



Report and Recommendation of the President to the Board of Directors

Project Number: 46436
May 2014

Proposed Grant Independent State of Samoa: Samoa AgriBusiness Support Project

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 22 April 2014)

| | | |
|---------------|---|-----------|
| Currency unit | – | tala (ST) |
| ST1.00 | = | \$0.4346 |
| \$1.00 | = | ST2.3010 |

ABBREVIATIONS

| | | |
|------|---|--|
| ADB | – | Asian Development Bank |
| ESMS | – | environmental and social management system |
| FI | – | financial intermediary |
| FM | – | facility manager |
| MOF | – | Ministry of Finance |
| NES | – | National Export Strategy |
| PAM | – | project administration manual |
| PMU | – | project management unit |
| SSC | – | supplemental seed capital |

NOTE

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

| | |
|--------------------------|--|
| Vice-President | S. Groff, Operations 2 |
| Director General | X.Yao, Pacific Department (PARD) |
| Regional Director | A. Iffland, Pacific Liaison and Coordination Office, PARD |
| Team leader | S. Spohn, Private Sector Development Specialist, PARD |
| Team members | C. Currie, Senior Country Economist, PARD M. de Villa, Associate Project Analyst, PARD O. Domagas, Financial Control Specialist, Controller’s Department G. Ismakova, Senior Procurement Specialist, Operations Services and Financial Management Department Y. Kim, Counsel, Office of the General Counsel S. Lee, Principal Social Development Specialist (Gender and Development), PARD M. Lucich, Senior Economics Officer, PARD N. Sapkota, Safeguards Specialist, PARD M. Vu, Senior Investment Officer, Private Sector Operations Department (PSOD) |
| Peer reviewers | J. Williams, Senior Environment Specialist, PARD P. Flegler, Investment Specialist, PSOD M. Katagami, Senior Natural Resources and Agriculture Specialist, Regional and Sustainable Development Department |

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PROJECT AT A GLANCE

| | | | |
|--|---|--|---------------------|
| 1. Basic Data | | Project Number: 46436-002 | |
| Project Name | Samoa AgriBusiness Support Project | Department /Division | PARD/PLCO |
| Country | Samoa | Executing Agency | Ministry of Finance |
| Borrower | Independent State of Samoa | | |
| 2. Sector | Subsector(s) | ADB Financing (\$ million) | |
| ✓ Agriculture, natural resources and rural development | Agro-industry, marketing, and trade | | 5.00 |
| | | Total | 5.00 |
| 3. Strategic Agenda | Subcomponents | Climate Change Information | |
| Inclusive economic growth | Pillar 2: Access to economic opportunities, including jobs, made more inclusive | Climate Change impact on the Project | Low |
| 4. Drivers of Change | Components | Gender Equity and Mainstreaming | |
| Partnerships | Commercial cofinancing | Effective gender mainstreaming (EGM) | ✓ |
| Private sector development | Private Sector Promotion of private sector investment | | |
| 5. Poverty Targeting | | Location Impact | |
| Project directly targets poverty | No | Rural | Medium |
| | | Urban | Medium |
| 6. Risk Categorization: | Complex | | |
| 7. Safeguard Categorization | Environment: FI Involuntary Resettlement: FI-C Indigenous Peoples: FI-C | | |
| 8. Financing | | | |
| Modality and Sources | | Amount (\$ million) | |
| ADB | | 5.00 | |
| Sovereign Grant: Asian Development Fund | | 5.00 | |
| Cofinancing | | 0.00 | |
| None | | 0.00 | |
| Counterpart | | 5.34 | |
| Beneficiaries | | 3.17 | |
| Others | | 2.00 | |
| Government | | 0.17 | |
| Total | | 10.34 | |
| 9. Effective Development Cooperation | | | |
| Use of country procurement systems | No | | |
| Use of country public financial management systems | No | | |

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed grant to the Independent State of Samoa for the Samoa AgriBusiness Support Project.¹

2. The project will promote commercializing and exporting agricultural produce and processed products along agro-value chains to stimulate agriculture's role in economic growth and poverty reduction in Samoa. It will provide business support services and financing to agribusinesses.²

II. THE PROJECT

A. Rationale

3. Samoa has yet to return to pre-tsunami (2009) economic growth levels, which the government seeks to redress through promoting tourism and agriculture. Revitalizing agriculture and increasing exports therefore feature prominently in the government's policy framework, including the Strategy for the Development of Samoa, the Agricultural Sector Plan, and the National Export Strategy. Agriculture and fisheries contributed only 9.7% to Samoa's gross domestic product in 2012, down from 20% in the 1990s.³ Food and agricultural product imports (26%–28% of total imports) contribute significantly to Samoa's overall trade deficit. Although agriculture employs 32.9% of the total workforce, rural unemployment or underemployment is a major concern. Subsistence production dominates Samoa's agriculture sector, with occasional surpluses for sale in local markets. The 2009 agricultural census reports that only 3% of rural households received their main income from selling agricultural produce.⁴ The smallholder sector is being supported through a World Bank project.⁵

4. In the agribusiness sector, including commercial farming and agro-industrial enterprises, trade statistics show a total agriculture food export (fresh and processed) decline from ST61 million in 2002 to ST45 million in 2012.⁶ Agribusinesses are critical for stimulating agricultural production, even though their total number is small, yet they are not supported. While agribusinesses have few price-based comparative advantages in the international market, they have comparative advantage in niche markets. Most agribusinesses are small-scale, family-owned enterprises with fewer than 400 employees, mostly in agro-industrial production (e.g., chili sauce, banana chips) and fresh products for export (e.g., taro, Tahitian lime). Average annual turnover levels are \$200,000 for smaller and above \$1 million for a few larger companies. However, they provide employment and income-earning opportunities for many smallholder families in Samoa as suppliers for raw materials, acting as inclusive businesses. Agribusiness development is therefore essential for promoting agriculture's role in the economy.

