



# FAST Report

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Project Number: 50243-001  
December 2016

## Loans

Agripacific Holdings

Kunming Hasfarm Flowers

High-Value Horticulture Development Project

(Viet Nam, People's Republic of China, and

Indonesia)

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 17 November 2016)

Currency unit	–	yuan (CNY)
CNY1.00	=	\$0.1455
\$1.00	=	CNY6.872

## ABBREVIATIONS

ADB	–	Asian Development Bank
APH	–	Agripacific Holdings
DMC	–	developing member country
ha	–	hectare
KHF	–	Kunming Hasfarm Flowers
m	–	meter
PRC	–	People's Republic of China
SPS	–	Safeguard Policy Statement

## NOTE

In this report, "\$" refers to US dollars.

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## PROJECT AT A GLANCE

<b>1. Basic Data</b>		<b>Project Number: 50243-001</b>	
<b>Project Name</b>	High-Value Horticulture Development Project	<b>Department /Division</b>	PSOD/OPSD
<b>Country</b>	REG, PRC, INO, VIE		
<b>2. Sector</b>		<b>Subsector(s)</b>	<b>ADB Financing (\$ million)</b>
✓ Agriculture, natural resources and rural development		Agricultural production	20.00
<b>Total</b>			<b>20.00</b>
<b>3. Strategic Agenda</b>		<b>Subcomponents</b>	<b>Climate Change Information</b>
Inclusive economic growth (IEG)		Pillar 2: Access to economic opportunities, including jobs, made more inclusive	Adaptation (\$ million) 16.67
Environmentally sustainable growth (ESG)		Global and regional transboundary environmental concerns	Climate Change impact on the Project Medium
<b>4. Drivers of Change</b>		<b>Components</b>	<b>Gender Equity and Mainstreaming</b>
Private sector development (PSD)		Promotion of private sector investment	Effective gender mainstreaming (EGM) ✓
<b>5. Poverty and SDG Targeting</b>			<b>Location Impact</b>
Geographic Targeting	No		Rural High
Household Targeting	No		
SDG Targeting	Yes		
SDG Goals	SDG2, SDG5, SDG8, SDG8, SDG17		
<b>6. Nonsovereign Operation Risk Rating</b>			
<b>Obligor Name</b>	<b>Obligor Risk Rating</b>	<b>Facility Risk Rating</b>	
Agripacific Holdings	NSO6	NSO7	
Kunming Hasfarm Flowers	NSO7	NSO8	
<b>7. Safeguard Categorization</b> Environment: B Involuntary Resettlement: B Indigenous Peoples: B			
<b>8. Financing</b>			
<b>Modality and Sources</b>	<b>Amount (\$ million)</b>		
<b>ADB</b>	<b>20.00</b>		
Nonsovereign Dual Currency Loan: Ordinary capital resources	15.00		
Nonsovereign Local Currency Loan: Ordinary capital resources	5.00		
<b>B-Loans</b>	<b>0.00</b>		
None	0.00		
<b>Official Cofinancing <sup>a</sup></b>	<b>0.00</b>		
None	0.00		
<b>Others <sup>b</sup></b>	<b>20.20</b>		
<b>Total</b>	<b>40.20</b>		

<sup>a</sup> Concessional financing from external sources.

<sup>b</sup> 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.<sup>1</sup> The transaction involves a loan of up to \$15 million equivalent in US dollars and yen to Agripacific Holdings (APH) and a loan of up to \$5 million equivalent in yuan to Kunming Hasfarm Flowers (KHF) for the High-Value Horticulture Development Project in Viet Nam, the People's Republic of China (PRC), and Indonesia.

