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PAKISTAN

NATIONAL AGRIBUSINESS ACTION PLAN

Submitted To

**Federal Ministry of Food, Agriculture & Cooperatives
Government of Pakistan
and the
United States Agency for International Development**

Prepared By

**RONCO Consulting Corporation
in collaboration with
AGRI-BI-CON International (Pvt.) Ltd
Analysis of Corporate Sector Constraints in Agriculture (ACSCA) Project**

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I. INTRODUCTION

At the request of the Government of Pakistan, an analysis of the agribusiness sector in Pakistan was initiated in January 1989. The analysis has resulted in:

- o a National Agribusiness Assessment report which describes the constraints to and opportunities for private sector investment in agribusiness, and presents a number of sharply focused recommendations intended to improve the climate for private sector investment in agribusiness;
- o a series of six agribusiness industry research reports which analyze the current strengths, limitations and financial viability of private and state-owned companies in the following sub-sectors:
 1. The Farm Machinery and Implements Agro-Industry
 2. The Fertilizer and Pesticides Agro-Industry
 3. The Seed Production and Distribution Agro-Industry
 4. The Edible Oil Agro-Industry
 5. The Livestock Feed Agro-Industry
 6. The Fruit and Vegetable Processing Agro-Industry
- o an Agribusiness Industry Case Study report which synthesizes the findings, conclusions and recommendations presented in the six agribusiness sub-sector research reports and reveals the critical interrelationships among them which can stimulate or retard agro-industry development and farm-level productivity.

This National Agribusiness Action Plan constitutes the final phase of the analysis and outlines, step-by-step, the actions required to implement the recommendations presented in the National Agribusiness Assessment and the Agribusiness Industry Case Study reports. The rationale supporting the recommended actions is derived from the detailed analysis, findings, conclusions and recommendations presented in the project reports and publications referred to above. The reports are available from the AgriBusiness Cell (ABC) in the Ministry of Food, Agriculture and Cooperatives (MinFAC). Executive Summaries of the National Agribusiness Assessment report and the Agribusiness Industry Case Study report are attached as Annexes A and B, respectively.

A. The Goals

The Action Plan is designed to accomplish specific goals and objectives. To a large extent, the goals and objectives are measurable, so that progress in achieving them can be assessed.

Following are the goals which implementation of the National Agribusiness Action Plan should achieve:

1. a sustained increase in the agriculture sector's contribution to Gross Domestic Product and foreign exchange earnings;
2. a major medium-term increase in non-tax income and sustained growth of revenue for the GOP;
3. a significant near and medium-term increase in private sector investment in agribusiness;
4. increased input supply, marketing and credit services to farmers;
5. increased agribusiness diversification, production and competition;
6. improved quality and choice of products flowing from agribusiness industries to local and foreign markets;
7. an increase in incomes of farmers and others connected with agriculturally related industries; and
8. an increase in employment.

B. The Principles

An explicit set of principles establishes the framework for the Action Plan. The first principle has to do with increased efficiency in the use of scarce resources. A global consensus exists that economic efficiency depends on the exercise of market forces and freely exchangeable property. The private sector operating in an environment of freely fluctuating prices and market competition offers the opportunity for using resources more efficiently. Competitive markets and the price mechanism, if allowed to function, will allocate resources to their most productive uses. For this system to be effective, price and trade controls that constrain private sector investment and business expansion must be curbed, along with the privileged access to and use of national resources and capital by state-owned enterprises.

The second principle is that government's limited resources should be used in a supporting role rather than to operate businesses directly. Legitimate support roles for government include investing in social (health, education and training) and physical infrastructure, regulating the safe and effective use of products such as farm chemicals, enforcing truthful labeling, consumer and environmental protection and promoting private sector investment in agro-industry.

C. The Priority Categories for Action

Four subjects, or categories, are deemed to be important focal points for the Action Plan:

1. National Agribusiness Development Policy
2. Institutions for Agribusiness Development
3. Privatization and Deregulation
4. Promotion of Specific Agribusinesses

II. NEAR-TERM ACTIONS

The National Agribusiness Action Plan Matrix (Annex C) summarizes the progression of actions which are proposed for the near, medium and long-term. No fixed time limits are proposed. For illustrative purposes, near-term actions would be those effected from six to eighteen months following publication of the Action Plan. Medium-term actions would begin to be implemented as soon as the near-term actions are completed. Depending on their nature, they may be initiated and achieved between month six and three years after adopting the Action Plan. Long-term actions would be determinable in about two years and be implemented over a five-year period. Medium-term actions in some cases may be carried out simultaneously with selected near-term or longer-term actions.

A. National Agribusiness Development Policy

The keystone of the Action Plan is a clearly articulated and prudently implemented national agribusiness development policy. The near-term actions required are to define and officially adopt a national agribusiness development policy which posits the intention to stimulate private sector agribusiness trade and investment. The agribusiness policy will build on the positive aspects, including a number of investment incentives, of the existing Industrial Policy and the Rural Industrial Scheme and would be designed to eliminate over time the burden of the existing public sector State-Owned Agribusiness Enterprises (SOAEs).

A draft national agribusiness policy statement for consideration by the GOP is attached as Annex D. Following are the essential pillars of the suggested policy. If any one of these is attenuated in any way, the policy's effectiveness will be diminished:

- o The Government will actively encourage and promote private sector agribusiness trade and investment.
- o The Government will no longer invest public funds in new agribusiness ventures nor expand presently owned enterprises. This stipulation is required to attract private sector investors who would be unlikely to invest in any GOP dominated or controlled industry. This policy declaration is intended to give a clear signal to private investors considering investments in agro-industry. [The Government of Pakistan has agreed in the ASSP Policy Benchmarks to study the feasibility of: (a) privatizing one or more plants of the National Fertilizer Corporation, and (b) disinvesting and/or financially restructuring all or part of the Ghee Corporation of Pakistan.]

- o The Government intends to implement the privatization of state-owned agribusiness enterprises.
- o Funds realized by the Government from privatization and liquidation of SOAEs will be invested in social and physical infrastructure, to supplement other funds allocated to such purposes.
- o The Government will deregulate agribusiness trade and commerce--that is, eliminate those regulations which restrict competition or interfere in pricing--moving within the next five years to regulating only those commodities and business activities essential to maintaining basic food security management and consumer and environmental protection. [A few examples of the types of actions needed are given in Annex D.]

Action Number 1: Define the Policy Statement

Action Responsibility: ABC Secretary and Coordinator,
MinFAC.

Action Number 2: Review and Approve the Policy

Action Responsibility: AgriBusiness Development Board

Action Number 3: Adopt the Policy

Action Responsibility: Economic Coordination Committee

Action Number 4: Promote and Support the Policy

Action Responsibility: AgriBusiness Development Board,
President and Prime Minister

B. Institutions for Agribusiness Development

Two complementary institutions are recommended to spearhead efforts to develop agribusiness and agro-industry in Pakistan: (a) the AgriBusiness Cell (ABC) and an associated Agribusiness Development Board in the Ministry of Food, Agriculture and Cooperatives, and (b) a Private Agribusiness Trade and Investment Advisory Company (PATIAC).

The AgriBusiness Cell is in the process of being established. A full-time Consultant/Coordinator was hired in July 1990 and additional staff are being considered.

Agribusiness and agro-industrial development policies and programs require coordinated effort by the Federal Ministries of Food and Agriculture, Industries, Commerce and Finance, plus participation of the Provincial Governments and the private sector. To accomplish this, an Agribusiness Development Board, chaired by the Federal Minister for Food, Agriculture and Cooperatives, shall be established along lines similar to the Oilseed Board, Sugar Board, Poultry Board, Fisheries Board and the Dairy/Livestock Board. Composition and terms of reference for the Agribusiness Development Board shall be prepared by the ABC, which will serve as the Secretariat to the Board.

