wages and working conditions of coffee workers, civil society and certification scheme might take the following action:</p> <ol style="list-style-type: none"> 1. Audit more frequently; auditing several times a year based on risk mapping: Reliance on annual auditing is insufficient. Some certifications utilize a “square root” methodology to select farms for inspections, meaning that in large markets, just 0.5 percent of farms are inspected every three years, meaning that it would take hundreds of years to inspect all of the farms in the supply chain.⁵¹ Announced and unannounced audits covering all seasons and phases of the production cycle are required to ensure seasonal and migrant workers are included in interviews even if they are only on the farm part of the year. One challenge to increasing auditing will be costs, and technological solutions may be required. 		

⁵¹ Verité (n.d.). Research on Indicators of Forced Labor in the Supply Chain of Coffee in Guatemala. Available online (assessed July 21, 2020): https://www.verite.org/wp-content/uploads/2016/11/Research-on-Indicators-of-Forced-Labor-in-the-Guatemala-Coffee-Sector_9.16.pdf.

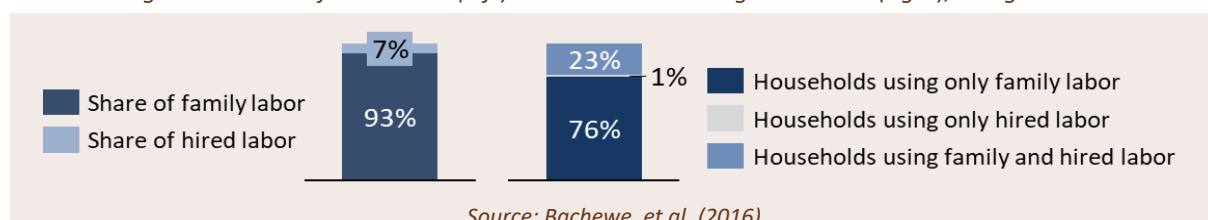
Annex – CASE STUDY: Ethiopian coffee

5.1 Production-level drivers in the Ethiopian coffee sector

Production systems: Ethiopian coffee dominated by smallholder producers

Smallholder farmers hire a limited number of employees (14% of the total workers). There are three categories of workers in Ethiopian smallholder coffee production: unpaid family workers, workers sharing their work under a labour sharing arrangement (“exchange”) and employed workers. Most labour in smallholder coffee production is covered by unpaid family workers, which accounts for 70% of the total number of workers in the farm, while the share of employed workers is 11% and the share of workers sharing their work account for 19%.

Figure 24: Share of hired labor (left) and households using hired labor (right), all agriculture



Source: Bachewe, et al. (2016).

Labour sharing arrangements (“exchange”) is more prevalent than hired labour. Labour sharing arrangement takes place between farm households and neighbours. Shared labour can be either reciprocal or non-reciprocal. It is reciprocal when the household has to repay it in the form of labour or in another implicit form. It can be non-reciprocal when there is no obligation to pay it immediately in the form of labour.⁵³

The use of employed workers is higher in coffee (14%) compared to other crops (7%). This is likely driven by the seasonality of coffee production. The most labour-intensive activities are harvesting, tilling, and weeding. Particularly harvesting is performed in peak period where farmers cannot cover all the needs for workers with unpaid family workers and thus need to hire workers and/or ask for labour sharing arrangements.

Table 6: Share of labour arrangements for different activities (%) in coffee

Activity	Family	Hired	Exchange
Tree management	88	4	9
Mulching	83	7	10
Tilling	63	12	25
Manure and organic input use	92	3	5
Fertilizer use	85	6	9
Weeding	70	11	19

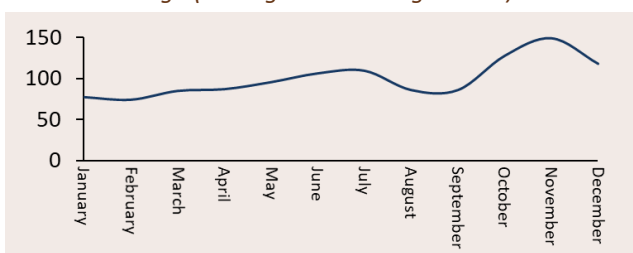
⁵³ Woldehanna (2000). Economic Analysis and Policy Implications of Farm and Off-Farm Employment: A Case Study in the Tigray Region of Northern Ethiopia. Hoogleraar in de Agrarische Economie en Plattelandsbeleid.

