

Terms of Reference
IDH Sustainable Trade Initiative
study on the Valuation of Sustainability Investments

August 17, 2022

1. Introduction

IDH Sustainable Trade Initiative (“**IDH**”) accelerates and up-scales sustainable trade by building impact-oriented coalitions of front running companies, civil society, governments, knowledge institutions and other stakeholders in several commodity sectors. We convene the interests, strengths and knowledge of public and private partners in sustainability commodity programs that aim to mainstream international and domestic commodity markets. We jointly formulate strategic intervention plans with public and private partners, and we co-invest with partners in activities that generate public goods.

On basis of these Terms of Reference (“**ToR**”) IDH aims to select a party **to conduct a study on the Valuation of Sustainability Investments**.

2. Background

Farmfit("Farmfit") is one of the main programs developed by IDH. It aims to unlock the power of capital of markets and value chain companies to invest in smallholder farming and make smallholder markets competitive, inclusive and sustainable. To do so, IDH works with private sector agricultural businesses and financial institutions to understand and improve their business model performance and farmer impact.

IDH Farmfit program provides three complementary sets of activities: Farmfit Business Support provides analytics and technical assistance to develop inclusive and commercially viable business models. It has a particular focus on testing and scaling innovations that can reduce the cost and risk of serving smallholder farmers, increase the value delivered to farmers and optimize commercial returns. Farmfit Intelligence develops and shares key insights on how to make smallholder value chains more efficient, effective and impactful. The Farmfit Fund takes the highest risk position in deals that directly improve smallholder livelihoods. Together, Farmfit Business Support, Farmfit Intelligence and Farmfit Fund seek to make investments in smallholder value chains more attractive and effective.

The Farmer Income Lab (“the Lab”) is a collaborative ‘think-do tank’ founded in 2017 by Mars, Incorporated. It brings businesses, governments, and civil society together to identify and activate innovative solutions for improving smallholder farmer incomes in global supply chains. The Lab’s overall objective is to identify and test the optimal ways to drive meaningful improvements in smallholder farmer incomes, to reach its vision for the future: a future in which all agricultural raw materials are sourced from profitable, socially responsible, and environmentally sustainable farming enterprises that contribute to rural economic growth and poverty reduction—enabling rural communities and natural ecosystems to thrive.

In 2019, the Lab launched the “Disrupting Commodities” workstream to identify ways to drive improvements in smallholder farmer incomes. This research focused on the corporate procurement function due to the pivotal role procurement plays in impacting farmer incomes—whether by helping to increase or inadvertently keeping them low.

As a next step, the Lab is testing the most promising practices unearthed from the Lab’s research through its pilot Lighthouse Programs (LPs). Through testing bundles of innovations that have been shown to improve farmer incomes, these programs will generate insights and learning that companies can use to inform their procurement practices and strategic business investments. All LPs will adopt the Lab’s Common Core Framework (the Common Core) to enable analysis and aggregation across programs, which provides a standard framework for reporting progress.

Given their complementary visions, for the past few years IDH Farmfit and the Lab have been collaborating closely to share best practices on how to understand the performance of smallholder sourcing and service models and key learnings on innovative solutions that can deliver positive outcomes for farmers and businesses alike.

There TOR covers 2 deliverables and will be commissioned by IDH. However, IDH will work closely with the Lab as the work is closely related to both our learning agendas. The Lab may decide to commission a third deliverable, depending on the outcomes of the assignment commissioned through these ToR.

3. Assignment

Objectives

IDH is seeking a consultant to determine the best practices for valuing and driving corporate sustainability investments that can improve farmer incomes and livelihoods. This exercise aims to identify and create a credible methodology for assessing the business case for agricultural businesses to make supply chain investments aimed at improving smallholder farmers' incomes and resilience. The agribusinesses for whom this methodology should be relevant should include a wide range of agribusinesses, from consumer-facing brands to midstream players (traders, aggregators, processors), and from globally-active MNCs to nationally or regionally active agribusinesses. These investments could include both changes to procurement practices and investments into smallholder services e.g., advisory services, input provision or finance.

