

# **THE COFFEE COOPERATIVES OF EAST TIMOR**

**A CASE STUDY OF THE COOPERATIVES  
AFFILIATED WITH NCBA'S  
TIMOR ECONOMIC REHABILITATION AND  
DEVELOPMENT PROJECT (TERADP)**



**THE NATIONAL COOPERATIVE BUSINESS ASSOCIATION (NCBA)**

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## ACRONYMS/GLOSSARY

CCO	<i>Cooperativa Café Organic</i> – Coffee farmer-owned cooperatives created by the project to replace the previous Indonesian rural cooperative structures in East Timor.
CCT	<i>Cooperativa Café Timor</i> – The national level coffee farmer cooperative federation established with the assistance of TERADP.
CCT-Health	<i>Clinic Café Timor</i> – The health care program established to serve the members of the coffee cooperatives.
CLTL	<i>Cooperativa dos Lojistas Timor Lorosa'e</i> --Logistical Cooperative of Timor; the rural retailers' cooperative.
CPO	Central Payments Office of the United Nations interim administration.
DHS	Department of Health Services of East Timor.
EDF	Enterprise Development Fund.
IETDP	The Indonesian Enterprise and Trade Development Project, the NCBA program that was extended to East Timor in 1994 under IETDP-Phase II.
IETDP-Phase II	The extension of the IETDP into the more economically deprived areas of Indonesia, with a major focus on East Timor. TERADP is the successor activity of the East Timor activities of the IETDP-Phase II.
IFOAM	International Federation of Organic Agricultural Movements.
IOB	The East Timor Institute of Business, a post-secondary educational facility, currently initiated by TERADP in collaboration with the Ministry of Education. The IOB provides formal course work in business management, accounting and administration.
<i>Klibur</i>	The East Timor Cooperative and Small Enterprise Training Center.
KPI	<i>Koperasi Pembiayaan Indonesia</i> . A cooperative-owned business financing institution designed to stimulate economic activity in the rural areas. KPI was initiated under the IETDP.
MAFF	Ministry of Agriculture, Forestry and Fisheries
NGO	Non-governmental organization.
N.T.	Nusara Timor, the CCT dry process coffee facility in Dili.
OCIA	Organic Crop Improvement Association, the international organic certification agency.
PUSKUD	A secondary-level farmer cooperative under the Indonesian cooperative system. PUSKUD Timor Timur was the East Timor provincial federation of the Indonesian cooperative system.
TERADP	The Timor Economic Rehabilitation and Development Project
UNTAET	United Nations Transitional Administration in East Timor.
WHO	World Health Organization.

## EXECUTIVE SUMMARY

As indicated by its title, the Timor Economic Rehabilitation and Development Project (TERADP) is a development activity that focuses on rebuilding and expanding the economy of East Timor, the newest member country of the international community. In early 1994, at the request of USAID, NCBA extended its Indonesian Enterprise and Trade Development Project (IETDP) into what was then the Indonesian province of East Timor. Later that same year, with USAID's funding of the initial phase of TERADP, NCBA developed a multi-faceted project that focused on laying the groundwork for the long-term, sustainable development and growth of the Timorese economy.

As described in the TERADP project proposal, in keeping with its many years of field experience, it is NCBA's perspective that rural economic growth requires the development of viable, profitable business activities that create new employment and income-generating opportunities. Focusing primarily on the small-scale farming sector, the overall goal of TERADP is to bring about sustainable improvements in the social and economic well being of the rural population, including health maintenance education and the provision of basic medical services. To address the imposing challenges to successful economic development in East Timor, NCBA's primary methodology has been to expand the business capacities and productive output of cooperatives and other rural-based enterprises through specific, well-planned interventions that offer significant potential for increasing the incomes and improving the livelihoods of the target populations.

The approach of the project is to:

- create and/or expand economic activities that have the potential to impact on large numbers of people;
- present innovative responses to the new economic opportunities and the many issues and difficulties arising from the country's transition to independence;
- be fully responsive to both the needs of small-scale producers and to the demands of the market; and,
- provide an effective program of basic health care services in those geographic areas of project implementation where public health services are not operational.

The economic activities of the project focus primarily on:

- the production and value-added processing of specialty crops, primarily directed at the export market;
- the transfer to the producers (and their downstream processing and marketing linkages) of the skills and knowledge necessary to meet the volume and quality requirements of the market;
- the provision of training that directly addresses the personnel needs of the cooperatives and other private sector rural enterprises; and,
- the development of commercial channels for the efficient and sustainable procurement and distribution of consumer goods, construction material and farm inputs.

In implementing the coffee activities, by organizing more than 20,000 farm families into nearly 500 democratic producer groups and cooperatives, the project is also making an important

contribution to the development of grassroots democracy. That said, in reviewing the Timorese cooperatives, it is important to understand that these are structures that are still in their infancy. At the grassroots level—the level of the farmer groups—the members are still in a learning process and instructors from the project training center are educating them about what a cooperative is and how it functions to serve their needs. As well, the members are learning about democratic member control and, having had little or no experience with democracy to this point in their lives, this learning can be expected to stimulate a variety of responses.

Similarly, they are learning their roles and responsibilities as members, including the importance of member economic participation and the need for full transparency in their organization's financial activities. In sum, it must be emphasized that the coffee cooperatives are new and that both the management and the members will require a sufficient period of time to adjust, develop their understanding and help their organizations evolve into genuine member-owned and member-controlled enterprises.

Outside of the coffee component, several hundred additional families are now involved in the production of vanilla (a new product for East Timor that was introduced by NCBA under TERADP's predecessor project), while other small-scale farm families are involved in the project's newest component, a beef cattle production activity. At the time of the preparation of this study, in addition to the coffee component, the project was implementing a broad range of activities that included:

- vanilla production, procurement, processing and export operations;
- a smallholder tree forage and beef cattle production activity;
- a management and key personnel training center for small enterprises and cooperatives;
- a small-scale retailers' food and consumer goods purchasing and distribution cooperative;
- a host tree (vanilla) and shade tree (coffee) reproduction program; and,
- a university-level business education institute.

All of these activities were initiated in response to needs that were first identified during the implementation of the coffee activities. TERADP management describes the progressive expansion of project components as responses to both needs and opportunities. The health care component has filled a vacuum where few, if any, health care services existed; the retailer's cooperative was the project's response to the exodus of Indonesian-based distributors of food supplies and consumer goods; the creation of the training center and the business education institute responded to the departure of trained Indonesian personnel and the extreme lack of trained Timorese at all levels; the vanilla component was an opportunity to introduce a new income-generating activity that had been tested and developed in Indonesia; and, the beef cattle component is an attempt to build the traditional practice of cattle ownership into a beneficial economic activity.

East Timor has a long history as a coffee growing area, however nearly 25 years of civil unrest and uncertainty led to a severe decline in the coffee's quality and, consequently, the loss of most of its export market. As international buyers turned elsewhere, prices dropped to such low levels that many producers stopped harvesting their coffee and turned to subsistence agriculture to feed their families. With the initiation of the NCBA coffee activities, the sector began to provide new opportunities for economic growth. Motivated by the new and more profitable markets developed by NCBA, large numbers of farmers agreed to abide by the program's strict

production and quality requirements and affiliate with the program. Assisted by project extension services, many producers have adopted the required techniques and, as a result of the quality improvements, East Timor specialty coffees now commanding a premium price on the world market.

A recent financial analysis of the project found that the coffee cooperatives have made significant progress and have strong potential for sustainability even under the existing market conditions. Despite the current low international coffee prices, there is strong buyer demand for CCT's high-quality specialty coffees. The producer members are demonstrating sufficient loyalty to their farmer groups and cooperatives and project management is continually training managers and key personnel with a view to the long-term institutionalization of the coffee program.

# I. THE IMPLEMENTATION PROCESS

## A. PROJECT DESCRIPTION

### 1. Background and Overview

NCBA has had a continuous presence in East Timor since mid-1994 when USAID/Jakarta requested that the Indonesian Enterprise and Trade Development Project (IETDP) be extended into what was then the Indonesian province of East Timor. From a very modest beginning, NCBA's assistance activities have helped build a network of agricultural cooperatives with a membership of some 20,000 small-scale farm families (approximately 120,000 persons). With the ending of Indonesian control in December 1999, the provincial cooperatives, which had been units of Indonesia's state-sponsored cooperative system, ceased to function and, with NCBA assistance, were replaced with a three-tiered independent and business-oriented cooperative structure.

Because coffee was the area's principal cash crop, the focus of the new cooperatives continued to be the production and processing of high-value specialty coffees for the export market. While the project has also assisted the development of other cooperative structures and other cooperative economic activities, the initial cooperatives of independent East Timor involved small-scale coffee producers.<sup>1</sup> These cooperatives, which are the principal subject of this study, have become the new country's largest private sector income-generating activity, as well as its largest employer, largest health care services provider and largest exporter.<sup>2</sup>



#### a. Project Setting and Target Groups

The initial extension of NCBA's IETDP activities into East Timor was part of its effort to target the more remote, economically deprived areas of Indonesia and assist the development of viable economic activities aimed at increasing rural incomes. The economic and social conditions of East Timor made it a prime candidate. Shortly before NCBA began its work in the province, a survey by Indonesia's Central Bureau of Statistics found that East Timor had the country's highest percentage of rural poverty, with more than 36 percent of the population living below the

<sup>1</sup> Over the period of project implementation, large numbers of additional families were assisted to participate in other cooperative economic activities, including vanilla production, processing and export, consumer goods distribution, coffee shade tree production and the production of host trees for the vanilla plants.

<sup>2</sup> The coffee cooperatives consist of *Cooperativa Café Timor* (CCT)—the national level federation—sixteen local cooperatives, *Cooperativa Café Organic* (CCOs), and nearly 500 organized farmer groups.

government's official poverty line (the equivalent of \$US 8.50 per month).<sup>1</sup>

#### **b. Intended Beneficiaries**

The great majority of the country's population consists of small-scale farmers, many of whom continue to be largely subsistence producers. Concentrating on this rural population, both the initial and current activities of NCBA have focused on organizing and training farmer groups and their cooperatives with the production and value-added processing of specialty crops primarily directed at the export market.

During the second half of 1999, project implementation was interrupted by the violence associated with the area's political transition. In August and September, widespread violence fomented by armed militias caused tens of thousands of rural families to flee their homes and forced a temporary suspension of the project. The greatest tragedy of the violence was its impact on the rural population, including many of the families affiliated with the TERADP producer groups. There were a number of deaths; rampaging militias destroyed thousands of homes and forced the long-term dislocation of large numbers of rural families. While no members of the project staff lost their lives, they worked under very dangerous and trying conditions as they attempted to preserve project assets and ensure the safety of their fellow workers and the cooperative members. The project's cooperative partners experienced particularly heavy losses, with many buildings burned, much equipment destroyed, vehicles looted or stolen and records lost (See Annex B, Impact of the Political Transition on Project Activities).

Once the violence ended, TERADP was the first program to re-start its activities and provide immediate income-generating opportunities to thousands of Timorese farm families.<sup>2</sup> TERADP staff also carried out the important task of assisting the return of many of the project-affiliated families from refugee camps in the Indonesian province of West Timor. This rapid renewal of project activities and the immediate commencement of rehabilitation efforts were instrumental in providing urgently needed cash into the rural areas. For a period of nearly eighteen months following the cessation of violence, TERADP performed a dual role:

- re-implementing and restructuring its economic activities to operate on a commercially and financially sustainable basis; and,
- responding to the extensive relief and rehabilitation needs of the country's general population.

At times, the many relief and rehabilitation requirements severely impacted the project's economic development role, although, over a period of eighteen months, the project and its affiliated cooperatives and farmer groups were able to rehabilitate damaged facilities and carry out their economic activities, even achieving significant increases in production and processing levels.

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<sup>1</sup> The official poverty line was based on a daily per person intake of 2,100 calories and the equivalent of US\$156 annually for urban residents and \$US 8.50 for rural inhabitants. East Timor's rate of 36.2 percent of the population living below the already very low poverty ranked it below other of the country's more remote rural populations, such as West Kalimantan at 25 percent, Irian Jaya at 24 percent.

<sup>2</sup> Many of the farm families had remaining stocks of coffee parchment they had not been able to sell during the coffee harvest season and the project was able to provide them with urgently needed cash by re-starting its purchasing activities. This injected the equivalent of several million US\$ into the rural economy and helped make it possible for the farmers to rebuild their homes and lives and survive without being dependent on relief aid.

## 2. Project Objectives and Strategy

The overall goal of TERADP is to bring about sustainable improvements in the social and economic well being of the rural population, including health maintenance education and the provision of basic medical services. The primary approach to goal achievement is the expansion of the business capacities and the productive output of cooperatives and other rural-based enterprises through specific, well-researched interventions that offer significant potential for increasing the incomes of the target population. NCBA's experience is that rural economic growth requires the development of viable, profitable business activities that create significant and sustainable employment and income-generating opportunities. With the transition from the IETDP to TERADP, the scope of the project was expanded to include a health component, *Clinic Cafe Timor* (CCT-Health), to provide health care services to the families affiliated with the coffee production activities.

### a. Objectives

As described in the project agreement, the objectives of TERADP are to:

- contribute to the rehabilitation of the economy of East Timor;
- improve the income levels and living conditions of small-scale farm families;
- contribute to the development of a policy environment favorable to small-scale, export-oriented agriculture and to small-scale and medium-scale enterprises; and,
- improve the business capacities and business operations of rural enterprises.

The project's economic rehabilitation efforts were primarily directed at reducing the time required for the area's transition to a viable economy while reducing the need for continued relief assistance. Immediately following the cessation of violence associated with the political transition, the project initiated a number of rehabilitation activities:

- provided short-term employment in repairing damaged facilities and re-starting project activities;
- assisted with identifying and assessing the need for non-emergency food supplies and consumer goods to supplement relief operations and reduce the high rate of inflation;<sup>1</sup>
- established commercial channels for the procurement and distribution of consumer goods, construction material and farm inputs from West Timor and East Java and sold these items to small-scale traders in East Timor;
- provided immediate short-term employment for several thousand Timorese in coffee processing activities;
- provided an immediate market for farmers to sell their stocks of dried coffee parchment remaining from the previous season;
- re-activated the health care component serving the coffee growing families, a program that, at that time, was providing medical care to 9,000 to 10,000 patients per month.

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<sup>1</sup> As one example, the project procured food supplies and building materials in West Timor (a province of Indonesia) and sold them in the local East Timor markets at current Indonesian prices, which were considerably lower than the prevailing inflationary prices.

## **b. Implementation Strategy**

The overall approach of the project is to:

- create and/or expand economic activities having the potential to have a beneficial impact on large numbers of people;
- make innovative responses to the available economic opportunities and the many issues/difficulties arising from the country's independence;
- develop ways to be fully responsive to both producer needs and market demand; and,
- provide an effective program of basic health care in the geographic areas of project implementation where public health services are not fully operational.

The economic activities of the project focus primarily on:

- the production and value-added processing of specialty crops, primarily directed at the export market;
- transferring to the producers (and to their downstream processing and marketing enterprises) the skills and knowledge necessary to meet the volume and quality requirements of the market;
- the provision of training that directly addresses the personnel needs of the cooperatives and other private sector entities; and,
- the development of commercial channels for the efficient and sustainable procurement and distribution of consumer goods, construction material and farm inputs.

Creating Economic Opportunities — The fact that more than 20,000 farm families have affiliated with the program's coffee component and are gaining significant benefits from the production of specialty coffees is indicative of the project's ability to make important new economic opportunities available to the rural population. These activities have brought a large number of small-scale and subsistence producers off of the sidelines and into the mainstream of the economy. This type of sustainable development is essential to creating a solid foundation for the country's long-term economic growth. The experience of the coffee activities demonstrates that the area's small-scale farmers, who make up the great majority of the population, will respond positively to marketing opportunities that offer a reasonable chance for economic progress.

Although East Timor has a long history as a coffee growing area, both the volume and the quality of its product declined markedly during the many years of civil unrest. As international buyers turned elsewhere for their supplies, prices dropped to such low levels that many producers simply gave up and turned to subsistence agriculture to feed their families. With the initiation of the IETDP, the situation changed dramatically. Motivated by the new and more profitable markets developed by NCBA, large numbers of farmers agreed to abide by the program's strict production and quality requirements and affiliate with the program. Assisted by the IETDP's extension activities, the producers adopted the required techniques and, in just two years, the quality improvements resulted in the East Timor specialty coffees commanding a premium price on the world market.

TERADP will continue to identify and develop viable, sustainable economic activities and extend these opportunities to increasing numbers of the population. Building on the strengths developed during the five-years of IETDP operations in East Timor, and benefiting from a large reservoir of popular goodwill, TERADP is also responding to the area's urgent needs for healthcare services, human resources development and an effective system for the distribution of

food supplies and consumer goods.

Developing Effective Rural Enterprises — East Timor’s cooperatives and the nearly 500 democratically elected farmer self-help groups have served as the project's primary partner organizations. These cooperatives operate the coffee procurement and processing activities and serve as essential linkages between the producers and the export market. Because they fill key roles in the entire production-processing-marketing system, it is essential that they function effectively.

For this reason, project management has focused a large share of its training efforts on improving the management capabilities of the cooperatives and the producer groups. A major emphasis has been on assisting the cooperatives to restructure their operations following the political transition and enable them to handle the large increases in business volume resulting from the growing number of farmers affiliating with the coffee program. As a result of the project's training and assistance, the cooperatives are making significant improvements in their operational capabilities and are functioning as integral components of the small farmer coffee program.

The new East Timor cooperative structures and the local farmer groups are strongly motivated to maintain their close affiliation with the project. It is expected that, once the current donor funding is concluded, the assisted cooperative enterprises will be fully capable of functioning as private sector cooperative businesses. They will be able to organize production, provide farmer extension services, purchase the harvested coffee, and carry out all of the processing and marketing functions. TERADP will continue to strengthen the producer-based cooperatives and other enterprises serving the small-scale farming and small-scale retail sectors. It will also assist other business ventures that offer significant potential for employment and income-generating opportunities.

