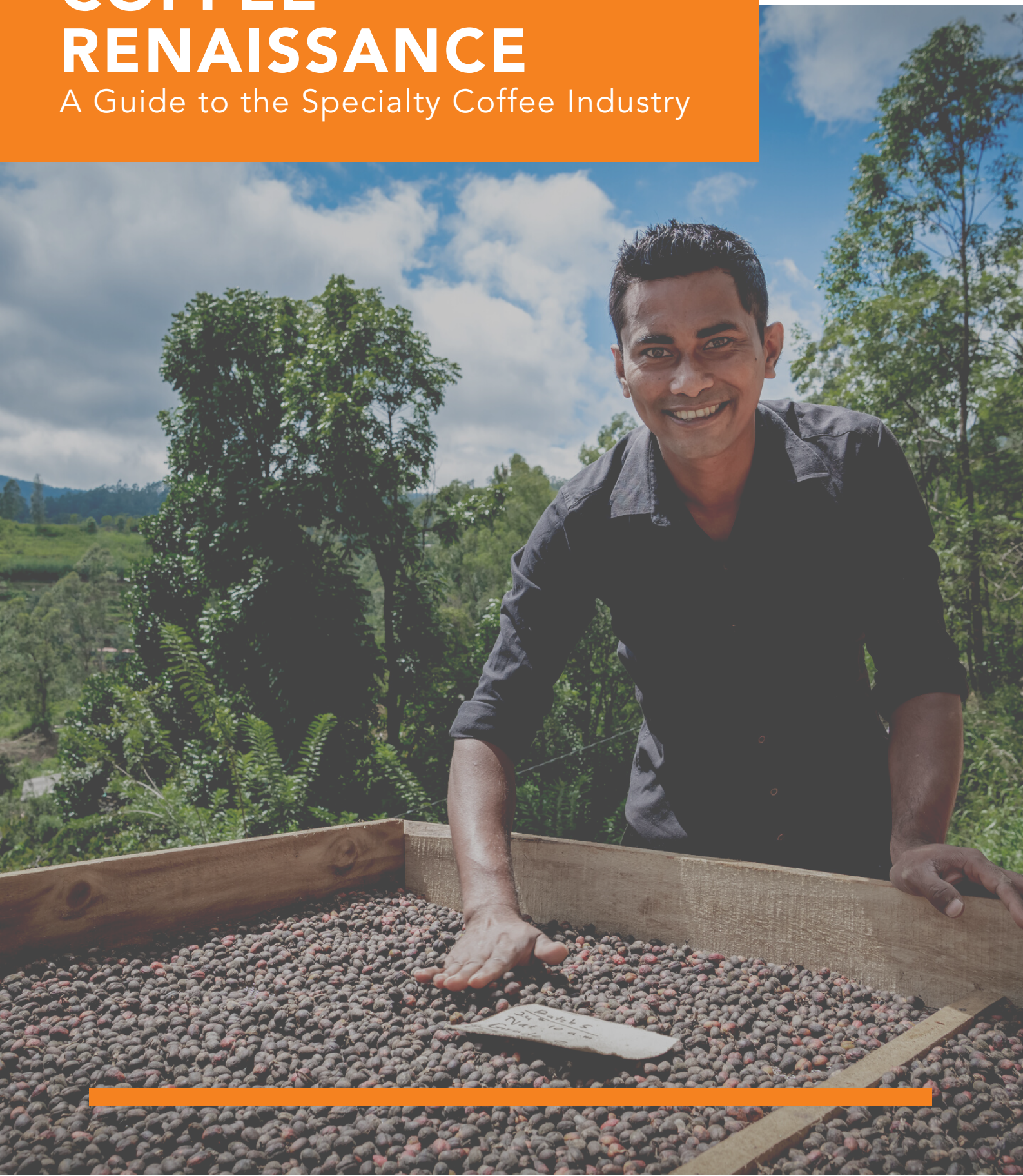


# SRI LANKA'S COFFEE RENAISSANCE

A Guide to the Specialty Coffee Industry





# TABLE OF CONTENTS

<u>Coffee Comeback in Sri Lanka</u> .....	3
<u>Why Invest in Sri Lankan Coffee?</u> .....	4
<u>The Past 10 Years</u> .....	5
<u>Geographical Overview</u> .....	6
<u>Support for the Coffee Industry</u> .....	7
<u>Key Players</u> .....	8
<u>Where to Invest in the Sri Lankan Coffee Sector</u> .....	9
<u>Expanding Coffee Plantations</u> .....	10
<u>Expanding Coffee Smallholder Clusters</u> .....	12
<u>Developing Coffee Processing</u> .....	13
<u>Introducing &amp; Improving Barista Training Programs</u> .....	15
<u>Risks &amp; Challenges</u> .....	16
<u>How to Invest</u> .....	17
<u>Key Takeaways</u> .....	18
<u>About MDF</u> .....	19
<u>Acknowledgment &amp; Contact Information</u> .....	20



# COFFEE COMEBACK IN SRI LANKA

## KEY MILESTONES



= 10,000 acres



= 100 containers

1864

At its peak, Sri Lanka used to have 275,000 acres of coffee under cultivation, producing and exporting over 70,000 metric tonnes (4,000 containers).



1868

After the coffee sector in Sri Lanka shrunk in 1868 due to rust, the Sri Lankan coffee sector went through a recovery period.

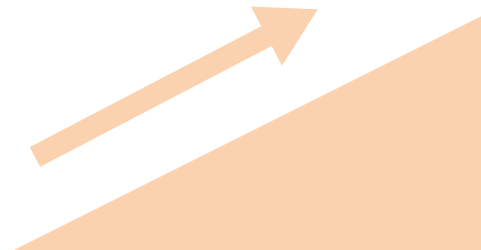
1980s

As per the records, in 1981, exports grew to record 2 million kilograms (some sources state that exports in the early 1980s would have been over 3.3 million kilograms/183 containers, as coffee was grown across 30,000 acres).



