



Annual Report

2023

Market Development Facility

Impressum

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

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Editor: Amelia Taylor

Market Development Facility (MDF)

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

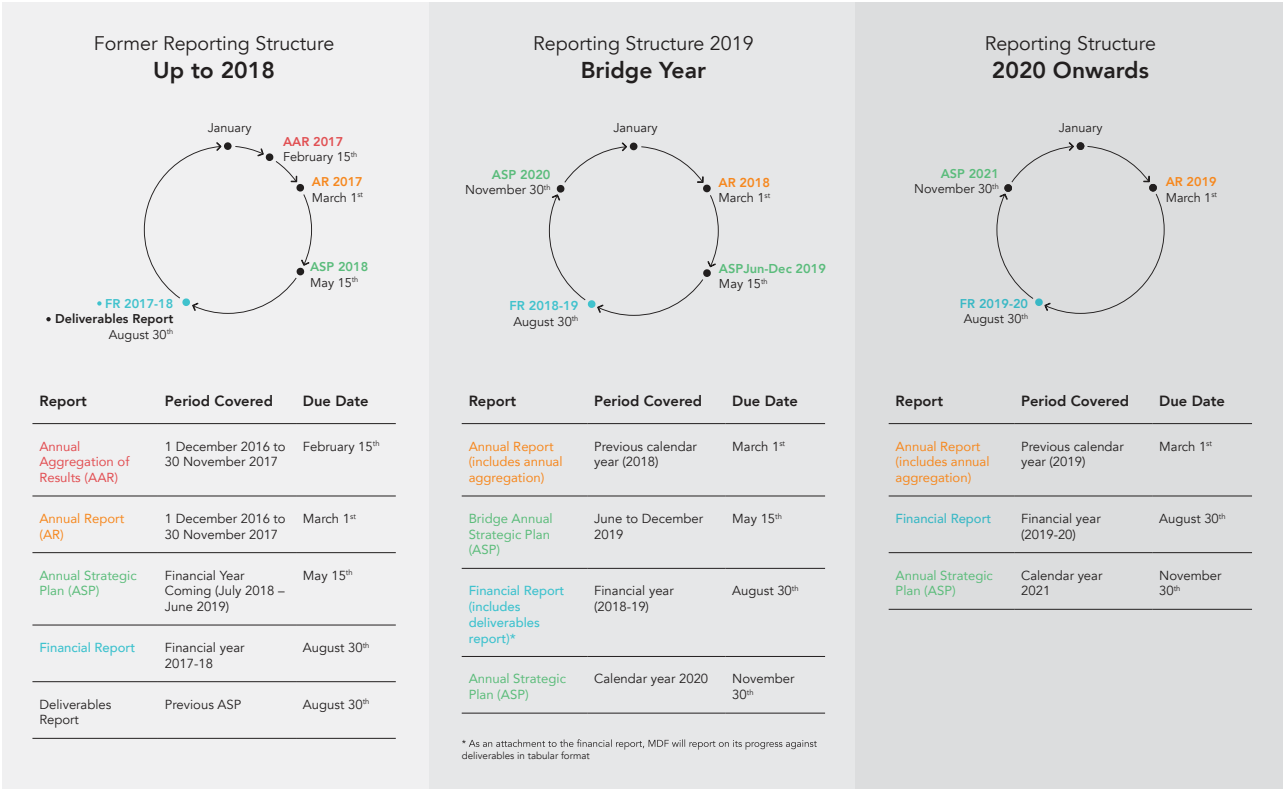
This report is a public document designed for MDF stakeholders and/or members of the public with an interest in Market Systems Development. The report has been written specifically to address the information needs of DFAT’s Climate Resilience and Finance Branch (CLB) and Office of the Pacific (OTP) in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





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 with which 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 since. 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 and avoid them having to refer to a different report at the same time.

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)

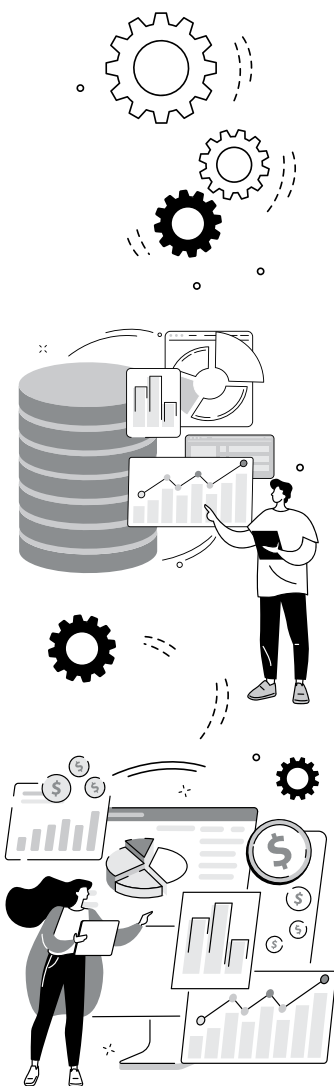
Progress marked against DFAT ADRs is included.

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:

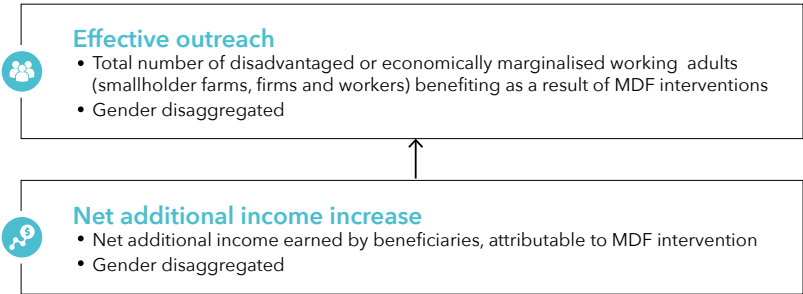
- Capture and report a project's impact sustainability (whether or not a project continues to produce positive results even after MDF activities have been completed)
- Know whether or not our original estimates and projections were accurate
- Detect signs of systemic change based on the overall scale 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

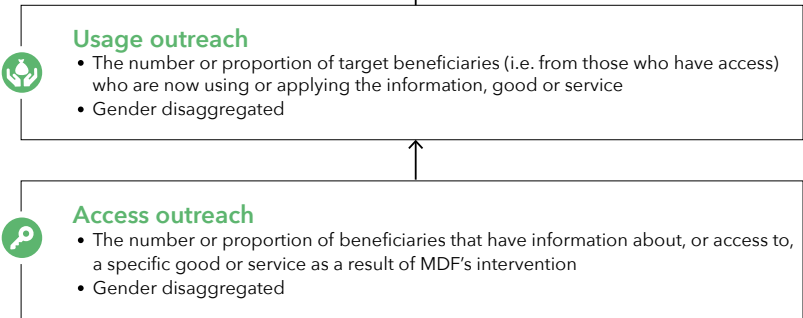
Headline indicators



Purpose:

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

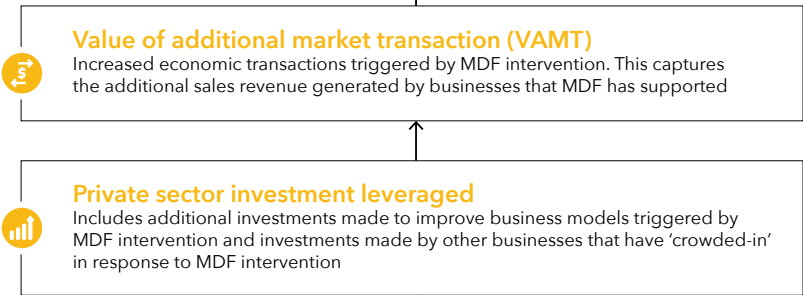
Leading indicators



Purpose:

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

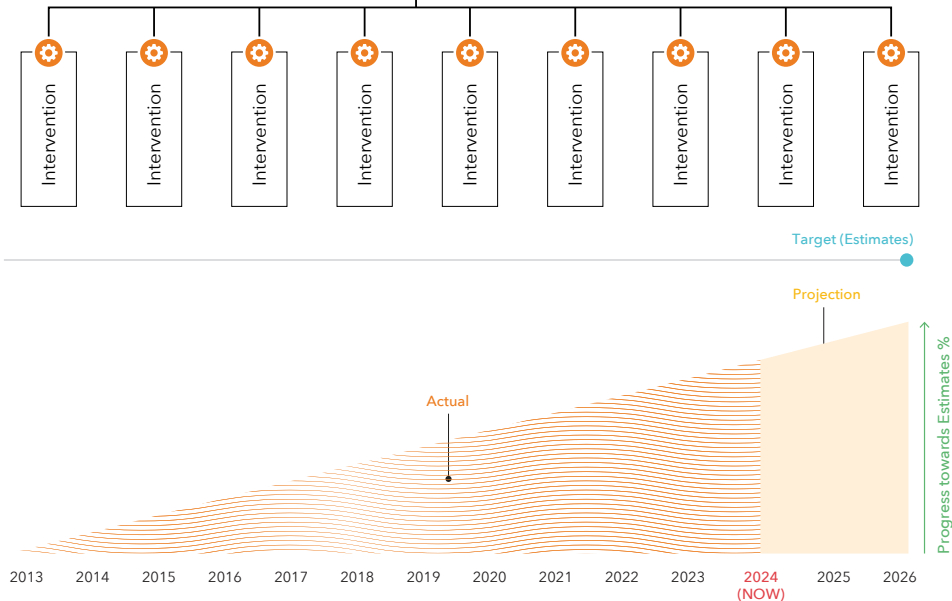
Value for money indicators



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

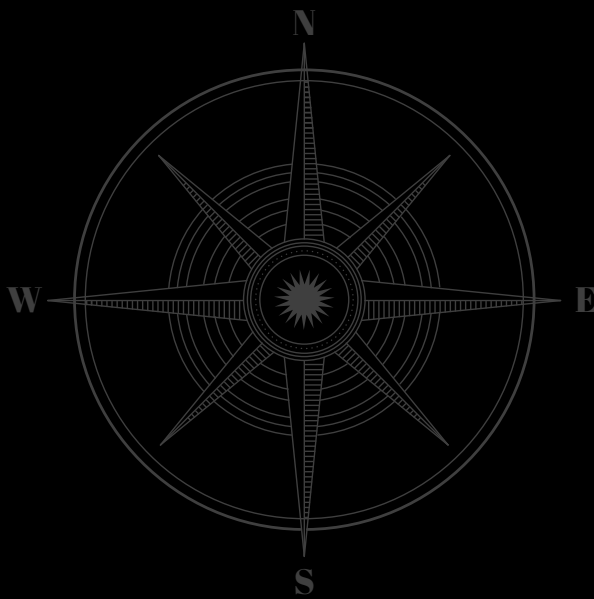
ACIAR	Australian Centre for International Agricultural Research
ADB	Asian Development Bank
ADR	Aggregate Development Results
APCP	Australia Pacific Climate Partnership
ASOP	Annual Strategic and Operational Plan
AUD	Australian Dollars
BA	Business Adviser
BPO	Business Process Outsourcing
CLB	Climate Resilience 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

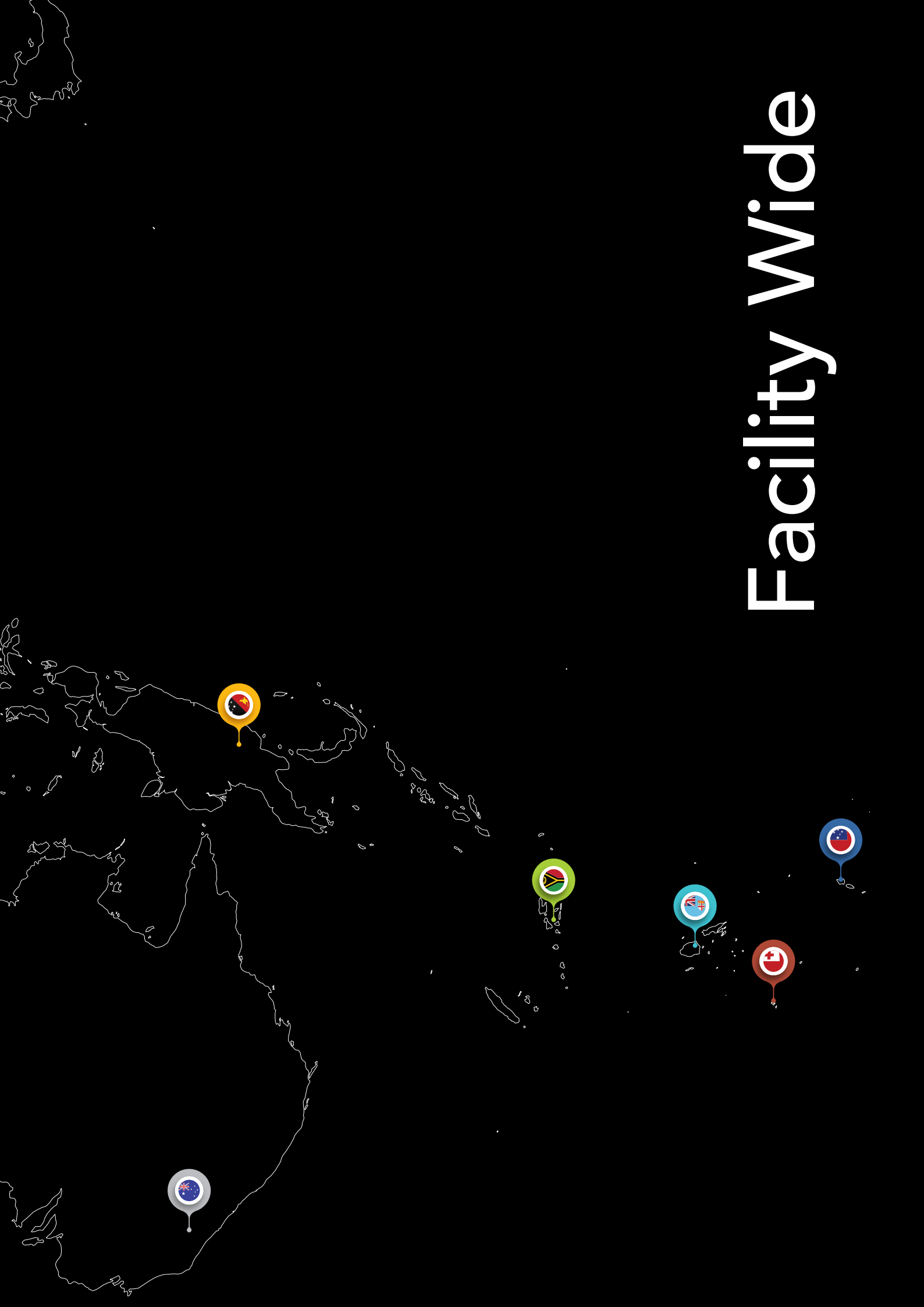
IDP	International Development Policy
IFC	International Finance Corporation
ILO	International Labour Organization
IMF	International Monetary Fund
LKR	Sri Lankan Rupee
MDF	The Market Development Facility
MFAT	New Zealand Ministry of Foreign Affairs and Trade
MIS	Management Information System
MOU	Memorandum 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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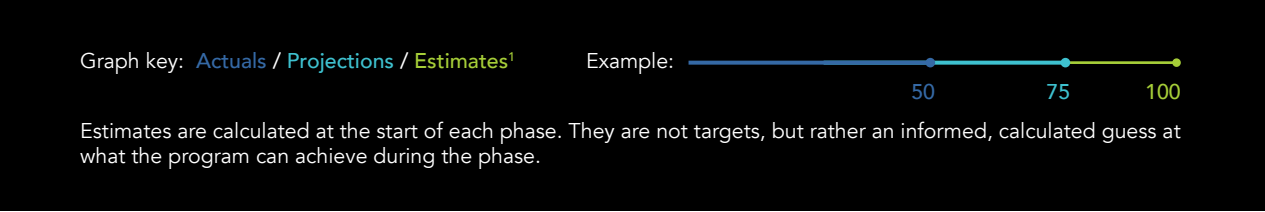
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Facility Wide

MDF's Progress in 2023



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 over 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 over 1,700 farmers. Coffee certification and value chain financing initiatives in Papua New Guinea continued to thrive and benefited over 2,000 farmers, despite the close 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 (over 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 the 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 different interventions with diverse businesses contributing to growth, particularly export-related interventions. In Fiji, export of outsourcing services resulted in over 20 per cent of private sector revenue generated. In PNG, businesses switching from commodity to certified coffee enabled them to generate an additional approximately USD0.80 (AUD1.2) per kg of coffee. 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)



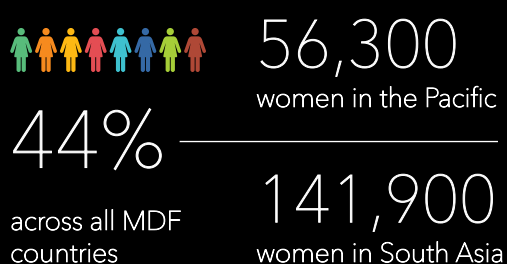
Risk appetite is increasing; businesses are increasingly willing to cost share on innovative business models

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 over 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.

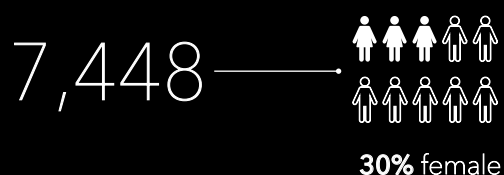
In Sri Lanka, despite a lack of easy access to finance and high interest rates, businesses continued to invest and adopt MDF-supported business models. Notable private investments included establishing imports; developing and distributing high-quality inputs, such as seeds and fertiliser; and coffee 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

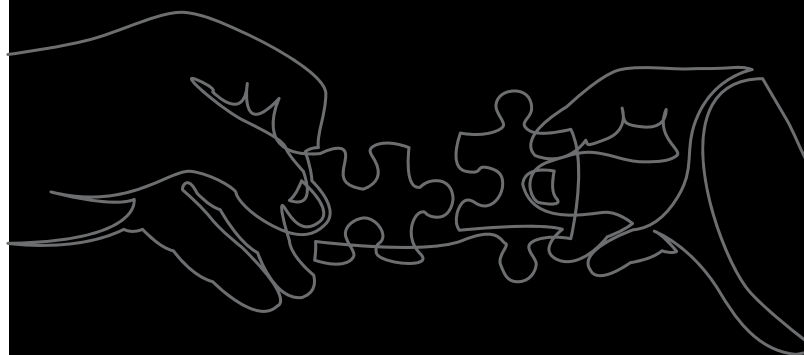


MDF's commitment to inclusion remains steadfast, with women accounting for 44 per cent of adults benefitting from program initiatives. As of December 2023, women generated 40 per cent of additional income. MDF continued to engage in businesses partnerships that aim to address women's access and agency. 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



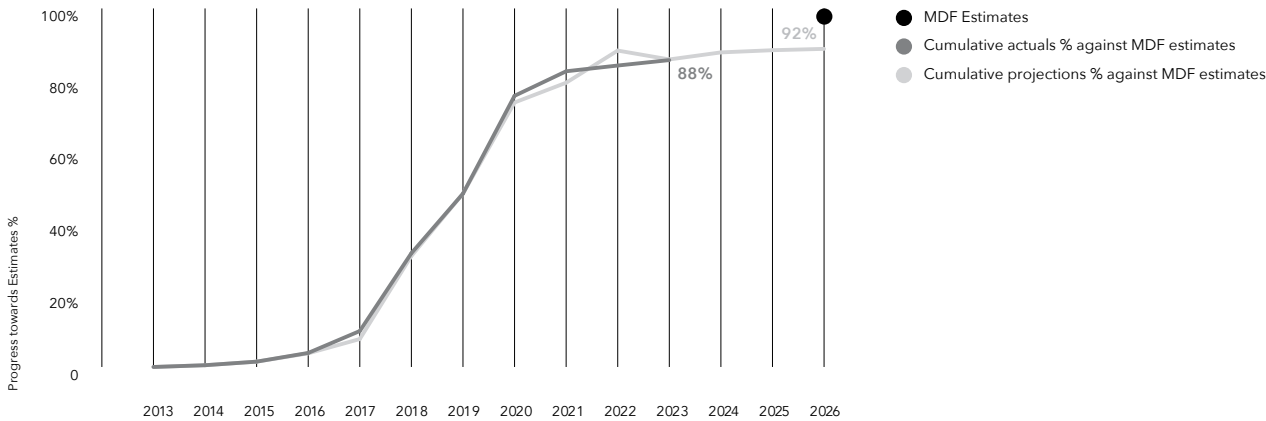
In 2023, MDF's work in outsourcing services, early-stage exports, chicken and agriculture resulted in the creation of 697 new jobs, 64 per cent of which were filled by women. MDF observed new trends in job creation that are being used to inform portfolio composition and inclusive growth strategies.



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% since 2022. However, growth may appear lower than expected due to the following factors:

- 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.

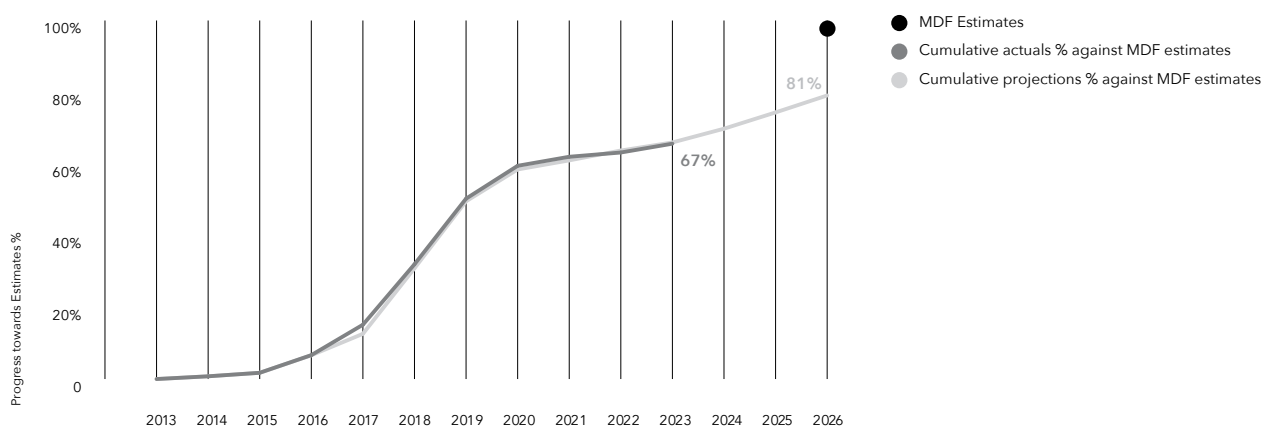
MDF's data aggregation protocols are guided by rigorous standards that prevent reporting the same beneficiary twice. This year, market saturation in thin market economies, such as Fiji and Timor-Leste, required that MDF discount a significant portion of 2023 impact. In Timor-Leste, more than 50% of effective 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.



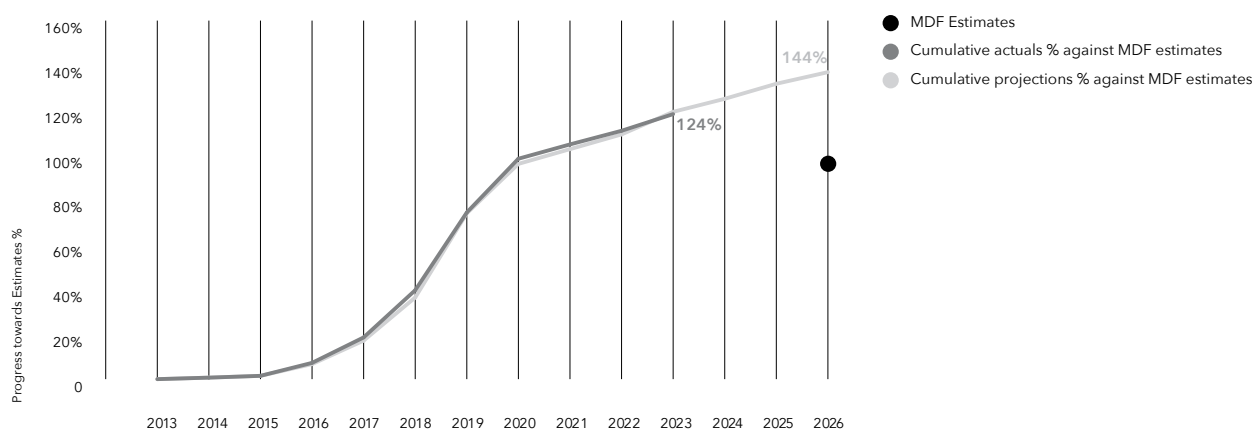
☑ Coffee rehabilitation visit by DFAT, Timor-Leste

NET ADDITIONAL INCOME



- Net additional income continued to increase in 2023. The current portfolio reached 67% of estimates and is projected to reach 81% 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 5% 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% 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% of estimates.

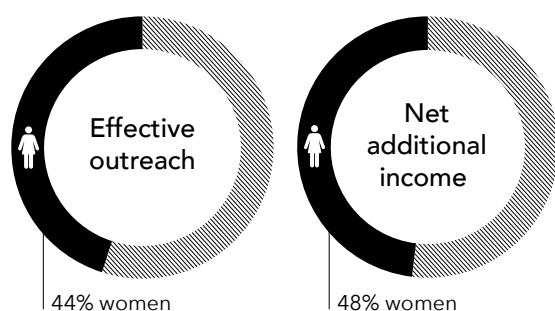
Summary of MDF results as of December 2023

Facility-wide

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



Pacific



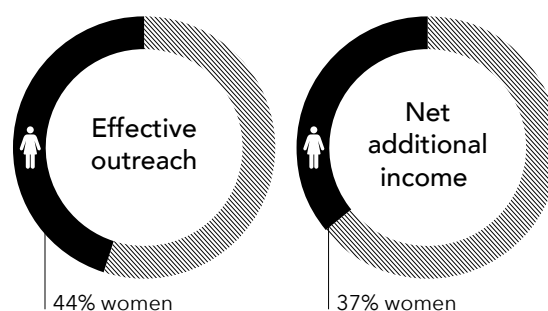
USD \$126,335 USD \$50m

Private sector investment leveraged: USD \$21m

VAMT: USD \$61m



South Asia



USD \$323,830 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.

MDF Results 2023

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Facility Wide



Fiji

Indicator	Cumulative actuals (as of December 2023)			Cumulative projections (as of December 2023)			Estimates
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

 Pakistan²

Indicator	Cumulative actuals (as of December 2023)			Cumulative projections (as of December 2023)			Estimates
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 Guinea

Indicator	Cumulative actuals (as of December 2023)			Cumulative projections (as of December 2023)			Estimates
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

² These are the same numbers previously reported and MDF is showing them to show the contribution to the overall Facility numbers.

Indicator	Cumulative actuals (as of December 2023)			Cumulative projections (as of December 2023)			Estimates
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)	18,298,149			31,832,228			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



Indicator	Cumulative actuals (as of December 2023)			Cumulative projections (as of December 2023)			Estimates
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

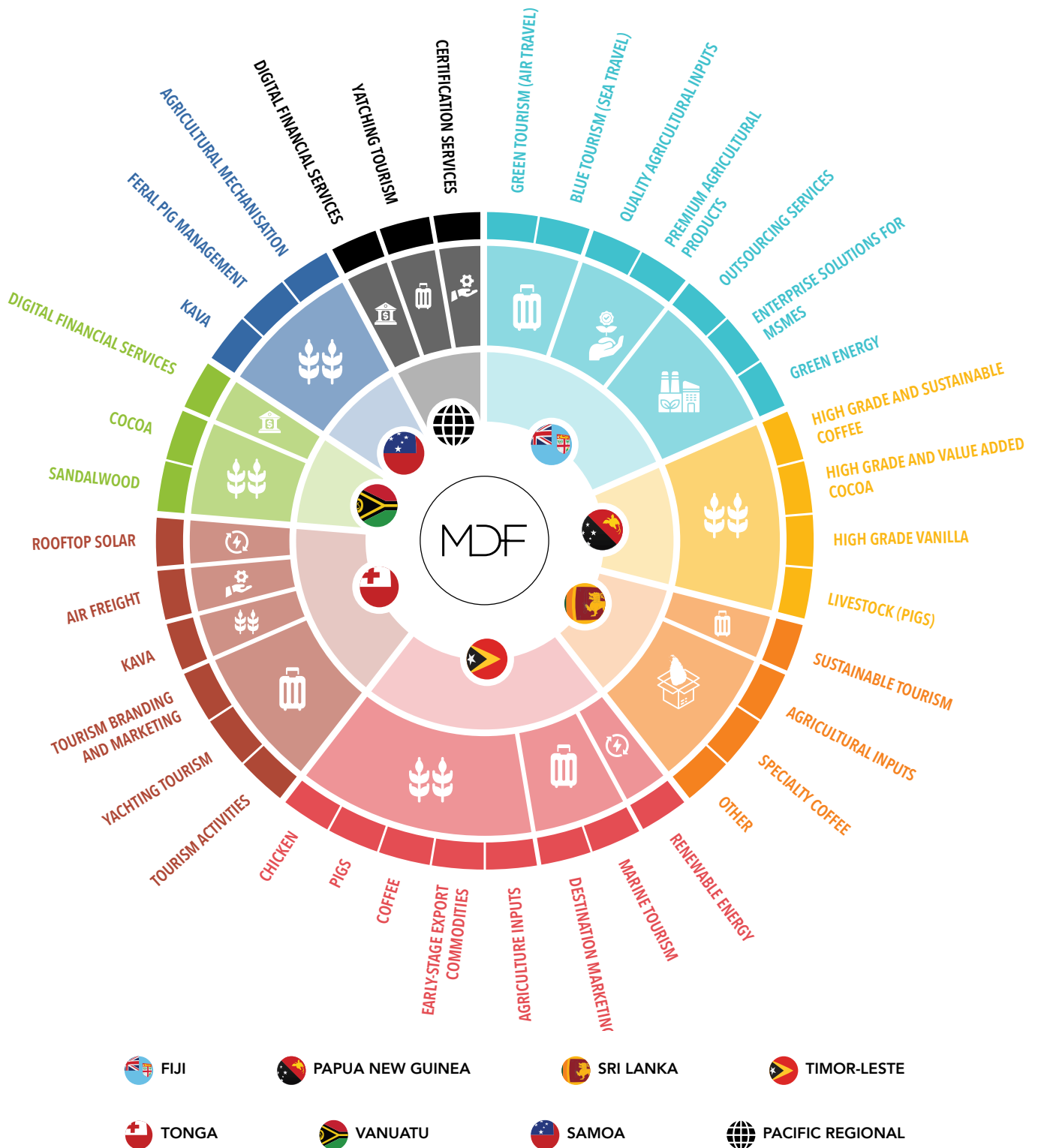


Pacific Regional

Indicator	Cumulative actuals (as of December 2023)			Cumulative projections (as of December 2023)			Estimates
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

Facility on a page

A snapshot of MDF's market systems



Market sectors:

- Agriculture
- Financial Services
- High Value Agriculture
- Services
- Renewable Energy
- Authentic Sri Lankan Goods
- Urban Industries
- Tourism

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 vehicles 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% of the 2022-23 budget recorded as climate finance. MDF

continued to help farmers and agribusinesses adapt to climate change. MDF supported tourism operators 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. 81% 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 (PwD) 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.* 57 new partnerships were started, resulting in a total portfolio of 94 activities that were delivered during the year. 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 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 generated 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 PNG, Sri Lanka, Timor-Leste and Fiji. 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 that of 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 over 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 4 per cent, down from a peak of nearly 70 per cent in 2022.² Timor-Leste grew at around 3 per cent³, 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, for instance, 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 (EUDR), 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. Firms require information that enables them to prioritise investments in adaptation and mitigation, to build more resilient business models.



¹ World Bank
² 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, for example, 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.³ 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 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

³ '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.⁴ 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.



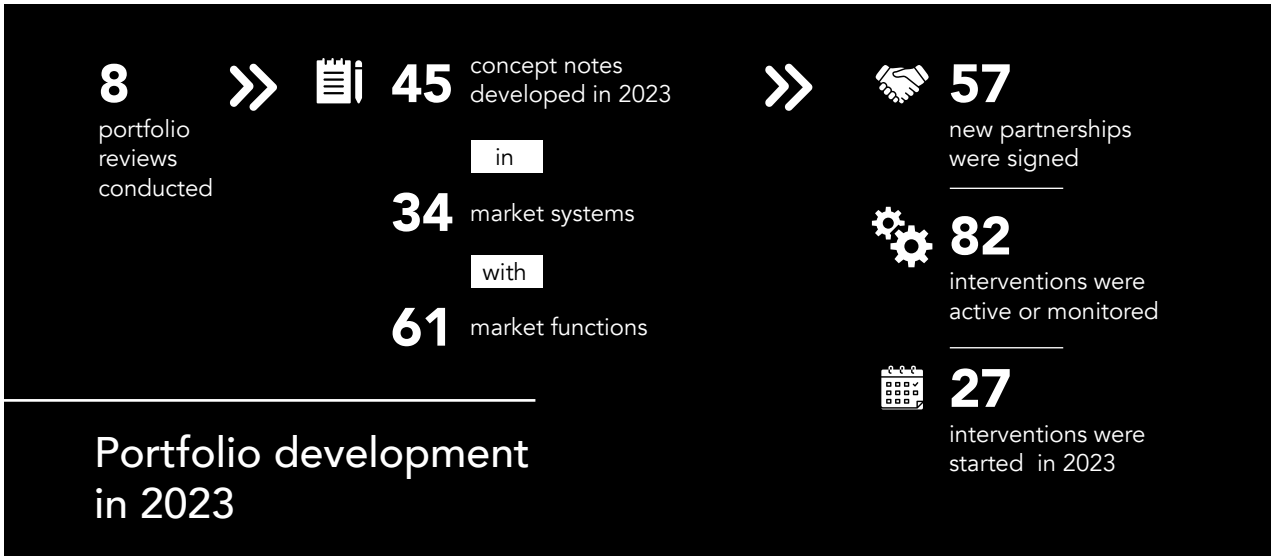
The continuing importance of agricultural inputs

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 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.⁵ 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.



⁴Enhancing the resilience of agricultural market systems to climate change in the Pacific Islands and Timor-Leste: a joint brief by PHAMA Plus and MDF

⁵ 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 close 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 easily available. MDF supported Timorese input importers to connect with international manufacturers, resulting in the manufacturer registering interest in establishing a direct

distribution partnership with importers. Further, MDF support resulted in first-time 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.



Farmers in Aileu Municipality, Timor-Leste



In Fiji, the outsourcing services industry has transformed, attracting new business and investment. It is now worth around AUD140 million, employs over 5,000 people and MDF estimates that it could contribute as much as 2 per cent to GDP.⁶ 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.

⁶ There are no official records showing the contribution of outsourcing to GDP in Fiji. This estimate is based on the best available data but should be interpreted with caution. MDF will provide a more robust estimate when more data becomes available from Reserve Bank of Fiji in early 2024.



In Sri Lanka, the local specialty coffee industry continued to grow, fuelled by tourist and domestic demand. MDF and partner investments have resulted in and increase in production and the adoption of improved sourcing and processing techniques. The market is expanding, with new businesses entering the specialty 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 can invest in solutions that build resilience and 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 to 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 also made 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 began in climate-specific market systems: 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.

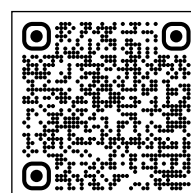


Climate change content in MDF's communication and engagement activities was enhanced, including a collaborative brief with PHAMA Plus on enhancing agricultural market resilience and facilitating a private sector panel at the 2023 Australasian Aid Conference. MDF Fiji's investments in organic soil conditioners were highlighted by the Australian High Commission.

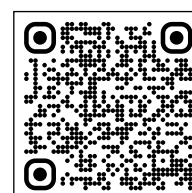


Climate change indicators, observations and baselines were integrated into Research, Impact Measurement and Inclusion activities, including a focus on understanding the effects of climate change on smallholder farmers.

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 reduce 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 which 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 Islands 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 and routes since the pandemic and how the industry is responding. While sea freight in general has normalised, 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 assess the dairy sector, its structure, dynamics and key actors, and provide practical recommendations to improve productivity. The analysis was subsequently 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 RIMI team shared their experience of integrating gender equality in the M&E project 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



A joint brief on climate risks by MDF and PHAMA Plus



Pacific Partnership
& Agricultural Market
Address Program

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 came up with 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 PICs 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, 'PHAMA Plus – PACER Plus – PTI – MDF: How the programs work to improve lives in the Blue Pacific.'
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 the 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.



Other important research included a collaboration with APCP to understand 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 from research were shared with and taken up by a variety of 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, be that in terms of 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, over 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 preserve 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.



An aging workforce and climate change are affecting agricultural labour

In addition to migration, agriculture in places like Vanuatu and Fiji face 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 worked with the partner to build a business case for hiring 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 whom 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 FEE 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 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, which 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 often particularly affecting 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 accessing climate-resilient inputs and tools

Over  \$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)⁷

41
—
252

Facility Wide

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 (in USD)	USD 45,708		
Value of exports facilitated (including new exports) (in AUD)	AUD21,362,031		
Value of private sector investments leveraged (in AUD)	AUD3,128,105		

Tier 2 indicators

Indicator and measure	Actuals 2023	Examples
Number of organisations supported to strengthen accountability and/or inclusion, including assistance provided and significant policy changes achieved: - Government institutions, organisations, and systems - Civil society organisations - Private sector organisations	Government institutions: 5 Private sector organisations: 7	In Fiji, MDF conducted monitoring and evaluation training for the Ministry of Commerce, Trade, Tourism and Transport (MCTTT), supporting stronger internal policies and reporting. 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. 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.
Total	AUD100,680	Fiji: AUD33,610 to Tourism Fiji, MCTTT and Investment Fiji. Pacific Regional: AUD67,070 to Tonga Tourism Authority and the Scientific Research Organisation of Samoa.
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.
Number of people for whom Australia's investments have improved adaptation to climate change and resilience to disasters. 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	4,053 people 50 partnerships AUD857,000	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.

⁷ 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 offer a clear idea of the benefits of co-investing with MDF.

Climate communication

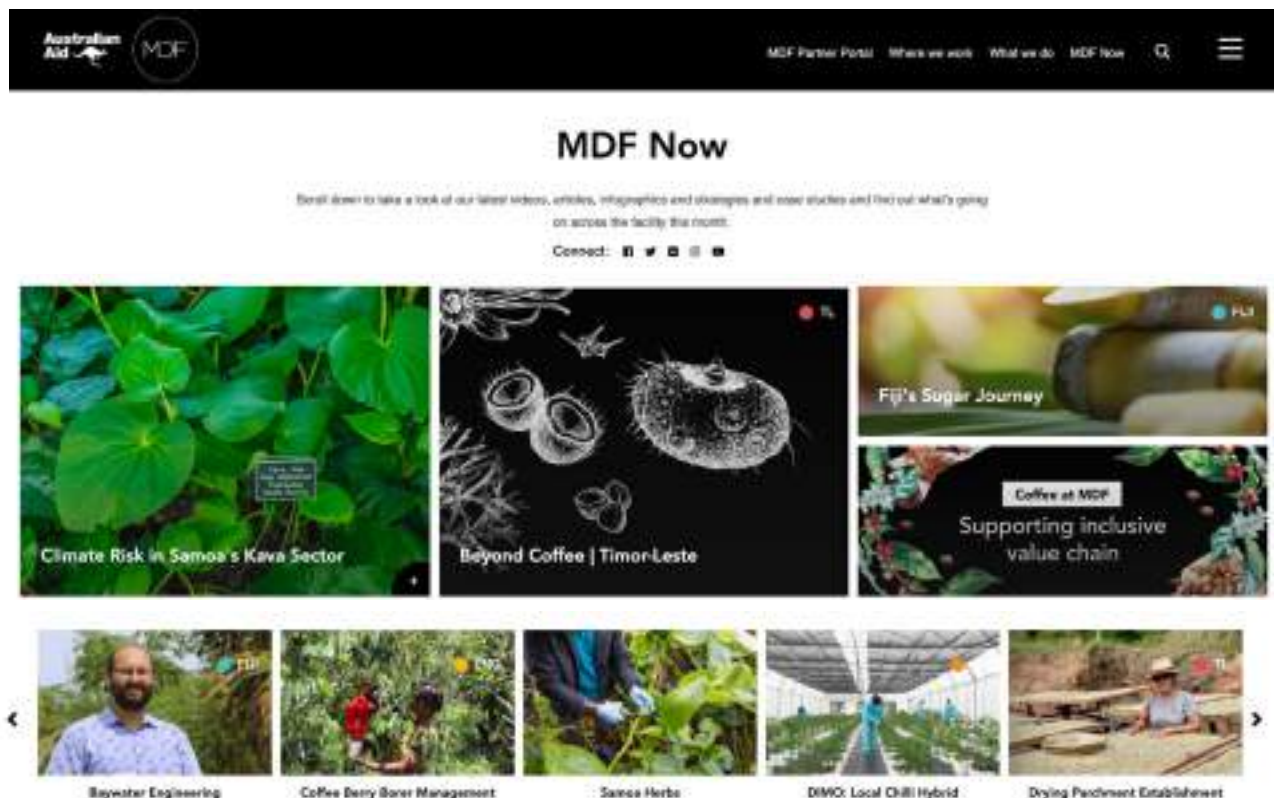
MDF worked to tell new stories about the facility's growing investments in climate change adaptation and mitigation, including the business case for climate investment. This included features on [MDF Fiji's engagement in climate-resilient seeds](#), support for seaweed farming in Timor-Leste and measuring 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').

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



MDF's investment in organic soil conditioner in Fiji was highlighted by the Australian High Commission in Fiji as part of Australian support towards building climate resilience in Fiji. 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 Fiji recording the highest television coverage.

Digital media growth

MDF has a well-developed social media presence. The four social media platforms (Facebook, Instagram, LinkedIn and Twitter) 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 alongside COP28. The campaign reached 220,446 people and engaged 10,000 individuals (see Communications Recap infographic). 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.



📷 Aileu Coffee festival, Timor-Leste



📷 The MDF and Australian High Commission teams visit ECC in Ella, Sri Lanka



📷 First Secretary visits Bia-i-Cake Womens Cooperative in Nagigi village Vanua Levu, Fiji

Communications recap

Jan-Dec 2023



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

f 402

new followers on Facebook

in 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](https://www.facebook.com/marketdevelopmentfacility)



[@MDFGlobal](https://twitter.com/MDFGlobal)



[@MDFGlobal](https://www.instagram.com/MDFGlobal)



[Market Development Facility](https://www.linkedin.com/company/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 recommendations in the audit 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. 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.⁸ 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.

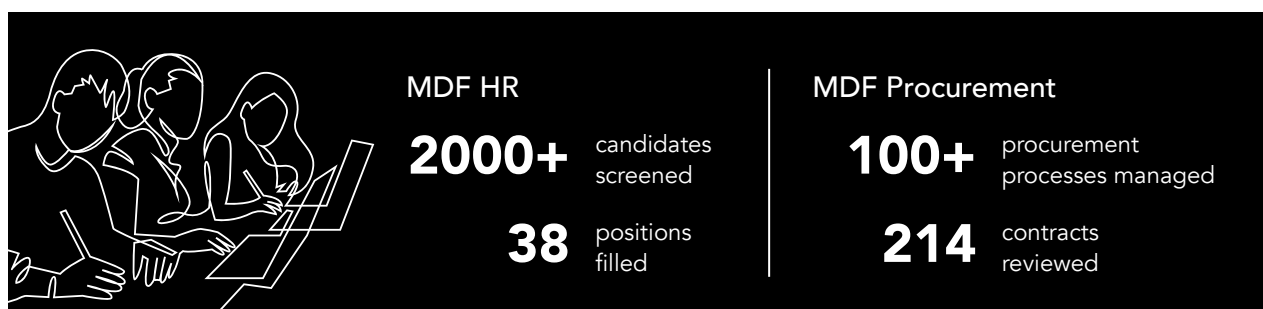
MDF Finance

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	

⁸ 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



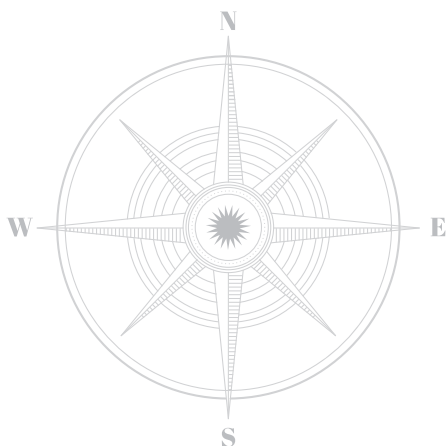
Tourism

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

Fiji

Population

904,590

Female: **49%**

Male: **51%**

Urban: **58.2%**

Rural: **41.8%**

GDP

USD **5.1** billion (est.)

GDP growth rate: **8.2%**

GDP per capita (USD): **\$6,020**

Key GDP contribution sectors

Industries: **19 %**

Services: **71%**

Primary sectors,
including
agriculture, forestry,
and fisheries: **10%**

Inflation rate **5.1%**

Labour force participation rate

Female: **34%**

Male: **66%**

Unemployment rate **5.5%**

Key focus areas

Tourism

- Fiji welcomed over **846,000** visitors in 2023 which is more than 51% of the total number of visitors in 2022 and 3% above the total number of visitor arrivals in 2019 (pre-pandemic).
- However, the tourism industry currently struggles to retain and access skilled labour as employees turn to opportunities in other industries or overseas. Fiji has lost over **16,000** tourism workers since the reopening of its borders in 2021.



MDF provides market research to help policymakers and businesses make informed decisions and supports eco-friendly tourism initiatives. MDF also works with stakeholders in nautical tourism to promote climate resilient and responsible yacht and cruise tourism that benefit remote island communities.



High value agriculture

- Agriculture constitutes approximately **10%** of Fiji's GDP.
- **27%** of Fijian households derive some form of income from agriculture.
- Agriculture is the main source of work in **83%** of rural households.



MDF works with stakeholders to improve access to quality agricultural inputs, sourcing logistics and distribution channels to improve food security and export opportunities.



Without MDF we would not have any of the marketing initiatives and it changed the way we do our marketing.

Baywater Engineering



Urban industries

- **58.2%** of Fiji's population lives in urban centres.
- Only **34%** of Fijian women participate in paid employment, while they carry out **73%** of unpaid household work.
- MSMEs provide **60%** of employment in Fiji.
- The outsourcing services sector employs **8,000** people and generates **USD 47million** annually.



MDF works with stakeholders in the outsourcing services sector to elevate Fiji's reputation as an alternative premier outsourcing services destination. We support enterprise solutions for MSMEs across the sectors we work in, primarily through information dissemination, product development and research.



We have gone from 5M to 28M dollars in a span of two and a half years and most of it has been from Australia.

Pacific Centrecom



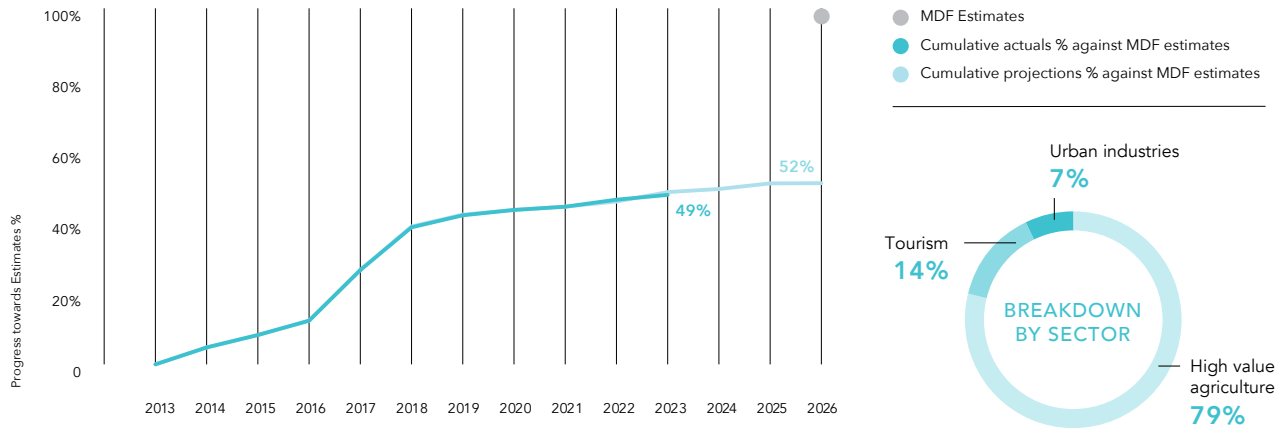
Approximately **58%** of Fiji's electricity is generated from renewable energy.



Fiji has recorded a **6mm** annual increase in sea level, which is more than the global average.

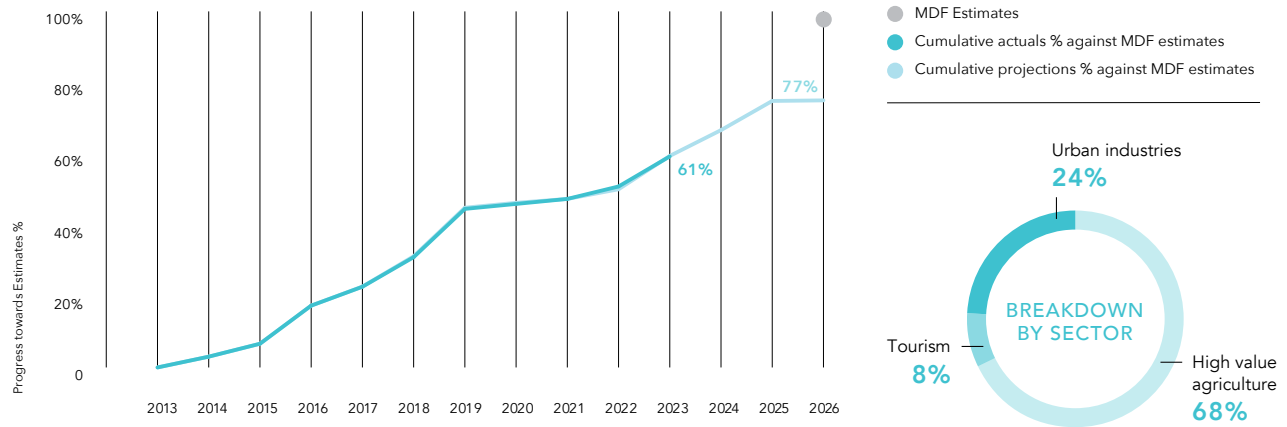
Highlights

EFFECTIVE OUTREACH



Outreach grows, fueled by new employment in outsourcing services

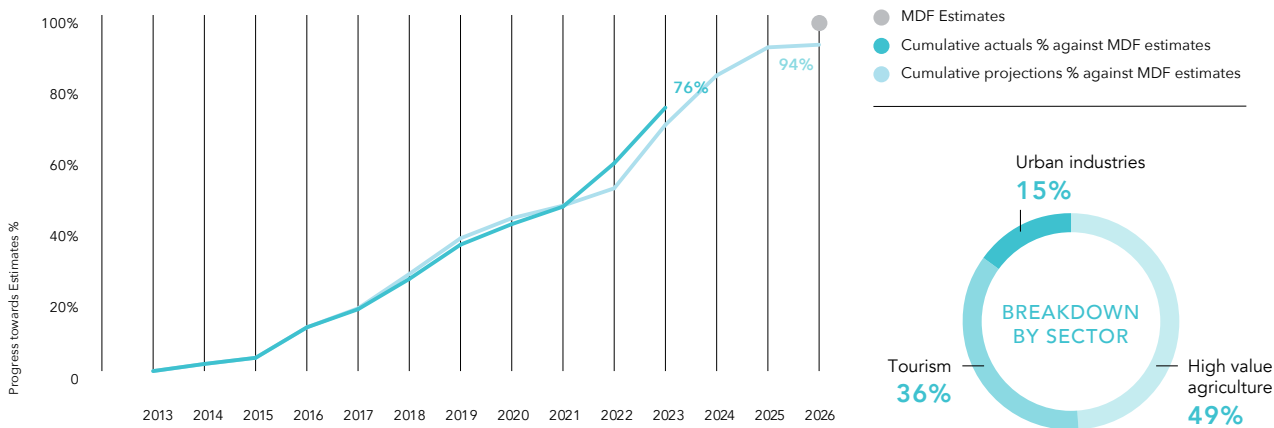
- Effective outreach grew modestly in 2023 to achieve 49% of end-of-program outcomes ('estimates'). MDF Fiji is on track to reach 52% of estimates by 2026. Over 600 additional people benefitted from interventions in 2023, an increase of close to 3% from 2022. Women account for 51% of the people reached to date, as well as projected results.
- Outsourcing services (OS) contributed more than 90% of effective outreach in 2023. Field assessments confirmed more than 500 new full-time employment (FTE) equivalent jobs were created in 2023, through new leads and contracts converted with MDF support. As MDF pivots towards a more systemic approach, supporting Outsource Fiji and marketing in the sector, OS is expected to generate a further 300 new jobs over the next two years.
- High value agriculture (HVA) has traditionally contributed the most to outreach and, through earlier interventions, continues to account for up to 79% of outreach. However, in 2023 a few partners prioritised other, non-input business ventures, resulting in slower uptake of the business model. Therefore, to protect reporting integrity, the projections for certain interventions have been revised down and others have been closed. This has led to a 3% drop in overall effective outreach projections since 2022
 - Despite this, 44 additional people benefitted from MDF support for quality agricultural inputs, such as small farm machinery and organic fertiliser. Based on the current portfolio, including initiatives in organic certification signed in 2023, work in HVA is anticipated to benefit an additional 1,001 people over the next three years.
 - Outreach actuals and projections from HVA have been adjusted for overlap between new and earlier interventions. New quality agricultural input interventions were trialled in traditional farming regions, in which MDF already recorded impact through early work. Outreach figures were discounted by almost 50% due to this overlap, creating a risk that results will taper off as the program matures. To combat this, in 2023 MDF started work on a new agriculture distribution intervention targeting areas outside traditional farming belts
- The tourism portfolio adjusted its strategy post-COVID to spread tourism gains to remote regions by supporting high yielding and sustainable community-based tourism. These interventions are intended to bolster effective projections over the next few years. Like agriculture, legacy interventions that had not yielded impact by 2023 were closed, with a moderate impact on projections.



