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High Value and Export-Oriented Agribusiness: Unlocking Agri-food Sector Potential in Sri Lanka



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Authored by
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Acronyms

AAIB	Agricultural and Agrarian Insurance Board
ADB	Asian Development Bank
AGR	Primary Agricultural Production
CAGR	Compound Annual Growth Rate
CBSL	Central Bank of Sri Lanka
CDA	Coconut Development Authority
CID	Customs Import Duty
DAD	Department of Agrarian Development
DAPH	Department of Animal Production and Health
DCD	Department for Cinnamon Development
DOA	Department of Agriculture
EIC	Export-Import Cess
EU	European Union
EUDR	European Union Deforestation Regulation
FAOSTAT	Food and Agriculture Organisation Statistical Database
FDA	Food and Drugs Authority
FSV	Food and Beverage Services
GDP	Gross Domestic Product
GSP+	Generalised Scheme of Preferences Plus
HS	Harmonized System
HS8	Harmonised System (8-digit classification)
IFPRI	International Food Policy Research Institute
IOT	Input-Output Table(s)
ISIC	International Standard Industrial Classification
MAFAP	Monitoring and Analysing Food and Agricultural Policies
MASL	Mahaweli Authority of Sri Lanka
MFN	Most Favoured Nation
MOA	Ministry of Agriculture
NFS	National Fertiliser Secretariat
NPQS	National Plant Quarantine Service
NRP	Nominal Rate of Protection
PAL	Ports and Airports Development Levy

PRC	Agro-processing / Food Processing Sector
RCA	Revealed Comparative Advantage
RPC	Regional Plantation Company
RRI	Rubber Research Institute
SCL	Special Commodity Levy
SLAB	Sri Lanka Accreditation Board
SLSI	Sri Lanka Standards Institution
SLTB	Sri Lanka Tea Board
SSCL	Social Security Contribution Levy
SUT	Supply-Use Table
UAE	United Arab Emirates
USDA	United States Department of Agriculture
VAT	Value Added Tax
WB	World Bank
WITS	World Integrated Trade Solution

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Executive Summary

Sri Lanka's agri-food sector is larger and more economically significant than conventional national accounting measures suggest. The share of primary agriculture in Gross Domestic Product (GDP) has declined from 32.1% in 1960 to 8.3% in 2024. The share of the agricultural labour force in total employment is approximately a quarter in 2024. However, when the full agri-food system is defined to include primary agriculture, agro-processing, food services, input supply, and trade and transport components related to the agri-food sector, the broad agri-food sector accounts for 24.5% of GDP and 42% of total employment.¹ Among sub-sectors, beverage crop cultivation, including tea and rice cultivation, accounts for 64.8% of primary agricultural employment. Women constitute 48.6% of the beverage crop labour force and 46.6% of food processing sector employment overall. The female labour share exceeds 50% in certain processing sectors, such as tobacco and confectionery manufacturing.

Viewing the agri-food sector beyond primary agriculture reveals substantial upstream and downstream linkages that are invisible in standard agricultural GDP measures. It underscores the sector's central role in poverty reduction, employment generation, and export earnings. Primary agriculture (AGR) and agro-processing (PRC) exhibit complementary characteristics. Intermediate inputs account for 22% of AGR sector gross output, compared with 69.9% of input use in the PRC sector. Domestic value addition is 78% in the AGR sector and 30.1% in the PRC sector. The AGR sector supplies 37.9% of its gross output as inputs to the PRC sector, creating a strong forward linkage. The PRC sector, in turn, sources 19% of its inputs from the domestic AGR sector. Input-output analysis shows that the PRC sector has the third-highest output multiplier among 35 sectors in the Sri Lankan economy, implying that each USD 1 of final demand for food and beverage manufacturing generates USD 1.85 of total economic output, compared with a multiplier of 1.20 for primary agriculture. Labour productivity in the PRC, measured as value added per worker, is USD 15,950- approximately five times the USD 3,199 recorded in primary agriculture. Simultaneously, primary agriculture is far more labour-intensive, with 244 workers per USD 1 million of gross output, compared with 18.9 workers per USD 1 million in food manufacturing. These diverging productivities create a structural incentive for the transition of agricultural labour towards more productive downstream activities.

Agri-food exports accounted for 30.6% of total goods exports in 2010 and 29.2% in 2024, showing a stable share over 14 years. Export volume increased from USD 2.5 billion to USD 3.5 billion over this period, recording a 39% rise. Tea remains the dominant export, generating USD 1,507 million in 2025, despite the disruptions caused by the 2021 chemical fertiliser import ban. Processed coconut products, coconut milk, desiccated coconut, and virgin coconut oil exports doubled from USD 462 million in 2018 to USD 895 million in

¹ Thurlow, J., Holtemeyer, B., Jiang, S., Pauw, K., & Randriamamonjy, J. (2025). *Measuring agri-food systems: New indicators and global estimates* (IFPRI Discussion Paper No. 02339). International Food Policy Research Institute (IFPRI).

2025. Coconut products exceeded USD 1 billion in total export revenue in 2025. Spices contributed USD 455 million in 2024, which was driven predominantly by cinnamon. The agro-processing sector's share of total goods exports recovered from 12.8% in 2015 to 15.7% by 2024.

The full realisation of the agri-food sector's potential for robust export growth and expansion of the PRC sector, which exhibits high labour productivity, is constrained by a multilayered policy framework. The AGR sector output is protected from import competition by the complex tariff schedule, creating a systematic anti-export bias in price incentives. Government spending is highly concentrated in input subsidies while productivity-enhancing programs like replanting of plantation crops are underinvested. The agricultural research and development budget is below global benchmarks.

Sri Lanka's import regime imposes multiple tariffs on agri-food imports. In addition to Customs Import Duty (CID), imports are subject to the Ports and Airports Development Levy (PAL), the Export-Import Cess (EIC), and other charges. The Special Commodity Levy (SCL) is mainly applied to food imports without compounding other tariffs. Using data from Sri Lanka Customs from the year 2025, the trade-weighted tariff burden on food and beverage manufacturing imports was calculated as 27.5%. For primary agriculture, the average import burden was calculated at 18.5%. Ad hoc revisions to para-tariff levies cause wide fluctuations in import costs within a single fiscal year, increasing regulatory uncertainty for private investors. Tariff and non-tariff barriers, such as import licensing requirements, deprive domestic food processors of access to cheap, high-quality raw materials. For instance, the SCL burden and import licence requirements for maize negatively affect poultry feed formulators' operations, restricting the growth of the poultry sector. The unpredictable and highly complex tariff regimes and restrictive non-tariff measures discourage private-sector investment in the agri-food sector. Nominal Rates of Protection (NRP) show a systematic anti-export bias in Sri Lanka's price-incentive regime. While the policy environment has room for improvement, the agri-food sector suffers from underinvestment.

Agriculture accounted for 7.6% of total government expenditure between 2017 and 2022, exceeding the South Asian regional average. However, spending is heavily skewed towards input subsidies. Fertiliser subsidies absorbed 27% of total agri-food expenditure, while the agricultural research and development budget averaged below the 1% of agricultural GDP benchmark recommended by the Food and Agriculture Organisation. The underinvestment is stark, given the existing low productivity and a shortage of funds for productivity-increasing practices. The total factor productivity growth averaged 0.28% annually from 1961 to 2020, compared with a world average of 0.74% and India's 1.69%. Tea replanting reached only 912 hectares in 2022, 17% of the recommended annual rate, with at least 50% of smallholder fields past their peak productive age. Private credit to agriculture has declined as a share of total credit, having peaked at 14.4% in 2010.

Six export clusters show commercially differentiated growth potential targeting the export market. Coconut value-added products exceeded USD 1 billion in 2025. The EU Geographical Indication registration for cinnamon in 2022 creates a legally enforceable premium position. Seafood exported to the EU under GSP+ includes unconventional high-growth categories. Whole pepper grew at 13% per year between 2010 and 2024, but routes 93% of exports through India. Fruit and vegetable processing grew by 302% over the past decade, and tea is exported 45% in bulk, with a 37% FOB premium available for packaged products.

This analysis identifies key areas for immediate focus, to drive robust growth in Sri Lanka’s agri-food sector. Investment facilitation should target food and beverage manufacturing, where multiplier effects are highest, with targeted support for coconut processing, cinnamon speciality products, and seafood cold chain and traceability infrastructure (Table A). Reducing the anti-export bias requires a phased SCL reform that differentiates between consumer-competing imports and agricultural inputs used by processors, as well as a rules-based tariff calendar to replace gazette-driven revisions. For pepper exports, direct market development is required to reduce the 93% dependency on India. Investment should be redirected toward R&D, which might need rationalisation of input subsidy programs to repurpose existing funds. Budget allocation for extension and a dedicated tea smallholder replanting fund, with the R&D budget raised to the 1% of agricultural GDP benchmark, is necessary. A multi-year agricultural policy framework with stability provisions, reform of regional plantation companies (RPCs) lease tenure beyond 2045, and a single digital window for agricultural input approvals are the institutional changes required to restore private investment confidence in the sector.

Table A: Product Clusters with Potential for Growth in Export Market

Priority Product Clusters	Strengths and Opportunities
Cinnamon	High export growth and comparative advantage in the export market. Legally enforceable premium through Geographic Indication for cinnamon allows expansion, catering to growing global demand. Sector employs more women, implying high development impact.
Other spices including pepper and vanilla	High comparative advantage and high compound annual growth rate. Pepper exports grew by 13% on average annually from 2010-2023.
Food processing including coconut-based products	Strong growth in exports due to global demand. Conducive external tariff regimes exist for coconut-based exports.

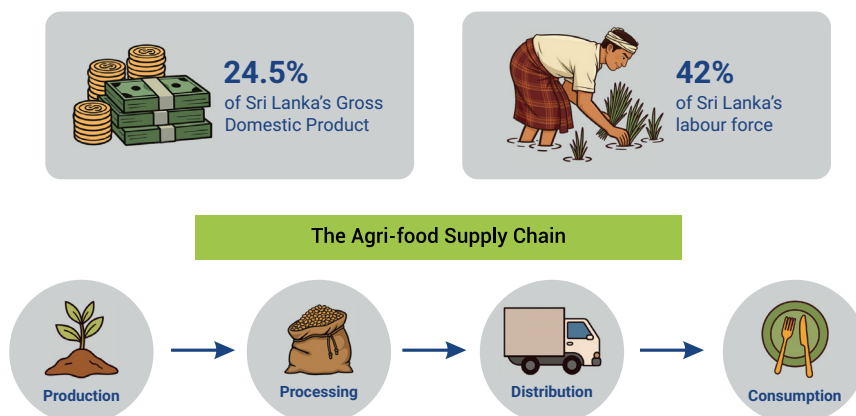
Fruit and vegetable processing	The sector, which includes desiccated coconut, also grew by 302% in the past decade. Preserved pineapples, nuts and seeds excluding cashew, groundnuts, preserved cucumbers and gherkins are in this group. High-value products that have export demand.
Seafood	High compound annual growth rate with comparative advantage. External tariff regimes are favourable. Utilisation of preferential market access is high due to domestic value addition. Niche products such as dried and prepared sea cucumbers show a compound annual growth rate of 55.8% to 60.2%. Frozen cuttlefish and squid grew at 209.4% per year since 2017.
Tea	Globally established brand with room for more value addition. About 45% are exported as bulk while value-added tea obtains a premium of 37%.

1. Introduction

The share of Sri Lanka's agriculture sector in gross domestic product (GDP) declined to 8.3% in 2024 from a historical high of 32.1% in 1960. While a reduced dependence on agriculture indicates a structural transformation, the sector continues to account for approximately a quarter of the total labour force (Figure 1). In contrast, the share of agriculture in GDP includes primary on-farm production, while food processing industries are categorised under manufacturing. Thus, traditional measures of the agricultural share of GDP do not capture the sector's real economic impact, given the significance of upstream and downstream connections. Recent estimates show that the broadly defined agri-food sector accounts for 24.5% of GDP in 2021 and 42% of employment in the same year.² In these estimates, the agri-food system comprises all actors and activities involved in the supply chains linking food production, processing, distribution, and consumption. Mapped to the national accounting framework, the agri-food sector includes primary agriculture (AGR), agro-processing (PRC), food services, food processing, accommodation, input supply, and trade and transport (Appendix, Table A1). Estimating the economy-wide share of the agri-food sector needs Input-Output (IO) tables and goes beyond survey-based national account estimates. While such complexities exist, the IO-based estimates provide an accurate approximation of the agri-food sector's economic contribution, employment numbers, and economic multipliers extended to other sectors in the economy.

Recent estimates show that the broadly defined agri-food sector accounts for 24.5% of GDP in 2021 and 42% of employment in the same year.

The Agri-food Sector's Economic Footprint, 2021



Source: Thurlow, J., Holtemeyer, B., Jiang, S., Pauw, K., & Randriamamonjy, J. (2025). Measuring agrifood systems: New indicators and global estimates (IFPRI Discussion Paper 02339). International Food Policy Research Institute.

² Thurlow, J., Holtemeyer, B., Jiang, S., Pauw, K., & Randriamamonjy, J. (2025). Measuring agri-food systems: New indicators and global estimates (IFPRI Discussion Paper No. 02339). International Food Policy Research Institute (IFPRI).

Developing food processing that relies on the upstream production of agricultural commodities provides a shorter path from agriculture to industry rather than shifting to an entirely new industrial production.

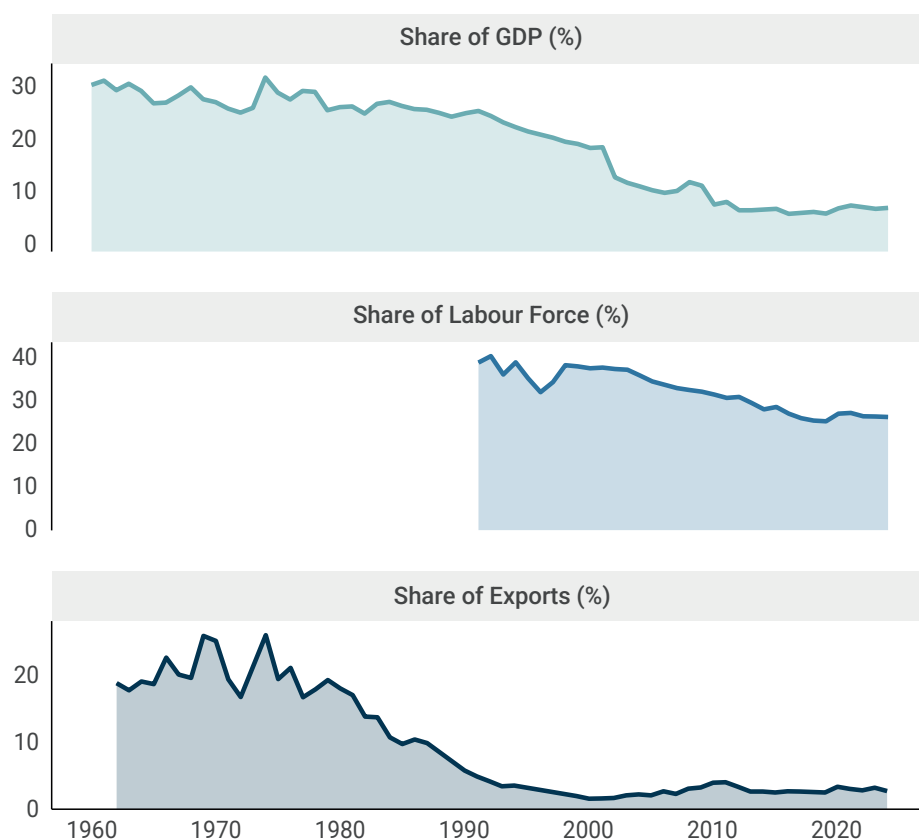
Driven by strong upstream and downstream linkages, the broadly defined agri-food sector contributes more significantly to GDP growth, job creation and poverty alleviation compared to primary agriculture.³ Agriculture value chains develop by integrating demand for agricultural inputs across industries. Economic growth fosters agricultural transformation⁴ when non-agricultural incomes drive agricultural growth, primarily by increasing demand for processed foods among urban consumers. Thus, the broad agri-food sector's potential for economic growth, exports, and job creation should be evaluated to assess the agricultural sector's economic importance in Sri Lanka. In addition, diversification into downstream agriculture-related industries in the manufacturing sector via agricultural transformation might be low-hanging fruit for achieving structural transformation. Developing food processing that

relies on the upstream production of agricultural commodities provides a shorter path from agriculture to industry rather than shifting to an entirely new industrial production.

