

INITIAL POVERTY AND SOCIAL ANALYSIS

Country:	Regional (Viet Nam, Indonesia, Timor-Leste, and Papua New Guinea (PNG))	Project Title:	Agricultural Value Chain Development Project
Lending/Financing Modality:	Loan	Department/ Division:	Private Sector Operations Department / Office of the Director General

I. POVERTY IMPACT AND SOCIAL DIMENSIONS

A. Links to the National Poverty Reduction Strategy and Country Partnership Strategy

The proposed \$100 million loan from ADB will support Olam International Limited (OIL) and its subsidiaries' investment plan in Viet Nam, Indonesia, Timor-Leste, and Papua New Guinea (PNG) during 2017-2019 by financing midstream coffee and sugar processing expansions and permanent working capital investments for smallholder farmer supply, which will promote inclusive and sustainable agricultural value chains with higher local value addition across a variety of products including coffee, sugar, cashew, cocoa, and pepper. The project is aligned with the ADB Midterm Review of Strategy 2020, which emphasizes the need to invest in agriculture to increase productivity, strengthen links with local value chains, promote food safety and quality standards, and improve the resilience of the sector to the impacts of disasters and climate change. 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.^a As a regional project benefiting four DMCs as well as non-DMC regional members, the project is aligned with ADB's operational plan for regional cooperation and integration, which highlights the importance of raising competitiveness in connected markets including through promoting and facilitating the participation in global and regional value chains by small and medium-sized enterprises and smallholder farmers.^b

The project is also consistent with ADB's country partnership strategies (CPS) for Viet Nam, Indonesia, Timor-Leste, and PNG. The project is aligned with three of the four priorities of the Viet Nam CPS: (i) innovation, productivity, and increased employment; (ii) improved environmental sustainability and climate change response; and (iii) accelerate and maximize benefits of regional coordination and integration.^c The Indonesia CPS 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.^d The Timor-Leste country partnership strategy highlights that agriculture offers the clearest opportunities for widespread poverty reduction and sustainable and inclusive growth will require the development of more productive agriculture and a vibrant private sector.^e Meanwhile, PNG's CPS indicates that one of its operational priority is to increase job and livelihood opportunities, particularly in agriculture.^f The strategy calls for direct support to local communities to mitigate the consequences of natural disasters and climate change risks.

B. Poverty Targeting:

General Intervention Individual or Household (TI-H) Geographic (TI-G) Non-Income MDGs (TI-M1, M2, etc.)

ADB's support for this project will help demonstrate replication of a successful high-value agriculture model in different developing countries, where global agribusiness companies reach out and work directly with smallholder farmers. This translates into transfer of technologies that paves the way for improved agricultural productivity and the direct access to the company allows for higher prices to the farmers' produce. The expansion and upgrading of plants and facilities in Viet Nam, Indonesia, Timor-Leste, and PNG will also create new employment opportunities for the local labor force.

C. Poverty and Social Analysis

1. Key issues and potential beneficiaries. The agriculture sector in Viet Nam and Indonesia has made significant progress, but its smallholder farmers have been left behind. Viet Nam's agriculture sector contributes about 20% of gross domestic product (GDP) and 25% of exports, and provides employment for 70% of rural households. Yet in Viet Nam's Central Highland Provinces,^g one of the country's main agricultural regions where 71% of the population are smallholder farmers, the poverty rate is 22%—more than twice the nationwide rate.^h In Indonesia, the vast majority of food crop producers are either landless or cultivate small landholdings. Indonesia's rural poverty rate of 14%, is significantly higher than the 8% poverty rate of the urban population. In Timor-Leste and PNG, poverty in rural areas amongst smallholder farmers is highly predominant. In Timor-Leste, 60% of smallholder farmers live below the poverty line.ⁱ In PNG, 91% of people living in rural areas are poor.^j In both

countries, most farming households have minimal engagement with agricultural markets and can be characterized as low-input, low-output producers. The proximate factors that contribute to low productivity include poor infrastructure and connectivity, limited availability of extension services, low usage of agricultural inputs, and low uptake of improved crop varieties.

The project will benefit the following: (i) Viet Nam's, Indonesia's, Timor-Leste's, and PNG's local economy through improved agricultural production and marketing, and higher local value addition, (ii) potential smallholder farmers by gaining more knowledge through agricultural extension services, training, and livelihood support and direct access to market ensuring better price for their produce, and (iii) the local labor force through creation of new employment opportunities from the expanded plant operations and from construction activities.

2. Impact channels and expected systemic changes. The expansion and upgrading of plants and facilities in Viet Nam, Indonesia, Timor-Leste, and PNG will create new employment opportunities for the local labor force in these countries. Moreover, OIL and its subsidiaries (Olam) provides agricultural extension services, training and livelihood support to smallholder farmers which will foster better incomes.