Strong outsourcing income cushions the impact of underperforming agriculture interventions

- Net additional income (NAI) grew 17% in 2023 to USD5.2 million, achieving 61% of estimates. NAI is projected to reach 77% of estimates by 2026.
- New jobs generated in OS through MDF's support for enterprise and industry-level marketing, as well as other crowding-in investments including new foreign direct investment, contributed 98% of new income in 2023. The OS industry is becoming a significant contributor to Fijian incomes, with an average salary of over USD6,000 (AUD9,080) per annum.
- Women account for 65% of NAI in 2023 and this is expected to grow. These strong results push the MDF Fiji portfolio closer to gender parity in earnings, with 49% of incomes earned by women and the current portfolio estimated to achieve 50% by 2026.
- Work in quality agricultural inputs, which contributed 16% of increased income for beneficiaries in 2022, it only contributed 1% in 2023. This smaller growth in income was primarily generated by new organic fertiliser and small farm machinery interventions piloted in late 2022. Interventions in commercial-grade poultry manure, pending verification in 2024, are anticipated to drive these figures in the future.
- In 2023, MDF's work in tourism shifted to suit a rebounding sector, collaborating with the private sector and iTaukei institutions on product development and marketing community-based experiences. While this work did not increase employment or income in 2023, the new interventions planned for 2024 are expected to contribute to new effective outreach and NAI projections.
- Fiji's cumulative NAI benefitted from earlier interventions in HVA, primarily in agricultural inputs. As such, agriculture contributes 68% to current overall results. The decision to close underperforming interventions or revise down projections in the HVA and tourism portfolios had a direct impact on NAI. As a result, projected income is down 10% in HVA and 14% in tourism. However, these losses have been cushioned by new income anticipated from OS, which is expected to make up the deficit and generate NAI of USD6 million (AUD9 million) by 2026, lifting projections by 10% over 2022 results.

VALUE OF ADDITIONAL MARKET TRANSACTIONS



Outsourcing services drive additional market transactions

- The current portfolio achieved a cumulative 76% of estimates in 2023, with VAMT increasing 34% compared to 2022. The current portfolio is projected to reach 94% of estimates by 2026. HVA, tourism and urban industries have contributed 49%, 36% and 15%, respectively, to cumulative VAMT.
- OS contributed a substantial 95% to the increase in VAMT in 2023. The maturing of interventions in direct and indirect marketing, against a backdrop of MDF-influenced government incentives, resulted in FDI inflows, new clients and revenue growth for OS companies. Besides Australia and New Zealand, OS firms engaged customers in North America and Europe and are actively looking to open new markets in the United Kingdom; all of these are anticipated to create new market transactions that are attributable to MDF.
- The business development services portfolio contributed to 4% of the increase in VAMT. Fiji Enterprise Engine-supported small and medium businesses reported higher revenue and the Greenhouse Coworking model generated revenue beyond MDF support.
- Over the next three years, MDF expects OS to remain a major source of VAMT, accounting for 83% of projections. Existing interventions in quality agricultural inputs and new investments in certifications and organic ginger production account for 14% of projections. Given the pandemic's impact on tourism, VAMT projections from new investments in non-traditional, high-yielding regions with a focus on community-based tourism are expected to increase from 2025 onward.



Overview of Portfolio and Progress in 2023

Fiji's economy returned to pre-pandemic levels in 2023, bolstered by a rebound in tourism. In 2023, GDP grew by 8.2 per cent, following 15.7 per cent growth in 2022.¹ It had been estimated that Fiji would take three years to fully recover from the pandemic. Remittances rose to FJD1.25 billion (AUD0.85 billion) in 2023, which was double the level of inflows recorded in 2019.



Hospitality, cruising and yachting activity at Port Denarau Marina in Nadi

However, higher import commodity prices and value-added tax and tariff rates drove prices up. Inflation was 5.1 per cent in December 2023² compared to 4.3 per cent in 2022. Migration continued to stifle growth and the Reserve Bank of Fiji (RBF) noted that loss of skilled and semi-skilled labour would reduce productivity and present a risk to the domestic outlook.

Tourism was a success story in 2023. Arrivals reached 929,740, 46.1 per cent higher than 2022 and four per cent above 2019 arrivals. Bolstered by higher room rates, tourism earnings reached FJD1.7 billion (AUD1.16 billion) in September 2023, growing 9.5 per cent from 2019. However, migration, hotel capacity constraints and high prices are threats to service quality and competitiveness. In addition, the late reopening of more affordable tourist destinations in Southeast Asia, which offer diversified tourism experiences, meant that Fiji's tourism industry needed to re-strategise. MDF's partnership with Twenty31 provided industry stakeholders with the latest tourism data and trends from key source markets. This information was used to re-focus national tourism policy and marketing efforts, leading Tourism Fiji to sign a two-year partnership with Twenty31, an encouraging sign of sustainability. To diversify

Fiji's tourism offering and align with MDF's vision for more local benefits from tourism, MDF scoped opportunities in community-based tourism with the iTaukei Trust Fund Board (TTFB) and the Ministry of iTaukei Affairs. MDF also collaborated with other market actors to develop tourism offerings in remote regions.

The outsourcing services sector continued to grow. This year saw the development of supporting functions, including telecommunications, infrastructure, investment facilitation and training. MDF's work aligns with Fiji's National Development Plan and gained momentum in 2023, deepening work in marketing, advocacy and coordination, and human resource development. Industry and government showed increased interest in sector growth: membership of the Outsource Fiji industry council grew to 36 and the government tripled its 2022-2023 funding to the council to FJD600,000 (AUD408,000), with an additional FJD1 million (AUD0.68 million) allocated to support industry expansion.

MDF's work in enterprise solutions for micro, small and medium enterprises (MSMEs) focused on building the sustainability and commercial viability of two pilots in business acceleration and coworking. The Fiji Enterprise Engine (FEE) business accelerator is on the path to self-reliance, garnering funding from the RBF; TTFB; the Ministry of Trade, Cooperatives, SMEs and Communication; and the International Labour Organization (ILO). The Greenhouse Coworking and MyDesk coworking spaces operated

¹ Reserve Bank of Fiji, Economic Review, January 2024

² Ibid

successfully in Suva and Nadi. MDF continued to phase out of this market system.

MDF made progress in the high value agriculture sector despite difficult market conditions caused by global supply chain disruptions and the rising cost of agricultural inputs. In alignment with the government's 2022-2023 Agriculture Development Programmes, MDF partnered with agricultural input firms, such as Baywater Engineering, to introduce domestically produced organic fertiliser, which is a more affordable alternative to imported synthetic fertiliser. To support the uptake of small farm equipment and vertical farming practices, MDF partnered with Krishan's Farm Implements to roll out a machinery rental service and engage with farmers in different regions. Recognising the need for certification to improve access to premium markets, MDF explored organic agricultural certifications in 2023. Through a partnership between MDF Pacific Regional and Control Union, two workshops were held in Fiji to raise awareness of the value of different organic certifications.

MDF continued to support gender equality, with women making up more than half of the people using or applying information, goods or services provided by MDF's partners. The growth of the OS sector, with a workforce made up of 70 per cent women, demonstrates the potential for the sector to deliver quality full-time employment for women. In agriculture, field assessments conducted by MDF in 2023 confirmed that women play an increasingly important role in farming due to the out-migration of male labour. Through MDF's interventions, farmer field days and demonstration plots to promote small farm machinery and smart farming techniques have seen increased participation from female farmers. In 2023, MDF's scoping work in community-based tourism identified the increasing involvement of women in experiential tourism, particularly in hosting village-based cultural tourism experiences.

In 2023, MDF built on its collaboration with other Australian programs. PHAMA Plus participated in MDF interventions aimed at increasing awareness and uptake of organic improvers. Together with POETCom (on organic farming) and Organic Pasifika (on sustainable farming practices), PHAMA Plus presented on export market opportunities for high value agricultural crops. MDF and PHAMA continued to share information about opportunities and pipeline interventions and identified prospects for collaboration in areas such as certification and training.

MDF continued to work closely to support Australia's public diplomacy and wider engagement in Fiji. Colleagues from DFAT Suva Post were involved in several MDF activities, including the graduation event for the Fiji Enterprise Engine 2022 cohort, the launch of the Fiji Enterprise Engine 2023 cohort, field visits to MSME businesses operated by women and people living with disabilities, local events organised and hosted by Outsource Fiji, farmer field days and demonstration plots. Communication products developed from these events were shared on MDF's social media channels, website, local newspapers and TV stations.



Alignment with government priorities

MDF remained aligned with the priorities of the Government of Fiji and its partnership with the Australian Government. The Rabuka Government signed a renewed Vuvale Partnership with the Australian Government in October 2023, which includes a pillar on deepening their economic relationship through development programs, including MDF. Outsourcing services is now central to the government's growth and diversification agenda, and MDF's support has been recognised by industry and government alike. MDF captured the growth of the industry in a case study, which will be published in 2024.

Tourism remains a national priority, and MDF's work in widening the geographic impact of tourism to less-visited locations places communities and resource-owners at the core of implementation. This approach aligns with the government's focus on indigenous participation in business and sector development as outlined in Fiji's 10-year National Sustainable Tourism Framework, on which MDF was also consulted.

Agriculture continued to be vital for Fiji, providing food security, income and employment. The Rabuka Government's support for agriculture development in 2023-2024 included, for the first time, subsidies for inputs such as weedicides and fertilisers to boost the development and production of non-sugar crops.³ In addition, the government's Farm Mechanisation program continued to target organised farmer groups or cooperatives to increase agricultural production. MDF's work in agriculture remained closely aligned with the government's priorities, particularly in facilitating farmer access to quality agriculture inputs and to premium markets for high value agricultural products.



³ 2023-2024 Fiji Budget Supplement

Country and Portfolio Strategy

Country strategy

MDF’s country strategy remained closely aligned with the priorities of the Government of Fiji in tourism, agriculture and urban industries.

Supporting the government’s push for economic diversification, MDF continued its focus on higher-yielding, sustainable and resilient tourism in

close alignment with Fiji’s National Sustainable Tourism Framework. In agriculture, MDF supports the shift to higher-quality, climate-resilient inputs for domestic production and internationally competitive premium agricultural products. These contribute to the priorities detailed in the government’s five-year Strategic Development Plan (2019-2023) for agriculture. In urban industries, MDF capitalises on Fiji’s strategic location and competitive assets, supporting the outsourcing sector as a pathway to diversify beyond tourism and agriculture.

MDF’s climate change strategy focused on developing adaptation and mitigation solutions to reduce climate-related risks in agriculture, tourism and urban industries, increasing climate protection and safeguarding against climate-related losses. MDF’s new focus on the renewable energy sector is showing early signs of the potential of green energy.



Climate change

Fiji is one of the most vulnerable nations to climate change and related disasters in the world, given its exposure to tropical cyclones. This island nation is affected by sea level rise, ocean acidification, rising temperatures and extreme rainfall events. Agriculture is impacted by changes in annual rainfall quantity, intensity and timing. MDF’s market intelligence⁴ found that for countries like Fiji, while El Niño means below-average rainfall, climate change is leading to persistent rainfall during dry months. These erratic weather patterns degrade soil, reduce plant health and increase pests. Climate change also threatens Fiji’s tourism assets and poses business continuity challenges for urban industries such as outsourcing services.

In 2023, MDF intensified its work in climate change. In tourism, initiatives were scoped in waste management, resource

conservation, carbon offsetting and community engagement. These aligned with a strategy to attract high value eco-conscious travellers to Fiji. In high value agriculture, MDF explored opportunities in organic fertiliser, soil management and testing and using agricultural technology to improve information provision. In urban industries, MDF explored opportunities in green energy, including electric vehicle leasing. MDF supported outsourcing services firms, businesses and urban residents to pursue energy efficiency and adopt rooftop solar technologies.



⁴ MDF MarketView (Facility Wide #10)

Sector rationale



Tourism

Fiji's economy relies heavily on tourism; it accounts for about 40 per cent of GDP and employs approximately 50,000 people. The post-pandemic revival of tourism has boosted confidence and receipts from the sector totalled FJD1.7 billion (AUD1.16 billion) between January and September 2023. The rebound of tourism masks some underlying challenges which threaten the industry's competitiveness. For example, there is limited information

available to the industry about the changing preferences of international tourists, tourism offerings are not diversified, and limited accommodation capacity and a dearth of skilled workers is pushing up prices and reducing service quality.

The tourism industry is vulnerable to the effects of climate change, which threaten Fiji's coastal assets. Natural disasters such as cyclones

and flooding damage infrastructure, causing losses that take a long time to recoup. There is a strong business case for investment in climate change adaptation to make the sector more resilient. International travellers are also increasingly demanding eco-friendly tourism products. This is creating opportunities for tourism operators to invest in climate change mitigation and position themselves to take advantage of 'green' demand.



High Value Agriculture

The agriculture sector is valued at approximately FJD1.5 billion (AUD 1.02 billion) and accounts for 8.1 per cent of Fiji's GDP. It provides livelihoods, employment and food security to a large portion of the population. Ginger and turmeric led the increasing demand for Fiji's agricultural goods in 2023, showing the potential of Fijian organic produce in the global food, beverage, pharmaceutical and health supplements market.

The sector's ability to exploit this potential is constrained by several factors. Use of agricultural inputs, including seeds, soil conditioners, fertiliser and equipment, is low, which affects the productivity and quality of high-value crops. Exporters struggle to penetrate premium markets because they tend not to understand consumer preferences and lack know-how about building effective distribution channels and marketing their products.

The impacts of climate change, such as changing temperatures, extreme weather events and soil degradation, adversely affect crop growth, reducing farm yields and incomes. The government, private sector and farmers must invest in effective climate adaptation and mitigation measures if Fijian agriculture is to remain productive, viable and competitive.



Urban Industries

Urban industries have provided a tangible alternative to Fiji's traditional sectors of agriculture and tourism. Capitalising on a young urban population, skilled labour market, improving infrastructure and technological facilities, and growing entrepreneurship, the government has continued its support for outsourcing industries and business development of MSMEs. The outsourcing services sector, valued at AUD150 million in 2023, is Fiji's fourth-highest earner of foreign exchange after tourism, sugar and light manufacturing exports.⁵ The outsourcing services sector employs 5,000 people and contributes an estimated two per cent to GDP.⁶

Fiji's outsourcing services sector is on a growth trajectory with government

and businesses committed to further developing the industry. With the government's strong push for economic diversification, the industry provides a tangible alternative to Fiji's traditional areas of focus. Fiji's global image as an outsourcing destination has gained wider visibility with Fijian companies securing new businesses in North America and Europe. The government introduced various tax-related incentives and favourable policies to attract new investors, and public and private investment continued to increase. The industry has continued to employ around 70 per cent women, contributing to economic inclusion.

Climate change poses risks to urban-based market systems. Frequent and intensifying weather events increase

costs and reduce revenues. They often disrupt electricity supply and internet connectivity, vital for the smooth functioning of outsourcing services. For businesses with large premises, like outsourcing services, there are opportunities to shift to more efficient or renewable sources of energy to reduce costs and position themselves as 'green' to take advantage of niche markets.

⁵ MDF research, Reserve Bank of Fiji.

⁶ These statistics should be interpreted with caution. They are based on the best available data but may be subject to inaccuracies. MDF will update them as more data becomes available from Reserve Bank of Fiji in early 2024.

The Results Story

Post-pandemic recovery boosted by outsourcing services, agriculture and a promising strategy for sustainable tourism



Fiji marked a year of recovery in 2023, with the tourism sector rebounding. However, MDF field work and partner discussions highlighted several ongoing challenges, including labour shortages in tourism as a result of migration and climate change-induced extreme weather events.

Agriculture continued to bear the brunt of climate change, with longer and more intense rainy seasons (off-season), coupled with more intense dry seasons (main season) directly impacting farm productivity, household income and

food security. Increases in value-added taxes, mandatory superannuation and minimum wage rates increased the cost of doing business in 2023 for partners across the portfolio.



Outsourcing drives job creation and business revenues

Outsourcing services (OS) continued to grow in 2023. Bolstered by MDF support, partners invested independently in marketing: hiring marketing specialists or business development managers, exploring new digital solutions, and researching demand in new markets such as North America. These investments generated over 30 new jobs in 2023 alone. Similarly, partners and other companies continued to engage matchmaking services to find clients, resulting in the generation of over 220 new jobs and over USD4.4 million (AUD6.6 million) in additional business revenue. More than seven foreign businesses set up operations in Fiji, generating 270 new jobs and over USD3.5million (AUD5.3 million) in revenue in 2023 alone.

MDF-supported HR development initiatives gained traction in 2023. Businesses are investing in developing pools of work-ready staff, able to secure and deliver new contracts. HR initiatives included an innovative in-house training pilot introduced by Outsource Fiji in partnership with New Zealand-based Learning Planet. This training program is expected to be rolled out for Outsource Fiji members in 2024.

The OS sector is expected to generate a further 300 new jobs over the next two years through new demand for KPO (Knowledge Process Outsourcing) business and companies increasing wages to attract staff.





Organic fertiliser gains traction among farmers; agriculture portfolio set to grow

Farmers increasingly adopted organic fertiliser and new small farm machinery. Root crop farmers reported limiting their use of synthetic fertiliser and chemical weedicides and pesticides, while trialling new, MDF-supported organic fertiliser products. Farmers noted changes in soil health and improvements in the quality and quantity of produce, as well as a reduction in workload. MDF also commenced new initiatives in improved fertiliser methods, such as 'retail-shelf-ready' poultry manure.

The current agriculture portfolio is anticipated to benefit an additional 1,000 farmers in the next three years. These projected numbers are adjusted for overlap in beneficiaries – i.e. they have been discounted by 50 per cent to account for beneficiaries already recorded under existing and closed interventions.



Tourism product development and localisation expected to bolster outreach in remote regions

In 2023, MDF completed its third year of activities with Tourism Fiji on live-traveller sentiment research and an online dashboard. The Tourism Statistics Taskforce started to actively use the information from the dashboard, as well as share it with industry. Tourism Fiji independently committed to another year of subscription to certain Twenty31 research services.

MDF conducted significant scoping in 2023 to gauge the incentives of interested tourist operators and the opportunity to nurture engagement with communities and indigenous institutions. Based on the findings from the scoping, MDF is commencing new interventions in community tourism-based product development, sustainability certification and blue carbon initiatives. These interventions are expected to increase income for Fijians in remote regions, strengthen the participation of indigenous resource owners and communities in tourism, and enable MDF to contribute to DFAT's localisation agenda in 2024.



OS, agriculture and FEE drive women's economic empowerment

MDF maintained its strong track record of supporting inclusive impact. Women accounted for 65 per cent of net additional income generated in the OS market system in 2023 – a trend expected to continue. The MDF Fiji portfolio is now closer to parity in earnings, with women accounting for 49 per cent of income and the current portfolio forecast to achieve 50 per cent by 2026.

Field assessments continued to validate lessons around female household participation in agricultural production. Women hold visible and less visible roles in planting, crop maintenance, harvesting and selling. They also participate in decision-making around the use of household income. The widescale availability of organic inputs is intended to improve access to inputs for people with disability. Field results indicate that farmers who self-report as having physical impairments have seen higher yields and additional income from using organic fertiliser. Planned MDF interventions in distribution and marketing are intended to deepen this impact.

MDF completed monitoring its Fiji Enterprise Engine (FEE) accelerator with the Fiji Commerce and Employers Federation in 2023. Across five years, over 200 women entrepreneurs have accessed business training, of whom 78 have generated USD420,000 (AUD630,000) in additional revenue.



Participating in FEE has had a positive impact on these entrepreneurs' agency and access to new opportunities. Interviews revealed that interacting with industry mentors, other MSMEs and networking events supported the women to become more confident public speakers, explore new ventures in business and professional development, and increase their recognition within the business community. In 2023, two women entrepreneurs leveraged FEE networks with financial institutions and coaches to secure loans and grants valued at USD310,000 (AUD480,000) to expand their business operations in 2024.

Systemic Change Story

The evolution of Fiji's outsourcing services industry

Prior to 2019, Fiji's outsourcing services (OS) sector employed around 2,500 people. With limited global recognition, the industry struggled to compete with established players like India and the Philippines. However, in the past four years alone, Fiji's OS landscape has undergone a remarkable transformation, doubling employment and evolving into an important contributor to the economy. OS has emerged as Fiji's fourth-highest foreign exchange earner, a significant shift from its earlier challenges in attracting new business and investment.



Despite Fiji's advantages, such as a well-educated workforce and favourable geographic location, the outsourcing sector faced significant hurdles. Intense competition, market entry barriers and a lack of industry promotion hindered its growth. A relatively small and lesser-known player in the industry, Fiji struggled to capitalise on its value propositions to attract clients and compete with bigger, more established industry hubs. It required Fiji to pivot from its traditional reliance on small client bases and word-of-mouth promotion to more coordinated and strategic advocacy and marketing approaches.

The industry also grappled with the challenge of recruiting readily employable candidates with the specific skills required. This forced companies to invest substantially in recruitment, onboarding and training for each new contract – leading to higher costs and greater uncertainty, as well as weakened competitiveness.

The change

The Fiji Government and other OS stakeholders, with support from MDF, are successfully addressing several critical challenges to strengthen and sustainably grow the industry. Fiji's reputation as an OS hub is gaining traction in global markets and, as a result of MDF support, has generated at least 70 new contracts, 1,100 new jobs and AUD8.6 million in additional income since 2019. Industry advocacy and government support have also increased, bolstered by the Business Process Outsourcing Council of (BPOC) Fiji's inclusion as a member of the Fiji Commerce and Employers Federation and greater budgetary support from the government. With this growth, there is a greater focus on long-term sustainability, including how to grow and retain a work-ready labour pool, increase industry inclusivity and accessibility for women and people with disability, and potentially incorporate renewable energy solutions in infrastructure. These are elaborated below:

Adopt/Adapt

New marketing models and industry-level support are driving growth

MDF trialled new marketing methods with local OS companies, including recruiting Business Development Managers for key markets and implementing new digital marketing solutions. Over the past four years, these investments in marketing have resulted in the creation of 197 jobs, of which 137 were for women.

With MDF's backing, Outsource Fiji (formerly BPOC) laid the foundation for transformative changes within the industry. It established a dedicated secretariat and hired an Executive Director, both of which allowed for coordinated and strategic marketing efforts of Fiji as an OS destination. Outsource Fiji strengthened its presence by developing a website, creating content, conducting online marketing campaigns, hosting webinars and participating in international events. All of these investments expanded its reach and fostered valuable industry connections. New budgetary support, provided in 2023, is supporting growth.

Building on this momentum, Outsource Fiji has spearheaded several key promotional activities, including the inaugural Fiji Outsourcing Symposium and Exhibition in New Zealand in 2023. This event highlighted the industry's capabilities and generated several leads for its members. Outsource Fiji also established a marketing vendor panel with MDF's assistance, empowering companies to effectively elevate their marketing efforts.

Outsource Fiji is also looking to ensure long-term sustainability by creating an Industry Development Fund and Governance Framework, to manage and grow Fiji's OS industry in line with the council's strategic priorities. The development fund channels additional funding secured by the council in accordance with the governance framework and determines how the funds are managed. In addition, the council has introduced accredited human resource courses tailored to industry-specific needs. Outsource Fiji has continued to expand its educational offerings by expanding the range of accredited courses.

The response from nearshore clients has been overwhelmingly positive. The initial webinars supported by MDF attracted over 100 participants, and Outsource Fiji continued to host several webinars in collaboration with Australian industry match-making service provider Matchboard, resulting in the conversion of 24 leads, generating FJD5.4 million (AUD3.7 million) in revenue for Fijian firms. In addition, three Fiji OS companies collaborated directly with Matchboard to improve lead conversions, creating 220 new jobs in 2023 alone. Four OS firms took this initiative further and subscribed to Outsource Accelerator, a similar service based in the Philippines. This platform develops content and connects clients and service providers using a subscription model.

In 2023, MDF also supported Investment Fiji (the national investment promotion agency and a council member) to develop an OS prospectus that can be used to promote the industry and attract foreign direct investment.

Expand

The OS success story is gaining traction with other market actors

Reflecting industry growth, Outsource Fiji membership grew from seven members in 2017 to 36 in 2023. This growth has also seen more diversity of membership beyond traditional OS services, including 'the big four' accounting firms, banks and telecommunication agencies. The expansion has strengthened Fiji's value proposition as an attractive outsourcing destination, especially in light of the COVID-19 pandemic, which prompted businesses to seek reliable nearshore options.

Key government agencies, such as Fiji's Trade Commissions, actively support Outsource Fiji to promote Fiji, including by supporting Fijian delegations at international OS exhibitions and promoting events hosted by the council, including its first Symposium

and Exhibition held in Auckland, New Zealand in 2023. Investment Fiji is using the OS prospectus as a guide to develop a similar promotional document for the tourism sector and has indicated interest in the development of prospectuses for other key industries.

The influx of offshore operators, firms headquartered in key source markets, has further bolstered Fiji's outsourcing landscape. These operators integrate Fijian staff into their existing operations, creating job opportunities and contributing to industry growth. This multifaceted growth trajectory underlies Fiji's increasing prominence as a global OS player.



An outsourcing staff in Fiji office

Respond

Fiji's OS potential is gaining buy-in from key stakeholders

The Fijian Government has prioritised the OS sector and increased budgets for Investment Fiji and Outsource Fiji. Investment Fiji's budget was raised from FJD1.8 million (AUD1.2 million) in 2021 to FJD2.7 million (AUD1.8 million) in 2022 and 2023. Outsource Fiji's budget was raised from FJD600,000 (AUD400,000) in 2022 to FJD1 million (AUD685,000) in 2023.

The government announced further incentives in 2023, including a BPO expansion budget of FJD1.5 million (AUD1 million). OS industry stakeholders also regularly participated

in national economic conferences and events, such as Outsource Fiji being invited as a keynote speaker at the Fiji Australia Business Council Forum in Australia.

Foreign investors are responding to the potential evident in Fiji's OS sector: seven investors set up business in Fiji in 2023, expected to create an additional 269 jobs over the next few years. Key stakeholders now collaborate actively to promote the industry. Government and Australian High Commission officials have participated in several industry events, including Outsource Fiji's

inaugural Women in Tech Symposium and Awards event. Most recently, the Fijian Government announced its partnership with Outsource Fiji to host the country's first international expo for the OS industry – Exo Fiji – in June 2024. The event, supported by MDF, is expected to attract businesses from Australia, New Zealand and potentially the US to experience Fiji's outsourcing opportunities, increase the visibility of Fijian outsourcing companies and promote direct engagement with potential clients.



📷 BTR/Our Pacific Office staff in Nadi office

The way forward

The OS industry generated over 500 new jobs in 2023, through MDF and partner interventions alone. Beyond budgetary support, the Fijian Government has implemented growth-focused policies, such as establishing strategic partnerships with Google and Starlink to improve internet connectivity.

The industry aims to create 25,000 new local jobs by 2025, and this has garnered support from market actors including major business services firms

that have relocated some of their service delivery to Fiji. While some of the industry's inbuilt non-wage benefits, such as flexible working hours and job security, are attractive to employees, several companies are also exploring the feasibility of offering additional benefits such as child-care services. This will be a focus area for MDF. The government and Outsource Fiji are spearheading efforts to bolster cyber security measures that align with international standards, to fortify the country's position as an outsourcing hub.

However, challenges remain, including accessibility for people with disability. In response, several infrastructure development firms have plans that prioritise accessibility alongside the exploration of renewable solutions, which MDF intends to support where feasible. Through strategic collaborative efforts, Fiji is emerging as a reputable destination for outsourcing services, boosting the economy, employment and incomes.

Inclusion Story

Cultivating local organic solutions in Fiji

Agriculture is vital for Fiji's economy, employing over 83 per cent of the rural population. However, the sector's sustainability and competitiveness are affected by limited access to quality agricultural inputs like organic fertiliser and soil conditioners.

Finding local solutions to support a more sustainable, circular economy has the potential to make Fiji's agriculture industry more resilient and competitive.

Fijian company Baywater Engineering has developed an innovative solution called 'OrganicPlus'—a liquid compost made from discarded organic material. MDF is supporting the company to promote and market its soil conditioner, increasing farmer access to local organic solutions to support their livelihoods and potentially reduce Fiji's dependence on imported chemical fertiliser.

Click/scan the QR code
to read the full story



Climate Change Story

Powering Fiji: Urban solar holds the key to sustainable energy transition

Fiji is already facing the impacts of climate change, and its energy sector faces challenges stemming from its small market size, high susceptibility to extreme weather events, and dependence on fossil fuels. The Fijian economy is also enjoying a post-pandemic boom, but high living costs and the potential for electricity price hikes have left the country in need of innovative solutions to meet growing energy demand. Despite these unique challenges, Fiji stands poised for transformation.

As the first nation in the world to ratify the Paris Climate Agreement, Fiji has a 20-year plan to achieve their commitments. The country aims to generate all energy from renewable sources by 2030, including solar, wind, storage, geothermal, marine, biomass, and biofuel.

While the Government of Fiji has set a clear ambition to move to clean energy and the need for private sector investment is acknowledged, there are many challenges which need to be overcome.

Click/scan the QR code
to read the full story



Business Focus Story

Greenhouse Coworking: Fostering community and innovation

Greenhouse Coworking opened its doors in Suva in November 2021, becoming Fiji's first full-service virtual and in-person coworking community. The creative hub provides local MSMEs with affordable office space, skills development, community support (in-person and virtual), and networking opportunities. MDF supported the coworking space with the development of their business plan and financial modeling, hiring Greenhouse Coworking's first Community Manager, and incentivising membership packages to encourage uptake. MDF is now gradually exiting as the business models show encouraging signs of sustainability.

Click/scan the QR code
to read the full story



Tourism



USD

2.7m

Private sector
investment
leverage



Vision of change

- The tourism industry shifts to higher-yielding tourism segments that are sustainable and resilient.
- Fiji's yachting industry attracts more yachts and superyachts due to strengthened international marketing, revised yachting legislation and the ease of approval processes.
- Fijian tourism operators continue to have access to credible, timely market information about travellers, leading to tourism product diversification, better package development, targeted marketing and segmentation.
- Industry operators and stakeholders develop strategies for product diversification to enhance competitiveness and support the sustainable development of Fiji as a tourist destination.

Constraints

- Since the reopening of borders, the industry has faced a labour shortage crisis, as an increase in pent-up travel demand outpaced the remaining labour capacity.
- Tourism operators have limited access to timely research and intelligence to support efforts to capitalise on tourism trends post-COVID-19.
- A low level of industry readiness and limited product offerings impact the industry's competitiveness after a two-year lapse.
- Other destinations are offering cheaper holidays, so Fiji needs product diversification to stay competitive.

Interventions



 Green Tourism
(Air Travel)

 Blue Tourism
(Sea Travel)

Climate risks

Fiji is prone to tropical cyclones and flooding, which cost the country approximately FJD 500 million a year. The tourism industry is vulnerable to the impact of these natural disasters. MDF is exploring support for insurance and certification to increase tourist travel by air and sea.

1

Market System

Green Tourism (Air Travel)

Market on a Page



Fiji has **421** licensed accommodation providers with a combined inventory of more than **12,000** rooms.



The tourism industry provides direct and indirect employment for more than **150,000** people. However, from January-October 2023, close to **14,000** people left Fiji on work and student permits, including a significant number of tourism industry employees.



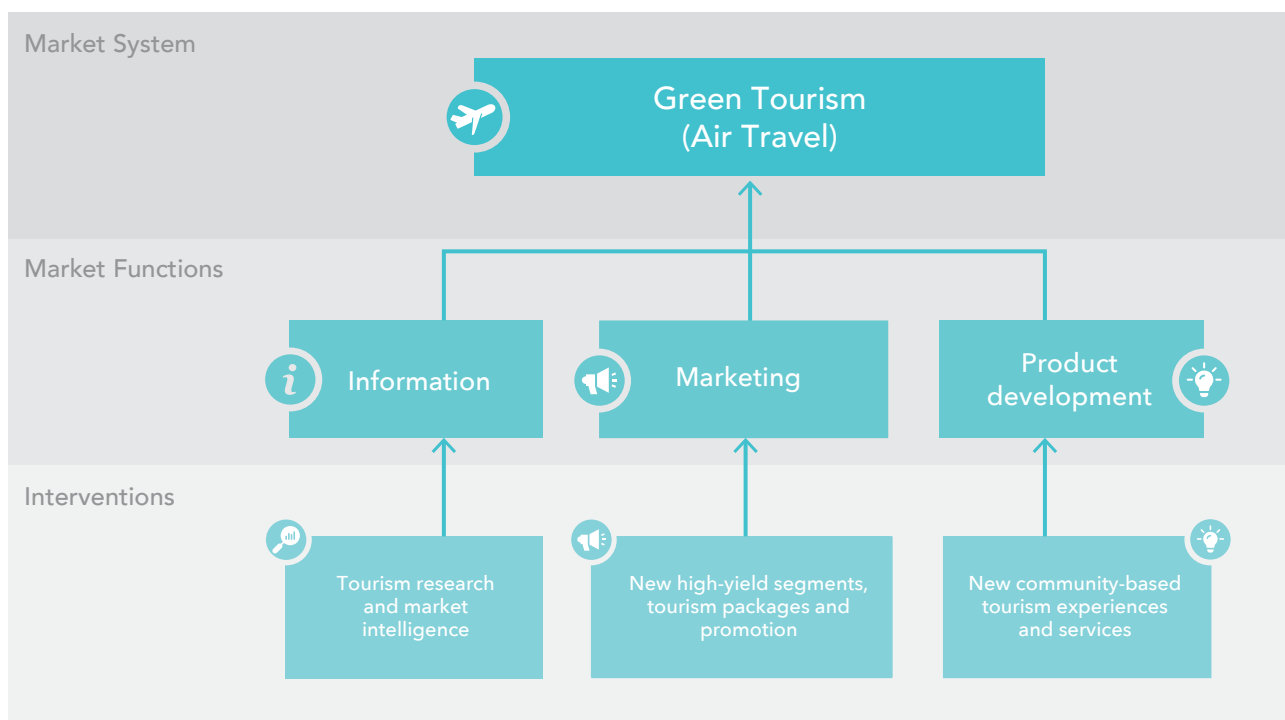
Visitor arrival numbers for 2023 exceeded **846,000**, representing a **51%** increase over the total number of visitors in 2022.



A 2023 study on the impact of sports tourism found that direct expenditure associated with game attendees and event operations reached USD29.9 million (AUD 45.8 million), creating employment opportunities for **21,000** individuals (equivalent to **520** full-time jobs).



MDF is providing market research to inform policies, strategies and business decision-making, and supporting the industry's green tourism initiatives.



Status of the market system

Developing

Interventions (active and/or monitored in 2023)

1. International Market Intel Dashboard

Summary of performance

Fiji's tourism revival masks underlying threats to industry competitiveness, including a lack of diversified products to meet tourist preferences for more sustainable and adventure/experiential tourism, limited accommodation capacity and labour shortages caused by migration.

In 2023, MDF completed its third year of activities with Tourism Fiji to cost-share on services to access live-traveller sentiment research and an online dashboard with Twenty31. The Tourism Statistics Taskforce (comprising MDF, MCTTT, Tourism Fiji and FHTA) learnt tourist preferences through webinars and training, and started to use and share this information. Tourism Fiji committed to another year of independent subscription to certain Twenty31 research services.

In late 2023, Fiji Airways rolled out new marketing campaigns informed by an MDF-supported CRM system. MDF will monitor lead conversions from these campaigns and anticipates reporting new projections and results from 2024.

While MDF activities only resulted in an increase in private sector investment in 2023, MDF recognised the opportunity to leverage insights from this market system to inform 'Green Tourism' strategies, particularly in terms of understanding tourist preferences. Following significant scoping in 2023, MDF plans to sign new interventions in 2024 with tourism operators to develop and market curated tourism products and packages.

EO Projected (cumulative)	EO Actuals (cumulative)	Income Projected (cumulative)	Income Actuals (cumulative)	VAMT Projected (cumulative)	VAMT Actuals (cumulative)	PSI Expensed	Progress (Traffic Light)
73	73	USD467,993 (AUD620,029)	USD467,993 (AUD620,029)	USD426,579 (AUD567,717)	USD426,579 (AUD567,717)	USD735,749 (AUD1,040,482)	

The revival of the travel industry was fuelled in 2023 by pent-up demand from market segments including couples, solo adult travellers, adventure tourists, sports enthusiasts, families and honeymooners.

Australia accounted for 47 per cent of total arrivals, followed by New Zealand at 24 per cent and the United States at 13 per cent. Other markets such as Asia and Pacific Island countries made up the remaining 16 per cent. In response to demand, Fiji Airways is starting new direct flights to Canberra and New Caledonia.

There are several underlying threats to industry growth, particularly labour shortages. Travel demand outpaced Fiji's remaining labour capacity, exposing the significant migration out of Fiji's tourism workforce. Fewer than 50,000 tourism workers remain employed by the industry, compared to 118,000 people recorded as working in tourism in 2019.⁷ MDF's market intelligence gathering confirmed that hotels face challenges in attracting and retaining employees and this is undermining the quality of their services.⁸

Fiji is losing competitiveness amid the surge in traveller demand. Limited room inventory and expensive room rates make competitor destinations such as Cambodia, Indonesia (Bali), Thailand, and other Pacific Island countries more affordable.

In 2023, travellers to Fiji showed growing demand for sustainable tourism options, including experiential tourism through community engagement. Travellers are becoming more interested in connecting with nature, people and culture. In meeting this demand, tourism stakeholders will need to safeguard Fiji's natural and cultural assets. The government, in consultation with the private sector, has drafted the National Sustainable Tourism Framework (NSTF), a 10-year roadmap to revitalise and enhance the industry's competitive positioning and to anticipate future needs. Against this backdrop, MDF began consultations with key stakeholders in i-Taukei development such as the i-Taukei Trust Fund Board (TTFB) and i-Taukei Land Trust Board (TLTB). MDF discussed potential collaboration for the development of sustainable community-based tourism offerings to target high-value markets.

To align with the priorities of the NSTF, MDF revised its strategy for air travel in 2023 to focus on sustainable and responsible tourism that will appeal to higher-yielding clients. Emphasis on information, product development and marketing has been retained, and MDF collaborated with business and government to address gaps, especially on the supply side, that will enhance Fiji's sustainable tourism.

⁷ FHTA Tourism Talanoa – Committing to Sustainability, Fiji Hotel and Tourism Association, 27 May 2022

⁸ MDF MarketView (Fiji Issue #03) – Skills shortage in Fiji hotels since re-opening.



Information

MDF continued to support industry stakeholders through the Tourism Statistics Taskforce (TST), championing the importance of using relevant and timely data for decision-making. In 2023, MDF and Twenty31 continued monthly insights webinars for the industry, to show how data could be used to segment and target travellers for better brand positioning. The webinars included detailed reporting of content engagement, visitor experiences, airline capacity trends, social media sentiment and brand health benchmarking. As a result, Tourism Fiji entered a two-year partnership with Twenty31 after MDF's intervention ended, ensuring the sustainability of the function.



Product development

The Government of Fiji has highlighted the need for new tourism products and experiences that can help Fiji maintain its competitive edge. Product diversification that encompasses Fiji's cultural, historical and natural assets brings unique opportunities as well as challenges. It requires effective collaboration between business, government, iTaukei stakeholders, resource-owner communities and conservation organisations. MDF scoped this function extensively in 2023 and has designed interventions to be implemented in 2024.

In 2023, MDF partnered with Tourism Fiji to study the economic impact of sports tourism and capitalise on the popularity of the Fijian Drua (Fiji's professional rugby team competing in the Super 14 Rugby competition) Super Rugby. The study found that Super 14 tournaments held in Fiji contributed FJD67 million (AUD45.56 million) to Fiji's economy, with benefits extending to local businesses and communities. Sports tourism is likely to gain momentum in 2024 with the return of the World Surf League Championship in August 2024 and Australian National Rugby League games in February 2024.

Marketing

Fiji's brand positioning post-pandemic pivoted away from traditional 'sun, sand and sea' messaging to one that emphasised culture and people, informed in part by MDF's work in the information function. The destination brand tagline shifted from "where happiness finds you" to "where happiness comes naturally," putting Fijian people, culture and the environment at the heart of destination marketing. This aligns with growing demand for ecotourism and sustainable tourism experiences and a more value-based consumer and investor ethos.

In 2023, MDF engaged with Fiji Airways to pilot an industry-level approach to increase investment in mangrove restoration that would benefit coastal iTaukei resource-owner communities, who are the custodians of the mangrove forests. The aim is to make mangrove regeneration a viable source of commercial revenue for the private sector and iTaukei communities and offset the airline's carbon footprint. If successful, this would enhance Fiji's destination marketing and branding to attract higher-yield, environmentally conscious travellers.



2

Market System

Blue Tourism (Sea Travel)

Market on a Page



In 2023, more than **36,000** cruise passengers visited Fiji, contributing USD 891,000 (AUD 1.36 million) in revenue.



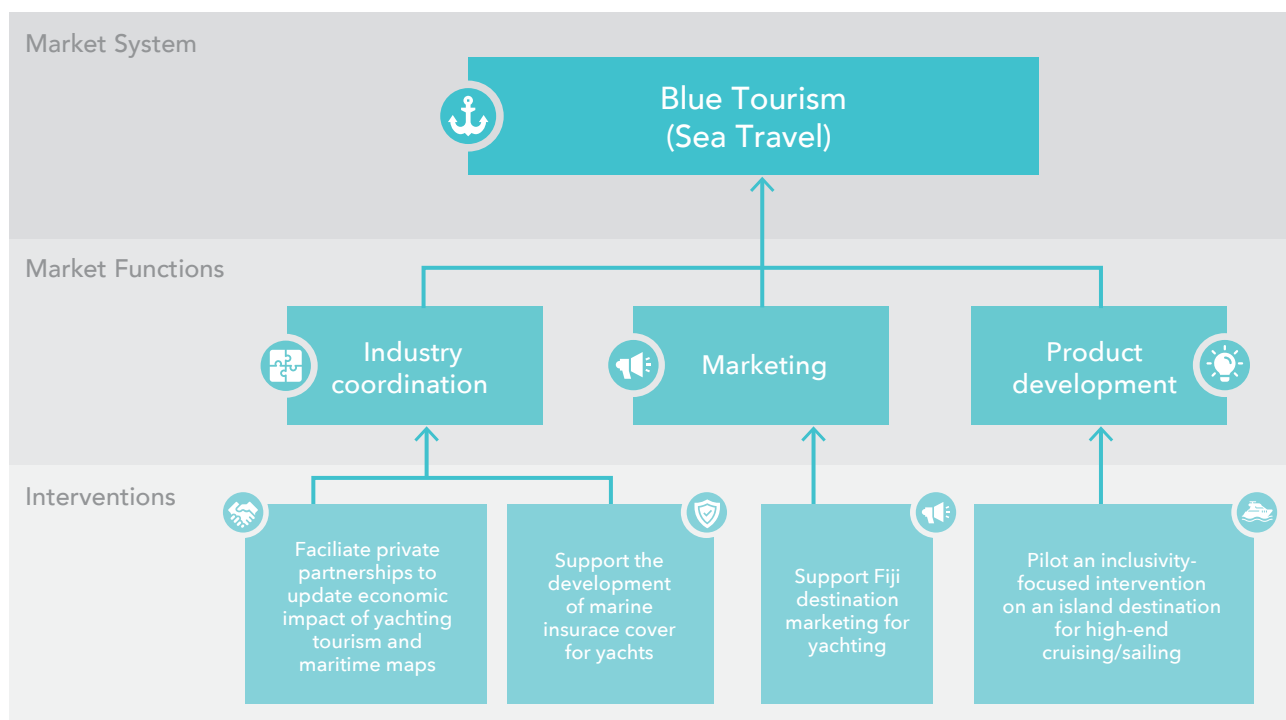
More conducive policies and process regulations would encourage greater industry collaboration.



MDF is supporting the private sector to promote environmentally friendly, climate resilient and responsible yacht and cruise tourism, which financially benefits remote island communities.



MDF is also collaborating with Tourism Fiji and marina stakeholders to conduct an updated study on the economic impact of the yachting industry in Fiji.



Status of the market system

Developing

Interventions (active and/or monitored in 2023)

1. Hydrographic mapping
2. Integrated online clearance system/enabling environment for yachting tourism

Summary of performance

Yachting and cruise tourism started to return to normal after international borders reopened in late-2022 and 2023. MDF identified opportunities to support community readiness to receive new visitors in rural and remote regions. MDF leveraged its networks with indigenous institutions and cruise agents to expand the work started in 2019 on hydrographic mapping, through new product development, marketing and training to support island communities. MDF anticipates signing new partnerships in 2024.

MDF's partnership with Fiji Revenue and Customs Service (FRCS) to develop a fully integrated online immigration and clearance system for yachts was delayed further in 2023. While initial consultations were held with the relevant border agencies and design commenced in 2022, MDF observed FRCS priorities shifting in 2023, aligning with new government initiatives including to conduct a more wholistic view to integration with support from other development partners. MDF revised down projections and closed this intervention and will reopen new projections one momentum returns.

EO Projected (cumulative)	EO Actuals (cumulative)	Income Projected (cumulative)	Income Actuals (cumulative)	VAMT Projected (cumulative)	VAMT Actuals (cumulative)	PSI Expensed	Progress (Traffic Light)
86	86	USD448,991 (AUD610,096)	USD448,991 (AUD610,096)	USD918,434 (AUD1,242,514)	USD918,434 (AUD1,242,514)	USD75,327 (AUD100,160)	

Nautical tourism (sea travel) has been a significant contributor to Fiji's economy and is even more important now as Fiji looks to diversify its tourism offer.

Studies such as MDF's *Economic Impact of International Yachting in Fiji* (December 2018) and the International Finance Corporation's *Cruise Ship Impact Study* (November 2019) estimated that yachting and cruise tourism have a combined annual value of over FJD150 million (AUD102 million). Recognising the economic value of the sector, the government supported yachting tourism through the Blue Lane initiative, established in 2020, which allowed yachts to enter Fijian waters during the pandemic, and international cruises in August 2022.

MDF supports the development of nautical tourism because it attracts higher-yielding clients, has strong multiplier effects that benefit businesses and communities, and increases visitor flows outside of Fiji's mainstream tourist destinations. MDF has focused on developing hydrographic maps, which build coordination between key stakeholders and marketing destinations to higher-yielding nautical segments.

Fiji is highly exposed to tropical cyclones, which are expected to increase in intensity because of climate change. This is a threat to coastal communities and nautical tourism assets. In 2023, MDF began exploratory work with coastal communities on community-based mangrove management to complement its Fiji Airways pilot using mangrove regeneration for carbon offsets. Mangroves are a natural cyclone haven for marine vessels. Their regeneration and maintenance could provide a commercial benefit to communities and enable insurance coverage for yachts during the cyclone season, which will increase visitation and tourism yields.

Cruise tourism

In 2023, Fiji had 43 cruise ship calls, including inaugural calls from Disney Cruises, Royal Princess, AIDAsol and Brilliance of the Sea under the Royal Caribbean brand. Collectively, 36,242 crew and 65,649 guests transited through Fiji. According to domestic cruise agents, cruise tourism shows promising growth prospects over the next decade, especially with the addition of new island experiences.



Hospitality, cruising and yachting activity at Port Denarau Marina in Nadi

As noted above, the development of new island experiences will require concerted efforts from government, cruise agents, operators and island communities. Improved mapping enables access to more islands but communities living in the outer islands will need to build capacity to meet increased tourism demand.

In 2023, MDF engaged with cruise agents about investing in community preparedness training; supporting improvement in customer service and tourism offerings such as arts, crafts and food; and ensuring child protection and good environmental practices when hosting tourists. This work will be implemented in 2024 with cruise agents, the TTFB and the government.

Yachting tourism

According to MDF's *Economic Impact of International Yachting in Fiji*, the yachting industry contributes approximately FJD60 million (AUD41 million) annually to Fiji's economy. During the 2022-23 season, 591 yachts and 30 superyachts visited Fiji, mainly from New Zealand, the UK and the US. While revenue data for the season has yet to be collected, growth is forecast for 2023-24.



Yachts berthed at Vuda Marina outside Lautoka city, Viti Levu

The Blue Lanes initiative provided the impetus for the government to recognise yachting as a valuable tourism segment. It eased yacht charter legislation to make it easier for foreign-flagged vessels to charter in Fijian waters. Tourism Fiji provided marketing funds to the industry to participate in international boat shows and position Fiji as a premiere yachting destination.

In 2023, MDF focused on the industry coordination and marketing functions, working with stakeholders to support development of community-based tourism. MDF also initiated discussions with New Zealand-based yacht agents to plan an eco-regatta-based destination marketing campaign. This is expected to be implemented in 2024.

Maritime mapping

MDF is working with stakeholders to improve industry coordination to ensure Fiji's hydrographic maps are updated. Local ownership of mapping, by government or the private sector, is vital to ensure the sustainability of this function.

In 2023, MDF engaged with the private sector and the government about mapping new routes. The government's de-prioritisation of funding delayed progress, so discussions shifted to supporting remote island communities with skills and service development, which is crucial to maintaining quality experiences and return cruise calls. Work will continue in 2024 with iTaukei stakeholders, cruise agents and communities

Industry coordination

With the rebound in tourism, there is increasing demand from yacht and cruise tourists to visit new island ports and experience a broad range of activities. Expanding to the outer islands requires the engagement of iTaukei resource owners and communities in the development of new products. Supporting the livelihoods of iTaukei communities is also a key government priority. However, there is little coordination between government, tourism businesses and iTaukei leaders.

In 2023, MDF began consultations with iTaukei resource owners, government, businesses and conservation organisations on the development of sustainable, community-based tourism products and experiences. MDF will support several community-focused interventions in 2024.

Marketing

Yachting and cruise tourism arrivals from new markets are growing, including from European countries. Expedition vessels and superyachts have also registered interest in new island ports and experiences. Fiji will need to strategically market its tourism offering to this higher-yielding nautical tourist segment, to maximise the emerging demand.

In 2023, MDF initiated work with Islands Cruising for Fiji to host an international yachting regatta targeting a yachting rally from New Zealand. The event will market Fiji as a yachting destination. MDF also leveraged the Pacific Regional team's relationship with the South Pacific Sailing Network (SPSN) to initiate discussions about Fiji's representation at international marketing events facilitated by SPSN.



High Value Agriculture



Sector on a Page

High Value Agriculture

17,361

Effective outreach

USD

25.3m

Additional income

USD

1,459

Additional income
per beneficiary

47%

Female participation
(8,080 women)

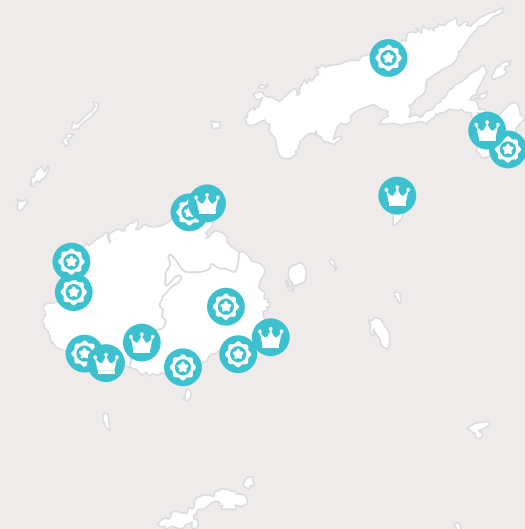
Vision of change

- Farmers have access to affordable, quality agriculture inputs, such as soil conditioners, seeds, and small farm equipment, and information on how to use them. This allows them to increase yields, grow off-season crops and diversify into high-value crops.
- More local agricultural processors develop premium, branded Fijian products.
- Agricultural processors and farmers, especially those in remote communities, are aware of—and can access—affordable, reliable, and efficient certifications for premium markets.
- Exporters and various stakeholders recognise the importance of effective community engagement, including non-cash incentives and building trusting relationships with farmers.

