



Systemic Change in the Sri Lankan Crab Sector

How Multiple Actors and Factors Have Contributed to a More Competitive and Inclusive Crab Sector



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Executive Summary

The following case study tells the story of how the Blue Swimming Crab (BSC) market in Northern Sri Lanka evolved from an uncompetitive sector with limited value addition and buyer-controlled pricing to a more competitive, value-adding, sellers' market. What began as an effort to stimulate employment in the conflict-affected North ended with a more dynamic market structure, resulting in the entire population of Northern Sri Lankan crab fishers accessing higher market prices. An increased number of Northern-based processing export companies with the ability to purchase greater crab quantities more consistently have sustained price hikes introduced by existing businesses to increase barriers to entry. Women have benefited from increased employment opportunities in crab processing facilities, as well as from the market price changes as female members of fishing households. The application of good market systems development (MSD) principles and practices, such as multiple partnerships and consistent monitoring, contributed to industry evolution. This fundamental shift in market dynamics was supported by a range of Australian-funded programs over the past 15 years that contributed in different ways to a more competitive, inclusive and resilient BSC market.

Introduction

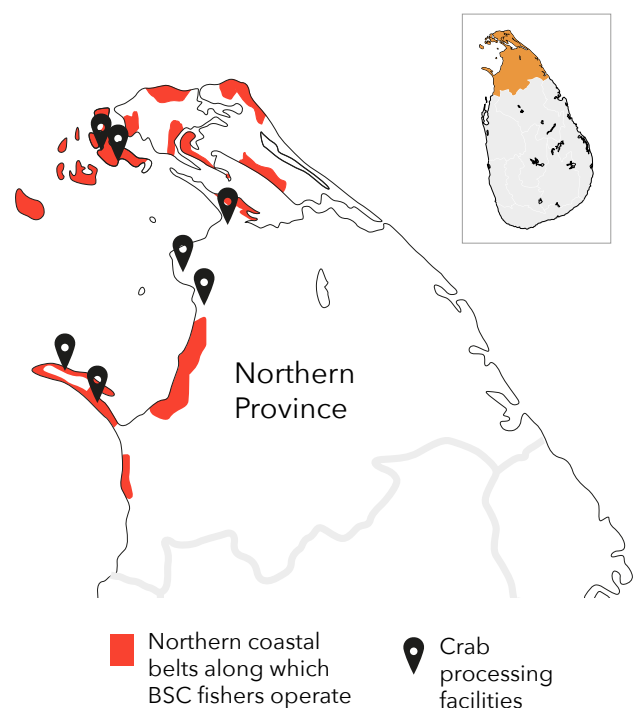
The Australian Government has been a key partner in Sri Lanka's post-conflict rehabilitation and development. After 15 years of recovery and livelihood programming through its Australian Community Rehabilitation Programs (ACRP), the Department of Foreign Affairs and Trade (DFAT) has evolved to an economic partnership approach. The 2015-2019 Aid Investment Plan highlights the continued challenge of ensuring that Sri Lanka's strong economic growth translates into meaningful development improvements throughout the country, particularly for areas that were affected by the 30-year conflict.

To operationalise the aid investment strategy, DFAT Sri Lanka manages multiple programs through its Economic Opportunities for the Poor (EOP) portfolio, which contribute to the first objective of the Aid Investment Plan of stimulating inclusive, private sector-led economic growth and poverty reduction. The EOP portfolio includes three complementary programs: Market Development Facility (MDF); the International Labour Organisation's Local Empowerment through Economic Development (ILO-LEED); and a Skills for Inclusive Growth program. Since 2015, MDF has worked with businesses, industry associations and governments to stimulate innovations that benefit large numbers of Sri Lankan workers, farmers and fishers with either new employment or higher incomes. ILO-LEED is the second phase of an earlier program that worked with cooperatives in the Northern Province to build their capacities to participate in export value chains, including fisheries and agriculture.

Both MDF and ILO-LEED have built on the results achieved during earlier ARCP phases in the fisheries sector, complementing each other's approaches and outreach.

As DFAT has been supporting the fisheries sector in the conflict-affected Northern Province for close to a decade through its various programs and investments, it was found to be an opportune time to document the story thus far. This paper shares the process and progress to date of how DFAT, MDF and others have contributed to a more competitive and inclusive fisheries sector.