An important key to the development of effective businesses and effective public services is an enabling legal and regulatory environment. TERADP management has continuously worked with the governing authority to assist the development of policies and regulations that foster this kind of enabling environment. The project's experience in rural economic development, export marketing and the provision of rural health services is regularly shared with and appreciated by representatives of the administration. The value of this assistance is underscored by the visits of the interim authority officials to project operations and invitations to project management to discuss policy issues.

### **c. Project Components**

In addition to the cooperative coffee production and processing component, which is the principal subject of this study, and the related health activity, the other major project components include vanilla production and processing, the development of a training center to serve the personnel needs of the cooperatives and other businesses, and the development of a retailers' cooperative to address the needs of the rural population for food supplies and consumer goods. Along with the health program, all of these “non-coffee” activities are described in Annex A, “Summary of Other Project Components”.

#### **d. Conditions Expected at EOP**

TERADP's projected end of project outputs specific to its agribusiness development activities include:

- the active participation of 20,000 small-scale coffee producing families in the cooperative coffee operations that will cover all of the major East Timor coffee production areas;
- the establishment of 20 major coffee research and demonstration farms;
- the establishment and operation of a vanilla reproduction unit capable of producing and distributing 20,000 vanilla "seedlings" (vanilla "starts") per year;
- the establishment and operation of a coffee shade tree nursery capable of producing and distributing 150,000 shade tree seedlings per season;
- the expansion of coffee extension activities to include 800 farm families per season in semi-intensive pruning operations;
- an increase of the project's coffee cherry wet-processing and green bean dry-processing operations of 50 percent over those in service at the close of the IETDP; and,
- international buyers annually purchasing 6 million lbs. of certified organic Timor coffee.

To the extent possible, the EOP status also includes an improved policy and regulatory environment. Although educating and advising the new Timorese government (Government of the Republic of East Timor — GRET) is not a separate project component, a large amount of management time has been dedicated to assisting the government on policy and technical issues relating to coffee farming, processing, trade, export regulations, taxation, land reform, membership in international producer country associations and transport logistics.

A full listing of project progress indicators, including the projected end of project status for each, is provided in Annex C, "Performance Indicators".

## **B. PROJECT IMPLEMENTATION**

### **1. Project Management and Organization**

Overall management responsibility for the project rests with the NCBA Director for Indonesia and East Timor. In addition to general managerial oversight and supervision of the technical and operational inputs, the NCBA representative's office is directly responsible for the following categories of activities:

- research, planning, development and implementation of all activities appropriate to the program objectives;
- arrangements for the necessary technical and management assistance to assure the sound implementation of all aspects of the program; and,
- planning, prioritizing and monitoring the utilization of the funds allocated to the Enterprise Development Fund (EDF).

**The EDF** — A key element contributing to the high level of success of TERADP and IETDP activities has been the availability of an enterprise development fund for the support of business development. While a small portion of EDF funds has been used to finance training and other non-revenue generating activities, the majority is lent to the project-affiliated cooperatives, usually on a short-term basis, to finance their operations. Repayment rates on EDF loans have

consistently been in the range of 96 to 98 percent. As the implementing organization, NCBA has full responsibility for the proper management of all grant funds.

**Project Personnel** — Although, in theory, all members of the project staff function under the overall direction of the TERADP manager, each of the project components has its own management and staff, both administrative and operational. The cooperatives affiliated with the TERADP activities have their own personnel fully separate from the project. The three expatriate members of the project staff include the NCBA project manager (part-time); an Agricultural Processing Advisor; and an Enterprise Development Officer. Senior local staff members (both Indonesian—at the NCBA office in Central Java—and Timorese) include a Business Management Advisor, Finance Manager and administrative personnel. All of the TERADP extension staff and all of the training staff at the *Klibur* training center (see below), as well as all of the staff members of the other components are Timorese who have been trained by the project.

For the coffee component, the field extension agents make up the largest number of project-funded staff. These are the key on-the-ground personnel, who have been trained by the project and work directly with the farmers advising them on their production practices, assisting them with such activities as the preparation for organic certification inspections, and providing training in good coffee tree management (composting, pruning, etc.).

The expatriate advisors assigned to the coffee activities were selected on the basis of their experience and expertise in coffee production and processing and in enterprise development and management. These advisors, along with specific short-term technicians, train the extension staff and the personnel of the cooperatives and work with them on the development and implementation of the annual work plans, including all activities related to each harvest season (harvesting, procurement and processing). In consultation with the senior TERADP manager, the expatriate advisors, the senior indigenous staff of the coffee component and the senior cooperative personnel are responsible for the coordination of all activities, oversight of the project and cooperative facilities and equipment and all procurement and processing operations.

The period of violence had a severe impact on both project staff and on the project's cooperative partners. Approximately twenty middle management and senior management staff working with the project-assisted cooperatives decided not to return to East Timor. For the most part, these were ethnic West Timorese and persons from other areas of Indonesia who had reason to fear for their safety if they returned to the area.

The central office of PUSKUD East Timor, the secondary-level cooperative federation (which was at that time the project's principal counterpart), was completely destroyed by fire, which also consumed all of the organization's files and documents. Similar losses were experienced at the local cooperative entities affiliated with the project, most of which sustained heavy losses to their facilities and had their membership records destroyed.

As the cooperatives of East Timor—which had been part of the Indonesian parastatal cooperative system—had served as the implementing organizations for the project's coffee buying and processing operations, the political changes made it necessary to assist the development of new cooperatives. Given the rapidity with which this restructuring had to take place, much of the preparation of the new staff had to be carried out via on-the-job training.

Project extension staff assisted the coffee farmers with setting up and organizing their new primary cooperatives and helped them make preparations for the harvest season. These local-level cooperatives were established in almost all of the principal coffee growing areas, their membership consisting primarily of the small-scale coffee producers affiliated with the project. By the end of the first TERADP reporting period (reports are made on a semi-annual basis), fifteen CCOs had been organized and registered as business entities. Although, at first, these were essentially bare bones organizations with few resources, each became sufficiently operational to participate in the procurement and transport of their members' coffee during the harvest season.

During the last quarter of 2000, in response to the extreme lack of qualified Timorese personnel, the project established a non-formal training institution aimed at developing and improving basic business and language skills. Known as the East Timor Cooperative and Small Enterprise Training Center (known as *Klibur* in the local language), the new institution became fully operational in mid-2001 and began operating in its new permanent facility in January 2003. The center's curriculum includes training in basic management, computer skills, cooperative organization and business operations, as well as courses in English and Portuguese. In late 2002, in consultation with the Ministry of Education, the project also initiated the country's first university-level business education institution, a new educational entity, the East Timor Institute of Business (IOB), which is institutionally linked with *Klibur*.

From the perspective of NCBA, the establishment of both *Klibur* and the IOB were an additional means for TERADP to respond to the country's long-term economic needs. Not only has the low level of professional skills among the Timorese population been an impediment to the implementation of the project, it is one of the principal impediments to the country's long-term economic development. Although foreign investment is essential for the country's economic growth, overseas companies are unwilling to risk investing in business activities until they can be assured of the availability of sufficient numbers of qualified personnel. The only practical means to address these extensive training and education needs is through effective in-country institutions.

## **2. Planning and Evaluating Project Activities**

Each year, project management and personnel develop a detailed implementation plan that outlines the objectives for the year, establishes the overall work plan, assigns responsibilities and schedules activities. Following each coffee harvest season, a management/staff seminar is conducted to review the season, examine the strengths and weaknesses of the program and make any necessary changes to improve its operations and its services to the farmers.

There are certain recurring matters that are covered in each of the planning seminars, including:

- coffee procurement, processing and export operations;
- operation of the support activities essential to coffee production, such as the shade tree nursery and the distribution of shade tree seedlings;
- extension services and demonstration operations with the producer groups;
- extent and pace of expanding project activities to additional regions/groups;
- assisting the producers in meeting the annual organic inspections; and,
- assessing the processing, transport, manpower, storage and management capacities.

In addition to reviewing and evaluating project activities, these seminars also consider the

implications of national and international issues of relevance to the project. Examples of such topics discussed during past planning seminars include the political/governmental transition, the restructuring of the cooperative sector, issues related to the interim United Nations administration, the impact of the low international coffee prices, and the country's current high transport and labor costs.

### **3. Project Reporting/Monitoring**

The project's Management Information System (MIS), established in consultation with USAID/Jakarta, tracks specific indicators that serve as the basis for evaluating the progress and effectiveness of project implementation. The indicators include data on:

- the business volume of the assisted enterprises;
- the number of organizations assisted;
- the number of beneficiaries assisted;
- the composition of the organizations assisted;
- the composition of the assisted beneficiaries;
- the number of patients assisted in the health care component;
- the number of persons receiving training via project-sponsored training programs; and,
- the composition of the training programs.

A full listing of the progress indicators, including baseline and target data, is provided in Annex C.

## **C. IMPLEMENTATION PROBLEMS/ISSUES**

There have been a number of significant constraints to project implementation and the level of success it has achieved in the face of these constraints may be an important indication of its value to the target population. The following paragraphs highlight several important problems and impediments.

**The Civil Conflicts of 1999 and 2000** — The single greatest constraint (and threat) to project implementation was the severe civil conflict that followed the Government of Indonesia's January 1999 announcement of the possibility of granting independence to East Timor. This announcement was followed by a severe outbreak of inter-ethnic violence involving the pro-independence and pro-integration elements of Timorese society, and armed militias began to appear throughout the project areas. The continuing conflicts eventually led to the presence of a large number of United Nations personnel and the implementation of a highly controversial referendum that took place during the peak period of project coffee harvesting and processing. The ensuing violence resulted in the destruction of much of the area's infrastructure, displaced nearly one-third of its population, and damaged or destroyed many of the project's assets. Project activities came to an almost total halt for a period of nearly two months. All non-Timorese staff members were removed from the area (the armed militias refused to allow the departure of Timorese staff, although many made their way out of the country into refugee camps in the Indonesian province of West Timor).

Although a number of precautionary measures had been taken prior to the most serious outbreaks of violence (resulting in the saving of a large amount of the project's moveable assets), the project's main office facility in Dili was totally stripped and the cooperative office was burned to the ground, as were the houses of the expatriate staff. The majority of the project's files and the valuable farm mapping documents (necessary for organic certification) were burned or destroyed. The impact of these losses can perhaps be made more graphic by noting that, following the restoration of a semblance of order and after project personnel returned to revive and re-start their activities, the Dili office did not even have as much as a single chair until early December, neither did it have windows, doors, computers and the normal range of office equipment.

Similar losses were experienced with the coffee processing and warehousing facilities in other areas of the country, several of which were looted and burned. The health care clinics also suffered damage and extensive losses through looting. A number of project facilities that remained reasonably intact were taken over and occupied by the U.N.'s INTERFET operations and by international relief agencies. Not only did these physical losses and the loss of access to other facilities create significant constraints for the resumption of project activities, the period of violence has had a continuing impact on the project. As severe and widespread as these difficulties were, however, they must be placed in the context of this one-time historical event and the broad scope of change that took place in East Timor during this period.

**The Loss of Experienced Indonesian Personnel** — While the evacuation was temporary for some project personnel, it was permanent for others. After the restoration of order, all of the dispersed staff members were eventually located and, by December 1999, all East Timorese employees had been repatriated to East Timor. A number of key Indonesian employees did not return to the area, however, which made it necessary to restructure the management and organization of the project. Although almost three years have now passed and there have been significant improvements and professional growth among the Timorese management and staff, the project must continually upgrade their capacities through additional training due to their lower levels of professional training and the lack of business and management experience.

**Continuing Lack of Law and Order** — The absence of laws, courts and jails during the early stages of the transition, and the continuing lack of sufficient numbers of law enforcement personnel contribute to a potentially dangerous atmosphere. A number of serious incidents have occurred, including facilities being illegally occupied, vehicles stolen, and attacks on staff members. Project management and staff diligently follow up on each instance, but the procedures are time consuming and often end with no action being taken by the authorities.

Given the importance of the program to the country's economy and to the well being of a large portion of the rural population, government officials have promised greater efforts to improve the security situation.

**Extreme Drop in International Coffee Prices**—International coffee price levels fell precipitously during March 2001–February 2002 and they have remained at historic lows. At the time of the preparation of the study, price levels of New York "C" futures contracts were below 50 cents/lb, the lowest level since 1975.

Because TERADP emphasizes market pricing, commercial viability and long-term sustainability, its affiliated cooperatives had to pass these lower prices along to the producers. Even with these

lower prices, however, NCBA's marketing efforts (including linking the coffee exports to the international organic and "fair trade" programs) and the product's classification as a high quality specialty coffee made it possible for the cooperatives to pay far higher farm gate prices than other buyers. Despite the project efforts, because of the low prices, it is estimated that at least a third of the coffee was not even harvested. The low prices and the large amount of un-harvested coffee have made it difficult for the cooperatives to achieve breakeven production levels and still cover the costs of the health care program.

**Other Constraints** — Other significant constraints to project implementation include the lack of full-service banking institutions; labor difficulties (lack of productivity, discipline); a long delay in the signing of the U.S.—East Timor bilateral assistance agreement (which prevented the project from importing a large amount of project machinery, equipment, vehicles, spare parts and other supplies for a period of nearly eighteen months); increasing cost of the health care program (because in the absence of government health services in the rural areas, the clinics must make their services available to the general population rather than restrict service to the members of the coffee cooperatives); and the very poor condition of the country's rural roads and other infrastructure (which makes it difficult for farmers to get their crops to the cooperatives).

## **D. IMPACT OF THE PROJECT**

### **1. Impact on the Target Population**

As the project-affiliated cooperatives pay farm gate prices that are significantly higher than those available from the few alternative market channels, the impact of TERADP activities is evident in the increased incomes of the more than 20,000 participating farm families. During the 2002 harvest, for example, farmer receipts for coffee cherry sold to the project's wet processing facilities averaged 70% to 200% higher than the prices received for dry parchment coffee on the local market.<sup>1</sup> These payments inject large amounts of cash into the rural areas and the money continues to circulate within the communities and contribute to additional rural employment.

The project made a major contribution to the rehabilitation of the country's economy following the period of civil violence. More than 20,000 farm families (approximately 120,000 persons) are now affiliated with the program's agricultural components—and are gaining much higher income levels from the production of specialty crops—demonstrates the ability of the project to make important new economic opportunities available to the rural population. In effect, the project's activities have enabled a large number of small-scale and subsistence producers to emerge from the sidelines into the mainstream of the economy. By enabling the small farmers to improve their income levels—and, consequently, the living standards of their families—the project has helped to meet the immediate and short-term needs for the economic rehabilitation of the rural areas, as well as build a solid rural base for the country's long-term economic growth.

East Timor's small-scale farming sector makes up the great majority of the overall farming population, and these farmers have consistently responded positively to the marketing opportunities offered by the project. The project's economic incentives—consistently higher farm gate prices relative to international market levels than had ever been available—have made

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<sup>1</sup> "Parchment" is the term used for dry process coffee, usually dried directly by the farmers. The resulting product is of lower market value.

them eager to adopt new practices, learn the necessary skills for maintaining high product quality and meet the market requirements of the project-affiliated cooperatives.

The 2000 coffee harvest season, with its related procurement, processing and export operations, provides an example of the extent of the project's economic impact:

- The employment of 4,000 laborers during the harvest season made the project-assisted cooperatives the country's largest private sector employer. Given the estimated 80% unemployment rate, this was an important contribution to the East Timor economy.
- The export of over 1,800 mts. of coffee made the project and its affiliated cooperatives the country's main source of foreign exchange outside of donor aid.
- The payment of export taxes to the Central Authority (financial regulatory office of the United Nations administration) made the CCT the country's major taxpayer.<sup>1</sup>
- The payment of far higher producer prices than the few alternative markets available to the farmers.<sup>2</sup>
- The project's receipt of international market coffee prices that were approximately 60% higher than those available from alternative coffee buying channels made an important contribution to the country's foreign exchange earnings.
- The processing in East Timor of the entire amount of procured coffee (using Timorese workers), while other buyers shipped their parchment to Indonesia for hulling and sorting to take advantage of that country's much lower labor rates and higher productivity.<sup>3</sup>

## **2. Potential for Institutionalization**

If the project's positive economics were the only necessary condition for the institutionalization and sustainability of the coffee component of TERADP, it would be relatively easy to chart a course for that to take place. Considering their background and the difficult circumstances of their evolution, the CCT, CCOs and supporting institutions are very active and functioning well. Despite the current low international coffee prices, there is strong buyer demand for CCT's high-quality specialty coffees. The producers are demonstrating sufficient loyalty to their farmer groups and cooperatives, even though this loyalty may be largely due to the higher farm gate prices paid by the cooperatives, the benefits of the health care services and the quality premiums/dividends received.

But a number of the conditions necessary for the successful institutionalization of the coffee activities are beyond the control of the project. While NCBA's project management has built strong relationships with government leaders at the local and national levels, and while the project has had a strong and beneficial influence on policy issues affecting small-scale farmers, once the assistance has concluded, there will always be elements of the political environment

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<sup>1</sup> The United Nations administration instituted an export tax on coffee, which had a major impact on the producers. That tax was subsequently abolished.

<sup>2</sup> Prices received by farmers for coffee cherry at the project's wet processing facilities averaged Rps. 1,500/kg., or the equivalent of Rps. 7,500/kg. for dry parchment. In comparison, alternative market channels paid prices equivalent to Rps. 4,000 to 4,500/kg. These significant price differentials can be attributed to the high quality of the product, its organic certification and the project's strong marketing efforts.

<sup>3</sup> In taking the parchment out of the country, these buyers also transferred a large number of critical East Timor job opportunities to Indonesia.

that may be tempted to impinge on the cooperative sector, particularly when it is involved in highly successful business activities. There will certainly be competing private sector elements that will intensify their procurement and marketing efforts once project personnel are no longer present.

