A Viable Livelihood

Empresas de Nariño cultivates sustainability on Colombian coffee farms as a deterrent to the illicit drug trade. **July 2005**

Text and photos by Jonathan B. Levine

In 1993 Dimas Hoyos left his home in Nariño, a poor coffee-growing state in southwest Colombia, to work the coca fields in nearby Putumayo. Coffee prices had collapsed a few years earlier, crippling his family's income, and the illicit cocaine trade was 16-year-old Hoyos' only option to help feed his four brothers and sisters. Indeed, over seven years his lucrative coca earnings helped finance his family's purchase of a half-acre coffee farm, and would later build a new five-room home to replace their crumbling two-room adobe. But the dangers of coca trafficking eventually became too great. When his work camp fell into the crossfire of clashing guerilla and paramilitary forces, Hoyos fled Putumayo and never looked back.

Dimas Hoyos in his coffee field; his mother and sisters in their new kitchen

The Nariño he returned to in 2000 looks a good deal different today. The coffee region to the north and west of the capital of Pasto, itself highly endangered for 20 years by marauding guerillas, has become relatively safe in the last two years. Refugees from some 8,600 families, forced by economic crisis to leave the state like Hoyos, are slowly returning. For several years aggressive purchases by Starbucks Coffee Company have fueled payments to Nariño growers of 25-50% above prices in other coffee regions of Colombia. In the last year alone stiff local competition for farmers' parchment, or partly processed coffee beans, has pushed up prices 37% or more, to well above production costs for the first time since 2001.

For Hoyos, now 28 and managing the family farm, the changes have been considerable. His main customer and Starbucks' primary supplier, Empresas de

Nariño Ltda., spent $1,470 last year to build him a new wet mill and drying patio in an effort to win his loyalty. Empresas' agronomists also gave free courses on natural pest control and other technical advice. Already Hoyos has seen striking progress. The coffee's higher quality, with cleaner milling and more even drying, is rarely rejected now compared to previous years, and yields are on the rise. As a result he expects his coffee income this year to increase by 50% to about $1,430—enough to buy better food for his growing family and help pay down a loan he took out recently to build a modern kitchen with running water and tile counters. As for the high-paying coca wages he left behind in Putumayo, he has no regrets: "It's better now that I've come back to work the farm," he says with a knowing smile.

Competing with Drugs

Some 50,000 Nariñenses are still counted as "displaced," having migrated to cities or the coca fields because of economic necessity or political armed conflict in the region. But equally impressive, given the financial and security risks, is the vast majority of the state's 32,000 small-farm families who have remained to work their coffee fields or been lured back like Hoyos. Since Starbucks began buying Nariño coffee from Empresas in 1989, and particularly since it started paying higher prices to accommodate social costs in 2001, most have found coffee a viable alternative—if just barely—to the drug trade and other desperate livelihoods. The Seattle retailer buys two-thirds of the state's entire coffee crop through Empresas, or almost 25 million pounds in 2005, and paid as much as double world market rates during the last five years of depressed prices. Demand continues to grow rapidly for its Nariño Supremo blend, even after doubling in the last few years. So the premium prices paid for coffee, which competes for land and labor that otherwise might be lost to the lucrative drug trade, are as important to fueling growth for Starbucks and Empresas as to supporting the families who grow it. "We have to provide competition against the illegal crops to secure the coffee volumes we need to produce for Starbucks," says Carlo Frigerio, president of Carcafé, the Colombian unit of global exporter Volcafé and a partner in Empresas.

Empresas specially designed portable driers to improve quality of small crops and distributed to 260 farms over three years

To that end, Empresas has used much of the Starbucks premium to finance a farm improvement program to help families upgrade their coffee quality and production—thus increasing incomes and living standards. Depending on each farm's need, Empresas has installed new wet mills, concrete or portable drying patios, water-treatment systems, and modernized kitchens and bathrooms for nearly 800 families since 2003, and budgeted for another 1,080 over the next two years. All told, *Solución Vivienda*, or the Solutions for Living program, will have invested $5.9 million in 1,876 families by 2007, including technical counseling from a team of five staff agronomists and tons of free fertilizers distributed as a bonus for high quality.

