

Dear Julie Hjeri,

In response to your electronic communication dated April 21, 2016 in which you inform us that an investigation of the Guatemala's coffee sector is being undertaken, mainly on issues related to child labour, indicators on forced labour and unions. After this introduction, you will find each of the issues you mention, explained fully and in detail.

Historic, cultural, social and economic aspects of Guatemala are diverse and complex. To address the coffee sector without taking all of them into account would limit the comprehension of the dynamics of this activity in a multicultural country, therefore we invite you to have a comprehensive interpretation of coffee and its social, economic and environmental development.

An investigation is a scientific and systematic procedure of inquiry, gathering, organizing, interpreting and presenting data and information on a specific issue, and therefore it is crucial that it is properly documented, making reference to information sources. Taking the aforementioned considerations into account, we have gathered all the information available in ANACAFE on the issues you consider particularly important, indicating the source in the event that you are interested in having access to these background documents. In this way, we hope to contribute so that the outcome of your investigation shall be objective and properly documented.

The National Coffee Association –ANACAFE- is a non-profit trade association, which represents the interests of coffee farmers in our country, created by the State of Guatemala to support the domestic economy in the promotion and marketing of coffee. ANACAFE was created under public law and therefore may only carry out tasks set out by the Law on Coffee (Decree 19-69 of the Congress of the Republic of Guatemala), which is established in article 5 of this legislation and that will take into account the resources available, which are provided by more than 125 thousand coffee growers. Our main areas of work are the following:

- **Technical Assistance and Investigation** for the development of genetic varieties resistant to pests and diseases, soil conservation, fertilization and amendments; renovation of coffee plantations; integrated pest and disease management; and good agricultural and processing practices that guarantee the quality of the coffee beans.
- **Income diversification** through activities related to coffee, such as, trading coffee by-products, selling environmental services and tourism activities (coffee tours).

- **Market intelligence** that seeks to provide, constantly and in different ways, timely information on domestic and international market trends, that will serve coffee growers as a basis for decisions related to coffee trading.
- **Promoting Guatemalan Coffee** to maintain the country's participation in the international market; identify emerging markets; establish programs to develop new business relationships; and increase domestic consumption and trading. To achieve all this, ANACAFE uses different tools such as identifying the soil and climate conditions of the different regions that produce coffee, as well as the cup profile of each of the regions.
- **Strengthening and training** for an effective administration of the coffee productive units, especially for small producers; in compliance with applicable laws and regulations: labour, environmental and taxes, as well as market regulations and certifications, all related to best agricultural practices and sustainable, organic and ecological production, among others.
- **Financial resource management** to implement programs and vital projects to increase productivity and improve competitiveness in the coffee sector.

The actions that are carried out are to support producers in the production and trading of coffee. ANACAFE does not buy or trade coffee, and is not empowered to sanction for non-compliance of legal requirements.

Coffee is one of the main agricultural activities in Guatemala. The main macroeconomic and demographic aspects that this sector and all productive units in Guatemala operate by are the following:

- An elevated population growth rate, that is expected to be of 2.2% per year during the time period of 2015-2020;
- A young population (45.8% is under 18 years of age);
- A low educational level, that limits job opportunities and promotes migration and informality as alternatives;
- A low percentage of the population working independently (self-employed) equivalent to 26.4% of the employed population that are over 15 years of age, at the national level, and 29.5% in the rural areas; and
- An informal economy higher than 69%.

CHILD LABOUR

In Guatemala 80.7% of children are involved in some kind of working activity in family productive activities or domestic labour, without any payment. There are various causes, however, the most influential are poverty and the number of family members in households. In the extent families become more numerous, the percentage of children engaged in economic activities increases. Geographically, this problem is located, in largest percentages, in the southwestern and



northwestern part of the country, both with a high concentration of indigenous populations.

Aware of their participation in the economic development of the country and with a vision of leadership on competitiveness based on social responsibility, the coffee sector issued a statement in favor of the elimination of child labour, whether it is paid or unpaid, expressing its view on this issue through a resolution of the Board of Directors of ANACAFE, which states:

Vision of the Coffee Sector

“The Guatemalan coffee sector is interested and willing to produce and export quality coffee, free of child labour, respecting domestic and international laws and acknowledging children’s rights as a priority for the Human Development of our country, in a framework of competitiveness and a culture of peace.” Board of Directors Resolution No. 069-2007/2008.08/july/2008.

