



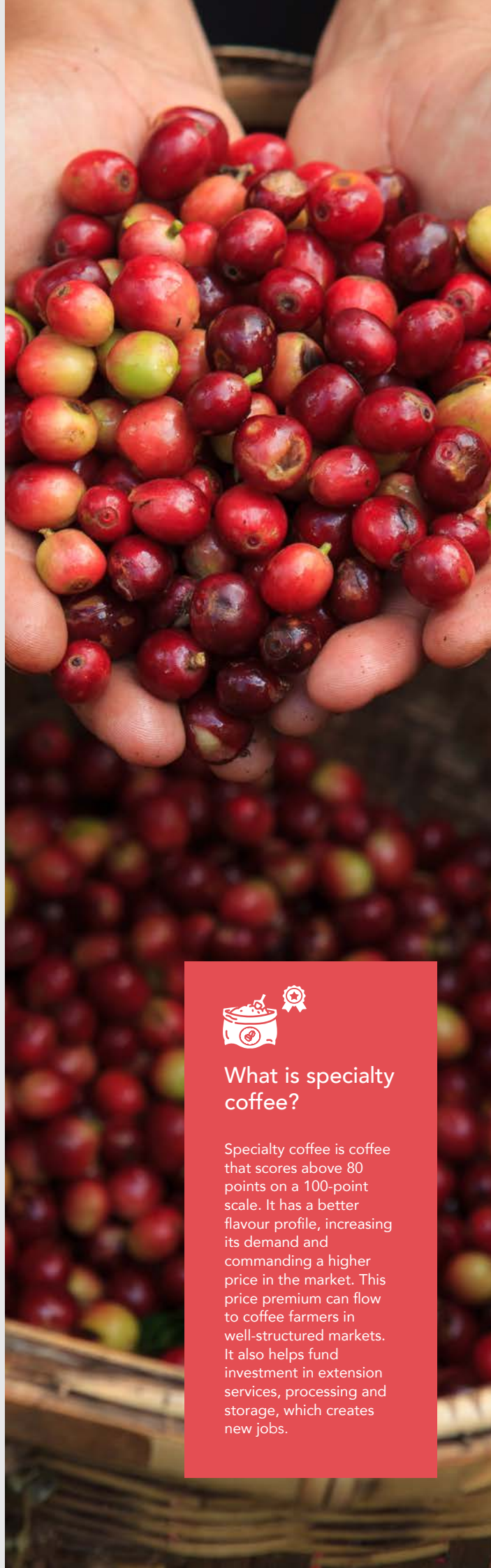
Supporting Timor-Leste's transition towards high-value coffee

Background

The coffee industry is a central part of Timor-Leste's economy, society and history. Coffee is the most important agricultural cash crop and top non-oil export in Timor-Leste, providing income for almost 20 per cent of all households. It also provides business opportunities for processors, traders and retail coffee shop owners.

However, the sector is currently operating far below its potential. Yields are among the lowest in the world and may decrease further because of climate change. Timor-Leste coffee has excellent quality potential, but poor processing practices mean that most Timorese coffee is sold as commodity-grade at low prices. Low yields, inconsistent quality and missed opportunities for value-adding all contribute to the relatively high incidence of poverty among coffee-producing households. Investments in the coffee sector could have a transformative impact on reducing poverty among these households.

In 2015, MDF and industry partners identified the potential benefits of Timor-Leste transitioning to higher productivity and specialty-grade coffee. Since then, MDF and firms have co-invested in better quality management practices and tools such as selective picking, processing centres and cupping laboratories. Dynamic new exporters have emerged that specialise in high-grade specialty coffee, and Timor-Leste is growing its presence in promising specialty markets such as Europe and Australia.



What is specialty coffee?

Specialty coffee is coffee that scores above 80 points on a 100-point scale. It has a better flavour profile, increasing its demand and commanding a higher price in the market. This price premium can flow to coffee farmers in well-structured markets. It also helps fund investment in extension services, processing and storage, which creates new jobs.

2015

MDF develops its first coffee strategy with industry stakeholders.

Café Brisa Serena (CBS), a first mover in specialty coffee, **establishes a cupping laboratory and traceability system** with support from MDF.

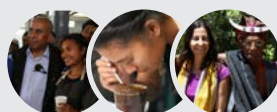
2016



Asosiasaun Café Timor (ACT), an industry-led association, is founded.

