

# Study of Social Entrepreneurship and Innovation Ecosystems in the Latin American Pacific Alliance Countries

Case Study: Cacao de Colombia, Colombia

Fundación Ecología y Desarrollo

Office of the Multilateral  
Investment Fund

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# **Study of Social Entrepreneurship and Innovation Ecosystems in the Latin American Pacific Alliance Countries**

## **CASE STUDY**

### **CACAO DE COLOMBIA, COLOMBIA**

**Multilateral Investment Fund (IADB) ·  
Fundación Ecología y Desarrollo**

**July 2016**



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Guillermo Cadena, Co-founder, training and production manager, Cacao de Colombia

Virgilio Barco, Director of Acumen Latin America and Caribbean

José William Esquea, cacao producer, Magdalena region

Clemencia Villafaña Perez, Aruaco community leader, Sierra Nevada region

## 1. Introduction

| <b>Name: Cacao de Colombia</b>                |   |
|---|---|
| Description                                   | World class fine chocolate producer that engages with cacao farmers in long term training and development, securing a fair wage and viable alternative to unsustainable monocultures and illicit crops in Colombia.       |
| Founded                                       | 2009, Bogotá, Colombia.   |
| Legal format                                  | Private Limited Company ( <i>Sociedad Anónima de Acciones Simplificada</i> ).   |
| Num. employees/volunteers                     | 15  |
| Geographical reach                            | Tumaco, Sierra Nevada, Santander, Catumbo regions in Colombia.  |
| Certifications/ awards                        | GIZ Best Social Business of the Year (2015), International Chocolate Awards (2015, 2016).   |
| <b>Social innovation variables</b>            |   |
| 1. Innovation type                            | First high premium chocolate producer in Colombia, using carefully selected species and sophisticated processing techniques to marketing unique blends and indigenous cacao traditions to the international market.       |
| 2. Social impact                              | 4,700 lives impacted with 10 tons produced annually, providing viable and sustainable agro-forestry solutions for marginalized, poor farmers and indigenous communities. (120 tons per year projected as of August 2016). |
| 3. Financial sustainability                   | High margins on premium product enable farmers to receive double previous revenues for the raw cacao and the company currently operating at annual net profit margin at 27%.  |
| 4. Key Partners and Support ecosystem players | Diverse support from international development agencies, world-class chocolate companies, Colombian export and development agencies and the Federation of Cacao Producers.  |
| 5. Scalability and Replicability              | Already operational in 4 regions across Colombia, with potential for huge growth in the country to make Colombia one of the world's leading cacao producers.  |
| References                                    | <a href="http://www.cacaohunters.com">www.cacaohunters.com</a> <a href="http://www.cacaodecolombia.com">www.cacaodecolombia.com</a>   |

## 2. Local Social Issue and the Challenge

30% of Colombia's population lives below the poverty line and 24% of the population live in rural areas,<sup>1</sup> with 16% of the population working in agriculture.<sup>2</sup> Alongside construction and commerce, agriculture is one of the economic sectors with highest growth rates today, generating 6% of GDP.<sup>3</sup> While agriculture is a significant part of the economy, small-scale cacao farmers only receive a small percentage of the final value of the chocolate sold on international markets. In addition the cacao producing areas are also some of the poorest areas of the country.

### Displaced farmers

Although thankfully peace has recently been declared in 2016, the conflict that has been raging in Colombia over the last 50 years has had an incredible social impact across the country. According to the United Nations Refugee Agency's (UNHCR) 2014 official figures, more than 5.7 million people have been internally displaced in Colombia since official registration figures were recorded and almost 24,000 people have been officially registered by the national Victims Unit. Many of the people displaced are the rural poor, including small-scale farmers, indigenous and Afro-Latino descendants.

### Coca production and its social consequences

More than 90% of the cocaine that is sold in the US comes from Colombia and production tends to be in the similar remote rural areas where cacao could be grown. Coca production provides a short term, lucrative option for many farmers in Colombia with serious social consequences. The illicit coca production often results in sudden injections of cash to farmers with low levels of financial literacy, which can result in alcohol abuse and prostitution and the social consequences this brings to rural communities. In addition, recent attempts at fumigating crops have done little to support alternative agricultural activity.

### Climate change threatens agriculture

Climate change threatens rural livelihoods in Colombia, with temperature rises predicted at between 2° and 4°C by 2070 and certain regions may see their rainfall reduced by up to 30%. Intensive monocultures such as banana and palm oil plantations exacerbate this situation, particularly as both crops require high water inputs. In addition an intensive use of chemical pesticides increases soil aridity and destroys biodiversity. Integrated agro-forestry systems of cacao mixed with fruit tree species provide a sustainable production system that is more resilient to the threat of increased drought and higher temperatures.

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<sup>1</sup> <http://data.worldbank.org/>

<sup>2</sup> <http://data.worldbank.org/indicator/SL.AGR.EMPL.ZS>

<sup>3</sup> <http://data.worldbank.org/indicator/NV.AGR.TOTL.ZS/countries>

### 3. Solution and Social Impact

Cacao de Colombia is a private limited company that provides technical assistance and training in sustainable farming practices to smallholder cacao farmers to improve the quality and output of their land and ensure a fair market price for their crop. The company purchases wet cacao directly from local growers at premium prices, produces world class chocolate and sells this on international markets thus transferring the profits back to the farmers.

Although Colombia hosts many native species of cacao and the production has been an age old tradition of the indigenous communities of the country to date it is a very underdeveloped sector, until recently unknown on international markets unlike its neighbors Ecuador which produces 200,000 tons, the Dominican Republic 64,000, Peru, 26,000 and Venezuela 20,000. Production in Colombia tends to be for low quality chocolate, with farmers receiving a low price for their product.