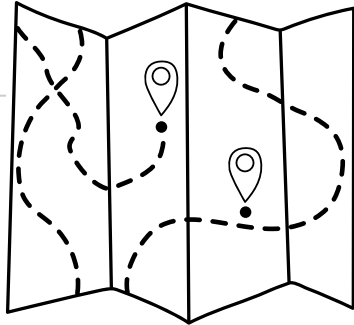
2012 -  
PRESENT

Post recovery period, Sri Lanka's reentry to the coffee market targets specialty markets, producing higher quality coffees in improving volumes.



- [LEARN MORE ABOUT SRI LANKAN COFFEE SECTOR](#)
- [ARABICA COFFEE VALUE CHAIN ANALYSIS](#)

# WHY INVEST IN SRI LANKAN COFFEE?



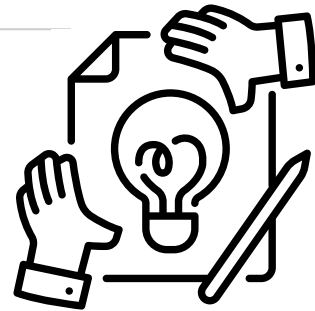
**STRONG RELEVANCE OF GEOGRAPHY TO SIMPLIFY SHIPPING ROUTES & LOGISTICS**



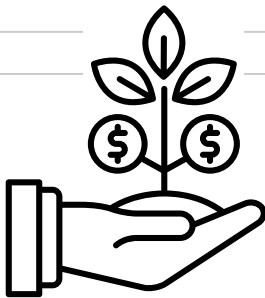
**RESURGENCE STORY AND ORIGIN UNIQUENESS**



**FIRST MOVER OPPORTUNITY FOR STAKEHOLDERS AND SOURCE COFFEE FROM A NEW PRODUCER ORIGIN**



**COMPETITIVE OPPORTUNITY IN A BOOMING MARKET**



**ETHICAL AND SUSTAINABLE INVESTMENTS IN A COMPETITIVE MARKET**





# THE PAST 10 YEARS

Over the past 10 years, Sri Lanka's coffee sector has been **making a comeback** in the specialty coffee market.

1990s

The sector received support from the Department of Export Agriculture (DEA) through planting programs, provision of free saplings, research on new coffee varieties, certifications etc. The Department recognised coffee as a cash crop with export potential.

2013

- 02 coffee roasting and processing companies present in the Sri Lankan market
- Coffee export value – US\$ 0.12 million
- Emergence of coffee processors and roasters such as: Colombo Coffee Company, Soul Coffee, Helanta Coffee, Upcountry Brothers, Temple Grounds, Fits Retail, Aga Coffee, Tree of Life, Ceylon Coffee Club, etc.
- Private sector investments by Fits Retail, Ironwood Capital, Akbar Brothers in the Sri Lankan coffee industry

2017

Australia's Market Development Facility begins to work in the Sri Lankan coffee sector, seeing potential for market growth.

2020

Improved support from the government and development organizations supplemented the investments from private sector.