In accordance with priority public policies of the State of Guatemala, since 1998 the coffee sector has worked actively and on a permanent basis through the Foundation for Rural Development of the Coffee Sector -FUNCAFE- to prevent child labour and improve living conditions in rural communities, especially in the areas of education, health and food/nutritional security, contributing with 10 of the 17 objectives of sustainable development promoted by the United Nations for 2030.

With the technical support of the International Labour Organization –ILO-, a pilot program was implemented in the western part of the country (a region with the highest percentage of children involved in some kind of task, including family activities), to prevent child labour. The results were satisfactory and good practices were systematized in order to adopt them as permanent programs within the work FUNCAFE develops. The activities were strategically linked to formal and informal education, from kindergarten to high school education, and are articulated in accordance with national plans looking into the future as of 2020.

Work is focused on the awareness of the importance of education and the consequences of child labour, as well as on the attention that must be given to children in the regular education system from January to September. Regarding formal education, there is a program called Active Rural Schooling, that uses an innovative method based on the “Learn by Doing” approach with self learning textbooks, contextualized in the coffee areas. The Directorate on Quality Education of the Ministry of Education of Guatemala certifies this program.

During the months of October to December, which is the same time of the coffee harvest season and when there is a temporary migration of coffee pickers and their families, children that do not study in the regular system receive education with a modality of an accelerated preschool called Coffee Kindergarten, which aims to prepare children to enroll in first grade of primary school. The coverage and main results obtained in 2015 are included as an annex.

In protection of children and adolescents, in addition to the specific actions already mentioned, public policies are promoted through the participation of the representative of FUNCAFE in the National Council to Prevent and Eradicate Child Labour –CONAPETI, for its Spanish acronym-. Some of the actions that have resulted from CONAPETI are:

1. The creation of 12 departmental committees that aim to make Guatemala a country free of child labour, and that in addition of awareness campaigns, it promotes actions to improve family income through productive projects intended for parents.
2. The proposal to amend the law to harmonize the minimum working age to with the years of free schooling provided by the State of Guatemala, elevating the minimum age for admission to employment to 16 years of age.
3. The proposal to pass into law the agreement that identifies, at the national level, the worst forms of child labour, which now are prohibited for minors, such as: tasks that involve exposure to agrochemicals, fertilizers, pesticides, insecticides, herbicides, and fuels.
4. The proposal to incorporate criminal sanctions to the non-compliance of the previous provisions.

The proposals mentioned in numerals 2, 3 and 4 are included in the Initiative 4849 “Law on the Harmonization to Prevent and Eradicate Child Labour in Guatemala”, that is currently in the Congress of the Republic for its approval.

It is worth mentioning some important aspects related to migration of Guatemalan workers:

- The migration, in the case of coffee picking and other agricultural activities that require intensive workforce during harvest, is temporal and workers go back to their place of origin. The coffee production peak is during the months of November, December and January, same period of school vacations, which begin in October and end on January 14th of each year, and therefore this cultural practice of migrant workers that displace together with their families, does not affect directly their children’s access to education.
- Since coffee picking is one of the main sources of employment in the rural areas, the crisis caused by coffee prices in 2001 gave place to the migration of several coffee pickers to the metropolitan area to work with a lower

remuneration, a situation which repeated during the financial crisis of 2008 and 2009.

- The coffee rust crisis has contributed to the increase of the migration flow to the United States due to the country's insufficient economic growth. It is estimated that in this country there are over one million Guatemalans living there, most of them with disintegrated families and exposed to abuses and outrages. This migration process has affected family structure, altering the interaction among family members, responsibility as well as family authority, among other issues, turning families and their members into vulnerable groups.
- It is also important to take into account the effects that with time internal migrations have in the structure of coffee production. Many workers that have migrated from coffee plantations work today have their own small coffee farms, increasing the number of small producers, most of whom are organized in different associations. ANACAFE promotes producer organizations, first by creating Friendship and Working Groups that will later become cooperatives. Forty-five percent of these groups represent micro and small producers that work in family based units and that do not need to recruit more workers, and ANACAFE has a work program to promote their formalization.

Even when ANACAFE works to promote the sustainability of coffee growers, in order for this initiative to be successful it is imperative that the industry and coffee drinkers be a part of the process. The figures below show the importance of involving all stakeholders in the supply chain of these efforts:

From one kilo of roasted and ground coffee you can make 100 cups, which in a European restaurant sells, for at least, two dollars per cup; this represents an income of 200 dollars per kilo, and producers, with the current market prices, are only paid 2.6 dollars per kilo. Coffee drinkers are not aware that only less than 1% of what they pay is given to the producers.

