Terms of Reference:
Targeted research on LendXS investment of Farmfit Fund
November 2021

1. Background

IDH Farmfit Fund

The IDH Farmfit Fund is a 100 M EUR fund, in which the Dutch Government and several large multinational companies committed to invest in. US DFC, the development arm of the US Government supports the IDH Farmfit Fund with a USD 250 M guarantee facility. The Fund invests in smallholder value chains through companies, such as commodity traders, service providers and financial institutions. By taking high risk positions the Fund aims to incentivize both banks (development and commercial banks) and supply chain companies to move beyond their comfort zones and invest sizeable amounts in innovative farmer financing structures. The objective of the Fund is to improve the lives of at least 3 M farmers by increasing their income with 50% and make farmer finance a mainstream investment class.

This holistic approach is needed in order to significantly lower the barrier for both commercial investors and development banks to lend to smallholder farmers at scale. The Fund shares risk with these companies and, at the same time, provides a risk buffer for financial institutions that provide senior loans. The Fund has a range of instruments available, depending on the financing need: bridge loan, equity, first loss provision, partial credit guarantee, mezzanine loan, straight loan and subordinated debt.

IDH Farmfit Fund and IDH Sustainable Trade Initiative (IDH) Group

IDH Farmfit Fund is part of the larger IDH Sustainable Trade Initiative (IDH) Group. Over the past 10 years IDH has been successful in investing in smallholder value chains, convening actors from both the public and private sector to initiate and accelerate programs to transform markets through leveraging 1 EUR of public funding to trigger 2 EUR private investments. Since its founding in 2008, IDH has grown to an organization of 250 employees driven to develop new sustainable production and trade models in emerging economies. IDH has over 650 private sector partnerships, over 30 NGOs and covers 12 commodities, in 16 landscapes over 50 countries.

To further build on the IDH track record in smallholder value chains, IDH Farmfit Fund was established in 2020 to continue and develop the Innovative Finance approach. The IDH Farmfit Fund was successfully launched and has built up a strong impactful portfolio and pipeline. IDH Farmfit Fund is managed by IDH Investment Management, which consists of a highly experienced global Management team with experience across Africa.

Fund Learning Framework and targeted research on LendXS

Farmfit Fund has created a comprehensive and cohesive learning framework for the Fund to apply throughout its portfolio, including design and formation of hypotheses, learning questions, indicators, and research methods. The learning framework is intended to create an evidence base

that allows the Fund to understand and validate that its strategies and underlying assumptions achieve the objectives of the Fund, which is represented by its Theory of Change (ToC[1]).

The Fund has decided that the focus of initial research should center on learning about the Fund's thesis of de-risking to increase access to affordable finance as limited evidence exists that explains why certain changes resulting from investments are observed. These insights will be highly valuable to the Fund's work going forward as well as the smallholder finance sector. As such, this ToR focuses on targeted research, rather than an evaluative case study, and related research variables over the life of the deal selected.

In the Fund's current portfolio, there is one investment in a company that features access to finance with the potential to scale: LendXS. The company is characterized as fintech and introduces innovative technology and financial service delivery methodologies (no credit provision role) to financial service providers (please see the company profile in the annex).

2. Calls for Proposal

To support the IDH Farmfit Fund ("the Fund"), and on the basis of these Terms of Reference (ToR), the Fund aims to select a party that can conduct targeted research of the investment in the innovative fintech LendXS. The overall objective of the assignment is to contribute to the Fund's learning agenda by conducting research that explains the effectiveness (why) of specific themes critical to the Fund's thesis of de-risking to increase access to affordable finance.

The result of this targeted research will help inform the Fund's investment decision-making and be part of a knowledge product that shares insights with the smallholder finance sector.

