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TOWARD AN AGRO-INDUSTRY DEVELOPMENT POLICY

Prepared For

**The AgriBusiness Cell
Federal Ministry of Food, Agriculture
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and the
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Prepared By

**RONCO Consulting Corporation
in collaboration with
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Analysis of Corporate Sector Constraints in Agriculture (ACSCA) Project**

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PREFACE

The Analysis of Corporate Sector Constraints in Agriculture Project (ACSCA), starting in 1989, conducted research in six agro-industries, which included findings and recommendations for the removal of private sector constraints affecting investment in agro-industry. Many of these findings and recommendations dealt with policy formation and implementation issues affecting agro-industry development in Pakistan. The results of this policy research are presented in the ACSCA National Agribusiness Assessment Report submitted to the Government of Pakistan (GOP) in 1990.

The work contracted for under ACSCA in 1991 also included the preparation of an agribusiness incentives and procedures manual, entitled Doing Agribusiness in Pakistan. The manual was completed and presented to Ministry of Food, Agriculture and Cooperatives in September 1991. The preparation of the manual was to be followed by a separate policy issues paper on how to improve the investment environment through discreet reform of the overall agricultural sector policy recently announced by the GOP.

Based on a review of these and other ACSCA reports, MINFAC requested that RONCO go beyond the analysis of general agricultural policy issues as originally agreed and draft instead a comprehensive agro-industry development policy for GOP consideration and action.

In response to MINFAC's request, this document attempts to set forth policies and recommended actions which apply to the agro-industry sector in general while focusing in some detail on policies and actions to be considered in these agro-industries which were the primary focus of the ACSCA research since January 1989. Other agro-industries treated, but which were not analyzed in depth under ACSCA, will require further research and refinement by policy analysts to formulate policies and actions which address specific investment and operational constraints in those agribusiness sectors.

We trust that the policy concepts and actions presented in this draft will contribute to the formulation of a pragmatic agro-industry policy that will promote the development of and increased private sector investment in agribusiness in Pakistan.

George L. Metcalfe
Chief of Party
RONCO Consulting Corporation
Analysis of Corporate Sector
Constraints in Agricultural Project

Gordon W. Kunde
Corporate Agribusiness Specialist
RONCO Consulting Corporation
Analysis of Corporate Sector
Constraints in Agricultural Project

SUMMARY OF THE AGRO-INDUSTRY DEVELOPMENT POLICY

Introduction to the National Agro-Industrial Development Policy

Agro-Industrial policy is a part of overall agricultural policy, which cuts across ministerial domains, and is a bridge between farmers and consumers. The agricultural sector, which includes some agro-industries, grew last year by 5.1%, slightly better than the overall GDP growth of 4.1%.

Importance of the National Agro-Industry Development Policy

The importance of agro-industry development is now well recognized as critical for the future transformation and growth of agriculture. The limitations on water and land for future expansion and the pressure of population growth intensify the importance of agro-industry to the nation's economy. It constitutes a vital sector within government's policies of market liberalization and corporate privatization.

Objectives of the National Agro-Industry Policy

1. Increase GDP and export earnings.
2. Increase farm incomes, improve rural life, and reduce unemployment.
3. Provide improved private sector inputs and technologies.
4. Diversify and improve value added products.
5. Stimulate development through market incentives and deregulation.
6. Remove bureaucratic constraints that increase costs.
7. Improve processing and marketing by enforcing standards.
8. Sustain the agricultural environment.
9. Promote market driven distribution and pricing.
10. Expand the tax base.

Design of the National Agro-Industry Development Policy

An effective policy must avoid both grandiose abstractions and micro meddling, but it must be both global and practical. This is accomplished by stating clearly the basic principles or policy directions, and then formulating concrete short term actions to implement those policies.

SECTION ONE: GENERAL POLICIES AND ACTIONS

BASIC POLICY STATEMENT I: It is the policy of the Government of Pakistan that agribusiness shall be recognized and supported as a distinct economic and corporate sub sector.

Near Term Policy Action I-A: The Board of Directors of the AgriBusiness Cell (ABC) will be upgraded to a Ministerial level body.

Near Term Policy Action I-B: Funding to support the ABC shall be pursued from local sources (such as chambers and associations) and from international institutions (such as USAID and the ADB).

Near Term Policy Action I-C: The establishment of the private sector Agribusiness Investment Management and Services Co. shall be commissioned.

Near Term Policy Action I-D: A staff member from the Pakistan Agricultural Research Council (PARC) shall be assigned to work with the ABC.

BASIC POLICY STATEMENT II: It is the policy of the Government of Pakistan that agribusiness shall be a private sector activity.

Near Term Action II-A: No ministry, agency, or bank of the GOP will authorize any new agribusiness investments in enterprises that are directly or indirectly owned by the state.

Near Term Action II-B: Financial institutions under the control of the government will be instructed to cancel all agribusiness loans for expansion projects in state owned enterprises that have not been started.

Near Term Action II-C: An agribusiness privatization program will be implemented.

BASIC POLICY STATEMENT III: It is the policy of the Government of Pakistan that agribusiness shall operate in an open and competitive market.

Near Term Action III-A: As a policy test, for a period of two growing seasons, there will be no restrictions on prices, raw materials, or equipment for the growing, processing and sale of any locally grown oil seed, its products, and by-products.

Near Term Action III-B: An Edible Oil Board will be appointed by the Prime Minister from candidates nominated from each of the Provinces to represent all major participants in the industry.

BASIC POLICY STATEMENT IV: It is the Policy of the Government of Pakistan that the profitability of agribusiness enterprises shall be respected, but not be specifically favored.

Near Term Action IV-A: The MINFAC will charge the AgriBusiness Cell to commission and recommend an equitable tax system for agro-industry.

Near Term Action IV-B: The Government of Pakistan establishes that as of January 1, 1992 all banks will provide agricultural and agribusiness credit only at market rates.

BASIC POLICY STATEMENT V: It is the policy of the Government of Pakistan that foreign investment in agribusiness will be actively solicited.

Near Term Action V-A: The 3 year Work Plan prepared by the ABC for effective performance will be endorsed and submitted by the Minister of MINFAC to foreign funding sources.

SECTION TWO: SPECIFIC AGRO-INDUSTRY POLICIES AND ACTIONS

The Tractor and Farm Machinery Agro-Industry.

BASIC POLICY STATEMENT VI: It is the policy of the Government of Pakistan that tractor and implement companies will operate within a private, market disciplined agro-industry.

Near Term Action VI-A: The Pakistan Automobile Corporation will sell its shares in Millet and AGTL.

Near Term Action VI-B: The government owned manufacturers of tractor components may be offered to interested buyers at the same time.

Near Term Action VI-C: The price of tractors will be determined by the market.

Near Term Action VI-D: The local manufacture of tractors, sub- assemblies and spare parts will compete, in terms of quality and cost, with international standards.

Near Term Action VI-E: Subsidized credit for the purchase of tractors will be phased out over 3 years.

The Fruit and Vegetable Agro-Industry.

BASIC POLICY STATEMENT VII: It is the policy of the Government of Pakistan to promote a high risk investment strategy in the fruit and vegetable agro-industries.

Near Term Action VII-A: The AgriBusiness Cell will provide technical assistance for the planning and testing phase of this strategy, based on the availability of high risk research and development capital from private and public sources (e.g. the ADB Horticultural Project).

The Fertilizer Agro-Industry.

BASIC POLICY STATEMENT VIII: It is the policy of the Government of Pakistan to continue, within the fertilize agro-industry, its programs of market liberalization and public company privatization.

Near Term Action VIII-A: Credit for fertilizer shall be at market rates.

Near Term Action VIII-B: The importation, distribution, and sale of fertilizers will be open to all companies, manufacturing and non-manufacturing, at prices to be determined by the market.

Near Term Action VIII-C: The privatization program will advance, and will include Pak Saudi and National Fertilizer Marketing Limited.

Near Term Action VIII-D: The MINFAC will execute an improved monitoring of the national flow of fertilizers, prepare forecasts of pre season needs, and set industry standards.

The Pesticide Agro-Industry.

BASIC POLICY STATEMENT IX: It is the policy of the Government of Pakistan to support the private sector pesticide agro-industry's growth within an open market environment.

Near Term Action IX-A: The investment requirement that formulation plants integrate backwards into the manufacture of basic chemicals is to be rescinded.

Near Term Action IX-B: The MINFAC will require that the Pakistan Agriculture Pesticides Association (PAPA) perform chemical analysis of pesticide products and ingredients, report the results to the provincial governments, and publish them within the industry.

