COFFEE REPORT Central America March 2021

Income from the harvest will not be enough to support the economic recovery of day laborer households

KEY MESSAGES

- The COVID-19 pandemic shocked the international and regional coffee sector in two different ways: income dropped due to lower global consumption (-0.9 percent for 2019/2020) and highly variable prices, while costs increased through the implementation of biosecurity measures for maintenance and harvest activities.
- Before Hurricanes Eta and Iota, coffee production in the region was, in general, expected to be lower than the previous year except in Honduras and Costa Rica. However, the region took the brunt of the hurricanes' impacts, which reduced production estimates even further. Below-normal production, combined with low sales prices and declines in export levels, will mean less income for producers regardless of their size.
- Although the income of day laborer households typically increases during the coffee harvest period household income is not expected to reach the levels of previous years. Multiple factors will drive the decline in income, including greater competition for labor amid below-normal employment levels during the pandemic; below-normal staple and cash crop production; higher transportation costs and road access limitations associated with COVID-19 biosecurity measures; and other biosecurity measures that are likely to reduce harvest yields and increase production costs.

BACKGROUND

Despite various shocks to the coffee sector in Central America and the Dominican Republic over the last couple of years, including the coffee rust epidemic and the downward trend in sales prices since 2011/2012, climate variability, and political-administrative challenges in each country, the sector continues to be a significant driver of the economy.

At the macroeconomic level, coffee still represents the generation of more than 2,503,600,000 USD in foreign exchange transactions from regional exports, but it is in terms of livelihoods that it is most relevant. More than 2,000,000 people are involved in the production chain. Thanks to the income earned from labor during the different stages of production, including the harvest, as well as income earned from sales of coffee, households typically have the purchasing power to access food and other basic needs. The role of coffee production and its commercial dynamics is vital to understanding the food security of the region's population, especially among the most vulnerable socioeconomic groups.

Regional production in 2018/2019 reached 21.64 million 46-kg bags, representing 9.63 percent of global production. Honduras is the country with the largest production in the region, while Guatemala comes in second. Other Central American countries produce lower volumes, with Nicaragua coming in third, followed by Costa Rica, El Salvador, and lastly, the Dominican Republic. In the last decade, this regional dynamic has remained relatively stable. However, there have been year-to-year variations, with a notable decrease in the 2013/2014 production year due to the coffee rust epidemic that began in 2011/2012. Most countries took actions to reduce the vulnerability of their coffee plantations to rust and other pests and diseases, which included renovating and substituting varieties. As a result, the 2017/2018 production year marked the largest production volumes since the decrease in 2013/2014. Although the magnitude of recovery varied by country, Honduras was once again in first place (43 percent), followed by Nicaragua (38 percent), and lastly the Dominican Republic (4 percent). However, only Honduras, Guatemala, and Nicaragua reported production volumes in 2018/2019 greater than the volumes produced prior to the start of the rust epidemic in 2011/2012.

That has meant that coffee producers have been forced to diversify their income sources beyond selling coffee, including beekeeping, timber products, tourism, and animal husbandry. They also depend more on family labor. Additionally, there has a clear drop in the productive areas and productivity in general, due to poor agronomic management capacity. Therefore, harvesters in some of these areas have also had to diversify their employment options, though the new options are just as informal and unstable and do not necessarily make up for the loss of coffee-related income.

This year, the COVID-19 pandemic has exacerbated these challenges. Even though the 2019/2020 harvest was almost complete when COVID-19 appeared in the region, it negatively affected the logistics of harvest transportation to ports of export and the ability to maintain the plantations for the 2020/2021 harvest. These impacts were primarily associated with the restrictive measures imposed by governments, such as mandatory lockdown and social distancing. Nonetheless, the greatest challenge is the completion of the 2020/2021 harvest, which started in October 2020 and goes until February 2021, depending on the altitude of the coffee farms. It is during this time that thousands of harvesters travel to the coffee regions within each country and even to different countries. Each country currently has different requirements and degrees of openness at its borders. Most countries require that the negative results of a COVID-19 test be presented to cross the border, which has a very high cost, making it inaccessible to coffee harvesters. The availability and functioning of public transportation are still irregular, and everyone must follow biosecurity measures throughout the different stages of the production chain, including common areas (mandatory and proper use of masks, social distancing, and constant cleaning and disinfection measures) if they wish to keep cases among employees under control. The regional coffee sector is aware of these challenges, but each country has taken them on in a different way, given the variation in government support and the legal structure backing it, and the already weakened economic capacity of the producers themselves.