Additional potential dangers include the over regulation of the coffee sector and direct governmental interventions in the cooperatives in an attempt to control and gain revenue from the coffee operations. As noted in several of the semi-annual progress reports, labor issues, violence, corruption and mismanagement also pose threats to the continued successful functioning of the cooperatives.

Although NCBA has laid all of the groundwork for long-term success, sustainability and institutionalization can never be guaranteed. The cooperatives are well equipped, the necessary procurement, processing and export marketing systems are in place, and the current Timorese management personnel understand the broader picture and are continually improving their management capacities. An important question for sustainability, however, is whether the trust and loyalty that the inter-national buyers have in NCBA can be successfully transferred to the CCT. To a large extent, this will depend on the CCT's ability to continue to produce the high-quality specialty coffees that it now exports with project assistance. Experience has shown that when there are problems with quality, the buyers will quickly shift to other producers and other countries.

NCBA's project management has carefully structured the cooperatives, trained (and continues to train) the management and key personnel, and has developed strong relationships within the international market with a view to the long-term institutionalization of the coffee program. Project management has also worked to help create an enabling political and regulatory environment conducive to private sector business. In sum, NCBA is taking all of the necessary steps to enable institutionalization to take place. That said, however, the long-term future of the coffee component will be in the hands of the Timorese.

## **II. THE PARTICIPATING COOPERATIVES**

### **A. COOPERATIVE ORGANIZATION AND GOVERNANCE**

#### **1. Project Mission and Status**

Focusing on the small-scale farming sector, the overall mission of the cooperative federation and the USAID/NCBA project is to bring about sustainable improvement in the social and economic well being of the rural population, including health, management training and the provision of basic medical services.

#### **2. Leadership and Decision Making**

The coffee cooperatives have three levels of organization and management. NCBA helped to build a network of agriculture cooperatives that currently consists of some 20,000 small-scale farm-families (approximately 120,000 persons) who belong to the CCT—the national level federation—and the sixteen local CCOs. At the producer level, these cooperative structures are based on nearly 500 democratically organized farmer groups holding some 26,000 registered blocks of land with an average area of about one hectare per block. The cooperatives fill key

roles in the entire production-processing-marketing system, operating the coffee procurement and processing activities and serving as the essential linkages between the producers and the export market.

There is one part-time NCBA expatriate project manager, a full-time agricultural processing advisor, one enterprise development advisor, one finance manager and a part-time medical doctor. These five persons are considered to be long-term expatriate staff. There are also short-term technical advisors who serve on an as-needed basis to train staff, provide assistance for the installation of new equipment and the construction of facilities, and to advise on disease and pest control. It is interesting to note that recently more outside technicians are coming from Indonesia at considerably lower costs.

The CCT leadership is composed of the board of directors, which is responsible for all decisions regarding policies of the federation, coordination with the government and planning related to the development of the cooperatives. Each of the sixteen CCOs has an elected board (elected by the farmer groups), and a manager and staff responsible for the procurement operations (See Figure 1). In contrast to the previous parastatal cooperatives, the government is not involved at any level of cooperative operations.

In general, decisions are made by consensus. Although the expatriate advisors assist in the decision-making processes, final decisions are made by the local leaders. Annual meetings are held to discuss post-harvest issues and to plan for the next harvest. Meetings are held regularly by the cooperative leadership to discuss business issues, plan and schedule extension activities and ensure that information concerning quality, pricing and administrative changes is disseminated to the farmers.

East Timor is no different than most developing countries where decision-making involves a great deal of discussion that eventually results in a consensus. After a decision is made, it becomes the responsibility of the cooperative leaders to keep all the members informed and to report on progress to the next level of the cooperative structure. CCT leaders are responsible for maintaining contact with relevant agencies of government and representing the interests of the cooperative members in such matters as taxes, duty, transportation charges and other issues that may affect their economic activities.

## **B. BUSINESS OPERATIONS**

### **1. Management**

NCBA has focused much of its attention on the recruitment and development of management personnel. Prior to the project's establishment of Klibur, there were no opportunities for Timorese to obtain practical management training. In fact, apart from a rather limited branch of an Indonesian university, there were no post-primary educational institutions of consequence and none that provided business training. Consequently, there was an almost complete absence of persons having any significant management capacities. During the period of Indonesian control, qualified Indonesian personnel were brought in to assist with project implementation while Timorese were being trained for management positions. Once the political transition began, the departure of the Indonesian staff made it necessary to accelerate the project's training activities and elevate Timorese staff and train them on the job.

Although the project continues to provide assistance to the management of the coffee cooperatives at each level of operations, NCBA's efforts during the post-independence period have successfully developed a nucleus of capable managers and senior operational personnel. At present, there is a well-functioning management system in both the CCOs and the CCT.

## **2. Business Activities**

### **a. Planning and Performance**

In the implementation of the coffee component, as in all TERADP activities, NCBA has employed its traditional business approach to cooperative development. Cooperatives are first and foremost business operations in which the members join to obtain goods and services and economies of scale they could not obtain individually. While the coffee cooperatives are very young in terms of business acumen, they are effectively filling their specific roles in the coffee operations.

At the producer level, extension services and coffee-related information is provided via the farmer groups. This includes preparations for such important activities as external organic inspections for the certification of their farm plots and their production practices. It is through the farmer groups and the demonstration plots that they obtain information on coffee tree and shade tree maintenance, harvesting schedules and crop prices. It is also via the farmer groups that the members elect the boards of the primary cooperatives.

As indicated in Figure 1, the CCOs have primary responsibility for coordinating the harvest schedule and the procurement of the ripe coffee cherry from the producers. Responsibility for the operation of the wet-processing facilities, drying operations and the sorting of the dried coffee beans (to assure the high quality of the final product) rests with CCT. Assisted by NCBA and CBI, the CCT also has primary responsibility for the coffee export operations.

In addition to providing income-generating opportunities to the 20,000 member families of the farmer groups, the cooperatives provide a significant level of employment. In 2003, the CCT reported that some 300 full-time workers were employed in the CCO and CCT operations. During the harvest period, the coffee activities provide employment to approximately 4,200 seasonal workers. Outside of government, the CCT cooperative system has become the country's single largest employer. Without doubt, the CCT is also the country's largest employer of women, providing seasonal work to an estimated 800 women in the cleaning and sorting of the coffee beans as part of the final preparation for export.

Members of the project staff have assisted the CCT and CCOs with the development of an annual work plan that includes regularly scheduled reviews of operations and personnel performance. Following each harvest season, a management-staff evaluation seminar reviews all of the harvesting, procurement and processing activities and initiates any necessary changes. By way of example, the seminar following the 2002 harvest took steps to restructure the staff to improve performance and help assure future sustainability. The seminar also identified the following activities required to prepare for the 2003 harvest:

- preparation of architectural drawings for the expansion of the wet processing capacities of the Estado and Maubisse installations;
- recruitment and placing of a short-term coffee processing engineer to assist with the

planning for the construction design and machinery and advise on other technical issues related to expanding capacity and improving product quality;

- procurement of the additional equipment, machinery, vehicles and disposables (bags, tarpaulins, etc.) required for the activities of the 2003 season;
- purchase of the land for the Estado processing facility;
- commencement of the extensions to the Maubisse and Estado wet processing facilities;
- initiation of the first phase of a program to assure the internal organic control systems required for continuing certification under the regulations of the new USDA National Organic Program, the Japan Agricultural System and the European-based International Federation of Organic Agricultural Movements (IFOAM); and,
- undertaking an aggressive international marketing campaign to sell the majority of the season's crop at specialty market prices with additional Fair Trade and organic premiums, while restoring the product's high quality reputation compromised by small portions of the previous crop year.

The 2003 harvest season began in May and will continue through August (the harvest season varies depending on the elevation at which the coffee is grown). Extensive field surveys prior to the start of the harvest indicated that the crop may be somewhat larger than normal, which is somewhat unusual for a season following a severe El-Niño-related weather cycle. The majority of the production areas in the Ermera region, where 60 percent of the country's coffee is produced, are projected to have a bumper crop, while lower than normal levels are anticipated in the southeastern areas of the coffee production region (Maubisse, Turscai, Same, Dare and Ainaro).

Although the expansion of the capacities of the Estado and Maubisse wet processing facilities will result in a significant increase in the program's over-all processing capacity, the CCT does not plan to operate its smaller volume wet processing installation at Liquica this year because of the deteriorated condition of the access roads in the area and other issues related to cost efficiency. Despite the (possibly temporary) idling of this unit, the majority of the farmers in the Liquica district will be able to sell their coffee to the expanded Estado facility in Ermera.

Changes are also scheduled to take place in the way the CCT's primary cooperatives (CCOs) procure their coffee. For the first time, a number of the CCOs will utilize a cooperative agent buying system, the agents consisting of local small-scale entrepreneurs who own trucks and have at least limited amounts of their own capital. After being trained by project staff, they will procure coffee under CCO/CCT supervision, pay the farmers at the designated price levels, and abide by the administrative requirements of the organic and Fair Trade regimens. It is expected that this and other procedural and systemic modifications will enable the CCT/CCOs to increase efficiency, reduce costs, and further increase the prices paid to the farmers.

An important part of each year's planning process is the establishment of a schedule to assist all currently certified organic coffee farmers to meet the OCIA's annual inspection requirements and guide the preparation of new farmer/members to obtain organic certification. In addition to examining the strengths and weaknesses of the coffee program and taking steps to improve its operations and services to the farmers, the planning seminar considers the implications of government policies that may affect the coffee sector, discusses the impact of the low

international coffee prices and such issues as the country's high transport and labor costs relative to those of neighboring countries.

**b. Transparency/Accountability**

The project makes information on the international coffee market available to the cooperatives and collaborates with the cooperatives to establish farm gate prices. To assure accuracy and transparency, the project's accounting and auditing system operates at two levels, first at the level of the cooperatives and then by NCBA project staff at the headquarters office in Indonesia. The annual USAID audits of project finances have confirmed the accuracy and adequacy of the overall system. The importance that project management places on the maintenance of accurate financial records extends to the *Klibur* training center where accounting is one of the major subjects.

**Figure 1**

**Principal Functions of the Cooperative Structures**

<p style="text-align: center;"><b><u>Farmer Groups (493)</u></b></p> <ol style="list-style-type: none"><li>1. Assist members to comply with OCIA and other international organic certification standards.</li><li>2. Assist with the procurement/collection of the annual coffee cherry harvest.</li><li>3. Assist with the dissemination of information on production and harvesting activities.</li></ol>
<p style="text-align: center;"><b><u>CCOs – Primary Cooperative Societies (16)</u></b></p> <ol style="list-style-type: none"><li>1. Receive and weigh “red ripe” coffee cherry from certified members and pay them in cash.</li><li>2. Transport of coffee cherry to CCT's wet processing facilities.</li><li>3. Handle all coffee cherry in accordance with organic requirements and maintain the organic certification audit trail from the farmer to the factory.</li><li>4. Assist members in accordance with the “Articles of Association” and by-laws of each CCO.</li><li>5. Provision of extension advisory services and training in collaboration with CCT.</li></ol>

**Figure 1**  
**Principal Functions of the Cooperative Structures**

**The CCT “Federation”**

1. Begin the wet processing of the coffee cherry within twelve hours of harvest.
2. Transport the processed wet parchment to drying fields, and sun dry to about 12% moisture.
3. Transfer the dry parchment to storage warehouses where it is held until it can be taken to the dry processing factory.
4. In the dry processing facility, mill and sort the dry parchment to export quality green beans.
5. Warehousing of green coffee beans until they are transferred to shipment container.
6. Preparation of all documentation for export.
7. Handle all green bean coffee in accordance with organic requirements and maintain the organic certification audit trail from factory door to export shipment.
8. Provision of extension advisory services to all certified CCO members and the training of CCO staff.
9. Assist CCOs with the efficient operation of their activities and with organizational matters.
10. Operation of shade tree seedling nursery and the propagation of other commercial trees.
11. Operation of a vanilla “start” distribution facility with its related procurement, processing and marketing of cured, sun-dried vanilla beans.
12. Operation of a pilot program for TERADP’s cattle fattening activity.
13. Financial control of all operational funds for the annual harvests and the payment of dividends and fees to the CCOs and farmer groups at conclusion of season.
14. Implementation of the health care program.<sup>1</sup>

For project management, accountability extends beyond the handling of finances into the entire chain of production, procurement, processing and export operations. At the producer level, each farmer is made aware of the requirements in terms of the coffee cherry; at the processing and drying facilities all managers are aware of the procedures that must be followed for quality control; and at the level of the CCT, the senior management closely follows the progress of each activity and responds to problem issues.

### **3. Financial Analysis/Sustainability**

#### **a. Understanding the Data**

It is important to understand that, from the beginning—from the time that NCBA first extended the IETDP into East Timor—and throughout the period of implementation of TERADP as the follow-on project, the program has been implemented as an economic development activity. NCBA has never considered either the IETDP or TERADP as “cooperative development” projects, a fact that has been repeatedly stated throughout the life of both activities and emphasized in the project titles.<sup>2</sup> While the strategy for project implementation has included a group-based approach for the organization of small-scale producers and the development of economic enterprises (primary and secondary level cooperatives) that are owned and controlled

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<sup>1</sup> The CCT has overall responsibility for the implementation of the health care program related to the coffee cooperatives.

<sup>2</sup> The Indonesian Enterprise and Trade Development Project (IETDP) and the Timor Economic Rehabilitation and Development Project (TERADP) both focused primarily on rural enterprise development and rural economic growth.

by their members, and while the cooperatives serve as the principal instruments for the achievement of broader economic objectives, they are not in themselves the overall purpose of the project.

In reviewing the financial information provided on the following pages, it should be kept in mind that the CCT is essentially a start-up business that is in the rehabilitation phase of its development. The political transition eliminated the former Indonesian parastatal cooperative structures and all of that organization's records were destroyed by fire during the accompanying violence. Consequently, for this study, the only reliable data available date from the initiation of the new CCT cooperative system and the analysis presented focuses only on fiscal year 2002. The 2003 accounts are not yet closed and the cooperatives are currently in the midst of the harvest season.

CCT is a second tier cooperative and its members consist of the sixteen primary cooperatives (CCOs). These, in turn, are made up of nearly 500 farmer groups that include some 20,000 farm families. The cooperatives have approximately 300 full-time employees and provide short-term employment to more than 4,000 workers during the coffee harvest season.

Not only is the CCT a start-up business, it began operations with its accounts showing a very large loss due to the destruction of facilities and equipment, the looting of stocks, and the theft of vehicles and office equipment during the period of civil violence (See the Summarized Balance Sheet in the following section).

To a certain extent, the financial ratios proposed for the case study are difficult to apply to the situation of the coffee cooperatives as they do not take into account the short-term, seasonal nature of the CCT's business cycle. Unlike cooperatives that conduct business operations on a year-around basis, the CCT essentially functions only six months of the year during the May—August harvest season and during the period of export operations that generally takes place during September and October. Income from sales, loan repayments and inventory levels are tied to this abbreviated business cycle.

A financial analysis conducted in 2001 by Development Alternatives International (DAI) found that, even under the existing market conditions, the CCT “would be profitable and sustainable” without continued support from the project. The analysis indicates that CCT would generate an annual profit of US\$ 267,000 even assuming the employment of one expatriate advisor. The calculations include an average annual payment of US\$ 120.00 to producers plus an annual dividend of US\$14.00 (depending on the costs of operating the health care component). Utilizing two scenarios about expanding the production base of the coffee activities, the analysis concludes that “in either scenario, the cooperative's health services unit is financially viable. Only when coffee prices fall below US\$ 1,495 mts., is CCT-Health in jeopardy of generating losses for the cooperative.”

Additional contributions to long-term sustainability include the project's efforts to introduce other viable economic activities, such as vanilla production, and enhance the benefits gained from traditional activities, such as livestock production. Each of these activities is now a growing TERADP component. Commercial vanilla production was introduced into East Timor by NCBA and has already gained wide acceptance and participation (See Annex A). For the farm families in areas where both coffee and vanilla can be produced it will provide an opportunity for diversification and potentially offset some of the risks of being dependent on a

single crop. Initiating viable economic activities in the areas that lie outside the vanilla and coffee production areas is much more problematic. In these areas, the project's livestock component is working to build on the tradition of cattle raising by introducing improved breeds of stock and improved feeding, management and marketing practices to increase farmer incomes.

**b. Operating Statement, Balance Sheets and Financial Ratios**

**Operating Statement for Cooperative: Cooperativa Café Timor**

Line	Item	2002
<b>Operating Income</b>		
	Exchange Rate Local Currency per US\$ as of 12/31 <sup>1</sup>	1
1	Income from Sales of Goods	\$ 2,613,037
2	Income from Sales of Services	\$ -
3	Income from Rents of Assets	\$ -
4	Income from Loans Net	\$ -
5	Total Operating Income	\$ 2,613,037
<b>Non-Operating Income</b>		
6	Interest Income on Short Term Investments	\$ 176
7	Interest Income from Long Term Investments	\$ -
8	Income from Sales of Assets-Net	\$ -
9	Patronage Income from associated Organizations	\$ -
10	Income (Loss) from Equity Investments	\$ -
11	Income from Grants	\$ -
12	Other Non-Operating Income-Net	\$ 106,304
13	Total Non-Operating Income	\$ 106,480
<b>Cost of Operations</b>		
14	Cost of Goods Sold	\$ 1,998,659
15	Personnel Costs-Salaries plus cash cost of benefits	\$ 367,976
16	<i>Fixed Costs of Operations</i>	
17	Interest on Long Term Debt	\$ -
18	Depreciation	\$ 113,963
19	Property Taxes on Assets	\$ 113
20	Insurance Costs	\$ -
21	Rents and Utilities	\$ 13,496
22	Other Fixed Costs	\$ 92,166
23	Total Fixed Costs of Operations	\$ 219,738
24	<i>Variable Costs of Operations</i>	
25	Interest on Short Term Debt (less than 12mo.)	\$ -
26	Interest on Deposits	\$ -
27	Supplies and Materials	\$ 2,133
28	Taxes on Sales (if included in Income)	\$ -
29	Costs of Contracted Services	\$ -
30	Commissions Paid	\$ -
31	Income Taxes Paid	\$ -
32	Other Variable Costs	\$ 114,662
33	Total Variable Costs of Operations	\$ 116,795
34	Total Cost of Operations	\$ 2,703,168
<b>Annual Margin</b>		
35	Total Operating Margin	\$ (90,131)
36	Total Non-Operating Margin	\$ 106,480
37	Total Operating and Non-Operating Margin	\$ 16,349

<sup>1</sup> East Timor utilizes the U.S. Dollar as its currency.