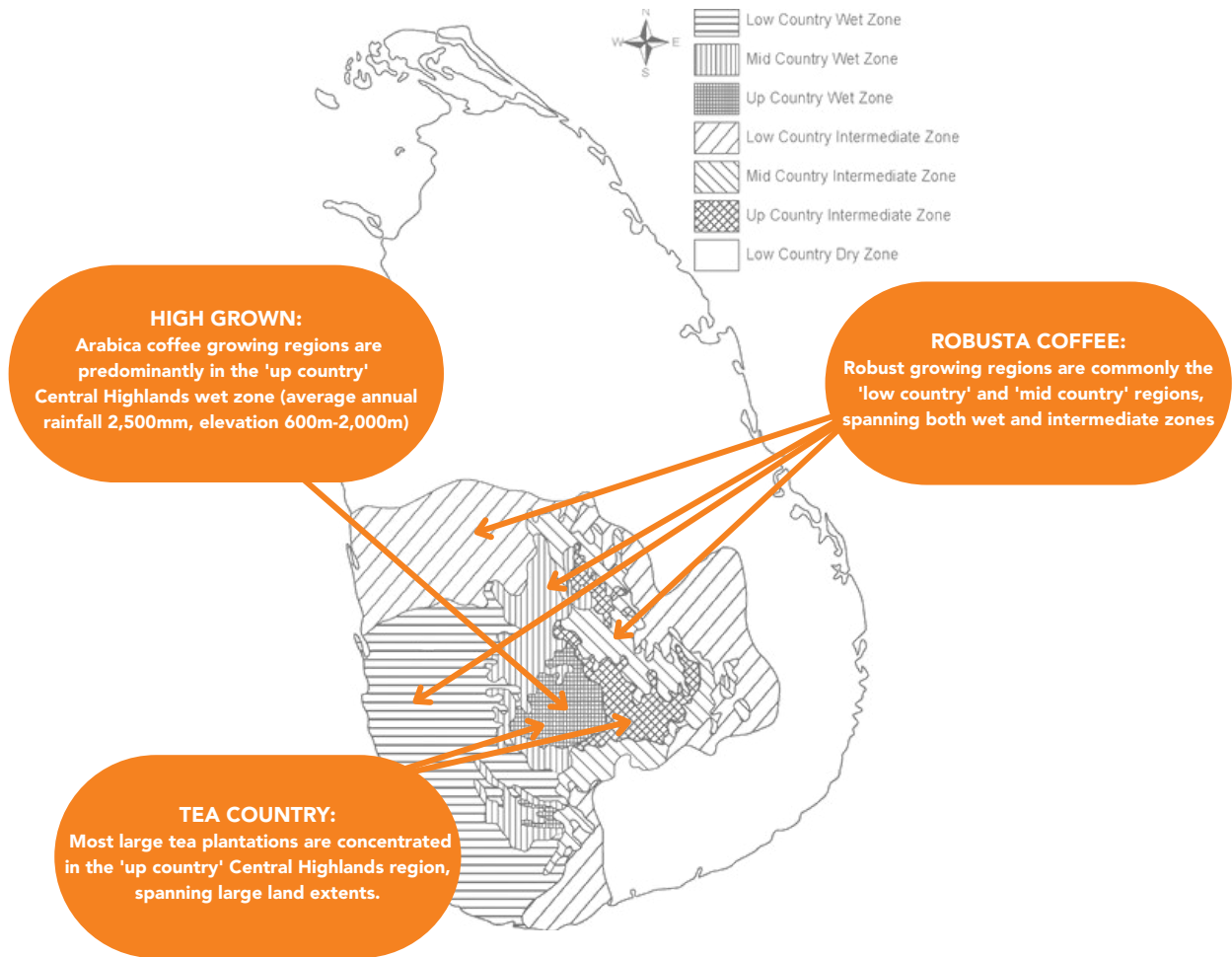
2021

- The Lanka Coffee Association is established, bringing coffee stakeholders to a common platform.
- Coffee export value – US\$ 0.32 million

2022

- Market Development Facility participates at the Melbourne International Coffee Expo, 2022 promoting Sri Lankan specialty coffee.
- Market Development Facility and Lanka Coffee Association host [Sri Lanka's first-ever national coffee festival, bringing together coffee enthusiasts, local businesses and investors](#)

# GEOGRAPHICAL OVERVIEW

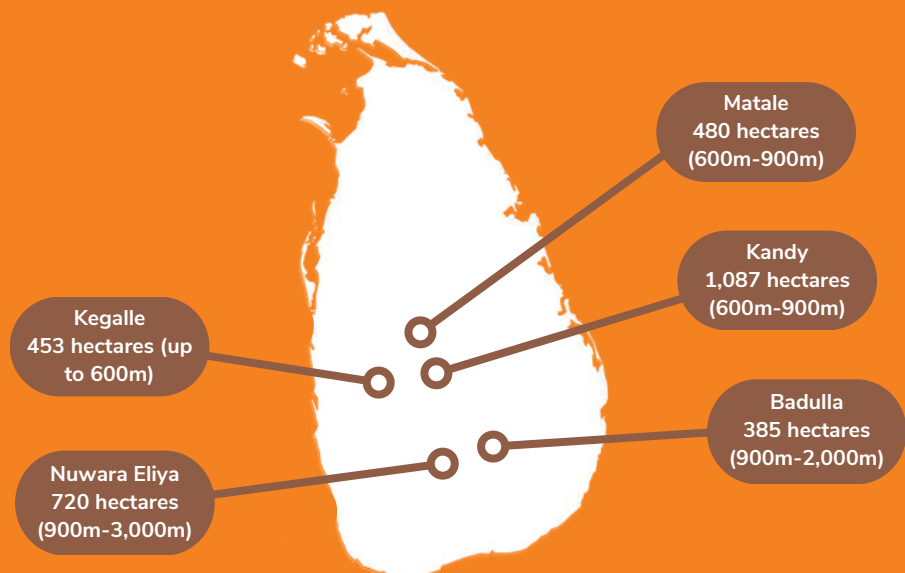


## COFFEE CULTIVATION BY DISTRICT

### Planned Expansion

2022 - 5,013 hectares  
2023 - 5,263 hectares  
2024 - 5,513 hectares  
2025 - 5,763 hectares

**Total coffee cultivation in Sri Lanka:**  
**4,690 hectares**



# SUPPORT FOR THE COFFEE INDUSTRY

## RELEVANT STAKEHOLDERS FOR INVESTORS

### GOVERNMENT

#### DEPARTMENT OF EXPORT AGRICULTURE



- Increasing coffee cultivation (2023 to 2025 – 250 hectares to be planted and 620,500 plants to be distributed each year)
- Providing free saplings, cash grants and technical advice to growers
- Supporting development of post-harvest management facilities/equipment and assistance for improvement of productivity in low productive land

#### EXPORT DEVELOPMENT BOARD



- Seedling production and distribution
- Promoting Sri Lankan products at international trade fairs
- Financing programs for micro, small and medium enterprises
- Upgrading processing centres, grants and marketing support

#### DEPARTMENT OF AGRICULTURE



- Improved extension services
- Under the department's Agriculture Modernization Fund project, funding is provided to proposals focused on value chain development and processing improvement for coffee

### PUBLIC SECTOR



#### JANATHA ESTATES DEVELOPMENT BOARD

Janatha Estates Development Board (JEDB) is a Government-owned entity under the purview of the Ministry of Agriculture with approximately 20,000 hectares of plantations consisting of tea and rubber. They are presently exploring diversifying to coffee and have already begun cultivating certain plots.

**Janatha Estates Development Board has shown interest to work with private sector coffee companies by releasing land for coffee cultivation for lease or on a profit-sharing basis.**

**Companies that would like to partner with JEDB on coffee will have to engage with the Board of Investments (BOI) as well (see page 17).**



## PRIVATE SECTOR PLANTATION COMPANIES

### ELPITIYA PLANTATIONS PLC



Elpitiya Plantations PLC is a publicly-traded company managed by the Aitken Spence Group and are one of the leading producers of premium tea. They operate 13 estates covering more than 8,800 hectares and have begun diversifying into coffee by already planting 80 hectares.