Finally, an above-average rainy season in 2020, which included the impact of two consecutive hurricanes in November, named Eta and Iota, added an additional shock to the sector. The continuous torrential rains and strong winds caused floods and landslides that resulted in crop damage and losses, as well as serious damage to the road access system for harvesters, transporters, and traders. There was also damage to the production infrastructure (processing facilities, treatment ponds, drying patios, etc.).

GLOBAL SITUATION

The measures taken by governments around the world to contain the health crisis caused by COVID-19 have resulted in a sharp decrease in economic growth worldwide. International prices have been very volatile, with prices rising at the start of the pandemic in March due to stockpiling and uncertainty, before falling nine percent by June as purchasing power and demand decreased, especially for gourmet coffee, which is part of the market in the Central American region. After June, prices recovered to numbers greater than those reported in March (to a maximum of 107.94 USD cents/pound in the middle of September), only to fall again by 8.9 percent in October. According to the report from the International Coffee Organization (ICO) in November, the price increased again in November by 3.6 percent. The confinement of the world population for several months caused a significant increase in unemployment rates, less purchasing power overall, and a change in demand behavior that, with the closing of restaurants, hotels, and other public establishments, led to the prioritization of consumption at home, not even coming close to making up for the volumes consumed outside the home. For the 2019/2020 production year, the COVID-19 pandemic is expected to cause a 0.5 percent drop in coffee consumption worldwide.

Given the drop in consumption and the ICO estimates that global production in 2019/2020 closed at 224.73 million 45-kg bags – 1.6 percent less than the year before, mainly due to a decrease in Arabica –, 2019/2020 will have a new excess of 1.28 million 45-kg bags. Significant excesses in global inventories for several consecutive years and the changing dynamics of currencies, such as the Brazilian Real, have limited the recovery of prices in recent years. This year, the worldwide economic debacle is also a limiting factor.

The general dynamics of international commerce and production and transportation chains also affected the coffee sector. However, the price of coffee also started to recover as governments lifted restrictions, though with great volatility, as mentioned previously. In November, the price reached 109.70 USD cents/pound.

Regarding the outlook for the 2020/2021 production year, the United States Department of Agriculture predicts that, in December, global production will be around 9.3 million 45-kg bags higher than reported in the previous year, reaching a total of 234 million, driven by the outlook of a positive year in Brazil's two-year cycle. Further, the reserves are predicted to be larger than those reported in the past six years due to the decrease in consumption. This outlook on production and reserves, and a likely second wave of COVID-19 cases and corresponding new restrictive measures, make it likely that the volatility recorded in 2020 will continue. There will not necessarily be a significant recovery in the international price for the harvest in the region, at least until February 2021. This creates a greater challenge in a year in which additional investments must be made to comply with biosecurity measures.

REGIONAL PRODUCTION

The Central American coffee sector is composed mainly of small-scale producers, defined as those who produce fewer than 444.44 45-kg bags and/or have a productive area amounting to less than 2.1 hectares. Honduras is the country where small-scale producers represent the majority (90.9 percent) of the productive structure. Guatemala has the largest proportion (30 percent) of medium-scale producers, who produce between 444.44 and 2,222.22 45-kg bags and/or have a productive area of 17.5 to 35 hectares.

Table 1. Total coffee production (000 of 45-kg bags)

	Honduras	Guatemala	El Salvador	Nicaragua
2011/12	7,607	5,120	1,551	2,365
2012/13	7,843	5,017	1,653	2,497
2013/14	6,111	4,252	687	2,747
2014/15	7,024	4,413	887	2,531
2015/16	7,715	4,547	753	2,840
2016/17	9,943	4,912	813	3,407
2017/18	10,080	4,979	1,013	3,489
2018/19	9,771	5,343	1,015	3,347
2019/20*	7,461	4,893	673	3,067
2020/21*	8,133	4,867	633	2,913

Source: *International Coffee Organization*; * Estimates prior to Eta and Iota from the United States Department of Agriculture (USDA)

In 2019/2020, the ICO estimates that regional production will be 27,644 million 45-kg bags, with a decrease of 4.6 percent compared to 2018/2019. Production in the 2020/2021 crop production year (Table 1), which started on October 1, 2020, will likely be lower than projected due to the damage caused by hurricanes Eta and Iota.

