

Pakistan: Agricultural Economic Policies

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Trip Report for USAID/Pakistan TDY, 19 Aug-15 Sep 08

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An Economy in Trouble

The Administration has identified Pakistan as a priority country that needs assistance to address its food shortage problem. Washington agencies have urged the USAID/Pakistan Mission to identify new project activities that will assist Pakistan to address its food problems -- problems that have the potential to strain Pakistan's social cohesion and even de-stabilize the region. In response the USAID mission has undertaken the design of a major new food and agriculture project that will begin in early FY09 and continue for at least five years. Washington guidance to date has suggested that a food security initiative in Pakistan should have three overarching elements: A. Increasing food staple production; B. Reducing impediments in food marketing and market access systems; and C. Addressing policy and pricing constraints related to both A and B above.

The EGAT/EG TDY consultant was asked to address the third objective, helping Pakistan to remove policy impediments to Pakistan's food and agriculture system development, to help the USAID mission identify and more clearly define those policy impediments. The consultant was also asked to provide design suggestions regarding program options to address these constraints.

He was to survey Pakistan's current macro-economic situation, particularly those developments and policies that affect the food and agriculture sectors (including agri-business), and the principle micro-economic policies and developments that directly affect the agriculture sector, broadly defined.

The Pakistan economy grew at an annual average of 7.5% for the last three years, 2003/04 to 2006/07, with per capita income rising from \$742 to \$878. However, inflation rose to 7.8% in 2006/07 and reached an annual rate of 25% in August 2008. The external current account balance deteriorated to a deficit equal to -4.9% of GDP in that year, falling further to equal -6.2% of GDP in the first 3 quarters of 2007/08. Foreign exchange reserves have reportedly fallen to between 1 and 2 months of imports. World prices for crude oil increased by 50% during those first 3 quarters and the price of imported wheat more than doubled, while the government continued to subsidize them with an increasing fiscal deficit already equal to -5.1% of GDP at the end of the first 3 quarters of 2007/08 and projected to reach -9.1% by the end of the fiscal year (June 2008). Most of the increase in the fiscal deficit is due to subsidies, which were budgeted at 1.0% of GDP in for this fiscal year but were more recently expected to rise to 4.4% by the end of June. Tax revenue collections have also been weaker than expected this year.

Subsidy payments have become a major drag on the fiscal and health of the economy. Rs 15 billion were budgeted for petroleum and Rs 53 billion for power for the 2007/08 fiscal year, but these were later expected to rise to Rs 154 billion and Rs 107 billion, respectively, despite the Government of Pakistan's (GOP's) program to gradually increase the market prices for gasoline and power. Rs 1 billion was budgeted for wheat, but it was projected to require Rs 30 billion by the end of June 2008. The increased cost of imported oil and wheat has exacerbated the current account deficit. It will be difficult to maintain economic stability in the face of these growing macroeconomic imbalances.

Pakistan made good progress in reducing poverty over the last several years, but that trend may have leveled off this year due to the rising cost of living. Employment generation has also been too slow to absorb new entrants to the labor force. By dictating official farmgate prices for wheat and subsidizing wheat flour prices to consumers the government is keeping the market price for flour down, while reducing the incomes from farmers who grow enough wheat for sale—and their incentives to grow more wheat for the market.

The enabling environment is an important consideration in any program of assistance to the agricultural and food sector. In the case of Pakistan, national and provincial government policy interventions in the pricing of staple foods have created massive market distortions in the terms of trade for farmers, food traders, food processors and food retailers. Most observers concur that these policy constraints are powerful disincentives and one of the primary causes of Pakistan's food problems -- as well as its massive rural poverty.

Immediate Remedies

Fiscal remedies are of course to raise revenue collections and reduce government expenditures. Since oil, power and wheat subsidies equal about half the fiscal deficit, their reduction or elimination is clearly a priority. The GOP has committed itself to raising oil and power prices, gradually, reducing those subsidies, and some of those increases were announced during this TDY. This report will focus on the wheat subsidy, which comprises a smaller portion of the fiscal deficit but has major implications for the proper functioning of the food market.

The Pakistan Rupee, subject to a managed float, has been allowed to depreciate by around 23% since the beginning of the year, from Rs61.2/US\$1 to Rs75/US\$1, to help close the trade deficit. Further depreciation might help, but would also contribute to the rising rate of price inflation. Furthermore, increasing the Rupee cost of imports would not necessarily reduce fuel imports, the high prices of which are blamed for much of the increased trade deficit, since demand for fuel is probably fairly inelastic with respect to price.

An important part of the remedy is to increase the production of exportables, including wheat and other agricultural products. Pakistan has had to import wheat in recent years, but it has the potential to significantly increase production to net export levels, as will be discussed below.

Government Interventions Distort Wheat Markets & Reduce Production

Currently the domestic price of Pakistan's staple food grain, wheat, is roughly half import parity prices. At the farm gate Pakistan farmers receive only a portion of world market prices, and this year approximately 2 million tons, around 10% of Pakistan's 2008 wheat production, has been "smuggled" out of the country to Afghanistan, Iran, and India where market prices are much higher. These unofficial export sales have reduced Pakistan's in-country grain stocks, strained the nation's official foreign exchange reserves as the GOP imports wheat to compensate, while the foreign exchange earned by unauthorized exports remains in private hands, and have driven up overall food prices despite the subsidies and other attempts to control the market.

The GOP Agricultural Prices Commission fixes the procurement "support" price for wheat at the beginning of each growing season. It was originally instituted as a "floor price" at which the government guarantees the farmers will not have to sell their crop at a lower level.