3 Christiaensen, L., L. Demery, J. Kuhl. 2011. The (Evolving) Role of Agriculture in Poverty Reduction: An Empirical Perspective. *Journal of Development Economics* 96 (2): 239-254.; Thurlow, J., Holtemeyer, B., Jiang, S., Pauw, K., & Randriamamonjy, J. (2025). *Measuring agri-food systems: New indicators and global estimates* (IFPRI Discussion Paper No. 02339). International Food Policy Research Institute (IFPRI).; Dorosh, P., J. Thurlow. 2018. Beyond Agriculture Versus Non-Agriculture: Decomposing Sectoral Growth-Poverty Linkages in Five African Countries. *World Development* 109: 440-451.

4 Timmer, P.C. 1988. Chapter 8: The Agricultural Transformation. In Chenery, H. and T.N. Srinivasan (eds.) *Handbook of Development Economics Volume 1*. Amsterdam, Netherlands: North Holland.

Figure 1: Share of Agriculture in GDP, Labour force, and Merchandise Exports



Note: Share of exports depicts the share of agricultural raw materials in total merchandise exports.

Source: World Development Indicators 1960-2024.

Value-added agricultural exports play a key role in Sri Lanka's medium-term growth objectives, which aim to achieve 7% economic growth.⁵ Domestic demand is not sufficient to sustainably maintain a high growth rate; thus, the net export component must be expanded via increased exports. To design policies that maximise returns on investment facilitation, trade reform, and institutional support, Sri Lanka must first identify products with strong comparative advantage, proven export growth, scope for value addition, price premiums and unique branding rights. This paper uses a product cluster analysis that combines revealed comparative advantage (RCA) rankings with compound annual growth rates over 2010 to 2024 to distinguish emerging and incumbent products with high potential. Value-addition potential is assessed through the price premium available for processed versus bulk exports, such as the 37% free-on-board premium for packaged

⁵ <https://www.worldbank.org/en/news/press-release/2026/04/01/sri-lanka-and-world-bank-group-launch-new-partnership-to-create-jobs-attract-private-investment>

tea over auction tea. Branding strength is captured through legally enforceable differentiation, such as European Union Geographic Indication (GI) registration of Ceylon Cinnamon. This registration distinguishes Ceylon Cinnamon from other cinnamon products in global markets.

This paper has three objectives. First, it measures the true economic weight of Sri Lanka's agri-food system beyond primary agriculture, using Input-Output Table analysis to quantify GDP and employment shares, backwards and forward linkages between AGR and PRC, and export shares. Sector-wide Leontief coefficients are calculated to identify the multiplier effects of the sub-sectors in the agri-food sector, estimating how much total output ripples through the rest of the economy when demand for that sub-sector rises by USD 1. Second, the paper diagnoses the policy, institutional, regulatory, and investment constraints that suppress private capital mobilisation and create an anti-export bias in the sector. It includes tariff analysis of the para-tariff system, decomposing Customs Import Duty (CID), Ports and Airports Development Levy (PAL), Export-Import Cess (EIC), and Special Commodity Levy (SCL) to calculate trade-weighted tariff incidence. Under this objective, public expenditure composition and specific investment barriers are reviewed. As the third objective, it identifies specific high-value export product clusters with growth and investment potential, applying criteria of strong comparative advantage, proven annual export growth, scope for further value addition, and attribute strengths like unique and legally enforceable branding rights.

The remainder of this paper is organised as follows. Section 2 outlines the methods and data, applying the AgGDP+ and AgEMP+ accounting framework of Thurlow et al. (2025) and Leontief input-output analysis to measure the agri-food sector's contribution to gross domestic product and employment. This is followed by section 3, which includes an analysis of the agri-food industry's economic contribution in Sri Lanka, tracing the shares of primary agriculture and agro-processing in gross domestic product between 2007 and 2021, as well as the multipliers. Section 4 examines the institutional, legal and regulatory framework governing the agri-food sector, covering land and crop regulations, price controls and quality standards. Section 5 describes the production, investment and market landscape, covering ownership structure by crop, Sri Lanka's position relative to international competitors in export markets, and recent trends in private investment. Section 6 identifies sectors with potential to expand on- and off-farm employment, compares labour intensity and productivity between primary agriculture and food and beverage manufacturing, and sets out a Strengths, Weaknesses, Opportunities and Threats (SWOT) analysis of the sector. The final section concludes the paper with policy recommendations.

2. Methods and Data

The economic contribution of the agri-food sector is measured using the AgGDP+ and AgEMP+ accounting framework of Thurlow et al. (2025). This framework estimates the sector's contribution to GDP and employment beyond primary agriculture by including agro-processing, food and beverage services, the agri-food-attributable share of accommodation, input supply to farming, and trade and transport margins earned on agri-food products. The estimation used in this paper follows an input-output accounting approach rather than econometric estimation. Value added is taken in full for components that are wholly agri-food, while partially attributable components enter at a proportional share derived from the intermediate flow matrix, with each supplying sector's value added weighted by the share of its output purchased by agriculture and agro-processing. Employment is aggregated under the same rules to produce the AgEMP+ counterpart. A complete sector-wide accounting using the framework of Thurlow et al. (2025) is not possible, as the national tables merge accommodation with food services; therefore, multi-year replication was limited to agriculture and agro-processing.

The Leontief framework is applied to the intermediate flow matrix to calculate economy-wide multipliers. Backward linkages are the column shares of a sector's domestic intermediate purchases across supplying sectors, and forward linkages the row shares of its gross output across using sectors. Output multipliers are total-output multipliers, obtained as column sums of the Leontief inverse $(I - A)^{-1}$, where A is the matrix of technical coefficients.⁶ The same framework yields the ratio indicators used throughout the paper, namely intermediate input intensity, domestic value-added share, import dependence of intermediate use, export orientation, labour intensity measured as employment per unit of gross output, and value added per worker.

Export product clusters are identified by combining measures of specialisation and growth, using the compound annual growth rate over the last decade. Specialisation is measured by the Balassa index, $RCA_i = (x_i / X) / (w_i / W)$, where x_i is Sri Lanka's export value in product i , X its total exports, and w_i and W the corresponding world values.⁷ The index is computed on two-period averages rather than single years to limit the influence of one-off shipments and year-specific price movements. Each product is classified by whether comparative advantage was gained, lost, always held or never held between the early and late periods in the last decade.

⁶ Row i , column j entry of A is the intermediate input from sector i required per unit of gross output of sector j . The inverse gives the total direct plus indirect output required across all sectors per unit of final demand.

⁷ RCA_i greater than 1 indicates that product i has a larger share in Sri Lanka's export basket than in world exports, that is, revealed comparative advantage.

Applied tariff protection is measured as an effective rate computed from Harmonised System (HS) code eight-digit level customs records. The data shows the levy collected, divided by the corresponding import value for the effective rate calculation. Numerator and denominator are summed across all HS codes and partners before the rate is calculated, yielding an import-value-weighted tariff rate rather than a statutory schedule rate. By this method, specific and compound duties are automatically expressed as ad valorem equivalents, and actual tariff preference and concession use is incorporated into the effective rate. The analysis was done using border tariffs, namely the customs import duty, the export and import cess, the ports and airports development levy, the import surcharge, the special commodity levy and the excise-type levies. Consumption taxes such as value added tax and the social security contribution levy are excluded as they fall equally on domestic and imported supply. Several other descriptive analyses are done using data constructed from published administrative sources. Landholding structure is described by shares of holdings and of extent falling under the smallholding and estate definitions of the Economic Census, with average holding size obtained as extent divided by number of holdings. District productivity for minor export crops is production divided by extent.

The institutional, legal and regulatory material is a desk review, and it does not involve any computation. Public expenditure on the agri-food system by category are sourced from World Bank (WB) studies, and are cited as necessary. Agricultural total factor productivity growth, along with its breakdown into land expansion, input intensification and productivity contributions are also referenced from World Bank studies. In turn, these estimates rely on underlying data from the USDA Economic Research Service (2024).

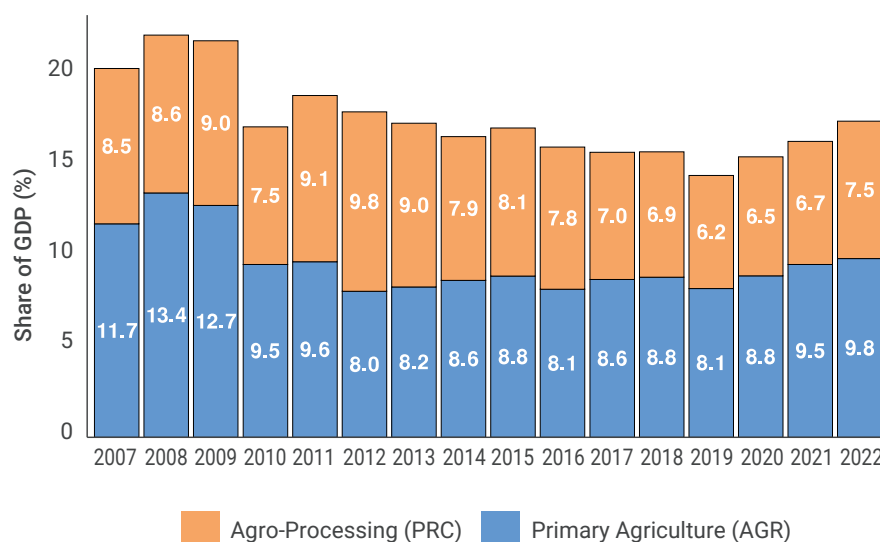
The Input-Output analysis uses Asian Development Bank Input-Output Tables for Sri Lanka, which cover 35 sectors at basic prices in USD million. The ADB Input-Output table series covers the years 2000 and 2007 to 2022. The tables treat agriculture as ISIC divisions 01 to 03 and processing as ISIC divisions 10 to 12. Sub-sector and crop-level details come from the 127-sector Department of Census and Statistics Supply-Use Table for 2010 and 2011, the latest available at such granularity. Employment data are sourced from Labour Force Survey data from various years. Trade data are obtained from World Integrated Trade Solutions (WITS), monthly external data from the Central Bank of Sri Lanka (CBSL), and Trade Map of the International Trade Centre. Tariff incidence calculation uses HS eight-digit-level import data from Sri Lanka Department of Customs import records for 2025. Other agricultural data are retrieved from the Department of Census and Statistics of Sri Lanka.

3. Economic Contribution of the Agri-food Sector in Sri Lanka

Figure 2 below describes the evolution of the shares of primary agricultural production (AGR), which includes International Standard Industrial Classification Revision-4 divisions 1, 2, and 3, and agriculture processing (PRC) -ISIC divisions 10, 11, and 12- in the GDP of Sri Lanka from 2007 to 2021 (Appendix A).⁸ The share of primary agricultural production has been stagnant since 2012, hovering at 8-9%. A slight uptick in the AGR sector's share of the economy occurred from 2019 to 2022, increasing the contribution from 6.5% to 7.5%. The reason might be the contraction of outward-oriented sectors, such as tourism in 2020, in the aftermath of the COVID-19 pandemic. The AGR sector share of GDP in 2024 was 8.3%. Although the AGR labour force has hovered around 25% in recent years, its intensity is spatially heterogeneous in Sri Lanka. Western Province and suburban districts have lower AGR labour force intensity, while districts like Anuradhapura, Polonnaruwa, Nuwara Eliya, Badulla, Monaragala, and Mannar have more than 45% of the active labour force absorbed by the AGR sector (Figure 3).

The AGR sector share of GDP in 2024 was 8.3%. Although the AGR labour force has hovered around 25% in recent years, its intensity is spatially heterogeneous in Sri Lanka.

Figure 2: Share of AGR and PRC Sectors in GDP

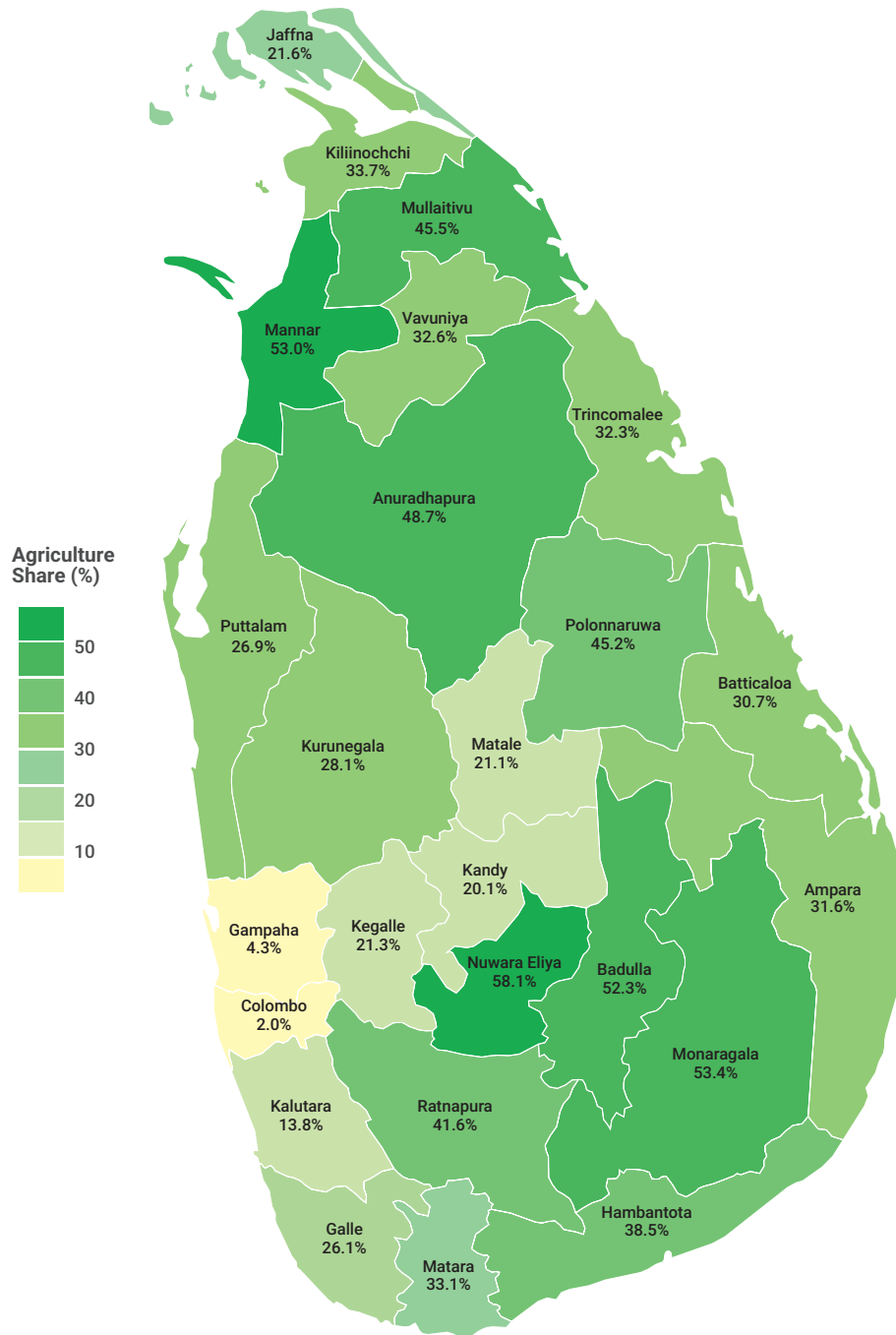


Note: Subsector definitions are provided in Table A1 of the Appendix.

Source: Input-Output tables for Sri Lanka, Asian Development Bank.

⁸ ADB provides IOTs for 2000, and 2007-2021.

Figure 3: Share of AGR in Active Labour Force Across Districts in 2023



Source: Labour Force Survey 2023.

In 2024, primary agricultural production (AGR) accounted for 26% of the labour force in Sri Lanka, while 6.88% were engaged in rice cultivation, the primary agricultural activity by labour force allocation. As shown in Table 1, value added per worker is lowest in rice and cereals. Export-oriented and high-value crops have a value addition of about 4 to 10 times that of rice. For example, the value addition per worker in the coconut sector is approximately USD 8 times higher than rice. The agro-processing sector (PRC) employed 4.3% of the labour force or 341,055 workers. Of them, 104,950 or 1.32% of the total labour force, were employed in the manufacture of other food products, including the processing of tea and spices.