Near Term Action IX-C: Taxes and duties will be minimized and rationalized for pesticide basic materials, intermediate, and final products.

The Seed Agro-Industry.

BASIC POLICY STATEMENT X: It is the policy of the Government of Pakistan that the seed industry shall be recognized as a private sector activity assisted by public sector research.

Near Term Action X-A: Provincial seed corporations will be sold to the private sector.

Near Term Action X-B: Government research institutions will be permitted by MINFAC to earn revenues by marketing their seed research facilities and scientific skill to private companies.

Near Term Action X-C: The MINFAC will be instructed to draft legislation for the legal protection of proprietary varieties and hybrids.

The Feed, Poultry, and Livestock Agro-Industry.

BASIC POLICY STATEMENT XI: It is the policy of the Government of Pakistan to promote the development of a feed agro-industry in conjunction with the edible oil agro-industry.

Near Term Action XI-A: The AgriBusiness Cell will organize and promote within the next year a Livestock and Poultry Feed Conference.

Near Term Action XI-B: The Agribusiness Cell will explore and report on the interest, feasibility, and organization of a market information service for the feed industry.

Near Term Action XI-C: The provincial livestock/feed departments will experiment with the establishment of a feed analysis and testing service.

SECTION THREE: OTHER AGRO-INDUSTRIES

There are various other agro-industries that are important to the agricultural and national economy, but which have not been addressed in this draft, which is based on the studies of those agro-industries and their constraints within the ACSCA project. The most noteworthy other agro-industries are: wheat, rice, cotton, sugarcane, lumber, leather, and fisheries. Policies will be implemented in these agro-industries in the future with appropriate near term actions.

THE NATIONAL AGRO-INDUSTRY DEVELOPMENT POLICY

Introduction to The National Agro-Industry Development Policy

Recent events and the evolution of government agricultural policy have increased the awareness of agribusiness and underscored the need for a separate agro-industry policy. As an activity, it cuts across the traditional ministerial domains of agriculture, commerce, industry, and finance. As a key business link within the economy it functions as a bridge between farmers and consumers, the two largest population groups in the country. Therefore, it is both essential and vital for the future growth and prosperity of Pakistan that there be a clear and achievable agro-industry policy.

It is important that, just as agro-industry is a part of the broad economic landscape, its policy also be in support of the overall national economic development policy. The national policy, as recently articulated in the Economic Survey released by the Economic Wing of the Ministry of Finance, outlines the following strategy objectives:

1. Higher growth particularly in commodity production and employment generating sectors.
2. Acceleration in the rate of investment and domestic resource mobilization in order to move toward self reliance.
3. Substantial increase in exports to help reduce external dependence.
4. Greater investment of the private sector in economic and social development.
5. Special attention to social sector needs like poverty alleviation, education, health, employment and social welfare.

With agriculture occupying such a major portion of the nation's economy, it understandable that these overall economic policies are further translated into the basic policy objectives of the agricultural sector. As recently articulated by government they can be summarized briefly as follows:

- * Achieve self sufficiency in cereals and other essential farm products.
- * Develop high value products for exports.
- * Ensure equitable and stable prices for farmers.
- * Improve the marketing infrastructure.
- * Conserve the resource base of agriculture.
- * Concentrate on research gaps and technology transmission.
- * Emphasize agribusiness and agro-industry.
- * Enhance the private sector role in the whole spectrum of agricultural activity.

While the growth of agro-industry has not been measured separately, the agricultural sector which supports it grew last year by 5.1% and manufacturing which includes agro-industry grew by 5.7 %, as compared with a growth in the Gross Domestic Product of 4.1%. Fixed investment in the economy as a whole increased over the previous year by 16.3%. This was divided between the public sector (51.9%) and the private sector (48.1%).

Importance of The National Agro-Industry Development Policy

There is the growing recognition, not only within the Ministry of Agriculture and Cooperatives, but also within government as a whole, that the further development of the agriculture sector will require the development of a vital agro-industry sector composed of profitable and growing agribusinesses. (See Annex I.)

Increases in farm production through the expansion of land under cultivation has reached a plateau, so that future growth is dependent upon improved yields and incomes, which in turn require improved inputs and technologies, pulled by improved markets and prices. The increase in cultivable area at the end of the last decade was only 0.3% per year, while the population is now increasing at a 3% rate. Population density per square kilometer of cropped land has doubled over the past 40 years to over 50 persons per hectare. Therefore, agricultural development in the future can only be generated by a dynamic agro-industry composed of viable enterprises.

In addition, an agro-industry policy is important in order to execute and advance the private sector emphasis which has been pronounced, and is now beginning to be implemented in the broader context of the economy. Events world wide dramatically confirm that only the private sector can become the dynamo for agro-industrial progress because of its strength in harnessing entrepreneurial risk and managerial capability in the service of resource efficiency. To achieve this in Pakistan it is imperative that there be a supportive and active agro-industrial policy.

To realize this potential agribusinesses must be transformed and become more market driven and competitive in terms of quality, price, and timely delivery in both the local and foreign markets. Thus, it is the role of government, through its legitimate policy making responsibilities, to define the environment which guides and disciplines the agribusiness sector to perform at its best.

Finally, an agro-industry policy is important, at this particular historic crossroads, in order to eliminate the erosion both to the country's economy and from the national exchequer caused by public sector companies. At the same time it is vital to promote the broadening of the effective tax base and generates revenues for the budget.

The importance of agro-industry is now well recognized in government pronouncements, but there has not been a conscious and integrated policy for the development of the sector. Similarly, the importance of the role of the private sector has been articulated in successive industrial/investment policy statements, but concerted, integrated, and focused government actions targeted toward private agribusinesses have not yet been taken.

Objectives of The National Agro-Industry Development Policy

In order for these important issues to be addressed, there must be a cohesive agro-industry policy which pursues clear cut goals. In summary these are as follows:

1. To increase the agricultural sector's contribution to the Gross Domestic Product and foreign exchange earnings through the promotion of a growing, balanced, and competitive agro-industry.
2. To increase incomes to farmers, create rural employment, and contribute to an improved standard of living in rural communities that will provide a counter force to the unplanned migrations to urban centers.
3. To provide a viable basis for the private sector to introduce and improve the quality of farm inputs, applied agricultural technologies, and technical services to increase farm production and yields.
4. To diversify, develop, and expand domestic and export markets for farm commodities and agro-based value added products that will provide the Pakistani and foreign consumer with an improved quality and choice of products at a competitive price.
5. To stimulate agribusiness formation by providing competitive, long term incentives, including the deregulation of commodity and agro-based product markets and the denationalization of state owned enterprises.
6. To remove bureaucratic constraints that impede efficient agribusiness production and increase the cost of agribusiness products and services.
7. To improve the quality of agribusiness commodity processing and enhance the marketing of agro-based products by creating and enforcing product packaging, and service standards through government legislation, action, and arbitration.
8. To ensure the sustainability of the agriculture sector through the enactment of environmental protection legislation to reduce air and water pollution, preserve the productivity of crop land, and improve the health and safety of farmers, agro-industry workers, and consumers.
9. To balance food security and economic self-reliance objectives by fostering open market development to create competitive, market driven distribution and pricing of agricultural commodities.

10. To provide an expanded and dependable base for federal, provincial, and local tax revenues that will support the social and economic aims, programs, and projects of government.

Design of The National Agro-Industry Development Policy

If the agro-industry policy is to avoid the pitfalls of grandiose, irrelevant and non achievable abstractions on the one hand, and the morass of micro meddling on the other, then it must be carefully crafted within a logical framework that is both global and practical.

First, the articulation of an effective policy must state precisely the guiding principles upon which government will act. These principles must be sufficiently comprehensive to apply to all the various industries and organizations which operate within the sub sector of agro-industry. Second, the policy must contain more than just comprehensive statements. It must formulate certain actions that take concrete steps to implement these policy statements. If done well, such a policy both becomes a present reality and lays the proper foundation for future decisions that will further implement the policy.

THE NATIONAL AGRO-INDUSTRY DEVELOPMENT POLICY

SECTION ONE: GENERAL POLICIES AND ACTIONS

BASIC POLICY STATEMENT I: It is the policy of the Government of Pakistan that agribusiness shall be recognized and supported as a distinct economic and corporate sub sector.

