SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

Country:	Timor-Leste	Project Title:	Coffee and Agroforestry Livelihood Improvement Project
Lending/Financing Modality:	Project	Department/ Division:	Southeast Asia Department Timor-Leste Resident Mission

I. POVERTY AND SOCIAL ANALYSIS AND STRATEGY

Poverty targeting: targeted intervention—geographic

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

Timor-Leste's Strategic Development Plan 2011-2030 (SDP) targets the elimination of poverty by 2030. Development of productive activities is crucial and the SDP identifies agriculture, tourism, and petroleum as leading sectors. Of these, agriculture has the greatest potential for an immediate and widespread poverty reduction. Approximately 72% of Timor-Leste's population live in rural areas and 49% rely on agriculture as a significant source of food and cash income. Coffee is an important sub-sector. It is grown by 37.5% of all households, provides a significant source of cash income for 18.9% of households, and is Timor-Leste's main non-oil merchandise export. The SDP includes specific targets for rehabilitation of coffee farms and upgrading of production. Support for coffee sector development is highlighted in ADB's country partnership for Timor-Leste and has been reconfirmed as a government priority in the Program of the VIIIth Constitutional Government, 2018-2023.

B. Results from the Poverty and Social Analysis during PPTA or Due Diligence

1. Key poverty and social issues. Improving the productivity of smallholder farmers and increasing the production of crops for market are key pillars of the national poverty reduction strategy. Given the significance of the coffee sector for both employment and exports, it has been given special priority in national plans. Coffee production is concentrated in mountainous areas of the country, with the municipalities of Aileu, Ainaro, Bobonaro, Ermera, Liquica, and Manufahi accounting for 99.1% of the planted area. Poverty rates are higher in the main coffee producing areas with 46.2% of households living below the national poverty line compared to an average of 41.4% in the other 7 municipalities. The inefficiency of the coffee sector is one of the factors that contributes to household poverty. Average yields are among the lowest in the world, and both quality and value realization are well below potential. Income from coffee sales is also very seasonal and many coffee producing households experience hunger and financial distress in the months preceding the annual coffee harvest.

Working in partnership with government, the private sector and civil society, the project will demonstrate a scalable model for economic growth and rural poverty reduction. The project will provide training on coffee productivity improvement, and cultivation of complementary agroforestry products to 2,000 households who grow and sell coffee. This is equivalent to 5.2% of all coffee selling households. It is expected that at least half of these households will achieve sustained increases in incomes by implementing improved practices. While most project activities will directly address productivity and income generation, support for increased financial inclusion will help to address non-income poverty dimensions including hunger. The project will also help to address some of the systemic constraints to growth and development of the coffee sector through improved sector management and the promotion of quality improvement and market linkages. This will provide indirect benefits to all coffee producing households.

2. Beneficiaries. Farming is the main income generating activity for most households that sell coffee, with 73% of household heads and 70% of spouses identifying self-employed farming as their primary occupation and only 4% of household heads and 6% of spouses identifying a secondary income generating activity that did not relate to agriculture. Coffee selling households generally cultivate relatively small areas of land, with 62% reporting that they farmed less than one hectare (ha) and 33% farming between 1-5 ha. Land tenure varies but only 14% of households report paying cash or a share of their production as rent for the land they cultivate. Approximately 36% of coffee selling households claim to hold some form of title for their land, and 11% report farming on communally owned land. Coffee farming is generally done with labor that is drawn from within the household. Around 33% of coffee selling households reported exchanging labor with other households but only 13% reported using hired labor. Staple crops and livestock are an important part of the production system for most smallholder coffee farmers, with over 90% of households keeping some livestock for own-consumption and sale, 51% growing rice, 97% growing maize, 95% growing cassava, and 92% growing sweet potatoes. However, only 41% of coffee selling households reported growing and selling other crops, such as cloves, pepper, vanilla, etc., that could be grown alongside coffee.

