

Poultry Feed Production in Sri Lanka:

Effects of Economic Crisis, Response and the way Forward



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Background

Poultry sector is one of the fastest-growing livestock sub-sectors in Sri Lanka. Its contribution to GDP showed a gradual increase until 2019, yet was highly affected by the COVID-19 pandemic and economic crisis in the following years. Due to this, the poultry industry had to face numerous issues, which caused a slight setback in the production status of the industry which is not fully recovered.

The feed industry is a key to the animal-based food system. Approximately 91% of compound animal feeds produced in Sri Lanka are for poultry as the poultry sector is the fastest growing animal production sector in the country. Safeguarding the animal feed manufacturing industry is a significant step in achieving the nutrition security of the country.

In this backdrop, HARTI has conducted this study with the objective to examine the status, effects and crisis management strategies adopted by poultry feed manufacturers during the economic downturn in order to suggest policy implications to strengthen the poultry feed sector.

HIGHLIGHTS

- ❖ The economic crisis has impacted the majority of commercial feed producers' (93%) and self-mixed producers' (97%) industry performances. Commercial feed production has decreased by 25-50 percent.
- ❖ High price and shortage of raw materials, foreign exchange crisis, taxation policy, poor quality of ingredients are the main issues faced by the feed industry players.

Compared to 2019;

Prices of all the key ingredients of poultry feed increased

Maize price	300%	↑
COP of broiler & layer feed	200-300%	↑
Prices of poultry feed	180-200%	↑
Commercial Feed Production	25-50%	↓

Methodology

The research employed key Informant interviews and structured questionnaires as primary data collection tools. The data was collected from commercial feed producers- 30 (large-scale, medium-scale and small-scale registered) and 60 self-mixed feed producers (unregistered) in Kurunegala, Gampaha and Colombo districts. A growth matrix was created to identify the impact of the recession and then classified the cases into two categories: vulnerability and resilience.

Findings

Poultry Feed Industry

Considering the entire animal feed production in Sri Lanka, 78 percent constituted commercial feed production, with the remaining 22 percent being self-mixed feed production in 2022. Approximately 91 percent of commercial animal feeds produced in Sri Lanka are for poultry as the poultry sector is the fastest growing animal production sector in the country. Self-mixed feed producers play a vital role in the poultry value chain and their livelihood mainly depend on the poultry industry.

There were about 45 registered commercial feed mills operating in the country in year 2022. Top five commercial feed manufacturers are occupying 80 percent of the total market share of commercial feed production in the country. In 2023, there was only one large scale manufacturer with the operational capacity of >10,000mt/month as they have halved the feed production that was recorded before the economic crisis.

Every commercial poultry feed producer consistently monitors the quality of both raw materials and poultry feed. However, majority of self-mixed feed producers (63%) do not prioritize the quality assessment of raw materials or poultry feed in their practices.

About 47 percent of commercial feed producers, engage in commercial selling while the rest (53%) used it for in-house poultry production purpose.

