

# Agriculture Sector Overview & Investment Opportunities

June 2020

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# Sector Overview

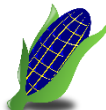
## Local Agriculture Landscape



>LKR 55+ Bn  
of public funds  
was allotted to  
the sector



~2.1 million  
people employed



680,00 h.a  
cultivated

Source: Export Development Board, Sri Lanka

## Synopsis:

- With a land area of more than 65,000 sq km, Sri Lanka's agriculture sector is characterised by small-scale farming and a tropical climate that is highly variable.
  - Agricultural output comprises rice, fruit, vegetables and livestock primarily for domestic consumption, and export-focused products such as tea, rubber and coconuts. Around 55% of land is used for agriculture.
  - Traditionally the backbone of the economy, agriculture's share of GDP has steadily declined over the decades, from 30.4% in 1975 to around 8% in 2015. According to the Ministry of Finance (MoF), agriculture represented 7.1% of Sri Lanka's GDP in 2016.
  - While Sri Lanka is moving towards an urbanised manufacturing and services economy, the rural agriculture, forestry and fisheries industries are the source of income for more than 2.1m Sri Lankans, the 2016 Labour Force Survey reported.
- Agricultural productivity in Sri Lanka is lower than in comparable economies, largely due to the shortage of labour, low levels of mechanisation and outdated management practices. The CBSL says that labour productivity in the country is lower in agriculture than in the service and industry sectors because of "traditional methods of cultivation, lack of credit facilities, limited access to technology and small land size."
- Productivity is set to receive a boost from recent investments, such as the \$125m loan Sri Lanka received from the World Bank in January 2017 for modernisation efforts in the sector. Investment in agricultural technology from the private sector is also increasing. For example, local conglomerate CIC Holdings announced in September 2017 that it was investing LKR2bn (\$13.1m) in developing more resilient crops, greenhouses and hydroponics.
- "Technology is the main enabler for Sri Lanka to achieve its medium-term goal of \$20bn in export earnings by 2020," Samantha Ranatunga, managing director of CIC Holdings

Source: CBSL, Fitch, ADB, Export Development Board

# Sector Potential & Growth Opportunities

## Export Opportunities

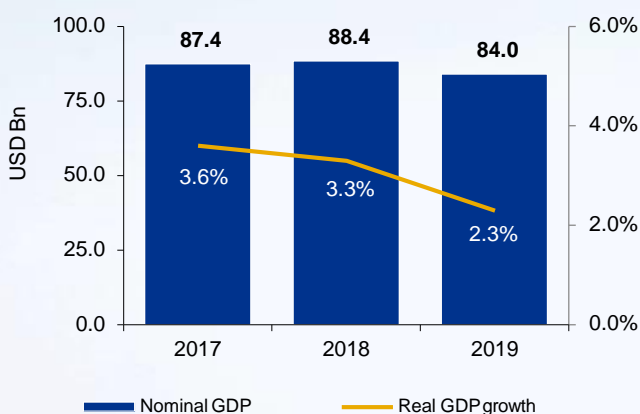
- Agricultural exports account for roughly one-quarter of Sri Lanka's total export earnings. The CBSL reported strong performance in the category's value during the first eight months of 2017 – particularly regarding tea, seafood and spice exports – with an increase of 19.4% y-o-y to reach \$1.8bn.
- This growth was helped by the removal of a EU ban on seafood imports from Sri Lanka, as well as the reinstatement of the EU Generalised System of Preferences Plus (GSP+).
- Tea remains the country's single-most valuable export commodity, valued at \$1.25bn in 2016, according to the UN Comtrade database. The total value of agricultural exports in 2016 was \$2.32bn – a 6.3% decline from \$2.48bn in 2015.
- Import taxes on staples such as rice, flour, maize and fresh fish were temporarily cut in August 2017 to make up for reduced production and high prices in those segments. The LKR5 (\$0.03) tax per kilogram of rice was lowered to LKR0.25 (\$0.002), while the fish levy was reduced from LKR50 (\$0.33) per kilogram to LKR25 (\$0.16), measures slated to last until April 2018.