To achieve this objective, the consultant is expected to:

- Assess the current sector understanding on if and how agricultural businesses derive value from their sustainability initiatives
- Identify and analyze existing relevant valuation methodologies to determine which are the most applicable to the Lab’s and IDH's needs

In a potential follow-up assignment, which is not subject to these ToR yet might be commissioned as a separate piece of work by the Lab following deliverables 1 and 2, a consultant (which may be the same as in the initial assignment) would be expected to:

- Develop the Return on Investment (ROI) methodology that the Lab will use in its Common Core Framework for LPs and IDH Farmfit will use to build its evidence base on service delivery models.

Deliverables

The deliverables of this assignment will be:

| Deliverables of assignment | Deadline |
|--|------------------|
| Literature review on the value of sustainability initiatives aimed at building smallholders' income and resilience | End-October 2022 |
| Analysis of existing valuation methodologies | End-October 2022 |

Further details on the two deliverables are provided below:

Deliverable 1: Literature review on the value of sustainability initiatives aimed at building smallholders' income and resilience

This deliverable will assess what we know today around if and how agricultural businesses derive value from their sustainability initiatives and why it matters that agribusinesses measure and track the ROI of these investments.

a. A narrative on why valuation matters and its current status

Building on the overview and case examples above, the consultant is expected to use a variety of sources (including academic articles) to answer the following:

- How does valuation fit into the broader definition of sustainability?
- How widely is the valuation of sustainability activities being used/applied?
- Do companies see a value in better understanding the value of their sustainability activities aimed at building smallholders' incomes and resilience?
- What patterns do we see as to how it's being used, why/why not, where, and by whom?
- What are the key barriers inhibiting wider use of valuation of these activities?
- How do sustainability activities and their valuation fit into the structure of agricultural value chains? Note that this will influence the methodology, as the interaction and distribution of costs and value between brands and processors will in many cases be important to understand
- What can we learn from similar developments in other sectors / topics, e.g., quantification of the value of GHG emissions reductions and ways in which ESG creates value

b. An overview of the different sources of value for agricultural businesses

This overview should map the sources of value in a matrix that identifies each one's relevance to specific actors within an agribusiness' supply chain. For example, looking at the core value to the business, this might include the following sources of value for an MNC. Note that sources of value might differ depending on the type of business (e.g. a consumer brand vs a trader). Below we provide an indicative overview of what types of sources of value can be identified; the consultant is expected to propose additions or amendments to this list:

| Sustainable Growth | Value Creation | Risk Mitigation |
|--|---|--|
| <ul style="list-style-type: none"> • Reliability and security of supply • Access to right specifications supply (e.g., quality and volume) • Preferential positioning with retailers • Market share • Competitiveness • Lower transaction cost • Premiums (e.g., certification) | <ul style="list-style-type: none"> • Brand equity / pricing power • Lower hedging costs from lower price volatility • Lower working capital/storage costs from lower supply risk • Logistical and manufacturing efficiencies • Reduction in rejections / waste • Lower farmer turnover resulting in lower certification costs | <ul style="list-style-type: none"> • Reputational risk • Compliance risk • Supply disruption • Cost of capital • Insurance cost |

Please note that Farmfit’s Service Delivery Models methodology has over the past 8 years allowed us to collect data on ~100 Service Delivery Models. However, while we have strong data on the proportion of SDM costs that are recovered from payments for services, we lack large-scale insights on the value derived from other sources such as these included in the table above. Farmfit can provide the consultant with insights from the SDM database which can show what the sustainability premium (on top of the value of sourcing from farmers) to cover the remaining net costs of service delivery.

c. An overview of the different types of costs and investments for agricultural businesses

In order to be able to identify a company’s return on investment, a view of both the return and the investment is needed. The consultant is expected to provide an overview of the types of investments and costs that should be considered when evaluating the ROI of sustainability interventions. Here it will be important to think about how sustainability and commercial activities will be split (or not); for instance, investments in sustainability activities may include salaries of field agents and development of training curricula, while commercial investments include processing costs. Some commercial activities will be influenced by sustainability interventions, while others will not and therefore it is important to clarify which elements should be part of a valuation methodology. The consultant will be expected to map which costs and investments should be considered when evaluating the ROI.

d. Case study-based examples on how agricultural businesses derive value from sustainability initiatives aimed at increasing smallholders’ income and resilience

The consultant will gather available evidence and/or case studies that bring to life the sources of value identified above. This will involve laying out how the value of sustainability initiatives played out for different types of agribusinesses i.e., what was the scope of the sustainability initiative, what investment and ongoing costs did it require, what value did it derive and from what sources, and what did the agribusiness learn on how to optimize that value in future investments. The purpose of this exercise is to serve as evidence for the value of sustainability interventions.

