



Concept Paper

Project Number: 51296-001
February 2018

Proposed Grant

Timor-Leste: Innovative Partnerships for Coffee and Agroforestry Development

CURRENCY EQUIVALENTS

The official currency of Timor-Leste is the US dollar

ABBREVIATIONS

ACTL	–	Timor-Leste Coffee Association
ADB	–	Asian Development Bank

NOTE

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

Vice-President	Stephen P. Groff, Operations 2, VPO2
Director General	Ma. Carmela D. Locsin, Pacific Department (PARD)
Director	Paolo Spantigati, Timor-Leste Resident Mission, PARD
Team leader	David Freedman, Country Economist, PARD
Team members	Elsty Argalane Davidz-Morato, Social Development Officer (Gender), PARD Roshan G. Ouseph, Counsel, Office of the General Counsel Geraldo Moniz da Silva, Operations Assistant, PARD
Peer reviewer	Michiko Katagami, Principal Natural Resources and Agriculture Specialist, Sustainable Development and Climate Change Department (SDCC) Sri Wening Handayani, Principal Social Development Specialist, SDCC

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PROJECT AT A GLANCE

1. Basic Data		Project Number: 51398-001	
Project Name	Innovative Partnerships for Coffee and Agroforestry Development	Department /Division	PARD/TLRM
Country	Timor-Leste, The Democratic Republic of	Executing Agency	Ministry of Agriculture and Fisheries
Borrower	Na		
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Agriculture, natural resources and rural development	Agricultural policy, institutional and capacity development		0.00
	Forestry		0.00
		Total	0.00
3. Strategic Agenda	Subcomponents	Climate Change Information	
Inclusive economic growth (IEG)	Pillar 2: Access to economic opportunities, including jobs, made more inclusive	Climate Change impact on the Project	Low
Environmentally sustainable growth (ESG)	Environmental policy and legislation Natural resources conservation		
4. Drivers of Change	Components	Gender Equity and Mainstreaming	
Governance and capacity development (GCD)	Institutional development	Effective gender mainstreaming (EGM)	✓
Knowledge solutions (KNS)	Knowledge sharing activities Pilot-testing innovation and learning		
Partnerships (PAR)	Civil society organizations Implementation Private Sector		
Private sector development (PSD)	Conducive policy and institutional environment Public sector goods and services essential for private sector development		
5. Poverty and SDG Targeting		Location Impact	
Geographic Targeting	No	Rural	High
Household Targeting	Yes		
SDG Targeting	Yes		
SDG Goals	SDG1, SDG2, SDG8, SDG10, SDG15		
6. Risk Categorization:	Low		
7. Safeguard Categorization	No Safeguards Categorization available.		
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		0.00	
Sovereign Project grant: Asian Development Fund		0.00	
Cofinancing		3.00	
To be determined - Grant (Full ADB Administration)		3.00	
Counterpart		1.50	
Government		1.50	
Total		4.50	

PROBLEM TREE

Effects

Persistent poverty and malnutrition

Sub-optimal export earnings

Core Problem

Timor-Leste's coffee sector is operating far below its long run potential

Causes

Production is low and volatile

Quality is inconsistent and below potential

Sector management and coordination is weak

Low levels of financial inclusion among farmers

Little applied research

Uncertain land tenure

Increasing impacts of climate change

Poor quality roads and supporting infrastructure

Low rates of adoption of good agricultural practices

Weak public sector extension system

Declining youth participation

Limited participation of women in training

No national quality standards

Limited engagement of private sector in extension

Low levels of information sharing

Low levels of certification

Lack of knowledge and understanding of quality

Limited coordination of branding and marketing

Weak data collection and information management

Little effort to develop complementary income streams

I. THE PROJECT

A. Rationale

1. Improvements in coffee production and processing offer one of the clearest pathways for reducing poverty and growing Timor-Leste's non-oil economy. Coffee provides an important source of cash income for around 27.5% of Timorese households and is the country's largest non-oil export.¹ However, 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.² As a result, many coffee producing households live in extreme poverty. Strengthening sector management and providing targeted support to smallholder producers can generate sustained increases in household income. If implemented at scale, this could have a significant impact on the national poverty rate and growth of non-oil exports.

2. There have been several phases in the development of Timor-Leste's coffee sector. The first significant plantings were made in the 1860s when the Portuguese colonial authorities required households in some areas to plant coffee. During 1890-1920, large private and state-owned plantations were established with support from the colonial government. Since then, the sector has grown through increased planting by smallholder farmers. These farmers often acted on their own initiative, but the colonial period also saw a range of government sponsored programs to encourage or coerce local people into producing coffee.³

3. From 1975 to 1994, one company was granted an exclusive license to manage the plantation sector and coffee trade. The Indonesian military played a substantial role in the coffee trade during this period, and the price paid to smallholders was as little as 1/6 of the price paid in other parts of Indonesia. This contributed to a loss of knowledge while underinvestment in the plantation sector led to a steady decline in plantation production. The state-backed monopoly ended in 1994 and since then a range of new business models and markets for Timorese coffee have been developed. Efforts to rehabilitate unproductive farms have also begun but a huge amount of work remains to be done.