5. Value chain analyses and a sector assessment confirmed that there is potential for export expansion and import substitution.⁷ The studies also revealed patterns of weaknesses and bottlenecks, which contribute to the low investment and value addition in the sector. Some

¹ The design and monitoring framework is in Appendix 1.

² The Asian Development Bank (ADB) provided project preparatory technical assistance for the Samoa AgriBusiness Support Project (ADB. 2012. *Technical Assistance to Samoa for the Private Sector Development Project*. Manila).

³ Samoa Bureau of Statistics. 2013. *Gross Domestic Product by Sector*. Apia.

⁴ Samoa Bureau of Statistics. 2013. *Agriculture Census Analytical Report 2009*. Apia.

⁵ World Bank. 2012. *Samoa–Agriculture Competitiveness Enhancement Project*. Washington, DC.

⁶ Samoa Bureau of Statistics. 2013. *Annual Trade Statistics 2002–2012*. Apia.

⁷ Value Chain Analysis, Sector Assessment (Summary): Agriculture and Natural Resources (accessible from the list of linked documents in Appendix 2).

of these shortcomings are being addressed by development partners and Asian Development Bank (ADB) technical assistance, including access to land and business enabling environment.⁸

6. The value chain analyses and agribusiness survey⁹ highlighted insufficiently integrated agriculture value chains that effectively link subsistence farmers with agribusinesses and through this, into the global marketplace. With few exceptions, Samoan agribusinesses struggle to procure sufficient and consistently good quality raw materials. Examples include (i) virgin coconut oil producers that cannot fill existing export orders, and (ii) shortages of taro for processing into snack foods and of the appropriate fresh varieties for export. Most enterprises procure the raw materials offered to them by smallholders but do not actively encourage production through supply chain linkages that include contract farming, outgrower arrangements, or product collection networks. Through effective participation in value chains, rural producers and agribusinesses will increase household incomes and sales volumes, and create more jobs.

7. The agribusiness survey further identified the need for a range of business support services. Businesses producing for the local or export markets are failing to achieve the required consistent standards to compete effectively and/or satisfy overseas markets' entry requirements. Common weaknesses include (i) lack of technical skills for effective production management, establishment and maintenance of strong supply chains, and for food safety standards accreditation; (ii) inadequate export planning and marketing; and (iii) weak business and financial management. With limited technical and business support services available, companies report difficulties in accessing support from regional donor-supported programs.¹⁰

8. The lack of capital and finance further constrains business expansion and diversification. Loans are difficult to obtain and expensive due to insufficient acceptable collateral, limited own capital, and the banks' overall negative perception of the agriculture sector and enterprise capabilities. Commercial banks require 200% security cover, compared to the regional and global requirement of 150%.¹¹ Commercial bank loans to agriculture, forestry, and fisheries projects totaled only 1.3% of total bank loan volume, while 6% of loans went to the manufacturing sector, which includes agribusinesses.¹² Companies face difficulties securing additional equity as there is no local stock exchange or equity and/or venture capital or provident funds interested in relatively small agriculture and/or agribusiness projects in Samoa.

9. The project aims to boost economic performance through increased trade and address market failures associated with export barriers arising from value chain constraints. The project will lessen these constraints while operating within the national strategic and policy frameworks' objectives. These objectives emphasize developing commercial farming and export-oriented agribusinesses in parallel with the smallholder subsector and complementing development partners' activities. The private sector focus aligns with ADB's emphasis on private sector development as documented in the Pacific Approach and Samoa country operations business plan.¹³ The project design reflects lessons from other agribusiness, financing scheme, and private sector development programs in the Pacific islands and Samoa (footnote 8). The key

⁸ Option Analysis, Review of Financing Scheme and Lessons (accessible from the list of linked documents in Appendix 2).

⁹ Agribusiness Survey (accessible from the list of linked documents in Appendix 2).

¹⁰ Development Coordination (accessible from the list of linked documents in Appendix 2).

¹¹ World Bank. 2009. *Enterprise Benchmark Survey*. Washington, DC.

¹² Central Bank of Samoa. October 2013. *Monetary Survey Report*. Apia.

¹³ ADB. 2009. *ADB's Approach to Assisting the Pacific (2010–2014)*. Manila; ADB. 2013. *Country Operations Business Plan: Samoa, 2014–2016*. Manila.

lesson was that simply addressing the common constraint of limited access to affordable and appropriate finance was insufficient. Financing must be tailored to the country context and coupled with technical and business support services throughout the value chain to achieve impact. The support services will also reduce the banks' concerns about potential borrowers' internal capabilities and will help leverage commercial finance.

10. The multiple constraints, together with the challenges of a small island state, preclude standard solutions. Solutions need to include (i) commercial banks as the lead facilitators of private sector development, (ii) capital to strengthen the balance sheet of agribusinesses, and (iii) technical and managerial support throughout the value chain. The project will therefore support developing the agribusiness sector in two complementary areas: (i) suitable financing instruments and (ii) business support services.