## II. THE PROJECT

### A. Project Identification and Description

2. **Agriculture to fight poverty.** Agricultural development is key to eradicating poverty and creating conditions for sustainable and equitable growth in Asia, since a very large proportion of the people in the region still relies on agriculture for their livelihoods (48% in Viet Nam, 34% in the PRC, and 39% in Indonesia)<sup>2</sup> and the majority of the poor live in rural areas (93% in Viet Nam, 87% in the PRC, and 62% in Indonesia).<sup>3</sup> Empirical studies have shown that agricultural investment is one of the most effective and least-cost strategies to reduce poverty and hunger.<sup>4</sup>

3. **Low value addition.** Agricultural value addition in Asia, however, remains extremely low.<sup>5</sup> One reason for this low value addition is land fragmentation. Average landholding size is 0.6 hectares (ha) in the PRC, 0.7 ha in Viet Nam, and 0.8 ha in Indonesia.<sup>6</sup> Small farm size prevents farmers from achieving economies of scale. Smallholder farmers lack access to finance, extension services, and infrastructure. Constraints on natural resources also hamper productivity. About 80% of Asia's fresh water is withdrawn for irrigated agriculture. Similarly, agriculture land is becoming scarcer, with one-quarter of the world's arable land degraded.<sup>7</sup>

4. **Vulnerability to climate change.** The changes in temperature and precipitation and the increasing frequency and intensity of extreme weather events caused by climate change are expected to have serious and enduring consequences on agriculture, such as decreasing yields, crop damage, plant disease, and pest outbreaks (footnote 7). As such, there is an acute need to adapt agriculture to climate change. It is also an opportunity, since agriculture investment is one of the least-cost climate change adaptation investments.<sup>8</sup>

5. **Technology adoption.** To increase the value addition and climate resilience of the agriculture sector, Asian Development Bank (ADB) developing member countries (DMCs) need to adopt new technologies such as new seed varieties, farm equipment, and precision irrigation

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

<sup>2</sup> Central Intelligence Agency. *The World Factbook*. <http://www.cia.gov/library/publications/resources/the-world-factbook/index.html> (accessed 17 November 2016).

<sup>3</sup> ADB. 2013. *Urban Poverty in Asia*. Manila; World Bank. World Bank Open Data. <http://data.worldbank.org/> (accessed 17 November 2016).

<sup>4</sup> Food and Agriculture Organization of the United Nations. 2012. *State of Food Insecurity in the World*. Rome.

<sup>5</sup> Agricultural gross domestic product per farmer is around \$1,400 in Viet Nam, \$2,900 in Indonesia, and \$4,000 in the PRC, as opposed to around \$23,000 in Japan, \$46,000 in Germany, and \$93,000 in the United States. International Labor Organization. Statistics and Databases. <http://www.ilo.org/global/statistics-and-databases/lang-en/index.htm> (accessed 17 November 2016); World Bank, footnote 3.

<sup>6</sup> Organisation for Economic Co-operation and Development. 2015. *Organisation for Economic Co-operation and Development Economic Surveys: China*. Paris.

<sup>7</sup> ADB. 2015. *Operational Plan for Agriculture and Natural Resources: Promoting Sustainable Food Security in Asia and the Pacific in 2015–2020*. Manila.

<sup>8</sup> D. Lobell et al. 2013. Climate Adaptation as Mitigation: The Case of Agricultural Investments. *Environmental Research Letters* 8 (1).

systems. Private sector agribusiness companies have a critical role to play in making investments in these technologies. Foreign direct investment, in particular, can generate technology transfer.<sup>9</sup> Agribusiness companies active in several DMCs can ensure the sharing of best practices among DMCs.

6. **High-value crops.** Investing in high-value crops is a particularly effective way to increase the value addition and climate resilience of the agriculture sector. As much as subsistence agriculture, cash crops offer food security for farmers because of the income they generate for farmers.<sup>10</sup> The transition to high-value crops is strongly supported by governments in ADB's DMCs. For example, the Government of Viet Nam wants to move "from agricultural commodities with low value and competitiveness towards those with high value and competitiveness," and the governments of the PRC and Indonesia pursue similar objectives.