4. In Timor-Leste, coffee bushes are planted under the shade of larger trees that form continuous areas of forest. This is a form of agroforestry that can provide a range of economic products and ecosystem services. The shade trees help to stabilize the soils on steep slopes, increase the infiltration of rainfall to aquifers, sequester carbon, and provide a habitat for a wide range of flora and fauna. They can also help to improve soil fertility by fixing nitrogen, and provide a source of timber and edible fruits. Other economic crops, including foods like banana, taro, and arrowroot, and spices such as ginger, turmeric, pepper, vanilla, and cloves can also be grown within this system.

5. Establishing and maintaining productive agroforestry systems requires hands-on management and significant use of labor and other inputs. In Timor-Leste many smallholder households minimize their labor input and make little or no use of other external inputs. This means that they don't make full use of proven approaches for improving production such as spaced planting, regular pruning, composting, and pest management. As a result, coffee trees are often old and overgrown, soil fertility is low, and production is affected by a range of pests and

¹ Government of Timor-Leste. 2016. *Timor-Leste Population and Housing Census 2015*. Dili.

² Current yields of Arabica coffee are approximately 200 kilograms (Kg) of green bean equivalent per Ha. This compares to a global average of 743 Kg per Ha, and an average yield in comparator countries of 787 kg per Ha. Source: Food and Agriculture Organization, ADB Staff estimates.

³ Shepherd. C., McWilliam. A. 2013. *Cultivating Plantations and Subjects in East Timor: A Genealogy*. Canberra.

diseases. This reduces average yields, which are among the lowest in the world, and amplifies climate induced variations in annual yields.

6. Many smallholders continue to live in poverty due to low and volatile production and inconsistent quality. Implementation of a simple package of good agricultural practices can triple coffee yields but most households need training and other support to do this. Training by public extension officers and private companies is poorly coordinated and insufficient. A 2011 survey of households from 25 communities in the main coffee growing region found that only 14% had received training on coffee production during the past 4 years.⁴ The same survey also found that training had very little impact on reported yields. This could reflect weaknesses in training delivery, and other constraints to farmers' adoption of new practices such as extreme poverty, a lack of access to financial services, household labor shortages, and insecure land tenure.

7. Many coffee producing households rely on the crop for a majority of their cash income. This income is highly seasonal, and the incidence of household poverty is significantly higher in coffee producing areas.⁵ Households that lack access to formal financial services may use informal mechanisms to smooth their consumption. However, a 2011 survey found that 45% of coffee producing households significantly reduced their food consumption in the months preceding the harvest, with half of the surveyed households eating one or less meals per day.⁶ Hunger, and the need to seek other sources of cash income, are likely to constrain household labor input during the pre-harvest period and discourage the adoption of new technologies. Helping smallholder farmers to access formal financial services would enable them to build up savings and to access credit on more favorable terms. This would complement and reinforce interventions to increase smallholder productivity.

8. Pruning and replanting old trees is crucial for increasing productivity but leads to an initial loss of income while trees that were pruned or replanted are returning to production. This temporary loss of income is likely to deter poor households. Insecure land tenure may also reduce the incentive for investment by some households. Around 25% of the land planted with coffee is owned by the State and occupied by smallholder farmers who lack clear title. A 2016 survey found that 17% of households in Ermera district and 12% of households in Ainaro district perceived some risk of dispossession within the next 5 years.⁷ A new land law was approved in 2017 but implementing regulations are still being developed and it will take time to resolve historical land disputes under the new legal framework.

9. Improving the price that farmers receive for their coffee can amplify the benefits of increased production. This can be achieved by improving value chain efficiency, increasing local value addition, and increasing the share of exports which are sold for a premium. Timor-Leste currently exports most of its coffee as a commodity-grade product with little or no differentiation. However, global demand for specialty coffees is growing rapidly and this provides a significant opportunity for Timor-Leste to achieve better export prices. High quality is the defining feature of specialty coffee and is assessed by examining the physical characteristics of unroasted coffee beans and the sensory profile of the roasted beans. Certifications and other intangible factors are also increasingly important for specialty coffee markets. Recent analysis has highlighted supply chain transparency, product traceability, and the knowledge of value chain partners and

⁴ Inder, B., Lloyd, D., Cornwell, K., and Tilman, Z. 2013. *Coffee, Poverty and Economic Development in Timor-Leste*. Dili

⁵ Initial Poverty and Social Analysis, Appendix 3.