B. Impact and Outcome

11. The project impact will be that the agriculture sector regains its prominence in the economy. The outcome will be that selected commercial agribusinesses grow sustainably.

C. Outputs

12. **Output 1: Partner agribusinesses are provided with suitable financing services.** The innovative approach to financing will be through a financial intermediary (FI) modality, adjusted to the Samoan context. The design considers lessons from other ADB FI projects (footnote 8). Participating banks (FIs) will provide financing to eligible subborrowers (agribusinesses or partner companies) that are sound and have bankable business plans. The approach includes (i) cash collateral (from grant proceeds) to partly secure loans by participating banks, address the constraints of inadequate collateral, and enable bank lending; and (ii) repayable supplemental seed capital (SSC) to address inadequate capital and weak balance sheet structure.

13. The cash collateral will be used to secure up to 50% of the amount FIs lend to eligible subborrowers for first-time loans and up to 30% for second-time loans. Through this structure, each dollar of collateral will leverage twice the amount of bank lending. The FI can secure the loan's portion, not cash collateralized, according to its own prudential standards. The maximum loan for subborrowers is \$750,000. This approach should contribute to an overall lower interest rate for the agribusinesses. SSC injections of a maximum \$100,000 per company are intended to improve potential subborrowers' equity position if it would then be eligible for a loan as the FI determines. SSC is limited to 25% of total subproject costs, with the remaining part being contributed through the subborrower's own capital and bank financing.

14. An eligible subborrower will (i) be an enterprise in the agriculture or agribusiness sector, (ii) meet all conditions and requirements in Samoa's foreign investment legislation, and (iii) meet credit and other risk-related criteria as the FI determines.¹⁴ To be as market oriented as possible, the FI will assess the eligibility and commercial viability of selected agribusiness proposals through their own stringent due diligence process. Based on a positive credit assessment, the FI will structure and negotiate suitable financing (subloan) agreements,

¹⁴ Subproject eligibility will be based on (i) a finding of commercial viability based on the financial intermediary's (FI's) due diligence, (ii) whether the subborrower meets at least 25% of its costs by a cash or in-kind contribution, (iii) whether it contributes to diversification and/or expansion of agribusinesses, and (iv) whether it makes a beneficial contribution to the agriculture sector or employment.

including potential SSC portions, and it will monitor the subborrower's performance during the agreement's lifetime. A facility manager (FM) will be recruited to support the project management unit (PMU) in project implementation. The FM's tasks will also include identification of agribusinesses for referral to the FI, overseeing the FI's screening and selection process, involvement in the due diligence processes of the agribusiness, and joint performance monitoring with the FI. It is estimated that 10 to 15 businesses can be supported during the project. Investments are expected to finance vertically integrated value chains, for example a taro chips producer exporting to the New Zealand market that is upgrading its snack processing facility and contracting a group of taro producers for raw materials.

15. Output 2: Partner agribusinesses are provided with business support services. These services may comprise specific technical or financial management skills, and they will be identified during the due diligence process of selected agribusinesses. For the taro chips producer, this could be support in establishing proper outgrower schemes with farmers, or improving products to fulfill importer requirements (e.g., food safety standards). The FM will coordinate and provide individually tailored business support services by establishing workable arrangements with regional support programs and sourcing specific technical expertise.¹⁵ The FM will work with FIs to (i) identify needed business support services; (ii) ensure the greatest development impact possible; (iii) verify that ADB's social and environmental safeguard standards as well as eligibility and assessment criteria are adhered to,¹⁶ and after FI approval; (iv) establish business partnership arrangements outlining the partners' roles and responsibilities, such as cost-sharing arrangements. A small agribusiness innovation scheme will be made available to businesses for specific short-term purposes on a reimbursable basis.

16. Output 3: The project is efficiently and effectively managed. A PMU, supported by the FM, will be established to monitor and evaluate project progress.

D. Investment and Financing Plans

17. The project is estimated to cost \$10.34 million (Table 1).

Table 1: Project Investment Plan
(\$ million)

| Item | Amount ^a |
|--|---------------------|
| A. Base Cost^b | |
| 1. Output 1: Financing services | 8.00 |
| 2. Output 2: Business support services | 0.69 |
| 3. Output 3: Project management | 1.47 |
| Subtotal (A) | 10.16 |
| B. Contingencies^c | 0.18 |
| Total (A+B) | 10.34 |

^a Includes taxes and duties of \$264,000 to be financed from Asian Development Bank (ADB) grant resources.

^b In mid-2013 prices. Cost estimates based on feasibility studies prepared by the project preparatory technical assistance.

^c Price contingencies computed at 3% per annum on foreign exchange costs, applied to outputs 2 and 3 (ADB cost escalation factor average for 2014–2016 is 2.6%).

Source: ADB estimates.

¹⁵ These could comprise support such as financial management, export marketing, food safety standards, establishment of supply chain linkages, production improvement, etc.

¹⁶ In accordance with the Financial Intermediary: Environmental and Social Management System (accessible from the list of linked documents in Appendix 2).

18. The government has requested a grant¹⁷ not exceeding \$5 million from ADB's Special Funds resources to help finance the project. The FIs will contribute \$2 million in counterpart funding. Table 2 presents the financing plan.

