

**Building Sustainable Coffee Value Chain
through Social Enterprise and Community Groups
in East Timor:
The Case of Korean YMCA-Kyung Hee University
Peace Coffee Project (2007-2014)**

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1. Project Introduction

Background and Outline of the Project (1)

Democratic Republic of Timor-Leste

- Population : 1.21 billion
- GDP: \$1.293 billion
- GNI per capita: \$3,620
- Major Resources : Oil, Gas, Coffee

*Source : World Bank 2012




1. Project Introduction

Background and Outline of the Project(2)

Democratic Republic of Timor-Leste

- Dramatic Economic Growth(the rate of GDP Growth 8.6% in 2012) is related to input of Petroleum and Gas Development and International Assistance after 2004
- Government Finance have increased based on Economic Growth but half of people are under the poverty line due to the lack of a national revenue retribution system(Belonging to LDC group according to a recipient country classification from OECD)
- Most people are engaged in agriculture field. 90% of exports are agricultural products with the exception of petroleum. Among agricultural products coffee is main export.
- The agricultural community (72% of population) has problems with low productivity of agriculture, high population growth, lack of social services and basic infrastructure. On the other hand Capital Dili has problem with high unemployment rate of the young generation and lack of basic social infrastructure. * The participate rate of labor over the age of 15 is 56% on average (Male: 74%, Female:38%)
- In the case of Rotuto village, Most people (the Population is 3000), are engaged in agriculture work. The annual revenue of a coffee farm is on average \$450. *the average annual revenue of this project is \$650 per household

Background and Outline of the Project (3)

	Contents					
Title	Establishing a poverty reduction model through a self-supporting fair trade coffee industry in East Timor: An integrated approach that includes youth participation, social enterprise and community organizing.					
Target area	Dili city and Manupai Province Same District Rotuto in Timor-Leste					
Period	2012.12-2014.12					
Project Cost (Unit : 1000 won)	classification	Total Project Cost	Support fund from KOICA	Own Funds		
	1st year	553,284	499,996	53,288		
	2nd year	437,386	386,986	50,400		
	Total	990,670	886,982	103,688		
Implementing agency	Center for International Development Cooperation, KyungHee University/YMCA Korea)					
Grant agency	KOICA(Self-exploration project through partnership with a University)					
objectives/ Products	1) Building the basis of self-reliant producer cooperative 2) Presenting social economy model developed by Peace Coffee, a social enterprise 3) Managing Greenbean Mill 4) Participating in Timor-Leste domestic market and contributing to cultural development by Cafe Timor					

1. Business Introduction

Component(1)

Organizing Community

- Coffee producers Small-group (10-15 people)
- Operating processing center (Processing Red cherry)
- Supporting a total of 7 small-groups in Rotuto, Kablaki village



Producer small group Presentation



Processing center

Residents Capacity-Building

- Organizing Community Education
- Agricultural Technology Education



• Organizing Community Education



• Agricultural Technology Education

1. Business Introduction

Component(2)

Increasing Income

- Increased Productivity
- Purchasing Parchment
- Ensuring a steady income



Small-group processing center



Barista Training

Social Enterprise

- Exports of Fair Trade coffee
- Operating Greenbean processing center (Processing Parchment)
- Running Cafes
- Hiring women and vulnerable people



