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Developing the Floriculture Sector In North-Western and North-Central Provinces

Value Chain Development
For more Competitiveness and Decent Work



Kindly supported by Anuradhapura,
Kurunegala, Polonnaruwa and
Puttalam District MSE Forums



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List of abbreviations

BDS	Business Development Services
BMICH	Bandaranaike Memorial International Conference Hall
CITES	Convention on International Trade in Endangered Species
DS	District Secretariat
EDB	Export Development Board
EPF/ETF	Employees Provident Fund / Employees trust Fund
EU	European Union
GAP	Good Agricultural Practices
HS Code	Harmonised System Code
HORDI	Horticulture Research & Development Institute
ICC	International Codes of Conduct
ILO	International Labour Organisation
ISB	Industrial Services Bureau
MSE	Micro and Small Enterprises
NCP	North Central Province
NGO	Non-Governmental Organisation
NWP	North Western Province
SBA	Small Business Association
SEDD	Small Enterprise Development Division
SLSI	Sri Lanka Standards Institute
SME	Small and Medium Enterprises
VAT	Value Added Tax

1. Introduction: about this value chain initiative

This booklet summarises the main findings and proposals of a value chain initiative organised jointly by the Export Development Board of Sri Lanka (EDB) and the Enter-Growth¹ project of the International Labour Organisation (ILO). Other team members included the Industrial Services Bureau in North-Western Province, the Department of Agriculture in North-Central Province and two independent consultants.

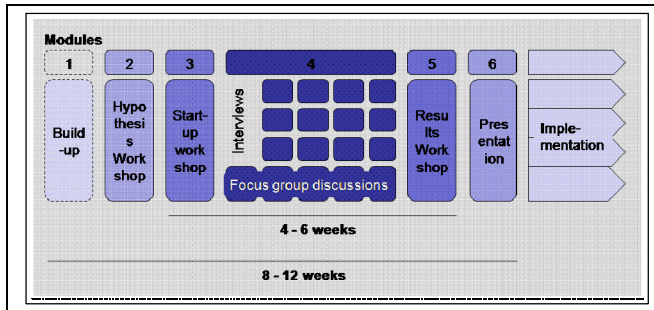


The initiative used a participatory value chain development approach², designed by the ILO, by which business stakeholders from the entire floriculture sector were included – starting from input suppliers, through growers, collectors and other intermediaries up to exporters and domestic buyers. Additionally,

¹ Enter-Growth is short for „Enterprise for Pro-Poor Growth“. The ILO project aims at creating jobs and higher incomes through the development of the micro and small enterprise sector. It focuses on three main work areas: a) market access for MSEs, b) policy and regulatory environment, and c) business culture. The project is operating in the North-Central and North-Western Provinces of Sri Lanka through four district offices. More information is available from www.entergrowth.com, or +94 11 255 1339.

² More information is also available from ILO Enter-Growth (see above) or the ILO area office in Colombo, Sri Lanka. A “Guide for Local Value Chain Development for Decent Work” has been published in English and Sinhala and is available from ILO. Contact: +94-11-2592525, Colombo@ilo.org

supporting functions such as government authorities, service providers, research and training institutes. were taken into account.



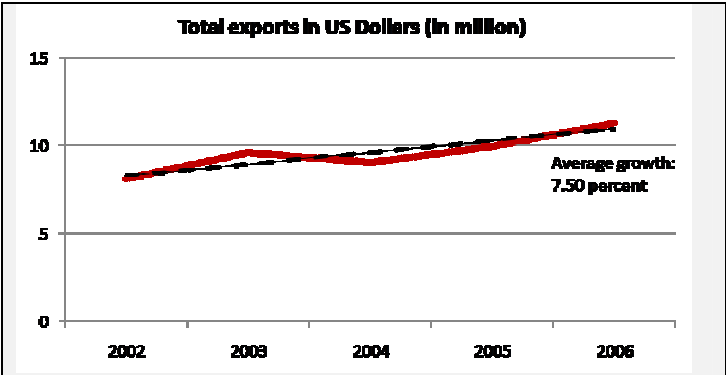
The figure above illustrates the process of workshops and interviews, used to analyse the floriculture sector and develop proposals – a process of which this small booklet is the result.

The initiative has formed a steering group (see chapter 5), which is discussing and actively supporting the implementation of the proposals mentioned in this booklet. An intervention framework with more details and work plans for specific proposals have been developed, and the initiative is now looking forward to put them into practice in partnership with public and private stakeholders from the floriculture sector.

2. Market and challenges³

Sri Lanka is endowed with different climatic conditions caused by terrain, enabling her to develop floriculture products ranging from tropical to temperate flora. Sri Lanka is recognized as one of the best quality production centres for floriculture products in the world. The sector generates high net foreign exchange earnings to the country. Also the industry contributes to employment generation in rural and sub-urban areas. The industry is established in Western, North Western and Central Provinces.

Floriculture exports from Sri Lanka have on average grown by 9.03 percent over the last five years (considering the devaluation of the Rupee against Dollar, the growth rate has been more modest at 7.5 percent over the last four years).

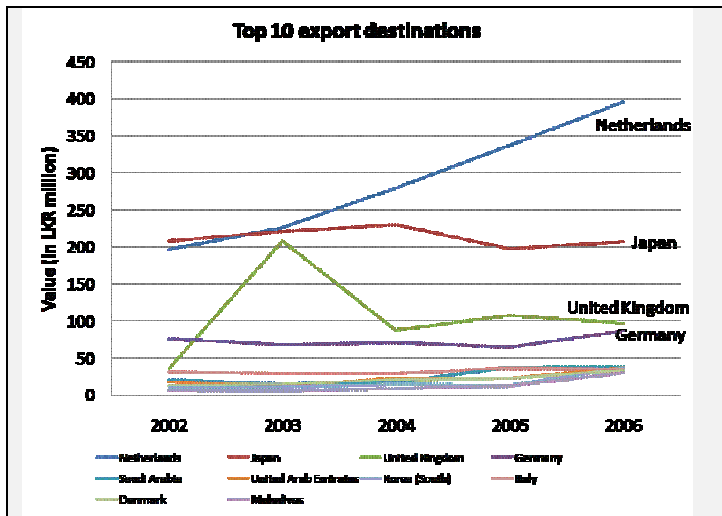


Source: Sri Lankan Customs Department (2007): Sri Lanka Export Statistics (also available from Export Development Board)

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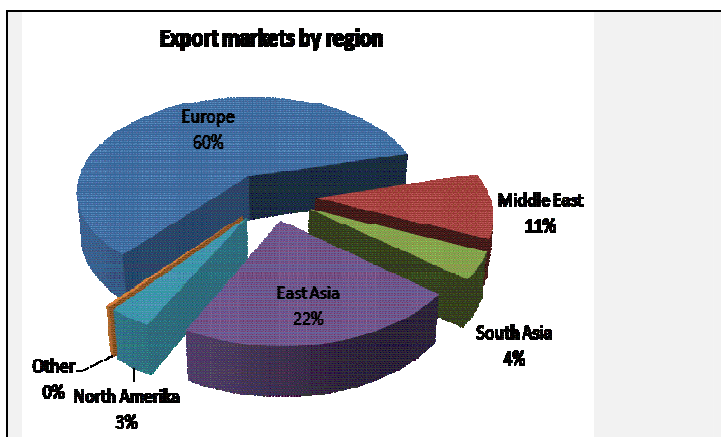
The following chapter is based on information of the Export Development Board (EDB), which can be accessed by www.srilankabusiness.com, or from Mrs. Malani Baddegamage, deputy director SLEDB, malani@edb.tradenetsl.lk, +94 11 2300732.

