The Ford Foundation and TransFair USA

“People can change the world with something as mundane and ubiquitous as a daily cup of coffee.”

—Paul Rice, founder of TransFair USA

Part A

New York, Ford Foundation Offices, 2003

Frank DeGiovanni, director of the Ford Foundation’s Economic Development unit, and the head of the Foundation’s Program-Related Investment (PRI) initiative, examined a document prepared by his colleague Michele Kahane. The document was the rough draft of a Request for Grant Approval (RGA) for a $2 million PRI to be awarded to TransFair USA, the sole third-party certifier of fair trade products in the United States.

The draft RGA outlined the market failures that had produced deep poverty among millions of small coffee farmers throughout Latin America, Africa, and Asia. The RGA described TransFair USA’s history, leadership, and organizational structure, and the risks and mitigants the organization expected to face. TransFair USA’s track record and its prospects for growth were analyzed.

PRIs are loans, loan guarantees, or equity investments designed “to help meet the credit needs of organizations in low-income communities that lack capital to finance important projects.”

Unlike conventional grants, PRIs are recoverable.

As head of PRIs at Ford, DeGiovanni was well aware of the initiative’s limitations. PRIs drew from a relatively small pool of money. In 2002, the PRI initiative had awarded 10 loans totaling only $16 million, as compared to the Foundation’s total grantmaking of over half a billion dollars.

DeGiovanni’s PRI budget for 2003 would be only slightly higher. While most PRIs originated in Ford’s Asset Building and Community Development program, every unit in the Foundation dealt with grantees that were potential PRI recipients. Grantees often waited for a

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year or more for their PRI application to be considered, and there was no guarantee that the PRI would be approved after the wait.  

DeGiovanni examined TransFair USA’s RGA. Most PRI recipients were well-established organizations with long track records and highly dependable revenue streams. TransFair USA, by contrast, was only five years old and its ability to repay a major loan would depend entirely on its skill at creating demand among consumers for fair trade coffee and marketing fair trade coffee labeling to roasters and retailers. There were no guarantees that TransFair would be successful in doing so.

With so few dollars available for PRIs, and so many worthy projects, DeGiovanni had to be absolutely certain of the soundness of a proposal before he recommended it to the president of the Foundation for approval. Essentially, the PRI program was looking for the greatest amount of social benefit for the least amount of risk.

What evidence supported the idea that TransFair USA’s activities produced substantial social benefit? What evidence argued in favor of TransFair USA’s business model? What evidence argued against it? What should DeGiovanni do?

HENRY FORD AND THE FORD MOTOR COMPANY

Born in Springwells Township (now Dearborn), Michigan, in 1863, Henry Ford founded the Ford Motor Company in 1903. Under the engineering and managerial leadership of its founder, Ford Motor pioneered the assembly-line method of mass production, paid higher-than-average wages, made cars affordable for middle-class consumers, and catalyzed the advent of the automobile culture in America and beyond. From 1908 to 1928, the company sold 17 million of its popular Model-T’s.

In 1915, Henry Ford led a privately sponsored peace trip to Europe in a failed effort to end World War I. After the United States entered the war, his company became the leading producer of ambulances, airplanes, munitions, and tanks for the U.S. military. After a financial crisis in 1921, Ford began producing higher-priced vehicles and founded subsidiaries in Europe. Opposed to trade unionism, Ford vigorously resisted organizing in his factories by the United Automobile Workers until 1941. His paternalistic attitude toward employees and controversial statements on political and social issues garnered significant antagonism. A staunch isolationist before World War II, Ford again converted his factories to war production after 1941. Retaining the leadership of the company within his family, Henry Ford retired in 1945 and died in 1947.

THE FORD FOUNDATION

Established in 1936 by Henry Ford and his son Edsel in Michigan, the Ford Foundation would become one of America’s largest and most influential philanthropic institutions. According to its charter, the Foundation was founded “to receive and administer funds for scientific, educational and charitable purposes, all for the public welfare.” The mission of the Foundation was to “strengthen democratic values, reduce poverty and injustice, promote international cooperation, and advance human achievement.”

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4 Interview with Michael E. Conroy, October 2006.
5 Conroy interview, op. cit.
In 1948, the Board of Trustees convened a Study Committee of independent consultants to recommend how the Ford Foundation could “most effectively and intelligently put its resources to work for human welfare.” The Committee was chaired by H. Rowan Gaither, who later served as Ford Foundation President and board chair.

Informed by “data from hundreds of interviews and conferences and from thousands of pages of written materials,” the Committee produced its 1949 Report of the Study for the Ford Foundation on Policy and Program, known as the Gaither Report. The report defined the term human welfare, examined the major problems besetting humanity, and proposed programs for addressing the problems. Proceeding from the conviction that “the real hope for the advancement of human welfare lies in the reaffirmation in practice of democratic principles,” the report outlined five program areas:

- **The Establishment of Peace:** Activities that promise significant contributions to world peace and to the establishment of a world order of law and justice.
- **The Strengthening of Democracy:** Activities designed to secure greater allegiance to the basic principles of freedom and democracy in the solution of the insistent problems of an ever-changing society.
- **The Strengthening of the Economy:** Activities designed to advance the economic well-being of people everywhere and to improve economic institutions for the better realization of democratic goals.
- **Education in a Democratic Society:** Activities to strengthen, expand, and improve educational facilities and methods to enable individuals more fully to realize their intellectual, civic, and spiritual potentialities; to promote greater equality of educational opportunity; and to conserve and increase knowledge and enrich our culture.
- **Individual Behavior and Human Relations:** Activities designed to increase knowledge of factors that influence or determine human conduct and to extend such knowledge for the maximum benefit of individuals and of society.

Lastly, the Committee defined “the organization and operating procedures most appropriate for programs of the kind proposed and for a modern foundation with resources as large as those of the Ford Foundation.” Approved by the Board, the plan “signaled the transformation of the Foundation from a local philanthropy to one of national and international scope.”

Prior to 1950, Ford engaged mainly in local philanthropic activities, giving approximately $1 million annually to Michigan nonprofits such as Henry Ford Hospital in Detroit and the Edison Institute of Dearborn. After receiving the bulk of the estates of Henry Ford, his wife, and Edsel, the Ford Foundation after 1950 became the largest foundation in America and undertook broader philanthropy from its new headquarters in New York City.

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12 Ford Foundation, op. cit., p. 15.
1951, Ford made $30 million in grants (equivalent to $228 million in 2005 dollars). In the 1960s, Ford alone held one-third of all the assets owned by the top 33 foundations. In 2003, grants totaled $489 million with assets of $9.8 billion.

