



Annual Report

2023

Market Development Facility

Impressum

This report is published by the Market Development Facility (MDF) in May 2024. The writing, editing and design of the report was conducted by MDF staff, together with the following external contributors:

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Market Development Facility

The Market Development Facility (MDF) is a multi-country initiative which promotes sustainable economic development, through higher incomes for women and men, in our partner countries across the Indo-Pacific.

We support partners from business and government to identify and grow commercial opportunities that are profitable, scalable and deliver social and environmental value.

MDF is funded by the Australian Department of Foreign Affairs (DFAT) and co-funded by the New Zealand Ministry of Foreign Affairs and Trade (MFAT) in Samoa, Tonga and Vanuatu. It is implemented by Palladium in partnership with Swisscontact.



ANNUAL REPORT

2023

Purpose of this report



Objective

MDF supports the Australian Government’s objectives of promoting sustainable economic growth, enhancing women’s economic empowerment and reducing poverty.

The Annual Report 2023 is intended to provide insight into the program’s key achievements between 1 January and 31 December 2023. It also describes the progress made towards MDF’s End-of-Program Outcomes and high-level objectives.



Audience

This report is a public document designed for MDF stakeholders and/or members of the public with an interest in Market Systems Development. The report has been written specifically to address the information needs of DFAT’s Climate Resilience and Finance Branch (CLB) and Office of the Pacific (OTP) in Canberra, MFAT in Wellington, DFAT and MFAT staff at Post in MDF’s countries of operation, and MDF staff.



Reporting period

This Annual Report covers the period between 1 January and 31 December 2023.

As such, it covers the activities and deliverables set out in the Annual Strategic and Operational Plan 2023 (1 January 2023 to 31 December 2023).

Former Reporting Structure Up to 2018

Report	Period Covered	Due Date
Annual Aggregation of Results (AAR)	1 December 2016 to 30 November 2017	February 15 th
Annual Report (AR)	1 December 2016 to 30 November 2017	March 1 st
Annual Strategic Plan (ASP)	Financial Year Coming (July 2018 – June 2019)	May 15 th
Financial Report	Financial year 2017-18	August 30 th
Deliverables Report	Previous ASP	August 30 th

Reporting Structure 2019 Bridge Year

Report	Period Covered	Due Date
Annual Report (includes annual aggregation)	Previous calendar year (2018)	March 1 st
Bridge Annual Strategic Plan (ASP)	June to December 2019	May 15 th
Financial Report (includes deliverables report)*	Financial year (2018-19)	August 30 th
Annual Strategic Plan (ASP)	Calendar year 2020	November 30 th

* As an attachment to the financial report, MDF will report on its progress against deliverables in tabular format.

Reporting Structure 2020 Onwards

Report	Period Covered	Due Date
Annual Report (includes annual aggregation)	Previous calendar year (2019)	March 1 st
Financial Report	Financial year (2019-20)	August 30 th
Annual Strategic Plan (ASP)	Calendar year 2021	November 30 th



Report structure

In 2019, MDF introduced the three-tiered 'market system' structure (MSS) to its reports (see *Systemic Change* at MDF for details).

Specifically designed for flexible implementation, the MSS is primarily intended to provide a consistent structure and format to communicate MDF's plans and results.

MDF first applied this structure and format to the Annual Strategic Plan 2020 and has continued to use them. They allow readers to compare the plans made in Annual Strategic and Operational Plans (ASOP) with the progress made in Annual Reports—that is, to compare what MDF planned with what it achieved. A summary of the key changes made to the Annual Report is reproduced from *MDF Reporting Framework Update* for DFAT below.



Key features of the Annual Report

Market system hierarchy

The contents of the Annual Report record progress according to the market system hierarchy. This means that, like the ASOP, each market system includes a market system hierarchy diagram and a narrative which explains progress against it.

Inclusion of the summary table from the ASOP

The report includes a smaller version of the summary table from the ASOP for each market system to help readers remember what MDF planned.

Inclusion of outputs in summary table

MDF has included figures for the value of additional market transactions (VAMT) and private sector investment leveraged to aid comparison between activities and outputs.

Inclusion of traffic lights for progress

Each table includes a traffic light to demonstrate how interventions are progressing. Green is used for on track, orange for some delays but broadly on track and red for delays or issues.

Inclusion of leading indicators

Leading indicators (access and usage) are featured as part of the explanation of the journey towards systemic change. The systemic change envisaged is articulated in the MSS hierarchies above.

Inclusion of Aggregate Development Results (ADRs)

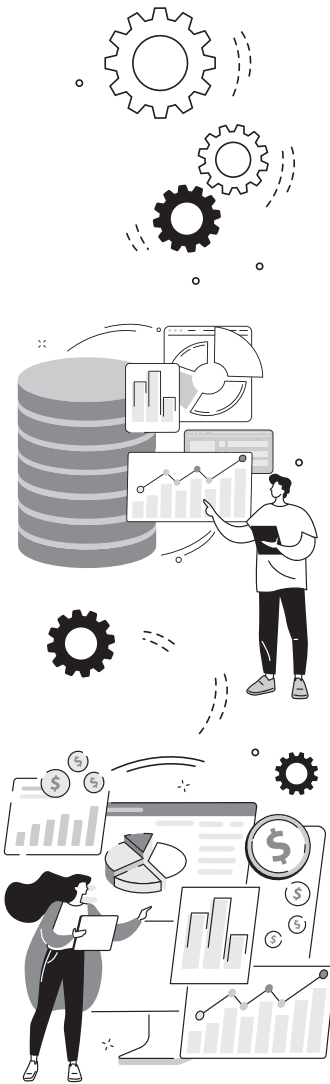
Progress marked against DFAT ADRs is included.

Highlights - graph updates

MDF will update its graphical representation of how interventions are progressing according to the headline and leading indicators. Estimates are no longer represented by a line but by a single dot to help readers understand that they are End-of-Program Outcomes. Effort has been made to clarify the cumulative nature of the results.

How to read this report

What are our numbers, and what do they mean?



Estimates

Estimates are similar to targets.

At the start of each phase, data and experience of country and market contexts are used to assess what can reasonably be achieved during that phase.

This evaluation takes time, budget and other design constraints (such as a particular focus on a population) into account. It is not based on specific interventions or partnerships.

The result of this assessment is an estimate—an ‘educated guess’ of what the whole country program can achieve during one phase.

Estimates are reviewed mid-phase.

Projections

Projections express an intervention's expected yield.

Before entering into any intervention, teams conduct rigorous assessments of deliverables and what can realistically be achieved within one year, under current circumstances.

The results for each intervention in a country's portfolio are then added together to give cumulative projections—an informed estimation of what is expected from a country's interventions.

Projections are used to understand the likely contribution of each intervention to reaching End-of-Program Outcomes (EOPOs, or estimates) and as a management tool to guide resource allocation within the country programs.

Projections are also used to help DFAT understand what the program is likely to achieve from a given group of interventions.

Actuals

Actuals are the measured and verified results of an intervention.

This data helps MDF to evaluate whether or not an intervention is on track, and whether expectations are being met.

As the name suggests, this measures the ‘actual’ impact that has been observed through our ongoing monitoring.

The current year's ‘actual’ results are added to previous years’ results to give us cumulative figures.

Why do we present cumulative results?

It is important to report on cumulative figures for both projections and actuals because market system development interventions do not bring immediate results: an investment made this year generates results in years to come. It also allows the program to:

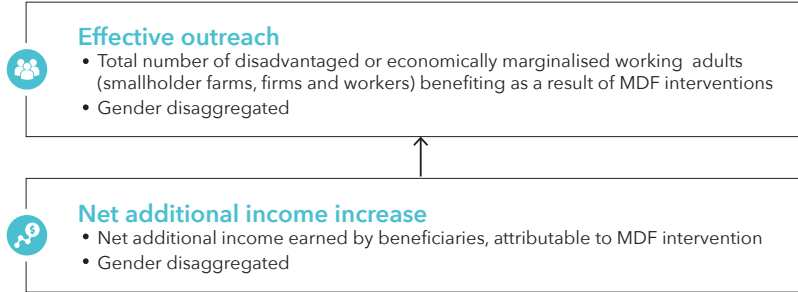
- capture and report a project's impact sustainability (whether a project continues to produce positive results even after MDF activities have been completed)
- know whether our original estimates and projections were accurate
- detect signs of systemic change based on the overall scale of change compared to the size of the sector.

Comparison of Indicators

	Estimates	Projections	Actuals
Meaning	Where we thought we'd be by the end of the phase	Where we thought we would be after an intervention is complete	Where we are
Calculated	At the start of the phase	At the start of an intervention	At the end of the year
Measures	Expectations of country and program achievement over the phase	Expectations of an intervention	Intervention results
Updated	Mid-term review only	Bi-annually	Annually
Timeframe	One phase	One year	One year

Reporting Indicators

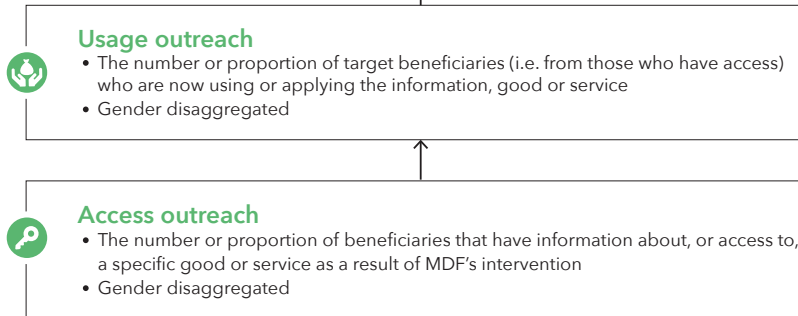
Headline indicators



Purpose:

- Measures scale of impact on poor, disadvantaged, economically marginalised women and men
- Captures value of additional income

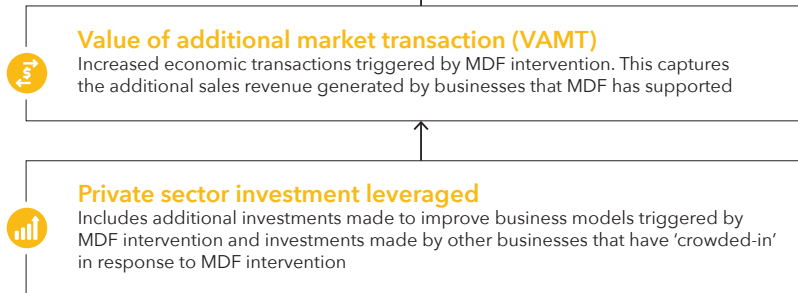
Leading indicators



Purpose:

- Reflective of the feasibility/success of the model explored
- Captures early signs of progress at an intervention, sector and portfolio level

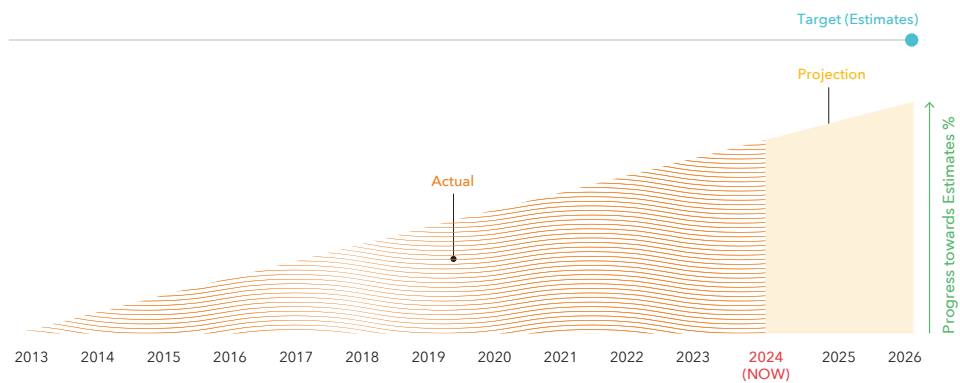
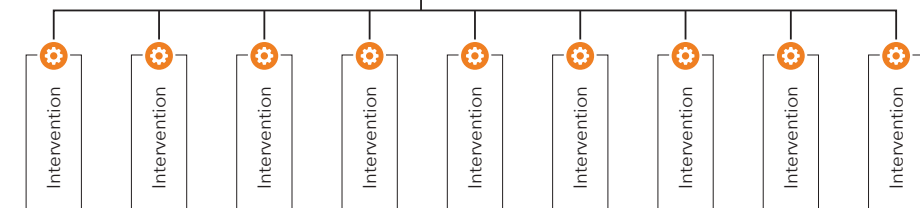
Value for money indicators



Purpose:

- Allows us to check how our activities are resulting in additional end market sales for businesses
- Reflects businesses' buy-in, risk appetite, indication of sustainability

Activities



Abbreviations and Acronyms

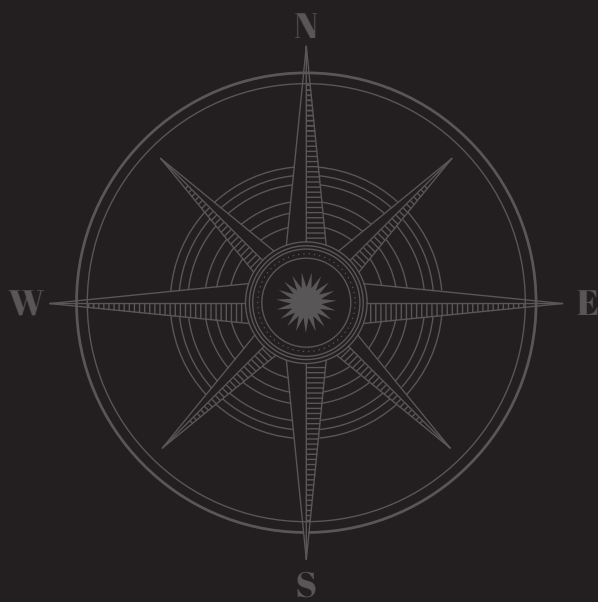
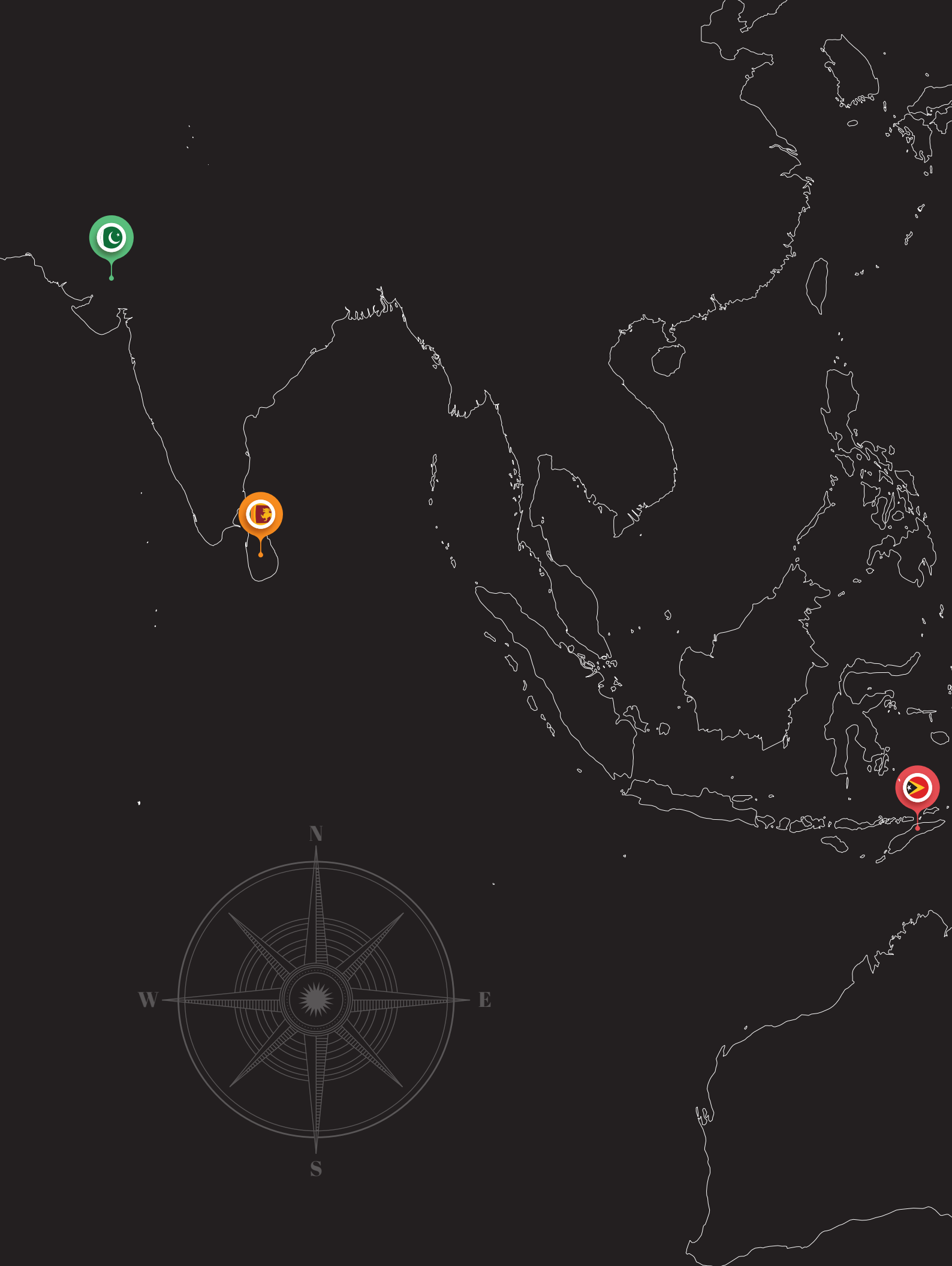
ACIAR	Australian Centre for International Agricultural Research
ADB	Asian Development Bank
ADR	Aggregate Development Results
APCP	Australia Pacific Climate Partnership
ASOP	Annual Strategic and Operational Plan
AUD	Australian Dollars
BA	Business Adviser
BPO	Business Process Outsourcing
CLB	Climate Resilience and Finance Branch of DFAT
CLT	Core Leadership Team
DFAT	Department of Foreign Affairs and Trade (Australia)
DMC	Destination Management Company
EI	Engagement and Influencing
EOPO	End-of-Program Outcomes
EV	Electric Vehicle
FAO	Food and Agriculture Organization of the United Nations
FCEF	Fiji Commerce and Employers Federation
FEE	Fiji Enterprise Engine
FDI	Foreign Direct Investment
FJD	Fijian Dollar
FTE	Full-Time Equivalent
FY	Financial Year
GDP	Gross Domestic Product
GEDSI	Gender Equality, Disability and Social Inclusion
HACCP	Hazard Analysis and Critical Control Points
ICT	Information Communications Technology

IDP	International Development Policy
IFC	International Finance Corporation
ILO	International Labour Organization
IMF	International Monetary Fund
LKR	Sri Lankan Rupee
MDF	The Market Development Facility
MFAT	New Zealand Ministry of Foreign Affairs and Trade
MIS	Management Information System
MOU	Memorandum of Understanding
MSD	Market Systems Development
MSME	Micro, Small and Medium Enterprise
MSS	Market System Strategy
OPD	Organisations for people with disability
OS	Outsourcing Services
OTP	Office of the Pacific
PGK	Papua New Guinean Kina
PHAMA	Plus Pacific Horticultural and Agricultural Market Access Program
RIMI	Research, Impact Measurement and Inclusion
SAT	Samoan Tala
SME	Small and Medium-sized Enterprises
TOP	Tongan Pa'anga
UNCDF	United Nations Capital Development Fund
USD	United States Dollars
VAMT	Value of Additional Market Transactions
VUV	Vanuatu Vatu
WEE	Women's Economic Empowerment
WHO	World Health Organization

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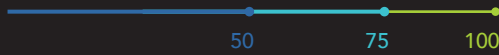






Facility Wide

MDF's Progress in 2023

Graph key: **Actuals** / **Projections** / **Estimates¹** Example: 

Estimates are calculated at the start of each phase. They are not targets, but rather an informed, calculated guess at what the program can achieve during the phase.

Number of people positively impacted by MDF's work (Effective Outreach)



Strategic shifts ensure continued growth amid changing program landscape

In 2023, MDF's positive impact continued to grow, with projections suggesting a similar upward trajectory in the years ahead, despite changes in the composition of MDF's focus countries over the past three years. MDF transitioned from a program covering approximately 257 million people to one covering 24 million people, resulting in a slower pace of projected growth. Notably, a significant proportion of the population has already been reached in Timor-Leste and Fiji.

Specific achievements in 2023 include 1.5 percent growth in both actual impact and projected impact. Growth was fuelled by the creation of more than 500 full-time jobs, primarily for women, in Fiji's outsourcing services sector; interventions in agricultural inputs and seaweed in Timor-Leste; and interventions in agricultural inputs in Sri Lanka, relating to digital scales that led to increased tea sales for more than 1,700 farmers. Coffee certification and value chain financing initiatives in Papua New Guinea continued to thrive and benefited more than 2,000 farmers, despite the closure of the MDF country program and transition to the Australia-Papua New Guinea Economic Partnership (APEP) in 2023.

Pacific Regional and Sri Lanka were pivotal in driving projected outreach growth, reflecting strengthened portfolios and new initiatives. MDF also forged new partnerships and relationships to ensure operational continuity and supply chain stability.

Additional income generated for adults across MDF countries (Net Additional Income)



A steady income trajectory, with continued growth projected

As of December 2023, MDF had generated USD166 million (AUD251 million) in additional income, reaching 67 per cent of End-of-Program Outcomes (estimates) and registering a four per cent increase versus 2022. The current portfolio is expected to contribute USD200 million (AUD303 million), or 81 per cent of estimates, until 2026.

In Timor-Leste, farmer incomes in coffee and pig interventions contributed to additional income, while full-time employment generated through chicken and early-stage export interventions also contributed to additional income growth. In Sri Lanka, MDF interventions had a significantly positive impact on female incomes (more than USD140,000/AUD212,000), especially in agricultural inputs and coffee. Expanding portfolios in agricultural inputs and tourism contributed to a substantial increase in projections for Sri Lanka.

In Fiji's outsourcing services sector, new foreign direct investment contributed 98 per cent of the increase in income, reflecting a promising trend of job and income generation. In PNG, despite low market prices for coffee, MDF interventions enabled farmers to earn a premium for their specialty coffee compared to commodity coffee, resulting in a 17 per cent increase in income year-on-year. Planned tourism interventions in Timor-Leste and Sri Lanka, as well as the growing portfolio in Pacific Regional, are further anticipated to bridge the gap between actuals, projections and estimates.

¹ Figures expressed here are rounded off to one decimal place to aid readability in infographic form. The exact figures can be found in the results tables. The figures are cumulative as of December 2023. For definitions of actuals, projections, and estimates, please refer to page 6.

Additional revenue generated for business partners (Value of Additional Market Transactions)



Resilience amid a turbulent economic landscape

The current portfolio continued to reap benefits for the private sector—as of December 2023, the value of additional market transactions (VAMT) continued to grow and exceed estimates. VAMT grew a strong 10 per cent year on year, with interventions with diverse businesses contributing to growth, particularly export-related interventions. In Fiji, export of outsourcing services resulted in more than 20 per cent of private sector revenue generated. In PNG, businesses switching from commodity to certified coffee enabled them to generate an additional USD0.80 (AUD1.2) per kg of coffee, approximately. In Timor-Leste, several interventions started generating additional private sector revenue, showing increased sector competitiveness. Interventions in chicken and tourism contributed significantly to VAMT.

The strong VAMT results are particularly noteworthy given post-pandemic economic fluctuations and global headwinds. Sustained private sector growth reflects well-planned interventions and continued economic activity despite the challenging conditions.

Amount of investment from the private sector (Private Sector Investment Leveraged)



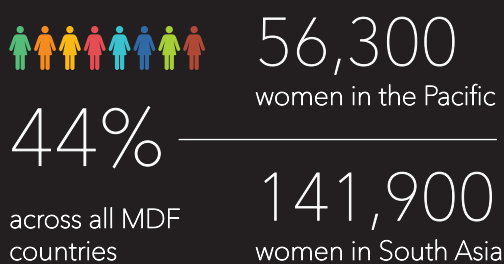
Risk appetite is increasing; businesses are increasingly willing to cost share on innovative business models

Ratio of MDF to private sector investment:1:2.5

As at December 2023, for every dollar invested by MDF, the private sector had invested 2.5 dollars. MDF has generated more than USD27 million (AUD41 million) cumulatively in private sector investment, with USD1.8 million (AUD2.7 million) catalysed in 2023 alone. A significant 29 per cent of private sector investment came from 'crowded-in' partners, i.e. private sector companies replicating models initially supported by MDF.

In Sri Lanka, despite a lack of easy access to finance and high interest rates, businesses continued to invest and adopt MDF-supported business models. Notable private investments included establishing imports; developing and distributing high-quality inputs, such as seeds and fertiliser; and coffee sourcing and processing, including establishing dry and wet mills. With an expanding portfolio in Pacific Regional, MDF will maintain investment momentum and anticipates achieving leverage estimates by the end of the phase.

Proportion of women benefitting from MDF interventions



MDF's commitment to inclusion remains steadfast, with women accounting for 44 per cent of adults benefitting from program initiatives. As of December 2023, women generated 40 per cent of additional income. MDF continued to engage in businesses partnerships that aim to address women's access and agency. In Sri Lanka, MDF supported new employment opportunities for women in agriculture. In Fiji, growth in outsourcing services resulted in, for the first time, more women benefitting than men (66 per cent of beneficiaries in 2023 were female).

