



# Grant Assistance Report

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Project Number: 51396-001  
May 2020

## Proposed Administration of Grant Democratic Republic of Timor-Leste: Coffee and Agroforestry Livelihood Improvement Project Financed by the Japan Fund for Poverty Reduction

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Asian Development Bank

## **CURRENCY EQUIVALENTS**

The official currency of Timor-Leste is the US dollar.

## **ABBREVIATIONS**

ACT	–	Timor Coffee Association
ADB	–	Asian Development Bank
DGE	–	General Directorate of Statistics
DNCPI	–	National Directorate for Coffee and Industrial Crops
IMLVT	–	International Multi-Location Variety Trial
MAF	–	Ministry of Agriculture and Fisheries
MTCI	–	Ministry of Tourism, Commerce, and Industry
NCSDP	–	National Coffee Sector Development Plan, 2019-2030
NGO	–	non-governmental organization
OFIS	–	Olam Farm Information System
OFTT	–	On Farm Technology Trial
PAM	–	Project Administration Manual
PMU	–	Project Management Unit
Q	–	quarter
SPS	–	Safeguard Policy Statement

## **GLOSSARY**

Suco	–	village
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## **NOTE**

In this report, "\$" refers to US dollars.

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# PROJECT AT A GLANCE

Project Classification Information Status: Complete

## PROJECT AT A GLANCE

<b>1. Basic Data</b>		<b>Project Number: 51396-001</b>	
<b>Project Name</b>	Coffee and Agroforestry Livelihood Improvement	<b>Department/Division</b>	SERD/TLRM
<b>Country Recipient</b>	Timor-Leste, The Democratic Republic of Na	<b>Executing Agency</b>	Ministry of Agriculture and Fisheries
<b>Country Economic Indicators</b>	<a href="https://www.adb.org/Documents/LinkedDocs/?id=51396-001-CEI">https://www.adb.org/Documents/LinkedDocs/?id=51396-001-CEI</a>		
<b>Portfolio at a Glance</b>	<a href="https://www.adb.org/Documents/LinkedDocs/?id=51396-001-PortAtaGlance">https://www.adb.org/Documents/LinkedDocs/?id=51396-001-PortAtaGlance</a>		
<b>2. Sector</b>	<b>Subsector(s)</b>	<b>ADB Financing (\$ million)</b>	
		<b>Total</b>	<b>0.00</b>
<b>3. Operational Priorities</b>		<b>Climate Change Information</b>	
<ul style="list-style-type: none"> <li>✓ Addressing remaining poverty and reducing inequalities</li> <li>✓ Accelerating progress in gender equality</li> <li>✓ Promoting rural development and food security</li> <li>✓ Strengthening governance and institutional capacity</li> </ul>		Climate Change impact on the Project	Low
<b>Sustainable Development Goals</b>		<b>Gender Equity and Mainstreaming</b>	
SDG 1.4		Effective gender mainstreaming (EGM)	✓
SDG 2.3			
SDG 5.a			
SDG 10.1		<b>Poverty Targeting</b>	
		Geographic Targeting	✓
<b>4. Risk Categorization:</b>	Low		
<b>5. Safeguard Categorization</b>	Environment: C Involuntary Resettlement: C Indigenous Peoples: C		
<b>6. Financing</b>			
<b>Modality and Sources</b>		<b>Amount (\$ million)</b>	
<b>ADB</b>		<b>0.00</b>	
None		0.00	
<b>Cofinancing</b>		<b>3.00</b>	
Japan Fund for Poverty Reduction - Grant projects (Full ADB Administration)		3.00	
<b>Counterpart</b>		<b>0.20</b>	
Government		0.20	
<b>Total</b>		<b>3.20</b>	
Currency of ADB Financing: US Dollar			



## I. INTRODUCTION

1. The Coffee and Agroforestry Livelihood Improvement Project is an innovative project to improve the livelihoods of Timor-Leste's coffee farmers. The project will underpin implementation of Timor-Leste's new Coffee Sector Development Plan and pilot a new model for delivering training to 2,000 coffee farming households in the Aileu, Ainaro, Bobonaro, Ermera, Liquica, and Manufahi municipalities.<sup>1</sup> These households will receive training on good agricultural practices for production of coffee and related crops and assistance with access to finance. The project will also strengthen industry management and support initiatives to improve coffee quality and linkages with key markets. The project will support Timor-Leste's post COVID-19 economic recovery by helping to improve rural livelihoods. The project is aligned with the ADB Strategy 2030 operational priorities of addressing remaining poverty and reducing inequalities, and promoting rural development and food security.