#### Putting Colombian chocolate on the map

Cacao de Colombia is the first Colombian company to produce premium, world class chocolate in Colombia, and therefore be able to offer a higher wage to farmers. By working closely with the farmers and local cooperatives the company is able to source the highest quality beans, and transform the cacao value chain into a competitive economic activity offering a viable alternative to banana, palm oil and other intensive monocultures. Cacao de Colombia has won prestigious international awards for its high quality chocolate.

*“Colombia has the potential to transform its cacao industry into one that can compete in international markets while at the same time transform the lives of thousands of cacao-growing families along the way. (...) innovative companies in the agricultural sector like ours can play a key role in helping achieve sustainable peace and prosperity in our country,”* says Cacao de Colombia’s Founder and CEO, Carlos Ignacio Velasco.

Cacao de Colombia trains farmers and cooperatives in four different regions of Colombia; Tumaco, Sierra Nevada, Santander Mountain Region and the Catumbo Valley. In each region the company buys the fresh cacao directly from the producers, which is then processed in fermenting stations across the country. Once the beans are dried they are transported to a centralized factory to be processed and packaged into a high quality chocolate, ready for export to international markets.

#### Social impact

Cacao de Colombia claims to have had a positive impact on the lives of 4,700 poor farmers and indigenous families across the country, employs 15 people and is already producing 10 tons of cacao per year. With the new factory currently being built, by the end of August 2016 will have the capacity to produce 120 tones per year. As the first fine chocolate producer in Colombia with an emphasis on strong community development and higher prices for farmers, the company has also managed to put Colombia on the world’s premium chocolate map, a great boost to the sector as a whole.



## 4. The Social Entrepreneur



Carlos Ignacio Velasco is the founder and CEO of Cacao de Colombia and works closely alongside his Japanese co-founder Mayumi Ogata, chocolate connoisseur and researcher.

Before starting to work in the cacao industry Carlos Ignacio had 12 years experience in the coffee sector in Colombia. He

worked for the National Federation of Coffee Producers (in Spanish *Federación Nacional de Cafeteros*) from 1997 and was responsible for innovation, outreach to farmers and the democratic structure of the organization. His experience gave him an in depth understanding of what is needed for a productive sector to flourish.

Coffee is not a native species to Colombia and was brought to the country from Ethiopia in the 19<sup>th</sup> Century, however cacao has been grown in Colombia since pre-Hispanic times. Carlos Ignacio was inspired by the idea of transferring the knowledge acquired from the last 100 years in the coffee industry to cacao and compressing this process into a decade. He was also motivated by the idea that Colombian cacao was still not recognized internationally, despite its huge potential. Although native to Colombia and therefore a species with huge diversity, most cacao being produced was of low quality and sold at a low price. If managed correctly, Carlos Ignacio recognized that this crop offered huge potential for economic development in poor marginalized rural areas, and was a potential development aid for those affected by the conflict.

Whilst living in Japan, Carlos Ignacio met Mayumi Ogata, a well-known expert in the elaboration of fine premium chocolate and together they decided to set up Cacao de Colombia. Carlos and Mayumi returned to Colombia and soon met Guillermo Cadena, who had 35 years experience working directly with cacao farmers across the country. Carlos, Mayumi and Guillermo became the founding team of Cacao de Colombia and with their multi-disciplinary and complementary talents created the new company in 2009.

Carlos Ignacio recognizes the value of cacao not only in terms of economic development, but also as an important part of Colombian heritage, *“During the process of colonization, the people of Tayrona (Santa Marta region) stopped producing cacao, which had been up to that point an important part of the Latin American communities, and was used as both a drink and a form of currency. Today the communities in this area want to preserve cacao, as it is an important part of their culture.”*

## 5. Business Model

### 5.1 Characteristics

Cacao de Colombia produces a range of high quality chocolates and pays a premium price to the small-scale cacao producers and cooperatives from the poorest regions of Colombia, and in some cases from communities who have been displaced as a result of the country's only recently ended conflict. It is one of the first Colombian chocolate companies to penetrate the fine chocolate market, 70% of the chocolate produced (approximately 7 tons) is sold to clients in Japan and the remainder to different European countries with a small percentage sold in Colombia.

The company selects individual cacao farmers who have the capacity to produce high quality cacao on their land and are willing to engage in a long-term training and development process to ensure that they are able to produce the finest cacao in optimum conditions. Guillermo who visits the producers on an individual basis carries out this selection process. The training includes a range of sustainable production techniques that help support a resilient system, including water-efficient watering, correct pruning, agro-forestry techniques with other fruit crops which ensures the right shade conditions for the cacao as well as providing a supplementary income and source of food for the producers. Farmers also learn about how to identify the more rare species of cacao, such as white cacao, which is becoming an endangered species in the Sierra Nevada region in the North of Colombia. A key part of the training is to involve the women and young people in the communities, ensuring that the tradition of cacao farming is passed on to future generations. Cacao de Colombia's long-term vision is to create a Cacao School. For some of the farmers cacao planting is a new crop system as they convert from previous monocultures, such as banana or palm oil plantations.

#### Efficient production process

Carlos Ignacio has transferred his knowledge from the coffee industry to the cacao sector and combined with the on-the-ground expertise of Guillermo, the team have been able to generate a sense of trust with small-scale farmers to work exclusively for the company. Cacao de Colombia has 15 permanent employees, with four in the factory in Popayán, three in administration and one sales manager. The remainder work in the fermentation units located in the four regions where the company operates. One of the fermentation units in the Sierra Nevada is owned by Cacao de Colombia and the remainder are rented sites, 3 in Tumaco, 1 Arauca and 2 in Sierra Nevada. The production process is described in Table 1.

