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TOWARD A LICIT ECONOMY

Colombia Alternative Development Program Final Report

MAY 31, 2006

This document was prepared by Chemonics International Inc. for review by the United States Agency for International Development

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We are pleased to have had the opportunity to serve our client, USAID, and the Government of Colombia, supporting the fight against illicit crops and creating viable opportunities for the communities involved in their eradication.

We would also like to thank all members of the CAD team, its sub-contractors and grantees, for their invaluable contribution to improving the lives of approximately 150,000 people in some of the most problematic areas of Colombia. In particular, we acknowledge the contribution of those who undertook significant personal risk in leading the process of change at the local level. Without their contribution, this would not have been possible.

FRONT COVER PHOTOGRAPH: A beneficiary of the Social Capital Program (Puerto Asís, Putumayo).

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CAD established 36,190 hectares of licit crops, offering more than 28,000 families a viable alternative to the illicit economy (Patía, Cauca).

TOWARD A LICIT ECONOMY

Colombia Alternative Development Program Final Report

Colombia Alternative Development (CAD) Program
Contract No. 527-C-00-01-00091-00

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PROGRAMA RAIZ POR RAIZ
CONVENIO CAD 008-03-1

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LEFT: One of the community stores established by the “Raíz por Raíz” Program with indigenous groups in Putumayo, which opened up new opportunities for licit commerce (Mocoa, Putumayo).



In Colombia, as in other parts of the world, the production of illicit crops occurs in isolated and marginal areas, significantly complicating the work of AD programs (Putumayo River).

BY WAY OF INTRODUCTION

The participation of rural communities in the production of illicit crops depends upon a large number of factors, ranging from poverty and marginalization to value systems, illegality and the pressure of armed groups operating outside of the law. Under the best circumstances, Alternative Development (AD) is only a partial response to an extremely complex situation. AD programs typically operate in an environment of high visibility and political interest, and are characterized by the participation of a wide variety of stakeholders with differing agendas. The situation is complicated even more by the expectations and distortions created in local communities by the arrival of significant amounts of AD funding. All these elements can be found in the Colombian experience.

In the year 2000, the Department of Putumayo had more than 66,000 hectares of coca under cultivation, and the dubious distinction of being the territorial unit with the most illicit crops in the world. The presence and participation of illegal armed groups (guerrillas and “autodefensas”) in the narcotics business created a more difficult panorama. The armed strike promoted by the “Fuerzas Armadas Revolucionarias de Colombia” (the FARC guerrilla movement) between December 2000 and January 2001, attracted international attention to Colombia. The consequences of the disturbance were dramatic, provoking a major exodus of campesinos from rural areas to urban centers and the airlifting of food supplies into the region. Putumayo became the most vivid image of Colombia to the rest of the world, causing consternation in Bogotá and Washington for the apparent impotence of both governments to effectively confront the drug threat.

Four years later, the production of illicit crops in Putumayo had fallen to less than 5,000 hectares. Today, the great majority of rural families previously involved in the narcotics chain are now linked to the legal economy. A wide variety of organizations and individuals contributed to this effort. The USAID-funded CAD Program was responsible (between 2001 and 2003) for a 39 percent reduction in the cultivated area of illicit crops by

way of voluntary, manual eradication. For five years CAD worked intensively to establish a social and economic platform for change in Putumayo and, on a lesser scale, in seven other departments of the country. This report summarizes its history.

The document responds to the needs of different readers: those that are looking for quantitative information on the performance of the Program (CAD in Numbers;) those that wish to understand more of the history behind the figures and the context in which the Program operated (The Story Behind the Numbers;) those readers that have a greater interest in the broader learning experience and its implications for the implementation of AD in Colombia (Lessons Learned,) and finally, those seeking a more integrated vision of AD to better evaluate current programs, or to design and plan future initiatives (A Vision for Alternative Development).

The themes presented in the report were jointly selected with USAID-Colombia. The analysis was further enriched by a discussion session in April 2006, hosted by CAD with the participation of various institutions involved in AD in Colombia. This report is of course just one perspective among many. It attempts to be as transparent and objective as possible.

SECTION I

THE CAD EXPERIENCE

CAD IN NUMBERS

CAD was a core element of the USAID Alternative Development effort in Colombia, designed to promote social and economic alternatives to the production of illicit crops. The five-year Program operated between May 2001 and May 2006, was structured in four components (see adjacent box), and its performance was largely defined in terms of three contractual indicators: hectares of illicit crops eradicated in a manual and voluntary fashion, families benefiting from the Program, and hectares of licit crops established.

Taking into account its size and complexity, characteristics typical of most AD programs, the work undertaken in these four component areas was supported by a number of operational and management functions: administration and finance, grants disbursement and management, assignment and supervision of contracts, monitoring and evaluation (M&E) and technical assistance.

CAD disbursed US\$97.3 million of USAID funds and channeled an additional US\$18.7 million of counterpart contributions from Program beneficiaries (monetary and in-kind support from producers and the private and public sectors). The distribution of Program

CAD Components

Strengthening of national and local organizations. Support to NGOs and other sub-contractors involved in the implementation of projects, including technical assistance and training in management and administration.

Expansion of social infrastructure in rural areas. Road improvement projects, building and improvement of schools, community buildings, and rural electrification schemes, designed to support the development of the intervention zones.

Expansion of licit economic opportunities. Establishing the productive base for a legal economy by way of agriculture, livestock and agro-industrial projects.

Improvements in natural resource and environmental management. Initiatives designed to promote the protection and rational use of forest resources, and the wider use of environmental permits.

investment between components, including the technical and administrative support necessary for implementation, can be found in Table 1.

The life of CAD was characterized by two phases: the first focused primarily on the negotiation and eradication of illicit crops, and the establishment of licit activities. The second involved initiating the development of agro-industrial value chains designed to create a more sustainable regional economy.

TABLE 1: DISTRIBUTION OF CAD INVESTMENTS BY PRINCIPAL COMPONENT (UNTIL APRIL 2006)

CAD Program Components	USAID Funds (US \$)	Counterpart Contributions (US \$)	Total Investment (US \$)
Strengthening of national and local organizations	2,347,050	-	2,347,050
Expansion of social infrastructure in rural areas	7,926,412	57,558	7,983,970
Expansion of licit economic opportunities	62,060,120	17,947,167	80,007,287
Improvements in natural resource and environmental management	9,189,865	711,595	9,901,460
Sub-total Investment	81,523,447	18,716,320	100,239,767
Administrative and operational support	15,823,159	-	15,823,159
Total	97,346,606	18,716,320	116,062,926

Program implementation spanned eight departments within Colombia, with major emphasis in Putumayo. This is illustrated in Map 1. The differences in investment per beneficiary family and hectares eradicated can be explained by the characteristics of each area and the nature of the production activities promoted.

The global impact of CAD can be summarized by its performance in each of the three main results areas: (i) hectares of illicit crops eradicated, manually and voluntarily, (ii) families benefiting from the Program, and (iii) hectares of licit crops established. The Program exceeded each of the targets by between 13 and 400%. The results are presented in more detail in Table 2.

A macro-level appreciation of Program performance is useful, but it can sometimes gloss over other underlying elements. Fortunately, CAD developed a rigorous monitoring and evaluation system (known by its Spanish acronym as SIMONE) that permitted the capture and analysis of the most critical data underlying Program performance in both quantitative and qualitative terms¹. The most important results fall into the following seven categories and are presented in the remainder of this section:

¹ The data on economic change come from the study entitled Evaluation of the Economic Activities Supported by CAD in Putumayo, which was undertaken in October 2004 (based upon a sample of 1,426 families interviewed, equivalent to approximately 10 percent of the total number of beneficiary families). The information on social capital is derived from the study Social Capital in Putumayo (based upon a sample of 1,672 families interviewed, equivalent to 10.5 percent of the total number of beneficiary families). The data related to satisfaction levels with AD, organizational and institutional strengthening, the impact of infrastructure projects, and business development were generated from periodic studies undertaken by CAD's M&E Unit.

MAP I: GEOGRAPHIC DISTRIBUTION OF THE IMPACT OF CAD

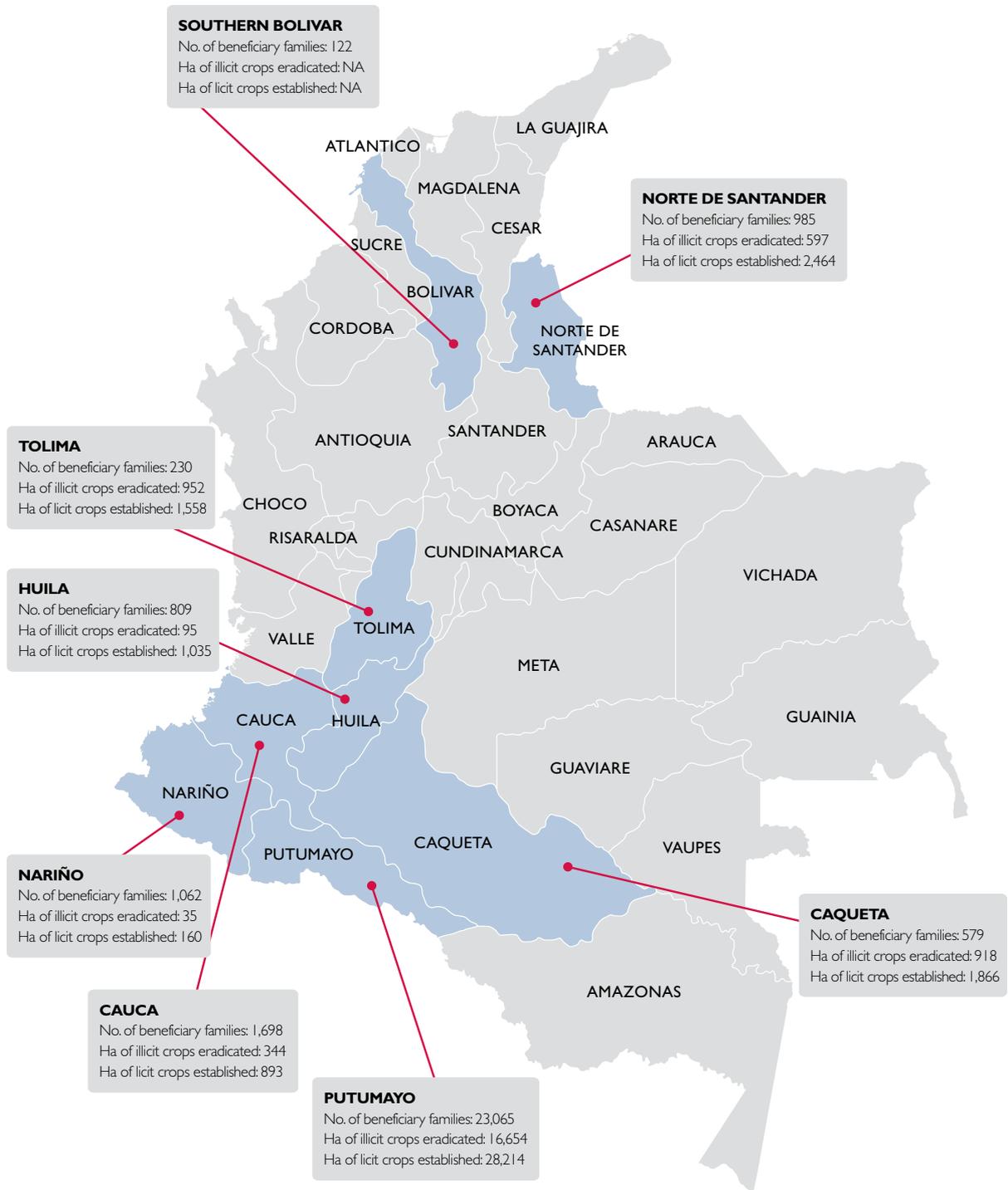


TABLE 2: SUMMARY OF CAD PERFORMANCE

Goal and Results	Key Performance Indicators		
	Hectares of Illicit Crops Eradicated Voluntarily	No. of Beneficiary Families	Hectares of Licit Crops Established
Contractual Goal	13,000	5,700	32,000
Final Result	19,595	28,550	36,190
Percentage above Goal	51%	400%	13%

- Economic change
- Social capital formation
- Organizational and institutional strengthening
- Social and productive infrastructure projects in rural areas
- Agro-industrial value chain development
- Grants and contracts
- Environmental regulation

In addition, beneficiary appreciations of the Program and their experience with AD are also included in the following discussion.