⁶ Footnote 3.

⁷ Almeida, B., Wassel., T. 2016. *Survey on Access to Land, Tenure Security and Land Conflicts in Timor-Leste*. Dili

consumers as factors that condition the underlying relationship between quality and create additional value.⁸

10. The success of initiatives to upgrade production, improve quality, and develop specialty markets hinges on close coordination across the value chain and between government, the private sector and other stakeholders. Numerous studies and assessments have identified weak coordination as a constraint to developing the coffee sector in Timor-Leste but coordination has only recently begun to improve. In 2016, following an initiative from the Asian Development Bank (ADB), a group of stakeholders representing all stages of the coffee value chain came together to form the Timor-Leste Coffee Association (ACTL).⁹ In 2016 and 2017 ACTL organized a new high-profile festival - Festival Kafe Timor - to celebrate and promote Timor-Leste's coffee sector. It has also established lab facilities to assess coffee quality, provided training on sensory analysis, and organized high-profile coffee quality and barista competitions to encourage excellence.¹⁰

11. ACTL and other industry stakeholders are also working closely with the Government to prepare Timor-Leste's first national coffee sector development plan.¹¹ Preparation of the plan has confirmed the need for increased investment in the sector and further improvements in coordination. The Ministry of Agriculture and Fisheries (MAF) is the designated public agency for development of coffee and other agroforestry crops. The government has identified the coffee sector as a strategic priority and public investment in farm rehabilitation and expansion has increased since 2015. However, farm rehabilitation efforts remain fragmented and are well below the levels needed to achieve sustained and widespread improvements in smallholder productivity.

12. Some of the key foundations of an effective national system for farm rehabilitation are still being established. MAF has a network of extension workers at Suco level but these staff are responsible for supporting production for all crops, livestock, and aquaculture. This is an extremely challenging mandate and it is generally accepted that extension services need to be improved. MAF has identified training partnerships with NGOs and private businesses as a model with excellent potential for the coffee sector. However, there is currently no shared system for tracking the replanting and rehabilitation of coffee farms or the provision of training. There is also no established system for engaging businesses and NGOs to implement public funded programs. This makes it difficult to assess resource requirements, plan and implement rehabilitation and training programs, evaluate the efficacy of different training models, and maximize the returns on public investment.

13. The absence of a shared framework for assessing the quality of coffee at each stage in production and processing is another notable gap in sector management. Clearly defined quality standards would facilitate training and communication across the supply chain and could be used by businesses to provide clear incentives for quality improvement. Timor-Leste would also benefit from clearer and more coherent communications with specialty coffee importers, roasters and consumers in major consuming markets such as Australia, the European Union, Japan, Korea,

⁸ Samper, L., Giovannucci, D., Vieira, L. 2017. *The powerful role of intangibles in the coffee value chain*. Geneva

⁹ ACTL is a voluntary, non-profit trade association. The founding members represent all stages of the coffee value chain and accounted for around 67% of all exports in 2016.

¹⁰ The Festival was primarily targeted at local farmers and industry stakeholders. Around 60 coffee samples were entered into the coffee quality competitions in each year, and several thousand people participated in the various festival events. International coffee specialists including coffee traders and buyers participated in the festival at their own expense.

¹¹ ADB has contracted the Coffee Quality Institute – a non profit institution supporting coffee sector development – to assist with development of the plan. Detailed baseline assessments on research, training, and extension have been undertaken and a participatory process to develop the plan has been initiated. The inception phase has been completed and the plan is on track to be finalized in May 2018.

and the United States. This could be achieved through well planned and regular representation at the leading trade shows in specialty coffee consuming markets.

B. Proposed Solutions

14. Innovative Partnerships for Coffee and Agroforestry Development is a project to reduce rural poverty, create new employment opportunities and support environmentally sustainable export growth. The project will support the implementation of Timor-Leste's new national coffee sector development plan and provide selective support for agroforestry activities that are linked to coffee production. The project was included in the Timor-Leste country operations and business plan 2017-2019, and is aligned to the country partnership strategy objectives of more inclusive and sustainable growth and a more productive and diversified economy. The project design takes full account of the important role that women play in coffee production and will implement effective gender mainstreaming across all activities.¹² The project outputs are described in more detail below:

15. **Output 1: More productive coffee and agroforestry systems.** The project will help households to rehabilitate and improve agroforestry systems on land that they own or occupy with consent of the state and their community. Production systems will be strengthened through establishment of 100 farm level demonstration plots of which xx will be on female-managed farms¹³ These farmer-managed plots will enable local level demonstration of relevant technologies in conditions which high relevance and relatability for local households. The demonstration plots will serve as hubs for the training of 5,000 farm households and at least 40% of the people trained will be women. Training will be provided regularly over several harvest cycles to ensure knowledge transfer and will be delivered through partnerships with the private sector that leverage existing supply chain relationships. The project will work with local financial institutions and businesses that procure coffee to improve the financial inclusion of participating households.¹⁴ Around 1,000 of the poorest households will receive a conditional cash transfer through a cash for work scheme to facilitate successful adoption of productivity improving technologies. Eligibility for the cash for work scheme will be determined using a proxy means test that is developed in partnership with Timor-Leste's Ministry of Social Solidarity. Key principles for design and implementation of the scheme will be considered in more detail during project factfinding.

16. **Output 2: Improved quality and market linkages.** The project will support the annual coffee quality competitions, training, and communications that are linked to Festival Kafe Timor. This will help to raise awareness and understanding of quality improvement. The festival will be promoted as forum for developing new market linkages and the project will also support Timor-Leste's participation in leading international trade shows for the specialty coffee market.

17. **Output 3: Improved sector management and coordination.** The project will support the design and initial deployment of a farm information management system that will enable collection

¹² Appendix 3: Initial Poverty and Social Analysis.

¹³ The selection criteria for demo-plot locations and the plot design principles will be aligned with Timor-Leste's national coffee sector development plan and will be confirmed during factfinding. The target for the number of female managed farms will be confirmed during project factfinding.

¹⁴ This will include licensed banks and 'other deposit taking institutions' that are licensed by the Central Bank of Timor-Leste. Background assessments to support the preparation of the National Coffee Sector Development Plan have confirmed the willingness of several institutions to participate in such schemes, and the broad suitability of current and planned product offerings.

and analysis of sex-disaggregated information on training and extension services.¹⁵ The project will also help to develop national quality standards and work with the Government, ACTL, and other stakeholders to establish a platform for regular sharing of knowledge and information related to productivity and quality improvement.

18. These outputs will result in the following outcome: Sustained increases in value creation through coffee and agroforestry production. The project will be aligned with the following impact: Sustained growth in per-capita incomes and the elimination of extreme poverty by 2030.

C. Proposed Financing Plans and Modality

19. The project will be financed through a \$3 million grant from a trust fund and \$1.5 million of counterpart financing from the Government of Timor-Leste.

Table 1: Indicative Financing Plan

Source	Amount (\$ million)	Share of Total (%)
Trust Fund	3.0	66.7
Government	1.5	33.3
Total	4.5	100.0

Source: Asian Development Bank staff estimates

D. Implementation Arrangements

Table 2: Indicative Implementation Arrangements

Aspects	Arrangements
Indicative implementation period	August 2018 – December 2021
Indicative completion date	December 2021
Management	
(i) Executing agency	Ministry of Agriculture and Fisheries
(ii) Key implementing agencies	Ministry of Agriculture and Fisheries

Source: Asian Development Bank staff estimates

II. PROJECT PREPARATION AND READINESS

20. ADB is currently implementing TA-9624 – Preparation of a National Coffee Sector Plan for Timor-Leste. No additional TA will be processed before the project.

III. DELIBERATIVE AND DECISION-MAKING ITEMS

A. Risk Categorization

21. ADB has been providing technical assistance to support coffee sector development since early 2016 and has been working closely with the Ministry of Agriculture and Fisheries. As a result, the project is classified as low risk.

¹⁵ The farm information management system is envisaged as an IT based system that would be managed by the Ministry of Agriculture and Fisheries or by an entity nominated by the Ministry.

B. Project Procurement Classification

22. The project procurement classification is category presented in Appendix 2. The recommended classification is Category A: the executing and implementing agencies would probably require additional procurement support in order to deal with high risk and/or complex procurement. Likely risks and options for risk mitigation would be assessed during project factfinding.