Table 1: Value Added Per Commodity in 2022 IOT

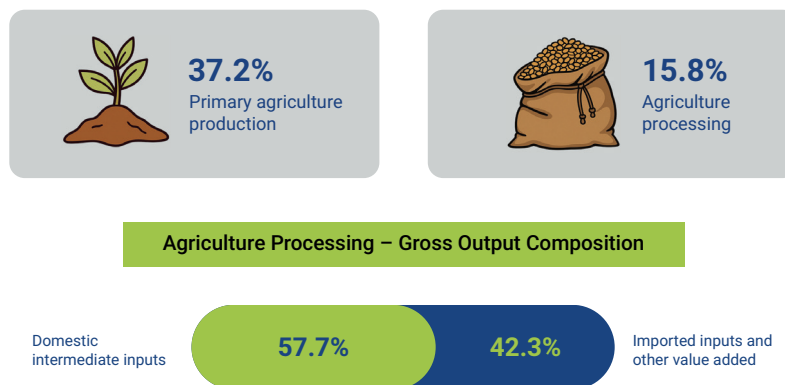
Sub-sector	ISIC	SUT 2010 GVA	AGR Share	Value Added 2022	Number of Workers in 2022	Value Added Per Worker
Rice (paddy)	0112	(LKR Mn)	(%)	(USD Mn)	523,126	(USD)
Vegetables	0113	60,086	11.0	736.7	347,039	1,408
Tea	0127	47,704	8.8	584.9	544,825	1,685
Spices	0128	72,208	13.3	885.3	110,632	1,625
Coconut	0126	38,126	7.0	467.4	64,521	4,225
Rubber and other perennials	0129	60,231	11.1	738.4	85,122	11,445
Tropical fruits	0122	49,249	9.0	603.8	26,854	7,093
Other cereals	0111	33,910	6.2	415.7	99,050	15,481
Fishing	0311-12	10,549	1.9	129.3	122,455	1,306
		87,315	16.0	1070.5		8,742

Source: Supply-Use table 2010, Input-Output table 2022, and Labour Force Survey -2022.

Intermediate input accounts for 22% of AGR gross output in 2022, compared with 69.9% for the PRC, confirming that primary agricultural production is relatively labour-intensive. The domestic value addition of the AGR and PRC sectors in 2022 was 78% and 30.1% respectively, implying that the AGR sector retains more value in wages, profits, and asset depreciation. Based on Input-Output Tables (IOTs) published by the Asian Development Bank, the main domestic upstream input to AGR is chemicals- primarily fertilisers and agrochemicals- which accounted for 32% of domestic intermediate inputs (Table 1). As shown by the 2022 IOT for Sri Lanka, 37.2% of the total intermediate input use of the AGR sector was from imports, while the PRC sector sourced 15.8% of intermediate inputs from abroad. Domestic intermediate inputs account for 57.7% of the gross output of the PRC

sector. The input-output structure implies that growth in the PRC sector may increase demand for more domestic inputs. However, the existing tariff structure might lead to greater linkages between the PRC sector and the domestic economy. For example, tariff and non-tariff barriers that restrict the import of maize for poultry feed formulation can be cited.

Import Reliance in the Agri-food Sector: Intermediate Inputs



Source: Author's calculations (Data: Input-Output Tables for Sri Lanka by Asian Development Bank and Sri Lanka Customs).

Overall, the AGR sector retains a higher share of gross output as value added compared to the PRC. However, the PRC sector has more backward linkages to the economy. This is reflected by the Leontief Output multipliers in Table 2. Out of the 35 sectors in the IOT, PRC had the third-highest output multiplier. Moreover, the PRC sector is more export-oriented in 2022, with exports accounting for 15.3% of gross output, while the AGR sector's export share was 4.7%. The AGR has strong forward linkages to the PRC as a processing input. In 2022, 37.9% of the AGR sector's gross output was used as inputs by the PRC sector. This is also illustrated by the PRC sector backward linkage data in Table 2, which shows that 19% of PRC output was from the domestic AGR sector.

Table 2: Input-Output Linkages of Primary Agriculture Production and Food Processing for 2019, 2021, 2022

Metric	2019	2021	2022
A. Scale (USD millions)			
AGR -Primary agriculture: gross output	8,412.7	9,775.0	8,563.3
AGR -Primary agriculture: value added	6,358.9	7,745.5	6,680.7
PRC -Food, beverages & tobacco: gross output	16,038.9	18,164.2	17,057.2
PRC -Food, beverages & tobacco: value added	4,828.7	5,522.0	5,141.6
B. Intermediate Input Structure			
AGR -total intermediate inputs (% of gross output)	24.4%	20.8%	22.0%
Domestic inputs (% of gross output)	17.6%	14.1%	14.5%
Imported inputs (% of gross output)	8.5%	8.1%	8.6%
Import share of intermediate inputs (%)	32.5%	36.4%	37.2%
AGR -domestic value added (% of gross output)	75.6%	79.2%	78.0%
PRC -total intermediate inputs (% of gross output)	69.9%	69.6%	69.9%
Domestic inputs (% of gross output)	57.7%	57.6%	57.7%
Imported inputs (% of gross output)	10.3%	10.4%	10.9%
Import share of intermediate inputs (%)	15.1%	15.3%	15.8%
PRC -domestic value added (% of gross output)	30.1%	30.4%	30.1%
C. Key Backward Linkages (domestic inputs per \$1 of sector output)			
Chemicals → AGR (fertilisers & agrochemicals)	3.95%	3.53%	4.44%
AGR → PRC (agriculture as processing input)	18.87%	18.85%	19.01%
Inland transport → PRC (logistics)	6.94%	6.34%	5.61%
D. AGR Forward Linkages (% of AGR gross output)			
AGR → Food processing (PRC)	36.0%	35.0%	37.9%
AGR → Household consumption	45.4%	37.5%	34.8%
AGR → Exports	4.5%	3.3%	4.7%
E. PRC Forward Linkages (% of PRC gross output)			
PRC → Household consumption	51.6%	44.4%	41.4%
PRC → Exports	12.3%	10.8%	15.3%
F. Leontief Output Multipliers (total economy-wide output per \$1 final demand)			
Economy-wide average (all 35 sectors)	1.4160	1.3856	1.3787
AGR output multiplier	1.2543	1.1959	1.2026
AGR rank (of 35 sectors, 1=highest)	27	27	26
PRC output multiplier	1.8664	1.8351	1.8512
PRC rank (of 35 sectors, 1=highest)	2	3	3

Note: AGR = ISIC Rev.4 divisions 01–03 (primary agriculture, forestry, fishing). PRC = ISIC Rev.4 divisions 10–12 (food, beverages and tobacco processing). Domestic and import intensities sum to total intermediate intensity (taxes negligible). Backward linkage coefficients reflect domestically sourced flows only; imported inputs are captured in the import intensity rows in Panel B. Forward linkage shares do not sum to 100% as inventory changes and government consumption are excluded.

Source: Input-Output Tables for Sri Lanka, Asian Development Bank.

Overall, 32.1% of AGR sector employees were women (see Tables A5-A7 in the Appendix). Female labour force participation in the PRC sector is 46.6% of total employment, with the manufacturing of tobacco and the manufacturing of cocoa, chocolate, and sugar confectionery having women workers' shares exceeding 50%.

When sectoral employment generation is considered, Table 3 shows that AGR is more labour-intensive, and its labour productivity, measured as value added per worker, is lower than that of the PRC. This implies a strong incentive for structural transformation, i.e., mobilising the agricultural labour force to processing industries. Subsector-level variations might be more important for identifying sectors with higher labour productivity and measuring a sector's ability to generate more employment. However, the IOT tables are restricted to 35 sectors, restricting such detailed analysis. The labour force data for ISICr4 four-digit subsectors show that rice cultivation, beverage crop cultivation (including tea), and vegetable cultivation generated the most employment in the AGR sector. Altogether, these subsectors have provided 64.8% of AGR employment. Importantly, beverage crop cultivation employed 241,997 female workers, accounting for 48.6% of the total sectoral labour force. Overall, 32.1% of AGR sector employees

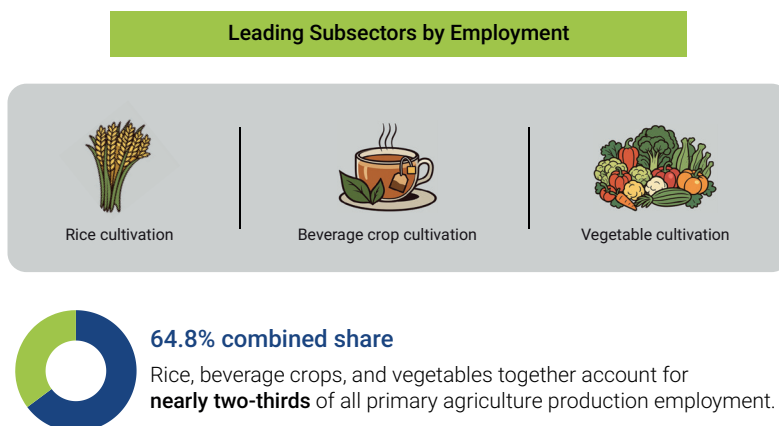
were women (see Tables A5-A7 in the Appendix). Female labour force participation in the PRC sector is 46.6% of total employment, with the manufacturing of tobacco and the manufacturing of cocoa, chocolate, and sugar confectionery having women workers' shares exceeding 50%.

Table 3: Sector Employment and Labour Productivity

Sector	Employment	Gross Output in 2022 (USD Mn)	Value Added (USD Mn)	Employment Per USD Mn Output	Value Added Per Worker (USD)
AGR	2,088,344	8,563.31	6,680.71	243.87	3,199
PRC	322,370	17,057.21	5,141.65	18.90	15,950

Source: Author's estimates using Input-Output Tables for Sri Lanka, Asian Development Bank.

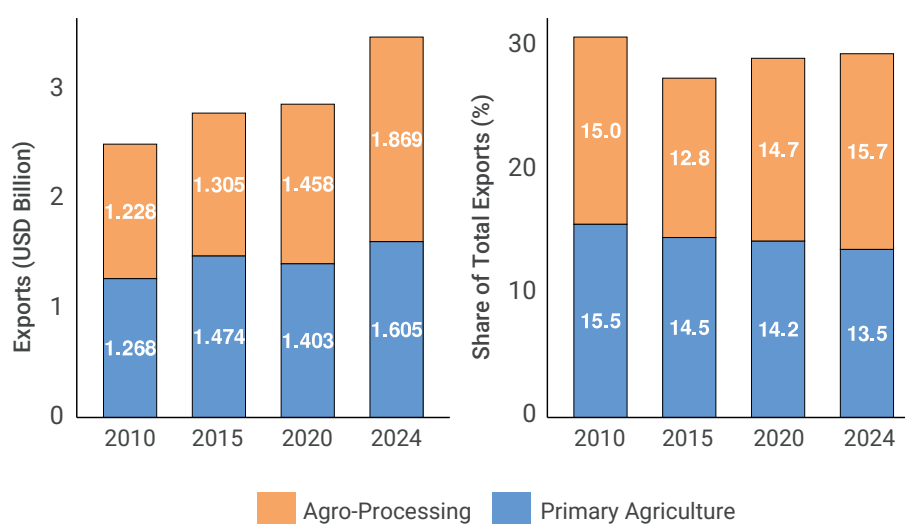
Top Employment Generators in the Primary Agriculture Sector



Source: Author's calculations (Data: Labor Force Survey).

Based on HS six-digit level WITS gross export data mapped to ISIC Revision 4 classification, agri-food exports accounted for 30.6% of total goods exports in 2010 and 29.2% in 2024, indicating a stable share over 14 years. The agri-food export volume increased from USD 2.5 billion to USD 3.5 billion, a 39% rise, compared with a 46% increase in total goods exports. Primary agriculture's share of total goods exports declined from 15.5% in 2010 to 13.5% in 2024, while agro-processing recovered from 12.8% in 2015 to 15.7% by 2024.

Figure 4: Exports and Share of AGR and PRC: 2010-2024



Source: World Integrated Trade Solutions.

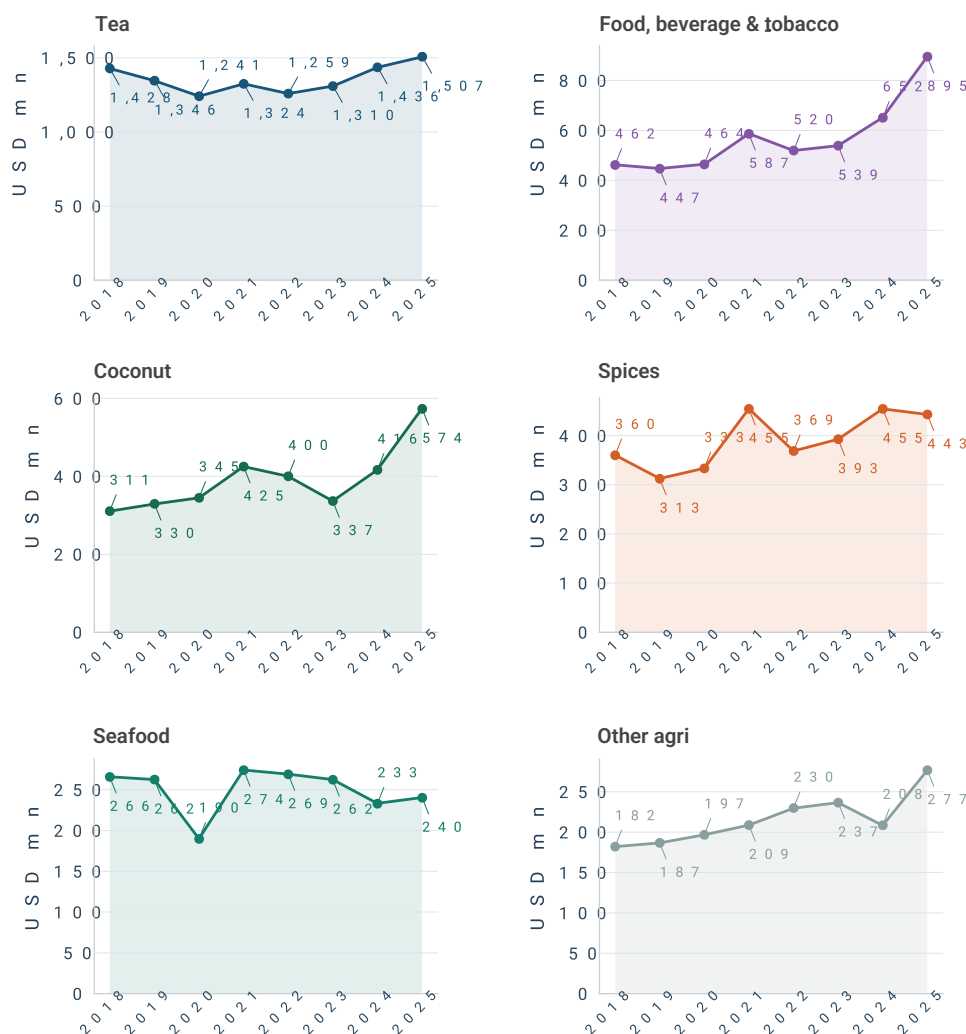
Tea remains the dominant export throughout the period, generating USD 1,436 million in 2024 and growing to USD 1,507 million in 2025. Notable growth was also found in food, beverages, and tobacco, which, under the CBSL classification, includes processed coconut products such as coconut milk, desiccated coconut, and virgin coconut oil, alongside other processed food exports.

Figure 5 disaggregates agri-food exports by product categories, as defined by the Central Bank of Sri Lanka (CBSL), over the 2018 to 2025 timeline. Tea remains the dominant export throughout the period, generating USD 1,436 million in 2024 and growing to USD 1,507 million in 2025. Notable growth was also found in food, beverages, and tobacco, which, under the CBSL classification, includes processed coconut products such as coconut milk, desiccated coconut, and virgin coconut oil, alongside other processed food exports. This sector nearly doubled the exports from USD 462 million in 2018 to USD 895 million in 2025. Coconut kernels and other products also expanded significantly, from USD 311 million to USD 574 million over the same period, recording an 85% increase. Spices contributed USD 455 million in 2024, driven predominantly by cinnamon.

A substantial disruption in export trends was evident across 2021 and 2022, reflecting the impact of the chemical fertiliser ban imposed in May 2021. The abrupt ban caused declines in fertiliser imports, agricultural output, and exports of fertiliser-dependent crops.⁹ Tea recorded its lowest value in the series at USD 1,259 million in 2022, dropping from USD 1,324 million in 2021. Recovery across most categories began in 2023, with 2024-2025 seeing new highs in tea, coconut, and food-processing exports. Taken together, the coconut value chain, spanning both the coconut and food, beverages and tobacco categories, has emerged as the most dynamic component of Sri Lanka's agri-food export base over this period.

⁹ Ghose, D., Fraga, E., & Fernandes, A. (2023). Fertilizer import bans, agricultural exports, and welfare: Evidence from Sri Lanka. *Policy Research Working Paper*, 10642, 793-831.