We believe that the value of the producer in the coffee chain is not properly acknowledged; that there is a clear disparity in the distribution of economic benefits; and that the major part of these stay in the industry and establishments that provide services to the consumers. The objectives of sustainable development for 2030 hope to eradicate poverty everywhere and forever, and this is only possible through global commitment and solidarity.

THE APPLICATION OF PESTICIDES



The Technical Assistance Department of ANACAFE promotes and develops good agricultural practices to maintain a responsible, productive and environmental friendly coffee production, such as, the integrated pest and disease management, and the rational use of pesticides. They also maintain an investigation and development program of bio-control measures, as well as new varieties that are resistant to diseases and adapt to climate change, which reduce the use of pesticides.

When circumstances call for the use of pesticides, it is required that legal adults shall be the ones who apply it, provided they use protection equipment. The application of pesticides by minors is expressly prohibited by the Worst Forms of Child Labour, which currently is regulated in Governmental Agreement 250-2006 of May 18, 2006.

ANACAFE educates and encourages its members, law compliance through workshops and training that take place in all regions that produce coffee (2.8% of the national territory). Also, it informs coffee producers about prohibited substances that are banned in target markets and internationally, but does not have the power to sanction for non-compliance practices.

LABOUR CONDITIONS

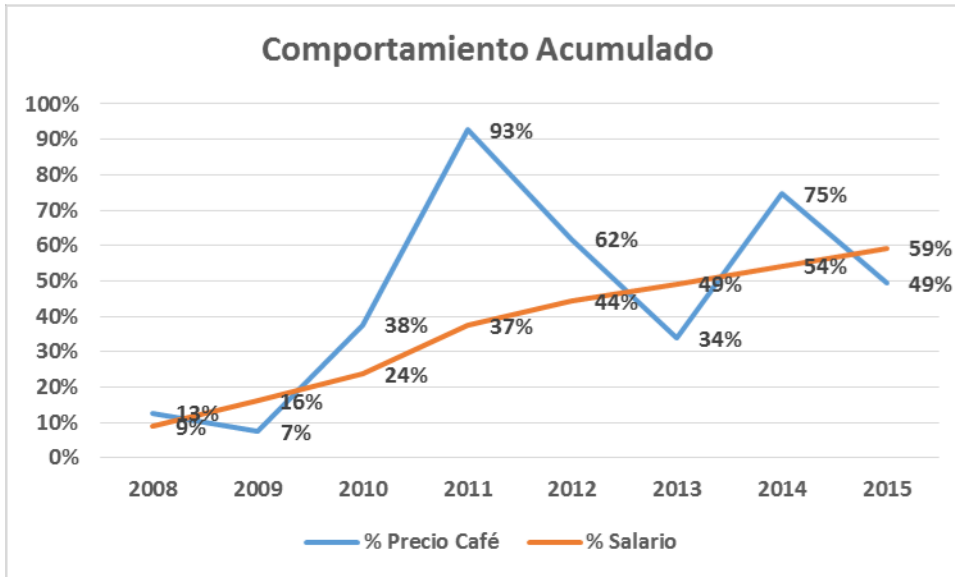
ANACAFE works to promote the sustainability of coffee growers and promotes legal compliance in labour relations. For the dissemination and training among its members, it has the Learning How to Compete Better Program, that includes issues on labour regulation compliance, work contracts, salary and labour benefits payments, working days, occupational safety and health, non-discrimination, etc.

It is worth noting that the compliance of labour regulations applies to the coffee sector that recruits employees to work their crops, this is not the case for small producers that work for themselves (self-employed) and that represent 29.5% of the population in the rural areas, according to data from ENCOVI 2014.

Regarding minimum wages, they are reviewed annually by the National Commission on Wages, comprised by representatives of the government, workers and employers. The amount established each year is the same for all agricultural and non-agricultural activities, regardless of the different living conditions in rural areas.

In the past eight years the minimum wage has increased by 55%, and this percentage is higher than the increase reported for international coffee prices, and this situation does not allow improvement of living conditions of small producers, for whom growing coffee represents their main source of income.

The following graphic shows the trends of coffee prices and the increase reported on minimum wages. Even when the percentage of the coffee price seems to be high, the absolute value of the average price is lower than the average production cost.



Source: New York Stock Exchange. Ministry of Labour and Social Welfare.

