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Casa Franceschi: A Cocoa B-Corporation from Venezuela

In July 2023, after several months of travel, Carlos Franceschi, CEO of Casa Franceschi, was back in his office in Carúpano, a coastal city in the northeastern state of Sucre, in Venezuela. He was gearing up for a crucial conversation with his older brother Alberto, Chairman of the Board, to determine their priorities for the upcoming months. It was essential for them to align before presenting to the board of directors. Enjoying a "cafecito" (small coffee), Carlos gazed at the photographs of cocoa trees and his family's Hacienda San José hanging on the office walls (see Exhibit 1). He pondered the fluctuations in global cocoa trading throughout the 193 years of the family business history, Carlos thought about their business goal of increasing cocoa sales from \$50 million or approximately 22 thousand metric tonnes (MT) in 2022 to double that amount by 2025.

Casa Franceschi was part of a family-owned corporate holding called Grupo San José, consisting of three business units: 1) farming cocoa; 2) trading fine flavor and conventional cocoa beans; and 3) producing and trading chocolate and related products. Since 2010, Alberto and Carlos Franceschi had jointly managed Grupo San José, making strategic decisions for the three areas of the business. By 2023, Casa Franceschi had become a highly integrated cocoa B-Corp working with cocoa farmers across Venezuela, Ecuador, and Peru (see Exhibit 2). While Alberto focused primarily on growing the business, which required identifying investors and strategic alliances, Carlos was responsible for overseeing operations, including agriculture and trading, in the three countries while simultaneously supporting Alberto in executing the expansion strategy.

For Carlos, the opportunity in Ecuador "was evident" because it was the third largest producer of cocoa in the world after Cote d'Ivoire and Ghana.¹ Carlos believed that Casa

¹ [Cocoa facts and figures - Kakaoplattform](#), accessed, October 5, 2023.

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Franceschi's international expansion should focus on three areas: 1) nurturing a corporate culture to fulfill the company's vision of "planting dreams beyond cocoa;" 2) having a "professional leadership team" to achieve better margins per metric ton in Ecuador; and 3) restructuring company financing, lowering the cost of borrowing leading to a more stable financial platform to grow. Although Casa Franceschi's family shareholders supported international expansion, Carlos felt "there wasn't a clear consensus on the pathway to follow." Carlos also believed that focusing more attention on Venezuela was a significant opportunity because the country's premium cocoa and its by-products, such as butter, liquor, and powder, yielded net margins 2.5 times higher than those from Ecuadorian cocoa. Carlos felt that, regardless of the immediate strategic direction, fulfilling the B-Corp certification requirements was "a demonstration of their commitment to communities of producers" and "important for building credibility with clients and investors."

In assessing what he would propose to his brother for the years 2024-2025, Carlos asked himself:

What should be our priorities in that time frame? Should we focus on improving margins in the volume we already manage in Venezuela? Should we work to export more volume from Ecuador? Can we attract new investors to realize our dreams? Could we do everything at once? How?

Cocoa in Venezuela

Since colonial times, cocoa and coffee have been important agricultural exports, generating significant income until the early twentieth century when large oil deposits were discovered. Around the year 1800, Venezuela was producing almost 20,000 MT per year, making it the largest cocoa producer in the world. Its cocoa varieties, renowned for their excellent flavor quality, commanded comparatively high prices. During this period, successful individuals in cocoa, coffee, and other agricultural trade tended to be people with large portions of land and were called "*gran cacao*s" (great cacao). In the nineteenth century, new immigrant families, including Franceschi, Proserpi, Santeliz, Lucca, and Massiani, many originally from Corsica, found success in agribusiness, significantly participating in cacao production.²

By the early twentieth century, oil gradually began to displace both coffee and cocoa as the country's main source of revenue. By 1947, agriculture had slumped to just 4.2% of GDP, while oil reached 49%.³ As oil dominated Venezuela's economy, various governments attempted to boost agricultural production with key initiatives. For instance, in 1959, the Venezuelan government created the *Fondo Nacional del Café y el Cacao* (National Agency for Coffee and Cacao) to promote agricultural activity by exercising controls on the trade of these commodities. In the 1970s, Venezuela experienced an oil boom, and the government of President Carlos Andrés Pérez (1974-79) moved to nationalize Venezuelan oil in 1975. President Pérez's government divided the National Agency into two independent entities, one with a focus on coffee and the other one on cocoa called *Fondo Nacional del Cacao* (National Agency for Cocoa, FONCACAO), with the overarching goal of protecting farmers and agriculture in a country where oil production and exports had become overwhelmingly dominant. The newly established FONCACAO set cocoa prices without considering its quality, exerting monopolistic control of cocoa production and trading. It commodified cocoa by establishing two generic genetic types: F1 (fine of first class) and F2 (fine of second class).

² Delgado C., Aura Adriana. 2008. "Cocoa Producers in Venezuela: From Slavery to Cooperativism." *Observatorio Laboral Revista Venezolana*, 1(2): 101-125.

³ Purcell, T. 2013. "The Political Economy of Social Production Companies in Venezuela." *Latin American Perspectives*. 40 (3): 146-168

The result was that cocoa production went from 20,000 MT in 1975 to 11,000 MT in 1985.⁴ As the sole trader and broker of Venezuelan cocoa in the New York and London stock exchanges, the government's actions reduced price and payment transparency for farmers. An ensuing result was that Venezuela lost its status as a fine cocoa producer.⁵

During his second term as President (1989-1993), Carlos Andres Pérez swerved from his 1970s policies to adopt more market-oriented economic measures, including new policies in the agricultural sector. Consequently, in 1991, FONCACAO ceased to be the sole trader of Venezuelan cocoa; this motivated private companies—like Casa Franceschi—to re-engage in cocoa production and trade. Following this new legislation, Venezuela's cocoa production in the 1990s increased to nearly 20,000 MT per year.

In 1998, Hugo Chávez won the national elections and became President of Venezuela. During his tenure (1999-2013), President Chávez focused on reviving agriculture and redistributing land ownership. This included giving incentives to small agricultural enterprises as well as the expropriation of large-scale agricultural production. By 2010, the government had seized approximately 20% of Venezuela's total productive farmland. However, the redistribution to small farmers did not increase the amount of food available or revive agriculture. In fact, this led to deteriorated food access due to factors like poorly planned businesses and insufficient infrastructure investment.⁶ Expropriations of land and assets further exacerbated uncertainty and fear among the business sector.⁷ In 2011, President Chávez declared cocoa and chocolate as "*bienes de primera necesidad*" (basic goods) and established the *Corporación Socialista del Cacao* (Socialist Cocoa Corporation) to improve cocoa harvesting for State-owned chocolate companies. Emphasizing the role of cocoa in Venezuela's identity, in May 2022, Chávez's successor, President Nicolás Maduro, declared that cocoa would be exempted from tax exports. By 2022, Venezuela's yearly cocoa production was estimated to be between 15,000 and 20,000 MT.