## Tea Export Opportunities

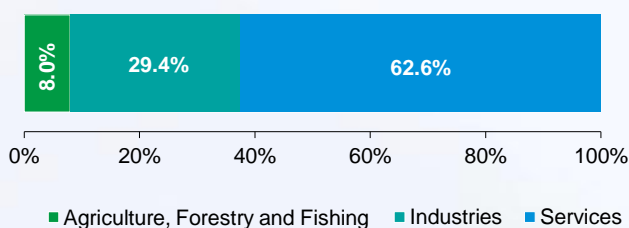
- Sri Lanka's iconic Ceylon tea has allowed the small nation to grow into one of the largest tea exporters in the world, alongside China, India, Kenya and Indonesia.
- The country produces over 300m tonnes of tea per year and accounts for about 15% of global tea exports. All tea in Sri Lanka is hand-picked, and with around 400,000 smallholder farms producing the crop, it remains the largest source of employment in the country.
- Overall, the tea planting industry occupies almost 220,000 ha of land, and directly and indirectly employs more than 1m people.
- In 2016 Iran was the largest recipient of Sri Lankan tea, with imports totalling \$156.7m, followed by Russia at \$143m. Tea accounts for around 80% of Sri Lanka's total exports to Russia.



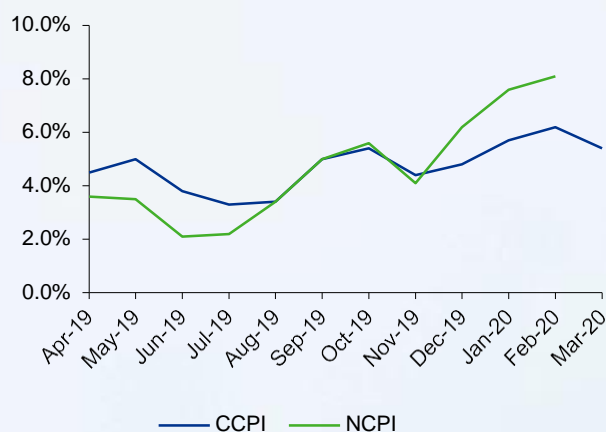
## Gross domestic product



## Sector wise contribution to GDP (2019)



## YoY inflation



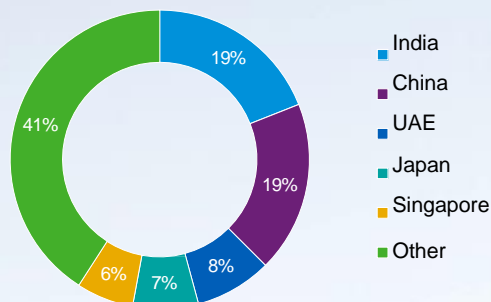
Source: CBSL, ADB, Fitch, IMF,

# Foreign Direct Investment Opportunities

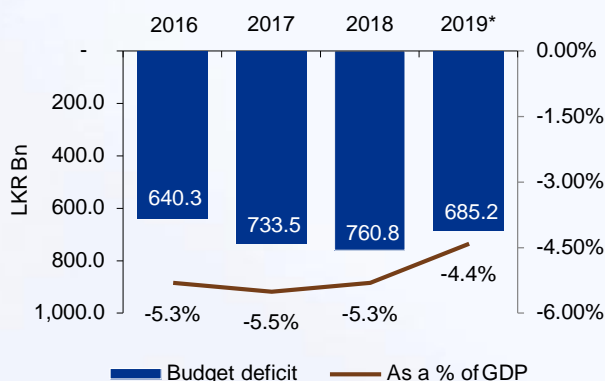
## Rice Production Opportunities

- The staple food of 21.2m Sri Lankans, rice is the country's primary food crop. The two cultivation seasons for paddy are known locally as Maha and Yala. Maha lasts from September to March, while Yala is from May until the end of August. Some 680,000 ha were cultivated for rice production during the 2016/17 seasons, according to the US Department of Agriculture, a number the body projects will grow to over 800,000 ha for 2017/18. The World Food Programme estimates that 40% of paddy is used for home consumption, while the remainder enters the market.
- National paddy production declined by 8.3% between 2015 and 2016 to 4.4m tonnes, primarily as a result of adverse weather conditions. According to the Department of Census and Statistics, 1.47m tonnes of paddy were produced during the 2016/17 Maha season and 909,321 tonnes in the 2017 Yala season, compared to 2.9m tonnes and 1.5m tonnes, respectively, in the previous seasons.

Composition of imports -2018



Fiscal deficit



