



# Annual Report

# 2023

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Market Development Facility

## Impressum

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

Graphic Design: Stella Pongsitanan

Editor: Amelia Taylor

## Market Development Facility

The Market Development Facility (MDF) is a multi-country initiative which promotes sustainable economic development, through higher incomes for women and men, in our partner countries across the Indo-Pacific.

We support partners from business and government to identify and grow commercial opportunities that are profitable, scalable and deliver social and environmental value.

MDF is funded by the Australian Department of Foreign Affairs (DFAT) and co-funded by the New Zealand Ministry of Foreign Affairs and Trade (MFAT) in Samoa, Tonga and Vanuatu. It is implemented by Palladium in partnership with Swisscontact.



# ANNUAL REPORT

2023

# Purpose of this report



## Objective

MDF supports the Australian Government’s objectives of promoting sustainable economic growth, enhancing women’s economic empowerment and reducing poverty.

The Annual Report 2023 is intended to provide insight into the program’s key achievements between 1 January and 31 December 2023. It also describes the progress made towards MDF’s End-of-Program Outcomes and high-level objectives.



## Audience

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



## Reporting period

This Annual Report covers the period between 1 January and 31 December 2023.

As such, it covers the activities and deliverables set out in the Annual Strategic and Operational Plan 2023 (1 January 2023 to 31 December 2023).

### Former Reporting Structure Up to 2018

Report	Period Covered	Due Date
Annual Aggregation of Results (AAR)	1 December 2016 to 30 November 2017	February 15 <sup>th</sup>
Annual Report (AR)	1 December 2016 to 30 November 2017	March 1 <sup>st</sup>
Annual Strategic Plan (ASP)	Financial Year Coming (July 2018 – June 2019)	May 15 <sup>th</sup>
Financial Report	Financial year 2017-18	August 30 <sup>th</sup>
Deliverables Report	Previous ASP	August 30 <sup>th</sup>

### Reporting Structure 2019 Bridge Year

Report	Period Covered	Due Date
Annual Report (includes annual aggregation)	Previous calendar year (2018)	March 1 <sup>st</sup>
Bridge Annual Strategic Plan (ASP)	June to December 2019	May 15 <sup>th</sup>
Financial Report (includes deliverables report)*	Financial year (2018-19)	August 30 <sup>th</sup>
Annual Strategic Plan (ASP)	Calendar year 2020	November 30 <sup>th</sup>

\* As an attachment to the financial report, MDF will report on its progress against deliverables in tabular format.

### Reporting Structure 2020 Onwards

Report	Period Covered	Due Date
Annual Report (includes annual aggregation)	Previous calendar year (2019)	March 1 <sup>st</sup>
Financial Report	Financial year (2019-20)	August 30 <sup>th</sup>
Annual Strategic Plan (ASP)	Calendar year 2021	November 30 <sup>th</sup>





## Report structure

In 2019, MDF introduced the three-tiered 'market system' structure (MSS) to its reports (see *Systemic Change* at MDF for details).

Specifically designed for flexible implementation, the MSS is primarily intended to provide a consistent structure and format to communicate MDF's plans and results.

MDF first applied this structure and format to the Annual Strategic Plan 2020 and has continued to use them. They allow readers to compare the plans made in Annual Strategic and Operational Plans (ASOP) with the progress made in Annual Reports—that is, to compare what MDF planned with what it achieved. A summary of the key changes made to the Annual Report is reproduced from *MDF Reporting Framework Update* for DFAT below.



## Key features of the Annual Report

### Market system hierarchy

The contents of the Annual Report record progress according to the market system hierarchy. This means that, like the ASOP, each market system includes a market system hierarchy diagram and a narrative which explains progress against it.

### Inclusion of the summary table from the ASOP

The report includes a smaller version of the summary table from the ASOP for each market system to help readers remember what MDF planned.

### Inclusion of outputs in summary table

MDF has included figures for the value of additional market transactions (VAMT) and private sector investment leveraged to aid comparison between activities and outputs.

### Inclusion of traffic lights for progress

Each table includes a traffic light to demonstrate how interventions are progressing. Green is used for on track, orange for some delays but broadly on track and red for delays or issues.

### Inclusion of leading indicators

Leading indicators (access and usage) are featured as part of the explanation of the journey towards systemic change. The systemic change envisaged is articulated in the MSS hierarchies above.

### Inclusion of Aggregate Development Results (ADRs)

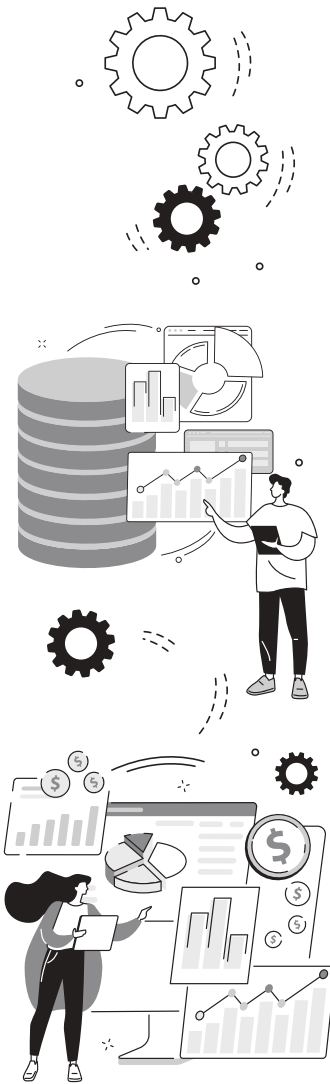
Progress marked against DFAT ADRs is included.

### Highlights - graph updates

MDF will update its graphical representation of how interventions are progressing according to the headline and leading indicators. Estimates are no longer represented by a line but by a single dot to help readers understand that they are End-of-Program Outcomes. Effort has been made to clarify the cumulative nature of the results.

# How to read this report

## What are our numbers, and what do they mean?



### Estimates

Estimates are similar to targets.

At the start of each phase, data and experience of country and market contexts are used to assess what can reasonably be achieved during that phase.

This evaluation takes time, budget and other design constraints (such as a particular focus on a population) into account. It is not based on specific interventions or partnerships.

The result of this assessment is an estimate—an ‘educated guess’ of what the whole country program can achieve during one phase.

Estimates are reviewed mid-phase.

### Projections

Projections express an intervention's expected yield.

Before entering into any intervention, teams conduct rigorous assessments of deliverables and what can realistically be achieved within one year, under current circumstances.

The results for each intervention in a country's portfolio are then added together to give cumulative projections—an informed estimation of what is expected from a country's interventions.

Projections are used to understand the likely contribution of each intervention to reaching End-of-Program Outcomes (EOPOs, or estimates) and as a management tool to guide resource allocation within the country programs.

Projections are also used to help DFAT understand what the program is likely to achieve from a given group of interventions.

### Actuals

Actuals are the measured and verified results of an intervention.

This data helps MDF to evaluate whether or not an intervention is on track, and whether expectations are being met.

As the name suggests, this measures the ‘actual’ impact that has been observed through our ongoing monitoring.

The current year's ‘actual’ results are added to previous years’ results to give us cumulative figures.

## Why do we present cumulative results?

It is important to report on cumulative figures for both projections and actuals because market system development interventions do not bring immediate results: an investment made this year generates results in years to come. It also allows the program to:

- capture and report a project's impact sustainability (whether a project continues to produce positive results even after MDF activities have been completed)
- know whether our original estimates and projections were accurate
- detect signs of systemic change based on the overall scale of change compared to the size of the sector.

## Comparison of Indicators

	<b>Estimates</b>	<b>Projections</b>	<b>Actuals</b>
<b>Meaning</b>	Where we thought we'd be by the end of the phase	Where we thought we would be after an intervention is complete	Where we are
<b>Calculated</b>	At the start of the phase	At the start of an intervention	At the end of the year
<b>Measures</b>	Expectations of country and program achievement over the phase	Expectations of an intervention	Intervention results
<b>Updated</b>	Mid-term review only	Bi-annually	Annually
<b>Timeframe</b>	One phase	One year	One year

# Reporting Indicators

## Headline indicators

**Effective outreach**

- Total number of disadvantaged or economically marginalised working adults (smallholder farms, firms and workers) benefiting as a result of MDF interventions
- Gender disaggregated

### Purpose:

- Measures scale of impact on poor, disadvantaged, economically marginalised women and men

**Net additional income increase**

- Net additional income earned by beneficiaries, attributable to MDF intervention
- Gender disaggregated

- Captures value of additional income

## Leading indicators

**Usage outreach**

- The number or proportion of target beneficiaries (i.e. from those who have access) who are now using or applying the information, good or service
- Gender disaggregated

### Purpose:

- Reflective of the feasibility/success of the model explored

**Access outreach**

- The number or proportion of beneficiaries that have information about, or access to, a specific good or service as a result of MDF's intervention
- Gender disaggregated

- Captures early signs of progress at an intervention, sector and portfolio level

## Value for money indicators

**Value of additional market transaction (VAMT)**

Increased economic transactions triggered by MDF intervention. This captures the additional sales revenue generated by businesses that MDF has supported

### Purpose:

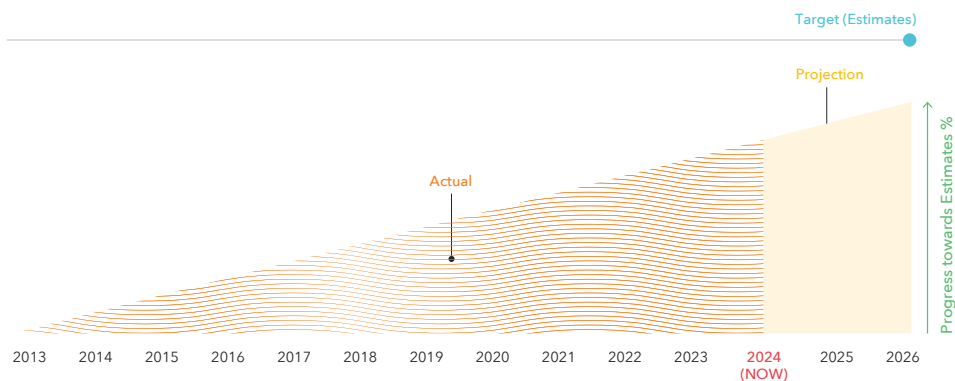
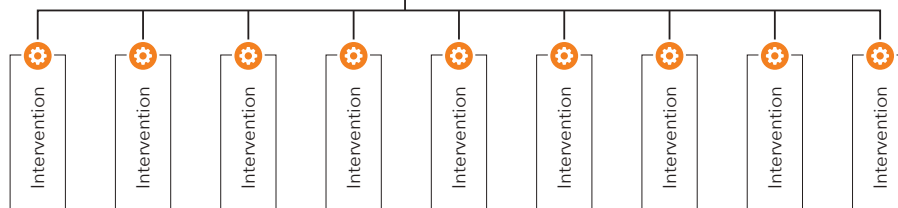
- Allows us to check how our activities are resulting in additional end market sales for businesses

**Private sector investment leveraged**

Includes additional investments made to improve business models triggered by MDF intervention and investments made by other businesses that have 'crowded-in' in response to MDF intervention

- Reflects businesses' buy-in, risk appetite, indication of sustainability

## Activities



# Abbreviations and Acronyms

<b>ACIAR</b>	Australian Centre for International Agricultural Research	<b>IDP</b>	International Development Policy
<b>ADB</b>	Asian Development Bank	<b>IFC</b>	International Finance Corporation
<b>ADR</b>	Aggregate Development Results	<b>ILO</b>	International Labour Organization
<b>APCP</b>	Australia Pacific Climate Partnership	<b>IMF</b>	International Monetary Fund
<b>ASOP</b>	Annual Strategic and Operational Plan	<b>LKR</b>	Sri Lankan Rupee
<b>AUD</b>	Australian Dollars	<b>MDF</b>	The Market Development Facility
<b>BA</b>	Business Adviser	<b>MFAT</b>	New Zealand Ministry of Foreign Affairs and Trade
<b>BPO</b>	Business Process Outsourcing	<b>MIS</b>	Management Information System
<b>CLB</b>	Climate Resilience and Finance Branch of DFAT	<b>MOU</b>	Memorandum of Understanding
<b>CLT</b>	Core Leadership Team	<b>MSD</b>	Market Systems Development
<b>DFAT</b>	Department of Foreign Affairs and Trade (Australia)	<b>MSME</b>	Micro, Small and Medium Enterprise
<b>DMC</b>	Destination Management Company	<b>MSS</b>	Market System Strategy
<b>EI</b>	Engagement and Influencing	<b>OPD</b>	Organisations for people with disability
<b>EOPO</b>	End-of-Program Outcomes	<b>OS</b>	Outsourcing Services
<b>EV</b>	Electric Vehicle	<b>OTP</b>	Office of the Pacific
<b>FAO</b>	Food and Agriculture Organization of the United Nations	<b>PGK</b>	Papua New Guinean Kina
<b>FCEF</b>	Fiji Commerce and Employers Federation	<b>PHAMA</b>	Plus Pacific Horticultural and Agricultural Market Access Program
<b>FEE</b>	Fiji Enterprise Engine	<b>RIMI</b>	Research, Impact Measurement and Inclusion
<b>FDI</b>	Foreign Direct Investment	<b>SAT</b>	Samoan Tala
<b>FJD</b>	Fijian Dollar	<b>SME</b>	Small and Medium-sized Enterprises
<b>FTE</b>	Full-Time Equivalent	<b>TOP</b>	Tongan Pa'anga
<b>FY</b>	Financial Year	<b>UNCDF</b>	United Nations Capital Development Fund
<b>GDP</b>	Gross Domestic Product	<b>USD</b>	United States Dollars
<b>GEDSI</b>	Gender Equality, Disability and Social Inclusion	<b>VAMT</b>	Value of Additional Market Transactions
<b>HACCP</b>	Hazard Analysis and Critical Control Points	<b>VUV</b>	Vanuatu Vatu
<b>ICT</b>	Information Communications Technology	<b>WEE</b>	Women's Economic Empowerment
		<b>WHO</b>	World Health Organization

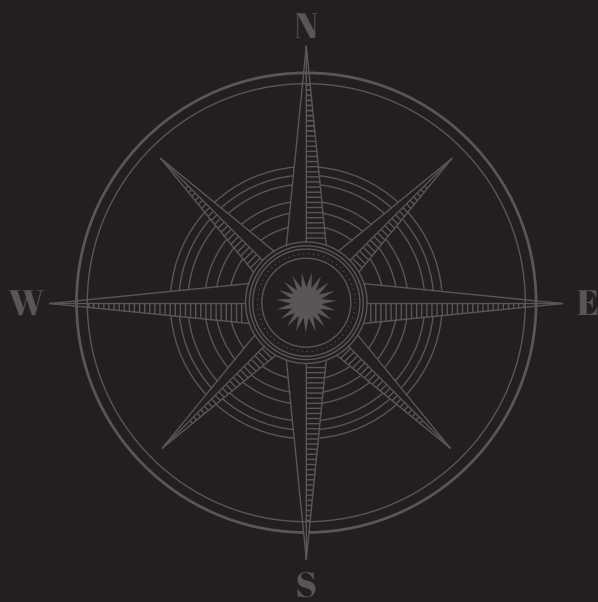
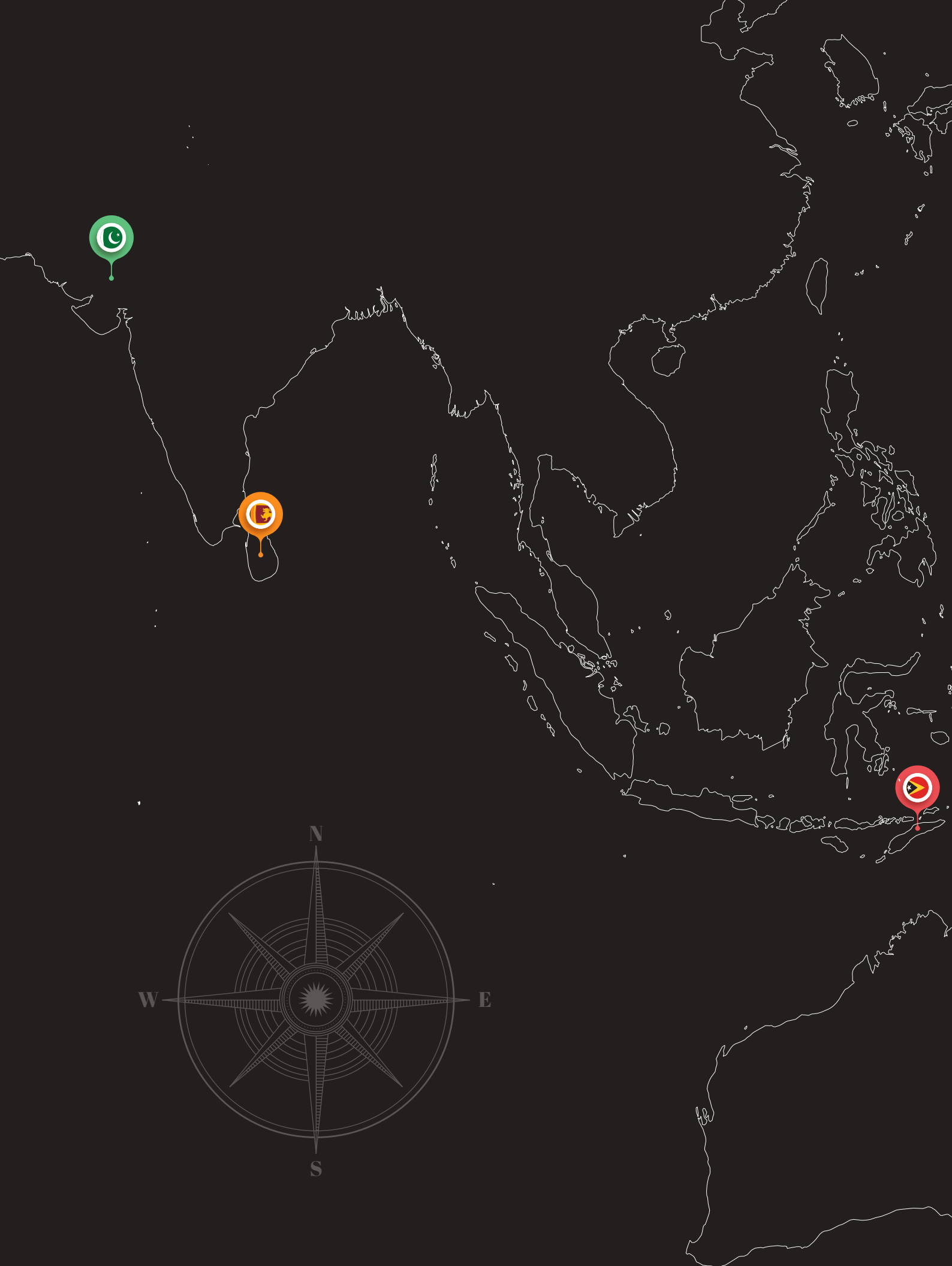
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# Facility Wide

# MDF's Progress in 2023

Graph key: **Actuals** / **Projections** / **Estimates<sup>1</sup>** Example: 

Estimates are calculated at the start of each phase. They are not targets, but rather an informed, calculated guess at what the program can achieve during the phase.

