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PAKISTAN

AN ASSESSMENT OF THE NATIONAL AGRIBUSINESS ENVIRONMENT

FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

Submitted To

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

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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FOREWORD

In January 1989, at the request of the Government of Pakistan, the United States Agency for International Development (USAID) entered into a contract with the RONCO Consulting Corporation, in collaboration with a Pakistan consulting firm, Agri-Bi-Con International (Pvt.) Limited, to carry out an Analysis of Corporate Sector Constraints in Agriculture (ACSCA). The purpose of the ACSCA project was to identify the constraints faced by agribusinesses, to describe existing capabilities, and to formulate those changes required to enhance agro-industry development.

This report describes the approach to the analysis, and summarizes the findings, conclusions, and recommendations which were a result of the various studies conducted during the course of the project. These recommendations were later detailed in the National Agribusiness Action Plan which contained discreet, attainable steps designed to achieve an improved climate for agribusiness and increased investment in the agro-industry sector.

This report was completed in 1990 and was consistent with the policy and agribusiness conditions prevalent at that time. While there have been significant changes since then, such as the privatization program and deregulation in some parts of the economy, the fundamental issues discussed are still applicable.

We trust that this Assessment Report, as a part of the various ACSCA publications and papers, will continue to contribute to the development of agro-industry in Pakistan.

December 1991

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SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

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 the 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 Enterprise and Cease Public Sector Investment in New Agribusinesses

B. Recommended Changes in Other Rules, Procedures and Policies

1. An Advocate of Private Sector Agribusiness is Needed in the Cabinet

2. Investment Sanctioning and Post-Sanctioning Implementation and Financing Procedures Need to be Streamlined, Made Positive and Implemented Congenially

3. TARGETED PROMOTION of Agribusiness is Needed 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

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I. INTRODUCTION

In the present stage of development of Pakistan's economy, agriculture provides greater scope for increasing production, incomes and employment than any other sector, particularly in rural areas. To achieve the production potential of Pakistan's rich agricultural resource base, an effective infrastructure of public services is essential: research, education, utilities, and roads. Equally imperative is the need for strong private sector services--provided by small businesses, corporations, and cooperatives--to support the farming community, by providing the necessary production inputs as well as to process, distribute and market the farm outputs. The development history of agriculturally advanced economies bears testimony to the key role played by private sector agribusinesses in technology development, innovation and in the provision of services to farmers.

During the past two decades in Pakistan, much effort has gone into building public support services for agriculture, at both the federal and provincial levels. A deliberate national policy aimed at developing a strong and dynamic, market-driven private sector agribusiness community has not been formulated or pursued. Statements from senior government officials on the importance of private sector agro-industries have been made from time-to-time, but the pronouncements have not been followed up with concrete policies or an integrated set of measures to put them into action. A conscious policy of the government to create an environment conducive to the growth of private-sector agribusiness will not only help farmers to enhance productivity and incomes, but will also increase foreign exchange earnings through more efficient servicing of the highly competitive export markets for farm products.

This Analysis of Corporate Sector Constraints in Agriculture (ACSCA) is intended to identify opportunities and to outline an integrated set of policies and measures that will help to strengthen private sector agribusiness so that the inherent potential of Pakistan's agriculture can be achieved.

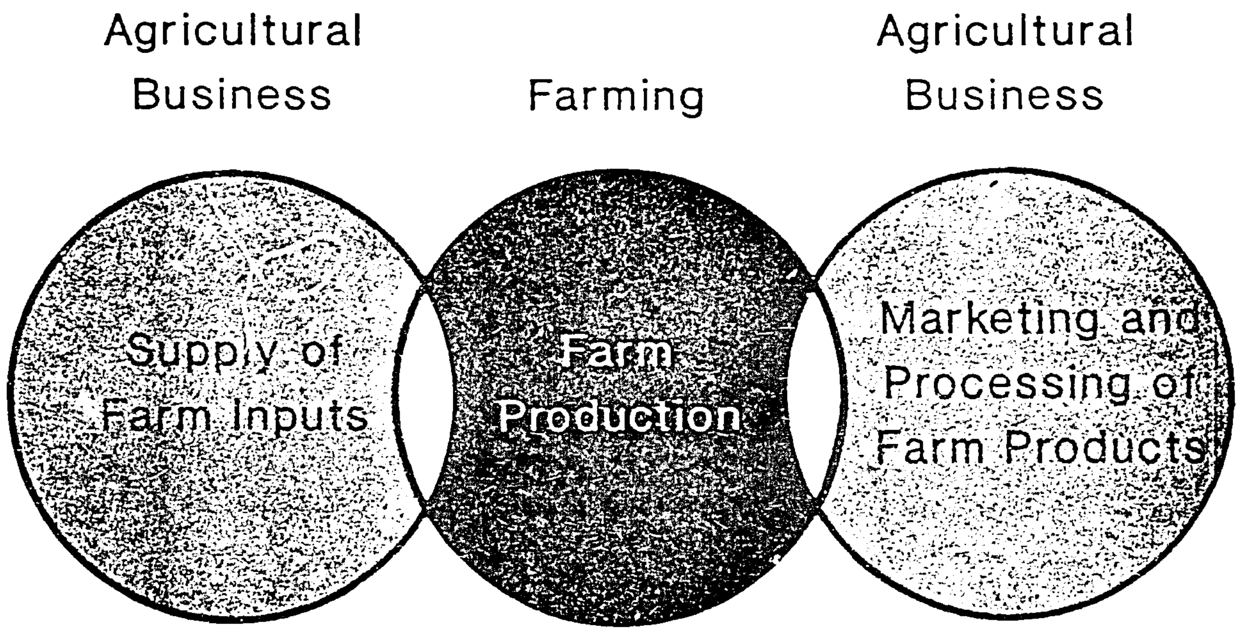
A. Role and Definition of the Agricultural Corporate Sector

To help clarify the scope of the analysis, some definitions are in order. Agricultural production encompasses the production and harvesting of crops and livestock--the output of farming. Sometimes the term "agriculture" is used broadly to include the activities of supplying the inputs for farming, marketing and processing the products, or outputs, from farming. Also, the term "agribusiness" is often defined to include all three functions: the supply of farm inputs, farm production, marketing and processing of farm products.

Figure 1 is a schematic of these three functions. In this analysis of corporate sector constraints, the "corporate sector" generally refers to the two outer rings, designated as Agricultural Business in Figure 1. Agricultural Business includes the collection, storage, manufacture and distribution of food and fibre products and farm inputs.

Figure 1

Schematic of the Concept of Agribusiness



In this analysis, the term "agro-industry" refers to a subsector such as the fertilizer agro-industry or the edible oil agro-industry. The term "agribusiness" refers to firms or companies within an agro-industry.

The analysis is concerned with the investment climate for those agribusinesses in the two outer circles which either produce farm inputs, such as seed, fertilizer and farm machinery, or which process and market the output of farms.

B. Purpose of the Analysis

The purpose of the analysis of corporate sector constraints in agriculture is to identify the constraints to and opportunities for increasing private sector investment and participation in agribusiness development in Pakistan. The results of the analysis are being used to prepare a National Agribusiness Action Plan for consideration by the Government of Pakistan. The Action Plan focuses on policies and economic incentives required to stimulate the growth of private sector agribusiness operations. The underlying assumption based on examples from other countries is that a dynamic and growing agribusiness sector will have a positive effect on the overall growth and development of the agriculture sector of Pakistan.

C. The Importance of Agriculture and Agribusiness

The combined economic impact of agricultural production and agribusiness activity is illustrated in the following table:

The Agricultural Economy of Pakistan

Economic Indicator	Economic Impact
Employment to total employment	70%
Contribution to total Gross Domestic Product	50%
Exports to total exports	50%
Household consumption to total consumption	60%
Energy consumption (1987-88)	44%
Consumption of imports (1988-89)	46%
Food/Fibre manufacturing tax revenue (1985-86)	27%
Capital investment to total investment (1984-85)	36%
Agricultural capital formation (1987-88)	Rs. 8,648 million
Agricultural credit (1987-88)	Rs.15,893 million

At the time of Independence in 1947, Pakistan had an extremely limited industrial base: a few small-scale agro-based units, three textile mills and one cement plant. Today, although there are few large ones, the formal agribusiness sector includes hundreds of firms (Annex A gives a partial picture of historical changes in the number of agribusinesses). In addition, thousands of informal, unorganized enterprises outside the statutory framework of laws, regulations, and taxation are engaged in wholesale and retail marketing of various agricultural commodities and farm production inputs. While this latter group of enterprises forms a sizable and dynamic sector of the economy, it is outside the scope of direct investigation in the ACSCA study. To the extent that policy reforms result from the study, the informal agribusiness sector should benefit.

D. Methodology of the Analysis

Data collection for the Analysis of Corporate Sector Constraints in Agriculture (ACSCA) followed two main paths: (a) a national assessment, based mainly on secondary data, and (b) case study research in six agro-based industries.

1. The National Assessment

Analytical methods used in the National Assessment include qualitative and quantitative analyses of data and information assembled by ACSCA professional staff.

Qualitative Assessment: Annex B contains a list of the sources of information and data that were drawn upon for the assessment. Those secondary sources were supplemented by personal interviews with key persons involved in agribusiness operations and development, either as entrepreneurs, as policymakers, as financiers, or as officers in agencies responsible for implementing official policies, regulations and administrative actions. A list of those interviewed is included in Annex C. Finally, a series of seminars was held to draw out from the participants what they perceive to be the main constraints which inhibit agribusiness investment. The seminars included a mix of private business people, representatives of financial institutions, and government officials. They were held under the auspices of Chambers of Commerce and Industry and local governments, in Karachi, Lahore, Peshawar, Quetta and Multan.

This report of findings and conclusions is, in effect, a description of the main conceptual points stemming from the above sources of data and information.

Quantitative Assessment: A linear-programming model has been developed under the ACSCA Project to simulate, quantitatively, the optimization of agribusiness activities in Pakistan. The model allows examination of the relationships and linkages among and between commodity systems, from farms to consumers. The model will facilitate simulations to:

- o quantify the impact of current and proposed policy, regulatory and administrative changes;

- o examine constraints and opportunities for specific agro-industries; and

- o demonstrate quantitatively the significance of linkages and interrelationships among firms in any given agro-industry and between agro-industries.

The ACSCA team is striving for maximum interaction with Pakistani counterpart institutions and professionals in running the simulations.

2. Subsector Agribusiness and Agro-Industry Research

Six major agribusiness industries, or subsectors, have been analyzed to determine the constraints to and opportunities for private sector participation in agribusiness development:

- o Fertilizer and Farm Chemicals
- o Farm Machinery and Implements
- o Seed Production
- o Edible Oils
- o Fruit and Vegetable Processing
- o Animal and Poultry Feed

The methodology focuses on three facets of agribusiness activity:

- o Input agribusiness industries;
- o Output agribusiness industries; and
- o In-depth analysis and comparison of the viability and capability of specific corporate agribusiness operations within a given subsector as well as the overall agribusiness sector of Pakistan.

Research reports about each of the six subsectors are being used to prepare a composite Agribusiness Industry Case Study report. The integrated analysis of the six subsectors demonstrates the interdependence inherent in the business relationships in the wider agribusiness sector. This research has helped to isolate the most important policy issues affecting private sector investment and participation in agro-industry development, as well as the problems and limitations that arise when policy formation is based on narrow subsector issues or specific commodity objectives. In that sense, the case study research has added richness to the National Assessment report. The Executive Summary of the Agribusiness Industry Case Study report is attached as Annex D.

3. Public Forums

As indicated above, a series of five seminars was held in 1989 under auspices of the ACSCA Project to get suggestions and input from participants on the main constraints to private sector investment in agribusiness in Pakistan. Those meetings contributed many of the ideas contained in this report. During 1990, a series of seminars is being sponsored under the project to get public reaction to the findings and recommendations of the study. A Seminar in early April 1990 set the context of the study and described its main findings and conclusions. A Seminar in early August 1990 focused on the recommendations.

In addition to the public sessions on the National Assessment, a seminar will be held in November 1990 on the draft Agribusiness Industry Case Study report and a seminar will be held in early December 1990 on the draft National Agribusiness Action Plan. Following these seminars, the respective documents will be prepared in final copy.