This policy begins by making explicit the growing awareness on the part of government, business, and the general populace that agro-industry is a business activity possessing its own set of characteristics, resources, markets, and operational requirements. Even though it operates within the overall corporate legal and tax system and deals with various government and financial institutions on a company by company basis, for policy purposes it shall be identified as economically distinct from agricultural production on the one side and general industry on the other. The following Basic Policy Statements and Near Term Actions in this National Agro-Industry Development Policy serve to implement this recognition.

However, this policy is not intended to encourage or support favoritism for any particular industry or group of firms. Instead, it is in keeping with the overall market liberalization and private sector emphasis of past policy declarations. This policy is further demonstration that government intends to support the expansion and viability of the private sector, not interfere with it. Within this framework agribusiness is to be treated equally and fairly.

In order for this specialized sub sector of the economy to fulfill its on going role it must be linked to government by means of organizations which channel information, provide a mechanism for development promotion, and promote the evolution of an informed agro-industry policy. In addition to the agribusiness associations which are formed within such organizations as the Chambers of Commerce, the government has created the AgriBusiness Cell (ABC) of the MINFAC to provide a clear and firm linkage between government and the agribusiness community. Because of the vital responsibility to be exercised by the ABC, its capability will be strengthened by the following near term actions.

Near Term Policy Action I-A: The Board of Directors of the AgriBusiness Cell will be upgraded to a Ministerial level body.

The ABC has already been created through the approval of the PC-1 with a board of directors representing various national and provincial government bodies and associations. This is adequate for an exchange of ideas within government, but not for the effective promotion of agribusiness development and the analysis and recommendations to a changing agro-industry development policy. To achieve this it is necessary that agreements across ministerial jurisdictions be informed by businessmen with operating responsibility and debated by those who

possess authority to fulfill commitments, so that decisions made are effectively supervised throughout government.

The ABC is the logical organization to serve as the "executive secretariat" of this inter-ministerial board. The three year plan which has recently been prepared will serve as the blueprint for execution by the professional staff who function on behalf of the Board.

Because it is the principle link between government and the private agribusiness sector it is essential that the ABC be staffed with executives with experience in the private sector. The two senior positions will be filled with persons with finance and marketing experience. The ABC has acquired in the last part of 1991 minimum resources in the form of computer/office equipment, an extensive codified agribusiness data base/library, and some operating capital, but it requires a private sector experienced staff in order to utilize these resources in behalf of the agribusiness community.

Near Term Policy Action I-B: Funding to support the AgriBusiness Cell shall be pursued from local sources (such as chambers and associations) and from international institutions (such as USAID and the ADB).

Presently, funding for the ABC is only adequate to open the office and maintain the staff. It is not sufficient for the ABC to carry out an aggressive program of investment promotion and ongoing issues analysis. Interest from these supporting organizations is already evident, but it must be vigorously pursued at the ministerial level in order to generate a timely and adequate response.

Near Term Policy Action I-C: The establishment of the private sector Agribusiness Investment Management and Services Co. (AIMS) shall be commissioned.

This is an agribusiness venture capital, investment banking, and management consulting company designed to provide feasibility analysis and lead investor financing for start ups or expansion of agribusiness projects. The Concept Paper outlining the design for this company is being prepared, and some preliminary interest in investing in such a company has been indicated. The next step is to move forward with the preparation and establishment of the company. To do this government, under the leadership of the MINFAC, will convene a high level committee which includes staff from the Ministries of Commerce and Industry, and the Ministry of Finance. Using the AIMS Concept Paper this group will oversee the feasibility analysis and establishment of the company.

Near Term Policy Action I-D: A staff member from the Pakistan Agricultural Research Council (PARC) shall be assigned to work with the ABC.

This action is intended to develop a strong link between the research activities of the PARC and expand the efforts at collaboration developed during the recent founding of the ABC. It is expected that though the participation of a PARC staff member in the meetings, conferences,

and promotional activities of the ABC that it will both communicate better the results of its research to agribusiness firms and better design its research in support of commercialized applications. (The logical person to do this is the agribusiness coordinator in PARC)

BASIC POLICY STATEMENT II: it is the policy of the Government of Pakistan that agribusiness shall be a private sector activity.

A recently completed analysis of the constraints in agro-industry (The Analysis of Corporate Constraints in Agriculture Project) revealed a pattern of public sector domination of the key agro- industries of fertilizer, farm machinery, edible oils, and seeds. Public sector ownership of agribusinesses and domination of agro-industry impedes growth in the agricultural economy and diminishes the value and impact of GOP investment policies and incentives for the private sector. Serious constraints to agribusiness investment and to economic efficiency arise in these "mixed" agro-industries due to the controlling GOP oligopoly structures and the associated trade restraints and product pricing practices that are common in these industries.

It is now recognized that there is a 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 markets. In spite of pronouncements and some progress, however, there still continues to operate through its companies, agencies, banks, and political institutions a pervasive control or favoritism of many major agribusiness markets, commodity flows, and business practices. These directly affect commodity imports and exports, physical distribution, base line production, raw material procurement costs, consumer product pricing, and market competition.

Without a reorganization to reduce public sector investment and control over agro-industry, broad based private sector investment and participation in agribusiness development will not occur. This explains why private investors, accustomed to either prohibitive constraints or protective shelters are risk averse and wary of investing in agro-industry.

In order to advance to the next level of agro-industrial development certain actions are required.

Near Term Action II-A: No ministry, agency, or bank of the GOP will authorize any new agribusiness investments in enterprises that are directly or indirectly owned by the state.

In recognition that there exists a corporate ownership situation that has been inherited from the past, the government takes the first step by not contributing to the further expansion of state owned enterprises. Nevertheless, there are some planned investments in state owned enterprises that are underway. Those that are under construction can not be stopped in mid stream, and will be permitted to continue.

Near Term Action II-B: Financial institutions under the control of the government will be instructed to cancel all agribusiness loans for expansion projects in state owned enterprises that have not been started.

There are two essential reasons for this action. First, it curtails increases in the amount of scarce financial resources now available for the private agribusiness sector. Canceling such loans also reduces the capital absorbed by both medium term loans for plant expansion and the additional working capital credit lines which the expanded operation will require.

Furthermore, as subsidies are progressively withdrawn from public companies those sustaining operating losses are forced to go to the banking system for credit extensions and overdrafts.

Second, it will not add to the liabilities of existing state owned agribusiness enterprises and thus make it more difficult to attract private buyers for them. The sale or merger of companies with losses and weak balance sheets is a serious problem for the government's privatization program. Additional loans to these companies will only make the situation more difficult.

Near Term Action II-C: An Agribusiness privatization program will be implemented.

The objective of such a targeted program is a part of the recognition that agribusiness is a distinct business activity within the economy separate from agriculture as well as industry, and that the program of privatization of these firms needs to be accelerated. Thus, it will advance the progress of government's privatization of state owned firms if these companies are dealt with separately. Such an agribusiness privatization program operates within the legal framework established by government, but shall be administered and technically supported as a unit. By having a separate, but integrated, privatization program both the agro-industry sector and the larger government program will benefit.

The strategy will be to set priorities according to the agro-industry commodity systems so that there is an accumulated effect which ripples through the industry to the farming economy. Agro-industries that will be priority targets for privatization are the fertilizer industry, the farm machinery industry, the oil extraction industry, and the seed industry. The purpose will be to carry out a fair and rapid transition to private ownership and management, not to generate the maximum possible sale price as a source of revenues for the government.

Based on the agribusiness assessments which have been made to date (ACSCA Project), the priorities for privatization are given in Annex II-B, starting with Phase 1 in 90 days following the adoption of this policy. Phase 2 is expected to start within year 2, and Phase 3 some time in year 4. All companies shall be either privatized or liquidated by the end of year 5. The rationale underlying this strategy is to begin by privatizing one firm in each of those industries which have wide and critical linkages, and then, based on the experience gained, proceed to accelerate the tested mechanisms in privatizing the remaining companies.

The companies fall into two basic groups: agribusiness production companies and agribusiness service companies (trading and storage). The ownership of the production companies would most likely be through shares of stock, while the service and trading companies might be structured as cooperatives to serve their producer members. In this later case, profits would be distributed based on deliveries. Specific detailed procedures and structures will be worked out in the Agro-Industry Privatization Program.

The program will be overseen by the same commission which is responsible for government's overall privatization program, but the technical implementation will be administered by an Agro-Industry Privatization Task Force recommended by the Minister of MINFAC and appointed by the Prime Minister. The team will be composed of persons with business, financial, and banking competency. Every effort will be made to obtain outside funding so that the team can utilize outside consultants.