## II. THE PROJECT

### A. Rationale

2. Improvements in coffee production and processing offer one of the clearest pathways for reducing poverty and growing Timor-Leste's non-oil economy. Coffee is Timor-Leste's largest non-oil export and is grown by 37.5% of all Timorese households with half of these households relying on the crop for cash income. Despite its significance, the coffee sector is currently operating far below its long-term potential. Production is low and volatile, quality is inconsistent, and sector management is weak. As a result, many coffee producing households live in extreme poverty. Strengthening sector management and providing targeted support to smallholder producers can support poverty reduction and export growth.

3. In 2019 the Government of Timor-Leste approved a comprehensive plan to modernize Timor-Leste's coffee sector. The National Coffee Sector Development Plan, 2019-2030 (NCSDP) was prepared with support from the Asian Development Bank (ADB) and the Coffee Quality Institute.<sup>2</sup> The NCSDP prioritizes the welfare of smallholder coffee farmers and emphasizes evidence-based decision making, social and environmental sustainability, collaboration between the public and private sectors, and inclusion of women and disadvantaged groups. The plan targets a doubling of coffee production by 2030 and a 270% increase in export earnings. To achieve these goals, the NCSDP plans to invest approximately \$38 million during 2019-2030 to fund activities under six core focus areas: (i) research and development; (ii) production and productivity; (iii) quality and value addition; (iv) market access; (v) domestic consumption and tourism; and (vi) sector management and coordination.

4. Productivity improvement is a key focus of the NCSDP, but key foundations of an effective system for improving productivity are still being established. There are significant weaknesses in applied research, seedling production, nursery management, and farmer training. MAF has a network of farm extension workers at Suco (village) level, but these staff are responsible for supporting production for all crops. This is a challenging mandate and it is generally accepted that farmer training should be improved. MAF has identified partnerships with non-government organizations (NGOs) and businesses as a model with excellent potential. However, there is

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<sup>1</sup> Timor-Leste has a total of 13 Municipalities. Timor-Leste's coffee production is concentrated in the five Municipalities that have been selected for the project.

<sup>2</sup> National Coffee Sector Development Plan (available from the list of linked documents in Appendix 2).

currently no national system for tracking the rehabilitation of coffee farms or engaging businesses and NGOs to deliver training.

5. Quality improvement and product differentiation are key goals of the NCSDP. Timor-Leste is well placed to benefit from the ongoing growth of niche markets for specialty coffee that is sold at premium prices due to high quality and other positive differentiation. To achieve this potential, Timor-Leste will need to improve the overall quality of its coffees through more controlled harvest and post-harvest practices. Introduction of simple quality standards would facilitate quality improvement by enabling better communication across the value chain and facilitating quality-based price incentives. There is also a need to improve the presentation of Timorese coffees to target consumer markets through design and implementation of an industry marketing plan.

6. Women play an important role in coffee production in Timor-Leste and are highly involved in all stages of production including harvest and post-harvest processing. However, women's contribution to coffee is often overlooked. Male household leads may assume responsibility for representing the household in farmer groups and receive income from coffee sales on behalf of the household. Experience from other coffee projects in Timor-Leste 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 unless deliberate actions are taken to address social and time pressures. Women may also face gender-specific constraints in accessing financial services or adopting new technologies.

7. The success of initiatives to upgrade production, improve quality, and develop specialty markets hinges on close coordination across the value chain. In 2016, following an initiative from ADB, a group of stakeholders representing all stages of the coffee value chain came together to form the Timor Coffee Association (ACT).<sup>3</sup> Since 2016 ACT has organized a wide range of activities including the annual festival and coffee quality competitions, establishment of a coffee quality lab, and training programs to help farmers to improve quality. ACT works closely with MAF and other government agencies and was one of the main contributors to development of the NCSDP. Representatives from MAF and ACT co-chair a special taskforce which meets quarterly to coordinate implementation of the plan.

8. Development of the coffee sector is a clear national priority. The project was included in ADB's country operations and business plan for Timor-Leste for 2020-2022 and responds to clear demand from the Government of Timor-Leste and industry stakeholders. It is designed to leverage some of the activities that are being implemented through a related non-sovereign investment and technical assistance project.<sup>4</sup> It also builds on previous initiatives and incorporates lessons learned from completed and ongoing projects in the coffee sector including the importance of leveraging the private sector, establishing local-level demonstration plots, and using gender sensitive training approaches.<sup>5</sup> Grant financing is proposed because the project will trial several innovative approaches to addressing long-standing sector challenges.