II. GOVERNMENT INVESTMENT AND INDUSTRIAL POLICY

Fundamental underpinnings to a sound investment and industrial policy are: (a) a stable macroeconomic setting and (b) a financial and banking sector which extends industrial loans based on the economic and financial merit of a particular enterprise, without political considerations or influence. Pakistan fares better on the first of these than on the second. Both issues are outside the scope of the ACSCA study and are not dealt with in this assessment.

A. The Current Policy Stance

1. The Climate for Investment

An Industrial Policy Package issued by the Federal Ministry of Industries in July 1989 recognizes that the climate for investment in the past has not been as favorable as the Government would like. The Minister's foreword to the Industrial Policy Package document states that:

> *there is a need for greaterefforts in mobilizing our resources through a more confident atmosphere for capital investment and induction of modern technology. . . . Previous industrial policies could not be effectively implemented . . . in an atmosphere of uncertainties of policies, procedural delays in the approval of projects and inadequacy of infrastructurefacilities.*
>
> *The fundamental approach of the new policy is to liberalize investment opportunities for entrepreneurs in selected industries. . . For meeting these objectives, the policy has removed impediments in the way of the clearance of an investment proposal by creating a high-powered sanctioning authority, viz. Board of Investment (BOI) to be chaired by the Prime Minister. . . Efforts have also been made in this policy to streamline the procedural matters in minimizing the areas of investment where Government sanction would be required,One Window Operation in sanctioned industrialestates and ensuring provision of required facilities for implementation of the project within 60 days of sanction/approval of an industrial project. . . To make the policy more attractive fiscal, monetary and trade policies have been attuned to the needs. . .*

After it was formed in April 1989, the BOI met monthly under chairmanship of the Prime Minister until the summer of 1990. Subsequently, the BOI reported to the Secretary of the Cabinet.

One indication of liberalization in investment policy is that the number of industries on the Specified List has been reduced from 12 to 7. The Specified List includes the industries for which the private sector is required to seek permission from the GOP in order to establish new industrial units. The new Specified List includes:

- o arms and ammunition;
- o security printing, currency and mint;
- o high explosives;
- o radioactive substances;
- o alcohol and beverage industry based on imported concentrates;
- o manufacturers of automobiles, tractors and farm machinery; and
- o petroleum blending plants.

One agro-industry--the vegetable ghee/cooking oil industry based on imported seed oil--was among those dropped from the Specified List. The other industries dropped were manufacturers of air-conditioners, refrigerators and deepfreezers, drugs and pharmaceuticals, motorcycles and scooters, and TV, radios, tape recorders, VCRs, VCR cassettes, and tapes.

2. Government Policy Regarding Agribusiness Development

This section discusses various aspects of investment policy which relate to agro-industry or agribusiness.

Tractors and Farm Machinery are the only agro-industry on the Specified List. All other agribusinesses do not require government sanction unless the size of investment exceeds Rs. 1 billion or "major policy decisions" are involved.

The July 1989 Industrial Policy Package states that:

> *Emphasis will continue to be placed on development of export-oriented and import-substitution agro-based, engineering, electronic and high-tech industries. . . For realization of the twin objectives of the development of agro-based industry in the rural economy and creation of employment in these areas, an amount of Rs. 1.2 billion has been allocated in the budget of 1988-89. The amount will be disbursed through the Agricultural Development Bank of Pakistan and the nationalized banks; thus removing impediment of finances in the much needed development of agro-based industry.*

The Pakistan Investment Guide (July 1989) issued by the Ministry of Industries contains a list of "investment priority areas" which is "indicative and not exhaustive." The list includes the following types of businesses which are agro-based or which support agriculture:

- o Feeding and fattening ingredients for livestock;
- o By-products of sugarcane/sugar;
- o Processing, canning and preservation of fruits and vegetables;
- o Fertilizer;

- o Basic manufacture of insecticides and pesticides;
- o Tannery chemicals;
- o Textile weaving; and
- o Newsprint and craft paper.

Pakistan's stated policy is to encourage foreign investment in setting up industrial undertakings. Private investment, both local and foreign, is to be promoted and channeled into priority sectors. Foreign private investment is preferred in industries which are either capital intensive, involve sophisticated technology, bring managerial and technical skills or marketing expertise, or break new ground in the promotion of industry not set up in the past in Pakistan. Foreign private investment is classified as either "prohibited" or "allowed, subject to normal restrictions." The prohibited list includes ownership of real estate, including agricultural land and forests, and irrigation systems. The "allowed" list includes livestock, seed, dairy, and poultry farming; deep-sea, coastal and inland fishing; and manufacturing (including most agribusinesses).

Government policy is to encourage and support the development of small-scale industries, which encompass a wide spectrum of agriculturally related businesses. In May 1990, a "Rural Industrialization Policy" was announced. It is intended to encourage new industries in rural areas with industrial loans at a concessional mark-up rate of 8 percent, a tax holiday for eight years, exemption in import duties for machinery, and concessional freight rates for transport of machinery and other goods for specific industries. The policy was clarified on September 3, 1990 when the Cabinet changed the name of the scheme to "Rural Industrial Development Incentives" and defined the rural areas for which the location of new industries would qualify those industries for the concessional mark-up rates and tax holidays. Generally, rural areas qualify if they are 10 km or more from the limits of municipal corporations (30 km from Lahore and 40 km from Karachi). "Major industrial estates" are excluded, presumably because they already offer special incentives. Within agribusiness, fertilizer factories and sugar mills are excluded. The areas/industries which will qualify for exemption of import duties for machinery and for concessional freight rates are to be "notified shortly."

In summary, various policies refer to and reflect the importance of agribusiness, but there is not a defined national agribusiness development policy.

3. Privatization Policy

In 1989, the Government initiated a "privatization" program, at least partly due to urging from multilateral donor agencies. A primary rationale appears to have been to marshall resources for the national budget through the sale of shares of selected state-owned enterprises. The first manifestation of the privatization policy was a public offering in May 1990 of 10 percent of the shares of Pakistan International Airlines (PIA). As an inducement to investors, the Government guaranteed a 12.5 percent return for the first three years. The offering was oversubscribed, although only 10 percent of the shares were sold. It was indicated that shares of two additional state-owned enterprises--Habib Bank and Pak-Saudi Fertilizer--would be offered next. In each case, the Government intended to retain at least 51 percent of the shares and, therefore, to maintain management. The majority of the Boards would consist of Government officials.

4. Foreign Investment Policy

Declared GOP policy is to encourage foreign investment. Only certain sectors related to national security are not open to foreign investors. Early in 1990, the policy for foreign investment was liberalized to the extent that "sanction" is no longer required for investments up to Rs. 1 billion, even if foreign equity is to be more than 49 percent; in this sense, foreign investors are now treated on a par with local investors.

The policy breaks down in implementation by the bureaucrats. Potential foreign investors still find it very difficult to get everything in place in order to do business in Pakistan, and many of them simply give up after repeated attempts to get all the necessary approvals.

As a part of this study, a member of the ACSCA team held discussions in the U.S. and the U.K. with senior officers of 11 U.S. and 4 U.K. multinational companies on their operations in Pakistan and their attitudes about doing business in Pakistan (Annex E). In short, the results of this informal survey suggest that Pakistan needs more "corporate supporters" in the multinational agribusiness community and, therefore, must make changes in the economic/political/business climate if multinational agribusiness firms are to be attracted to Pakistan. This will require an investment of both time and money to provide relevant information and to promote the country.

Regarding repatriation of capital by foreign investors, the announced policy of the Government of Pakistan is that:

> *foreign investors could easily transfer their profit and capital to their respective countries. Their foreign national employees could send 50 percent of their income abroad and also transfer their savings on returning to their countries.*

5. Key Industries

Key industries for adding higher value and acquiring sophisticated technology are identified in the Industrial Policy Package, July 1989. The six so designated are:

- o Biotechnology
- o Fibre optics
- o Solar energy equipment
- o Computers and software
- o Electronic equipment
- o Fertilizer

Fertilizer is now the only agro-industry on the key industries list. A four-year tax holiday is to be granted to businesses set up in key industries up to June 30, 1993.

6. Indigenization Policy

An objective of the GOP is to attain self-reliance in the engineering and technical industries. The indigenization, or "deletion," policy is intended to help achieve the objective. The policy offers rewards to certain industries for timely deletion of imported items in favor of locally manufactured ones; on the other hand, a "penal duty of 100% over and above the industrial rate or the full commercial rate of duty, whichever is higher, is levied if any item is not deleted as scheduled."

While indigenization does foster domestic firms, results of the case study research indicate that the policy has several negative effects. By inhibiting the import of new, modern products, the policy often subsidizes and protects inefficient industries and firms which produce obsolete or poor quality products. The local firms, which tend to be insulated from competition, have little incentive to innovate or modernize. Productivity, income, output and quality suffer from the lack of competition. Consequently, end-users are denied high-quality, modern products.

7. Geographic Preferences

To help develop "backward areas," special concessions are given to businesses which agree to set up operations in those areas. The designated areas include NWFP, Balochistan (except Hub Chowki areas), FATA, Northern areas, and Azad Kashmir. In these areas, the income tax holiday is for eight years for new businesses which will have been established up to June 30, 1993. The businesses are also exempt from customs duties on all machinery not manufactured in Pakistan and from import surcharges and sales taxes.

8. Locational Policy

In the past, Provincial Governments have required that a new business obtain from them a No Objection Certificate (NOC) which certifies that the location chosen by the entrepreneur for the plant is satisfactory to the Government. This has been a major source of delay, at best, and of unbridled frustration in many cases. In early 1989, the Provincial Governments apparently acquiesced to the suggestion from the Federal Government that instead they should each notify a "negative list" indicating areas in which the establishment of industries is not considered desirable. The Pakistan Investment Guide, July 1989, states that:

> *Investors will thus be free to establish industries outside these areas without any requirement of NOC from the concerned Provincial Government. In case an entrepreneur wishes to establish any industry in the restricted areas, he will have to apply for an NOC from the Provincial Government and such applications will be considered on a case to case basis and NOC could be issued if the entrepreneur can establish merits of his case.*

If the policy as stated in the above paragraph is effectively implemented by the Provincial Governments, then this will have been a most positive step and the issue should essentially disappear. The Provincial Governments have issued negative lists for the sugar industry.

B. Implementation of Policy

Implementation of investment policy is, for the most part, sluggish at best.

1. Investment Promotion and Incentives

The government has not had a proactive policy or program of investment promotion. Historically, the Investment Promotion Bureau (IPB) has operated almost exclusively as a sanctioning authority. It screened proposals and either approved or rejected them. In performing this function, the IPB earned a reputation of being negative toward investment and was frequently referred to as the "Investment Prevention Bureau." To try to make it more effective, the IPB was reorganized in late 1989 into three divisions:

- o Approval and Regulatory Division
- o Monitoring Division
- o Promotion, Publicity & Publications Division

In April 1990, the BOI established a 25-member Advisory Committee of public and private sector representatives to provide guidance on the functions and operations of IPB. Among its several duties, the Committee was to "identify promotional strategies and assist the Bureau in the organization of its promotional programs such as seminars, symposia and publications." As of mid-1990, staffing for the Promotion, Publicity & Publications Division was not yet in place.

Investment incentives contained in the Income Tax Ordinance include investment allowances, tax holidays for selected industries and underdeveloped areas, and various kinds of tax credits and tax exemptions. One of the issues of concern to agribusinessmen is the removal from the key industries list, except for fertilizer, of all those agribusinesses which formerly qualified based on their using 70 percent or more of locally produced raw materials. Removal from the key industries list means that they do not qualify for a tax holiday (unless the industry is located in an area designated as "underdeveloped").

2. Sanctioning Procedures

The procedures for getting approval to start a new agribusiness or to expand an existing one are often tedious and time-consuming, although there has been some improvement. For multinational companies attempting to register a new business in Pakistan or to expand an existing one, the procedure is often debilitating. The companies may be willing to invest, but the rules and procedures discourage them from doing it.

The July 1989 Industrial Policy Package purports:

> *to streamline the procedural matters in minimizing the areas of investment where Government sanction would be required... In order to alleviate the difficulties faced by the local as well as foreign entrepreneurs, in obtaining sanctions for the establishment of industrial units, the requirement of Government sanction has been dispensed with, to a large extent... The projects will now be sanctioned, depending on their size and type, by the Board of Investment (BOI) headed by the Prime Minister.*

Sanction by the BOI is required if:

a. investment in the industrial unit exceeds Rs. 1 billion;

b. the unit involves one of the items on the Specified List (see page 8);

c. foreign equity participation is 50 percent or more (this requirement was dropped by the BOI at its meeting of February 28, 1990); or

d. major policy decisions are involved.

