



# Report and Recommendation of the President to the Board of Directors

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Project Number: 51139-001  
October 2017

## Proposed Loans

Olam International Limited, Café Outspan Vietnam Limited, and PT Dharmapala Usaha Sukses Agricultural Value Chain Development Project (Viet Nam, Indonesia, Timor-Leste, and Papua New Guinea)

This is an abbreviated version of the document approved by ADB's Board of Directors that excludes information that is subject to exceptions to disclosure set forth in ADB's Public Communications Policy 2011.



## CURRENCY EQUIVALENTS

(as of 14 August 2017)

Currency unit	–	Singapore dollar/s (S\$)
S\$1.00	=	\$0.7343
\$1.00	=	S\$1.362

## ABBREVIATIONS

ADB	–	Asian Development Bank
COVL	–	Café Outspan Vietnam Limited
DMC	–	developing member country
GDP	–	gross domestic product
ISO	–	International Organization for Standardization
OIL	–	Olam International Limited
Olam	–	Olam International Limited and its subsidiaries
PNG	–	Papua New Guinea
PT DUS	–	PT Dharmapala Usaha Sukses
SPS	–	Safeguard Policy Statement
TA	–	technical assistance
tpa	–	tons per annum
US	–	United States

## NOTE

In this report, “\$” refers to United States dollars.

<b>Vice-President</b>	D. Gupta, Private Sector and Cofinancing Operations
<b>Director General</b>	M. Barrow, Private Sector Operations Department (PSOD)
<b>Director</b>	C. Thieme, Deputy Director General, PSOD
<b>Team leader</b>	J. Jeong, Investment Specialist, PSOD
<b>Project advisor</b>	M. Lemoine, Principal Investment Specialist, PSOD
<b>Team members</b>	G. Abel, Principal Transaction Support Specialist (Integrity), PSOD P. Bailet, Senior Counsel, Office of the General Counsel E. David, Investment Officer, PSOD E. Enkhbold, Investment Officer, East Asia Department S. Estacion, Senior Operations Assistant, PSOD D. Freedman, Country Economist, Pacific Department L. Johannes, Senior Results Management Specialist, PSOD T. Khimasia, Senior Guarantees and Syndications Specialist, PSOD M. Manabat, Senior Investment Officer, PSOD M. Manguiat, Safeguards Officer, PSOD M. Principe, Senior Social Development Officer (Safeguards), PSOD A. Singh, Senior Safeguards Specialist, PSOD C. Tienzo, Project Analyst, PSOD

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## CONTENTS

	<b>Page</b>
PROJECT AT A GLANCE	
I. THE PROPOSAL	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	4
D. Project Cost and Financing Plan	5
E. Implementation Arrangements	5
F. Projected Financial and Economic Performance	6
G. Unique Features	6
III. THE PROPOSED ADB ASSISTANCE	6
A. The Assistance	6
B. Value Added by ADB Assistance	6
C. Risks	7
IV. POLICY COMPLIANCE	7
A. Safeguards and Social Dimensions	7
B. Anticorruption Policy	8
C. Investment Limitations	8
D. Assurances	8
V. RECOMMENDATION	9
APPENDIXES	
1. Design and Monitoring Framework	10
2. List of Linked Documents	13