**Table 1. Cacao de Colombia's chocolate production process**

| Step         | Details   |
|--------------|---|
| 1. Harvest   | Every 15 days farmers harvest the cacao and separate the different varieties to ensure that each batch is comprised of a single species. The fruit is cut open and the wet cacao beans are delivered in plastic drums to the company who hire vehicles to drive to each farm and collect the fresh product. |
| Fermentation | Fermentation units across the country   |

|                        |  |
|------------------------|--|
| 2. Fermentation        | 6 days of fermentation in wooden boxes. Beans are moved from one box to another every day to stimulate the fermentation process.                                   |
| 3. Drying              | 6 days of drying in sunlight either in a special drying area of the fermentation unit or a drying machine if there is no sun. Beans lose 92% of their humidity.    |
| 4. Separation          | Manually the larger beans are separated from the smaller beans, so that all beans to be processed are of uniform size. The smaller beans are used for animal feed. |
| 5. Packing             | Beans are weighed into 50kg bags and sent to the central factory.  |
| Production             | Central processing factory in Popayan  |
| 6. Roasting            | Beans are roasted in an oven at 95-120 degrees centigrade.   |
| 7. Shelling            | The outer husk is shaken off to leave the naked bean for grinding.   |
| 8. Grinding            | Beans are ground to form a consistent oily paste.  |
| 9. Heating and cooling | The paste is heated and cooled several times to specific temperatures to achieve a consistent, smooth texture.   |
| 10. Packaging          | Liquid chocolate is poured into molds, packaged and ready for sale.  |

Cacao de Colombia's innovation in the production process is the centralization of the fermentation and drying process. Usually cacao producers sell their beans already fermented and dried, however this means that the quality of the beans can differ enormously between producers. Additionally there is also a risk for the farmers that during the fermentation and drying time their product is stolen. Cacao de Colombia's system of centralizing the fermentation and drying process means that farmers can focus purely on their production systems and quality can be maintained across producers.

### Cacao Hunters Products

The company takes great care in preserving the different varieties of cacao that exist in Colombia and has taken on the challenge to find, preserve and promote the commercial production of the different varieties. Each variety goes through fermentation and drying tests to determine the ideal post-harvest conditions to bring about the optimal flavors and aromas unique to each variety. The cultivars that meet the high quality standards are preserved in germ plasma bank for future commercial production. Cacao Hunters is the brand that the company has developed to transmit this search for the purest forms of chocolate, and the products currently marketed are described in Table 2.

**Table 2. Cacao Hunter products**

| <b>Product name (% of cacao)</b> | <b>Product description</b>   |
|----------------------------------|--|
| Sierra Nevada 64%                | <i>This chocolate is the sweetest product with the fruity flavors that the tropical vegetation and the Caribbean breeze give the cacao from the Sierra Nevada region.</i>  |
| Arauca 72%                       | <i>Named after the Aruaco people who live near the border between Colombia and Venezuela, a heartland of an unimaginable variety of landscapes and climates giving the Arauca it's sweet aroma. Also a version Arauca 70% produced in a smaller batch.</i> |

|                         |  |
|-------------------------|--|
| Sierra Nevada Leche 52% | <i>The legendary magical land between Aracataca to the Sierra Nevada is Colombia's heartland of cacao, blessed with a sweet and unique aroma of red berries and honey.</i> |
| Tumaco 70%              | <i>The Tumaco cacao is known as the pearl of the Pacific, whose incredible diversity gives this chocolate a strong nutty and wood-like flavor.</i>                         |

The Cacao Hunters brand is targeted at the high end of the fine chocolate market. Each 28g bar is specially packaged with information about the region where it has been produced as well as the indigenous communities involved, and several international chocolate experts have recognized the chocolate. Aruaco 72% is winner of 4 Gold Awards from the International Chocolate Award and has been described by chef Harry Sasson as “a bitter chocolate with a fresh aromatic flavor, very balanced on the tongue with hints of citric and aromatic flavors and a high percentage of cacao.” Arauca 70% won the silver award in the category of best chocolate produced in a small batch.

## 5.2 Fee structure or pricing model

Cacao de Colombia pays farmers 52% more than regular cacao buyers, paying 1 USD per kg of wet unfermented cacao. For the average small producer this can mean a monthly income of 1,200 USD, significantly higher than their previous income on a regular market, with the added advantage of not having to ferment and dry the beans. Cacao Hunters sells at a high price on international markets, enabling the company both to pay a premium to the producers and make a profit.

## 5.3 Target beneficiaries

Cacao de Colombia's target beneficiaries are on one hand small scale farmers across Colombia who have been displaced by the conflict having to abandon their land, or have been under pressure from banana and palm oil companies to sell their land or grow unsustainable cash crops and in some cases under pressure to grow coca. On the other hand, the company works with indigenous communities who have had a traditional culture of growing cacao, which has in some cases been preserved, and in some cases not.

The regions where Cacao de Colombia currently works are described below and the uniqueness and character of each region is a key element in the added value of the product. The long-term vision is to build up the sector in further regions across the country where the conditions are favorable for cacao.