Except for the manufacture of tractors and farm machinery (the only agro-industry on the Specified List), agribusinesses with less than Rs. 1 billion of investment do not require BOI sanction unless "major policy decisions are involved." However, entrepreneurs who are attempting to set up agribusinesses report that unless they go through the BOI to get an NOC (no-objection certificate), they are unable to get financing or the needed cooperation from several of the agencies which are to provide post-sanctioning approvals and infrastructure.

III. THE MAIN CONSTRAINTS

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. One of the most important conclusions is that public sector enterprise control of agribusiness impedes growth of 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 in Pakistan arise in these "mixed" agro-industries due to the controlling GOP organizational (oligopoly) structures and the associated trade restraints and product pricing practices that are common in those industries. Without a drastic change in policy to reduce public sector investment and control over agro-industry, broad-based private sector investment and participation in agribusiness development are unlikely to occur.

A prime example is the fertilizer industry. The National Fertilizer Corporation (NFC), a fully-owned state holding company with five fertilizer factories, owns 53 percent of the nation's fertilizer production capacity. The Fauji Foundation, a quasi-state institution, has two factories with another 24 percent of capacity. (Under a standing agreement with the Government of Pakistan, Fauji Fertilizer Company is assured of a fixed rate of return of 20 percent for 10 years.) At the moment, there are two private-sector fertilizer companies--Exxon Chemical and Dawood-Hercules, with a combined total of 23 percent of total fertilizer production capacity. With respect to marketing, National Fertilizer Marketing Ltd., a subsidiary of NFC, has the responsibility of marketing the production of NFC plants plus a 40 percent share of imported fertilizer. Furthermore, imports of fertilizer are controlled by the Ministry of Agriculture through the Department of Fertilizer Imports. The private companies are allocated a 60 percent share of the imported fertilizer to market in addition to their own production, but they are not allowed to import fertilizer. This constitutes a classical oligopoly situation.

In addition to the fertilizer example, other case studies, especially those of Edible Oil, Farm Machinery, and to a lesser extent the Seed Industry, also demonstrate widespread Government control--and associated inefficiencies--in the industries. In the case of edible oils, the Ghee Corporation of Pakistan (GCP), a government holding company with 24 ghee mill units, produced in 1989 about half of the country's output of vegetable ghee/cooking oil. The remainder is produced by about 70 private-sector units, more than half of which have started operations since the 1986 deregulation. One objective of the deregulation was to reduce GCP's share of the ghee market as a percentage of the total ghee market. In practice, the deregulation measures have fallen short of expectations. GCP still acts as the "price leader" and the price does not reflect market conditions. In addition, the sole authority to import soybean oil is with the Trading Corporation of Pakistan. The private sector can import other edible oils, subject to import licensing. Notwithstanding the shortcomings, deregulation has somewhat improved the environment in which oil producers and processors operate, but the industry has not developed in a manner that stimulates local production of non-traditional oilseeds for edible oil and livestock feed. Current use of foreign exchange for the importation of edible oil and feed cake is in excess of $350 million per year.

In the case of farm machinery, two tractor companies of the public conglomerate, Pakistan Automobile Corporation Limited, account for a market share of 95 percent of tractors sold:

- Millat Tractors Limited 66 percent
- Al-Ghazi Tractors Limited 29 percent

Millat recently took over Al-Ghazi, so that now one company essentially controls the market.

The tractor manufacturing industry is "vertically integrated" in the sense that the GOP owns and controls, in addition to the two major tractor companies, most of the raw material (steel) and manufacturing concerns which make the subassemblies for the tractor companies and, through Government-owned financial institutions, supplies virtually all of the credit for tractor purchases. The deletion (indigenization) program, while it has fostered the establishment of companies to supply parts for the tractor manufacturers, constitutes a major barrier to entry of new firms and, therefore, to competition in the tractor industry. On the other hand, the implement industry is characterized by a large number of small businesses, generally poorly equipped. There is a dearth of durable, broad-spectrum implements.

The announced policy of the government is for the private sector to play a greater role in business and in economic development. An integral part of this policy was a decision in early 1989 to "privatize" some businesses that are now government owned and operated. A Privatization Cell was set up in the Ministry of Finance, with an Additional Secretary in charge. In phase one, the announced plan was to privatize some profitable enterprises; a part of this plan was to offer (not to exceed 49 percent of) shares to "members of the working class," to encourage their participation in strengthening the economy and to broaden the base of the stock exchange. The Government would retain at least 51 percent of shares. In the second phase, the shares of unprofitable public sector units would be offered to the private sector "after making them commercially viable." This kind of "privatization," which keeps management of the enterprises effectively under control of the Government, is not likely to improve the efficiency of the operations.

A paradox in the Government's plan to privatize is that the Ministry of Production has announced plans for the Government to invest in a number of new production enterprises, including four new fertilizer plants under auspices of NFC. One likely detrimental effect of this is that Exxon Chemical and Dawood-Hercules, which had both expressed intentions to build new plants, may find it prudent to delay their proposed investments (estimated at $300 to $500 million). If NFC goes ahead, the industry will retain an oligopoly dominated by both the NFC, the market price leader, and the GOP, which controls the purchase, storage, distribution and pricing of imported fertilizer.

Statements are often made by senior GOP officials to the effect that "the Government will remain in the wings and only invest if the private sector does not come forward." To a large extent, this is a self-fulfilling prophesy. As long as the Government stands ready to invest, the private sector will remain hesitant, and then the Government decides to go ahead and invest "because the private sector did not come forward."

The potential impact, breadth and depth of private sector investment in agribusiness industries in Pakistan is likely to remain very limited and imbalanced unless and until the GOP:

- o fosters real privatization of public sector enterprises;
- o stops investing (with multilateral donor support) in more public sector enterprises; and
- o designs, implements, and promotes policies and incentives seriously intended to increase private sector participation and investment in competitive, market-driven agribusiness industries.

B. Over-Regulation of Trade and Commerce

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. The ACSCA analysis of business practices in several key agro-industries does not support the proposition that effective deregulation has, in fact, occurred. As indicated above, even though locally-produced nitrogen fertilizer prices have been "deregulated," effective price setting remains. The two private sector fertilizer companies which, because of better management, are more efficient, are able to take advantage of the price-protected situation and to make handsome returns on their investments, while some of the state-owned enterprises are subsidized directly by the GOP. If the industry were truly opened up exclusively to private investment, average costs of fertilizer production and therefore prices would decline due to both a higher degree of competition and increased efficiency. In a competitive environment, the private firms would also work harder at marketing, including more aggressive farmer education and extension programs.

Through its companies, agencies, banks and political institutions, the GOP effectively controls many major agribusiness markets, commodity flows and business practices. These controls directly affect commodity imports and exports, physical distribution, base-line production, raw material procurement costs, consumer product pricing and market competition. Restrictions and regulations which affect exports include taxes and duties, quotas and bans, and licensing. Details of these phenomena are presented in the series of agribusiness industry research reports.

C. Sluggish Implementation of Investment Policy

1. Investment Incentives

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 significant foreign investment in agribusiness is to be solicited, the agribusiness investment incentives and 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.

Private sector confidence in the Government's investment policies and incentives 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. Investor perseverance, based largely on political access and availability of financial resources, remains an essential requirement for doing business in Pakistan.

2. Sanctioning Procedures

As indicated under the heading, The Climate for Investment, in Section II of this report, the Board of Investment is attempting to improve sanctioning and post-sanctioning procedures. This includes revamping the IPB. The Asian Development Bank announced on January 30, 1990 that it had approved a $350,000 technical assistance grant to Pakistan for restructuring and reorienting the role and functions of the IPB with increased emphasis on industrial promotion, although it will retain the sanctioning function. It remains to be seen whether one entity can effectively carry out both sanctioning and promotion.

3. Post-sanctioning Procedures

Evidence accumulating from the agribusiness industry research and from other sources suggests that the delays and frustrations associated with post-sanctioning procedures are more debilitating than are those associated with sanctioning.

Post-sanctioning procedures include: (a) getting approval of the Controller of Capital Issues to issue share capital; (b) getting approval for financing from development finance institutions or nationalized banks; (c) obtaining licenses or permits for import of plant and machinery from the Chief Controller of Imports and Exports (CCI&E); (d) obtaining licenses for import of raw materials and spares, from the regional Imports and Exports Office; (e) applying to the Provincial Chief Inspector of Factories (if 10 or more persons are to be employed) to be registered under the Factories Act; (f) registering the business as either a sole proprietorship, a partnership or a limited company; (g) obtaining assurance from the relevant Provincial Government that it has no objection to the site chosen for plant location; and (h) arranging infrastructure facilities: telecommunications, gas, power, water and sewerage.

Dr. Shahid Zahid describes the post-sanctioning problem succinctly in a May 1989 article, "Changing Gear," in The Herald:

> *Because of bureaucratic controls and corruption, foreign investment, even where desirable, has shied away. . . some serious thought has to be given to reducing the bureaucratic hurdles and procedures involved in setting up industries. Any opposition from vested interests within the bureaucracy must be challenged if progress is to be encouraged.*

Another article (Dawn, Aug. 31, 1989: Foreign Capital as Tool of Growth) provides evidence that the rate of industrial expansion in Pakistan is less than desirable and that other Asian countries are obtaining more foreign investment than is Pakistan, and then goes on to state:

> *The reasons are not difficult to explain. In the area of foreign investment, as in many other areas, there has been a large gap between our policy pronouncement and practice, between what the men at the top desire and the small men at the bottom devise. Bureaucratic obstruction or footdragginghas been a major deterrent to rapid industrial expansion. Too often our economic officials feel the authority and discretionary powers vested in them are meant to be exhibited or demonstrated rather than used for promotion of the goals they are meant for.*

The above statements capsulize oft-repeated statements to ACSCA team members about how post-sanctioning procedures are implemented. To a large extent, the attitude characterized above is a carryover from the days when colonial administrators used the bureaucracy to control the populace. To change those attitudes to reflect a mandate to serve rather than to control represents a tremendous challenge. In addition, a prejudice exists among much of the bureaucracy against the private sector. Because of the prejudice, the translation of policy into action takes a long time.

4. Frequency of Policy Changes

One cause for concern among business people is the frequency with which policy changes are made, sometimes even retroactively. Some businessmen refer to this as the ad hoc approach to policy. Occasionally, a policy will be changed or dropped even though it had been announced as one which would apply until a certain date still in the future. As a case in point, under the Income Tax Ordinance, a policy had been announced that a tax credit of 15 percent of the amount invested up to June 30, 1991 would be allowed to companies investing in industrial plant and machinery for balancing, modernization and replacement (BMR); in mid-1989, this concession was withdrawn retroactively from July 1, 1988.

In July 1989, a new system to limit certain vegetable exports was introduced. A ban was placed on exports of chilies (the ban was altered in January 1990 to become a 5,000 MT quota). The ban caused defaults on exporter contracts, with the result that the purchaser has gone to other country sources which are considered to be more reliable suppliers.

Another example includes having dropped in 1989 without advance notice the horticulture processing industry from the key industries list. Potential investors who were counting on the fiscal incentives associated with the list have expressed concern that horticulture was dropped from the list.

D. Weak Supporting Institutions

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

1. Agribusiness Promotion and Development

Various business and development activities are carried out by Chambers of Commerce and Industry, the Federation of Chambers of Commerce and Industry, the Overseas Investors Chamber, and other entities such as the American Business Council. Historically, no agency has focused especially on agribusiness promotion and development. However, the advent of the new AgriBusiness Cell in the Ministry of Food, Agriculture and Cooperatives presents an opportunity for substantial improvement in this regard.

2. Industrial and Managerial Training

The Lahore University of Management Sciences (LUMS), a private-sector initiative, offers a two-year course leading to an MBA degree. The 15-member Faculty is mostly trained abroad at the PhD level. Rigid criteria are used to select about 60 students per class from among many hundreds of applicants. Graduates are "picked up like hot cakes" upon completion of their degrees. LUMS also offers one-week short courses in Executive Development, which are well-subscribed. LUMS has initiated a long-term faculty development program with the intention of expanding its operations and services.