3. Objective and scope

Objectives

Primary research objectives

1. To prove that the Fund enables improved access to affordable finance for smallholder farmers through its investment (via cost efficiency and risk reduction for Financial Service Providers (FSPs)) *(theory-testing) (ToC Output)*

2. To prove that the Fund re   duces risks for FSPs to lend to smallholder farmers (SHFs) through its investment (via innovation in financial service delivery and improved ESG management) *(theory-testing) (ToC Outcomes)*

---

[1]The Fund's ToC is based on four impact pathways at portfolio-level: 1) Developing a high-quality portfolio for increased access to affordable finance and responsible business growth and/or efficiency gains; 2) Leveraging capital for increased access to affordable finance &/or for responsible business growth; 3) Creating knowledge products for behavior changes in the investor and agri-business communities; and 4) Developing finance facilities for an efficient crowding-in of investors.

Secondary research objectives

3. To show how the Fund contributes to catalyzing capital from FSPs (and their investors) towards smallholder farmers through its investment (via FSPs' cost efficiency, risk reduction, & financial viability) *(evaluative) (ToC Outcomes)*

4. To show how the Fund contributes to systemic change through its investment (via key FSP operational and mindset changes and ability to catalyze capital for SHFs) *(evaluative) (ToC Outcomes)*

Scope

The research will target specific themes or research variables, regarding LendXS (Fund investee) & LendXS's FSP customers[2] (e.g. MFIs). As such, the main units of analysis are LendXS & its FSP customers. Emphasis will be given to 'rural' FSPs as well as to the first-time borrowers of FSPs[3]. The research does not include the farm-level impact of access to finance.

In line with the Fund's learning framework, the specific research variables are Efficiency, Risk & resilience, Scalability/replicability, Financial viability, and Systemic change. The sum of these research variables' responses adds up to explaining the effectiveness of LendXS & its FSP customers in providing access to finance to smallholder farmers, which Farmfit Fund's investment contributes to.

Since LendXS is a start-up and the Fund is an early investor (equity), there is an opportunity to test theory over time. As such, the research will have three primary data collection and reporting events that will be aligned with the contracting date, KPI target years (FSP/SHF reach), and the exit. Specifically, a data collection event in 2022, one in 2024 (KPI target on FSP/SHF reach), and one in 2026 (KPI target on FSP/SHF reach & debt conversion). In the first data collection event, the research will, for some learning questions, ask about the current situation but also about future expectations resulting from the LendXS IT platform[4] rollout as first FSPs have only recently been onboarded by LendXS. Although the life of the deal is estimated at 5 to 8 years, this targeted research should cover a 5-year period through 2026 as that is when key results are expected (KPI target on FSP/SHF reach). It is possible to extend the research should company, investment, and/or research dynamics change during the life of the investment that justify renewed research objectives.

It is proposed that the research covers the two main markets (i.e. countries) where LendXS has acquired FSP customers to compare and contrast findings across markets as relevant.

4. Approach and methodology

Research phases

The following phases will occur, in general. Each involves specific activities to be detailed.

---

[2]In the case of LendXS the term FSP refers to rural lenders e.g. MFIs, LendXS' target customers, who are not active with smallholder borrowers.

[3] Emphasis will also be given to if and why first-time borrowers receive a repeat loan.

[4]The LendXS platform includes these modules: Collect, Track, Score, and Impact.

A. *Inception* –Kick-off with all parties involved, conducting any preliminary analysis needed to set up the research design (e.g. LendXS reporting data)
B. *Design* – Preparing the research protocol, including detailed methodology, that covers the entire research period.
C. *Data collection* – Developing the data collection tools (e.g .questionnaires), preparing the work plan for data collection (incl. logistics), and conducting data collection.
D. *Analysis & reporting* – Validating the data collected, analyzing the data collected, and preparing the draft/final reports for the first data collection event.

