

Terms of Reference

Stichting IDH

Research on the factors influencing investors' risk perception of smallholder farmer value chain investments

1. Introduction

Stichting IDH

Stichting IDH (“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.

At IDH, we apply a systems-change approach to our work of putting people, planet, and progress at the heart of trade. Our programs bring together sector actors and seek out the leverage points where small adjustments can catalyze change. This could be a shift in how farmers access services and support, a change in procurement practices, funding for technological solutions and new tools that provide deep insights, or a reprioritization of investments.

IDH Investment Management and IDH Farmfit Fund

IDH Investment Management, as a 100% subsidiary of IDH, is an impact-driven investment management company based in Utrecht, the Netherlands. The company builds on Stichting IDH’s vast knowledge and expertise in value chain development and with a strong team of investment professionals, works towards contributing to the Sustainable Development Goals.

IDH Investment Management manages the *IDH Farmfit Fund* (“Fund”), also a 100% subsidiary of IDH. The Fund shares IDH’s mission for system change, focusing on bringing about change in the specific subsystem in which it operates: the global system of agricultural finance, which is embedded in the markets IDH seeks to transform. The Fund’s vision for this market transformation – changing the agricultural finance system for the benefit of smallholders – is to establish smallholder finance as an asset class. This signifies that smallholder finance becomes a mainstream business with a sizable, stable, and predictable market. For this to happen, smallholder finance needs commercial viability to become part of the investment strategies of commercial investors.

On the basis of these Terms of Reference (“**ToR**”), IDH, for the purpose of the Fund, aims to select a consultant **to conduct research on and develop a written report about investors’ risk perception regarding investments in smallholder farmer value chains.**

2. Background

A central aspect of the Fund’s strategy and its Theory of Change (attached hereto as Annex 1) is the impact of “real” and perceived risks on investments in smallholder farmer value chains. Real risks



associated with smallholder farmer value chains typically are caused by factors such as low economic development, climate change, limited contract compliance, seasonality of cash flows and low management capacity, making these investments less attractive. To address this, the Fund deploys capital to de-risk innovative investments in smallholder farmer value chains, providing reassurance for investors and encouraging them to co-invest with the Fund. Additional reassurance is provided by the second loss guarantee facility, provided to IDH Investment Management by the U.S. Development Finance Corporation.

Beyond the real risks, the Fund hypothesises that the perceived risk of investments in smallholder farmer value chains is greater than the real risks. As a result, the level and nature of investments into the sector is suboptimal. To address the perceived risk and achieve the market transformation mentioned in the introduction, the Fund aims to demonstrate the viability of financially sustainable farmer financing. By building a sizeable, financially sound smallholder farmer-centric investment portfolio, including value chain actors, financial service providers and innovative business models (Fin-tech, Ag-tech) the Fund intends to show that such investments can generate responsible business growth while enabling increased access to affordable finance and improved efficiency for smallholder farmers.

To work towards its mission, the Fund aims to better understand which factors influence investor risk perception and how this can be reduced, the extent to which there is a gap between real risk and perceived risk, as well as what investment structures or other mechanisms can help mitigate actual risk.

It is within this context that IDH, for the purpose of the Fund, is looking for a **consultant** with experience and expertise in **conducting research and translating key learnings into a written report**. The consultant must be knowledgeable about **agriculture, smallholder farmer value chains, finance, and preferably investments**. Moreover, the consultant should have experience in **conducting research on (potentially) commercially sensitive topics**.

3. Assignment

Objectives

The overall objective of this assignment is **to conduct research on the perceived risks of investments in smallholder farmer value chains, identifying the key factors impacting investors' risk perception**

To achieve this overall objective, the Fund is interested in:

Analyses that improve the understanding of the risk(s) perceived by investors

1. What are key factors that impact investor risk perception? – i.a. investment characteristics, investment readiness, enabling environment, market dynamics, etc.
2. How might these factors and the magnitude of their impact on risk perception differ based on investor characteristics, such as:
 - *investor mandate* – i.a. impact lenses and impact ambitions, desired financial return, investment horizon, etc.;
 - *intended use of proceeds* – e.g. working capital, CAPEX, on-lending, climate resilience activities, etc.;
 - *financing instrument(s)* – i.a. short term instruments (e.g. term loans, trade finance, credit lines) vs. long-term (e.g. working capital, CAPEX, equity), etc.;



- *type and part of the Smallholder Farmer Value Chain* – i.a. logistics, services, marketing, etc., and food crop value chains vs. cash crop value chains, etc.;
 - *geographical focus* – i.a. comparison between Africa, Asia, Latin America and a geographically diversified portfolio;
 - *proximity to investment* – e.g. fully located in the Global North, HQ in Global North with local offices, HQ in Global South, etc.
3. What do investors consider to be (the most) effective mitigants of the risks associated with these factors? i.a. we are interested in the mitigation potential of:
- *investment characteristics* – i.a. ticket size, type of capital, type of financing instrument, use of proceeds, etc., and;
 - *risk-sharing mechanisms*, - e.g. insurance, first loss tranche, mezzanine tranche, guarantee, co-investing, etc., and;
 - *non-financial tools and support* – e.g. access to market data, BDS tools, Technical Assistance, etc.

