



USAID
FROM THE AMERICAN PEOPLE

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DEZENVOLVE AGRICULTURA COMUNITÁRIA
(DAC) PROJECT

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Quarterly Highlights

Farm sales of 22 m.t. from the SHAs generated over \$16,000 during the quarter:

Totals of Vegetable Production from all SHAs: April-June 2012		
	Kg	US\$
Outdoor Production	20,026	14,371
Greenhouse	1,550	2,277
Total	21,576	\$16,648

Next phase of DAC training: DAC completed competitive procurements and is finalizing contracting for 3 important trainings: Bookkeeping/Recordkeeping, Farming as a Business, and Farmer Field School. In addition, DAC assessed potential training sites in Indonesia for new outdoor production groups, greenhouse groups, and Kmanek management staff.

New greenhouse management system: DAC Community Mobilization staff facilitated several meetings with Kmanek and the farmer groups, resulting in a mutually agreed new system for managing the greenhouses. Kmanek will play a larger role in resolving problems encountered over the last several months (“side selling” from Sarin greenhouse, loss of 75% of the tomato plants due to a controllable disease, farmer group concern about their ability to supervise and control the activities, uneven work contributions by members).

Greenhouse groups decide on legal registration type: DAC Community Mobilization staff presented several options for legal registration and facilitated a discussion about the “pros and cons” of each form. Both groups elected to pursue registration as Associations. Legal registration will enable USAID to dispose of the greenhouse properties to the two groups.

GDA funded expansion: DAC identified six potential new sites in Aileu District and conducted initial discussions with farmers and surveys of the sites. The pilot group in Fatubossa had its first sales to Kmanek Supermarket.

Activities Year Two

This quarterly report follows the revised Year Two Workplan, describing activities and achievements in DAC's three main activities:

- 1) Assist SHA farmers to establish organizations that can successfully manage their commercial horticulture activities (*PEOPLE*)
- 2) Assist SHA farmers to improve horticulture technology and practices to meet market demand for product quantity and quality (*PRODUCTION*)
- 3) Assist SHA farmers and other value chain actors and stakeholders to develop a strong horticulture value chain that routinely increases sales volume and profits (*VALUE*)

This quarterly report also contains an updated Workplan Timeline, and a summary of the project finances.

Activity One: Assist SHA farmers to establish organizations that can successfully manage their commercial horticulture activities (PEOPLE)

DAC's work with PEOPLE focuses on developing sustainable ways for communities to independently manage the planning, production and sales of vegetables. This includes assisting the farmers to choose and implement the type of organization that best meets their needs, and training the group members in the required skills. Different approaches will be appropriate for different communities, depending on their current level of organization, their initiative and willingness to work together, and the human capacity within the group.

Activity 1A: Continued improvement in the operation (managerial) of the horticultural complex

DAC on-going technical assistance for management includes support for group meetings, developing problem solving skills, training in business skills, and facilitation of the business relationship with Kmanek. In keeping with the Year Two Workplan emphasis on community mobilization and farmer group training in business skills and management, DAC made significant progress in this quarter finalizing the provision of various capacity building programs for the farmer groups.

Quarterly Activities Update – General

Challenge of “side selling” in SHA Sarin: In the last quarter, the SHA Sarin farmer group discovered that four members sold greenhouse produced capsicum to vendors in the Hali Laran market in Dili. This violates the farmer group agreement with Kmanek (the input supplier and buyer), and presents a serious challenge to the management of the SHA activities by the farmer group. In this quarter, DAC assisted Kmanek and the Sarin farmer group to resolve this problem, and establish an agreement for moving forward. The farmer group clearly decided and expressed that they want to continue working with Kmanek, and are not interested in providing their own inputs and selling product on the open market. The members responsible for the “side selling” were asked to resign from the group. Kmanek will subtract the price for 100kgs of capsicum from the total harvest payment, as a sanction. These agreements were made directly between Kmanek and the farmer groups, with DAC staff facilitating only.

New greenhouse management system: The problem with “side selling” from Sarin greenhouse, and the loss of 75% of the tomato plants due to a controllable disease, led Kmanek to question the farmer groups' ability and willingness to maximize production from the greenhouses. In Sarin, the farmer group also grew increasingly concerned about their own group's ability to supervise and control the activities. In Liurai, there has been on-going concern over the uneven work contributions made by members in the group and the unfairness of payments. Aware of these multiple challenges, DAC staff facilitated several meetings with Kmanek and the farmer groups, resulting in a mutually agreed new system for managing the greenhouses.

Kmanek has agreed to provide a greenhouse manager to organize and supervise work in the greenhouse, ensuring that Kmanek's investment (approximately \$7,000 per season, per greenhouse) earns maximum returns. Maximizing production will also maximize earnings for the farmers. Kmanek will hire one of the current DAC staff that received training in Bali and has excelled at indoor production technology.