However, provincial and national government procurement agencies are given quotas of wheat to buy at the official "procurement" price, regardless of whether import or export equivalents are higher, and they force farmers to sell at that price. The procurement price was nearly 90% of import parity from 2004 to 2006, but it slipped to around 50% of import parity last year due to rising world market prices. Together with a delayed announcement of the year's procurement price, this resulted in a 2% reduction in the area planted to wheat.¹ When market prices are higher some provincial government agencies mandate restrictions on the movement of wheat outside the province and the GOP bans wheat exports out of the country in their attempts to control local supplies. They even prohibit private traders from storing wheat for off-season sale, calling it illegal "hoarding." This operates to hold farm gate prices down when world prices for wheat have soared. The procurement agencies then sell the wheat to licensed millers by quota at an "issue" price, which is usually close to the procurement price and does not cover the government's cost of transport and storage (comprising part of the wheat subsidy), and require the millers to sell flour on the market at a thin markup. The millers, however, sell at higher prices when they can get away with it and reportedly made substantial profits during the last two years when market prices were so much higher. Much of the wheat subsidy did not reach the consuming public.

The lower, subsidized cost encourages more consumption of wheat than of substitute foods (i.e., potatoes, rice, maize) and "illegal" exports into neighboring countries where markets reflect the higher world market prices. Pakistan has been, in effect, subsidizing wheat consumption in its neighboring countries. (It has also been subsidizing the use of fertilizer in its neighboring countries, for the same reasons.)

Lower production incentives on the farms, higher domestic consumption and unauthorized exports require the Trading Corporation of Pakistan (TCP) to import the resulting shortfall between domestic production and demand.² This not only increases the external trade deficit but,

¹ High Food Prices in Pakistan, The UN Inter Agency Assessment Mission, July 2008, p. 12.

² TCP imports wheat on behalf of the government and sells it to the government at the imported cost. The government could invite tenders from private traders as well as from TCP, allowing them to compete, but currently

since the TCP then passes its imported wheat on to the GOP, which sells it to millers at the lower “issue” price, it also increases the fiscal deficit (the rest of the wheat subsidy).

Provincial and national government agencies purchased only 3.9 million metric tons (MT) of wheat last year, or 18% of total production (22 million MT), against their target of 5.0 million tons. An estimated 11.7% (2.6 million MT) was retained by farmers for seed and animal feed and was spoiled during storage, another 5.0% used for in-kind wages and 21.1% for home consumption.³ This leaves around 44% that should have been available for private markets in addition to the 18% procured (under some duress) by government agents. However, amid reports that only another 12% were in fact brought to millers by private traders, one is left with the supposition that as much as 32% of the total crop was pushed into informal and underground markets (domestic food requirements⁴ cannot have been met without it). Some (an estimated 2 million MT) of this was believed to have been “smuggled” into neighboring countries for higher prices in a very lucrative trade for those involved, reportedly including the Taliban. Because these unauthorized exports reduced domestic supply below domestic food requirements, TCP was required to import another 2 million MT to fill the gap.⁵

In informal discussions with analysts at the Ministry of Food, Agriculture and Livestock (MINFAL) they agreed that Pakistan ought to be a net wheat exporting country and the procurement price should generally be at export parity (15-20% below import parity). The recommended procurement price for this year was Rs1,000 per maund (Rs25/kg), which is closer to the expected export parity price (around Rs1,100/maund) of next spring in today’s prices.⁶ This would represent a 60% increase in the procurement price of last year and should stimulate increased production. However, if domestic inflation continues at the 25% annual rate the export price equivalence and the production and marketing incentive would erode, not to mention likely slippage in the Government’s resolve to announce Rs1,000/maund as the official price. (It was just announced, on September 29, 2008, at Rs 950/maund—despite MINFAL’s technical recommendations, the final decision is made at the highest political level. This is a 52% increase over last year’s procurement price, but it will still be well below the expected export parity price in Rupees at harvest time.)

With sufficient price incentives (and sufficient fertilizer and water availability—not always assured), Pakistan’s wheat farmers should be able to produce more than enough to satisfy domestic needs and have a surplus for official exports, thus earning foreign exchange for Pakistan, instead of requiring it for imports, and reducing the wheat subsidy drag on the fiscal deficit. With domestic wheat prices equal to those on the world market there would be no price incentive to smuggle wheat to Afghanistan, and with supply more than satisfying domestic demand the GOP would have no reason to prohibit such trade, nor would provincial governments have political cause to restrict the movement of wheat to other provinces.

it does not. Private traders are authorized to import wheat on their own account, but they cannot compete with the subsidized issue price at which the GOP sells imported wheat to millers.

³ See the attached spreadsheet.

⁴ Estimated to be roughly 20 million MT (163.3 million people x 122.9 kg/person), over and above seed, feed and storage losses.

⁵ USDA has been negotiating with MINFAL some SPS rules covering disease certifications that prevent the importation of U.S. wheat, including that funded through the PL480 Food for Peace program.

⁶ Based on the March 2009 futures market for wheat at the Chicago Board of Trade as reported by Tom Hutcheson.

While the pernicious production and other economic effects of the wheat procurement policies, market restrictions and subsidies are well understood among Pakistani economists and technical leadership, the decision-makers are subjected to strong political influence among their chief urban constituents not to end them—from trade unions and consumer groups to keep food prices down and producer associations to keep their wage bills down. *Thus, in order to provide enough political cover for provincial and national leadership to reduce or eliminated these subsidies, there needs to be 1) a strong public education campaign to explain why the reforms are necessary for the health of the whole economy and 2) a well functioning, better targeted, cash safety net/social protection program to reach the poorer elements of the population that lack sufficient income to feed themselves in the face of higher prices.*

The basic problem, however, is not just the political difficulty of getting the prices right. It is the long-standing tradition, mindset and legal authority of government control over all food markets provided by the Agricultural Produce Markets Act promulgated by the British colonial administration in 1939, in order to collect food for troops fighting in World War II, which has never been repealed. The heavy hand of the government is more onerous when the procurement and retail prices being enforced are below free market levels, but even if and when they get the prices closer to reality government intervention stifles private sector activities that could provide market services much more effectively and efficiently. The current regime criminalizes normal market activities. *The GOP should be encouraged to request Parliament to repeal this obsolete colonial-era Act as soon as possible and move toward free and open competitive agricultural markets.*

Other Food-Related Policies

There are many other economic policy issues related to food and agriculture production, processing and marketing that need to be addressed. These can be grouped into 1) other agricultural policy issues, 2) water management policies, and 3) business climate policies affecting agricultural processing and value chains. Better policies would improve resource allocation and productivity of the whole Pakistani economy, including, but not only, resources provided by foreign donors. Helping to improve the economic policy environment is therefore one of the best investments USAID can make toward Pakistan's food and agricultural development, and providing the technical assistance and training to do so has historically been one of USAID's comparative strengths, worldwide.