Program-Related Investments
In 1968 Ford initiated a policy of each year investing a portion of the Foundation’s endowment in Program-Related Investments (PRIs). Ford’s Annual Report 1968 explained:

In a major departure from past policy, the Foundation this year began using part of its investment portfolio directly for social purposes. In the past, the Foundation has worked mainly through outright grants to nonprofit institutions. It will now also devote a part of its investment portfolio (through such devices as guarantees, stock purchases, and loans) to assist organizations, profit-making as well as nonprofit if necessary, working toward solution of social and economic problems of national concern. The purpose of these actions, termed Program-Related Investments, is twofold:

- first, to afford the Foundation a new set of instruments for responding flexibly to important needs; the investments, therefore, will be assessed in terms of their promise for advancing the public well-being, despite their higher risk and lower yield in conventional market terms;
- second, to experiment and collaborate with major sources of credit—private and governmental—in expanding and using new means to finance socially important ventures.

Ford was not the first philanthropic institution to commit capital for social purposes. Indeed, Benjamin Franklin had established funds in Boston and Philadelphia for the purpose of lending capital at five percent interest to young entrepreneurs. Still, in the late 1960s few foundations other than Ford made use of capital as a philanthropic tool.

In 1974, Ford published a report entitled Program-Related Investments: A Different Approach to Philanthropy. Functioning as an assessment of and applicant guide to PRIs, the report laid out the criteria by which the Foundation selected PRI recipients:

- Projects must be economically feasible. Applicants must be able to show that the proposed activity will generate sufficient funds to repay the principal and yield of the investment plus administrative charges with the term established.
- Applicants must possess or have access to the management capability to carry out their projects. . . .
- The PRI must have a relative advantage as a source of financing. For example, a project may require a greater degree of financial flexibility (e.g., longer period of repayment, reduced rate of interest) that is only available through PRI. . . .

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19 Ford Foundation, Program-Related Investments, op. cit., p. 4.
- PRI should be a catalyst for inducing other financial institutions to invest in the project.
- The project should relate to the Foundation’s program interests or assist in the building of a nonprofit institution whose activities are of concern to the Foundation.\(^\text{20}\)

Nearly two decades later those same criteria for PRI recipients obtained as the Foundation strove to fulfill its mission by reducing poverty and injustice among some of the poorest in the world: coffee farmers.

**The Coffee Industry**

Measured in monetary value of international trade, coffee is the second-most important commodity in the world, trailing only crude oil. Though coffee beans have been consumed in Africa for at least a thousand years, coffee arrived in Europe only in the seventeenth century. With the establishment of thousands of small-scale farms in the Middle East, North Africa, Indonesia, and India to meet European demand, coffee cultivation spurred European colonial expansion and played a central role in the creation of a global trade. Coffee was first cultivated in the Americas in the early eighteenth century; within a hundred years coffee cultivation had spread throughout much of Central and South America.

In the wild coffee plants attain heights of up to 15 meters, though most cultivated coffee plants are varieties that have been selected over generations so that the beans may be harvested without use of a ladder. In many places coffee plants are planted under either an existing forest canopy or under a canopy of cultivated shade trees. The shade trees help protect the delicate coffee plants from the sun, and the trees’ leaf droppings enhance the nutrient value of the soil. The root systems of shade trees also mitigate erosion on the steep mountainsides where much coffee is grown.

Two species account for most cultivated coffee. *Coffee arabica* is indigenous to Ethiopia. Generally speaking, arabica coffee
- is relatively vulnerable to pests and disease,
- grows on mountainsides at elevations between 1,500 and 4,500 feet,
- yields a smaller crop, and
- produces better-tasting beans that are lower in caffeine.

*Coffee canephora* (robusta) is indigenous probably to Uganda. Generally speaking, robusta coffee
- is disease and pest resistant,
- grows at lower altitudes,
- yields a larger crop, and
- produces inferior-quality beans that are higher in caffeine.

In 1999, about 70 percent of the world’s coffee production was arabica, 80 percent of which was grown in Latin America. Approximately 80 percent of robusta was grown in Africa and Asia.\(^\text{21}\)


The coffee trade directly affects the economic situation of an estimated 100 million individuals\(^\text{22}\) in more than 50 countries worldwide.\(^\text{23}\) Small farms make up the overwhelming majority of the world’s 5 million\(^\text{24}\) coffee farms: Farms of less than 10 hectares (24.7 acres) produce more than 70 percent of the world’s coffee,\(^\text{25}\) and half the world’s coffee is produced by farms of less than 5 hectares (12.4 acres).\(^\text{26}\) The vast majority of the 20 to 25 million families directly involved in the production of coffee work on small farms.\(^\text{27}\)

**Coffee Processing and Production**

A coffee plant typically must grow for four years before it begins to produce harvestable beans; plants may continue to bear for up to 30 years. The fruit of the coffee plant is harvested by hand or with a harvesting machine yearly during the dry season, when the “cherries” (i.e., ripe fruit) are bright red or yellow. Within each cherry are two “beans” (i.e., seeds). Farmers who harvest by hand carefully select the ripe cherries, leaving behind the green, unripe fruit for harvest later; some farmers will harvest their trees three times in a season. Unable to distinguish between cherries and unripe fruit, mechanical harvesters produce more waste, but in locations where plants ripen uniformly, harvesting by machine and discarding unripe and overripe fruit can be more cost effective than harvesting repeatedly by hand. When picked by hand, coffee cherries are collected in 60-liter baskets; workers are typically paid according to how many baskets they fill.

Small farmers, located in isolated areas of impoverished countries with poor infrastructure, often lack ready access to markets. The farmers have no option but to sell on generally unfavorable terms to itinerant middlemen (called “coyotes” in Latin America).

**Middlemen**

Middlemen serve a number of functions in the coffee production chain, from buying cherries directly from peasant farmers or plantation owners to processing the green beans to providing local transportation and storage facilities.

The middlemen known in Latin America as “coyotes” travel the countryside purchasing coffee harvests. They may approach farmers during especially hard times and offer cash in exchange for the rights to the next season’s crop. Having neither cash reserves nor access to credit, farmers may accept extremely low offers for future harvests.

After taking possession of the freshly picked cherries, middlemen “depulp” the cherries (i.e., extract the beans from the outer husks), wash them to remove residues, and dry the beans. Sometimes the beans are spread on large, flat “patios” to dry in the sun. Some small farmers simply place the beans on a piece of plastic in front of their homes. The final drying stage may involve the use of mechanical dryers. Bean moisture content is reduced from approximately 60
percent to about 11 or 12 percent.\textsuperscript{28} Coffee beans that have been depulped and dried are known as “green” beans.