Regarding accommodation and housing conditions, we acknowledge that there are no legal regulations on this issue and that each producer provides, to the extent possible, in accordance with the provisions of the Labour Code. Some coffee growers have been able to receive support from their buyers for the design and building of better housing conditions.

Regarding forced labour, ANACAFE is not aware of the existence of this kind of practices in the recruiting of employment in the coffee sector.

SECURITY

The conditions of insecurity of the country and the inability of the authorities to guarantee civil security conditions and the right to private property, force Guatemalans to pay for private security services. A study carried out in 2005 shows how on that year, the cost of violence in Guatemala was equivalent to 7.3% of the GDP, an amount that is more than double of the losses from the tropical storm Stan and more than double of the resources allocated in 2006 for the Ministries of Health, Education and Agriculture.

The presence of individual gangs and criminal groups, or those associated with organized crime, has made it necessary to increase private security services. In 2004 there were 148 security companies authorized by the Ministry of Interior; and in



2015 there were 5,870 new security service providers (between companies and individual persons providing these services), while only 2,395 police officers were incorporated in the public security system.

Numbers show that 25% of production costs of agricultural products are associated with security costs. Producers that are not able to cover these costs are more exposed to having their coffee stolen during the harvest, storage or transportation processes.

UNIONS

The coffee sector respects the freedom of association and to join unions, as well as the right of workers to choose the kind of association they prefer. The kind of association that has been more successful for the coffee sector is “Solidarity Association”, promoting a culture of saving, solidarity, teamwork and a harmonious relationship between workers and employers.

ANACAFE has success stories of coffee productive units, where workers are organized in a solidarity association, and through which several services are provided, such as: the supply of groceries and basic food basket products, transportation, and savings and loan funds. Even ANACAFE has had its own Solidarity Association at its headquarters for more than 25 years.

HIGH-QUALITY COFFEE?

In the search of sustainability for the coffee sector, we work to produce a high-quality product that meets the market demands, but we need a fair share in the distribution of economic benefits in the supply chain in order for the producers efforts to be paid off and this way improve their family living standards. In this regard, we request the media, as well as you do to report objectively to consumers and create awareness in the stakeholders of specially the last steps in the supply chain, on price conditions and benefits the producers receive.

ANNEXES

COVERAGE AND KEY RESULTS OF FUNCAFE IN 2015 ON CHILD LABOUR PREVENTION

- **Coffee Kindergarten:** This is a program FUNCAFE has instituted as an education strategy to prevent child labour, and which is implemented during harvest season. The Ministry of Education endorses this program and the objective is to

prepare children to enroll in the first grade of primary school. An education facilitator offers children preschool preparation, develops psychomotor skills, and supplies recreation and nutritional supplements. At the end of the process, children receive a certificate from the Ministry of Education that enables a child to be admitted in formal primary school.

In 2015, there were **105** preschool education readiness centres implemented in coffee farms that catered to an average of **1,633** children between 3 and 7 years of age, of which **50.5%** of them were girls.

- **Formal Education:** regarding formal education, it was possible to retain **12,940** boys, girls and adolescents in **327** education centres of the formal school system as following:

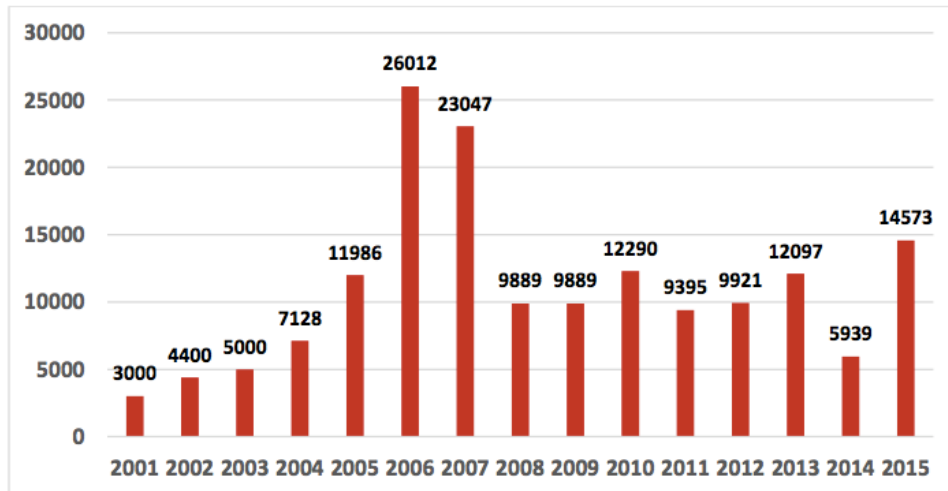
Stage	Education Centres	NNA ¹
Preschool	73	1,366
Primary (First to sixth grade)	242	11,003
Secondary (seventh to eleventh grade)	12	571
Total	327	12,940