Where possible, the consultant will aim to provide quantitative data on the value derived and / or investments and costs. The Lab, IDH and the consultant will jointly define the prioritization criteria that should guide the selection of case studies e.g., type of agribusiness, region and value chain, priority sources of value to focus on etc.

Deliverable 2: Analysis of existing valuation methodologies:

The core of this deliverable is a landscape study that maps the existing approaches for the valuation of sustainability investments that agribusinesses make into their supply chains to improve farmer incomes and livelihoods.

The mapping should focus on methodologies that are or can be used in the food and agriculture industry; examples can come from other sectors in case these are relevant and/or insufficient examples can be found in the food and agriculture sector. For each methodology, the mapping should cover:

- **Type-** Which sources of value the methodology looks at, and which elements of the agricultural supply chain the methodology applies to
- **History-** How the methodology was developed, and why
- **Useability-** Applicability for use by different corporate functions (marketing, procurement, etc.)
 - This will include a review of investment choices, purchasing decisions, sourcing origins, and the selection of sourcing partners
- **Application-** Which other companies, investors, or others use the methodology? This should include case studies and lessons learned from implementing the methodology.
- **Transferability & Comparability-** Can the methodology be applied across companies to compare/benchmark? If so, how widely?
- **Limitations-** What are the barriers to adoption?
- **Drivers of Sources of Value:** To what extent do other factors influence or drive the sources of value? For example, strong marketing to offset inefficient investments, consumer awareness, civil society pressure, etc.
- **Ranking:** A ranking of the methodology's viability for determining Return on Investment (ROI) over time. This should include highlighting:
 - the benefits and drawbacks of each methodology
 - the typical periods and discount rates/cost of capital used
 - the cost/complexity of the approach

The consultant's analysis should highlight the differences across the assessed methodologies, compare their barriers to use, and discuss how they can be applied to various value chains (e.g., food, cash; global, regional, national; tight, loose) and contexts.

This analysis should also identify which methodologies can be tailored to smallholder agricultural value chains. Given that there may not already be fit-for-purpose valuation methodologies with this degree of specificity, the consultant will determine which valuation methodologies could be used "off-the-shelf" or would need to be adapted to meet the Lab's and IDH Farmfit's needs. This analysis will inform the Lab and IDH Farmfit's decision on how to proceed in selecting a valuation methodology for its needs (e.g., if there is an existing methodology it can adopt, if it needs to tailor an existing option, or if it needs to create a new one entirely).

4. Selection Procedure

The procedure will be as follows:

1. Tender published on IDH website: August 17th, 2022
2. Evaluation
3. Decision on selection of the consultant.
4. Inception meeting with the selected consultant.

The schedule below indicates the timelines for the tender procedure:

| Tender process | Timeline |
|---------------------------------------|----------------------------------|
| ToR published | August 17 th , 2022 |
| Deadline for submission of proposals* | September 2 nd , 2022 |
| Selection of Service provider | September 8 th , 2022 |
| Start of assignment | Mid- to Late-September 2022 |

* Proposals submitted after the deadline will be returned and will not be considered in the tender procedure.

After the deadline to submit a proposal has passed, the evaluation committee will evaluate the proposals.

The proposals will first be tested for completeness:

- The absence of the documents referred to in Section 6 of this document can lead to exclusion from further participation in the tender procedure. This is also the case when minimum requirements listed in this ToR are not met.
- If the proposal is complete, the selection committee will evaluate the proposal based on the criterion as mentioned in section 6.

The assignment will be awarded to the service provider with the most economically advantageous tender. This is determined based on the evaluation criteria price and quality.

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

5. Proposal requirements

IDH is requesting the service providers to hand in a proposal of maximum 10 pages (excluding company biographies, CVs, sample work and references). The proposal must be handed in a MS Word or PowerPoint version next to a PDF submission to facilitate any copy-and-pasting of content that we may need during evaluation.

