



FAST Report

Project Number: 49039-001
June 2015

Equity Investment Mountain Hazelnuts Group Limited Hazelnut Value Chain Development Project (Bhutan)

This is the abbreviated version of the document that excludes commercially sensitive and confidential business information that is subject to exceptions to disclosure set forth in ADB's Public Communications Policy 2011.

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 6 May 2015)

Currency unit	–	ngultrum (Nu)
Nu1.00	=	\$0.01575
\$1.00	=	Nu63.5

ABBREVIATIONS

ADB	–	Asian Development Bank
FAST	–	Faster Approach to Small Nonsovereign Transactions
GAFSP	–	Global Agriculture and Food Security Program
GDP	–	gross domestic product
IFC	–	International Finance Corporation
kg	–	kilogram
MHG	–	Mountain Hazelnuts Group
MHGL	–	Mountain Hazelnuts Group Limited
MHV	–	Mountain Hazelnut Venture Private Limited
MHVL	–	Mountain Hazelnut Venture Limited
MOAF	–	Ministry of Agriculture and Forests
PRC	–	People's Republic of China
TA	–	technical assistance
US	–	United States

NOTES

- (i) The fiscal year (FY) of Mountain Hazelnuts Group Limited and its subsidiaries ends on 31 December. "FY" before a calendar year denotes the year in which the fiscal year ends, e.g., FY2015 ends on 31 December 2015.
- (ii) In this report, "\$" refers to US dollars.

Vice-President	L. Venkatachalam, Private Sector and Cofinancing Operations
Director General	T. Freeland, Private Sector Operations Department (PSOD)
Deputy Director General	M. Barrow, PSOD
Team leader	M. Lemoine, Senior Investment Specialist, PSOD
Team members	P. Bailet, Senior Counsel, Office of the General Counsel
	E. David, Investment Officer, PSOD
	T. Norbu, Senior Country Coordination Officer, Bhutan Resident Mission, South Asia Department
	N. Peters, Safeguards Specialist, PSOD
	A. Porras, Senior Safeguards Officer, PSOD
	M. Principe, Senior Social Development Officer, PSOD
	V. Ramasubramanian, Safeguards Specialist, PSOD
	K. Taniguchi, Senior Economist, PSOD
	C. Tienzo, Project Analyst, PSOD

In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.

CONTENTS

	Page
PROJECT AT A GLANCE	
I. INTRODUCTION	1
II. THE PROJECT	1
A. Project Identification and Description	1
B. Development Impact, Outcome, and Outputs	4
C. Alignment with ADB Strategy and Operations	5
D. Project Cost and Financing Plan	5
E. Implementation Arrangements	6
F. Unique Features	6
III. THE ADB ASSISTANCE	7
A. The Assistance	7
B. Value Added by ADB Assistance	7
IV. POLICY COMPLIANCE	7
A. Safeguards and Social Dimensions	7
B. Anticorruption Policy	7
C. Investment Limitations	8
D. Assurances	8
V. THE PRESIDENT'S DECISION	8
APPENDIX	
1. Design and Monitoring Framework	9

PROJECT AT A GLANCE

1. Basic Data		Project Number: 49039-001	
Project Name	Hazelnut Value Chain Development Project	Department /Division	PSOD/OPSD
Country	Bhutan		
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Agriculture, natural resources and rural development	Agro-industry, marketing, and trade		3.00
		Total	3.00
3. Strategic Agenda	Subcomponents	Climate Change Information	
Inclusive economic growth (IEG)	Pillar 2: Access to economic opportunities, including jobs, made more inclusive	Climate Change impact on the Project	Medium
4. Drivers of Change	Components	Gender Equity and Mainstreaming	
Private sector development (PSD)	Promotion of private sector investment	Effective gender mainstreaming (EGM)	✓
5. Poverty Targeting		Location Impact	
Project directly targets poverty	No	Rural Urban	High Low
6. Nonsovereign Operation Risk Rating - NA			
7. Safeguard Categorization	Environment: B	Involuntary Resettlement: C	Indigenous Peoples: C
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		3.00	
Nonsovereign Direct Investment: Ordinary capital resources		3.00	
B-Loans		0.00	
None		0.00	
Official Cofinancing^a		0.00	
None		0.00	
Others^b		9.00	
Total		12.00	
9. Effective Development Cooperation			
Use of country procurement systems		No	
Use of country public financial management systems		No	

^a Concessional financing from external sources.