Costa Rica and Honduras are the only countries in the region that reported an increase in predicted production compared to the previous year, with increases of 1.9 and nine percent, respectively. Guatemala remains practically stable, while Nicaragua and El Salvador report reductions ranging between five and six percent. The effects on Honduras, however, were great and could significantly reduce those estimates.

The factors leading to lower yields this year include the low producer capacity to invest in production due to low prices and high production costs and the old age of coffee plantations, especially among small-scale producers that did not have the resources to invest in renewal because of the ongoing rust crisis since 2012. Additionally, coffee rust reappeared and became very serious in some regions at certain times, a result of the appearance of new strains and inadequate control of the disease in the region despite several interventions that the sector has taken in the last few years. In 2020, La Niña climate conditions were conducive to an increase in rust incidence, linked to above-average rainfall accumulation and warm temperatures. In Honduras, for example, SAT-IHCAFE monitoring of vulnerable varieties in October showed a global occurrence rate of 7.67 percent, but in departments such as Copán, Comayagua, and Santa Bárbara, the incidence rate was over 10.97 percent. A report from the National Coffee Council of El Salvador in October also indicated a 7.9 percent incidence rate of rust in the El Bálsamo-Quezaltepec mountain range. To control the disease, producers had to apply more chemicals, a measure requiring more financial investment and labor availability at a time when these factors were already limited by the COVID-19 pandemic.

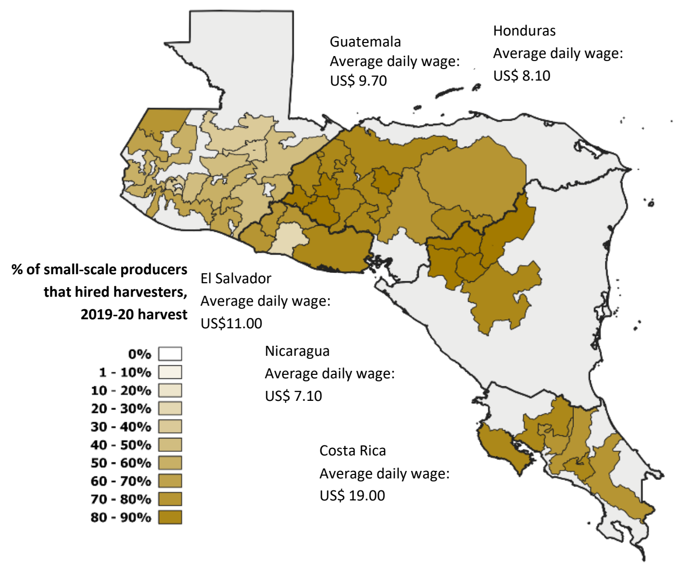
Thus, the presence of COVID-19 was a double blow to the sector. In the financial realm, many sales contracts were postponed or canceled, especially at the start of the pandemic, and access to work loans also decreased, which translated into less liquidity for investment in managing plantations. These issues occurred on top of existing profitability challenges that were already evident from previous years, particularly since the fall in prices in 2014.

Additionally, movement restrictions and mandatory social distancing, which were implemented to reduce the spread of COVID-19, reduced labor availability and access to supplies for maintenance work, forcing producers to modify their management plans at some point during the pandemic. According to a survey performed by Enveritas in April, May, and June 2020 among 45 producers in the region, the effects varied in intensity and timing across countries. El Salvador was the most affected, where all of the producers that were interviewed in June reported lower labor availability and reduced access to supplies and loans. Although the Nicaraguan government never implemented restrictive measures due to COVID-19, 100 percent of the producers surveyed in June had trouble finding labor, whether national or Honduran. On the other hand, while Guatemala and Honduras were more significantly affected by low labor availability at the start of the pandemic, this difficulty diminished as time passed. The latter country reports being the least affected in the region, which could be due to the institutional strength of the coffee sector and to the support the sector receives from the government. Although the sample size of this study is small, it gives a general idea of the challenges the coffee sector has faced during the most critical months of the movement restrictions.