Action Number 5: Institutionalize the AgriBusiness Cell and Constitute an Agribusiness Development Board MinFAC

Action Responsibility: The Minister and Secretary, MinFAC

Action Number 6: Establish a Private Agribusiness Trade and Investment Advisory Company (PATIAC)

Action Responsibility: The Private Sector

This institution would be a profit-seeking, private sector entity which would have characteristics of an investment bank, a venture capital firm, and a management services company. Similar types of private sector firms have worked successfully and made substantial contributions to private sector development in other countries (e.g., Jamaica, Indonesia and Costa Rica.) Annex E outlines the proposed functions, resources, staffing and linkages of a PATIAC. The proposed near-term actions to be taken to convince private sector individuals, associations, finance companies or chambers of commerce and GOP entities to work with the AgriBusiness Cell and the technical assistance team to form and implement a PATIAC include:

- o Establish a private sector/ABC-MinFAC Organizing Committee.
- o Appoint a private sector Chairperson.
- o Draft a company charter and implementation plan.

- o Identify and confirm charter members (shareholders).
- o Obtain GOP sanctions and incentives.
- o Prepare by-laws and finalize company charter.
- o Register the company and select Board of Directors.
- o Subscribe and call initial capital.
- o Hire a Managing Director/General Manager.
- o Open an Office.
- o Identify and Hire Professional Staff
- o Prepare PATIAC Business Plan
- o Market PATIAC Services

C. National Policies of Privatization as They Apply to State-Owned Agribusinesses

Many countries, both developed and developing, have considerable experience in privatization and the techniques of denationalizing state-owned enterprises. Although there are difficult obstacles to overcome, the process does cause goods and services desired by the population to be delivered in greater variety, quantity and quality; more fairly and widely distributed; and at reduced financial cost. Secondary benefits include higher tax revenues, reduced payments for subsidies and funding operating budgets, and less absorption by non-viable enterprises of finite credit facilities from the banking system.

A privatization program can only come about if there is a genuine political commitment to the process. This commitment requires dissatisfaction with the present state of affairs when the true financial performance of state-owned enterprises is revealed. Profits which are achieved through distorted market conditions and input pricing, and subsidized credit facilities need to be marked down. An acceptable return on investment is one which compares favorably with the Government's long-term debt cost. A top-level Governmental commitment to privatization must be complemented by grass-roots understanding and support. Both must be anchored by a broadly phrased, yet unambiguous, law. The proof of commitment to privatization lies exclusively in its implementation.

Action Number 7: Formulate a National Privatization Policy

Action Responsibility: Planning and/or Finance Ministries

Following are the outlines of a suggested approach:

- Present fairly the true financial condition and performance of individual state-owned enterprises (this facilitates their valuation for later divestment or liquidation).**
- Develop a broad understanding of the objective of privatization and alternatives to SOAEs at all levels of Government.**

Action Number 8: Draft Authorizing Legislation

Action Responsibility: Finance Ministry assisted by Planning Division

The text should be brief, broad and unambiguous. Reference should also be made to privatization legislation adopted by other countries.

Action Number 9: Enact Authorizing Legislation

Action Responsibility: Parliament

Before and after enactment, the law should be exposed and discussed in the media.

Action Number 10: Assign Responsibility for Privatization

Action Responsibility: Prime Minister and/or Cabinet

Experience elsewhere indicates that a separate organization should be established for the selection, valuation and implementation phases of privatization as they apply to individual state owned enterprises. It is important for this separate agency to have the necessary authority vis-a-vis the owning and other controlling ministries. Also, the agency must share in the control of the selected state-owned agribusiness enterprises while their privatization is underway.

Action Number 11: Prepare an Action Plan for Privatization

Action Responsibility: The Privatization Authority

The previously performed overview of the financial situation of state owned enterprises will facilitate setting a priority sequence for individual units. Initial attention should be given to implementing genuine privatization of a few units. The likely success of the privatization action must be the overriding parameter which guides the selection of the initial candidates. Early implementation must not be delayed by formulating an action plan to encompass all state-owned enterprises. Individual units are dynamic enterprises and their valuations will change with the passage of time. More importantly, the experience of actual implementation will modify the precepts of any action plan. Therefore, the initial action plan must be limited to those units which can be realistically privatized or liquidated within the following 12 months. Other action plans will encompass a similar 12-month horizon.

D. Targeted Promotion of Agribusiness Investment and Development

Steps need to be taken to identify sound agribusiness projects and interested investors as well as to insure governmental cooperation necessary to the realization of the projects. The two principal determinants of this process are:

- o The AgriBusiness Cell and the Private Agribusiness Trade and Investment Advisory Company (ABC/PATIAC), working together, should attract investors to accomplish agribusiness formation and development objectives.
- o The promotion effort must identify Pakistani clients who wish to pursue agribusiness development, but who need help, as well as new investors willing to work with local clients to develop agribusiness joint ventures.

Action Number 12: Plan and Begin to Implement Targeted Promotion Activities

Action Responsibility: AgriBusiness Cell/PATIAC

Annex D describes step-by-step procedures on how to design and implement targeted promotion endeavors. ABC/PATIAC should use those procedures as a guide in the near term, and refine the procedures as experience is gained.

III. MEDIUM-TERM ACTIONS

This section describes the actions which should immediately follow the completion of the near-term actions or, in some cases, which might be started while the near-term actions are still in process. Even though the implementation of near-term and medium-term actions may in some cases be going on simultaneously, it is useful to separate conceptually the near-term and medium-term kinds of activities.

A. National Agribusiness Development Policy

If the Agribusiness Policy promulgated in the near-term were perfect, it would never need to be changed. In practice, policies are seldom near-perfect and adjustments will likely need to be made. A prime criterion is that when changes in policy are made, the intent must be to improve the climate for private sector agribusiness investment, not to make it less favorable.

Action Number 13: Evaluate the Policy's Effectiveness, Quantify Policy Objectives and Refine the Policy as Needed

Action Responsibility: AgriBusiness Cell

Following is a suggested approach to quantifying policy objectives and refining the policy:

- o Establish agro-industry specific investment incentives and set three-year private sector investment targets.
- o Target up to five agribusiness commodities on which to deregulate pricing and marketing totally.
- o Raise Rs. 5,000 million by selling SOEs and/or SOE assets and shares.
- o Withdraw investment plans in SOEs (e.g., edible oil, fertilizer, processed foods, and seed industries) in favor of private sector investors.
- o Evaluate policy's effectiveness per results achieved against targets and recommend corrective policy actions.

Action Number 14: Review and Approve Policy Changes

Action Responsibility: AgriBusiness Development Board

Action Number 15: Propose Policy Changes to the Economic Coordination Committee

Action Responsibility: AgriBusiness Development Board

Action Number 16: Adopt Policy Changes

Action Responsibility: Economic Coordination Committee

B. Institutions for Agribusiness Development

The section on Near-Term Actions describes the action responsibilities and the processes for establishing the AgriBusiness Cell and a Private Agribusiness Trade and Investment Advisory Company (PATIAC). Annex F explains how the AgriBusiness Cell and a PATIAC can complement each other--how they may work together to identify sound agribusiness projects and help locate investors who, with the cooperation of government authorities, will implement the projects. These two entities working together can work to achieve the objective of increased private sector participation in agribusiness development. However, for maximum effectiveness, the AgriBusiness Cell should be upgraded to an AgriBusiness Wing and should be headed by a very strong private sector oriented Director. The desirability eventually to upgrade to a Wing was envisioned in the original charter of the AgriBusiness Cell, under the assumption that the entity would have proved its worth and gained credibility with both the GOP and the private sector.

Action Number 17: Upgrade the ABC to an AgriBusiness Wing

Action Responsibility: Minister and Secretary, MinFAC

Whereas the AgriBusiness Cell or Wing and a PATIAC complement each other in many ways, there are certain tasks that the two institutions will be expected to perform somewhat independently of each other.

Action Number 18: Support Private Sector Investment in Agribusiness

Action Responsibility: AgriBusiness Wing

To carry out its responsibility, the AgriBusiness Wing would focus on the following tasks:

- o Promote and facilitate agribusiness development.
- o Brief policymakers on constraints and opportunities.
- o Provide data and information to strengthen linkages between agribusinesses and farmers.
- o Work closely with PATIAC.

Action Number 19: Foster Private Sector Investment and Improved Management in Agribusinesses

Action Responsibility: PATIAC

The company begins the operational phase:

- o Identify and secure initial clients.
- o Identify potential equity and debt investors for client projects.
- o Prepare project feasibility studies with clients.
- o Assist project sanctioning, post sanctioning and financial packaging.
- o Prepare project implementation plans.
- o Expand local/foreign capital base in PATIAC for agribusiness investment.
- o Provide management services to ventures assisted.
- o Participate as an investor and manager of new, turnaround and expanding agribusinesses.