Europe remains the main market (with the Dutch market being the most important and growing by an average of 18.5 percent over the past 5 years), whereas the Middle-East and East Asia are rapidly gaining importance as export destinations. Exports to South Korea have for example increased by 26.5 percent, to the Middle East by about 19.8 percent.



Source: Sri Lankan Customs Department (2007): Sri Lanka Export Statistics (also available from Export Development Board)

Not all businesses in floriculture produce plants for export markets. No statistics are available for domestic trade. It is however assumed, that the market is big – considering the wide range of possible customers: flower and gift shops, hotels and restaurants, funeral houses, private households, public parks and gardens, etc. It could be argued that the domestic floriculture market is closely connected to other markets such as the tourism industry, and therefore depends also on positive growth in these markets.



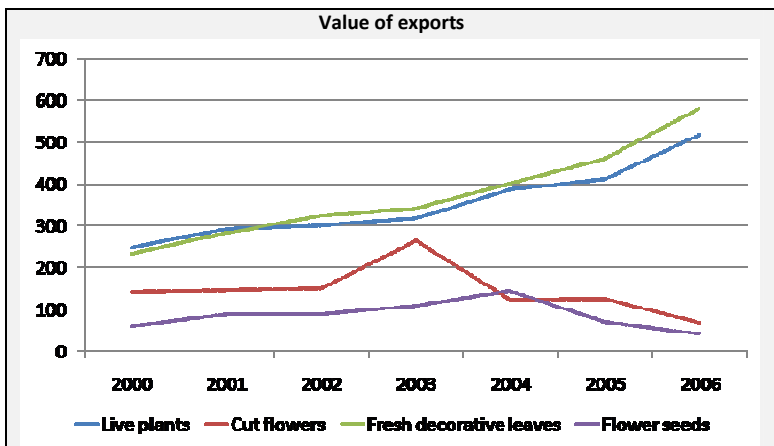
Source: Sri Lankan Customs Department (2007): Sri Lanka Export Statistics (also available from Export Development Board)

Products

Favourable and especially diverse climatic conditions allow Sri Lanka to produce a wide range of floriculture products. Main product categories are:

- 0601 (Harmonised System HS code): bulbs, tubers, corms and other propagated materials
- 0602: live plants
- 0603: Cut flowers and flower buds of a kind suitable for ornamental purposes, fresh, dried, bleached, impregnated or otherwise prepared.
- 0604: Foliage, branches, and other parts of plants, without flowers or flower buds, and grasses, mosses and lichens, being goods of a kind suitable for bouquets or for ornamental purposes, fresh, dried, bleached, impregnated or otherwise prepared.
- 1209-3 flowers seeds.

Especially live plants and fresh decorative leaves are amongst the most demanded floriculture products from Sri Lanka – making up a share of 42.9 respectively 48.1 percent of the total export value (Rs. 1210.2 million in 2006). Flower seeds and cut flowers have seen a decline over the past three to four years.



Source: Sri Lanka Customs (also available from EDB)

Export requirements

Sri Lankan regulations require that exports of floriculture products must be sourced from nurseries and not from wild gathering. A clearance certificate from the Forest Department is therefore mandatory.

In the case of endangered species cultivated for export, the CITES certificate by the Department of Wild Life Conservation is required; for aquatic plants a certificate from the National Aquatic Research & Development Agency (NARA) and the Forest Department are necessary for export.

All floriculture shipments should accompany a phytosanitary certificate issued by the Department of Agriculture.

Required certificates/documents for export

- Clearance certificate from Forestry Department stating that the exported products have not been sourced from forests or open nature but from nurseries.
- CITES certificate by the Department of Wild Life Conservation
- Registration with the Export Development Board (EDB)
- For aquatic plants: certificate from the National Aquatic Research and Development Agency (NARA)
- Department of Agriculture: phytosanitary certificate
- Clearance certificate from the Forest Department stating that Security clearance from the Airport Authority
- Country of origin/GSP Certificate

In general, exporters mentioned during interviews that obtaining these certificates and documents was not very difficult, once they had built up some experience in export procedures. However, they mentioned that the documents for security clearance were unnecessary, as they replicated several other documents.

International market requirements

Depending on the importing country, market requirements vary. Especially quarantine regulations differ from country to country, and need to be strictly observed by Sri Lankan exporters. Depending on the individual buyer, ISO certification may also be necessary – this is especially true for the European market, for which also the EurepGap standard is becoming increasingly important. The EurepGAP standard is primarily designed to maintain consumer confidence in quality and safety of agricultural products. Other important goals are to minimize detrimental environmental impacts of farming operations, optimize the use of

inputs and to ensure a responsible approach to worker health and safety. Since 2003, EurepGap has added a protocol on flowers and ornamentals. Though EurepGap is a voluntary standard set by private organisations, several large retail companies in Europe have already joined the initiative, thus making it mandatory for suppliers to comply with EurepGap.⁴

Apart from quality and safety standards, some private organisations have also implemented environmental and social standards, such as organic production certificates (guaranteeing that chemical fertilisers, pesticides etc. are not used) or fair trade standards. Many companies use their codes of conduct as a means of promotion and marketing for their products. The following example illustrates this case:

Implementing Fair Trade standards – Example of TropiFlora (Pvt.) Ltd.

Being based in Switzerland with its headquarters, TropiFlora (Pvt.) Ltd. is close to the market and knows about consumer preferences in Europe. In recent years it has observed a strong trend towards organic products as well as products from suppliers that guarantee fair treatment of workers and ethical standards along their supply chain.

TropiFlora has therefore decided to join the Fair Trade initiative in order to cater to the growing market of environmentally and socially conscious buyers in Europe. By joining the fair trade initiative, TropiFlora guarantees good and fair treatment of its employees according to International Labour Standards of the ILO at its nurseries in Sri Lanka. These standards ensure fair payments, safety at work, representation of the interests of employees at company decision level, but also fair treatment of small and medium suppliers (such as collectors and small and medium growers). Apart from these labour standards, TropiFlora also avoids the use of chemical inputs, thus growing plants on an organic basis.

Though these additional standards result in considerable extra costs, their

implementation has not harmed TropiFlora. On the contrary: Consumers in Europe appreciate this commitment and reward it by buying TropiFlora products.