EMPLOYMENT AND INCOME GENERATED BY THE COFFEE SECTOR

Coffee requires labor throughout the entire production cycle. However, up to 70 percent of it is used during the harvest period from October to February, while the remaining 30 percent is used in crop maintenance tasks throughout the year. Though there is family work in the sector, especially among the smallest producers, the coffee sector is highly dependent on hired labor to collect the beans, as is indicated in a study performed by Enveritas from November 2019 to January 2020 to small-scale producers from the region (Figure 1). It is informal and, in many cases, migrant labor. Migration may occur between different regions within the same country or between countries, where the exchange rate and the daily wage are factors that drive these flows, depending on the country. COVID-19 restrictions regarding travel and social distancing protocols during travel, the working day, and in common areas continue to pose challenges for these migrant populations and their employers. For the 2019/2020 crop, the same Enveritas study showed that there was difficulty finding harvesters, especially in Honduras, so this year that limitation may be exacerbated.

Figure 1. Need for labor hired by small-scale coffee producers



Source: *Enveritas, 2020*

Costa Rica is currently the only country that has a specific protocol for hiring migrant labor, since the land borders have not been open for the transit of people and the coffee sector depends on it. Of the approximately 74,370 harvesters that will be needed during the peak of harvest in January, 69.2 percent would come from Nicaragua and from Panama to a lesser degree. However, given the risk of becoming infected, they do not recommend the migration of children and pregnant women. This will mean lower income for households that typically depend on the volume of coffee harvested, since these family members also normally participate in the harvest.

In the case of the other countries in the region, Guatemala, El Salvador, and Honduras have already opened their borders and Nicaragua never closed them. These open borders will allow for the migration of the harvesters during the harvest. However, one of the challenges of the current harvest is travel, since some day laborers use public transportation. Public transport is still irregular in every country except Nicaragua and is thus more expensive than normal, and those who use it must comply with certain capacity restrictions due to social distancing. Another one of the challenges is the logistics that must be followed at the plantations to avoid the spread of COVID-19, and the investment required to accommodate the harvesters in the common areas, which is paid by the producers themselves. Only the Costa Rican government offered support to the coffee sector specifically for this purpose. If these guidelines are not followed, the spread of COVID at the farms could result in lower productivity of the day laborers due to health problems.

One additional indirect consequence of COVID-19 is the increase in the supply of labor. The economic impacts due to the movement restrictions include job losses in both the formal sector and the informal sector, and the affected households need to recover and pay debts. Since it takes time to reverse unemployment trends, there will be more people depending on informal work, which includes looking for work in the coffee sector, even though they were not involved in it before. This increase will result in greater competition for positions at any given moment, and less coffee harvested per person (lower productivity of the harvester), which will in turn result in lower income.

These same three countries suffered the greatest impact of hurricanes Eta and Iota, with direct effects on coffee production due to damage from landslides and floods on the farms as well as excess humidity and strong winds that increased the presence of pests and diseases, caused the beans to fall, and caused defoliation. This will lead to a decrease in income from sales and from daily wages during the harvest. There was also significant damage to the road infrastructure that made it difficult for the day laborers to access the farms, which also has implications for income generation. Official data on losses per country are still not available, but the hurricanes will certainly have a negative impact on the income of affected households.

In the case of El Salvador, which was not as affected by the hurricanes, everyone involved in the sector will see a decrease in their income this year. Prior to the hurricanes, the United States Department of Agriculture (USDA) predicted that production in 2020/2021 would decrease by five percent compared to the previous year, in which production had already declined by 33.6 percent compared to 2018/2019. The presence of rust and the damage caused by Tropical Storms Amanda and Cristobal were some of the factors behind this decrease in yields. The decrease this year involves a drop of 5.9 percent, more than 168,000 daily wages, and the loss of income for the producers due to lower yields.

Meanwhile, the climate conditions in El Salvador caused a delay in the ripening of the beans, which also meant a late harvest that started in December. This delay means that the households that were counting on the cash from the harvest to start to recover from the fall in their income during the preceding months must wait longer to receive it.

