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QUARTERLY REPORT #7: JANUARY – MARCH 2012

***DEZENVOLVE AGRICULTURA COMUNITÁRIA
(DAC) PROJECT***

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Contents

Quarterly Highlights	2
Activities Year Two	3
Activity One: Assist SHA farmers to establish organizations that can successfully manage their commercial horticulture activities (<i>PEOPLE</i>)	4
Activity 1A: Continued improvement in the operation (managerial) of the horticultural complex 4	
Activity 1B: The formation of a legal business entity: a company or a cooperative or some other legal form	6
Activity 1C: Allocation of exclusive roles and rules for behavior while at work	7
Activity 1D: Recording of land claims	7
Activity 1E: Formal approach to local government in order to be recognized as a significant rural enterprise	7
Activity Two: Assist SHA farmers to improve horticulture technology and practices to meet market demand for product quantity and quality (<i>PRODUCTION</i>)	7
Activity 2A: Continued improvement in the operation (technical) of the horticultural complex 7	
Activity 2B: Completion of the protection of springs, boundaries, wind-breaks, slope protection and the like	8
Activity 2C: Engagement of 5 additional communities	8
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 (<i>VALUE</i>) 9	
Activity 3A: Horticulture Value Chain Analysis	9
Activity 3B: Horticulture Value Chain Stakeholders Seminar.....	11
Activity 3C: Formation of / Participation in Horticulture Working Group	11
Activity 3D: Diversification of the clientele.....	11
Activity 3E: Business development support to key actors in value chain	11
Financial and Administrative Management	13
Financial Report	Error! Bookmark not defined.
Personnel	Error! Bookmark not defined.
Long Term Technical Assistance:.....	Error! Bookmark not defined.
Short Term Technical Assistance:	Error! Bookmark not defined.
Significant Events and Meetings	13
Year 2 Workplan Timeline	13

Quarterly Highlights

Farm sales of 17 m.t. from the SHAs generated almost \$14,000 during the quarter:

Totals of Vegetable Production from all SHAs		
	Kg	US\$
Outdoor Production	11,714	8,304
Greenhouse	5,235	5,553
Total	16,950	\$13,857

Successful business negotiation between farmer groups and Kmanek Supermarket: As part of DAC's exit strategy, the project facilitated the first direct business negotiation with the primary buyer, Kmanek Supermarket. Farmers successfully negotiated for price increases on 65% of regularly sold products. Farmers supported by DAC invited farmers supported by World Vision, in a first step towards forming the Aileu District Horticulture Association.

The greenhouse in Sarin faces difficulty with tomato disease: Following the successful independent replanting of the Sarin greenhouse, the farmers group unfortunately had difficulties with a serious disease that will significantly lower production of tomatoes. This highlights the challenges of greenhouse production for both farmers and Kmanek Supermarket that will lose more than 50% of their investment.

Horticulture market research: DAC conducted an extensive survey of the vegetable vendors and traders in five Dili markets, gathering information on quantity and price that is critical for understanding the current value chain and improving competitiveness.

New area starts brassica production: Training and input supply jumpstarted the production activities of a new farmer group in Fatubossa. This cooler climate and motivated group of farmers will increase broccoli and cauliflower supply to the Dili market.

DAC contract modification: USAID requested and approved DAI's proposal for a cost extension to the project. The new budget and workplan will double the number of farmers DAC works with, and strengthen the horticulture value chain with activities through August 2014.

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. During this quarter, DAC technical assistance remained limited to weekly visits and monthly Leader Meetings, with an emphasis on helping farmers to take independent responsibility for management of the activities.

Quarterly Activities Update – General

Successful business negotiation between farmer groups and Kmanek Supermarket: As part of DAC's exit strategy, the project facilitated the first direct business negotiation with the primary buyer, Kmanek Supermarket on February 2. DAC farmer group leaders invited World Vision farmer group leaders (WV groups also sell to Kmanek) to participate in the session. Farmer group leaders discussed and established their negotiating position for increased prices for 31 regularly purchased vegetables, and created an agenda for meeting with Clarence Lim, Kmanek's owner. Their agenda included complaints about Kmanek's failure to supply inputs in a timely manner, confusion around weighing product and recordkeeping, internal farmer group problems, and other issues.

The negotiation went very well, resulting in better prices for 65% of the vegetables. At an afternoon session that brought all 200 DAC and World Vision farmers together with Clarence Lim and his senior managers, Kmanek took the opportunity to explain the delay in providing inputs and express their hope that farmers maintain confidence in their on-going partnership. Farmers clearly expressed their frustrations, but also expressed a lot of gratitude for the positive impact the partnership has had on their lives. Several administrative problems that required senior level decision making were resolved on the spot.