Economic Change

Incomes. The productive activities supported by CAD (until December 2005) generated US\$57.4 million in incomes, corresponding to a figure of C\$ 411,000 per beneficiary family per month (US\$171). Of this amount, US\$43 million pertained to CAD families, while US\$17.6 million was generated by off-farm wage payments to non-CAD families.

With eradication, family incomes fell by 46 percent; in 2000 for example, the average income in Putumayo was C\$ 659,000 (US\$275). This reduction in income was compensated in large part by a substantial fall in the cost of the basic basket of goods and services in the region, given that the illicit economy and the inflow of large quantities of “easy money” produced a pronounced inflation.

Economic Reconversion. CAD generated a very significant economic reconversion in Putumayo. The majority of families (92 percent) who in 2001 obtained the bulk of their income from coca cultivation entered into voluntary eradication programs, and in 2004, 95 percent of their income came from licit activities related to agriculture and livestock production.

Licit Crops. The CAD Program established 36,190 hectares of licit crops, broken down into: improved pasture (11,872 ha), primary and secondary forest under management plans (9,837 ha), permanent crops such as rubber and palm heart (5,781 ha) and transition crops (8,700 ha). In addition to this, CAD stimulated a significant amount of associated production activities (livestock, pigs, fish farming, poultry, community stores, handicrafts, rural commerce, etc.). This involved the distribution of massive quantities of



Investments in irrigation technology have contributed to the initial development of the fruit and horticultural value chain in the Patía Valley, Cauca; offering an economic alternative for many producers who were previously involved with illicit crops.

animals, materials and other inputs, as well as associated training and technical assistance. Table 3 gives an idea of the scale of the task in Putumayo.

TABLE 3: SUPPORT TO AGRICULTURAL AND LIVESTOCK PRODUCTION IN PUTUMAYO

Animals, Materials, Inputs, and Technical Assistance	Units
Poultry	169,413
Cattle	15,773
Pigs	7,585
Fish (fingerlings)	531,064
Equipment and tools	86,979
Kilograms of animal feed	4,604,035
Kilograms of fertilizers	2,573,158
Kilograms of seed	2,705,662
Seedlings	10,968,510
Hours of training provided	25,861
Number of technical assistance visits undertaken	35,684



As a result of CAD interventions, levels of trust and solidarity between Program beneficiaries increased considerably (“Herencia Africana” Cultural Group, Puerto Asís, Putumayo).

Employment. Approximately 31,934 new jobs were created in activities linked to the licit economy. Manual and voluntary eradication, in conjunction with fumigation of coca plantations, induced a re-accommodation of the rural labor force; campesinos and indigenous communities left coca cultivation behind to work again in licit agriculture and livestock. However, as a result of this same widespread eradication the general level of employment fell by 47.6 percent; largely due to the reduction in demand for coca harvesters.

Value of Sales and Family-Level Consumption. The total value of sales of agricultural and livestock products by CAD beneficiary families, including an estimate for family-level consumption at market prices, reached US\$41.6 million by Program close.

Social Capital Formation

The formation and strengthening of social capital and the transformation of perverse social capital to productive social capital² are critical elements in AD programs (these themes are developed at greater length later in this document). Comparing the perceptions of a sample of CAD beneficiary families with those who did not participate in the Program (referred to as “non-CAD families”), the principal indicators of social capital in Putumayo are as follows:

Organizations and Networks. 100 percent of CAD families participate in at least one social organization (in comparison with 84 percent of non-CAD families). Furthermore, 68 percent of the activities undertaken by producer associations, community action boards (known as JAC by their Spanish acronym) and indigenous “cabildos”³ are initiated by the communities themselves.

² Social capital has been defined as the level of trust that exists between stakeholders in a society, norms of civic behavior and levels of association. Perverse social capital is defined as that which works against the collective interest and impedes development.

³ A “cabildo” is an indigenous community based on ethnicity that has both territorial and social characteristics.

Trust and Solidarity. The level of trust between CAD families has improved over the last three years by 57 percent, compared with only 32 percent in non-CAD families. In addition, 94 percent of CAD beneficiaries feel that they can rely on their closest friends, compared with 82 percent of the non-CAD group.

Collective Action and Cooperation. 70 percent of the CAD families have worked in a collaborative manner in projects that have benefited the whole community, compared with just 41 percent of the families outside of the Program.

Social Cohesion and Inclusion. 92 percent of CAD families consider that the community is more united, compared with 66 percent of non-CAD families. In addition to which, 95 percent express the view that all families in the community are included and have access to AD programs, land, and services such as education, health, water and transport.

Conflict and Violence. 47 percent of the CAD families feel that violence has diminished in the region and 97 percent consider that their communities are more tranquil places to live, compared with 25 percent and 68 percent of the non-CAD families, respectively.

Empowerment and Political Action. In a country where violence has characterized the socio-political context for more than half a century, democratic behavior, participation and trust in official institutions are significant signs of progress. Table 4 elaborates on some of these indicators in the Putumayo context.

TABLE 4: INDICATORS OF EMPOWERMENT AND POLITICAL ACTION

The Interviewed Families Expressed the View that...	CAD Families (%)	Non-CAD Families (%)
They live happily.	71	48
They have some type of control over decisions that affect their daily lives.	95	68
They have influence in making the community a better place in which to live.	89	60
During the course of the last year, they met to make joint petitions to the government, NGOs, CAD, or political leaders, in benefit of the community.	84	40
The petitions were successful.	75	38
They voted in local elections.	65	50
Their opinions, regarding the decisions that affect them, are taken into account by government, NGOs and local leaders.	81	43
The most honest institutional and social stakeholders are community leaders, NGO staff, and teachers.	73	14



Improving the quality of life in areas where illicit crops are produced is today recognized as an important incentive in the transition toward a more productive and healthy society (Patía, Cauca).

Organizational and Institutional Strengthening

Over the course of the Program, 970 national organizations (636 JAC, 193 “cabildos” and “resguardos,”⁴ 40 Afro-Colombian organizations, 60 producer associations and 41 NGOs) were strengthened in administration and management, thus improving their capacity to carry out their functions. These activities have established a platform that will continue to operate after the CAD Program has ended.

Social and Productive Infrastructure Projects in Rural Areas

AD in marginal rural areas needs to consider investing in infrastructure. This was an important feature of CAD, the results of which can be summarized as follows:

- a) 147 km of rural roads improved, and 41 vehicular and 9 pedestrian bridges built.

⁴ A “resguardo” is an indigenous reservation, a demarcated area legally set aside for use by indigenous populations, although colonists can and do inhabit these zones.

- b) The extension of rural electrification networks in 7 “veredas”⁵ in Putumayo, along with improvements to 78 schools in Putumayo and Cauca, and the construction of 60 “malocas”⁶ and 10 multi-use sports facilities.
- c) 400 productive infrastructure projects completed, including 162 poultry facilities, 155 fish ponds, 63 pig units, and 4 processing plants for meat products⁷.

Among the multiple benefits that these projects have generated, the most important include:

- a) The infrastructure projects in Putumayo and Cauca alone are directly benefiting 16,179 families, comprising 80,895 people in 473 communities.
- b) The improvements and/or maintenance of more than 147 km of rural roads have generated significant economic benefits arising from the reduced time spent on travel combined with a fall in the costs of transport.
- c) The construction of, or improvements to rural schools has increased classroom assistance by 89 percent, as well as improving long-term attendance figures.

Levels of Beneficiary Satisfaction with CAD and their Experience with AD

The massive reduction in coca cultivation produced a 60 percent fall in the GDP of Putumayo with a consequent reduction in income and employment. Despite this strongly negative impact on the family economy, the attitude of CAD beneficiaries toward AD continues to remain remarkably positive, as reflected in the following statements:

- a) 77 percent state that they will not return to growing coca.
- b) 85 percent consider that there is now more stability in the family unit with a consequent reduction in family disintegration.
- c) 80 percent say that they will continue with new licit activities after CAD has ended.

Big Returns to Investments in Rural Roads

According to the study *“From Illegal Bonanza to Legitimate Development, the Case of Putumayo”*, undertaken in March 2004 by Cesar Ferrari, “the construction of a basic road network covering around 120 kilometers in Putumayo, over a six year period, and at a rate of 20 kilometers per year ... would generate an increase in the regional Gross Domestic Product (GDP) of 21.2 percent. Without doubt, investing in transport represents the best help one could possibly give to the development of the Department”.

⁵ A “vereda” is a small rural community, equivalent to a hamlet.

⁶ A “maloca” is a traditional indigenous community and ceremonial building.

⁷ After the PILDAET support ended, the majority of the small, community-based agro-industrial projects, with a focus on the local market, failed or encountered significant organizational and marketing problems. The most successful have been the fish-farming projects that have had opportunities to export. It is now clear that even for small-scale enterprises, the level of support needed to consolidate them was underestimated.



The development of production chains offers the possibility of adding value to the raw materials produced in AD zones, contributing to the sustainability of these initiatives and reducing the risk that illicit crops will be replanted (Putumayo).

In addition, 86 percent express their overall satisfaction with the Program, emphasizing the quality of the negotiation process, the participation of local communities and the transparent management of funds.

Agro-industrial Value Chain Development

This activity was responsible for the creation of eight enterprises, of which seven are currently operating in various stages of development. It should be recognized however, that these initiatives are still nascent and face significant challenges in the areas of production, processing and marketing. The total investment in these businesses was US\$8,509,257, with an additional US\$2,372,999 in counterpart contributions.

In addition, two agro-industrial centers were established; the center in Villagarzón, Putumayo, is owned and operated through a cost-sharing mechanism between the enterprises located there. The center in Orito is non-operational due to the liquidation of Concentrados Putumayo S.A. and is currently being transferred to the local government.

Furthermore, the Program invested in the development of six projects to establish or strengthen value chains linked to the production of vanilla, passion fruit, rubber, palm heart, cocoa and irrigated fruit and vegetables. A more detailed overview of these initiatives can be found in Tables 5 and 6.

Grants and Contracts

Taking into account the size of the budgets and the number of organizations involved in the implementation of AD initiatives, the effective management of grants and contracts is critical. During the life of CAD more than 600 grants and contracts were signed with an array of national organizations, obligating US\$74,574,880 in USAID funds (up to 30 March 2006).

This mammoth effort involved not only compliance with all USAID regulations and Colombian law, but also the implementation of a series of complementary activities – training, technical assistance and supervision – to the recipients of these funds. However, this is not to say that all these initiatives have been successful, and several organizations that received support from CAD experienced a variety of problems (a number of these are mentioned elsewhere in the report).

Environmental Regulation

The development of new technology packages requires, among other things, the careful consideration of the environmental impact that these generate. CAD utilized a team of specialists to ensure that a rigorous environmental focus was incorporated at all stages of project implementation.

This does not of course imply that all projects have been able to meet the environmental norms and procedures established by the donor, particularly those businesses that find it difficult to compete in local markets characterized by the informal economy and illegal practices. One obvious case is that of Forestal Putumayo S.A. that up to now has not used timber from forest areas with management plans.

One specific task of this component involved the development of a system for the evaluation of risks associated with the use of pesticides (known as PERSUAP). Subsequently, PERSUAP was adopted by USAID Colombia for use in its entire Program portfolio.