7. **Tropical highlands horticulture.** Mountainous and highland regions in Asia have traditionally been characterized by higher levels of poverty. Yet, tropical highland regions (close to the equator and at elevations of more than 1,000 meters [m]) have a strong potential for the production of high-value horticultural products such as vegetables and flowers. A successful example of such tropical highlands horticulture is the Cameron Highlands in Malaysia, which has achieved a high level of development through investment in horticulture (and tourism). The Da Lat region in Lam Dong province of Viet Nam is following a similar model, which explains why its gross domestic product per capita has slowly caught up with the national average.<sup>11</sup>

8. **Borrower's selection.** The Agripacific group<sup>12</sup> is the largest flower grower in Asia, with 337 ha of farms and 3,000 employees in 2015. Since its creation in 1992, Agripacific has developed highly efficient greenhouse operations in Da Lat. The group also has a small production base in Kunming in Yunnan province in the PRC. In 2015, the group's main markets were Japan, Viet Nam, and the PRC.<sup>13</sup> The group intends to build on this successful start to expand its flower operations in Viet Nam and the PRC and transfer its business model to other locations in Asia and to diversify into vegetable production. To support this expansion and diversification, the group approached ADB to provide multicountry financial assistance.

9. **Project design.** The project will scale-up and transfer a successful high-value horticulture business model built on (i) the introduction of climate-controlled greenhouse technology in tropical highlands in Asia, and (ii) the integration of its business downstream into distribution in domestic and export markets. The company's flower business will be scaled up in Viet Nam (Da Lat) and the PRC (Kunming), and will be introduced in Indonesia. The business model will be replicated for vegetable production in Viet Nam (Da Lat).

10. Climate-controlled greenhouse technology ensures stable and optimal conditions for flowers and vegetables. In an enclosed environment, temperature can be controlled by shading and ventilation. In addition, the tropical location means that heating is not required as winters are mild. Humidity is also controlled through ventilation and dehumidifiers. For chrysanthemums (the major crop), day length is controlled by using energy-efficient light-emitting diode lights and

<sup>9</sup> ADB. 2016. *Operational Plan for Regional Cooperation and Integration: Promoting Connectivity, Competitiveness, Regional Public Goods, and Collective Action for Asia and the Pacific (2016–2020)*. Manila.

<sup>10</sup> T. Achterbosch et al. 2014. *Cash crops and food security: Contributions to income, livelihood risk and agricultural innovation*. The Hague: Lei Wageningen University and Research Center.

<sup>11</sup> In 2015, Lam Dong's gross domestic product per capita was equal to the Viet Nam national average (\$2,000), while it was 36% below in 2005. Viet Nam Trade Promotion Agency. <http://www.vietrade.gov.vn/en/>

<sup>12</sup> APH is the holding company of the group, while KHF is the group's main subsidiary in the PRC (para. 15).

<sup>13</sup> Other export markets included Australia; New Zealand; the Republic of Korea; and Taipei, China.



blackout systems. A drip irrigation system delivers water and fertilizer at the right place, at the right time, and in the right quantities. An automatic harvesting belt increases productivity. Overall, climate-controlled greenhouses have 2–3 times higher yields and are 3–4 times more water efficient than traditional open-field horticulture. High-end climate-controlled greenhouses effectively address the risks associated with climate change (e.g. increased temperature, more irregular precipitation, floods, and storms). However, high-end climate-controlled greenhouses have high upfront costs and Agripacific is one of the few players that have invested in such technology in Viet Nam and the PRC.

11. The company plans to invest about \$40 million during 2017–2019 as follows:

- (i) **Viet Nam flower business expansion.** Agripacific will lease new land in Lam Dong province, continuing to invest in greenhouse production there and on its existing land.
- (ii) **People’s Republic of China flower business expansion.** Agripacific will lease further land near Kunming and expand its existing greenhouse production.
- (iii) **Indonesia flower business formation.** The company will invest in greenhouse production in Indonesia, where Agripacific has recently agreed to acquire a tissue culture laboratory and a flower distribution company.
- (iv) **Viet Nam vegetable business formation.** Another strategic strand of the group is a diversification into vegetables. In 2016, Agripacific’s shareholders invested in The Fruit Republic Dalat, a Vietnamese company trading vegetables for the domestic market. Agripacific will invest in greenhouse production to support The Fruit Republic Dalat’s sales efforts on a cost-plus basis.

12. While greenhouses and associated equipment are procured externally from international suppliers, Agripacific will continue to invest in its own research and development. Agripacific is working closely with international breeders to develop new varieties of flowers for the Asian market, and has a small equity stake in a leading chrysanthemum breeder in the Netherlands. Agripacific has also developed its own biopesticides (insects that kill insects) as an alternative to chemical pesticides. Agripacific is also recycling organic waste into compost.

