



ILO Enter-Growth

Report of the Floriculture Regional Value Chain Development exercise
conducted in the North-Western and North-Central Provinces




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Abbreviations used in this report

BDS	Business Development Services
EDB	Export Development Board
GoSL	Government of Sri Lanka
ILO	International Labour Organization
LOCA	Local Competitive Advantage
MSEs	Micro and Small Enterprises
NCP	North Central Province
NWP	North Western Province
Rs	Rupees (Sri Lanka currency)
RVCD	Regional Value Chain Development
SBA	Small business association

1. Background

The following intervention report is based upon the information provided by ILO Enter-Growth and other stakeholders of the Floriculture Regional Value Chain Development (RVCD) project intervention during a three day field visit to Kurunegala district between November 2008 and February 2009 by two MDF consultants. The objective of the field visit was to: (i) evaluate the progress of the project implementation as well as (ii) assess the initial and anticipated impact of the intervention on the target group. The consultants have assessed the current situation in Kurunegala through key informant interviews with ILO Enter-Growth and EDB as well as focus group discussions with twelve growers (including two collectors) and the President of the recently established Tropical Floriculture Association of Sri Lanka.

The floriculture sector in the North Western and North Central province has been selected by Enter-Growth for a RVCD exercise which was conducted between November 2007 and February 2008. The importance of the floriculture sector to the local economy, the market potential for exports, the high number of female owned MSEs in the sector and the opportunity for employment generation in the rural and semi-urban areas were all contributing factors for this intervention. Floriculture exports have grown by approximately 9% over the last five years. The sector generates high net foreign exchange earnings to the country making it an important sector to support.

The exercise built on a Local Value Chain Development exercise on anthurium, which was done in Kurunegala District. It also made use of the results of various local competitive advantage (LOCA) exercises that indicated that floriculture (cut flowers and foliage) was an important sector with potential for growth.

The RVCD exercise was organized jointly by Enter-Growth and the Export Development Board of Sri Lanka (EDB). Other team members included the Industrial Services Bureau in North-Western Province, the Department of Agriculture in North-Central Province and two independent consultants. The ultimate goal of the project is to identify opportunities and promote interventions in the floriculture sector that have potential for growth in terms of income and employment generation for the rural poor as well as to make the local floriculture sector more internationally competitive.

Through the RVCD exercise, which included workshops and interviews, the “actors” from the floriculture sector in the NWP and NCP identified the following problems:

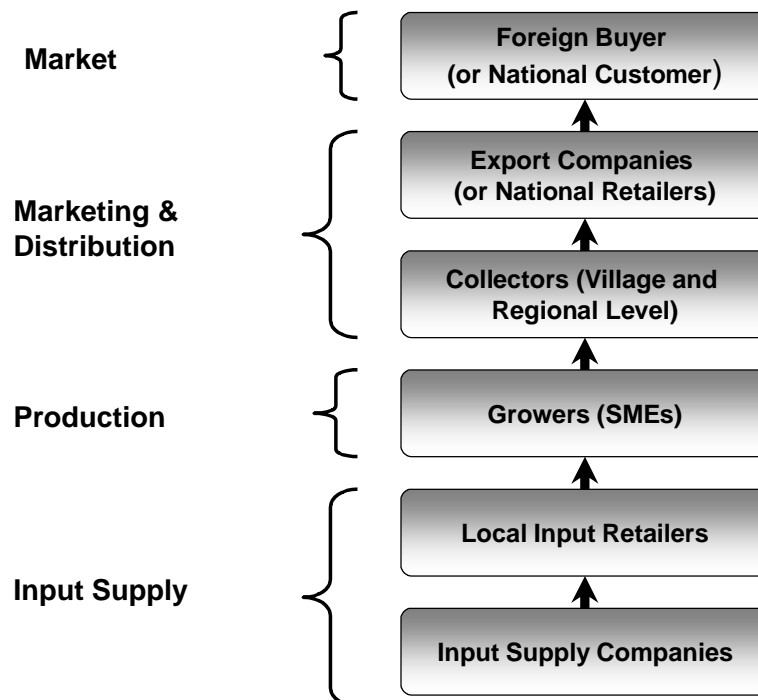
Actor	Main issues identified in the value chain analysis
Exporters, domestic buyers and collectors	<ul style="list-style-type: none"> • Increasing competition amongst exporters • Difficulty sourcing from micro, small and medium growers scattered in rural areas with no self-organized collection system and no reliable supply in terms of quality and quantity • Poor access to information about export market linkages, market requirements and demand conditions • Unavailability of new varieties for export • Cumbersome security checks on the road and at the airport leading to damaged products and packaging
Growers	<ul style="list-style-type: none"> • Lack of market information on improved technologies and production methods • Difficulty for small growers to achieve necessary bulk and quality required for

