



LOCAL PRIVATE SECTOR PARTNERSHIP

CHOCOLATE TUMACO – COLOMBIA
IN RURAL COLOMBIA, USAID AND LOCAL
COMPANY CO-INVEST FOR A BRIGHTER FUTURE

CHOCOLATE TUMACO – COLOMBIA

IN RURAL COLOMBIA, USAID AND LOCAL COMPANY CO-INVEST FOR A BRIGHTER FUTURE

LOCAL PARTNER PROFILE:



A Colombian multinational founded in 1906, Casa Luker produces high-quality chocolate and other cocoa-derived products, coffee and processed fruit, and selected household products. Casa Luker began as a family-owned enterprise and remains a privately-held company, employing more than 1,000 people in Colombia. The company has 15 locations throughout Colombia, including four production facilities and a cocoa research center, production facilities in Panama and several overseas offices. As of 2015, on an annual basis, Casa Luker buys approximately 38% of Colombia's total cocoa production.



Chocolate Tumaco packs its warehouse full of cocoa in preparation for exporting the product to Europe. Photo: USAID/Colombia

For the past several years USAID has supported Colombian government and citizen efforts to transition out of half a century of internal conflict. Decades of persistent violence have meant limited government presence and a lack of economic opportunity in certain areas of the country.

The Tumaco region, in the far southwest part of the country, was a prime example. Tumaco had become a center for illegal coca production (used to produce cocaine) and consistently had some of the highest rates of violent crime in all of Colombia.

To promote economic development and alternatives to coca, USAID had been working to add value to the chocolate sector in Tumaco for more than a decade. However, the Agency struggled to find a commercial solution that could stand up to the region's security challenges. The private sector would surely need to play a key role for Tumaco to prosper, but what kind of company would take on such a high level of risk?

The answer was found in a unique partnership with a local family-owned company, Casa Luker. The company brought three important success factors: it had a commitment to the Tumaco region; it had a deep understanding of the risk factors involved – knowledge that a foreign multinational company was unlikely to have; and finally, Casa Luker was willing to co-invest in a new business model focused on community engagement, together with USAID.

ABOUT THE LOCAL PRIVATE SECTOR PARTNERSHIP (LPSP) SERIES: This profile is part of an initiative led by the U.S. Global Development Lab's Global Partnerships Team to document successful approaches in USAID's partnerships with local private sector actors. These profiles highlight collaborations in which USAID Missions and local companies have jointly designed and/or invested in activities, and where the local private sector's expertise, resources and/or networks played a unique role.

◀ Front cover: Different varieties of cacao are sold at Casa Luker's store in Bogota, Colombia. Casa Luker purchases more than 70% of Chocolate Tumaco's cacao supply, supporting farmers in the troubled Tumaco region. Photo: Thomas Cristofolletti, USAID

LOCAL COMPANY HAD COMMITMENT TO TUMACO REGION

For half a century prior to the partnership, Casa Luker had been working in Tumaco, where the climate and topography make conditions ideal for growing some of the world's finest varieties of cacao beans.

Casa Luker's premier "1906" line of chocolate is sourced exclusively from Tumaco and it had, over the course of decades, invested in both infrastructure and supplier relationships in the region.

In 2013, however, after multiple security-related challenges including a direct threat of violence against a local manager, Casa Luker ceased operations and left Tumaco.

If Casa Luker were to return to Tumaco, a different model would be required. Working together, Casa Luker, the Government of Colombia, and USAID came up with an answer: a partnership anchored by the company – a committed local firm – based on local knowledge, significant trust, and community engagement.

The result: USAID and Casa Luker established a new community-owned cacao marketing cooperative called Chocolate Tumaco.



An Afro-Colombian producer extracts cocoa beans to begin the drying and fermenting processes required for marketing. Photo: USAID | Colombia

RISK TOLERANCE: MULTINATIONAL VS. LOCAL

"[The foreign companies] lacked knowledge of the local area, and they couldn't build trust with the farmers and communities.... They came with promises, but they couldn't deliver on these promises."

However, things were different with local partner Casa Luker: "[They] already knew the region and knew the risks. They knew there was a business opportunity, but they were more realistic."

CASA LUKER UNDERSTOOD BOTH THE RISKS AND THE OPPORTUNITY

USAID had tried to interest foreign multinational companies in Tumaco in the past, without success. Some of them indicated an interest in partnership, investment, and technical assistance for Tumaco's farmers, but none of these activities ever actually materialized.

According to David Huertas of USAID/Colombia, "[These foreign companies] lacked knowledge of the local area, and they couldn't build trust with the farmers and communities.... They came with promises, but they couldn't deliver on these promises." He explained that the foreign companies did not fully understand the local context, including the dangers and the risks of working in Tumaco, and their plans were unrealistic.

Casa Luker, however, "already knew the region and knew the risks. They knew there was a business opportunity, but they were more realistic." Because of this, Casa Luker came to the partnership with a clear understanding of what it would take for Chocolate Tumaco to succeed.