Outreach from employment



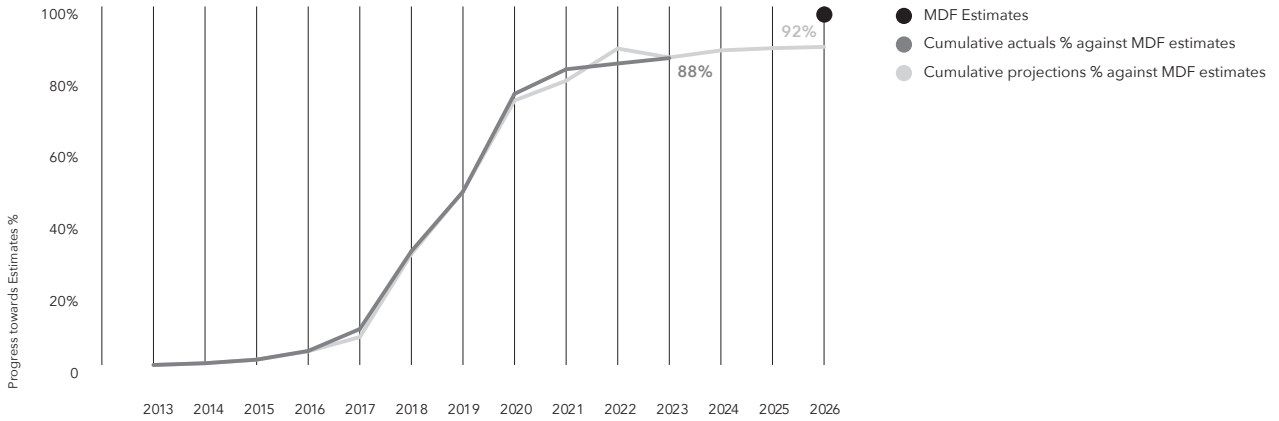
In 2023, MDF's work in outsourcing services, early-stage exports, chicken and agriculture resulted in the creation of 697 new jobs, 64 per cent of which were filled by women. MDF observed new trends in job creation that are being used to inform portfolio composition and inclusive growth strategies.



Highlights

Facility estimates have been adjusted (increased) to reflect MDF's new five-year extension.

EFFECTIVE OUTREACH



Effective outreach continued its upward trajectory in 2023, growing by 1.8 per cent since 2022. However, growth may appear lower than expected due to the factors listed below.

- The Pakistan country program closed in 2022, so outreach figures remained unchanged in 2023.
- MDF PNG's transition to APEP affected PNG's outreach growth trajectory, as there were no new interventions in 2023. With the team winding down, MDF was also unable to validate projections through field visits, resulting in actuals and projections reflecting a lower increase than usual.

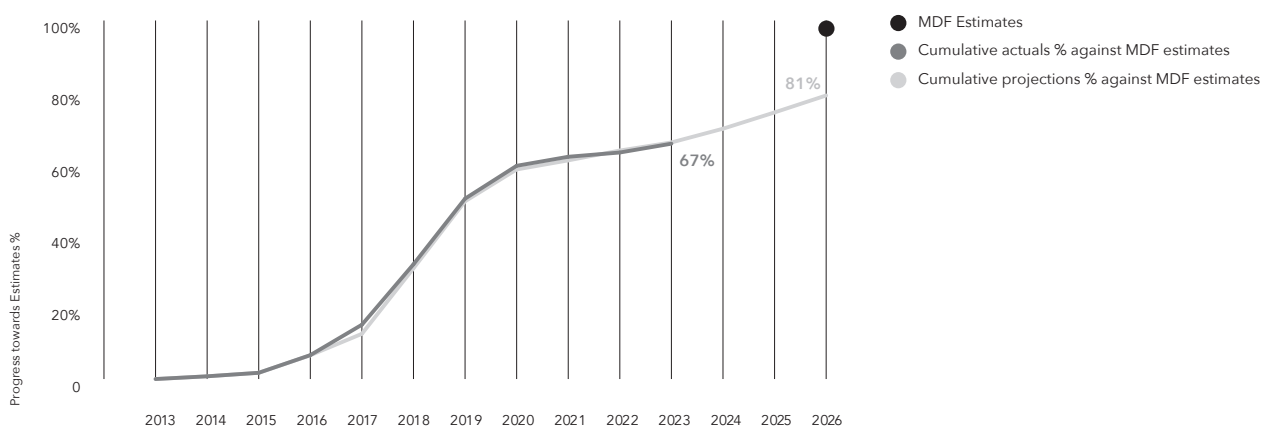
MDF's data aggregation protocols are guided by rigorous standards that prevent reporting the same beneficiary twice. This year, market saturation in thin market economies, such as Fiji and Timor-Leste, required that MDF discount a significant portion of 2023 impact. In Timor-Leste, more than 50 per cent of effective outreach needed to be discounted from new interventions due to overlap with previous interventions relating to African Swine Fever. In Fiji, similar adjustments were made in agricultural input interventions. By discounting these overlaps, MDF aims to provide a more comprehensive understanding of program performance.

These adjustments reflect MDF's commitment to reporting accuracy, and the reality that MDF will often be deepening impact in small-market economies, rather than broadening it.



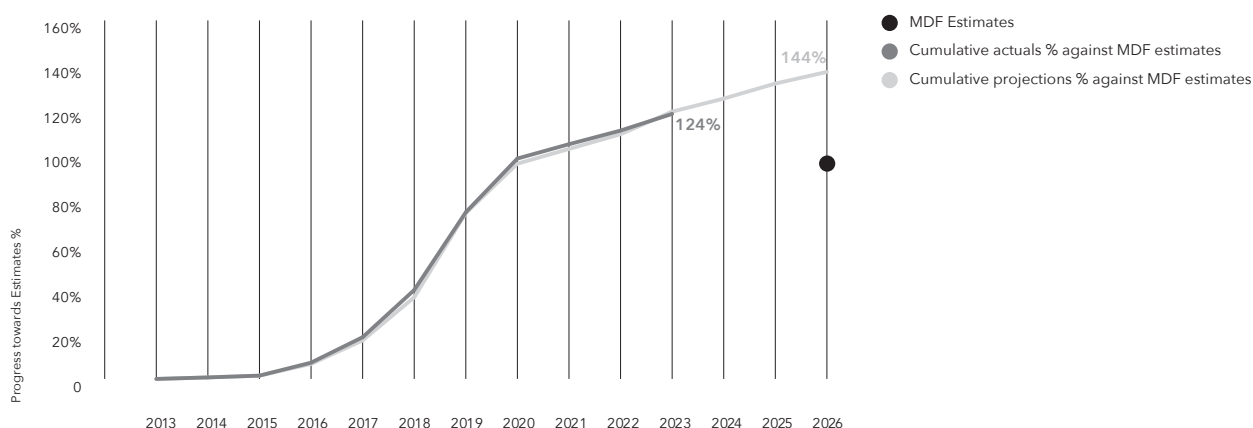
☑ Coffee rehabilitation visit by DFAT, Timor-Leste

NET ADDITIONAL INCOME



- Net additional income continued to increase in 2023. The current portfolio reached 67 per cent of estimates and is projected to reach 81 per cent by 2026. Farmer premiums in PNG and the revival of Sri Lanka’s portfolio post-crisis supported growth.
- Economic headwinds continued to affect MDF's income reporting. In Sri Lanka, despite a significant five per cent year-on-year increase, the income trajectory was affected by the LKR's persistent depreciation against the USD.
- Projections are supported by Pacific Regional portfolio growth, which is expected to materialise in 2024. The gap between projections and estimates should narrow following LKR stabilisation and further portfolio growth in Pacific Regional.

VALUE OF ADDITIONAL MARKET TRANSACTIONS



- The value of additional market transactions (VAMT, or private sector revenue) continued to grow and surpass estimates. VAMT grew significantly, by over 10 per cent year-on-year, fueled by export-related interventions in PNG, Sri Lanka and Timor-Leste. Similar results are expected from Pacific Regional in the next few years.
- MDF's current portfolio is expected to achieve 147 per cent of estimates.

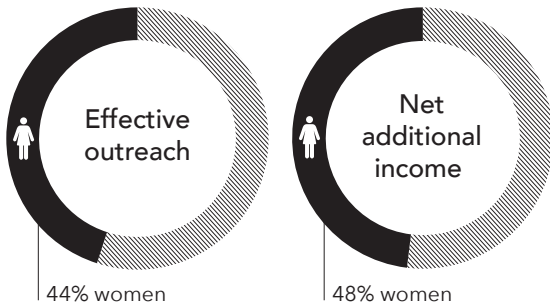
Summary of MDF results as of December 2023

Facility-wide²

Effective outreach	Net additional income	Private sector investment leveraged	VAMT
450,185	USD \$166m	USD \$28m	USD \$221m



Pacific



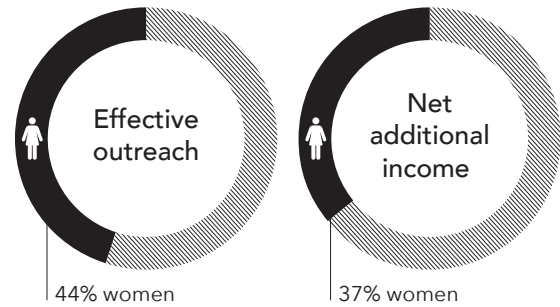
Effective outreach: 126,335
 Net additional income: USD \$50m

Private sector investment leveraged: USD \$21m

VAMT: USD \$61m



South Asia



Effective outreach: 323,830
 Net additional income: USD \$116m

Private sector investment leveraged: USD \$7m

VAMT: USD \$160m

MDF continued to see higher outreach in its South Asian portfolio due to its historical interventions in Pakistan and greater population density in Sri Lanka compared to the Pacific countries. MDF has already reached significant population numbers in Timor-Leste and Fiji and is therefore recording high levels of overlap in intervention beneficiaries—in some instance, over 50 per cent overlap. This overlap has been considered and accordingly discounted when measuring 2023 impact, as detailed in the Highlights on page 17. The share of women benefitting from MDF interventions remained steady across the facility, due to new interventions in agricultural inputs and job creation.

Average additional income per beneficiary remained steady in South Asia, at USD360 (AUD553). In the Pacific, it increased to USD400 (AUD615) from USD347 (AUD533) in 2022, on the back of new job generation in Fiji and Timor-Leste. The share of private sector investment is higher in the Pacific, where MDF works with a greater number of private sector partners. Detailed private sector investment ratios can be found in the country chapters and the 'MDF Results 2023' tables.

² All numbers presented are cumulative. The starting point for accumulation for each country is 2013 for Fiji, 2014 for Timor-Leste, 2015 for Pakistan, 2016 for Sri Lanka and Papua New Guinea, and 2022 for Pacific Regional. Facility-level numbers are an aggregation of all countries' cumulative results.

MDF Results 2023



Indicator	Cumulative actuals (as of December 2023)			Cumulative projections (as of December 2023)			Estimates
	Female	Male	Total	Female	Male	Total	
MDF investment (USD)			3,591,946			NA	NA
Private sector investment leveraged (USD)			14,516,959			NA	16,700,000
MDF to private sector investment leverage ratio			4.04			NA	NA
Value of additional market transactions (USD)			46,451,714			57,524,397	61,000,000
	Female	Male	Total	Female	Male	Total	
Access outreach	11,708	11,124	22,832	12,707	12,097	24,804	NA
Usage outreach	11,423	10,872	22,295	12,298	11,721	24,019	NA
Effective outreach	11,237	10,705	21,942	12,003	11,444	23,447	45,000
Outreach from employment	1,039	679	1,718	1,190	808	1,998	NA
Net additional income (USD)	18,259,384	18,929,795	37,189,179	23,341,790	23,630,938	46,972,728	61,000,000



© Jone Dansey, a Fijian farmer

³ All numbers are cumulative, starting 2013.

 Pakistan⁴

Indicator	Cumulative actuals (as of December 2023)			Cumulative projections (as of December 2023)			Estimates
	Female	Male	Total	Female	Male	Total	
MDF investment (USD)			1,871,718			NA	NA
Private sector investment leveraged (USD)			5,134,738			NA	5,161,905
MDF to private sector investment leverage ratio			2.74			NA	NA
Value of additional market transactions (USD)			142,612,070			NA	64,002,500
	Female	Male	Total	Female	Male	Total	
Access outreach	174,967	194,358	369,325	NA	NA	NA	NA
Usage outreach	145,469	164,860	310,329	NA	NA	NA	NA
Effective outreach	136,786	156,177	292,963	NA	NA	NA	298,827
Outreach from employment	548	3,780	4,329	NA	NA	NA	NA
Net additional income (USD)	40,286,362	58,300,750	98,587,112	NA	NA	NA	133,092,212

 Papua New Guinea⁵


Indicator	Cumulative actuals (as of December 2023)			Cumulative projections (as of December 2023)			Estimates
	Female	Male	Total	Female	Male	Total	
MDF investment (USD)			2,071,095			NA	NA
Private sector investment leveraged (USD)			1,842,934			NA	1,200,000
MDF to private sector investment leverage ratio			0.89			NA	NA
Value of additional market transactions (USD)			6,084,961			6,731,931	4,050,000
	Female	Male	Total	Female	Male	Total	
Access outreach	9,592	32,703	42,295	9,592	32,703	42,295	NA
Usage outreach	3,204	21,780	24,984	3,204	21,780	24,984	NA
Effective outreach	3,123	17,292	20,415	3,123	17,292	20,415	9,000
Outreach from employment	34	89	123	34	89	123	NA
Net additional income (USD)	343,525	1,379,963	1,723,488	372,548	1,536,034	1,908,582	4,050,000

⁴ These are the same numbers previously reported and MDF is showing them to show the contribution to the overall Facility numbers. All numbers are cumulative, starting 2015.

⁵ All numbers are cumulative, starting 2016.

Indicator	Cumulative actuals (as of December 2023)			Cumulative projections (as of December 2023)			Estimates
	Female	Male	Total	Female	Male	Total	
MDF investment (USD)			1,559,673			NA	NA
Private sector investment leveraged (USD)			1,927,813			NA	4,180,000
MDF to private sector investment leverage ratio			1.24			NA	NA
Value of additional market transactions (USD)			18,439,853			34,982,156	28,980,000
	Female	Male	Total	Female	Male	Total	
Access outreach	9,615	40,800	50,415	16,275	63,783	80,058	NA
Usage outreach	6,086	28,009	34,095	14,232	44,826	59,058	NA
Effective outreach	5,116	25,752	30,868	9,748	32,280	42,028	55,600
Outreach from employment	337	137	474	368	230	598	NA
Net additional income (USD)	2,412,418	15,037,627	17,450,045	6,794,254	31,934,083	38,728,337	31,807,000



 The MDF Sri Lanka and Helanta Coffee teams assess coffee sapling quality

⁶ All numbers are cumulative, starting 2016.

 Timor-Leste⁷

Indicator	Cumulative actuals (as of December 2023)			Cumulative projections (as of December 2023)			Estimates
	Female	Male	Total	Female	Male	Total	
MDF investment (USD)			1,866,981			NA	NA
Private sector investment leveraged (USD)			4,465,442			NA	6,600,000
MDF to private sector investment leverage ratio			2.39			NA	NA
Value of additional market transactions (USD)			8,140,335			9,780,038	10,400,000
	Female	Male	Total	Female	Male	Total	
Access outreach	135,639	135,704	271,343	136,859	136,934	273,793	NA
Usage outreach	74,982	74,997	149,979	76,078	76,102	152,180	NA
Effective outreach	41,968	42,031	83,999	42,985	43,050	86,035	90,000
Outreach from employment	315	490	805	315	493	808	NA
Net additional income (USD)	5,550,505	5,718,414	11,268,919	5,833,173	6,044,129	11,877,302	12,800,000

 Pacific Regional⁸

Indicator	Cumulative actuals (as of December 2023)			Cumulative projections (as of December 2023)			Estimates
	Female	Male	Total	Female	Male	Total	
MDF investment (USD)			413,827			NA	NA
Private sector investment leveraged (USD)			188,929			NA	2,355,300
MDF to private sector investment leverage ratio			0.46			NA	NA
Value of additional market transactions (USD)			72,122			5,286,834	9,796,650
	Female	Male	Total	Female	Male	Total	
Access outreach	116	130	246	3,577	3,704	7,281	NA
Usage outreach	0	0	0	1,184	1,298	2,482	NA
Effective outreach	0	0	0	819	933	1,752	11,300
Outreach from employment	0	0	0	3	36	39	NA
Net additional income (USD)	0	0	0	561,112	1,571,759	2,132,870	4,164,700

⁷ All numbers are cumulative, starting 2014.

⁸ All numbers are cumulative, starting 2022 for Samoa, and 2023 for Vanuatu and Tonga.

MDF highlights 2023

2023 was a year of evolution and progress for MDF

MDF exited PNG, expanded its operations in Samoa, Vanuatu and Tonga and grew its portfolio of regional interventions in the Pacific. In Sri Lanka and Timor Leste, partnerships with industry leaders in coffee, agriculture and tourism gained significant momentum. In Fiji, MDF deepened its impact in tourism, high-value agriculture and outsourcing services and began working in renewable energy and electric vehicle markets.

The composition of MDF's portfolio continued to evolve, with increased climate-related investment, a growing concentration of business investment in MDF's target markets, larger firms becoming interested in working with MDF and more cross-border business partnerships. During the year, 57 new activities were started and a total of 94 activities were delivered. Several major research activities were undertaken to inform interventions planned for 2024 in areas, including renewable energy in Timor-Leste and Fiji, and yachting tourism in the Pacific.

Investment in climate change adaptation and mitigation increased

MDF expanded its portfolio of interventions targeting climate change, with 35 new activities. The program reported on its climate finance spending for the first time, with 28 per cent of the 2022-23 budget recorded as climate finance.

MDF continued to help farmers and agribusinesses adapt to climate change. MDF supported tourism operators to develop sustainable low-carbon products and supported pioneering firms in renewable energy and electric vehicles.

Inclusion remained central to MDF's work

MDF continued to co-invest in business models that create economic opportunity for women and address the constraints women experience in the workplace. Overall, 81 per cent of all MDF interventions, past and current, were relevant for women's economic empowerment. In 2023, migration and labour shortages affected many of MDF's target markets, creating new opportunities and challenges for women. MDF worked to help women access opportunities in markets which have previously been seen

as male dominated. New interventions helped introduce technology for women in agriculture and reduce barriers for women entering employment in service sectors like tourism and outsourcing. MDF support to Fiji's outsourcing sector resulted in 373 new and well paid jobs for women in 2023. MDF refocused on how people with disability could be better included in target markets and started to develop a new disability inclusion strategy.

MDF exited PNG

In June, MDF ceased operations in Papua New Guinea, ending six years of support to government and businesses in coffee, cocoa, vanilla and livestock. Part of MDF's portfolio was transferred to DFAT's new Australia-PNG Economic Development Partnership (APEP). In 2023, MDF's

interventions continued to deliver strong results in terms of outreach, additional incomes and private sector revenue. By the time MDF exited, its work in coffee and vanilla had created new economic opportunities for 9,500 women.

MDF's Pacific regional component developed rapidly

Increased staffing and operating capacity enabled an expanding portfolio of interventions across Samoa, Vanuatu, Tonga and the wider region. The team initiated 16 new interventions, more than double the number started in

2022. Business and government partners have shown a strong interest in the support MDF provides and an appetite to co-invest in markets including tourism, food and agriculture, finance and freight.

MDF's portfolio continued to evolve

MDF worked in 34 discrete market systems in its seven target countries.* Over the year, 57 new partnerships were formed, delivering 94 activities. A number of major research activities were also undertaken to inform interventions planned for 2024 in areas including renewable energy in

Timor-Leste and Fiji and yachting tourism in the Pacific.

*At the end of 2023, MDF worked in 34 market systems. Four market systems in PNG were supported until the country program closed in June 2023.



Sometimes it's not so much the organizations but the people.
I thought Ajla [MDF] understood the vision and what we
were trying to do. In Fiji, we are the first co-working space.
Other people could not understand the vision.

Greenhouse Coworking, Fiji

Relevance

MDF continued to support Australia and New Zealand's engagement with partner countries by ensuring alignment with national economic priorities, delivering tangible value for local and regional business partners and supporting public diplomacy.



MDF invested in sectors that are economic priorities for partner governments

MDF's interventions support domestic and regional businesses to diversify the economy, grow exports, attract new foreign direct investment and contribute to national climate change commitments. In Sri Lanka, MDF's work in the tourism sector and high value agriculture helped generate valuable foreign exchange earnings. The Government of Sri Lanka identified coffee—one of MDF's focal markets—as one of the country's priority export crops. Coffee and tourism are national priorities for Timor-Leste's economic diversification. The Government of Fiji prioritises tourism and the development of its outsourcing services industry. MDF's investments in agriculture and tourism address priority sectors for government partners in Samoa, Vanuatu and Tonga.



MDF's locally-led approach delivered results for local business partners

MDF's approach is to partner with domestic businesses to co-design and co-invest in innovations tailored to local contexts. Business partners lead implementation and share the financial risks and the rewards of success. The commercial value created through these partnerships confirms that this approach works. In 2023, the value of additional market transactions (private sector revenue) generated by MDF partners grew by 10 per cent, driven largely by growth in export-related markets in Fiji, PNG, Sri Lanka and Timor-Leste. A further sign that local businesses value the partnerships and business models that MDF supports is that the ratio of private sector investment leveraged by each MDF dollar increased in 2023.



MDF supported Australia and New Zealand's public diplomacy

MDF supported visits for 29 VIPs, which included Australia's Ambassador for Gender Equality (to Timor-Leste), Australia's Assistant Minister for Foreign Affairs (to Sri Lanka), MFAT's Director of Development Economy and Prosperity Division (to Fiji), as well as several field visits by DFAT Heads of Mission and senior embassy staff. MDF produced 28 media releases and a regular output of high-quality social media content to highlight Australia and New Zealand's contribution in each country. In 2023 MDF communication activities prioritised climate change with MDF's most successful media campaign reaching more than 220,000 people around COP28.

Market context

Economic conditions remained testing in 2023

Inflationary pressure eased through the year but remained above central bank targets, keeping interest rates above pre-pandemic levels. Cost-of-living and food price inflation became politically sensitive issues. Growth rates were uneven but generally anaemic with a few exceptions, such as the US and India.

Sri Lanka’s economy stabilised, with inflation at four per cent, down from a peak of nearly 70 per cent in 2022.⁹ Timor-Leste grew at around three per cent,¹⁰ with inflation at 5.8 per cent. The economies of MDF’s four Pacific countries benefitted from a recovery in tourism demand and sustained

remittance flows: Fiji recorded 8.2 per cent GDP growth, with inflation at 5.1 per cent; and the IMF forecasts 8, 2.6 and 1.5 per cent growth for Samoa, Tonga and Vanuatu, respectively.

Credit and liquidity remained tight

Debt distress was high in many low-income developing and emerging economies. Governments faced unpalatable trade-offs in controlling inflation, managing high levels of indebtedness and ensuring financial stability. In Sri Lanka, IMF-supported debt restructuring required painful reforms, including an increase in taxation and import restrictions.

Shortages of qualified labour

Shortages of qualified labour affected many countries and sectors. Levels of migration were higher than before COVID-19. Labour shortages due to migration and skills gaps became a growing problem across the region and were frequently cited as a problem by MDF’s partner businesses.

Geoeconomic fragmentation became more tangible

Geoeconomic fragmentation became more tangible, in response to supply chain disruptions and geopolitical tensions. Countries are re-aligning their strategic interests in a more self-interested way and firms are building more resilience into their supply chains. This is altering patterns of investment and trade. Flows of foreign direct investment are shifting, most notably, away from China. ‘Nearshoring’ to reduce supply chain risk is bringing some benefits to the region in commodities such as vanilla in PNG and in outsourcing services in Fiji.

The effects of conflict and climate change were felt in 2023

Russia’s invasion of Ukraine showed no signs of being resolved, and in October conflict broke out in the Middle East, perpetuating high energy and commodity prices. The conflict in the Middle East disrupted shipping through the Suez Canal and Red Sea, and the Panama Canal route was hampered by unseasonably low rainfall.

2023 saw progress in climate change investment by businesses. Globally, there was record uptake of renewable energy generation and electric vehicles, as manufacturing capacity increased and costs decreased. Progress has been uneven, however. Many businesses are prioritising unmet demand in large markets and not investing in smaller economies in the Indo-Pacific.

Regulatory and media scrutiny is disrupting markets, particularly environmental claims made by the private sector. There is growing pressure

to increase transparency about supply chain emissions. New regulations have been announced, such as the European Union’s Deforestation Regulation, designed to reduce emissions beyond European borders. Demand for low-carbon goods and services is creating new opportunities for businesses. Conversely, more stringent compliance requirements can be a challenge for firms, particularly in small markets where climate services such as emissions verification are not readily available or affordable.

Businesses also need to protect their assets and operations from increasingly common climate change-induced events, such as severe cyclones, floods and droughts, particularly during an El Niño cycle. To build more resilient business models, firms require information that enables them to prioritise investments in adaptation and mitigation.



⁹ World Bank

¹⁰ Asian Development Bank



Climate change is creating opportunities for innovation beyond MDF's initial expectations

Climate change is creating opportunities for innovation beyond MDF's initial expectations as climate-related impacts and the business case for adaptation and mitigation become more obvious. Agricultural and tourism businesses are investing to adapt to more extreme weather conditions. This includes investment in drought-resistant seeds, drying and storage technology, and protection against cyclones. Rising costs and unreliable supply of fossil fuel-based energy is making rooftop solar power and electric vehicles more commercially appealing.¹¹ Changing consumer preferences, buyer standards and government regulations are pushing firms to consider their environmental footprint and reputations. For example, MDF PNG partner Sucafina introducing carbon calculators in coffee, in Fiji Goodman Fielder is investing to recycle waste in poultry and Fiji Airways is developing a carbon offsetting scheme, and in Sri Lanka Authenticities is launching low-carbon tours. MDF is encouraged by firm-level responses but is concerned that the sector- and institutional-level investment to drive large-scale transformation is lagging.