9. The project will contribute to Timor-Leste's post COVID-19 economic recovery by supporting rural livelihood improvement, private sector development, and the growth of non-oil

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<sup>3</sup> The Timor Coffee Association is a private non-profit trade association that is registered with the Ministry of Justice.

<sup>4</sup> ADB Project 51139-001: Agricultural Value Chain Development Project; and ADB TA-9521 REG: Olam International Limited: Inclusive, Sustainable, and Connected Coffee Value Chain (Subproject 2)

<sup>5</sup> These projects include Phase IV of the European Union Funded Rural Development Program (completed); the United States Agency for International Development's Consolidating Cooperative and Agribusiness Recovery Project (completed); and the Government of New Zealand funded Coffee and Cocoa Agribusiness Opportunities Project (ongoing).

exports. Measures to contain COVID-19 had a significant negative impact on Timor-Leste's economy during the first half of 2020. The government is implementing a COVID-19 support program that includes cash transfers and wage subsidies. Investments to stimulate productive activity in rural areas will be an important part of the transition from containment to economic recovery.

## B. Impact and Outcome

10. The impact will be a doubling of coffee production and a 270% increase in the value of coffee exports by 2030. The outcome will be improved productivity and price realization in the coffee sector. The project has three outputs.

## C. Outputs and Key Activities

11. **Output 1. More productive coffee and agroforestry production systems established.** The project will strengthen the systems for producing and distributing planting materials and will pilot a new model for delivering extension services to smallholder coffee farmers. This will be achieved through (i) development and implementation of improved protocols for seed selection and nursery management; (ii) establishment of at least one multi-variety trial and ten farmer managed demonstration research and plots; and (iii) delivery of a 2.5-year training program on productivity improvement and climate smart agriculture to 2,000 coffee producing households.

12. **Output 2. Coffee quality and market linkages improved.** The project will help ACT and its partners to design and implement a program to improve coffee quality and market linkages. This will be done through (i) design and implementation of a national grading system for coffee cherries and parchment; (ii) continuation of the annual Festival Kafe Timor coffee quality competitions and associated communication and training for farmers;<sup>6</sup> and (iii) development and implementation of a coffee industry marketing plan.

13. **Output 3. Sector management and coordination improved.** The project will work with MAF and ACT to strengthen information management, ensure sector coordination and promote knowledge sharing. This will be achieved through (i) strengthening of the secretariat coordinating implementation of the NCSDP; (ii) design and implementation of a farm information management system; and (iii) implementation of a knowledge sharing platform for the coffee sector.

## D. Cost Estimates and Financing Plan

14. The project is estimated to cost \$3.20 million (Table 1). The Japan Fund for Poverty Reduction (JFPR) will provide grant financing equivalent to \$3.0 million to be administered by ADB. Taxes and duties have been included in the base cost.

**Table 1: Cost Estimates**

Item	Amount <sup>a</sup> (\$ million)	Share of Total (%)
<b>A. Base Cost<sup>b</sup></b>		
1. Output 1: More productive coffee & agroforestry production systems established	2.61	81.4
2. Output 2: Coffee quality and market linkages improved	0.22	6.9

<sup>6</sup> In contrast to the productivity-focused training under Output 1, this training will focus on coffee quality

3. Output 3: Sector management and coordination improved	0.27	9.3
<b>Subtotal (A)</b>	<b>3.12</b>	<b>97.6</b>
<b>B. Contingencies</b>	<b>0.08</b>	<b>2.4</b>
<b>Total (A+B)</b>	<b>3.20</b>	<b>100.0</b>
<b>C. Administrative Budget Support</b>	<b>0.09</b>	

<sup>a</sup> Includes taxes and duties of \$7,000 to be financed by the ADB-administered cofinancing. Such amount does not represent an excessive share of the project cost.

<sup>b</sup> In 2019 prices.

Source: ADB staff estimates

15. The Japan Fund for Poverty Reduction will provide grant financing equivalent to \$3,000,000 to be administered by ADB. The financing plan is in Table 2. MAF, the executing agency, will provide in-kind counterpart support in the form of office space, workshop and training venues, and staff time for project implementation.