## PROJECT AT A GLANCE

<b>1. Basic Data</b>		<b>Project Number:</b> 51139-001	
<b>Project Name</b>	Agricultural Value Chain Development Project	<b>Department/Division</b>	PSOD/OPSD
<b>Country</b>	Regional		
<b>Borrowers</b>	Café Outspan Vietnam Limited Olam International Limited PT Dharmapala Usaha Sukses		
<b>2. Sector</b>	<b>Subsector(s)</b>	<b>ADB Financing (\$ million)</b>	
✓ Agriculture, natural resources and rural development	Agro-industry, marketing, and trade		100.00
		<b>Total</b>	<b>100.00</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)	0.40
Environmentally sustainable growth (ESG)	Global and regional transboundary environmental concerns	Climate Change impact on the Project	High
Regional integration (RCI)	Pillar 2: Trade and investment		
<b>4. Drivers of Change</b>	<b>Components</b>	<b>Gender Equity and Mainstreaming</b>	
Partnerships (PAR)	Bilateral institutions (not client government)	Effective gender mainstreaming (EGM)	✓
Private sector development (PSD)	Official cofinancing Promotion of private sector investment		
<b>5. Poverty and SDG Targeting</b>		<b>Location Impact</b>	
Geographic Targeting	No	Regional	High
Household Targeting	No		
SDG Targeting	Yes		
SDG Goals	SDG2, SDG5, SDG8, SDG12, SDG17		
<b>6. Nonsovereign Operation Risk Rating</b>			
	<b>Obligor Name</b>	<b>Obligor Risk Rating</b>	<b>Facility Risk Rating</b>
	Café Outspan Vietnam Limited		
	PT Dharmapala Usaha Sukses		
	Olam International Limited		
<b>7. Safeguard Categorization</b>	<b>Environment:</b> B	<b>Involuntary Resettlement:</b> C	<b>Indigenous Peoples:</b> C
<b>8. Financing</b>			
	<b>Modality and Sources</b>	<b>Amount (\$ million)</b>	
	<b>ADB</b>	<b>100.00</b>	
	Nonsovereign LIBOR Based Loan (Regular Loan): Ordinary capital resources	65.00	
	Nonsovereign LIBOR Based Loan (Regular Loan): Ordinary capital resources	5.00	
	Nonsovereign Dual Currency Loan (Regular Loan): Ordinary capital resources	30.00	
	<b>B-Loans</b>	<b>0.00</b>	
	None	0.00	
	<b>Official Cofinancing</b>	<b>75.00</b>	
	Bilateral Institution (Not ADB Administered)	75.00	
	<b>Others</b>	<b>48.00</b>	
	<b>Total</b>	<b>223.00</b>	



## I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on the proposed loans of up to \$100,000,000, comprising (i) a loan of up to \$65,000,000 to Olam International Limited (OIL), (ii) a loan of up to \$5,000,000 to Café Outspan Vietnam Limited (COVL), and (iii) a loan of up to \$30,000,000 equivalent in United States (US) dollars and rupiah to PT Dharmapala Usaha Sukses (PT DUS) for the Agricultural Value Chain Development Project in Viet Nam, Indonesia, Timor-Leste, and Papua New Guinea (PNG).<sup>1</sup>

## II. THE PROJECT

### A. Project Identification and Description

#### 1. Project Identification

2. **Agriculture key to fight poverty.** Agriculture in Asia and the Pacific is characterized by unorganized, small-scale farming. Most smallholder farmers are not included in formal value chains and face challenges that include lack of access to finance and quality inputs, low yields, lack of storage and market infrastructure, limited local value addition, and dependence on brokers. As smallholder farmers make up most of the poor in the region, agricultural development is crucial to eradicating poverty and creating conditions for sustainable and equitable growth.

3. **Persistent rural poverty in Southeast Asia.** 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, 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.<sup>2</sup> In Indonesia, the majority of food crop producers are landless or cultivate small landholdings. These farmers tend to earn low incomes and fall into and out of poverty, contributing to Indonesia's rural poverty rate of 14%, which is significantly higher than the 8% poverty rate of the urban population.

4. **Widespread rural poverty in the Pacific.** In Timor-Leste and PNG, poverty in rural areas among smallholder farmers is predominant. In Timor-Leste, 60% of smallholder farmers live below the poverty line.<sup>3</sup> In PNG, 91% of people living in rural areas are poor.<sup>4</sup> In both countries, most farming households can be characterized as low-input, low-output producers. At the same time, agriculture is a dominant sector in both countries. In Timor-Leste, coffee is the country's largest non-oil export and is grown by 38% of all households.<sup>5</sup> In PNG, agriculture accounts for one-third of its GDP, with 75% of the population relying on agriculture for its main livelihood. Improvements in agricultural production and processing offer one of the clearest pathways for poverty reduction and growth of the non-extractive economy in Timor-Leste and PNG.

5. **Climate change and environmental challenges.** Climate change is a serious threat to countries in Asia and the Pacific. The World Bank has listed Viet Nam as one of the five countries that will be worst affected by climate change, given its high exposure to floods and storms.<sup>6</sup>

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<sup>1</sup> In descending order of proportion of total project size (see Table 1), including technical assistance component.

<sup>2</sup> Sector Overview (accessible from the list of linked documents in Appendix 2).

<sup>3</sup> World Bank. 2008. *Timor-Leste: Poverty in a Young Nation*. Washington, DC.

<sup>4</sup> ADB. 2015. *Country Partnership Strategy: Papua New Guinea, 2016–2020*. Manila.