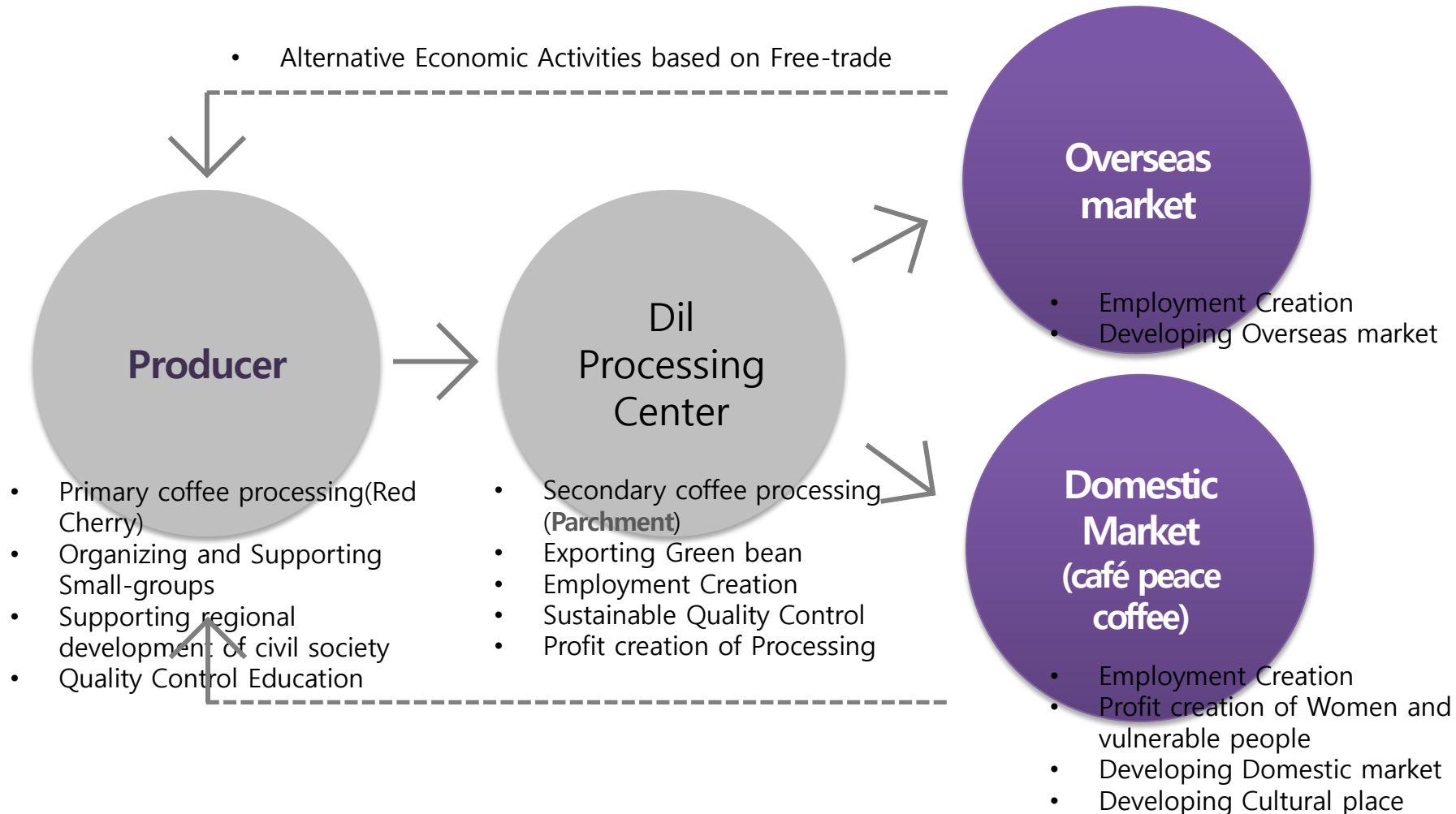
Greenbean processing center



- Running Cafes

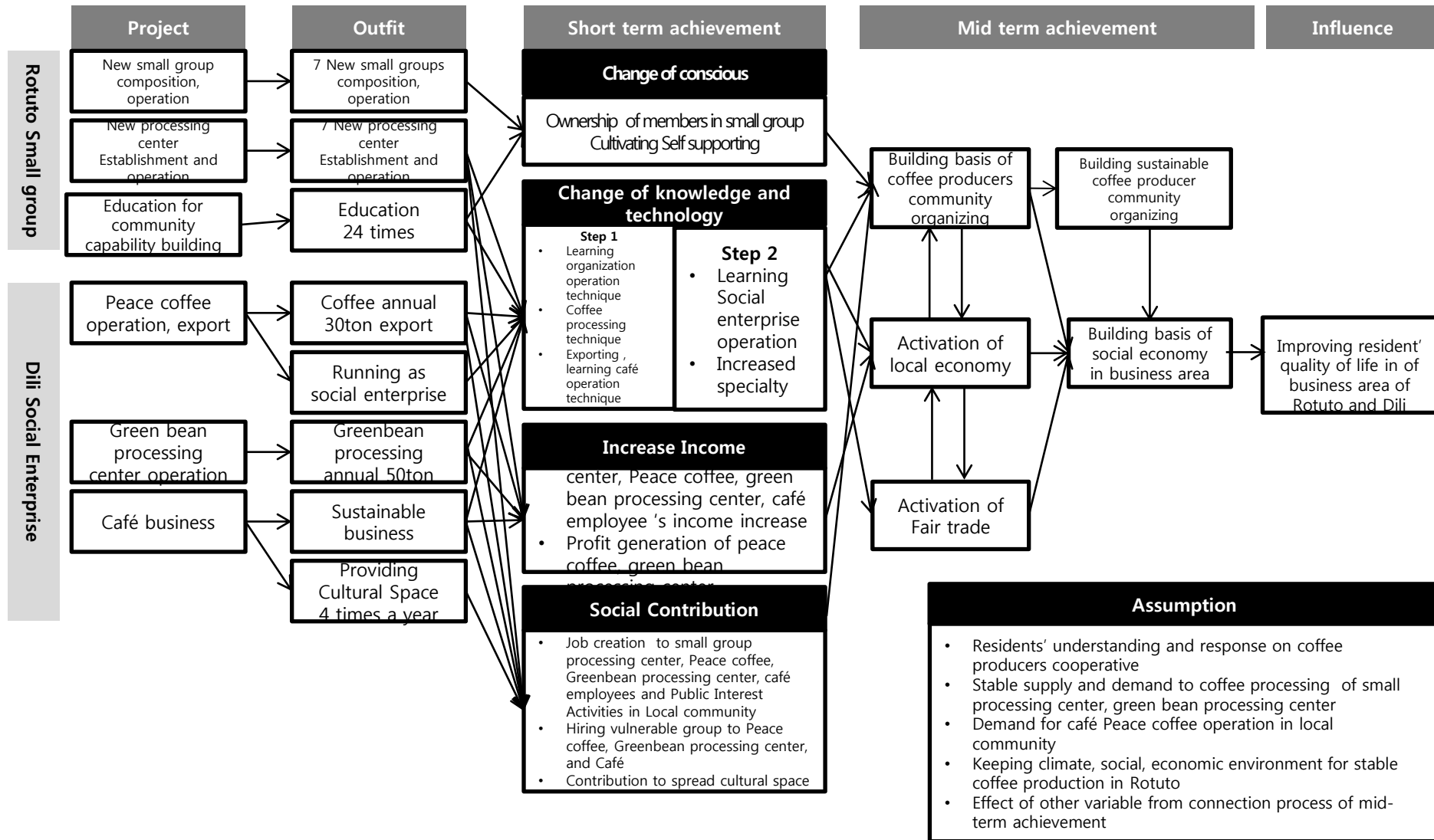
1. Business Introduction

Value Chain



1. Business Introduction

Theory of Change



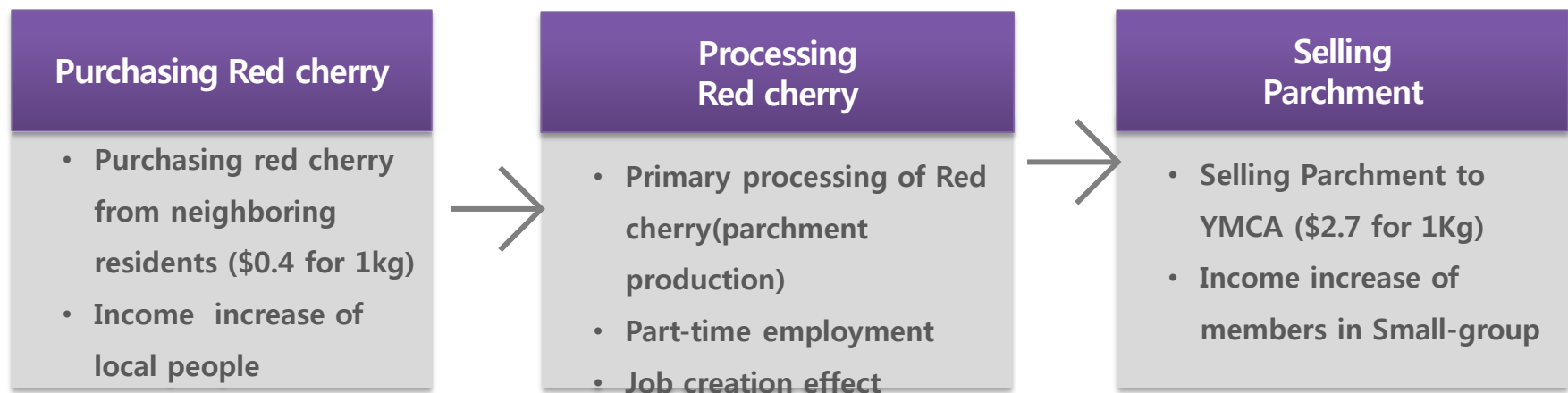
2. Small-group of Producers

Operational purpose and current state

Operational purpose : Building basis for self-supporting producers cooperative through supporting operation of small-group producers

Current state: Operating a total of 9 small-groups and small-group processing centers in Rotuto and Kablaki

- The existing operation: 2(Fool, Hau-ba)
- 2013: 4(Hak-bit, Nau-leta, Rusfurema, Leol-udo)
- 2014: 3(Zerama, Hailal, Aisala)



- cf) Big companies purchase red cherry \$0.2 for 1kg and Parchment \$1-1.5 for 1kg
- Small-group during the off season : corn-growing or catching up on their housework

Communication Structure

Internal Communication of Small-group

- Absence of s regular communication structure
- Constant communication among members

Small group -Small group

- Regular meetings are held twice a year