Constraints

- There is limited availability of quality agricultural inputs, such as soil conditioners, seeds, and farm equipment, as well as limited information regarding these inputs.
- Sector actors have insufficient knowledge and skills relating to input application and yield increase.
- Supply chains, which link crops with local processors, are inefficient and unreliable.
- Fiji agri-exporters struggle with market intelligence and quality controls, including certification, which is necessary to establish premium brands in international markets.
- Few established agricultural logistics service providers are dedicated to tailored transport and pricing for agri-businesses.

Interventions



Quality Agriculture Inputs



Premium Agriculture Products



Climate risks

Agriculture is highly vulnerable to climate change, particularly warming temperatures and unpredictable weather patterns. These conditions affect productivity, yields and threaten livelihoods and food security.

Quality Agricultural Inputs

Market on a Page



In Fiji, **83%** of farming is predominantly subsistence, with each grower utilising less than one hectare of farmland.



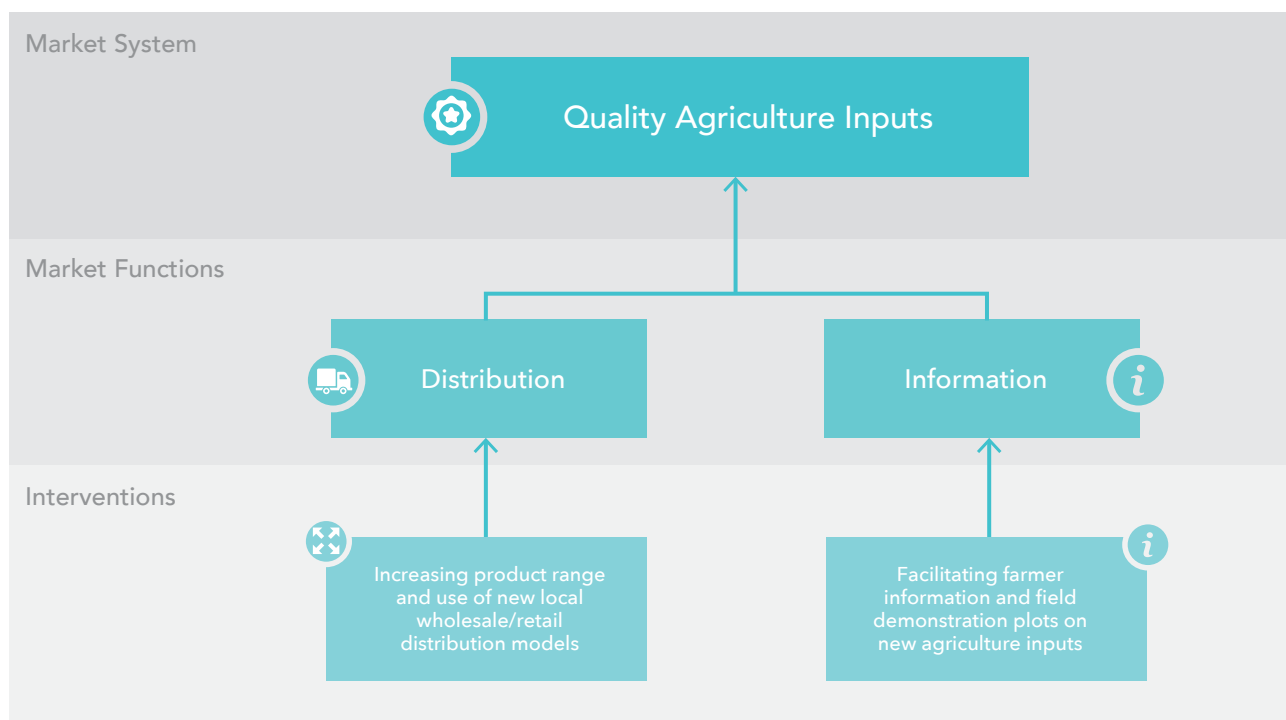
Diminishing soil health, intensive monocropping, increasing labour costs, climate change and the limited availability of quality inputs continue to be obstacles to improving crop yields and income.



Agriculture is slowly shifting to incorporate sustainable farming practices and environmentally friendly inputs.



MDF supports both existing and new market actors to introduce and improve the availability and affordability of quality agricultural inputs, including soil conditioners, climate-resilient seeds and small farm equipment.



Status of the market system

Developing

Interventions (active and/or monitored in 2023)

1. Introducing soil and yield-enhancing inputs (poultry manure) and high-quality seeds to Fijian farmers.
2. Improving information and distribution on quality agricultural inputs: rotavators, vertical farming, locally produced liquid fertiliser; crop advisory through ICT.

Summary of performance

In 2023, MDF continued interventions to improve information and access to handheld small farm machinery, vertical farming and locally produced liquid fertiliser. Field visits indicate that using small farm machinery made farming more convenient by quickening land preparation and reducing farmer workloads. Farmer interviews revealed changes in fertiliser practices, from using imported synthetic fertiliser to Baywater's locally produced organic liquid product. This switch, and associated changes in cost, will be investigated in early impact assessments in 2024. Due to internal and external factors, progress slowed down in other partnerships including work on poultry manure and distribution of quality seeds.

MDF signed a new partnership with marketing services provider Mogul Marketing to develop commercially viable marketing strategies for input suppliers. MDF also signed with Digicel Fiji, a major telecommunications player, to conduct research on farmers' needs and preference around receiving information on their mobile phones. These interventions are informed by years of MDF observations of the challenge of marketing agricultural inputs and providing access to information in this market system.

While this market system has historically contributed the most to Fiji's results, slow progress in 2023 reduced results comparatively in effective outreach, additional income and additional market transactions. MDF is scoping to deepen work in seeds, fertiliser and farm machinery in 2024, which will include 'women friendly' demonstration activities targeting women's access and use of quality inputs.

EO Projected (cumulative)	EO Actuals (cumulative)	Income Projected (cumulative)	Income Actuals (cumulative)	VAMT Projected (cumulative)	VAMT Actuals (cumulative)	PSI Expensed	Progress (Traffic Light)
14,962	13,948	USD 20,609,614 (AUD 31,080,703)	USD 18,233,250 (AUD 23,905,983)	USD 6,390,581 (AUD 8,667,962)	USD 5,756,361 (AUD 7,600,929)	USD 6,537,928 (AUD 8,550,192)	○ ● ○

Agricultural inputs can boost productivity by increasing crop yields, reducing losses; and enhancing the quality of produce.

More effective use of agri-inputs will be vital to expanding Fiji's production of higher-value crops, as well as promoting climate-resilient farming and strengthening food security. Fiji's agriculture sector also struggles with an ageing farmer population and significant labour migration of young male farmers, which are reducing productivity. This creates opportunities to introduce small-scale agricultural equipment for female farmers who have taken over farming activities.

In Fiji, agricultural inputs have historically been heavily regulated, subsidised and dominated by a few large, inefficient firms with little incentive to change the status quo. In the case of the seeds market, this has led to a monopoly supplying low-quality seeds with frequent shortages, especially during shoulder seasons. Recently, there have been signs of increased private sector interest and investment in agri-inputs, in response to new agricultural export opportunities and government concerns about food security.

In 2023, MDF continued to work with market actors to improve farmers' access to quality inputs, and to address soil fertility, climate resilience and labour shortages. This work includes improving information to farmers and expanding distribution channels to reach more remote areas.



Navua Women Farmers Association member participating in the KFI farmer field day

Market Functions

Distribution

MDF continued to support agribusinesses to improve the availability of quality inputs. Through its partnerships, MDF has observed that large firms in Fiji have become more interested in selling climate-resilient seeds, small farm machinery and domestically produced soil conditioners. This presents an exciting opportunity.

Progress on several partnerships slowed in 2023 including Ram Sami, owing to a reprioritisation of activities. The team continued to deepen the work in seeds, fertiliser and small farm machinery by scoping opportunities with Goodman Fielder International, Vision Investments Limited, and other suppliers. These initiatives would include demonstration plots that target female farmers. Collaboration with Baywater Engineering continued to support the firm to distribute its domestically produced organic liquid soil conditioner, which utilises local waste material.



OrganicPlus Liquid Compost is uses discarded organic material to make an environmentally sustainable and affordable soil conditioner.

Information

MDF's earlier work in information, such as demonstration plots and social media marketing, attracted interest from input suppliers committed to strengthening farmer relations and influencing sustainable farming practices. In 2023, MDF partnered with Mogul Marketing, a dedicated marketing services provider, to develop a commercially viable model for input suppliers. MDF also signed a memorandum of understanding with Digicel to undertake market research to determine the information needs of farmers across several regions in the country.

In 2023, MDF worked with Krishan Farm Implements (KFI) to provide farmers with information on good farming practices and cost-effective agricultural technology to improve farm productivity and resource efficiency. MDF's support enabled KFI to promote vertical farming practices using trellis netting, which allows for year-round crop cultivation, reduces water usage and improves plant quality, all while using a smaller area of land and minimising the need for pesticides and herbicides. Trellis netting practices and small farm machinery, such as rotavators, have proven extremely convenient for women as seen from KFI's all-women field day.



2

Market System

Premium Agricultural Products

Market on a Page



Processed and semi-processed agricultural products are not subject to the same quarantine regulations as fresh produce exports and have a longer shelf life.



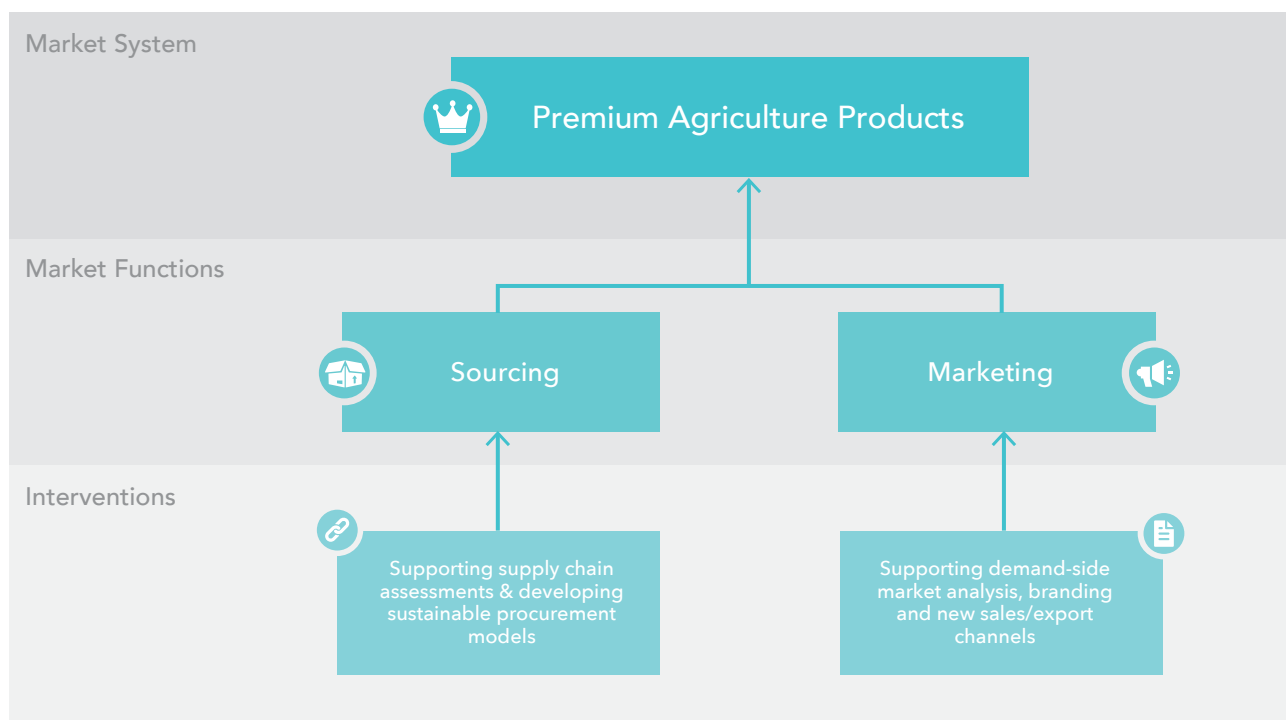
Ineffective branding, packaging and distribution for niche premium markets, combined with inefficient and logistically challenging local supply chains, pose obstacles to growing and processing high-quality local crops.



There is high potential for Fijian-sourced and -branded products to be developed from endemic crops, such as spices, mineral water, sugar and those used in nutraceuticals, such as kava, turmeric and ginger.



MDF is supporting agricultural processors and exporters to connect more effectively with export markets, strengthen their local sourcing models and increase awareness of cost-effective certifications.



Status of the market system

Emerging

Interventions (active and/or monitored in 2023)

1. Inter-island sourcing and cold storage supply chain solutions.
2. Sustainable sourcing of certified organic turmeric for export to new markets.
3. Trialling organic ginger certification and community engagement.

Summary of performance

MDF concluded work on agri-logistics with CDP and sourcing organic turmeric with Island Magic due to business reasons and changes in market conditions. Despite some early success and a strong business case for inter-island logistics services for agriculture during COVID-19, agri-exporters and farmers saw the services as too costly post pandemic.

In 2023, MDF signed a new partnership with Vinaka Farms to trial third-party group certification of ginger farms and build farmer engagement as ways to improve sourcing of premium agricultural produce. MDF, through its work in the wider Pacific, also worked closely with a certification body, Control Union, to hold workshops in Fiji on the benefits afforded by different certifications. Although MDF ended its work in turmeric sourcing and revised projections accordingly, a new intervention on organic certification of ginger farms is expected to drive future results.

EO Projected (cumulative)	EO Actuals (cumulative)	Income Projected (cumulative)	Income Actuals (cumulative)	VAMT Projected (cumulative)	VAMT Actuals (cumulative)	PSI Expensed	Progress (Traffic Light)
3,525	3,413	USD 7,268,999 (AUD 9,543,724)	USD 7,094,523 (AUD 9,250,180)	USD 12,135,047 (AUD 16,577,041)	USD 11,212,638 (AUD 15,025,149)	USD 2,477,517 (AUD 3,278,932)	○ ● ○

The success of well-known international brands—such as Fiji Water and Pure Fiji—along with Fiji’s image as a tropical paradise with a pristine environment, have helped to position premium Fijian agricultural commodities in global market for food and beverages, pharmaceuticals and health supplements.

However, state-owned enterprises, such as the Fiji Sugar Corporation, Rice Company of Fiji, Fiji Dairy Limited and Coconut Millers, have dominated agricultural sourcing in Fiji, selling largely into low value commodity markets and failing to capitalise on Fiji’s competitive edge. This makes it difficult for private processors and exporters to enter new, premium markets and secure long-term contracts. Strict export requirements, expensive certification, and inconsistent quality and volume are other long-standing challenges.

Despite these challenges, Fiji’s agriculture exports have experienced a growth trajectory in recent years. From January to September, Fiji’s agriculture exports stood at just over FJD106 million (AUD 72million), dropping slightly from FJD107 million (AUD73 million) for the same period in 2022. This is mainly due to a small but growing volume of high-quality niche agricultural commodities, including certified ginger products, fresh turmeric and kava.

Demand for these commodities is driven by Australia, Canada, Germany, the Netherlands, the United Arab Emirates and the US. Fiji’s turmeric, for example, is recognised for its quality and has increasing demand from the US. Due to Fiji’s pristine growing conditions resulting in low heavy metal content, Fijian turmeric and ginger exporters have successfully created a competitive advantage for themselves in the global market. In 2023, MDF partnered with Vinaka Farms to increase organic sourcing and certification of organic ginger farmed by local smallholder farmers. Recognising the growing participation of women in farming, Vinaka Farm supports an all-women ginger farming cluster.



From left to Right: Karch Deng (CEO, Vinaka Farm), Ema Taloga Rasovanivalu (Business Advisor, MDF), Lily Liu (Director, Vinaka Farm), Carline Bentley (Business Advisor, MDF)

Commercial import of kava into Australia began in December 2021, generating significant interest from Fijian exporters and farmers. To date, 250 Fiji kava processors and exporters have shipped nearly 50 tonnes of kava worth FJD4 million (AUD2.72 million) to Australia. Anticipating high demand, the kava market in Fiji became oversupplied causing farm gate prices to fall from FJD100 (AUD68) per kg to FJD50 (AUD34) per kg. In 2023, following the end of its partnership with Lami Kava, MDF paused its work on kava and closely observed the impact of the price changes in the kava market. While the farm gate price for kava reduced by 50 per cent, there was an increase in the value of exports of kava, partly due to the diaspora market. The erratic nature of the kava export market presented MDF with an opportunity to scope the kava-based pharmaceutical/ nutraceutical market which will continue into 2024.



Over the past few years, MDF has worked with agricultural processors and exporters to improve sourcing models and penetrate export markets. While MDF has had some success, it has been a challenge to gain traction. Fijian exporters can often earn premium prices in international markets simply because produce comes from Fiji, not because of a discernible difference in quality. Consequently, premium prices do not automatically translate into higher prices for farmers, because there is no defined standard against which they can be rewarded. This reduces farmers’ motivation to invest in cultivating higher value crops.

In 2023, MDF focused on supply chains for premium agricultural products that have a growing global demand driven by an emphasis on quality and sustainability, including certification. Internationally recognised standards provide a transparent basis for making premium payments, providing incentives for farmers to upgrade their performance.

Sourcing

Fiji's agricultural root crops such as taro, cassava and kava have traditionally been exported in bulk to the Pacific diaspora market, with no additional price tied to quality. Exporters therefore have little reason to invest in improving their sourcing models, including incentivising their farmers to improve quality. As a result, farming techniques remain inefficient, and farmers receive low incomes.

In 2023, MDF partnered with Vinaka Farm to trial third-party group certification, improved farmer engagement and non-cash incentives to improve the sourcing of premium agricultural produce. MDF worked closely with a certification body, Control Union, to test the business case for establishing an office in Fiji to reduce the cost of certification for Fijian and regional businesses. Through the partnership, Control Union will hold a series of workshops to increase awareness of the benefits of certifications.

Marketing

Despite increasing private sector interest, it has proved difficult for high-quality Fijian agricultural products to penetrate fiercely competitive global markets. Businesses lack understanding of consumer preferences, marketing know-how and premium brands.

MDF supports firms to expand into premium markets through market research, branding, packaging and market entry strategies. In 2023, MDF continued to scope marketing and branding opportunities in new markets and distribution channels. MDF conducted a feasibility study on Fiji's nutraceutical and medicinal agriculture sectors to understand the value chains in which Fiji has a competitive advantage and the marketing initiatives required to unlock these opportunities.



Farmers harvesting cassava

Urban Industries

A woman with short dark hair, wearing a headset and a light-colored sweater, is seated at a desk in an office. She is looking at a computer monitor and has her hand on a mouse. In the background, another person is visible working at a desk, and there are large windows showing an outdoor scene. A sign on the wall in the background reads "24h".

Sector on a Page

Urban Industries

USD

8.99m

Additional income

1,192

Jobs created

67%

Female participation



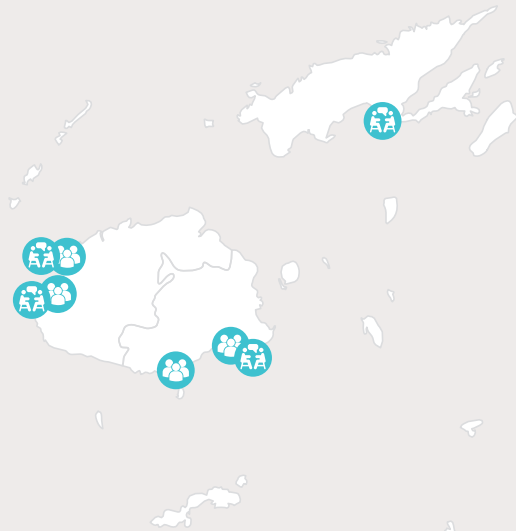
Vision of change

- Fiji is an alternative premium outsourcing services (OS) destination in nearshore and offshore markets.
- There is increased industry coordination and collaboration among relevant OS stakeholders.
- Fijian OS companies take a proactive approach to marketing that results in a successful wide-ranging portfolio of services offered to the international market.
- Outsource Fiji becomes a fully functional and financially sustainable council, which results in a wide range of member services and advocacy to the government for its members and the industry.
- The availability of quality and skilled human resources improves, enabling Fijian OS companies to win international tenders and continue to grow.
- MSMEs achieve sustained growth as proactive business advisory and support services, such as accelerators and coworking spaces, become available and affordable in more locations in Fiji.

Constraints

- There is minimal industry coordination and collaboration among the relevant OS stakeholders.
- Fijian OS companies lack strategic marketing and are unaware of potential international client needs.
- Staff are not yet trained to cater to international markets.
- There is no holistic business support system or business enabling environment for MSMEs.
- There are limited effective, affordable and commercially viable business development service providers in Fiji.

Interventions



Outsourcing Services



Enterprise Solutions for MSMEs



Climate risks

More frequent and intense natural disasters, rainfall and higher temperatures can impact OS infrastructure, staff productivity and Fiji's ability to market itself as an attractive OS destination.

1

Market System

Outsourcing Services

Market on a Page



The outsourcing services sector employs **8,000** people and generates USD47million annually.



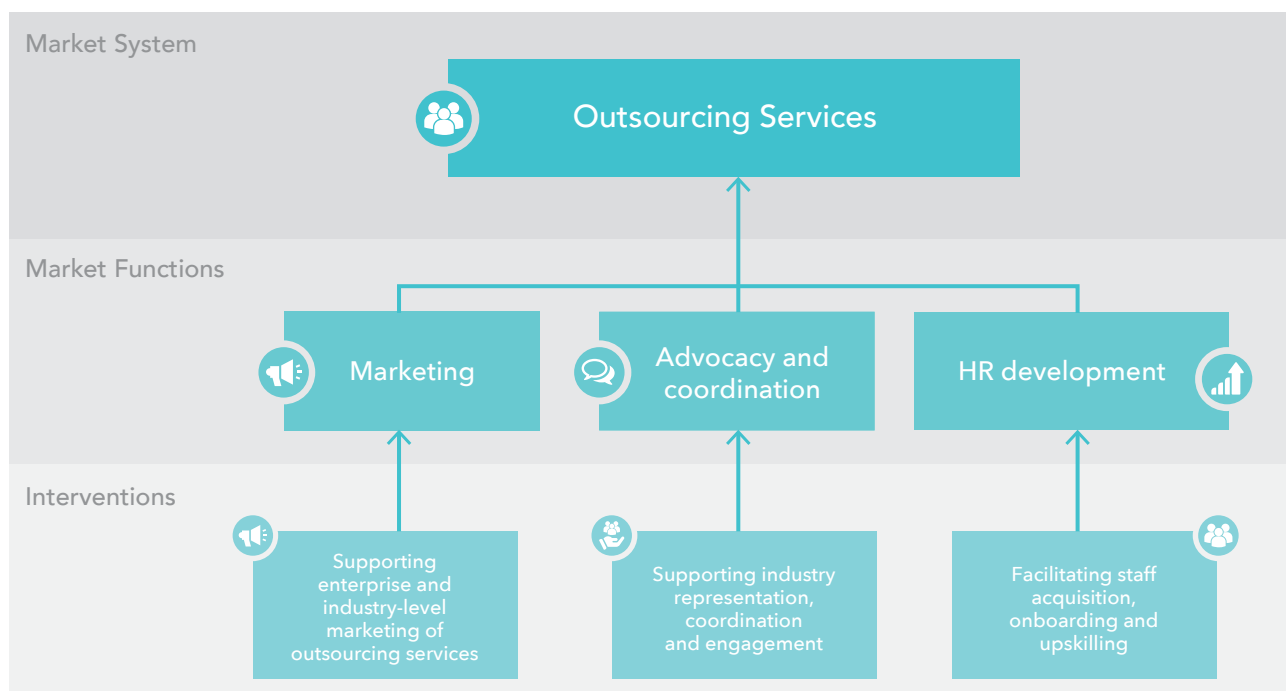
Outsource Fiji (Business Process Outsourcing Council of Fiji) aims to employ **25,000** people by 2025.



Fijian-based Business Process Outsourcing (BPO) enterprises have a **36%** conversion rate (successfully contracting potential clients)—nearly double the global average.



MDF is actively promoting Fijian BPO and Knowledge Process Outsourcing (KPO) services to the nearshore markets of Australia and New Zealand while supporting Outsource Fiji to raise awareness in the United States and European markets.



Status of the market system

Mature

Interventions (active and/or monitored in 2023)

1. Direct marketing of Fiji OS providers.
2. Marketing Fiji as an OS destination and facilitating advocacy.
3. Attracting foreign direct investment.
4. Staff onboarding and apprenticeship.
5. Feasibility study for retirement villages in Fiji.
6. Feasibility study of an after-school care programme for an outsourcing company.

Summary of performance

Outsourcing Services (OS) overtook High Value Agriculture as the key contributor to outreach in 2023. It contributed over 90 per cent of actuals and new projections in net additional income (NAI), value of additional market transactions (VAMT) and private sector leverage. OS absorbed projection revisions from other market systems and bolstered the Fiji portfolio. Women represented over 65 per cent of effective outreach and NAI.

Direct marketing by firms, as well as industry-level marketing of Fiji, continued to be successful. Companies took on marketing modalities initially supported by MDF, such as digital marketing campaigns and recruiting business development managers. Firms engaged in lead generation and conversion without MDF support. Outsource Fiji continued to attend outsourcing events in new markets and facilitate webinars by the leading regional OS matchmaker service, following successful MDF initiatives. Business recorded new client enquiries, client conversions and new hires, directly translating to increased revenues and staff incomes in 2023.

MDF's research on systemic change validated impact, including 'crowding in' by the private sector, which resulted in 270 new jobs and over USD3million (AUD4.5 million) in VAMT. Firms adopted and adapted MDF-led HR development initiatives to maintain a pool of work-ready staff to secure and deliver new contracts. Firms are exploring other initiatives to support staff retention, including childcare services. MDF pivoted focus towards a more systemic approach by supporting the development of a panel of marketing and matchmaking service providers for the industry. OS is expected to generate 300 new jobs for the portfolio in the next two years: projections relating to HR and scoping will be added as interventions mature.

EO Projected (cumulative)	EO Actuals (cumulative)	Income Projected (cumulative)	Income Actuals (cumulative)	VAMT Projected (cumulative)	VAMT Actuals (cumulative)	PSI Expensed	Progress (Traffic Light)
1,571	1,297	USD 15,162,326 AUD 22,865,821	USD 8,117,647 AUD 12,389,718	USD 30,908,681 AUD 46,612,398	USD 21,770,833 AUD 32,390,168	USD 2,172,531 AUD 3,195,615	

Outsourcing services companies in Fiji historically relied on personal networks and word-of-mouth marketing.

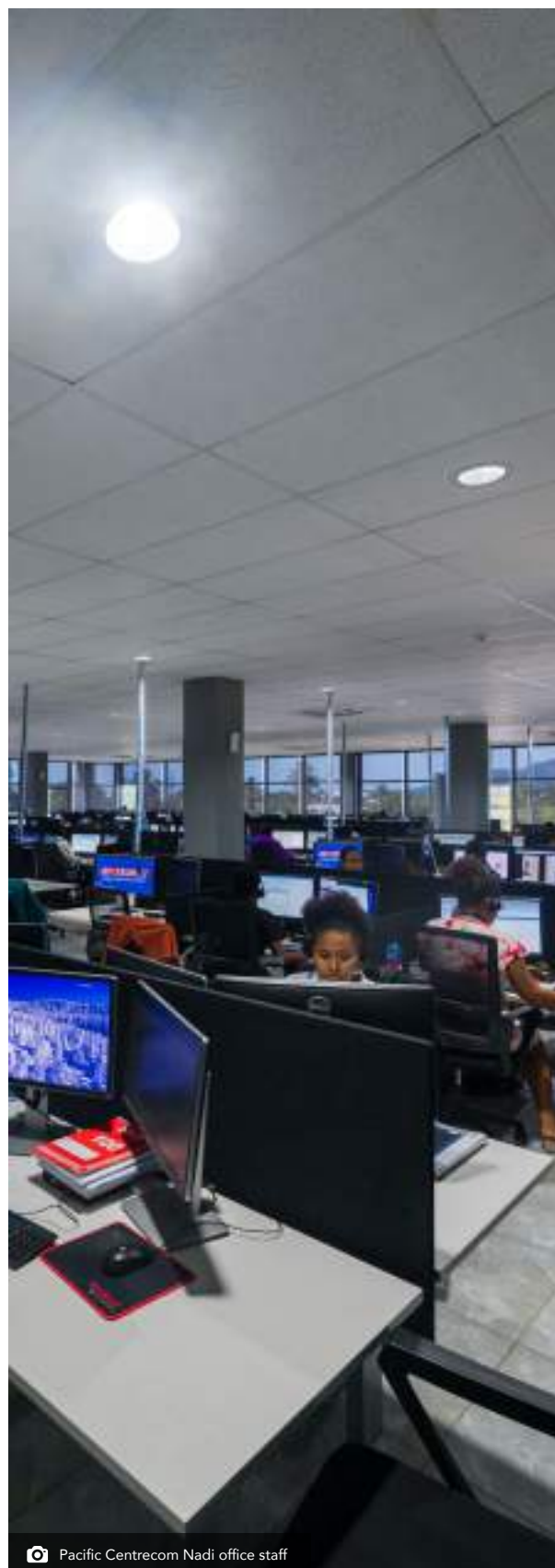
Firms were risk averse and reluctant—or lacked the technical capacity—to try new marketing approaches. Fiji did not brand or position itself as a premier outsourcing services destination.

However, by the end of 2023, outsourcing services became an important part of Fiji's economic diversification. From being nascent less than five years ago, the industry is now worth around AUD150 million,⁹ employs over 5,000 people¹⁰ and could contribute as much as two percent to GDP.¹¹ Outsourcing services have grown to become Fiji's fourth-highest earner of foreign exchange after tourism, sugar and light manufacturing exports,¹² and is attracting new business and investment.

The industry is more effectively marketing itself through MDF's key partner, the industry body Outsource Fiji (formerly known as the Business Processing Outsourcing Council), to position Fiji as a competitive destination. In addition to Australia and New Zealand, new markets have opened in North America and Europe. The Government of Fiji increased its budgetary support for the sector to FJD1 million (AUD0.68 million) in 2023, with an additional FJD1.5 million (AUD1.02 million) allocated for expansion, recognising the industry's potential to be a major driver of growth.

Staffing has been a persistent constraint to the industry's growth. Firms opt not to bid for large business process outsourcing (BPO) contracts because of the difficulties finding and retaining enough skilled staff. In 2023, MDF increased its industry-level support, working with Outsource Fiji on human resource development and industry coordination and advocacy, in addition to destination marketing. MDF's work in green energy solutions, with pilot projects in solar energy and leasing of electric vehicles, may also benefit the industry.

In 2023, the Outsourcing Services market system generated USD5,164,557 (AUD7,788,504) in additional income and USD10,261,899 (AUD15,475,643) in value-added market transactions. MDF's partners alone are projected to generate an additional 300 full-time employment positions in the next four years.



 Pacific Centrecom Nadi office staff

⁹ Fiji Trade Commission Australia and New Zealand, December 2023.

¹⁰ According to the World Bank, Fiji's labour force was 376,303 in 2022. With the sector employing 5,000-8,000 people, this equates to approximately two per cent of Fiji's work force.

¹¹ There are no official records showing the contribution of outsourcing to GDP in Fiji. This estimate is based on the best available data but should be interpreted with caution. MDF will provide a more robust estimate when more data becomes available from Reserve Bank of Fiji in early 2024.

¹² MDF research, Reserve Bank of Fiji.

Marketing

Foreign direct investment (FDI) into the sector is increasing as Fiji builds a name for itself as a premier outsourcing service destination. MDF supported Outsource Fiji to capitalise on this interest through strategic marketing initiatives, including new markets.

In 2023, MDF supported Outsource Fiji to host its first international event in New Zealand. The Fiji Outsourcing Symposium & Expo (FOSE) was an opportunity for the Fijian industry to understand the workings of the global outsourcing services market and present Fiji's value proposition as an alternative, premier outsourcing destination for the European market.

MDF engaged Matchboard to conduct an analysis of US demand for outsourcing services in Fiji. Outsource Fiji will use the findings of the research to advise industry marketing efforts targeting the US market. MDF also supported Outsource Fiji to establish a panel of marketing service providers that members could access at subsidised rates. Outsource Fiji will deliver this initiative as an ongoing benefit to members if the pilot is successful.

Outsourcing service companies and Outsource Fiji continued to engage Matchboard and other service providers independently, generating new clients and increasing new hires in 2023. While the primary markets are still Australia and New Zealand, companies are looking to expand into new markets, including the US.

Advocacy and coordination

Outsourcing services is a comparatively new industry in Fiji; government only recognised it as a separate sector in its Trade and Investment Strategy in 2022. The BPOC, now Outsource Fiji was established in 2017 with seven founding members, which grew to 36 in 2023. MDF has been a longstanding supporter of industry coordination, including professionalisation of the council and enhancing its capacity for policy advocacy.

MDF has pushed for concerted, collective industry action to resolve several obstacles impeding the development of the sector. In 2023, MDF supported a peer-to-peer learning activity between Investment Fiji and Austrade to help Investment Fiji staff learn to put the Trade & Investment Strategy into action, including sectors supported by MFG (Outsourcing services, tourism and high value agriculture). MDF also collaborated with Outsource Fiji to set up the outsourcing service Industry Development Fund (IDF).



Human resource development

Labour is critical for the sector's growth. MDF works with outsourcing service firms to lower the risk of training and hiring large pools of work-ready staff, to enable them to win larger contracts. This is particularly important given the high level of labour migration from Fiji. MDF also supports partners to recruit more women and people with disability to expand their pools of available labour.

Building on MDF's support, Outsource Fiji launched a learning platform with Learning Planet in 2023, to train members, employees as well as the unemployed. This initiative was supported by the government.

Given competition for skilled labour in Fiji following the post-pandemic tourism recovery and spike in migration, MDF expanded its work on human resources management. Fijian outsourcing firms now offer ancillary benefits to employees to improve staff retention rates, such as medical insurance and travel benefits. They are also exploring other benefits such as childcare, since 70 per cent of the workforce are women. In 2023, MDF began discussions with Pacific Centrecom to conduct a feasibility study of afterschool childcare services for employees, to be conducted in 2024. Pacific Centrecom will use the findings to inform its policy on offering childcare solutions to employees to improve staff retention and productivity.

2

Market System

Enterprise Solutions for MSMEs



 Laisenia Seru, Co-Founder of Wasa Ni Tadra, at the company workshop

Market on a Page



Micro, Small and Medium Enterprises (MSMEs) account for **18%** of Fiji's GDP and employ **60%** of the workforce.



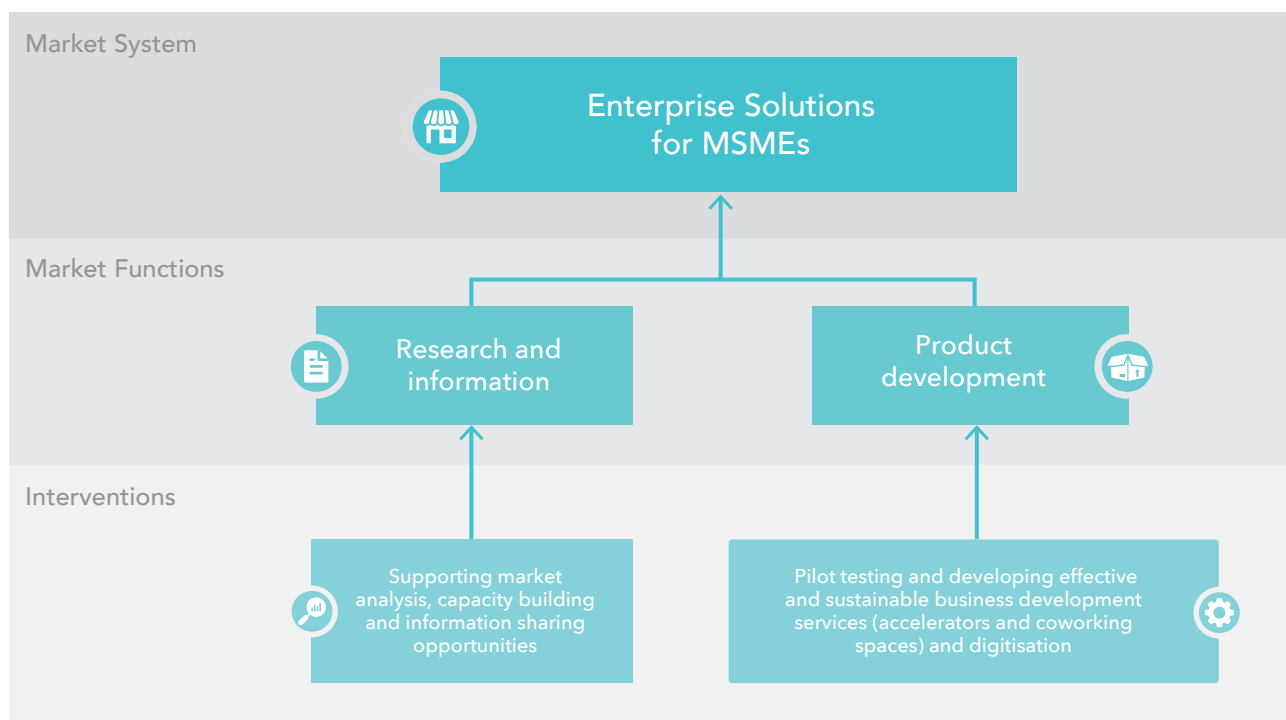
MSMEs have struggled to sustain or increase growth because formal financing options and packaged business development support services are limited and expensive.



Business Development Services for MSMEs have traditionally been driven by government and development programmes. This results in quick-fix solutions and restricted private sector involvement or incentive to invest in these services.



MDF is supporting MSMEs in the sectors we operate in to enhance their commercial viability, including the setup of commercially sustainable coworking spaces.



Status of the market system

Developing

Interventions (active and/or monitored in 2023)

1. Supporting sustainable private sector-led business acceleration program and related webinars.
2. Establishing coworking spaces for creative industries and MSMEs.

Summary of performance

MDF continued to implement the exit strategy developed for this market system as pilot initiatives showed signs of sustainability and indications of behaviour change among government, finance and the broader MSME sector. These changes included recognition of the value proposition of paid and quality business development services, and affordable work and collaboration spaces for MSMEs.

MDF completed monitoring of the Fiji Enterprise Engine pilot accelerator program, which was originally launched in 2019 and has since supported over 250 women entrepreneurs to access business training. Of this number, close to 80 women have benefitted from implementing the training to innovate, pivot and introduce new product lines, with the additional revenue invested in business expansion and increasing personal incomes; this included seven entrepreneurs in 2023 alone.

An MDF-supported coworking initiative launched in November 2021 continued to garner interest from MSME customers, supporting the financial sustainability of the model. In 2023, the coworking space reported modest results in cost savings and new income for a small number of MSMEs interviewed. More results are expected following a larger impact study to be conducted in 2024.

The impact of MDF's work in this sector will be detailed in a case study. As this market system's progress to scale is limited, the overall assessment is maintained at yellow.

EO Projected (cumulative)	EO Actuals (cumulative)	Income Projected (cumulative)	Income Actuals (cumulative)	VAMT Projected (cumulative)	VAMT Actuals (cumulative)	PSI Expensed	Progress (Traffic Light)
308	254	USD1,000,288 (AUD1,579,984)	USD875,126 (AUD1,210,303)	USD2,747,500 (AUD4,143,417)	USD2,439,125 (AUD3,432,678)	USD570,846 (AUD786,382)	

MDF aims to stimulate commercially viable, affordable business development services that respond to demand from MSMEs – for which they are willing to pay. MDF focuses on service delivery models with a realistic pathway to sustainability.

The support environment for MSMEs became crowded after the pandemic, with increased government and donor funding. Much of this support is short term and does not consider the business needs of MSMEs over the longer term.

In 2023, MDF continued to exit from this market system as supported business models showed signs of sustainability. The Fiji Enterprise Engine (FEE) was adopted by the Fiji Commerce and Employers Federation (FCEF), with funding from the RBF, TTFB, ILO, and MTCSC. Part of MDF's exit strategy has been to provide scholarships to women and people with disability to encourage their participation in FEE.

At the end of 2023, MDF had completed monitoring its accelerator pilot initiatives since the initial pilot of the MDF Fiji Enterprise Engine (MFEE) in 2016. Over seven years, the two pilot programs – MFEE (2016-2019) and FEE (2019-to date) – have cumulatively supported 257 women entrepreneurs to receive business training in strategic management, human resources management, accounting and financial management, branding and marketing, business compliance, and entrepreneurship and innovation. Market intelligence revealed that 118 women entrepreneurs were able to implement new learnings within their business to innovate, pivot or produce new product lines. This earned them additional revenues, enabling them to expand their business and increase their revenues and incomes, including seven in 2023.

By the end of 2023, MDF's work in enterprise solutions for MSMEs has benefitted 254 people, the majority of whom are Fijian entrepreneurs, and generated net additional income of USD875,126 (AUD1,319,750). Supported MSMEs generated an additional USD493,530 (AUD744,277) in additional market transactions in 2023 alone. Of the 254 people who benefited from MDF's work in enterprise solutions, 135 (or 53 per cent) were women.

Market Functions

Research and information

MDF's work in research and information is expected to inform product development and better connect demand with supply. The existing business development products—an accelerator and coworking spaces—were born out of MDF's 2018 MSME Landscape Study for Fiji in collaboration with the RBF and a 2021 business plan for the coworking space. In 2023, MDF began discussions with RBF to assess Fiji's accelerator and incubator landscape. This work will be implemented in 2024.

Product development

Accelerator: In 2023, MDF provided FEE scholarships to the value of FJD30,000 (AUD20,400) for a Suva cohort and Nadi cohort (FJD15,000 for three participants per cohort). FCEF introduced FEE in Nadi and started with its first cohort in December 2023. MDF's final sponsorship of FJD30,000 (AUD20,400) will be paid in May 2024.

In a promising sign of sustainability, FEE received FJD218,000 (AUD148,200) in funding from the ILO, RBF, TTFB and MTCSC in 2023, compared with a combined FJD50,000 (AUD34,000) from MDF, TTFB and MTCSC in 2022.

Coworking space: In 2023, MDF continued to support Greenhouse Coworking to incentivise more MSMEs to purchase support packages and services. Greenhouse Coworking has been well received by MSMEs, especially the business-friendly design of its premises and its innovative packages. MDF also signed a new partnership with Mydesk, a Nadi-based accelerator program, to refine its coworking business model and promote coworking spaces to address some of the challenges faced by MSMEs in Nadi.



FEE 2023 cohort graduates with International Labour Organization in the Pacific Officer in Charge, Christian Viegelahn (backrow: 4th from left), Fiji Deputy Prime Minister, Manoa Kamikamica (backrow centre) and Australian High Commission Counsellor, Andrew Shepherd (backrow: 4th from right)

Emerging market system

Green energy

Fiji's current energy needs are met from hydro, diesel, wood, coal and petroleum products. Fiji's 20-year National Development Plan calls for all power to be generated from renewable sources by 2030. The country will require an additional 120MW of renewable energy to achieve this target. Renewable energy solutions such as solar, hydro and biomass have strong potential in Fiji. The government has established incentives to encourage investment in renewable energy generation and reduce reliance on fossil fuels.

MDF began scoping this market system in 2023, focusing on urban businesses and households that stand to benefit from affordable energy solutions. Specific market functions have yet to be determined, but in 2023 MDF began working in renewables and electric technologies given the market demand and alignment with government priorities. A more comprehensive market system strategy will be developed in due course.

Electric technologies

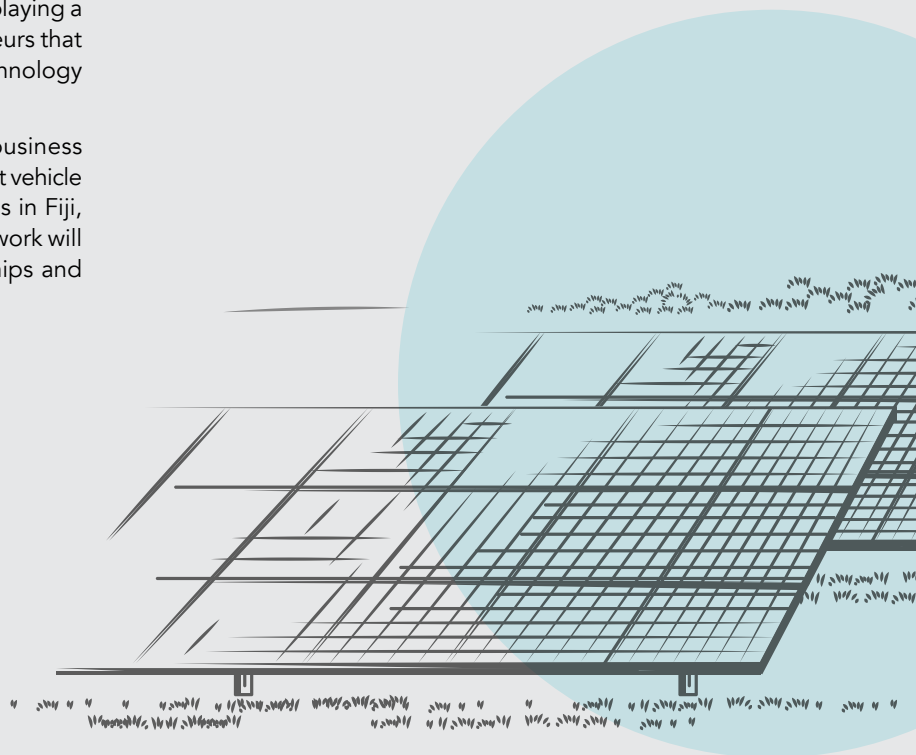
While still in its nascency in Fiji, there are opportunities in the electric vehicle sector. Electric vehicles can contribute significantly to climate change mitigation, as they replace internal combustion vehicles, thereby reducing the transport sector's carbon emissions. The electric vehicle market in Fiji and the wider Pacific is small. MDF envisages playing a catalytic role, working with first-mover entrepreneurs that are willing to invest in bringing the required technology and infrastructure to Fiji.

In 2023, MDF worked with ZekiTek to pilot a business model that combines off-grid power generation, fast vehicle charging and leasing commercial electric vehicles in Fiji, which has ambition to expand in the Pacific. This work will continue in 2024, building on existing partnerships and experience in tourism and logistics in Fiji.

Urban solar energy

National investments in renewable energy in Fiji began with a rural electrification program that targeted the outer islands and remote communities with no access to the main power grid. Electricity was provided through power lines drawn to remote villages within reach of the grid. For less accessible locations, it was delivered by stand-alone diesel generators or renewable energy systems like solar and micro-hydro projects. The government's focus has been Fiji's rural population, highlighting an opportunity for MDF to tap into in the urban, business, and corporate markets.

In 2023, MDF assessed demand for solar energy solutions in urban areas. The research targeted both residential and business segments that might benefit by reducing energy costs, maintaining power during grid outages and generating revenue from selling power back to the grid. The research findings will inform MDF's support for marketing and developing financial models to encourage uptake.



Acknowledgements

MDF Fiji thanks the following organisations and individuals for their support and collaboration in 2023.

Agricultural Marketing Authority	Kaitu Erasito, Consultant
Asian Development Bank	KPMG
Australian Centre for International Agricultural Research (ACIAR)	Krishan Farm Implements
Coconut Industry Development for the Pacific (CIDP)	Lily Liu and Karch Deng, Vinaka Farms
Control Union	Livai Tora, Consultant
Digicel Pacific	Sharon Melamed, Matchboard
Emosi Ratusaki, Farmer, Koro Island	Mereia Volavola, Consultant
Etika Marawa, Farmer, Koro Island	Ministry of Agriculture
Face 2 Face Research Providers	Ministry of Trade Commerce, Co-operatives, Small & Medium Enterprises
Fiji Airways	Ministry of iTaukei Affairs
Fiji Commerce and Employers Federation	Ministry of Lands & Mineral Resources
Fiji Consulate & Trade Commission, Australia and New Zealand	Ministry of Sugar Industry
Fiji Enterprise Engine Alumni	Mogul Marketing
Fiji Enterprise Engine Coaches & Support Team:	Naivurevure Ginger Farmers Association
• Anishma Prasad, Fiji Commerce and Employers Federation Communications	Nalagi Hotel
• Ben Naiveli – Business Coach	Outrigger Fiji Beach Resort
• Jesse King – Business Coach	Members of the BPO Council of Fiji
• Jonetani Tonawai – Business Coach	Pacific Australia Labour Mobility Scheme
• Keasi Tora – Business Coach	4Pacific Destinations
• Maria Ronna Luna Pastorizo-Sekiguchi – Business Coach	Pacific Horticultural & Agricultural Market Access Plus Program (PHAMA Plus)
• Nanise Masau – Business Coach	Pacific Tourism Organisation (SPTO)
• Paula Rasinupate – Business Coach	Pacific Trade and Invest
• Palinda Kaitu'u, Business Accelerator Manager	Pacific Women Shaping Pacific Development Support Unit
• Savenaca Baro, Fiji Commerce and Employers Federation Communications	POETCom
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• Watisoni Nata – Business Coach	Tanoa Group of Hotels, Fiji
Fiji Hotel & Tourism Association	Provincial Offices of Ba, Bua, Nadroga and Navosa, Namosi and Ra
Fiji Marriott Resort Momi Bay	Radisson Blu Resort Fiji Denarau Island
Fiji Museum	Reserve Bank of Fiji
Fiji National University	Dr. Richard Beyer, Consultant
Fiji Sugar Corporation	Robert Hay - Baywater
Filipe Waqavuka, Farmer, Koro Island	Rosie Holidays Fiji
Good Returns	Shangri-La Yanuca Island, Fiji
Grand Pacific Hotel	Sheraton Fiji Golf & Beach Resort
Hilton Fiji Beach Resort and Spa	Society of Fiji Travel Associates
Holiday Inn Suva, an IHG Hotel	The Westin Denarau Island Resort & Spa, Fiji
Insurance Holdings Pacific (IHP)	Tourism Fiji
InterContinental Fiji Golf Resort & Spa, an IHG Hotel	Tourism & Hospitality Management, University of the South Pacific
International Finance Corporation (IFC)	Transam Fiji
International Fund for Agricultural Development (IFAD)	Vinay Narsey, Fiji Commerce and Employers Federation Chairperson
International Labour Organization (ILO)	Vodafone (Fiji) Ltd
International Trade Centre (ITC)	Young Generation Against Poverty (YGAP)
iTaukei Affairs Board	
iTaukei Trust Fund Board	
Jeff Liew, Consultant	
Jennifer Granger, Consultant	
Jenny Seeto, Investment Fiji Chairperson	

MDF extends its thanks to all its partners in Fiji, without whom the team's achievements would not have been possible.



Quick Facts

Papua New Guinea



Population

10.38 million



Rural: **88%**



Urban: **12%**

GDP

USD

30.6 billion

GDP per capita (USD): **\$3,427**

Official languages

English, Tok Pisin, Hiri Motu
(and 800+ unofficial languages)

Labour force participation rate



Female: **46.4%**



Male: **47.7%**



Key focus areas



Coffee

- Increase the supply of certified coffee for export through certification and financing.



Cocoa

- Upskill producers in how to add value to their cocoa products, allowing them to enter new regional and export markets, increase demand for high-quality cocoa, and build stronger relationships between the private sector and supply chains.



Vanilla

- Upskill farmers to improve the yield and quality of their vanilla, resulting in consistent, high-quality supply and access to better international markets.



Livestock

- Improve the productivity of smallholder pig farmers and mitigate the spread of African Swine Fever.