C. Privatization and Divestment of State-Owned Agribusinesses

Only after a national policy of privatization has been formulated and enshrined in law, and a separate privatization authority established, can the studied selection of candidates be undertaken. Nevertheless, the Case Study research carried out under the ACSCA project, mentioned on page one of this Action Plan, provides some preliminary indications. Following are excerpts from the Case Study reports.

Fertilizer: A principal finding in the Fertilizer Agro-Industry research was that "It is costing the government significant amounts of money to keep its fertilizer companies operating. Since the private companies are able to produce fertilizer using the same regulated inputs more efficiently than the government, private investment should be encouraged and the government should disinvest."

In summary, the recommendations for the Fertilizer Agro-Industry are:

1. The GOP should announce a firm policy that it will NOT make further investments in fertilizer production capacity, and that it will actively support and encourage private sector investment.
2. The GOP should privatize Pak-Saudi (at least 51 percent of equity should go to the private sector).
3. A plan should be devised immediately to liquidate the National Fertilizer Marketing Corporation in favor of private sector marketing of National Fertilizer Corporation (NFC) products.
4. The GOP should very quickly liquidate Pak-American, Pak-China and Lyallpur (which are losing money, are too small to be financially viable, have outdated technology and have outlived their useful lives).
5. The remaining NFC companies should gradually be phased out, either by privatizing if suitable buyers are interested, or by liquidating the assets.
6. The GOP should very quickly turn over the responsibility for the import, local manufacture and distribution of phosphatic and potassic fertilizer to the private sector.

Edible Oil: The basic conclusion of the Edible Oil Agribusiness Industry research is that the edible oil industry needs to be restructured. A restructuring strategy would have several objectives:

1. To greatly increase domestic production and processing of oilseeds to stimulate the growth of the agricultural economy, farm incomes and agro-industry employment.
2. To reduce Pakistan's ever-growing dependence on imported vegetable oils and the drain on the country's foreign exchange reserves.
3. To remove the financial burdens on the Government arising from indirect subsidy policies and loss-producing state enterprises in the manufacturing sector.
4. To enhance the modernization, technological efficiency and competitiveness of the oilseed processing sector and related seed, farm machinery and livestock feed industries.

The restructuring strategy would incorporate a framework where the private sector operates in a free enterprise environment according to market-driven competition. Specific, detailed measures recommended for Government consideration are spelled out in the Agribusiness Industry Case Study Report.

Action Number 20: Privatize Not Less Than Three State-Owned Agribusiness Enterprises through Divestiture of At Least 51 Percent Ownership

Action Responsibility: Privatization Authority

Action Number 21: Liquidate At Least Three State-Owned Agribusiness Enterprises Which Are Chronic Loss-Makers

Action Responsibility: Privatization Authority

Action Number 22: Effect the Privatization of At Least Three State-Owned Agribusiness Enterprises by Selective Divestiture of Certain Functional Areas, Long-Term Management Contracts or Leasing

Action Responsibility: Privatization Authority

D. Targeted Promotion of Agribusiness Investment and Development

Annex F, Targeted Promotion of Agribusiness Investment in Pakistan, presents a process for collaboration between the AgriBusiness Cell/Wing and a PATIAC in promoting private sector agribusiness investment. The process described is meant to be a guideline which can be refined as experience is gained, but it is a process which has worked well in other countries and should be equally effective in Pakistan, especially as the climate for investment is improved as suggested in the actions recommended herein.

IV. LONG-TERM ACTIONS

The basic guideline for the longer term is that the institutions, authorities and programs associated with the Action Plan should adjust their processes and actions based on the experience gained in the short and medium term. Some action guidelines are outlined in Annex C.

One of the recommended long-term actions would be to foster the establishment of an interdisciplinary and independent agricultural sector and agro-industry policy analysis "Think Tank." It would be comprised of economists, rural sociologists/anthropologists, environmentalists, agronomists, agricultural and industrial engineers, seed scientists, chemists and food technologists, financial analysts and agro-industry executives who would analyze agricultural sector problems and opportunities and develop pragmatic policy, research and investment initiatives to solve problems and seize opportunities in the national interest.

PAKISTAN

NATIONAL AGRIBUSINESS ACTION PLAN

ANNEX A

An Assessment of the National Agribusiness Environment Executive Summary

ANNEX A

AN ASSESSMENT OF THE NATIONAL AGRIBUSINESS ENVIRONMENT EXECUTIVE SUMMARY

As of the Summer of 1990, the field research for the Analysis of Corporate Sector Constraints in Agriculture (ACSCA) was essentially completed. The analysis included case study research in six agro-industries--which entailed studies and comparative analysis of a number of private and public sector companies in each agro-industry--as well as a national assessment of the constraints to and opportunities for private sector investment in agribusiness in Pakistan.

This report incorporates the main findings and conclusions from the analysis and offers recommendations intended to improve the climate for investment in agribusiness.

I. FINDINGS AND CONCLUSIONS

In short, the signals to the private sector are mixed and somewhat confusing. On the one hand, the Government has made pronouncements indicating that more reliance is to be placed on the private sector and less on public investments as an industrialization policy. On the other hand, the Government has declared intentions to invest directly in a number of new business ventures, including agribusinesses, and to increase funding for several existing public sector ventures.

A. Public Sector Domination of Agro-Industry

During the past two decades in Pakistan, much effort has gone into building public sector support services for agriculture, including agricultural research and extension, at both the federal and provincial levels. This is commendable. At the same time, rather than to encourage private-sector investment in agro-industries, public-sector agribusiness enterprises have been fostered, nurtured and subsidized. ACSCA case study analyses reveal a pervasive pattern of public-sector enterprise domination of the key agribusiness industries of fertilizer, farm machinery, edible oils and seeds.

B. The Limits of Deregulation

The Government's having deregulated agribusiness, including the removal of price controls, is often cited as a factor favorable to private-sector agribusiness development, investment and competition. Our analysis of business practices in several key agro-industries does not support the proposition that effective deregulation has, in fact, occurred. Through its companies, agencies, banks and political institutions, the GOP effectively controls many major agribusiness markets, commodity flows and business practices.

C. Agribusiness Investment Policy

Pakistan's resources dictate that agriculture will remain for many decades a leading sector in Pakistan's economy. Viable agriculturally related businesses are essential for the country to maximize the economic value of its agricultural resources. Yet, no deliberate national policy aimed at developing a strong and dynamic, market-driven private agribusiness sector has been formulated or pursued. Such a policy is needed even to stimulate domestic investment. If, in addition, significant foreign investment in agribusiness is to be solicited, the agribusiness investment policies of Pakistan must be at least as attractive as are those of other countries in the region which are competing for the relatively scarce foreign investment being made in agro-industry.

D. Investor Confidence

Private-sector confidence in the government's investment policies is diminished due to frequent changes in policy, withdrawal of incentives--sometimes retroactively--and the lack of effective investment implementation mechanisms. In addition, promotional efforts intended to stimulate private-sector investment tend to over-state the quality of supporting services and the commitment of governmental agencies to assist the implementation of private-sector ventures in a timely and economically viable manner.

E. Institutional Capability and Support

In both the private and public sectors, institutional capability and support for agribusiness are weak in terms of introducing improved technology; investment promotion and development; technical and managerial training; consulting services and investment analysis; market analysis and development; business conceptualization and legal organization; joint venturing and financial packaging.

F. Agribusiness Management

Many agribusinesses lack financial viability due as much to poor private-sector business practices, especially in marketing, as to the impact of government regulations and administrative practices and policies. Conversely, in the agribusiness industries analyzed, those companies which employ sound management practices tend to do exceedingly well financially, despite the constraints encountered in the policy and regulatory environment.

II. RECOMMENDATIONS

The global business economy is feverishly competitive. The key to Pakistan's economic viability in such a competitive world is a dynamic, innovative, market-driven private sector. The responsibility for achieving it belongs principally to the private sector itself. But the private sector will be successful only if a mutually cooperative and supportive relationship exists with government at all levels. Such is the context in which recommendations to encourage agribusiness development in Pakistan are put forward.