	<p>export markets</p> <ul style="list-style-type: none"> • Most growers' associations remain weak • Insufficient information about market requirements and demand conditions • High financial entry barriers • Shortages of skilled labour • Low pricing for products sold on the local market • Poor information and access to local fairs and exhibitions
Input suppliers	<ul style="list-style-type: none"> • Lack of input suppliers (input retailer networks) specialized in floriculture products
Supporting organizations	<ul style="list-style-type: none"> • Lack of coordination between relevant government stakeholders resulting in waste of resources by duplication and conflicting interventions • Weak communication between government and private organizations • Lack of research facilities to develop new export varieties

2. Enter-Growth plan

The Enter-Growth intervention consists of three parts: (i) an analysis of opportunities and constraints of the local floriculture sector, of which the results were included in the previous section (ii) an analysis of the market requirements in the export market (iii) formulation of proposals to address constraints and respond to opportunities identified, and (iv) follow-up activities to implement these proposals. The RVCD followed the standard Enter-Growth procedure for value chain analyses including an in depth look at the national and global floriculture sector market in order to develop proposals to promote local competitiveness and global market integration. The proposed interventions as a result of the RVCD exercise are organized according to four main functions within the value chain: Input supply, Production (Cultivation), Marketing and Distribution and Market. This is illustrated in the value chain map that resulted from the exercise:

Value Chain for the Floriculture Sector



The RVCD exercise resulted in the following proposals which are currently being implemented by EDB. The implementation work began in March 2008.

PROPOSAL	EXPORTERS, COLLECTORS and DOMESTIC BUYERS
1	Organize more local exhibitions, fairs and markets for floriculture growers, input suppliers and buyers, including exporters. Exhibitions should be organized by growers' associations in cooperation with BDS providers. The national floriculture association should publish an annual schedule on all local exhibitions and fairs in the media as well as other information channels
2	Establish a local trade centre to improve efficiency of collection efforts from small growers
3	Establish an association for collectors
4	Set up a database of all available growers
5	Make better use of EDB forum, "Samatha Piyasa", to address sector constraints at the provincial level and EDB to develop and information dissemination strategy of available information resources within EDB
6	Facilitate better price control by encouraging collective selling of floriculture products and establish a pricing system between exporters and growers through forward agreements
GROWERS	
1	Conduct ILO Small Business Association (SBA) training program for associations in NWP and NCP and help develop the associations' strategic plan
2	Develop a database of growers similar to EDB's directory of exporters with grower profiles and contact details
3	Increase awareness on market requirements and demand conditions (ie export requirements in terms of quality, quantity and demanded varieties)
4	Introduce quality certifications and standards such as EurepGap or others
5	Develop and disseminate manuals (including existing manuals) on growing techniques for different varieties
INPUT SUPPLIERS	
1	Compile a directory of relevant input suppliers and encourage input suppliers to provide better information through customer workshops, road shows or easy to read manuals
2	Encourage input suppliers to expand their retail networks in NCP
3	Train some good growers to become suppliers of seedlings and seeds to other growers
4	Develop a training program on "How to manage a nursery as an enterprise"
5	Establish buy-back systems between exporters (who will supply inputs for cultivation) and growers
SUPPORTING FUNCTIONS	
1	Develop a directory of all available BDS providers

3. What actually happened

The activities in the following table have been conducted to implement the proposals above. The progress of proposals implementation is being monitored by the value chain steering committee that was established during the results presentation of the value chain development exercise in January 2008.

