Climate Corporate Governance Enhancements: Agribusiness Commodity Trader

Terms of Reference

1. BACKGROUND

The European Bank for Reconstruction & Development (“EBRD” or “the Bank”) has provided a USD 100 million regional loan facility to Louis Dreyfus Company Suisse SA (“LDC”) and its affiliates in Ukraine, Turkey, Egypt and Kazakhstan for the purposes of financing working capital needs. LDC is a leading international trader and processor of agricultural commodities, which serves as a market platform for farmers and suppliers of agricultural commodities across the EBRD region and beyond.

The agribusiness sector is inherently affected by climate change, both through its contributions towards greenhouse gas (GHG) emissions, and through its sensitivity to climatic conditions and physical climate change impacts. Therefore, EBRD prioritises supporting its agribusiness clients to align their business models and operations with low-carbon and climate-resilient pathways, in line with the goals of the 2015 Paris Agreement. These objectives are highly relevant to LDC’s business operations in the EBRD region of central and Eastern Europe, which include agribusiness value chains that may be affected by the transition towards a low-carbon economy (e.g. carbon-intensive inputs involved in producing commodities such as grain), and which are sensitive to the projected physical impacts of climate change (e.g. intensive water use involved in producing commodities such as cotton).

There is increasing awareness of the implications of climate change for economies and businesses, and for the need to internalise information about climate change (both low-carbon transition and physical climate impacts) in financial and business decision-making. This is needed in order to optimise business performance, economic output, and financial stability in the face of the necessary decarbonisation of the global and local economy, and of the physical impacts of climate change. This shift is being reinforced by recommendations and emerging regulatory frameworks from influential bodies such as the Financial Stability Board’s Task Force on Climate-related Financial Disclosures (TCFD), the Network for Greening the Financial System (NGFS), the EU Commission’s Sustainable Finance Action Plan and a number of national regulatory and supervisory bodies. Companies may need to adjust their business models and internal corporate governance in order to align their business operations with low-carbon and climate-resilient pathways, in line with these emerging best practices and regulatory changes.

LDC already has very high standards of internal corporate governance, including in relation to sustainability, and is therefore well placed to pursue further improvements in the area of corporate governance for climate action. For example, LDC is already well aware of issues such as water use, energy use and GHG emissions within its business operations, and is consequently able to track relevant indicators. Therefore, one of the objectives of EBRD’s project with LDC is to build on this strong performance by supporting LDC to enhance its corporate governance for effective climate action (“climate corporate governance” or “CCG”). This will help LDC to identify, assess and manage the risks and opportunities associated with climate change that may arise within and/or affect its

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2 The majority of LDC’s committed bank financing is now linked to its performance against measurable sustainability indicators.
business operations, and align its business strategy and operations accordingly. Such risks may arise from the carbon transition\(^3\) and from physical climate impacts\(^4\). This may entail LDC taking action at a number of levels, for example across the four TCFD pillars:

- **Governance**: e.g. ensuring senior management engagement for climate action;
- **Strategy**: e.g. using a range of climate change scenarios to inform business strategy and forward planning;
- **Risk management**: e.g. having processes in place to identify, assess and manage climate-related risks (and opportunities); and
- **Metrics and targets**: e.g. defining climate-related metrics and targets for external disclosure, potentially building on LDC’s already sophisticated annual Sustainability Reports.

Given LDC’s prominent role in the EBRD region and globally as one of the world’s leading agricultural commodities trading and processing companies, this project will have high demonstration impact on other companies operating in this and related sectors across the EBRD region and beyond. This project will enable the development of a replicable model for CCG enhancement for future use by EBRD and LDC, beyond the scope of the current project. This model will consist of four sequential steps:

- **Step 1**: LDC’s high-level commitment to a best-practice CCG framework;\(^5\)
- **Step 2**: Identification of CCG entry points based on LDC’s business model;
- **Step 3**: Technical analysis to stress-test the LDC’s business operations under climate change scenarios; and
- **Step 4**: Identification of climate action priorities for LDC (e.g. corporate policies, operational procedures and assets, etc.).