Identification of other factors that influence investment behaviour, i.a.:

1. Besides risk perception, what are key factors that influence investment behaviour?;
2. What investment characteristics are most appealing to different types of investors?, and;
3. What fund structures are most appealing to different types of investors?

Investor risk perception trends overview over time, for the past ~5 years and the next ~5 years

- at a minimum this should cover the impact of the macro-economic environment, climate change and geopolitical stability.

Scope

The scope of the assignment is determined by the scope of the Fund:

- **Countries** – [DAC list of ODA Recipients](#).
- **Target investors** – i.a. (Impact) Investors, (local) Finance Institutions, Development Finance Institutions, etc.
- **Target investees** – i.a. Agri-SMEs, (local) financial institutions, ag-tech and fin-tech companies with a smallholder farmer focus.

Methodology and project design

We invite interested parties to propose their own methodology and approach, but we expect it to feature the following:

Regular check-in meetings with the IDH & The Fund, including a kick-off meeting at the start of the assignment:

- to get to know the team;
- to finalize selection of the deliverables and align expectations in the timeframe, and;
- to make a (preliminary) assessment of the need for additional data, sources, contacts, etc to complete the assignment and to keep all parties informed.



Interviews & secondary research

- secondary research on investor risk perception, and;
- interviews with investors active within smallholder finance value chains, or considering investing in smallholder farmer value chains.
- *note* we can help facilitate setting interviews, but it is beneficial if you have your own network.

ADDITIONAL: Methodology for assessing the risk perception gap

- methodology that allows for the assessment between the actual risk and the perceived risk of an investment.
- *note* this is not part of the minimum requirements, however it is highly encouraged to include this in your proposal.

For detail on the Fund's Theory of Change, please see **Annex 1**.

Deliverables

The deliverables of this assignment will be:

Deliverables of assignment	Deadline
Draft report investors' risk perception	9 December 2024
Sense making workshop – discuss outcomes draft report	12 December 2024
Final report investors' risk perception	30 December 2024
Interview transcripts	30 December 2024

4. Selection Procedure

The procedure will be as follows:

1. Publishing the tender and/or inviting services providers to submit a proposal based on this ToR.
2. Evaluation of the proposals by the chair of the evaluation committee. The 3 proposals that receive the highest scores will be presented to the evaluation committee. The chair of the evaluation committee and the evaluation committee will evaluate the proposals based on the selection criteria as published in this ToR.
3. Decision on selection of the service provider.
4. Inception meeting with the selected service provider.



The schedule below indicates the timelines for the tender procedure:

Tender process	Timeline
ToR published	1 October 2024
Deadline for submission of proposals*	15 October 2024
Selection of service provider	22 October 2024
Start of assignment	30 October 2024

* 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 IDH evaluation committee will assess the proposals.

The proposals will first be tested for completeness:

- The absence of the documents referred to in Section 5 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 criteria as set forth 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 (see Section 6).

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 (as per template in Annex 2),



- e. Statement on Ground for exclusion (see Section 6 below).

Administrative:

- f. Completed detail request form (Annex 3),
- g. Copy of most recent (audited) financial accounts, if available,
- h. Statement of acceptance draft contract (Annex 6).

The proposal must be submitted to Rosalie Dekker at dekker@idhtrade.org and Kafui Adjogatse at adjogatse@idhtrade.org before **15 October 2024 at COB**.

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 procedure below. This concerns a general outline of the scoring methodology and an explanation how the service provider can demonstrate compliance with the requirements.

Step 1 - Criterion Quality

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

IDH values quality highly, therefore a minimum grade of 3 must be scored by the service provider on each component. If the service provider scores a grade of 3 or less on one of the components he will be excluded from the tender procedure and awarding the contract.

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

Component	Criteria	Max. Grading
1	Proposal overall	5
2	Methodological approach	5
3	Track record	5

The evaluation committee will unanimously score each component by assigning scores from 1 to the maximum grading, with the maximum grading representing optimal performance on the component and 1 representing extremely poor performance on the respective component.



Step 2 - Criterion price

The Budget template (Annex 2) shall be followed by a service provider.

Please note that a combined price in Euros (inc VAT) is to be presented. This is to be broken down by team member rate and hours. Proposals should not exceed the amount of EUR 45,000.

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

Step 3 - Weighting

The final score will be weighted 75% on Quality and 25% 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, following IDH’s template (Annex @).

Please note: the payment schedule set out in the letter of assignment template may be amended, subject to unilateral decision of IDH.

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 Rosalie Dekker via dekker@idhtrade.org and Kafui Adjogatse via adjogatse@idhtrade.org. The Service provider is thus explicitly prohibited, to prevent discrimination of the other Service providers and to ensure the diligence of the 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: Theory of Change IDH Farmfit Fund

Annex 2: Budget template

Annex 3: Detail request form

Annex 4: Letter of Assignment

Annex 5: IDH General Terms and Conditions for Services

Annex 6: Statement of acceptance