<b>Summarized Balance Sheet for CCT</b>					
Line	Cooperativa Café Timor	Year			
<b>General Information</b>		2002			
1	Number of Members (16 CCOs – 20,000 farmers)	16 <sup>1</sup>			
2	Number of Employees	300 <sup>2</sup>			
3	Exchange Rate Local Currency to US\$ at 12/31	1			
<b>Current Assets</b>			<b>Current Liabilities</b>		
4	Cash	\$ 31,981	25	Short Term Debt	\$ 2,500,000
5	Special Deposits in Other Institutions	\$ -	26	Accounts Payable (less than 1 year maturity)	\$ 90,696
6	Short Term Investments	\$ -	27	Obligations under Short Term Leases	\$ -
7	Accounts Receivable (less than one year)-Net	\$ 3,694,892	28	Consumer Deposits	\$ -
8	Inventory, valued at lesser of Cost or Market	\$ 1,892,970	29	Other Current Liabilities	\$ -
9	Goods in transit	\$ -	30	Total Current Liabilities	\$ 2,590,696
10	Prepayments	\$ 9,200	<b>Long Term Liabilities</b>		
11	Other Current Assets	\$ 7,097	31	Long Term Debt	\$ 7,129,616
12	Total Current Assets	\$ 5,636,140	32	Accounts Payable (more than 1 yr maturity)	\$ -
<b>Long Term Assets</b>			33	Obligations under Long Term Leases	\$ -
13	Total Fixed Assets in Service	\$ 1,488,928	34	Other Long Term Liabilities	\$ -
14	Construction Work in Progress	\$ 619,670	35	Total Long Term Liabilities	\$ 7,129,616
15	Total Fixed Assets	\$ 2,108,598	<b>Margins and Equities</b>		
16	Accumulated Provision for Depreciation	\$ 497,868	36	Memberships	\$ -
17	Net Fixed Assets	\$ 1,610,730	37	Patronage Capital-Net	\$ -
18	Equity in Associated Organizations	\$ -	38	Accumulated Operating Margins Prior Years-Net	\$ (2,489,791)
19	Long Term Receivables (over 1 year)-Net	\$ -	39	Operating Margin-Current Year	\$ (90,131)
20	Long Term Deposits	\$ -	40	Accumulated Non Operating Margin Prior Years	\$ -
21	Long Term Loans	\$ -	41	Non Operating Margin Current Year	\$ 106,480
22	Other Assets	\$ -	42	Other Margins and Equities	\$ -
23	Total Long Term Assets	\$ 1,610,730	43	Total Margins and Equities	\$ (2,473,442) <sup>3</sup>
<b>Total Assets</b>			<b>Total Liabilities and Member Equity</b>		
24	Sum of Current and Long Term Assets	\$ 7,246,870	44	Sum of Liabilities, Margins and Equities	\$ 7,246,870

<sup>1</sup> CCT is comprised of 16 primary-level Organic Coffee Cooperatives (CCOs), which are in turn made up of 493 farmer groups serving 20,000 farm families

<sup>2</sup> CCT employs up to 4,000 seasonal laborers during the coffee harvest season

<sup>3</sup> The negative balance accrued from the nearly US\$ 3 million worth of asset write-offs following the widespread destruction and looting that took place during the violence of the political transition.

Financial Ratios for CCT			Computation
Cooperativa Café Timor	Target	Year 2002	
<b>Liquidity</b>			
Working Capital to Sales	>8%	116.5%	(Current Assets- Current Liabilities)/Operating Income
Debt Service Coverage	>2.0	0.0	(Depreciation + Interest Expense+ Margins)/(Interest Expense +Principle payments)
Current Ratio	>1.8	2.18	Current Assets/Current Liabilities
Interest Cover Ratio	>3.0	0.0	(Operating Margins +Interest Expense)/Interest Expense
Days Sales in Receivables	n/a	516.1	365*Accounts Receivable/Operating Income
<b>Solvency</b>			
Term Debt to Total Fixed Assets	<50%	442.6%	Long Term Debt/(Total Fixed Assets-Net)
Local Leverage Ratio	<50%	-288.2%	Total Long Term Debt/(Total Members Equity-Equity in Associated Organizations)
Ownership Percentage	>50%	-34.1%	Total Equity/Total Assets
Total Debt to EBITDA	<3.0	27.45	Total Debt/(Earnings before Interest, Taxes, Depreciation or Amortization)
EBITDA/Interest	>5.0	0.0	(Earnings before Interest, Taxes, Depreciation, and Amortization)/Total Interest Expense
Days Sales in Payables	n/a	12.67	365*Accounts Payable/Operating Income
Write offs as % Revenue	<5%	0%	Amount written off/Total Operating and non-Operating Income
<b>Profitability</b>			
Return on Sales	>2.5%	-3.45%	Total Operating Margin/Operating Income
Return on Assets	>8%	-1.24%	Operating Margin/(Current Assets + Net Fixed Assets)
Productivity Ratio	<10%	26.96%	(Total Expenses-Cost of Goods sold)/Total Operating Income
Labor to Goss Income Ratio	<30%-40%	13.53%	Labor Expense/Total Income
Days Sales in Inventory	n/a	264	365*Value of Inventory/Operating Income

## 4. Saliency

### a. Value/Importance to Members

The principal indicator of the value of the coffee activities to the cooperative members is their continued participation. Although other buyers are available, the farmers choose to participate because they receive the best prices and important additional benefits from marketing their harvest through their cooperatives. Over nine harvest seasons, the participants have developed an important level of trust in the cooperative structures and in TERADP personnel. Although they are not happy with the current low prices of coffee on the international market, they can see their comparative advantage in their transactions with the cooperatives.<sup>18</sup>

Because the cooperatives purchase and process the coffee cherry, the producers do not have to go through the process of washing, hulling and drying their coffee as they must do when selling to other buyers. This significant saving of time is an important advantage as it allows them to focus on harvesting a greater portion of their crop (much of which would otherwise be left on the trees), which in turn increases the volume available for processing and export.

Even under adverse conditions, such as the 2001 coffee season when the extremely low international prices discouraged many producers from harvesting their full crops, and when the farmers were adjusting to a new currency (the US dollar replaced the Indonesian rupiah at the beginning of the 2002 harvest season), the volume of coffee purchased by the cooperatives was still the second largest in the project's history.

The benefits gained by the participating farmers have also led to greater farmer cooperation and unity. Despite the attempts of elements of the former coffee exporting monopoly to organize competing farmer groups, the farmers have repeatedly rebuffed these efforts and supported the cooperatives. Even the coffee producers who are not members of the cooperative await the announcement of coffee cooperatives prices before deciding to sell their crop.

### b. Significance to the Community

For much of the area in which it operates, TERADP and its affiliated cooperatives provide the only significant income-generating opportunities. Other than the income received from coffee production (and the project's other economic activities), most of the small-scale producers rely on subsistence agriculture and raising a few head of livestock and poultry. This means that the project is making a highly important, even essential, contribution to the well being of the participants and to the entire region in which they live.

This contribution proved to have a particularly important effect immediately following the cessation of hostilities when the rural population began returning to their homes. As noted in Chapter I, project management moved quickly to initiate a number of activities to meet the population's immediate needs, including the provision of short-term employment for several thousand workers in coffee processing activities and providing an immediate market for farmers to sell their stocks of dried coffee remaining from the previous season. These activities injected several million dollars into the rural economy. This money has continued to circulate within the

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<sup>18</sup> When sold via the cooperatives, the coffee cherry brings an average return that is 40 to 60 percent higher than the prices received for coffee parchment dried on farm and sold to other buyers.

communities and contribute to additional employment. In addition, the project took immediate steps to reactivate the health care component, which at that time was providing medical care to 9,000 to 10,000 patients per month (the program is currently registering more than 14,300 patient visits per month, with a high of 20,000 during February 2003).

**c. Importance in the Business Sector**

The new Timorese leadership has shown strong support for project operations and has frequently sought the input of management and senior staff on matters relating to agriculture, labor policy, rural development, international trade, healthcare and human resources development. Coffee is the country's primary export and the principal source of income for large numbers of small-scale farmers living in the mountains of five western districts. The revenues gained from coffee sales have a highly important impact on a poor rural economy. At 15.65 cents per kilo, the average annual cash income per cooperative member is US\$ 128 USD, a substantial amount in a country where the annual urban income is US\$ 156 USD and the average rural income is US\$ 102. In 2002, the CCT cooperatives purchased a total of 13,156,201 kilograms of coffee cherry from the participating farmers. It is important to note that, for both the international "Fair Trade" certification and the international organic certification, the project mobilized a greater number of farmers than any other country or development program in the entire world.

It should be noted that the project's training component is also making an important contribution to the business community as a whole. The extreme lack of qualified Timorese personnel was not only an impediment to the project and the successful operation of the cooperatives; it was considered a major problem for the government's attempts to attract foreign investment. Companies would not consider setting up businesses in the country unless they could be assured of the availability of qualified employees. In response to this lack and the absence of any institution to address these training needs, the project established the *Klibur* training center, which began operating in early 2001. During its first two years of operation, *Klibur* provided training to more than 1,700 persons. During 2002, TERADP collaborated with the Ministry of Education to establish a new program, institutionally linked with *Klibur*, to provide formal post-secondary education in business management, accounting and administration.

District-level governments and farmers in other coffee production areas continue to request that TERADP extend its activities into their locales. Although the project attempts to comply with such requests to the extent its resources allow, it is not always possible to do so. Throughout 2000 and much of 2001, for example, the project's expansion was constrained by the need to focus on rehabilitating the facilities and equipment destroyed or damaged during the period of violence, upgrade Timorese management capabilities, deal with the many demands of the U.N. transitional administration and return all activities to full operation.

In mid-2001, the project made an important contribution to the efforts of the interim administration's Central Payments Office (CPO)—the administration's central monetary authority—by filling a key role in the "dollarization" of the East Timor economy. Following decisions by the administrative and political leaders to utilize the U.S. dollar as the country's currency, it became essential to the program's success that coffee payments to farmers be made in U.S. currency rather than Indonesian rupiah. Through an educational campaign, the project

familiarized farmers with the new money and brought in very large quantities of U.S. currency from the United States Federal Reserve System. By the end of the harvest, transactions in the new currency operated smoothly and rural markets were accepting the U.S. currency without requiring a conversion to rupiah. Prior to the project's utilization of dollars in its procurement efforts, the CPO had engaged in a largely unsuccessful eighteen-month campaign to get the population to switch from the rupiah to the dollar.

### **III. LESSONS LEARNED**

The lessons identified in the course of this review focus on what has been learned from project implementation and do not attempt to deal directly with what might be learned from the civil violence of the political transition. For the most part, the violence can be considered as a unique, one-time (though prolonged) event that most development activities will not encounter.

There is, however, one lesson that should be noted in looking back on the events of that period. From NCBA's perspective, the most important lesson to be drawn from that experience is that prudence saves lives and property. Although houses and project facilities were burned or severely damaged, equipment destroyed and warehouses looted, no staff lives were lost. There were, however, a number of deaths among the participating farm families in situations that were well beyond project control. The prudence exercised by the project management and staff was based on obtaining continual feedback about conditions of civil order from on-the-ground staff and government officials. By acting on this information in a timely fashion, NCBA's management was able to preserve staff lives and the majority of project assets (See Annex A).

The lessons described in the following paragraphs are presented under two general headings, those stemming from project preparation and implementation, and those lessons derived from the experience of marketing and meeting the requirements of the export market. The numbering of the lessons does not signify any particular priority or comparative level of importance.

#### **A. LESSONS ON PROJECT PREPARATION AND IMPLEMENTATION**

NCBA reports that the preparation for the implementation of TERADP included a "realistic assessment" of the overall environment in which the project was to be implemented. In addition to defining the needs of the target population, NCBA examined the existing cooperative structures and the roles of the relevant agencies and government officials. In an attempt to limit problems and gain the support of key government leaders, an important (if unwritten) principle for project management was to cultivate a variety of contacts in the government (first the Indonesian provincial authorities, then the interim UN administration, and—since independence—the new Timorese officials). The positive benefits of these efforts provide the first of the lessons learned.

***Lesson # 1—Although it may require significant expenditures of time and energy and take time away from actual program implementation, investing sufficient effort to inform and gain the cooperation and collaboration of relevant officials and persons of influence can bring important dividends by providing channels for addressing and resolving implementation problems.***

From the outset of the project, NCBA management made it a continuing priority to keep relevant leaders fully informed about project objectives and activities and the benefits it provides to the rural population. An examination of the project progress reports shows the value of building these kinds of relationships.

Each NCBA Semi-Annual Report lists numerous meetings, consultations and visits with government officials. The fact that the territory has had three different sets of government authorities during the period of TERADP implementation significantly increased the amount of time required to build these relationships. Keeping the project in tact and operational during the interim United Nations administration was particularly demanding. That administration consisted primarily of persons who had little knowledge of East Timor, had no understanding of the situation in the rural areas, and were completely unfamiliar with NCBA's programs. In addition, there was a high level of turnover among the UN personnel, making it continually necessary to inform newly arrived officials about the project and its current operations. NCBA management reported that it sometimes seemed that as soon as an official had been informed and educated about the project, that person was transferred out of the country and the process had to begin all over again.

Because new policies on such subjects as agriculture, exports and taxation were being developed by the interim authorities, NCBA's in-country management and staff seized every opportunity to participate in meetings on all matters relevant to the interests of the small-scale farmers and the commercial activities of the cooperatives affiliated with the project. For example, a search for immediate sources of revenue by the interim administration—coupled with a lack of understanding about the rural economy—resulted in the authorities imposing an export tax on the coffee produced by the farmers affiliated with TERADP. This tax, which had the effect of reducing farm incomes, was imposed at the same time another agency of the new administration was seeking to promote economic growth by increasing exports. Once the tax had been imposed, it took considerable time and effort by the project staff and the cooperatives for it to be eliminated.

***Lesson # 2—An important means of ensuring the success of project economic activities is the recruitment and/or development of competent indigenous management and senior staff.***

East Timor presented NCBA with a unique situation vis-à-vis project personnel. Hiring (or identifying and training) the best available managers to operate project-related economic activities has long been an important element of NCBA's strategy in providing development assistance and, once a qualified management team is in place, it is given broad responsibility and autonomy, with the project providing specialized technical assistance on an as-needed basis. Given the area's almost total lack of training and educational institutions and the almost complete absence of persons with any degree of business experience, identifying competent

Timorese managers and operational and extension staff presented serious problems for TERADP.

During the initial period of NCBA's activities in East Timor, when the area was considered a province of Indonesia, it was possible to fill senior positions with well-qualified and experienced Indonesians while Timorese were being trained. Following the violence of the political transition, the utilization of Indonesian nationals was, for the most part, no longer possible. Consequently, it has been necessary to provide continual on-the-job training to the Timorese personnel and accelerate the project's training programs, which now include the *Klibur* training center and a university-level business education program (see pages XXX). As a result of these activities, these TERADP-initiated programs have become the leading providers of trained personnel for the cooperatives and other private sector businesses, as well as the civil service.

***Lesson # 3— The utilization of outside expertise available through private businesses, other NGOs, donors and international agencies can enhance project operations while conserving project funds.***

To conserve project funds, one of the operational strategies of NCBA/East Timor has been to identify and utilize well-qualified outside expertise provided at little or no cost to the project, particularly in situations where specialized technical advice and guidance are required. Given the broad scope of project activities, there has been frequent need for this kind of assistance. In particular, the coffee component's need for specialized knowledge and its use of specialized machinery and equipment have made it necessary for the project to draw upon technicians with particular types of expertise. This has included assistance from the manufacturers of the processing machinery purchased by the cooperatives, and experienced advisors to assist with coffee production, processing and marketing, organic production techniques and quality control.

Much of this expertise was provided at no cost to the project because the experts were obtained from several private international coffee companies that committed their own resources to visit the project sites and provide advice on technical aspects of the coffee and vanilla programs related to value-added production, handling, processing and storage. These companies included Starbucks, Maxwell House, Nestles, Key Coffee, Royal Coffee, Hamburg Coffee, Volcafé and McCormick. Some assistance has also been provided by other donor organizations, such as the foreign assistance agency of New Zealand, which financed a team to assess and recommend improvements for extension services being provided to the coffee farmers.

***Lesson # 4— Both the producers and their cooperatives gain confidence through the implementation of successful economic activities and develop an increased willingness to become involved in additional business ventures.***

NCBA's project management has described a sense of discouragement and a kind of inferiority complex that permeated the small-scale farming sector of East Timor. The long period of civil unrest, the deterioration of the infrastructure, the low prices paid to the coffee producers and the consequent neglect of the coffee crop (which led to continuing quality problems), caused many farm families to stop harvesting their coffee and turn to subsistence production. The poor quality of the coffee that was harvested and the lack of dependability of the exporters gave international buyers a negative image of Timorese products. A major focus of NCBA management has been

to erase these inferiority feelings by encouraging the producers and the cooperatives to prove to themselves that they can be world class players in their sector, producing to exacting international quality standards, shipping on time, and operating at the highest levels of efficiency.