The Agro-Industry Privatization Task Forces's first task will be to prepare an Action Plan, within 60 days of their appointment, that includes a schedule of activities and a budget. The principle components of this plan will be the following:

- * collection of existing data on state owned agribusiness companies;
- * evaluation of those companies to be offered in first sale offering;
- * selection of the specific privatization methodology and corporate structure to be used for each company;
- * establishment of the mechanism to evaluate bids and short list prospective buyers;
- * monitoring of the ownership transfer process, including a program to minimize and schedule worker dislocation.

This privatization program is designed and organized to demonstrate results quickly and build upon the techniques developed. A progress report on Phase 1 will be submitted to the Prime Minister at the end of the first 6 months, and it is expected that the privatization of the first 6 enterprises will be well underway by the end of the first year.

BASIC POLICY STATEMENT III: It is the policy of the Government of Pakistan that agribusiness shall operate in an open and competitive market.

This policy affirms and focuses the recent policy actions aimed at making the economy of Pakistan more subject to market forces. With many agricultural products progress has already been achieved by the removal of outright subsidies and the progressive withdrawal of hidden subsidies through the setting of prices.

For those companies which produce farm inputs the most notable group has been the fertilizer industry in which the subsidy removal and price liberalization will move forward in October when phosphoric fertilizer prices are entirely determined by the market. The subsidies to the public sector seed companies have been eliminated, and tariffs and import restrictions on animal feed imports have been discontinued.

However, because of the major role being played by government corporations in certain industries, notably the edible oil industry, an open and competitive agribusiness market is not yet a reality.

Continuing these distortions in the operation of the market may benefit a few, but it extracts a crippling price in both agro-industry and from its major supplier the Pakistani farmer. There is a chain reaction which is clearly evident when agro-industry is viewed as a commodity system, rather than a series of unconnected firms. (See Annex I.)

At the core of the commodity system is the agribusiness company which, if it is operating with a profit margin, is able to pay the farmer a price (promptly) that acts as an incentive for him to grow the crop. On the output end of the product flow, the agribusiness, within an open and competitive market, must meet the demands of the buyers or consumers of its products. Connected with this basic commodity system are a whole series of linkages with suppliers of materials and services purchased by the agribusiness.

An illustration of this network, and the price which the country pays for disrupting it, is found in the oil seed industry where high grade oil seeds are not being grown, cotton seed oil is not being efficiently extracted, and the government is paying over \$400 million per year in hard currency for imported crude and refined oil. In addition, there is a unmet demand and stunted growth in such industries as the related feed, livestock, and poultry producers. Similar destructive influences are undercutting the development of the related farm machinery, seed, cotton ginning, and pesticide industries. Unlike corporations that maintain financial records, there is no accounting for agro-industry units and systems. If there were, the losses to the economy would be staggering.

More than ever before it is now possible to approach and analyze the entire agricultural/agro-industry sector of the economy from this commodity systems perspective. The recent development and operation of the Pakistan Agricultural Simulation Model (PASM) will enable the government to demonstrate through the use of a linear programming model the effects of major agro-industry policy improvements.

Recent analysis of the agro-industrial sub sector, including the results of simulations run on the PASM model, supports the conclusion that market policy reforms are difficult to do on a product by product or crop by crop basis due to the network of interrelated raw material-product systems. The most effective approach and the one that generates the least long term shock to the economy is to liberate prices, tariffs, and restrictions by commodity related groups or for the entire agro-industry as a unit.

The logical conclusion to this commodity systems approach is a series of policy actions that encompass an entire agro-industry.

Near Term Action III-A: As a policy test, for a period of two growing seasons there will be no restrictions on prices, raw materials, or equipment for the growing, processing and sale of any locally grown oil seed, its products, and by-products.

This is a bold policy innovation that will have extensive implications. The effects of this policy will be anticipated as much as possible by the Edible Oil Board. (See Near Term Action below)

This is a "macro", rather than the usual "micro" approach to policy implementation. That is, instead of defining a detailed series of actions from the top down in government, this policy allows a freedom of decision and action within a defined agro-industry for a certain period of time. The burden of proof is not on the firm to establish why it is permitted; it is up to the government official to prove to his superiors it should not be permitted. This is regulation by exception, rather than by rule book. It is the responsibility of all concerned to facilitate the flow of documents, goods, and services. Such an approach has obvious risks, but the short term benefits and long term implications for economic policy improvements are well worth it.

It is expected that there will be a short period with some confusion and uncertainty as both private firms and public agencies attempt to adjust to the new framework. Therefore, the heads of the various agencies involved should be directed by the Prime Minister to facilitate the flow of materials, equipment, funds and regulatory authorizations, with the understanding that those who contribute to the success of the policy will be looked upon favorably by their superiors. Ministers may be instructed to provide within their jurisdictions incentives for the success of this policy.

The edible oil commodity system is the logical place to start progress toward the full operation of an open market for some very compelling reasons. (1) Since major portions of the flow within the seed - edible oil - feed commodity system are already unencumbered with government restrictions, it is possible with minor releasing of constraints to test a new approach to both agro-industry development and economic policy formation. (2) The heavy foreign exchange burden (approx \$US 400 million in 89/90) borne by the country for edible oil raw material means that even a very modest success will have wide ranging benefits. (3) The planting of various oil seeds, such as sunflower in addition to cotton, is already a part of the rotation in many areas and has the potential of increasing in response to price/payment stimulation. (4) The domestic market is strong, not only for edible oil products, but also for feed meal by products to the livestock and poultry industries.

Near Term Action III-B: An Edible Oil Board will be appointed by the Prime Minister from candidates nominated from each of the Provinces to represent all major participants in the industry.

The task of this Board is very clear: it is to be advisory not regulatory. It is only to draw up a list of anticipated effects which this policy will produce; it is not to prescribe what shall be done. The anticipated effects and changes which can be predicted will be communicated to the Ministry or agency involved. In addition, the Board will function as the final arbitrator of any uncertain actions to be taken. However, it is clear the Board is not the implementation agency of the policy.

BASIC POLICY STATEMENT IV: It is the Policy of the Government of Pakistan that the profitability of agribusiness enterprises shall be respected, but not be specifically favored.

As a basic policy this embarks on a course of national economic management that is a break from the past. Previously, policy has too often been formulated in response to the viewpoints and pressures of first one group and then the other with the end result that the overall policy is a patch work of market violating restrictions and incentives. This policy of respecting but not favoring any particular group within agro-industry is the first step in creating an environment in which agribusiness firms earn profits or suffer losses (and the consequences of them) on their own merits.

It is a different and even extraordinary policy position because it means that the government implements a policy by not doing anything. Nevertheless, a policy of refraining from interfering is just as much a policy as intervention.

Such a policy recognizes, however, that there still exists considerable inequality within the agribusiness environment that will be progressively removed. This can not be done quickly, but it can be started immediately.

Near Term Action IV-A: The MINFAC will charge the AgriBusiness Cell to commission an analysis to prepare recommendations for an equitable tax system for agro-industry.

The purpose of this investigation is not to audit tax payers, but to examine the implementation of the tax codes to identify industries that are being taxed differently from other industries. It should begin with the industries specifically cited in this policy document, and proceed to sub categories and others. All the principle taxes which affect the net profits of agribusiness should be taken into account, including income taxes, export taxes, import tariffs, and sales taxes.

Based on their report, which should be submitted in not longer than 6 months, the necessary legislative or administrative changes in the respective tax systems will be made. In seeking to set equitable taxes on all industries, the guiding principle will be to minimize and rationalize those taxes which impede development and increase the costs of production and processing, and to fairly tax the revenue from successful business operations.

Only in an across the board tax reform of this scope can the government resist the constant pressure by industry associations and lobbying groups to obtain favoritism and advantage, while at the same time creating a fair and competitive environment for agro-industry.

It is not only the tax system which influences the arena of agro-industry market competition, but the credit system as well.

Near Term Action IV-B: The Government of Pakistan establishes that as of January 1, 1992 all banks will provide agricultural and agribusiness credit only at market rates.

It is well known that credit funds designated to assist certain sectors of agriculture, including agro-industry are being diverted from their intended purpose. Also, the available limited credit for plant expansion and working capital does not find its way to those companies that are most credit worthy. In part this is due to preferential interest rates.

The most efficient method of allocating resources within the agribusiness sub sector is to allow the banking sector to make loans to borrowers who can pay market rates based on their performance. It is especially crucial during this period of transition from agro-industry domination by state owned enterprises to one that is composed of the private sector that all firms pay the same cost for the funds they borrow. Given the wide spectrum of interest related incentives which have been enacted over the past it is not realistic to attempt to restructure the entire credit system at this time. A beginning can be made, however, in one area such as the agro-industry sub sector.