In Venezuelan regions known for high quality cocoa, increasing crime rates became another significant challenge to production. Surges in crime led farmers to cut cocoa pods before the right time to minimize the chances of getting stolen. The growth in gang activity also deterred private traders from visiting cocoa farms, forcing farmers to sell their cocoa beans to the government at fixed prices, regardless of quality.⁸ In addition, farmers often experienced abuse by police and military agents seeking to extort payments.⁹

According to Venezuelan prize winner chocolatier Maria Fernanda Di Giacobbe, "Venezuela has great potential, but it lacks technology, expert knowledge, and freedom." In her view:

The cocoa trade and chocolate business faced challenges that went from getting inputs for packaging, molds, and auto-parts to transporting merchandise, with a government that only grants export licenses to friends and pricing a kilo of chocolate to be the same as the monthly

⁴ FAOSTAT, 2014. Cited in Franceschi Balan, J.V. 2017. *El Cacao en la Vida del Venezolano y en el Mundo*. Editorial Tropykos, p. 140

⁵ Franceschi Balan, J.V. 2017. *El Cacao en la Vida del Venezolano y en el Mundo*. Editorial Tropykos, p. 151.

⁶ [Seizing land, seeding chaos in Venezuela: Biography of Hunger 2](#), accessed March 16, 2023.

⁷ García Larralde, H. "La Transición Económica: Aspectos de Economía Política." En Balza Guanipa, R. and García Larralde, H. (eds.), *Fragmentos de Venezuela: 20 Escritos de Economía*, p. 149.

⁸ El pitazo. "El monopolio del Estado y la delincuencia amenazan producción de cacao en Miranda," 2 octubre, 2021, accessed March 5, 2023.

⁹ El amargo cacao venezolano: entre el delito y el asedio oficial - Efecto Cocuyo, accessed October 5, 2023

salary of a worker, about 14 euros.¹⁰

Casa Franceschi: A History of an Old Business in Venezuela

V. Franceschi & Cia, which later became Casa Franceschi, was founded on March 19, 1830, by Vincent Franceschi Vincentelli, a Corsican native. For both of his descendants, Alberto and Carlos, the ups and downs of the family business, originally rooted in the Hacienda San José plantation, went hand in hand with the many ongoing socio-political crises that occurred in the country over the past two centuries. This included civil wars, social upheavals, expropriations, and world wars. Despite these crises, periods of prosperity did occur, partly due to global demand for Venezuela's high-quality cocoa. This boom in the cocoa business led Casa Franceschi and the family to relocate its headquarters to Paris. However, the post-World War I (1914-1918) drop in global cocoa prices (see Exhibit 3) led to a downturn for the company.

As Venezuela prospered in the second half of the twentieth century with its extensive oil reserves, President Carlos Andrés Pérez's decision in 1975 to nationalize the cocoa trade, alongside other industries such as coffee and oil, negatively impacted Casa Franceschi and other cocoa businesses. Until then, Carlos and Alberto's father and uncles were devoted to the cocoa family business. However, following the nationalization, "they decided to stop cocoa trading because government price controls and regulations made the business unsustainable." Following this, Casa Franceschi's global clients disappeared, and the cocoa farmers they sourced from either abandoned farming or moved on to other crops.

When Carlos Andrés Pérez was reelected President of Venezuela in 1989 with his new economic agenda of promoting free markets, the Franceschi family began to reconsider its cocoa production. Alberto characterized this period as setting the stage for new possibilities:

My father and uncles started to focus on cocoa harvesting again, but it was more of a hobby because it had been the family's original business. At that time, they decided to focus on fine flavor cocoa, embarking on a rigorous process of searching for the best varieties in the world that are found in Venezuela called cacao criollo.

In the 1990s, the Franceschi also improved production processes, including fermentation, bean cleansing, and quality selection, to improve the overall quality of cocoa they were cultivating at their Hacienda San José plantation. This small-scale production, amounting to 50 MT per year, focused on developing expertise and technology for producing premium cocoa. They also bought cocoa from small farmers near the Hacienda, leading them to achieve exports of 275 MT by 2002. Carlos said, "It was a passion project by the 5th generation (father and uncles) that created new pillars for years to come."

Casa Franceschi Sixth Generation

After a career in banking, Alberto joined his father and uncle in the family business in 2005. His growing involvement in cocoa trading led him to commit to the company. In 2010, Alberto began to lead the internationalization of the business. At that moment, the business community faced

¹⁰ Di Giacobbe, María Fernanda. "[El sector del cacao venezolano se está preparando para un nuevo país](#)". Fundación Bit&Nibs, Nov 15, 2018, accessed October 5, 2023.

turbulence due to President Chávez's economic policies and increasing political polarization, either in support of or against Chávez. During this uncertain period, Alberto, confronting challenges, called upon his younger brother Carlos, who had been traveling through Asia for over three years, to lead a short-term project. Upon completing the project, Alberto asked Carlos to manage the agribusiness operation at the family's Hacienda San José. Carlos saw this as "a chance to help the family and to reconnect with my roots." Thirteen years later, he recalled, "falling in love working with people in rural areas and connecting them with companies in developed countries."

Carlos described Casa Franceschi's evolution since his joining in three stages, reflecting changes in the company and the external environment influencing their decisions.

Period 2010-2015

During this period, Venezuela grappled with political polarization between Chavistas (label assigned to supporters of President Hugo Chávez) and the opposition, hyperinflation, social unrest, and ongoing street protests. Due to financial losses, some shareholders were advocating for shutting down operations at the Hacienda San José. Carlos explained:

In 2010, despite the growth and success of the trading business, the Hacienda San José plantation was in a dire financial situation, with substantial losses exacerbated by nearly \$400,000 in investments that we made. The following year, we increased production and reduced fixed expenses, halving our losses. There were ups and downs because of exchange control rates, which could both increase our costs and reduce our income. In this period, however, the company not only altered its financial outcomes but also transformed its operational landscape.

