



Fundación Bancolombia

New opportunities for sustainable income for rural communities

Fundación Bancolombia finances and supports Fruandes to comprehensively strengthen the organic cocoa chain in Urabá Antioquia, in order to increase producers' revenue and improve their quality of life.

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LOCATION:

Urabá Antioquia, Colombia (municipalities of San Juan de Urabá, Necoclí, San José de Urabá, Apartadó, Turbo, Chigorodó, and Mutatá).



TYPE OF INVESTOR/SILO:
Foundation



MOTIVATION/PROBLEM TO TACKLE:

Strengthen the organic cocoa and fair-trade chains in a comprehensive manner in Urabá Antioquia in order to increase producers' income and contribute to improving their quality of life.



FINAL BENEFICIARIES:

Producers that are part of cacao associations in the area.



MAIN PARTNERS:

Fruandes (operator and partner).



DURATION:
2016
-now



TYPE OF FINANCING:

Debt and hybrid mechanism

RESOURCES INVESTED OR DONATED:

USD 285,700



NON-FINANCIAL SUPPORT OFFERED:

- Impact measurement
- Financial management
- Operational (marketing, logistics, IT, sales, purchases, legal)



SECTOR:

- Financial services
- Agriculture



SDGS ADDRESSED:

IMPACT:

57.1 %

of the producers polled are at an **advanced level** in terms of quality-of-life measurement.



67.3 %

rank their use of resources as advanced, which they use to **access basic services** like food and health.

In 2020, **certifications were obtained** in Chigorodó and Apartadó for processing, commercialization, and export, while in 2019 they were only for storage.





BACKGROUND AND CONTEXT

Urabá is a strategic region in northwestern Colombia. It provides the Antioquia and Chocó departments with access to the Caribbean Sea. Its position makes it one of the most important agricultural development hubs in the country, but also one of the epicenters of the Colombian armed conflict. Illegal armed groups have taken advantage of access to the sea and land productivity, aggravating the structural social and economic issues from which the region suffers.¹

In spite of these difficulties, Urabá is especially known for its export products—such as bananas—and for having organized indigenous and Afro-Colombian communities that look for lawful economic opportunities to improve their living conditions. Additionally, growth and development potential is predicted in light of the investment in road and port infrastructure.

Fundación Bancolombia, a part of Grupo Bancolombia—one of the main stakeholders in the Colombian financial sector—decided to rethink its strategy in 2016, after the signature of the Peace Agreement between the government of Colombia and the FARC guerrilla. It made the decision to play a more active role in the fight against inequality, focusing its efforts on interventions with a rural focus.² The proposal aims at strengthening associative technical, administrative, and financial processes of rural social businesses and connecting them with added value markets.

It decided to prioritize Urabá Antioquia, which led it to implement, among other actions, a pilot to study associative models in different municipalities, where international cooperation had already been present. The model aimed at taking advantage of the development of cocoa and banana projects, mainly implemented by means of illicit crop substitution programs which did not yet have a clear connection for their commercialization.

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¹ Ortiz, Carlos Miguel (2017) "Por qué en Urabá no ha terminado la violencia". Periódico UNAL, Universidad Nacional de Colombia. Accessed at: <https://unperiodico.unal.edu.co/pages/detail/por-que-en-uraba-no-ha-terminado-la-violencia/>

² Fundación Bancolombia (2019) Revista 50 años. Punto aparte Booveritising. Accessed at: <https://fundacionbancolombia.org/wp-content/uploads/2020/05/Revista-50-anos-Fundacion-Bancolombia.pdf>

Fruandes, an agro-industrial enterprise born in 2002 after the 1990s coffee crisis,³ was looking for new organic cocoa producers in the country. Its purpose was to create added value in the cocoa chain by working with small farmers as raw material suppliers and formally employing female heads of households in vulnerable areas of the country, as the essence of its intervention model is social impact.

In 2016, Fundación Bancolombia got in touch with Fruandes and, together, they decided to start an associative strengthening project for Urabá cocoa growers. The process started focusing on technical strengthening to get Fair Trade and organic cocoa certifications. It then consolidated as a strategic in order to help them scale and export cocoa, ensuring a fair price for producers (30% above the running cost). The goal was to increase the amount of organic-cocoa certified hectares in the country.



DESCRIPTION

The objective of this project is to comprehensively strengthen the organic cocoa and fair-trade chains in Urabá Antioquia through support for the implementation of practices aimed at organic certification, in order to increase the producers' income and contribute to improving their quality of life of that of their families.