Figure 1: Blue swimming crab sourcing and processing in Northern Sri Lanka



Contextual Analysis: Challenges and Opportunities in the Post-Conflict Fisheries Sector

■ Challenge

The challenges of intervening in the conflict-affected regions were not insignificant. Although investments by government and other development partners had improved infrastructure, tax incentives had motivated some businesses to expand to the North, and efforts at reconciliation were ongoing – many complicating factors were contributing to slower and less-inclusive economic development. High levels of mistrust between Northern producers and outside companies limited interest from both parties to engage in business together. Higher proportions of female-headed households meant women were often the primary breadwinners and suffered from skill gaps and informal norms around what types of jobs women would take.

MDF's initial analysis showed that although poverty rates had been decreasing throughout the country – from 22.7% in 2002 to 6.7% in 2013¹ – growth was not inclusive. Poorer segments of the population persisted in the conflict-affected Northern and Eastern provinces and among people working in the agriculture and fisheries sectors. MDF made a strategic decision to include the former conflict-affected areas and vulnerable groups as the levels of income

disparity and inequality continued to undermine Sri Lanka's ambition to become an upper-middle-income country.

■ Opportunities

The Northern Sri Lankan fishing industry experienced limited development during the three decades of war, but fishing was a pre-war livelihood for many people. Prior to the war, the Northern Province supplied 40% of the country's marine catch². This limited development resulted in an underexploited resource for many wild-caught species, giving Sri Lankan seafood a comparative advantage over other countries with over-fished stocks. The industry had been growing at 5% per year at the time of MDF's initial research in 2015, suggesting that further growth was possible. Globally, demand for seafood is expected to triple by 2030, and it was reasonable to assume that the fisheries in Northern Sri Lanka could fulfill part of that demand³.

An important contextual factor in this case were past and current investments by DFAT and others to strengthen the fisheries sectors in the Northern Province. Figure 2 summarises the key sector developments stimulated by DFAT and others that MDF was able to leverage with its subsequent interventions⁴.

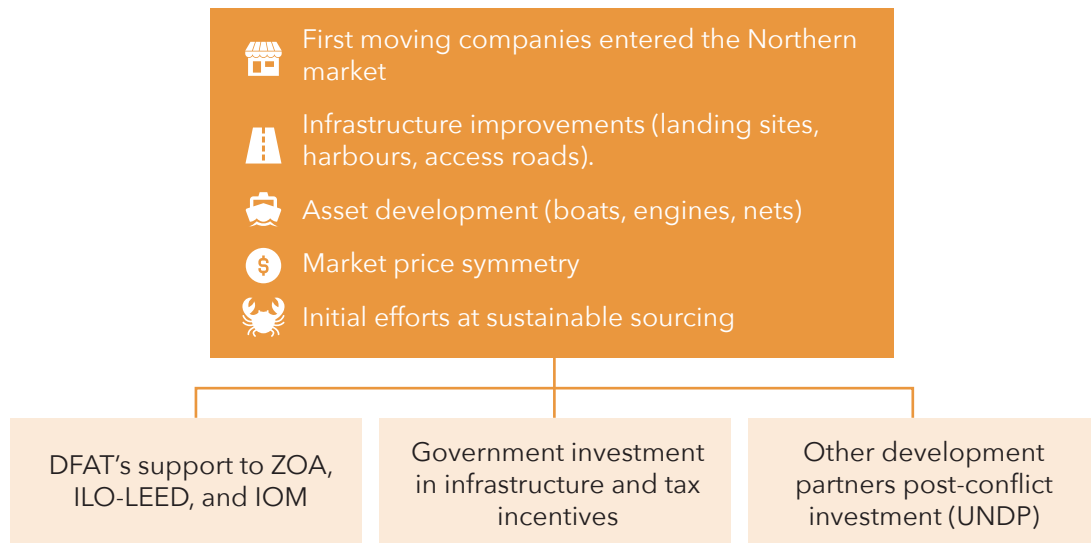
1 Department of Census and Statistics (DCS), 2015. *Household Income and Expenditure Survey (HIES) - 2012/13*.

2 Asian Development Bank (ADB), 2017. *SRI: Northern Province Sustainable Fisheries Development Project - PPTA*.

3 World Bank, 2013. *Fish to 2030: prospects for fisheries and aquaculture (English). Agriculture and environmental services discussion paper; no. 3*. Washington DC; World Bank Group.