1. Other Key Agricultural Policy Issues

Government control of agricultural markets provided by the Agricultural Produce Marketing Act of 1939, mentioned above in connection with wheat pricing and markets, is the most important issue. This obsolete Act ought to be simply repealed. Both provincial and national governments should stop intervening in food markets, except to enforce fair competition rules, and let the private sector do the job.

Domestic marketing and storage restrictions emanating from the philosophy of government control should be lifted. It is ludicrous that anyone storing more than a few days worth of wheat

should be arrested and prosecuted as a “hoarder.” Restricting the movement of wheat across provincial boundaries, and even prohibiting its export to neighboring Afghanistan, disrupts normal market operations and prompts “illegal” activities subject to payoffs at borders, etc.

International sanitary and phytosanitary (SPS) standards for exportable food products need to be more clearly understood by producers of potential export commodities for compliance, to increase exports.

Tariff protection of inferior farm machinery produced in Pakistan should be lifted so farmers can import more efficient equipment and so domestic industry is forced by the competition to improve its product lines.

Intellectual property rights (IPR) for new seeds, hybrids, and other technology needs better, enforceable legal protection, so Pakistani farmers can benefit from the better seeds and technology that is already out there and Pakistani researchers will have the protected incentives to adapt new varieties to domestic conditions.

Environmental degradation of current farming practices is a serious problem. Nitrates are accumulating in the soil from indiscriminant use of fertilizers, pesticide residues are at dangerous levels (especially for women picking cotton, vegetables, etc.), and hazardous industrial waste is reaching farm fields through irrigation.

2. Key Water Management Policies

Overall Indus Water Basin Management for multiple uses, including agricultural, urban and industrial is badly deficient. The last watershed management scheme was done 30 years ago. Pakistan irrigation authorities lack the technical expertise to analyze and update an appropriate master plan for better management of the water resources of the entire Indus water basin. Current water use is wasteful and inefficient and annual water flow from the mountains is diminishing. Careful analysis and planning needs to be undertaken, and the local capacity to do so must be improved.

Local management of irrigation systems needs to be improved by strengthening local farmer associations to do so. This could require unbundling water operations into bulk (storage), transmission (canal management) and distribution (tertiary systems), with contract linkages delineating and defining legal responsibilities among them.

Water use entitlements and fees should be instituted and/or rationalized so that those farmers irrigating crops like sugarcane and rice, which use four times as much water per Rupee value of the crop produced, will have to pay their fair share of the cost of the increasingly scarce water supply and so that all farmers will face a financial incentive to conserve on the use of water.

Crop rationalization for better water use, i.e., moving land out of rice and sugarcane to wheat, cotton & canola or other crops using less water per value-added, should be encouraged by avoiding policies that subsidize them (like the free use of water or tariff protection on imported sugar).

3. Key Business Climate Policies

A large number of policies have been identified that impact negatively on the climate for business investment, including that for processing, packaging and marketing food products.⁷ Some of the more significant are listed below:

Real property titling & registration

The basic laws governing real property titling and registration in Pakistan are over 100 years old, and while outmoded they would at least improve the current situation if properly implemented and enforced. Although these laws could be usefully updated to bring them in line with modern requirements, traditional mechanisms such as the legitimacy of unrecorded oral gifts and the ubiquitous, manual, unprotected Patwari system in rural and semi-rural areas of the cities are totally antiquated, causing much legal confusion and legal limbo in ascertaining clear title to real property. These traditional systems are especially disadvantageous for women and pose significant problems for business start-ups, expansion and access to credit. A mandatory, centralized property registry needs to be created in each province and then nationally.

Intellectual Property Rights (IPR) protection

Although significant progress in IPR registration and protection has been made in recent years, much more needs to be done to attract more foreign investment and encourage domestic research and development in areas like high yield seed varieties and high value crops with export potential.

Bankruptcy law reform

The current bankruptcy regime in Pakistan needs reform to reduce the risks of doing business and of lending money to businesses. The current system is inefficient, does not allow reorganization and limits voluntary liquidation.

Competition Law enforcement

As an antidote to official fears that more freedom for private enterprise would result in exploitation of farmers and the general public, enforcement of the Competition Law (which I was told does exist) could be improved.

Rural finance & credit reform, movable property as collateral, contract enforcement

The cost of credit in Pakistan is high primarily due to insufficient credit information about borrowers and inadequate enforcement in case of default. An estimated 90% of the potential SME credit market is unmet, and the situation is even worse for women entrepreneurs who in many cases don't even have legal identification papers (like birth certificates). Problems with real property registration (and legally clear titles) are mentioned above, and moveable property is not yet generally accepted (or enforced, if accepted) as collateral.

⁷ See Pakistan's Agenda for Action, Business Climate Legal and Institutional Reform (BIZCLIR) Diagnostic, 2007-2008, USAID/EGAT Bureau

Identification of women, mandatory birth registration

Many women don't have birth certificates or other forms of legal identification and so have difficulty establishing themselves as legal parties for property registration or credit applications. Although birth registration is supposed to be mandatory, it is often neglected for baby girls. One recommendation is that the requirement for registering births be shifted to the healthcare providers, including midwives, who actually help deliver babies, working with the National Database and Registration Authority.

