

INVESTMENT PROPOSAL
**COMMERCIAL ORNAMENTAL FISH
PRODUCTION**



Ministry of Agriculture, Animal Production and Development,
Industries, Fisheries and Tourism
Eastern Province



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-----*Hon. Minister's Message*

The agricultural sector is the backbone of Eastern Province economy and the means of livelihood for most of our rural population. Sustained agricultural growth is critical for uplifting the living standards of our people as well as generating rapid economic growth. However, in spite of the importance of the agricultural sector, farming in our province has for many years been predominantly a small scale, rain fed and poorly mechanized activity of low production and productivity. In order to address these challenges, my ministry launched several agricultural development programmes and I am pleased to note that implementation of such development initiatives has been largely successful. As a result, the agriculture sector surpassed the growth target and presently contributes towards 23% of the provincial GDP.

It is noteworthy to mention that under the policy framework of the government the “Mahinda Chinthana” the Eastern Provincial Council has accorded highest priority during the last five years to realize the full potential of the agriculture sector in Eastern Province. In the recent past Eastern Province agriculture has undergone remarkable modernization thanks to several initiatives by the government and donor institutions and this has made spectacular productivity gains possible through rapid improvement in yields. As the Minister of Agriculture, Animal Production and Development, Rural Industries Development Tourism and Fisheries, Eastern Province I encourage private and foreign investment in the development of these sectors. New investment will pave the way for infusion of capital and technology and improve productivity and value addition leading to increased production and prosperity in Eastern Province. My ministry is presently involved in implementing proactive development initiatives with commitment to inclusive development and creation of an investor friendly environment.

These agriculture sector investment proposals are an outcome of series of workshops and discussions we had with relevant stake holders i.e. Government institutions, private sector agencies and non-governmental agencies. These proposals clearly spell out the available potential and resources involving production, avenues for value addition and marketing of agricultural produce and focus all efforts towards achieving excellence in agriculture through private and foreign investments in Eastern Province.

I also would like to take this opportunity to put on record my appreciation to the United States Agency for International Development (USAID) and its VEGA FEG Program for the assistance provided to the Eastern Province through its various economic growth and technical assistance interventions.

I wish to reaffirm the commitment of my ministry in creating an enabling environment for the private and foreign investments and I urge all stakeholders to play their respective roles in ensuring that the Eastern Province of Sri Lanka transforms itself as a most preferred destination for investments.

Z. A. Naseer Ahamed (Eng), M.P.C
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ORNAMENTAL FISH CULTURE IN THE EASTERN PROVINCE

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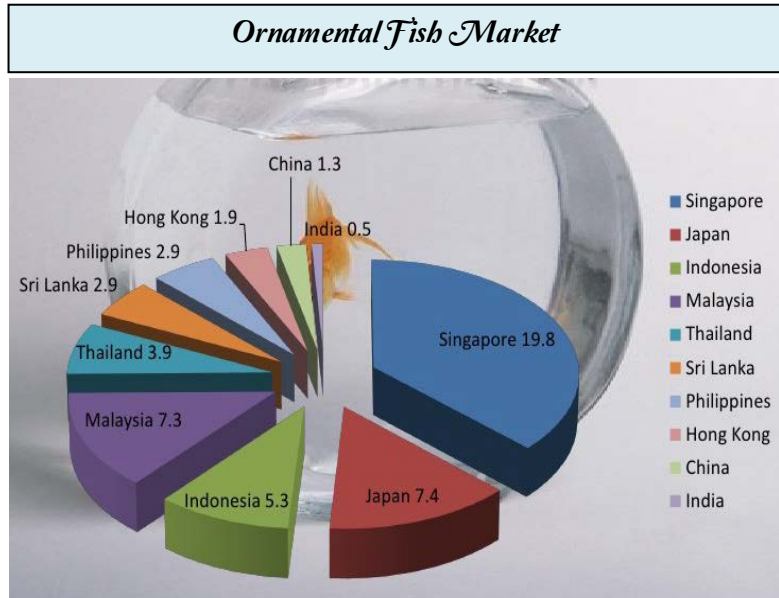
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Investment Opportunity for Establishment of Ornamental Fish Farm

Sri Lanka has been in the ornamental fish trade since the 1950's and is among the pioneers of this international trade. The value of Sri Lanka's ornamental fish exports increased from LKR 30 million in the 1980s to LKR 1.1 billion by 2011. This growth has been mainly because existing import markets have expanded and Sri Lankan exporters have acquired access to new markets.