In purchasing, drying, storing, and transporting green beans, there may be multiple middlemen involved, with each taking a cut. Middlemen may also run monopolistic general stores and informal banks that cater to peasant farmers, migrant workers, and landless day laborers. Middlement often wield great influence in local governments. Large plantation owners often have their own depulping and drying facilities and can thus avoid dealing with middlemen.

\textit{Processors}

After purchasing dried green beans from coyotes, processors remove the fine “parchments” (seed hulls) that cover the beans and sort them according to color and density. The skinning and sorting processes are usually performed by expensive machinery, though in some places the processes are still done by hand. Processors pack the skinned and sorted beans into 60 kilogram burlap sacks. A hundred kilograms of coffee cherries produces about 12 to 20 kilograms of green coffee ready for export.\textsuperscript{29} Three hundred to 500 kilograms of ripe cherries go into each 60 kilogram sack of skinned, dried green beans.

\textit{Exporters and Brokers}

Exporters buy sacks of graded coffee from processors and arrange for international shipping in containers that each hold 37,000 pounds of coffee (about 1,360 60-kilo sacks). Exporters seek to make a profit through the classic method of buying low and selling high.

Commodity exchange brokers earn commissions by purchasing coffee from exporters and selling it to roasters; brokers never actually handle the product. The international price of robusta coffee is determined by brokers at the commodities exchange in London; arabica coffee is handled at the commodities exchange in New York.

\textit{Importers, Roasters, and Retailers}

Four large transnational corporations—Proctor & Gamble, Sara Lee, Nestlé, and the Altria Group (formerly Philip Morris, including Kraft Foods)\textsuperscript{30}—dominate the importing and roasting of coffee. Aside from Big Four and a handful of other large transnationals,\textsuperscript{31} hundreds of smaller, independent roasters—ranging in size from individuals to companies with regional markets—buy beans from separate coffee-importing companies, of which about 100 serve the United States.

The roasting process consists of cleaning, roasting, and cooling. When roasted, coffee beans darken and swell, doubling their size. Many roasters grind and package beans onsite or further process the grinds to make instant coffee. The roasted beans, whether ground or whole, are sold to retailers such as grocery stores, restaurants, and coffeehouses, who sell to consumers.

The conventional coffee value chain can be summarized as follows:

- Farmers plant and maintain the coffee plants, bearing the risks of drought and disease. Farmers pick the coffee cherries, receiving the farm gate price.

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\textsuperscript{30} Some familiar brand names for each of the major roasters: Proctor & Gamble: Folger’s, Millstone, Mountain Grown; Sara Lee: Chock Full o’ Nuts, Senseo, Superior; Nestlé: Chase & Sanborn, Hills Brothers, Nescafé, Taster’s Choice; Altria: General Foods International Coffees, Gevalia, Maxwell House, Sanka.

\textsuperscript{31} Other larger roasters include Starbucks, Tchibo, Diedrich, AFC, Van Houtte, Cara, and Tetley.
Middlemen depulp the cherries and dry the green beans, receiving a first factory gate price. (Large plantation owners may depulp and dry the beans themselves, thus receiving the factory gate price rather than the farm gate price.) Processors shell, sort, and pack the green beans into sacks, receiving the “free on board” (fob) or export price. Exporters ship the green beans to importing countries, receiving the cost, insurance, freight (cif) or import price. Commodities exchange brokers in London or New York pass the green beans along at the wholesale price. Transnational corporations purchase green beans on the commodities exchange, roast the beans, and sell the roasted beans to retailers at a second factory gate price. (Smaller roasters purchase beans from coffee importers, who in turn buy from brokers.) Grocery stores, restaurants, caterers, and coffeehouses sell coffee to the public at retail prices. At the middleman and broker stages, multiple actors may be involved.

**The International Coffee Agreements**

A thriving international trade in coffee has been conducted since the eighteenth century. Following a period of unusual price swings due to fluctuations in supply (bumper crops some years, failed crops in others) in the late 1950s, Brazil, the world’s leading producer of coffee, along with Colombia and other Latin American countries, attempted to form a coffee cartel in order to establish price controls. Though the cartel attempt failed, the effort led to the formation of an international Coffee Study Group, which met to determine ways to stabilize the coffee market. Under the auspices of the United Nations, in 1962 the Group adopted the first International Coffee Agreement (ICA), which laid out the following objectives:

1. to achieve a reasonable balance between supply and demand on a basis which will assure adequate supplies of coffee to consumers and markets for coffee to producers at equitable prices, and which will bring about long-term equilibrium between production and consumption;
2. to alleviate the serious hardship caused by burdensome surpluses and excessive fluctuations in the prices of coffee to the detriment of the interests of both producers and consumers;
3. to contribute to the development of productive resources and to the promotion and maintenance of employment and income in the Member countries, thereby helping to bring about fair wages, higher living standards, and better working conditions;
4. to assist in increasing the purchasing power of coffee-exporting countries by keeping prices at equitable levels and by increasing consumption;
5. to encourage the consumption of coffee by every possible means; and
6. in general, in recognition of the relationship of the trade in coffee to the economic stability of markets for industrial products, to further international cooperation in connexion with world coffee problems.

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The Agreement, in force for five years, established an internationally sanctioned export cartel of 37 major coffee-producing nations, as well as import regulations for 26 major coffee-consuming nations. Producing nations were subject to export quotas, and importing nations agreed not to purchase coffee from “free riders” (exporting nonsignatories to the ICA) and to require all imports to carry certificates of origin. The following year the signatories to the ICA formed the International Coffee Organization (ICO), the main intergovernmental organization for coffee.

Largely successful in stabilizing the commodity price of coffee, the ICA was renewed, under similar terms, in 1968. Rising prices led to the collapse of the quota system among producing countries in 1973, and the Agreement was extended without the economic provisions.\[35\] Starting the next year, Brazil and Columbia again led an effort to form a unilateral cartel to reinstate price controls.\[36\] In 1975 a heavy frost in Brazil damaged millions of coffee plants, reducing the 1976-77 harvests as the plants recovered, significantly cutting into world supply and driving up prices. The 1976 ICA, negotiated in the context of the threatened cartel and the Brazil frost, restored the previous Agreements’ cartel and quota system, with the provision that quotas might be suspended if prices rose above a certain level and reinstated when prices fell. Quotas activated in 1980 in response to falling prices successfully stabilized the market for producers, and the 1976 Agreement was renewed essentially unchanged in 1983.

