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Enabling poor rural people  
to overcome poverty

## **President's report**

### **Proposed grant to the Democratic Republic of Timor-Leste for the**

### **Timor-Leste Maize Storage Project**

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**For: Approval**

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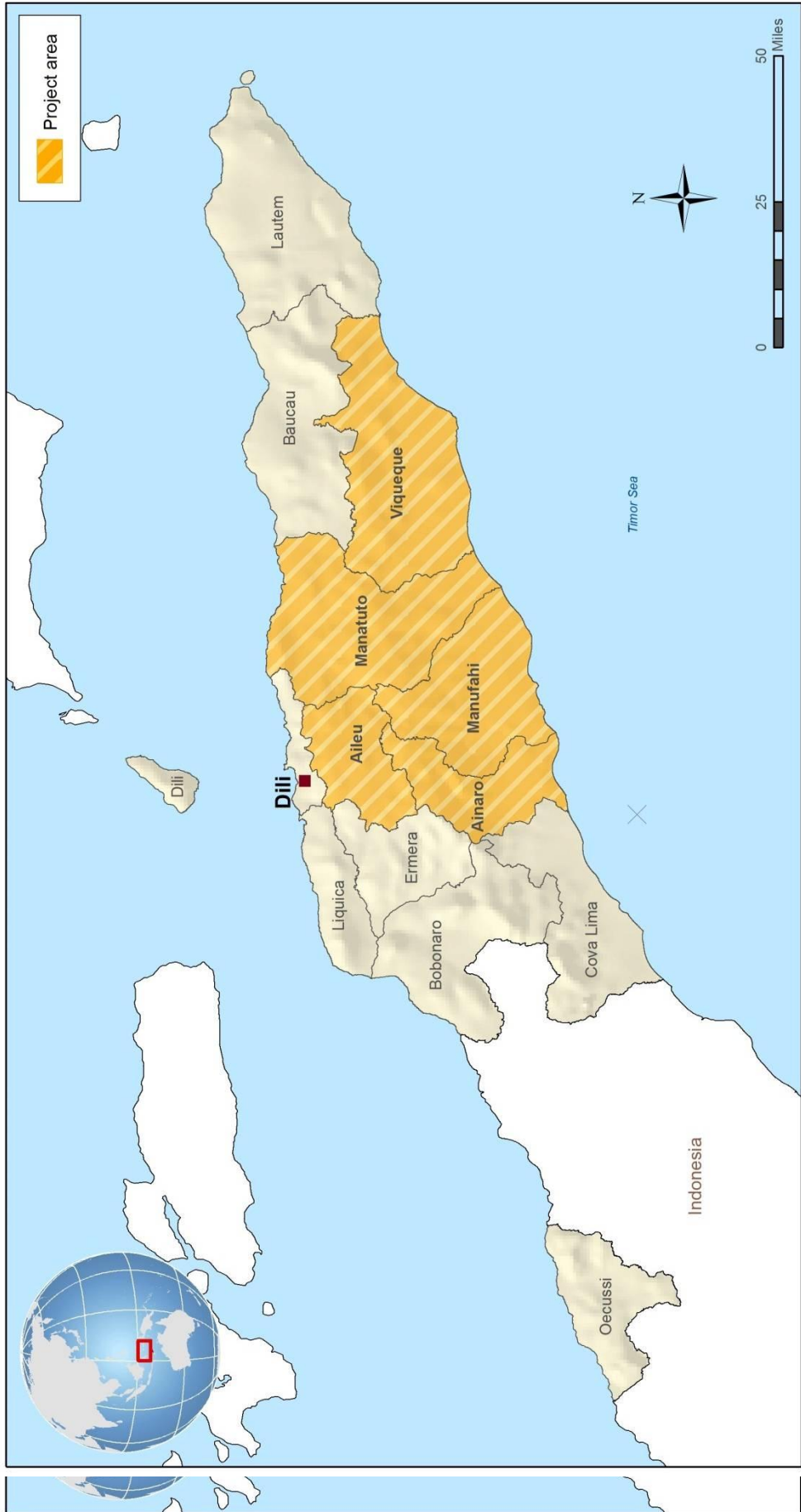
## **Abbreviations and acronyms**

AWPBs	annual workplans and budgets
GoTL	Government of Timor-Leste
MAF	Ministry of Agriculture and Fisheries
PFs	project facilitators
PMU	project management unit
PSC	project steering committee
R&D	research and development
SDP	Strategic Development Plan
SoL III	Seeds of Life Phase III
TLMSP	Timor-Leste Maize Storage Project

# Map of the project area

## Timor-Leste Maize Storage Project

President's report



20-9-2011

The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.

Map compiled by IFAD



## **The Democratic Republic of Timor-Leste**

### **Timor-Leste Maize Storage Project**

#### **Financing summary**

<b>Initiating institution:</b>	IFAD
<b>Recipient:</b>	The Democratic Republic of Timor-Leste
<b>Executing agency:</b>	Ministry of Agriculture and Fisheries
<b>Total project cost:</b>	US\$5.58 million
<b>Amount of IFAD grant:</b>	SDR 3.2 million (equivalent to approximately US\$4.94 million)
<b>Contribution of recipient:</b>	US\$0.16 million
<b>Contribution of beneficiaries:</b>	US\$0.48 million
<b>Appraising institution:</b>	IFAD
<b>Cooperating institution:</b>	Directly supervised by IFAD

## **Recommendation for approval**

The Executive Board is invited to approve the recommendation for the proposed grant financing to the Democratic Republic of Timor-Leste for the Timor-Leste Maize Storage Project, as contained in paragraph 58.