Table 2: Financing Plan

| Source | Amount (\$ million) | Share of Total (%) |
|---------------------------------|---------------------|--------------------|
| Asian Development Bank | | |
| Special Funds resources (grant) | 5.00 | 48 |
| Government | 0.17 | 2 |
| Private sector ^a | 3.17 | 31 |
| Participating banks | 2.00 | 19 |
| Total | 10.34 | 100 |

^a Private sector contribution estimation: for each subproject financed by the financial intermediary, 50% of the subproject costs will be met by equity contribution from the subborrower (taking into consideration potential supplemental seed capital portions) and there will be cost-sharing for business support services and the agribusiness innovation scheme.

Source: Asian Development Bank estimates.

E. Implementation Arrangements

19. The Ministry of Finance (MOF) will be the executing agency. A PMU will be set up in the MOF's Aid Coordination and Debt Management Division. There will be a project advisory committee, which will advise as needed to support the PMU on implementation issues.¹⁸ There will be two implementing agencies: the participating FIs for output 1, and the MOF for implementation of outputs 2 and 3. The FM will support implementation of output 2 and overall project coordination and implementation.

20. The financing instruments will be open to all Samoan banks¹⁹ if they meet the eligibility criteria and due diligence requirements,²⁰ including (i) corporate, financial, management, and governance practices acceptable to ADB and the MOF; (ii) financial soundness and compliance with applicable prudential guidelines; (iii) satisfaction of ADB's integrity, anti-money laundering, and combating the financing of terrorism due diligence requirements; and (iv) adequate policies, systems, and procedures to assess and monitor the economic, social, and environmental impact of subprojects. ANZ Bank (Samoa) has met the requirements and has a good reputation and almost 50% market share. Hence, the government, with ADB's concurrence, selected ANZ Bank (Samoa) as a financial intermediary to receive at least 40% of the grant proceeds allocated as cash collateral and SSC. The remaining amounts will be allocated by the PMU, subject to ADB concurrence, to further eligible FIs as the project develops.

21. **Relending (government to FI).** The ADB grant to the government will be in US dollars. A portion of up to \$3 million will be used for the FI channel (output 1), of which approximately \$2 million will be for cash collateral and approximately \$1 million for repayable SSC. The government will provide the funds, comprising cash collateral and SSC portions, to the FIs in local currency under the subsidiary financing agreement,²¹ and ADB will enter into project agreements with the same FI.

¹⁷ A country's eligibility for Asian Development Fund (ADF) grants under the revised grant framework is determined by its risk of debt distress. The latest debt sustainability analysis determined that Samoa had a high risk of debt distress and was therefore eligible to receive 100% of its ADF allocation as grants.

¹⁸ The advisory committee will comprise of the MOF; Ministry of Agriculture and Fisheries; Ministry of Commerce, Industry and Labour; Ministry of Natural Resources and Environment; and private sector representatives.

¹⁹ These are ANZ Bank (Samoa), National Bank of Samoa, Samoa Commercial Bank, and Westpac Bank Samoa.

²⁰ ADB. 2003. *Financial Intermediation Loans*. OM D6/BP. Manila.

²¹ It will detail (i) use of funds, including repayment, if not used for their purpose within a specified time; (ii) conditions for drawing on the collateral; and (iii) repayment of undrawn cash collateral, repaid supplemental seed capital, and

22. **Onlending (FI to subborrowers).** FIs will provide loans (subloan A) to subborrowers using their own funds, secured in part by project cash collateral, at an appropriate market-based interest rate. The tenor will not exceed 7 years.²² The FIs will use grant proceeds to onlend the SSC portion (subloan B) to subborrowers on an interest-free basis with a bullet repayment period not exceeding 7 years. After subloans A or B have been repaid, the FI can reuse funds for future loans.²³

23. Should the FI not use the funds within the time specified in the subsidiary financing agreement, it will pay the undrawn amounts, including SSC, to the MOF, which will agree with ADB on the reallocation of these funds for the same purpose to other FIs. After project completion and final repayment of all subloans (whichever is later), the FI will pay the undrawn cash collateral portion, repaid SSC, and any interest incurred on the amounts into an agribusiness finance account held with the MOF. An option paper prepared by ADB and the government in year 3 will outline potential strategies for future use of these funds after the project's lifetime.²⁴ FIs will observe ADB's social and environmental safeguard requirements in the subborrower's due diligence process.

24. Samoa's circumstances warrant allowing a portion of the grant proceeds to be passed on a concessional basis to the FIs and to eligible subborrowers, who are the ultimate beneficiaries.²⁵ The country context requires long-term engagement and an acceptance of higher transaction costs (or lower fee income) to achieve anticipated outcomes. The financing constraints, including lack of capital, and internal capacities make it challenging and expensive for agribusinesses to grow. Additional fees would only increase their capital cost. The project design incorporates features that enhance sustainability, aims at recouping the investments at the end of the project's lifetime, and stimulates future commercial banks' lending to the sector (footnote 8). Together with the government's commitment to recycle the grant proceeds beyond project completion, sustainability of the grant benefits will be maximized.