**Demise of the International Coffee Agreements**

As the 1980s came to a close, unity among the coffee-exporting countries began to fray. Columbia, Kenya, Tanzania, and a number of Central American countries that grew mostly high-quality arabicas had come to believe that the ICA disproportionately benefited Brazil, producer of cheap robustas and lower-quality arabicas. Within Brazil itself, farmers, exporters, and roasters disagreed over whom the ICA benefited and whether it should be extended. Because Brazil’s share of the total world market had declined over the years, and because its coffee industry no longer spoke with one voice, Brazil was unable to discipline its fellow producers by threatening to flood a quotaless market.\[37\]

In the coffee-importing countries, consumer demand for high-quality arabica had risen, creating dissatisfaction with a quota allocation system that favored Brazil and its robustas and low-quality arabicas. Furthermore, importing ICA signatories were unhappy with the fact that nonmember importers could buy coffee at free-market prices, which ran 30 to 50 percent below ICA prices.\[38\]

With Soviet leader Mikhail Gorbachev’s introduction to the Warsaw Pact of *perestroika* (“restructuring”) and *glasnost* (“openness”), the United States and its allies sensed the weakening of their geopolitical rival and lost interest in supporting a coffee cartel designed to stabilize, and even prop up, prices in developing countries. Broad international trends toward governmental contraction, deregulation of markets, and privatization further weakened the impulse among coffee-importing countries to renew the ICA. For their part, the “big four” roasters could see little downside to operating in a free market.

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34 A provision in the ICA allowed importing countries to purchase coffee from select nonsignatory nations in order to encourage coffee cultivation in those countries.


Thus, for a variety of reasons, no agreement could be reached when the fourth ICA came up for renewal in 1989. Sociologist John M. Talbott summed up the circumstances of the demise of the International Coffee Agreements:

The consuming states acquiesced in the establishment of the export quota system because it . . . suited their geopolitical aims—to provide economic assistance in somewhat disguised form to key Third World allies. The TNCs [transnational corporations] also acquiesced, because the ICAs stabilized supplies and prices of green coffee, and because they were still able to turn a handsome profit under the system. By the mid-1980s, however, neoliberal economics were becoming fashionable, the TNCs had consolidated control over the core markets, and the Soviet bloc was beginning to fall apart. These developments undermined the consensus among producing states, consuming states, and TNCs, leading to the collapse of the ICA . . . 39

Meanwhile, the drinking habits of consumers in the developed world were changing. From 1970 to 2000, yearly average per capita coffee consumption in the United States fell from 36 gallons to 17 gallons (offset in a rise in consumption of carbonated drinks from 23 gallons to 53 gallons).40 In other parts of the world, coffee consumption grew; Eastern Europe and Japan, in particular, were growing markets. Still, global consumption failed to keep up with supply.

THE COFFEE CRISIS

With the demise of the International Coffee Agreements’ quota system, individual coffee-producing nations were no longer required to keep production down. The World Bank, the International Monetary Fund, and other international institutions encouraged poor countries to liberalize trade policies and invest in export-oriented agriculture such as coffee farming. The Big Four coffee roasters, seeing an opportunity to drive down the cost of raw materials, also encouraged the establishment of new coffee farms.

Two nations in particular began ramping up their coffee production: Brazil and Vietnam, both of which boosted output mainly of cheap robusta. Over the course of the 1990s, the Brazilian government promoted coffee farming in frost-free areas of the country and introduced improved technology such as mechanical harvesters. At the same time, the government of Vietnam provided subsidies to farmers to convert over a million acres of farmland to coffee production.41 Because coffee plants must grow for several seasons before they bear fruit, some years elapsed before new coffee farms in Brazil, Vietnam, and elsewhere began harvesting. In 1989 Vietnam was a minor player on the coffee scene, producing about 1 million 60-kilo sacks of coffee, as compared to Brazil’s 24.5 million.42 By 2001 Brazil had increased its production to 34.1 million 60-kilo sacks, and Vietnam, at 14.9 million sacks, had become the world’s second-leading producer of coffee.43 Global coffee production rose from 94.1 million 60-kilo sacks in 1989 to 121.9 million sacks in 2002.44

40 Gresser and Tickell, op. cit., p. 19.
41 Stein, Nicholas, and Doris Burke, “Crisis in a Coffee Cup.” Fortune, December 9, 2002.
43 International Coffee Organization, op. cit.
44 International Coffee Organization, op. cit.
The post-ICA boom in coffee production also led to widespread ecological problems. Being more suitable to mechanical harvesting and other technological interventions, “sun” coffee is often cheaper to grow than is “shade” coffee (i.e., coffee grown beneath forest canopies). Much of the new coffee farmland, especially that in Asia, was established by clearcutting forest to grow sun coffee. Over 1.1 million acres of Latin American shade coffee farmland was converted to grow sun coffee; by 1999, sun coffee made up 30 to 40 percent of all non-Brazilian Latin American coffee production.\(^\text{45}\) (Brazil had always produced sun coffee almost exclusively.) In addition to deforestation and habitat destruction, the increased use of the chemical fertilizers, pesticides, and herbicides required by sun coffee degraded soils and waterways and harmed worker health.\(^\text{46}\)

**Where Are the Profits?**

With the eradication of the quota system, coffee commodity prices plunged from 1989 to 1993. Brazilian frosts in 1994 and 1995 produced brief upswings in prices, which had the unfortunate effect of further spurring global production. Within a few years, the bottom dropped out of the coffee market, with prices falling by 21 percent in 1999, 25 percent in 2000, and 29 percent in 2001.\(^\text{47}\) Adjusted for inflation, the 2001 price represented a hundred-year low (see Exhibit A).

A 2002 report from Oxfam International summarized how the fall in coffee commodity prices played out in exporter countries:

> The coffee market is failing. It is failing producers on small family farms for whom coffee used to make money. It is failing local exporters and entrepreneurs who are going to the wall in the face of fierce international competition. And it is failing governments that had encouraged coffee production to increase export earnings.

> Ten years ago producer-country exports captured one-third of the value of the coffee market. Today, they capture less than ten percent.\(^\text{48}\)

Falling commodity prices ravaged the economies of poor coffee-exporting nations, many of which were highly dependent on the crop. According to a 2004 UN report:

> Burundi derives nearly 80 percent of export earnings from coffee; Uganda and Ethiopia more than 50 percent; and Rwanda slightly less than 50 percent. A number of Latin American countries also have high dependency on coffee, notably Colombia and El Salvador where coffee has accounted for around 15 percent of export earnings, and Guatemala, Honduras and Nicaragua with around 20 percent of export earnings. Export dependency is also reflected in significant shares of employment related to coffee: in Colombia for example 30 percent of the rural population is directly dependent on coffee.\(^\text{49}\)

> Yet while the commodity price of coffee dropped, and exporter companies saw their portion of the coffee value chain shrink, the price that consumers paid at the grocery store or coffeehouse remained stable. Where was the money going?

