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**Economic and  
Sector Study Series**

**RESTORING THE  
COMPETITIVENESS OF  
THE COFFEE SECTOR  
IN HAITI**

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## PREFACE

Coffee has traditionally played a unique role in rural Haiti, in economic, social and environmental terms. However, the competitiveness of the coffee sector of Haiti has been declining over recent years due to a combination of external and domestic factors. This study analyses the current situation and the opportunities and challenges presented for improving the competitiveness of the coffee sector in Haiti in a sustainable manner. It presents a public policy framework to guide the public support and interventions. It concludes that support should be provided to help the coffee sector supply chain reap the potential benefits from new market opportunities, protect key environmental services in upper watersheds, and set an example for other agriculture and rural productive activities in Haiti.

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## ABBREVIATIONS

BRH	Banque de la République d'Haïti
CIMS	Centro de Inteligencia Sobre Mercados Sostenibles
EERP	Emergency and Economic Reconstruction Program
FACN	Fédération des Associations Caféières Natives
GDP	Gross Domestic Product
ICF	Interim Cooperation Framework
ICO	International Coffee Organization
INCAE	Instituto Centroamericano de Administración de Empresas
INCAH	<i>Institut National du Café d'Haïti</i>
MARNDR	Ministry of Agriculture
MTPTC	Ministry of Transport, Public Works and Communications
NCA	National Coffee Association of America
NEAP	National Environmental Action Plan
OPRODEX	<i>Office de promotion des denrées exportables</i>
RECOCARNO	Réseau des Coopératives Caféières du Nord et du Nord Ouest

## EXECUTIVE SUMMARY

Haiti is predominantly a rural country, with more than 60 per cent of the population living in rural areas. Agriculture accounted only for 26.9 percent of GDP in 2004, and employed 66 percent of the labor force. Most of the poor live in rural areas. Furthermore, Haiti's mountainous topography and the movement of small-holders to increasingly fragile upland soils, have set in motion a pattern of deforestation, accelerated erosion, depleted fertility, reduced water retention and widespread silting of waterways. This, in turn diminishes the carrying capacity of the land and contributes to the downward economic and environmental spiral. These land-use practices have also contributed to catastrophic floods and mudslides.

Coffee has traditionally played a unique role in rural Haiti, in economic, social and environmental terms. Traditionally the only widespread and significant export crop cultivated in the hillsides, it has provided smallholders with essentially their only access to credit, representing the typical source of financing for seasonal cash outlays, notably school fees. Furthermore, as the chief hillside perennial crop, coffee production, typically intercropped with food crops, represents a sustainable farming system in some of the most critical areas of the upper watersheds of the country.

However, demographic pressures to intensify production of food crops represents a constant challenge to perennial crops in Haiti, and coffee is no exception. The competitiveness of the coffee sector of Haiti has been declining over the recent years. This has been due to the global coffee price crisis, the impact of pests, and the political instability that the country has suffered. The present study is based upon the research that the Bank has undertaken over the past three years to analyze and support the rural economy in

general and the coffee sector in particular. The intention is to provide initial information on the current situation of the coffee sector and its main barriers to growth and increased competitiveness in order to present public policy issues and recommendations related to the development of the sector.

The current decline in the coffee sector of Haiti began in the 1980's, when production fell from 42,900 tons to 30,088 tons by 1987. In 2003 production was down to approximately 27,000 tons. Domestic consumption has increased due to the growth in population size and urbanization, now reaching 65 percent of production. Today, Haiti is a marginal producer of coffee in the international market, accounting for just 0.4 percent of world production between 1995 and 2000. The decline in domestic coffee prices can be accounted for by changes in the structure of the international coffee market. In addition to exogenous price and climatic shocks, Haitian coffee production has also suffered from the effects of domestic factors such as export taxes, low prices afforded to peasant farmers, the inability to control plant diseases such as *scolyte*, the international trade embargo, lack of financing, and ongoing political upheaval that has disrupted all areas of industry.

Coffee used to be the most important source of income for rural dwellers in Haiti. Yet as prices have fallen, production and processing of coffee beans have fallen by the wayside, leading to a further deterioration in coffee quality. Despite the many problems facing the coffee industry, historically the Haitian coffee sector has been able to weather cyclical downturns and dramatic political crises, proving to be one of the most resilient areas of the rural economy. The core competencies of the coffee sector include: (i) the existence and development of a national coffee institute

(INCAH); (ii) the resilience of the producer organizations and the potential they show to weather external shocks and adapt to changing conditions; and (iii) the integrated role that coffee plays in the rural economy as a key factor in economic decisions, environmental services, and social services. Furthermore, since the early nineties, in spite of the downward trend in international coffee prices, new opportunities have been arising for the coffee sector in Haiti. These opportunities are mainly: (i) a new market through exports to the Dominican Republic; (ii) increased national consumption due to the increase in population size and urbanization; and (iii) the increase in international demand for specialty coffees.

Haitian agro-ecological characteristics provide the necessary conditions for producing high quality coffee that can search premium prices in international markets, as has been proven by recent initiatives like Haitian Bleu® coffee. The coffee sector is one of the better organized agri-supply chains in Haiti, and as such shows a relatively higher potential for growth. Support should be provided to help the coffee sector supply chain reap the potential benefits from new market opportunities, protect key environmental services in upper watersheds, and set an example for other agriculture and rural productive activities.

This paper suggests that in order to take advantage of the market opportunities and to build upon the core advantages and benefits that the coffee sector has to achieve sustainability and increased competitiveness, several public policies need to be put in place. The objectives of such public policies and proposed investments is to take full advantage of the potential of Haitian coffee in the domestic and international markets and revert the current trend of decapitalization of the sector. Whether along traditional or alternative markets, public policy needs to enable all actors along the production chain to

be equipped to respond to the demands of the international market place.

To improve the competitiveness of the Haitian coffee sector vis-à-vis the rest of the world, this report recommends policy actions on the institutional setting of the supply chain, as well as on the production, processing, and marketing of coffee. Among the key policy recommendations is to establish and strengthen institutional links between the various actors of the supply chain, including financial institutions, for the setting of priorities for private and public sector investments as well as to coordinate and create private and public alliances (through the already existing INCAH and/or other institutional structures).

On the production side, policy recommendations include the implementation of phytosanitary controls, such as the strengthening of a national laboratory for certification, the support to national disease control programs, and the establishment of a national research and extension program that will facilitate technological innovation and transfer. At the processing stage it is recommended that support be given to the establishment of quality management guides and standards for producers to increase coffee quality in a sustainable fashion. Finally, on the marketing of Haitian coffees, support should be given for the development of innovative financial instruments to help producers invest in higher value added coffees and reach price premiums in specialty markets and for the development of a national marketing strategy to project Haitian coffees in the international market, including strengthening the links with the Dominican Republic.

## **I. INTRODUCTION**

### **A. Country background**

By any measure Haiti is the poorest country in the Western Hemisphere, and one of the poorest countries in the developing world. Currently 75 percent of Haitians live below the poverty line, and gross domestic products (GDP) is estimated to be approximately US\$438 per person per year; this compares with a GDP of approximately US\$1,600 per person in the neighboring Dominican Republic. After growing at an average annual rate of 2.3 percent in real terms in the 1970s, real per capita GDP fell at an average of 2.4 percent per year in the 1980s and continued to decline in the 1990s. The economic impact of the recent political crisis has been estimated at around -5.5 percent of GDP, and private sector confidence has remained weak amid persistent security concerns. Given the instability of life in Haiti, ordinary citizens have increasingly come to rely on private transfers from relatives living abroad. Remittances more than doubled from US\$256 million in 1997 to US\$650 million in 2002, accounting for 19 percent of the GDP. It is estimated that in since 2004 remittances have surpassed one billion US\$ annually.

Throughout its history Haiti has been troubled by political instability, the most recent manifestation of which began in earnest in 1990, when the military overthrew the democratically-elected president Jean-Bertrand Aristide. The international community responded with a trade embargo, in a bid to restore constitutional rule. The embargo severely damaged the economy and activity in the textile and export-oriented assembly industries – accounting for over three-quarters of export earnings – virtually ceased. In addition, tax collection and expenditure control systems collapsed, and maintenance of economic and social infrastructure was all but abandoned. After the return to constitutional order in 1994, the combined effect of a US\$2.6 billion external aid package; the government Emergency and Economic Reconstruction Program (EERP); and a gradual increase in remittances, led to a modest economic recovery.

Renewed political discord in 1997 saw the economy grind to a halt again. Then in early 2004, with a political dispute over the May 2000 legislative elections still unresolved, the term of Haiti's contested parliament expired, leaving President Jean-Bertrand Aristide to rule by decree. Growing civil unrest and an armed rebellion that seized the northern half of the country, culminated with the resignation and exile of President Aristide. Subsequently, a transitional government was put in place and the presidential election has concluded, while Parliamentary elections are currently underway.

<b>Table 1. STRUCTURE OF THE HAITIAN ECONOMY</b>				
<b>Sector (percent of GDP)</b>	<b>1984</b>	<b>1994</b>	<b>2003</b>	<b>2004</b>
Agriculture	..	34.7	27.9	26.9
Industry	..	22.5	17.0	15.9
(percent Manufacturing)		13.7	8.4	7.0
Services	..	42.9	55.1	57.1
Imports goods & services	26.5	11.7	47.2	41.2
<b>Average Annual Growth</b>	<b>1984-94</b>	<b>1994-04</b>	<b>2003</b>	<b>2004</b>
Agriculture	0.4	1.2	0.3	-4.4
Industry	-4.9	-7.2	1.0	-6.0
Manufacturing	-2.6	-7.4	0.5	-9.3
Services	0.7	4.4	0.4	11.5

Source: World Bank 'Haiti at a Glance' Country Statistics, 2005

Haiti is predominantly a rural country, with more than 60 per cent of the population living in rural areas. Agriculture accounted only for 26.9 percent of GDP in 2004, and employed 66 percent of the labor force. Most of the poor live in rural areas, and poverty is especially severe in the northeastern and northwestern regions. According to the most recent household survey data<sup>1</sup> in 2001, 49 percent of Haitian households lived in absolute poverty with 20, 56, and 58 percent of the households in metropolitan, urban, and rural areas respectively, being poor; based on a US\$1 a day extreme poverty line. Social indicators in Haiti are also very low, with around 20 percent of children suffering from malnutrition; nearly half the population without access to health care; and more than four-fifths with no clean drinking water.

<b>Table 2. STRUCTURE OF HAITIAN TRADE (OFFICIAL EXPORTS)</b>				
	<b>1984</b>	<b>1994</b>	<b>2003</b>	<b>2004</b>
<b>Total exports (fob, US\$m )</b>	230	108	361	366
Coffee	46	10.3	3.4	4.2
Sisal and sisal strings	13	1	1.5	1
Manufactures	125	89	330	317
<b>Total imports (cif)</b>	352	183	1,116	1,164
Food	80	67	268	325
Fuel and energy	61	46	..	..
Capital goods	81	8	..	372

Source : World Bank 'Haiti at a Glance' Country Statistics (2005); BRH (website)

Social services are provided in all rural areas of the country, but the quality and the extent to which they are available or used by rural residents varies widely. A large majority of children of primary school age may attend school, but few continue on to the secondary level, mostly due to the need to contribute to household income. Likewise medical services are provided in all areas of the country, but may not be adequately used by, or may not reach, large numbers of people. In most areas of the country, literacy varies between 40 and 50 percent. Mortality before the age of 5 is over 100 per thousand births in most rural areas, and children across the countryside often suffer from nutritional deficiency. Life expectancy at birth is 55 years.

<sup>1</sup> Analysis is based on the first Living Conditions Survey of 7,186 households covering the whole country and representative at the regional level.

Malnutrition is the most pressing concern for the rural population in Haiti, half of whom have an average daily intake of less than 1700 calories per day. On average almost 40 percent of the population receive less than 75 percent of the recommended daily consumption of protein. The problem of malnutrition is particularly acute given the fact that Haiti has the highest population density in the Western Hemisphere, at 7.5 million people on 28,000 km<sup>2</sup> of land. The size of the rural labor pool is already larger than that which can be absorbed by gainful rural activity, and with a growth rate of around 1.6 – 2 percent per year, the population is set to double within approximately 30 years.