Even though Carlos asked the shareholders for more time, saying to them: "If we really focus on people, like our employees and producers, we can grow the business. We have to bet on them if we want to be here in the next 200 years." However, it became clear there were varying perspectives within the board:

For several shareholders, the obvious path was to shut down the Hacienda San José plantation and slow down other related operations of Casa Franceschi in Venezuela considering the challenging situation in the country where everything was in crisis. As one group suggested shutting down operations, others firmly believed we should do everything possible to rescue it. During that period, discussions behind closed doors often revolved around navigating divergent family interests.

Carlos and Alberto understood both sides. In 2010, an estimated 1,331,488 Venezuelans migrated (a 24.37% increase from 2005), and in 2015, the number rose to 1,404,448 (a 5.48% increase compared to 2010).¹¹ They proposed continuing operations by diversifying risk via international expansion. Alberto would focus on internationalization, while Carlos would focus on operations in Venezuela, including the family Hacienda.

The company developed town halls "to bring together administrators and staff to discuss a better future for the company and their roles in making that future happen." Carlos explained:

We launched a restructuring process based on promotion rather than regulation. We built agreements with a vision of the future where everyone was involved. We achieved an environment of

¹¹ [Venezuela Immigration Statistics 1960-2023 | MacroTrends](#), accessed October 11, 2023.

clarity and transparency. We embarked on the same boat: managers, shareholders, coordinators, collaborators, and directors.

According to Carlos, "many employees and producers were Chavistas, and there was a lack of trust." He recalled one early meeting with the Hacienda workers and community members:

The atmosphere was really tense, but suddenly I started saying in a really loud voice so everyone could hear me: "I believe every one of us is an equal in front of the worms that will eat us when we are dead," people laughed, and the rest of the meeting became productive. My guess is that in the rural communities, the message they heard from the government was that even though the company was struggling, we had money, and we were exploiting them. I sought to promote union through discussion and by developing a plan where they felt heard and included.

Between 2011 and 2012, Hacienda San José increased its cocoa production by 132% (cocoa MT) and cut expenses by 44% by letting go of 53 out of 102 workers and enhancing cocoa bean processing, resulting in a 67% increase in efficiency, productivity, and quality. Staff numbers dropped from 67 to 40, coordinators from 9 to 3, administrative staff reduced from 4 to 3, and the managerial positions were reduced from 2 to 1. The result was an operational break-even. Carlos noted, "The process of decision-making was changed." He explained:

We changed the position of a boss to the person in charge, from supervisor to responsible coordinator, thus changing from the figure of authority to everyone being responsible. We established processes and guidelines to increase responsibility in decision-making; everyone was required to do their best no matter what their functions were. All of this was accompanied by establishing goals for each area, teams, and individuals. There was resistance from some of the leaders in the group of workers, but we kept emphasizing our aim of building a better collective future through work and responsibility with our slogan: "Cultivating cocoa is building the future."

José Luis Martínez, a shy young man and well-known Chavista whose father had worked at the Hacienda for many years, initially stood with the group of workers who opposed new changes. However, he eventually urged his colleagues: "We need to get our tools for pruning the trees before the rainy season hits us. Let's do the work and see what happens." For Carlos, "this was a moment of change in company dynamics." He added:

After obtaining positive results in Hacienda San José, we started the same approach to the trading Company in Venezuela called Cacao San José. In less than six months, we increased our process capacity from 75 MT to 165 MT per week, not by changing machines but by changing the workers' approach, establishing new processes, and creating meetings for planning. In the process, we let go 16 employees.

For Alberto, beyond what Carlos described, this period was about:

Preparing to professionalize the company. Up to then, there were a dozen family members involved in the company. However, in order to increase efficiency and grow internationally, the company would require professionals with specific knowledge and capabilities.

Alberto also recognized that despite the situation in Venezuela during this period, "the company had access to dollars from our exports, allowing us to invest back in the company, hire new professionals, and become more competitive."

During this time, Casa Franceschi moved forward with trials of trading cocoa beans from Peru and Ecuador. In 2013, Alberto and Carlos decided to intensify their focus on Ecuador. At the end of 2012, Alberto "relocated to Miami to more effectively oversee the company's expansion into new markets." Meanwhile, Carlos' home base remained in Carúpano, Venezuela.

Period 2015-2017

Beginning in 2015, President Nicolás Maduro's government introduced further complexities to the cocoa trade, adding to the 20 or so steps involving payments and paperwork established during the previous Chávez regime.¹² Additionally, there was a threat of withholding the crucial "Autorización de exportación" (export permit). The immediate threat raised the brothers' level of concern, "fearing the possibility of a new nationalization of the cacao industry as Chávez had done with coffee in 2006."

In the following two years (2015-17), the decline in Venezuelan crude oil production adversely affected the country's overall macroeconomic standing.¹³ Beginning in 2015, Casa Franceschi encountered intermittent export blockages totaling 18 months over a 36-month period. The government permitted exports only from selected businesses, excluding Casa Franceschi. For instance, in 2015, about 5,000 MT of their product remained unsold in the country, jeopardizing approximately \$17.5 million in export revenue.¹⁴ This situation of periodic blockages of cocoa beans and derivatives prepared for exports lasted until 2017.

Carlos viewed the export blockages and what he saw as "creeping expropriations" going on in the country as significant challenges. These issues compelled the company to halt its exports, leading to a loss of 6,000 tons of exports over a span of several closures. Ports and connecting roads were increasingly controlled by the military, which could mean that goods would not make it to their destination or were delayed, impacting trading to international markets. According to Carlos:

This was a crucial moment because we were expanding our business by going to Ecuador. However, the capital to be able to invest in other countries was coming from operations in Venezuela. So, when the government blocked us from exporting, it complicated everything for us. Corrupt officials could also abuse the situation by soliciting bribes, which the company was not willing to do.¹⁵ The board was again advocating for shutting down operations. Our decision was to continue and to do things ethically. I believe all this strengthened our culture.

During this stage, Casa Franceschi continued its efforts to transform the cocoa sector, working closely with farmers in Sucre State and beyond while also seeking to build relationships with the government. An outcome of these efforts was the establishment of the San José Foundation in 2012, which, in Carlos's view, would "develop closer relations with nonprofit companies and development banks to support their growing investment in cocoa farmers and their communities."

