



Patient capital for rural development

Acumen's Fondo Pionero and Cacao Hunters

Fondo Pionero philanthropic and patient capital fund enables it to make high-risk investments. Cacao de Colombia is an example of the type of organization the fund invests: business models that aim to have a high social impact on communities affected by the armed conflict while achieving financial sustainability.

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LOCATION:

National

Impacted territories:

- Popayán (processing plant)
- Sierra Nevada de Santa Marta, Magdalena, Arauca, and Cauca



MAIN PARTNERS:

- USAID
- Individual donors



SECTOR:

- Financial services
- Agriculture



FINAL BENEFICIARIES:

Small cacao growers in post-conflict areas



TYPE OF INVESTOR/SILO:

Financial institutions



MOTIVATION/PROBLEM TO TACKLE:

Creating legal income opportunities (cacao) in areas affected by the armed conflict.



NON-FINANCIAL SUPPORT OFFERED:

- Governance
- Business strategy and/or model
- Impact management and measurement



DURATION:

2015

-now



SDGS ADDRESSED:



TYPE OF FINANCING:

Equity and hybrid financing

RESOURCES INVESTED:

USD 1,450,000

IMPACT:



More than

3000

final beneficiaries

Aumento del

53 -75 %

increase in the growers' net income from cacao sales



Life quality improvement for most of them

Construction of the chocolate bar production and processing plant in Popayán





BACKGROUND AND CONTEXT

After four years of negotiations, in 2016, a peace agreement was signed between the government of Colombia and the FARC.¹ Numerous challenges for the country were brought up again with this process, including the vulnerability of the rural population living in peripheral areas, their poverty, and their low level of integration with the main cities and the rest of the territory. Rural inhabitants, peasants, and indigenous and afro-descendant communities need greater opportunities to connect with the legal economy.

To achieve this, different stakeholders need to offer tools, funding, and support to local communities so that they can enter the formal market. Acumen, a non-for-profit organization founded in the United States in 2001, arrived in Colombia in 2013 to direct its Fondo Pionero efforts in that direction.

This patient capital fund is financed through donations, and it gives priority to the agricultural sector, rural areas, and vulnerable communities in areas affected by the armed conflict. It has the ability to assume long-term, high risks, focusing mainly on social and environmental impact.

The fact that this fund consists of donations allows Acumen to invest patient capital in higher-risk social businesses located in remote and unsafe areas.

"[...]the peace agreement has opened up opportunities to create businesses with a high social impact. Financers are very interested in supporting sustainable models such as Acumen's."
Jorge de Angulo, Acumen Associate Director for Latin America.

Through Fondo Pionero, Acumen invests in initiatives whose business model is driven by the inclusion of communities that usually depend on intermediaries, who offer below-market prices, or who make a living by means of illicit crops.² The latter is often seen as one of the few income alternatives—and, in some cases, the only alternative—for these communities.

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¹ Revolutionary Armed Forces of Colombia, a guerilla that acted against the Colombian State for more than fifty years and whose blocks exercised control mainly in the rural areas of the country.

² UNODC(2019)Executive Summary of *Las hectáreas de coca bajaron, pero la producción de cocaína sigue en la parte alta de la serie histórica*. Accessed at: https://www.unodc.org/documents/colombia/2020/Junio/Resumen_Ejecutivo.pdf

Cacao growers embody that reality as they only receive a small percentage of the final price of a chocolate bar. This has worsened due to falling prices over the last few years.³ Yet this market has the potential to pay higher prices for raw materials, and it “represents an opportunity to reduce poverty in post-conflict areas, as part of a broader economic development strategy.”⁴

Thus, one of these investments—Acumen’s second investment in Latin America—was made in Cacao de Colombia, a company that produces chocolate bars under the brand name Cacao Hunters. The company specializes in exports of high-end cacao produced in areas historically affected by the armed conflict (Tumaco, Arauca, and Sierra Nevada). This approach has allowed to provide local growers with new legal economic opportunities.

Acumen and the United States Agency for International Development (USAID) saw in this project the potential to make a valuable social, economic, and environmental impact that could result in an improved quality of life for these vulnerable populations.



DESCRIPTION

Through Fondo Pionero, Acumen seeks to invest patient capital in early-stage projects (six months to two years) that can produce both social and financial returns; it is also essential that they are self-sustaining. Both approaches must go hand in hand.