The greenhouse manager will assist the farmer groups by recording individual member's work contributions, and Kmanek will help the farmers to distribute payments according to their own group rules. The farmer groups have agreed to pay members according to days of work in the greenhouse, in order to reward members who work more. These payments will be deducted from the total harvest payment. The remainder of the total harvest payment will be divided among the members according to each group's own rules. This has been tried in the past in Liurai, but the group leader did not adhere to the group's decision and divided the money equally despite prior agreement to divide the money according to days worked. With the assistance of Kmanek staff, farmer group members are encouraged that their internal agreement can be enforced.

Business skills training for farmer groups

Commercial Farming – Farming as a Business: In the last quarter, DAC conducted a competitive procurement and selected Making Cents International to provide the curriculum for this training, and Timor Aid as a local NGO training provider to partner with Making Cents to ensure sustainability and replication of the training.

In this quarter, Timor Aid met with a variety of potential clients for this type of training, with the understanding that following the DAC training they would continue to offer the curriculum to other donors, NGOs, projects, and government. When meeting with GIZ, Timor Aid discovered that GIZ had developed a very similar curriculum, in Timor Leste, that was meant to be used in the agricultural technical high schools and with MAF extension workers.

This training was developed in Timor, already incorporating the Timor context and with materials in Tetun. After attending a pilot delivery of the GIZ training, DAC decided to use this training instead of the Making Cents training. The cost savings of using an existing, Timor specific, Tetun language curriculum will be significant.

DAC facilitated an agreement between Timor Aid and GIZ for Timor Aid to receive the existing training material templates, and to participate in the final curriculum development workshop. Timor Aid will then further customize the materials specifically for the DAC horticulture groups. DAC will pay for the printing of the necessary training materials directly. In the next quarter, GIZ will sponsor the Training of Trainers for Timor Aid and DAC staff.

Basic recordkeeping and accounting skills: In April, DAC issued a Request for Proposals to the previously shortlisted organizations (Moris Rasik, Timor Aid, Empreza Diak). Only Empreza Diak submitted a proposal. A purchase order was finalized and the training will be held in the next quarter.

Organizational/managerial training – General

DAC continues to facilitate Monthly Leader Meetings in which leaders from each SHA and Kmanek come together to coordinate activities and troubleshoot problems. With the new

production planning and seed distribution system established by Kmanek (see Activity 3E), this quarter's Leader Meetings focused on clarifying production targets for each group, and comparing actual production to targets. During the Leader Meetings, DAC facilitated discussion between Kmanek staff and farmer group leaders to identify the cause of differences between targets and actual production and resolve any problems.

Additional management training provided to the farmer groups trained group leaders to begin keeping better records of seedling production and harvest data. Previously, this data was collected by DAC staff. In the new production planning and seed distribution system established by Kmanek (see Activity 3E), Kmanek takes full responsibility for tracking and analyzing the production cycle (seed distribution to seedling transplant to harvest). However, the farmer groups must be able to provide the raw data. DAC Community Mobilization staff worked with farmer group presidents and finance managers to ensure they could properly fill in the forms required by Kmanek. In the next quarter, the bookkeeping/recordkeeping training will provide recommendations for simplifying and streamlining the various records that farmer groups are required to keep.

Organizational/managerial training - Specific training based on the organizational forms chosen by communities

No activity in this quarter.

Develop business plans for Sarin and Liurai

No activity in this quarter.

Activity 1B: The formation of a legal business entity: a company or a cooperative or some other legal form

Intensive community decision making process regarding type of organization for farmer groups

During this quarter, DAC Community Mobilization staff held multiple discussions with Sarin and Liurai farmer group members, focusing on their questions and concerns about legal registration. Particularly important were the on-going challenges to completing the requirements to form a cooperative in Sarin.

DAC staff worked closely with the project lawyer, Sahe da Silva, who has advised the DAC project on issues related to legal registration over the last 1.5 years. DAC took the opportunity to step back from all previous decisions, and in light of current realities, explore the various options for registration.

It is clear from the history of communication with Mr. da Silva that the objectives and scope of the anticipated legal entity have changed over time. The success that the individual farmer groups currently enjoy does not require them to be legally registered. The formation of a District wide legal entity is possible, yet will not resolve the most pressing problem of registration for Sarin and Liurai farmer groups. The Sarin and Liurai groups need to be legally registered to benefit from the disposition of the greenhouses from USAID. It makes

most sense for the communities to form separate legal entities, so that they can each own their own community greenhouse.