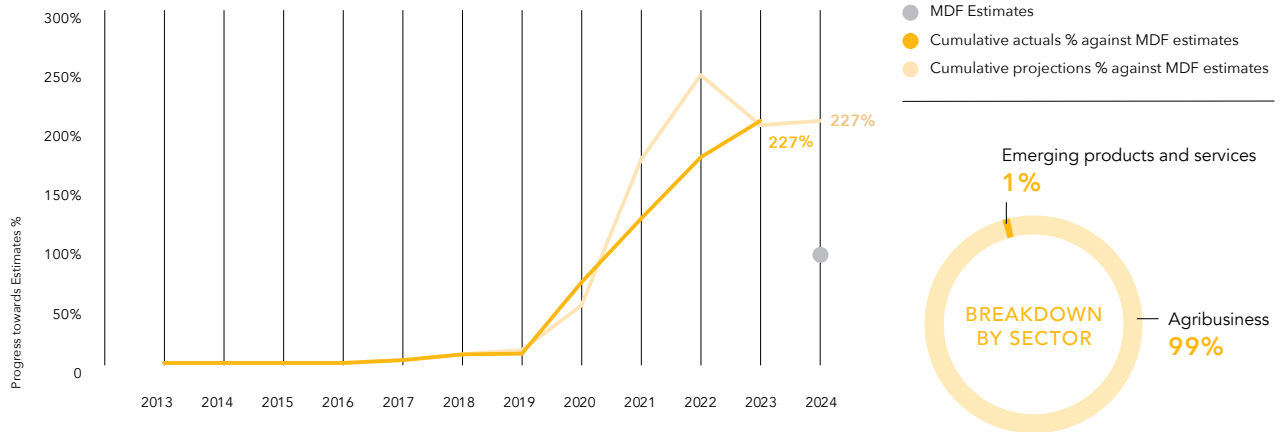
Climate change impact

PNG is ranked 51 on the Global Climate Risk Index 2021, significantly higher than its Pacific counterparts. Exposure to hazards is substantial and expected to escalate. Many rural communities reside in flood and landslide risk areas, while coastal communities and infrastructure face exposure to sea-level rise, potentially exacerbating future storm surges.



Highlights

EFFECTIVE OUTREACH

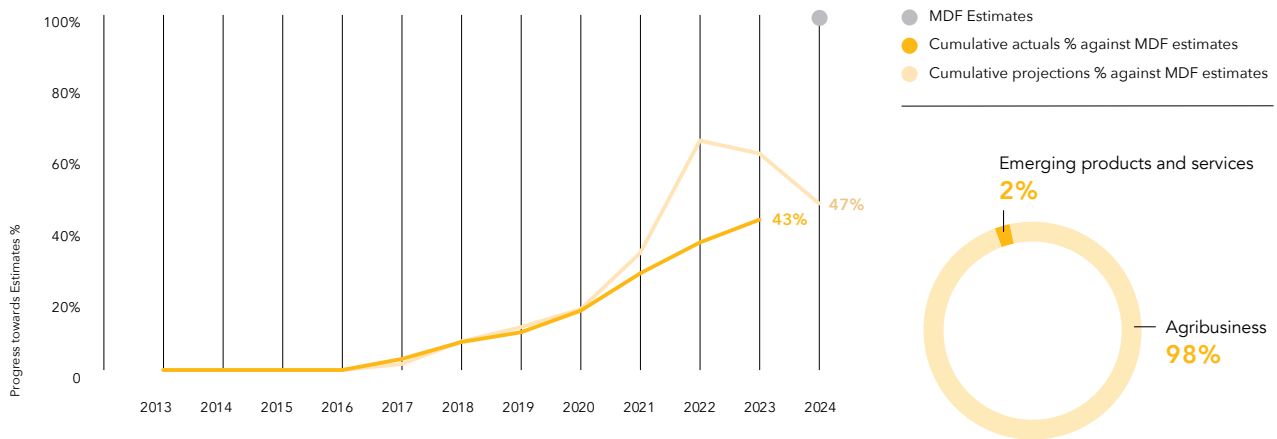


MDF's work in coffee helps outreach surpass estimates

- MDF's work benefitted more than 3,000 additional people in 2023 alone, bringing total effective outreach to 20,415, or 227% of estimates. These results reflect the program's strong performance despite the absence of new interventions since 2022 and planned activities not materialising.
- Coffee accounted for all additional effective outreach. MDF was not able to conduct monitoring visits after the program closed in June 2023, affecting the team's ability to validate results. For vanilla, MDF was able to conduct a short survey in Madang in April, to collect information on additional access and usage numbers. According to the partner, new provinces were added to the value chain, projecting access for 12,000 farmers. However, as MDF was not able to conduct an impact assessment, these numbers cannot be added to effective outreach for 2023.
- Similarly, through work to prevent the spread of the coffee berry borer (CBB) pest with Sustainable Management Services and Monpi Coffee, MDF confirmed that more than 300 traps were distributed to households. However, MDF was not able to validate whether the households used the traps, benefitted from them, or were able to increase coffee yield.
- MDF decided to reduce its projections and reduce the monitoring period for most interventions to 2023. The only intervention which remains projected forward is the CBB intervention, as activities were just completed during 2023.



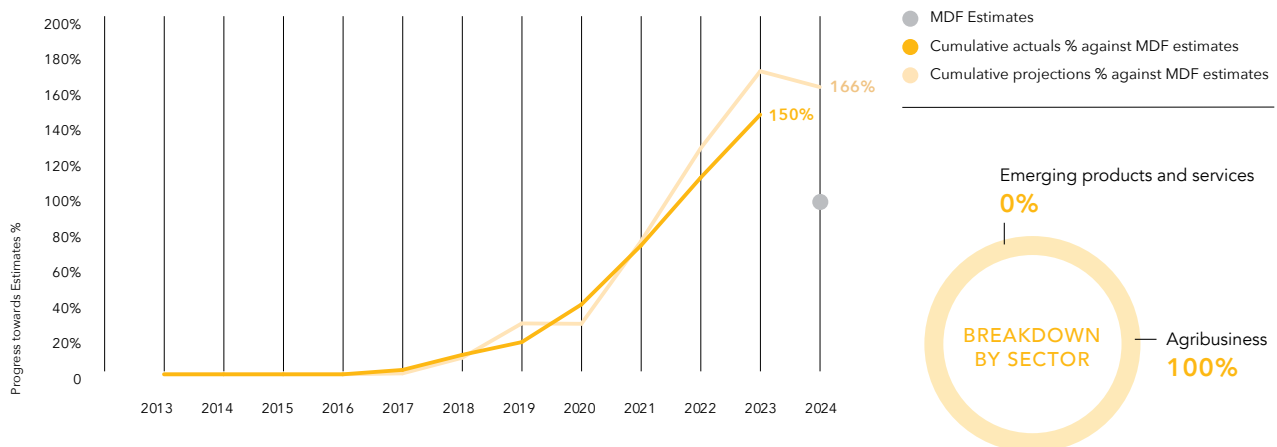
NET ADDITIONAL INCOME (USD)



Support for coffee certification drives income

- The portfolio achieved 43% of net additional income (NAI) estimates in 2023, up from 36% in 2022. MDF's support to certify coffee value chains drove income growth: despite coffee prices reverting to their average low in PNG, MDF interventions enabled farmers to fetch high returns. The premium for certified farmers varied based on province, averaging PGK1-2 (AUD0.41-0.82) per kg of premium, certified coffee.
- The gap between actuals and projections is visibly high because there was no fieldwork to allow MDF to validate assumptions and report results from other interventions. MDF anticipated significant impact on NAI in 2023, as vanilla and coffee prices remained in flux. Similar impact was also expected in emerging work in livestock, but MDF was unable to conduct interviews with workers sent to Australia through labour mobility schemes.
- With no further measurement work planned, MDF cut its going-forward projections. The PNG portfolio is now projected to reach 47% of NAI estimates.

VALUE OF ADDITIONAL MARKET TRANSACTIONS



Certified coffee and value chain financing increases business revenue

- The portfolio exceeded expectations and reached 150% of value of additional market transactions (VAMT) estimates in 2023. Businesses continued to switch from commodity to certified coffee, often fetching more than PKG5 (AUD2) per kg of green bean. VAMT was also bolstered by partners purchasing and exporting more coffee via MDF-supported value chain financing (revolving funds) and certification.
- The inability to conduct fieldwork resulted in MDF revising down its projections. Nonetheless, the PNG portfolio is expected to achieve 166% of estimates.

Overview of Close-out and Post-Implementation Monitoring



📷 A vegetable seller on the streets of Port Moresby

After seven years of program development and delivery, MDF's country program in Papua New Guinea closed in June 2023, transitioning parts of its activities to the Australia-PNG Economic Development Partnership (APEP). The program improved the lives of thousands of Papua New Guineans through work in the coffee, vanilla, cocoa and livestock sectors. In the last six months of 2023, besides completing a close-out strategy and plan, MDF conducted monitoring visits, and captured results and program lessons.

A PNG transition close-out plan was delivered by MDF in 2023, transitioning staff and activities to APEP. The country team ensured seamless closure of partnerships, and all commitments made to partners and APEP were honoured. Up until program closure on 30 June 2023,

MDF continued engaging with DFAT, APEP and other stakeholders to achieve the ambitious close-out plan, complete all transition activities, manage risk and ensure timely reporting.

At the beginning of 2023, MDF had 14 active interventions in coffee, cocoa, vanilla and livestock and three pipeline interventions, which MDF transferred to APEP in January 2023. By the end of April 2023, all activities were transferred to APEP, and some MDF staff transitioned to APEP between January and April 2023.

From April to June 2023, MDF operated with a small team consisting of the Country Director, Operations Manager and Country Team Coordinator, who led on transition, knowledge management, communications and research activities. MDF completed three key communication outputs in this period:

The Country Team Coordinator led field assessments of three key interventions. The team also produced two analytical papers reflecting on the program's experience in coffee and vanilla. The findings from these activities are included in this country chapter.

MDF's interventions in PNG will continue delivering results for several years after implementation. When MDF exited Pakistan, it was able to put in place arrangements for post-implementation monitoring to be able

to validate and report on intervention impact in subsequent years. Unfortunately, it has not been possible to secure resources to do this in PNG, so the full value of MDF's impact in PNG over the next two years cannot be validated or accurately reported.

A social media campaign on the coffee berry borer



Click/scan the QR code to see the campaign



A documentary on the coffee berry borer



Click/scan the QR code to watch the video



A social media story for International Women's Day



Click/scan the QR code to read the story



Coffee berry borer poster

The Results Story

Portfolio exceeds expectations, driven by adoption of sustainable practices

Total number of partnerships (2013-2023)

40

Provinces impacted

10

Total private sector investment leveraged

USD 1.8 million

Number of women benefitting from MDF interventions

9,500

Total additional income generated for women

USD 340,000



A pig farmer in PNG

MDF Papua New Guinea exceeded outreach estimates, reaching 227 per cent. Outreach continued to increase in 2023, with an additional 3,000 beneficiaries bringing the cumulative figure to 20,415 people.

MDF achieved significant progress in agricultural interventions in 2023. Effective outreach grew 20 per cent year-on-year, with income and private sector revenue growing 17 per cent and 32 per cent, respectively. MDF completed three field assignments to capture impact on

coffee and vanilla farmers and implemented the remaining activities in these sectors before MDF PNG transitioned to the Australia-PNG Economic Development Partnership (APEP).



Coffee certification bolsters results

MDF worked with partners Sustainable Management Services (SMS) and Monpi Coffee Export Limited (MCEL) to combat the coffee berry borer pest, which is a significant threat to coffee crops in PNG. The partners used innovative technology developed by CIRAD (French Agricultural Research Centre for International Development), including awareness and training, 'Brocap' traps and the application of the *beauveria bassiana* fungus as a means of biological control. Brocap traps were distributed to more than 300 farming households across six districts in Eastern Highlands, Western Highlands and Jiwaka. Initial observations suggest that the traps will be more than 90 per cent effective. MDF also ensured that partners prioritised the inclusion of women in these areas.

MDF supported coffee certification through partnerships with Niugini Coffee Tea and Spices (NCTS) and Sucafina Exports. NCTS continued to expand its certification network in Morobe province, working with over 2,900 farmers. Sucafina expanded to Enga province, which is more than 300km away from its current sourcing province. These certification activities are important for international market compliance and significantly contribute to the income of rural farmers.



Revolving funds continue to provide vital value-chain liquidity

MDF conducted field visits and meetings to assess the impact of a newly established revolving fund with Kosem Exports. Kosem implemented the fund with seven farmer groups across three districts in Jiwaka province, purchasing 24 tonnes of parchment from 3,000 farmers. The fund's structure involved dispatching money through supply chain aggregators to purchase cherries, processing them into parchment and selling it to Kosem. The parchment price offered by Kosem was above the market price (approx. AUD0.68 per kg or higher). The fund continued revolving in 2023, with Kosem using its own funds to increase it to PGK500,000 (AUD200,000) for Jiwaka province. Funds were further supplemented in Morobe province in late 2023 with APEP funding. MDF also assessed the progress of processing interventions with Kenta Mill that included establishing drying beds and providing training on coffee processing.

MDF also assessed the impact of its interventions on vanilla farmers, as well as the challenges faces by the farmers. As a result, MDF was able to validate crucial assumptions, such as poor connectivity, low levels of literacy and limited sales channels. MDF assessments also validated that, cumulatively, over 3,000 people had registered on MDF partner Kamapim's farmer database through a mobile-based registration system. Kamapim trained these farmers on sustainable practices, climate change management and financial planning. Over 50 per cent of the farmers trained were found to have implemented the new practices, while many other farmers who had not received the Kamapim training were found to have replicated practices observed from neighbours or household members. Farmers new to vanilla farming, in particular, are expected to see an increase in income as a result of this training.



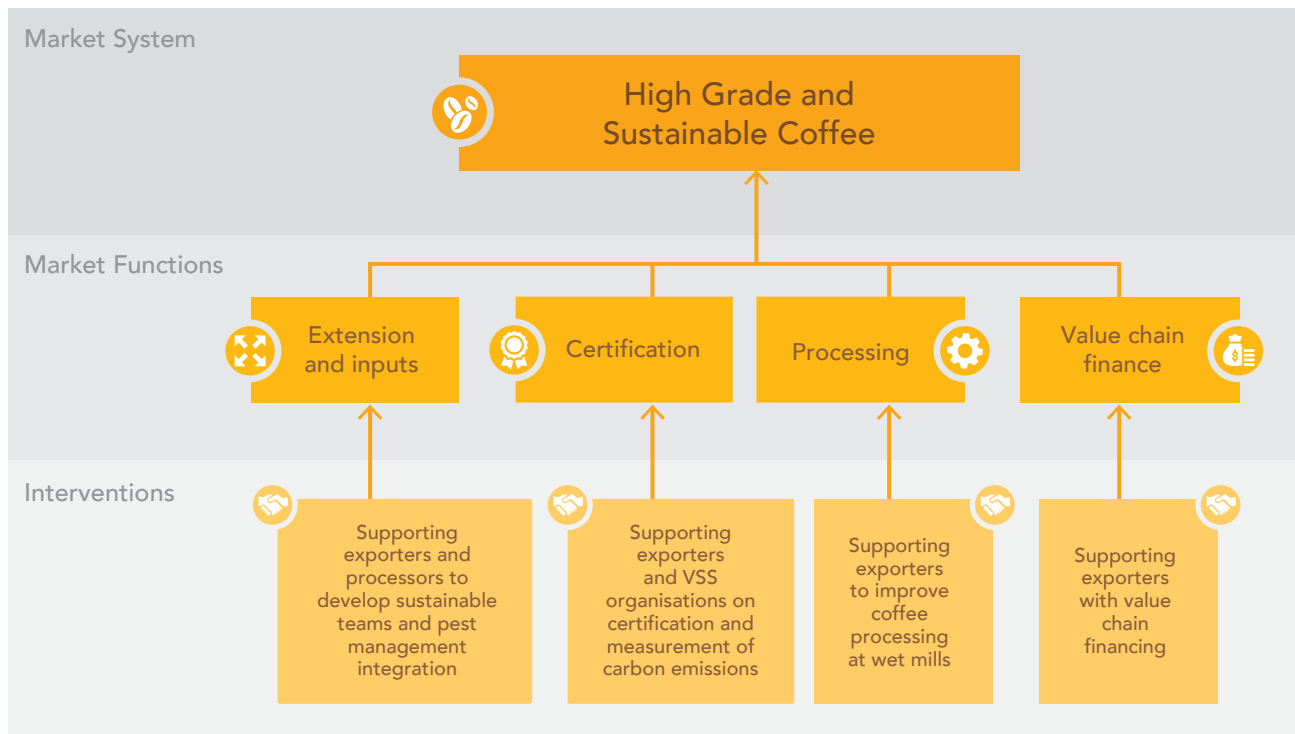
Lower-than-expected results due to program close-out and halted monitoring

MDF delivered good aggregate results in PNG; on MDF's exit, the PNG portfolio had a healthy results trajectory. However, MDF PNG's reported numbers in 2023 are lower than expected because of the close of the country program in June 2023. Planned year-end field assessments (normally conducted in November and December) could not be conducted as hoped. MDF does not report numbers that have not been verified through monitoring. Low response rates from partners, particularly coffee businesses, also affected results. The impact of program close-out is most apparent in results reported for income and value-added market transactions.

Agriculture



High Grade and Sustainable Coffee



Status of the market system

Developing

Interventions (active and/or monitored in 2023)

1. Growing extension and sustainability teams, developing training content and certifying smallholder farmers.
2. [New Guinea Highlands Coffee Exports (NGHCE), PNG Coffee Exports (PNGCE), Sucafina, Sustainable Management Services (SMS), Monpi and Nuigini Coffee Tea and Spiece (NCTS)]
3. Launching Fairtrade-Organic dual certification program in PNG. (Fairtrade, NAASA)
4. Improving partner capacity and supply chain liquidity to increase sourcing of sustainable and high-quality coffee. (Kosem, NCTS, NGHCE, Outspan)

Summary of performance

In 2023, MDF completed activities in coffee, finalised payments and transferred activities to APEP. MDF also conducted field assessments for NCTS and PNGCE.

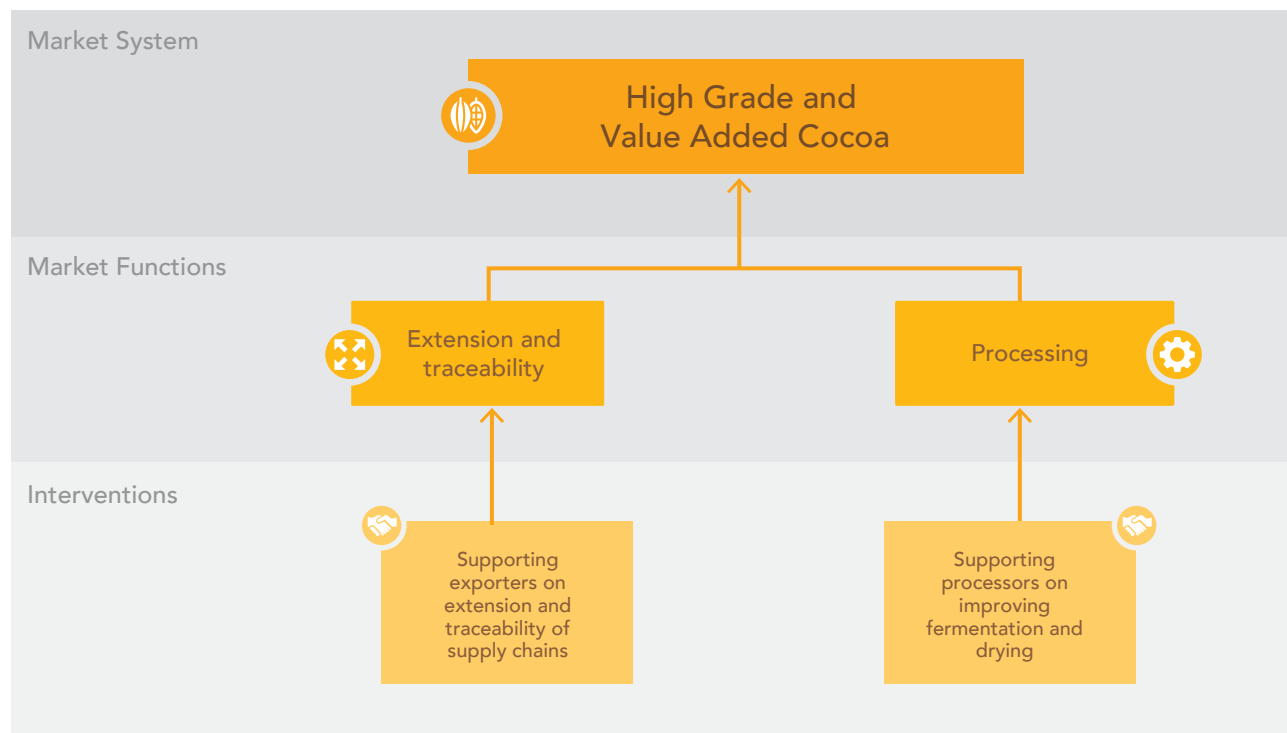
NCTS expanded its certification activities in 2023 and increased sourcing from four supply chains. These remote farmers received factory-door price at the farm gate. This positively impacted the general market price for coffee in the locality. PNGCE continued to source high-quality coffee for premium markets in 2023 and attributed 60 per cent of the increase to MDF support.

EO Projected (cumulative)	EO Actuals (cumulative)	Income Projected (cumulative)	Income Actuals (cumulative)	VAMT Projected (cumulative)	VAMT Actuals (cumulative)	PSI Expensed	Progress (Traffic Light)
14,444	14,444	USD1,322,000 (AUD2,028,700)	USD1,137,000 (AUD1,744,800)	USD4,838,000 (AUD7,424,000)	USD4,219,000 (AUD6,474,000)	USD717,800 (AUD1,101,500)	

2

Market System

High Grade and Value-Added Cocoa



Status of the market system

Emerging

Interventions (active and/or monitored in 2023)

1. Upgrading processing equipment, improving marketing, extension services and traceability. (PFL)
2. Expanding to new supply chains using revolving fund. (Outspan)
3. GRAFT challenge. (Beanstalk)

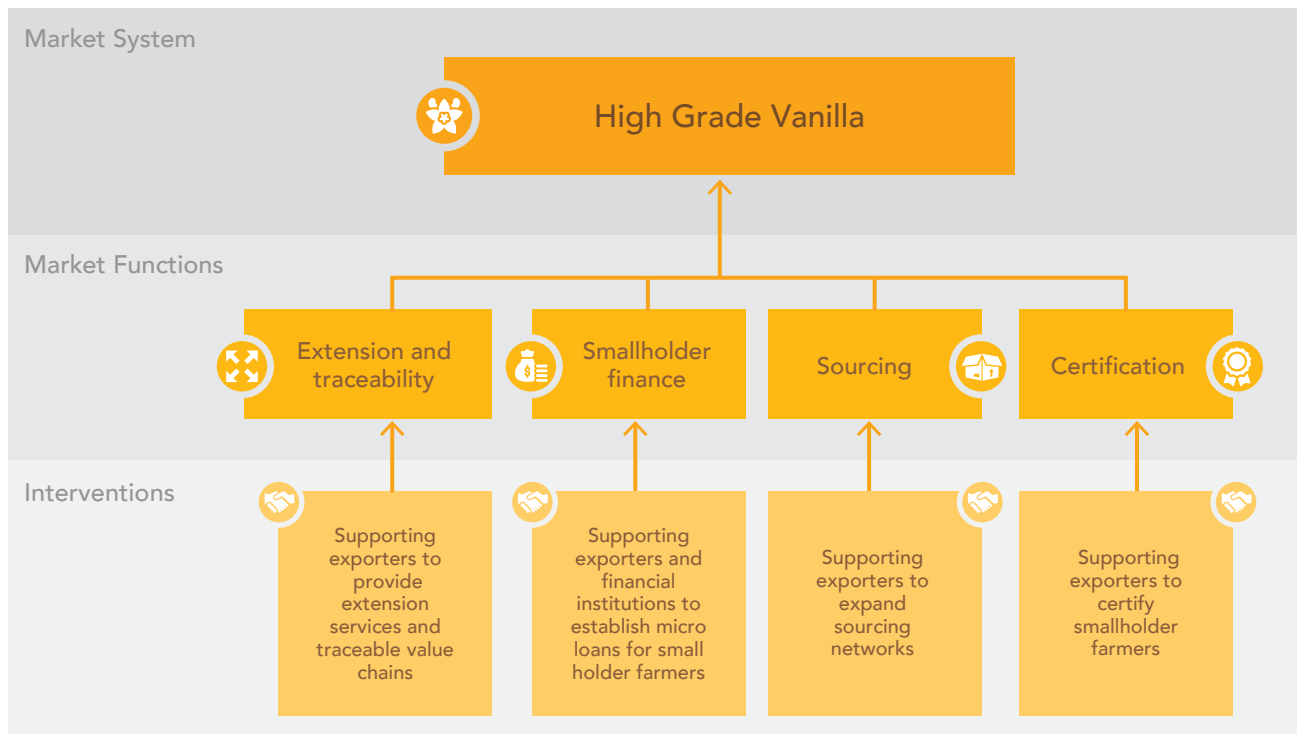
Summary of performance

In 2022, MDF entered a partnership with Beanstalk AgTech, an Australian agri-technology incubator, to establish a GRAFT challenge. In 2023, Beanstalk worked with the industry to find innovative solutions to the identified challenges.

Plans to develop further interventions within this market system were terminated due to the close-out of the country program. All interventions were measured and concluded in 2023.

EO Projected (cumulative)	EO Actuals (cumulative)	Income Projected (cumulative)	Income Actuals (cumulative)	VAMT Projected (cumulative)	VAMT Actuals (cumulative)	PSI Expensed	Progress (Traffic Light)
1,215	1,215	USD7,170 (AUD11,000)	USD7,170 (AUD11,000)	USD466,500 (AUD715,800)	USD438,900 (AUD673,500)	USD89,450 (AUD137,200)	○ ● ○

High Grade Vanilla



Status of the market system

Emerging

Interventions (active and/or monitored in 2023)

1. Improving marketing and extension services, traceability, and credit access. (Kamapim, GSMA/MiBank)

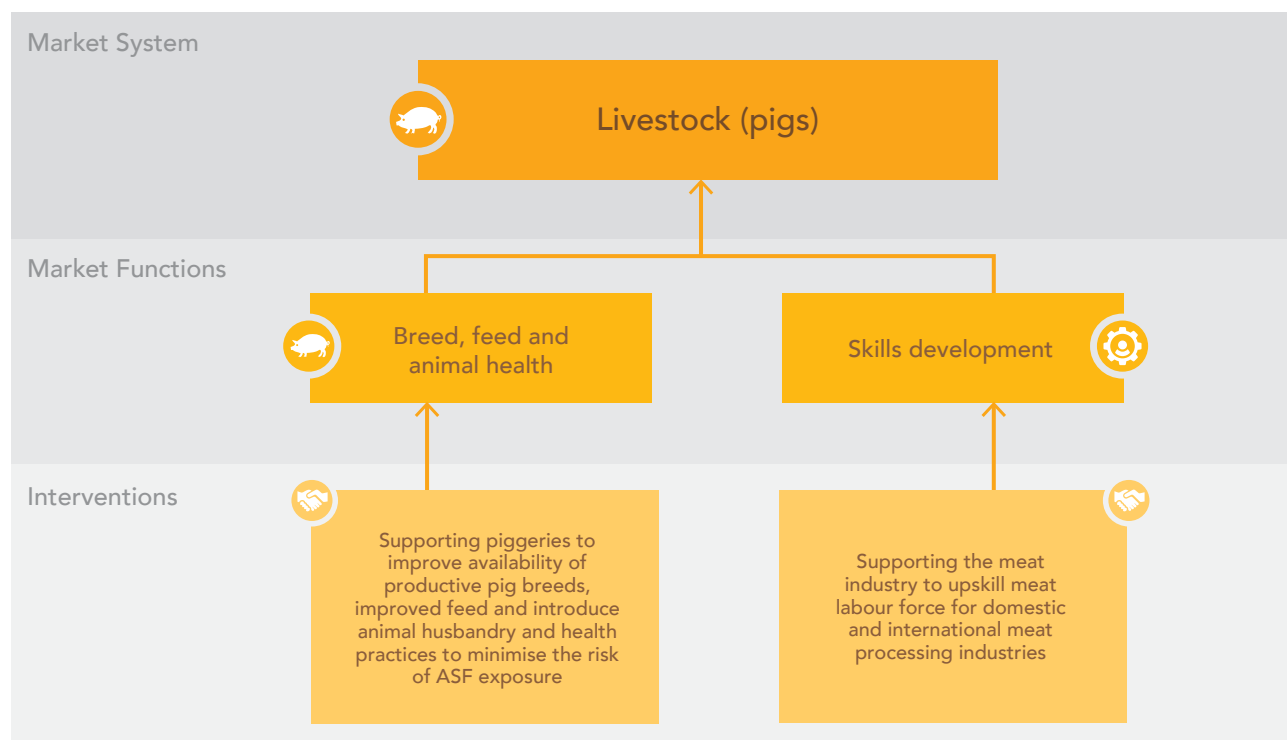
Summary of performance

In 2023, Kamapim was consistent in sourcing vanilla and provided a stable market for farmers. MDF supported Kamapim by piloting a speed loan with its vanilla farmers. It was the first activity of its kind, and the outcomes will be incorporated into future work.

EO Projected (cumulative)	EO Actuals (cumulative)	Income Projected (cumulative)	Income Actuals (cumulative)	VAMT Projected (cumulative)	VAMT Actuals (cumulative)	PSI Expensed	Progress (Traffic Light)
3,932	3,932	USD362,023 (AUD555,500)	USD127,313 (AUD195,000)	USD826,275 (AUD1,267,900)	USD468,148 (AUD718,400)	USD58,435 (AUD89,600)	

4 Market System

Livestock (pigs)



Status of the market system

Emerging

Interventions (active and/or monitored in 2023)

1. Supporting biosecurity and piglet production. (Kale Piggery)
2. Upskilling the meat industry in collaboration with the Pacific Labour Mobility scheme. (Madang Butchery)

Summary of performance

In 2023, Kale Piggery continued its breeding business and supplied piglets to nearby communities while using its biosecurity infrastructure.

Madang Butchery continues to provide much-needed skill training to farmers from Madang Province and is also attracting interest from outside the province.

Plans to develop interventions within this market system were terminated due to the close-out of the country program. All interventions were measured and concluded in 2023.

EO Projected (cumulative)	EO Actuals (cumulative)	Income Projected (cumulative)	Income Actuals (cumulative)	VAMT Projected (cumulative)	VAMT Actuals (cumulative)	PSI Expensed	Progress (Traffic Light)
34	34	USD3,395 (AUD5,200)	USD3,395 (AUD5,200)	USD4,460 (AUD6,840)	USD4,460 (AUD6,840)	USD 4,130 (AUD67,730)	○ ● ○



Lessons from the Country Program

As part of its close-out strategy, MDF PNG conducted an analysis of its portfolio. Based on the findings, MDF produced analytical papers highlighting useful insights and lessons. This section provides a summary.



Vanilla

Supporting the private sector to source from “the last mile” (smallholder farmers)

North-west PNG possesses a unique environment for cultivating high value crops. Vanilla, the second-most-expensive spice in the world after saffron, has the potential to significantly contribute to PNG's economy if it is grown, processed and marketed to meet quality standards.

However, vanilla is mostly cultivated on small plots by subsistence farmers, who often lack the knowledge and resources for production, curing, fermenting and drying. Value chains are fragmented, with buyers sourcing from aggregators who purchase beans from smallholders without assessing their quality, leading to a mixture of high value and commodity products. These aggregators prioritise margins and do not support farmers to improve their quality or quantity.

Despite being labour-intensive, vanilla offers similar or better returns to farmers than other crops in PNG. However, insufficient investment in capacity building and infrastructure hinders PNG's ability to develop a sustainable vanilla supply chain.

MDF's experience in vanilla resulted in several lessons:



"Last mile" producers (smallholder farmers) must not be overlooked.

PNG's agriculture sector is dominated by smallholder production. The private sector has an incentive to provide smallholders with essential functions, such as extension, certification, traceability and finance, to access premium markets and achieve high returns.



Information communication technology can link smallholders to higher value markets.

Investing in initiatives with the private sector, such as credit scoring tools and microloans, can benefit remote smallholder farmers and reduce costs for all stakeholders. Lessons learnt from interventions in remote smallholder financial inclusion emphasise the need for mobile banking accounts, loan insurance and targeted training. Moreover, emerging price signals for low-carbon commodity crops, including vanilla, are encouraging investment in emission verification and reduction to align with consumer preferences, legislation and corporate commitments to sustainability.



Training needs to be tailor-made and inclusive.

Training should address the specific needs and constraints of farmers and incorporate behaviour change communication and practical demonstrations. Farmers should also be involved in supply chain decisions and governance processes to enhance their understanding and ownership of the crop.



Coffee

Working with the private sector for pro-poor growth

113

252

Papua New Guinea

PNG is well-placed to supply coffee to Europe and the Asia-Pacific region due to its favourable climate and long history of cultivation. However, challenges such as selling low-grade coffee in low-value markets persist due to issues like remoteness, inadequate transportation and security problems. From 2017 to 2023, MDF PNG used the Market Systems Development approach, partnering with the private sector, to address these challenges. The approach showed that strategic investments in market functions can shift the industry from low-grade commodity coffee to high-quality specialty coffee. However, challenges remain, such as the coffee berry borer infestation and impacts of climate change.

MDF's experience in PNG's coffee sector suggests several practical considerations for program funders, designers and implementers.



Shifting to high-value products unlocks opportunities.

PNG's coffee exports need to transition from low-grade to higher-grade coffee to better compete in international markets, ensuring higher prices and enabling investment in training, processing, certification, finance and extension support.



Access to finance is key.

Financial constraints in the coffee supply chain, exacerbated by delayed payments and banks' reluctance to provide loans, can be alleviated through innovation. One example is revolving funds operated by exporters to improve liquidity and reduce risk.



Extension services must be market-focused.

Agricultural extension services should align with market preferences—not just productivity gains—to ensure that farmers adopt practices that maximise value while considering factors such as consumer preferences.



Climate change will continue to impact coffee.

PNG's coffee sector already suffers from altered crop cycles, pests and changing consumer demands. Farmers require support to adapt and diversify their livelihoods, especially with emerging demands for carbon-verified coffee in high-value markets.



Market System Development approach considerations.

The MSD approach proved effective in addressing challenges in thin markets with limited actors. By improving supply chains and quality, benefits flowed down from exporters to processors, aggregators and farmers, fostering innovation and growth.



Acknowledgements

MDF Papua New Guinea thanks the following organisations and individuals for their support and collaboration in 2023.

Australia Centre for International Agriculture Research (ACIAR)
Australia Consulate-General, Lae
Australia National University
Bright Life Farming
Business Council of PNG
Caltep Holdings Limited
Cocoa Research Institute
PNG Coffee Industry Cooperation Ltd
Craft Silicon
Digicel PNG
Food and Agriculture Organization (FAO)
Food Plant Solution
Fresh Produce Development Agency (FPDA)
National Agriculture and Quarantine Inspection Authority (NAQIA)
Pacific Trade Invest
PHAMA Plus
PNG Chamber of Commerce
PNG Cocoa Board
PNG Department of Agriculture and Livestock
STREIT Program - FAO
Sustainable Management Services
ThinkAg
United Nations Children’s Fund (UNICEF)

MDF extends its thanks to all its partners in Papua New Guinea, without whom the team’s achievements would not have been possible.

Quick Facts

Sri Lanka

Population

22.18 million

GDP

USD 74.40 billion

GDP growth rate (3Q2023): **1.6%**

Key GDP contribution sectors

 Agriculture: **8.7 %**

 Industry: **28.0%**

 Services: **57.6%**

Employment by key sectors

 Agriculture: **26.7%**

 Industry: **25.5%**

 Services: **47.8%**

Inflation rate **4%**

Labour force participation rate

 Female: **32.7%**

 Male: **69.6%**

Unemployment rate **4.7%**

Poverty headcount **27.9 %**

Key focus areas

Tourism

- In 2023, Sri Lanka welcomed nearly 1.5 million tourists, more than double the number of visitors who arrived in 2022.
- After enduring four years of continuous challenges, Sri Lanka's tourism industry experienced steady growth in 2023 and instilled a sense of optimism among industry stakeholders.



MDF strategically realigned its approach to tourism to meet the industry's needs, paving the way for sustainable practices in tourism.

Specialty coffee

- The year-on-year average price for high quality arabica green beans increased by 10 per cent from LKR4,500 (USD12.37) /kg to LKR5,000 (USD15.41) /kg. There were some instances where premiums of nearly LKR8,000 (USD24.66) / kg were observed. Prices for low-medium quality increased by 20 per cent from LKR2,500 (USD7.73)/kg to LKR3,000 (USD9.24)/kg.
- Plantation companies continue to increase own cultivation as part of their diversification strategy.
- Coffee collectors are forward-integrating and establishing their own processing centers due to the potential commercial benefits seen from the increasing demand.
- Coffee roasters are showing an interest in backwards integration and processing to allow them to have more control over quality.
- The government has placed specialty coffee as a priority crop due to the potential export revenue and has allocated 400Ha for new coffee cultivation.



MDF focuses on promoting the development of specialty coffee for both domestic and international markets by increasing production volume and improving the quality of processing and sourcing through industry collaboration.



Agricultural inputs

- 80 per cent of Sri Lanka's food is produced by smallholder farmers.
- The demand for fertiliser was estimated at 5.87kg per hectare of arable land in 2023, slightly lower than in 2022.
- Due to the lack of access and high price of fertiliser, crop productivity continued to decline and aggregate paddy production is 14 per cent below the last five-year average.
- Agritech is making a comeback, with renewed interest among agri-businesses to adopt technology for efficiency improvement and transparency.

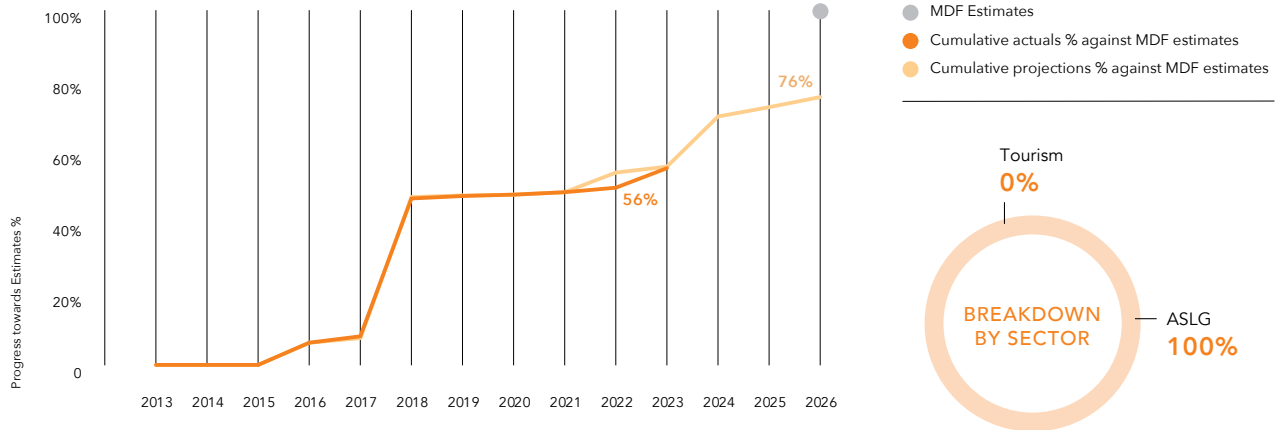


MDF is working to increase farmers' access to productivity-enhancing inputs, agritech and information.



Highlights

EFFECTIVE OUTREACH



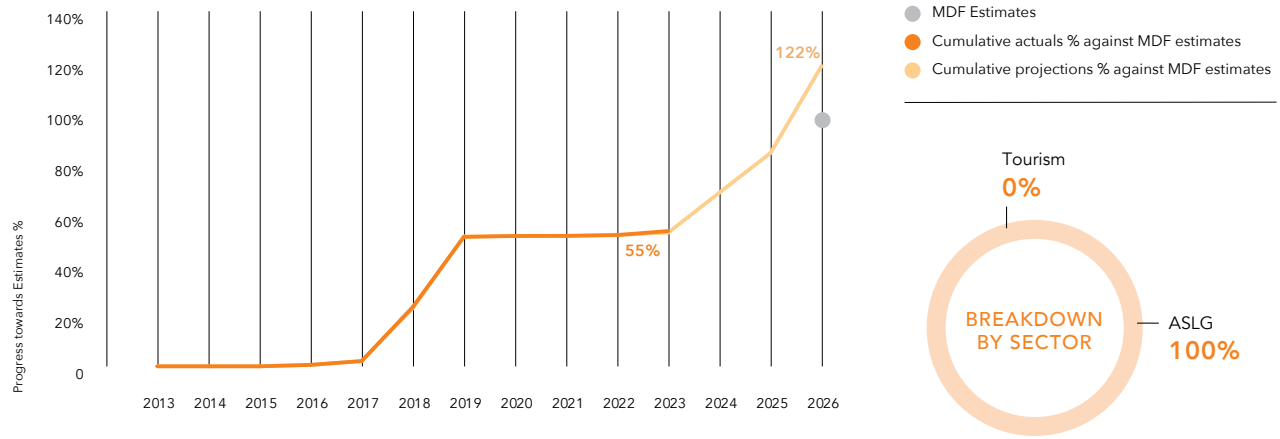
Outreach rebounds following four years of economic challenges

In 2023, MDF's interventions benefitted an additional 3,200 people, bringing total outreach to more than 30,800 (56% of estimates). The current portfolio is projected to reach 76% of estimates by 2026.

- Growth in outreach was driven by the specialty coffee portfolio, particularly by new investments in the coffee dry house model and partners expanding into new locations. A robust recovery in agritech investments also contributed to the positive result.
- Women accounted for more than 58% of additional outreach in 2023, reflecting MDF's focus on supporting women's economic empowerment. MDF identified 27 people living with disability who directly and indirectly benefited from interventions, particularly in coffee and agricultural inputs.
- Sri Lanka's post-crisis recovery in 2023 spurred private sector interest in niche industries, leading to MDF securing 16 new partnerships and projecting 30% growth in outreach compared to 2022. The key drivers of projections include interventions in improved fertiliser, expansion into wellness and carbon-neutral tourism, and contract coffee farming models.
- MDF's expanded focus on private sector partnerships in sustainable tourism is expected to contribute significantly to overall outreach, generating employment opportunities in accommodation, activities and services within the tourism sector over the next three years.



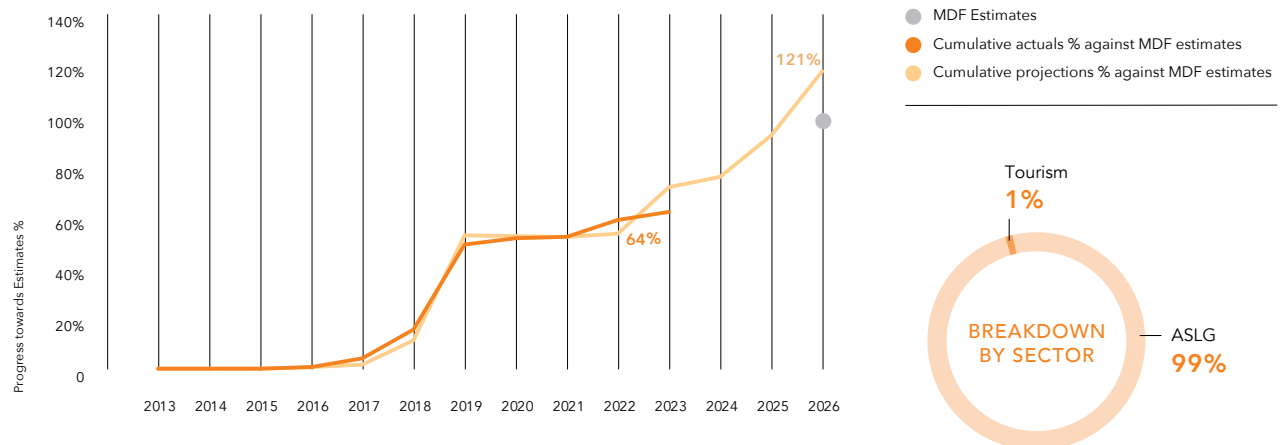
NET ADDITIONAL INCOME (USD)



Improving access to agriculture inputs drives additional income

- Improving access to fertiliser contributed the most to the additional income reported in 2023, supporting the current portfolio to reach 55% of estimates. Jobs generated through support to specialty coffee and efficiency gains from agricultural mechanisation significantly bolstered livelihood income.
- Despite a strong income recovery, the persistent depreciation of the Sri Lankan rupee against the US dollar dampened overall gains. MDF's expansion into high-value crops, such as mango and chili, is expected to counteract these effects substantially within the next three years, with the current portfolio projected to reach 120% of estimates by 2026.
- Anticipated sources of income include interventions in coffee nurseries and improved distribution. Furthermore, work in sustainable tourism is poised to contribute to income through employment.

VALUE OF ADDITIONAL MARKET TRANSACTIONS



MDF interventions spur export volume growth and fuel substantial VAMT expansion

MDF's current portfolio has achieved almost 70 % of value of additional market transactions (VAMT) estimates and is projected to reach 137% by 2026. VAMT growth was driven by coffee and tea-related interventions that resulted in export revenue. Agrithmics' strong performance in 2023, coupled with increased volumes from new tea farmers integrated into their network through MDF's support, contributed the most to VAMT, totaling USD1.7 million (AUD2.6 million).

- Despite challenges during the harvest season, coffee processing partners boosted both domestic and export sales of specialty coffee, totaling USD130,000 (AUD196,700). Agricultural input partnerships, such as Keells Supermarkets and Star Mushroom, saw significant recovery in volumes and revenue, amounting to approximately USD500,000 (AUD757,000).
- MDF anticipates strong revenue growth from agricultural inputs work in mango cultivation, agritech expansion and fertiliser distribution. With increased private sector involvement in 2023, MDF foresees substantial revenue growth in the sustainable tourism portfolio, driven by product development and targeted marketing in niche segments.

Overview of Portfolio and Progress in 2023

Sri Lanka's growth and economic development have been hampered by a series of profound challenges. The Easter Attacks of 2019 were followed by the COVID-19 pandemic and political and economic crises in 2022, which resulted in record inflation, severe fuel shortages and food insecurity that affected more than six million people (World Food Programme).



Within a year, Sri Lanka began a promising economic recovery, driven by vital government reforms after the International Monetary Fund's USD3 billion Extended Fund Facility was approved. These reforms included expanding the tax base, introducing fair utility pricing, strengthening social safety nets, and restructuring debt. Subdued demand and improved supply conditions reduced the rate of inflation from 69.8 per cent (September 2022) to 1.3 per cent (September 2023), according to the Central Bank of Sri Lanka. Sri Lanka experienced a surge in tourist arrivals, welcoming 1.48 million visitors in 2023, which contributed USD2 billion in revenue to the economy.

The economic recovery is in its early stages and challenges and risks abound. National poverty is projected to have doubled from 13.1 per cent in 2021 to 25 per cent in 2022, based on the World Bank's USD3.65 per day per capita Poverty Line (2017, PPP). Urban poverty is estimated to have tripled to 15 per cent, adding 2.5 million people to national poverty numbers (UNDP). In the first half of 2023, nearly 147,000 people migrated from Sri Lanka and additional skilled migration is anticipated, according to the central bank.

In this dynamic context, MDF managed to significantly expand its portfolio, signing 16 new partnerships across sectors in 2023. MDF focused on strategic initiatives, from continuing to build Sri Lanka's specialty coffee industry

and advancing sustainable tourism, to identifying new investment opportunities in climate-resilient agriculture. As the economy stabilised, MDF identified new avenues, leading to a promising pipeline of upcoming investments.

The private sector continued to prove resilient and business sentiment improved in 2023. Business models supported by MDF have been sustained and, importantly, partners are making new investments beyond MDF's initial co-investment. MDF's local business partners continue to innovate and embed the new business practices they piloted with MDF support, including organisations like the Lanka Coffee Association. Sustained local commitment, investment, and a focus on sustainability have yielded positive outcomes, with MDF's portfolio benefiting over 30,800 individuals, and contributing to a cumulative household income of USD17.5 million.

The specialty coffee market continued to gain traction. Despite a suboptimal harvest in 2023, competition increased, new investments were made, and operations expanded. MDF strengthened its portfolio, investing with partners in nursery models and climate-appropriate drying houses, as well as new entrants in plantation development. MDF assessed the systemic changes emerging in the sector as a result of our investments, and will publish these findings in 2024.

MDF's flexible approach to the agriculture sector's recovery laid the foundation for a targeted strategy to encourage firms and farmers to adopt climate-appropriate agricultural inputs. MDF collaborated with leading agribusinesses to design new interventions to respond to evolving customer needs, particularly in light of shifting fertiliser subsidy policies.

MDF's efforts in sustainable tourism gained momentum, with four new agreements spanning the responsible tourism and adventure tourism segments. MDF signed a memorandum of understanding (MoU) with one of the country's largest hotel chains to foster more sustainable and inclusive operations. MDF also explored new market opportunities in wellness tourism, particularly in the Middle East. In 2023, MDF completed a comprehensive study on female participation in tourism and used the findings to discuss inclusive recruitment models and women-friendly tourism experiences with the industry.

Three-quarters of MDF's portfolio has been designed or adapted to address the effects of climate change. In agriculture, MDF focused on improving access to climate-resilient seeds and hybrid fertilisers, reducing emissions through efficient fertiliser application, and the supply of sustainably-certified biomass. In tourism, MDF aimed to attract eco-conscious, high-spending tourists, while promoting sustainability and emission-reducing initiatives with the private sector. MDF hosted a workshop for Australia's Department of Foreign Affairs and Trade (DFAT) to share lessons learned from integrating climate change across the portfolio.

Gender inclusion remained core to MDF's work in 2023, identifying new opportunities for women across sectors, including agricultural inputs and specialty coffee. In tourism, MDF worked with leading hospitality actors to explore inclusive recruitment practices and women-friendly tours. MDF continued to deepen its understanding of opportunities to engage people with disabilities across the portfolio. To improve accessibility, MDF plans to pilot universal design principles for agricultural inputs.

Strategic communications played a vital role in engagement with DFAT and key stakeholders. This included supporting a high-level Australian ministerial visit, the inauguration of a new coffee processing facility and the annual coffee festival. MDF also featured in prominent business publications, securing media coverage for Australian investments in Sri Lanka. MDF shared three market intelligence outputs with DFAT: insights on protein consumption in Sri Lanka post crisis, an assessment of the dairy sector's potential, and findings from the study on women in tourism. MDF Sri Lanka also contributed to a Facility-wide report on the agricultural outlook during an El Niño cycle.



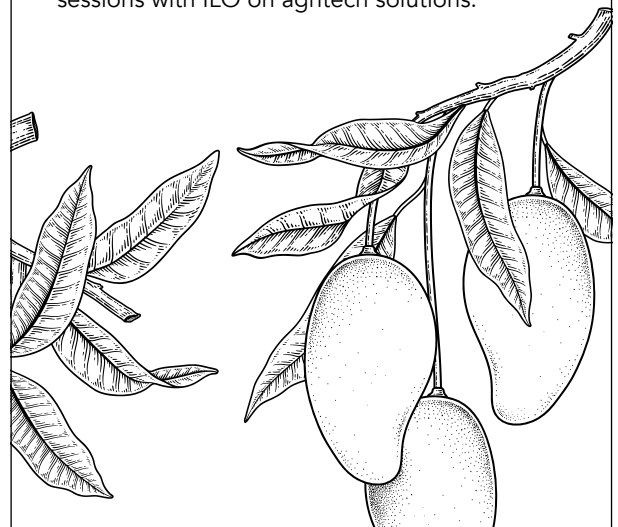
Alignment with government priorities

MDF aligns with the priorities of the Government of Sri Lanka, focusing on economic recovery, foreign exchange generation and economic diversification. This positions MDF to support Australia's new International Development Policy through inclusive and climate-resilient investments for the country's recovery. Agriculture, especially specialty coffee, is a key focus, with MDF collaborating with the Department of Export Agriculture (DEA) to foster opportunities and attract investment. In tourism, MDF supports the Sri Lanka Tourism Development Authority (SLTDA), enhancing research, data capture and capacity development for informed decision-making by industry stakeholders. MaDF's initiatives addressing climate change in Sri Lanka closely align with the government's climate priorities as articulated in the Nationally Determined Contributions (NDCs) and the National Adaptation Plan (NAP).



Collaboration with DFAT projects

MDF continued to collaborate with other DFAT programs in 2023. This included working with the Australian Centre for International Agricultural Research (ACIAR) and agribusinesses to tackle post-harvest losses in mango, exchanging insights on fisheries and MDF's assessments of select species with the Knowledge Linkages and Inclusive Economy (KLIE) program, and collaborating in the tourism sector with the Skills for Inclusive Growth (S4IG) program. MDF also conducted learning sessions with ILO on agritech solutions.