2017

ACT company establishes Timor-Leste's **first national cupping laboratory** with MDF support. Farmers and company staff learn how to 'cup' coffee to monitor and improve quality.



MDF supports ACT to organise **Festival Kafé Timor**, the national coffee festival, which includes a coffee competition judged by international experts.

2018

Specialty coffee is identified for the first time as an objective in the National Coffee Sector Development Strategy developed by the Asian Development Bank, Ministry of Agriculture and Fisheries, and ACT.

MDF supports ACT to bring in a coffee expert from Colombia to conduct **processing training** for ACT members. Companies begin experimenting with different processing styles.

2019
TO 2020

MDF supports companies, including CBS, KARST and Mara Mresa Café to establish coffee wet mills and pulping stations and to train farmers to improve processing and cherry-picking practices.

2020

During the pandemic, MDF organises relief flights for specialty buyers so they can continue to purchase from farmers. MDF's support enables KARST, OLAM and Timor Global to buy **599 tons of coffee cherry** from **4,070 farmers**, generating an **additional income of USD173,150** (AUD259,518) for the farmers.

2021



MDF publishes a **Coffee Rehabilitation Whitepaper**, including practices to improve coffee productivity. MDF and ACT launch a series of rehabilitation training videos to complement the whitepaper.

2022



With MDF support, ACT showcases Timorese coffee at the **Melbourne International Coffee Expo** in Australia.

President José Ramos-Horta launches his **'Love coffee, coffee is our culture'** campaign promoting coffee rehabilitation and investment. MDF contributes technical material to the campaign and provides industry insights.

ACT's cupping lab is certified as a **'Q Venue'**, allowing the association to host Q Grader training courses, an international certification.

Adopt/Adapt

Coffee companies like KARST, Mara Mresa Café and Timor Global have continued to adapt to the model of improving quality through local processing centres. MDF supported KARST and Mara Mresa Café to establish one wet mill each and Timor Global to establish pulping stations for better quality control. KARST is planning to establish another wet mill, while Mara Mresa Café has expanded to four wet mills through MDF's support. Timor Global is also planning to expand its pulping stations in 2023.

MDF's monitoring also shows that more farmers are engaging in the improved practices for cherry picking and post-harvest handling shared through the training provided by MDF's partner coffee companies. As a result, farmers can supply higher-quality coffee to exporters and receive a premium price. As per MDF's assessments, farmers earn an additional USD0.11 (AUD0.16) per kg on average for their cherries (20–30 per cent more) due to adopting the improved practices.

Private sector extension services, including coffee rehabilitation, are one of the key factors in improving productivity. In addition to supporting ACT to develop information material to be shared with the sector, MDF also supported five partners to develop private-sector-led extension models for their farmers, including Alter Trade Timor (ATT), Café Brisa Serena, Kape Diem and Outspan Agro Timor. As of 2022, two of these four have supported nearly 900 farmers to rehabilitate over 80 hectares of coffee land. This is a relatively new area of work for MDF. However, the Government started a nationwide initiative on rehabilitation in 2022, which is changing the nature of the rehabilitation market environment and leaves much unclear. MDF will continue to monitor the situation and support coffee companies and ACT as required.

ACT's capacity to support and represent the coffee sector has also improved over the years due to consistent support from MDF and other development partners. Festival Kafé Timor was initially managed by MDF but is now led by ACT. Further, in 2022, ACT also led Timor-Leste's presence at the Melbourne International Coffee Export, allowing the association to showcase Timor-Leste's coffee to international buyers.

Expand

The shifts in the market brought on by higher volumes of higher-quality coffee have resulted in an increase in the number of private sector companies exporting coffee; Alter Trade Timor, FarmPro, Kape Diem and PARCIC have started exporting high-quality coffee independently. This change is also reflected in the increase in the percentage of specialty coffee exports from Timor-Leste. In 2022, these companies exported 115 tons of coffee, with an estimated export value of USD690,000 (AUD1 million).

Businesses are also investing in additional quality measures. Rains throughout the harvest season meant that 2022 was a particularly difficult year for Timorese coffee, with companies facing difficulties in drying coffee and being unable to procure sufficient volumes. To cope with these challenges—which are likely to increase as climate change affects established weather patterns—companies such as KARST are investing in establishing dry houses to minimise the impact of weather changes during the drying process.

