

# Support Fund “Joint Implementation of HREDD in Fair Trade Supply Chains”

## Terms and Conditions, Status 17.04.2024

### Background

On 29 June 2023, the **European Union (EU) deforestation-free regulation (EUDR)** entered into force with a focus on agricultural commodities like soy, beef, palm oil, wood, cocoa, coffee, rubber and some of their derived products, such as leather, chocolate, tyres, or furniture. Under the [Regulation](#), any operator or trader who places these commodities on the EU market, or exports from it, must be able to prove that the products do not originate from recently deforested land or have contributed to forest degradation. As of 29 June 2023, operators and traders will have until 29 December 2024 (18 months) to implement the new rules. Micro and small enterprises will enjoy a longer adaptation period, as well as other specific provisions, which are, however, not fully clear yet.<sup>1</sup>

The German Supply Chain Due Diligence Law (Lieferkettensorgfaltspflichtengesetz, LkSG) came into force on 1<sup>st</sup> January 2024.<sup>2</sup> On 23 February 2022, the European Commission adopted a proposal for a **Directive on corporate sustainability due diligence (EUCSDDD)**.<sup>3</sup> An adjusted version was endorsed by the EU Member States on 15 March 2024. The aim of the German law and the EU directive is to foster sustainable and responsible corporate behaviour and to anchor human rights and environmental considerations in companies’ operations and corporate governance. Fair Trade Companies and Producers for the most part do not fall directly under the German law or the EU directive, however, will be indirectly affected by being part of the supply chains of larger companies and having to fulfil and document new compliance requirements set by them.

The diverse Human rights and environmental due diligence (HREDD) regulations are already affecting Fair Trade Companies in Germany and producer groups in the Global South, who are increasingly scrutinized for potential compliance risks as well as having to implement new documentation procedures, answer a diverse range of questionnaires by commercial partners, and being expected to implement new processes to mitigate and/or remediate risks without necessarily being financially supported for the associated costs. Especially economically marginalized small-holder cooperatives and small and medium sized companies are increasingly questioning how they will be able to comply with the new requirements and fear being pushed out of the market. This fund’s purpose is to support companies engaged in Fair Trade and producer groups in tackling these challenges together.

### The Aim of the Fund

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<sup>1</sup> [https://environment.ec.europa.eu/topics/forests/deforestation/regulation-deforestation-free-products\\_en](https://environment.ec.europa.eu/topics/forests/deforestation/regulation-deforestation-free-products_en)

<sup>2</sup> <https://www.bmz.de/de/themen/lieferkettengesetz>

<sup>3</sup> [Corporate sustainability due diligence - European Commission \(europa.eu\)](#)

This joint initiative of Fairtrade Deutschland e.V. (Fairtrade Germany) and Forum Fairer Handel e.V., financed by the Federal Ministry for Economic Cooperation and Development (BMZ), aims to enable HREDD implementation in supply chains of Fair Trade companies and producer groups, thereby working towards better compliance with new HREDD regulations. The overall aim of the fund is to support small-holder farmers in making their production sustainable and align it with the requirements of the German Lieferkettensorgfaltspflichtengesetz (LkSG), the European Corporate Sustainability Due diligence Directive (EUCSDDD), and the European Deforestation Regulation (EUDR), therefore mitigating against the risk of losing market access.

By securing access to EU markets, supporting economic and environmental improvements and adaptation processes, this support is intended to safe-guard the existence of cooperatives / producer organizations and to secure and improve the livelihoods of small-holder farmer members and workers as the final beneficiaries.

### **Overall Developmental Aim of the Support Fund (overriding purpose of benefit to the public)**

Capacity development and necessary investments for compliance to buyer requirements based on German and EU directives (LkSG, EUCSDDD and EUDR) of small and economically marginalized small-holder agricultural producers and workers in the Global South, thereby securing their access to EU markets and their livelihoods.

This support is intended to safe-guard the existence of cooperatives / producer organizations and to secure and improve the livelihoods of small-holder farmer members and workers. As the final beneficiaries of the fund, they are supported in securing access to EU markets and implementing economic/environmental improvements and adaptation processes.

Within the matching fund, it will be explored how innovative approaches can support supply chain partners in global trade to enable and support human rights and environmental diligence in effective and efficient ways, e.g., setting-up new mechanisms for meaningful rights-holder dialogues or new instruments for monitoring specific requirements.