## **Proposed grant to the Democratic Republic of Timor-Leste for the Timor-Leste Maize Storage Project**

### **I. Strategic context and rationale**

#### **A. Country and rural development and poverty context**

1. Timor-Leste is an isolated agrarian country covering 15,000 km<sup>2</sup>, with 1.07 million inhabitants. The rural areas are mountainous, prone to soil erosion and land degradation, and produce very low yields of rice, maize, and roots and tubers. Timor-Leste has a population of 1.07 million people with 70 per cent living in rural areas. In 2007 nearly 50 per cent of the population was living below the poverty line, 52 per cent and 45 per cent in rural and urban areas, respectively. Poverty is far more severe in the central (58 per cent) and western regions (55 per cent), compared with the eastern region (27 per cent). Recent estimates point to a possible decline in the poverty incidence from 50 per cent to 41 per cent between 2007 and 2009. However Timor-Leste's Human Development Index (HDI) was 0.502 in 2010, a rank of 120 out of 169 countries. When adjusted for inequality, the HDI was 0.334, representing a decline of 33 per cent since 2005.
2. About 70 per cent of the workforce is engaged in agriculture, with the majority working on subsistence farms. Households commonly experience up to three months without sufficient rice or maize – the "hungry season". These shortfalls are offset by government imports and distribution of heavily subsidized rice. A quarter of all women and half the children in the country are malnourished, and poverty remains endemic. Low crop productivity, high on-farm grain storage losses, lack of infrastructure and rapid population growth are major contributors to the food insecurity situation. Attempts to create an export-oriented economy have not yet succeeded, except in the case of petroleum products.
3. Since the restoration of independence in 2002, Timor-Leste has made significant progress. However, the country still faces many challenges: a stagnant non-oil economy; fragile security characterized by weakened social cohesion; high unemployment (particularly in urban areas and among young people); weak public and private sector capacity; and limited non-oil economic development opportunities. The sluggish economy and resulting high unemployment rate among youth represent a potential security risk that threatens the process of democratization and construction of a viable state.

#### **B. Rationale and alignment with government priorities and RB-COSOP**

4. The Timor-Leste Maize Storage Project (TLMSP) is based on a simple and complementary agricultural development opportunity that has the potential to substantially improve the food security situation of poor and hungry families in Timor-Leste's upland farming areas.
5. High post-harvest storage losses exacerbate Timor-Leste's low food production and food insecurity, particularly in upland areas. An estimated 30 per cent or more of stored maize is lost to rodent and weevil damage associated with traditional storage of maize in trees or in farmers' houses above their fires.
6. Ensuring that upland farmers have access to improved on-farm maize storage reduces the potential of high post-harvest losses and provides incentives for farmers

to adopt higher-yielding maize varieties that are not necessarily as pest-tolerant as lower-yielding local varieties. The complementarity between improved storage and higher-yielding varieties has the potential to dramatically increase net maize production, a huge gain for families who commonly face a three-month hungry season.

7. The project's development approach is underpinned by a set of unique design features: (i) simplicity; (ii) a focus on a low-risk and well-proven intervention with the potential to generate immediate impact; (iii) selection of a simple, culturally acceptable technology; (iv) a development intervention that is highly complementary with other ongoing initiatives in the country, such as AusAID's Seeds of Life Phase III (SoL III), which distributes Sele, an improved maize variety that has achieved substantial yield increases; (v) building on past NGO experience with the importation and distribution of 200 litre petroleum drums; and (vi) use of existing and accepted participatory and community-based mechanisms for drum delivery.
8. The project is aligned with and supports the Government's objective of food self-sufficiency: the Prime Minister's Strategic Development Plan (SDP) and the Ministry of Agriculture and Fisheries (MAF) 2004 Policy and Strategic Framework. The project also complies with and supports MAF's draft National Policy on On-Farm Storage of Maize and Paddy.
9. Achieving the project goal will ultimately also contribute to the Government's broader poverty reduction objectives by: (i) reducing the need to import food (mainly rice) to cover national food deficits; and (ii) over the longer term, improving upland food self-sufficiency and therefore reducing expenditure on food; and (iii) increasing market sales of surplus maize. By focusing on Timor-Leste's major social issue (upland hunger and poverty), the project's contribution to the nation's growth and development will be considerable given its potential impact on all upland farming households over a period of about 13 years (assuming two subsequent five-year phases).

## **II. Project description**

### **A. Project area and target group**

10. The project will initially target the economically active poor (households producing about 150 kg of maize per year) in the districts of Aileu (year 1), Manufahi and Manatuto (year 2), and Ainaro and Viqueque (year 3). These districts have been targeted because 67 per cent of their households live below the 2008 poverty line. The first four are in the central region, which has the highest concentration of poverty and where maize is a vital staple. The project is expected to directly benefit 60 per cent to 65 per cent of rural households in these districts (approximately 23,000 households). The target group is poor by any standard and most are food-deficient for about three months of the year. One of the fundamental causes of rural poverty is the overwhelming dependence on on-farm employment, with farms characterized by subsistence farming systems that have not changed for generations – characterized by very low crop productivity and high on-farm losses of stored maize and other crops.

### **B. Project development objective**

11. The goal is to improve food security for maize growing households in Timor-Leste, and the development objective is to reduce losses of maize stored on-farm. This improvement in household food security is expected initially to increase on-farm supplies of maize after harvest, and then reduce the length of the hungry season.

### **C. Components/outcomes**

12. The project has three components: (i) purchase and/or manufacture of maize storage drums; (ii) distribution of maize storage drums; and (iii) project management and coordination.