PROPOSAL	EXPORTERS, COLLECTORS and DOMESTIC BUYERS
Proposal 1	The Small Enterprise Development Division (SEDD) and Agro Mart (an NGO) in collaboration with their respective associations have started to organize and host local exhibitions more regularly. Currently, two annual exhibitions are being organized compared to only one annual event previously. However, the proposal to publish the annual schedule of all the local exhibitions and fairs is not so practical due to resource constraints and is also outside of EDB's mandate (which is only export oriented). Further, this proposal should be communicated with the newly formed national association (Tropical Floriculture Association of Sri Lanka) so the national association can be involved in the organization of future exhibitions.
Proposal 2	The first collection centre (trade centre) has been established in Bingiriya Division of Kurunegala District on January 31 st this year as part of a larger Ministry of Export Development and International Trade project to create a Floriculture Export Zone and a People's Production Village of Floriculture in the North Western and North Central Provinces. EDB hosted a promotional program on floriculture in July 2008 where the Minister of Export Development and International Trade participated and also visited several nurseries. Subsequently, a budget of Rs50 million has been allocated for the development of a Floriculture Export Zone. Currently, a building for selling, preparing and packaging floriculture products for export has been constructed on 2 acres of government owned land in Bingiriya. The collection centre is currently fully operational. As part of this initiative, a second collection centre in Udubaddawa will be set up later this year.
Proposal 3	A national level association (Tropical Floriculture Association of Sri Lanka) has been established in January 2009 and collectors who are mostly also involved in growing activities are also members of this Association. It consists of small floriculture societies.
Proposal 4	It has not been possible to set up a database of all the growers as the organizations involved are either not willing to share or publish this information or do not have proper records of their growers as is the case with the smaller societies and associations. The larger organizations are simply not willing to share their grower lists for fear that exporters will approach growers directly and in so doing, undercut other exporters or local buyers the growers may currently be working with. However, plans are underway to establish a database of all the growers linked with the Bingiriya collection centre that has recently been established.
Proposal 5	The EDB Forum, the "Samatha Piyasa" in Polonnaruwa initially scheduled for beginning March has been rescheduled to later this year due to security concerns. The forum aimed at fostering dialogue between the industry players and the government authorities is usually held once a month in Colombo at the national level. However at the provincial level, this is done only once a year and this year the regional "Samatha Piyasa", a half day workshop, will be held in the