¹² According to Carlos Machado-Allison, by 2014 there were approximately 32 to 34 regulations and norms producers had to follow in order to operate their businesses. CNN en Español, 2014. (https://www.youtube.com/watch?v=HSctP_KC_3g), accessed on March 17, 2023.

¹³ <https://www.reuters.com/article/us-opec-venezuela/crisis-hit-venezuelas-oil-output-plummets-in-2017-to-decades-low-idUSKBN1F720C>, accessed on March 17, 2023.

¹⁴ [Venezuela curbs cocoa exports, irking Japanese, Swiss chocolatiers | Reuters](#), accessed on March 17, 2023.

¹⁵ Check [Transparency International](#) to get information regarding Venezuela's high corruption index, accessed on October 30, 2023.

He explained:

Through partnerships, we also sought to influence the government. We proactively built more relationships, creating a tight social fabric focused on cocoa producers and their communities. The impact we were creating in several communities might have been important in stopping the blockage.

They invested time in building bridges with government agencies such as the Ministry of Agriculture and Land, the Socialist Corporation of Cacao, and the Ministry of Commerce. For Carlos, a key lesson was:

Being a values-based institution gave us power, even when we were not the ones holding the formal power when it came to regulations and trade like the government had. Regardless of the environment, we could achieve things, even being small, when we showed our commitment to company principles and values.

"Besides," Carlos added:

To strengthen the cocoa sector, the company engaged with the government, collaborating with farmers and private traders. This collaboration extended to other cocoa exporting companies like Chuao Trading, as well as cocoa industry associations such as the Venezuelan Food Chamber (Cámara Venezolana de Alimentos).

Concurrently, Casa Franceschi was developing operations in Ecuador, initiated in 2011, to work with local suppliers towards selling Ecuadorian cocoa to clients in Europe. It wasn't until 2016 when Casa Franceschi established a strategic alliance with a local exporter (which later became a partner in the Ecuador business), that the business started to flourish. It reached 670 MT in 2017 and experienced a significant increase during the following years. In Peru, the first steps were taken in 2012, and a partnership with a local exporter began in 2019.

Period 2018-2023

According to Venezuela's Central Bank, the country's 2018 GDP had decreased by 19.6%. Additionally, for a decade (2008-2018), Venezuela was among the top ten globally for the highest inflation rates. By 2018, inflation reached 130.1%, elevating the poverty level to 87%.¹⁶ With the onset of COVID-19 in March 2020, the already impoverished country faced further constraints in economic resources to protect its population.¹⁷

In line with their professionalization efforts in the company, only Alberto, Carlos, and their cousin Claudia Franceschi worked for Casa Franceschi during this period, marking a shift from past practices. In 2022, Casa Franceschi traded approximately 25,000 tons, most of it for exports (see Exhibit 4), and the rest sold in domestic markets. In Venezuela, Casa Franceschi sourced 40% of the country's total cocoa production, amounting to 18,000 MT. Exports of premium cocoa in Venezuela

¹⁶ Puente, J.M. and Rodríguez, J.A. "[Venezuela en Etapa de Colapso Macroeconómico: Un Análisis Histórico Comparativo](https://doi.org/10.14201/alh.21992)." "[Venezuela at the stage of macroeconomic collapse: A historical and comparative analysis](https://doi.org/10.14201/alh.21992)," August 4, 2020. DOI: <https://doi.org/10.14201/alh.21992>, accessed March 15, 2023.

¹⁷ [Covid-19 y la política económica: dos pandemias contra la economía venezolana](#) -, accessed March 15, 2023.

yielded approximately 2.5 times higher net margins than those in Ecuador. In November 2023, Carlos sought to "increase trading volume to 50,000 MT," acknowledging:

Working in Venezuela entails a continuous cycle of solving one problem after another. Just when you think you've solved one, a new issue emerges, and the cycle repeats itself, often without respite. It's an exhausting process. There are moments when I feel like giving up, but then I catch a glimpse of what we have accomplished and how much impact we are having among farmers and communities. I see what we can achieve, and the energy comes back.

For Carlos, a focus in Venezuela entailed developing relationships with producers countrywide:

Producers need to see progress with a sense of the future as we invest in them and work more closely with them. We don't see Casa Franceschi as just a regular company but something that can be a platform for economic and social development for producers and the communities where they live. Our company's ethos is planting dreams by elevating everyone's work. This entails going well beyond making Casa Franceschi successful.

Vicente Córdoba, a young worker at the Hacienda San José, offered a few words about the changes he experienced:

Even though there were difficult times in the past, now we have managed to face them and move forward. We genuinely enjoy our work; the cocoa farm has become our second home. We see achievement in successfully harvesting the crop.

For another long-time cocoa farmer named Diógenes Córdoba:

We all possess a unique talent, and by recognizing it and putting it into service, we contribute to Venezuela. This is a transformative journey towards aligning our thoughts and actions. It's about sowing the seeds of change, with each person becoming a guiding light that radiates enthusiasm and influences others.

As Casa Franceschi developed activities with producers and community members for "planting dreams beyond cocoa," the company learned about B-Corp certification and received the certification in 2022. As Carlos put it:

Pursuing the B-Corp certification would allow us to identify what we were doing well in the cocoa business as we worked with hundreds of small farmers in very challenging contexts. Additionally, the process could also serve to pinpoint areas where we could improve.

In 2022, as part of their efforts to achieve impact beyond business, the company took a leadership role in collaborating with the government to address the complexities and rising costs of exporting cocoa. This effort included backing of decrees such as President Nicolás's June 2022 declaration to exempt taxes on exports of cocoa, which sought to make things easier for everyone in the sector.¹⁸

A Sustainability Agenda

¹⁸ ["Venezuela exonera de impuestos y aranceles la exportación de cacao"](#). REDACCIÓN EFE, julio 13, 2022, accessed November 10, 2022.

