DAIdeas *Innovation in action*

VOLUME 1 NO. 4 DECEMBER 2005

BY TOM LENAGHAN

Haitian Bleu®: A Rare Taste of Success For Haiti's Coffee Farmers

Traditionally Haiti's leading export commodity, coffee is grown by hillside peasant farmers on small tree-covered plots interspersed with fruit trees, yams, and beans. More than 200,000 farm families derive income from coffee sales, making it the most widely cultivated export crop in Haiti. At least 90 percent of those exports are "natural coffees." Unlike wet-processed "washed" coffees, naturals are processed simply by drying the coffee cherries after picking (usually in the sun), then milling them either with a hulling machine or with a mortar and pestle (the usual practice in Haiti) to produce the green coffee bean.

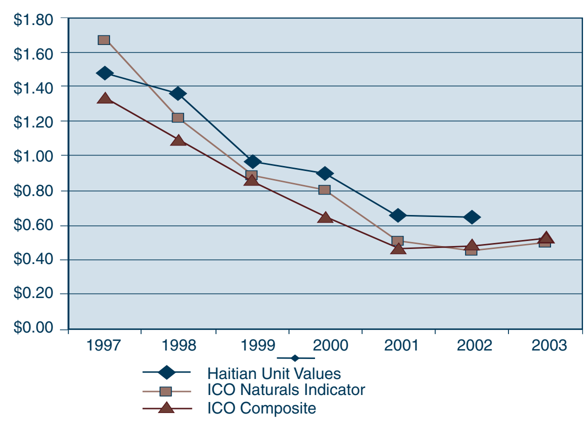
But Haiti's farmers face a turbulent international market marked by stiff competition and slumping prices. Some Haitian farmers have responded strikingly well to this "coffee crisis" by creating a new brand of premium washed coffee, Haitian Bleu, owned by a newly created cooperative federation.

Coffee in Crisis

Some 17 to 20 million farm families in developing countries depend on coffee for most of their livelihood, and the collapse in world prices since the mid-1990s has meant lower living standards across much of Central and South America. In Haiti, exporters and producers have seen prices for their product fall dramatically (see Figure 1).

Underlying this trend is the development of coffee exports from Brazil and Vietnam. Brazil, in particular, has become a ruthlessly efficient rival in Haiti's main export market for natural coffees, thanks to an increase in Brazilian production facilitated by heavy investments in new plantings after severe frost damage in 1994. Brazilian natural arabicas have also improved their quality, causing blenders to increase their percentages of Brazilian coffee. And Brazil's highly efficient industrial methods of cultivation and processing augur higher volumes of better, cheaper coffee for the foreseeable future.

FIGURE 1: COFFEE PRICE INDICATORS



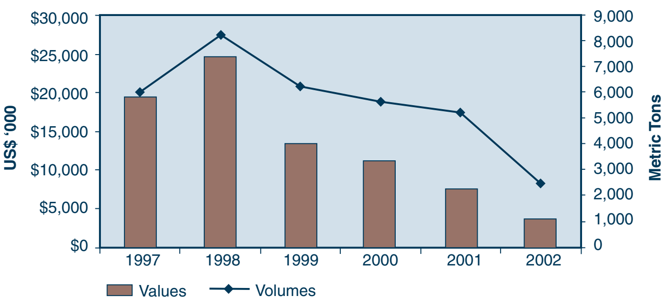
Source: ICO and International Trade Commission, COMTRADE database

For the Haitian coffee sector, this trend has dramatically reduced volumes and values: the fall from nearly $25 million in coffee exports in 1998 to less than $4 million in 2002 represents an 86 percent drop in value (see Figure 2).

Haitian producers had few options other than to move into the specialty coffee niche. It was simply unrealistic to adopt the large-scale, mechanized, Brazilian-style monoculture in a social and physical landscape characterized by small peasant plots (generally under half a hectare) growing six or eight different crops. But to enter the specialty market,

DAI
development alternatives, inc.

FIGURE 2: HAITIAN COFFEE EXPORTS



Source: International Trade Commission, COMTRADE Database

Haitian producers had to address both quality issues and the fact that international consumers in the specialty market typically prefer washed coffee.

Washed coffee processing—involving mechanical depulping, partial fermentation, and cleansing in fresh water—is generally considered the best method for bringing out the intrinsic aroma and flavor of a particular coffee. Outside of Brazil, virtually all coffee exported from Central and South America is washed. And this is exactly the route a band of Haitian growers decided to take in the mid-1990s with the launch of the Haitian Bleu brand, building on a wet processing infrastructure funded by the Inter-American Development Bank, the United States Agency for International Development (USAID), and other donors.

