

# Creating Shared Value **From Bean to Cup**

## **The role of Nestlé in Colombia's coffee sector**

Executive Summary by:  
Third World Centre for Water Management



Consumers are looking at products in an increasingly holistic manner. For many, their demands for goods and services go well beyond the initial satisfaction of their needs and wants. People are becoming increasingly concerned with the impacts their consumptive decisions may have on sustainability, the environment, and the quality of life of those assembling the different echelons that ultimately transform raw materials into finished products. They are often looking for goods that can simultaneously make economic, social, environmental and ethical credence claims. In addition, beyond consumer-led initiatives to make companies socially accountable, firms themselves are looking to strengthen their supply chains and remain and grow their business over the long-term. Coffee is certainly one of the items through which consumers and companies alike are expecting to achieve these, at times, seemingly exclusive goals.

Over 1,400 million cups of coffee are drunk daily all around the world. After water, it is one of the most popular beverages people consume. The two main coffee varieties, Arabica and Robusta constitute the source of livelihood for more than 25 million farmers in over 51 coffee producing countries and over 100 million workers all along the supply chain. In 2009 alone, the soluble coffee market had a value of more than CHF 10.6 billion.

For many coffee drinkers around the world, to say coffee is to say Colombia. For Colombians, coffee holds a special place in the cultural, social, economic, political and environmental narrative of the country. Colombia is known for the aroma and acidity of its mild washed Arabica coffee beans, which have historically sold at a premium above Robusta and normal Arabicas. The country is currently the world's fourth largest coffee producer, after Brazil, Vietnam and Indonesia, but the world's principal producer of washed Arabica beans. This more fragile variety grows best in mountainous ecosystems where coffee plants can nurture from low pH soils, light shade, even precipitation throughout the year and temperate climates. Since 1960, Colombia has developed a country brand and has consistently promoted and differentiated Colombian coffee as the best in the world.

However, the Colombian coffee sector, and over half million coffee growers, their families and the communities they belong to, are in a precarious situation. Colombia once accounted 13.5% of the world's coffee production, making the crop an important determinant for the country's total and agricultural gross domestic product and foreign currency earnings. Since the end of the international quota system and the subsequent collapse of world coffee prices in 1989, the economic importance of coffee to Colombia has been falling steadily. The country was unable to adapt expediently enough to the new international coffee architecture, thus the sector became vulnerable and partially static.

This decline has created economic and social havoc for numerous coffee farmers, majority of them smallholders owning plots of one ha of land or less.

Falling and volatile commodities and coffee prices in international and internal markets, deteriorating productivity rates, sharp rises in the cost of fertilizers, diseases destroying coffee trees, accelerated rural to urban migration, labour shortages, lack of more intensive and opportune agricultural technical advice, underdeveloped road infrastructure, the mining bonanza and growth of capital intensive economic activities, and intense international competition are imperiling the economic viability of Colombia's most representative crop. Even in oil and gas rich Colombia, the prices of chemical inputs represent up to  $\frac{1}{3}$  of coffee production costs. In recent days many of the growers have not even been able to cover their costs of production.

In addition to the nearly 50% fall in coffee prices since 2011, profitability has been further eroded by the appreciation of the Colombian peso, which particularly affects exporters. All these factors point at the pressing need to restructure and revitalise the sector so that the farmers can lead better lives, produce better quality coffee and sustain the supply chains that connect them with coffee drinkers all around the world. In fact, from February 25 to March 8, 2013 coffee growers throughout Colombia organised a nation-wide strike demanding more economic support from the Government. Subsidies have been granted and the structural reforms that could foster long-term development in the coffee sector in particular, and agriculture in general, postponed.

This gloomy scenario has put the whole coffee sector at risk. Companies such as Nestlé may have to worry about their future ability to procure the amounts and quality of beans they require to meet escalating demands in the mainstream and specialty markets. This is one of the underlying reasons why the business ethos of Nestlé is driving the transformation of the coffee landscape in one of the most important coffee producing countries in the world. Nestlé has responded to these market opportunities and sourcing challenges in a manner that acknowledges social needs and the brand's interdependent relations with farmers, consumers, shareholders and the community at large. This business approach seeks to create shared value (CSV) all along the supply chain and shareholder and stakeholder pyramid.

As probably one of the single most important coffee actor in the global industry, and the largest coffee buyer in Colombia, Nestlé is looking to grow as a company and secure the sustainability of its supply chains by addressing societal needs and meeting community challenges.

This interdependent company-supplier-worker-community-shareholder-customer relationship is being articulated in both the integrated Nescafé Plan and Nespresso's AAA

Sustainable Quality™ frameworks. These strategies direct the actions the company has and will need to put in place to make its coffee businesses expansion sustainable on a long-term basis. At the core of these CSV platforms are the farmers, and the assistance they require to grow sufficient good quality coffee to supply to ever growing domestic and international markets and, in doing so, sustain a prosperous life.

This study focuses on how Nestlé has created shared value in Colombia, particularly in the coffee sector. The chapter in the country's history Nestlé is part of is much more than a corporate social responsibility tale targeted at building consumer opinion, brand loyalty and trust. It is the description, account and analysis of the activities the company has undertaken to do well by doing good to society as a whole. The way Nestlé does business in Colombia is by joining and building onto the work of other social institutions to further advance health, wellness, nutrition and living conditions for consumers and suppliers alike. Success is being shared by spreading benefits throughout each and every segment of the value chain. It is ultimately an example that social equity and business efficiency do not have to be at odds.