Other institutions provide MBAs and other kinds of industrial and business management training, including the Institute of Business Administration in the University of Karachi and the Department of Business Management in the University of Punjab. However, substantial scope exists for cost-effective additional kinds of training programs designed to improve the performance of agribusinesses. In particular, good MBA (Agribusiness) training programs, either at one of the above institutions or abroad, would help to fill a great need.

3. Investment Analysis and Financing

The ACSCA team concludes that virtually no entity exists in Pakistan which serves agribusiness and has the capability to do independent, rigorous technical and financial feasibility studies as a basis for potential investors and financiers to decide with confidence whether the ventures will be viable. Some of the development finance institutions (DFI's) do "appraisals" or "feasibility studies" for clients, with some hesitation, because the clients are unable to engage professional consultants or institutions to help them do a rigorous, independent analysis. The hesitation of the DFI's hinges on their preference not to do the feasibility studies because if they do and the business later turns sour, the client will blame the DFI for a faulty feasibility study. Banks and DFI's generally prefer that feasibility studies be done independently, leaving them with the role of appraising the studies as a basis for deciding whether on not to support the ventures.

The Investment Advisory Center of Pakistan (IACP) is reported to do well at representing Pakistan to potential outside investors. It claims to do project identification, investment analysis, and feasibility studies. Samples of IACP analyses available to the ACSCA team are typical of such work by other parastatal organizations -- they are not impressive. This judgment is consistent with that reflected by a previous team whose report:

> *shows a summary of the agro-industry profiles as presented by the Investment Advisory Center of Pakistan (IACP). Unfortunately, the various analyses do not follow a standard format, which makes comparisons between them sometimes difficult... IACP's analyses are, by and large, incomplete, and are done unsystematically. With particular reference to agro-industriesthere is no systematic treatment of agricultural production, processing, and marketing as the three building blocks of any agro-industry. Occasionally, comments are made about agricultural production or about marketing, incidental to the major emphasis on processing proper. As a result, most of the identified agro-industrial opportunities are rather unconvincing. (Pakistan: Prospects for Non-Traditional Agricultural and Agro-Industrial Exports, AMEC, Inc., April 1984)*

Financial and Management Services (Pvt.) Limited (FMS), a Karachi-based company, was formed in 1985 by the Pakistan Banking Council, Bankers Equity Limited, Industrial Development Bank of Pakistan, Investment Corporation of Pakistan, National Development Finance Corporation and Pakistan Industrial Credit and Investment Corporation, plus a group of private sector businessmen. FMS engaged Booz Allen & Hamilton, an international consulting firm, to assist with start-up and to provide specialized consultants. According to a brochure, FMS has done studies and analyses for the World Bank (110 person-months), the Asian Development Bank (12 person-months), the Pakistan Banking Council, nationalized banks, and DFIs (46 person-months), public-sector clients (14 person-months), and private-sector clients (26 person-months). Work for the private-sector clients was essentially all industry (non-agribusiness) related.

4. Market Analysis and Development

One of the main shortcomings in agribusiness in Pakistan is the lack of appreciation of the importance of market analysis. The tendency is to figure out what can be produced and then to see if the product can be sold, either in the domestic market or by exporting it. More often than not, this approach is doomed to failure. The proliferation of UHT milk plants and juice plants which has resulted in gross excess capacity are cases in point--market analyses were either superficial or non-existent. The fault lies as much with the institutions which financed the plants as with the entrepreneurs. The answer lies in taking a "market-driven" approach by those who do the feasibility studies and by the financial institutions which appraise the feasibility studies. The capability to take this approach effectively needs to be developed. There is no institution in Pakistan which is strong in this area.

5. Agro-Industrial Technology Development and Transfer

Evidence obtained in the case studies indicates that the technology being used in many of Pakistan's agribusinesses is inadequate, at best. In the handling of fruits and vegetables, there is hardly even rudimentary technology being used for removing field heat, in cooling and storage or for trucking. Cans used in food preservation are still made by the old lead solder method and would not be permitted in most western countries. Most fertilizer plants are not state-of-the-art. The technology used in the pesticides industry is woefully inadequate. Edible oil extractors are obsolete. The techniques used to manufacture farm implements and some sub-assemblies and parts for tractors are sub-standard. In those cases in which the technology in agribusiness is good, there are too few trained people to use it properly. Unless they are tied with multinational companies, Pakistan's food companies do not have the capability to conduct research and development.

Reasons for these deficiencies, in many cases, appear to be:

- o lack of market competition to force greater efficiency and quality production;
- o lack of mandatory or enforced standards for safety, production or product quality; and

- o lack of information and training to stimulate improved technology development and adoption by agribusinesses.

E. Corporate Business Operations

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 oligopolistic 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. Exxon Chemical is a prime example of the latter category of companies; several other multi-national companies, some foreign/local joint ventures and some Pakistani agribusiness companies also qualify, but these appear to be in the minority.

Information derived from the agribusiness industry research and the ACSCA seminars provided valuable insights about the strengths and limitations of the private sector's present and medium term participation in agribusiness. A few of the insights are:

1. Private Sector Agribusiness Planning and Investment Perceptions

Established agribusinesses in Pakistan, foreign and/or locally owned, appear to have a sound basis on which to plan the expansion or diversification of their operations. From experience, they understand, often intuitively only, the scope of their markets and the investment opportunities available to them. Decisions to invest are taken slowly and with great caution in response to their perceptions of economic and political risk.

Capitalization of new activities tends to be highly debt oriented, despite complaints about interest rates. In many cases, business risk is avoided by:

- o following the "leadership" of public sector companies in a given industry (e.g., market pricing);
- o avoiding significant market confrontation with competitors by sticking with traditional product lines and geographic markets; and
- o sustained contact with public sector banks, companies and agencies in a political process that effectively secures significant support for companies on a case-by-case basis.

While these insights tend to indicate a "business as usual" status quo mentality--often demonstrated by oligopolistic business practices--there are some interesting though limited perceptions and innovative actions being taken by the established private sector. These include:

- o closely or family held companies making public offerings of shares to raise new equity capital or to increase personal cash liquidity;
- o exploring joint venture opportunities with other companies, often foreign transnational corporations;
- o greater participation in trade associations and public forums both to understand and to play a role in GOP policy formation efforts which target private sector initiative; and
- o increased awareness of the importance of new technology and employee training to improve the viability, quality and efficiency of production.

While new Pakistani entrants into agribusiness appear to be less conservative, there is little indication in most cases that they understand how to plan and implement effective marketing strategies linked to production and management requirements and capability.

New foreign private sector intervention in agribusiness in Pakistan is promising but very limited. These include investments in improved seed development and marketing, food processing and distribution in domestic and foreign markets, and licensing arrangements in the manufacturing of equipment, spare parts and packaging. Foreign investors are being encouraged by the GOP and the private sector but the promotional efforts of both do not reflect an understanding of foreign investor requirements or how to target specific companies.

2. Economic and Financial Viability of Agribusiness Sectors

Many public and private sector agribusinesses are profitable because of direct and indirect government subsidies, lack of market competition due to monopolistic practices and depressed raw material commodity prices at the farm level. Equity investment in new activities tends to be less than the already highly leveraged development bank ratio of 30 percent. Private sector investors tend to seek a full return of original capital in three years or less.

Established companies tend to remove equity and retained earnings from their businesses and look to debt capital sources to meet their working capital or new fixed capital investment requirements. Debt repayment and collateral security requirements are often not adhered to, while foreclosure by the development banks is viewed to be unlikely.

For most new agribusiness enterprises, debt financing is difficult to arrange; relatively few loan applications are approved by lending agencies.

3. Management and Labor Issues

With a few notable exceptions, middle management and overall labor turnover in both public and private sector agribusinesses is extremely high. This appears to be due to a combination of factors including:

- o limited opportunity for advancement;
- o few, if any, training opportunities;
- o poor working conditions, working hours, work environment, and health and safety environment; and
- o low remuneration, benefits and incentives.

The exceptions to this include some public sector companies where job security is virtually assured, and several of the larger private sector companies, especially those which are owned by or include foreign investors or foreign trained senior local managers.

There is great scope and need for human resource development and managerial training in Pakistani agribusinesses.

4. Market Competition

Very limited market research and testing takes place in the more open industries. Since most of the agro-industries are in a non-competitive environment, market competition is muted due to:

- o regulatory practices of the GOP;
- o public-sector domination of enterprises and operations;
- o poor infrastructure development and maintenance; and
- o poor management capabilities.

F. Other Constraints

1. Infrastructure Development and Maintenance

The efficient operation of most agribusinesses requires access to infrastructure such as water, gas, electricity, roads and telecommunications facilities. A problem in almost any country is that in less developed regions infrastructure is expensive to develop and it requires allocating scarce governmental resources. Hard choices have to be made. Not all businesses can be provided all the infrastructure desired. One attempt to optimize the use of infrastructure facilities has been the development of industrial estates. A problem for some agribusinesses is that the estates may not provide a location near the farms with which the businesses interface. To deal with some of the difficult allocation issues, "High Powered Facilities Boards" and "One Window Facilities" have been set up, and managers of utilities are instructed to act expeditiously to provide the necessary facilities for industrial development. Following is a brief on some of the key areas of infrastructure.

Telecommunication Facilities: A representative of Pakistan Telegraph and Telephone (T&T) Department indicates that large industrial concerns are given Priority No. 2, following only hospitals and doctors. Out-of-turn connections are given on payment of Rs. 20,000. To provide telephone connections to a new industry in a rural area, T&T will expect the sponsor to contribute to line costs. A wireless connection with an effective range of 50 Km can be provided at a cost to be borne by the sponsor of Rs. 200,000. T&T has completely deregulated the provision and installation of FAX machines.

Export Transportation: One of the main constraints to exports of many agribusiness products is inadequate transportation infrastructure--by land, sea and air. For sea freight, this includes inadequate (or lack of) facilities at the ports for handling cooled or frozen products and insufficient shipping options for produce destined to the most desirable markets. For air freight, Pakistan International Airlines has had a monopoly on shipments out of the country. This has been a major constraint on shipment of fresh produce, in particular, but also on certain other types of agribusiness products. Participants at ACSCA's Seminar in Lahore reported that PIA reserves more than 90 percent of its cargo space for Karachi-based exports, even though the Punjab is the largest producer of citrus and mangoes, some of which could be exported. The air cargo constraint may be relieved sometime in the future, according to the Government's announcement that a new cargo air service is to be established. However, creating a cargo line will take time. Meanwhile, it would seem to be sensible policy to let potential exporters charter sufficient aircraft from any source, PIA or other, to meet their export needs.

Electricity: The Power Department of Pakistan's Water and Power Development Authority (WAPDA) reports that under the rural electrification scheme, WAPDA is extending power supply to villages within six kilometers of the main grid stations. Small industrial loads can be met from these extensions. Larger loads require extension of lines and transformers, the costs of which must be met by prospective industrial consumers. A new industrial connection within a reasonable distance of surplus capacity grid stations can be given in about four months. However, not all grid stations have surplus capacity. Power demand has been growing at 12 percent per year, which results in load shedding because power supply is lagging. WAPDA is apprehensive that load shedding will persist for several years because decisions on major generation capacity "have been held up."

Gas: Ministry of Petroleum and Natural Resources reports that industries must bear the cost of pipelines from the main distribution centers along the pipeline distribution network. (A 2" line for 5 miles may cost about Rs. 1.2 million.) The gas requirement is about five times greater in the winter season. Continuous supply is assured to industrial consumers only for the remaining 9 months. During winter, they have to make alternate arrangements, generally furnace oil. An assured supply of gas is a particular concern to the fertilizer manufacturing industry.

2. Banking, Credit Policy and Practices and Capital Markets

The financial system consists of the State Bank of Pakistan (the central bank); five large nationalized commercial banks; 17 foreign commercial banks; five industrial development finance institutions (Industrial Development Bank of Pakistan, Regional Development Finance Corporation, Agricultural Development Bank of Pakistan, House Building Finance Corporation, and the Small Business Finance Corporation); three investment companies (Pak-Saudi, Pak-Kuwait, and Pak-Libya); two stock exchanges (Karachi and Lahore); a cooperative bank; a number of leasing firms; two unit trust savings institutions (National Investment Trust and Investment Corporation of Pakistan); a government-owned life insurance company and several non-life insurance companies. The Government essentially owns and controls all financial institutions except for the foreign commercial banks, the non-life insurance companies and some of the leasing companies. The five nationalized commercial banks hold roughly two-thirds of the assets in the financial system.