Fundación Bancolombia's sustainable rural development strategy—which implements an associative strengthening model—focused on improving the quality and productivity of Urabá cocoa growers, certifying them in fair, organic trade, improving the associations' social and business skills, and training cocoa growers and their families in financial education.

The loan granted to Fruandes focused on working capital, in order for associations to have enough liquidity to buy in full all the cocoa that met national and international technical specifications from cocoa growers, so that they could export it.

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Fundación Bancolombia's sustainable rural development strategy focused on improving the quality and productivity of Urabá cocoa growers.

³ Revista Dinero (2013) "El fin del pacto cafetero". Accessed at: <https://www.dinero.com/edicion-impresa/caratula/articulo/el-fin-del-pacto-cafetero/182429>

The Fruandes business model is in line with the foundation's objective to achieve social, environmental, and economic impact by means of opportunities to access the formal market and fair prices for raw-material producers. It is an impact model⁴ focused on the following lines of action:

- ... Creating and distributing economic, social, and environmental value throughout the supply chain, by means of good governance.
- ... Boosting suppliers' capacity and participation and contributing to their living conditions with a community development focus.
- ... Strengthening and boosting human capital.
- ... Ensuring organic production and the full life cycle for each product.
- ... Building partnerships, raising funds, and supporting social development.

Fruandes has also had the support of Fondo Inversor (*see case in this study*), which invested in the enterprise to build a new processing plant in Ibagué, a city in central Colombia close to an important group of producers. Other partners of the enterprise are: Agora Partnerships, Fundación Bolívar Davivienda, Asociación Nacional de Empresarios de Colombia (ANDI), Ceso Saco, Endeavor, Cusco International, the World Fair Trade Organization, and Business Call to Action.



IMPLEMENTATION

The project consisted of two phases. The first one started with a call for proposals for cocoa producers interested in starting an organic-certification process, supported by local institutions such as the Urabá Chamber of Commerce in the framework of the Cocoa Cluster.

Out of nearly eighty participating associations, six completed the certification process. This is because one of the selection criteria for Fundación Bancolombia was – and still is – the producers' interest

⁴ Fruandes, Modelo de Impacto. Accessed at: <https://fruan-des.com/es/impact-model>

and willingness to obtain organic cocoa, which is more significant than what is necessary to harvest conventional cocoa.

Between 2018 and 2019, follow-up was conducted on cocoa productivity, practices, impact model, organic certification, diagnosis, and the implementation of a work plan aimed at improving fermentation practices, which focuses on meeting minimum standards defined by international customers.

Likewise, organizations were supported so that they could strengthen their business, with the purpose building internal capacity to achieve a total engagement in the project.

The objective of the second phase of the project (2019-2022) is to keep up the processes to obtain the organic certification and follow up on the productivity of Turbo (Urabá Antioquia) cocoa growers.

As this phase makes the project grow, the aim is to build environmental proposals that allow to align the practices of different producers in this area.

Tailored Finance

Given that it is hard for this type of agribusinesses to get credit from private banks, the foundation granted a tailored loan to Fruandes for USD 60,000. This soft debt loan is disbursed based on harvest times, with quarterly repayment and a grace period during the 24-month term.

For the foundation, the priority of the loan was that Fruandes could export organic cocoa while purchasing from producers at fair prices. The financial return expectation is to recover capital plus interest at a 12% rate. However, the top priority is economic and social impact achieved by Fruandes.

"It was very important for us that Fruandes could make cocoa growers export at a price that was fair and valued for its quality(...)Our objective was not to get much profit, but rather to make the project work." Catalina Correa, Impact Investment Analyst, Fundación Bancolombia.



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Non-financial Support

Fundación Bancolombia provides Fruandes with direct support in terms of management, impact measurement, territorial development strategy, associative strengthening, participation in trade shows and events, such as the “Macro-rounds for the Reconciliation of Colombia”,⁵ workshops, contacts and networking; presentations for clients, guilds, clusters, partners, etc.

With a volunteer team from Banca de Inversión Bancolombia, a diagnosis was made for Fruandes and its main value generators. Based on that, recommendations were issued about the ideal financial structure. These recommendations were taken to the Fruandes Board of Directors.

Support to communities has focused on rural financial education, through its Cuentas sin Cuento program, which develops financial skills to better manage money, financially strengthen productive social businesses or projects, make informed and conscious decisions, and make progress. Indirectly, through Fruandes or another operator, support is provided around technical assistance, impact measurement, associative strengthening, leadership, and market access.

Additionally, Fundación Bancolombia has provided essential support around capacity building for the organizations that are part of the project. For example, since the initiative has changed and grown, it was necessary to restructure the financial model. To that end, volunteers from Grupo Bancolombia’s investment banking unit were recruited. In four months, they proposed a new model.