The preliminary findings of the study are based on an extensive literature review on the global coffee market, trends, developments, certification and verification achievements and challenges the sector faces. It also draws in detail from quantitative and qualitative data gathered during personal and group interviews and correspondence with mainstream coffee producers and farmers belonging to the Nescafé Plan, Nespresso AAA Sustainable Quality™ Program and the Rainforest Alliance-AAA initiative. Equally valuable information and insights were obtained from extensive discussions with various staff members at regional cooperatives and producers associations, exporters, local traders, technicians and the entire Nestlé Colombia staff at the Bogota headquarters offices and the coffee producing Bugalagrande factory.

### **Nestlé in Colombia**

Nestlé became part of the Colombian food and beverage industry in 1903. During these 110 years, the company has grown in scope, size and operations. It has offered consumers a wide array of both innovative and staple products meeting nutritional needs, demands and desires all throughout their lives. It now has an extensive and robust industrial presence with five factories throughout the country, one main national distribution centre and six cross-docking platforms. Around 90% of the portfolio of goods available in the country is produced locally. Its products can be found in over 300,000 selling points throughout Colombia and in 8 out of every 10 households in the country. This firmly grounds the company's procuring, manufacturing, production and distribution activities within the domestic economic landscape.

Employment is an important way to reduce poverty. The key is for jobs to be formal, stable, socially recognised and profitable. Nestlé is making this transformation possible since the company supports more than 8,800 individual suppliers and its industrial architecture gives direct employment to 2,362 workers and indirectly to an additional 1,738 people. However, Nestlé's impact in Colombian society extends far beyond its workers and consumers.

Through its supply networks, the company is making a positive difference in farmers' lives and in the productivity and quality of the goods they produce. Connected via supply chain echelons, farmers, suppliers, factories, employees, consumers and national and international shareholders are tightly and interdependently connected with one another. By making coffee production a more attractive, profitable, dignified, competitive and professional economic activity, Nestlé is contributing to the wellbeing of almost two million people who depend on the crop for their livelihoods. The challenge, and merit, resides in deliberately bringing about valuable benefits and prosperity to all of them, simultaneously, and through mutually reinforcing activities.

Through local, national, global, small and large commitments and actions, Nestlé is seeking to intentionally and proactively impact the lives of the heterogeneous group of stakeholders that constitutes its community of interests in Colombia, and elsewhere. For coffee producers, suppliers and farmers, Nestlé stands out as a predictable, stable, reliable, trustworthy, quality-oriented and committed partner. To its consumers, the brand is equated to consistent good quality.

To its workers, the firm offers a safe and enriching corporate environment to grow professionally and personally. To its shareholders, the company offers a model of consistent and organic growth and profitability. All the efforts Nestlé Colombia has made to meet consumer expectations, deliver high quality products, follow fair business practices, offer a good work environment, be socially committed and yield strong financial results has been recognised. In 2011, the Reputation Institute and Goodwill Communications ranked Nestlé Colombia as the number one most reputable firm in the country.

Nestlé's Creating Shared Value approach is focused on those activities directly related to its corporate undertakings, namely water, nutrition and rural development. In those three areas, the company strongly influences the host communities, pioneering the transformation of private firms into impact enterprises and stimulating progress at scale. This involves reaching consumers in remote communities with nutritious, good quality products through wide distribution networks that benefit small shops, independent supermarkets and freight entrepreneurs alike.

In 2007, the company started the Macro-allies training programme to place its products in more places in less

<sup>1</sup> The AAA Sustainable Quality™ Program has been trademarked using American English. All mentions to this initiative will thus appear using that spelling. For all other schemes, the British spelling of programme has been used.

time and generated further demand. In doing so, 61 freight entrepreneurs have learned how to make their businesses more competitive, are employing 870 sellers, and have yearly individual accounts for more than COP \$3,000 million. This initiative supported the company's two-track distribution approach targeted at small corner shop owners and independent supermarkets.

Since 2010, as part of the Nestle Wellness Shop initiative, the company has trained some 38,000 small shop owners on basic business entrepreneurship. The scheme has promoted good commercial practices at the selling point and to the benefit of the final consumer, giving 5,000 shop-owning households access to dental and life insurance. Targeting independent supermarkets, Nestlé began implementing the Super Allies scheme in 2012. More than 100 independent grocers have gained the professional knowledge they need to become more profitable and competitive. The Wellness Shop and Super Allies initiatives are keeping small and larger shops well structured, which in return enhance and multiply product coverage in those selling points.

In 2012, the Wellness Shop initiative received the VENN award in the Consumption Category, a bi-yearly recognition made by the National Business Association of Colombia (ANDI). That same year, the Super Allies programme was selected as a "Success Supplier" (Proveedor de Éxito) by the ÉXITO supermarket chain, recognising Nestlé's dynamism, innovation and role as an "exemplary supplier in logistics practices". Implementing these two initiatives working with consumer and economic groups at the base of the income pyramid has clearly paid off. These sectors currently represent half of the total sales in Colombia.

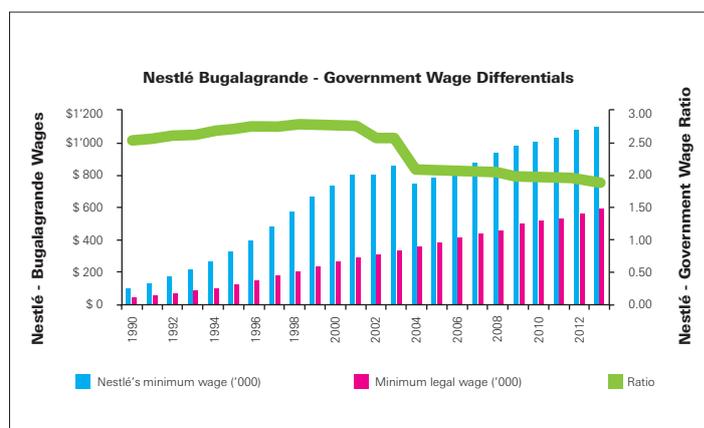
### Ensuring Sustainability

As a global company, Nestlé has integrated sustainability considerations, indicators, strategies and action plans into its global and local core operations. This move gained recognition from the Dow Jones Sustainability Index (DJSI) in September 2013, the world's first global sustainability benchmark and guiding tool for investors interested in integrating economic, social and environmental performance criteria into its portfolios. Nestlé was selected as the 2013-2014 Industry Group Leader in the Food, & Beverages category, doubling the industry average score. Environmentally, it obtained the best scores regarding the mitigation of water related risks, environmental reporting and operation eco-efficiency.