Sri Lanka's share in ornamental fish trade is estimated as 2.9 % of the global trade. The major part of the export trade is based on wild collection. There is very good domestic market too, which is mainly based on domestically bred exotic species.

Keeping colorful and fancy fish, known as 'live jewels', is one of the oldest and most popular hobbies in the world. The growing interest in aquarium fishes has resulted in steady increase in aquarium fish trade globally. The ornamental fish trade with a turnover of US \$ 6 Billion and



an annual growth rate of 8 percent offers lot of scope for development. The largest supplier of freshwater ornamental fish is Singapore with a share of nearly 20%. The major buyers of ornamental fish are France, Germany, Japan, the Netherlands and the USA. Thus far, the Sri Lankan production has not been able to fill the volume requirements of export markets.



The aquarium fish trade in Sri Lanka consists of freshwater, brackish water and marine fish species. Exotic and indigenous freshwater species make up about 70% of the total exports of aquarium fishes by volume. Freshwater aquarium fish comprise the more colorful and more striking varieties such as, guppies, platys, gold fish, barbs, danios, tetras, gouramis, cat fish and cichlids. Out of these freshwater species exported from Sri Lanka about 60-70% consists of famous fancy guppies of which the high recognition is there in the international market due to the strength and high diversity of the particular fish species when compared with other countries. A conducive climate and availability of coral reefs, sand bars, lagoons around the country and especially in the Eastern Province provide an ideal ground for breeding of marine, brackish water and freshwater species in Sri Lanka.

Source: Export Development Board

There are about 40 regular exporting companies in Sri Lanka. Major buyers for the Sri Lankan ornamental fish are USA, Japan and the European Union. Recognizing the high potential of this industry the government has set in place the necessary mechanisms to support exports. Credibility and value is created by certifying each shipment through the quality control system of the Department of Animal Quarantine and Health. The government has a set up a technical support mechanism for investors through the National Aquaculture Development Authority (NAQDA). This institution runs an ornamental fish breeding and training center at Rambadagalla which provides training on ornamental fish farming, supplies quality ornamental fish brooders to investors, provides assistance in disease diagnosis and advisory services necessary to maintain fish health, supplies quality parent stock of ornamental aquatic plants and conducts adaptive research on ornamental and aquatic plant culture.



Sri Lankan ornamental fish exports for the international market include locally wild caught marine, brackish-water and freshwater species as well as captive bred freshwater fish. However, there are restrictions placed on the export and sale of wild caught species with the increasing concern of environmental conservation. Moreover, in recent years Western countries have placed restrictions on the importation of fish caught from the ocean. This has led the Sri Lankan government to promote freshwater ornamental fish production in the country. The Eastern Province, especially the Ampara district, is endowed with favorable climatic conditions and natural resources that make it suitable for rearing and breeding freshwater ornamental fish for local and export markets.

