

Ex-Ante Evaluation (for Japanese ODA Loan)

Private Sector Investment Finance Division,
Private Sector Partnership and Finance Department,
JICA

1. Name of the Project

Country: The Republic of Indonesia (Indonesia)

Project: Cacao Export Promotion and Small Farmer Support

Loan Agreement: April 28, 2020

Borrower: Olam International Limited (hereinafter referred to as “Olam”), Olam Treasury Pte. Ltd.

2. Background and Necessity of the Project

(1) Current State and Issues regarding the development of the Sector in Indonesia

Indonesia is the world's third-largest cacao producer after Cote d'Ivoire and Ghana, and has a high global presence. Since there are more than one million households engaged in the cacao industry in Indonesia, it is regarded as being highly important for the economy. Most of Indonesia's cacao farmland is owned by small-scale farmers. In addition, as the production efficiency of small-scale farmers in Indonesia is low, which leads to unstable income, the improvement of production efficiency and quality of cacao through agricultural management guidance (including loans for small-scale farmers) has been a challenge. Furthermore, by looking at Indonesia's economic structure from the perspective of gross regional product by region, more than 80% is concentrated in the western region, which has been generating large differences between the eastern and western regions in terms of the location of industries, income levels, poverty rates, etc. Gross regional product in the eastern region is generally low, with the Sulawesi region accounting for 5% of the total and the Maluku region accounting for 0.3%. In contrast, the Sulawesi region is one of the major cacao production bases in Indonesia, and there are also many farmers in the said region who are targeted for the support related to the Project.

Against this backdrop, the government has set the reduction of regional disparities as a development goal, and in particular, it aims to develop core cities in places other than Java and to improve the connectivity of each island. In the National Medium-term Development Plan “RPJMN 2020-2024,” the country is classified into seven regions,

and regional development has been undertaken based on regional comparative advantage and the geographical situation. Moreover, the Project is in line with the Ministry of Agriculture's major program for 2020 to 2024, in which cacao is positioned as a strategic crop for improving productivity and competitiveness. In addition, according to the "2020-2024 Agricultural Strategic Policy" announced by the government in November 2019, it is targeted that cacao production will be increased to 720,000 tons by 2024 from 650,000 tons (as of 2016). Furthermore, the government announced Industry 4.0 which aims to turn Indonesia into the world's fourth-largest economy by 2045, and agribusiness has been designated as one of the priority sectors. The promotion of export industries in order to improve the trade balance is an urgent issue for the Government of Indonesia. The Project, in which cacao is planned to be exported in a value-added manner, is consistent with such policy issues.

(2) Relevance to Japan's and JICA's Policy

Japan's Country Development Cooperation Policy for Indonesia (September 2017) sets "Assistance for creating a safe and fair society through well-balanced development" as a priority area and stipulates that Japan will provide support for rural development to improve the quality of life.

JICA's Country Analysis Paper for Indonesia (revised June 2018) states that "Japan will contribute to overcoming various development issues by supporting the improvement of production volume and productivity, increasing the added value of products through processing, and developing the food distribution network. In addition, Japan will provide cooperation that contributes to the income stabilization of farmers;" Japan has provided support in the fields of agriculture, fisheries, and livestock under the Stable Food Supply Program. With regard to the actual results of support for the agriculture, forestry and fishery industries as of the end of FY2018, according to a recent survey, JICA's technical cooperation "The Project on the Formulation of Irrigation Development and Management Strategy for Food Security (December 2018 to February 2021)" and its grassroots technical cooperation "Joint Promotion Project for Food and Agriculture Industry in Tsukuba City and Boalemo District that Utilizes Cacao Processing Technology with Safe and Reliable Quality (February 2018 to June 2020)" have been implemented so far, in addition to 77 technical cooperation projects, 39 development survey projects, 70 ODA loan projects, 83 grant aid projects, and 2 SATREPS projects.