Country and Portfolio Strategy

Country strategy

Sri Lanka's economy is making headway, based on reforms, tourism recovery and a stronger currency.

The third quarter of 2023 was marked by GDP growth and lower inflation. International reserves grew by USD2.5 billion and early data indicates enhanced fiscal revenue collections in the fourth quarter (IMF). Shortages of essentials also eased. However, challenges remain in translating

these improvements into better living conditions. The IMF program commitments need to be sustained to rebuild investor confidence and continue the recovery. Foreign debt restructuring is complex and will require time. Global economic turbulence and elections in 2024 may hamper progress.

The prospects for tourism and agriculture are encouraging, offering opportunities for diversification and foreign exchange earnings. In tourism, businesses are becoming interested in shifting towards more sustainable practices and exploring higher-value

products and markets. Unfortunately, labour shortages are undermining service quality and threaten the sector's ability to develop further. In agriculture, specialty coffee has excellent export potential and can generate higher returns than tea and commodity-grade coffee. Significant investment is required across the supply chain to enhance quality and productivity. There is considerable scope to expand agricultural inputs to benefit a large number of smallholder farmers, boosting productivity and food security and building climate change resilience.

MDF's strategy in Sri Lanka focuses on economic diversification, building resilience and generating forex. In practice, this means:	Emphasising outward-looking sectors A continued focus on competitive, foreign exchange generating sectors like tourism and coffee.	Strengthening private sector partnerships Building on solid relations with businesses to realise new opportunities that support economic recovery in tourism and agriculture and provide scalable impact.
Co-investment in agricultural inputs Establishing viable and scalable business models to make agri-inputs widely available, boosting productivity, income, and food security.	Climate resilience Identifying and capitalising on opportunities for climate adaptation and mitigation, to ensure climate resilience is integral to all market systems strategies.	Inclusivity Identifying and realising opportunities to enhance the livelihoods of women, people with disability, and other population segments that tend to be neglected.

MDF's country strategy remains in line with the priorities of the governments of Sri Lanka and Australia.



Climate change

In 2023, MDF observed growing business interest in investing in climate-relevant initiatives. MDF has identified climate solutions with a compelling business case for providing modest initial co-investments. Guided by the Facility's Climate Change Strategy, MDF Sri Lanka also focused on mitigating the risks associated with adopting these solutions.

MDF signed 10 new climate-relevant partnerships in 2023. In agriculture, MDF co-invested with partners to develop climate-resilient farming clusters, contributing to enhanced sustainability and climate resilience in the dry zone. With MDF support, protected agricultural solutions were adopted across farming clusters in the dry zone and the central highlands, significantly reducing climate vulnerability, especially among women engaged in agriculture. In specialty

coffee, MDF worked with processors to establish drying houses, which prevent rainfall damage and climate-proof the coffee value chain. MDF is promoting improved and organic fertilisers to reduce emissions from the use of synthetic fertilisers and promote long-term soil health. MDF worked with tourism partners to measure and report emissions, capitalising on the industry's growing commitment to environmental responsibility. Many tourism stakeholders are showing interest in collaboration; this presents an opportunity for MDF to support Sri Lanka to establish itself as a sustainable destination for travellers.

MDF's climate change investments align with the Sri Lankan Government's climate change priorities, as outlined in the NDCs and the NAP.



Introducing sprinklers to enhance irrigation systems in the dry zone

Sector rationale

MDF continued to work in tourism and agriculture in 2023.

These sectors contribute to economic recovery and foreign exchange, offer long-term opportunities to build competitiveness and add value, and have the potential to impact climate change and inclusion.



Sustainable tourism

The tourism sector remains a key source of foreign exchange and employment as the economy recovers. Despite multiple shocks, tourism remains a priority sector for the Government of Sri Lanka and DFAT in Sri Lanka.

Tourism businesses show increasing commitment towards realigning business strategies with sustainable tourism principles to tap into eco- and socially-conscious traveller segments. MDF is well-positioned to support

this, working with market actors to invest in tourism offerings that encompass socioeconomic impact, cultural experiences and environmental protection.



Authentic Sri Lankan goods

MDF's work in agriculture currently comprises two market systems: agricultural inputs and specialty coffee. Agriculture is the largest employer in Sri Lanka and many rural households depend on the sector for income. The crisis has renewed business interest in investing in agriculture, with opportunities in domestically-produced inputs and supply chain efficiency. MDF's primary focus is to improve agricultural productivity through high-quality agricultural inputs and technology solutions. In doing so, MDF also contributes to increased food security for families. MDF's support for innovative and inclusive sourcing models provides better income-earning opportunities to female farmers. Increasing agribusiness adoption of technology makes agricultural value chains more efficient and enables businesses to cost-effectively reach more farmers. MDF also remains focused on the resilience of the Blue Swimming Crab market to ensure earlier investments are sustained.

Agriculture remains one of the sectors most vulnerable to the effects of climate change, necessitating investment to minimise losses to businesses and farmers. Sri Lanka faced several disasters in 2023, such as floods in May, landslides in June and a cyclone in November, which affected more than 1.2 million people

and caused over USD500 million in damage (Climate Links, Sri Lanka). The use of appropriate inputs, technology, tools and information, such as irrigation equipment and weather advisory services, contributes to climate adaptation and more resilient agricultural systems. MDF will continue to work with the private sector to integrate climate change adaptation and mitigation strategies into their business models and deliver climate-related solutions to farming households.

Ellawala Horticulture farmers selling organic produce



Cherry sorting women at Helanta



The global specialty coffee market is expected to grow annually, creating opportunities for new coffee-growing destinations such as Sri Lanka, particularly due to major producers facing the effects of climate change. Sri Lanka's specialty coffee sector grew well in 2023, driven by domestic demand and a revived tourism sector. Moreover, the government is prioritising the sector, allocating land for Arabica coffee cultivation and including the crop in a national list of five key export commodities.

Early investments and a recovering economy generate strong results



As Sri Lanka's economy steadily rebounded, MDF co-investments made during the height of the economic and political crisis began to bear fruit. Outreach increased by 3,200 individuals, driven by contributions from the coffee and agriculture sectors. Significantly, 58 per cent of people newly benefitting from MDF interventions in 2023 were women, underlining MDF's commitment to gender inclusivity. Further, 27 people living with disability also benefitted from MDF interventions.

Fieldwork across the breadth of MDF Sri Lanka's portfolio contributed to seven new interventions in 2023. Private sector appetite for investment saw a significant pick-up: in 2023, for every dollar invested by MDF, the private sector invested 2.5. This is the highest annual leverage ratio MDF

Sri Lanka has achieved since 2017 and was driven by the agricultural inputs portfolio, which accounted for more than 60 per cent of total partner spending in 2023. Specialty coffee recorded early signs of 'crowding-in' investment and accounted for 20 per cent of total partner spending.



Digital solutions yield results

Early investments by MDF and partners supporting digital solutions in agriculture delivered substantial results in 2023. Innovations in the tea weighing and collection process, piloted with agribusiness partner Agrithmics, benefitted more than 800 farming households. These activities supported farmers to have transparent transactions with the business and eliminate income loss due to scale tampering.

Similarly, investments in improved access to fertiliser benefitted almost 150 farming households amid a time of fertiliser shortage and food insecurity. Keells, in partnership with MDF, provided fertiliser bundles to vegetable farmers, which enabled them to continue production. More than three quarters of the farmers interviewed by MDF said the fertiliser had resulted in an average 56 per cent increase in yield. MDF calculated that this resulted in an additional USD335,838 (AUD507,900) in income for farmers.



Commitment to tourism data and expanded investments in quality research

In 2020, MDF and tourism consultancy Twenty31 supported the Sri Lanka Tourism Development Authority (SLTDA) to enhance its skills in using data for decision-making, especially for promotion strategies. Twenty31 introduced the SLTDA research team to global tourism databases, including Mastercard Data, UN Tourism, and airline and hotel capacity data. Twenty31 demonstrated how these databases could be used to gain insight into demand trends, travel spending habits and relevant travel segments. As a result, the SLTDA Chairperson requested that the team tender for access to similar data sets.

In 2023, this training helped the team tackle sophisticated research endeavors, including the development of Sri Lanka's inaugural tourism satellite accounts and a comprehensive tourism footfall database in partnership with telecom providers. Although these projects had long been in the pipeline, the research team noted that they were now better equipped to handle such research tasks. Notably, SLTDA's investments, such as allocating around USD67,000 (AUD103,005) for UN Tourism services to advance their methodology, demonstrate a commitment to working with data.



Specialty coffee gains momentum with a boost from government

In 2023, MDF saw a notable expansion in the well-established coffee portfolio, with existing partners, new investment and a significant response from government. By the end of 2023, the portfolio had reached more than 1,200 individuals through farming and employment. The industry expanded to 12 primary processors, compared to four when MDF first entered the market, and sourcing expanded from only Kotmale to Bandarawela, Ella, Haputale, Kandy, Maskeliya, and Nuwara Eliya. Increasingly erratic rainfall, which is exacerbated by climate change, has driven MDF partner Helanta and new entrants such as Fine Hill, Conservation Links and Pasanka to invest a cumulative USD85,437 (AUD129,552) in adopting MDF's dry house model.



Innovative approaches and technology present opportunities for women in agriculture

In 2023, MDF interventions continued to provide valuable insight into business incentives for women. Star Mushroom, a female-run business, expanded its supplier base from 36 to 220 in 2023, and business revenue grew by an impressive 200 per cent within a year. This result underscores a compelling business case to invest in largely female-run, home-based businesses with a hands-on approach to farmer engagement and continuous farmer education.

MDF also gained insight on using technology to increase women's agency when dealing with market intermediaries. In Ratnapura, where MDF implemented Agrithmics' digital weighing scales in a smallholder tea network, women (65 per cent of farmers) often face income loss due to weight tampering in tea production. By providing tamper-proof digital weighing scales, the women gained transparency and eliminated income loss. This trust-building measure attracted 120 more farmers to the network, showcasing the business value of investing in farmer-friendly supply chain solutions.



Smallholder farmers utilising weighing scales introduced as part of the Agrithmics intervention to measure their daily yield of tea leaves.

Brewing success: The evolution of Sri Lanka's specialty coffee market



Specialty coffee is making a comeback in Sri Lanka. A surge in global demand for coffee, a steady rise in global coffee prices, a growing local café culture and a resurgence in tourism are fuelling production. Declining productivity in the tea industry is motivating farmers and businesses to adopt coffee cultivation as a viable means of diversification.

Smallholder farmers grow 80 per cent of Sri Lankan coffee, and an estimated 50 per cent of them are women. From cultivation to processing to value addition for retail, women are an essential part of the value chain. MDF started work in specialty coffee in 2017, focusing on its potential for export revenue and smallholder income generation. The Sri Lankan roasted coffee market was then dominated by imported coffee products and, while local roasters were present, none had established direct sourcing relationships with coffee farmers. Nor did they invest in processing,

preferring instead to buy beans of varying quality from a scattered network of processors and collectors.

Farmers did not have an incentive to invest in better growing or harvesting practices. Most collectors/processors offered coffee cherries at a flat price, with no price premium for quality. The market – comprising collectors, processors and local roasters – was fragmented, with no appetite for collective advocacy.

Shifting from import dependence to local excellence

Starting with introducing a 'red cherry sourcing' model and improvements in processing, MDF and partners have made a series of co-investments in the sector over the past few years. As a result, coffee bean production volumes have increased, sourcing and processing methods have improved, industry stakeholders are collaborating better, and Sri Lankan specialty coffee is making forays into the international market. The economic crisis of 2022 provided an unexpected boost to the shift to local production, as imported coffee became prohibitively expensive.

Seeing these successes, the government has listed coffee as a priority export

crop, and key government stakeholders have taken a keen interest in engaging with MDF to expand the sector. In parallel, there has also been an increase in independent private investment into the sector, demonstrating the potential for further expansion and sustained growth in the specialty coffee market. Several local cafés that switched to serving locally sourced specialty coffee due to import restriction policies continue serving local varieties despite restrictions easing. Coffee businesses and other firms are increasingly seeing the return on MDF's investments and expanding into processing themselves.

Farmers are benefitting. As domestic demand for specialty coffee grows and interest from coffee export markets increases, farmgate prices (the price that a farmer receives at the point of selling) for coffee have been rising since 2020, with only minor signs of stagnation observed in 2023.

In 2022, MDF recorded early signs of fundamental shifts within coffee production and processing, including new market entrants and MDF partners independently investing in expansion. Throughout 2023, these signs strengthened, with more pronounced behaviour changes evident in the sector.



Early Innovators in Coffee: Partnerships at work

Scaling up production

Sri Lanka does not produce enough specialty coffee to meet domestic demand and, potentially, export requirements. MDF's work has shown that greater volumes cannot be obtained by relying on smallholder farmer initiative alone. Instead, increasing production volumes requires action along the supply chain, including greater availability of coffee saplings and larger-scale cultivation of coffee, for example.

In 2023, MDF collaborated with a plantation company to implement a contract farmer model, to incentivise coffee as a secondary crop on marginal tea lands. This agreement was the first of its kind in the region and is expected to boost coffee production and enable replication by other plantations. With Sri Lankan tea productivity declining, plantation companies are increasingly looking for viable means of diversification.

Nurseries play a crucial role in enabling smallholder farmers to easily access coffee seedlings. MDF is working with four to five small- and medium-scale nurseries to increase their sapling production and, importantly, shift to a commercial model. Nurseries currently sell saplings to the Department of Export Agriculture (DEA), which provides them to farmers at a subsidised amount. These subsidies distort market incentives. With demand for saplings on the rise, nurseries are now able to sell saplings directly to farmers at competitive prices.

Mastering Sourcing and Processing

Investments in strengthening coffee sourcing and processing have contributed much to the sector's success. This includes MDF and partner co-investments in wet mills and the dry house model as a means of climate change adaptation. MDF partners have recorded a cumulative LKR190 million (AUD1.1 million) in value-added market transactions, or additional business revenue, over the past five years. Over 1,000 smallholder farmers have benefitted as businesses source more and household income increases.

MDF partner Helanta Coffee adopted the red cherry sourcing model in 2020 and, following its success in improving

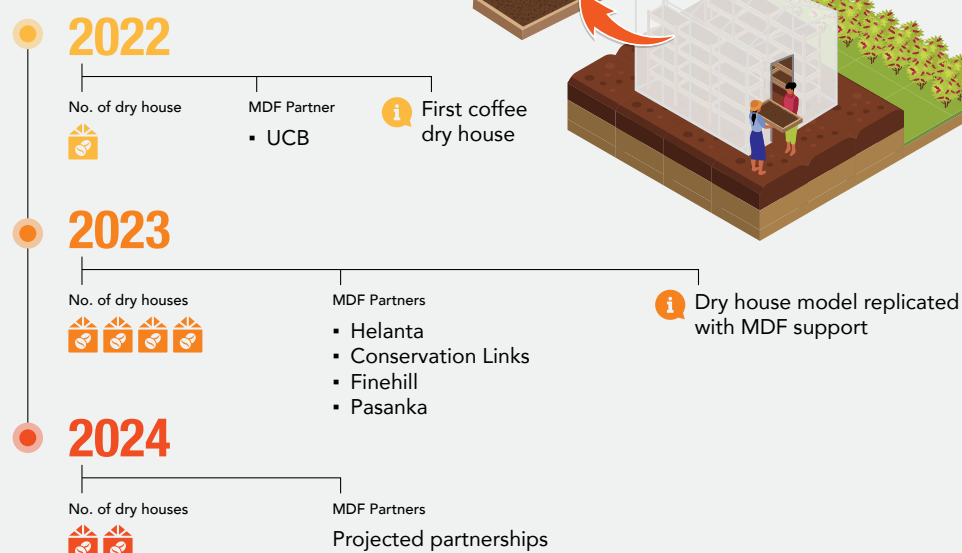
the quality of the coffee the business could source from its farmers, went on to invest in improved cherry processing techniques. The company recently invested in expanding its drying facility and coffee nursery, as well as hiring new field and extension officers to increase farmer support. Helanta Coffee has also initiated a free plant distribution program to increase coffee cultivation in Kotmale.

In 2021, MDF collaborated with Up Country Brothers Pvt Ltd (UCB) to introduce a sourcing and processing model that emphasises quality from the cherry-picking stage to the green bean processing stage. The new

sourcing model resulted in significant business growth – greater volumes of coffee sourced, as well as higher profits. This incentivised the partner to independently expand its staff, including hiring new extension officers, building a secondary drying facility, expanding its transport resources and investing in a coffee seedling nursery to broaden the supply base.

Despite a series of challenges over the past few years – such as the economic crisis, input shortages and climate change-induced changes in rainfall – partners persist in their commitment to expansion, reflecting confidence in the sector's potential.

Investing in climate change adaptation: a timeline



Coordinating with key stakeholders

MDF has continued to work closely with the Lanka Coffee Association (LCA) since its formation in 2021. In May 2023, the LCA successfully hosted the second annual Coffee Festival and the inaugural LCA Barista Championship (see 'The Sri Lanka Coffee Festival returns' in this country

chapter). Reflecting the tourism value of authentic Sri Lankan coffee, Jetwing Hotels came onboard as a key partner for the event. Interest and investment from a key tourism business is a positive signal of potential synergies between the local specialty coffee and tourism industries. The LCA has strengthened

its standing in the industry and is now widely recognised as the key body representing specialty coffee stakeholders in Sri Lanka, with its membership reflective of its growing sector influence.



Market Expansion: Brewing a Buzz

Private Sector Interest

Private sector interest in specialty coffee has surged in the past two to three years. In 2023, three new businesses sought MDF support to replicate the climate-adaptive dry house model. These ventures collectively invested LKR3 million (AUD17,000) after independently establishing red cherry sourcing models inspired by MDF's pioneering partners in the sector. The surge in business investment in diversifying or expanding sourcing and processing is based on their belief in the potential of the sector and its profitability. New entrants have demonstrated a willingness to replicate MDF's innovations in the sector, with some changes based on market learnings to reduce the

time taken to realise returns on their investment.

New market entrants have used MDF-published training material on coffee growing best practices to start sourcing operations. One of Sri Lanka's largest specialty coffee roaster-exporters is looking to invest in a new supply chain – sourcing and processing its own coffee, as a means of quality control. These businesses draw heavily from MDF's sourcing and processing model.

The growth of the Sri Lankan specialty coffee industry is also drawing interest from other sectors. MDF's interactions with the private sector have unearthed tourism businesses interested in

marketing Sri Lanka's coffee story and spice traders looking to add coffee to diversify their export portfolios.

Complementary businesses, such as manufacturers of coffee processing equipment including pulpers, hullers and graders, report an increase in demand. One business noted a sustained increase in demand for its coffee processing machinery, with 40 per cent of sales to the government for subsidised projects and the remaining 60 per cent sold to businesses. MDF has also observed two new entrants that manufacture coffee roasting machinery locally, supplying to local specialty coffee processors over the past two years.

Government involvement

The potential of the sector – for smallholder income generation, domestic consumption and tourism, and export revenue – has attracted government attention. This is reflected in policy developments and resource allocation. In 2023, the Ministry of Plantation Industries shared the government's intention to prioritise coffee as one of five key export crops for Sri Lanka. After this, the DEA, supported by the LCA, organised an inaugural Coffee Day Festival in the central coffee growing region of Ella in November 2023, as part of its activities to promote coffee cultivation. The event united key stakeholders, from processors to machinery suppliers to pest control

businesses, providing an opportunity for networking and discussion. MDF will work closely with the ministry and relevant government departments to support the development of a long-term strategy for the sector.

Aligned with the ministry's objectives, the DEA has set a goal to expand cultivation of the five priority crops, including coffee, by 400 hectares in 2024. This initiative will encompass the vast cultivation potential within plantations as well as smaller farmer clusters by offering incentives for home gardening. The DEA has also indicated that in response to growing demand from nurseries for coffee seedlings, plant volumes and

distribution channels will be increased. Government extension officers are set to undergo Good Agricultural Practices (GAP) certification training that will include a module on specialty coffee cultivation, to better support farmers.

Sustained investment by the private sector and increasing government support, as well as thriving domestic consumption by both locals and tourists, signal a strong upward trajectory. With plantations showing increased interest in ramping up production and new businesses entering the market, coffee farmers stand to gain from a strong, competitive market that rewards quality with premium prices.

Inclusion Story

Beyond the field: Women leading the way in mushroom farming

Women contribute significantly to agriculture but are less engaged in commercial farming models. Numerous limitations act as barriers for women farmers: low levels of land ownership, limited access to markets and resources, and limited engagement with financial services and technology. Additionally, they also bear a disproportionate amount of unpaid care responsibilities, thus limiting the time and opportunities available for participation in agricultural activities.

Why mushrooms?

MDF identified mushroom farming as a suitable crop for women to easily grow in their back gardens and earn a substantial income for their households. This resulted in a rise in female participation, as many women farmers found the commercial viability of mushroom farming appealing due to its proximity to their homes. This flexibility enabled them to balance their household responsibilities while engaging in farming activities.

Click/scan the QR code
to read the full story



Climate Change Story

Adapting an indigenous agroforestry model for export processing

Sri Lanka's dry zone plays a critical role in food security and export agriculture, as it contains some of the country's most fertile land and is home to the bulk of the nation's farming communities. However, the emerging challenge of shifting climate patterns – in the form of less water, changing rainfall and rising temperatures – pose an existential threat to farming and livelihoods.

Smallholders collectively own the most land and contribute to a significant share of production in key value chains in Sri Lanka. In the dry zone, limited availability of arable land requires agribusinesses to look beyond large commercial farms and work with smallholders to if they are to expand. Working with smallholders in the dry zone comes with the additional challenge of harsh climatic conditions. In this context, agribusinesses must look beyond traditional transactional models of farmer engagement.

Click/scan the QR code
to read the full story



Business Focus Story

Paving the way for Sri Lanka's foray into low- carbon tourism

Authenticities Sri Lanka is an inbound travel brand focusing on providing tourists with authentic experiences. Currently, it is Sri Lanka's fifth-largest destination management company (DMC) in terms of market share. In 2023, MDF and Authenticities signed a partnership to promote sustainable tourism by introducing Sri Lanka's first low-carbon tours for the growing segment of eco-conscious travellers. In conversation with Shanitha Fernando, President/ Founder of Authenticities, and Dilshad Sadiq, Vice President, MDF explored ongoing efforts to weather Sri Lanka's economic crisis and the emerging market for responsible tourism.

Click/scan the QR code
to read the full story





Tourism



Tourism

2,200+

Sri Lanka
Tourism Alliance
members

745

individuals
participated in
a joint study on
the engagement
of women in
tourism

30+

wellness business
leaders participated
in a webinar hosted
by MDF to explore
the market potential
of Australia.

60+

business leaders from hotels,
destination management
companies and academia
participated in a MDF market
survey to understand industry
perceptions on sustainability.

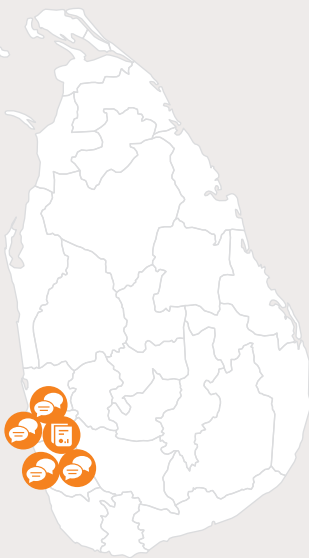
Vision of change

- The tourism industry capitalises on post-crisis opportunities to cultivate a more resilient and sustainable sector.
- Sri Lanka offers diverse tourism experiences, attracting high-value travel segments from international markets.
- Government and businesses prioritise evidence-based decision-making for promoting sustainable decisions in tourism planning, development, and investment.
- Female participation in the tourism sector increases, mirroring the global workforce composition.

Constraints

- A knowledge gap exists among industry stakeholders, including the government and private sector in understanding aspects of sustainable tourism development.
- A disparity exists in Sri Lanka's marketing and promotion efforts aimed at showcasing new and diverse travel experiences to a wide range of tourists. Since 2009 (post-war), ad hoc tourism development has resulted in environmental degradation, biodiversity loss, community dissatisfaction, and economic leakage within the sector.
- Women's participation in the tourism sector is less than 10%, and the lack of awareness in underdeveloped regions, coupled with skill gaps, hinders women and youth from entering the industry.

Interventions



Coordination



Data



Labour



Marketing



Product development



Climate risks

Changing seasons, erratic rainfall, landslides, floods, coastal erosion and pollution hindered Sri Lanka's unique selling points and impacted tourist movements.

1

Market System

Sustainable Tourism

Market on a Page



By September 2023, global tourism rebounded to **87%** of pre-pandemic levels.



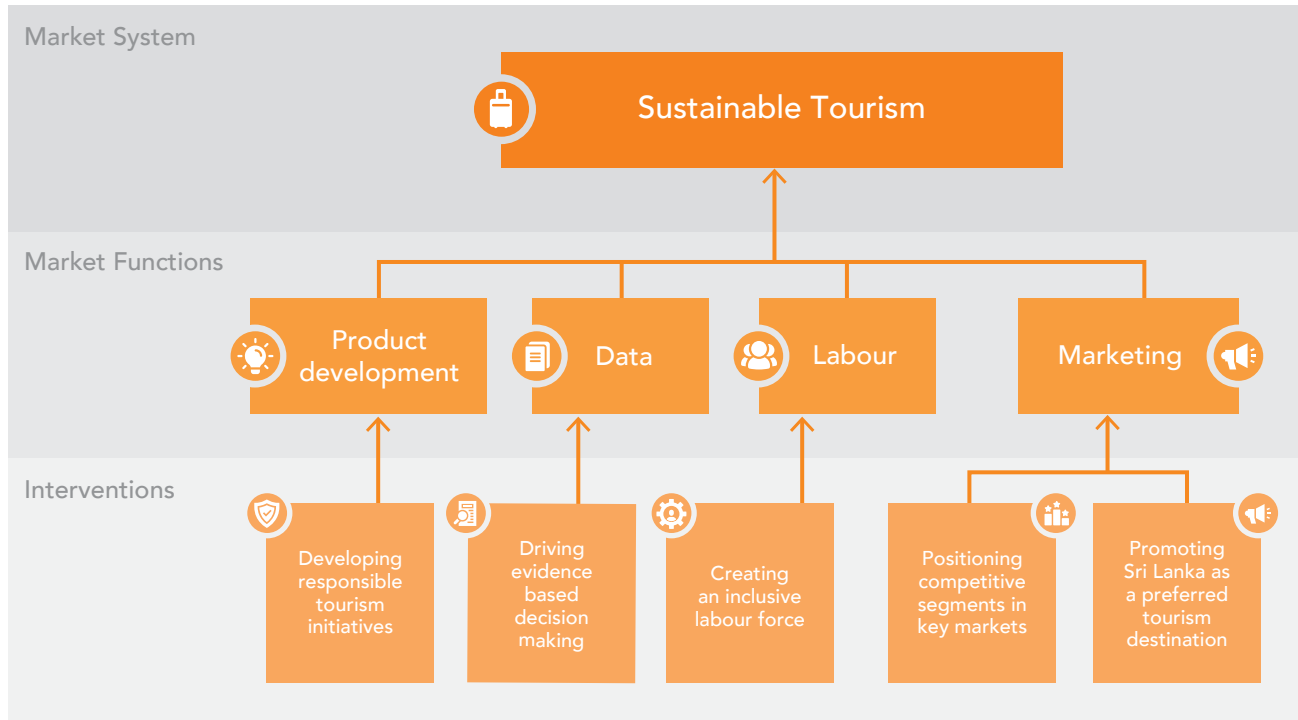
The Sri Lanka Tourism Development Authority set a target of **1.5 million** tourist arrivals for the year. By November 2023, **1,276,951** tourists had arrived, surpassing 85% of the expected revenue.



Multiple crises have led to the migration of skilled labour and made labour shortages a major concern for industry stakeholders.



Repeated setbacks have created an opportunity to facilitate a more distinctive, resilient and inclusive industry, leading to a focused effort to create a sustainable pathway for Sri Lankan tourism.



Status of the market system

Developing

Interventions (active and/or monitored in 2023)

1. Launching a promotional campaign to increase SLTDA membership.
2. Developing SLTDA research team capacity.
3. Developing low-carbon travel products in Sri Lanka.
4. Improving the use of data for sustainable tourism business models.
5. Developing marketing strategies to enhance tourism during off-peak seasons.

Summary of performance

In 2023, MDF engaged with public and private entities on sustainable tourism. Initiatives included leveraging tourism data for better business decisions, optimising marketing strategies to target off-season travellers and creating sustainable tourism offerings. By addressing capacity gaps in the industry, this approach aims to stimulate growth, attract tourists seeking high-value experiences and create sustainable and inclusive employment opportunities.

Previous investments in building the capacity of the Sri Lanka Tourism Development Authority (SLTDA) research team showed results. In 2023, the team produced thematic reports highlighting emerging source markets and employed scenario-based techniques to forecast tourist arrivals, moving away from arbitrary targets. The team has also been tasked with contributing to the development of tourism satellite accounts in Sri Lanka. The team acknowledges that they would not have been equipped to undertake such a task without MDF-supported training.

In 2023, MDF started work in promoting sustainable tourism with partners such as Authenticities Sri Lanka, Thema Collection and Across Ceylon. The Across Ceylon intervention will centre on women-focused inclusive services. The impact of these investments is anticipated in the next few years.

EO Projected (cumulative)	EO Actuals (cumulative)	Income Projected (cumulative)	Income Actuals (cumulative)	VAMT Projected (cumulative)	VAMT Actuals (cumulative)	PSI Expensed	Progress (Traffic Light)
120	41	USD179,413 (AUD271,148)	USD27,701 (AUD36,735)	USD3,149,927 (AUD4,835,500)	USD141,704 (AUD187,436)	USD413,225 (AUD555,729)	

According to UN Tourism, global travel rebounded in 2023, to reach nearly 90 per cent of pre-pandemic levels. The recovery was led by the Middle East, trailed closely by Europe and Africa. While the travel recovery in Asia and the Pacific has been slower, South Asia showed a strong performance, reaching 95 per cent of pre-pandemic levels.

Increasingly, travellers are seeking sustainable tourism options. The Sri Lankan tourism industry is showing interest in creating tourism offerings that are not only higher-yielding, but also more sustainable and inclusive. This new mindset prioritises quality over quantity and targets a segment of travellers conscious of the social and environmental aspects of tourism. This is a marked shift in the industry's approach, and an opportunity for MDF to support Sri Lankan tourism to respond to traveller demand.

In 2023, MDF realigned its Tourism market system strategy towards 'sustainable tourism', focusing on four main functions: labour, data, product development and marketing. MDF restarted its engagement with the private sector, while continuing to work closely with government and industry bodies. Our aim is to demonstrate the competitive potential of sustainable tourism, which will contribute to a more inclusive industry that offers diversified tourism services that cater to evolving global travel trends.

In 2023, MDF conducted a survey to understand industry perceptions about sustainable tourism. Over 50 business leaders representing hotels, destination management companies (DMCs), online travel agencies and academia, participated in the survey. The results revealed that most businesses believe sustainability can help them penetrate higher-yielding markets, achieve premium pricing and improve operational efficiency. The findings served as a starting point for MDF to understand the components of sustainable tourism and the industry's requirements for support.

MDF continued to support the industry to diversify its tourism offering, exploring higher-value sub-segments such as wellness, eco-conscious, cycling and slow travel. Analysing Sri Lanka's current key source markets, MDF and partners are working to position Sri Lanka as a year-round destination, seeking to better exploit the 'low season'. MDF supported businesses to target these new sub-segments with well-defined marketing strategies.

An inclusive workforce is a key aspect of sustainable tourism. MDF has been committed to addressing the labour needs of the sector, particularly the participation of women. MDF and Sri Lanka Tourism Alliance (SLTA), the country's largest private sector tourism association, conducted a comprehensive survey to understand the challenges faced by women in the industry and the factors discouraging their

employment. MDF used the findings to engage with SLTA and leading tourism brands to explore inclusive recruitment drives and advocacy programs targeting women and youth.

Despite the challenges that surrounded Sri Lanka's tourism sector, MDF's technical expertise helped SLTA stay afloat and maintain industry engagement. SLTA was able to grow their member base by approximately seven per cent annually and initiated several new initiatives focusing on sustainability, promotion and industry engagement.

In 2023, MDF's partner SLTDA established a new 'Sustainable Tourism Unit' (STU). Building on a close working relationship with SLTDA, MDF is supporting tourism businesses in line with STU's vision and providing STU with valuable private sector insights.

Since 2020, MDF has collaborated with SLTDA's research team, providing them with industry feedback to continuously improve the quality of their research. MDF's technical support has transformed the SLTDA research team, integrating secondary resources and elevating their importance and recognition among industry stakeholders. MDF also continued to work with the private sector on improved capture and use of data for decision-making.

Climate change continues to pose a significant threat to tourism in Sri Lanka. The adverse effects of El Niño, which started mid-2023, included flooding and landslides that disrupted traveller movement and rendered some key attractions inaccessible. With over 60 per cent of travellers visiting coastal Sri Lanka, the impact of pollution and coastal erosion remained an area of concern, emphasising the importance of diversifying Sri Lanka's tourism experience.

Market Functions

Marketing

The Sri Lankan tourism industry has consistently emphasised the need to enhance its destination marketing efforts, and the negative publicity associated with the economic crisis has compounded that need. MDF's strategy has two approaches: supporting collective industry marketing and firm-level marketing. MDF aims to boost the visibility of Sri Lanka's diverse tourism offerings and drive further growth in the industry by working with sub-segments such as slow travel, cycling and wellness. MDF aims to collaborate with government, industry bodies and individual businesses that are committed to understanding traveller behaviour to pilot innovative marketing models, in addition to traditional marketing channels.

MDF continued to scope the emerging wellness tourism segment of Sri Lanka. MDF is looking to support the industry to diversify beyond the traditional German-speaking markets (which constitute 90 per cent of wellness travellers to Sri Lanka) and explore fast-growing global wellness markets such as the Middle East, Northeast Asia and Australia. In 2023, MDF engaged with leading local wellness service

providers, such as Siddhalepa, to enter the Middle East. MDF also engaged with industry associations, international wellness providers and the SLTDA to explore business models to increase the arrival of wellness tourists from new markets.

In 2023, MDF signed a partnership with Across Ceylon, a guided cycling DMC looking to place Sri Lanka on the global cycling map. Across Ceylon has formed partnerships with renowned brands, such as Resplendent Ceylon, to operate luxury guided cycling tours in Sri Lanka. With MDF's support, Across Ceylon is inviting global cycling influencers to promote the destination, while also working to understand the optimal strategy for cycling in Sri Lanka considering its infrastructure. MDF is also supporting Across Ceylon to launch women's cycling tours in 2024.

Product development

Sri Lanka competes with destinations such as India, Thailand and Indonesia (Bali). Diversifying the product offering beyond sun, sea and sand is essential to gaining a competitive edge. MDF works with experience providers and DMCs to develop and promote Sri Lanka's unique offerings and spread the gains from tourism across Sri Lanka. This approach aligns with the global trend towards experiential travel, where tourists seek authentic experiences beyond traditionally marketed products.

In 2023, MDF collaborated with Authenticities Sri Lanka, the country's fifth-largest DMC, to launch Sri Lanka's first low-carbon tour itinerary in the United Kingdom (UK). The tour targets high-yielding, responsible travellers from the UK who prefer to travel at a leisurely pace and explore the country during the off-peak season. This project has led the management team to rearrange their resources, assigning team members specifically to this new product. Management has also made significant investments in electric vehicles and charging stations, and are seeking to hire sustainability and environmental experts to strengthen the team.

MDF also began working with partners to develop products such as women's tours, local coffee experiences and guided safari tours.

Labour

Sufficient skilled labour remains a challenge for the industry, particularly as visitor numbers increase. There has been a loss of confidence in the workforce due to continuous setbacks since 2018; tourism is not perceived as a secure employment option. The economic crisis has caused significant outmigration of skilled labour, particularly middle management.

In 2023, MDF initiated discussions with businesses to enhance their recruitment and training, with a focus on women and youth. MDF engaged with leading hotel chains to explore the potential of more inclusive recruitment drives and training initiatives targeting women's employment. SLTA and MDF conducted an island-wide survey of 700 respondents to understand the challenges faced by women in tourism. The findings included a community-

level awareness gap regarding tourism opportunities, and knowledge and skill deficiencies and language barriers, which discourage women from joining the sector or hinder their career progression.

The tourism workforce needs to be adequately equipped with the skills and knowledge to meet evolving traveller expectations. MDF is collaborating with S4IG to leverage courses based on hospitality skills and inclusion and integrating them into the business models of partners who are looking to engage with more women.

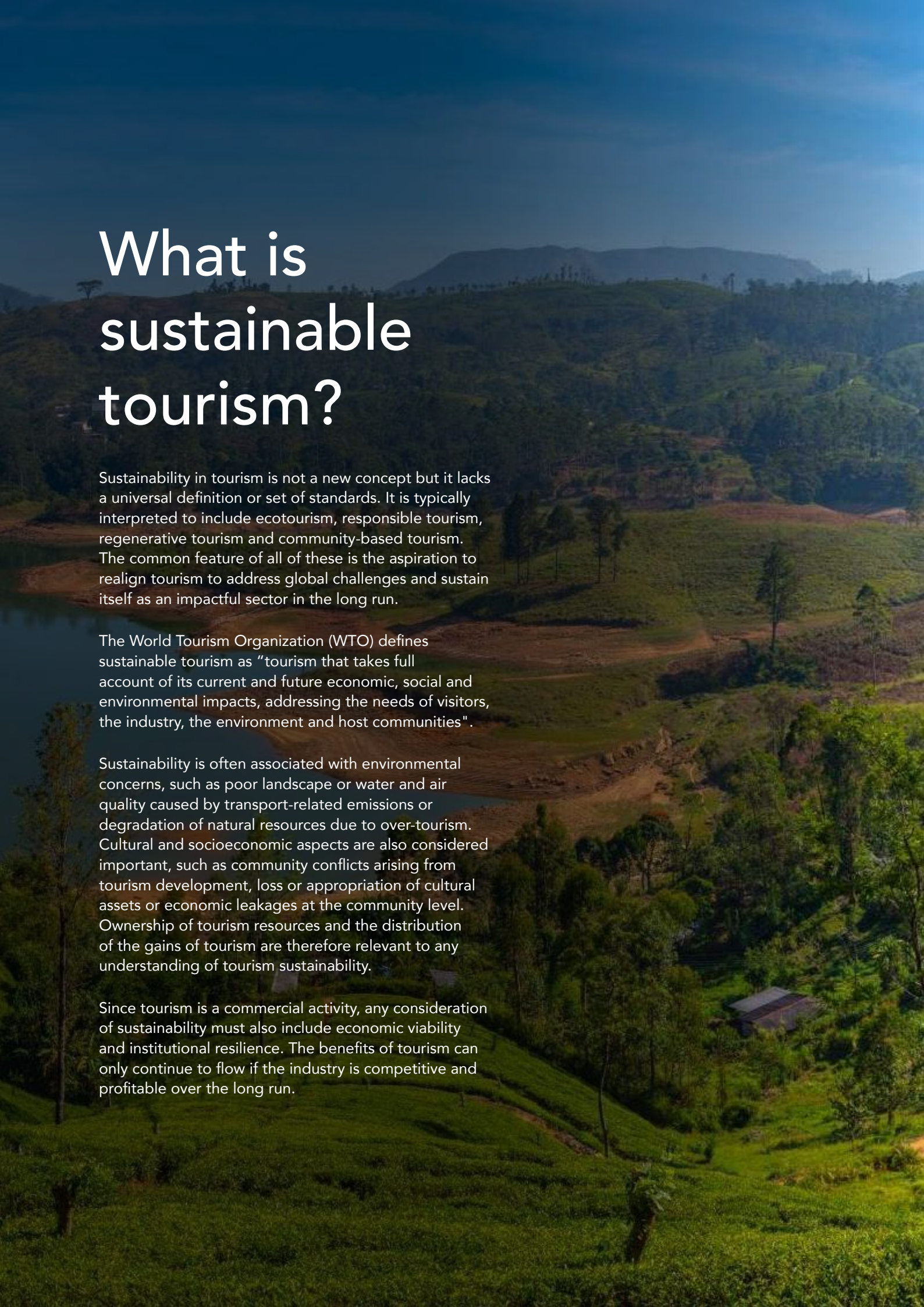
Data

Understanding demand signals and global trends is crucial for Sri Lanka to attract future travellers. MDF works with public and private sector partners to collect, understand and use data and insights better, leading to more informed strategies.

The SLTDA research team has made significant strides since MDF began providing technical support to their unit. They are no longer solely dependent on the primary sources they collect, but have integrated secondary resources such as global insights, travel trends, and the general political landscape into their reporting process. This integration enhances the depth of information they release to the industry. The unit has also initiated globally recognized tourism satellite accounting (TSA) in partnership with global organisations. The importance of the research function has been recognised by key stakeholders such as the Promotions Bureau, senior management, government officials, and external industry stakeholders.

In 2023, MDF continued to collaborate with the SLTDA research team to enhance the quality and impact of their industry insights. The collaboration, bolstered by MDF-supported insights from Tourism Australia, aims to improve technical knowledge and improve SLTDA's coordination with the private sector and local government institutions such as provincial councils.

MDF also engaged with the private sector to encourage the continued use of data and insights in decision making, particularly for the product development and marketing activities of firms who are looking to position themselves as responsible tourism operators. In 2023, MDF worked with hotel chain Thema Collection and multiple DMCs to understand the indicators for measuring tourism sustainability, including carbon emissions, water usage, waste management, community involvement and environmental protection. MDF will support these firms to integrate these considerations into their core business, enabling them to tap into the responsible travel segment.



What is sustainable tourism?

Sustainability in tourism is not a new concept but it lacks a universal definition or set of standards. It is typically interpreted to include ecotourism, responsible tourism, regenerative tourism and community-based tourism. The common feature of all of these is the aspiration to realign tourism to address global challenges and sustain itself as an impactful sector in the long run.

The World Tourism Organization (WTO) defines sustainable tourism as "tourism that takes full account of its current and future economic, social and environmental impacts, addressing the needs of visitors, the industry, the environment and host communities".

Sustainability is often associated with environmental concerns, such as poor landscape or water and air quality caused by transport-related emissions or degradation of natural resources due to over-tourism. Cultural and socioeconomic aspects are also considered important, such as community conflicts arising from tourism development, loss or appropriation of cultural assets or economic leakages at the community level. Ownership of tourism resources and the distribution of the gains of tourism are therefore relevant to any understanding of tourism sustainability.

Since tourism is a commercial activity, any consideration of sustainability must also include economic viability and institutional resilience. The benefits of tourism can only continue to flow if the industry is competitive and profitable over the long run.



Authentic Sri Lankan Goods



Sector on a Page

Authentic Sri Lankan Goods

30,826

People
benefitting
from MDF
interventions

USD 17.4m

Additional
income
generated

USD 19.8m

Value of
additional market
transactions

474

Jobs
created

16.6%

Female
participation

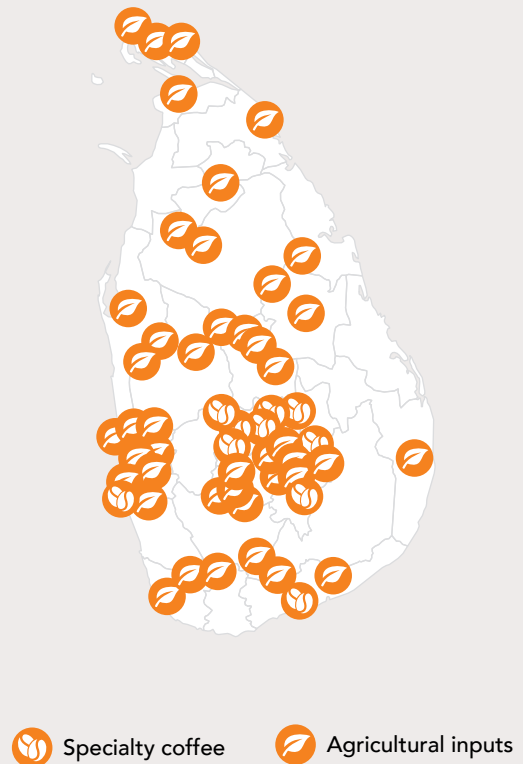
Vision of change

- Agri-input and agri-tech companies enhance smallholder farmers' access to farm inputs, machinery, agri-technology and extension services, enabling them to increase their productivity and increase the availability of food and high-value export crops.
- Enhancing supply chain management, quality standards, and market linkages by agribusinesses and input companies will improve productivity for farming households and contribute to increasing foreign exchange.
- Farmers, fishermen and agribusinesses adopt climate-smart practices and technologies that improve their resilience.
- Coffee processors, plantations, and other market actors such as nurseries, invest in increasing the quality and volume of specialty coffee for domestic and export markets.

Constraints

- Limited access to quality inputs, information, and machinery, combined with the elevated cost of inputs, has led to suboptimal productivity, increased production costs, and poor availability of food and export crops.
- Farming communities lack knowledge on optimal fertiliser use, leading to overuse of fertiliser and other agricultural inputs.
- The production volume of specialty coffee is insufficient to meet current domestic and international demand. The lack of supply has increased prices and reduced competitiveness in foreign markets.
- There is limited awareness of specialty coffee processing. Targeted promotion and exposure is essential to stimulate private sector investment.
- There is an increased appetite of agri-input businesses to invest in developing links with smallholder farmers and improving application practices. However, their ability to invest is threatened by economic conditions and lack of knowledge.

Interventions



Climate risks

- Delayed monsoons, floods and droughts threaten the resilience of Sri Lanka's farming community, which is heavily dependent on rain-fed agriculture.
- Erratic and unpredictable rainfall patterns challenge coffee drying, which compromises the quality and increases the overall processing time.

Figures presented in this infographic represent MDF's progress to date.

1

Market System

Specialty Coffee

Market on a Page



In 2023, the Sri Lankan Government listed specialty coffee as a priority crop, setting a target of cultivating **400ha**.



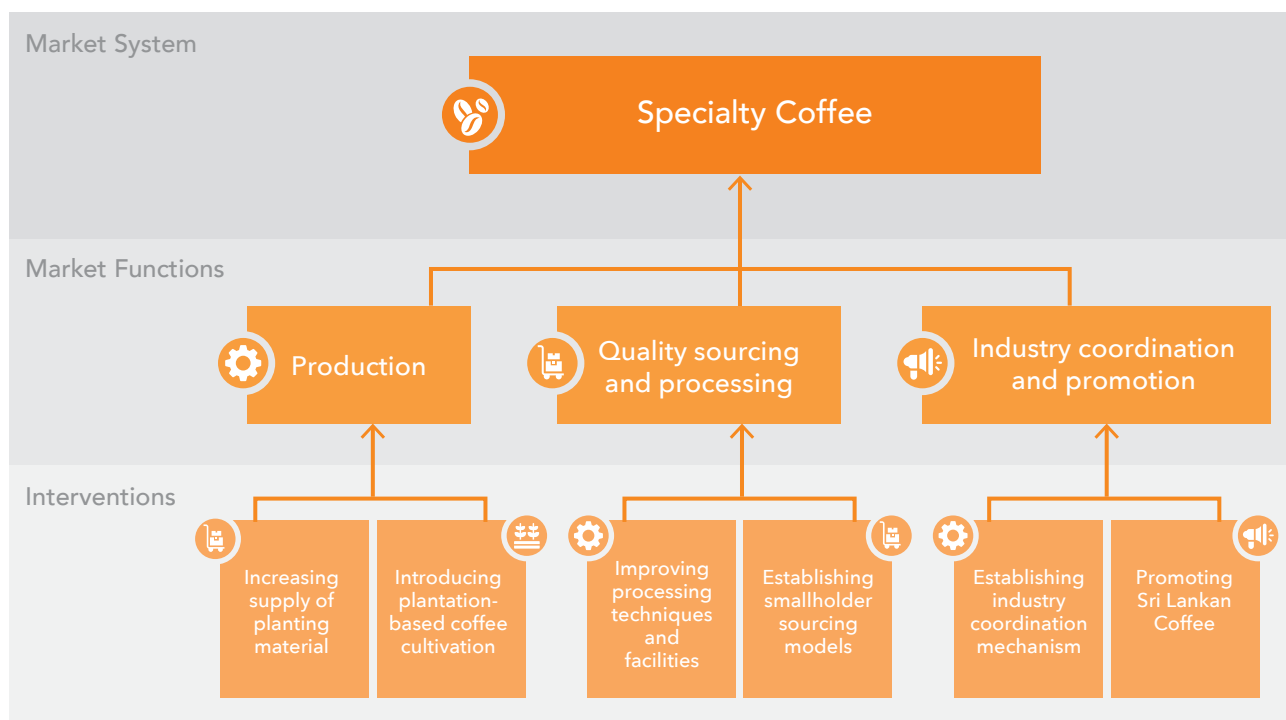
80% of Sri Lanka's specialty coffee is produced by up-country smallholder farmers. Plantation companies have increased their coffee cultivations as part of their risk diversification strategy.



New players, including agribusinesses, are diversifying their portfolios to capitalise on specialty coffee export markets opportunities.



Coffee roasters are increasingly interested in backward integration and creating their sourcing networks. Coffee collectors are forward integrating by setting up their own processing centres.



Status of the market system

Developing

Interventions (active and/or monitored in 2023)

1. Increasing supply of coffee planting material.
2. Introducing plantation-based coffee cultivation.
3. Improving processing techniques and facilities.
4. Promoting industry coordination.

Summary of performance

In 2023, Sri Lanka's specialty coffee sector grew, partly driven by the recovery of tourism industry. The demand for high-quality Sri Lankan coffee incentivised new investments and entrants in production and quality processing. Despite unseasonal rainfall patterns affecting yields, MDF partners continued to plan further investments and expansion. Production volumes remain insufficient to meet escalating demand; hence, plantation companies are actively diversifying into specialty coffee due to challenges in the tea sector as well as opportunities in specialty coffee.

The Lanka Coffee Association (LCA) hosted its second annual Coffee Festival in 2023, as well as an inaugural Barista Championship. The event generated media coverage on the local specialty coffee sector and paved the way for synergies between the tourism and coffee industries.

In a key policy development, the government prioritised coffee as one of the country's key export crops and announced land allocation targets for coffee cultivation. MDF and the relevant government departments will develop a roadmap for a national strategy on coffee cultivation.

Over 1,200 smallholder farmers have benefitted from MDF investments, resulting in net additional income of USD88,649 (AUD133,980).

EO Projected (cumulative)	EO Actuals (cumulative)	Income Projected (cumulative)	Income Actuals (cumulative)	VAMT Projected (cumulative)	VAMT Actuals (cumulative)	PSI Expensed	Progress (Traffic Light)
2,059	1,270	USD 6,384,336 (AUD 9,854,203)	USD 81,029 (AUD 114,843)	USD 7,635,309 (AUD 11,651,075)	USD 884,659 (AUD 1,220, 517)	USD 216,972 (AUD 308,207)	

Total world coffee production increased by 0.1 per cent to 168.2 million bags in 2023, out of which Arabica coffee saw a 1.8 per cent increase to 94 million bags.¹ The total output for coffee is further expected to increase by 5.8 per cent to 178 million bags in 2024, out of which Arabica coffee is expected to increase by 8.8 per cent. Demand for high quality Arabica green beans continued to be strong in 2023 and prices remained high.

Climate change is affecting larger specialty coffee growing nations, causing supply shortages and driving prices up, which is creating an opportunity for new sources. Coffee roasters have shown an interest in sourcing coffee from new coffee-growing regions to meet their own demand and cater to consumers that want to explore high quality coffee from new origins.

In 2023, the Sri Lankan specialty coffee sector continued its upward trajectory, with high domestic demand largely driven by the recovery of the hotels, restaurants and cafés (HORECA) sector and the revival of the tourism sector. The resurgence of tourism led to an increase in the number of roasters and cafes looking to cater to consumers interested in experiencing local specialty coffee, especially in the south and other tourist hotspots. The industry has responded to these demand signals by expanding production and processing, while investing in meeting international quality standards.

Challenges remain, however. In Sri Lanka, coffee is primarily cultivated by smallholder farmers, the majority of whom are women. Coffee is often intercropped with tea, vegetables or spices and is not prioritised by farmers as it only contributes to around 10 per cent of household income. Farmer's awareness of good growing practices, crop maintenance, selective harvesting and efficient post-harvest practices is low. A lack of technical expertise, at both private sector and government levels, is preventing the industry from increasing quality and achieving international specialty coffee standards. Through MDF's work, coffee processors now have more information about advanced processing techniques, upgraded infrastructure and better sourcing models. Firms are investing in these areas, including extension services to farmers.