## Number of people positively impacted by MDF's work (Effective Outreach)



### Strategic shifts ensure continued growth amid changing program landscape

In 2023, MDF's positive impact continued to grow, with projections suggesting a similar upward trajectory in the years ahead, despite changes in the composition of MDF's focus countries over the past three years. MDF transitioned from a program covering approximately 257 million people to one covering 24 million people, resulting in a slower pace of projected growth. Notably, a significant proportion of the population has already been reached in Timor-Leste and Fiji.

Specific achievements in 2023 include 1.5 percent growth in both actual impact and projected impact. Growth was fuelled by the creation of more than 500 full-time jobs, primarily for women, in Fiji's outsourcing services sector; interventions in agricultural inputs and seaweed in Timor-Leste; and interventions in agricultural inputs in Sri Lanka, relating to digital scales that led to increased tea sales for more than 1,700 farmers. Coffee certification and value chain financing initiatives in Papua New Guinea continued to thrive and benefited more than 2,000 farmers, despite the closure of the MDF country program and transition to the Australia-Papua New Guinea Economic Partnership (APEP) in 2023.

Pacific Regional and Sri Lanka were pivotal in driving projected outreach growth, reflecting strengthened portfolios and new initiatives. MDF also forged new partnerships and relationships to ensure operational continuity and supply chain stability.

## Additional income generated for adults across MDF countries (Net Additional Income)



### A steady income trajectory, with continued growth projected

As of December 2023, MDF had generated USD166 million (AUD251 million) in additional income, reaching 67 per cent of End-of-Program Outcomes (estimates) and registering a four per cent increase versus 2022. The current portfolio is expected to contribute USD200 million (AUD303 million), or 81 per cent of estimates, until 2026.

In Timor-Leste, farmer incomes in coffee and pig interventions contributed to additional income, while full-time employment generated through chicken and early-stage export interventions also contributed to additional income growth. In Sri Lanka, MDF interventions had a significantly positive impact on female incomes (more than USD140,000/AUD212,000), especially in agricultural inputs and coffee. Expanding portfolios in agricultural inputs and tourism contributed to a substantial increase in projections for Sri Lanka.

In Fiji's outsourcing services sector, new foreign direct investment contributed 98 per cent of the increase in income, reflecting a promising trend of job and income generation. In PNG, despite low market prices for coffee, MDF interventions enabled farmers to earn a premium for their specialty coffee compared to commodity coffee, resulting in a 17 per cent increase in income year-on-year. Planned tourism interventions in Timor-Leste and Sri Lanka, as well as the growing portfolio in Pacific Regional, are further anticipated to bridge the gap between actuals, projections and estimates.

<sup>1</sup> Figures expressed here are rounded off to one decimal place to aid readability in infographic form. The exact figures can be found in the results tables. The figures are cumulative as of December 2023. For definitions of actuals, projections, and estimates, please refer to page 6.

**Additional revenue generated for business partners (Value of Additional Market Transactions)**



**Resilience amid a turbulent economic landscape**

The current portfolio continued to reap benefits for the private sector—as of December 2023, the value of additional market transactions (VAMT) continued to grow and exceed estimates. VAMT grew a strong 10 per cent year on year, with interventions with diverse businesses contributing to growth, particularly export-related interventions. In Fiji, export of outsourcing services resulted in more than 20 per cent of private sector revenue generated. In PNG, businesses switching from commodity to certified coffee enabled them to generate an additional USD0.80 (AUD1.2) per kg of coffee, approximately. In Timor-Leste, several interventions started generating additional private sector revenue, showing increased sector competitiveness. Interventions in chicken and tourism contributed significantly to VAMT.

The strong VAMT results are particularly noteworthy given post-pandemic economic fluctuations and global headwinds. Sustained private sector growth reflects well-planned interventions and continued economic activity despite the challenging conditions.

**Amount of investment from the private sector (Private Sector Investment Leveraged)**



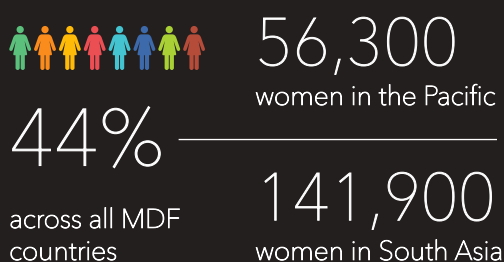
**Risk appetite is increasing; businesses are increasingly willing to cost share on innovative business models**

**Ratio of MDF to private sector investment:1:2.5**

As at December 2023, for every dollar invested by MDF, the private sector had invested 2.5 dollars. MDF has generated more than USD27 million (AUD41 million) cumulatively in private sector investment, with USD1.8 million (AUD2.7 million) catalysed in 2023 alone. A significant 29 per cent of private sector investment came from 'crowded-in' partners, i.e. private sector companies replicating models initially supported by MDF.

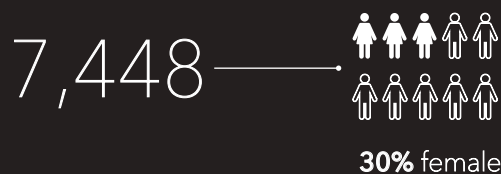
In Sri Lanka, despite a lack of easy access to finance and high interest rates, businesses continued to invest and adopt MDF-supported business models. Notable private investments included establishing imports; developing and distributing high-quality inputs, such as seeds and fertiliser; and coffee sourcing and processing, including establishing dry and wet mills. With an expanding portfolio in Pacific Regional, MDF will maintain investment momentum and anticipates achieving leverage estimates by the end of the phase.

**Proportion of women benefitting from MDF interventions**



MDF's commitment to inclusion remains steadfast, with women accounting for 44 per cent of adults benefitting from program initiatives. As of December 2023, women generated 40 per cent of additional income. MDF continued to engage in businesses partnerships that aim to address women's access and agency. In Sri Lanka, MDF supported new employment opportunities for women in agriculture. In Fiji, growth in outsourcing services resulted in, for the first time, more women benefitting than men (66 per cent of beneficiaries in 2023 were female).

**Outreach from employment**



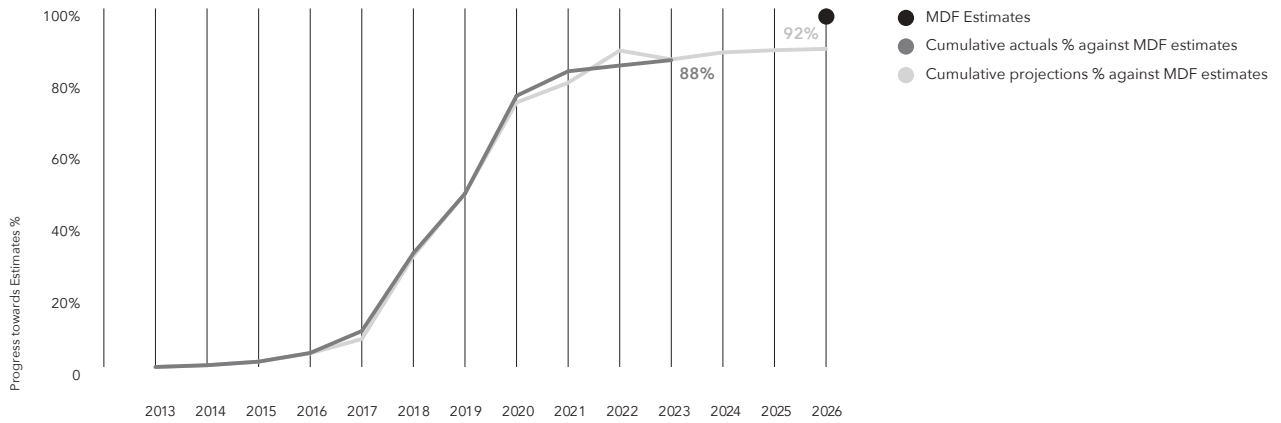
In 2023, MDF's work in outsourcing services, early-stage exports, chicken and agriculture resulted in the creation of 697 new jobs, 64 per cent of which were filled by women. MDF observed new trends in job creation that are being used to inform portfolio composition and inclusive growth strategies.



# Highlights

Facility estimates have been adjusted (increased) to reflect MDF's new five-year extension.

## EFFECTIVE OUTREACH



Effective outreach continued its upward trajectory in 2023, growing by 1.8 per cent since 2022. However, growth may appear lower than expected due to the factors listed below.

- The Pakistan country program closed in 2022, so outreach figures remained unchanged in 2023.
- MDF PNG's transition to APEP affected PNG's outreach growth trajectory, as there were no new interventions in 2023. With the team winding down, MDF was also unable to validate projections through field visits, resulting in actuals and projections reflecting a lower increase than usual.

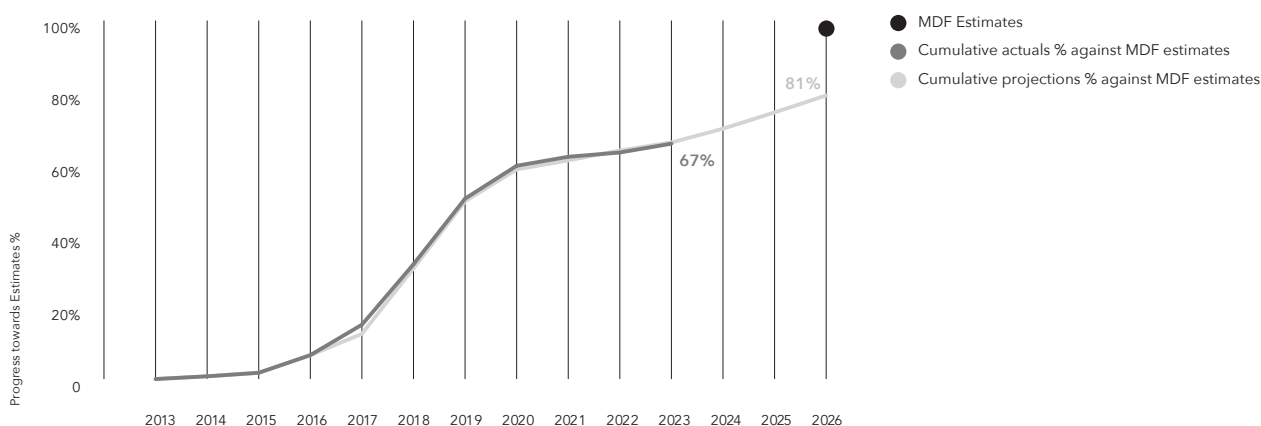
MDF's data aggregation protocols are guided by rigorous standards that prevent reporting the same beneficiary twice. This year, market saturation in thin market economies, such as Fiji and Timor-Leste, required that MDF discount a significant portion of 2023 impact. In Timor-Leste, more than 50 per cent of effective outreach needed to be discounted from new interventions due to overlap with previous interventions relating to African Swine Fever. In Fiji, similar adjustments were made in agricultural input interventions. By discounting these overlaps, MDF aims to provide a more comprehensive understanding of program performance.

These adjustments reflect MDF's commitment to reporting accuracy, and the reality that MDF will often be deepening impact in small-market economies, rather than broadening it.



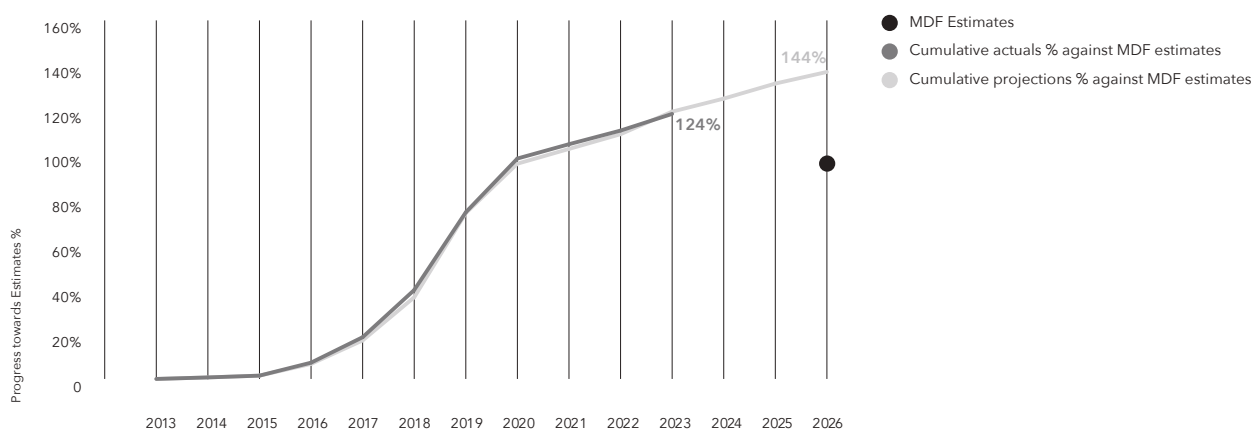
☑ Coffee rehabilitation visit by DFAT, Timor-Leste

## NET ADDITIONAL INCOME



- Net additional income continued to increase in 2023. The current portfolio reached 67 per cent of estimates and is projected to reach 81 per cent by 2026. Farmer premiums in PNG and the revival of Sri Lanka’s portfolio post-crisis supported growth.
- Economic headwinds continued to affect MDF's income reporting. In Sri Lanka, despite a significant five per cent year-on-year increase, the income trajectory was affected by the LKR's persistent depreciation against the USD.
- Projections are supported by Pacific Regional portfolio growth, which is expected to materialise in 2024. The gap between projections and estimates should narrow following LKR stabilisation and further portfolio growth in Pacific Regional.

## VALUE OF ADDITIONAL MARKET TRANSACTIONS



- The value of additional market transactions (VAMT, or private sector revenue) continued to grow and surpass estimates. VAMT grew significantly, by over 10 per cent year-on-year, fueled by export-related interventions in PNG, Sri Lanka and Timor-Leste. Similar results are expected from Pacific Regional in the next few years.
- MDF's current portfolio is expected to achieve 147 per cent of estimates.

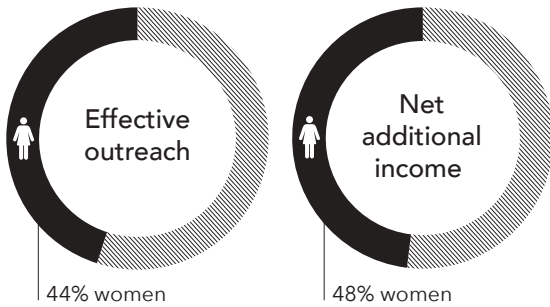
# Summary of MDF results as of December 2023

## Facility-wide<sup>2</sup>

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



### Pacific



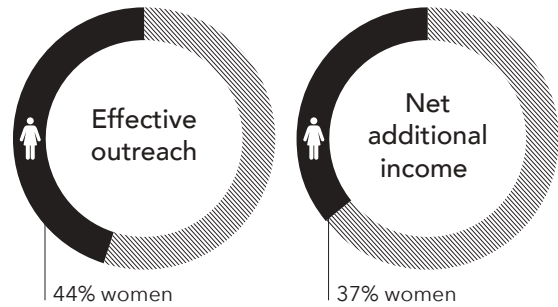
Effective outreach: 126,335  
 Net additional income: USD \$50m

Private sector investment leveraged: USD \$21m

VAMT: USD \$61m



### South Asia



Effective outreach: 323,830  
 Net additional income: USD \$116m

Private sector investment leveraged: USD \$7m

VAMT: USD \$160m

MDF continued to see higher outreach in its South Asian portfolio due to its historical interventions in Pakistan and greater population density in Sri Lanka compared to the Pacific countries. MDF has already reached significant population numbers in Timor-Leste and Fiji and is therefore recording high levels of overlap in intervention beneficiaries—in some instance, over 50 per cent overlap. This overlap has been considered and accordingly discounted when measuring 2023 impact, as detailed in the Highlights on page 17. The share of women benefitting from MDF interventions remained steady across the facility, due to new interventions in agricultural inputs and job creation.

Average additional income per beneficiary remained steady in South Asia, at USD360 (AUD553). In the Pacific, it increased to USD400 (AUD615) from USD347 (AUD533) in 2022, on the back of new job generation in Fiji and Timor-Leste. The share of private sector investment is higher in the Pacific, where MDF works with a greater number of private sector partners. Detailed private sector investment ratios can be found in the country chapters and the 'MDF Results 2023' tables.

<sup>2</sup> All numbers presented are cumulative. The starting point for accumulation for each country is 2013 for Fiji, 2014 for Timor-Leste, 2015 for Pakistan, 2016 for Sri Lanka and Papua New Guinea, and 2022 for Pacific Regional. Facility-level numbers are an aggregation of all countries' cumulative results.



# MDF Results 2023



Indicator	Cumulative actuals (as of December 2023)			Cumulative projections (as of December 2023)			Estimates
	Female	Male	Total	Female	Male	Total	
MDF investment (USD)			3,591,946			NA	NA
Private sector investment leveraged (USD)			14,516,959			NA	16,700,000
MDF to private sector investment leverage ratio			4.04			NA	NA
Value of additional market transactions (USD)			46,451,714			57,524,397	61,000,000
	Female	Male	Total	Female	Male	Total	
Access outreach	11,708	11,124	<b>22,832</b>	12,707	12,097	<b>24,804</b>	NA
Usage outreach	11,423	10,872	<b>22,295</b>	12,298	11,721	<b>24,019</b>	NA
Effective outreach	11,237	10,705	<b>21,942</b>	12,003	11,444	<b>23,447</b>	45,000
Outreach from employment	1,039	679	<b>1,718</b>	1,190	808	<b>1,998</b>	NA
Net additional income (USD)	18,259,384	18,929,795	<b>37,189,179</b>	23,341,790	23,630,938	<b>46,972,728</b>	61,000,000



© Jone Dansey, a Fijian farmer

<sup>3</sup> All numbers are cumulative, starting 2013.