^b Derived by deducting ADB financing, B Loans and Official Cofinancing from Project Total Cost.

I. INTRODUCTION

1. This is an eligible transaction under the Faster Approach to Small Nonsovereign Transactions (FAST) framework.¹ The transaction involves an equity investment of up to \$3,000,000 in Mountain Hazelnuts Group Limited (MHGL) for the Hazelnut Value Chain Development Project in Bhutan.

II. THE PROJECT

A. Project Identification and Description

1. Project Identification

2. Agricultural development is key to eradicating poverty and creating conditions for sustainable and equitable growth in Asia and the Pacific since the majority of people in the region still rely on agriculture for their livelihoods. Empirical studies have shown that agricultural investment is one of the most effective and least-cost strategies to reduce poverty and hunger.² It is also one of the least-cost climate change adaptation investments.³

3. Bhutan remains an agrarian country, with 62% of the workforce engaged in agriculture. While its share in gross domestic product (GDP) has dropped to 16%, agriculture still constitutes the main source of income and food security for most Bhutanese, particularly the poorest. Agriculture in Bhutan, however, is mainly subsistence. Productivity and growth are very low. During 2010–2014, agriculture GDP growth was only 2.2% per year on average, compared with 7.4% for GDP as a whole.⁴ The challenge for Bhutan is to improve the sector's economic performance to help achieve more balanced and inclusive growth.⁵

4. The Government of Bhutan plans to achieve better agriculture performance by developing targeted and commodity-focused interventions, fostering transition from subsistence to commercial agriculture, ensuring an enabling environment, and promoting private sector participation and contract farming.⁶ It plans to position Bhutan strategically by expanding exports of high-value crops such as fruits and vegetables, spices, nuts, and coffee. Diversification into new markets, particularly the emerging Asian economies, could also help expand the export base (footnote 5).

5. Hazelnut has never been commercially produced in Bhutan but represents an attractive opportunity for the country. While the international hazelnut market is valued at \$5 billion and will continue to grow strongly, driven by the increased demand for confectionary and snacks in emerging markets, global supply is constrained as only a few places in the world are suitable for growing top-quality hazelnut trees. With its four seasons, a cold and dry winter, heavy rainfall in the summer (monsoon), and a fertile soil, Bhutan has the right climatic conditions for hazelnuts. Bhutan's Ministry of Agriculture and Forests (MOAF) identified hazelnut as a potential cash crop as early as 1998 (based on successful test plantings of several commercial varieties at their research centers).

¹ Asian Development Bank (ADB). 2015. *Faster Approach to Small Nonsovereign Transactions*. Manila.

² Food and Agriculture Organization of the United Nations. 2012. *State of Food Insecurity in the World*. Rome.

³ D. Lobell et al. 2013. Climate adaptation as mitigation: the case of agricultural investments. *Environmental Research Letters* 8.

⁴ ADB. 2014. *Country Partnership Strategy: Bhutan, 2014–2018*. Manila.

⁵ ADB. 2015. *Asian Development Outlook 2015: Financing Asia's Future Growth*. Manila.

⁶ Government of Bhutan. 2013. *Eleventh Five Year Plan 2013–2018: Self-reliance and Inclusive Green Socio-economic Development*. Thimphu.

6. Hazelnut represents an attractive value proposition for smallholder farmers in Bhutan. Subsistence farmers are increasingly in need of cash income to pay for education, transport, power, and consumer goods. Hazelnut is a high-value, nonperishable crop that has low labor requirements (less than 2 person-months, including harvest and year-round maintenance). In addition, hazelnut trees can be planted on degraded or sloping land, which is often left fallow in Bhutan. As such, hazelnut represents an incremental income opportunity, and hazelnut production will not displace current food crops or traditional farming activities.