Harvesting	68	19	13
Post-harvesting activities	98	1	1
Total	68	14	18

Source: Bachewe, et al. (2016).

This is supported by observed seasonality in employment and wages. **The number of employed workers is most important during harvest periods when farms encounter difficulties to cover their needs for labour within the village** (household and exchange labour combined). As a result, wages are higher in the Ethiopian coffee during harvest months (November and December, running till February).

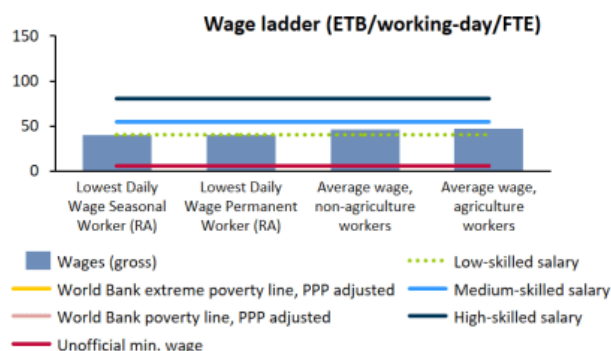
Figure 25: Wages indexed against the average annual wage (Average annual wage is 100)



Wage levels and working conditions in the Ethiopian coffee sector

Coffee workers earn slightly below other agricultural workers. There is no legal minimum wage protecting farm workers. The mean wage for a coffee worker is 46.6 ETB/day (1.40 USD; adjusted for local inflation). In comparison, the average wage of agricultural workers is 47.5 ETB (1.43 USD) per day while wages for rural workers, including non-agriculture workers, are slightly lower at 46.3 ETB (1.39 USD) per day.⁵⁴

Figure 26: Wage ladder (ETB/working-day)



Interestingly, the mean wage of workers on non-certified farms are comparatively high to workers on certified farms. The lowest paid workers at RA-certified farms receive around 40 ETB/day (~1.20 USD)⁵⁵ compared to 46.6 ETB/day (1.40 USD) of the average conventional coffee farm worker.

⁵⁴ Bachewe, Fantu, Guush Berhane, Bart Minten, and Alemayehu Seyoum Taffesse (2016). Non-farm income and labor markets in rural Ethiopia. IFPRI ESSP Working Paper 90. May 2016.

⁵⁵ Data shared by Rainforest Alliance, May 2020.

Figure 27: Frequency distribution of agricultural wages in Ethiopia (USD/day)

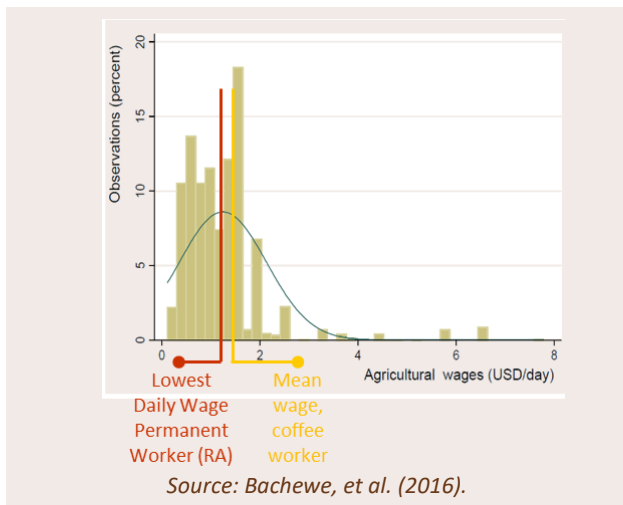
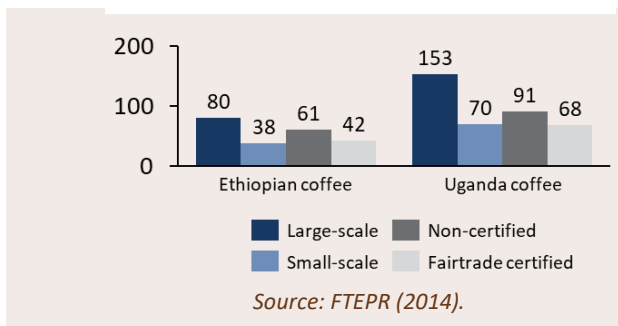