Over the period of project implementation, TERADP has helped the farmers gain confidence about their capacities to produce quality products that are sought after by some of the world's major companies. As part of this capacity building and confidence building, the project's extension personnel have guided the coffee farmers to meet the requirements for international organic certification, which provides a significant price premium for their coffee. Experiencing success has motivated the farmer groups and the cooperatives to work for higher production levels for each succeeding crop season. The initiation of a health program related to the coffee cooperatives has also contributed to a sense of progress among the producers and leads to the improvement of living standards.

NCBA reports that these achievements have helped contribute to a change of mentality among the members and management of the cooperatives. As they have become aware of their ability to produce commodities that can successfully compete at the highest levels of international commerce, meeting the market requirements becomes an ongoing challenge and a source of pride.

***Lesson # 5— Access to capital and other financial resources is an essential ingredient for cooperatives to become fully prepared and equipped to undertake significant export-oriented business ventures; and when commercial institutions/resources are not available, strong efforts should be made to include this type of funding in the project agreement .***

One of the early reports from NCBA's activities in /Indonesia states that one of the most serious shortcomings of that country's efforts to establish a nationwide network of cooperatives was the failure to establish a system that could serve the financial needs of the cooperatives. Although it is not clear that the cooperatives were, at that time, capable of utilizing such a system, the fact that no reliable financial services were available meant that they had to rely on private banks or government "credit" programs (handouts) to meet their needs for capital. This was identified as a serious constraint to the growth of the cooperative sector.

To assure the availability of capital for its activities, TERADP's funding included an Enterprise Development Fund (EDF) to provide financing for project-related activities. The EDF has been a key element in the project's ability to develop its high level of economic activities. Without the access to financing provided by the EDF, the project would not have been able to move ahead quickly with product development and take advantage of important marketing opportunities. In turn, this access to finance made it possible to initiate business activities that generated additional financial resources.

## B. LESSON RELATED TO EXPORT MARKETING

***Lesson # 6— For the export market, buyer interest is closely tied to the ability of the producers and their cooperatives to meet three important requirements: quality, quantity and reliability.***

This has been an important lesson for the new coffee cooperatives of East Timor. Good marketing requires knowing the customer's needs and being able to demonstrate that your product meets those needs better than the products of other providers. The marketing edge for a proposed venture is to have a product that meets or exceeds current international standards and having a price/value benefit that is more attractive than the competition.

In one sense, the exporter's job is to make the importer's job easier. Buyers do not like to jump around from one source to another each year as each change is accompanied by a certain amount of uncertainty and risk. Instead, they prefer a dependable source that can regularly meet their quality and quantity requirements on a timely basis. The success that the Timorese cooperatives have experienced in collaborating with NCBA is closely linked to the development of their capacities to provide high quality products in the quantities needed and in accordance with a set schedule.

The farmers and the cooperatives have also learned that integrity is an important aspect of reliability. An enterprise usually gets only one opportunity to become a supplier in the international marketplace. Failing the test of integrity and reliability most often means that the buyers will turn to other sources. The NCBA approach has been that, even if it results in a financial loss, the cooperatives must provide a product exactly as contracted with the buyer. An important aspect of helping to rehabilitate the image of Timorese coffee has been to assist the cooperatives to produce, process and expeditiously ship high-quality, attractively-priced products from one crop season to another.

Although difficult to quantify, NCBA management considers this kind of assistance to be an essential element of the export growth experienced by the Timorese cooperatives and the country's new reputation for high-quality coffee. These kinds of improvements have resulted in the East Timor product gaining acceptance as a premium specialty coffee in the U.S. market and the opening of important new markets in the U.K. and Australia.

## **ANNEXES**

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| <b>ANNEX A</b> | <b>SUMMARY OF OTHER PROJECT COMPONENTS</b>                          |
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**ANNEX A - SUMMARY OF OTHER PROJECT COMPONENTS**

## Summary of Other Project Components

Although the principal activities of TERADP focus on small farmer coffee production, processing and export, the project has a number of other important components and related support activities. These include vanilla production and processing, livestock production and marketing, an important health care program related to the coffee activities, a training center for human resources development and of a cooperative network of small-scale traders/retailers for the distribution of food supplies and consumer goods.

### 1. The Vanilla Component

#### a. Initial Vanilla Activities

NCBA's IETDP project initiated the first commercial vanilla production in East Timor. As a first step in the implementation of the project's vanilla component, some 40,000 vanilla starts were procured in North Sulawesi and transported to the project areas and planted by the farmers enrolled in the vanilla production program. In November 1995, project field staff, accompanied by a project advisor from the NCBA office in Klaten (Central Java), visited all of the farmers to evaluate their progress and provide extension services. After reviewing the rather mixed results of these initial efforts, substantial revisions were made in preparation for a second year of test operations.

Prior to the vanilla planting season (the rainy season), 121 additional farmers were recruited and 45,000 shade trees planted in the Ermera, Liquica and Ainaro districts. Most of the trees satisfactorily survived the dry season and, in early 1997, the farmers were provided with vanilla starts for each of their shade trees. Although additional shade tree seedlings were set out in preparation for the following year, adverse El-Niño-related weather conditions resulted in an unusually long dry season and only about 50 percent of them survived. Despite the problems, these initial attempts demonstrated sufficient potential to convince project leaders that vanilla production could offer significant benefits to small-scale farmers.

During June and July 1997, the project implemented its initial processing operations, which involved approximately 2,000 kgs. of green vanilla beans purchased from the farmers. The processing yielded cured vanilla of an extremely high quality and high vanillin levels (0.25-0.28 mg/dl). The entire crop was exported to the United States. During the following season, project staff procured and distributed some 5,000 additional vanilla seedlings and 16,000 shade trees to farmers in Liquica, Ermera, Ailieu and Ainaro districts. To increase production and provide additional training and extension services, the project established a vanilla nursery and demonstration farm at Aifu. Following the harvest, the project procured and processed approximately three mts. of green vanilla.

#### b. Progress and Problems in the Vanilla Operations

During February 1999, 4,000 additional seedlings were distributed and the seed multiplication unit at Aifu was doubled in size. As the farmers began to see the results of their efforts and gained experience, the program began to achieve much higher production rates. During the 1999 harvest season, the program procured and processed a volume of green vanilla more than double the combined total of the two previous seasons. The quality of the finished Timor vanilla product continued to receive a high rating.

Unfortunately, the promising start to the 1999 vanilla program ended in disaster for much of

planted area and for the stocks ready for export. The violence that began in Liquica during March resulted in the nearly total evacuation of the vanilla production areas and the farmers were unable to return to their homes for over six months. With no one present to maintain the vanilla plantings, almost all of the plants were lost. In addition, the entire stock of processed vanilla was lost during the September civil violence when the storage facility of the regional cooperative (PUSKUD Timor Timur) was destroyed by fire. As soon as it became possible to do so, the project began rebuilding its vanilla processing capacities and renewed its extension services to the participating farmers.

c. Current Status of the Vanilla Program (February 2003)

Motivated by the historically high prices for cured natural vanilla, East Timor farmers are showing greatly increased enthusiasm for the project's vanilla program. As described in earlier reports, over the past several years, the project has distributed several hundred thousand vanilla starts and host tree seedlings to farm families and encouraged their participation in the vanilla activity. Although East Timor is not an area known for vanilla production, and although the plants are exposed to the normal high rates of mortality during the growing phase, the product quality, from guided production through post-harvest handling and processing, has been consistently high. The farmers involved in the vanilla activities now number more than 1,000 (either preparing their initial crops or already involved in production). Over six hundred farm families joined the program during the fifth and sixth reporting periods and, as indicated in Figure 1, there are now producers in fifteen different areas of the country.

TERADP has established approximately fifteen hectares of nursery space dedicated to vanilla plant reproduction in Ermera and Aileu, which gives it the capacity to produce and distribute approximately 45,000 vanilla starts annually. By obtaining additional starts from NCBA's operations on the neighboring island of Flores, significant quantities of additional starts can be provided to the participating farmers. As part of the expanding program, the project has trained CCT staff in vanilla production, handling and processing.

The harvest that took place during the sixth reporting period resulted in the curing and export (to buyers in the United States and Europe) of 1,055 kgs. of East Timor vanilla with a value of \$125,869. Over 90 percent of the product achieved Grade I quality. TERADP's marketing program has developed markets with the world's largest buyers of vanilla, resulting in East Timor vanilla now being used in some of the world's premium extracts and ice creams.

During the past two years, farmers in the fifteen production areas have planted nearly 131,000 *Dadap* (*Erythrina Glauca*) trees with only a 13 percent seedling loss rate. By the close of the sixth period, the trees were ready to be utilized as host trees for the vanilla starts.

After numerous meetings with government agricultural officials, in February 2003, the project received an import permit to bring in 113,000 vanilla starts from the NCBA activity in the highlands of central Flores. As soon as the permit was approved, NCBA/Indonesia staff began to work with several hundred vanilla farmers in Flores to produce the starts. In a rather complex series of steps, by the end of the sixth reporting period, 40,000 starts had been produced, packed and transported by boat to Kupang from where they were trucked to the East Timor border. After passing quarantine inspection, they were transferred to the Manulewana nursery near Dili, repacked and distributed to farmers. To date, initial indications of the farmer plantings have been very encouraging and the project is preparing to import an additional 50,000 to 70,000

vanilla starts during March 2003. As part of its vanilla extension activities, the project is in the process of compiling a production manual for the participating Timorese farmers. The manual is scheduled to be completed and distributed by the end of April.

Figure 1—New Vanilla Program Participation—2002-2003

#	Farmer Group	Location	Number of Farmers	Area Planted (hectares.)	Host Trees Distributed	Vanilla Seedlings Distributed
1	Kuda Talin	Fatunero	14	11.29	1,420	-
2	Serlao Polu	Baura	16	5.29	635	-
3	Urluli	Urluli	10	3.9	350	-
4	Hatukon	Hatukon	7	2.75	340	-
5	Ergua	Ergua	97	13.55	3,435	5,000
6	Pahiklao	Railuli	6	1.45	245	-
7	Mankidulu	Kutulau	8	1.66	150	-
8	Nalmo	Poerema	9	1.99	215	-
9	Malabe Buras	Malabe Buras	10	1.5	600	-
10	Batumeli Buras	Batumigi	10	1.5	400	-
11	Parami Jaya	Airai	6	0.9	300	-
12	Nalomego Hadomi	Nalomege	12	1.8	600	-
13	Baboe Kraik	Fatubesi Abe	3	3.0	900	-
14	Banuila Morin	Asumanu	10	2.0	2,350	-
15	Mata Dalan	Asumanu	10	2.0	1,500	-
16	Sintidu	Pahata	10	2.0	2,000	-
17	Neon Moris	Pahata	10	2.0	4,000	-
18	Negosi	Ebenu	10	1.0	3,000	-
19	Railaco Moris	Lihu	9	1.8	900	-
20	Ponilala	Fatukerboe	16	5.0	2,500	1,000
21	Hatulua	Poerema	35	12.0	7,000	4,000
22	Lospalos	Titilari	5	1.5	5,500	1,800
23	Lauhata Buras	Lauhata	30	10.0	3,000	500
24	Fatumasi Buras	Fatumasi	30	9.0	2,000	400
25	Pokelete	Leorema	114	16.4	3,000	1,000
26	Baura	Leorema	80	11.6	2,000	1,000
27	Ekapo	Leorema	60	9.8	3,000	1,000
Totals	////	////	636	136.68	51,340	11,700

## **2. The Livestock Production Component<sup>19</sup>**

Livestock production was reinstated as a project activity in late 2002 and a number of planning and preparatory steps for its full implementation were carried out during the current reporting period:

- completion of a feasibility study that examined ongoing smallholder livestock activities in all parts of the country that had been identified as potential areas for the TERADP program;
- provision of field training for project and MAFF staff/officials at the site of NCBA's cattle fattening activity in West Timor, Indonesia (two East Timor vice ministers also visited the West Timor program);
- recruitment and orientation of 75 smallholder families in the Loes and Hera areas to participate in the first phase of program implementation;
- training of the participating farmers to build simple cattle sheds and plant the Leucaena trees that will provide fodder;
- production of 12,000 Leucaena forage tree seedlings and their distribution to the farmers;
- procurement ( by NCBA West Timor staff) of 150 bull calves (of the appropriate variety) and processing of the required permits for their export to East Timor;
- obtaining a live cattle import permit from the MAFF; and,
- construction of a simple cattle quarantine station on the East Timor side of the border.

## **3. The Healthcare Component**

During the fourth quarter of 1997, NCBA developed the concept of a health maintenance and health care program for the farm families participating in the coffee activities. Positive discussions with officers of USAID about the possibility of funding a portion of the costs for a health program encouraged management to move ahead with the design of the program.

A study for the health care component, completed in February 1998, provided a broad picture of the need for health services and recommended that efforts to develop the program be continued. After conducting further studies and a detailed implementation plan, a financing agreement was signed with USAID. Implementation during the second quarter of 1998, with the initial activities focusing on:

- recruitment of an expatriate technician to head the program;
- planning the location of the clinics;
- designing and constructing the first two clinics (one in Aifu and one in Maubisse);
- collection of program membership eligibility data for the farmer groups;
- initiation of the collection of demographic data in the first two clinic zones;
- recruitment, training and placement of the initial staff of the health care program;
- completion of a survey of available health resources in East Timor;

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<sup>19</sup> A prior livestock activity was initiated in 1996 under the IETDP, TERADP's predecessor, but halted in 1999 due to the outbreak of civil violence. After the period of violence ended, the need to focus the project's human and financial resources on rebuilding and on activities involving larger numbers of people led to a decision to suspend the program until the overall environment presented improved opportunities.

- meetings with local government health officials and the completion of initial clinic licensing applications; and,
- interviews of potential candidates for the program's medical doctor positions.

During the violence that took place prior to the political transition, the health care program experienced the same kind of difficulties as the other project components with the loss of supplies and equipment and damage to the clinic facilities.

In the third quarter of 2000, the project began to implement a revised operating model for the health program. Under this model, the delivery of health care services was situated closer to the target population via smaller rural or mobile clinics staffed by nurses competent to handle the majority of patient needs. The model includes a larger centralized clinic in each district capable of providing specialized services and functioning as a base of operations for the mobile clinics. With the implementation of the revised model, the program became known as *Clinic Café Timor* (CCT-Health) instead of its original title of HMHC.<sup>20</sup>

In July 2001, the health care management team conducted a further review of the program based on eighteen months of implementation experience, more complete population information and new public health plans of the Department of Health Services (DHS). This review resulted in a comprehensive planning document that now serves as the basis for the annual operational plans. The plan for 2003 was initiated during the closing quarter of 2002 through a process that included staff input, evaluations of the activities of the previous year, and a meeting of the cooperative management team. It was finalized in January during a health management team workshop.

The public health services continued to be almost completely non-functional in most rural areas, causing increasing numbers of the population to seek the services of the CCT clinics. Throughout the reporting period, CCT-Health operated eight fixed clinics and twenty-four mobile clinics and recorded a total of 86,002 patient visits, an increase of 30,000 visits (54 percent) over the previous period and an increase of 51,000 (146 percent) over the third reporting period. In February alone, the clinics recorded 20,000 patient visits.

CCT-Health actively collaborates with the Ministry of Health (MOH) on a variety of local and national programs, as well as training and referrals between services.<sup>21</sup> It also regularly participates in the ministry's policy development activities and, in January 2003, CCT-Health leaders made a formal presentation on the clinic programs to MOH staff.

Over a period of many months, MOH officials have frequently expressed a strong interest in having CCT-Health assist with the provision of public health services or in having the program directly provide certain services on behalf of the government. Such an arrangement could, for example, extend the program's services to all inhabitants of the current operational areas of *Cooperativa Café Timor*, as well as to the general population of one or more additional rural districts. This would be in addition to the non-members already receiving CCT-Health services in its current zones of operations and would expand its activities into additional geographic areas. Although CCT-Health has affirmed its interest in assuming this broader role, based on a

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<sup>20</sup> To avoid confusion with the national coffee farmer cooperative federation, *Cooperativa Café Timor* (CCT), CCT-Health is used as the acronym for *Clinic Café Timor*.

<sup>21</sup> CCT-Health participates in MOH programs such as polio eradication, childhood nutrition, and worm prevention and vitamin A promotion.

contract or memorandum of understanding that would assure the necessary financing, MOH has not yet taken any decisive follow-up.

A review of staff effectiveness and staffing needs is a part of the CCT-Health's annual planning process. As of the close of the sixth reporting period, the staff of the health component consisted of seventy-one persons. By the end of 2003, total program staff will be increased to eighty-two, with the additional staff being assigned to the three new clinics scheduled to open during the year and to the dental care service to be established under TERADP-Phase II.

#### **4. The Rural Retailers' Cooperative Component**

The objective of this component is to assist the small-scale and medium-scale retail sectors to develop a comprehensive, efficient and competitive wholesale distribution network for food, consumer goods and other supplies.<sup>22</sup> With TERADP guidance and assistance, numerous small-scale retailers from many parts of the country organized *Cooperativa dos Lojistas Timor Lorosa'e* (CLTL) as a wholesale purchasing cooperative. The new cooperative began operations during the fourth reporting period (September 2001—February 2002), and quickly began to demonstrate the benefits of bulk purchasing and large volume commodity imports. It is filling a major role in serving consumer needs in the rural areas far more efficiently and competitively than could the individual entrepreneurs operating alone. The project has assisted CLTL with the development of its importing, storage, transport and distribution capacities, and with the establishment of relationships with international suppliers. Four mobile distribution operations (truck routes) were set up to serve cooperative members in the rural areas.

Operations on a trial basis with a limited selection of goods were initiated in June 2001. During the September 2001-February 2002 period, the initial shipments of rice arrived from Thailand and flour shipments arrived from Australia. In addition, shipments of food supplies and specialty consumer items came in from suppliers in Indonesia. Having relatively large quantities of the basic commodities (rice and flour) available contributed to a substantial increase in CLTL's sales volume, with rice alone accounting for more than 50 percent of 2001 sales. The initial commodity imports were important learning experiences as the cooperative's management gained valuable information about the population's food requirements and important knowledge about supplier capacities and the length of shipping times, as well as the role CLTL can play in responding to the potential market and ways it can help maintain consumer price stability.