On May 25, DAC senior staff, USAID DAC COTR, and Sahe da Silva met to review the multiple options for legal registration. As a result of that meeting, 4 options were identified and analyzed as follows (see Annex A for detail):

1. Cooperative: While probably the best option for conducting business as a group (without incurring the costs and tax implications of a commercial registration), the formation of a cooperative in Timor Leste remains difficult due to extensive requirements for financial and administrative reporting, and mandatory training from the Direccao Nacional das Cooperativas (as reported previously this has not been provided as requested). The farmer group in Sarin has not been able to achieve mandatory savings requirements.
2. Association: The simplest form of legal registration identified. Both the requirements for registration and on-going reporting requirements are simple and affordable.
3. Sociedade em comandita: Originally considered an attractive option because Kmanek could be a shareholder, the fact that this legal form does not provide “limited liability” meant that it would not be of interest to Kmanek. In fact, Kmanek could be part of any of the legal entity options. The lawyer also informed DAC that this legal form was not actually in use, but was a “remnant” of colonial legal code.
4. Simple contract between USAID and the individual members of the farmer group: This was recommended by the lawyer to accomplish the disposition of the greenhouses. However, USAID regulations favor disposing property to a properly registered legal entity. In addition, the creation of a legal entity will provide a structure for the on-going management and maintenance of the greenhouses.

Following this discussion and analysis, DAC Community Mobilization staff met with both the Sarin and Liurai farmer groups. DAC staff presented the options, and the “pros and cons” of each one. DAC answered questions from the farmers, and facilitated a discussion among the farmer group members. Ultimately, both groups decided that an Association would be the most appropriate form of legal registration.

Initiate formal registration process for selected type of organization

Once the farmer groups made the decision to form Associations, DAC staff began preparing a “roadmap” for the groups that clearly described the steps necessary to achieve registration. In the next quarter, both groups will hold their founding General Assembly meeting.

Initiate community discussion of District level horticulture organization

No activity in this quarter.

Activity 1C: Allocation of exclusive roles and rules for behavior while at work

DAC’s small group discussions and support to the farmers to develop “operating procedures” will incorporate an in-depth discussion of the roles and responsibilities, as well as the rules for behavior, necessary for the long term success of the farmer groups. These exclusive roles and rules will be incorporated into the by-laws or operations manuals of the farmer organizations.

Activity 1D: Recording of land claims

As the law governing land title, in particular rural and community land, has not yet been passed, no activity is possible at this time.

Activity 1E: Formal approach to local government in order to be recognized as a significant rural enterprise

The formal registration of the farmer groups as cooperatives, associations, or another form of legal entity will be the next step.

Activity Two: Assist SHA farmers to improve horticulture technology and practices to meet market demand for product quantity and quality (*PRODUCTION*)

DAC's work with PRODUCTION will transfer full responsibility for greenhouse and outdoor production to the SHA farmer groups and the buyer Kmanek Supermarket (or other buyers), as they develop structures and procedures for managing their planning, production, and sales of vegetables. DAC will also scale up impact by expanding training in horticulture to additional communities as provided in the contract modification.

The end of the rainy season and improved input supply from Kmanek Supermarket resulted in an improvement in outdoor production over the previous quarter. The Liurai greenhouse was re-planted but not producing during the quarter. The Sarin Greenhouse showed the impact of last quarter's loss of tomato plants to disease.

Totals of Vegetable Production from all SHAs: April-June 2012		
	Kg	US\$
Outdoor Production	20,026	14,371
Greenhouse	1,550	2,277
Total	21,576	\$16,648

During the quarter, Kmanek revised their outdoor production targets in response to feedback from farmer groups. While the total target did not change, the division of the target among the groups was changed.

Previously, Kmanek had divided the target into three equal parts: Sarin, Liurai and Selo (all groups). They did not have a clear set of targets allocated to new farmer groups in Lequitura and Fatubossa, or to the farmer groups supported by World Vision. At the May Leaders Meeting, farmers expressed the following complaints:

1. When the target amounts are divided, the farmer groups each get a very small amount of seed which then has to be divided among the group members. Farmers are not interested in growing such small amounts.
2. It is difficult to grow so many different vegetables (Kmanek has targets for over 30 vegetables). Proper soil, climate, water and pests/diseases are different for each vegetable.

3. The Selo group has to divide their target into five smaller targets. There are 56 farmers in Selo, but only a total of 35 farmers in Sarin and Liurai.
4. Fatubossa, Lequitura and Selo farmer groups were not sure what their targets were.

DAC assisted Kmanek to create a new division of the targets in response to these problems. Targets were printed and distributed to each farmer group at the June Leader's Meeting and Kmanek held a question and answer session. The new targets:

1. Reduce the number of different vegetables allocated to each group, concentrating production of specific vegetables in specific areas that have the right soil/climate. Each group has larger targets for fewer vegetables. Therefore, they receive larger amounts of seed, and can master the production of a more limited variety of vegetables.
2. Divides the targets so that resulting income to farmer groups is more equal. The average weekly income target for each group is \$600.
3. Provides incentive to farmers to meet the target. Kmanek told the farmer groups that any group that meets the targets for all of the vegetables will then have their targets increased.