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Proposal 6	<p>North Central Province of Polonnaruwa. This forum will give actors in the floriculture sector an opportunity to discuss industry specific constraints they face with the regional and national level authorities.</p> <p>While EDB has not developed a formal information distribution strategy, it does however, share some of its available information resources within EDB (such as leaflets, information on the exporters directory and manuals) during their Regional Export Promotion Exhibitions. The next Regional Export Promotion Exhibition will be held in Polonnaruwa from March 7th to March 9th.where EDB will display sample varieties, information leaflets and instructions pamphlets (on net house construction among other topics). The exhibition also targets rural village people and entrepreneurs including school children. The Tropical Floriculture Association of Sri Lanka will participate in the exhibition. EDB has further instructed the floriculture association (Tropical Floriculture Association of Sri Lanka) to establish a marketing committee for information support and who will act as the information needs liaison between the growers and the EDB.</p> <p>To date, the newly established Association in Kurunegala (Tropical Floriculture Association of Sri Lanka) has not facilitated better price control by encouraging collective selling of floriculture products. However, collective selling will commence through the collection centre recently established in Bingiriya. The growers currently work with three exporters Matale Greenet, Ramya Horticulture and Kandy Orchid Farm who all mainly export to the Middle East and Europe. Forward agreements between the growers and the current or new exporters have been also not been put in place as yet. Pricing still remains a big concern for the growers as they are forced to buy inputs (plants, seedlings) from exporters at prices that are determined by them and only then will the exporters in turn purchase the cut foliage and flowers from the growers at prices also established by the exporters (at low rates).</p>
GROWERS	
Proposal 1	<p>The Tropical Floriculture Association of Sri Lanka was formally established in January 2009. The growers have selected a committee for the Association at one of the Association meetings with Enter-Growth and EDB held once every two months. The Association's Management Committee, comprising three members have received Enter-Growth Small Business Association Training in 2007 and 2008. Further, the members (100 growers) have obtained the Small Business Association awareness program from Enter-Growth in January 2009. A strategic planning workshop will be held in April this year which EDB and Enter-Growth will facilitate and moderate.</p> <p>The growers with EDB and Enter-Growth facilitation have laid the foundation to build a strong business association. The growers also view the association as a beneficial platform where growers can freely exchange information and practical knowledge from the field with more experienced growers. This has greatly helped growers gain trust and confidence that they can freely discuss problems and together look for solutions. However, there are no significant tangible benefits for the growers as yet, as the association has only just begun functioning.</p>
Proposal 2	See Proposal 4 above under Exporters, Collectors and Domestic Buyers
Proposal 3	Plans are underway to host an awareness program for the growers and exporters in the coming months which will cover new trends in the floriculture industry, current demand conditions amidst the global financial crisis, market requirements such as export requirements in terms of quality, quantity and demanded varieties. The event will be conducted by the Chairman of the EDB

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Proposal 4	<p>and hosted alongside other institutions (SEDD, Ministry of Agriculture and Wayamba Development Authority). The plan will be to host two such workshops every year.</p> <p>This proposal to introduce quality certifications and other standards such as EurepGap is not relevant as the growers are not yet exporting to Europe. However, EDB does provide incentives to growers to get certification and has also conducted several awareness and training programs which also cover sessions on quality standards. The training programs cover the technical aspects of cultivation techniques, commercial aspects of nursery management, technical expertise on net house construction, disease and pest control as well as quality standards. The trainers for the training workshops consist of professionals from several institutions (EDB, Department of Agriculture, Royal Botanical Department, Quarantine Department as well as the President of the and Tropical Floriculture Association of Sri Lanka).</p> <p>Awareness programs mainly focus on introducing new growers to floriculture sector, requirements to get started, the demanded varieties, the costs involved and overall profitability of the trade.</p> <p>EDB has organized the following awareness and training programs to date:</p> <ul style="list-style-type: none"> • Training on Anthurium cultivation in March 2008 for 37 new growers at the EDB office in the North Western Province • Awareness program on Anthurium and cut leaves in May 2008 held at the Udubaddawa Divisional Secretariat office for 42 new participants • Training on Anthurium and foliage in August 2008 at the Mahawewa Divisional Secretariat Office for 43 new growers • Training on Anthurium and cut foliage held in August 2008 at the Udubaddawa Divisional Secretariat for 47 new women growers through the Women Development Services Unit • Awareness program with an exporter on cut foliage in November 2008 held in Anuradhapura and which resulted in a proposal to prepare an action plan for cultivation of cut foliage • Awareness program with government and non-governmental authorities in Anuradhapura in November 2008 to implement an integrated floriculture development program • Held 2 awareness programs on cut foliage in Medirigiriya (Polonnaruwa) in December 2008 • Follow up technical training on cut foliage cultivation in Medirigiriya (Polonnaruwa) in January 2009
Proposal 5	Existing EDB and Department of Agriculture manuals on growing techniques for the different varieties are shared with the growers during the training sessions on cultivation.
INPUT SUPPLIERS	
Proposal 1&2	With the establishment of the Agriculture Export Zone, the plan is to import input materials so that growers will be able to enjoy the duty rebate and better pricing through collective purchase of imported inputs. Therefore, the original proposal to compile a directory of relevant input suppliers and encourage input suppliers to expand their retail networks in NCP will no longer be pursued. The Association has also recently negotiated with one low-cost domestic supplier (Anuradha Foliage) for collective purchase at competitive rates.
Proposal 3	Nine growers participated in a training program at the Universtiy of Paradeniya

