Webinar
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BOP POLICY NOTE ON AGRICULTURE SECTOR

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Agricultural sector is indispensable to the country's economic growth, food security, employment generation and poverty alleviation particularly, at the rural level. It contributes 19.2 percent to the GDP and provides employment to around 38.5 percent of the labour force. More than 65-70 percent of the population depends on agriculture for its livelihood. However, the contribution of agricultural growth to the national GDP has declined sharply over the last decade. There is a bigger focus from policymakers on incentivizing growth through the services sectors (56.2% of GDP) and to some extent the manufacturing sector (18.1%).

Government targets to sustain 6% GDP growth over the medium term cannot be achieved without signicantly increasing farm output through productivity gains. Analysis shows that the contribution of the agriculture sector to the GDP is signicantly higher when we take into account the indirect contribution (forward and backward linkages with all other sectors in the economy) and the consumption spending of the rural population, which is 64% of the total population. The Pakistan Institute of Development Economics has organized a webinar titled " BOP Policy Note on Agriculture Sector". Mr. Hashim J. Bakht, Finance Minister, Govt. of Punjab was the chief guset. Other speakers include Mr. Zafar Masud, President & CEO, The Bank of Punjab; Mr. Salim Raza, Former SBP, Governor & Member; Mr. Kazim Saeed, Pakistan Agriculture Coalition; Mr. Zafar ul Hassan, Chief Macro, Ministry of Planning; Dr. Abedullah, Chief of Research, PIDE; and Mr. Sayem Ali, Chief Economist, The Bank of Punjab The purpose of the webinar is to understand:

- The true contribution of the agricultural sector to GDP
- What is not accounted for while estimating the share of agriculture sector in GDP
- To assess whether agricultural growth can serve to alleviate rural poverty
- To understand how sustainable growth in the agriculture sector can be achieved

Key Messages

- There are a lot of issues with the agriculture sector which include, the productivity aspect, the crop patterns, and the value edition.
- To deal with the agriculture sector, we have several different departments in government. That results in repetition of work and a lack of long-term planning. Lack of coordination between all these departments of government exacerbates the problem.
- One of the biggest problems faced by the economy today is high food inflation, a growing import bill, and high public debt. In many ways, these problems are linked to low agricultural output. As farm output has failed to keep pace with the growing population which inturn leads to growing reliance on imported food items in the last decade.
- Agriculture has been largely neglected. In the last few decades, policymakers have focused largely on growth driven by services and to some extent the manufacturing sector. This is also true for banks. Banks do not see the agriculture sector as a growth sector and hence limit lending to the farmers.
- In the last three years, loans to the agriculture sector are stagnated at five percent of total loans industry-wide.
- The true potential of the agriculture sector has been under-reported leading to neglect of the sector from successive governments. There are few studies available that provide an estimate of the direct and indirect contribution of the agriculture sector to GDP growth.
- The share of agriculture has declined sharply in that last decade to 19.2 percent of GDP in 2021 from 22 percent of GDP in 2010. This is reflective of stagnant farm output due to low productivity and high post-harvest losses. However, at current prices, the share of agriculture has increased marginally. Unfortunately, this rise in share is not due to a higher output but rather higher prices of crops either due to rising international prices or higher minimum support prices fixed by the government.
- Government interventions such as subsidies support prices etc. have been successful to the extent that higher budgetary transfer has led to a decline in poverty rates, however, they have been largely unsuccessful in enhancing efficiency and productivity of farm output. Hence, agriculture sector is unable to absorb the growing unemployed workers in the rural communities.
- As far as the indirect contributions are concerned, the agriculture sector provides key input for the manufacturing and services sectors. There are strong forward and backward linkages of the agriculture sector with other value-added sectors. Industries such as beverages, textiles, leather, and food products are the biggest consumers of agriculture output. Whereas, agriculture is a key consumer of fertilizer and chemicals. Other industries like hotels, restaurants, and transport services are also consumers of agriculture input.
- The agriculture sector has a multiplier of 1.8 meaning that for every 100-rupee output produced in the agriculture sector the contribution to GDP is around 180 rupees. The economy cannot sustain GDP growth rates of six percent without significantly enhancing the productivity and output of the agriculture sector.
- The productivity gap between average farm output and output of farms that have adopted technology and have access to credit is very large. Therefore, the focus of policymakers needs to be on enhancing the productivity of the farm sector which in turn will lead to higher incomes for the rural community and support higher growth in the economy.

- To achieve growth in this sector, the government should scale up farm mechanization through service providers, modernize seed regulation to build a robust private seed sector, invest in new modern storage facilities, introduce crop insurance schemes to protect farmers from risks of huge loss, improve credit availability for small farmers and promote the cultivation of higher-yielding fruit and vegetable crops.
- Crops insurance schemes with higher coverage, outputs, and payouts would require both the restructuring of the existing credit insurance product and the introduction of the yield insurance scheme.
- To increase the productivity of the farmer there is a need to increase farmer's income and the farmer's income cannot be increased without investment. The farmer's income can increase only if he gets credit at standard rates. For that, banks like the Bank of Punjab need support from the government to lend more to farmers to increase the productivity of the farms. Government support is needed in addressing identified gaps particularly in regulations and sometimes in infrastructure.
- The farmer's income can increase with more use of better-mechanized technology for all the processes sowing, threshing, harvesting, land leveling, water spraying, weeding, etc. Lack of investment in agricultural technology and the mechanization perhaps is one of the biggest failure. Banks have not taken any great initiative in that direction.
- Presently, the agriculture sector needs big corporate investment in the range of agricultural technology to bring the cost and prices down.
- Policymakers must also focus on the use of water and water productivity. A large amount of fresh water is consumed in agriculture and many interventions can help save that water or conserve it.
- Nearly five percent real GDP growth per annum in agriculture is possible. This can best be achieved with strategic investments from a new breed of private service providers facilitated by the government.
- Growth in the agriculture sector can help in reducing poverty and is evident from studies. For instance, there was a substanticał reduction in poverty in years when we had bumper crops.
- With a large part of the population living in rural areas and a rapid rise in food inflation, growth in the agriculture sector is important now more than ever.
- The actual contribution of agriculture sector in GDP is significantly higher.Bank of Punjab (BOP) study “Agriculture 'Catalyst' For Growth” shows that the total direct and indirect contribution of the agriculture sector is 46.4% of GDP.This can go up if forward and backward linkages will be included in estimation.
- Availability of data for the sector is a big issue that needs to be addressed.
- One of the biggest problems is the massive government intervention in the agriculture sector. Government must not overregulate this sector and it should allow the market to flourish.

<u>Conclusion</u>

As the government targets to sustain 6% GDP growth over the medium term, we believe it cannot be achieved without signicantly increasing farm output through productivity gains. To achieve growth in this sector, the government should scale up farm mechanization through service providers, modernize seed regulation to build a robust private seed sector, invest in new modern storage facilities, introduce crop insurance schemes to protect farmers from risks of huge loss, improve credit availability for small farmers and promote the cultivation of higher-yielding fruit and vegetable crops. Growth in the agriculture sector can result in a reduction in poverty, decrease in unemployment, decrease in import bills, and overall growth of the economy.

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