FOOD SECURITY IMPLICATIONS

Central America. The livelihoods of 14 percent of the Central American population are linked to the regional coffee sector, especially those of the poorest groups who depend greatly on daily wages as a source of income. The income earned during the season of greatest demand for labor, the harvest, is usually used to satisfy the food needs of the households, mainly during the annual lean season. This means that any effects on the sector will have implications for the economic access these households have to food. The permanent deterioration of the living conditions of coffee families over the last six years became more serious in 2020 due to the pandemic, the hurricanes, low prices, and other challenges facing coffee producers. These conditions lead to the proliferation of social phenomena that affect the Central American region, such as migration to the north of the continent or to the capitals, insecurity and drug trafficking, and child exploitation.

In **Guatemala**, though an increase in production is not predicted this year, there will not be a significant drop in production either. Therefore, the number of day laborers needed for the harvest will be stable. However, the restrictions related to COVID-19 led to a decrease in household income along with an increase in food prices. Thus, many households turned to negative coping strategies to compensate. The income from harvesting coffee will make it possible for them to reduce their debt and save some cash to absorb food expenses in the first couple of months of 2021. However, household income is likely to be below normal since the social distancing protocols to comply with biosecurity measures could hinder the work of the harvesters and reduce the amount of beans collected per day.

In **El Salvador**, the population that depends on coffee has seen a deterioration in their livelihoods given the lack of recovery of production since 2012, with the poorest household group depending entirely on the sale of their labor to earn their income. Coffee rust disease, low prices, little government support for the sector, insecurity that hinders the travel of day laborers, extortion payments, and climate conditions are all factors that have kept the sector from overcoming low yields over the past few years. This year, COVID-19 restrictions led to a decrease in the income of poor, rural households due to fewer employment options, such as domestic work and other informal types of work. As for coping measures, these households resorted to debt and using their savings. An assessment performed by the World Food Program indicates that government support through food assistance played an important role in mitigating some of the effects.

However, the households in the coffee region are starting the harvest season with small food reserves, little income, and a high level of debt, and they are counting on the income from the harvest to allow them to pay off part of their debts and cover their food needs for the first months of next year. That income, however, will be lower than expected, so the lean season will start early for this group.

For day laborer households in **Honduras**, the income from the coffee harvest will result in a relative improvement in household purchasing power, especially after the decrease in income under the lockdown established by the government that led to borrowing and eroded the resilience of the poorest households. Since Honduras is expected to see an increase in coffee production, the number of jobs available during harvest will also increase. However, the total income of the households may not be higher than that of last year since a greater supply of labor is predicted, which could depress the wages paid to the harvesters. The biosecurity measures could also reduce the amount of beans collected per person and there could be higher costs than usual for transportation, covered by the day laborers, if they are not paid by the farms. The lack of income and the inability of coffee-dependent families to cover their basic needs is likely to increase the pressure on migration and insecurity. This is demonstrated by the massive migration caravans that have traveled from Honduras to the United States in search of new opportunities. While the caravans have originated in Honduras, people from neighboring countries or regions with similar problems and situations join them, as is the case in El Salvador, Guatemala, and southern Mexico.

With respect to **Nicaragua**, the scenario is different from the previous ones as the government never imposed the mandatory COVID-19 restrictions that were implemented in neighboring countries. Although there was a decrease in employment and income and an increase in prices due to voluntary self-quarantines implemented by the public, the effects on the economy were less significant. Nevertheless, the country's economy has also suffered due to the socioeconomic crisis that has been ongoing since 2018. The poorest households, therefore, are starting the coffee harvest season with some food reserves, since the *primera* harvest is already available and food prices have stabilized following price increases in the second quarter of the year, but they have few employment options and low income. Until recently, it was expected that the migration from these households to coffee farms would only be domestic since neither Honduras nor Costa Rica had opened their borders. However, the former now allows foreigners to enter by land, and the latter established specific protocols to allow for the migration of Nicaraguans and Panamanians for coffee harvest work, even though the borders are still closed. Under this scenario, the harvesters may access a stable source of income during the harvest months, with an increase in their current income, which will later be used to purchase food during the annual lean season at the household level. However, this income may not reach pre-pandemic levels due to the additional costs and limitations of complying with COVID-19 diagnostic tests, social distancing, the use of masks and disinfecting supplies, and, in the case of Costa Rica, because the farms are reluctant to receive children and pregnant women due to the existing health risk. These two population groups typically contribute labor for the total income of the household, so their absence will result in fewer earnings at the end of the harvest cycle.