Sustainability Assessment of the National Cooperative Business Association East Timor Coffee Activity

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EXECUTIVE SUMMARY: EAST TIMOR COFFEE ACTIVITY ASSESSMENT

Background: The objective of this report is to assess the Timor Economic Rehabilitation and Development Project's (TERADP) coffee activities sustainability, overall approach to implementation and effectiveness. The findings of this assessment will be one of the instruments employed by USAID in determining whether any redirection is required for TERADP.

TERADP
Project Purpose

- Contribute to East Timor's economic rehabilitation
- Improve incomes and living conditions of small-scale farmers
- Improve the business capacities and operations of rural enterprises
- Contribute to the development of a policy environment favorable to small-scale agriculture and SME's
- Reduce the time required for the transition to a viable economy and the need for continued relief assistance

TERADP is an eight-year, 17.5 million USD grant agreement activity. The prime-implementing contractor is the National Cooperative Business Association (NCBA). Phase I of the Project began in July 1994 with a 9.5 million USD grant agreement provided to the NCBA by USAID. Phase I was on track for a successful completion in July 1999. At the request of USAID the project continued operation through mid 2000 on a no-cost contract extension. As the Project's first phase was nearing completion, violent social unrest broke out on East Timor. The result of this conflict was a breakdown in the rule-of-law, and the complete destruction of government institutions, services as well as the destruction of much of the county's basic infrastructure and economy. In light of these events USAID provided NCBA with a 7.8 million USD grant modification agreement that will allow the Project to operate until end 2002. At that time the Project anticipates having approximately 7 million USD in assets including revolving fund cash, land, buildings, equipment, vehicles, and inventory.

Long Term Regional Commitment: NCBA began work in Indonesia at the request of the GOI in 1977. This early work focused on small-scale manufacturing enterprises and agricultural cooperative development. During the period 1980-87, NCBA used grant funds (from two PL 480 grants totaling 3.8 million USD) to create several agribusiness and light manufacturing activities in central Java and South Sulawesi. These included a furniture-manufacturing cooperative that now employs 3,300 people and generates 7 million USD in annual export sales. This business has not received any funding from USAID since 1987 and its sales have consistently grown. Customers now include some of the best-known names in the US furniture sector including Ethan Allen, Brown-Jordan, Smith and Hawken and others. In 1985, using USAID grant funds, NCBA entered the vanilla sector by creating a number of vanilla production cooperatives and a processing/ export coop. The processing coop currently buys vanilla beans from 12,000 member-farmers and then processes and exports the final product. The vanilla coop is now the largest processor/ exporter of vanilla beans in the world, with sales (2001 season) of 13 million USD and has not received USAID assistance since 1987.

A third example of a NCBA/ USAID success in the region is the Indonesian shrimp farming and processing cooperative started in 1986. The coop currently has over five hundred grower-members and will export an estimated 48 million USD of seafood in 2001. The shrimp coop has operated as a successful independent business, without USAID support since 1989. NCBA still plays a role in management and marketing through its management contract with the cooperative.

Using USAID seed capital (through a 4 million USD, 1988, P.L. 480 monitorization project) NCBA has developed similarly successful cooperative owned businesses in the spice and financial services sectors. Using these funds NCBA started the Cooperative Finance Company of Indonesia (COFINDO). Today COFINDO has eight times its original assets and is one of Indonesia's leading finance companies. To date, NCBA's efforts in the region have resulted in the creation of over 6,400 sustainable full time jobs and 7,400 seasonal jobs and have increased the incomes of over 48,000 farm families. In 2001, regional businesses that NCBA started with USAID support will export over 98 million USD of value added food and manufactured products. This is an exceptional track record of successes and credit is due to the NCBA/USAID team for their vision, management ability and long-term commitment to the region's economic development.

The East Timor Coffee Project: Working from their well-established base in the Timor coffee sector, developed during the Project's first phase (1994-99), NCBA was able to rapidly implement Phase II of TERADP. The cooperative buys unprocessed coffee from 18,800 coop members in the highlands of central Timor. This raw product called "cherry" is then processed, dried, sorted, packed and exported to buyers worldwide. At the time this report was prepared (May 2001), the NCBA Coffee Cooperative is the single largest employer in East Timor, employing 300 full time staff and 3,900 seasonal workers. The cooperative buys about 37% of all coffee produced in East Timor and is the largest exporter/ foreign exchange earner in the country, generating an estimated 4.1 million USD in coffee export sales in 2001.

Coffee exporting is a multi-billion dollar business. Green coffee bean is the second largest commodity market in the world in value terms. The NCBA East Timor coffee activity effectively targets the high quality–high value end of this market with its certified organic and conventional products. The cup quality of East Timor coffee has been already established, as witnessed by its price in the top 1% of all coffees worldwide. The key to obtaining such high prices was the Project's efforts in significantly improving the areas coffee quality.

The coffee production, processing and export cooperative formed by the NCBA's East Timor activity is the largest producer of organic coffee in the world, and it sells its product to some of the largest and best positioned wholesalers in the industry. By focusing on high product quality and high unit value, the Project has developed a sound business strategy that will maximize profits and minimize risk over the long term.

Sustainability: Robusta and Arabica coffee varieties were first planted on East Timor by the Portuguese in 1815; over time a natural hybrid developed that has the vigor and large root system of Robusta and the high acid/ high quality of the Arabica. Today, it is estimated that the highlands of East Timor have about 45,000 ha of coffee trees. These trees exist in a near-wild state; they receive no fertilizers or pesticides. This coffee production system has a very low environmental impact, as the only input used on the crop is the labor to harvest the wild cherry. The coffee growers-coop members have defined areas from which they collect their cherry. Once picked the cherry is usually brought to a roadside collection point, purchased in cash by the coop and then taken to a mill for primary processing. At the time this report was prepared (May 2001) coop members were paid 0.12 USD per kg of cherry at the mill. If the coop supplies a truck to pick up the cherry roadside the member was paid .10 USD per kg. In addition members receive a dividend payment after the crop has been sold. The dividend is usually paid in March of the following year (before the start of the next harvest) and can range in size from zero to .05 USD per kg of green bean delivered, depending on market conditions.

It is estimated that the 2001 crop will pay a dividend of about .028 USD per kg (average of all grades delivered) of green bean. Farmers said they preferred selling to the coop because they paid more per kg and it was less work, as the coop buys cherry (hulls/pulp on), and other buyers will only purchase coffee after the hull/pulp has been removed and the bean dried. Buying cherry and milling it at a central wet mill, using trained staff, instead of letting farmers do their own processing, results in uniform high quality. At the time this report was prepared the coop was paying .55 USD per kg for un-hulled coffee (equivalent). The price for un-hulled coffee offered by Dili traders was .36 USD per kg.

Costs and Profit
Of Processing Green Beans
Mean USD per Kg, Cherry to Bean Ration 7:1
Mid Elevation, Non-Organic

Selling Price FOB Port, Dili	1.618
Purchase Cherry at Mill	0.840
Other Variable Costs	0.533
Gross Margin	0.245
O&M plus Depreciation	0.195
Pre-tax Profit	0.050
Profit Tax (@ 30%)	0.015
After Tax Net Profit	0.035
Distribution of Profits	
Revolving Fund	0.011
Board & Staff Bonuses	0.011
Dividend to Grower	0.014

For the vast majority of farm families living in the highlands of East Timor, coffee represents over 90% of their annual cash income. Assuming that in 2001, the coop will purchase 20.925 million kg of cherry for .117 USD per kg (purchase price plus dividend), the 18,800 coop members will on average receive about $130 per member in total annual payments.

The processing and exporting coop has shown consistent sales growth from its 1994 startup up to the 2000 market year. The coop sells its green bean FOB port Dili, East Timor. The text box at the left shows the cost and returns to the coop for the processing and exports sales of a moderately priced coffee. As can noted in the text box, this mid-level coffee (in terms of quality and price) makes an after-tax profit which allows the Coop to re- capitalize its revolving fund, pay board and staff bonuses and remit .014 USD back to coop members as a dividend

If the coop were to cease operation it is estimated that farm incomes from cherry sales would fall by 33% to $83 per year. World coffee prices are currently at historical low levels, in part due to the increasing production of Vietnam. Once world coffee prices rebound, coop members will see improved incomes through higher cherry price and greater dividend payments.

Risks: Agribusinesses operating everywhere in the world are subject to similar types of risk, including weather and other production risks, market risk and general economic risk. For international agribusinesses, firms must contend with the added risks of exchange rate variation and the international trade regulatory environment. In these areas the East Timor coffee activity is no more at risk than most other world producers. The coop uses the New York "C" futures market to hedge its positions and reduce market risk, as do other professionals in the coffee industry. Future market hedging cannot completely eliminate market risk, but it does significantly reduce downside exposure. As East Timor uses US dollars as its currency, exchange rate risk has been eliminated.

The current political and economic situation in East Timor can be described as fluid. It is estimated that unemployment rates in this country of 800,000 people is 80%; however, it should be noted that a larger percentage of East Timor's population have traditionally made a living outside the official economy. The limited infrastructure that exists in the country is in disrepair, including the rural road system that the Project relies on to move its product from the field to the central warehouse and the port.

In the near and medium term, social unrest may be the Project's greatest risk. Labor problems and attempts at extortion will most likely be viewed as "business as usual", as they are in many countries that have experienced radical political and social change. With many projects in other nations having similar situations, both USAID and NCBA understand the risks before them and are in a better position than many other international organizations to adapt to the rapidly changing landscape. It is worth noting that all the expatriate managers within the NCBA coffee project and USAID management overseeing this activity are fluent in the relevant local languages and have a level of insight into the ever-changing East Timor political environment not normally seen on USAID projects. This in-depth understanding of the East Timor operating environment helps reduce political and regulatory risk, particularly in light of the fact that a democratically elected government will not start to form until August of 2001, with the first set of parliamentary elections.

Other Project Activities: NCBA has embarked on a number of other activities, all of which support the Project's overall purpose and enhance the sustainability of NCBA's work in East Timor. These activities include:

Vanilla: To reduce income risk to farmer (coop member), NCBA has started a vanilla bean production and extension training activity. This choice of crops for income diversification is an exceptionally good strategy for coffee farmers. The vanilla bean market price moves independent of coffee price, the crop requires a unique climate found in very limited geographies worldwide, but present in several of the coffee production regions of East Timor. Currently, vanilla is at a record high price and NCBA assisted Indonesia cooperatives are the largest producers-processors-exporters of vanilla in the world. These facts will afford vanilla farmers working with the Project access to experienced extension, process and marketing personnel, and a clear market channel for their high value product.

Primary Health Care: In addition to the Project's work in the coffee sector, NCBA staff also plays an important role in providing primary health care in the rural coffee growing areas. In the period February 2000 – February 2001 the 5 clinics (two of which have additional mobile outreach facilities) operated by the Project recorded 25,289 visits. With over 25 thousand visits annually, TERADP is currently the single largest provider of primary health care in rural East Timor. The Project estimates that in 2001 variable costs including; clinic salaries, drugs, consumables and miscellaneous will costs $168,000 (to operate a total of eight clinics). Assuming the current size of the coop at 18,800 members, the cost is 8.93 USD per member per year. This cost is calculated into the coop's overhead. In the future the coop plans to charge a small fee for members that deliver less than 1,000 kg of cherry per year. At the present time the coop clinics see everyone (members and non-members) that walks through their doors at no cost due to the lack of rural clinics in many areas of the country.

Training: NCBA has recently opened a new training facility in Dili. The training topics include general business skills, bookkeeping, management, cooperative management, board of directors training, improved farming practices, and English language. The training facility has a current operating budget of 24,000 USD and plans to provide 1,000 training units per year at a cost of 24 USD per unit. The training facility is an important component in developing the skills needed by the coops to successfully manage their businesses in the long term.

Purchasing Cooperative: To meet the needs of East Timor's rural and urban communities NCBA has recently organized a consumer goods purchasing cooperative (independent of the coffee coop). This coop will work with small retail enterprises to provide training and cooperative buying of basic consumer goods, which are often in short supply (and expensive) throughout the country. The first shipment of consumer goods is scheduled to arrive in May of 2001.

Conclusion: The NCBA, East Timor Coffee activity is a USAID success story. The coffee cooperatives have operated profitably since 1995. With its solid management team and sound business strategy, the Project has carved out a niche in the global high-value coffee market which provides both immediate and long term benefits to Project stakeholders. With the continued support of USAID and relatively economic and political stability, this Project will, in all likelihood, become self-sustainable at planned EOP, end December 2002.

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Methodology & Acknowledgement

Fieldwork on the NCBA Assessment took place between 6 May and 4 June 2001. The Assessment Team was made up of Helen Nicholas (Coffee Buyer for the Royal Coffee Company of California) William Ruscoe (agronomist), and David Neubert (Agribusiness Specialist-Team Leader).

Research on the assessment report began with an extensive review of Project documents and included the modified Grant Agreement, numerous Project reports, market statistics and other trade information. Following this initial period, the team focused on interviewing Project management and staff, as well as meeting with coop members and UN/government officials in East Timor. Throughout the field research period the assessment team kept in close communication with USAID representatives from Washington DC and Jakarta offices. The draft report was submitted to USAID on 31 May 2001.

The world coffee market green bean price used in this report is 0.66 USD per LB (1.452 USD per kg). This was the closing price of the New York C, July Futures, on 18 May, rounded to the nearest whole cent. Additionally, the report assumes that the coffee Coop will export a “best-case” total of 3,100 MT of green beans in the 2001/02 market year (worst case is estimated to be 2,300 MT). This volume is based on the Project management’s best sales estimates. It is important to keep in mind that prices and volumes are dynamic and change daily. For this reason, the projected sales and volume data used in the following report should be viewed as a snapshot of the current market.