TABLE 5: DEVELOPMENT OF AGRO-INDUSTRIAL VALUE CHAINS (Figures in US\$)

Name & Location	No. of Direct Jobs Created	No. of Beneficiary Families	Ha. of Licit Crops	Sales up to Dec. 2005	Disbursements ¹	Counterpart Contribution	Total Investment	Current Situation
AGRO-INDUSTRY ENTERPRISES								
Amazon Flowers S.A. (Villagarzón – Putumayo)	18	148	75	25,751	324,581	95,833	420,414	Operating with private investment. Sales in both national and export markets.
Pure Art S.A. (Patía – Cauca)	17	600	3	22,042	169,917	46,792	216,709	Shares to be distributed to beneficiaries. Anticipated counterpart contribution by investors achieved. Sales underway.
Forestal Putumayo S.A. (Villagarzón – Putumayo)	22	67 (37 familias y un cabildo)	-	127,550	336,542	364,167	700,709	60% of the enterprise sold to private investors from Putumayo. Needs to begin to utilize timber from areas operating under management plans.
Forestal Cauca S.A. (Totoró – Cauca)	24	210 (7 resguardos indígenas)	-	81,853	208,442	477,042	685,484	Ownership of enterprise currently being passed to indigenous communities.
Flores Putumayo S.A. (Mocoa – Putumayo)	56	111	83	30,149	800,035	462,288	1,262,323	Enterprise owned by members of the community. Need for institutional and business strengthening. Currently selling to national and export markets.
Concentrados Putumayo S.A. (Orito – Putumayo)	22	-	-	51,630	1,803,567	279,495	2,083,062	Liquidated due to a variety of problems.
Condimentos Putumayo S.A. (Villagarzón – Putumayo)	3	254	165	21,669	566,223	568,688	1,134,911	Business strategy based upon substituting foreign imports with domestic production.
Agroamazonia (Puerto Asís, Puerto Caicedo, Orito, San Miguel y Valle de Guamez – Putumayo)	37	332	669 ²	317,128	500,330	78,695	579,025	Guaranteed market. Resolving supply problems.

¹ USAID funds for infrastructure, equipment and business development, excluding crop establishment.

² This figure refers to the total area established by CAD and PLANTE, and can vary from the actual area under production.

AGRO-INDUSTRIAL CENTERS										
Agro-industrial Centers (Villagarzón y Orito – Putumayo)	11	-	-	54,164	1,426,619	-	1,426,619	-	1,426,619	Center in Villagarzón operating. Center in Orito closed with the liquidation of Concentrados Putumayo S.A.
AGRICULTURAL VALUE CHAIN PRODUCTION PROJECTS										
Vanilla (Mocoa, Orito, Puerto Asís, Puerto Caicedo, Valle de Guarnuez y Villagarzón – Putumayo)	31	1,275	174	-	1,559,528	322,641	1,882,169	1,882,169	1,882,169	Still needing to expand production area and to receive additional technical assistance. Potential sales to multinationals, for example Mane and McKormick.
Production for fruit and horticultural value chains under irrigation (Patía – Cauca)	35	232	214	105,134	2,975,702	929,067	3,904,769	3,904,769	3,904,769	Fourth harvest underway. Currently selling to markets in Cali and Popayán.
Passion Fruit (La Plata, Natagá, Algeciras, Teruel, Palermo, Baraya y Colombia – Huila)	10	235	223	252,250	270,903	479,310	750,213	750,213	750,213	First harvest underway. Producer associations responsible for sales. In need of organizational support to maintain irrigation systems and improve production and marketing.
Rubber (San José, Valparaíso, Albania, Curillo, Solita y Solano – Caquetá, Mocoa, Villagarzón, Puerto Guzmán y Puerto Caicedo – Putumayo)	195	834	2,468	755,833	5,726,991	1,888,517	7,615,508	7,615,508	7,615,508	Plant built and in operation. Above the point of equilibrium in Caquetá. The Association of Rubber Growers of Putumayo, currently selling product to Caquetá processing plant.
Palm Heart (Tibú – Norte de Santander)	15	134	1,041	52,055	1,822,447	1,652,073	3,474,520	3,474,520	3,474,520	Cultivation underway. Project passed to the Colombia Agribusiness Partnership Program (CAPP).
Cacao (Arenal, Cantagallo, Morales, Río Viejo, San Pablo y Simití – Sur de Bolívar)	19	456	1,018	93,155	3,695,603	1,755,411	5,451,014	5,451,014	5,451,014	Cultivation underway. Project passed to the Colombia Agribusiness Partnership Program (CAPP).
Grand Total	515	4,888	6,133	1,990,362	22,187,430	9,400,019	31,587,449	31,587,449	31,587,449	

TABLE 6: PROSPECTS FOR THE AGRO-INDUSTRIAL ENTERPRISES SUPPORTED BY CAD (As of May 2006)

Enterprise	Challenges and Opportunities
<p>Amazon Flowers S.A. and Flores Putumayo S.A.</p>	<p>Sustainability: In large part depends on establishing competitive costs of transport, guaranteeing markets with the capacity to absorb supply, and the existence of committed shareholders.</p> <p>Market context: Given that the flower business in Colombia is a highly competitive one (Cundinamarca and the Eje Cafetero are the strongest regions), the success of these new businesses will depend on their ability to reduce transport costs while maintaining a steady supply to the market. CAD identified investors with relevant sector experience for both enterprises, who were at the same time providers of plant material and technical assistance. Despite the assumption that these had the necessary experience, in reality they are still fairly low down on the learning curve. This situation is further complicated by their location in Cali and Pereira, which has led to supervision and management problems in the processing plants in Putumayo. The main shareholder of Flores Putumayo has now sold his shares to local producers. Both enterprises have exported their products and have signed a commercial agreement with the supermarket chain Grandes Superficies de Colombia (Carrefour.) However, two armed strikes have caused the businesses to look for other producers outside of the region to meet their sales contracts.</p> <p>Value chain links to production: In the case of Flores Putumayo, producer associations were formed; these are currently the main shareholders.</p>
<p>Pure Art S.A.</p>	<p>Sustainability: This is an enterprise linked to the decorative accessories market, which implies a constant process of design innovation and the creation of new product lines. The main obstacle to date has been the lack of coordination between the production operation in Patía and the sales and marketing activity in Bogotá. This has been exacerbated by differences of opinion between shareholders.</p> <p>Market context: In order to absorb the entire production potential, the "totumo" business should focus primarily on export markets. However, business competitiveness is threatened by Asian producers with lower labor costs. For this reason, the business strategy should be based upon identifying a particular market niche reflecting local characteristics of the product as well as the culture. To this end, CAD has financed the creation of a new marketing image and the development of publicity materials to support the better positioning of the Pure Art S.A. brand.</p> <p>Value chain links to production: Since "totumo" has been harvesting and used for many decades in the region, it is an intimate part of the culture, which guarantees a broad supply base. With the objective of increasing productivity and guaranteeing a higher return to local producers (who are also shareholders), CAD has designed a series of workshops to improve local processing capacity.</p>
<p>Forestal Putumayo S.A.</p>	<p>Sustainability: The main shareholders are from Putumayo; they understand the local context and have the capacity to more easily adapt to the conditions of the region. These new owners have invested in machinery, which is more appropriate for the processing of Amazon timber. In the short-term it is necessary to stabilize both production and sales, as well as incorporate timber from forests under management plans.</p> <p>Market context: Taking into account that Putumayo timber processed in Bogotá is competitive, the profitability of the business could be improved if the same timber was to be processed in Putumayo. This assumes that the enterprise can guarantee a constant supply to meet the significant demand that exists. The enterprise recently participated in the Wood and Furniture Trade Fair, in which important contacts were made to buy the entire current production (for example, despite recent strikes in the region, the business has sold around 80 million pesos worth of product in the last three months.) A more detailed analysis of product demand and the associated production quantities required to establish a more solid client base is urgently needed.</p> <p>Value chain links to production: Three cooperatives were initially created. Unfortunately they have either separated themselves from the business, or been dissolved due to internal conflict.</p>

<p>Forestal Cauca S.A.</p>	<p>Sustainability: It is critical to define the commitments and responsibilities of the eight regional “cabildos” who are the owners of the enterprise. The annual change in “cabildo” leadership weakens the continuity of business strategy as well as the support that is given to the enterprise. In addition, there are a number of outstanding technical problems related to the regularity of electricity supply and the purchase of new machinery to improve productivity that need to be resolved.</p> <p>Market context: The market for timber in Colombia and abroad is growing, in particular from an expanding construction sector requiring “natural” materials. In order to satisfy the demands of this dynamic market, the enterprise needs to stabilize its production and expand its supply base to guarantee the continuous availability of timber.</p> <p>Value chain links to production: Given that indigenous communities are responsible for the initial part of the production process, it is necessary to strengthen their technical and commercial capacity. Plans also exist to begin producing handicrafts and other wood products.</p>
<p>Condimentos Putumayo S.A.</p>	<p>Sustainability: There are currently two investors from Putumayo interested in becoming shareholders in the business if there is sufficient raw material to guarantee that the enterprise operates above its point of equilibrium.</p> <p>Market context: The price for pepper is established internationally and this determines the internal market in Colombia. There is demand from national buyers interested in both acquiring smaller quantities and avoiding the complications of importing directly. The enterprise is currently selling its own branded products to a number of national chains (in the form of pepper corn and ground pepper) and has also established international contacts with the supermarket chains Carrefour and Cassino in order to sell greater quantities and improve profitability. However, the successful exploitation of these opportunities is limited by the lack of a permanent supply, in sufficient quantity to satisfy the market. It is anticipated that this production constraint will be overcome in the near future.</p> <p>Value chain links to production: The platform for this promising value chain is a producer association founded by rubber growers intercropping black pepper. The producers are shareholders in the business and are linked to the Association of Rubber Producers of Putumayo (ASOCAP).</p>
<p>Agroamazonía</p>	<p>Sustainability: Business prospects are constrained by the mindset of the producer associations (who are also shareholders in the enterprise) that is focused more on production than on business per se. These shareholders need to strengthen their entrepreneurial capacity and participate more effectively in the commercial development of the business. The Board of Directors in particular, provides little knowledge or direction to the enterprise.</p> <p>Market context: At the point in which CAD exited the business, the enterprise had guaranteed buyers for around 2,800 boxes per month (1,600 for export and 1,200 to satisfy national demand,) which was sufficient to bring the business to its equilibrium point. Unfortunately, this promising situation was affected by armed disturbances in the region that have made it difficult to meet export obligations. The enterprise has a guaranteed market. However, insufficient production as well as supply chain problems resulting from threats made by FARC guerrillas to producers in Orito and La Hormiga, have necessitated the importation of raw material from Ecuador to meet demand.</p> <p>Value chain links to production: The business was created with five associations of palm heart producers that have been in existence for more than ten years. However, their contribution has been more a political one at the level of the Board of Directors, than an operational one in the business. The composition of the Board has been stagnant for some time and the Associations have little information on the development of the enterprise.</p>
<p>Concentrados Putumayo S.A.</p>	<p>The enterprise is in process of liquidation based upon a joint analysis involving USAID, national and local governments and the CAD team. This decision is explained by the following:</p> <ul style="list-style-type: none"> • Technical difficulties: inadequate machinery and production line technology. • Uncertainty over markets: insufficient demand for their products. • Timing difficulties between production and processing: the expansion of licit crops in Putumayo that would have guaranteed the sufficient supply of raw material was over by the time the business began operating. • High costs of operation: The limited infrastructure in the region increases operational costs, in particular related to transport (approximately 20% higher than its competitors.) • Profitability: The margins generated in the animal feed market are extremely low in comparison to the level of risk found in a region such as Putumayo.

THE STORY BEHIND THE NUMBERS

Alternative Development is a complex issue. AD initiatives operate in an environment of heightened political interest, they are affected by a host of factors outside of the control of the contractor (changing policy positions by donors and host-country governments, swings in public opinion, national and local politics, violence and insecurity, etc.) and well-tested intervention methodologies do not always exist.

Colombia occupies a special place in the history of AD, being the world's largest producer of coca leaf and processor of cocaine; at the start of 2000, one single region of Colombia – Putumayo – produced twice the quantity of coca as the whole of Bolivia, which itself is the world's third largest coca producer. The majority of the areas where illicit crops are grown are characterized by geographic isolation, marginality, a lack of infrastructure and basic services, and the conspicuous absence of the State; factors that explain, in large part, the expansion of illicit crops among the communities that live there. The situation is exacerbated by the presence of illegal armed groups who are increasingly involved in the business of drug trafficking.

CAD came into existence in May 2001 as the largest single AD program initiated by USAID and the Government of Colombia. Its objective was to demonstrate the effectiveness of eradication and to promote social and economic development grounded in legality. Behind the Program was the weight of expectation of both the governments of Colombia and the United States (U.S.) – dissatisfied with the lack of progress of Plan Colombia which had been signed two years previously – to see the kind of results that would demonstrate their capacity to win the drug war.