4 For more information on the collaborative approach to fisheries development, please see the complementary document on Collaboration for Development Outcomes.

Figure 2: Sector Developments Leveraged by DFAT Programs



- First-moving seafood companies entered the Northern market:** Government tax incentives contributed to companies expanding into the Northern Province, although value addition in the region remained minimal, with only basic processing occurring.
- Infrastructure development:** This refers to both fishery-specific (such as landing sites, access roads and processing infrastructure supported by DFAT through the IOM and UNDP) and non-specific (such as roads and electricity supported by the government of Sri Lanka, World Bank and Asian Development Bank) infrastructure development.
- Fishery asset development:** Several DFAT-funded programs implemented by ZOA, a Dutch NGO, the International Labour Organisation (ILO), and the International Organisation for Migration (IOM) provided a range of key inputs and infrastructure such as boatyards to build boats, engines, nets, landing sites, and auction sites. Skills and capacity building programs to fishing communities resettling after the war were also provided.
- Market price symmetry:** Both the ZOA and ILO programs also implemented different strategies to improve market information for fishermen. ZOA instigated the process of fisher associations texting price information at different landing sites to start to provide more information to fishermen. ILO-LEED worked on strengthening the bargaining skills and connectivity of a fishing federation of 16 cooperatives, further improving access to buyers and information.
- Sustainable sourcing:** The Seafood Association of Sri Lanka (SEASL) began a Fisheries Improvement Project (FIP) in 2011 to assess and bolster crab stocks. With initial financing from the American National Fishery Institute's Crab Council, an industry association in the US, SEASL embarked on a range of activities including stock and by-catch studies, and documenting and improving management and fishing practices, all of which are important to sustainable sourcing. Results are used by the Monterrey Bay Seafood Watch industry body to rank a country's sustainable practice, which can result in access to premium markets

for buyers interested in sustainable sourcing. DFAT, through ILO-LEED, also contributed to technical assistance for the FIP through a partnership with Australia's Murdoch University, in which fishers were trained on simple and economic ways of measuring crabs in order to ensure young and female crabs were returned to the ocean.

■ Constraints to Inclusive Growth

Although the sector was progressing since the end of the war, due in part to the investments by DFAT and other actors, MDF found that there were still a number of constraints to inclusive growth and value addition in the North. The market was dominated by one very large player and several other large buyers who controlled the price. Fishermen would

sell a variety of species to middlemen, who provided inputs and finance in exchange for purchasing the catch at a buyer-determined price. Fishers belong to cooperatives, but their function was limited to providing licences⁵. Limited value was added in the Northern Province, as most companies sourced through middlemen, undertaking processing outside of the region. Although women had limited formal involvement in the sector, they played key roles in cleaning and repairing nets, as well as the production and sale of dried fish. With a view of increasing employment, value-addition and competition in the region, MDF found that a lack of investment in processing technologies and skills as some of the constraints to business expansion in the North.



⁵ The exception here was the approximately 30 cooperatives (~20% of the total cooperatives) that the ILO-LEED program have supported in the Killinochci District. These cooperatives buy from their members and provide a range of other services to male and female members.

Intervention Approach in Practice

The post-conflict context, including the work done by other actors and the analysis of critical yet feasible constraints facing the Northern fisheries sector, shaped MDF’s intervention strategies. This section highlights some of the key MSD principles that MDF operationalised, including multiple partnerships and an inquisitive and honest team that prioritised monitoring results to understand the impact and contribution of their investments over time.

■ Multiple Partnerships

MDF’s initial hypothesis was that investments in new business models or new export-oriented products would increase business activity and value addition in the Northern Province, create new jobs for women and other disadvantaged populations, and generate higher fisher incomes. A strategic decision was made to partner with several seafood

companies including Coolman, KMK Seafoods and Prawn Ceylon. Figure 3 shows MDF’s overarching theory of change in the fisheries sector and is premised upon the idea that employment-generating value addition would lead to greater competition.