The construction of CLTL's own facilities began in February 2003 and is scheduled for completion by the end of June. Having its own facility will enable the cooperative to improve its operational efficiency, purchase commodities in larger quantities and reduce overall operating costs. Business skills training is being provided to the CLTL owner-members through the project's cooperative and small enterprise training center. As these small entrepreneurs improve their business capacities and increase the scope and volume of their operations, it is expected that many will hire additional employees and make additional investments in their business operations.

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<sup>22</sup> Following the political transition and the collapse of the previous system for the distribution of food supplies and consumer goods, which was essentially controlled by a few firms located in Indonesia, created a vacuum that the area's small-scale retailers were unable to fill. Although the organizational work for the purchasing/distribution cooperative was initiated during the first year of TERADP implementation, due to the violence and the need to focus on rehabilitation and relief efforts, the major start-up activities were postponed until mid 2001.

## 5. The Training Component

The exodus of Indonesian personnel during the political transition created a serious shortage of qualified persons to manage project activities and the operations of the assisted cooperatives. Other private sector businesses and the civil service experienced similar personnel shortages. In response, TERADP established a non-formal training institution, known as the East Timor Cooperative and Small Enterprise Training Center (*Klibur* in the local language), which began providing training courses in temporary facilities during the second reporting period (September 2000-February 2001), became fully operational in mid-2001 and began operations in its new permanent facility in January 2003.<sup>23</sup> More than 1,421 persons were enrolled in the courses during the sixth period (see Figure 2). The center's curriculum includes training in basic management, computer skills, cooperative organization and business operations, as well as courses in the English and Portuguese languages. Staff teams also provide on-site training at the cooperatives and assist them with organizational and operational matters.

From the outset, the response to the center's training programs was very strong, often requiring the opening of additional course sections. Over the first two years of *Klibur* operations, management received increasing numbers of requests for opportunities to enroll in more advanced levels of business education. This type of education was not available anywhere in the country.<sup>24</sup> Based on these requests and on the country's evident needs, TERADP management began consultations with the Ministry of Education on the development of a new educational entity, the East Timor Institute of Business (IOB) that would be fully qualified to provide university-level business courses. With ministry approval, the development plan linked the new institution with *Klibur*. The IOB became a reality in late 2002 with an opening enrollment of 72 students.

Figure 2 - *Klibur* Training Programs and Participation

	Subject	No. of Participants	Location
1	Computer-MS Word	a. 88 b. 60 c. 40 d. 20	<i>Klibur</i>
2	Computer-MS Excel	a. 35 b. 20	<i>Klibur</i>
3	English	a. 49 b. 7 c. 25	<i>Klibur</i>
4	Portuguese	a. 35 b. 15 c. 49	<i>Klibur</i>
5	Vanilla Cooperative Training	a. 24 b. 18	a. Talito b. Talito

<sup>23</sup> The construction of *Klibur's* permanent facility was completed in December 2000. Financing for the new facility was provided via a funding agreement with USAID.

<sup>24</sup> The offerings of the University of *Timor Lorosa'e*, previously East Timor's only post-secondary educational institution, do not include business education or training in practical business skills.

Figure 2 - Klibur Training Programs and Participation

	Subject	No. of Participants	Location
		c. 14 d. 16	c. Ermera d. Lauana
6	Credit Unions	a. 30 b. 24 c. 60 d. 18 e. 14 f. 4 g. 4 h. 21 i. 21 j. 8 k. 16 l. 34 m. 4 n. 8	a. Aileu b. Suai c. Maliana d. Suai e. <i>Klibur</i> f. <i>Klibur</i> g. ILO/Dili h. ILO/Dili i. Hatudo-Ainaro j. Dili k. Atabae-Maliana l. Atabae m. Dili n. Tibar-Liquica-Dili
7	USAID OTI Program Farmers	a. 8 b. 12 c. 10	a. Aipelu-Liquica b. Maubisse c. Maliana
8	Cooperative (CCO) Monitoring	a. 18 b. 123 c. 120 d. 48 e. 79 f. 24	a. Boebau -Liquica b. Ermera c. Hatolia d. Lauana e. Lebutelo-Liquica f. Manatuto
9	Institute of Business (IOB)	a. 86 b. 82	a. <i>Klibur</i> b. <i>Klibur</i>
TOTAL PARTICIPANTS		1,421	////////

From the perspective of NCBA, the establishment of the IOB presented an additional means for TERADP to respond to the country's economic needs. Not only was the low level of professional skills among the Timorese population an impediment to the implementation of the project, it is one of the principal impediments to the country's long-term economic development. Although foreign investment is essential for the country's economic growth, companies are unwilling to risk investing in business activities until they can be assured of the availability of sufficient numbers of qualified personnel. The only practical means to address these extensive training and education needs is through effective in-country institutions.

## 6. Principal Component Support Activities

The project operates a number of important sub-programs that support the major TERADP components. These include a network of coffee demonstration centers and a shade tree nursery activity that serves both the coffee and vanilla programs.

### a. The Coffee Demonstration Program

Extension activities for the coffee component are centered on six demonstration centers situated throughout the coffee growing areas to provide easy farmer access. The centers actively promote the use of low cost organic methods to increase farmer yields. To encourage the adoption of these technologies, TERADP field staff provides training in appropriate pruning and tree care practices and demonstrates how the farmers can increase plant populations to optimal levels for local environmental conditions.

The plots clearly show the potential for increased production levels through improved practices and better farm maintenance. Harvests recently conducted at five of the plots had significantly higher yields than those of the farmers in the areas surrounding the sites. Both the farmers and government agricultural officers have shown a strong interest in the demonstration centers.

### b. Shade Tree Nursery Program

The rapid deterioration of the country's coffee shade trees due to age and disease is one of the most pressing issues the project is addressing and the eventual outcome will determine whether East Timor can continue to produce high-quality coffee. During 2001, the Timorese government requested project assistance in identifying and treating a serious outbreak of fungal disease that is killing the shade tree trees in several of the coffee production areas.

Shade trees are essential for coffee production in East Timor's central highlands where all of the country's coffee is produced. Given the area's climatic conditions and marginal soils, the coffee trees need the protective canopy of the shade trees, the nutrients and moisture retention that come from their fallen leaves, and the erosion protection provided by their root systems. Without shade trees, coffee trees will usually overbear in their first year and then die prior to the next harvest season.

Nearly 80 percent of the country's coffee is grown between the altitudes of 700 and 1400 meters and almost all of the coffee produced at these altitudes is shaded by the tree *Paraserianthes Albizzia Falcataria*. The gall rust fungus (*Euromykladium Tepperianum*) now infesting this species causes extensive defoliation and widespread tree mortality.<sup>25</sup>

In March 2002, TERADP initiated a program to replace and renew large numbers of the coffee shade trees. Approved by the MAFF, the program includes the production and distribution of shade tree seedlings, the diversification of shade tree species and research to develop disease resistant trees. Although the existing nursery facilities were heavily occupied with the production of beef cattle forage trees to supply the new livestock component of the project, as

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<sup>25</sup> A study conducted in 2002 by the Australian Agency for International Development stated: "no practicable remedial measures can be recommended to restore the health of standing trees. The likely solution will be to remove the shade trees from severely affected plantations, replant with alternative shade species or rust resistant selections of *P. Falcataria* and probably replant the coffee...*P. Falcataria* currently growing in East Timor seems to be very susceptible to rust and the prognosis must be for widespread tree death." *Madre Cacau Disease Study Mission*, Client Report No. 1119, June 2002.

well as the production of host trees for the rapidly growing vanilla program, the new effort resulted in the production and distribution of some 20,000 shade tree seedlings during the first year.

The nursery operations are currently being expanded to accommodate the increased need for tree production and will create a capacity of nearly 300,000 seedlings. The additional facilities are scheduled to be fully operational by June 2003 with the first seedling crop produced in July–August.

As an additional means of encouraging good farming practices, the project also distributes coffee pulp to farmers to compost for soil improvement. All of the seedling production activities—coffee shade trees, vanilla host trees and livestock forage trees—will also provide important long-term environmental benefits.<sup>26</sup>

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<sup>26</sup> In addition to the direct benefits for the survival of the coffee plants, the restoration of shade trees contributes to erosion control and helps to rehabilitate the seriously neglected coffee production areas. The shade trees also provide a beneficial habitat for birds and other wildlife, a fact that has become an additional point of favor for the coffee in selected markets.

**ANNEX B - IMPACT OF THE POLITICAL TRANSITION ON PROJECT ACTIVITIES**

Historical Review:  
Impact of the 1999-2000 Political Developments  
and the Project's Response/Recovery

**1. Background**

In January 1999, (then) Indonesian President Habibie announced what amounted to an independence referendum for East Timor. Although welcomed by a large segment of the population, opposing interests initiated widespread violence that had a serious impact on the project and its beneficiaries. Fully a third of East Timor farm families depend on the project's coffee purchases as their major source of income, so it was particularly untimely that the initial wave of violence took place in the midst of the 1999 coffee buying season. It is at that time of the year that the producers are most in need of the project's services.<sup>27</sup>

Although project field staff had calculated that the 1999 harvest would be the largest in more than twenty years, the deteriorating civil situation posed difficult challenges for the procurement and transport of the crop. In Liquica (the district in which the earliest harvest takes place and in which the program had tripled its processing capacity), pro-integration militias terrorized the town and the outlying coffee growing areas. Large numbers of the coffee farmers had their houses burned and nearly all of the farm families were forced to flee, many becoming refugees in other regions of East Timor and in the Indonesian province of West Timor.

As the buying season shifted to other districts, the continuing violence resulted in all of the other coffee buyers abandoning their procurement activities, leaving the project-assisted cooperatives as the only purchasers continuing to operate. When the violence continued to spread, however, the cooperatives were also forced to suspend their procurement operations.

The initial incidents of organized violence to hit Dili, the capital, took place in mid-April 1999 when armed militias targeted several pro-independence leaders for attack. Thirteen residents were killed and a number of houses burned. Project management immediately withdrew the expatriate staff from the province and they remained out for nearly two weeks. During this time, project activities in the area came to a virtual standstill.

During the first week of May, when a degree of law and order was restored, the project's expatriate staff returned to Dili and gathered the coffee program staff to assess the possibilities of re-opening the procurement operations. Consultations were held with local government and security officials in each coffee production area. On May 8, those areas judged to be at least marginally secure were re-opened and coffee procurement and processing activities initiated.

Although faced with high levels of intimidation (trucks being hijacked, staff beaten and hospitalized, and procurement and processing centers frequently forced to close down due to militia attacks), the farmers flooded the cooperatives with large volumes of coffee, straining to the limit the program's procurement, processing and transport capacities. By August, when new waves of violence accompanying the referendum campaigns forced an early halt to the buying season, the cooperatives had purchased 12,000 mts. of coffee cherry, exceeding the largest

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<sup>27</sup> For the great majority of the producer families, receipts from coffee sales represent, by far, the largest single source of income. Most of these families have no other means of income generation.

previous season by nearly 4,000 mts. This record volume was achieved during only 60% of the normal buying season and in only 70% of the program's buying areas.

The violence in the area also had a major impact on the health care program. Aifu and Maubisse had been selected as the sites for the first two program clinics, but shortly after the Aifu clinic was constructed and equipped, the militias took almost total control of the area. The construction of the Maubisse clinic was repeatedly delayed due to militia threats to the work crews, at times forcing the workers to leave the site. Despite these genuine dangers, construction was completed in late June and the clinic began providing services in July. The new waves of violence of August and early September, however, made it necessary to close all of the health care activities until the safety of the operations could be assured.

Two days before the scheduled August 30 referendum, almost all program operations again had to be suspended. Plans to re-open on September 1 were precluded by the accelerated violence leading up to the September 4 announcement of the referendum results. All project activities were shut down on September 3 and all expatriates and Indonesian personnel were evacuated to the project office in Atambua, West Timor. The militias refused to allow the departure of the Timorese staff.

During the next several days, emergency project activities were conducted out of the West Timor border office and focused on: (1) locating project staff who were in danger and finding ways to assist them to safety; (2) shifting large amounts of project assets to safety in West Timor before they could be looted or destroyed; and, (3) attempting to safeguard non-moveable project assets in East Timor. Fortunately, because of the foresight of the program management in Dili (and owing to some very courageous employees), some 700 tons of the coffee stocks were moved to safe storage in West Timor.<sup>28</sup> As well, much of the moveable processing machinery, nine of the eleven project vehicles, 90% of the office equipment (including all computer database files), and 90% of the laboratory equipment were moved across the border.<sup>29</sup>

In early October, approximately two weeks after the arrival of the "International Forces for East Timor" (INTERFET), a team of project staff returned to East Timor to assess losses, locate and assist local staff and account for project assets. The team found that:

- the project office had been totally looted and stripped (but not burned) and had been taken over by squatters;
- the PUSKUD East Timor Cooperative office had been totally destroyed by fire;
- six of the residences rented by the project had been burned to the ground;
- one coffee warehouse and processing facility had been burned while three others had been looted but not burned (these three were subsequently occupied by INTERFET troops and the ICRC);
- approximately 80% of the local project staff were located, although most were homeless and without any money;
- the two missing project vehicles had apparently been stolen and taken out of East Timor;
- thirty-six of the 44 project motorcycles were missing and had apparently been taken to

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<sup>28</sup> These stocks were subsequently transferred to Java, where a temporary processing facility was set up. The entire amount was processed and exported during the reporting period, preserving some \$ 1.5 million in project assets.

<sup>29</sup> The transferred equipment included dry coffee processing machinery (hullers, graders and catadors) and coffee roasting equipment.

- other areas of Indonesia;
- although the wet coffee processing equipment had not been looted, approximately \$40,000 damage had been sustained when the ICRC took over the project's warehouse;
- all four of the large capacity wet coffee processing installations in the field (Maubisse, Aifu, Liquica and Estado) survived nearly totally intact;
- both of the newly operational health clinics had been looted (The Maubisse clinic had been totally stripped and the building seriously damaged, while the Aifu clinic facility survived intact); and,
- nearly 600 mts. of coffee parchment, along with coffee processing materials (gunny bags, scales, testers, tarpaulins, etc.) had been looted from project warehouses.

The efforts of project management and staff to re-establish and rebuild the program's capacities are detailed in other sections of this report. After six full months of repeated disruptions during the September 1999–February 2000 reporting period (which included the demobilization and subsequent remobilization of the project), some semblance of normality returned to the area and the project was once again able to resume full operations. In re-establishing project activities, the first priorities were to get the coffee procurement and processing facilities up and running and put the rural health clinics back into operation. These priorities were in response to the urgent needs of the rural population for access to cash and to basic health services.

## **2. Impact on Human Resources and Partner Organizations**

The period of violence also had a severe impact on both project staff and the project's cooperative partners. Approximately twenty middle management and senior management staff working with the project-assisted cooperatives decided not to return to East Timor. For the most part, these were ethnic West Timorese and persons from other areas of Indonesia who had reason to fear for their safety if they returned to the area. The losses to physical facilities included buildings, equipment and records of the project counterpart organizations. The central office of PUSKUD East Timor, the secondary-level cooperative federation (which was at that time the project's principal counterpart), was completely destroyed by fire, which also consumed all of the organization's files and documents. Similar losses were experienced at the local cooperative entities affiliated with the project, most of which sustained heavy losses to their facilities and had their membership records destroyed.

As the cooperatives of East Timor—which had been part of the Indonesian cooperative system—had served as the implementing organizations for the project's coffee buying and processing operations, the political changes made it necessary to assist the development of new cooperatives. With project assistance, a new national federation of coffee farmer cooperatives was created and a network of primary cooperatives established. The new national-level entity, known as *Cooperativa Café Timor* (CCT) was fully staffed by East Timorese. Given the rapidity with which this restructuring had to take place, much of the preparation of the new staff had to be carried out via on-the-job training.

At the local level, project extension staff assisted the coffee farmers with setting up and organizing their new primary cooperatives and helped them make preparations for the next harvest season. These local-level cooperatives (*Cooperativa Café Organic*—CCO) were established in almost all of the principal coffee growing areas, their membership consisting primarily of the small-scale coffee producers affiliated with the project. By the end of the first TERADP reporting period, fifteen CCOs had been organized and registered as business entities

with UNTAET. Although these were essentially bare bones organizations with few resources, each was sufficiently operational to participate in the procurement and transportation of their members' coffee during the harvest season.

### **3. Impact on the Project's Physical Facilities**

The violence resulted in heavy losses to most of the project assets that had not been removed to West Timor. A damage/loss assessment revealed that almost all of the moveable elements of the project's coffee processing facilities had been stolen and much of the processing machinery damaged. In addition, all of the electrical installations in the facilities had been torn out and stolen, as had most of the office equipment and furnishings. Losses from the looting and burning also included all housing, furnishings and personal effects of the expatriate staff.

Once it became possible to re-start project activities, priority was given to getting the key components operational. By the close of the September 1999-February 2000 reporting period, most of the reconstruction work on the project's main office in Dili had been completed. During that same time period, priority efforts were focused on rehabilitating and reconstructing the coffee storage and processing facilities and the facilities of the health care program. These efforts included importing the replacement machinery and disposables needed for the year 2000 coffee harvest season, as well as the supplies and equipment required to re-open the rural health clinics.

By the end of the March-August 2000 reporting period, the wet processing installations at Maubisse, Aifu, Estado and Liquica were fully operational and had a total daily processing capacity of 640 mts. of coffee cherry. Also operational were the Comoro drying field, the SAPT storage facility and the N.T. dry processing facility. For the health program, the Maubisse and Aifu clinics were fully operational, as was a temporary clinic facility in Lauana. Each of the clinics was also providing mobile health services in its local geographic area.