- In case of main issue the small-group or YMCA can call an irregular meeting

Small group -YMCA

- Regular meetings are held twice a year
- Calling irregular meetings done by mutual consent

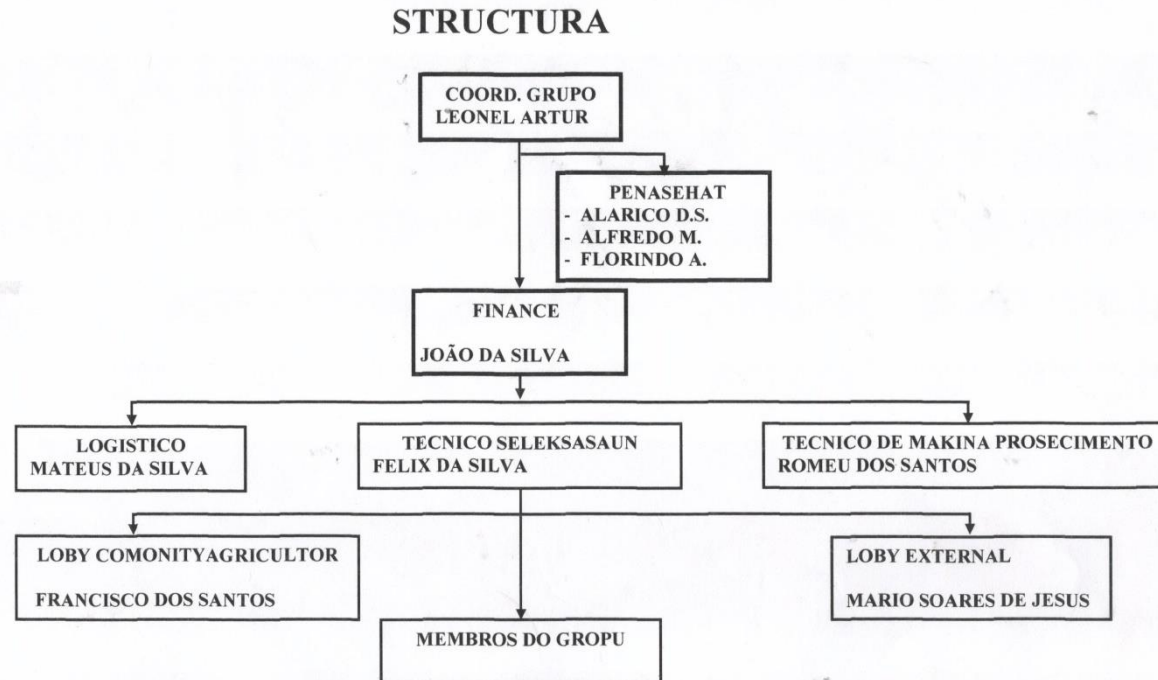
Process of Selection



Judges	<ul style="list-style-type: none">• Leader and elder in village• Member of YMCA
Criteria	<ul style="list-style-type: none">• Validity about objectives of organized small group and check whether Articles of association and organization chart or not• Composition of Members (considering the number, sex, financial circumstance), a level of participation and contribution• Recommendation from Leader and elder in village• Place selection for small group processing center(ensuring proper distance with other group) and processing condition(location for drying, water supply, moving distance of coffee cherry)• Coffee production of member in small group• Reaction of residents in the village• Interviews of the leader and members (Leadership and Community spirit)• Check passion for managing small group processing center