Figure 28: Effective days of work in previous 12 months by type of employer



Some, not all, workers receive in-kind benefits, and this is usually provided free of charge. The Ethiopian Labour Proclamation, No. 377/2003 states that overtime pay, allowances, and bonuses are not considered as “wages”, and no sector CBA establishes prevailing regulations. Therefore, non-cash benefits are not monetized in the wage ladder.

There are two main differences in wages between plantations and workers at smallholder farms:

➤ **Piece-rate vs. daily wages:** Smallholders tend to hire coffee workers based upon piece-rate or activity-based, whereas plantations pay for a full day of work. Wages may vary a lot more in the informal sector given the lack of regulations and enforcement thereof. FTERP (2014)⁵⁶ finds that workers earn very different amounts depending on: their individual productivity (e.g. how many basins of coffee berries they can pick in one day), which itself depends on the workers’ characteristics (ability, strength, etc.); and on the condition of their employer’s farm - for example, whether each tree is laden with ripe berries. This is supported by IFPRI (2016) finding that the age of the worker has a significant negative effect

on wages, possibly indicating that the productivity of older workers is lower.

➤ **Amount of days employing the same worker:** Although daily wage rates are important, wage rates may be offset or reinforced by the length of (day-to-day) employment. FTERP (2014) finds that large-scale farms, on average, paid workers for 80 days of work during the 12 months prior of their study, while small-scale producers only found 38 days of paid work.

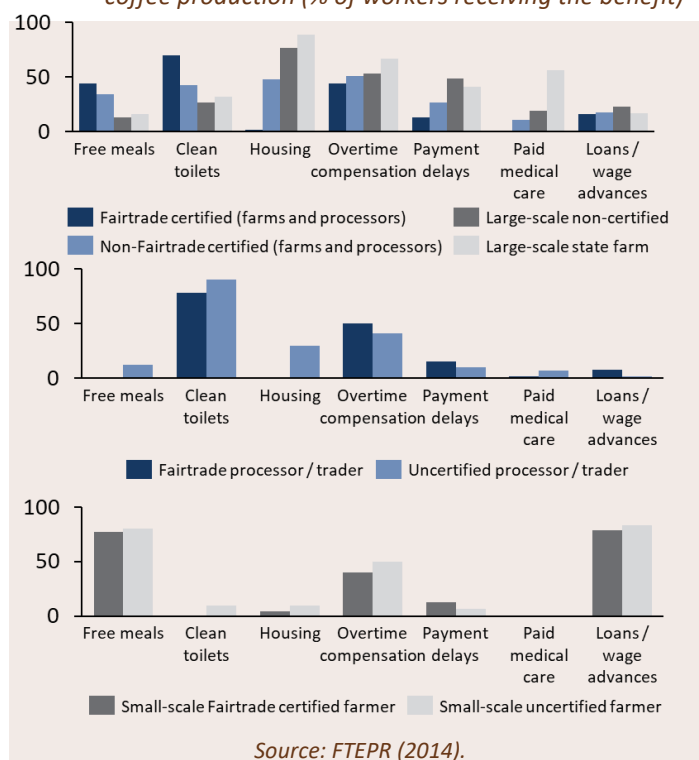
Non-wage benefits are typically provided for free, at no cost to the employee. The most prevailing non-wage benefits at farms and plantations are housing, clean toilets, and overtime compensation. Paid medical care is only offered in few cases except at state plantations.