- Investment in coffee (2018-2021) – US\$ 47,000
- Expected future investment in coffee (2022-2025) – US\$ 493,000

### HATTON PLANTATIONS PLC



Hatton Plantations PLC, managed by Singapore based G&G Group of Companies is engaged in producing specialty tea. They have diversified into coffee from 2020 by cultivating 62 hectares and are planning to expand to 120 hectares over the next few years.










- Investment in coffee (2020 -2022) – US\$ 277,000
- Expected future investment in coffee (2022-2025) –US\$ 1,000,000

### KAHAWATTE PLANTATIONS PLC









Kahawatte Plantations PLC is a listed entity and is a large scale producer of tea, rubber and cinnamon. The company has 12,000 hectares under its belt and is a part of the Dilmah Group. Since 2021 Kahawatte has diversified into coffee and aims to expand their coffee cultivation in the coming years.

## LEADING COFFEE COMPANIES IN SRI LANKA

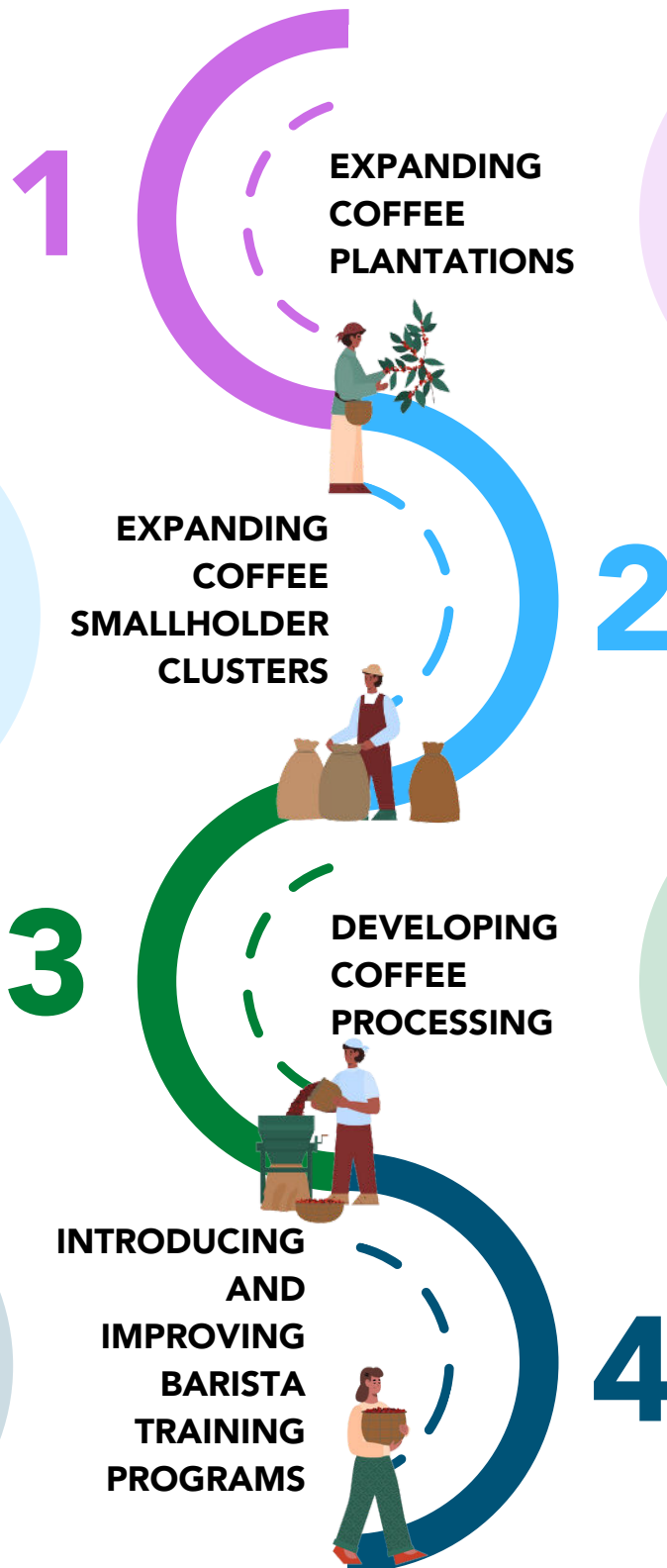
TOSCANA (COLOMBO COFFEE COMPANY)	HELANTA COFFEE	FITS RETAIL	UPCOUNTRY BROTHERS	DAMN FINE COFFEE
				
SOUL COFFEE	TEMPLE GROUNDS	AMBA (ELLA COFFEE COLLECTIVE)	AGA COFFEE	
				

## OTHER COFFEE COMPANIES IN SRI LANKA

DRYP COFFEE ROASTERS	COFFEE BERRIES	EKO LAND PRODUCE	BLACKPOOL COFFEE
			
CEYLON COFFEE CLUB	TREE OF LIFE		
			

# WHERE TO INVEST IN THE SRI LANKAN COFFEE SECTOR

## OPPORTUNITIES FOR INVESTORS



There is a unique opportunity to convert abandoned tea estates into coffee plantations due to ideal climate conditions.