Figure 5: Export Trends of Agriculture and Agri-food Products of Sri Lanka: 2018-2025



Source: Data from Central Bank of Sri Lanka, 2025.¹⁰

Sri Lanka exports a wide variety of seafood, including fresh, chilled, and frozen tuna, primarily to the EU market. Sri Lanka's seafood exports qualify for a preferential tariff under the EU GSP+ (Table 4 and Table 5). For example, fresh or yellowfin tuna can be exported under the GSP+ tariff rate of 0% when the MFN rate is 11%.¹¹ Notably, seafood exports can claim preferential access because the domestic content requirement for

¹⁰ Other agri includes minor agricultural exports, unmanufactured tobacco, and vegetables. This group includes cut flowers, foliage, coconuts, nuts, bananas, dates/figs/mangoes, citrus, dried fruit, coffee, wheat, oilseeds, cocoa shells husks, cocoa paste, essential oil, and coconut coir fiber.

¹¹ Wijesinghe, A., Anupama, R., and Dissanayake, C., (2025). "Who stands to Lose: The Effects of GSP+ Withdrawal on Sri Lanka's Exports and Labour Force", Institute of Policy Studies of Sri Lanka.

rules of origin can be met by sourcing fish domestically. The GSP+ utilization ratio for fish exports exceeds 90%, while foreign input-intensive exports such as ready-made garments use around 60% of the GSP+ preference due to domestic content requirements that meet rules of origin.¹² Existing tariff preferences and high domestic value addition make seafood exports economically important for Sri Lanka. When the compound annual growth rate is considered, unconventional seafood types such as sea cucumbers and swordfish show high potential. In addition, ornamental fish exports have grown by 19.1% between 2014 and 2024 (Table 6).

Table 4: Top 10 Fish Exports under HS Chapter 03 by Sri Lanka 2020-2024

Rank	HS Code	Product Description	Value 2024 (USD Mn)	Share (%)	Avg 2020- 2024 (USD Mn)
1	030449	Fresh or chilled fillets of fish, N.E.C.	57.00	22.1	43.73
2	030349	Frozen tunas of the Genus "Thunnus"(excl. Thunnus alalunga, Thunnus albacares, Thunnus obesus, Thunnus thynnus and Thunnus maccoyii)	30.76	11.9	59.22
3	030232	Fresh or chilled yellowfin tunas "Thunnus albacares"	28.99	11.3	35.11
4	030111	Live ornamental freshwater fish	17.03	6.6	14.16
5	030617	Frozen shrimps and prawns, even smoked, whether in shell or not, incl. shrimps and prawns in shell	16.74	6.5	29.09
6	030289	Fresh or chilled fish, N.E.C.	13.98	5.4	3.54
7	030445	Fresh or chilled fillets of swordfish "Xiphias gladius"	10.09	3.9	5.42
8	030614	Frozen crabs, even smoked, whether in shell or and including crabs in shell that are cooked by steaming or boiling in water before freezing)	9.74	3.8	8.64
9	030819	Smoked, dried, salted or in brine, sea cucumbers (Stichopus japonicus, Holothuroidea)	9.61	3.7	11.08

Source: Trade Map, International Trade Centre.

¹² Wijesinghe, A., Anupama, R., and Dissanayake, C., (2025). "Who stands to Lose: The Effects of GSP+ Withdrawal on Sri Lanka's Exports and Labour Force", Institute of Policy Studies of Sri Lanka.

Table 5: Top 10 Importers of Sri Lanka's Seafood: 2020-2024

Rank	Country	Value 2024 (USD Mn)	Share (%)	Avg 2020- 2024(USD Mn)
1	United States of America	37.49	14.6	32.53
2	Germany	26.71	10.4	25.00
3	United Kingdom	22.99	8.9	20.56
4	France	21.49	8.3	27.17
5	Italy	19.87	7.7	23.75
6	Netherlands	17.63	6.8	18.48
7	Hong Kong, China	15.23	5.9	16.85
8	China	13.26	5.2	13.07
9	Canada	11.13	4.3	11.47
10	Japan	10.02	3.9	16.50

Source: Trade Map, International Trade Centre.

Table 6: Top 10 Products with the Highest Compound Annual Growth Rate from 2014-2024 in HS Chapter 03

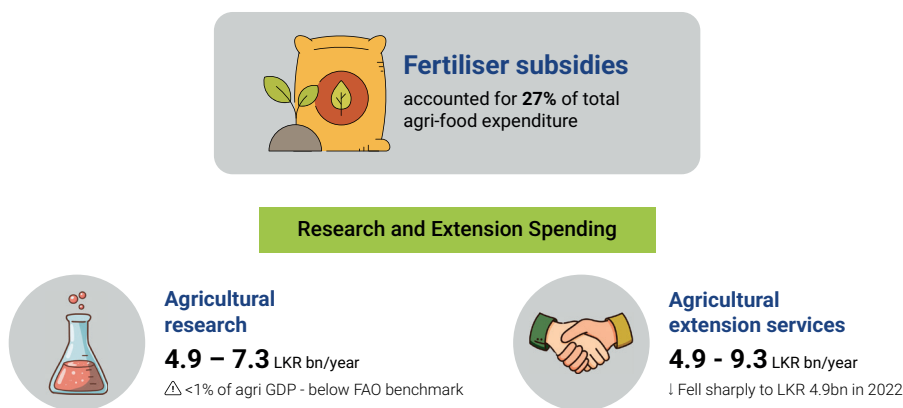
Rank	HS Code	Product Description	Value 2024 (USD Mn)	Value 2024 (USD Thousand)	CAGR 2014- 2024
1	030329	Frozen, Nile perch (<i>Lates niloticus</i>) and snakeheads	0.001	0.799	95.1%
2	030819	Smoked, dried, salted or in brine, sea cucumbers (<i>Stichopus japonicus</i> , <i>Holothuroidea</i>)	0.095	9.612	58.7%
3	030289	Fresh or chilled fish, n.e.s.	0.298	13.977	46.9%
4	030247	Fresh or chilled swordfish "Xiphias gladius"	0.062	2.241	43.2%
5	030445	Fresh or chilled fillets of swordfish "Xiphias gladius"	0.414	10.088	37.6%
6	030449	Fresh or chilled fillets of fish, n.e.s.	3.873	56.996	30.9%
7	030119	Live ornamental fish (excl. freshwater)	1.299	7.435	19.1%
8	030389	Frozen fish, n.e.s.	1.065	5.355	17.5%
9	030572	Fish heads, tails and maws, smoked, dried, salted or in brine, or smoked	0.338	1.410	15.4%
10	030491	Frozen meat, whether or not minced, of swordfish (<i>Xiphias gladius</i>)	0.215	0.768	13.6%

Source: Trade Map, International Trade Centre.

4. Institutional, Legal and Regulatory Framework Governing the Agri-food Sector

Governance of Sri Lanka's agri-food sector is fragmented across multiple central ministries and agencies, which operate with overlapping mandates. The Ministry of Agriculture (MOA) holds overarching authority over crop production, seeds, and agricultural research, supported by the Department of Agriculture (DOA), the Mahaweli Authority (MASL), and the National Fertilizer Secretariat (NFS). Plantation crops- tea, rubber, and coconut- are overseen by dedicated statutory bodies: the Sri Lanka Tea Board (SLTB) and the Tea Research Institute (TRI); the Rubber Research Institute (RRI); and the Coconut Cultivation Board and the Coconut Development Authority (CDA). Quality and standardisation functions are spread across the Sri Lanka Standards Institution (SLSI), the Sri Lanka Accreditation Board (SLAB), the Department of Animal Production and Health (DAPH), the National Plant Quarantine Service (NPQS), the Food and Drugs Authority (FDA), and the Industrial Technology Institute (ITI). Following the 13th Amendment devolution, provincial departments of agriculture hold authority over field extension, further fragmenting service delivery.

Where Agri-food Spending Goes: Public Expenditure on Agriculture



Source: World Bank (2025). Modernising Sri Lanka's Agri-food System (Data: Sri Lanka Ministry of Finance budget estimates).

Agriculture received 7.6% of total government expenditure between 2017 and 2022, above the regional average for South Asia (Table 7).¹³ However, spending is heavily skewed toward input subsidies and irrigation infrastructure for paddy cultivation, crowding out productivity-enhancing investments. Fertiliser subsidies accounted for 27% of total

¹³ World Bank (2025). Modernising Sri Lanka's Agri-food System Through Strategic Repurposing of Spending and Public Policies. Washington, DC: World Bank, May 2025.

agri-food expenditure. Agricultural research and development received LKR 4.9 to 7.3 billion annually, representing less than 1% of agricultural gross domestic product- below the benchmark recommended by the Food and Agriculture Organisation of the United Nations. Extension services received LKR 4.9 to 9.3 billion annually, a share that fell sharply to LKR 4.9 billion in 2022.¹⁴

Table 7: Public Expenditure on Agri-food by Category, 2017-2022 (LKR billion). The Percentage of the Grand Total is Given in Parenthesis

Expenditure Category	2017	2018	2019	2020	2021	2022
Grand total agri-food (LKR billion)	168.0	143.1	153.7	199.6	142.0	212.8
Fertilizer subsidies	31.9 (19.0%)	27.6 (19.3%)	35.6 (23.2%)	37.6 (18.8%)	22.8 (16.1%)	74.7 (35.1%)
Agricultural infrastructure	58.5 (34.8%)	48.7 (34.1%)	41.8 (27.2%)	43.4 (21.8%)	55.1 (38.8%)	60.9 (28.6%)
Agricultural research and development	4.9 (2.9%)	7.3 (5.1%)	5.6 (3.6%)	5.8 (2.9%)	5.4 (3.8%)	5.6 (2.6%)
Extension and technology transfer	6.8 (4.0%)	8.0 (5.6%)	9.3 (6.0%)	7.5 (3.7%)	8.2 (5.8%)	4.9 (2.3%)
Inspection (veterinary and plant)	1.4 (0.8%)	1.4 (1.0%)	1.6 (1.0%)	1.4 (0.7%)	1.5 (1.1%)	2.2 (1.0%)
Agricultural marketing	1.7 (1.0%)	0.4 (0.3%)	0.7 (0.5%)	1.6 (0.8%)	0.4 (0.3%)	3.5 (1.6%)

Source: World Bank. Modernising Sri Lanka's Agri-food System Through Strategic Repurposing of Spending and Public Policies. May 2025. Data from BOOST/Ministry of Finance and Planning.

Public support for the tea sector illustrates the gap between the scale of subsidy and effective coverage. The Tea Smallholder Development Authority and Sri Lanka Tea Board jointly disbursed LKR 1,264 million in subsidies in 2022, of which 46% was directed to replanting. However, this financed only 912 hectares, equivalent to less than 0.4% of the 267,000-hectare cultivated area and far below the 2% annual replacement rate required to sustain the productive base.¹⁵

¹⁴ World Bank (2025). Modernising Sri Lanka's Agri-food System Through Strategic Repurposing of Spending and Public Policies. Washington, DC: World Bank, May 2025.

¹⁵ World Bank. Analysis of the Sri Lanka Tea Sector. Final draft. Washington, DC: World Bank, September 2025.

4.1 Laws and Regulations Governing Agricultural Production and Input Use

Land and crop regulations restrict farmers' ability to diversify away from paddy cultivation. The Paddy Lands Act of 1958, as amended, prohibits the conversion of paddy land to non-agricultural uses, entrenching rice cultivation in areas where crop diversification would

Plantation estate land is held under Regional Plantation Company leases expiring in 2045; as this horizon shortens, the payback period for replanting investment, which requires eight to ten years from uprooting to full production, diminishes sharply.

be economically rational. The Land Development Ordinance and State Lands Act limit tenure security for smallholders, particularly in tea-growing areas, where some smallholders lack formalised land rights- a condition that undermines long-term investment incentives. Plantation estate land is held under Regional Plantation Company leases expiring in 2045; as this horizon shortens, the payback period for replanting investment, which requires eight to ten years from uprooting to full production, diminishes sharply.¹⁶ The practical scale of the land mobility problem is illustrated by a recent Department of Agrarian Development (DAD) survey that identified approximately 33,000 ha of abandoned paddy lands, concentrated in wet-zone districts around rapidly urbanising corridors where paddy cultivation has become economically unviable relative to alternative uses. While the DAD has issued an interim circular permitting temporary conversion to other agricultural uses, broader reform to

selectively relax conversion restrictions in high-demand urban and peri-urban zones is still under development.

Strategic policies for targeted commodities include increasing the allocated area for certain crops, enhancing productivity, and promoting export growth. For example, the Coconut Sector Strategic Plan has increased the land area under coconuts from 484,677 hectares to 500,864 hectares by 2027, and increased the number of nuts per tree from 45 to 60 by 2030. The key economic goal of the strategic plan is to increase coconut sector exports to USD 2 Bn by 2035, which stood at approximately USD 1 Bn in 2025.

Fertiliser and input regulation imposes entry barriers that suppress competition and delay product innovation. The National Fertiliser Secretariat Act grants the Secretariat authority over fertiliser import approvals and product registration. New fertiliser product registration in Sri Lanka requires 365 days, compared to 100 days in Thailand, creating a structural disadvantage for private distributors seeking to introduce improved products. Sri Lanka's fertiliser policy has undergone at least seven major reversals since 1962: subsidised distribution was introduced in 1962, then abolished and reinstated multiple times, replaced by cash grants in 2016, restored in 2019, subjected to a complete import ban in

¹⁶ World Bank. Analysis of the Sri Lanka Tea Sector. Final draft. Washington, DC: World Bank, September 2025.

May 2021, and reformed again in 2022-2023. This pattern of repeated reversals substantially increases the perceived regulatory risk for private-sector investment in input supply chains.¹⁷ Similar frictions apply to seeds and plant protection products. Seed and planting material imports require importers to engage multiple agencies separately, with paper documentation requirements persisting alongside internationally recognized digital certification systems. The clearance timelines are extended due to redundant local testing of consignments already certified in the exporting countries. Pesticide import approvals operate on a consignment-by-consignment basis, with per-shipment authorisation requirements and limited independent port testing capacity that lengthen clearance times and raise transaction costs for agribusinesses importing lower-toxicity and commercially routine products.

New fertiliser product registration in Sri Lanka requires 365 days, compared to 100 days in Thailand, creating a structural disadvantage for private distributors seeking to introduce improved products.

Para-tariffs are imposed on agricultural and food imports and have been identified as a primary source of trade policy uncertainty. In addition to the Customs Import Duty, imports are subject to the Ports and Airports Development Levy, the Export-Import Cess, the Social Security Contribution Levy (SSCL), the Special Commodity Levy (SCL), and the Customs Surcharge. However, the SSCL is imposed indiscriminately, and when the SCL is applied, all other tariffs are not applied. Calculations using Sri Lanka Department of Customs data for 2025 show that SCL is the main tariff component driving the tariff incidence for imports into the AGR and PRC sectors (Table 8). Tariff incidence for major agricultural imports shows a similar pattern (Table 9). Processed food imports under the PRC sector were subject to a 27.5% weighted-average total tariff rate in 2025. Agricultural imports such as tropical and sub-tropical fruits, pome and stone fruits, grapes, and citrus fruits are subject to very high SCL at 60.6%, 148.9%, 99.2%, and 193.8%, respectively. Tables 9B through 9C show the heavy protection given to dairy products. The tariff adjustments are made through gazette notifications issued by the Ministry of Finance, which are triggered by seasonal supply conditions, producer protection concerns, and macroeconomic pressures rather than by a predictable, rule-based schedule. This reactive, gazette-driven mechanism creates significant commercial uncertainty for agribusinesses that import inputs or plan investments dependent on stable import costs.

Agricultural insurance constitutes an additional structural weakness in the enabling environment for growth in the agri-food sector. The Agricultural and Agrarian Insurance Board (AAIB) operates mandatory and voluntary schemes covering crops, livestock, and risks under the Agricultural and Agrarian Insurance Act No. 20 of 1999, but the system faces significant operational constraints. Claim settlements are delayed by manual

17 World Bank. Rethinking Fertilizer Policies in Sri Lanka. Washington, DC: World Bank, 2025.

assessment procedures, indemnity levels have not kept pace with rising production costs, and farmer participation in voluntary schemes remains low, limiting the sector's capacity to absorb production shocks and undermining incentives for private investment in more intensive cultivation.

Table 8: Tariff Incidence by ISIC R4 Sub-sector-Top Five by Import Value, 2025

ISIC R4	Sub-sector	CIF (LKR bn)	CID (%)	SCL (%)	Other (%)	Total (%)
0111	Cereals, leguminous crops and oil seeds ¹⁸	185.2	3.3	7.4	2.4	13.2
0113	Vegetables, melons, roots and tubers	61.8	0.0	33.2	0.7	33.9
0129	Other perennial crops	37.7	0.9	4.2	1.9	6.9
0128	Spices, aromatic and pharmaceutical crops	34.5	0.1	16.7	0.4	17.2
0115	Tobacco	18.8	0.0	0.0	0.0	0.0
AGR	Primary agriculture-sector total	369.0	2.1	14.6	1.9	18.5
1040	Vegetable and animal oils and fats	179.7	0.4	23.4	2.5	26.2
1050	Dairy products	107.9	19.8	1.4	10.8	31.9
1072	Sugar	105.1	0.0	29.9	0.0	29.9
1079	Other food products n.e.c.	48.6	6.9	0.0	15.2	22.1
1020	Processing and preserving of fish	40.1	0.3	13.0	1.1	14.4
PRC	Food and beverage manufacturing-sector total	619.2	5.9	15.3	6.4	27.6

Note: CID = Customs Import Duty. SCL = Special Commodity Levy (specific levy expressed as % of CIF). Other = EIC + PAL + SUR + Excise Duty + LXT + VEL (distortionary levies only; VAT and SSCL excluded). Rates are import-value-weighted effective rates: levy collected / CIF value x 100. Top five sub-sectors ranked by CIF value.

