



# IC Fundación and Chocolate Colombia

Support and Finance for Cooperatives

**IC Fundación provides** business support and financing to help Colombian rural associations generate economic and social impact in their communities and reach the level of business development required to receive financing from the financial sector.

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## Support and Finance for Cooperatives



### LOCATION:

National - Colombia



### MAIN PARTNERS:

- UN Fondo Multidonante. Trust Fund
- Fintrac
- Fundación Aurelio Llano Posada
- ARD-Tetrattech



### DURATION:

2010

-now



### MOTIVATION/PROBLEM TO TACKLE:

Rural development, business capacity building for producer associations, financial inclusion, and competitiveness.



### FINAL BENEFICIARIES:

- Rural communities
- Associative enterprises
- Economic solidarity models



### SECTOR:

- Financial services
- Agriculture



### TYPE OF FINANCING:

Debt

### RESOURCES INVESTED OR DONATED:

Loans:

USD 1,285,000

Business support:

USD 2,000,000



### TYPE OF INVESTOR/SILO:

Foundations



### NON-FINANCIAL SUPPORT OFFERED:

- Business strategy and/or model
- Financial management
- Governance
- Operational (marketing, logistics, IT, sales, purchasing, legal)



### SDGS ADDRESSED:

### IMPACT:

Since 2013, IC Fundación has granted more than **40 associative credits** for an approximate value of

USD 1,285,000

Between 2016 and 2020 the foundation has implemented **business strengthening processes** among more than

120 associative enterprises



The associations **supported represent** more than

12,000

**small-producer families.**

In 2019 more than

2560 people

participated in **technical exercises**, training sessions, and workshops in capacity building.

The companies that received funding from IC Fundación have **multiplied by 5 the value** of their sales during the last 4 years.





## BACKGROUND AND CONTEXT

According to the National Administrative Department of Statistics of Colombia (DANE), between 2018 and 2019, monetary poverty in rural areas of Colombia was 47.5%. Despite the fact that most of the production in the countryside comes from small producers—who account for 72% of the rural population in Colombia<sup>1</sup>—, the majority of agrarian policies have focused on large producers.<sup>2</sup> In addition, although there are loans and funds offered exclusively at the rural sector and agriculture,<sup>3</sup> according to DANE only 11.1% of rural households were able to apply for one.

To address this problem, and aware of the important role that economic solidarity models can play in the economic development of disadvantaged communities, businessman Julio Carrizosa Mutis and his family created Fundación Julio y Astrida Carrizosa (IC Fundación) in 2010. This organizations seeks to improve the social and economic conditions of vulnerable families and communities by supporting the development and consolidation of associative organizations.

Initially, the foundation focused on financing associative business projects with entrepreneurial and social potential that did not have access to credit from financial institutions. Between 2014 and 2015, IC Fundación evaluated more than 86 business projects, but only five met the minimum criteria required to move to the structuring and credit disbursement phase. In view of this situation, since 2016 the foundation began to develop and implement its own capacity building model to prepare associations for accessing financing.

IC Fundación seeks to improve the social and economic conditions of vulnerable families and communities by supporting the development and consolidation of associative organizations.

<sup>1</sup> Montoya, Andrés Felipe, Peña, Ximena, y Leibovich, José (2016) Asociatividad y desarrollo rural: acceso a crédito en el sector rural. Uniandes, page 6. Accessed at: <http://search.ebscohost.com/login.aspx?direct=true&db=cat07441a&AN=cpu.729112&lang=es&site=eds-live&scope=site>.

<sup>2</sup> Estupiñán, Juan Sebastián, Gutiérrez, Catalina, Harker, Arturo, y Argüello, Luis Ricardo (2016) Alianzas productivas como mecanismo para el desarrollo de los pequeños productores agrícolas en Colombia. Uniandes.