### **Compliance with EU state aid-and competition laws**

Several factors ensure that the fund will not lead to any distortions of competition:

1. By directly and structurally supporting small-holder producer organisations in OECD-DAC countries which usually supply different agricultural goods to diverse customers, the impact of the investment by German contributing commercial partners will go beyond their respective supply chains.
2. All members of Forum Fairer Handel e.V. as well as Fairtrade licensees in Germany will have the opportunity to participate in the fund, further reducing the effect on competition.
3. Budgets of single projects under the fund will not go beyond 100.000 EUR (maximum 50.000 EUR public contribution) and can therefore be considered marginal in the sense of de-minimis aid for each participating contributing commercial partner.

## The structure of the Fund

The overall administration of the fund is managed by Fairtrade Deutschland e.V. (Fairtrade Germany), Maarweg 165, 50825 Köln, [hredd-fund@fairtrade-deutschland.de](mailto:hredd-fund@fairtrade-deutschland.de).

A **Working Group** made up of representatives of Fairtrade Germany, Forum Fairer Handel, and Fairtrade Producer Networks will review the Concept Notes and give feedback to applicants. If the Concept Note is suitable to the fund’s purpose and applicants are eligible based on the first information given, the Working Group invites the consortium to hand in a Full Proposal based on the proposal template.

A **Steering Committee (SteerCo)** with representatives of the Federal Ministry for Economic Cooperation and Development (BMZ), Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, Fairtrade Germany, Forum Fairer Handel, Fairtrade Producer Networks in Africa, Asia/Pacific and Latin America/Caribbean will be formed. The Steering Committee will

- a) review and approve project proposals from Producer Organisations/German companies for funding
- b) assess and prioritize project proposals using a set of transparent eligibility and assessment criteria
- c) take final decisions concerning rejection or approval of project proposals

If and once a project is approved, the respective project partners (contributing commercial partners, producer networks, producer organizations) as well as Fairtrade Germany as the fund administrator, will sign a cooperation agreement in alignment with public funding requirements.

Projects will be managed by the applicants. Depending on project scope and type, support to project management by either Fairtrade Germany or Forum Fairer Handel can be explored.

## Information for Applicants

Fairtrade Germany and Forum Fairer Handel will inform German Fair Trade Partners about the details of the fund via various channels including publication on the website [www.fairtrade-deutschland.de](http://www.fairtrade-deutschland.de) and invite them to develop projects jointly with their producer partners in the target countries.

Applications will be accepted **in three rounds in 2024 according to the following schedule:**

Deadline for handing in Concept Notes	Invitation to Full Proposal	Deadline for handing in the Full Proposal	Notification on Result	Earliest starting Date of Implementation*
Wednesday, 15.05.2024	29.05.2024	17.06.2024	by 17.07.2024	01.09.2024
Wednesday, 17.07.2024	29.07.2024	19.08.2024	by 18.09.2024	01.11.2024
Wednesday, 18.09.2024	30.09.2024	21.10.2024	by 20.11.2024	01.01.2025

\*Subject to signature of contracts

Further rounds may be announced at the end of 2024/beginning of 2025.

Applications will be accepted in one of the following languages: English, Spanish, French.

Applications are welcomed by consortiums only. These consortiums must consist of one or several companies registered in Germany that are either members of Forum Fairer Handel e.V., licensees of Fairtrade Germany or Fairtrade certified, as well as at least one Fair Trade supply chain small-holder agriculture producer partner in the OECD-DAC countries targeted by the fund (see country list below). The producer partner applicants must be legally entitled to receive foreign funds according to national law.

Only one project can be implemented at one producer organisation at the same time. Once a project is finished and all reporting requirements are complied with, applicants can apply for a new project if funding is still available, and the remaining implementation time is sufficient.

Please note: Application does not imply entitlement to funding from the fund; decisions on funding are made based on an individual assessment. Approval of funding depends on the availability of the fund's budget and the qualitative assessment and decision of the Steering Committee on suitable applications in terms of expected impact, plausibility, feasibility, as well as diversity of project topics, commodities, regions, etc.

## Priority Producer Countries and Commodities

Producer partner applicants that have their own legal personality and are therefore registered in one of **the following priority countries** are eligible:

Africa	Asia	Latin America
Ethiopia, Burkina Faso, Côte d'Ivoire, Ghana, Cameroon	India, Indonesia, Uzbekistan, Sri Lanka	Brazil, Ecuador, Colombia, Nicaragua, Peru, Honduras, Mexico, Bolivia

Please note: Applications from other OECD DAC countries may be possible if match-funding from commercial partners can be obtained for specific supply chains. In such a case, Fairtrade Germany and/or Forum Fairer Handel should be approached, and the case will be discussed and decided by the Steering Committee.