## Seafood Export Opportunities

- Sri Lanka is an island with nearly 1400 km of coastline, making conditions ideal for aquaculture. According to the most recent annual report by the MoF, the fisheries industry accounted for 1.5% of GDP in 2016, growing by 1.6% against a 2.7% decline in 2015. Total fish production was 530,920 tonnes in 2016, a 2.1% increase over 2015. Inland fish production, in particular, is on the rise, with 73,930 tonnes produced in 2016 – growth of 9.9%.
- Along with agro-processing and dairy, the fisheries segment is a target area being promoted by the Board of Investment to better meet high international demand. Local media reported in September 2017 that seafood exports had increased by 40% y-o-y in the first half of 2017, from \$83.5m to \$117m, after the EU lifted a ban on seafood imports from Sri Lanka.

## Rubber Export Opportunities

- As in the tea segment, most rubber producers work small plots of land, meaning extraction is done by hand. Some 130,000 smallholder farmers cultivate rubber, while 125,000 ha across the country are used in rubber plantations. Sri Lanka fluctuates between 11th and 12th place among the top rubber producers in the world, with exporters having an edge by selling natural rather than synthetic rubber, which appeals to consumers in wealthier countries.

## Notable Comments on the Sector by CEOs

- An article written by Rizvi Zaheed, managing director at Hayleys Agriculture, noted that, “Storage and processing is yet another aspect of the agricultural value chain that needs to be developed on an urgent basis.”
- “The single biggest risk for the sector is the lack of willingness to change and evolve. The entire sector must undergo a large-scale, radical transformation,” Michael Koest, managing director and CEO of Ceylon Tobacco Company.
- In Australia and New Zealand 14% of the tea market is held by the Dilmah brand, Rohan Pethiyagoda, chairman of the Sri Lankan Tea Board. “Sri Lanka is a huge export market, with only about 4% of production being consumed locally,” he said. While the country exported \$1.25bn worth of tea in 2016, adverse weather conditions near the end of the year meant that tea production declined by 11% over 2015.

# Significant Project Pipeline

- The rubber segment's contribution to GDP contracted by 10.7% in 2016, due to a decline in global natural rubber prices and lower production. This was aligned with output falling 10.7%, from 88.5m kg in 2015 to 79.1m kg, according to the MoF. Lower production was largely the result of drought and flood, meaning there were less tapping days than usual.