Outmoded regulations for zoning, licenses, construction permits, inspections, etc.

Obtaining approvals for normal business operations is time consuming and difficult, providing numerous opportunities for corruption and political interference. These regulations are locally specific and controlled and their uneconomic implementation results in strong disincentives for investment.

SPS standards for export crops

International sanitary and phytosanitary regulations are poorly understood by potential exporters of food products, strict compliance with which is necessary for export growth.

Recommended Approach to Policy Reform

Successful policy reforms require host-country ownership. Few politicians can withstand public attacks from those opposed to the reforms that they are being undertaken only because foreign donors insist on them. They must be able to defend them convincingly that they are in the best interests of the host-country itself and that foreign donors are just assisting at its request. In addition, once policy reforms are approved and official, successful implementation often requires technical assistance and training of those whose responsibilities need to be changed. It is well known that the necessary technical expertise is sadly lacking in Pakistan at all levels, both in the academic world as well as in provincial and national government agencies.

Therefore, my primary recommendation for policy reform in Pakistan is **to build Pakistani capacity for public policy dialogue, economic and water policy analysis, reform design and advocacy, and also for those charged with implementing new policies**. The topical agenda is broader than any one institution and many policies that need to be reformed are locally-specific, such as zoning and other business climate policies, so such capacity building must include both national and local public policy institutions as well as private sector policy research, analytical and training institutions. This argues for **supporting a nation-wide economic policy analytical consortium as the best approach**.⁸

Providing technical assistance and training is a relatively low cost activity with large potential impacts, and is a comparative strength of USAID within the foreign donor community.

Having said this, there are some policies that are so pernicious in their economic effects and on which a great deal of analysis has already been done, both by Pakistani experts and foreign donors, such as those relating to local and national government interference with and control of

⁸ I spent a large portion of my time in Pakistan helping USAID/EG re-draft an AAD and scopes of work for such an activity.

food markets, primarily wheat, that a national consensus for reform ought to be more easily achieved if the facts were more forcefully brought to the attention of the public and its political leadership. This argues for **supporting high-level, well-publicized national dialogues on those policies, their economic impacts and policy alternatives** in order to achieve more immediate reform, which has been proposed and discussed within the USAID/Pakistan Mission.

Even so, if the dialogues actually point to repealing the Agricultural Produce Marketing Act of 1939, as they should, additional analysis and technical assistance might be needed to help craft a less intrusive replacement law that would assure competitive agricultural marketing by the private sector and the ability of the GOP to procure and store enough grain for a strategic reserve, at market prices or a true support price to assure minimum farm production and income if world market prices should drop precipitously.

Priority Non-Policy Agricultural Agenda

While I was requested to look at the Pakistan economic policy reform agenda, the USAID Mission is also considering what other assistance it could provide as part of a new food and agriculture development program. In reading recent studies on Pakistan's agriculture and in discussions during my brief time in-country, a number of non-policy areas were also mentioned that could benefit from USAID (or some other donor) assistance. I shall simply list what strikes me as the more important of these, for the record, some of which have been mentioned in passing above.

- Improve seed quality & biotech research
- Reduce post-harvest & storage losses
- Rationalize fertilizer availability & use
- Strengthen agricultural research & extension with public/private partnerships, especially for diversification to high-value crops
- Improve infrastructure for handling, storage, processing, cold chains & markets
- Disseminate best practice approaches for better water application efficiency.
- Divest public irrigation management to private sector & farmer organizations
- Study specific commodity value chains for ways to lower costs & improve efficiency
- Develop modern facilities for real and movable property registration, public access & protection
- Develop a credit rating system for SMEs

NOTE: This trip report represents the opinions of the author only and does not necessarily reflect those of the United States Agency for International Development or the U. S. Government.

Atchs: 1. Disposition of Wheat Production in Pakistan, 2007-08 Crop
2. Minutes of meetings attended
3. Bibliography of Documents Used

Attachment 1

Disposition of Wheat Production in Pakistan, 2007-08 Crop

Source Note No.	Million MT	Percentage	
Total Production	21.8	100.0	
Farmer's consumption	4.6	21.1	
4) Feed, seed & losses	2.6	11.7	
5) Farm Labor compensation	1.1	5.0	
Subtotal	8.2	37.8	
			Percent of
			<u>Mkt.surplus</u>
Total marketable surplus	13.6	62.2	100.0
6) Less Government procurement	3.9	17.9	28.8
Available for private trade (formal and informal)	9.7	44.3	71.2
Total available for human consumption:	19.2		
Total required (163.3 million people x 122.9 kg.):	20.1		

Source
Note No. **On farm food consumption:**

1) No. of wheat farms	5.33 million
2) x Ave. rural household size	7 people
Total farm consumers	37.31 million
3) x kg. per capita/yr.	122.9 kg.
=Farmer's wheat consumption	4.59 million MT/yr.

Source Notes:

- 1) *Agricultural Statistics of Pakistan 2006-2007*, Pakistan Ministry of Food, Agriculture & Livestock, Table 67, p. 119
- 2) *Household Integrated Economic Survey, April 2003*, Federal Bureau of Statistics, Government of Pakistan, Table 1, p. 3
- 3) *High Food Prices in Pakistan*, The UN Inter Agency Assessment Mission, July 2008, p. 14
- 4) *Ibid.*, p. 13
- 5) *Pakistan, Promoting Rural Growth and Poverty Reduction*, World Bank, March 30, 2007, p. 10, citing the Social Accounting Matrix for Pakistan 2001-02, which estimated 5% of crop value-added was paid to hired labor, so this is an overestimate here.
- 6) *High Food Prices in Pakistan, op.cit.*, p. 12

NOTE: This estimate of 32.8% of the wheat crop kept by farmers for own consumption, feed, seed and losses roughly corresponds to that of Dorosh, Paul (World Bank) and Abdul Salam (Pakistan Agricultural Prices Commission), "Wheat Markets and Price Stabilization in Pakistan: An Analysis of Policy Options," Pakistan Institute of Development Economics, Islamabad, 2006, p. 2: "Nationally..perhaps as high as 30 percent of wheat production is retained for own-consumption."