Business Performance: Impact of Economic Crisis and COVID-19 Pandemic

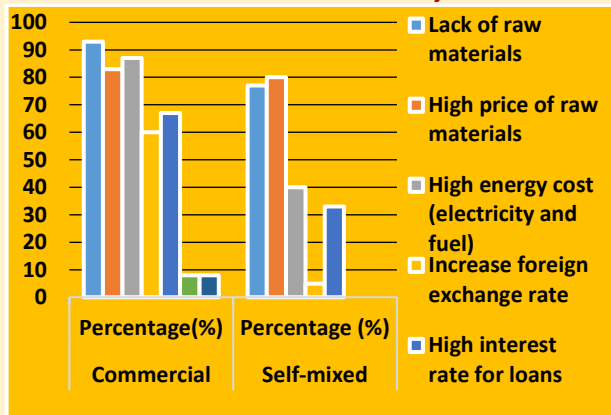
- The economic crisis has impacted the majority of commercial feed producers' (93%) and self-mixed producers' (97%) industry performances. Shrinking of compound feed market was observed as most of the poultry players decided to run their own feed mixing operations to cater to meet the demand for their company requirement (meat and egg production).
- Compare to the value of sales and profit margins in 2022 with 2019, the majority (63%) of the commercial firms and 68 percent self-mixed firms experienced declining margins. According to the growth matrix, the majority of firms were affected by the recession and showed a declining growth throughout the economic crisis. It indicated that most of the poultry feed producing firms are vulnerable to the economic downturn.
- The crisis posed major challenges to firms of all sizes, but particularly small-scale firms. Resource scarcity coupled with high price, and high dependency on external credit particularly made small firms vulnerable during the periods of economic downturns compared to larger enterprises with resource endowment and business know how. The study shows that more than 50 percent of the self-mixed feed production operations are seriously affected by the economic downturn.



Source: HARTI Survey, 2023

Figure 1: Silos to Store Grains

Issues in Sri Lankan Feed Industry

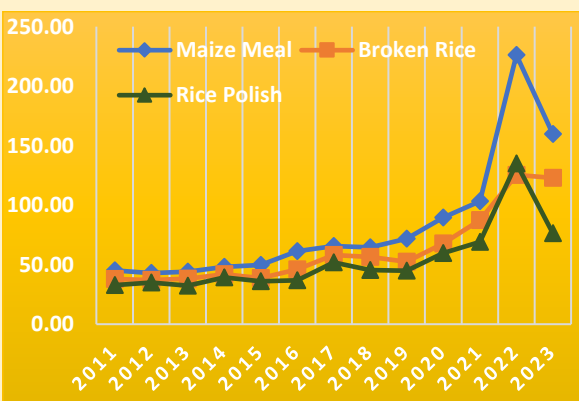


Source: HARTI Survey Data, 2023

Figure 2: Major Issues of Feed Manufacturers

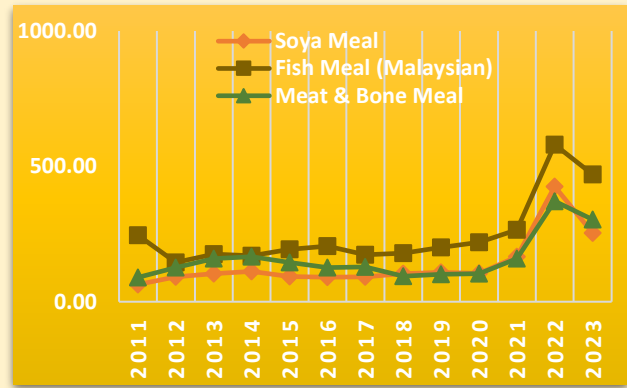
➤ **High price and shortage of raw materials**

The 40 percent yield reduction of maize as an unintended consequence of fertilizer and agrochemical ban leads to a severe shortage of animal feed needed for the poultry industry, as maize is the main ingredient in poultry feed. Further, supply chain issues during the Covid-19 lockdown and subsequent dollar shortage prevent importation of maize. When markets were functioning, about 65 percent of the maize for animal feed was produced in the country and private sector imported the balance. Once Covid-19 and economic crisis hit the country, importation of maize was further restricted in year 2021 under the government policy of banning importation of crops that could be produced locally. As a result, maize prices have increased by 300 percent from 2018-2022.



Source: DAPH (2011-2021); HARTI Survey Data (2022 & 2023)

Figure 2: Changes in Prices of Energy Sourced Raw materials used in Poultry Feed Industry



Source: DAPH (2011-2021); HARTI Survey Data (2022 & 2023)

Figure 3: Changes in Prices of Protein Sourced Raw materials used in Poultry Feed Industry

➤ **Foreign exchange crisis**

Soaring dollar rate and depletion of foreign reserves, restricted importation of maize, soyabean meal and other vitamins and premixes. Almost the entire soybean requirement for the feed industry is imported. Other ingredients such as fish meal, meat and bone meal, vitamins, minerals and amino acid supplements as well as all feed additives are imported. Therefore, the cost of manufacturing poultry feed in Sri Lanka is subject to world market price fluctuations. Lack of foreign currency at local banks, changes in LC terms, price increase in world market, rapid depreciation of LKR and difficulties in locating freight are to name a few factors that impeded the importation of raw materials.

