



Emerging Signs of Systemic Change

Triggering a shift in PNG's coffee market

MDF's strategy is to facilitate a shift in the PNG coffee market from commodity grade to high grade and certified coffee. For this to happen, critical market functions like extension, finance, transportation and certification have needed to be established and expanded.

MDF's foundational work in this market system was in supporting extension services. Since 2018, MDF has worked with coffee exporters to build the capacity of their extension teams, who in turn train smallholder farmers on: international market requirements, certification standards, cultivation practices, and processing techniques. Better information has enabled smallholders to raise quality and comply with certification requirements, enabling them access to premium markets and higher prices.

Training was a necessary step, but it was not sufficient to drive transformation in the sector. Aggregators perform a vital function in the supply chain, as they source smallholder coffee from across PNG for coffee exporters. MDF identified that aggregators often run short of cash during the buying season, limiting the volume of coffee they can buy from farmers. As a result smallholders, who have immediate cash needs, are forced to sell their certified coffee to roadside buyers at lower prices. This is a lose-lose situation for the smallholder, who is denied a fair price for quality coffee, and for the exporter, who is unable to source the required volumes of high grade, sustainable coffee.

In 2021, MDF began supporting exporters to establish revolving funds in order to solve this liquidity problem. Exporters give their aggregators access to the fund, which in turn enables the aggregators to buy larger volumes of premium coffee from a farmer network that is incentivised by the better price.

These innovative practices are being taken up within the sector. MDF partners Niugini Coffee Tea and Spice (NCTS), Sustainable Management Services and PNG Coffee Exports have expanded their extension services and liquidity support, resulting in an increase in export volumes. NCTS intends to invest more in its revolving fund and certify additional farmers, working through its three affiliated cooperatives. It is ready to buy certified coffee from the cooperatives at a premium. As exports of certified coffee have increased, traders are paying higher prices to their farmers and sourcing more coffee. This demonstrates that once extension, finance and certifications are in place, quality-focused exporters are able to attain a larger share of the coffee trade, increasing their suppliers' incomes.

MDF's three partners are expected to export 50,000 bags of quality coffee by the end of 2022. In 2021, more farmers joined certified supply chains, motivated by the price incentive, and exporters expanded their extension teams to support these farmers. While the changes in the system are still nascent, the signs are promising.