Source: Interview with TropiFlora manager on December 4, 2007

The International Code of Conduct (ICC) for the production of cut flowers⁵

The code provides a concise statement of minimum labour, human rights, and environmental standards for the international cut flower industry, based on the core ILO labour standards. Companies should pledge to require their suppliers, contractors and subcontractors to observe these standards. Companies also pledge to make observance of the code a condition of any agreement they make with contractors and suppliers and to require them to extend this obligation to their sub-contractors. Companies accept that the implementation of the code is subject to independent verification. The text of the code, which is intended to be posted where workers can see it, shall also include a means by which workers can report failure to comply with the code in a confidential manner.

Packaging and labelling requirements

There are two main reasons for proper packaging: a) protection against mechanical damage during transport; and b) conservation of a favourable micro-climate during transport. In addition, in the light of fierce price competition transport costs must be minimised, hence the transport volume must be as efficient as possible. In order to optimise transportation it is recommended to use uniform boxes with measurements according to EU standards for pallets, and/or the airfreight pallets. Further, many countries

⁵ DANIDA (December, 2006): Cut flowers and foliage – a survey of the market for cut flowers and foliage in Denmark.

have adopted general requirements for packaging that ensure the protection of the environment (e.g. EU directive 94/62/EC). These environmental requirements are necessary to observe when exporting to these countries.

However, apart from the above mentioned technical functions, packaging also has a marketing function that can add further value to the product: by packing floriculture products (e.g. bouquets) into consumer-ready and attractive parcels according to the requirements of the buyer (e.g. a foreign retail company), Sri Lankan floriculture exporters could add more value to their products and make higher profits.

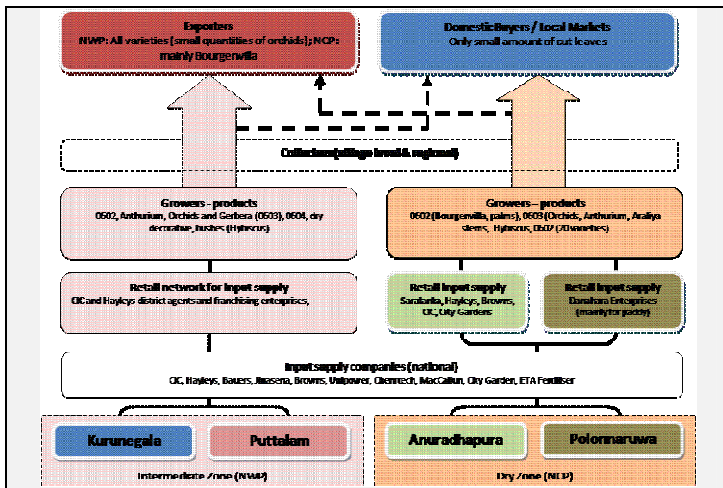
3. Main findings of the value chain analysis

For analytical purposes, the floriculture value chain has been divided into four main parts:

1. **Export companies, domestic buyers and collectors** are the link between growers and the market. The distance between growers and end customers depends on the number of intermediaries in the chain, and whether products are sold on the domestic or on the global market. Exporters mostly also grow themselves, thus achieving cost efficiency and high quality. Domestic buyers range from flower shops, landscapers, gardening, burial services, hotels and restaurants, event organisers up to private households and other businesses. Collectors are important for exporters to supply the necessary quantity from small and rural growers and also to pre-select quality products.
2. **Growers of floriculture products:** The size of growers in Sri Lanka varies from micro, small to medium and large scale operations. Micro and small nurseries with a homogenous product selection (i.e. the same plants) directly or indirectly export their products, whereas nurseries with a heterogonous product selection (i.e. with a large variety of different plants) usually supply only to domestic markets as their quantities are too small to meet export requirements. It is estimated that amongst micro and small growers, women make up more than 50 percent. This size enterprise is generally informal in nature and has limited outreach.
3. **Input retailers, supply companies and importers.** Growers require a large variety of different inputs: from

seeds and cuttings, through construction materials for net-houses, pots and packaging materials, fertilisers, pesticides, soil varieties and mixes, gardening equipment and tools, irrigation systems, up to vehicles for transport and agricultural hardware. These inputs are mainly supplied by retailers and companies who also serve other agricultural sectors. Only few suppliers have specialised on inputs for floriculture.

Apart from the core value chain, in which suppliers, growers, collectors, exporters and international buyers interact by selling and buying floriculture products to and from each other, the competitiveness of the sector also depends on a variety of public and private **supporting organisations/institutes as well as national and international rules and regulations** (see sections 3.4 and 3.5).



Over several weeks, this value chain initiative has carried out interviews and focus group discussions with many stakeholders

from the floriculture sector to understand opportunities as well as underlying reasons for constraints. The results are presented in the following sections.

3.1 Exporters, domestic buyers and collectors



Large to medium sized companies dominate the export market and are mainly responsible for foreign income earning. Currently 106 exporters for foliage, cut flowers and aquatic plants are registered under the Export Development Board (EDB).

However, export companies increasingly source products from small growers to cover supply shortages in peak seasons and to export products that they do not cultivate themselves. Collectors act as important intermediaries – bulking products of growers scattered in rural areas and pre-selecting according to exporters' quality requirements.

- **Sourcing from small and medium growers and collectors:** Export companies all have their own nurseries in which they cultivate various floriculture products for export. Often the entire yield is shipped to markets abroad, with only an insignificant amount – mostly sorted-out plants unsuitable for export – being sold on the domestic market. In-house cultivation and direct marketing allow export companies to achieve a high degree of cost efficiency and customer satisfaction.

However, most exporters also source products from small and medium growers – especially during peak seasons in Europe (Christmas, Valentine's day, Mothers' day and Easter). This is done when own supply is not sufficient and shortages are expected, or when customers demand products that are not available in-house.

Export companies therefore have a loose network of collectors and growers to which they often refer when facing supply shortages; some even enter agreements that establish “out-grower” or “buy-back” systems with small suppliers. The majority of these agreements are informal, with no contract signed between the export company and its suppliers.

Supplying to an export company is a big opportunity for small and medium growers and collectors, but at the same time also poses many challenges. It is essential for small and medium growers and collectors to know the requirements of exporters. These are mainly requirements in terms of quality and quantity. Exporters mentioned in interviews that they found it often very difficult to find the needed quantity because small and medium growers were scattered over a wider area and no proper collection or trading system has been established. Inconsistency in quality and unreliable supply were further mentioned as obstacles.

Merely promoting “buy-back”, out-sourcing or sub-contracting systems by raising the awareness of growers/collectors about this opportunity is not sufficient. Any promotion activity must therefore also educate growers/collectors on market requirements – specifically those of exporters.