C. Scope of Due Diligence

Due Diligence Outputs	To be undertaken by
Development coordination	Staff and consultant resources
Economic analysis	Staff and consultant resources
Governance and financial management assessment	Staff and consultant resources
Gender analysis, collection of baseline data and gender action plan	Staff and consultant resources
Initial poverty and social analysis	Staff and consultant resources
Summary poverty reduction and social strategy	Staff and consultant resources
Environmental assessment	Staff and consultant resources
Indigenous peoples plan	Staff and consultant resources
Participation and stakeholder communications plan	Staff and consultant resources
Gender Analysis	Staff and consultant resources

Source: Asian Development Bank staff estimates

D. Processing Schedule and Sector Group's Participation

Table 3: Processing Schedule by Milestone

Milestones	Expected Completion Date
1. Project factfinding	26 February
2. Staff review meeting	21 April
3. Government of Japan funding approval	15 June
4. Grant negotiations	29 June
5. ADB approval	13 July

Source: Asian Development Bank staff estimates

E. Key Processing Issues and Mitigation Measures

Table 4: Issues, Approaches and Mitigation Measures

Key Processing Issues	Proposed Approaches and/or Mitigation Measures
1. Political uncertainty	The political situation will be monitored closely and risks of a delay in processing will be further assessed during factfinding.
2. Role of ACTL	The completion of ACTL's legal registration is still pending with the Ministry of Justice. ACTL's role in the project and the modality for this will be considered during factfinding and the implications of further delays to completion of the registration will be assessed.

PRELIMINARY DESIGN AND MONITORING FRAMEWORK

Impacts the Project is Aligned with Sustained growth in per-capita incomes and the elimination of extreme poverty by 2030 (Timor-Leste Strategic Development Plan 2011-2030) ^a			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting	Risks
<p>Outcome Sustained increases in value creation through coffee and agroforestry production achieved</p>	<p>a. By 2022, the proportion of coffee exports achieving price premia has increased by 20% (2017 baseline to be confirmed).</p> <p>b. By 2022, the proportion of coffee farms requiring rehabilitation has fallen by 10%. (2017 baseline to be confirmed).</p>	<p>a. Coffee export statistics prepared by DGE, MCI, and MAF.</p> <p>b. Coffee farm information system.</p>	
<p>Outputs 1. More productive coffee and agroforestry production systems established</p>	<p>1a. During 2018-2021, 100 farm level demonstration plots are established as part of a national network with at least xx on female-managed farms. (2017 baseline, 0 farm level demonstration plots).</p> <p>1b. By 2022, at least 5,000 households have received regular training on productivity and quality improvement with women accounting for at least 40% of training participants.</p> <p>1c. By 2022, at least 2,500 households have completed farm rehabilitation and upgrading programs.</p> <p>1d. During 2019-2021, at least 2,500 smallholder farm households are</p>	<p>1a. Project monitoring reports from MAF and ACTL.</p> <p>1b. Project monitoring reports from MAF and ACTL.</p> <p>1c. Project monitoring reports from MAF and ACTL.</p> <p>1d. Project reports. Annual reports of MAF and ACTL.</p>	<p>Capacity constraints result in delays in identification and establishment of demo plots or failure to follow guidelines for design and monitoring.</p> <p>Household demand for training is below expected levels or the costs of delivering training exceed project estimates.</p> <p>The financial and non-financial incentives that are provided to support farm rehabilitation are not sufficient.</p> <p>The willingness of smallholder producers and their value chain partners to move transactions onto banking platforms is below the expected level.</p>

	benefiting from increased financial inclusion and at least xx% have joint bank accounts for receiving coffee payments.		
2. Quality and market linkages improved	<p>2a. During 2018-2021, Festival Kafe Timor and the associated quality competitions provide an annual platform to strengthening value chain and market linkages (2017 baseline, festival held in 2016 and 2017).</p> <p>2b. During 2019-2021, Timor-Leste is represented in at least two of the words leading specialty coffee trade shows. (2017 baseline, no representation).</p>	<p>2a. Project reports. Annual reports of MAF and ACTL.</p> <p>2b. Project reports. Annual reports of MAF and ACTL.</p>	Other stakeholders do not provide the in-kind support and sponsorships needed to deliver the festival as envisaged.
3. Sector management and coordination improved	<p>3a. By the end of 2019, a farm information management system is in place to monitor farm conditions and sex-disaggregated delivery of training and extension services. (2017 baseline, no information management system)</p> <p>3b. By the end of 2019, a grading system to classify fresh and processed coffee has been adopted. (2017 baseline, no national grading standards)</p> <p>3c. During 2018-2021 ACTL provides a platform for knowledge sharing and ongoing industry learning (2017 baseline, no established platform).</p>	<p>3a. Project monitoring reports from MAF.</p> <p>3b. Annual reports of MAF and ACTL.</p> <p>3c. ACTL annual reports.</p>	<p>Technical challenges, capacity constraints, and a lack of stakeholder consensus lead to delays in system development and implementation.</p> <p>Lack of industry support impedes the finalization and roll-out of the grading system.</p>

