



**Market Development Facility:
Championing
Sri Lanka's emerging
specialty coffee sector**



About MDF

Market Development Facility (MDF) is an Australian Government funded multi-country initiative, which promotes sustainable economic development, through higher incomes for women and men, in our partner countries. We connect individuals, businesses, governments and NGOs with each other, and with markets at home and abroad. This enhances investment and coordination and allows partnerships to flourish, strengthening inclusive economic growth.

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

MDF works in sectors that economically engage, or have the potential to engage, a high proportion of people belonging to vulnerable communities. When the sectors grow socially and economically, poor men and women also benefit.

Why is MDF interested in the specialty coffee sector?

The global specialty coffee industry was valued at USD 35.9 billion in 2018 and is expected to grow to USD 83.5 billion by 2025. Sri Lanka is well positioned geographically and climatically to produce high quality specialty coffee. This positioning provides immense potential for Sri Lanka to participate and benefit from this growing market.

MDF sees potential in the 'specialty coffee' segment as the sector offers greater value for smallholder farmers. Nearly 80 per cent of specialty coffee produced in Sri Lanka originates from smallholder farmers and backyard farmers, who are mostly women. This system of smallholder production of Sri Lankan coffee positions it well to take advantage of the growing demand for quality and diversity in the global market, while benefiting poor men and women.

However, Sri Lanka is currently not able to produce a continuous supply of specialty coffee to compete with the global market. MDF identifies a range of opportunities in crop management, post-harvest management, farmer knowledge, and adaptation of modern, innovative agricultural techniques and technologies, to support the local coffee value chain become more resilient and reliable in the future.

What is specialty coffee?

Internationally, coffee is often traded in the green bean form.

Cherry



Parchment



Green Bean



Roasted Coffee



Green bean coffee is divided into two types: **commodity** and **specialty**.



Specialty coffee

Specialty coffee is graded above 80 to 100 points on the "Q Grading" system - a standardised system developed by the Coffee Quality Institute to assess and grade the quality of coffee beans. Consumers pay attention to a range of factors such as, cup quality, ethicality of the value chain, elevation, farmgate details, and processing techniques. This makes specialty coffee a journey and an experience.



Commodity coffee

Commodity coffee is mass-produced coffee that is traded through New York Coffee futures (Commodity "C" price scale) without attention to intrinsic coffee quality. Coffees graded below 80 points in the Q grading system are considered "commodity".

What kind of investments have MDF made in the specialty coffee sector in Sri Lanka?



Introducing the cherry purchasing business model

MDF has been working with the private sector to move into a cherry-purchasing business model versus the traditional green bean model. The market intervention allows farmers – many of whom are women – to sell high-quality coffee cherries, earning better income and saving on the time previously spent on drying cherries into green bean, while allowing businesses to collect coffee cherries directly from farmers to manage quality. With MDF support, businesses are also providing farmers with information on proper farm management and harvesting techniques.



Improving processing

MDF has supported the private sector to upgrade coffee processing facilities and knowledge to enable the production of high-quality specialty grade coffee. In the specialty coffee segment, quality is determined by cupping score, which must be carried out by certified specialists. Sri Lanka lacks cupping facilities and producers have no way of measuring the quality of their coffee. MDF has initiated the process of establishing cupping scores for Sri Lankan arabica coffee samples via Australian-based coffee quality analysts (Q graders) to better understand how Sri Lankan coffee can be improved compared to international standards.



Conducting research

MDF commissioned a 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 the pathways to scale and identifying the opportunities for growth in the arabica coffee sub-sector in Sri Lanka. The recommendations of the report can be used by all stakeholders to align their efforts to achieve sustainable growth in this niche industry.

MDF has also conducted a trial with World Coffee Research (WCR) to understand the genetic variances and profiles of Sri Lankan arabica coffee beans.



Improving industry coordination

MDF was instrumental in setting up Sri Lanka's first-ever national coffee association, 'Lanka Coffee Association (LCA)'. Spearheaded by the private sector, the association will build and expand the export profile of Ceylon Coffee through industry-wide collaborative efforts to strengthen the specialty coffee industry.

In addition, MDF and the Sri Lankan coffee industry are working together to host the first-ever 'Sri Lanka Coffee Festival'. The event will bring together a variety of private sector and government stakeholders who are active in the Sri Lankan coffee industry to celebrate locally grown, locally sourced Sri Lankan coffee and Sri Lanka's re-emerging coffee culture.



Increasing seedling production

MDF is working with the Department of Export Agriculture (DEA) to support small to medium scale coffee plant nurseries to increase coffee seedling production, which promotes coffee cultivation and volumes for export and local markets.

MDF will also collaborate with select plantations to increase coffee cultivation, improve quality of processed green beans and cherry harvests to support the specialty coffee export strategy of Sri Lanka.



How does MDF choose firms to support, and what support does it offer?

MDF supports businesses, government, industry associations, researchers, and industry experts. MDF's team of Business Advisers maintain close engagement with the industry to understand trends and identify new investment opportunities. Businesses also have the opportunity to directly approach MDF with ideas for investment.