Constraints mentioned by exporters & collectors (I)

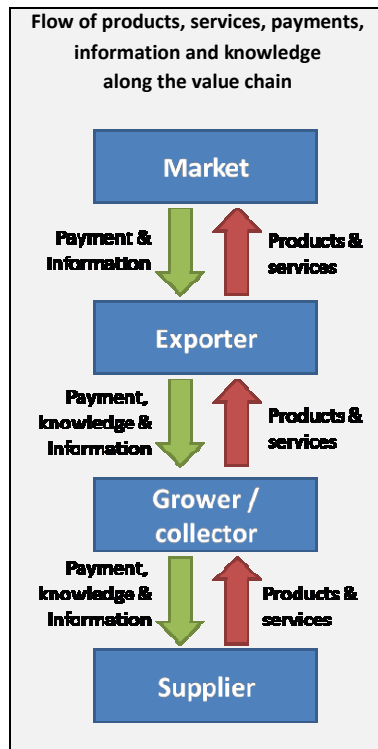
- **Competition amongst exporters** is increasing due to new entries into the market. This often leads to unfair business practices such as under-cutting – i.e. a competitor finds out the price offered to a foreign buyer, and makes an offer at a cheaper price. Relevant authorities are said to leak such price information, causing heavy damage (loss of customers, price fall) to the sector.
- **Security checks** on the road and at the airport lead to damage to products and packaging; rejects have occurred for this reason. Further, necessary documents for security clearance simply replicate existing documents from other authorities (see section 3.5).
- Especially medium-sized exporters complain about the **unavailability of new varieties for export** – and the difficulty to import them for cultivation. Three main reasons for this could be observed: 1) most exporters do not possess own laboratory facilities to do research and development for themselves and are therefore dependent on external service providers (however, some mentioned that they were offering new varieties to customers on a “trial & error” basis); 2) Existing (government) research facilities such as the Botanical Garden, the Horticulture Research and Development Institute in Kandy as well as the Departments of Floriculture of the universities have weak linkages to private sector enterprises and are not much concerned about the commercialisation of newly developed varieties; 3) import restrictions under various government regulations (such as quarantine) make the import of new varieties for cultivation nearly impossible.

- **Only few large exporters provide embedded services to their small and medium suppliers.** These services would normally include technical training and advice as well as cash advances. The reason for weak embedded services can be seen in the fact that exporters mostly source products from micro and small growers on an as-needed basis. Long-term relationships

are rare, which is why exporters do not want to invest in training services or other support to growers.

This however, means an interruption of the flow of knowledge and information along the floriculture value chain (see picture on the right). If exporters do not share their information and knowledge with micro and small growers/collectors, then quality problems and low productivity of small nurseries will remain.

- **Collectors play an important role in the floriculture value chain:** not only do they a) help to bulk products for the export market and achieve the necessary quantity required by exporters, but they also b) function as filter to sort good from bad products (quality pre-selection) and c) as service and information providers to micro and small growers.



In most cases, collectors are also growers themselves (in some cases they also head local grower associations as a means of collecting plants). However, despite their important role in the value chain, they are often perceived as value-takers – rather than adding value to the business transaction. They are said to be profit-oriented but not market-oriented. This

perception has its justifications, where collectors do not fulfil their role properly.

However, there are no training programmes available that make collectors aware of their potential role as service and information providers – also export companies do not see them as a link of information and knowledge between them and rural/remote growers. No authority or government institute is found to be responsible for collectors; and since most collectors are not registered, they are not eligible for any services provided by government authorities. Collectors are mostly considered unnecessary and as only adding to costs – thus negatively influencing the overall price competitiveness.

Constraints mentioned by exporters & collectors (II)

- **Sourcing from micro, small and medium growers is difficult** for several reasons: 1) growers are scattered mostly in rural areas, thus increasing costs of transportation (problematic in the face of rising fuel prices) and leading to low turn-over for collectors; 2) no self-organised collection system (or a centralised/regional trade centre) is available amongst growers that would make it easier for exporters to source from them; 3) reliable and consistent supply in terms of quality and quantity is difficult from small growers, who are not much aware of market requirements and demand conditions.

Apart from this, relationships between small growers, collectors and exporters are often strained, because of price differences that favour collectors and exporters and leave small growers only with a small share of the overall value created.

- Availability and access to **information about export markets, linkages, market requirements and demand conditions** has been stated as an obstacle by a number of exporters – especially medium-sized ones. Information about exporters (even foreign buyers), export procedures and even quality requirements is available at the Export Development Board (see below), however, the dissemination

of this information remains insufficient. Further, there is no regularly updated market research available that would provide information about trends, competitors, demand conditions etc.

- **Domestic market and buyers: Many micro and small growers interviewed mentioned that they could achieve a better price for their products on local markets.** The reason for this can probably be seen in the more direct producer – customer relationship (i.e. the value chain is much shorter, with fewer intermediaries).

Figures about the domestic market for floriculture products are not available. However, the potential for different customers is vast: from small flower shops and landscapers, through hotels and restaurants, up to event organisers and burial services.

A number of local markets and periodic exhibitions is organised by either growers associations themselves (at divisional or district level) or by business service providers (in Kurunegala: Agromart; in Chilaw: Agromart, SEDD and RBG; in Polonnaruwa the association was supported by the district chambers of commerce). Growers and/or collectors also commonly sell their products on weekly fairs in mobile vans.

However, the outreach of these exhibitions is limited: Firstly, they are not organised on a regular basis, but rather depend on the resources and motivation of the organisers. Secondly, marketing and advertisement is hardly done, but information reaches growers and buyers mainly through association networks. This means that hardly any exporters or input suppliers etc. attend these exhibitions, which is a pity, since these markets and exhibitions would clearly help to link buyers and suppliers more efficiently with each other.

It is therefore necessary to make information on local markets and exhibitions available more widely and to invite input suppliers as well as buyers from outside. The target audience for these exhibitions should not only be local buyers and households, but should go beyond district borders.

- With the Export Development Board (EDB), there is a specific service provider for exporters. However, the services it provides are not only useful for exporters, but also for collectors and small growers. Two examples: a) the directory of exporters as well as the EDB website help growers and collectors identify and contact potential buyers; the website also offers information about certain export requirements. b) the EDB office in Kurunegala is assisting small anthurium growers to organise themselves in order to achieve the necessary quantity and quality required for export.

Two further service providers helping growers to market their products are AgroMart (based in Kurunegala) and the Small Enterprise Development Division (SEDD). Both district level organisations (of NWP) have been involved in organising fairs and exhibitions for the domestic market.

Information and services on export markets and requirements

The Export Development Board (EDB) offers various services relevant to export of floriculture products:

- Trade and market information services: this includes information about market developments, contact details of foreign buyers, international exhibitions, etc.
- Directory of exporters in Sri Lanka: this gives contact details of exporters and information about products they export.
- Market requirements and export procedures: this includes quarantine regulations, different country import requirements, customs and export procedures, etc.
- Product information: booklets are for example available for anthurium flowers and ornamental plants

For further information contact Mrs. Malani Baddegama Deputy Director (EDB Head office in Colombo): Tel: 011-2300732 (malani@edb.tradenetsl.lk) or Mrs. Rani Mannapperuma, Assistant Director (Provincial Office of EDB in Kurunegala) Tel: 037-2224256. (nwpedb@tradenetsl.lk)

It was found that many floriculture stakeholders were not aware of these services. A further problem mentioned by the EDB is that the majority of collectors and small growers were not registered, which deprives them of services from government authorities. Marketing and advertisement of services therefore have to go hand-in-hand with promotion of business registration.

The competitiveness of the floriculture sector in Sri Lanka depends on two major factors: a) global market conditions and requirements, and b) local supply conditions and market procedures.