Partial Minutes of Meeting

August 25, 2008, Planning Commission Task Force on Food & Agriculture

Attendees:

Dr. Muhammad Jameel Khan, Advisor for Agricultural Planning

Dr. Satar Aziz, former Minister of Finance

Dr. Hafeez Pasha, Beaconhouse University, Lahore, Food Policy Subcommittee

Dr. Kauser Malik, Dr. Tasheeb, and others

With several from USAID/Pakistan and the Nathan Associates Team

The task force was formed 3 months ago, its next formal meeting is August 30.

Its subcommittees are already working.

The Subcommittee on Procurement & Distribution, led by Lt. Gen. Farouk Khan, will report its findings at the August 30 meeting. A total of 3.5-3.8 million MT of wheat was procured this year, around 60% of that entering the market.

The Subcommittee on Public Policies will look at several issues. MINFAL has a food wing, but it is understaffed and cannot do enough analysis.

National policies should trump provincial policies.

The private sector operates like cartels. Question is how to break these cartels.

Farmers get low prices from the government.

The Agricultural Policy Institute is there in name only, bad shape. It needs extensive capacity building.

The MINFAL Food Wing received an endowment from USDA.

Oil seed producers need better quality seeds, but IPR protection is required for better seed production.

The Competition Commission needs to be more forceful.

No one is doing good analytical work, and there is no focal point for policy analysis.

Need more analytical capacity building at provincial level, incentives, clear authority, etc.

The most important crops are wheat, edible oils, pulses (which also have seed quality problems) and rice.

Farmers need to learn how to conserve water. 30% of irrigation water is lost, 25 million acre feet lost at system level and 17 million acre ft lost at farm level out of total flow of 138 million acre ft. Key problems include water conservation, salinity, soil degradation, low wheat yields, the UG99 virus threat.

Pakistan has 117 universities now. Teachers get better pay than research institutions can give, so the latter cannot attract and retain good researchers

Priorities (quick returns for low investment) for agricultural development are:

- 1) high quality seeds, strengthened breeding program, have 3 strains of wheat resistant to UG 99
- 2) water resource management, practical, cost-effective management
- 3) seed/fertilizer drills
- 4) bed planting techniques (working with USAID on that one)
- 5) balanced fertilizer use
- 6) micronutrient (like zinc & boron) deficiency in alluvial soils, esp. for cotton, rice and wheat

Institution: LUMS

Date: September 5, 2008

Attendants:

Ahmed J. Durrani, Ph.D., MBA, Vice Chancellor & Prof. of Engineering, also Prof. Emeritus, Rice University in Houston, Texas

Faisal Bari, Ph.D. (McGill), Assoc. Prof. & Head of the Dept. of Economics

Faheem ul Islam, Ph.D. (Cambridge), Assoc. Prof., Competitiveness Strategy & Marketing

Shaukat Ali Brah, Ph.D., Prof. & Dean. Suleman Dawood School of Business

Stuart Callison, Sajjad Moghal, Shamza Khan, & Amy Meyer of USAID

Purpose: PEAR Activity/ Potential Partners

Key Points

- EG discussed its four strategy areas: Private sector development, Trade, Energy and Agribusiness (Financing & Farm Management)
- EG discussed its interest in developing a knowledge management system
- EG invited LUMS to submit a concept paper by September 15
- LUMS consulted on the idea of supporting expertise in other institutions, academic sectors, departments etc.
- LUMS desired a separate entity as institute of policy within the campus
- LUMS also seeking funds for increased infrastructure development etc.
- The university has the most comprehensive library – a facility which can be scaled up
- No women were represented by LUMS at the interviews

Institution: PERI (Punjab Economic Research Institute)
Date: September 5, 2008
Attendants: Muhammad Abdul Quddus, Ph.D. (USA), Director, PERI
Mr. Haddad _____, Economist, PERI
Stuart Callison, Sajjad Moghal, Shamza Khan, Amy Meyer of USAID
Purpose: PEAR Activity/ Potential Partners

Background

- PERI established in 1990
- **Relationships:** Research notes, material influenced by government needs (especially Punjab Planning & Development Department), is not independent and does not conduct independent research. Seems to have a relationship advantage in Punjab which could reduce research cycle times if the information required is Punjab specific
- **Products:** PERI has conducted 'doing business' types of surveys across Punjab, done baseline surveys of micro finance recipients, has published around 400 reports, including 6th Five-Year Plan, has done gender needs planning, training of trainers, has disaggregated gender data on Punjab, helped to the Punjab Economic Report for 2007, does impact analyses, ranks districts according to their development indicators
- **Skills:** Conducting surveys, managing sample data, surveys, project analyses
- **Strengths:** Strong distribution mechanism within government, research & survey skills, intelligent staff (limited), speed (perhaps), provides money for research to private institutions like LUMS, Lahore School of Economics (LSE), & other universities for research & development
- **Weaknesses:** Limited staff, weak institution, lack of time to conduct independent research, has 6 professional staff on board, 10 vacancies hard to fill due to government salary scales, hires consultants when needed,

Key Points

- PERI have requested \$90m from the government to build its own capacity
- It showed its willingness in being a partner
- PERI could be one of the institutions which is strengthened as part of the consortium

Potential Capacity Building Areas

- No women in sight!
- 10-20 vacant positions
- Lack of linkages with international universities etc.
- Small use of technology