7. Mountain Hazelnut Venture Private Limited (MHV) is a privately owned company engaged in promoting hazelnut production by smallholder farmers in Bhutan. MHV is 100% owned by Mountain Hazelnut Venture Limited (MHVL), a Hong Kong, China company, which is 100% owned by MHGL, a British Virgin Islands company, in which the Asian Development Bank (ADB) is proposed to invest. MHV, MHVL, and MHGL together form the Mountain Hazelnuts Group (MHG). In 2009, MHVL signed a memorandum of understanding with the Government of Bhutan under which MHG committed to plant about 10 million trees on farmers' degraded or fallow land at no up-front cost to farmers.⁷ The farmers, in turn, will sell their production to MHG at a guaranteed minimum price. By the end of 2014, MHG's shareholders had invested \$10.7 million in MHG. With this investment, MHG had helped about 5,000 smallholder farmers plant 2.5 million hazelnut trees, mainly in eastern Bhutan (the poorest part of the country). In November 2014, MHG's sponsors approached ADB to seek financial support and technical assistance (TA) to complete its 10 million tree investment plan, increase MHG's reach to more smallholder farmers, and promote sustainable farming practices.

2. Project Design

8. The project will support the development of an inclusive and climate-resilient hazelnut value chain in Bhutan. The project includes two components: (i) a \$14.8 million expansion plan of MHG's business; and (ii) a \$200,000 TA project to MHG and value chain participants. MHG's expansion plan includes investment in the following:

- (i) **Seedling development.** The project will finance the development of quality seedlings in the MHG nursery located in Lingmethang, eastern Bhutan. MHG imports plantlets from tissue culture laboratories. The plantlets are planted in climate-controlled irrigated beds. After 4–8 months, the seedlings are ready to be distributed to farmers. As a backup strategy, MHG will also import seed nuts for conventional production of seedlings.
- (ii) **Tree planting.** Saplings will be distributed at no cost to farmers, who, under MHG's guidance, will plant the saplings on their own land. With the assistance of MOAF, MHG identified more than 9,000 hectares of degraded or fallow land with the right agro-climate conditions for hazelnuts (enough to plant 10 million trees). Farmers will enter into a contract with MHG (standard contract terms were established in consultation with MOAF and farmer communities), under which they commit to take care of the trees and sell future harvests to MHG at a guaranteed minimum price. Initial tenor of the contract is 10 years. MHG will continue to conduct widespread community outreach alongside MOAF to encourage farmers to participate in the hazelnut value chain.
- (iii) **Extension services.** The project will fund the extension services provided by MHG to the farmers. The group employs 130 extension staff, including 110 field

⁷ Government of Bhutan, Ministry of Agriculture and Mountain Hazelnut Venture Limited (Hong Kong, China). 2009. *Enterprise Memorandum of Understanding*. Thimphu.

monitors who live in the communities and work closely with the farmers on a daily basis. MHG commits to send its monitors to audit every tree at least once every 45 days to ensure good farming practices and the plant health. Data gathered by the field monitors through smartphones are transmitted daily via internet to MHG to ensure real-time analysis and response.

- (iv) **Processing and logistics.** A simple processing plant will be established in 2015–2016 for cleaning, drying, grading, packing, and storage of the nuts before export. The site of the facility is not defined, but is likely to be near Lingmethang nursery. MHG intends to export its production through the international port of Kolkata, India. The government will station customs clearance agents at MHG's facility so that the cargo can be processed and approved for direct transit to Kolkata. The project will also include investments in vehicles, storage, and working capital.

9. The \$200,000 TA will complement MHG's expansion plan by making additional investments in areas outside MHG's core business to continue to support the development of an inclusive hazelnut value chain in Bhutan. The TA will be provided as part of the TA for Inclusive Business Support, approved by the ADB Board of Directors in 2013.⁸ To strengthen the value chain's inclusiveness with the most vulnerable groups, personal finance training will be provided to women farmers, particularly farming households headed by women. Entrepreneurship training programs focused on unemployed youth will be developed to catalyze the creation of small enterprises in the value chain (this could include harvesting services, post-harvest drying, dehusking, transportation, and storage). Finally, the TA will support MHG's impact evaluation capacity, enabling it to maximize its positive impacts on inclusiveness.