(3) Other Donors' Activity

The Project will be co-financed with the IFC (International Finance Corporation).

3. Project Description

(1) Project Objective

The Project is designed to enhance the value chain of the cacao industry through loans for the expansion of plant facilities in the cacao project carried out in Indonesia by the PT. Olam Indonesia (hereinafter referred to as "Olam Indonesia"), and PT. Bumitangerang Mesindotama (hereinafter referred to as "BT Cocoa"), both of which are subsidiaries of Olam, a Singapore-based agricultural trading company, and through loans for investments related to facility expansion in connection with value chain enhancement in Indonesia, thereby contributing to the promotion of exports of cacao-related products in Indonesia and the income growth of small-scale farmers.

(2) Project Site/Target Area

Indonesia, Banten Province, etc.

(3) Project Component

Loans will be provided to finance the expansion of facilities at the cacao products manufacturing plant in Indonesia owned by the Olam Group and to finance the investment in connection with the expansion of facilities relating to the enhancement of the value chain in Indonesia.

(4) Schedule

Plant is scheduled to begin operations in 2021

(5) Environmental and Social Consideration/ Cross-cutting Issues/ Gender Classification

1) Environmental and Social Consideration

- Category: FI
- Reason for Categorization: Regarding loans from the Project to small-scale farmers, sub-projects cannot be specified prior to JICA's approval of funding, and there is the concern that such sub-projects may impose environmental impacts, according to the JICA Guidelines for Environmental and Social

Considerations (promulgated in April 2010, hereinafter referred to as “JICA Guidelines”).

- Environmental and Social Management System (ESMS): As an ESMS, the Olam has established the Environmental and Social Management Program (ESMP), under which various policies (Environment and Sustainability Policy, Health and Safety Policy, and Fair Employment Policy) are specified. The IFC, which has a policy on par with the JICA Guidelines, has imposed an action plan for environmental and social considerations on the Olam upon reviewing Olam’s ESMP and various policies, and the Olam is responding to it. Note that Category A projects are not included in the sub-projects.

2) Gender Classification: [Not applicable]■ GI (gender mainstreaming needs survey and analysis project)

<Reasons for Classification> Although the needs for gender mainstreaming were confirmed, it did not end up with the inclusion of specific initiatives conducive to gender mainstreaming.

(6) Other Important Issues: It is the first co-financing with the IFC in the agricultural sector.

4. Targeted Outcomes

(1) Quantitative Effects

BT Cocoa’s actual cacao bean production (ton/year), Olam Indonesia’s actual direct purchases of cacao from small-scale farmers (million USD/year), and BT Cocoa’s export value (million USD/year) are measured.

(2) Qualitative Effects

Stabilization and improvement of income of target farmers and the promotion of sustainable agricultural development

5. External Factors and Risk Control

None in particular

6. Lessons Learned from Past Projects

In the sugar factory construction project (ODA loan in the Republic of the Union of Myanmar), neighboring farmers switched to the production of crops with higher purchase prices, resulting in a shortage of the supply of sugar cane, which is a raw ingredient of cacao products, consequently leading to the decreased factory operating

rate. Based on the above, a lesson was obtained; it is important to foresee the price of agricultural products to determine the appropriate location of factories, and to grasp the trend of farmers in order to continuously exert the effects of the project.

Since the Olam owns a global procurement network and also has no particular problems with the outlook for each trend of cacao beans, there are no major concerns regarding this project.

7. Evaluation Results

The Project is expected to help achieve two of the SDGs: Goal 2 (hunger and food) and Goal 8 (sustainable economic growth). Therefore, the Project, which takes advantage of the Private-Sector Investment Finance Scheme, is highly relevant.

8. Plan for Future Evaluation

(1) Indicators to be Used

As shown in Section 4 above

(2) Timing

(Scheduled to) confirm numerical figures for 2022 (accounting period two years after loan execution)

END