A. It is Recommended that the GOP Formulate and Adopt a National Agribusiness Development Policy

Following are the principles of a suggested national agribusiness development policy:

1. Private Sector Agribusiness and Agro-Industry Should be Given Special Emphasis in Overall Investment and Trade Policy
2. The Environment for Private Sector Agribusiness Investment Should be Improved by Further Deregulating Agribusiness Trade and Commerce
3. The GOP Should Formulate and Begin to Implement a True Privatization Program for State-Owned Agribusiness Enterprises and Cease Public Sector Investment in New Agribusinesses

B. Recommended Changes in Other Rules, Procedures and Policies

1. Need an Advocate of Private Sector Agribusiness in the Cabinet
2. Need Investment Sanctioning and Post-Sanctioning Implementation and Financing Procedures Which are Streamlined, Made Positive and Implemented Congenially
3. Need TARGETTED PROMOTION of Agribusiness, to Attract Both Local and Foreign Capital Investment

C. Recommended Institutional Support for Agribusiness Development

1. An Agency to Facilitate the Development of Private Sector Agribusiness
2. A Private Agribusiness Investment & Trade Advisory Company

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ANNEX B

Agribusiness Industry Case Study Executive Summary

ANNEX B

AGRIBUSINESS INDUSTRY CASE STUDY EXECUTIVE SUMMARY

I. INTRODUCTION

The Agribusiness Industry Case Study is one of five research activities carried out under the Analysis of Corporate Sector Constraints Project (ACSCA) between January 1989 and December 1990. This paper summarizes the major findings, conclusions and recommendations presented in the ACSCA case study of agribusiness in Pakistan. The primary focus of the study is on the factors affecting the growth of corporate private sector agribusiness activity and investment. The current and potential roles of the GOP and the private sector in fostering corporate agribusiness formation and development are also considered.

The purpose of the case study component of ACSCA is to identify the strengths and limitations affecting agribusiness operations, why these exist and what must be done to foster the viable growth of agro-industry in Pakistan. The underlying hypothesis of the analysis undertaken is that substantially increased private sector investment, ownership and management of agribusiness is not only possible but essential to expand the productivity of the agricultural sector and increase the efficient use of resources employed in the agricultural economy.

The goal of the case study research is to provide data, information and insight about the role and impact of agribusiness activity on farm level production and the economy in order to guide GOP policy formation and action to stimulate increased private sector participation and investment in agribusiness. The objective of this research is to find ways and means to create an investment environment favorable to private sector agribusiness formation while fostering competitive market development in Pakistan.

Agricultural policy formation in Pakistan does not generally focus on the linkages between food and fibre production, the supply of farm inputs and the processing and distribution of farm outputs. We think it is necessary to do so. The development of a viable corporate agribusiness sector is a critical component of fully commercialized agricultural systems. Thus, the policy maker should perceive agribusiness and farming as an integrated whole, co-equal partners in the business of agriculture. Given the current limits of farm land in Pakistan and the relatively low yields per hectare being realized, Pakistan has reached the point where the growth and maximization of farm output, by volume and value, is increasingly dependent on the expansion and integration of high technology agro-industry sectors with the farming community.

The ACSCA case study examines the agricultural business structures and functions operative within the agricultural economy. Individual companies, entire agro-industries and broad-based commodity systems are surveyed in a complex but discernible framework of empirical analysis. The conclusions and recommendations presented in this summary reflect the broad-based results

of our agricultural business research within the structural and functional context described above. The results of our analyses of specific companies and the six agro-industries in which they operate demonstrate the importance of policy formation and evaluation being grounded in an integrated understanding of the operational and cost/price interrelationships that affect agro-industry markets and investments, the commercialization and viability of commodity systems, and, most important, farm level productivity and income.

II. MAJOR RESEARCH FINDINGS AND CONCLUSIONS

The case study analysis carried out under ACSCA focused primarily on in-depth evaluations of established corporate sector agribusinesses operating within six agro-industries in the agricultural economy. The businesses and agro-industries analyzed are highly diverse in terms of their stages of development; the number, size, ownership and viability of the companies in each; and their impact on agricultural productivity.

Over 150 private sector companies and state-owned enterprises (SOEs) were surveyed on-site throughout Pakistan to assemble empirical information and financial data for analysis in the case study and which is referred to in this summary report. The agro-industries analyzed include:

- o Farm Machinery and Implements
- o Fertilizer and Pesticides
- o Seed
- o Edible Oil
- o Livestock Feed
- o Fruit and Vegetable Processing

Detailed research reports were prepared on each of these agro-industries. The research reports are synthesized in the overall case study report.

The most important findings and conclusions derived from our agro-industry research are summarized below.

A. State Owned Agribusiness Domination of Agro-Industry

The more advanced--though not necessarily most viable--of the six agro-industries analyzed are dominated by SOEs. These include the tractor industry, now a virtual GOP monopoly comprised of two manufacturers controlled by one SOE, and the fertilizer industry, an oligopoly made up of eight producers, five of which are controlled by a government holding company, and the largest of which is owned by a government related military foundation. The historical reasons for the GOP dominance in these industries have to do as much with the lack of private investment to initiate and expand these industries over the years, as with

the use of SOEs by government to accomplish employment, income distribution and increased farming production objectives.

Continued SOE dominance and welfare oriented business practices in these industries are now major barriers to private sector investment and competition. There is little historical evidence to indicate that the financial viability of SOEs in these sectors has ever been a significant concern to any government in power. Their primary role is that of suppliers of vital farm inputs at low prices, despite outright financial losses, subsidized raw material supply or very low rates of return on capital and assets employed. This role is made possible by major direct and indirect subsidies; it is made necessary because of low farm-gate commodity prices that limit the farmer's income and, thus, his ability to pay economic prices for fertilizer and tractors.

Conclusion: Though the initial intervention of the GOP to establish and stimulate the growth of the farm machinery and fertilizer industries may be viewed as having been necessary, it is increasingly apparent that a justifiable economic reason no longer exists for government to continue to own and operate the companies involved. In addition, our research indicates that SOEs are ineffective mechanisms and costly purveyors of social welfare in the farming sector. They also reduce private sector capital formation, employment, productivity and competition in these and other agro-industry sectors.

B. Market Control and Regulation

In four of the six industries analyzed (farm machinery, fertilizer, seed, and edible oil), government enterprises, statutory bodies and ministerial departments dominate outright or exert a major leadership position in product markets.

The characteristics of this market domination include the direct and indirect control of market prices, commodity imports and exports, storage facilities and distribution channels. Although our research findings in this respect have been challenged by several ministries and SOEs, the empirical results of our analysis of business practices in these industries confirm the pervasive tendency for agro-industry markets to be manipulated by SOEs and other governmental entities.

Conclusion: Despite the espoused intentions of the GOP to deregulate commodity and product markets, our research does not confirm that key agro-industry markets are either open or viably competitive. To the contrary: although the government has gradually allowed agro-industry and farm product prices to rise, it nonetheless continues to control or manipulate agro-industrial and agricultural sector financing, market prices, productivity, commerce and trade, and business formation and implementation in an ad hoc, economically unsound

manner. Governmental action -- and inaction --decidedly favors the status quo and is devoid of the comprehensive, market driven policy formation attractive to private sector investors.

This control and regulation of agro-industry markets is a major deterrent to private sector investment in agribusiness in Pakistan. The rationale for these practices -- input supply and commodity price stabilization and the generation of revenue through indirect taxation -- has destroyed the economic viability of the farm machinery industry, inhibited competition in and the expansion of private sector investment in the fertilizer and pesticide industries, seriously narrowed corporate agribusiness investment in seed research and development, and discouraged the local production and use of non-traditional oilseeds in both the limited value-added edible oil manufacturing sub-sector and the fledgling livestock feed industry.