**Table 3. Cacao Hunters regions**

|                      |   |
|----------------------|---|
| <b>Tumaco region</b> | <i>“The Pearl of the Pacific” known for its exotic landscapes, natural beauty and heavy rainfall. The geography is mainly flat with slight valleys that harbor lush jungles and mangroves. Its economy is primarily based on mining, fishing, cattle ranching and farming, with cacao leading as one of the most important crops. Farmers in the Tumaco region have always had a special dedication to and love for cacao as a cultural heritage. Sitting on the border with Ecuador, traditional varieties grown in these regions are closely related.</i> |
|----------------------|---|

|                                  |  |
|----------------------------------|--|
| <b>Sierra Nevada</b>             | <i>The Sierra Nevada is a mountain range completely isolated from the Andes. With majestic peaks soaring up to 5.775 meters, this is the world's highest coastal range and the cradle of six distinct indigenous cultures. Its fertile valleys, nurtured by pristine rivers and tropical trade winds, and the caring hands of settlers and indigenous growers give birth to one of the best Colombian cacaos.</i>  |
| <b>Santander Mountain region</b> | <i>Blessed with a complex topography as diverse as the crops and climates. Today's agrarian tradition was inherited from the Yariguí, Guanes and Chitareros tribes who settled this region and predominantly cultivated cacao. Santander's diversity offers old and new cacaos, clones of universal hybrids, and natural hybrids resulting from crosses and backcrosses. These varieties have been distributed across the region by more than 1,000 family producers, who preserve age-old traditions.</i> |
| <b>Catumbo Valley</b>            | <i>Located between Venezuela and Colombia, an ancestral territory home to more than 20 indigenous communities that offers a rich variety of landscapes, climates and countless coal and petroleum reserves. This region's 200,000 farmers have found in cacao a silent companion that contributed to their development. This region's cacao consists of vast quantities of genetic material that contributes to its unique flavor.</i>   |

Source. [www.cacaohunters.com](http://www.cacaohunters.com)

## 6. Social and Financial Performance

### 6.1 Social Impact Performance

#### 6.1.1 Social impact achieved

A total of 4,700 lives have been positively impacted in four regions across Colombia. This figure includes the producers and their immediate families. The company works in areas where there has been a history of conflict and is helping small farmers recover and regenerate their land while providing a viable economic activity that is also environmentally more sustainable than the monocultures of banana and palm oil. Cacao de Colombia also provides an alternative to farmers who were previously growing coca, and in some cases the company has been able to work closely with these farmers to support the transition from the illicit crop to cacao. Significantly Cacao de Colombia produces the final product in Colombia, breaking away from the mold of the North-South divide of the chocolate sector, which usually involves exporting raw beans and adding value to the raw product in Europe or North America. Cacao de Colombia adds value locally through the factory in Popayán and generates local employment with 15 permanent staff.

#### Capacity building and local production

Training farmers in sustainable cacao practice is key to the business and the company ensures there is a focus on women's participation. Pest control, species identification, disease prevention and research around climate resistant crops are among the areas taught.

#### Positive impact on livelihoods

William is one of Cacao de Colombia's producers, who with his three brothers share 10 hectares of land, which they had to abandon during the conflict. On return to their land the brothers had a banana crop, which was entirely destroyed during a flood. At this point they met Guillermo from Cacao de Colombia and discovered the value of cacao mixed with high value fruit crops, such as sapote, mango, plantain and banana to have a steady source of income all year round. The farm currently has 22 different products to sell and William and his brothers earn around 1,200 USD per month from their cacao. William comments; *"I used to grow just bananas but the whole crop was destroyed some years back in a big storm. At this point I realized it was not sustainable to grow a single crop and I started planting fruit trees and cacao."*

Cacao de Colombia also works with farmers belonging to cooperative associations, which helps to rebuild the social fabric in communities by establishing trust and providing a viable crop alternative that are not reliant on conflict or the illegal drug trade.

#### Rediscovering traditions

Another producer for Cacao de Colombia, and leader of the Arauco people, Camilo Villafaña, explains that cacao has been a source of energy and has an important cultural value for the indigenous people of the Sierra Nevada. *"For many years we had forgotten it's importance, and*

it seems like we are now recovering our traditions, thanks to the support from USAID and Cacao Hunters, who have carried out studies on how to best produce cacao,” he affirms. Carlos Ignacio reaffirms the company’s desire to preserve this heritage, “It’s been a trust building exercise, we have gained an invaluable trust and we have great respect for this. In the end our interest is to be able to preserve this genetic richness and support communities like the Aruaco to preserve their cacao.”<sup>4</sup>

### 6.1.2 Social impact measurement

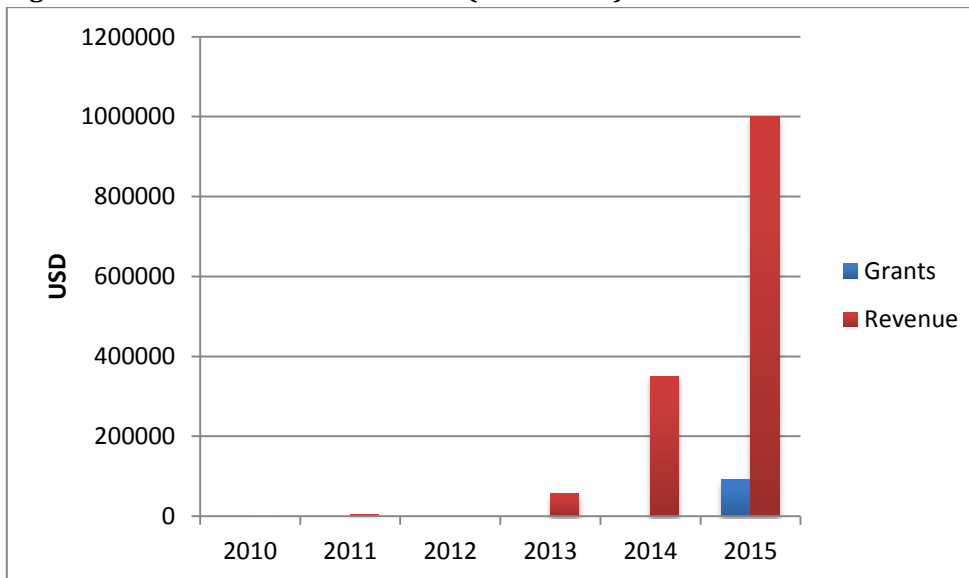
Cacao de Colombia currently measures their social impact with global estimates of how many farmers and families have been positively impacted through their work.