 Pakistan<sup>4</sup>

Indicator	Cumulative actuals (as of December 2023)			Cumulative projections (as of December 2023)			Estimates
	Female	Male	Total	Female	Male	Total	
MDF investment (USD)			1,871,718			NA	NA
Private sector investment leveraged (USD)			5,134,738			NA	5,161,905
MDF to private sector investment leverage ratio			2.74			NA	NA
Value of additional market transactions (USD)			142,612,070			NA	64,002,500
	Female	Male	Total	Female	Male	Total	
Access outreach	174,967	194,358	<b>369,325</b>	NA	NA	<b>NA</b>	NA
Usage outreach	145,469	164,860	<b>310,329</b>	NA	NA	<b>NA</b>	NA
Effective outreach	136,786	156,177	<b>292,963</b>	NA	NA	<b>NA</b>	298,827
Outreach from employment	548	3,780	<b>4,329</b>	NA	NA	<b>NA</b>	NA
Net additional income (USD)	40,286,362	58,300,750	<b>98,587,112</b>	NA	NA	<b>NA</b>	133,092,212

 Papua New Guinea<sup>5</sup>

Indicator	Cumulative actuals (as of December 2023)			Cumulative projections (as of December 2023)			Estimates
	Female	Male	Total	Female	Male	Total	
MDF investment (USD)			2,071,095			NA	NA
Private sector investment leveraged (USD)			1,842,934			NA	1,200,000
MDF to private sector investment leverage ratio			0.89			NA	NA
Value of additional market transactions (USD)			6,084,961			6,731,931	4,050,000
	Female	Male	Total	Female	Male	Total	
Access outreach	9,592	32,703	<b>42,295</b>	9,592	32,703	<b>42,295</b>	NA
Usage outreach	3,204	21,780	<b>24,984</b>	3,204	21,780	<b>24,984</b>	NA
Effective outreach	3,123	17,292	<b>20,415</b>	3,123	17,292	<b>20,415</b>	9,000
Outreach from employment	34	89	<b>123</b>	34	89	<b>123</b>	NA
Net additional income (USD)	343,525	1,379,963	<b>1,723,488</b>	372,548	1,536,034	<b>1,908,582</b>	4,050,000


<sup>4</sup> These are the same numbers previously reported and MDF is showing them to show the contribution to the overall Facility numbers. All numbers are cumulative, starting 2015.

<sup>5</sup> All numbers are cumulative, starting 2016.



Indicator	Cumulative actuals (as of December 2023)			Cumulative projections (as of December 2023)			Estimates
	Female	Male	Total	Female	Male	Total	
MDF investment (USD)			1,559,673			NA	NA
Private sector investment leveraged (USD)			1,927,813			NA	4,180,000
MDF to private sector investment leverage ratio			1.24			NA	NA
Value of additional market transactions (USD)			18,439,853			34,982,156	28,980,000
	Female	Male	Total	Female	Male	Total	
Access outreach	9,615	40,800	<b>50,415</b>	16,275	63,783	<b>80,058</b>	NA
Usage outreach	6,086	28,009	<b>34,095</b>	14,232	44,826	<b>59,058</b>	NA
Effective outreach	5,116	25,752	<b>30,868</b>	9,748	32,280	<b>42,028</b>	55,600
Outreach from employment	337	137	<b>474</b>	368	230	<b>598</b>	NA
Net additional income (USD)	2,412,418	15,037,627	<b>17,450,045</b>	6,794,254	31,934,083	<b>38,728,337</b>	31,807,000



 The MDF Sri Lanka and Helanta Coffee teams assess coffee sapling quality

<sup>6</sup> All numbers are cumulative, starting 2016.

 Timor-Leste<sup>7</sup>

Indicator	Cumulative actuals (as of December 2023)			Cumulative projections (as of December 2023)			Estimates
	Female	Male	Total	Female	Male	Total	
MDF investment (USD)			1,866,981			NA	NA
Private sector investment leveraged (USD)			4,465,442			NA	6,600,000
MDF to private sector investment leverage ratio			2.39			NA	NA
Value of additional market transactions (USD)			8,140,335			9,780,038	10,400,000
	Female	Male	Total	Female	Male	Total	
Access outreach	135,639	135,704	<b>271,343</b>	136,859	136,934	<b>273,793</b>	NA
Usage outreach	74,982	74,997	<b>149,979</b>	76,078	76,102	<b>152,180</b>	NA
Effective outreach	41,968	42,031	<b>83,999</b>	42,985	43,050	<b>86,035</b>	90,000
Outreach from employment	315	490	<b>805</b>	315	493	<b>808</b>	NA
Net additional income (USD)	5,550,505	5,718,414	<b>11,268,919</b>	5,833,173	6,044,129	<b>11,877,302</b>	12,800,000

 Pacific Regional<sup>8</sup>

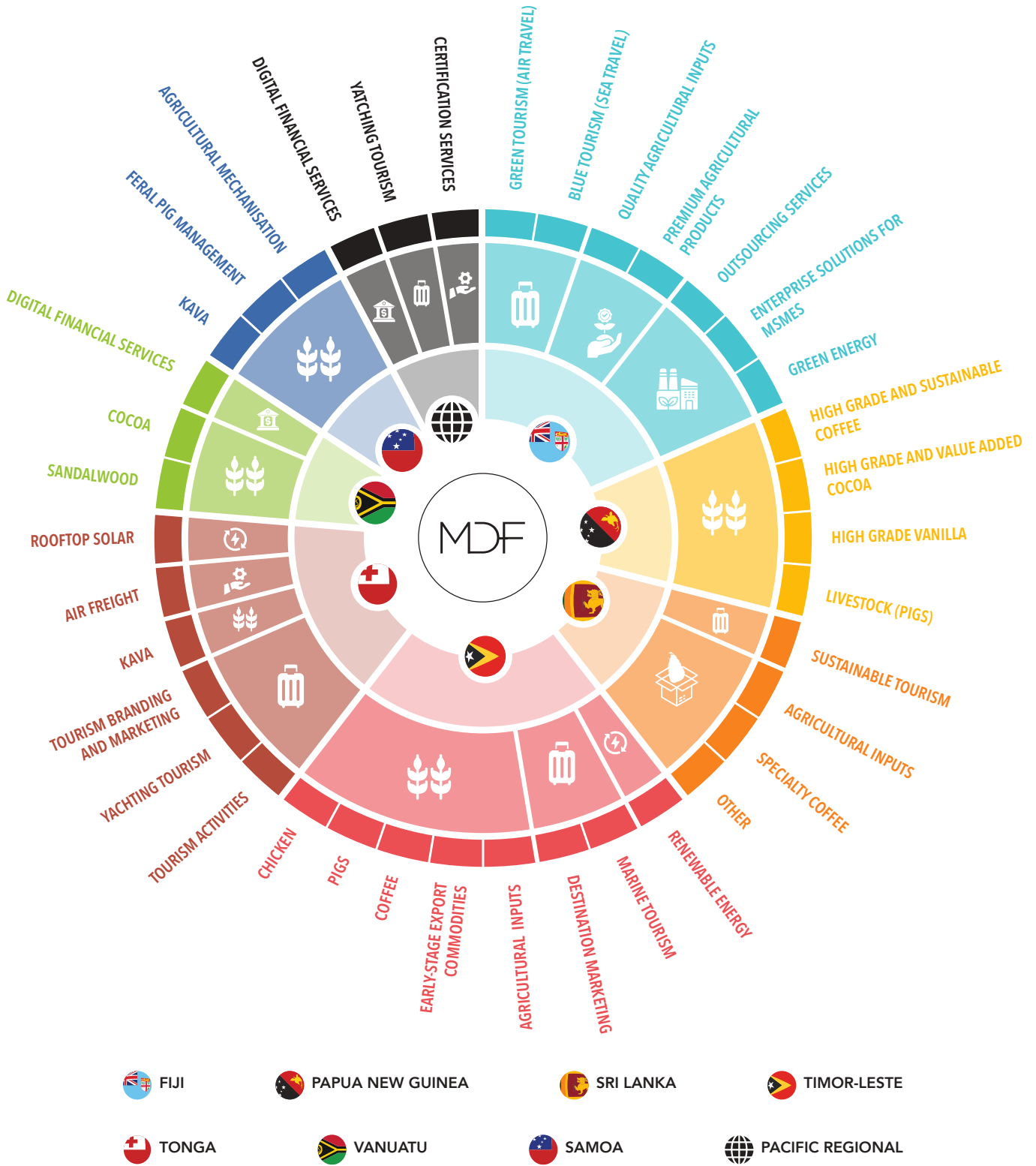
Indicator	Cumulative actuals (as of December 2023)			Cumulative projections (as of December 2023)			Estimates
	Female	Male	Total	Female	Male	Total	
MDF investment (USD)			413,827			NA	NA
Private sector investment leveraged (USD)			188,929			NA	2,355,300
MDF to private sector investment leverage ratio			0.46			NA	NA
Value of additional market transactions (USD)			72,122			5,286,834	9,796,650
	Female	Male	Total	Female	Male	Total	
Access outreach	116	130	<b>246</b>	3,577	3,704	<b>7,281</b>	NA
Usage outreach	0	0	<b>0</b>	1,184	1,298	<b>2,482</b>	NA
Effective outreach	0	0	<b>0</b>	819	933	<b>1,752</b>	11,300
Outreach from employment	0	0	<b>0</b>	3	36	<b>39</b>	NA
Net additional income (USD)	0	0	<b>0</b>	561,112	1,571,759	<b>2,132,870</b>	4,164,700

<sup>7</sup> All numbers are cumulative, starting 2014.

<sup>8</sup> All numbers are cumulative, starting 2022 for Samoa, and 2023 for Vanuatu and Tonga.

# Facility on a page

## A snapshot of MDF's market systems



### Market sectors:

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

# MDF highlights 2023

## 2023 was a year of evolution and progress for MDF

MDF exited PNG, expanded its operations in Samoa, Vanuatu and Tonga and grew its portfolio of regional interventions in the Pacific. In Sri Lanka and Timor Leste, partnerships with industry leaders in coffee, agriculture and tourism gained significant momentum. In Fiji, MDF deepened its impact in tourism, high-value agriculture and outsourcing services and began working in renewable energy and electric vehicle markets.

The composition of MDF's portfolio continued to evolve, with increased climate-related investment, a growing concentration of business investment in MDF's target markets, larger firms becoming interested in working with MDF and more cross-border business partnerships. During the year, 57 new activities were started and a total of 94 activities were delivered. Several major research activities were undertaken to inform interventions planned for 2024 in areas, including renewable energy in Timor-Leste and Fiji, and yachting tourism in the Pacific.

## Investment in climate change adaptation and mitigation increased

MDF expanded its portfolio of interventions targeting climate change, with 35 new activities. The program reported on its climate finance spending for the first time, with 28 per cent of the 2022-23 budget recorded as climate finance.

MDF continued to help farmers and agribusinesses adapt to climate change. MDF supported tourism operators to develop sustainable low-carbon products and supported pioneering firms in renewable energy and electric vehicles.

## Inclusion remained central to MDF's work

MDF continued to co-invest in business models that create economic opportunity for women and address the constraints women experience in the workplace. Overall, 81 per cent of all MDF interventions, past and current, were relevant for women's economic empowerment. In 2023, migration and labour shortages affected many of MDF's target markets, creating new opportunities and challenges for women. MDF worked to help women access opportunities in markets which have previously been seen

as male dominated. New interventions helped introduce technology for women in agriculture and reduce barriers for women entering employment in service sectors like tourism and outsourcing. MDF support to Fiji's outsourcing sector resulted in 373 new and well paid jobs for women in 2023. MDF refocused on how people with disability could be better included in target markets and started to develop a new disability inclusion strategy.

## MDF exited PNG

In June, MDF ceased operations in Papua New Guinea, ending six years of support to government and businesses in coffee, cocoa, vanilla and livestock. Part of MDF's portfolio was transferred to DFAT's new Australia-PNG Economic Development Partnership (APEP). In 2023, MDF's

interventions continued to deliver strong results in terms of outreach, additional incomes and private sector revenue. By the time MDF exited, its work in coffee and vanilla had created new economic opportunities for 9,500 women.

## MDF's Pacific regional component developed rapidly

Increased staffing and operating capacity enabled an expanding portfolio of interventions across Samoa, Vanuatu, Tonga and the wider region. The team initiated 16 new interventions, more than double the number started in

2022. Business and government partners have shown a strong interest in the support MDF provides and an appetite to co-invest in markets including tourism, food and agriculture, finance and freight.

## MDF's portfolio continued to evolve

MDF worked in 34 discrete market systems in its seven target countries.\* Over the year, 57 new partnerships were formed, delivering 94 activities. A number of major research activities were also undertaken to inform interventions planned for 2024 in areas including renewable energy in

Timor-Leste and Fiji and yachting tourism in the Pacific.

\*At the end of 2023, MDF worked in 34 market systems. Four market systems in PNG were supported until the country program closed in June 2023.



Sometimes it's not so much the organizations but the people. I thought Ajla [MDF] understood the vision and what we were trying to do. In Fiji, we are the first co-working space. Other people could not understand the vision.

Greenhouse Coworking, Fiji

## Relevance

MDF continued to support Australia and New Zealand's engagement with partner countries by ensuring alignment with national economic priorities, delivering tangible value for local and regional business partners and supporting public diplomacy.



### MDF invested in sectors that are economic priorities for partner governments

MDF's interventions support domestic and regional businesses to diversify the economy, grow exports, attract new foreign direct investment and contribute to national climate change commitments. In Sri Lanka, MDF's work in the tourism sector and high value agriculture helped generate valuable foreign exchange earnings. The Government of Sri Lanka identified coffee—one of MDF's focal markets—as one of the country's priority export crops. Coffee and tourism are national priorities for Timor-Leste's economic diversification. The Government of Fiji prioritises tourism and the development of its outsourcing services industry. MDF's investments in agriculture and tourism address priority sectors for government partners in Samoa, Vanuatu and Tonga.



### MDF's locally-led approach delivered results for local business partners

MDF's approach is to partner with domestic businesses to co-design and co-invest in innovations tailored to local contexts. Business partners lead implementation and share the financial risks and the rewards of success. The commercial value created through these partnerships confirms that this approach works. In 2023, the value of additional market transactions (private sector revenue) generated by MDF partners grew by 10 per cent, driven largely by growth in export-related markets in Fiji, PNG, Sri Lanka and Timor-Leste. A further sign that local businesses value the partnerships and business models that MDF supports is that the ratio of private sector investment leveraged by each MDF dollar increased in 2023.



### MDF supported Australia and New Zealand's public diplomacy

MDF supported visits for 29 VIPs, which included Australia's Ambassador for Gender Equality (to Timor-Leste), Australia's Assistant Minister for Foreign Affairs (to Sri Lanka), MFAT's Director of Development Economy and Prosperity Division (to Fiji), as well as several field visits by DFAT Heads of Mission and senior embassy staff. MDF produced 28 media releases and a regular output of high-quality social media content to highlight Australia and New Zealand's contribution in each country. In 2023 MDF communication activities prioritised climate change with MDF's most successful media campaign reaching more than 220,000 people around COP28.



# Market context

## Economic conditions remained testing in 2023

Inflationary pressure eased through the year but remained above central bank targets, keeping interest rates above pre-pandemic levels. Cost-of-living and food price inflation became politically sensitive issues. Growth rates were uneven but generally anaemic with a few exceptions, such as the US and India.

Sri Lanka’s economy stabilised, with inflation at four per cent, down from a peak of nearly 70 per cent in 2022.<sup>9</sup> Timor-Leste grew at around three per cent,<sup>10</sup> with inflation at 5.8 per cent. The economies of MDF’s four Pacific countries benefitted from a recovery in tourism demand and sustained

remittance flows: Fiji recorded 8.2 per cent GDP growth, with inflation at 5.1 per cent; and the IMF forecasts 8, 2.6 and 1.5 per cent growth for Samoa, Tonga and Vanuatu, respectively.

### Credit and liquidity remained tight

Debt distress was high in many low-income developing and emerging economies. Governments faced unpalatable trade-offs in controlling inflation, managing high levels of indebtedness and ensuring financial stability. In Sri Lanka, IMF-supported debt restructuring required painful reforms, including an increase in taxation and import restrictions.

### Shortages of qualified labour

Shortages of qualified labour affected many countries and sectors. Levels of migration were higher than before COVID-19. Labour shortages due to migration and skills gaps became a growing problem across the region and were frequently cited as a problem by MDF’s partner businesses.

### Geoeconomic fragmentation became more tangible

Geoeconomic fragmentation became more tangible, in response to supply chain disruptions and geopolitical tensions. Countries are re-aligning their strategic interests in a more self-interested way and firms are building more resilience into their supply chains. This is altering patterns of investment and trade. Flows of foreign direct investment are shifting, most notably, away from China. ‘Nearshoring’ to reduce supply chain risk is bringing some benefits to the region in commodities such as vanilla in PNG and in outsourcing services in Fiji.

## The effects of conflict and climate change were felt in 2023

Russia’s invasion of Ukraine showed no signs of being resolved, and in October conflict broke out in the Middle East, perpetuating high energy and commodity prices. The conflict in the Middle East disrupted shipping through the Suez Canal and Red Sea, and the Panama Canal route was hampered by unseasonably low rainfall.

2023 saw progress in climate change investment by businesses. Globally, there was record uptake of renewable energy generation and electric vehicles, as manufacturing capacity increased and costs decreased. Progress has been uneven, however. Many businesses are prioritising unmet demand in large markets and not investing in smaller economies in the Indo-Pacific.

Regulatory and media scrutiny is disrupting markets, particularly environmental claims made by the private sector. There is growing pressure

to increase transparency about supply chain emissions. New regulations have been announced, such as the European Union’s Deforestation Regulation, designed to reduce emissions beyond European borders. Demand for low-carbon goods and services is creating new opportunities for businesses. Conversely, more stringent compliance requirements can be a challenge for firms, particularly in small markets where climate services such as emissions verification are not readily available or affordable.

Businesses also need to protect their assets and operations from increasingly common climate change-induced events, such as severe cyclones, floods and droughts, particularly during an El Niño cycle. To build more resilient business models, firms require information that enables them to prioritise investments in adaptation and mitigation.