C. Private Sector Agro-Industry Characteristics

Private sector participation in the agro-industries surveyed is a complex mixture of unincorporated small scale, family enterprises (informal sector), closely held family-controlled private joint stock companies, local/foreign joint ventures, licensing arrangements with transnational corporations, and majority-owned and managed agribusiness subsidiaries of transnational corporations. The informal sector, a large and important component of the farm implements, seed, livestock feed and food processing industries, tends to operate in a competitive but imperfect, product-led market environment. The medium to large-scale closely held family companies are also largely product-led and tend to dominate selected geographic market segments in a less than competitive and open-market environment.

The transnational corporations are more market-driven and better managed with respect to product diversification, market and production planning, quality control standards and investment decision-making. In those agro-industries and market segments not dominated by SOEs, transnationals tend to be dominant product or geographic market competitors. They also tend to be the profit maximizers in the oligopolistic industries dominated by SOEs.

Recent private sector investments in new agribusiness companies surveyed tend to be in the more "open" agro-industry markets (processed foods) or highly profitable oligopolies controlled by SOEs and the GOP (fertilizer production and imports). The investments made also reflect, in part, GOP development bank financing priorities (e.g., fruit juice and oilseed processing plants). The bureaucratic control and approval process required for corporate private sector investment, coupled with the current or potential investment and control of

productive capacity and product markets by GOP entities, has caused the delay, postponement or cancellation of private sector investment plans in the tractor industry, and in agro-chemicals, seed, and export-oriented food processing ventures.

Conclusion: Increasing private sector participation and investment in the agro-industries surveyed will require substantial effort, cooperation and commitment between the public and private sectors of Pakistan. The deregulation of markets and the disinvestment and cessation of investment in SOEs by the GOP and foreign donors are also essential requirements. In addition to these policies and actions, the GOP must undertake major promotional programs to attract local and foreign private sector corporate investors to start, diversify and expand agribusiness enterprises in Pakistan.

D. Research and Development

Given population growth and the current limits of agricultural productivity, the viability of the agricultural sector and its contribution to the economy will increasingly require the acquisition or development of improved technologies for the agricultural sector. New technology is essential to increase the productivity and efficiency of agro-industries and the farming community. Pragmatic agricultural research, therefore, is a vital component in any process dedicated to the modernization of the agricultural system and the maximization of farm output and value-added agribusiness input and processing activities.

Our research identified significant gaps in agricultural research dedicated to pragmatic technology acquisition, development and transfer. These gaps are most apparent in the seed industry; tractor implements and harvesting equipment; agro-chemical formulations and use at the farm level, food processing technology and livestock feed formulations and production. Closing these research and technology dissemination gaps in the near-term are critically important to Pakistan. All of these limitations have dedicated research and agro-industry production and marketing solutions.

Conclusion: The research gaps cited require focused attention, extensive collaboration and cost sharing between the GOP and the private sector. Research priorities should be determined by matching the needs of the agricultural sector against the opportunities for viable agribusiness participation in new product development and marketing. To effectively involve the private sector in agricultural research and product development, the government must recognize that research is not a free good. It takes money to find solutions to technical problems as well as agro-industry investment to produce and market new technology products on a self-sustaining, economically viable basis.

On the input side, for agricultural research to make economic sense, agricultural policies must provide incentives -- or at least not create disincentives -- which attract agro-industries to engage in research and which provide income to farmers that make it possible for them to use the technologies. On the output side, farm yields and commodity prices must be compatible with processor requirements. The government can create incentives for processors and set product standards in the market that make the development and acquisition of new processing technologies attractive. Thus, a combined policy "package" geared to solving specific technology problems must be created.

The policy package must consider public sector expenditures for research, investment incentives attractive to the private sector, agricultural extension services (both public and private sector in origin), product quality standards to be adhered to and commodity pricing levels attractive to farmers. The complexity of this policy environment warrants a commodity systems approach to policy formation. This concept will be outlined next.

E. Institutional Capability and Support

In the governmental scheme of things, private sector agro-industry development may be viewed to be a "displaced person" among the participants in the agricultural sector. Yet the impact of corporate agro-industry on primary agricultural production in Pakistan is very significant -- both in terms of what is in place and what is missing. In those agro-industries analyzed, the following examples of the role of the private sector are instructive:

Fertilizer: Two private companies, both quite viable, produce only 23% of the fertilizer used in Pakistan. Public sector production and imports control the rest. Continued government involvement and expansion of its role in this industry will freeze out substantial private sector investment. This is both unnecessary and costly to Pakistan.

Farm Machinery: The tractor industry now includes only one foreign company as a minor investor in one of the two operating SOE tractor companies, while the other company has only a licensing arrangement with another foreign company. The entire industry, including component manufacturers (also mainly SOEs), needs to be re-tooled and upgraded. The investment and capability required to do so is very considerable. At this time, however, private sector intervention is not likely.

Seed: This industry is still in a very embryonic stage of development from a corporate private sector seed research, production and marketing viewpoint. Fewer than 25 private seed companies, local and foreign, produce or supply seed

in Pakistan. Their combined share of the market is less than 3%. Their role in hybrid seed development in the near-term is critical to the development of high yielding sunflower, fodder, maize and vegetable seeds. Private seed company participation in this industry is hampered by a lack of clear policies and incentives, and bureaucratic obstacles which impede implementation efforts.

Edible Oil: Although largely a private sector dominated industry, the edible oil industry is still significantly controlled by a GOP holding company made up of 24 ghee production plants. Production technology employed at most of the 74 private ghee and vegetable oil plants is labor intensive and relatively obsolete. The industry is characterized by pan-territorial pricing employed by the SOE, the Ghee Corporation of Pakistan, and low profitably. This pricing policy is the result of GCP price leadership in the market, despite that up to 19 of the GCP plants are not profitable. Ghee and oil quality control and plant hygiene standards are poor in many plants, and GOP production and packaging standards are not enforced.

Relying primarily on imported soya and palm oil, the value-added contribution of this industry to the agricultural economy is very limited. Imported edible oil in FY 1990 was 940,000 metric tons valued at US \$380 million. The lack of local oilseed production appears to be due primarily to a lack of integrated policy formation and concerted action to stimulate commercial sunflower seed production. The promotion of non-traditional oilseed production is currently carried out by the GCP. Less than 16,000 metric tons of sunflower oil was produced in Pakistan last year -- despite the fact that sunflower yields in Punjab and the market price for seed were equivalent to yields in major growing countries and prices in international markets.

Livestock Feed: This industry is also grossly underdeveloped and fragmented. While the commercial poultry industry has grown by 74% since 1980, the commercial production of feed input materials increased by only 2.6% from 1971 to 1989. Although feed mill technology is generally obsolete, productive capacity increased from 1.2 million metric tons in 1986 to 2.6 million metric tons in 1989. About 44% of this capacity was utilized in 1989.

This industry is entirely in the private sector domain. Despite the existence of a growing market, the viable development of this industry is hampered by a number of serious problems. The most difficult ones to solve currently are the lack of locally produced feed inputs and the lack of market information. Solving such problems requires the sharply focused attention and action by the government. If, for example, government policy focused on the requirements to be met to develop the oilseed commodity system which includes oilseed processing, edible oil and feed agro-industries, a key group of agro-industries would be strengthened. To do so, a commodity systems approach to policy

formation and action is necessary. The oilseed systems require the simultaneous development of the input supply, farming and processing capability. Such a policy would attract private sector agribusiness investors to participate in the several agro-industries involved.

Fruit and Vegetable Processing: This is also a private sector industry whose development is vital to increasing the demand for and value of fresh produce. This is especially the case in pursuing a policy to diversify the agricultural sector to include new export market development. This industry also requires considerable market development effort, enforcement of high quality control and plant hygiene standards and the use of efficient food processing technology to be competitive in export markets. Linkages with farmers, brokers and shippers, are also required.

Conclusions: The common thread in all these industries is the need to shift the focus of government from that of inefficient and unprofitable agro-industry producer to promoter of broad-based private sector investment in competitive agribusiness markets. These industries also confirm the need for government to carefully weigh its influence on or direct control of input supply of farm commodity and consumer food prices and distribution. Restricting prices and taxing inputs and outputs at levels that render agribusiness unprofitable and make farm production a near subsistence vocation are incompatible with the need to commercialize and maximize the contribution of the agricultural sector to the achievement of greater economic self reliance in Pakistan.

