Agriculture: the new priority

Agriculture

By A.B. Shahid

ECONOMISTS and environmentalists now point to three big challenges, developing scarcity of water, food and energy; they want governments to focus on cutting their waste and ensure their enhanced availability on a sustained basis.

Though every country confronts these challenges, few are poised to face them confidently. In developing countries, raising food growth is a challenge because of many stumbling blocks but principally population growth, unorganised agriculture sector, disputes over sharing river water, and global warming. While slowing global warming requires sustained joint efforts, the other issues must be addressed by the countries themselves.

Pakistan tops population growth in South Asia but its agriculture sector remains unorganised, and its infrastructure hasn't been upgraded in recent years although in this agrarian economy the share of agriculture in the GDP kept sliding. Atop thereof, violating the IRSA treaty, India has been consuming an unfair share of water from the Indus basin.

Agriculture still contributes 21 per cent of the GDP but its share in credit has fallen to 6.9 per cent. In the US agriculture contributes one per cent of the GDP but its share in total credit is three per cent. Given the fact that in Pakistan the sector's entire infrastructure remains handicapped, agriculture should receive a much higher share in total credit.

The government is striving to raise the sector's credit off-take and SBP has given commercial banks lending targets but not all banks meet these targets because they lack access to small towns and villages, lending expertise, and (until recently when crop insurance wasn't available) their incapacity to accept the risks involved in farm lending.

For too long agriculture credit was routed through state-owned institutions and co-op banks. According to SBP's FY08 Annual Report, neither co-op banks nor Zarai Taraqiati Bank delivered on their promises but, despite their short-comings and recent entry into this sector, commercial banks did better (though not enough) in financing this sector.

Financing agriculture involves understanding the roles of and risks associated with growers, players in distribution chains, organised food processors, and the resource-strapped but access-wise better placed co-op banks. At present, banks lacking access to small towns and villages have opted to route credit to growers on the guarantees of food processors in the organised sector.

The five big banks went further by setting up special units for direct lending to the biggest and riskiest segment – growers. But the head of agricultural credit in one of them was concerned about the steadily developing water scarcity on which the government isn't pressing India enough to stop construction of dams that withhold Pakistan's share of river water.

Water scarcity caused agricultural growth in FY08 to drop to the record low of 1.5 per cent. Shortfall in wheat and cotton crops diluted the record rise in sugarcane and better performance in minor crops, livestock and fishing. Fruit sector continued to suffer for the second consecutive year as citrus production fell to 1.45 million tons from 2.48 million tons until FY 06. These shortages prompted imports that expanded trade deficit.

Yet, disbursement of fresh credit to the sector rose by 25.4 per cent over FY07; it financed rising costs, much less than a real rise in borrowing but the jump in the number of borrowers was commendable. Ours being a predominantly agrarian economy, banks must increase financing to this sector to trigger growth and employment, cut domestic prices and food imports, and increase food exports – all strong pluses.

They must target self-sufficiency in food. Besides, food is also the item whose exports won't fall, and we can produce it abundantly in spite of prevailing levels of literacy and vocational skills. Raising productivity in agriculture and its sub-sectors requires producing high quality seeds, fertilisers and pesticides, as well as food processing, packaging, storage, and specialised transportation equipment – all presently inadequate.

To specialise in risk management, banks must focus on developing niches in sub-sectors so that their combined effort boosts production of crops, fruits, poultry, sea-food, livestock, and forestry to create opportunities for the dwindling domestic industries, and cut imports that also include value-addition cost in foreign exchange; this cost could then be footed in rupees.

Besides paying the value-addition cost in foreign exchange the government reduces or foregoes import and excise duties thereon as well as the GST (see the FY09 budget), and then subsidises their market prices. Finally, growers are paid inflated support prices for their crops. Put together, these concessions cost the taxpayers enormously, and the import dependency-generated distortions keep food inflation high.

At present only one unit produces DAP fertiliser and meets just 40 per cent of our requirements. Sprinkler technology allowing the optimal use of scare water availability is still imported as well as bulk of the pesticides. Credit to fisheries sector shows huge under-tapping of its potential given Pakistan's 350 mile-long coastline. Share of credit to livestock sector conveys the same impression.

Lack of forecasts about climatic conditions, crop-wise domestic demand and prices, and regional trends in agricultural growth trigger regular cycles of demand-supply mismatches, and hurt grower sentiment. The fact that we now have surplus rice worth $2.5 billion and growers don't know what to do with, will lead to lower rice crop and supply shortages next year. This research deficiency must be addressed at the earliest.

Although Pakistan is the fifth largest producer of milk (implying a huge livestock base) it has yet to become an exporter of processed milk products. Forty per cent of fruits (offering huge export potential) rot because storage and processing facilities are wholly inadequate. Both offer opportunities for investing far more than the Rs1.5 billion provided in the FY09 budget leaving room for private investment.

Indications are that investment for local-foreign joint ventures in assembly/manufacture of specialised transport vehicles, storage facilities, food processing and packaging plants, and project-specific power plants would be forthcoming despite Pakistan's current predicament because prospects of ventures in agriculture sector are by far the brightest but will require credible feasibility studies and visible managing capacity.

Development of self-sufficient 'corridors' for each sub-sector will also create employment in rural areas and reduce migration of the unskilled to Pakistan's overcrowded cities. With investment in agriculture along the above lines, this huge chunk of population too could enjoy a better standard of living that it deserves like all the other Pakistanis.

The FY09 federal budget has allocated Rs75bn for new dams. That's inadequate since Pakistan now has to rely more on dozens of small dams to store the snow melting from mountains on its northern and western borders to reduce reliance on water from the Indus basin given India's strong-arm tactics. Banks need to seriously consider public-private joint ventures in this sector, which is now imperative for sustaining agricultural growth.

Rupees in billions

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Rupees in billions

Sectors	FY05-06	FY07-07	FY07-08	Dec. 08
Total bank credit	3,020.760	3,517.636	4,503.633	4,948.617
Of which to business sectors	1,488.892	1,718.496	2,103.917	2,289.014
Of which to agriculture sectors:	270.680	295.949	319.925	341.912
• Agriculture, hunting, forestry	134.501	147.147	159.281	170.261
• Growing of crops	85.638	102.826	111.841	123.943
• Farming of livestock	14.762	17.489	23.903	24.266
• Agriculture, animal husbandry	0.675	0.826	0.738	1.174
• Agricultural machinery	33.326	26.043	22.730	20.730
• Hunting, trapping, forestry, logging	0.100	0.027	0.069	0.148
• Fishing, fish farming	1.678	1.591	1.363	1.390
Share of Agricultural Credit in:				
• Total Credit	9.0%	8.4%	7.1%	6.9%
• Total credit to business and industry	18.18%	17.22%	15.2%	14.9%

Source: SBP website