⁵⁶ FTEPR (2014). Fairtrade, Employment and Poverty Reduction in Ethiopia and Uganda.

Small-scale farmers are less likely to delay paying wages. This may be explained by the fact that large-scale plantations offer many more days of employment and these employers can delay payments until a defined amount of work has been completed, thereby reducing the transaction costs associated with monitoring payments on a daily basis. In contrast, many jobs for small-scale employers are sporadic, lasting a few days; usually, workers can only be attracted if they are paid at the end of the day.

A high prevalence of provision of loans to wage workers can suggest an unequal power relation between employers and employees. It is not clear whether loans necessarily represent a gain for workers. FTEPR (2014) finds evidence to suggest that the relatively high prevalence of loans indicate very vulnerable wage workers who have been indebted to their small-scale employers over long periods (see bottom graph) reinforcing the unequal bargaining power that allows these employers to pay lower wages. Loan/wage advances reflect a highly personalised and dependent employment relation.⁵⁷

Figure 29: Indicators of working conditions in Ethiopian coffee production (% of workers receiving the benefit)



Source: FTEPR (2014).

Fairtrade certification is found to not improve benefits.⁵⁸ The simple distinction between Fairtrade certified and uncertified employers (farmers and local processors) shows a mixed picture, with some conditions marginally better in Fairtrade employment (free/subsidized meals, clean toilets and fewer payment delays), while others are better if the employer is uncertified (housing, overtime compensation and paid medical care).

The benefits received differ between farms and processors. Small-scale farmers more often provide free meals and loan / wage advances while more processors offer clean toilets, housing, and overtime compensation.

In case of improving working conditions for workers, evidence from Ethiopia's Productive Safety Net Programme (PSNP) could suggest that workers prefer (more) in-kind benefits over cash payments.⁵⁹ Most payments in the PSNP are made in cash, and even though the (temporal) transaction costs associated with food payments are higher than payments received as cash, most beneficiaries stated that they prefer their payments only or partly in food. Higher food prices induce shifts in stated preferences toward in-kind transfers. More food-secure households, those closer to food markets and to financial services are more likely to prefer cash. Though shifts occur, the stated preference for food is dominant: evidence suggest that across all years studied, the percentage of households that prefer only cash never exceeds 17 per cent.

⁵⁷ FTEPR (2014). Fairtrade, Employment and Poverty Reduction in Ethiopia and Uganda.

⁵⁸ FTEPR (2014). Fairtrade, Employment and Poverty Reduction in Ethiopia and Uganda.

⁵⁹ Hirvonen, Kalle and John Hoddinott (2018). Payment modality preferences. Evidence from Ethiopia's Productive Safety Net Programme. IFPRI ESSP Working Paper 125. October 2018.

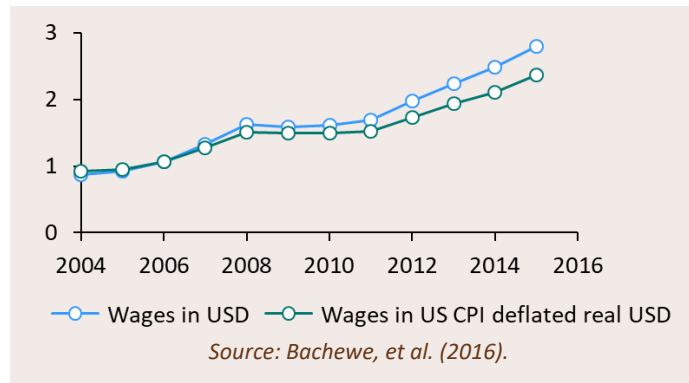
Wages over time

Agricultural labour markets in Ethiopia are relatively much more important in urban and better-connected areas, which is also reflected in higher wages in these areas suggesting connectedness and urbanization are among the driving forces towards improved labour markets.

