

DEVELOPMENT OF AGRIBUSINESS ENTERPRISES IN SRI LANKA

INTRODUCTION

An agro-industry is an enterprise that processes agricultural raw materials, including ground and tree crops as well as livestock. The degree of processing can vary, ranging from cleaning and grading of raw materials to complex operations such as milling, boiling etc. The purpose of transforming raw food and fibre is to create an edible or usable form, to increase storability, to create a more easily transportable form and to enhance palatability and/or nutritional value. The agro-industrial projects are unique because of three characteristics of their raw materials, seasonability, perishability and variability.

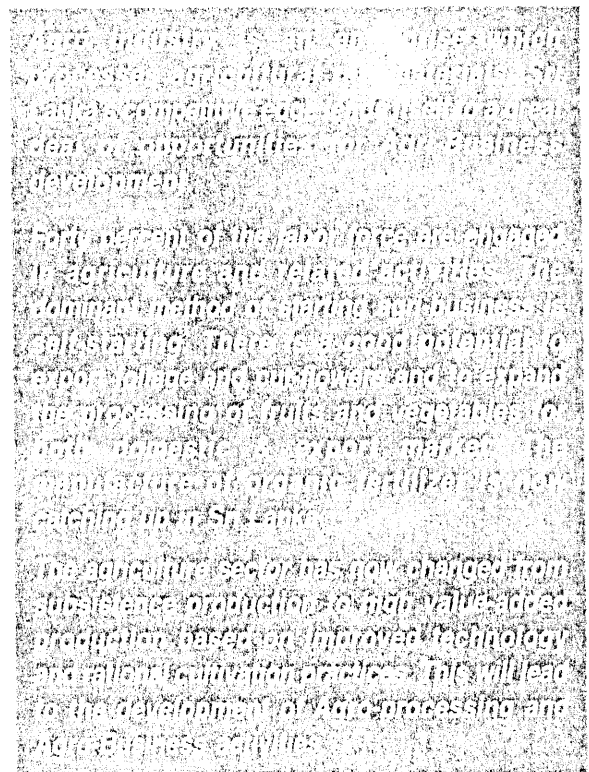
Sri Lanka's competitive advantages lend itself to a great deal of opportunities for agri business development.

Sri Lanka is an agricultural country and her agriculture consists of two distinct sectors – a highly organized plantation sector producing tea, rubber, coconut and other minor crops, such as cinnamon, cloves, cashew nuts, pepper, fruits and vegetables etc. Sri Lanka is usually placed in the category of middle-income countries in terms of her per capita income. The manufacturing sector mainly consists of factory industries processing of plantation crops (tea, rubber, and other small-scale industries).

CURRENT SITUATION OF AGRIBUSINESS ENTERPRISE DEVELOPMENT IN SRI LANKA

Contribution of Agri-business to GDP and Export Earnings

Agriculture makes a significant direct contribution to the GDP through linkages with processing industries, trade and services activities. Agriculture and industry have contributed about 10% and 26% respectively to the Gross Domestic Product (GDP).



With the introduction of better plantation management systems under privatization, improved cultivation practices and more efficient distribution systems, the agriculture sector has continued to change from subsistence production to high value-added production based on improved technology and rational cultivation practices. This process will lead to the commercialization of agriculture and to the development of Agro – processing and Agro- business activities.

Pepper and clove export have declined by 2% and 42% respectively this year while Cinnamon exports have increased tremendously. Chillie production too has declined. Sri Lanka is the world's largest cinnamon producer. Cinnamon leaf oil and bark oil have brought export earnings of 224 million rupees.

Though Sugar Cane cultivation and sugar production has increased, Sri Lanka spends a large amount (about Rs. 10 million) on importation of sugar.

Sectoral Performance

It is reported that the agriculture sector grew by 1.5 percent in 2003. This was due to increased production in paddy, coconut, vegetables and other commodities.

(Source: Annual Report 2004 – Central Bank of Sri Lanka).

Output in the “other agriculture” sub sectors, largely consisting of vegetables, subsidiary food crops, exports (consisting of vegetables, subsidiary food crops) minor export crops and animal husbandry increased by 1.8 percent in 2003. In this category vegetable production had increased by 4.0 percent. All varieties of low country vegetable production too have increased. In 2004, production of minor export crops also has increased by 4.6 percent. Entire exotic vegetable seed is imported by the private sector and in the year 2004 imports have amounted to 304 metric tons at a value of Rs.167 million, and it has gradually decreased from 1999 to 2003. Export volume of coffee, nutmeg and mace, cardamom and betel leaves grew. The small industry sub sector grew by 4.8 percent. Value addition in milk production increased by 1.8 percent in 2004. The production of poultry and sugar had also improved. Foliage and cut flowers also have brought good export earnings.