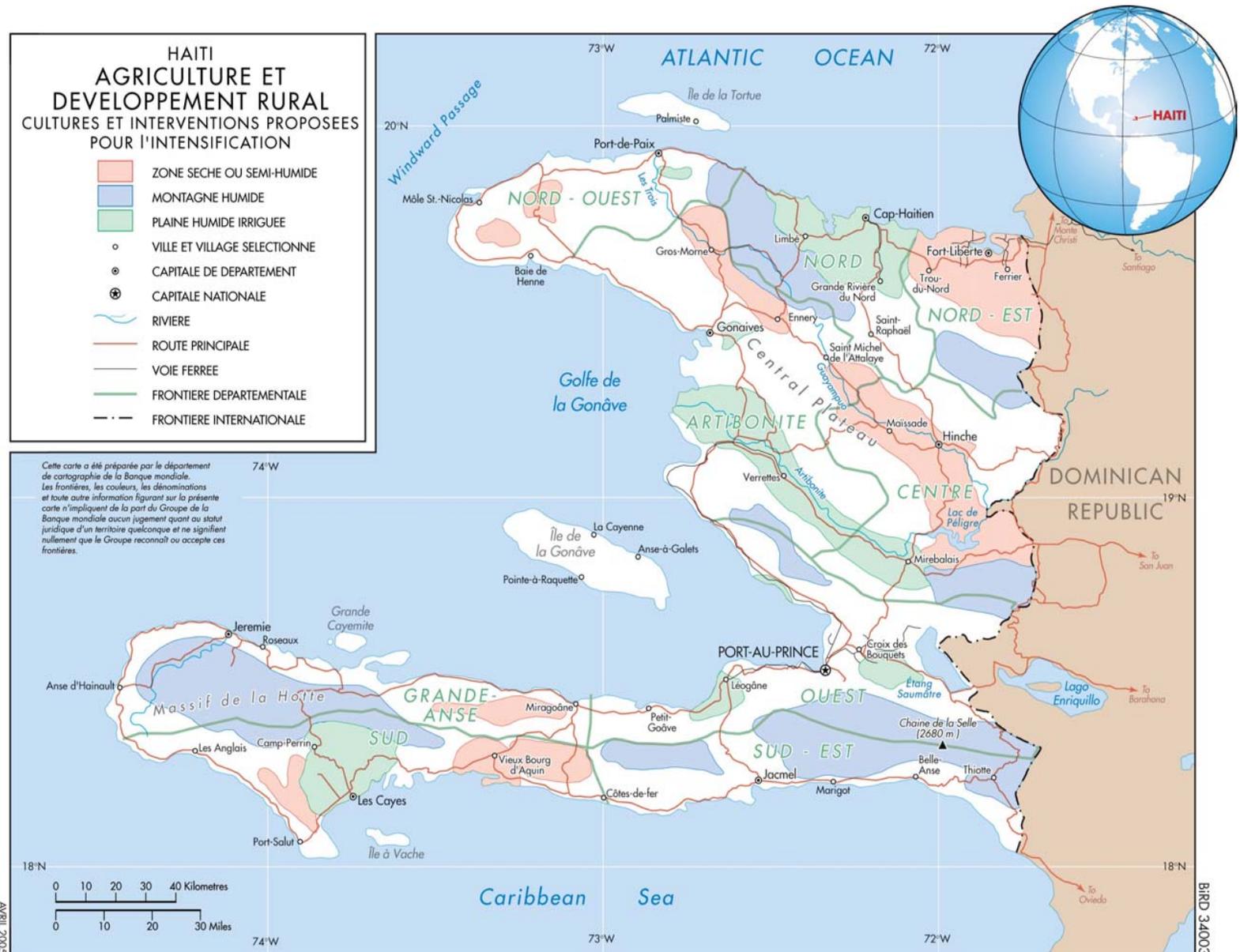
## **B. Environmental context**

Haiti occupies the eastern third of the island of Hispaniola, bounded by the ocean to the north, west and south, and bordering the Dominican Republic to the east (see map on next page). Haiti is amongst the most mountainous countries in the Caribbean region, with ranges between 1000m to 1500m above sea level. Sedimentary deposits, generally limestone, make up much of the surface and near-surface geology of the country. Many limestone areas have a high potential for significant groundwater reserves, and in some areas these are used to supply drinking water and irrigation channels. Throughout Haiti there are areas of exposed igneous rocks, which offer the most promising terrain for intensified agriculture, particularly in the upland areas.

Precipitation in Haiti varies widely across the island according to relief; in the high mountains of the southwest, rainfall is in excess of 4,000 mm per year, while rainfall in the lowland areas is generally less than 1000 mm annually, and falls to less than 500 mm annually in parts of the southeast, Artibonite and northwest. Rainfall is particularly heavy during the months of April through June and September to November, however often precipitation occurs in the form of short, heavy storms, which are then followed by periods of high temperatures and evapotranspiration. Relief and coastal proximity moderate temperatures, which range to mid 30°C daytime values year-round on the inland plains.

The most striking difference between Haiti and its other Caribbean neighbors is the almost complete lack of tree cover on the island – with less than two percent of Haiti’s surface area covered by forest. Much of Haiti’s forests were lost early on in the colonial period, as vegetation was cleared to make way for sugar plantations and other crops. After independence, deforestation continued apace due to the commercial exploitation of wood products for export and land colonization in response to demographic pressures. Though cleared lands in mountainous areas are generally not suitable for agriculture, the pressing need for low income farmers to generate an immediate cash income from charcoal, have led them to cut further up the mountainside.

Haiti’s mountainous topography and the movement of small-holders to increasingly fragile upland soils, have set in motion a pattern of deforestation, accelerated erosion, depleted fertility, reduced water retention and widespread silting of waterways. This, in turn diminishes, the carrying capacity of the land and contributes to the downward economic and environmental spiral. These land-use practices have also contributed to catastrophic floods and mudslides. Today it is estimated that Haiti loses around 10,000 - 15,000 hectares of once-fertile land each year to erosion, and the potential for expansion into arable areas has generally been exhausted throughout the country. Thus deforestation and soil degradation represent the most serious environmental and economic problems facing the country.



The Government of Haiti is responding to these environmental pressures with a draft ‘National Environmental Action Plan’ (NEAP) that seeks to coordinate all the development activities of its various ministries, in particular the Ministries of Planning and External Cooperation, Public Works, Transportation and Communication, Agriculture, Natural Resources and Rural Development and the Ministry of the Environment. The NEAP identifies sustainable development as the key approach to addressing the key development issues facing the country.

### **C. The importance of agriculture**

Haiti’s independence from French colonial rule in 1804 saw the distribution of agricultural land, and the emergence of a rural economy based on small plots of land that today average just 0.75 hectares. Annual per capita income ranges between US\$800 on larger farms, to less than US\$40 in some communities. Over the years the contribution of agriculture to the national economy has declined relative to other sectors, falling from 40 percent of GDP in 1984, to 26.9 percent of GDP in 2004. Although the majority of Haitians live in rural areas, and most of those consider themselves to be farmers, the majority of their income now derives from sources other than on-farm agriculture. Their livelihood strategies rely on income diversification and primarily depend on non-farm activities (charcoal production, sand extraction, handicrafts), on remittances, on the sale of their labor to seasonal opportunities in their communities or elsewhere in the country, on temporary migration incomes, and on petty commerce.

<b>Table 3. AT A GLANCE: HAITIAN AGRICULTURAL PRODUCTION</b>						
	<b>1979-1981</b>	<b>1989-1991</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
<b>Major exports</b> (percent share in agriculture)						
Cocoa beans	6.9	4.3	10.3	9.2	17.6	28.0
Mangoes	1.3	14.0	29.4	34.5	26.3	27.4
Coffee, green	76.6	60.3	38.1	33.8	28.2	17.2
<b>Major imports</b> (percent share in agriculture)						
Rice, milled	6.2	16.1	21.3	22.2	18.8	20.8
Wheat	26.9	9.3	3.0	4.5	5.5	8.7
Sugar, raw centrifugal	0.0	1.0	5.2	7.6	6.6	6.3

Source: FAOSTAT, Food and Agriculture Indicators (2004)

The declining capacity of agriculture to contribute to the national economy both in relative and in absolute terms, is the result of a process closely linked to demographic pressures, unsustainable patterns of agricultural production, decapitalization and low levels of human resource investment. In the early 1990s, the downward trend in agricultural production was compounded by the trade embargo, which limited the export of key commodities and the availability of key agricultural inputs such as seed and fuel. In addition, the general deterioration of rural infrastructure and continued land degradation saw agricultural production drop by about 17 percent over the decade, which affected both subsistence and cash crops alike.

The fragility of the rural economy has had two broad consequences with respect to Haitian development. The first of these has been a migration, mainly by the the sons and daughters, to domestic and foreign urban centers such as the capital Port-au-Prince, or by the head of the family to the Dominican Republic, Miami, New York and Montreal. Although their remittances contribute significantly to household income, the security of basic human needs (risk management) often still requires the maintenance of agricultural activities, which must either be

undertaken by the female head of household and her children, or through shared arrangements with other male heads of households.

Living conditions are particularly difficult for women and children in the countryside, where 60 percent of households are headed by women, which average 5 – 6 children. Women face a number of gender-specific barriers such as cultural norms, less ready access to credit than their male counterparts, and the expectation to carry out domestic and child-rearing tasks alongside other agricultural activities. Female children average 2 years of schooling, and 10 percent of the female population aged 5-9 years old is economically active, rising to 33 percent of 10-14 year olds.

#### **D. The scope of this study**

The Inter-American Development Bank and the Government of Haiti has been actively designing, preparing and financing projects for supporting the development of the rural economy of Haiti, especially in recent years. In particular, there has been the recent approval and launching of projects such as the Agricultural Intensification Projects of the Artibonite Region and of the Ennery Quinte Watershed, and the Support the Competitive Position of Haitian Coffees. Furthermore, The Bank has been preparing projects to strengthen rural supply chains, including coffee, and an operation to support the National Watershed Management Program. As envisioned in the Bank's 2005-2006 Transitional Strategy for Haiti and the ICF, the present study will provide some guidelines for supporting the rural economy in general and the coffee sector in particular.

Coffee still plays a very important role in rural economy. It provides cash incomes for children to attend school, the major cash expenses of poor rural households after health. The complex coffee ecosystem contributes with the main livelihood strategy in poor rural areas: income diversification. Finally, as coffee plants in Haiti grow almost exclusively under shadow (tree cover) and in hill-sides, it directly contributes with the conservation of the environment and the protection of the soil against degradation and erosion. Therefore, coffee plays a key economic, social, and environmental role in the country and remains one of the agricultural engines of the rural economy.

However, the competitiveness of the coffee sector of Haiti has been declining over the recent years. This has been mainly due to the global coffee price crisis and due to the political instability that the country has suffered. The objective of the study is to take an in-depth look at the barriers facing the coffee sector of Haiti and a basic public policy framework and recommendations to overcome them. The present study is based upon the research that the Bank has undertaken over the past three years to analyze and support: (i) the development of the rural economy of Haiti; (ii) the strategy for small coffee-producing countries in Central American and Hispaniola to transition after the international crisis in coffee prices<sup>2</sup>; and (iii) the competitiveness of the coffee sector in Haiti. The present study provides initial information on the current situation of the coffee sector and its main barriers to growth and competitiveness, and concludes by addressing the public policy issues related to the development of the sector with specific recommendations.

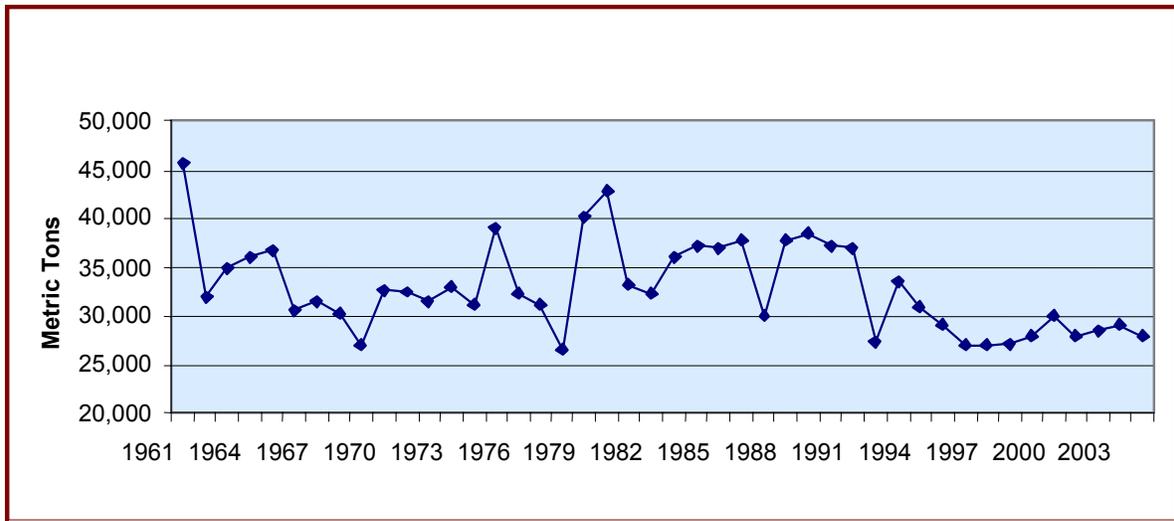
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<sup>2</sup> For information on the specific strategy, please see the following document:  
[http://www.iadb.org/regions/re2/coffeeworkshop/document\\_all.pdf](http://www.iadb.org/regions/re2/coffeeworkshop/document_all.pdf)