<sup>5</sup> Government of Timor-Leste. 2016. *Timor-Leste Population and Housing Census 2015*. Dili.

<sup>6</sup> World Bank. 2010. *Vietnam: Economics of Adaptation to Climate Change*. Washington, DC.



Additionally, the overuse of fertilizers in Viet Nam is a cause of water pollution and soil degradation.<sup>7</sup> Indonesia will see temperatures increase up to 3.9 degrees Celsius and precipitation decrease up to 12% by 2100 according to the Intergovernmental Panel on Climate Change. Timor-Leste and PNG are the two most vulnerable countries to climate change in the Pacific when measured by economic losses (as a proportion of GDP), with losses from climate change expected to reach 10% of Timor-Leste's annual GDP and 15% of PNG's by 2100.<sup>8</sup>

6. **Global value chain inclusion.** Inclusion of smallholder farmers in formal value chains can help address the challenges of persistent rural poverty, climate change, and environmental pressure. Formal value chains are typically developed by large corporate buyers who vertically integrate to source directly from the farm gate to secure long-term access to quality products and build strong relationships with farming communities. Large global agribusinesses in particular can lead significant investments in agriculture value chains that benefit smallholder farmers through increased access to new export markets and by linking them with consumers who are willing to pay a premium for traceability and certification. Agricultural investment has been shown to be one of the most effective and least-cost strategies to reduce poverty and hunger.<sup>9</sup> Investment in agricultural value chains is also one of the least-cost climate change adaptation investments.<sup>10</sup>

7. **Government policy alignment.** The governments of the four countries included in the project scope prioritize inclusive value chains by linking farmers with global value chains. In Viet Nam, the Prime Minister approved the agricultural restructuring plan for improving added value and sustainable development of the sector in 2013.<sup>11</sup> Indonesia's 2015–2019 National Medium-Term Development Plan highlights the agriculture sector's role in developing higher value cropping to improve rural livelihoods.<sup>12</sup> Timor-Leste's Strategic Development Plan, 2011–2030 highlights the need to increase coffee production and develop other cash crop exports.<sup>13</sup> PNG's National Agriculture Development Plan, 2007–2016 aims to reduce production costs, improve the quality of agricultural produce for domestic and international markets, and increase the income-earning opportunities of those dependent on agriculture.<sup>14</sup>

8. **Project selection.** The Asian Development Bank (ADB) has been supporting agriculture value chain development, with targeted support to governments and local agribusinesses. A wider impact can be achieved across multiple developing member countries (DMCs) by supporting agribusinesses that can deploy funds in several countries simultaneously. OIL and its subsidiaries (Olam) are well positioned to benefit from economies of scale and can be instrumental in developing inclusive and sustainable agricultural value chains with higher local value addition given their commitment to the highest standards of sustainability and inclusiveness.

## 2. Project Design

9. The project will support Olam's \$223 million investment plan in Viet Nam, Indonesia, Timor-Leste, and PNG during 2017–2019 by financing midstream coffee and sugar processing

<sup>7</sup> K. Propsom. 2016. *Sustainable Horticultural Crop Production in Viet Nam*. Saint Paul.

<sup>8</sup> ADB. 2013. *The Economics of Climate Change in the Pacific*. Manila.

<sup>9</sup> Food and Agriculture Organization of the United Nations. 2012. *State of Food Insecurity in the World*. Rome.

<sup>10</sup> D. Lobell et al. 2013. Climate Adaptation as Mitigation: The Case of Agricultural Investments. *Environmental Research Letters*. 8 015012.

<sup>11</sup> World Bank. 2016. *Transforming Vietnamese Agriculture: Gaining More from Less*. *Viet Nam Development Report 2016*. Washington, DC.

<sup>12</sup> Government of Indonesia. 2015. *National Medium Term Development Plan, 2015–2019*. Jakarta.

<sup>13</sup> ADB. 2015. *Growing the Non-Oil Economy: A Private Sector Assessment for Timor-Leste*. Manila.

<sup>14</sup> Government of PNG, Ministry of Agriculture and Livestock. 2007. *Papua New Guinea National Agriculture Development Plan*. Port Moresby.

expansion and permanent working capital investments for smallholder farmer supply. The project also includes a proposed transaction technical assistance (TA) that will be processed separately. The TA component will provide capacity building training for smallholder farmers. As such, the project 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.