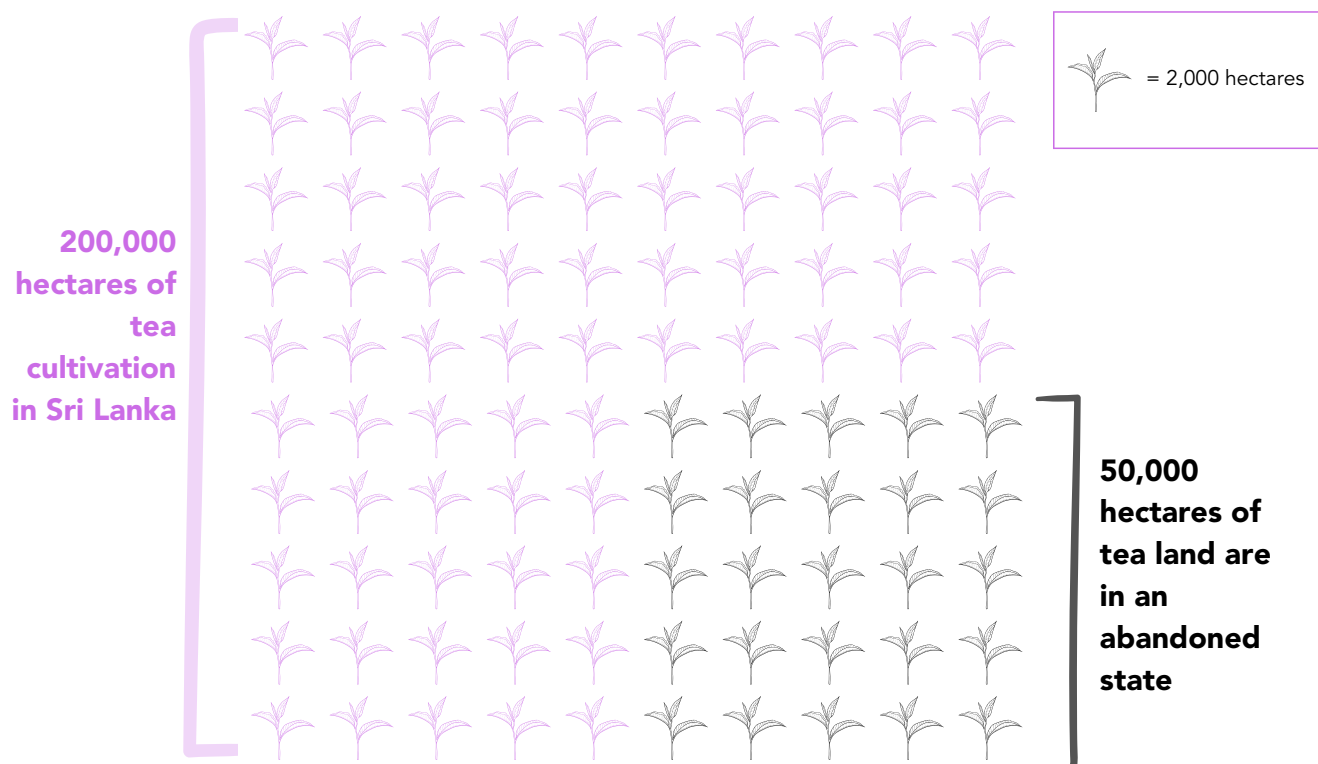
As 80% of Sri Lanka's total coffee production originates from smallholder farmers, there are opportunities to expand these networks.

If farmers sell red cherries, and not green beans, processors will benefit from uniformity and can lead quality control.

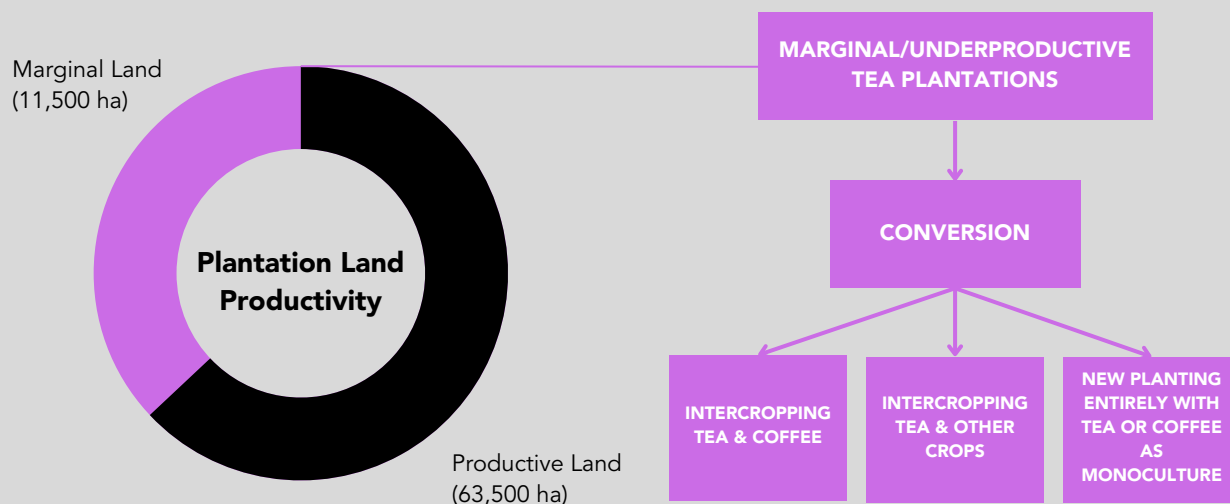
Sri Lankan baristas need upskilling in order to take Sri Lankan coffee to international barista competitions.

There are approximately 200,000 hectares of tea cultivation in Sri Lanka, however the tea outputs from these lands have been depleting over the years and plantations are increasingly looking into diversifying into other crops.

**This provides a unique opportunity to convert these tea estates into coffee plantations due to Sri Lanka's ideal climate conditions to grow coffee – Arabica or Robusta.**



While plantations are still yet to start/expand the cultivation of coffee, mostly due to lack of awareness, knowledge, or capabilities, a handful of plantations in Sri Lanka have already begun to cultivate coffee in marginal and unproductive lands, where tea has seen a steady decline in output and are exploring the opportunity to grow coffee along with their already existing crops.