## 6.2 Financial Performance

### 6.2.1 Revenue and Expenses

Cacao de Colombia currently produces 10 tons of cacao per year and in 2015 reached its first 1 million USD in sales with a profit margin of 27%. The company has shown exponential growth since 2013 and broke even in 2014. In 2015 Cacao de Colombia signed an agreement for a 1.15 million USD investment with Acumen as part of a larger fund of 4 million USD created by USAID. By 2017 the company hopes to be achieving annual revenues of 3 million USD.

**Figure 1. Cacao de Colombia Revenue (2010-2015)**



### 6.2.2 Proportion of Income from Sales

In 2015 the company received 91,430 USD as a grant, for the prize for Entrepreneurship for Peace (in Spanish *Emprendimiento para la Paz*), which is supported by the Swedish government’s international development agency and German government’s international

<sup>4</sup> <http://www.semana.com/cultura/articulo/el-chocolate-de-los-indigenas-arhuacos/427312-3>

development agency (GIZ). Aside from the grant in 2015 Cacao de Colombia has received all revenue from sales and in 2015 the company received its first significant capital investment from Acumen to expand the production facilities.



## 7. Business Development and Ecosystem Evolution

Since registering as a limited company in 2009 in less than 7 years Cacao de Colombia has reached 1 million USD in sales and had a positive impact on 4,700 lives. There have been three key stages to the development of this social enterprise; the StartUp phase (2008 to 2010), the Early Growth Stage (2011 to 2014) and in 2015 the company began a stage of growth with the fruits of the company’s positioning Colombia on the world chocolate market starting to show.

**Table 5. Summary of Cacao de Colombia’s business development milestones**

| Stage    | Month/<br>Year | Description  |
|----------|----------------|--|
| Start-up | 2008           | Carlos Ignacio invited Mayumi Ogata and Guillermo Cadena to join the team.   |
|          | 2009           | Cacao de Colombia registered as a private limited company.   |
|          | 2010           | Started engaging with local producers across Colombia and received donations to start building a fermentation unit.  |
| Early    | 2011           | First cacao producers contracted and production started.   |
|          | 2012           | Cacao Hunters Brand launched in Bogotá.  |
|          | 2013           | International chocolate companies promoted Cacao de Colombia (Barry Callebaut AG Ferrero SPA).   |
| Growth   | 2014           | Participated in World Chocolate Fair in Paris, opened up new european clients.   |
|          | 2015           | Received grant of 92,430 USD from the Enterprises for Peace Fund to build the first Cacao School “Macondo,” with support from the German and Swedish development agencies. Won 5 international awards at the International Chocolate Awards, London. Signed investment agreement for 1.15 million USD with Acumen. Launched Aruaco 72% in Harry Sasson’s exclusive restaurant in Bogotá. |
|          | 2016           | Showcased at World Chocolate Fair in Tokyo.  |

### 7.1 Startup Stage (2008 - 2010)

#### 7.1.1 Milestones

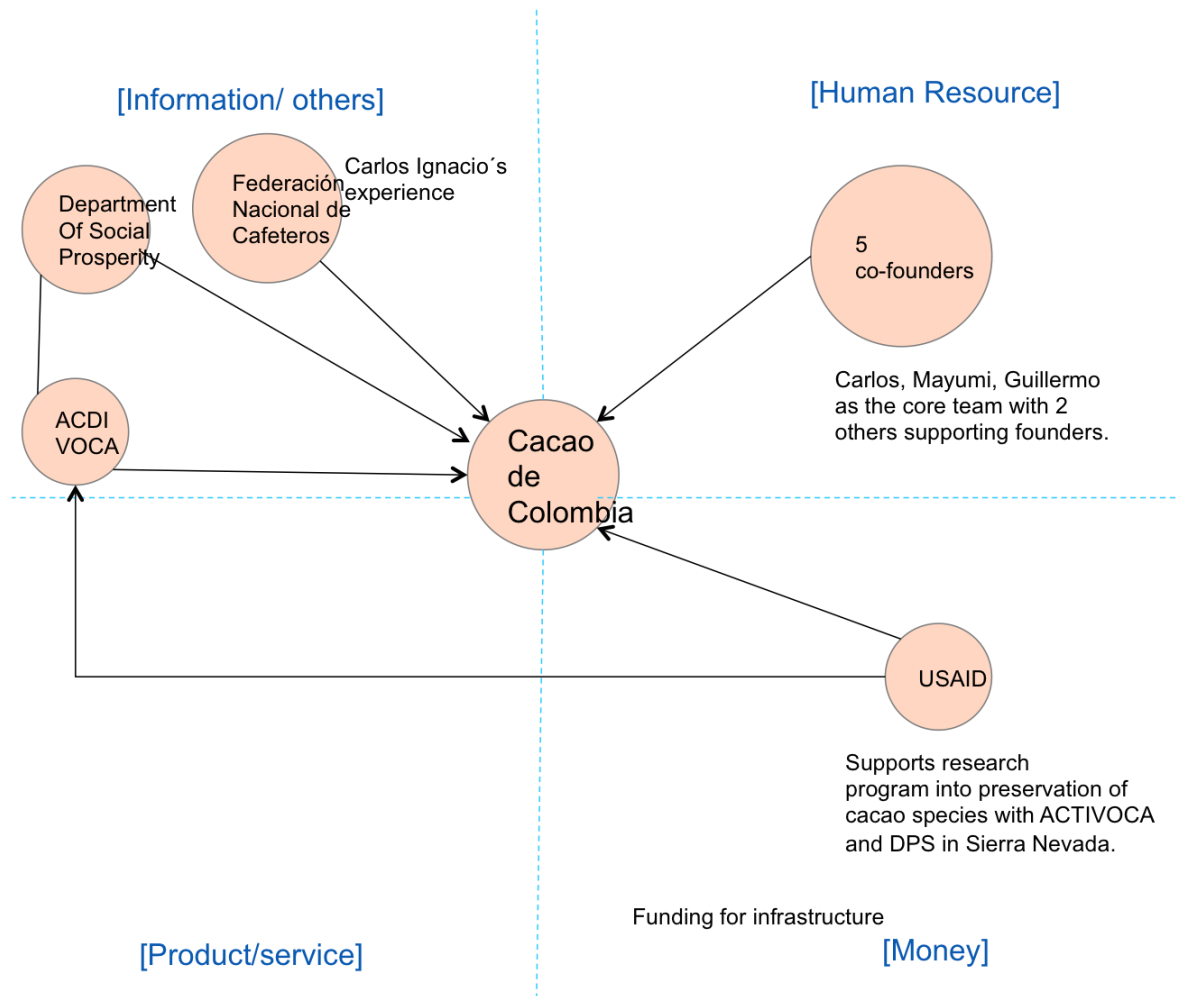
Carlos Ignacio’s 12 years of experience in the coffee sector inspired him to seek other products that could see similar growth across the country. He discovered the market potential of cacao, with increasing world market prices as current demand exceeds supply and coupled with his home country’s excellent climatic conditions and long-standing history of cacao he decided to develop a business idea around high quality cacao that takes into consideration the social, environmental and economic conditions of the farmers. Carlos Ignacio met Mayumi in Japan, who is a well-known chocolate connoisseur and motivated her to join the business. The team was then completed with Guillermo Cadena with his complementary skill of cacao production on the ground and 35 years’ of experience working closely with small-scale farmers across the country.