<sup>9</sup> World Bank

<sup>10</sup> Asian Development Bank



## Climate change is creating opportunities for innovation beyond MDF's initial expectations

Climate change is creating opportunities for innovation beyond MDF's initial expectations as climate-related impacts and the business case for adaptation and mitigation become more obvious. Agricultural and tourism businesses are investing to adapt to more extreme weather conditions. This includes investment in drought-resistant seeds, drying and storage technology, and protection against cyclones. Rising costs and unreliable supply of fossil fuel-based energy is making rooftop solar power and electric vehicles more commercially appealing.<sup>11</sup> Changing consumer preferences, buyer standards and government regulations are pushing firms to consider their environmental footprint and reputations. For example, MDF PNG partner Sucafina introducing carbon calculators in coffee, in Fiji Goodman Fielder is investing to recycle waste in poultry and Fiji Airways is developing a carbon offsetting scheme, and in Sri Lanka Authenticities is launching low-carbon tours. MDF is encouraged by firm-level responses but is concerned that the sector- and institutional-level investment to drive large-scale transformation is lagging.



## Bringing new actors into weaker markets

In the small economies of the region there can often be an absence of large domestic firms capable of driving innovation and investment. In its expansion strategy for the Pacific, MDF recognised this problem and has sought to work with regional actors: airlines such as Fiji Airlines and input suppliers such as East-West Seed. In 2023, this became a feature of our work in other countries and markets. For example, MDF worked to support Indonesian agribusinesses to establish input distribution partnerships in Timor-Leste. It is also an important dimension of our revised tourism strategy, working with international travel and tour operators such as Intrepid Travel to develop and promote higher-value, niche segments, such as wellness and expedition cruises.



## A stronger focus on sustainable and responsible tourism

After the lean years of COVID-19 and, in Sri Lanka's case, other shocks, the tourism sector rebounded in 2023. As businesses raced to make up for lost time and revenue, competition became more intense. This has prompted some tourism firms, industry bodies and governments to recognise the need to diversify and develop more distinctive offers. MDF is seeing a growing appetite to innovate and invest in developing higher value, niche products and destinations, often with more sustainable and responsible credentials. In Fiji, MDF looked to tap into demand for more experiential tourism, working to expand community-based tourism with the iTaukei Trust Fund and the Ministry of iTaukei Affairs, as well as collaborating to develop tourism offerings in remote regions. With consumers now more willing to pay for responsible, sustainable tourism, MDF and Authenticities partnered to launch Sri Lanka's first low-carbon tours. In the Pacific, MDF and the South Pacific Sailing Network worked on selected marketing and information initiatives, including developing yachting guides and maps for Tonga and Vanuatu.



**MDF consistently maintained transparency in their investment model, ensuring clarity without any room for compromise. Their expectation for co-investment was always apparent, leaving no need for negotiation on our part. Our experience with MDF's operational approach has been excellent, thanks to their openness, clear communication and thorough sector analysis.**

DIMO, Sri Lanka

<sup>11</sup> 'Staggering' rise of rooftop solar to put all other power generation in the shade, report finds, ABC News, 21 Feb 2024



## An expanding role for women and people with disability in tight labour markets

Labour shortages are affecting productivity and quality in many sectors in the region, due to migration and demographic shifts such as aging farming populations. This is having positive and negative effects on women and people with disability in the workforce. In agriculture, it is increasing the burden on women in rural households and climate change is compounding this burden.<sup>12</sup> Innovations will be needed to reduce this labour burden, for example use of concentrated feed to reduce time spent foraging or application of technology to reduce labour or make farming less physically demanding. Conversely, labour shortages are creating new job opportunities for women and people with disability in the formal sector. In both Fiji and Sri Lanka, a rebound in tourism has exposed migration-induced labour shortages and opened up renewed opportunities. In 2023, MDF explored a variety of ways to reduce these burdens and exploit new labour market opportunities. In Sri Lanka, MDF is working with the tourism industry to find ways to attract more women into the sector. In Fiji, MDF is supporting outsourcing services firms to attract and retain more women and people with disability.



## The continuing importance of agricultural inputs

Seeds, fertiliser, soil and crop treatments, animal feed and medicines, equipment or extension services are rarely regarded as the types of innovation that drive economic transformation. However, they are critical to increasing agricultural productivity and quality, improving food security, adapting to climate change and coping with the implications of a shrinking and aging rural labour force. For these reasons, agricultural inputs continue to be a prominent part of MDF's portfolio in all countries. Agricultural input suppliers and major agricultural processors and buyers are seeing the commercial value of improving farmers' access to agri-inputs—seedlings, day-old chicks, piglets, semen, concentrated feed, organic fertiliser, equipment for cultivation, harvesting and processing—and the information and finance to put such inputs to effective use. For example, in 2023 MDF saw increasing interest from large agricultural input businesses in Sri Lanka such as CIC, Modern Agri and DIMO to pilot selling new inputs to farmers or expanding the reach of existing products to new areas.



## Larger-scale investment is not materialising

There appeared to be growing rhetoric and ebullience about institutional investment in less developed and emerging economies to support their 'green transition', prompted by the end of the pandemic and international consensus about the threat of climate change. To date, however, significant new public and concessionary investment is not being seen in the market systems in which MDF operates.<sup>13</sup> In 2023, MDF engaged with a variety of investment sources but has yet to identify appetite to invest in program countries and sectors. MDF will keep exploring opportunities to address financing gaps in priority market systems, while continuing to work with partners to demonstrate the viability of new business models that have potential for significant future funding, such as rooftop solar installation and electric vehicle leasing.



<sup>12</sup> Enhancing the resilience of agricultural market systems to climate change in the Pacific Islands and Timor-Leste: a joint brief by PHAMA Plus and MDF

<sup>13</sup> Flagship climate finance scheme struggles to raise capital, Financial Times, 15 February 2024



# Systemic change: Progress in the face of economic headwinds

In 2023, MDF observed evidence of systemic changes across the portfolio. Business partners remained committed to innovation and investment beyond MDF agreements, and new market entrants replicated MDF-supported business models and introduced other innovative ways of doing business. New public-private partnerships emerged, enhancing the impact of MDF interventions.



In Papua New Guinea's coffee sector, firms previously supported by MDF continued to bolster value chain liquidity through revolving funds after the closure of the MDF country program. The funds were set up by exporters, with MDF support to address the issue of coffee buyers not having enough cash during harvest season to buy crops from farmers. Banks were reluctant to lend due to uncertainty

about repayment. Farmers would then resort to selling premium coffee at a lower price to whoever had the cash to pay them—disrupting the regular supply of high-quality coffee for export.

Exporters adapted the revolving funds to meet working capital needs, added in their own money and expanded them to other supply chains. In December 2023, Kosem

Ltd secured a loan supported by the Australian Government under the 'Revolving Fund Facility' managed by Women's Microbank Limited. The fund, a collaboration between the bank and the Australian Government, is channelling PGK3.5 million (AUD1.39 million) to increase coffee, cocoa and vanilla exports from PNG.



In Timor-Leste, before MDF and partner investment, agri-input supply was concentrated in Dili. A few mobile vendors or district-level retailers would occasionally stock inputs, but they were not readily available. MDF supported Timorese input importers to connect

with international manufacturers. As a result, the manufacturer registered interest in establishing a direct distribution partnership with importers. Further, MDF support resulted in the first collaboration between input importers and district retailers. These

retailers are now increasing their stocks of agri-inputs, as well as providing farmers with information on the correct use of inputs and buying back produce from them.



In Fiji, the outsourcing services industry has transformed, attracting new business and investment. It is now worth around AUD140 million and employs more than 5,000 people. Official records do not yet exist, but MDF conservatively estimates that in 2022 the OS sector contributed 1-2% to Fiji's GDP and accounted for 5.4% of its foreign exchange earnings. OS

sector revenues and employment are projected to rise in the 2023-2025 period.<sup>14</sup> MDF research found that the sector had become increasingly formalised and developed a supporting ecosystem, including an industry body that is now engaging on issues such as infrastructure, marketing and workforce development. Fiji's global image as an outsourcing hub is growing and

government commitment is evident: the government is providing a 20-year tax holiday for new outsourcing companies, duty-free imports on equipment and a 25 per cent investment allowance for infrastructure renovations. MDF completed its systemic change assessment of the sector in 2023. The case study will be published in 2024.

<sup>14</sup> The calculation of GDP contribution is based on a conservative industry estimate of 5,000 employees in 2022 and uses a simple income (profits + wages) calculation method. It does not include any multiplier effects (which can be as high as 4:1 in mature OS sectors). Foreign exchange earnings are based on industry sources.



In Sri Lanka, the local specialty coffee industry continued to grow, fuelled by tourist and domestic demand. MDF and partner investments have resulted in an increase in production and the adoption of improved sourcing and processing techniques. The market is expanding, with new businesses entering the specialty coffee sector, including tea plantations looking to

diversify. The surge in production has increased demand for planting materials and opportunities for commercial nurseries. Government interest in the sector is strengthening: in 2023, specialty coffee was added to a priority list of export commodities and the government has committed to promoting awareness about the sector and increasing sapling production.



Sri Lanka's coffee cherry



MDF's portfolio in Samoa, Vanuatu and Tonga is still too new to expect evidence of systemic change. However, the positive engagement from domestic and regional businesses and the alignment of MDF's interventions with government priorities bodes well

for the future. In Samoa, for example, MDF's research on the economic impact of feral pigs and potential control and prevention measures has prompted coordinated action at the national and village council level.



Feral pig in Samoa

## Climate change

DFAT's *International Development Policy* outlines an ambitious climate change agenda for Australia's aid investments. In 2023, MDF contributed to this policy priority, focusing on understanding the climate risks and opportunities in the economic sectors in which it works. Based on this analysis, MDF works with businesses and other stakeholders to address constraints to investment in climate change adaptation and mitigation.

### Integration of climate change across MDF's program cycle



#### Analysis and strategy development

Incorporating an assessment of likely climate-related risks, effects and opportunities into sector scoping and program strategies.



#### Intervention design

Factoring climate-related risks and opportunities into interventions and support to partners, based on a feasible business case.



#### Measurement, learning and communications

Capturing the qualitative and quantitative dimensions of MDF's climate-related interventions and communicating insights to stakeholders.

## Building resilience of agricultural market systems

In 2023, MDF continued to support businesses to adapt to the effects of climate change, particularly in agriculture. MDF helped firms to increase the resilience of their value chains, including using climate-resilient inputs, coping with climate-driven pest and disease outbreaks, and providing climate-related information to farmers.





## Agribusiness investment in value chain adaptation

Climate change is disrupting agricultural value chains in various ways. MDF's interactions with agribusinesses reveal that while on-farm adaptation needs are acute (e.g. use of climate-resilient inputs), other areas of business operations also require attention. Crop processing is being affected by unseasonal rainfall and high humidity, causing losses or decreasing quality; seed production is being hampered by deteriorating growing conditions; and natural disasters are impeding physical access to farms and markets. It is vital that firms understand the specific climate risks to their operations and invest in solutions that build resilience, maintain functionality and revenues across their supply chains, and contribute to food security.

In 2023, MDF worked with partners on adaptation in multiple value chains. In coffee in Timor-Leste and Sri Lanka, MDF co-invested with businesses to improve drying infrastructure. Enclosed drying houses and raised drying beds enable firms to dry coffee more efficiently and prevent rain damage. Similar infrastructure in Samoa has enabled Samoa Herbs to improve its kava drying. In Sri Lanka, MDF worked to develop protected agriculture solutions, enabling its partner, DIMO, to increase production of climate-resilient chili seeds for its farmer network.

## The business case for emissions reduction

In 2023, MDF worked with businesses on feasible mitigation opportunities, initiating interventions to promote adoption of solar energy and electric vehicles in Fiji and Timor-Leste, and beginning negotiations in Samoa and Vanuatu. Interventions aim to help firms understand market opportunities for green energy products and supporting businesses and consumers to understand the benefits associated with their adoption.

In Sri Lanka and Fiji, MDF further developed its understanding of commercial incentives for investing in sustainable tourism. This included working with partners to ascertain the costs, benefits and steps needed to improve business practices and market low-carbon tourism products to high-value sustainable tourism consumers.

## Resourcing MDF's climate change agenda

In 2023, MDF continued to develop staff capacity to integrate climate change across the portfolio. MDF appointed a Climate Change Manager to lead the program's climate change strategy. Staff training was conducted, using a combination of internal and external resources, including the Australia Pacific Climate Partnership (APCP), the Global Sustainable Tourism Council (GSTC) and the Green Building Council and National Cleaner Production Centre in Sri Lanka. Climate change risks, opportunities and actions were a key focus in all routine portfolio reviews.

### Key achievements in 2023 include:



Climate finance was reported for the first time, with 28 per cent of the 2022-23 budget recorded as climate finance. This figure is expected to rise as the climate portfolio develops.



First interventions in climate-specific market systems included: renewable energy, electric vehicles and sustainable biomass. (See country chapters for more details.)



Interventions were developed in sustainable tourism in Sri Lanka, including a low-carbon tour and support to an accommodation provider to verify and reduce emissions.

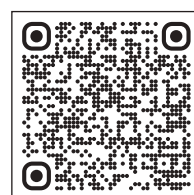


Climate change content in MDF's communication and engagement activities was enhanced, including a collaborative brief with PHAMA Plus on enhancing agricultural market resilience and facilitating a private sector panel at the 2023 Australasian Aid Conference. MDF's investments in organic soil conditioner in Fiji were highlighted in DFAT's public diplomacy as an example of the Australian Government's support for local Pacific businesses to be more climate-resilient.

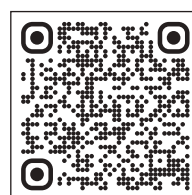


Climate change indicators, observations and baselines were integrated into Research, Impact Measurement and Inclusion activities, including a focus on understanding the effects of climate change on smallholder farmers.

Click/scan the QRs below:



A collaborative brief with PHAMA Plus.



MDF Fiji's investments in organic soil conditioners.



# MDF's climate change portfolio

- Agriculture
- Non-Agriculture

In 2023, MDF continued to add to its portfolio of climate interventions, working with businesses to understand the climate risks and business case for investment in adaptation and mitigation. This includes:



## Agricultural inputs

**17** interventions

### Mitigation

- Reducing the use of synthetic fertiliser through efficient application and locally produced organic replacements.

### Adaptation

- Increasing availability of climate-resilient seeds.
- Promoting mechanised and precision solutions (improves soil condition and reduces labour requirements for climate adaptation).
- Promoting protected agriculture.



## Agricultural exports and import substitution

**33** interventions

### Mitigation

- Developing carbon calculators for high-value, low emissions export crops.
- Reducing the costs of sustainability focused certifications to incentivise emissions reductions.

### Adaptation

- Improving biosecurity practices for long-term pest and disease resilience.
- Supporting businesses to integrate climate change resilience information into their extension models.
- Supporting value chain adaptation such as improving crop drying infrastructure to reduce loss from unseasonal rains.



## Tourism

**6** interventions

### Mitigation

- Low-carbon itineraries for high-value eco-niches.
- Carbon footprint verification and emissions reduction strategies for business.
- Sustainable certifications.
- Exploring incentives for nature restoration.

### Adaptation

- Coastal protection through mangrove regeneration.
- Cyclone insurance and cyclone-safe infrastructure in yachting.



## Green Energy

**9** interventions

### Mitigation

- Conducting market demand analysis on rooftop solar for urban businesses and consumers.
- Supporting solar businesses with data analysis to develop small-scale products.
- Piloting commercial electric vehicle leasing.
- Supporting the development of certified sustainable biomass supply chains.

### Adaptation

- Working with suppliers to offer category-5 cyclone resilient solar panels.

# Economic trends and market insights

MDF monitors global and regional economic trends and combines these with the on-the-ground insights it generates from its portfolio in each country. In 2023, MDF prepared ten market intelligence outputs—“MarketViews”—for DFAT, MFAT and market stakeholders. These covered:

➤ Resilience of agricultural markets to climate change in Pacific Island Countries and Timor-Leste.	In collaboration with PHAMA Plus, MDF assessed how climate change is reshaping farming and how agribusinesses are adapting in the Asia-Pacific region.
➤ Preparedness of the agriculture sector for extreme weather events during an El Niño cycle.	MDF interviewed farmers and agribusinesses to understand their experiences and readiness to deal with extreme weather events in the context of the current El Niño cycle. Agribusinesses appeared to be better prepared and less affected by extreme weather events and displayed willingness to support their farmer networks to prepare or cope.
➤ Private sector opportunities to plug Sri Lanka’s protein gap.	This analysis showed that the combination of power cuts, fuel shortage and fuel price increases had contributed to a decline in protein consumption. MDF subsequently worked with businesses on solutions to boost supply and ameliorate inflationary pressure.
➤ Freight in the Pacific and Timor-Leste.	MDF monitored changes in air and sea freight prices, volumes, routes and how the industry is responding. While sea freight in general has normalised since the pandemic, the overall shift towards air freight has continued due to demand from importers for faster delivery. MDF is scoping opportunities with freight providers to address this opportunity.
➤ Cross-border trade between Timor-Leste and Indonesia.	In collaboration with PRISMA, MDF explored formal and informal trade flows and practices between Indonesia and Timor-Leste and identified barriers and opportunities to improve trade flows.
➤ Timor-Leste’s transition towards specialty coffee.	Timor-Leste’s coffee industry is growing and gaining recognition as an origin for specialty coffee. This analysis identified trends in the industry, the business case for investing in coffee and the way forward to improve productivity and exports.
➤ Labour and skills shortages in Fijian hotels.	A post-pandemic analysis of Fiji’s hotels examined the challenges they faced in retaining skilled staff in competition with other opportunities in Fiji and overseas. The MarketView identified motivations influencing worker decisions and identified ways to improve the industry’s response to the issue, which are now being championed by the Fiji Hotel and Tourism Association.
➤ The export potential of non-coffee agricultural commodities from Timor-Leste.	MDF considers early-stage export commodities important for Timor-Leste to diversify its economic base. MDF’s analysis identified early-stage export opportunities in konjac, vanilla, candlenut, coconuts, cloves and seaweed and ways in which more value could be added to meet market demand and boost prices. Several other development partners have shown interest in MDF’s analysis.
➤ Opportunities in Sri Lanka’s dairy sector.	DFAT Sri Lanka requested MDF to assess the dairy sector, its structure, dynamics and key actors, and provide practical recommendations to improve productivity. The analysis was shared with the Government of Sri Lanka.