## II. THE HAITIAN COFFEE SECTOR

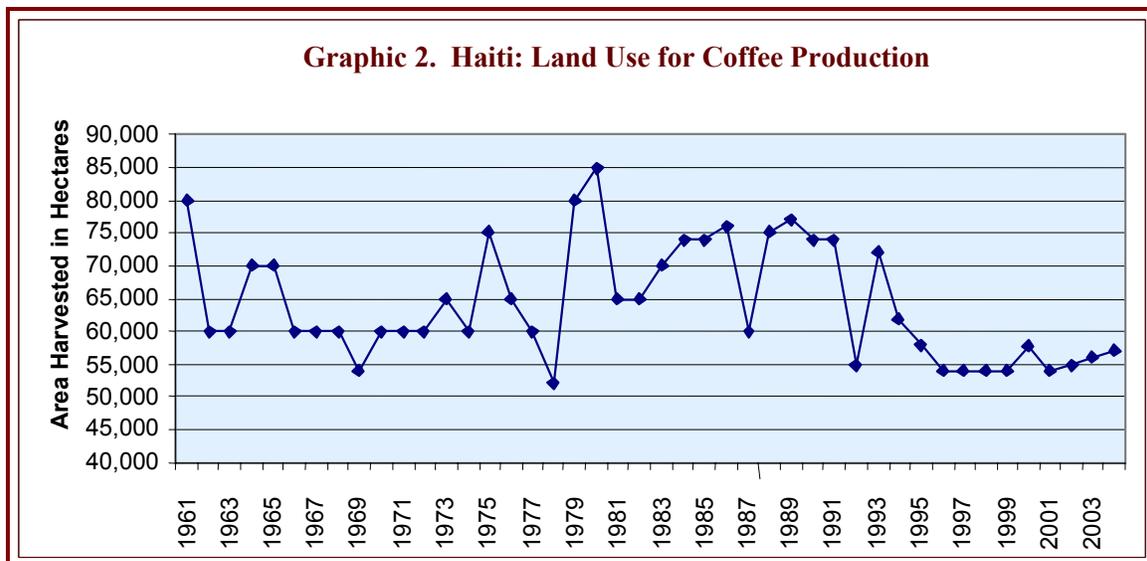
### A. Current situation of the Haitian coffee sector

Historically coffee has played an important role in the social, economic, environmental and cultural fabric of the principal Caribbean countries. The production and sale of *Arabica* coffee was first introduced to Haiti, then the island of Santo Domingo, by the Jesuits in 1715. Coffee production took off quickly, with exports rising from 53,000 sixty-kilo bags in 1755, to a peak of 580,000 bags by 1789, and it became a bulwark of French colonial trade. After independence, it remained one of Haiti's major crops in mountain areas and the major export crop. Between 1820 and 1850, coffee exports averaged around 500,000 bags, with the peak average of 667,000 bags achieved between 1850 and 1880.



Source: FAO Statistics (2005) - FAOSTAT Database

The major coffee production level was registered in 1955 with 740,000 bags. Thereafter, production dropped precipitously during the 1960s, but revived again in the late 1970s as a boom in prices boosted output, registering a new peak of 660,000 bags in 1973. Coffee trees covered an estimated 133,000 hectares of Haitian agricultural land in the 1980s, with an average annual yield of 35,900 tons. Haiti was also a member of the International Coffee Organization (ICO), but found itself increasingly unable to fulfill its ICO export quota.



Source: FAO Statistics (2005) - FAOSTAT Database

The current decline began in the 1980, when production fell from 42,900 tons to 30,088 tons by 1987. In 2003 production was down to approximately 27,000 tons. Today, Haiti is a marginal producer of coffee in the international market, accounting for just 0.4 percent of world production between 1995 and 2000. Currently Brazil produces over a quarter of the world total, and is the decisive influence on the supply side. In general Haitian coffee data tends to be rather inconsistent, however the general consensus is that without a radical overhaul of the production chain, Haiti could become a net importer of coffee within ten years given the fact that domestic consumption has been growing (along with population and urbanization trends) and coffee imports are starting to enter the market through supermarket chains.

Domestic coffee consumption has been growing at the rate of 2-3 percent annually, reflecting the rate of population and urbanization growth in Haiti. This increased domestic consumption has been for lower quality coffee (*café pile*) and although it provides stability in terms of coffee production, it may also inhibit the production of higher quality coffees that can be produced domestically and exported for higher margins and profits. The farmers' decision of whether to sell their coffee through the domestic/commercial market or through the higher quality export channel is usually determined by the availability of financing. The higher quality export channel requires financing to provide advance payment to producers for their cherries (since revenue from exported coffee is generated only when the processed coffee reach the final market), while the domestic/commercial channel provides full payment at the sale of the coffee cherries.

When international coffee prices increase, the producer price difference between the two channels is reduced. This is due to the fact that the higher quality export channel tends to be less susceptible to changes in international prices while the domestic/commercial channel has a direct relationship with international markets. Given the lack of financing and other barriers at the earlier stages in the coffee production chain, most farmers sell their coffees through the domestic/commercial channel and are not able to take advantage of higher margins and profits, even in times of low international prices. Therefore, by overcoming certain barriers, Haiti has an

opportunity to satisfy local demand for coffee as well as to expand coffee exports in search of higher value added and income.

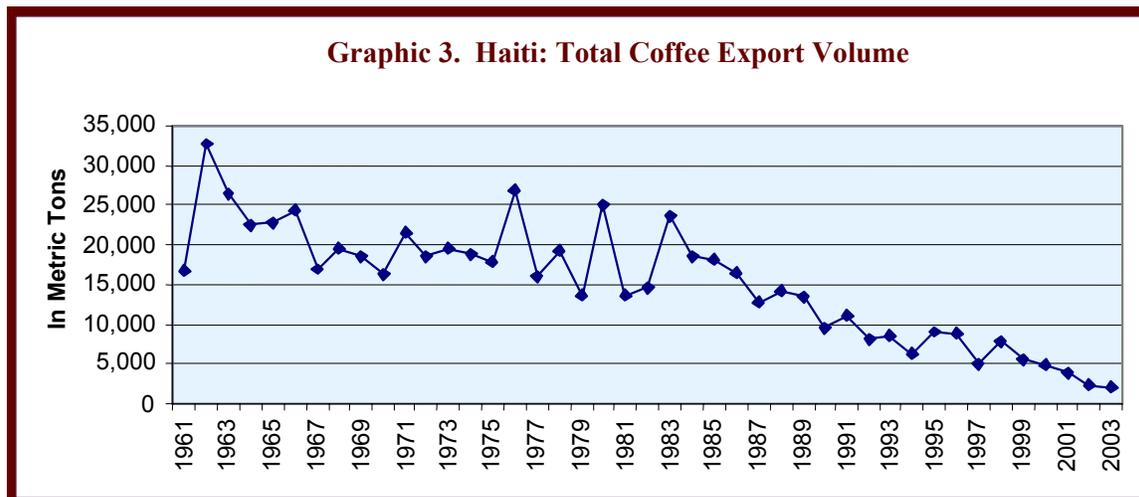
<b>Table 4. OVERVIEW OF HAITI COFFEE PRODUCTION (ESTIMATE FOR 2003-2004 PERIOD).</b>	
<b>SURFACE AREA USED FOR COFFEE PRODUCTION</b>	115 000 Hectares
- percent national territory	- 4 percent
- percent cultivable agricultural land	- 14 percent
- percent humid mountainous areas	- 11.5 percent
<b>AVERAGE NATIONAL OUTPUT</b>	- 4 bags per hectare 1 bag = (530 lbs)
<b>DOMESTIC CONSUMPTION</b>	300,000 bags (65 percent of total production)
<b>TOTAL EXPORTS</b> <i>of which :</i>	-160,300 bags (35 of total production) Total Export Value US\$10 million
- <b>Traditional pilé coffee</b>	<i>of which :</i>
- <b>Natural and washed coffees</b> exported to Dominican Republic (informal trade)	- 35,000 bags (8 percent) 250 bags = 1 container
- <b>Washed quality coffee</b>	- 120,000 bags (26 percent)
<i>of which :</i>	
- <i>Haitian Bleu</i>	- 5,300 bags
- Fair Trade	<i>of which :</i>
- Other washed quality coffee	- 1300 bags, 5 containers (0.3 percent) - 3200 bags, 13 containers (0.7 percent) - 800 bags, 3 containers (0.1 percent)

Source : IRAM The Haitian Coffee Sector (2005)

The majority of coffee sold on the international market by Haiti's exporters is of the low-grade unwashed 'pilé' type, which fetches a corresponding low price – at times US\$25 or US\$35 per bag below the New York Exchange price. On average, the discount for Haitian coffees is 5 percent to 7 percent below the New York Exchange price. Coffee used to be the most important source of income for rural dwellers in Haiti. Yet as prices have fallen, production and processing of coffee beans has fallen by the wayside, leading to a further deterioration in coffee quality. In many cases coffee plants have been uprooted altogether in favor of other crops such as yams, kidney beans, and bananas, that offer a better financial return and a crucial source of nourishment. Furthermore, after 1986, quality control by the Trade Minister and OPRODEX (*Office de promotion des denrées exportables*) was discontinued for coffee exports, leading to a lack of feedback and quality assessment of exports.

As in all other coffee producing countries, the decline in Haitian coffee production is mainly due to the drop in international market prices. The decline in coffee prices can be accounted for by changes in the structure of the international coffee market – both short-run shocks, and longer-term structural changes, that will be discussed below. In addition to exogenous shocks, Haitian coffee production has also suffered from the effects of domestic factors: many analysts cite excessive taxation until 1987 (export tax) and the low prices afforded to peasant farmers as key contributors to the decline in coffee production in the 1980s. Other homegrown factors include the inability to control plant pests (diseases and insects), such as *scolyte*, coffee rust and root rot,

the international trade embargo which ran from 1991-1994, lack of financing, and ongoing political upheaval that has disrupted all areas of industry.



Source: FAO Statistics (2005) - FAOSTAT Database

Since the early nineties, in spite of the downward trend in international coffee prices, a new market has been rapidly growing for Haitian coffees through exports to the Dominican Republic. Coffee exports to the Dominican Republic is informal trade that occurs all along the border between both countries. Some experts estimate that this trade can represent three or four times official coffee export (IRAM-LAREHDO 2005). This market opportunity has a large positive effect on local farm coffee prices in Haiti since coffee cherries sold to the Dominican Republic do not have quality requirements. Haitian coffee sold across the border is processed by the Dominican coffee industry for national consumption by one of the largest Dominican coffee firm (Induban). However, it is important to note that exchange rate variations between the Haitian and Dominican currencies have an important effect on the exports of coffee from Haiti to the Dominican Republic. After the large depreciation of the Dominican currency during the 2003-2004, Haitian exports were drastically reduced.

Despite the many problems facing the coffee industry, historically the Haitian coffee sector has been able to weather cyclical downturns and dramatic political crises, proving to be one of the most resilient areas of the rural economy. Increased national consumption due to the increase in population size has also given the Haitian coffee sector a much-needed lifeline in recent years. Strong cultural and historical ties to coffee should not be underestimated, and in large part explain why Haitian farmers continue to grow coffee on their land despite current low market prices due to being one of the cash crops with the lowest production risks available. Many farmers remain hopeful that they can reactivate their coffee plants. The natural characteristics of Haitian humid mountain ranges and the excellent quality of coffee that it produces certainly give cause for real hope, especially given the market reward for gourmet coffees.

**Box 1 - Le Code du Café**

The coffee code became law in 1958 under the ‘Papa Doc’ Duvalier regime. It was designed to regulate all aspects of the production chain from the conduct of coffee growers and the harvesting process, the procedures used in processing plants, the conduct of coffee traders and the transportation of coffee to the market. It outlined strict punishments (including imprisonment) for any person in the chain that violated these guidelines. Today, *Le Code du Café* is still effectively the basis of Haitian coffee law, however it is no longer followed, nor considered relevant in the current context of coffee production. In this context, the Haitian coffee sector requires radically new coffee guidelines and standards that will support all aspects of the management of production process and that will outline a new strategy for market development and growth.

The Map below shows the various coffee growing regions in Haiti, plus the main dry processing centers where the high quality coffee is prepared. Though coffee is grown in all of Haiti’s ten departments, the intensity of cultivation varies considerably, and in general there are five main growing areas, each located in different departments of the country. In order of the quantity of coffee produced, these are: Grand’anse, Southeast (Thiotte and Jacmel), North, and Center (Baptiste and Cahos). The five areas are divided into two zones: North and South. Grand’anse and Southeast are in the South of the country, and together form the largest area of national production. Table 5 below also shows the difference between the high quality versus low quality coffee zones and their respective communities. The Center and South are not only the largest area of national production but where the high quality coffee is produced.