Organization Chart

Sample of small-group organization chart



1. Onorio dos Santos
2. Mario Artur
3. Julio da Silva
4. Filomena da Costa
5. Lino Borges
6. Mariano Martins
7. Apolinario Lazaro

8. Francisco Martins
9. Duarte Oliveira
10. Arnaldo Barros
11. Cecerina da Costa
12. Mario dos Santos
13. Alzira Paicheco
14. Lourenç da da Silva

15. Afonso da Costa
16. Gracianan Mendes
17. Nazario de Andrade
18. Alfredo de Andrade
19. Roberto Mendonça

Articles of association (1)

The selection process of Leader

- Qualification requirement (including the role of leader)
 - A person who has a coffee farm and has been elected by members of small-group(Election)
 - A person who has a coffee farm and has organized a small group. Also, received agreement from members
 - The role of leader: overall responsibility for managing organization, Quality control, Report, etc.

the Articles of association-making of small group procedure

- Educating Small group about enactment process of articles of association and examples
- Based it on each small groups enact an articles of association through debate among members
- Example : Attached articles of association draft of Group Zerama (After coffee season it would be completed)

Articles of association(2)

Small group articles of association example

1. Small business(Defining)

- a. Name : Group Zerama
- b. Address :, Foe-hei village, Rotuto Area, Subdistrict Same, Manu-fahi District
- c. Person in charge : Francisco da silva
- d. Location : Aroehaet-Koel-udu, Faturekas
- e. Contact : +67077329887, 77383066

2. Vision

The largest vision of Group Zerama is "Local community is power of country and country is stronger if capacity of residents is stronger"

Advancement of development is realized by participation of local residents and Zerama group made up of residents in Rotuto, Foe-hei village should contribute to development of East-Timor

In order to contribute to East-Timor it should take part in coffee industry for economic development and qualitative growth through quality control as main subject of changing life

3. Mission

Zerama group carries out processing from coffee bean to parchment with responsibility of it based on supports for making small group from YMCA

The group should make effort to be a partner of YMCA to spread the sentence of "the most delicious Rotuto coffee is Peace coffee" to Korean market

4. Organization chart

5. Profitability of Small group

The profit of small group is used for member of the group and Foe-hei vaillage

- a. Small group is comprised of about ten members
- b. Ten members of small group ensure profit to 50 households

6. Contents of activities

- a. Subsidiary material and goods for activities are covered with profits from coffee processing and selling
- b. The group should make effort to fair trade activity with cooperation with YMCA.

Supporting System of Small group



Resident's Capacity Building program (1)

Curriculum and Instructor

- All program are in Tetum language to make residents understand the contents easily.
- Attached detailed Curriculum

Times	Date	Subject	Contents	Instructor	Participants
1 st	2013.5.24~27 (12 times)	Organizing Community	<ul style="list-style-type: none"> • Running Cooperative and Small Group • Planting Coffee 	Mr. Orlando (Cooperative expert)	270
2 nd	2013.11.21~22 (12 times)	Agricultural Technology	<ul style="list-style-type: none"> • Making organic fertilizer, Coffee tree management, Planting seedlings, Pruning 	Portuguese NGO HAFORSA (Coffee Production Expert)	120
3 th	2014.4.25 (Twice)	Leadership and Managing Organization	<ul style="list-style-type: none"> • Processing Coffee Evaluation • Leadership training on managing small group 	Donghwa, Yang (Field Manager)	35
4 th	2014.7.4~7 (12 times)	Organizing Community	<ul style="list-style-type: none"> • Same as 1st training • Training people who are eager to participate in this program among new small groups and existing small groups 	Mr. Orlando (Cooperative expert)	194
5 th	Undecided (Twice)	Leadership and Managing organization	<ul style="list-style-type: none"> • Making Evaluation Paper • Leadership training on managing small group 	Donghwa, Yang (Field Manager)	-

Operational Result : Income Change

Income Change(Improvement of Income level by group)

- In case of Rotuto village, Population is about 3000, most of them are engaged in Agriculture
- Annual revenue of a coffee farming household is on average \$450* in case of household in this project : \$650 on average
- The internal reserves for Purchasing Parchment (2011-2013) *Saving 5% of Each revenue in CSR costs and operating expense

	2011			2012			2013		
	Parchment production (Kg)	CSR costs (US\$)	Operating expenses(US\$)	Parchment production (Kg)	CSR costs (US\$)	Operating expenses (US\$)	Parchment production (Kg)	CSR costs (US\$)	Operating expenses (US\$)
Fool	0.0	\$0.00	\$0.00	1,896.0	\$198.60	\$198.60	3,365.0	\$336.50	\$336.50
Hau-ba	8,861.0	\$804.10	\$804.10	10,295.5	\$804.10	\$804.10	4,663.5	\$463.35	\$463.35
Nau-leta	0.0	\$0.00	\$0.00				3,366.0	\$336.60	\$336.60
Hak-bit	0.0	\$0.00	\$0.00				5,073.0	\$507.30	\$507.30
Rusfu-rema	0.0	\$0.00	\$0.00				8,782.0	\$878.20	\$878.20
Total	\$8,861.00	\$804.10	\$804.10	12,191.5	\$1,002.70	\$1,002.70	25,249.5	\$2,521.95	\$2,521.95
Annual Revenue	\$16,082.00			\$20,054.00			\$50,439.00		

