

MULTILATERAL INVESTMENT FUND ABSTRACT

HAITI

I. BASIC PROJECT INFORMATION

Project Title	Supporting the Competitive Position of Haitian Coffees		
Country:	Haiti		
Project Number:	HA-M1004		
Beneficiaries:	An estimated 500 small and medium coffee producers will directly benefit from the training and technical assistance provided by the project, and about four times this number would directly benefit from the potential expansion in new market mechanisms that recognize quality.		
Team:	Diego Arias (RE2/EN2), team leader; John Horton (RE2/EN2); Daniel Shepherd (MIF); Denis Corrales (COF/CHA); and Asunción Galdón (RE2/EN2)		
Executing agency:	Institut National du Cafe d’Haiti (INCAH)		
Financing:	Modality: Grant		
	MIF (Facility IIIA):	US\$ 700,000 (70%)	
	Local:	<u>US\$ 300,000</u> (30%)	
	TOTAL:	US\$1,000,000	
Date of Request:	August 10, 2004		

II. BACKGROUND

A. Situation with the Global Coffee Sector

- 2.1 Over the past five years, the world coffee market has undergone important changes in the supply and demand side, which is reflected in the steady increase in world production and export levels and intensified price competition for coffee sold on the commodity exchange market. The sharp increase in production has led to the accumulation of inventories in producing and consuming countries and the drop in world prices. The current crisis in prices is not only part of a cyclical phenomenon; but also a direct consequence of the new structure of the market. During 2000 and 2001, worldwide oversupply caused nominal coffee prices to drop to their lowest levels in 30 years—a 100-year low, if adjusted for inflation¹. Coffee prices have fallen below the cost of production for many coffee producers, leading them to leave coffee cherries on the tree unpicked with consequent reductions in employment, both permanent and seasonal².

¹ For additional information please see: "Managing the Competitive Transition of the Coffee Sector in Central America." Inter American Development Bank, World Bank, and United States Agency for International Development. Discussion Document, April 2002.

² Coffee prices have increase slightly in the last few years since the 2001 all-time low, but remain at historical lows.

- 2.2 According to the International Coffee Organization (ICO) and the Specialty Coffee Association of America (SCAA), specialty coffee markets are far from saturated. Sales of the specialty coffees, as a proxy for the higher quality coffee segment, continue to expand by 5% to 10% per year according to conservative estimates³; a trend that is not expected to change in the next years. The demand for, and the volume of transactions of quality coffee in the international market have continued to expand in the middle of the coffee crisis. At the same time, the price differential between high quality coffee and exchange grade coffee⁴ has also increased.

B. The Coffee Sector In Haiti

- 2.3 In Haiti the majority of coffee producers⁵ hold small parcels of land (70% of coffee producers have less than two hectares of land). Coffee has been Haiti's most important agricultural export crop until 2001 (year of the coffee crisis), accounting for 64% of the value of total agricultural exports (equivalent to US\$34 million) in 1995. Currently, coffee exports, though below the sector's real productive capacity, represents around 20% of the value of total agricultural exports (equivalent to approximately US\$20 million). A census of the Haitian agricultural sector by the end of the 1990s counted 250,000 small coffee plantations.
- 2.4 Haitian coffee exports, due to the international price decline have been in a downward trend, with the volume of exports falling from 80,000 60-kilogram bags before the crisis in 2000 to less than 41,000 bags in 2003, however total coffee production has remained fairly constant at around 500,000 bags since the early 1990s. Haiti has the necessary elements to compete in the market with a higher quality coffee (arabica) against the big boom in low quality coffees (robusta) from Vietnam and Brazil. Many areas have ideal agro ecological conditions (altitude, agro climate, and soil conditions), which gives them a comparative advantage in the production of higher quality coffees. Thus, demand for Haitian coffee is strong domestically and abroad. In fact, in contrast to the case of Central America where coffee is mainly an export crop, Haiti has been unable to satisfy external demand for its coffee, making the sector overall resilient to external and internal market and political shocks.
- 2.5 It is important to note that the coffee sector in Haiti, along with other key export agricultural products (such as mangos), have been able to overcome the historical and constant political turmoil suffered by the country, showing strong agribusiness linkages within the coffee chain. However, as it appears that these changes in the structure of the world coffee market are not cyclical, the impact of the international coffee crisis in Haiti could be long lasting, if proper actions are not taken to further differentiate their coffee based on higher quality.

³ SCAA Estimates (T. Lingle). Annual Coffee Report 1998. 1999 ICO. May 2000 ICO updates.

⁴ This is in reference to the New York "C" market price, that it is at a 100-year low (adjusted by inflation), versus anecdotal prices from recent Internet Auctions where the pound coffee was sold at an average price of US\$3.- (US\$1.50 the lowest and US\$8.45 the highest).