Wages of unskilled agricultural workers increased substantially during the period July 2004 to December 2015, with daily wages tripling in the period considered.

Figure 30 depicts the daily wages of casual workers expressed in nominal USD and real USD. Specifically, wages expressed in USD and real USD per person per day, which averaged 0.86 and 0.92 in the third quarter of 2004, grew to nearly 3.00 and 2.50 in the last quarter of 2015, respectively. Growth in the respective wages averaged 11.4 percent and 9.2 percent per year, or 0.9 percent and 0.8 percent per month. The slight decline in wages between January 2009 and September 2010 might have been linked to the rapid devaluation of the Birr in that period.

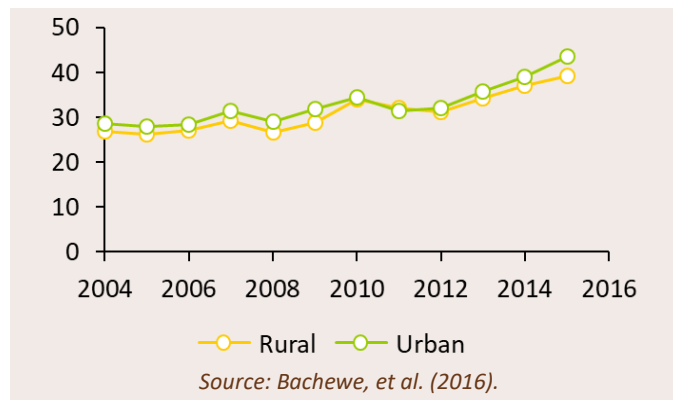
Figure 30: Wages of unskilled laborers per day in nominal USD and real USD, July 2004 to December 2015



The rural-urban wage gap is comparatively low in Ethiopia, albeit increasing.

Figure 31 presents urban and rural wages deflated by the General CPI. There is a significant increase in real wages during the period: GCPI deflated real wages of unskilled labour in rural areas increased from 27.3 Birr in the third quarter of 2004 to 41.2 Birr in the last quarter of 2015 (total growth of 54 percent), while in urban areas, it increased from 28.4 to 46.5 Birr (total growth of 63 percent). **The urban-rural wage gap has been low during most of the period.** Wages in urban areas were on average 5.5 percent higher. This wage gap

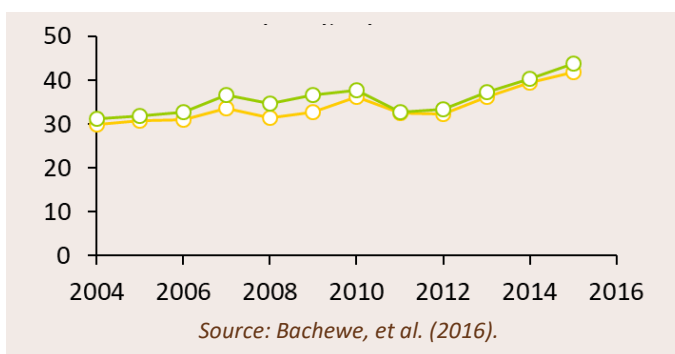
Figure 31: Regional general CPI (GCPI) deflated daily wages of unskilled laborers in rural and urban areas, in Dec 2011 Birr per day, 2004 to 2015



is significantly lower than those noted in other countries (Zhang et al. 2014; Yang et al. 2013). However, the wage gap has been widening in recent years. While wages were at equal levels in early 2011, the rural-urban wage gap stood at 11 percent in the last quarter of 2015.