This context affected the development of the CAD Program in three significant ways:

**In the words of a
functionary of the
PILDAET Program:
“In 1990 it was com-
mon to do business
with kilos of cocaine
and not with money...
and they sold clothing
with messages that
declared *Putumayo,*
coca and parties...”**

1. Putumayo – home to coca and illegal armed groups, and with high international visibility as a result of the FARC-orchestrated strike of December 2000 – became the center of attention for both the Colombian and U.S. governments, despite its limited development potential and the difficulties of operating in conditions of marked conflict and insecurity. For good or bad, Putumayo became the principal focus of CAD from beginning to end, generating impressive results, but at the same time diminishing important experiences in other areas of Colombia.
2. Rapid and wide-scale manual, voluntary eradication of illicit crops quickly became the most visible symbol of CAD for the majority of observers, creating a constant pressure to demonstrate large gains in eradication; in the first stage of the Program the basic question always seemed to be: how many hectares have been eradicated?
3. The need to generate impressive short-term results to ensure future funding dramatically increased the pressure on the Program, in particular during the first two years. Owing to the intensity of the work, coherent planning and rigorous follow-up of field activities was almost impossible, and this inevitably led to some mistakes and poor decisions. Despite these difficulties, the Program quickly



Members of a community in the Patía Valley, Cauca, manually eradicating coca plants as a result of a voluntary pact with the CAD Program.

developed workable intervention strategies and associated verification schemes that contributed to the most spectacular eradication of illicit crops in the history of AD.

CAD was the first large-scale, USAID initiative that operated in some of the most conflictive areas of rural Colombia. Few people would have put money on its success, and with good reason: it was obliged to work in regions where the presence of illegal armed groups outweighed that of the State; illicit production had become a socially accepted behavior; traditional agricultural crops faced significant competitive barriers that threatened their very existence, and local populations had little or no confidence in previous AD efforts.

Looked at from the outside, any successful intervention seemed impossible. However, a deeper understanding of the reality of life in the areas where illicit crops are grown revealed that, despite the significant increase in local income arising from coca production, the socio-economic balance for the majority of families was actually negative. This can be explained by several factors:

1. The illegal economy suffocates licit production and markedly increases the cost of living.
2. The violence that typically accompanies illegal activity drives out the little local capital that exists and thwarts new investment.

3. People become accustomed to quick and significant returns to their work and investment, at levels which are impossible to maintain over the long term.
4. Confidence in official institutions is significantly weakened.
5. Perverse social capital is strengthened, increasing the transaction costs for any legal initiative.

Despite the fact that the drug economy created short-term windfall gains, the significant quantity of money injected into these communities was quickly frittered away on immediate consumption (drink, prostitutes, jewelry, clothes, electric goods, etc.) and had little effect on local development, reducing the quality of life for the majority of inhabitants of the region and creating strong disincentives for any legal investment in the medium term. This reality was eloquently expressed in the communities of Putumayo who spoke of “the drunken bonanza of coca” followed by the inevitable “hangover.”

Besides this, the presence of drug traffickers increased levels of violence and created a permanent atmosphere of fear and insecurity. As one inhabitant of Putumayo explained, his daily survival strategy was based upon “leaving the house with “blinders,” avoiding visual contact and conversations with other people, all the time hoping to return home at night without having had any problem.”

This context offered the first entry point for change. However, without doubt, there were three additional factors that proved critical to stimulating significant levels of community participation in the voluntary and manual eradication schemes promoted by CAD. These were:

“ 500 years of cultural domination have not destroyed us, but a few more years of coca could do just that.”

WORDS OF THE OZIP PRESIDENT AT THE START OF THE CAD PROGRAM

1. The declared policy objective of the current Government to eliminate the strategic bases of the guerrilla movement and drug traffickers, and the decision to intensively fumigate the department of Putumayo.
2. The awareness of the Governor of Putumayo and the mayors of Puerto Asís, San Miguel, Orito, Puerto Guzmán, Puerto Caicedo and Villagarzón, of the need to find an alternative to fumigation, which in their opinion had become the only concrete manifestation of the State’s interest to pressure communities to leave illicit crop production. This determination to seek a viable alternative led to the creation of the Programa de Iniciativas Locales para la Erradicación Temprana (PILDAET).
3. The concern of the leaders of the Organización Zonal Indígena del Putumayo (OZIP) with the expansion of coca production and its damaging effect on the indigenous culture. Working jointly with indigenous advisors from the National Alternative Development Plan (known as PLANTE by its Spanish acronym) and those of OZIP, the Raíz por Raíz Program (RxR) was created to implement a plan that more adequately reflected indigenous cultural perspectives.

Coordinated by CAD, the PILDAET and RxR Programs worked with different groups and shared a common intervention methodology.



The production of flowers and foliage is one of the more promising economic activities in Putumayo (Villagarzón, Putumayo).

CAD Community Intervention Methodology

Implementation Method: Agreements signed with NGOs to utilize donations to implement community development and production projects.

Eradication Policy: Support conditioned by the complete eradication of illicit crops within defined geographic boundaries (typically at the level of “vereda” or “cabildo”). Signing of community projects detailing budget, time line, responsibilities and commitments. Community eradication utilizing traditional form of collaborative work known as “mingas.”

Participatory Process: (a) Identification of communities and leaders in favor of eradication; (b) Enhance community awareness with regard to the negative effects of coca or poppy; (c) Identification of legal alternatives; (d) Development and approval of community projects by an Evaluation Committee; (e) Eradication verified within specified period – normally two or three weeks – as a requisite for the initiation of the community project; (f) Formation of three committees: Project Management, Verification of Eradication, and Acquisition and Finance, to oversee progress. Transparency and community participation guaranteed through periodic presentations of project progress and finances (referred to in Spanish as “rendición de cuentas”).

Monitoring and Additional Verification: Undertaken by the CAD M&E Unit to guarantee objective information on community-level progress.

The first phase of CAD, between 2001 and 2003, was geared toward building a platform for change. Although the geographic focus was primarily Putumayo (and to a lesser extent Cauca), CAD also implemented activities in Tolima, Huila, Caquetá, Southern Bolívar, Norte de Santander and Nariño. What differentiated the work in areas such as Tibú and Caquetá from the activities undertaken in Putumayo, was a far stronger focus on perennial crops such as cocoa, African palm, and rubber, as well as the longer time period needed to complete the projects (between three and four years) and a much higher cost per beneficiary family (around US\$10,000).

The second stage in the life of CAD was characterized by its work on agro-industrial development that took place between 2003 and 2006, and which consisted of the establishment or strengthening of value chains (involving the organization, legalization, and operation of eight enterprises, the development of six agricultural value chain production projects, and the development of two agro-industrial centers). This new focus reflected a legitimate concern to promote more sustainable regional development, which implied a greater presence and participation of the private sector in AD.

Despite the difficulties encountered in the wide-scale eradication of coca and its replacement with licit crops, the task of enterprise development in conflictive areas (in particular Putumayo) became one of the biggest challenges for CAD. The work began with high expectations, but little time had passed before it became apparent that the initial strategy of finding investors to establish new businesses – a methodology that the contractor had successfully implemented in other parts of the world – was not viable. Clearly, the conditions in the majority of the regions where illicit crops are produced create major disincentives to investment. In the words of one potential investor: “I would not consider an investment in Putumayo, Patía or with indigenous groups even if it was a gift.”

In light of this, CAD was forced to open up a competitive bidding process for Colombian organizations with experience of business development in a number of sectors previously identified as having economic potential (for example, flowers, timber, spices, concentrates, etc.). The Program received a flood of offers from organizations, principally Non Governmental Organizations (NGOs), who made a convincing case for their capacity to create, equip, and consolidate business enterprises.

Unfortunately, it became increasingly clear that their promises exceeded their expertise and implementation capacity, and little by little, CAD assumed more direct responsibility over the management of these enterprises. With the benefit of hindsight, two lessons are clear. Firstly, having shown an inability to successfully undertake the task for which they were hired, it was a mistake to think that these implementing organizations would improve with time; it would have been far better to end these contracts sooner rather than later before the situation worsened. Secondly, it was naïve of the Program to think that it was possible to achieve significant results in the limited time available (CAD, for example, “fast tracked” these activities, believing that it could deliver the goods in just two to three years).

The Program ended up with a portfolio of enterprises at different stages of development and with elevated levels of community expectation that every initiative would produce successful businesses capable of generating jobs and regional wealth. Despite the fact that seven of the eight enterprises continue to operate, albeit with varying degrees of fragility and a number of outstanding difficulties to be resolved, the liquidation of the animal feed plant in Putu-



One of the most significant, although less tangible achievements of the Program, has been strengthened community participation and the stimulation of new local leadership.

mayo (Concentrados Putumayo S.A.) provided a golden opportunity for critics to attack the effectiveness of the entire Program. This enterprise represented CAD's biggest investment in business development and was highly visible in the region. Without exploring the causes for its closure – of which there are many – for many people, the failure of this high profile and costly initiative reflected a number of the weaknesses of AD programs the world over (massive investments, little local participation, high salaries of operators, few concrete benefits for the majority of the population in the short term, etc.).

In contrast, the agricultural value chain production projects offer a more promising scenario. For example, the rubber, palm heart and cocoa projects are currently benefiting around 1,500 producers and their families, and have created 239 new jobs. Likewise, the vanilla project has a strong international market, having attracted the interest of multinational groups such as Mane and McKormick. In the same vein, the development of the fruit and horticultural value chain in Patía utilizing modern systems of irrigation is now completing its fourth harvest season. Although nobody can guarantee the future of these initiatives, there is sufficient evidence at this stage to remain enthusiastic.

In conclusion, CAD demonstrated that social and economic development is possible in conflict situations. In its 60 months of operation, the Program:

- Contributed to the process of regional economic transformation based upon licit activities through the introduction of new agricultural alternatives with modern technology, and the establishment of more than 30,000 hectares of licit crops.

“ Thanks to the first harvest, I was able to buy my television, the first one in the community.”

A COMMENT FROM ONE MELON PRODUCER, BENEFICIARY OF THE CAD PROGRAM IN PATÍA

- Began to respond to the challenges of rural and agricultural development in AD areas, including: poor and fragile soils, long distances to markets, transport deficiencies, infrastructural limitations in energy and communications, and knowledge and experience of farmers limited to low-value, traditional products.
 - Contributed to the creation of institutional conditions necessary for a licit economy by means of social capital formation and strengthening with community and regional-level organizations.
 - Initiated the complex process of developing several agro-industrial chains to facilitate the commercialization of products both within and outside AD areas. Whether these will be able to survive the rigors of competitive markets without donor subsidies is still open to debate. However, without the commitment to this kind of experimentation, the future of many AD areas is bleak.
- Supported more than 400 communities in their struggle against illicit crops and armed violence and, as a result, stimulated stronger local leadership and the emergence of new leaders.
 - Effectively incorporated indigenous and Afro-Colombian populations in the economic and social processes of AD (more than 20,000), including 9,536 female heads of household.
 - Provided a higher profile in the national agenda, and tangible experiences of the benefits of legal development, to regions that for too long have felt part of “the other Colombia – marginalized and forgotten.”

Learning by Doing in AD – the Hard Way



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During the Christmas of 2003, an article appeared in a Neiva (Huila) newspaper recounting the tragic death of a passion fruit producer who had reportedly committed suicide, distraught over his inability to repay a loan with the Agrarian Bank and the likelihood of losing his farm. It was suggested that this was due to the failure of the CAD Passion Fruit Project with which the farmer was involved.

At the end of January, CAD management met with the leaders of the 17 Passion Fruit producers associations who worked with the Project. It was without doubt, the most depressing and dramatic meeting that occurred during CAD's five year history. The opening salvo came from the leader of the producers marketing organization, FUNDAMAR, who said: "Today I am going to tell you the sad story of the Passion Fruit Project." And it was a very sad story indeed.

The Project involved the planting of passion fruit with 356 farmers who had abandoned poppy cultivation in some of the most conflictive highland areas of Huila. The harvest was negotiated by 24 month forward sales contracts to industrial processors via the Commodities Exchange Board, the funds between CAD and the operator were managed via a fiduciary, and credit was channelled through the Agrarian Bank with a guarantee from a second-tier bank, Finagro. To say that the model was complicated is something of an understatement.

Though the Project had been plagued by difficulties from the start, it was difficult to get to the bottom of things with so many different perspectives. While monthly monitoring meetings were often characterized by threats and recriminations from producers, the Bank evaluations indicated that the crop looked good, reinforced by reports of a local "passion fruit boom." In fact, although some farmers did extremely well, the majority did not. In the end, the imposition of an overly sophisticated economic design, the failure to take into account the local context, an inadequate initial selection of farmers, the lack of social capital and associated implementation deficiencies all took their toll, and the Project failed.