10. **Higher local value addition.** The project will help Olam develop primary and secondary processing plants in origin markets closer to farmers and in destination markets closer to the customer, adding more value in local markets and integrating agricultural value chains. In Viet Nam, OIL's subsidiary COVL has been operating a soluble coffee manufacturing facility since 2010. [Redacted] The plant sources coffee beans from smallholder farmers in Viet Nam and Indonesia, and exports soluble coffee primarily to Japan, the Russian Federation, and Southeast Asia. In Indonesia, PT DUS, an OIL subsidiary, operates a sugar refinery in Central Java. [Redacted] Raw sugar is typically sourced from Thailand and Australia, and refined sugar is sold to food and beverage companies in Indonesia. In Timor-Leste, Olam's planned investment will help upgrade the coffee primary processing and storage assets that Olam acquired from Timorcorp in 2015. In PNG, Olam plans to expand its coffee operations by expanding primary processing facilities and storage capacity.

11. **Inclusive value chains.** The project includes permanent working capital investments for smallholder farmer supply in Viet Nam (coffee, cashew, and pepper); Indonesia (coffee and cocoa); Timor-Leste (coffee); and PNG (coffee and cocoa). Permanent working capital includes inventory of raw agricultural products procured from farmers and advances to farmers, which will allow Olam to increase its sourcing volumes from smallholder farmers. The project will augment the direct benefits to smallholder farmers by leveraging existing Olam sustainability programs that provide agricultural extension services, training, and livelihood support to smallholder farmers.<sup>15</sup> The proposed transaction TA will complement the project by providing capacity building support to about 13,000 smallholder coffee farmers across the project countries. The TA will help smallholder coffee farmers, particularly women, improve productivity and the quality of their crops and assist them in obtaining certification.

12. **Climate-resilient and environmentally sustainable value chains.** A key component of the TA will be to provide training in climate-smart agriculture practices including an adaptation strategy for temperature increase and precipitation change, water harvesting and drip irrigation, and conservation agriculture. The TA will also focus on training in good agricultural practices such as integrated pest management, intercropping,<sup>16</sup> and harvest and post-harvest solutions; and environmentally sustainable agricultural practices such as innovative technologies for resources conservation, use of agri-chemicals and organic inputs, and pollution control. In addition, collaboration with the Asia-Pacific Climate Finance Fund is being explored to provide weather insurance to smallholder farmers through Olam as an aggregator.

### 3. Borrowers

13. The borrowers are OIL, a public limited company incorporated in Singapore, and two of its subsidiaries: COVL, a soluble coffee plant incorporated in Viet Nam, and PT DUS, a sugar refinery incorporated in Indonesia. OIL is a leading agribusiness company with presence in 70

<sup>15</sup> Olam provides assistance to smallholder farmers through the Olam Livelihood Charter, which assures customers that their product is sustainable, traceable, and helping rural communities. More information on the Olam Livelihood Charter is provided under Client Information and Details of Implementation Arrangements (accessible from the list of linked documents in Appendix 2).

<sup>16</sup> Growing two or more crops at the same time.

countries. It differentiates itself by focusing on niche commodities and businesses, buying from growers and village-level agents at the farm gate, and providing value-added solutions and services to customers (e.g., traceability guarantees).

14. Temasek Holdings, the Singapore sovereign wealth fund, became the majority shareholder of OIL in 2014, owning 52.1%. Mitsubishi Corporation took a 20.0% equity stake in OIL in 2015. OIL's management team has a 6.5% ownership in the company. The 11-member board includes the chief executive officer, the chief financial officer, two Mitsubishi nominees, and seven independent directors. Integrity and tax integrity due diligence were conducted.<sup>17</sup> No significant or potentially significant integrity risks were identified.<sup>18</sup>

## B. Development Impact, Outcome, and Outputs

15. **Impact.** The project will contribute to at least three targets of the Sustainable Development Goals: (i) double the agricultural productivity and incomes of small-scale food producers through inputs, knowledge, markets, and opportunities for value addition and nonfarm employment (Target 2.3); (ii) ensure sustainable food production systems and implement resilient agricultural practices that increase productivity and production, help maintain ecosystems, and strengthen capacity for adaptation to climate change (Target 2.4); and (iii) increase significantly the exports of developing countries (Target 17.11).<sup>19</sup>

16. **Outcome.** The project's outcome is inclusive and sustainable agricultural value chains with higher local value addition in Viet Nam, Indonesia, Timor-Leste, and PNG scaled up.