The processing centers that are currently operational are: Thiotte (réseau KOPKAB), Tombe Gateau (réseau FACN), Marmelade (réseau FACN), Dondon (réseau COOPACVOD) et Plaine du Nord (réseau RECOCARNO). The estimates are that all four processing centers need to produce between 15 and 20 containers of quality coffee for export among them in order to amortize their equipment and installations, while actual coffee exports vary between 12 and 18 containers. This reflects in the fact that these processing centers have excess production capacity. The map also shows that the centers have not been strategically distributed within the country. The centers are in humid – very humid regions, which further complicates the drying process of the coffee beans.

# HAITI

## Coffee Sector Map

### LEGEND

-  Main Coffee growing areas
-  River
-  Airport
-  Sea Port
-  Capital City
-  Final processing center
-  Coffee growing/Trading community
-  Laboratory
-  Coffee-Trading Sea Port



CARIBBEAN SEA

10 0 10 20 30Km.

This map, prepared by the Inter-American Development Bank, has not been approved by any competent authority and its inclusion in the loan document has the exclusive objective of indicating the area of influence of the project proposed for financing.

<b>Table 5. PRINCIPAL COFFEE GROWING AREAS IN HAITI</b>	
<b>Department</b>	<b>Municipalities</b>
<i>High quality coffee zones</i> - Grande Anse - Sud - Sud-est - Centre - Artibonite	- Beaumont, Roseaux, Jérémie - Tiburon, les Anglais, Rendel - Thiotte, Belle Anse, Marigot - Baptiste, Savanette - Les Cahos
<i>Average-quality coffee zones</i> - Nord - Nord-Ouest - Nord-Est - Nippes	- Dondon, Plaisance, Pilate, Borgne, Grande rivière du nord, Bahon, Mermelade - Saint-Louis du Nord, Port de paix, Anse à Foleur - Sainte Suzanne, Vallière, Carice, Mont Organisé - L'Asile, Baradère

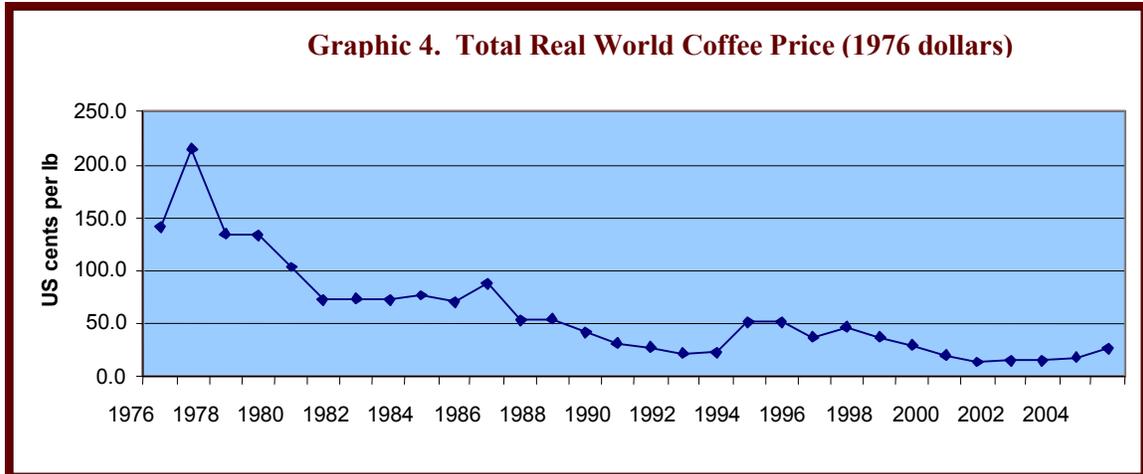
Source: APROMA, 1996

### **E. International coffee market trends and their impact on Haiti**

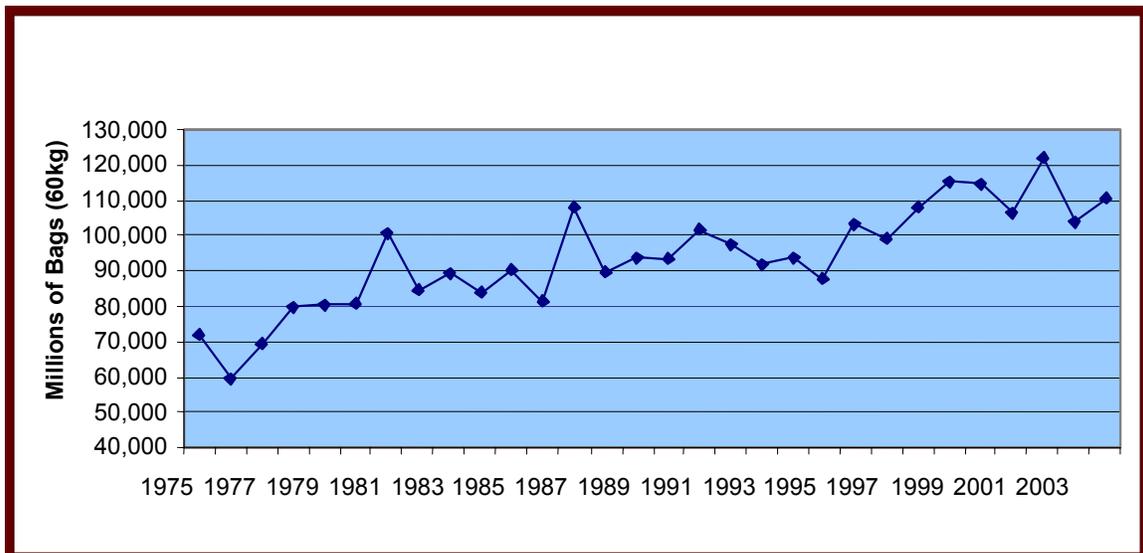
Given the importance of coffee for exporting and importing countries alike, its price and availability has always been an important political issue. In 1962 the International Coffee Organization (ICO) was formed under the auspices of the United Nations, and the first International Coffee Agreement was negotiated. This system outlined a set of quotas for more than sixty coffee-growing countries that would prevent over-production and keep prices reasonably stable for more than 25 years. But by 1989, the international political climate had changed and the U.S. withdrew from the ICO, which suspended the complex quota agreement that had determined the whole coffee market on July 4, 1989.

The termination of the international coffee agreement marked a new era of unrestricted coffee production; improved growing and processing techniques; and Vietnam's entry into the robusta market, saw a steady rise in world production. Between the years 2000 and 2001, worldwide oversupply caused coffee prices to drop to their lowest (inflation-adjusted) levels in 100 years. The impact of the coffee crisis was felt across the developing world, and in many cases prices fell below the cost of production. Plantations laid off workers and smaller growers simply left their coffee unharvested. According to the World Bank, around 500,000 jobs were lost in Central America and Mexico alone in 2000-2001, as a direct result of the crisis.

Several other production trends have also influenced the changing structure of the international coffee market. On the supply side roasters have pioneered important changes in the way coffee is being processed. Using a new steaming technique they have been able to reduce the negative characteristics of low quality coffee beans and therefore get increased returns with lower quality stocks. Roasters have also become more adept at making short-term switches between coffee types.



Source: International Coffee Organization (Composite Indicator Price), 2005



Source: International Coffee Organization (Composite Indicator Price), 2005

The effect of these changes has been a general consolidation of both roasters and traders, since only those who can keep up with technological and logistical changes are able to compete. Today just four companies dominate the world coffee market. The largest is the Nestlé Corporation, makers of Nescafé, controlling over half the world’s instant coffee market. Kraft, which is owned by Philip Morris, accounts for 14 percent of the world’s coffee sales, through brands such as Maxwell House, Kenco, Kaffee HAG and Jacobs. Sara Lee, owner of Douwe Egberts and the U.S. brand Superior, accounts for 11 percent of sales, while Procter & Gamble takes eight percent of the market, selling mainly in North America.

This consolidation has been to the detriment of small-scale growers who lack the capital to make the necessary production changes, especially since prices at the retail level hardly reflect the reductions in green coffee prices on the world market. Indeed the steadily rising coffee prices paid by the final consumer have not benefited the growers, and while the value of sales has roughly doubled, producer incomes have fallen to less than a quarter. In 1997, the final

consumer spent US\$30 billion on coffee and producing countries received US\$12 billion or 40 percent of that total; whereas in 2002, consumers spent US\$66 billion a year while producers received US\$5.5 billion or nine per cent (Observer 2002).

In a seemingly contradictory trend – one that is much more advantageous for small-scale Haitian coffee farmers - specialty coffee has caught the attention of a growing segment of socially-aware western consumers, and as a consequence currently receives higher price premiums on the world market than traditional coffee types. Added-value techniques such as origin-labeling, certification and high quality differentiation strategies such as fair trade, gourmet, and organic, among others, have been adopted in order to meet the demand of consumers, capturing their higher willingness to pay. An example of this growth is the trend in the US, where specialty coffee has grown at an annual rate of 30 percent over the past 5 years according to estimates by the National Coffee Association (NCA).

### **F. An in-depth look at the production chain**

Haiti does not have distinct, separate coffee plantations, as in other coffee producing countries in Central America. Due to the lack of financial capital and the pattern of land distribution, rural dwellers have traditionally adopted a ‘Creole garden’ regime, whereby coffee is grown in a mixed tree cropping system. Traditional varieties of Arabica, such as *Typica* or Bourbon, cannot grow without shadow protection provided by other trees. Haitian peasants have introduced productive trees in their creole garden, such as banana trees, avocado, oranges, and some tubers and root crops (yam, taro), in order to maximize the productivity of their very scarce land. Each crop provides an subsistence element, be it fuel, food or cash income in the case of bananas, yams and coffee.

In recent years coffee has played an increasingly marginal role in these cropping systems. A recent study points out that coffee only represents 10 to 30 percent of the value added of peasant labor in the creole garden (IRAM / RECOCARNO 2003). The estimated land cultivated in coffee is 100,000 hectares and assuming the average size of a land plot to be 0.65 hectares (half a ‘*carreau*’), and the approximate number of persons per coffee-growing household to be 5.5, the number of rural households (families) involved in coffee production was estimated to be between 175,000 and 200,000 in 2001.<sup>3</sup>

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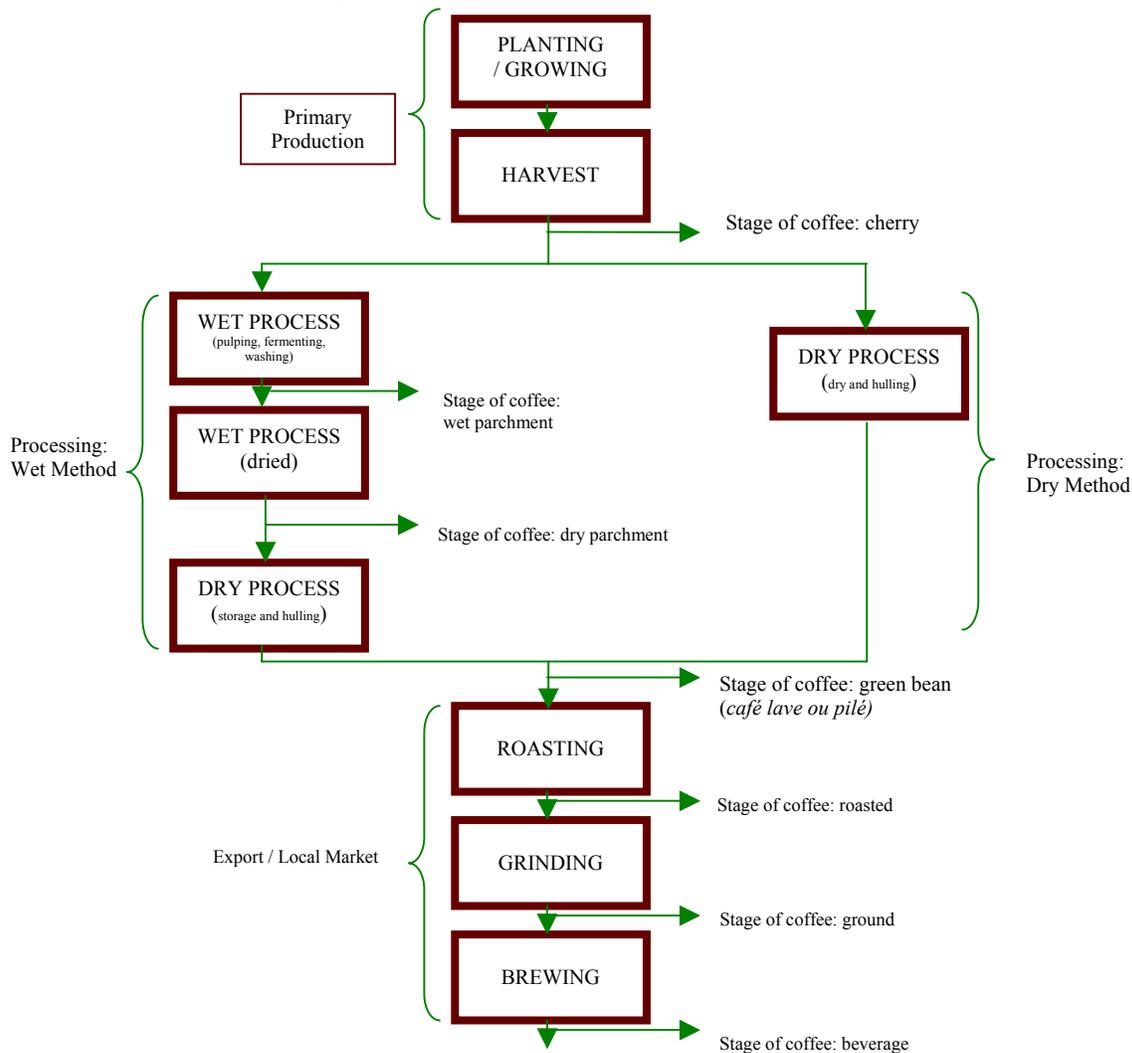
<sup>3</sup> INESA 2001. It is important to stress that these figures are approximate and indicative only of an order of magnitude. It should also be stressed that statistics for Haitian output and exports are not always accurate. Among other problems unrecorded exports to the Dominican Republic make it difficult to estimate levels of domestic consumption.