Challenge of "side selling" in SHA Sarin: 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). This presents a serious challenge to the management of the SHA activities by the farmer group. Emergency meetings were held by the farmers group and with Kmanek. DAC will assist all

parties to find a solution that supports the continuing successful business relationship between Kmanek Supermarket and the SHA farmer groups. However, it also presents an opportunity for the farmer group to decide whether they want to continue working with Kmanek, or begin providing their own inputs and selling product on the open market.

Business skills training for farmer groups

Commercial Farming – Farming as a Business: DAC issued a request for Expressions of Interest to provide this training. The EOI was published on Devex and was circulated to the RAISE PLUS IQC consortium members. Two responses were received. Making Cents International was selected as having the most appropriate curriculum.

To ensure greatest sustainability and replication of the training, given the cost of translation and customization to the Timor context, DAC and Making Cents want to identify a local partner organization that can develop Master Trainers in the curriculum and continue to offer this important resource to diverse organizations (donor projects, extension workers, etc.). After meeting with multiple potential organizations (including World Vision, Haburas Foundation, Timor Aid, Knua Buka Hatene (NGO), Permakultur Timor Leste), DAC selected Timor Aid as the best potential partner. Timor Aid has core competencies in training, translation, community development, and is currently also working in horticulture/agriculture (Manufahi and Suai). They have training staff with agriculture experience that can assist with customization and become effective Master Trainers.

DAC is currently working with Timor Aid to determine the likelihood of future use of the training by other organizations. This will impact how DAC and Making Cents will work with Timor Aid. At the very least, we will use them as a translation and technical advice organization. At the very most, we will support Making Cents and Timor Aid to enable Timor Aid to become an on-going provider of the Agricultural Enterprise Curriculum in East Timor.

Basic recordkeeping and accounting skills: DAC staff interviewed and assessed five local organizations with the ability to provide basic recordkeeping and accounting training to DAC farmer groups. Based on these interviews, three organizations were shortlisted. In April, DAC will issue a Request for Proposals to the shortlisted organizations.

At the March Monthly Leader Meeting, bookkeeping/recordkeeping was cited by multiple farmer groups as one of their top priorities – both for the groups' recordkeeping and for individual farmers that are interested.

The goals of the technical assistance/training are:

- help farmer groups understand better why recordkeeping is important
- help farmer groups improve their bookkeeping systems
- create a system to improve transparency and oversight of recordkeeping within the group
- create a system of control between Kmanek Supermarket records and farmer group records
- provide basic numeracy training for all interested farmers
- introduce basic recordkeeping for individual farmers (some farmers may choose to have their children keep the records instead of learning numeracy themselves)

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. The farmer groups are now starting to take more leadership in those meetings as DAC staff withdraws. This quarter's Leader Meetings had a special agenda in January and February - the first direct business negotiation between the farmer groups and Kmanek Supermarket, held on February 2 (see above).

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

No activity in this quarter.

Initiate formal registration process for selected type of organization

In this quarter, DAC project staff met with Director Leovegildo dos Santos of the Direccao Nacional das Cooperativas. He made it clear that the next step for the Sarin farmer group was to complete their group savings and submit their financial records to the Aileu District Coordinator of the Direccao Nacional das Cooperativas. It is clear that this has not yet been done, due to resistance from some group members to contribute the agreed-upon savings amount of \$5 per month. This provides an opportunity for the farmer groups to re-consider the best type of organization for their needs.

Regarding the Liurai group, who requested the basic 4 day training in April 2011, the Director promised to have staff assigned to deliver the training before the end of March. To date, there has been no follow up from the Direccao Nacional das Cooperativas in Dili or in Aileu. This provides an opportunity for the farmer groups to re-consider the best type of organization for their needs.

Initiate community discussion of District level horticulture organization

The monthly Leader Meetings are the first step towards developing a larger organization combining all the farmer groups. The inclusion of World Vision farmers in the business negotiation with Kmanek Supermarket was an important step in the organizational development of the Aileu horticulture sector. As diverse farmer groups come together in their common interests, it lays the foundation for a larger, District wide association.

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 formal 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, 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 rainy season and the lack of input supply from Kmanek Supermarket resulted in a decrease of production and sales. Greenhouse production and sales remained steady, but outdoor production fell from 30 tons to 12 tons, with a reduction in income from \$20,000 to \$8,000.

Totals of Vegetable Production from all SHAs: Jan-March 2012		
	Kg	US\$
Outdoor Production	11,714	8,304
Greenhouse	5,235	5,553
Total	16,950	\$13,857

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.