Export companies and collectors are the link between growers (supply basis) and the market. They play a crucial role in transferring knowledge and information about global market conditions and requirements as well as newly available technologies down to local growers and suppliers.

3.2 Growers of floriculture products



Due to different climatic conditions, the floriculture sectors in North-Central and North-Western Provinces differ very much from one another – not only in terms of varieties, but also in terms of markets they supply and the extent of the business.

The semi-dry climate in North-Western Province and the proximity to Colombo and the airport, very much makes floriculture a thriving business for export here. A number of export companies are present and collectors collect mainly cut flowers (e.g. anthurium and orchids) and decorative leaves from small growers. The extent of the business (i.e. size of nurseries and importance for family income) in general seems to exceed that of North-Central Province.

Floriculture in North-Central Province is only a minor source of income; nurseries tend to be very small (often only small net houses in the back yard); no exporter is known to be located in the NCP. The domestic market is of far more importance here: many growers interviewed stated that they were making a better price for their products than they would if they sold to collectors who supplied exporters. However, exporters seem to be looking

increasingly also to NCP – one export company was found to supply bougainvillea and other potted plants from Polonnaruwa district by sub-contracting to two growers there.

It is estimated that more than 50 percent of the businesses in floriculture are managed by women. For most small growers – whether female or male, floriculture only serves as a secondary source of income. However, all growers interviewed mentioned that their job satisfaction was very high, as the work is relatively comfortable.

The following summarises findings that came out of numerous interviews and focus group discussions with growers:

- **The floriculture sector applies relatively advanced cultivation technology and methods:** Products are usually cultivated under micro-climatic conditions in poly or shade houses according to the requirements of the plant/flower type; high quality (often imported) hybrid varieties are used as mother plants in cut flower production; both native and exotic mother plants are used for the production of foliage plants and decorative leaves; sprinkler and drip irrigation systems are used for irrigation; pest and disease control is done under the supervision of the National Plant Quarantine Service under the Department of Agriculture; quality control is done by trained nursery men.

In other words: if growers want to enter the export market, they need to adopt new cultivation technologies that enable them to meet market requirements. Many small growers find this difficult, as knowledge and information about new technologies and production methods is not accessible – one reason being as already pointed out that there is no regular flow of information between value chain stakeholders and

supporting organisations. Most have taught themselves and learned on a trial and error basis.

The lack of market information is one of the main constraints towards improved technologies and production methods. Without knowing what the market requires (e.g. quality and standards), growers also do not know what exactly they need to change about their cultivation practices. Market information also includes information about available input supplies: new plant varieties, organic fertilizers, new products for disease control, garden and landscaping tools and equipment, nets and construction materials for poly and shade houses, etc.

There are several potential channels through which information and knowledge reaches growers: a) through buyers (exporters and collectors) and supply companies in the first place, b) through business development services and government extension services, c) through media, d) through information events such as exhibitions, and e) through growers exchanging information amongst themselves – e.g. with the help of their associations.

In order to improve the flow of information and knowledge, all these channels need to be utilised, and especially buyers and suppliers need to become more aware of their role to provide information and knowledge to growers.

- **Difficulty for small growers to achieve necessary bulk and quality required for export markets; supply from small growers remains a risk for larger buyers.** Growers are scattered over wide areas and their production is small in quantity. As a result larger buyers find it difficult to access them, just as BDS providers and government extension

officers find it difficult to provide small and medium growers with services. Information and knowledge therefore does not reach small growers, which affects quality and productivity, and again leads to problems accessing markets. A vicious circle.

This circle can only be broken if growers themselves also come forward and make it easier for exporters to access their products. One means by which this can be done is through strong associations. However, ...

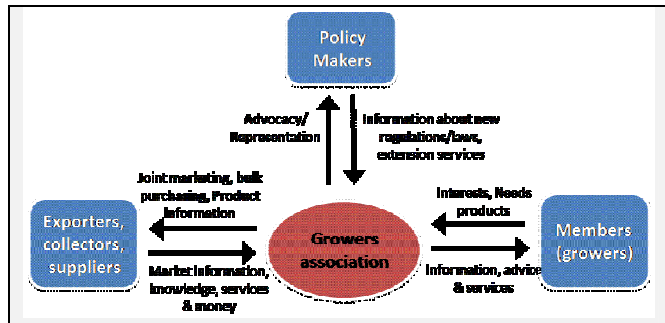
- **...most growers associations remain weak, provide insufficient services to members and do not advocate for their members' needs towards decision makers and BDS providers.** The government and various NGOs have in recent years increased their efforts to help growers to organise themselves, and have also assisted these associations in developing services. However, the fact that government organisations and NGOs are organising small enterprises, does not necessarily strengthen the associations' lobbying power towards these organisations and certainly drives them into a situation of dependence. Government organisations and NGOs need to ensure that associations remain independent from them. There needs to be a clear distinction between public and private sector, and organisation and enterprise.

It has also been found that services associations provide to their members are limited, and that many growers do not see the direct benefit of joining such associations. This is especially true for the national floriculture exporters association which seems very remote to rural growers (in fact membership is limited to exporters). The most common services provided by associations are:

- collecting plants from members (i.e. associations function as collection mechanisms for collectors and/or exporters)
- organising exhibitions periodically or irregularly
- meeting regularly to discuss issues with agricultural instructors or the BDS organisation that helped the growers to set up the associations

About two or three associations in NWP are currently functioning fairly well, and in Polonnaruwa an associations has recently organised an exhibition together with the district chamber of commerce (which was also the case for one association in Anuradhapura, which organises an annual exhibition).

However, the associations are not realising their full potential in terms of delivering more and better services to members. Apart from this, their governance structure is often ambiguous with control being exercised by a dominant collector or even the organisation that has helped growers to set up the association. It has been found that not only *within* associations conflicting interests cripple the proper functioning, but that also different associations in the same area – supported by different government organisations, NGOs and BDS providers – compete directly with each other. This needs to end.



Associations can be useful to growers in many ways: they can help to jointly market products (thus also making it easier for exporters to access rural nurseries); they can purchase input supply in bulk, passing on the discount to members; they can act as channels for information and knowledge dissemination; they can organise revolving funds for members; they can advocate the interests of their members towards BDS organisations and government authorities; and so on.

- **Insufficient information about market requirements and demand conditions.** Small growers – especially in rural areas – receive insufficient information about market requirements and demand conditions. This would for example include quality standards set by buyers or international organisations (e.g. EurepGap), quantity requirements of exporters/importers, consumer trends and market opportunities – but also information about new cultivation methods and technologies, input supplies, plants, etc.

There are several reasons for the lack of market information: a) grower associations that are weak in services and information which they provide to members and that do not act as information channels; b) lack of embedded services and

communication along the value chain – i.e. between exporters, collectors, growers and input suppliers; c) BDS and other supporting services are not market and needs-oriented and the access to these services remains difficult for rural growers; d) media do not publish information relevant to small businesses in floriculture and organisations that have useful services do not make use of media to publish their services and information.