# Collaboration

MDF works closely with other DFAT and MFAT programs to maximise the impact achievable through collaboration. MDF’s on-the-ground presence, market knowledge and networks in the business community continued to be of value to other DFAT and MFAT programs. Likewise, the knowledge, experience and capabilities of other programs working in the same countries was of value to MDF.

## Collaboration with PHAMA Plus

PHAMA Plus continued to be an important collaborator for MDF in 2023. The two programs held four quarterly meetings focused on sharing program updates, milestones and strategic planning. Regular country meetings discussed opportunities and risks, provided inputs into each other’s annual reports and plans, and provided briefings on portfolio pipeline development to identify emerging opportunities for collaboration.

In August 2023, the MDF and PHAMA Plus Team Leaders met with DFAT to provide an overview of the intersections in the programs’ delivery. The result was a way to record the programs’ individual contributions and their collective impact, mainly when supporting the same partner or working on a single constraint.

MDF and PHAMA Plus prepared two collaboration reports, in May and November 2023, and a joint brief on climate risks in the Pacific and Timor-Leste, and support to businesses to understand and invest in emerging opportunities.

### Collaboration on GEDSI

MDF’s Research, Impact Measurement and Inclusion team shared their experience of integrating gender equality in the monitoring and evaluation cycle with PHAMA’s GEDSI team, the Technical Advisory Group, PACER Plus Implementation Unit, DFAT, MFAT and Tautai, the Samoa Governance for Economic Growth Program. The workshop facilitated peer-to-peer learning on GEDSI across programs.

Click/scan the QRs to read the publication








**Enhancing the resilience of agricultural market systems to climate change in the Pacific Islands Countries and Timor-Leste**

A joint brief from PHAMA Plus and MDF

A joint brief on climate risks by MDF and PHAMA Plus

# Country and regional collaboration

In 2023, MDF and PHAMA Plus implemented several activities together, including:

	<b>Fiji</b>	PHAMA Plus and MDF collaborated to assist the Navurevure Organic Ginger Farmers group to access the New Zealand market.
	<b>Samoa</b>	MDF joined the PHAMA Plus industry working group on kava. The programs continued to coordinate on kava and will continue supporting the national research organisation (SROS) to research kava varieties and quality issues.  MDF attended and provided input to the PHAMA Plus Technical Advisory Group.
	<b>Papua New Guinea</b>	DFAT, PHAMA Plus, MDF and APEP held joint planning sessions to discuss the transition to APEP and identify how APEP could carry forward the work of MDF and PHAMA. This exchange is helping to ensure the continuation of Australia's support to agriculture in PNG under APEP.
	<b>Timor-Leste</b>	The programs continued to share information on biosecurity concerns and good practice animal health management to inform farmer preparedness.
	<b>Vanuatu</b>	The MDF and PHAMA Plus teams met during MDF's scoping activities. Areas of emerging common interest include the kava, sandalwood and cocoa sectors, and farming models. Both programs have participated in meetings on the Tahitian Limes pathway, organised by the Vanuatu Primary Producers Authority and supported by PHAMA Plus.
	<b>Tonga</b>	PHAMA Plus and MDF developed innovative air-freight and sea-freight solutions to export Tongan watermelons. The programs are aligning their interventions in transport and shipping in Tonga to complement one another.
	<b>Pacific Regional</b>	MDF is supporting PHAMA Plus market research consultations into using existing pathways of fresh vegetables, fruit, cut flowers and foliage from five Pacific countries as part of the New Zealand-funded Enhanced Pacific Partnership Market Access Program (EPMAP). This intervention is delivered with the Ministry for Primary Industries and aims to identify priority commodities for trade with New Zealand and areas where targeted assistance can increase trade.



MDF scoping: MDF interview Sela Latu in 'Eua, Tonga

## Collaboration with other programs

MDF continued to collaborate with other international development programs in 2023.

Facility-wide	PHAMA Plus, PACER Plus Implementation Unit (PPIU) and Pacific Trade Investment (PTI)	Multi-program	MDF collaborated to develop a multi-program brief, ' <i>PHAMA Plus – PACER Plus – PTI – MDF: How the programs work to improve lives in the Blue Pacific.</i> '
Fiji	Austrade	Multiple	MDF supported a peer-to-peer learning activity between Investment Fiji (IF) and Austrade to help IF staff implement its trade and investment strategy in key MDF support sectors (tourism, high value agriculture and outsourcing).
	PHAMA Plus, SPC's Pacific Organic and Ethical Trade Community (POETCom)	Agricultural markets	MDF organised a field day to increase awareness and uptake of organic farming, certification, sustainable farming practices and export market opportunities.
Samoa	Pacific Digital Economy Programme (PDEP)	Financial services	Collaborated to co-finance a fintech challenge.
Sri Lanka	Australian Centre for International Agricultural Research (ACIAR)	Agricultural research	Collaborated to address post-harvest losses in mango.
	Knowledge and Linkages for an Inclusive Economy (KLIE)	Fisheries	MDF shared insights from scoping activities in sea cucumber and seaweed.
	International Labour Organisation (ILO)	Agriculture	MDF conducted learning sessions with ILO on agritech solutions.
Timor-Leste	Australia Pacific Climate Partnership (APCP)	Climate change	APCP supported research on the effect of climate change on Timor-Leste's coffee sector and the business case for investing in rooftop solar.
	Parseria ba Prosperidade Inklusivu (PROSIVU)	Renewable energy	Collaborated to explore the economic implications and regulatory environment of rooftop solar energy in Timor-Leste.
	To'os ba Moris Di'ak (TOMAK)	Agricultural inputs	Exchanged information on agricultural inputs and biosecurity under an ongoing MOU.
	Tourism Development Program	Tourism and coffee	MDF and The Asia Foundation coordinated tourism activities and co-hosted coffee marketing events with Projeto Quinta Portugal, another development partner.
Tonga	PDEP	Financial services	Collaborated to co-finance a fintech challenge.



# Research, Impact Measurement and Inclusion

The Research, Impact Measurement and Inclusion (RIMI) team supports MDF to understand markets, assess the program’s impact, and use data to improve implementation and inform stakeholders. Ensuring MDF’s contribution to gender equality, disability and social inclusion (GEDSI) and addressing climate change are priorities for the team.

In 2023, the 10-person RIMI team conducted 75 field visits, compared to 40 in 2022. Assessments were also conducted in Samoa, Tonga and Vanuatu as in-country operations were ramped up. The data from these assessments supported the development of 45 new concepts in 2023, up from 30 in 2022.

The RIMI team helped research and develop studies of systemic change in Sri Lanka’s coffee sector and Fiji’s outsourcing services sector, a case study on climate change (to be published in 2024) and a variety of market intelligence outputs. The team also participated in four external webinars and contributed to three externally published articles, sharing its approach to measuring systemic change, inclusion, and monitoring and evaluation in market systems development.



Other important research included collaborating with APCP to understand the potential in Timor-Leste’s rooftop solar market, investigating the challenges of feral pig management in Samoa and capturing lessons from MDF’s

work with the Fiji Enterprise Engine (FEE). Findings were shared with and taken up by national and international stakeholders.

## Inclusion

The COVID-19 pandemic and economic shifts that followed it are having a disproportionate impact on women and vulnerable groups, including the consequences of unemployment and higher cost-of-living on households, or new opportunities and burdens in changing labour markets.



### Migration is altering women’s roles

Labour migration increased in 2023 in MDF countries, and most migrants tend to be men. For example, more than 300,000 skilled workers migrated from Sri Lanka in 2023, with close to 60 per cent of them men seeking skilled and semi-skilled jobs. This is causing a demographic shift in the labour landscape and the roles played by women and people with disability.

In Samoa and Tonga, which saw significant male migration as part of seasonal worker programs, women are now assuming pivotal roles in agriculture and other sectors that were the traditional domains of men. This restructuring of labour dynamics creates opportunities for women but also poses challenges, since women typically remain responsible for household and unpaid care work.

In Sri Lanka and Fiji, changing labour markets are strengthening the business case for firms to invest in attracting and retaining women in sectors most afflicted by labour shortages, such as tourism and outsourcing services. In 2023, MDF assessed the private sector's awareness of these labour market shifts and the extent to which they were adjusting to the changing roles of women, as employees and as customers and decision makers. Businesses showed a growing understanding of these changes, paving the way for MDF to initiate discussions with firms as well as industry associations on more effective recruitment strategies.



## An aging workforce and climate change are affecting agricultural labour

In addition to migration, agriculture in places like Vanuatu and Fiji are facing the challenge of an aging farming workforce. This increases the labour burden on women, since they are less likely to migrate and tend to live longer than men. It also increases the prevalence of infirmity in a labour force that entails physical exertion. This increases the risk of injury or illness and reduces productivity and farming incomes. There is a growing business case for supplying labour-saving agricultural technologies and products that are better tailored to women and farmers coping with the effects of aging.

Climate-related disruptions are exacerbating the burdens and risks faced by women and vulnerable groups. People with disability are among those worst affected by extreme weather events, which hamper access to basic infrastructure and essential services. Coping with the effects of these extreme weather events places additional demands on agricultural labour and therefore on women.

# MDF's support for gender equality, disability and social inclusion

MDF works to improve the availability and affordability of agricultural technologies, promote inclusive recruitment practices, and increase awareness of the business case for hiring or serving women and people with disability.

In 2023, MDF focused on how more people with disability could be included in targeted markets. The team investigated the spectrum of disability experienced across MDF contexts and the range of barriers faced by individuals. This included

for example, consultation with organisations for people with disability (OPD) like CBM Australia on MDF's disability strategy and engagement of OPD in-country, such as the Ahisaun Foundation in Timor-Leste, to promote MDF's services to businesses that employ or create opportunity for people with disability. Based on this, MDF commenced trials of activities to increase the participation of people with disability and began improving its disability inclusion strategy, building on opportunities identified in partner country markets.



In 2023, in Timor-Leste, MDF worked with CBM Australia and local OPDs to develop a disability inclusion strategy that aims to improve the inclusion of people with disability in interventions, such as in demonstration plots. MDF developed a partnership with ReLoka to expand employment opportunities for people with disability creating handicraft products for tourists. MDF also supported the export of Timorese seaweed directly to a factory in Indonesia. Seaweed from Atauro is a primary source of income for more than 1,000 farmers, of whom 57 per cent are women. The direct link to a processor enabled farmers to prices approximately 80 per cent higher than before. The women used the additional income to purchase food, hygiene products and clothes, and set aside some funds as savings.



MDF engaged with the Sri Lankan private sector to explore how more women could be attracted and retained in the re-emerging tourism sector. MDF and Australia's Skills for Inclusive Growth (S4IG) also explored strategies to encourage the participation of women and people with disability in tourism.

In Sri Lanka, MDF supported an agri-input firm to improve production and availability of climate-resilient hybrid chili seeds for dry zone farmers. MDF's worked with partners to facilitate the recruitment of female staff for seed propagation in polytunnels. Through its intervention with CIC Holdings, MDF introduced agri-input bundles that utilise universal design principles, to improve their accessibility for Sri Lanka's aging farming population.



MDF's support to Fiji's outsourcing services industry resulted in 546 jobs in 2023, of which 373 were women. MDF supports outsourcing services firms to improve their attraction and retention of women and people with disability, for example by investing in childcare services and incentivising the recruitment of a work-ready pool of staff including people with disability. MDF also continued to provide scholarships for people with disability to encourage their participation in the Fiji Enterprise Engine program.



In the Pacific, MDF assessed the evolving roles of women in labour markets as a result of migration, particularly in agriculture. MDF supported a variety of partners to increase the adoption of agricultural solutions that enhance efficiency and reduce women's workload, including the provision of small-scale mechanised equipment in Samoa. In addition to reducing farmer workloads and supporting climate change adaptation, mechanisation makes farming more manageable for people with reduced mobility, for example due to diabetes and other non-communicable diseases, that are prevalent in Samoa.



In Vanuatu and Fiji, MDF is co-investing with the private sector to establish mobile wallets and savings solutions to improve access to finance. Interventions seek to understand barriers to finance, including remoteness and onerous compliance requirements, the latter of which particularly affects women. Digital financial solutions can also be a fast and efficient way to transfer funds to vulnerable groups in the event of extreme weather events.



Pacific Centrecom staff in Nadi, Fiji

# Research, Impact Measurement and Inclusion



## Supporting program learning and adaptation

**34**

active market systems supported\*

**8**

portfolio review sessions conducted

**61**

market functions facilitated

**45**

concept notes developed

**15**

RIMI and climate change capacity-building workshops organised

**4**

external webinars attended and contributed to **3** learning pieces

**57**

new contracts signed



## Monitoring and evaluating program performance

**82**

active interventions monitored

**142**

active partnerships monitored

**76**

field visits conducted

**1,673**

interviews carried out



## Insights and market intelligence

**13**

market intelligence reports developed



## Inclusion and climate change

**59%**

of active portfolio relevant to climate change

**9,100**

farmers accessed climate-resilient inputs and tools

Over **USD \$830,000**

in additional revenue generated by private sector through supporting climate change innovations

**81%**

of active portfolio relevant to gender equality and women's economic empowerment

**23%**

of active portfolio engaged people with disability

**85**

people with disability benefitting from better access to inputs and services provided through MDF interventions



## Management Information System

**7**

dashboards consolidated from facility data

**31**

reports generated from facility data

\*At the end of 2023, MDF worked in 34 market systems. Four market systems in PNG were supported until the country program closed in June 2023.

Aggregate Development Results (ADRs)<sup>15</sup>

Actuals, as of December 2023			
DFAT Aggregate Development Indicators	Female	Male	Total
Number of poor women and men who adopt innovative agricultural and fisheries practice	3,269	5,089	8,358
Number of poor women and men with increased incomes	3,122	5,074	8,196
Value of additional agricultural and fisheries production			USD45,708
Value of exports facilitated (including new exports)			AUD21,362,031
Value of private sector investments leveraged			AUD3,128,105

## Tier 2 indicators

Indicator and measure	Actuals 2023	Examples
<p>Number of organisations supported to strengthen accountability and/or inclusion, including assistance provided and significant policy changes achieved:</p> <ul style="list-style-type: none"> <li>Government institutions, organisations, and systems</li> <li>Civil society organisations</li> <li>Private sector organisations</li> </ul>	<p>Government institutions: <b>5</b></p> <p>Private sector organisations: <b>7</b></p>	<p>In <b>Fiji</b>, MDF conducted monitoring and evaluation training for the Ministry of Commerce, Trade, Tourism and Transport (MCTTT), supporting stronger internal policies and reporting.</p> <p>In <b>Samoa</b>, MDF is working with the Scientific Research Organisation of Samoa to research Samoan kava varieties and chemotypes, to advise farmers on improving quality and quantity.</p> <p>In <b>Sri Lanka, Fiji and Timor-Leste</b>, MDF worked with multiple coffee processors to support the recruitment and retention of women and people with disability.</p>
Total	<b>AUD100,680</b>	<p><b>Fiji:</b> AUD33,610 to Tourism Fiji, MCTTT and Investment Fiji.</p> <p><b>Pacific Regional:</b> AUD67,070 to Tonga Tourism Authority and the Scientific Research Organisation of Samoa.</p>
Number of market actors in key economic sectors supported to expand market access and/or improve supply chain resilience.	<b>39</b>	Support ranges from agribusinesses to outsourcing services firms, to enter new markets.
Additional private funds leveraged to support sustainable development.	<b>AUD4,756,000</b>	Total partner spending (private sector) and crowding-in spending in Fiji's outsourcing services industry.
Number of women entrepreneurs provided with financial and/or business development services.	<b>1,494</b>	Includes female MSME owners and female-led farming enterprises.
Australian support for improved food security and climate resilient agricultural practices via policy, technical advice and/or capacity building.	<b>23</b>	In all MDF countries, improved land preparation and fertiliser use methods for higher agricultural production and better-quality produce.
<p>Number of people for whom Australia's investments have improved adaptation to climate change and resilience to disasters.</p> <p>Number and value of investments that direct financing to partner governments are: (a.) contributing to low-emissions development pathways or are supporting mitigation activities and (b.) improving climate change adaptation.</p>	<p><b>4,053</b> people</p> <p><b>50</b> partnerships</p> <p><b>AUD857,000</b></p>	<p>The figures provided are for the calendar year 2023; MDF will provide financial year numbers at the end of June 2024. All numbers were converted from USD (or the local currencies), and some variance may be expected due to exchange rate fluctuations.</p>

<sup>15</sup> Along with the headline program impact indicators, MDF records relevant DFAT Aggregate Development Results (ADR). It is important to note that these values are reported for the given year. This differs from MDF's impact indicator reporting, which presents achievements cumulatively, for the entire program implementation to date.



# Communications

In 2023, MDF’s communications reflected the evolving priorities of the program: a growing portfolio of climate change-focused interventions, strengthening private sector engagement and increased partner support to capitalise on recovery momentum. At the facility level, the team articulated MDF’s way of working, particularly for the private sector. Communication materials were adjusted to better suit the business audience and to present the benefits of co-investing with MDF.