Private sector investment and participation in agro-industry should be viewed to be a source of capital skill and energy to help achieve employment, income generation and productivity objectives. To achieve the transition from state controlled agro-industry activities and address the problems and opportunities cited herein, enabling institutions in both the public and private sector must be created. At the governmental level, an agribusiness unit is required to advise the government on policy formation and impact, to promote and assist private sector agribusiness investment and to convey the requirements of government, farmers and consumers to the agribusiness community. One or more agribusiness investment and management companies should also be established in the private sector. Their purpose will be sharply the focused identification, evaluation, financing and implementation of new, expanded and turnaround agribusinesses, including those to be denationalized by the GOP. It makes sense to assume and foster a close working relationship between the agribusiness unit within the GOP and any private sector agribusiness investment and management firms.

III. RECOMMENDATIONS

A. Adopt A Private Sector Agribusiness Development Policy

We recommend the formation and adoption of an unequivocal policy specifically dedicated to viable agribusiness development through private sector investment and participation in market-driven agro-industry activity. To be effective, such a policy would also include provision for the cessation of new GOP investment in agribusiness and the transfer of SOE agribusinesses to private sector investors and managers. In addition, governmental control and manipulation of commodity markets and prices should be replaced by government policy and action which mandates competition in the market place.

B. Create an Agribusiness Unit in Government

To assist pragmatic policy formation which supports agro-industry development, we recommend the creation of an agribusiness unit in the government. While it may be based in a given ministry, for example the Ministry of Food, Agriculture and Cooperatives, it should play a catalytic and enabling role between ministries and between the private sector and government. The unit should also promote and assist in securing government approval of private sector agro-industry projects. It should also work closely with private sector investment groups, management firms and associations dedicated to or specializing in agribusiness formation and development.

C. Promote the Establishment of a Private Sector Agribusiness Investment and Management Company

The GOP and foreign donors like USAID should collaborate together to foster the formation, capitalization and implementation of a private sector firm committed to creating and investing in agribusiness enterprises. As a venture capital firm, this private sector company would be profit-oriented and be capable of providing management leadership and services to the ventures financed. Such an entity should also work closely with the proposed agribusiness enabling unity in the government.

D. Formulate Targeted Enterprise Specific Services and a Commodity Systems Approach to Agro-Industry Promotion and Development

Agribusiness policy formation, supporting services and promotional activities should maximize the use of scarce human and financial resources by carefully prioritizing, evaluating and coordinating agribusiness development objectives. This approach would include collaboration between private sector and governmental entities committed to private sector agro-industry development.

Targeted enterprise development objectives should be established to take advantage of known market opportunities, especially in export markets. A similar focus would be employed in pursuing the denationalization of SOE enterprises. Investor search and promotional efforts would be systematically coordinated by the parties and institutions involved. Policies and actions by government would be enacted to legitimize enterprise specific development activities and enabling services offered to private sector investors.

On a broader plain, a commodity systems approach to targeted agribusiness development should be pursued when the needs and opportunities in the agricultural sector make it possible to do so. Such a focus seems warranted at this time to foster the development of the oilseed industry. To do so, hybrid seed development, planting and harvesting equipment, agro-chemical products and services, solvent extraction plants, edible oil manufacturing and feed production mills need to be integrated with farmers to achieve viable business results at all levels of this agricultural business chain.

Given the need and opportunity to develop this system on a large-scale basis, it appears to us to be an immediate and pragmatic course of action to undertake in the near-term.

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NATIONAL AGRIBUSINESS ACTION PLAN

ANNEX C

National Agribusiness Action Plan Matrix

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Action Categories	Progression of Actions		
	NEAR-TERM ACTIONS	MEDIUM-TERM ACTIONS	LONG-TERM ACTIONS
POLICY	<ul style="list-style-type: none"> Define/Adopt An Agribusiness Development Policy o Encourage Private Sector Agribusiness Trade & Investment o Deregulate Agribusiness Trade and Commerce o Privatize State-Owned Agribusiness Enterprises (SOAE) o Cease Public Sector Investment in New or Expanded SOAEs o Invest Funds realized from privatization in social and physical infrastructure 	<ul style="list-style-type: none"> Quantify Policy Objectives and Refine the Policy as Needed o Establish agro-industry specific investment incentives & set three-year private sector investment targets o Target up to 5 agribusiness commodities to totally deregulate pricing & marketing o Raise Rs. 5,000 million by selling SOAEs and/or SOAE assets & shares o Withdraw investment plans in SOAEs (e.g. edible oil, fertilizer, processed foods, seed industries) in favor of private sector investors o Evaluate policy's effectiveness per results achieved against targets and take corrective policy actions 	<ul style="list-style-type: none"> Evaluate and Refine the Policy as Needed o Annually evaluate agro-industry policy impact on private sector farm and agribusiness investment and output o Provide incentives to increase farm production and non-farm agribusiness investment in designated rural areas o Establish fiscal & trade policies to increase agro-industry exports, technology transfer and deregulation of commerce o Foster the establishment of an interdisciplinary and independent agricultural sector and agro-industry policy analysis "Think Tank"
INSTITUTION BUILDING	<ul style="list-style-type: none"> o Establish the AgriBusiness Cell and an Agribusiness Development Board in MinFAC o Promote and assist the establishment of a Private Agribusiness Trade & Investment Advisory Company (PATIAC) <ul style="list-style-type: none"> -- Establish a private sector/ABC-MinFAC Organizing Committee -- Appoint a private sector Chairperson -- Draft a company charter & implementation plan -- Identify & confirm charter members (shareholders) -- Obtain GOP sanctions & incentives -- Prepare by-laws & finalize company charter -- Register the company & elect Board of Directors -- Subscribe and call initial capital -- Hire a Managing Director/General Manager -- Open an office -- Identify & hire professional staff -- Prepare PATIAC Business Plan -- Market PATIAC services 	<ul style="list-style-type: none"> o Upgrade the ABC to an AgriBusiness Wing o AgriBusiness Wing (ABW) <ul style="list-style-type: none"> -- Promote & facilitate agribusiness development -- Brief policymakers on constraints & opportunities -- Provide data & information to strengthen linkages between agribusinesses and farmers -- Work closely with PATIAC o PATIAC <ul style="list-style-type: none"> -- Identify and secure initial clients -- Identify potential equity & debt investors for client projects -- Prepare project feasibility studies with clients -- Assist project sanctioning, post sanctioning & financial packaging -- Prepare project implementation plans -- Expand local/foreign capital base in PATIAC for agribusiness investment -- Provide management services to ventures assisted -- Participate as an investor & manager in new, turnaround & expanding agribusinesses 	<ul style="list-style-type: none"> o AgriBusiness Wing <ul style="list-style-type: none"> -- Promote private sector agro-industry development targeted by the GOP -- Collaborate with private sector to expand agro-industry exports -- Assist the GOP to identify and attract private sector investors to buy SOAEs -- Build on medium-term experience and the most viable services offered o PATIAC <ul style="list-style-type: none"> -- Collaborate with GOP to maintain and expand infrastructure to strengthen farm and agribusiness productivity and efficiency -- Assist the GOP to turnaround and position SOAEs for privatization/divestment -- Identify potential export markets for clients -- Promote local/foreign agribusiness joint ventures -- Build client base and investment portfolio based on medium-term experience
PRIVATIZATION	<ul style="list-style-type: none"> o Build the Foundation for Privatization <ul style="list-style-type: none"> -- Formulate a Privatization Policy -- Draft and enact authorizing legislation -- Assign the Responsibility -- Foster Public Awareness -- Prepare an Action Plan for Privatization -- Identify Privatization Candidates 	<ul style="list-style-type: none"> Analyze & Prepare Proposals to: <ul style="list-style-type: none"> o Privatize at least 3 SOAEs o Liquidate at least 3 loss-making SOAEs o Carry out another mode of Privatization on at least 3 SOAEs <ul style="list-style-type: none"> -- Selective divestiture of certain functional areas -- Management contracts -- Leasing 	<ul style="list-style-type: none"> o Target the Privatization and/or Liquidation of the balance of SOAEs o Build on the Experience
PROMOTION	<ul style="list-style-type: none"> Strategy: Emphasize Targeted Enterprise Specific Services to Promote Exports/Investments o ABC/PATIAC Collaborate Closely o Prepare Statement of Services to Provide Agribus Investors o Categorize Input/Output Commodity & Service Groups and Target Clients in Both Groups 	<ul style="list-style-type: none"> o AgriBusiness Wing <ul style="list-style-type: none"> -- Issue Agro-Industry Specific Handbooks/Guidelines -- Sponsor Agribusiness Seminars -- Participate in local and Foreign Trade Shows -- Assist with Governmental Investment Incentive Approvals -- Serve as the voice for Private Sector Agribusiness in Government and the voice of Government to the Agribusiness Community 	<ul style="list-style-type: none"> o Carry out promotional activities which foster achieving long-term GOP policy objectives o Promote agro-industries which increase farm productivity and non-farm rural employment o Build on the experience

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NATIONAL AGRIBUSINESS ACTION PLAN

ANNEX D

**National Agribusiness Development Policy
A Draft Statement**

Annex D

NATIONAL AGRIBUSINESS DEVELOPMENT POLICY **A DRAFT STATEMENT**

MACRO ECONOMIC LESSONS OF THE PAST 30 YEARS

This note on macro economic lessons was abstracted from "A Survey of the Third World," The Economist, September 23, 1989.

