Climate Corporate Governance Enhancements: Agribusiness Commodity Trader

Terms of Reference

1. BACKGROUND

The European Bank for Reconstruction & Development ("EBRD" or the "Bank") is considering providing a USD 200 million regional loan facility to Olam International Ltd ("Olam"), the holding company that controls all operating subsidiaries of the group, for the purposes of financing working capital needs, capital expenditures. Olam is one of the leading international integrated traders in the world, involved in growing, sourcing, processing and trading of agricultural and food commodities, and 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. These objectives are highly relevant to Olam’s business operations in the EBRD region. These include agribusiness value chains that may be affected by the transition towards a low-carbon economy (e.g. carbon-intensive inputs involved in producing certain agricultural), and which are sensitive to the projected physical impacts of climate change (e.g. exposure to extreme and variable weather conditions affecting the production of a range of agricultural commodities).

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’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.

Generally, smaller farms/SMEs are highly exposed to climate risks. The EBRD Value Chains Competitiveness Programme, which is funded by the EU NIF, aims at enhancing competitiveness of SMEs in industries such as agribusiness, manufacturing and services, logistics and distribution and ICT in Egypt, Jordan, Morocco and Tunisia. Under the Programme, the EBRD provides dedicated Technical Cooperation assistance to suppliers that work with buyers/off-takers to support improvements in productivity, environmental sustainability, climate resilience, quality standards, and other areas.

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1 In line with the goals of the 2015 Paris Agreement
Olam 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 and to provide industry guidance to other market players, including their suppliers who are highly exposed to climate risks. (e.g. Olam is an official supporter of the TCFD3). Olam4 is aware of the need to understand better the implications of shifting weather patterns, extreme weather events, water and energy use and GHG emissions within its business operations and in its supply chains (it works with a large network of suppliers/farms across countries). Therefore, one of the objectives of EBRD’s project with Olam is to build on this strong starting position by supporting Olam to enhance its corporate governance for effective climate action (“climate corporate governance” or “CCG”) and provide further guidance to other market players in integrating TCFD recommendations in their operations. Additionally, by supporting Olam’s supplying farms with improving climate adaptation and resilience, the project can demonstrate best practice in improving climate corporate governance and sustainability along the value chain.

The proposed project with Olam will help the Client to identify, assess and manage the risks and opportunities associated with climate change that may arise within and/or affect its business operations along its supply chain, and align its business strategy and operations accordingly. This will cover both carbon transition5 and physical climate6. This may entail taking action at a number of levels, reflecting TCFD recommendations as follows:

- **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 Olam’s already sophisticated annual Sustainability Reports.

Given Olam’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 will entail the development of a replicable model for CCG enhancement for future use by EBRD and Olam, beyond the scope of the current project. This model will consist of four sequential steps:

- **Step 1**: Olam’s high-level commitment to a best-practice CCG framework7;
- **Step 2**: Identification of CCG entry points based on Olam’s business model;
- **Step 3**: Technical analysis to stress-test Olam’s business operations under climate change scenarios; and
- **Step 4**: Identification of climate action priorities for Olam (e.g. corporate policies, operational procedures and assets, etc.).

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3 [https://www.fsb-tcfd.org/tcfd-supporters/](https://www.fsb-tcfd.org/tcfd-supporters/)
4 According to Olam’s corporate presentation, Olam works in 66 countries, source products from approx. 4.8 million farmers and manage approx. 2.46 million hectares of land.
5 (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
6 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
7 e.g. TCFD or similar
In order to develop and implement this approach in the context of EBRD’s financing to Olam, the EBRD together with Olam wishes to appoint a suitable team of consultants (the “Consultant”) to assist Olam with taking forward steps 2 to 4 of the above model. This will entail identifying appropriate CCG entry points in two of Olam’s key value chains in the EBRD region (hazelnuts in Turkey and vegetables (onions) in Egypt), stress-testing those value chains under a range of climate change scenarios, and identifying corresponding climate action priorities for Olam that lead to improved corporate climate action outcomes (“the Assignment”). In addition, a dedicated training programme to farmers in Egypt will be provided to demonstrate how some of the identified climate action priorities support Olam’s business operations on the ground.