25. The terms of reference for the required key consulting positions are outlined in the project administration manual (PAM).²⁶ The total consulting inputs are currently estimated at 87 person-months. The consultants will be recruited under the Guidelines on the Use of Consultants (2013, as amended from time to time). Additional consulting services, estimated at 32 person-months, will be determined after the inception phase and business support services needs for potential partner businesses have been identified. This consulting expertise will be recruited following an indefinite delivery contract modality to allow flexibility in responding to the needs during implementation. Procurement of goods and works will be conducted under provisions of para. 3.12 of ADB Procurement Guidelines (2013, as amended from time to time). The agribusiness innovation scheme will be administered by the PMU and is further detailed in the PAM. The project will be implemented over 7 years. Table 3 summarizes and the PAM details the implementation arrangements.

interest accrued on such amounts upon project completion. There will be no commitment fee charged to the financial intermediary.

²² The term accommodates a phased approach and enables longer-term equipment financing.

²³ Further description on use of funds can be found in the Project Administration Manual (accessible from the list of linked documents in Appendix 2).

²⁴ Through this hands-on approach, it is anticipated that default rates will remain below current default rates.

²⁵ ADB. 2013. Lending and Grant Policies (Asian Development Fund). *Operations Manual*. OM D2/BP. Manila; ADB. 2003. Financial Intermediation Loans. *Operations Manual*. OM D6/BP. Manila; ADB. 1987. Doc. R27-87, *Review of ADB Policies on Credit Lines and Development Finance Institutions*. Manila; ADB. 2000. Doc. R78-00. *Private Sector Development Strategy*. Manila.

²⁶ Project Administration Manual (accessible from the list of linked documents in Appendix 2).

Table 3: Implementation Arrangements

| Aspects | Arrangements | | |
|-------------------------------------|---|---|----------------|
| Implementation period | August 2014–July 2021 | | |
| Estimated completion date | July 2021 | | |
| Management | | | |
| (i) Oversight body | Advisory Committee (Chair: Ministry of Finance) | | |
| (ii) Executing agency | Ministry of Finance | | |
| (iii) Key implementing agencies | Ministry of Finance, participating banks | | |
| (iv) Implementation unit | Ministry of Finance, project management unit | | |
| Procurement and consulting services | Individual and firm consultant selection | 38 person-months (international) 49 person-months (national) 32 person-months unallocated | \$1.67 million |
| Advance contracting | Advance action for consultant selection will be undertaken. | | |
| Disbursement | The grant proceeds will be disbursed in accordance with the <i>Loan Disbursement Handbook</i> (2012, as amended from time to time) of the Asian Development Bank and detailed arrangements agreed upon between the government and the Asian Development Bank. | | |

Source: Asian Development Bank.

III. DUE DILIGENCE

A. Technical

26. All activities to be implemented were subject to detailed technical design, feasibility assessment, and costing after options, approaches, and lessons from similar initiatives were considered. A sector assessment provided the rationale and identified some high-level constraints. Value chain analyses and investment profiles assessed the technical aspects of actual and potential agribusiness investments and identified the bottlenecks to be addressed within value chains. The analyses confirmed that Samoa has a sustainable comparative advantage in some export-based agribusinesses, especially those where Samoa formerly dominated (e.g., taro). It also highlighted the need for supply chain development to ensure constant raw material supply and for market access support. The agribusiness survey analyzed the agribusiness sector's structure and its capabilities, resources, and needs. The survey confirmed the potential for expansion and/or diversification and identified systemic weaknesses. The options analysis, combined with a review of lessons from other projects and initiatives in the Asia and the Pacific region, led to preferring an approach combining financing support with business support services through the private sector. A climate risk screening was conducted that considered the project to be at low risk.

27. ANZ Bank (Samoa) was identified as FI under the required eligibility criteria based on their strategy, financial position and performance, and financial management systems. An integrity due diligence was conducted, and ANZ Bank (Samoa) was found eligible to participate.²⁷ Detailed eligibility criteria for FI,²⁸ subborrowers, and subprojects were established and are detailed in the PAM and the environmental and social management system arrangement (ESMS).²⁹

²⁷ Due Diligence on ANZ (accessible from the list of linked documents in Appendix 2). ADB. 2003. Financial Intermediation Loans. *Operations Manual*. OM D6/BP. Manila; ADB. 2003. Financial Management Systems, Financial Analysis, and Financial Performance Indicators. *Operations Manual*. OM G2/BP. Manila; ADB. 2003. Enhancing the Asian Development Bank's Role in Combating Money Laundering and the Financing of Terrorism. *Operations Manual*. OM C6/BP. Manila.

²⁸ Any other potential participating bank will be assessed and selected according to the same criteria after Board approval and in the early implementation phase. They will enter into a project agreement of the same nature.

²⁹ Financial Intermediary: Environmental and Social Management System Arrangement (accessible from the list of linked documents in Appendix 2).

B. Economic and Financial

28. The economic analysis identifies the project's benefits.³⁰ These include (i) increased agribusiness contribution to the Samoan economy, (ii) improved balance of trade, and (iii) increased rural self-employment opportunities and formal employment in agro-processing enterprises. The project will select partners primarily through the FI channel, but will also prioritize subprojects with broader rural development impacts through creating employment opportunities or improving value chain integration and removing supply chain bottlenecks.

29. The financial analysis (footnote 30) demonstrates that the project is expected to generate positive and sustainable financial returns to the participants, which averaged 20% for the 3 investment profiles. The investment profiles (footnote 7) show examples of agribusinesses that can mostly generate reasonable financial returns for the investor, but only after an initial period of losses due to purchase of equipment. Such ventures will be funded by combining the owner's equity and debt, with debt comprising up to 50% of the financing package. Partner enterprises will benefit from lower interest rates related to the cash collateral arrangements.