Research questions

As a targeted study, the research selects Fund Learning Questions (LQs) 4, 5, 7, 9, which are elaborated below[5]. These learning questions relate to the research variables indicated. Specifically, the research variables should focus on:

- *Cost efficiency:* of FSP customers to SHFs (lower acquisition costs of borrowers and Turn-Around-Times (TATs))
- *Risk reduction*: of SHFs towards FSPs across two risk types:
  - <u>Financial</u>: Ability of LendXS IT to collect farmer data to inform credit scoring, Portfolio at Risk (PAR)
  - <u>E&S</u>: Ability of LendXS IT to help screen for E&S risks (see LendXS E&S Action Plan (ESAP))
- *Scalability/replicability*: of investee within current main markets and across new ones as well as of investee's FSP customers within smallholder farmer customer segment and into new markets
- *Financial viability:* of FSPs (e.g LendXS will report to Farmfit Fund on each FSP operational self-sufficiency (OSS) (%))
- *Systemic change:* of LendXS' FSP customers and their investors (e.g. operational and mindset changes)

Drawing from the Fund Learning Framework, the detailed research questions (standard and tailored) can be found below. **Please note** that the footnotes contain some qualifying statements about the 'why' of several research questions, which is expected to be further developed in the design phase. **Please also note** that research questions about the <u>current or expected</u> future status are to be asked during the first data collection event (*DC1). Research questions that seek to <u>identify and explain</u> effectiveness are to be asked during the subsequent data collection events (*DC2/3).

---

[5]Further information regarding the Learning Framework will be provided to the selected research team

Primary research questions

Improving the efficiency in service delivery (LQ7)

Service delivery

1. What was the cost efficiency of financial service delivery by FSPs to smallholder farmers at the time of adopting the LendXS IT platform? *(*DC1)*
2. To what extent is it expected/did the LendXS IT platform (one or more LendXS modules) lower the operational costs of FSPs to acquire and serve smallholder borrowers? Why[6]? *(*DC1/2/3)*
3. What other improvements are expected / were made that improves service delivery between FSPs and smallholder producers (e.g. relationships/trust, communication/ICT, financial investments, product/service offering, and/or lending terms and conditions e.g. less collateral, flexible repayment)? Why? (LQ7.2, LQ7.3) *(*DC1/2/3)*
4. To what extent did cost efficiency enhance the scalability and replicability of LendXS' FSP customers (to reach more SHFs)? *(*DC2/3)*

Reducing risks and enhancing financial viability of FSPs to invest in SHFs (LQ9)

Risk reduction, financial viability

5. What was the risk profile of financial service delivery by FSPs to smallholder farmers at the time of adopting the LendXS IT platform? Risks are financial and E&S in nature (FSP-level). (LQ 9) *(*DC1)*
6. To what extent is it expected/did the LendXS IT platform (one or more LendXS modules) reduce the financial and E&S risks for (rural) FSPs of investing in SHFs? Why[7]? (LQ 9) *(*DC1/2/3)*
7. What role is expected/did other (contextual) factors play in influencing the risk profile of financial service delivery (FSPs to smallholder farmers)[8]? (LQ 9) *(*DC1/2/3)*
8. To what extent is it expected/did the LendXS IT platform (one or more LendXS modules) reduce risks for the investors of (rural) FSPs to be able to invest in smallholder producers? Why[9]? (LQ 9) *(*DC1/2/3)*
9. To what extent did risk reduction enhance the financial viability of the smallholder customer segment of FSPs overall portfolio? Will it (continue to) be an attractive business for FSPs? *(*DC2/3)*

Secondary research questions

Potential to catalyze capital for smallholders (LQ4)

Leverage of capital

10. Who were the FSPs' main funding sources (institutions/types, donor and/or commercial) at the time of adopting the LendXS IT platform? *(*DC1)*

---

[6] Please explain the role of improved FSP cost efficiency leading to lower interest rates passed on to smallholder farmers and why.
[7] Please explain the role of actual farmer data collection that informs the credit scoring and why. Please also explain the role Farmfit Fund's due diligence process (E&S Action Plan in relation to E&S risks & IT Platform) and why.
[8] Risks can be non-mitigable financial and E&S risks outside the control of the FSP or other risks such as public policy, regulation, crop production.
[9] Please explain the role of good performing FSP portfolios (e.g. low PARs) possibly resulting from the LendXS credit scoring as well as other influencing factors as classified in the Learning Framework.