Applicants must be active in the following agricultural **product categories**:

- Coffee
- Cocoa
- Bananas
- Tea
- Cotton (primary production only)
- Spices
- Palm oil

## Funding Guidelines

Economically marginalized small-holder agriculture producer organisations in the target countries and target commodities (see above) and their members and workers are final beneficiaries of the fund. They will receive funding to build capacities and/or invest in necessary structures and processes to enable compliance with requirements by their buyers resulting from the new German and EU regulations. Own contributions (cash or in-kind) by the producer organisations are expected. However, only own contributions by the producer organization that can be proven with receipts count as part of the necessary match-funding to the fund.

In the spirit of a proper HREDD stakeholder engagement approach, the project design must have been developed in collaboration with and approved by small-holder agriculture producer partners. To this end, the application must have been made available in local language to small-holders/participating rights-holders. Applicants confirm this during the application process. Depending on project type it may be expected to include other relevant (local) stakeholders (e.g. Civil Society Organisations (CSOs), trade unions).

Priority will be given to projects targeting women and young adults to ensure that the overall aim of the fund is achieved to reach at least 35% of female final beneficiaries and at least 20% young adults<sup>4</sup>.

Projects need to ensure that a) the use of forwarded funds to third-party beneficiaries fulfils the overarching charitable/non-profit purpose of the project and b) the final beneficiaries of the fund are based outside the European Economic Area (EEA) in DAC countries. The economic partners in the EEA (with possible own contribution to projects, also in form of in-kind contributions) are involved in the development of projects by Fairtrade and Forum Fairer Handel but are not final beneficiaries of the fund. There will be no transfer of funds from Fairtrade Germany to private sector partners in the EEA. Transferred funds will be used for capacity development and necessary investments for compliance to requirements based on German and EU directives (LkSG, EUCSDDD and EUDR) of small and economically marginalized small-holder agricultural producers and workers in DAC countries, thereby securing their access to EU markets and enhancing livelihoods of smallholder farmers and workers, their families and indirectly benefitting their local communities.

### **Financial and administrative guidelines for applicants:**

- The fund is set-up to support companies that often do not fulfil certain requirements of other funding programmes (e.g. due to their size). Therefore, priority will be given to applications in which the economic partners in the EEA are small and middle size companies with up to 249 employees (measured in full time equivalents = how many full-time positions does your company provide. This means, the total number of employees could be higher if many employees work part-time).
- The applicant consortium must provide at least 50% of the total project budget either in cash or in-kind.<sup>5</sup> In-kind contributions can be staff costs, travel costs or other costs that can be

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<sup>4</sup> Up to age 35

<sup>5</sup> Fund includes cash or in-kind transfers to beneficiaries, project budget and purpose of funds are detailed in signed cooperation agreements with partner(s). Funds will be forwarded in at least two separate instalments based on a schedule of financial requirements. Allocated funds are financially settled against confirmation of receipt of funds, evidences e.g. purchase invoices, receipts etc. and handover records.

- proven by official receipts. A meaningful contribution from the German consortium partners based on their respective size and turn-over is expected.
- Applicants must either be certified, licensed or registered under Fairtrade or a Fair Trade control / certification scheme recognized by Forum Fairer Handel Germany / by members of the Forum Fairer Handel Germany.
  - All applicants must have at least two audited annual financial statements or balance sheets of the two previous years (or up to three years ago if annual accounts have not yet been closed for the previous year).
  - Applicants are neither listed on the sanctions lists of the Federal Republic of Germany, the European Union (EU) nor the United Nations (UN).
  - Applicants have their own legal personality and are registered in Germany and in case of producer organizations in one of the target countries listed above (if no registration for example in the commercial register can be submitted, a brief reason and, where necessary, alternative evidence of separate legal personality must be provided).
  - In their application, applicants shall provide information on previous project management experience and its scope and on the quality of the technical and administrative implementation of previous financing (e.g. from other donors) if applicable.
  - In their application, applicants shall confirm in writing that there have been no charges or investigations against the senior staff or management of their organisation on corruption and social compliance issues.
  - Applicants who work in the following economic sectors are excluded from funding from the fund: tobacco, alcohol, weapons, and drugs.
  - An early start of preparatory measures is possible at own risk of the applicants and can be accounted for in the project finance report after approval. The earliest date for a project start at own risk is the Concept Note deadline of the respective funding round. This early start can only cover costs that are part of the own contribution of the applicants and are directly linked to the proposal budget. The approval of an early start does not imply an approval of the proposal. The applicants confirm that all measures are undertaken in the context of the proposal and would not have started or be undertaken otherwise.
  - If your proposal is accepted, prior to any project agreement signature you will be required to hand in written proof of your bank that you are the legitimate bank account holder.