Proposal 4	in October 2008, on a low cost method of tissue culture in order to establish a reliable supply base of planting materials (seedlings and seeds). The growers were selected for the course based on their ability level and capacity to understand the course as well as their financial capacity to pay for the course.
Proposal 5	The commercial aspects of nursery management and how to run the nursery as an enterprise (ie. how to keep accounts, pricing etc) are already being covered during the cultivation training programs currently being conducted by EDB.
Proposal 5	No new buy-back systems between exporters (who supply inputs for cultivation) and growers have been established. The current buy-back system in place is seen to exploit the growers (sale of inputs at high prices and purchase back at very low rates).
SUPPORTING FUNCTIONS	
Proposal 1	EDB has prepared the directory of all available BDS providers which is currently being reviewed by both Enter-Growth and EDB before it is made publicly available.

In addition to the proposals above, some interventions which do not specifically relate to the proposals formulated during the RVCD exercise have been initiated. An awareness program for financial providers was held in June 2008. Sixteen bank representatives in the Kurunegala District participated in the seminar. The objective of the seminar was to introduce the bankers to the floriculture sector and its profitability to enable increased bank lending to the growers. Follow up discussions have been held between the Association and Wayamba Development Bank and the bank has promised to structure a credit scheme for the growers.

EDB has also helped introduce a low cost and durable method for net house construction thereby lowering initial start-up costs for new growers considerably (from Rs11,000 for the low cost method as compared to Rs55,000 and Rs200,000 as quoted by other commercial agents). A team of experts from the Agriculture Department and the University of Paradeniya along with the President of the Tropical Floriculture Association provided the technical and practical expertise on the construction of these net houses. EDB is currently also looking to submit a proposal for the purchase of "Lakshmi Meter" (cost estimated at between Rs 200,000 to Rs 300,000) to help growers measure the heat penetrating their net houses in order to ensure that the shade provided by the nets is sufficient for their growing activities. A training program on Anthurium cultivation has also been conducted for EDB's Agriculture Extension Officers as Anthurium cultivation for exports is a new area for EDB.

EDB is also currently exploring the possibility of commissioning a research project on the viral disease ("Santhomonas") currently affecting some of the growers' cultivation. To date, the growers have been linked to two resource persons (university professors who have done extensive research on the topic) to provide advice on ways to combat the viral disease.