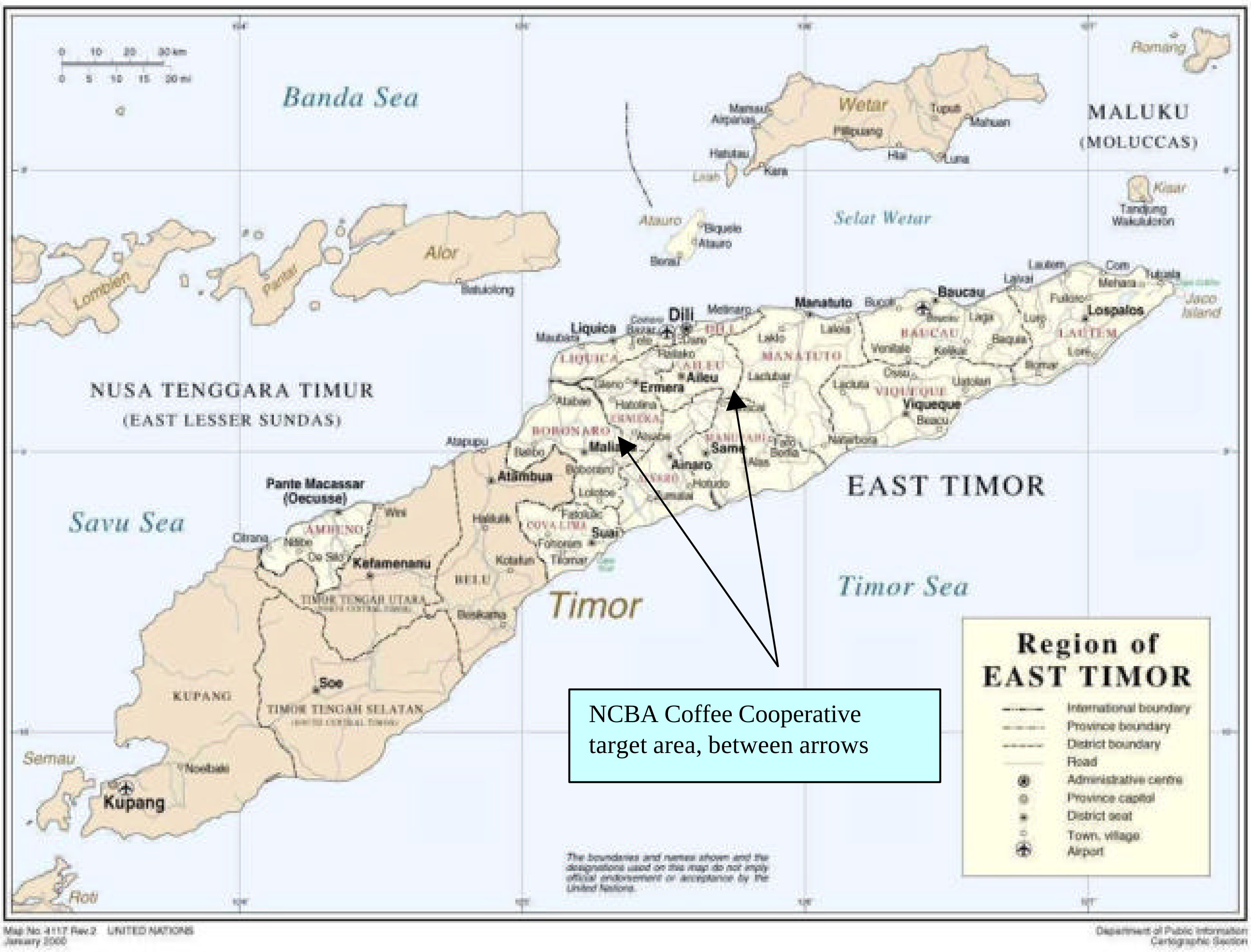
The Assessment Team expresses its thanks to the NCBA Chief of Party and staff for their cooperation, insight and assistance in the preparation of this report. Thanks are also expressed to USAID Washington DC and Jakarta for sharing their knowledge and experience with the Team throughout the Assessment process.

ACRONYMS

CCO	*Cooperativa Café Organic*: Local primary cooperatives, comprised and owned by farmer groups with a democratically elected board of directors.
CCT	*Cooperativa Café Timor:* National secondary level federation of coffee cooperatives, comprised of 16 primary CCOs.
CNRT	National Council for Timorese Resistance. Now serving as the country's senior indigenous political body in collaboration with UNTAET.
CSET	East Timor Cooperative and Small Enterprise Training Center. Also known as "Klibur" in East Timor.
GOI	Government of Indonesia
HR	Human Resources
ETTA	East Timor Transitional Administration
HMHC	The project's Health Maintenance/Health Care program for CCT affiliated coffee producing families. Now called *Clinic Café Timor*.
NCBA	National Cooperative Business Association
OCIA	Organic Crop Improvement Association, the international organic certification organization.
PUSKUD	The secondary-level farmer cooperative under the Indonesia cooperative system. PUSKUD Timor Timur was the East Timor provincial federation of the Indonesian cooperative system.
SO	Strategic Objective
TERADP	The Timor Economic Rehabilitation and Development Project
UNTAET	United Nations Transitional Administration in East Timor

Map of East Timor

The following map denotes the general area in which the majority of NCBA Coffee Project activities take place.



SUSTAINABILITY ASSESSMENT OF THE NATIONAL COOPERATIVE BUSINESS ASSOCIATION EAST TIMOR COFFEE ACTIVITY

1.0 A Short History of Coffee on East Timor

In the early 19th century Arabica coffee was introduced into East Timor and planted in private plantations owned by Portuguese companies. An unknown but large amount was also planted on land owned by Chinese business interests in the mountains of East and West Timor. By 1860 coffee was the second largest export from East Timor and was exported mostly to Makassar in Indonesia.

During the 1890's a regional coffee rust pandemic wiped out the main varieties that had been introduced by the early Portuguese. In East Timor however a mutation or a local natural cross between Arabica and Robusta coffee varieties called *Hybrido de Timor* (HDT) had resistance to this disease and is now the dominant variety planted in East Timor.

The first large scale Portuguese plantation (9,000ha) of this new Hybrido de Timor was planted in Fatubessi, in the Ermera district during the time of Governor Jose Celestino de Silva 1894-1908 who is considered the "Father of the Timorese Coffee Industry." This plantation is still the center of the coffee industry in East Timor.

As a result of the poor labor-relations and attitudes, most of the large plantations of pre-World War II times declined in profitability and by 1936 were controlled by absentee landlords, including the Japanese government who owned about 40% of the islands production. After World War II the Portuguese government took control of the Japanese coffee assets on the Island. In 1979, the Indonesian government, via senior military figures, formed a company called P.T. Denok, and took control of the coffee assets as the Portuguese departed the region.

Indonesian Army controlled company proved to be poorly managed and during the 1980's and much on the 1990's, never produced a high quality coffee. Today, small-scale farmers own about 80% of all the coffee planted on East Timor. This coffee, planted under shade trees has never been pruned or fertilized and is treated just as a normal forest product. It is harvested between May to August (depending on elevation) when the cherries are ripe and ignored the rest of the year. Typically, the average farmer/land owner works about one week a month for the three to four month harvest period, picking, drying and processing the coffee.

2.0 Phase I of the Coffee Activity (1994-1999)

The early NCBA analysis of the coffee situation in East Timor showed two opportunities. The first opportunity of was the total lack of chemical inputs on the coffee crop. This fact immediately placed it in the high-value "organic coffee" category. The second opportunity was the lack of washing or "wet-milling". Historically, farmers dry-processed the cherry themselves and got a much lower price for this lower quality coffee in comparison to wet milled coffee. By developing wet milling capabilities in East Timor NCBA determined that they could immediately improve the coffee's quality and increase it's value on the world market. The technology and capital investment for wet milling is modest given the improvements it imparts to the final product. The farmers also liked the idea of "wet milling" by the coop, since it meant that they had to do less work and could sell their cherry (roadside) for equal or more money than they had historically been paid. This meant that the farmers could harvest more since they did not have to dry process the coffee. Prior to wet milling the farmers frequently could not harvest and dry process all of their cherry in the limited time available.

In the 1990's the US Government became increasingly concerned with the lack of political integration and economic progress in East Timor. Also of concern was the social and political unrest in the province-much of which was caused by military monopolies and practices. In July of 1994, after obtaining agreement in by senior GOI officials, NCBA started the coffee cooperative in East Timor using USAID grant funds. The Project was to have a 5-year life with EOP in July 1999. As the planned closing date approached USAID Jakarta asked NCBA to continue work on the Project through December 2000 under a No-Cost Extension.

Due largely NCBA capable management team, the Project was able to increased exports of washed green beans from 65 tons in 1995 to 2,000 tons in 1999, (over a 30-fold increase in just 5 years), this in spite of the difficult security situation and the remote locations of the coffee farmers.

2.1 Post-Referendum Environment and Activities:

In September 1999, the Government of Indonesia had a referendum to determine the aspiration of East Timor's population for independence. The outcome of the vote was clear, the majority of the population wanted to be a politically separate nation. In the period immediately after the vote the government lost control of the situation, riot and looting reached every corner of East Timor. The coffee Coop's warehouse, offices and mills were looted and burned. All the Project's Indonesian staff fled the violence and to this date cannot return. After the ashes had cooled expatiate NCBA staff returned to find the Project in physical ruin but organizational functional.

Following the social unrest of September 1999 USAID, requested NCBA to submit a proposal to continue the Project under a modified grant agreement. This agreement was signed in July 2000 and the NCBA started to rebuild the Coop. Additional funding planned for 2001 will allow NCBA to manage the Project through end 2002.

The security situation in East Timor is still a concern. During the time this report was being prepared, world coffee price have fallen to historical lows and the Project has had to reduce the member's cherry purchase price. Hearing of the lower prices, local students have protested and threaten to burn Project trucks. In response to this latest security problem, the Project has decided not to buy cherry in selected areas until the security situation improves.

2.2 USAID East Timor Strategic Objects

USAID SO's in East Timor include:

- Revitalization of the Local Economy – 472-001
- Democratic Development Strengthened – 472-003

The NCBA Project is funded under SO 472-001 (Revitalization of the Local Economy). The coffee activity is making a direct positive contribution to its SO target. The coffee Coop is the single largest generator of export earnings in the country and the single largest private employer in the country. The Project estimates that of the 11.8 million USD in total export coffee sales from East Timor, the Coop will account for 37% or about 4.1 million USD. Additionally, the Project is addressing the future HR needs of the nation through its newly opened management-training center in Dili. This facility provides training in a variety of basic business management topics, production and English language. All of these skills are essential to the long-term revitalization of East Timor's Economy.

The Project impact is particularly significant in remote rural areas where few other donors/ projects operate. In the highlands of East Timor, coffee production is by far the greatest source of household income, representing an estimated 90% of all cash income for many rural residents (see Annex F, Figure 19 for additional data).

3.0 Crop Production and Post-Harvest Infrastructure

Crop Production and Processing: Since most of the coffee in East Timor is forest coffee and the organic certification has a large positive effect on its price, there is little push as yet to make it more productive per hectare by using any fertilizer inputs - even organic inputs. There are ample demonstration plots for farmers to see the effects of pruning so it is likely that more care will be put into plant husbandry in the future via pruning and weed control. The clear success of the vanilla production and extension sites in the coffee growing areas is an indication that progress can be made.

Timorese farmers are exceptionally conservative. In the lowland rice growing areas of East Timor, the farmers still do not use draft animals to pull plows, but continue to use buffalos to trample the soil (or hand tractors when available) by walking in circles. This is a slow and ineffective way to make a seedbed but the practice persists. It is also important to note that rice farmers in the lowlands did not start transplanting rice until the 1970s - about two thousand years after the Chinese. Timorese will change practices but it never happens very quickly.

3.1 Logistics and Market Infrastructure

Most of the local coop members do little more that pick the cherries and take them to the closest road for purchase by the buyer from the local coop (CCO). At the road side the CCO buyer inspects the cherries for color and quality and rejects the bad ones. The CCO buyer then weighs the cherries and pays on the spot after writing down the membership number of the seller. After the collecting truck has finished its collection run and arrives at one of the four wet processing facilities (Maubisse, Aifu, Estado and Liquica), the CCO buyer then weighs the cherry again in the presence of the CCT (National Secondary level Federation) staff member.

The cherries are then dumped into the washing tank and cleaned. From the wash tank they are run through a pulper to get rid of the cherry skin and most of the pulp, and put into large, open air, fermenting tanks where the "parchment" ferments for 24 hours, is washed and then fermented another 24 hours. After fermentation has taken place, the remaining parchment is washed again vigorously and put out to dry in the sun. The sun drying can take place at the wet processing center or the parchment can be trucked down to a lower elevation where there is a better chance of enough sunlight to dry the parchment quickly. Often at the higher elevations, there is too much cloud cover to use sun drying efficiently.

The wet mill facilities only use electricity at the pulping stage and Coop owned generators supply this power. The wet milling facilities do use a large amount of water - about 20 liters of water for each kilo of cherry - but in the mountains it is not difficult to find springs with the necessary volume of water. At present there are sufficient settling ponds so that there is no problem with washing water going directly into streams without passing through the soil first.

3.2 Strengths and Weakness of the Production System

The strength of the present system is that is simple. Buying cherry by the side of the road is based on color and is simple to understand: red is good; green, brown or black is bad and will be rejected. The wet processing facilities only use electrical power (supplied by Coop generators) at the pulping stage and if there is a problem a back up generator sets can be brought out from Dili. The operators of the wet processing facility do not need extensive training because of the simplicity of the process. The extensive use of hand labor at all steps of the processing also provides significant employment.

At present there are only four significant problems in this system. The first and most significant problem is getting the cherries to the fermentation tank within 24 hours of picking because this is necessary to keep the cherry quality and coffee price high. At present this is probably the major constraint on increasing production (in part due to poor roads). The cherry is about seven times the weight of the dry processed coffee bean. Since most of the off road transportation is by foot or by pack horse, the area that can be covered by each wet processing facility is limited to what can be picked and taken to the main roads which are able to carry the weight of a 4 ton truck. This presently excludes large coffee growing areas in more remote locations.

The second problem is making sure that the roads are passable. The coffee harvest is over a short period of time and starts just at the end of the wet season when the roads are in their worst condition. The project (NCBA) has had to spend private coop money to repair public roads just to make sure the transportation chain does not break down. This problem may become more serious if additional wet processing facilities are built in areas with poor road networks. At present this appears to be under control but a few landslides at the wrong time could cripple some operations.

The third problem is making sure that runoff water from the washing does not get into streams and that the waste pulp is converted into a usable mulch. The runoff problem in Maubisse has been solved with additional settling ponds and attention is now being focused on developing the most efficient way of composting the cherry skin into good quality mulch. The problem is under study and experimentation is expected to give some solutions this season.

Because the present processing system is so labor intensive at all steps, there is always the potential problem of labor unrest. The rapid inflation of costs in East Timor because of the UN presence has made the present wage levels difficult for the East Timorese to accept. These wages are about three times the prevailing levels for similar work in Indonesia, but the costs in East Timor are higher. This problem will clearly be significant this year, but after independence and the departure of the high wage system of the UN, it should not be so problematic.

3.3 Future Infrastructure and Training Needs

There will be a need for future wet processing facilities as the project moves into the coffee growing areas in the southern highlands of East Timor. As the coop staff develop more management capacity and capital becomes available, it is going to be easier to set up new wet processing facilities closer to centers of coffee production than to attempt to transport the wet cherry over longer distances to the present four wet processing facilities.

Training in all aspects of coffee production will be necessary as the industry moves into wet processing more of the harvest. The demand for wet processing is going to expand in the coffee growing areas because of its higher prices and lower labor demands on coffee farmers.