Bringing new actors into weaker markets

In the small economies of the region there can often be an absence of large domestic firms capable of driving innovation and investment. In its expansion strategy for the Pacific, MDF recognised this problem and has sought to work with regional actors: airlines such as Fiji Airlines and input suppliers such as East-West Seed. In 2023, this became a feature of our work in other countries and markets. For example, MDF worked to support Indonesian agribusinesses to establish input distribution partnerships in Timor-Leste. It is also an important dimension of our revised tourism strategy, working with international travel and tour operators such as Intrepid Travel to develop and promote higher-value, niche segments, such as wellness and expedition cruises.



A stronger focus on sustainable and responsible tourism

After the lean years of COVID-19 and, in Sri Lanka's case, other shocks, the tourism sector rebounded in 2023. As businesses raced to make up for lost time and revenue, competition became more intense. This has prompted some tourism firms, industry bodies and governments to recognise the need to diversify and develop more distinctive offers. MDF is seeing a growing appetite to innovate and invest in developing higher value, niche products and destinations, often with more sustainable and responsible credentials. In Fiji, MDF looked to tap into demand for more experiential tourism, working to expand community-based tourism with the iTaukei Trust Fund and the Ministry of iTaukei Affairs, as well as collaborating to develop tourism offerings in remote regions. With consumers now more willing to pay for responsible, sustainable tourism, MDF and Authenticities partnered to launch Sri Lanka's first low-carbon tours. In the Pacific, MDF and the South Pacific Sailing Network worked on selected marketing and information initiatives, including developing yachting guides and maps for Tonga and Vanuatu.



MDF consistently maintained transparency in their investment model, ensuring clarity without any room for compromise. Their expectation for co-investment was always apparent, leaving no need for negotiation on our part. Our experience with MDF's operational approach has been excellent, thanks to their openness, clear communication and thorough sector analysis.

DIMO, Sri Lanka

¹¹ 'Staggering' rise of rooftop solar to put all other power generation in the shade, report finds, ABC News, 21 Feb 2024



An expanding role for women and people with disability in tight labour markets

Labour shortages are affecting productivity and quality in many sectors in the region, due to migration and demographic shifts such as aging farming populations. This is having positive and negative effects on women and people with disability in the workforce. In agriculture, it is increasing the burden on women in rural households and climate change is compounding this burden.¹² Innovations will be needed to reduce this labour burden, for example use of concentrated feed to reduce time spent foraging or application of technology to reduce labour or make farming less physically demanding. Conversely, labour shortages are creating new job opportunities for women and people with disability in the formal sector. In both Fiji and Sri Lanka, a rebound in tourism has exposed migration-induced labour shortages and opened up renewed opportunities. In 2023, MDF explored a variety of ways to reduce these burdens and exploit new labour market opportunities. In Sri Lanka, MDF is working with the tourism industry to find ways to attract more women into the sector. In Fiji, MDF is supporting outsourcing services firms to attract and retain more women and people with disability.



The continuing importance of agricultural inputs

Seeds, fertiliser, soil and crop treatments, animal feed and medicines, equipment or extension services are rarely regarded as the types of innovation that drive economic transformation. However, they are critical to increasing agricultural productivity and quality, improving food security, adapting to climate change and coping with the implications of a shrinking and aging rural labour force. For these reasons, agricultural inputs continue to be a prominent part of MDF's portfolio in all countries. Agricultural input suppliers and major agricultural processors and buyers are seeing the commercial value of improving farmers' access to agri-inputs—seedlings, day-old chicks, piglets, semen, concentrated feed, organic fertiliser, equipment for cultivation, harvesting and processing—and the information and finance to put such inputs to effective use. For example, in 2023 MDF saw increasing interest from large agricultural input businesses in Sri Lanka such as CIC, Modern Agri and DIMO to pilot selling new inputs to farmers or expanding the reach of existing products to new areas.



Larger-scale investment is not materialising

There appeared to be growing rhetoric and ebullience about institutional investment in less developed and emerging economies to support their 'green transition', prompted by the end of the pandemic and international consensus about the threat of climate change. To date, however, significant new public and concessionary investment is not being seen in the market systems in which MDF operates.¹³ In 2023, MDF engaged with a variety of investment sources but has yet to identify appetite to invest in program countries and sectors. MDF will keep exploring opportunities to address financing gaps in priority market systems, while continuing to work with partners to demonstrate the viability of new business models that have potential for significant future funding, such as rooftop solar installation and electric vehicle leasing.



¹² Enhancing the resilience of agricultural market systems to climate change in the Pacific Islands and Timor-Leste: a joint brief by PHAMA Plus and MDF

¹³ Flagship climate finance scheme struggles to raise capital, Financial Times, 15 February 2024

Systemic change: Progress in the face of economic headwinds

In 2023, MDF observed evidence of systemic changes across the portfolio. Business partners remained committed to innovation and investment beyond MDF agreements, and new market entrants replicated MDF-supported business models and introduced other innovative ways of doing business. New public-private partnerships emerged, enhancing the impact of MDF interventions.



In Papua New Guinea's coffee sector, firms previously supported by MDF continued to bolster value chain liquidity through revolving funds after the closure of the MDF country program. The funds were set up by exporters, with MDF support to address the issue of coffee buyers not having enough cash during harvest season to buy crops from farmers. Banks were reluctant to lend due to uncertainty

about repayment. Farmers would then resort to selling premium coffee at a lower price to whoever had the cash to pay them—disrupting the regular supply of high-quality coffee for export.

Exporters adapted the revolving funds to meet working capital needs, added in their own money and expanded them to other supply chains. In December 2023, Kosem

Ltd secured a loan supported by the Australian Government under the 'Revolving Fund Facility' managed by Women's Microbank Limited. The fund, a collaboration between the bank and the Australian Government, is channelling PGK3.5 million (AUD1.39 million) to increase coffee, cocoa and vanilla exports from PNG.



In Timor-Leste, before MDF and partner investment, agri-input supply was concentrated in Dili. A few mobile vendors or district-level retailers would occasionally stock inputs, but they were not readily available. MDF supported Timorese input importers to connect

with international manufacturers. As a result, the manufacturer registered interest in establishing a direct distribution partnership with importers. Further, MDF support resulted in the first collaboration between input importers and district retailers. These

retailers are now increasing their stocks of agri-inputs, as well as providing farmers with information on the correct use of inputs and buying back produce from them.



In Fiji, the outsourcing services industry has transformed, attracting new business and investment. It is now worth around AUD140 million and employs more than 5,000 people. Official records do not yet exist, but MDF conservatively estimates that in 2022 the OS sector contributed 1-2% to Fiji's GDP and accounted for 5.4% of its foreign exchange earnings. OS

sector revenues and employment are projected to rise in the 2023-2025 period.¹⁴ MDF research found that the sector had become increasingly formalised and developed a supporting ecosystem, including an industry body that is now engaging on issues such as infrastructure, marketing and workforce development. Fiji's global image as an outsourcing hub is growing and

government commitment is evident: the government is providing a 20-year tax holiday for new outsourcing companies, duty-free imports on equipment and a 25 per cent investment allowance for infrastructure renovations. MDF completed its systemic change assessment of the sector in 2023. The case study will be published in 2024.

¹⁴ The calculation of GDP contribution is based on a conservative industry estimate of 5,000 employees in 2022 and uses a simple income (profits + wages) calculation method. It does not include any multiplier effects (which can be as high as 4:1 in mature OS sectors). Foreign exchange earnings are based on industry sources.



In Sri Lanka, the local specialty coffee industry continued to grow, fuelled by tourist and domestic demand. MDF and partner investments have resulted in an increase in production and the adoption of improved sourcing and processing techniques. The market is expanding, with new businesses entering the specialty coffee sector, including tea plantations looking to

diversify. The surge in production has increased demand for planting materials and opportunities for commercial nurseries. Government interest in the sector is strengthening: in 2023, specialty coffee was added to a priority list of export commodities and the government has committed to promoting awareness about the sector and increasing sapling production.



Sri Lanka's coffee cherry



MDF's portfolio in Samoa, Vanuatu and Tonga is still too new to expect evidence of systemic change. However, the positive engagement from domestic and regional businesses and the alignment of MDF's interventions with government priorities bodes well

for the future. In Samoa, for example, MDF's research on the economic impact of feral pigs and potential control and prevention measures has prompted coordinated action at the national and village council level.



Feral pig in Samoa

Climate change

DFAT's *International Development Policy* outlines an ambitious climate change agenda for Australia's aid investments. In 2023, MDF contributed to this policy priority, focusing on understanding the climate risks and opportunities in the economic sectors in which it works. Based on this analysis, MDF works with businesses and other stakeholders to address constraints to investment in climate change adaptation and mitigation.

Integration of climate change across MDF's program cycle



Analysis and strategy development

Incorporating an assessment of likely climate-related risks, effects and opportunities into sector scoping and program strategies.



Intervention design

Factoring climate-related risks and opportunities into interventions and support to partners, based on a feasible business case.



Measurement, learning and communications

Capturing the qualitative and quantitative dimensions of MDF's climate-related interventions and communicating insights to stakeholders.

Building resilience of agricultural market systems

In 2023, MDF continued to support businesses to adapt to the effects of climate change, particularly in agriculture. MDF helped firms to increase the resilience of their value chains, including using climate-resilient inputs, coping with climate-driven pest and disease outbreaks, and providing climate-related information to farmers.





Agribusiness investment in value chain adaptation

Climate change is disrupting agricultural value chains in various ways. MDF's interactions with agribusinesses reveal that while on-farm adaptation needs are acute (e.g. use of climate-resilient inputs), other areas of business operations also require attention. Crop processing is being affected by unseasonal rainfall and high humidity, causing losses or decreasing quality; seed production is being hampered by deteriorating growing conditions; and natural disasters are impeding physical access to farms and markets. It is vital that firms understand the specific climate risks to their operations and invest in solutions that build resilience, maintain functionality and revenues across their supply chains, and contribute to food security.

In 2023, MDF worked with partners on adaptation in multiple value chains. In coffee in Timor-Leste and Sri Lanka, MDF co-invested with businesses to improve drying infrastructure. Enclosed drying houses and raised drying beds enable firms to dry coffee more efficiently and prevent rain damage. Similar infrastructure in Samoa has enabled Samoa Herbs to improve its kava drying. In Sri Lanka, MDF worked to develop protected agriculture solutions, enabling its partner, DIMO, to increase production of climate-resilient chili seeds for its farmer network.

The business case for emissions reduction

In 2023, MDF worked with businesses on feasible mitigation opportunities, initiating interventions to promote adoption of solar energy and electric vehicles in Fiji and Timor-Leste, and beginning negotiations in Samoa and Vanuatu. Interventions aim to help firms understand market opportunities for green energy products and supporting businesses and consumers to understand the benefits associated with their adoption.

In Sri Lanka and Fiji, MDF further developed its understanding of commercial incentives for investing in sustainable tourism. This included working with partners to ascertain the costs, benefits and steps needed to improve business practices and market low-carbon tourism products to high-value sustainable tourism consumers.

Resourcing MDF's climate change agenda

In 2023, MDF continued to develop staff capacity to integrate climate change across the portfolio. MDF appointed a Climate Change Manager to lead the program's climate change strategy. Staff training was conducted, using a combination of internal and external resources, including the Australia Pacific Climate Partnership (APCP), the Global Sustainable Tourism Council (GSTC) and the Green Building Council and National Cleaner Production Centre in Sri Lanka. Climate change risks, opportunities and actions were a key focus in all routine portfolio reviews.

Key achievements in 2023 include:



Climate finance was reported for the first time, with 28 per cent of the 2022-23 budget recorded as climate finance. This figure is expected to rise as the climate portfolio develops.



First interventions in climate-specific market systems included: renewable energy, electric vehicles and sustainable biomass. (See country chapters for more details.)



Interventions were developed in sustainable tourism in Sri Lanka, including a low-carbon tour and support to an accommodation provider to verify and reduce emissions.

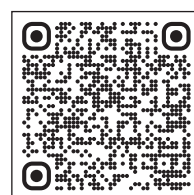


Climate change content in MDF's communication and engagement activities was enhanced, including a collaborative brief with PHAMA Plus on enhancing agricultural market resilience and facilitating a private sector panel at the 2023 Australasian Aid Conference. MDF's investments in organic soil conditioner in Fiji were highlighted in DFAT's public diplomacy as an example of the Australian Government's support for local Pacific businesses to be more climate-resilient.

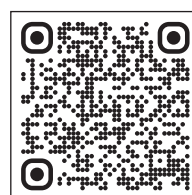


Climate change indicators, observations and baselines were integrated into Research, Impact Measurement and Inclusion activities, including a focus on understanding the effects of climate change on smallholder farmers.

Click/scan the QRs below:



A collaborative brief with PHAMA Plus.



MDF Fiji's investments in organic soil conditioners.



MDF's climate change portfolio

- Agriculture
- Non-Agriculture

In 2023, MDF continued to add to its portfolio of climate interventions, working with businesses to understand the climate risks and business case for investment in adaptation and mitigation. This includes:



Agricultural inputs

17 interventions

Mitigation

- Reducing the use of synthetic fertiliser through efficient application and locally produced organic replacements.

Adaptation

- Increasing availability of climate-resilient seeds.
- Promoting mechanised and precision solutions (improves soil condition and reduces labour requirements for climate adaptation).
- Promoting protected agriculture.



Agricultural exports and import substitution

33 interventions

Mitigation

- Developing carbon calculators for high-value, low emissions export crops.
- Reducing the costs of sustainability focused certifications to incentivise emissions reductions.

Adaptation

- Improving biosecurity practices for long-term pest and disease resilience.
- Supporting businesses to integrate climate change resilience information into their extension models.
- Supporting value chain adaptation such as improving crop drying infrastructure to reduce loss from unseasonal rains.



Tourism

6 interventions

Mitigation

- Low-carbon itineraries for high-value eco-niches.
- Carbon footprint verification and emissions reduction strategies for business.
- Sustainable certifications.
- Exploring incentives for nature restoration.

Adaptation

- Coastal protection through mangrove regeneration.
- Cyclone insurance and cyclone-safe infrastructure in yachting.



Green Energy

9 interventions

Mitigation

- Conducting market demand analysis on rooftop solar for urban businesses and consumers.
- Supporting solar businesses with data analysis to develop small-scale products.
- Piloting commercial electric vehicle leasing.
- Supporting the development of certified sustainable biomass supply chains.

Adaptation

- Working with suppliers to offer category-5 cyclone resilient solar panels.

Economic trends and market insights

MDF monitors global and regional economic trends and combines these with the on-the-ground insights it generates from its portfolio in each country. In 2023, MDF prepared ten market intelligence outputs—“MarketViews”—for DFAT, MFAT and market stakeholders. These covered:

➤ Resilience of agricultural markets to climate change in Pacific Island Countries and Timor-Leste.	In collaboration with PHAMA Plus, MDF assessed how climate change is reshaping farming and how agribusinesses are adapting in the Asia-Pacific region.
➤ Preparedness of the agriculture sector for extreme weather events during an El Niño cycle.	MDF interviewed farmers and agribusinesses to understand their experiences and readiness to deal with extreme weather events in the context of the current El Niño cycle. Agribusinesses appeared to be better prepared and less affected by extreme weather events and displayed willingness to support their farmer networks to prepare or cope.
➤ Private sector opportunities to plug Sri Lanka’s protein gap.	This analysis showed that the combination of power cuts, fuel shortage and fuel price increases had contributed to a decline in protein consumption. MDF subsequently worked with businesses on solutions to boost supply and ameliorate inflationary pressure.
➤ Freight in the Pacific and Timor-Leste.	MDF monitored changes in air and sea freight prices, volumes, routes and how the industry is responding. While sea freight in general has normalised since the pandemic, the overall shift towards air freight has continued due to demand from importers for faster delivery. MDF is scoping opportunities with freight providers to address this opportunity.
➤ Cross-border trade between Timor-Leste and Indonesia.	In collaboration with PRISMA, MDF explored formal and informal trade flows and practices between Indonesia and Timor-Leste and identified barriers and opportunities to improve trade flows.
➤ Timor-Leste’s transition towards specialty coffee.	Timor-Leste’s coffee industry is growing and gaining recognition as an origin for specialty coffee. This analysis identified trends in the industry, the business case for investing in coffee and the way forward to improve productivity and exports.
➤ Labour and skills shortages in Fijian hotels.	A post-pandemic analysis of Fiji’s hotels examined the challenges they faced in retaining skilled staff in competition with other opportunities in Fiji and overseas. The MarketView identified motivations influencing worker decisions and identified ways to improve the industry’s response to the issue, which are now being championed by the Fiji Hotel and Tourism Association.
➤ The export potential of non-coffee agricultural commodities from Timor-Leste.	MDF considers early-stage export commodities important for Timor-Leste to diversify its economic base. MDF’s analysis identified early-stage export opportunities in konjac, vanilla, candlenut, coconuts, cloves and seaweed and ways in which more value could be added to meet market demand and boost prices. Several other development partners have shown interest in MDF’s analysis.
➤ Opportunities in Sri Lanka’s dairy sector.	DFAT Sri Lanka requested MDF to assess the dairy sector, its structure, dynamics and key actors, and provide practical recommendations to improve productivity. The analysis was shared with the Government of Sri Lanka.

Collaboration

MDF works closely with other DFAT and MFAT programs to maximise the impact achievable through collaboration. MDF’s on-the-ground presence, market knowledge and networks in the business community continued to be of value to other DFAT and MFAT programs. Likewise, the knowledge, experience and capabilities of other programs working in the same countries was of value to MDF.

Collaboration with PHAMA Plus

PHAMA Plus continued to be an important collaborator for MDF in 2023. The two programs held four quarterly meetings focused on sharing program updates, milestones and strategic planning. Regular country meetings discussed opportunities and risks, provided inputs into each other’s annual reports and plans, and provided briefings on portfolio pipeline development to identify emerging opportunities for collaboration.

In August 2023, the MDF and PHAMA Plus Team Leaders met with DFAT to provide an overview of the intersections in the programs’ delivery. The result was a way to record the programs’ individual contributions and their collective impact, mainly when supporting the same partner or working on a single constraint.

MDF and PHAMA Plus prepared two collaboration reports, in May and November 2023, and a joint brief on climate risks in the Pacific and Timor-Leste, and support to businesses to understand and invest in emerging opportunities.

Collaboration on GEDSI

MDF’s Research, Impact Measurement and Inclusion team shared their experience of integrating gender equality in the monitoring and evaluation cycle with PHAMA’s GEDSI team, the Technical Advisory Group, PACER Plus Implementation Unit, DFAT, MFAT and Tautai, the Samoa Governance for Economic Growth Program. The workshop facilitated peer-to-peer learning on GEDSI across programs.



Click/scan the QRs to read the publication










Enhancing the resilience of agricultural market systems to climate change in the Pacific Islands Countries and Timor-Leste

A joint brief from PHAMA Plus and MDF



Country and regional collaboration

In 2023, MDF and PHAMA Plus implemented several activities together, including:

	Fiji	PHAMA Plus and MDF collaborated to assist the Navurevure Organic Ginger Farmers group to access the New Zealand market.
	Samoa	MDF joined the PHAMA Plus industry working group on kava. The programs continued to coordinate on kava and will continue supporting the national research organisation (SROS) to research kava varieties and quality issues. MDF attended and provided input to the PHAMA Plus Technical Advisory Group.
	Papua New Guinea	DFAT, PHAMA Plus, MDF and APEP held joint planning sessions to discuss the transition to APEP and identify how APEP could carry forward the work of MDF and PHAMA. This exchange is helping to ensure the continuation of Australia’s support to agriculture in PNG under APEP.
	Timor-Leste	The programs continued to share information on biosecurity concerns and good practice animal health management to inform farmer preparedness.
	Vanuatu	The MDF and PHAMA Plus teams met during MDF’s scoping activities. Areas of emerging common interest include the kava, sandalwood and cocoa sectors, and farming models. Both programs have participated in meetings on the Tahitian Limes pathway, organised by the Vanuatu Primary Producers Authority and supported by PHAMA Plus.
	Tonga	PHAMA Plus and MDF developed innovative air-freight and sea-freight solutions to export Tongan watermelons. The programs are aligning their interventions in transport and shipping in Tonga to complement one another.
	Pacific Regional	MDF is supporting PHAMA Plus market research consultations into using existing pathways of fresh vegetables, fruit, cut flowers and foliage from five Pacific countries as part of the New Zealand-funded Enhanced Pacific Partnership Market Access Program (EPMAP). This intervention is delivered with the Ministry for Primary Industries and aims to identify priority commodities for trade with New Zealand and areas where targeted assistance can increase trade.



MDF scoping: MDF interview Sela Latu in 'Eua, Tonga

Collaboration with other programs

MDF continued to collaborate with other international development programs in 2023.

Facility-wide	PHAMA Plus, PACER Plus Implementation Unit (PPIU) and Pacific Trade Investment (PTI)	Multi-program	MDF collaborated to develop a multi-program brief, ' <i>PHAMA Plus – PACER Plus – PTI – MDF: How the programs work to improve lives in the Blue Pacific.</i> '
Fiji	Austrade	Multiple	MDF supported a peer-to-peer learning activity between Investment Fiji (IF) and Austrade to help IF staff implement its trade and investment strategy in key MDF support sectors (tourism, high value agriculture and outsourcing).
	PHAMA Plus, SPC's Pacific Organic and Ethical Trade Community (POETCom)	Agricultural markets	MDF organised a field day to increase awareness and uptake of organic farming, certification, sustainable farming practices and export market opportunities.
Samoa	Pacific Digital Economy Programme (PDEP)	Financial services	Collaborated to co-finance a fintech challenge.
Sri Lanka	Australian Centre for International Agricultural Research (ACIAR)	Agricultural research	Collaborated to address post-harvest losses in mango.
	Knowledge and Linkages for an Inclusive Economy (KLIE)	Fisheries	MDF shared insights from scoping activities in sea cucumber and seaweed.
	International Labour Organisation (ILO)	Agriculture	MDF conducted learning sessions with ILO on agritech solutions.
Timor-Leste	Australia Pacific Climate Partnership (APCP)	Climate change	APCP supported research on the effect of climate change on Timor-Leste's coffee sector and the business case for investing in rooftop solar.
	Parseria ba Prosperidade Inklusivu (PROSIVU)	Renewable energy	Collaborated to explore the economic implications and regulatory environment of rooftop solar energy in Timor-Leste.
	To'os ba Moris Di'ak (TOMAK)	Agricultural inputs	Exchanged information on agricultural inputs and biosecurity under an ongoing MOU.
	Tourism Development Program	Tourism and coffee	MDF and The Asia Foundation coordinated tourism activities and co-hosted coffee marketing events with Projeto Quinta Portugal, another development partner.
Tonga	PDEP	Financial services	Collaborated to co-finance a fintech challenge.

Research, Impact Measurement and Inclusion

The Research, Impact Measurement and Inclusion (RIMI) team supports MDF to understand markets, assess the program’s impact, and use data to improve implementation and inform stakeholders. Ensuring MDF’s contribution to gender equality, disability and social inclusion (GEDSI) and addressing climate change are priorities for the team.

In 2023, the 10-person RIMI team conducted 75 field visits, compared to 40 in 2022. Assessments were also conducted in Samoa, Tonga and Vanuatu as in-country operations were ramped up. The data from these assessments supported the development of 45 new concepts in 2023, up from 30 in 2022.

The RIMI team helped research and develop studies of systemic change in Sri Lanka’s coffee sector and Fiji’s outsourcing services sector, a case study on climate change (to be published in 2024) and a variety of market intelligence outputs. The team also participated in four external webinars and contributed to three externally published articles, sharing its approach to measuring systemic change, inclusion, and monitoring and evaluation in market systems development.

	Building a team culture for adaptive management in MSD		Innovative M&E from the Sandbox and beyond		In search of more equitable impact
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Other important research included collaborating with APCP to understand the potential in Timor-Leste’s rooftop solar market, investigating the challenges of feral pig management in Samoa and capturing lessons from MDF’s

work with the Fiji Enterprise Engine (FEE). Findings were shared with and taken up by national and international stakeholders.

Inclusion

The COVID-19 pandemic and economic shifts that followed it are having a disproportionate impact on women and vulnerable groups, including the consequences of unemployment and higher cost-of-living on households, or new opportunities and burdens in changing labour markets.



Migration is altering women’s roles

Labour migration increased in 2023 in MDF countries, and most migrants tend to be men. For example, more than 300,000 skilled workers migrated from Sri Lanka in 2023, with close to 60 per cent of them men seeking skilled and semi-skilled jobs. This is causing a demographic shift in the labour landscape and the roles played by women and people with disability.

In Samoa and Tonga, which saw significant male migration as part of seasonal worker programs, women are now assuming pivotal roles in agriculture and other sectors that were the traditional domains of men. This restructuring of labour dynamics creates opportunities for women but also poses challenges, since women typically remain responsible for household and unpaid care work.

In Sri Lanka and Fiji, changing labour markets are strengthening the business case for firms to invest in attracting and retaining women in sectors most afflicted by labour shortages, such as tourism and outsourcing services. In 2023, MDF assessed the private sector's awareness of these labour market shifts and the extent to which they were adjusting to the changing roles of women, as employees and as customers and decision makers. Businesses showed a growing understanding of these changes, paving the way for MDF to initiate discussions with firms as well as industry associations on more effective recruitment strategies.