The Linkages

In the early 1990s, USAID helped organize peasant associations to manage and operate new wet processing stations and assisted them in forming a larger body, the Fédération des Associations Caféières Natives (FACN). FACN receives dried parchment coffee from each individual association, then mills it, sorts it, blends it, and exports the finished green coffee directly to overseas buyers. The Haitian Bleu initiative that sprang out of this body in the mid-1990s was based on two ideas revolutionary at the time, but now generally accepted as best practice: first, that a federation of peasant farmers could sell coffee directly to end-use specialty roasters without going through a broker; second, that if the federation could offer a unique brand of coffee with real value, roasters would buy it at a price well above commodity market levels under a multiyear contract.

The commercial model for Haitian Bleu is based on a few simple rules:

- Roasters ("exclusive distributors") contract to buy Haitian Bleu from FACN on a multiyear basis at a fixed price (now roughly three times the current open market average price).
- FACN commits not to sell Haitian Bleu to other roasters in the defined geographic territory of each exclusive distributor. FACN currently has exclusive relationships with nine such roasters (see box).
- Roasters agree not to resell unroasted green Haitian Bleu.

The last plank prevents the development of a secondary market in Haitian Bleu, with the attendant dangers of adulteration and counterfeiting. Since the only seller of green Haitian Bleu is FACN, green samples offered by anyone else must be fake. This helps FACN and its partner roasters guard the brand value.

So much for the theory. In launching the Haitian Bleu program after the 1996/97 season, however, FACN saw its share of problems. Some of these were internal institutional and financial issues stemming from confusion between the organization's birth as a subsidized development project and its role as a going concern. In addition, the initial financial structure given to FACN did not encourage quality control or efficient cost management. Until 2001/02, FACN's operating results were simply apportioned out to member associations on a pro-rated volume basis. Because 90 percent of FACN costs are at the Federation level, this structure simply off-loaded the vast majority of production costs to smaller management units unable to influence them.

FACN suffered as well from technical insufficiencies, chiefly its dependence on expatriate assistance in quality sorting and

HAITIAN BLEU® EXCLUSIVE DISTRIBUTORS

United States

- Barnie's Coffee & Tea Company, Orlando, Florida
- Coffee Bean International, Portland, Oregon
- Coffee Masters, Spring Grove, Illinois
- Heritage Coffee Company, Juneau, Alaska

Denmark

- Coffee Masters-AQUA VELOX Aps, Skovlunde

France

- Cafés Malongo, Nice

Germany

- Kaffee-Compagnie Gourmetkaffees weltweit Rosterei, Mössingen

Japan

- Hamaya Co., Ltd.

Haiti

- Compagnie Haïtienne de Café, Port-au-Prince blending. As set up in 1994, samples of all incoming coffees were sent each year to FACN's cupping adviser in the United States, who advised FACN on which were suitable for sale as Haitian Bleu and how much of each should be in the blend. While this produced reliable quality screening, it was costly and time consuming, and did little to develop FACN's own cupping abilities.

Refining the Model

Although FACN faced these difficulties with assistance from two different USAID technical assistance projects, it was not until 2001—when FACN's manager and directors decided to revise its internal financial structure and USAID refocused its technical assistance strategy to address institutional constraints—that the Haitian Bleu model really began to work. In 2001, the Hillside Agricultural Program (HAP), became the third USAID project to work with FACN, helping the federation address its institutional blockages, align its incentive structure, and improve its quality control system.

The key innovation introduced at this point was FACN's decision to have the Federation itself charge member associations a fixed rate per volume of coffee processed and exported, and to devolve all sales revenues directly to the member associations. In this way, any quality problems that prevent FACN from selling a given association's coffee at the highest Haitian Bleu price have a direct impact on that association's bottom line.

With regard to financial incentives, HAP also instituted a grant system that rewarded farmers for high-quality product. Because of FACN's past practices of mixing all costs together and charging them to member associations, there was until 2001 no perceived link between coffee quality and financial reward in farmer's minds. HAP's grant program simply paid associations an additional two Haitian gourdes per pound of zero-defect coffee produced, with no payments for defective coffee.

HAP also sponsored cupping training to develop FACN's internal quality control capacity. Two Haitian professionals attended an intensive training seminar led by noted cupper Mané Alves in the United States, and these two trainees then led a six-month-long weekly cupping course given in French and Haitian Krèyol to exporters and roasters. With exams administered by Mr. Alves, this course helped FACN develop its cupping abilities and understand client feedback. HAP reinforced this off-site training by placing a Salvadoran quality control expert in FACN's factory until July 2003. FACN staff now screen and blend coffee without sending samples overseas, and they even sell cupping services to other producers and exporters.