A program plaque adorns each recipient farm

By building program costs and premium rates into its pricing model with Starbucks, Empresas has crafted what may be the industry's first systematic approach to bringing economic, environmental and social improvements to disadvantaged coffee growers on a farm-by-farm basis. It has not gone unnoticed. In the last year, Italian roaster Lavazza approached Carcafé to begin a similar program for 51 farms in the nearby state of Huila. Nestlé also came to Nariño this year, paying an unusually high price for a large order from the Federación Nacional de Cafeteros de Colombia (FNC), or Colombian Coffee Growers Federation, which promotes as well as exports coffee. "The *Starbucks effect* is clearly being felt in Nariño," Frigerio says, "and it is putting tremendous pressure on Nestlé, Kraft and others to do something similar."

Local government has recognized the impact as well. Last year the state of Nariño bestowed on Starbucks a rare award, the Colombian Order of the Grand Cross Medal, for its role in supporting the local economy and social projects. "If there haven't been more *campesinos* displaced from the region, it's because coffee has become a barrier to expansion of the coca plantations," says Nariño Governor Eduardo Zuñiga. "For this we have to recognize the stabilizing effect Starbucks has had on our farms."

Systematic Change

Empresas' motivation for the program has evolved since 1999 when it started funding the construction of classrooms and other one-off projects to address growing social needs in farm communities. But it wasn't until 2001, when Starbucks approached it about a new supplier incentive program, now known as C.A.F.E. Practices, that the exporter began to think systematically about farm improvements. At the time, Starbucks agreed to convert Empresas' contracts from a variable market-based pricing structure to a negotiated flat price—of nearly double world levels at the time, which were hitting 100-year lows. The windfall was a boon to Empresas but came with the condition that the exporter spend some of it on social benefits for growers. "Starbucks helped raise our consciousness about the need on the farms," says Jorge Enrique Vásquez, managing director of Empresas. Then, Starbucks drove the point deeper a year later when it started buying additional Nariño coffee from many of Empresas' producers through FNC and a U.S. importer—and inadvertently driving up competition for their crops. The resulting price pressure on Empresas taught it a hard lesson: "That's when we knew we had to take measures to develop loyalty from our growers and let them know who we were," Vásquez says.

Indeed, Empresas had been all but invisible to its farmers. It purchases coffee through some 50 independent buyers who truck parchment to its Pasto dry mill for processing. Moreover, until late 2003 it was simply too dangerous for Empresas' agronomists and other program personnel to travel the roads of Nariño, where guerillas regularly robbed coffee trucks at gunpoint. With security beefed up since the election of President Alvaro Uribe in 2002, access to the farms has markedly improved, and Empresas has been making up for lost time. Building contractors have ramped up their construction schedules, and the technical staff has moved in to correct numerous bad farming practices.

Building Loyalty

Like most of his neighbors, for example, Antidio Obregón of Taminango used to flush coffee cherry pulp and wastewaters into nearby Curiaco Creek, fouling the family's yard and local water sources. A new wet mill and water system from Empresas now not only saves the 75-year-old farmer back-breaking labor but also channels effluent to a filtration tank and pulp to a composting bin for later use as fertilizer. In the district of El Tambo, Pablo Gómez's new wet mill avoids the severe over-fermentation his cherry used to suffer from manually washing it in buckets before, which occasionally ruined his entire 3,300-pound crop in years past. And instead of wasting water run-off, he now recycles it through a series of *pozetas*, or cascading settling ponds built by Empresas, to irrigate his field. The water in the final pond is so pure that Gómez plans to raise fish to augment his family's income.

Obregón dries coffee from new mill and water system

Down the road, neighbor Segundo Burbano's new drying patio has removed the musty taste his coffee used to absorb from drying on the bare ground. Composting his pulp for fertilizer has also increased yields by 20%. What's more, his new wet mill employs a novel "waterless" pulping system—partially financed by pre-harvest advances from Empresas—that cuts water usage by 80%. "What we save in water and labor pays

Ursulina Daza de Obregón in new bathroom, Pablo Gómez with settling ponds, and Segundo Burbano with Empresas buyer Diego Fernando Lopez at waterless pulper

for the investment," Burbano says. In other districts, where farmers exacerbate already severe erosion problems by scraping away rich topsoil while weeding, Empresas technicians teach erosion prevention methods and help plant mango and other fruit trees to make up for the dearth of shade, which is aggravated by the local habit of clear-cutting fields for new crops.

