

Pro-poor Growth Story

Brewing innovation:

Direct private sector linkages are changing the game for smallholder coffee farmers in Sri Lanka

The global Specialty Coffee market is booming. In Sri Lanka, the coffee industry has seen increased investment from the private sector and higher local demand and consumption, thanks to a COVID-induced ban on green bean imports imposed by the government. With this new interest and opportunity, the time is ripe for authentic 'Ceylon Coffee' to make its mark in local and international markets.

Businesses are rushing to establish links with farmers to ensure a consistent, high quality supply of locally grown specialty arabica coffee. MDF partner Ella Coffee Cooperative (ECC), a joint venture between Soul Coffee Private Limited and Amba Estate, works with farmers in Sri Lanka's Central Highlands to purchase coffee cherries directly at farm gate. The beans are then processed at ECC's washing station, saving the farmers time and labour.

Farming Specialty Coffee in Sri Lanka has significant growth potential but the industry is underdeveloped. One reason for this is that unlike ECC, most coffee bean buyers only purchase processed green beans. The responsibility to process cherries lies at farm level, a task which is very labour intensive when done manually.

For over a year, MDF has been working with the private sector on a unique solution to the farmers' problem – a globally competitive cherry-purchasing business model to replace the traditional green bean model. This market intervention allows farmers, many of whom are women, to sell high quality coffee cherries, earning higher incomes and saving time that was previously spent on drying the cherries into green beans.

Karunawathy is a female coffee farmer who benefits from the reduced workload and additional income that comes from supplying to the Ella Coffee Cooperative through the cherry-purchasing business model.



I suffer with a kidney illness, so it is difficult for me to pick, process and dry coffee. It is easier to sell to ECC, since they come to my doorstep to collect the coffee cherries that I have harvested.

Karunawathy,
Coffee farmer.



Coffee farming offers Karunawathy a stable source of additional income. She uses this wage to pay for her medical expenses.

This steady, guaranteed source of income has proven vital for most farmers who are increasingly inclined to grow more coffee due to these benefits.

After only three months of selling to ECC, another coffee farmer, Bandara, says he is reassured about the prospects of growing coffee.



If this demand continues for coffee, we can earn more than we do with tea and it requires less labour. ECC has provided a consistent market for us. It is easier to sell in cherry form, so we intend to replace tea with coffee. We used to hate coffee trees before, but now we are saving them!

Bandara,
Coffee farmer.

Farmers who are involved in backyard coffee farming in Sri Lanka generally spend six to eight hours daily drying cherries into green beans. They then have to travel to town to sell these. Establishing a direct market for coffee cherries has allowed farmers to focus the time previously spent on drying coffee cherries on other farming activities, resulting in higher net profits. Moreover, since processing is not required, farmers no longer face the challenge of processing and drying

during the rainy season, and since they do not need to move the cherries to another location, the cost of transport is eliminated. It is a win-win for the farmers.

MDF sees great potential for the Specialty Coffee sector to become a sustainable export industry for Sri Lanka, taking the 'Ceylon' brand to international markets. MDF's introduction of this innovative business model has helped the private sector and farmers discover ways to collaborate so that both market entities benefit. As incomes increase, it will have a powerful impact on women's economic empowerment and more farmers will be drawn to the industry, contributing to poverty reduction and resulting in a positive influence on the economy.

Businesses like ECC can increase revenue by gaining access to coffee cherries that can then be processed into premium quality arabica beans. Then, working with roasters, the specialty product can be marketed to the local hospitality sector and select export markets.

Given a steady supply, the local coffee industry will be able to enter the world market with enthusiasm. Establishing the 'Ceylon Coffee' brand on the global map has the potential to elevate export earnings and greatly benefit the overall economy.





MDF is supporting ECC to establish a wet processing mill and an outgrower network to source arabica coffee cherries from smallholder farmers in the Badulla district. Farmers who are part of the outgrower network will gain access to a new market for their coffee cherries as well as coffee farming information and extension support.



MDF commissioned the report, *Arabica Coffee Value Chain Analysis* – a one-of-a-kind, in-depth analysis into Sri Lanka's specialty arabica coffee sector. The study collects information from bean to cup, charting pathways to scale and identifying opportunities for growth. The report's recommendations can be used by stakeholders to achieve sustainable growth in this niche industry.