### **4. Impact on the Coffee Operations**

During the recovery and rehabilitation efforts of the March-August 2000 reporting period, the project's highest priority was meeting the needs of the small-scale coffee producers during the harvest season. Because smallholder coffee production represents the dominant sector of the new country's economy, and because coffee represents the only source of cash income for the great majority of the producing families, it was essential that they be able to market their production and obtain urgently needed financial resources. As these coffee-farming families make up one of the poorest segments of the country's population, project management felt a strong sense of urgency to get cash into the farming areas.

Despite a number of very severe difficulties and constraints (described in the following paragraphs), the procurement process proved to be very successful. For the majority of the harvest period there were no other coffee buyers in the field. Although a few buyers eventually appeared in the more easily accessible areas, the fact that the TERADP-affiliated cooperatives were able to pay cash proved to be a significant advantage and provided the producers with the resources needed to survive the coming year without relief aid.

In addition to the losses and disruptions caused by the violence, there were several significant constraints confronted by the project during the 2000 harvest season. These included issues related to transport, the lack of a viable in-country institutional source for financing the crop

purchases, the very undisciplined labor supply, and the loss of records on the organic certification of the producers.

**a. Issues/Problems During to the Transition to Independence**

**Transport Issues**—Transport was a major constraint, due to both a lack of available trucks and the extremely poor condition of the rural roads. Fewer than 100 of the required 300 transport vehicles could be mobilized and, due to heavy rains, many of the access roads were simply not passable during the harvest season. Nearly 80% of the harvest had been completed in Liquica before the project was even able to gain access to its wet processing installation. The weather conditions prevented the project from getting trucks into the Same area during the entire season, and the roads between Maubisse and Manatua and Maubisse and Maualoa were not passable until July.

**Financial Issues**—Because the only currency with which farmers were familiar was the Indonesian Rupiah, they demanded payment in that currency. The only active banking operation in East Timor, the BNU, discounted exchange rates so severely that the use of that bank would have reduced grower income by 20%. This made it necessary to bring in all currency for the procurement operations from West Timor, and the large quantities of cash required made this a very difficult and risky undertaking.

**Labor Issues**—There were numerous labor problems throughout the harvest season, particularly in the area around Dili. Given the need for labor among the international organizations and relief agencies (with their apparently unlimited budgets and lack of any need for genuine productivity), casual labor rates were nearly four times higher than those of the previous year (and as compared to the existing rates in Indonesia). At the same time, labor productivity was extremely low.<sup>30</sup> Because many laborers took advantage of a situation in which there was only minimal law and order and only limited enforcement capabilities by the UNTAET civilian police, there were frequent strikes and high levels of intimidation directed at the staff and management of the cooperatives. Several of the managers were severely beaten while attempting to enforce normal workforce discipline.

**Loss of Farmer Data**—During the violence of September 1999, many of the records on farmer production and membership in the cooperatives were destroyed, including much of the data on the organic certification of the farms. This represented tens of thousands of hours expended for data collection during previous growing seasons. All of this documentation had to be redone. Because of the civil situation, however, it was not possible to start the new organic certification inspections until May, which was the beginning of the harvest season.

**b. Contribution of the Coffee Program during the Transition**

Even in the face of these constraints, the TERADP-affiliated cooperatives procured approximately 9,000 mts. of coffee cherry from their farmer members. This was in addition to the approximately 1,000 mts. of dry parchment procured earlier in the year from farmers who had been unable to complete their marketing from the previous crop season due to the militia violence. Although the total was well above the anticipated level of cherry procurement (the expected level was 5,500 mts.), and although the procurement activities had a major impact on

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<sup>30</sup> Further exacerbating the labor situation were the numerous make-work “employment generation” donor activities that paid even higher labor rates for what was basically unproductive labor, such as cutting grass.

the economy, had there been fewer and more manageable constraints, and had all of the primary cooperatives been fully ready to function at the outset of the harvest, it is likely that the cooperatives could have procured three times this amount.

In summary, the project's purchasing, processing and exporting activities during the 2000 coffee season had a major impact on the rural economy:

- The employment of up to 4,000 laborers during the harvest season made the project-assisted cooperatives the country's largest private sector employer. Given the estimated 80% unemployment rate, this was an important contribution to the East Timor economy.
- The export of over 1,800 mts. of coffee provided the country's main source of foreign exchange outside of donor aid.
- The payment of a significant amount of coffee export taxes to the Central Authority, which made the TERADP-affiliated cooperatives the country's major taxpayer.
- The payment of far higher producer prices than the few alternative market channels that were available to the farmers.<sup>31</sup>
- The project's receipt of international market coffee prices that were approximately 60% higher than those available from alternative coffee buying channels made an important contribution to the country's foreign exchange earnings.<sup>32</sup>
- The processing in East Timor of the entire amount of procured coffee (using Timorese workers), while other buyers shipped their parchment to Indonesia for hulling and sorting to take advantage of that country's much lower labor rates and higher productivity.<sup>33</sup>

## **5. Impact on the Health Care Operations**

By the close of the September 1999-February 2000 reporting period, the project had re-opened the clinic at Aifu for primary health care services. Two other clinics (Maubisse and Lauana) were brought into operation during the March-August 2000 period. The Maubisse clinic had originally opened just prior to the violence of September 1999 and, along with all other project activities, had been forced to suspend operations. During the violence, the facility experienced heavy damage and all furnishings, equipment and supplies were looted, including the generators, pump and piping the project had provided for rebuilding the Maubisse town water supply.<sup>34</sup>

The Maubisse facility was re-opened on April 15, although the patient load was slow to build due to the temporary presence of five expatriate medical doctors operating in the town as part of the international relief efforts. The new clinic in Lauana was opened early in response to requests from UNTAET because that area was not covered by any NGO or UNTAET health services. Temporary facilities for the clinic, which opened July 3, 2000, were provided by UNTAET, while the project was in the process of constructing a permanent facility.

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<sup>31</sup> Prices received by farmers for coffee cherry at the project's wet processing facilities averaged Rps. 1,500/kg., or the equivalent of Rps. 7,500/kg. for dry parchment. In comparison, alternative market channels paid prices equivalent to Rps. 4,000 to 4,500/kg.

<sup>32</sup> These significant price differentials can be attributed to the high quality of the product, its organic certification and the project's strong marketing efforts.

<sup>33</sup> In taking the parchment out of the country, these buyers also transferred a large number of critical East Timor job opportunities to Indonesia.

<sup>34</sup> The lack of water in Maubisse made it necessary to transport water in jerry cans daily for the clinic operations. The water system was finally completed in February 2001.

Two East Timorese doctors were recruited for the Aifu and Maubisse clinics and began their work during the month of May. As of July-August 2000, the three clinics (and their mobile clinic services) were treating a total of more than 1,800 patients per month. By the end of February 2001, this had increased to 4,000 per month.

## **ANNEX C - PERFORMANCE INDICATORS**

## PERFORMANCE INDICATORS

The information presented in this section is drawn from the project's management information system (MIS). The indicators described in the following sections are categorized (by topic) into a series of "indicator sets". Within each of these sets, the indicators establish specific activities to be monitored for measuring project progress. Although this listing describes only the indicators and the projected end of project figures for the coffee and health care components, similar sets of indicators have been established for the other (non-coffee) project components.

### A. Indicators for the Coffee Component

#### **INDICATOR SET "A": Prices and Incomes received by Producers of Targeted Products**

##### **Indicator A.1 – Total equivalent US\$ denominated payments paid to coffee producers by market collectors for coffee delivered to project assisted entities.**

This indicator measures income received by producers as a result of project interventions and is intended to capture both the volume of coffee sold by producers and the average price they received. Base year: 1994.

**Initially Expected LOP Performance:** As a result of increased productivity (yields), increased product quality, increased competition and increased participation, payments to coffee farmers are expected to reach a level of more than US\$ 20 million over the LOP.<sup>35</sup>

##### **Indicator A.2 – Annual un-weighted average of the daily prices (equivalent US\$ denominated payments) per kilogram paid by collectors to producers during the principal marketing season (April to October) for Arabica coffee relative to the New York market price.**

The average price paid to farmers is a function of both world market conditions for coffee and the extent to which a competitive market exists in the target areas. This indicator helps to measure both the extent to which local prices are competitive and their relationships to the world price.

Depending on the altitude level, the harvest season differs from one growing area to another. The altitude levels are important contributing factors to both the ripening period of the coffee and its quality. The highest growing area is that around Maubisse (1,500 m. above sea level), while the lowest is the Hotino area, situated at about 800 m. These altitude variations result in:

- different ripening periods (most of the lower level crop is harvested prior to the start of harvesting activity in Maubisse); and,
- differences in coffee quality and, consequently, differences in price.

Altitude has a considerable impact on the quality of the coffee—the higher the altitude, the greater the coffee's positive flavor characteristics (described as acidity and body).

In addition to price differentials resulting from the quality and type of coffee, the price fluctuations that take place on the New York exchange over the extended harvest season have an even greater impact on the amount the farmers receive for their production. The project monitors prices in three market areas (Ermera, Maubisse, and Liquica).

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<sup>35</sup> Based on an average New York "C" price of \$ 1.00/lb.

The reporting utilizes a weighted average of all coffee sold to determine the average market premium/differential paid for the coffee produced by the project-assisted enterprises.

**Initially Expected LOP Performance:** Over time, the differential of the East Timor specialty coffee price to the non-project related FAQ price for East Timor coffee is expected to maintain an average differential of US\$ 35 cents/lb.

**INDICATOR SET "B": Total Coffee Volume and Total Labor Payments of Project-assisted Enterprises.**

**Indicator B.1 - Number of farmers selling coffee through project-assisted enterprises.**

This indicator is a means of measuring the participation of coffee producers in the project. The MIS obtains data from all project-assisted enterprises and the producers in the project areas who deliver their coffee to these enterprises. Each of the entities reports the number of farmers from whom they have purchased coffee during the season.

Competition among buyers is considered a positive development providing producers with additional marketing choices. To the extent that the project-assisted ventures are seen as beneficial, the number of producers selling to project-assisted enterprises should show an increase. Base year: 1995.

**Initially Expected LOP Performance:** During the LOP, the number of farmers selling to coffee buyers in the three market areas is expected to increase to 20,000, the majority of whom will be participating in the organic farmer groups.

**Indicator B.2 - This indicator examines two related categories of measurement: (1) Total wage payments to all employees of project-assisted entities; and, (2) the total number of days worked per year by all employees.**

This indicator is a measure of the growth in employment generated by the project through its assisted enterprises. It includes labor hired for all activities related to the transport, processing and marketing of all commodities (coffee, vanilla, livestock, etc.) assisted and/or introduced by the project, but does not include farm and household labor. Base year: 1994

**Indicator B.3 - Number of farmer participants assisted annually through project-assisted extension and marketing activities.**

The project provides extension and marketing services to farmers to improve existing production or to add new products to their farming activities. This indicator serves to measure the number of farmers participating in project-assisted activities for all commodities and in all of the project's geographic areas. Base Year: 1994.

**Initially Expected LOP Performance:** The total number of farmers participating annually in project-assisted extension activities is expected to increase to 3,500.

**INDICATOR SET "C": Beneficial revisions in the way targeted products are produced, processed and marketed.**

This third category of measurement toward goal achievement deals with changes in production, processing and marketing practices. These important changes have a major impact on the

achievement levels of project activities and the benefits derived by the producers and processors.

**Indicator C.1 - The total quantities of specialty coffees (organic and gourmet) marketed by project assisted entities.**

Producers benefit from the production and marketing of higher quality and higher value coffee. This indicator tracks the volume of high quality/high value coffee being processed and marketed by project-assisted entities.

**Expected LOP Performance:** The quantity of specialty coffee marketed through project-assisted entities is expected to exceed 2,000 mts. per season.

**Indicator C.2 - The differential in the average price paid for specialty coffees compared to the average price of FAQ coffees marketed by project-assisted enterprises (the average price will be calculated as the simple average of the differential on the first lots of specialty coffees sold in each month during the marketing season).**

This indicator measures the difference between the prices paid for generic (farmer dry processed) coffees and those for the high quality/high value specialty coffees developed by the project. As project implementation moves forward, the premium for the project's producers of East Timor specialty coffees is expected to be maintained consonant with quality assurance and market growth and the resulting increases in market confidence and demand for East Timor product.

The quality price differential derives from improved production practices and improved processing and marketing (including the development of niche markets for specialty coffee), all of which are directly related to project activities. It is expected that the incomes of project participants will increase as a result of these improvements.

**Price Differences Between the Specialty and FAQ Coffees:** Price differentials contracted for the project's specialty coffees range from US\$ 20 cents (at the high end) and 2 cents (at the low end) above the New York "C" CNF US.W.C./E.M.P.<sup>36</sup> for its Maubisse and Liquica grades respectively. This is compared to the 35 cents below the "C" CNF US.W.C./E.M.P. for Timor farmer dry-processed FAQs. For the price levels as of the end of the harvest season (\$.80/lb on average), for the December "C" position, the differentials ranged from 32 to 50 cents per pound (or from 64% to 200%). The percentage shows an increase from the previous reporting period due to the decrease of international coffee prices and not a widening of the premium on project coffee.

**Initially Expected LOP Performance:** The premium will rise to at least 30% above the generic price.

**INDICATOR SET "D": Increased access to financing (EDF)**

These indicators were added as a result of the NCBA-USAID meeting of November 20, 1996. The intent of this section is to identify specific performance measurements for the project's Enterprise Development Fund (EDF). The following indicators for this section deal with the amount of financing being provided to project beneficiaries, information on non-performing loans, factoring and repayment performance.

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<sup>36</sup> "Cost in Freight U.S. West Coast or European Main Port".

**Indicator D.1 - Total amount of revolving fund financing provided to participating enterprises and farmers.**

**Initially Expected LOP Performance:** US\$ 20 million

**Indicator D.2 -Percentage of revolving fund that is classified as non-performing.**

**Initially Expected LOP Performance:** 15%

**INDICATOR SET "E": Improved Availability of Food Supplies and Consumer Goods**

**Indicator E.1 – Number of small-scale entrepreneurs participating in the development of a purchasing cooperative.**

**Initially Expected LOP Performance:** 300

**Indicator E.2 – Amount of revolving fund financing made available for the activities of the purchasing cooperative.**

**Initially Expected LOP Performance:** US\$ 2 million

**INDICATOR SET "F": Improved Management Capacities of the Assisted Enterprises**

**Indicator F.1 – Number of management trainees enrolled in training program.**

**Initially Expected LOP Performance:** 1,800

**Indicator F.2 – Number of small-scale retail entrepreneurs (and their employees) participating in training activities.**

**Initially Expected LOP Performance:** 300

**Indicator F.3 – Increased operational volume of the assisted enterprises.**

**Initially Expected LOP Performance:** US\$ 25 million

*Indicator F.4 – Increased pool of trained personnel available to local cooperative societies.*

*Initially Expected LOP Performance: 200 persons*

## **B. Measuring Progress toward End of Project Status (EOPS)**

### **EOPS INDICATOR SET "A": Project Purpose**

The project's purpose is to expand the business capacities and output of cooperatives and other rural-based enterprises in East Timor through specific, well-planned interventions in high potential, long-term, high-impact ventures that offer significant potential for increasing the incomes of the target populations.

The monitoring of progress vis-à-vis the EOPS, inputs and outputs is a straightforward tabulating of the indicators listed below (drawn from the project's Logical Framework).

#### **EOPS-A.1 - Number of Business Ventures Enhanced or Initiated**

**Projected:** 100 small to medium scale business ventures assisted or initiated.

#### **EOPS-A.2 - Progress of Assisted Enterprises**

**Projected:** 80 of the assisted business ventures profitable and self-sustaining.

### **EOPS-A.3 - Employees in Project-Assisted Enterprises**

Projected: 500 employees in project-assisted business ventures.

### **EOPS-A.4 - Producers/Entrepreneurs Obtaining Services**

Projected: 20,000 producers and/or small entrepreneurs obtaining inputs and services through their cooperatives, associations or other project-assisted enterprises.

**EOPS INDICATOR SET "B": Outputs** - The project's outputs focus on improved business operations, an improved legal and policy environment for rural enterprises, expansion of export-oriented production, market identification and development, increased capacities of the personnel of assisted enterprises and the increased use of higher levels of technology.

### **EOPS-B.1 Enhanced business capacities and expanded operational scope of the assisted cooperatives and other rural enterprises.**

Projected: 20 cooperatives and/or other rural businesses operating with management information systems and each managing at least two product lines.

### **EOPS-B.2 Number of producers and retailers trained in production/business efficiencies and new technologies.**

Projected: 2,000 farmers and 300 entrepreneurs received extension services and training from the project and project-related entities.

## **C. Measuring the Progress of the Health Care Component<sup>37</sup>**

The MIS tracks the following types of information for the health care program:

#### Data on participation:

- enrollment statistics by semester and by area;
- patient volume, categories of patients (ages/gender), and rates of utilization;
- types of illnesses treated;
- type and number of health-related courses given and number of participants; and,
- non-members utilizing the program.

#### Financial information:

- operating costs for each clinic and for the program as a whole;
- per family costs of the program; and,
- fees from non-member utilization.

#### Progress toward End of Project Status:

- number of families enrolled;
- number of individuals utilizing the medical services;
- number of persons participating in preventive health activities (by type of training/age/gender); and,
- number of infants and children served via health maintenance activities.

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<sup>37</sup> CCT-Health indicators updated to February 28, 2003.

The progress report on the achievement of these health care indicators is follows the MIS matrix below.