Institution: U.S. Consulate at Lahore

Date: September 5, 2008

Attendants: Bryan D. Hunt, Principal Officer

Tracy _____,

Stuart Callison, Sajjad Moghal, Shamza Khan, Amy Meyer of USAID

Purpose: PEAR Activity/ Potential Partners

Key Points

- Briefing of EG program to Lahore Consulate
- Agriculture: discussed potential of agriculture, Brian suggested Jamaat I Islami's 'farmer' wing as a potential to discuss Agriculture with the caveat of being aligned with JUI.
- He listed several policy issues affecting agriculture, including energy costs for the tube wells, farmer access to markets, seed choices, land tenure (there is much land lying fallow due to disincentives for use), weak extension services, subsidies for water and electricity, and a disconnect between traditional ag research and the actual needs of agribusiness at Faisalabad and AKS
- He said no one is ready to deal with wheat pricing issues due to strong, vociferous political constituencies militating against higher prices.
- He suggested we could start working with other price boards toward freeing up the markets for other crops that are less politically sensitive, like cotton, rice, textiles, to establish some trust in free markets and isolate wheat as the last remaining holdout
- He suggested pushing for an agriculture futures market, which would make prices transparent
- He noted that tractor tariffs are protecting local production of inferior, inefficient tractors
- 30% of insecticides and pesticides sold on the market are fake
- He said local chambers of commerce didn't get involved in ag policies, as they are dominated by textile barons
- Flour millers associations were very influential, but in the wrong direction
- Commodity associations and chambers need to better articulate their cost chains and make stronger arguments for reforms
- It is hard to reach small farmers who are dominated by large landowners in a feudal system
- Small holders could move into higher value crops, but would need cooperatives for marketing operations
- Technical, commercial & policy research is disjointed
- PEAR – Brian was of the opinion we should look at other options to locating PEAR at LUMS & suggested Forman Christian College since it had a new (American) director. He agreed that in terms of brand and impartiality, LUMS was the best, but he argued against the principle of providing all our support through a single institution – in favor of building capacity of a number of institutions. He thought LUMS was private but too big, LSE very small but growing, public universities are controlled by government, Beacon House too politicized, Faisalabad Univ. OK but not focused on policies

Institution: Lahore School of Economics

Date: September 5, 2008

Attendants:

Shahid Amjad, Director, Center for Research in Economics & Business (CREB)

Naved Hamid , Senior Researcher (Finance)

Shakeel _____, Macroeconomist

Stuart Callison, Sajjad Moghal, Shamza Khan, Amy Meyer from USAID

Overall

- **LSE Directors:** All senior, ex-World Bank, 30 yr experienced individuals
- **LSE Staff:** It has 150 economics specific faculty and >120 are women
- **LSE Students:** 45% of students are women
- **LSE Program:** It is a self-sustaining institute which invests \$1 million in research \$1 million in scholarships
- **Economic Policy:** It gives policy advice to the government but emphasizes long term policy research for publication and organizes conferences to discuss policy papers. LSE has a Center for Economic Policy with the best team of policy economists in Pakistan—a dozen of them, top rated.
- **Capacity Building:** They need to strengthen LCE, would love to have a linkage program with a U.S. academic institution, exchanging students and professors

Key Points

Bottlenecks

- There are individual economic policy experts but no core group of people
- LSE's biggest constraint is a lack of 'human resources' and lack of ability to close the loop between PHD students, PHD supervisors and return of students as professors

Potential Capacity Building Areas

- LSE willing to pay for cross-collaboration with US universities
- LSE willing to be involved with USAID cost-free if it can enable LSE to get US professors, US expertise on a short-term basis in Pakistan
- Desire economic policy expert forums with international institutes

LSE Lessons Learnt and other comments:

- Never give cash to the government because they squander resources
- There are 110 universities in Pakistan – therefore, USAID should follow a decentralized model to empower many institutions nation-wide, e.g., 2 in Karachi, 2 in Lahore and one in Islamabad and let the budget go through them, make their agenda your agenda
- Could use a contractor to support a consultative group and build up policy analysis capacity in 10 public policy centers/institutions nationwide
- Each institution should specialize in the a particular expertise
- Need better long term policy analysis capability in Pakistan
- The brightest students go abroad on fellowships and don't return (only about 10% do), need to be able to teach them better at home so more of them will stay
- Don't have enough qualified professors to supervise Ph.D. dissertations, perhaps with a U.S. linkage some such research could be supervised long distance

- The GOP has no capacity in economic policy analysis
- The media has been liberalized, but 90% of what they print is rubbish
- Consortium is a good idea, but should be linked to a graduate degree program to be sustainable
- Fear capture by lead institution, LUMS has no policy expertise, LSE does, each institute should take on its particular area of concern/specialty
- The consortium office should be in Islamabad
- Use USAID funds as endowments to strengthen faculty and policy research
- Most policy issues are provincial, as are private sector development problems

Institution: Punjab Planning & Development Department

Date: September 6, 2008

Attendants:

Rab Nawaz, Secretary, Punjab P & D Dept.