Also in 2013, and for the second year in a row, the company obtained the maximum score (100 points) in the CDP Climate Disclosure (CDLI) and Performance Leadership (CPLI) Indices, which measure the efforts to curb carbon emissions and increase transparency. This sort of environmental stewardship the company displays at the global level reflects onto

its corporate performance at the factory level in Colombia and in the implementation of rural development initiatives in support of the coffee sector in that country. Nestlé Colombia contributed to the DSJI score through two water initiatives aimed at decreasing the company's water footprint (SuizAgua Colombia and the Milk Development Plan in Caqueta) and two coffee-centred schemes (the Cisco Project for the reuse of coffee residue at the Bugalagrande factory and the Nescafé Plan for sustainable coffee sourcing all throughout the coffee supply chain).

Nestlé is well aware that its workers are one of the company's pivotal resources to build, consolidate and innovate its competitive advantage. In the coffee producing Bugalagrande factory, the firm has taken decisive, proactive and welfare-oriented moves to provide a competitive reward system; a safe and healthy work environment; and meet workers' aspirations with training and continuous development opportunities. In fact, Nestlé has set the local standards for training, capacity development and human capital formation. As an indicator of job satisfaction, the average years of service of direct Nestlé workers is 15 years. Furthermore, virtually all workers at the Bugalagrande factory are unionised, which is many times higher than the national average of 4.7%. Workers there receive some of the best salaries of the region for similar types of work, which have historically been 150% above those stipulated by the Government.



Source Nestlé records

Since 2001, the company has made 720 loans to its employees contributing to productive asset accumulation and improved housing security. To June 2013, 92% of the staff at the Bugalagrande factory owned their own houses. Moreover, since staff members are seen as part of a family and a community, the company has extended benefits to dependents and facilitated the implementation of collective, academic, civic, wellness and sports initiatives that help build social capital. In June 2013, 50% of the children of the staff had benefited from scholarships awarded by the company

and had filled in the available 27 apprenticeships at the Bugalagrande factory available to workers' dependants.

Nestlé's corporate commitment to predictable, consistent and constantly improving quality positions the company well ahead of its competitors and makes it a quality reference point for suppliers, ancillary firms, competitors and consumers alike. Bugalagrande has better infrastructure and services than other similar size towns. In the 1950s and 1960s, the company engaged in building and upgrading the necessary infrastructure to connect the factory with its suppliers and workers' residences. During its early years of operation, the factory offered public services to its neighbours that the other people of the region did not have access to, notably potable water and protection by the fire brigade. Nestlé's presence in Bugalagrande has made the municipality a more peaceful, and prosperous place to start a business, elements that foster continuous and reliable local development.

The economic and social profile of the municipality has changed since the factory opened in 1944. A mainly agricultural township, poverty rates were as high as 58% and malnutrition affected around 10% in the 1970s. Since then, poverty incidence has fallen by 20 percentage points and malnutrition has been reduced significantly to 3%. For over five years now and as part of the Nestlé Healthy Kids programme, the company's sponsored toy libraries, or ludotecas, have been strengthening healthy living habits and promoting responsible water consumption amongst some 15,000 kids in Bugalagrande and over 109,000 children and their families all across the country.

Besides competitive salaries and good compensation packages, taxes are the most straightforward contributions to the prosperity of the host communities. These resources are key components of the public revenues that can finance the delivery of social services and address commonly agreed economic, social, environmental and cultural issues and needs of the residents. In Bugalagrande, Nestlé is by far the most important fiscal contributor. At least one person per family is related to the factory and obtains his/her income as a worker, supplier or service provider. A similar key and stable contribution is made to the municipality's tax revenue and budget. In the last five years, the factory's contributions to the municipality's budget have represented, on average, 23% of the total revenues.

Nestlé cannot insulate its operations from conflict in the immediate vicinity of its facilities, and the violence affecting its staff, and its suppliers. Despite disruptions to its local supply chains and security concerns for the factory workers, the company decided to engaged more strongly than ever with the local communities and has determinately remained in conflict afflicted areas. It leveraged its economic impact

in the surrounding municipality of Bugalagrande to promote social stability, reducing the prospects for violent conflict and dispersing tensions. This helped to mitigate the otherwise deterioration of norms, institutions, and quality of life in violence-affected areas.

Since 2010, the firm has supported the establishment of Reconciliation Centres in Bugalagrande and Caqueta aiming to tackle domestic and community violence and to build social capital. Led by the success of the project, the municipal government has turned the initiative into a public programme to build a culture of peace. For Nestlé, the Centre opened up new communication channels with the community, allowing both the local populations and the corporation to see each other as strategic and interdependent actors. In 2011, the initiative received the "Emprender Paz" Award for its contributions to building peace.