An aging workforce and climate change are affecting agricultural labour

In addition to migration, agriculture in places like Vanuatu and Fiji are facing the challenge of an aging farming workforce. This increases the labour burden on women, since they are less likely to migrate and tend to live longer than men. It also increases the prevalence of infirmity in a labour force that entails physical exertion. This increases the risk of injury or illness and reduces productivity and farming incomes. There is a growing business case for supplying labour-saving agricultural technologies and products that are better tailored to women and farmers coping with the effects of aging.

Climate-related disruptions are exacerbating the burdens and risks faced by women and vulnerable groups. People with disability are among those worst affected by extreme weather events, which hamper access to basic infrastructure and essential services. Coping with the effects of these extreme weather events places additional demands on agricultural labour and therefore on women.

MDF's support for gender equality, disability and social inclusion

MDF works to improve the availability and affordability of agricultural technologies, promote inclusive recruitment practices, and increase awareness of the business case for hiring or serving women and people with disability.

In 2023, MDF focused on how more people with disability could be included in targeted markets. The team investigated the spectrum of disability experienced across MDF contexts and the range of barriers faced by individuals. This included

for example, consultation with organisations for people with disability (OPD) like CBM Australia on MDF's disability strategy and engagement of OPD in-country, such as the Ahisaun Foundation in Timor-Leste, to promote MDF's services to businesses that employ or create opportunity for people with disability. Based on this, MDF commenced trials of activities to increase the participation of people with disability and began improving its disability inclusion strategy, building on opportunities identified in partner country markets.



In 2023, in Timor-Leste, MDF worked with CBM Australia and local OPDs to develop a disability inclusion strategy that aims to improve the inclusion of people with disability in interventions, such as in demonstration plots. MDF developed a partnership with ReLoka to expand employment opportunities for people with disability creating handicraft products for tourists. MDF also supported the export of Timorese seaweed directly to a factory in Indonesia. Seaweed from Atauro is a primary source of income for more than 1,000 farmers, of whom 57 per cent are women. The direct link to a processor enabled farmers to prices approximately 80 per cent higher than before. The women used the additional income to purchase food, hygiene products and clothes, and set aside some funds as savings.



MDF engaged with the Sri Lankan private sector to explore how more women could be attracted and retained in the re-emerging tourism sector. MDF and Australia's Skills for Inclusive Growth (S4IG) also explored strategies to encourage the participation of women and people with disability in tourism.

In Sri Lanka, MDF supported an agri-input firm to improve production and availability of climate-resilient hybrid chili seeds for dry zone farmers. MDF's worked with partners to facilitate the recruitment of female staff for seed propagation in polytunnels. Through its intervention with CIC Holdings, MDF introduced agri-input bundles that utilise universal design principles, to improve their accessibility for Sri Lanka's aging farming population.



MDF's support to Fiji's outsourcing services industry resulted in 546 jobs in 2023, of which 373 were women. MDF supports outsourcing services firms to improve their attraction and retention of women and people with disability, for example by investing in childcare services and incentivising the recruitment of a work-ready pool of staff including people with disability. MDF also continued to provide scholarships for people with disability to encourage their participation in the Fiji Enterprise Engine program.



In the Pacific, MDF assessed the evolving roles of women in labour markets as a result of migration, particularly in agriculture. MDF supported a variety of partners to increase the adoption of agricultural solutions that enhance efficiency and reduce women's workload, including the provision of small-scale mechanised equipment in Samoa. In addition to reducing farmer workloads and supporting climate change adaptation, mechanisation makes farming more manageable for people with reduced mobility, for example due to diabetes and other non-communicable diseases, that are prevalent in Samoa.



In Vanuatu and Fiji, MDF is co-investing with the private sector to establish mobile wallets and savings solutions to improve access to finance. Interventions seek to understand barriers to finance, including remoteness and onerous compliance requirements, the latter of which particularly affects women. Digital financial solutions can also be a fast and efficient way to transfer funds to vulnerable groups in the event of extreme weather events.



Pacific Centrecom staff in Nadi, Fiji

Research, Impact Measurement and Inclusion



Supporting program learning and adaptation

34

active market systems supported*

8

portfolio review sessions conducted

61

market functions facilitated

45

concept notes developed

15

RIMI and climate change capacity-building workshops organised

4

external webinars attended and contributed to **3** learning pieces

57

new contracts signed



Monitoring and evaluating program performance

82

active interventions monitored

142

active partnerships monitored

76

field visits conducted

1,673

interviews carried out



Insights and market intelligence

13

market intelligence reports developed



Inclusion and climate change

59%

of active portfolio relevant to climate change

9,100

farmers accessed climate-resilient inputs and tools

Over **USD \$830,000**

in additional revenue generated by private sector through supporting climate change innovations

81%

of active portfolio relevant to gender equality and women's economic empowerment

23%

of active portfolio engaged people with disability

85

people with disability benefitting from better access to inputs and services provided through MDF interventions



Management Information System

7

dashboards consolidated from facility data

31

reports generated from facility data

*At the end of 2023, MDF worked in 34 market systems. Four market systems in PNG were supported until the country program closed in June 2023.

Aggregate Development Results (ADRs)¹⁵

Actuals, as of December 2023			
DFAT Aggregate Development Indicators	Female	Male	Total
Number of poor women and men who adopt innovative agricultural and fisheries practice	3,269	5,089	8,358
Number of poor women and men with increased incomes	3,122	5,074	8,196
Value of additional agricultural and fisheries production			USD45,708
Value of exports facilitated (including new exports)			AUD21,362,031
Value of private sector investments leveraged			AUD3,128,105

Tier 2 indicators

Indicator and measure	Actuals 2023	Examples
<p>Number of organisations supported to strengthen accountability and/or inclusion, including assistance provided and significant policy changes achieved:</p> <ul style="list-style-type: none"> • Government institutions, organisations, and systems • Civil society organisations • Private sector organisations 	<p>Government institutions: 5</p> <p>Private sector organisations: 7</p>	<p>In Fiji, MDF conducted monitoring and evaluation training for the Ministry of Commerce, Trade, Tourism and Transport (MCTTT), supporting stronger internal policies and reporting.</p> <p>In Samoa, MDF is working with the Scientific Research Organisation of Samoa to research Samoan kava varieties and chemotypes, to advise farmers on improving quality and quantity.</p> <p>In Sri Lanka, Fiji and Timor-Leste, MDF worked with multiple coffee processors to support the recruitment and retention of women and people with disability.</p>
Total	AUD100,680	<p>Fiji: AUD33,610 to Tourism Fiji, MCTTT and Investment Fiji.</p> <p>Pacific Regional: AUD67,070 to Tonga Tourism Authority and the Scientific Research Organisation of Samoa.</p>
Number of market actors in key economic sectors supported to expand market access and/or improve supply chain resilience.	39	Support ranges from agribusinesses to outsourcing services firms, to enter new markets.
Additional private funds leveraged to support sustainable development.	AUD4,756,000	Total partner spending (private sector) and crowding-in spending in Fiji's outsourcing services industry.
Number of women entrepreneurs provided with financial and/or business development services.	1,494	Includes female MSME owners and female-led farming enterprises.
Australian support for improved food security and climate resilient agricultural practices via policy, technical advice and/or capacity building.	23	In all MDF countries, improved land preparation and fertiliser use methods for higher agricultural production and better-quality produce.
<p>Number of people for whom Australia's investments have improved adaptation to climate change and resilience to disasters.</p> <p>Number and value of investments that direct financing to partner governments are: (a.) contributing to low-emissions development pathways or are supporting mitigation activities and (b.) improving climate change adaptation.</p>	<p>4,053 people</p> <p>50 partnerships</p> <p>AUD857,000</p>	<p>The figures provided are for the calendar year 2023; MDF will provide financial year numbers at the end of June 2024. All numbers were converted from USD (or the local currencies), and some variance may be expected due to exchange rate fluctuations.</p>

¹⁵ Along with the headline program impact indicators, MDF records relevant DFAT Aggregate Development Results (ADR). It is important to note that these values are reported for the given year. This differs from MDF's impact indicator reporting, which presents achievements cumulatively, for the entire program implementation to date.

Communications

In 2023, MDF’s communications reflected the evolving priorities of the program: a growing portfolio of climate change-focused interventions, strengthening private sector engagement and increased partner support to capitalise on recovery momentum. At the facility level, the team articulated MDF’s way of working, particularly for the private sector. Communication materials were adjusted to better suit the business audience and to present the benefits of co-investing with MDF.

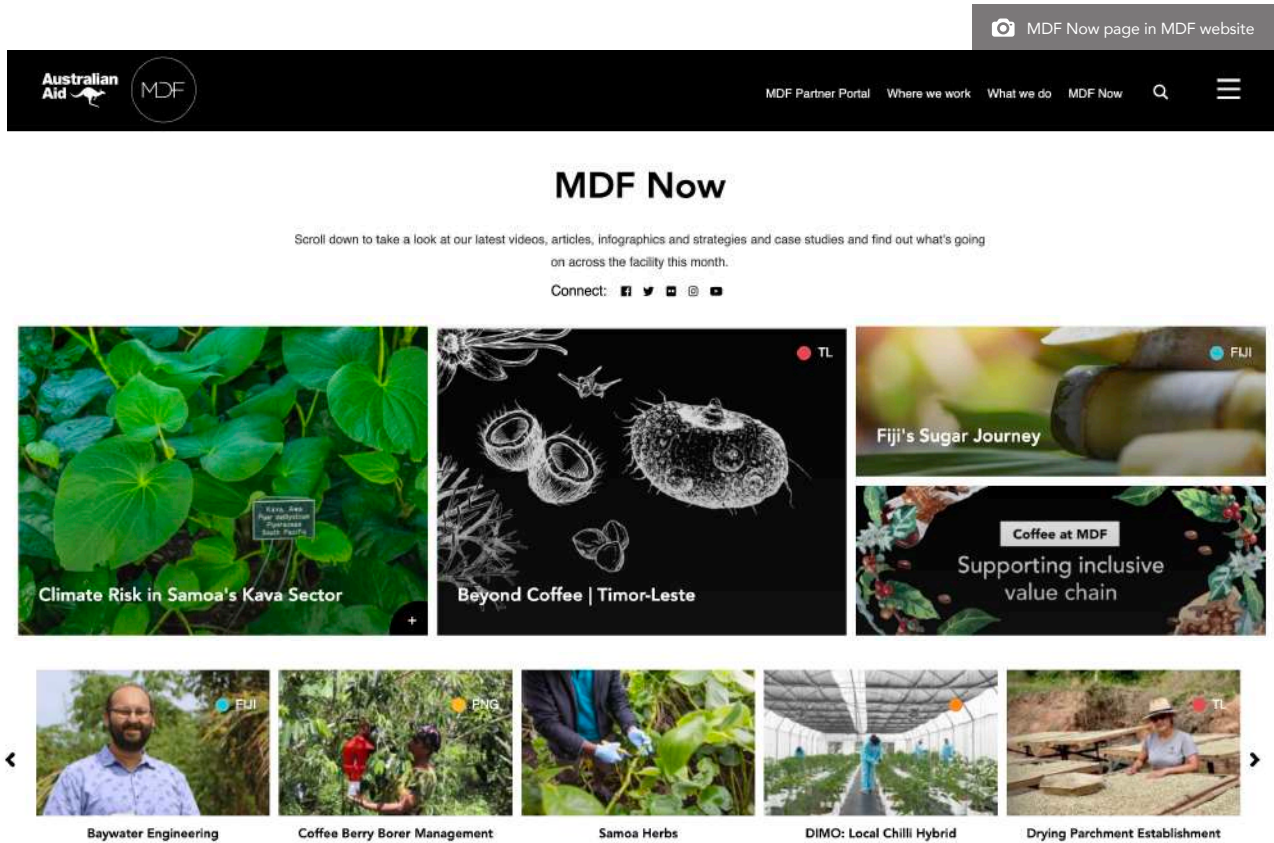
Climate communication

MDF told new stories about the facility’s growing investments in climate change adaptation and mitigation, including the business case for climate investment. This included features on [MDF Fiji’s engagement in climate-resilient seeds](#), support for seaweed farming in Timor-Leste and measuring the [carbon footprint of PNG’s coffee value chain](#).

MDF and PHAMA Plus collaborated to publish a brief on building climate resilience. The MDF website was updated to include a dedicated space for climate change stories, including climate risk assessments for specific market systems. Work was initiated to develop an investment pitch for businesses looking to invest with MDF in climate solutions and business models.

Supporting public diplomacy

Contributing to DFAT and MFAT public diplomacy objectives remained a priority in 2023. MDF supported DFAT’s climate change communication requirements, developing a climate change ‘storybank’ for DFAT, highlighting adaptation and mitigation interventions from across the facility. The Team Leader presented potential synergies between MDF and the Australian Infrastructure Financing Facility for the Pacific (AIFFP) to AIFFP and DFAT, focusing on MDF’s work in Fiji and Pacific Regional. MDF coordinated with PHAMA Plus, PACER Plus Implementation Unit and other DFAT investments on range of activities (see ‘Collaboration’ on page 34).



Australian investments in partner countries were highlighted in the media, with 28 media releases across the facility. Media partnerships were formed as part of intervention design, such as MDF Timor-Leste's partnerships with Intrepid Travel.

MDF's investments in organic soil conditioner in Fiji were highlighted in DFAT's public diplomacy as an example of the Australian Government's support for local Pacific businesses to be more climate-resilient. DFAT Heads of Mission/High Commissions shared 16 updates on MDF activities and reshared 18 MDF posts.

The Pacific Regional portfolio expanded in 2023, with new interventions signed and early interventions showing results. MDF finalised the recruitment of a Central and Pacific Communications Officer in early 2023 to capture developments in the Pacific. This enabled MDF to increase its communication outputs from Pacific Regional and highlight the role played by Australia and New Zealand in inclusive economic development in the Pacific.

Media engagement

Print and electronic media remained an important platform for program and partner communication in 2023, despite digital media growth across program countries. In 2023, MDF developed 28 media releases. These were published 33 times in news media, including 11 organic mentions, highlighting MDF's initiatives in partner countries. MDF partnered with domestic business media to spotlight events, successful partnerships and drive high-level awareness of MDF's niche service offerings in emerging areas such as climate change. MDF engaged with radio and television, with the highest television coverage recorded in Fiji.

Digital media growth

MDF has a well-developed social media presence. Four social media platforms (Facebook, Instagram, LinkedIn and X) are the primary means of communicating program activity and impact to a wide and engaged audience. In 2023, social media showcased Australia's value as a trusted partner in MDF countries, communicated partner successes through MDF investments, and highlighted emerging sectors to a wider audience.

The team also developed multi-country social media campaigns to highlight MDF's facility-wide priorities, such as a campaign on climate change investments, designed to run during COP28. The campaign reached 220,446 people and engaged 10,000 individuals (see Communications recap on page 44). The annual World Tourism Day 2023 campaign included a call-to-action for businesses, resulting in interest that was converted into leads for MDF's implementation teams. MDF shared stories across sectors and celebrated major international days, including International Women's Day, World Environment Day, MSMEs Day, Ocean's Day, Earth Day, World Coffee Day and International Day of Persons with Disabilities. MDF also used its platforms to amplify partner profiles, such as those of Fiji and Timor-Leste partners participating in the Australasian Aid Conference 2023.

Supporting country portfolios

MDF worked with partners on innovative marketing approaches as part of program implementation. Through MDF's partnership with Intrepid Travel, Timor-Leste was featured in the Qantas in-flight magazine, a major contribution to national destination marketing efforts. MDF's partnership with the Lanka Coffee Association to support the second annual LCA Coffee Festival included digital campaigns for three barista championships, pre-event publicity and on-the-day coverage. See this video for more details. MDF facilitated the participation of partner Outsource Fiji at a symposium and exhibition in New Zealand at which key industry stakeholders were able to network directly with New Zealand businesses.



Alleu Coffee festival, Timor-Leste



The MDF and Australian High Commission teams visit Ella Coffee Collective in Ella, Sri Lanka



First Secretary visits Bia-3-Cake Womens Cooperative in Naglgi village Vanua Levu, Fiji

Communications recap

January - December



High-level Australian engagement in partner countries

29 field/partner visits by DFAT Heads of Missions

11 in Fiji



Farmer field day in Navua

11 in Timor-Leste



Aileu coffee festival

6 in Sri Lanka



UCB wetmill launch

1 in Pacific Regional



Partnering with MTED to establish MDF Tonga

16 MDF-related social media posts by DFAT and **26** re-shares



MDF in the media

35 media releases published over **68** times in partner-country media

11 organic mentions

Click/scan the QRs to view publications:

The Sri Lanka coffee festival returns



MDF in the Pacific



MDF promoting co-working spaces in Fiji



Timor-Leste's new travel expedition





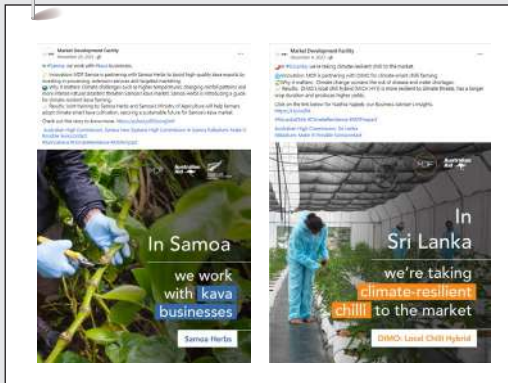
Top social campaigns in 2023:

Climate change

220,446 people reached

402 new followers on Facebook

415 new followers on LinkedIn



Top mentions on social media:

Australia in Fiji shared post on Wasa ni Tadra



4,523 Facebook users reached

Social media highlights



Market Development Facility
Today



40,514

Facebook users reached organically



1,268,656

Facebook users reached in 2023, showing an increase by **79.7%** compared to 2022



474,037

LinkedIn users saw MDF content in 2023



www.marketdevelopmentfacility.org



@marketdevelopmentfacility



@MDFGlobal



@MDFGlobal



Market Development Facility

Operations

MDF's Operations team (comprising Central Operations and five country operations teams) supports program delivery through financial and human resource management, procurement and contracting, compliance, logistics, ICT and security.

In 2023, the facility-wide team managed six separate budgets (reflecting DFAT's and MFAT's funding architecture) and supported 126 staff, 16 consultants and almost 100 partners in MDF's six country jurisdictions. The team also supported the closure of the PNG country program in early 2023. The Central Operations team also oversees MDF's safeguarding responsibilities, with the MDF HR Manager serving as the Safeguarding Focal Point.

MDF experienced staff turnover of 22.2 per cent in 2023, compared to 32.6 per cent in 2022. Several senior staff,

including the Chief Operating Officer/Deputy Team Leader, chose to seek new opportunities in 2023, but turnover settled to lower levels by the end of the year.

In 2023, the Central Operations team also managed MDF's participation in DFAT's Managing Contractor Audit of Palladium, including liaison with the external audit providers, provision of documentation and the management response to audit findings. Since the finalisation of the audit report, MDF has implemented the audit's recommendations to improve internal processes.

Pacific Regional expansion

The Pacific Regional component continued to expand in 2023, with AUD500,000 in additional funding from DFAT Vanuatu. MFAT contributed AUD2.734 million to the Pacific Regional component (FY23/24). MDF offices in Samoa, Tonga and Vanuatu became fully operational. MDF recruited Country Coordinators to support the growing portfolios in each country and the selected candidates (all existing MDF staff members) have commenced their new roles. The increased workload in the region required additional operational support, and a new Regional Operations Administrator was recruited in late 2023.

To streamline operations in the region, Palladium is establishing legal entities in Samoa and Vanuatu. In Samoa this process is in its final stages; MDF expects to transition away from operating through an agent in early 2024. The Tonga office will continue to operate through an agent.



MDF Vanuatu staff

PNG country program closure and APEP transition

DFAT decided in early 2022 that the MDF PNG program would transition to the new Australia-PNG Economic Partnership (APEP) program, effective from 1 July 2023. In the latter part of 2022 and early 2023, MDF worked through transition options and developed close-out material in collaboration with the new APEP team and DFAT Post. Several ongoing interventions and monitoring activities were transitioned to APEP. The operational aspects of the closure, including disposal of all remaining assets and archiving of documents, were completed in June 2023.



MDF PNG staff on a field assessment

Financial management

MDF spent 93.2 per cent of its approved budget for FY2022-23 and 100 per cent against its final forecast.¹⁶ MDF continues to enhance its financial management system to deal with the increasing complexity of budgeting, forecasting and invoicing across six countries, multiple clients and several separate funding sources (including MFAT, DFAT Vanuatu Post, DFAT Agricultural Development and Food Security Section and DFAT Office of the Pacific). In 2023, the Finance Team rolled out Microsoft Dynamics Business Central to manage finances across the facility and continues to make improvements to its implementation. This software package is expected to simplify reporting and yield new insights into financial operations.

Human resource management

MDF continued to strengthen its strategy to attract and retain quality talent. In 2023, the vacant MDF Fiji Country Director position was filled by an internal national candidate and national staff took up several middle management roles in 2023 or will in early 2024. Staff capacity development remained a priority, including international training. MDF's placement program, which gives high performers the opportunity to spend several months working in a different country office, was revitalised, with four staff members going on placement to Samoa, Timor-Leste and Vanuatu.

Due to an improving economic situation, MDF ended a 'Special Measures Compensation' policy that provided short-term support to locally engaged staff in Sri Lanka facing economic hardship due to extreme inflation. The policy remained in place for staff based in Pakistan, where annual inflation was over 20 per cent in 2023.

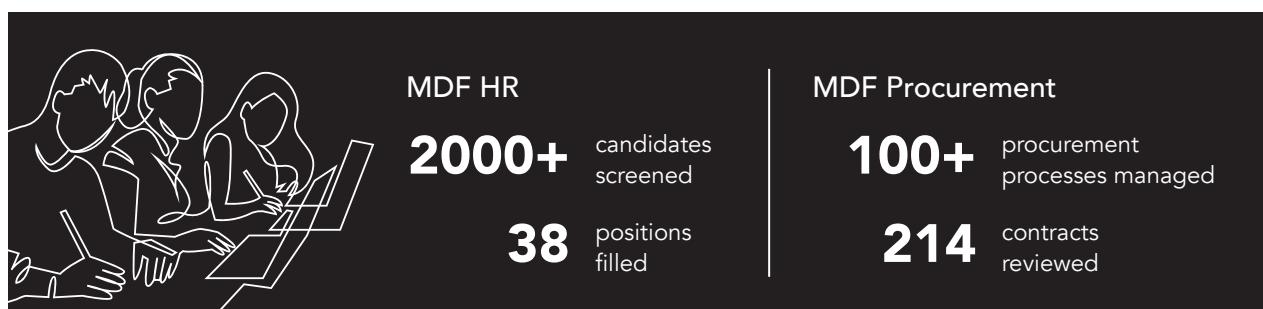
MDF Finance

3,619 transactions managed
in 16 different currencies
totalling **AUD12 million+**

Staffing update

On average, 126 staff and 16 consultants were engaged across the facility in 2023. Staff turnover remained normal, including within the Central Operations team. The CLT staffing profile remained unchanged: comprising the Team Leader; a new Chief Operating Officer; the Senior Adviser; the Research, Impact Measurement, and Inclusion (RIMI) Director (formerly, the Quality and Inclusion Director); the Communications Director; three Country Directors (Fiji, Sri Lanka, and Timor-Leste) and the Regional Director, Pacific. The shared Operations and Communications team structures remained largely the same, although there were changes to several incumbents of these positions during the year. A Climate Change Manager was recruited in 2023 to support the development of the program's portfolio of investments in climate change.

MDF, like other organisations, experienced increased competition for scarce skilled resources, resulting in it taking longer to replace some key international and operations staff. MDF's continued requirement to operate under the Aid Remuneration Framework has made it difficult to compete in the talent marketplace. However, most key positions were filled by the end of the year.



	Business Advisers/ Coordinators	RIMI	Operations and Finance	Communications
Sri Lanka	12 FTE	5 FTE	3 FTE	2 FTE
Timor-Leste	11 FTE	1.5 FTE	3 FTE	1 FTE
Fiji	16 FTE	2.5 FTE	4 FTE	1 FTE
Pacific Regional	3 FTE	2.5 FTE	2 FTE	0.5 FTE
Samoa	5 FTE		1 FTE	
Tonga	5 FTE		1 FTE	
Vanuatu	5 FTE		1 FTE	

¹⁶ The MDF approved budget is defined at the beginning of each financial year in collaboration between DFAT and MDF and is set for the year. MDF provides its final forecasts to DFAT Posts in May of each financial year.