At this point the Contractor is faced with a tough decision: cut its losses and walk away, chalking the failure down to experience and moving on to the next Project; or, flying in the face of common sense, start over, this time trying to do things better. CAD and USAID chose the latter option. Learning from past mistakes, the second project involved: a smaller local organization contracted as the operator; a more appropriate selection of farmers in terms of land quality, access to water and transport, and experience and commitment; a more straightforward design based upon quality technical assistance, the introduction of low-cost irrigation and linking producers to existing buyers; greater attention to social capital with an emphasis on participation, transparency and dialogue, and a more objective monitoring system.

And the results? More than 65% per cent of the farmers from the early project were included in the second one, 223 hectares of irrigated passion fruit have been established, the harvest coincided with a strong national demand for passion fruit and prices have been excellent, yields are averaging above 30 tons per hectare, the producer associations are organized and working, and the relationship with the operator is excellent.

The local leader who began the January 2003 meeting with that "sad history" recently wrote the following: *"The new Project put right many of the problems of the previous one. Everybody, including the farmers, learned from this experience. It isn't always the case that you get a second chance after having failed. But knowing how to learn from such an experience sometimes results in something good and this is what we have now."*

SECTION II

LESSONS LEARNED

BUILDING A PLATFORM FOR CHANGE

Eradication and Economic Reconversion

Eradication plays a central part in AD initiatives, particularly in those regions with substantial areas of illicit crops such as Cauca and Putumayo. Historically the debate has been to eradicate on the one hand, or promote social and economic development on the other. Today, it is clear that both elements are necessary; the challenge is to find an appropriate balance between the two, as well as establishing mechanisms to promote permanent behavior change linked to the licit economy.

The size of the task increases as a result of the conditions in which the bulk of illicit crops are produced (geographic isolation, lack of basic infrastructure, absence of the State, presence of illegal groups, a pervasive culture of violence and illegality, etc.). To this, three additional realities affect the formulation of the intervention policy:

Firstly, the national territory of Colombia is so large and the resources of the State so limited, that it is difficult to guarantee a presence in the entire country. Put simply, there are not enough police, soldiers, judges, etc. to go around. For this reason, a model of eradication based only on coercive methods, is impossible to apply. That being said, the threat of forced intervention has proved to be a critical factor in influencing local decision-making.

Secondly, successful eradication implies the elimination of large areas of illicit crops, which inevitably has a negative effect on local economies. In order to avoid the permanent subsidization of AD zones, it is necessary to generate viable alternatives that both satisfy basic subsistence needs in the short term, while promoting more significant economic development over the long term.

Thirdly, it is naïve to assume that the profits generated from illicit crops could ever be surpassed by other legal activities; the search for alternatives that can compete with narcotics, in strictly financial terms, is an illusion. Indeed, many critics identify this as the fundamental weakness of AD. However, the CAD experience provides clear evidence that a community's decision to leave illicit crop production is determined by a set of factors beyond the strictly economic, and is intimately linked to the risks involved in their association with the drug chain. Those most frequently expressed by communities include:

- Theft at the hands of armed groups or common delinquency (similar to that found in emerald producing areas of Colombia).
- The constant pressure from illegal armed groups (for example, the common practice of “protection” payments extracted by guerrilla groups).
- Lost investment in crops as a result of fumigation.
- Elevated levels of violence suffered by the family (exacerbated by the de facto systems of local justice enforced by groups operating outside of the law).
- Community rejection from a lack of alignment with decisions made by the majority (for example, failure to sign community eradication agreements).

The perception of these risks increases when the family unit lives permanently in the area in question, in contrast to those individuals who have recently arrived from other regions, typically to cultivate illicit crops.

The most relevant lessons arising from the CAD experience of eradication are:

1. The threat of forced eradication, typically by way of fumigation, enables an effective negotiation of voluntary, manual eradication. This process is far more effective if it reflects a decisive position on the part of the government. Without doubt, the “zero tolerance” policy on drugs by the current administration of the Colombian Government has been fundamental in promoting a change in public opinion (in which illicit crops are strongly correlated with drug trafficking and its negative consequences for society as a whole) that has had repercussions in the regions where illicit crops are grown.
2. The radical reduction of coca (large areas quickly eradicated) is important in stimulating an increased “receptivity” toward AD by local communities. In basic terms, effectively eliminating illegal alternatives ensures that AD becomes “the only game in town.”
3. Successful voluntary, manual eradication is conditioned by: (a) the type of assistance that is offered (it is difficult to conceive of communities entering into these voluntary agreements without tangible incentives); (b) the speed with which local agreements are negotiated, and (c) the effective delivery of the promised assistance.
4. Without the presence of institutions that guarantee enforcement of the rule of law, particularly in those AD regions dominated by illegal armed groups, voluntary eradication is impossible.
5. Social pressure is an extremely effective tool for stimulating eradication, particularly where there is a critical mass of families that have lived in the region for some time and have a stronger “stake” in economic reconversion to licit activities. The early participation of the JAC and “cabildos” in the definition of community projects is vital.



The visit of the Colombian President, Alvaro Uribe, and the U.S. Ambassador, William Wood (out of view), to the Villagarzón Agro-industrial Center in Putumayo symbolized the commitment of the two governments to the fight against illicit crops.

6. Likewise, the transparency of the eradication process is guaranteed by the participation of a diverse group of credible local stakeholders. During the life of CAD the local implementing agencies (typically NGOs) signed eradication agreements that involved more than 28,000 families. Verification ensured that all agreements were implemented and only some 5-10 percent of community projects were terminated upon the detection of illicit crops.
7. The alignment of local authorities and community groups with voluntary eradication is fundamental and is more feasible where local leaders have a strong sense of belonging and commitment to the regions in which they live.
8. In operational terms, taking advantage of the experience of NGOs from other regions (particularly those that had worked in the reconstruction of the Eje Cafetero following the 1999 earthquake and those with experience in the Social Pact Program in Putumayo) has worked well. CAD also worked with local NGOs who had less experience in managing resources and required more training and support. The presence of NGOs in AD programs is a factor in the early establishment of credibility with local communities.
9. It should also be acknowledged that the provision of tangible incentives to promote eradication can create perverse incentives in those communities where coca is not



Without the identification of new economic activities, based initially upon those resources and products found in AD zones, eradication of illicit crops is unsustainable.

VARIOS AUTORES

“ They gave animals, food, machinery and materials to those of us that entered the Program ... About a month ago the anti-narcotic planes arrived to fumigate and they found no poppy plants.”

**WORDS OF A
COMMUNITY LEADER
FROM TOLIMA**

grown, and where the rewards to the “bad guys” stand in stark contrast with the lack of similar incentives for their law-abiding neighbors who live in similarly marginal conditions. One obvious solution is to ensure the benefits are offered equally to all, although this inevitably increases Program costs.

Alternative Development Strategies

Acknowledging that eradication without additional support mechanisms is unsustainable, the question then arises: what type of AD should be implemented? In simple terms, the debate lies between AD with a wide geographic coverage, directed toward the reduction of illicit crops (extensive strategy); or a more concentrated AD in areas with production potential and a stronger focus on economic development (intensive strategy).

Although these two strategies lend themselves to a variety of potential interventions, two production models have traditionally been emphasized. The first incorporates a large number of beneficiaries, minimizing the intervention cost per family by returning to the subsistence cultivation model that was in place prior to the arrival of coca. The second is riskier, although capable of producing more sustainable results, and involves radically changing the productive framework to more complex systems of production and commercialization. Inevitably, trade-offs exist. Some of the most important are presented in Table 7.

The most relevant lessons related to AD intervention strategies are:

1. The central dilemma for the donor is ultimately how to promote a more sustainable AD, recognizing that the duration of most projects is limited and there is significant pressure to generate impressive short-term results to guarantee the continuity of the initiatives in the future.
2. If the principal interest is in promoting economic development (and accepting that financial resources are finite) concentrating production in certain areas necessary implies the reduction in the overall area eradicated.

TABLE 7: CHARACTERIZATION OF AD INTERVENTION ALTERNATIVES

Variable	Extensive Strategy	Intensive Strategy
Geographic coverage	Broad	Concentrated
Impact on target population	Broad in the short-term, limited in the long-term	Concentrated in the short-term, broad in the long-term
Type of labor employed	Unskilled	Unskilled and skilled
Complexity of production process	Low	High for most AD zones
Short-term multiplier effect	Significant – concentrated in salaries, inputs, and regional enterprises.	Limited – initial expenditure concentrated in machinery, studies, training and staff from outside the area.
Long-term multiplier effect	Limited – concentrated in subsistence agriculture and small-scale local commerce.	Potentially significant – the expansion of agro-industry creates jobs, attracts additional resources to the region, generates income, etc.
Cost per beneficiary	Low	High
Risk of failure	Low	High

3. One of the major difficulties in the transition between an extensive strategy and an intensive one, is the gap between the large number of families participating in voluntary eradication and the far smaller number that are involved in subsequent activities (for example, of more than 28,000 families that participated in the first phase of CAD, only 4,477 were involved in the second part). This situation inevitably creates expectations that cannot be fulfilled, affecting the credibility of all institutions involved in AD.
4. The agricultural activities developed need to reflect minimum economies of scale to guarantee that any income generated is sufficient to support the entire family, thus generating sufficient interest to adequately maintain the crop. In addition, the logistics of the operation are improved if production units are grouped together. By way of example, establishing four or five hectares of African palm (to produce palm hearts) make sense, whereas the development of half hectare plots has little economic logic.
5. The difficulty, however, is that when economic development activities are conditioned by eradication, it is improbable that all those producers willing to leave illicit production are nicely grouped in the kind of contiguous area that is ideal for industrial crops.
6. It should be acknowledged that most AD initiatives are only a partial response to a complex situation, focusing on certain regions, with certain segments of the population and emphasizing certain themes. By definition, this is insufficient in the long term. What is really needed is a coherent strategy of integrated regional develop-



The social mosaic in which CAD operated was an extremely rich one, involving significant community and racial diversity.

VARIOS AUTORES

ment that incorporates additional elements such as health, education, and justice to promote a better use of existing resources or provide the rationale to increase current debt to finance development.

Social Capital Formation

Social capital is made up of a mix of elements – social norms, tolerance, respectful behavior, social consensus, peaceful resolution of conflict, solidarity and the establishment of bonds and connections – that contribute to social cohesion. Many analysts consider social capital to be critical to improving social well-being and economic growth.

Within the political and socio-economic complexity of AD social capital plays an important role, even though it is often difficult to identify. For example: how does one explain the decision by more than 28,000 families to exit coca production despite the fact that their income and job opportunities fell by almost 46 percent? Likewise, how does one make sense of the decision by some departmental governors and community leaders to closely align themselves with the AD cause even though this meant risking their lives? Whatever the ultimate explanation, a classical analysis based on rational, individual decision-making clearly comes up short.

CAD undertook periodic monitoring activities to better understand the critical elements of social capital and to attempt to measure changes in the associated variables (organizational participation and networks, perceptions of trust and family solidarity, sense of cohesion and social inclusion, and appreciations of violence) during the life of the Program. These results have been discussed in Chapter 1. What are the most important lessons for AD programs?

1. After gaining an initial understanding of the role of social capital in Putumayo, CAD was able to gather solid evidence that (a) social capital exists; (b) people can feel it and express it; (c) it is possible to measure it, and (d) there was clearly a positive change in social capital in Putumayo in the period 2000 to 2004. Now that it is clear that developing social capital generates benefits, it will be important for new Programs to accelerate the process by specifically investing in social capital formation.
2. The decision by the inhabitants of AD areas to move out of coca production is largely explained by two factors: (i) the avoidance of fumigation (30.5 percent,) and (ii) the desire to change their way of life (26 percent). This illustrates the psychologi-

cal importance of “the carrot and the stick” in human decision-making and social behavior. In the same way, the decision not to replant coca includes important elements of social capital such as the fear of social rejection and the expectation of a more peaceful life for their families.