The adoption of an agro-industry interest rate policy based on market rates will correct the tendency to enter into production, often by means of 80% or more of debt financing for plant property and equipment, and then attempting to sell the product. The proliferation of UHT milk plants and fruit juice plants is illustrative of expanding faster than the market. This is as much the error of the banking system as it is the entrepreneurs; an achievable corrective measure is the discipline of market interest rates.

Within this agro-industry credit restructuring, the government intends in the near future to enact a policy which would isolate agribusiness as a portfolio within the banking system. The objective would be to enable banks to develop a substantial, profitable, and growing pool of deposits and loans for agro-industry which would have a competitive advantage. This is considered a first step in the development of a nation wide network of specialized private agribusiness banking and investment institutions.

BASIC POLICY STATEMENT V: It is the policy of the Government of Pakistan that foreign investment in agribusiness will be actively solicited.

This policy recognizes that, while there is great potential in the agricultural and agro-industry sectors in Pakistan, there is a need for competitive technology, improved management and

additional investment capital. Of the three, perhaps the most critical for growth are technology and management, for there are sources of local and international investment capital if the enterprise is sound and the business plan is promising.

However, to compete effectively in the world market for foreign agribusiness participation is not something which can be done passively; it is necessary to pursue an aggressive promotional program. The AgriBusiness Cell of the MINFAC is the logical choice to lead this promotional program, working with the various local Chambers and industry associations.

Near Term Action V-A: The 3 year Work Plan prepared by the AgriBusiness Cell for effective performance will be endorsed and submitted by the Minister of MINFAC to foreign funding sources.

While the ABC currently has resources to exist, it does not possess the support necessary to execute the promotional program required. Its performance during the period of its founding along with its operational plan for the next 3 years make it an appealing candidate for those external sources of funds which support the private sector policies of the government. Not only are the additional funds necessary for it to attract and keep the senior level private sector experienced staff that are needed, they will also provide a link to international networks of potential foreign participants.

SECTION TWO: SPECIFIC AGRO-INDUSTRY POLICIES AND ACTIONS

The Tractor and Farm Machinery Agro-Industry.

BASIC POLICY STATEMENT VI: It is the policy of the Government of Pakistan that tractor and implement companies will operate within a private, market disciplined agro-industry.

This industry is presently dominated by state owned enterprises, beginning with the production of steel, through the machine tool industry, to the manufacture and assembly of tractors. Most components are produced by Pakistan Steel Mills, Bolan Castings, and the Pakistan Machine Tool Factory, with final manufacturing and assembly being done by Millet and AGTL. Some components, such as pistons, radiators, wheel hubs, shock absorbers and cam shafts come from private firms. Belarus (USSR) and IMT (Yugoslavia) only assemble imported units. The technology used at all points in the manufacturing is old and obsolete by competitive international standards. Virtually 95% of tractor sales and most of the manufacturing linkages are state owned and operated.

Because of the farm acreage size requirements for tractors, the demand is limited. ACSCA research indicates that somewhere between 50 to 20 acres the use of tractors is no longer cost effective. Virtually all tractors purchased are through subsidized credit by the ADBP, and the sale price is estimated to be only half the unit cost of production. Thus, in addition to the distortions in financial markets due to the subsidizing of credit, there is an estimated loss billions of rupees per year to the industry on the sale of 20,000 tractors per year, which is the estimated replacement demand.

The farm implements agro-industry is composed of a large number of small private companies that operate with a rudimentary labor intensive technology. It has been able to support the traditional methods of agricultural production because of its low cost and integration into local communities of small farmers. Even though it is ill equipped to provide engineering innovation and a reduction in unit costs of production it is adequate for the medium term outlook.

Thus, the country and the entire agro-industry sector is burdened with unhealthy tractor and farm implements industries. In order to correct this certain near term actions are necessary.

Near Term Action VI-A: The Pakistan Automobile Corporation will sell its shares in Millet and AGTL.

These two companies will be sold to local investors or a foreign buyers, however, each local company or group submitting a bid for the shares (70% in Millet and 51% in AGTL) must have a foreign partner, or licensing agreement, in order to up grade the technology of the production

lines and have access to international markets and management. The process will be supervised by the Agro-Industry Privatization Task Force as described above.

Near Term Action VI-B: The government owned manufacturers of tractor components may be offered to interested buyers at the same time.

The decision for government to sell its shares in the tractor factories raises the possibility that such companies as Bolan Castings, Pakistan Machine Tool Factory, and other component manufacturers should also be privatized at the same time. In spite of the procedural problems, there are some advantages in executing a privatization program for related companies in an industry at the same time. This possibility will be evaluated.

Near Term Action VI-C: The price of tractors will be determined by the market.

In the immediate term this price decontrol will undoubtedly raise the price of tractors, but the effect on agricultural production will be limited. Many tractors now in service are not used for strictly agricultural production, but rather function as a method for hauling various materials, much of it non farm products. A rise in price will shift this hauling to other means, and redirect the new tractors to those agricultural enterprises that can financially justify owning a tractor or contracting their services. Some farms may return to animal traction as the most cost effective tillage method. On balance, the mix of Pakistan's agricultural practices has sufficient flexibility to adjust to this policy and maintain levels of production during the adjustment period.

Near Term Action VI-D: The local manufacture of tractors, sub-assemblies, and spare parts will compete, in terms of quality and cost, with international standards.

Such an action is necessary not only to support the productivity of the Pakistani farmers, but also to equip the industry so that it can penetrate into the export market. Along with the steps toward privatization, competition is essential to a healthy industry.

When locally manufactured tractors are subjected to competition with imports they will implement those management decisions that improve efficiency and lower unit costs of production, and they will exert pressure on their suppliers to provide high quality sub-assemblies and parts at competitive prices. More specifically, the purchasers of Millet and AGTL will develop the price and production capability to sell tractors in the export market, at least in this region where they have some freight cost advantage.

It is anticipated that there will be a consolidation period during which time production will be reestablished on a viable basis, starting with overall assembly, and moving backwards to improved sub assembly manufacturing as justified by the market and cost of production versus the price of imports. This consolidation may include the importation and eventually the manufacture of smaller size and horsepower tractors which can be financially justified on farm plots of from 10 to 40 acres.

Clearly, the present deletion policy is inconsistent with the rules of a market economy. While it is hoped that the present sub assembly suppliers will be competitive, it is not prudent to restrict private investors and manufacturers in their present captive sources of supply. These new private manufacturers like equipment manufacturers elsewhere, will have a vested interest in developing reliable in country sources of supply, and will assist the local producers of component parts to deliver within acceptable price and quality standards.

Local manufacturing will, thus, be integrated into the industry on a solid foundation, which does not require either direct or indirect subsidies to keep it alive. The resulting industry will be self sufficient, and national.

Near Term Action VI-E: Subsidized credit for the purchase of tractors will be phased out over 3 years.

While a tractor manufacturing industry that is viable is capable of paying market rates for interest, the industry consolidation will be facilitated by a transition period. A plan will be prepared by the ADBP for the gradual removal of subsidized credit by the third year, giving a temporary cushion to the purchasing power of that portion of the market which is absorbing new tractors off the production lines.

The Fruit and Vegetable Agro-Industry.

BASIC POLICY STATEMENT VII: It is the policy of the Government of Pakistan to promote a high risk investment strategy in the fruit and vegetable agro-industries.

The fresh and processed fruit and vegetable industries of Pakistan represent high risk investment opportunities which must be tested and developed with the context of the highly competitive market environments affecting both industries. While there is a wide range of fruits and vegetables grown in the various soil and climatic regions, the local market prefers fresh produce and the export market requires excellent grading, and phytosanitary and quality control standards being met on a consistent basis under highly competitive market conditions. The agricultural capability to grow fruits and vegetables by itself is not sufficient cause to promote investment in these industries. It is demand in the local and export market to buy fresh and processed food products that is the starting point to promote investment, not the capability to produce such products.

The existence of a quality conscious market for processed and packaged foods has not yet been demonstrated, even though there is a small urban elite and foreign market for fresh produce and processed specialty fruit and vegetable products. Outside of the few urban centers a local cottage type industry for these products is adequate to satisfy the limited purchasing power and

tastes of the population. The majority of consumers prefer fresh fruits and vegetables. So this industry is not yet an attractive candidate for the substantial investment required for plants and equipment in competition with the traditional marketing system.