\(^{45}\) Rice and McLean, op. cit., p. 21.
\(^{46}\) Rice and McLean, op. cit., p. 11.
\(^{48}\) Gresser and Tickell, op. cit., p. 2.
\(^{49}\) Hallam, op. cit., p. 7.
Not, primarily, into the last link of the value chain, the retailers. Coffeehouses that bought from roasters did not see much of a drop in the factory gate price, and grocery stores often sold coffee as a “loss leader” to attract consumers. Though elements on the green coffee end of the value chain—coyotes, processors, exporters, and brokers—sometimes managed to take significant cuts along the way, the real winners were the roasters, especially the Big Four, who controlled about 60 percent of the world coffee trade and 75 percent of the American retail trade. Because coffee operations are nested within larger food-and-beverage units, exact financial figures from the Big Four transnationals are difficult to extract. Still, the general profitability of the Big Four’s larger units points to the value of their coffee interests. In 2002, Sara Lee, for example, maintained an operating profit of 17 percent for its beverages unit, which mainly handles coffee; some analysts believe Nestlé’s instant-coffee business operates on a 30 percent profit margin.50

Oxfam’s 2002 report summed up the plight of small coffee farmers:

At the [supply] end of the value chain the market does not feel so free. Without roads or transport to local markets, without technical backup, credit, or information about prices, the vast majority of farmers are at the mercy of itinerant traders offering a “take it or leave it” price.51

By the early 2000s, small coffee farmers were receiving on average about six percent of the price of a bag of roasted whole-bean or ground coffee sold in a grocery store, and less than one percent of the price of a cup of coffee sold in a coffeehouse.52 In dollars and cents, those figures translated to farmers’ typically receiving 30 to 50 cents per pound on coffee that sold at retail for 8 to 10 dollars per pound.53

THE RISE OF FAIR TRADE

Shortly after World War II, Edna Ruth Byler, a member of a Pennsylvania Mennonite church group, traveled to Puerto Rico, where she observed women producing handmade embroidery. The women were paid very poorly, and Byler reasoned that if they had a way to sell their embroidery in the United States, they could make more money. Byler bought some pieces and took them home to Pennsylvania, where she sold them out of the trunk of her car. Sales took off, and Byler soon added handmade crafts from Palestinian and Haitian artisans. Initially a program of the Mennonite Central Committee and staffed by volunteers, Byler’s growing nonprofit, Self-Help Crafts, opened retail outlets in locations scattered throughout the United States and Canada, selling items made by thousands of artisans worldwide. Self-Help Crafts eventually evolved into Ten Thousand Villages, named for a quotation from Mohandas Gandhi: “India is not to be found in its few cities but in the 700,000 villages.”54

In 1950 the Oxford Committee for Famine Relief (later renamed Oxfam) began selling crafts made by Chinese refugees.55 Around that time, church groups in Europe and America

52 Gresser and Tickell, op. cit., p. 20.
53 Herbst, op. cit.
initiated efforts, similar to those of Byler and Oxfam, to purchase products from refugees of World War II and from artisans in poor countries. Groups such as SERRV International (a nonprofit that started as a program of the Church of the Brethren) and Equal Exchange (a for-profit company) further developed the concept of connecting impoverished producers with well-off consumers.

The idea that artisans and farmers in poor countries might benefit from the relatively unmediated sale of their products to consumers in industrialized countries—and that if consumers understood the arrangement, they might be willing to pay a premium for such products—was initially called *alternative trade* but has come to be known as *fair trade*.

**The Founding of Fairtrade Labelling Organizations International**

Named for an anticolonialist 1860 novel, *Max Havelaar, or the Coffee Auctions of the Dutch Trading Company* by the Dutch writer Multatuli (pen name of Eduard Douwes Dekker), the Max Havelaar Foundation was founded in the Netherlands in 1988 in response to a fall in coffee commodity prices. Max Havelaar awarded a “quality label” to coffees that were produced according to fair trade principles, including fair prices paid to farms and plantations to cover costs of production, guaranteed minimum wages for workers, and strict environmental standards.\(^{56}\)

In the 1990s fair trade certification programs began catching on among coffee-importing nations, with fair trade organizations being founded in many major countries. In 1997 organizations from 20 nations\(^{57}\) joined to form Fairtrade Labelling Organizations International (FLO), which sets the worldwide standard and certification process for fair trade labeling. FLO performs two main functions:

- FLO develops standards for producers (farmers and plantation owners) in winning and maintaining certification.
- By working with a network of more than 60 independent inspecting organizations, FLO ensures that producers comply with standards; an auditing system monitors links in the supply chain to ensure that retail items labeled as fair trade certified have been produced and traded according to fair trade principles.\(^{58}\)

FLO works closely with four other international associations that promote sustainable production and trade with disadvantaged workers and producers:

- The International Fair Trade Association (IFAT), a network of 300 producer cooperatives and associations, export marketing companies, importers, retailers, financial institutions, and national and regional fair trade networks and producer organizations in 70 countries
- The Network of European Worldshops (NEWS!), a network of national associations of 2,500 shops selling fair trade products in 13 member countries
- The European Fair Trade Association (EFTA), an association of 11 fair trade importers in 9 European countries

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\(^{57}\) In addition to the Netherlands, countries with representation in FLO included Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Luxembourg, New Zealand, Norway, Spain, Sweden, Switzerland, the United Kingdom, and the United States.

• The International Social and Environmental Accreditation and Labelling (ISEAL) Alliance, an association of standard-setting, certifying, and accrediting organizations focused on social and environmental issues.\textsuperscript{59}

Together with its partners, FLO works to promote fair trade practices among coffee farmers, middlemen, processors, exporters, brokers, roasters, and retailers worldwide.

Fair trade certified farms must be small, family owned, and dependent mainly on the family’s labor, and they must be members of a cooperative or other democratically organized producer organization. Farmers must pursue crop diversification and other sustainable practices. In the best of years, a small 1- to 3-hectare coffee farm will produce a harvest of only a few thousand pounds. Because exporters deal in quantities of eight to ten containers (each of which holds 37,000 pounds) minimally, hundreds of small farmers typically must come together to form cooperatives in order to enter the export market and receive fair trade certification. Coffee cooperatives may include thousands of farms; coops often band together to form second-level cooperative unions, which may represent tens of thousands of individuals.\textsuperscript{60} Fair trade certified cooperatives must be politically independent and democratically controlled and must promote social development, including health care, education, improved housing, organizational development, and soil and water conservation. Cooperatives may not practice racial, religious, sexual, or political discrimination.