The proposal must at least include:

[Content:](#)

- a. A succinct, well-documented approach addressing the requirements set out this ToR. We request that the proposal structure match the selection criteria as closely as possible
- b. Maximum of three client references and a sample of previous work relevant to the deliverables in this ToR
- c. An overview of the project team, including the CVs of the project team members
- d. Budget presented in Euros (ex VAT) with a break-down of days/rate per project team member

Administrative:

- e. Completed detail request form (annex 2)
- f. Copy of most recent (audited) financial accounts
- g. Statement of acceptance draft contract (annex 3)
- h. Statement of grounds for exclusion (see section 6 below)

The proposal must be submitted to William Saab at saab@idhtrade.org before **September 2nd at 6pm CEST**.

6. Testing and weighing

The assignment will be awarded to the service provider with the most economically advantageous tender. The most economically advantageous tender is determined on the basis of the evaluation criteria of price and quality.

Grounds for exclusion

1. Service providers shall be excluded from participation in this tender 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;
 - e) they or persons having powers of representation, decision making or 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.

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

2. Service providers 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).

Scoring and weighing

The evaluation criteria are compared and weighed according to the 3 criteria listed below:

Criterion 1 - Proposal Quality

Evaluation scores will be awarded for each of the components. The evaluation committee will score each component unanimously.

The proposal will be assessed based on the following selection criteria:

| Component | | Criteria |
|-----------|--------------------------|---|
| 1 | Proposal overall | The extent to which the proposal meets the requirements set out in Section 3 above and throughout this document. Can the Service provider deliver the requirement deliverables? Will the Service provider be able to deliver a comprehensive solution? |
| 2 | Proposal approach | <p>The extent to which the Service provider demonstrates that a clear process will be followed and IDH is adequately consulted for input during the design and development.</p> <p>The extent to which proposed timeline is in line with IDH’s needs.</p> <p>The extent to which it is clear what is required of IDH in terms of human resources, digital assets and other input to deliver the project without being too onerous on our staff.</p> |
| 3 | Track record | <p>The extent to which the Service provider presents the required level of expertise and knowledge to fulfil the requirements both at team member and company level.</p> <p>To extent to which the Service providers gives a clear description of the project team, relevant (delivering similar projects) experience of team members and time allocation per team member.</p> |

The evaluation committee will unanimously score each component by assigning scores from 1 to 5.

Criterion 2 - Price

A combined price in Euros (ex VAT) is to be presented. This is to be broken down by team member rate and hours.

The criterion of assessment is “the best price for the proposed level of quality” with a maximum grading of 5.

Weighting and selection

The final score will be weighted 70% on Quality and 30% on Price.

If scores of service providers are equal, priority will be based on the total scores that were given for the Criterion Quality. The assignment will be awarded to the service provider that has received the highest score for the Criterion Quality. If the evaluation of the Criterion Quality does not lead to a distinction, the score for the component “Proposal overall” will be decisive. If this does not lead to a distinction, the ranking will be determined by the drawing of lots.

Award

Once IDH has decided to which Service provider it intends to award the assignment, a written notification thereof is sent to all Service providers participating in the tender procedure.

The Service provider is contracted via a letter of assignment.

7. Communication and Confidentiality

The Service provider will ensure that all its contacts with IDH, with regards to the tender, during the tender procedure take place exclusively in writing by e-mail to William Saab via saab@idhtrade.org and Clara Colina (colina@idhtrade.org). The Service provider is thus explicitly prohibited, to prevent discrimination of the other Service providers and to ensure the diligence of the tender procedure, to have any contact whatsoever regarding the tender with any other persons of IDH than the person stated in the first sentence of this paragraph.

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

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

8. Disclaimer

IDH reserves the right to update, change, extend, postpone, withdraw, or suspend the ToR, this tender procedure, or any decision regarding the selection or contract award. IDH is not obliged in this tender procedure to make a contract award decision or to conclude a contract with a participant.

Participants in the tender procedure cannot claim compensation from IDH, 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 this ToR, and subsequent information and documentation in this tender procedure.

9. Annexes

Annex 1: IDH General terms and conditions for services

Annex 2: Detail request form

Annex 3: Statement of acceptance of draft contract