To resolve the information deficit, a multi-dimensional approach is therefore necessary, for which public-private dialogue is a first step to enhance cooperation and coordination. Export companies sourcing from small growers and input supply companies supplying to small growers should also realise their responsibility for better communication and services to growers. Exporters will in the end benefit from higher quality and quantity of supply, and supply companies will benefit from an increasing market for their products – provided they invest a bit more in embedded services.

- **Costs of production.** Though costs for domestic market production are not so high (since cultivation is mainly done in backyards with minimum equipment), there remain substantial financial entry barriers for growers to up-scale their nurseries and produce more and higher quality plants. The reason is that initial investments for export production are comparatively high because of required net house construction and planting materials.

Up-scaling cultivation in size and quality usually is done to access higher value markets – i.e. going for export. To meet market requirements in terms of quality and quantity, growers need to invest in more sophisticated equipment and

inputs: construction materials for net houses, irrigation systems, various gardening tools, fertilisers and pesticides, training of workers, etc. However, costs remain high and unaffordable for many small growers – especially of cut flowers (for cut leaves investment costs are less).

Various reasons can be found for the financial entry barrier: a) growers do not make use of their associations to purchase inputs in bulk and bargain for a discount – as a result costs of production are high; b) commercial banks and government development banks (with low interest rates) are not aware of floriculture as a viable business opportunity; c) growers do not fulfil loan requirements such as registration, business plan, record keeping or accounting standards; d) current market interest rates for loans are too high for small growers and access to alternative financial resources is limited.

Access to low interest credit to invest in improved cultivation technology is essential for the growth and development of the floriculture sector. Interest rates are however a macro-economic issue and therefore hard to resolve from a local perspective

- **Availability of skilled labour.** Growing in size also means that employment opportunities increase including demand for skilled labour.

Whereas small growers mentioned no problems in finding appropriate labour (since their demand for additional workforce is not high, and mainly covered by family members), medium scale growers mention finding skilled labour as a problem. Large nurseries train their own staff, and therefore also do not face shortages of skilled labour. The

problem therefore seems to lie mainly with expanding nurseries that yet have no own training capacities.

This is a gap that can be bridged by various support services available – especially agricultural extension services specialised on floriculture.

Information and services on production of floriculture products

The Department of Agriculture is increasingly becoming aware of the needs of the floriculture sector and is providing support through various means:

- A chapter has been included in the next 5 year plan, with the aim to develop the floriculture sector; funds will be allocated to implement proposals (see section 3.4)
- Through its extension service, the department is starting to provide awareness workshops and trainings for growers. Extension officers in NWP have also been pivotal in helping growers to form associations.
- On its website www.agridept.gov.lk the department offers guidelines for growers (brochures on anthurium and potted plants are downloadable).

3.3 Input retailers, supply companies and importers



There are not many input suppliers specialised on floriculture products. Growers would usually get their inputs from agricultural suppliers that mainly cater to the agricultural market as a whole. Specialised inputs such as nets in NCP and NWP are bought from a CIC store in Dambulla or from suppliers in Colombo.

Planting materials such as seeds and cuttings for export are mainly purchased from informal tissue culture labs, other nurseries or exhibitions/trade fairs (e.g. the annual floriculture exhibition at BMICH, Colombo). Growers of domestic plant varieties only buy from other nurseries or from exhibitions/trade fairs.

As the value chain map on page... shows, the NWP benefits from its proximity to the Western Province and Colombo: Many agricultural input supply retailers are available in the two districts – especially in Kurunegala. The situation in NCP on the other side looks more bleak: Hardly any local retailers sell inputs to farmers – despite the vast agricultural market in these districts.

However, many growers found innovative solutions to cope with the situation:

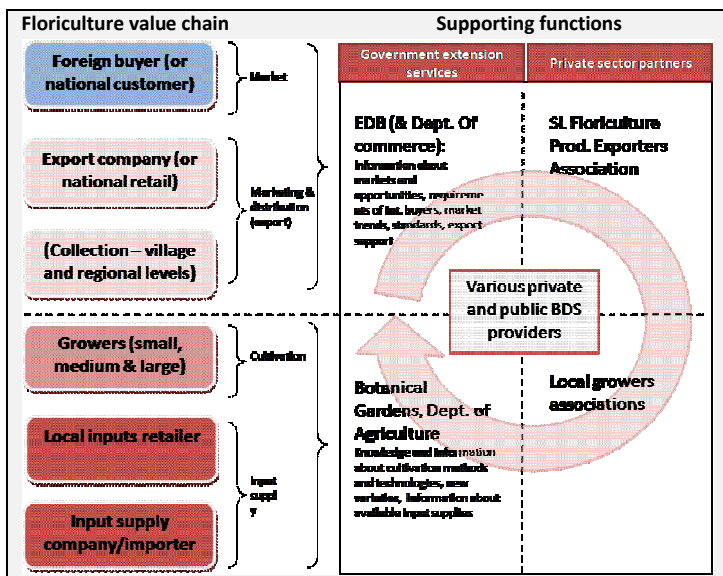
- The floriculture sector only makes up a small market share (estimated between 1 and 5 percent) for large supply companies that for example sell fertilisers, seeds, pesticides, nets, etc. The floriculture market is still too small for input supply companies to specialise on this sector, which is why most also cater to other agricultural sectors. However, it was found that **some growers also act as input retailers, thereby making an extra income by selling to other small growers.**
- A positive trend that could be observed is the local production of organic manure, which is used as fertilizer. Though this is mainly done for cost reasons – ready-made fertilizer from supply companies is expensive – it certainly meets a changing consumer awareness that demands more organic products. This is a competitive advantage that should be encouraged and further expanded. **Producing organic manure for fertilizer is also a business opportunity, providing income and employment to rural families.**
- **Growers associations** – as mentioned before – can also play a vital role in securing sufficient and affordable input supply for growers. Especially expensive equipment such as nets for green houses or irrigation systems and pumps could be purchased in bulk for a discount, from which every association member would benefit. Services and technical consultation could also be provided through associations.

The three examples above show, that though specialised retailers for floriculture inputs might not yet be attracted to set up shops in NWP and NCP, growers can overcome shortages with innovative solutions that also provide further income opportunities to them. In the long-run – as the floriculture sector further grows – larger supply companies might also become interested in catering to this market.

3.4 Government support and extension services

The competitiveness of the floriculture sector also depends largely on the availability of supporting organisations and institutes as well as the quality of services they provide. These supporting functions together with rules and regulations (see next section) form the basis of a market system that is conducive for a competitive floriculture sector in Sri Lanka.

A number of initiatives support the development of the floriculture sector – not only from the government (central and provincial), but also from development agencies, NGOs and other organisations.



Various government institutes and organisations are relevant to floriculture: National and provincial Ministries of Agriculture, national and provincial Departments of Agriculture, Forest

Department, Department of Wild Life Conservation, Royal Botanical Garden, Ministry of Trade, Sri Lanka Export Development Board, and Wayamba and Mahaveli Development Authorities. Other service providers and relevant organisations include: AgroMart, Industrial Services Bureau (ISB), Small Enterprise Development Division (SEDD), various growers associations and the Sri Lanka Floriculture Produce Exporters Association.