30. The beneficiaries will include the shareholders of partner businesses and their employees, suppliers, and contractors. Many farmers are expected to benefit through participation in structured arrangements for supplying agro-industrial raw materials. Project impacts will be direct for agribusinesses that participate in partnerships to grow their businesses and create market and employment opportunities for other beneficiaries. The impacts will be indirect but significant for poor and vulnerable groups, with likely cumulative medium-term benefits such as increasing market opportunities to grow and sell produce, and increasing opportunities for formal employment in agro-industries.

31. The economic analysis shows that the economic internal rate of return would be about 21%. The sensitivity analysis indicates that the overall project is relatively robust to changes in the level of costs and benefits. In general, the economic internal rate of return is more sensitive to delays in benefits rather than costs and benefits being greater or lesser than expected, with the overall project return falling just below 12% if benefits are delayed a year. The economic analysis indicates that the benefits justify the costs of the overall investment project. All project components are necessary for delivering the expected results through mutual reinforcement, and none of them can be considered a stand-alone investment.

C. Governance

32. The project features important design elements to support good governance and ensure accountability and transparency by implementing the project within the ESMS framework in coordination with participating banks and the FM, and by adopting well-defined (i) beneficiary eligibility and assessment criteria; (ii) subproject eligibility and finance criteria; and (iii) processes and procedures for FIs' use of cash collateral mechanism and SSC, including processes for borrower default. These criteria will be documented in the legal agreements and the PAM. The MOF's financial management capacity, policies, and procedures as well as its procurement capacity have been assessed as satisfactory.³¹ The FIs will be encouraged to require subborrowers to use economic and efficient private sector or commercial practices in procurement. The PAM will be adhered to during implementation.

³⁰ Financial and Economic Analysis (accessible from the list of linked documents in Appendix 2).

³¹ In accordance with: ADB. 2005. *Financial Management and Analysis of Projects*. Manila; ADB. 2009. *Financial Due Diligence: A Methodology Note*. Manila.

33. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government and MOF. The specific policy requirements and supplementary measures are described in the PAM (footnote 26).

D. Poverty and Social

34. The project design includes measures that promote inclusive businesses through the development of supply chain linkages and outgrower schemes. Besides formal job creation within the sector, the project will address poverty reduction by engaging many low-income farmers. The project will comply with national labor laws and/or internationally recognized core labor standards. The PMU will establish a monitoring system to track these indicators.³²

35. The project is classified as "effective gender mainstreaming." A gender action plan was developed based on gender analysis and stakeholder consultations. In the formal economy, women are active participants in the private sector, primarily as paid employees. A small number of women are employed by agribusinesses.³³ The gender action plan provides for the equitable participation of women in the project by ensuring that (i) businesses run by women will be considered for financing based on a commercially viable business plan, (ii) women benefit from training activities to improve technical skills in business management and other areas, (iii) women gain from increased formal employment opportunities in agribusinesses, and (iv) the project is managed and monitored with sensitivity to gender outcomes.

E. Safeguards

36. **Environment.** The project has been classified as category FI following ADB's Safeguard Policy Statement (2009). The ESMS of the likely participating bank has been assessed and found acceptable. An ESMS was prepared for the project since the specific enterprises to be supported by the project are unknown at this stage. Activities to be undertaken by partner companies under the project will be subject to environmental and social safeguard screening by the FIs and, if required, assessment during evaluation of partnership proposals following the ESMS. The ESMS establishes the process for compliance with safeguards and includes the monitoring and reporting requirements. A safeguard specialist, who will assist the FM, will be engaged to work with potential partners.

37. **Involuntary resettlement (IR) and indigenous peoples (IP).** The project is classified category FI (treated as C) for IR and IP following ADB's Safeguard Policy Statement (2009). The project is not expected to involve physical displacement or involuntary acquisition of land. Any purchase or lease of freehold land or leasing of customary land for agricultural production will be undertaken through voluntary agreements between private agribusiness enterprises and landowners. The project is not expected to impact any distinct and vulnerable group of IP. The beneficiaries in the project areas are part of mainstream Polynesian society. The outputs will be culturally appropriate. While the location of agribusinesses to be supported is unknown at this stage, the project's ESMS provides guidelines for screening and managing any unanticipated IP and IR impacts. The project will be treated as category C for IP and IR, and no activities will be undertaken that have any IR and/or adverse impact on distinct and vulnerable IP.

³² Procedures for monitoring the participation of poor and disadvantaged households will be detailed in the PAM and will become part of the project monitoring and evaluation system.

³³ According to traditional Samoan values, women do not play a direct role in agricultural production, which is defined as a masculine activity. Increased employment or self-employment in agricultural production is therefore likely to be mainly male.

F. Risks and Mitigating Measures

38. The project risks have been assessed and the benefits are expected to outweigh the costs. The project is considered complex because of the agriculture focus and the challenging small island context, which justified the modified FI channel modality. Efforts have been undertaken to identify potential risks and relevant mitigating measures, which are integrated into the project design. Major risks and mitigating measures are summarized in Table 4 and detailed in the risk assessment and risk management plan.³⁴

Table 4: Summary of Risks and Mitigating Measures

| Risks | Mitigating Measures |
|---|--|
| Adverse weather or natural disasters disrupt raw material supplies. | Business plan to take account of possible disruptions, separate regional technical assistance to support on those aspects. |
| Malpractice or poor business performance of partner companies undermines commercial viability | Careful due diligence and assessment of business plan prior to support, tailored business support services and ongoing monitoring of facility manager. |
| Inconsistent raw material supply disrupts business process | Careful constraints analysis during due diligence process. Support in contractual arrangements between business and raw material suppliers. |
| Non repayment of loan due to poor business performance | Legal enforcement of loan agreements, banks share part of the risk, eager to receive full repayment. Close monitoring of banks and facility manager. |
| Difficulty in securing suitably qualified and/or experienced facility manager | Extensive recruitment process, performance review during contract, selective use of external technical support agencies to complement skills. |

Source: Asian Development Bank.