17. **Outputs.** The outputs are value-added agribusiness operations expanded and training on productive and sustainable farming methods for smallholder farmers provided, in Viet Nam, Indonesia, Timor-Leste, and PNG.

## C. Alignment with ADB Strategy and Operations

18. **Consistency with ADB strategy and country strategy.** 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 impact of climate change.<sup>20</sup> It is consistent with ADB's country partnership strategies for Viet Nam, Indonesia, Timor-Leste, and PNG.<sup>21</sup> 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.<sup>22</sup>

<sup>17</sup> ADB. 2003. *Enhancing the Asian Development Bank's Role in Combating Money Laundering and the Financing of Terrorism*. Manila; ADB. 2016. *Anticorruption Policy: Enhancing the Role of the Asian Development Bank in Relation to Tax Integrity*. Manila.

<sup>18</sup> Integrity and Tax Due Diligence Disclosure (accessible from the list of linked documents in Appendix 2).

<sup>19</sup> United Nations. Sustainable Development Knowledge Platform. <https://sustainabledevelopment.un.org>.

<sup>20</sup> ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific*. Manila.

<sup>21</sup> Details of Implementation Arrangements (accessible from the list of linked documents in Appendix 2).

<sup>22</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.

19. **Consistency with sector strategy and relevant ADB operations.** The project is aligned with ADB's operational plan for agriculture and natural resources, 2015–2020, which recommends greater private sector agribusiness investment by ADB through working with strong agribusiness sponsors adopting best practices.<sup>23</sup> The project will complement ADB's sovereign assistance programs in the four targeted DMCs. In Viet Nam, ADB provided sovereign assistance to update productive rural infrastructure to increase agricultural productivity.<sup>24</sup> In Indonesia, ADB is supporting the government to improve irrigation services to increase agricultural productivity.<sup>25</sup> In Timor-Leste, ADB is supporting the government to develop a national coffee sector development plan.<sup>26</sup> In PNG, ADB is supporting the rehabilitation of the Highlands Highway, which will strengthen agricultural value chains for domestic and international trade.<sup>27</sup>

#### D. Project Cost and Financing Plan

[Redacted]

#### E. Implementation Arrangements

20. Table 3 summarizes the implementation arrangements (footnote 21).

**Table 3: Summary of Implementation Arrangements**

Aspects	Arrangements
Regulatory framework	Olam is subject to the general laws regulating private sector enterprises in the countries it operates in, and, as an agribusiness company, benefits from incentives in Singapore, Viet Nam, Indonesia, Timor-Leste, and PNG. Olam is subject to the international trade laws, including import duties.
Management	Olam's key management each have over 15 years of experience in the agribusiness industry. Sunny Verghese, CEO of Olam, has 30 years of experience in agribusiness and has been recognized with various awards. Olam's management team has a 6.5% ownership in the company.
Implementation period	January 2018 – December 2019. Olam plans to complete midstream processing expansions by 2019. Permanent working capital increase will occur gradually in response to increasing orders.
Construction arrangements	Procurement of equipment and civil works will be carried out in line with ADB requirements. ADB's independent consultant advised that project costs are in line with market benchmarks.
Operations arrangements	The project will rely on Olam, which is already operating similar facilities in Asia and other regions, and its local partners for its successful operation and maintenance. For COVL, all major equipment will be designed and installed by the suppliers' expert teams. For PT DUS, expansion has been planned to ensure the proposed equipment will fit in with the current systems.
Performance monitoring	Olam will report on key performance indicators on (at a minimum) an annual basis, including financial, safeguards, gender, and development indicators, and output and outcome targets.

ADB = Asian Development Bank, CEO = chief executive officer, COVL = Café Outspan Vietnam Limited, Olam = OIL and its subsidiaries, PNG = Papua New Guinea, PT DUS = PT Dharmapala Usaha Sukses.

Sources: Asian Development Bank and Olam International Limited.

<sup>23</sup> ADB. 2015. *Operational Plan for Agriculture and Natural Resources: Promoting Sustainable Food Security in Asia and the Pacific in 2015–2020*. Manila.

<sup>24</sup> ADB. 2014. *Report and Recommendation of the President to the Board of Directors: Proposed Loan for Additional Financing to the Socialist Republic of Viet Nam for the Integrated Rural Development Sector Project in the Central Provinces*. Manila.