Source: SIME FUNCAFE, 2015

To ensure that children attend school, there is a permanent program called Active Rural School, that applies an innovative method that is based on the “Learn by Doing” approach with self learning textbooks, contextualized and appropriate for coffee areas. The Directorate on Quality Education of the Ministry of Education of Guatemala certifies this program.

The following graphic shows the retention behavior of children in the formal education system during the past 15 years. In 2006 and 2007 there is a higher number of children retained in schools, which show the impact the alliance made with the Ministry of Education had when this innovative method was incorporated in public schools. After 2008, 100% of the of the children that receive education, receive an education financed by coffee growers.

¹ Boys, Girls and Adolescents –NNA, for its Spanish Acronym-



Source: SIME FUNCAFE. Ministry of Education of Guatemala.

- **Alternative Accelerated Education:** during 2015 a new program was implemented for adolescents and young people who did not finish primary school, and with this flexible program they were able to complete primary school in two years. During 2016, there have been 660 students between the ages of 13 and 24, for both primary and secondary stages.
- **Baccalaureate in Coffee Horticulture:** this program began in 2012 to train young people who wish to specialize in growing coffee and horticulture, and today over 71 young people (men and women) have graduated with skills to incorporate themselves into the labour market with a technical training that allows them to obtain a decent employment. In 2016, two new technical schools have been established, training 92 new professionals.
- **Awareness:** Awareness has been raised on the importance of educating children versus the risks and consequences of child labour, working with **575** teachers and **5,134** families through the School for Parents program².

There were 6 forums and float parades took place in **140** educational centres with the participation of children, parents and teachers, as well as community authorities.

A major written media source published a special edition report, reaching national coverage and over 25,000 readers.

Activities that are programmed for 2016 are the following:

1. Attention through the Coffee Kindergarten Program

² The School for Parents is a program of FUNCAFE designed for families that live in rural areas, who through the program receive informal education on issues such as Education, Health, Food and Nutritional Safety, as well as Child Labour Prevention. Families receive training for two years through bimonthly practical and experiential training sessions

2. Formal education through Active Rural School Program
3. Awareness and advocacy on the importance of education and elimination of child labour
4. Scholarships for Baccalaureate in Coffee Horticulture
5. Accelerated Primary Education for young people older than 13 years of age that have not finished primary school.
6. Accelerated Secondary Stage Education for young people older than 16 years of age that have not finished seventh to ninth grade.

REFERENCES

- Governmental Agreement No. 250-2006 that approves the regulations to implement the International Labour Organization Convention No. 182 on the Prohibition And Immediate Action For The Elimination Of The Worst Forms Of Child Labour.
- Governmental Agreement No. 347-2002 that creates the National Commission to Eradicate Child Labour – CONAPETI, for its Spanish Acronym-
- Governmental Agreement No. 229-2014, the Regulations on Occupational Safety and Health Issues.
- Assessment on Perceptions, Knowledge and Projections on Child Labour of the Guatemalan Coffee Sector.
- The Economic Cost of Violence in Guatemala
- National Survey on Living Conditions – ENCOVI, for its Spanish acronym- 2014
- National Survey on Employment and Income – ENEI, for its Spanish acronym- 2014
- Guatemala’s Country Report. State of the Region on Sustainable Human Development, 2011
- National Report on Human Development 2010/2011
- National Report “Understanding Child Labour in Guatemala” jointly submitted by National Institute on Statistics, the International Labour Organization, the United Nations Children’s Fund –UNICEF- and World Bank (2003).
- Coffee Law, Decree 19-69 of the Congress of the Republic of Guatemala.
- Annual Report of ANACAFE 2014/2015
- Annual Report of FUNCAFE 2015
- Annual Report of the Ministry of Interior of Guatemala, 2015
- Migration Profile of Guatemala, 2012.

In conclusion, ANACAFE acknowledges that we still have big challenges in the coffee value chain. ANACAFE will continue to work and is committed with the sector to seek continuous improvement and social, economic and environmental sustainability.



Do not hesitate to let us know if you may need any additional information that is deemed necessary.