

# AGRICULTURE AND THE RURAL ECONOMY IN PAKISTAN

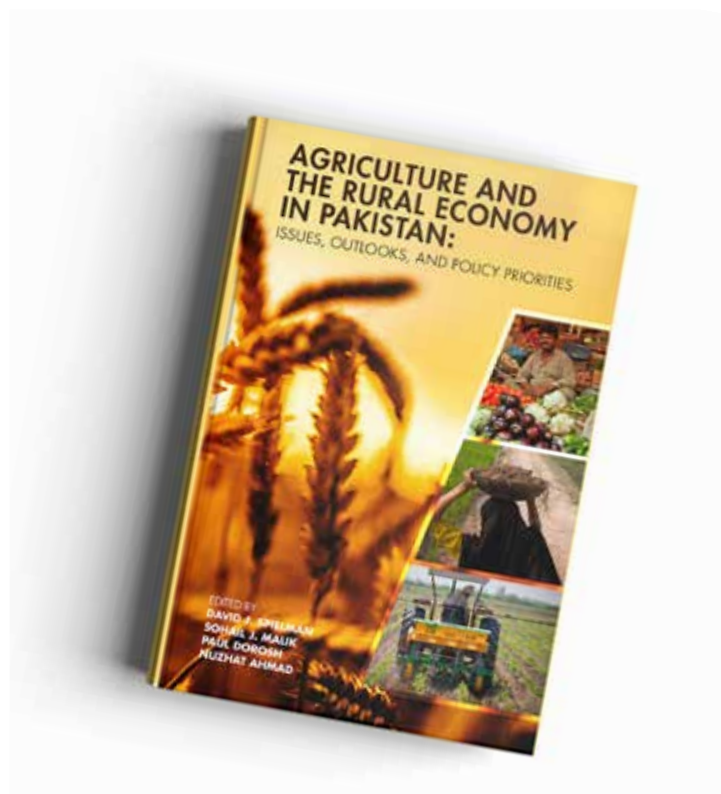
## Issues, Outlooks, and Policy Priorities

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While policy makers, media, and the international community focus their attention on Pakistan's ongoing security challenges, the potential of the rural economy, and particularly the agricultural sector, to improve Pakistanis' well-being is being neglected. Agriculture is crucial to Pakistan's economy. Almost half of the country's labor force works in the agricultural sector, which produces food and inputs for industry (such as cotton for textiles) and accounts for over a third of Pakistan's total export earnings. Equally important are nonfarm economic activities in rural areas, such as retail sales in small village shops, transportation services, and education and health services in local schools and clinics. Rural nonfarm activities account for between 40 and 57 percent of total rural household income. Their large share of income means that the agricultural sector and the rural nonfarm economy have vital roles to play in promoting growth and reducing poverty in Pakistan.

Given these sectors' importance, the slow growth of agriculture in recent years is particularly problematic. The annual agricultural growth rate has averaged just 2.8 percent over the four years 2010–2014, a notable drop from the average growth rates of the previous 20 years (Table 1). Because agriculture and the rural nonfarm economy are closely connected to one another and to the larger economy, slow growth in one affects the other.



*Agriculture and the Rural Economy in Pakistan: Issues, Outlooks, and Policy Priorities* examines the performance of both agriculture and the rural economy in the face of the frequent macroeconomic crises and weather-related shocks that have occurred in recent decades. The central question is whether Pakistan's agricultural sector and rural economy can once again play a significant role, particularly with respect to poverty reduction. The analyses conducted for this book point to the potential of but also highlight the limits imposed by a changing economy.

**TABLE 1 Value added to Pakistan's economy and growth rate by sector, 1990–2014**

	2014 value added			Growth rate (%)		
	PKR (billion)	Share of GDP (percent)	Share of Ag GDP (percent)	1990–2000	2000–2010	2010–2014
<b>Agriculture</b>	2,152	21.05	100.00	4.59	3.71	2.76
Major Crops	550	5.38	25.55	2.99	2.82	3.73
Other Crops	251	2.45	11.65	4.27	1.10	–0.85
Cotton Ginning	61	0.59	2.81			0.97
<b>Livestock</b>	1,203	11.77	55.91	6.24	4.61	3.48
<b>Forestry</b>	44	0.43	2.04	0.10	–5.89	2.08
<b>Fishing</b>	44	0.43	2.03	3.28	6.31	–1.78
<b>Industry</b>	2,129	20.82	98.92	3.27	4.28	3.23
<b>Services</b>	5,945	58.14	276.23	3.69	4.99	4.42
<b>Total</b>	10,227	100.00	n.a.	3.81	4.54	3.81
<b>Agricultural GDP per capita (PKR/year)</b>	11,559.8	n.a.	n.a.	2.46	1.32	0.71
<b>Cropped area (million ha)</b>	19.0	n.a.	n.a.	0.92	0.86	–0.60
<b>Crop GDP/ha (PKR thousands/year)</b>	42.2	n.a.	n.a.	2.54	1.30	2.79

**Source:** Authors, based on data from the GoP (various years), *Pakistan Economic Survey*.

**Note:** Growth rates are calculated as logarithmic estimates of annual growth based on data from 1990 to 2014. ha = hectares; n.a. = not applicable; PKR = Pakistani rupees.