The Assignment supports the Agribusiness Strategy’s objectives to increase efficiency and sustainability, support reductions in CO2 emissions and improved resource use, and to maximise sustainable investments along the value chain while promoting backward linkages with suppliers and farmers. The Assignment is also consistent with the priorities set in Turkey and Egypt Country Strategies to support private sector competitiveness through stronger value chains, improved access to finance for SMEs, and increased economic opportunities for women and young people. Lastly, the Assignment is consistent with the EBRD Green Economy Transition approach.

2. OBJECTIVES

The objectives of this Assignment are the following:

- To contribute towards CCG enhancements to Olam’s business operations and supply chain by generating a thorough understanding of the risks and opportunities associated with low-carbon transition and physical climate impacts in two priority value chains (hazelnut in Turkey and onions in Egypt);
- 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 Olam;
- To provide recommendations on and demonstrate how these climate action priorities could be implemented in the context of the Olam’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 MRV of climate action priorities, including implementation of a dedicated training programme to farmers in Egypt

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8 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).

9 Monitoring, reporting & verification
Task 1: Scoping and initial diagnostics

The Consultant will undertake an initial scoping and diagnostic exercise in order to define CCG entry points both at Olam corporate level for Europe, the Middle East and Africa (“EMEA”) region and at the level of the two value chains (hazelnut in Turkey and onions in Egypt). This will include the following activities:

- An initial diagnostic exercise to determine the nature and level of the Olam’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 publically available data).
- Scoping the two value chains (both upstream and downstream), covering their geographic locations/coverage, the structure and dynamics of supply and demand, Olam’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 a 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 Olam, 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) 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 Olam’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 resultant outcome of this activity will be as detailed as possible description including spatial mapping of each value chain, covering from 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. exposure of crops or key facilities to extreme weather events, water intensive activities, etc.). This will again cover both upstream and downstream value chains, covering primary production, processing, logistics, storage, retail, etc.
- In the onion value chain in Egypt, identify priority areas for improvement in the supplying farms’ operations and ways to mitigate climate risks (e.g. planting, input use, harvesting, farm management, sustainability, reducing resource use, climate adaptation, etc.). Select the number and type of farms that can benefit from training and advice on priority areas to improve sustainability and competitiveness. Conduct on-site visits of and discussions with
selected representative farms and provide practical advice on ways to improve performance and mitigate climate risks;

**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\(^\text{10}\) will entail the following:
  - A 1.5°C scenario that assumes rapid decarbonisation and minimal physical climate impacts over the coming decade
  - A 3°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 3°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 shall 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/produces, such as downstream disclosure practices to improve information flows about climate-related risks and opportunities in each respective value chain;
  - 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.).
  - For the onion value chain in Egypt, design a farmer training programme for local suppliers.

- 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.).

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\(^{10}\) The selection of these highly simplified climate change scenarios has been guided by the recommendations of the Network for Greening the Financial Sector (NGFS).
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/Olam 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 Olam’s business operations.
- 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 the Olam’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.
- For the onion value chain in Egypt, conduct trainings with supplying farms to help them improve productivity and quality and mitigate climate risks. Tentatively 100 small farms can be trained on best agricultural practices (some of which potentially on international certifications, Global GAP etc.) The number and types of farms and trainings will be confirmed during the initial analysis of the value chain. Develop visual and easy-to-understand materials for the trainings. If and as needed, adapt existing materials or raise awareness on them (e.g. grower guide and supplier code). Disseminate with farmers relevant training materials and guidelines. Analyse and discuss with farmers and Olam the results/impact and lessons learned;
- The consultant shall organise a workshop with key local stakeholders in one of the countries of operation to present the outcome of the assignment and the key recommendations for the relevant value chain. The consultant will be responsible for developing and delivering a powerpoint presentation summarising findings/recommendations, developing the agenda, list of attendees, invitations, panellist briefings, event conclusions and ensuring the participation of key stakeholders while maintaining donor visibility
- 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.11