<sup>25</sup> ADB. 2017. *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*. Manila.

<sup>26</sup> ADB. 2017. *Support for Preparation of a National Coffee Sector Development Plan for Timor-Leste (draft)*. Manila.

<sup>27</sup> ADB. 2017. *Report and Recommendation of the President to the Board of Directors: Proposed Multitranchise Financing Facility to Papua New Guinea for the Sustainable Highlands Highway Investment Program*. Manila.

## F. Projected Financial and Economic Performance

[Redacted]

## G. Unique Features

21. The project will support inclusive and sustainable agricultural value chains, with higher local value addition in Asia and the Pacific, and will have a widespread impact on the livelihoods of 13,000 smallholder farmers in four DMCs. It will be ADB's largest nonsovereign exposure to the agriculture sector to date. The project is also ADB's first direct nonsovereign assistance in Timor-Leste, the first nonsovereign agribusiness investment in PNG, and the first local currency nonsovereign loan for the agriculture sector in Indonesia. The project is classified an inclusive business project.<sup>28</sup>

## III. THE PROPOSED ADB ASSISTANCE

### A. The Assistance

22. ADB proposes to provide a loan facility of up to \$100 million to OIL and two of its subsidiaries, COVL and PT DUS, to support Olam's \$223 million capital expenditure and permanent working capital investments (Table 1).<sup>29</sup> The facility will include (i) a loan of up to \$65 million to OIL with a tenor of up to 5 years, including a grace period of up to 3 years; (ii) a loan of up to \$5 million to COVL with a tenor of up to 7 years, including a grace period of up to 1 year; and (iii) a loan of up to \$30 million equivalent in United States (US) dollars and rupiah to PT DUS with a tenor of up to 7 years, including a grace period of up to 1 year. The parallel loan of up to \$75 million to COVL will likely have a tenor up to 7 years, including a grace period of up to 1 year. ADB will benefit from an unconditional and irrevocable guarantee from OIL (the listed holding company), which will guarantee the payment obligations of COVL and PT DUS in relation to the ADB loans. The rupiah denomination is justified as PT DUS's production will be for the Indonesia domestic market and revenues are collected in rupiah.

### B. Value Added by ADB Assistance

23. ADB assistance will add value in three areas:

- (i) **Diversified funding base.** Olam has primarily financed its growth through equity and medium-term debt from commercial banks and the bond market. As Olam grows its reach into the upstream and mid- or downstream segments, it needs to diversify its funding base. As an alternative source of long-term financing, ADB can offer funding as a development finance institution that understands the agriculture sector, and can partner with Olam on a common sustainability agenda targeting smallholder farmers. The parallel cofinancing will diversify Olam's funding base.
- (ii) **Sustainability best practices.** ADB's investment will validate and refine Olam's business model, which includes smallholder farmers in the global agriculture value chain. Through the TA, ADB will ensure that smallholder farmers improve their productivity, fully benefit from their inclusion in global agricultural value chains, and

<sup>28</sup> ADB. 2017. *Standard Explanatory Data Indicator Definitions*. Manila.

<sup>29</sup> The loan to COVL will be for the Viet Nam soluble coffee plant expansion; the loan to PT DUS will be for the Indonesia sugar refinery expansion; and the loan to OIL will be onlent to its subsidiaries in the four project countries for capital expenditure and permanent working capital purposes of the project. The proceeds of these loans will not support any activities resulting in involuntary resettlement or indigenous peoples impacts.

- are better prepared to cope with risks stemming from climate change and environmental degradation. ADB will also enhance Olam's environmental and social standards through the implementation of international safeguard standards.
- (iii) **Stakeholder alignment.** ADB, by lending directly to Olam's companies incorporated in Viet Nam and Indonesia, will help mitigate political risk by aligning government interests with project benefits. The TA will help Olam balance the interests of additional stakeholders, including farmers and rural communities.