Technical and operational modifications were also necessary due to regulatory adjustments in the international market, mainly related to the levels of cadmium in cocoa.⁶ This situation influenced decisions like expanding and diversifying the market—locally and internationally—and increasing the number of cocoa suppliers, looking for adequate soil to keep on exporting to European Union countries, among others.

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⁵ These macro-rounds, led by civil society organization Reconciliación Colombia, were aimed at promoting productive projects in different regions of Colombia, bringing together different public and private actors in order to spur collective action to build peace and fuel reconciliation.

⁶ Cadmium is a metal that may be present in some land, which can be absorbed by the roots of the plants, and which ends up concentrating in cocoa beans. Given the small-scale presence of this metal in some of the crops, a detailed measurement was necessary.



RESULTS

Through the producers' organic certification, the direct impact on Fruandes was reflected on the expansion of the supplier base and the strengthening of the enterprise's value chain, as they managed to have enough raw material with the required specifications to meet the demand. Furthermore, Fundación Bancolombia's financing and support process made it possible to have a team in the field to provide its capacity and knowledge to suppliers. The loan granted to Fruandes has ensured the enterprise's liquidity and the purchase in full of organic cocoa directly from producers.

With 49 active producers in around 510 hectares, 51 plans have been designed for the organic management and fertilization of cocoa crops, implementing organic practices in crops and raising the social, environmental, and economic baseline of 51 producers. Another accomplishment was a measuring system for the organic cocoa certification program, based on Fruandes's impact model and the publication of the family development index for this project.

The 2020 result measurement highlights considerable evidence for social development stemming from the implementation of the program. 57.1% of survey respondents are at an advanced level of education and quality of life; 44.8% are at an advanced level in terms of housing. It is also worth mentioning that, of the 49 producers currently in the process of certification, 11 are women and 12 are new to the program. On the other hand, 67.3% rank their use of resources as advanced, which they use for access to basic services like food and health.

As for the agricultural economic impact, 51% of the survey respondents rank their level of productivity as intermediate; 53% consider that their income from organic cocoa production is advanced. Moreover, it can be seen that the scope of certificates in Chigorodó and Apartadó moved from exclusively storage in 2019 to also cover processing, commercialization, and exports in 2020.

While the organic certification is showing very positive progress regarding environmental impact, 65% of producers do not conduct any environmental monitoring. They acknowledge, however, the diversity of fauna and flora of their homeland. Also, only 6% are at a primary or intermediate level in terms of waste management.



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Another tangible result of the project has been the increase in the number of hectares used to grow organic cocoa in this country. With 192 hectares certified in 2019 and 154 re-certified in 2020—all of them in Urabá Antioquia—the region consolidated as the one with the largest number of certified hectares in Colombia.



LEARNINGS AND PERSPECTIVES

The organic cocoa strengthening and certification project allows us to see how financing the agricultural sector has the potential to fuel social, and not only economic development.

The work with the community, led by Fruandes, stands out—as stated by the Fundación Bancolombia team—for complementing their technical expertise with the farmers' expertise, thus building trust among the parties. The relationship with cocoa growers recognizes and values their efforts and products in a fair way. As such, one of the great moves of the project was the bilateral agreement on the price that Fruandes was to pay for the cocoa.

While there are many accomplishments, it is also evident that there is a need to have a long-term vision in order to achieve the goals and have a social impact in highly vulnerable settings. The continuity of the process is an obvious challenge. Keeping producers motivated in the face of results that are not immediate is complex in subsistence economies. The difficulty to control external factors, such as the international cadmium regulation, is proof of why it is important to build solid, profitable business foundations.

The COVID-19 pandemic has posed an additional challenge for the project. However, thanks to the nature of the debt owed by Fruandes to Fundación Bancolombia, they have been able to adapt by deferring some payments and changing certain conditions.

This program has also influenced Fundación Bancolombia's good practices as, based on operational and strategic lessons learned, it has consolidated the foundations of the En Campo program, the goal of which is to take this working model to agribusinesses in other places of the country.

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Scaling up this model has posed multiple challenges. To begin with, it has not been easy to find an enterprise with a business model and a company purpose as clear as Fruandes's. This is why a request for proposal was launched in partnership with Portafolio Verde, a sustainable development consultancy.

This new path has showed them that there are plenty of good ideas and opportunities for agribusinesses. Nonetheless, in order to start the journey that Fruandes embarked on in 2002, mature enterprises or social businesses—with clear business structures, a proven intervention model, and a defined social and environmental impact—are needed.