### **Resource and Environmental Conservation: Reducing Footprints**

Food processing factories impact the surrounding environment in terms of energy consumption; water use, treatment and discharge; atmospheric emissions; and solid and liquid wastes management. Answer to these commonly shared environmental challenges became the Nestlé Environmental Management System (NEMS), implemented in Colombia since 1996. These sustainability and environment conservation practices are thus the result of a long corporate process to finding ways of improving the ecological and environmental impacts of the company's operations.

Complying with its own internal standards, many times more stringent than those stipulated by the domestic laws, Nestlé in Colombia invested in a wastewater treatment plant at its Bugalagrande factory in 1987. Five years later, the plant received the Ecological Merit Prize from the environmental authorities of Valle del Cauca as this water treatment facility came to be considered an industrial benchmark and a guide in the environmental education management in the country as a whole. In 2006, the company made an additional investment of USD 3 million to improve the Bugalagrande wastewater treatment plant and remove the harmless, yet unpleasant, brown colour that results from coffee processing.

Moreover, during the last five years, the company's internal water footprint has improved steadily and substantially. Consumption has decreased by 46% for each tonne of product manufactured and water residues have fallen by 17%. These improved water management practices have been disseminated amongst the community at large. Up to 2012, 160 girls and boys have taken part in educational activities surrounding the importance of having access to clean water. Additionally, water management capacities have been strengthened for 100 producers.

These activities contribute to societal behavioural changes that may lead to favourable long-term aggregate impacts in communities.

Innovation was the key in that project as it has also been for the construction of the first cisco plant in the continent. Cisco, the residues left from the coffee production process, account for 90.2% of the solid wastes generated at the Bugalagrande factory. In 2009, Nestlé constructed a biomass boiler to convert more than 16,000 tonnes of coffee ground into energy, a by-product that was previously filling the local landfills. The boiler now helps to meet 15-20% of the factory's power requirements, contributing to significant energy savings and ensuring cleaner production processes. From the time coffee is planted to its final incineration in the biomass burner, this energy recuperation process has a neutral carbon footprint, which has translated into lower carbon dioxide emissions. Moreover, tests have been successfully performed to turn the cisco plant's residual ashes into organic fertilizers which coffee growers can use.

### Nestlé, redefining the coffee sector

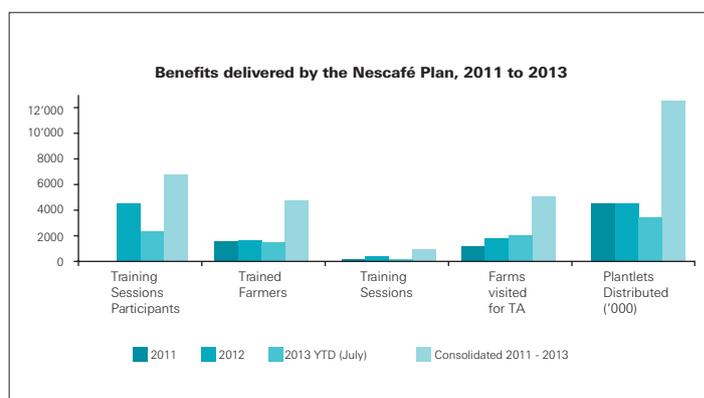
Nestlé, and its two coffee brands, have forever changed the global coffee sector. Invented in partnership with the Brazilian government, *Nescafé*® introduced a new process in 1938 that has since then permitted large-scale industrialised production and revolutionised the sector by avoiding crop wastes. Currently, every second some 5.500 cups of *Nescafé*® instant coffee are drunk in the world. Forty-seven years later, in 1985, Nespresso created a new category altogether, the capsule coffee market, becoming one of the most successful business model innovations of the recent decades. More recently, in 2006, the *Nescafé Dolce Gusto*® system was introduced, allowing consumers to tailor a wide range of coffee beverages at home.

It is thus not surprising that coffee holds a crucial place in Nestlé's growth strategy. Worldwide, the company buys nearly 14 million bags of 60 kg each, out of which 1.2 million come from Colombia. These purchases of Colombian Arabica Milds represent 13% of the total coffee production in the country. This makes Nestlé the largest private buyer in the country. Around 85% of the coffee bought is exported to its other factories around the world. Nestlé is certainly an impact enterprise in the Colombian coffee sector and, in turn, Colombian beans are key to coffee production for the largest coffee brand in the world. Despite being the largest coffee buyer in the world, or precisely because of it, Nestlé does not own any commercial coffee farms nor does it resort to contract farming. Instead, it sources its coffee beans directly from the coffee producers and the associations and cooperatives they form. This community of farmers is built and strengthened through extensive and intensive technical assistance programmes and direct procurement operations, called "Farmer Connect".

Acknowledging that the company's successful coffee brands depend on thriving farming communities to secure good quality beans, Nestlé has put in place a coffee-specific comprehensive agenda, the Nescafé Plan and Nespresso's integrated CSV AAA Sustainable Quality™ Program to optimise the company's global coffee supply chain.

Launched in August 2010, the Nescafé Plan will invest a total of CHF 500 million in coffee projects all around the world within the time span of a decade, CHF 350 million for *Nescafé*® and CHF 150 million supporting the Nespresso Ecolaboration™ platform. The two different initiatives are changing farming practices and lives by identifying and then promoting sustainable production and processing leading to higher productivity, higher incomes and better living conditions.

In Colombia, and since 2011, the Nescafé Plan has distributed more than 13 million of disease-resistant plantlets and renovated 1,882 ha. In Valle del Cauca alone, over nine million disease-resistant coffee plants were distributed 2012 and 585 ha of coffee plantations renovated. This initiative has been highly popular and coffee growers outside of Nestlé's sourcing regions are actively seeking on how best to take part in the Plan. This year, benefits will be further extended to reach 5,000 farmers from Quindio and Risaralda, who will receive 5 million plantlets in the first year of implementation. To transfer knowledge and know-how directly and effectively to almost 2,500 farmers every year, Nestlé is working with Colombia's long-established and experienced institutions, notably the Colombian Coffee Growers Federation (FNC).



