

# Case study

Sri Lankan agri-input firms shift towards environmentally friendly fertilisers and farmer engagement, boosting incomes and reducing environmental impact.

Market  
Development  
Facility  
SRI LANKA

This Case Study is part of our green transition series

**Publisher:**

Swisscontact – Swiss Foundation for Technical Cooperation Hardturmstrasse 134, 8005 Zürich  
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Australia's Market Development Facility (MDF) is driving behaviour change among Sri Lankan agricultural input companies to shift from government-subsidized conventional fertilizers toward improved, environmentally friendly products while expanding direct engagement with smallholder farmers. Early results show 2,233 farmers benefiting with over USD 485,695 in additional income generated, with projections to reach 9,200 more farmers over the next three years while reducing environmental impacts through promotion of hybrid and slow-release fertilizers that minimize nitrogen loss and improve soil health.

## Dual objectives



### Economic Objectives

MDF aims to create economic opportunities for poor women and men through market systems development. In Sri Lanka's agriculture sector, specific objectives include:

- **Increased productivity and profitability:** Promoting improved fertilizer products and sustainable farming practices to enhance crop yields and reduce input costs. For example, Limus-Treated Urea can reduce usage by 60%, generating significant farmer savings.
- **Market development:** Supporting local input producers to increase production capacity and expand distribution networks, creating a more competitive and diverse agricultural input market.
- **Enhanced resilience:** Reducing reliance on government subsidies and imported fertilizers to create a more resilient agricultural sector, less vulnerable to global price fluctuations and supply chain disruptions.



### Environmental Objectives

MDF has a contractual target that 30% of intervention expenditure addresses climate concerns. In Sri Lanka's agriculture sector, this is achieved through:

- **Reduced greenhouse gas emissions:** Promoting improved fertilizers that minimize nitrogen loss and lower emissions of nitrous oxide (N<sub>2</sub>O)
- **Improved soil health:** Supporting sustainable farming practices, including organic and hybrid fertilizers, to improve soil fertility and enhance carbon sequestration
- **Reduced water pollution:** Promoting efficient fertilizer application to minimize nutrient runoff into waterways

## Context and market opportunity

Sri Lanka's agricultural sector historically relied heavily on government fertilizer subsidies introduced in the 1960s. This created a market structure where major input companies focused primarily on securing government contracts rather than serving smallholder farmers directly. While this increased agricultural productivity, it led to environmental issues through the overuse of chemical inputs.

A critical shift occurred in 2021 when the government abruptly banned chemical fertilizer imports, causing severe agricultural impacts, including a 20% drop in rice yields. By 2022-23, the government adopted a more balanced approach, lifting the ban and replacing direct subsidies with a cash transfer system allowing farmers to choose higher performing fertiliser, which can be a combination of chemical and organic. This policy evolution created new market dynamics and opportunities:

Companies needed to compete directly for farmer business rather than rely on government contracts

Farmers gained more choice in fertilizer selection

Growing awareness of the need for sustainable practices created demand for environmentally friendly inputs

## Project interventions

MDF works with leading agricultural input companies to influence changes to:



### Production support for improved fertilizer products

- Facilitate development and local manufacturing of advanced fertilizers (e.g., hybrid and multi-nutrient formulations)
- Co-invest in machinery to enable production of new fertilizer varieties
- Promote local value addition to imported products, enhancing features (such as slow-release coatings)



### Distribution and Retail

- Strengthen extension networks near farming communities
- Launching targeted campaigns and incentive schemes to increase adoption in select geographies and product types.
- Onboarding new retailers to garner their support in promoting and distributing the product.



### Information and Extension

- Establishing demo plots and farmer engagement initiatives
- Assisting companies with targeted campaigns and farmer testimonials
- Creating and distributing educational materials on sustainable practices
- Recruiting and training extension staff to offer technical guidance to farmers

## Key partners and behaviour changes

MDF works with multiple key agricultural input companies, including large companies such as Baur, CIC, and DIMO, as well as innovative SMEs such as Sassrika Lanka and Lanka Bio Fertilizer:

**Sassrika Lanka:** Shifted from a mass-market approach to targeted farmer engagement, resulting in an 8x sales volume increase. Evolved product line to include more efficient granular fertilizers with less run-off, leading to lower usage by farmers.

**Lanka Bio Fertilizer:** Diversified into locally produced compound fertilizers with improved environmental performance. The goal is to expand distribution networks to reach smallholder farmers directly.

### Private Sector Incentives

- Higher profit margins on improved fertilizer varieties
- Reduced reliance on volatile government contracts
- Access to a growing market of environmentally conscious farmers
- Long-term benefits from addressing soil degradation

## Results to date (figures per end-2024)

### Behaviour Changes

- Partner companies increased investment in improved fertilizer production
- Enhanced distribution networks reaching smallholder farmers
- Shift from mass-market to targeted engagement strategies
- Integration of climate resilience into product offerings

### Quantitative Outcomes

- approx. 2,200 farmers benefiting so far
- Over USD 485,000 in additional farmer income generated
- Projected benefits to 9,200 additional farmers over the next three years
- Increased sales of improved fertilizers, showing growing adoption

### Qualitative Outcomes

- Improved trust between companies and farming communities
- Growing farmer awareness of sustainable practices
- Enhanced private sector capacity for innovation



## Key learnings

1. **Policy changes create opportunities:** The shift from direct subsidies to cash transfers opened space for market system changes.
2. **Direct engagement crucial:** Demonstration plots and targeted outreach are more effective than mass marketing.
3. **Context matters:** Solutions must be tailored to local agricultural conditions while maintaining potential for scale.
4. **Business case essential:** Environmental benefits must align with clear economic incentives for sustained adoption.

## Future outlook

MDF continues working to create sustainable market changes through:

- Supporting development of market-driven solutions
- Building replicable models for engaging smallholder farmers
- Influencing policy to incentivize improved fertilizer use
- Strengthening private sector capacity for innovation
- The project demonstrates how market systems development approaches can effectively combine economic and environmental objectives while driving lasting systemic change.

Case study  
Market Development Facility, SRI LANKA

Australia's Market Development Facility (MDF) helps countries in the Indo-Pacific region to grow through improved productivity, economic diversification, competitiveness and trade.

MDF helps government and business partners to identify markets that have high potential to grow, be profitable, and deliver social and environmental value. MDF supports catalytic innovation in these markets by co-investing with local and international partners to reduce the costs and risks of early-stage commercial opportunities. This accelerates progress to profitability and scale. MDF's aim is to do good by supporting good business. MDF supports business investment and innovation that reduces poverty, economically empowers women and combats climate change.

MDF currently operates in Fiji, Timor-Leste, Samoa, Vanuatu, Tonga and Sri Lanka. MDF is funded by the Australian Government. It is implemented by Palladium, in partnership with Swisscontact.