*Parchment production of small group Hau-ba decrease after several small groups are initiated in 2013

Operational Result : Change of Consciousness

Improving Self Supporting

- Before organizing small group, mainly YMCA leaded the activities of communal processing center rather than self participation of village. In 2009, the first year of organizing small group, some of members wanted to be back to communal processing center leaded by YMCA due to difficulties.
- However, Improvement of organizing community and self supporting through experience of running small group

Independent small group management

- Expressing their opinion or defending to YMCA due to improving duty on Price decision making and communal rule
- Transfer Existing conscious as a member of YMCA to equal partner with YMCA based on self supporting management

Strengthening Quality Control

- Role of quality control is transferred into small group from YMCA. Though YMCA have burden for strengthening monitoring Conscious of quality control is getting strict by formulating strained relations between each of small groups.

Stabilization of livelihood

- Realizing increase income and stabilization of livelihood through stable market YMCA
- Plan for using group operational expenses with saving 5% of profits from coffee planting and processing by planned small group operation
- For exmaples, Hak-bit planned to build youth center and purchase computer for education and Hau-ba planned to buy brick machine in order to try other business for increase income

Social Economy in East Timor (1)

Institutional support for cooperative

- Article of the Constitution
- Cooperatives Act : Governance, Efficiency, Operation regulation (at least 15 Promoters, \$1,000 for minimum capital)
- The National Directorate for Cooperative(DNC) under ministry of economy and development : the competent department of Cooperative act
- Core strategy of Timor-leste strategic development plan (2011-2030)

The Status of Cooperatives

- A total of 92 cooperatives, more than 10,000 cooperative members (As of September 2011)
- 51% of all cooperatives is financial cooperatives and the rest of them focus on production and service
- Financial cooperative offer communities loan service(Accumulated assets of all financial cooperatives is \$1.3million)
- Governmental Support: offering facilities and means of production/ Human resources and institutional Capacity building

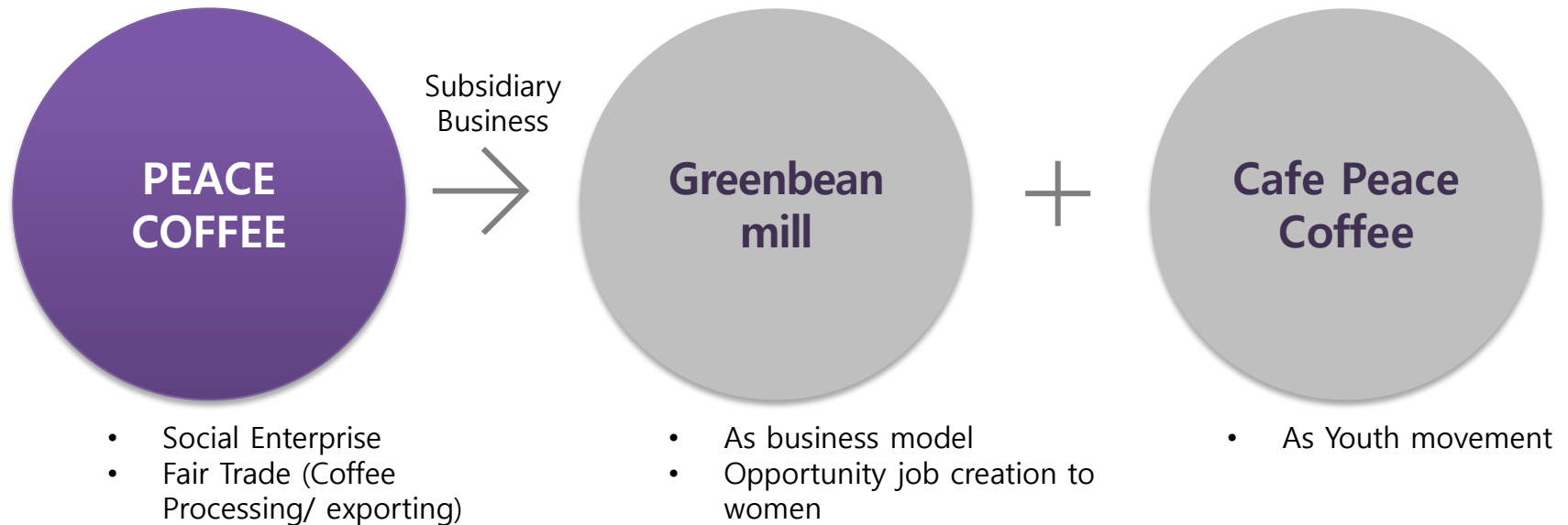
Social Economy in East Timor (2)

Institutional Support of Social enterprise

- The absence of relevant laws
- There is a organization which don't use the name of Social enterprise but have similar characteristic with social enterprise (example: Timor Vita)
- UNDP and the Ministry of economy and development have plan to improve social enterprise to achieve MDGs and develop private sector
- Supporting Small Business(Creativity and Innovation)and Cooperative(improving welfare of members and the Activation of Regional Economy) which can invest products and services to satisfy demands of the local community

