

# Policy Paper on

  

## Linking Sri Lankan Agriculture into Inclusive Global Supply Chains: A Pathway for Inclusive Growth, Resilience, and Export Competitiveness

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# **Policy Paper: Linking Sri Lankan Agriculture into Inclusive Global Supply Chains: A Pathway for Inclusive Growth, Resilience, and Export Competitiveness**

## **EXECUTIVE SUMMARY**

Sri Lanka's agriculture sector possesses the potential to become a globally recognized source of ethical, sustainable, and high-value food products. With an array of agro-ecological zones, global branding advantages (Ceylon tea, cinnamon), and geographic proximity to key markets, the country is well-positioned to integrate more deeply into global supply chains (GSCs). However, this potential remains under-realized due to structural, technological, and institutional constraints—particularly for smallholder farmers and agri-SMEs.

This policy paper presents a strategic, multi-dimensional framework to embed Sri Lanka's agriculture into inclusive and resilient GSCs. The plan emphasizes farmer empowerment, digital inclusion, sustainable production, infrastructure development, and policy stability. The implementation of these policies is expected to increase export earnings, build resilience, promote equity, and ensure long-term competitiveness.

### **1. INTRODUCTION**

Agricultural globalization has shifted from a focus solely on efficiency and scale to broader objectives including resilience, inclusivity, and sustainability. For a country like Sri Lanka, where over 30% of the workforce depends on agriculture, strengthening linkages to global markets is essential to promote agricultural trade and, in turn, enhance the country's overall economic development.

This policy outlines a roadmap to enhance Sri Lanka's agricultural integration into inclusive global supply chains by addressing both internal and external barriers and aligning national efforts with international trends and buyer expectations.

### **2. POLICY OBJECTIVES**

- Promote inclusive participation of smallholders, women, youth, and agri-SMEs in GSCs.
- Improve resilience and sustainability through climate-smart, low-carbon agricultural practices.
- Enhance value addition and meet global quality and traceability standards.
- Strengthen institutional coordination for export development and policy coherence.
- Increase access to finance, infrastructure, technology, and trade opportunities.

### **3. OPPORTUNITIES AND CHALLENGES**

Sri Lanka's agricultural exports are supported by natural and strategic advantages but constrained by system inefficiencies and external vulnerabilities.

#### ***Strengths***

- Diverse agro-climatic zones enabling year-round production.
- International reputation for products like tea, spices, and coconut.
- Strong organic farming traditions.
- Strategic location in South Asia with shipping access to major markets.

### ***Weaknesses***

- Fragmented landholdings and low productivity.
- Limited use of modern technologies and irrigation systems.
- Inadequate logistics and cold chain infrastructure.
- Low adoption of export certifications (e.g., GAP, HACCP).

### ***Opportunities***

- Rising global demand for sustainable, ethical, and traceable food.
- Expansion of e-commerce and digital trade platforms.
- Leverage trade agreements (GSP+, FTAs) for market access.
- Growing scope for value-added agri-processing.

### ***Threats***

- Competition from efficient producers in Asia and Africa.
- Increasing compliance and traceability requirements in export markets.
- Policy unpredictability and global economic shocks.
- Climate-related disruptions (floods, droughts, pest outbreaks).

## **4. STRATEGIC POLICY INTERVENTIONS**

This section outlines the eight strategic pillars with summaries and actionable policy measures aimed at transforming Sri Lanka's agriculture into a globally integrated, inclusive, and resilient system.

### **Pillar 1: Strengthen Farmer Capacity, Certification & Compliance**

**Goal:** Equip farmers with essential skills, knowledge, and systems to consistently meet international food safety, quality, and sustainability standards.

#### **Key Actions:**

- ***Expand National Training Programs on Global Standards:*** Establish widespread, continuous training initiatives on Good Agricultural Practices (GAP), HACCP, Global GAP, Organic, Fair Trade, and sustainability certifications, targeting smallholders, youth, and women farmers.
- ***Facilitate Group-Based Certification and Shared Compliance Services:*** Offer financial incentives such as group certification subsidies and shared audit services to reduce individual farmer costs and promote collective certification models through Farmer Producer Organizations (FPOs).
- ***Introduce Digital Traceability Solutions:*** Develop user-friendly digital traceability systems—leveraging QR codes, mobile apps, and blockchain platforms—to track production practices, enhance product transparency, and meet export market traceability demands.
- ***Establish Farmer Field Schools and Export-Oriented Demo Plots:*** Set up farmer field schools and demonstration plots in key production zones to provide hands-on learning, peer-to-peer knowledge transfer, and showcase best practices aligned with export market requirements.