For its part, FLO guarantees that cooperatives will receive a livable farm gate price floor (e.g., $1.26 per pound in 2001, in contrast to the market price of about 30 cents per pound). The fair trade price is a global standard, set yearly by FLO. FLO requires that cooperatives commit a portion of the price received (e.g., 5 cents per pound in 2001, raised to 10 cents in 2007) to social development purposes. Coops can receive additional premiums for growing organic coffee (e.g., 15 cents per pound in 2001, raised to 20 cents in 2007). FLO provides a stable, long-term trade partner that enables farmers to make production plans for the future.

At the other end of the supply chain, roasters pay a licensing fee (e.g., 10 cents per pound in 2001)\textsuperscript{61} for the privilege of labeling their coffee fair trade. Fair trade certifying organizations in consumer countries depend on the licensing fee, as well as on support from government and philanthropic institutions, for income.

**Fair Trade in the United States**

**Paul Rice**

A native of Texas, Paul Rice earned a degree in economics and political science from Yale University. Driven by a desire to, as he put it, “change the world,” in 1983 Rice went to live among the campesinos of Nicaragua during that country’s civil war between the Sandinista government and the contra guerrillas. He lived in the village of Santa Teresa, where a group of formerly landless workers had formed a cooperative to farm land previously run as a plantation. “I worked in the fields by day, planting corn and beans behind a team of oxen. By night I took oral histories and analyzed productivity data by candlelight.”\textsuperscript{62} In a 2001 interview, Rice recalled what he learned from his 11 years in Nicaragua:


\textsuperscript{61} Herbst, op. cit.

\textsuperscript{62} Herbst, op. cit.
My data indicated that land and labor productivity were dramatically higher on the cooperative than [they] had been under the previous plantation owner. It stood to reason: now that the families were working for themselves, instead of the *patrón*, they worked harder, stayed in the fields longer, and harvested a bumper crop that summer.63

In the late 1980s, Rice helped found the organization that eventually became known as Promotora de Desarrollo Cooperativo de las Segovias (PRODECOOP), an alliance of about 40 cooperatives representing over 2,000 small farmers in the Segovias region of Nicaragua.64 PRODECOOP worked to help farmers sustain production according to fair trade principles and coordinated the marketing of the harvest. PRODECOOP became one of the world’s largest exporters of organic coffee.65

In 1994 Rice returned to the United States and earned an MBA from the Haas School of Business at the University of California, Berkeley. During his time at Berkeley, he worked for the organization that would become the sole fair trade certifier in the United States.

**TransFair USA**
TransFair USA's roots go back to 1995, when the Institute for Agriculture and Trade Policy (IATP), a nonprofit devoted to the promotion of positive alternatives to economically and environmentally destructive agricultural and trade practices, became interested in developing and marketing a line of fair trade coffees. The coalition of European fair trade organizations that was in the process of organizing FLO granted IATP the exclusive fair trade franchise in the United States. Over the course of several years, as IATP developed its fair trade network in Guatemala and other Central American countries, the Ford Foundation awarded IATP a number of small grants to help it build a business model and to create links between it and producers in Mexico and Central America. Paul Rice, then a graduate student at Berkeley, was hired by IATP to help formulate the business plan.

In time, staff at IATP realized that the organization couldn’t both be a certifier of fair trade and also sell a line of fair trade coffees—the conflict of interest would devalue fair trade certification. Accordingly, the certification program was spun off as its own nonprofit. That nonprofit was TransFair USA, which Paul Rice helped found in 1998.

The sole third-party certifier of fair trade products in the United States, TransFair USA audits the coffee custody chain from shippers to brokers, to roasters, to retailers, to guarantee that cooperatives have been paid the global FLO-determined price.

**THE FORD FOUNDATION AND TRANSFAIR**

**Structure of the Ford Foundation, 2003**
In 1996, the Ford Foundation underwent a major restructuring, folding its longstanding nine program areas:

- Urban Poverty
- Rural Poverty and Resources
- Rights and Social Justice

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63 Herbst, op. cit.
65 Herbst, op. cit.
Governance and Public Policy
Education and Culture
International Affairs
Reproductive Health and Population
Program-Related Investments
Media Projects

into a more streamlined three:

Asset Building and Community Development
Peace and Social Justice
Education, Media, Arts, and Culture (later renamed Knowledge, Creativity, and Freedom)

The mid 1990s reorganization reflected, among other things, a change in Ford’s approach to poverty alleviation. A 2005 report published by Ford explained:

[D]uring the mid-90s, the Foundation underwent a process of reflection concerning the Foundation’s global grant making and partnerships on behalf of alleviating poverty and social injustice. The result was the development of an asset-building framework based on a comprehensive view of assets as a broad array of resources that enable people and communities to exert control over their lives and participate in society in meaningful and effective ways.

In contrast to the Foundation’s previous income-focused approach to poverty alleviation, the asset-building approach defines assets as enduring resources—financial holdings, natural resources, social bonds and human capital—that individuals, organizations, or communities can acquire, develop, improve or transfer across generations.66

The Foundation described the Asset Building and Community Development program as follows:

[The] program helps strengthen and increase the effectiveness of people and organizations working to find solutions to problems of poverty and injustice. Thirty-one program staff focus grant resources in two program units in New York and abroad. We support people who are building human, social, financial and environmental assets that enable people and communities to expand opportunities, to exert control over their lives and to participate in their societies in meaningful and effective ways. Grants support vibrant social movements, institutions and partnerships that analyze contemporary social and economic opportunities and devise responses to them.67

The Asset Building and Community Development program was divided into two units: Community and Resource Development, and Economic Development. The Community and Resource Development unit was divided, in turn, into three sections: Environment and Development, Community Development, and Sexuality and Reproductive Health. The Economic

Development unit was divided into two sections: Development Finance and Economic Security, and Work-Force Development. The Economic Development unit also administered Program-Related Investments for all of the Foundation’s programs. (See Exhibit B.)

Michael Conroy

Michael Conroy earned a bachelor’s in economics and Latin American studies from Tulane University and a master’s degree and doctorate in economics from the University of Illinois at Urbana-Champaign. He taught economics and Latin American studies for over two decades at the University of Texas at Austin before taking a two-year leave of absence to join the Ford Foundation's Mexico City office in 1994. The two-year leave turned into a long-term commitment to Ford, and Conroy spent four years in Mexico City before he was recruited to join Ford's New York headquarters, where he worked in the Environment and Development section of the Community and Resource Development unit of the Asset Building and Community Development program, managing Ford's work on globalization and poverty alleviation.