Province and District	Mangroves (ha)	Salt Marshes (ha)	Lagoons (ha)	Total Brackish Water Resources (ha)	Length of Beach (Km)	Density by beach Length (ha/km)	Inland Water (Sq.km)
Ampara	1421	2196	13682	17299	100	172.99	244
Batticaloa	292	127	7235	7654	110	69.58	193
Trincomalee	1491	1401	18317	21209	210	101.00	198
Eastern Province	3204	3724	39234	46162	420	64.11	635

The Investment Proposal

The total capital outlay for the establishment of an ornamental fish culture farm with 200 ponds on around 1 ha of land is LKR 26.3 million. ¹It is envisaged that 3.4 million fingerlings will be stocked in order to produce 2.4 million ornamental fish on 6 cycles per year. The ornamental fish production facilities will consist of a breeding unit; rearing unit and combined growing unit maintain culture stock as well as brood stock in order to produce quality fingerlings for future production. Annual operating costs are in the region of LKR 23 million. It will also be possible to outsource production to outgrowers who will rear and sell the produce to the investor on a buy back arrangement. This investment envisages culturing and marketing 75% guppies and 25% angels. The breakdown of estimated recurrent costs and annual revenue is shown in Table 1 below.²

Table 1: Average Annual Operating Cost and Revenue

Description	Value in LKR
Medicines and Chemicals	2,640,000
Feed	13,200,000
Labour	3,600,000
Miscellaneous	1,320,000
Maintenance	264,000
Interest	2,350,000
Total Operating Costs	23,374,000
Estimated Revenue	52,800,000

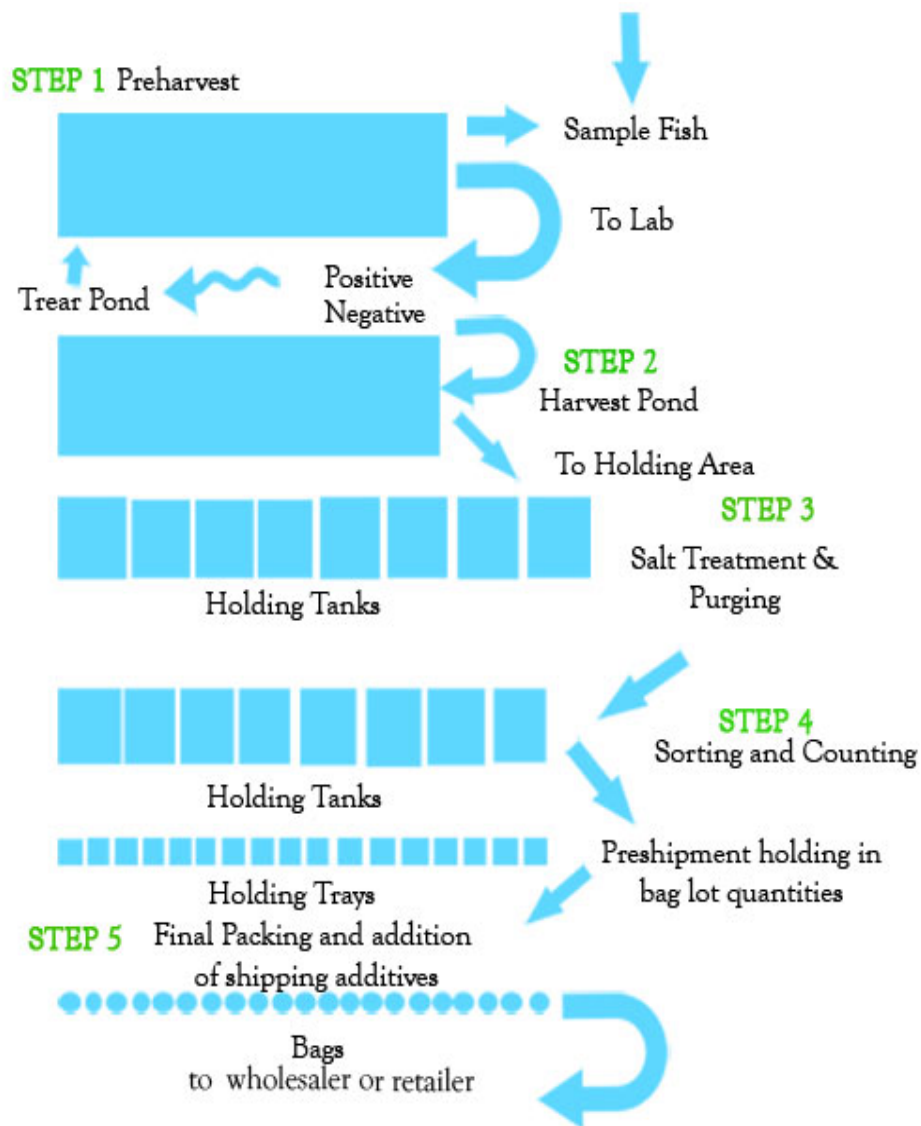
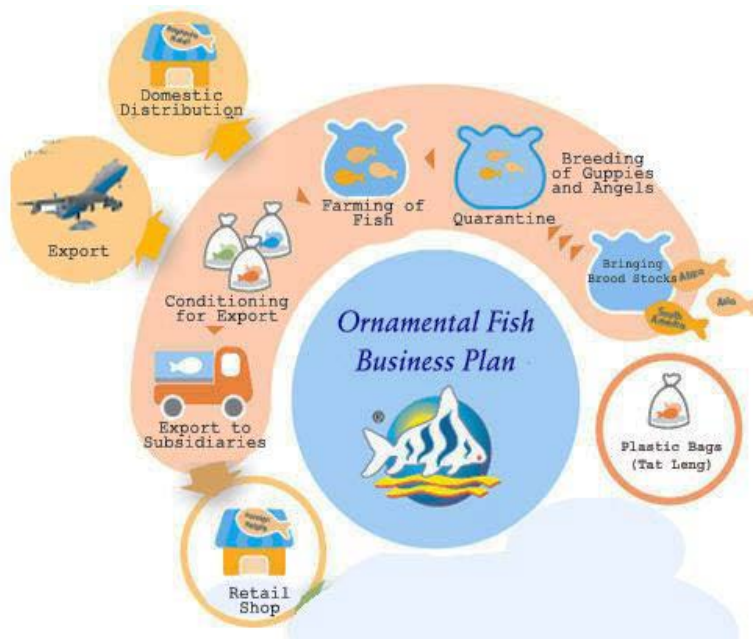
At current export prices the investment will generate a payback in under two years. Table 2 shows the investment ratios based on five year revenue and cost projection.

