

Supply Chain Challenges for Spice Producers

The Sri Lankan Perspective



SARADA DE SILVA

Chairman , The Spice Council of Sri Lanka

Chairman, Intercom Group of Companies

WSC, Pune, India, February 2012



Spices , Flavors, Fragrance & Beyond

Background

&

Performance



Spices, Flavors, Fragrance & Beyond

- Spices play a vital role in the country economy, as export crops.
- For the past three years, the average annual turnover from spices and essential oil exports was over US\$ 200 million.
- Cinnamon, pepper, and clove are the main crops of spices, exported from Sri Lanka. Of the total turnover from spices,
 - Cinnamon constitutes about 55%
 - Pepper and cloves constitute 17% and 21%, respectively.



- Pepper, cloves, nutmeg, and cardamom are mainly grown in the central parts and cinnamon in the south coast of the country.
- Over 70% of the cultivated lands are smallholdings and home-gardens with:
 - With minimum chemical fertilizer, pesticide, and herbicide use
 - This contributes to enrich the micro-climate and hydro-catchments (e.g. Kandyan home-gardens in the Central hills)



Context

&

Challenges



Spices, Flavors, Fragrance & Beyond

THE CONTEXT

- Majority of the producers are smallholders.
- The average per capita land use is roughly between 1/4 - 3 acres.
- Most of the smallholders cultivate spices for supplementary income.
- Sri Lanka enjoys high unit prices for its spices at export markets, however due to several critical issues in the supply chains, the producers are not reaping the benefits adequately.



THE CONTEXT

- With continuing inflation and the rising cost of living is causing a higher labour wages, hence high cost of production for the producers.
- Urbanization and increasing middle class in the townships of the spice growing areas are raising the economic expectations of smallholders for a better living conditions.
- The unusual weather caused by the climatic shifts in the growing areas are causing harvest losses (e.g. unusual rains caused pepper flower to fall last year)



THE CHALLENGES

What?

Challenges faced against the global market competitiveness and sustainability of supplies.



THE CHALLENGES

How?

The competitiveness of the spice industry value chains are being impeded by:

- High prices for quality produce and limited supplies,
- Less potential for value addition
- Increasing trend of sub-standard produce flowing into the local supply chains.



THE CHALLENGES

What causing them?

- High labour cost
- Widening gap between the demanded supplies and the management capacities to deliver



THE CHALLENGES

These effects are the result of:

- Skills migration and workforce with stagnated know-how
- Low investment on technology and industry infrastructure due to low profit margins of the enterprises



THE CHALLENGES

The root-causes to these issues finally end in:

- Inadequate training delivery mechanism to meet the industry demands.
 - Inadequate to change the social stigma in production and manufacturing workers (e.g. cinnamon peelers)
 - Lack of properly developed curricular and trainers to train the workers on food safety and hygiene, good agricultural practices, and quality compliance in production and manufacturing.
 - No proper training facilities to effectively conduct training.



THE CHALLENGES

- Limited extension capacities.
 - Due to limited personnel and resources the public extension services are under performing.
 - Consequently, outreaching the smallholders to build up knowledge and change practices on GAP and GMP are restricted.
 - Most of the extension personnel lack up to date knowledge on technology transfer and adult learning techniques.
 - The existing extension strategies for the smallholders are not of entrepreneur development focus.



THE CHALLENGES

- Inadequate production and manufacturing infrastructure
 - The smallholders lack the capacity to invest on appropriate infrastructure for GMP, HACCP, ISO certified production and manufacturing.
 - Many of the work places at smallholder level are not worker friendly.
 - Many of the production flows are cumbersome.



THE CHALLENGES

- Poor linkages between the producers and exporters
 - As a result significant depletion in quality and food safety standards.
 - This causes significant shortage of quality supplies to the markets.
 - Power imbalance in the supply chains, creating intermediary dealer dominance over transactions.



Initiatives

&

Actions



Spices, Flavors, Fragrance & Beyond

- Since 2005, an active dialogue between the policy makers and the private sector was established through The Spice Council to tackle macro level issues.
- Inculcation and establishment of GAP, GMP, HACCP, and ISO standards and certification for food safety in the cinnamon industry.
- Setting up of 10 large GMP and HACCP certified Cinnamon Processing Centres.
- 20 medium GMP and HACCP certified Cinnamon Processing Centres and over 100 small scale cinnamon processing centres.



- Established a model Spice Processing facilities with low cost dryer and training facilities for pepper and clove small producers
- With the support from the STDF of WTO, and UNIDO approved for implementation a project to set up a training function and institutional capacity building to train cinnamon peelers.
- Initiated a R&D project to find mechanization options for cinnamon manufacturing.
- Designing and implementing a project to initiate centralized cinnamon processing factories.





**Our vision is to make
the spice sector
a \$1 billion export industry!**

**Thank you
Chairman of The Spice Council**