The company was registered in 2009 and in 2010 began participation in the USAID funded “Colombia – Afro-Colombian and Indigenous Program”, to improve the social status and increase the incomes of Afro-Colombian and indigenous people. This paid for the team to deliver training to small-scale producers in cacao production on the conservation of different

species of cacao, and in particular the rare white cacao as an important cultural heritage of the Arauco people. This program was delivered in collaboration with the Department for Social Prosperity and the Colombian NGO ACDI VOCA. In the same year Guillermo started engagement with the different small-scale producers to initiate training and production for the company.

### 7.1.2 Key supporters

**Figure 2. Cacao de Colombia Startup Stage Key Supporters**



## 7.2 Early stage (2011 - 2013)

### 7.2.1 Milestones

During this early stage of the business Cacao de Colombia started production in a temporary fermentation center in the Sierra Nevada in a hired space from the forestry commission. This period was tough for the company as resources are limited. Guillermo, who was responsible for visiting the farmers, had no vehicle at this time and moved between farms on public

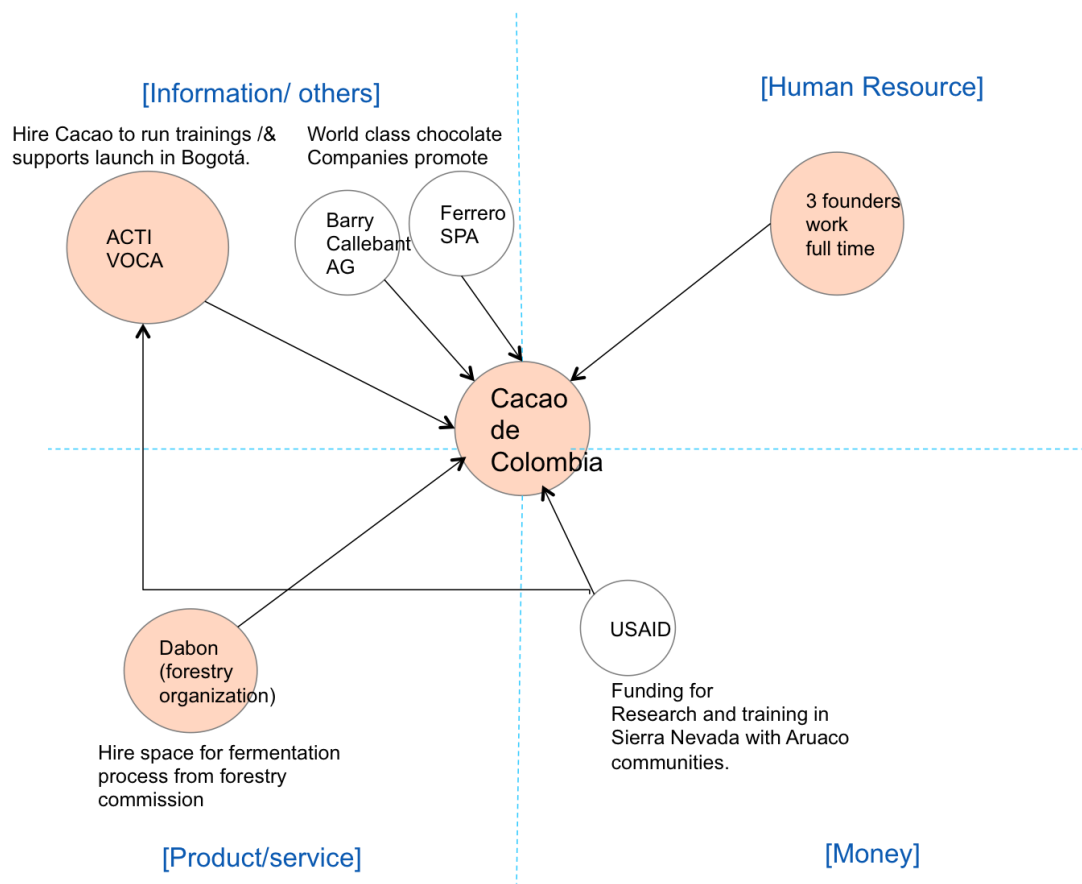
transport, often with long hours and considerable distances between remote producers. When the cacao was due to be harvested, vehicles were hired on an ad-hoc basis.