<b>Table 6. COFFEE CULTIVATED LAND DISTRIBUTION AND FAMILIES INVOLVED IN COFFEE PRODUCTION</b>			
	<b>Department</b>	<b>Surface percent (of 100,00 has.)</b>	<b>Percent of 200,000 families</b>
1	Grande Anse	22	5
2	Sud Est	16	8
3	Nord	15	25
4	Sud	12	10
5	Ouest	10	10
6	Centre	8	5
7	Artibonite	7	15
8	Nord Ouest	6	12
9	Nord Est	4	10

Source : CIRAD 99, IRAM 2004, AGRICORP 2004

The *Typica* variety of coffee accounts for 90 percent of the trees planted in Haiti, the rest being a mixture of other varieties such as *Bourbon*, *Salvadoreño*, *Mondo Novo*, *Catourra* and *Catimor*. All coffee in Haiti is of the *Arabica* family. The altitude of coffee plantations ranges between 400 meters in the North to 1,300 meters in Thiotte and Beaumont. The life of a coffee tree may fluctuate between 20 and 30 years, though many trees in Haiti are as much as 100 years old. However, it is important to note also that there is some natural renewing of coffee trees by rodents that eat coffee cherries and disperse its seeds. With the market in its present state, there is little investment in coffee production and the plantations tend to receive little and sporadic management aside from the annual harvest of the fruit, and weeding to clear the ground. Due to the age of the trees and the natural characteristics of the *typica* variety, yields per unit area are low, with the national average being approximately 250 kg/ha of marketable coffee. In the absence of plant renewal, the yields of these aging plants have inevitably been decreasing. In addition primitive growing techniques and fertilization deficiency has created a high incidence of pests and diseases.

Women play an essential role in coffee production, and they are the ones who often harvest the crop and prepare the unwashed coffee. On the majority of plots the coffee beans or ‘cherries’ are harvested at a single or very few pickings with every branch systematically stripped. This produces a harvest with cherries that are not fully mature and are green or yellow in color. This shows the lack of incentives that producers have in picking only the cherries that are mature (red cherries) and leaving the green cherries on the tree. This lack of incentives is due to the fact that coffee producers are often paid an average bulk price for their coffee cherries, which undermines a producer’s motivation towards selling higher quality cherries. In fact, perverse incentives such as allowing sticks, leaves and stones to be collected in the bag are present since they usually get paid by volume. Furthermore, the cherries are often picked with the stalk, at the expense of the following season’s crop. Coffee picking is hard work, not to mention painful, due to the relentless onslaught of red ants (as well as other types of ants) that live in the plants, hence the need for protective goggles when picking.

**Figure 1: Coffee Production Chain in Haiti**

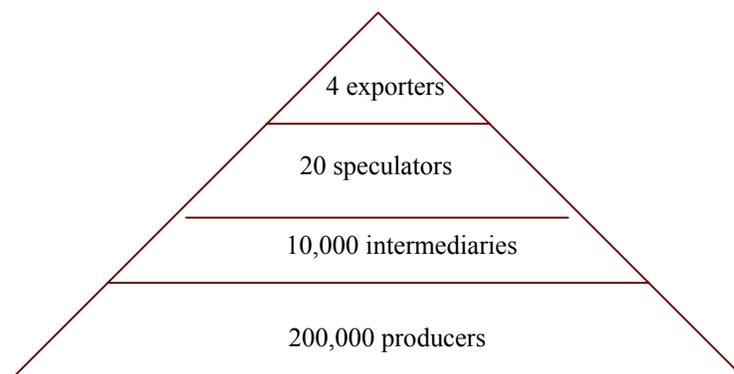
Arabica coffee can be processed using two different methods (see Figure 1 above). The dry method, which results in natural, or unwashed, coffee (also known as *café naturel* or *pilé*), is used to process about 90 percent of Haiti's coffee. The wet method, which produces the higher quality washed *Arabica*, is used to process the remaining 10 percent of the country's coffee.

Border trade with the Dominican Republic is a key part of the coffee sector of Haiti, determining not only export volumes but also domestic pricing to Haitian coffee producers. Dominicans buyers do not have special requirements on coffee quality bought from Haiti; they usually buy what they find on local rural markets. The coffee can be in the following stages: (i) semi-washed coffee or wet parchment (without fermentation), (ii) natural coffee, (iii) fully washed but low quality coffee that does not qualify for export ("triage"), or (iv) fresh cherries (before depulping). Such large demand is very convenient for Haitian peasants because in case of urgent needs of cash, they can sell everything, anytime and everywhere along the border localities to Dominican buyers. This phenomenon results in a large trade of all kinds of coffee along the Haitian-Dominican border in the North-eastern, Center and South-Eastern departments. This coffee is sold unofficially to Dominican buyers, who according to the farmers, are paying relatively high prices, above the New York "C" price. Haitian coffee is mainly used for

Dominican domestic consumption while better quality Dominican coffee is exported, particularly to Puerto Rico (semi-roasted coffee). Dominican imports of Haitian coffee seem to have turned to a structural trend, due to an increasing national deficit in coffee production in DR and a consistently favorable exchange rate between the currencies of both countries (IRAM-LAREHDO 2005).

Even though the Dominican buyers appear to be paying higher prices directly to the growers themselves, the difference between wet parchment (the most common form in which coffee is sold across the border) and actual green coffee means that farmers are paid for less than they actually delivered. Another common practice at the border when supply is high is holding off from buying any coffee in the morning, only to arbitrarily lower the price in the evening. Because wet parchment coffee is extremely perishable, the buyer is confident that the farmers will try to avoid taking the coffee back to Haiti through difficult back-road conditions and sustain a heavy economic loss later due to over-fermentation or molding. Border trade with the Dominican Republic is a key component of the Haitian coffee market. An increase in coffee demanded by the Dominican Republic from Haiti (for example due to an appreciation of the Peso versus the Gourde) could be good for the Haitian market in terms of exports, but can also cause domestic consumer prices of coffee in Haiti to increase and induce strong competition among Haitian growers' cooperatives, which are still relatively young and remain weak institutions.

**Figure 2. Structure of the Traditional Haitian Coffee Export Chain (2004)**



Source : AGRICORP 2005

Figure 2 above shows the traditional Haitian coffee export chain, which is composed of a large number of growers, many intermediaries and speculators and a small number of exporters. The structure of this market is an increasingly small amount of competition between a small number of exporters. In the 1970s there were more than 20 coffee exporters in Haiti, but as coffee production declined, so did the number of exporters. Currently there is only four Haitian exporters (without taking into account a group of ten major Dominican importers along the border). During the 90's, one company handled approximately 50 percent of all sales. This company was created in 1992 by the merger of several export houses in order to assemble enough coffee volume to meet larger orders. However, in the wake of the coffee crisis, and dried-up investment opportunities, this export company (PRIMEX) has been declared bankrupt. The four exporters that have operating during the 2005-2006 campaign are: (i) Wiener (largest

exporter); (ii) Baptiste (mainly European market); (iii) Paultre (from St. Marc); and (iv) Novella (from Cap-Haitien).

Exporters purchase their coffee from speculators<sup>4</sup> (or upper-lever intermediaries), who in turn buy their coffee from lower-level intermediaries who they pay to collect the coffee from the growers. Some of the coffee acquired by the speculators is exported, while the remainder is sold on the national market. The speculators form the vital link between the growers and the exporters and tend to be the main source of credit available to growers. The lower-level intermediaries are referred to as *voltigeurs*, *sous-marins* or *madam sarah's*. The *voltigeurs* collect the coffee from the grower, or buy it from them at a local market place. This market structure is not always respected, and the growers (especially if they are organized in cooperatives) may have a business relationship with speculators or importers, selling coffee to them directly.

In recent years other organizations have sprung up to take advantage of the price premium awarded for quality and specialty coffee in international markets such as ‘fair trade’ and ‘gourmet’. These initiatives largely involve cooperatives that group together individual growers, giving them the ability to process coffee and negotiate directly with international buyers. Table 7 below provides an overview of such initiatives and coffee networks, showing the top prices at which the coffee from these producers groups is being exported. Today there are around 90 wet processing centers and 4 dry-processing centers owned by cooperatives or associations. So far the activities of the cooperatives are limited in scope, though they have demonstrated a potentially viable, quality-oriented model for the future. So far the volumes shipped account for around 1 percent of total coffee exports. Limiting factors include the financial and technological constraints on the farmers, and the managerial limitations of their cooperatives.

<b>Table 7. OVERVIEW: ALTERNATIVE COFFEE NETWORKS</b>				
<b>Name</b>	<b>Region</b>	<b>Members</b>	<b>Donors</b>	<b>Top market price per lb 2004-2005</b>
<i>Réseau des Coopératives Cafetières de la Région Nord</i> (RECOCARNO)	North, Northeast	5000	OXFAM-GB EU	European gourmet: US\$1.26
FACN	South, Center, Artibonite, Grand' Anse	40,000	USAID / IICA IADB EU	Haitian Bleu US\$3 (Japanese market)
KOPKAB	Southeast	2100	EU	Haitian Bleu US\$2 (US market)
CAB	Center	500	EU Int'l NGOs	European Fair Trade US\$1.26
COOPACVOD	North	1,500		Organic US\$ 1.39
Domestic <i>pilé</i> coffee				US\$0.8 - 0.9

Source : Frisner Pierre, IADB The Haitian Coffee Sector (2005) and INCAH (2006)

The producers' share of the final price of the coffee sold has been, on average, below what is observed in other countries. In Costa Rica and Kenya, according to various studies, the producer share of the price has been between 65 percent and 75 percent respectively, depending on the year. In Haiti, as shown in Table 8, below, this share has not been above 64 percent in recent years. Even with limitations for obtaining historical data, we observe that, especially in the

<sup>4</sup> It is important to note that among speculators there are “*negociants*” who are in the main cities, aggregating coffees among the rest of the speculators and selling them to the exporters.

commercial channel (café pile) there has been an increase in the share to producers, mainly due to the price increase between 2002 and 2004 in the international market. This also shows how close the average producer prices of both the traditional commercialization channel and the higher quality export channel have become in the past few years, reinforcing the point that once international prices rise, producers are induced to shift coffee volumes from higher quality export channels towards the domestic/commercial channel in search of better cash flows (cash in-hand) in the absence of financing.

<b>Table 8. COMMERCIAL CHANNELS AND PRODUCER PRICES IN HAITI (2002-2004)</b>				
COMMERCIAL CHANNELS	Year	US\$/lb		PRODUCER PRICE (percent of final price)
		AVERAGE FINAL PRICE	AVERAGE PRODUCER PRICE	
KOPKAB - washed coffee (Thiotte)	2002	1.26	0.64	51%
	2003	1.26	0.54	43%
	2004	1.26	0.63	50%
FACN - washed coffee (Grand Anse)	2002	1.41	0.52	37%
	2003	n/a	n/a	n/a
	2004	n/a	n/a	n/a
Traditional commercialization channel - café pilé (Grand Anse)	2002	0.48	0.22	46%
	2003	n/a	n/a	n/a
	2004	0.85	0.54	64%

Sources : MARNDR / BID, étude des créneaux potentiels, filière café (2005)

Agricorp, analyse des opportunités pour une relance de la caféiculture dans la Grand Anse (2002)

The national institution that oversees coffee production in Haiti is the National Coffee Institute (INCAH). The administrative board of INCAH is staffed with key actors from across the coffee sector; such as growers, NGOs, roasters, exporters and academics. INCAH is currently financed by the central Government and under tutorship of the MARNDR, with support from projects from the European Union and the IADB (the details of the IADB project can be found in Annex 2).