The expected replanting of the SHA Liurai greenhouse in February 2012 was delayed due to lack of input supply from Kmanek Supermarket.

Training on Improved Production Planning by SHA Groups

No activity in this quarter.

Vegetable Grading System

No activity in this quarter

Pest/Disease Management Training

DAC continued development of a visual guide that is appropriate for the mainly illiterate SHA farmers.

Farmer Field School for IPM and Horticulture Production

Among the consultants and organizations that DAC identified previously, the FIELD NGO had the most relevant experience and knowledge, as well as the local language skills. DAC and FIELD are currently negotiating a scope of work that would provide FFS Training of Trainers and supervise the first round of FFS delivery. DAC expects to submit a request for approval for the FFS consultant in the next quarter.

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 reduced the number of staff providing agricultural technical assistance. In keeping with the Year Two Workplan emphasis on farmer group organization and value chain development, Selo field staff have been assisting with market research and with organizing farmer group trainings rather than focusing only on agricultural production technical assistance. Technical assistance to date has enabled the farmers to move towards independence in most of the activities necessary for their vegetable business.

Improved outdoor production technology: All horticulture activities were negatively impacted by the onset of the rainy season. Selo farmers requested DAC assistance to construct

plastic tunnels to protect crops from the rain. DAC community mobilization staff worked with all 5 farmer groups to develop a Memorandum of Understanding (MOU) outlining the responsibilities of each party (DAC, farmer groups, Kmanek). DAC staff and the farmer group leaders from Seloï designed and built a prototype tunnel using local materials (bamboo, wood) for the frame and plastic sheeting, rope and nails for the covering. In the next quarter, DAC plans to support the farmers in Seloï to construct 54 tunnels.

Community Mobilization: The Seloï groups have worked together throughout the rainy season to repair and maintain the roads leading to the Kmanek pick-up sites, to ensure that their vegetable sales were not interrupted. This is a good example of the larger development role that the organized farmer groups can play, and an example of the groups taking initiative to maintain their vegetable sales.

Expansion to additional communities

Fatubossa: DAC provided a specialist on broccoli and cauliflower cultivation to conduct intensive on-site training for the ten Fatubossa farmers and the DAC technical assistance staff. In addition to nursery construction, seedling cultivation, creating planting soil, and other activities specific to broccoli/cauliflower production, the consultant also provided training in the use of microorganisms to expedite composting, and on organic pest control. The Fatubossa farmers will begin harvesting in the next quarter.

Lequitura: DAC staff assessed the situation in Lequitura. Farmers there have continued to grow vegetables, but only for local markets. They have no on-going engagement with a commercial buyer. Some tunnels remain functional, while others have been damaged by weather. The greenhouse is empty and in very poor condition. The farmers expressed interest in re-engaging with Kmanek. They requested that the entire community be managed as a single group, receiving inputs and selling product to a single buyer. Given their prior experience with multiple buyers, resulting in losses to the farmers, they prefer to have one consistent partnership. In the next quarter, DAC will facilitate a meeting with Kmanek directly, and will provide technical assistance as needed.

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 conducting research during this quarter.

Market Survey

DAC completed an extensive survey of the vegetable market in Dili. This survey had three components, which captured both “stock” and “flow” data for the local market and import data.

The “stock” data was compiled from a survey of 5 Dili markets (Hali Laran, Taibessi, Comoro, Becora, and Seaside). Of 309 total vendors identified, 263 responded to the survey (85% response rate). The survey quantified total amount available for sale on that single day by each vendor, for 45 vegetables. The survey also asked questions about wholesale vs. retail price, how the product was purchased, availability, and payment methods. An in-depth analysis of the data will be completed in the next quarter.

The “flow” data tracked a representative sample of 21 vendors for one week – quantifying all purchases and sales. This provides information about inventory levels and buying patterns. It also gave us a verification of the “stock” data. When we compared the average individual daily sales of this representative group during an entire week, with the average individual daily sales of the entire group during one day, the results differed by only 10%. Thanks to the very hard work of the market survey team!

An initial analysis of the quantity data shows that approximately 35 tons of vegetables are sold in the local market in Dili on a daily basis. This results in an annual sales total of 12,800 tons. Annual imports are approximately 6,000 tons.

DAC received complete information from the Ministry of Finance on total vegetable imports for the years 2010-2011. Approximately 12,000 tons of fresh and processed vegetables were imported during the two year period. The annual imports of 6,000 tons compare to annual local sales in Dili markets of 12,800 tons.