13. **Component 1: Purchase and/or manufacture of maize storage drums.** The main output from this component will be that maize storage drums are procured and/or manufactured locally. During the first phase, the project will depend on the international supply of new 200L drums (42,000 drums over three years). At the same time, local private-sector drum manufacture will be investigated, focusing on alternative drum/container designs, in-field testing of prototypes, and business development feasibility studies on developing local drum manufacturing capacity.
14. Project-funded research and development (R&D) activities will include support for local industrial manufacturers to develop and field-test prototype 100L and 200L drums, followed by pilot rollouts and evaluation of field trials. The R&D package will include funds for business expansion and fund-sourcing feasibility studies, with the objective of supporting the emergence of a financially viable national drum manufacturing business under phase II capable of: (i) meeting future project demand for drums; and (ii) supplying an expanding private market, which is expected to develop as farmers experience the financial benefits of owning drums. Limited R&D funds will also be allocated to improving maize shellers.
15. **Component 2: Distribution of maize storage drums.** The main output of this component will be that maize storage drums are distributed and used effectively. This output will be achieved through the following steps: (i) appointing and training project facilitators in community organization skills and drum delivery and use; (ii) targeting and preparing households, in terms of eligibility and desire to use one or two drums for maize storage, depending on their maize production volume and willingness to pay a co-contribution of US\$10 per drum; (iii) preparation of district, subdistrict, *suco* [village] and *aldeia* [hamlet] drum delivery and distribution plans; (iv) drum distribution in time for the next maize harvest, and collection of recipients' co-contributions; (v) training and support in drum use and management by project facilitators; (vi) piloting of drum distribution through agents in district markets; and (vii) drum distribution through selected NGO community networks. About 23,000 households will receive approximately 42,000 drums during the three-year project.
16. **Component 3: Project management and coordination.** The main output from this component will be efficient project management and coordination. This will be achieved through: (i) the establishment and operation of a project management unit (PMU) embedded in MAF's National Directorate of Agriculture and Horticulture; (ii) the design and operation of an M&E framework; and (iii) the appointment of coordinators and facilitators. Project monitoring will encompass: (a) baseline and follow-up household surveys on maize storage losses; (b) periodic assessment of on-farm maize storage practices; and (c) periodic assessment of drum use. Participatory impact assessment will be an important tool for ascertaining beneficiaries' views on project performance and results.

### III. Project implementation

#### A. Approach

17. The project will apply a community-based and participatory approach for project implementation. The field-level activities (drum distribution) will be implemented through the government's district administration staff and networks, local community organizations and village leaders, and in cooperation with MAF's district staff. This existing network is the most efficient channel to organize and deliver drums and support programmes to the village level.
18. The key operatives at the field level will be the project facilitators, who will work with *suco* chiefs to complete the series of community-focused activities. These activities have been designed to ensure that the project effectively engages with communities for all pre- and post-drum delivery activities, and subsequent participatory impact assessments. M&E activities have been designed to gather target beneficiaries'



opinions on and gauge their satisfaction with this approach. Results will be used to adjust implementation activities if required.

19. The project will commence in early 2012, in time to appoint and train staff, and for the first round of drum distribution to take place in Aileu District in early 2013. The first phase will last for three years (commencing in 2011/12) and, subject to successful implementation and impact reviews, a subsequent phase will follow, with possible additional funding from other development partners active in Timor-Leste. There are about 150,000 rural families in Timor-Leste and an estimated 100,000 households would be eligible for support from TLMSP if it were a nation-wide project. This initial phase will assist approximately 23,000 households.
20. The indicators to assess whether a phase II is justified include the following, all of which will be monitorable within the scope of the M&E framework: (i) the targeting mechanisms (designed to ensure that the distribution of subsidized drums is targeted towards poorer households) are working effectively; (ii) the anticipated reduction in storage losses and resulting financial benefits are being realized; and (iii) designs for locally manufactured drums that are technically, financially and socially acceptable have been developed and field-tested with a clear identification of business partners.

## **B. Organizational framework**

21. MAF will be the lead implementation agency for the project. A steering committee will provide overall direction and guidance. The committee will be responsible for: (i) coordinating the provision of government support at national and district levels; (ii) coordinating project activities with Government programmes; and (iii) providing policy support.
22. The PMU embedded within the MAF Dili complex will work out of MAF district offices, which will provide office space and drum storage facilities. The PMU will be responsible for day-to-day project implementation and will manage district coordination. District coordination offices will be established under a phased approach in current target districts and operate for a period of about one year. District coordinators and deputy district coordinators will, in turn, manage the project facilitators, whose key role will be to work closely with *suco* and *aldeia* chiefs to select beneficiary households, organize drum delivery, train recipients in drum use and maintenance, and conduct periodic monitoring activities.
23. The main field-level operatives will be: (i) *suco* councils, and *suco* and *aldeia* chiefs, who will be responsible for community organization activities; and (ii) project facilitators, who will be the key field-level implementers with support from the project's district and deputy district coordinators.

## **C. Planning, monitoring and evaluation, and learning and knowledge management**

24. Effective planning, knowledge management and M&E processes are central to the project's evolution and responsiveness. A range of approaches will be developed to ensure: (i) accountability to key implementation partners; and (ii) continuous learning and improvement as an integral part of implementation. The project is expected to make a valuable contribution to better understanding and generating knowledge on issues related to food security in Timor-Leste.
25. Detailed implementation planning will be driven by the community-based planning and implementation cycle, which will be adopted to promote and socialize the project to target communities, select and verify recipient households, distribute drums and provide user training. The planning process for a new district will commence in September with the selection of target subdistricts and *sucos*; and conclude the following March and April with drum distribution and training in time for the main maize harvest. Following verification of recipient households, distribution lists for each *suco* will be collated by the district coordinator who, in consultation with the

district administrator, will also plan district-level logistical requirements associated with the drum distribution programme, before passing the consolidated district drum distribution plan up to the PMU. The PMU will consolidate the plans received from each district (if operating in more than one district in that year) and incorporate the PMU's own resource requirements for overall project management.