How we select partners

MDF works with businesses that have inclusive business models – in other words, businesses that directly benefit smallholder farmers. MDF does not have a one-size-fits-all package of support for businesses. MDF can offer businesses technical expertise and knowledge to innovate, financial assistance to try a new business model (s) or a combination of both.

For example, MDF can support a business to address a particular problem it is facing (i.e. improving supply, achieving intended quality standards and volume of production), become more competitive (i.e. improving quality), or reduce risk for an innovation or improvement (i.e. establishing a direct sourcing model).




What our support looks like


Given that MDF's work is based on a *Market Systems Development* approach, MDF does not directly provide funds for beneficiaries or partner businesses.


In general, MDF's assistance is in the form of a grant-based, cost-shared model. MDF and the business will identify activities to be carried out and negotiate the share of costs that each party will cover. MDF does not cover recurring operational costs, infrastructure costs or heavy machinery costs. MDF does not provide up-front financing, instead it reimburses the business upon satisfactory completion of activities. MDF's support is short-term in nature. The business is expected to be the driver of change. This ensures that MDF creates lasting impact in the sectors that MDF works in and that the partner is able to continue the activity after MDF ceases operations.

What has MDF's impact in the coffee sector been so far?

To date, MDF's support to the specialty coffee sector has generated:

1  An additional revenue of **LKR 76,392,457** for partner businesses

2  Additional income of **LKR 8,331,093** for these farmers

3  Through MDF-supported business models, **400** coffee farming households have improved their coffee quality and volume to increase their incomes. Our current work is anticipated to reach more than **1000** coffee farming households, and we expect our impact to increase as we work with more businesses



What are MDF's plans for specialty coffee?

MDF's focus for the future is on assisting the sector achieve the quality standards needed to develop a robust specialty coffee market in Sri Lanka.

- Influencing local and foreign investment into the Sri Lankan specialty coffee sector.
- Leveraging the experience of Australian coffee importers and roasters to provide advice and, in time, a new market for Sri Lankan specialty coffee.
- Promoting Sri Lankan specialty coffee to export markets through enhanced origin marketing and added visibility.
- Engaging with larger but strategic coffee players like plantations to promote high-quality specialty coffee volumes.



Investment prospectus

MDF is in the process of conducting a research-based analysis to understand plantation-based cultivation and expansion capacity for specialty coffee in Sri Lanka. Based on the findings, MDF will develop an offer for local and foreign investors to strengthen fact-based investments in the Sri Lankan specialty coffee sector.

How can my business reach out to MDF?

Interested businesses are welcome to connect with MDF via the following:

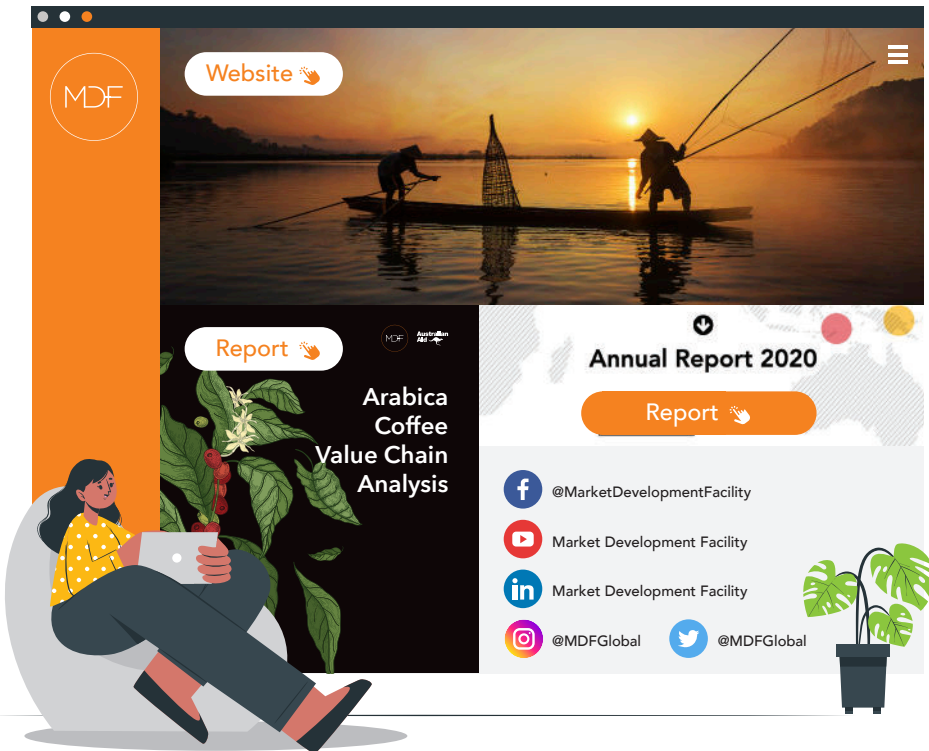
 MDF-info@thepalladiumgroup.com

 0112 580 398


Businesses do not need to include proposals or lengthy documents. MDF welcomes conversations from any interested parties in the coffee sector. Use 'Sri Lanka Specialty Coffee' in your email subject line.


Where can I find more information on MDF and its activities?

Click links below to see more about MDF.




MDF

Website 

Report 

Arabica Coffee Value Chain Analysis

Annual Report 2020

Report 

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