- **Lack of coordination between relevant (government) stakeholders:** Looking at these supporting functions, the value chain research conducted by EDB found there is hardly any coordination between relevant organisations, which often results in waste of resources (by duplication) and conflicting interventions. Supporting services for the floriculture are disorganised; roles are not clearly defined; interventions are often even counter-productive. One such example is the attempt by several government organisations in NWP to set up floriculture growers associations that eventually competed against each other, thus weakening their strength and capacities. Work is being duplicated – caused by a lack of coordination and willingness to communicate with each other.

To provide good, needs- and market-oriented services and information that make the floriculture internationally more competitive, roles and responsibilities need to be clearly defined and communication between government and private organisations needs to be strengthened. As the picture on page 39 suggests, each organisation should do what it is good at doing:

- The Export Development Board (EDB) should focus on market related services, rather than getting too much involved at the cultivation level

- The Agricultural Department and Botanical Gardens should focus on extension services for cultivation, rather than getting involved in marketing aspects and organisation of growers. They could also help to build the capacity of the Makandura research station for floriculture (currently sponsored by 'Carp').
- BDS providers such as SEDD, ISB (and some NGOs) should focus on strengthening the capacity of growers and exporters associations, training floriculture stakeholders in business management and providing other necessary services which are not covered by government organisations – or support government organisations in delivering their services to growers.

Communication between government organisations should also be linked to a public-private dialogue: This will ensure that services are market and needs-oriented, and that possible regulatory and policy barriers can be overcome quickly. Exporters and growers associations are the best partners for this purpose: they act as communication channels and can provide useful information and services to their members. Government organisations should refrain from dealing with individual enterprises, but rather help to strengthen collective bargaining through associations.

A further aspect that underlines the need of better communication between public and private stakeholders is the fact that **many small businesses in floriculture did not even know about the services provided by various government organisations**. For example: though EDB has many useful information services (trade information, exporters' directory, www.businesssrilanka.com website, a

specialist on floriculture export, etc.), many entrepreneurs had never heard of them before – not only in floriculture. The same applies to the cultivation manuals for various cut flowers that the Department of Agriculture has put on its website (www.agridept.gov.lk). This certainly calls for a better publication and distribution policy by government organisations.

- **Lack of research facilities to develop new export varieties for which Sri Lanka has a competitive advantage compared to other export countries.** This is a complaint of many small and medium scale growers during the EDB value chain research. In fact the problem is not a lack of research facilities, because the Royal Botanical Garden as well as the Horticulture Development Institute (HORDI) and universities are doing research on new plant varieties.

The real problem lies more in the communication between these institutes and floriculture businesses – especially growers in rural areas. It could be argued that there is a gap between the academic and business world – i.e. research institutes not being concerned about the marketability of newly developed plants.

Communication between research institutes and private businesses in the floriculture sector can be enhanced by various means, for example: a) publishing new varieties and other research findings and making the information available also to small (rural) growers; b) more field visits of and trainings by research staff outside of Kandy; c) participating in the public-private dialogue as suggested by this value chain initiative (see chapter 5 – “steering group”).

In order to provide better (market and needs-oriented) services, the first step is to enhance communication between public organisations and private stakeholders. Roles need to be clearly defined and cooperation between government organisations rather than rivalry is essential. The proposed value chain steering group (chapter 5) can be a start for this.

3.5 Rules and regulations

There are a few rules and regulations that affect the floriculture sector and some of these are an obstacle to the growth of the sector. However, the number of rules and regulations – fortunately – remains relatively low when for example compared to the dairy industry. The following table summarises the regulatory obstacles and also gives some suggestions on overcoming the constraints.

Rule or Regulation	Issue
Security checks on roads and airport lead to damages	Amongst the highest ranking problems mentioned by all exporters, were security checks. Though necessary to guarantee the safety of port and planes, checks often lead to damage to products and packaging, and slow down the procedure (problematic for fresh products such as plants, which need cool storage). Security personnel is not sufficiently sensitised on how to handle sensitive products such as plants – despite the fact that the foreign exchange income generated by exports is used to pay their salaries. Rejects from buyers have occurred for this reason, which is not only a loss for the exporter, but also heavily affects the competitiveness of the whole sector.
Security documents unnecessarily duplicate other available documents	A further burden mentioned in this context, are additional documents required for security clearance. Exporters said that these documents duplicate other necessary documents (e.g. cargo dispatch notes) from other government authorities – thereby increasing the administrative costs of the exporter and unnecessarily complicating the export procedure. The responsible authority for security should therefore consider using existing documents and certifications rather than creating new ones.
Business registration	Small growers mentioned that they had no incentive to register their businesses, because as soon as they did so,

Rule or Regulation	Issue
increases costs of water and electricity	costs of water for irrigation and electricity would increase. The reason being that the price for water and electricity is higher for businesses than private households.
Quarantine certificate	In order to get the quarantine certificate, the Quarantine Department needs to visit every nursery which produces for export. For exporters who collect from small and medium growers or in rural areas this can become a problem.
Transportation of sand	The restrictions on transporting sand are supposed to prevent soil erosion through unconsidered sand mining. These regulations which mainly address the construction sector are also applied to the floriculture sector, which however comparatively only requires a negligible quantity of sand. It is therefore proposed to adopt a flexible permit issuing procedure at divisional level.

4. Main proposals to address the bottlenecks

In order to address the opportunities and constraints mentioned in the chapters above, this value chain initiative makes the following proposals. These proposals will be discussed with all floriculture sector stakeholders. We believe that once implemented, these proposals will contribute significantly to the development of the floriculture sector in the NWP and NCP and can be an example for the rest of the country.

1. Proposals for exporters, collectors and domestic buyers



Taking advantage of domestic market potential and local markets/ exhibitions. The domestic market is good and growing; associations and BDS providers are organising fairs and exhibitions. How to take advantage of the opportunities? Two main proposals came up:


- *Organising more local exhibitions, fairs and markets for floriculture growers, input suppliers and buyers (including exporters).* Growers' associations should be motivated to organise quarterly or half-yearly exhibitions in cooperation with professional BDS providers. Organisers should also network amongst each other in order to regularise these events and coordinate time schedules.
- *Increasing marketing efforts for local and national exhibitions to reach target groups outside of the districts.* It is suggested that a central organisation such as the national floriculture association collects information on all local exhibitions and fairs and publishes them as an annual schedule in the media as well as through information channels of associations.



Improving collection of products from small growers and efficiency by establishing a local trade centre. One exporter mentioned that having

such a regional trade centre would make it much easier for them to source products from small growers. Such a trade centre could be gradually established either by a collector (or a group of collectors) or by a strong floriculture association.

This trade centre does not necessarily have to be a real market that requires many resources (land, capital, building, labour) but it could in fact be done by a broker equipped with an office and sufficient communication technology. This broker would collect information about available products and disseminate it to potential buyers on a daily basis. He would further introduce a kind of grading system, classifying products into export and domestic market varieties – thus guaranteeing a certain degree of quality to buyers. For his brokering services he would of course receive a commission, which again would make this solution a commercially viable business venture.