Around 77% of households that sell coffee are headed by a husband and wife that co-habit, 15% are headed by women, and 8% are headed by men. The average age of the household head is 49 years, while for the spouse it is 42 years. Average levels of education are low. About half of household heads and spouses never attended school, around one quarter attended some pre-primary and/or primary schooling, and around one quarter progressed beyond primary education school. As a result, levels of literacy are also low. Literacy rates are highest for Tetun,

which is an official language, and Bahasa Indonesia which is a designated working language, but only 40% of coffee selling households can speak, read, and write these languages. The housing conditions and asset ownership of coffee producing households are consistent with income poverty. Around 60% of households who sell coffee live in houses with walls made from bamboo or palm and a floor of clay or mud, around 20% have no toilet, and around one third have no private space for washing. Around 80% of households that sell coffee own a mobile phone but only 16% own motorized transport.

Coffee selling households appear to make very little use of simple agricultural technologies. In the 2015 census, only 9% reported mulching, 11% reported using inorganic fertilizer, 14% reported using organic fertilizers, 8% reported using organic pesticides, 6% reported using chemical pesticides, 7% reported using herbicides, 16% reported using improved seeds, and 6% reported using irrigation. Many coffee selling households may not be using relevant technologies and good practices for production due to a lack of information and a reluctance to take on additional risks. In the past, household surveys have found that training and extensions services have very low penetration, with most coffee farmers not receiving training and community consultations during project preparation confirmed that training and demonstration activities remain limited.

3. **Impact channels.** The project will directly impact on the households who receive training. Households that implement the recommended practices shown during training will achieve a significant and sustainable increase in annual income from coffee and associated agroforestry. The project aims to indirectly benefit all coffee selling households by strengthening sector management and coordination in ways that will help to increase farm-gate prices for coffee.

4. **Other social and poverty issues.** The project will not address land tenure. Training will only be provided to coffee selling households who produce coffee on land that they occupy with the consent of the State and their community. Timor-Leste's Ministry of Justice is leading a long-term program to resolve land tenure and a network of civil society organizations is engaged in this process.

5. **Design features.** The project will provide training and other support to selected households to help them to make a successful transition to a more productive form of coffee and agroforestry production. The selection of target communities (Sucos) will favor areas with significant coffee production and above average levels of poverty, as measured by a multi-dimensional poverty index that is computed from national census data. The enrollment of beneficiaries from target communities will be based on a set of pre-defined criteria that ensure that selected households have strong commitment to participating in project activities and have sufficient land and labor resources to implement productivity improvements. Project training activities will be implemented by local institutions with a strong field presence. Preference will be given to entities that have ongoing relationships with coffee producing households (e.g. through annual coffee purchases) to help ensure the sustainability of project outcomes.

II. PARTICIPATION AND EMPOWERING THE POOR

2. **Civil society participation.** The Timor Coffee Association (ACT) is a civil society organization and will serve as the implementing agency for Output 2 and part of Output 3. Other civil society organizations will be encouraged to participate in the project as implementing partners for training activities under Output 1 or as participants in the knowledge sharing platform that will be established under Output 3.

3. **Civil society organizations.** The following forms of civil society organization participation are envisaged during project implementation, rated as high (H), medium (M), low (L), or not applicable (NA):
    ☒ Information gathering and sharing **H** ☒Consultation **H** ☒Collaboration **H** ☒ Partnership **H**

4. **Participation plan.**
    ☒ ☐Yes. ☐ No. This is a community-based farming livelihood project. It is designed to be participatory, inclusive and pro-poor. The project administration manual includes a stakeholder communication strategy. Community-wide, gender inclusive, participatory local consultations will continue during project implementation.

III. GENDER AND DEVELOPMENT

Gender mainstreaming category: effective gender mainstreaming

A. Key issues. Women play an important role in smallholder coffee production in Timor-Leste. While some academic research reports that tasks within the production process are gendered, focus group discussions with male and female farmers during project preparation suggested that women are highly involved in all stages of production. However, women's contribution to coffee is often overlooked. Male household leads may assume responsibility for representing the household in farmer groups and cooperatives and receiving income from the household's coffee sales. Experience from other projects shows that it is important for training to be provided to all 'active farmers' within a household, including women. However, women are likely to be under-represented in formal training and extension activities unless very deliberate actions are taken to address the social and time pressures that prevent them from attending training.