⁵ For the purposes of this document, production/producer refers to primary production/producer as well as processing/processor of coffee. Most small and medium size producers do not get involved in the processing stages (wet milling).

C. Coffee Quality: Characteristics and Opportunities

- 2.6 The country has a tradition of producing coffee and a recent and growing experience in the production of coffee based on high quality and product differentiation⁶. The term high quality refers to coffee with high standards in cup-value and consistency. In turn, high standards in coffee's cup-value and consistency require a low quantity of defects to be present at the cherry and green coffee bean stage. High quality coffees, as well as those produced in an environmentally and socially sustainable manner, fetch premium retail prices. In fact, the segment for such premium-seeking coffees is the only segment of the coffee industry that has shown consistent and notable growth⁷.
- 2.7 The coffee quality process⁸ begins at the post-harvest stage: cleanliness, size, color and uniformity have a defining impact on coffee quality. Once the producer sells his coffee, as cherries or green coffee beans, he cannot claim a share of the price premium that a higher quality commands. Since many producers sell their cherries immediately after harvest, efforts to promote quality improvements should begin with the cherries and proceed later towards the milling operations. Classifying cherries at this early stage would allow producers to reap some of the financial benefits of improved coffee quality.

D. The strategic response for Haiti

- 2.8 At present, there is a real interest of roasters and processors in ensuring a stable supply of high quality coffees from countries like Haiti due to their business necessities of maintaining the consistency of their blends offered to consumers. However, to participate in increased value generation, producers need to improve processing, develop downstream supply chain linkages and pursue promotion strategies that feature their coffee's competitive advantage. Currently, the market incentives for producing quality coffee are not fully transmitted backwards in the chain to the level of the first sale.
- 2.9 Most coffee producers do not have the necessary incentives to improve the quality of their cherries or green coffee because they are paid a bulk average price for their product. At the same time, there is not a grading or a coffee quality system in place at this level of the chain, constraining the recognition of quality through price premiums. In order to break this "vicious circle", there is a need to develop, among other things, technical capacities for classifying, grading and sorting while the producer still has ownership of the product.
- 2.10 The quality-improvement strategy should concentrate on: (i) helping producers in geographic areas with the potential to produce quality coffee (e.g. high altitude), to develop value-added; and pursue effective promotion and marketing; and (ii) quality improvements that can be recognized at the first sale by the producer. Such a strategy is key for Haiti for several reasons: First, roasters are willing to pay more for a reliable and consistent supply of quality coffees. Second, given the agroecological conditions (altitude, soil conditions, varieties, etc.), Haiti has the necessary elements to improve the quality of their coffee and compete in the high quality segments of the market. Third, since their competitive advantage lies in producing quality coffees, assisting coffee

⁶ The high quality coffee from Haiti is known through labels like Haitian Bleu®.

⁷ National Coffee Association (NCA) estimates average annual growth of about 30% for the last five years.

⁸ For a detailed review of the process that coffee undergoes, please refer to Annex I.

producers to develop and strengthen their long-term relationships with exporters, importers and retailers, will increase their ability to negotiate prices, including premiums for quality.

- 2.11 **The Bank's response to the Coffee Crisis.** The MIF approved a project for Central American Countries (ATN/ME-8292-RG) with similar objectives and components in May 2003. The operation is currently finishing the first stage of designing a coffee quality management system for Central America, which will be used as an input to this project, though adapted to the circumstances in Haiti. Coordination between both initiatives to share experiences and outputs will be established between both executing agencies.

III. PROJECT OBJECTIVES, COMPONENTS AND ACTIVITIES

- 3.1 The general objective of the proposed project is to contribute to improve the competitiveness of the coffee sector of Haiti based on high quality. The purpose of this initiative is two-fold: (i) to develop and implement a country-specific quality management system to improve and maintain coffee quality; and (ii) to provide support to develop innovative market mechanisms that recognize coffee quality through prices and to improve access by producers to such mechanisms.
- 3.2 This project expects to encompass three components: (i) development of a coffee quality management system for Haiti; (ii) implementation of a coffee quality management system through training and technical assistance of pilot groups and the establishment of national coffee quality control unit; and (iii) support for the development of new market mechanisms for the promotion of coffee quality.

