



CASE STUDY

Afro-Colombian Cocoa Farmers Form Private-Public Partnership in the Conflict-Affected Municipality of Tumaco



Since opening its doors in November 2013, Chocolate Tumaco has helped more than 5,600 small cacao farmers sell nearly 1,860 tons of locally raised cacao valued at approximately US\$5.8 million.



TUMACO AT A GLANCE Situated along Colombia's Pacific Coast near the Ecuadorian border and occupying a landmass slightly larger than that of Rhode Island, the municipality of Tumaco continues to be one of the most troubled and violent areas in Colombia. Geographically isolated and subject to pervasive illicit narcotics and guerrilla activity, the municipality's 180,000 residents, 89% of which are Afro-Colombians, are under constant threat of extortion, coerced recruitment, kidnappings, and murder. As a result, social indicators for illiteracy, poverty, homicide rates, and infant mortality in Tumaco are shockingly higher than the national average, often twice to three times over.

Moreover, since Tumaco has the unfortunate geographic advantage of being one of the few areas in Colombia where cultivation of coca and the subsequent processing and shipment of cocaine can occur simultaneously, it has been a thriving center of coca cultivation and trafficking since the early 2000s. Tumaco's geographic isolation, constant threat of guerrilla and criminal gang violence, and lack of inclusion into the national economy have left residents with very few social and economic opportunities, especially in terms of their own ability to pursue licit livelihoods that are both viable and safe.

In an effort to combat such criminality and guerrilla activity in the region, the Colombian government identified Tumaco as a priority area for its Consolidation policy, which is focused on reasserting a robust civilian state presence and creating the conditions for a sustainable state of peace and security in the area. In support of this policy, USAID launched the five-year Consolidation and Enhanced Livelihoods Initiative—North/South (CELI N/S), which has worked together with the Colombian government to build the capacity of local governments and Consejos Comunitarios (Afro-descendent collective landholdings), strengthen the social fabric, and provide economic alternatives to residents that have been affected by conflict.

CHALLENGE Given the challenges in CELI N/S's target geographic areas, one of its explicit strategic objectives has been to identify innovative ways to attract and retain private sector investment and presence in conflict affected areas. Tumaco, as one of Colombia's important areas of cacao cultivation, proved a particularly challenging case. Until 2013, Casa Luker, one of Colombia's largest cacao buyers, had been a vital economic partner for the region's 6,000+ cacao-farming families, who collectively produce 12% of annual cacao production in Colombia. However, under the persistent threat of extortion, Casa Luker decided to leave the Tumaco region, abandoning significant investments. This development resulted in a major rupture in the cacao value chain, leading prices to drop between 10% and 15% below the national average.

INTERVENTION In the wake of the vacuum created by Casa Luker's departure, USAID/Colombia through the CELI N/S program, sought to support a sustainable, community led mechanism that would stabilize prices for cacao beans and to secure a reliable, long-term partner to buy and market the region's production. After discussing several options, it was decided that USAID would intervene by helping to establish a marketing consortium named Chocolate Tumaco that would bring together the various Consejo Comunitarios that are the political and social anchors in the region. It is important to note that beyond the urban core of Tumaco, the majority of the rural population live in Afro-Colombian collective landholdings, or Consejos Comunitarios in Spanish. These landholdings are legally recognized by the Colombian constitution, and are independent political/social structures that administer public and private resources on behalf of the Afro-descendent community.



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To ensure the continuity of large-scale cacao operations, USAID/Colombia then brokered a multifaceted agreement between Chocolate Tumaco and Casa Luker that included the leasing of Casa Luker's abandoned warehouse and its operations equipment. Casa Luker also agreed to purchase up to 70% of the consortium's cacao production based on standard international prices, and to provide Tumaco's cacao farmers with weekly sales advances, which have totaled more than US\$4 million since November 2013. Additionally, CELI N/S provided a US\$200,000 grant to build the organizational capacity of the fledgling marketing consortium, to provide technical assistance for increased production of aromatic cacao, and to develop concrete business proposals aimed at improving national market linkages and meeting the standards for international export.