**Table 2: Financing Plan**

Source	Amount (\$ million)	Share of Total (%)
Japan Fund for Poverty Reduction <sup>a</sup>	3.0	93.8
Government	0.2	6.3
<b>Total</b>	<b>3.2</b>	<b>100.0</b>

<sup>a</sup> Administered by the Asian Development Bank

Source: ADB staff estimates

## E. Implementation Arrangements

16. The project will be implemented over 4 years from June 2020 to June 2024. MAF will be the executing agency and will serve as the implementing agency for Output 1 and the farm information management system under Output 3. ACT will serve as the implementing agency for Output 2 and the knowledge sharing platform under Output 3. A PMU will be established under MAF's National Directorate for Coffee and Industrial Crops. A project steering committee will provide oversight to the activities of the PMU. Procurement and consultant recruitment funded by the grant will follow ADB's Procurement Policy and Regulations (2017, as amended from time to time) and their associated Staff Instructions. Measures to contain COVID-19 are not expected to be a major barrier to project implementation. However, delivery of trainings under the project will take into account best practices for pandemic prevention. The implementation arrangements are described in detail in the project administration manual.<sup>7</sup>

**Table 3: Implementation Arrangements**

Aspects	Arrangements		
Implementation period	June 2020 – June 2024		
Estimated completion date	30 June 2024		
Estimated closing date	31 December 2024		
Management			
(i) Oversight body	Project Steering Committee <sup>a</sup>		
(ii) Executing agency	MAF		
(iii) Key implementing agencies	MAF, ACT		
(iv) Implementation unit	PMU at DNCPI, 3 full time staff in Dili, 1 full time staff at ACT, and technical specialists		
Consulting services	QCBS	56 person-months	\$1.83 million
	CQS	2 contract	\$0.39 million

<sup>7</sup> Project Administration Manual (accessible from the list of linked documents in Appendix 2).

Aspects	Arrangements		
	ICS	192 person months	\$0.36 million
Advance contracting	Advertisement and selection of consultants to be done prior to grant effectiveness		
Disbursement	The grant proceeds will be disbursed in accordance with ADB's <i>Loan Disbursement Handbook</i> (2017, as amended from time to time) and detailed arrangements agreed between the government and ADB.		

ACT = Timor Coffee Association, ADB = Asian Development Bank, CQS = consultants qualification selection, DNCPI = National Directorate for Coffee and Industrial Crops, ICS = individual consultant selection, MAF = Ministry of Agriculture and Fisheries, PMU = project management unit, QCBS = quality- and cost-based selection,  
<sup>a</sup> A four person committee comprising representatives from MAF, MOF, and ACT.

Source: ADB estimates

### III. PROJECT FEATURES

17. The project design has been informed by community consultations and technical analysis. The preparatory work confirmed that the project is viable and would deliver substantial net benefits. Further discussion of key project features is presented below.

#### A. Technical

18. The project builds on previous work in the sector and is aligned with the the NCSDP. It incorporates lessons from completed and ongoing donor projects and will introduce or scale up five key innovations that are new to Timor-Leste:

- i. Production of coffee and shade tree seedlings according to rigorous genetic profiling and well-defined protocols for nursery management;
- ii. Use of farmer managed demonstration plots to generate systematic data on the performance of recommended farming practices<sup>8</sup>;
- iii. Piloting of a new model for delivering extension services to coffee farmers through NGOs;
- iv. Establishment of a national farm information management system to enable effective coordination and monitoring of support to farm households<sup>9</sup>; and
- v. Use of knowledge sharing platform.

19. The project will strengthen the seed sector by completing genetic profiling of locally available varieties and implementing actions to strengthen nursery management. The project will also support the establishment of at least one multi-variety trial, and ten farmer managed research and demonstration plots, where agronomic research and demonstration will be conducted. The multi-variety trial will be managed by MAF technicians and will assess the performance of a large number of coffee varieties. The farmer managed plots will serve a dual function of demonstration and research and will trial a smaller set of varieties and practices. These plots will form part of a new national network and will serve as local hubs for delivering training and showcasing improved practices. The design of these plots will be consistent with best

<sup>8</sup> World Coffee Research. 2018. *Global Coffee Monitoring Program*. Portland, Oregon.

<sup>9</sup> ADB is supporting an initial trial roll-out of the Olam Farm Information System (OFIS) farmers in Timor-Leste through TA-9521 REG: Olam International Limited: Inclusive, Sustainable, and Connected Coffee Value Chain. Licensing of OFIS for use at the national level is an option that will be considered during project implementation.

practices for farm level demonstration in Timor-Leste, and each plot will be managed by a local community member with support from MAF and the project implementation partners.<sup>10,11</sup>

20. The training program for households will span three coffee harvests thus providing three opportunities to implement pruning and coffee plant-rejuvenation immediately following completion of the coffee harvest. The project will train farmers who were not covered by recent and ongoing projects and will apply a screening tool to select training locations. The project will help MAF to develop a suite of recommended climate-smart best practices and associated training materials. These best practices will form a menu of options that can be tailored according to farm conditions and households' priorities. Households will be empowered to exercise agency in selecting the trainings and activities that they judge to be most relevant to their situation.