<p>Key Activities with Milestones</p> <p>1. More productive coffee and agroforestry production systems</p> <p>1.1 Enrollment of participating farmer groups and establishment of demonstration plots. 1.2 Monitoring and supervision of demonstration plots. 1.3 Enrollment of farm groups for training and extension activities. 1.4 Facilitation of financial inclusion of farmer groups. 1.5 Delivery of training and extension programs. 1.6 Delivery of conditional cash transfers for farm improvements.</p> <p>2. Improved quality and market linkages</p> <p>2.1 Organization and delivery of Festival Kafe Timor and associated competitions. 2.2 Development of presentation materials for trade show representation.</p> <p>3.3. Improved sector management and coordination</p> <p>3.1 Options analysis on farm information management system. 3.2 Design and commissioning of farm information management system 3.3 Development of draft quality standards for national grading system 3.4 Initial trial deployment of proposed quality standards 3.5 Revision and rollout of revised quality standards and grading system. 3.6 Information and knowledge sharing platform meetings.</p> <p>Project Management Activities</p> <p>Maintain or strengthen project management unit capacity for management of overall development partner-financed programs. Provide monitoring and supervision of implementing consultants.</p>
<p>Inputs</p> <p>ADB: \$0 million Government of Timor-Leste: \$1.5 million Trust Fund: \$3 million grant</p>
<p>Assumptions for Partner Financing</p> <p>Not Applicable</p>

ACTL = Timor-Leste Coffee Association, DGE = General Directorate of Statistics, MAF = Ministry of Agriculture and Fisheries, MCI = Ministry of Commerce and Industry,

^a Government of Timor-Leste. 2011. *Timor-Leste Strategic Development Plan, 2011-2030*. Dili
Source: Asian Development Bank.

PROJECT PROCUREMENT CLASSIFICATION

Characteristic	Assessor's Rating:
Is the procurement environment risk for this project assessed to be <i>high</i> based on the country and sector and/or agency risk assessments?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No ADB is yet to complete a procurement risk assessment for the Ministry of Agriculture and Fisheries. However, a lack of familiarity with ADB procurement guidelines is likely to create a risk of procurement delays.
Are multiple (typically more than three) and/or diverse executing agencies and/or implementing agencies envisaged during project implementation? Do they lack prior experience in implementation under an ADB-financed project?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> Unknown
Are multiple contract packages and/or complex and high-value contracts (compared with recent externally financed projects in the developing member country [DMC]) expected?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> Unknown The contracting approach will be confirmed during factfinding.
Does the project plan to use innovative contracts (public-private partnership, performance-based, design and build, operation and maintenance, etc.)?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> Unknown Some innovation through performance based contracts could be used. Scope for innovation will be assessed during factfinding.
Are contracts distributed in more than three geographical locations?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> Unknown The geographical scope of the project will be confirmed during factfinding.
Are there significant ongoing contractual and/or procurement issues under ADB (or other externally) financed projects? Has misprocurement been declared in the DMC?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> Unknown
Does the DMC have prolonged procurement lead times, experience implementation delays, or otherwise consistently fail to meet procurement time frames?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> Unknown
Do executing and/or implementing agencies lack capacity to manage new and ongoing procurement? Have executing and/or implementing agencies requested ADB for procurement support under previous projects?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Unknown ADB is yet to complete a formal assessment but it is likely that the proposed executing and implementing agencies have limited procurement capacity and low familiarity with ADB and MDB requirements.
Regional department's overall recommendation ()	
Overall project categorization recommended	<input checked="" type="checkbox"/> Category A <input type="checkbox"/> Category B
The executing and implementing agencies would probably require additional procurement support in order to deal with high risk and/or complex procurement. Likely risks and options for risk mitigation would be assessed during project factfinding.	
OSFMD's recommendation ({insert staff name})	
{OSFMD confirms the classification during interdepartmental circulation of the project concept paper}	

INITIAL POVERTY AND SOCIAL ANALYSIS

Country:	Timor-Leste	Project Title:	Innovative Partnerships for Coffee and Agroforestry Development
Lending/Financing Modality:	Project	Department/ Division:	Pacific Department / Timor-Leste Resident Mission