E. Component I: Development of coffee quality management system for Haiti (FOMIN US\$100.000; Local US\$50.000)

- 3.3 This component will establish the methodology and procedures (i.e., protocols and norms) of a quality management system to assist small and medium size producers in improving, measuring, and maintaining coffee quality. The component will operate in both the harvest and the processing phase, ensuring the incorporation of environmentally sustainable measures, in areas where there exists potential for quality. The component will include the following activities: (i) development of a methodology for the implementation of pilot programs introducing innovative quality management mechanisms, protocol, and norms for classifying and grading coffee cherries as the last harvest and first post-harvest operations; (ii) benchmarking exercise to identify current best practices in Haiti and will incorporate the findings of the MIF project in execution in Central America (see paragraph 2.13); (iii) development of the methodology and procedures for strengthening of decentralized testing and cupping facilities, allowing to directly trace the relation between defects at the different levels of production with the ultimate measure of coffee quality: cup value; and (iv) monitor current coffee quality trends within the country in order to be able to respond with programs tailored for producers to address the needs in terms of coffee quality management at the various stages of the production chain.

F. Component II: Implementation of a coffee quality management system (FOMIN US\$400.000; Local US\$120.000)

- 3.4 The specific objective of this component is to assist coffee producers and the INCAH with implementing the coffee quality management system developed in Component I. This component is divided in three parts: (i) the testing of the coffee quality management system with pilot groups, with emphasis on groups of small and medium size producers; (ii) the sharing and dissemination of information on the coffee quality management system to other producers and trade and industry interested in adopting such system; and (iii) the establishment of a national coffee quality control unit within the INCAH that will provide technical assistance and be responsible for the implementation and monitoring of the coffee quality management system beyond the project completion.

G. Component III: Support for the development of innovative market mechanisms for quality coffees (FOMIN US\$200.000; Local US\$70.000)

- 3.5 The program will assist producers to target new coffee markets both within their region and in other regions of the world. To this end, the project will: (i) support pilot groups in establishing relationships and alliances with exporters and roasters; (ii) support alternative market mechanisms such as competitions and auctions; (iii) support measures to raise awareness among small and medium size producers throughout Haiti as to the business benefits of implementing this coffee quality management system; and (iv) seek to improve the dialogue between importers/exporters with representative producer groups. This component is key to ensure that the efforts undertaken in Component I and II to increase coffee quality are recognized by the market and that these incentives to increase quality go backwards in the coffee chain allowing small and medium size producers to have access to market opportunities and differentiation.

IV. PROJECT COST, FINANCING, AND EXECUTION TIME

- 4.1 It is estimated the cost of the project will be US\$1,000,000 over three years. The MIF will finance approximately US\$700,000, though no more than 70% of the total cost. The counterpart funds will be the responsibility of the Institut National du Café d'Haiti (INCAH), of which at least half will be in cash. This operation will be implemented over a period of three years.

V. EXECUTING AGENCY

- 5.1 The executing agency for this project will be INCAH. INCAH was established in 2002 and it is an institute composed of members from the private sector (coffee producers and exporters), NGOs and representatives from the Minister of Agriculture, Natural Resources and Rural Development. INCAH has been involved in different aspects of coffee production and marketing establishing programs to train producers and promote the competitiveness of the Haitian coffee sector. The focus of their work has been on improving the productivity, quality and profitability of coffee producers in Haiti.

VI. ENVIRONMENTAL AND SOCIAL IMPACTS AND PROPOSED ACTIONS

- 6.1 The traditional way of producing coffee in Haiti, using naturally growing trees as shade, not only conserves soil and water like a forest, but also supports a variety of plants and animals and serves as a natural moderator of the microclimate in a country where deforestation and land degradation are the cause of current and future environmental disasters. The project's aim is to promote and/or maintain high quality coffee, resulting in positive direct and indirect impacts correlating to the traditional production methods, which improve the environmental conditions, soil and microclimate and the biodiversity in general. The development of protocols and standards for quality, as well as the criteria for selection of producers will consider and include environmentally sustainable measures. The above outlined measures will constitute the environmental and social management plan.
- 6.2 On the social side, the challenge for the project is to adequately engage the participation of producer households and women in particular in all the program activities. By assisting small and medium size producers with potential to produce high quality coffee in creating new market mechanisms and opportunities and facilitate awareness-training sessions, the project indirectly helps to improve the producer's social situation as well as the labor force in general. The project will ensure the use of socio-culturally appropriate training and communications in order to facilitate the participation of local groups.

VII. ISSUES

- 7.1 During project preparation and design phase, the project team will take into consideration the following issues: (i) the institutional capacity of INCAH to manage such a project; (ii) INCAH's link to different producer groups and exporters to ensure increase access to the project's activities; (iii) the sustainability and dimensioning of the proposed activities; and (iv) the link to the ongoing MIF-supported coffee project in Central America in order to utilize any materials and methodologies that have been developed.

VIII. ESTIMATED PROJECT PREPARATION AND ANALYSIS TIME

- 8.1 It is expected that the project design will be ready in the first trimester of 2005. The implementation of this operation could commence in the second trimester of 2005.