Both public agencies and private experts suggested that the stocks of multiple species in the North were sufficient and that the industry could absorb the expansion of multiple companies. There was not an initial focus on any one species, as the nature of the market was such that actors along the value chain sourced, processed and sold a variety of seafood depending on the season and demand. As much as potential growth and impact drove this decision, it is also a good practice to spread risk across multiple partners. Not all innovations stick, as all partners are not necessarily willing or able to sustain a new business model over time

Figure 3: Theory of Change for Fisheries Sector

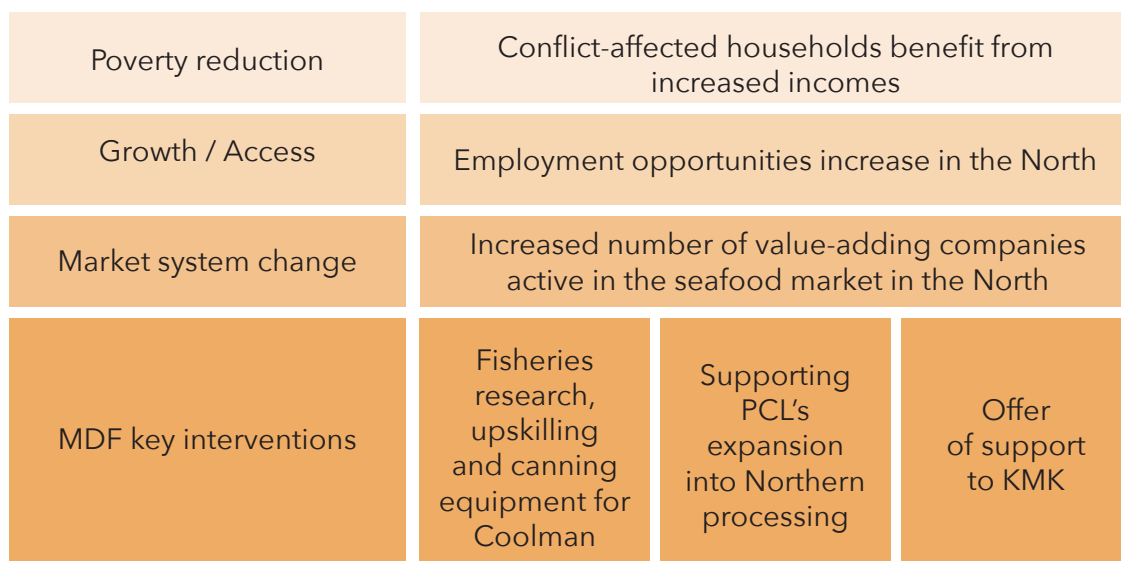


Table 1 below summarises the characteristics of each of the firms with which MDF partnered, the constraints the partnership was addressing and the specific activities MDF supported. The offers of support to each company were targeted to the specific constraint MDF was trying to address, following good practice.

An important, but unintended, result of the offer of support to the three

companies was the perception that more companies were entering the Northern seafood market, threatening the existing businesses. Although job creation through value-adding technologies was the explicit goal of MDF, supporting new players to enter the market contributed to changing overall dynamics and catalysing price competition, the wider implications of which are discussed below.

Table 1: Summary of Partnership Approach

Partner	Description	Constraints addressed	Key activities supported by MDF
Coolman	Company with multiple revenue streams – ice factories, cooling equipment and a fish meal processing plant in the North. Interest in expanding their seafood portfolio to a new product line (canned sardines for export), making them the only export company canning in the North.	Information, technology and skills	Support for sardine stock research Co-financing canning equipment Support for skills training for factory staff
Prawn Ceylon (PCL)	Existing Colombo-based export company that sourced a range of seafood from the North. Interested in improving the quality and quantity of several species by beginning to do some basic processing in the North.	Trust between Northern producers and businesses from outside; equipment	Brokering lease agreement between fishers' association and PCL for PCL to lease a defunct processing facility Co-finance equipment to operationalise the facility
KMK	Only exporter based in the North with a comprehensive supply chain of multiple types of seafood. Partnership planned to support the company to expand its cold storage and supply chain.	Investment capital	Partnership did not materialise as KMK was a later partnership and was unable to meet their financial requirements and sustain the price increases.