**Box 2 – INCAH**

The INCAH was established in 2003 and its mission is to:

- Formulate and execute a national strategy for the coffee sector;
- Design and implement a quality control system;
- Mobilize financial resources for investment in the sector;
- Provide professional training to sector participants;
- Provide statistical data and analysis of the coffee market;
- Keep all members of the coffee production chain informed.

The government has earmarked a percentage of revenue for a ‘National Coffee Fund’, to be managed by INCAH, that will provide resources for investment in physical infrastructure and inputs for the coffee sector, although this fund is not yet operational.

At present there are two laboratories in Haiti with sufficient capacity to conduct quality control experiments; these belong to the FACN and RECOCARNO cooperatives respectively. The MARNDR and the Ministry of Commerce also own a laboratory which is fully equipped, but at

present lacks personnel trained in quality control techniques. In addition to the government, the Inter-American Institute for Cooperation in Agriculture (IICA) and several NGOs are involved in the coffee sector in phytosanitary issues and also working directly with grower cooperatives to produce specialty export coffee. Furthermore, new micro-credit entities such as the '*Conseil National pour le Financement Populaire*' (KNFP) and FONKOZE have been set up and some of them are working with coffee cooperatives, but at present there is little information on their success.

### **G. Barriers to increased value added in the coffee supply chain**

In general Haiti's main competitors have been more successful in responding to changes in the international coffee market. With its natural-processed coffee, Haiti did not adopt similar policies or make the necessary investments to reorient its coffee industry to produce the better quality, washed coffee which receives higher market prices. Instead, it continues to produce *pilé* coffee aimed at the low-end segment of the market, in effect competing with the sophisticated Robusta and large Brazilian producers.

In addition to the social and political problems, the lack of reform in the coffee sector in Haiti is partly due to the general structure of the sector, which sees various degrees of separation between the grower and seller. Exporters do not have sufficient influence on the production process at the farm level, and unlike Central America, the majority are not coffee producers themselves, therefore they have no direct incentive to invest in improved coffee production. Farmers with small plots of land had little choice but to opt for other, less lucrative and less (market) riskier crops. Currently, the production and post-harvest practices prevailing in Haiti run contrary to international market signals and as a result the quality of Haitian coffee has fallen so much as to receive heavily discounted prices from its buyers.

Table 9 below presents a summary of the various stages of Haitian coffee production, and the respective barriers towards increased value added (mostly reflected by increased coffee quality).

Table 9. BARRIERS TO INCREASED VALUE ADDED. A SUMMARY OF KEY PROBLEMS		
STEP IN PRODUCTION CHAIN	BARRIERS	
	Factor Markets	Public Goods & Services
<b>1. Planting</b>	<ul style="list-style-type: none"> <li>* <u>Capital Market</u>: Lack of credit for investment in new agricultural technology and coffee trees.</li> <li>* <u>Labor Market</u>: Lack of technical assistance for crop / quality management.</li> <li>* <u>Land Market</u>: Lack of functional institution for land regulation.</li> </ul>	<ul style="list-style-type: none"> <li>* <u>Research and Extension</u>: Lack of government strategy and support for research and extension activities to reconvert the coffee tree park and to improve coffee quality at the plant level.</li> <li>* <u>Pest Control</u>: Lack of nation-wide program for pest and disease management / control (<i>scolyte, coffee rust, root rot</i>).</li> </ul>
<b>2. Harvest</b>	<ul style="list-style-type: none"> <li>* <u>Input/output Market</u>: Berries paid at bulk price (no price differentiation by quality, except in a few cooperatives), so berries are picked before fully ripened and stems also picked, harming next seasons' crop.</li> <li>* <u>Capital Market</u>: Lack of credit (rotating funds) to advance payment to farmers for quality cherries.</li> </ul>	<ul style="list-style-type: none"> <li>* <u>Innovation</u>: Lack of innovation and research in grading and classifying coffee berries.</li> </ul>
<b>3. Processing (dry /wet)</b>	<ul style="list-style-type: none"> <li>* <u>Capital Market</u>: Loss of coffee quality through processing due to lack of investment in equipment and infrastructure;</li> <li>* <u>Labor Market</u>: No knowledge of cupping and other quality-detecting techniques;</li> <li>* <u>Input Market</u>: Scarcity and bad quality of water for processing.</li> </ul>	<ul style="list-style-type: none"> <li>* <u>Basic Infrastructure</u>: Lack of public investments in transport, communications, water, electricity and basic social infrastructure which reduces the quality of coffee and the productivity of human and physical capital.</li> </ul>
<b>4. Marketing</b>	<ul style="list-style-type: none"> <li>* <u>Information Market</u>: Disconnect between importers/exporters and producers reduces market signals and incentives at the farm level.</li> <li>* <u>Output Market</u>: Increased competition from other quality coffee growing countries.</li> <li>* <u>Labor Market</u>: weak management and financial capacity from producer associations to tap and increase volume in niche markets.</li> </ul>	<ul style="list-style-type: none"> <li>* <u>Market Information</u>: Lack of public information system on production, productivity and (national/int'l) market trends.</li> <li>* <u>Quality system</u>: Lack of infrastructure and international recognition of quality verification and certification laboratories.</li> <li>* <u>Institutional Framework</u>: Lack of comprehensive national strategy to meet new market requirements and opportunities.</li> <li>* <u>Basic Infrastructure</u>: Lack of public investments in communications infrastructure reduces the access to market information and new market opportunities.</li> </ul>

## 1. Planting

Most of the barriers to production that prevent Haitian farmers from producing high quality coffee occur early on in the production chain. The general trend in coffee prices and the competition between coffee and other crops in the farming system have induced Haitian peasants to reduce their investments (labor, capital) in coffee production. Today, some coffee gardens have higher root crops and banana plantations: farmers have abandoned their coffee plants for other, more lucrative crops. The main result of this lack of investments has been pest proliferation, particularly nematodes. Abandoning the coffee trees and leaving cherries

unharvested has caused infestations of pests, making it difficult to reinitiate any agricultural production. Furthermore, in the absence of technical assistance, the plant management techniques used by the farmers often jeopardize the quality of the coffee bean.

The problem of *scolyte* (*Stephanoderes hampei*) has not been overcome as of yet, and poses a substantive hurdle in terms of coffee production yields nation-wide. The lack of knowledge of pest management is a crucial factor at the growing stage of the plant. Pest problems are frequent in Haiti, due to the old age of the majority of coffee plants in Haiti, and the poor or total lack of management. In particular the berry borer (*broca* in Spanish, *scolyte* in French) became a significant problem in 2002 and 2003. Other common diseases present in Haiti include brown leaf spot (*Cercospora coffeicola*), coffee rust (*Hemileia vastatrix*), chicken's eye (*Cercospora coffeicola*), the American disease (*Mycena citricolor*, known also as *Omphalia flavida*), and root rot, (either *Rosellina sp.*, *Nectria*, or *Geococcus coffea*).

Problems with the aging coffee plants, environmental degradation and lack of pest management are compounded by the lack of a financial market for investments at the parcel level. Credit or insurance for improvement/renovation of the coffee park or for reconstruction after external shocks (climate, pest/diseases, etc.) are almost non-existent. A few well-organized cooperatives have been able to obtain investment finance for increasing yields, but such funds are rare and usually benefit from a third party guarantee (donor or government agency).

## **2. Harvest**

Problems at the harvest stage arise from the lack of market incentives and market signals to pick selectively the coffee cherries to be able to increase coffee quality and thus, prices paid for the end product. Picking only the ripe cherries is key for coffee quality, but farmers are paid a bulk average price, which provides a perverse incentive for picking every cherry in the tree, including sticks, leaves and stones. There is no careful coffee cherry selection to differentiate higher quality from lower quality berries. Usually this is done at eyesight, making a rough estimate of how many unripe (green) cherries there are in the bag. No account is made for the exact number of green, the variations in color, their size or their relative weight (homogeneity). This lack of market signal at the initial stage of the coffee processing cycle results in a lack of incentives to farmers for improving quality at the plantation level because they will get paid an average price.

Furthermore, even if a farmer that produces quality coffee is identified, the lack of financial (credit) resources at the cooperative level makes it harder for such producer associations to obtain enough volume of quality coffee as to meet the quantities demanded. Farmers tend to sell a large portion of their coffee production to the intermediaries (commercial market) instead of the cooperative (alternative market) in order to obtain cash and solve their immediate needs. This lack of finance (working capital), along with the lack of selection/grading system at the cherry level is a major hurdle for moving towards higher value added in the coffee chain.

## **3. Processing (dry/wet)**

Dry and wet processing in Haiti is surrounded by problems due to lack of physical infrastructure. Poor quality of roads and transport infrastructure makes it difficult to maintain quality of berries, wet parchment and coffee beans while are being moved from farm, to wet processing center and/or to dry processing center, to final destination. Lack and poor quality of water at the processing centers decreases the final coffee quality and places a bottleneck in the volume of coffee that can be processed, creating the inability of reaching economies of scale. Finally, the

lack of rural electrification forces the machinery to be manual, or for the processing costs to be higher due to dependence of fuel generators, decreasing the productivity and profitability of coffee production.

Moreover, lack of access to financial markets reduces investment opportunities in new and improved technology. Finally, farmers and leaders of cooperatives have poor knowledge of the characteristics of coffee demand. The lack of training in cupping hinders in their ability to communicate with buyers and understanding exactly what the market demands. Understanding cup value and its various characteristics, and tracing those characteristics back to specific points throughout the processing stage is a key competitive aspect for the coffee supply chain to be able to adapt to an ever-changing international market.

#### **4. Marketing**

Since the abolition of the *Office de Promotion des Denrées d'Exportations* in 1987, the absence of detailed statistical data has prevented any serious analysis of the national coffee market in Haiti. There is no systematic effort to publicize production, productivity and market trend information about the sector, which limits the ability to take advantage of opportunities and foresee problems and production barriers. Furthermore, even if such information system existed, poor reach and depth of communication networks (cellular telephones) makes it hard for farmers and producer associations to react to market signals. Producer associations and cooperatives are also lacking administrative and financial capabilities in order to better manage their resources, missing opportunities to bring some of the benefits of market opportunities down at the level of individual producers.

The institutional landscape of the coffee sector is promising relative to other commodities in Haiti, however a vacuum still exists in terms of having a current national strategy to prioritize actions among the various actors of the coffee supply chain in order to take advantage of market opportunities and be able to compete in an ever more competitive international market. The INCAH will hopefully fill this current void. At least its mission statement and initial actions reflect that potential. Finally, the lack of a comprehensive, internationally renowned national quality certification / verification body (laboratory) results in continuously missed opportunities for Haiti to compete in the international market based on quality. If no serious effort to put in place a quality management system is undertaken, Haiti's opportunities to compete in the international market will be diminished.

#### **H. The Potential for Haitian Coffee Production**

The traditional *typica* coffee produced in Haiti is world-renown for its high quality and it is this specialty market that represents the best opportunity for Haitian coffee. Despite the many obstacles, there is a great potential for transforming Haiti's coffee sector from a producer of low quality natural coffee into a producer and exporter of high-quality coffee, specially fully-washed coffee. Certain key factors already exist on the ground to facilitate such a production shift: (i) key agro-ecological conditions such as soil and altitude already exist naturally; (ii) Haiti has generations of coffee know-how; and (iii) Haiti has its production structures in place, including an abundance of labor and excess procession capacity at the dry-processing stage. In addition several pilot programs (see box below) have already shown the potential for a high-quality strategy in Haiti, and exports to the specialty coffee markets have been rising steadily since the late 1990s.

***BOX 3 – High Quality Coffee***

The term ‘high quality’ refers to coffee that displays a minimal number of defects at the green stage level and thus has a high ‘cup value’. Quality is an attribute that has a specific technical meaning, and is measured and evaluated by counting physically the defects of green beans as well as sampling the organoleptic characteristics of coffee such as taste and smell. Professionals use a ‘cupping’ process to test these qualities.<sup>5</sup> The most important determinants of coffee quality are the agro-ecological conditions in the fields and the production methods used to process the green beans.

In particular the altitude of the crop is the most widely recognized quality criterion and by far the easiest to identify and measure. Altitude is directly correlated with the acidity of coffee. In general, for latitudes between 15 and 20 degrees, fields located over 900 meters sea level have the highest potential to produce high quality coffee. Beans produced between 600 and 900 meters can also achieve a high quality and could potentially be marketed in the specialty coffee segment. The mountainous Haitian countryside is the ideal location for high-quality coffee production.