USAID continued to support the work with the Aruaco in the Sierra Nevada area in collaboration with the NGO ACTIVOCA, which in practical terms means that Cacao de Colombia was hired to run trainings for cacao farmers. Additional income during this time included technical consultancy for other cacao producers, now that the team’s expertise was starting to become recognized and as the cacao sector slowly started to develop in Colombia Guillermo, Carlos Ignacio and Mayumi were called on to provide either fieldwork or laboratory work.

Despite limited resources production began and in 2012 the Cacao Hunters brand was launched in Bogotá, with in-kind support from ACTIVOCA for the promotion of the event. Mayumi started engagement with top chocolate brands internationally and the Swiss based company Barry Callebaut AG promoted the company as does Ferrero SPA the Italian manufacturer of fine chocolate.

### 7.2.2 Key supporters

**Figure 3. Cacao de Colombia Early Stage Key Supporters**



## 7.3 First growth stage (2014 – 2016)

### 7.3.1 Milestones

2014 was a key year for Cacao de Colombia as the company showcased the Cacao Hunters brand at the renowned international chocolate fair in Paris. Cacao de Colombia and other Colombian chocolate companies were supported to attend the fair by the NGO Swisscontact and the Secretary of State for Economic Affairs of Switzerland as well as the government of Colombia (the Ministry of Commerce, Industry and Tourism of Colombia and the Program for Productive Transformation). The introduction to the world's fine chocolate stage was a huge success and negotiations started with clients in France, Belgium, Holland and Luxemburg.

Cacao de Colombia also received considerable in-kind support, for example from Swiss Contact and Pro Colombia to attend the Paris Chocolate Fair in 2015. In exchange Cacao de Colombia helped the government export agency Pro Colombia with the development of the cacao value chain for the country.

In 2015 the new product Aruaco 72% was launched in the famous chef Harry Sasson's restaurant in Colombia, which gave Cacao Hunters considerable publicity. This particular product was the result of research with the Aruaco indigenous communities to recover the rare white cacao species, a hidden treasure in the Sierra Nevada. Cacao Hunters won five prizes at the International Chocolate Awards in London. Aruaco 72% won four gold awards for the best chocolate of origin, best relationship between industry and producer, best chocolatier, and best chocolate in the small batch category.

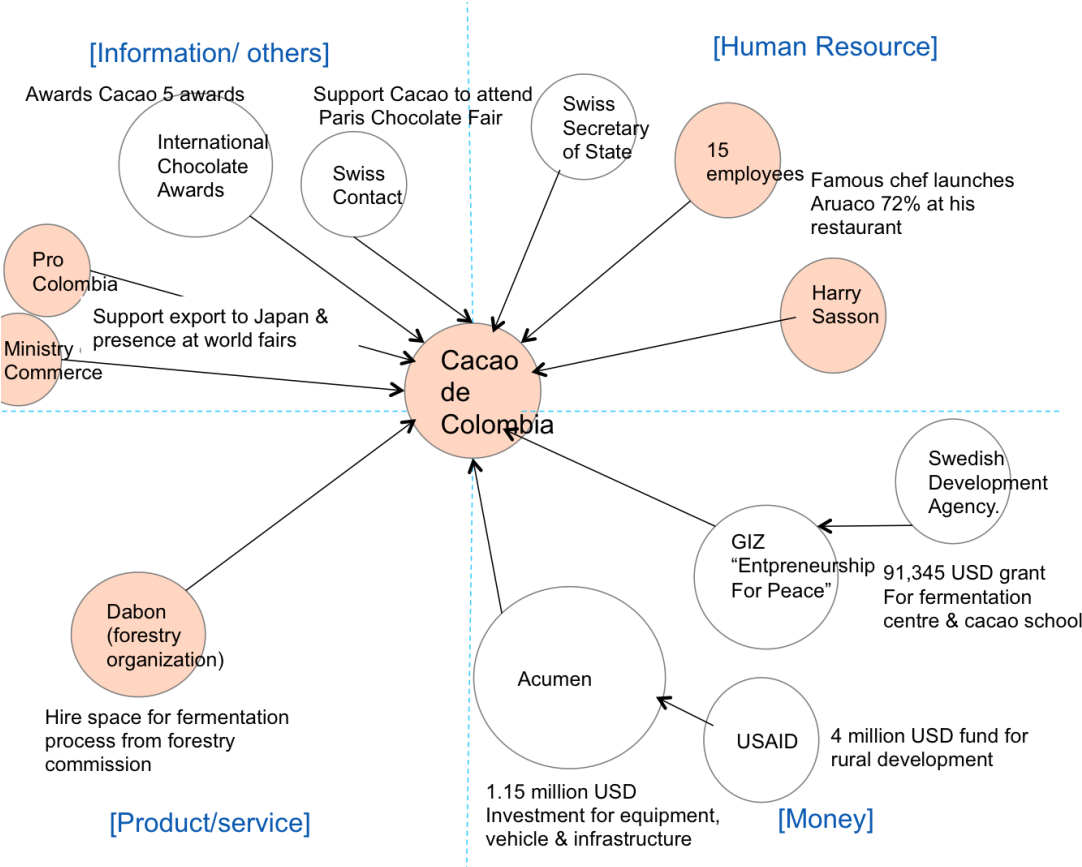
In the same year the Colombian export agency ProColombia supported the company in their export to Japan, "*Asia has huge potential for Cacao Hunters. We are managing commercial contacts in Tokyo to enter the Japanese market and we are also developing a strategy to penetrate China,*" outlined the president of ProColombia," María Claudia Lacouture. As part of a campaign to promote their products in the ever-growing Japanese market, Cacao Hunters took Hernan, one of the Aruaco tribe leaders, to be part of the team to represent the company at the 2016 Chocolate Fair in Tokyo, one of the world's largest chocolate trade shows.