## C. Risks

[Redacted]

## IV. POLICY COMPLIANCE

### A. Safeguards and Social Dimensions

24. **Corporate audit.** ADB's loan facility will be used to support the capital expenditure and permanent working capital investments of COVL, PT DUS, and other OIL subsidiaries in Viet Nam, Indonesia, Timor-Leste, and PNG. An external third party undertook a corporate audit in accordance with ADB's Safeguard Policy Statement (SPS, 2009). The corporate audit assessed that the current environmental and social systems, processes, and practices of the companies<sup>30</sup> are largely in compliance with national statutory requirements and commensurate with the risks and impacts associated with their respective businesses and operations. In addition, OIL's facilities in Viet Nam are certified for International Organization for Standardization (ISO) systems, while the Indonesian facility plans to apply for the same ISO certifications.<sup>31</sup> In compliance with ADB's Safeguard Policy Statement (2009), the project is classified as category B for environment, category C for involuntary resettlement, and category C for indigenous peoples. 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 Olam to manage the project's social and environmental impacts are deemed adequate.

33. **Environmental safeguards.** The due diligence noted that key environmental impacts from PT DUS and COVL operations include generation of fugitive emissions from coal storage, air emissions and noise from boiler operations at sensitive receptors, odor, health risks from poor ventilation and inadequate occupational management procedures, and fire safety risks.<sup>32</sup> PT DUS has undertaken corrective actions to improve its operations and is committed to implementing additional corrective actions from the environmental audit conducted to meet SPS requirements. COVL also aims to improve its process operation. Potential environmental impacts can be mitigated by following engineering international best practices and implementing the environmental management plan included in the initial environmental examination. In compliance with SPS, COVL and PT DUS updated their environmental assessment reports to meet SPS requirements on the initial environmental examination. Expansion of Timor-Leste and PNG

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<sup>30</sup> Equivalent to the SPS definition of an environmental and social management system.

<sup>31</sup> ISO 18001 (Health and Safety Management) and ISO 14001 (Environmental Management).

<sup>32</sup> Findings of inadequate occupational procedures were generally for third parties delivering chemicals to PT DUS.

facilities will be on hard surfaces and storage areas, and anticipated to have minimal environmental impact. Both facilities are committed to meet environmental best practices.

34. **Social safeguards.** The facilities of COVL, PT DUS, and OIL's subsidiary in PNG are located in industrial parks, and 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 or resettlement. The independent audit assessed that operations of OIL subsidiaries do not result in impacts on indigenous people. No involuntary resettlement or indigenous peoples issues are envisaged for the project on account of its operational and expansion plans.

35. **Corrective action plan.** The corporate and subproject audits recommended measures and actions to ensure alignment and compliance with SPS and other social requirements. These are documented and agreed in a corrective action plan for the project. As part of the corrective action plan, OIL, COVL, PT DUS, Timor-Leste, and PNG facilities will strengthen their environmental and social systems and processes satisfactory to ADB before ADB's first disbursement. They will enhance institutional capacities and train staff on SPS and environmental and social management system requirements. Olam will report annually to ADB on compliance with environmental and social management system, SPS, and other social requirements.

36. **Gender mainstreaming.** The project is categorized *effective gender mainstreaming*. Olam has committed to implement the gender action plan.<sup>33</sup> Olam 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>34</sup> Olam will report regularly to ADB on (i) its and its contractors' compliance with such laws, and (ii) the measures taken.

## B. Anticorruption Policy

37. Olam 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

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

## D. Assurances

39. Consistent with the Agreement Establishing the Asian Development Bank (the Charter),<sup>35</sup> ADB will proceed with the proposed assistance upon establishing that the Government of Viet Nam, the Government of Indonesia, the Government of Timor-Leste, and the Government of Papua New Guinea have no objections to the proposed assistance to OIL, COVL, and PT DUS. In addition, consistent with ADB's policy on nonsovereign operations, ADB's financial support to Olam's operations in Timor-Leste will be subject to the execution by the government of the framework agreement for nonsovereign operations.<sup>36</sup> ADB will enter into suitable finance

<sup>33</sup> Gender Action Plan (available from the list of linked documents in Appendix 2).

<sup>34</sup> ADB. 2003. *Social Protection*. Manila (adopted in 2001).

<sup>35</sup> ADB. 1966. *Agreement Establishing the Asian Development Bank*. Manila.

<sup>36</sup> ADB. 1985. *Lending to the Private Sector without Government Guarantees*. Manila. September (Doc. R93-85).

documentation, in form and substance satisfactory to ADB, following approval of the proposed assistance by the Board of Directors.