Table 2: Summary of Multi-year Monitoring Process

Date	Purpose	Findings
March 2017	Investigate how price increases pass from traders to fishers	Information symmetry and passing of price increases to fishers
October 2017	Investigate by how much prices have increased for fishers supplying to MDF partners	Market price increase validation but MDF's contribution unclear
December 2018	Investigate the contributing factors for market price increase Investigate by how much the market price has increased Investigate how many fishers have benefitted Analyse if MDF interventions contributed to the increased price and how	Price increase due to increased competition from high-value buyers processing locally and exporting to North America Counterfactual data suggests that additional 30% increase was likely result of competition Modelling estimates that over 20,000 fishers - the entire Northern crab fishing population - has benefited

■ Monitoring Matters⁶

Without an inquisitive, entrepreneurial team and an organisational culture and systems that prioritised monitoring results – intended and unintended – this story likely would not have been told. MDF ensured the team members participating in monitoring in the North could speak Tamil, a critical success factor in accessing key informants over several years. After successfully completing a Donor Committee for Enterprise Development (DCED) audit in 2017, the team did not rest on their laurels, but continued to document and understand what changes were happening in the wider fisheries market system beyond the expected results. Consistent with DCED-recommended monitoring processes,

the team conducted monitoring visits themselves, typically using smaller sample sizes so that resources were not wasted as interventions were adapted. MDF did not view evaluation as a static, box-ticking exercise, but demonstrated how a program embraces evaluative thinking as a process and embeds that capability in its team. For example, six months after beginning the intervention with Coolman, they began to collect data on wider changes in the market system including pricing, volumes and relationships between buyers and sellers. Table 2 summarises the multi-year monitoring process that eventually culminated in a contribution analysis to assess if and how MDF contributed to the shift in market dynamics.

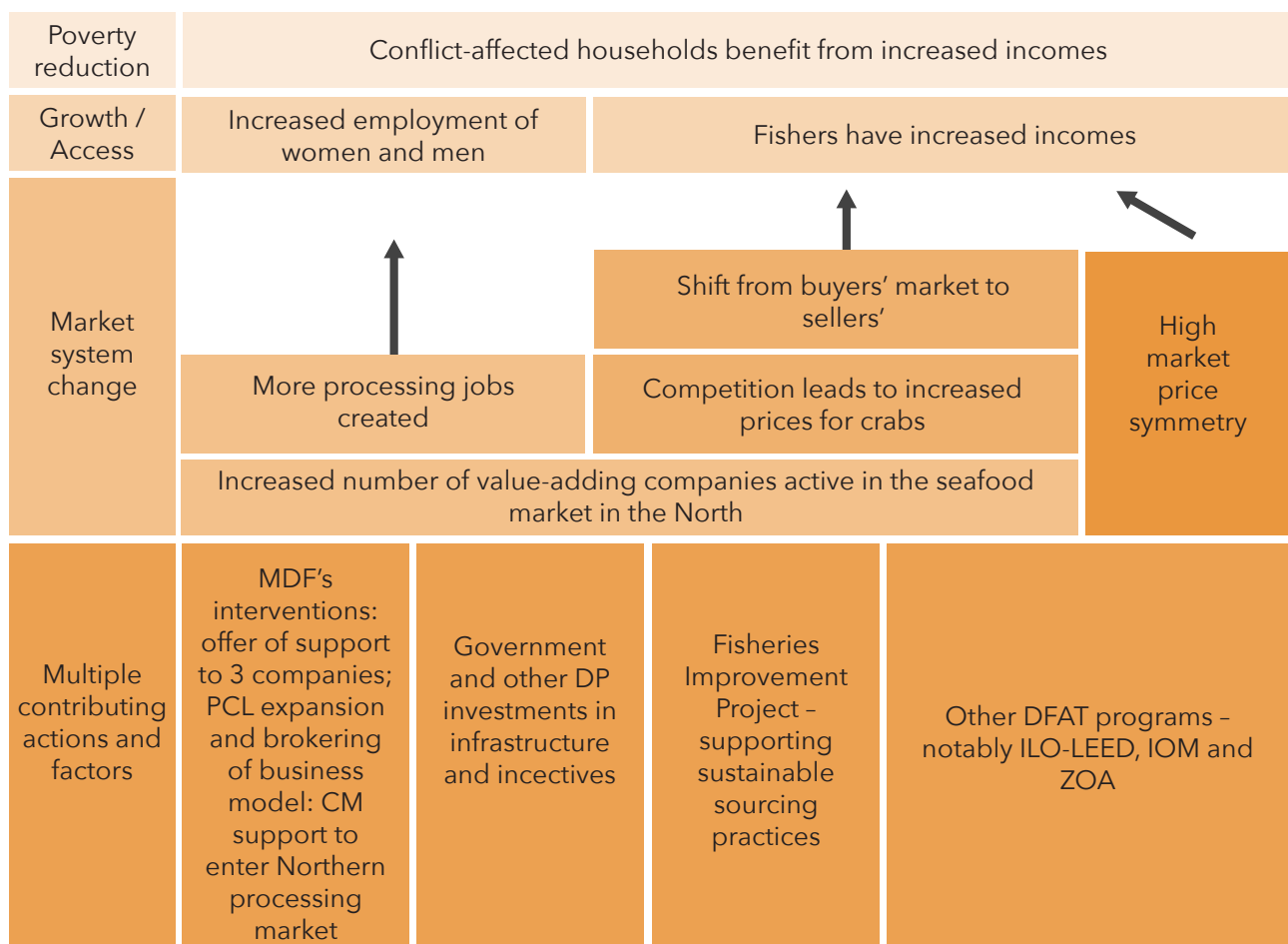
⁶ For more information on the monitoring process, please see the separate summary document on MDF's approach to contribution analysis.