Activity 2A: Continued improvement in the operation (technical) of the horticultural complex

On-going technical assistance as needed (Sarin, Liurai)

DAC continues to provide technical assistance to the farmers in the field, although applying a much less intensive hand-on approach and providing only "on call" technical assistance particularly in Sarin and Liurai sites. This is important to the planned transition of the farmer groups to full responsibility to make decisions on the management and planning of all their horticulture activities.

Input supply arrived from Kmanek for the re-planting of the Liurai greenhouse. DAC staff provided close supervision, ensuring that proper sterilization and sanitary controls were in place inside the greenhouse and in the nursery seedling production processes. The farmers, Kmanek, and DAC staff remain vigilant following the significant losses to disease in the Sarin greenhouse. A total of 3,195 plants (two varieties of tomato and two varieties of capsicum) were planted in late May. Harvest is expected to begin in early August.

The Sarin greenhouse continued to produce capsicum, but approximately 75% of the greenhouse was empty due to the loss of tomato plants. DAC encouraged Kmanek to conduct a trial for indoor production of cucumber. 400 plants were grown, using two different varieties of Lebanese cucumber. Harvest is expected to begin in July.

Training on Improved Production Planning by SHA Groups

With the new production planning and seed distribution system established by Kmanek (see Activity 3E), this quarter's Leader Meetings focused on clarifying production targets for each group, and comparing actual production to targets. During the Leader Meetings, DAC facilitated discussion between Kmanek staff and farmer group leaders to identify the cause of differences between targets and actual production and resolve any problems.

Additional management training provided to the farmer groups trained group leaders to begin keeping better records of seedling production and harvest data. Previously, this data was collected by DAC staff. In the new production planning and seed distribution system established by Kmanek (see Activity 3E), Kmanek takes full responsibility for tracking and analyzing the production cycle (seed distribution to seedling transplant to harvest). However, the farmer groups must be able to provide the raw data. DAC Community Mobilization staff worked with farmer group presidents and finance managers to ensure they could properly fill in the forms required by Kmanek. In the next quarter, the bookkeeping/recordkeeping training will provide recommendations for simplifying and streamlining the various records that farmer groups are required to keep.

Vegetable Grading System

No activity in this quarter

Pest/Disease Management Training

DAC received assistance from the FIELD NGO Farmer Field School consultants, who had high quality images of the most common pests and diseases. DAC continues to work to finalize this manual.

Farmer Field School for IPM and Horticulture Production

As reported previously, DAC and Cardno conducted extensive networking to identify consultants/organizations able to deliver the farmer field school for horticulture in Timor Leste, and had identified only one appropriate candidate, the Indonesian NGO FIELD. In this quarter, DAC also published an Expression of Interest advertisement on the Devex website. No new organizations were identified that had the skills, resources, experience and language ability.

DAC requested and received approval for two consultants from the NGO FIELD Indonesia to conduct an assessment and initial curriculum design for the farmer field school. The STTA was conducted from May 28 – June 8, and the final report was submitted to USAID. In the next quarter, DAC will request a proposal from FIELD for the FFS training of trainers and training implementation. We expect to complete the procurement and have FIELD begin work in September.

Activity 2B: Completion of the protection of springs, boundaries, wind-breaks, slope protection and the like

No activities in this quarter.

Activity 2C: Engagement of 5 additional communities

In Year One, DAC surpassed the task order timeline by initiating activities in 5 new communities in Aileu District, in Suco Selo. In Year Two, DAC will continue these activities, and prepare to expand to additional communities according to the contract modification.

Continued technical assistance to 5 communities in Selo

Technical assistance: In the Selo area DAC has already reduced the number of staff providing agricultural technical assistance. Farmers continue to use DAC introduced new technologies and management practices successfully.

Improved outdoor production technology: In this quarter, 56 plastic tunnels were constructed by the Selo area farmers to protect their fields from heavy rains. DAC provided the imported materials (plastic and nails), and the farmer groups provided the local materials (wood and bamboo) and all of the labor. Each group worked together to build tunnels for each one of their members.



Community Mobilization: The Selo groups were motivated and encouraged by the tunnel building experience. Since then, the groups have worked together to purchase and transport organic fertilizer to their communities, and at least 5 farmers have purchased water pumps to maintain their production during the dry season.

Expansion to additional communities

Fatubossa: See “New Activity: GDA Partnership” section below.