3. In addition to stimulating the creation of social capital per se, AD activities can also transform perverse social capital (defined as that which works against the collective interest and impedes development) into productive social capital. Two examples illustrate the point well:
 - a) The decision by thousands of producers to leave illicit crop production also freed them from the influence and pressure of illegal armed groups and drug traffickers, who in large part were financing their production activities and exerting a significant control over many other aspects of their lives.
 - b) The strengthening of the JAC, “cabildos”, producer associations, and other community-level groups, led to a reduction in the influence of those elements operating outside the law. These newly strengthened institutions offered a certain degree of protection to communities and, at the same time, allowed them to believe once again in public institutions.
4. The creation of “bridge” social capital is a complementary strategy that seeks to establish or strengthen ties between local organizations and groups, and the external environment (strengthening their negotiating capacity with State entities or bringing them closer to the market, for example). For this reason, CAD fomented the creation of JACs, “cabildos” and producer associations. If this is not done, the benefits arising from social capital strengthening are constrained to the local level and opportunities arising from closer ties to external institutions, vital to development, are lost.
5. There is strong sense of democracy among the social organizations in Putumayo, reflected in various initiatives to form community groups, the election of local leaders by consensus and the legitimization of their administration. This offers a positive vision to local populations that contrasts sharply with their previous experiences and, over time, promotes a growing commitment to democratic processes and the rejection of violence.
6. There was clearly a lack of awareness and appropriation by the communities who participated in the initial stages of business development. And here, a major challenge for AD is encountered. It appears that the processes that underlie the successful strengthening of social capital (based upon broad and democratic participation) do not coincide with what is needed to create businesses or to establish value chains, which involves processes that are centrally organized, less democratic and include far fewer people.
7. That being said, the presence of business enterprises can sometimes stimulate the more active participation of communities in entrepreneurial processes, although this is difficult. As CAD experienced in several areas, the challenges to communicating frequently complex business-related concepts to rural populations are significant.



The construction of a pedestrian bridge offers one community the opportunity to build trust and strengthen the links between neighbors, reflecting the importance of rural infrastructure projects to the strengthening of both economic and social capital (Putumayo).

This being the case, AD projects would benefit considerably from a more systematic approach to communication and information dissemination, particularly at the local level.

8. The achievements associated with social capital formation in Putumayo, offer interesting in-roads to strengthening more sustainable social processes. The use of campaigns and associated activities that promote a licit culture is just one example of the kind of social marketing that could be more widely utilized by other programs.
9. It should be remembered that social capital formation is not just about getting together and talking. It is critical to establish and agree upon goals and then work to achieve them. Occasionally, the phrase “social capital” can be used as an excuse for not undertaking the tasks at hand.

Operating in Conflict Zones and the Roles of Diverse Stakeholders

The implementation of AD initiatives is complicated by the environment in which they operate (poverty, marginality, lack of basic services, weak rule of law, etc.) and by the involvement of a diverse group of stakeholders. This is accentuated in conflict zones which in general coincide with those areas in which illicit crops are grown in Colombia.

This context presents significant operational challenges, such as the lack of trustworthy information for planning and decision-making, the absence of basic infrastructure, the existence of perverse social capital and the lack of human capital, insecurity and geographic isolation. If this was not challenging enough, the majority of these areas are also characterized by the presence of illegal armed groups.

The CAD experience of operating in conflict zones has generated the following reflections:

1. The pressure to generate tangible, short-term results and the geopolitical importance of AD implies that programs need to begin to operate on the basis of intelligent appreciations and best guesses until a more solid information platform is built. This means that:
 - a) The contractor needs a flexible operational system.
 - b) The existence of an information management system that underpins continual learning, almost in real time, is vital.
 - c) The donor needs to appreciate that some interventions will fail.
2. AD implementation can be strengthened by the involvement of NGOs with strong social development experience; these open doors, offer security, establish credibility with local communities, and help in the management of inherent difficulties that arise from the presence of a U.S. organization operating in a highly volatile environment.
3. That being said, NGOs are not problem-free entities. Their major weaknesses in the experience of CAD were:
 - a) Economic fragility and limitations in maintaining a permanent group of skilled staff. The consequent hiring of short-term employees to service sub-contracts and grant agreements complicates quality control. For this reason it is recommended to put in place a rigorous monitoring system.
 - b) Limited capacity to create business enterprises. Although this was clearly a major weakness, it also offers the opportunity for new programs to strengthen national capacity for business and entrepreneurial development as has been successfully demonstrated in similar initiatives in Peru and Bolivia.
4. Another alternative is not to work via local implementing organizations. On the one hand, this gives the contractor more control and responsibility; on the other, it necessitates a bigger organization and more staff, and inevitably increases its visibility in AD regions, adding to the security problems for its personnel.
5. The participation of local authorities is highly desirable; it offers legitimacy to local projects, enhances community acceptance, and helps with the effective dissemination of key information. In the case of CAD, the opening of Putumayo to the Program came about as a result of the initial commitment of the departmental Governor and a group of local mayors to promote change. The rotation of government function-

aries implies the continuous attention from the contractor to obtain and maintain “buy-in.”

6. At the same time, one should not overlook some common weaknesses associated with local government involvement in AD: the lack of local legitimacy, administrative deficiencies and the risk of political manipulation (the department of Putumayo for example, only came into being in 1981 and has no great tradition of governance). For these reasons, CAD involved the mayors and their advisors in the design and supervision of projects, but not in their direct implementation or the management of financial resources. Without doubt, this created a certain level of bad feeling among some government officials.
7. As a final point, it is of interest that a healthy level of competition between communities to access AD funding, appears to be a useful mechanism to promote local participation in these initiatives.

Promotion of Synergy between USAID Programs

The search for synergy obeys a simple logic: generating “more for less” by stimulating greater cooperation between different initiatives in the same program, or working together in function of a common goal. If this is done well it can avoid duplication, achieve higher levels of efficiency in the use of scarce resources and generate greater impact. In theory everybody wins, particularly the bigger and more complex projects that are typical of AD.

In practice, the promotion of synergy is frequently limited to coordination of meetings to improve information sharing. While this is laudable, it leaves much to be desired. This typically occurs because of the lack of clarity of roles and expectations, individual disagreements or institutional jealousies, as well as from the natural levels of competition that exist between contractors. One critical factor in all of this is that the priority of most USAID contractors is firmly focused on meeting their contractual obligations, which by definition do not necessarily coincide.

From a pragmatic perspective, what can be done to promote more synergy in AD programs financed by USAID?

1. In the first instance, the donor could lead the collaborative process by overcoming some of its own operational barriers by way of developing joint goals and improving coordination between its own offices and strategic objectives.
2. The incorporation of a requirement in the Request for Proposals (RFP) and associated contracts that the contractor clearly demonstrates collaboration and the effective exploitation of synergies. By way of example, the formalization of the M&E process in the development of a Performance Management Plan (PMP) linked to an Annual Work Plan (AWP) has clearly increased the seriousness with which most contractors consider monitoring and evaluation.
3. Assigning various projects or programs to the same contractor is another alternative. This strategy assumes that it is easier to exploit internal incentives and cooperation mechanisms that already exist within the organization to more effectively develop synergies. While this may work, the divergence between program goals, as well as the

participation of different individuals, teams and sub-contractors in the process tends to dilute effective collaboration in practice.

4. The possibility of collaboration is increased significantly if various initiatives working in the same geographic area are guided by a regional development plan in which stakeholders assume different roles. If taken seriously, this mechanism could become a prerequisite established by the government in its negotiations with the donor to ensure that external interventions correspond to a regional development framework.
5. It should not be forgotten that “the other Colombia” (made up of those marginal areas that are ripe for producing illicit crops) is a consequence of more than 30 years of limited investment, and it would be naïve to assume that any single AD initiative could reverse the situation in the short term. However, and in spite of significant barriers, there are examples of successful development processes in marginal areas: the export of melons from Central America following 20 years of failure and learning is one such example. Another, nearer to home, is in Putumayo, which now has almost the same production area under vanilla as Costa Rica. The solution lies in trying to accelerate these processes in a coordinated manner.

PROMOTING PRIVATE SECTOR PARTICIPATION

Business Development

The legitimate concern for greater sustainability and the growing awareness of the role of the market as the principal motor of economic development has turned business development into a central element of many recent initiatives. AD is no exception in this respect. However, business development in conflict zones with a scarcity of basic infrastructure, transport problems, the risk of kidnapping, payments to guarantee protection from different armed groups, etc., is an immense challenge.

A major structural problem, difficult to overcome in the short to medium term, is that the same factors that limit the natural growth of legal businesses, also act as barriers to new investment. In these situations, AD contractors are frequently obliged to assume the role of business development promoters, filling gaps that the market itself has been incapable of addressing. The big challenge is how to do this well. In general, there are three basic models at the disposal of the contractor:

- Create the enterprise.
- Support local producer associations to extend their production base to include commercialization and develop a broader business focus.
- Identify and stimulate the participation of qualified, private-sector business people and investors, typically from outside the AD zones.

CAD has had experience of each of these three options and, it is fair to say, that none of them have proved easy to implement in AD areas. What has been learned in the process?

1. The perennial dilemma is between assuming total responsibility for the initial development of the enterprise, betting on the demonstrative value of a project that is un-



The development of new economic opportunities increases family income and strengthens the stability of communities located in AD zones (Patía, Cauca).

derway to convince potential investors; or looking for investors or business partners from the beginning and jointly developing the enterprise, sharing risks and assuming distinct roles. In attempting to respond to this dilemma in the Colombian context, CAD has seen that:

- a) The first option is not very promising. Although, adopting a more optimistic perspective, it could be said that the demonstrative value of having functioning enterprises in difficult regions may challenge conventional thinking and stimulate new investment over time.
 - b) The second option is premised on the existence of investors willing to become involved in AD zones. In reality, this group is extremely small or requires very high levels of compensation for assuming the risks associated with the investment.
2. Responding to the absence of potential partners and the need to demonstrate short-term results, USAID contractors typically feel a great pressure to create enterprises themselves, even though these ventures are often haunted by a plethora of problems. Some of these include:
- a) Management based on social rather than business criteria.
 - b) Salaries over and above what the market would normally pay.
 - c) The tendency to purchase equipment that is too large or too sophisticated and to maintain a staff base that is bigger than the operation needs.
 - d) The hiring of managers based on technical criteria rather than on the “smarts” to get things done.

- e) Greater interest in responding to the terms of the agreement with the contractor than to the real demands of the market.
- f) The need for subsidies during the period in which the enterprise matures (although this should ideally involve increasing levels of private sector participation and financial contribution).
- g) Difficulties in arriving at the equilibrium point of operation in a limited period of time.
- h) A lack of synchronization between production, processing and commercialization.

Many of these difficulties could be overcome by greater levels of supervision and technical support. This involves more staff with a greater degree of specialization in business-related areas.

3. For most sane business people, investing in AD areas is unattractive, in addition to which outside investors run the risk of community rejection (CAD staff frequently heard the phrase: “Putumayo for inhabitants of Putumayo”). Given this, the group of potential investors is probably limited to the following four:
 - a) Local merchants.
 - b) Investors with limited resources that need additional capital.
 - c) Large producers of agro-industrial crops accustomed to survive in complex or violent regions.
 - d) Producer associations; assuming that they are consolidated and have some relevant business experience.

Although these investors are typically categorized as “second rate clients,” their viability as potential business partners for AD programs comes from their willingness to accept risks, combined with their capacity to survive in complex environments. They may not be ideal partners, but probably they are the only ones.

4. Despite their poor reputation as entrepreneurs, producer associations can work as business enterprises if they have a solid structure and some well-trained members in key positions. That said, the biggest challenge is to overcome the inherent contradiction between an enterprise culture and the social objectives of the associations.
5. Accepting that many potential partners come with limited business know-how and capability, AD initiatives should always include training and technical assistance to strengthen their management ability and consolidate their market knowledge. This requires considerable time, which in many cases can easily reach the five-year mark.

From the Horse's Mouth – One Investor's Perspective on AD

Private enterprise development in AD initiatives depends on the existence of investors willing to put their money in some high-risk areas. This is possible, yet challenging. One potential investor is the company Mane, Colombia, which has been involved in the Vanilla Project established by CAD in Putumayo. Alejandro Henao, the General Manager, responded to some questions posed by CAD:

Why is the company interested in the Vanilla Project?