- ***Create Local Certification Support Centers:*** Set up regional certification support hubs to guide farmers on documentation, pre-audit preparation, and market linkage facilitation, while also acting as one-stop advisory centers on compliance and quality enhancement.

## **Pillar 2: Organize and Empower Smallholder Farmers**

**Goal:** Enable small farmers to overcome land and resource fragmentation through collective action and stronger market linkages.

### **Key Actions:**

- ***Support Legal Formation and Formalization of Farmer Producer Organizations (FPOs):*** Facilitate the legal registration and governance capacity-building of FPOs, cooperatives, and farmer groups to strengthen collective bargaining and market access.
- ***Develop Aggregation and Service Hubs in Production Zones:*** Establish localized aggregation centers for collection, grading, storage, and basic processing to reduce transaction costs and improve product consistency.
- ***Promote Contract Farming and Out-Grower Partnerships:*** Facilitate transparent contract farming arrangements and out-grower models connecting smallholders with exporters, processors, and organized retailers.
- ***Implement Farmer-Led Market Information Systems:*** Provide farmer groups with access to real-time price, demand, and market opportunity data via ICT platforms to support informed decision-making.
- ***Facilitate Shared Access to Mechanization and Inputs:*** Establish common service centers offering rental access to farm machinery, inputs, and advisory services through FPOs to overcome scale disadvantages.
- ***Promote Women and Youth Leadership in Farmer Organizations:*** Encourage inclusive leadership with targeted capacity building for women and youth in cooperative management and agri-business ventures.

## **Pillar 3: Develop Export-Grade Infrastructure & Logistics**

**Goal:** Ensure production quality is preserved from farm to port through improved logistics and post-harvest infrastructure.

### **Key Actions:**

- ***Expand Cold Chain and Controlled Atmosphere Facilities:*** Build cold storage, packhouses, and refrigerated transport options in key agricultural zones to minimize spoilage and maintain quality.
- ***Establish Modern Packhouses and Grading Centers:*** Develop certified grading, packaging, and value-addition centers near major production belts linked directly to export logistics corridors.
- ***Upgrade Rural Road Networks and Feeder Infrastructure:*** Invest in rural road rehabilitation and last-mile connectivity to reduce travel time, cost, and post-harvest losses.
- ***Promote Public-Private Partnerships (PPP) in Agri-Logistics:*** Incentivize private sector participation in developing integrated rural logistics infrastructure, including solar-powered cold storage and eco-friendly transport solutions.

- ***Digitalize Supply Chain Monitoring Systems:*** Introduce GPS and IoT-enabled logistics tracking systems to ensure product traceability, timely deliveries, and transparency in export value chains.
- ***Develop Export-Focused Logistics Clusters:*** Establish dedicated agri-logistics clusters near ports and airports with streamlined customs, certification, and inspection services.

#### **Pillar 4: Expand Access to Finance and Risk Mitigation Tools**

**Goal:** Unlock affordable capital and risk protection tools for farmers and agri-SMEs to enable participation in global value chains.

##### **Key Actions:**

- ***Create Specialized Export-Oriented Agri Credit Lines:*** Establish targeted, low-interest loan products tailored to meet the working capital and investment needs of export-oriented farmers and SMEs.
- ***Facilitate Digital and Alternative Financing Models:*** Promote digital finance services, mobile wallets, micro-leasing, and crowdfunding options, particularly in underserved rural areas.
- ***Expand Weather-Indexed and Market Risk Insurance Products:*** Implement crop and weather-indexed insurance products along with market risk mitigation schemes to safeguard farmers against shocks.
- ***Provide Credit Guarantee Schemes for Smallholders:*** Introduce government-backed credit guarantee facilities to encourage commercial banks to lend to smallholders and agri-entrepreneurs.
- ***Incentivize Green and Sustainable Investment Finance:*** Develop green financing products and tax incentives for investments in organic, climate-smart, and sustainable agricultural ventures.
- ***Establish Agri-Finance Helpdesks and Advisory Services:*** Set up localized finance advisory centers to guide farmers on credit options, financial planning, and insurance mechanisms.