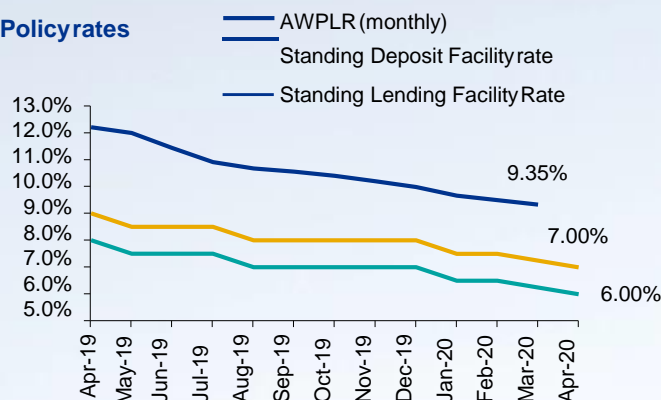
## Coconut Production Opportunities

- Coconut plantations occupy 395,000 ha across Sri Lanka. Income from coconut and coconut-related products, such as desiccated coconut, fresh nuts and coconut cream, contracted by 0.6% in 2016, according to the MoF.
- This compares to growth of 5.2% in 2015. Like other plantation crops, coconut production was negatively affected by prolonged periods of drought.
- Furthermore, the Coconut Growers Association stated in January 2018 that a mite disease had affected some 30% of the crop across the country by that time, yet rejected calls to import fresh coconut to mix with local produce to meet demand.

## Public Private Partnerships

- The government has promised to accelerate agricultural output through much-needed technological investment and private sector participation.
- One example of this is the mobilisation of private-public partnerships under the Rubber Industry Master Plan to increase output of the crop to 300,000 tonnes per annum by 2045.
- With the country's tourism industry quickly developing, tea tourism offers another value-added avenue that would complement the push to boost the high-end appeal of its export tea brands. Boutique accommodation such as Ceylon Tea Trails and the Heritage Tea Factory are examples of this offering.
- Still, closer collaboration between tourism companies and tea producers is required to promote such options – particularly in the scenic Hill Country, home to popular destinations like Kandy and Ella.

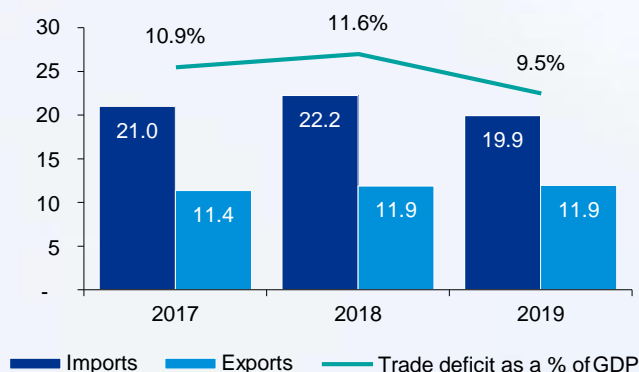
## Policy rates



## LKR per USD



## Trade balance (USDBn)



## Foreign loan commitments

- Sri Lanka has USD 1.0 Bn in ISBs due in October 2020 among a total of USD 4.8 Bn in debt repayments due in the next twelve months.