#### **Financial and administrative guidelines for applications:**

- Applicants shall draft their applications for a **maximum funding period of 12 months**. Projects under the matching fund will have to be implemented within the following period: 01.07.2024-30.06.2026
- Applicants shall draft their applications for **funding starting at EUR 10,000 up to a maximum of EUR 100,000** (equivalent to an own contribution of EUR 5,000 up to EUR 50,000).
- Applications may use the funding for the procurement of
  - 1) services
  - 2) payment of personnel costs
  - 3) ongoing operating costs (excluding advance payments for purchases, penalty interest and insurance costs)
  - 4) material goods (excluding medicines, pesticides, chemicals, and vehicles)
  - 5) selected infrastructural measures
- budgets for the exclusive financing of procurements/material goods and/or infrastructure are not acceptable.

- The matching fund can not include any investments in construction, medicines, pesticides, fertilizers.
- Please note that GIZ procurement guidelines are binding for any procurements made with fund means: [giz-2023-en-anlage 4a-procurement-guidelines.pdf](https://www.giz.de/DE/leistungen/procurement-guidelines/procurement-guidelines.pdf)

## Application and Selection process

Applications for the fund will be received by email to: [hredd-fund@fairtrade-deutschland.de](mailto:hredd-fund@fairtrade-deutschland.de)

The application will be separated in two steps:

### **Step 1: Handing in of a Concept Note** (see template provided)

All concept notes will be reviewed by the Fund's Working Group every two months in line with the stated deadlines below and according to a transparent set of criteria including eligibility and suitability of the consortium members and the suggested activities to the aim of the fund. At this stage the Working Group may approach the project partners to clarify or seek further information. If the proposal is valid according to above mentioned criteria, the Working Group will ask the applicants to fill out the full proposal form (see step 2).

### **Step 2: Handing in of the Full Proposal** (see template provided)

If and once the Concept Note has been accepted, the applicants will be invited to submit a Full Proposal. Applicants will have two-and-a-half weeks' time to hand in the Full Proposal, which will then be forwarded to the Steering Committee (SteerCo). The Full Proposal should include the following (for further details see template):

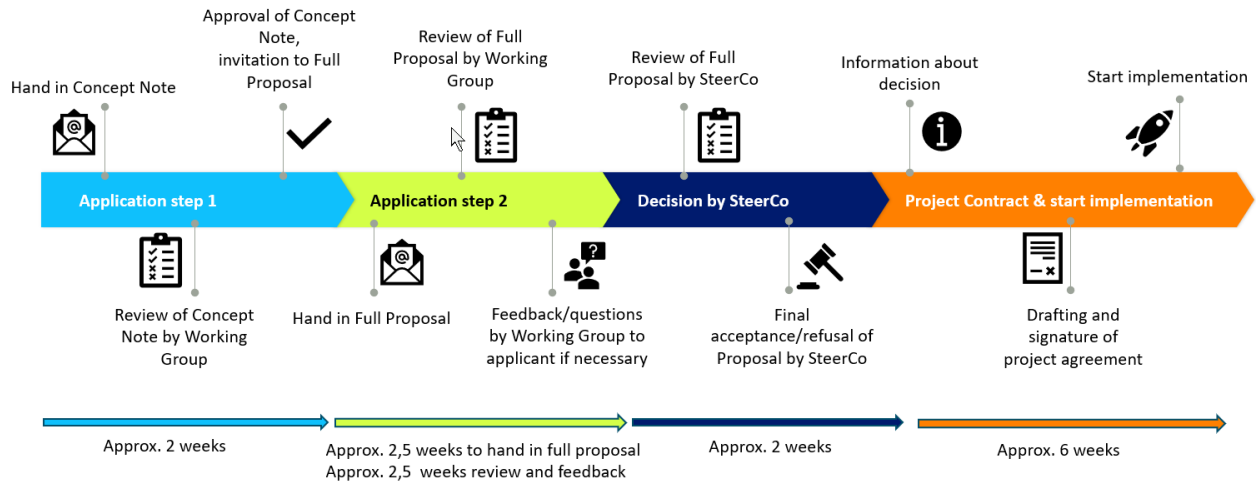
- Detailed project proposal
- Detailed project budget
- Additional required documents

The Full Proposal will be reviewed by the Fund's Working Group and they may approach the project partners to clarify or seek further information.