#### **Pillar 5: Leverage Trade Agreements and Promote National Branding**

**Goal:** Expand global market access and increase visibility of Sri Lankan agricultural products through strategic trade and branding initiatives.

##### **Key Actions:**

- ***Maximize Utilization of Preferential Trade Agreements (PTAs):*** Strengthen farmer and SME awareness on GSP+, FTAs, and preferential schemes, while simplifying processes to capitalize on market access opportunities.
- ***Develop Strong National Agri-Branding Initiatives:*** Launch unified national brands such as “Ceylon Organic,” “Pure Sri Lanka,” or “Ceylon Naturals” emphasizing sustainability, quality, and traceability.
- ***Strengthen Agri-Export Promotion through Diplomatic Channels:*** Train and equip embassies, trade missions, and overseas Sri Lankan communities to act as key promoters of Sri Lankan agricultural products.

- **Organize International Trade Fairs and B2B Events:** Facilitate regular participation in major international food expos, B2B networking events, and trade fairs for Sri Lankan exporters.
- **Support Certification for Premium Market Entry:** Provide targeted assistance for organic, fair-trade, and niche-market certifications to access premium global retail chains.
- **Negotiate Inclusion of Agri-Products in New FTAs:** Prioritize agriculture in upcoming trade negotiations to secure preferential treatment for key high-value agricultural exports.

## **Pillar 6: Drive Agri-Tech Innovation and Digital Inclusion**

**Goal:** Modernize agriculture through the adoption of digital tools, agri-tech innovations, and data-driven farming solutions.

### **Key Actions:**

- **Promote Farmer-Friendly Mobile Applications:** Develop and scale mobile apps providing weather updates, price forecasts, digital trading, and advisory services in local languages.
- **Facilitate E-Commerce Integration for Agri-Products:** Support smallholders and agri-SMEs to participate in online marketplaces (e.g., Alibaba, Amazon, regional e-platforms).
- **Incentivize Development of Agri-Tech Startups:** Provide seed funding, incubation, and mentorship for startups offering precision farming, automation, and smart agricultural solutions.
- **Expand Access to IoT and Smart Farming Technologies:** Promote adoption of Internet of Things (IoT), sensors, drones, and automated irrigation systems for improved productivity and resource use efficiency.
- **Build Rural Digital Hubs and Agri-Tech Incubation Centers:** Establish digital innovation hubs in rural areas for training farmers and incubating agri-tech solutions tailored to local needs.
- **Encourage Public-Private Innovation Collaborations:** Facilitate partnerships between universities, research centers, and agribusinesses to co-develop practical, affordable agri-tech innovations.

## **Pillar 7: Foster Climate-Resilient and Sustainable Agriculture**

**Goal:** Promote environmental sustainability, climate adaptation, and risk reduction in agricultural production systems.

### **Key Actions:**

- **Mainstream Climate-Smart Agriculture (CSA) Practices:** Promote CSA techniques such as agroforestry, mulching, zero-tillage, integrated pest management, and drip irrigation.
- **Support Crop and Income Diversification:** Facilitate the introduction of diversified cropping systems, value-added products, and alternative livelihoods to reduce climate risk exposure.
- **Disseminate Climate-Resilient Seeds and Planting Materials:** Scale up distribution of high-yield, drought-resistant, and pest-tolerant seed varieties adapted to changing climatic conditions.
- **Implement Community-Based Early Warning Systems:** Establish localized early warning systems for floods, droughts, and pests using digital technologies for timely farmer alerts.
- **Promote Eco-Labeling and Sustainability Certifications:** Expand eco-friendly certifications (organic, Rainforest Alliance, fair trade) to encourage sustainable farming practices and access premium markets.
- **Enhance Soil, Water, and Biodiversity Conservation Initiatives:** Introduce incentive programs for soil health improvement, watershed management, and on-farm biodiversity conservation.

## **Pillar 8: Ensure Institutional Coordination and Policy Stability**

**Goal:** Establish effective governance mechanisms, reduce policy unpredictability, and strengthen institutional support for agri-exports.