13. While in-house production will remain central to Agripacific's business model, the group will also expand its contract farming base. In 2015, the company worked with around 300 contract farmers (including employees of the contract farms) in Da Lat for carnations and chrysanthemums, and this number is expected to grow to 750 farmers by 2020 as Agripacific scales up both its flower and vegetable businesses. Farmers receive training and technical support from Agripacific’s extension agents. Agripacific also offers advances to farmers to support their investments in greenhouses. Farmers typically invest in more rudimentary greenhouses than Agripacific, and as a result the yield, quality, and consistency of products is not as good. But farmers still make an attractive return on their investment (average net income of \$7,000 per household per year, corresponding to a payback period of 2–3 years).

14. **The borrowers.** Agripacific was founded in 1992 as an organic vegetable business on a 25 ha farm in Da Lat. After a year, the business diversified into flowers.

15. APH (one of the proposed borrowers) has three main subsidiaries:

- (i) Agrivina produces flowers and cuttings in Viet Nam. Licensed in 1992 with a term of 50 years, Agrivina is based in Da Lat. The company operates from three production areas at different altitudes. As of 2015 it had about 300 ha of land, of

which about 100 ha is under greenhouses. Agrivina's main operating division is cut flowers for domestic and export markets. Agrivina grows temperate flowers (chrysanthemums, carnations, roses, lilies, and lysianthus), cuttings for the export markets, as well as pot plants for the domestic market. Flowers are distributed locally in Viet Nam through the company's own wholesale and retail organization. The company has several shops and distribution centers across the country.

- (ii) KHF (the other proposed borrower) produces flowers in the PRC. It was purchased from Finlays Flowers in March 2014. KHF grows carnations and other cut flowers at its 30 ha farm in Songming (near Kunming) in Yunnan province. Since buying KHF, Agripacific has invested in increasing the greenhouse area so as to increase the company's operating efficiency, and has expanded production through the purchase of a nearby 7-ha hydrangea farm. KHF also owns distribution facilities in Beijing and Shanghai, distributing Agrivina's products.
- (iii) Greenwings Japan distributes flowers in Japan. Greenwings Japan was established in the 1990s as a flower importer. The company has had exclusive distribution rights to Agrivina's flowers produced in Viet Nam since 2004 and together the two companies have built a substantial cut flower importing business in Japan. In 2010, Agripacific purchased Greenwings Japan and integrated it into Agripacific. Greenwings Japan employs about 30 people spread among its headquarters in Tokyo and sales offices in Osaka, Hokkaido, and Kyushu.

## B. Development Impact, Outcome, and Outputs

16. **Impact.** The project will contribute to at least three targets of the Sustainable Development Goals: (i) implement resilient agricultural practices that increase productivity and production, that help maintain ecosystems, that strengthen capacity for adaptation to climate change (Target 2.4), (ii) enhance North–South, South–South, and triangular regional and international cooperation on and access to science, technology, and innovation (Target 17.6); and (iii) increase significantly the exports of developing countries (Target 17.11).<sup>14</sup>

17. **Outcome.** The project's outcome is a high-value horticulture business model scaled up and transferred to new DMCs. The design and monitoring framework (Appendix 1) contains detailed indicators.

18. **Outputs.** The outputs of the project are (i) the expansion of the Viet Nam flower business, (ii) the expansion of the PRC flower business, (iii) the formation of the Indonesia flower business, and (iv) the formation of the Viet Nam vegetable business by 2019.

## C. Alignment with ADB Strategy and Operations

19. **Consistency with ADB strategy and country strategy.** The project is aligned with ADB's Midterm Review of Strategy 2020, which emphasizes the need to increase the productivity of agriculture (including through investments in agribusiness) and strengthen links with global value chains.<sup>15</sup> The project is also consistent with ADB's country partnership strategies for Viet Nam,<sup>16</sup> the PRC,<sup>17</sup> and Indonesia.<sup>18</sup> As a regional project benefiting three

<sup>14</sup> United Nations. Sustainable Development Knowledge Platform. <https://sustainabledevelopment.un.org>

<sup>15</sup> ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific*. Manila.