San José Foundation

In 2012, to further support workers, producers, and the communities in which it operated, the Franceschi family launched the San José Foundation, a nonprofit organization responsible for leading social projects of Casa Franceschi in Venezuela with programs focused on three areas: 1) strengthening children and youth education; 2) promoting positive values; and 3) enhancing entrepreneurship and productivity among cocoa growers through training. By 2023, the Foundation had formed partnerships with international organizations such as *Programa de las Naciones Unidas para el Desarrollo* (PNUD) and *Corporación Andina de Fomento* (CAF), *Banco de Desarrollo de América Latina*, and various Venezuelan nonprofits. The Foundation's mission was "To promote comprehensive human growth and social innovation in vulnerable communities to contribute to sustainable development in the areas of influence of Grupo San José." The mission was aligned with the company's aspiration of "enhancing dreams:"

Casa Franceschi grows cocoa, along with smiles. Our philosophy is focused on people as the core of light. Combining work ethics and a responsibility to our ecosystem, we are driven to develop close ties with our farmers, to train and educate them, to look after their families and well-being, and to empower them, giving them a reason to smile while caring for the environment.¹⁹

As of 2023, the San José Foundation reported having 2,910 direct beneficiaries in Sucre State, 1,000 in Miranda State, and 2,000 in Zulia State in Venezuela who received training programs for farmers to help them envision their operations as small-scale businesses. The support provided included technical information on producing cocoa as well as increasing their access to health and other basic services. The participants in the Foundation's programs "created their own plan of dreams which could include things like moving from a dirt floor to cement to more aspirational goals." Company officials stated that "with the training and support, farmers could increase their income up three to five times."

Becoming a B-Corporation

Grupo San José became one of two B-Corps in Venezuela on September 22, 2021, when it received *Sistema B International* certification. The company obtained 101 points out of a total of 200, surpassing the minimum 80 points required for certification (See Exhibit 5). The certification encompassed Grupo San José's three business areas: agribusiness, trading, and chocolate (Casa Franceschi brand). All of the Grupo San José subsidiaries were certified. The B-Corp standards provided a holistic assessment of the business, covering a range of criteria under five key sections: governance, workers, customers, community, and environment. As part of its B-Corp certification, Grupo San José pledged ongoing improvement in these areas, placing a socio-environmental business purpose at the core of its business model. Despite expanding in various communities and countries, Grupo San José remained committed to upholding the Environmental, Social, and Governance (ESG) principles. Freddy Ramirez, the Vice-President of Global Business Development at Grupo San José in 2021, commented on the rationale for pursuing the certification:

We were seeking to transform Grupo San José in a context of ongoing adversity. More specifically, we have lived in turmoil in Venezuela over the past 20 years. There are great opportunities, but there are also tremendous challenges regarding agriculture across the country.

¹⁹ [Our Values | Casa Franceschi](#), accessed March 5, 2023.

Upon joining the group in 2019, he noted:

When I realized how Grupo San José operated, it became clear that certification could be key for the business. An aspect of this was articulating what they were developing with the communities in which they operated. We had strengths in the five areas of the B-Corp certification.

For Alberto, the B-Corp certification would allow them to "assess the true social and environmental impact of our work and to stand out among clients and investors." For him, starting with a certification focused on the work of the company as a whole was the first step on that route that could prepare it for a future product certification.

The 2021 B-Corp transparency report outlined mechanisms for addressing the environmental impacts of cocoa cultivation (See Exhibit 6). In 2021, the company operated a total area of 320 hectares, with 168 hectares devoted to cultivation, 89.9% of which produced cocoa every season. According to B-Lab, monoculture crops could impact biodiversity. The company employed biological controls and applied organic products, such as Californian Worm Humus, to minimize environmental impacts. It implemented a low-impact agroforestry farming system with resilience capacity. Rotation was not managed in cocoa plantations, but soil management practices were carried out to guarantee their non-degradation. Pesticides were not used. Integrated pest management was employed, utilizing chemical products sparingly alongside organic methods.

The B-Corp report acknowledged that although Casa Franceschi did not grow cocoa in water-stressed areas, cocoa production was inherently water-intensive. This posed potential environmental risks, such as water stress or depletion of local water sources, if not managed properly. To address this, the company utilized cisterns and deep-water wells to reduce reliance on river water. The company monitored and measured its water use annually, totaling 546,518 m³/Yr measured in 2022. For the Franceschi brothers, human rights, particularly child labor, was a key issue in the cocoa industry.²⁰ They ensured that none of its suppliers were involved in conflicts or had complaints of forced or child labor. Grupo San José made regular visits to their suppliers' facilities to verify operations and compliance with the company's ethical standards. Ramirez identified another critical area: enhancing the diversity of people in the cocoa value chain. He saw the need to "include more diverse groups of people like women and indigenous communities in the process. With more inclusion, we can expand our impact."

In 2023, less than 1% of Grupo San José revenue was earned from the sale of cocoa produced on their own Hacienda San José in Sucre State. Nevertheless, the company maintained close to 100% traceability of its operations, which included direct contact with farmers or local distributors elsewhere. Like his father, uncle, and other ancestors, Alberto understood Venezuela's unique cacao genotypes, arguing the product certification could support recognition of this fact. He explained:

You can be great, but if the world doesn't know about it or there is no mechanism for global acknowledgment, then you have a problem. Casa Franceschi has kept the quality and integrity of cocoa beans without a certification that recognizes this.

²⁰ Food Empowerment Project. "[Child Labor And Slavery in The Chocolate Industry](#)," January 2022, accessed November 8, 2022.

The company lacked external certification for sustainable cocoa bean cultivation. In 2023, government regulations and legislation were the primary obstacles to obtaining this type of certification. In Venezuela, social and ethical certifications were not available.

What's next?

Carlos and Alberto convened in Carúpano on Sunday, July 9, 2023, to prepare their presentation for the board of directors. Carlos initiated the discussion by focusing on their goal of doubling cocoa sales from \$50 million in 2022 to \$100 million by 2025. "Then," he stated, "we need to decide whether to prioritize existing operations in Venezuela or engage with new investors concentrating on expanding our exports from Ecuador." Carlos considered the feasibility of simultaneously pursuing both goals. He recalled their advisor, a former McKinsey consultant's advice: "Don't tell me it can't be done; tell me how it can be done." Alberto concurred, stressing the need to explore both goals while "concurrently devising the necessary strategies."

Carlos started talking about the consolidation of their business in Venezuela:

We must work towards a more prosperous future in a country with over two decades of socio-economic and political turmoil. We must continue to fulfill our commitments as a B-Corp because we are a purpose-driven company. Impacting our communities is key. Being a B-Corp also enhances our credibility with international clients and investors. A potential challenge is managing our impact effectively as we aim to double sales.

Carlos resumed, pointing out:

Business consolidation in Venezuela to make operations more efficient and to increase our exports of premium cocoa requires focus and energy to deal with a complicated business ecosystem. However, we can leverage our existing commercial pipeline to source premium cocoa with traceability and its by-products for export. We should also keep in mind a new certification of Venezuelan cocoa as pesticide-free and 100% organic can be a significant advantage. We could focus on organic cocoa and become the first Venezuelan company with such certification. This could revolutionize the industry, adding \$200 per MT to each payment from international clients. But its role in our consolidation and expansion strategy needs to be clear.