Lequitura: DAC and Kmanek began to re-engage with Lequitura farmers. The Lequitura farmers have formed a single group. DAC Community Mobilization staff organized a meeting between Kmanek staff and the Lequitura farmers, during which the contents of a Memorandum of Understanding were finalized. Kmanek allocated specific targets to the Lequitura group for 5 local vegetables (seed provided by farmers) and 4 “supermarket” vegetables (seed provided by Kmanek). DAC and Kmanek are currently working with 27 farmers producing broccoli and cauliflower with Kmanek seed. In the next quarter, harvest will begin and Kmanek will provide two additional types of seed, and purchase local vegetables as well.

Activity Three: Assist SHA farmers and other value chain actors and stakeholders to develop a strong horticulture value chain that routinely increases sales volume and profits (VALUE)

Strong organizations of farmers (Activity One) with strong horticulture production skills (Activity Two) must be integrated into a strong horticulture value chain (Activity Three).

Activity 3A: Horticulture Value Chain Analysis

DAC focused on finalizing research and developing a Value Chain Basics Training.

Market Survey

During this quarter, DAC completed a competitive procurement for the design of a database to analyse market survey results. The market survey interviewed 263 vendors, posing 5 different questions for each of 45 different vegetables. The database will allow DAC to make this information available and meaningful for value chain stakeholders. They will be able to search for information on specific vegetables such as total quantities by market, production locations, and price (wholesale and retail). Four bids were evaluated, and the award was given to Catalpa. The database will be completed in the next quarter.

Input Supply Survey

Complete.

Donor Survey

Complete.

Value Chain Basics Training

DAC developed a half day training that introduces participants to the basic concepts of value chains, value chain analysis, and value chain development. The training uses the horticulture value chain in Timor Leste as the case study. Participatory exercises include creating image based value chain maps, and identifying bottlenecks/constraints at four levels of the value chain.

Activity 3B: Horticulture Value Chain Stakeholders Seminar

In this quarter, DAC learned that the Ministry of Agriculture, Director of Agribusiness and Horticulture will sponsor a Horticulture Sector Seminar. Rather than sponsoring a duplicate seminar, DAC will participate in the MAF seminar, presenting results of market research and value chain analysis. MAF expects to hold this seminar in August/September.

Activity 3C: Formation of / Participation in Horticulture Working Group

DAC will facilitate the formation of a Horticulture Working Group as a result of the MAF Horticulture Seminar (see above).

Activity 3D: Diversification of the clientele

Dili Mart: In this quarter DAC was approached by Dili Mart, a local supermarket and food wholesaler. DAC presented the working model we have developed with Kmanek, and brainstormed with Dili Mart about how they could best participate in the horticulture value chain. Dili Mart identifies their greatest strength as a distributor, primarily to local and Asian

expat restaurants. Dili Mart and DAC agreed that the initial partnership would focus on buying local vegetables, with farmers purchasing or saving their own seeds. DAC would provide training on improved techniques to increase productivity and ensure year round supply (throughout wet and dry seasons).

Dili Mart provided an estimate of their monthly demand, and in the next quarter will provide their estimated price range per product. DAC has identified the new communities of Saboria and Fahiria (see GDA Partnership Expansion below) as potential locations for a partnership with Dili Mart. In the next quarter DAC will facilitate a meeting between Dili Mart and potential farmer group partners.

Cadoras Unipessoal Ltd.: DAC was introduced to Cadoras Unipessoal Ltd. through our own market research activities, and also by introduction from IADE (Ministry of Economy and Development). Cadoras is owned by Kathleen Goncalves (Vice President of Chamber of Commerce and Industry and President of the Women Business Association previously supported by DSP project). Cadoras has a contract to provide catering services to the F-FDTL (military) in Dili and Hera, requiring 3 meals per day to 600 people. (A second company, Camalolequi, has the contract for F-FDTL in Baucau and Metinaro, as well as the contract for the National Hospital).

Cadoras has not been able to source adequate, quality vegetables to fulfill the F-FDTL contract. IADE has done some business matchmaking, introducing her to several vegetable traders. However, none of them has been able to fulfill the demand. DAC offered to provide additional linkages to traders, and to provide business development support services to the traders.

DAC has identified a group of large traders through our market research. In the next quarter, we will prepare those traders to link with IADE. IADE will then conduct the business matchmaking with Cadoras, and Cadoras will select those traders they are interested to work with. DAC will then provide business development support to those traders with the goal to deliver consistent, quality vegetables in an agreed upon amount. It may not be possible to fulfill the entire demand, but the emphasis will be on consistency.

Activity 3E: Business development support to key actors in value chain

Produce Inventory Management

As other buyers become engaged in the horticulture market, DAC will respond to demand from a broader group of supermarkets and catering company for inventory management training.