10. Separate TA is being considered to strengthen the climate resilience of the hazelnut value chain (since the funding source for this TA is not confirmed, it will be subject to separate approval in the second half of 2015). Bhutanese farmers are particularly vulnerable to the negative consequences of climate change, including increased risks of drought, floods, and landslides. Hazelnut is a climate-resilient crop, as it needs less water than annual crops. Since the trees will be planted on degraded or fallow land, they will contribute to soil retention (reduced risk of landslide) and watershed stability (reduced risk of flooding). The TA will aim at increasing the farmers' climate resilience at each step of the value chain (e.g., development of climate-resilient hazelnut varieties, water harvesting and irrigation, integrated pest management, harvest and post-harvest solutions, and access to weather information).

3. The Sponsor

11. MHV (incorporated in Bhutan in 2009) is the Bhutan operating entity of the group. MHVL (incorporated in Hong Kong, China in 2008) and MHGL (incorporated in the British Virgin Islands in 2011) serve as coordinating entities, working with international advisors and potential business partners, as a complement to MHV.

⁸ ADB. 2013. *Technical Assistance for Inclusive Business Support*. Manila (TA 8550-REG).

B. Development Impact, Outcome, and Outputs

1. Impact

12. The project will contribute to boost Bhutan's agriculture GDP and exports. The government's Eleventh Five Year Plan, 2013–2018 targets (i) an increase in the real annual growth rate of the sector from 1.9% (2011 baseline) to 4.0% (2018 target), and (ii) an increase in the mean value of agriculture export from Nu1,623 million (2012 baseline) to Nu3,246 million (2018 target) (footnote 6). The project is consistent with the need to diversify Bhutan's exports away from hydropower (32% of exports in 2011) and mining (36% of exports in 2011).⁹

13. The project will promote private sector agribusiness development, in line with the 11th plan's objectives (footnote 6).¹⁰ In Bhutan—a small, landlocked, mountainous country—demonstrating viable business models has been a challenge. Agribusiness has been considered a promising sector, but sizable commercial scale operation has not materialized to date because of lack of resources and skills at the local community level. Once completed, the project will demonstrate a business model that is economically, socially, and environmentally viable, and which is expected to catalyze more investments in the sector.

14. The project will contribute to poverty reduction in *dzongkhags* (districts) with poverty levels above the national average (12%), in line with the 11th plan's target (footnote 6).¹¹ Out of the 10 *dzongkhags* where trees will be planted, six have poverty rates above the national average (from 13.5% to 31.9%), most of them in the eastern part of the country.¹² People in these *dzongkhags* also tend to be less happy with their lives than in the rest of the country, based on the gross national happiness survey conducted in 2010.¹³ The project will help poor farmers in these *dzongkhags* generate additional income by growing high-value crops on previously fallow land. MHG targets land above 1,600 meters in altitude (the ideal agro-climate for hazelnuts), where farmers are largely excluded from earning meaningful agricultural income. It is estimated that participating farmers will at least double their annual income.¹⁴

2. Outcome

15. The project's expected outcome will be the exports of hazelnuts sustainably sourced from smallholder farmers ramped up. The number of smallholder farmers selling to MHG is expected to reach at least 15,000 in 2020 (including at least 50% women). The project is also expected to reduce carbon emissions by at least 22,500 tons per year by 2020.¹⁵ The design and monitoring framework (Appendix 1) contains detailed indicators.

⁹ World Trade Organization. Statistics Database.

<http://stat.wto.org/CountryProfile/WSDBCountryPFView.aspx?Language=E&Country=BT> (accessed 6 May 2015).

¹⁰ The plan calls for “fostering a transition from subsistence to commercial agriculture” and “promoting private sector participation and contract farming” (page 174).

¹¹ The target is “to reduce overall income poverty rate from 12 percent in 2012 to less than 5 percent by 2018 with particular focus on Dzongkhags with poverty levels above the national average” (page 58).