# EXPANDING COFFEE PLANTATIONS

1

## AVERAGE INVESTMENT TO RUN A TEA & COFFEE PLANTATION OF 1 ACRE

All figures shown in this Prospectus are based on research conducted by MDF through interviews with sector players. They have been calculated considering an exchange rate of LKR 360.6/US\$.

COST ITEM	AMOUNT
Land Lease Rental Cost	US\$ 555 - 832 per year
Sapling Costs	Coffee: US\$ 0.05 per sapling Tea: US\$ 0.08 per sapling
Tool Costs	US\$ 50 for a tool set with a lifecycle of 3 years
Labour Costs (Assuming 3-4 workers per acre)	<u>Soil Preparation and Weeding</u> US\$ 100 - 139 per year <u>Harvesting</u> Coffee US\$ 139 - 180 per year Tea: US\$ 1,387 - 1,941 per year
Fertiliser and Pesticide Costs	US\$ 776 - 1,331 per year

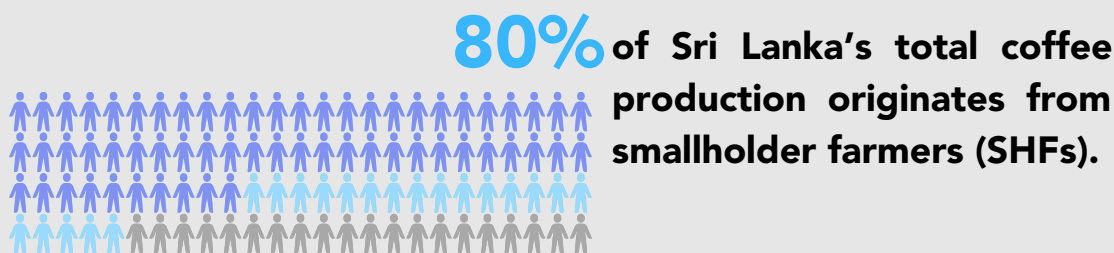
Intercropped set up - 1 acre of plantation assuming a cultivation of 700 coffee plants and 3,000 tea bushes

Mono crop setup - 1 acre of plantation assuming cultivation of 1,200 coffee plants

Total cost for 5 years - US\$ 18,857  
Average Profit per kg of cherry - US\$ 0.21

Total cost for 5 years - US\$ 9,983  
Average profit per kg of cherry - US\$ 0.22





**60%** of the workforce is represented by females while the farmers range from various ethnic backgrounds.

## PREVAILING TRENDS

Majority of the plantations are located in the **central highland regions**, which offer ideal elevations for growing Arabica coffee.

There is a **shift towards red cherry sourcing** for quality. Farmers are increasingly becoming incentivised to source ripe cherries, rather than unripe/farmgate processed green beans.

Arabica farmers are mostly located in areas with an elevation above 1,000m.

Coffee is grown intercropped with tea, spices and vegetables.

Farmers that belong to processor networks regularly receive training on harvesting practices and tree management, ensuring quality is a priority.

**Localised clusters** for streamlined sourcing. Farmers are located in close proximity to one another in villages, allowing larger volumes to be sourced together.

Farmers can obtain saplings either through commercial nurseries or purchasing processors – ensuring adequate volumes can be maintained.

Farmers formally connected to the value chain mostly sell ripe cherries. Farmers not firmly connected to the value chain sell a combination of parchment and green beans.

**Proper collection techniques** by processors will reduce delays in cherries being transported, reducing spoilage.

Majority of the smallholder farmers use very low amounts of chemical fertiliser when farming in their lands.

### Processing Techniques

- Wet Processing
- Dry Processing

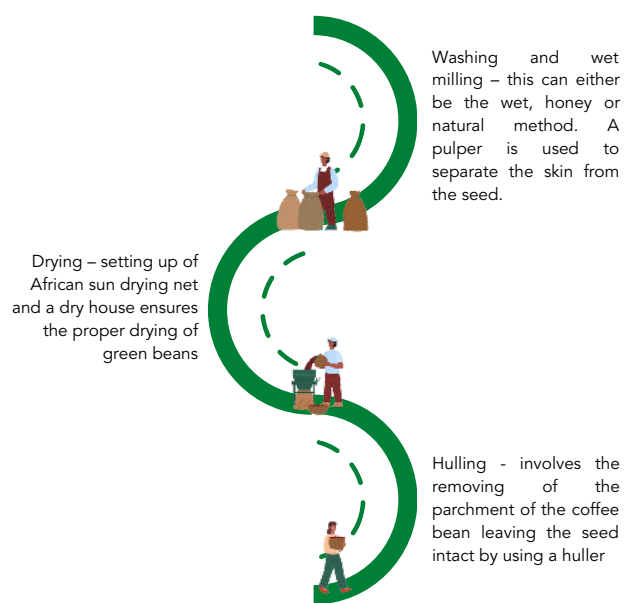
### Trees Grown

- SHF with less than 1 acre – 50 to 100 trees
- SHF with more than 1 acre – 500 to 700 trees



## Coffee Processing Equipment

Processing of coffee from cherry to green bean involves several steps as seen below:



While local machinery such as pulpers and hullers are available, higher quality equipment with better calibration is usually imported, resulting in less damage to the beans.

## Collection Systems & Extension Services

- Timely coffee collection is important to ensure minimum post-harvest losses.
- Training provided to farmers by processors is important to disseminate information regarding proper harvesting and storage of coffee cherries.

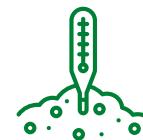
## Coffee Storage & Quality Control Systems

Equipment such as brix meters, moisture meters and hermetic storage bags are required to control and maintain the quality of green beans.