Indeed, Casa Luker also brought local assets to the partnership: the company donated its abandoned infrastructure in Tumaco, including its offices and warehouse, to the new venture.

A NEW BUSINESS MODEL FOCUSED ON COMMUNITY

To create Chocolate Tumaco, Casa Luker and USAID brought together seven Afro-Colombian community councils and two cacao producer associations. USAID had the credibility to bring all the local partners together, as well as the technical expertise to ensure the cooperative's success.

Chocolate Tumaco functions as a cacao marketing cooperative, directly owned by the nine councils and associations, each of which represents 150 to 500 farm families. Further, the cacao farmers themselves are shareholders in the company – they are “active actors in their own development,” says Huertas.

After forming the partnership, USAID worked to ensure that Chocolate Tumaco and its farmers had both the systems and the know-how they needed to succeed.

USAID provided a \$200,000 grant to Chocolate Tumaco to strengthen the cooperative's organizational and business management capacity, create a concrete business plan, and develop new market linkages, establishing buyers beyond Casa Luker.

USAID also trained the organizations behind Chocolate Tumaco in on-farm best practices for cacao production, so they could work directly with current and future farmer suppliers to increase both yields and quality.

Meanwhile, Casa Luker took the unusual step of issuing advance payments to Chocolate Tumaco, to provide the cooperative with steady capital with which to purchase cacao from thousands of smallholder farmers across the region. These advance payments were critical to Chocolate Tumaco in its early days, helping the cooperative build trust with local farmers and present itself as both a fair and reliable buyer.

Despite its strong business interest in the region, Casa Luker would not have issued advance payments to Chocolate Tumaco without USAID and the credibility it brought to the partnership. Chocolate Tumaco was a risky investment for the local company, but “Casa Luker trusts USAID and the systems that USAID had in place,” says Huertas. USAID, through its “Colombia Responde” Program, gave the local company the confidence it needed to invest in a complicated new marketing cooperative still in its nascent stages.

The technical assistance provided by USAID — both at an organizational level to Chocolate Tumaco and at the field level to cacao farmers — helped Casa Luker ensure its return on investment.

“USAID provides the technical assistance that keeps farmers on track, so they manage the advance funds [from Casa Luker] properly,” explains Huertas. “The relationship with USAID reduced the risk for Casa Luker to go back to Tumaco.”

LOCAL KNOWLEDGE

Even logistics can be easier with a local partner. “Tumaco is roughly three hours by plane from Bogota, and yes, it's on the Pacific Ocean and there is a port. But the port is too small for standard shipping containers. A multinational partner might not know this, but Casa Luker did.”

— David Huertas, USAID/Colombia



Employees of Chocolate Tumaco prepare cocoa for shipment to national and international buyers. Photo: USAID/Colombia



An Afro-Colombian cocoa farmer classifies his cocoa beans by quality to earn higher sales prices from Chocolate Tumaco. Photo: USAID | Colombia

OWNERSHIP IN CHOCOLATE TUMACO IS UNITING COMMUNITIES

Since the cooperative launched in 2014, it has essentially eliminated intermediaries in Tumaco, raised the price of cacao for farmers across the region, and improved incomes for over 3,200 small farmers, marketing their cacao to both domestic and international buyers.

In addition to the increased sales, the local ownership of Chocolate Tumaco has produced unexpected benefits.

When Casa Luker operated directly in Tumaco, it was isolated and vulnerable. Extortion and violence were constant threats. No single company could have survived in Casa Luker's place, but the nine organizations that came together to create Chocolate Tumaco found strength in numbers.

Security continues to be an issue, Huertas explained, but "every time something happens, all nine organizations and their members mobilize. Chocolate Tumaco is mobilizing many, many people for its protection. They are saying, 'This is my business. This is my company.'"

The strong sense of local ownership for Chocolate Tumaco and the impressive social capital the cooperative has built for its protection help to combat extortion and violence.

According to Huertas, "there is much greater buy in [for Chocolate Tumaco] than Casa Luker had alone ... The business is part of the social fabric of this area. People were afraid of the guerillas and the violence. Now they are united around cacao and around this business."

IMPACT

After a year and a half in operation, Chocolate Tumaco has successfully cut out intermediaries from the chocolate market in Tumaco, ensuring more wealth remains with small farmers. The cooperative now buys directly from smallholder farmers, raising and stabilizing prices for cacao farmers across the region. Working directly with over 3,200 small producers, the cooperative helps farmers market their cacao, secure higher prices, benefit from government subsidies, and access on-farm technical assistance to improve their productivity and the quality of their cacao. In early 2015, Chocolate Tumaco collaborated with other local exporters to export its first container of 25 tons of Tumaco cacao. Casa Luker is the principal buyer for cacao marketed by Chocolate Tumaco, providing the cooperative with a reliable demand for its product. Since 2013, it has purchased at least 70% of the cooperative's supply at a cost of over \$4 million.