I. POVERTY IMPACT AND SOCIAL DIMENSIONS

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

Timor-Leste's Strategic Development Plan 2011-2030 targets the elimination of poverty and achievement of upper middle-income status by 2030. The key pillars of this strategy are infrastructure development, human resource development, institutional development, and the development of productive sectors of the economy. Agriculture, tourism, and petroleum are identified as leading sectors in Timor-Leste's development strategy. Of these sectors, agriculture has the greatest potential for an immediate and widespread contribution to 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. At the macro level, coffee is one of Timor-Leste's most important sub-sectors, and accounted is the only significant non-oil merchandise export. Coffee is grown using an agroforestry system and provides a significant source of cash income for 27.5% of all households. Production is concentrated in the mountainous areas of the Aileu, Ainaro, Ermera, Liquica, and Manufahi municipalities. The average incidence of poverty in the main coffee producing regions is 47.4% compared to an average of 39.9% in the other 8 municipalities. The inefficiency of the coffee sector is one of the factors that contributes to high rates of poverty in coffee producing areas. Average yields are among the lowest in the world, and both quality and value realization are well below potential. As a result, most coffee producing households live in poverty. The project will help to address some of the systemic constraints to growth and development of the coffee sector through improved sector management and market linkages and will demonstrate a scalable model for economic growth and rural poverty reduction. Working in partnership with government, the private sector and civil society, the project will help 5,000 poor households to achieve a sustained increase in annual incomes from coffee production and associated agroforestry. While most project activities will directly address productivity and income generation, support for increased financial inclusion will help to address some non-income poverty dimensions.

B. Poverty Targeting

General intervention Individual or household (TI-H) Geographic (TI-G) Non-income MDGs (TI-M1, M2, etc.)

C. Poverty and Social Analysis

1. **Key issues and potential beneficiaries.** The project will help to address several issues at the sector level and will directly support 5,000 farming households. Issues to be addressed at the sector level include: i) weak information management; ii) lack of industry standards for quality management; iii) limited coverage of certifications; and iv) poorly coordinated market development. principle beneficiaries of the project are poor coffee producing households. Issues to be addressed at the household level include i) limited knowledge and understanding of practices needed to increase productivity and quality; ii) limited understanding of complementary agroforestry crops; iii) low levels of financial inclusion. Summary poverty statistics are shown below:

Municipality	% of households growing coffee	Headcount poverty rate (\$1.90 per day, 2011 PPP equivalent)	Headcount poverty rate (national poverty line)
Aileu	82	23.7	35.1
Ainaro	66	28.9	43.2
Ermera	82	46.8	56.7
Liquica	56	32.9	43
Manufahi	55	31.1	47.7

PPP = purchasing power parity

Source: Government of Timor-Leste. 2016. *Timor-Leste Population and Housing Census 2015, Social and Economic Characteristics – Volume 3, Agriculture*. Dili; Government of Timor-Leste. 2016. *Poverty in Timor-Leste 2014*. Dili

2. **Impact channels and expected systemic changes.** The project will help households to increase their income and manage risks related to income volatility and climate change and support a more equitable distribution of income

across the coffee value chain by helping coffee farmers to capture a larger share of total value. The training programs for farmers will help them to achieve sustained increases in the income from coffee and agroforestry production. An associated cash for work scheme to support the implementation of productivity improvements by will provide an immediate source of cash income for some of the poorest households. The sector level programs will create the enabling conditions for sustained improvements in the prices offered to farmers for their products, while the project's focus on financial inclusion will ensure that participating households benefit from increased access to financial services.

3. Focus of (and resources allocated in) the transaction TA or due diligence. Staff and consultant resources will be used for more detailed profiling of the poverty profiles of coffee producing households and the extent to which land tenure issues are a constraint to productivity improvements.

II. GENDER AND DEVELOPMENT

1. What are the key gender issues in the sector and/or subsector that are likely to be relevant to this project or program? Women play a key role in each stage of production and processing and play the dominant role in plantation care and harvesting. However, women often play little or no role in coffee marketing and male household heads often assume full responsibility for representing the household in farmer groups and cooperatives. This can lead to a reduced role for women in decision making at both the group and household level, and can have a negative impact on women's access to training and education to support production. Where men take the lead in coffee marketing this can exacerbate intra-household inequality.

Activity	Dominant role	Assistance
Land clearing and preparation	Men	Women
Raising seedlings	Women	Women
Field planting	Men / Women	
Plantation care	Women	
Harvesting	Women	Men
Transporting fresh coffee cherries	Men	
Pulping fresh coffee	Men / Women	
Drying coffee	Men / Women	
Marketing	Men	Women

Source: Adapted from Widana. 2013. *Smallholder Coffee Grower and Livelihoods in Timor-Leste: Current Status, Issues, and Challenges*. Dili

2. Does the proposed project or program have the potential to contribute to the promotion of gender equity and/or empowerment of women by providing women's access to and use of opportunities, services, resources, assets, and participation in decision making? Yes No

A gender action plan will be prepared for the project. This plan will include actions to support women's participation in training activities and to encourage increased female participation in farmer groups and in decision making processes. The action plan will also include measures to address the issues stemming from the current dominance of men in coffee marketing. This could include the promotion of joint or family bank accounts for receiving income from coffee sales.