Source Nestlé records

Additionally, and in order to improve agricultural practices and the existing farming activities, the Plan is furthering its activities with the Rainforest Alliance (RA), the Sustainable Agriculture Network (SAN), and the Common Code for the Coffee Community (4C Association). Only after three years of implementation, the Plan is already improving the economic and the social resilience of communities that would otherwise be in the same precarious situation other coffee growers in

the country are facing at present. In 2012 alone, *Nescafé Dolce Gusto*® bought 100,000 bags of sustainably grown Colombian coffee. Every year, the brand purchases have increased by 16,000 bags.

Over a long period of years, Nestlé has been procuring the best available coffee around the world to fill its *Nescafé*® jars or Nespresso capsules. In the coffee market, these superior beans are labelled as AA. This classification, based solely on quality conveys no information on whether the beans are being sustainably produced, the relationship between growers and the company buying them, the quality of life of the producers or the adoption of good agricultural practices. To continue sourcing the highest quality coffees worldwide, Nespresso created an initiative that added quality and productivity dimensions to its commitment to promote sustainability in the coffee sector, and thus an A to the labels of its Grand Crus.

The Nespresso AAA Sustainable Quality™ Program was launched in 2003 and in Colombia one year later, has added to the sustainability principles the highest quality criteria. Each A of the AAA Program represents the three pillars on which the Nespresso approach rests: quality, sustainability and productivity. Together with the RA and SAN, the scheme is helping 56,000 coffee growers in the countries the brand source coffee from to adopt sustainable quality farming practices. The joint implementation of social and environmental standards and the adoption of productivity-enhancing techniques are helping produce high-quality coffees consistently and sustainably whilst improving small farm productivity, and thus farmers' livelihoods and income. For the entire AAA program, Nespresso made a commitment to source 80% of its coffee following these principles by the end of 2013. This goal was reached in June 2013, six months ahead of the target date.

Colombia is key for the brand. Nespresso sources about a quarter of its green coffee from small farms in the regions of Cauca, Nariño, Caldas, Antioquia, Cundinamarca, Santander and Huila. Coffee growers there constitute nearly 80% of the total beneficiaries participating in the AAA Sustainable Quality™ Program. These farmers receive personalised and farm-specific technical assistance to move towards higher on-farm environmental sustainability and productivity, economic profitability and social development. As a result of the AAA initiative, coffee growers have more productive farms and obtain better yields, thereby receiving high prices for the production of highest quality beans. Better incomes contribute to improvements in their quality of life, which also has positive impacts on their communities and the environment. Farmers are also incorporated into a bottom-up path to continuous improvement that simultaneously raises quality and farm incomes, and protects the environment.

The COSA methodology was developed by the Committee on Sustainability Assessment (COSA™), a consortium of non-profit organisations and think tanks studying the implementation of sustainability programmes. The methodology analyses the economic, environmental and social aspects involved in sustainable commodity production. The Committee seeks to develop tools to better understand, manage and accelerate sustainability (COSA, 2013).

This progress is recorded in the Tool for the Assessment of Sustainable Quality, TASQ™, a system homologated with SAN standards that enables farmers in the Program to identify the areas that need to be strengthened.

Compliance with sustainability principles demonstrates the progress of the coffee grower in the AAA Program, and also gives them the opportunity to apply for Rainforest Alliance certification. Since 2009, the brand has covered the costs of the first year of RA certification audits. This has helped the farmers to obtain the RA seal of approval. This helps farmers secure additional income from premiums paid for coffee produced following environmentally sustainable practices in at least two ways. One, Nespresso pays a specific RA premium on top of the quality premium paid for AAA beans. Two, farmers can obtain RA premiums for the coffee they chose not to sell to Nespresso. By upgrading and improving coffee's productive infrastructure and guaranteeing good-quality coffee beans and products have access to premium markets, the brand is simultaneously mitigating supply chain risks and market uncertainty faced by growers. The inclusive initiative thus recognises the importance of developing interdependent and lasting company-customer, customer-farmer and company-farmer partnerships.

The Centre for Regional Entrepreneurial and Coffee Studies (CRECE) conducted a survey amongst 1,222 AAA farmers in all Nespresso AAA clusters based on the COSA™ methodology. This assessment tried to capture the impact that the Nespresso AAA Sustainable Quality Program has had on the quality of life of the Colombian coffee growers supplying beans to the company between 2009 and 2011. The study also sought to determine the difference the AAA Program is making amongst participating communities in terms of environmental, social and economic sustainability.

A 2011 follow-up evaluation indicates that the AAA farmers have been continuously improving in each one of the sustainability pillars. In the 2011 study, the largest gaps with conventional farmers were recorded in terms of environmental practices. More AAA farmers have prepared environmental plans and maps and have received training on environmental topics. They have also begun implementing recycling programmes as well as soil conservation and positive agrochemical practices. Perceptions of on-farm and village environmental care have also been more positive. Economically, AAA farms seen their overall economic conditions improve by 41% above the control group. Nespresso farmers have better capacities regarding marketing issues, farm management and traceability. Their perceptions of the farm's economic situation and business opportunities have improved. In these coffee farms, rust affects 30% of the trees compared to 49% of the trees in the control group, and farmers follow good fertilisation technical recommendations and keep records of the applications.