Table 2: Investment Ratios

Pay Back Period	1.50
NPV (LKR)	79,386,000
IRR	219.21
ROI	88.64%
Present Value of Cost (LKR)	102,605,000
Present Value of Benefit (LKR)	181,992,000
Benefit Cost Ratio	1.77

¹Capital costs are estimated based in recommendation made by National Aquaculture Development Authority of Sri Lanka (NAQDA). A breakdown of capital costs is not available.

² These cost estimates are meant to be indicative only and investors will need to do their own financial feasibility analysis based on their proposed project design.



Potential Locations for the Project

The following locations in the Eastern Province have the necessary locational advantages to establish an ornamental fish culture project.

Trincomalee District:

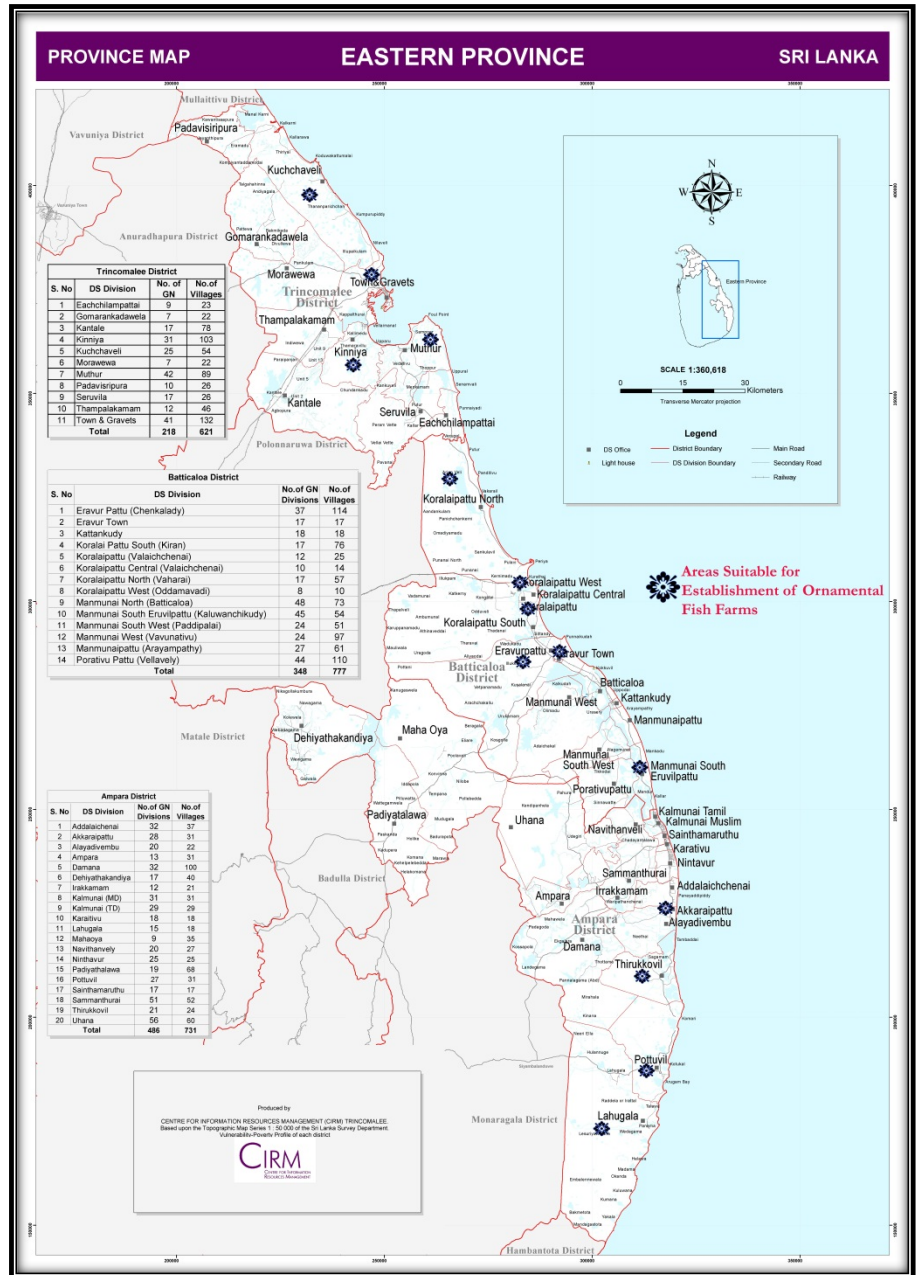
- Kuchchaveli,
- Kinniya,
- Muttur,
- Town & Gravets

Batticaloa District:

- Vaharai,
- Oddamavadi,
- Valaichenai,
- Eravur,
- Chenkalady
- Kaluwanchikuddy

Ampara District:

- Pottuvil,
- Akkraipattu,
- Lahugala,
- Thirukovil



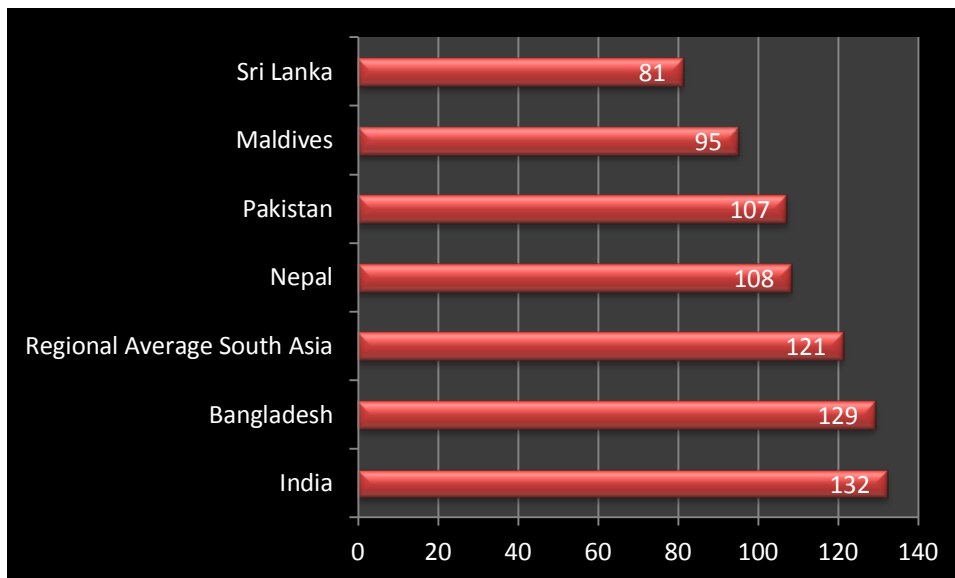
Investment Incentives

Government incentives are available in the agriculture sector for farming associated with advanced technology, distribution, collection & marketing, storage, cold rooms, ice plants, animal husbandry and out grower schemes, plant & nursery, pre/post harvest management, cultivation of plants of any description. Table 4 below shows the current investment incentives available for new companies.

Table 4: Investment Incentives for Investors under BOI Regulations

Investment Category	Minimum Investment	Tax Holiday
Small investment	LKR 25 Million	04 Years
Medium scale investment	LKR 50 – 100 Million	04 Years
	LKR 100 – 200 Million	05 Years
Large scale Investment	LKR Over 200 Million	06 Years
	LKR 300 – 500 Million	06 Years
	LKR 500 – 700 Million	07 Years
	LKR 700 – 1,000 Million	08 Years
	LKR 1,000 – 1,500 Million	09 Years
	LKR 1,500 – 2,500 Million	10 Years
	Above LKR 2,000 Million	12 Years