¹² *Dzongkhags*, where trees have been planted or will be planted, include Lhuntse (31.9% poverty rate as of 2012), Pemagatshel (26.9%), Zhemgang (26.3%), Samdrup Jongkhar (21.0%), Trongsa (14.5%), Trashiyangtse (13.5%), Trashigang (11.5%), Chukha (11.2%), Wangdue Phodrang (10.9%), and Mongar (10.5%).

¹³ The Centre for Bhutan Studies. 2010. *GNH Survey Findings 2010*. Thimphu.

¹⁴ An ex ante and ex post impact assessment study will be conducted as part of the TA package.

¹⁵ The project will reduce carbon emissions (climate mitigation benefits) through carbon fixation by the new trees, displacement of fuelwood use from neighboring forests through the use of hazelnut pruning, and a reduction in the risk of forest fires as farmers will have less incentive to engage in slash-and-burn cultivation.

3. Outputs

16. The outputs of the project are (i) the successful completion of MHG’s expansion plan by 2019, and (ii) the successful delivery of the TA by 2018.

C. Alignment with ADB Strategy and Operations

17. **Consistency with ADB Strategy and country strategy.** The project is aligned with ADB’s Midterm Review of Strategy 2020, which emphasizes the need for ADB to support food security, agricultural productivity, and inclusive business such as “agribusiness development that connects farmers to local and global food markets.”¹⁶ The project is also consistent with the three strategic pillars of ADB’s country partnership strategy, 2014–2018 for Bhutan: inclusive economic growth, environmentally sustainable growth, and regional cooperation and integration (footnote 4).

18. **Consistency with sector strategy and relevant ADB operations.** The project is fully aligned with ADB’s Operational Plan for Agriculture and Natural Resources, 2015–2020, which recommends greater private sector agribusiness investment by ADB, and in particular direct equity investments in agribusiness companies that have long-term financial viability prospects and the potential for scalable impact.¹⁷ The project will also complement ADB’s assistance to the government for rural roads and water management. MHG believes it is particularly important to have ADB as a shareholder given the major role ADB has had and continues to have in the country’s development.

D. Project Cost and Financing Plan

19. The total project cost (excluding the proposed \$200,000 TA) will be about \$14.8 million as summarized in Table 1.

Table 1: Project Cost Summary

Item	Amount (Nu million)	Amount (\$ million)	Share (%)
Tree development costs ^a	721.7	11.4	76.7
Processing and logistics costs	94.6	1.5	10.1
Working capital needs	29.0	0.4	3.1
Operating funding gap	40.3	0.6	4.3
Contingency	54.9	0.9	5.8
Total	940.5	14.8	100.0

^a Includes seeding development, planting, extension services, and organizational costs incurred during trees’ growth. Sources: Mountain Hazelnuts Group and Asian Development Bank estimates.

20. The \$14.8 million investment is proposed to be financed by \$7.8 million of equity injection from ADB, the International Finance Corporation (IFC), the sponsors, and existing investors; a \$6.0 million nonconvertible preferred equity investment from the Global Agriculture and Food Security Program (GAFSP), a multi-donor concessional fund; and \$1.0 million of internally generated cash. The GAFSP funds will be provided on concessional terms given the significant development impact of the project on smallholder farmers. The blended financing structure of equity and concessional finance presents a compelling funding proposition for MHG to achieve commercial results and development impacts.

¹⁶ ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific*. Manila. (page 24)

¹⁷ ADB. Forthcoming. *Operational Plan for Agriculture and Natural Resources: Promoting Sustainable Food Security in Asia and the Pacific in 2015–2020*. Manila.

Table 2: Financing Plan

Item	Amount (Nu million)	Amount (\$ million)	Share of Total (%)
Equity			
Asian Development Bank	190.5	3.0	20.3
International Finance Corporation	190.5	3.0	20.3
Sponsors and existing investors ^a	115.5	1.8	12.3
Nonconvertible preferred equity			
Global Agriculture and Food Security Program	381.0	6.0	40.5
Internally generated cash	63.0	1.0	6.6
Total	940.5	14.8	100.0

^a Existing investors investing in this round are Blue Moon Fund Inc and responsAbility Ventures.
Sources: Mountain Hazelnuts Group and Asian Development Bank estimates.