He provided further details:

As you know, Alberto, my primary motivation has been transforming a broader community. Beyond expanding our work with cocoa producers and their families, we must continue strengthening our work with the government.

"Talking about Ecuador," Carlos stated:

We have to continue building a top-notch team to enhance profit margins per metric ton in Ecuador and restructuring our finances for secure expansion. There, too, we must prioritize fostering a culture aligned with our vision of "cultivating dreams beyond cocoa."

Alberto nodded and inquired, "What's your perspective on our financial situation?" Carlos replied:

We need capital and investors to grow both in Venezuela and internationally. We've financed our Venezuelan growth through local banks, but their high interest rates, between 24% and 34%, are a significant obstacle. Restructuring our debt and securing better long-term loans are essential. Perhaps we should dedicate more time and resources to seeking impact investors. I know it can be an exhausting process. And I recognize that in general, investors are comfortable investing in projects in Ecuador and less so with Venezuela.

Alberto wrapped up the conversation:

Okay, Carlos! It seems to me the ambitious goal of doubling cocoa sales from 2022 to 2025 is leading us to grapple with whether we should prioritize efficiency to source premium cocoa from Venezuela or dedicate our attention to finding new investors. In both cases, sourcing cocoa is central. Whatever we decide, we must consider that the execution of either path adds complexity to our debate. Our consolidation efforts in Venezuela, encompassing Hacienda San José, premium cocoa and by-products for exports, and the domestic chocolate market are intricate because of the current context. Financially, in Venezuela, we face high local interest rates, yet the involvement of foreign investors can be contentious. Investors are more interested in investing in Ecuador, where they can easily see growth. More importantly for us is that our decisions require that we are able to balance the pursuit of profits with our company ethos of sowing dreams. And let's not forget, whatever we decide, we must be persuasive in front of our family and the board.

EXHIBIT 1: IMAGES FROM HACIENDA SAN JOSÉ/CASA FRANCESCHI



Cacao Pods (*Theobroma cacao*)



Cacao/Cocoa Beans



Source: Casa Franceschi

EXHIBIT 2. GRUPO SAN JOSÉ-CASA FRANCESCHI OVERVIEW



Source: Casa Franceschi

Exhibit 3: BRIEF SUMMARY ON GLOBAL TRADE OF COCOA

Fine and Flavor Cocoa Versus Bulk Cocoa

Cocoa and its widely recognized and beloved derivative, chocolate, originated from the cacao tree (*Theobroma cacao*), which had its roots in the ancient Amazon rainforest. When dried and fermented, the seeds of the cacao beans produced essential ingredients for cocoa powder, chocolate, cocoa butter, liquors, and cosmetics. Although there were at least ten genetic varieties of cacao globally, these can be categorized into three main types: *Forastero*, accounting for 80% of global production; *Criollo*, comprising 2 to 5% of the worldwide production; and *Trinitario*, representing 15% of the global production.²¹ In 2018, the global cocoa bean market was valued at approximately \$9.94 billion and was projected to grow at a CAGR (Compound Annual Growth Rate) of 7.3% from 2019 to 2025.²² The leading cocoa bean exporters in 2020 included Ivory Coast, Ghana, Nigeria, Cameroon, and Ecuador, while top importing countries included the Netherlands, the United States, and Germany.²³ In 2022, the global production of cocoa was approximately 5 million tons.²⁴

As of 2023, Cocoa beans exhibited significant variability among their types, notably between the “fine or flavor” cocoa from *Criollo* or *Trinitario* varieties and the bulk-harvested *Forastero* varieties. The key distinction between fine and bulk cocoa lay in the flavor, with the former featuring notes of fruit, floral, herbal, wood, nut, caramel, and a rich, balanced chocolate base.²⁵ Criteria such as genetic origin, plant morphological characteristics, chemical characteristics of the cocoa beans, degree of fermentation, drying, acidity, and percentage of impurities determined a bean’s classification as fine or flavor cocoa. In the global cocoa market, fine or flavor beans obtained premium prices in the New York and London futures markets. In 2016, the International Cocoa Organization (ICCO) estimated that fine or flavor cocoa sold for \$3,500 to \$5,000 per metric ton (MT), compared to \$3,000 to \$3,500 for bulk cocoa.²⁶ However, according to the ICCO, categorizing cocoa beans as fine or flavor could be controversial as there were no single universally accepted criterion, with subjectivity influencing measurement.²⁷

As of 2022, the fine or flavor cocoa market accounted for 5% of the global cocoa trade. This niche market involved specialized agents purchasing directly from fine or flavor origins for specific chocolate companies, accompanied by major manufacturers broadening their premium product lines.

Cocoa Production and Producers

In 2020, it was estimated that 5 to 6 million people harvested cocoa, many of whom lived

²¹ <https://letraslibres.com/revista/oro-negro-oro-dulce/>, accessed Oct 23, 2022.

²² <https://www.grandviewresearch.com/industry-analysis/cocoa-beans-market>, accessed Oct 23, 2022.

²³ <https://oec.world/en/profile/hs/cocoa-beans>, accessed Oct 23, 2022.

²⁴ <https://www.icco.org/may-2022-quarterly-bulletin-of-cocoa-statistics/#:~:text=Compared%20to%20the%202020%2F21.2%25%20to%205.048%20million%20tonnes>, accessed Oct 23, 2022.

²⁵ <https://www.icco.org/fine-or-flavor-cocoa/>, accessed Oct 23, 2022.

²⁶ <https://www.confectionerynews.com/Article/2016/05/10/Everything-you-need-to-know-about-fine-flavor-cocoa>, accessed Oct 23, 2022.

²⁷ *ibid*

on less than \$2 per day and depended on cocoa for 60% to 90% of their income.²⁸ For instance, farmers in Ghana and Ivory Coast produced 70% of the world's cocoa beans, averaging about 80 cents (USD dollars) daily, earning only 3% to 6% of the chocolate bars' retail market value.²⁹

In 2020, in several producing countries, the average cocoa farmer was older, with younger generations hesitant to enter the field owing to the sector's low profits and instability.³⁰ Price fluctuations were influenced by factors such as political instability, weather-related deficits, and overproduction. Globally, farmers received only 6% of the retail price of a chocolate bar, with chocolate producers capturing approximately 70%.³¹ Cocoa production was labor-intensive, starting from harvesting the cacao pods and then opening them a week later to remove the beans. Subsequently, the beans underwent processes like fermentation, cleansing, drying, and roasting.