3. Focus of (and resources allocated in) the due diligence. ADB team and experienced external experts conducted due diligence on Olam's operations in the four project countries to understand the environmental and social impacts of the project. The external experts were engaged to conduct a corporate audit on the company's existing environment and social policy, procedures, and operations. The audit identified corrective actions required to ensure adequacy and compliance of the procedures and operations to the ADB SPS and other social requirements, including labor and gender aspects.

4. Specific analysis for policy-based lending. Not applicable.

II. GENDER AND DEVELOPMENT

1. What are the key gender issues in the sector/subsector that are likely to be relevant to this project or program? In Viet Nam, Café Outspan Vietnam Limited (COVL) has 410 staff, of which 10 percent are female.

Approximately 75% of them work in office areas and in the warehouse and packing areas; jobs in the production area are dominated by men as tasks are considered heavy and not suitable for female employees. About 10 female employees were employed as supervisors and in executive positions. Female employees have reportedly benefits as required by law including break of 30 minutes per day during their periods, maternity leave for six months, and one hour leave per day for female employees who are caring their children under 12 months old. Gifts were also given to female employees on Viet Nam Women's Day and International Women's Day. For Indonesia, PT DUS employs 350 permanent employees, of which 9 are female. The female employees are in the Human Resources Department, Procurement Department, and Finance and Administration Department. Legally required entitlements for female employees (e.g. maternity leave, time-off for female employees experiencing miscarriage, and during menstruation period) are provided by the Company. For Timor-Leste, Outspan Agro Timor employs 13 female employees who work in the accounts department, the Quality Assurance and Quality Control facility, and at the reception. For PNG, there are approximately 25 permanent staff and 19 casual staff in the two sites of Outspan PNG Limited of which only 5 female employees. Women's roles in operations include office administration and quality assurance. No women are employed as laborers.

2. Does the proposed project or program have the potential to contribute to the promotion of gender equity and/or empowerment of women by providing women's access to and use of opportunities, services, resources, assets, and participation in decision making?

Yes No A Gender Action Plan was prepared that includes measures such as (i) increase the proportion of women employees (from 10% to 15% in Olam Vietnam, from 3% to 6% in PT Olam Indonesia, from 10% to 15% in COVL, from 3% to 5% in PT DUS, from 10% to 13% in OIL's subsidiary in Timor-Leste, and 20% to 25% in OIL's subsidiary in PNG); (ii) ensuring that at least 25% of farmers trained under the TA which will provide training in good farming practices and climate smart agriculture for smallholder coffee farmers are women, (iii) providing designated areas for lactating mothers, (iv) enhancing human resource policy to include provisions on gender equality in recruitment and salary and to prohibit sexual harassment in the work place.

3. Could the proposed project have an adverse impact on women and/or girls or widen gender inequality?

Yes No The project will benefit women through increase in employment opportunities, better facilities for women staff, and enhanced agricultural skills for women farmers.

4. Indicate the intended gender mainstreaming category:

GEN (gender equity) EGM (effective gender mainstreaming)
 SGE (some gender elements) NGE (no gender elements)

III. PARTICIPATION AND EMPOWERMENT

1. Who are the main stakeholders of the project, including beneficiaries and negatively affected people? Identify how they will participate in the project design.

The potential project stakeholders include communities, local leaders, nearby communities, local government units, and small holder farmers. Olam's existing systems for environmental and social management system and Community Outreach activities will be strengthened to undertake dialogue and information dissemination for different stakeholders.

2. How can the project contribute (in a systemic way) to engaging and empowering stakeholders and beneficiaries, particularly, the poor, vulnerable and excluded groups? What issues in the project design require participation of the poor and excluded? Olam will incorporate in its environmental and social management system the process of engagement with various stakeholders including nearby communities, local government units, and smallholder farmers.

3. What are the key, active, and relevant civil society organizations in the project area? What is the level of civil society organization participation in the project design?

Information generation and sharing Consultation Collaboration Partnership

The opportunity to involve civil society organizations is limited, as the project will be into expansion of plants and facilities and support for permanent working capital investments for smallholder farmer supply. Olam's existing systems include procedures to consult various stakeholders, assign a staff to help implement consultation activities, and address any concerns from stakeholders, including civil society organizations, if any.

4. Are there issues during project design for which participation of the poor and excluded is important? What are they and how shall they be addressed? Yes No

The project through a technical assistance will support smallholder farmers through trainings to improve their agricultural skills. As farmer productivity increases, their income is expected to increase from higher sales.

IV. SOCIAL SAFEGUARDS

A. Involuntary Resettlement Category A B C FI

1. Does the project have the potential to involve involuntary land acquisition resulting in physical and economic displacement? Yes No The facilities of COVL, PT DUS, and OIL's subsidiary in PNG are located in industrial parks. The facilities of OIL's subsidiary in Timor-Leste are located on leased lands. The expansion facilities will be constructed within existing premises of the subsidiary companies. These lands do not have any legacy or current risks associated with land acquisition and resettlement. The independent audit has also assessed that the current and planned operations of OIL would not potentially lead to any involuntary resettlement issues. Hence, no involuntary resettlement is not envisaged for the project on account of its operational and expansion plans.