26. M&E activities will be managed by the PMU in Dili. The project manager will be responsible for finalizing the M&E framework and oversight for all M&E activities. Key M&E resources and responsibilities include: (i) a full-time national M&E officer; (ii) the district coordinators, deputy district coordinators and project facilitators, who will be responsible mainly for collecting field data under the direction of the M&E officer; (iii) a post-harvest storage specialist; and (iv) the national M&E specialist, who will be responsible for implementing and reporting on the annual participatory impact assessment exercise, and for supporting implementation of the drum use monitoring programme.

#### **D. Financial management, procurement and governance**

27. The IFAD grant will be channelled to a designated account in United States dollars maintained by the recipient. Funds will flow from the designated account to the operational accounts managed by the PMU.
28. Provision will be made for retroactive financing of up to US\$30,000 to cover initial expenditures incurred between Executive Board approval and eligibility for disbursement. Eligible activities will include establishment/refurbishment of the PMU in Dili and the recruitment of key project staff.
29. IFAD's procurement guidelines will apply to the project financing.
30. To ensure effective governance, the project will incorporate the following measures to ensure good governance: (i) transparency of information; (ii) participation and consultation; (iii) monitoring and oversight; and (iv) capacity-building through training.
31. In accordance with section 9.03, article 9 of the General Conditions for Agricultural Development Financing and the IFAD project audit guidelines, the auditor will audit the project account in addition to providing consolidated financial statements. The auditors will provide a separate opinion on the statement of expenditures and the operation of the designated account and counterpart financing, and a management letter addressing the adequacy of accounting and internal control.

#### **E. Supervision**

32. Direct supervision by IFAD will take place on a biannual basis with missions scheduled to coincide with preparation of annual workplans and budgets (AWPBs), steering committee meetings, and the PMU's and withdrawal application submission. The final supervision mission will include a completion review of phase I with emphasis on assessing performance against trigger indicators for a possible phase II. It is expected that IFAD will establish an office in Indonesia in early 2012 with an out-posted country programme manager with responsibility for Timor-Leste. This will significantly enhance opportunities for engagement, and direct monitoring and follow up by IFAD.

### **IV. Project costs, financing, benefits**

#### **A. Project costs**

33. The total project cost over three years is an estimated US\$5.58 million, including physical and price contingencies. The foreign exchange element is estimated at US\$2.90 million (excluding contingencies) or 59 per cent of base costs, reflecting the high proportion of funds to be used to import drums. Base components costs will be US\$2.15 million (43 per cent) for component 1, purchase and/or manufacture of maize storage drums; US\$1.03 million (21 per cent) for component 2, distribution of

maize storage drums; and US\$1.77 million (36 per cent) for component 3, project management and coordination.

## B. Project financing

34. The Government of Timor-Leste, IFAD and beneficiaries will fund US\$0.16 million (2.8 per cent), US\$4.94 million (88.6 per cent) and US\$0.48 million (8.6 per cent) of total costs, respectively, including contingencies. The Government will finance the tax and duty element of all expenditure, and will also be making an in-kind contribution in the form of staff time, which has not been costed. Beneficiaries will be required to make co-payments of US\$10 per drum, equal to about 20 per cent of the farmgate price of a 200L drum. IFAD will provide grant financing for all other project cost elements under its Debt Sustainability Framework (DSF).

	Gov't		IFAD grant		Beneficiaries		Total	
	Amount	%	Amount	%	Amount	%	Amount	%
1. Drum procurement/ manufacture	101.5	4.1	1 892.5	76.4	482.4	19.5	2 476.4	44.4
2. Drum distribution	24.9	2.1	1 146.6	97.9	-	-	1 171.5	21.0
3. Project management	28.8	1.5	1 905.6	98.5	-	-	1 934.3	34.7
<b>Total project costs</b>	<b>155.2</b>	<b>2.8</b>	<b>4 944.7</b>	<b>88.6</b>	<b>482.4</b>	<b>8.6</b>	<b>5 582.2</b>	<b>100.0</b>

## C. Summary benefit and economic analysis

35. The main project benefits relate to improved food security in vulnerable upland maize growing households due to reduced post-harvest losses of maize. The project will be financially and economically viable. Investment in drums for storage generates a financial internal rate of return (FIRR) of 56 per cent for all models, with the full cost of the drums accounted for. The project has the capacity to generate an economic internal rate of return (EIRR) of 16 per cent.
36. The project's EIRR is highly sensitive to the key assumption related to the percentage of maize lost when stored under traditional systems. The analysis has been conducted using a conservative estimated loss of 15 per cent. For example, if the loss figure is increased from 15 per cent to 20 per cent (a not unreasonable assumption according to many local experts), the EIRR excluding secondary benefits increases to 22 per cent, and if secondary benefits are included, to 24 per cent. The EIRRs for a 25 per cent maize loss are 29 per cent and 31 per cent, respectively.
37. It should be noted that the project has been designed as a pilot activity to lay the foundation for subsequent phases that will promote improved storage for maize, and possibly other crops, nation-wide. Once this scaling up occurs, there would be a corresponding improvement in the financial and economic impact outlined above. Moreover, if the availability of improved on-farm storage increases the adoption of higher-yielding varieties of maize (some of which are more susceptible to insect damage), as expected, the financial and economic benefits would increase further.