 **Redefining the role of collectors and improving services and information provided by them to small growers.** Collectors can be a useful vehicle to pass information and knowledge on to growers in rural areas. In order to realise this potential, two proposals were made:

- *Collectors should form an association* that helps them to lobby for their interests, apply for government support and to deliver services to collectors (such as training and information, or bulk purchasing of equipment). The ILO has developed a training course for small business associations which is implemented by various BDS providers in the districts. This training can provide some useful direction to collectors. A further workshop should be provided to educate collectors on their potential role in the floriculture value chain and explain the benefits to them. However, the initiative for forming an association must come from collectors themselves.
- A central organisation such as the national floriculture association should set up a *database of all available growers* and disseminate it to its members. This would give collectors more recognition and link them to wider markets.

 **Making better use of EDB forum (“Samatha Piyasa”) and services.** The EDB must market and advertise its services more widely. It has been

found that though the organisation provides many useful services and information, stakeholders rarely know about them.

- The EDB is already successfully implementing its “Samatha Piyasa” forum at the national level. This forum has been very useful in addressing constraints in the business environment. Therefore the “Kavaya” programme earlier conducted by EDB at the provincial level should be activated again. It is also suggested that minutes of the forum meetings are circulated regularly amongst relevant authorities and organisations in order to enhance cooperation and sharing of information.
- Services provided by the Colombo head office or information sources such as the exporters directory, the published books on “Foliage Plants and Leaves”, etc. are not known to many people in rural areas. *The EDB should therefore develop an information distribution strategy targeting especially rural entrepreneurs.*



Facilitating better price control. Prices are a major issue in the export chain: collectors and growers complain about low prices they are being paid by exporters; exporters on the other hand have strict quality requirements. However, without real incentives (good price) growers/collectors will not improve quality and increase quantity. The following is therefore suggested:

- Encourage collective selling of floriculture products through a) associations, b) collecting centres (see proposal 2 above), and c) exhibitions and fairs.
- Establish a pricing system between exporters and growers through forward agreements that could be connected to different quality grades.

Proposals for growers

Strengthening the capacity of growers' associations towards better services for their members, improved bargaining power and interest representation.

- *The ILO has developed a training programme for small business associations (SBAs), and has trained several BDS providers in NWP and NCP to provide this training.* This training programme should be provided to all growers associations in order to educate them about the possible roles and benefits of a strong association. Extensive follow-up should be provided to assist growers to implement what is learned.
 - *After an SBA training, growers' associations should be assisted in developing a strategic plan.* This plan would explore also the possibility of joint marketing and bulk purchasing.
1. **Developing a database of growers.** Similar to the EDB's directory of exporters, a database with profiles and contact details of growers should be set up and distributed amongst relevant buyers and stakeholders.
 2. **The market is good and expanding, but growers face problems to access high value markets.** Apart from seeing the growers' association as a link to the market (proposal 1), it was suggested that better and up-to-date information about the market is published and made available to growers. The EDB could for example compile a booklet that provides necessary information about market trends and requirements, and also regularly publish information on market prices. **Increasing awareness on market requirements and demand conditions.** Especially small and rural growers/collectors need to become more aware of export requirements (i.e. in terms of quality, quantity, demanded varieties, etc.). Simply linking small growers to exporters is not sufficient – growers also need to know what exporters *want*.
 - *Introduce quality certifications and standards such as EurepGap or others to growers and collectors.* A BDS provider could organise a training course (e.g. SLSI) – alternatively this could also be done by either the national floriculture association or exporters themselves.
 - *Develop and/or disseminate (existing) manuals on the growing of different varieties to growers.* EDB and the Department of Agriculture already have produced each two manuals. These should be
 - Disseminated widely, used as training material for growers and complemented by further manuals.

Proposals for input supply

Strengthening embedded services provided by input supply companies to growers. The services provided by some input suppliers are an important source of knowledge and information for growers.

- *Compile a directory of relevant input suppliers* that includes contact details and information on supplied products and especially additional services that suppliers provide with these products (e.g. training, manuals, finance options, etc.). This directory should be managed and regularly updated by a central BDS organisation and disseminated to growers through their associations.
- *Encourage input suppliers to provide better information* (e.g. through small customer workshops, road shows, or easy to read manuals) on the use of their products. Large supply companies should train their local retailers in delivering better customer services to floriculture growers. Nets retailers could for example also assist growers in constructing poly and shade houses – as a way to market their products more efficiently.

1. Taking advantage of the good demand for specialised floriculture input products. Local retail of specialised inputs for floriculture remains weak (especially in NCP) despite a growing domestic and export market. This is a lost business opportunity for input suppliers if they do not react to the demand.

- *Encourage input suppliers to expand their retail networks in NCP* (especially Polonnaruwa district). Growers associations can help input suppliers to become aware of the needs of local growers. Associations can also act as investment promoters, trying to attract a supply company to open a retail store in their area. Demand always creates supply.
- *Train some good growers as suppliers of cuttings and seeds to other growers.* The Department of Agriculture could select some growers from each district and train them.
- *Develop a training programme on how to manage a nursery as an enterprise.* This could be done by a BDS organisation.
- *Buy-back systems can help to reduce costs of inputs for small growers* – i.e. the exporter and the growers would enter an agreement by which the exporter supplies the grower with inputs (e.g. cuttings, fertiliser etc.), the grower cultivates the plants and sells them back to the exporter.

Supporting functions

In order to improve access and availability of BDS for growers, the suggestion was made to **develop a directory of all available BDS providers** relevant to growers and publish their contact details and information about services as a small leaflet. This leaflet would then be distributed through growers associations.

5. Next Step: Floriculture Steering Group for NCP and NWP

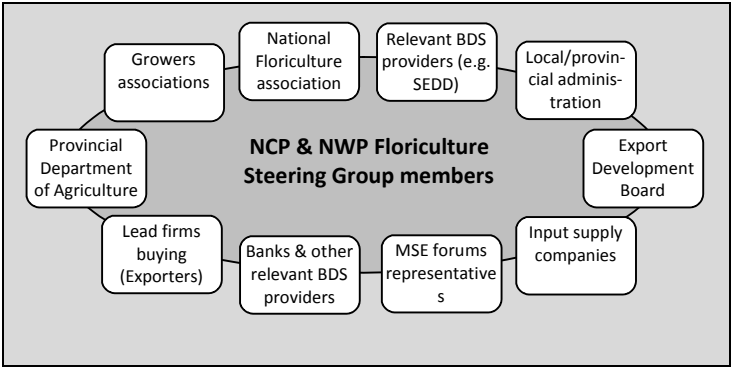
A floriculture value chain steering group for the North-Central and North-Western Provinces has been set up at the results presentation of this value chain development exercise on January 21, 2008 in Kurunegala. **It will not replace any committees, organisations, groups etc. already existing for the floriculture sector.** It will initially be set up for a period of 6 months. However, its members can also decide to maintain it for a longer period if it proves to be useful.

The purpose of the floriculture steering group is to prioritise, discuss practical details, initiate and support the implementation of the proposals made in this report. The steering group also intends to enhance the networking between relevant business stakeholders in the floriculture sector, and to initiate a public-private dialogue with government institutions.

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