In addition to production assistance, home improvements—about 30% of Empresas' program budget—have been a big hit with families. Flush toilets with septic tanks eliminate unsanitary latrines and defecation in the fields. In El Tambo, Nelly Maria Diaz de Diaz's new kitchen features running water, electricity and a cement floor, replacing a 30-year-old mud and straw shed that used to flood in the rainy season. Such investments are already paying off for Empresas in increasing loyalty from virtually every producer benefited. Like others, Burbano used to split his crop between his FNC cooperative and whichever middleman offered the best price.

Now he sells exclusively to Empresas because of the help he's received and is content to stay with the exporter, he says, "even if prices go down."

Still, the program faces numerous challenges. Farmers not selected for benefits grow jealous of those who are. Resentful neighbors have repeatedly uprooted Dimas Hoyos' coffee plants. And like the Obregóns, who hope Empresas will come back to replace the leaky roof and walls of their home, the largesse sometimes sets unrealistic expectations among beneficiaries of how much more help they'll receive in the future. Moreover, Vásquez says, Empresas' cash payments to Nariño farmers, while well above national rates in recent years, have been consciously limited for fear that its contract buyers would "smuggle" in coffee from other regions to reap Starbucks' higher prices. Thus, until increasing competition with FNC recently pushed local rates higher, "prices really haven't been enough to raise our family," says Ursulina Daza de Obregón, who has reared four children of her own and some of eight grandchildren.

Public-Private Partnership

For all Empresas has already undertaken, the average Nariño farm is so small—at less than one acre—that the exporter has yet to impact the vast bulk of the region's 32,000 growers it needs to satisfy Starbucks' volume demands. To increase its reach, Vásquez formed a partnership in 2003 with the International Organization for Migration (IOM), an agency of the United Nations, to assist displaced Nariñenses to return to their farms. That cooperation, in turn, attracted an investment of one million Euros (about $1.2 million) this year from the Dutch Ministry of External Affairs to help finance improvements for 1,080 families over the next two years—double the number Empresas could have managed alone. It may well serve as a model for other partnerships in the future.

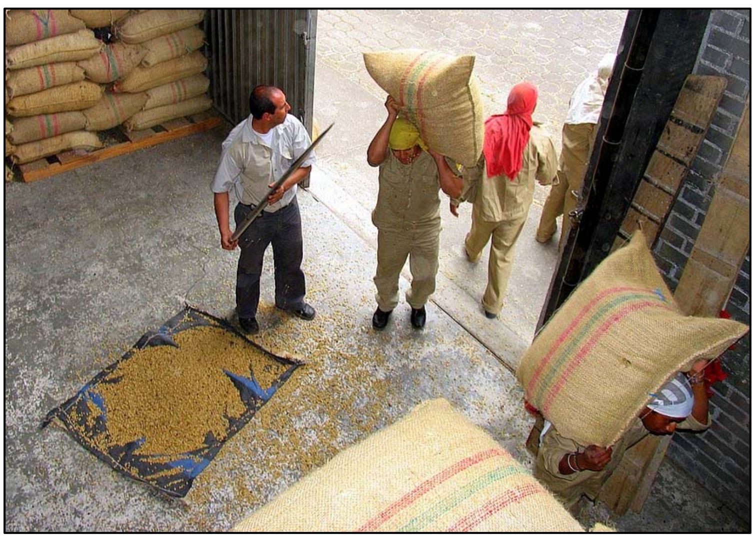

Vásquez in Empresas' Pasto warehouse

Together, the three-way venture will take an even more comprehensive approach to building sustainability on local farms. In addition to expanding the technical, farm and home improvements that Empresas is already providing, the partnership will work with state government to improve local schools as well as help farmers secure valid titles to their land, which should enhance their chances of attracting bank credit. A team of University of Nariño faculty and students has been recruited to augment Empresas' technical staff, in part to help families expand production of food crops and encourage healthier diets.