Facility on a page MDF market systems and interventions in 2023



Sri Lanka



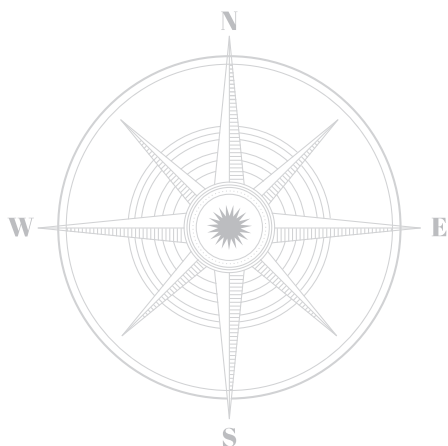
Tourism

Sustainable Tourism	3
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Authentic Sri Lankan Goods

Agricultural Inputs	7
Specialty Coffee	3
Other	2



Timor-Leste



Agriculture

Agricultural Inputs	3
Chicken	1
Coffee	3
Early Stage Export Commodities	2
Pigs	2



Tourism

Destination Marketing	3
Marine Tourism	2



Renewable energy

Renewable Energy	1
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Vanuatu

Financial Services

Digital Financial Services	1
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Agriculture

Cocoa	1
Sandalwood	1

Fiji

High Value Agriculture

Premium Agriculture Products	1
Quality Agricultural Inputs	4

Tourism

Green Tourism (Air Travel)	1
Blue Tourism (Sea Travel)	1

Urban Industries

Enterprise Solutions for MSMEs	2
Outsourcing Services	6
Green Energy	2

Pacific Regional

Tourism

Yachting Tourism	2
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Services

Certification Services	1
------------------------	---

Financial Services

Digital Financial Services	2
----------------------------	---

Samoa

Agriculture

Agricultural Mechanisation	1
Kava	2
Feral Pig Management	1

Tonga

Services

Air Freight	1
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Agriculture

Kava	1
------	---

Renewable Energy

Rooftop Solar	1
---------------	---

Tourism

Tourism Branding and Marketing	1
Yachting Tourism	1
Tourism Activities	1

Quick Facts

Timor-Leste



Population

1.34 million

 Urban: **28.6%**

 Rural: **71.4%**

Population growth rate: **1.8%**

Languages

Official: Portuguese, Tétum (national language), and 15 local dialects

Working: English and Bahasa Indonesia

GDP

 **2.03** billion

GDP growth rate: **3%**

GDP per capita (USD): **\$1,518**

Oil GDP: **0.34%**

Non-oil GDP: **1.7%**

Key GDP contribution sectors

 Industry: **1 %**

 Services: **6.5%**

 Agriculture: **0.9%**

Labour force participation rate

 Female: **29.8%**

 Male: **41.9%**

Key focus areas

Agriculture

MDF supports activities that increase production and improve agricultural processing to meet domestic and export demand, focusing on agriculture inputs, coffee, pigs, and early-stage export commodities (candlenut, cocoa, coconut, seaweed and vanilla).



Crops

- Primary agricultural exports are candlenut, coffee, and dry coconut.
- Coffee remains the largest export, reaching **\$27.6 million** in 2021.
- Many coffee trees are old and vulnerable to climate change, so rehabilitating coffee practices can help farmers adapt.
- Around two-thirds of Timorese households depend on agriculture, with approximately **78%** of poor households engaged in farming.



Pigs

- Pigs are used for cultural ceremonies, wealth storage, and prestige.
- Average pork buying/consumption in Dili is **3.2kg** per month per household.
- Pig breeds are vulnerable to climate change, and piglets are at risk in the wet season.



Broiler chicken

- Chicken is the most imported type of livestock in the country. Since 2017, import and production of broiler chicken constitutes approximately **7-8%** of total imports.

Tourism

In 2023, MDF had a significant focus in working with partner to promote Timor-Leste as a destination. To accomplish this goal, MDF collaborated with industry representatives to implement joint initiatives aimed at promoting greater cooperation, thereby enhancing accessibility to tourism products and services. This involved working closely with tourism stakeholders to ensure they share accurate information on tours and attractions, collaborating with tour operators to create tour packages.



Destination marketing

- Timor-Leste is an emerging tourist destination with natural beauty, rich cultural heritage, and a fascinating history.
- The tourism industry is not yet well-established, and the cost of travel can be expensive.
- As of 2019, Australia and Indonesia were the top two sources of leisure travellers to Timor-Leste, accounting for **46%** and **24%** of visitors, respectively.



Marine tourism

- Timor-Leste's waters are known for their exceptional biodiversity, including extensive fisheries and healthy coral reefs. It is home to three out of the world's seven marine turtle species.
- The water is home to **25** species of whales and dolphins, which is among the highest records of cetaceans in the world.
- Between October and November every year, migrating Pygmy Blue Whales pass through Timor-Leste's waters.



Climate
change
impact



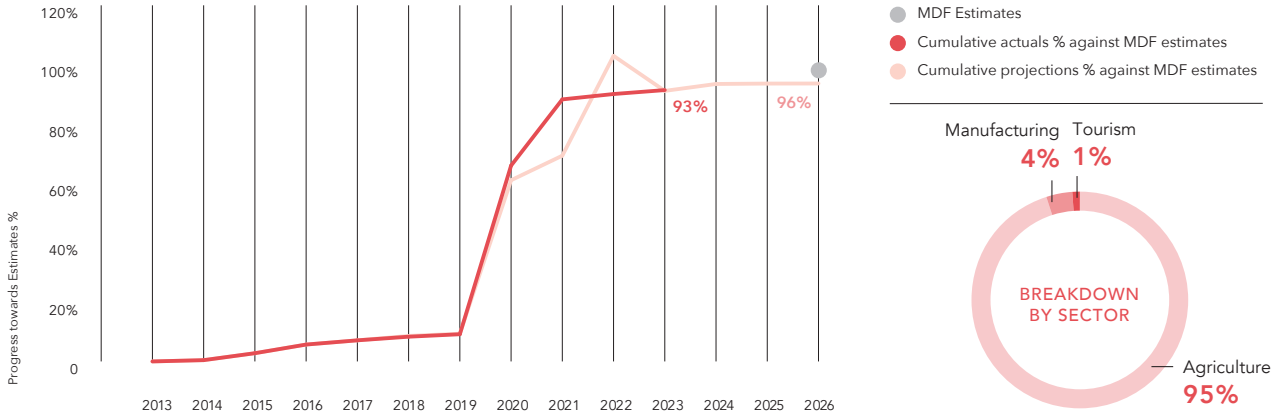
Timor-Leste's greenhouse gas emissions increased by 0.24 MtCO₂e between 2005 and 2010 due to deforestation.



Agriculture contributes to emissions through livestock, agricultural soils, rice production, and manure management.

Highlights

EFFECTIVE OUTREACH

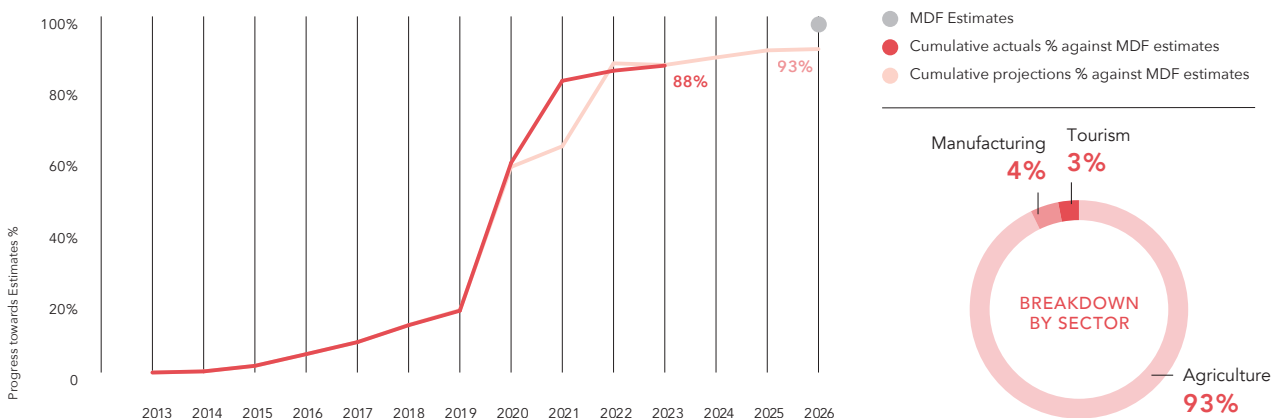


A steady growth in outreach

- MDF’s work in Timor-Leste benefitted an additional 1,220 people in 2023, bringing total outreach to 83,999 people. MDF’s work on seaweed accounted for most of the additional outreach, due to improved growing practices, increasing farmer yields and new market access. Interventions in agricultural inputs also contributed to outreach in 2023, benefitting farmers through a reduction in travel costs when buying inputs. MDF’s interventions in coffee, chicken and early-stage exports created 123 additional full-time and seasonal jobs, including jobs for 60 women.
- In addition to quantifiable benefits, MDF also noted several qualitative benefits. Local availability of inputs has increased farmers’ motivation to continue growing vegetables or to grow more vegetables. MDF’s seaweed intervention supported women and people living with a disability to reduce effort and workload in seaweed farming through improved planting methods.
- Interventions that did not yield expected results in 2023 include coffee processing and candlenut. A drop in production due to coffee rehabilitation and climate change resulted in lower coffee yields and prevented partners from meeting buying targets. Challenges with candlenut machinery delayed intervention activities.

Note on discounting: Additional outreach in 2023 has been discounted by approximately 25% due to an overlap—i.e. people who have previously benefitted from MDF activities were not counted again. This is primarily due to earlier work on a nationwide communication campaign on African Swine Fever. This means that while an overall 1,500 additional people benefitted from MDF interventions in 2023, only 1,220 people have been reported due to the overlap.

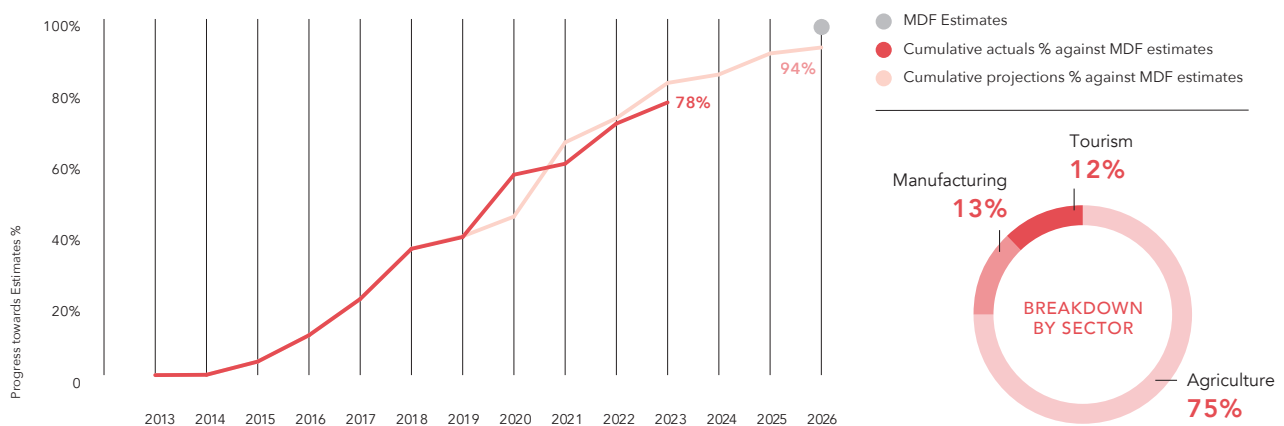
NET ADDITIONAL INCOME (USD)



Investments in seaweed and pig breeding support higher farmer incomes

- MDF interventions increased net additional income (NAI) by USD180,000 in 2023, to reach a cumulative USD11.3 million (AUD17 million). Seaweed and input interventions contributed towards both outreach and income, while interventions in coffee processing and drying, pigs and destination marketing increased farmers' income. Further, income from employment was generated through coffee, chicken and fruit interventions.
- Beneficiaries used their increased income to improve their livelihoods. Seaweed farmers reported that they used the additional income on household needs, education for children and investing in small-scale businesses. For coffee farmers, income decreased due to bad weather and rehabilitation, which takes two to three years to provide higher cherry yields. Farmers who rehabilitated trees two to three years ago through MDF support started seeing better coffee yields from the rehabilitated trees and strong net additional income is expected for coffee farmers in 2024.
- NAI projections increased by approximately USD600,000. In addition to continued benefits from seaweed, coffee processing and pig interventions, investment in coffee rehabilitation, candlenut, agri-inputs and destination marketing are projected to drive additional outreach and income in 2024.

VALUE OF ADDITIONAL MARKET TRANSACTIONS



VAMT shows strong growth, backed by a wide range of interventions

- Value of additional market transactions (VAMT) increased by USD0.6 million (AUD908,000) in 2023, taking cumulative VAMT to USD8.1 million (AUD12 million). Export-oriented interventions such as coffee processing and seaweed contributed USD182,000 (AUD275,000) and USD99,000 (AUD150,000) towards VAMT, respectively.
- Interventions in pig breeding and chicken farming showed positive signs, with partners generating VAMT of USD100,000 (AUD151,000) and USD90,000 (AUD136,000), respectively. Agri-input retailers in rural districts were able to generate additional VAMT of USD48,000 (AUD73,000). MDF's intervention in destination marketing brought 78 new tourists to Timor-Leste, contributing USD83,000 (AUD125,000) towards VAMT.
- Like 2022, a greater number of interventions are generating VAMT than outreach in 2023. These interventions are not expected to generate substantial outreach and instead focus on increasing sector competitiveness. For example, interventions in chicken farming aim for import substitution, while interventions in tourism increase visitor spend. Interventions in pig raising are increasing the supply of quality piglets in the market.
- Interventions that contribute towards projected VAMT include coffee rehabilitation (USD410,000/AUD620,000), candlenut (USD300,000/AUD454,000), pig breeding (USD144,000/AUD218,000), agri-inputs (USD127,000/AUD192,000), coffee (USD77,000/AUD116,500) and seaweed (USD65,000/AUD98,000). MDF also expects healthy growth in VAMT from tourism interventions (USD140,000/AUD212,000).

Overview of Portfolio and Progress in 2023

Timor-Leste is gradually recovering from the disruptions of the COVID-19 pandemic. Supply chain difficulties have eased and inflation cooled in the second half of the year, although is still estimated at 5.8 per cent for 2023. A strong US dollar, Timor-Leste's currency, has muted some inflationary effects but also makes exports, such as coffee and tourism, less competitive in global markets. Higher food prices are driving inflation and causing food insecurity in poorer segments of the population. El Niño is likely to bring drier weather and exacerbate food insecurity, as it did in 2015-2016.



The Cristo Rei statue, Cape Fatucama in Dili, East Timor

Economic diversification is a priority for Timor-Leste, but growth remains sluggish, estimated at 2.8 per cent in 2023 and forecast to be 2.9 per cent in 2024.¹ Private sector investment is held back by limited infrastructure, capital and human resources, and the adverse effects of a resource-based economy. The country has attracted little foreign direct investment despite having an attractive currency and open approach to investment.

In 2023, MDF Timor-Leste continued to support innovation and investment in the few sectors that can help the country diversify its economy. MDF commenced 17 interventions — nine in agriculture (of these six in coffee), six in tourism and two in renewable energy. The portfolio remains strong despite investment being dampened by the pandemic and political transitions in 2022 and 2023. For example, an intervention on coffee processing is paused due to a land issue. MDF expects political disruptions to ease in 2024 as the country is now under unified rule by one political party.

¹ Asian Development Bank

Agriculture remained a priority during the year. MDF sees positive signs that Timor-Leste is transitioning towards specialty coffee, but low productivity is a significant hurdle. To address this, MDF signed new partnerships to expand private sector-led extension services focusing on replanting and rehabilitation. In pigs, MDF focused on African Swine Fever (ASF) recovery and resilience, especially piglet availability, improved breeds and better husbandry practices. MDF signed a new partnership with Timor-Leste's first provider of artificial insemination services. In other market systems, MDF continued existing partnerships, including assisting a partner to export Timor-Leste's first container of seaweed directly to an Indonesia factory.

MDF expanded its work in tourism, invigorated by the momentum of a post-pandemic tourism revival. Tourism has great potential for women's economic empowerment — it is the country's only female-dominated industry in terms of workforce participation. During the year, MDF developed new partnerships to stimulate demand, working with international and local operators. MDF also signed a partnership to expand employment opportunities for people with disability creating handicraft products for tourists and another partnership with a pig breeding business led by a person with a disability.

In 2023, the Timor-Leste team continued to integrate climate change adaptation and mitigation into the portfolio, with one Business Adviser dedicated to climate change and a Climate Change Coordinator shared with MDF Sri Lanka. Working with business partners, MDF designed new interventions that build farmer resilience in the coffee, pigs and seaweed sectors, and commenced work in mitigation through a new agreement with a firm to develop rooftop solar systems.

MDF maintained activities to influence key stakeholders on the need for private sector investment, women's economic empowerment and building climate change resilience. The program played a convening role for industry events and workshops on tourism promotion, specialty coffee and animal health, which provided opportunities for multi-stakeholder engagement around Australia's investments in Timor-Leste. Through social media, MDF highlighted stories on women's leadership and private sector engagement with people with disability. MDF continued to prioritise partnerships that expand opportunities for women's economic empowerment, including a new intervention with a company employing women with disability to create tourism handicrafts.



Alignment with government priorities

In 2023, MDF began supporting the Australian Government's new *International Development Policy* and the creation of the Development Partnership Plan for Timor-Leste (DPP). MDF's business networks and experience in key sectors position it to support the new policy and DPP: enhancing private sector resilience to climate change; combatting agricultural pest and disease outbreaks; helping market systems build back better; and increasing farmer livelihoods, particularly those of women. In addition, MDF's strategy aligns with the IX Constitutional Government strategy to boost productive sectors, including improving food security and resilience, increasing tourism competitiveness, and building a blue economy.



📷 Weaving naturally dyed, traditionally hand-woven tais textiles

Country and Portfolio Strategy

Country strategy

Timor-Leste remains one of the most extractives-dependent economies in the world.

Since its independence in 2002, the country has reduced poverty, improved security, increased school attendance and invested in infrastructure. Yet significant challenges remain. Revenue from offshore petroleum, which is declining, accounts for 45 per cent of GDP and 90 per cent of government revenue. While the economy has grown in recent years, growth has been driven

by government spending, which may be unsustainable in the long term.

There is a consensus that economic diversification is vital to increase living standards sustainably. Aside from the petroleum industry, the government's strategic plan prioritises investment in agriculture, tourism and manufacturing. A more diverse economy requires a larger, more vibrant private sector including new entrants. MDF's overarching approach in Timor-Leste, therefore, focuses on stimulating business activity, including working on new industries and entrants, across a variety of agricultural and tourism markets.

Economic diversification requires strengthening the private sector and government institutions that can contribute to inclusive growth. However, MDF in Timor Leste is a relatively small program. More investment is needed to support the domestic private sector and facilitate foreign direct investment. This effort must synchronise with improving governance, including informing policy decisions and improving regulation. MDF therefore works closely with other Australian programs like ACIAR, PROSIVU and TOMAK to leverage the full value of Australia's investment in Timor-Leste to strengthen the economy and support local institutions.



Climate change

Timor-Leste emits well below the global per capita average of greenhouse gas emissions. Nevertheless, it is highly vulnerable to the effects of climate change. Approximately 70 per cent of the population relies on low-input, rainfed agriculture. The country is susceptible to the increasingly frequent and unpredictable natural disasters expected from climate change, including flooding, droughts, landslides and soil erosion. El Niño is likely to reduce rainfall in Timor-Leste—in 2015-2016, El Niño caused a drought that severely affected 400,000 people mainly in the South and East.

In 2023, MDF accelerated climate change activities to meet the facility's goal of 30

per cent climate finance. In agriculture, MDF focused efforts on building farmer and supply chain resilience. MDF signed new interventions to improve coffee drying, to offset the effects of unpredictable rains on coffee quality. In early-stage exports, MDF worked with its seaweed partner to implement new methods for planting and drying that reduce disease and improve quality. MDF collaborated with the Australia Pacific Climate Partner on research into the effects of climate change on Timor-Leste's coffee sector and on the business case for investing in rooftop solar. Following the study on rooftop solar, MDF signed one new partnership, which will be implemented in 2024.



Sector rationale



Agriculture

Agriculture continued to be a focus in 2023 due to its importance for food security, nutrition and inclusive growth. Around two-thirds of Timorese households earn their livelihoods from agriculture, mostly using simple techniques and limited inputs to produce food crops for personal consumption. Investment in productivity is extremely low and total production has not increased in the past 20 years. Agriculture's share of GDP has declined as government expenditure has increased, but the percentage of the working-age population in the sector has remained relatively unchanged. Considering Timor-Leste's limited economic growth

options, MDF believes it is vital to support agriculture. Improvements in agriculture offer some of the best opportunities to promote incomes and employment, especially for women.

In 2023, MDF invested most of its resources in agriculture, with nine of the program's 17 new interventions in the sector. Market system strategies, which include an analysis of climate relevance, guide MDF investments. MDF's work spanned domestic and export markets and include coffee, chicken, pigs, agricultural inputs and early-stage export commodities.



Tourism

Timor-Leste's tourism sector accounts for only three per cent of GDP (USD110 million/AUD166 million), but it has the potential to contribute significantly to economic development. Business travel accounts for more than 70 per cent of revenue. Leisure tourism is an emerging area, with Timor-Leste welcoming 38,000 leisure travellers in 2019, mainly from Australia (48 per cent) and Indonesia (nine per cent).

Much needs to happen to encourage tourism sector growth, and little public investment has been made to date. The private sector is small, fragmented and has limited capacity for product development or marketing. The challenges in the tourism sector are complex, and many are beyond the scope of MDF, such as air connectivity, the US dollar economy and infrastructure. Therefore, MDF focuses on market systems and functions that present plausible opportunities to unlock growth.

The Results Story

MDF and partner investments drive tourism growth and agriculture gains



Timor-Leste's tourism sector saw a steady rebound in 2023, alongside an increase in economic activity. MDF interventions in seaweed and agri-inputs contributed to healthy results, with projected results from coffee, early-stage exports and agri-inputs indicating strong prospects.

Private sector partners recorded revenue growth, with MDF investments generating additional market transactions exceeding USD632,000 (AUD955,300) in 2023. Notably, more than 120 permanent and seasonal jobs were created through interventions in coffee, chicken and early-stage exports, with half of them filled by women.

In 2023, MDF's work in seaweed benefitted farmers through improved cultivation and drying practices, as well as access to new markets. Despite challenges, such as a lack of seaweed buyers due to price fluctuations in Indonesia, MDF's support enabled its seaweed exporter partner to identify a reliable buyer, establish a direct link and work towards meeting export requirements. This resulted in the successful export of the first container of seaweed to an Indonesian seaweed processing company, laying the foundation for future exports. The intervention not only increased farmers' income, but also enhanced their resilience to climate change, particularly benefiting women and people with disability who participated in seaweed farming.

MDF's investments in establishing agri-input retailers outside Dili improved farmers' access to inputs and reduced transport costs and effort. With inputs more readily available, farmers mentioned being motivated to continue growing, or grow more, vegetables. Over 70 per cent of farmers interviewed by MDF had expanded their cultivation area or were growing more vegetables. Moreover, the inputs were recorded as having high germination rates of over 95 per cent. Agri-input suppliers are optimistic and plan to expand distribution and establish direct relationships with Indonesian manufacturers. The agri-input association (ANSATIL) came together to buy fertiliser in bulk to reduce costs for farmers, purchasing 450 sacks of 50 kg each at a discounted price of USD47 (AUD72) per sack (compared to USD50/AUD77 per sack). With climate change threatening crop yields, there is an opportunity to provide farmers with more information on improved agricultural practices, building resilience and improving food security within the sector (see the Systemic Change Story in this country chapter).



Positive signs of commercial pig rearing

The pig market showed encouraging signs of transitioning towards more commercial pig rearing. Pig feed imports are increasing, and farmers are adopting better husbandry practices. Feed imports doubled to 322 tons in 2023 compared to 169 tons in 2022. Indonesian feed wholesalers seeing market potential began to establish agents in Timor-Leste. MDF's interventions in pig feed also progressed in 2023 – pig breeders sold an additional 640 pigs to farmers, improving the supply of high-quality piglets in the market. Overall, the price of piglets has reduced due to an increase in the supply of piglets post African Swine Fever shocks. Demand for quality breeds continues to outstrip supply, however. To address this, MDF supported the establishment of Timor-Leste's first pig artificial insemination laboratory, which sold insemination services to more than 100 farmers in 2023.



Coffee rehabilitation slows yield growth, but recovery is on the horizon

2023 continued to be a challenging year for coffee in Timor-Leste. A longer wet season in 2022 impacted flowering and yields in 2023. This was followed by unpredictable weather patterns in 2023, which further resulted in lower yields and impacted coffee drying. Country-wide coffee tree rehabilitation also had an impact on yields, as pruned trees require some time to re-flower and produce cherries. However, yields are expected to recover in the next two years. As a result, companies struggled to meet buying targets, and export of specialty coffee declined. While rehabilitation activities have reduced production in the short run, coffee yields are expected to increase in the longer term. MDF's intervention in coffee rehabilitation has shown an increase in the yields of rehabilitated trees compared to older trees. In addition to rehabilitation and rejuvenation, efforts are needed to increase coffee production and cope with climate change challenges through research on crop varieties and better extension services.

MDF's work in the import-dependent poultry market showed positive results, with one partner demonstrating the ability to produce local broiler chicken at a price comparable to imports. There is significant demand for locally produced chicken, and the partner generated additional revenue of more than USD96,000 (AUD147,000) in one year. Further investments in farms and processing can boost local supply, create farming and processing jobs, and reduce chicken imports through competitive pricing (chicken is currently the second-most imported food in Timor-Leste).



Tourism recovery bolstered by destination marketing

In 2023, MDF and TripAdvisor collaborated to increase businesses' awareness of online travel platforms: 89 participants attended a destination marketing workshop focusing on how to better use online platforms such as TripAdvisor. A post-workshop survey found that participants planned to use the information in their businesses. MDF also supported a corresponding marketing campaign on TripAdvisor that generated over 3.9 million impressions, mostly from the target audiences of Australia and Indonesia.

In 2023, MDF collaborated with Intrepid Travel to relaunch tours to Timor-Leste via a familiarisation trip with five travel writers from major publications, resulting in several high-profile articles. MDF's interventions with Intrepid and an Australian travel agent brought in 78 new tourists to Timor-Leste, generating additional in-country revenue of USD84,000 (AUD129,000). According to MDF partners, feedback from the tourists has been positive.



Climate resilience and inclusive business models remained in focus

In 2023, 1,658 farmers received access to climate-resilient inputs or tools through interventions in agri-inputs, seaweed, coffee and pigs. Seaweed farmers adopted a new planting method, supporting adaption to changing weather patterns and reducing the risk of 'ice-ice' disease. See the Inclusion Story in this country chapter.