B. Key actions.
    ☒ Gender action plan ☐ Other actions or measures   ☐ No action or measure
The project will promote female empowerment through coffee related agroforestry. Female householders will be trained on productivity improvement and encouraged to become more active in coffee production and marketing.

Training will also address other dimensions of gender equity such as financial inclusion and household decision making. The gender action plan for the project includes a baseline survey to deepen the shared understanding of gender issues within the coffee sector and comprises 12 actions with 19 indicators, of which 6 have quantitative indicators, with targets for enabling mainstreaming of women and improving livelihood opportunities.

IV. ADDRESSING SOCIAL SAFEGUARD ISSUES

A. Involuntary Resettlement   **Safeguard Category:** ☐ A ☐ B ☒ C ☐ FI

1. Key impacts. None. The strategy will support improvements in the productivity of existing coffee and agroforestry farming systems. The project does not involve involuntary resettlement or land acquisition involving economic or physical displacement.

2. Strategy to address the impacts. None required.

3. Plan or other Actions.

☐ Resettlement plan
☐ Resettlement framework
☐ Environmental and social management system arrangement
☒ No action

☐ Combined resettlement and indigenous peoples plan
☐ Combined resettlement framework and indigenous peoples planning framework
☐ Social impact matrix

B. Indigenous Peoples   **Safeguard Category:** ☐ A ☐ B ☒ C ☐ FI

1. Key impacts. None. Based on due diligence no communities qualifying as indigenous peoples under the ADB Safeguard Policy Statement are present in the proposed project areas, hence none are benefitting or negatively impacted by the project.

2. Strategy to address the impacts. All project activities are intended to be culturally sensitive and inclusive.

3. Plan or other actions.

☐ Indigenous peoples plan
☐ Indigenous peoples planning framework
☐ Environmental and social management system arrangement
☐ Social impact matrix
☒ No action

☐ Combined resettlement plan and indigenous peoples plan
☐ Combined resettlement framework and indigenous peoples planning framework
☐ Indigenous peoples plan elements integrated in project with a summary

V. ADDRESSING OTHER SOCIAL RISKS

A. Risks in the Labor Market

1. Relevance of the project for the country's or region's or sector's labor market, indicated as high (H), medium (M), and low or not significant (L).
☒ unemployment **L** ☒ underemployment **L** ☐ retrenchment **NA** ☒ core labor standards **L**

2. Labor market impact. The project will contribute to increased on-farm employment opportunities for coffee producing households with surplus household resources. Compliance with national labor regulations and core labor standards will be ensured for all people who are engaged to deliver training or other project activities.

B. Affordability

No issues are anticipated.

C. Communicable Diseases and Other Social Risks

1. The impact of the following risks are rated as high (H), medium (M), low (L), or not applicable (NA):
☒ Communicable diseases **L**   ☐ Human trafficking **NA**

2. Risks to people in project area. The project focuses on existing residents and does not involve influx of workers or visitors which could introduce communicable diseases.

VI.   MONITORING AND EVALUATION

1. Targets and indicators. Performance targets have been included in the DMF, will be further elaborated and monitored during implementation.
2. Required human resources. The PMU will ensure an inclusive participatory approach is implemented.
3. Information in the project administration manual. The frequency of project reviews, monitoring, and timing of completion reports is included.
4. Monitoring tools. To be undertaken by PMU and results will be included in period progress reports to ADB.

ACT = Timor Coffee Association, ADB = Asian Development Bank, DMF = design and monitoring framework, ha = hectare, PMU = project management unit, PPTA = project preparatory technical assistance, SDP = Timor-Leste Strategic Development Plan, 2011-2030

Source: Asian Development Bank estimates