➤ **Taxation policy**

Multiple taxations are imposed at different stages of animal feed processing. The Value Added Tax (VAT) of 15% is charged on commercial poultry feed manufacturing excluding other animal feed. VAT is charged on feed ingredients and compound feeds leading to double taxation for feed ingredients and formula/compound feeds. The tax imposed only on commercial poultry feed reduces the comparative advantage of commercial feed manufactures leaving the feed industry.

➤ **Poor quality of ingredients**

Adulteration of feed with lower quality feed material is a common practice due to;

- ✓ Lack of access to laboratories that ascertain the quality

- ✓ Deterioration in feed quality during storage is also common. This occurs especially due to negligence of self-mixed feed manufacturers adhering to good practices of feed storage

Adoptive Strategies to Maintain the Business Performance

Due to unavailability of sufficient stocks and high prices of maize most of the feed manufacturers have used alternative raw materials such as broken rice, rejected rice and wheat flour while balancing the nutrition level of the poultry feed. Self-mixed producers use different types of available low-cost ingredients as alternative raw materials (biscuit powder, noodles, etc). Majority of the commercial feed producers (80%) and self-mixed producers (67%) changed their poultry feed ration using alternative raw materials (This is not an unacceptable practice in feed).

The government in a gazette notification has banned the use of any form of rice produce or import to Sri Lanka for poultry feed production. The failure to use rice – a better substitution in the absence of maize creates difficulties in manufacturing the required amount of feed forced feed producers to turn to high-cost substitutes, which in turn saw a feed price escalation and a significant drop in feed production. When using alternative feed materials, feed manufacture faced digestibility issues for birds. A solution was to use enzymes which is a costly solution plausible for only a handful.

Feed mills regulate their production schedule according to the demand of poultry farms. Currently all the commercial poultry feed mills are operating below their installed capacity mainly due to low demand for the feed manufactured, which is mainly due to increased price of commercially mixed compound feeds because of value added tax charges, shortage of ingredients and inconsistent supply of electricity. Large-scale commercial feed producers utilized only 25-40 percent of the total installed capacity in 2022 and 2023. In order to minimize the effect of the current low demand for compound feeds, some of the feed processing enterprises are practicing vertical integration, i.e., engagement in

modern livestock production (fattening, dairy, poultry and/or pig farming) in conjunction with the feed processing plant.

Recommendations

- In order to promote poultry production, proper interventions are needed to increase the feed supply, provide technical knowledge to small scale feed producers in poultry feed ration formulations and utilization and marketing of underutilized alternative (non-conventional) feed resources produced as by-products from different agro-based industries in the country.
- Encourage and support feed manufacturers to cultivate maize and soybean by providing incentives such as credit and land available.
- In order to reduce COP of chicken and eggs, wide availability of poultry feed at reasonable prices is crucial. The availability and cost of maize and soybean meal generally determines feed cost. Feed industry depends more on imports for raw materials and prompt decisions on import policy should play a key role. Consistent supply of maize should be assured by increasing local production and making timely decisions on imports.
- Introduction of business-friendly taxation schemes that promote poultry feed production and ensures the comparative advantage of scale of production which creates a level playing field for the poultry feed players is recommended.
- An appropriate institutional and policy environment for competitive domestic feed production would allow all producers and consumers to benefit from poultry sector expansion.

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Findings of this policy brief have been adapted from the HARTI research study *Poultry Feed Production in Sri Lanka: Effect of Economic Crisis, Response and the Way Forward*.

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