While stationed in Ford’s New York office, Conroy worked to build a portfolio of grantees doing certification work. His interest in certification processes derived from his background as an academic economist. While teaching at the University of Texas, he’d had several students write papers on the potential of certification to improve the economic situations of people in producing countries. Conroy believed that third-party-certified fair trade was a potentially powerful market-based tool for improving the lives of impoverished coffee farmers.

One of Conroy’s grantees was the Forest Stewardship Council (FSC), which promoted sustainable forestry practices worldwide. The FSC worked to certify lumber produced by timber companies that used their forestry operations to promote long-term environmental, economic, and social benefits. Ford support for the FSC peaked in 2001 with a five-year grant of $5 million. The grant manifested a growing recognition within Ford of the potential of certification systems to alleviate poverty.

Conroy had met Paul Rice while Rice was working on a business plan for the launch of TransFair USA. When Rice approached Ford in 1998 for funding, Conroy was receptive for two reasons: First, Ford had previously supported IATP and thus had a history with fair trade and with Paul Rice. Second, Ford was one of the very few philanthropic foundations to have poverty alleviation as a specific goal. While many foundations included among their goals activities such as improving health outcomes, fostering education, or promoting justice, few declared poverty reduction as a primary element of their missions.

Conroy’s unit awarded TransFair USA a series of grants: $300,000 in 2001 “[t]o expand the marketing of certified fair trade coffee and other products in the United States”; $200,000 in 2002 “[f]or activities to expand the Certified Fair Trade movement in the United States.”; and $200,000 again in 2003.

Ford’s grants from 2001 to 2003 enabled TransFair USA to achieve impressive growth (see Exhibit C). Yet Rice believed that, with additional investment, TransFair USA could grow exponentially.

In 2001, Rice described TransFair USA’s outlook:

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68 Conroy interview, op. cit.
69 Conroy interview, op. cit.
70 Conroy interview, op. cit.
71 Conroy interview, op. cit.
Our biggest limitation has been not having the cash to really capture the market opportunity out there, and to convert that latent demand into expressed demand. If we are to reach the consuming population in this country, we need much more money to hire a bigger staff, set up regional offices to do advertising campaigns, and regional public awareness campaigns.

[We] actively build consumer demand for fair trade products, rather than waiting for industry to do all the work. This requires a significant investment in consumer awareness education campaigns, and forging alliances with consumer, community, and student activist groups, as well as churches and environmental organizations.75

By 2003, companies such as Starbucks, Green Mountain, and Peet’s Coffee were eager to participate in the fair trade certification program, but TransFair USA lacked the capacity to meet demand.76 Conroy supported Rice’s effort to scale up and encouraged Rice to write a business plan that included a Program-Related Investment from Ford.

**Michele Kahane**

Michele Kahane earned a bachelor’s degree from Princeton University, and a master’s in international affairs and an M.B.A. from Columbia University. After working for Catholic Relief Services and as a vice president in Emerging Markets Corporate Finance at Chemical Bank, in 1993 she joined the Ford Foundation in the Economic Development unit of the Asset Building and Community Development program.

Beginning in 1995, Kahane managed Ford’s Corporate Involvement (CI) Initiative, which sought to demonstrate how businesses and communities could collaborate to create “win-win” outcomes—profit for businesses, and gains in assets and wealth for low-income people. The CI Initiative leveraged private-sector expertise and resources to expand investment in four areas: financial services, workforce development, enterprise development, and regional economic development.77 Grantees included nonprofits, think tanks, business associations, and business schools. From 1995 to 2003, the CI Initiative awarded almost 50 grants totaling more than $45 million.78

With the CI Initiative, Kahane built a portfolio of clients working to address social problems that were amenable to market solutions. When Kahane learned of Paul Rice’s interest in winning a PRI grant, she joined with Michael Conroy in promoting the cause of TransFair USA within the Ford Foundation.

Kahane recalled, “With Michael’s portfolio of grantees doing certification work, and my portfolio of projects addressing market failures, Michael and I were working in complementary areas.” 79 A 2005 Ford report summarized the Foundation’s understanding of the market failures TransFair USA was working to overcome:

One important barrier in [the international coffee] market was at the market environment level. There was no mechanism . . . that would enable consumers to distinguish between coffee that was purchased on terms that would provide a sustainable livelihood to producers and coffee that was not. Accordingly, there was no way for U.S. coffee

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75 Herbst, op. cit.
76 Conroy interview, op. cit.
79 Interview with Michele Kahane, October 2006
importers and retailers to recover the higher costs of purchasing beans on terms that would provide a sustainable livelihood to producers. . . .

At the level of the market environment, TransFair raises consumer awareness to build the market for Fair Trade, ensuring that a growing number of farmers can benefit from this model. It also participates with Fairtrade Labeling Organizations International to build and maintain support for Fair Trade standards.

At the market operations level, TransFair USA is serving as a new market intermediary. It provides certification services to all businesses in the market seeking to buy and sell Fair Trade Certified coffee. It does this by auditing each transaction between TransFair licensees and Fair Trade producers to assure that it meets Fair Trade standards. Companies pay TransFair USA for this auditing service ($0.10/pound). Once their transactions are found to meet standards, they are then licensed to display the trademarked Fair Trade Certified label.

At the level of the individual firm, TransFair USA helps the companies it certifies promote their Fair Trade products. It also educates businesses about the benefits of providing Fair Trade products and builds business leadership in support of this approach.80

In short, TransFair USA was attempting to correct a market failure—coffee farmers’ inability to earn a living wage—at the production end of the supply chain by addressing a complementary market failure at the consumption end—coffee consumers’ inability to distinguish fairly priced coffee from conventional coffee.

There were reasons to doubt the receptivity of American consumers to fair trade coffee labeling. Though overall American coffee consumption had leveled off, consumption of “gourmet,” higher-end products such as espresso, cappuccino, and latte coffees had risen dramatically during the late 1990s. Roasters and retailers had responded to consumer interest in specialty coffees by differentiating among coffees, with labels emphasizing such characteristics as darkness of roast, flavorings (e.g., vanilla, hazelnut), country of origin, and organic, shade-grown, “Bird Friendly” (i.e., shade-grown coffee certified by the Smithsonian Institution’s Migratory Bird Center), or fair trade origin. Rice himself, in a white paper presented to the Consumer’s Choice Council in 1999, had identified “label fatigue” as a danger to fair trade labeling.81 A 1996 scandal, in which a California roaster named Kona Kai attempted to pass off cheap Central American coffee as high-quality Hawaiian Kona, had weakened consumer faith in coffee labeling generally.