21. Project support to farm households will promote financial literacy and financial inclusion through partnerships with financial service providers. Companies that procure coffee directly from smallholders will also be encouraged to work more closely with banks and microfinance institutions.<sup>12</sup> The grading system that is developed under output 2 will provide a simple set of standards for evaluating quality. Companies that procure coffee in cherry and parchment form will be encouraged to incorporate the new standards into their procurement practices and to provide a clear linkage between quality and price.

22. Use of the quality standards will help to reduce information asymmetries between coffee farmers and buyers and strengthen the incentives for quality improvement. The project will support the coffee quality competition that is a key part of the annual coffee festival and will fund associated communication with farmers on quality improvement. Other festival activities are expected to be supported by other sponsors. The project will also help to develop an industry marketing plan to help Timor-Leste to identify target markets, develop clear and consistent marketing messages and provide timely information to consumers.

23. The project will help to strengthen sector coordination. The NCSDP secretariat will be housed in MAF and will help to coordinate the quarterly meetings of the NCSDP implementation taskforce and other data collection and reporting for the NCSDP. The knowledge sharing platform that is established under output 3 will provide a mechanism for improved flow of information between sector stakeholders. Convened by MAF and ACT, the platform will be open to all interested parties and will identify and disseminate improved practices relating to coffee production, processing, and quality improvement, among others. Industry stakeholders will be encouraged to share their own experiences through the platform and this will be supplemented by external expertise to help address shared priorities relating to production and quality improvement.

24. The farm information management system will leverage technology to improve the efficiency of farmer support. The potential to use or adapt an existing system such as the Olam Farmer Information System (OFIS) will be considered. The system will capture data about the location of each household and farm being supported, the demographic profiles of active farmers, and the trainings provided. If possible, the scope of the system will be expanded to include

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<sup>10</sup> Coffee Quality Institute. 2018. *Baseline Assessment and Gap Analysis of Systems for Training Extension Workers and Delivering Extension Services to Farmers*. Dili.

<sup>11</sup> The project implementation partners will be (i) a specialist technical service provider; and (ii) local entities, such as firms of NGOs that engaged to provide training to farmers through the project.

<sup>12</sup> A partnership may take the form of a non-binding memorandum of understanding between the entities delivering the training and financial service providers.

information on farmer support that is being provided through other channels, and other capabilities such as product traceability. The system will be maintained by MAF following project completion.

25. A climate vulnerability risk assessment was carried out as part of project preparation.<sup>13</sup> The assessment highlighted the potential negative impact of climate change on coffee production through increased average temperatures, less regular rainfall patterns, increased frequency of high winds, and increased burden from pests and diseases. Climate related production risks can be managed through gradual replanting with varieties that can tolerate higher temperatures; improved farm management; and the use of water conservation techniques. The risk assessment also identified gaps in knowledge about the suitability of different risk mitigation strategies in Timor-Leste. The project will draw on existing knowledge to provide appropriate recommendations on climate risk mitigation strategies while using the farmer and agronomist managed research plots to generate additional data.

## **B. Economic and Other Impacts, Financial Viability, and Sustainability**

26. The project will help households to increase their annual income through three distinct channels: (i) increasing coffee production on existing farms; (ii) improving the value of coffee produced through quality improvement and branding; (iii) integrating new crops into the coffee farming system. Coffee sales are the main source of cash income for many of the target households, but current productivity is low. Aggressive pruning of old coffee trees can result in a tripling of the per-tree coffee yield within 2.5 years and this can be sustained if good farm management practices are maintained. Households that systematically apply good practices can almost triple their annual cash gross margin per hectare from \$490 to \$1,294.<sup>14</sup> This increase does not assume any uplift from quality improvement or intercropping. Under this scenario, the gross margin per family labor-day is expected to remain roughly constant at around \$6.50 per day. This is higher than the current minimum wage for formal employment and compares to government rural employment programs that pay \$3 per day for road construction.