With World Bank support, Pakistan is introducing reforms in the financial sector between 1989 and 1991 that include deregulation of financial markets. The reform program is to promote growth of the country's financial markets, expansion of private investment and savings, and more efficient provision of services. The program includes measures to improve resource mobilization, allocation of credits and the profitability of Pakistan's banking system. The system will be strengthened through measures designed to give greater autonomy to nationalized commercial banks and make them more competitive with new private banks. Senior Government officials confirmed to the ACSCA team that a plan is underway to make the public sector commercial banks more autonomous, that measures to improve their profitability are being considered, and that the program to privatize the commercial banks is underway. The experiment is to be started with Habib Bank Limited, 10 percent of whose shares (which have been totally held by the Government since nationalization in 1973) will be sold to the private sector. The State Bank of Pakistan will continue to act as watchdog over credit ceilings within the framework of the Annual Credit Plan.

An ACSCA team member with experience in banking and finance, analyzed anticipated changes in international capital markets, interest rates and banking from the perspective of how these may affect the climate for agribusiness development in Pakistan. The analysis was based on data from secondary sources and from discussions with bankers and investment bankers in the United States and the United Kingdom, with officials of the Asian Development Bank, the World Bank and the IMF, with representatives of various accounting firms and financial institutions in Pakistan, and with representatives of investment banking firms which expect to become operational in Pakistan in the near future. In short, the conclusion is that financing of agribusinesses in Pakistan will have to become more commercially oriented than has been the case. Sponsors will have to have more "at risk," so that if the project fails the sponsor will lose financially rather than the financing institution.

Investment Banks: Investment/merchant banking activities have not yet been fully developed in Pakistan. No financial institution in Pakistan has adequate expertise for corporate financial restructuring or for arranging take-overs, mergers, or the international syndication of the funding requirement of large private sector projects. However, there are some encouraging signs. Six private investment banks have been sanctioned. They will be able to negotiate loans from abroad or from within the country, against term deposits or certificates. Terms and conditions of foreign loans will need the clearance of the State Bank of Pakistan. While the State Bank will not guarantee repayment, the facility of payment of foreign exchange under the GOP policy of risk coverage will be available to private parties. It has also been announced that by December 1990, some foreign private investment banks will be authorized.

Securities Market: The securities market in Pakistan is underdeveloped and does not provide adequate funds for industrial development. The Karachi

Stock Exchange started functioning in 1948 and the Lahore Stock Exchange was established in 1970. There were limited inducements for enterprises to be listed on the stock exchanges until mid-1986, when the Government introduced certain measures to strengthen the capital market. The corporate tax for listed companies was reduced from 50 to 40 percent while for unlisted companies it remained at 55 percent. Dividend income and capital gains from share transactions of listed companies were made tax exempt in the hands of shareholders, and an investment tax credit is available for purchase of primary shares of listed companies.

Venture Capital: There is no organized venture capital activity in Pakistan. Venture capital companies could help to mobilize both domestic and foreign resources for equity investments in potentially profitable businesses. An Asian Development Bank document for the Small-Scale Industry Project notes that a study financed by the ADB concludes that a venture capital company of moderate size would be feasible in Pakistan.

3. Government Role and Practice in Consumer Protection and Quality Control

Government has a legitimate role in protecting consumers against the possibility that goods which they purchase do not meet proper specifications. In agribusiness, cases in point would include processed foods and selected farm inputs, especially fertilizer, pesticides and seed.

Annex F includes a discussion of Pakistan's Pure Food Rules. The conclusion is that the rules are inadequate to protect consumers against aflatoxin, microbial maladies, heavy metal and pesticide contaminations, or from adulteration and inferior quality food products. The capability for testing and monitoring for compliance is very weak. One implication for agribusinesses in the food industry is that they tend to be lax about quality. While the businesses may survive in the domestic market, possibly at some harm to consumers, they most certainly cannot compete in international markets unless quality standards are substantially upgraded and adhered to.

Information obtained in the Fruit and Vegetable Processing Agro-Industry study points to two conclusions: (a) the presence or influence of food regulatory agencies in the food industry was not apparent, and (b) confusion exists as to which regulatory agency is responsible for the safety and quality of food products.

Fertilizer and pesticides must be labelled in the local language to indicate the active ingredients, which are not apparent from visual observation. Certified seeds must be labelled to "certify" that they are what they are claimed to be. Government's role is to spot check and test in laboratories sufficient samples of tagged goods to verify that the tags do represent the goods correctly. If adverse deviations are found, the manufacturer or merchant is liable for punishment. Annex G gives background on labeling requirements in the seed, fertilizer and pesticides industries and standards for the food processing industry. Evidence from the agribusiness industry research suggests that abuses sometimes occur: (a) in the way governmental agencies implement the rules, causing disincentives to agribusinesses, and (b) by agribusinesses in representing their goods to consumers.

4. Policy Regarding Intellectual Property

Intellectual property is associated with innovation. It includes such intangibles as new or improved products or processes, new designs, or new trade marks. Several legally enforceable rights--patents, design registrations, copyright and trade marks--can be used to prevent others from obtaining the benefit of private creations. Annex H contains a description of the laws which regulate the use of intellectual property in Pakistan.

Agribusinesses are said to be disadvantaged occasionally by the administration of the laws intended to protect their rights, or by competitors having unjustly or unknowingly assumed the rights. Penalties for infringement are often described as too light to discourage the practice. The maximum fine for trade mark infringement is reported to be Rs. 5,000.

IV. SCOPE AND OPPORTUNITY FOR AGRIBUSINESS DEVELOPMENT

Scope and opportunity exist for substantial agribusiness development, for both domestic purposes and exports, assuming that the policy environment fosters a supportive (non-business) role for the Government, and that the private sector takes a proactive approach to explore and develop opportunities in a deregulated economic environment. Implicit in the proactive approach is an underlying precept that the most fruitful efforts will be those which are **targeted at well-defined market opportunities** as opposed to trying to "sell what we produce."

Considerable analysis will be needed to identify and verify potentially viable opportunities. Subject to such analyses being done, following are some agribusiness industries and ventures which may be promising in a deregulated, competitive operational and marketing environment.

A. Input Industries

1. Fertilizer and Farm Chemicals
2. Basic Seed (certified and hybrid)
3. Farm Machinery and Implements

B. Output Industries

1. Edible Oils
2. Livestock Feed
3. Horticulture

C. Service Industries

1. Marketing and Market Development
2. Transportation and Storage Services
3. Product Development, Packaging and Quality Control
4. Financial Services and Investment Banking
5. Management and Technical Training and Consulting

V. 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 proffered.

Trade-offs exist in the policy arena. An attempt has been made to design recommendations which are consistent with the goals of the Government and the aspirations of the private sector.

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

The formulation and over-seeing of the implementation of the Agribusiness Investment and Trade Policy should be a responsibility of the new AgriBusiness Cell of the Federal Ministry of Food, Agriculture and Cooperatives. This cell should have close formal links with the Ministries of Planning, Finance, Industries and Commerce, as well as the Board of Investment and the Economic Coordination Committee, for effective implementation of the Agribusiness Investment Policy. A prime objective would be to maintain stability and consistency of policies through effective working relationships between these key ministries and policymaking and implementation bodies.

2. The Environment for Private Sector Agribusiness Investment Should be Improved by Further Deregulation of Agribusiness Trade and Commerce

A private sector can operate efficiently only if it works within the environment of a well-functioning market system. If the market environment is highly distorted--in the sense that there are great discrepancies between social and financial costs and benefits due to monopolies, bureaucratic anomalies or governmental trade and price interventions--the private sector is likely to act in an inefficient way. Deregulating agribusiness trade and commerce is a prerequisite to efficient marketing and investment in agribusiness activities.

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

Expansion of competitive markets ar ; deregulation should go hand-in-hand with .he transfer of ownership of state-owned agribusinesses. "Getting the prices right" will not be optimally efficient as long as much of the productive capacity and market share in agribusiness sectors is owned, run and controlled by government enterprises and holding ccmpanies.

Privatization of state-owned enterprises may take any of several forms. Amcng the most common forms used by other countries are:

- o Divestiture, or selling the shares (at least a majority interest) to private investors;
- o Liquidation, or selling the assets of the company and terminating the operation; this is the appropriate response in cases in which there is no economic or financial merit in continuing the business; or
- o Other forms of privatization, which may include leasing, management contracts, or concessions to private entrepreneurs.

To eliminate the economic inefficiencies of monopolies and oligopolies, and to capitalize on the economic efficiencies of private sector competition, selected state-owned agribusinesses should be privatized (i.e., divested, liquidated or otherwise privatized).

Steps to be taken to implement an agribusiness privatization program include:

- o Develop a Privatization Strategy
  - -- Define the objectives of the privatization program;
  - -- Foster transparency (openness) of the program;
  - -- Start first with smaller enterprises, so as to minimize the potential damage of mistakes;
  - -- Initially select about three agribusiness companies which appear to be good candidates for privatization;
  - -- Look for early, visible success; the "demonstration effect" is crucial; and
  - -- Build on the experience.

o Assign the Responsibility

Appoint an individual, or organization, whose full responsibility will be to implement the program.

o Enact Authorizing Legislation

Inter alia, the authorizing legislation should define the complex processes for: (a) valuation of enterprises; (b) public auctions; and (c) direct negotiation.

o Foster Public Awareness

Plan and implement a public awareness campaign, including radio, television, print media and a series of conferences on "Why Privatize."

o Prepare an Action Plan

Formulate a detailed, time-phased action plan to begin to transfer selected holdings of (X holding company) to the private sector, or to dispose of the assets, or to carry out another mode of privatization.

o Build on the Initial Experience

B. Recommended Changes in Other Rules, Procedures and Policies

1. Investment Sanctioning and Post-Sanctioning Implementation and Financing Procedures Need to be Streamlined, Made Positive and Implemented Congenially

-- Use "big eight" consulting firms to vet proposals for BOI approval; do not limit this role to IPB; and

-- Use the AgriBusiness Cell to aid post-sanctioning of agribusinesses.

2. TARGETED PROMOTION of Agribusiness is Needed to Attract Both Local and Foreign Capital Investment

-- Must compete for investors, local and foreign, to foster agribusiness formation and development;

-- Techniques and incentives used by other countries can serve as models;

-- Promoting agribusiness will require a sustained commitment of adequate resources, both time and money.

To learn what some other countries are doing to promote business development, the ACSCA team contacted all 50 state governments in the U.S., the U.K. county governments of Scotland and Wales, and the governments of Bahrain, India, Indonesia, Ireland, Malaysia, Nepal, Philippines, South Korea, Taiwan, Thailand and Turkey. The promotional materials, incentives and proactive development efforts of many of these governments are quite impressive and should be useful in helping to formulate plans to strengthen investment promotional efforts. Following is a set of basic principles which seem to be common among the promotional programs of nearly all of those agencies:

o A strong national economy is important to all facets of life, and all sectors--agriculture, education, health, religion, and social services--benefit from a strong economy.

o A strong, market-driven private sector is fundamental in creating a strong economy.

o A realistic vision of the nation's economic future and a conducive environment are prerequisites; to achieve this requires the judgement and involvement of responsible leaders to outline the economic strategy,to identify primary governmental actions, to give cohesion to the actions, and to avoid actions which may be harmful to the economy.

o A governmental development agency which is responsible to a top governmental official, but takes counsel from both political and business spheres, must accept the responsibility to:

-- target and promote the development of specific businesses in the country;

-- assist ventures to obtain the necessary governmental approvals, to obtain financing and to help solve start-up problems; and

-- monitor the progress of the ventures and assist them as needed.

o Adequate funds--ideally from both government and business--must be provided to the agency for an extended period.

o The agency must be staffed with high-calibre personnel who can effectively "market" the country and who can deal with business and political leaders as well as governmental officials.

- o Objectives of the agency must be quite specific, and the programs to achieve the objectives must be monitored and periodically evaluated to assure accountability and as a basis for making adjustments in programs.

- o The agency must be provided the tools to accomplish the objectives, and the means to coordinate with other public and private sector entities involved in economic development.

C. Recommended Institutional Support for Agribusiness Development

1. An Agency to Facilitate the Development of Private Sector Agribusiness

A legitimate role exists for a governmental agency with a mandate and the resources to facilitate the development of private sector agribusiness. A wise decision has been made by the Government of Pakistan to create an AgriBusiness Cell in the Ministry of Food, Agriculture and Cooperatives. The functions of the new agency should include, inter alia:

- o Create a favorable environment for agribusiness investment.