Another danger to fair trade coffee labeling was corporate “fairwashing,” analogous to the greenwashing problem that environmental groups had long faced. Fairwashing consisted of the large transnationals’ buying tiny amounts of fair trade certified coffee, enabling the roasters to make misleading claims about supporting fair trade. Such fairwashing might, over time, lead to consumer cynicism and reduced support for fair trade.

Nevertheless, Kahane was confident that TransFair USA was a good candidate for a PRI. “I felt TransFair’s business model had tremendous potential and that Paul Rice had the necessary leadership qualities,” she recalled.

Over the course of more than two years, as TransFair USA’s application made its way up the PRI queue, Kahane and Conroy worked with Rice to refine the organization’s business plan. Of collaborating with Kahane and Rice, Conroy said, “I think of program officers as traveling salespersons who seek out interesting projects, then bring them home to sell to the foundation.”82

80 Ford Foundation, Part of the Solution, op. cit., p. 27.
81 Rice and McLean, op. cit., p. 13
82 Conroy interview, op. cit.
When the TransFair USA Request for Grant Approval landed on Frank DeGiovanni’s desk, it included a five-year business plan that incorporated a $2 million PRI payable over 10 years. Money from the PRI would be invested into the operating capital of the organization as a whole, for hiring business development and marketing people.

THE DECISION

For 2003, Frank DeGiovanni had a budget for all Program-Related Investments of approximately $19 million. TransFair USA’s $2 million request represented a significant portion of the entire 2003 budget. DeGiovanni’s years of experience administering the PRI program at Ford had taught him some important lessons:

One of the things that we’ve learned at the Ford Foundation over the years is when we stray from our core areas of expertise, we don’t do very well. And if you look at some of the PRIs that we’ve written off, some of it’s because we really didn’t understand the programmatic activity that we were financing.

A second is geographic focus. Obviously, local foundations have a fixed geographic focus and many national foundations do as well. And so it’s important to really play within the areas that you know well.

And third, what are the opportunities available? For example, we have tremendous opportunities for PRIs in the work that we do to promote home ownership and many fewer in our workforce development area. And so it’s important again to be comfortable with the opportunities that the work presents to you.

A fourth is the level of resources. Clearly, larger foundations can afford to devote a greater percentage of their assets to PRIs. So again, one has to choose or recognize the constraints within which you operate.

Another issue is staff capacity to make PRIs and to manage them. It’s obviously important to make sure that you can do the financial work involved in PRIs. The next factor is risk tolerance, . . . because foundations differ significantly in their willingness to take risk and it’s important to understand and be clear about this. And finally, what’s the motivating factor behind making a PRI?

Foundation expertise, geographic focus, available opportunities, level of resources, staff capacity, motivation—these were some of the factors that DeGiovanni considered when evaluating TransFair USA’s candidacy for a Program-Related Investment.

DeGiovanni studied TransFair USA’s RGA carefully. He faced a decision. Was TransFair USA a good fit for Ford’s PRI initiative? Should DeGiovanni approve the RGA and recommend it to Ford’s president?

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83 Conroy interview, op. cit.
84 Conroy interview, op. cit.
Exhibit A

Wholesale Arabica and Robusta Prices, 1970-2002

Exhibit B


*Administered PRIs for all Foundation programs
Exhibit C


<table>
<thead>
<tr>
<th>Year</th>
<th>Pounds Certified</th>
<th>Estimated Retail Value</th>
<th>Licensed Roasters</th>
<th>Licensed Importer/Brokers</th>
<th>Additional Farmer Income</th>
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The Ford Foundation and Fair Trade

Part B

For Frank DeGiovanni, the TransFair USA Request for Grant Approval represented a very unusual PRI. The majority of Ford PRIs went to financial intermediaries with well-established revenue streams from which Ford could confidently expect to be repaid. Two such PRI recipients were the Center for Community Self-Help, a full-service financial institution in North Carolina that served minorities, women, rural residents, and low-wealth families, and Neighborhood Housing Services of Chicago, a loan fund to assist low-income homeowners to retain ownership of their homes. PRI recipients that were not financial intermediaries tended to be eminent nonprofits with solid revenue streams such as the Corporation for Public Broadcasting.

A young social enterprise like TransFair USA—essentially a start-up—was something of an outlier for the PRI program. Part of Ford’s process for evaluating a potential PRI recipient was to appraise the competition. As the sole third-party certifier of fair trade coffee in the United States, TransFair USA by definition had no direct competition.

The RGA outlined TransFair USA’s recent success in raising funds from foundations such as Ford and AVINA (a Panama-based foundation devoted to the promotion of sustainable economic development in Latin America), religious organizations, government aid sources, and individuals. Though TransFair USA had a revenue stream that depended on its labeling fee, Paul Rice’s five-year business plan had difficulty demonstrating how that income, without significant growth in the enterprise, would be sufficient to pay back a $2 million loan.

DeGiovanni asked Paul Rice to revise the business plan and project figures out to ten years rather than five. With help from Conroy and Kahane, Rice drew up the new TransFair USA business plan, which projected great gains in revenue for the organization over the coming decade. But projections were just that—projections. There was still little hard information for DeGiovanni to base a decision on other than the good reputation of TransFair USA’s founder and the general plausibility of the fair trade business model.

Nevertheless, DeGiovanni judged the ten-year business plan to be solid enough. He approved the PRI RGA for TransFair USA, and Ford’s president, Susan Berresford, awarded a $2 million PRI to TransFair in 2003 “[t]o provide working capital for a social venture that engages in Fair Trade certification.”

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87 Conroy interview, op. cit.
88 Kahane interview, op. cit.
89 Conroy interview, op. cit.
90 Conroy interview, op. cit.
91 Conroy interview, op. cit.
93 Conroy interview, op. cit.
The $2 million PRI was structured as a 10-year loan at one percent interest, with a grace period of five years before any money was due; the loan would be paid down over the last five years of the term. As of this writing (spring 2007), no monies have come due, but so far TransFair USA’s growth rate has looked promising. The retail value of fair trade coffee sales in the United States more than doubled from 2003 to 2005, from $208 million to $499 million\(^9\) (see Exhibit D). Time will tell whether the decision to award TransFair USA a $2 million Program-Related Investment was wise or not.

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### Exhibit D

#### U.S. Fair Trade Certified Coffee Imports, 1998-2005

<table>
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