The transition to a higher level of farm management will not happen quickly, but significant progress has been made in the quality control over color and age of cherry that is acceptable to the coop buyers. Most coop members now bring only red cherry to be sold and don't mix the maturities by picking the whole harvest at one time. The high price for high quality cherry is now acknowledged and this is the first time this has happened in the 150-year plus history of the coffee industry on the Island

4.0 Project Organization, Operations and Management

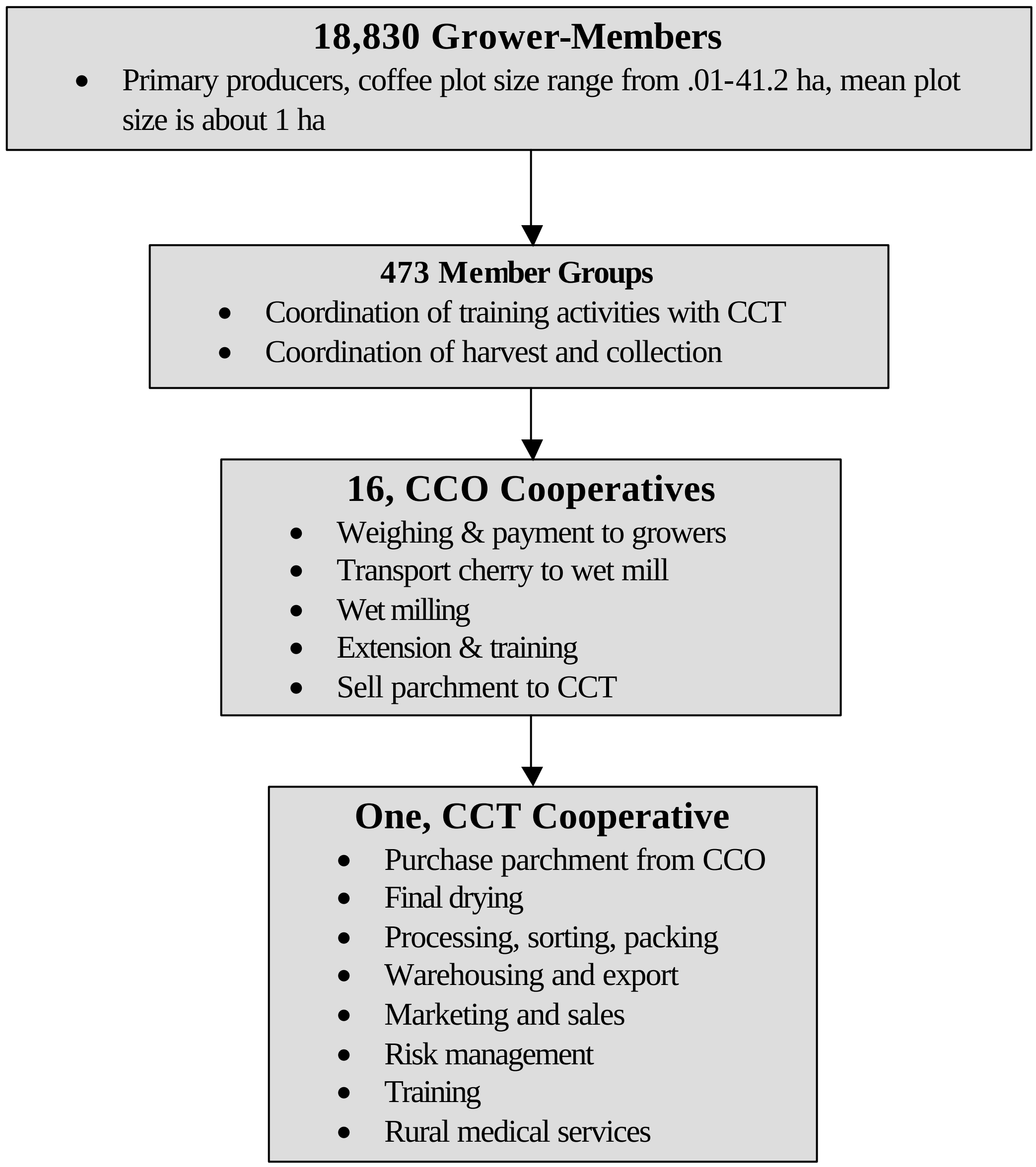
The coffee Cooperatives have three levels of organization and management. There are currently 18,830 farmer-members and this number is expected to grow over the next several years as the Project moves into new geographies. The coop's membership is expected to top out at about 25,000 members in 2002. The members are spread over an estimated 1,800 square kilometer area in the East Timor highlands. The areas in which coffee is grown is remote, mountainous, is serviced by few roads, there is no electrical power grid, has no telecommunication network and is provided with few if any government services. The rural areas of the country are poor by any international standard and a challenging place to organize and operate a business enterprise.

Member-Groups: The first level of organization is the farmer-member group. There are currently 473 groups and on average each group has about 40 members. The member group is the point at which the Coop's management communicates with the majority of the membership through democratically elected group leaders. Other activities that take place at this level include project administration, the registration for health service, registration for membership ID cards, raw product/quality control, coordination of harvest and transportation of cherry to the CCO wet mills.

CCO: The next level in the Project's organizational structure is the CCO (Cooperativa Café Organic). This is the local primary cooperatives level of the organization. There are 16 CCO's, all of which are owned by the 473 member groups. On average each CCO has 1,177 members. The CCO's have significant variation in their members' numbers; the largest CCO is the Cooperativa Cafee Maubisse with over 3,100 members and the smallest is Cooperativa Café Organic Halibur with 138 members. A democratically elected board of directors manages the CCO's and each CCO has a full-time local NCBA manager assigned to them to assist in training, coop management and coordination of harvest. Membership to the CCO is a function of geographic location.

CCT: The umbrella organization is the Cooperativa Café Timor National also called the CCT. The CCT is owned by the 16 CCO's and like the other levels of the organization the CCT has a democratically elected board of directors. The CCT also owns most of the fixed capital and liquid assets associated with the coffee activity including the revolving fund equity, three wet mills, five medical clinics, the Dili based parchment processing facilities, green bean sorting and warehouse facilities as well as other assets. The primary function of the CTT is to purchase parchment from the CCO's. The CCT, then the legal owner of the parchment, processes and exports the finished product (green coffee beans) and returns dividend payments to the CCO for distribution to member-groups and individual members.

The Cooperatives Organizations and their Main Function



4.1 Project's Approach and Business Strategy:

NCBA has employed the cooperative business approach to enterprise development within the region since 1977. This business model is based on the organization of democratically elected business (cooperative) executives officers and the training of full-time business managers that will eventually take over the day-to-day operations of the enterprise. Over the past 24 years, this model has proved to be highly successful. During this period, NCBA, using USAID and P.L.480 seed capital, developed enterprises in the agricultural processing, light manufacturing and financial services sectors. In 2001 NCBA estimates that throughout the region (Indonesia and East Timor), businesses started in partnership with USAID now employ 6,400 full-time workers and 7,200 seasonal workers. The USAID/ NCBA partnership businesses regularly contribute to the incomes of over 48,000 farm-households in the region through the purchase of a diverse line of raw agricultural products including coffee, vanilla, cinnamon and shrimp. The East Timor coffee farmers / Coop membership makes up almost 40% of all the farmers working with NCBA.

Project Strategy & Sustainability

The Assessment Team believes that the approach and strategy that NCBA is employing in the implementation of the East Timor coffee activities is sound and is the best possible path to ensure the coffee coop's long-term sustainability.

-The Assessment Team

All of NCBA's successful regional businesses share some common strategies. These strategies include the organization of small-scale farmers to produce high quality-high value products. The business (coop) then adds additional value to these high value crops by processing them to the highest international standards. NCBA focuses on producing products that have well-established international markets and a strong comparative advantage relative to other producers worldwide. The foregoing elements are then coupled with NCBA solid management and training capabilities as well as a hands-on knowledge of international markets and distribution channels. NCBA is using this same approach when it comes to developing the East Timor coffee Cooperative.

4.2 Project Strengths and Weaknesses

The Project's primary strengths lay in a strong management team (both in NCBA and USAID/ Jakarta). The top managers all have extensive experience in the region, are technically competent and fluently speak a number of the most important local languages. The combined skill-level of the Project management team is well above the norms of development organizations worldwide. The management team has proven itself to the Project beneficiaries as well as the international coffee market by continuing to buy cherry, process coffee and "deliver on contract" during the time of East Timor's violent social unrest.

In addition to developing and operating its core-business, the Project understands the needs of its growers-member and employees. To meet these needs and to help insure its long-term sustainability, the project has started a business-training center. The center will provide training to coop employees and members in subjects, including but not limited to: business and coop management, bookkeeping, board of director training and English language training.

NCBA 's East Timor coffee activity is not a small business. This year it expects to sell over four million USD of product into the world market. Given the amount of money involved the risk can be significant. To manage these risks, NCBA employees use standard commodity market hedging techniques to protect the coop members from downside market risk. Hedging is a complex but necessary part of any successful coffee business. It is understood by the Assessment Team that the Coop will most likely have to rely on expatriate professional management over the long-term to manage this and other complex parts of the business. Given the potential value and volume of the coffee sold by the Coop, the Assessment Team believes that enough annual gross revenue can be generated by the business to hire the required management talent from the private international market.

SWOT Analysis for the NCBA East Timor Coffee Activity As seen by the Assessment Team	
Strengths •Strong leadership& knowledgeable management team •Proven track record in the region •Solid marketing strategy •Good staff & Coop member training programs •Has continually improved quality •Is effectively addressing risk management issues	**Weaknesses** •Coop members have very limited understanding of world coffee market •USAID has not communicated its long term commitment to the activity •NCBA has no assistant manager "understudy in training" that has a full understanding of all of the NGO's complex activities in the region
Threats •Civil unrest & labor problems •Down turn in world coffee price •Poor infrastructure (roads) •USAID / NCBA leaving East Timor before Coop staff can be fully trained to take over management	**Opportunities** •Develop Timor coffee as a standalone origin •Develop Fair Trade certification •Expand vanilla operation •Train local staff to take over (most) management functions in the medium term •Work with new government to develop rational agricultural and business policy

One overall weakness that the Assessment Team noted in the regional NCBA operation, as a whole, is the lack of any Assistant-COP (understudy). Given the number and complexity of projects and businesses operated by the NCBA regional office in Indonesia, the Assessment Team recommends that NCBA consider hiring a business manager that could backstop the COP in managing the complete NCBA portfolio

5.0 Market Overview

The advent of "specialty" coffee in the late seventies heralded a new market for high-grade Arabica beans as opposed to low-grade Robusta qualities. These specialty beans tend to be high grown, washed coffees with a high premium paid for "cup" quality.

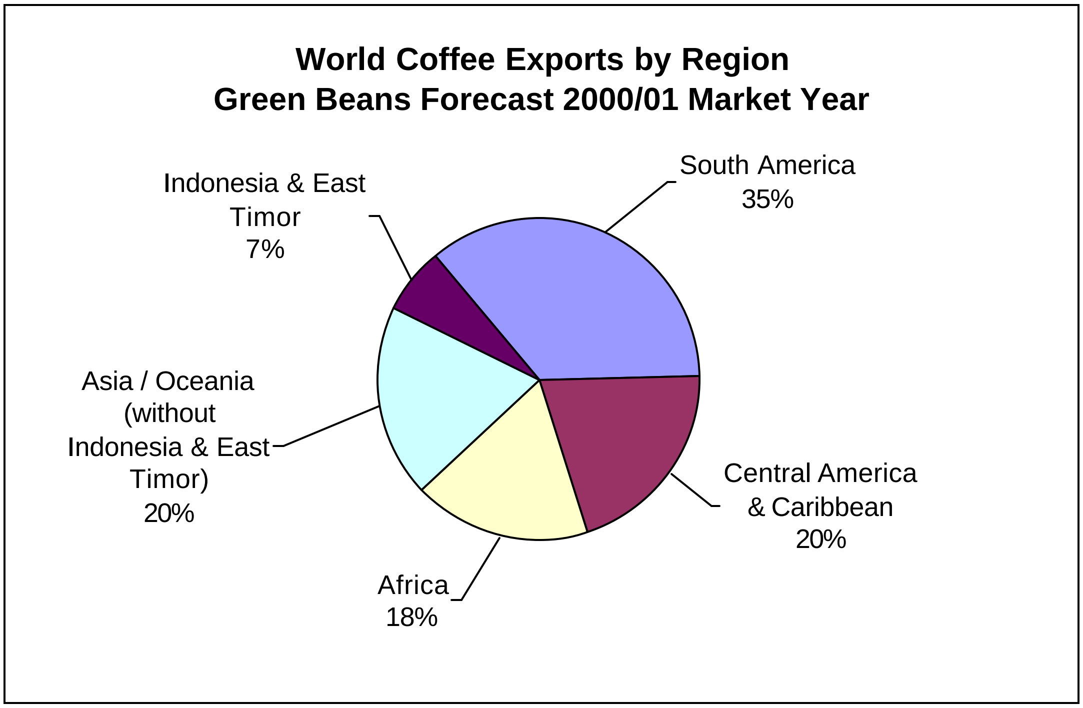


Figure 1, Source: USDA Commodityexpert, Coffee News

As the market for high quality conventional and organic coffees continues to grow, East Timor's supply will prove more and more important to the growing Specialty segment.

> **Growth in Demand For High Quality East Timor Coffee**
>
> In interviews with the Assessment Team, Scott McMartin, senior buyer for Starbucks Coffee, stated that their firm foresees a growth in East Timor from a present usage of 1100 metric tons to a future usage of 8-10,000 metric tons. McMartin also referenced a "vast" improvement in the quality of East Timor's coffee from 1994 to the Project's present quality. In addition, he uses the word "dedicated" to describe his company's relationship to the Project.

German commodities analyst F.O. Licht predicts that a world coffee surplus is likely to continue over the next two to three years, driven by Robusta production in the world's top two growers – Brazil and Vietnam. Recently revised figures peg world production for 2001/02 at 112.14 million bags, up from original estimates of 111.06. In light of this surplus, the best avenue for survival in coffee will be in the "value-added" sector; i.e. High-grade Specialty, Organic, Sustainable, Fair Trade, and Shade-Grown coffees. NCBA is one step ahead of the market trend in that its coffees are already Certified Organic, a move that many producers will rush to copy, if they qualify, in an effort to combat continued low prices. The possibility of selling all or nearly all the East Timor crop as organic invites the possibility of a 15-20 cent premium above even the top Specialty grades. At the moment, East Timor organic fetches $.11 above its conventional coffee. As it is, the NCBA project already commands a price in the top 1% of all coffee sales worldwide. That this has been accomplished in a mere 6 years, in spite of war and widespread destruction, is a source of marvel to the Coffee Industry. That NCBA shipped coffee in 1999/2000, in spite of every reason to default, has generated considerable sympathy and respect for this project. Although Specialty coffee commands a small segment of the U.S. market, it is only in this segment that things like sympathy and respect garner a higher price.

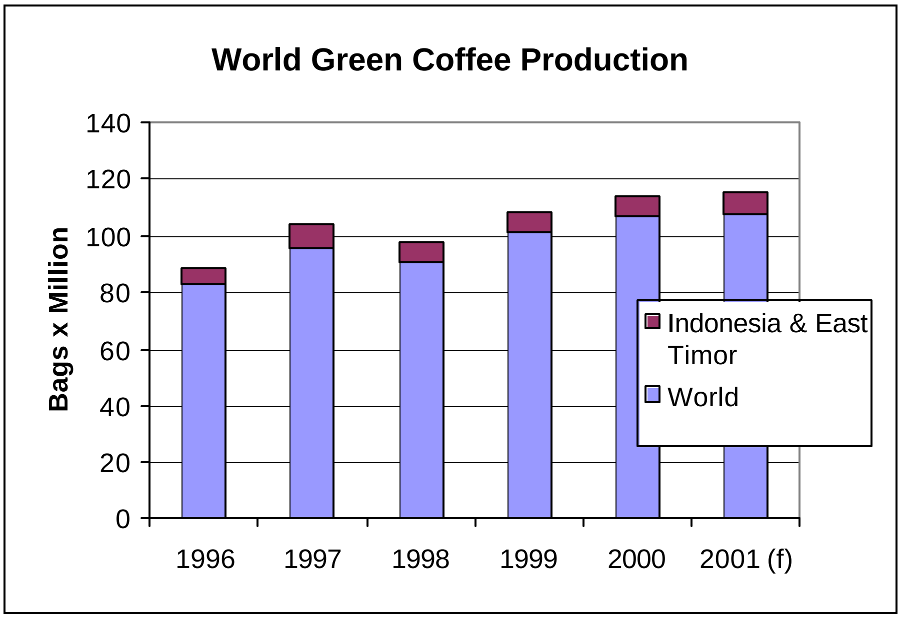


Figure 2, Source: USDA Commodityexpert, Coffee News

According to Licht, consumers should be concerned about the high potential of a significant shortage of top grade coffees over the next few years in spite of overall over-production. Inasmuch as East Timor is already producing a Specialty-grade coffee, both Organic and Conventional, it is well placed in the Market for continued growth.