## MAIN FINDINGS

Some general findings about Pakistan's agricultural sector and rural economy emerge from the authors' analysis:

- ▶ Although its share in the total value of output is diminishing, agriculture remains the foundation of Pakistan's economy: the country's agro-climatic diversity and natural resource endowments favor economic growth based on growth in the agricultural sector and the rural economy. High overall growth is not possible without substantial agricultural growth and the resulting positive effects on growth in nonagricultural sectors.
- ▶ Increasing agricultural productivity and incomes will require intensive efforts to manage land, soil, water, and energy more sustainably.
- ▶ Markets can provide farmers with access to the land, inputs, price incentives, and science required to accelerate productivity growth. Policies and regulations governing markets for seed, fertilizer, land, and commodities such as wheat can ensure that markets provide appropriate signals to farmers. Greater policy attention to land tenure issues and rural enterprise development would also be beneficial for encouraging growth in the wider rural economy.
- ▶ Agricultural productivity growth and increased rural economic activity, while necessary, will not be sufficient to eliminate rural poverty in Pakistan. Greater attention needs to be given to the provision of rural public services, especially with respect to safety nets, health, education, community development, and women's empowerment.
- ▶ Bold policy measures emerging from the devolution of power, under the 18th Amendment to the national constitution, from federal to provincial government can help strengthen the provision of public goods and services critical to growth. The challenge will be to ensure communities and political decision makers buy in to these new policy measures and that the measures are implemented effectively.

# POLICY IMPLICATIONS

Pakistan can achieve high levels of agricultural growth and real progress in reducing rural poverty. Specific policy measures include the following:

**Climate change adaptation.** Long-term climate change and short-term weather shocks loom large in Pakistan, particularly because of the semi-arid climate in much of the country and the heavy reliance of the agricultural sector on irrigation. The Indus River Basin system is in need of major investments in water storage and distribution, including canal rehabilitation and maintenance. Substantially greater investments in water storage, surface irrigation, drainage, and improvements in the efficiency of water use will be required over the next few decades to maintain the availability of water, minimize the devastation of major flood events, and increase the returns to water use. Funding these investments, implementing construction projects while ensuring the rights of displaced people, and effectively maintaining the system should be among the highest priorities of the federal and provincial governments.

**Agricultural resilience.** Over the next several decades, Pakistan will also need to build up the resilience of its agricultural sector. Greater investment in agricultural research and extension is needed, not only to maintain and increase yields, but also to build tolerance to stresses such as droughts, floods, and heat and cold and to strengthen resistance against pests and diseases—both new and emerging. Improved organizational structures and incentives for researchers and extension agents could help reinvigorate Pakistan's agricultural science and technology system. Better regulation of seed markets and stronger incentives to encourage private investment in research and development could also speed dissemination of improved cultivars, hybrids, transgenics, and other products. These improved products could variously increase yields or the value of crops to consumers or could reduce yield variability, losses to biotic and abiotic stress, or costs of production.

**Public funding reallocation.** Funding for public expenditures on the agricultural and rural economy can be found by significantly reducing expenditures on domestic procurement, storage, and distribution of wheat, which accounted for Pakistan rupees (PKR) 24.84 billion (approximately US\$255 million) in 2012/13. Substantial savings could be achieved by reducing the level of annual domestic procurement, eliminating the subsidy on sales of government wheat to flour mills, reducing the level of government stocks, and planning for subsidies on wheat imports in the event of domestic shortfalls in years of very high international prices. Similar funds could be found by significantly reducing the subsidies received by the

fertilizer industry and reallocating those resources into research and extension efforts designed to improve soil fertility management.

**Adapting to urbanization.** Given that Pakistan is also urbanizing rapidly, agricultural policy makers need to capitalize on the diverse dietary preferences that accompany city life. Growing urban centers are already providing market opportunities for agriculture, particularly for high-value, perishable products such as fruits, vegetables, dairy, and meat. Significant public and private investments are needed, however, to ensure that farmers and rural entrepreneurs can benefit from this demand. This means investing in more stable electricity services, reliable transport networks, and other hard infrastructure needed to build modern supply chains that include cold storage facilities, quality assurance systems, and other services. These investments promote productivity growth in the rural nonfarm economy (e.g., agro-processing) and are also highly pro-poor, especially in rural areas outside the peri-urban areas closer to major urban centers.