MDF continued to have a strong impact on women's economic empowerment, with women accounting for 50 per cent of beneficiaries in 2023. In seaweed, MDF's support increased the participation of women and people with disability, who also reported a reduction in workload due to the new planting and drying methods. MDF's intervention with agri-input retailers provided (male and female) farmers with easier access to quality inputs, reducing the need to travel long distances to buy inputs and enabling an increase in production.



Women sort seaweed on Atauro island

To further support the inclusion of vulnerable groups, MDF worked with organisations for disabled people such as Ra'es Hadomi Timor Oan (RHOT) on revising its disability inclusion strategy. MDF also started new interventions with organisations working for or led by persons with disability, including the Bobonaro pig breeding farm and ReLoka. MDF continued to use the Washington Group questionnaire to identify and report people with disability benefitting through interventions and reported 15 farmers in 2023.

Early signs of systemic change

Building Timor-Leste's agricultural inputs market



Agriculture plays a crucial role in Timor-Leste, with two-thirds of households producing as smallholders. However, agricultural productivity is low and many households grow only for home consumption. A significant contributing factor is the insufficient use of agricultural inputs, such as fertiliser, high-yield seed varieties and tools.

Only six per cent of Timor-Leste's 141,141 agricultural households use fertiliser; a similar number use some form of plant protection and a mere 20 per cent employ high-yielding local seed varieties.

Farmers face two key challenges—limited supplies due to poor distribution networks and little awareness of the benefits of using inputs. Addressing these barriers is essential to increasing agricultural productivity, resilience to climate change and farmer incomes.

MDF is supporting multiple business partners to establish agri-input shops in various municipalities and administrative posts outside Dili. In 2021, MDF supported input retailer

Saknuka to establish an agri-input shop in Ainaro that has benefitted over 170 farmers, who no longer need to travel to Dili for inputs. This saves them both time and transportation costs – it is a six-hour round trip if using private transportation and a 12-16-hour trip by bus. Saknuka made additional sales worth USD39,000 (AUD59,500) in two years. In 2022, MDF signed agreements with Hyutmeran and Kiosk Lasama to establish the first dedicated agri-input shops in Aileu and Hera, respectively.

Timor-Leste's emerging agricultural inputs market is now showing early signs of responding to the investments made by MDF and partners.

Adopt/Adapt

Input availability increases use – and encourages partner innovation

Since Hyurmeran and Kiosk Lasama set up shop in Aileu and Hera, there has been an increase in vegetable farming in the area. The partners have generated over USD48,000 (AUD73,263) collectively in input sales.

Farmer behaviour is changing. Because inputs are easily available, farmers now purchase them more frequently and grow more varieties, across a wider land

expanse. Farmers report that the inputs are of good quality, with a germination rate of over 95 per cent. MDF's assessment also notes that, despite climate change challenges, farmers are able to maintain their production by using the inputs purchased from Hyutmeran and Lasama. Farmers are also travelling less compared to previous years and some have even stopped retaining their seeds. Farmers

in Aileu reported savings of USD55 (AUD84) per year on travel expenses that they now use instead for other family expenses. To put this in context, the monthly minimum wage in Timor-Leste is USD115 (AUD177) or USD5 (AUD7.70) per day.

Women in Timor-Leste's rural areas often shoulder the bulk of caregiving and household responsibilities,

alongside working in micro-businesses to support their families financially. With inputs more available and accessible, women farmers do not have to travel long distances to buy inputs and can instead use the saved time and effort on other economic tasks and leisure activities.

Access to information on good agricultural practices is a challenge

Timor-Leste, particularly for women. In addition to increasing the accessibility of inputs, Hyutmeran is sharing important information with farmers on better agriculture practices and the optimum use of the inputs. Timorese women are involved in all stages of vegetable farming and providing information on the correct use of inputs directly to women is key to improving farm productivity and farmer resilience.

Hyutmeran is also introducing new initiatives to increase sales, including providing guaranteed substitution if the seeds fail, buying back vegetables from farmers and trialling a seeds-on-credit model with a few farmers.

Expand

New market entrants and increased competition benefit farmers

Timorese input suppliers and retailers rely heavily on middlemen for imports. As a result, the supply of inputs is irregular and complete sets of inputs are often not available at retailers.

MDF supported Hyutmeran to visit Kupang, Indonesia, to link with larger input dealers. Hyutmeran developed a direct relationship with Chia Tai/PT. BISI International Tbk., a large-scale Indonesian input manufacturer and one of Asia's leading agribusinesses. Hyutmeran has since been buying inputs directly from Chia-Tai/BISI and invited the firm to visit Timor-Leste and

observe farming activities in Aileu and Selo. Encouraged by the high demand for the product among farmers, the Chia Tai/BISI representative saw Timor-Leste as a potential market to invest in expansion – developing a demo plot to train farmers on using the inputs. This will enable farmers to learn more about and share information on Chia Tai/BISI products.

Hyutmeran also established a connection with PRIMASID, another leading input producer in Indonesia, to introduce more products to Aileu. The increase in competition is expected

to increase input supply and benefit farmers. Hyutmeran's plans for 2024 include shifting to a 'supply-push' marketing strategy that will make inputs even more easily available. Rather than retailers seeking out importers from whom they can buy inputs (which can result in irregular supply), the importers will 'push' sales and supply inputs directly to retailers in various municipalities. This approach could significantly enhance agricultural productivity by addressing the supply-side constraints that hinder input adoption.



The relationship that I have with international input suppliers such as Chia Tai/BISI and Roda Tani is of great importance to me. This is because by being able to import high-quality inputs at fair prices, I can provide farmers in Aileu with the best possible resources to grow their crops. Not only do these imported inputs help to improve the harvest yield, but they also help to build trust with the farmers. They no longer need to travel long distances to Dili. Instead, they can conveniently come to Hyutmeran to access the same quality inputs at affordable prices.

Vicente de Jesus, Hyutmeran owner.

Respond

As the market evolves, new incentives come into play

ANSATIL, a farmer association comprising 17 agri-input retailers from 10 municipalities, has been inactive for the past few years but is now responding to the changes in the agri-input market. With farmers now increasingly using inputs, ANSATIL is collaborating with members to buy inputs in bulk from the supplier, so that farmers can buy from the association at a lower price. The association has already purchased one fertiliser container, resulting in a cost saving of USD1,350 (AUD2,060). This is a step in the right direction for the industry and can significantly increase the use of agri inputs among farmers.



ANSATIL launch event & first workshop in Dili, 2017.



Other international companies are now showing interest in developing distribution networks in Timor-Leste. MDF will continue working with partners to increase the availability of inputs in rural areas through supporting businesses to establish retail networks and connect with international suppliers. Climate change remains a threat to farmers and agricultural productivity in general; MDF will look to alleviate this by promoting the use of climate-resilient inputs through input suppliers and retailers.

Better availability of high-quality inputs strengthens farmers' climate resilience

Timorese farmers face increasingly unpredictable weather patterns, attributed to climate change. Longer dry seasons followed by heavy rains affect crop yield as well as quality. Quality inputs improve germination rates and support farmers to maintain production. Further, the local availability of agri-inputs is now enabling farmers to grow more crops and expand the land area used for vegetable cultivation, helping them build resilience to climate challenges and improve food security.



Chia Tai visited Hyutmeran shops and observed input products

Inclusion Story

Waves of change: Seaweed's transformative influence in Atauro

Meet Otniel Mameia, a teacher from Atauro, a beautiful island 35 km from Timor-Leste's capital, Dili. Despite mobility challenges, Otniel has been farming seaweed for years. He farms Eucheuma, a type that is recognised worldwide for its use in food, beverages, agriculture and pharmaceuticals. Through his work on seaweed, Otniel has supported his family and financed his son's tertiary education in Kupang, Indonesia.

Seaweed is a relatively small export commodity for Timor-Leste, accounting for less than one per cent of non-oil exports, but it has consistently been among the country's top-10 non-oil exports in recent years. It is also a significant source of income for people on Atauro, with over 1,000 households on the island farming seaweed. Seaweed farmers such as Otniel face several challenges including low productivity, difficulty accessing markets and diseases such as 'ice-ice.' MDF supports seaweed farmers in Timor-Leste by working with Cottonii Group, the country's first cooperative, established in 2008 with a membership of 600 farmers.

Click/scan the QR code
to read the full story



Climate Change Story

Sunny side up: Timor-Leste's potential for a rooftop solar transition

Despite having a tropical climate and abundant solar-power potential, Timor-Leste relies heavily on diesel to deliver power to its population of 1.3 million people. In 2023, MDF and the Australia-Pacific Climate Partnership (APCP) assessed the market for rooftop solar solutions in Timor-Leste, to understand the barriers, potential and opportunities. Although commercial and industrial tariffs in Timor-Leste are 118 per cent higher than those in neighbouring Indonesia, they still fall well below the actual generation costs. Consequently, the Government of Timor-Leste, like most other middle-income countries, subsidises the cost of electricity. The government allocates six per cent of the state budget to diesel every year, despite an emerging fiscal cliff threatening the economy.

Click/scan the QR code
to read the full story



Business Focus Story

Exploring Undiscovered Timor-Leste: MDF's Collaborative Journey with Intrepid Travel

Timor-Leste's captivating landscapes and vibrant culture invite exploration, yet its tourism sector needs better destination marketing. The country offers stunning marine life and niche experiences as mountain biking, historical treks, and cultural immersions. Despite its unique attractions, Timor-Leste's international tourism arrivals were only around 70,000 in 2019, which is significantly lower compared to other countries. Marketing Timor-Leste as a destination for travellers has long been a part of MDF's strategy; in 2023, a new partnership with a world-renowned travel operator.

In late 2022, MDF signed an agreement with Intrepid Travel to support their re-entry into Timor-Leste.

Click/scan the QR code
to read the full story

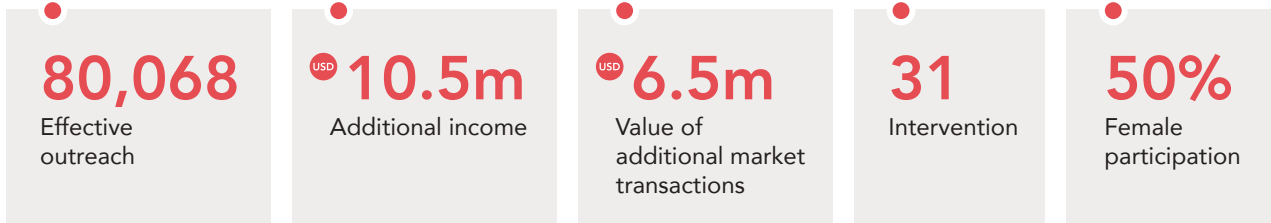


Agriculture



Sector on a Page

Agriculture

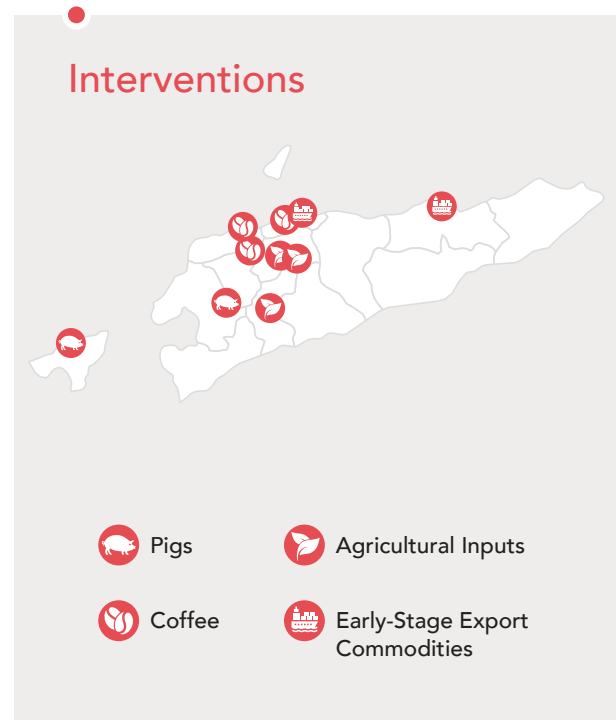


Vision of change

- Enhance coffee quality, with a growing emphasis on the specialty coffee market.
- Improve pig farming productivity by adopting commercial pig feed, utilising enhanced breeds and implementing better farming practices.
- Bolstering export opportunities for early-stage export commodities such as candlenut, cocoa, seaweed and virgin coconut oil.
- Proactive input suppliers and retailers, notably outside of Dili, improve the availability and accessibility of agricultural inputs to farmers.

Constraints

- Lack of access to crucial inputs like equipment, fertilisers, pesticides, and seeds.
- Farmers have a low knowledge and skill level in adopting productive farming techniques.
- Limited access and connections to domestic and export markets hinder the growth potential of the agricultural industry.
- Agri-inputs and technical experts are constrained by transport and travel restrictions, contributing to additional challenges in the sector.



Climate risks

70% of the population of Timor-Leste depends heavily on agriculture. Alterations in rainfall patterns and increased growing season temperatures are more likely to affect food production and reduced yields.

1

Market System

Pigs

Market on a Page



Pig rearing is prevalent for personal and ceremonial purposes, including income generating and as a 'living bank' – where farmers sell the pigs when they need urgent cash.



Demand for pork is growing but is unmet. In 2022, the country imported **773 tonnes** of frozen pork worth \$2.1 million.



Some pig farmers are adopting commercial farming methods to meet the demand. They construct pig pens, provide better nutrition, and raise more productive breeds.



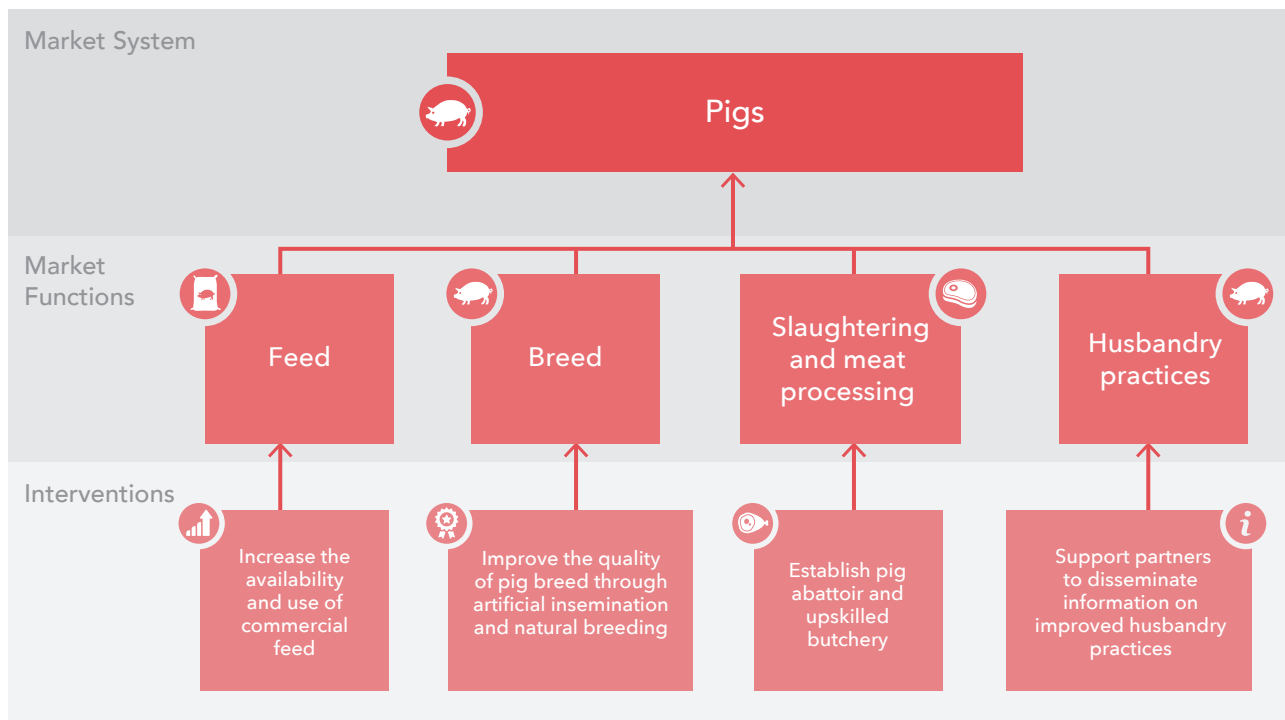
Commercial feed helps pigs reach slaughter weight in six-seven months compared to three years with traditional methods.



However, farmers outside Dili face challenges due to the lack of a distribution network and limited agricultural input retailers.



MDF seeks to encourage improved pig rearing practice, commercial feed utilisation and use of more productive breeds, to help boost farmer income and reduce the impact of climate change.



Status of the market system

Developing

Interventions (active and/or monitored in 2023)

1. Improving the availability of commercial pig feed and promoting more productive pig-rearing practices.
2. Growing a market for soymeal for use in pig feed.
3. Increasing the availability of piglets in several districts through improved breeding operations.
4. Establishing a pig abattoir and butchery and an out-grower farming business model.
5. Establishing commercial artificial insemination services for pigs to boost piglet production and alternative pig breeds.
6. Embedding animal health information and services through breeders, feed suppliers and traders.

Summary of performance

Despite the prevalence of African Swine Fever (ASF), Timorese smallholder farmers remained committed to the pig business. Farmer interest is driven by the cultural importance of pigs and increased demand and prices for piglets and mature pigs post-ASF. In 2023, pig breeders capitalised on this opportunity and increased piglet production, leading to an increase in supply and a drop in the price of piglets from USD250/piglet to USD200/piglet (AUD378 to AUD302). MDF’s interventions in pig breeding progressed in 2023, with an additional 640 pigs sold to farmers, improving the supply of high-quality piglets in the market. Pig feed imports are increasing alongside farmers’ adoption of better husbandry practices, doubling the imports in 2023 compared to 2022. Indonesian feed wholesalers are seeing the market’s potential and beginning to establish agents in Timor-Leste. In 2023, most interventions focused on improved breed and feed. However, information and improved husbandry practices were embedded in all interventions.

EO Projected (cumulative)	EO Actuals (cumulative)	Income Projected (cumulative)	Income Actuals (cumulative)	VAMT Projected (cumulative)	VAMT Actuals (cumulative)	PSI Expensed	Progress (Traffic Light)
64,883	64,825	USD 8,073,679 (AUD11,100,397)	USD7,978,438 (AUD10,953,872)	USD592,050 (AUD867,256)	USD448,238 (AUD646,006)	USD138,728 (AUD191,732)	<div style="display: flex; justify-content: space-around; align-items: center;"> ○ ○ ● </div>

Pigs are ubiquitous in Timor-Leste, reared to be used in cultural ceremonies, as a store of wealth and to generate income.

Before the outbreak of African Swine Fever (ASF), 82 per cent of rural households raised pigs. However, pig farming in Timor-Leste is much less productive than in peer countries mainly due to low-quality breeds, limited use of improved feed and low adoption of good husbandry practices. Per capita pork consumption is 11.5kg (2020) and much of this is met through the import of 1,000 tons of pork worth USD2.3 million (AUD3.4 million) (2022).

Timorese smallholder farmers remain committed to pig rearing despite ASF halving the pig population. Interest in pigs is driven by their cultural importance but increasingly by economic factors post ASF, as prices have increased for piglets and mature pigs. High prices are driven by a supply-demand gap, which has created opportunities for entrepreneurs like small-scale pig breeders. In 2023, pig breeders capitalised on this opportunity and increased piglet production, leading to an increase in supply and a drop in the price in piglets from USD250/piglet to USD200/piglet (AUD378 to AUD302).

MDF has supported partners in the Pig market system to transition from forage-based production to more productive pig rearing, resulting in affordable piglets, pigs and hygienic pork to meet growing demand. This transition includes rearing animals in pens, increasing access to healthy piglets and productive breeds, using commercial feed, and adopting good husbandry practices. Women play an important role in raising pigs so improvements in feeding and husbandry can reduce work burdens. For example, using complete feed eliminates the need to buy and cook pig feed.

The effects of a changing climate on pig rearing remain uncertain. In 2022, the La Niña effect increased rainfall throughout most of Timor-Leste, while in 2023 there was a longer dry season. The drastic change in yearly climatic conditions has made it difficult for pig farmers to protect their animals from the effects of climate change. Fortunately, biosecurity practices have the dual benefit of reducing the spread of diseases and managing risks associated with climate change (increased heat stress and disease prevalence, lower fertility and reduced food supply). By adopting improved breeds and complete feed farmers can increase animal productivity and reduce climate-related losses.

MDF operates in four market functions within the Pigs market system. In 2023, most interventions focused on improved breed and feed. However, information and improved husbandry practices were embedded in all interventions. Meat processing, on the other hand, saw a slowdown due to high pig prices. MDF signed two new interventions in 2023 and had eight active interventions with five companies, spanning all four market functions.

Market Functions

Feed

The use of complete pig feed in Timor-Leste has continued to grow — imports nearly doubled from 2021 to 2022. Although 2023 trade data was not available at the time of writing this report, MDF expects imports to have grown further. Due to the increased volume of feed, prices are falling, by about 10 per cent over the past few years. This increase in demand for pig feed indicates that pig farmers are becoming more commercial and improving their rearing practices. In 2023, another pig feed manufacturer in Indonesia registered interest in investing in Timor-Leste with MDF support.

Husbandry practices

Improved pig farming knowledge and practices remain vital to increasing productivity, reducing the spread of ASF and coping with the impacts of climate change. MDF has incorporated information-related activities into all pig interventions and embedded information into the services provided by the private sector. For example, feed intervention partners include knowledge on improved farming practices into their feed demonstration plots and the breeder farmers share this knowledge while selling piglets.

Piglets and breeds

The pig sector is recovering gradually from ASF, with some farmers replacing their lost stock with pigs of better breed. In 2023, MDF continued to work with breeder farms, also encouraging these farms to sell male piglets of improved breed to pig breeder farmers (i.e. those who provide breeding services). MDF also supported the establishment of the country's first pig artificial insemination laboratory and service and a new intervention with a pig breeding business owned by a person with a disability. These activities are supporting the gradual improvement of breed quality, resulting in pigs reaching a slaughtering weight of 70kg within 8-10 months, compared to 15-18 months in the case of traditional breeds.

Slaughtering and meat processing

Domestic processing will enable import substitution and create jobs in processing centres. There is growing interest in this function although businesses face barriers in maintaining a stable supply of quality pigs. In 2023, two MDF meat processing partners invested in pig breeding to address this problem. MDF also conducted a consumer preference study on fresh domestic pork versus frozen imported pork and found a preference for local pork even at a higher price. MDF will use the findings from this research in 2024 to engage a short-term consultant to support partners to design, establish and operate humane, safe and hygienic slaughterhouses.



LESSON LEARNED

MDF's role as a neutral broker

The growth of the Timorese pig sector has brought with it an increase in demand for imported pig feed. Picking up on these demand signals, Indonesian feed manufacturers are increasingly interested in building exclusive trade relationships in Timor-Leste so that they can capitalise on the increase in commercial pig farming. This is a positive, as Timorese importers can reduce costs if they can purchase feed directly from Indonesian traders, without intermediary charges.

In 2023, several Indonesian feed manufacturers approached MDF requesting support to establish dealerships and increase their sales in Timor-Leste. As there are very few feed importers in Timor-Leste, the feed manufacturers requested MDF to assure that the Timorese importers work exclusively with their businesses. However, MDF cannot assure such terms and conditions.

Instead, MDF in 2023 took on the role of a neutral broker, connecting the feed manufacturers with the importers and allowing them to negotiate the terms and conditions themselves. Over the year, MDF honed its approach and messaging to ensure open competition that empowered Timorese importers. MDF has already linked two Indonesian feed manufacturers with all major Timorese importers and will duplicate this approach in agricultural inputs in 2024.



2

Market System

Coffee

Market on a Page



Coffee is Timor-Leste's largest non-oil export, supporting the livelihoods of around **35%** of the population.



The coffee sector has become a competitive market with several players and export destinations, capable of withstanding market disruptions such as price fluctuations or biosecurity challenges.



Although Timor-Leste has traditionally exported commodity-grade coffee, it has the potential to become a niche player in the specialty coffee industry.



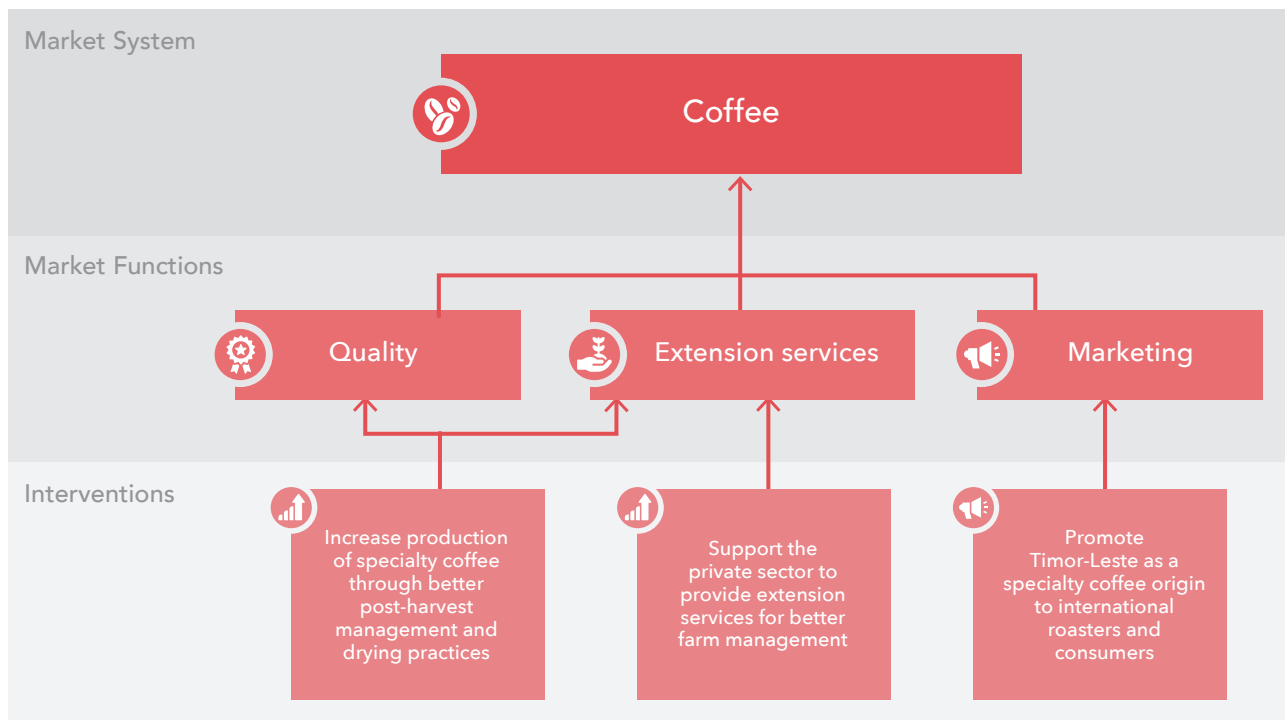
However, coffee productivity is decreasing, and overall quality remains low. In 2023, Timor-Leste produced only a small amount of coffee.