<sup>16</sup> The project is aligned with three of the four priorities of the Viet Nam country partnership strategy: (i) innovation, productivity, and increased employment; (ii) improved environmental sustainability and climate change response;

DMCs and non-DMC regional members, the project is fully aligned with ADB’s Operational Plan for Regional Cooperation and Integration, which calls for “improved growth and business competitiveness in regional markets through new opportunities in cross-border trade, investment, technology, finance, and labor mobility.” (footnote 9).

20. **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, in particular by working with strong agribusiness sponsors adopting best practices.<sup>19</sup> The project will complement ADB’s sovereign assistance programs in the three targeted DMCs. In Viet Nam, ADB provided sovereign assistance to enhance the regulatory framework and infrastructure for horticulture in 16 provinces including Lam Dong.<sup>20</sup> In the PRC, the Comprehensive Agricultural Development Project is supporting improved (i) irrigation and drainage infrastructure, (ii) agricultural support, and (iii) project management in five provinces including Yunnan.<sup>21</sup> In Indonesia, ADB is preparing an investment to support the government to improve irrigation services in 74 districts to increase agricultural productivity and provide an incentive to diversify from low-value to high-value crops.<sup>22</sup>

#### D. Project Cost and Financing Plan

21. The project is estimated to cost \$40.2 million. Table 1 presents the cost breakdown project cost.

**Table 1: Project Cost**

Item	Amount (\$ million)	Share of Total (%)
A. Viet Nam flower business expansion	21.9	54.5
B. PRC flower business expansion	9.2	23.0
C. Indonesia flower business formation	7.8	19.4
D. Viet Nam vegetable business formation	1.3	3.1
<b>Total</b>	<b>40.2</b>	<b>100.0</b>

PRC = People’s Republic of China.

Sources: Agripacific Holdings and Asian Development Bank.

and (iii) accelerate and maximize benefits of regional coordination and integration. ADB. 2016. *Country Partnership Strategy: Viet Nam, 2016—Fostering More Inclusive and Environmentally Sustainable Growth*. Manila.

<sup>17</sup> The PRC country partnership strategy highlights the need for ADB to support rural development for inclusive economic growth by promoting good practice to strengthen agricultural productivity, market connectivity, and climate resilience to reduce inequality between urban and rural areas. ADB. 2016. *Country Partnership Strategy: Transforming Partnership: People’s Republic of China and Asian Development Bank, 2016–2020*. Manila.

<sup>18</sup> The Indonesia country partnership strategy calls for support to agricultural commercialization as one way to achieve higher and more inclusive growth, for improvements in irrigation to support an environmentally sustainable growth, and for solutions involving advanced technology to add value. ADB. 2016. *Country Partnership Strategy: Indonesia 2016—Towards a Higher, More Inclusive, and Sustainable Growth Path*. Manila.

<sup>19</sup> ADB. 2015. *Operational Plan for Agriculture and Natural Resources: Promoting Sustainable Food Security in Asia and the Pacific in 2015–2020*. Manila.

<sup>20</sup> ADB. 2009. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Socialist Republic of Viet Nam for Quality and Safety Enhancement of Agricultural Products and Biogas Development Project*. Manila.

<sup>21</sup> ADB. 2012. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the People’s Republic of China for the Comprehensive Agricultural Development Project*. Manila.

<sup>22</sup> ADB. Forthcoming. *Report and Recommendation of the President to the Board of Directors: Proposed Results-Based Loans to the Republic of Indonesia for the Integrated Participatory Development and Management of Irrigation Program (Draft)*. Manila.

22. Table 2 identifies the corresponding sources of funds.

**Table 2: Financing Plan**

<b>Source</b>	<b>Amount (\$ million)</b>	<b>Share of Total (%)</b>
Loans		
Asian Development Bank (loan to Agripacific Holdings)	15.0	37.3
Asian Development Bank (loan to Kunming Hasfarm Flowers)	5.0	12.4
Equity		
Agripacific (internally generated funds)	20.2	50.3
<b>Total</b>	<b>40.2</b>	<b>100.0</b>

Sources: Agripacific Holdings and Asian Development Bank.

