

Determinants of Value Added Production in Cinnamon Industry

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Value addition is currently an important topic in agriculture sector, especially to increase the economic value of agricultural products and to reduce wastage. Value addition has the ability to create employment, absorb excess labour from agriculture, enable rural residents to capture more margins from agriculture, hence raising rural income levels. Spice is one of the key agricultural sub sector of Sri Lanka. True cinnamon (*Cinnamomuni zeylanicum*) is unique and most economically valuable indigenous crop known as Ceylon cinnamon among all other spices in Sri Lanka. Regardless of the unique benefits associated with true cinnamon, there is limited value added cinnamon products range hence cinnamon processors receive less return from cinnamon industry. Using survey data from 83 cinnamon processors from Galle and Colombo Districts, this study analyzed factors affecting on value added production in cinnamon industry, an economic activity with a potential to improve household livelihoods but whose development has remained rudimentary. Binary logistic regression technique and SWOT analysis were used to identify the potentials and problems in the industry. The results revealed that cinnamon processors involvement in value added production is positively influenced by a number of significant factors including technology, attitude, cost of production, credit access and labour availability. Lack of support services and access to credit, inadequate technology, labour scarcity and high cost of production are the major problems of the value addition in the cinnamon industry. The major potentials of the industry are the established name and reputation of the Ceylon cinnamon around the world, health benefits of true cinnamon and the higher quality of true cinnamon than its major competitor *Cassia* cinnamon. Study recommended that cinnamon manufacturers should be informed about the benefits and importance of adding value to their agricultural commodities as a tool for poverty reduction, employment creation and economic development.

Keywords: Binary logistic regression, Cinnamon industry, True cinnamon, Value addition