This group is aware of the domestic coffee prices and also has a higher net income. Healthier, younger trees are the result of the implementation of the “Tree of Life” (Árbol de Vida) initiative, aimed at increasing the number of improved coffee plants by planting 3 million rust resistant coffee trees. Along crop-management and output-enhancing efforts, renovated trees have significantly bolstered productivity. For instance, in Pacora, Caldas, crop management systems, soil analyses, and the adequate use of fertilizers have contributed to a productivity increase between 6 and 30% in the benefitted farms. Finally, in terms of social index, AAA farmers have more household assets, workers use more protective gear items and their living conditions are more attractive. Moreover, the perceptions of the household’s quality of life and relationships with the employees have also improved during the past two years. In total, AAA farmers fared 22.6% better than the non-AAA control group.

Intensified support is generating technological and economic differences between AAA and more traditional farmers. This explains why AAA producers have suffered fewer productivity-related losses. Consequently, AAA coffee growers are increasingly selling more coffee to the company, around 90% are satisfied with the AAA Program and are establishing stronger loyalty ties with Nespresso. Overall, the net incomes of the AAA farmers are up to 46% higher than mainstream producers. AAA farmers are able to sell 78% of their coffee as high-quality coffee and thus receive the premiums paid for these better quality beans. They also receive 40% more technical support than control farmers. More consistent agricultural training encourages farmers to plant higher numbers of rust resistance varieties and renovate their plantations at faster and higher rates. This explains why the AAA farmers were reported to be at least 30% more productive than the farmers in the control group.

Nestlé’s interventions in *Nescafé*® and Nespresso coffee procuring areas in Colombia have had encouraging economic and environmental impacts in those communities. Nespresso AAA farmers have realised the largest benefits in terms of incomes, and economic situation and trading opportunities. Unlike their counterparts, many of the farmers selling their coffee beans to the Swiss company are moving on from mere survival to more sustained livelihoods and higher profitability. Technical assistance, in-kind help (for instance receiving rust-resistant plants), and the premiums farmers receive for good quality, verified and certified coffee have had positive impacts on their economic status, health and environmental conditions. Coffee growers are also able to visualise the interplay of the different echelons connecting their coffee plants, the practices they adopt to make them productive, their living conditions, the country’s coffee culture and reputation, and the final product into which their work is transformed.

Greatly aided by Nestlé-supported initiatives, value added coffee sales in Colombia rose from 18% to 31% between 2002 and 2010 whilst sales for certified and specialty coffees increased more than 2.5 fold, from 210,000 to 750,000 bags. Between 2002 and 2007, sales of sustainability-oriented coffee supply initiatives also grew but at the much more modest rate of 6.04%. All these schemes have created additional value for more than 100,000 farmers. In 2010 alone, growers obtained more than USD\$19.5 million in additional income. Between 2006 and 2012, global Nespresso AAA purchases increased by 800% and the share of the total coffee bought rose from 36% to 80%. Such growth rates indicate the programme’s level of success in securing high-quality coffee, and the programme attractiveness to the farmers. At the same time, higher and better-paid coffee purchases have translated in higher incomes for the AAA coffee growers and their families. Nespresso premiums have consistently been 10 to 15% above process paid for similar quality Colombian milds.

### **Local partnerships that work**

Nestlé has established a long-standing and robust partnership with the most important institutional player, namely the Colombian Coffee Growers Federation (FNC). This collaboration has helped to harness the sturdy institutional architecture and the knowledge base that the FNC has built over decades in Colombia’s coffee growing areas. The Nestlé-FNC partnership has contributed to accelerate the speed at which knowledge is transmitted. This increases the sector’s capacity to respond to large-scale challenges by pushing for local solutions and mobilising key resources in areas such as seeds, greenhouses and most importantly, agricultural extension services. The Nespresso AAA programme alone finances 100 FNC agronomists who individually visit and train farmers in quality, sustainability and productivity - the three key elements that can substantially improve farmers’ incomes and living standards.

By working with the FNC, Nestlé has become an important part of the solution to the difficulties faced by Colombia’s coffee sector, both in the present and the future. In return, the FNC has received financial, physical and human support to implement actions advancing its long-term commitment to improving the lives of Colombian coffee growers. Nestlé and Nespresso, for its part, channels financial resources to execute programmes directed at improving the sector’s productive infrastructure and environmental standards, and pays premiums to those supplying the finest coffee beans. Together, Nestlé and the FNC have summoned private, public and civil actors to coordinate their actions, increasing mutual trust and understanding between them and building ever more solid coffee institutions.

For instance, Nespresso, FNC and a group of development and social partners have helped, for example, take decisive

measures to anticipate and counteract bottlenecks in the availability and management of natural resources, mainly water. Between 2008 and to June 2013, more than 29,000 wet milling and sun drying installations, 8,000 water management solutions, 5,000 fermentation tanks and 15,000 individual water treatment units were installed and upgraded to better manage water resources. These actions have also contributed to curb down carbon emissions along the national coffee supply chain in Colombia. Just four years after the AAA Sustainable Quality Programme was developed, Nespresso received the Rainforest Alliance's Corporate Green Globe Award on May 16, 2007. This recognition was awarded to the brand in recognition of its exemplary and extraordinary dedication, innovation and commitment to furthering environmental sustainability.

A similarly fruitful partnership is likely to be formed to start an Intelligent Water Management Programme. FNC, Nestlé, Nespresso, the Colombian Ministry of Agriculture and Rural Development, Cenicafé (Colombia's National Coffee Research Centre), Alterra-Wageningen UR in the Netherlands and the Dutch Ministry of Foreign Affairs are exploring ways of working together to alleviate poverty in coffee growing regions by helping farmers become self-reliant. The proposed 5-year long project would attempt to address water pollution and climate change challenges in 5 regions of Colombia where the Nescafé Plan and the AAA Program are operating.