IV. ASSURANCES AND CONDITIONS

39. The government and ANZ Bank (Samoa) have assured ADB that project implementation shall conform to all applicable ADB policies, including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement as described in detail in the PAM and grant documents. The government and ANZ Bank (Samoa) have agreed with ADB on certain covenants for the project, including specific disbursement conditions, as stated in the grant and project agreements.³⁵

V. RECOMMENDATION

40. I am satisfied that the proposed grant would comply with the Articles of Agreement of the Asian Development Bank and recommend that the Board approve the grant not exceeding \$5,000,000 to the Independent State of Samoa from ADB's Special Funds resources for the Samoa AgriBusiness Support Project, on terms and conditions that are substantially in accordance with those set forth in the draft grant and project agreements presented to the Board.

Takehiko Nakao
President

23 May 2014

³⁴ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

³⁵ Disbursement of the financing instruments component will be subject to (i) execution of a subsidiary financing agreement (and delivery of a legal opinion thereon) between the government and the relevant FI, and (ii) execution of a project agreement (and delivery of a legal opinion thereon) between the relevant FI and ADB. Both agreements shall be on terms and conditions satisfactory to ADB.

DESIGN AND MONITORING FRAMEWORK

| Design Summary | Performance Targets and Indicators with Baselines ^{a,b} | Data Sources and Reporting Mechanisms | Assumptions and Risks ^c |
|---|---|--|---|
| <p>Impact Agriculture sector regains its prominence in the Samoan economy</p> | <p>Value of total agri-food exports increases from ST45 million in 2012 to ST53 million by 2022</p> <p>Agriculture sector^d contribution to gross domestic product increased from 10% in 2012 to 13% by 2022</p> <p>Household income of rural population increased from ST650 per week in 2008 to ST800 per week in 2018</p> | <p>National income accounts</p> <p>Official trade statistics</p> <p>Household income and expenditure survey</p> <p>Census data</p> | <p>Assumption Government implements policies and strategies as planned</p> <p>Risk Exogenous economic and market shocks</p> |
| <p>Outcome Selected commercial agribusinesses grow sustainably</p> | <p>Number of farmers receiving main income from selling agricultural produce increases from 730 in 2009 to 1,200 by 2021</p> <p>Return on equity for supported agribusinesses increases by 2% by year 7 of support provision</p> | <p>Official employment statistics</p> <p>Agriculture Census</p> <p>Partner company reports</p> | <p>Assumption Stable macroeconomic conditions amenable to business investment</p> <p>Risks Global economic downturn reduces demand for Samoan export products</p> <p>Political or other interference in decision-making process</p> <p>Commercial banks stop lending to the sector</p> |
| <p>Outputs 1. Partner agribusinesses are provided with suitable financing services</p> | <p>Cash collateral funds fully committed by end of 2019</p> <p>Participating banks provide adequate financing to at least seven agribusinesses by the end of 2021 (assuming equal commercial viability, at least 20% of proposals come from agribusinesses owned or managed by women)</p> | <p>Financing records provided by participating banks</p> <p>Company audited accounts</p> <p>Regular reports provided by partner companies to facility manager</p> | <p>Assumptions Financially sound agribusiness enterprises willing to participate in partnerships</p> <p>Support will leverage additional bank finance</p> <p>Risks Malpractice and/or poor business performance in partner companies</p> <p>Non-repayment of loans by agribusinesses</p> |
| <p>2. Partner agribusinesses are provided with business support services</p> | <p>100% companies that receive financing also receive business support services, if required, either directly or through linkage or collaboration programs by 2021</p> <p>At least two companies establish and/or improve formal supply chain linkages or outgrower schemes by 2019</p> <p>At least 20% of agribusinesses selected for business support</p> | <p>Data collected through provision of advisory services</p> <p>Reports on linkage or collaboration programs for business support services</p> <p>Training reports</p> | <p>Assumption Businesses willing to receive business advice on a cost-sharing basis</p> <p>Risks Partner companies do not comply with environmental and social safeguards and work safety standards as well as partnership arrangements</p> <p>Inconsistent raw material supply disrupts business</p> |