The Specialty Coffee Industry is in the process today of differentiating itself from the Commercial coffee business. This is happening in a number of ways including cup quality, respect for the environment (witness the Organic, Shade-Grown, Eco-OK and Smithsonian Migratory Bird projects), and respect for the labor of growers (witness the Fair Trade movement). In addition, the industry is just beginning to demonstrate a willingness to separate from the 'tyranny of the "C" Market' (a New York Commodities Market price for coffee that indicates a price based on supply and demand, but includes the vast glut of low-grade and Robusta coffees worldwide that have no bearing on the relatively small quantities of high-grade coffees available).

Improving Quality

"The (East Timor) coffees at their best have been very useful, full-bodied, clean anchors to blends that might otherwise have employed Estate Javas and other coffees which, illustrious as they may be, do not support people, predicaments, and projects which move us to nearly the same degree….No farmers have done more with less under more trying circumstances than these growers, and they are heroes if the world has any, and by association so also those who have supported the export and import of these coffees."

Kevin Knox, Buyer -Allegro Coffee

The quality of the cup in East Timor has already been established, as witnessed by the price commanded by the product in the top 1% of all coffee prices worldwide.

Respect for the environment has been demonstrated through the project's Organic Certification (through OCIA—Organic Crop Improvement Association).

And respect for the growers has been demonstrated by the high prices paid to farmers at the farmgate, relative to local traders.

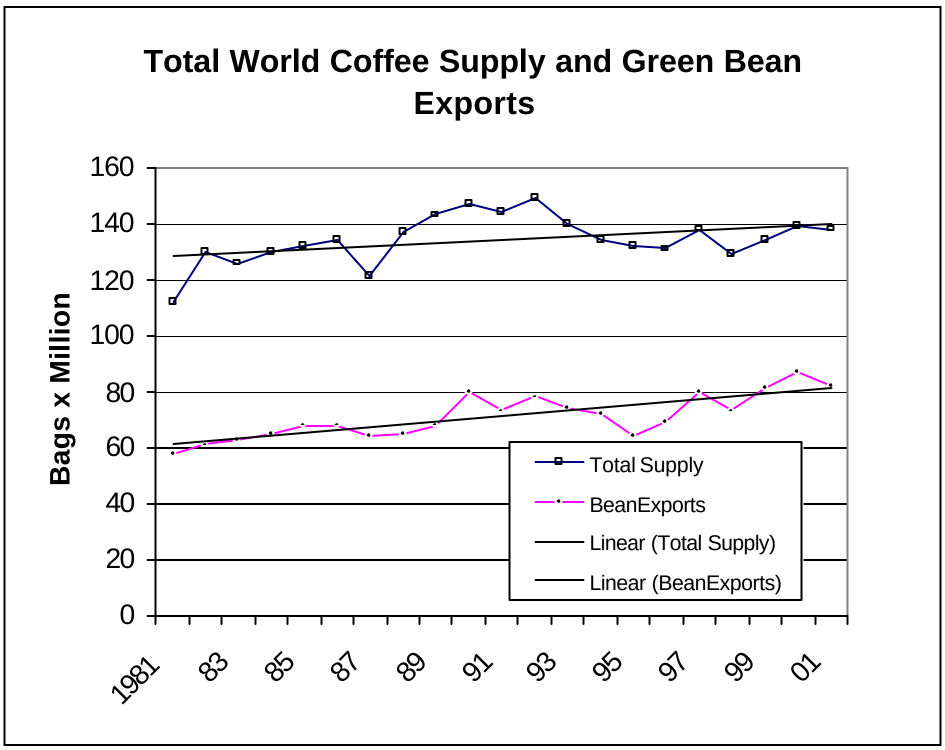


Figure 3, Source: USDA Commodityexpert, Coffee News

East Timor's Market Niche: Timor coffee represents a significant addition to the world's relatively small supply of washed Asian coffees, particularly when you consider that 80% of Indonesia's coffee exports is in Robusta grades. While the volume of Specialty is small, the margins are high. For example, the majority of the world's Robusta might sell at a differential of around US $.40-.50 under the NY"C" FOB. The lowest-priced Arabicas, Unwashed Brazils might sell for around $.12

The Possibility of Coffee Being Listed in The WTO "Green Box"

Producing countries such as India are presently lobbying the WTO for coffee to be included in the WTO category for subsidies known as the "green box" (environmentally friendly). If the WTO approves coffee as a green box crop, growers will be eligible for subsidies.

under the NY"C." East Timor's coffee, as a high-grade, Washed Specialty, sells for around $.03 over for conventional and $.14 over for Organics.

Origin, Time & Price: Much of the Specialty coffee in the United States is imported from Central America, where the crop comes in during the second quarter. Timor coffee becomes available in the U.S. marketplace at a time when most other coffees are unavailable. This becomes even more important when considering Organics, inasmuch as the Organic segment of the U.S. marketplace is growing at a rate of 20% per year. The three largest producers of coffee in the world, Brazil, Vietnam, and Colombia, produce virtually no organic at all.

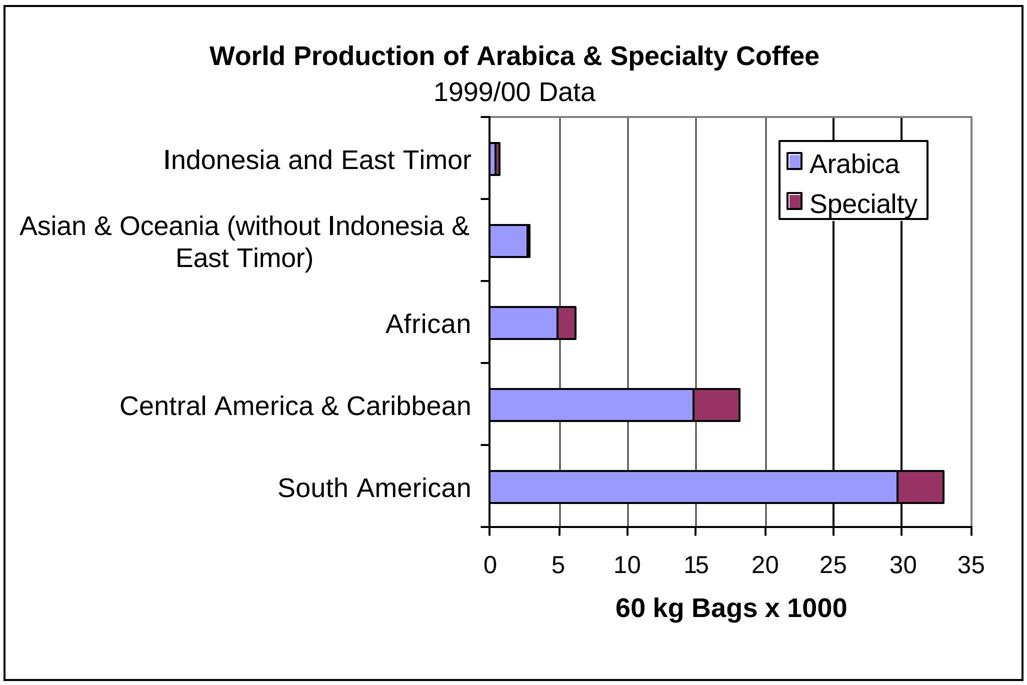


Figure 4, Source: USDA Commodityexpert, Coffee News

Both as a conventional and as an organic coffee, Timor, which can be substituted in quality for the more-often-used Central Americans, competes chiefly with Peru during the second quarter (see Figure 6). For a large user, the availability of large quantities from one origin is more useful and efficient than numerous purchases from multiple origins. NCBA Timor already produces the world's largest single source of Certified Organic coffee. Although they are unable to sell all their coffee at an Organic premium right now, they are well placed to take advantage of current flirtations on the part of large specialty roasters with the idea of Organic or Fair Trade blends.

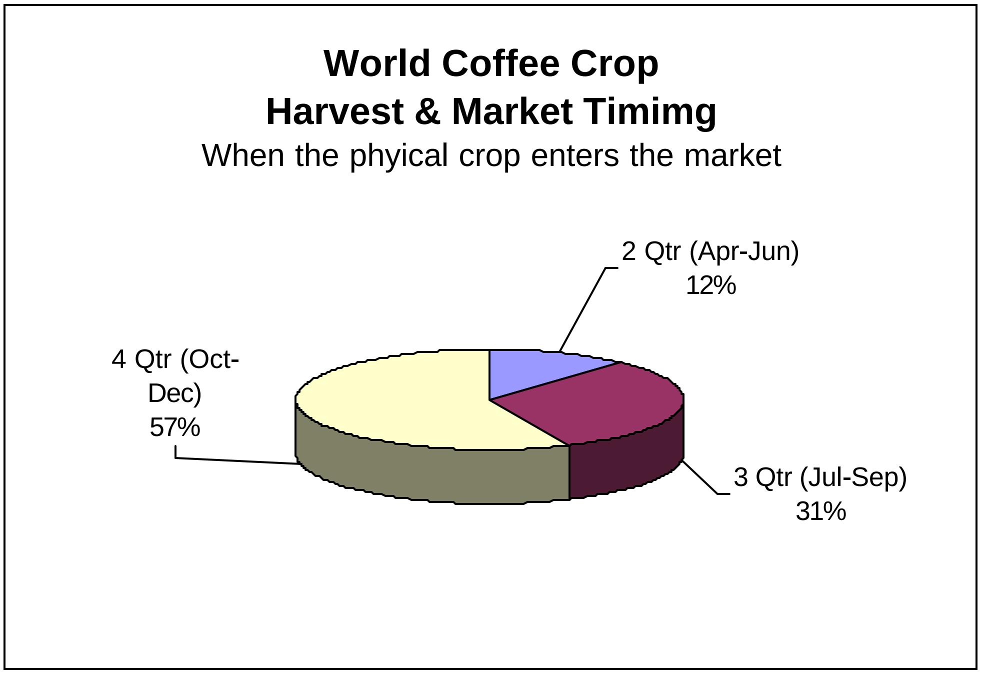


Figure 5, Source: USDA Commodityexpert, Coffee News

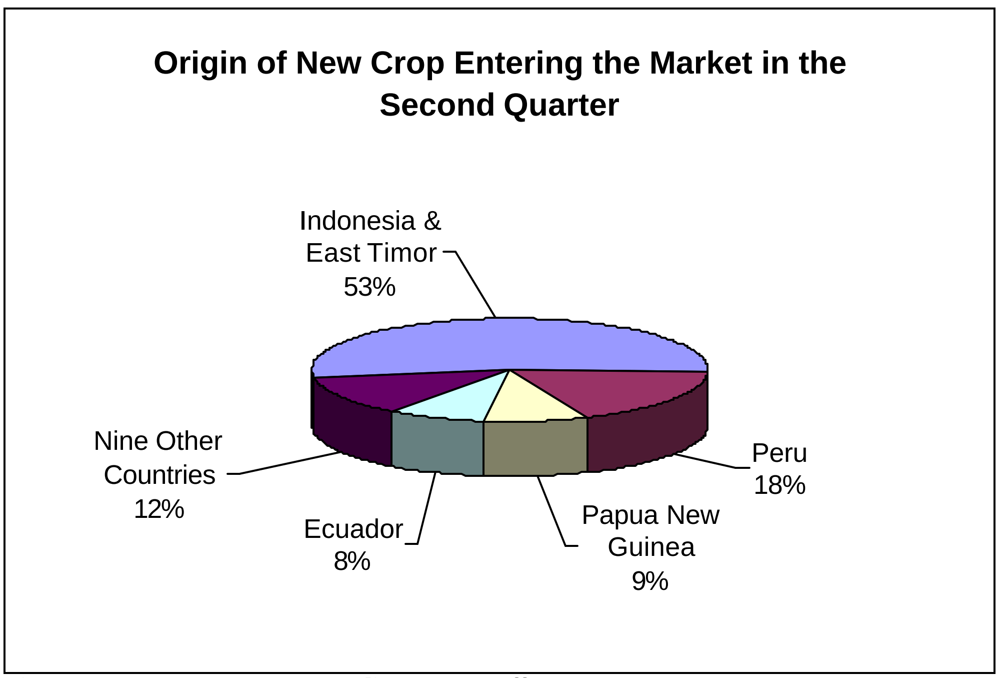


Figure 6, Source: USDA Commodityexpert, Coffee News

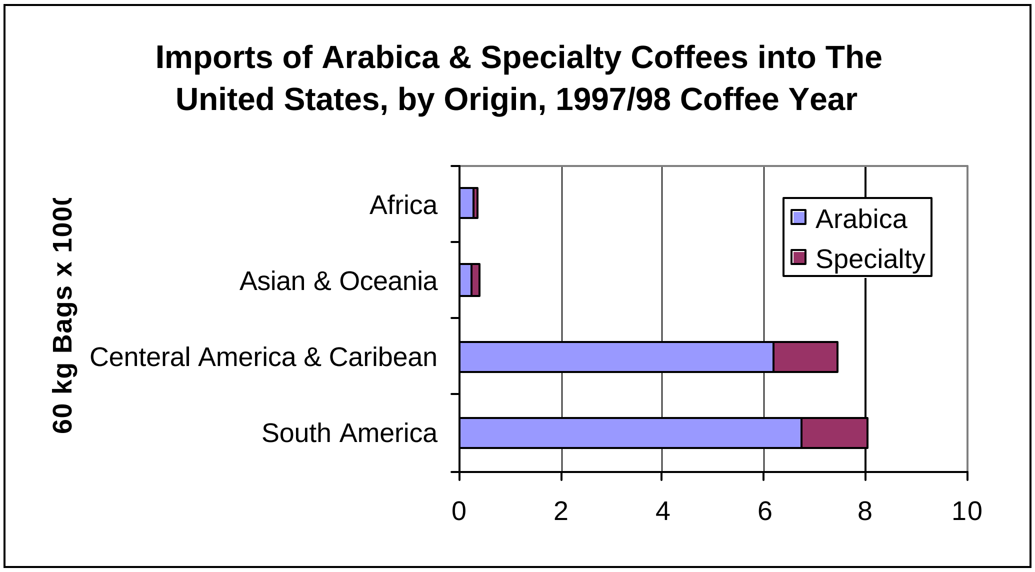


Figure 7, Source: USDA Commodityexpert, Coffee News

Although the largest coffee companies continue to import chiefly from the traditional suppliers in Central and South America, the growing Specialty segment is thriving on more exotic coffees, producing a strong potential for growth in Asian coffees. While the volume in top grades is small, it is important to note that for an exporter, profitability is much greater.

Over-focusing on volume can lead to the "McDonald's phenomenon," where suppliers are squeezed for ever-lower prices which are supposed to be offset by volume but sometimes lead to disaster for the supplier and a loss of diversity for the consumer. While increased volumes won't hurt (as long as current pricing can be maintained), value-added strategies should be pursued to the maximum. The value-addition inherent in Organic has already been implemented by NCBA.

Shade-grown and Bird-Friendly value-addition would probably not be feasible given their rather stringent rules for shade diversity (the Smithsonian requires a minimum of ten varieties of shade trees for certification, but East Timor has only a few varieties). In any case this segment is very small. Fair Trade, however, seems to have potential if indeed the Project can qualify for Fair Trade status (there is some question as to whether the sometimes overlapping and joint ownerships of land in East Timor can be incorporated into the Fair Trade system).

5.1 Market Position

The New York "C: World coffee prices are determined by two commodities boards: the LIFFE in London, which refers to Robustas, and the NY"C" (Commodities) Market for Arabica. Simply put, the "C" is the reality of the situation. It determines price in terms of supply and demand.

Conventional Wisdom Among Trades

"Transparency is to traders as daylight is to vampires"

-Unknown trader

Coffee is traded above or below the "C". The better the coffee is (or the more scarce it is), the higher its differential will be above the "C". The worse it is (or more readily available), the lower its differential below the "C." Although the gap between good and bad can be as wide as +$2.00 to -$.50, most Arabica specialty coffee trades between even with the board and about $.20 over.