Source: Data from Sri Lanka Customs (2025).

18 ISIC 0111 includes maize (HS 10059000, LKR 27.9 bn, 28.2% SCL) and wheat (HS 10019910, LKR 87.7 bn, 6.5% CID). See table 9 for product level details including maize.

Table 9A: Tariff Incidence for Major Agricultural Imports at the HS8 Level in 2025

HS Code	Commodity	Sector	CIF (LKR bn)	CID (%)	SCL (%)	Other (%)	Total (%)
04022100	Milk powder (whole, not sweetened)	PRC	91.1	20.0	0.0	10.0	30.0
10019910	Wheat grain	AGR	87.7	6.5	0.0	4.7	11.3
17019910	White crystalline cane sugar	PRC	52.7	0.0	28.8	0.0	28.8
15131910	Coconut oil (crude, in bulk)	PRC	45.9	0.0	12.2	0.0	12.2
17019920	White crystalline beet sugar	PRC	41.4	0.0	31.6	0.0	31.6
23040000	Soybean meal and oilcake	PRC	39.3	0.0	0.0	10.0	10.0
07134011	Lentils (Mysoor dhal, whole)	AGR	36.3	0.0	0.1	0.0	0.1
10059000	Maize (corn)	AGR	27.9	0.0	28.2	0.0	28.2
07031020	Onions	AGR	24.7	0.0	21.2	0.0	21.2
15119030	Crude palm olein	PRC	23.6	0.0	52.6	0.0	52.6
15132900	Palm kernel oil and fractions	PRC	22.9	0.0	33.9	0.0	33.9
09042110	Dried chillies	AGR	22.4	0.0	19.5	0.0	19.5

Note: Top 12 HS8 product lines ranked by CIF import value across AGR (ISIC divisions 01-03) and PRC (ISIC divisions 10-12) sectors. CID = Customs Import Duty. SCL = Special Commodity Levy. Other = all remaining levies. Rates are effective rates over the CIF value.

Source: Data from Sri Lanka Customs (2025).

Table 9B: Tariff Incidence on Dairy Imports by HS Heading, Sri Lanka 2025

HS Heading	Product	CIF (LKR bn)	CID (%)	SCL (%)	Other (%)	Total (%)
0401	Milk and cream, not concentrated nor sweetened	0.34	13.4	0.0	15.9	29.3
0402	Milk and cream, concentrated or sweetened	100.35	20.4	0.0	10.0	30.3
0403	Buttermilk, curdled milk, yogurt, kefir	0.02	0.0	154.0	0.0	154.0
0404	Whey and milk products	0.87	14.7	0.0	49.3	64.0
0405	Butter and other fats and oils derived from milk	1.09	0.0	47.2	0.0	47.2
0406	Cheese and curd	4.87	15.1	19.4	23.5	58.0
0401-06	Dairy sector total	107.53	19.9	1.4	10.8	32.1

Note: Dairy headings 0401-0406 only; HS 0407 (eggs), 0408, 0409 (honey) excluded. CID = Customs Import Duty. SCL = Special Commodity Levy. Other = EIC + PAL + SUR + Excise Duty + LXT + VEL (distortionary levies; VAT and SSCL excluded). Rates are trade-weighted effective rates: levy collected / CIF value x 100. Sector total row uses back-computed levy amounts for accuracy.

Source: Data from the Sri Lanka Department of Customs (2025).

Table 9C: Tariff Incidence on Dairy Imports at the HS8 Level-Top 10 by Import Value, 2025

HS Heading	Product	CIF (LKR bn)	CID (%)	SCL (%)	Other (%)	Total (%)
04022100	Whole milk powder (fat > 1.5%), unsweetened	91.14	20.0	0.0	10.0	30.0
04021000	Skimmed milk powder (fat <= 1.5%), unsweetened	8.97	24.1	0.0	9.9	34.0
04062000	Grated or powdered cheese	2.52	0.0	37.5	0.0	37.5
04063000	Processed cheese	1.75	31.9	0.0	51.5	83.4
04051000	Butter	0.90	0.0	43.5	0.0	43.5
04041000	Whey	0.87	14.7	0.0	49.3	64.0
04069000	Other cheese	0.46	27.4	0.0	41.1	68.5
04015000	Fresh milk and cream, fat > 6%	0.22	20.0	0.0	20.0	40.0
04022900	Milk powder, fat > 1.5%, sweetened	0.21	16.6	0.0	6.2	22.8
04059000	Other fats and oils from milk	0.18	0.0	65.0	0.0	65.0

Note: Top 10 dairy HS8 lines by CIF import value (headings 0401-0406). CID = Customs Import Duty. SCL = Special Commodity Levy. Other = remaining distortionary levies (EIC, PAL, SUR, Excise, LXT, VEL); VAT and SSCL excluded. Rates are effective rates: levy collected / CIF value x 100.

Source: Data Sri Lanka Department of Customs (2025).

4.2 Regulatory Framework: Price Controls and Quality Standards

Sri Lanka's crop price incentive regime systematically protects import-competing staples, creating an anti-export bias that discourages private investment in high-value agricultural production and integration into export-oriented value chains. Nominal Rates of Protection (NRP) show that import-competing crops such as potato, onion, chili, rice, and maize, receive positive protection averaging between 6% and 54% at the farmgate. By contrast, the major export crops, tea and coconut, face strongly negative rates, implying that tariff policies drive farmgate prices below export reference prices (Table 10).¹⁹

¹⁹ World Bank. Modernising Sri Lanka's Agri-food System Through Strategic Repurposing of Spending and Public Policies. Washington, DC: World Bank, May 2025.

Table 10: Nominal Rates of Protection by Commodity, Average 2013-2022

Crop	Market Level	Average NRP (%)	Maximum NRP (%)	Minimum NRP (%)
Tea	Farmgate	-32.85	-29.79	-36.62
Tea	Wholesale	-11.44	+0.54	-18.30
Coconut	Farmgate	-42.47	-29.34	-51.26
Coconut	Wholesale	-0.54	-2.98	-4.57
Banana	Farmgate	-65.63	-53.69	-73.92
Banana	Wholesale	-51.65	-31.08	-61.13
Rice	Farmgate	+6.37	+47.68	-26.51
Rice	Wholesale	+10.15	+32.36	-19.02
Maize	Farmgate	+7.63	+34.09	-42.66
Maize	Wholesale	+4.62	+26.27	-41.38
Chili	Farmgate	+14.77	+56.16	+0.25
Chili	Wholesale	+11.99	+44.37	+0.17
Onion	Farmgate	+54.23	+82.68	+14.55
Onion	Wholesale	+48.75	+72.28	+13.54
Potato	Farmgate	+53.03	+81.40	+6.82
Potato	Wholesale	+41.23	+61.49	+5.55

Note: Positive values indicate import protection; negative values indicate anti-export bias. For export crops, farmgate NRP is substantially more negative than the wholesale NRP, indicating that market imperfections concentrate the burden on producers. Methodology- Monitoring and Analysing Food and Agricultural Policies (MAFAP).

Source: World Bank. Modernising Sri Lanka's Agri-food System Through Strategic Repurposing of Spending and Public Policies. May 2025.

The national quality control framework is characterised by institutional fragmentation, insufficient laboratory capacity, and weak digitalisation. These gaps constrain access to premium export markets and increase the cost of compliance with food safety standards in export destinations. Seven main institutions share responsibilities for quality and standards: Sri Lanka Standards Institution- Measurement Units, Standards and Services Department, Sri Lanka Accreditation Board, Industrial Technology Institute, Department of Animal Production and Health, National Plant Quarantine Service, and the Food and Drugs Authority. Critical gaps include the absence of a functioning agricultural Market Information System, an underdeveloped product traceability infrastructure, inadequate cold chain capacity, and a National Single Window that is not yet operational. The European Union Deforestation Regulation poses compliance risk for rubber cultivation, requiring land tenure documentation and supply chain traceability that current national systems cannot readily provide.²⁰

20 World Bank / SAPLING Regional Briefs Series. Sri Lanka – National Quality Infrastructure and Its Influence on Agricultural Trade. Washington, DC: World Bank, 2024.

5. Production, Investment and Market Landscape

5.1 Ownership and Establishment Size of Major Crops

Sri Lanka's agricultural production base is dominated by smallholders who provide supply chain resilience but face constraints of fragmentation and limited access to finance, mechanisation, and market information. Approximately 1.65 million smallholder farmers cultivate 2.3 million hectares, producing approximately 80% of the domestic food supply on average holdings of less than 2 hectares. Average cropping diversity is 1.2 to 1.4 crops per holding, indicating limited diversification among smallholders.²¹ According to the Economic Census 2014 of the Department of Census and Statistics, 99.8% of agricultural holdings are small holdings. A smallholding is defined as holdings of 40 perches or below in extent and holdings 40 perches but less than 20 acres. Holdings above 20 acres are categorized as the estate sector. Smallholdings account for 82.3% of the agricultural land area, while the estate sector accounts for 17.7%.

Table 11: Agricultural Holdings by Size 2013/2014

Group	Holdings		Extent	
	Number	%	Acres	%
Smallholdings	4,345,674	99.8	4,644,276	82.3
a) Less than or equal to 40 perches	2,034,331	46.7	239,677	4.2
b) Above ¼ of an acre	2,311,343	53.1	4,404,599	78.1
Estate sector	7,447	0.2	999,001	17.7
All sectors	4,353,121	100	5,643,277	100.0

Source: Economic Census 2013/2014: Agricultural Activities in Sri Lanka.

The tea sector is divided into three ownership categories with distinct structural characteristics. Of the 267,186 hectares under tea cultivation in 2022, smallholders hold 158,060 hectares, or 59%, with an average holding of 0.38 hectares. The 23 Regional Plantation Companies manage 69,792 hectares, or 26%, on state leases expiring in 2045, while larger private holders account for the remaining 39,334 hectares, or 15%. Smallholders produce approximately 75% of total made tea, benefiting from higher-yielding vegetatively propagated clones and greater management flexibility relative to estate operations. Estate tea plucking productivity is 18 to 20 kilograms per worker per day, compared with 25 kilograms for Sri Lankan smallholders. The productivity of the estate sector is low compared to 36 kilograms in Assam, 50 kilograms in South India, and 60 kilograms in Kenya, where mechanisation is widespread.²²

²¹ World Bank. Modernising Sri Lanka's Agri-food System Through Strategic Repurposing of Spending and Public Policies. Washington, DC: World Bank, May 2025.

²² World Bank. Analysis of the Sri Lanka Tea Sector. Final draft. Washington, DC: World Bank, September 2025.

As with tea, rubber cultivation is also dominated by smallholder producers. According to 2023 data from the Rubber Development Board, 68.14% of the rubber-growing area is under smallholder growers, while 31.86% is controlled by large plantations. Smallholder producers face challenges in producing geolocation data to ensure traceability, which is required under the European Union Deforestation Regulation. Between 2022 and 2024, Sri Lanka exported an average of USD 329 million worth of EUDR-covered products to the EU annually, with natural rubber products accounting for 97.5% of this value.²³

The number of smallholdings in the production of major export commodities can be identified using the Economic Census of 2013/2014, the most comprehensive database available. As shown in Table 12, of the 261,809 hectares of tea in 2014, 47% of the area was controlled by 402,734 smallholders. The average smallholding size was 0.31 hectares or 0.77 acres. Similarly, the average holding size of the smallholder rubber cultivation was 1.5 acres. The Economic Census does not report the number of smallholdings but only the extent under the smallholding and estate sectors for coconuts and other crops, such as spices (Table 8). The recent data from the Coconut Development Authority (CDA) also show statistics similar to those in Table 8, with only minor changes. The total coconut acreage is reported at 1,095,982 acres, with smallholdings accounting for 917,307 acres.²⁴ Export agricultural crops like pepper, cinnamon, cloves, nutmeg, and betel are predominantly under smallholders. Notable exceptions are cardamom and cocoa (Tables 13 through 17).

Table 12: Holdings in Smallholding and Estate Sectors of Major Agricultural Export Crops

Commodity	Smallholding Sector		Estate Sector	
	Number	Extent (Acres)	Number	Extent
Tea	402,734	309,792	1,801	337,138
Rubber	80,555	122,529	1,742	154,575
Coconut		917,345		178,638

Source: Economic Census 2013/2014: Agricultural Activities in Sri Lanka.

²³ Institute of Policy Studies of Sri Lanka. EUDR in 2025: Is Sri Lanka Ready for the EU's New Deforestation Rules, <https://www.ips.lk/talkingeconomics/2025/09/08/eudr-in-2025-is-sri-lanka-ready-for-the-eus-new-deforestation-rules/>, 2025

²⁴ Coconut Sector Strategic Plan and Roadmap.

Table 13: Extent of Export Agricultural Crops Under Smallholding and Estate Sectors in Systematic Cultivation

Crop	Total Extent (Acres)	Small Holding Sector	% Under Smallholding	Estate Sector	% Under Estate Sector
Pepper	59,775	56,661	95	3,114	5
Coffee	3,262	2,550	78	712	22
Cinnamon	77,489	69,269	89	8,220	11
Cocoa	2,472	1,114	45	1,358	55
Cardamom	3,983	565	14	3,418	86
Cloves	2,019	1,769	88	250	12
Nutmeg	806	741	92	65	8
Betel	2,540	2,436	96	104	4
Arecanut	2,588	2,380	92	208	8

Source: Economic Census 2013/2014: Agricultural Activities in Sri Lanka.

Agronomic suitability leads to the concentration of the commodity in specific geographical areas. As Table 9 shows, cinnamon cultivation is concentrated in the Southern province of Sri Lanka, with Galle district accounting for 34.7% of the extent. Rathnapura district shows the highest productivity. Cardamom, coffee, cloves, and nutmeg production and extent are concentrated in the Kandy district.

Table 14: Cinnamon-Top Five Districts by Production, 2024/2025

District	Production (MT)	Extent (Ha)	Productivity (MT/Ha)
Galle	6,821.8	12,614.4	0.54
Ratnapura	6,511.3	5,225.5	1.25
Matara	4,718.6	8,721.9	0.54
Hambantota	2,768.1	4,433.8	0.62
Kalutara	1,233.3	2,016.6	0.61
Rest of Sri Lanka	1,614.7	3,349.0	0.48

Source: Department of Census and Statistics.

Table 15: Coffee-Top Five Districts by Production, 2024/2025

District	Production (MT)	Extent (Ha)	Productivity (MT/Ha)
Kandy	1,869.9	1,439.1	1.30
Kegalle	622.9	472.2	1.32
Kurunegala	272.2	523.3	0.52
Matale	254.6	555.2	0.46
Ratnapura	237.1	242.1	0.98
Rest of Sri Lanka	836.6	1,156.0	0.72

Source: Department of Census and Statistics.

Table 16: Cardamom-Top Five Districts by Production, 2024/2025

District	Production (MT)	Extent (Ha)	Productivity (MT/Ha)
Kandy	213.8	195.9	1.09
Matale	87.5	121.5	0.72
Kurunegala	23.0	32.2	0.71
Kegalle	7.6	25.3	0.30
Nuwara Eliya	5.8	13.1	0.44
Rest of Sri Lanka	10.0	25.2	0.40

Source: Department of Census and Statistics.

Table 17: Cloves-Top Five Districts by Production, 2024/2025

District	Production (MT)	Extent (Ha)	Productivity (MT/Ha)
Kandy	3,284.1	2,677.7	1.23
Kegalle	831.6	1,068.8	0.78
Matale	396.5	690.3	0.57
Hambantota	106.6	97.2	1.10
Kurunegala	72.2	217.4	0.33
Rest of Sri Lanka	196.3	462.2	0.42

Source: Department of Census and Statistics.

Table 18: Pepper-Top 5 Districts by Production, 2024/2025

District	Production (MT)	Extent (Ha)	Productivity (MT/Ha)
Ratnapura	8,629.7	7,090.9	1.22
Kandy	6,439.3	6,073.5	1.06
Monaragala	6,270.9	4,925.5	1.27
Badulla	4,244.4	4,353.7	0.97
Matale	3,478.8	6,511.1	0.53
Rest of Sri Lanka	12,048.6	14,897.1	0.81

Source: Department of Census and Statistics.