27. The net benefits of the project are expected to be positive. While it is not realistic to expect all households to immediately and fully adopt improved agricultural practices, ongoing projects show that households are willing to rehabilitate their coffee farms if appropriate support is available. If the representative household in the project sustains the rehabilitation of just 20% of their coffee farm area, average household incomes from coffee will increase by 33%. This increase does not consider intercropping or quality improvements. The sustainability of project outcomes is supported by the project model and by the strong commitment of the government and other partners. The project will not generate revenues. Households that receive training through the project will not be asked to make any financial contribution to training costs. Participating households will be responsible for deciding whether to implement recommended practices on their own farms. Since farms are generally managed using family labour, the implementation of recommended practices is not expected to have an immediate financial cost to households. However, stump pruning will result in temporary income loss, so households will be guided to make a rational choice about how best to sequence pruning. The government has provided assurances that it will finance the operations and maintenance of the project vehicles, farm information management system, and research and demonstration activities.

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<sup>13</sup> Climate Vulnerability Risk Assessment (available from the linked documents in Appendix 2).

<sup>14</sup> De Almeida, L. et al. 2018, *How can farmers improve returns from their farming activities? Can farmers make more than \$5 per day from their activities?* Dili.

### **C. Governance**

28. Due diligence on financial management capacity of the executing agency and proposed implementing agencies was conducted. The pre-mitigation financial management risk for the project is assessed as high. MAF has an established in-house financial management structure and has some experience implementing donor-funded projects. Capacity is improving, but some weaknesses in procurement, funds flow management, reporting, and audit remain. ACT is a recently established organization and is still developing its financial management capacity.

29. The project's governance model is designed to mitigate the major risks. ADB will support the major procurement actions for the project as per the agreed matrix of procurement responsibilities. The government will remain responsible for negotiating and signing the consulting service contract. A PMU will be established in MAF to ensure effective management of project activities. A qualified accountant will be engaged under the PMU and accounting software acceptable to ADB will be used, supported by hard copy records. ADB will provide training and intermittent mentoring to the PMU on ADB's guidelines and procedures for financial management and disbursement. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government and MAF. The specific policy requirements and supplementary measures are described in the project administration manual (footnote 7).

### **D. Poverty and Social Impacts**

30. The project is designed for livelihood improvement and poverty reduction and categorized as effective gender mainstreaming under ADB's project gender classification system. The project will provide training to men and women from 2,000 coffee producing households to help them improve the productivity of their farming systems, manage climate risks, and make use of appropriate financial services. The project will also provide indirect benefits to all coffee producing households by strengthening sector management and supporting industry-wide initiatives to improve quality and strengthen market linkages. The project will ensure compliance with international core labor standards, including non-discrimination and prevention of child labor.

31. The mean poverty rate in the five target municipalities is 47.4% compared to 39.9% for the remaining eight municipalities.<sup>15</sup> In depth analysis of the poverty profiles of coffee producing households is being prepared and the results of this analysis, including detailed data on poverty incidence and severity, will be one of the key inputs into the final selection of target sub-districts and sucos for training activities. This selection will seek to channel training support to the poorest farming households while avoiding overlap with other projects.

32. Project formulation was preceded and accompanied by extensive consultations with local populations. These consultations provided a better understanding of household poverty and gender profiles. They revealed that women actively participate in most of the key stages of coffee farming and processing but that the degree of this participation varies considerably. The project will promote female empowerment by training women on productivity improvement and encouraging women to become more active in coffee production and marketing. The project 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

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<sup>15</sup> Summary Poverty Reduction and Social Strategy (accessible from the list of linked documents in Appendix 2)

shared understanding of gender issues within the coffee sector and includes targets and indicators for mainstreaming gender equality and improving livelihood opportunities.

#### **E. Participatory Approach**

33. The project design centers on provision of training and support to coffee producing households. Consultations with farm households, coffee farming groups, and local community leaders were held to ensure that planned activities and outputs respond to households' needs. Beneficiaries will be empowered to participate actively in project implementation. Participatory approaches will be used for the establishment of farmer-managed demonstration plots, enrollment of participating farm households, and planning of training activities. The performance of training providers will be carefully monitored during project implementation and beneficiaries will be given regular opportunities to provide feedback on the relevance and overall quality of training.

#### **F. Development Coordination**

34. A wide range of stakeholders were consulted during project formulation. Development partners with a history of supporting the agriculture sector in Timor-Leste or relevant ongoing programs were also consulted including Australian Aid, the European Union, the Global Climate Change Alliance, the Japan International Cooperation Agency, the World Bank, and New Zealand Aid. The project design reflects lessons learned through completed and ongoing development initiatives. A stakeholder communication plan has been prepared to ensure close coordination with other partners during project implementation. The Embassy of Japan has been consulted extensively. The project will seek to coordinate with the ongoing Community Based Natural Resource Management Project which is financed by the Japan International Cooperation Agency.