Import data is important for deciding what vegetables to focus on. The right quality broccoli, cauliflower, tomatoes, mushrooms, onions, cucumbers, lettuces, carrots, peas and celery will find ample markets. However, the import data does not reveal who the buyers are – which leaves a question about the sustainability of these purchasing levels. In the next quarter, DAC will try to learn more about the importers, particularly in relation to the expected reduction of UNMIT personnel in 2013.

Input Supply Survey

DAC surveyed 3 Dili based input suppliers (Boaventura, Planet, Kmanek) and one supplier based in Liquica regarding their inventory, business status, and challenges. A summary of vendors responses:

- Ag imports are a small part of their business
- They are concerned about providing the right seeds to the buyers, but they do not have much technical information.
- At this time, their agricultural input business is not increasing or decreasing.
- Their largest clients for ag inputs are NGOs or Government. Therefore, they generally respond to orders, not maintain inventory.
- There is confusion/frustration among buyers about the “correct” cost of seeds because subsidized seeds are available in Indonesia, but legally imported seeds are more expensive

- Indonesian seed suppliers are unreliable – orders are often delayed and filled incorrectly

Donor Survey

DAC surveyed 21 donor and NGO projects active in horticulture. We collected information about their activity locations, business model (food security vs. commercial farming), number of beneficiaries, types of vegetables grown, total production, source of inputs, and target market.

Activity 3B: Horticulture Value Chain Stakeholders Seminar

All of the research detailed in Activity 3A will be compiled, analyzed, documented and presented at the Stakeholders Seminar. Given the unanticipated complexity of the market research, the seminar originally planned for March/April will be delayed to early July (June will not be possible due to parliamentary election activity for many stakeholders).

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

No new activity in this quarter.

Activity 3D: Diversification of the clientele

DAC met with ESS, the catering company providing local produce to the Field Kitan oil platform. ESS currently sources local product through Landmark Supermarket. Since the purchases are relatively small (only 50 people work on the platform), Landmark has currently been able to source locally – either from traders such as Josefina Farms or from the local markets. ESS/Landmark were interested in whether there was any other way they could support the development of local agriculture. At this time, they are not interested in becoming more involved in the value chain. DAC informed them about the upcoming Horticulture Sector Seminar.

Jacinto Supermarket expressed interest to DAC staff and also directly to Aileu farmer group in Sarin, but did not respond to repeated requests for follow up. The group leader of Sarin SHA was not willing to share any information on any discussions he had with Jacinto.

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

Produce Inventory Management

At this time, Kmanek is not in need of produce inventory management (see Q4 2011 report). As other buyers become engaged in the horticulture market, DAC will respond to demand from a broader group of supermarkets for inventory management training.

Input Supply

DAC completed the Input Supplier survey (see above). We also distributed to each input supplier the list of seeds recommended for use in Aileu District or other similar geographic locations in Timor Leste. We also distributed the Input Supply Market Analysis completed under the predecessor program DSP. These resources will help input suppliers purchase and recommend the best seeds, and establish contact with more reliable wholesale sources in the region.

Despite Kmanek's success in receiving their agricultural input supply license in November of 2011, as of the end of March 2012 they had not yet received a shipment of seeds for distribution to the Aileu farmer groups. DAC provided a review of their inventory tracking system and discovered that it was ineffective, and that the seed order they had placed had some expensive errors.

Process Management

The on-going weaknesses in Kmanek's management of input supply, buying targets, timely payments, etc. presents a challenge to the sustainability of the Kmanek partnership and therefore to the commercial viability of the farmer group activities. Given the low capacity of Kmanek staff, the concentration of responsibility in only a few managers, the complex interaction between the horticulture project and Kmanek's larger business, the geographic separation of aspects of the horticulture project, communication and transportation problems, and the chaotic nature of the overall Kmanek system, DAC has recommended that Kmanek work with a "business process engineering" consultant to analyze, systematize, and streamline their management of the horticulture project. They need easy-to-maintain electronic tools to make planning, implementation, and measurement of results more automatic. Kmanek needs to be able to respond to real time information in order to maintain control and support for a quickly growing system in which they are taking more and more responsibility as the DAC project moves into new areas. A consultant from DAI with extensive experience in troubleshooting business systems and designing effective solutions is available in May. DAC will submit a request for approval for this scope of work in the next quarter.

Financial and Administrative Management

Significant Events and Meetings

- January 16, 2012: Horticulture program coordination meeting
- February 2, 2012: Direct business negotiation with farmer groups and Kmanek Supermarket
- February 6-7, 2012: UNDP Forum on Inclusive Growth

Year 2 Workplan Timeline

See next page

Year 2 Workplan Updated Q1 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 training of trainers (IPM / horticulture production)												
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: Value Chain Stakeholders Seminar												
Activity 3C: Horticulture Working Group												
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												