Results - The Whole is Greater than the Sum of its Parts

MDF’s intended goal was to stimulate employment for the conflict-affected population by addressing key constraints to inclusive growth in the Northern fisheries sector. An unintended result of the support to value-adding, export companies entering the market was a price competition. This section discusses the intended results of more companies entering the market with new employment opportunities, the unintended result of increased income and reflections on women’s economic empowerment in the fisheries sector.

Figure 4 provides a high-level overview of the contribution of multiple actors and factors towards market system changes that enabled increased employment and widespread income benefits. One can see that in the case of BSCs, the whole is greater than the sum of its parts - synergies among complementary programs, as well as an adaptive and inquisitive MDF approach, were all important factors in stimulating increased competition and changing informal pricing norms.

Figure 4: Summary of Systemic Change in the BSC Market



■ Actors and Factors

As Figure 4 suggests, several actors and factors contributed to market system changes in the BSC market. The contribution of past and complementary DFAT programs cannot be understated – in particular, the work they did to increase price symmetry in the fisheries sector. Investments by government and other development partners also facilitated the growth of the fisheries sector. Several external factors also contributed to the industry evolution and are discussed below in relation to sustaining competition and increased prices.

■ Market System Changes

Increased competition: Only one of the three companies MDF supported remains in the Northern BSC market. Buyers that were not supported by MDF, however, that have sustained the price hikes remain active. Coolman continues to grow and diversify its products, while PCL has exited from the Northern market and KMK has liquidated its assets. Although some may consider the departure of PCL and KMK to be a failure, MDF's support to the three companies sent a signal to the market that companies were seeking to expand their seafood portfolios, threatening the established companies in the market and contributing to the price competition that followed. Increased competition was the number one reason given by traders during the contribution analysis as the reason for the price hike. Thus, even though the direct, expected impacts of greater employment did not materialise for all of the companies, the mere offer of support does appear to have contributed to the change from a buyer's to a seller's market, arguably an even more transformative change than job creation.

Shift in purchasing arrangements: To increase barriers to entry when the MDF-supported companies began sourcing and processing crabs in the North, existing businesses increased the prices offered to fishers. However, as Coolman had both additional revenue streams and had optimised its operational costs through Northern processing, they were able to sustain the price increases. Thus, their entrance to the market and consistent need for greater volumes shifted purchasing arrangements from a buyers' market to a sellers' market in which fishers could decide to whom they sell.

Several external factors also contributed to the increase in competition and the ability of Coolman to maintain higher price levels. These had varying degrees of MDF influence:

1. A government ban on fishing net sizes pushed Coolman from the sardine market, where they initially thought they would have a competitive advantage, to the crab processing market. MDF did not cause this change, but the support they provided was not species-specific, so Coolman could pivot and still benefit from the skills upgrading and canning equipment.
2. Deal between Harbour Seafood and Coolman: Although MDF did not broker the deal, their support to Coolman positioned the company well to be able to respond to Harbour's request for a local processor of canned crab meat when the opportunity presented itself.
3. Coolman's ability to survive the escalation in prices: Coolman has multiple revenue streams outside of the canned crab market, which allowed them to keep operating despite significant price increases in their supply base. In addition, their decision

to process in the North means they have reduced operational expenses on transportation and ice.