The export market, according to some studies, demonstrates some narrow demand windows. However, the few Pakistani firms which have attempted small test shipments have yet to maintain a stream of acceptable product deliveries or show a sustainable net positive operational cash flow. Until both of these can be achieved it is not a credible export investment opportunity.

The essential technical requirements of quality control, handling, storing, and packaging of fresh and processed products make the food preservation and processing industry one which requires substantial high risk investment with competent and experienced management from market to farm. Some of these can be met by the operating company itself, such as handling and packaging. Others, such as shipping and cold storage at dockside or airport, may require an additional major high risk private sector and/or government financed and leased plants and ships. When these requirements are intensified by the more rigorous demands of competition in well defined foreign markets, such ventures must be viewed to be very high risk investments.

Government policy must face these business realities and constraints. To do so calls for the adoption of a well planned and well capitalized approach to the market testing and development product choices or large scale production, and the technologies and management required to implement sound export operations. Short cut investment strategies based on superficial preparation and planning will not overcome the formidable export marketing constraints and competition.

Such a cautious investment strategy includes two critical phases:

1. Regional market and business planning.
2. Test production, delivery, and sales at the lowest possible investment risk.

The first phase involves thorough business planning, starting from the most easily accessed markets in the region. This is the starting point, not the crops and varieties of produce to be grown. Market strategies and analysis are the starting point to determine the extent of investment risk to be addressed. Production strategies should always be viewed to be of infinite risk in character. Here it must be stressed that this involves business planning, which is different and more operationally directed than the general economic or pre-feasibility studies that have been carried out so far.

The second involves conducting a limited, but representative, test of the entire market and product flow process. Obviously, the aim is to conduct this at the minimum cost, by using where possible labor intensive packing and grading technologies, and rented facilities and leased transport equipment to reduce initial capital investment requirements. Such a test operation strategy recognizes the fundamental business principle that important operational requirements can only be identified by implementing the project, at the minimum economies of scale dictated

by the market. Thus, technical requirements, market and production linkages, and, most important, operating costs and profit margins, can be realistically assessed.

Near Term Action VII-A: The AgriBusiness Cell will provide technical assistance for the planning and testing phase of this strategy, based on the availability of high risk research and development capital from private and public sources (e.g. the ADB Horticultural Project).

Most of the work to be done in the planning and test operation phases requires the participation of private sector participants who confirm their interest in the business, and possess the financial capability to undertake the investment envisioned. The government can at best only provide technical assistance and support for soliciting outside financial support backed by a solid business plan. The ABC is an appropriate vehicle to assist in this important, but limited, manner.

The Fertilizer Agro-Industry.

BASIC POLICY STATEMENT VIII: It is the policy of the Government of Pakistan to continue, within the fertilizer agro-industry, its programs of market liberalization and public company privatization.

Fertilizer is one of the most important components of improved agricultural technology, which contributes as much as a third to a half of the increased output per unit of land. It is one of the essential agro-industries for continued growth of agriculture in the next decade; without improved fertilizer supplies at more competitive prices traditional agriculture can not be transformed and growth will stagnate.

The effects of this policy are significant for the provision of fertilizer to the nation's farmers. By discontinuing subsidies and privatizing plants the companies that are successful will earn profits that will attract new investment into plant expansion and modernization. This, in turn, will increase the quantity of fertilizer available in the market, reduce the import requirements with an accompanying saving in foreign exchange, and exert pressure for lower prices.

The nationwide program of price liberalization is well underway. From May 4, 1986 the prices of nitrogenous (N) fertilizers were deregulated, and similar open market policies are on schedule for straight and compound phosphatic fertilizers in October 1991. Potassic fertilizers are due to be deregulated in October of 1995. By the end of the current year, 95% of all subsidies will be off. In the future the surest means of keeping net fertilizer nutrient prices for the farmer reasonably low will be for competition in importation, manufacturing, sales, and distribution to increase.

The prospect of raw material self sufficiency for N fertilizers is optimistic since gas requirements for all current purposes are sufficient for 25 years for the Sui field gas and 45 years for Mari gas, which is reserved mainly for fertilizer production. In addition, new gas fields are being discovered and some isolated and comparatively small fields are suitable only

for N fertilizers. Though there has been some attempt to utilize local phosphate rock in the production of P fertilizers, except for some very localized production by smaller plants, the bulk of these, as well as all of the K sources, will continue to be imported.

International sources supply basic fertilizers in mass quantities through main world harbor outlets at very competitive prices, but imports are controlled by a government monopoly. Within national borders, however, an oligopolistic situation generally prevails due to fertilizer companies combining production and trade. It is the purchasing and delivery system which has produced various distortions.

In order to correct these distortions and implement the overall fertilizer industry policy it is necessary to address the provision of credit to manufacturing companies, the marketing network, the mechanism for monitoring the flow of fertilizer products, and to decisively initiate the privatization program.

Near Term Action VIII-A: Credit for fertilizer shall be at market rates.

Subsidized credit extended in the name of small farmers results only in diversifying the asset portfolios of big landowners away from the agricultural sector and rural areas. This is demonstrated by the sharp contrasts between credit allocations for fertilizer purchases at the macro level, and the data on loans made for fertilizers indicated by field surveys. An even interest rate policy will correct this distortion.

Near Term Action VIII-B: The importation, distribution, and sale of fertilizers will be open to all companies, manufacturing and non-manufacturing, at prices to be determined by the market.

The current practice not only affects the delivered price, but also reduces the ability to obtain the proper mix of nutrient elements at the best possible price, as in the case of the trade off between DAP, TSP, and NP in phosphate fertilizers and SOP and MOP in potassium fertilizers.

At this stage, there is no reason to limit the trading activities of fertilizer manufacturing companies, but their competition restraining role can be reduced. To achieve this, non manufacturing companies will be permitted to participate in all stages of procurement, marketing, and distribution within a competitive price market. Phosphatic and potassic fertilizers will be decontrolled as scheduled. Nitrogen fertilizers will continue to have priority claim on natural gas, but the price will move in step with international fuel prices.

Near Term Action VIII-C: The privatization program will advance, and will include Pak Saudi and National Fertilizer Marketing Limited.

It is important to move forward on the privatization on several agro-industrial fronts simultaneously. Those companies which have a strong financial and production base offer the

best chance of rapid sale. It is anticipated that these two companies in private hands will present good growth opportunities.

Near Term Action VIII-D: The MINFAC will execute an improved monitoring of the national flow of fertilizers, prepare forecasts of pre season needs, and set industry standards.

This is the proper role of government under its current national policy. There is a need to have reliable information which can be utilized by all the participants in the fertilizer industry. Such information will also assist government in evaluating the effect of fertilizer application in those areas of the country where environmental concerns are important.

The Pesticide Agro-Industry.

BASIC POLICY STATEMENT IX: It is the policy of the Government of Pakistan to support the private sector pesticide agro-industry's growth within an open market environment.

This agro-industry is already operating as essentially a private sector group of agribusinesses, so the principle policy goal is to facilitate its continued growth in a manner that is sustainable, market led, and effective in supporting the country's agricultural transformation.

The pesticide agro-industry's growth has recently averaged 10% per year, but in the next decade it is expected to be in the 5% range. Ninety percent of the pesticides are handled by 10 major firms which have some foreign ownership or licensing agreement. Most of those used are insecticides and 80% of these are for cotton. There are 14 formulation plants turning out a variety of products for this \$150 million agro-industry.

The market is not large enough to justify investment in basic chemicals, but investment in new and upgraded formulation plants is expected to continue and will be supported by government policy.

Near Term Action IX-A: The investment requirement that formulation plants integrate backwards into the manufacture of basic chemicals is to be rescinded.

This requirement has not been enforced, and so has not seriously influenced the investment in formulation plants. However, in order to encourage further establishment and expansion of local plants in response to the growth of the market this requirement is no longer a part of the policy.

Near Term Action IX-B: The MINFAC will require that the Pakistan Agriculture Pesticides Association (PAPA) perform chemical analysis of pesticide products and ingredients, report the results to the provincial governments, and publish them within the industry.

As this testing, reporting and publishing system comes into operation, it will replace the present registration process, with a regulatory system that is the responsibility of the industry itself. The present process is cumbersome and causes delays, both of which have a negative impact on farm production.

Because it is based on a mechanism of transparency regarding pesticides sold and formulated, it will promote competitive monitoring within the industry and enable the provincial governments to ascertain both environmental impact and pesticide quality. The farmer will continue to be able to appeal to the provincial governments in cases of mislabeling or product adulteration.