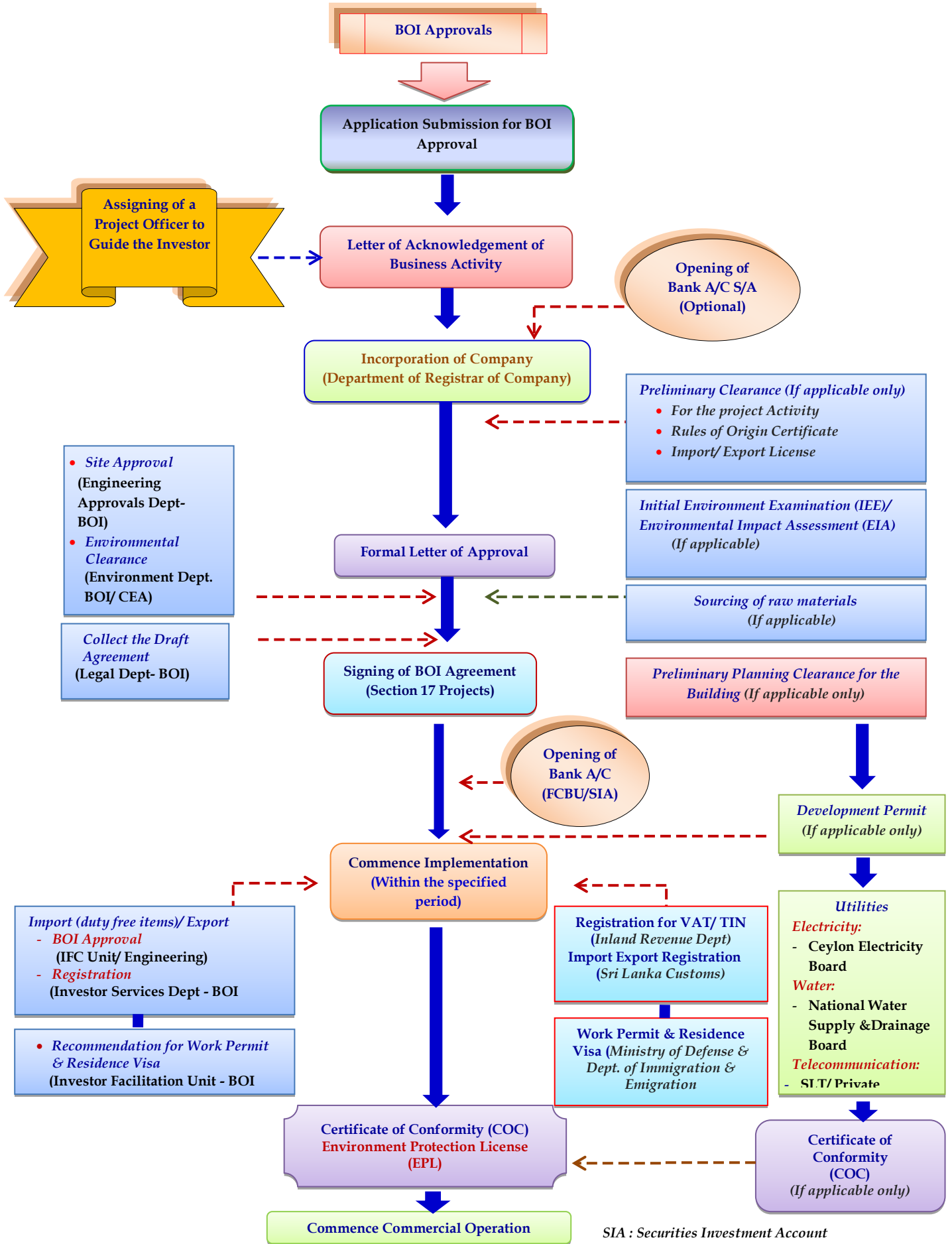
Sri Lanka scores well on the World Bank Ease of Doing Business Index ranking 81 out of 189 countries surveyed and is far ahead of comparative countries in the region.



Source: World Bank, Doing Business Report 2013

Figure 2 below charts the procedure for application for Board of Investment approval.