Three to four decades ago, most economists advocated an economic policy for developing countries that was based largely on import substitution. However, a few countries adopted instead a policy of outward-looking trade as the engine of growth. This latter group includes the "Asian Dragons": Taiwan, South Korea, Hong Kong and Singapore. In the 1950's, it would have been difficult to predict that those countries would have done better, economically, than most of the other developing countries. However, the past 30 years have served usefully as a controlled experiment: careful analysis now indicates that an outward approach to trade is the single biggest reason why some countries have done much better than others. The evidence is overwhelming that import substitution is a bad policy. It discourages imports and, inadvertently, very effectively discourages exports. Managing this protective apparatus embroils governments in wide-ranging intervention across their economies. In some countries, especially in Africa but in other countries as well, government became such a suffocating monster that the private sector went almost completely underground to escape it, or else virtually expired.

In the 1950's the developing countries looked a lot more like each other than they do today. In 1950, South Korea's per capita income (in 1980 dollars) was \$350. Pakistan's average incomes were lower, but both countries were extremely poor. Farming in Korea employed 77 percent of the labor force and accounted for about 40 percent of the national income. The savings rate was only 8 percent. Then, Korea adopted an outward-looking approach to trade. Now, per capita incomes are around \$3,000 (compared with Pakistan's \$350) and farmers comprise only about 25 percent of the labor force (compared with Pakistan's 52 percent). Korea's manufacturing and trade increased very rapidly, based on private investment.

The dragons (plus Malaysia and Thailand) have achieved growth ranging from good to spectacular by rejecting the import-substitution approach. Surprisingly, their exports were predominantly simple, labor-intensive manufacturers. The dragons had price systems--a signaling device for the private sector--that worked fairly well, relatively undistorted by trade restrictions and their pervasive economic effects. Investment reflected each country's comparative advantage.

On the whole, the countries that have grown fastest have:

- o kept inflation under control by pursuing prudent, unambiguous monetary and fiscal policy;
- o promoted exports mainly by refraining from discriminating against exporters;
- o left their economies open to foreign competition, which spurred internal efficiency;
- o left their domestic price systems largely intact, instead of supplanting them with marketing boards and other state monopolies;
- o allowed the banking system to allocate credit on the basis of economic principles rather than politics;
- o allowed their financial systems to provide adequate returns to savers; and
- o given the private sector a big role in deciding where those savings should be used.

The more successful countries had governments that supported private enterprise--not as managers but as facilitators. They promoted enterprise mainly in the sense that they did not go out of their way to undermine it.

WHY OUR POLICY MUST CHANGE

In the past, the Government of Pakistan has invested directly in a number of enterprises, including agribusinesses. The well-intentioned rationale for this can be summarized as follows:

- o Private sector in many agribusiness areas was too weak to take on the role commensurate with the Government's policies of rapid modernization and development of agricultural production.
- o The profits from exports of basic agricultural commodities should go to the Government for the greater benefit of the people than to a handful of exporters. (Rice and cotton exporters were making windfall profits from the big margin between domestic and international prices of those commodities.)
- o The Government desired to keep prices of essential consumer goods such as wheat flour, sugar and edible oil within reach of low-income people.

- o The Government wanted to disentangle the interlocking of the investment activities in industry, banking, insurance and foreign trade, the control of which was within the hands of a few rich families; it was thought that nationalization would spread prosperity and economic power more evenly among the people.

It has become apparent that it is necessary to change the policy, especially for agribusiness, for these reasons:

- o Government has limited resources, which would be more prudently invested in social and physical infrastructure than in businesses which can be run more efficiently by private investors and operators;
- o Many of the state-owned agribusiness enterprises are chronic loss-makers and, therefore, are a drain on government's resources;
- o The private sector is more mature now, and Government policy generally is to encourage the private sector to contribute to economic and social development by investing in productive enterprises; and
- o Direct government investment, or the government's "standing in the wings to invest if the private sector does not come forward," inhibits private sector investment because of the uncertainty that this creates concerning possible excess capacity and, more importantly, because of the feared domination or control of the industry by the state-owned enterprises.

THE NEW AGRIBUSINESS DEVELOPMENT POLICY

The new Agribusiness Development Policy will build on the positive aspects, including a number of investment incentives, of the existing Industrial Policy and the Rural Development Scheme and will intend to eliminate over time the burden of the existing public sector State-Owned Agribusiness Enterprises (SOAEs).

Following are the essential pillars of the new Agribusiness Development Policy:

- o The Government will actively encourage and promote private sector agribusiness trade and investment.
- o The Government will no longer invest public funds in new agribusiness ventures nor expand presently owned enterprises. This stipulation is required to attract private sector investors who would be unlikely to invest in any GOP dominated or controlled industry. This policy declaration is intended to give a clear signal to private investors considering investments in agro-industry.

- o The Government intends to implement the privatization of state-owned agribusiness enterprises.
- o Funds realized by the Government from privatization and liquidation of SOAEs will be invested in social and physical infrastructure, to supplement other funds allocated to such purposes.
- o The Government will deregulate agribusiness trade and commerce--that is, eliminate those regulations which restrict competition or interfere in pricing--moving within the next five years to regulating only those commodities and business activities essential to maintaining basic food security management and consumer and environmental protection. The intent is to implement a significant relaxation of Government control over trade and commerce. Examples include:
 - Government's divesting itself of the physical and marketing control of fertilizer imports.
 - Government's moving out of the procurement, storage and distribution of wheat to millers.
 - Eliminating all bans, quantitative restrictions and export duties on the export of agricultural commodities, including processed commodities, except those commodities on the negative (sensitive) list.

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NATIONAL AGRIBUSINESS ACTION PLAN

ANNEX E

Proposed Private Agribusiness Trade and Investment Advisory Company

ANNEX E

PROPOSED PRIVATE AGRIBUSINESS TRADE AND INVESTMENT ADVISORY COMPANY

This annex is a summary of the proposed company's functions, potential resources, staffing and linkages. The institution would be a profit-seeking, private sector entity which would have characteristics of an investment bank, a venture capital firm and a management services company.

Functions:

- a. Identify potential investment opportunities for agribusiness in Pakistan.
- b. Do pre-feasibility studies on the most promising.
- c. Identify potential investors, local and foreign.
- d. Do full-fledged feasibility studies and business plans on those potential enterprises for which there are investors seriously interested.
- e. Assuming that the enterprise looks promising, assist clients to identify sources of financing and, if necessary, help with negotiations. Besides local DFI's, banks and (eventually) investment banks and venture capital firms, sources may include institutions such as OPIC, USAID's commodity import program (CIP), FMA, DEC, CDC, ADB's investment arm, IFC, and Ex-Im Banks.
- f. Invest directly in selected agribusiness enterprises (drawing on the experience of aid-assisted private development banks and foundations in Central America, the Caribbean, and the Middle East).
- g. Assist with sanctioning and post-sanctioning procedures, in collaboration with the AgriBusiness Cell.
- h. Monitor progress of the enterprise and help to solve implementation problems.
- i. Assist with joint ventures, turnarounds, mergers, expansions and start-ups.
- j. Provide on-site management as well as on-the-job managerial and technical training for existing private sector agribusinesses.