11. How much of FSPs' investment portfolio (i.e. lending volume) was outstanding to SHFs at the time of adopting the LendXS IT platform? *(*DC1)*
12. To what extent are FSPs' investment portfolio expected to / did increase its composition of SHFs (lending volume, SHF reach) after adopting the LendXS IT platform? Why[10]? (LQ4.1) And is it expected to / did scale and replicate to new markets? *(*DC1/2/3)*
13. To what extent are FSPs' main funding sources expected to / did change? Why? *(*DC1/2/3)*

Systemic changes by investees and investors (LQ5)
Systemic changes
14. How is LendXS (e.g. IT platform) expected to contribute to systemic change, through behavior changes with its FSP customers and the FSPs' investors? (LQ5) *(*DC1)*
15. Which behavioral changes can be observed with LendXS' FSP customers and their investors (LQ5.1) *(*DC2/3)* Why were these changes made? Behavior changes, contributing to systemic effects, include:
    ▪ Policies e.g. investment criteria
    ▪ Management systems, (e.g. LendXS Score module and/or other module as well as systems not related to the Lend IT platform)
    ▪ Relationships
    ▪ Mindsets and behavior

Extensive Fund Results Management Framework (RmF) reporting data is expected from LendXS, included at individual FSP-level, which will be a starting point for the research. Additional quantitative and qualitative indicators will also be collected as per the Fund Learning Framework.

Respondents

▪ Selected LendXS FSP customers - cost efficiency, financial viability, risk reduction, scalability/replicability (including catalyzing capital)
▪ LendXS – cost efficiency, risk reduction, scalability/replicability (including catalyzing capital)
▪ IDH Farmfit Fund - cost efficiency, risk reduction, scalability/replicability (including catalyzing capital)
▪ Investors (existing/potential) in LendXS FSP customers - risk reduction, scalability/replicability

Selection

FSP customers
A sub-set of all LendXS FSP customers will be taken to collect data across the two main markets. At a minimum, a factor of 10% would be applied, which based on LendXS targets and this research scope, would amount to 2, 4, & 6 FSPs in each 2-year follow up review (data collection event). The research team is invited to propose a methodology that may more appropriately meet the research objectives.

---

[10] Please explain the role of FSP cost efficiency, risk reduction (financial, E&S), & financial viability and why.

Some FSP selection criteria could include:

     a. Existing and new FSP customers over 5-year period
     b. FSPs with and without an existing smallholder portfolio when introducing LendXS IT
     c. FSPs that use all LendXS modules or selection of modules (i.e. Collect &/or Score)
     d. FSPs with high and low success when using LendXS module(s) in reaching SHFs
     e. FSPs with and without a track record of investors when introducing LendXS IT

As the research is about Farmfit Fund's contribution, not attribution, FSP control groups are not proposed.

LendXS markets

Two main markets (i.e. countries) where LendXS has acquired FSP customers will be researched. The selectin of markets should allow for sufficiently comparing and contrasting findings. Some market selection criteria could include:

     a. Core to LendXS strategy
     b. MFIs with the largest smallholder portfolio (i.e. lending volume)
     c. Countries with relatively similar markets and public policy/regulations for smallholder finance
     d. Countries with relatively similar crops that feature in MFIs' smallholder portfolio

The research team is invited to propose a methodology that may more appropriately meet the research objectives.

Methods

The following general methods are proposed for this research. They are divided by primary and secondary whereas primary methods are those that must be applied. Methods are organized by each respondent type.

Primary methods

- Desk review: LendXS reporting data (including at individual FSP-level), Fund Learning Framework, LendXS investment documentation, and other documents as relevant
- Key informant interviews: Selected FSP customers of LendXS across two main markets, LendXS, IDH Farmfit Fund, and FSP investors (existing/potential)

Secondary methods

- Survey: All FSP customers of LendXS (accessible format, voluntary)
- Desk review: secondary data literature (publicly available and/or paid[11]) for reference

The research will make use of a mixed methods approach whereas quantitative and qualitative data will be analyzed in an effort to triangulate the findings. Detailed methods will be developed by the research team during the research's design phase.