Another reason for backing quality as a strategy is the observable upward trend in global markets, that experts unanimously agree will continue to grow. Much of this demand is being driven by post-war baby boomers in the European Union and the United States. In particular, out-of-home consumption, food service, and private-label segments are expected to capture nearly two-thirds of new consumer food spending in the U.S. alone. Therefore, specialty coffees will continue their strong growth trend, while standard brands will remain stagnant though dominant in the market.

It is worth noting that Haitian producers should approach with interest but also with caution the recent growth in sustainable coffees. These coffee markets are generally defined as those whose production is certified by a third party to combine economic, social and environmental benefits, including organic, fair trade, shade-grown, etc. These markets are still limited in size and can require considerable farmer and institutional efforts and expenditure to adapt to their more stringent requirements.

The production of high quality coffee also coincides with a sustainable approach to Haitian agricultural development, a crucial factor given the general state of environmental degradation on the island. Coffee plants contribute in various positive ways to the natural eco-system by preventing deforestation; regulating the water cycle; and protecting other crops that are part of the creole garden, against sun and water erosion. Currently 80 percent of the cultivated agricultural land in Haiti is chemical-free and 100 percent is organic. In this regard, supporting the competitiveness of the coffee sector by promoting quality will result in substantial positive externalities in the form of environmental services at the farm level (increase shade cover, biodiversity, soil conservation, etc.).

<sup>5</sup> The “SCAA Green Arabica Coffee Classification System” classifies coffee into three categories: “Exchange Coffee”, “Premium Coffee” and “Specialty Coffee”, based on the number of primary and secondary defects at the green stage level. A coffee with more than eight defects (up to 23, measured in 300-gram samples) is deemed as “Exchange Coffee”, and is typically traded on the “C” Market. The “Premium” classification is assigned to lots with less than eight full defects, whereas the “Specialty” grade to lots with a maximum of five defects. Another specific (more subjective) classification exists for determining the cup value of the coffee.

***Box 4 - Pilot Programs: The Case for Quality***

Launched in 1990, the high quality coffee brand ‘Haitian Bleu’® was supported by a USAID and an IICA grant worth US\$5.8 million. The project encompassed 20,000 farmers, from 24 local cooperatives, united under FACN, which acquired an export license in order to sell the coffee directly to customers abroad.

Under the project, farmers planted 4,350 acres of coffee, along with nearly 250,000 plantain plants and 30,500 citrus trees to provide the necessary shade cover. Technical assistance was offered to help farmers improve their production techniques, and the farmers set up 23 processing plants to wash, sort, and then sun-dry the beans. The project also benefits from linkages with a micro-finance institution (Fonkoze) providing credit to cooperatives participating under FACN by extending a guarantee on their loans and gradually pulling out the guarantee and leaving the full risk up to the MFI. So far Fonkoze has been pleased with the performance of some of the cooperatives they’ve been working with and apparently are willing to expand their portfolio to other groups receiving similar technical assistance and market access. No rigorous analysis of the project or FACN has been undertaken up to this point. The financial and institutional sustainability of FACN and other similar federations of cooperatives remains to be seen. It is not clear whether FACN would stand on its own without external support from donors.

### **III. PUBLIC POLICY RECOMMENDATIONS AND LINES OF ACTION**

#### **A. The basic public policy framework for Haiti**

The objectives of the National Institute of Coffee of Haiti (INCAH) are to decrease rural poverty, increase farmers' income, and protect the environment. This paper suggests that in order to fulfill these goals, several public policies need to be put in place to take full advantage of the potential of Haitian coffee market and revert the current trend of decapitalization of the sector. Whether along traditional or alternative markets, public policy needs to enable all actors along the production chain to be equipped to respond to the demands of the international market place. This section describes the public policy recommendations needed to put the coffee sector of Haiti in a competitive position vis-à-vis the rest of the world. These recommendations are presented as lines of action at the institutional, production, processing, and marketing levels of the supply chain. In Table 10 below is a summary of such public policy recommendations.

Such public policies are suggested to be undertaken by the Ministry of Agriculture (MARNDR) in coordination with different actors and stakeholder mentioned in the table. The summary also shows the areas where large voids are found and where some actions have already been taken. The purpose of this summary is to provide a concise list of areas and specific policies that are aimed at removing key hurdles to improve the competitiveness of the sector and add value along the coffee supply chain. Thus, the MARNDR should take the lead and the responsibility of carrying out such policies and implement them into programs. The INCAH should be used as the logical channel towards implementation and discussion with the various actors, but due to its limited mission, issues such as pest management, financing, infrastructure, and other that have implications beyond the coffee sector, should be taken up by the MARNDR in direct relationship with donors and stakeholders.

#### **B. Detailed lines of action**

##### **1. Institutional**

Having an institution that acts as a forum where stakeholders and actors of the coffee supply chain come together is already several steps ahead of most other rural supply chains in Haiti. Such institution is the INCAH and it should continue to be supported to become sustainable. Currently the INCAH is under the tutorship of the MARNDR and its board of directors is composed by public officials (Minister of Agriculture, Minister of Environment, National Credit Bank), exporters, roasters, producer groups, NGOs, and academic institutions. The operating budget of the INCAH is currently financed 100 percent by the government, with indirect support from projects such as the EU (Stabex program) and the IADB (MIF program).

It is crucial that public policy towards the INCAH and other forums ensures that such institutions move towards sustainability and autonomy from public resources. The INCAH should start establishing membership fees, even if symbolic, to ensure that INCAH's activities and incentives are aligned with their member's incentives, especially the private sector. Producer's representatives in INCAH's board of directors have agreed with the idea of reintroducing a special tax on coffee export to support INCAH current expenditure. Furthermore, the INCAH should continue to strengthen its capacity to execute project, but it should not depend on projects to sustain its core functions as forum and service provider to the sector. Those core functions

should be financed independently from specific projects. In particular, functions such as delivering policy recommendations and market information is vital to the competitiveness of the coffee chain. The availability of accurate price and other market information is vital and should be provided by experts located in INCAH, and disseminated along the production chain. Up to date information helps reduce risks and transaction costs, and better enables market participants to plan and coordinate their production and trading activities. In general most Market Information Systems have lacked commercial utility and have been unsustainable<sup>6</sup>. To avoid the most common failure factors, four issues must be addressed:

1. Private, non-governmental management required.
2. Cost recovery mechanisms must be devised.
3. Information systems must be established on a modest scope, at least initially, in the form of pilots or for specific commodities.
4. Participatory process is needed. Such process must be user-defined and incorporates feedback.

Other strategic functions that the INCAH may play, but that the MARNDR should promote regardless of specific INCAH activities, is the development of management capacity at the producer association level. Training in basic administrative and financial functions is crucial to insure the viability of producer groups willing to associate themselves in search of overcoming some market failures. Specifically, the MARNDR should look at promoting direct links between the financial sector and coffee cooperatives and associations. MFIs and banks need to explore opportunities and establish relationships with producers, and producers need to learn basic financial concepts in order to communicate their terms and better administer their resources. Working on the supply and demand side of financial services for the coffee sector is a challenging task that has to exploit the recent few successful experiences.

Cooperatives and growers associations also need institutional strengthening and human resources enhancement. There is an overall lack of long term vision and inability to formulate short and medium term business plans. This is a key constraint to the development of the associations. Furthermore, it will be also necessary to support the development management skills within the cooperatives and associations in order to reinforce the transparency and accountability of these institutions.

## **2. Primary Production**

In order to improve the level and quality of coffee production, producers need to receive the incentives to do so. Currently, the incentives are lacking not just due to a problem of price levels, but due to the problem of timing. Producers, if they want to fetch higher price premiums on their quality coffee by selling on the higher quality export market, need to produce and wait up to 3 months to get paid once their coffee is processed and reaches their international destination. The lack of working capital from producer associations and intermediaries to ensure high quality coffee volumes hinders the ability of farmers to sell their coffee at a price premium. Farmers need immediate cash to cover their pressing needs and are not able to wait for payment after the coffee is processed and exported. Therefore, innovative instruments such as the ones used by Fonkoze, where coffee cherries are used as collateral, or establishing a triangulation

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<sup>6</sup> An excellent example of a sophisticated MIS is an evolving project developing information on "green" markets, run by *Centro de Inteligencia Sobre Mercados Sostenibles (CIMS)*, based in San José, Costa Rica, under the aegis of the *Instituto Centroamericano de Administración de Empresas - INCAE* (e-mail: info@cims-la.com).

between importer–exporter–financial intermediary would allow for working capital funds to reach farmers at the time they are needed. Other instruments such as price risk hedging contracts can also be explored as insurance instruments to financial institutions taking coffee beans as collateral for investment loans.

Another barrier identified in the production stage is the vulnerability of coffee plants in Haiti to *scolyte*. The MARNDR should continue to support and expand the *scolyte* control program currently ran by IICA, and move towards a national coverage. Other diseases, such as root rot and coffee rust, should also be added to such program. Having a robust disease control and prevention structure will reduce the vulnerability of the supply chain to external shocks and will increase the competitiveness of the sector as a whole.

The MARNDR should set up and invest in private-public partnership to promote research and extension activities on the coffee sector. The INCAH could be use for this function or a public-private board of directors could be set up around the research center of Thiote for example. The objective would be to have core activities for the transfer of technology from abroad on coffee (there are various international research networks that work on coffee issues worldwide), and invest in priority innovative developments of coffee issues that are solely characteristic to Haiti, such as the production structure of “creole garden” regime. Currently the Faculte d’Agronomie is doing some research on coffee in the framework of the INCAH quality project financed by the IADB, and the research center in Thiote has not been operational for a long time. A public and private effort to revive such research and extension network needs to be discussed and put in place.

Finally, and most importantly, coffee should be considered in the broader natural resource management strategy for Haitian hillside stabilization, especially in upper watersheds. Support for coffee (primary) production should be embedded in watershed management programs as one of the key crops that both provide increase income and environmental services and protection. However, coffee production should also be supported within the broader scheme of other perennials, since farmers cannot and should not live on coffee alone, thus capturing additional synergies with fruit tree propagation for avocados and citrus.

### **3. Processing**

The processing of coffee is the main source of defects and quality deterioration of the commodity. It is also the stage that is most dependent on public and private infrastructure. The lack of roads, electricity, communications, and water systems has a direct effect on the production of high quality coffee and on its productivity and costs. Some of the main constraints of the sector is the lack of water for wet processing and the deficiency in drying capacities in humid and very humid mountainous areas. It is thus extremely important as well as difficult, to establish a permanent link by which the coffee sector can communicate their priorities to the public institutions that make the investments in such public infrastructure. Currently, the MTPTC has a rural roads envelope that should take into consideration priorities given by the MARNDR on areas and segments that would bolster economic growth.

Finally, there needs to be a quality management system established to set guidelines and standards for producers to be able to improve coffee quality according to market demands. The processing stages are the main source of coffee defects, and are in need of some guidance from best practices and training. The spirit behind *Le Code du Café* should be taken as an opportunity

to lay an agenda for training and setting (voluntary) standards as a way of transferring know how and capacity to respond to market signals.

#### **4. Marketing**

For those coffee producers who lack financing or other necessary production inputs to produce for the higher quality export market, the domestic/commercial market offers a growing, but usually unstable market, as prices paid are highly correlated with the international coffee market price and the currency exchange rate of the Dominican Peso. Furthermore, in the longer run we observe that even in the domestic market, competition from abroad is starting to enter through export of low quality coffee imported through supermarket chains. The long-term strategy for the Haitian coffee sector is to continue to serve the domestic/commercial market for low quality coffee, while looking to increase their base of higher quality export coffee that can be more resilient to changes in the international low-quality coffee market.

Furthermore, as outlined above, roasters have shown an increasing capacity to add enormous value to green beans, while producers' share of total value has declined considerably. Even the premium gained from quality coffee pales in comparison with the huge downstream margins that are currently the almost sole domain of firms in consumer countries. The time is therefore ripe to challenge the traditional paradigm that designated producer countries as mere suppliers of green coffee beans. Increased globalization has created a new generation of consumers who are increasingly aware of the geographical, social and environmental origins of their daily mug of coffee. There are many opportunities for Haiti to capitalize on its high quality coffee by creating improved and/or direct links with the consumer; thus making its coffee industry not only more lucrative, but more sustainable for each and every stakeholder along the coffee chain.