CURRENT STATUS OF INFRASTRUCTURE

The availability of common facilities such as roads, water, electricity, telecommunication to rural agro-enterprises is very poor. Though better road facilities are available in all the main cities in Sri Lanka, roads in the rural areas are poorly developed. The poor condition of available roads impede the transportation of agro produce to the city. Among the common facilities the telephone facility is the least available in the rural areas. This has hindered the growth of agro-industries in the competitive environment.

The main roads leading from Colombo (commercial capital) to other provinces are well developed. The Colombo International Airport is very close to the export processing zones in Katunayake and Biyagama. There are facilities for domestic air travel through Ratmalana, Hingurakgoda, Koggala, Jaffna and Trincomalee airports. But no commercial flights are available from these airports to bring agricultural surpluses and processed agro-products to the central markets. Colombo harbour is the main port and small vessels could be anchored in Galle and Trincomalee harbours in the Southern and Eastern Provinces respectively. These facilities also have not been utilized to transport our own agro produces and processed products to the central market in Colombo. This may be due to high cost involved.

TRENDS IN EMPLOYMENT

Approximately 72 percent of the people live in rural areas, 40 percent of the labour force out of 5.6 million are engaged in agriculture and related activities (Source – Task Force Report 1996). The dominant method of starting agribusiness is self starting (80 percent). According to a survey of Labour Force, the overall rate of unemployment continued to decline. It has declined from 15.9 percent in 1990 to 9.5 percent in 1998. Agro industries have shown an employment growth rather than a decline over the past few years. Only 16 percent recorded employment decline, 10 percent stable employment and almost three-fourths employment growth. The majority (70 percent) entrepreneurs, island-wide engaged in agro-industry report a low rate of absenteeism among the work force.

Gender composition of the workforce engaged in agro-industries, island wide indicated that about 57 percent are females and 47 percent are males. (Central Bank Statistics.)

The average wages for labour in the Agriculture Sector is around Rs.250 where as in the agro-industry sector is around Rs. 300.

GROWTH IN NUMBER AND TYPE OF AGRI-BUSINESS ESTABLISHMENTS

The commercial cultivation of foliage and cut flowers has increased in recent years and export of these have a good potential as a source of foreign exchange. Major markets for live foliage plants are Netherlands and Japan. Cut flowers such as carnations, roses and anthuriums are exported to Japan and the Middle East.

A certain quality of local fruits are processed into jams, cordials, chutneys, ready-to-serve drinks etc to cater to the domestic market. These are shown under Food and Beverage Manufacturing Sector. There is a good potential to expand the processing of fruits and vegetables for both domestic and export market.

The growth of sugar production in 1999 at 65,220 metric tons was 6 percent and it has increased further more in 2003. Sugar is produced in the Sevanagala and Pelwatta factories.

The livestock sector consists mainly of the dairy and the poultry sub-sectors. In the dairy sector both cow milk and buffalo milk production have increased, by 2 percent, to 260 million liters and 82 million liters respectively. At present the country's milk supply is adequate only to meet about 20 - 25 percent of the requirements. The balance is imported mainly in the form of powdered milk. Milk collection by the milk processing companies, namely Milk Industries of Lanka Limited (MILL), Nestle Lanka Limited (NLL) International Dairy Producers Limited and other producers together amounted to 109 million liters.

The national egg production during the year rose, by 3 percent to 898 million eggs. A major problem faced by the small-scale poultry producers is the high cost of feed. Poultry meat production during the year 2003 increased by 10 percent to approximately 57,000 million kilograms (Central Bank Statistics). Livestock is an essential component of agricultural activities.

The forestry survey of 1992 revealed that 7% of the supply of construction and industrial wood comes from home gardens, rubber and coconut plantations.

Agro Industrial Residue

Paddy husk, a by-product in the rice milling industry is available in abundance in Polonnaruwa, Ampara, Batticaloa, Mahaweli-H and Badulla Districts. The total availability of paddy husk is around 470,000 MT. per year. The total national production of sawdust in Sri Lanka is estimated as 100,000 t/annum. This is reported to be adequate to meet the fuel requirement of a 16 MW electrical power plant.