---

[11]Paid access to data at https://www.atlasdata.org/ could be explored, which is operated by MicroFinanza Rating (MFR), one of the world's leading microfinance information service providers.
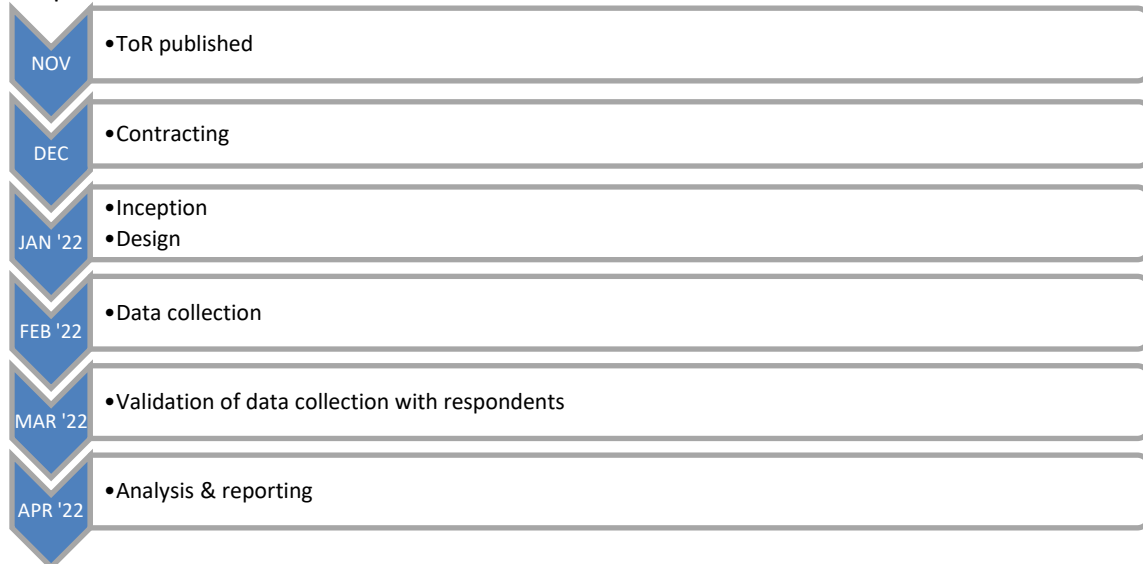
5. Deliverables

The deliverables expected before, during and at the end of the research period include:
1. Draft / final report for each data collection event[12]
    a. Each data collection event's report will answer the corresponding research questions
    b. Reports will be reviewed by IDH Farmfit Fund and LendXS and accessible to the investors of both entities.
2. Input to communication materials about the research project (e.g. press release, blog post) before and during research (after research is conducted the results will feed into the knowledge product, as appropriate)

6. Planning

The project is expected to be contracted in December 2021 with the majority of the project implementation to occur in Q1 2022 i.e. data collection and reporting.

The various key touch points with IDH Farmfit Fund and LendXS will be finalized during inception.

NOV	• ToR published
DEC	• Contracting
JAN '22	• Inception • Design
FEB '22	• Data collection
MAR '22	• Validation of data collection with respondents
APR '22	• Analysis & reporting

7. Research team

The research team should be composed of experts that fit the researcher profile. This can be met through a single consultancy or consortium of experts. For local context, the research team should consist of some experts with a relationship to the countries of research. The research team,

---

[12]The outline of the reports will be agreed during the research's inception phase.

whether single consultancy or consortium, can allocate certain team members to specific project activities only (e.g. design) or multiple activities.