2. What action plan is required to address involuntary resettlement as part of the PPTA or due diligence process?

Resettlement plan Resettlement framework Social impact matrix
 Environmental and social management system arrangement None

The ESMS will be enhanced to (i) include screening criteria and decision matrix for any involuntary resettlement related issues or impacts (applicable only in case of future expansion projects with additional land requirements), and (ii) develop a corporate grievance policy and procedure on receiving, documenting, and addressing those grievances, among others. Screening of the investments activities under the loan will confirm that these are category C under IR.

B. Indigenous Peoples Category A B C FI

1. Does the proposed project have the potential to directly or indirectly affect the dignity, human rights, livelihood systems, or culture of indigenous peoples? Yes No

2. Does it affect the territories or natural and cultural resources indigenous peoples own, use, occupy, or claim, as their ancestral domain? Yes No The project activities in Indonesia, Viet Nam, PNG, and Timor-Leste are not expected to impact any ethnic minorities or indigenous peoples.

3. Will the project require broad community support of affected indigenous communities? Yes No

4. What action plan is required to address risks to indigenous peoples as part of the PPTA or due diligence process?

Indigenous peoples plan Indigenous peoples planning framework Social Impact matrix
 Environmental and social management system arrangement None

Olam will strengthen its systems to include Screening criteria and decision matrix for any indigenous peoples related issues or impacts (applicable only in case of future expansion projects). Screening of the investments activities under the loan will confirm that these are category C under IP.

V. OTHER SOCIAL ISSUES AND RISKS
<p>1. What other social issues and risks should be considered in the project design?</p> <p><input type="checkbox"/> Creating decent jobs and employment <input checked="" type="checkbox"/> Adhering to core labor standards <input type="checkbox"/> Labor retrenchment</p> <p><input type="checkbox"/> Spread of communicable diseases, including HIV/AIDS <input type="checkbox"/> Increase in human trafficking <input type="checkbox"/> Affordability</p> <p><input type="checkbox"/> Increase in unplanned migration <input type="checkbox"/> Increase in vulnerability to natural disasters <input type="checkbox"/> Creating political instability</p> <p><input type="checkbox"/> Creating internal social conflicts <input type="checkbox"/> Others, please specify _____</p> <p>2. How are these additional social issues and risks going to be addressed in the project design? OIL and its relevant subsidiary companies and their contractors 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.</p>
VI. PPTA OR DUE DILIGENCE RESOURCE REQUIREMENT
<p>1. Do the terms of reference for the PPTA (or other due diligence) contain key information needed to be gathered during PPTA or due diligence process to better analyze (i) poverty and social impact; (ii) gender impact, (iii) participation dimensions; (iv) social safeguards; and (v) other social risks. Are the relevant specialists identified?</p> <p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No The terms of reference of the external expert who carried out the environment and social audit report covered environment and social safeguards issues and other social dimensions including labor and gender.</p> <p>2. What resources (e.g., consultants, survey budget, and workshop) are allocated for conducting poverty, social and/or gender analysis, and participation plan during the PPTA or due diligence? An external expert was engaged to carry out environment and social audit of the company and its existing operations. ADB team also participated in the due diligence mission.</p>

- ^a ADB. 2015. *Operational Plan for Agriculture and Natural Resources: Promoting Sustainable Food Security in Asia and the Pacific in 2015–2020*. Manila.
- ^b 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.
- ^c ADB. 2016. *Country Partnership Strategy: Viet Nam, 2016—Fostering More Inclusive and Environmentally Sustainable Growth*. Manila.
- ^d ADB. 2016. *Country Partnership Strategy: Indonesia 2016—Towards a Higher, More Inclusive, and Sustainable Growth Path*. Manila.
- ^e ADB. 2016. *Country Partnership Strategy: Timor-Leste, 2016-2020*. Manila.
- ^f ADB. 2015. *Country Partnership Strategy: Papua New Guinea, 2016-2020*. Manila.
- ^g Dak Lak, Dak Nong, Gia Lai, Kon Tum, and Lam Dong provinces.
- ^h World Bank. 2016. *Transforming Vietnamese Agriculture: Gaining More from Less*. Vietnam Development Report 2016. Ha Noi.
- ⁱ World Bank. 2008. *Timor-Leste: Poverty in a Young Nation*. Washington, DC. A national household income and expenditure survey was conducted in 2011 but no official poverty estimate was produced. A national survey of living standards was completed in 2015 and updated poverty estimates are expected in 2016.
- ^j ADB. 2015. *Country Partnership Strategy: Papua New Guinea, 2016-2020*. Manila.