## D. Sustainability

38. The design includes key measures to promote long-term sustainability, including: (i) selection and promotion of a simple development intervention that is technically, socially and financially viable; (ii) support to initiate financially viable in-country drum manufacture and distribution through local market channels; (iii) consideration of initial drum importation in knock-down form; (iv) detailed, step-by-step plans for community engagement and support activities to foster widespread drum use; and (v) a close partnership with the Seeds of Life Programme to ensure full expression of the project's strong complementarity with that programme.
39. A key feature of the project is its simplicity, which is expected to positively influence the likelihood of sustainability. Compared with more traditional rural development

projects, which often depend on institutional capacity-building and complex technology change interventions, the project focus is on simple drum importation, manufacture and distribution activities to generate increased food supplies and ultimately higher farm incomes. Furthermore, once target households have drums, experience indicates that: (i) they will strive to buy more drums to increase on-farm food storage and join the cash economy through the sale of surplus grain; and (ii) the annual benefits (reduced maize wastage) will continue for at least 20 years (life of a drum) without further project support and farmer costs. These outcomes will result in a systematic and sustainable change in the way maize is stored in Timor-Leste and will ultimately have a positive impact on human nutrition and health, and the country's balance of payments.

## **E. Risk identification and mitigation**

40. The basis for the design is a proven, simple and widely acceptable technology; and implementation will be through a proven mechanism. However, there are two country-specific risks: (i) that peace and civil order may be disrupted as a result of the election in 2012; and (ii) that the current agricultural development policy is skewed towards the irrigated rice subsector, at the expense of the maize-dominant rainfed subsector.
41. Project-specific risks considered to be manageable include: (i) a large international supply of new 200L drums will need to be available at acceptable prices; (ii) the project is a large procurement/manufacture and distribution exercise and therefore procurement/shipment/port clearance and distribution channels will need to be efficient; (iii) local drum manufacturers will need to be able to raise additional investment funds if they are to produce the quantities of drums required for a national roll-out; (iv) drum delivery to the *suco* level by small trucks will require trafficable rural roads; and (v) there will need to be a sufficient number of skilled district coordinators and project facilitators available to work with the project.

## **V. Corporate considerations**

### **A. Compliance with IFAD policies**

42. The project is aligned with IFAD's overarching goal that rural women and men in developing countries be empowered to achieve higher incomes and improved food security at the household level. It also complies with one of IFAD's six strategic objectives: improved agricultural technologies and effective production services, with which rural women and men can enhance their productivity; and meets two of IFAD's key principles of engagement: (a) guiding pro-poor support; and (b) specific targeting.

#### **Gender**

43. Gender considerations are adequately addressed throughout the project and project cycle. The project will promote affordable labour-saving technologies and also facilitate a greater sharing of roles and responsibilities between women and men.
44. Food storage in Timor-Leste is a family-led decision in which both women and men are involved. While women take primary responsibility for food preparation and consumption allocation amongst family members, many agricultural tasks, such as maize storage, are joint responsibilities. These conclusions are reflected in MAF's gender policy, which supports the joint participation of women and men in food security management training. The project is thus in line with government policy through its objective of transferring improved food storage technologies to rural women and men.
45. Gender perspectives on the advantages and disadvantages of food storage technologies will be assessed during implementation, together with gender roles in managing drums. The project will also monitor the utilization of drums: (i) degree of use (quantity of grain stored in drums versus other forms of storage);

(ii) consumption patterns during storage; (iii) the use of guidelines for drum management (surrogate measure for the quality of grain stored); and (iv) households' experiences and attitudes towards using drums.

### **Findings of IFAD's environmental assessment process**

46. In accordance with IFAD's Environmental and Social Assessment Procedures, the project has been classified as a Category C operation as it will have a negligible or minimal adverse environmental impact.

## **B. Alignment and harmonization**

47. The project concept has been endorsed by the Government and all potential partners, including MAF, district governments and local community networks. The project will build on important NGO partnerships (Drums on Farms and Care International) and complement the country's largest development initiative for food production (Seeds of Life III; A\$27.5 million, five years and 12 rural districts).

## **C. Innovations and scaling up**

48. As designed, the project is eminently suitable for scaling up into subsequent phases, which would eventually result in all maize growers in Timor-Leste having access to sufficient technology for safe storage of approximately 130,000 Mt of maize.
49. Phase I will develop the drivers needed for scaling up, e.g. leadership in MAF and local champions in the form of *suco* councils and chiefs with experience in organizing communities for drum delivery. The political and policy spaces will also be developed; and the pathways for scaled-up implementation tested and refined. In addition, other development partners (such as AusAID and the World Bank) have expressed interest in involvement in phase I and potential follow-on phases.
50. The project is expected to be scaled up after the end of phase I in December 2014. Phase II will be implemented in the seven districts not included in phase I, and in those subdistricts in the five phase I districts not fully covered during phase I, with a continued focus on upland, rainfed maize growing areas and possibly an expansion into the storage of other staple foods. In addition there may be a slight expansion in the scope of phase II to encompass some simple add-ons such as maize processing equipment and the use of surplus grain for small-scale animal feeding.
51. By the end of phase I, local private-sector businesses are expected to have established in-country drum or storage container manufacturing facilities capable of responding to growing demand for this simple technology. Pilots using locally-manufactured drums are already under way but at present the product is not price-competitive. This should change with increased scale and further investigation of alternative technologies.