In order to develop and implement this approach in the context of EBRD’s financing to LDC, EBRD together with LDC wishes to appoint a suitable team of consultants (the “Consultant”) to assist LDC with taking forward steps 2 to 4 of the above model. The project will entail identifying appropriate CCG entry points in two of LDC’s key value chains\(^6\) in the EBRD region (grain in Ukraine and cotton in Turkey), stress-testing those value chains under a range of climate change scenarios, and identifying corresponding climate action priorities for LDC that lead to improved corporate climate action outcomes (“the Assignment”).

### 2. **OBJECTIVES**

The objectives of this Assignment are the following:

- To contribute towards CCG enhancements to LDC’s business operations by generating a thorough understanding of the risks and opportunities associated with low-carbon transition

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\(^3\) (Carbon) Transition risks: Risks related to the transition to a lower-carbon economy. The risks can be grouped into four categories: policy and legal risk; technological risk; market risk (e.g., consumer preferences); and reputational risk. *Source: 2017 Final TCFD Recommendations Report*

\(^4\) Physical Risks: Risks associated with physical impacts from climate change that could affect carbon assets and operating companies. These impacts may include “acute” physical damage from variations in weather patterns (such as severe storms, floods, and drought) and “chronic” impacts such as sea level rise, and desertification. *Source: 2017 Final TCFD Recommendations Report*

\(^5\) e.g. TCFD or similar

\(^6\) Value Chain: Terminology used to describe the upstream and downstream life cycle of a product, process, or service, including material sourcing, production, consumption, and disposal/recycling. Upstream activities include operations that relate to the initial stages of producing a good or service, e.g., material sourcing, material processing, supplier activities. Downstream activities include operations that relate to processing the materials into a finished product and delivering it to the end user (e.g., transportation, distribution and consumption).
and physical climate impacts in two priority value chains (grain in Ukraine and cotton in Turkey).

- To stress-test each of these two priority value chains under a simplified range of climate change scenarios in order to identify climate action priorities for LDC.
- To provide recommendations on how these climate action priorities could be implemented in the context of the LDC’s business operations, including potential climate-related disclosures.

3. SCOPE OF WORK

The Assignment will comprise of five sequential Tasks, as listed below:

- Task 1: Scoping and initial diagnostics
- Task 2: Initial analysis of value chain structure & composition
- Task 3: Construction of climate change scenarios and application to stress-test value chains
- Task 4: Identification of climate action priorities in each value chain
- Task 5: Development of recommendations for the implementation and monitoring reporting and evaluation (“MRV”) of climate action priorities

Task 1: Scoping and initial diagnostics

The Consultant shall undertake an initial scoping and diagnostic exercise in order to define CCG entry points both at LDC corporate level for EMEA region and at the level of the two value chains (grain in Ukraine and cotton in Turkey). This will include the following activities:

- An initial diagnostic exercise to determine the nature and level of the LDC’s existing CCG arrangements and identify priorities for further improvements. This will include determining what is already being tracked and reported, and the data available (including external and publicly available data).
- Scoping the two value chains (both upstream and downstream), covering their geographic locations/coverage, the structure and dynamics of supply and demand, LDC’s assets and operations involved in each value chain, and any other relevant characteristics.
- Identifying the key stakeholders involved in each value chain, including the types of producers, suppliers, distributors, retailers etc., and any specific industry associations, cooperatives, authorities or regulators that are relevant to each value chain. This will also include determining any relevant data available from these stakeholders.

Task 2: Initial analysis of value chain structure & composition

Building on the findings of Task 1, the Consultant will conduct more detailed analysis of each value chain in order to define their respective specific structures and compositions. This will be carried out in close coordination with the LDC, and where possible and appropriate, in partnership with relevant industry associations or cooperatives etc., as detailed under Task 1. This will include the following activities:

- Defining the composition of the respective tiers of each value chain, both upstream and downstream. This will commence with defining the first tier (e.g. immediate suppliers to LDC) in terms of their locations and operations, etc. In coordination with the Client and any relevant industry associations etc., the Consultant will on a best efforts basis access information from the first tier about the next tier down, e.g. producers that provide raw materials to LDC’s immediate suppliers. Where such information cannot be obtained, the Consultant will access
publically available information and/or make reasonable assumptions about e.g. location of primary producers on a best efforts basis. The outcome of this activity will be as detailed as possible, including spatial mapping of each value chain and covering primary production (upstream) through to end consumers (downstream). The Consultant will also review available KPIs, establish whether there are any data restrictions, in particular on the suppliers’ side (i.e. upstream), and collate relevant data and benchmarks.