Nevertheless, individual water treatment facilities are rather costly to purchase, install and maintain. Collective solutions, on the other hand, have proven to be more cost-effective, especially since most coffee producers are quite small, and lack the necessary resources and capacity to invest in individual water treatment facilities. The Central Mill in Jardín, Antioquia, is an excellent example. A consortium of partners, including Nespresso AAA, Agricultural Cooperative Development International / Volunteers in Overseas Cooperative Assistance (ACDI/VOCA), USAID, local coffee growers' cooperatives and the coffee exporter cooperative Expocafé was assembled to co-finance a Central Mill in Jardín. Opened on December 10, 2013 and run by the local coffee Cooperative, this environment friendly and local ecosystem-oriented project has simultaneously improved bean quality and productivity for 170 farmers in Jardín and improved the environmental conditions of the region. The difference between a premium quality bean and a mainstream one is determined during the milling and drying process. The centralisation of this process at the Jardín Mill decreases the likelihood of damaging the coffee cherries and allows farmers lacking the adequate infrastructure or resources to carry out the drying process to sell wet coffee and in cherry. Moreover, the taste and aroma that give coffee the Grand Cru profile is maintained by sun drying the cherries in the Mill's 3,000 metre square installation. These actions have jointly brought down rejection rates from almost 50% to

virtually zero. This translates into higher AAA quality coffee sales and better farmer incomes. For Nespresso, centralised coffee processing has led to more efficient coffee supply since parchment required to obtain 1 lb of AAA green coffee has been halved from 6 to 3 lbs.

Since the Mill has been operating, farmers have produced higher quality coffee, doubling the volume of AAA beans sold, securing more revenue from premiums and progressively obtaining net incomes up to 30% higher. The Mill has also provided an instant post-harvest cash flow since coffee growers are paid when they take the cherries to the Mill as opposed to when the coffee is processed. Additionally, local economies also benefit as any profits generated at the Mill are shared among the cooperative's members at the end of the season. The Central Mill has also redistributed coffee growers' traditional workload as farmers are offered the possibility of delegating these tasks. As a result, more than 4 hours of labour and water intensive tasks are saved during the harvest. Many farmers are investing the time saved in growing orchards that serve as additional sources of income, thereby improving domestic food security.

Milling and drying are labour and water-intensive processes. They are even more so for small coffee growers that usually have farms as small as 2.5 ha and rely solely on household labour. By processing coffee at the Mill, on-farm water consumption has been reduced by 63% and some estimated 27,000 litres of water per farm are saved every year. The average AAA farmer uses 25 litres of water to process one kg of coffee but by taking the cherries to Jardín this same process only consumes 11 litres. In addition, pulp residues from the milling process are used as compost and wastewater previously discharged untreated to water bodies, or left for disposal by surface runoff, is now treated in its totality at the Mill. Following the economic and environmental success that resulted from the centralization of milling and drying processes at the Central Mill in Jardín, a second facility is currently being built in Huila.

Through the Nescafé Plan, *Nescafé*® and Nespresso have shown their level of commitment to environmental sustainability, economic profitability and social development. The two brands, one for the mainstream market and the other for the premium end, have proven to be ideal partners for the FNC as they boost the image of Colombian Mild Arabicas all around the world. The Nestlé-FNC alliance has produced one of Nespresso's most successful coffee varieties. When the AAA Program started in Cauca in 2005 it did so with 574 farms. In 2006, Nariño joined the AAA Program and both Clusters totaled 1961 farms. In 2009, enough coffee growers had joined the AAA programme for Nespresso to launch a Grand Cru, *Rosabaya*®, sourced exclusively from this region.

As one of Nespresso's 3 pure origin coffees, *Rosabaya*® is the product of the close partnership that exists between the brand and the FNC. It is also 100% AAA coffee. Up to 2103, and with the support of 100 FNC agronomists, some 40,000 families have joined the initiative. In 2012, *Rosabaya*® accounted for 12% of all Colombian coffee purchased by Nespresso. In 2012, the United Nations Environment Programme (UNEP) considered this partnership, and the programme Nespresso and the FNC put in place in Cauca and Nariño, as a good example of a sustainable business model resulting in improved environmental, social and economic practices. The brand and the Coffee Growers Federation were recognised for their joint activities contributing to the expanding Green Economy movement.

It should be stressed that coffee production will only be profitable if it is considered to be a part of the country's overall rural development strategy. Yet, many positive social and developmental expectations are attached to the Nestlé-FNC partnership, which is currently adding value to at least 13% of the Colombian coffee harvest and advancing the peace building agenda. The Colombian experience suggests that a decentralised and small-scale coffee production, and the vast institutional architecture supporting farmers, has had exemplary institutional and development results.

The violence that has for decades affected Colombia has been lower in coffee growing areas, mostly due to the existence of strong social networks, associative institutions and the steady flow of income the crop provides. Some of the most affected areas are coffee growing regions, comprising of municipalities where Nestlé factories are located, the Nescafé Plan is under implementation and from where Nespresso sources its coffee, namely Valle del Cauca, Tolima, Cauca, Nariño, Caldas, Huila, Risaralda, Antioquia, and Quindío and Caqueta. Nestlé has focused on increasing coffee productivity in those farms, contributing to the peace building efforts development partners such as the US Agency for International Development (USAID) have also supported as a way of bringing peace to the country.