## **D. Policy engagement**

52. Timor-Leste's agricultural policy and strategy framework are governed by three key documents and one national priority: (i) the Prime Minister's SDP<sup>1</sup> of July 2011; (ii) Axis 1 in the Rural Development Framework; (iii) MAF's 2004 Policy and Strategic Framework (still applicable); and (iv) Timor-Leste's national priorities for 2010. The initial project design was guided by MAF's 2004 Policy and Strategic Framework, which spells out the sector objectives and implementation strategies. The policy objectives directly relevant to the project are as follows: (i) improve the level of food security of the rural population and raise self-reliance; (ii) increase value-adding of agriculture, forestry and fisheries; (iii) contribute to the balance of trade through export revenue and import substitution; and (iv) increase rural incomes and employment.
53. A fundamental policy risk is the Government's strong focus on irrigated agriculture, and its relative neglect of upland, rainfed production systems. However, the recently

<sup>1</sup> This version of the SDP replaces the draft published in mid-2010.

released Agriculture Strategic Plan (July 2011) indicates a softening in this policy. The SDP focuses on food self-sufficiency and covers both rice and maize, and donors too are now realizing the importance of rainfed food and cash crop production. The project can contribute to this by demonstrating the importance and opportunities of rainfed agriculture, to draw more attention to the neglected upland maize growers. An additional area of importance to effective policy development where the project can contribute is the lack of relevant information and data, particularly related to food security issues, which is critical for effective decision-making.

54. Therefore, over time it is expected that the presence of the project in the non-irrigated sector will have an indirect influence on government policy and thereby gradually reduce the risk that the current rice-focused policy could impede project success.

## **VI. Legal instruments and authority**

55. A project financing agreement between the Democratic Republic of Timor-Leste and IFAD will constitute the legal instrument for extending the proposed financing to the recipient. A copy of the negotiated financing agreement is attached as an annex.
56. The Democratic Republic of Timor-Leste is empowered under its laws to receive financing from IFAD.
57. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Lending Policies and Criteria.

## **VII. Recommendation**

58. I recommend that the Executive Board approve the proposed financing in terms of the following resolution:

RESOLVED: that the Fund shall provide a grant to the Democratic Republic of Timor-Leste in an amount equivalent to three million two hundred thousand special drawing rights (SDR 3,200,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze  
President

## **Negotiated financing agreement: "Timor-Leste Maize Storage Project"**

(Negotiations concluded on 6 December 2011)

Grant Number:

Project Title: Timor-Leste Maize Storage Project (the "Project")

The Democratic Republic of Timor-Leste (the "Recipient")

and

The International Fund for Agricultural Development (the "Fund" or "IFAD")

(each a "Party" and both of them collectively the "Parties")

hereby agree as follows:

### **Section A**

1. The following documents collectively form this Agreement: this document, the Project Description and Implementation Arrangements (Schedule 1), the Allocation Table (Schedule 2), and the Special Covenants (Schedule 3).
2. The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, as amended on 17 September 2010 (the "General Conditions") are annexed to this Agreement, and all provisions thereof shall apply to this Agreement. For the purposes of this Agreement the terms defined in the General Conditions shall have the meanings set forth therein.
3. The Fund shall provide a Grant to the Recipient (the "Financing"), which the Recipient shall use to implement the Project in accordance with the terms and conditions of this Agreement.

### **Section B**

1. The amount of the Grant is 3 200 000 Special Drawing Rights (SDR).
2. The first day of the applicable Fiscal Year shall be 1 January.
3. There shall be a Designated Account for the benefit of the Ministry of Finance in a bank acceptable to IFAD.
4. There shall be a Project account denominated in United States Dollars for the benefit of the Ministry of Agriculture and Fisheries (MAF) for the implementation of the Project, in a bank acceptable to IFAD.
5. The Recipient shall provide counterpart financing for the Project in the amount of United States Dollars 150 000.

### **Section C**

1. The Lead Project Agency shall be the Ministry of Agriculture and Fisheries.

2. The following are designated as additional Project Parties: The Project Steering Committee (PSC); Project Management Unit (PMU) and the District Coordination Offices (DCOs); and shall include but are not limited to institutions and other development partners mentioned in Schedule 1.

3. The Project Completion Date shall be the third anniversary of the date of entry into force of this Agreement.

#### **Section D**

The Project will be directly supervised by IFAD in consultation with the Recipient.

#### **Section E**

1. The following is designated as an additional specific condition precedent to withdrawal:

A Project Implementation Manual is issued by MAF within 90 days of the date of entry into force of this Agreement.

2. The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the Recipient:

Minister of Finance  
Ministry of Finance  
Edificio 5, 1º Andar  
Palacio do Governo,  
Dili, Timor-Leste

For the Fund:

The President  
International Fund for Agricultural development  
Via Paolo di Dono 44  
00142 Rome, Italy



This Agreement, dated\_\_\_\_\_, has been prepared in the English language in six (6) original copies, three (3) for the Fund and three (3) for the Recipient.

DEMOCRATIC REPUBLIC OF TIMOR-LESTE

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Minister of Finance

INTERNATIONAL FUND FOR  
AGRICULTURAL DEVELOPMENT

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Kanayo F. Nwanze  
President

## Schedule 1

### *Project Description and Implementation Arrangements*

#### I. Project Description

1. *Target Population.* The Project shall benefit approximately 23 000 economically active poor households (households producing about 150 kg of maize per year) in the districts of Aileu (year 1), Manufahi and Manatuto (year 2), and Ainaro and Viqueque (year 3) (the "Project Area").
2. *Goal.* The goal of the Project is: improved food security for maize growing households in Timor-Leste.
3. *Development Objective.* The development objective of the Project is: reduced losses of maize stored on-farm.
4. *Components.* The Project shall consist of the following Components:

##### 4.1 **Component 1: Purchase and/or manufacture of maize storage drums.**

The main output from this component will be that maize storage drums are procured and/or manufactured locally. During the first phase, the project will facilitate the international supply of new 200l drums (42 000 drums over three years). At the same time, local private-sector drum manufacture will be investigated, focusing on alternative drum/container designs, in-field testing of prototypes, and business development feasibility studies on developing local drum manufacturing capacity.