E. Implementation Arrangements

21. Table 3 summarizes the implementation arrangements.

Table 3: Summary of Implementation Arrangements

Aspects	Arrangements
Regulatory framework	MHV business is governed by the memorandum of understanding signed with the Government of Bhutan in 2009. MHV will also need to meet all legal and regulatory requirements applicable to a foreign-owned export-oriented company in Bhutan.
Management	MHG is led by Daniel Spitzer, who is very involved in the business. D. Spitzer has assembled an exceptional team of foreign and local managers with experience in the agriculture sector as well as doctorate and master's degrees in relevant fields.
Implementation period	The investment in tree development, the processing facility, and other costs will be made over a 4-year period (2015–2018).
Construction arrangements	Procurement for the project will be carried out in accordance with ADB's Procurement Guidelines (2015, as amended from time to time) as they apply to private sector projects. Recruitment of technical assistance consultants will follow ADB's Guidelines on the Use of Consultants (2013, as amended from time to time).
Operations arrangements	The project will rely on MHG for its successful operation. MHG has already shown signs of success, having distributed 2.5 million trees to 5,000 farmers by the end of 2014.
Performance monitoring	MHG will monitor the project's financial performance, development impacts (output and outcome indicators), gender action plan implementation, and safeguards compliance, and report to ADB at least on an annual basis.

ADB = Asian Development Bank, MHG = Mountain Hazelnuts Group, MHV = Mountain Hazelnut Venture Private Limited.

Source: Mountain Hazelnuts Group and Asian Development Bank.

F. Unique Features

22. The project promotes the development of agricultural value chains in a radically new way. MHG's business model differs from traditional crop introductions driven by governments, foreign aid, and nongovernment organizations. MHG's business model is an entrepreneur-led export-oriented model that addresses the constraints of the Bhutan agriculture sector through private sector investment, technology, skills, and market-based incentives. The project is ADB's first nonsovereign agribusiness project in Bhutan.

III. THE ADB ASSISTANCE

A. The Assistance

23. ADB will subscribe to shares in MHGL for up to \$3 million.
24. To support the development of an inclusive and climate-resilient hazelnut value chain in Bhutan, ADB will mobilize a TA package (paras. 9–10).

B. Value Added by ADB Assistance

25. MHG's sponsors have requested assistance from ADB, IFC, and GAFSP because MHG needs a significant amount of long-term growth capital, which is not readily available for private sector companies in Bhutan. ADB's investment will be instrumental in helping MHG achieve the required scale for sustainable operations. By supporting MHG, ADB will also help demonstrate the strength and replicability of a business model founded on social inclusiveness and environmental sustainability. Finally, ADB's TA will ensure that smallholder farmers and women fully benefit from their inclusion in the hazelnut value chain and are better prepared to cope with the negative consequences of climate change.

IV. POLICY COMPLIANCE

A. Safeguards and Social Dimensions

26. In compliance with ADB's Safeguard Policy Statement (2009), the project is classified category B for environment and category C for involuntary resettlement and indigenous peoples. The requirements for general corporate finance will apply for this project. The potential environmental and social impacts of the project have been identified; and effective measures to avoid, minimize, mitigate, and compensate for the adverse impacts are incorporated in the safeguard reports and plans. The institutional capacity and commitment of MHG to manage the project's social and environmental impacts are deemed adequate.

27. MHG will comply with national labor laws and, pursuant to ADB's Social Protection Strategy (2001), will take measures to comply with internationally recognized core labor standards.¹⁸ MHG will report regularly to ADB on (i) its compliance with such laws, and (ii) the measures taken. Information disclosure and consultation with affected people will be conducted in accordance with ADB requirements. Measures to benefit women or facilitate their involvement in the project have been incorporated in the project design in accordance with ADB's Policy on Gender and Development (1998). The project is categorized as effective gender mainstreaming and a gender action plan has been adopted by MHG.

B. Anticorruption Policy

28. MHG was advised of ADB's policy on implementing best international practice relating to combating corruption, money laundering, and the financing of terrorism. ADB will ensure that the finance and investment documentation includes appropriate provisions prohibiting corruption, money laundering, and the financing of terrorism, and remedies for ADB in the event of noncompliance.