Climate change is causing an increase in rainfall, which may impact the quality of coffee. However, businesses are investing in dry houses to mitigate climate impacts.



MDF is actively supporting coffee farmers in rehabilitating their coffee trees and constructing portable drying racks to assist in their climate change adaptation efforts.



Status of the market system

Mature

Interventions (active and/or monitored in 2023)

1. Improving productivity through the rehabilitation and rejuvenation of coffee trees.
2. Increasing production of specialty coffee through improved cherry processing and quality assessment facilities.
3. Increasing coffee quality through cupping competition.
4. Promoting Timorese coffee as high-quality coffee to the Australian market.
5. Assessing the climate change impact of Timor-Leste's coffee sector.

Summary of performance

Coffee is Timor-Leste's biggest agricultural export, but productivity is among the lowest in the world. In 2023, MDF continued to support the industry to shift from commodity grade coffee to premium and specialty coffee, working in the quality, marketing and extension services market functions. However, 2023 continued to be a challenging year for coffee in Timor-Leste. The longer wet season in 2022 impacted flowering and yields in 2023. In addition to unpredictable rainfall patterns, coffee yields were lower due to country-wide rehabilitation. As a result, companies struggled to meet buying targets and specialty coffee exports declined. While rehabilitation activities have reduced coffee production in the short run, coffee yields are expected to increase in the longer term. MDF's intervention in coffee rehabilitation show an increase in the yields of rehabilitated trees compared to older trees. In addition to rehabilitation and rejuvenation, efforts are needed to increase coffee production and cope with climate change challenges through research on crop varieties and investments in better extension services.

EO Projected (cumulative)	EO Actuals (cumulative)	Income Projected (cumulative)	Income Actuals (cumulative)	VAMT Projected (cumulative)	VAMT Actuals (cumulative)	PSI Expended	Progress (Traffic Light)
9,023	7,998	USD1,077,231 (AUD1,532,367)	USD822,083 (AUD1,139,830)	USD4,740,505 (AUD6,662,106)	USD4,226,209 (AUD5,870,882)	USD155,854 (AUD215,601)	<div style="display: flex; flex-direction: column; align-items: center; gap: 5px;"> ○ ● ○ </div>

Coffee is Timor-Leste's biggest agricultural export, generating USD25 million (AUD38 million) annually and contributing to the livelihoods of 37 per cent of the population.

The industry's productivity is among the lowest in the world, at less than 200kg of green bean per hectare, compared with 530kg per hectare in Indonesia. Increasing coffee production and value is a government priority but the sector has received inadequate investment and is now threatened by climate change. It lacks the economies of scale to compete in low-quality commodity grade coffee but has natural attributes that give it the potential to compete in high-quality specialty grade coffee. Producing premium or specialty coffee earns higher returns for farmers and firms: Timorese farmers receive up to 40 per cent more for higher quality.

From 2021 to 2022, Timor-Leste's coffee export volumes decreased by 15 per cent due to ongoing rehabilitation, old trees and climate change. Coffee exporters were not able to meet market demand across all segments: commodity, premium and specialty. Farmgate prices increased by 20-40 per cent due to strong demand from exporters which helped to moderate the loss of income caused by lower production volumes. On a positive note, Timor-Leste tripled the share of specialty coffee exports, which accounted for 24 per cent of the total value of coffee exports in 2022.

In 2023, MDF continued to support the industry to shift from commodity grade coffee to premium and specialty coffee, working in the quality, marketing and extension services market functions. MDF has worked with most coffee businesses over the past several years, supporting improvements across these areas. However, the sector's challenges are significant and require robust investments in infrastructure, research, extension services and farm management. MDF remains committed to supporting this important sector while also working to influence larger actions that are beyond MDF's capability.

The coffee sector is threatened by climate change. As rainfall becomes more erratic, farmers find it increasingly difficult to harvest coffee and processors run the risk of coffee drying being hampered by rain. Temperature fluctuations can also be problematic as coffee trees produce less at higher temperatures. Most Timorese coffee comes from a hybrid variety (robusta/arabica) with plantations that are heavily shaded. These two features offer some protection from increasing temperatures.

MDF signed five new interventions in 2023 and by the end of the year had six active interventions, spanning all three market functions. As demand for Timorese coffee outstrips supply, MDF expended more effort towards increasing productivity and production, while still maintaining coffee quality. Key activities included coffee rehabilitation and renovation, provision of extension services, and post-harvest management.

Market Functions

Quality

To ensure coffee is of specialty grade, firms must ensure quality control during picking, processing, storing and cupping. In 2023, MDF continued to work with partners on improving quality management, focusing on establishing centralised processing stations, building staff capacity, and training farmers on good picking and processing techniques. More processors are adopting specialised processing methods like natural, honey and carbonic maceration. These methods fetch higher market prices but require more quality control and technical know-how. In 2023, the Coffee Quality Institute certified four Q Graders², a first for Timor-Leste, through an MDF-supported intervention with Asosiasaun Café Timor (ACT).

Marketing

Timor-Leste is becoming better known as an origin for specialty coffee. MDF works with partners to build awareness of Timorese specialty coffee in selected markets, with a focus on Australia and New Zealand, to generate demand from trade partners and consumers. In 2023, MDF supported ACT to organise a National AeroPress competition; MDF supported the winner of the competition to represent Timor-Leste at the World AeroPress competition held in Melbourne, Australia. This year, as demand for Timorese coffee outstripped supply, MDF put less emphasis on the marketing function.

Extension services

Coffee productivity in Timor-Leste is among the lowest in the world, largely due to the old age of coffee trees, limited coffee transplantation and poor farm management. MDF works with firms to provide extension services that support farmers to rehabilitate and renovate their coffee farms. MDF has made some progress towards this goal, hindered by a partially implemented government program that has affected market incentives. In 2023, rehabilitation progress slowed so MDF pivoted to support partners to establish nurseries to supply quality saplings to farmers and provide knowledge to better manage their farms. Progress remained slow due to firms' and farmers reluctance to invest, disincentivised by the government subsidy.

² Q Graders are specialists in "cupping" (i.e., tasting) coffee to identify flavour profiles, understand any defects and grade coffee using scoring criteria.



Participants compete in the Aileu Coffee Festival 2023

3

Market System

Early-Stage Export Commodities



Woman sorts seaweed on Atauro island

Market on a Page



Timor-Leste's largest non-oil exports is agricultural produce. This include commodities such as candlenut, cloves, coconut, konjac, seaweed, and vanilla, which contribute to only **5%** of total exports. Rural households are dependent on agriculture, and early-stage export commodities are mainly grown by small-scale farmers.



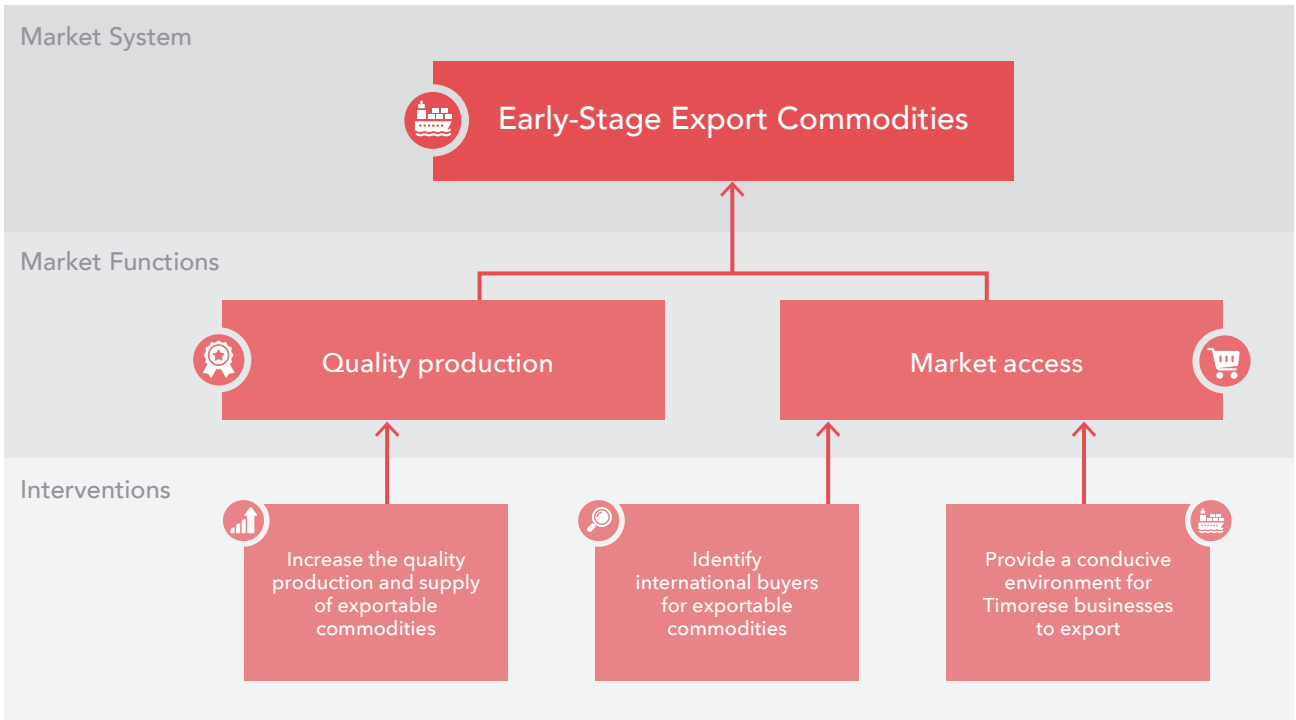
Timor-Leste exports substantial unprocessed agricultural produce to Indonesia, including candlenut, coconut, konjac and vanilla. This is due to easy market access, many active traders, and Indonesia's role as a large commodity importer.



Low productivity, limited knowledge of good cultivation practices, and lack of market access remain challenges.



MDF aims to develop these value chains to lead to pro-poor growth that supports higher incomes and improved livelihoods for farming households.



Status of the market system

Emerging

Interventions (active and/or monitored in 2023)

1. Improving seaweed productivity and market access to increase its competitiveness as an export commodity.
2. Increasing candlenut oil production for export.

Summary of performance

In this market system, MDF focuses on multiple crops: seaweed, candlenut, cocoa, coconut, vanilla and konjac. MDF’s support for early-stage export commodities is opportunistic. The program looks for market actors with the right mix of capacity and will to invest. By the end of 2023, MDF had three active interventions: one each in candlenut and seaweed, and one with TradeInvest. In 2023, MDF’s seaweed intervention yielded positive results, benefiting farmers through improved cultivation and drying practices, along with access to new markets, resulting in the successful export of the first container of seaweed to an Indonesian seaweed processing company. The intervention not only increased farmers’ income, but also enhanced their resilience to climate change, particularly benefiting women and people with disability participating in seaweed farming.

EO Projected (cumulative)	EO Actuals (cumulative)	Income Projected (cumulative)	Income Actuals (cumulative)	VAMT Projected (cumulative)	VAMT Actuals (cumulative)	PSI Expensed	Progress (Traffic Light)
3,905	3,150	USD526,190 (AUD751,259)	USD379,641 (AUD525,798)	USD935,932 (AUD1,364,574)	USD570,932 (AUD803,035)	USD121,459 (AUD172,692)	<div style="display: flex; flex-direction: column; align-items: center; gap: 5px;"> ○ ● ○ </div>

Timor-Leste has a significant negative trade balance outside the extractives industry. Timor-Leste produces several commodities that have untapped export potential, but these are early-stage industries with few market actors and export destinations.

Early-stage industries are also more vulnerable to market shocks. Konjac is a case in point. This edible plant was first exported in 2016 and quickly became Timor-Leste's second-largest non-oil export commodity. However, market disruptions in China resulted in the value of exports plunging from USD2.8 million (AUD4.2 million) in 2019 to USD0.1 million (AUD0.2 million) in 2022.

All early-stage export commodities face similar challenges relating to low production volumes and difficulty in maintaining quality and consistency. Despite these challenges, with the right buyers and market incentives, these value chains have the potential to function efficiently and grow.

MDF's support for early-stage export commodities is opportunistic. The program looks for actors with the right mix of capacity and will to invest. Coffee (76 per cent of non-oil exports) is a well-developed market, but this is not the case for other, smaller export commodities, such as cocoa, konjac, seaweed, candlenut and spices. Because of this, MDF must continually scan for new opportunities.

Timorese exporters are also constrained by the lack of phytosanitary infrastructure needed to test and provide certification. Without phytosanitary documentation, exporters cannot access certain markets. The government has established several bilateral treaties to allow export without phytosanitary certification, but these agreements are temporary and inconsistently implemented. In 2023, an MDF partner faced difficulty in exporting seaweed to a processing company in Indonesia because the government was not able to provide a phytosanitary certificate. Timor-Leste continues to work towards membership of the World Trade Organization, which should help to open more export destinations and ease the export process.

By the end of 2023, MDF had three active interventions: one each in candlenut and seaweed, and one with TradeInvest. MDF works in the quality production and market access functions, focusing on each commodity's specific barriers to growth: in candlenut, MDF supports production capacity; in seaweed, MDF works with partners to strengthen market connectivity; and with TradeInvest, MDF collaborates to improve the capacity of export businesses. In 2023, MDF also explored potential markets for cocoa and vanilla and in 2024 will establish partnerships with exporters and international buyers.

Market Functions

Quality production

Low and fluctuating volumes make it difficult for exporters to retain overseas buyers and grow Timor-Leste's exports. MDF focuses on improving farm practices and technology to improve quality and increase productivity. Under this market function, MDF works with seaweed and candlenut partners to build business and farmer capacity to improve production and quality.

In 2023, MDF supported partner Acelda to install a new oil press machine, imported from China. However, the firm was unable to operate the machine due to mechanical issues and a technician not being available.

Market access

Low production volumes lead to high export costs and inconsistent availability. As a result, Timor-Leste's exports tend to flow through semi-formal networks of traders into low-quality, low-value markets in Indonesia. These commodities could attract better prices in higher value markets, such as exporting candlenut oil to Hawaii. Exporters need to identify and target niche buyers that trade in high-quality commodities.

In 2023, MDF focused its efforts on identifying new buyers for early-stage exports. In seaweed, MDF linked a cooperative with two Indonesian seaweed factories for more direct trade. One of the factories purchased from the cooperative at a price nearly 80 per cent higher than the cooperative's previous buyer. In vanilla, MDF initiated discussions with a Swiss importer interested in purchasing Timorese vanilla. MDF sent samples that did not meet the buyer's standards. In 2024, MDF will look for ways to support the importer to work with the Timorese exporter to improve quality.



New export markets, new challenges – and greater risk and cost-share

The majority of Timorese businesses operating in early-stage export commodities do not have the market connectivity with international buyers required for growth. They tend to be small businesses that lack the capital and expertise to invest in establishing these essential links. This often requires that partners like MDF take on a significant portion of the risk of early-stage exports.

In 2023, MDF supported a business to export seaweed directly to a factory in Indonesia and another partner to send vanilla samples to Switzerland. Both exports faced challenges. The seaweed shipment was held for three months in Indonesian quarantine, as it did not have a health certificate, which the Government of Timor-Leste was unable to provide as it does not have phytosanitary facilities or processes. However, after much advocacy and coordination with both governments, Timorese customs authorities provided a health certificate stating that the shipment had been visually checked; this was accepted by Indonesia and the shipment was released.

Similarly, the vanilla sample exported to Switzerland did not meet Swiss quality standards. MDF is coordinating between the Swiss importer and Timorese vanilla exporter, working with the exporter to improve post-harvest management practices and the quality of vanilla exported.

These experiences underscore the challenges and risks in exporting new commodities with small, low-capacity partners. MDF remains committed to supporting more exporters but understands that in doing so in thin markets like Timor-Leste, it will need to co-invest more than usual to cover the initial risks associated with establishing new export markets.



4

Market System

Agricultural Inputs

Market on a Page



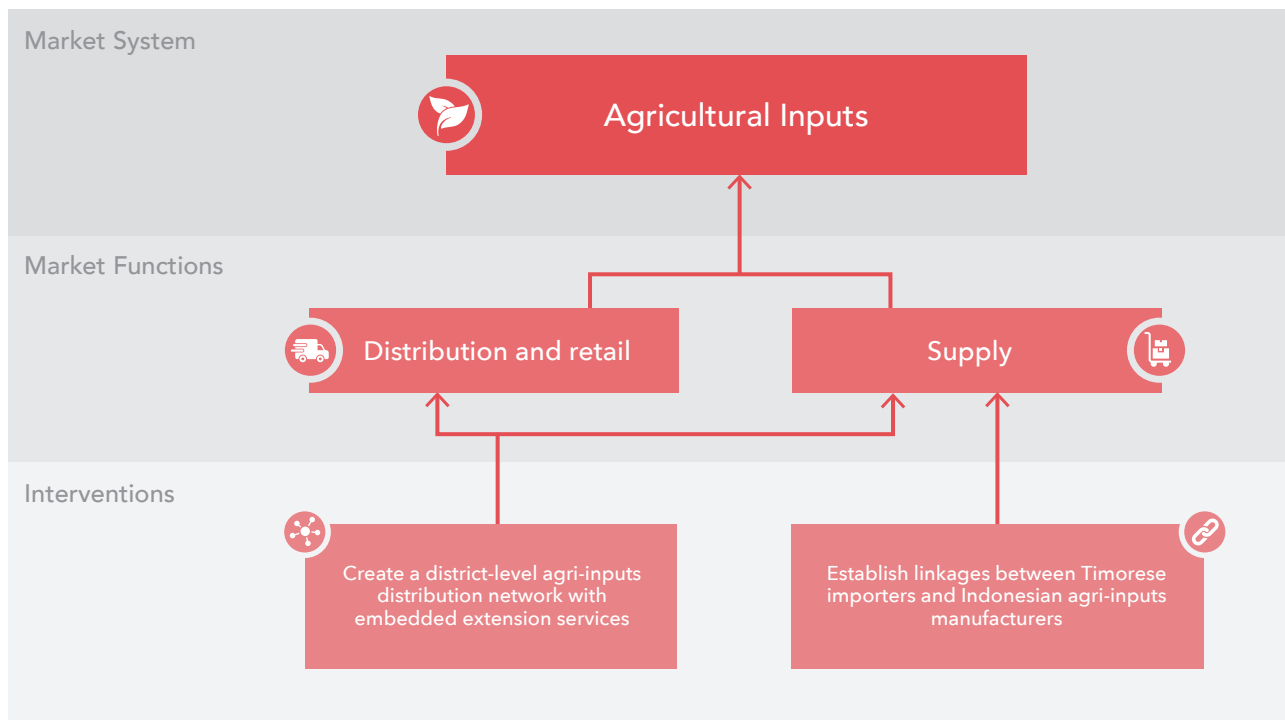
While households in Timor-Leste do not make use of agricultural inputs, only **6%** of the **141,141** households involved in agriculture use fertiliser, **6%** use plant protection, and **20%** use both high-yielding and local varieties of seeds and planting materials.



There are very few shops that sell agricultural inputs, and most of them are in Dili, making access difficult for farmers living in villages. Shops selling agri-inputs in municipalities are often not specialised and may only offer a limited selection of agricultural inputs compared to their stores in Dili.



MDF aims to increase the number of active input suppliers and retailers outside of Dili, thereby increasing the availability of inputs. Farmers who have access to quality inputs, along with information, can then become more resilient in dealing with pests and diseases.



Status of the market system

Emerging

Interventions (active and/or monitored in 2023)

1. Supporting the establishment of agri-input shops at district level with extension services.
2. Strengthening agri-input importers' market connections and distribution channels.

Summary of performance

Agri-input use in Timor-Leste is extremely low but growing. Import volumes remain low and few farmers have access to inputs. In 2023, MDF continued its partnerships with agri-input retailers. MDF investments in establishing rural retailers outside city centres have positively impacted farmers by improving access to inputs and reducing travel costs and effort. With inputs more easily available, farmers mentioned that they are more motivated to continue growing, or grow more, vegetables. Agri-input suppliers are optimistic and are planning to expand distribution and establish direct relationships with Indonesian manufacturers. Climate change poses a threat to crop yields; farmers will require information on agricultural practices that can build resilience and ensure food security.

EO Projected (cumulative)	EO Actuals (cumulative)	Income Projected (cumulative)	Income Actuals (cumulative)	VAMT Projected (cumulative)	VAMT Actuals (cumulative)	PSI Expensed	Progress (Traffic Light)
1,356	1,179	USD334,147 (AUD456,628)	USD281,967 (AUD376,352)	USD347,769 (AUD509,933)	USD184,770 (AUD259,165)	USD57,905 (AUD79,274)	<div style="display: flex; flex-direction: column; align-items: center; gap: 5px;"> <div style="width: 10px; height: 10px; background-color: red; border-radius: 50%;"></div> <div style="width: 10px; height: 10px; background-color: yellow; border-radius: 50%;"></div> <div style="width: 10px; height: 10px; background-color: green; border-radius: 50%;"></div> </div>

Agricultural inputs — seeds, fertiliser, crop protection, pest control and equipment — are an essential requirement in all agricultural market systems.

Studies have shown that the use of better inputs can increase yields by 20-50 per cent. Agri-inputs can also build resilience and help farmers adapt to climate change. Most inputs are imported to Timor-Leste because there is minimal domestic production.

Agri-input use in Timor-Leste is extremely low but is growing.³ Despite the substantial increase in the use of inputs from a low base, import volumes remain low and access to inputs is limited. There are only a few importers, distributors and dedicated retailers in Timor-Leste, most of which are located in Dili with weak distribution networks in other municipalities. As a result, it is mostly farmers located near Dili or the Indonesian border that have access to inputs. This disproportionately affects women and people with disability, who have difficulty traveling.

Most smallholders rely on their own production (such as the use of retained seeds and animal manure) or free distribution from the government and development programs. Free distribution has allowed some farmers to observe the benefits of applying quality agricultural inputs to their crops, but widespread and ongoing access to seeds, fertiliser, crop protection facilities and machinery will require a vibrant and diversified agri-inputs market. Moreover, even when farmers manage to procure inputs, they often apply them incorrectly due to a lack of information on proper usage.

Timor-Leste requires business models that are viable in small agricultural market systems, where input suppliers need to diversify their business across multiple input and crop types and food systems to achieve economies of scale. Specialised business models, such as a firm that only sells fish feed, tend to be unviable. More sophisticated, costly inputs and equipment are unlikely to be feasible until the basics are in place.

MDF's vision is that more agri-input importers and retailers enter the market to increase the accessibility and effective use of inputs, particularly outside Dili. This change will lead to higher productivity across a range of agricultural products and contribute to climate change adaptation. For example, climate-resistant seed varieties will improve the ability of Timorese farmers to adjust to shifting rainfall patterns and rising temperatures without experiencing crop losses.

In 2023, MDF continued its ongoing partnerships with agri-input retailers. Concurrently, MDF reworked its strategy to reengage with larger importers and distributors linking with Indonesian wholesalers. MDF will implement this revised strategy in 2024.

³ By 600 per cent since 2020, according to import data from Timor-Leste Customs Authority.

Market Functions

Supply

Timorese importers of agri-inputs currently deal with traders and do not have direct links with international manufacturers, meaning that importers must pay intermediary fees. MDF interventions have initiated direct connections between importers and international manufacturers and stimulated interest from companies such as Chia Tai, Gold Coin, Medilion, Primasid and Vaksindo to establish distribution networks with Timorese importers.

In 2023, MDF facilitated collaboration between Timorese importers and international wholesalers. MDF and its partners supported two market visits from a leading Indonesian input manufacturer interested in expanding sales in Timor-Leste. MDF also convened Timorese input importers for bulk ordering at a lower price, resulting in a better price for farmers of USD3 per 50kg sack of fertiliser (6 per cent reduction). MDF will pursue this new opportunity to attract international input manufacturers that require a guaranteed minimum volume.

Distribution and retail

There are only a limited number of market actors in Timor-Leste's Agricultural Inputs market system, and they tend to have suboptimal sales models. For instance, they do not use agents, extension officers or other methods to reach farmers in rural areas. Most shops wait for the stock in their store to run low and only then will travel to Dili to restock inventory. Shops closer to the Indonesian border also import directly across the land border, legally and illegally.

In 2023, MDF worked with district-based input retailers to establish dedicated shops and provide extension services to farmers. These retailers, supported by MDF since 2022, are becoming stronger and developing good relationships with importers. Importers have, for the first time, started to see value in working directly with district retailers and building their capacity to increase sales. In 2024, MDF will capitalise on this opportunity and work with importers to strengthen their district networks and build the capacity of their retailers.