Project-funded research and development (R&D) activities will include support for local industrial manufacturers to develop and field-test prototype 100l and 200l drums, followed by pilot rollouts and evaluation of field trials. The R&D package will include funds for business expansion and fund-sourcing feasibility studies. Limited R&D funds will also be allocated to improving maize shellers.

4.2 **Component 2: Distribution of 200l maize storage drums.** The main output of this component will be that maize storage drums are distributed and used effectively. This output will be achieved through the following steps: (i) appointing and training project facilitators in community organization skills and drum delivery and use; (ii) targeting and preparing households, in terms of eligibility and desire to use drums for maize storage, depending on their maize production volume and willingness to pay a co-contribution per drum; (iii) preparation of district, sub district, Suco [village] and Aldeia [hamlet] drum delivery and distribution plans; (iv) drum distribution in time for the next maize harvest, and collection of beneficiaries' co-contributions; (v) training and support in drum use and management; and (vi) piloting of drum distribution through agents in district markets. Approximately 23 000 households will receive approximately 42 000 drums during the three-year project.

4.3 **Component 3: Project management and coordination.** The main output from this component will be efficient project management and coordination. This will be achieved through: (i) the establishment and operation of a PMU embedded in MAF's National Directorate of Agriculture and Horticulture; (ii) the design and operation of an M&E framework; and (iii) the appointment of coordinators and facilitators.

The PMU will consist of a Project Director (the National Director of Agriculture and Horticulture), a Project Manager (international appointment); a Finance Officer, a Procurement/ Logistics Officer, and an M&E Officer (national appointments). The PMU will be supported by a short-term international Post-harvest Storage Specialist and a national Monitoring and Evaluation Specialist. Project monitoring will encompass: (i) baseline and follow-up household surveys on maize storage losses; (ii) periodic assessment of on-farm maize storage practices; and (iii) periodic assessment of drum use. Participatory impact assessment will be an important tool for ascertaining beneficiaries' views on Project performance and results.

## **II. Implementation Arrangements**

1. The Project will apply a community-based and participatory approach for project implementation. The field-level activities (drum distribution) will be implemented by MAF in coordination with the government's district administration staff and networks, local community organizations and village leaders, and in cooperation with MAF's district staff.
2. At the field level the project facilitators will work with Suco Chiefs to complete the series of community-focused activities in coordination with agriculture extension workers. These activities have been designed to ensure that the Project effectively engages with communities for all pre- and post-drum delivery activities, and subsequent participatory impact assessments. M&E activities have been designed to gather target beneficiaries' opinions on and gauge their satisfaction with this approach. Results will be used to adjust implementation activities if required.
3. A PMU (staffed with a Project Director, a Project Manager, a Finance Officer, and a Procurement/ Logistics Officer) will be embedded in MAF's Dili complex, and will work out of MAF's District Offices if practical in terms of office space and drum storage facilities. The PMU will be responsible for day-to-day project implementation and will manage district coordination. DCOs will be established under a phased approach in current target districts and operate for a period of about one year. District coordinators and deputy district coordinators will, in turn, manage the project facilitators. The latter will work closely with MAF agricultural extension workers, Suco and Aldeia chiefs to select beneficiary households, organize drum delivery, train recipients in drum use and maintenance, and conduct periodic monitoring activities.
4. A PSC will provide overall Project direction and guidance. The PSC will be responsible for: (a) coordinating the provision of Government support (national and district levels); (b) coordinating Project activities with Government programmes; and (c) providing policy support. It will comprise: i) the Director General of MAF, who shall be the Chairperson of the PSC; ii) a representative from the Ministry of Finance; and iii) representatives from the districts where the Project operates.

## Schedule 2

### Allocation Table

1. *Allocation of Grant Proceeds.* (a) The Table below sets forth the Categories of Eligible Expenditures to be financed by the Grant and the allocation of the amounts of the Grant to each Category and the percentages of expenditures for items to be financed in each Category:

Category	Grant Amount Allocated (expressed in SDR)	% of eligible expenditure to be financed
I. Drum Acquisitions	805 000	100% net of taxes and beneficiaries' contributions
II. Subcontracts	375 000	100% net of taxes
III. Vehicles, Equipment & Materials	340 000	100% net of taxes
IV. Training	95 000	100% net of taxes
V. Technical Assistance and Studies	375 000	100%
VI. Salaries and Allowances	640 000	100% net of taxes
VII. Operating Costs	250 000	100%
Unallocated	320 000	
<b>TOTAL</b>	<b>3 200 000</b>	

(b) The terms used in the Table above are defined as follows:

Subcontracts: financing activities related to the manufacturing and distribution of drums, training, and support in drum use and management.

2. *Retroactive Financing.* Withdrawals not exceeding in the aggregate the amount of SDR 19 335 equivalent to USD 30 000 may be made from the Grant Account in respect of expenditures under Categories III and VII of this Schedule for activities undertaken by the Project related to the recruitment of key project management staff and the establishment of offices, which will include the establishment/ refurbishment of the PMU in Dili and the recruitment of the Project Manager, the Finance Officer and the Procurement/ Logistics Officer for the PMU, and other preparatory activities incurred before the Effective Date but after 15 December 2011. Such expenditures shall be deemed Eligible Expenditures for all purposes of this Agreement.

**Schedule 3***Special Covenants*

In accordance with Section 12.01(a)(xxiii) of the General Conditions, the Fund may suspend, in whole or in part, the right of the Recipient to request withdrawals from the Grant Account if the Recipient has defaulted in the performance of the covenant set forth below, and the Fund has determined that such default has had, or is likely to have, a material adverse effect on the Project:

The Recipient confirms its commitment to engage with regional and international organizations, private sector and non-governmental organizations as implementing partners and service providers, with the active participation of the Project's target group, in order to ensure that the TLMSP objectives are met.