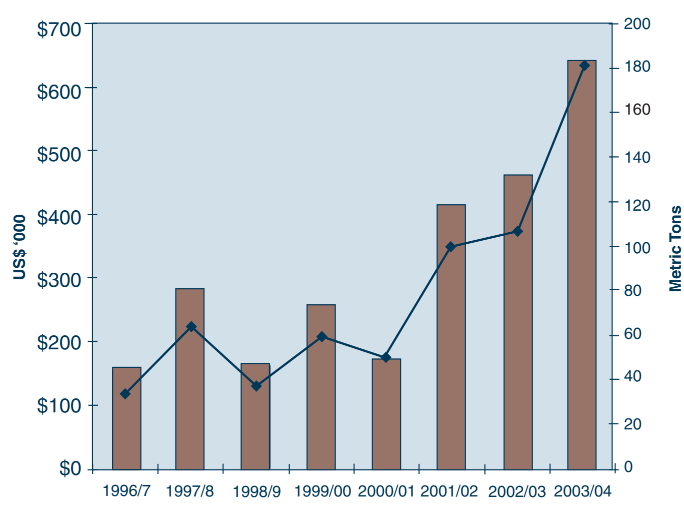
HAP also assisted FACN in developing a new financial accounting system, reorganizing its internal structure, and tapping commercial sources of working capital.

The Results

FACN export volumes have increased substantially since 2000/01 (see Figure 3). Quality, as measured by client reaction, has been excellent: since 2001, FACN has added new exclusive distributors in France, Denmark, Japan, and Germany. In short, largely because of Haitian Bleu, FACN is the driving force behind the only positive trend in Haitian coffee. With prices and volumes dropping everywhere and exporters leaving the sector, FACN farmers are isolated from the moribund climate surrounding coffee in Haiti. FACN never accounted for more than 2 percent of total Haitian coffee export values in any year prior to 2002, for example, but in that year contributed fully 12 percent.

But the best measure of the Haitian Bleu program is its success in making coffee a profitable proposition for small farmers—despite declining world prices. Needless to say, what is uppermost in the minds of FACN farmers is the farmgate price they receive from their local association. This price varies from local association to association, depending on factors including the ratio of exportable to nonexportable coffee produced by the association, the percentage of its exportable coffee that qualifies as Haitian Bleu, and expense levels incurred at the wet processing stations. But the results of the new incentive system are clear—those farmers whose associations produce the best coffee that qualifies for Haitian Bleu receive prices extremely high by world standards.

FIGURE 3: FACN COFFEE EXPORTS



Source: FACN

"THIS STRUCTURE GIVES EACH ASSOCIATION CLEAR INCENTIVES TO PRODUCE GOOD QUALITY COFFEE AND TO WATCH THEIR COSTS. THE FEWER DEFECTS AND BETTER THE COFFEE—THE MORE MONEY THEY CAN DISTRIBUTE TO THE FARMERS IN THE ANNUAL REBATE."

—STEPHAN JEAN-PIERRE, FACN EXECUTIVE MANAGER

At a time when the average New York Board of Trade "C" contracts price for finished green coffee is not even $0.60/lb., the average association total farmgate price for raw cherries in rural Haiti is $0.72/lb. (see Table 1). Even more impressive: farmers from the most efficient associations—who sell most or all of their output as Haitian Bleu—can make almost $1.02/lb. at the farm level. These prices are high by world standards; by Haitian standards they are astronomical. Even the least efficient FACN association achieved a significant price premium compared to local markets, where the average rural market price for unwashed natural coffee stood at $0.38/lb. in 2002/03.

TABLE 1: 2002/03 CAMPAIGN FARMGATE PRICES

	Average Association	Most Efficient Association	Least Efficient Association
Cash Price for Raw Cherries	$0.28/lb	$0.28/lb	$0.28/lb
End of Season Rebate	$0.44/lb	$0.74/lb	$0.13/lb
Total	$0.72/lb	$1.02/lb	$0.41/lb

Note: all prices given per pound of green coffee equivalent in US$ at an exchange rate of 40 Haitian gourdes per dollar. Source: Hillside Agricultural Program

Lessons Learned

Creating a new market actor in a troubled sector is an uphill task. For FACN, exemplary technical preparation and an innovative commercial strategy were not enough to ensure the program's success. Problems in institutional design and capacity were magnified over time by the diffuse ownership structure inherent in a cooperative federation. And ill-targeted subsidies dating from the earliest donor interventions blurred the incentive structure for FACN managers and leaders, creating a false sense of insulation from financial reality and hindering FACN's long-term institutional development. Without a structured program and continued assistance to address these institutional weaknesses—and a dedicated management team committed to commercial success—the Haitian Bleu strategy would have had little chance of success.

Thomas Lenaghan was Deputy Chief of Party on the USAID-funded Haiti Hillside Agricultural Program.

Development Alternatives, Inc.
7250 Woodmont Avenue
Suite 200
Bethesda, Maryland 20814 USA

Tel.: 301-718-8699
Fax: 301-718-7968
www.dai.com