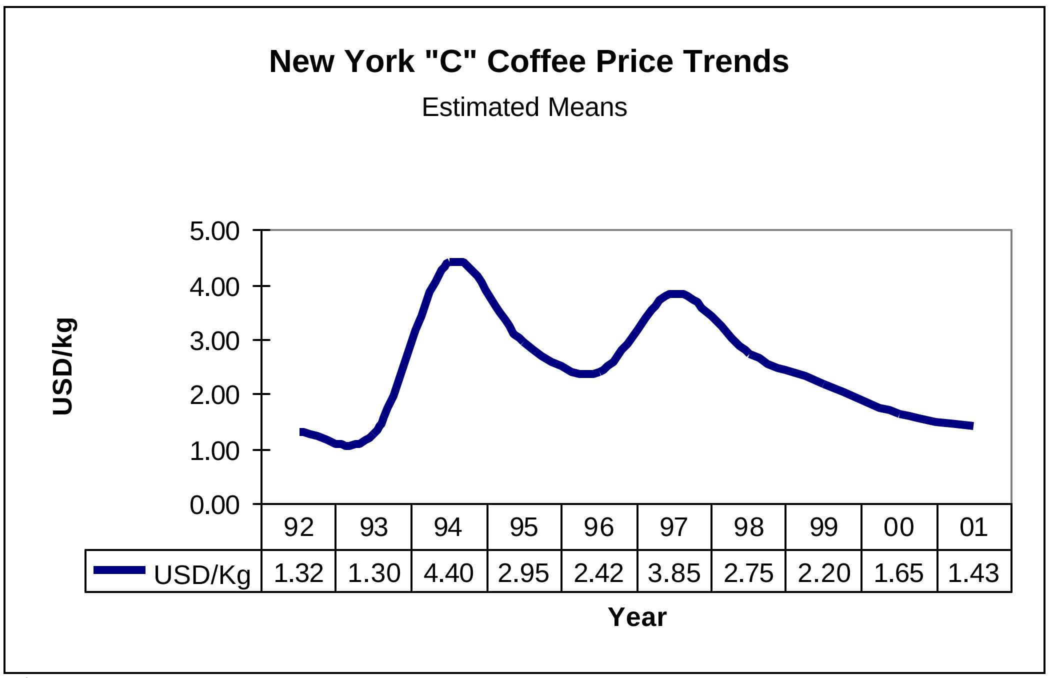


Figure 8:Summarized from Commodity Expert Archive

If a coffee is particularly scarce, it is possible for growers to name their price as in the recent case of a farmer who brought Organic Colombian to market. Inasmuch as he faced no competition for the product, he was able to essentially name his own price at about $1.00 over the board. However, he produces only a few containers a year and he produces the only organic coffee in Colombia. Were he to produce numerous containers, there would not be an adequate market for his coffee. And should someone else develop organic in Colombia, his edge as the only game in town will per force disappear. Generally speaking, farmers have more room to dictate price in the specialty arena than in the commercial arena, but even so, all coffee is subject to the presently immutable laws of supply and demand.

Assuming 75% of the Coop's total output can be sold as organic and 25% as lower grade coffee, sold into the conventional market, the Coop could realize an estimated increase in sales revenue of 680,000 USD, see figure 9, over its current market mix.

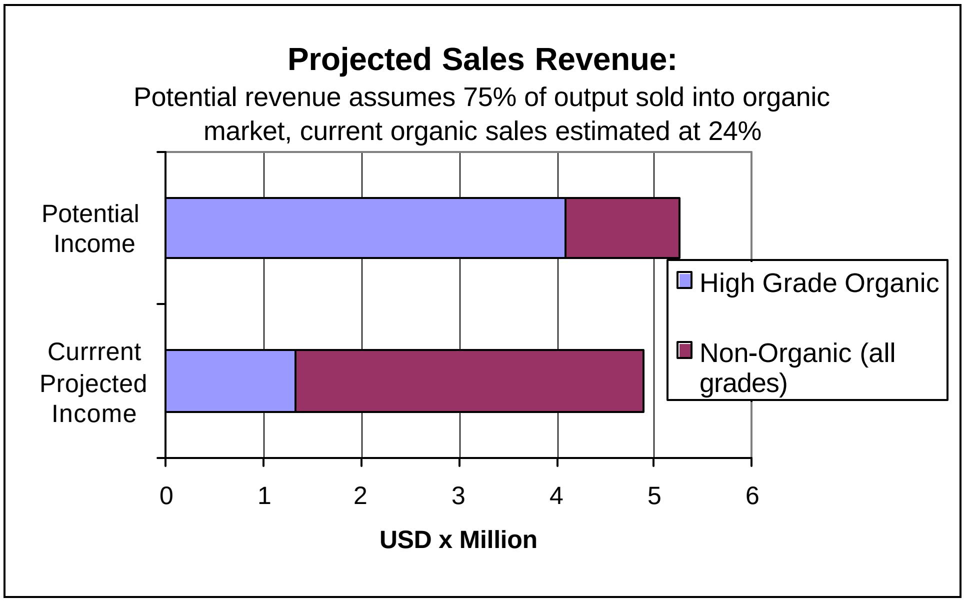


Figure 9,Source: Assessment Team Estimates

Name Power:
Value Added for Name Recognition
(May 2001,wholesale green bean, San Francisco)

Name	Landed Cost
Kenya AA Fancy	$4.95/kg
Ethiopian Harrar	$3.12/kg
Estate Java	$2.11/kg
Colombian Excelso	$1.84/kg
Timor Conventional	$1.87/kg
Nicaragua SHG	$1.76/kg
Mexican Prime-Washed	$1.72/kg.
Peru HB	$1.72/kg

There is an inherent market risk in selling all your coffee to one buyer. While the Project management is well aware of this, they are presently selling about 45% to one buyer and another 55% to numerous buyers. The risk here is in loss of leverage. The paradox of the situation is that without Starbucks' large order East Timor would not be on the world map of coffee. The decision on how to diversify sales is critical and dynamic. The project management understands these risks and is completely capable of managing them.

The last four coffees on this list, noted in the "Name Power" text box, can be described as "blenders." That is, they tend to be mild coffees of little distinction but with no discernible flaws. They serve to keep down the cost of a blend, while imparting no negative characteristics. Blenders tend to be interchangeable, with little or no difference between them. The first four coffees on this list are stand-alone coffees. They are distinct in character OR they just have good name recognition. For example, an Ethiopian Harrar or Kenya AA is prized for its unique characteristics. In a blind cupping, it is easy to pick them out of the crowd. Java, on the other hand, is a coffee that really has no character much more discernible than

Timor. However, the name Java has come to be synonymous in America with coffee itself (a cup of Java or a cup of Joe). Given time, uniform quality, and steady supply, it is conceivable that Timors will compete with Javas for market share. There is nothing in their cup quality that would hold them back. So too, Colombians, tend to command a price higher than other Central Americans in general. While this may be attributed by some to their slightly higher acidity in the cup, a better explanation is in the name-recognition generated by Colombia's ad campaign and Juan Valdez. Ask an American to name a coffee-producing country and they will invariably name Colombia first.

From a long-term strategic marketing standpoint, it would be beneficial to move East Timor coffees in the direction of stand-alone names. This cannot be accomplished overnight; rather it is achieved through delivering consistent quality and supply.

The Coffee Coop's Strategy: Future trends in coffee aim in the direction first of specialty coffee over commercial coffee and second of Organic, Fair Trade, and Sustainable coffees. As consumers become aware of the issues surrounding coffee production, they tend to support fair trade practices in the same way that they support fair wages paid to garment workers for The Gap in Mexico, footwear makers for Nike in Indonesia or dolphin friendly tuna. Whether or not they will support an increase of consumer prices for a pound of coffee remains to be seen. However, NCBA East Timor is well-placed to take advantage of these trends should they come to pass.

By becoming an Organic Certified producer, NCBA is at least 3 years ahead of conventional coffee producers that are considering organic production. This fact together with the Project's ability to reach the largest and highest quality buyers in the US and EU confirms that the Coop's marketing is solid and has already started to bring benefits to its members.

Web Presence: The Project has done an excellent job at reintroducing Timor coffee to the world market. Before NCBA started its work in the East Timor coffee sector, only people who had three or four decades in the industry could place Timor coffee on the industry's buying map. The Project changed that and has brought Timor back into the buyer's vocabulary.

In order to further promote the origin, the assessment team recommends that the Coop develop a web site that targets its customers and the coffee industry in general. To increase its presence, the Project may want to approach its current customers and put links between customer web sites and the East Timor NCBA site.

Content for the Project web-site can include up-dated crop forecasts, available inventory (origins and grades available), requests for samples and a history of the Project and its impact on stakeholders. Given the infrastructure limitations of East Timor, the host server will most likely need to be located in a different location, off the Island.

5.2 Market Evolution

Farmgate Income:"Land tenure patterns and income levels vary widely among coffee farmers and between countries. According to the UN Commission on Trade and Development (UNCTAD), roughly half of the world's coffee supply comes from small farms with less than 5 hectares of coffee. However, this small farm sector represents an estimated 80-85% of all coffee farm owners. Medium-sized and large coffee estates, on the other hand, represent fewer owners but relatively greater land holdings, yields, and production volumes. Incomes tend to be quite low among small farm families, with average cash income from coffee averaging USD$600-1200 per family. Farmworkers fare even worse: typically, farmworkers on coffee estates earn an average of only $2-4/day. In short, the concentration of land, resources and wealth is endemic to the coffee production industry." [1]

In East Timor the Project generates roughly $150 per year per member. This figure can be attributed to relatively low yields due to lack of pruning, fertilization, or much farm technology at all. Inasmuch as these people derive from a hunter/gatherer background, this coffee is not so much being farmed as simply gleaned or harvested. NCBA has made an effort to teach the Timorese how to prune their trees. This has met with a certain amount of skepticism, which will probably be dispelled when the demonstration plots increase their yields. The methodology for pruning that NCBA is teaching is standard throughout the business.

The assessment team observed that when confronted with the low price of cherry, some growers objected to the low price, but they have little or no idea of the market forces that affect them. Project management, in trying to explain the low prices, referenced both the low NY"C" price and the recent appearance of a glut of Vietnamese Robusta on the scene. It was obvious to the assessment team that the farmers had no concept of the NY Commodities Market (which is not uncommon in coffee growing areas worldwide). Tellingly, they have no concept either of "Vietnam" or the impact of additional production from that origin.

Wholesales / Retail : "During the first half of the twentieth century, most Americans drank coffee roasted by local roasters. In the early nineteen sixties, competition from supermarkets drove many roasters out of the business. When the annihilation of the competition was complete, however, the large Supermarket brands (characterized by canned coffee) began to lower their quality to improve their bottom lines. When quality reached its absolute nadir in the late seventies, the local roasters re-emerged to fill the quality gap and began to create the phenomenon now known as Specialty coffee, characterized by Figures 11 and 12.

[1] Sustainable Coffee at the Crossroads, A White Paper Prepared for the Consumers Choice Council BY: Paul D. Rice and Jennifer McLean, November 1999

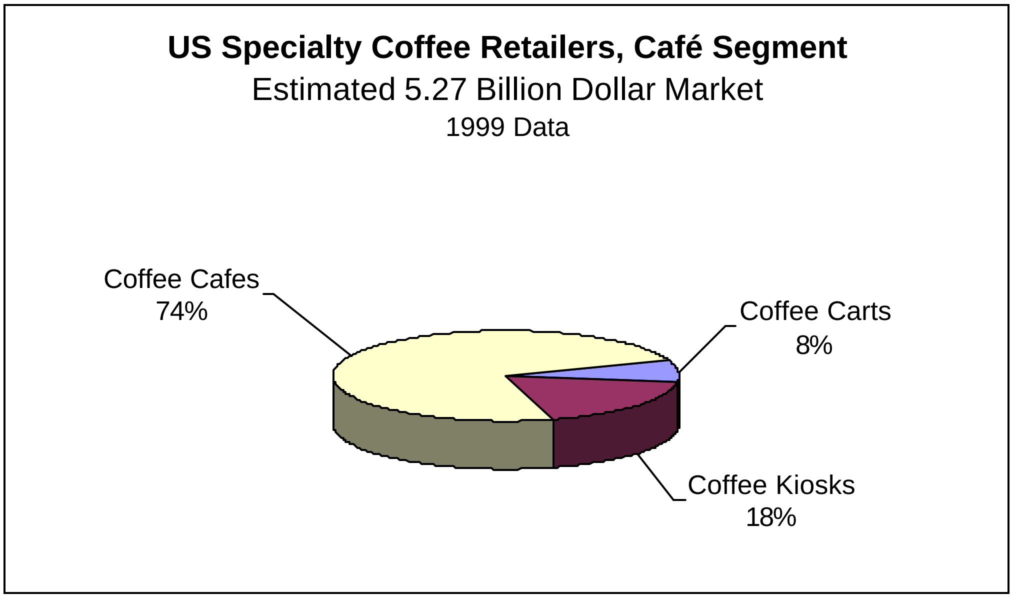


Figure 10, Source: USDA Commodityexpert, Coffee News

"While commercial ground and instant sales have been declining for several years, overall retail coffee sales are expected to remain stable or even increase, due to the dramatic growth in the specialty coffee categories. Most potential specialty markets, other than the West Coast, are far from saturated. Specialty coffee sales continue to expand by an estimated 20-25%/year."[2]

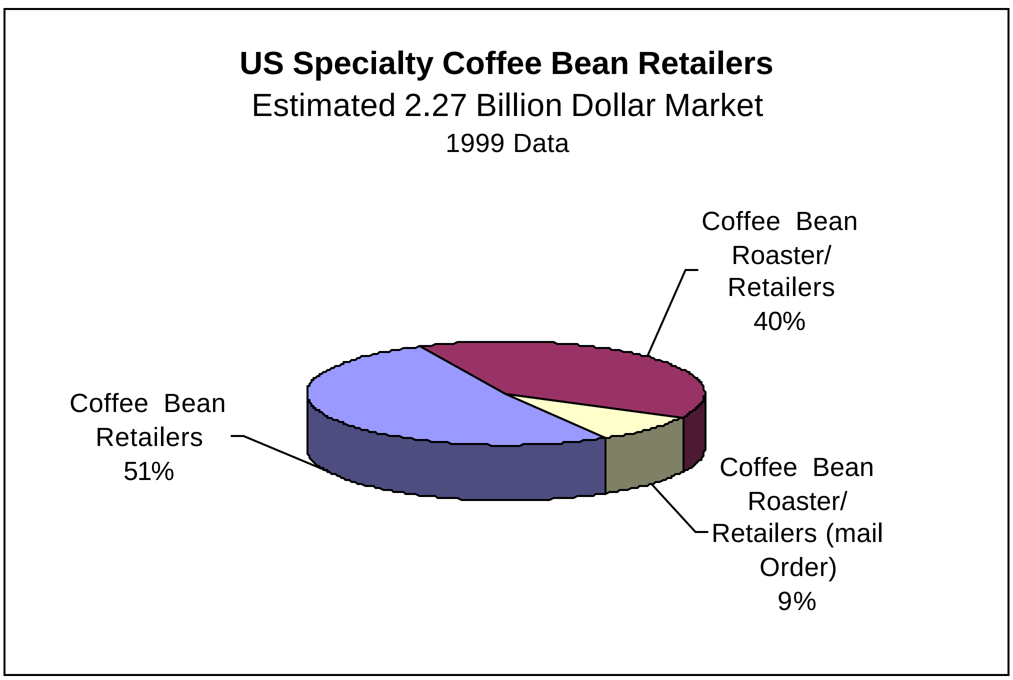


Figure 11, Source: USDA Commodityexpert, Coffee News

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[2] Sustainable Coffee at the Crossroads, A White Paper Prepared for the Consumers Choice Council BY: Paul D. Rice and Jennifer McLean

5.3 Future Trends In The Industry

The Impact of Fair Trade

"Since the Fair Trade seal for coffee was launched in 1988, Fair Trade seals have been established in 19 countries worldwide. In Europe, there are currently 130 Fair Trade coffee brands in the market, sold in over 350,000 supermarkets. Market share for Fair Trade coffees ranges from 1% in Germany (a more recent initiative) to 5% in Switzerland. Consumer recognition of the Fair Trade seal ranges from 58% in Germany to 92% in Holland.