Growth/Access: As a result of MDF’s support to companies, 368 jobs have been created. Over 90% have been filled by women, many of whom had no formal employment prior to this. These jobs pay LKR13,500 per month and include benefits such as transportation, pension funds and lunch. As Figure 4 reflects, the market system change of improved information symmetry (facilitated by the DFAT-supported ZOA and ILO-LEED programs) meant that when prices did go up, all fishers benefited. Exact data on fishing populations is not regularly collected, but

MDF has estimated that this is likely to be more than 21,000 fishing households.

Poverty reduction: From the employment figures alone, MDF estimates that USD528,000 of income for women and men has been generated. However, even greater impact has likely come from the increased prices all fishers have received as a result of the price competition. An additional USD5.5 million – ten times the income generated from employment – has been passed on to fishers as a result of increased prices. Box 1 highlights the key indicators that suggest that this change is systemic and will continue to benefit fishers.

Box 1: How systemic is this change?

A change is considered to be systemic when it: 1) is likely to be sustained through market actors; 2) benefits large numbers of people; and 3) is inclusive of poor or disadvantaged people.

The BSC market system exhibits all of these conditions to varying degrees due to a more competitive crab market system with high price symmetry, resulting in a change in the informal pricing norms from a buyers’ market to a sellers’ market.

Evidence of systemic change in the BSC market suggests that it will continue to benefit large numbers of people for the following reasons:

1. The processing companies have demonstrated the ability to sustain the price hikes, supported by their international buying commitments and product diversification. As of June 2019, industry experts also cited a third processing company was to begin operations, suggesting that other firms are crowding in.
2. Due to the densely networked nature of the fishing market and price information symmetry, it is likely that all fishers have benefited from the price increases, across landing sites. Rarely do MSD programs contribute to changes that have near-universal outreach, demonstrating how powerful information symmetry can be.
3. The geographic targeting ensured that those living in the conflict-affected North were the primary beneficiaries, through both – employment options for women and additional income for a socially and economically disadvantaged population.

■ Women's Economic Empowerment

Women's economic empowerment in the Northern crab industry needs to be analysed from two related, but different, perspectives: women who have gained employment in the crab processing facilities and women from fisher households. Qualitative research explored the social norms of female participation in the labour force and the impact of increased income on women's control over household income, workload and spending patterns⁷.

■ Employed Women

For the vast majority of women, employment at the canning factories offers the opportunity to contribute to increasing household expenses. Although variations in norms towards women working are found in the North, attitudes seem to be slowly changing. Some of this is driven by economic reasons, as the increased cost of living is driving more women into the work force, but women also express hope that their daughters will complete their education and find permanent work, suggesting there is greater ambition and acceptance of women participating in the labour force more generally. Several factors seem to be important towards contributing to increasing female participation in the labour force. Location, flexibility and visibility of other women working were all frequently cited by active employees. As most working women do not have additional support to help with their domestic duties, limiting travel time and allowing them to pick up children and

run daily errands contributes to keeping them in the labour force.

Women in the Northern Province have a history of managing household finances, and this remains true. On average, most women employed in the canning factories are contributing one-third of household income. It is worth mentioning that 30% of employees belong to female-headed households, so they are the primary earners in their homes. Most women prioritise investing in their children's education with any additional income they are able to earn.

■ Women in Fisher Households

Social norms towards women working in interviews from fisher households tended to be slightly more conservative than those who work. Interestingly, women in fisher households do contribute significantly towards fishing income, often spending several hours per day in the high season repairing nets and preparing dried fish. But as this is conducted within the household, it is socially accepted.

Women in fisher households also tend to be the money managers and were well aware of the increased crab prices. The impact of those prices, however, was difficult to quantify and isolate. This is to be expected, as fishing households produce multiple species throughout the year and income varies by amount of catch. Extra income tends to be spent on additional fishing nets, paying off debt or investing in gold or savings for children's education.