- The name of business : Mobilize Social Business to Accelerate Achievement of Timor-Leste MDGs
- Outcome: Reducing poverty with employment and increase income of agricultural region by social enterprise
- Outputs
 - 1) Creating environment for social business investment development in East Timor
 - 2) Establishment of Social Business fund for supporting social business
 - 3) Capacity building of Service provider to support social business technology
 - 4) Strengthening adjustment and networking between Investors, Service providers, Regulators and Social business
- Period of project : 2012-2015 (3years)
- Project Budget : \$2,126,090
- Granted Institute: Korea-UNDP MDG Trust Fund(Government of South Korea) *the Ministry of Foreign Affairs

Business Model



Overview (1)

*Social Enterprise in East-Timor is not legally defined due to absence of related law
The reason why an incorporated company, Peace Coffee, is defined as social enterprise is because it carries out the creation of social value, such as hiring second-class citizen(women and vulnerable group), reinvesting part of the earnings into the local community

Social Issue

- **The Necessity of the youth movement activation in East-Timor**
 - > Formation of café Cultural Space
- **Coffee Producers need to know consumers' tastes to strengthen production quality**
 - > Developing Domestic Market
- **Ensuring long-term market and Sustainability of the business**
 - > Fair Trade, Green bean processing center business model

Vison

- **None (Absence of shared vision and mission between members due to the nature of business which started from the bottom-up)**

Overview(2)

Management System	<ul style="list-style-type: none">• Consultative made up of representative of producers and regional leaders affect coffee price policy and decision making• Decision making on profit sharing and management is authorized by investors and CEO. However, all people who participate business activities can take part into communication• Saving 20% of profit, reinvestment of the remaining profit into the local community
Network and Partnership	<ul style="list-style-type: none">• Difficulty of partnership with government due to absence of institutes or resources for supporting social enterprise• Information exchange through irregular meeting with other institutes which have characteristics of social enterprise• Partnership with Consultative made up of representative of producers and regional leaders
Right and Sustainable environment	<ul style="list-style-type: none">• Participation of female and vulnerable group : Producers small group(female members 1~2), Small group processing center(Hiring temporary staff), developing and selling snack menus, producing hand crafts• Environment : Recycling coffee husk from processing coffee in small group processing center and green bean processing center as fertilizer, eco friendly sewage treatment

*Management style / Utilization of profit :

Reinvestment in local community for Same area

detailed contents and time would be decided based on residents meeting .

Saving and reinvestment would be conducted in the latter half of the year.

Business Operation History

		Progress	Note
Social Enterprise Peace Coffee	Establishment	<ul style="list-style-type: none"> • 2013.3 Complement to Export License Document • 2013.4 Confirm of exportation and importation, processing green bean, running peace coffee with modified license through meeting with Ministry of Justice • After May, 2013 Setting out to Acquire Integrated Licensing • 2013.7 Acquiring Operating Licenses 	<ul style="list-style-type: none"> • Issuance of license for carrying out fair trade, processing center, café was delayed • Constant consultation with governmental related department
	Operation	<ul style="list-style-type: none"> • 2013.8 Starting operations 	<ul style="list-style-type: none"> • None
Green Bean Mill	Establishment	<ul style="list-style-type: none"> • 2013.2 Visiting Governmental Agency to gain approval • 2013.3 Conducting 1st site survey • 2013.4 Conducting 2nd site survey • 2013.7 Selection of a site • 2013.8 Proceeding construction and purchasing machine equipment 	<ul style="list-style-type: none"> • None
	Operation	<ul style="list-style-type: none"> • 2013.10 Hiring employees • 2013.11 Starting operations 	<ul style="list-style-type: none"> • None
Café Peace Coffee	Barista Training	<ul style="list-style-type: none"> • 2013.5 Meeting with experts who will train pre-baristas to discuss about curriculum • 2013.12 Dispatching two Korean experts • 2013.12 Training twice, 22 Participants 	<ul style="list-style-type: none"> • None
		<ul style="list-style-type: none"> • 2013.3 Local café market condition and 1st site survey • 2013.4 Local café market condition and 2nd site survey • 2013.10 Local construction, Green Bean Mill building 	

Business License

- Business registration certificate (2013.07.29)
- Wholesale of Household Goods (2013.07.29)
- Wholesale of Agricultural Raw Materials and Live Animals (2013.07.29)
- Wholesale of Machinery, Equipment and Supplies (2013.07.29)
- Other Specialized Wholesale (2013.07.29)
- Beverage Serving Activities (2013.11.7)



organizational structure

Representatives

1. Jody C.T, Da Costa (A member of YMCA East-timor)
 2. Orasio Mendes (Secretary General of YMCA East-timor)
 3. Lourdes Dorreia Da Silva Lobato (A member of YMCA East-timor)
 4. Donghwa, Yang (A member of YMCA Korea)
 5. Kiyoun, Kim (A member of YMCA Korea)
- These 5 people are Co-Representatives.