Sri Lanka's specialty coffee volumes are currently insufficient to meet growing domestic and international demand; this is a key constraint to growth. Given the scale limitations of smallholder farmers, in 2023 MDF continued to explore plantations as a viable option for increasing production volumes. Plantation companies are interested in diversifying away from tea, which faces rising production costs, labour

shortages and weak competitiveness. Specialty coffee has strong prospects as an alternative crop for plantations to maintain export market share. The entry of larger actors into specialty coffee would ramp up volumes, increase buyer attention and create economies of scale that benefit the entire industry, such as cheaper agricultural inputs and standards. Plantations are also significant employers of rural labour, which may be threatened if the competitiveness of plantations erodes.

Production is also being boosted through other channels. Coffee roasters are interested in investing in smallholder farmer clusters to ensure a steady supply of coffee and are setting up processing facilities to have more oversight of quality. New coffee collectors are also setting up processing facilities to capture higher margins through the sale of green beans. Agribusinesses, such as spice firms, are keen to diversify their export product portfolios by including specialty coffee.

In 2023, the Government of Sri Lanka included specialty coffee to DEA's list of priority crops and allocated 400Ha of land for cultivation. The Ministry of Plantation Industries requested MDF's support to develop a strategic roadmap for specialty coffee, to help stakeholders understand goals, priorities and milestones to achieve over the next five to ten years.



MDF's vision is that Sri Lanka's specialty coffee market grows, driven by domestic and foreign investment and enabled by government policy. MDF sees the potential for inclusive growth in this market system, as coffee is grown by both women and men smallholder farmers and can also diversify and increase incomes for plantation workers. To achieve this, both smallholder production and large-scale production on plantations must increase. Collectors and processors must invest to make supply chains more efficient and improve quality and consistency, and government policies will need to incentivise the production of vital inputs such as saplings.

In 2023, MDF pursued its three-track strategy of improving production, sourcing and processing, and industry coordination and promotion. MDF's work in the specialty coffee sector has benefitted more than 1,200 smallholder farmers to date, 40 per cent of whom are women. MDF's portfolio is expected to reach more than 2,000 farmers, within the next three years. This expansion is forecasted to yield a substantial increase in total income, beyond USD6.4 million (AUD9.6 million).

¹ International Coffee Organization (ICO)

Production

Insufficient production volumes remain the sector's key constraint to growth. In 2023, MDF expanded work with partners to increase the supply of high-quality coffee. There is a shortage of coffee saplings available for new coffee cultivation. Saplings are distributed primarily through a subsidised government program that does not meet demand. MDF identified opportunities to scale up its successful 2021 commercial nursery model. In 2023, MDF partnered with a nursery to replicate the model and expand sapling production, and identified two additional nurseries interested in adopting the commercial sales model.

The plantation sector is looking to diversify beyond tea into coffee. Plantations offer the specialty coffee sector the opportunity to reach economies of scale and be competitive internationally. MDF can leverage its significant experience in the specialty coffee sector to work with plantation companies at an early stage and ensure that their investment strategies align with global specialty standards. Plantation companies have currently cultivated over 300Ha of coffee, with plans for expansion. In 2023, MDF partnered with a leading plantation to guide its specialty coffee strategy and will offer support to other plantation companies with their diversification plans.

Sourcing and processing

In 2023, MDF supported partners to set up coffee processing centres, establish or expand coffee drying operations, strengthen extension networks to provide information to farmers, and adopt the red cherry sourcing model, which encourages farmers to switch from selling green beans to selling high-quality red cherries.

Drying is a critical step in the coffee production process and can cause significant post-harvest losses if done incorrectly. Climate change-induced unpredictable or prolonged rainfall, as witnessed in 2023, makes drying challenging for processors and can compromise quality and increase the overall processing time. In 2023, MDF supported several partners to establish drying facilities that avoid rain damage and informed partners about drying techniques.

MDF partner Helanta Coffee expanded operations following initial MDF support to upgrade its processing centre and implement a more stringent cherry sourcing model. The partner has now established its brand and is looking to expand into exports. In 2023, MDF supported Helanta to expand nursery operations to target commercial buyers, build a drying house to improve quality, improve its digital presence to attract international coffee buyers, and decentralise part of the processing function to increase volumes while maintaining quality.

The MDF-supported red cherry sourcing model continued to show results, with the farmer clusters of partners Upcountry Brothers and Ella Coffee Cooperative benefitting

from consistently high prices for red coffee cherries. This reduced the farmers' workload, due to the switch from farmgate processing to red cherry sourcing, and increased their incomes. As a result of this success, Upcountry Brothers increased its investment in improving its logistical network, nursery and drying facilities to tap into new coffee smallholder farmer clusters in other regions.

Specialty coffee cultivation is usually a joint-household activity, with significant female participation as farmers and cherry and green bean collectors. In 2023, MDF observed partners increasing their business relations with women. Upcountry Brothers hired over 120 women on a part-time basis to sort coffee cherries and green beans. Helanta Coffee hired a female field officer, marking a shift in a role traditionally played by men.

Industry coordination and promotion

MDF sees the potential of promoting Sri Lankan specialty coffee as a new sourcing destination, attracting coffee buyers as well as investors who are seeking emerging opportunities.

In 2023, MDF continued to support the Lanka Coffee Association (LCA) to host the second annual Coffee Festival and the inaugural national LCA Barista Championship. The festival was sponsored by a leading local hotel chain, Jetwing, demonstrating growing interest in local coffee. The LCA, which was established in 2021 with MDF support, has shown strong signs of sustainability, generating its own revenue through a membership drive, expanding its membership base and obtaining sponsorships from industry stakeholders. The coffee festival and barista championships are now well recognised by industry stakeholders.

The government's mandate to prioritise specialty coffee was reflected in its interest in collaborating with MDF. In 2023, the DEA hosted its first 'Coffee Day' industry event, modelled after the LCA Coffee Festival. The event incorporated lessons shared by MDF and was sponsored by the LCA. MDF continued to work closely with the government, sharing best practices and supporting government-registered nurseries to expand output. In 2023, MDF also participated in a workshop with the Ministry of Plantation Industries to share learnings, strategies and plans to help guide policies.



Preparation for plant distribution at Helanta in Kotmale

The Sri Lanka Coffee Festival returns

Celebrating the artistry of coffee

The Sri Lanka Coffee Festival returned in early 2023, showcasing the quality and diversity of local coffee, while emphasising the importance of promoting local and international investment in this growing sector.

MDF co-hosted the event with the Lanka Coffee Association (LCA) and leading hospitality provider Jetwing Hotels. In a new addition to the festival line-up, the LCA and MDF held the inaugural LCA Barista Championship, with regional rounds conducted before the festival in Dambulla, Galle and Negombo. The primary aim of the Barista Championship was to assess and improve the theoretical and practical knowledge of baristas across the country, enabling them to compete in international barista competitions and become brand ambassadors for Sri Lankan specialty coffee. The finals of the championship were held at the festival.

The coffee festival hosted a variety of other activities, from a panel discussion titled, 'The Upward Journey of the Coffee Industry in Sri Lanka: The Challenges Faced and The Way Forward,' to a mini exhibition of local coffee growers, processors and roasters showcasing their aromatic brews. MDF also launched its assessment of the specialty coffee landscape, *Sri Lanka's Coffee Renaissance: A Guide to the Speciality Coffee Industry*, at the festival.

The festival was a celebration of Australia's investments in championing Sri Lankan specialty coffee, with guest of honour Australian High Commissioner to Sri Lanka and the Maldives Paul Stephens sharing his thoughts on Australia's commitment to supporting the growth of the sector in Sri Lanka. Importantly, the festival provided a platform for coffee producers to showcase their products and network with potential buyers and investors, while also generating a 'buzz' through strong media engagement before, during and after the event.

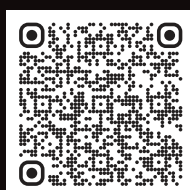




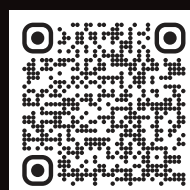
Click/scan the QR code below to read
*Sri Lanka's Coffee Renaissance: A Guide to the
 Speciality Coffee Industry*



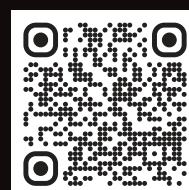
Click/scan the QR codes below to access the publication
 and videos from the Sri Lanka Coffee Festival 2023.



Exploring the
 Essence of Sri
 Lanka's Specialty
 Coffee Culture –
 Echelon



Hi Events -
 Sri Lankan Coffee
 Festival 2023 -
 YouTube



Sri Lanka Coffee
 Festival 2023 -
 YouTube



2

Market System

Agricultural Inputs

Market on a Page



Sri Lanka's agriculture sector relies heavily on imported inputs, making it vulnerable to global market fluctuations and supply chain disruptions.



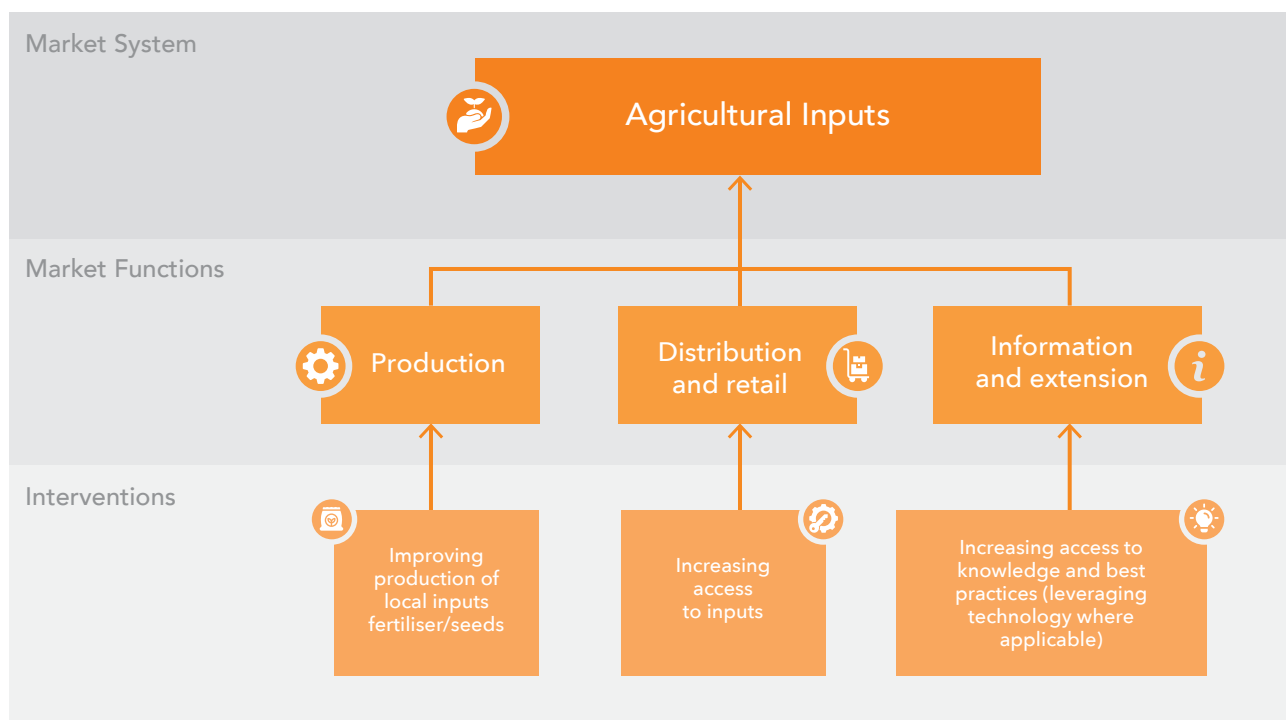
Until the complete ban on chemical fertilisers in 2021, their use led to environmental problems including water pollution, soil degradation and greenhouse gas emissions.



In 2023, Sri Lanka revamped its agricultural subsidy system, fostering competition among input providers. Agribusinesses are now grappling with the challenge of reaching out to smallholder farmers for the first time.



Access to machinery and locally produced affordable inputs is crucial for higher yields and reducing costs for farmers. By leveraging technology, Sri Lanka can enhance agricultural productivity, improve market access and enhance value through smallholder farmers and agribusinesses.



Status of the market system

Developing

Interventions (active and/or monitored in 2023)

1. Increasing farmers' access to accurate and quality advisory services.
2. Improving traceability of agribusiness procurement systems through digitisation.
3. Improving climate-smart data.
4. Improving access to and adoption of protected agriculture inputs.
5. Improving access to and use of improved fertiliser.
6. Increasing availability of local hybrid chili seeds.

Summary of performance

MDF's early investments in digital solutions for agriculture yielded significant results in 2023. Innovations in tea weighing and collection processes benefited over 1,700 individuals, providing transparency in transactions and eliminating income loss from scale tampering. Investments in improving access to fertiliser access supported 150 farming households during a shortage, enhancing food security. In partnership with Keells, MDF provided crucial fertiliser bundles to vegetable farmers, enabling uninterrupted production and sales. Interviews revealed that over 75 per cent of farmers experienced a 56 per cent yield increase, resulting in an additional income of over USD300,000 (AUD454,900). MDF's work in protected agriculture with Star Mushroom generated almost USD100,000 (AUD152,000) in additional income for over 220 mushroom farmers, over 80 per cent of whom were women.

MDF signed three new contracts with fertiliser and other input providers in 2023. Deepening impact in the work with fertiliser and protected agriculture is projected to benefit over 12,000 individuals and generate additional income of USD15.1 million (AUD23.2 million). This accounts for approximately 30 per cent of total country projections.

EO Projected (cumulative)	EO Actuals (cumulative)	Income Projected (cumulative)	Income Actuals (cumulative)	VAMT Projected (cumulative)	VAMT Actuals (cumulative)	PSI Expensed	Progress (Traffic Light)
12,195	3,436	USD 15,152,640 (AUD 23,357,038)	USD 692,100 (AUD 1,013,781)	USD 4,920,994 (AUD 7,468,514)	USD 1,329,551 (AUD 1,919,306)	USD 817,600 (AUD 1,150,882)	○ ● ○

MDF's response to the 2022 economic crisis highlighted substantial opportunities to contribute to food security by improving agricultural productivity. Making agricultural inputs more accessible and affordable for smallholder farmers is crucial to raising productivity.

MDF observed a resurgence of private sector interest in agricultural inputs in 2023, spurred by the government's elimination of blanket subsidies. This shift gave MDF an entry point to drive change at both business and farm levels, altering MDF's outlook for 2023 and warranting an expansion of existing work and revision of the Agricultural Inputs market system strategy.

In the restructured market system, MDF focuses on three functions: production, distribution and retail, and information and extension. Under the production function, MDF aims to enhance domestic production of agricultural inputs, including hybrid fertilisers and high-quality seeds tailored to local climatic conditions. The distribution and retail function strives to increase access to high-quality agricultural inputs. The information and extension function concentrates on improving farmers' knowledge of fertiliser application and good agricultural practices, which facilitate adoption of productivity-enhancing inputs. Agritech will be crucial in advancing this function, as demonstrated through MDF's previous investments and learnings in agritech interventions. The restructured market system strategy focuses on a suite of input products that are climate-smart, emphasising the use of improved fertilisers to promote sustainable agriculture, seeds that are better adapted to shifting climates, and the provision of information through standard channels and agritech models.

Industry actors are increasingly aware that Sri Lanka's agriculture sector is threatened by climate change. While not a climate change event per se, the impact of El-Nino during the main growing season (Maha) of 2023 furthered industry awareness of the impacts of changing weather patterns and opened new opportunities for MDF to work with prominent agribusinesses on climate change adaptation. This involved establishing the business case for firms to invest in climate-resilient seeds and water management for their farmer networks. Partners also showed interest in more efficient fertiliser utilisation, which improves productivity while reducing greenhouse gas emissions.

MDF's work in agricultural inputs also helped to assess gender dynamics and the prevalence of disability within farming communities. In collaboration with CIC Holdings, a leading agribusiness, MDF conducted a gender-disaggregated analysis of input systems, to understand roles and decision-making dynamics within households in the central highlands. The intervention with CIC Holdings also includes repackaging their agricultural input products with universal design principles to enhance their accessibility to Sri Lanka's aging farming population.

In 2023, MDF signed three key partnerships with leading agri-input firms, driving positive change in the sector. MDF's agri-inputs portfolio has already benefited around 3,800 farmers, generating over USD780,000 (AUD1.2 million) in additional income. Looking ahead, an estimated 8,800 additional farmers are expected to benefit over the next three years, further strengthening the impact on agricultural communities.

Market Functions

Production

MDF aims to increase the use of cost-effective, high-quality fertiliser by supporting domestically manufactured hybrid fertilisers, with blend chemical and organic ingredients. Hybrid fertiliser can be 30 to 50 per cent cheaper than conventional fertiliser and helps protect soil biodiversity, which improves long-term productivity.

Input firms have struggled to meet demand due to difficulties in producing quality fertiliser at an affordable price. In 2023, MDF continued to work with organic fertiliser supplier Sassrika Lanka, which changed its phosphate fertiliser from a soil-based product to granular form this year. Granular fertiliser is easier to apply and reduces runoff, thereby improving efficiency. MDF commenced a new intervention with Lanka Bio Fertiliser Ltd, focusing on improving the production and distribution of a patented fertiliser technology. The Sassrika Lanka and Lanka Bio Fertiliser interventions are expected to reduce chemical input use on farm plots, supporting a reduction in Sri Lanka's agricultural emissions. MDF also continued to work with DIMO Seeds to improve the production and availability of climate-resilient hybrid chili seeds for dry zone farmers.

Distribution and retail

Most input firms in Sri Lanka have limited distribution networks, as they have historically focused on serving large government contracts and selling to plantations. Input firms generate over 50 per cent of sales through these channels, disincentivising investments in sales to smallholder farmers. Fertiliser shortages since 2022 and the government's removal of subsidies in 2023 prompted the private sector to engage with smallholder farmers. Many of MDF's ongoing interventions, as well as those initiated in 2023, combine efforts to increase production with initiatives to enhance distribution and retail for smallholders.

Consistent with this strategy, MDF assisted businesses in setting up regional centres near smallholder farming communities. By engaging more effectively with farmers, businesses were prompted to broaden their distribution networks to reach new districts. The creation of model farms and demonstration plots was instrumental in raising awareness and promoting the adoption of better agricultural practices and inputs among smallholder farmers.

With MDF support, CIC Holdings is supplying input bundles to farmers, to address soil degradation in the central highlands and increase crop yields. MDF support is extended towards increasing CIC's farmer base in three locations in the upcountry vegetable value chain, through targeted campaigns to reach new farmers.

Both climate change and the dwindling availability of arable land threaten agricultural production. Protected agriculture solutions, such as polytunnels, offer smallholder farmers the opportunity to cultivate exotic vegetables in a way that protects them against changing weather patterns and uses their limited space more efficiently. In collaboration with Modern Agri, MDF aims to extend bundled solutions for protected agriculture systems that improve farmers' access to climate-resilient seeds, drip irrigation systems and customised protected agricultural inputs. MDF supported Modern Agri to operationalise a regional centre in the central highlands, a stronghold of protected agriculture farmers. In 2023, MDF partner Star Mushroom expanded its farmer cluster, led primarily by women. This intervention, which promotes protected agricultural solutions for mushroom cultivation, benefited over 180 women in 2023. MDF has determined that mushroom cultivation has become transformative in these households and is now considered the primary mode of income generation.

Information and extension

All MDF's investments in the agricultural input portfolio have an element of information and extension embedded in them. Effective extension services are crucial to encourage farmers to use agri-inputs efficiently.

MDF's earlier investments in agritech, now covered under this function, yielded positive results in 2023. The insights gained from these interventions underscored the imperative for enhanced information and extension services to bolster farmer engagement and uptake. Consequently, the agritech-related interventions within the portfolio have been realigned and integrated into the information and extension function. This strategic shift aims to address the need for information dissemination, farmer engagement and behaviour change activities.

In 2023, MDF continued to monitor its investments in agritech models. MDF partners Agrithmics and SenzAgro expanded with MDF support and widened their focus to South Asia: Agrithmics secured USD1.75 million (AUD2.65 million) from Bangladesh-based impact investor BRAC Osiris Impact Ventures. MDF investment in smart farming solutions and farmer outreach with Govi Mithuru also continued to grow.

MDF's partnership with Agrithmics provided smallholder tea farmers with a digital procurement solution that reduces pilferage and increases transparency between farmers, collectors and agribusinesses. The technology-based solution records transactions digitally, combining a digital scale and the partner's software. Agrithmics deployed the scale at Falcon Tea Factory, resulting in improved transparency within its sourcing network and more accurate procurement data. Farmers, particularly

women engaged in the low-country smallholder tea value chain, now receive digital receipts for their sales, fostering greater accountability and trust between the tea factory and farmers.

With more than 850 tea supplier households already operating within this efficient digital procurement system, the impact is tangible. Moreover, the forecast suggests that at least another 1,800 green leaf supplier households will reap the benefits in the years to come, amplifying the transformative impact of MDF's collaboration with Agrithmics.



Top two images: Farmers utilising digital weigh scale and payment system introduced through Agrithmics intervention
Last image: MDF assessing impact of digital solution

Navigating post-crisis opportunities in agritech

The Sri Lankan agritech market was emerging when the economic crisis of 2022 stifled growth and dampened local tech demand. Business investments in high-potential initiatives, such as digital marketplaces connecting farmers to retailers, struggled to gain traction as agribusinesses concentrated efforts on simply staying afloat.

Nevertheless, established agritech firms demonstrated resilience amid the market turbulence—including MDF partners. A notable example is Agrithmics (now Cultiv8), with a valuation of AUD12 million by the end of 2023, gaining additional funding and expanding into Bangladesh. Similarly, telecommunications provider Dialog,

with MDF support, onboarded 9,000 new users to its 'Govi Mithuru' agri-advisory platform in 2023. Dialog then introduced new services for fisheries and dairy sector users.

The Sri Lankan economy gained some stability in 2023, and business interest in investing in agritech increased. Escalating agricultural production costs, labour shortages and heightened global competition are driving agribusinesses to pursue the quality, transparency and efficiency gains that technology can offer. Solutions that are affordable, value chain-specific and deployed to large smallholder networks are most likely to see widespread adoption.

MDF's early investments have yielded positive outcomes. Govi Mithuru continues to serve as a useful and affordable digital agri-advisory tool for smallholders. Agrithmics is revolutionising the smallholder tea industry with a digital weighing scale that ensures greater transparency and an increase in income. With MDF support, the Agrithmics solution was able to improve the income of over 1,700 individuals (850 households) in Ratnapura, 65 per cent of whom are women. A growing understanding of agritech's diverse applications has supported businesses to secure new funding and investments, reflecting a positive outlook for the industry as the Sri Lankan economy gradually recovers from crisis.

Other – Sourcing and processing

In 2023, interventions to support agribusinesses to develop more efficient and inclusive sourcing models produced good results. Collaborations with David Gram Stores and Royal Cashew increased farmer incomes by including them in new sourcing models, which align with a resurgence in exports.

MDF explored new markets that demonstrated potential and alignment with government priorities in 2023. The cultivation of the TJC mango variety has increased over

recent years in Sri Lanka but exporters find it difficult to source enough quality mangoes to meet rising demand. Expanding the mango market has the potential to generate more income for smallholder farmers and contribute to Sri Lanka's high-value agriculture exports. MDF initiated work in the mango market in 2023, establishing a network of mango farmers with access to reliable buyers in formal value chains and ensuring fair pricing. MDF is utilising ACIAR's expertise in the mango value chain in this intervention.

Effective farmer engagement drives business expansion in the Northern Province

Sri Lanka's Northern Province is heavily dependent on agriculture, with 60 per cent of its population engaged in farming. However, crop production is disorganised, unregulated and limited to domestic consumption. In 2021, the region contributed 4.2 per cent to GDP (Central Bank of Sri Lanka). Moreover, the Northern Province grapples with post-war economic challenges relating to infrastructure, underdeveloped institutions and viable job opportunities. A lack of business development hampers growth and deters investment. Despite fertile land, farmers often lack the information and inputs to increase agricultural productivity and earn high incomes.

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MDF and David Gram Stores: Delivering value beyond a price premium

The Northern Province also contributes 26 per cent of national groundnut production, with Mullaitivu and Vavuniya leading output. Recognising growth potential, snacks and confectionery business David Gram Stores (DGS) expanded its operations in the region in 2022, looking to source peanut from farmers in Mullaitivu. While DGS was able to offer farmers a fair price for groundnut, side-selling remained an issue for the value chain. Moreover, farmer productivity was low, hampered by a lack of information on good growing practices and other issues such as human-elephant conflict.

Working with DGS, MDF developed a business model that combined mechanisation with human interaction: a machine rental model for smallholder farmers that allowed more affordable access to machinery, alongside improving extension services for farmers. DGS and MDF invested in the machinery and delivered the rental model through the area's farmer association, with the agreement that ownership of the machinery would transfer to the association once DGS covered its investment value. DGS also sent out a small group of extension officers to train farmers on how to use the machines, develop model farms, collect harvested groundnut and draw in new clusters of growers. MDF supported DGS to hone its value proposition as a business, delivering value to farmers beyond a fair price.



Northern expansion

By 2023, DGS had successfully introduced over 200 new farmers to the rental model, enabling the business to increase the quantity of groundnuts sourced. The labour-saving delivered through using the machinery contributed to greater productivity. Moreover, the success persuaded DGS to extend its farmer engagement model to a new district, Mannar, with the same extension officers working with farmers on good growing practices.

In regions with limited livelihood development opportunities, investments in working closely with farmers to understand the reasons behind low productivity is an opportunity to improve market access, increase business revenue and reduce poverty. MDF and DGS will continue to closely monitor this intervention and any signals for expansion.

Fisheries

Sri Lanka's coastal and inland fisheries sector is a crucial source of income, especially in the Northern and Eastern Provinces, contributing significantly to export revenue and food security. Prior to 2023, MDF concentrated its efforts on two export-oriented value chains: Blue Swimming Crab and Giant Freshwater Prawn, collaborating with the private sector and government authorities. To ensure the sustainability of fisheries resources, particularly Blue Swimming Crab catch in the north, MDF worked on enhancing the capacity of fisheries associations and regulatory bodies such as the Department of Fisheries and Aquatic Resources (DFAR) to promote and enforce sustainable catching practices.

To identify new export and food security-related opportunities, MDF explored possible interventions in seaweed, sea cucumber, ornamental fish, fish feed and tilapia in 2023 with the support of the National Aquaculture Development Authority (NAQDA). However, MDF could not identify viable, scalable business models. MDF will adopt an opportunistic approach towards fisheries-related work and will continue to support Australia's KLIE grant program. Through the KLIE program, MDF shared insights from scoping activities in sea cucumber and seaweed.

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Ceylon Chamber of Commerce
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International Water Management Institute
Lanka Fruit & Vegetable Producers, Processors and Exporters Association
Ministry of Agriculture
Ministry of Tourism
National Aquaculture Development Authority
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Sri Lanka Tourism Development Authority
Sri Lanka Tourism Promotion Bureau
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MDF extends its thanks to all its partners in Sri Lanka, without whom the team's achievements would not have been possible.



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



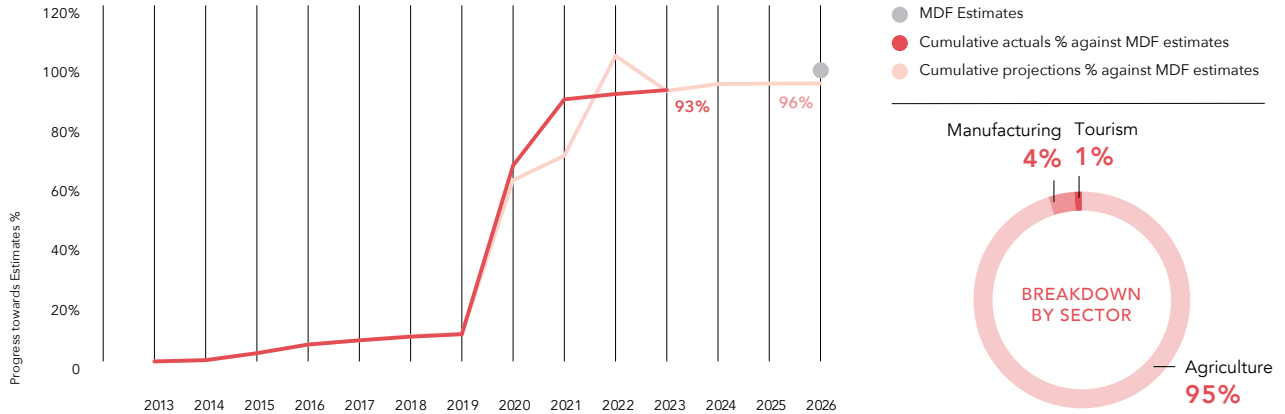
Timor-Leste's greenhouse gas emissions increased by 0.24 MtCO₂e between 2005 and 2010 due to deforestation.



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

Highlights

EFFECTIVE OUTREACH

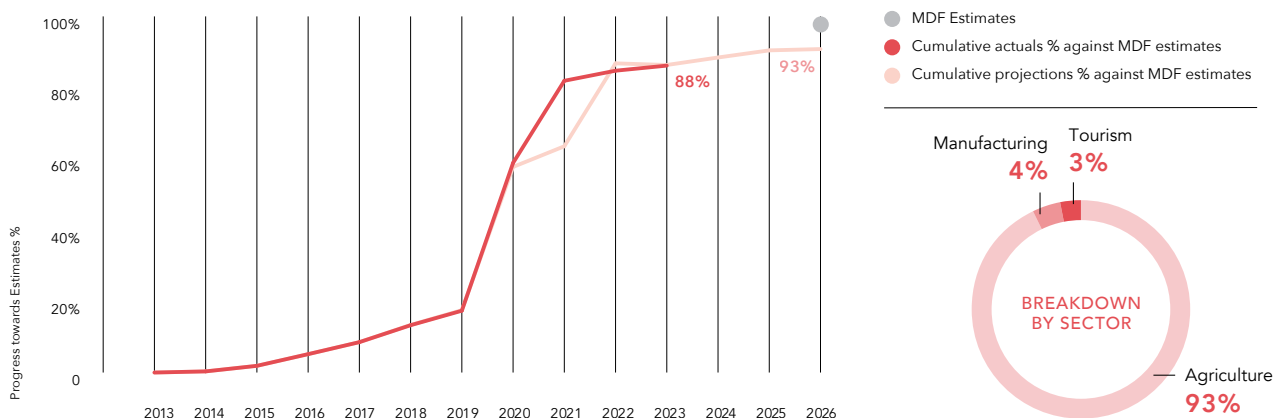


A steady growth in outreach

- 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 benefited 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.

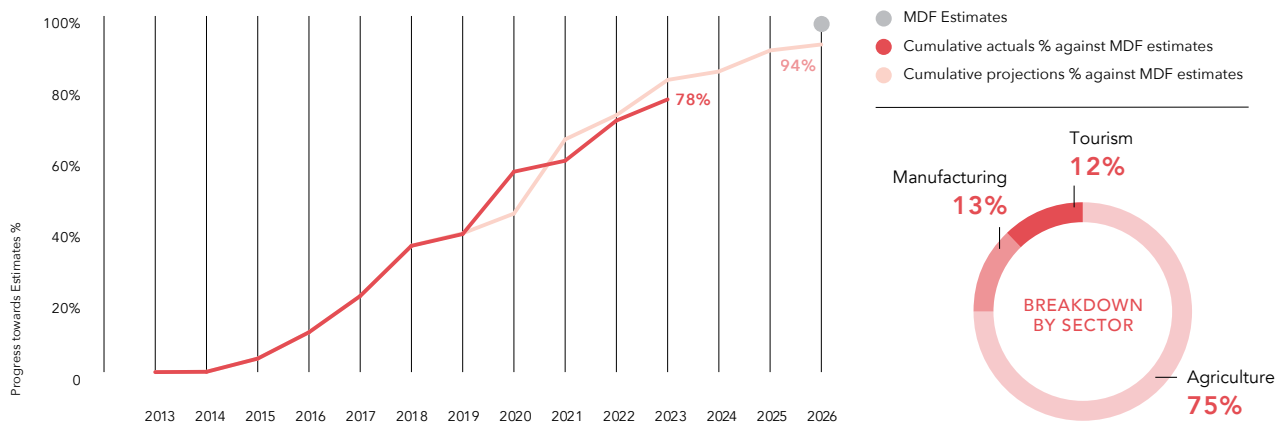
NET ADDITIONAL INCOME (USD)



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.



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.



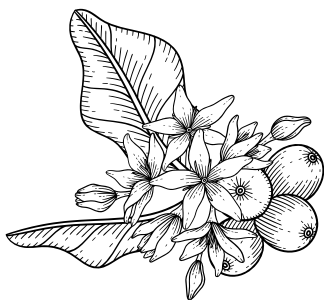
Tourism

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 (RHTO) 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.

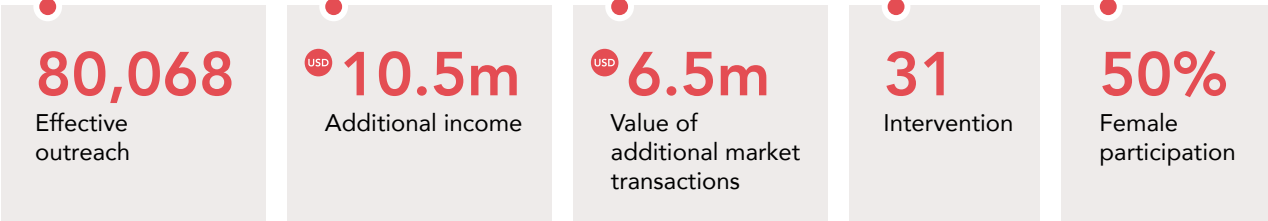
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Agriculture



Agriculture



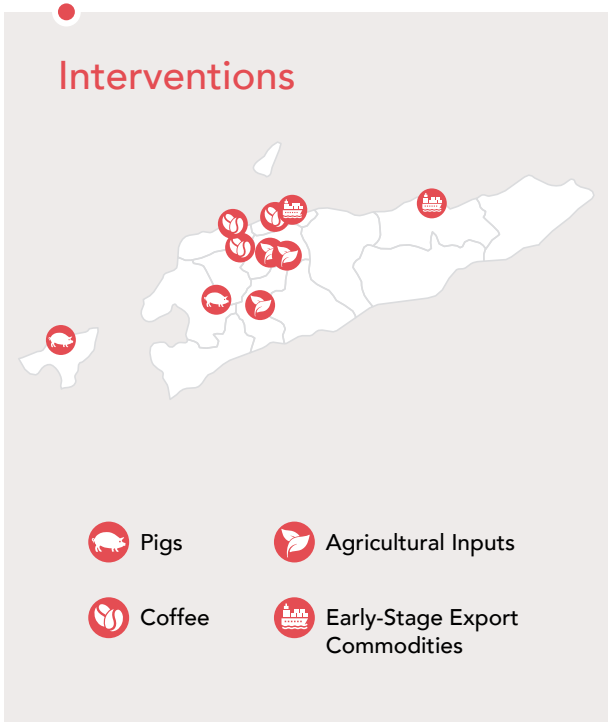
Vision of change

- 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.

Interventions



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.



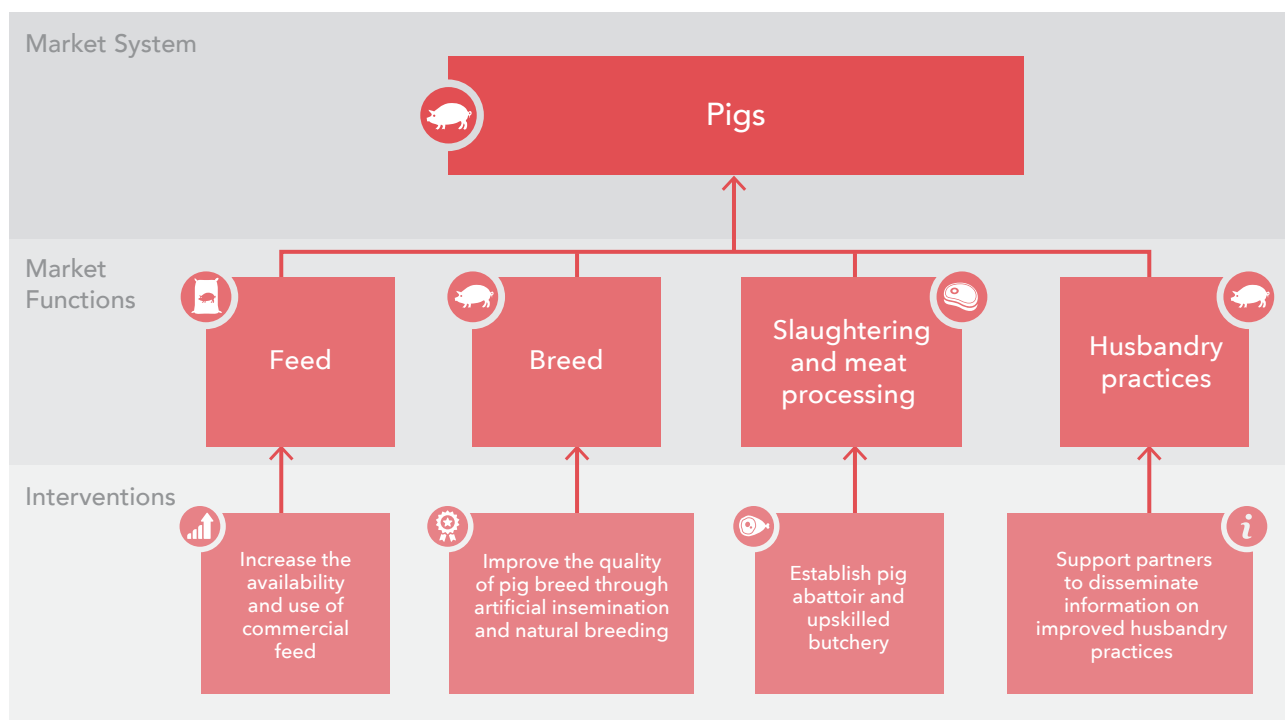
Commercial feed helps pigs reach slaughter weight in six-seven months compared to three years with traditional methods.



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)	

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.



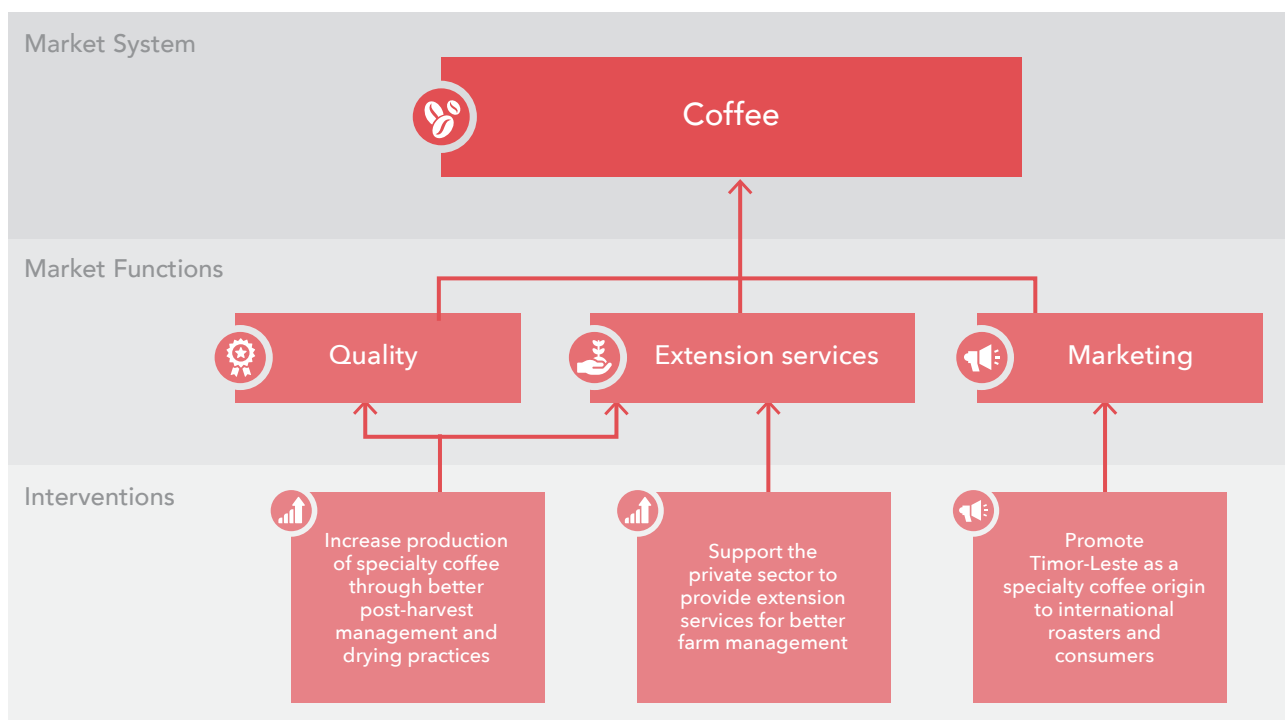
However, coffee productivity is decreasing, and overall quality remains low. In 2023, Timor-Leste produced only a small amount of coffee.



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 Expensed	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)	○ ● ○

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.



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.



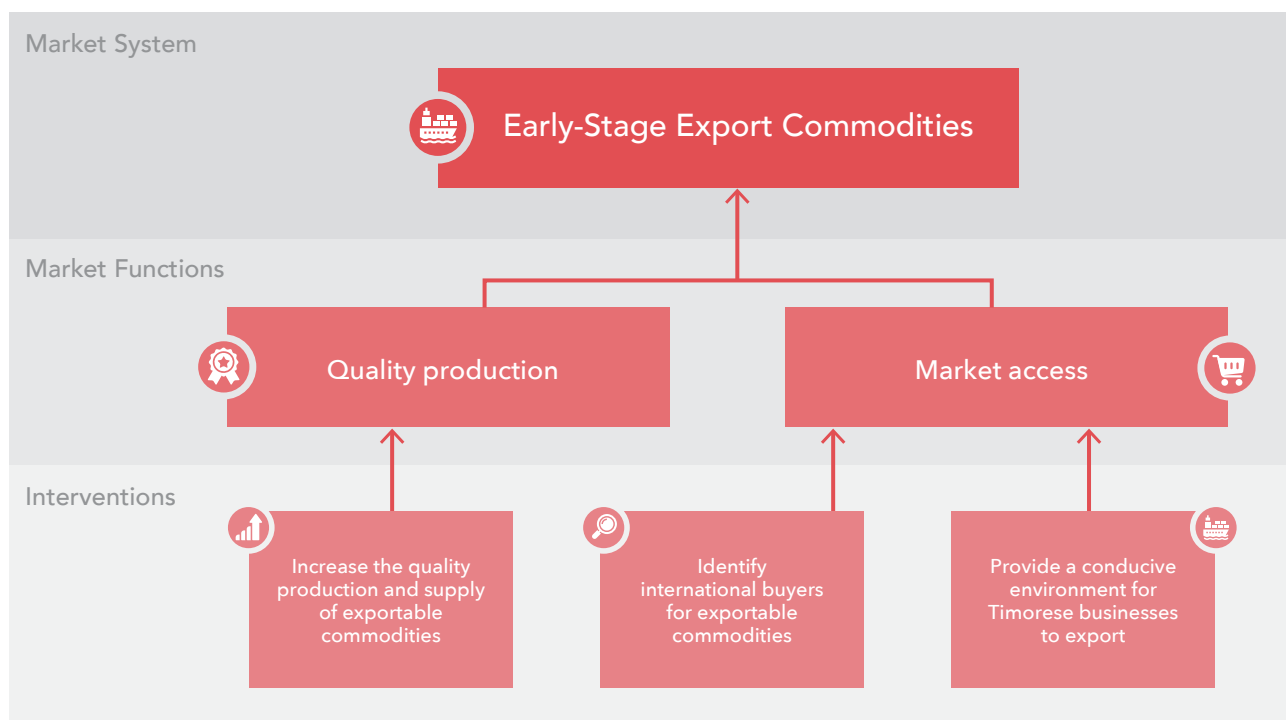
Timor-Leste exports substantial unprocessed agricultural produce to Indonesia, including candlenut, coconut, konjac and vanilla. This is due to easy market access, many active traders, and Indonesia's role as a large commodity importer.



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)	

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



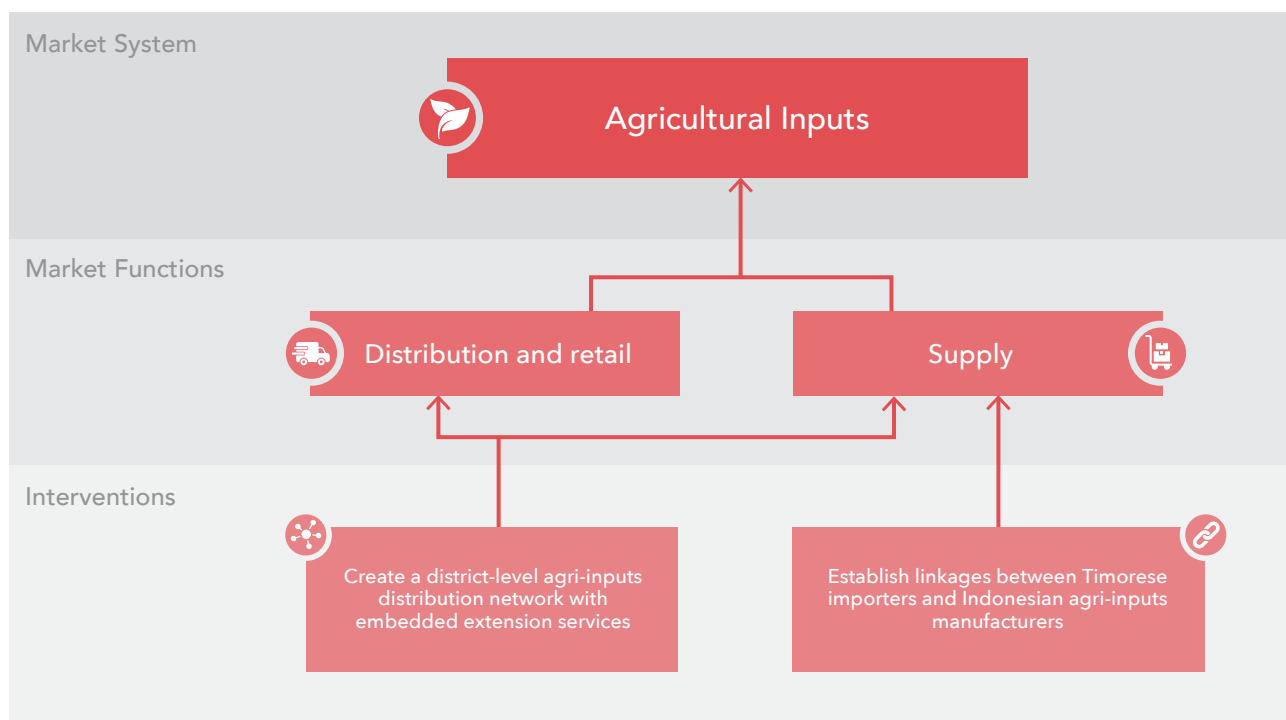
While households in Timor-Leste do not make use of agricultural inputs, only **6%** of the **141,141** households involved in agriculture use fertiliser, **6%** use plant protection, and **20%** use both high-yielding and local varieties of seeds and planting materials.



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)	

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.

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.

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

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.

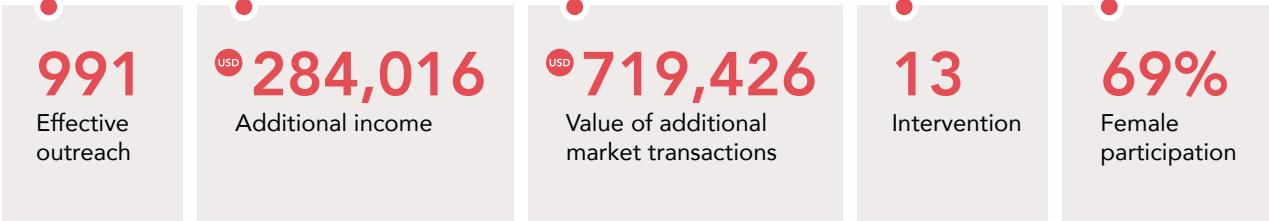


Tourism



Sector on a Page

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.

Interventions



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.



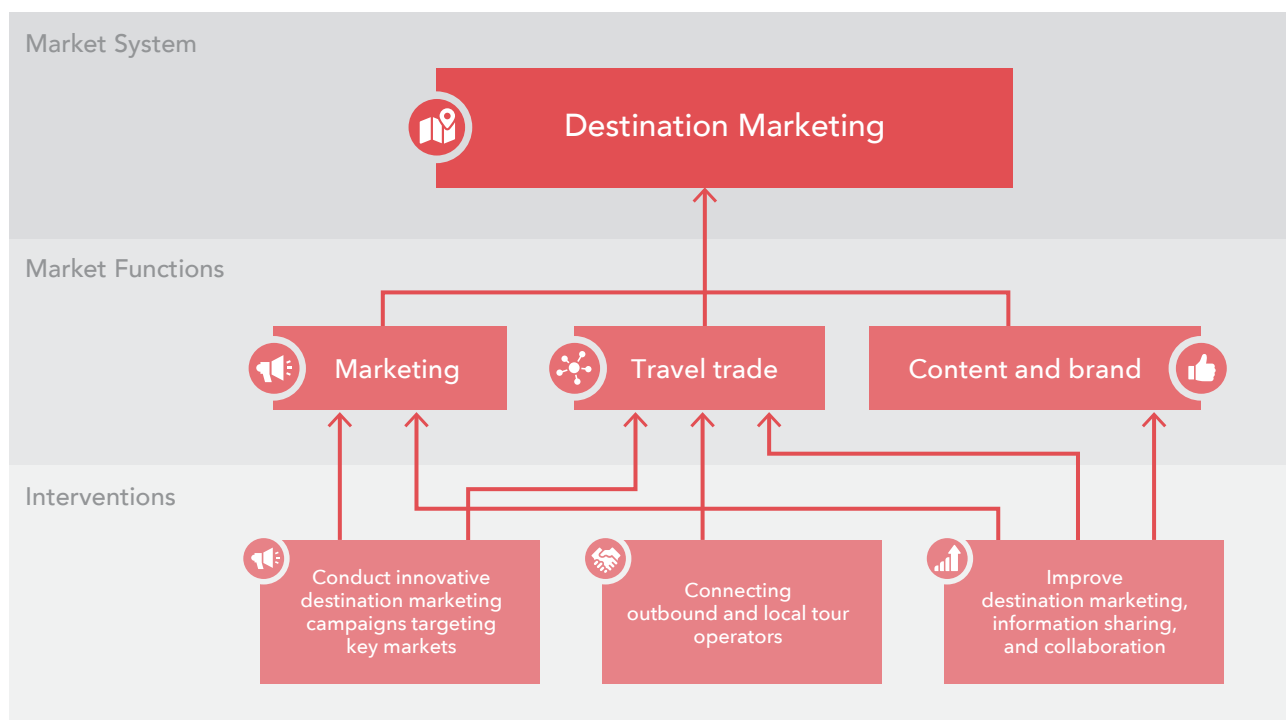
The National Tourism Policy envisions a vibrant, attractive tourism sector by 2030, significantly contributing to employment; ensuring economic, social, and environmental sustainability; promoting a positive international image; and creating a desirable industry.



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 'famils.'
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)	

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

M in marketing 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.



Source: Qantas Magazine

Article on Qantas Magazine,
December 2023 edition

Qantas Magazine is a leading travel publication in Australia and New Zealand. It is a quarterly magazine that features high-quality photography and content. The magazine is published by Qantas Airways Limited. It is a leading travel publication in Australia and New Zealand. It is a quarterly magazine that features high-quality photography and content. The magazine is published by Qantas Airways Limited.



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.