⁷ For more information, see the complementary document on "Women's Economic Empowerment in the Fisheries Sector in Northern Sri Lanka"

Lessons Learned

Neither DFAT nor MDF set out to explicitly change the informal pricing rules between suppliers and buyers of BSC. A range of factors, including some resulting from complementary DFAT programs, others that resulted from industry developments, and some stimulated by MDF, all contributed to over 20,000 fishers receiving an additional USD5.5 million over the past two years. There are a range of lessons learned from this example that may be of use to other donors or implementers.

Sector selection - potential of export markets with high information

symmetry: Although the intention of this strategic area was to increase business activity in the North, private partners with secure international end buyers were able to sustain the price escalation and remain in business. A highly networked crab market system meant increased prices benefited everyone. When other donors or programs are engaged in sector selection, paying attention to sectors with export potential and degrees of information symmetry should be considered. This is especially important in thin markets, in which limited numbers of potential partners may present challenging conditions.

Sector selection - leveraging other investments and infrastructure: In this case, DFAT, the Sri Lankan Government and other development partners had invested significantly in critical support functions in the Northern BSC market - such as infrastructure, skills and information. Without these prior investments, it is unlikely the BSC story would be as successful as it was. In situations where

these pre-conditions do not exist, programs may need to find ways to strengthen critical support functions before addressing core market dynamics.

Partner selection - don't put all your

crabs in one net: MDF initially worked with three companies of varying sizes and specialties. This was well-aligned with the strategy to increase overall business activity in the North and reflects theories of innovation diffusion in which only a limited number of actors will adopt an innovation. Wider MSD experiences suggests a 30% failure rate, which the MDF experience confirms. Spreading risk across multiple partners (when possible) increases the chances that one of the innovations will stick. Such was the case with BSCs, as only one of the three MDF supported-companies continues to employ and source crabs from the North. However, the type of company - one with deep pockets from other revenue streams and a consistent international buyer - contributed to a transformative sector change, shifting overall market dynamics in the form of greater competition and higher prices to crab fishers.

Visioning a more competitive sector - how second movers can be powerful change agents:

MSD often emphasises persuading and supporting first movers to adopt an innovation, but in markets in which second movers have yet to emerge, the latter can play an important role in shifting market dynamics by creating competition and increasing prices. In markets with high levels of information symmetry, such as the crab market, this meant that the price gains are estimated to have touched all fishermen, not just ones

selling to the partner MDF supported. Although MDF was not explicitly trying to change informal pricing norms, their vision was one of a more competitive fisheries sector, and their actions were aligned with making that happen.

Realistic measurement - contribution is not second-class attribution: The reality of this context - a dynamic, post-conflict, relatively small region - is that several factors contributed to the change from a buyers' market to a sellers' market. Many other regions also exhibit similar characteristics and it may be useful for other MSD programs to consider what past changes they can leverage to take their work forward in the future. Practically documenting changes, even if it was not yet understood why they were happening at the time, allowed MDF to go back and probe the reasons for the price changes and estimate their contribution to that process.

Paying it forward - VFM timing: The BSC experience highlights the importance of

a longer view on value for money (VFM) than just during a program lifecycle. The investments DFAT made in market information work with ZOA and ILO-LEED began to pay dividends after support had ended to ZOA, suggesting that consideration into the weight placed on VFM during a program's activity cycle should be balanced with the prospects for transformative change.

Resilience - how to sustain the industry and income changes: Prices crab fishermen receive are influenced by global crab prices, as well as domestic factors. DFAT and MDF are exploring ways to increase the resilience of the crab market system through a variety of means - research to identify premium markets for sustainably sourced crab, product diversification of existing companies, support for a sustainable sourcing rating that will allow companies to access premium prices, and investigating the viability of a Sri Lankan brand for seafood in coordination with the Export Development Board.

Conclusion

By supporting several seafood companies to enter or expand into value-adding production processes, MDF has contributed to a more competitive Northern crab industry. And a more competitive crab industry has been good for fishers - more than 20,000 of whom have benefited from a change in pricing norms and more than 300 people, mostly women, who are now employed in Northern processing facilities. Prior investments by DFAT, the government of Sri Lanka, and others created enabling industry conditions - such as high levels of information symmetry among fishers and rehabilitated critical infrastructure - for MDF to be able to contribute to the next step in industry development. Supporting the resilience of the BSC market is now the task at hand, with exciting opportunities in premium product development, sustainable sourcing rating and brand development.

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