The analysis will cover imported basic ingredients, brand name products and generic pesticides. Field trials of pesticide effectiveness will not be their responsibility, but rather a verification of the active ingredients as displayed on the label.

The PAPA will be encouraged to utilize the experience and technical assistance of the International Group of National Associations of Manufactures of Agricultural Chemicals (GIFAP) as it establishes laboratory facilities to conduct these chemical tests.

This leaves farmers, retailers, distributors, and producers operating within an open market, which is the only effective mechanism to reward a product that is worth the price and to reject those that are not. Experience has shown that it is impossible for any national or provincial organization to guarantee the results that farmers will obtain under the multitude of varying soil, water, tillage, and management conditions.

Near Term Action IX-C: Taxes and duties will be minimized and rationalized for pesticide basic materials, intermediate, and final products.

As a source of revenue the pesticide agro-industry is not large enough to weigh the balance against the added cost of taxes and duties on such a fundamental activity as agricultural production. The nominal duties on intermediate products are especially counter productive and will be removed. By removing market distortions, producers will have the incentive to integrate backwards their production, packaging, and formulation processes as much as is feasible.

Within this pesticide policy and the resulting actions there still remains, however, an unanswered question and an unmet need: The question of extension services and the farmers need for technical training and assistance. Because of the resource constraints on government, it cannot fill this enormous need. One of the strongest arguments for a progressive and private sector bias in agro-industry policy is that it is in the interest of the provider of farm inputs and purchaser of farm products to assist the farmer to raise his yields and increase his net income. This policy will promote such private sector extension services.

The Seed Agro-Industry.

BASIC POLICY STATEMENT X: It is the policy of the Government of Pakistan that the seed industry shall be recognized as a private sector activity assisted by public sector research.

The present seed industry is essentially an informal system with a small and embryonic modern business sector.

The determining characteristic of the present industry is that 90% of the seed purchased by farmers is sold by the informal sector. Neighboring farmers save some of their better seed and sell it, either themselves or through middle men, to other farmers. This seed, in contrast to the 10% sold by approximately 20 seed companies, is not part of any input package that includes fertilizer, pesticides, and improved practices. In summary it is, from a modern technological standpoint, not a well developed agro-industry, but it is, nonetheless, operating effectively in support of traditional agricultural production.

The small percentage of seed from the formal part of the agro-industry is sold by approximately 20 companies of which 3 are multinationals and two are a part of the Ministry of Agriculture in provincial governments. In addition, there are a few traders who import seed, some companies providing seed under a contract growing program, and private cotton ginners that sell cotton seed. In short the private commercial sector is quite embryonic and only beginning to address the market constraints caused by traditional agricultural practices.

The historic view of the seed industry by government has been that seed is an infrastructure to be furnished (not sold) to the farmer, much like water or roads. The farmer, on the other side, has viewed seed as something that should be a free or low cost production input provided (not purchased) from government.

The unfortunate outcome of this perspective is that, under current circumstances, the government is unable to fulfill unrealistic expectations. It simply does not have the resources to support research into improved varieties, multiplication of sufficient quantities, extension services for proper utilization, and storage/delivery facilities which such a massive agriculture sector requires. Also, the small farmer, who constitutes the large majority of producers, does not value the importance of improved more expensive seed varieties because he has neither understood nor been able to afford the total package of improved inputs which this seed must have to produce higher yields. It is a vicious developmental cycle in which the stagnant market provides no incentive for investment that could raise yields and incomes, which could in turn expand the market.

The challenge to both government and the private sector, therefore, is to embark on a course that will begin to penetrate and break this chain of constraints. Because of the above described historic constraints, any policy will, of necessity, become a road to be traveled, rather than a

result to be achieved in the short term. Still, it is important to embark on the proper course.

Present policies, as well as those that evolve in the future must move in a private sector direction because the discipline of commercial viability is the most flexible resource guide for developing seeds that meet the needs of farmers. A commercial enterprise has the strongest motivation for promoting the use of improved seed as a part of a complete input package that will raise yields and incomes, which in turn expands their market. For this reason, it is the intent of government to encourage agribusinesses to expand the contract crop marketing system, since this often includes extending technical assistance and the provision of inputs whose cost is deducted from the payment at harvest time. In summary, the flexibility to meet the complexity of various crops grown in several regions under different soil and climatic conditions can best be provided by the more streamlined management of agribusinesses.

Furthermore, commercial agribusinesses are able to enter in joint ventures and associations with foreign seed companies, which gives Pakistan access to germ plasm and techniques that have proven successful in areas with similar conditions.

Near Term Action X-A: Provincial seed corporations will be sold to the private sector.

These are the Punjab Seed Corporation and the Sindh Seed Corporation, but perhaps may also include the seed distribution agencies in the provincial ministries in Balochistan and NWFP. As in other public sector agribusiness corporation offerings, the intent of the government is not to maximize revenue from the sale of assets, but to transfer ownership expeditiously to qualified buyers.

The terms of sale should be structured to favor those companies that demonstrate the financial, technical, and managerial capability to grow rapidly over the next 3 to 5 years. That is, given the low level of improved commercial seed being sold, their business plan should focus on the reinvestment of profits for growth, rather than the payment of dividends to shareholders.

Near Term Action X-B: Government research institutions will be permitted by MINFAC to earn revenues by marketing their seed research facilities and scientific skill to private companies.

Along with the privatization of agro-industry a productive relationship with government research institutions needs to be explored. One corporate-government symbiotic relationship that has proven successful in other countries is when the public institution, often under the legal umbrella of a private not-for-profit foundation, sells its research services to commercial agribusinesses.

Under such a contractual or retainer relationship, the research institution does certain scientific investigations and product development for the firm with its own laboratories, test plots, and staff. For this the corporation pays a fee and has the rights to any proprietary discoveries or products. From the outset this increases the chance that the results will have commercial potential for the agribusiness. However, just as crucial for the institution there is a revenue source to help supplement the, usually inadequate, government budget.

To initiate this commercial service, the directors and staff of these institution will be instructed to begin an investigation and dialogue and prepare a promotional research sales effort aimed at the commercial seed industry. It will be the start of a mutually beneficial relationship.

Near Term Action X-C: The MINFAC will be instructed to draft legislation for the legal protection of proprietary varieties and hybrids.

Up to the present most research carried out by the private sector has been adaptive, based on the introduction of hybrids and varieties obtained elsewhere. For the future growth of the industry, commercial seed companies must be encouraged to not only promote the sale of imported hybrids, but also to develop proprietary varieties of, for example, wheat, paddy, pulses, gram, vegetables, rape and mustard. Obviously, protective legislation is imperative if investments are to be made in new varieties for Pakistan.

Another benefit of such legislation is that international seed companies would permit the use of their protected varieties, now withheld, for production in Pakistan. This would give local companies the opportunity to multiply seed for export by foreign companies to their world wide markets.

The Feed, Poultry, and Livestock Agro-Industry.

BASIC POLICY STATEMENT XI: It is the policy of the Government of Pakistan to promote the development of a feed agro-industry in conjunction with the edible oil agro-industry.

The policy for the feed agro-industry again demonstrates the relationship of various agribusiness products within a commodity system. The feed industry is a vital link between the processing of cotton and sunflower seed for oil, with meal as a by-product, and the poultry and livestock industry. Other linkages have potential as well, such as the use of flour mill wastes.

Without an economic source of protein meal there is no possibility of supporting a viable feed industry, even though the market is strong. A modern edible oil plant that includes decortication equipment, which lowers the fiber content in the meal, will increase the percentage of sunflower meal that can be mixed in poultry feed at the same time as it increases the overall supply of this important protein source for both poultry and livestock feeds. Therefore, policies and actions on behalf of the feed industry, as a complement to those in support of the edible oil industry, can operate to the benefit of both agro-industries.

The feed industry has a potential for development, but policy actions must recognize that it does not operate as an industry at the present time. It is a fragmented group of enterprises, often established as an in house feed source for a poultry company, with little sense of purpose, or

function as a business. Among the various companies there is no forum for analyzing their common problems and articulating mutual needs. Marketing is carried out in the most rudimentary manner, production is inefficient, storage is defective, and quality finished feed rations are rare. Well known principles and practices of plant and financial management are not in evidence. It is not an agro-industry in the modern sense.

However, there is a potential for its evolution. The market for dairy and livestock feeds is expected to grow, as demand at least keeps pace with population growth. The poultry industry, the current largest feed user at 1.2 million mt., has been growing at a 20% rate for the past few years. As these agribusinesses become more modern and use improved techniques to increase their operating margins, they will appreciate and purchase increasing quantities of higher protein and energy rations for their herds and flocks.