KARST is also providing drying racks to farmers to reduce post-harvest losses. While MDF supported KARST in this intervention, other companies have shown interest in these drying innovations and are likely to invest before the 2023 harvest.

ACT is now an emerging industry leader, increasingly recognised by the government. The association provides technical support on quality improvements, advocates to the government and promotes Timor-Leste in high-potential export markets such as Australia. In 2022, the Ministry of Agriculture entrusted ACT to manage USD2.8 million (AUD4.2 million) for a rehabilitation program covering 7,400 hectares. ACT's cupping lab recently earned a 'Q Venue' certification, allowing it to conduct Q Grader (a highly regarded international certification) courses. Certification is an important step in ensuring quality assessments are valid and comparable internationally, useful when negotiating prices with buyers.

Respond

Understanding the importance of coffee rehabilitation, the Government of Timor-Leste has initiated a nationwide initiative to rehabilitate over 500 hectares of coffee land per annum (2019–2030). Due to MDF's strong presence in the coffee industry, the team from the President and Prime Minister's Office has leaned on MDF for coffee industry data and technical material. MDF's Coffee Rehabilitation Whitepaper and associated material (e.g. posters and videos) have been used by the government to educate farmers on rehabilitation techniques.

In addition, the government has also established a Coffee Taskforce, of which MDF is a member, to guide the implementation of the National Coffee Development Plan. International companies have also shown interest in the sector. More small-scale roasters in Australia, the EU and the UK are selling Timorese coffee. An international investor and leading specialty coffee buyer have attempted to invest in local exporters, although no deal has been closed yet.

The way ahead

Despite the positive shifts in the market, challenges remain. Most farmers still lack sufficient knowledge and inputs to manage harvest and post-harvest handling during bad weather. Companies face significant issues in drying due to the longer wet seasons, and climate change is likely to exacerbate this problem. Nevertheless, both farmers and businesses are becoming more aware of these productivity and processing challenges and are showing signs of changing or improving practices to address them.

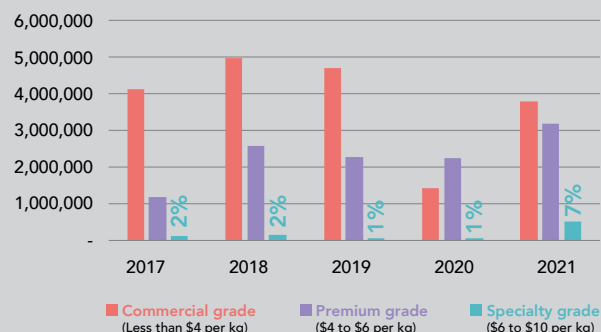
Companies are investing, or planning to invest, more in extension services and processing. Extension services, including rehabilitation, will be crucial for increasing productivity and achieving volume targets. Investments in drying and processing innovations will further improve quality. MDF will continue to support ACT and coffee companies so that the industry becomes resilient and systems are strengthened, making the changes sustainable beyond MDF support.

Timor-Leste's shift towards specialty coffee

The volume and value of Timorese specialty coffee are increasing. Over the past five years, specialty coffee exports have grown from 2 per cent to 7 per cent of the total volume of coffee exports. The proportional value of specialty coffee exports has also increased from an average of 5 per cent to 12 per cent in 2021. The average value of coffee exports increased from USD2.6 per kg (AUD2.6) in 2017 to USD3.5 per kg (AUD5.3) in 2021. These changes indicate steady improvements in overall quality, resulting in better prices from the export markets.

In 2021, the increase in specialty coffee exports stemmed from higher volumes exported to Canada, Japan, the UK and the US. Premium-grade coffee exports also increased to Australia, Canada, New Zealand and the US. Exports to Indonesia dropped significantly, as coffee sold through Indonesia was mostly commodity grade.

Coffee exports from Timor-Leste



MDF support

Through MDF support, coffee processors have invested more than USD110,000 (AUD165,000) in improving coffee quality, generating additional market transactions of over USD4 million (AUD6 million) as of the end of 2022. MDF's interventions have generated an additional USD6.7 million (AUD10 million) worth of exports, which is close to 7 per cent of the total coffee value exports in Timor Leste over 2017–2021. MDF interventions have benefitted 7,788 farmers and created an additional 127 permanent and seasonal jobs, generating an additional income of over USD780,000 (AUD1.2 million) for farmers and employees.