

Republic of Indonesia

FY2022 Ex-Post Evaluation of Private-Sector Investment Finance

“Cacao Export Promotion and Small Farmer Support”

External Evaluator: Tomoo Mochida, OPMAC Corporation

## 1. Project Description



Production areas where Olam purchases cacao beans and cocoa manufacturing plant (Source: Olam)



BT. Cocoa's manufacturing plant expanded with JICA financing (source: Evaluator)

### 1.1 Project Outline

Although Indonesia is one of the world's leading cacao producing countries, the majority of cacao farmland is owned by small-scale farmers, production efficiency is low and income is not stable. Improving cacao production efficiency and quality through training in farming practices was a challenge. Looking at the country's economic structure in terms of gross regional products by region, there were large differences in the geographical location of industries, income levels, and poverty rates in the east and west regions. The promotion of export industries that contribute to improving the trade balance is a pressing issue for the Indonesian Government, and this Project, linked to the export of value-added products, was considered to be in line with this policy agenda.

The Project was designed to enhance the value chain of the cacao industry through a loan for the expansion of plant facilities and for investments related to facility expansion in connection with value chain enhancement in the cacao project in Indonesia of the subsidiaries of Olam International Limited (Olam Group Limited after reorganization, hereinafter referred to as “Olam”), a Singapore-based agricultural trading company. Thus, a contribution would be made to the promotion of exports of cocoa-related products in the country and the income growth of small-scale farmers.

## 2. Outline of the Evaluation Study

### 2.1 External Evaluator

Tomoo Mochida, OPMAC Corporation

## 2.2 Duration of Evaluation Study

This ex-post evaluation study was conducted with the following schedule.

Duration of the Study: November 2022 - February 2024

Duration of the Field Study: February 19 - March 11, August 13-18, 2023

## 2.3 Constraints During the Evaluation Study

### (1) Limitations of the evaluation due to the non-submission of reports

Despite the provisions of the loan agreement, the Borrower did not submit an annual monitoring report to JICA, which made it difficult to assess the current status of the Project, especially in terms of environmental and social impacts. In addition, at the time of the first field survey, the factory facilities for cocoa products were under construction. These prevented the acquisition of basic data for determining efficiency and effectiveness. Although the report had not been submitted, the ex-post evaluation was conducted through visual inspections and interviews during the field survey.

### (2) Limitations of the evaluation due to the Project Categorization

In the ex-post evaluation of projects under Private-Sector Investment Finance, projects are categorized as "project-specific" when a specific project is envisaged, and "general-type" when no specific project is envisaged. In "general-type corporate finance" where it is difficult to identify specific outputs (assets or corporate activities associated with a specific project) to be invested in, the scope of the project can be the entire financial and business activities of the borrower and the investee. Although this Project was categorized as "project-specific corporate finance" because at first glance, specific project activities were assumed, the evaluation of this Project as project-specific corporate finance was limited due to such factors as difficulties in clearly identifying and comparing several components to the plan in the strengthening of the value chain.

## 3. Conclusion

The Project was designed to enhance the value chain of the cacao industry through a loan for the expansion of plant facilities and for investments related to facility expansion in connection with value chain enhancement in the cacao project in Indonesia, thereby contributing to the promotion of exports of cocoa-related products in the country and the income growth of small-scale farmers.

**Relevance** : There had been no change in the Government's policy direction for regional development and improvement of cacao productivity and competitiveness, and the Project was consistent with development needs. The establishment of the Supplier Code (i.e., code of conduct sets out by Olam for stakeholders (cacao bean producers, collectors, etc.) in the supply chain to

observe) is expected to be a positive possibility for other projects. Consideration was given to vulnerable groups in preparing the Project plan, including support for small-scale farmers with a view to collecting quality, traceable cacao beans (assignment of collectors of cacao beans to be sold by farmers). The Project plan and approach were appropriate.

**Coherence:**

The Project was consistent with the development cooperation policy of the Government of Japan and JICA, and although there is no specific linkage with other projects or assistance within JICA, the initially anticipated collaboration and coordination with an organization outside of JICA, such as a co-finance with International Finance Corporation that supported the establishment of a global supply chain, and coordination with international frameworks were promptly implemented, and concrete results have been confirmed. The necessity of Private-Sector Investment Finance can be confirmed.

**Efficiency:**

As for the expansion of cocoa plant facilities and investments related to facility expansion in connection with value chain enhancement in the country, the initial scope of the Project was not necessarily clear. It has been difficult to compare planned and actual outputs and to judge the status of achievement based on cause-and-effect relationships. However, it is presumed that the outputs that contribute to the fulfilment of the outcome have been realized. The Project costs were within the planned amount, but the Project period exceeded the plan. The financial covenants agreed with the Borrower were met.

**Effectiveness:**

Regarding effectiveness and impacts, the processing capacity of the cocoa processing plant, the export value of cocoa products, and the purchase value of cacao beans from small farmers exceeded the original plan, and the value chain is considered to have been strengthened. Farming support has also achieved a certain level of success as evidenced by continuous farming support to strengthen quality management and traceability of cacao beans amid the increasing vertical integration of the supply chain.

**Impacts:**

It is too early to evaluate the Project based on the causal relationship between the results and the JICA assistance because a certain period of time has not passed since the completion of the cocoa manufacturing plant expansion. However, it is expected that stabilization and improvement of the income of the target farmers and promotion of sustainable agricultural development will be

achieved based on the effects of the increased production and improved quality of cacao beans resulting from the training and support for farming practice provided to date by the subsidiary. As far as an on-site inspection was conducted, no negative environmental or social impacts were observed. The Supplier Code prohibits cacao cultivation activities in protected forests, and the monitoring is conducted.

**Sustainability:**

The operation and maintenance of the cocoa manufacturing factory, farming support, and cacao collection since the completion of the Project have been handled as part of normal business operations of the subsidiaries, and no particular problems affecting the effectiveness of the operation and maintenance system, its technical and financial aspects, or the operation and maintenance status have arisen. Preventive measures have been taken in terms of environmental and social considerations, as well as against risks. With regard to environmental and social considerations, the Supplier Code has been developed that specifies requirements on environmental and social aspects to be observed by cacao farmers, collectors, and processing enterprises. As precautionary measures against risks, agroforestry and cultivation methods that do not rely on cacao monoculture are being promoted to prepare for the risk of reduced cacao bean collections.

END

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