#### **G. Safeguards**

35. The project will comply with ADB's Safeguard Policy Statement (2009) (SPS) as described below.

36. **Environment (category C).** Project preparatory activities confirmed that the project is expected to have a net positive impact on the environment by supporting the continued viability of shade grown coffee and associated agroforestry. Coffee production is threatened by climate change and a comprehensive climate vulnerability risk assessment was completed during project preparation. Actions to mitigate climate risks have been identified and are reflected in the project design. Minimal adverse environmental impacts are expected. Project activities will not take place in environmentally sensitive areas and no significant civil works will be undertaken. Any new structures developed following training (e.g. community nurseries) would be small-scale and would be built on existing farms or community lands.

37. **Prohibited activities.** Pursuant to ADB's SPS, ADB funds may not be applied to the activities described on the ADB Prohibited Investment Activities List set forth at Appendix 5 of the SPS. All project activities will comply with applicable national laws and regulations. Involuntary resettlement and indigenous peoples (category C). No involuntary resettlement or land acquisition is envisaged. The project will provide training and support to coffee farmers to support rehabilitation and improvement of agroforestry systems on land that they own or occupy with consent of the state and their community.

38. There are no communities of distinct and vulnerable indigenous peoples as defined under ADB SPS living in the target project areas as confirmed by due diligence and national census

data. The project does not trigger the SPS requirements on involuntary resettlement and indigenous peoples.

## H. Risks and Mitigating Measures

39. The risks that the project faces are *moderate* and can be managed through the mitigation measures presented in Table 4. No significant safeguard concerns exist (all ADB safeguard categories are C), and project activities are a modification and expansion of existing practices rather than an introduction of something completely new. ADB has experience working with MAF and ACT on technical assistance projects, but MAF and ACT are not familiar with implementation of projects using ADB procedures. The gaps in MAF and ACT systems for governance and financial management create some risks. These risks will be mitigated through the measures presented in Table 4 and described in more detail in the PAM (footnote 7).

**Table 4: Summary of Risks and Mitigating Measures**

<b>Risks</b>	<b>Description</b>	<b>Mitigating Measures</b>
Gaps in MAF capacity for project governance and financial management	Complex requirements for project administration and financial management could exceed current MAF capacity thus delaying project implementation and threatening overall project success.	The project procurement plan will reduce the burden placed on MAF through advance contracting and bundling of project inputs. A PMU will be established in MAF with a project manager, qualified accountant, and assistant to support implementation and reporting.
Capacity constraints undermine establishment of farmer managed research and demonstration plots or delivery of training.	Delays in identifying suitable sites and commencing the demonstration activities could undermine subsequent training. Failure to consistently apply good practices at demonstration sites could undermine project goals.	A skilled agronomist will be engaged through the project to provide technical support to the research and demonstration program. The consultant qualification selection procurement modality will be used to recruit a specialized technical consultant to deliver the research and demonstration plots.
ACT capacity constraints	ACT is a relatively new organization and is still developing its core management and reporting systems.	The project model minimizes ACT's involvement in procurement and financial management. A program manager will be engaged to support ACT.

ACT = Timor Coffee Association, MAF = Ministry of Agriculture and Fisheries, PMU = project management unit.  
Source: ADB staff estimates

## IV. ASSURANCE

40. The government and MAF assured ADB that implementation of the project 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 project administration manual and the grant agreement.

## V. THE PRESIDENT'S DECISION

41. The President, acting under the authority delegated by the Board, has approved the administration by the Asian Development Bank of the grant not exceeding the equivalent of \$3,000,000 to the Democratic Republic of Timor-Leste for the Coffee and Agroforestry Livelihood Improvement Project, to be provided by the Japan Fund for Poverty Reduction.