Input Supply

DAC organized a meeting of donor projects concerned about input supply constraints. The meeting included:

- ILO – horticulture in Maubisse and Hatu Buliko
- IMVF – horticulture in Liquisa (Fini Diak input supply shop)
- CCI – horticulture in Ainaro

- RDP3 – horticulture in Manufahi
- DAC – horticulture in Aileu

The group identified major constraints to seed import and problems of the Dili based input supply shops. Discussion of possible solutions included:

- Provide better market demand information to the existing input supply shops
- Create market linkages between Dili input supply shops and District based input supply shops
- Promote “mobile input supply” – Dili or District based input supply shops invest in sending motorcycle salesmen to succo markets, or to link with organized farmer groups (usually organized via an NGO or donor project)
- Analyze prices of Australian vs. Indonesian seeds, including shipping, and provide that information to input suppliers
- Provide subsidies to District based input suppliers to encourage them to carry larger and more diverse supply

No specific action steps were created, but the group continues to share information. DAC will be able to experiment with some of the suggested solutions over the next two quarters.

Process Management

DAI Director of Business Process Management, Mr. Sani Daher, completed a short term assignment (May 24-June 7) to improve the horticulture production management systems at Kmanek. Mr. Daher assisted Kmanek to develop an “end to end” management system that enables them to track and manage input inventory, seed distribution, seedling production, and harvest. All of these metrics can be tracked against targets. The system includes job descriptions and clear processes for making adjustments to targets. The consultant report was submitted to USAID.

DAC staff provided on-going support during the remainder of the quarter, to assist Kmanek staff to implement the system and make changes as necessary. DAC will continue to help Kmanek fine tune the system and ensure proper implementation during the next quarter.

Increasing Agricultural Commodities Trade Program

Kmanek requested DAC assistance to prepare an application to the IACT (Increasing Agricultural Commodity Trade) Project, funded by the European Union and implemented by the Land Resources Division of the Secretariat of the Pacific Community. IACT provides funding to increase exports of Pacific Island nations, and Timor Leste was included for the first time in this project. The IACT has a special focus on helping companies and countries develop capacity for certifications (organic, fair trade, or SPSS).

Developing the application provided an opportunity for Kmanek to evaluate whether horticulture exports are a viable option. DAC COP assisted Kmanek staff to evaluate the local cost structure, and analyze regional horticulture trade (volumes and values). Based on this analysis, Kmanek decided that opportunities for domestic growth were more attractive. Since supply is limited, prices remain high in Timor Leste and vegetable exports would not be competitive on the global market. However, as productivity increases, prices will drop and create new opportunities for horticulture exports in the future.

Kmanek recognizes that SPS certification capacity would be mandatory for successful exporting in the medium term. Since Timor Leste does not have that capacity now, DAC assisted Kmanek to submit an application for consulting services to assist the Ministry of Agriculture and Quarantine to build their SPS certification capacity. A representative from IACT conducted a follow up visit in June, and convened a meeting with the MAF to discuss this possibility.

NEW ACTIVITY: GDA PARTNERSHIP PROJECT EXPANSION

In this quarter, DAC began preparations and pilot activities for the project expansion funded through the GDA Partnership with ConocoPhillips. GDA funding from ConocoPhillips will contribute to:

- Expansion of project activities to at least 150 more farmers in 5 new communities
- On-site training and technical assistance to all farmers
- International training (Indonesia) for 40 farmers
- New equipment and materials for all farmers
 - Plastic tunnels
 - Irrigation

DAC's experience working with farmer groups informs us that community mobilization is just as important as agricultural technical training, and that social problems are more often the cause of poor performance than technical problems. We have selected an initial set of potential new communities and established a generic timeline for the expansion activities over the next year. However, we anticipate that some communities will develop more quickly, some communities may drop out of the program, and new communities will be identified.

Our current timeline:

- May – August 2012: Select new communities & prepare for training; Begin assistance to pilot group in Fatubossa
- September – December 2012: Intensive technical assistance on improved horticulture techniques in at least five new communities
- January – June 2013: Farmer Field School (3 month on site advanced training) for all farmers, and specialized training in Indonesia for 40 lead farmers

Selection of New Communities

DAC's selection criteria for potential new communities include:

- Adequate climate, water and soils
- Farmer experience with vegetable production
- Road access for commercial vehicle

Our technical team reviewed 18 locations in Aileu District, and selected the following six communities as having the highest potential for success:

- Fatubossa
- Saboria
- Raifusa
- Fahiria
- Tablor
- Selo Casamauk

DAC will begin activities in these six communities, with the intention that all are successful. In the event that one drops out, however, DAC will remain on target for supporting five communities over a long enough period of time to ensure sustainable results.

Preparations for Farmer Group Training

DAC's approach to teaching farmers new horticulture production techniques includes daily on-site technical assistance, and more formal training (in Timor Leste and Indonesia). DAC places permanent field staff directly in each new community, to work with the farmers on a daily basis. We also provide two types of formal training in horticulture production and farmer group organization/management.