Exploratory work in agriculture



Broiler chicken

Broiler chicken is Timor-Leste's second-largest food import after rice. In 2022, Timor-Leste imported USD30 million (AUD45 million) worth of chicken, and imports increase every year. Only large producers with economies of scale can be competitive in this market. MDF's vision is to increase domestic production to offset imports, increase the supply of affordable protein and create job opportunities, especially for youth.

Seeing the potential in this market, MDF signed two intervention agreements in late-2022 to support the domestic production of more affordable broiler chicken. Although broiler chicken businesses require importing feed and day-old-chicks (DOCs), MDF's pilot showed that domestically produced broiler chicken can be competitive with frozen imports: MDF's partners are able to sell chicken at USD3.25-5.25 per kg (AUD4.95-8) compared to USD3.5 per kg (AUD5.3) for imported chicken. This year, MDF continued to support partners to improve facilities, ramp up production and market their products.

In 2023, MDF explored the next steps for this market system. Some market actors are interested in investing in a slaughterhouse. MDF will continue to observe responses from other market actors and capitalise on opportunities for private sector investment in this sector.



Foot and Mouth Disease (FMD) and Lumpy Skin Disease (LSD)

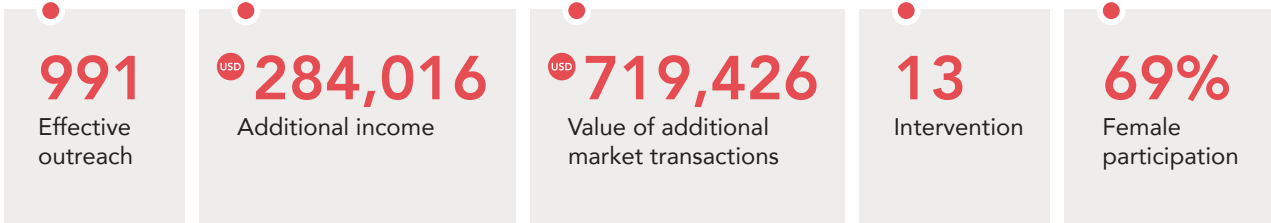
Foot and Mouth Disease (FMD) and Lumpy Skin Disease (LSD) are threats to Timorese livestock. In 2022, MDF, the Ministry of Agriculture, Livestock, Fisheries and Forestry (MALFF), and Australia's Department of Agriculture Fisheries and Forestry (DAFF) collaborated to design and produce awareness raising material about FMD and LSD. The material included posters and brochures for MALFF extension staff and other market actors. In 2023, MALFF launched an awareness campaign, focusing on the border region with Indonesia. This campaign focused on early detection and reporting FMD and LSD to MALFF.



Tourism



Tourism

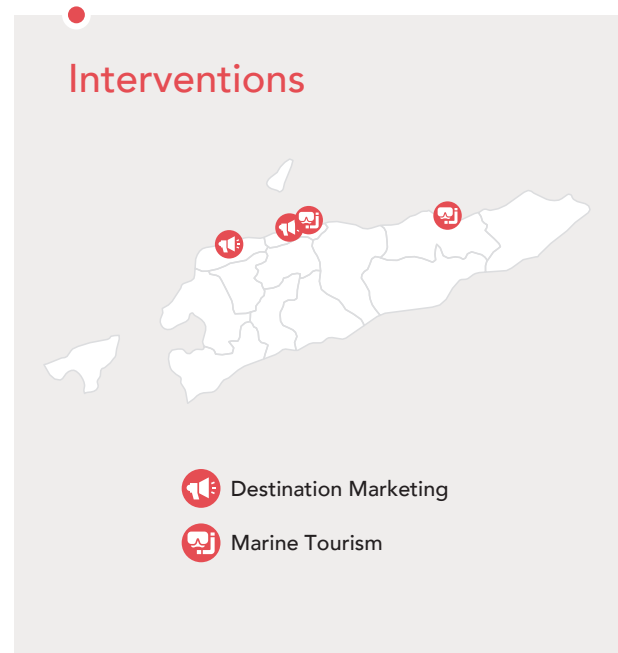


Vision of change

- Position Timor-Leste as a well-known tourist destination among high-potential markets: Australia, Indonesia, and Singapore.
- Utilise effective destination marketing to help tourists and sellers understand Timor-Leste's offerings, aligning their interests with the country's attractions.
- Boost tourism through marine tourism, collaborating with market players to protect natural resources and benefit stakeholders.

Constraints

- Insufficient destination marketing in key markets.
- Lack of local capacity for delivering high-quality tourism products and services.
- Limited online booking and payment systems due to a lack of digital and financial infrastructure.
- Limited flight connectivity with key markets.
- The strengthening US Dollar exacerbates the cost competitiveness of tourism products and services.



Climate risks

- Timor-Leste's coral reefs have been less affected than other coral triangle reefs, but 2°C of warming by 2100 and ocean acidification pose serious threats to marine tourism.
- Annual climate risks include mass coral bleaching and mortality, along with changing marine fauna distributions.

1

Market System

Destination Marketing

Market on a Page



Timor-Leste is relatively unknown to potential travellers, with only **24%** exposure to marketing information.



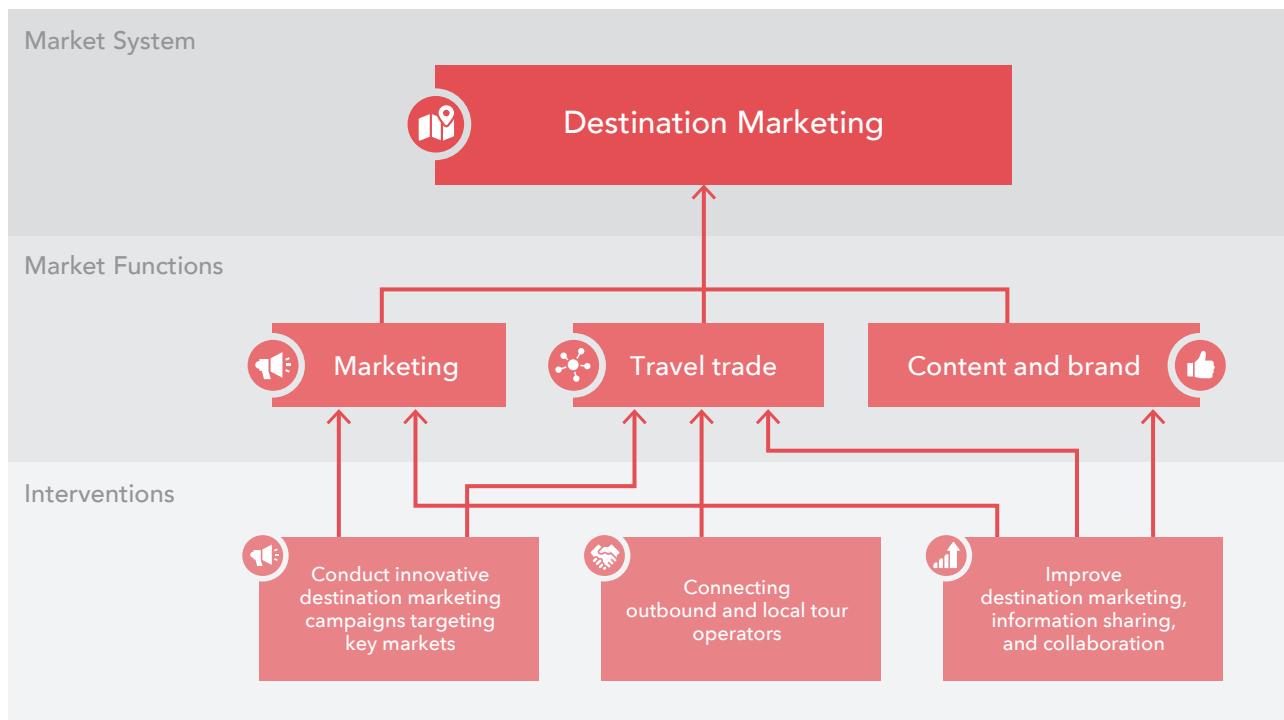
The National Tourism Policy envisions a vibrant, attractive tourism sector by 2030, significantly contributing to employment; ensuring economic, social, and environmental sustainability; promoting a positive international image; and creating a desirable industry.



MDF's vision for destination marketing is to help tourism businesses better understand how to market their products and effectively promote Timor-Leste.



MDF collaborates with international partners such as Intrepid, TripAdvisor and Qantas and enhances local partnerships to promote Timor-Leste as a unique destination.



Status of the market system

Developing

Interventions (active and/or monitored in 2023)

1. Improving local operator capacity and running insights-driven destination marketing campaigns.
2. Promoting Timor-Leste tourism to Australians through digital marketing.
3. Marketing Timor-Leste through familiarisation tours, or 'familis.'
4. Facilitating marketing and links between Australian and Timorese tourism operators
5. Improving destination marketing, information sharing and collaboration.
6. Collaborating on Timor-Leste tourism sector development.

Summary of performance

Timor-Leste lifted its State of Emergency and reopened borders in early 2022, reenergising tourism. Qantas commenced commercial flights in March 2022; by the end of the year, the country had the same number of international flights per week as before the pandemic. MDF capitalised on the tourism upswing by commencing five new destination marketing interventions in 2023. MDF's partnership with TripAdvisor increased businesses' awareness of online travel platforms. 89 participants attended a destination marketing workshop focusing on how to better use online platforms like TripAdvisor. The corresponding marketing campaign on TripAdvisor generated over 3.9 million impressions, mostly from the target countries of Australia and Indonesia. MDF's intervention with tour operators in Australia also showed positive results, bringing 78 new tourists to Timor-Leste, and generating USD84,000 (AUD128,000) in additional market transactions.

EO Projected (cumulative)	EO Actuals (cumulative)	Income Projected (cumulative)	Income Actuals (cumulative)	VAMT Projected (cumulative)	VAMT Actuals (cumulative)	PSI Expensed	Progress (Traffic Light)
46	26	US 51,020 (AUD78,059)	USD18,575 (AUD28,144)	USD259,810 (AUD396,547)	USD101,950 (AUD153,685)	USD88,288 (AUD130,887)	<div style="display: flex; justify-content: space-around; align-items: center;"> <div style="width: 10px; height: 10px; border: 1px solid red; border-radius: 50%;"></div> <div style="width: 10px; height: 10px; border: 1px solid orange; border-radius: 50%;"></div> <div style="width: 10px; height: 10px; border: 1px solid green; border-radius: 50%;"></div> </div>

Most public and private efforts to develop tourism in Timor-Leste have been focused on supply; demand creation has not been a priority.

But Timor-Leste does not have a reputation as a tourism destination and is one of the least-visited countries in the world. Despite having unique tourism attractions, the number of international tourists visiting primarily for leisure is extremely low, around 11,000 per year before the pandemic.

As one of the newest countries in the world, there is scant information available about Timor-Leste. Information that was available is now obsolete after the pandemic and connections between domestic operators and outbound operators are weak. Marketing is needed to boost the country's profile in target segments of key source countries, such as dive and adventure tourists, who tend to be more 'determined' travellers. Travel trade connections are needed to package tours and stimulate demand.

Since Timor-Leste lifted its State of Emergency and reopened its borders in early 2022, the tourism industry has been reawakening from two years of near-zero arrivals. Many small businesses did not survive. For those that did, there is renewed energy rallied by a revival in connectivity. Qantas commenced commercial flights in March 2022 and has since expanded services to five times per week. Dili International Airport now has the same number of flights per week as before the pandemic. However, ticket prices to Dili remain high, especially considering the strengthening of the US dollar.

Firms have shown low interest in investing in marketing coming out of the crisis. They lack knowledge about consumer preferences and have limited capabilities to market themselves beyond a few ad hoc Facebook posts. There is general suspicion about travel trade relationships because of the built-in margins. It is a challenge to book experiences directly in Timor-Leste and this is holding back demand.

MDF capitalised on the tourism recovery by commencing five new interventions in destination marketing in 2023, with a focus on the marketing and travel trade market functions. Aspects of the brand and content market functions are embedded in most interventions.

Market Functions

Marketing

Marketing interventions aim to target different points in a consumer conversion 'funnel'. Some interventions focus more on awareness and perception. For example, an intervention with TripAdvisor in 2023 showcased Timor-Leste to users in Australia and Indonesia. Other interventions focus on direct bookings. For example, a new intervention signed in 2023 with HOTL includes support to local operators (i.e. HOTL members) on marketing, as well as support for the association to attend trade fairs, including Bali and Beyond.

Travel trade

Coordinating marketing efforts across the private sector is important and will take different forms, including developing stronger connections among Timorese operators and between these operators and outbound operators in source markets. A new intervention with Intrepid Travel points to the potential for improved travel trade relationships to increase demand. MDF linked Intrepid with domestic operators that run in-country operations, with Intrepid providing capacity building and marketing support. Intrepid and Timor Unearthed, its selected local partner, ran one trip in 2023, with four more planned for 2024.

Brand and content

There is a lack of branding and high-quality content in tourism marketing. Although the country's 'Explore the Undiscovered' brand is well-regarded by tour operators, it is not widely used outside the country. The quality of photos and video used for marketing is improving, especially on social media. In 2023, interventions with Intrepid, Trip Advisor and TravelManagers Australia promoted the consistent use of the brand and high-quality content. In addition, these interventions helped build a content bank of shared imagery and videography that can be used by small operators to promote Timor-Leste.

Freshly independent, Timor-Leste is Asia's newest drawcard.



Story by Rachelle Mackintosh

Article on Qantas Magazine,
December 2023 edition

Down's light dances across the mountains as Rabileu village
elders chant and pound their drums, their feathered
headaddresses gilded by the rising sun. Flashing betel nut-red
smiles, they lead me and my six fellow travellers into a circle
where we hold hands and kick together in a joyful rhythm that's
more Nuthush than can-can. The music peters out and we're
called to an altar where village chiefs touch our necks



LESSON LEARNED

Success in a sluggish market system can be a multi-year journey

MDF's tourism efforts during the pandemic appeared to yield few immediate results. Businesses did not want to think about an uncertain future and investment was out of the question. Regardless, MDF kept in regular contact with businesses and looked for small opportunities for collaboration, including research. These low-key interventions have been crucial to tourism results in 2023. Relationships maintained during the pandemic blossomed into new interventions, including with the Hotel Owners Association of Timor-Lorosa'e (HOTL) and Intrepid Travel. Without this patient approach, MDF would not have had the knowledge or relationships to quickly form new partnerships as post-pandemic opportunities arose.

2

Market System

Marine Tourism

Market on a Page



Timor-Leste, situated in the Coral Triangle, offers some of the most untouched and ecologically diverse dive sites in the world, showcasing vibrant hard and soft corals and a diverse array of reef fish.



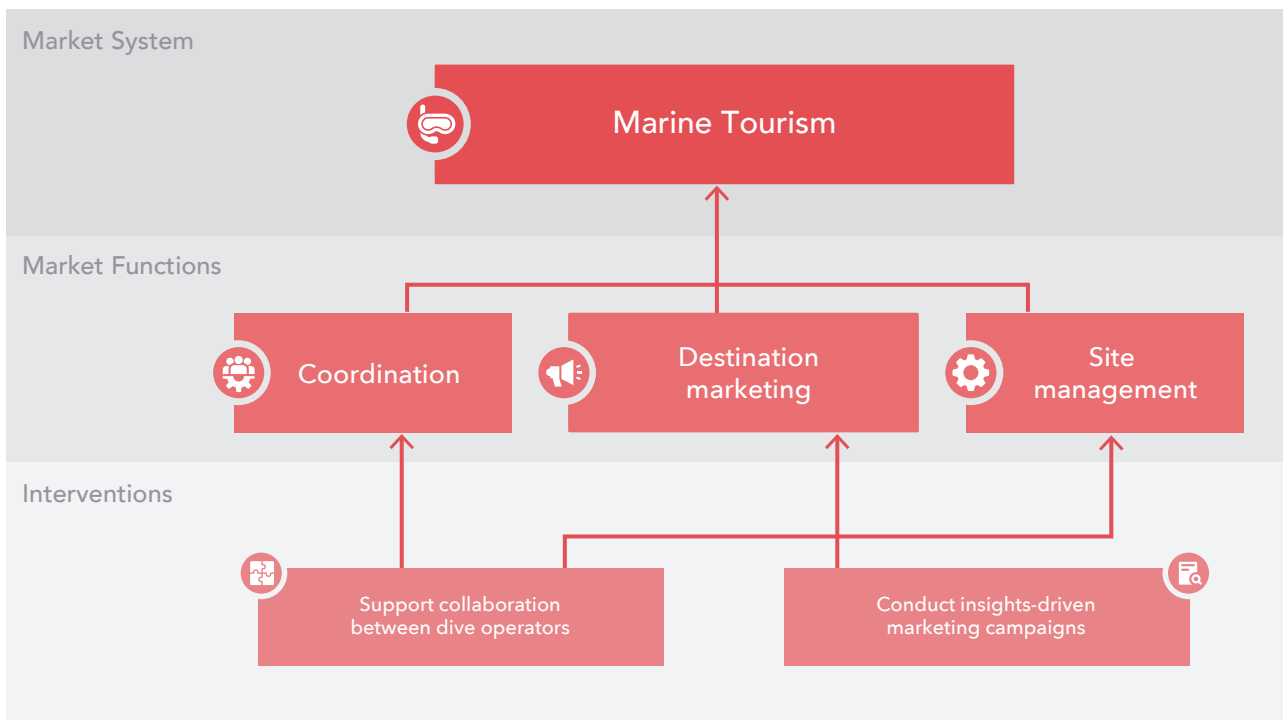
Atauro's biodiversity surveys reveal the highest average numbers of reef fish, whales, dolphins, and fossilised corals in the country, making it an ideal destination for sustainable tourism.



In 2023, an estimated **400** tourists arrived in Timor-Leste for whale watching.



The collaborative efforts of MDF and the Dive Operators Working Group (DOWG) launched a new dive map of Timor-Leste in 2023. This initiative promotes the country's renowned natural beauty and vibrant marine life and strengthens Timor-Leste's standing as an exceptional diving destination, contributing to sustainable tourism growth.



Status of the market system

Developing

Interventions (active and/or monitored in 2023)

1. Collaborating with stakeholders to promote marine tourism.
2. Promoting marine tourism in key markets.
3. Growing marine tourism by supporting collaboration between dive operators.

Summary of performance

There has been slow but steady growth in this market system after the pandemic. Demand for whale watching is robust and several operators added new boats this season. Diving and snorkeling are growing at a slower pace and just recovering to pre-pandemic levels. However, there have been no new market entrants. MDF will continue to work with the MDF-created DOWG, as industry coordination is crucial to tackling the challenges in the market. However, MDF decided to complement this work with firm-specific interventions where incentives are better aligned. This includes attracting new entrants willing to work through existing operators (a travel trade modality) or setting up new operators.

EO Projected (cumulative)	EO Actuals (cumulative)	Income Projected (cumulative)	Income Actuals (cumulative)	VAMT Projected (cumulative)	VAMT Actuals (cumulative)	PSI Expensed	Progress (Traffic Light)
0	0	USD0 (AUD0)	USD0 (AUD0)	USD6,672 (AUD10,202)	USD2,672 (AUD4,048)	USD39,032 (AUD55,537)	<div style="display: flex; flex-direction: column; align-items: center; gap: 5px;"> <div style="width: 10px; height: 10px; border: 1px solid red; border-radius: 50%;"></div> <div style="width: 10px; height: 10px; background-color: yellow; border-radius: 50%;"></div> <div style="width: 10px; height: 10px; border: 1px solid green; border-radius: 50%;"></div> </div>

Marine tourism is Timor-Leste's greatest tourism asset: 70 per cent of leisure tourists engage in diving, snorkelling or whale watching.

Timor-Leste's waters are part of a major whale migration route, which affords the country an opportunity to allow accessible cetacean tourism. Prior to COVID-19, the number of tourists had been steadily increasing.

MDF's vision is to establish Timor-Leste as a well-known destination for snorkelling, diving and whale watching in selected markets, starting with Australia and Europe. The ambition is that awareness within this segment in these regions increases sufficiently so that Timor-Leste becomes a recognised destination.

In pursuit of this goal, marine tour operators in Timor-Leste need to find the incentives and modalities to collaborate with each other and other private and public tourism stakeholders. There are eight active dive operators and, with the support of MDF, they have started to address industry issues collectively. MDF formed and continues to work with the Dive Operators Working Group (DOWG), a voluntary grouping of dive operators.

There has been slow but steady growth in the market system after the pandemic. Demand for whale watching is robust and several operators added new boats this season. Diving and snorkelling are growing more slowly and just now recovering to pre-pandemic levels. However, the industry is stagnant, with no new entrants.

MDF will continue to drive interventions through the DOWG whenever possible, as industry coordination is crucial to tackling the challenges in the market. However, MDF made the decision to complement that coordination with firm-specific interventions where incentives are stronger. This includes attracting new entrants willing to work through existing operators (i.e. a travel trade modality) or setting up new operators.

Marine tourism faces an imminent threat from climate change. Rising water temperatures caused by climate change have bleached and damaged reefs around the world. Timor-Leste's marine ecosystems are an outlier and remain relatively healthy, especially near Atauro Island. However, coral reefs are affected by unregulated waste management and fishing. Increasing visitor numbers also place a strain on marine ecosystems. In 2024, MDF will conduct an economic analysis and carrying capacity study to identify opportunities for improved site management.

Market Functions

Industry coordination

Industry coordination is a cross-cutting function and includes work on destination marketing and improving site management. To address the constraints the dive industry faces, operators must collectively advocate at the national level for improved air connectivity and infrastructure, market their products collaboratively, and share information. During the year, MDF pivoted to work with a subset of DOWG members that are the most motivated to tackle issues and co-invest on interventions.

Destination marketing

MDF and the industry are focusing on building Timor-Leste's reputation as a dive destination in the Australian and European markets. Linking closely with MDF's wider work on destination marketing, activities are aimed at both the end consumer and business partners such as tour operators.

In 2023, MDF and three DOWG members signed a new partnership to market Timor-Leste at up to three expos: ADEX Ocean Festival (Singapore), OZTek Dive Show (Australia) and Go Diving Show (UK). The DOWG will use previously developed content, including a dive map released in 2023, at these events.

Site management

Maintaining the quality of dive sites is fundamental to the long-term sustainability of dive tourism in the country. The DOWG's coordination is crucial to site management because it promotes collective action. Given the different operators' incentives, this process is not always straightforward. There was a marked improvement in coordination during the 2023 whale watching season, which is critical due to the number of boats on the water and potential to disrupt whale migratory patterns.





Dance partners: Learning and adapting are key to a successful partnership

To date, MDF's work in the marine tourism sector has largely been through the DOWG, rather than individual operators. This approach led to MDF and the DOWG trying to reach unanimity on decisions. However, in late-2022 MDF reassessed this approach due to diminishing returns: it was becoming increasingly difficult to find shared incentives to implement activities. In 2023, MDF pivoted its approach to working with a subset of DOWG members that are the most motivated. Using this approach, MDF and DOWG conducted a drone training and signed a new agreement to market Timor-Leste at international expos. Going forward, MDF will still seek consensus where appropriate (e.g. for site management) but focus efforts on interventions with a subset of DOWG or even with individual dive operators.

Other tourism work

In 2023, MDF commenced a new intervention with ReLoka, a local social enterprise employing women and people with disability. ReLoka creates handicrafts using hand embroidery, silk screening and recycled glass. With MDF support, it is starting a new product line using local dyeing ingredients in its fabric products. Timorese women traditionally use dyes during tais (traditional Timorese handwoven textile) weaving, although the practice is petering out. Under a previous intervention, ReLoka conducted an assessment and met with local dyers, farmers and a social enterprise in Bali. The new intervention, based on this assessment, will create new employment opportunities for women with disability.

MDF regularly scans for new tourism opportunities outside destination marketing and marine tourism. This is done through consultations with local and international operators, government, and development partners active in tourism. In 2024, MDF will further scope potential opportunities to work with accommodation providers. For example, MDF and Hilton have discussed ideas, cutting across tourism and agriculture, but this has been put on hold due to construction delays.

Other sectors

Renewable energy

In 2023, MDF and the Australian Pacific Climate Partnership (APCP) researched the potential for rooftop solar in Timor-Leste. The findings showed significant potential in a nearly greenfield market: the country has fewer than a dozen rooftop solar installations beyond small household solar kits.

Rooftop solar can reduce greenhouse gas emissions, lower business costs, create employment opportunities and decrease government expenditure on diesel fuel (USD109 million, or AUD164 million, in 2020). The industry's development is inhibited by ambiguous regulation, lack of service providers and limited consumer awareness. In 2023, MDF worked with PROSIVU to develop a whitepaper

on the economic implications for rooftop solar in Timor-Leste. In 2024, MDF and PROSIVU will use the report to influence government and industry stakeholders to improve regulation.

MDF signed a new intervention with an Indonesian solar service provider to assist their market entry. The intervention supports the provider to train Timorese workers from a local training centre and conduct marketing activities to promote the service launch. MDF is looking for more partners in renewable energy and expects to sign new agreements in 2024.

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The Asia Foundation (TAF)
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World Food Programme (WFP)

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- Timor-Leste: 2nd Street, Palm Business & Trade Centre, Surik Mas, Dili
- Fiji / Pacific Regional: Garden City Business Park, Grantham Road, Suva, Fiji
- Sri Lanka: No. 349, 6/1, Lee Hedges Tower, Galle Road, Colombo 03, Sri Lanka
- Samoa: Poinsettia House, cnr Ifilfi St & Moto'otua Rd, Moto'otua, Apia, Samoa
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