<sup>3</sup> The core of the credit policy for agricultural producers is the National Agricultural Credit System (Sistema Nacional de Crédito Agropecuario). This scheme allows the State and private agents to offer credit to the rural sector. The system manages the funds earmarked by the State for agricultural credit through Finagro (Fondo de Financiamiento del Sector Agropecuario). These resources are available for use by banking intermediaries (banks such as Banco Agrario, Davivienda, Bancolombia, or savings and loan cooperatives) in their lines of credit. Each line of credit has different conditions and seeks to provide options for all agricultural producers.”(Montoya, 2016, 7-8.)

One of the associations that has been supported by IC Fundación is the association of coca producers located in the Nudo del Paramillo region: Chocolate Colombia. This association brings together more than 1065 cocoa-producing families from the provinces of Antioquia and Córdoba, in northeastern Colombia.

The Nudo de Paramillo region had begun to produce cocoa as a result of an illicit crop substitution process that took place between 2006 and 2007, but up to that moment the associations in the area had many economic and administrative weaknesses and, above all, difficulties marketing their products. For that reason, in 2014, eight of them got together and created Chocolate Colombia.

Chocolate Colombia turned to IC Fundación in 2015, when the possibility of exporting 12.5 tons of cocoa to Spain materialized, but they only had 60% of the resources needed. The foundation granted them a loan for the remaining 40%, and since then they have been working together.



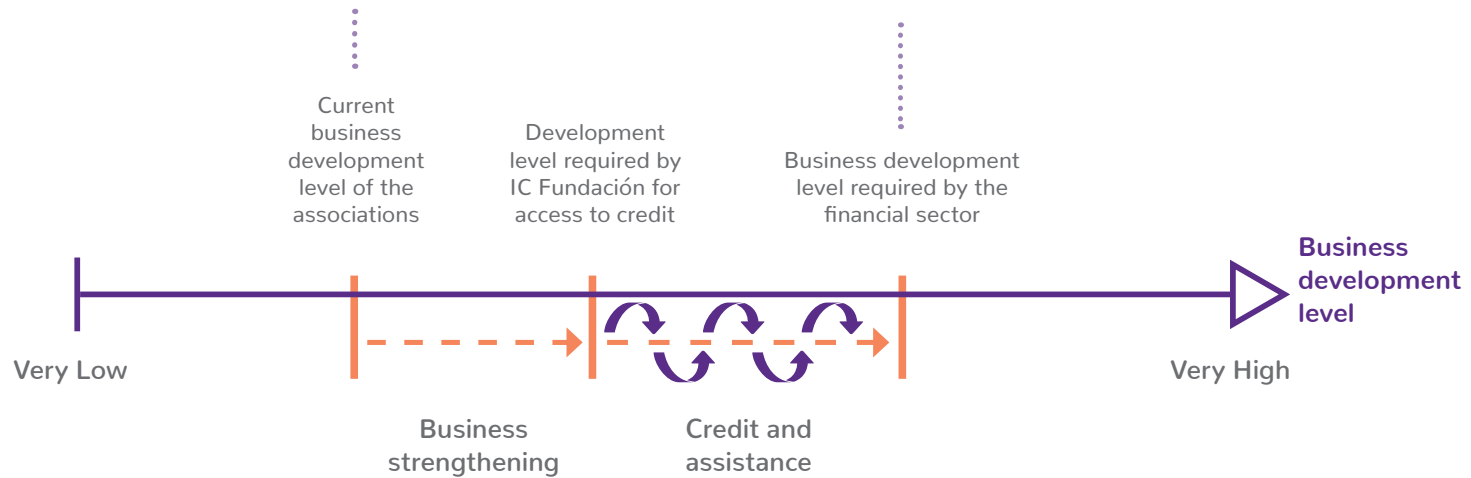
## DESCRIPTION

Since its creation, the foundation decided to focus specifically on supporting rural enterprises that implement economic solidarity models, considering that these enterprises have potential for creating a big impact on communities. Capacity building, together with loans, allow associations to begin a process that seeks the level of business development required to access the financial sector.

