

# Fairtrade Inclusive Energy Fund (IEF) Request for Proposals: Seeking applications to conduct Legal and Risk Assessment of IEF Financial Assistance Mechanism

## 1. Introduction

The Fairtrade Foundation (FTF) has been testing approaches to improve the uptake of green and clean energy solutions for farmers and workers in hired labour situation within Fairtrade's supply chains in East Africa.

Central to this approach is the role agricultural organisations can play to help connect segments of the green energy value chain that are poorly integrated, including:

- Education and information pertaining to energy products and solutions
- Distribution of solar energy solutions
- Installation and after sales service
- Access to affordable and tailored financial services
- Loan repayment infrastructure and debt collection

Previous activities involved the provision of technical assistance to coffee small producer organisations (SPO's) and aimed to design market-led solutions that were unsubsidized and therefore self-sustaining. Key findings from these activities have been integrated into the design of a new funding instrument to scale SPO- and HLO-led (Small-Producer Organisation and Hired-Labour Organisation) projects, through a combination of technical, grant and reflow (loan finance) support.

This instrument is called the **Fairtrade Inclusive Energy Fund (IEF)** and supports Fairtrade certified member organizations in the Africa Fairtrade Producer Network. The objectives of the IEF are to:

- a. increase farmers' access to clean and green energy solutions and
- b. expand use of solar powered systems at cooperative level.

The fund is targeted specifically towards Fairtrade Certified small producer organisations (SPOs) and hired labour organisations (HLOs).

## 2. Scope of work

FTF is seeking written advice to:

- a. Confirm that the proposed configuration (of stakeholders and financial flows) to deliver reflow loans via the IEF is low risk, and that reflow loans can be delivered in accordance with UK charity law and other relevant regulations.
- b. Confirm that the proposed configuration to deliver reflow loans via the IEF is consistent with financial and legal best practice.

- c. Explore alternatives and adjustments to the proposed configuration to deliver reflow loans via the IEF, including investigating:
- (i) Whether a reflow loan facility could be hosted with FTF, a fund manager, or an alternative entity from a legal and regulatory perspective.
  - (ii) With (i) in mind, whether there are more effective, lower risk and/or sustainable mechanisms that would deliver the programme objectives

### 3. Qualifications and Experience

Applicants submitting tender documents should meet the following criteria:

- England and Wales qualified solicitor/ law firm with experience in UK charity law and regulation
- Experience advising charities that work and invest in international jurisdictions.
- Experience advising on financial and prudential risk management, in particular relating to social investments.

### 4. Next steps

If you are interested in conducting this assignment, and meet the qualifications and experience requirements as outlined above, please submit a short concept note to [alister.oulton@fairtrade.org.uk](mailto:alister.oulton@fairtrade.org.uk), detailing:

- your approach and methodology to deliver the scope of work,
- the timelines involved,
- the required and itemised budget, and
- evidence to support how you meet the qualifications and experience requirements.

Following a selection process, the FTF Team will meet with the successful applicant to confirm timeframes and deliverables and negotiate contract terms. The successful applicant will be forwarded additional programme information to assist with the provision of their advice.

Completed advice is required within four weeks following signing of contract.

**Attachment: IEF Programme Summary**

## Attachment: IEF Programme Summary

### 1. Inclusive Energy Fund

The Fairtrade Foundation (FTF) and Fairtrade Africa (FTA) established the Fairtrade Inclusive Energy Fund (IEF), with external funding. IEF aims to support Fairtrade certified member organizations in Rwanda, Uganda and Tanzania to:

- a) increase farmers' access to clean and green energy solutions
- b) expand use of solar powered systems at cooperative level.

IEF is targeted specifically towards Fairtrade-certified small producer organisations (SPOs) and hired labour organisations (HLOs) and provides inclusive finance in the form of **Grant awards and Reflow Loans**. For the purposes of this advice, only reflow loans are being considered.

## Reflow Loan Outline

Reflow Funding arrangements provide Applicants with a financial instrument in the absence of appropriate alternative market-based solutions.

Two types of Reflow Loans have been planned under the IEF Project:

- **FT Member loans:** will enable members of SPOs and HLOs to purchase clean energy products which contribute to multiple poverty alleviation objectives, including:
  - Reductions in time spent gathering fuel (eg. fuelwood) for household use, which frees up time for other productive activities
  - Improved health. For example, by reducing inhalation of smoke from traditional cookstoves
  - Improved access to energy, which can have a range of impacts. For example, enabling children to continue studying after dark
- **Procurement loans:** will enable SPOs and HLOs to purchase shared productive assets which can enable these organisations to generate additional revenue, which will ultimately be used for the benefit of members and will support poverty alleviation

## FT Members Loan

FT Members Loans become repayable upon the happening of a defined event that renders the FT Members Loan “successful”. Any FT Members Loans made to Entities are rendered “successful” once any issued loan products to members begin to be repaid (triggered by the first instance of repayment to the FPC or SPO). Once “success” is established, the FT Members Loan endowment becomes repayable, and must be reflowed to FTA according to the contractually agreed schedule. Applicants will be expected to repay 100% of the original FT Members Loan, with 0% interest and no fees.

FT Members Loan arrangements will be set up via standalone contractual agreement between the Entity and FTA, which may be in operation beyond the duration of IEF Project Support Agreement.

The IEF takes the risk of failure, and in the case that the conditions for “success” cannot be established, the FT Members Loan is rendered “unsuccessful”, and the funding is not repaid or recovered.

