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## **Dragon Grape Cultivation Project (DGCP)**

### **Concept Paper**

Submitted to:

**U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT / SRI LANKA**

In Response to:

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### **Public Private Partnership (PPP)**

Submitted by:

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## **I. SUMMARY**

In support of USAID/Sri Lanka's Public Private Partnership (PPP) strategy to rebuild social and economic security in eastern Sri Lanka, the Blue Sky Organics Company is proposing a private-public partnership to expand economic activity in a conflict-affected area in the Eastern Province by investing in organic horticulture cultivation. The proposed three-year Dragon Grape Cultivation Project (DGCP) will build upon Blue Sky Organics' successful organic horticulture business in the Badulla District of the Uva Province and expand to the Ampara District in the Eastern Province with a dual goal of increasing farm-based incomes and enhancing the agricultural supply chain of high value horticulture products for the export market.

Under DGCP, Blue Sky Organics will co-invest in a nucleus farm in Ampara to serve as a model organic farm, research & development base for agro-extension services, and collection & packaging center. DGCP will mobilize 1,000 equitably-distributed smallholder farmers to establish an outgrower network of dragon grape farms with buy-back agreements with Blue Sky Organics. DGCP will utilize Blue Sky Organics' existing exporter customer base to establish market linkages to end-markets in the Middle East, Maldives and other regions for the outgrowers' high-value and organic dragon grape produce. DGCP will leverage USAID funds by 2 to 1 to co-finance the farmers' startup costs, establish a nucleus farm and collection/packaging center, mobilize and set up the outgrower network, build up agro-extension services, transfer knowledge on best practices and standards-compliant organic farming and processing, and facilitate producer to market linkages. The success of DGCP will help to foster economic security in the region and stimulate expanded investments in a larger outgrower network, alternate high-value organic crops, and other regional farming zones.

Supporting institutions in the DGCP will include the Sri Lankan Department of Agriculture (DoA), Horticultural Crop Research and Development Institute (HoRDI), Agro Enterprise Development and Information Service (AgEDIS), Seed & Planting Material Development Center (SPMDC), Sri Lanka Institute for Organic Certification (SLIOC), and the Eastern Provincial Council.

## **II. JUSTIFICATION**

According to the Sri Lanka Export Development Board, the fruit and vegetable sector is a high priority industry for the development of the rural sector. In particular, the organic food export market at \$5.4 million in 2007 is a nascent, but fast growing business with good long-term prospects. Despite the heightened attention that organic agriculture has attracted during the last decade, it still only accounts for a small proportion of overall agricultural land usage. In Sri Lanka, there are less than 2,000 certified organic farms that utilize 10,050 hectares or only 0.43% of total agricultural land<sup>1</sup>.

In 2007, the Sri Lanka Standards Institute prepared organic labeling standards that denote products that have been produced in accordance with the national organic standards throughout

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<sup>1</sup> Sri Lanka Institute for Organic Certification Survey, 2007.

the production, handling, processing and marketing stages, and certified by SLIOC. The adoption of the organic certification standards will enhance the quality, reputation, and value of Sri Lankan organic produce and the anticipated standards recognition by the International Federation of Organic Agriculture Movements will spur further demand for Sri Lankan organic products and expand the European and Asian markets.

### **III. APPROACH**

DGCP will focus project activities in the Ampara District of the Eastern Province. The implementation plan uses a phased activity approach aligned under three project components. The activities are designed and planned for resource optimization within the three year project.

#### **Component 1 – Establish and Manage the Ampara Nucleus Farm (Months 1-36)**

DGCP will first establish a Nucleus Farm in a pre-identified location in northwestern Ampara that has good transportation linkage to Blue Sky Organics' Badulla Farm. Blue Sky Organics has already consulted with the DoA on suitable farm lands and with AgEDIS on potential outgrower farming communities. Dragon grape cultivation was selected based on suitable soil and climatic conditions, availability of disease-resistant cultivars, early and high yielding ability, proven profitability with accessible start-up cost to smallholder farmers, stable market pricing, increasing demand in the Middle East and Maldives, and potential expanded global export markets. Dragon grape plants bear fruits within 6 months and high yield can be obtained after the first year.

The first six months of DGCP will focus on building the farm, securing planting material, rapid field establishment, and staffing up of the nucleus farm. DGCP will work closely with HoRDI and SPMDC throughout this initial stage. During this phase, DGCP will also consult with the Eastern Provincial Council and AgEDIS to identify targeted farming communities based on the community and farmer selection criteria of 40km proximity to the nucleus farm, per-farmer cultivatable land (at least ¼ acre), equitable participation, average income levels, community interest, and accessibility to farmer startup co-financing.

#### **Component 2 – Mobilize and Build Capacity of Farmer Outgrower Network (Months 3-36)**

In this phase, DGCP will hire and train 4 Farm Outgrower Mobilizers who will conduct outreach, participant selection, and community mobilization efforts with a target of 250 new farmer participants in the outgrower network per planting season during the first and second years. The mobilizers will also team with the 2 Agro-Extension Consultants and the Project/Finance Manager to organize ongoing technical trainings to build the capacity of the smallholder farmers on topics such as cultivar varieties, planting materials, land preparation and spacing, integrated disease and pest management, flowering and fruiting, yield and harvesting, organic standards and certification, outgrower network benefits, buy-back agreements and forward contracts, start-up costs, and co-financing options.