5.2 Main Players in the Export-Oriented Agri-food System and International Competitors

Sri Lanka's agri-food export base is narrow and dominated by tea, which faces intensifying global competition and has ceded market position to Kenya and China over the past two decades. Agricultural exports reached USD 2,567 million in 2023, representing 21.5% of total merchandise exports. Food, beverage, and tobacco manufacturing exports reached USD 539 million, accounting for 4.5% of total exports. By 2025, agricultural exports had risen to USD 3,072 million, and food, beverages, and tobacco exports to USD 895 million.²⁵

Sri Lankan tea exports face fierce competition from exporters like Kenya and has progressively lost market position: surpassed by Kenya in export volume in 2004, by China in both volume and value in 2015, and by Kenya again in export value in 2022. Global oversupply of mainstream tea products reached approximately 400,000 tonnes in 2023, with prices falling by 9.2%, clouding the prospects of Sri Lanka's tea sector. Sri Lanka's comparative advantage lies in orthodox high-grown teas from the Nuwara Eliya, Dimbula, Uva, and Uda-Pussellawa origins, as well as in the 'Ceylon Tea' brand identity. Key export destinations for bulk tea are Turkey, the Russian Federation, Iraq, and the United Arab Emirates, while Sri Lanka fetches a higher unit value for packaged tea in the Netherlands.²⁶

Ceylon Cinnamon competes with Indonesian Cassia in global markets. Initiatives such as the European Union Geographic Indication in 2022 provide legal differentiation and premium positioning for Ceylon Cinnamon. The ten high-priority export destinations for cinnamon are: China, the United States, the United Kingdom, Canada, Germany, Brazil, France, Australia, Taiwan, and Spain. For product diversification, studies have identified high-growth product categories for Ceylon Cinnamon, including sports nutrition,

²⁵ Central Bank of Sri Lanka. Monthly Exports Data, Table 2.02 (In USD). Colombo: Central Bank of Sri Lanka, 2007–2026. Data from WITS is available only up to 2024. In 2024, once WITS data is mapped to ISIC sectors, AGR and PRC exports totalled 3.47 Bn, compared to 3.43 Bn recorded by CBSL as agricultural exports and food, beverages, and tobacco exports.

²⁶ World Bank. Analysis of the Sri Lanka Tea Sector. Final draft. Washington, DC: World Bank, September 2025.

confectionery, skin care, and spirits.²⁷ Sri Lanka established the Department for Cinnamon Development (DCD) in 2023 as a strategic initiative to elevate the cinnamon industry from a minor export crop to a major commercial plantation crop. Given that Sri Lanka is renowned for its Ceylon Cinnamon, or true cinnamon, it has high market potential for expansion. Importantly, the cinnamon sector supports about 350,000 livelihoods, predominantly held by women.²⁸

Coconut products emerged as an agri-food export success story in 2025. The Export Development Board estimated that total coconut-related export revenues exceeded USD 1 billion in 2025, which includes coconut water, coconut flour, desiccated coconut, coconut oil, coconut sugar, activated carbon, and shell charcoal. These are classified as food or chemical manufacturing, implying high growth potential in the value-added processing of coconut.²⁹ Locally, coconut stands out for its high value-added production capacity, driven by the presence of processors. Large-scale, medium-scale, and small or cottage-level operators exist, with large-scale operators being export-oriented. Processors produce kernel products and non-kernel products. Both types of products have high export value and the potential to contribute to the export goals under the Coconut Sector Strategic Plan and Roadmap of Sri Lanka.

Black pepper exports grew from USD 38.9 million in 2010 to USD 166.9 million in 2024, with a CAGR of 13.1%, making it one of the fastest-growing segments in Sri Lanka's agri-food export basket. Sri Lanka maintains a high Revealed Comparative Advantage in whole Pepper, Balassa index: 181, 2023/24,³⁰ indicating strong and persistent specialisation. However, India absorbs approximately 93% of Sri Lanka's pepper exports, raising concerns about single-market concentration. Sri Lanka supplies raw pepper to a competing producer rather than selling directly to end-consumer markets. European markets, Germany, Spain, the Netherlands and the UAE absorb much of the remainder. Crushed and ground pepper (HS 090412), by contrast, shows declining exports at -5.5% CAGR, suggesting limited value-added processing capacity.

27 Euromonitor International. Ceylon Cinnamon High Value Market Analysis. Commissioned by the International Finance Corporation. January 2024.

28 Strategic Plan 2025-2029, Department of Cinnamon Development.

29 Central Bank of Sri Lanka. Monthly Exports Data, Table 2.02 (In USD). Colombo: Central Bank of Sri Lanka, 2007–2026.

30 The Balassa Revealed Comparative Advantage (RCA) index equals a country's share of a product in its total exports divided by that product's share in world exports; an RCA above 1 indicates specialisation relative to the world average. The index is unbounded and non-linear above 1: a value of 181 does not indicate proportionally greater competitiveness than an earlier value of 52, as changes in the index also reflect shifts in the world trade reference basket and in the country's overall export structure, not only product-specific performance. The RCA is therefore used here as a point-in-time indicator of specialisation. CAGR and absolute export values serve as the primary measures of export dynamism.

5.3 Private Investment Trends in the Agri-food Sector: Recent Trends in Private Investment and Investment Gaps

Private sector investment in Sri Lanka's agri-food sector has declined, measured as a share of total credit to agriculture, since 2010. Meanwhile public expenditure on the sector remains overwhelmingly reliant on domestic fiscal resources. The share of total private-sector credit allocated to agriculture, forestry, and fisheries has been declining.³¹ Credit to agriculture as a share of total credit peaked in 2010, recording 14.4%. The subsequent decline was mainly caused by the rapid growth of non-agriculture credit in the economy until 2021. The slight uptick in the share of agricultural credit was the result of a faster contraction in total credit in the economy. Public expenditure for the agri-food sector is financed predominantly by domestic public revenue, which accounts for 80% of the total during 2017 and 2022, with donor contributions averaging around 20%, rising to 30% during the 2021-2022 economic crisis. Almost all donor funding flows to public goods, including infrastructure, training, and extension, while private goods, including input subsidies, are financed by over 98% of domestic sources.³²

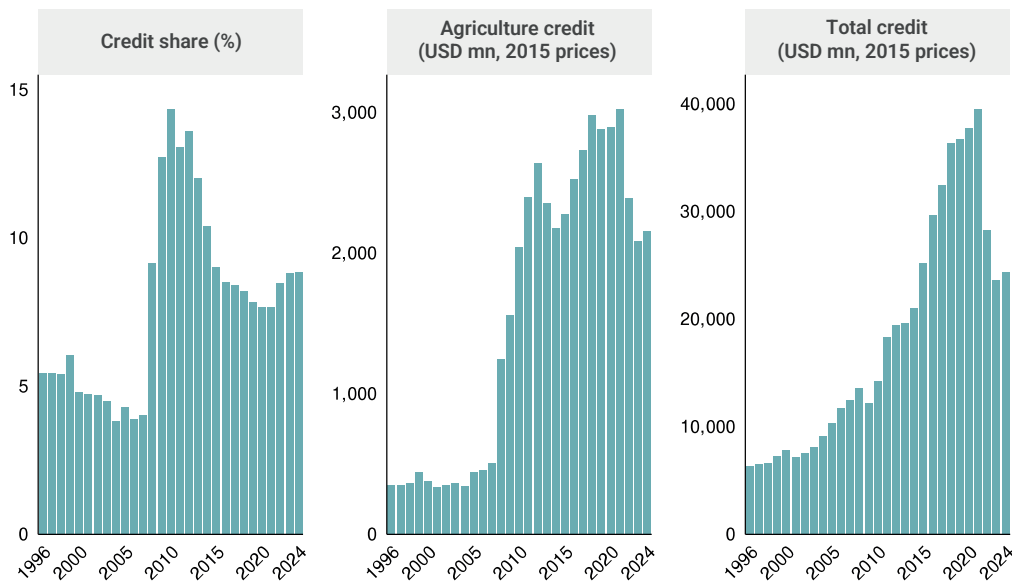
The slow growth of credit to agriculture might be largely determined by demand-side factors. Smallholder agricultural entrepreneurs and farmers may not qualify for a loan due to a lack of collateral and the informality of their businesses. The Asian Development Bank (ADB) estimates that only about 30% of Sri Lankan farmers have sufficient access to bank loans and other capital.³³

31 FAOSTAT as cited by World Bank. Modernising Sri Lanka's Agri-food System Through Strategic Repurposing of Spending and Public Policies. Washington, DC: World Bank, May 2025.

32 World Bank. Modernising Sri Lanka's Agri-food System Through Strategic Repurposing of Spending and Public Policies. Washington, DC: World Bank, May 2025.

33 Asian Development Bank, 2019 <https://www.adb.org/news/micro-and-small-rural-entrepreneurs-access-credit-enhanced-adb>

Figure 6: Agricultural Credit Share in Sri Lanka: 1996-2024



Source: Credit to agriculture. FAOSTAT, 2025.

Three structural investment gaps constrain the agri-food sector's competitiveness. First, the productive asset renewal rate in tea is far below the level required to sustain the sector's output capacity. Second, agricultural research and development spending is below international benchmarks. Third, market-enabling infrastructure, including cold chain, laboratory accreditation, and traceability systems, remains underdeveloped.

Tea productive asset renewal is running at approximately one-sixth of the required rate. Tea Smallholder Development Authority data show that only 912 hectares were replanted in 2022, which was just 17% of the recommended rate. At least 50% of smallholder fields are already past the peak productive age, while 20% of bushes are senile or unproductive. The government-managed Janatha Estates Development Board estates have 25% of bare land, and another 29% are in marginal or poor condition. Replanting costs LKR 4.5 million per hectare, with a minimum 3-year revenue gap during establishment. Formal credit institutions are unable to meet such a financing requirement.³⁴

Agricultural research and development spending averaged LKR 5.9 billion per year over the 2017-2022 timeline, below the 1% of agricultural gross domestic product benchmark recommended by the Food and Agriculture Organisation. Total factor productivity growth of agriculture averaged 0.28% per year over the full period between 1961 and 2020, compared to a world average of 0.74% and India's 1.69%. The post-2008 period shows a weakening relationship between input intensification and productivity, indicating the limits of an input-subsidy model without complementary research and development investment.³⁵ Market-enabling infrastructure investment is insufficient relative to the

³⁴ World Bank. Analysis of the Sri Lanka Tea Sector. Final draft. Washington, DC: World Bank, September 2025.

³⁵ World Bank. Modernising Sri Lanka's Agri-food System Through Strategic Repurposing of Spending and Public Policies. Washington,

requirements needed for access to premium export markets. Laboratory capacity needed to meet the European Union export certification is lacking. Developing product traceability is becoming a major requirement to meet compliance with the growing regulatory barriers in export destinations like the EU.³⁶

High trade costs stemming from para-tariffs, policy volatility, estate governance constraints, regulatory barriers to entry, and financial market limitations are major obstacles that prevent private capital from flowing to the agri-food sector at the scale required to drive productivity growth and export diversification. Para-tariff, licensing requirements, and seasonal import windows increase the operating costs of food manufacturing.³⁷ Policy volatility creates regulatory risk that deters long-term investment commitments. At least seven reversals in fertiliser subsidy and import policy have occurred since 1962. The 2021 import ban caused a 96.5% collapse in fertiliser use and was reversed within six months. Ad hoc introduction and revision of para-tariff levies result in wide fluctuations in import costs within a single fiscal year.³⁸

Estate governance constraints suppress replanting and capital expenditure in plantation agriculture. The Golden Share mechanism in Regional Plantation Companies, held by state trustees, creates uncertainty over corporate control and deters long-term commitment from private shareholders. As the 2045 lease expiry approaches, Regional Plantation Companies face a declining payback horizon. Replanting investment, which requires 8 to 10 years to recoup costs, becomes commercially irrational when the remaining lease term is short.³⁹ Regulatory entry barriers in input markets limit competitive supply and product innovation. The requirement of a 365-day approval period for new fertiliser product registration, which is well above Thailand's 100-day threshold, deters private-sector entry into input-supply markets. Continued import-quota authority held by the National Fertiliser Secretariat, alongside state enterprise dominance in paddy input distribution, crowds out private distributors. This prevents price competition that would reduce input costs for farmers.⁴⁰ Finance market limitations constrain both replanting and factory modernisation in the tea sector. Smallholder tea replanting requires capital at concessional rates, which commercial banks typically do not offer to smallholders without collateral.⁴¹

DC: World Bank, May 2025.

36 World Bank / SAPLING Regional Briefs Series. Sri Lanka – National Quality Infrastructure and Its Influence on Agricultural Trade. Washington, DC: World Bank, 2024.

37 Detailed discussion of tariff incidence is available in the preceding sections.

38 World Bank. Rethinking Fertilizer Policies in Sri Lanka. Washington, DC: World Bank, 2025. Ghose, D., Fraga, E., and Fernandes, A. Trade Policy and Access to Intermediate Inputs: Quantifying the Welfare Costs of a Fertilizer Shortage. World Bank Policy Research Working Paper, September 2025.

39 World Bank. Analysis of the Sri Lanka Tea Sector. Final draft. Washington, DC: World Bank, September 2025.

40 World Bank. Rethinking Fertilizer Policies in Sri Lanka. Washington, DC: World Bank, 2025.

41 World Bank. Analysis of the Sri Lanka Tea Sector. Final draft. Washington, DC: World Bank, September 2025.

6. Sectors with Potential for Expansion of On-and Off-Farm Employment

Primary agriculture employs 2.09 million workers, or approximately 25% of Sri Lanka's total workforce, at a labour intensity of 244 workers per USD 1 million of gross output. However, the sector generates only USD 3,199 in value added per worker. It is one-fifth of the value added by food and beverage manufacturing.⁴² At the global level, primary agriculture employment growth was negative 0.1% per year over 2000-2021, and South Asia allocates 52.9% of its total employment to the agri-food system, the highest share of any region globally. As structural transformation advances, the expected trajectory is a reduction in the employment share of primary agriculture toward higher-productivity off-farm activities. The key policy challenge for Sri Lanka is ensuring that labour released from primary agriculture is absorbed into higher-value processing, logistics, and service activities rather than low-productivity informal employment.⁴³ Based on the analysis discussed in the paper, downstream product clusters are identified as potential products that can generate growth and jobs through exporting.

Food and beverage manufacturing had the third-highest output multiplier among the 35 sectors in the Sri Lankan economy in 2022. For each USD 1 of final demand for food manufacturing, USD 1.85 of total economic output is generated, significantly exceeding the primary agricultural multiplier of 1.20. Input-Output table analysis further shows that 37.9% of primary agricultural output flows forward into food and beverage manufacturing, creating a strong quantitative case for upstream-downstream value chain deepening.⁴⁴

The divergence in labour intensity between the two sectors- 244 workers per USD 1 million in primary agriculture versus 18.9 workers per USD 1 million in food manufacturing- has important implications for employment generation. A structural shift from on-farm production toward food processing does not directly generate proportional employment growth per unit of output. However, the value added per worker in processing, USD 15,950, is approximately five times that in primary agriculture's USD 3,199. This implies that such a shift substantially raises labour productivity and average wages. For broad-based employment generation, expansion of the wider off-farm agri-food system, including trade, transport, logistics, quality services, and food services, is likely more impactful than processing alone. Globally, off-farm agri-food activity generates approximately USD 2 in income for every USD 1 of primary agricultural income, with trade and transport representing the largest off-farm component in lower-middle-income countries.⁴⁵

42 Authors' calculations. Employment coefficients and value added per worker computed for primary agriculture (ISIC 01–03) and food and beverage manufacturing (ISIC 10–12). Source data: Sri Lanka Labour Force Survey (2023) and Asian Development Bank Input-Output Table for Sri Lanka (2022).

43 Thurlow, J., Holtemeyer, B., Jiang, S., Pauw, K., and Randriamamonjy, J. Measuring Agri-food Systems: New Indicators and Global Estimates. IFPRI Discussion Paper 02339. Washington, DC: International Food Policy Research Institute, May 2025.

44 Authors' calculations. Leontief output multipliers, forward-backward linkages, and inter-sectoral supply ratios. Source data: Asian Development Bank Input-Output Tables for Sri Lanka (2019, 2020, 2021, 2022).

45 Thurlow, J., Holtemeyer, B., Jiang, S., Pauw, K., and Randriamamonjy, J. Measuring Agri-food Systems: New Indicators and Global Estimates. IFPRI Discussion Paper 02339. Washington, DC: International Food Policy Research Institute, May 2025.

The following is a SWOT Analysis that identifies the internal strengths and weaknesses, and external opportunities and threats, that shape the competitiveness and investment potential of Sri Lanka's agri-food sector.