*"We do not seek to compete with banks. On the contrary, our goal is that, with our support, enterprises have access to credit from traditional banks." Alberto Carrizosa, founder and chair of the Board of Directors, IC Fundación.*

IC Fundación wants to develop a financial inclusion model for associative enterprises:

**Graph 1: Finance sector inclusion level**



Source: IC Fundación.



## IMPLEMENTATION

Based on applications from partners and other organizations in the private social investment ecosystem, IC Fundación begins an evaluation process consisting of two filters. The first one is to meet minimum criteria:

- Must be an organization of the solidarity sector (producer associations, cooperatives, etc.) or organizations that implement economic solidarity principles.
- Must not have received a loan from a traditional bank.
- Must have ongoing commercial activity (business ideas are not supported).

If the above is met, the associations enter a very detailed diagnostic process through which IC Fundación can learn about the potential of the business, its leaders, and the organization's capacity to take on a loan. The following aspects are considered in the diagnosis:

- ... History of the association, its motivations, and purpose of its creation.
- ... Collective leadership and impact, not for the benefit of only one person.
- ... Commercial and business oriented.
- ... Governance of the organization: the role of the leader and the Board of Directors.
- ... Financial status: not over-indebted or with legal problems, with working capital available.
- ... Associative business spirit.
- ... Documentation: accounting, legal, administrative processes, operation, etc.

During the diagnostic phase, IC Fundación uses two tools: one to measure the capacity of the enterprise (MCE) and one to measure its vulnerability. These tools are used to create the baseline to measure change after the business strengthening process.



### Non-financial support

Based on the diagnosis, the selected organizations begin a capacity building process which is implemented around five areas: administrative, managerial, commercial, productive, and organizational. Depending on the results of the diagnosis, the specific issues to be addressed for each of the capacities are defined.

The implementation of the business strengthening process can last between six and twelve months, depending on the business, the level of business development of the association, and the commitment and dedication of the leaders.

*“We really liked their methodology; what they did was to review what we had and what skills we needed in order to organize our business. IC Fundación began to strengthen Chocolate Colombia in administrative and structural matters, such as the business model. The relationship followed two paths—credit and capacity building—allowing us to be sustainable over time.”* Juan Gabriel Vargas, former legal representative, Chocolate Colombia.



During the diagnostic phase, IC Fundación uses two tools: one to measure the capacity of the enterprise (MCE) and one to measure its vulnerability.

Although the associative loans come from the foundation's own resources, a blended finance model is used to finance part of the non-financial support. To this end, it manages projects that are submitted to other national or international foundations and international cooperation agencies.

For those components in which the foundation does not have the experience or knowledge to provide the required support (when dealing with very technical or specialized aspects), it works with partners or hires external consultants or agencies for that service. The most important characteristic of the IC Fundación model is that it unites financial and non-financial support within the same strategy, adjusted according to the business development level of the supported associations.

### Tailored Finance

Once certain milestones are met, the associations move on to the credit structuring phase, tailored to each organization and its business model. Once the loan is granted, the association is expected to take between two and five years to reach the level of business development that will enable it to become eligible for loans from financial institutions, which would conclude the participation.

IC Fundación chose loans as a financial mechanism for two reasons. First, because the legal form of solidarity enterprises (associations, corporations, or cooperatives) does not allow for an equity investment. And second, because the founding family's experience in banking led them to believe that a loan can have an impact on those who really need it (always with advice provided by the foundation as part of its model).

IC Fundación takes into account three aspects for credit approval: i) the potential for growth and sustainability of the business model, ii) the existence of a strong business partner, and iii) the alignment of the association with the foundation's principles and those of economic solidarity.<sup>4</sup> When these are met and the strengthening process has been completed, the loan is defined with conditions tailored to the amount, form of repayment, possible grace periods, and disbursement modality.



**In the case of Chocolate Colombia,** the first loan was for approximately USD 10,000 to complete the capital required for the aforementioned export.