**TERADP Annual Management Information System (MIS) Report (As of 28 February 2003) — Page 1**

Indicator		Detail	Baseline	95/96(1)	96/97(2)	97/98(3)	98/99(4)	99/00(5)	00/01(6)	01/02(7) (9)	02/03(8)	Actual (to date)	EOPS	Units
<b>I. MEASURES OF GOAL ACHIEVEMENT</b>														
<b>A</b>	<b>Increased Prices and Incomes Received by Producers.</b>													
<b>A.1</b>	Total equivalent US\$ payments paid to coffee producers for their coffee.	Total		223	3,105	4,128	23,173	17,215	18,234	\$1,068.4	\$2058.9	\$3,127.3 66,078	2,000	\$(000) Rp. Millions
<b>A.2</b>	Annual unweighted average of daily Rp/Kg paid to producers during the season in the principal markets relative to NY market price. (Compares coffee parchment at farm gate with green hulled coffee CNF U.S. port).	E. Timor NY Ratio	2,389 7,087 34%	3,654 7,087 52%	3,250 5,740 57%	5,225 9,209 57%	14,170 32,563 44%	7,800 13,461 58%	6,250 13,756 45%	\$0.625 \$1.091 57%	\$0.900 \$1.058 85%	Av. 50%	30%	Rp/Kg Rp/Kg \$1=Rp.2200
<b>A.3</b>	Total annual US\$ equivalent payments to vanilla producers. (C)		0	0	0	7.12	31.2	56.8	47.84	\$19,042	\$78,266	\$97,308 142.96	1,000	\$ Rp. Millions
<b>A.4</b>	Total annual equivalent US\$ denominated value of business volume of purchasing cooperative. (NC)		0	0	0	0	0	0	0	\$181,766	\$593,110	\$774,876		US\$ value
<b>A.5</b>	Total number of small/medium entrepreneurs members of purchasing cooperative.(C)		0	0	0	0	0	0	0	50	84	84		
<b>B</b>	<b>Increased Participation</b>													
<b>B.1</b>	# of farmers selling coffee through project-assisted enterprises. (c)		0	1,597	6,902	20,621	35,692	47,226	N/A (9)	60,926	80,208	80,208		Farmers
<b>B.2</b>	a) total wage payments to all employees.		0	28,936	586,363	914,749	2,269,013	4,623,210	8,730,344	\$1,187.00	\$1,069.80	17,152,615 \$2,257.80		Rp.(000) \$(000) \$
	b) total number of days worked by all employees. (NC)		0	3,135	155,620	171,420	399,859	519,844	396,833	304,606	290,382	1,911,524		
<b>B.3</b>	# of farmers assisted thru both credit and production activities. (C)	Coffee	0	807	7,777	12,265	16,893	16,893	16,945	19,282	19,282	19,282		
		Vanilla	0	109	288	79	133	133	365	918	1,101	1,101		
		Livestock	0	410	410	137	168	168	0	0	75	75		
		Total	0	1,328	8,475	12,481	17,194	17,194	17,310	20,200	20,458	20,458	3,500	families

**Note: Because TERADP is a follow-on activity of NCBA's East Timor component of the IETDP, this MIS report includes data on both the IETDP and TERADP achievement levels. For reporting purposes, TERADP activities date from March 1 2000.**

(1) 95/96 period represents the timeframe from March 1, 1995 to February 29, 1996.

(2) 96/97 period represents the timeframe from March 1, 1996 to February 28, 1997.

(3) 97/98 period represents the timeframe from March 1, 1997 to February 28, 1998.

(4) 98/99 period represents the timeframe from March 1, 1998 to February 28, 1999.

(5) 99/00 period represents the timeframe from March 1, 1999 to February 29, 2000.

(6) 00/01 period represents the timeframe from March 1, 2000 to February 28, 2001.

(7) 01/02 period represents the timeframe from March 1, 2001 to February 28, 2002.

(8) 02/03 period represents the timeframe from March 1, 2002 to February 28, 2003.

(9) All 2001 coffee/vanilla transactions in US\$.

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Indicator	Detail	Baseline	95/96(1)	96/97(2)	97/98(3)	98/99(4)	99/00(5)	00/01(6)	01/02(7)	02/03(8)	Actual (to date)	EOPS	Units
<b>C</b>	<b>Improved Production, Processing and Marketing of Products</b>												
<b>C.1</b>	Total quantities of specialty coffees marketed by project-assisted entities. (NC)	0	48	472	620	1,319	1,412	1,590	1,664	2,112	8,145	200M t. Tons	
<b>C.2</b>	Ratio of the av. price paid for specialty coffee compared to "C" price FOB Dili for FAQ Timor, weighted to purchase quantities.	135%	135%	148%	126%	136%	166%	194%	198%	220%	Av. 162%	130%	ratio
<b>C.3</b>	Quantity of vanilla marketed annually.	0	0	0	315	368	822 (9)	1,729	2,422	3,477	7,628	5,000	kg. per annum
<b>D</b>	<b>Increased Access to Financing (EDF).</b> (10)(11)												
<b>D.1</b>	Total amount of revolving fund financing provided to enterprises and farmers.			\$1,928,442	\$4,605,662	\$7,588,891	\$11,965,183	\$16,541,809	\$20,369,037	\$24,058,388	\$20,369,037		US\$
<b>D.2</b>	% of revolving fund non-performing.		4%	6%	4%	1.1%	1.8%	1.3%	8.7%	8.7%	8.7%	20%	%
<b>E</b>	<b>Improved availability of food/consumer goods (10)</b>												
<b>E.1</b>	Number of small entrepreneur members of purchasing cooperative (C)	0	N/A	N/A	N/A	N/A	N/A	0	50	84	84		
<b>E.2</b>	Amount of revolving fund financing made available to purchasing cooperative (NC)	0	N/A	N/A	N/A	N/A	N/A	0	\$332,238	\$653,871	\$653,871		
<b>F</b>	<b>Improved management capacities of assisted enterprises.</b>												
<b>F.1</b>	Number of management trainees enrolled in training program.	0	N/A	N/A	N/A	N/A	N/A	353	85	183	621		
<b>F.2</b>	Number of entrepreneurs/employees participating in training activities.	0	N/A	N/A	N/A	N/A	N/A	116	755	595	1466		
<b>F.3</b>	Increased operational volume of assisted enterprises. (C)	0	N/A	N/A	N/A	N/A	N/A	N/A (12)	N/A (12)	N/A (12)			
<b>F.4</b>	Increased pool of trained personnel available to local cooperatives	0	N/A	N/A	N/A	N/A	N/A	237	85	1,421	1,743		

- (1) 95/96 period represents the timeframe from March 1, 1995 to Feb. 29, 1996.
- (3) 97/98 period represents the timeframe from March 1, 1997 to Feb. 28, 1998.
- (5) 99/00 period represents the timeframe from March 1, 1999 to Feb. 29, 2000.
- (7) 01/02 period represents the timeframe from March 1, 2001 to Feb. 28, 2002.
- (9) Produced for sale but burned in September 1999.
- (11) Figures do not include EDF for the health care program.

- (2) 96/97 period represents the timeframe from March 1, 1996 to Feb. 28, 1997.
- (4) 98/99 period represents the timeframe from March 1, 1998 to Feb. 28, 1999.
- (6) 00/01 period represents the timeframe from March 1, 2000 to Feb. 28, 2001.
- (8) 02/03 period represents the timeframe from March 1, 2002 to Feb. 28, 2003.
- (10) Calendar year 2000.
- (12) Enterprises have not yet completed a full financial year.

**TERADP Annual Management Information System (MIS) Report (As of 28 February 2003) — Page 3**

Indicator	Detail	Baseline	95/96(1)	96/97(2)	97/98(3)	98/99(4)	99/00(5)	00/01(6)	01/02(7)	02/03(8)	Actual (to date)	EOPS	Units	
<b>II. MEASURES OF PROGRESS TOWARD EOPS</b>														
<b>A Project Purpose</b>														
<b>A.1</b>	# of business ventures enhanced or initiated.		0	7	28	32	32	32	22	22	23	22 (10)	20	businesses
<b>A.2</b>	# of assisted ventures profitable and self-sustaining.		0	0	24	28	31	31	N/A (9)	9	10	31	10	businesses
<b>A.3</b>	# of employees in assisted businesses.		0	188	859	1,364	1,688	3,720	N/A	N/A	N/A	3,720	200	employees
<b>A.4</b>	# of new or enhanced production, processing and marketing technologies, products or systems.		0	6	4	1	0	0	3	0	0	14	15	systems or technologies
<b>A.5</b>	# of producers obtaining inputs and services through cooperatives, associations, and other enterprises.		0	1,326	8,089	12,481	17,194	17,194	17,310	20,200	20,458	20,458	2,000	persons
<b>B Outputs</b>														
<b>B.1</b>	# of cooperative or other rural businesses with MIS and two products.		0	1	8	11	19	19	0	0	0	19	10	businesses
<b>B.2</b>	# of feasibility studies, product identification and market research completed.		0	8	6	6	2	2	0	0	1	25	20	studies
<b>B.3</b>	# number of new crops/products identified and production implemented.		0	2	3	2	1	0	1	0	1	10	5	crops products
<b>B.4</b>	# of producers and processors trained in production efficiencies and new technologies.		0	1,328	8,089	12,481	17,194	17,194	17,310	20,200	20,458	20,458	2,000	farmers processors

(1) 95/96 period represents the timeframe from March 1, 1995 to February 29, 1996.

(3) 97/98 period represents the timeframe from March 1, 1997 to February 28, 1998.

(5) 99/00 period represents the timeframe from March 1, 1999 to February 29, 2000.

(7) 01/02 period represents the timeframe from March 1, 2001 to February 28, 2002.

(9) Assisted enterprises have not yet completed a full financial year.

(2) 96/97 period represents the timeframe from March 1, 1996 to February 28, 1997.

(4) 98/99 period represents the timeframe from March 1, 1998 to February 28, 1999.

(6) 00/01 period represents the timeframe from March 1, 2000 to February 28, 2001.

(8) 02/03 period represents the timeframe from March 1, 2002 to February 28, 2003.

(10) Reduced number due to dissolution of the Indonesian cooperative system in East Timor and the organization of new Timorese cooperatives.

## **Progress Report on Health Care Indicators**

### **1. Access to Health Care Services**

**Objective** – To ensure reasonable access to the health care services by all members and eligible family members.

**Indicator 1.1** – Establish and meet a schedule for the opening/reopening of the clinics.

Although the development model dated June 2000 established a schedule for the opening of the rural clinics, more recent assessments (July-August 2001 and the 2002 Annual Operating Plan) led to the deferral of some proposed installations and the modification or elimination of others. As of the end of August 2002, eight fixed clinics were fully operational and twenty-four mobile clinic sites were being served on a regular basis.<sup>38</sup> During the sixth reporting period, construction was initiated on a new clinic at Airacalau as part of the program to replace a number of the mobile clinics with fixed facilities. Two additional clinics are scheduled for completion during 2003, one of which will serve an existing mobile clinic area, while the second will provide clinic access to CCT members in an area that is not currently being served.

**Measure 1.1** – Percentage of compliance with schedule.

Due primarily to the problems of civil unrest, impediments to obtaining access to building sites and delays caused by construction contractors, the clinic construction program operated considerable behind schedule during the first four reporting periods. When assessed only by the on-schedule construction of the originally-projected physical facilities, the compliance rate for this indicator was only 30% over that period.<sup>39</sup> In addition, changing circumstances, field operational experience, and assessments of the needs of the various localities resulted in significant changes to the original plan for clinic construction.

A more reliable indicator of reasonable access is the percentage of the eligible population having clinics within reach of their homes (see Figure 6).<sup>40</sup> As of the end of February 2003, 80 percent of the eligible membership had access to clinic services. Final coverage projections are for clinic access to be available to 86 percent of the CCT membership. Future clinic development will primarily focus on replacing the mobile services with the more effective and more regularly accessible fixed clinics and on broadening the scope of health services.

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<sup>38</sup> The eighth fixed clinic, Letefoho, had been delayed (as noted in previous reports), but opened shortly after the close of the fourth reporting period.

<sup>39</sup> Problems resulting in the delay of some clinic openings are detailed in Part I of this report.

<sup>40</sup> The “eligible population” consists of the small-scale farm families participating in the coffee cooperatives.

Figure 6

**Clinic Access for Eligible Population**

<b>Total Eligible Population:</b>	108,869	//////////
<b>Coverage Date</b>	<b>Population Covered</b>	<b>Percent Covered</b>
February 2001	40,167	37%
August 2002	56,002*	51%
Projected Final Extent of Coverage	93,500**	86%

\* Actual clinic visits.

\*\* This total represents the full planned extent of CCT coverage (members within access of a clinic).

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**2. Quality of Health Care Services**

**Objective** – To ensure the overall quality and effectiveness of the program.

**2.1. Provision of adequate staffing levels**

**Indicator 2.1** – To meet the nurse staffing recruitment schedule as defined in the development model.

**Measure 2.1** – Percentage of compliance with the recruitment schedule.

Performance: 100% compliance. All current nursing positions are filled. The development model was revised in December 2001, including a new staffing plan for 2002.

Detail: Positions were revised in December 2002 to reflect patient load and expanded services.

**2.2. Assuring adequate levels of basic nursing skills**

**Indicator 2.2** – 100% of nursing staff will complete a one-week course in basic skills within six weeks of beginning clinical duties.

Note: A four-module Basic nursing skills program developed in 2002 has superseded this indicator.

**Measure 2.2** – Percentage of nurses completing course within the six-week period.

Performance: 100% compliance.

**2.3. Adequate/reliable data collection and reporting systems**

**Indicator 2.3** – Ability to produce monthly reports on clinic utilization, the age and gender distribution of the patients, diseases treated and the patterns/measurement of significant diseases.

**Measure 2.3** – Percentage and completeness of the monthly reports on clinic attendance, age and gender distribution and the tracking of significant diseases.

Performance: The operating clinics are 100% compliant with this indicator.

Detail: The program regularly produces reports that include the required information.

## **2.4. Assuring effective decision making and active staff participation**

**Indicator 2.4** – Holding of minuted monthly management meetings for senior field and central staff.

**Measure 2.4** – Percentage of monthly meetings.

Performance: Compliance for the period was 100%.

## **3. Public Health Activities**

**Objective** – To ensure focus and effective activity in priority public health activities.

### **3.1. Level of CCT-Health's participation in public health programs.**

**Indicator 3.1** – Active participation in three national public health programs (tuberculosis; childhood immunization; malaria).

#### **Measure 3.1**

**3.1.1** – Number of new tuberculosis cases referred to national program.

Performance: As the national program is not fully functional, the referral system is on hold. The national program continues to struggle to be effective.

Detail: Tuberculosis is being diagnosed at lower than expected rates, but consistent over time. There were 442 tuberculosis presentations during the September 2002—February 2003 period (the period of the sixth semi-annual progress report. Previous reports indicated 349 presentations during the fifth period, 436 during the fourth, and 371 in the third.

**3.1.2** – Number of children immunized.

Performance: 1,182 children were immunized during the reporting period (3.8% of all clinic visits for children under age five). This is down from 1,428 children during the previous period. There has continued to be a significant decline over the last two reporting periods.

Detail: The national immunization program continues to be disappointing and CCT-Health will give this area additional attention during 2003. CCT-Health is in the process of obtaining UNICEF-specified cold chain equipment for all clinics and will train all nursing staff in the Integrated Management of Childhood Illness (IMCI) program, the WHO's world standard program for children under five years of age.<sup>41</sup>

Although CCT-Health is already affiliated with the International Childhood Immunization Program, it must currently obtain vaccines through the government health service. Because only a few of the rural public health facilities have functioning cold chain equipment and because the district-level health services have not developed a dependable distribution system, CCT-Health has not been able to maintain its immunization schedule. Having its own UNICEF-approved

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<sup>41</sup> Immunization cold chain is the mechanical process by which heat sensitive vaccines can be sent from the place of manufacture to the place of utilization. Most childhood vaccines are heat sensitive, which means that they will be rendered useless if heated above 4° Centigrade or if they are frozen. In its role in coordinating and implementing the world vaccination program, UNICEF has developed a practical process to ensure the viability of the vaccines to even the most remote immunization sites. To be eligible to obtain the free UNICEF vaccines, all participating organizations must comply with the agency's cold chain requirements.

equipment will enable CCT-Health to receive the free vaccines directly from the government's central pharmacy in Dili rather than through the districts. This will insure a consistent supply of vaccines to the clinics and enable them to operate an effective immunization program.

**3.1.3** – Report on utilization of national malaria treatment protocol.

Performance: CCT-Health actively participated in the development of the protocol and it is being implemented in all clinics. All nurses were trained in accordance with the protocol during the “common disease management” training module.

**Indicator 3.2** – Documented antenatal program occurring at each clinic.

### **Measures**

**3.2.1** – Role in the development and implementation of a national antenatal program.

Performance: There is no national antenatal program.

Detail: Although the Division of Health Services under the United Nations ETDA was supposed to have developed a national antenatal program, it did not do so; and the MOH has not yet begun the process of preparing a program. In the absence of a national program, CCT-Health is utilizing the MOH-sponsored “Safe Motherhood Training” activity. Seventy-five percent of CCT-Health midwives have completed this course and the remainder will complete it during 2003.

**3.2.2** – Number of antenatal visits to clinics.

Performance: 1,225 antenatal visits, up from 1,028 during the previous (fifth) reporting period.

Detail: The antenatal visits represent 6 percent of women of fertile age (16-45 years) visiting the clinics.

**Indicator 3.3** – Each clinic will be implementing the *Action Contra la Faim* (ACF) child monitoring within eight weeks of receiving the initial training.

### **Measures**

**3.3.1** – Number of clinics meeting the indicator.

Performance: Plan no longer in effect.

Detail: MOH has adopted the WHO's IMCI program and is implementing it over the next five years. By the end of April 2003, all CCT-Health clinic staff will have completed IMCI training. CCT-Health had previously developed its own child health monitoring program, which is fully in service.

**3.3.2** – Number of children involved in the program.

Performance: There are now 3,664 children being monitored by CCT-Health, up from 2,717 children during the fifth reporting period.

Detail: These children were measured and monitored for nutritional status. The total visits during the period represent 12% of all children under five years visiting the clinics.

## E. Qualitative Indicators

Qualitative indicators include the professional development and personal capacities of project staff; management and operations improvements in the assisted enterprises; assessments of the

quality of project-provided services to the cooperatives and affiliated enterprises; and, the day-to-day performance of project staff. Information of this type is included in the narrative sections of the project progress reports