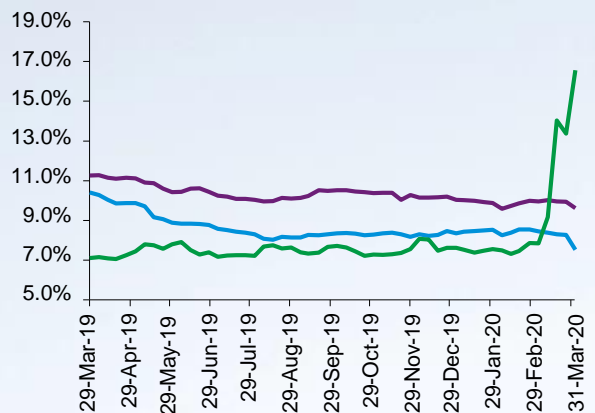
Source: CBSL, ADB, OSAnalysis

# Government Support

CSE: All share price index



Bond yields — 1YTBill — 10YTBond — 10 year ISB



## Subsidies & Grants

- Sri Lanka's goal of achieving self-sufficiency in rice production has historically driven agriculture and trade policies, such as generous subsidies, micro-credit facilities and protective tariffs. With a strong emphasis on food security, large subsidies are granted to farmers for fertilisers, pesticides, irrigation and other aspects of production.
- For example, the government subsidises more than 50% of the purchase price of an animal on behalf of livestock producers. If an animal costs LKR450,000 (\$2940), the government will provide roughly LKR250,000 (\$1630), K D Ariyapala, director of the Livestock Planning and Economics Division at the Department of Animal Production and Health.
- The government also operates micro-credit schemes for those in the agriculture and livestock sector, including through the Tea Development Programme revolving fund. In 2016 the CBSL provided LKR9.7bn (\$63.3m) in loans to some 89,730 farmers.
- After a difficult year for the sector in 2017, Sri Lanka has declared 2018 the National Food Production Year. The government said that one of its major ambitions for the year is to increase the planted volume of paddy and other crops.
- A change to the fertiliser subsidy programme was announced in the 2016 budget, with the government introducing a cash allowance scheme under which farmers would buy fertiliser from the market instead of receiving subsidised fertiliser from the government.
- Under the new programme, Sri Lanka's government is offering paddy farmers working with less than 1 ha of land an allowance of LKR25,000 (\$171) for the two cultivation seasons.
- In 2016 the government allocated some LKR37bn (\$252.3m) for the programme, and in March 2016 the allowance was extended to cover coconut, tea and rubber farmers, as well as to all smallholders working with up to 2 ha of land.

# Review of Foreign Investment Policy

## Improved Investor Friendly Investment Environment

### Investment Policy

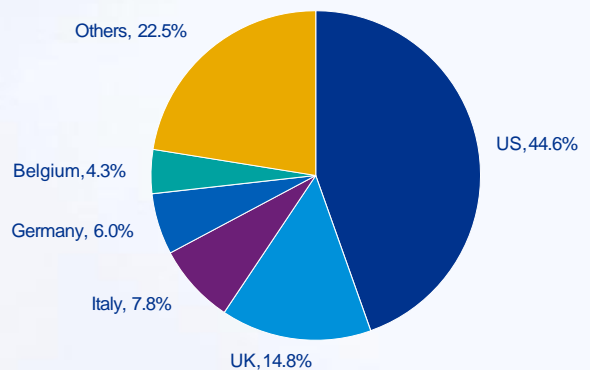
— Sri Lanka's Investment policy is geared towards the realization of national sustainable development goals and grounded in the country's overall development strategy. Investment policy priorities are based on a thorough analysis of the country's comparative advantages and development challenges and opportunities. Its strategic priorities, include:

- Investment in specific economic activities, i.e. as an integral part of an industrial development strategy.
- Areas for mutual reinforcement of public and private investment (including a framework for public-private partnerships).
- Investment that makes a significant development contribution by creating decent work opportunities, enhancing sustainability, and/or by expanding and qualitatively improving productive capacity and international competitiveness.

### In this context, the key legislations facilitating investments in Sri Lanka are;

- The Board of Investment Law No. 4 of 1978 and its amendments is the principal law applicable to investments in Sri Lanka. This law established the national investment promotion agency, the Board of Investment of Sri Lanka, which is structured to function as the 'Central Facilitation point' for investors and empowered to enter into agreements with investors providing incentives to attract investments.
- Finance ACT No. 12 of 2012 was introduced to promote Sri Lanka as an emerging trading hub and facilitates related specific trading and services activities. Free Ports and Bonded Areas have been set up to create trade related infrastructure to facilitate Sri Lanka's import and export of goods and services with freedom to carry out transactions in convertible foreign currency.

### Major apparel export destinations (2019)



### Land Policy to Foreign Investors

- The foreign investors are eligible to lease lands in Sri Lanka to establish their projects. A new land law was promulgated in 2014 which permitted lease of land for foreign investments and outright transfers will only be permitted when the foreign shareholding is less than 50%. The land lease period is subject to a maximum tenure of 99 years. Foreign investors are not liable to pay any lease tax when leasing a land. However condominium properties can be purchased outright with no restrictions on nationality.