After nearly two years, Chocolate Tumaco has helped more than 5,600 small producers market 1,860 tons of cacao valued at US\$5.8 million to national and international buyers and has exported four times to international buyers in Spain and Holland. Additionally, Chocolate Tumaco's business practice to set cacao prices based on the international market rate helped stabilize regional cacao prices and lead to price matches by competitors, contributing to better prices for the region's cacao producers.

APPROACH TO COLLABORATION It was clear from the start that a lack of trust among the various interested parties would be a tremendous obstacle to the future success of the marketing consortium. Casa Luker wanted to receive assurances that the financing that it was providing was not being misappropriated and was, indeed, being used towards the cultivation of cacao. On the other hand, the various Consejos Comunitarios were equally apprehensive about entering into a business venture with other Consejos and producer groups.

In order to respond to the lack of trust between parties, CELI N/S viewed its role as an honest broker supporting three main objectives: (1) neutrality between parties, (2) independence from making business decisions, and (3) knowledge about the cacao value chain. To this end, the project led a year-long collaborative planning process that defined internal regulations and mechanisms that would ensure transparency for all parties and trained Chocolate Tumaco's staff on using robust accounting and control systems. CELI N/S also secured two non-voting seats on the board in order to ensure that the project could continue to serve as an honest broker and observe the management of the organization.

LESSONS LEARNED Faced with the choice of whether to structure the marketing consortium as a non-profit association or a business enterprise, it was decided that the former would best align with producers' needs. Since the member Consejo Comunitarios are organizations centered around a social mission rather than an economic objective, it was thought that they would be better able to administer the new marketing consortium as a non-profit. More specifically, the structure associated with a non-profit organization provided member organizations with the quickest way to learn about efficient business operations and contribute toward building a productive business climate. Also CELI N/S's due diligence of the regulatory environment concluded that it would take months if not years to properly structure the consortium as a business enterprise, which furthermore had the potential to create rivalries and jealousy between the members as well as opportunities for corruption. While this decision was ultimately the most effective from the standpoint of organizational governance and long-term sustainability, Chocolate Tumaco's unanticipated success would later present an interesting dilemma.

Almost immediately, Chocolate Tumaco's sales quickly exceeded initial expectations leading to a substantial net profit. As a non-profit organization that is legally prohibited from distributing dividends, CELI N/S and Chocolate Tumaco were faced with a decision about how to ensure the organization would maintain its non-profit status. After extensive consultations with the members, it was decided that Chocolate Tumaco would create a foundation, which would be the sole beneficiary of all profits realized from its operations. As a result, Foundation Chocolate Tumaco was created in November 2014 with the objective of reinvesting Chocolate Tumaco's gains back into the community.



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All that remained was to define how the foundation would invest its resources, a goal that proved far more complicated than initially thought. The possibilities included devising a formula to proportionally divide the value of investment projects among the member Consejo Comunitarios and associations based on their sales. This approach had the benefit of reducing the potential for rivalries among the members and ensuring that each member organization received its fair share. Another possibility was to set up a competitive grant model where the foundation would fund projects in response to proposals submitted by community members. Given these options, the executive board decided to adopt three distinct funding models: (1) technical assistance to small farmers, (2) financing small social projects based on community needs, and (3) a fund to provide access to micro-credits.

With a year remaining in CELI N/S's project life, the founding members of Chocolate Tumaco and its foundation are interested in continuing to incorporate an honest broker as an integral member of the organization. This will ensure that grant decisions are made fairly and that funds are responsibly and transparently spent. To meet this need, CELI N/S facilitated discussions between the foundation and a large national non-profit that would assume an advisory role on the foundation's board and the board of Chocolate Tumaco. This independent presence on the board will ensure that Chocolate Tumaco and its foundation are set up for success in the years after CELI N/S closes.

CONCLUSION The fortuitous collaboration between USAID/Colombia, Chocolate Tumaco, the municipality of Tumaco, and its Afro-descendent cacao-producing communities has turned an otherwise calamitous situation into a flourishing opportunity. Rural farmers now have more leverage with buyers and are able to negotiate more equitable prices for their products, and also have the support that is needed to access new national and international markets. Additionally, this initiative has improved the relationship between small farmers, the private sector, and the public sector, including municipal government. One cacao bean at a time, these farmers are defining better transaction terms with buyers and accessing the investments they need to increase productivity and revenues.

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