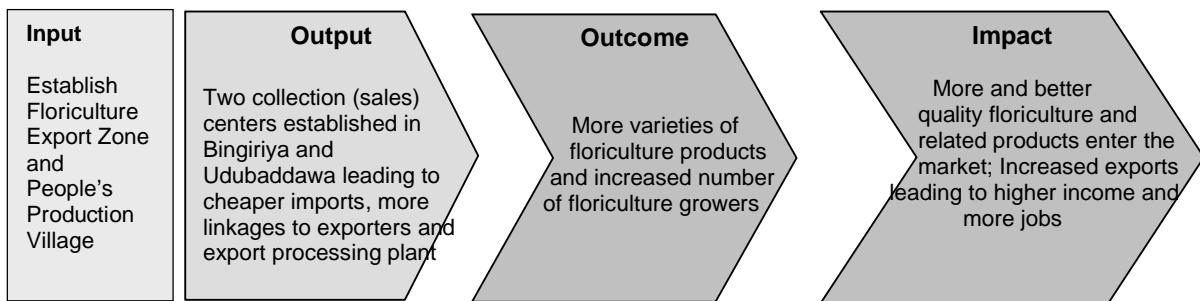
4. First signs of impact

Most of the project proposals have either only recently been implemented or have not as yet been implemented. Hence, it is too soon to observe any real signs of impact on the performance of MSEs, the quality of production and generation of employment and income resulting from Enter-Growth RVCD intervention. However, a few major milestones have been observed and should be highlighted:

Creation of Agriculture Export Zone and Local Trade Centre

The first major milestone is establishing the collection and sales centre in Bingiriya Division of Kurunegala District. EDB had facilitated the discussions with the Minister of Export Development and International Trade to raise awareness on the potential within the floriculture sector which resulted in a Rs 50 million budget allocation for establishment of a Floriculture Export Zone and subsequent People’s Production Village of Floriculture in the North Western and North Central Provinces. It is a major achievement to get a budget allocation of the size from the GoSL for the floriculture industry. The growers will be able to enjoy numerous benefits from establishment of the new export zone, firstly, the ability to import input supplies duty free, secondly to increase linkages to exporters through the trade centre in Bingiriya and thirdly to gain access to an export-oriented processing and packaging plant for their floriculture products. The influence or results chain we can expect to see from the creation of the new Export Zone is illustrated below:

Influence or Results Chain - Floriculture and Cut Foliage sector



It is estimated that approximately 10,000 existing and potential new growers are likely to benefit from the new Floriculture Export Zone.

Establishment of Association

The second milestone achieved is the establishment of the Tropical Floriculture Association of Sri Lanka in January 2009. The Association currently has 100 members with more growers looking join the Association in the coming months. The Association appears to have the foundations of becoming a strong organization with good leadership and marketing ability. A marketing committee has been formed to help the members with market and information linkages. The growers are very happy with this new Association and see it as the main positive out of the RVCD intervention thus far. There is a sense of trust and confidence amongst the members that they can freely share common problems and together seek for solutions. The Association has helped members exchange technical knowledge and practical experience between junior growers and the more senior growers in the sector. The senior members are constantly offering guidance and advice to the more junior growers through discussions and field visits. Although the Association has only recently been established, it will be important for the association to provide benefits in various priority areas in the near future:

- (i) improve the quality of floriculture products by purchasing services such as technical training (market, product and production techniques) from outside resources (i.e. exporters and suppliers, BDS providers) on the quality requirements for the export market

- (ii) facilitate better organization of the local market through an improved collection system by tapping into the newly established collections centre in Bingiriya (for growers who are able to export)
- (iii) improve the growers' ability to buy supply inputs in bulk for lower prices by importing inputs through the Export Zone as well as negotiating bulk rates with other suppliers (in addition to Anuradha Foliage) for growers only able to supply the local market and
- (iv) increase links with new buyers and exporters in order to increase their bargaining power as they will be able to offer the buyer the quantity requirements as an organized group; the association should leverage linkages to new exporters through the new sales center in Bingiriya as well as information on the export market (exporters directory) and other available resources at EDB

Reduced financial entry barriers

Through the RVCD project intervention, the financial entry barriers for new growers have been reduced through: (i) the introduction of a low-cost method of tissue culture and (ii) a low-cost method of net house construction. The EDB has facilitated training on a low-cost method of tissue culture at the University of Paradeniya for nine growers with the aim to establish reliable supply base of quality, disease-free planting materials. The training on tissue culture was found to be beneficial and should be extended to a greater number of growers as a means to increase disease-free supplies of plant seedlings. In addition, EDB has introduced a low-cost durable method of net house construction which has also helped lower start up costs significantly for new growers looking to penetrate the floriculture industry. These reduced entry barriers are likely to enhance the pro-poor effect.