The growth in Poor Person's-GCPI (PP-GCPI) deflated real wages were mostly similar to the growth pattern in GCPI deflated real wages, indicating significant welfare improvements for unskilled workers over time. The difference in PP-GCPI deflated real wage levels between urban and rural areas has in recent periods become smaller, indicating higher prices of goods for consumption in urban areas. Figure 32 provide daily real wages of unskilled labour deflated by the Poor persons' general CPI (PP-GCPI).

Figure 32: Poor persons' general CPI (PP-GCPI) deflated daily wages of unskilled laborers in rural and urban areas, in 2011 Birr per day, 2004 to 2015



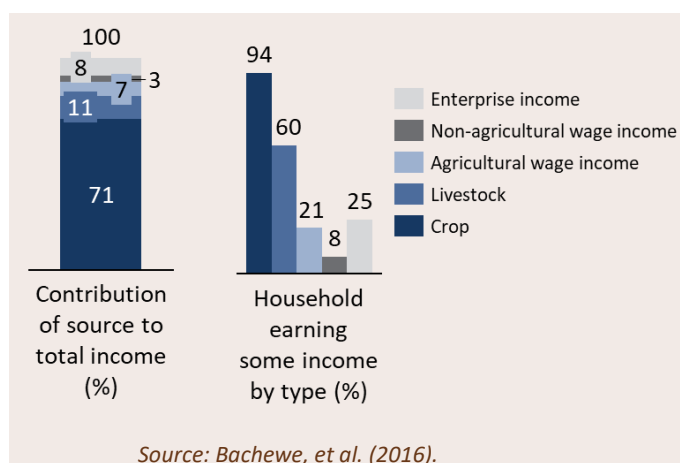
5.2 Labour market-level drivers in the Ethiopian coffee sector

Labor market dynamics: Decision-making to become a wage earner

The decision to become a wage employee in rural areas is driven by various (push) factors and few rural workers are solely functioning as wage employees. Rural households depend on wage income for a minority of their total household income (approx. 10%).

Off-farm income account for a relatively low share of total household income compared to rural areas across Africa, Asia, and Latin America. An average rural household earns about 7% from agricultural wage income. In a large study by IFPRI⁶⁰, they find that only 21% of rural households earn any income from agriculture wage income. The limited dependability on wage income may be correlated with the relatively low use of wage employees in agriculture at only 5-7.5% of total employment per crop.

Figure 33: Household income sources



The decision to become a wage employee in rural areas in Ethiopia is driven by various push factors:⁶¹

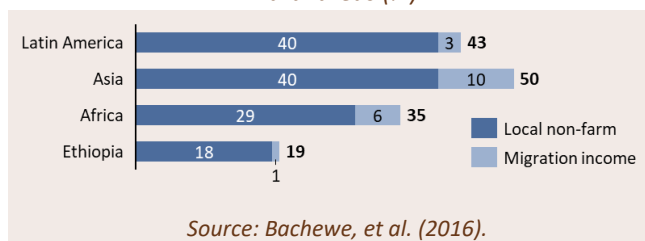
- **Households with younger heads are more likely to rely on off-farm income sources to assure their livelihoods.** Diversification is also positively related to the education of the household head and to the number of members in the household.
- **The education level of the household head is negatively associated with income from self-employment and wages from agricultural labour,** while enterprise and non-agricultural wage income – which require more skills than agricultural labour – is negatively associated with the education level.
- **There is a strong gender component to off-farm income. The proportion of females among total household members of working age (16-65 years) is negatively associated with both categories**

⁶⁰ Bachewe, Fantu, Guush Berhane, Bart Minten, and Alemayehu Seyoum Taffesse (2016). Non-farm income and labor markets in rural Ethiopia. IFPRI ESSP Working Paper 90. May 2016.

⁶¹ Bachewe, Fantu, Guush Berhane, Bart Minten, and Alemayehu Seyoum Taffesse (2016). Non-farm income and labor markets in rural Ethiopia. IFPRI ESSP Working Paper 90. May 2016.

of hired labour. This could be because female members of households in rural areas spend more time on household chores and have limited time to engage in hired labour. This is in addition to the fact that **females, particularly younger girls, are generally discouraged from working as employee because in many communities it is socially unacceptable for these young girls to work outside of the household.** According to Bachewe, et al. (2016), across their study on Ethiopian agriculture the number of employed females is about half (56 percent) the number of males. This is in stark (negative) contrast to coffee that hired a relatively high proportion of women (up to 70% of workers).