Cacao de Colombia has allowed small producers to get fair market prices for high-quality cacao. This has encouraged the implementation of practices with high-quality standards and positive social and environmental impact in the crops and raw-material processing.

³ Acumen (2020) Our companies, Cacao de Colombia. Accessed at: <https://acumen.org/investment/cacao-de-colombia>

⁴ Abbott, Philip et al. (2019) Análisis de la cadena productiva de cacao en Colombia. USAID Report, University of Purdue and International Center for Tropical Agriculture. Accessed at: <https://www.purdue.edu/colombia/partnerships/cacaoforpeace/docs/2019FinalCacaoReport-Spanish.pdf>

USAID has been a key partner in this case, contributing 50% of the financial capital, the remaining 50% coming from Acumen's Fondo Pionero.⁵



IMPLEMENTATION

To select its investments, Fondo Pionero performs due diligence taking into account that the social businesses it supports are aligned with its values and main goal: “to disruptively tackle the challenges of poverty and inequality.”⁶ This means social impact should not be a positive externality but part of the business strategy.

This alignment was clear in the case of Cacao de Colombia. Its theory of change showed this clearly, as it consists in going to cacao-growing communities to find cacao with trading and exporting potential, ensuring demand and setting fixed prices above-market. Thus, growers can be included in the value chain, creating a sustainable legal activity for post-conflict areas and positively have an impact on final beneficiaries—who face multiple challenges, such as a lack of infrastructure, access to good-quality services, and capital.⁷

Another criterion Cacao de Colombia met, was its market potential, which allows profit creation and, eventually, the sustainability of the business. To achieve sustainability, Fondo Pionero—made up of patient and philanthropic capital—has the flexibility to define the exit strategy on a case-by-case basis, with the possibility to extend it in the long term if necessary and the ability to take higher risk. This is highly beneficial for companies in complex contexts and in sectors like agribusiness, which due to its nature has a value chain with longer terms to obtain raw materials.



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⁵ Cooperative Agreement with USAID in the framework of the Global Development Alliance (GDA), which sets forth that for every dollar contributed, the partner or counterpart shall donate another dollar.”

⁶ Acumen's Investment Principles are available at: <https://acumen.org/investment-principles/>

⁷ Abbott, Philip (2019), op. cit.



Tailored Finance

Regardless of the financial mechanism adopted, Fondo Pionero's policy is to become a minority shareholder of the enterprises, with 25% to 45% of the shares, as this earns it a seat in the Board of Directors and the possibility to take part in strategic decision-making.

For Cacao de Colombia, Acumen adopted a hybrid finance mechanism including debt to equity convertibles notes. Furthermore, in most cases Acumen takes a position in initial and preference-share rounds.

Over time, the initial thesis of the business model was deepened and strengthened by allocating most of the investment to the construction of the factory, while the remaining percentage was used for other expenses. The production plant allowed them to make their own chocolate bars and see a rise in their purchase volume, ensuring more stable prices for the growers. And they went from buying cacao from five regions to eight.

Acumen aims to make the exit process responsible: it works to sell the shares to another actor that fulfils the same purposes as Fondo Pionero to maintain the social and environmental impact achieved among final beneficiaries. In the meantime, it remains flexible as to the financial vehicle to be applied: the secondary sale of shares to another fund, a partial or total sale of shares, or the total sale of the enterprise if so decided.



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Non-financial Support

Acumen's participation began as a minority shareholder with two seats in Cacao de Colombia's Board of Directors, given that being part of the steering body allows it to guide and support the strategy, as well as the internal governance and measurement processes. Beyond this, no change was made to the business model because, as Jorge de Angulo said, "the business model, just like the social and economic impact, were the reasons why the investment was made."

The resources provided by USAID have been used for technical support, knowledge and outreach activities, and monitoring and evaluation. However, it is Acumen or companies subcontracted by Acumen that have implemented these activities. As highlighted by Mr. de Angulo, "this support has been essential in building the internal capacity of the enterprise, strengthening its supply chain in collaboration with small farmers, and developing impact measurement systems."



