



Terms of Reference
for international technical assistance
on development of agricultural finance products
to support contract farming arrangements
in the Moldovan processed fruit and vegetable value chain

Position: Banking/Value Chain Expert

Location: CPIU-IFAD, Chisinau, Republic of Moldova

Length of the assignment: 2 weeks

Background

In order to improve the participation and employment of the poor in income-increasing activities related directly or indirectly to the development of the Moldovan horticultural value chain, the Government of Moldova and the International Fund for Agricultural Development (IFAD) signed on October 29, 2009 a Programme Financing Agreement for the implementation of the Rural Financial Services and Marketing Programme.

As part of the component “Value Chain Development for Rural Poverty Reduction”, CPIU-IFAD has worked intensively with Natur-Bravo, the largest Moldovan fruit and vegetable processor, to strengthen their linkages with farmers. The analysis carried out by CPIU-IFAD at the start of the project showed that Natur-Bravo faced issues of high cost, lack of adequate availability, poor quality and timeliness. On the other hand, farmers complained about lack of markets for their produce leading to low or un-remunerative prices. The solution identified by a joint effort of growers, Natur-Bravo and CPIU-IFAD is a contract farming arrangement. For 2010 season, Natur-Bravo contract farming arrangement consists of:

- a formal arrangement (contract) for the delivery of produce from farmers with pre-agreed conditions, including quantities, standards, timing and price;
- An agricultural extension activity (partially funded by CPIU-IFAD) to improve the performance of farming operations through better access to knowledge related to varieties, irrigation, crop protection, fertilization, etc.

However, the system now being employed doesn't provide the full range of benefits to farmers or buyers. For example, the contracts employed do not provide significant production financing, which was identified as a key barrier in adoption by farmers of improved varieties and technologies. As a means to overcome these short-coming, it is proposed that banks or other financial institutions would be explicitly made a party to any contract for farm production and supply to the buyer (Natur-Bravo). The system to be implemented by Natur-Bravo for 2011 production season would operate as follows:

- The buyer would approach a bank to seek funding for farmers incremental production costs in growing and delivering a specific quantity of a commodity;
- The buyer and the bank would then jointly approach farmers to seek their agreement to engage in the production of the required commodity;
- The buyer would specify the conditions of the contract, including the means of price derivation, the quantity required, the standards, the timing of delivery and the level of financing estimated to be needed for the production;
- The bank would offer short-term production loans (typically of 6-9 months duration) which would cover the needed for the production;
- The contract would be jointly signed by the three parties;
- The bank would disburse the amount agreed to the farmer, through an account held at that bank (note, it would be necessary for the farmer to have an account with the participating bank);
- The buyer would direct payment for the delivered commodity to the farmer through the bank account;
- The bank would deduct the required repayments for the loan according to a pre-agreed schedule (for example, 50% of all proceeds until the loan is acquitted).

The application of such a system would have several advantages. These would include:

- A strong incentive for disciplined farmer behaviour. The major positive incentive would be that of gaining access to seasonal finance. The factors which would impose discipline would be that the farmer would lose access to the system if he/she did not adhere to the agreement, and moreover, would face legally binding requirements for repayment in the event of an actual or threatened default;
- Provision of additional financing from banks, enabling increased production and revenues;
- Providing an additional element of security for the banks, as they would hold first rights over the proceeds of the contract;
- A more secure market arrangement for farmers;
- Increasing the confidence of the buyer to increase capacity, as it would have a much more assured supply of the commodity; and,
- Increased financial capacity of the buyers to expand throughput, and thus, markets for farmers.

Initially, this system would be developed for financing, production and sales of seasonal production. However there would be opportunities for bundling of finance for longer-term investments at the farm level (e.g. orchard expansion) within longer-term supply and marketing contracts, with banks providing both seasonal and medium-term financial products.

Tasks of the assignment

The services will represent a 2-week mission (10 working days) to the Republic of Moldova in July-September 2010 and will include the following activities:

- Meetings with Natur-Bravo and other fruit and vegetable processors that showed interest in implementing the financing scheme (2-3 companies);
- Meetings with growers to assess their priorities for the proposed scheme;
- Meetings with financial institutions that showed interest in participating in the financing scheme;
- Development of training materials, with practical examples, on the development of tripartite agreements (grower-processor-bank). The training materials developed shall be arranged in such a way that it can be used as a basic 'manual' by the institutions concerned and shall contain a part specifically addressing gender issues in relation with agricultural finance products to support contract farming activities; and
- 1-day training session for staff of CPIU, processors and participating financial institutions on the above mentioned subjects.

Required Background and Experience

The suitable candidate will have the following background and experience:

- Minimum 10 years working experience in financing of agricultural/agro-processing sector activities;
- Minimum 5 years working experience in financial sector activities in transitional economies (experience in CIS countries will be an added advantage);
- Minimum 3 years practical working experience with development and implementation of Value Chain financial products in the framework of contract farming arrangements;
- A suitable and relevant academic background;
- Practical working experience in the development/presentation of training materials;
- Demonstrated ability to collaborate with and get messages across to counterparts of countries in transitional economies; and
- Fluency in spoken and written English (Russian language abilities will be an added advantage).

Request for Proposals

CPIU-IFAD now invites eligible consultants to indicate their interest in providing their services for development of financial products for Natur-Bravo contract arrangement. Interested consultants must provide information indicating that they are qualified to perform the services (CV, reports, brochures, description of similar assignments, experience in similar conditions, etc.).

The consultant will be selected in accordance with the procedures set out in the current edition of IFAD Procurement Guidelines, based on consultant qualifications.

Interested consultants may obtain further information at the address below:

162 Stefan cel Mare si Sfint bld, office 1303

MD-2004 Chisinau, Republic of Moldova

Tel/fax: +373 22 225046; +373 22 210056

E-mail: office@ifad.md

Proposals must be delivered to the address above by July 30, 2010.

Special provision: By submitting their documents, the bidders, suppliers, contractors, subcontractors and consultants agree to permit IFAD to inspect their accounts, records and other documents relating to the bid submission and contract performance and to have them audited by IFAD-appointed auditors and investigators. This provision requires bidders, suppliers, contractors, sub-contractors and consultants to: (i) maintain all documents and records related to the Programme for three (3) years after completion of the work contemplated in the relevant contract, and (ii) require the delivery of any document necessary for the investigation of allegations of fraud or corruption and the availability of employees or agents of the bidders, suppliers, contractors, sub-contractors or consultants with knowledge of the Programme to respond to questions from personnel of IFAD or any properly designated auditor, investigator, agent or consultant relating to review or audit of the document. If the bidder, supplier, contractor, sub-contractor or consultant fails to comply with IFAD's request, or otherwise obstructs IFAD's review of the matter, IFAD, in its sole discretion, may take appropriate action against the bidder, supplier, sub-contractor or consultant, including the imposition of sanctions in accordance with the administrative procedures of IFAD.