## E. Implementation Arrangements

23. Table 3 summarizes the implementation arrangements.

**Table 3: Summary of Implementation Arrangements**

<b>Aspects</b>	<b>Arrangements</b>
Regulatory framework	Agripacific is subject to the general laws regulating private sector enterprises in the countries it operates in, and, as a horticulture company, benefits from incentives in Viet Nam and the PRC. Agripacific is subject to the international trade laws, including import duties, in Japan and the PRC.
Management	Agripacific is led by a strong management team with broad experience in the horticulture industry and long experience of working together as a team. The executive committee brings together the heads of the businesses in Japan, PRC, Viet Nam, and Hong Kong, China. The key top managers are also equity investors in the business.
Implementation period	Agripacific plans to implement the project gradually over a 3-year period (2017–2019). It takes about 3 months to build a greenhouse on 1 hectare of land, once the land is available. However, the company will build greenhouses gradually in response to increasing orders.
Construction arrangements	Procurement of equipment and civil works will be carried out in line with ADB's Procurement Guidelines (2015, as amended from time to time) as they apply to private sector projects. ADB's consultant has reviewed the project costs and found them to be in line with market standards.
Operations arrangements	Since 2013, Agripacific has been ensuring consistent high-quality production through a KPI system. The KPIs track the efficiency of the production process as well as the quality of the product at each stage of production. Agripacific distributes its products through three channels: (i) wholesalers (Japan, Viet Nam, and the PRC), (ii) supermarkets (Japan and Viet Nam), and (iii) own flower shops (Viet Nam, and Indonesia following the acquisition of the flower retailer). Refrigerated container shipping is the most attractive transportation option for regional exports (from Viet Nam and Indonesia to Japan and the PRC) as it is much cheaper than air freight.
Performance monitoring	Key performance indicators, including financial, safeguard, gender, and development indicators (i.e., output and outcome targets), will be reported by Agripacific at least annually.

ADB = Asian Development Bank, APH = Agripacific Holdings, CEO = chief executive officer, KHF = Kunming Hasfarm Flowers, KPI = key performance indicator, PRC = People's Republic of China.

Sources: Agripacific Holdings and Asian Development Bank.

## F. Projected Financial and Economic Performance

[Redacted]

## G. Unique Features

24. The project will support a climate resilient and inclusive business model for high-value horticulture in Asia.<sup>23</sup> It will support the transfer and adoption of high end technology such as climate-controlled greenhouses across several DMCs. It will be ADB's first nonsovereign project in the agriculture sector in Viet Nam and Indonesia. It is also ADB's first nonsovereign loan in yen outside of the finance sector.

## III. THE ADB ASSISTANCE

### A. The Assistance

25. ADB proposes to provide a loan facility of up to \$15 million equivalent in US dollars and yen to APH and a loan facility of up to \$5 million equivalent in yuan to KHF. APH will use the loan proceeds to finance those of its subsidiaries and affiliates that will be implementing different components of the project in Viet Nam and Indonesia. The yen denomination is justified since a large portion of the exports from Viet Nam and Indonesia will be for the Japan market, generating yen revenues for the group. A yen-denominated loan thus provides a natural hedge to the group. While most of the APH loan facility is likely to be drawn in yen, APH will retain the flexibility to borrow in US dollars as well since the group generates revenues in various other currencies. KHF will use the loan proceeds to finance the PRC components of the project. The yuan denomination is justified since KHF's production will be for the PRC domestic market and revenues are collected in yuan. Terms and conditions of the loans have been agreed with APH.

### B. Value Added by ADB Assistance

26. ADB assistance will add value in two areas:

- (i) **Multicurrency, long-term finance.** Agripacific has so far financed its growth through equity and short-term loans. As the group expands over several countries and needs to invest in assets with long payback periods (such as land and high-end climate-controlled greenhouses), Agripacific needs to access long-term financing in multiple currencies, which ADB is in a unique position to offer.
- (ii) **Demonstration effect.** ADB will help Agripacific set a benchmark in terms of high productivity, climate change adaptation, and inclusiveness in the horticulture subsector. ADB will enhance Agripacific's environmental and social standards through the application of international safeguard standards. ADB will increase the visibility of Agripacific's business model, enabling smaller or less-advanced horticulture companies throughout Asia and the Pacific to learn from it.