The proposal is then forwarded to the Steering Committee of the Fund. The Steering Committee will take the final decision over project acceptance/refusal. A timely response on the result of applications will be sent to all applicants.



## Application Steps (see deadlines for different application rounds above)



## Application documents

### 1<sup>st</sup> step:

- Concept Note (template provided)

### 2<sup>nd</sup> step:

- Full Proposal (template provided)
- Detailed project Budget (template provided)
- Logical framework template if your total project budget exceeds 50.000 EUR
- Legal registration documents of each applicant (if no registration can be submitted, e.g. in the commercial register, please provide brief justification and alternative evidence of legal personality)
- Bank account details
- Copies of the last two available annual financial statements or balance sheets. These must be from the two previous years or up to three years ago if annual accounts have not yet been closed for the previous year.
- Brief information about organisation's accounting system (list of staff including qualifications and work experience) and accounting software used (including copy of a screenshot of software used)
- Optional: Existing evidence of international certificates (e.g. ISO) for internal organisational, business management, quality management and accounting system

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## Reporting requirements

Projects under the matching fund will have to comply with the following requirements for reporting to Fairtrade Germany:

Projects with 12 months duration:

- Detailed financial report every three months to Fairtrade Germany
- Narrative report every three months to Fairtrade Germany including photos
- Final report after completion of project

For projects with a shorter duration, reporting periods will be adapted.

Please note that we reserve the right to send external monitors or auditors (from the producer network or a consultancy) to your project at any time.

## Further information: Possible Activities under the Support Fund

As the situation may differ in different regions and countries, the Working Group of the Fund will review all proposed activities and may contact the applicants for further information.

Under the general aim of the Fund, the following non-exhaustive list of activities may be proposed:

### Prerequisites / foundational work

- Steps towards better traceability
- Identification and understanding of risks through structured stakeholder and rightsholder dialogue
- Local research into specific issues related to HREDD topics

### Process-related activities

- Awareness raising and capacity building on HREDD topics for producer members
- Rightsholder-inclusive development of action plan to mitigate identified risks
- Rightsholder-inclusive development of local grievance structures
- Set up of a joint monitoring approach to monitor risks and track improvements
- Professionalisation and digitalization of internal management and control systems in producer organizations

### Environmental focus

- Geo-location mapping of farms
- Anti-Deforestation monitoring
- Steps towards agroforestry systems or other agro-ecological improvements

Conversion to organic agriculture or support in retaining organic certification and access to EU market under new organic rules

### Social focus

- Improvement of specific organizational prevention, monitoring and remediation procedures e.g. on protection issues/social compliance (Child Labour, Forced Labour, Gender-based Violence), women's rights, workers' rights, minority rights, etc. (awareness raising, capacity building, consultancies, advocacy)

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- Income diversification
- Promotion of gender-equality

## ANNEX 1

### Potential Activities (non-exhaustive) under the PPP-Matching Fund and their Classification within the Due Diligence Cycle

#### Activities aimed at creating a good knowledge base

- Improvement of supply chain traceability
- Geo-location mapping of farms
- Digitalization of internal management and control systems

LkSG: Section 4 Risk management,  
 Section 5 Risk analysis

#### Activities aimed at supporting risk know-how

- Anti-deforestation monitoring
- Stakeholder dialogue to identify risks
- Local research into specific issues



LkSG: Section 6  
 Preventive measures

LkSG: Section 10 Documentation  
 and reporting obligation

#### Activities aimed at monitoring improvements

- Set up of a joint monitoring approach

LkSG: Section 7

LkSG: Section 8  
 Complaints procedure

#### Potential activities under the Fund:

- Support meaningful risk mitigation measures that ensure smallholder inclusion in EU supply chains
- Development and implementation of Action Plans for Biodiversity, anti-deforestation or human rights topics
- Improvement of specific processes e.g. on protection issues/social compliance (child and forced labour), inclusion
- Income diversification
- Agroforestry systems or other agro-ecological improvements
- Conversion to organic agriculture
- Stakeholder-inclusive development of local grievance structure