| Design Summary | Performance Targets and Indicators with Baselines ^{a,b} | Data Sources and Reporting Mechanisms | Assumptions and Risks ^c |
|--|--|---|---|
| | <p>services will be businesses managed or owned by women by 2021.</p> <p>At least two trainings provided to agribusinesses and smallholder farmers on supply chain linkages and food safety standards by 2019, with women comprising at least 40% of participants.</p> | | <p>processes</p> |
| <p>3. Project is efficiently and effectively managed</p> | <p>Procurement of goods and services completed in accordance with government and ADB regulations</p> <p>Quarterly and annual progress reports delivered on time, including reporting on the GAP implementation with its progress matrix</p> <p>Quarterly monitoring and evaluation plan documents</p> <p>sex-disaggregated data for all baseline indicators and performance indicators</p> <p>Unqualified annual audit reports delivered on time</p> <p>PMU and partner institutions undergo gender awareness training by 2016</p> | <p>Procurement records</p> <p>Annual work plans, budgets, and reports provided to the Ministry of Finance and ADB</p> <p>Audited project financial statements</p> | <p>Assumption</p> <p>Counterpart staff is appropriately qualified to implement project</p> <p>Risks</p> <p>Lack of suitably qualified facility manager</p> <p>Delays in procurement hinder implementation of key project activities</p> |
| <p>Activities with Milestones</p> <p>1. Partner agribusinesses are provided with suitable financing services</p> <p>1.1 Partner banks draw down funds for cash collateral and supplemental seed capital.</p> <p>1.2 Facility manager develops relationship with partner banks (2014).</p> <p>1.3 Identify suitable partner agribusinesses (2014–2017).</p> <p>1.4 Facility manager organizes at least four meetings during the first 2 years of project commencement (two meetings per year) to promote financing schemes to women managed and/or owned agribusinesses.</p> <p>1.5 Partner banks and facility manager finalize eligible partner agribusiness list (2015).</p> <p>1.6 Partner banks conducts due diligence for potential borrower (2014–2019).</p> <p>1.7 Partner banks structure suitable financing deal for agribusiness, and negotiate and sign loan agreements (minimum seven agribusinesses).</p> <p>1.8 Partner banks monitor performance of borrower during loan period (2014–2021).</p> <p>1.9 Facility manager collect data from partner banks on use of funds and performance of financed partner agribusinesses (2014–2021).</p> <p>1.10 Partner banks provide annual accounts as well as project-related accounts.</p> <p>1.11 Partner banks return undrawn portions of cash collateral and repaid supplemental seed capital to the Ministry of Finance.</p> <p>2. Partner agribusinesses are provided with business support services</p> <p>2.1 Negotiate and implement at least seven partnership arrangements</p> | | <p>Inputs</p> <p>ADB Grant \$5,000,000</p> <p>Government: \$170,000</p> <p>Participating Banks: \$2,000,000</p> <p>Private sector: \$3,170,000</p> | |

| | |
|--|--|
| <p>that include details and conditions on seed capital (provided through partner banks) and business support services until 2019, which promote gender-balanced employment.</p> <ol style="list-style-type: none"> 2.2 Participate in due diligence with partner banks for evaluation of business support services for partner companies (2014–2016). 2.3 Check and approve ADB safeguard compliance and adherence to eligibility and assessment criteria for potential partner companies. 2.4 Provide tailored technical, financial management, and managerial support services, including support in preparation of business plans, to enhance capacity of partner companies (2014–2018). 2.5 Support the establishment of at least two supply chain linkages or outgrower schemes (2014–2019) 2.6 Monitor implementation of business support services (2014–2021). 2.7 Establish linkages and collaboration with regional and national support programs (2014). 2.8 Provide at least two trainings on supply chain linkages and food safety standards to partner businesses and small holder farms, with women comprising at least 40% of participants (2015–2019). Based on the experience, consider conducting more training from 2017 onwards if there is demand. 2.9 Support PMU in monitoring and evaluation of project initiatives, including progress reports. <p>3. Project is efficiently and effectively managed</p> <ol style="list-style-type: none"> 3.1 Establish PMU (2014). 3.2 Contract facility manager (2014) and have business support services available (Q1 2015). 3.3 Establish project advisory panel (2014). 3.4 Prepare information brochure about the project support for promotion to the private sector, relevant business organizations (including women's business organizations), networks of women's business groups, and the women's division of the Ministry of Women, Social and Community Development (2014–2015). 3.5 Monitor and evaluate (including through a yearly review, midterm review, and project completion report) the development of partner businesses, and provide quarterly progress reports that include progress on GAP implementation through a GAP matrix. 3.6 Contract specialists as needed (e.g., short-term monitoring and evaluation expert). 3.7 Supervise implementation of the GAP. 3.8 Arrange annual audit of project accounts (2014–2021). 3.9 Arrange opinion paper for future use of funds (2017). 3.10 Conduct and/or arrange gender awareness training to all project-related staff, including participating banks and partner agribusinesses. | |
|--|--|

ADB = Asian Development Bank, GAP = gender action plan, PMU = project management unit, ST = Samoan tala.

^a All indicators to be sex-disaggregated.

^b All values are expressed in constant 2013 prices, expressed in talas.

^c Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

^d This excludes agribusinesses but relates to smallholder and commercial farming.

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://adb.org/Documents/RRPs/?id=46436-002-2>

1. Grant Agreement
2. Project Agreement
3. Sector Assessment (Summary): Agriculture and Natural Resources
4. Project Administration Manual
5. Contribution to the ADB Results Framework
6. Development Coordination
7. Economic and Financial Analysis
8. Country Economic Indicators
9. Summary Poverty Reduction and Social Strategy
10. Gender Action Plan
11. Financial Intermediary: Environmental and Social Management System Arrangement
12. Risk Assessment and Risk Management Plan

Supplementary Documents

13. Value Chain Analysis
14. Agribusiness Survey
15. Alternative Options Analysis
16. Due Diligence of ANZ Bank (Samoa) Limited–ANZ (Samoa)
17. Review of Financing Schemes and Lessons
18. Supplementary Tables for the Economic and Financial Analysis