

# PIDE's vision for reforming agricultural markets

Muhammad Faisal Ali, Abedullah | October 21, 2024



**The agriculture sector is a cornerstone of Pakistan's economy, yet it faces several challenges that hinder its productivity, profitability, long-term sustainable growth, and contribution to food security. It is mainly because Pakistan's per-acre yield remains well below the international average despite being one of the top ten global producers of several agricultural commodities. Regardless of multiple initiatives and efforts, Pakistan's agriculture sector failed to achieve major crop yields closer to the international averages.**

The Pakistan Institute of Development Economics (PIDE) has taken

the lead in identifying the bottlenecks and offering concrete, evidence-based solutions to reinvigorate the sector.

The challenges faced by the agricultural sector, such as low productivity, the provision of unnecessary and poorly targeted subsidies in input and output markets, the presence of monopolies in these markets, excessive regulation, and the deterioration of natural resources because of assigning improper prices.

Beyond merely documenting these problems, PIDE has focused on empirical, evidence-based research to propose economically viable solutions aimed at enhancing the efficiency of agricultural markets.

These reforms aim to create more efficient and competitive input-output markets by reducing bureaucratic barriers, deregulating the input-output markets, such as seeds, fertilizers, and wheat, fruits, and vegetables, eliminating government intervention in price setting, and addressing monopolistic practices, particularly in the output sectors.

Subsidizing fertilizers has long been seen as a way to make agricultural inputs more affordable to farmers. However, PIDE's research reveals that the benefits of these subsidies are minimal, offering negligible reductions in consumer prices.

For instance, a household consuming wheat, rice, and sugar only saves Rs 893 per year against a subsidy of Rs 200 billion. This inefficient use of taxpayers' money demands a re-evaluation of fertilizer subsidies, with funds better allocated to other areas like research and development.

In the presence of low water prices farmers have no advantage to invest in water-saving technologies (drip irrigation and sprinkling), leading the country toward serious water crises. It requires comprehensive reform to implement water pricing mechanisms to incentivize its efficient use. This may involve restructuring Abiana's charges or implementing marginal water pricing systems to

discourage excessive usage.

Due to the absence of economic water pricing, the estimated loss is in the range of Rs.678 billion and Rs.899 billion per annum, a staggering loss.

Small farmers in Pakistan often rely on informal lenders, known as arthies, who provide flexible but high-interest loans. While these intermediaries offer much-needed financial support, they can also exploit farmers by charging exorbitant interest rates. PIDE suggests that formal financial institutions adopt the flexible credit terms used by arthies, making loans more accessible to farmers and reducing their reliance on informal lenders.

Agricultural Land Consolidation (ALC) can help by combining small plots into larger ones, allowing for mechanization and improved resource management. However, this consolidation should occur through market forces, not legislation. Currently, Pakistan's agricultural land market is inefficient and plagued by outdated regulations and corrupt practices.

Transferring land between buyers and sellers is a lengthy, complex process, taking several months to complete. To address these issues, PIDE recommends modernizing land transfer regulations, reducing transaction fees, abolishing DC rates, and computerizing land records to reduce corruption and streamline transactions. Certainly, consolidation is essential for reducing production costs and boosting productivity.

Minimum Support Prices (MSPs) for crops like wheat have led to inefficient cropping patterns and misallocation of resources. PIDE has repeatedly called for the abolition of these price supports, arguing that they fail to achieve their intended goals of stabilizing consumer prices. Instead, MSPs often benefit middlemen and large mills at the expense of both farmers and consumers.

In 2023, wheat procurement alone cost the government Rs 168 billion, with institutional budgets amounting to Rs 260 billion, and lost benefits from reduced acreage allocation under competing crops reaching around Rs 11 billion. The cumulative burden, exacerbated by circular debt accumulated over the years has reached Rs 907 billion, implying that the current MSP implementation is not sustainable.

PIDE has studied the sugar industry's issues, including monopolistic practices and poor regulatory oversight, which contribute to market distortions and price hikes. The 2019-2020 sugar crisis, for example, was driven by export approvals despite declining production, resulting in increased domestic prices. PIDE recommends deregulating the sugar market by removing entry barriers for new mills and reducing trade restrictions to foster competition.

The Deputy Commissioner's Office (DCO) sets prices for fruits and vegetables, but these prices often do not reflect market realities, leading to inefficiencies and increased costs for retailers. PIDE advocates for eliminating government intervention in price-setting for perishable goods, allowing market forces to determine prices based on supply and demand.

Pakistan's inadequate storage infrastructure leads to significant post-harvest losses, particularly for grains, fruits, and vegetables. Existing storage facilities lack proper ventilation, temperature control, and pest management, resulting in spoilage and financial losses of around Rs 315 billion annually. PIDE calls for greater private sector involvement in building modern storage facilities.

By lifting government restrictions on private wheat procurement and incentivizing investment in cold storage, post-harvest losses can be reduced, and farmers can store their crops to sell when prices are more favorable. Perhaps the most critical recommendation from PIDE is the redirection of resources from inefficient subsidies and price

supports toward research and development (R&D).

If Pakistan's agricultural sector can raise its average production to the level of its progressive farmers, it could add Rs. 1,722 billion per annum. A key element in achieving this goal is restructuring the seed market and its marketing to engage the private sector at a greater level to materialize innovation and higher yields.

PIDE advocates for a shift from the current centrally managed seed certification system to a free-market mechanism. The role of the public sector in the seed production business and price regulation needs to be abolished. Granting intellectual property rights should be more transparent and justified.

***Pakistan's agriculture sector is at a crossroads. By implementing these evidence-based solutions, Pakistan can achieve higher productivity, profitability, and food security, paving the way for a more prosperous and sustainable future.***

---

Muhammad Faisal Ali

The writer is Research Fellow at Pakistan Institute of Development Economics (PIDE), Islamabad

Abedullah

The writer is Chief of Research at Pakistan Institute of Development Economics (PIDE), Islamabad

[Newspaper Link](#)