RESULTS

Over the years, the company has proved to be competitive in developing outstanding products, worthy of international and national awards. Besides, its products are capable of meeting the high and fast demand of a niche market that is constantly growing. This has been seen mainly in the international market, which accounts for a considerable percentage of the sales. In fact, "in 2016, Tumaco 53% won an award in Osaka, Japan, for being the best milk-chocolate bar in the Americas and Asia; almost 900 products were evaluated for the competition."⁸

Acumen's investment has been an opportunity for Cacao de Colombia to increase its number of raw-material suppliers, with whom it maintains close relationships.

And while the enterprise had an internal measuring methodology—limited by the resources available to this end—Acumen contributed the methodology it uses in all of its projects, which provides high impact-measurement standards. For Acumen this is essential for its processes; it allows it to add value to long-term investments.

To this effect, it uses a baseline to carry out recurrent [Lean Data](#) studies and make quarterly monitoring and evaluation reports. The measurement revolves around the impact on final beneficiaries—in this case, cacao growers and the communities they belong to. The extent, depth, and evolution of poverty levels are the core aspects of this measurement; added to this is the enterprise's Lean Data study, which is conducted every 18 months on average.

⁸ Cacao Hunters (2020), De Tumaco a Japón. Accessed at: www.cacaohunters.com/blogs/news/de-tumaco-a-japon

In the case of Cacao de Colombia, the 2017 Lean Data study included a group of 100 cacao growers from Sierra Nevada, Tumaco, and Arhuacos. First, the population was characterized. According to this, 52-73% live below the poverty threshold in Colombia. On average, the families have 6 members and more than 10 years' experience with cacao and have been working with the enterprise for more than 2 years.

Considering the income generated by dry cocoa beans, the costs saved by not drying them, and the price and income generated by premium cacao, the results of the study show that by 2017, growers had achieved a 58-75% increase in net sales revenue.⁹ The findings also show that cacao represents up to half the cultivated land and is the main source of income for growers. These factors make small farmers optimistic.¹⁰

To measure the change in the quality of life, several indicators are considered, such as the differences in income with and without the enterprise that Acumen is supporting, children's increased access to education, the purchase of basic goods, and the improvement in the quality of life—including more free time for the growers and their families—among others.

Most of them have seen their quality of life improve, a little or a great deal. This is due to the reduction of costs for cacao drying and transportation, and to the higher prices paid by the enterprise or the cacao-growing association.

Apart from allowing them to access the international market, the high quality of the cacao helps these communities overcome the control exerted by intermediaries. It also allows them to be more resilient when facing drug production and trafficking, contributing to rebuilding trust and the social fabric.

Cacao de Colombia has received three International Chocolate Awards—gold in 2016 and bronze and silver in 2018. The construction of its Popayán plant became a milestone for the company and the region.

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⁹ Original quote: "Farmers earn 58-75% more net income from selling wet cacao to CDC or associations that CDC buys from than the amount they make by selling dry cacao to the market, which is their main alternative. The increment is due to savings on drying and transportation costs and higher prices given by CDC or association." (Acumen Lean Data Report, 2017).

¹⁰ Original quote: "Cacao made up half of all planted land and was one of the main sources of income for majority of farmers surveyed. 2016 was a particularly tough year for cacao farmers when weather wrecked their crop. Despite this, there was overwhelming optimism for the future and over 80% of farmers saw cacao becoming more important for their HH income next year." (Acumen Lean Data Report, 2017)

Additionally, channeling local investment resources has led to the participation of new Colombian investors.



LEARNINGS AND PERSPECTIVES

The experience that Acumen has gained since it became an investor in Cacao de Colombia five years ago has taught important lessons. One of them is related to underestimating the needs for working capital, which did not provide an entirely accurate financial and strategic model, and had an impact on cash flow.

It is also worth highlighting that the patient-capital investment model—funded, above all, by philanthropic capital like that of Fondo Pionero—represents a great opportunity for social investment in complex contexts, such as Colombia's rural and post-conflict areas—which require a long-term approach to achieve plausible results. The philanthropic essence of the capital allows, in turn, to focus on having a positive social and environmental impact on communities historically isolated from the dynamics of the formal market.

While the demand for high-quality cacao is still limited, there are opportunities to make “complementary interventions in productivity, reduced transportation costs, access to finance, technical assistance and inputs, among others, [which] could spread the gains from cacao more widely and help more farmers while, at the same time, improving the enabling environment for a more competitive and inclusive cocoa sector.”¹¹

¹¹ Abbott, Philip. Op cit., pág 53.