Farmer Field School Timor Leste: Our training delivered in Aileu uses the Farmer Field School methodology. This 3 month on site training in advanced horticulture techniques uses participatory, farmer led learning techniques. It will emphasize Integrated Pest Management (IPM) and soil/environmental management. DAC field staff will receive training of trainers from September – November 2012, as this training is given to the existing DAC farmer groups. Delivery of the training to the new communities will take place between January – June 2013.

International Horticulture Training: Our international training will be offered to 40 lead farmers from the five farmer groups. We anticipate using the Value Chain Center in West Java as the training provider. The Value Chain Center uses a similar model to DAC – linking farmer groups to buyers, and providing technical assistance. The Value Chain Center assists 54 farmer groups (1,274 farmers) in five areas to produce export quality vegetables. The DAC farmers will have the invaluable opportunity to “see the future” – to see the results of using improved production techniques, to see the possibility of growing their group business and increasing their individual incomes and standards of living. At the Value Chain Center, the farmers will receive training in both production techniques and farmer group management.

A second potential training location is the PT.Omega Tekno Farm in Bali. This “best practice” demonstration farm produces a more limited number of crops, but utilizes innovative techniques that DAC has introduced but which are not yet widely used in Timor such as mixing rice husk with coco peat for growing media, drip irrigation, plastic mulch, and crop rotations.

International Specialized Nursery Management Training: In addition to the basic training at the Value Chain Center, we will work with the farmer groups to select the best candidates to be their nursery managers, an extremely important role in the production process. The nursery managers will also attend a specialized training at the East West Seed Company on proper germination and seedling production, with an emphasis on using sanitary standards to prevent disease.

Activities in New Communities

In five of the new communities, DAC is simply conducting initial site visits and informal discussions with farmers. It is important for DAC staff, who have years of experience in working with farmers and farmer groups, to observe the agricultural techniques in use, and the social dynamics in the communities. DAC has found that selecting a smaller group of

the strongest lead farmers, and starting to train those farmers, helps to motivate and engage the entire community. The lead farmers can act as catalysts for other farmers starting to use improved techniques on their own initiative. At a later stage, any other interested farmers will be able to join the group and receive the same technical assistance.

In one of the communities, Fatubossa, DAC has already started working with a pilot group of ten farmers. DAC provided a technical expert consultant in broccoli/cauliflower production, and the group is actively cultivating those vegetables for sale to Kmanek. DAC field staff continues to provide daily on-site technical assistance. DAC Community Mobilization staff assisted the group to select a Group Coordinator and Finance Manager.

Kmanek has guaranteed to purchase from the Fatubossa farmer group 892 kgs of 9 different vegetables, resulting in income to the farmers of \$845 every week. Kmanek allocated specific targets to the Fatubossa group for 5 local vegetables (seed provided by farmers) and 4 “supermarket” vegetables (seed provided by Kmanek). The Fatubossa group had their first sales to Kmanek during the quarter: 31.5 kg cauliflower, and 263 kg of other local vegetables. Kmanek has been particularly impressed with the quality of the carrots from Fatubossa.

Plans for the next quarter

During the next quarter, DAC will engage fully in all new communities. DAC Community Mobilization staff will work with farmers to begin working together as a group to manage their activities. DAC technical field staff will provide daily, on-site training in improved horticulture techniques and establish demonstration plots in each community. We will also issue an RFP for the international training component.

Financial and Administrative Management



Significant Events and Meetings

- May 8 – 24: USAID mid-term evaluation of DAC project
- May 9: ConocoPhillips consortium (including Shell, Osaka Gas) visit to Selo area to observe outdoor production technology that will be replicated with the ConocoPhillips GDA funding.
- May 25: DAC COP and senior staff, USAID DAC COTR, and lawyer Sahe da Silva met for final review of the multiple options for legal registration for Sarin and Liurai groups.

- May 30: Seloï Tunnel Handover ceremony attended by the USAID Mission Director and the US Ambassador. The ceremony celebrated the completion of 56 plastic tunnels in the Seloï area of Aileu. The materials and construction of the tunnels combined USAID funding and resources with that of the 5 DAC farmer groups in the Seloï area.

Year 2 Workplan Timeline Update

See next page.

