



# Coffee

Thematic Paper

# Why is MDF involved in the coffee industry?

Coffee is an important cash crop for many farmers and coffee exports are a source of foreign exchange. MDF works in the coffee industry in Papua New Guinea (PNG), Sri Lanka and Timor-Leste to promote a shift from commodity grade to specialty and premium grade coffee.

As global demand for coffee has grown, low volume producers like PNG, Sri Lanka and Timor-Leste have struggled to compete in commodity-grade coffee markets with more efficient, high volume producers such as Brazil and Vietnam.

The coffee industries in each country share key characteristics: they are dominated by smallholder cultivation, productivity is declining, quality is compromised by inappropriate cultivation and processing practices and returns to smallholders are low or unstable. The intrinsic profile of their coffees, however, is sought after in speciality and premium coffee markets, which are growing. These niche but expanding markets present an opportunity for low volume producers. Speciality and premium coffees attract premium prices. This creates incentives for coffee firms to invest in their supply chains and pay higher farm-gate prices, so long as farmers can produce a consistent quality.

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Consistency and quality are the key requirements for specialty and premium coffees – and that entails enhanced cultivation, harvesting, processing and storage practices.

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MDF works with coffee firms to adopt new business models that support upgrading of smallholder production and more quality-focused processing. This includes extension services, sourcing and processing models, processing equipment and techniques, sensory analysis, quality assurance, and hermetic storage of beans. At an industry level, MDF promotes collaboration and coordination to improve industry marketing and certification.

Over time, MDF has built up a rich experience and detailed understanding of how specialty and premium coffee market systems operate, their opportunities and constraints, and innovation solutions to improve competitiveness and inclusion. MDF is increasingly recognised as credible, value-adding partner by industry stakeholders, which is yielding new opportunities and partnerships.



# What we do in individual countries



Papua New Guinea

In PNG, MDF is building the capacity of coffee firms to provide extension services and credit to farmers, and introducing a more affordable certification system. These innovations appear to be triggering system-wide changes. Exports of certified coffee have increased and exporters are paying higher prices to their farmers. MDF's business partners are extending their services to smallholders in order to procure greater volumes of coffee. MDF is working to introduce dual Fairtrade and Organic certification and will continue to promote awareness of PNG high-grade, sustainable coffee domestically and internationally. In 2021 MDF will:

- Evaluate opportunities of introducing new international green bean buyers with interests in backward integration.
  - Introduce processing techniques to produce higher grade coffees.
  - Facilitate and promote coffee certification.
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Sri Lanka

In Sri Lanka, MDF is working on quality and quantity. A particular focus has been to stimulate a market for red cherries instead of green beans, which improves returns to farmers and allows processors to better control quality. Processors are being supported to upgrade processing equipment and techniques, implement improved cherry collection systems, and use a technique called 'cupping' to ascertain quality. MDF is also working with the government to increase the availability of coffee seedlings, through a commercialised nursery model which will contribute towards improving volumes of specialty coffee. In 2021 will:

- Focus on developing the quality of coffee according to specialty coffee standards.
  - Work with Sri Lankan Government to conduct a genetic profiling of the Arabica varieties and share the results with the exporters and execute coffee seedling production programs.
  - Support the setting up of the national coffee association.
  - Engage with international coffee specialist, Raw Material, to develop and execute a multi-faceted coffee sector development plan.
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Timor-Leste

In Timor-Leste, MDF works with specialty coffee processors and exporters to strengthen quality control practices such as storage, processing facilities and access to technical personnel. MDF supports the National Coffee Association to market the top 10 specialty coffee samples to export markets through an origin marketing campaign and also supports coffee plantation rehabilitation processes. Since MDF has been working in Timor-Leste, the quality of coffee has been increasing. New businesses are producing high-grade speciality coffee and most exporters are adopting improved processing and quality management techniques. Quality of cherries is the key to high-grade specialty exports. Improvements to the conventional cherry-sourcing market is also providing higher income for farmers. In 2021, MDF will:

- Engage with partners to increase coffee production volumes through coffee rehabilitation
- Focus on increasing export orders through an origin marketing campaign
- Support the delivery of 'sensory analysis' and 'cupping professional qualification' training courses to exporters and wet mill operators



## The benefits of Facility-wide collaboration

The shift from commodity-grade to high-grade, speciality coffee has implications for all actors in the supply chain, in terms of cultivation, processing, logistics, marketing and standards. It also requires new types of relationship between actors. A key focus of MDF's support therefore is on assisting market actors to adjust to these new ways of working. The exchange of experience between countries has expedited knowledge transfer to partners and helped them avoid mistakes. MDF has been able to draw on international specialists and the expertise of its team in more mature areas, such as Timor-Leste or PNG, and extend that to emerging areas, such as Sri Lanka.

Examples include:

- Short-term placement of MDF technical staff between country programs has facilitated the development and implementation of a Facility-wide coffee portfolio.
- Understanding the incentives of large coffee buyers in PNG to backward invest in their specialty coffee supply chains is informing intervention design in Sri Lanka and Timor-Leste.
- MDF built a strong relationship with Australian coffee importer, Raw Material, in Timor-Leste, which is expanding to a Facility-wide partnership. Raw Material sources exceptional quality speciality coffee from smallholders to supply Australian and European markets.
- Experience setting up a coffee industry association in Timor-Leste is informing MDF's approach to establishing a coffee association in Sri Lanka.
- Knowledge about PNG's national coffee grading system will be useful in supporting the establishment of similar systems in Sri Lanka and Timor-Leste.
- In Timor-Leste, MDF learned that coffee tree rehabilitation is required immediately because trees are over 50 years; to delay the need for rehabilitation our interventions in PNG and Sri Lanka are integrating good agricultural practices.
- Experience with Sri Lankan Government new planting programs for smallholder and plantations might inform Timor-Leste's approach, where new planting is currently considered unfeasible.