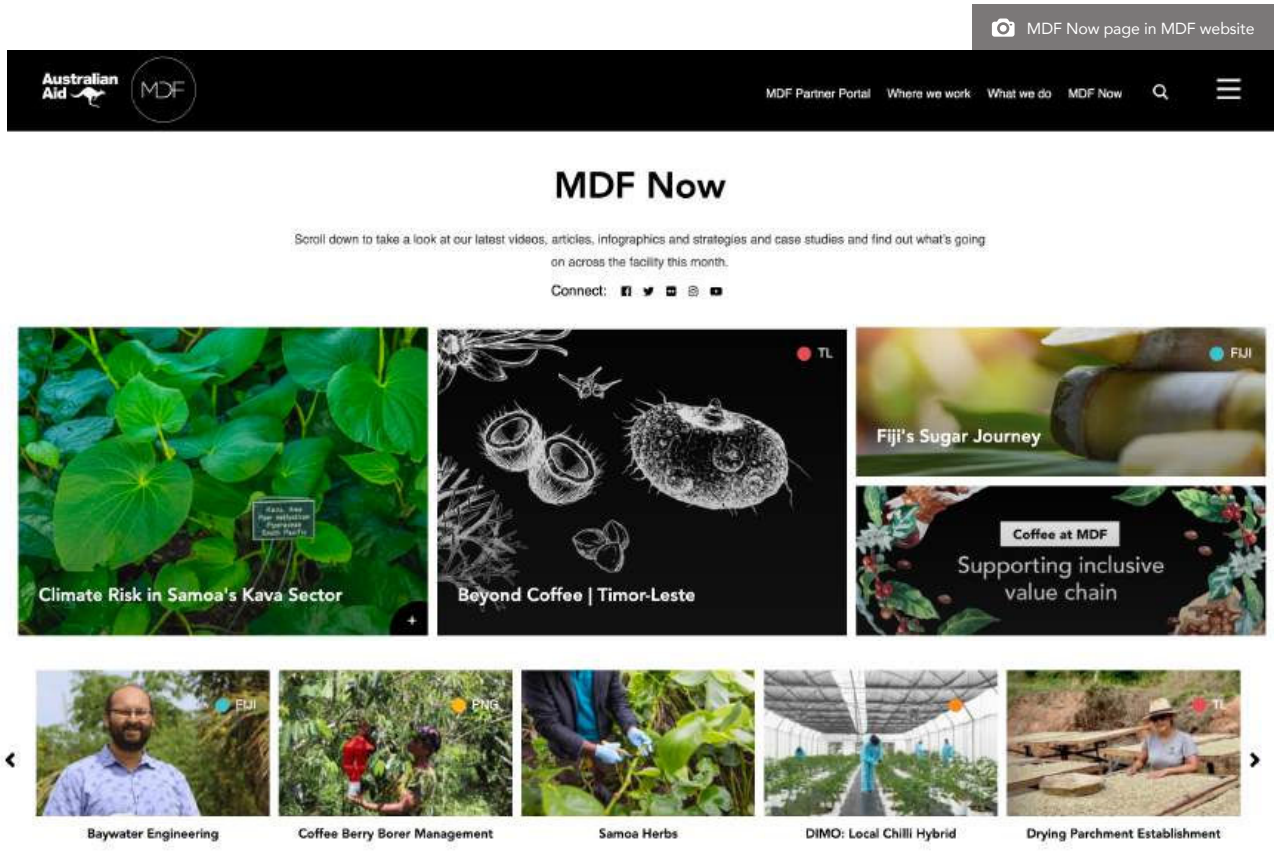
## Climate communication

MDF told new stories about the facility’s growing investments in climate change adaptation and mitigation, including the business case for climate investment. This included features on [MDF Fiji’s engagement in climate-resilient seeds](#), support for seaweed farming in Timor-Leste and measuring the [carbon footprint of PNG’s coffee value chain](#).

MDF and PHAMA Plus collaborated to publish a brief on building climate resilience. The MDF website was updated to include a dedicated space for climate change stories, including climate risk assessments for specific market systems. Work was initiated to develop an investment pitch for businesses looking to invest with MDF in climate solutions and business models.

## Supporting public diplomacy

Contributing to DFAT and MFAT public diplomacy objectives remained a priority in 2023. MDF supported DFAT’s climate change communication requirements, developing a climate change ‘storybank’ for DFAT, highlighting adaptation and mitigation interventions from across the facility. The Team Leader presented potential synergies between MDF and the Australian Infrastructure Financing Facility for the Pacific (AIFFP) to AIFFP and DFAT, focusing on MDF’s work in Fiji and Pacific Regional. MDF coordinated with PHAMA Plus, PACER Plus Implementation Unit and other DFAT investments on range of activities (see ‘Collaboration’ on page 34).



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

MDF's investments in organic soil conditioner in Fiji were highlighted in DFAT's public diplomacy as an example of the Australian Government's support for local Pacific businesses to be more climate-resilient. DFAT Heads of Mission/High Commissions shared 16 updates on MDF activities and reshared 18 MDF posts.

The Pacific Regional portfolio expanded in 2023, with new interventions signed and early interventions showing results. MDF finalised the recruitment of a Central and Pacific Communications Officer in early 2023 to capture developments in the Pacific. This enabled MDF to increase its communication outputs from Pacific Regional and highlight the role played by Australia and New Zealand in inclusive economic development in the Pacific.

## Media engagement

Print and electronic media remained an important platform for program and partner communication in 2023, despite digital media growth across program countries. In 2023, MDF developed 28 media releases. These were published 33 times in news media, including 11 organic mentions, highlighting MDF's initiatives in partner countries. MDF partnered with domestic business media to spotlight events, successful partnerships and drive high-level awareness of MDF's niche service offerings in emerging areas such as climate change. MDF engaged with radio and television, with the highest television coverage recorded in Fiji.

## Digital media growth

MDF has a well-developed social media presence. Four social media platforms (Facebook, Instagram, LinkedIn and X) are the primary means of communicating program activity and impact to a wide and engaged audience. In 2023, social media showcased Australia's value as a trusted partner in MDF countries, communicated partner successes through MDF investments, and highlighted emerging sectors to a wider audience.

The team also developed multi-country social media campaigns to highlight MDF's facility-wide priorities, such as a campaign on climate change investments, designed to run during COP28. The campaign reached 220,446 people and engaged 10,000 individuals (see Communications recap on page 44). The annual World Tourism Day 2023 campaign included a call-to-action for businesses, resulting in interest that was converted into leads for MDF's implementation teams. MDF shared stories across sectors and celebrated major international days, including International Women's Day, World Environment Day, MSMEs Day, Ocean's Day, Earth Day, World Coffee Day and International Day of Persons with Disabilities. MDF also used its platforms to amplify partner profiles, such as those of Fiji and Timor-Leste partners participating in the Australasian Aid Conference 2023.

## Supporting country portfolios

MDF worked with partners on innovative marketing approaches as part of program implementation. Through MDF's partnership with Intrepid Travel, Timor-Leste was featured in the Qantas in-flight magazine, a major contribution to national destination marketing efforts. MDF's partnership with the Lanka Coffee Association to support the second annual LCA Coffee Festival included digital campaigns for three barista championships, pre-event publicity and on-the-day coverage. See this video for more details. MDF facilitated the participation of partner Outsource Fiji at a symposium and exhibition in New Zealand at which key industry stakeholders were able to network directly with New Zealand businesses.



Alleu Coffee festival, Timor-Leste



The MDF and Australian High Commission teams visit Ella Coffee Collective in Ella, Sri Lanka



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



# Communications recap

January - December



## High-level Australian engagement in partner countries

**29** field/partner visits by DFAT Heads of Missions

**11** in Fiji



Farmer field day in Navua

**11** in Timor-Leste



Aileu coffee festival

**6** in Sri Lanka



UCB wetmill launch

**1** in Pacific Regional



Partnering with MTED to establish MDF Tonga

**16** MDF-related social media posts by DFAT and **26** re-shares



## MDF in the media

**35** media releases published over **68** times in partner-country media

**11** organic mentions

Click/scan the QRs to view publications:

The Sri Lanka coffee festival returns



MDF in the Pacific



MDF promoting co-working spaces in Fiji



Timor-Leste's new travel expedition





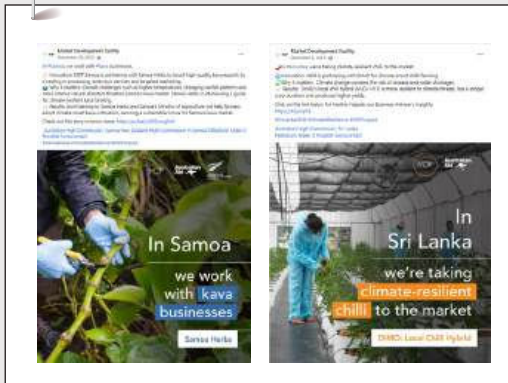
Top social campaigns in 2023:

# Climate change

**220,446** people reached

**402** new followers on Facebook

**415** new followers on LinkedIn



Top mentions on social media:

# Australia in Fiji shared post on Wasa ni Tadra



**4,523**

Facebook users reached

## Social media highlights



**Market Development Facility**  
Today



**40,514**

Facebook users reached organically



**1,268,656**

Facebook users reached in 2023, showing an increase by **79.7%** compared to 2022



**474,037**

LinkedIn users saw MDF content in 2023



www.marketdevelopmentfacility.org



@marketdevelopmentfacility



@MDFGlobal



@MDFGlobal



Market Development Facility

# Operations

MDF's Operations team (comprising Central Operations and five country operations teams) supports program delivery through financial and human resource management, procurement and contracting, compliance, logistics, ICT and security.

In 2023, the facility-wide team managed six separate budgets (reflecting DFAT's and MFAT's funding architecture) and supported 126 staff, 16 consultants and almost 100 partners in MDF's six country jurisdictions. The team also supported the closure of the PNG country program in early 2023. The Central Operations team also oversees MDF's safeguarding responsibilities, with the MDF HR Manager serving as the Safeguarding Focal Point.

MDF experienced staff turnover of 22.2 per cent in 2023, compared to 32.6 per cent in 2022. Several senior staff,

including the Chief Operating Officer/Deputy Team Leader, chose to seek new opportunities in 2023, but turnover settled to lower levels by the end of the year.

In 2023, the Central Operations team also managed MDF's participation in DFAT's Managing Contractor Audit of Palladium, including liaison with the external audit providers, provision of documentation and the management response to audit findings. Since the finalisation of the audit report, MDF has implemented the audit's recommendations to improve internal processes.

## Pacific Regional expansion

The Pacific Regional component continued to expand in 2023, with AUD500,000 in additional funding from DFAT Vanuatu. MFAT contributed AUD2.734 million to the Pacific Regional component (FY23/24). MDF offices in Samoa, Tonga and Vanuatu became fully operational. MDF recruited Country Coordinators to support the growing portfolios in each country and the selected candidates (all existing MDF staff members) have commenced their new roles. The increased workload in the region required additional operational support, and a new Regional Operations Administrator was recruited in late 2023.

To streamline operations in the region, Palladium is establishing legal entities in Samoa and Vanuatu. In Samoa this process is in its final stages; MDF expects to transition away from operating through an agent in early 2024. The Tonga office will continue to operate through an agent.



MDF Vanuatu staff

## PNG country program closure and APEP transition

DFAT decided in early 2022 that the MDF PNG program would transition to the new Australia-PNG Economic Partnership (APEP) program, effective from 1 July 2023. In the latter part of 2022 and early 2023, MDF worked through transition options and developed close-out material in collaboration with the new APEP team and DFAT Post. Several ongoing interventions and monitoring activities were transitioned to APEP. The operational aspects of the closure, including disposal of all remaining assets and archiving of documents, were completed in June 2023.



MDF PNG staff on a field assessment



## Financial management

MDF spent 93.2 per cent of its approved budget for FY2022-23 and 100 per cent against its final forecast.<sup>16</sup> MDF continues to enhance its financial management system to deal with the increasing complexity of budgeting, forecasting and invoicing across six countries, multiple clients and several separate funding sources (including MFAT, DFAT Vanuatu Post, DFAT Agricultural Development and Food Security Section and DFAT Office of the Pacific). In 2023, the Finance Team rolled out Microsoft Dynamics Business Central to manage finances across the facility and continues to make improvements to its implementation. This software package is expected to simplify reporting and yield new insights into financial operations.

## Human resource management

MDF continued to strengthen its strategy to attract and retain quality talent. In 2023, the vacant MDF Fiji Country Director position was filled by an internal national candidate and national staff took up several middle management roles in 2023 or will in early 2024. Staff capacity development remained a priority, including international training. MDF's placement program, which gives high performers the opportunity to spend several months working in a different country office, was revitalised, with four staff members going on placement to Samoa, Timor-Leste and Vanuatu.

Due to an improving economic situation, MDF ended a 'Special Measures Compensation' policy that provided short-term support to locally engaged staff in Sri Lanka facing economic hardship due to extreme inflation. The policy remained in place for staff based in Pakistan, where annual inflation was over 20 per cent in 2023.

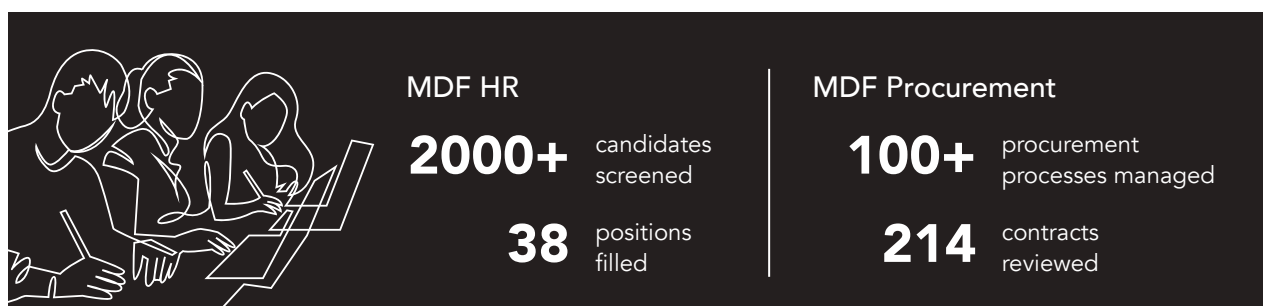
### MDF Finance

**3,619** transactions managed  
in 16 different currencies  
totalling **AUD12 million+**

## Staffing update

On average, 126 staff and 16 consultants were engaged across the facility in 2023. Staff turnover remained normal, including within the Central Operations team. The CLT staffing profile remained unchanged: comprising the Team Leader; a new Chief Operating Officer; the Senior Adviser; the Research, Impact Measurement, and Inclusion (RIMI) Director (formerly, the Quality and Inclusion Director); the Communications Director; three Country Directors (Fiji, Sri Lanka, and Timor-Leste) and the Regional Director, Pacific. The shared Operations and Communications team structures remained largely the same, although there were changes to several incumbents of these positions during the year. A Climate Change Manager was recruited in 2023 to support the development of the program's portfolio of investments in climate change.

MDF, like other organisations, experienced increased competition for scarce skilled resources, resulting in it taking longer to replace some key international and operations staff. MDF's continued requirement to operate under the Aid Remuneration Framework has made it difficult to compete in the talent marketplace. However, most key positions were filled by the end of the year.



	Business Advisers/ Coordinators	RIMI	Operations and Finance	Communications
Sri Lanka	12 FTE	5 FTE	3 FTE	2 FTE
Timor-Leste	11 FTE	1.5 FTE	3 FTE	1 FTE
Fiji	16 FTE	2.5 FTE	4 FTE	1 FTE
Pacific Regional	3 FTE	2.5 FTE	2 FTE	0.5 FTE
Samoa	5 FTE		1 FTE	
Tonga	5 FTE		1 FTE	
Vanuatu	5 FTE		1 FTE	

<sup>16</sup> The MDF approved budget is defined at the beginning of each financial year in collaboration between DFAT and MDF and is set for the year. MDF provides its final forecasts to DFAT Posts in May of each financial year.

# Facility on a page

## MDF market systems and interventions in 2023



### Sri Lanka



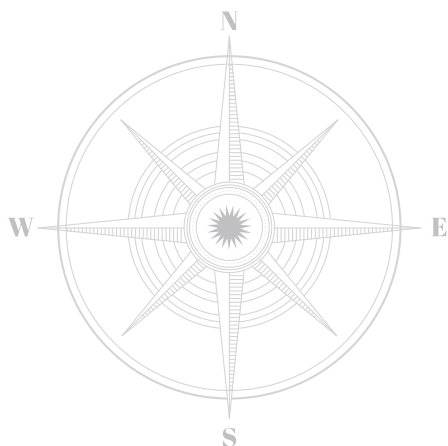
#### Tourism

Sustainable Tourism	3
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#### Authentic Sri Lankan Goods

Agricultural Inputs	7
Specialty Coffee	3
Other	2



### Timor-Leste



#### Agriculture

Agricultural Inputs	3
Chicken	1
Coffee	3
Early Stage Export Commodities	2
Pigs	2



#### Tourism

Destination Marketing	3
Marine Tourism	2



#### Renewable energy

Renewable Energy	1
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## Vanuatu

### Financial Services

Digital Financial Services	1
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### Agriculture

Cocoa	1
Sandalwood	1

## Fiji

### High Value Agriculture

Premium Agriculture Products	1
Quality Agricultural Inputs	4

### Tourism

Green Tourism (Air Travel)	1
Blue Tourism (Sea Travel)	1

### Urban Industries

Enterprise Solutions for MSMEs	2
Outsourcing Services	6
Green Energy	2

## Pacific Regional

### Tourism

Yachting Tourism	2
------------------	---

### Services

Certification Services	1
------------------------	---

### Financial Services

Digital Financial Services	2
----------------------------	---

## Samoa

### Agriculture

Agricultural Mechanisation	1
Kava	2
Feral Pig Management	1

## Tonga

### Services

Air Freight	1
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### Agriculture

Kava	1
------	---

### Renewable Energy

Rooftop Solar	1
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### Tourism

Tourism Branding and Marketing	1
Yachting Tourism	1
Tourism Activities	1

## Quick Facts

# Sri Lanka



Population

22.18 million

GDP

USD 74.40 billion

GDP growth rate (3Q2023): 1.6%

Key GDP contribution sectors

 Agriculture: 8.7%

 Industry: 28.0%

 Services: 57.6%

Employment by key sectors

 Agriculture: 26.7%

 Industry: 25.5%

 Services: 47.8%

Inflation rate 4%

Labour force participation rate

 Female: 32.7%

 Male: 69.6%

Unemployment rate 4.7%

Poverty headcount 27.9%



# Key focus areas

## Tourism

- In 2023, Sri Lanka welcomed nearly 1.5 million tourists, more than double the number of visitors who arrived in 2022.

- After enduring four years of continuous challenges, Sri Lanka's tourism industry experienced steady growth in 2023 and instilled a sense of optimism among industry stakeholders.



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

## Specialty coffee

- The year-on-year average price for high quality arabica green beans increased by 10 per cent from LKR4,500 (USD12.37) /kg to LKR5,000 (USD15.41) /kg. There were some instances where premiums of nearly LKR8,000 (USD24.66) / kg were observed. Prices for low-medium quality increased by 20 per cent from LKR2,500 (USD7.73)/kg to LKR3,000 (USD9.24)/kg.
- Plantation companies continue to increase own cultivation as part of their diversification strategy.

- Coffee collectors are forward-integrating and establishing their own processing centers due to the potential commercial benefits seen from the increasing demand.
- Coffee roasters are showing an interest in backwards integration and processing to allow them to have more control over quality.
- The government has placed specialty coffee as a priority crop due to the potential export revenue and has allocated 400Ha for new coffee cultivation and replace it with for the cultivation of key export crops including specialty coffee.