- Building on this analysis, the Consultant will identify potential climate sensitivities in each value chain. This will cover both sensitivity to carbon transition risks (e.g. reliance on carbon-intensive inputs or logistics modalities, etc.) and to physical climate risks (e.g. water intensive activities, exposure of key facilities to extreme weather events, etc.). This will again cover both upstream and downstream value chains, covering primary production, processing, logistics, storage, retail, etc.

**Task 3: Construction of climate change scenarios and application to stress-test value chains**

Building on the findings of Task 2, the Consultant will undertake the following activities:

- Construct two simplified climate change scenarios for each country/value chain. This simplified approach\(^8\) will entail the following:
  - A 1.5°C scenario that assumes rapid decarbonisation and minimal physical climate impacts over the coming decade
  - A 4°C scenario that assumes slower decarbonisation and significant physical climate impacts.
- Stress-test each value chain under each of the simplified climate scenarios (1.5°C scenario and 4°C scenario), in order to:
  - Identify potential risks in each value chain of lost production and/or lost value as a result of carbon transition and physical climate impacts, which should be prioritised in terms of their likely materiality and severity, and quantified/estimated in financial terms where possible and on the basis of available indicators and location-specific benchmarks, e.g. m\(^3\) water/tonne of cotton in relation to water availability;
  - Identify potential opportunities in each value chain that correspond to possible increases in production and/or value as a result of carbon transition and physical climate impacts including the effective management of the risks identified above, which should again be prioritised in terms of their likelihood and quantified/estimated in financial terms where possible.

**Task 4: Identification of climate action priorities in each value chain**

Based on the results of Task 3, the Consultant will carry out the following activities for each value chain:

- Identify climate action priorities for low-carbon and climate-resilient business development, which may include, *inter alia*:
  - Requirements that may be worked out with suppliers/producers, such as downstream disclosure practices to improve information flows about climate-related risks and opportunities in each respective value chain;

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\(^8\) The selection of these highly simplified climate change scenarios has been guided by the recommendations of the Network for Greening the Financial Sector (NGFS).
Identification of alternative value chain pathways, e.g. improving suppliers farming / processing practices etc.; or
- Adoption of risk management practices such as back-up suppliers, insurance, etc.
  - Identification of investment needs corresponding to the identified climate action priorities (e.g. efficient logistics, improved storage facilities, etc.).

- Articulate the business case for these specific climate action priorities through the quantification and valorisation of their expected benefits (e.g. anticipated yield increases, energy efficiency cost savings, reduced wastage of produce, increased water availability, etc.). These recommendations may also be linked to farmer training and outreach activities, to ensure an integrated approach that spreads information about good practices on decarbonisation and climate resilience, alongside other sustainability priorities such as: responsible land use, improved and sustainable soil management / crop rotation / irrigation practices, use of crop protection products, etc.
- Develop the climate action priorities identified above into specific adoptable corporate polices and/or financeable investment priorities that may be operationalised under a number of financing modalities, e.g. direct financing under the existing EBRD/LDC transaction, and/or future financing activities which may include other financing modalities such as value-chain financing, parallel financing via financial intermediaries (local banks), etc.

**Task 5: Development of recommendations for the implementation and MRV of climate action priorities**

Building on the findings of Task 4, the Consultant will then:
- Present a set of options for implementing the climate action priorities identified in Task 4 in the context of the LDC’s business operations in the two selected value chains in particular and in the EBRD region more generally.
- Present options for quantifying/estimating and reporting (whether *ex ante* or *ex post*, or both) the outcomes of the climate action priorities in terms of enhanced climate outcomes (e.g. reduced GHG emissions, climate resilience benefits) and/or LDC’s enhanced business performance. This should also include a brief summary of how the findings of the Assignment could inform the disclosure of climate-related risks and opportunities in line with the recommendations of the TCFD.
- On the basis of the two priority value chains, the Consultant will make an estimate of the potential climate change outcomes to be achieved through CCG enhancements. These will be done in both qualitative and quantitative terms (e.g. increased (mobilised) investment in energy efficient or water efficient technologies, reduced GHG emissions in either absolute terms or per tonne of product, improved climate resilience outcomes such as increased water availability), in line EBRD’s Green Economy Transition (GET) guidance.