At this point Cacao de Colombia received its first significant investment from Acumen which enabled it to start a new phase by investing in new machinery at the Popayán factory, a vehicle for visiting the farmers and collecting the produce as well as improvements at the first dedicated fermentation site in Magdalena. The infrastructure included a water capture and watering system for an onsite cacao production that will eventually become the "Cacao School." Acumen's investment is part of a wider joint initiative of a total of 4 million USD with USAID to support the generation of rural economic growth through private-sector investments. The fund is called the Investing for Peace fund, which directs capital and debt investments through Acumen into early-stage companies that demonstrate the capacity to have widespread impact on the country's marginalized, poor rural populations. Cacao de Colombia is the first participant in this new investment vehicle.

As well as the international acclaim reached during this stage, with revenues now reaching the first million USD, Cacao de Colombia signed a partnership agreement with the Organization of Cacao Producers in Colombia to further support the development of the sector at large.

### 7.3.2 Key supporters

Figure 4. Cacao de Colombia Growth Stage Key Supporters



## 8. Scalability and Replicability

Cacao de Colombia has huge potential for growth for several reasons. The first is the increasing demand for cocoa on the world markets. Currently there is a shortfall between demand and supply of a million tons, according to Mars Inc. and Barry Callebaut, two of the world's leading chocolate companies. This shortfall is predicted to grow to 2 million tons worldwide. This situation is exacerbated by disease to cacao, increasing drought from climate change and the displacement of cacao by more productive crops such as palm oil, bananas and rubber. This shortfall has significantly affected world cacao prices. Between 1993 and 2007, the price of cocoa averaged 1,465 USD a ton; during the subsequent six years, the average was 2,736 USD - an 87% increase over this period. Currently the Ivory Coast and Ghana are the principle producers in the world producing 700,000 tons annually.

The second favorable factor for Cacao de Colombia is the fact that the country has the ideal ecological and cultural conditions to grow cacao. Colombia is considered one of the five "mega diverse countries" in the world.<sup>5</sup> While it hosts only 0.8% of the world's landmass, it has close to 15% of the world's biodiversity, making it one of the most biodiverse countries in the world. There are multiple growing regions in the country with ideal conditions for cacao, and as it is a native species to Colombia it also hosts a rich diversity of varieties.

Currently production is expanding with recent investment in new machinery and a public tender out to build a new processing plant. Cacao de Colombia aims to impact an additional 1,300 farmers in the next five years, increasing their income from 56% to 82% more than their previous earnings. Part of the expansion plan is to further develop the activities of the "Cacao School" to build capacity amongst farmers and help support the sector as a whole.

The company is now in a strong position to start increasing its revenue as the capital investment to date for the infrastructure for fermentation and processing, has largely been funded by grants.

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<sup>5</sup> <http://www.biodiversity-day.info/2001/english/bday-colombia.html>

## 9. Final Reflections

In Cacao de Colombia's recent 7-year history there have been some significant moments for the company as highlighted below.

### Key milestones

- In 2014 the World Chocolate Fair in Paris was a key moment for the company to enter the world fine chocolate stage, and resulted in several new clients across Europe.
- In 2015 winning five International Chocolate Awards in London gave the company further prestige on the international level, boosting reputation and sales in Japan and Europe.
- In 2015 Securing an investment of 1.15 million USD from Acumen was also a crucial landmark for the company, which enables it to invest in the necessary infrastructure and equipment to be able to meet its ambitious projections for expansion.

### Challenges for growth

As the cacao industry grows (in part thanks to the pioneering position of Cacao de Colombia) a key challenge for the future will be the increasing competition from other players in the country. Already there are 2 or 3 competitors on the premium chocolate market in Colombia, who may be able to compete with Cacao de Colombia on price if they become large enough. Cacao de Colombia's challenge will be to maintain the leading position for high quality and sustainably sourced chocolate that it has achieved since 2015, by continuing to innovate and maintain the highest standards. An element of this process will be to develop a more sophisticated social impact measurement system, to demonstrate the real improvements to producer's lives, the community fabric and the environment. A final challenge will be to divert resources into the Cacao School, which is potentially a differentiating component for the company, building capacity not only amongst small farmers but raising awareness of the sustainability, rural development potential and profitability of this crop to wider audiences.

### Contribution to social innovation

As one of the first companies to produce high premium chocolate in Colombia and to achieve world-class status, Cacao de Colombia has made a significant contribution to the overall development of the cacao industry in Colombia. The company has been successful at attracting international development players to support the development of the sector. Also by locating the processing factory in Colombia the company has also set a trend that could break away from the previous North-South divide where European and US based companies simply buy raw cacao from farmers and add the value in their processing plants back in Europe, with farmers and the rest of the value chain seeing little benefit of the high premium quality products can achieve, particularly within a high demand market. Cacao de Colombia has recently joined the Federation of Cacao Producers and aims to continue to contribute to the development of the sector as a whole.