Global demand for cocoa

In 2022, the cocoa sector's expansion was driven by its broad appeal and popularity, extensive use in the food and beverage industry, and growing demand in Asian countries such as China, India, and Indonesia.³² According to Euromonitor, increased demand for chocolate was also expected in Western Europe and North America, the traditional chocolate-consuming markets. New flavors and chocolate innovations were introduced each year. Projected chocolate sales growth was particularly notable in emerging markets such as China, Mexico, Indonesia, Turkey, and India, as end consumers in these countries had greater disposable income to spend on such products.³³

Despite expected growth, significant risks in the cocoa supply chain posed challenges to potential expansion. One key factor impacting this was market price volatility. For example, cocoa prices fell from \$3,500 per tonne to \$1,769 per tonne by mid-2017, impacting the price paid for cocoa beans to the farmer.³⁴ Another factor was the significant income disparity between farmers and chocolate retailers. Environmental impacts, such as deforestation, were also linked to this increasing demand.

Cocoa Trading

As of 2023, the cocoa trade encompassed a range of products within local and international supply chains. This included beans to semi-processed products such as cocoa powder, cocoa oil, and cocoa fats, and processed products such as chocolates.

Sustainable cocoa

At its general meeting in May 2019, the German Initiative on Sustainable Cocoa defined

²⁸ <https://www.weforum.org/agenda/2020/11/cocoa-chocolate-supply-chain-business-bar-africa-exports/>; <https://www.csis.org/analysis/why-sustainable-cocoa-farming-matters-rural-development>, accessed Nov 8, 2022.

²⁹ <https://u.osu.edu/commoditychainofcocoa/cocoa-farmers/>, accessed Nov 8, 2022.

³⁰ *ibid.*

³¹ FAO data, TechnoServe analysis in <https://www.technoserve.org/wp-content/uploads/2015/09/case-study-building-a-sustainable-and-competitive-co-coa-value-chain-in-peru.pdf>, accessed Nov 10, 2022.

³² <https://www.nasdaq.com/articles/cocoa-demand-seen-rising-led-by-growth-in-asia-industry>, accessed November 10, 2022.

³³ <https://www.euromonitor.com/article/chocolate-global-scale>, accessed Nov 10, 2022.

³⁴ Hecht, A. (2018). Cocoa Screams Higher. Seeking Alpha. Retrieved from <https://seekingalpha.com/article/4166574-cocoa-screams-higher>, accessed Nov 8, 2022.

sustainable cocoa as follows:

*Cocoa is produced in accordance with economic, ecological, and social requirements, which means that its production is economical, environmentally friendly, and socially responsible without compromising the ability of future generations to satisfy their own needs.*³⁵

According to Oxfam:

*A sustainable cocoa economy is where each person investing time or money into the supply chain would be able to earn a decent income for themselves and their family, work in good conditions, and in a manner that did not harm the environment.*³⁶

As of 2023, cocoa beans that were both organic and Fair Trade qualify as socio-economically and environmentally sustainable. The U.S. Department of Agriculture (USDA) organic certification confirmed farm or handling facility compliance with USDA organic regulations. Within the USDA organic regulations, four recognized categories of organic products exist. One category was 'crops,' defined as plants grown for food, livestock feed, fiber, or to enrich the soil. Another category is 'processed products,' which includes items that have been handled, packaged, combined, or processed.³⁷

³⁵ <https://www.kakaoforum.de/en/about-us/our-goals/our-definition-of-sustainable-cocoa/#:~:text=We%20define%20sustainable%20cocoa%20as,to%20satisfy%20their%20own%20needs>, accessed Nov 10, 2022.

³⁶ Oxfam, a British-founded confederation of 21 independent charitable organizations focusing on the alleviation of global poverty, was founded in 1942 and led by Oxfam International.

³⁷ <https://www.ams.usda.gov/services/organic-certification/certification>, accessed Nov 7, 2022.

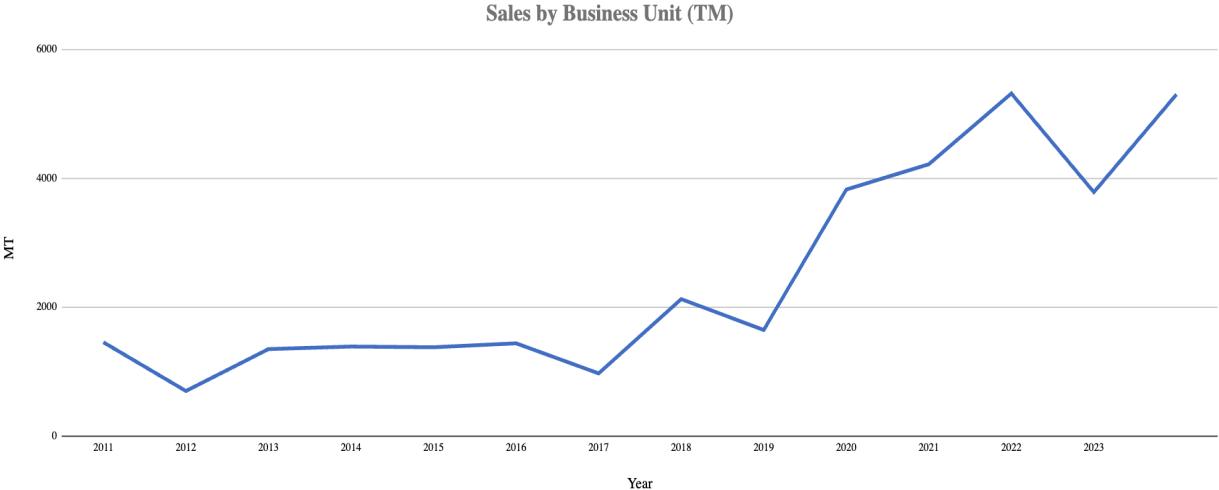
EXHIBIT 4: CASA FRANCESCHI TRADING (2011-2022)