## Procurement Loans

Project Proposals can request the inclusion of repayable Reflow Funding to cover the procurement costs of an identified and specific productive use and shared benefit asset. In this case, the Reflow Funding will take the form of a Procurement Loan. Any Procurement Loan arrangements will be set up via standalone contractual agreement between the Entity and FTA, which may extend beyond the duration of IEF Project Support Agreement. Repayment plans for Procurement Loans

will be appropriately set up around the HLO/SPO structures and cash flows. Applicants will be expected to repay 100% of the original Procurement Loan, with 0% interest and no fees.

As with the Members Loans, the IEF takes the risk of default on the Procurement Loans. In the case that the conditions for “success” cannot be established, the Procurement Loan is rendered “unsuccessful”, and the funding is not repaid or recovered.

## 2. Summary of roles

### Funders

The IEF project is supported by an external grantor through a grant agreement with FTF. During the period of this funding, the external grantor will monitor the project's compliance, delivery of activities and results. via representation on the IEF Project Steering Committee.

### FTF's role

FTF's role will largely be offering 1) technical support and advice to FTA 2) project management of FTF activities and close liaison with FTA project team 3) grant management of the grantor's funds including responsibility for reporting and compliance. FTF are also represented on the IEF Project Steering Committee.

Specific roles in relation to the provision of Reflow Loans may include:

- **Custodian of funds:** host FTF IEF Account, containing all pre-allocated, unallocated and returning IEF project funding (Grant Award funds and Reflow funds)
- **Forward Reflow funding to FTA** if applicable
- **Accept reimbursed Reflow funds from FTA** if applicable, at the conclusion of bilateral Reflow Agreements between FTA and Entities (SPOs/HLOs)
- **Custodian of funds between calls** – host FTF IEF Account, containing all returned Reflow funds from FTA, for redeployment as Reflow Loans to IEF projects in future Calls

### FTA's role

FTA played a major role in the original project design. FTA is also leading the implementation of project interventions in the countries where the project operates.

Specific roles in relation to the provision of Reflow Loans may include:

- Carrying out the due diligence and contracting process with each of the successful Entities (SPOs/HLOs) for both the grant and repayable finance parts of the IEF, and distributing funds based on instalments approved by the IEF's Steering Committee
- Hosting the FTA IEF Account, for all transactions related to Reflow Loans
- Assessing IEF Funding Applications (from SPOs/HLOs). Together with the IEF Project Steering Committee, reach decisions about successful Applicants for each call

- Setting up contractual agreement between FTA and successful Entities (SPOs/HLOs) for Grant Award and Reflow Loans
- Requesting and Receiving Reflow funding from FTF, pending IEF Project Steering Committee
- Releasing Reflow funding to IEF Entities (SPOs/HLOs), as per contractual agreement for Reflow between FTA and the Entity
- Accepting and hosting all returning Reflow funds from IEF Entities (SPOs/HLOs) as per contractual agreements for Reflow
- Reimbursing all hosted Reflow funds to FTF-hosted IEF Account at the end of the call and conclusion of contractual agreements for Reflow between FTA and IEF Entities (SPOs/HLOs)

## **Entities' (SPOs/HLOs) role**

Roles which will be carried out by Entities (SPOs/HLOs) in relation to Reflow Loans include:

### **FT Members Loans**

- Fund Administrator: host account for FT Members Loans
- Accept and assess applications for FT Members Loans
- Create Loan Agreements with successful applicants
- Release FT Members Loans to successful applicants, as per Loan Agreements
- Accept and host all returning FT Members Loans as per Loan Agreements
- Reimburse FT Members Loan to FTA-hosted IEF Account as per the agreement for Reflow between FTA and the IEF Entity (SPO/HLO)

### **Procurement Loans**

- Fund Administrator: host account for Procurement Loan
- Procure asset and carry out business activities in accordance with the agreement for Reflow between FTA and the IEF Entity (SPO/HLO)
- Reimburse Procurement Loan to FTA-hosted IEF Account as per the agreement for Reflow between FTA and the IEF Entity (SPO/HLO)

## **Loan Specifications and Regulations**

IEF Reflow Loans will be extended at 0% interest, and at a timescale and repayment terms that meet the needs of the Entity (SPO/HLO).

Reflow Loans provided by FTA to Entities are expected to be repaid to FTA under the conditions specified in the Reflow Loan Agreement.

Loan management is proposed as follows:

1. FTF sends reflow funds to FTA in tranches and upon request, governed by a service agreement.

2. FTA enters into loan arrangements with Entities (SPOs/HLOs), via a loan agreement
  - a. These Bilateral Reflow Agreements will set out the terms of the loan, including: how the loan will be used (either as a FT Members Loan or as a Procurement Loan), how this helps further Fairtrade's charitable aims (via the IEF), the rate of interest (0%), and the timescale and terms of repayment
  - b. FTA, as the current 'first lender' of the reflow products, is a limited company by guarantee, which is registered in Kenya and not in any of the other countries where the IEF project is operational.
  - c. The SPOs/HLOs that receive Reflow Loans are all legally registered within their jurisdictions. Contracts are made between FTA (registered in Kenya) and each SPO/HLO receiving the Reflow Loans. These contracts will stipulate that they have been made under Kenyan law

FTF currently plays a passive role in relation to loan-making. This involves passing funds to FTA while not actively being engaged in decisions related to loans being provided by FTA to IEF Entities (SPO/HLOs).