¹⁸ ADB. 2003. *Social Protection*. Manila (adopted in 2001).

C. Investment Limitations

29. The proposed equity investment is within the medium-term, country, industry, group, and single investment exposure limits for nonsovereign investments.

D. Assurances

30. Consistent with the Agreement Establishing the Asian Development Bank (the Charter),¹⁹ ADB will proceed with the assistance upon establishing that the Government of Bhutan has no objection to the proposed assistance. ADB will enter into suitable finance documentation, in form and substance satisfactory to ADB.

V. THE PRESIDENT'S DECISION

31. The President, acting under the authority delegated by the Board, has approved the equity investment of up to \$3,000,000 from ADB's ordinary capital resources in Mountain Hazelnuts Group Limited for the Hazelnut Value Chain Development Project in Bhutan, and hereby reports this action to the Board.

11 June 2015

¹⁹ ADB. 1966. *Agreement Establishing the Asian Development Bank*. Manila.

DESIGN AND MONITORING FRAMEWORK**Impacts the project is aligned with:**Agriculture gross domestic product and exports boosted (Source: Bhutan's Eleventh Five Year Plan)^aPrivate sector agribusiness developed (Source: Bhutan's Eleventh Five Year Plan)^aPoverty reduced in *dzongkhags* (districts) with poverty levels above the national average (Source: Bhutan's Eleventh Five Year Plan)^a

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
<p>Outcome Exports of hazelnuts sustainably sourced from smallholder farmers ramped up</p>	<p>a. Export sales of hazelnuts reach at least \$[●] million in 2020^b (2014 baseline: \$0)</p> <p>b. Number of MHG employees increases to at least 1,000 by 2020 (including at least 50% women) (2014 baseline: 500, of which 47% are women)</p> <p>c. Number of smallholder farmers selling to MHG reaches at least 15,000 in 2020 (including at least 50% women) (2014 baseline: 0)</p> <p>d. Carbon emissions reduced by at least 22,500 tons per year by 2020^b (2014 baseline: 0)</p>	<p>a–d. MHGs annual report to ADB</p>	<p>[●]</p>
<p>Outputs 1. Expansion plan successfully completed</p> <p>2. Technical assistance successfully delivered</p>	<p>1a. Number of hazelnut trees planted increases to at least 8 million by 2019^b (2014 baseline: 2.5 million)</p> <p>1b. Number of hectares of degraded or fallow land planted with hazelnut trees increases to at least 6,500 by 2019^b (2014 baseline: 2,000)</p> <p>1c. Number of farmers having received extension services from MHG increases to at least 15,000 by 2019 (including at least 50% women) (2014 baseline: 5,000, of which 50% are women)</p> <p>1d. The new processing facility is completed and fully operational by 2016 (2014 baseline: Not applicable)</p> <p>2a. Number of women farmers trained in personal finance reaches at least 4,000 by 2018 (2014 baseline: 0)</p> <p>2b. Number of value chain entrepreneurs supported reaches at least 300 by 2018 (including at least 50% women) (2014 baseline: 0)</p>	<p>1 a–d. MHG's annual report to ADB</p> <p>2 a–b. Consultants' annual report to ADB</p>	<p>[●]</p>

Key Activities with Milestones

Output 1. Expansion plan successfully completed

1.1 Financial close achieved (30 September 2015)

1.2 An environmental and social management system satisfactory to ADB adopted (30 September 2015)

Output 2. Technical assistance successfully delivered

2.1 Consulting firm appointed (31 December 2015)

Inputs

Equity:

ADB: \$3.0 million

International Finance Corporation: \$3.0 million

Nonconvertible Preferred Equity:

Global Agriculture and Food Security Program: \$6.0 million

ADB = Asian Development Bank, MHG = Mountain Hazelnuts Group.

^a Government of Bhutan. 2013. *Eleventh Five Year Plan 2013–2018: Self-reliance and Inclusive Green Socio-economic Development*. Thimphu.

^b For conservative purposes, a 25% reduction has been applied to MHG's business plan targets.

Sources: Mountain Hazelnuts Group and Asian Development Bank estimates.