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11 [Implementing the EBRD Green Economy Transition](http://www.ebrd.com/cs/Satellite?c=Content&cid=1395274396321&pagename=EBRD%2FContent%2FDownloadDocument)
4. DELIVERABLES & SCHEDULE OF WORK

The Consultant will deliver the following outputs and reports:

<table>
<thead>
<tr>
<th>Output</th>
<th>Description</th>
<th>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 weeks</td>
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<tr>
<td>3. Interim Report</td>
<td>Covering the findings of Tasks 1-3</td>
<td>8 weeks</td>
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<tr>
<td>4. Workshop 1</td>
<td>A workshop will be held mid-Assignment to present the Interim Report to Olam and EBRD, and seek feedback for the execution of Tasks 4-5</td>
<td>10 weeks</td>
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<tr>
<td>5. Draft Final Report</td>
<td>Covering the findings of Tasks 1-5</td>
<td>16 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>19 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 Olam and EBRD.</td>
<td>20 weeks</td>
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<tr>
<td>8. Farmer Training</td>
<td>Farm visits conducted, trainings held with tentatively 100 onion supplying farms in Egypt, and training materials developed and disseminated.</td>
<td>21 weeks(^\text{12})</td>
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<tr>
<td>9. Final Report</td>
<td>Presenting the final results of the Assignment.</td>
<td>22 weeks</td>
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<tr>
<td>10. Knowledge Product</td>
<td>A paper presenting key lessons learned from the Assignment</td>
<td>24 weeks</td>
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<tr>
<td>11. Workshop and Presentation 3</td>
<td>Organisation of a workshop with key stakeholders in one EBRD COO to present key recommendations for the relevant value chain.</td>
<td>24 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.

\(^{12}\) The timeline for the farmer trainings is to be confirmed depending on the crop cycle in Egypt.
5. IMPLEMENTATION ARRANGEMENTS

5.1 Reporting and implementation

The contract will be issued by EBRD in 4Q 2020. The Consultant will report to the Bank’s Energy Efficiency and Climate Change team and will work closely with the Value Chain Competitiveness Programme team on the farmer trainings in Egypt.

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.

Olam will appoint a Project Manager(s) who will be supporting the implementation of the Assignment.

5.2 Duration

It is envisaged that the Assignment will be launched in 4Q 2020. The duration of the Assignment will be up to 8 months. It is expected that the Consultant will commence work immediately on appointment.

5.3 Activities and Travel

The Assignment will include desk-based research, as well as stakeholder consultation and interviews. Given the current disruption arising from the COVID-19 crisis, the consultant should ensure that the assignment is delivered remotely as much as possible and without international travels.

The Consultant should develop a covid mitigation plan, which provides for an allowance for international travel to EBRD countries of operations and headquarter in London in case the travel situation improves over time. The Consultant will be responsible for all costs related to the project, such as communication, travel, accommodation, interpretation and translation and other relevant expenses.

6. DONOR VISIBILITY

The Donor funding for the activities related to this Assignment is provided by the European Union (EU) and TaiwanBusiness – EBRD Technical Cooperation Fund. The Consultant will ensure that all visual material, including reports, documentation, marketing, and publicity materials produced in relation to the Assignment and exchanged between the Consultant and sector players, as well as promotional material and communications with external audience if relevant, should have clear references to the support of the EBRD, the EU-EBRD Competitiveness Programme and TaiwanBusiness – EBRD Technical Cooperation Fund, identified as the Programme’s donors. The form of such references must be agreed with the EBRD. The Consultant will also help identify success stories to produce articles, videos, photography and social media messages to promote the role of the EU and TaiwanBusiness – EBRD Technical Cooperation Fund as donors among local and international audience.

Further guidance may be provided by EBRD during the kick-off meeting.