Total 1998 sales of Fair Trade coffees were 25.5 million lbs., with a retail value of over $200 million. This trade benefited over 550,000 small farmers in 17 developing nations worldwide. At a time when overall coffee consumption has leveled off or is shrinking in the European markets, consumption of Fair Trade coffee continues up a slow but steady growth curve (5% overall sales growth in 1998)."[1]

-Paul Rice & Jennifer McLean

The Fair Trade: movement: begun in Europe in the 1980's and presently enjoying widespread support there has begun to make inroads in the American market. It is basically a voluntary industry price support system for small farmers that would guarantee them a base price of $1.26/ LB for conventional coffee and $1.41/ LB for organic.

Organic: The organic production of coffee as certified by the OCIA, SKAL, Demeter, Naturland or other International certifying agencies.

Shade Grown: Coffee that is shaded by a high canopy of trees, as opposed to coffee that is grown in full sun.

Bird Friendly: The Smithsonian Institute initiated this migratory bird protection program in the early 1990's. As coffee plantations in Central and South America tend to be the winter sanctuary of virtually the entire North American migratory bird population, the importance of *finca* ecology cannot be overstated

Sustainable (as used in the coffee industry): An umbrella term within the industry for coffee that may or may not be organic but incorporates the philosophies of the three terms above. Sustainable coffee espouses the issues above but does not strictly enforce or certify them. It cannot be stressed enough that all the above-referenced trends contribute to a higher quality coffee. The move toward environmentally friendly or fair trade coffee is not fueled by altruism alone; it improves the cup quality. For example, while sun-grown coffee temporarily increases yields, those yields eventually diminish along with the quality of the cup; hence the trend toward shade-grown. Likewise, the shade trees harbor the songbirds, and the droppings of the birds fertilize the soil beneath them, again improving the cup. And a fair price paid to farmers ensures that they will not abandon their trees in times of low prices but will continue to prune, fertilize, etc. as necessary.

The Consumers' Choice Council recently joined the Specialty Coffee Association of America (SCAA), and is adopting certain principles of conservation as its operating goals. Organizations like the Smithsonian Migratory Bird Foundation, Transfair USA, Eco-OK, and various conservation, organic, and shade-grown groups are joining forces under one aegis to produce a working document which will bind coffee buyers (end-users like Dunkin' Donuts or Starbucks) to a commitment to reverse the trend toward sun-grown coffees that was initiated in the nineteen-seventies and to support a higher price for growers. Current discussions center around building demand for the product, letters of intent to be signed by the buyers, and government support for the project (e.g. persuading state or local governments to mandate use of these coffees).

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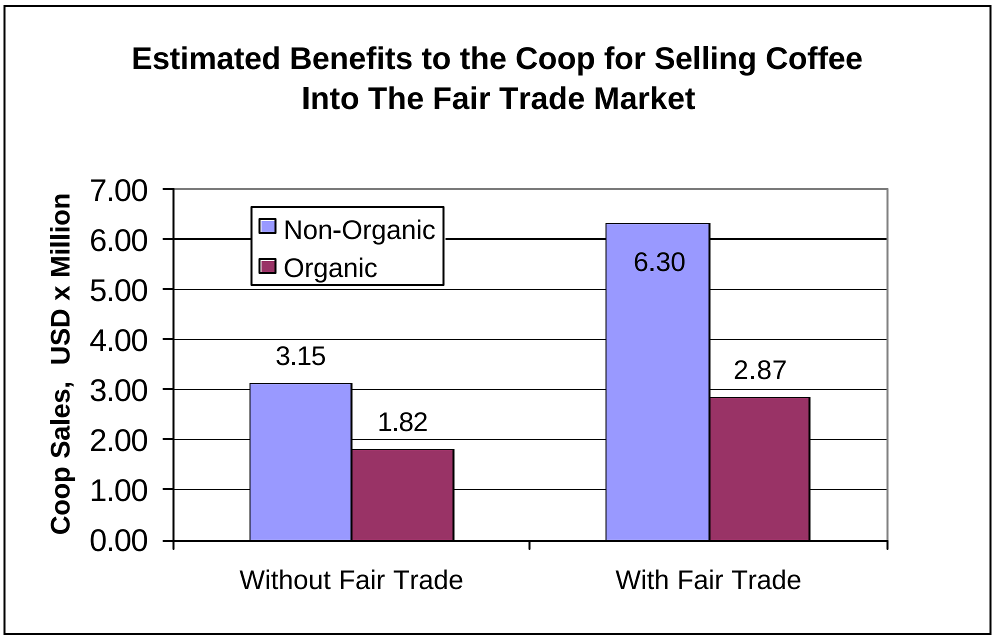

Figure 12, Source: Assessment Team Estimate

> **"***We didn't want to be waddling about in suits while our suppliers were starving to death."*
> - Mike Reilly, Buyer
> Taylor's of Harrogate Coffee Company, UK

Until now, meetings of this type produced a lot of talk but no action; whereas the present resolution seeks to commit those who choose to comply to purchasing agreed-upon percentages of coffee within these eco/fair trade categories. Ultimately, coffee stores and cafes will be forced to come down on one side or the other on this issue. Should the council succeed, it is highly unlikely that any company will side against little songbirds and Juan Valdez

While the average consumer is unaware of the issues, this discussion is front and center within the Specialty Coffee Industry. Most families consist of two working adults, neither one of whom has time for conservation issues as related to their morning coffee. He/she is simply too busy to save a sparrow. Nonetheless, they would all rather save it than kill it if given the choice and if the choice didn't put a giant dent in their budgets. The larger, more cumbersome, corporate bureaucracies will choose to say that consumers don't care about these things, and in a conscious way they don't. Progressive companies will simply switch their blends to the more expensive Organic/Fair Trade/Shade etc. and present the consumer with a *fait accompli*. In the words of one U.K. buyer who routinely makes buying decisions for his customers, "We didn't want to be waddling about in suits while our suppliers were starving to death." While this kind of social conscience is rare in business, it is a hot topic in the Specialty business. Should one large corporation or state government come out in favor of the Council's proposal, they may all be forced to climb aboard, however reluctantly. Ultimately, what this all means to East Timor is simple: more money. Not every coffee grown in the world can qualify as either environmental or Fair Trade. East Timor, with 18,800 members and growing, stands to benefit enormously if any of this social controversy bears fruit.

Assuming that the world market for Fair Trade coffee is 25.5 million LB (as stated by Paul Rice and Jennifer McLean in the text box on page 31 of this report), the Project would have to capture a 25% market-share in order to sell all its coffee into the Fair Trade market. This would be difficult, however the Coop may be able to capture a small part of this market and thereby increase income of its members.

6.0 Financial Performance of the Coop

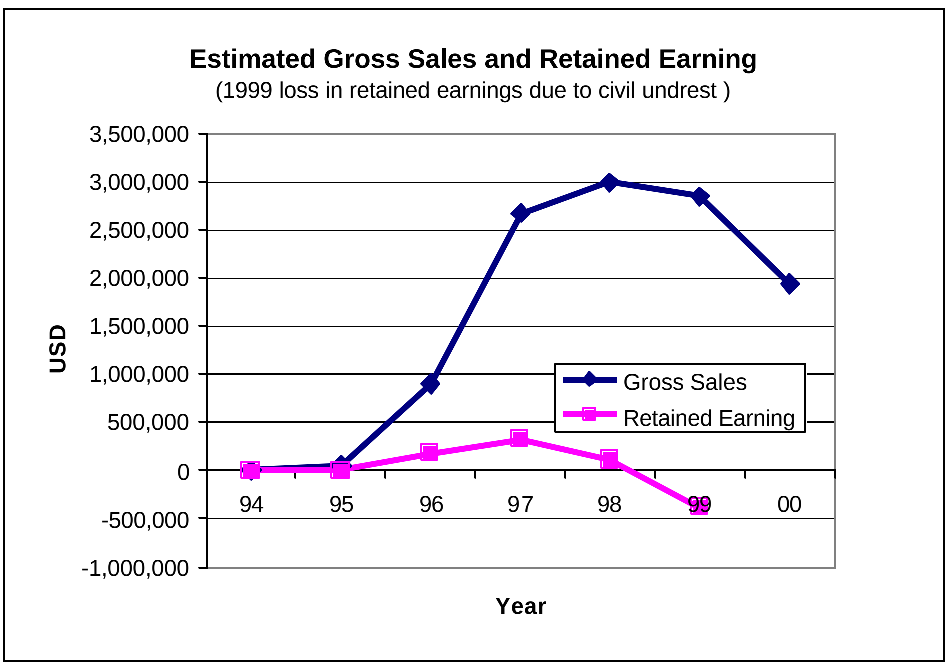

Figure 13, Source NCBA

The coffee activity saw a rapid growth in sales and a moderate growth retained earning through 1997 (see Figure 13). The mean price for green bean on the New York C in 1997 was 3.85 USD per kg. Following this peak the market started to fall, averaging 2.75 USD in 1998, 2.20 USD in 1999, 1.65 USD in 2000 and today the market is around 1.43 USD per kg. This is only 37% of it 1997 average price!

In addition to the falling world coffee price, Project realized over a 378,000-dollar loss (one time, write-off) as a result of fires and looting of its property during the 1999 Referendum. Even with these set backs the Coop has been able to increase its membership base each year and this in itself is a good indicator of the success of the project as viewed by the target rural population (see Figure 14).

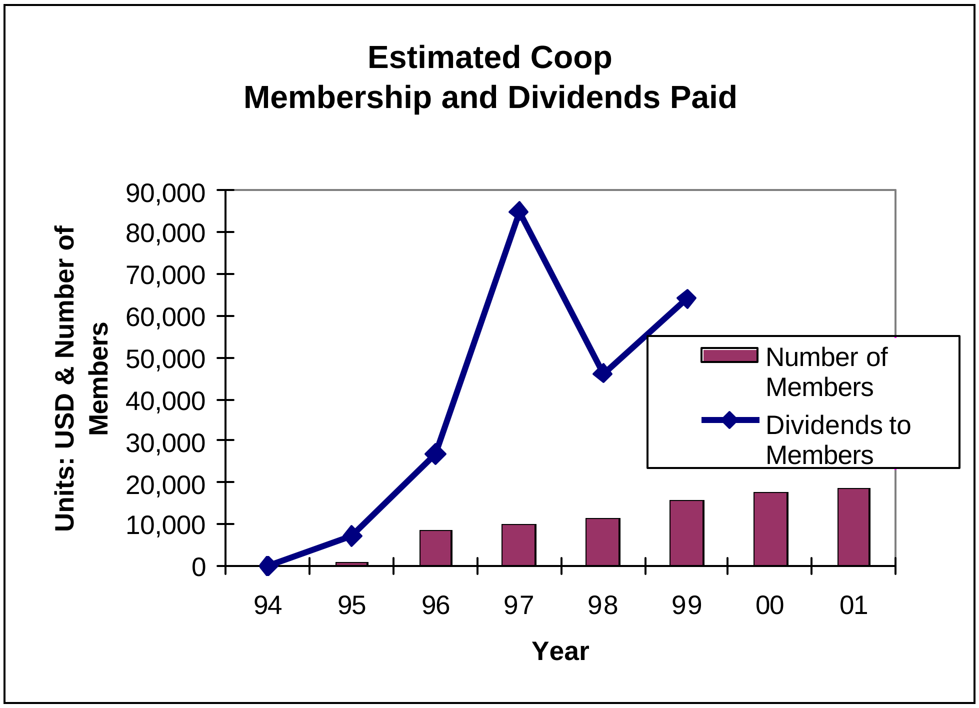

Figure 14, Source: NCBA

The Coop pays its members a dividend after all overhead, variable coats (including cherry purchase costs), debt service, re-capitalization of the revolving fund, staff bonuses and taxes are paid. The actual annual dividend paid to the grower is not great, historically it has ranged from 3-10 USD per member. Cherry selling price is, by far, the primary source of income for the members but the dividend is a good indicator of the general health of the business and the skill of the management team in setting the cherry purchase price relative to the export market price. If the management team can return a small dividend, it means that they have managed the business well, providing the maximum price for the cherry at harvest and having a small amount of capital left over after re-capitalizing the revolving fund, paying taxes and operating the business for nearly a year.

Figure 14 shows a growth in the aggregate amount of funds paid as dividends. It can be noted that the growth of aggregate dividends increase with the number of Coop members, which is to be expected in a financially healthy cooperative business structure. The Assessment Team realizes that the Coop has recently had several difficult financial years, however the Team views these difficulties in light of the Referendum and the associated civil unrest that resulted in the one-time write offs as well as an extraordinarily low world market price hitting the Coop at the same time. Given time, the Assessment Team feels the Coop can develop into a financially sustainable cooperative-business.

6.1 The Industry Market Chain

NCBA East Timor Coffee Market Chain Costs & Income
All Figures in USD/KG

Market Level		Low Elevation Non-Organic USD/kg	Mid Elevation Non-Organic USD/kg	High Elevation Non-Organic USD/kg	High Elevation Organic USD/kg
I. Grower-Member					
Selling Price of Cherry		0.110	0.120	0.130	0.130
Variable Cost		0.005	0.005	0.005	0.005
Net Income before dividends		0.105	0.115	0.125	0.125
Dividend Remitted by Coop		0.006	0.014	0.019	0.104
Total Net Income		0.114	0.124	0.134	0.134
II. Processor - Cooperative					
Cherry to Green Bean Ratio (7:1)		7	7	7	7
Green Bean Selling Price, FOB Port Dili		1.520	1.618	1.706	2.011
Purchase Cherry		0.770	0.840	0.910	0.910
Other Variable Costs		0.533	0.533	0.533	0.533
Gross Margin on Variable Costs		0.217	0.245	0.263	0.568
O&M, Depreciation and Debt*		0.195	0.195	0.195	0.195
Pre-tax Income		0.022	0.050	0.068	0.373
Tax on Profits	30.0%	0.007	0.015	0.020	0.112
After-tax Net Income		0.015	0.035	0.048	0.261
Distribution of After-tax Income					
Capital Reserve	30.0%	0.005	0.011	0.014	0.078
Staff Bonuses	30.0%	0.005	0.011	0.014	0.078
Dividend to Grower	40.0%	0.006	0.014	0.019	0.104
*assumes O&M+Depreciation @ 65% of gross margin, included 5% export tax					
III. Importer					
Selling Price, FOB Warehouse US		1.949	2.047	2.135	2.440
Purchase Green Beans, FOB Port, Dili		1.520	1.618	1.706	2.011
Ship, Store & Sell		0.352	0.352	0.352	0.352
Pre-tax Net Income		0.077	0.077	0.077	0.077
IV. Roaster - Wholesaler					
Selling Price, Wholesale		7.310	7.520	7.790	8.130
Purchase Green Beans		1.949	2.047	2.135	2.440
Roast, Pack & Sell		4.000	4.000	4.000	4.000
Pre-tax Net Income		1.361	1.473	1.655	1.690

Source: NCBA East Timor and Royal Coffee Inc.