# Why Sri Lanka?

## Sri Lanka – Your next investment destination

### **Political and Economic Stability blended with a Conducive Investment Environment**

#### Key points

— There are many reasons why companies select Sri Lanka as their investment destination. It all starts with positive leadership, policies and peace. Sri Lanka is an open economy and has heavily invested to develop its infrastructure to face the challenge of attracting high performing industries.

#### SARC Region

- Sri Lanka is the most competitive business centre in the South Asian Region and there are compelling good reasons for investors to locate their business entities in Sri Lanka. As an island nation that radiates beyond its size, Sri Lanka is renowned for its strategic location, scenic beauty and harmonious blend of races and cultures.
- The strong macroeconomic environment and supportive government policies, political stability, close links with foreign markets, excellent education and healthcare systems, outstanding infrastructure and mineral resource endowments are few important factors that investors consider when making a decision to invest in Sri Lanka.

#### FTAs & GSP+

- Sri Lanka has preferential market access under the Indo-Lanka FTA and Pakistan-Sri Lanka FTA which allows 100% duty free access for more than 4,200 products for both countries. Further, recently signed Singapore-Sri Lanka FTA will provide more opportunities for investments while regaining EU GSP Plus allows duty free access to the EU Market for over 6,000 products.
- Moreover, Sri Lanka has an admirable quality of life indicated by the standard health care facilities, world-class education system, prestigious hotels/leisure facilities, modern office complexes, luxury residential apartments and banking facilities in the country
- According to the Sri Lanka government's policy framework "Vision 2025" it aims to raise per capita income to USD 5,000 per year, create one million new jobs, increase FDI to USD 5 billion per year, and double exports to USD 20 billion per year. These intermediate targets lay the foundation for Sri Lanka to become an upper-middle income country by 2025.

#### 10 Reasons to Invest in Sri Lanka

1. Strong Economic Growth
2. Unparalleled Strategic Location
3. Improved Investment Environment
4. Educated & Adaptive Workforce
5. Fast Developing Infrastructure
6. Access to Key Markets
7. Quality of Life
8. Natural Resources Endowment
9. Investor Friendly Policy Framework
10. Tax Incentives

# How OSL Can Help?

## Our World Class Team of Experts



### How we can Help

Our team of experts comprise of some of the most renowned names in a wide range of sectors. This provides anyone looking to use our expertise to be able to harness a comprehensive and extensive level of service from us.



### PRO Services

Also, through these experts you will be able to gather in depth understanding of the industries and overcome with ease any specific challenges that may be unique to such industries. We also function as a provider of PRO services through which we aim to build lasting relationships with our partners by providing a world class service to enter and conduct businesses in Sri Lanka and beyond.



### Why choose us

With Opportunity Sri Lanka you will receive the benefit of our experience, professionalism, accountability, our team of experts and the trust we have built and an interconnected partner network throughout the world. We invite you to contact us and explore how we can be of service to you.

## Our Global Footprint



### Our Capability

We consider our expertise on the business sector over the years to be a valuable asset to any potential investor looking for Investment opportunities in Sri Lanka, from foreign direct investments to Investment banking. Our team consists of some of the top experts in the sector who combined, form a complete business consultancy. The difference that investors will find on Opportunity Sri Lanka is that every investment opportunity will include analysis on investment climate of that particular industry, the latest development of the sector, how government policy will affect such industry as well as the take of our team of experts on the risk versus reward aspects on each opportunity listed.



### Our Global Network

Our range of services has the full backing of our local and foreign experts as well as many worldwide partners who work hand in hand with us to tailor and provide a service that is unmatched in quality. We welcome investors who are looking for business opportunities in Sri Lanka, expat Sri Lankans seeking an opportunity to invest in Sri Lanka and entrepreneurs who are looking to fund their ventures. We encourage anyone interested to use this as a portal of information and to reach out to us for any assistance.

# Contact us

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