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



## Agricultural inputs

- 80 per cent of Sri Lanka's food is produced by smallholder farmers.
- The demand for fertiliser was estimated at 5.87kg per hectare of arable land in 2023, slightly lower than in 2022.
- Due to the lack of access and high price of fertiliser, crop productivity continued to decline and aggregate

paddy production is 14 per cent below the last five-year average.

- Agritech is making a comeback, with renewed interest among agribusinesses to adopt technology for efficiency improvement and transparency.



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

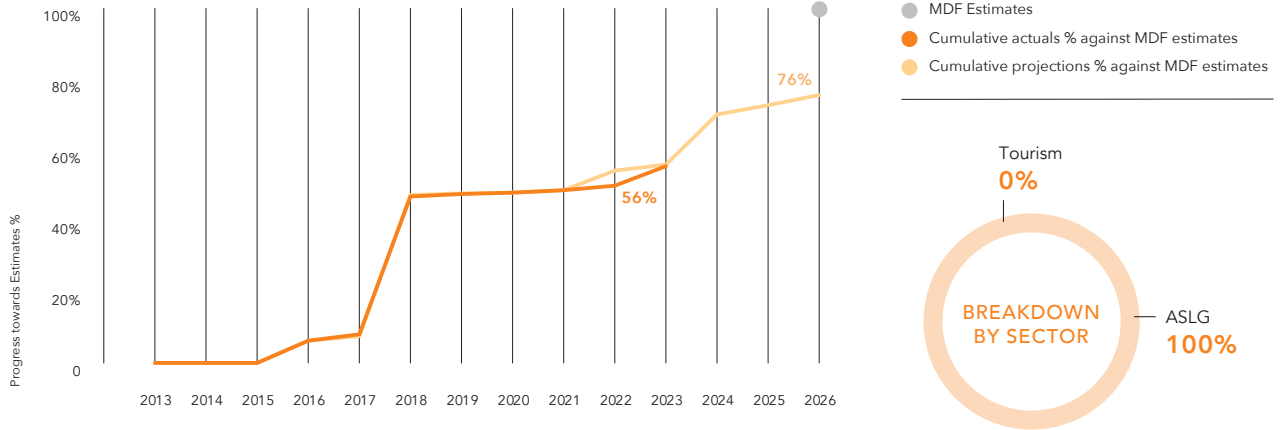


In March 2023, an estimated 17% of the population experienced acute food insecurity. Climate change exacerbated this challenge by jeopardising food and water availability and diminishing agricultural productivity for crucial staples like rice.



# Highlights

## EFFECTIVE OUTREACH



### Outreach rebounds following four years of economic challenges

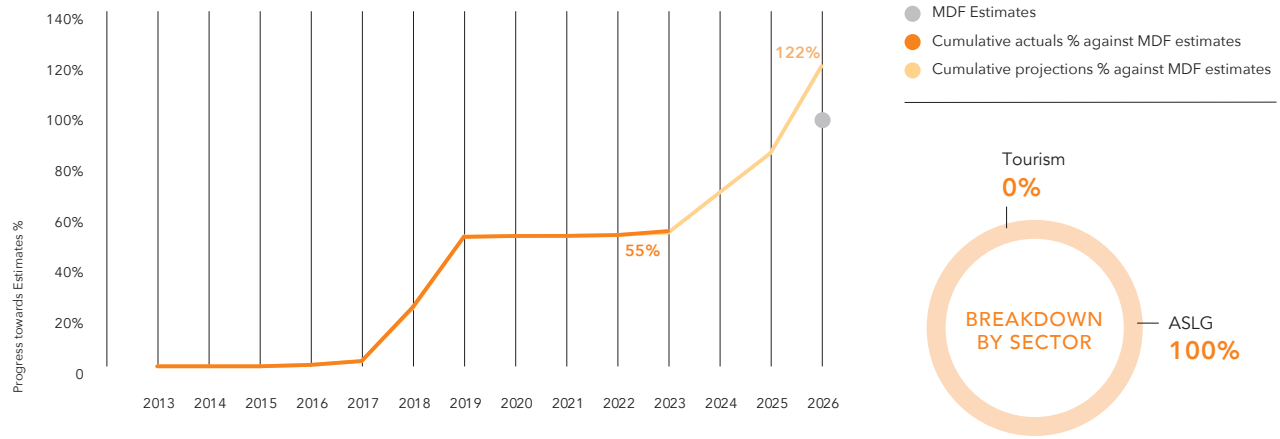
In 2023, MDF's interventions benefitted an additional 3,200 people, bringing total outreach to more than 30,800 (56% of estimates). The current portfolio is projected to reach 76% of estimates by 2026.

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



David Gram team member using the seeder machine to plant seeds

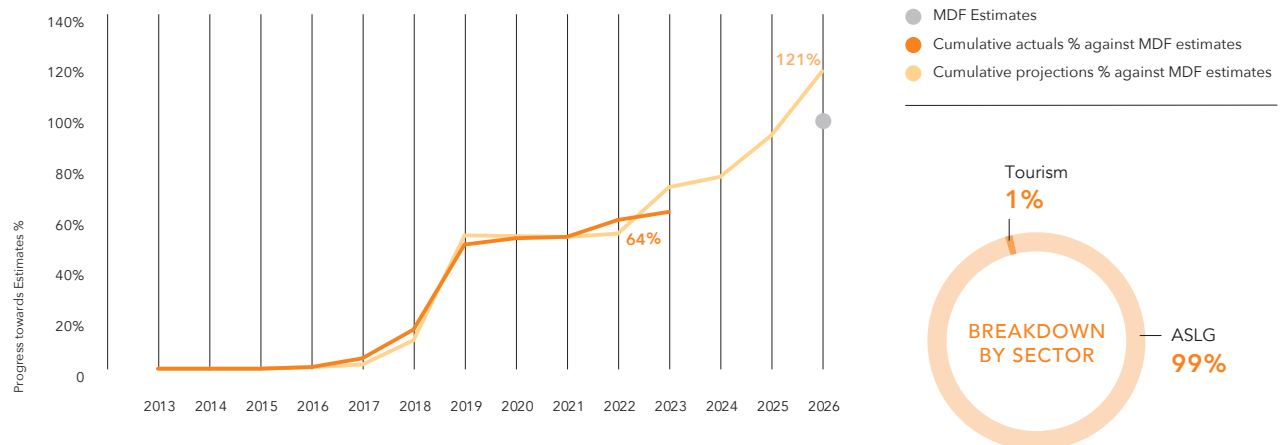
## NET ADDITIONAL INCOME (USD)



### Improving access to agriculture inputs drives additional income

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

## VALUE OF ADDITIONAL MARKET TRANSACTIONS



### MDF interventions spur export volume growth and fuel substantial VAMT expansion

MDF's current portfolio has achieved almost 70% of value of additional market transactions (VAMT) estimates and is projected to reach 137% by 2026. VAMT for 2023 growth was driven by coffee and tea-related interventions that resulted in export revenue. Agrithmics' strong performance in 2023, coupled with increased volumes from new tea farmers integrated into their network through MDF's support, contributed the most to VAMT, totaling USD140,284 (AUD212,718).

- Despite challenges during the harvest season, coffee processing partners boosted both domestic and export sales of specialty coffee, totaling USD130,000 (AUD196,700). Agricultural input partnerships, such as Keells Supermarkets and Star Mushroom, saw significant recovery in volumes and revenue, amounting to approximately USD538,000 (AUD815,654).
- MDF anticipates strong revenue growth from agricultural inputs work in mango cultivation, agritech expansion and fertiliser distribution. With increased private sector involvement in 2023, MDF foresees substantial revenue growth in the sustainable tourism portfolio, driven by product development and targeted marketing in niche segments.

# Overview of Portfolio and Progress in 2023

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



Within a year, Sri Lanka began a promising economic recovery, driven by vital government reforms after the International Monetary Fund's USD3 billion Extended Fund Facility was approved. These reforms included expanding the tax base, introducing fair utility pricing, strengthening social safety nets, and restructuring debt. Subdued demand and improved supply conditions reduced the rate of inflation from 59.2 per cent (December 2022) to 4.0 per cent (December 2023), according to the Central Bank of Sri Lanka. Sri Lanka experienced a surge in tourist arrivals, welcoming 1.48 million visitors in 2023, which contributed USD2.1 billion in revenue to the economy.

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

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

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

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

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



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

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

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

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

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



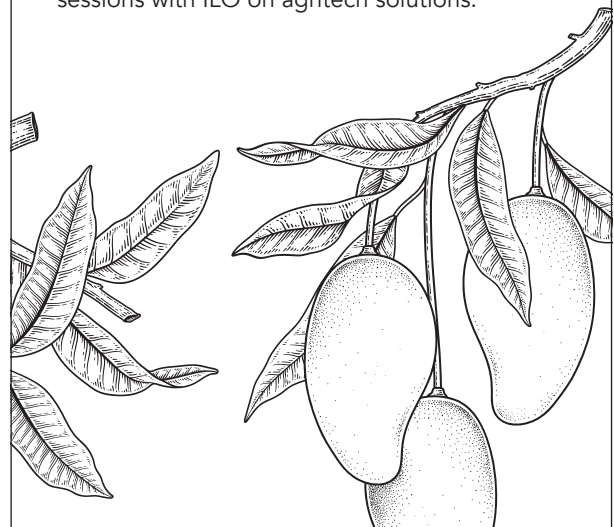
## Alignment with government priorities

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



## Collaboration with DFAT projects

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



# Country and Portfolio Strategy

## Country strategy






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

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

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

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

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

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

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





## Climate change

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

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

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

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



Introducing sprinklers to enhance water use efficiency in the dry zone

# Sector rationale

MDF continued to work in tourism and agriculture in 2023.

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



## Sustainable tourism

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

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

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



## Authentic Sri Lankan goods

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

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

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



Ellawala Horticulture farmers selling organic produce



Cherry sorting women at Helanta

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

# Early investments and a recovering economy generate strong results



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

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

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



## Digital solutions yield results

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

Similarly, investments in improved access to fertiliser benefitted almost 150 farming households amid a time of fertiliser shortage and food insecurity. Keells, in partnership with MDF, provided fertiliser bundles to vegetable farmers, which enabled them to continue production. More than three quarters of the farmers interviewed by MDF said the fertiliser had resulted in an average 56 per cent increase in yield. MDF calculated that this resulted in an additional USD300,600 (AUD455,823) in income for farmers.



## Commitment to tourism data and expanded investments in quality research

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



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



## Specialty coffee gains momentum with a boost from government

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



## Innovative approaches and technology present opportunities for women in agriculture

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

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



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

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



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

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

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

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

## Shifting from import dependence to local excellence

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

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

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

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

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





## Early Innovators in Coffee: Partnerships at work

### Scaling up production

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

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

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

### Mastering Sourcing and Processing

Investments in strengthening coffee sourcing and processing have contributed much to the sector's success. This includes MDF and partner co-investments in wet mills and the dry house model as a means of climate change adaptation. MDF partners have recorded a cumulative LKR190 million (AUD1.2 million) in value-added market transactions, or additional business revenue, over the past five years. Over 1,200 smallholder farmers have benefitted as businesses source more and household income increases.

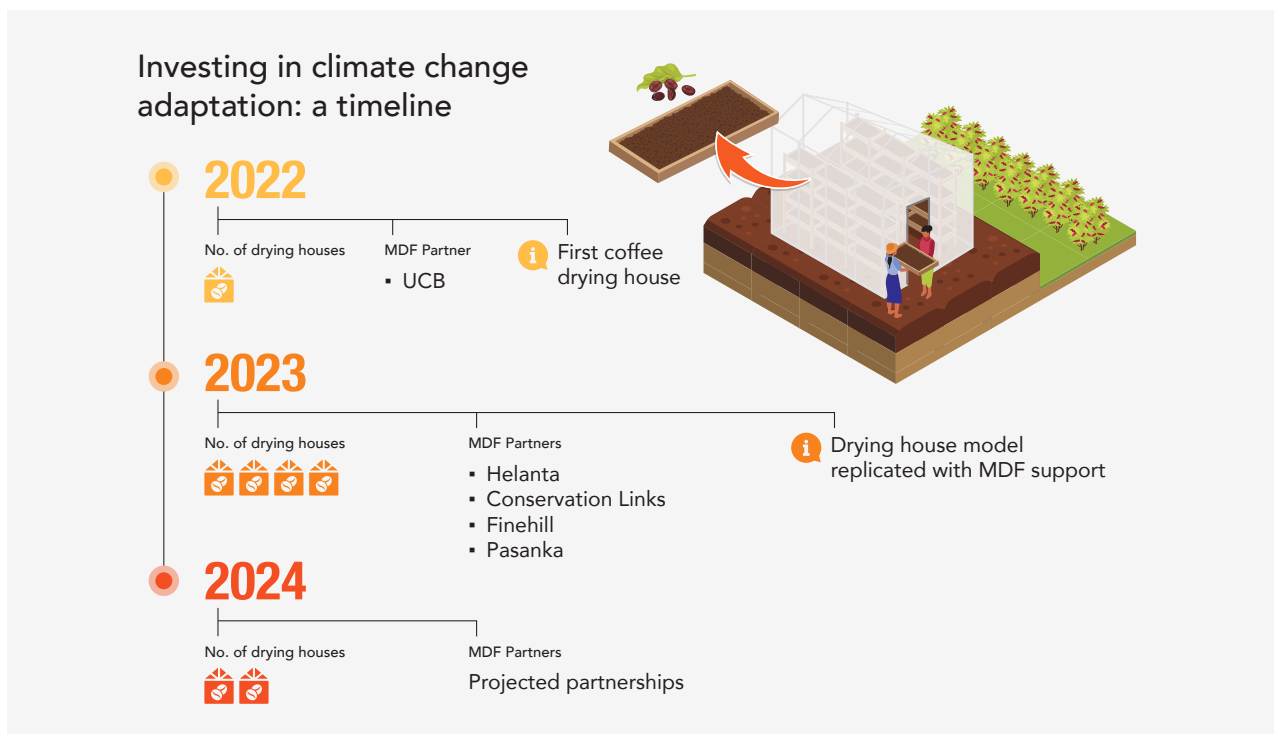
MDF partner Helanta Coffee adopted the red cherry sourcing model in 2020 and, following its success in improving

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

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

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

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



## Coordinating with key stakeholders

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

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

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



## Market Expansion: Brewing a Buzz

### Private Sector Interest

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

time taken to realise returns on their investment.

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

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

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

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

### Government involvement

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

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

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

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

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

## Inclusion Story

### Beyond the field: Women leading the way in mushroom farming

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

#### Why mushrooms?

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

Click/scan the QR code to read the full story



## Climate Change Story

### Adapting an indigenous agroforestry model for export processing

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

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

Click/scan the QR code to read the full story



## Business Focus Story

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

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

Click/scan the QR code to read the full story







📷 Packetting and weighing the freshly plucked mushrooms



# Tourism





# Tourism

2,200+

Sri Lanka  
Tourism Alliance  
members

745

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

30+

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

60+

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

## Vision of change

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

## Constraints

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

## Interventions



- Coordination
- Data
- Labour
- Marketing
- Product development

## Climate risks

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



# 1

## Market System

# Sustainable Tourism

## Market on a Page



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



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

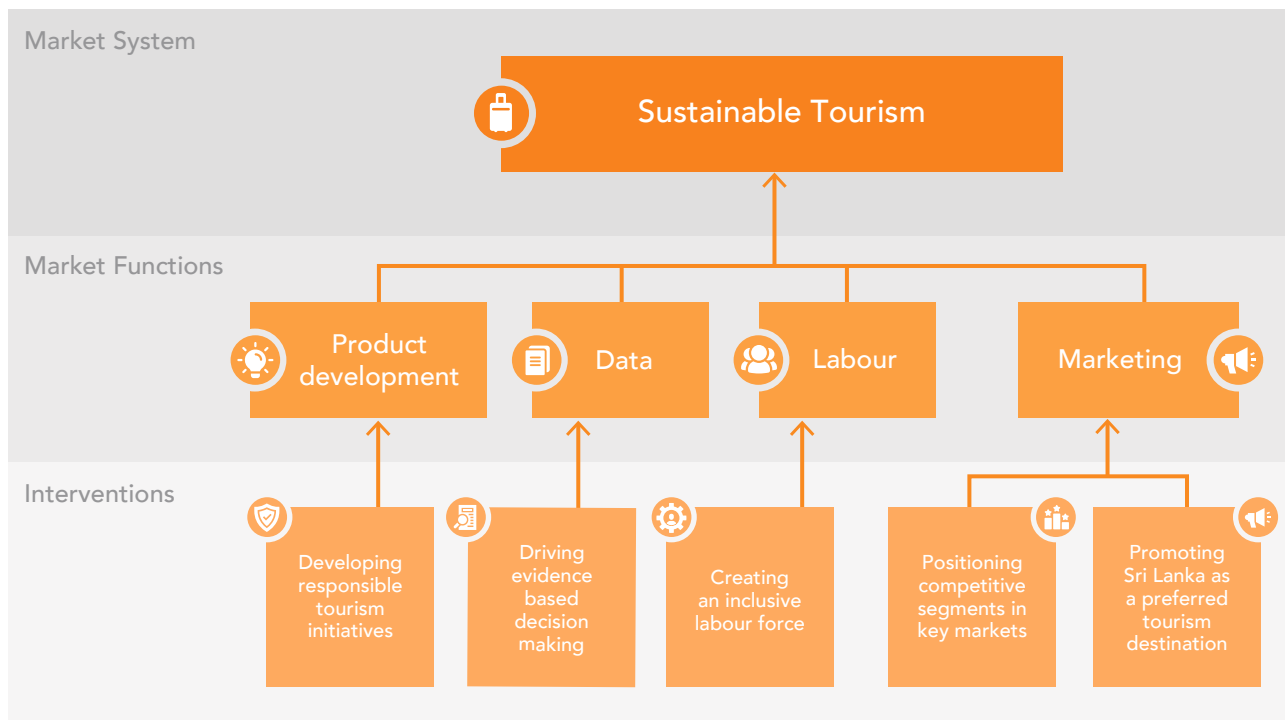


Multiple crises have led to the migration of skilled labour and made labour shortages a major concern for industry stakeholders.