## **V. RECOMMENDATION**

40. I am satisfied that the proposed loans would comply with the Articles of Agreement of the Asian Development Bank and recommend that the Board approve (i) the loan of up to \$65,000,000 to Olam International Limited, (ii) a loan of up to \$5,000,000 to Café Outspan Vietnam Limited, and (iii) a loan of up to \$30,000,000 equivalent in US dollars and rupiah to PT Dharmapala Usaha Sukses for the Agricultural Value Chain Development Project in Viet Nam, Indonesia, Timor-Leste, and Papua New Guinea, with such terms and conditions as are substantially in accordance with those set forth in this report, and as may be reported to the Board.

Takehiko Nakao  
President

6 October 2017



## DESIGN AND MONITORING FRAMEWORK

<b>Impacts the Project is Aligned with</b>			
<p>Double the agricultural productivity and incomes of small-scale food producers through inputs, knowledge, markets, and opportunities for value addition and nonfarm employment (Sustainable Development Goals, Target 2.3)<sup>a</sup></p> <p>Ensure sustainable food production systems and implement resilient agricultural practices that increase productivity and production, help maintain ecosystems, and strengthen capacity for adaptation to climate change (Sustainable Development Goals, Target 2.4)<sup>a</sup></p> <p>Increase significantly the exports of developing countries (Sustainable Development Goals, Target 17.11)<sup>a</sup></p>			
<b>Results Chain</b>	<b>Performance Indicators with Targets and Baselines</b>	<b>Data Sources and Reporting</b>	<b>Risks</b>
<p><b>Outcome</b></p> <p>Inclusive and sustainable agricultural value chains with higher local value addition in Viet Nam, Indonesia, Timor-Leste, and PNG scaled up</p>	<p>By 2021:</p> <p>[Redacted]</p>	<p>a–h. Olam’s annual report to ADB</p>	<p>Commodity risk. Supply and demand dynamics affect the volume and price of agricultural products being traded.</p> <p>Regulatory risk (e.g., taxes, tariffs, duties, subsidies, and export restrictions on agricultural products)</p>
<p><b>Outputs</b></p> <ol style="list-style-type: none"> <li>1. Viet Nam value-added agribusiness operations expanded</li> <li>2. Indonesia value-added agribusiness operations expanded</li> <li>3. Timor-Leste value-added agribusiness operations expanded</li> <li>4. PNG value-added agribusiness operations expanded</li> </ol>	<p>By 2020:</p> <p>[Redacted]</p>	<p>1–5. Olam’s annual report to ADB</p>	<p>Operational risk (e.g., equipment failure, underperformance of equipment, obsolescence, industrial accidents, natural disasters, and the need to comply with new directives of relevant government authorities)</p>

<p><b>Key Activities with Milestones</b></p> <p><b>Outputs 1–4. Viet Nam, Indonesia, Timor-Leste, and PNG value-added agribusiness operations expanded</b></p> <p>1. OIL, COVL, and PT DUS sign loan agreements by 30 November 2017</p> <p>2. OIL, COVL, and PT DUS make first disbursements by 31 December 2017</p>
<p><b>Inputs</b></p> <p><b>Loans</b></p> <p>ADB: \$65 million (loan to OIL)</p> <p>ADB: \$5 million (loan to COVL)</p> <p>ADB: \$30 million equivalent in United States dollars and rupiah (loan to PT DUS)</p> <p>Official cofinancing: \$75 million (loan to COVL)</p> <p><b>Equity</b></p> <p>Olam's internally-generated cash flow: \$48 million</p>
<p><b>Assumptions for Partner Financing</b></p> <p>Not applicable</p>

ADB = Asian Development Bank, COVL = Café Outspan Vietnam Limited, DMC = developing member country, t = ton, OIL = Olam International Limited, Olam = Olam International Limited and its subsidiaries, PNG = Papua New Guinea, PT DUS = PT Dharmapala Usaha Sukses, TA = technical assistance, tpa = tons per annum.

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

<sup>b</sup> Including corporate income tax, net value-added tax, and import duties.

<sup>c</sup> Average of 2014–2016.

Sources: Asian Development Bank and Olam International Limited.

**LIST OF LINKED DOCUMENTS**

<http://www.adb.org/Documents/RRPs/?id=51139-001-4>

1. Sector Overview
2. Client Information
3. Details of Implementation Arrangements
4. Contribution to the ADB Results Framework
5. Financial Analysis
6. Economic Analysis
7. Country Economic Indicators
8. Summary Poverty Reduction and Social Strategy
9. Safeguards and Social Dimensions Summary
10. Findings of the Corporate Safeguards Audit: Environmental and Social Management System Arrangement
11. Gender Action Plan