*Criteria for selection of the marginalized

1. Person who have more than 10 dependents and his or her income is the only income source for the family
2. Single-parent family

Local Employees

Task	Contract type	Employment Conditions
Representative (1)	<ul style="list-style-type: none"> Permanent position (1) Temporary position (0) 	<ul style="list-style-type: none"> Vulnerable (0) General (1)
Managing Production region (6)	<ul style="list-style-type: none"> permanent position (6) Temporary position (0) 	<ul style="list-style-type: none"> Vulnerable(3) General(3)
Dili Processing Center (4)	<ul style="list-style-type: none"> permanent position (1) Temporary position (3) 	<ul style="list-style-type: none"> Vulnerable (4) General(0)
Café (4)	<ul style="list-style-type: none"> permanent position (3) Temporary position (1) 	<ul style="list-style-type: none"> Vulnerable(3) General(1)
Administrative position (4)	<ul style="list-style-type: none"> permanent position (0) Temporary position (4) 	<ul style="list-style-type: none"> Vulnerable(4) General(0)
Social Service (2)	<ul style="list-style-type: none"> permanent position(0) Temporary position (2) 	<ul style="list-style-type: none"> Vulnerable(2) General(0)
Total (20)	<ul style="list-style-type: none"> Permanent position12 Temporary position9 	<ul style="list-style-type: none"> Vulnerable(16) General(5)

Articles of association

Article 1 The name of the Company

Profit making corporation Peace Coffee (Limited Liability Company)

Article 2 Headquarter (Business area)

1. Headquarter : Dili District, Comoro City, Aimutin
2. Business Area : It can make different kinds of institutes or branches in domestic or overseas market through simple deliberation

Article 3 Purpose of corporate

1. Purpose of Corporate : Cafeteria
2. Corporate can get opportunities to participate other business which serve its purpose based on a special law

Article 4 capital

Capital is prepared in \$25,000 in cash or bank ANZ is donated.

1. Donghwa Yang finances \$6,875, 27.5% of capital
2. Kiyoun, Kim finance \$6,875, 27.5% of capital
3. Jody C. T. Da Costa finance \$3,750 , 15% of capital
4. Orasio Mendesfinance \$3,750 , 15% of capital
5. Loudes Correia Da Silva Lobato finance \$3,750 , 15% of capital

Article 5 Management(administration)

1. Company can appoint manager or administrator to Executive of company
2. Period is unlimited

Article 6 the Obligation

1. Company can take following forms
 - a. Company can co-intervene to manager or management
 - b. It can carry out authority granted by lawyer
2. It can take action in intervention to organization and manger

Article 7General Meeting

Company can design representatives meeting freely

Article 8 Implement Measures

As representative director C.T, Da Costa process investment by the order of capital donations.

Social and Economic Expected Effect

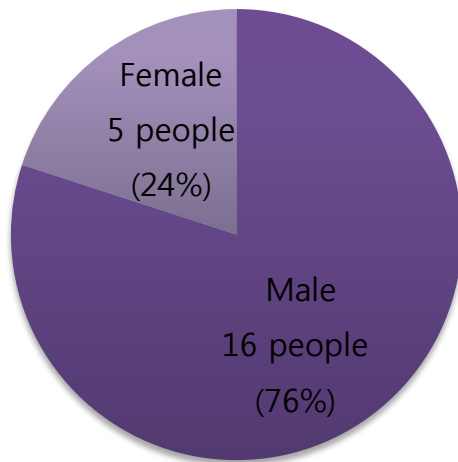
- Spread of Fair Trade / Spread of Social Service / Activation of Regional Society/ Job Creation

Production Region	<ul style="list-style-type: none">• Improving coffee processing• Improving quality control• Developing local community(Clinic, school, Mother and Child Health	Dili Processing Center	<ul style="list-style-type: none">• Employment support of vulnerable group• Profit Creation through processing center• Production of high-quality coffee bean (Quality Control)
Café (Domestic market)	<ul style="list-style-type: none">• Formation Domestic market• Popularization of the café culture• Supporting youth cultural activities• Social participation of vulnerable group• Fair trade campaign movement	Overseas Market	<ul style="list-style-type: none">• Ensuring stable connection• Attributing to spread of fair trade

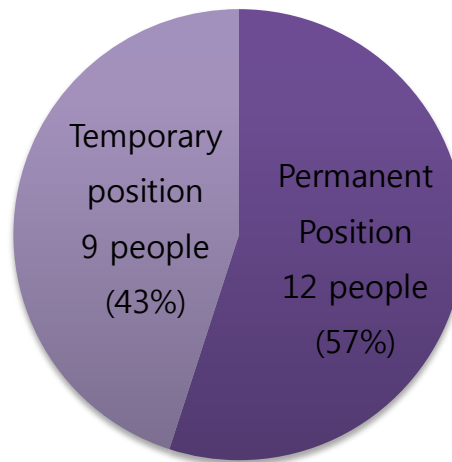
Operational Result: Employment status(1)

- A total of 21 employees(2014. 9)
- Wage level: Executive \$350 per month, General Staff : \$200 per month, Management staff : \$120 per month
(Minimum wages of East-Timor is \$120 per month)

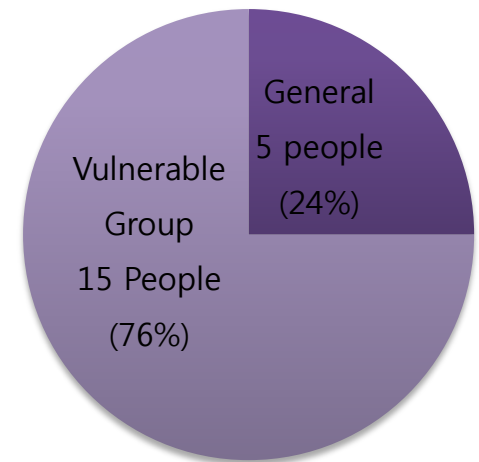
Sex



Contract type



Employment Conditions



Operational Result: Employment status(2)