- o Target and promote the development of specific agribusinesses in Pakistan.

- o Assist such ventures to obtain the necessary governmental approvals and to solve start-up problems.

- o Coordinate with other public and private sector entities which foster agribusiness development and related policy and capital formation to sustain agribusiness development.

2. A Private Agribusiness Trade and Investment Advisory Company

The functions of a private agribusiness trade and investment advisory company would include:

- o Identify potential trade investment opportunities for agribusiness established in Pakistan.

- o Do pre-feasibility studies on the most promising.

- o Identify potential investors, either local or foreign, or both.

- o Do full-fledged feasibility studies and business plans for those potential enterprises in which investors are seriously interested.

- o 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, sources may include OPIC, USAID's commodity import program (CIP), suppliers credits, etc.

- o Invest directly in selected agribusiness enterprises (drawing on experience of aid-assisted private development banks and foundations in Jamaica and other countries).

- o Assist with sanctioning and post-sanctioning procedures.

- o Monitor progress of the enterprise and help to solve implementation problems.

- o Assist with "turn-arounds," mergers and improved management of existing agribusinesses.

PAKISTAN

AN ASSESSMENT OF THE NATIONAL AGRIBUSINESS ENVIRONMENT

FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

ANNEX A

Agribusiness Firms in Pakistan

ANNEX A

NUMBER OF AGRICULTURAL BUSINESS FIRMS IN PAKISTAN

	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88
Food Manufacture																													
Wheat flour mills																													
Maize mills																													
Rice mills																													
-S-														201															
-H-														1788															
Oilseed expellers*															15					15	15	15	15						
Oilseed solvent extractors																													
Fruit & Veg processors																													
Livestock slaughter plants																													
Livestock processing plants																													
Poultry processing plants																													
Dairy plants																													
Sugar factories (white)	7	8	8	8	9	10	13	15	17	19	19	19	22	23	24	25	25	27	28	31	31	34	35	36	39	39	41	41	42
Tea Processors																			5	5	5	5	5	5	5	5	4	4	
Fish Canneries/Processers																													
Freezing	5	8	9	12	13	14	14	15	15	16	16	16	16	17	17	17	17	17	18	18	18	22	22	22	22				
Canning	4	4	4	5	5	5	6	6	7	7	8	8	8	10	10	10	11	11	11	11	11	11	11	11	11				
Fish Meal	5	5	5	5	5	5	5	7	7	7	7	8	8	9	9	9	11	11	11	11	11	11	11	11	11				
Oil Extraction				1	2																								
Dehydration																													
Fibre Processing																													
Cotton gins															405														
Textile mills (cotton)	72	72	71	76	81	83	89	94	95					150	155	143	127	135	140	152	149	158	155	153	156	158	160	187	
(wollen)																			14	14	13	12	12	13	17	18	20	21	
(jute)												4	4	4	4	4	4	4	4	6	6	7	7	9	12	13	13	14	

A-2

NUMBER OF AGRICULTURAL BUSINESS FIRMS IN PAKISTAN

	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88
Forestry Processing																													
Sawmills																													
Paper board plants												5	5	5	5	5	6	6	6	10	12	13	15	15	15	15	15	14	
Other (Matches)												2	13	63	50	75	65	78	93	101	101	94	87	73	79	68	50	37	
Farm Input Companies																													
Fertilizer factories												5	6	6	6	6	6	6	6	6	6	7	9	9	9	9	9	9	
Seed processing plants																													
Tractor & implement co's																													
Farm equipment manufacture																													
Feed-mixing plants-poultry																		17	21	26		33	33	37	41	41	53	102	102
Pesticide/insecticide																													
Poultry hatcheries																													
Tobacco (cigarettes)												16	16	18	18	19	20	20	18	21	24	25	23	22	20	21	22	19	
Vegetable ghee	11	13	19	19	18	20	20	20	19	19	24	24	25	27	28	27	28	29	29	28	30	31	28	32	37	44	41	41	42
Beverages																													
Frozen juices & pulp																													78
Others																													3
Syrups & squashes																													21

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ANNEX B

Secondary Data sources for the Analysis of Corporate Sector Constraints in Agriculture

ANNEX B

SECONDARY DATA SOURCES FOR THE ANALYSIS OF CORPORATE SECTOR CONSTRAINTS IN AGRICULTURE

This annex contains the secondary sources of data which, after being supplemented with information obtained in personal interviews, was used to formulate the preliminary findings and conclusions in the main body of the report. Besides the data sources listed in this annex, several of the other annexes have bibliographies that contain additional data sources.

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   8. Abattoir
   9. Slaughtering & Corned Beef Canning Plant
   10. Poultry Feed Plant
   11. Poultry Farming (Broiler Cum Layer)
   12. Broiler Farming
   13. Poultry Layer Farming
   14. Poultry Breeding Farm & Hatchery
   15. Poultry Hatchery
   16. Integrated Poultry Processing
   17. Automatic Rice Sheller Mills
   18. Milling Parboiled Rice
   19. Parboiling of Rice
   20. Solvent Oil Extraction from Rice Bran
   21. Plant for Production of Smokeless Briquetted Fuel from Rice Husk

22. Plant for Production of Rice Husk Wood
23. Animal Feed Mills
24. Tomato Paste Production
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FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

ANNEX C

List of Persons Interviewed

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ANNEX C

LIST OF PERSONS INTERVIEWED

This list of persons interviewed includes only those who were interviewed directly in connection with obtaining and testing ideas contained in the National Agribusiness Assessment Report. The list excludes the several hundred persons who participated in Agribusiness Development Seminars or who were interviewed in connection with the Agro-Industry Case Study Research.

Name/Title	Institution
	Islamabad
Mr. Saeed Ahmed Qureshi, Secretary	Ministry of Commerce, GOP
Dr. A. R. Kemal,	Pakistan Institute of Development Economics
Dr. Amir Mohammad, Chairman	Pakistan Agricultural Research Council (PARC)
Mr. A. Rashid Mian, Managing Director	Peoples Finance Corporation
Agha Sajjad Hyder, Chairman	Agri-business Relations Committee PARC
Syed Munir Hussain, Chairman	Agricultural Development Bank of Pakistan
Mr. Irtiza Hussain, Chairman	Corporate Law Authority
Mr. Munir Ahmed, Director General (Gas)	Ministry of Petroleum & Natural Resources, GOP
Mr. M. A. Kazmi, till recently Secretary	Ministry of Industries, GOP

Mr. H. U Beg, Former Secretary	Finance, Planning & Development Division, GOP
Mr. Aitzaz-ud-Din Ahmed, Secretary	Ministry of Industries, GOP
Mr. Mahmud Ahmed, Joint Secretary (Planning)	Ministry of Industries, GOP
Dr. Ghulam Rasul, Economic Adviser	Ministry of Finance, GOP
Rao Sikandar Iqbal,	Federal Minister for Food, Agriculture & Cooperatives
Mr. Ahmad Jamal Khan, Managing Director	Fauji Foundation
Mr. Muzaffar Mahmud, Qureshi Member (Custom)	Central Board of Revenue
	Karachi
Mr. M. Saddique Khan,	Al-Noor Agribusiness Group
Mr. Mohammad Hussain, Senior Partner	A. F. Ferguson & Company (Affiliate of Price Waterhouse)
Mr. Quereshi, Controller (Foreign Exchange)	State Bank of Pakistan
Mr. Parek, Managing Director	Industrial Development Bank of Pakistan
Mr. Quabil Khan, Sr. Vice President	National Development Finance Corporation
Mr. A. A. Qazi, Director General	Export Promotion Bureau

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Mr. Sakran, Senior Member	Board of Directors, Pakistan Banking Council
Dr. Fazal Mohammad, Director General	Investment Promotion Bureau, Ministry of Industries
Mr. S. Nisar Ali Khan, Chairman	Rice Export Corporation
Dr. Arshad Malik, Chairman	Cotton Export Corporation
Mr. Javed Burki, Vice Chairman	
Mr. Hussain Dawood,	Dawood Group of Industries
Mr. Yunus Bandukda, President	Karachi Chamber of Commerce & Industry
	<u>Lahore</u>
Syed Babar Ali, Vice Chancellor	Lahore University of Management Sciences and Chairman Packages Ltd. Milk Pak and other Industries.
Mr. Sultan Ali Chaudhry, Chairman	Punjab Peasants Commission
	<u>Lahore</u>
Mr. Mahmud A. Bhatti, Chairman	Punjab Group of Industries
Mr. Javed Akhtar, Member (Power)	Water & Power Development Authority (WAPDA)
Mr. Waseem Khan, Managing Director (Distribution)	WAPDA

Mr. Arshad Bokhari, General Manager (Operations)	WAPDA
	United Traders Syndicate
Khawaja Amjad Saeed, Director/Professor	Institute of Business Administration University of the Punjab
Mr. Tanwir Ahmad, Secretary	Industries Department, Government of the Punjab
Mr. Tariq Hamid, President	Lahore Chamber of Commerce & Industry
	<u>Peshawar</u>
Mr. Unis Elahi Sethi, President	Sarhad Chamber of Commerce & Industry
Mr. Ehsanullah Khan, President	Sarhad Chamber of Agriculture
Mr. Mehfooz Ali Shah, Director General	Agriculture, Government of NWFP
Pro-Vice Chancellor	University of Agriculture
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PAKISTAN

AN ASSESSMENT OF THE NATIONAL AGRIBUSINESS ENVIRONMENT

FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

ANNEX D

Executive Summary of Agribusiness Industry
Case Study Report

ANNEX D

EXECUTIVE SUMMARY OF AGRIBUSINESS INDUSTRY CASE STUDY REPORT

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.

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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.

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:

- Farm Machinery and Implements
- Fertilizer and Pesticides
- Seed
- Edible Oil
- Livestock Feed
- 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:

1. 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

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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.

2. 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 <u>direct and indirect</u> 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.

3. 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.

4. 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.

5. 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 as 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 the established in the private sector. Their purpose will be sharply 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.

RECOMMENDATIONS

1. 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.

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2. **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.

3. **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.

4. **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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<u>ANNEX E</u>

Attitudes of Multinational Agribusiness Companies
Regarding Investing in Pakistan

ANNEX E

<u>Attitudes of Multinational Agribusiness Companies Toward Investing in Pakistan</u>

As a part of the Analysis of Corporate Sector Constraints in Agriculture, a member of the ACSCA team held discussions in the U.S. and the U.K. with senior officers of 11 U.S. and 4 U.K. multinational companies on their operations in Pakistan and their attitudes about doing business in Pakistan. Contacts were initiated with either the Chairman or President of each company. The survey was conducted with the person contacted or with one of the senior officers of the company (i.e., Executive Vice President International, Group Vice President responsible for the area which includes Pakistan, or Vice President/Director of Planning.) In some cases, follow-up interviews or correspondence were held with additional senior officers of a company. Among the U.S. companies were Castle and Cook (Dole), Central Soya, General Mills, International Multi Foods, Land O'Lakes, Pillsbury, Proctor & Gamble, Quaker Oats, and United Brands (Chiqita). The U.K. companies were BAT (British American Tobacco), RHM (Rank Hovis McDougall), Unilever and United Biscuits. In brief, of the 15 companies:

a. two companies which have operations in Pakistan are "generally positive" on conducting business in Pakistan;

b. two companies which have operations in Pakistan are considering or are proceeding to expand operations despite their concerns on the overall economic/political/business climate in Pakistan;

c. one company is considering establishing operations in Pakistan if the overall economic/political/ business climate in Pakistan continues to improve;

d. three companies might be interested in establishing operations in Pakistan if the overall economic/ political/business climate were better in Pakistan;

e. seven companies are not considering establishing operations in Pakistan, for three basic reasons:

    (i) they feel Pakistan is an unstable economic and political area;

    (ii) there is "insufficient information" available to them on the opportunities in Pakistan (i.e., they do not know if there is a market for their products in Pakistan or if there are raw materials they would use in an economic way to market internationally); and

(iii) there has been "no cooperation" from the Pakistan banks and government sources that they have contacted over the years.

In short, the results of this informal survey suggest that Pakistan needs more "corporate supporters" in the multinational agribusiness community and, therefore, must make changes in the economic/political/business climate if multinational agribusiness firms are to be attracted to Pakistan. This will require an investment of both time and money to provide relevant information and to promote the country.