### C. Risks

[Redacted]

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<sup>23</sup> The project is an inclusive business assistance because it provides decent employment and income opportunities to low-income people including women (60% Agripacific's employees and farmers) and ethnic minorities (25% of Agripacific's employees in Viet Nam). Agripacific's employees in Viet Nam earn \$260–290 per month in 2016 (around 1.8x more than employees of other flower farmers in Da Lat) and are provided with complete social security benefits. Agripacific's contract farming households have a net income of around \$590 per month in 2016.

#### IV. POLICY COMPLIANCE

##### A. Safeguards and Social Dimensions

27. In compliance with ADB's Safeguard Policy Statement (SPS) (2009), the project is classified category B for environment, involuntary resettlement, and indigenous peoples. Since the proposed ADB assistance is a corporate loan that will finance general horticulture business expansion and is not financing specific subprojects, the requirements for general corporate finance projects will apply. Agripacific engaged a qualified and experienced external expert to conduct a corporate audit of the company's existing environmental, health, safety, and social policies, procedures, and operations. The audit recommended corrective actions to ensure that procedures and operations are adequate and comply with the SPS and other social requirements. APH will adopt an environmental and social management system satisfactory to ADB and applicable to the entire Agripacific group before the first ADB disbursement. Agripacific will also enhance its institutional capacity, establish environment and social units at both corporate and farm levels, and train staff on the environmental and social management system.

28. **Environment.** The corporate audit noted that the flower farms visited in Viet Nam have prepared the necessary environmental documents and fully comply with applicable regulations from the Cultivation and Plant Protection Division under the Department of Agriculture and Rural Development of Lam Dong province. Potential risks and impacts of the project during construction are mostly site specific and short term, and can be effectively managed by good engineering construction and housekeeping practices implemented through a construction environmental management plan. During operation, wastewater treatment facilities and air emission treatment systems will be installed and the hazardous waste storage facilities will be upgraded in order to mitigate potential air, soil, and water pollution.

29. **Involuntary resettlement.** In Viet Nam, Agrivina leases state-owned land to minimize involuntary resettlement impacts. In the PRC and Indonesia, the group companies will conduct the planned land procurement in accordance with the environmental and social management system to satisfy the requirements of the SPS. Agripacific's investment transactions for its group companies that would entail significant involuntary resettlement impacts (category A) will be excluded from the ADB financing.

30. **Indigenous peoples.** For Viet Nam, it is unlikely that the farm expansion will impact indigenous peoples as Da Lat is mostly inhabited by the Kinh or Viet people. The expansion of the flower farm in the PRC is planned to be around Kunming city in Yunnan province and the new farm in Indonesia is expected to be established in a location where there are possibly indigenous people communities. The environmental and social management system will include policies and procedures aligned with the SPS requirements on indigenous peoples. Investment activities that are categorized A for indigenous peoples will be excluded from the ADB financing.

31. Agripacific will comply with national labor laws and, pursuant to ADB's Social Protection Strategy (2001), will take measures to comply with the internationally recognized core labor standards.<sup>24</sup> Agripacific will report regularly to ADB on (i) compliance with such laws by Agripacific and its contractors, and (ii) the measures taken. The project is categorized as effective gender mainstreaming. Agripacific commits to implement a gender action plan that will increase the proportion of women employees from 60% in 2015 to 65% in 2020, increase the proportion of women in management and supervisory position from 53% in 2015 to 63% in

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<sup>24</sup> ADB. 2003. *Social Protection*. Manila (adopted in 2001).

2020, and enhance the group's human resource policy to include provisions on gender equality in recruitment and salary and to prohibit sexual harassment in the work place.

#### **B. Anticorruption Policy**

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

#### **C. Investment Limitations**

33. The proposed loan is within the medium-term, country, industry, group, and single-project exposure limits for nonsovereign investments.

#### **D. Assurances**

34. Consistent with the Agreement Establishing the Asian Development Bank (the Charter),<sup>25</sup> ADB will proceed with the assistance upon establishing that the Government of Viet Nam and the Government of Indonesia have no objection to the assistance to APH, and that the Government of the PRC has no objection to the assistance to KHF. ADB will enter into suitable finance documentation, in form and substance satisfactory to ADB.