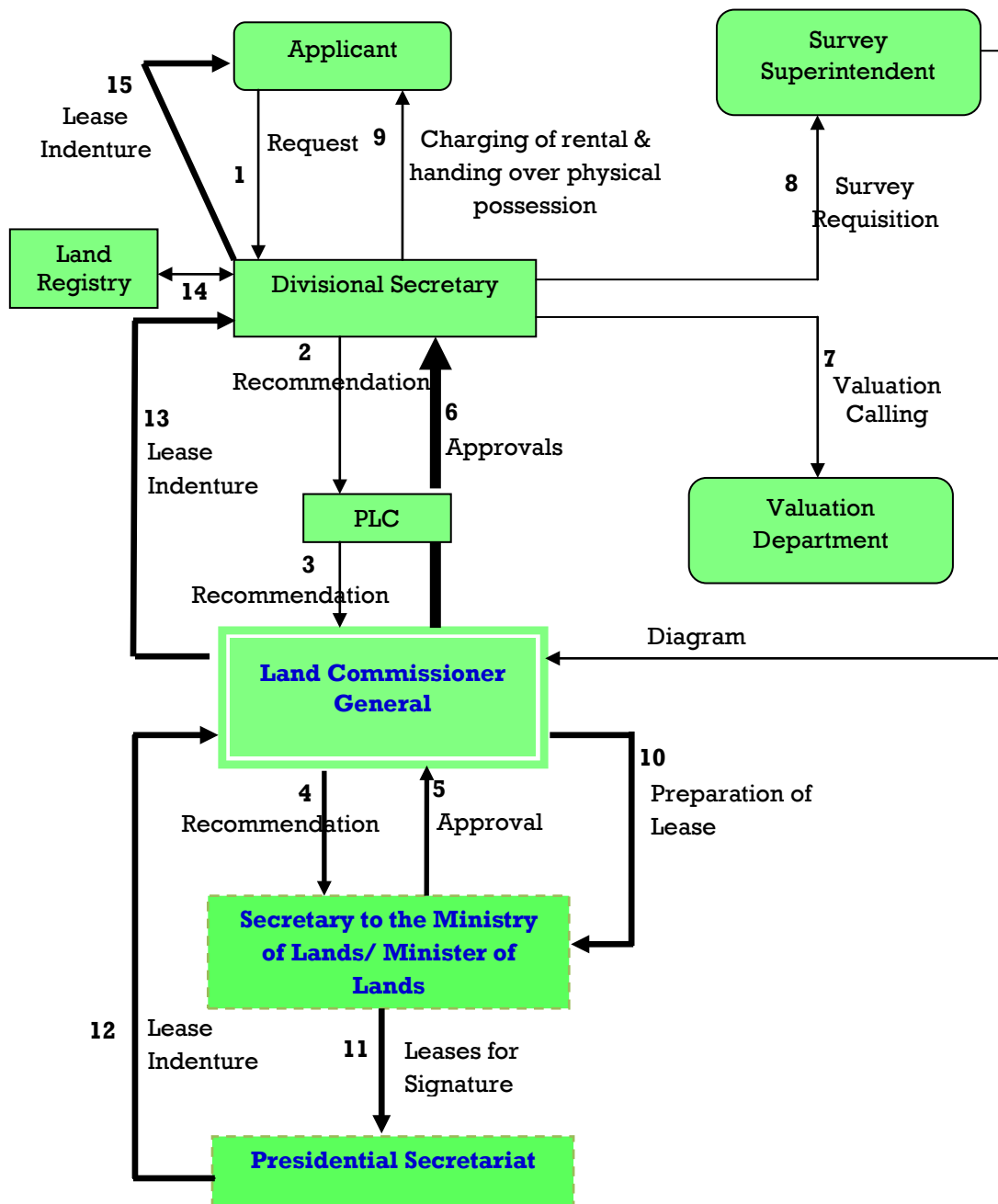
Figure 2: Investment Approval Process



Procedure for Long Term Lease of State Lands

Lease permits are granted under State Land Ordinance No.8 of 1947. Lands are leased to people and institutions for a 30 year of period for residential, agricultural or commercial purposes. The leasing period can be extended to 50 years for special projects. Upon the success of the initial lease a request may be made for the extension of the period of lease. These permits can be transferred and mortgaged with prior approval of the Land Commissioner.

Figure 3: Procedure for Lease of State Lands



Source: Land Commissioner General's Department

Conditions for granting state lands on long term lease for the special promotion projects

1. Special Promotion Projects are:

- i. Approved cabinet project
- ii. A project approved by the board of investment
- iii. A project approved by the ministry of industries
- iv. A project with a special patronage of any state affiliated institution

2. General documents which the applicant should submit

- i. Request
- ii. Project Report.
- iii. Project Approved by Board of Investment/ Ministry of Industry/ the other institution
- iv. Registration of company.
- v. If a joint venture, the details of the directory (the details under the form 48 of the company registration Act).
- vi. Affidavits as per format issued by the Divisional Secretary, which affirms that the properties belong to them, are within the limit of 50 Acres.

3. General conditions applied to the lessees

- i. Term of lease is thirty years (30).
- ii. This will be extended up to 50 years under the special approval of the cabinet.
- iii. Rental must be annually paid.
- iv. The amount of lease will be quinquennially revised by 50%.
- v. The Land cannot be used for any purpose for which the land was obtained.
- vi. The land must be maintained in a proper state of development.
- vii. No sub-leasing, mortgage and vesting can be done without due permission.
- viii. Special conditions which could be stipulated by the other institution.
- ix. Actions could be taken in order to cancel the lease indenture on the occasion of violating the conditions.

Useful Contacts

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