6.1 Strengths

- **Established branding and innovations to fetch premium price** - The 'Ceylon Tea' brand is globally established, while the Geographical Indication may provide a premium for Ceylon Tea. Ceylon Cinnamon achieved European Union Geographic Indication registration in 2022, establishing branding rights.⁴⁶
- **Plot level productivity in tea** - Smallholder dominance in tea production provides supply resilience and yields advantages from vegetatively propagated clones and intensive management on small parcels.⁴⁷
- **Price premium for value added exports** - 55% of tea exports are already in packaged or value-added form, achieving an average free-on-board price premium of 37% above the auction reference price over 2014-2023.⁴⁸
- **Established price discovery mechanisms** - The Colombo Tea Auction provides a transparent, internationally recognised price discovery mechanism for made tea.⁴⁹
- **Self-sufficiency in staple and growth in the intensive margin** - Near self-sufficiency in rice has been achieved through the Mahaweli Development Program and sustained investment in irrigation infrastructure.⁵⁰ Total factor productivity has become the primary driver of agricultural growth since 2001, contributing 0.42% per year. This is a shift away from area expansion and input intensification toward efficiency-based growth.⁵¹

46 World Bank. Analysis of the Sri Lanka Tea Sector. Final draft. Washington, DC: World Bank, September 2025. World Bank / SAPLING Regional Briefs Series. Sri Lanka – National Quality Infrastructure and Its Influence on Agricultural Trade. Washington, DC: World Bank, 2024.

47 World Bank. Analysis of the Sri Lanka Tea Sector. Final draft. Washington, DC: World Bank, September 2025.

48 World Bank. Analysis of the Sri Lanka Tea Sector. Final draft. Washington, DC: World Bank, September 2025.

49 World Bank. Analysis of the Sri Lanka Tea Sector. Final draft. Washington, DC: World Bank, September 2025.

50 World Bank. Modernising Sri Lanka's Agri-food System Through Strategic Repurposing of Spending and Public Policies. Washington, DC: World Bank, May 2025.

51 World Bank. Modernising Sri Lanka's Agri-food System Through Strategic Repurposing of Spending and Public Policies. Washington, DC: World Bank, May 2025.

- **Research and innovation for productivity enhancing mechanization** - The Tea Research Institute has developed a selective mechanical tea harvester that increases labour productivity by 50%, creating a viable path to cost competitiveness.⁵²
- **Above-average government investment in agriculture** - The agricultural budget, at 7.6% of government expenditure, is above the South Asian regional average.⁵³

6.2 Weaknesses

- **Low replanting rates in tea and low estate labour productivity** - Tea replanting rate averaged 0.97% per year between 1956 and 2008. It has been declining since 2008.⁵⁴ Estate labour productivity at 18 to 20 kilograms per plucking day is one-third of competitors like Kenya.⁵⁵
- **Governance failures of major players in export plantation sector** - Loss-making RPCs over 2009-2019, related-party transactions undermining balance sheets, and distorting investment incentives through methods like the Golden Share have prevented the estate sector from sustaining productive capacity.⁵⁶
- **Price and trade policies creating anti-export bias** - The negative NRP on export-oriented crops systematically discourages investment in high-value export crops.⁵⁷
- **Untargeted and inefficient input subsidies** - The fertiliser subsidy lacks income targeting and is economically inefficient, generating only LKR 1 of farm income gain for each LKR 1.38 to 1.91 of government spending.⁵⁸
- **Unsatisfactory growth of total factor productivity** - Total factor productivity growth of 0.28% per year is one-third of the global average of 0.74% and well below that of regional peers such as India's 1.69%.⁵⁹

52 World Bank. Analysis of the Sri Lanka Tea Sector. Final draft. Washington, DC: World Bank, September 2025.

53 World Bank. Modernising Sri Lanka's Agri-food System Through Strategic Repurposing of Spending and Public Policies. Washington, DC: World Bank, May 2025.

54 World Bank. Analysis of the Sri Lanka Tea Sector. Final draft. Washington, DC: World Bank, September 2025.

55 World Bank. Analysis of the Sri Lanka Tea Sector. Final draft. Washington, DC: World Bank, September 2025.

56 World Bank. Analysis of the Sri Lanka Tea Sector. Final draft. Washington, DC: World Bank, September 2025.

57 World Bank. Modernising Sri Lanka's Agri-food System Through Strategic Repurposing of Spending and Public Policies. Washington, DC: World Bank, May 2025.

58 World Bank. Modernising Sri Lanka's Agri-food System Through Strategic Repurposing of Spending and Public Policies. Washington, DC: World Bank, May 2025. World Bank. Rethinking Fertilizer Policies in Sri Lanka. Washington, DC: World Bank, 2025.

59 World Bank. Modernising Sri Lanka's Agri-food System Through Strategic Repurposing of Spending and Public Policies. Washington, DC: World Bank, May 2025.

- **Lack of infrastructure for quality accreditation, standardization, and trade facilitation**
 - Insufficient laboratory capacity for export certification, the absence of a Market Information System, underdeveloped traceability, and a lack of a National Single Window increase trade costs.⁶⁰
- **Policy volatility in the tariff and input market** - Ad hoc para-tariff changes and subsidy policies for fertiliser, and the absence of an overarching long-term agricultural strategy, impose systematic risk on private investment decisions.⁶¹

6.3 Opportunities

- **Opportunities for value addition** - Shifting the remaining 45% bulk export share incrementally toward packaged tea would capture the documented free-on-board premium of 37% above the auction price.⁶² Ceylon cinnamon and coconut products also offer value-added opportunities.⁶³
- **Strong growth of the agri-food processing sector in recent years** - Coconut and fruit processing industries have increased exports substantially.
- **Export-led PRC growth for economy wide growth** - The PRC has a multiplier of 1.85 implying that every USD 1 invested in food processing generates more economy-wide income.
- **Carbon credit potential** - The potential of carbon dioxide sequestration by tea bush and shade tree biomass creates a revenue stream for Sri Lankan tea smallholders.⁶⁴
- **Reforming input subsidy policies** - Fertiliser subsidy reform can redirect up to 73% of current subsidy spending toward research and development, extension, and market systems, thereby achieving higher productivity returns per unit of government expenditure.⁶⁵

60 World Bank / SAPLING Regional Briefs Series. Sri Lanka – National Quality Infrastructure and Its Influence on Agricultural Trade. Washington, DC: World Bank, 2024.

61 World Bank. Rethinking Fertilizer Policies in Sri Lanka. Washington, DC: World Bank, 2025. World Bank. Modernising Sri Lanka's Agri-food System Through Strategic Repurposing of Spending and Public Policies. Washington, DC: World Bank, May 2025.

62 World Bank. Analysis of the Sri Lanka Tea Sector. Final draft. Washington, DC: World Bank, September 2025.

63 Euromonitor International. Ceylon Cinnamon High Value Market Analysis. Commissioned by the International Finance Corporation. January 2024.

64 World Bank. Analysis of the Sri Lanka Tea Sector. Final draft. Washington, DC: World Bank, September 2025.

65 World Bank. Rethinking Fertilizer Policies in Sri Lanka. Washington, DC: World Bank, 2025.

- **Mechanisation for enhanced productivity** - Tea harvesting mechanisation with hand-held harvesters demonstrates an 86% increase in field capacity per worker-hour, offering a commercially viable path to cost competitiveness against East African competitors.⁶⁶
- **National digitalisation drive for traceability and trade facilitation** - The National Single Window implementation would substantially reduce costs associated with multiple points of document submission and the lack of inter-agency data sharing.⁶⁷ Early compliance with the European Union Deforestation Regulation offers a first-mover advantage to compliant Sri Lankan exporters.⁶⁸
- **Capitalize on the origin-based, unique traits and willingness to pay a premium for Geographic Indications** - Ceylon Cinnamon and regional tea types can obtain a premium by enforcing geographic indication.
- **More employment generation for women** - Ensure more employment opportunities exist in women-dominated processing sectors such as cinnamon.

6.4 Threats

- **Climate change induced productivity losses** - Climate change is projected to cause economic losses of 3.3% to 3.5% of gross domestic product by mid-century, with agricultural productivity losses estimated at 1.2% of gross domestic product by 2050.⁶⁹
- **Global competition in major agri-food exports** - An estimated tea oversupply of 400,000 tonnes in 2023, representing 6% of annual production, drove mainstream tea prices down by 9.2%, compressing margins for bulk-oriented exporters.⁷⁰ Ceylon Cinnamon faces fierce competition from cassia exporters, who offer a cheaper alternative.

⁶⁶ World Bank. Analysis of the Sri Lanka Tea Sector. Final draft. Washington, DC: World Bank, September 2025.

⁶⁷ World Bank / SAPLING Regional Briefs Series. Sri Lanka – National Quality Infrastructure and Its Influence on Agricultural Trade. Washington, DC: World Bank, 2024.

⁶⁸ World Bank / SAPLING Regional Briefs Series. Sri Lanka – National Quality Infrastructure and Its Influence on Agricultural Trade. Washington, DC: World Bank, 2024. World Bank. Analysis of the Sri Lanka Tea Sector. Final draft. Washington, DC: World Bank, September 2025

⁶⁹ World Bank Group. Sri Lanka Country Climate and Development Report. Washington, DC: World Bank Group, 2025. World Bank. Modernising Sri Lanka's Agri-food System Through Strategic Repurposing of Spending and Public Policies. Washington, DC: World Bank, May 2025.

⁷⁰ World Bank. Analysis of the Sri Lanka Tea Sector. Final draft. Washington, DC: World Bank, September 2025.

- **Governance issues and rigid compliance requirements for export crops** - A near-zero incentive for replanting investment, driven by the approaching lease expiry of RPC-managed estates, is inducing the degradation of tea lands.⁷¹ The risk of compliance with the European Union Deforestation Regulation is present for rubber, while tea may be included in future expansions.⁷²
- **High import dependence on agricultural raw materials** - Complete dependence on imported chemical fertiliser creates vulnerability to foreign-exchange shortfalls and supply disruptions, leading to crop failure and food insecurity.⁷³
- **Governance and trade policy issues** - Uncertainty of GSP+ and non-compliance with international rules and frameworks drastically affected seafood exports to the EU. Uncertainty around US tariffs affects agricultural exports to the US.

71 World Bank. Analysis of the Sri Lanka Tea Sector. Final draft. Washington, DC: World Bank, September 2025.

72 World Bank / SAPLING Regional Briefs Series. Sri Lanka – National Quality Infrastructure and Its Influence on Agricultural Trade. Washington, DC: World Bank, 2024.

73 World Bank. Rethinking Fertilizer Policies in Sri Lanka. Washington, DC: World Bank, 2025. Ghose, D., Fraga, E., and Fernandes, A. Trade Policy and Access to Intermediate Inputs: Quantifying the Welfare Costs of a Fertilizer Shortage. World Bank Policy Research Working Paper, September 2025.

7. Conclusion and Policy Recommendations

Addressing the structural constraints within Sri Lanka's agri-food sector requires targeted investment facilitation in food and beverage manufacturing that uses domestically produced raw materials to capture greater value addition.

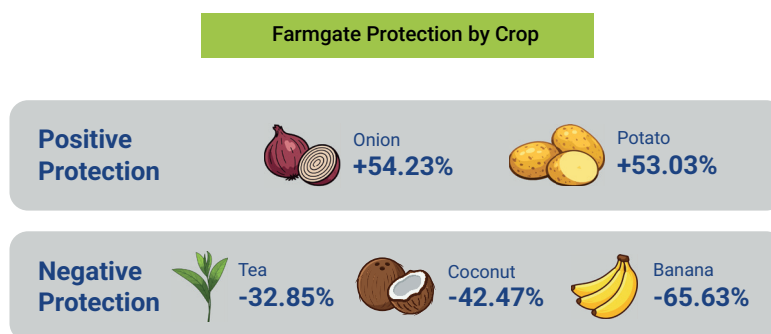
Food and beverage manufacturing recorded the third-highest output multiplier among the 35 sectors of the Sri Lankan economy in 2022, with each USD 1 of final demand generating USD 1.85 of total output, against 1.20 for primary agriculture.

It is also important to introduce tariff policy changes that incentivise food processing through participation in the agriculture value chain. Although domestic value added is lower in production via value chain participation, the scope for scaling up is larger. Food and beverage manufacturing recorded the third-highest output multiplier among the 35 sectors of the Sri Lankan economy in 2022, with each USD 1 of final demand generating USD 1.85 of total output, against 1.20 for primary agriculture. Demand is transmitted to domestic sectors, as intermediate inputs account for 69.9% of the processing sector's output. In another aspect, 37.9% of primary agricultural gross output flows forward into the processing sector. Furthermore, processing demonstrates a stronger export-orientation, exporting 15.3% of gross output to export markets, against

4.7% for primary agriculture. A dollar mobilised in the downstream value chain of the agri-food sector therefore pulls more domestic output, more export earnings and higher-productivity jobs than the same dollar mobilised upstream. Candidates for further scaling up can be identified as coconut processing, cinnamon, tea, other spices such as pepper and vanilla, seafood, and fruits and food processing products, which are sectors with high growth and comparative advantage.

Reducing the anti-export bias in the price-incentive regime is an important policy reform available, which requires phased reform of the Special Commodity Levy together with a rules-based tariff calendar. Available Nominal Rates of Protection over the period of 2013 to 2022 show the bias directly, with farmgate protection of 54.23% for onion and 53.03% for potato against a negative protection of 32.85% for tea, 42.47% for coconut and 65.63% for banana. The trade-weighted total tariff burden was 27.5% on the imports of food and beverage manufacturing and 18.5% on primary agricultural imports in 2025. Special Commodity Levy contributes 15.3% and 14.6% of this burden, respectively. Because the levy is revised through gazette notifications triggered by seasonal supply conditions and macroeconomic pressure rather than a predictable schedule, the SCL reforms should separate consumer-competing imports from raw materials used by domestic processors.

The Protection Bias in Sri Lankan Agriculture: Nominal Rate of Protection, 2013-2022



Source: World Bank (2025). Modernising Sri Lanka's Agri-food System Through Strategic Repurposing of Spending and Public Policies.

Public agricultural spending should be repurposed from input subsidies towards research, extension, and replanting. Agriculture absorbed 7.6% of total government expenditure over 2017 to 2022, above the South Asian regional average. Thus, the binding constraint for resource mobilisation to research and replanting is allocation rather than the volume of investment. Fertiliser subsidies took 27% of total agri-food expenditure and 35.1% of the LKR 212.8 billion spent in 2022, while research and development averaged LKR 5.9 billion a year. Likewise, expenditure on extension fell from 6% of spending in 2019 to 2.3% in 2022. Agriculture sector productivity reflects the lack of focus on productivity-improving investment, as total factor productivity growth averaged 0.28% a year over 1961 to 2020 against a world average of 0.74%. Tea replanting reached only 912 hectares in 2022, or merely 17% of the recommended rate. Evidence shows that the fertiliser subsidy generates only LKR 1 of farm income for each LKR 1.38 to LKR 1.91 of government spending.

Institutional and investment-climate barriers should be removed as a precondition for private capital to respond to any of the above discussed reforms, starting with the plantation lease horizon, the Golden Share and input registration timelines. Plantation leases expire in 2045, and replanting takes eight to ten years to reach full production, making replanting already commercially irrational for the 23 Regional Plantation Companies managing 69,792 hectares of tea. In input markets, the barrier is procedural, with new fertiliser product registration requiring 365 days against 100 days in Thailand and pesticide approvals operating consignment by consignment. Policy volatility includes at least seven major reversals in fertiliser policy since 1962 and a complete import ban in May 2021. Land policy works in the same direction, as the Paddy Lands Act blocks conversion while roughly 33,000 hectares of paddy land have been identified as abandoned in wet-zone districts adjacent to urban areas where opportunity cost is higher.

Primary agriculture in Sri Lanka employs 2.09 million workers, which is about a quarter of the workforce. It has a worker productivity of 244 workers per USD 1 million of gross output against 18.9 workers per USD 1 million in food and beverage manufacturing.

The study identifies six export clusters based on a combination of established comparative advantage and demonstrated growth. Cinnamon anchors the incumbents, products already with comparative advantage and high growth, with a revealed comparative advantage index of 1,235 and annual growth of 8.5%. The European Union Geographical Indication registration in 2022 provides enforceable differentiation from cassia from other countries. Pepper recorded an annual growth of 13%, but routes 93% of exports through India, implying that the window for direct market development in end-consumer markets exists. Coconut sector exports exceeded USD 1 billion in 2025, against a strategic plan target of USD 2 billion by 2035. Seafood leads the emerging group, which includes products that gained comparative advantage in the 2008 to 2024 period. The seafood sector accounts for most of the 37 products that gained comparative advantage between

the 2008 and 2024 periods. The GSP+ utilisation by seafood exports stands above 90% because domestic sourcing satisfies rules of origin. Fruit and vegetable processing grew by 302% over the past decade, indicating an emerging area. Tea still ships 45% of exports in bulk, against a free-on-board premium of 37% for packaged tea over the auction price during 2014 to 2023, implying scope for value addition.