The table above shows for example, that for a mid-elevation, non-organic coffee the grower nets .124 USD per kg, the Coop .35 per kg USD (after taxes) but then returns all of these profits back via the Coop's capital reserve fund, management bonuses and dividends to growers. The importer makes .077 USD per kg and the roaster/ wholesaler makes 1.473 USD per kg. This trend is typical in the agribusiness sector.

6.2 Project Risks

Market Risk: There are a number of unknowns that could affect the Coop in coming years. The first item on a list of risks to the Coop is "market risk". As can be noted in Figure 3 the world supply of green beans is on a slow but steady increase. It should be kept in mind that the vast majority of these beans, in figure 3, are robusta and do not directly compete with the high-value high-quality beans that are exported by the project. Never the less, the sheer volumes of robusta on the world market pulls down the New York C price and all coffee suffers.

Coffee is price-inelastic, that is a 1% decrease in price will not cause a greater than 1% increase in demand. If fact it is very inelastic. For this reason roasters and retailers are less likely to decrease selling price (even when green bean price falls), as price has a limited effect on demand. For this reason profit growth at the importer, roaster and retail leaves have remain strong, while profit to farmers have fallen due to the over supply of lower-grade beans on the world market and the fact that almost all green bean prices are linked to the falling New York C price.

Labor Issues: East Timor is economically and socially fragile. The influx of international relief agency, donors and other interested parties has driven up wage rates and generally added to the tension between the societies have and have-nots. Violence is in the recent history of the island and some people view hostility as a justifiable way of getting what they want. The Project has experienced threats and attempted extortion in the past and it will most likely have to deal with it in the future. The Project management knows these facts and is in the best position to deal with the situation as diplomatically as possible.

Government: At the present time the United Nations Transitional Administration in East Timor (UNTAET) is the acting government. Parliamentary elections are set to take place in August of 2001 and a presidential election is schedule for December. Before the people of East Timor elect their own government it is impossible to say what type of government and policies will evolve. The Project is fairly well placed to get its positions heard by key decision makers, but at this point the dust of the 1999 referendum has not settled enough to make a clear call on the makeup and direction of the new government.

One example of government policy that can have a negative impact on the Project is the 5% Coffee Export Tax imposed in 2000 by UNTAET, at the urging of the IMF. The logic was that coffee is one of the few things East Timor exports and the government needs to raise money, so tax coffee exports. In the end, the coffee farmers will pay this tax, by a lower price paid for their crop and a drop in income.

Management: After the 1999 Referendum, the Project lost 17 of its mid-level and upper level managers. These managers were Indonesian nationals and had to leave East Timor after the Referendum. The Project has moved East Timorese nationals into these management positions and set up a training program to improve their skill levels. Given the time available to train these new managers and the skill level of the expatriate staff, the Assessment Team feels that is a manageable risk to the Project and this issue will work itself out over time.

Transportation: Before the Referendum, fuel costs were subsidized. As soon as East Timor became independent, this practice stopped and full international price was paid for all fuels. A second factor that affects transport cost is the high demand for trucks by the NGO 's operating in East Timor. Over time this situation seems to be stabilizing and prices and availability for trucks are leveling off. Each year the Project rents a significant number of trucks to pick up cherry and haul parchment from the rural wet mills to Dili. The third issue in this sector is roads. Rural roads are not well maintained by the UN. In some areas the Project has had to pay for road repair so that trucks can enter remote areas, to pick up cherry. The overall affect that the transportation bottleneck has had on the Project is to increase operating costs and decrease profits (reduce dividends to the grower).

7.0 Supplementary Coop Services and Business

In addition to the coffee Coop activities, the NCBA East Timor Project is involved in a number of other activities. Some of these activities, such as health services, are linked directly to the coffee Coop. In other cases, such as in vanilla, the linkage to the coffee Coop is less noticeable at the field level but evident at the management level. The NCBA/ USAID East Timor consumer goods distribution Coop activity, which has just recently begun to operate, clearly has a different management organization and stakeholder group than does the other activities.

7.1 Vanilla Production and Processing

NCBA, through its Coop operations in Indonesia, is the largest exporter of vanilla bean in the world. This crop requires a very unique climate and growing environment, which is found in relatively few places on earth. Small-scale commercial planting on East Timor, developed by NCBA, indicate that the island can produce high quality vanilla. In 2001 NCBA/ East Timor plans to ship approximately 400 kg of processed vanilla bean, (the current price for good quality bean is about $100.00/kg, a record high level). This is a small start, however, the Assessment Teams believes there is significant up-side potential for vanilla in East Timor and this is an areas that can be targeted for additional USAID/ NCBA funding.

From a risk management standpoint, vanilla is an excellent choice for East Timor's coffee farmers. Both crops take similar climates, vanilla can efficiently be produced on a small-scale, is environmentally friendly, is seasonally labor intensive but does not conflict with coffee labor demands, the markets are completely independent from one another, and a clear processing, distribution and marketing system is already in place with NCBA's Indonesia's vanilla operations. Vanilla will not grow in all of the areas in which the coffee Coop currently operates, but for many of the Coop's farmers, vanilla will most likely become an import income source and reduce farming-risk through crop diversification.

7.2 Health Service

NCBA re-started its health care services activities after it reentered East Timor, following the 1999 Referendum. The rational in entering the heath care sector was predicated on the fact that there was almost no heath services infrastructure in rural areas and incomes realized during the coffee harvest were usually spent soon after, affording no household funds to be used for health costs over the course of the year.

Today, less than two years after its re-starting, Clinic Café is the largest provided of heath care in rural East Timor seeing over 25,000 patients per year, (February 2000-Februrary 2001). Given the current lack of health services in rural areas, Clinic Café sees all persons, without cost, regardless if they are or are not Coop members. Over time the Clinic plans to change a small fee for Coop members that deliver less than 1000 kg of cherry per year. The Clinic is considering its options as a subcontractor to the Government to provide primary health care in selected rural areas. The Project is some time away from making this a reality but discussions have already begun between the Clinic's management and the acting UN/Ministry of Health.

Clinic Café Estimated Variable Costs Based on 16,000 Visits, over a 5 month period, USD		
	Total Expended	Expended per Visit
Drugs	5020.00	.31
Medical Consumables	2531.95	.16
Non-medical Consumables	6511.06	.41
Total	$14,063.01	$.88

Source: NCBA, Clinic Café

The table above denotes the variable costs per office visit. The total cost (overhead and variable) per visit is estimated to be $5.07 per visit or about $8.93 per Coop member per year. Depending on the number of annual patients these figures will vary, however the Assessment Team feels that on the high side cost per Coop member will not exceed 10.33 USD/ year. At its current level of 18,830 members this would mean an annual operating budget of 194, 566 USD. It's reasonable to assume that this is a sustainable cost to build to the Coop's overhead as coffee sales are projected to 4.1 – 5.0 million USD annually over the next 2 years and the Coop's management can adjust cherry price and dividends to ensure that the health services unit is sufficiently funded.

It is of interest to note that the NCBA heath unit received a 60,000 USD gift from a US coffee company, who wishes to remain anonymous. This is a good indication of how the Project has raised the profile of East Timor's coffee internationally and how it has brought to light the hardships that the Coop member face during this time of social and political adjustment

7.3 Training Facility

The East Timor Cooperative and Small Enterprise Training Center (Kilbar) is a recent outgrowth of the coffee activity. The Center opened its doors in the first quarter of 2001. The rationale of developing a training center was, to a large degree, predicated on the need to improve the business skill-level of Coop managers and members. The Project's management understands that to insure the Coop's sustainability, management skills will need to be improved at all levels of the organization. With the Training Center now in operation, the Project has the vehicle to provide this training and a two-year window (before EOP) to insure that skill-level of the Coop's management team is raised.

The startup budget for the Training Center was 24,000 USD. It is estimated that the facility will provide 1,000 training units annually (one unit is one person-course completed). To date, the facility has provided over 200 training units and appears on track in reaching its annual training objectives.

7.4 Consumer Goods Distribution Cooperative

Consumer goods are in short supply and expensive in East Timor. To address this fundamental problem NCBA has launched a wholesale consumer goods buying cooperative. This activity is complete separate in terms of membership and management from the coffee Coop. Since the purchasing coop officially began in May 2001 there is no data yet to measure its performance. From the prospective of rural coffee growers, anything the Project can do to reduce the cost of basic consumer goods will be helpful.

8.0 Conclusions

The NCBA East Timor coffee activity is clearly a USAID success story. The coffee cooperatives have operated profitably since 1995. The activity has developed and implemented a solid production and marketing strategy, effectively maximizing profits for its grower-members. Building on 24 years of regional experience, the NCBA management team is using a proven cooperative business model, which has demonstrated long-term successes in establishing profitable, export driven, high-value agribusinesses in the region. The NCBA Project has done a remarkably good job at carving out a niche in the global high-value coffee market, to the benefit of the Project stakeholders.

The coffee activity is making a direct positive contribution to USAID's SO target in East Timor (Revitalization of the Local Economy). The activity is the single largest generator of export earnings in the country. Its impact is particularly significant in remote rural areas where few other donors/ projects operate. The Assessment Team feels that, assuming that relative economic and political stability returns to East Timor in the medium-term, the NCBA coffee activity will, in all likelihood, become a self-sustainable cooperative business by planned EOP, at end December 2002.

ANNEX A

Economic & Demographic Data:

Official Currency as of May 2001:	US Dollar

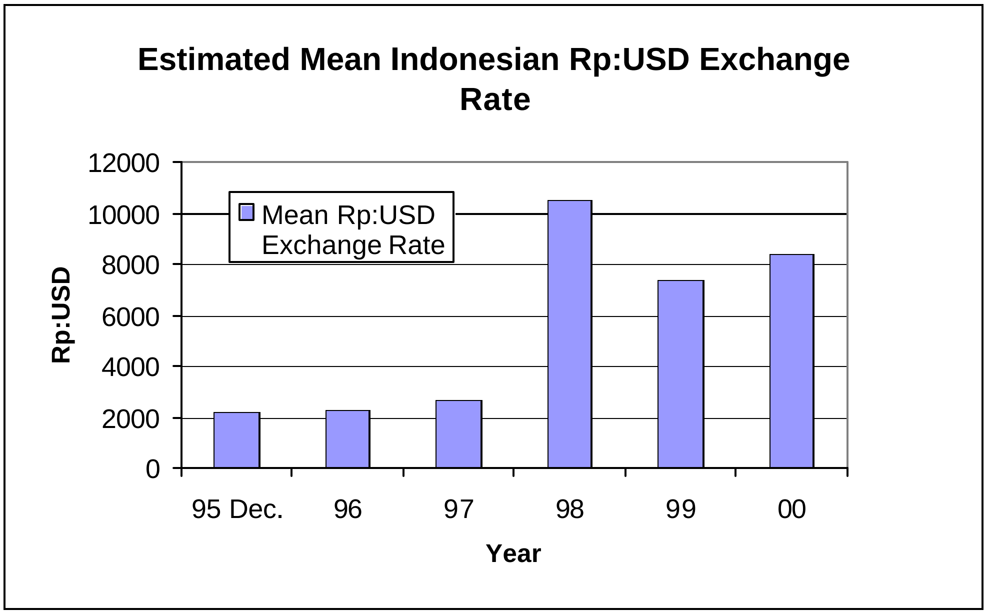

Figure 15, Source: NCBA

East Timor: Selected Statistics

Population (1997 data):	881,600
Number of Households (1997 data):	186,743
Food Production Crop (1997 data):	Metric Tons
• Maize	126,000 MT
• Cassava	85,000 MT
• Rice	72,000 MT
• Coffee	9,900 MT
• Peanut	5,500 MT

Source: Indonesia Statistical Handbook for East Timor 1997

ANNEX B

What Defines Cup Quality

The Price/Quality Relationship: The commercial coffee business has long purchased coffee by description alone; i.e. 16-screen Colombian Excelso or PW Mexican. These descriptions refer to a size of bean and type of quality that are standard and known throughout the business. A UGQ Excelso means Usual Good Quality and refers to a standard grade with a standard number of defects and no distinct flavor flaws. Generally, coffees bought this way are lower grades with lower prices.

The specialty coffee business, however, relies far more heavily on what is known as "cup;" i.e. the taste of the coffee. : Chief among the factors that affect cup are Origin, Process and Roast. Specialty buyers search for coffees that define their origin in flavor; e.g. Kenyas that are light in body, lemon-y or citrus-y in flavor and character, Sumatras that are full-bodied and low in acidity, or Ethiopians that are winey, chocolate-y and full-bodied. When found, these coffees command a premium in price.

Common Negative Cupping Terms Used in The Industry

- Fermented (at origin)
- Baggy (old)
- Medicinal
- Iodine
- Rio-y (hard).

Origin: Whereas commercial roasters use coffees interchangeably (witness the term "Centrals" to describe any coffee from Central America), specialty roasters tend to focus on specific origins. Each origin has its own distinct flavor, although some coffees are quite similar. The difference between a Panama and Mexican, for example, is difficult to discern except in the very top-most grades. Some cupping terms used to describe these cup characteristics follow: fruity (citrus-y), wine-y, berry-like (blueberries), chocolate-y, full-bodied, and light. With respect to East Timor, the cupping terms used to describe the coffee are usually acidic (coffeespeak for lively on the tongue; not that which gives you a stomach ache), full-bodied, and "a good blender." In time, as the coffee develops name-recognition again after its long hiatus from the market scene, the coffee could conceivably become a stand-alone origin, sold on its own merits.

Process: Coffee processing can be divided into two types: washed and unwashed. Unwashed coffees (Naturals) are typically those which farmers process themselves. In Ethiopia and Yemen, for example, the cherry is allowed to dry in the sun with the interior bean essentially marinating in its own cherry juice. This produces a fruity, berrylike flavor, which is much-prized in the specialty coffee business. Ethiopian Harrar might fetch $1.40/lb. in the present market, and Yemens might fetch a whopping $3.00/lb. These coffees, however, have traditionally never been tied to the NY"C," and they are typically never used in commercial blends as they are too expensive. Brazil Naturals, on the other hand, grown in full sun and harvested by machine, traditionally earn the lowest price of Arabica beans, say $.50/lb. in the present market. Apart from the high-earning Ethiopians and Yemens, naturally processed coffee typically commands a low price in the market. Farmers cannot control the quality of the beans, and everything gets mixed together, good with bad. The resulting lack of uniformity drives down the quality, dooming the coffee to the low-priced, commercial blend category.

Washed coffee on the other hand, is characterized by the purchase of cherry. An Estate owner or a coop brings cherry to a *benficio* (wet mill), which then processes all the cherry to a uniform standard. Only red cherry is acceptable (as opposed to black or green) for specialty grades. The more selective the grower can be in sorting cherry, the higher price his coffee will fetch, due to uniformity of character and cleanness.

In both processes, the sorting and grading of beans after drying or washing (depending on the process) removes black or broken beans from the pile, thereby increasing the price. A farm or coop might then sell off the rejected beans as "seconds."

A last process, used almost exclusively in Sumatra, is a semi-wash, where the coffee is briefly wet before pulping (removing the cherry).

It is often, but not exclusively, true that washed coffees command a higher price than Naturals. Certainly in the case of East Timor, wet milling was the obvious and correct choice in improving the quality of the coffee.