Commercial consistency will be a key factor for Haitian coffee to increase its market value. Confidence in timely delivery of consistent quality beans is essential to developing long-term relationships with buyers. Coffee must be delivered under conditions of adequate humidity, in accordance with the agreements with the exporter. To achieve this, Haiti needs to enjoy basic infrastructure for a national quality control system to verify and certify coffee. The laboratory at Tamarinier has most of the necessary equipment, but lacks the human resources and the international certification standards to attract demand for its use. Furthermore, there is an insufficient mass of trained cuppers that are internationally renowned that provide the link between buyers abroad and sellers in Haiti. A comprehensive national program to implement such quality control system must be set in place. The quality project executed by INCAH will provide part of those elements in the short term, but a long term commitment from the MARNDR needs to be assured.

Finally, Haitian coffees still enjoy a positive image in international markets, especially in Europe and Japan. Such image should be exploited, trying to promote a consistent image of Haitian coffees abroad and taking advantages of the key environmental and natural resource management role that the crop plays in the country's watershed protection initiatives. Capitalizing on this approach through the support of traceability and marketing of such environmental benefits and services can prove highly beneficial to the Haitian coffee sector. A marketing campaign (Colombia style) is not advisable since the resources needed are substantial and no concrete benefit is assured, however basic information facilitation from buyers abroad (web sites) and basic directories of sellers in Haiti should be compiled to ease market linkages. Finally, national

promotional activities, such a domestic *cup of excellence*® could have international exposure and demonstrate that Haitian coffee producers do produce quality coffees that compete worldwide.

**Table 10. A PUBLIC POLICY FRAMEWORK FOR HAITI’S COFFEE SECTOR**

Policy Area	Policies	Actors / Stakeholders	Current Policies & Programs
<b>1. Institutional</b>	Support the start up and sustainability of forums (INCAH) for bringing together the various actors of the supply chain to develop jointly a national coffee strategy to increase sector competitiveness	I, D	INCAH has begun operations but is in need of further institutional support
	Establish permanent mechanisms to deliver policy recommendations and market information to the sector	I, D, C, E, G	INCAH has such function assigned to them, but no such services have been delivered as of yet. The IADB MIF project has limited funds available for establishing such market information system strategy
	Support to the development of financial literacy programs and training in administration to improve the management capacity of producer groups (associations and cooperatives)	I, D, N, C	Various donors and NGO's have been supporting directly certain cooperatives and producer groups, however no systematic program has been put in place at the national level
	Support to establishing sustainable links between the financial sector and coffee producer associations.	I, D, N, C	USAID, though its support project to FACN has successfully made such link through guarantees. An in-depth analysis of how to scale-up such experiences should be undertaken
<b>2. Production (primary)</b>	Support the development of innovative financial instruments (trade finance, insurance, guarantees, etc.).	D, E, C	No initiative has been developed in this area.
	Establish a nation-wide phytosanitary controls and a program to control pests (insects and diseases) such as <i>Scolyte</i> , <i>root rot</i> , and <i>coffee rust</i> .	D, I, G, C, U	The government and IICA have implemented a program to control <i>scolyte</i> in certain areas of the country, however financial resources are limited to specific regions and exclude other type of pests.
	Establish a comprehensive national program for coffee research and extension to facilitate technology transfer from abroad and to invest in innovative areas solely characteristic to Haiti	D, I, G, C	The IADB will provide financial resources to rehabilitate Haitian agricultural research and extension for key crops, including coffee.
	Establish permanent links for incorporating coffee sector priorities in the decision making process of public infrastructure such as communications, water, electricity and transportation.	D, I, N	The Faculté d’Agronomie has done very limited work. No activity at the Research Center of Thiotte. The IADB will provide financial resources to the Thiotte and Baptiste-Dondon research centers on coffee production, which will benefit with a mixed board, including private sector representatives.

**Table 10. A PUBLIC POLICY FRAMEWORK FOR HAITI’S COFFEE SECTOR**

Policy Area	Policies	Actors / Stakeholders	Current Policies & Programs
<b>3. Processing</b>	Establishing quality management improvement guides and standards.	D, I, E, C, G	The INCAH, with support of the IADB is beginning to execute such quality management program. USAID has also been working with FACN members on quality improvement.
<b>4. Marketing</b>	Establishing basic infrastructure to establish a national system to verify and certify coffee quality.	D, I, E, C	A national laboratory (Tamarinier) exists with the necessary equipment, however it does not have the necessary human resources or the international certification necessary. The few laboratories that are used are not up to date and there is not enough human resources trained in cupping.
	Establish a platform and strategy for promotion and awareness of Haitian coffees in international markets	D, I, E, C	The INCAH, with support from the IDB, has planned to establish an information platform (web site), to communicate the progress and information on the coffee sector of Haiti.
	Establish stronger links with the DR.	D, I, E, N	The Dominican market is a strong but risky opportunity for the Haitian coffee sector. Some NGOs are trying to establish formal business relationships between Dominican Importers and Haitian cooperatives, which can prove useful (marketing contracts).

G = Growers; N = NGOs; I = INCAH; D = Donors; E = Exporters; C = Producer Groups (cooperatives/associations); U = University.

### **C. Conclusion**

The competitiveness of the coffee sector of Haiti has been declining over the past decade due to the global coffee price crisis and due to the political instability that the country has suffered. However, coffee still plays a key economic, social and environmental role in the country and is one of the agricultural engines of the rural economy. Furthermore, recent initiatives have been relatively successful in differentiating Haitian coffees as quality coffees that command price premiums in international markets, capitalizing on the existing positive quality image of Haitian coffees.

Despite the many problems facing the coffee industry, historically the Haitian coffee sector has been able to weather cyclical downturns and dramatic political crises, proving to be one of the most resilient areas of the rural economy. Future investments and policies must support and be based on some of the core advantages and benefits that the coffee sector has to achieve sustainability and competitiveness. These core competencies include: (i) the existence and development of a national coffee institute (INCAH) that acts as the platform for the coffee sector to interact along the chain and with the public sector in setting priorities and strategies; (ii) the resilience of the producer organizations and the potential they show to weather external shocks

and adapt to changing conditions; and (iii) the integrated role that coffee plays in the rural economy as a key factor in economic decisions (agricultural income), environmental services, and social services (payment of school fees).

Haitian agro-ecological characteristics provide the necessary conditions for producing high quality coffee that can search premium prices in international markets, as has been proven by recent initiatives. The main barriers to reap such market premium benefits are the lack of enabling environment such as: (i) supply chain institutional arrangements, (ii) public, social and productive infrastructure, (iii) the lack of a competitive financial market allowing farmers to invest in production; and (iv) basic public services such as quality and phytosanitary control, and market information and sector statistics. Public sector intervention an investment is crucial to establishing and improving the enabling environment of the coffee sector, but also private actors along the coffee supply chain must get increasingly organized (through the already existing INCAH or other institutional structures) in order to coordinate and prioritize investments in the sector. The coffee sector is one of the better organized agri-supply chains in Haiti, and as such shows a relatively higher potential for growth. Support should be provided to help the coffee sector supply chain reap the potential benefits from new market opportunities, protect key environmental services in upper watersheds, and set an example for other agriculture and rural productive activities.

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## **SUMMARY OF IDB STRATEGY FOR HAITIAN AGRICULTURE**

### **Lessons Learned**

1. The Bank has financed a series of agricultural investment projects in Haiti since the mid-1970s, predominantly focused on irrigated plains, particularly the Artibonite Valley (473/SF-HA, 690/SF-HA, 845/SF-HA). Their most consistent weakness in approach derived from the failure to engage the beneficiary groups in setting priorities during design and execution, and failure to mobilize their commitment to participate and to maintain investments. These projects tended to concentrate on irrigation infrastructure execution and paid insufficient attention to demonstrating tangible and sustainable increases in income while achieving a sense of ownership and maintenance of infrastructure works. The most recent operation in that area, the Agricultural Intensification Program (1490/SF-HA) that began implementation in 2004, takes into consideration such lessons learned and has a far more participatory approach and one that is more squarely focused on raising household income through intensification.
2. The Bank has limited direct experience in Haiti with agricultural investment projects in upland areas. Reviewing the successes and failures of projects funded by other donors in Haiti and elsewhere that have attempted agricultural intensification in upland areas has yielded important lessons: (i) farmers must perceive relatively high financial returns in order to assume the additional costs and risks of intensification; (ii) intensification programs should not be limited to irrigation investments; (iii) local producer organizations must assume increasing responsibility for management of intensification efforts and infrastructure maintenance; (iv) in erosion-prone environments, upstream protection of watersheds is necessary to justify agricultural investments downstream; (v) various crops, particularly fruit trees, can offer high revenue hillside options compatible with watershed enhancement; and (vi) export-led strategies tend to bring more dynamic change to the sector than do import-substitution strategies.

### **Strategy for Haiti's agricultural sector**

3. The country's current National Agricultural Policy prepared by the MARNDR in 2004 stresses three main thrusts: (i) bolster rural infrastructure; (ii) support development of agribusiness chains (filières); and (iii) consolidate the emergence of input and service providers. The proposed project is consistent with Haiti's National Agricultural Policy, taking an integrated approach to irrigation and watershed protection infrastructure investments, support to producer groups in marketing and agricultural intensification services, and consolidation of input markets (water, seeds, fertilizers) as well as soil conservation and financial services.

### **Bank strategy in the rural sector**

4. The Bank's 2005-2006 Transition Strategy for Haiti stresses the importance of revitalizing agriculture within the third pillar of the Interim Cooperation Framework (ICF), focusing on promotion of economic recovery (Paragraph 5.12). The Bank, within the framework of the 2005-2006 Transition Strategy and the ICF, is supporting the MARNDR to implement programs that will extend the intensification process initiated

through the Agricultural Intensification Program (1490/SF) to other geographic areas and to a broader variety of agri-supply chains (filières). The Bank's strategy also emphasizes that areas of opportunity will be assessed both from a production and marketing perspective, as well as based on the linkages to expanded value-added employment.

**SUMMARY OF THE IDB PROJECT TO SUPPORT “THE COMPETITIVE POSITION OF HAITIAN COFFEE”**

<b>Beneficiary:</b>	Haiti
<b>Executing agency:</b>	Institut National du Café d’Haïti (INCAH) [ <i>Haiti Coffee Institute</i> ]
<b>Beneficiaries:</b>	Among the beneficiaries of this project will be: (i) at least 500 coffee producers who will participate in pilot groups; (ii) at least 800 coffee producers trained on the quality management system; (iii) 25 local professionals and representatives of coffee growers’ cooperatives and associations, trained in cupping quality coffees; (iv) 50 coffee producers participating in new market mechanisms using price as an indicator of coffee quality; and (v) INCAH, which will be strengthened through the project activities.
<b>Financing:</b>	MIF: US\$ 800,000 Local counterpart: <u>US\$ 340,000</u> <b>Total: US\$1,140,000</b>
<b>Objectives:</b>	The general objective is to help enhance the competitive position and market access of Haiti’s small coffee producers. The project seeks to achieve a sustainable improvement in the quality of Haiti’s coffee, in order to increase the volume of Haitian coffee sold at a premium over the international market price.
<b>Execution timetable:</b>	Execution period: 36 months (approved October 2005) Disbursement period: 48 months
<b>Special contractual conditions:</b>	As a condition precedent to the first disbursement, evidence must be provided that the project manager selection process has been completed in accordance with Bank procedures.
<b>Exceptions to Bank policies:</b>	None
<b>Environmental and social review:</b>	The Committee on Environment and Social Impact (CESI) reviewed and approved the project abstract without qualification on 14 February 2005.
<b>Coordination with other official development agencies:</b>	The project will coordinate its activities with the European Union and USAID, which have historically supported Haiti’s coffee sector, through periodic meetings with the executing agencies.

**ANNEX III**

**LIST OF CURRENT IDB (AND OTHER DONORS) PROJECTS IN EXECUTION (AND PREPARATION) THAT SUPPORT THE COFFEE SECTOR OF HAITI**

<b>Project Name</b>	<b>Executing Agency</b>	<b>Donor</b>	<b>Amount</b>
Support to the Competitiveness of Haitian Coffees	INCAH	IADB / MIF	US\$1.1 million
Ennery-Quinte Agricultural Intensification Project	MARNDR	IADB	US\$27.4 million
Economic Rural Supply Chain Development (in preparation)	MARNDR	IADB	US\$15 million (estimate)
National Watershed Management Program (in preparation)	MARNDR	IADB	US\$28.5 million (estimate)
Institutional Support to INCAH	INCAH	EU (Stabex)	US\$400,000
Support to the Cooperatives of the KOPKAB network (Thiotte)	Lutheran World Federation / KOPKAB	Action Aid EU (Stabex)	n/a
Project for the improvement of washed coffee quality in several coffee cooperatives of Thiotte	FACN	EU (Stabex)	US\$350,000
Hillside Agriculture Program (HAP) – Phase II (in preparation)	FACN	USAID	n/a
Support to an integrated strategy to control the <i>scolyte</i> in Haiti	IICA	EU (Stabex)	US\$300,000