<p>2. Coffee quality and market linkages improved</p> <p>3. Sector management and coordination improved</p>	<p>from increased financial inclusion<sup>c</sup> (2019 baseline: 0)</p> <p>2a. Platform for strengthening value chain, market linkages, and womens' participation provided by Festival Kafe Timor and associated quality competitions annually from 2020-2024 (2020 baseline: festival held in 2016, 2017, 2018 and 2019).</p> <p>2b. A grading system to classify fresh and processed coffee adopted (2020 baseline: 0)</p> <p>2c. Comprehensive information about coffee production in Timor-Leste available to prospective buyers in consuming countries. (2020 baseline: 0)</p> <p>3a. A farm information management system in place to monitor farm conditions and sex-disaggregated delivery of training and extension services (2020 baseline:0)</p> <p>3b. Quarterly meetings held and annual action plans and budgets for NCSDP implementation prepared by the NCSDP implementation task force from 2020-2024 (2019 baseline: first two taskforce meetings held)</p> <p>3c. A platform for knowledge sharing and ongoing industry learning provided by ACT (2020 baseline, no established platform)</p>	<p>2a. Project monitoring reports; annual reports of MAF and ACT, including information on women's participation</p> <p>2b – 2c. Project monitoring reports; annual reports of MAF and ACT</p> <p>3a. Project monitoring reports from MAF</p> <p>3b. Annual reports of MAF and ACT</p> <p>3c. Annual reports of ACT</p>	<p>Other stakeholders do not provide the in-kind support and sponsorships needed to deliver the festival as envisaged</p> <p>Lack of industry support impedes the finalization and rollout of the grading system</p> <p>Technical challenges, capacity constraints, and a lack of stakeholder consensus lead to delays in system development and implementation</p>
<p><b>Key Activities with Milestones</b></p> <p><b>1. More productive coffee and agroforestry production systems established</b></p> <p>1.1 Conduct genetic profiling and suitability analysis of local varieties (Q4 2020 – Q1 2021)</p> <p>1.2 Design and implement improved protocols for nursery management (Q4 2020 – Q2 2021)</p> <p>1.3 Confirm target Sucos and procure training service providers (Q4 2020 – Q2 2021)</p> <p>1.4 Enroll participating farmer groups and establish research and demonstration plots (Q1 2021 - Q3 2021)</p> <p>1.5 Monitor and supervise research and demonstration plots (Q3 2021 – Q2 2024)</p> <p>1.6 Deliver training and extension programs (Q2 2021 – Q1 2024)</p>			

**2. Coffee quality and market linkages improved**

- 2.1 Organize and deliver Festival Kafe Timor and associated competitions (Q3 2020 – Q4 2023)
- 2.2 Develop and implement industry marketing plan (Q3 2020 – Q2 2024)
- 2.3 Develop draft quality standards for national grading system (Q4 2020 – Q1 2021)
- 2.4 Conduct initial trial deployment of proposed quality standards (Q2-Q3 2021)
- 2.5 Revise and rollout revised quality standards and grading system (Q4 2021 – Q4 2023)

**3. Sector management and coordination improved**

- 3.1 Conduct options analysis and design farm information management system (Q3 2020 – Q4 2020)
- 3.2 Rollout the farm information management system (Q1 2021 – Q2 2024)
- 3.3 Conduct NCSDP taskforce meetings (quarterly from Q4 2020 – Q2 2024)
- 3.4 Conduct information and knowledge sharing activities (Q4 2020 – Q2 2024)

**Project Management Activities**

Recruit consultants for project management unit by month 2.

Establish a PMU to support grant implementation and technical capacity of MAF by month 3.

Monitor and evaluate project activities, outputs, and outcomes, using the project performance management system; submit quarterly progress reports until project closing.

Prepare inception (Q3 2020), midterm (Q1 2022) and final (Q2 2024) reports.

**Inputs**

Japan Fund for Poverty Reduction: \$3.0 million (grant)

Government: \$0.2 million

Note: The government will provide in-kind counterpart support in the form of office space, workshop and training venues, and staff time for project implementation.

ACT = Timor Coffee Association, ADB = Asian Development Bank, DGE = General Directorate of Statistics, MAF = Ministry of Agriculture and Fisheries, MTCI = Ministry of Tourism, Commerce, and Industry, NCSDP = National Coffee Sector Development Plan 2019-2030, PMU = project management unit, Q = quarter.

<sup>a</sup> Government of Timor-Leste. 2019. *National Coffee Sector Development Plan 2019-2030*. Dili.

<sup>b</sup> An active farmer is an adult household member who is involved in farming. The training will be provided to all active farmers within a household, including women.

<sup>c</sup> Defined as access to additional financial products or services, or improved usage of existing financial services.

### **LIST OF LINKED DOCUMENTS**

<http://www.adb.org/Documents/RRPs/?id=51396-001-2>

1. Grant Agreement
2. Project Administration Manual
3. Summary Poverty Reduction and Social Strategy
4. Gender Action Plan
5. Climate Vulnerability Risk Assessment

#### **Supplementary Documents**

6. Timor-Leste National Coffee Sector Development Plan, 2019-2030
7. Japanese Visibility (undisclosed)
8. Specific Coordination Details with the Local Embassy of Japan and Japan International Cooperation Agency (undisclosed)
9. Administrative Budget Support Details (undisclosed)
10. Justification on the Purchase of Vehicles (undisclosed)