Figure 34: Off-farm income as share of total income in rural areas (%)



The characteristics of the farm also determine how the household will participate in agricultural labour markets.

The size of the farm is an important factor associated with labour market participation. The bigger the farm, the more likely the household will use hired-in labour. An increase in the size of the farm by one hectare leads to an increase of the share of hired-in labour by 12 percent. Households that

cultivate better quality land are more likely to hire wage employees, possibly because they want to cultivate the better-quality land more intensively. This is supported by further evidence in the coffee sector, finding that farmer who sell their coffee in red cherry form use substantially more labour-hours for harvesting compared to those who do not sell cherries. (52% more labour per hectare).⁶²

Farmers in zones with a higher incidence of poverty are more likely to hire agricultural workers, possibly because of the lower wage in such zones as well as the higher supply of wage labour.

5.3 Market-level drivers in the Ethiopian coffee sector

Wage improvement opportunities: quality matters

Value added in production and processing can lift wages under the right conditions. The world market premium for washed coffee is largely transmitted to producers whose decision to produce higher quality washed coffee influence their decisions to hire workers.

There is an insufficient amount of value created in the Ethiopian coffee sector to ensure all smallholder farmers and workers an income / wage above the poverty line. In 2017 the absolute poverty line was estimated at about 170.5 USD per person per year. Considering that the two million rural families who depend on coffee have five members on average, the production of coffee for export would have to bring in around 785 million USD nationally to enable them to rise above the poverty line (export volumes calculated pro rata in relation to total production). Still, the exported coffee only returned 308.5 million USD to producers the same year, amounting to a societal cost of 476.5 million USD.⁶³

Ethiopia is known as a high-quality coffee origin where coffee traditionally is produced as ‘natural’ coffee. Value-addition in the coffee value-chain through ‘washing’ coffee, which is done in wet mills could add more value at production level. Washed coffee is sold internationally with a significant

⁶² Minten, B., Dereje, M., Engida, E., Tamru, S. (2017) Tracking the Quality of Certified Coffee Evidence from Ethiopia. World Development.

⁶³ Basic (2018). Coffee: The Hidden Crisis Behind the Success. Study on Sustainability Within the Coffee Industry. Research report.

premium compared to ‘natural’ coffee, and we find that this premium is largely transmitted to producers.

Producers are facing limitations to currently make the shift. While wet mills have become more widespread, the share of washed coffee in Ethiopia’s coffee exports is not increasing over time and, even if coffee farmers have access to a wet mill, they often do not sell all their coffee cherries to them. There are two primary challenges for farmers to adopt value-added production methods:

- Labour productivity in producing red cherries, which wet mills require, is lower than for natural coffee, reducing incentives for adoption, especially for those farmers with higher opportunity costs of labour.
- Only impatient, often smaller, farmers sell red cherries, as more patient farmers use the storable dried coffee cherries as a rewarding savings instrument, given the negative real deposit rates in formal savings institutions.

Producing red cherries for the wet processing method is more labour intensive. For overall labour (non-marketing) use, farmers who sell their coffee in red cherry form engage about 26 percent more person-hours per hectare than those farmers who sell no red cherries. The results overall indicate that producing red cherries for the wet processing method is more labour intensive.

A number of variables indicative of higher opportunity cost of labour show significant negative associations with the adoption of the sales of red cherries. For example, rural daily wages are negatively related to both the decision and amount of red cherry sales. The higher the rural wage levels, the lower the likelihood and quantity of selling coffee in red cherry form – a Birr increment in daily wage rate would reduce the volume of red cherry sales by seven kilograms.