"The company had already undertaken studies on vanilla in Colombia and when we heard of the open bidding process to establish 300 hectares of vanilla in Putumayo, we saw it as an opportunity to put our knowledge and experience at the disposition of the Project. In general terms we believe that the Project objectives were well founded and closely aligned with ours, that is: to produce and sell vanilla in Colombia."

If you could have selected a zone, would you have chosen Putumayo?

"No, we wouldn't have chosen Putumayo ourselves, owing to its security problems and the enormous operational difficulties there. However, these limitations were put aside given the strong level of institutional support offered by the Contractor, as well as that provided by the campesinos and technical staff of the enterprise in the area."

What kind of investment is the company prepared to consider?

"As you know we have already invested a lot of time, effort and resources in the operation of the enterprise over an eighteen month period. The continuity of any future investment will depend on the presence of USAID and its operators. Given the difficulties in Putumayo, it's impossible for a single entrepreneur to undertake a project there alone."

Why would you not want to become a major shareholder in such a venture?

"Basically because our interest in the Project lies in guaranteeing a stable supply of sufficient quantities of high-quality vanilla, based upon principles of fair trade. We are not interested in speculation or exclusivity of the business per se, which will only translate into more under-development and inequality in our communities. Our participation in a processing plant, for example, would have more to do with guaranteeing the quality of the final product and good decision-making, than with shareholder control and overall business direction."

Having been part of the initial Project, what lessons do you think pertinent for the future?

"Operators should show more rigor in their selection and supervision of field-staff, reduce bureaucracy and be implementers rather than planners. As for us, we should avoid committing ourselves to activity schedules in which more than 70% of the factors upon which implementation depends are outside our control!"

How do you see the future of vanilla in Putumayo, and will your company continue to support the Project?

"The future of vanilla in Putumayo depends on the campesinos that have been trained, as well as on others. Our absence from the area for four months means that we cannot know for sure how people there feel about carrying on with vanilla. I have consistently reiterated the view that if we do not continue where we left off, vanilla will become just a memory; plants that are not cared for will not survive. Worse still would be a situation in which the initiative of the campesinos themselves causes their small, isolated vanilla plots to prosper; but there is insufficient volume to be processed in the area. We will be there, only if the presence of other programs and institutions continues."



Business development in AD areas involves not only a diversity of interventions, but also requires extensive long-term support.

VARIOS AUTORES

6. Another strategic option (independently of how the enterprises are created) involves the identification of a buyer willing to enter into a commercial agreement with the production enterprise. The successful business connection, initially with little risk for the buyer, serves as the basis for building a closer relationship over time, opening up the possibility of a more substantial investment in the enterprise over the medium term.
7. Despite a long list of barriers, it is important to recognize that AD areas such as Putumayo, Patía and Tibú are not bereft of economic development potential (although this varies depending on the characteristics of each region). For example, the comparative advantage of Putumayo can be found in sectors such as tropical flowers, processed tropical fruits, wood products, rubber, and non-traditional products such as black pepper and vanilla. In Patía, horticultural crops are showing potential, and in Tibú, palm heart, cocoa and rice are all promising options.
8. Acknowledging some fairly significant barriers to investment in conflict zones, it would be inconceivable to think that any coherent process of economic development will happen without the existence of significant subsidies and associated incentive systems (both monetary and non-monetary). If there are no external donors willing to foot the bill, the government will have to assume responsibility for such investments if these areas are to develop.
9. However, it is also important not to lose sight of beneficiary contributions (in addition to labor). What needs to be fomented from the outset is a mindset in which people's participation arises from commitment to the task and not simply to receive a handout. By the same token, business or value chain development projects need to strive to ensure that producers understand that their participation not only generates benefits, but also obligations and responsibilities that need to be fulfilled.
10. A business culture based upon informality and institutionalized corruption is the norm in AD zones. This generates benefits for those enterprises that operate in this way and at the same time creates severe competitive disadvantages for those that try to do business legally. The situation is further complicated if these same businesses are obliged to abide by an additional set of requisites imposed by the donor. While the importance of fomenting a transparent and legal business culture is recognized, it should be remembered that this does not happen overnight, nor is it the sole responsibility of the enterprise. It should also involve the regulatory bodies to guarantee that there is a "level playing field," i.e., a transparent and equitable enforcement of the law for everybody.

CREATING ENTERPRISES IN AD ZONES PRACTICAL EXPERIENCES ACCUMULATED ALONG THE WAY

- *The Role of the Manager is Critical.* In large part, the difference between a business that functions and one that does not, is the stability of the manager, his/her relationship with the Board of Directors and his/her ability to improve the social capital of the shareholders. The manager should be a person with a greater capacity for problem-solving than technical knowledge per se. If he/she does not work from the outset, he/she will never work and should be replaced as early as possible.
- *The Usefulness of the Board of Directors is Limited.* In the first place, its freedom to act is conditioned by the agreement with the Project. Secondly, its technical and business capacity is normally weak. Finally, community or municipal participation in the Board maybe complicated by differences between community and municipal interests, and commercial ones.
- *The Socialization of Enterprises is Desirable but Complicated.* Business logic suggests that those stakeholders involved in the formation of the enterprise, should be present during the process of consolidation, bringing greater coherence and stability. However, the periodic changes in the administration of community groups, local government, “cabildos”, etc., weaken this logic and complicate the development of the business.
- *The Corporate Model Should be Used Very Selectively.* From a social perspective this is an interesting model since it opens the opportunity for a broader shareholder base. However, in reality broad-scale community participation at the start of the business generates many conflicts that actually limit business growth. The establishment of a legal corporation should be postponed until after the business is consolidated.
- *Involving External Investors is no Panacea.* In addition to providing capital, an investor should also bring to the table strategic direction and a sense of commitment to the business. Even with the best intentions in the world, this does not always happen. The situation is frequently exacerbated where there are multiple business partners with differing goals and perspectives, and where internal disagreements, instead of providing coherent leadership, end up paralyzing the business.
- *A Business Plan is Vital, but it Needs to be Implemented.* The business plan should provide orientation to the development of the enterprise from the start. An external consultant can quickly develop the plan (the traditional model,) but frequently the Board of Directors and the management do not buy in to it. This is further weakened by the lack of participation by key investors who are usually absent in this initial phase.
- *The Development of the Business is an Exercise in Changing Paradigms.* In the context in which AD programs operate, developing a business implies much more than just technical and financial aspects, and touches on elements such as the culture of informality and traditional processes of economic survival in marginal areas. Donors, investors, contractors and other stakeholders need to be aware that the risk of failure is high. In addition, the level of technical support and its associated costs are significant, and the definition of “success,” particularly in the first few years, should be gauged on more than just the “bottom line” on a balance sheet.



The participation of communities in businesses opens new economic horizons for rural families, but at the same time requires the transformation from a production mindset to an entrepreneurial one (Patía, Cauca).

The Role of Credit and its Link to Land Titling

Credit is an almost permanent topic of discussion in economic development. In the context of AD, credit can play an important role in situations where there is accessible supply and where opportunities exist to invest in productive activities. Unfortunately, the productive use of credit is severely constrained in zones where illicit crops are produced for the following reasons:

1. Without the presence of the State and in the absence of significant licit activity, there is no justification for fomenting formal credit. For this reason, it should not be considered a priority theme until after eradication has been achieved and economic reconversion has begun.
2. The culture of non-repayment of credit is endemic in AD areas; supported by a commonly heard FARC discourse within communities that “credit should not

be repaid because it is really a gift from the State to compensate for the marginal conditions in which you live.” The CAD experience supports the view that, in general, neither individual nor group debtors comply with credit agreements (for example, one producer association went into voluntary liquidation to avoid the group responsibility of repaying their outstanding credit).

3. The lack of a legal property title is one of the most significant barriers to the expansion of rural credit in Colombia. Despite the existence of some credit guarantee mechanisms, the lack of confidence by the commercial banks in these mechanisms limit their effectiveness. For this reason, property titles continue to be the basic prerequisite to access formal credit. Similarly, micro-finance initiatives promoted by NGOs and based upon alternative forms of guarantee (interpersonal relationships, group loans, etc.) are limited and have been unable to overcome the risks and the associated high costs of operating in these areas.
4. Business enterprises have sometimes been successful in extending agricultural credit by way of contracts in which the debt (typically in the form of seed, fertilizers, or other inputs,) is guaranteed by the purchase of the subsequent harvest. This system works particularly well in agro-industrial crops that depend on the existence of large quantities of raw material for processing, thus creating a context of mutual dependence between processor and producer.
5. Finally, and although this was not a feature of CAD, AD projects can play a more proactive role in credit, facilitating the entry of external financial entities and acting as an “honest broker” in sharing the risk, for example, in the development of non-traditional crops.

SECTION III

A VISION FOR ALTERNATIVE DEVELOPMENT

TOWARD A MORE INTEGRATED MODEL

While this report contains numerous observations and specific lessons derived from the CAD experience, perhaps the single most important one is the need for a more complete AD framework for setting goals and objectives, organizing stakeholders around a shared vision and establishing priorities and trade-offs among the competing intervention options. Such a framework would provide the organizing principles, processes and decision criteria for a set of AD (and other related) interventions and, perhaps, help avoid some of the pitfalls associated with the changing policies and priorities of multiple and diverse stakeholders. To that end, the purpose of this section is to describe a preliminary AD framework. While this is based upon the CAD experience, it is of sufficient generality to be useful beyond Colombia.

A schematic outline of the framework is presented in Figure 1. It is organized around three key strategic objectives that contribute to a higher-level goal, and which are supported by a number of intermediate results indicators. These would normally correspond to a set of activities (not described here) that could be organized in two broad phases. Phase I includes eradication and the establishment of a sound social, institutional and productive platform for change. Phase II involves greater levels of organization, collaboration and economic development.

The main elements of this framework are discussed at more length below.

The Goal

AD should be conceptualized, planned, implemented and soundly rooted in the regional development context and its potential. What distinguishes the AD focus from a more general integrated development one per se is that the goal is “regional development free of illicit activities.” The more general strategic assumptions underlying this goal are that the development of a more dynamic regional economy will (i) draw producers and

FIGURE I: ALTERNATIVE DEVELOPMENT RESULTS FRAMEWORK

Goal: Regional development free of illicit activities		
Strategic Objective I Social Capital strengthened	Strategic Objective II Legitimate governance strengthened/ expanded	Strategic Objective III Economic growth achieved
<p>Phase I</p> <p>IR I a: Expansion of areas free of illicit crops.</p> <p>IR I b: Increased levels of confidence between individuals and civil society organizations.</p> <p>IR I c: Enhanced levels of participation and empowerment in social, economic and governance-related activities.</p>	<p>Phase I</p> <p>IR II a: Better security and protection for citizens and their property.</p> <p>IR II b: Improved enforcement of the rule of law in a transparent and non-discretionary way.</p> <p>IR II c: Improved access to basic services (health, education, infrastructure, etc.)</p> <p>IR II d: Improved policies and regulations.</p> <p>IR II e: Increased public investment.</p>	<p>Phase I</p> <p>IR I a: Family subsistence needs met (at least during a period of transition toward licit activities.)</p> <p>IR I b: Economically sustainable agricultural activities initiated.</p>
<p>Phase II</p> <p>IR I d: Increased interaction (evidenced by agreements, contracts, donation of labor, etc.) between civil society organizations and the public and private sectors.</p>	<p>Phase II</p> <p>IR II f: Existence and/or improvements in the use of mechanisms to promote economic growth and improve citizen participation.</p>	<p>Phase II</p> <p>IR III c: Expansion of family income from licit activities.</p> <p>IR III d: Increased employment arising from licit activities.</p> <p>IR III e: Increased exports of local/regional products.</p> <p>IR III f: Increased private investment.</p>

IR: Intermediate Result that contributes to the achievement of the strategic objective.

other participants away from illicit activities into licit employment, and (ii) that this will further crowd-out illicit activities. It also supposes that (iii) many (though not all) areas suffering from the presence of illicit activities can be productively incorporated into the regional and national economies.

Local (sub-regional) interventions should only target those areas that can, overtime, contribute to the region’s development. By placing AD in a regional context, local interventions are not just guided by the criteria “invest where illicit crops are eradicated,” but rather by “invest where illicit crops are eradicated or prevented AND where the local area can be incorporated into and contribute to the region’s development.” Investment in an area only to obtain eradication with little potential is an unsustainable proposition, implies significant opportunity costs for the region’s overall development and will not lead to the achievement of the goal.