RESEARCH AND DEVELOPMENT FOR AGRI-BUSINESS

Allocation for R&D by the Government is less than 0.2 percent, which is very low compared to other Asian countries. However, the R&D for agri-business has been carried out mainly by the Department of Agriculture and the Industrial Technology Institute, Certain Universities, Industrial Development Board and to a very small extent by some NGOs. Some thrust areas on which R&D has been carried out are indicated below.

Rice

R&D for introduction of new high yielding varieties specially for rice and other agricultural crops, excluding rubber, coconut, tea, forestry and ayurvedic herbs is carried out by the Department of Agriculture (DOA). The DOA has introduced 11 high yielding new improved rice varieties for commercial cultivation in Sri Lanka during 1990 to 1998. (Central Bank Annual Report).

Floriculture

The Royal Botanical gardens has introduced about 100 varieties of orchid hybrids, phalaenopsis have been introduced for export for commercial production. There is a good demand for colourful varieties of Anthuriums. Cut flowers and foliage plants for local and export markets have become a good agri-business. These are mainly produced by the exporters through tissue culture.

The exporters of vegetables use the concept of protected agriculture and hydro phonics for vegetables such as capsicum, raddish, lettuce

leaves etc. This is being extended to other varieties also.

Manufacture of Organic Fertilizer

A trend has developed for organic manure which has yielded high harvests for a number of varieties of vegetables and fruits. Therefore, the manufacture of organic fertilizer is now catching up in Sri Lanka.

Post Harvest Technology

With respect to Post harvest technology the Department of Horticulture has developed technology for preserving chillies, capsicum and bananas during transportation and warehousing.

Enthral has been introduced for ripening fruits instead of C_2H_2 (1 ml of ethral is used in 1 liter of water) Large scale agri-businesses like "John Keels" and "Agrisquad" now practice this method. These large scale agri-business now use plastic crates to transport fruits and vegetables.

Technology for making instant hoppers, instant cakes, and weaning food has been developed by the Industrial Technology Institution. The Industrial Development Board introduced technology for special rice flour for making instant string hoppers.

Machinery Development

The Department of Agriculture has introduced in 1999 the manually operated lowland Paddy Seeder, Mechanical Weeder, Rice Reaper, Rice Seeder, Mechanical Weeders for upland situation, Grain legume processing machine, Fruit harvester. The NERD Centre has introduced a drier for drying cashew and other commodities and a baking oven. The Industrial Development Board has fabricated a popcorn machine, vegetable cutter, coir yarn making machine, Noodle making machine, Press and fitter for cashew apple juice, coir balling machine Turbo Cleaner etc.

PROBLEMS AND CONSTRAINTS AFFECTING THE GROWTH OF AGRIBUSINESS ENTERPRISE ACTIVITIES

Lack of modern technology has seriously affected the cost of production, both in agriculture and agro processing.

Though the credit schemes are available the rural agri-business enterprises cannot obtain loans in time due to delays and the strict conditions stipulated by the Banks. This hinders the promotion and development of agri-businesses.

Laws soon to set up SME Authority

Investment Promotion and Enterprise Development Minister Rohitha Bogollagama inaugurating the Regional Convention on Policy reforms for SME Development in SAARC countries said that the government will introduce legislation to setup the SME Authority.

At present the BOI is confined to look at investors with capital. In the future the government would consider permitting investors with capabilities. There are no barriers in Sri Lanka with regard to investment. The government envisages to position Sri Lanka as a centre point in the SARRC region.

The Export Development Board will concentrate on supply chain management to encourage more people to move into exports. People will be encouraged to bring goods, add value and re export. The SMEs form a vital component of all SAARC nations though their contribution to exports is still very low. In most markets they cater to poverty market since they face a lot of problems including obtaining finances, technology and marketing. They also lack a level playing field when compared with the large players.

Action will be taken to take stock of the present status and the problems faced by the SMEs, understand the policies adopted by the SAARC countries in regard to SMEs and declare a Colombo declaration.

President, FCCISL Nawaz Rajabdeen has called upon the government to declare 2006 as the "Year of SME Development."

The Chamber is also planning to open two Chambers in Mullaitivu and Killinochchi in the near future.

(Excerpts from a writeup appearing in Sunday Observer of 04th Dec. 2005)