No.	Name	Sex	Date of birth	Duty	Contract type	Employment Position	Task
1	Jody Da Costa	M	1982	Representative	Permanent	General	
2	Francisco Tilman	M	1970	Manager	Permanent	General	Managing Production region
3	Marcelo Alberto Carlos	M	1974	Manager	Permanent	Vulnerable	
4	Juliao Ferreira Da Costa	M	1978	Staff	Permanent	Vulnerable	
5	Eduardo Lau	M	1971	Staff	Permanent	Vulnerable	
6	Amarino Da Costa	M	1981	Staff	Permanent	General	
7	Amadeu Da Costa	M	1980	Staff	Permanent	General	
8	Mario Fereitas	M	1986	Staff	Permanent	Vulnerable	Dili Processing Center
9	Honorio Martins	M	1990	Staff	Temporary	Vulnerable	
10	Marsalino Da Costa	M	1991	Staff	Temporary	Vulnerable	
11	Marculino Soares	M	1993	Staff	Temporary	Vulnerable	
12	Sepercia Sequeira Lopes	F	1985	Manager	Permanent	Vulnerable	Café
13	Teodora Soares	F	1988	Staff	Permanent	Vulnerable	
14	David Fernandes	M	1993	Staff	Permanent	General	
15	Mariana Bareito	F	1990	Staff	Permanent	Vulnerable	
16	Cezaltinho Da Silva	M	1970	Staff	Temporary	Vulnerable	Administrative position
17	Manuel Tilman	M	1965	Staff	Temporary	Vulnerable	
18	Julito Da Costa	M	1984	Staff	Temporary	Vulnerable	
19	Bonifasio Da Costa	M	1959	Staff	Temporary	Vulnerable	
20	Elsa Dos Santos	F	1976	Staff	Temporary	Vulnerable	Social Service
21	Clementina Prego	F	1982	Staff	Temporary	Vulnerable	

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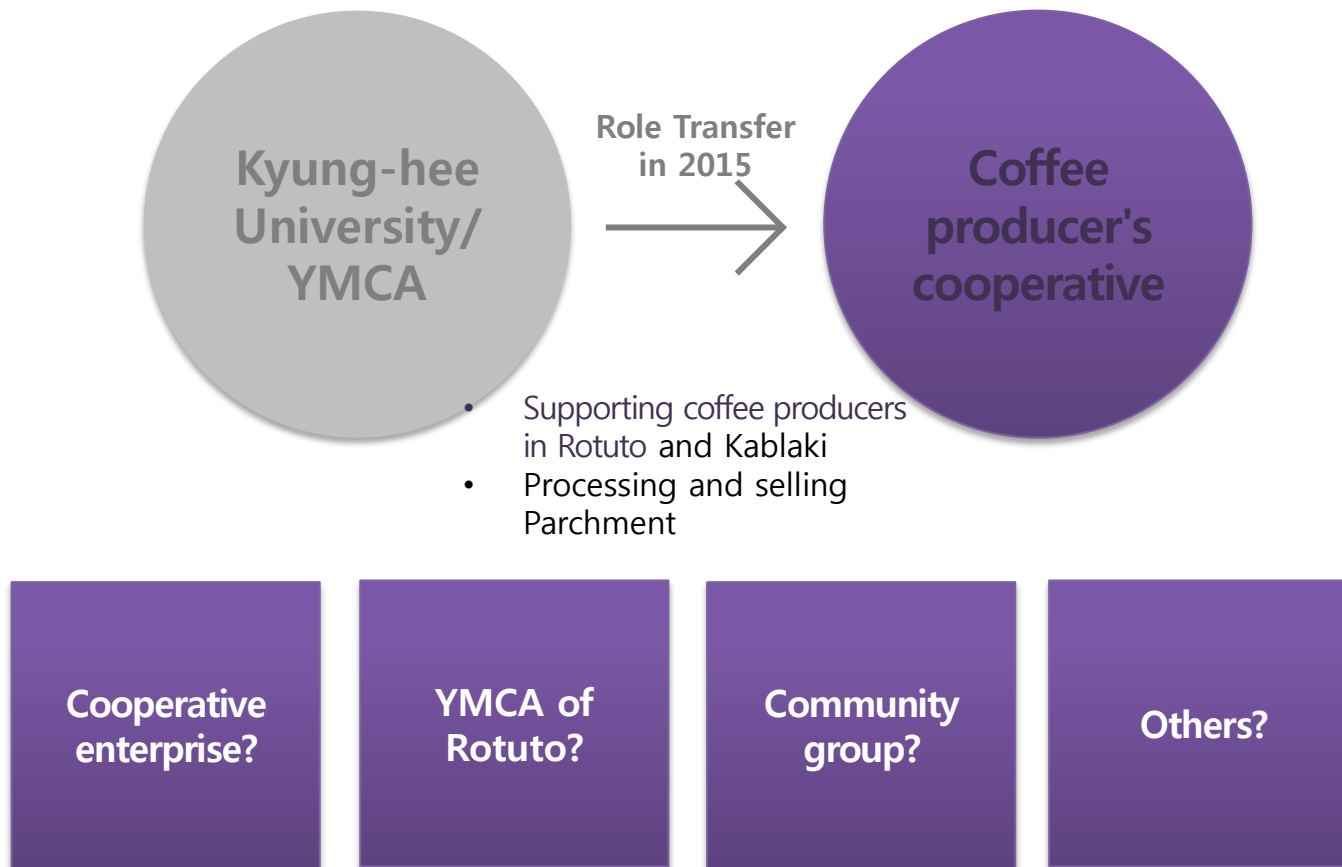
IV. Future Task

1. ~~Producers Small-group~~

2. Social Enterprise

Producers Small-group

- Kyung-hee University/YMCA -> Producers' self-supporting



Social Enterprise

- Role Transfer: Kyunghee University/YMCA -> YMCA East Timor's Self-supporting
- Share Transfer: Transferring the Share(55%) of YMCA Korea into YMCA East Timor