**4. DELIVERABLES & SCHEDULE OF WORK**

The Consultant shall deliver the following outputs and reports:

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<table>
<thead>
<tr>
<th>Output</th>
<th>Description</th>
<th>[Indicative] Timeline (from the start of the Assignment)</th>
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<tbody>
<tr>
<td>1. Inception Report</td>
<td>The report shall summarise the Consultants understanding of the Assignment and their proposed approach to the work, together with timeframes for implementation.</td>
<td>[2] weeks</td>
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<tr>
<td>2. Background paper</td>
<td>Covering the interim findings of Task 1 and Task 2</td>
<td>[4-5] weeks</td>
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<td>3. Interim Report</td>
<td>Covering the findings of Tasks 1-3</td>
<td>[8-10] weeks</td>
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<td>4. Workshop 1</td>
<td>A workshop will be held mid-Assignment to present the Interim Report to LDC and EBRD, and seek feedback for the execution of Tasks 4-5</td>
<td>[12-15] weeks</td>
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<tr>
<td>5. Draft Final Report</td>
<td>Covering the findings of Tasks 1-5</td>
<td>[16-20] weeks</td>
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<tr>
<td>6. Presentation slides</td>
<td>The presentation shall explain the Assignment, its core activities and the results.</td>
<td>[20-24] weeks</td>
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<tr>
<td>7. Workshop 2</td>
<td>A second workshop will be held towards the end of the Assignment to present the final results to LDC and EBRD.</td>
<td>[22-26] weeks</td>
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Wherever possible, the Consultant shall present findings as well-designed graphs, diagrams or tables, rather than as pure text to improve the readability, clearly indicating assumptions made and mentioning the sources of information. For more detailed review and analysis, the reader will refer to annexes where all data gathered shall be presented, in table format. All data gathered will be organised in a table format for easy review and analysis and presented in annexes to the reports.

All reports shall be submitted in English and presented in both paper and electronic format using Word for Windows. All spreadsheets should be in Excel for Windows.

5. IMPLEMENTATION ARRANGEMENTS

5.1 Reporting and implementation

It is envisaged that the Assignment will be launched in Q2 2020. The duration of the Assignment will be approximately 6-8 months. It is expected that the Consultant will commence work immediately upon appointment.

The Consultant shall report to the Energy Efficiency and Climate Change team at the EBRD.

A kick-off meeting will be held at the start of the Assignment to allow the Consultant to fully understand the requirements of the Assignment.

LDC will appoint a Project Manager(s) who will be supporting the implementation of the Assignment.
5.2 Activities and Travel

The Assignment will include desk-based research, as well as stakeholder consultation and interviews.

The Consultant will be expected to travel to EBRD countries of operations. The Consultant will be responsible for all costs related to the project, such as communication, travel to London, accommodation, interpretation and translation and other relevant expenses.

6. CONSULTANCY PROFILE

The Consultant should ensure that the appropriately qualified experts are available, as required, for each of the different tasks outlined above. It is expected that the Assignment will be led by an appropriately qualified team leader, accompanied by both key and supporting experts. Based on the fields of expertise and the tasks mentioned above, it is proposed that the team of the Consultant should consist at least of the following experts:

- **Project Manager** with a university degree or equivalent qualification, preferably with 15 years of professional experience in managing projects of similar type and complexity.
- **Climate Change Expert(s)**, preferably with 10 years of relevant professional experience, including in performing stress-test analysis
- **Agriculture Expert(s)/ Economist(s)**, preferably with 10 years of relevant professional experience and good knowledge of the agricultural sector ideally within the cotton value chain in Turkey and the grain value chain in Ukraine.
- **Water Expert(s)/ Economist(s)**, preferably with 10 years of relevant professional experience and good knowledge of the agricultural sector in Turkey and Ukraine.
- **Corporate governance expert(s)**, preferably with 10 years of relevant experience on sustainability and climate change related topics ideally large multi-nationals.
- **Financial Expert(s)**, preferably with 10 years of relevant professional experience.
- **Analyst(s)/ Local Expert(s)**, with strong analytical skills.