New market entrants

EDB has conducted several awareness and training programs on Anthurium and cut foliage cultivation which has resulted in fifty new growers of Anthurium and one hundred new growers of cut foliage in Kurunegala as well as twenty new growers of cut foliage in Anuradhapura. The new growers have also all used the newly introduced low-cost method to construct their net-houses.

5. Conclusion and Next Steps

The study also shows that a number of areas can be improved.

Improving quality standards

While EDB has conducted several awareness and technical training programs on Anthurium and cut foliage cultivation, the field discussions however, revealed that the quality of production is still at a low level as the current rejection rates from the collectors are relatively high. It appears that the growers in the area are not very quality conscious despite the training and awareness they have received. A mind shift has to be created to reinforce the importance of high quality standards needed for the export market in order for the growers to be able to tap into the opportunities available through the new export zone and trade centre. The growers need to be given additional training in order to instill quality consciousness and to develop necessary skills to produce the quality and quantity of flowers required by buyers. The training could be provided by additional business service providers, the growers themselves (e.g. more exchange of ideas through business associations within and across districts) as well as exporters, other large buyers and collectors (i.e. quality requirements from buyers and information on input supplies from suppliers).

The importance of a fair pricing system

The field discussions showed that the pricing system currently in place is biased towards the buyers and exporters who dictate the final price as they have final control on the domestic and export market. As such, pricing still remains a significant concern for the growers as they are forced to purchase input materials (plants, seedlings) from exporters at prices determined by the exporters as a pre-condition for purchase back of cultivated flowers and cut foliage at prices also established by the exporters (at unfair prices). Hence, the unaccomplished proposals to establish forward agreements as well as buy-back systems between growers and new buyers and exporters are important interventions that the EDB should consider a priority next step in their implementation plan. Only if a “fair” pricing system is introduced will the sector be able to flourish and achieve its true potential. The EDB should look to assess the success of the Enter-Growth LOCA intervention in executing forward and buy-back agreements within the floriculture sector in Madampe, Puttalam and try and replicate the strategy adopted in that project.

Improving access to markets

The linking of growers to additional local buyers and exporters has not taken place. Although there is an export market for floriculture products, the growers cannot produce and supply the quality and quantity required. While addressing the issue of quality of production, the implementing agency should simultaneously help foster increased linkages to new local buyers and exporters (who could in turn provide services such as technical training on production techniques and quality standards) and thereby help the growers to improve their marketing. If collectively, they are able to produce increased quantities and better quality products that meet export requirements, this will directly influence the bargaining power of the growers which in turn will lead to better product pricing and higher income in the future.

The need for increased buyer awareness

Little market information (market trends, export and profitability potential and demand conditions) has been disseminated through the value chain. In this light, because buyers and growers currently lack a complete picture of the sector’s potential, the relations between the growers and buyers are not optimal and should be improved. In doing so, awareness should be created on the part of the buyers and growers as they should realize the importance of the floriculture sector, the potential for development, and the possible profits that could be generated for all the actors in the value chain (including the growers). When the buyers become aware of market potential for all involved, possibly this may reduce the exploitation currently being witnessed by growers from the buyers (exporters). Moreover, the supply of information (training, market information, new technologies etc) provided to the growers may increase which in turn could potentially enhance the growers’ quality consciousness and business performance (from increased fairness in business practices).

Better information dissemination

The field discussions revealed that the growers are not aware about the valuable information sources on the export of floriculture products currently available at EDB. In collaboration with the Tropical Floriculture Association of Sri Lanka, the EDB should conduct an awareness program as part of the proposal to create an information dissemination strategy (proposal 5 under section on exporters, collectors and domestic buyers). The awareness program should aim to introduce the information sources available at EDB to the rural entrepreneurs (e.g. trade and market information, the directory of exporters, market requirements and export procedures and other product information).