- Brix meters are used to measure the ripeness of a coffee cherry



- Moisture meters are used to measure the water content of the parchment



- Hermetic bags can be used to properly store the coffee beans and ensure no spoilage occurs



### If farmers sell ripe, red cherries processors will benefit from uniformity and preserved quality.

Coffee processing in Sri Lanka has shown significant improvement in terms of quality in recent times but with the expected increase in outputs of coffee cherries in the coming years (based on planting targets and plantations diversifying to coffee), the requirement exists to increase processing centers, processing capacities and sourcing higher quality equipment.





# DEVELOPING COFFEE PROCESSING

3

## AVERAGE INVESTMENT TO BUILD A COFFEE MILL (WET & DRY MILLING)

All figures shown in this Prospectus are based on research conducted by MDF through stakeholder interviews. They have been calculated considering an exchange rate of LKR 360.6/US\$.

The following wet mill purchases 22,975 kilograms (kg) of cherries at a price of US\$ 0.62. With a conversion ratio of 1:7, the wet mill has the capacity to process an output of 3,500 kgs of green beans (GB) per year.

	Total Cost (US\$)	Cost per 1kg of output (US\$)
<b>Sourcing: Total Cost</b>	15,977.09	4.56
Cherry purchasing cost (at buying price of \$0.62 for 1kg of cherry)	14,360.5	4.10
Labour	686.6	0.20
Overheads - Transport fuel	80.7	0.02
Capex: Depreciation 1 year	849.29	0.24
<b>Production: Total Cost</b>	5,219.91	1.49
Labour	3,276.7	0.94
Overheads - Electricity	13.1	0.00
Capex: Depreciation 1 Year	1,930.21	0.55
<b>Order Fulfillment: Total Cost</b>	63.82	0.02
Transportation	63.82	0.02
<b>Admin: Total Cost</b>	414.31	0.12
Labour	144.0	0.04
Overheads	1.7	0.00
Capex: Depreciation 1 year	268.54	0.08
<b>Sales Revenue: 8 months</b>		
<b>Total Wet Mill Processed Green Bean Sales</b>	23,578	7
<b>Total Profit</b>	1,903.1	
<b>Total Profit per Kilogram of Green Beans</b>	0.5	



# INTRODUCING AND IMPROVING BARISTA TRAINING PROGRAMS



Fits Retail offers training for those who want to enter the barista profession to ensure they are equipped with the required skills and also provide the opportunity to receive the Italina Barista Method Diploma (IBM) and are able to sit for the SCA Barista Skills Foundation Level Examination.



A nationally recognized Barista Training Program is also in place introduced by Barista Sri Lanka in partnership with The Vocational Training Authority (VTA) of Sri Lanka.



The William Angliss Institute offers short courses providing knowledge on coffee making, covering areas such as the history of coffee, coffee equipment handling, and coffee preparation of 12 types of coffee etc.



Colombo Coffee Company (CCC) has a partnership with the Espresso Academy to provide internationally recognized barista training and certifications to students in Sri Lanka.



Establishment of the Lanka Coffee Association, bringing together the stakeholders of Sri Lankan coffee industry is a positive step towards rolling out training programs on quality control and barista skills.

It is vital to introduce recognised training programs to baristas in Sri Lanka to ensure they are well-equipped to promote Sri Lankan speciality coffee to the global markets.



# RISKS & CHALLENGES

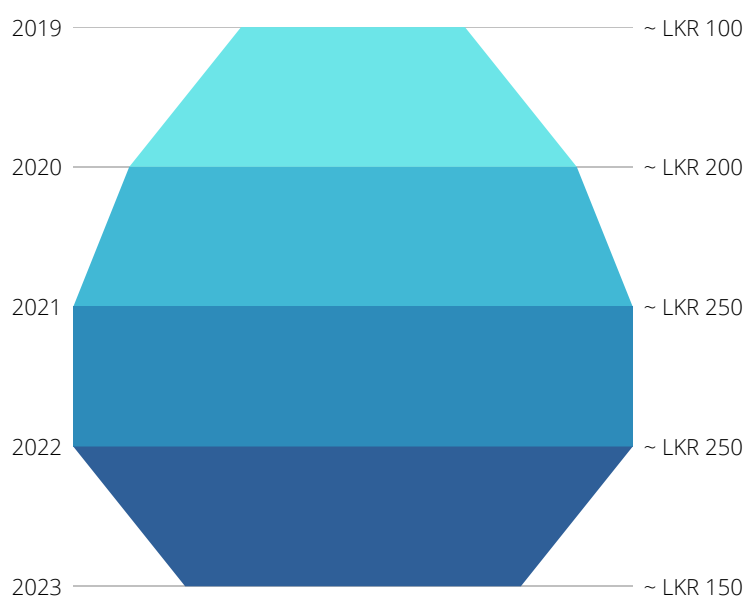
## NOTED AREAS UNDER IMPROVEMENT

- Developing quality & uniformity of beans
- Investments are needed to improve farmer knowledge
- Improvements are needed on exclusive buyer-farmer relationships
- Improvements are needed on general good agricultural practices

While historically supply has not met demand, the illegal importation of green beans helped to meet demand. After the importation was completely halted, a demand for local coffee beans was created. This demand-supply mismatch has led to an increase in coffee cherry prices both at farmgate and at the processor level but also motivating farmers to cultivate coffee due to the increasing lucrative incentives of the crop.

Coffee cultivation has grown dramatically over the last 3 years (at smallholder farms and large plantations).

Once plantation based coffee production feeds market demand, Market Development Facility foresees inflated prices to find an equilibrium at ~USD \$ 0.55-0.57 after 2023.