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FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

ANNEX F

Government Role and Practice in Food Protection
and Quality Control

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ANNEX F

GOVERNMENT ROLE AND PRACTICE IN FOOD PROTECTION AND QUALITY CONTROL

A. Origin Of Pakistan Food Laws

The Pure Food Ordinance, 1960, repealed a number of previously issued food acts, but left portions of these acts in place where there was no conflict. The 1960 ordinance, largely, conferred authority to various governmental bodies and defined certain legal terms. It was added to several times with the Pure Food Rules, 1965, being the principal instrument that defined certain classes of food, set a few physical, chemical and microbial standards for some food items and outlined a limited number of test procedures.

The Pure Food Ordinance, 1960, designates the government of each province to carry out the requirements of the ordinance and subsequent food laws. The provincial governments, in turn, confer this responsibility to the "Health Officer" of the municipal government along with the "Inspectors" and the "Public Analyst" who actually obtain samples and analyze them. The certificate of the Public Analyst is considered evidence unless the contrary is proved.

B. Adequacy of Pure Food Rules

The Pure Food Rules, 1965, were incomplete and inadequate to cover the conditions that existed then and, certainly, are not sufficient to protect the consumer from aflatoxin, microbial, heavy metal, and pesticide contaminations that are known to exist today and from adulteration and inferior quality products.

The Pure Food Rules, 1965, did not attempt to classify or exactly define a large number of food products. Neither did they mandate testing for known contaminants nor set contaminant tolerance levels. Laboratory methodologies were also ignored at the time. This has resulted in an ineffectual system that has not been updated in 24 years. The food laws should be simplified and the standards, tolerances, and methodologies should be continuously modified to reflect improved methodologies and further research. For instance, a zero tolerance level may be no longer practical when the detection levels have improved one thousand times for certain contaminants. Likewise, new processing technologies and the discovery of more heat resistant pathogenic bacteria have made the Pure Food Rules on pasteurization obsolete.

Since both tolerances and methodologies do change it is necessary to have a national standards organization, empowered by law, to continuously examine and update these issues. Because it is costly to develop food standards and appropriate methodologies, many national standards organizations rely on those standards developed by the Joint Food and Agricultural Organization/World Health Organization Standards Programme, Codex Alimentarius Commission. These food standards are developed by a committee of experts from many nations.

C. Enforcement of the Pure Food Ordinances and Rules

A small amount of food sampling and rudimentary testing is being done based on the Pure Food Rules. There is a high rejection rate in both food and fluid milk. This system is greatly handicapped by lack of personnel and transportation, lack of enforceable standards, few testing facilities with appropriate equipment and supplies, delays in getting results, alleged corruption, inadequate fines and penalties, and delays in bringing offenders to trial.

In the fiscal year 1981-2, 14,341 milk samples were tested for adulteration and 47.6% were adulterated with water and the overall sample rejection rate for all testing was 38.7% for 33,409 samples. In Islamabad, in 1987, 71% of the milk samples were found to be adulterated with water and it took an average of 50 days to obtain the lab results. It was further stated that 16% of the cases with unsatisfactory test results escaped trial by court[1].

In the case of milk, an essential food for infants and children, the regulatory system allows the urban milk sellers to operate almost unimpeded (only 6% are checked yearly). If the milk seller continues to operate during the testing and trial period he can earn 100 times the fine he may have to pay if he is found guilty. Still worse, nearly all of the urban milk supply comes from the villages where the contaminated milk is adulterated with groundwater or canal water. The consumer has been forced to accept an adulterated milk supply, and by implication, other inferior quality food products. This is because the regulatory authorities with the present laws and infrastructure cannot effectively deal with enforcement.

Milk produced under unhygienic conditions and adulterated with contaminated water is clearly a significant health hazard to the public. It is thought to be a large contributor to the high rate of infant mortality and is a contributing factor to malnutrition given the loss of protein, calories and calcium that results from water addition. Finally, the economic impact on consumers who spends 27% of his food budget on milk and dairy products must be considered. The rights of the consumer are going unprotected because of a lack of commitment on the government's part to modify present food laws.

D. Corporate Sector Restraints

Operating in this environment the food processor would be expected to be operating at an advantage. This may, in fact, be true when the domestic market is considered. However, it must be remembered that the domestic market is dominated by fresh fruits, vegetables, meat, eggs and milk along with commodity items like flower, sugar and vegetable oil.

The lax regulatory environment has not forced the food (and dairy) processors to develop quality raw materials, efficient packaging systems, plant quality control, sanitation, and pest control programs necessary to meet internationally accepted quality standards or produce products with broad market appeal. This will limit their potential to export their products when the opportunity finally does arrive.

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ANNEX G

Government Role in Consumer Protection

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ANNEX G

GOVERNMENT ROLE IN CONSUMER PROTECTION

Government has a legitimate role in ensuring that goods manufactured and sold in the market do not contain dangerous chemicals; are correctly labelled so that consumers know what they are buying; and are not hazardous to health. This is to protect human life and its quality and to check malpractices in economic transactions.

This may also help to raise the level of consumer acceptability of new products which in turn promotes growth. While consumer protection is a relevant issue for a number of agribusiness activities, the issue will be explored particularly in the cases of fertilizer pesticides, seeds and processed (tinned) food industries.

The main points on which the analysis will be focused in the coming months are:

1. Seed Industry

a. The seed industry is governed by the Seed Act 1976. The 1976 Act laid down institutional arrangements to regulate the development of "notified varieties" of seeds. A notified variety is one which is recognized by the Ministry of Agriculture on the basis of its "Distinct", "Uniform" and "Stable" characteristics. There are no regulations relating to unnotified varieties of seeds. One of the most important features of this Act is the creation of the Federal Seed Certification Department which has been responsible to monitor and regulate the seed industry in Pakistan.

b. While the 1976 Seed Act provides the broad features of a seed regulating system, "seed certification standards" were not devised till 1988. A gazette notification of the Ministry of Food and Agriculture issued on July 10, 1988, provides details of procedures and directions for certifying different seeds.[2] This is a comprehensive document giving a scientific basis for testing seed production at different stages and its certification. Seeds are certified after thorough laboratory tests according to the international standards of 98% purity. The Federal agency responsible for this task is recognized by the International Seed Testing Association, Switzerland.

c. There are apparently two major flaws in the existing rules: (i) no mandatory provision for "truthful labelling" of the final product; and (ii) partial coverage of certification of seeds actually used by farmers. With regard to the first problem a proposal is already under consideration of the Ministry of Justice for making "truthful labelling" a requirement for marketing any seed. The second problem is due to lack of checks on the marketing of unnotified varieties of seed.

However from the point of view of consumer protection and agribusiness there are a number of other problems in the existing rules and their application. Some of them are;

(i) Whereas the present rules are quite scientific, they appear over ambitious in view of the fact that a large proportion of seed being sold and used rarely goes through any scientific testing. Partly it may be due to lack of licensing requirement for seed dealership, but rigidity in the seed certification system could also be blamed for not encouraging the development of certified seeds. The penalty of Rs. 1000 provided in the law for the first offense does not seem adequate and can rarely discourage any malpractice.

(ii) From the business point of view there are three basic problems in the present system; (a) The certification process does not put a time limit for completing the process. At present, theoretically this could take any length of time which puts a cost on the business; (b) Seed could be rejected at the final stage even though at the Pre-Basic and Basic stages it was certified; and (c) There is some degree of arbitrariness in rules relating to cancellation of registration of the grower. It seems that the registration can be cancelled if the certification agency determines that the person concerned is not abiding by the rules for seed certification and production and not maintaining the desired level of varietal purity of the crop, etc. [1] It is not clear here if the grower can challenge any decision of the certification agency.

(iii) From the consumer point of view once again, the basic problem of setting a pure seed remains far from reality. Seed adulteration is very common and private and public sector are both responsible for it. Punjab Seed Corporation is alleged to mix lower quality seed with better quality. Private dealers are widely known to sell many times more than the quantity they get certified from the government.

2. Food Processing Industry

a. Standards for maintaining the quality and purity of processed foods have been specified for the following commodities in Pakistan:

(i) Fruit Squashes

(ii) Canned and bottled fruits;

(iii) Fruit beverages drink and crushes

(iv) Dried vegetables, and

(v) Chutnies

b. These standards were specified by Pakistan Standards Institutions first in August 1964. Assistance from the following documents were taken to prepare those standards [3,4].

(i) The U.S. Federal Food, Drug and Cosmetic Act.

(ii) The Canning Trade Almanac, 1952 (USA).

(iii) The Fruit Products Order, 1955 (India).

(iv) The Prevention of Food Adulteration Rules, 1955 (India).

(v) The Fruit Products Control Order, 1951 (Pakistan).

(vi) The Punjab Pure Food Rules, 1930.

These standards were revised in 1983 taking assistance from International Standards, IS: 4936-1968. The new standards specify requirements for 'Preparation', 'Additive' and 'Preservation'. Methodology of sampling, testing and judging the quality have also been laid down in these standards.

'Packing' and 'Marking' requirements were spelled out in the original (1964) 'standards' but not in the 1983 ones. It could however be assumed that the 1964 standards for this aspect of food processing are still applicable.

c. The present standard specifications seem voluntary in nature, as there are no provisions to require every food processor to follow them. Similarly no penalty has been specified for those who do not follow them. As a result there are no checks on the actual implementation of these standards in the food processing industry. One of the most obvious examples of lack of implementation is provided by a marked difference between the required pulp content (of 25%) in fruit squashes and the actual content which is observed to be about 5% only.

Similarly there are no checks on the chemical used in processing different food items. Labelling requirements are not met in all the processed food items. In particular they are not followed in manufacturing of fruit juices and squashes.

3. **Fertilizers and Pesticides:**

a. Fertilizers and pesticides are highly sensitive chemical substances and need careful handling by farmers. This requires unambiguous instructions for the user about the precautions to be taken while using them.

At present, although there are rules which make it compulsory for the producer to display instructions on the packing, the implementation of these rules is far from satisfactory. There is therefore a need to look at the consequences of the existing practices for the consumer and agribusinesses both.

b. Some of the pesticides used in Pakistan are banned in U.S.A and other developed countries on account of environmental concern. There is a need to evaluate the effect of removing such pesticides from Pakistan on agribusiness and agricultural productivity.

c. Tampering with weights of fertilizer bags by retailers is a quite commonly reported problem. Why this problem is there and how it can be effectively overcome are also the issues which are to be explored in the analysis.

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PAKISTAN

AN ASSESSMENT OF THE NATIONAL AGRIBUSINESS ENVIRONMENT

FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

ANNEX H

Laws Which Regulate the Use of Intellectual
Property in Pakistan

Annex H

LAWS WHICH REGULATE THE USE OF INTELLECTUAL PROPERTY IN PAKISTAN

Introduction

In the Analysis of Corporate Sector Constraints in Agriculture (ACSCA), inadequate protection for Trade Marks and Patents has been identified as one of the areas to be studied. This annex deals with some of the laws and issues associated and protection for Trade Marks and Patents.

1. TRADE MARKS

a. Background

The registration and protection of Trade Marks in Pakistan goes back to 1879 when the Government of India introduced a Trade Mark Registration Bill in Imperial Legislative Council. The Bill was not proceeded due to lack of support from commercial bodies. The actual Trade Mark Act to provide for the registration and more effective protection of Trade Marks was passed on 11th March 1940, when it was felt that without a registration system Trade Marks could not enjoy adequate protection at home and abroad. The objective of the Act was to protect Trade Marks against infringement.

Under the Trade Marks Act 1940, Trade Marks Registry was established by Pakistan in 1948 with a Head Office at Karachi, and a Branch Office at Lahore. Trade Marks Registry is an attached Department under the Federal Ministry of Commerce. The Registrar appointed by the Federal Government is the Head of the Registry Department, and is based at Karachi.

Trade Marks Registry is responsible for administration of Trade Marks Act 1940, and the rules made there under for registration, granting protection and conferring commercial proprietary rights to individuals and corporate bodies in the matter of Trade Marks. The Registrar is both a judicial as well as an Administrative Officer.

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b. Sub-Issues for Detailed Investigation

Three issues require detailed investigations under Trade Marks constraint analysis:

i) Procedure for Registration of Trade Marks; and enforcement of law;

ii) Weakness in the Trade Marks Act and related rules to provide protection to Trade Marks in case of infringement; and

iii) Problems of the Registry.

c. Available Data

To collect required data, the following organizations were visited.