Tariq Mahmood Pasha, Finance Secretary, Govt. of Punjab

Natiq Hussain, M.Sc. Agri Economics (USA), Chief, Planning & Evaluation Cell

Miss Rafia Syed, Deputy Secretary, Commerce & Investment Dept., Punjab

Muhammad Abdul Quddus, Ph.D. (USA), Director, PERI

and several others

Stuart Callison, Sajjad Moghal, Shamza Khan, Amy Meyer from USAID

A needs assessment would indicate what is needed, the Punjab Government was left out before, contractors come and go and leave no impact, “soft” components of donor assistance don’t translate into harder components: need finance for physical infrastructure

The issue is how to use synergies, coordination mechanisms, need more action on the ground rather than more studies

The private sector will take much time to have an impact, the government should be the main counterpart, it needs to coordinate all donor activities

Economic policies in Pakistan stem from political dominance with large inputs from donors, esp. World Bank, IMF and ADB

--heavy influence of bureaucrats at provincial level

Punjab is moving toward targeted cash safety nets and away from price subsidies

--direct assistance to the poorest families rather than indirect assistance

Better knowledge management is an important area

P&D Dept. has an M&E agreement, but it is weak and understaffed, can do better

--other depts. are even weaker

--evaluations are seen as an external nuisance and don’t get into mainstream

Natiq said there is no long-term policy analytical capacity

LUMS has closer association with the private sector, private sector funding

--good name, good starting point

Beaconhouse newer, liberal arts focus

Punjab U. is public

PERI is provincial government, has a long way to go

LSE would be the number 2 choice

Forman U.—not sure, needs rehabilitation

Gender equity is government policy, priority area—the male/female issue is attitudes, not government. There are passive biases, more severe in S. Punjab. Girls are kept inside for fear of their safety outside the house.

Institution: Beacon House National University, Institute of Public Policy
Date: September 6, 2008
Attendants: Hafeez Pasha, Ayesha Pasha,
Stuart Callison, Sajjad Moghal, Shamza Khan, Amy Meyer of USAID
Purpose: PEAR Activity/ Potential Partners

Key Points

- **Complex Politics.** Politics are too complex between institutions to house the institute policy at any one place, an advisory board composed of people from a number of policy institutions is a good idea to direct the activity, but its location and leadership will be issues
- **LUMS lack Economic Policy.** Do not agree with housing Economic Policy at LUMS because they are mostly an undergraduate training institute and don't have stature in policy study/institutional framework
- **Comparative Advantage.** In favor of building the model of comparative advantage; build a team, develop a horizontal structure
- **No Network:** Pakistan lacks a 'network' and community structure, which this model would enable
- **Effectiveness/Efficiency Trade Off:** There is a trade-off between developing a super-structure (LUMS) which may enhance efficiency vs. effectiveness (involving many local institutes); institutional politics would work against LUMS being an effective consortium leader for policy analysis
- **Strong Provincial Data Machinery:** For data accumulation, can work through provincial statistics offices, which conduct efficient surveys, have market access/penetration, have sampling frames
- **Overcome Foreign Influence Perception.** Government needs to have ownership of projects so they can overcome perception of being influenced/dominated by 'foreigners'
- **Urban consumer and producer groups** lobby against market reforms
- **Farmers associations** and other stakeholders need a forum
- **Wheat subsidies total around 0.5% of GDP:** The federal government absorbs subsidies at the miller level and for imported wheat, while the provinces pay for the transportation equalizer subsidy

Potential Capacity Building Areas

- **Broad-based Capacity Building:** Focus on capacity-building in each of 10-12 institutions, with specializations, no one institution can handle the broad range of policy issues that need attention
- **LUMS** is the logical choice for capacity building in private-sector development, but not for agricultural policies, for example
- **Ag policy institutions** need strengthening, very little capacity in policy research & analysis
- In knowledge management, capacity can be built of Punjab Bureau of Statistics, which is under the Federal Bureau of Statistics
- **Provincial statistics offices** have limited budgets, need training, need sharpened capacity, but they are the logical candidates for capacity building for evaluations and impact analysis
- Increase the capacity of bottom-up planning institutes listed which come under provincial bureaus

- Use the current standing committee of 13 economic policy experts to develop policy dialogue as an advisory panel. They are now focused on wheat support prices, fertilizer subsidies and trade policy issues. Bring in foreign experts to discuss their analysis and recommendations.

Institution: Economics Department, University of Punjab
Date: September 6, 2008
Attendants: Prof. Hafeez-ur-Rehman, Chairman
Stuart Callison, Sajjad Moghal, Shamza Khan, Amy Meyer of USAID
Purpose: PEAR Activity/ Potential Partners

Key Points

- There are more women (75) than men (10) students in the economics department.
- We have 10 permanent faculty members, but only 4 have Ph.D. degrees
- Three of the faculty are women, with M.A. or M.Phil. degrees
- Punjab U. has more than 30,000 students and ranks 4th or 5th in quality nationwide
- There is a severe shortage of Ph.D. level faculty, need funds for foreign academic linkages and collaboration, exchange programs for both faculty and students
- Faculty study tours to upgrade their qualifications would be helpful
- Need online access to foreign libraries
- National economic policies are designed to support the ruling party, they never ask economists for their opinions about them

Partial Minutes of Meeting

September 8, 2008, with Asmat Raza, Sr. Agricultural Specialist, FAS, USDA, U.S. Embassy/Pakistan

Asmat explained that the Trading Corporation of Pakistan (TCP) used to have a monopoly in the export and import of wheat, but that restrictions on private sector importation were recently lifted. Private sector traders can now legally import wheat if they want to, but they cannot compete with the subsidized GOP price to millers, so they don't.

The retail price of wheat flour is fixed by the government and they try to enforce it. The provincial governments must bear the cost of storing and transporting wheat, which is over and above the nationwide retail price, and this imposes a substantial fiscal burden on them.

He noted that the main agricultural policy bodies were the Agricultural Prices Commission (APCOM), which is linked to MINFAL, the Food and Agricultural Subcommittee of the Planning Commission, the Economic Wing of MINFAL, and the Agricultural Policy Institute. He said they all had capable people, but the politicians don't follow their professional recommendations. The recommendations of APCOM, for example, are not binding, and there are strong political pressures to keep prices down. MINFAL does not have good commodity specialists and no one follows world market trends.

All these institutions need 3-5 years of capacity building, and stronger linkages need to be developed between the experts and policy makers.

He would recommend a new law to make APCOM recommendations binding.

He thought raising public awareness of policy problems would be helpful.