3. Could the proposed project have an adverse impact on women and/or girls or widen gender inequality?
 Yes No

4. Indicate the intended gender mainstreaming category:

- GEN (gender equity) EGM (effective gender mainstreaming)
 SGE (some gender elements) NGE (no gender elements)

III. PARTICIPATION AND EMPOWERMENT

1. Who are the main stakeholders of the project, including beneficiaries and negatively affected people? Identify how they will participate in the project design.

- i. **Government agencies.** Overall responsibility for sector management, will participate in all stages of project design.
- ii. **Private sector.** Implementing partners for some/all project activities and will be affected by the sector-level interventions. Will be invited to contribute to overall design and consulted on specific components as relevant.
- iii. **NGOs and CSOs.** Interested parties and potential implementing partner. Will be invited to contribute to overall design and consulted on specific components as relevant.

<p>iv. Farming households. Principle project beneficiaries. Will be consulted in detail on proposed structure of training, extension, and cash for work activities.</p> <p>2. How can the project contribute (in a systemic way) to engaging and empowering stakeholders and beneficiaries, particularly, the poor, vulnerable, and excluded groups? What issues in the project design require participation of the poor and excluded? The project will support sector level coordination and regulation that will help to make the value chain more inclusive and will demonstrate a scalable model for farm rehabilitation and quality improvement.</p> <p>3. What are the key, active, and relevant civil society organizations (CSOs) in the project area? What is the level of civil society organization participation in the project design? The Timor-Leste Coffee Association (ACTL) is an umbrella trade association that includes a wide range of NGO and CSO members who support the coffee value chain. Detailed stakeholder mapping will be completed prior to finalization of the participation plan for project design. The expected levels of stakeholder participation for each area are shown below: Information generation and sharing (H) Consultation (H) Collaboration (H) Partnership (H)</p> <p>4. Are there issues during project design for which participation of the poor and excluded is important? What are they and how should they be addressed? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No Training activities and the associated cash for work program will directly target poor and excluded groups. The participation of these groups in the design of these activities will therefore be essential.</p>
IV. SOCIAL SAFEGUARDS
A. Involuntary Resettlement Category <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI
<p>1. Does the project have the potential to involve involuntary land acquisition resulting in physical and economic displacement? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>2. What action plan is required to address involuntary resettlement as part of the transaction TA or due diligence process? <input type="checkbox"/> Resettlement plan <input type="checkbox"/> Resettlement framework <input type="checkbox"/> Social impact matrix <input type="checkbox"/> Environmental and social management system arrangement <input checked="" type="checkbox"/> None</p>
B. Indigenous Peoples Category <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI
<p>1. Does the proposed project have the potential to directly or indirectly affect the dignity, human rights, livelihood systems, or culture of indigenous peoples? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>2. Does it affect the territories or natural and cultural resources indigenous peoples own, use, occupy, or claim, as their ancestral domain? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No The project will help households to rehabilitate and improve agroforestry systems on land that they own or occupy with consent of the state and their community.</p> <p>3. Will the project require broad community support of affected indigenous communities? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>4. What action plan is required to address risks to indigenous peoples as part of the transaction TA or due diligence process? <input type="checkbox"/> Indigenous peoples plan <input type="checkbox"/> Indigenous peoples planning framework <input type="checkbox"/> Social impact matrix <input type="checkbox"/> Environmental and social management system arrangement <input checked="" type="checkbox"/> None</p>
V. OTHER SOCIAL ISSUES AND RISKS
<p>1. What other social issues and risks should be considered in the project design? <input type="checkbox"/> Creating decent jobs and employment <input type="checkbox"/> Adhering to core labor standards <input type="checkbox"/> Labor retrenchment <input type="checkbox"/> Spread of communicable diseases, including HIV/AIDS <input type="checkbox"/> Increase in human trafficking <input type="checkbox"/> Affordability <input type="checkbox"/> Increase in unplanned migration <input type="checkbox"/> Increase in vulnerability to natural disasters <input type="checkbox"/> Creating political instability <input type="checkbox"/> Creating internal social conflicts <input type="checkbox"/> Others, please specify _____</p> <p>2. How are these additional social issues and risks going to be addressed in the project design?</p>
VI. TRANSACTION TA OR DUE DILIGENCE RESOURCE REQUIREMENT
<p>1. Do the terms of reference for the transaction TA (or other due diligence) contain key information needed to be gathered during transaction TA or due diligence process to better analyze (i) poverty and social impact, (ii) gender impact, (iii) participation dimensions, (iv) social safeguards, and (v) other social risks. Are the relevant specialists identified? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No Detailed terms of reference have not been prepared yet.</p> <p>2. What resources (e.g., consultants, survey budget, and workshop) are allocated for conducting poverty, social, and/or gender analysis, and participation plan during the transaction TA or due diligence? An application for JFPR seed funding will be made to supplement staff resources.</p>