Year 2 Workplan Updated Q2 2012	2011				2012							
	September	October	November	December	January	February	March	April	May	June	July	August
Activity One: Assist SHA farmers to establish organizations												
Activity 1A: Improve the operation (managerial) of SHAs												
Business skills training for farmer groups												
-Farming as a business												
-Recordkeeping / accounting												
Organizational/managerial training: general												
Organizational/managerial training: specific to organizational structure												
Develop business plans for Sarin and Liurai												
Activity 1B: The formation of a legal business entity												
Community decision making process												
Initiate formal registration process												
Community discussion of District level organization												
Activity 1C: Allocation of exclusive roles and rules for behavior												
Activity 1D: Recording of land claims (timing TBD)												
Activity 1E: Formal approach to local government												
Activity Two: Improve horticulture production to meet market demand												
Activity 2A: Improve the operation (technical) of SHAs												
On-going technical assistance as needed (Sarin, Liurai, Seloi)												
-DAC staff meetings with farmer groups												
-Monthly Leader meetings												
-Sarin independent planting of greenhouse												
-Liurai independent planting of greenhouse												
Training on production planning for SHA groups												
Vegetable grading system / handover to Kmanek												
Pest/Disease control and management training (scheduled as FFS)												
-Pest/Disease visual aid finalized												
Farmer Field School (IPM / horticulture production) assessment												
Farmer Field School training (Sarin / Liurai / Seloi) (cont. Year Three)												
Activity 2B: Protection of springs, boundaries, slope protection												
Complete bamboo protection of stream in Sarin												
Activity 2C: Engagement of 5 additional communities												
Continued technical assistance to 5 communities in Seloi												
Expansion to additional communities												
Activity Three: Develop Strong Horticulture Value Chain												
Activity 3A: Horticulture Value Chain Analysis												
Activity 3B: MAF Horticulture Seminar (TBD)												
Activity 3C: Horticulture Working Group (TBD following MAF Seminar)												
Activity 3D: Diversification of clientele												
Activity 3E: Business development assistance to key actors												
Fresh produce inventory management (N/A Kmanek, TBD others)												
Input supply inventory management (N/A Kmanek, TBD others)												
Kmanek Process Engineering												

KEY	 Completion date / specific event
	High intensity activity
	Medium intensity activity
	Low intensity activity

ANNEX A

ANALYSIS OF LEGAL FORMS AVAILABLE TO DAC FARMER GROUPS (SARIN & LIURAI)

	Association	Cooperative	Sociedad em Comandita	Simple contract among individuals
Steps to register	*Develop articles of association *Hold General Assembly *Elect Board of Directors and Audit Committee *Register articles of association at Commercial Registry Ministry of Justice *Obtain Tax Identification Number *Open bank account and deposit initial capital (amount unknown) *Finalize registration with TIN and bank information	*Request National Director for Cooperatives to provide training *Two hour training on cooperatives *4 day training on cooperatives *Develop memorandum and articles of association *Hold General Assembly *Elect Board of Directors and Audit Committee *Obtain Tax Identification Number *Open bank account and deposit initial capital (\$1000) *MED issues letter confirming cooperative incorporation *Cooperative takes documentation to Commercial Registry to register	*This legal form is not currently being used, and exists in the legal code only as a remnant from Portuguese times	*No registration necessary
Minimum/maximum members	10 minimum No maximum	15 minimum (DNC told DAC farmers that 25 was the minimum) No maximum	Unknown	Not applicable

	Association	Cooperative	Sociedad em Comandita	Simple contract among individuals
How is ownership divided	All members of Association will own asset equally	Cooperative members must agree on share capital, and members may own different amounts of share capital	Shareholders could own different amounts depending on their investment	Ownership would be equally divided by the contract terms
Operating requirements	*Annual tax reporting	*Must maintain legal reserve (percentage of membership fees and annual net surpluses) *Education/training reserve (minimum 1% of net surpluses) *Must make quarterly financial reports to MED Directorate of Cooperatives *Annual tax reporting *Annual fees		
Can Kmanek be a part of the organization?	Yes	Yes	Yes	Yes
Can the organization make profits?	Non-profit	Non-profit	Profit	Not applicable
Registration valid for how long?	Permanent	Initial registration one year, thereafter five years	Unknown	Not applicable

	Association	Cooperative	Sociedad em Comandita	Simple contract among individuals
Major benefits	<ul style="list-style-type: none"> *More simple to register than cooperative *Less “expensive” re: initial capital *Minimal on-going reporting requirements *Provides structure to manage and maintain greenhouse 	<ul style="list-style-type: none"> *Most appropriate structure for doing business *Provides structure to manage and maintain greenhouse 	<ul style="list-style-type: none"> *Provides structure to manage and maintain greenhouse 	<ul style="list-style-type: none"> *Simplest to accomplish *Easy to understand
Major problems	<ul style="list-style-type: none"> *Non-profit designation may be confusing – (although cooperatives are also non-profit) 	<ul style="list-style-type: none"> *Difficult to go through registration process *Requires large initial capital *Requires on-going reporting to government *Requires complicated financial management (calculated reserves) and administrative management (ensuring all reporting and savings are done properly) *Requires saving various “reserves” every year 	<ul style="list-style-type: none"> *No limited liability *Not an “active” type of registration 	<ul style="list-style-type: none"> *Does not provide structure to manage and maintain greenhouse *Nothing binding the group together except ownership of the greenhouse *No ability to transfer ownership (i.e. current members cannot leave the group, and new members cannot join the group)