Primary agriculture in Sri Lanka employs 2.09 million workers, which is about a quarter of the workforce. It has a worker productivity of 244 workers per USD 1 million of gross output against 18.9 workers per USD 1 million in food and beverage manufacturing. Thus, the productivity gain from moving workers from primary agriculture to processing is large, but direct employment absorption is not proportional. Value added per worker is USD 3,199 in primary agriculture against USD 15,950 in processing. The same productivity gap appears within farming, with sector-specific productivity ranging from USD 1,408 in rice and USD 1,625 in tea to USD 11,445 in coconut and USD 15,481 in tropical fruits. Thus, reallocation towards higher-value crops raises income even before labour leaves the farm. Downstream processing development with an integrated plan to increase crop productivity should be a priority of policies towards achieving robust economic growth in Sri Lanka. Rice, beverage crops and vegetables account for 64.8% of primary agricultural employment, and women hold 48.6% of beverage crop employment and 46.6% of food processing employment.

Table 19: Key Findings, Policy Implications, and Recommended Actions

Finding	Policy Inference and Recommendation
Food and beverage manufacturing has an output multiplier of 1.85 against 1.20 for primary agriculture, and takes 37.9% of farm output as input.	Prioritise investment facilitation in food and beverage processing.
There exists a 27.5% tariff burden on processed food imports. Main raw materials like maize imports are subject to special commodity levies and non-tariff measures like import licensing.	Phase in Special Commodity Levy reform and replace gazette-driven revisions with a rules-based tariff calendar.
Fertiliser subsidies absorb 27% of agriculture sector government spending while research and development stays below the 1% benchmark and total factor productivity growth is 0.28% a year.	Repurpose subsidy spending towards research, extension and a dedicated tea smallholder replanting fund.
Leases expire in 2045 against an eight-to-ten-year replanting payback, fertiliser registration takes 365 days against 100 in Thailand, and policy has reversed seven times since 1962.	Resolve the lease horizon and the Golden Share, open a single digital window for input approvals, and legislate a multi-year policy framework.
Six clusters combine comparative advantage with growth, led by cinnamon at an index of 1,235 coconut exports above USD 1 billion, and seafood with GSP+ utilisation above 90%.	Concentrate investment promotion, cold chain and traceability investment on the six clusters.
Primary agriculture employs 2.09 million workers at USD 3,199 value added per worker against USD 15,950 in processing.	Build the off-farm agri-food system as the absorption channel and support crop reallocation and mechanisation on farm.

Source: Author's compilation.

Appendix A:

Table A1: Definition of the Agri-food Sector by Thurlow (2025)

Component	ISIC Division	Inclusion Rule
Primary Agriculture (AGR)	01 Crop and animal production, hunting, and related services	Full value added
	02 Forestry and logging	
	03 Fishing and aquaculture	
Agro-Processing (PRC)	10 Manufacture of food products	Full value added
	11 Manufacture of beverages	
	12 Manufacture of tobacco products ^d	
Food Services (FSV)	56 Food and beverage service activities	Full value added
Hotel Services (HOT)	55 Accommodation	Agri-food share of intermediate input costs only ¹
Input Supply (INP)	All non-agri-food sectors	Share of output supplied to Div. 01–03 and 10–12 only ²
Trade and Transport (TRD)	45-47, 49–53 Wholesale, retail, and transport services	Agri-food transaction margin share only ³

Source: Author's compilation using Thurlow (2025).

¹ Only the fraction of the Accommodation sector (ISIC 55) value added proportional to agri-food intermediate inputs are attributed to the agri-food system.

² For each non-agri-food sector, value added is apportioned by the share of its output purchased by agriculture (Div. 01–03) and food processing (Div. 10–12).

³ Only transaction cost margins on agri-food products are included; margins on non-agri-food goods are excluded.

^d Cotton ginning (ISIC 1311) and timber processing (ISIC 1610) are excluded because most national accounts do not disaggregate to that level.

Using available Input-Output Tables (IOTs), the value-added share of AGR and PRC can be calculated directly. However, as Sri Lanka does not have a detailed supply-use table (SUT), food services and accommodation shares cannot be directly obtained as IOTs, and the available SUT for the 2011 report combines both sectors. Thurlow (2025) is not detailed enough to understand how they solved the data issues. Because assumptions are necessary to estimate the FSV, HOT, INP, and TRD shares, only AGR and PRC, which are readily available in IOTs, are used for time-series comparison.

Table A2: Labour Force Share of Subsector Under Primary Agriculture Production (AGR) in 2024

ISIC 4-digit	Description	Number of Workers	Share of LF (%)
0112	Growing rice	546,542	6.88
0127	Growing of beverage crops	437,329	5.5
0113	Growing of vegetables and melons, roots and tubers	355,235	4.47
0128	Growing of spices, aromatic, drug and pharmaceutical crops	119,231	1.5
0111	Growing of cereals (except rice), leguminous crops and oil seeds	109,754	1.38
0311	Marine fishing	91,039	1.15
0129	Growing of other perennial crops	60,545	0.76
0126	Growing of oleaginous fruits	58,973	0.74
0161	Support activities for crop production	46,462	0.58
0141	Raising of cattle and buffaloes	43,739	0.55
-	Other	197,802	2.49

Source: Labour Force Survey, 2024.

Table A3: Labour Force share of Subsector Under Food Processing (PRC) in 2024

ISIC 4-digit	Description	Number of Workers	Share of Labour Force (%)
1079	Manufacture of other food products ⁷⁴	104,950	1.32
1071	Manufacture of bakery products	55,041	0.69
1061	Manufacture of grain mill products	41,264	0.52
1200	Manufacture of tobacco products	35,387	0.45
1073	Manufacture of cocoa, chocolate and sugar confectionery	20,507	0.26
1050	Manufacture of dairy products	15,675	0.2
1030	Processing and preserving of fruit and vegetables	12,867	0.16
1072	Manufacture of sugar	11,806	0.15
1104	Manufacture of soft drinks; production of mineral waters and other bottled waters	9,934	0.12
1040	Manufacture of vegetable and animal oils and fats	9,325	0.12
-	Other	24,299	0.31

Source: Labour Force Survey, 2024.

⁷⁴ Other food products include tea and coffee processing, sugar confectionery, macaroni and noodles, prepared meals, condiments and sauces, and spices processing.

Table A4: Labour Force Share of Subsector Under Food and Beverage Services (FSV) in 2024

ISIC 4-digit	Description	Weighted Count	Share of LF (%)
5610	Restaurants and mobile food service activities	117,625	1.48
5629	Other food service activities	46,686	0.59
5630	Beverage serving activities	10,579	0.13
5621	Event catering	7,553	0.1
-	Other	0	0

Source: Labour Force Survey, 2024.

Table A5: Labor Force Share by Gender in Sub-sectors of Primary Agriculture Production (AGR)

Rank	ISIC Code	Sub-sector	Female	Male	Total	Female Share (%)
1	0127	Growing of beverage crops	241,997	256,287	498,284	48.6
2	0113	Growing of vegetables and melons, roots and tubers	113,077	215,360	328,437	34.4
3	0112	Growing of rice	92,351	434,882	527,233	17.5
4	0111	Growing of cereals (except rice), leguminous crops and oil seeds	50,250	61,654	111,904	44.9
5	0128	Growing of spices, aromatic, drug and pharmaceutical crops	25,988	67,451	93,439	27.8
6	0129	Growing of other perennial crops	25,831	49,638	75,469	34.2
7	0141	Raising of cattle and buffaloes	23,590	34,856	58,446	40.4
8	0146	Raising of poultry	23,585	13,424	37,009	63.7
9	0119	Growing of other non-perennial crops	12,403	3,053	15,456	80.2
10	0126	Growing of oleaginous fruits	12,245	44,857	57,102	21.4
11	-	Other sub-sectors (combined)	48,445	237,121	285,566	17
-	-	Total	669,761	1,418,583	2,088,344	32.1

Source: Labour force survey, 2023.

Table A6: Labour Force Share by Gender in Sub-sectors of Food Processing (PRC)

Rank	ISIC Code	Sub-sector	Female	Male	Total	Female Share (%)
1	1200	Manufacture of tobacco products	33,931	3,367	37,298	91
2	1079	Manufacture of other food products n.e.c,	22,759	38,675	61,434	37
3	1061	Manufacture of grain mill products	15,659	23,256	38,915	40.2
4	1072	Manufacture of sugar	13,897	16,936	30,833	45.1
5	1080	Manufacture of prepared animal feeds	11,902	13,397	25,299	47
6	1071	Manufacture of bakery products	11,766	26,972	38,738	30.4
7	1074	Manufacture of macaroni, noodles, couscous and similar farinaceous products	7,732	2,305	10,037	77
8	1073	Manufacture of cocoa, chocolate and sugar confectionery	6,453	3,780	10,233	63.1
9	1031	Processing and preserving of potatoes	4,678	3,489	8,167	57.3
10	1020	Processing and preserving of fish, crustaceans and molluscs	4,111	4,592	8,703	47.2
11	-	Other sub-sectors (combined)	17,212	35,501	52,714	32.7
	-	Total	150,100	172,270	322,370	46.6

Source: Labour force survey, 2023.

Table A7: Labour Force Share by Gender in Sub-sectors of Food and Beverage Services (FSV)

Rank	ISIC Code	Sub-sector	Female	Male	Total	Female Share (%)
1	5610	Restaurants and mobile food service activities	45,667	78,502	124,169	36.8
2	5629	Other food service activities	35,755	9,770	45,525	78.5
3	5630	Beverage serving activities	4,441	4,777	9,218	48.2
4	5611	Restaurants and mobile food service activities	3,589	7,822	11,411	31.5
5	5631	Beverage serving activities	3,128	1,140	4,268	73.3
6	5621	Event catering	3,063	7,481	10,543	29
-	-	Total	95,642	109,491	205,133	46.6

Source: Author's calculations.

Table A8: Coconut Production (Mn nuts)

District	2024	2025
Puttalam (Marawila)	476	514
Kurunegala	984	991
Gampaha	277	283
Colombo	44	47
Kalutara	54	50
Galle	50	52
Matara	40	42
Hambantota	101	89
Ampara	32	36
Batticaloa	25	29
Trincomalee	22	27
Kegalle	68	69
Rathnapura	127	136
Anuradhpura	104	104
Polonnaruwa	34	33
Monaragala	85	82
Badulla	20	21
Kandy	34	34
Matale	84	80
Nuwara Eliya	5	5
Jaffna	32	27
Kilinochchi	19	18
Vavuniya	15	16
Mullaitivu	19	18
Mannar	4	4
Total	2,754	2,806

Source: Personal communication, Plant Physiology Division, CRI.

Appendix B: A Compound Annual Growth Rate and Revealed Comparative Advantage Analysis of Agri-food Exports by Sri Lanka

i. Emerging Competitive Strengths: Gained RCA with High CAGR

Thirty-seven agri-food products gained RCA¹ between 2008-2009 and 2023-2024 while also recording export CAGR of at least 5% per year. These products represent the most commercially significant new export capabilities for Sri Lanka. The majority are in the seafood and aquaculture sub-sectors. The five largest gainers by export end-value and RCA magnitude are shown in Table B1.

Table B1: Top Emerging Agri-food Exports by RCA Gain and CAGR (2010–2024)

HS Code	Description	Sector	CAGR (2010-2024)	Late RCA (2023-24) ⁷⁵	End Value (USD Mn, 2024)
160590	Frozen oysters	Seafood	323.5%	62.1	0.7
160520	Cold-water shrimps	Seafood	322.3%	4.6	1.2
030749	Cuttlefish and squid	Seafood	220.6%	16.0	2.1
090500	Vanilla	Spices	111.8%	23.4	6.3
080300	Plantains	Fresh produce	31.6%	32.3	8.5

Note: Late RCA computed for 2023-2024. CAGR computed over 2010-2024. End value in USD millions.

Source: Author's calculations.

Frozen oysters (HS 160590) recorded an RCA of 62.1 in 2023-24, alongside a CAGR of 323.5%. Cold-water shrimps (HS 160520) similarly recorded an RCA of 4.6 in 2023-24 with a CAGR of 322.3%. Cuttlefish and squid (HS 030749) reached an RCA of 16.0 with 220.6% growth. These gains are consistent with the paper's finding that GSP+ utilisation exceeds 90% for fish exports and that unconventional seafood categories show high growth potential. In addition to seafood, vanilla (HS 090500) recorded an RCA of 23.4 in 2023-24, with a CAGR of 111.8%, reflecting global demand for premium spices. Plantains (HS 080300) recorded an RCA of 32.3 and a CAGR of 31.6%, representing a high-volume emerging export.

⁷⁵ The Balassa Revealed Comparative Advantage (RCA) index equals a country's share of a product in its total exports divided by that product's share in world exports. An RCA above 1 indicates specialisation relative to the world average. The index is unbounded and non-linear above 1, meaning numerical values are not proportionally comparable across time or between products. Changes in RCA values also reflect shifts in the world trade reference basket and in the country's overall export structure, not only product-specific performance. RCA values are therefore used here as point-in-time indicators of specialisation.

ii. Incumbents with Deepening Comparative Advantage

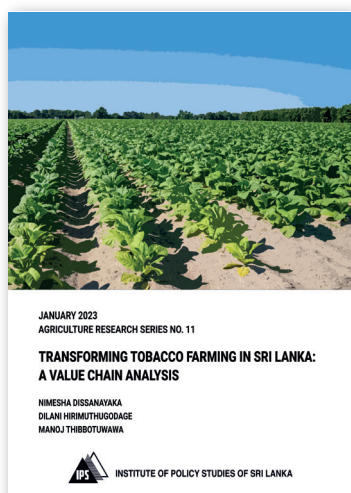
Fifty-five products maintained RCA throughout both periods while sustaining positive CAGR. These incumbents represent Sri Lanka's established export base that is simultaneously deepening its market share. Notable agricultural export within this group is Cinnamon (HS 090611, Cinnamomum), which stands out with an RCA of 1,235 in 2023-24 and a CAGR of 8.5%, reflecting a near-monopoly status in the global cinnamon trade. Pepper (HS 090411) maintained an RCA of 181 and a CAGR of 13.0% while coconut oil (HS 151311) recorded an RCA of 117.3 and a CAGR of 21.0%. Live ornamental freshwater fish (HS 030110) maintained an RCA of 159.9 and a CAGR of 20.7%.

iii. Products Losing Comparative Advantage

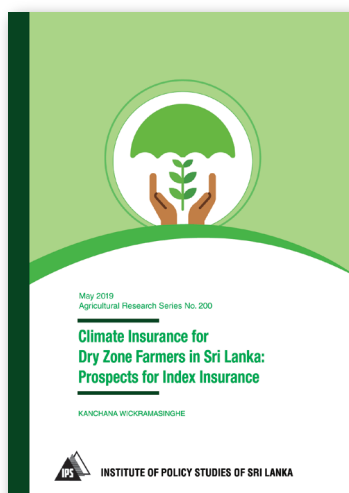
Forty-four products held RCA during 2008 and 2009 but had RCA below 1 in 2023-2024. Among the most commercially significant losses are lentils (HS 071340, RCA: 0.9 in 2023-24), stemmed tobacco (HS 240120, RCA: 0.3 in 2023-24), and frozen lobster (HS 030612, RCA: 0.1 in 2023-24). These declines reflect both structural shifts in domestic production capacity and increased global competition. Pineapples (HS 080430) recorded an RCA of 0.8 in 2023-24, falling marginally below the specialisation threshold. Anise and caraway seeds (HS 090950) recorded an RCA of 0.2 in 2023-24, indicating a near-complete loss of export position. Palm oil (HS 151110) and cocoa butter (HS 180400) both involve re-export or processing activities, they both lost RCA entirely.

The CAGR-RCA framework reveals a bifurcated agri-food export trajectory. Sri Lanka is simultaneously deepening specialisation in its historical commodities like cinnamon, pepper, coconut products, and ornamental fish while emerging capabilities in seafood, vanilla, and plantains signal diversification potential.

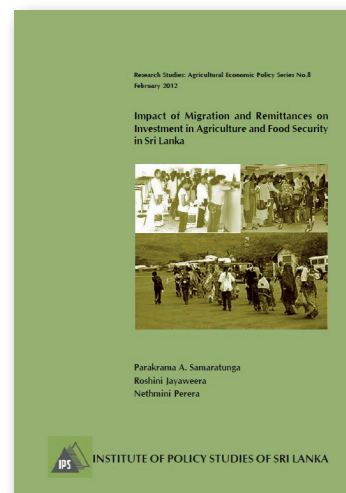
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