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Fair-trade finance: Nonprofit lender funds growers

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CAMBRIDGE — In 2001, **EcoLogic Finance** successfully provided preshipment trade credit to hundreds of small-scale coffee farmers in Mexico. Two years later, **Mexico Fondo Accion Banamex** — a Citibank-owned Latin American lender — moved in on the Cambridge lender's turf to provide the credit.

"We worked ourselves out of a job," says EcoLogic Finance Executive Director **William Foote**. "We'd like to do that more and more."



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Loans provided by William Foote's EcoLogic Finance support coffee farmers in South America and, more recently, Africa.

As an unconventional nonprofit financial services firm, EcoLogic has a very conventional model based on "factoring," in which financial institutions lend against signed purchase agreements between producer organizations and their importers, ensuring future revenue to repay the financial institution.

Short-term loans, which represent about 75 percent of EcoLogic's portfolio and which carry interest rates between 9 percent and 10 percent, are often working-capital loans that help farmers get through the six- to eight-month coffee harvest period. It's a critical time for farmers, who, often cash-strapped, get hijacked by middlemen or "coyotes" promising ready cash but not the top-dollar prices or economically responsible "fair trade" the loans afford.

"We discount the principal and interest owed to us by the buyers. Our ability to work closely with buyers and the supply chain is the single most important way we mitigate risk," says Foote.

Long-term loans often go toward improving infrastructure and equipment.

While EcoLogic is not unique — dozens of microlenders focus on environmental and social issues — it maintains that its approach is, in fact, one of a kind.

"We're targeting a group between the microlenders and bankable loans," says **Nancy Rosenzweig**, CEO and president of New Jersey-based **The Natural Dentist** and an EcoLogic board member.

Its loans, ranging from \$10,000 to nearly \$500,000, support cooperatives and businesses in environmentally fragile areas within developing countries — primarily in the coffee trade, but also in ecotourism, cocoa and sustainable fisheries and produce.

Liam Brody is director of sustainable coffee for **Green Mountain Coffee Roasters Inc.** (Nasdaq: GMCR) in Vermont, which invests in EcoLogic. He says EcoLogic helps sustain and restore environmental areas crucial to the trade, which in turn establishes quality. "If we don't have high-quality coffee at the end of the day, we go out of business," Brody says.

Starbucks Corp. is an investor, to the tune of \$2.5 million so far, with more on the way. **Equal Exchange Inc.**, a fair-trade coffee firm in Canton, is an important buyer partner of EcoLogic.

Since Foote started EcoFinance in 1999, the nonprofit has doled out more than \$20 million in credit, \$10 million of that last year. "We're in the ramp-up phase," says Foote. The firm works in 10 Latin American countries. It just last year started lending to African countries, such as Rwanda and Kenya.

EcoLogic has a 98 percent repayment rate. Out of the approximately 125 different loans made to about 55 different businesses worldwide, only one client defaulted, said Foote. Cambridge-based **Organic Commodity Products**, importers of organic chocolate and other products, defaulted on \$210,000 in 2002.

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