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





### Status of the market system

Developing

### Interventions (active and/or monitored in 2023)

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

### Summary of performance

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

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

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

EO Projected (cumulative)	EO Actuals (cumulative)	Income Projected (cumulative)	Income Actuals (cumulative)	VAMT Projected (cumulative)	VAMT Actuals (cumulative)	PSI Expensed	Progress (Traffic Light)
120	41	USD179,413 (AUD271,148)	USD27,701 (AUD36,735)	USD3,149,927 (AUD4,835,500)	USD141,704 (AUD187,436)	USD413,225 (AUD555,729)	<div style="display: flex; flex-direction: column; align-items: center; gap: 5px;"> <span style="color: red;">○</span> <span style="color: yellow;">●</span> <span style="color: green;">○</span> </div>

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

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

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

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

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

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

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

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

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

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

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

## Market Functions

### Marketing

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

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

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

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

## Product development

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

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

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

## Labour

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

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

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

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

## Data

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

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

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

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



# What is sustainable tourism?

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

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

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

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



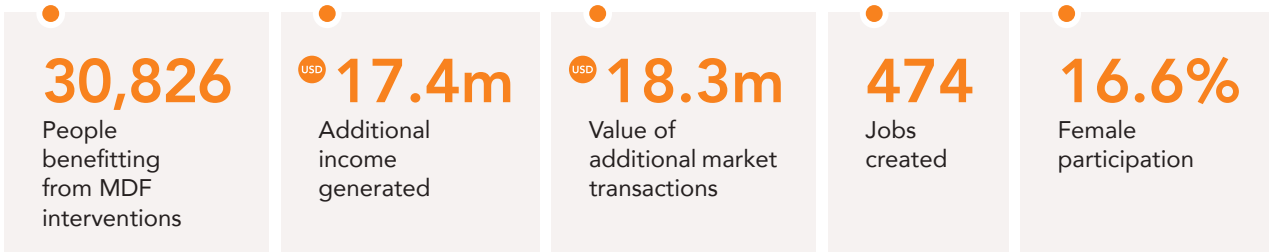




# Authentic Sri Lankan Goods



# Authentic Sri Lankan Goods

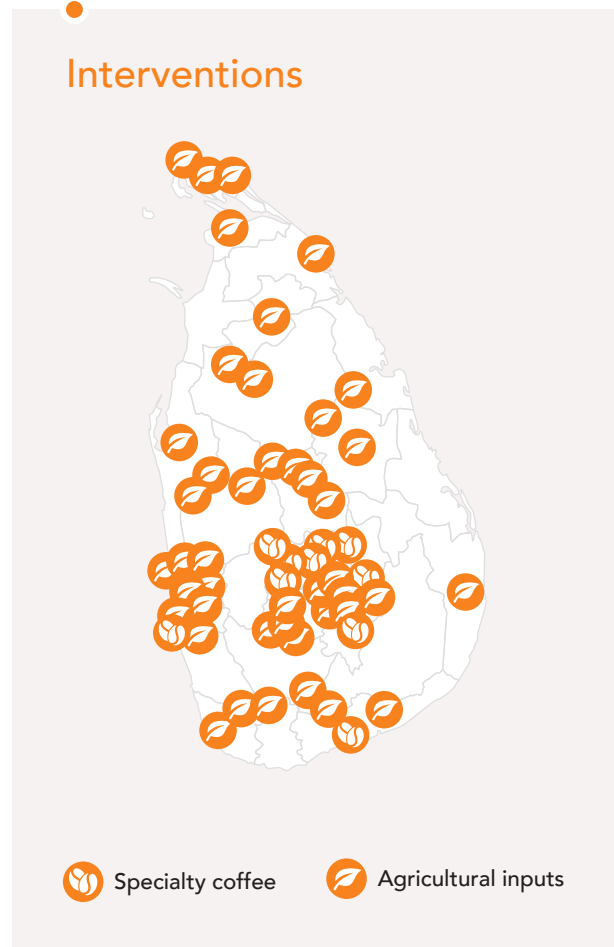


## Vision of change

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

## Constraints

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



### Climate risks

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

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



# 1

Market System

## Specialty Coffee

### Market on a Page



In 2023, the Sri Lankan Government listed specialty coffee as a priority crop, setting a target of cultivating **400ha** for the cultivation of key export crops including specialty coffee.



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

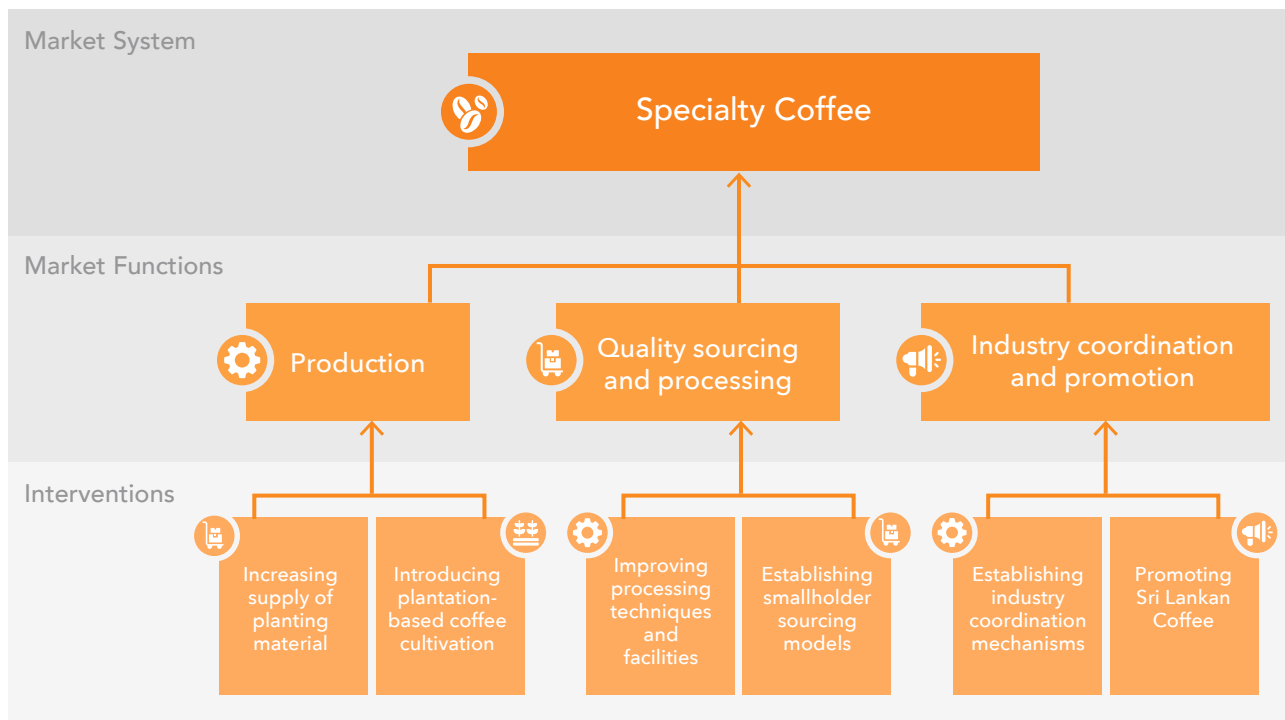


New players, including agribusinesses, are diversifying their portfolios to capitalise on specialty coffee export markets opportunities.



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





### Status of the market system

Developing

### Interventions (active and/or monitored in 2023)

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

### Summary of performance

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

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

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

Over 1,200 smallholder farmers have benefitted from MDF investments, resulting in net additional income of USD81,000 (AUD114,844).

EO Projected (cumulative)	EO Actuals (cumulative)	Income Projected (cumulative)	Income Actuals (cumulative)	VAMT Projected (cumulative)	VAMT Actuals (cumulative)	PSI Expensed	Progress (Traffic Light)
2,059	1,270	USD 6,381,202 (AUD 9,850,077)	USD 81,029 (AUD 114,843)	USD 7,635,309 (AUD 11,651,075)	USD 884,659 (AUD 1,220,517)	USD 216,972 (AUD 308,207)	<span style="color: red;">○</span> <span style="color: orange;">○</span> <span style="color: green;">●</span>

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

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

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

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

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

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

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

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



MDF and ABA nursery in discussion on expanding their production output

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

In 2023, MDF pursued its three-track strategy of improving production, sourcing and processing, and industry coordination and promotion. MDF's work in the specialty coffee sector has benefitted more than 1,200 smallholder farmers to date, 40 per cent of whom are women. MDF's portfolio is expected to reach more than 2,000 farmers, within the next three years. This expansion is forecasted to yield a substantial increase in total income, beyond USD6.4 million (AUD9.9 million).

<sup>1</sup> International Coffee Organization (ICO)

### Production

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

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

### Sourcing and processing

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

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

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

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

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

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

### Industry coordination and promotion

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

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

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



Preparation for plant distribution at Helanta in Kotmale



# The Sri Lanka Coffee Festival returns

## Celebrating the artistry of coffee

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

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

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

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







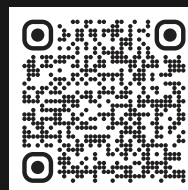
Click/scan the QR code below to read  
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 Speciality Coffee Industry*



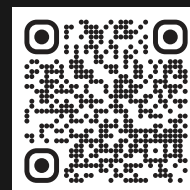
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 and videos from the Sri Lanka Coffee Festival 2023.



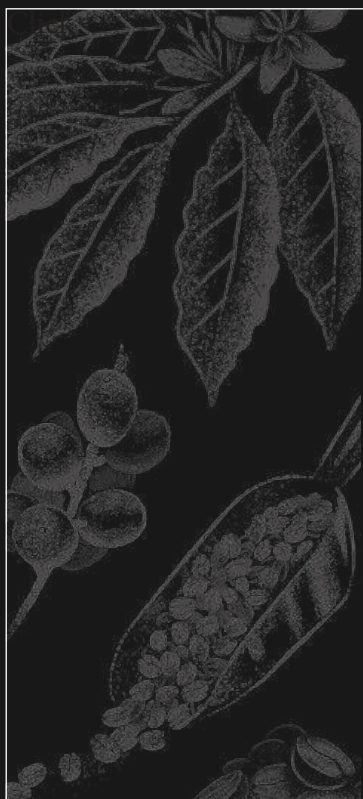
Exploring the  
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# 2

## Market System

# Agricultural Inputs

## Market on a Page



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



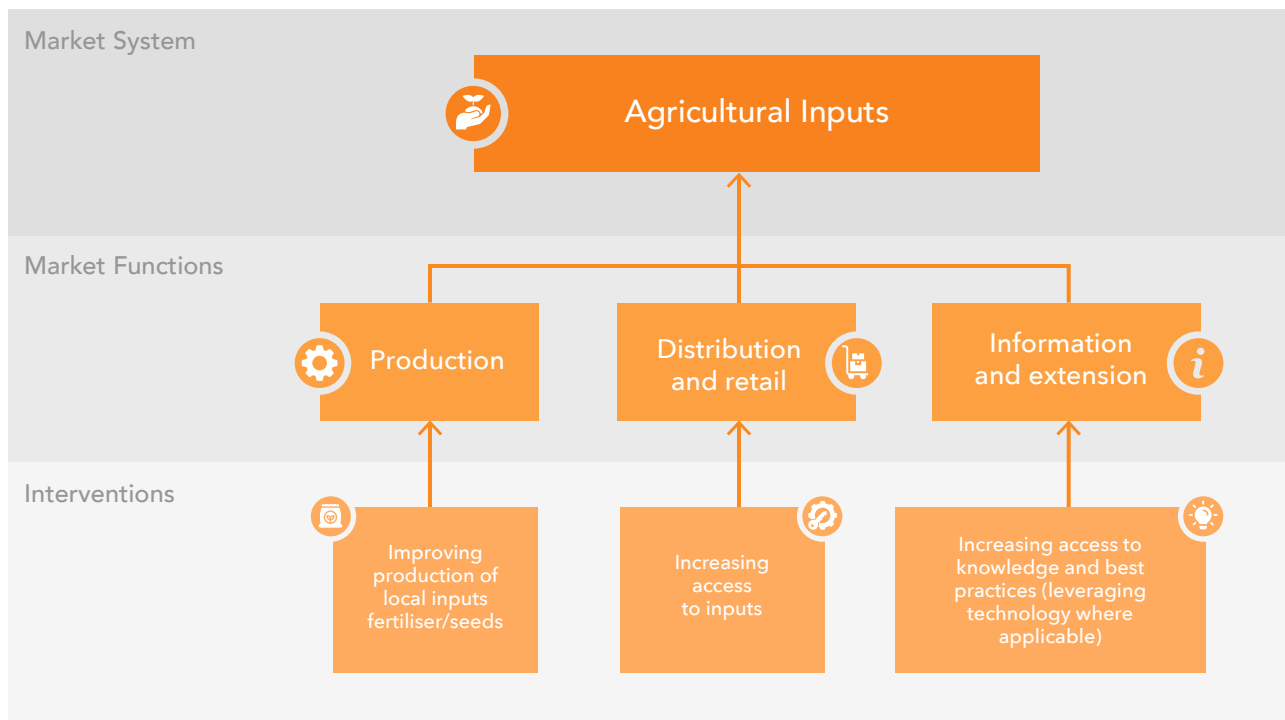
Until the complete ban on chemical fertilisers in 2021, their use led to environmental problems including water pollution, soil degradation and greenhouse gas emissions.



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



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



### Status of the market system

Developing

### Interventions (active and/or monitored in 2023)

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

### Summary of performance

MDF's early investments in digital solutions for agriculture yielded significant results in 2023. Innovations in tea weighing and collection processes benefited over 1,700 individuals, providing transparency in transactions and eliminating income loss from scale tampering. Investments in improving access to fertiliser supported 150 farming households during a shortage, enhancing food security. In partnership with Keells, MDF provided crucial fertiliser bundles to vegetable farmers, enabling uninterrupted production and sales. Interviews revealed that over 75 per cent of farmers experienced a 56 per cent yield increase, resulting in an additional income of over USD300,600 (AUD455,823). MDF's work in protected agriculture with Star Mushroom generated almost USD100,000 (AUD152,000) in additional income for over 220 mushroom farmers, over 80 per cent of whom were women.

MDF signed three new contracts with fertiliser and other input providers in 2023. Deepening impact in the work with fertiliser and protected agriculture is projected to benefit over 12,000 individuals and generate additional income of USD15.1 million (AUD23.4 million). This accounts for approximately 30 per cent of total country projections.

EO Projected (cumulative)	EO Actuals (cumulative)	Income Projected (cumulative)	Income Actuals (cumulative)	VAMT Projected (cumulative)	VAMT Actuals (cumulative)	PSI Expensed	Progress (Traffic Light)
12,195	3,436	USD 15,152,640 (AUD 23,357,038)	USD 692,100 (AUD 1,013,781)	USD 4,920,994 (AUD 7,468,514)	USD 1,329,551 (AUD 1,919,306)	USD 817,600 (AUD 1,150,882)	<div style="display: flex; justify-content: space-around; align-items: center;"> <span style="color: red;">○</span> <span style="color: yellow;">●</span> <span style="color: green;">○</span> </div>



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

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

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

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

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

In 2023, MDF signed three key partnerships with leading agri-input firms, driving positive change in the sector. MDF's agri-inputs portfolio has already benefited around 3,400 farmers, generating over USD692,000 (AUD1 million) in additional income. Looking ahead, an estimated 8,800 additional farmers are expected to benefit over the next three years, further strengthening the impact on agricultural communities.

## Market Functions

### Production

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

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

### Distribution and retail

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

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

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

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

### Information and extension

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

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

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

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

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

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



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



# Navigating post-crisis opportunities in agritech

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

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

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

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

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

## Other – Sourcing and processing

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

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

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

## Effective farmer engagement drives business expansion in the Northern Province

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



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

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

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



### Northern expansion

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

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

## Fisheries

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

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

# Acknowledgements

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

Andrew Hetzel, Coffee and Specialty Crops
Dr. A. P. Heenkende, Director General, Department of Export Agriculture (DEA)
Dr. Ananda Subasinghe, Consultant
Dr. Anojan Selvarathnam, Colombo Chamber of Commerce
Ceylon Chamber of Commerce
Chalana Perera, Founder, Retrace Hospitality
Charitha Subasinghe, President of Retail, John Keells Holdings PLC
D. Achini M. De Silva, Professor, Faculty of Agricultural Sciences, Sabaragamuwa University
David Ablett, Team Leader, Skills for Inclusive Growth
Echelon Media
Executive Committee, Lanka Coffee Association
Hiran Cooray, Chairman, Jetwing Symphony PLC
International Labour Organization, Local Empowerment through Economic Development Programme (LEED)
International Water Management Institute
Lanka Fruit & Vegetable Producers, Processors and Exporters Association
Ministry of Agriculture
Ministry of Tourism
National Aquaculture Development Authority
Nirmal Hettiarachchi, Technical Head Fresh Produce, Jay Kay Marketing Services Pvt Ltd
Dr. Patrick Nugawala, Value Chain Consultant
Priantha Fernando, Chairman, Sri Lanka Tourism Development Authority (SLTDA)
Priyanga Dematawa, Chief Operator Officer, DIMO Agribusinesses
Ranketh Kumbura, Director of Development, DEA
Senarath DeZoysa, Consultant, Frontline Business Development, DIMO Agribusinesses
Sri Lanka Export Development Board
Sri Lanka Tourism Development Authority
Sri Lanka Tourism Promotion Bureau
Suresh Ellawala, Director, Ellawala Horticulture
The Knowledge and Linkages for an Inclusive Economy (KLIE) Program
Dr. Yasantha Mapatuna, Small Agribusiness Partnerships Programme (SAPP)

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

# THANK YOU

MDF would like to thank the Australian Department of Foreign Affairs and Trade, the New Zealand Ministry of Foreign Affairs and Trade, Palladium, Swisscontact and all of our partners, suppliers and contractors for their hard work and support in 2023.

Last but not least, thanks should go to MDF's staff across the facility for their dedication and commitment.











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- Vanuatu: YumiWork, Lolam Building, Kumul Highway, Port Vila, Vanuatu
- Tonga: SCH Lawyers, Level 2, Fifita House, Mailetaha, Nuku'al, Tonga

This publication has been funded by the Australian Government through the Department of Foreign Affairs and Trade (DFAT) and co-funded by the New Zealand Government through the Ministry of Foreign Affairs and Trade (MFAT) in Samoa, Tonga and Vanuatu. The views expressed in this publication are the author's alone and are not necessarily the views of either government.



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MDF is funded by the Australian government. It is implemented by Palladium, in partnership with Swisscontact