**EXHIBIT 4-A: CASA FRANCESCHI TRADING (VENEZUELA, ECUADOR, AND PERU)
Sales History in Tones (2011-2022)**



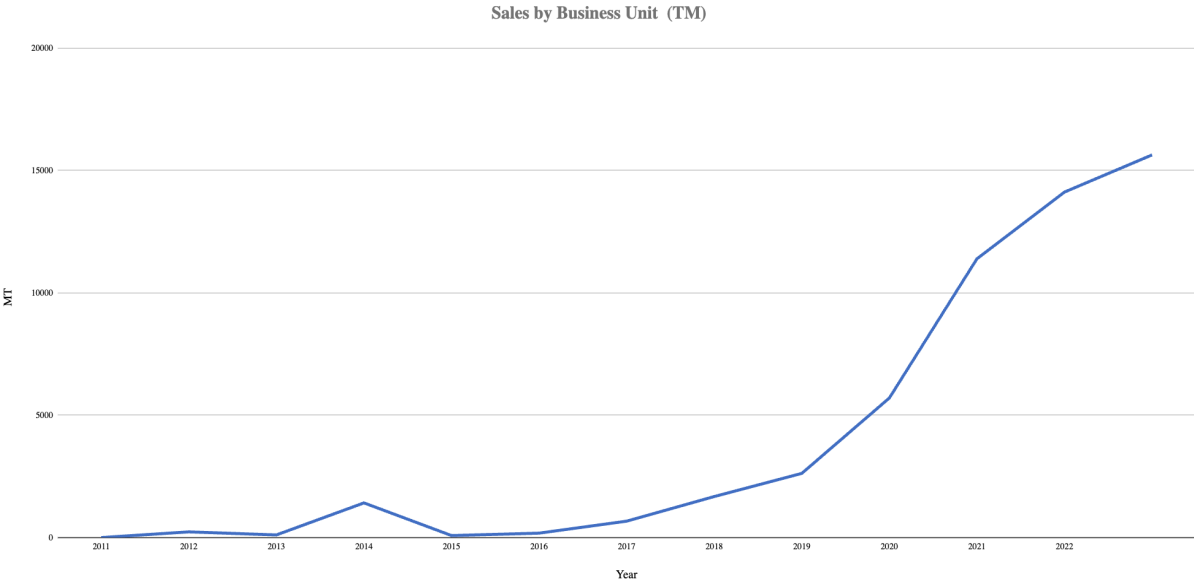
Source: Casa Franceschi

**EXHIBIT 4-B: CASA FRANCESCHI TRADING (VENEZUELA)
Sales in Tones (2011-2022)**



Source: Casa Franceschi

**EXHIBIT 4-C: CASA FRANCESCHI TRADING (ECUADOR)
Sales in Tones (2011-2022)**



Source: Casa Franceschi

EXHIBIT 5. CASA FRANCESCHI - GRUPO SAN JOSÉ B-CORP EVALUATION AS OF THE FISCAL YEAR ENDING SEPTEMBER 2019

Casa Franceschi - Grupo San José	Total Score:	101.0
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Governance	Questions Answered	32/32	Overall score	8.4
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Mission and Commitment	Overall score	1.6/4
Ethics and Transparency	Overall score	4.2/6
Mission protection - Business Model of Impact	Overall score	2.5/10

Workers	Questions Answered	72/72	Overall score	60.6
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Finance Security	Overall score	2.2/17
Health, Well-being and Security	Overall score	7.2/10
Professional Development	Overall score	2.3/3.5
Professional Development (employees)	Overall score	0.6/1.5
Satisfaction and Development	Overall score	3.1/5
Satisfaction and Development (employees)	Overall score	1.0/3
Workforce Development - Business Model of Impact	Overall score	39.5/60

Community	Questions Answered	68/68	Overall score	18.4
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Diversity, Equality, and Inclusion	Overall score	2.6/10
Economic Impact	Overall score	3.2/10
Civic Engagement and Donations	Overall score	1.5/8
Supply Chain Management	Overall score	2.7/12
Poverty Alleviation in the Supply Chain- Business Model of Impact	Overall score	6.9/30

Environment	Questions Answered	57/58	Overall score	11.1
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Environmental Management	Overall score	0.8/5
Air and Climate	Overall score	0.4/9
Water	Overall score	3.1/7
Land and Life	Overall score	6.2/24

Customers	Questions Answered	9/9	Overall score	2.4
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Customer Management	Overall score	2.4/5
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Source: **Author's adaptation from Casa Franceschi documents (authors' free translation)**

Exhibit 6. CASA FRANCESCHI CHALLENGES IN 2022 FOR MEETING B-CORP CERTIFICATION REQUIREMENTS

Environmental Management

Environmental Management System
Products with environmental certification
Percentage of the products subjected to an environmental footprint evaluation

Air and Climate

Consumption of low-impact renewable energy
Reduction in greenhouse gas emissions
Purchases from local suppliers expressed as a percentage of the low cost of goods viewing
Percentage of raw materials purchased from local suppliers

Water

Sustainable Water Consumption Monitoring and Management
Responsible Control of Toxic Wastewater
Water Quality Preservation Strategies for Sustainability
Eco-Friendly Practices for Irrigation Wastewater Treatment
Sustainable Management of Irrigation Wastewater

Land and Life

Waste Reduction Programs for Sustainability
Responsible Organic Waste Management
Enhancing Sustainability Through Environmentally Preferable Materials
Hazardous Waste Monitoring and Responsible Disposal
Responsible Hazardous Materials Management at Facilities
Environmentally Conscious Pest Control Policies

Prudent Use of Pesticides in Line with Sustainability
Promoting Sustainable Land Use Practices
Sustainable Supplier Tiers Management
Fostering Soil Management Policies for Sustainable Agriculture
Optimizing Soil Productivity for Sustainability
Achieving Sustainability Certification for Agricultural Establishments
Monitoring Biodiversity for Environmental Conservation

Diversity, Equality, and Inclusion

Promoting Diversity in Corporate Participation and Company Leadership
Inclusive Management of Underrepresented Groups
Fostering Gender Diversity Among Directors
Inclusion of Underrepresented Groups on the Board of Directors
Supplier Diversity and Inclusive Procurement Practices

Supply Chain Management

Ethical Supplier Code of Conduct
Promoting Supplier Participation in Impact Improvement Programs
Sourcing from Certified Suppliers
Environmental Certification for Cultivated Crops

Poverty Alleviation in the Supply Chain

Ethical Evaluation of Wages and Working Conditions
Monitoring and Enhancing Worker Impact
Promoting Supply Chain Transparency and Responsibility

Source: **Author's adaptation from Casa Franceschi documents (authors' free translation)**

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