Recent incentives enacted by the government have addressed the meat, poultry, and feed agro-industries. There is an exemption of the 15% surcharge on processing equipment for meat and poultry, and an exemption on import duty, if the equipment is not manufactured in the country, for livestock farms, dairies, and feed lot units, as well as feed mills. Micro ingredients for poultry feeds may imported free of duty, and poultry growers established between July 1988 and June 1993 have a 5 year income tax holiday.

In order to accelerate this ago-industrial evolution there are certain actions which government can take in support of the these agro-industries.

Near Term Action XI-A: The AgriBusiness Cell will organize and promote within the next year a Livestock and Poultry Feed Conference.

The conference will be targeted to three groups of companies:

- (1) Major feed users, such as dairies and poultry companies.
- (2) Current feed millers and those considering investment.
- (3) Edible oil processors.

In addition, related ministries and agencies will be invited to participate. Local and international equipment manufacturers could also attend and represent their available lines in a mini trade show.

At the conference there could be discussions of a technical nature, such as formulating and mixing balanced rations, upgrading storage facilities to reduce spoilage and pests, and cost accounting for feed mills, to mention a few examples. There should also be several panel type discussion on issues, problems, and opportunities facing firms in the industry. The end result would be an increased awareness of feed as an ago-industry and some type of broad based commitment to its development on the part of all those who are active in it.

The ABC will utilize this conference as the sounding board for the following near term action.

Near Term Action XI-B: The AgriBusiness Cell will explore and report on the interest, feasibility, and organization of a market information service for the feed industry.

From previous studies, (ACSCA report No. 5, The Feed and Livestock Agro-Industry), it is clear that there are no reliable sources of market data or its interpretation for feed producers.

Such an information service would be of benefit to all participants in the feed linkage, from the oil processors through the feed millers to the users of poultry and ruminant feeds. This will be the first such effort to analyze the various aspects of such a service, with the expectation that if it could be useful that an association or group of subscribers would underwrite its costs. Because of its experience with agro-industry data bases and research the ABC is the logical organization to perform or contract this initial exploration.

Near Term Action XI-C: The provincial livestock/feed departments will experiment with the establishment of a feed analysis and testing service.

If there is to be a growing appreciation and use of improved feed rations by the poultry and livestock industries, then some outside analysis and certification by an objective and technically qualified agency is supportive and timely.

In the interests of encouraging the implementation of truth-in-labeling, the provincial governments would provide and publish a list of those feed companies that had submitted their products for analysis and found to be in conformity with standard international formulas. Such certification could then be a part of a company's advertising and sales promotion. Likewise, major poultry producers could periodically submit a sample of feed for analysis, which would provide a quality control check on their suppliers. After this system was tested and refined it is possible that a small fee could be charged to defray some of the costs of the testing of samples and publishing of results. The longer term affect would be the installation of testing labs by major feed producers to conduct their own going quality control analyses.

SECTION THREE: OTHER AGRO-INDUSTRIES

There are various other agro-industries that are important to the agricultural and national economy, but which have not been addressed in this draft, which is based on the studies of those agro-industries and their constraints within the ACSCA project. The most noteworthy other agro-industries are:

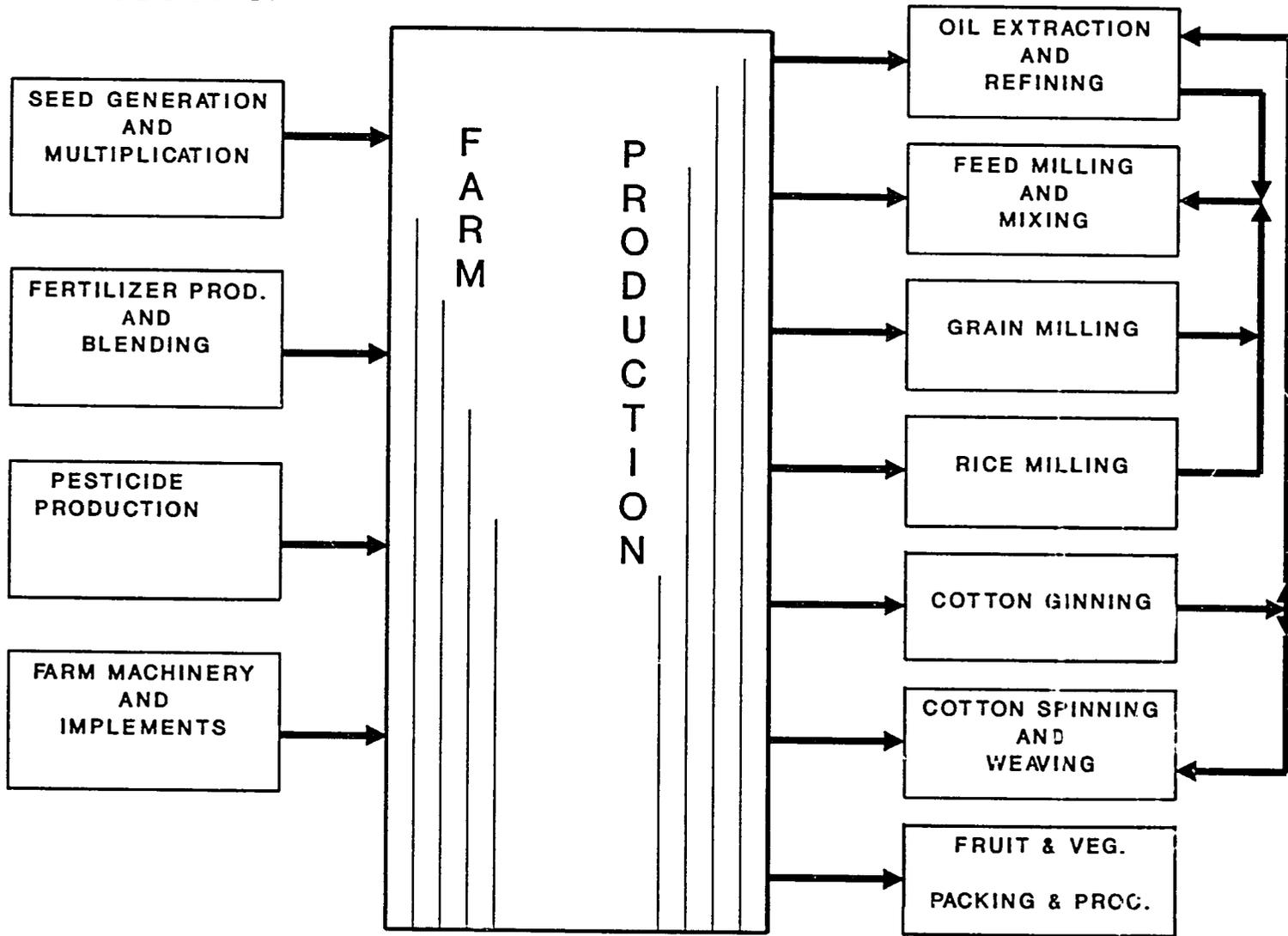
- * Wheat milling, storage, and baking.
- * Rice milling and storage.
- * Cotton ginning, spinning, and weaving.
- * Sugarcane milling and refining.
- * Lumber and wood products.
- * Leather tanning and leather products.
- * Fisheries.

While the basic policies detailed in Section One apply to these agro-industries, it has not been possible in this draft to make the specific application in each case. Certain near term actions are required in order to implement the market and private sector focus of current government policy. These will be elaborated in other reports.

AGRO-INDUSTRY INPUTS TO AG.
PRODUCTION

AG. PRODUCTION AS RAW MATERIAL
TO AGRO-INDUSTRY

I-1



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ANNEX II-B

Agro-Industry Privatization Program

Company	Phase 1 (No. Firms)	Phase 2 (No. Firms)	Phase 3 (No. Firms)
Ghee Corp. of Pakistan	1	10	13
National Fert. Corporation	1	3	3
Millat Tractors		1	
Al Ghazi Tractors			1
Provincial Seed Companies	1	1	
Cotton Export Corp.		1	
Rice Export Corp.		1	
Pak Nat Prod Co.	1		
Doaba Rice Mills			1

ANNEX II-B (Contd....)

Agro-Industry Privatization Program

Company	Phase 1 (No. Firms)	Phase 2 (No. Firms)	Phase 3 (No. Firms)	
Trading Corp of Pak	1			
Pak Ind Dev Corp	1	3	4	
Pak Ag Storage		1		
Ag Mktg and Storage		1		
Total	6	22	22	50

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