Profile
- Knowledge
  - In-depth knowledge of agricultural micro-finance and MFI's financial, risk, and operational considerations, in relation to smallholder farmer borrowers
  - Familiarity with the use of technology in support of financial service provision
  - Good knowledge of (smallholder) agricultural supply chains
- Experience
  - Significant research experience of smallholder farmer finance programs/projects e.g. evaluations, using mixed methods (quantitative and qualitative)
- Skills
  - Excellent conceptual and analytical skills (quantitative and qualitative) to set up and execute an innovative research project dealing with investment concepts / financial indicators
  - Effective communicator in relation to research respondents, ideally financial service providers like MFIs, and client/stakeholders
  - Excellent report writing skills to communicate clear and actionable insights

8. Proposals and selection procedure

Proposal guidelines

By publishing this ToR, IDH Sustainable Trade Initiative (on behalf of the Fund) is inviting interested consultants to prepare a proposal (max. 5 pages, excl. CVs and samples of work) in which it is explained how the consultant will organize its engagement and research team to contribute to the objectives as explained above.

In the proposal, please provide the following:
- A succinct, well-documented approach, including detailed methodology and desired input and timelines for involvement of The Fund, to fulfilling the deliverables;
  - The consultant is invited to propose a modified methodology that may more appropriately meet the research objectives. Should the proposed methodology entail a higher level of effort, the Fund will carefully consider its merits and factor it into the assessment of value for money.
- Clear description of the research team profile, relevant experience, and time allocation;
- Financial proposal in line with recommended approach, subdivided by a price quotation. The price quotation should clearly state the cost for each component, including any modified methodology proposed. The Fund reserves the right to separate, segment and/or award part or some of the required work as set out above at its sole discretion.
- As Annex:
  - References and sample of previous work
  - CVs of the project team members.
  - Statement on Ground for exclusion (see below)
  - Information about the legal form and ownership structure of the company (extract from chamber of commerce)
  - Copy of most recent (audited) financial accounts

Procedure

The procedure will be as follows:
- Publishing of the ToR.
- Evaluation of the proposals by the Evaluation Committee (including representatives of the Fund and LendXS) on the basis of the exclusion, selection and award criteria as published in these Terms of Reference.
- A potential teleconference session with shortlisted candidates to provide clarification and answer questions prior to final selection.
- Decision on selection of consultancy.
- Inception meeting with the selected consultancy.

Timeline

Activity	Timeline
Publishing of the ToR	November 19th, 2021
Deadline for submission of proposals[13]	December 6th, 2021 *(9h00 CET)*
Selection of consultant	December 13th, 2021
Contracting	December 20th, 2021
Start of assignment	January 3rd, 2022

The IDH Farmfit Fund will reject offers if any illegal or corrupt practices have taken place in connection with the award or the tender procedure.

Grounds for exclusion
1. Tenderers shall be excluded from participation in a procurement procedure if:
   a. they are bankrupt or being wound up, are having their affairs administered by the courts, have entered into an arrangement with creditors, have suspended business activities, are subject of proceedings concerning those matters, or are in any analogous situation arising from a similar procedure provided for in national legislation or regulations;
   b. they or persons having powers of representation, decision-making or control over them have been convicted of an offence concerning their professional conduct by a judgment which has the force of res judicata;
   c. they have been guilty of grave professional misconduct proven by any means which the IDH can justify;
   d. they have not fulfilled obligations relating to the payment of social security contributions or the payment of taxes in accordance with the legal provisions of the country in which they are established, or with those of the Netherlands or those of the country where the contract is to be performed;

---

[13] Proposals submitted after the deadline will be returned and will not be considered in the tender procedure.

e. they or persons having powers of representation, decision making of control over them have been the subject of a judgment which has the force of res judicata for fraud, corruption, involvement in a criminal organization, money laundering or any other illegal activity, where such illegal activity is detrimental to the MFA's financial interests.

Tenderers must confirm in writing that they are not in one of the situations as listed above.

2. Tenderers shall not make use of child labor or forced labor and/or practice discrimination and they shall respect the right to freedom of association and the right to organize and engage in collective bargaining, in accordance with the core conventions of the International Labor Organization (ILO).