At the same time, the AD contribution to the region’s development is not simply a matter of selecting those interventions with the highest economic return, but, in a multiple objective framework, also giving weight to interventions that contribute directly to the incorporation of illicit producers into the regional development process. As illicit producers are typically concentrated in the more socially and economically marginal and

conflictive areas of a region, the AD investment will tend to represent a shift of the total regional investment budget toward those areas.

This is of course easier said than done. The potential of marginal areas is generally underestimated by public and private stakeholders, and for good reason. Local areas with illicit production activities are characterized by:

- *Marginalization.* Reflecting decades of underinvestment in human and physical capital resulting in relatively high levels of unsatisfied basic needs.
- *Perverse Social Capital.* Evidenced by weak and conflictive organizations, distortion of social and civic values, lack of confidence and extreme difficulty in reaching consensus.
- *Weak State Presence.* In terms of service provision, capacity to exercise authority, and accountability to the populace.
- *Presence of Armed Illegal Forces.* Who by force and presence do, with relative impunity, exercise some level of discretionary and non-accountable authority over the local population.
- *Generalized Corruption.* Fostered by an environment of impunity, non-accountability, and easy money.
- *Pervasive Risk and Insecurity to People and Property.* Crowding out private investment in licit activities, deepening perverse social capital and creating severe disincentives to those daring to assume local leadership roles.

With some variation, this characterization fits the CAD experience from Putumayo to Tibú in Norte de Santander. Putumayo may be considered the extreme case, but Patía (Cauca), Caquetá and the poppy growing areas of Tolima and Huila differ only by degree. In such an environment one could almost say that any project operator or private business who wants to work there doesn't understand the context and is not qualified to carry out the work.

As a consequence, marginal areas are typically viewed by public and private sector stakeholders as zones with very limited economic potential. Overcoming this ingrained perception is not an easy task. Furthermore, most interventions in marginal areas will be of relatively higher cost and riskier than similar interventions in more developed regions. However, it is clear that the conventional economic argument to invest where the returns are highest and expect the benefits to trickle down to the marginal areas of illicit production will not lead to "regional development free of illicit activities."

Alternative Development Surprises

Anamichú, in the department of Tolima, was an important poppy production and marketing area, displaying in extremis all the worst characteristics of illicit production. As an example, residents could not leave the area for training courses without permission from the FARC guerrillas. An AD development initiative incorporating small-scale infrastructure, food security, and community organization led to the eradication of 1,362 ha of poppy and its replacement with 3,390 ha of licit crops. These included 203 ha of organic coffee, 198 ha of high value forest and 1,195 ha of beans. As a result, 230 families are now making a living from the licit economy.

While the Anamichú experience shows that with creativity and hard work, areas considered “off-limits” for development can be incorporated into the regional development process, it is also true that the number of these with, or threatened by, illicit activities and with reasonable development potential may be limited. Putumayo is a case in point: large quantities of coca, a manifest desire to participate in eradication, but few areas with the physical and human resource base, infrastructure and market access for development.

The above characterization of the areas where the illicit culture and economy has taken root requires that we look beyond economic development interventions as the key, or even primary, element of AD programs. In the spirit of the famous campaign slogan of one U.S. president, in the case of AD, “It’s not just about the economy...”

Strategic Objectives

The AD framework presented here argues that the achievement of the goal is supported by three interrelated pillars or strategic objectives: (i) developing or strengthening social capital, (ii) strengthening and/or expanding legitimate and accountable governance, and (iii) stimulating economic development.

Social Capital. The concept of social capital reflects the level of confidence among the members of a community (cohesion social capital) and the degree of confidence and association with entities outside of the community (bridge social capital). In marginal and illicit production zones, the starting point is the acknowledgement that the initial social capital is weak and frequently perverse. Perverse in the sense that values, norms and rules of the illicit culture and economy “atomize” individual behaviour and values; there is no social contract among the members of the community, everybody just looks out for themselves. As a result, the transaction costs of obtaining the necessary internal cohesion for achieving collective or group goals such as the “welfare of the community” are high. Likewise, the capacity to form sustainable alliances with outside organizations based on mutual confidence and shared vision, is practically nil.

The challenge is to transform the weak, and typically perverse, initial level of social capital into one which underlies positive and productive relationships. The longer term objective is to build social capital and associated core values, which creates the kind of pressure that works against the illicit culture. While the specific interventions will vary depending upon the situation, the first critical step is a collective decision to eliminate

illicit production. Community acceptance of the pervasive presence of illicit activities is inconsistent with the development of more productive social capital. With this decision, investment in organizations to strengthen social capital becomes appropriate. This process is as, or even more, important than the final result, and is associated with values such as: participation, accountability, transparency, and respect for commitments.

As the cohesion social capital develops, the potential for bridge social capital to the public, private and NGO sectors becomes possible. Building bridges to external entities, particularly private sector ones, while cohesive social capital is weak and/or perverse is an extremely torturous path, but is one worth pursuing; after all, confidence is gained by practice, and not by theory.

Strengthened Governance. The core functions of the State are to provide security and protection to people and property, administer justice impartially and opportunely, and provide access to basic services of adequate quality. Few residents of the marginalized, rural, illicit activity areas have access to these most basic rights. Few departmental and municipal governments have the technical, financial, human resource and institutional capacity to carry out these functions within their boundaries. Thus, there are trade-offs and, in almost all cases, the marginal areas get the short end of the stick.

However, if illicit activity areas are to be productively incorporated into the regional development process the reach and quality of these functions and services must get better. If there are no improvements in security, justice, and services, there will be no increase in trade and investment and development prospects will be curtailed. It may seem strange that coca money, for example, did not lead to housing improvements in rural Putumayo; but then, who invests in housing when the future is insecure, justice is discretionary and where services are almost non-existent?

And here one encounters another major challenge to successful AD. Even as the capacity of the State to carry out its core functions in areas of illicit activities is limited, local and regional governments are asked to go beyond this to foment the kind of development that actively improves the local business investment climate; finances strategic infrastructure oriented toward licit activity, and facilitates the establishment of trade and investment linkages among buyers, investors, producers and processors. The size of the task is immense.

In strengthening the local government's capacity to carry out both its core and development functions, the process values of participation, accountability, transparency, clarity in procedures, reduction in discretionary policies and norms, impartial administration, and open access to information are keys to building confidence and alliances with the rural population as well as with the private business sector. Again, this is easier said than done.

Can local public institutions make a leap forward in services and administration in conflictive areas? And if not, should those areas be left behind until the public sector is ready? Can justice, rights and security be effectively integrated into AD programs? Can there be sustainable local area development without the basic protection and services of the state? Should the people move to where the State is, or the State go to the people?

Can the values described above become the norm for local government processes, or are they so inconsistent with traditional behaviour patterns and interests that they're doomed to remain as small-scale, donor financed, "pilot/demonstration" exercises?

The CAD experience with local government institutions suggests that there can be significant coordination with regard to the investment budget. Here again, the process – based upon participative and transparent mechanisms – is as important as the final outcome of the investment. However, it appears that the systemic problem of illicit activities in marginal areas is a product of insecurity, impunity, discretionary administration of justice, and lack of accountability, participation, information and transparency, in addition to the paucity of productive economic alternatives. For example, CAD efforts to secure private investment in enterprises in AD areas were thwarted more by constraints related to social capital and governance than by problems of deficient infrastructure that increases costs. Thus, sustainable AD in areas with illicit activities needs to focus significantly on governance issues.

Economic Development. While a significant alleviation of social capital and governance constraints are necessary conditions for transforming and incorporating these areas into the licit regional economy, they are insufficient by themselves. Economic development also requires, inter alia, an adequate initial physical and human resource base, markets and buyers, appropriate technology, investment, input service providers, transport, storage and processing facilities, financial services, specialized human resources, entrepreneurial talent, competition, business services, information and education, a positive business climate, and a set of reasonable, clearly understandable, accessible, and non-discretionary laws, rules and norms for trade, investment and business establishment and growth. The development and strengthening of these elements in AD areas with an "affirmative action" focus is a massive challenge.

With the identification of areas that combine illicit crop production with the potential for incorporation into the regional economy, the elimination of illicit activities causes a fall in local disposable income and, in many cases, threatens food security at least to the degree that illicit production activities have crowded out licit traditional production patterns. An immediate response involving social capital formation processes, governance measures, employment in relevant, small-scale infrastructure projects, as well as some support for agricultural reconversion to short-term traditional crops is often appropriate. However, this represents only an introductory, ground-breaking, social capital and confidence building initial phase. Beyond this, or even simultaneously if possible, commodity value chains must be established or strengthened.

The economic incorporation of marginalized areas into the regional development processes through their integration into a value chain requires that the unit of analysis and implementation be the territory (the local area) rather than simply the vertically integrated elements of a value chain. The territory in this sense represents the full set of economic, social and political interrelations and interdependencies of the local setting. Perhaps CAD's main lesson in establishing enterprises in marginalized AD areas is that the isolated financial analysis and implementation effort directed toward the firm and its vertically integrated chain, is only a part of what is required and may sometimes miss the mark altogether. In short, the competitive balance sheet and sustainability of the firm or

value chain is at least as much affected, positively or negatively, by the local institutional fabric as by strictly economic costs and returns.

Consequently, strengthening the local institutional fabric is an important element in developing the competitiveness and sustainability of firms and their associated value chains. Among the important process (software) investments that may be required are:

- Stimulating the participation and mobilization of public, private, and local stakeholders.
- Developing shared regional and local visions and plans.
- Enabling and developing local leadership capacity.
- Fomenting public-private and buyer-seller business and investment partnership activities.
- Establishing systems to integrate social investment with economic investment.
- Facilitating forums to create synergies among various programs.
- Creating a favorable business and investment climate for the region and the relevant local areas.

Doing all this, while also developing social capital and governance, represents an enormous challenge, and, some would suggest, should only be attempted where optimism has won its battle with rationalism. It does suggest however, that a holistic AD intervention will normally be in an almost constant state of disequilibrium. The saving grace is that these disequilibria generate creative bottlenecks that can stimulate novel developmental solutions.

This suggests that firm and value chain competitiveness should be approached as a systemic attribute of the AD regions rather than simply enterprise competitiveness. Furthermore, it is argued that the systemic competitiveness of a region and local development areas is the result not only of economic investments but also of significant investment (hardware and software) to develop social capital and strengthen governance. The principal constraint to the application of the framework is one of time. In these areas, a program is not starting from zero; indeed, in most cases, it is beginning from a negative situation in terms of perverse social capital, lack of confidence in governance institutions and without the human and organizational capital and infrastructure facilities for economic development.

The processes required to implement a sustainable and significant improvement take time to mature, particularly if the program involves many regions, each with multiple local development areas. Consequently, the achievement of sustainable results will not be evident at the outset of the program, but in the later years, and often not even within the typical five-year project life span. This reality may conflict with the political and programmatic desires to demonstrate early quantitative results.

A second, more operational constraint, centers on how to foster healthy competition. While this is an important feature of systemic competitiveness – among alternative buyers, sellers, input providers, technical assistance providers, financial service providers, etc. – that contributes to the development of a firm and value chain, the traditional donor system of competing grants and contracts at the outset of a project, subsidizing selected grantees, associations or public entities and identifying the principal input and service providers, does little to enhance overall regional competition.

Approaches that would offer farmers and firms more competitive alternatives, involving small and medium enterprises (SMEs), research and education entities, and outsourcing by larger firms and the public sector, could be relevant to facilitating more generalized regional competitiveness. In short, donor-led AD initiatives tend to establish regional monopolies (private, NGO and public), while what the region really needs is to strengthen more generalized competition.

The framework suggested here is the result of an internal reflection and debate over the CAD experience. In part, the question is “what would we have done differently if we knew then what we think we know now?” The overall conclusion is that a holistic conceptual framework, involving social capital, governance, and economic development is most appropriate. All aspects of these three pillars need to be imbued with the values of accountability, transparency and participation. The processes utilized to develop social capital, strengthened governance and economic development are, at the end of the day, as important as the achievement of quantitative results. The time constraint and the desire to achieve early results may conflict with the effective application of this approach. However, since the constraints to the productive incorporation of areas with illicit activities into the licit regional economy are systemic, arising from a deficient institutional fabric, then the response must be equally systemic in nature.