### **Key Actions:**

- **Form a National Agri-Export Coordination Council (NAECC):** Set up an apex multi-stakeholder council with representation from government, private sector, farmer groups, and development partners.
- **Develop a Long-Term Agri-Export Policy Framework:** Draft and enact a coherent long-term export strategy aligning national targets with WTO obligations and international best practices.
- **Enable Decentralized Provincial Agri-Export Clusters:** Promote regional agri-export clusters based on local strengths, linked to targeted infrastructure, extension services, and market access pathways.
- **Institutionalize Public-Private Dialogue Mechanisms:** Conduct regular public-private consultation platforms to ensure continuous feedback and responsiveness in agri-export policy design.

- **Streamline Regulatory Approvals and Export Facilitation Services:** Simplify licensing, certifications, and customs processes with single-window clearance systems for agri-exporters.
- **Strengthen Monitoring, Evaluation, and Accountability Systems:** Establish robust M&E frameworks to track progress, ensure accountability, and enable adaptive policy adjustments.

## 5. EXPECTED OUTCOMES

Implementation of the above interventions is expected to generate transformative impacts on Sri Lanka’s agriculture sector and economy.

Domain	Outcome
Export Earnings	Growth in volume and value of certified, traceable agri-exports
Inclusiveness	Greater integration of smallholders, women, youth, and rural SMEs
Resilience	Increased capacity to withstand and adapt to climate and market shocks
Market Penetration	Entry into premium markets through branding, compliance, and partnerships
Innovation Uptake	Widespread adoption of digital tools and agri-tech solutions
Sustainability	Improved soil, water, and biodiversity conservation practices
Institutional Capacity	Stronger governance, inter-agency coordination, and investor confidence

## 6. LIMITATIONS AND RISKS

Recognizing potential challenges is key to designing effective mitigation and contingency mechanisms.

Risk / Limitation	Implication	Mitigation Measures
Land Fragmentation	Limits scalability and mechanization	Aggregation via FPOs and shared infrastructure
Digital Literacy Gaps	Slows tech adoption among older/smallholder farmers	Integrated digital training and advisory programs
Climate Uncertainty	Disrupts yields, damages supply chain continuity	CSA practices, weather insurance, and early warning systems
Policy Discontinuity	Reduces investor and exporter confidence	Legally binding long-term export strategies and inter-party consensus
Infrastructure Delays	Weakens post-harvest quality and export timelines	Phased PPP-led implementation and donor-backed financing

Compliance Costs	Deters smallholders from entering certified markets	Certification subsidies and cooperative cost-sharing models
Inadequate Public Funding	Limits the ability to scale up key export infrastructure, farmer training, and incentive programs.	Mobilize blended finance models, tap international donor grants, and promote PPP mechanisms to fill funding gaps.
Government Institutional Inefficiencies	Delays in project approvals, weak inter-agency coordination, and bureaucratic red tape slow implementation progress.	Establish a single-window export facilitation desk, digitalize approvals, and introduce performance monitoring in public agencies.
Lack of a Coherent National Agri-Export Policy	Leads to fragmented initiatives and inconsistent support for export diversification and value addition.	Formulate and legislate a comprehensive national agri-export strategy with multi-stakeholder inputs and bipartisan support.
Inconsistent Extension Services and Knowledge Transfer	Farmers lack access to timely, practical guidance on market trends, certification, and technology adoption.	Restructure extension services with digital platforms, localized centers, and collaboration with private agri-advisory providers.
Frequent Policy Shifts and Regulatory Uncertainty	Discourages private sector investment in agri-exports due to unpredictability in taxes, subsidies, and trade policies.	Commit to multi-year policy frameworks with legal backing and clear stakeholder consultations before policy changes.
Weak Export Market Intelligence Systems	Limits exporters' ability to respond to changing global market trends and consumer preferences.	Develop real-time export market information systems through EDB and strengthen capacity of trade officers in embassies.
Over-reliance on Low-Value Bulk Commodities	Hinders value addition and limits competitiveness in high-value product segments.	Incentivize diversification into niche, premium, and processed agri-products through subsidies and technical support.

## 7. CONCLUSION

Linking Sri Lanka's agriculture into inclusive and resilient global supply chains is both a necessity and an opportunity. This policy framework provides a pathway for inclusive rural development, export diversification, and climate resilience, underpinned by public-private collaboration and institutional reform.

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