- Ministry of Commerce.
- Pakistan Council for Scientific and Industrial Research (PCSIR), F.7, Islamabad.
- United Nations Industrial Development Organization, Islamabad.
- United Traders Syndicate, a legal house for the attainment of Patents, Designs, Trade Marks, Trade Contracts and Agreements, 61, The Mall, Lahore.
- Friends Enterprises, Importers and Exporters, F.6, Islamabad.
- Punjab Oil Mills (Pvt) Ltd., Rawalpindi.

d. Published Information:

The Manual of Trade Marks containing:

- Trade Marks Act, 1940
- The Revised Trade Mark Rules, 1963
- New Delhi Declaration and Plan of Action on Industrialization of Developing Countries for their Industrial Development, UNIDO

- Investment Promotion Information System (INPRIS) UNIDO
- Industrial Policy Statement, Ministry of Industries, Government of Pakistan, Islamabad.
- New Industrial Package, Ministry of Industries, Government of Pakistan, Islamabad.
- Industry and Development - Global Report - UNIDO.

e. Trade Marks Registration Procedure

Any person or corporate body willing to protect a Trade Mark has to apply to the Registrar on a prescribed form (MT-1 to MT-3). Application must be accompanied by a fee of Rs. 100. After receipt of the completed form, each application is allotted a serial number which is communicated to the applicant. The application is then processed for record and indexing purposes. Apart from preparing name and subject indexes, the particulars of the applicant and Trade Mark are entered in a Master Register/Diary. After this, the application is examined on its turn.

The examination is manifolded. The Trade Mark applied for is examined under various sections of the Trade Marks Act and rules made there under, whereafter a report called the Examination Report is drawn. Where the applied Trade Mark is free from objection, on preliminary investigation, the Mark is accepted for advertisement in the monthly Trade Marks Journal, a statutory publication. In cases where the Trade Mark is objectionable, a prescribed procedure is followed and final disposal is made after hearing the applicant.

As soon as a Trade Mark is advertised in the Trade Marks Journal, it is open to objection by anyone within two months, as prescribed, extendable on a month to month basis for a duration of six months. Where there is no opposition, the advertised Trade Mark becomes ripe for registration after payment of the registration fee prescribed under Trade Mark Rules. The first registration is valid for seven years effective from the date of application. The registered Trade Mark is renewable for a period of 15 years on payment of a renewal fee.

OPPOSITION:

Where an advertised Trade Mark is opposed, both the opponent and applicant are given maximum opportunities to support their case by providing evidence. After an opposition when the case is complete, a hearing is arranged. A final decision is made on the case, with both the parties present. Such a decision of the Registrar is appealable in the Civil Courts, under a normal procedure of civil courts.

RECTIFICATION:

When someone is grieved by a registration, he may apply for rectification to the Register. The procedure followed in rectification proceedings is the same as in opposition proceedings.

After going through the procedure, the Trade Mark is registered and entered in a Register called the Trade Marks Register. This forms a permanent record of lasting values. All changes, amendments etc., after registration, are entered in this Register.

- The Trade Marks Act and the Revised Trade Marks Rules are given in Manual of Trade Marks reference No. 1.

- Constraints identified are discussed under preliminary findings and conclusions.

f. Additional Information/Data Needs

Additional information on constraints can be obtained from the following sources:

- Trade Marks Registrar's Office, Karachi

- More industrialists to be interviewed

- Material from World Intellectual Property Organization (WIPO)

- Registration Law Chamber, 11-G-Saleemi Chamber, Edward Road, Lahore.

Direct interview method was adopted for collecting information, wherever needed records were also used.

Preliminary Findings and Conclusions

The Trade Marks Act, 1940 and the Revised Trade Marks Rules, 1963 are very elaborate and comprehensive. The Trade Marks Act, 1940, comprises of 86 Sections covering almost all possible problems which can arise. As soon as a Trade Mark has been so employed in the market as to indicate to purchasers that the good to which it is attached is the manufacture of a particular firm, it becomes to that extent the property of the firm. Trade Marks play an important role in business and trade.

Infringement of Trade Marks cases are reported to the Registrar and in the civil courts. For example, in Islamabad a hotel was in business with the name Tabaq Hotel. Appeal was made against this trade name and the case was decided in favor of the applicant who was already assigned this trade name. Now the name of Tabaq Hotel is changed to Usmania Restaurant.

No doubt infringement cases are reported, but the Trade Marks Act and Trade Marks Rules provide comprehensive protection. Legal punishment for infringement, is up to 3 years imprisonment or fine, or both. From preliminary findings it can be concluded that the infringement of Trade Marks is not a major constraint in foreign and local private investments in agribusiness and agro-based industrial development and promotion. However, there are some procedural constraints and weakness in the law which are as follows:-

- Unawareness of the Trade Marks Act and Trade Marks Rules is one of the constraints. Very often Trade Marks are copies unknowingly; these are legally protected.

- Trade Mark Registry is under the Ministry of Commerce, and Patents Office is under the Ministry of Industries. If both were under one Ministry it would be easier to deal with.

- Ministry of Commerce is in Islamabad, and the Trade Marks Registration Department is in Karachi. One Branch Office is in Lahore which covers the whole of North Pakistan and staffed by an examiner. Trade Mark approving authorities are based in Karachi and visit the Lahore Office once a month, this delays the approval and registration of Trade Marks.

- Registration procedure is difficult and lengthy. Sometimes, the time taken for registration is 2-3 years. For Trade Mark Registration there is no time limit, but in patents, there is a time limit of 18 months and a maximum time limit of 21 months within which the Department has to complete all registration formalities.

- Legal procedure for enforcement of rights is lengthy and cumbersome. Physical presence of the complainant is necessary in the court, defendant gets his bail and complainant has to frequent the court.

- Local Trade Mark Promotion system is very weak.

- Discretionary powers of the Registrar is a major role in decision making. If the existing laws are improved and provide legal framework for the Registrar, the system will work better.

- Merger of Trade Marks Department and Export Promotion Bureau is a professional constraint for the time being, because the officers transferred to the Trade Marks Department from the Export Promotion Bureau take a long time to understand the Trade Marks laws. By the time they understand the laws, they are again transferred to another office.

2. PATENTS

A Patent is a privilege granted by the State to the first inventor of any new manufacture and that, he and his licensees shall have the sole right, during the term of 16 years, of making or vending such an invention. In legal parlance, a Patent means protection by the State from imitation of something which has been invented.

a. Background

Earliest Act to the Protection of Patents and Designs was enforced on the subcontinent in 1859, which was modified later. Patents and Designs Act 1911, with some amendments is enforced in Pakistan at present. Under this Act, Patents and Designs Office has been established at Karachi under the Ministry of Industries. Controller of Patents and Designs is the Head of the Patents and Designs Office.

Patents and Designs office is responsible for the administration of Patents and Designs Act 1911, and amendments and rules made there under for registration, granting protection against infringement and conferring intellectual property rights to individuals and corporate bodies. The procedure of registration and legal procedure for enforcement of rights are lengthy and cumbersome. Some weak points in the law are the causes of infringement of Patents.

b. Sub-issues for Detailed Investigation

Three issues require detailed investigations under Patents protection system:

i) Registration procedure for Patents;

ii) Legal procedure for enforcement of rights on intellectual property; and

iii) Drawbacks in the Patents and Designs Act and Rules for providing protection to Patents against infringement.

c. Available Information

The required information was obtained from the following sources:

- Ministry of Industries
- Pakistan Council for Scientific and Industrial Research (PCSIR)
- United National Industrial Organization (UNIDO), Islamabad
- United Traders Syndicate - a legal house for the attainment of Patents, Designs and Trade Marks, Lahore.

d. Published Information

- The Manual containing:
- The Patents and Designs Act, 1911
- The Patents and Designs Rules, 1937.

e. Registration Procedure for Patents

An application for protection of Patents is made to the Controller of Patents on the prescribed form (1-1-A, 1-B, 1-C, 1-AC, etc.). The application must contain a declaration to the effect that applicant is in possession of an invention, and must effect that applicant is in possession of an invention, and must be accompanied by either a provisional or complete specification with the payment of prescribed fee (Rs. 10). If the inventor is not a party to the application, the application must contain a statement of his name and identification.

The applicant must prove that he is a legal representative or assignee of inventor. In case of provisional specification, complete specification must be submitted within nine months from the date of application. The Controller starts processing the application with provisional specification, if so requested by the patentee.

Application with complete specification is referred to the examiner for his report on various aspects of the invention. The application is accepted within 18 months. This period for acceptance can be extended by three months on the request of the applicant. If application is not accepted within 18 months (or 21 months, if extension is given), the application is considered to have been rejected.

On acceptance of the application, the application and specification with drawings are advertised and made open to the public inspection.

OPPOSITION TO GRANT OF PATENT

Any person on payment of prescribed fee, at any time with 4 months from the date of advertisement can give notice at the Patents Office against grant of Patent on reasonable grounds as prescribed in the (Amdt) Act 1930. Where such notice is given, the Controller gives notice of the opposition to the applicant after the expiry of 4 months, and decision is taken after hearing the applicant and opponent. The decision of the Controller is subject to appeal to the Federal Government.

If there is no opposition, or in case of opposition the decision is in favor of applicant, the Patent is sealed in the Patents Office with the Seal of Patent Office. The Patent is sealed within 24 months from the date of application. The Patent is entered in the Register of Patents with name and address of the Patentee with license issued, etc. Under the Patents Act, protection is provided for 16 years and is extendable, by request of patentee on certain genuine reasons.

The Act and Rules on Patents are given in reference No. 1. Constraints identified are discussed under Findings and Conclusions.

f. **Additional Information/Data Needs**

Additional information can be obtained on constraints from the following sources:

- Patents and Designs Office, Karachi
- More industrialists can be interviewed
- Material from World Intellectual Property Organization (WIPO)
- Registration Law Chamber, Lahore

g. **Procedure for Data Collection**

Information on registration procedures, Acts and Rules have been obtained from published sources. Direct interview method has been used for collecting data on constraints and weakness in the existing Act and Rules and formal procedures followed in the infringement and protection of Patents.

h. **Preliminary Findings and Conclusions**

Patents in Pakistan are protected for the encouragement of research, industry and progress in the industrial sector. The protection regards genuine inventions, by giving them a limited monopoly for encouraging commercial enterprises.

The Patent laws in Pakistan for providing protection to industrial property under Patents and Designs Act, and Patents and Design Rules. Rules are very elaborate and provide wide coverage against infringement. Grant of Patent confers on the patentee, the exclusive privilege of manufacturing, selling and using the invention throughout Pakistan for a period of 16 years, which is further extendable according to circumstances. At present more than 8,000 Patents are protected.

Copyright in a new design is granted for a period of 5 years which is extendable upon application for 2 further periods of 5 years each. The grant of license for using a Patent or Design against payment of royalty is permissible.

Infringement cases are reported to the Patents and Designs Office.
Although infringement cases are reported and decisions are made, preliminary

findings indicate that infringement of Patents and Designs is not a major constraint in foreign and local private investments in agribusiness and agro-based industrial development and promotion. However, there are some procedural constraints relating to registration, enforcement of rights against infringement and weaknesses in the law which are given below:-

- Trade Mark Registry is attached to the Department of the Ministry of Commerce, and Patents Office is under the Ministry of Industries. Any person willing to register Trade Marks and Patents has to deal with two Ministries. If both offices were under one Ministry it would be easier to deal with.

- Registration procedure is lengthy. Registration of Patents takes almost 2 years from the date of application until registration.

- Legal procedure for enforcement of rights in case of infringement is lengthy and cumbersome. Physical presence of the complainant is necessary in the court and so many visits are required for the disposal of the case.

- Punishment for infringement is minor.

- Unawareness about laws and their rights for Patents is one constraint. Very often Patents are copied unknowingly, and these have legal protection.

- Lack of coordination between local Industrial Research Department, Patents Office and Joint Patents program of UNIDO, World Intellectual Property Organization (WIPO), International Patent Documentation Office (INPADOC) Vienna and Industrial and Technological Information Bank (INTIB).

If the Patents are made available to the industrial researchers, these can be improved and industrial development expedited. Very little research work is going on evolving patents in the agro-based industrial sub-sector.

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