<sup>4</sup> The principles can be consulted on: <http://www.icfundacion.org/es/la-fundacion/quienes-somos>

For these loans, the foundation expects to recover capital plus interest, which is defined depending on the association's level of development—the weaker the association, the lower the interest rate. The aim of these low rates is to enable them to earn higher profits and capitalize returns more quickly.

In the case of Chocolate Colombia, the first loan was for approximately USD 10,000 to complete the capital required for the aforementioned export. Afterwards, full exports were financed, and later the credits focused on managing and operating a cocoa processing factory created in 2018. Between 2015 and 2020, IC Fundación signed 10 credit agreements with Chocolate Colombia for USD 374,000. These resources were mainly used as working capital to export cocoa beans.

For Chocolate Colombia, the interest rate applied to the loans has varied, from 0.5% to 1% nominal monthly rate, much lower than bank interest rates. The idea is that as the business grows and increases its capacity to pay the installments, the interest rate increases so that they can prepare for access to bank loans.

*“We want the associations to learn how to manage credit and consolidate their businesses (to reach the break-even point, generate profits, repay debts, capitalize) so that they can become creditworthy for financial institutions.” José Andrés Díaz, Executive Director, IC Fundación.*



## RESULTS

Measurement of results include both the capacity building and the financing processes. In the first case, the effectiveness of the transfer of administrative management tools, the change in the Measurement of Entrepreneurial Capacities (MCE), and qualitative changes that take place in the association during the implementation of the strengthening process are monitored. In the second case, the foundation follows up on credit impact indicators: increase in sales, improvement in the association's financial indicators (profitability, income, etc.), change in the producers' income, number of producers from whom the association is buying product, etc. These indicators are monitored on a monthly basis.



Specifically, for Chocolate Colombia, between 2015 and 2019 the association managed to triple its cocoa sales nationally and quintuple its exports, becoming the Colombian association with the highest levels of cocoa exports—it is not common for an association to export directly, as there are almost always intermediaries in the process. They also managed to double finished chocolate product sales between 2018 and 2019.

The expectation is that in 2022, after the strengthening and credit process, Chocolate Colombia will export at least 300 tons of fair-trade certified cocoa and 100 non-certified tons, benefiting more than 1000 producer families in areas heavily affected by the armed conflict. Additionally, the processed cocoa business line—which was launched in 2018 to produce table chocolate, chocolate bars, cocoa liquor, and chocolate cover—is expected to generate profit by the end of 2021.

According to its own evaluations, the foundation has been able to demonstrate the improvement of the associations' business capacity, with high positive-change percentages in the organizational structure, cost transparency, audits, managerial capacity, use of financial statements in meetings, operational procurement policy, budget follow-up, and successful strategic planning exercises.



## LEARNING AND PERSPECTIVES

Between 2013 and 2020 IC Fundación has implemented business strengthening processes with more than 120 producer associations and has granted credits for more than USD 1.2 million. In 2020 it worked with associations in 52 municipalities in 12 departments of Colombia, where it supported producer associations as follows: 23 cocoa, 24 coffee, 7 dairy, 4 rubber, 2 fruit, and 4 honey.

In this process, it has been very important to have a team that is aligned with and motivated by the organization's objectives and methodology, a strength that has allowed them, among other achievements, to create bonds of trust and good communication with the supported associations.

However, the exit strategy has been a challenge, as the companies that go through the process are still not seen as creditworthy by private banks. According to José Andrés Díaz, there is a void in financing

models for economic solidarity organizations in rural areas. For this reason, the foundation is very interested in establishing partnerships with financial organizations and impact funds in order to support rural associations in the country more effectively.

The aim is to develop financial vehicles or financing models that make up for the absence of this intermediate link, with higher rates than those used in the IC Fundación model. This also represents an opportunity for other actors in the private social investment ecosystem interested in playing a strategic role in social investment in Colombia.

The Foundation's agenda for the future includes the idea of creating a program to build and strengthen partnerships with other entities that implement business strengthening processes, as well as the interest in complementing the existing capacity building model, and a training program for local business leaders, (that addresses issues like generational succession in rural areas and lack of access to formal and complementary education.