The Project/Finance Manager will facilitate co-financing arrangements for farmer start-up costs and execute buy-back agreements with participant farmers. The Farm Manager and Agro-Extension Consultants will conduct regular field consultation visits to assess and provide

technical assistance on farming issues, farming practices, and organic-standards compliance. SLIOC will be invited for organic-farm certification visits throughout the project.

### **Component 3 – Establish and Manage the Collection & Packaging Center (Months 8-36)**

Prior to the first harvest season, DGCP will establish the Collection & Packaging Center that will be standards-compliant for SLIOC organic labeling. A cooler truck will be procured to collect outgrower harvests for packaging and the packaged products will be transported to the Blue Sky Organics' Badulla Farm for storage (as-needed) and delivery to exporters.

Blue Sky Organics will be responsible for the market linkage to the exporters and the end-to-end (production, handling, processing and marketing) compliance to the national organic standards. Outgrower network farmers will also receive hands-on training on the end-to-end organic standards to gain full appreciation of the high quality that needs to be maintained throughout the entire process.

## **IV. MANAGEMENT**

The Blue Sky Organics Company is a private limited company with almost 10 years of experience in organic farming and processing of specialized high-value crops such as dragon grape, passion mangos, and lemon strawberries. With a long-standing reputation for producing high-quality organic fruits, Blue Sky Organics was one of the first Sri Lankan companies to become an SLIOC-certified organic farm.

Under the management plan, DGCP will employ 16 full-time, permanent staff and will draw upon the experienced team from BSO's Badulla Farm. The full-time staff will consist of 1 Project / Finance Manager, 1 Farm Manager, 1 Collection / Packaging Manager, 2 Agro-Extension Consultants, 4 Farm Outgrower Mobilizers, 2 Farmers, and 5 Farm Hands. The BSO General Manager of the Badulla Farm will also oversee the new Ampara Farm and supervise the three managers in the Ampara Farm. Additionally, the Ampara Farm will ramp-up employment for seasonal harvests with 3 Collectors and 5 Packagers.

The core management team will be functionally organized and comprise of the General Manager, Project / Finance Manager, Farm Manager, Collection / Packaging Manager, Lead Farm Outgrower Mobilizer, and Senior Agro-Extension Consultant. To ensure a quick start of the project, BSO will deploy key management personnel from its long-running Badulla Farm, while other staff will be locally or regionally hired to maintain contextual expertise and equitable participation.

DGCP will also collaborate closely with the Department of Agriculture's Centers and Institutes, especially with HoRDI for research and development, agro-extension services, and knowledge and information dissemination. Throughout the DGCP process, Blue Sky Organics' senior management team will maintain advisory oversight to ensure success of this PPP venture.

## V. RESULTS

Based on analysis of Blue Sky Organics' Badulla Farm dragon grape yield and costing models, current farm gate pricing, and statistics of the targeted beneficiary base, DGCP is anticipating the following results by the end of the three-year project:

- 16 permanent jobs created in the Nucleus Farm and Collection & Packaging Center
- 1,000 farmers in the dragon grape outgrower network
- 10 farm leaders with demonstration farms
- 250 productive acres of newly-cultivated land
- 900 outgrower farms SLIOC-certified as organic farms
- 3 million kg annual processing capacity in the Collection & Packaging Center
- 2 million kg of total of annual dragon grape yield worth around Rs.348 million (farm gate pricing for both organic-certified and non-certified farms)
- 150% additional increase in farm-based net income compared to assumed subsistence income (based on average minimum wage of Rs. 6,750/mo)

## VI. BUDGET

The three-year Dragon Grape Cultivation Project will leverage USAID's Rs.29 million funding with Rs.58 million of cash and in-kind contributions from Blue Sky Organics and the 1,000 Outgrower Farmers. This represents a **2:1 direct leverage** of USAID resources. By the end of DGCP, USAID's Rs.29 million contribution will generate Rs.348 million of annual farm-gate revenue equating to a **12:1 indirect leverage**.

Please note that Blue Sky Organics will make at least 1:1 or more contribution in cash, i.e. a minimum cash contribution of Rs.29 million.

<b>Budget Category</b>	<b>Blue Sky Organics</b>	<b>Outgrowers</b>	<b>USAID</b>
Nucleus Farm Salary and Wages	Rs.9,200,000		
Administrative Overhead	Rs.4,600,000		
Purchase of 5 motorbikes, 1 double cab, and 1 cooler truck	Rs.3,700,000		
Establishment of Nucleus Farm	Rs.16,100,000		
Establishment of Collection/Packaging Center			Rs.11,500,000
Lease and Maintenance	Rs.9,200,000		
Outgrower Network Mobilization			Rs.6,900,000
Agro-Extension Services Staffing and Training	Rs.3,700,000		Rs.3,700,000
Startup Cost for 1,000 Farmers		Rs.11,500,000	Rs.6,900,000
<b>TOTAL</b>	<b>Rs.46,500,000</b>	<b>Rs.11,500,000</b>	<b>Rs.29,000,000</b>