Roast: A knowledgeable roastmaster knows how to "develop" a bean to maximize its flavor characteristics. A Kenya, for example, should be roasted light, as a dark roast would burn up the light, fruity qualities that make it prized and expensive. A Sumatra, on the other hand, develops its smooth, beefy character best when roasted dark. Commercial roasters might roast all coffees to one uniform degree and that is usually exceedingly light because the darker you roast a coffee, the more you burn off volume—and coffee is sold by weight. Under-roasting, then, makes the can weigh more as does a practice called "water-quenching." In theory, water-quenching stops the "cooking" process of the beans and cools them down, but in fact it is again a commercial tool for adding weight to the can.

ANNEX C

Certified Stocks

Certified stocks are the physical stores of coffee held by the Coffee Board in warehouses throughout the country. The Board accepts only clean, inoffensive coffee that meets certain bean-size requirements. This system allows liquidity in that producers can always "sell to the board." In times of over production, this accounts for a rise in the certified stocks. That is, there is a lot of physical coffee being stock-piled. This stockpile coincides in general with a decrease in the price of coffee due to an overabundance of coffee available to commercial buyers. Generally speaking, there is an inverse relationship between stocks and prices. For example, a coffee giant like Procter and Gamble need not pay high prices for coffee in Central America, so long as there are ample stocks available for the asking from the Board, particularly in light of somewhat slack standards for quality within the commercial sector. While true specialty companies would find little use for the certified stocks, which tend to be mediocre in quality and often quite old as well, they are bound like everyone else to the simple equations of supply and demand. If there are high stocks of certified coffees available of any quality, the entire industry sees a drop in the price of coffee.

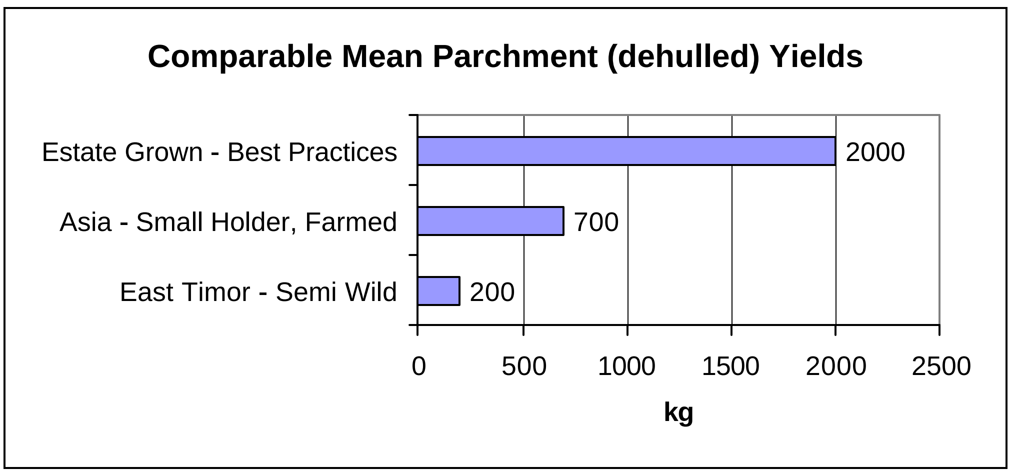

Figure 16, Source NCBA

Thus, maximizing production and market share is not in the interest of individual producing countries or the global coffee industry. If coffee producing countries do not want to face a major shake-up on the production side and the resulting unemployment and economic downturn associated, then producer coordination is the only way to restore market stability. That is, producing nations must develop in essence a quota system that limits the number of bags each country may export percentage-wise in order to limit the overall supply of coffee and raise the international price. To date, schemes of this type, notably the Brazilian coffee retention plan, have failed to gain widespread support. The present weak market, however, may finally drive reluctant participants to action.

ANNEX D

Increase Awareness of the Issues:

The following BBC report dated May 17, 2001 demonstrates why East Timor coffee may soon be part of an industry strategy:

" 'Coffee farmers face destitution' – Top prices are charged for coffee in the high street. Millions of coffee farmers in the developing countries are living in extreme poverty while business corporations in the industry continue to make record profits, according to a report published by the international development charity Oxfam.

The report comes ahead of the first World Coffee Conference, a three-day gathering of leading figures in the industry in London, which begins on Thursday.

Oxfam is concerned at the growing disparity of wealth between different parts of the coffee industry, following a 60% drop in the value of the crop on international commodity markets in the last three years.

The British Coffee Association has dismissed the report's findings as 'too short term.'

" 'Rich vs. Poor' – Oxfam says that in real terms, coffee prices are lower than they have ever been. This, it says, is having devastating consequences for poor farmers in coffee growing countries. Vulnerable at the best of times, Oxfam says they now face a descent into extreme poverty, with serious consequences for health, education, and social stability. Meanwhile, the charity says, big multinational food companies, café and restaurant chains in rich nations have gained enormously from the drop in prices. The value of raw coffee beans has fallen sharply in the last three years due to overproduction, but prices paid for the processed product in consuming nations have remained much the same.

'Minimum Wage' – Oxfam says the price of raw coffee exported from producer countries accounts for less than 7% of the eventual cost of coffee to Western consumers—the rest, over 90%, goes to coffee processors and retailers in rich countries.

Oxfam cites increased profits at Nestle, the giant Swiss instant coffee processor, and the fashionable American coffee shop chain Starbucks as evidence of its case. It is calling for an internationally agreed upon minimum coffee price of $1 per pound ($0.45/kg)((sic)) – about double the lowest current levels.

'Report Rejected'—In its first reaction, the British Coffee Association (BCA) said it shared Oxfam's concern over low prices for producers. However, the BCA – which represents coffee manufacturers selling in the UK – says Oxfam fails to address the fundamental economics of the coffee market in the long term. Increasing prices of green coffee beans without implementing appropriate controls on production would not help the livelihood of the growers in producing countries in the longer term, the BCA argued in a press release."

The largest roasters fear such targeting by organizations like Oxfam or Wildlife International as being exploitive to growers or the environment. There is considerable buzz within the industry indicating that some large roaster may soon be the first to take the plunge into Organic or Fair Trade coffee as a means of staving off this negative publicity. Should this happen, NCBA/East

ANNEX E

Health Services Data:

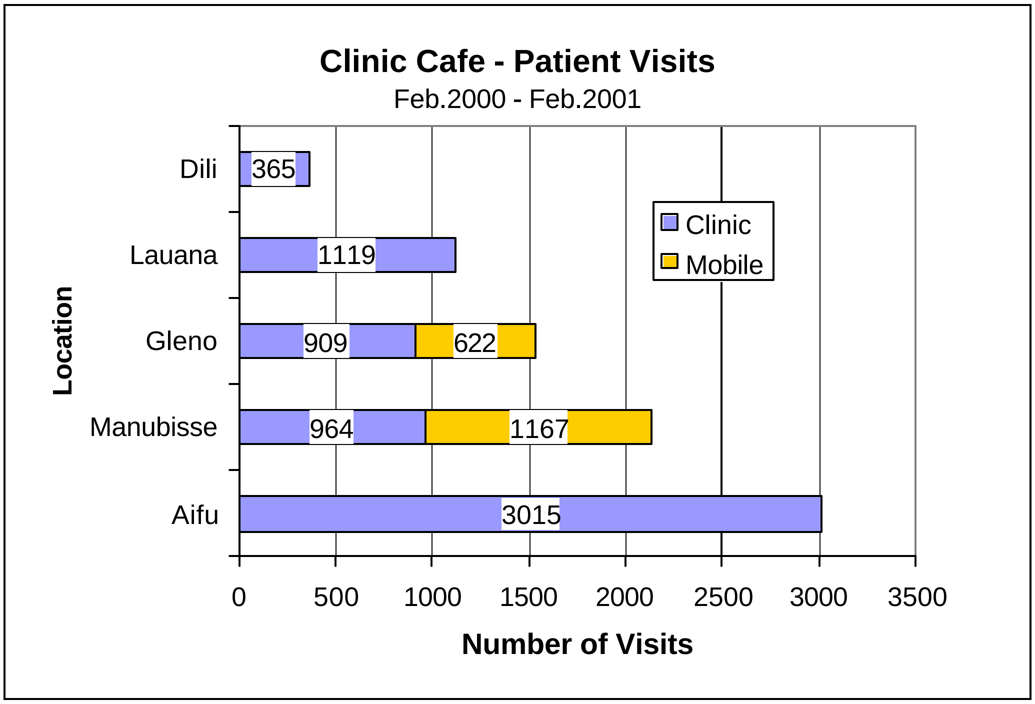

Figure 17, Source NCBA

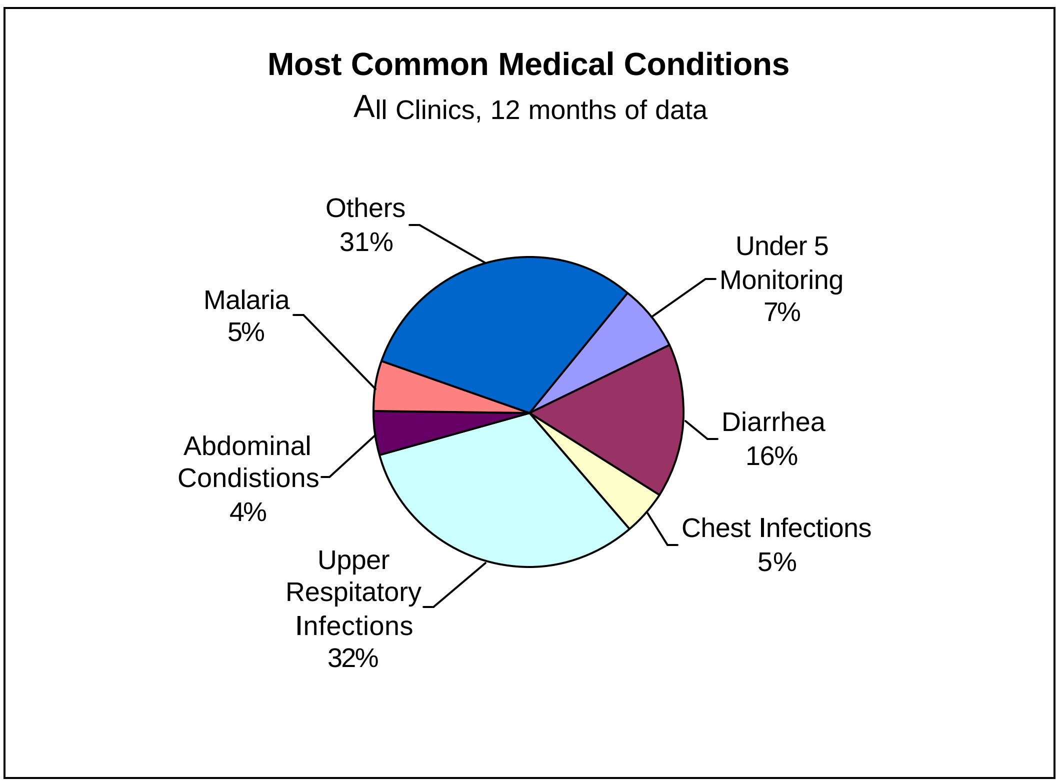

Figure 18, Source, NCBA

ANNEX F

Selected Coffee Coop Economic Data

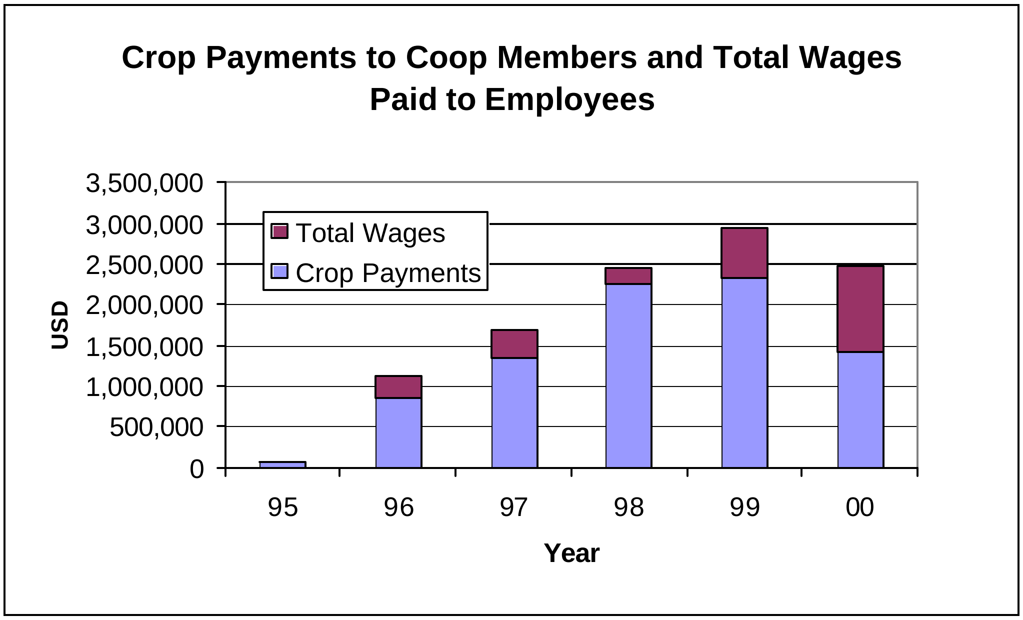

Figure 19, Source: TERADP Second Semi-Annual Progress Report (9/00-2/01)

As can be noted in Figure 19, payment to coffee Coop members and employees increase during the five years of the Project. Payments to farmer (members) fell in 2000 as a result of falling world coffee prices and a loss in inventory due to looting. The above graph shows wages paid for all TERADP activities; about 97% of which are paid to employees of the coffee activity. Based on the above information the Assessment Team feels that the coffee activity is making a significant contribution to its USAID Strategic Objectives in East Timor.

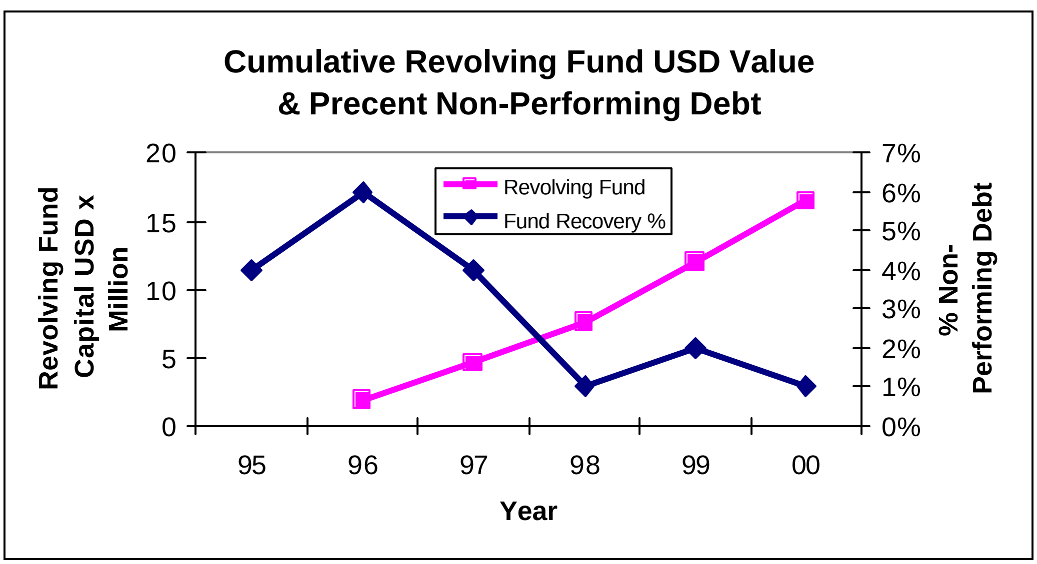

Figure 20, Source: TERADP Second Semi-Annual Progress Report (9/00-2/01)

Figure 20 shows the positive trends in debt recover and use of Project/Coop revolving fund capital.

ANNEX G

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