LKR = SRI LANKAN RUPEE

## COFFEE CHERRY PRICES

**The coffee sector has seen price volatility over the past 3 years [COVID related]**



The Government of Sri Lanka welcomes foreign investments into the country and has relaxed the laws surrounding foreign direct investments (FDIs) significantly.

## How can foreign direct investments be made?

**Mergers, acquisitions, joint ventures, or obtaining shares of local companies.**

Foreign investors are allowed to engage in most capital transactions (investing in companies, depositing funds with licensed commercial banks etc.) without having to obtain approval under the exchange laws although there may be restrictions placed on the foreign ownership percentage for companies in certain selected industries.

**All allowed capital investments are required to be made through Inward Investment Accounts (IIA) which can be opened with any of the licensed commercial banks in the country (presently there are 24 licensed commercial banks that are regulated by the Central Bank of Sri Lanka).**

Furthermore, all types of income earned from investments can be repatriated through the investors' IIAs without restrictions. The foreign exchange act allows foreign investors to deal directly with the licensed commercial banks for relevant transactions.

**FDIs have the option of registering themselves with the Board of Investments (BOI) or engaging without registering (those registering under the BOI are eligible for certain concessions based on a case-by-case basis).**

Investors can get more information by visiting the official website of the BOI - <https://investsrilanka.com/> or through the following investment guide to Sri Lanka - [Sri Lanka Investment Guide](#)

## The Sri Lankan specialty coffee market is an opportunity for investors who:



### Are interested in cultivating large extents of coffee through new planting:

Sri Lanka has extensive land availability, which is a limiting resource globally. There is a unique opportunity to convert abandoned tea estates into coffee plantations due to Sri Lanka's ideal climate conditions to grow coffee. Execution of this opportunity will be made possible by investments in awareness, knowledge, and capabilities.



### Would like to upgrade the wet mills that are currently in place:

With the expected increase in outputs of coffee cherries in the coming years (based on planting targets and plantations diversifying to coffee), the requirement exists to increase processing centers, processing capacities and sourcing higher quality equipment. Localised clusters are more optimal for streamlined sourcing. Farmers are located in close proximity to one another in villages, allowing larger volumes to be sourced together.



### Would like to purchase coffee:

Investors who are interested in purchasing coffee might be interested in small batches for quality assurance or commercial sales. Take a look at the specifics of specialty coffee in Sri Lanka. To start, [here is an analysis of the Arabica Coffee Value Chain.](#)

Also refer to the cupping notes provided in the Annex.

## DISCLAIMER

This investment prospectus was developed by Market Development Facility (MDF) Sri Lanka. MDF is an Australian Government-funded private sector development initiative operating in Sri Lanka, Fiji, Timor-Leste, Papua New Guinea, Samoa and Vanuatu. MDF supports its partners, who range from medium-sized businesses and small cooperatives, to large exporters and industry associations, to invest in business models that support entire market systems to thrive. To find out more about MDF, visit our [website](#).

This prospectus is part of MDF Sri Lanka's ongoing support to the revival and growth of Sri Lanka's emerging specialty coffee market. MDF has been working in specialty coffee since 2017, as there are clear opportunities for the sector to be an engine of growth for the Sri Lankan economy. The continued expansion of this coffee market can also ensure higher incomes, more jobs, and a better standard of living for Sri Lankan smallholder farmers.

In Sri Lanka, MDF is working to increase production of specialty coffee, improve quality in sourcing and processing, and support industry stakeholders to collaborate better. Despite its enormous potential, international investors have limited information about the opportunity in Sri Lanka – this prospectus seeks to address that gap. To find out more about MDF's work in Sri Lanka, read our [Annual Report](#).

All the information included in this document is based on MDF's work in the Sri Lankan coffee sector since 2017, interactions with all levels of stakeholders, and in-depth sector research. The content provided in this document are for the purposes of general information only and does not constitute of any investment advice nor any commitment from the entities mentioned.

## GET IN TOUCH

Those interested in exploring investment opportunities in the Sri Lankan specialty coffee sector are encouraged to reach out to MDF Sri Lanka at +94 76 824 2838 / [Vishan.Rajakaruna-MDF@thepalladiumgroup.com](mailto:Vishan.Rajakaruna-MDF@thepalladiumgroup.com) or to visit <https://marketdevelopmentfacility.org/mdf-coffee> for more information.

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

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



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



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



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





MDF is a multi-country program that operates in Sri Lanka, Timor Leste, Papua New Guinea, Fiji, Samoa and Vanuatu. MDF collaborates with governments, NGOs and the private sector of selected economic cross sections of a given country to co-fund relevant interventions with the overall objective of improving the entire sector in question. In Sri Lanka, MDF focuses on the tourism, agriculture, fisheries and specialty coffee sectors. MDF has been working since 2017 to improve the Sri Lankan coffee sector. Specifically, MDFs work in coffee revolved around increasing production, improving quality sourcing and processing and improving industry coordination/promotion. This investment prospectus is for the purposes of investors and other stakeholders who are interested in engaging with the Sri Lankan coffee sector. All information provided in this document is through research conducted by MDF since 2017 through interviews with the sector players and through learnings of MDFs previous work in the sector.



[www.marketdevelopmentfacility.org](http://www.marketdevelopmentfacility.org)



[Market Development Facility](#)



[@MDFGlobal](#)



[@marketdevelopmentfacility](#)



[@MDFGlobal](#)

# ANNEX

## CUPPING NOTES

Elevation	Origin	Process	Notes
1,250m	Kothmale	Honey	Dates, Fermented Fruit
2,000m	Bandarawela	Natural	Green Apple, Pomelo
1,250m	Kothmale	Washed	Dates, Fermented Fruit