Empresas is also organizing growers into local associations to share production and transportation facilities. That will allow them to combine crops into higher volumes and eventually bypass middleman buyers to retain a larger portion of Starbucks payments. Indeed, says IOM program officer Andrea Jaramillo, the entire project hinges on Starbucks contracts with Empresas to continue purchasing Nariño production at premium prices through 2007. “Large-impact development projects like this can only happen when you have a big market opportunity,” she says. “In the private sector we usually find companies willing to make small contributions for a school here or a clinic there, but that doesn’t create sustainable improvement. Only by combining a big financial driver like Starbucks and Empresas with government and civil-sector support can we make this happen.”

Sustainability Guidelines

To increase efficiency, Empresas began implementing a new producer tracking system this year. It will eventually allow the exporter to trace each grower’s volume and quality, as well as prices paid at the farm level. In addition to better quality control, that will help Empresas spot the greatest needs for production assistance and prioritize its program spending—instead of relying on the subjective recommendations of its independent buyers, as it has until now.



Receivers take quality samples as part of tracking process

The same system is also a critical key to Empresas’ future with Starbucks by providing transparency on prices the exporter pays to farmers, which Starbucks requires as part of its new C.A.F.E. Practices incentive program. Under the guidelines, suppliers that score at least 60 out of 100 points by meeting various financial, social and environmental sustainability criteria earn preferential status on future supply contracts. That will be a steep challenge for Empresas, however, given the enormous network of very small producers it must bring into compliance, compounded by its lack of direct contact with them until only two years ago due to security risks. An initial self-evaluation of 40 farms recently yielded an average score of only 45—pulled down largely by the many environmental infractions that Empresas’ technical staff is now working to correct. A new small-farm supplement to the guidelines will credit Empresas for some of its efforts, but Vásquez worries it could take three years or more to meet the score Starbucks expects. “We’re fully engaged in C.A.F.E.,” he says, “but we’re only a supplier, not the owner of these farms. We can't force a grower to ban a particular chemical, or send his kids to school, even though the guidelines essentially make us responsible for such things."

The Challenges Ahead

In the meantime, Empresas must also contend with a more aggressive FNC, its chief competitor that Starbucks ironically has helped to strengthen. The powerful growers association, once the country's dominant exporter with its celebrated Juan Valdez promotion of Colombian coffee, had fallen on hard times during the 1990s after the world coffee quota system crumbled. But when Starbucks needed even more Nariño coffee to supply its entry into the supermarket channel in 2003, it gave the association a shot in the arm by purchasing FNC coffee through a U.S. importer. With its additional Nestlé contract this year, FNC has had wider margin to bid up parchment prices in Nariño, to about 93 cents per pound recently or 23% higher than it pays elsewhere in the country—at times even exceeding Empresas' rates. FNC's challenge has made Empresas' farmer loyalty-building program all the more important, Vásquez says: "FNC has been stronger in the last two years in Nariño than any time in the last decade."

Indeed, if local costs remain high they could squeeze Empresas' ability to continue funding its social program beyond 2007. With nearly 95% of every dollar Empresas receives this year from Starbucks going to farmers for parchment, its total costs now exceed the prices it contracted for three years ago—before local expenses and world markets rose. Empresas, through its 50% owner Carcafé, recoups the loss by buying coffee futures as a hedge against the difference between Starbucks' contract price and the market price at the time of delivery. But as market prices rise, reducing hedging profits, Frigerio says the loss becomes harder to make up as long as local parchment costs remain high. "With the improvement of crop quality and the good will of farmers, we've achieved our common goal with Starbucks," he says. But going forward, Empresas' social program goals will be harder to achieve unless it comes up with more partnerships like that with the IOM and Dutch, or more pricing flexibility from Starbucks, or both.

Beefed-up road patrols have increased Nariño security

The biggest wild card, of course, remains Colombia's security. Uribe, the current president responsible for the country's rising safety, has popular support, but his political future is uncertain. The national constitution currently prohibits him from running for a second term. If the law isn't changed or he otherwise fails reelection in the next national vote in May 2006, Vásquez says, “all bets are off” on the security Empresas needs to continue progress with its farm-improvement program. In fact, coca now occupies twice the acreage of coffee in Nariño and continues to grow here, unlike most other regions of the country. Should security or other factors diminish the attraction of coffee as a viable livelihood, the persistent drug trade could reemerge to claim Nariño’s most able-bodied farmers and reverse Empresas’ impressive gains of the past few years.

Translation assistance from Cynthia Diez.