Selection criteria

The selection of the preferred candidate will be based on the following selection criteria:

	Component	Criteria	Weight
1	Proposal	The extent to which the proposal meets the required quality of services: - The proposal is clear in terms of objectives and approach - The proposed approach and work plan are appropriate to achieve the expected results - Appropriate tools and methods for the research are proposed - The proposal is realistic in its approach and objectives - The proposed budget is clear, realistic, and affordable - The proposed timelines are realistic	50%
2	Track Record	The extent to which the consultant presents the required level of expertise and knowledge: - Meeting the consultant (or team) profile - Track record of the consultants (having conducted similar assessments in the past) - Capacity to execute a multi-year assessment by ensuring continuity over time	25%
3	Budget	Best price for the proposed level of quality	25%

Scoring and weighing for each component

The evaluation committee will score each component based on the described criteria by assigning scores from 1 to 10, with 10 representing optimal performance and 1 representing extremely poor performance. Each component will be weighed as described above.

Confidentiality

The Tenderer will ensure that all its contacts with the Fund, with regards to the tender, during the tender procedure take place exclusively in writing by e-mail to both David Short at short@idhtrade.org and Thomas Kockmeyer at kockmeyer@idhtrade.org. The Tenderer is thus explicitly prohibited, to prevent discrimination of the other Tenderers and to ensure the

diligence of the procedure, to have any contact whatsoever regarding the tender with any other persons of the Fund than the persons stated in the first sentence of this paragraph.

The documents provided by or on behalf of the Fund will be handled with confidentiality. The Tenderer will also impose a duty of confidentiality on any parties that it engages. Any breach of the duty of confidentiality by the Tenderer or its engaged third parties will give IDH grounds for exclusion of the Tenderer, without requiring any prior written or verbal warning.

All information, documents and other requested or provided data submitted by the Tenderers will be handled with due care and confidentiality by the Fund. The provided information will after evaluation by IDH be filed as confidential. The provided information will not be returned to the Tenderer.

Proposal submission and contact details
The IDH Farmfit Fund reserves the right to update, change, extend, postpone, withdraw or suspend the Terms of Reference, this tender, or any decision with regard to the selection or contract award. The Fund is not obliged in this tender procedure to make a contract award decision or to conclude a contract with a participant. The Fund reserves the right to suspend or annul the Tender Procedure at any moment in time.

Participants cannot claim compensation from the Fund, any affiliated persons or entities, in any way, in case any of the afore-mentioned situations occur.

By handing in a proposal, participants accept all terms and reservations made in these Terms of Reference, and subsequent information and documentation in this tender procedure.
Consultants are invited to submit their proposals via email **by December 6th, 2021 (9h00 CET)** to both:
David Short, Senior Environmental and Social Manager, IDH Farmfit Fund at: short@idhtrade.org
and Thomas Kockmeyer, M&E Officer, IDH Farmfit Fund at: kockmeyer@idhtrade.org.

<u>Annex A: Profile of LendXS</u>

LendXS BV is a Netherlands-based fintech company that provides financial institutions in developing markets with low-cost, high-impact digital process and risk solutions. LendXS was established in 2019 and has operations in Kenya, Ghana, Uganda and Cote d'Ivoire. The company was established by Financial Access Consulting Services BV (FACS), the former ING Bank emerging markets banking advisory subsidiary. For the development of its digital solutions LendXS has entered into a partnership with Incentro Africa Ltd, the Kenya-based affiliate of Dutch technology company Incentro BV.

The main objective of LendXS is to improve rural access to finance through affordable digital technology. The LendXS tools include easy-to-use workflow management and digital data collection and loan monitoring technology, as well as crop-specific credit scoring tools. The LendXS tools allow rural and other lenders to improve their credit risk analyses and to make faster, better-informed loan decisions.

The LendXS solutions are tailored to the client acceptance, risk policy, product, IT and process requirements of financial institutions. They will reduce new client onboarding costs and result in better managed, lower risk rural and agri loan portfolios.