# Logical framework

Results Hierarchy	Indicators	Means of Verification	Assumptions
<b>Goal:</b> Improved food security for maize-growing households in Timor-Leste	<ul style="list-style-type: none"> <li>Percent improvement in HH food security due to increase on-farm supplies of maize, initially after harvest and then in the “hungry season”.</li> <li>*No. of HHs with improved food security.</li> <li>*No. of HHs showing improvement in IFAD’s HH asset ownership index.</li> <li>*Percent reduction in the prevalence of child malnutrition.</li> </ul>	<ul style="list-style-type: none"> <li>Assessed reduction in storage losses due to Project (from survey reports), as a % of total HH food requirements (from TLSLS reports).</li> <li>Drum distribution records.</li> <li>Project survey.</li> <li>Secondary data from WFP and UNICEF</li> </ul> <u>Goal-level indicators reported at beginning and end of Project.</u>	<ul style="list-style-type: none"> <li>Peace and civil order are maintained.</li> <li>No major changes in MAF’s agricultural development policy and strategies.</li> </ul>
<b>Development Objective:</b> Reduced losses of maize stored on-farm	<ul style="list-style-type: none"> <li>On-farm storage losses reduced from 15% to less than 1% (cumulative weight loss basis) for households adopting improved storage techniques.</li> </ul>	<ul style="list-style-type: none"> <li>Baseline survey report on extent of maize losses under traditional storage systems.</li> <li>Drum use monitoring program reports.</li> <li>Participatory Impact Assessments.</li> </ul> <u>Development objective-level indicators reported annually.</u>	<ul style="list-style-type: none"> <li>Farmers are willing to move away from traditional storage practices.</li> <li>Recommended on-farm maize storage technology (drums) is acceptable/ affordable to target rural households.</li> </ul>
<b>Output 1:</b> Maize storage drums procured and/or manufactured locally: <ol style="list-style-type: none"> <li>New 100L and 200L drums imported</li> <li>100L and 200L drums locally manufactured (probably Phase II)</li> <li>R&amp;D on alternative drum designs and business development studies (local drum manufacture) completed</li> </ol>	<ul style="list-style-type: none"> <li>42,000 new 200L drums imported by end of PY2.</li> <li>At least one design for a locally-manufactured alternative drum successfully developed and field tested by the end of PY3.</li> <li>Options for local manufacture assessed, private sector partner/s identified, and business development plan completed by the end PY3.</li> </ul>	<ul style="list-style-type: none"> <li>AWPBs.</li> <li>Six-monthly Progress Reports.</li> <li>R&amp;D reports.</li> </ul>	<ul style="list-style-type: none"> <li>An adequate number of new drums can be imported, for a reasonable price</li> <li>No serious importation difficulties/delays - GoTL is able to facilitate drum import and clearance</li> <li>No major technical difficulties with local drum manufacture.</li> <li>Funds for expanded local drum manufacturing businesses are available.</li> </ul>
<b>Output 2:</b> Maize storage drums distributed and used effectively: <ol style="list-style-type: none"> <li>Target HHs identified and organized</li> <li>Drum distribution plans prepared</li> <li>Drums distributed, and co-contributions collected</li> <li>Drum use promoted and farmers trained</li> <li>Drum distribution through private sector piloted</li> <li>Drums distributed through NGO network</li> </ol>	<ul style="list-style-type: none"> <li>23,000 poorer maize-growing HHs identified, provided with drums and trained in drum use.</li> <li>Drums being fully utilized for maize storage.</li> <li>Drum use guidelines being closely followed by most HHs.</li> <li>Five drum agents in district markets identified and trained, by end PY2.</li> <li>500 drums sold by drum agents by end PY3.</li> <li>10% of purchased drums distributed through NGOs (year by year)</li> <li>*No. of HHs receiving Project services.</li> </ul>	<ul style="list-style-type: none"> <li>AWPBs.</li> <li>Six-monthly Progress Reports.</li> <li>Drum use monitoring program reports.</li> <li>Participatory Impact Assessments.</li> </ul>	<ul style="list-style-type: none"> <li>Use of local government and community structures, and staff, to assist with drum targeting and distribution is efficient.</li> <li>Transport infrastructure and services are maintained at a level sufficient to allow timely shipment of drums from Dili to target Sucos.</li> <li>Required number of suitably qualified District Coordinators and Project Facilitators can be recruited.</li> <li>Suitable mechanism for safely depositing drum co-payments can be identified.</li> </ul>
<b>Output 3:</b> Efficient Project management and coordination: <ol style="list-style-type: none"> <li>PMU established and operational</li> <li>DCOs established and operational</li> <li>M&amp;E system designed and operational</li> </ol>	<ul style="list-style-type: none"> <li>PMU and DCOs established and operational.</li> <li>Implementation on schedule.</li> <li>Implementation performance and outcomes being regularly assessed.</li> <li>IFAD satisfied with results.</li> <li>Other stakeholders (communities, partner NGOs, district government) satisfied with results.</li> </ul>	<ul style="list-style-type: none"> <li>Annual Reports.</li> <li>M&amp;E reports.</li> <li>Supervision Mission Reports</li> <li>Project Completion Report.</li> <li>Participatory Impact Assessments.</li> </ul>	<ul style="list-style-type: none"> <li>Adequate resources are allocated to Project management and M&amp;E in timely fashion.</li> <li>Strong partnerships between Project contractor, IFAD and MoF can be developed</li> </ul>