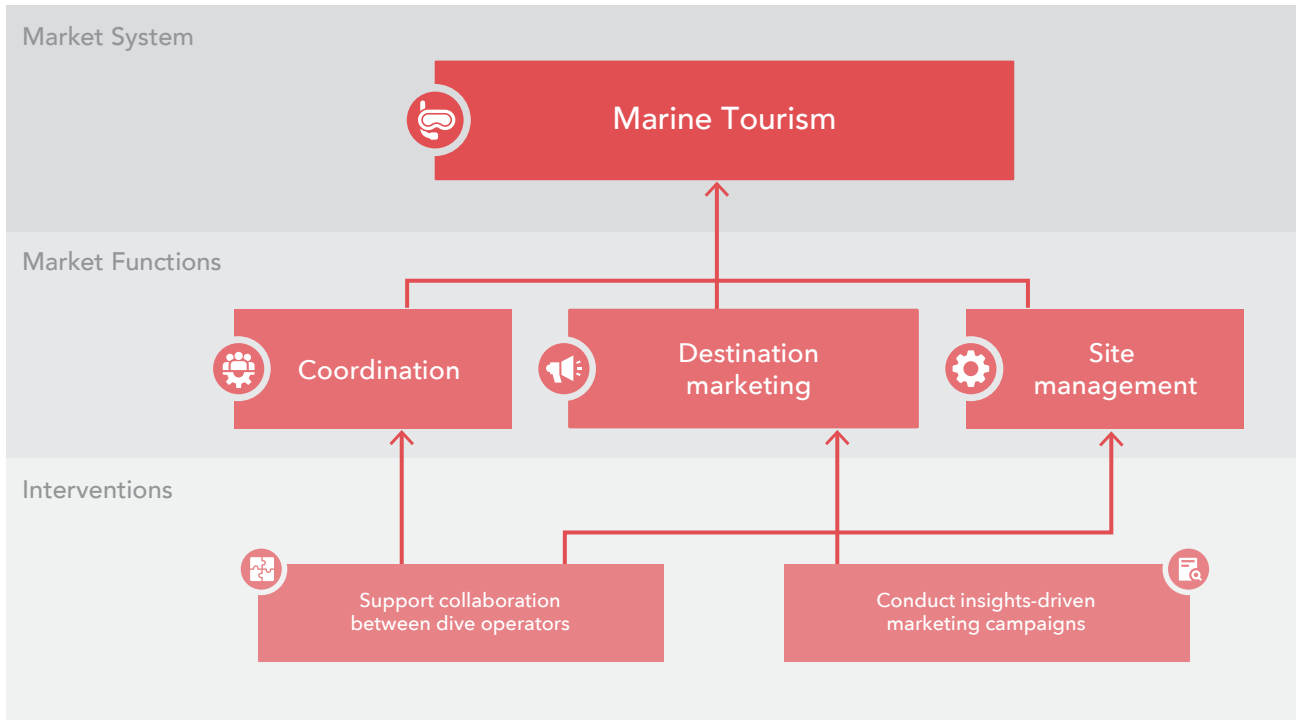
Atauro's biodiversity surveys reveal the highest average numbers of reef fish, whales, dolphins, and fossilised corals in the country, making it an ideal destination for sustainable tourism.



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)	

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 dying 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.

Acknowledgements

MDF Timor-Leste thanks the following organisations and individuals for their support and collaboration in 2023.

Assosiasaun Turizmu Maritima iha Timor-Leste (ATMTL)
Australian Centre for International Agricultural Research (ACIAR)
Australian Government's Department of Agriculture, Fisheries and Forestry (DAFF)
Australian Pacific Training Coalition (APTC)
Coffee Quality Institute (CQI)
Food and Agriculture Organization (FAO)
Ministry of Agriculture, Livestock, Fisheries and Forestry
Ministry of Tourism and Environment
New Zealand Ministry of Foreign Affairs and Trade (MFAT)
Northern Territory Tourism
Office of the President of Timor-Leste
Office of the Prime Minister of Timor-Leste
Parseria ba Prosperidade Inklusivu or "Partnership for Inclusive Prosperity" (PROSIVU)
The Asia Foundation (TAF)
The Australia-Indonesia Partnership for Promoting Rural Incomes through Support for Markets in Agriculture (PRISMA)
To'os ba Moris Di'ak or "Farming for Prosperity" (TOMAK)
TradeInvest Timor-Leste
United Nations Development Programme (UNDP)
United States Agency for International Development (USAID)
World Food Programme (WFP)

MDF extends its thanks to all its partners in Timor-Leste, without whom the team's achievements would not have been possible.



Quick Facts

Pacific Regional



Samoa

Population

222,382



Urban: **18%**



Rural: **82%**

Population growth rate: **1.6%**

Official languages

Samoaan and English

GDP

USD

833 million

Key GDP contribution sectors



Agriculture and
fisheries: **10%**



Industry: **11.4%**



Manufacturing: **5%**



Services: **70.5%**

Labour force participation rate



Female: **41%**



Male: **66%**

Tonga

Population

106,858



Urban: **23%**



Rural: **77%**

Population growth rate: **0.8%**

Official languages

Tongan and English

GDP

USD

469 million

Key GDP contribution sectors



Agriculture, forestry and fisheries: **16.3%**



Industry: **15.9%**



Manufacturing: **5%**



Services: **49.7%**

Labour force participation rate



Female: **41.1%**



Male: **58.9%**

Vanuatu

Population

326,740



Urban: **26%**



Rural: **74%**

Population growth rate: **2.4%**

Official languages

Bislama, English, French

GDP

USD

1.06 billion

Key GDP contribution sectors



Agriculture, forestry and fishing: **21.2%**



Industry: **10%**



Services: **59.8%**

Labour force participation rate

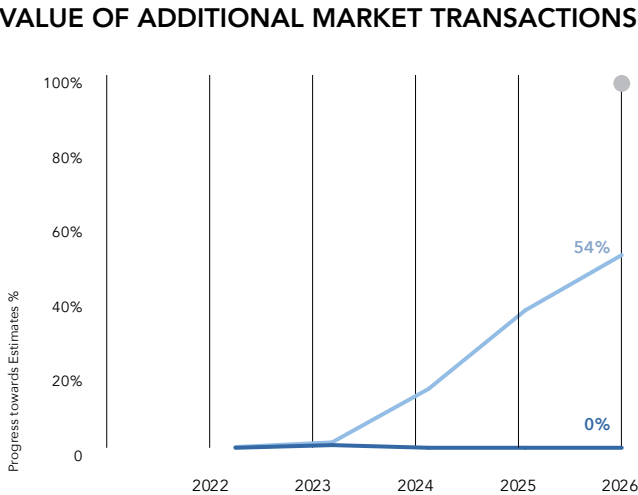
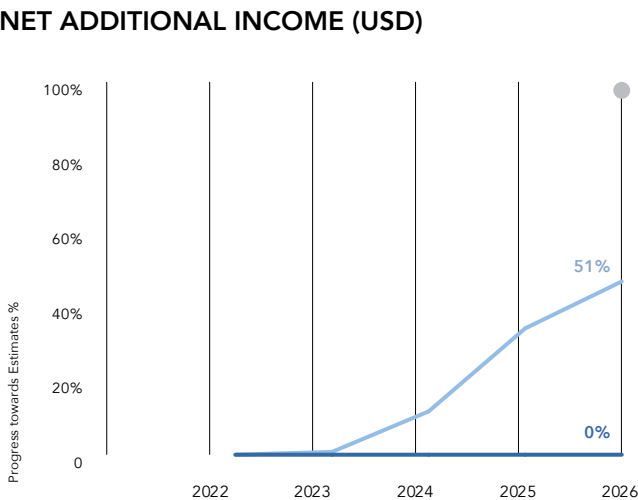
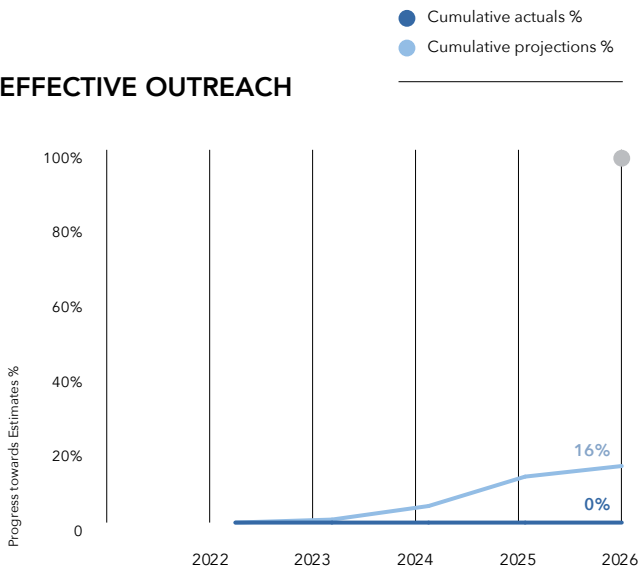


Female: **44.2%**



Male: **55.8%**

Highlights



- Country projections for Pacific Regional continued to increase, with significant expansion of the portfolio. Early country results (actuals) started materialising in 2023 for value of additional market transactions (VAMT, or additional private sector revenue), reaching USD70,000 (AUD105,940). Projections for 2023 are significantly higher, at more than USD140,000 (AUD211,870), and are pending verification.
- Other indicators are expected to materialise in early 2024. The current portfolio is projected to achieve 51% of income estimates and 54% of VAMT estimates. Interventions in agriculture—primarily feral pig management and agricultural mechanisation—and digital financial services contribute to this healthy results trajectory. With portfolios expanding in Tonga and Vanuatu, MDF expects to boost the effective outreach projections and close the gap between projections and estimates.
- While activities to support regional yachting and regional certifications started in 2023, projections for effective outreach, net additional income and VAMT are yet to be included because there are several unknown variables. The completion of the Economic Impact Study for Yachting in Vanuatu and Tonga, as well as certification workshops across Samoa, Tonga and Vanuatu will produce relevant data for projections. These projections are anticipated to improve the results trajectory from 2024 onwards.



Overview of Progress in 2023

Global macroeconomic changes had less of an impact on the Pacific Regional component in 2023 than in 2022. The re-opening of MDF's three focus countries (Samoa, Tonga and Vanuatu) to international travel in mid-to-late 2022 revived economic activity in 2023 by allowing an influx of Pacific diaspora many of whom had not been able to return home due to COVID-19 restrictions.



MDF's technical work was organised under four workstreams – Regional, Samoa, Vanuatu and Tonga. The intervention portfolio grew rapidly, with active interventions rising from 10 in 2022, to 23 in 2023. This was based on 16 new interventions commencing in 2023, a considerable increase from 7 new interventions in 2022. The new interventions included:

- **Regional:** Digital financial services, yachting tourism and certification services.
- **Samoa:** Kava, agricultural mechanisation, cocoa, food manufacturing, and business and economic policy research.
- **Vanuatu:** Yachting tourism, cocoa, kava and economic research.
- **Tonga:** Tourism branding and marketing, and air freight.

Across the four workstreams, MDF created a portfolio aligned to priorities of host governments and donors.



Regional

The Regional workstream is oriented around development issues that lend themselves to regional solutions. This aligns with the 'resources and economic development' and 'climate change and disasters' thematic areas of the 2050 Strategy for the Blue Pacific Continent (PIFS). In 2023, MDF commenced a collaboration with a new Pacific fintech app for savings, payments and investment. Excellent results were achieved through an intervention on credit scoring. Several new ideas were developed in certification services, air freight, expedition cruise tourism and e-commerce.



Samoa

The intervention portfolio grew rapidly during the first half of 2023, such that MDF now has a 'full' program of work for the available budget. There was strong government interest in the impact of feral pigs on agriculture, so MDF devoted significant time to engaging with senior government officials on a collaborative approach to tackle the problem. Two interventions were implemented related to kava and one on agricultural mechanisation. There was some exploratory work on food manufacturing and a standalone collaboration with an organisation on business and economic policy research.



Tonga

There was strong government and donor interest for MDF to get involved in the tourism sector, so many of MDF's initial interventions were in tourism. MDF initiated multiple collaborations with the Tongan Government on yachting tourism. MDF also commenced a major intervention with the government on tourism branding and marketing. Stemming from donor interest, MDF also assessed the solar photovoltaic (PV) market.



Vanuatu

Government priorities changed during 2023 due to many changes of government. MDF was requested by the Government of Vanuatu and DFAT to recommend options for key economic sectors, so MDF conducted significant research into agricultural and tourism markets including cocoa, sandalwood, shipping and freight, fisheries and livestock. MDF also engaged extensively with the two Vanuatu government tourism agencies, commencing collaborations on yachting tourism and value chain data.

Using practical research to develop a strong understanding of economies, sectors and markets is a key foundation of MDF's success. MDF invested heavily in building networks across all focus countries, particularly in the new countries for 2023 (Vanuatu and Tonga). In each of these countries MDF completed consultations with over 100 businesses, government departments and other market actors. Technical teams in each focus country commenced or completed a very large number of market assessments. including:

- **Regional:** Air freight, certification services, e-commerce, yachting tourism, expedition cruising, solar skills and digital financial services.
- **Samoa:** Kava, cocoa, feral pigs, garment design and manufacturing, agricultural inputs, agricultural mechanisation, rooftop solar, and electric vehicles.
- **Tonga:** Kava, vanilla, tourism activities, tourism branding and marketing, rooftop solar, and electric vehicles.
- **Vanuatu:** Inter-island freight and shipping, cocoa, sandalwood, cattle, rooftop solar, fisheries, and aggregation.



Climate change

Pacific Island countries (PICs) are among those most vulnerable to the impacts of climate change. Climate change continued to be considered at key stages in MDF's intervention cycle, including research, intervention design and contracting. The Pacific Regional team commenced market research into rooftop solar PV and electric vehicle markets in all focus countries. Much of this research was completed by the end of 2023 and four connected interventions were in conception. MDF also found several opportunities to integrate climate change adaptation activities into interventions, particularly those related to agriculture.



Gender equality and diversity

MDF continued to focus on understanding the different roles of men and women in markets and considered the potential to influence gender equality at the intervention design stage. For example, MDF's intervention on credit risk scoring identified gender-based differences in loan applications that could influence lending decisions. Agricultural mechanisation can help women and people with disability via labour-saving technologies. New digital financial technologies can help people with limited mobility access services remotely.



Vegetable sellers in Port Vila, Vanuatu

Operations

MDF's Pacific Regional team and portfolio grew quickly over the course of 2023, and the scale of operations changed markedly. Most significantly, MDF hired its first staff and began operations in two new countries: Vanuatu and Tonga. The operations team was extremely busy supporting the procurement and set-up of three new office spaces in Vanuatu, Tonga and Samoa. This included procuring agents, phones, internet, computers, peripherals, vehicle hire, hotel accommodation, office furniture, appliances, office consumables, and medical insurance.

The recruitment of ten new staff enabled the Pacific Regional team to almost double in size over the course of the year, from 12.5 full-time equivalent (FTE) staff to 20 FTE, with more commencing in early 2024. When current recruitment processes are complete, the team should include 26.5 FTE staff. Individual onboarding was provided for 10 staff, and significant time was invested in providing learning opportunities for both new and existing operational and technical staff.

In-country operations in Vanuatu commenced in January, initially with a team of three ni-Vanuatu staff, increasing to a team of five by the end of the year, including a Country Coordinator. The start-up in Vanuatu was augmented by two, three-month placements of experienced MDF staff from Fiji and Sri Lanka. Aside from work in Efate, the team completed scoping missions to three other island groups over the course of the year: Malekula, Santo and Tanna.

In-country operations in Tonga commenced in July, following government approval earlier in the year. MDF commenced with a team of three Tongan staff and start-up support

provided by Fiji-based staff on visits and placement. In addition to work in Nuku'alofa and around Tongatapu, the team completed scoping missions to two other island groups in late 2023: Vava'u and 'Eua.

Although operations in Samoa started earlier than the other two countries, it was still a busy year for the operations team. MDF moved offices during the year and procured many items to support this. Three recruitments were completed to replace staff departures and slightly increase the team size. MDF also began the process of aligning to standard MDF financial and contractual systems instead of working through an agent.

Operations for the regional team were relatively stable. There was a sharp increase in travel arrangements to support MDF's set-up in the two new countries and to provide technical support in Samoa, Tonga and Vanuatu. This included three placements, as well as many visits from senior technical and operations staff. Significant collaboration between MDF's Pacific Regional and Fiji operational staff ensured good value for money for both components.

The Results Story

Start-up in Vanuatu and Tonga and fast-growing portfolio bolster healthy projections



The Pacific Regional component expanded into Vanuatu and Tonga in 2023. Teams across all three expansion countries completed ten major field visits, including to many outer islands. Market assessments conducted during these visits will pave the way for future interventions. The team also generated crucial market intelligence, such as freight market changes in a post-COVID world, and observed the impact of climate change on agriculture, capturing farmers' feedback on preparedness for extreme weather events in an El-Niño cycle.

In 2023, the Pacific Regional component leveraged USD188,000 (AUD288,622) in private sector investment in areas such as forestry, financial services and agriculture, and over USD70,000 (AUD107,400) in private sector revenue

(value of additional market transactions). Limitations in staffing prevented full data collection. But with staff now present in all expansion countries, MDF will conduct further verification and be able to record higher figures in 2024.



Machinery in demand by farmers

In Samoa, where MDF Pacific Regional established its first country office, MDF observed a high interest in mechanisation. A collaboration with a machinery supplier on demonstration days had a turnout of over 200 participants, 47 per cent of whom were women. Early feedback from farmers who had purchased new hand-tillers revealed how the small farm machinery helped to improve the convenience of farming by reducing the time and manual labour required for land preparation. Following engagement with MDF, Samoa's Ministry of Agriculture and Fisheries has indicated its intention to promote private sector machinery solutions in its extension services. Early sales of machinery are reported as additional market transactions for 2023, while effective outreach and net additional income are expected to be reported from 2024 onward.



Feral pigs continue to impact farmers and exporters: farmers claim up to 30 per cent losses

In Samoa, MDF conducted baseline research in May 2023 to understand the impact of feral pigs on agriculture and to inform the design of trials to reduce their impact. Farmers shared information on the control methods they employed, including guard dogs and snares. Over 50 per cent of farmers interviewed mentioned the lack of a collective response at community level, and many have stopped planting crops altogether as a result of the damage caused by feral pigs. MDF's preliminary estimate of the value of losses to agricultural production caused by feral pigs is around USD11 million (AUD17 million). Negotiations on the next steps to trial prevention and management measures took time but were largely completed by end-2023. The intervention is conservatively projected to benefit over 600 farmers who are anticipated to save a cumulative USD460,000 (AUD706,000) across three years.



Improved logistics and digital financial services show regional impact potential

MDF's observations about freight limitations led to support for a pilot of air freight packaging for agricultural exports from Tonga to New Zealand, as an alternative to sea freight. The pilot resulted in 29 tonnes of watermelon being air freighted. The successful trial led the exporter to invest an additional USD76,000 (AUS116,600) and to increase air freight exports of horticultural produce, including taro and squash. MDF received interest from other exporters to include air freight in their logistics options due to the early success of the pilot. MDF is in negotiations with other logistics service providers on solutions for exporters in other Pacific countries.

In Tonga and Samoa, where access to finance is a challenge for MSMEs and individuals, MDF successfully helped a company pilot a psychometric credit scoring tool for the National Bank of Samoa and the Tonga Development Bank. Negotiations are underway to continue providing services to these banks.



Interventions in economic research and digital financial services drive inclusion and climate change support

The current regional portfolio is projected to benefit over 1,845 farmers, workers and entrepreneurs. Women represent 47 per cent of projected effective outreach numbers and through MDF support are anticipated to earn addition incomes of USD570,000 (AUD875,000). Interventions in digital financial services have shown the potential to unlock access to financial services at scale for women in rural and remote populations in Tonga, Samoa and Vanuatu. These interventions – in digital savings, mobile wallets and credit scoring services – contribute 44 per cent to MDF's current portfolio in female effective outreach, and new projections are anticipated to be added in 2024.

Climate change impact is already felt in the Pacific, and MDF Pacific Regional integrated adaptation and mitigation activities across many interventions. In Samoa, MDF invested over USD35,700 (AUD54,800) to establish a research unit within the Samoa Chamber of Commerce and Industry, to produce climate change relevant analysis for members. Future results from climate change investments are expected in certification services in agriculture and solar technology.

Regional

Country and Portfolio Strategy

MDF's Pacific Regional component works differently to the more established MDF countries.

In addition to implementing economic development interventions specific to a single country, the Pacific Regional component also has interventions that relate to regional issues and benefit more than one country. MDF's strategy for the regional workstream is oriented around finding opportunities that align with one of the following:

- Markets where there is a strong regional dimension.
- Markets that are reasonably distinct for each country, but where there are common constraints across multiple countries.
- Markets where there is a common, international connection or element, particularly a customer or supplier.
- Markets that have a limited number of key market actors operating similar business models across multiple Pacific countries.

This strategy did not change significantly in 2023 other than adding some new markets and market functions that MDF was well positioned to address. This

included e-commerce, certification services and expedition cruise tourism. Most of these markets are of interest to the economic development priorities of multiple Pacific governments, and in many cases, donor strategies.

➔ Digital financial services

The Pacific is one of the least banked regions in the world and service provision has strong regional elements to it, including key suppliers operating across multiple Pacific countries (telecommunications operators and some banks).

➔ Certification

Demand for certification (e.g. organic) is growing globally but there are few service providers based in the region, making it costly. Some certification services also have a link to climate change mitigation and adaptation, such as those associated with organic produce.

➔ Yachting tourism

Yachting tourism has strong growth potential in the Pacific region. The market has a strong regional dimension, with most yachts coming to the Pacific to visit multiple countries.

➔ Expeditionary cruising

There is growing tourist demand for expeditionary cruising and opportunities to create new services in the region due to its multi-island geography.

➔ Destination marketing

Successful destination marketing is critical to tourism growth and there are market actors able to influence its effectiveness across multiple Pacific countries.

➔ Freight, shipping and logistics

The geographical remoteness and small populations of PICs mean that shipping services are infrequent and costly throughout the region. Most PICs have many islands and so face issues with inter-island shipping and freight.

➔ E-commerce

The Pacific is missing out on export opportunities due to limited engagement with global e-commerce services.





Climate change

The Pacific region is particularly susceptible to the effects of climate change. MDF is ensuring that climate change risks and opportunities are factored into Pacific Regional's sector and market selection, analysis, strategy development, intervention design and contracting. MDF used climate change risk assessments for the focus countries to inform proposed interventions throughout 2023.

Most support for climate change mitigation and adaptation within the Pacific Regional component was driven by interventions in the focus countries. However, there were also some climate-relevant interventions implemented in 2023 within the Regional workstream:

- Certification services present diverse opportunities to influence climate change mitigation and adaptation, because many certifications will directly or indirectly result in climate change mitigation and adaptation (e.g. organic production or carbon emissions) and reward compliant businesses with premium prices and better market access.
- Digital financial services can assist with recovery from climate-linked natural hazards and disasters, enabling rapid and transparent financial transfers to vulnerable communities.



Financial Services



Financial Services



A fintech business successfully trialled a new credit assessment tool with banks in Samoa and Tonga.



A new, Pacific-owned and made fintech business launched an app for savings, payments, transfers and investment.



A telecommunications provider continued activities to increase the adoption of its e-wallet service in Vanuatu.

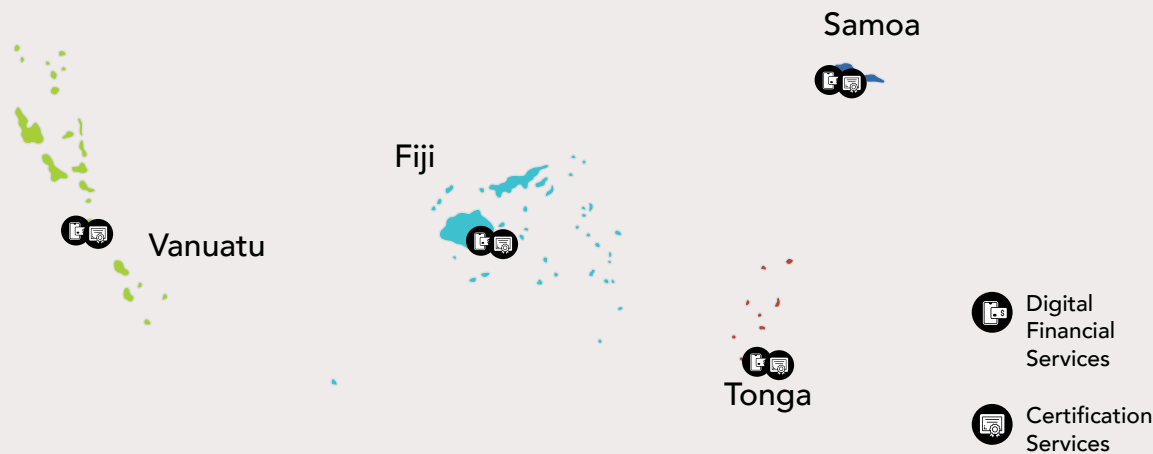
Vision of change

- More people utilise affordable and accessible formal financial services.
- Consumers and businesses can access savings and loans suitable for their needs, even if they do not have a formal banking history.
- Consumers and businesses can sell and pay for goods and services using digital platforms.

Constraints

- A lack of competitive, formal financial services, with informal options based on accessibility, convenience and interoperability.
- Limited credit scoring and security options to allow access to loans.
- Variable financial literacy and low levels of trust for electronic forms of payment.

Interventions

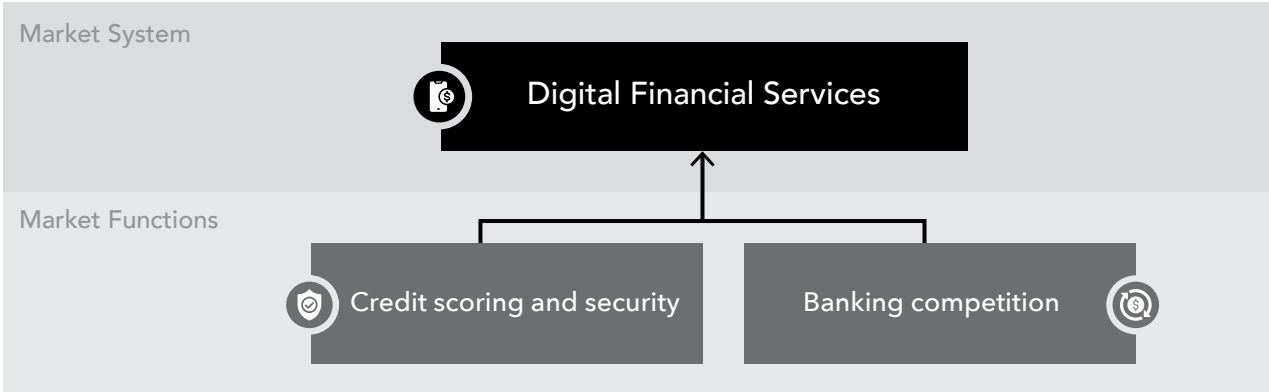


Climate risks

Increasing intensity of storms, cyclones and rainfall may damage infrastructure, resulting in disruptions to financial service businesses. Insurance premiums might also be driven up.

1 Market System

Digital Financial Services



Status of the market system

Emerging

Interventions (active and/or monitored in 2023)

1. Introducing a new Fintech solution for the Pacific Region (Sole Ltd).
2. Pacific Islands Fintech Innovation Challenge/Enabling credit scoring for small loan applications (UNDP and Global Psytech Ltd).

Summary of performance

MDF's support to improve digital financial services through pilot initiatives with two fintech companies has been received positively in the market. Both these models started to gain traction in 2023 and are expected to generate significant private sector investment leveraged in 2024.

The pilot of a psychometric analysis tool with Global Psytech to provide an alternative credit scoring approach was used to assess over 900 applications with financial institutions in Samoa and Tonga. Negotiations with these institutions for adoption of this tool are ongoing and, if the tool is adopted, it is expected to trigger results for effective outreach and additional revenue by 2025. The primary partner has also received interest from other financial institutions in the region to trial this service.

MDF observed indications that marketing initiatives to drive social media engagement resulted in a doubling of registrations and transactions for Sole, the pilot savings and investment fintech application. Sole is currently being piloted in Fiji, and the business case for this solution will inform roll-out to other PICs, including Samoa and Vanuatu, likely by 2025. Projections may be revised to capture scale-up once data points can be verified.

EO Projected (cumulative)	EO Actuals (cumulative)	Income Projected (cumulative)	Income Actuals (cumulative)	VAMT Projected (cumulative)	VAMT Actuals (cumulative)	PSI Expensed	Progress (Traffic Light)
768	0	USD488,835 (AUD737,197)	0	USD113,447 (AUD171,086)	0	USD1,419 (AUD2,140)	

Market on a Page



Digital financial services include any financial service accessed digitally, including payments, credit, savings, remittances and insurance.



The Pacific is one of the least banked regions in the world; only half the population has access to some type of formal financial service.



Digital financial services can overcome the challenges of distance and small populations.



Remittances are a key part of Pacific economies, particularly in Samoa and Tonga.

Many Pacific country citizens face challenges in fully benefitting from the access and use of financial services. This is a long-term problem that will take significant effort to resolve. MDF supports selected opportunities to expand or improve digital financial services. In 2023, MDF continued to see incremental improvements in service options across the Pacific.

Market Functions

Credit scoring and security

It is difficult for banks to verify a person's creditworthiness in many PICs, due to issues with land ownership and credit bureaus. In 2022 and 2023, MDF collaborated with the Pacific Digital Economy Programme (PDEP) on the Pacific Island Fintech Innovation Challenge. MDF was responsible for one challenge; as part of this, a credit assessment tool was successfully trialled by a fintech in Samoa and Tonga in 2023. There are reasonable prospects for commercial adoption by Pacific banks. More information is available in the Business Focus Story on page x.

Banking competition

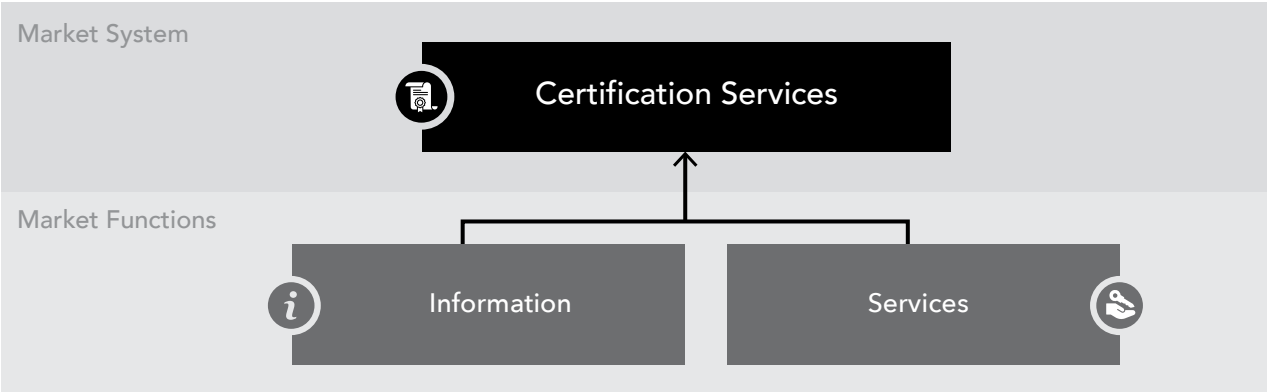
There is limited banking competition in the Pacific region. In 2023, MDF commenced an intervention to increase competition for digital financial services including savings, transfers, payments and investment. MDF is supporting a new, multi-purpose fintech app, designed in the Pacific, for Pacific people. The start-up was successful, and the company was awarded a licence in mid-2023. There has been strong initial customer interest (more than 17,000 sign-ups), more than FJD1 million (AUD680,000) in transactions and good interest for merchant onboarding. Prospects also look good for collaborations with remittance providers and a community digital village pilot in Fiji.



 An illustration of mobile banking

2 Market System

Certification Services



Status of the market system

Emerging

Interventions (active and/or monitored in 2023)

1. Improving awareness of and access to certification services for the Pacific region (Credit Union).

Summary of performance

MDF scoping into common challenges faced in agriculture value chains across the region highlighted the challenges faced by agri-exporters to access new and premium markets due in part to the lack of awareness and affordability of internationally recognised certifications.

As a first step to unlock this market system, MDF has partnered with an international certification service provider. They began holding information workshops across the region, starting with Fiji in November 2023. MDF support includes incentives for private sector to de-risk uptake of the certification services, including climate change-linked certifications, and will use the learnings to build the business case to inform future interventions in this market system. Relevant projections will be developed for this intervention once data points can be developed and verified.

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	0	0	0	0	0	

Market on a Page



Certification can allow products to be sold at higher prices or enable improved access to international markets.



Consumers are increasingly interested in where products come from, how they were produced and their quality. Certification helps to address these concerns.



Certification is used in many sectors, including agriculture, forestry, fisheries, tourism, food manufacturing and textiles.



In the Pacific, understanding and use of certifications is limited. For those that are aware, it is costly to secure internationally-accredited certifications.



Certification is an important driver of more environmentally sustainable practices and can influence climate change mitigation and adaptation.

In the Pacific, understanding and use of most certifications is limited. For those that are aware, it is costly to secure internationally accredited certifications because certifiers frequently need to be flown in from overseas. MDF began working in this market system very late in 2023, so it is premature to discuss market changes.

Market Functions

Information

In the Pacific, there is limited understanding of the value of certifications and the international markets and premium prices that can be accessed through them. While organic certification and the Hazard Analysis and Critical Control Point (HACCP) system are gaining traction, many Pacific agricultural exports still go to low-value, bulk commodity markets. In 2023, MDF began working with a major international certification service provider to improve awareness of certification through information workshops. The first workshop was held in Fiji in November.

Services

High prices are one reason for the limited adoption of certification in the Pacific region. Flying in expertise from other regions often makes the cost unviable without external support. In 2023, MDF began working with a major international certification service provider to establish a permanent presence in the region, with the aim of reducing costs and increasing investment in certification and/or pre-certification advisory support. The first promotional workshop was held in December.



Exploring underwater caverns while diving in Tonga

Tourism

Tourism



National tourism organisations in Tonga and Vanuatu have become more aware of the potential for yachting tourism.



Regional yachting tourism stakeholders are looking at new customer markets and developing better information services to assist marketing.

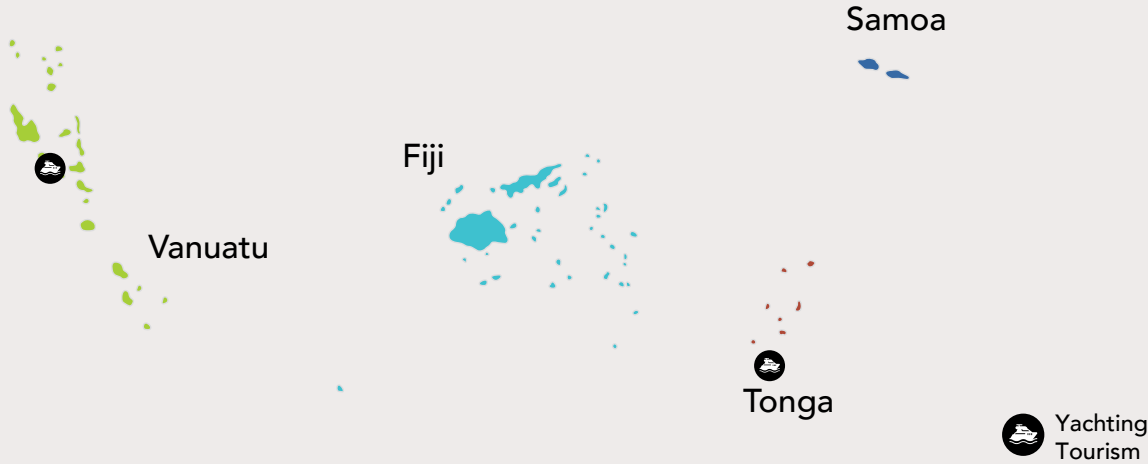
Vision of change

- Improved destination marketing materials and methods attract more tourists to the region.
- Collaboration between national tourism organisations, hotels, airlines, tourism operators, activity providers and airlines enables improved package development and higher-quality tourism services.
- Pacific tourism stakeholders have access to quality data and use this information to better market their destinations and develop suitable services.

Constraints

- Reduced competition between airlines, poor reliability, frequency and connections and high flight prices.
- Impact of pandemic-related restrictions and management measures, including reduced competition, business debt and facility maintenance.
- Reduced availability of skilled labour due to layoffs during the pandemic, and high rates of turnover associated with migration schemes.

Interventions

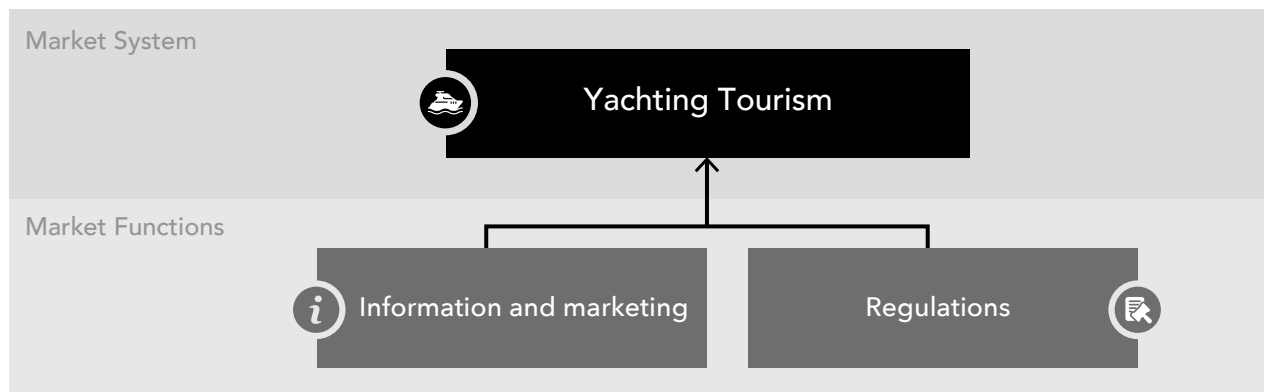


Climate risks

Increasingly intense storms and cyclones could result in damage to tourism facilities, increased insurance costs and interruptions to supply chains. Rising sea levels can also result in coastal erosion, loss of beach areas and increased costs to protect tourist attractions.

1 Market System

Yachting Tourism



Status of the market system

Emerging

Interventions (active and/or monitored in 2023)

1. Growing regional yachting tourism through public-private collaboration and international marketing [Tonga Tourism Authority (TTA), Vanuatu Tourism Office (VTO), South Pacific Sailing Network (SPSN)].
2. Studying yachting tourism and its economic impacts in the Pacific region (AMSTEC, TTA, VTO).

Summary of performance

Regional yachting poses an opportunity to widen the spread of tourism gains to rural and remote regions. However, the industry faces numerous challenges, including a lack of industry coordination and regulations that undermine the potential of the sector.

MDF pursued several partnerships in 2023 and invested in building engagement between tourism bodies in Tonga and Vanuatu with yachting marinas, as well as regional bodies, as a first step to improving information sharing and coordination in the industry.

MDF supported TTA, VTO and SPSN delegates to attend a yachting conference in New Zealand and a yachting regatta in Tahiti, to gain exposure to the international yachting market. This has resulted in better recognition of the market among tourism bodies in Tonga and Vanuatu. MDF's support for a yachting tourism study in Tonga and Vanuatu is anticipated to inform new interventions with the potential for significant effective outreach and net additional income for entrepreneurs and the communities supporting this premium tourism market. Relevant projections will be developed for this intervention once data points can be developed and verified.

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	0	0	0	0	USD10,770 (AUD16,242)	

Market on a Page



Yachts visiting the Pacific usually come from the Americas, Australia, Europe and New Zealand.



Yachts crossing the Pacific Ocean from the Americas first reach the Marquesas Islands, then may visit the Cook Islands, Tonga, Fiji, Vanuatu and New Caledonia before exiting to New Zealand or Australia.



Yacht owners and crew spend money locally on equipment, food, fuel, permits, maintenance, transfers, recreation and the crew's living needs.



Studies in Fiji and French Polynesia have found that yachting tourism contributes tens of millions of dollars to their economies annually, often to remote islands that lack conventional tourism infrastructure and services.

The Pacific region is an ideal destination for yachting tourism, given its scattered and idyllic islands.

MDF made a preliminary assessment of this market system in 2023 and identified key constraints to growth. MDF made solid progress in engaging with key market actors, including a regional association and national government agencies in Tonga and Vanuatu. There are opportunities to take this work in several directions, subject to the outcome of a more detailed yachting study commenced in 2023 and concluding in mid-2024.

Market Functions

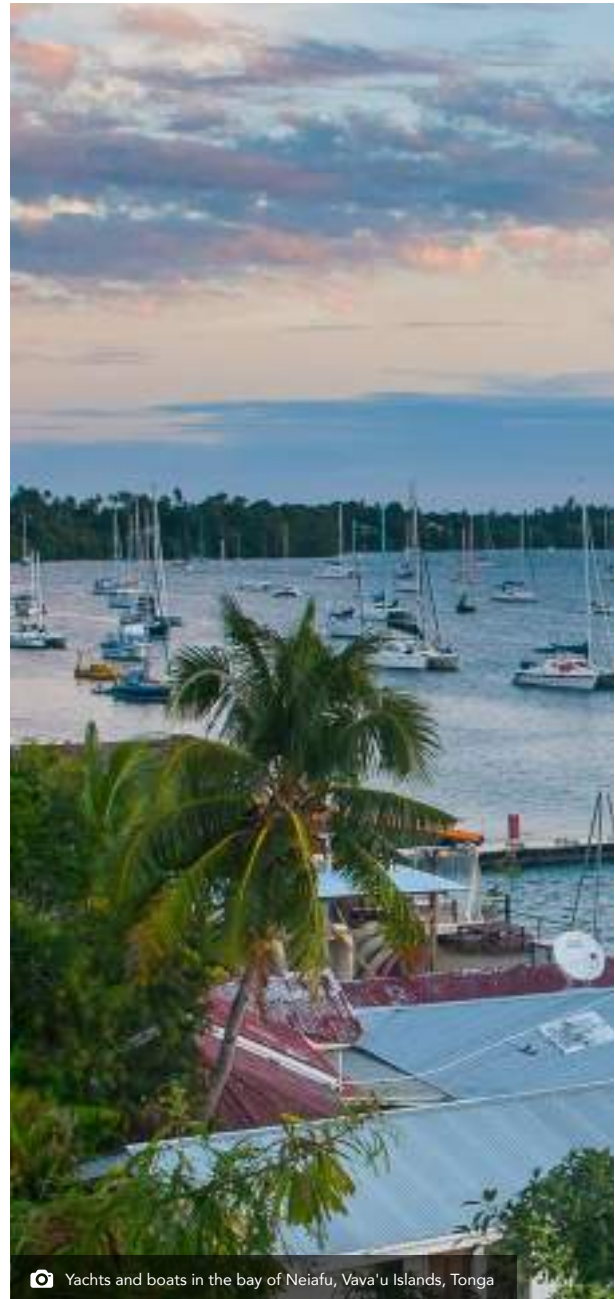
Information and marketing

Information and marketing are important factors in attracting yachts to the region, ensuring they visit multiple countries and islands and increasing their length of stay. There is a lack of coordination between yachting stakeholders to ensure that timely and accurate information is available to yacht owners contemplating a visit to the Pacific region. Pacific Island governments mainly focus on promoting air tourism.

In 2023, MDF worked to improve information and marketing by influencing the interest and behaviour of public and private stakeholders. MDF helped the regional association, the South Pacific Sailing Network (SPSN), with selected marketing opportunities. Interventions were designed to develop yachting guides and maps for Tonga and Vanuatu. Once the yachting study is completed it will be utilised to improve information and marketing, particularly by National Tourism Organisations.

Regulations

Government policies and regulations, such as immigration and customs, affect the likelihood of yacht visits and the duration of their stays. In 2023, MDF sought to understand how these could be improved for Kiribati, Tonga and Vanuatu through a regional study, which should be completed by mid-2024. As a result of regular engagement on this topic, MDF has seen increased interest among governments in the Pacific in yachting tourism. The Government of Vanuatu asked to collaborate further with MDF to develop a national yachting strategy. The Government of Tonga recently created a yachting tourism committee.



Yachts and boats in the bay of Neiafu, Vava'u Islands, Tonga



LESSONS/OBSERVATIONS

There are definite opportunities to grow this market through private sector business models. However, some critical constraints to growth relate to government policy. MDF found that governments have been more willing to contemplate support for this market if they understand it better. This has been increased by exposure to peers in Australia, Fiji, French Polynesia and New Zealand. MDF engaged regularly with the Governments of Vanuatu and Tonga, supporting information sharing and learning opportunities.

Other market systems

Destination Marketing

Many Pacific tourism stakeholders, such as the South Pacific Tourism Organisation (SPTO), have identified the paucity of quality, up-to-date marketing content as an impediment to tourism growth. In 2022, MDF began negotiations with an airline,

national tourism organisations and tourism businesses to develop new marketing content for selected PICs. This intervention was delayed for various reasons, so there was only limited preparatory activity in 2023. This included negotiations with the

Vanuatu Tourism Office, which sees the potential for this content for marketing Vanuatu internationally. Although much delayed, this collaboration is expected to proceed in the first quarter of 2024.

Expedition Cruising

Demand for expedition cruising is increasing. Like yachting, this form of tourism offers economic opportunities for remote islands and communities because it does not require substantial infrastructure investment, and it has a smaller ecological footprint than

large cruises. In the Pacific, expedition cruising currently only operates out of French Polynesia. In 2023, MDF designed an intervention with a Fijian domestic expedition cruising operator that is looking to offer regional cruises for the first time, to Samoa and Tonga.



Shipping and Logistics

Since the onset of COVID-19, MDF has compiled and shared market intelligence related to freight, shipping and logistics. Although global shipping prices have fallen significantly since the peaks experienced during the pandemic, the Pacific continues to

face high costs and limited services. In previous years, MDF has analysed this market at a regional level. This research yielded some intervention opportunities, potentially to create new regional freight business models. In 2023, MDF explored opportunities

to provide regional solutions to freight and shipping constraints and designed one intervention that should be implemented in 2024 for a new regional air freight service.

E-commerce

E-commerce provides consumers and businesses with access to online channels for buying and selling goods and services. E-commerce is becoming popular with Pacific consumers but uptake by the region's businesses is lagging because many have low

levels of digital literacy. Many firms struggle to set up websites, link with online payment gateways, use social media marketing and integrate logistics and fulfilment services. E-commerce is a policy priority for many Pacific governments and DFAT, who are

implementing e-commerce initiatives, including through the Pacific Islands Forum Secretariat. In 2023, MDF designed an intervention that should be implemented in 2024, to facilitate market entry of a global e-commerce platform for Pacific businesses.

Inclusion Story

Growing better: Supporting agricultural innovation in Samoa

Agricultural machinery, essential for modern farming, remains expensive in Samoa, with costs reaching up to USD40,000 (AUD61,000) for second-hand excavators and USD14,000 (AUD21,000) for tractors. Rental or service options are sometimes available but are inefficient or informal. Both farmers and businesses suffer from a lack of awareness about the range of available machinery and services, as there is little advertising. This gap in market knowledge, especially among businesses predominantly focused on construction, results in risk aversion and missed opportunities to meet the evident demand. MDF research indicates that while only a few farmers currently use such machinery, there is a significant interest among the wider farming community. Labour migration is also affecting Samoa's agricultural households, with many women now taking on the bulk of agricultural work, where husbands have joined seasonal labour schemes.

Click/scan the QR code
to read the full story



Climate Change Story

Brewing resilience: Navigating climate challenges in Samoa's kava industry

Samoa's climate projections indicate a future marked by climate change. Rising temperatures, more frequent episodes of extreme rainfall and increasingly intense cyclones are expected to impact the economy, with agriculture likely the most severely affected. Crops like kava, the Samoan variety of which is known as 'ava', typically thrive in conditions that are not excessively hot or dry; and extreme rainfall and cyclones can lead to waterlogging and damage to kava trees. Kava processing is also at risk, as unseasonal rainfall can impact root drying, and kava washing requires access to water.

Click/scan the QR code
to read the full story



Business Focus Story

Financial inclusion in the Pacific: The power of collaboration and technology

Access to credit remains a significant hurdle in Pacific Island Countries (PICs), complicated by regional challenges, such as communal land ownership and the absence of traditional credit bureaus. This further restricts the financial flexibility of individuals and businesses alike. In Samoa, almost half of the population lack access to formal finance, and savings rates are lower than comparable PICs.

In response to these challenges, in 2021 started working to improve the availability of digital financial services in the Pacific. Collaborating with the United Nations Capital Development Fund's (UNCDF) Pacific Digital Economy Program (PDEP), MDF and partners set up a 'fintech innovation challenge,' to promote financial inclusion in Fiji, Tonga, Samoa and the Solomon Islands. The MDF Samoa team supported the design and implementation of the challenge in Samoa.

Click/scan the QR code
to read the full story



Samoa

Country and Portfolio Strategy

Samoa's economy is still suffering the after-effects of the COVID-19 pandemic, with many tourism businesses in debt and unable to update facilities.

Samoa's inflation was higher than most other Pacific countries in 2023 due to persistent increases in import prices. However, with the increase of visitor arrivals and domestic demand there was some recovery in 2023. A recurring issue for Samoa is labour shortages and skills drain, connected with permanent migration to places like New Zealand and Australia and the temporary loss of seasonal workers. Samoan Government representatives initiated further public debate on this topic during 2023, following on from similar discussions in 2022.

Samoa was the only MDF Pacific Regional country that had a team in place at the start of 2023, which means MDF's work in Samoa is more mature. Stemming in part from placements of experienced staff, MDF was able to quickly grow the portfolio in early 2023, so that it reached 'full size' based on the available budget in 2023. MDF began six new interventions in Samoa in 2023, in kava, cocoa, agricultural mechanisation, food manufacturing and business and economic policy.

MDF's approach in Samoa aligns with several elements of the Pathway for the Development of Samoa (2021-22 to 2025-26). Most of MDF's work related to Key Strategic Outcome 2: Diversified and Sustainable Economy, but some related to Key Strategic Outcome 4: Secured Environment and

Climate Change. Under Outcome 2, MDF's work in 2023 largely pertained to Key Priority Area 7: Agriculture, Fisheries and Aquaculture Productivity, with some activities related to Key Priority Area 9: Business Innovation and Growth.

➔ Agriculture

Agriculture is a key sector in Samoa. The 2019 Agriculture Census found that 94.3 per cent of Samoa's 28,516 households grew crops or raised livestock. In 2020, agriculture generated 8.3 per cent of GDP, mostly via subsistence production. Given the sector's economic significance, its connection to climate change, and the fact that many non-agricultural sectors were hampered by the pandemic, the bulk of MDF's current interventions in Samoa relate to agriculture. MDF researched and started investing in several agricultural markets, including kava, feral pigs, agricultural mechanisation, agricultural inputs and cocoa. Many farmers and agricultural firms have been impacted by migration-induced labour shortages, and many farmers are affected by feral pigs.

➔ Food manufacturing

MDF works in food production because of its potential for value addition and growth, based on domestic agricultural production. MDF has been utilising an experienced food technologist to understand the dynamics and potential of the industry.

➔ Business and economic policy

Many market actors in Samoa have told MDF about the lack of information flowing between goods and service providers and consumers, and between industry and government. In mid-2023, MDF began working with a business chamber to make business and economic policy research a permanent function. MDF hopes this can contribute to more informed economic and business development policy discussions.

➔ Rooftop solar

Investment in rooftop solar can contribute to climate change mitigation, reduce costs and increase reliable power supplies for households and businesses.

➔ Electric vehicles

Increasing the use of electric vehicles is a climate change priority of the Government of Samoa. There are opportunities to catalyse this market, which in its infancy.





Climate change

Samoa is vulnerable to the effects of climate change. Tropical cyclones are predicted to be less frequent but more intense due to the changing climate. The flash flooding that accompanies storms will damage infrastructure, property and crops. There will be little change in mean annual rainfall, but there will be more extreme rain events. Annual mean temperatures and daily temperature highs will continue to rise. Sea levels are expected to continue to rise at a higher rate than the global average, increasing the risk and impact of storm surges and coastal flooding.

In 2023, MDF identified the following opportunities to mitigate climate change and increase climate resilience and adaptation:

- Kava is susceptible to climate change-induced weather events. In 2023, MDF's partner, Samoa Herbs, developed a kava growing guide, which help farmers cope with anticipated climate-related changes.
- MDF amended its agreement with a kava exporter to incorporate activities that will help it better manage climate adaptation, including investing in solar drying houses and a water reservoir.
- MDF completed market assessments on rooftop solar and electric vehicles. There are opportunities to assist Samoan households and businesses to access suitable products and services. These interventions will help Samoa meet its climate mitigation and adaptation targets laid out in their NDC and NAP, including their aim to generate 100 per cent of electricity from renewable sources by 2025.
- MDF is working on an intervention to expand organic fertiliser production with the use of animal manure. The fertiliser could improve soil health and reduce the use of imported chemical fertiliser.

Agriculture



Sector on a Page

Agriculture



An MDF agricultural machinery partner sold its first shipment and ordered more stock. This machinery will allow farmers to prepare land more efficiently for planting.



The Scientific Research Organisation of Samoa, the Samoan Ministry of Agriculture and Fisheries, and MDF are collaborating to address the issue of feral pigs, starting with trials of trapping technology.