Partial Minutes of Meeting

September 9, 2008, with Tumurdavaa Bayarsaihan, Sr. Rural Development Specialist, Sustainable Development Dept., World Bank/Islamabad

USAID: Stu Callison, Aazar Bhandara, & Nasar Hayat

The World Bank is not engaged much in agriculture, except in irrigation, where it has an Agricultural Water Management Project.

The ADB is more focused on agriculture and has an Ag Sector Loan against policy reforms.

The WB also has a Pakistan Poverty Alleviation Fund (PPAF) providing \$200 million each year for livelihood activities centered in rural areas and it also has a disaster relief program. The PPAF and irrigation programs will continue.

They are also looking at a Crop Maximizing Project in response to the food crisis, directed at small farmer livelihood, some analytical work on climate change, and have done some policy notes.

In irrigation there are some big projects, a study for a major barrage, canal maintenance, distributes, small scale irrigation works in Baluchistan, water management policy enhancement to encourage the GOP and Punjab to reform their policies. The on-farm project also has a policy component.

Last year Pakistan imported 1.7 million MT of wheat last year, but also exported 2 million MT. Its prices are lower than those of its neighbors, but if they are raised the social protection program will need to be expanded. They expect to import 2.5 million MT this year. They had a good crop, but smuggling was a problem.

Export parity prices are lower than import parity. There needs to be better analysis of the costs of the current policy, illicit exports vs. the costs of imports.

The PARC knows the prices are not right, but doesn't have much analytical capacity.

The huge BOP and fiscal deficits are bigger problems than the food and fuel price crises.

The country is losing \$1 billion of foreign exchange a month. The WB is trying to help them solve these macroeconomic imbalances.

Sequencing of reforms is important. They must improve their social protection programs first, then they can do the price reforms.

Partial Minutes of Meeting

Date: Sep 10, 2008, Time 1400 – 1545 hrs
Ministry of Food Agriculture and Livestock, B Block, Islamabad

MINFAL

Dr Qadir Baloch, Agriculture Development Commissioner
Dr. Shakeel Ahmed Khan, Wheat Commissioner
Dr. Muhammad Aslam, Commissioner, Minor Crops
Dr. Amanullah, Agriculture Policy Institute
Mrs. Nuzhat Fatima, Joint Secretary/Commissioner, Special Crops
and several others

USAID

Stu Callison
Aazar Bhandara
Nasar Hayat

- The MINFAL team informed that the total wheat production in Pakistan this year was around 22 million metric tons. About 2 million MT was smuggled to Afghanistan. Some 3.9 million MT were purchased by PASSCO and provincial food departments.
- They said that the PASSCO and provincial food departments act to protect the farmers from exploitation of middle-men as they assure purchase of wheat at a floor price. Only recently the floor prices became much below world market prices.
- They agreed that the best food subsidy would be a social protection (safety net) program targeted towards the vulnerable segments of society and explained the operations of Benazir Income Support Program
- They were skeptical about the conduct of business in agriculture sector by private sector in Pakistan and were of the view that the market mechanisms need time to be established in Pakistan.
- All of them agreed that the wheat support price should be compatible with the wheat export parity price.
- Members of the group insisted that TCP does not have a legal monopoly on the import and export of wheat. Private sector traders are allowed to import wheat if they want to, but they cannot compete with the subsidy TCP provides when they sell the high-priced imported wheat to the millers.

When asked their suggestions as to how a donor like USAID could best help improve agriculture in Pakistan, they had many ideas:

- Help improve the administration and operation of the safety net programs, make it transparent to reduce corruption
- Help small farmers develop and use more storage capacity for wheat so they don't have to sell so much at harvest times when prices are low

- Improve the analytical capacity for MINFAL for policy analysis, scenario analysis, trade analysis, commodity analysis and forecasting (they said IFPRI has agricultural policy training programs that would be very helpful)
- Improve the efficiency of farm input provision and farmer management of inputs for higher farm profitability, especially for small farmers
- Improve availability and distribution of better seeds (only 20% are certified)
- Support more investment in biotechnology
- Support smarter use of different kinds of fertilizer (only DAP and urea are being used)
- Improve research and technical backstopping (few farmers are aware of better technology)
- Better use of mechanization
- How to deal better with marginal lands, especially the salinity problem
- How to reduce post-harvest and storage losses, which are large, especially storage losses for wheat procured by provincial food departments and farm-level storage

Partial Minutes of Meeting (Draft)

September 12, 2008, with Dr. Abid Qaiyum Suleri, Executive Director, Sustainable Development Policy Institute (SDPI), Islamabad

USAID: Amy Meyers, Director, USAID/EG, and Stu Callison, TDY

An ADB project in 2002 included a condition for the GOP to reduce the number of government procurement sites, which they did.
They still have a fertilizer subsidy.

As part of the National Conservation Strategy of 1991, an independent policy institution was to be set up to provide unbiased policy advice to the government.
SDPI was accordingly established in 1992 with 5-year seed money from CIDA and the Dutch.

Since 1997 SDPI has survived on funds for specific activities only, not for core staff, such as the CIDA Pakistan Environment Program. So SDPI had to tighten its budget after the seed grant was expended.

They organize a seminar every Monday on environmental topics. They are active in writing articles for the media, and include documentaries for TV.

They operate a Center for Capacity Building with the Government College University in Lahore and also a Center for Sustainable Development Studies, which provides training in management, peace, sustainable development & globalization—an immersion course, in partnership with several northern universities. They sponsor post-graduate students for project research & analysis, supervised by external professors.

They need some breathing space for independent research.

Compete with international agencies for good staff.

Could use endowment resources, outsource research requests

Need independent evaluation of development projects and need a mechanism (a portal) to share reports of research.

They must manage quality of input with peer review.

They conduct orientation sessions for parliamentarians and the media on economic and environmental issues.

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