Concurrently, Nestlé is fostering partnerships with entrepreneurial, proactive, dynamic, forward-looking and more like-minded associates. New partners can help the company to capture bigger and/or more profitable business shares in the volumetric, specialty and specific geographical origin coffee markets. Innovative collaborations are formulating creative and resourceful ways of addressing the major structural challenges that Colombia's coffee sector now faces. The multi-layered nature of the challenges faced leaves ample room for all involved stakeholders to use their expertise and capitalise on their comparative advantages to pose previously unthought-of questions, devise out-of-the-box solutions, implement programmes and work

synergistically together. The 10 year anniversary of the AAA Sustainable Quality™ Program in 2013 has proven to be a timely occasion to forge new partnerships with the academic sector and organisations working to secure better trading conditions for farmers and workers.

In June 2013, Nestlé Nespresso and Fairtrade International (FLO) announced a partnership to work together towards improving the lives of small coffee farmers in Colombia. This farmer welfare oriented initiative, the AAA Farmer Future Program, will strengthen the brand's efforts to improve farmers' social conditions and it is being implemented in 5 cooperatives grouping 7,000 farmers in Caldas. These cooperatives are already FLO certified and have been taking part in the Nespresso AAA Program since 2004. This AAA-FLO alliance will provide small coffee farmers with greater income security and will work with cooperatives to implement social welfare projects for coffee growers and their families, such as healthcare, accident coverage and retirement planning.

Also in 2013, 32 academic institutions from around the world joined the solution-formulating bandwagon through an MBA case study competition on Sustainable Colombian Coffee Farming. For the MBA Challenge, Nespresso is working together with its academic partners, the INCAE Business School in Costa Rica and the Centre for Sustainable Market Intelligence (CIMS). This global initiative is likely to further strengthen the academic dialogues and linkages between the private sector and academicians interested in sustainability issues. This could also contribute to emerging business leaders who could formulate creative and innovative solutions to future supply chain challenges. The first challenge edition focused on "Securing the long-term sustainable future of coffee supply in Colombia". The winning team proposed a "Grow Forward" strategy to diversity farm incomes and mitigate employment seasonality. This global contest is an example of a new type of partnerships that can invigorate the coffee sector in Colombia and elsewhere in the world. Engaging younger people on and off the coffee farms will bring about fresh ideas and put forward the mindset of a new and hopefully sustainability-oriented generation. This may prove the way forward to tackle inter-generational challenges faced by the coffee growers in Colombia and many other coffee producing countries.

In today's world, coffee growers have ceased to be just that. As part of value added global value chains, producers ought to become proactive and competent entrepreneurs, a radical shift in farmer profile that is strengthening value chain governance for specialty coffees. Complying with schemes that may lead to an improvement of the welfare of farmers and their families involves acquiring, building and putting into use a new set of capabilities, skills and knowledge.

These new dynamics may contribute to buyer-supplier relations significantly more comprehensive than ever before. However, it could be more complex and difficult. Nestlé is giving farmers the tools they need to play this new role.

Encouragingly enough, Colombian coffee production is already recovering. For the last 9 years, the Nescafé Plan, in partnership with the FNC, has directed its efforts at increasing productivity and reaching historical output levels. For instance, the coffee tree renovation programme that covered 500,000 ha with improved, rust-resistant, high-yielding coffee varieties has already begun to show results. By July 2013, coffee production was recorded to be at a ten year high of 1,031,000 bags, which represents a 54% increase in coffee production from the levels reached twelve months earlier. From January to July 2013, the Colombian coffee harvest almost totalled 6 million bags, more than 1.6 million bags and 38% more than the 4.3 million bags produced in the same period last year. A mostly export-oriented sector, higher Colombian national production levels have naturally translated into higher volumes of coffee sent abroad. Coffee exports, estimated at 787,000 bags, were 42% higher than the 552,000 bags harvested in July 2012. From January to July 2012, 3,954,000 bags were exported. This year, in the same period, exports were 30% higher, at 5,138,000 bags. The Colombian coffee sector is showing signs of recovery, a most welcome development for 564,000 farmers of the country.

Nestlé is harnessing its quality-centred, innovation-driven corporate comparative advantage and vast pool of successful experiences in rural development to address social needs, harness economic potential and conserve the environment. This has radically changed the way the company sees its suppliers. Instead of thinking of coffee growers as being at the bottom of the pyramid, they are seen and treated as an important base for the company's activities. This is helping the firm build interdependent, mutually reinforcing and mutually advantageous partnerships with a myriad of coffee growers in Colombia. In this way, the company is forging the type of sustainable partnerships it depends on to reliably and consistently procure high-quality raw materials. Nestlé then uses these inputs to produce the coffee goods it is known for, as well as to keep itself at the forefront of innovation in the world's food and beverage industry.

Farmers, for their part, are able to obtain higher and better yields; increase their incomes; become more resilient to economic, social and household shocks; and ultimately improve their living standards. The aggregate effect of more prosperous, dignified and promising individual lives is a thriving, more competitive community; sustained growth for the local economy; and enlarged opportunities for the new generations. Strengthened societies become development

clusters with wider competitive frontiers and stronger, more flexible human capabilities and resources. These can help build safety nets and pull forces against the sort of economic, social, cultural and professional dynamics that are acting as migration push factors for many young people in the country.

Economic profitability, environmental sustainability and social development cannot be fully achieved overnight. However, by creating shared value for farmers, consumers, workers and shareholders alike, Nestlé is helping farmers working with *Nescafé*® and Nespresso produce the best coffee amongst the already famous Colombian milds, and thus improve their economic, social and environmental conditions. This is what creating shared value is all about.

**For more informations please contact:**

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Asit K. Biswas, Academician  
Distinguished Visiting Professor  
Lee Kuan Yew School of Public Policy,  
Singapore, and Founder, Third World  
Centre for Water Management

E-mail: [akbiswas@thirdworldcentre.org](mailto:akbiswas@thirdworldcentre.org)  
Website: [www.thirdworldcentre.org](http://www.thirdworldcentre.org)

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