### **V. THE PRESIDENT'S DECISION**

42. The President, acting under the authority delegated by the Board, has approved (i) the loan of up to \$15,000,000 equivalent in US dollars and yen from ADB's ordinary capital resources to Agripacific Holdings; and (ii) the loan of up to \$5,000,000 equivalent in yuan from ADB's ordinary capital resources to Kunming Hasfarm Flowers for the High-Value Horticulture Development Project in Viet Nam, the People's Republic of China, and Indonesia, and hereby reports this action to the Board.

16 December 2016

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<sup>25</sup> ADB. 1966. *Agreement Establishing the Asian Development Bank*. Manila.

## DESIGN AND MONITORING FRAMEWORK

<p><b>Impacts the Project is aligned with</b></p> <p>Implement resilient agricultural practices that increase productivity and production, that help maintain ecosystems, that strengthen capacity for adaptation to climate change (Sustainable Development Goals, Target 2.4)<sup>a</sup></p> <p>Enhance North–South, South–South, and triangular regional and international cooperation on and access to science, technology, and innovation (Sustainable Development Goals, Target 17.6)<sup>a</sup></p> <p>Increase significantly the exports of developing countries (Sustainable Development Goals, Target 17.11)<sup>a</sup></p>
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Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting	Risks
<p><b>Outcome</b></p> <p>High-value horticulture business model scaled-up and transferred to new DMCs</p>	<p>By 2020:</p> <p>a. Number of Agripacific employees increases to 4,000 (including at least 65% women) (2015 baseline: 3,000, of which 60% are women)</p> <p>b. Proportion of women among Agripacific supervisors and managers reaches 63% (2014 baseline: 53%)</p> <p>c. Number of farmers involved in contract farming with Agripacific reaches 750 (including at least 65% women) (2014 baseline: 300, of which 60% are women)</p> <p>d. Agripacific and contract farmer land improved through greenhouse investment including drip irrigation reaches 230 ha (2015 baseline: 140 ha)</p>	<p>a–d. Agripacific's annual report to ADB</p>	<p>Market risk (e.g., demand for cut flowers) not as strong as expected; risk of changing consumer preferences</p> <p>Production risk (e.g., risk of crop failure due to bad weather or plant diseases)</p>
<p><b>Outputs</b></p> <ol style="list-style-type: none"> <li>1. Viet Nam flower business expanded</li> <li>2. PRC flower business expanded</li> <li>3. Indonesia flower business formed</li> <li>4. Viet Nam vegetable business formed</li> </ol>	<p>[Redacted]</p>	<p>1–4. Agripacific's annual report to ADB</p>	<p>Implementation risk (e.g., difficulty in securing land leases, management team's ability to manage different projects at the same time)</p>
<p><b>Key Activities with Milestones</b></p> <p><b>Output 1. Viet Nam flower business expanded</b></p> <ol style="list-style-type: none"> <li>1.1 Signing achieved (31 March 2017)</li> <li>1.2 First disbursement made (30 June 2017)</li> </ol> <p><b>Output 2. People's Republic of China flower business expanded</b></p>			



Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting	Risks
2.1 Signing achieved (31 March 2017) 2.2 First disbursement made (30 June 2017)  <b>Output 3. Indonesia flower business formed</b> 3.1 Signing achieved (31 March 2017) 3.2 First disbursement made (31 March 2018)  <b>Output 4. Viet Nam vegetable business formed</b> 4.1 Signing achieved (31 March 2017) 4.2 First disbursement made (30 June 2017)			
<b>Inputs</b>  ADB: \$20.0 million (loan)  <b>Equity</b> Agripacific: \$20.2 million (equity)			
<b>Assumptions for Partner Financing</b>  Not applicable			

ADB = Asian Development Bank, DMC = developing member country, ha = hectare, PRC = People's Republic of China.

<sup>a</sup> United Nations. Sustainable Development Goals. <https://sustainabledevelopment.un.org>

Sources: Agripacific Holdings and Asian Development Bank.