**Improve market performance.** The regulations that govern how commodities are brought to market and who brings them can be reformed to reduce both the direct costs of marketing agricultural products and the transaction costs for both farmers and consumers associated with participating in markets. Partnerships among farmers, traders, and local government in local economic clusters that have focused on a small set of commodities (for example, citrus fruits, vegetables, and dairy in Punjab) have succeeded and overcome many of these constraints. More successes on this scale would go a long way to improving the efficiency and profitability of agricultural value chains in Pakistan.

**Broad-based growth.** High rates of agricultural growth may have only modest effects on rural employment and the welfare of the poor in Pakistan if growth is concentrated mainly on larger farms. Without a broad-based growth strategy, downstream growth linkages arising from higher farm incomes and consumption expenditures may accrue mainly to enterprises and better-off households producing nonagricultural goods and services in urban centers.

**Social services and gender equality.** Rapid improvements in the welfare of the poor will require direct interventions: expanded, well-targeted social safety nets; improved health and education service delivery; and an expansion of hygiene and sanitation infrastructure in rural areas. Improving access to basic health services could potentially have a major effect on infant mortality, nutrition, and health, with massive implications for the productivity of the labor force. Also, access to services and outcomes vary widely across regions and ethnic groups, suggesting a need for adequate funding to subnational governments as well as programs and interventions that are well suited to local conditions and cultures.

Policy makers currently give too little attention to the role of women in Pakistan's rural society and economy, their inability to exit from low-productivity rural activities, and their disempowerment in economic and social aspects of day-to-day life. Reasons for women's deprivation include low levels of skills; educational, health, and nutritional attainment; and male out-migration that adds to the burden of women who remain on the farm.

Some of these issues are being addressed in various social protection and rural development programs in Pakistan. For example, the Benazir Income Support Program and the Pakistan Poverty Alleviation Fund provide social protection services to the poor—both with an explicit mandate to focus on the welfare of poor women—and strive to ensure that those who are excluded from the wider growth process are given access to resources and opportunities. Further, an array of microfinance programs aim to extend credit and savings services to rural households, many of them headed by female entrepreneurs, who would otherwise be overlooked by the formal financial system. The community organizations that these initiatives foster and nurture contribute to building greater resilience among the rural households that are so vulnerable to the recurring shocks affecting their lives and livelihoods.

With a stronger focus on better targeting, participation, and graduation, these social protection programs and community-driven development programs can be central to Pakistan's poverty reduction strategy. And with more—and more rigorous—evaluation of their contribution, program designs can be refined to concentrate on what types of interventions work, for whom, and at what cost, opening the door for scaling up to ever larger numbers of communities, households, and individuals throughout Pakistan. But even with these improvements, more needs to be done beyond the limited scope of social protection programming. Greater improvement is needed in the overarching governance systems and socioeconomic institutions that influence every dimension of rural livelihoods in Pakistan.

**Security.** Insecurity and the threat of violence affect the day-to-day life and livelihoods of people in many parts of Pakistan, taking an enormous toll in terms of human lives and suffering. Security concerns inhibit basic economic activities in both agricultural and nonagricultural sectors. Fighting and civil unrest destroy human lives and physical capital. They also discourage productive investments, both domestic and foreign, that can increase incomes and welfare in the medium term. This includes discouraging or even preventing investments in education either through threats of violence, destruction of schools, or diminishing aspirations of individuals, thereby lessening their efforts to invest in their own education (or in productive businesses).

These problems need to be remedied, although the process may be complicated. Social and economic development cannot occur in conflict-ridden areas throughout Pakistan without a major reduction in violence, a significant increase in political stability, and efforts to address the psychological and social trauma associated with instability and violence. Only when these basic functions are fulfilled can efforts to reduce poverty, create employment opportunities, and provide essential public services make a contribution.

## CONCLUSIONS

Pakistan's agricultural sector has enormous potential, but tapping this potential will require higher levels of investment and some major reforms to public policy. Agriculture needs to be strengthened against threats such as climate change and pests, and agricultural products must be marketed more effectively, particularly to urban areas. Efforts to increase basic security, expand social services, and promote gender equity also have an important role to play in the country's development. These policies and investments can enable Pakistan not only to boost overall economic growth but also to enhance food security at the national and household levels and significantly improve the welfare of the poor.

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