- k. Assist with privatization and disinvestment of selected public sector agribusinesses, as well as the sale and turnaround of bankrupt public or private enterprises.

Resources:

- a. **Equity:** Initial capitalization might be subscribed by, say, 10 financial institutions or companies each investing an average of \$500,000.
- b. **Initiation Fees:** After credibility of the firm is established, fees could be charged for pre-feasibility and feasibility studies, as well as finder's fees from clients or lenders for helping to arrange financing.
- c. **Management Fees:** Particularly in those cases in which the company takes an equity position in a new venture, it would be the general practice for the company to second one or more of its people to manage the new venture until the venture is on a sound footing (which is a practice used by many venture capital firms). In these cases, the investment advisory company would be paid a management fee by the new venture.
- d. **Marketing Fees:** The advisory company would negotiate and manage marketing contracts as a service to various agribusinesses in Pakistan, for which marketing fees would be assessed.
- e. **Shares:** A potential source of revenue would be dividends from shares retained from new enterprises as partial payment for services rendered. In the long run, this could become quite an attractive source of income, although capital recovery from new ventures normally lags by five years or more.
- f. **Loans:** Mark-up margins would be negotiated for loans made to enterprises assisted. PATIAC lending practices would be designed to supplement loans from development finance institutions and commercial banks. Loans could include bridge financing, subordinate loans and foreign exchange loans (if PATIAC receives hard currency loans from foreign development financing entities).
- g. **Grants and Consulting Fees:** Earned income to the firm would be quite limited during the start-up period, say 5 years or so. To help carry the start-up costs, the firm could solicit grants and contracts from donor agencies (e.g., GOP, ADB, IBRD, USAID, ODA, EEC, Japan, UNDP, IFC). The justification for grants and contracts could include: (a) helping small enterprises, which could not pay for PATIAC services, to get established, and (b) assisting with "turn-arounds" and privatization or disinvestment of public sector agribusinesses.

Staffing:

Pending further analysis, the organizational structure might include:

- o Board of Directors (5 to 7 members)
- o Executive Committee
- o Managing Director
- o Director, Investments
- o Director, Marketing and Promotion
- o Director, Personnel and Administration
- o Controller
- o Legal Counsel
- o Senior Analyst, Marketing
- o Senior Analyst, Technical
- o Senior Analyst, Financial Analyses
- o Junior Analysts (3)
- o Short-term Consultants (as needed)
- o Support staff

To supplement the core staff and consultants, and to assist with feasibility studies, project implementation, and problem solving, working relationships would be arranged with, say:

- o U.S. International Executive Service Corps (IESC)
- o European, Canadian, and Japanese IESC counterparts
- o Project SUSTAIN
- o Private Enterprise Development Support (PEDS) project (AID/W cost-sharing project)
- o Industry Council for Development (ICD), New York
- o Netherlands Finance Corporation (FMO)
- o German Development Bank (DEG)
- o Technoserve and similar PVOs (including ICD)
- o Local consulting and management firms
- o Business and agricultural colleges and universities

Linkages:

The plan will be to link the company's operations closely with private financial institutions, such as investment banks and (eventually) venture capital enterprises, so that the company and the financial institutions would be mutually supportive. Other important linkages would be with the development and commercial banks, the Pakistan Bankers Council, the American Business Council in Karachi, the Overseas Investors Council, and the various Chambers of Commerce and Industry.

PAKISTAN

NATIONAL AGRIBUSINESS ACTION PLAN

ANNEX F

Targeted Promotion of Agribusiness Investment and Development in Pakistan

ANNEX F

TARGETED PROMOTION OF AGRIBUSINESS INVESTMENT AND DEVELOPMENT IN PAKISTAN

This Annex presents the type of process and the steps to be taken to identify sound agribusiness projects and to link them to investors and governmental entities able and willing to foster their implementation in a viable manner. The two key facets of this process are:

- a) the AgriBusiness Cell and the Private Agribusiness Trade and Investment Advisory Company (ABC/PATIAC) working together act as a professional catalyst to bring investors together to accomplish agribusiness formation and development objectives, and
- b) the targeted promotion effort is pro-active, including the identification of Pakistani clients who wish to pursue agribusiness development but don't know how, and new investors willing to work with local clients to develop agribusiness ventures.

Components envisioned and the process and activities to be undertaken may include:

- Collaboration between the AgriBusiness Cell (ABC) and the proposed Private Agribusiness Trade and Investment Advisory Company (PATIAC) is recommended to plan and implement targeted promotion of agribusiness.
- ABC/PATIAC will prepare a clear and explicit "case statement" of the services to be offered by them, with examples of the work to be done and the process to be implemented in pursuing the targeted promotion of new, expanded or turnaround agribusiness activities.
- ABC/PATIAC will refine the "case statement" into brochure form, a procedures manual and proforma service agreements to be effected between ABC/PATIAC and its clients.
- They will then identify likely clients for their services, such as the new Pakistani Investment Banks, GOP Development Banks, Chambers of Commerce and Industry, relevant GOP Ministries (Industries, Commerce, Production, Agriculture) and private sector companies and known entrepreneurs.

- A direct mail program will be carried out to notify the potential clients identified about the availability of agribusiness investment and development promotion services provided by ABC/PATIAC, inviting prospective clients to contact ABC/PATIAC.
- ABC/PATIAC will follow up the letters of invitation with telephone calls and meetings with representatives of the entities contacted by mail; one representative from the ABC (Amer Raza) and the PATIAC (Executive Director) would make the telephone calls and schedule meetings with potential clients.
- Based on the results of the client marketing effort, ABC/PATIAC would identify the four or five best opportunities for agribusiness development.
- Service agreements would be effected with those clients who propose the best agribusiness opportunities, ABC/PATIAC would begin work with them to develop the data input required to profile the business activities targeted. ABC/PATIAC would set priorities, and rank the opportunities in their order of importance/potential implementation.
- Based on the profiles developed, ABC/PATIAC would identify potential local and foreign companies and investors who may be interested in participating in the ABC/PATIAC client ventures, either on their own, in joint ventures or through public stock offerings.
- ABC/PATIAC would contact the potential investors identified by telephone and letter, and send senior representatives of the ABC and PATIAC to meet the investor prospects on their "turf" in Pakistan and in other countries.
- Investors demonstrating a serious interest and having the capability to pursue the agribusiness opportunities proposed would be invited to meet with the ABC/PATIAC clients, as well as all relevant governmental, financial and private sector entities involved, in either the potential project or the industry involved, in Pakistan, including the proposed project site. (Foreign investors would be invited to come to Pakistan.)
- The local and foreign investors would be asked to pay for their transportation to Islamabad to commence the evaluation of the project and hold discussions with local participants. The remainder of the local expenses would be paid either by the ABC/PATIAC (which in turn will be reimbursed by the ABC/PATIAC clients, the Government of Pakistan and/or (at least initially) by USAID and other multilateral and bilateral donors providing grant funds to ABC/PATIAC).
- The initial field evaluations by potential investors would generally be for periods of four to 10 days. The key objective of the initial evaluation would be to prepare a check list of actions to be pursued further by the potential investor and ABC/PATIAC on behalf of the latter's clients. Normally the follow on action steps would include carrying out prefeasibility analysis, the preparation and negotiation of letters of intent between the investors, and steps to be taken by both to complete a full scale analysis of the project, and commence with its financing and implementation if appropriate and viable to do so.

This is a brief scenario on how to design and implement targeted promotion endeavors. There are a number of other steps and activities that can be included in this process. The actual formula and process adopted depends on the nature of the relationship between ABC and PATIAC, the priorities identified for the ABC and the actual formation of the PATIAC to make the whole activity possible.

Until the PATIAC is formed, RONCO/Agri-Bi-Con could carry out the PATIAC role working with the ABC. The value of RONCO/Agri-Bi-Con doing so would be to demonstrate the potential for this activity succeeding and develop a bit of a track-record to convince private sector individuals, associations, finance companies or chambers of commerce to work with RONCO/Agri-Bi-Con and the ABC to actually form and implement PATIAC.