Vision of change

- New agricultural business models increase farmer awareness, access and usage of agricultural machinery products and services.
- More high-quality kava is exported, allowing farmers to sell higher volumes and earn additional income.
- The scourge of feral pigs is better understood and addressed, reducing crop losses for farmers and incentivising agricultural investment.

Constraints

- The supply of rural labour is decreasing due to migration and farmers have limited access to labour-saving machinery products or services.
- Samoa is missing out on the growing international demand for kava due to limited production and processing capacity.
- Despite the damage done by feral pigs, no significant research has been done on the extent of the problem and there are no substantial control plans.

Interventions



Kava



Agricultural Inputs



Feral Pig Management



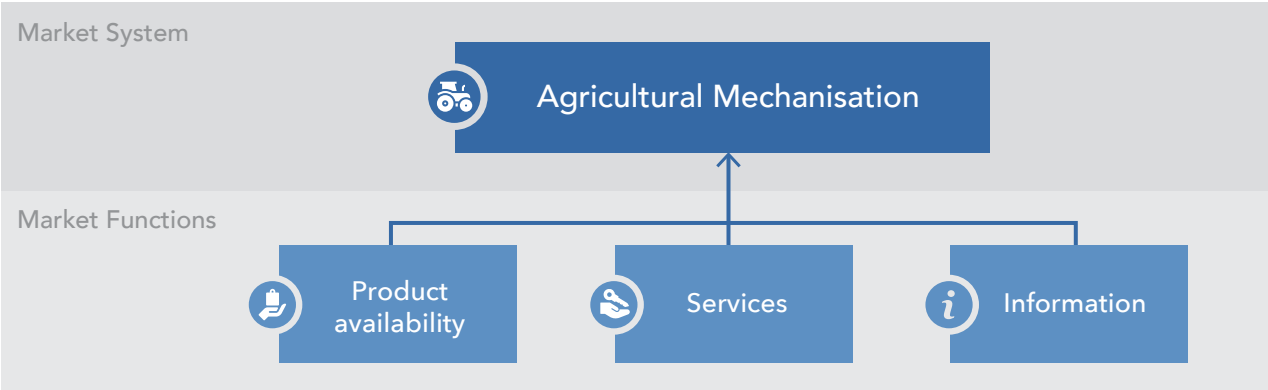
Climate risks

Multiple changes to Samoa's climate are predicted and present risks for agriculture. These include higher air temperatures, increasing intensity of storms and cyclones, unusually heavy rainfall, changes in rainfall that cause drought, and faster-than-average sea level rise.

1

Market System

Agricultural Mechanisation



Status of the market system

Developing

Interventions (active and/or monitored in 2023)

1. Increasing agricultural mechanisation through introduction of new products (Bluebird Lumber).

Summary of performance

Work in this market system is informed by MDF field assessments, which indicate a strong interest in agricultural machinery. MDF supported Bluebird to collaborate with farmer associations to conduct farmer demonstration days, which attracted over 200 farmers, 47 per cent of whom were women. Despite an increase in farmer awareness about machinery, adoption remained low at the end of 2023. Nevertheless, early feedback from farmers who had purchased machinery indicates that the machinery made farming more convenient by reducing the time and manual labour required for land preparation.

Building on its work in 2023 with Bluebird, MDF will conduct field assessments in two farming regions to understand the constraints faced by farmers when purchasing machinery. The findings will inform MDF and private sector discussion with financial service providers on developing new financial products related to machinery purchase. MDF is also negotiating with other businesses that could supply machinery and farm access road services. Other verification exercises will inform reporting for projections and actuals for effective outreach, net additional income and value of additional market transactions in 2024.

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	0	0	USD60,958 (AUD91,929)	USD3,714 (AUD5,601)	USD42,027 (AUD63,381)	

Market on a Page



Most farmers surveyed by MDF grow root crops, either taro or ta'amu (giant taro).



Around **70%** of farmers interviewed by MDF mentioned that they use labour for land preparation and harvesting but that sourcing labour is becoming difficult due to migration.



Every farmer interviewed by MDF expressed an interest in agricultural machinery, if available at the right price, including excavators, tractors and hand-held tillers.



Some firms have provided machinery on an ad hoc basis to farmers but there are no established business models for supplying agricultural machinery.

Agricultural production in Samoa is labour intensive, with limited use of machinery for land preparation, crop maintenance, harvesting and transport

Limited mechanisation and Samoa's rocky and mountainous terrain mean that labour is vital for agricultural production. However, migration is causing labour shortages, hampering production and increasing the burden on women in agriculture. Samoa's agriculture sector is also vulnerable to climate change, yet measures to improve productivity and resilience can help offset losses caused by changing weather conditions and more frequent extreme weather events. MDF made progress over the last year, introducing a new type of machine for land preparation from a retailer.



Farmer plowing the soil with a tractor

Market Functions

Product availability

Some products geared towards farmers are available in Samoa, such as brush-cutters, knapsack sprayers and basic hand tools. However, there are few providers of agricultural machinery. Those that do supply machinery tend to have a limited range of products, which do not fully meet farmer requirements. Due to the hilly and rocky terrain in Samoa, atypical solutions will often be required, including transportation (tractors and quad bikes). In 2023, MDF began an intervention with a hardware retailer to introduce a hand tiller, helping them market the new product through demonstration days. The firm sold out of its first order and has ordered a second shipment from its supplier.

Services

Large agricultural machinery, such as tractors or excavators, are available in Samoa but are often too expensive for smallholder farmers to purchase outright. Only a limited range of agricultural machinery services are available, provided on an ad hoc basis by government and the private sector. These are not formalised, efficient or able to meet demand. In 2023, MDF designed an intervention involving two potential service providers. Negotiations were delayed but MDF anticipates supporting new machinery services in early 2024.

Information

Most firms involved in this market system are focused on construction and have limited awareness of the agricultural sector. Businesses do not have access to information about the number of farmers wanting to purchase or rent machinery, their location, the type of equipment they need or the purpose. This lack of information has made businesses risk averse to, or unaware of, opportunities for new business models catering to this demand. Farmers are frequently unaware of options for hiring or purchasing machinery where they do exist. In 2023, MDF supported a company to supply selected machinery, combined with outreach and marketing activities to improve information for farmers.

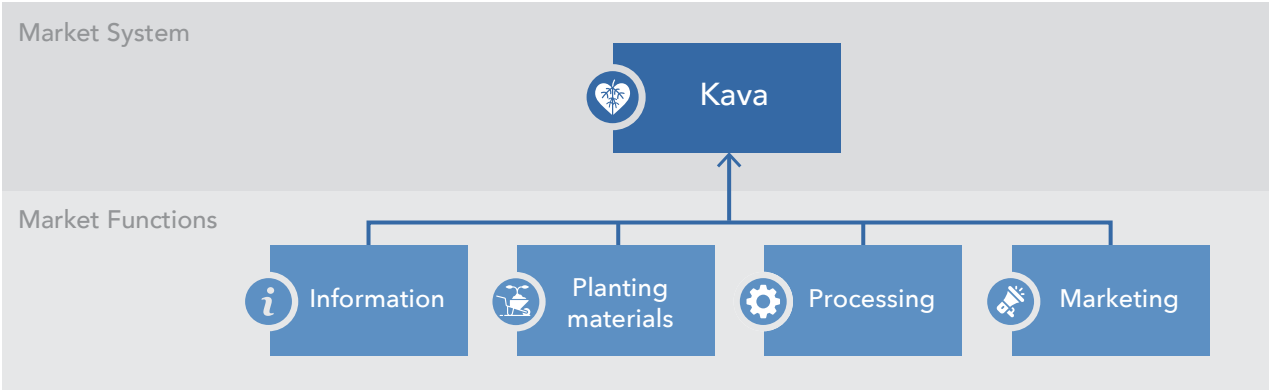


LESSONS/OBSERVATIONS

There is strong farmer demand for machinery products and services. While services can generally be bought at affordable rates, product purchase is more difficult because of high up-front costs. A government district development funding scheme offers some potential for initial uptake of machinery sales. Longer-term, sustainable financing solutions will be important to drive wider adoption.

2 Market System

Kava



Status of the market system

Developing

Interventions (active and/or monitored in 2023)

1. Analysing kava varieties, distribution and kavalactone content (Scientific Research Organization of Samoa – SROS).
2. Increasing exports of high-quality kava from Samoa (Samoa Herbs).

Summary of performance

In 2023, MDF began a research exercise with the government-established SROS to test the kavalactone content of kava from different locations. The results from this study, due to be completed around April 2024, will be used to inform farmers, processors and exporters on how to improve the quality and quantity of kava production and exports.

MDF supported Samoa Herbs to send samples to kava retailers in export markets. To build up sourcing and increase production capacity for anticipated demand, future activities with Samoa Herbs will focus on improving extension services and expanding processing infrastructure. While activities are ongoing, MDF anticipates results in effective outreach, net additional income and value of additional market transactions in 2024.

Although, the Samoan kava industry is domestic-market focused, MDF’s work is intended to improve information, extension relationships and processing capacity, resulting in greater supply and access to export markets.

EO Projected (cumulative)	EO Actuals (cumulative)	Income Projected (cumulative)	Income Actuals (cumulative)	VAMT Projected (cumulative)	VAMT Actuals (cumulative)	PSI Expensed	Progress (Traffic Light)
81	0	USD67,389 (AUD104,283)	0	USD410,903 (AUD635,866)	0	USD8,538 (AUD12,876)	

Market on a Page



Kava is a popular social and cultural ceremonial drink in many Pacific countries, and global demand is growing.



Some kava is exported as a powder for consumption by the Pacific diaspora and a small but growing number of non-Pacific Islanders.



Samoa’s production and export of kava lags other Pacific countries, which are capturing the bulk of export sales.



Samoa does not have many firms with the capacity to produce and export high-quality kava.

The kava sector in Samoa is domestically focused and decentralised.

Most kava farmers grow and process their own kava and then sell it directly to local retailers. Kava tends not to be exported. Any kava that is exported is undifferentiated from the domestic product and there has been little interest in investing in supply chains to improve quality. However, global demand for kava is growing. MDF began working with a high-potential exporter in 2023. Progress was slower than expected due to delays in finalising a farmer growing guide. With the guide completed by the end of the year, MDF anticipates more momentum in early 2024. MDF also began working with the Scientific Research Organisation of Samoa (SROS) on the kavalactone content of Samoan kava varieties to support export and marketing efforts. PHAMA Plus is also active in the Kava market system, so MDF liaised with them regularly, including on discussions about a broader Samoan strategy for kava.



 Farmers harvesting kava during SROS collection and analysis of kava varieties in Savaii

Market Functions

Information

Exporters are unable to procure sufficient supplies of kava to meet demand because farmers do not understand its potential value and are reluctant to grow a crop that takes several years to mature. Among farmers that do grow kava, MDF has found that there are misperceptions about where kava can be grown, limiting interest in expanding production. MDF's intervention with a kava exporter incorporates information provision, including a kava growing guide, which was completed in 2023 and will be disseminated widely.

Planting materials

Farmers report that they lack access to planting materials, which is a barrier to growth. There is no kava nursery in Samoa, so farmers either use cuttings from their own plants or from other farmers. Cuttings tend to be slower growing and lower quality than other planting materials. In 2023, MDF scoped opportunities to increase the availability of planting materials.

Processing

Kava processing is decentralised in Samoa. Most farmers wash, dry and pound their own kava, resulting in inconsistent quality. If growth in exports is sought, it is likely that some of the quality issues other countries have faced, such as contamination from washing in dirty water, may emerge. Unpredictable rainfall can also hamper drying kava. MDF is working on centralising processing with one kava processor-exporter, which is an important way to ensure quality. In 2023, MDF negotiated a major amendment in its agreement with the processor to integrate climate adaptation into its processing, particularly to mitigate intensive rainfall and droughts by using drying houses and a water reservoir.

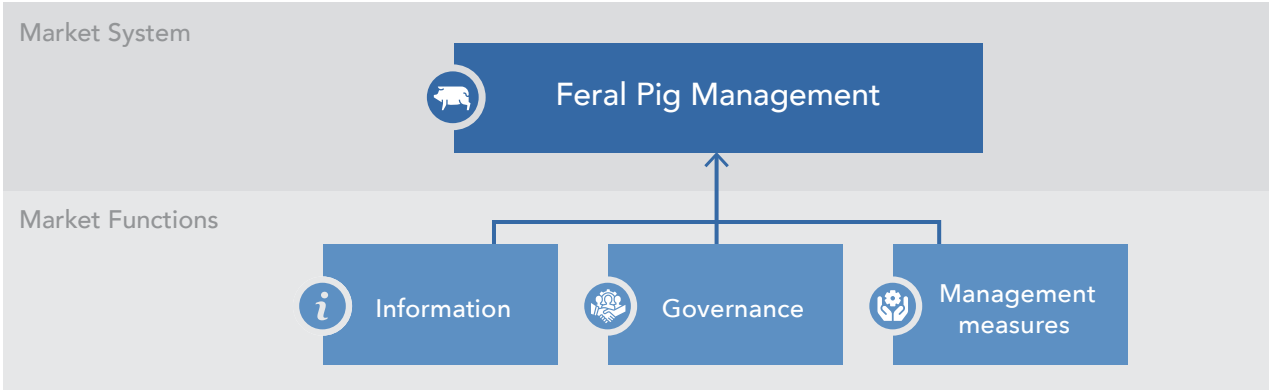
Marketing

Because so little Samoan kava is available overseas, little is known about its strengths and varieties, and no exporters are currently marketing their products internationally. Samoan kava exports are either informal to family and friends or they go to food distributors serving the diaspora. Capturing the growing non-diaspora market will require more marketing of Samoan kava and connections with international buyers. To this end, in 2023 MDF commenced a research intervention with SROS, primarily analysing kavalactone content, which will be used in marketing by Samoan exporters. During 2023, SROS collected samples from Savai'i, with plans to finalise collection in Upolu in early 2024.

3

Market System

Feral Pig Management



Status of the market system

Developing

Interventions (active and/or monitored in 2023)

1. Understanding and tackling the impacts of feral pigs on agriculture [Scientific Research Organisation of Samoa –(SROS), Jack Crow (consultant)].

Summary of performance

In May 2023, MDF conducted preliminary baseline research into the impact of feral pigs in Savai'i. MDF estimates feral-pig-related agricultural production losses at as much as USD11 million (AUD16.6 million), nationwide. MDF negotiated with SROS and the Ministry of Agriculture and Fisheries to trial methods of prevention and management. The trials were delayed for several reasons but should commence around March 2024.

Historically, the feral pig problem has not been continuously monitored, and control measures appear to have been informal, ad hoc and decentralised. MDF's work in this market system is intended to improve coordination between government, communities and the private sector to address the national issue of feral pigs.

EO Projected (cumulative)	EO Actuals (cumulative)	Income Projected (cumulative)	Income Actuals (cumulative)	VAMT Projected (cumulative)	VAMT Actuals (cumulative)	PSI Expensed	Progress (Traffic Light)
646	0	USD468, 247 (AUD706,148)	0	USD468,247 (AUD706,148)	0	0	

Market on a Page



The damage caused to crops by feral pigs is a topic that is consistently raised by farmers during consultations.



Pigs eat taro or other root crops and farmers say up to **30%** of planted areas are affected.



Little information exists about the extent of the problem in Samoa, including its economic impact or biological and ecological characteristics.



There are many possible control and prevention measures, including hunting, capture, poisoning and fencing, but these are not being employed consistently.

MDF's analysis revealed feral pigs to be the second-most common challenge identified by Samoan farmers after labour availability, and that the problem is becoming more acute.

Feral pigs cause losses by destroying crops, especially taro, and disincentivise agricultural investment, reducing productivity. Feral pigs contribute to environmental damage and climate change by disturbing soil and vegetation, which releases carbon dioxide into the atmosphere. There has not been a coordinated response to feral pigs, but some individuals are taking action. In 2023, the Samoan police reported a sharp increase in firearm licence applications from frustrated farmers.



Samoa - MAF officer with a feral pig trap



LESSONS/OBSERVATIONS

Feral pig management is commonly practised by farmers, who typically use fencing, hunting and snares. However, there is an important role to be played by government bodies if systemic solutions are to be employed. As this is a new function for the Samoan Government, MDF has been learning the importance of finding a negotiated solution involving all interested parties.

Market Functions

Information

A paucity of information is the first impediment to effective feral pig management. The problem has not been thoroughly researched, making it difficult to garner sustained attention by the appropriate change agents. MDF is implementing a multi-stepped research-based intervention to address this issue. In 2023, MDF completed research on Savai'i that revealed substantial impacts: around 74 per cent of farmers interviewed reported that their crops were damaged and 55 per cent said that damage had increased in recent years. Preliminary estimates based on replanting costs and the sale price of taro suggest that farmers are on average losing WST3,211.5 (AUD1,755) annually to feral pig damage. MDF found that many farmers were forced to relocate their farms or even give up farming altogether due to substantial losses caused by feral pigs.

Governance

Government involvement is essential to reduce the impact of feral pigs in the long term. Samoa would benefit from government action at the national and local level, especially village councils. MDF's intervention has facilitated a small increase in planning and implementing prevention and control measures. After a delay due to intra-government negotiations and to allow time for detailed risk management planning, arrangements for the next steps of MDF's intervention on trials, involving the Ministry of Agriculture and Fisheries (MAF) and SROS, were almost complete at the end of 2023.

Management measures

The impact of feral pigs can be reduced by prevention or control measures (e.g. hunting, trapping, poisoning and fencing) through a variety of agents (farmers, village councils, hunters, agribusinesses, MAF and SROS). MDF is planning joint trials with the Samoan Government, the results of which could be used by the national government or other governance bodies, such as village councils, to decide which measures should be rolled out. In 2024, MDF should be able to proceed with at least two trials, with additional trials subject to further negotiations and planning. Based on the preference of the Samoan Government, the involved parties will start with trials of trapping. MDF is also considering some complementary, commercial intervention ideas on trapping supply and trapping services, which were at the design stage at the end of the year.

Other market systems

There are other market systems that MDF researched or worked in during 2023. Subject to progress and signs of further potential, MDF may invest further in these markets.

Economic policy research

MDF's work in Samoa has consistently revealed the issue of disconnected channels of information, resulting in government, firms, farmers and consumers missing opportunities. One organisation involved in business and economic information is the Samoa

Chamber of Commerce and Industry (SCCI). In mid-2023, MDF began working with SCCI to make business and economic policy research a permanent function of the chamber. Work has been delayed by slow recruitment of new staff, but key activities will

be implemented during 2024. SCCI was able to recruit a climate change officer, who will contribute towards the climate change adaptation activities of its private sector members.

Food manufacturing

MDF believes that there may be value addition and growth potential in food manufacturing. In 2023, MDF completed an intervention to scale up the manufacturing of muesli using locally-produced fruit. MDF supported

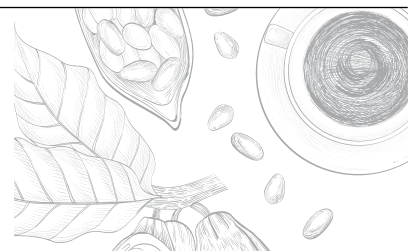
the partner to purchase new equipment that reduced the roasting time for their muesli ingredients, from 12 hours over 3 days to 2 hours per day. This allowed the firm to double output and sales and employ more workers. In

late 2023, MDF also commenced an intervention with the Samoa Association of Manufacturers and Exporters (SAME) to provide advice to manufacturers from a food technologist on other entry points into this market system.

Cocoa

MDF assessed the cocoa market extensively in 2023, including liaising with other donor-funded work (two projects funded by NZMFAT, soon to conclude). In 2023, MDF began collaborating with an Australia-based

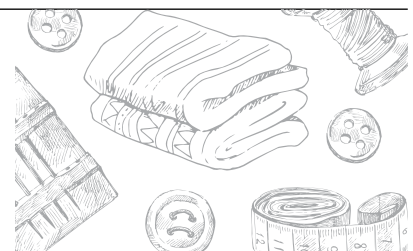
company using Samoan cocoa to help it improve marketing and sales. The firm has increased sales and expanded its product line to include cacao tea, body scrubs and other products.



Fashion design and manufacturing

Samoa is a leader in the Pacific for some cultural businesses, including fashion design and textile manufacturing. This industry employs almost exclusively women. Some Samoan entrepreneurs have been successful in growing their

businesses internationally. In 2023, MDF conducted a market assessment and identified opportunities to support business development and employment.



Rooftop solar

Samoa's rooftop solar market is in its infancy. Products such as solar hot water, air conditioning and solar lights are available for sale, but solar photovoltaic systems that connect and share power back to the grid are rare.

Samoa's Electric Power Corporation (EPC) has a target of 70 per cent renewable energy by 2035 and plans to leverage private sector investment to achieve this goal. In 2023, MDF completed a preliminary market

assessment and started to explore commercial opportunities to boost the uptake of solar energy generation by households and businesses.

Electric vehicles

According to Samoa's latest National Greenhouse Gas Inventory (2020), the road transport sector, largely dependent on fossil fuels, is the country's largest emitter of carbon dioxide, accounting for 27.4 per cent of

greenhouse gas emissions. Increasing the availability and use of electric vehicles instead of internal combustion powered vehicles could help reduce the burden of fossil fuel dependency and reduce emissions from the road

transport fleet. EPC piloted 10 electric vehicles for its fleet in 2022. In 2023, MDF conducted a market assessment and began to identify commercial opportunities to increase the uptake of electric vehicles with car dealerships.



 The staff at Living Koko are processing cocoa beans into chocolate bars

Vanuatu

Country and Portfolio Strategy

Vanuatu experienced multiple natural disasters and political instability in 2023, which disrupted the country's post-COVID recovery and lowered projections for economic growth.

Multiple cyclones and limited national airline capacity hampered the recovery of the tourism sector, which had been expected to be a major driver of growth. Persistent labour shortages due to migration and the increasing consequences of climate change reduced agricultural productivity. Incoming remittances from migrants proved important for maintaining domestic consumption in otherwise challenging economic circumstances. Recognising these challenges, MDF designed interventions that promote growth, build climate resilience, and—where possible—test business models that address labour constraints.

MDF began its operations in earnest in Vanuatu in January 2023. The country team scoped a range of sectors and markets to identify opportunities suitable to MDF's objectives. This included agriculture, livestock and fisheries, renewable energy, tourism and inter-island shipping.

MDF has developed a strong pipeline of activities in these sectors, which are consistent with donor and government priorities and policies, particularly the DFAT-Ministry of Trade and Commerce's 'Economic support package: trade and agriculture supply chain strengthening and the tourism sector.' MDF's current work falls into two sectors: agriculture and financial services.

➔ Financial services

Improving access to formal and digital financial services is essential to promoting growth and inclusion in Vanuatu's economy. Formal financial inclusion is limited: as of 2018, less than half of adults had a bank account or used other formal financial services. As increasing numbers of ni-Vanuatu people work overseas on labour mobility programs, it is important that their families have access to formal, affordable remittance channels. Increased uptake of digital financial services is also vital for enabling timely payments between islands, a foundational step towards sustainably expanding access to finance to rural and remote communities.

➔ Agriculture

Around 87 per cent of households in Vanuatu are involved in agricultural production, and the sector provides incomes to communities across every island, from remote to peri-urban areas. Production in key commodity crops, including copra and cocoa, has been declining over several years due to labour shortages, low global prices and climate change. Kava production has boomed in the same period because it is less labour intensive. These challenges present an opportunity for Vanuatu's agriculture sector to adapt by testing new business models that overcome labour shortages, integrating climate adaptation measures, and diversifying production to make farmers more resilient and increase their income. MDF continues to scope opportunities and innovations in this market.





Climate change

Vanuatu is vulnerable to the impacts of climate change, including rising temperatures and sea levels, unpredictable rainfall and intensifying cyclones. The country is one of the most disaster-prone in the world and experienced several major natural disasters in 2023. Vanuatu aims to transition to close to 100 per cent of its electricity generation from renewables by 2030 as part of its Nationally Determined Contribution (NDC). In its NDC, Vanuatu also aims to have 20 per cent biodiesel blending in diesel by 2030.

In 2023, MDF identified the following opportunities to mitigate climate change and increase climate resilience, and hopes to commence new interventions in these markets in 2024:

- Sandalwood and cocoa: There are opportunities to improve extension advice to farmers to support more effective adaptation to climate change.
- Renewable energy: There are opportunities to increase access to finance or more efficient payment systems that enable uptake of solar products, including rooftop solar PV systems, particularly on outer islands.
- Inter-island shipping: High diesel costs prevent operators from expanding services or lowering freight rates. MDF is negotiating a partnership with one operator to develop coconut biodiesel to lower costs and avoid using fossil fuel.

Financial Services



Sector on a Page

Financial Services



MDF's intervention with Vodafone Vanuatu resulted in 700 market vendors in Efate, Santo and Tanna being registered with Vodafone's e-wallet service, m-Vatu.



MDF's scoping of the renewable energy sector revealed that access to finance was a key barrier. MDF began negotiations with a bank on developing solar loans and will scope the use of digital payment tools to increase solar uptake.

Vision of change

- Improve understanding of the benefits of digital financial services, such as mobile wallets, and increase their uptake.
- Increased use of digital financial services enables more people, particularly those in rural areas, to have access to cheaper and faster ways to receive money from family members participating in seasonal work.
- More widespread use of mobile wallets and other digital financial services enables more people to enter the formal financial sector to save and borrow.

Constraints

- Consumers in Vanuatu have limited trust of digital payment methods and low digital literacy, preferring cash.
- There are limited opportunities to use mobile money payments, which constrains customer uptake. Encouraging investment to set up the infrastructure is difficult when customer uptake is low.

Interventions



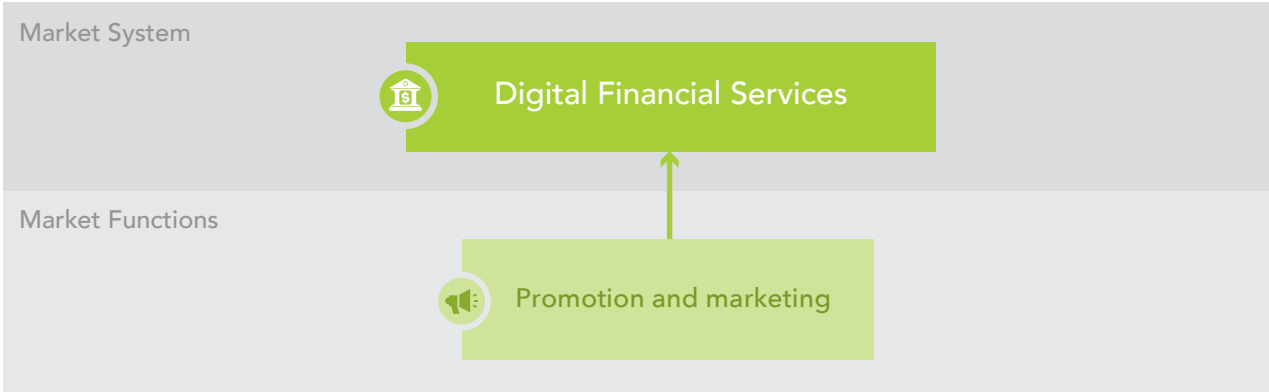
Climate risks

Increased severity of natural disasters, particularly cyclones, are a threat to the physical infrastructure needed for digital financial services, such as telecom infrastructure.

1

Market System

Digital Financial Services



Status of the market system

Emerging

Interventions (active and/or monitored in 2023)

1. Increasing the use of digital financial services in Vanuatu (Vodafone Vanuatu).

Summary of performance

With only a third of adults registered for formal banking services in Vanuatu and a significant investment required to reach customers in rural and remote regions, digital financial services have been identified as an option to scale up financial inclusion in Vanuatu.

In 2023, MDF implemented an intervention with a telecommunications company to incentivise uptake of their mobile money e-wallet service among market vendors and retail agents. While over 700 market vendors have been registered to the M-vatu app, the majority of whom are market mamas (female market vendors), usage has been slow. MDF will conduct research to investigate the experiences of these entrepreneurs, as well as other verification exercises, in 2024, prior to reporting projections and actuals for effective outreach, net additional income and value of additional market transactions. MDF will use these lessons to inform other such interventions in the region.

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	0	0	0	0	USD31,616 (AUD47,680)	

Market on a Page



As of 2018, **32%** of adults in Vanuatu did not have access to formal or informal financial services.



As in much of the Pacific, small populations and large distances make it expensive to extend banking infrastructure, excluding a large portion of the population from access to timely, affordable financial services.



Digital financial services, including mobile wallets, can overcome these challenges and provide access to people in rural and remote areas, enabling affordable remittance channels.



To reap the benefits of digital financial services, effort needs to be made to build trust in digital payment systems and awareness of their benefits.

As in much of the Pacific, access to formal financial services in Vanuatu is limited, particularly in remote areas.

Digital financial services can help overcome the challenges of small population sizes and high infrastructure costs, so that more people are able to send, receive and save money affordably, reliably and quickly. Increased access to digital financial services may also support disaster recovery efforts, allowing financial transfers to vulnerable communities to be delivered quickly and transparently. Uptake of mobile wallet products is occurring gradually in Vanuatu, including to receive remittances. MDF is working with telecommunications companies to accelerate this growth.

Market Functions

Promotion and marketing

In Vanuatu, MDF is supporting a telecommunications company to increase use of its mobile wallet service through promotion, marketing and awareness campaigns for consumers and merchants. Incentivising market vendors and agents, many of whom are women, to use the e-wallet service should increase customer use. Implementation of these activities was delayed, but most onboarding was completed by the end of 2023. Experience suggests that the pathway to increased acceptance and use of new technology will be lengthy, particularly looking beyond innovators and early adopters.



LESSONS/OBSERVATIONS

The adoption of mobile wallet products in Vanuatu remains slow, albeit growing. Data collected by MDF in 2023 showed that female market vendors in Santo who registered for the mobile wallet found it a useful way to store their cash earnings and felt more secure while working due to not carrying so much cash. MDF will continue working with telecommunications companies to understand how people feel these products can benefit their financial situations and to integrate this information into marketing materials to accelerate uptake.



Farmers can easily access digital financial services on their phone

Agriculture



Sector on a Page

Agriculture



South Pacific Sandalwood was able to sell USD67,500 (AUD102,000) of sandalwood oil, produced from a tonne of wood bought with MDF support.



MDF completed market assessments of cocoa and inter-island shipping, particularly its impact on agricultural trade. Field research was conducted into cattle and sandalwood.



MDF began negotiations for interventions in cocoa and the aggregation of local produce for hotels.

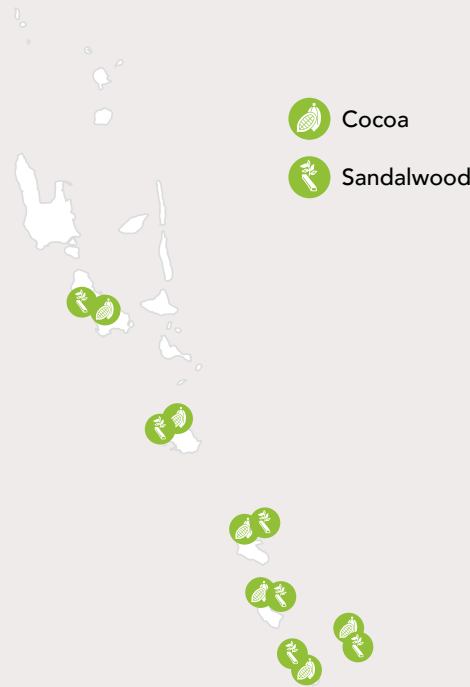
Vision of change

- Farmers have access to high-quality information and extension services, improving the quality of production and enabling them to become more resilient to the effects of climate change.
- More commodity exports from Vanuatu enter premium markets through strengthened aggregation models, earning firms and farmers higher incomes.

Constraints

- Vanuatu is experiencing significant migration, causing labour shortages, particularly in agriculture.
- Climate change, including increasingly severe cyclones, rising temperatures and changing weather patterns, are affecting agricultural productivity; knowledge on how to adapt to these changes is inadequate.
- Poor inter-island connectivity, including unreliable services and inadequate storage facilities, limits the ability of farmers to trade their products.

Interventions



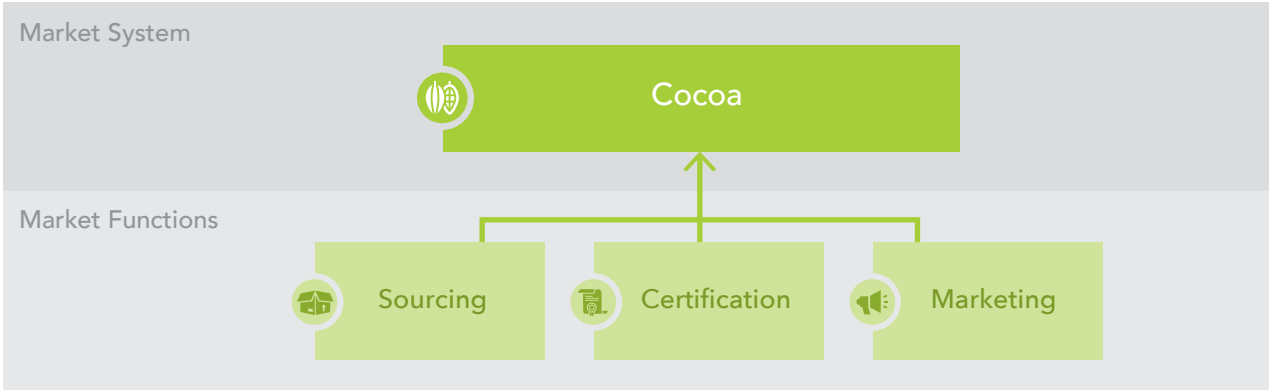
Climate risks

Rising temperatures, rising sea levels, more extreme rainfall and increasing severity of cyclones threaten the resilience of agriculture in Vanuatu.

1

Market System

Cocoa



Status of the market system

Emerging

Interventions (active and/or monitored in 2023)

No interventions active yet.

Summary of performance

MDF conducted a market assessment of Vanuatu’s cocoa sector in 2023. MDF identified several opportunities for inclusive market growth through improved farming practices, as well as access to new markets by leveraging improved marketing and certifications. MDF negotiated two interventions with chocolate producers in 2023 that should be signed in early 2024. In 2023, this market system had no active interventions.

EO Projected (cumulative)	EO Actuals (cumulative)	Income Projected (cumulative)	Income Actuals (cumulative)	VAMT Projected (cumulative)	VAMT Actuals (cumulative)	PSI Expensed	Progress (Traffic Light)
n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Market on a Page



Cocoa is Vanuatu’s third-largest commodity crop. It is grown by around **6,000** households, who are concentrated in the northern islands.



Vanuatu’s cocoa exports are small, and the majority goes to a single bulk-grade cocoa house in Southeast Asia. This means there is limited price competition and no incentive to improve quality.



Low prices and labour shortages have deterred many farmers from harvesting their cocoa, resulting in an increasingly neglected and low-yielding crop.



There is high potential to expand the markets of premium buyers, allowing them to source from a wider range of cocoa growers.



MDF is supporting premium buyers to build a more reliable supply of high-quality cocoa and capture additional premium markets through improved sourcing models and certification.

Cocoa is grown by 6,000 households in Vanuatu, making it the third-most commonly grown commodity crop.

National production is low, at around 1,500 tonnes. It is mostly bought by a single commodity buyer, which depresses farmgate prices. However, there is a growing premium market that pays double the commodity price for high quality cocoa. Globally, poor growing conditions have caused supply deficits and driven cocoa prices up. This is making small producers like Vanuatu more attractive to buyers.

Vanuatu's cocoa crop has become neglected due to agricultural labour shortages and persistently low prices. High levels of rainfall over recent seasons have reduced yields. Women are not typically responsible for harvesting and processing of cocoa, but this is changing, partly due to labour migration. Stronger competition between buyers and improving farmers' knowledge about optimal growing practices will help farmers generate more income from their cocoa.



📷 Cocoa harvest ready to be sent to the factory

Market Functions

Sourcing

Sourcing of cocoa in Vanuatu tends to be ad hoc. Most farmers do not receive extension services from buyers. Often, a single buyer visits a village, making farmers price takers. In 2023, MDF negotiated a partnership with a premium buyer, Spencer Cocoa, to engage a local field agent. Although activities are yet to commence, this should help the firm build a more dynamic farmer network, in which farmers receive regular training to ensure their cocoa meets premium market specifications. In turn, this should help Spencer Cocoa source higher volumes of cocoa more reliably.

Certification

Most cocoa farmers use minimal or no chemical inputs, but none are currently certified as organic. Gaston Chocolat has demand for organic cocoa and would source more cocoa if farmers were certified. In 2023, MDF negotiated a partnership with Gaston to access affordable certification through Control Union so it can buy and sell more premium cocoa, for which it will also pay farmers a premium.

Marketing

Because Vanuatu only produces small volumes of premium cocoa, many buyers are unaware of its high quality. Premium cocoa from the Pacific is appealing to buyers in Australia and New Zealand because of faster shipping times and competitive prices compared to South American cocoa. More effective marketing of premium cocoa from Vanuatu, particularly certified organic cocoa, will help premium buyers sell greater volumes of wholesale cocoa beans and increase the volume of premium cocoa exported.

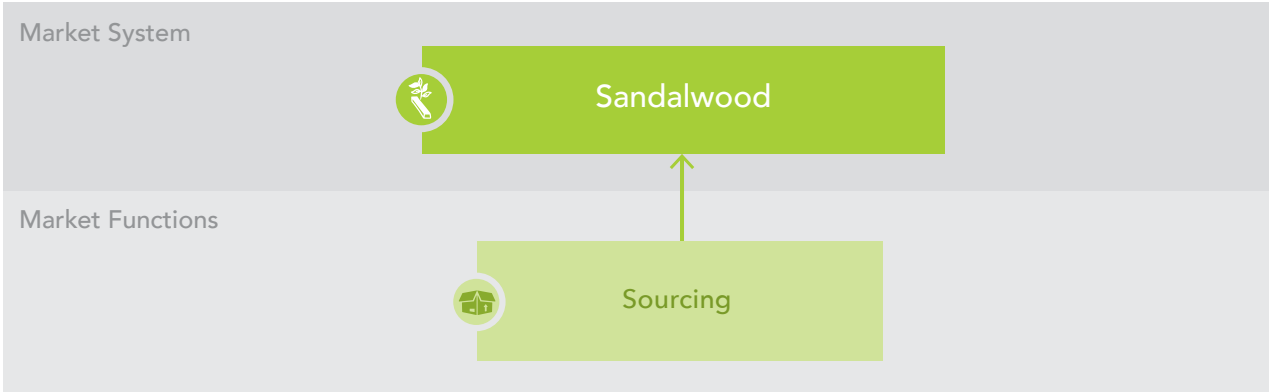
LESSONS/OBSERVATIONS

- Farming communities are innovating to overcome agriculture labour shortages. This includes women harvesting from larger plantations and then selling back to owners to earn cash, and all farmers showing an increasing interest in selling wet beans to reduce labour requirements.
- There are several system-wide threats to cocoa in Vanuatu, including the proliferation of black pod disease and ongoing labour shortages. In 2024, MDF will explore ways of working with scale agents, such as bulk buyers, to address these challenges.

2

Market System

Sandalwood



Status of the market system

Emerging

Interventions (active and/or monitored in 2023)

1. Increasing sandalwood quality and smallholder incomes through contract farming and improved sourcing.

Summary of performance

One-fifth of households in Vanuatu earn an income from the forestry industry, and Vanuatu’s native sandalwood variety is the most grown timber crop.

In 2023, MDF supported a local sandalwood exporter to pursue a new business model in sandalwood oil processing, by de-risking their work in connecting with, and purchasing from, local sandalwood farmers. While the partner incurred new costs to support the business model, they were able to earn new revenue from selling the processed oil; this revenue has been captured in this market system’s results. MDF anticipates that in 2024, once market prices for sandalwood stabilise, the farmers supplying to this partner will benefit from price premiums. MDF will conduct verification exercises prior to reporting new actuals in effective outreach and additional income. MDF is interested to leverage these lessons to assess the viability of the business model for community sourcing for sandalwood oil processing, which will inform new interventions in this market system.

EO Projected (cumulative)	EO Actuals (cumulative)	Income Projected (cumulative)	Income Actuals (cumulative)	VAMT Projected (cumulative)	VAMT Actuals (cumulative)	PSI Expensed	Progress (Traffic Light)
67	0	USD77,869 (AUD117,432)	0	USD122,780 (AUD185,161)	USD66,978 (AUD101,007)	USD46,518 (AUD70,152)	

Market on a Page



About **22%** of households in Vanuatu earn some income from forestry. Sandalwood is the most commonly grown timber crop. It is native to Vanuatu and is high quality.



Sandalwood has been overharvested in Vanuatu and is often harvested before it reaches maturity.



Farmers lack awareness of the prices they are entitled to, as well as knowledge about crop maintenance and climate adaptation techniques.



Sandalwood is exported in log form from Vanuatu. There are opportunities for oil distillation in Vanuatu, so that a higher value, lower volume product can be exported, improving returns for farmers and firms.

Sandalwood is widely grown in Vanuatu and global demand for sandalwood is growing.

The industry in Vanuatu has been characterised by limited buyer competition, a history of overharvesting and low prices. Prices are set by the Department of Forestry, but many farmers lack awareness of the government-mandated grades and therefore receive unfair prices from buyers. A lack of knowledge means that farmers often harvest their sandalwood too early or when they need cash rather than waiting until maturity. Many do not replant their sandalwood to ensure a steady flow of long-term income. Cyclones in 2023 affected many farmers, who lost their crops due to water damage.

Market Functions

Sourcing

MDF supports local sandalwood oil production to reduce export costs and increase profitability. This way, sandalwood businesses can invest more into their supply chains, including providing farmer training and planting materials. MDF's intervention with South Pacific Sandalwood Limited has so far focused on sourcing for product testing, but next steps will include supporting the development of sourcing arrangements that maximise benefits for farmers.



LESSONS/OBSERVATIONS

Many farmers were forced to sell trees early because of damage from the cyclones Vanuatu experienced in 2023. There is an opportunity for government and private buyers to provide better advice to farmers on how to prepare for and respond to cyclones to minimise damage and protect their incomes. MDF will work with its sandalwood partner to implement farmer extension activities in 2024.



Ready-to-sell sandalwood product

Other market systems

Inter-island Shipping and Freight

Freight between islands in Vanuatu is expensive, unreliable and infrastructure is not fit for purpose. Cold chain infrastructure is limited, which makes the movement of goods difficult and reduces the ability of farmers to sell their produce. MDF has identified

opportunities to work with freight providers to test models that improve efficiency and support the development of fit-for-purpose infrastructure—such as small wharfs and ports—and to pilot the production of coconut biodiesel for use in inter-island freight vessels.

Aggregation

Hotels in Vanuatu are interested in using more local ingredients. Increasing the volume of local produce used to cater for tourists would be an opportunity to reduce Vanuatu's reliance on imports and increase incomes for farmers and fishers. However, there are persistent challenges with aggregating local produce, particularly between islands, as well as with food storage

and preparation standards. Current sourcing arrangements are also ad hoc. In 2023, MDF began negotiations with a hotel to build the capacity of existing aggregators and implement efficiencies to increase sourcing volumes. This work has strong potential to contribute to women's economic empowerment, as many suppliers are women.

Rooftop Solar

Vanuatu has low levels of electrification and relies on imported fossil fuels. There is growing demand for solar power, to allow businesses and residents to access electricity affordably and reliably. Barriers to the uptake of solar technology include high upfront costs and limited financing options for equipment purchase. In late 2023, MDF

completed an initial market assessment and explored commercial opportunities to boost solar energy generation by households and businesses. MDF identified opportunities to test new financing models with solar retailers and installers and financial service providers.

Tourism

Vanuatu has multiple tourism development opportunities. Aside from the work on yachting tourism, MDF discussed a range of ideas for collaboration with the Department of Tourism and the Vanuatu Tourism Office. One of these is likely to be a

value chain study and an assessment of tourism's contribution to GDP. There are also opportunities linked to regional initiatives on destination marketing and marine tourism (e.g. expedition cruising), that will be explored in 2024.



Tonga

Country and Portfolio Strategy

MDF commenced operations in Tonga in the second half of 2023, with a small team comprising just two Business Advisers.

Accordingly, MDF has not made firm decisions on focus markets or developed associated market system strategies. The initial priorities for the MDF Tonga technical team included:

- 1 General economic research and analysis, including consultations with a diverse range of businesses and other market actors (around 100).
- 2 Scoping in three islands/groups ('Eua, Tongatapu and Vava'u).
- 3 Implementing a small number of interventions that were exploratory or based on a clearly identifiable opportunity.

MDF's research and emerging portfolio relates mainly to National Outcomes A and B of the Tonga Strategic Development Framework (TSDF 2015-2025), and somewhat to the climate change elements of Outcome F.

- **Outcome A:** A more inclusive, sustainable and dynamic knowledge-based economy.
- **Outcome B:** More inclusive, sustainable and balanced urban and rural development across island groups.
- **Outcome F:** More inclusive, sustainable and effective land administration and environment management, with resilience to climate change and risk.

➔ Tourism

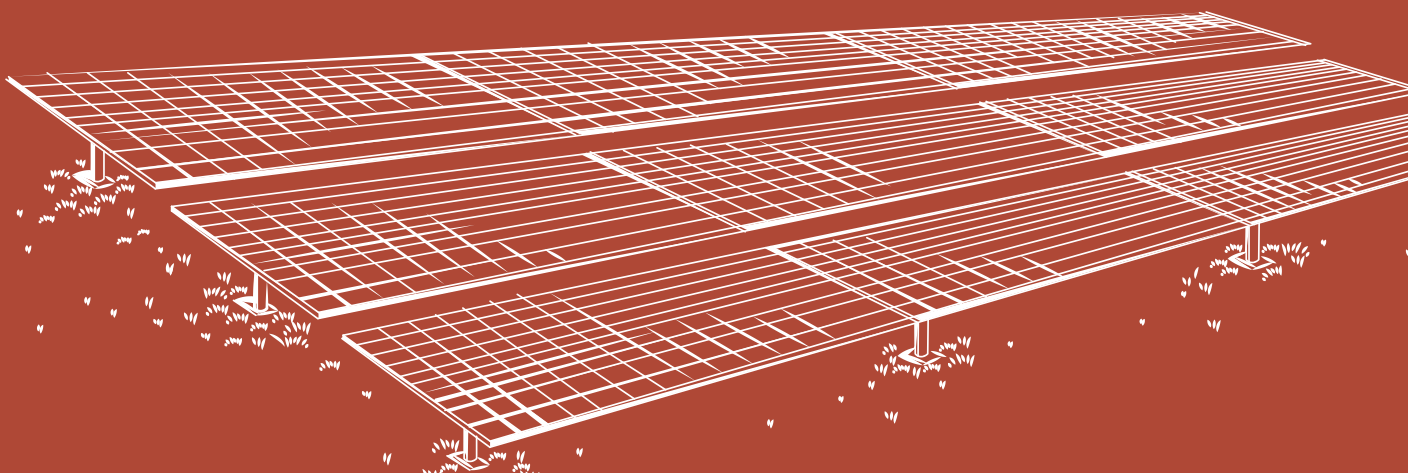
The Australian Government is keen for MDF to work in the tourism sector, so this will be one of the initial sectors of focus. MDF is collaborating with the Tonga Tourism Authority (TTA) on two distinct areas: yachting tourism and tourism branding and marketing. MDF is at the early stages of work on tourism activity development with the private sector, which is a priority for the Tongan Government.

➔ Agriculture

In 2023, MDF commenced an intervention in kava processing and export and is designing a second kava processing intervention. In MDF's initial agricultural assessment, market constraints and opportunities were identified in machinery, irrigation, vanilla and agricultural inputs. MDF conducted joint analysis of the vanilla market with Mainstreaming of Rural Development Innovation Tonga Trust (MORDI).

➔ Renewable energy

Many Tongan households and businesses find the cost of electricity very high. Tonga is exposed to year-round sunlight, making it a suitable location to install solar PV systems. However, little rooftop solar has been installed. MDF is exploring building on some rooftop solar market opportunities stemming from the Tonga Climate Change Fund, an initiative of the Government of Tonga and selected donors.





Climate change

Tonga is frequently cited as one of the countries most at risk to the impacts of a changing climate. Extreme rainfall events are projected to become more frequent and more intense, and temperature highs will continue to rise, including sea temperatures, which will affect marine industries. Sea levels are expected to continue to rise above global averages, threatening agricultural production, infrastructure and human habitation. As part of its Nationally Determined Contributions, Tonga is targeting 70 per cent of its electricity generation to be from renewable sources (solar, wind and battery storage) by 2030.

In 2023, MDF identified the following opportunities to mitigate climate change and increase climate resilience and adaptation:

- Stimulating investment by businesses and households in rooftop solar to develop a domestic solar industry.
- Establishing a training course on solar installation and maintenance or informing similar work by others, such as the Tonga Australia Support Platform (TASP).
- Exploring opportunities to introduce electric vehicles (EVs) and related infrastructure.

Market systems

Although MDF Tonga's strategic framework and initial intervention portfolio are still being developed, MDF pursued some intervention ideas in 2023. These early-stage activities are not yet fully developed 'market systems' and will evolve in 2024.

1

Market System

Kava

One of Tonga's most significant agricultural products is kava, which is consumed locally and exported. MDF began an intervention in 2023 to support a key kava processor and exporter on its quality processes. An expert in quality

processes visited the firm's production sites in late 2023, and the firm is now implementing the recommendations. MDF also began designing another intervention with two other kava exporters on quality and processing.

2

Market System

Air freight

Many Pacific businesses struggle with the cost and infrequency of freight services. To explore the potential for air freight innovations, MDF collaborated with a family-owned Tongan enterprise, Nishi Trading, which exports quality agriculture products. MDF helped it trial new cardboard packaging for watermelons and other horticultural produce. This packaging was designed to maximise space within air freight containers used by Air New Zealand, which shortened delivery times, improving freshness and reduced spoilage. The first order was used to package watermelons, taro, squash butternut and

pumpkin. Nishi Trading has since ordered an additional 9,000 cardboard cartons and has exported 30 tonnes of watermelon and 10 tonnes of taro using air freight. As a result of new packing and biosecurity measures for air freight, it has also hired four additional female staff who assist with washing and packing fresh produce into the cartons. Feedback from international buyers has been positive, stating that the fresh produce is well packaged and clean. The company hopes to increase exports to 500 metric tonnes of watermelons in the coming year.



Tongan crops being transported from the Nishi Trading Facility in Utulau Village, Tongatapu, for loading onto air freight

3

Market System

Tourism branding and marketing

Tourism is crucial to Tonga's economy, contributing approximately 11 per cent to GDP and supporting 3,000 jobs. However, destination marketing and establishing a strong national brand have remained a challenge for the industry. An assessment by the South Pacific Tourism Organisation (SPTO) highlighted the need for modern marketing strategies and improved social media presence

by national tourism organisations in the Pacific. The Tonga Tourism Authority (TTA) is taking steps to revamp Tonga's tourism branding, which has remained unchanged for over a decade. MDF agreed to support TTA's rebranding efforts, with assistance from Tomahawk, a New Zealand marketing agency, in 2024.

4

Market System

Yachting tourism

MDF is working on yachting tourism at a regional level, much of which relates to development in Tonga and Vanuatu. In addition to this regional work, MDF identified opportunities to work in yachting solely in Tonga in 2023. A concept was prepared to work with TTA on the development of a Tonga yachting cruising guide and maps, which will be implemented in 2024.

5

Market System

Tourism activities

The Government of Tonga has identified a lack of suitable activities for tourists aside from whale-watching. It is trying to commission at least one new major tourism activity. MDF is exploring options for new or scaled-up tourism activities. Two clear opportunities have been identified thus far, and intervention design began late in the year.

6

Market System

Rooftop solar

The Tongan electricity market shows strong potential for solar energy. The Government of Tonga, in collaboration with international donors, is setting up a Tonga Climate Change Fund, which will include a subsidy scheme for household rooftop solar installations, presenting a market

opportunity in the short term for solar PV system suppliers and installers. In late 2023, MDF agreed to work with a Tongan solar business on financial modelling and package development for businesses and households that might want to install rooftop solar to reduce electricity costs.

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Samoa Ministry of Agriculture and Fisheries (MAF)
Scientific Research Organisation of Samoa (SROS)
Secretariat of the Pacific Regional Environment Programme (SPREP)
South Pacific Tourism Organisation (SPTO)
Tonga Ministry of Trade and Economic Development (MTED)
Vanuatu Ministry of Trade and Commerce (MTC)
Vanuatu Chamber of Commerce and Industry (VCCI)

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- Vanuatu: YumiWork, Lolam Building, Kumul Highway, Port Vila, Vanuatu
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