Consortium for Development Policy Research

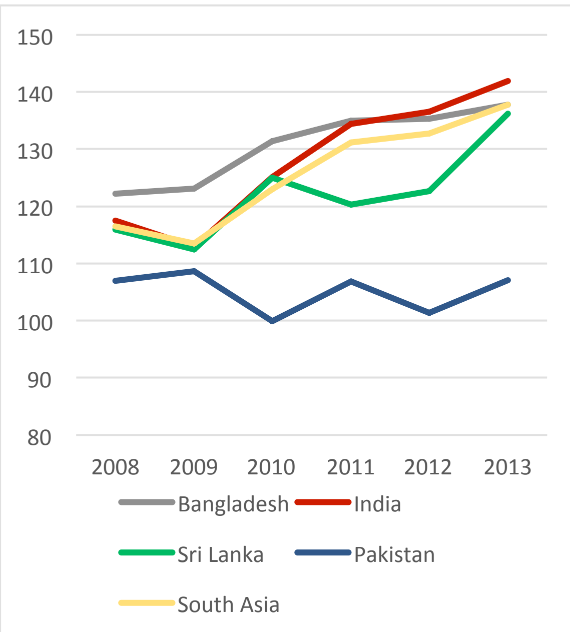
Punjab's Agriculture Growth and the Kisan Package

This Policy Note has been written by Ijaz Nabi, Chairperson, CDPR, who was involved in the discussions on designing the Kisan Package to improve Punjab's agricultural productivity. The policy recommendations have also been informed by the Lahore conference on the Kisan Package held in March this year.

Agriculture in Punjab

Improving crop yields is a major goal for Pakistan, as its agriculture has stagnated compared to the rest of South Asia (Figure 1).

Figure 1. Crop Production Index[1]



The Crop Production Index (CPI) for select South Asian countries, 2008-2013.

Punjab, well endowed with irrigation and fertile soil, accounts for the largest share of Pakistan's agriculture. Five crops including wheat, cotton, rice, sugarcane and maize take up three quarters of Punjab's total cropped area. With the exception of maize, per-acre output (yield) of these crops has grown only slightly over the last fifteen years.

Another sign of agricultural stagnation is the slow progress towards crop diversification. Over the last fifteen years, the total cropped area of the five traditional crops has remained unchanged. Thus Punjab farmers have not benefited from the substantial contribution other high-value crops such as vegetables, cut flowers and fruits could have on their incomes.

Importantly, high yield fodder crops have not been cultivated sufficiently to improve livestock feed. Higher livestock income supplements farm incomes significantly.

Included in the Government of Punjab's 2016 budget is the Kisan Package, an intervention to support farm incomes and improve agricultural output. A brief overview of the problems affecting agriculture and the recently announced Kisan Package are provided in this policy note.

Long term structural problems

Deterioration of seed quality. International firms that produce quality seeds do not see a favorable business opportunity to operate in Pakistan and seek a supportive legal and regulatory framework.

Poor on-farm water management. Inadequate land-leveling results in uneven fields and inefficient and wasteful farm irrigation.

Reduced availability of canal water. Maintenance and extension of the vast irrigation infrastructure has not kept pace with needs resulting in reduced irrigation water in many areas.

Loss of soil fertility. Because of the high volume of surface water for irrigation in some areas, large tracts of land suffer from water logging and salinity that lower crop yields.

Insufficient mechanization. The unavailability

[1] World Bank Crop Production Index

and high cost of farm machinery means that farms have been unable to make up for the shortage of labor during peak farm activity.

Farm fragmentation. Inheritance laws have led to the division of small farms into tiny parcels that are economically unviable.

Poor market price information. Farmers work with incomplete information about market input and output prices. This results in a weak bargaining position vis-a-vis market intermediaries and contributes to price instability and low farm returns.

Deteriorating terms of trade

In addition to long term structural problems, farmers have also suffered from deteriorating terms of trade. The prices of crops they sell have fallen while prices of inputs they purchase have not changed. This has squeezed farm income making it difficult for farmers to invest in long term yield improvement.

The following problems worsened farmers' terms of trade:

Fall in international commodity prices. There has been a substantial reduction in international commodity prices compared to the high of 2007-08.

Government response to international prices. Government announced high procurement prices when international prices were rising and the perception was that government was pro-farmer. However, when the international commodity prices fell, government did not intervene to bolster prices due to a lack of fiscal space. As a result, farmer income fell significantly.

Unchanged, high input prices. Various fiscal measures such as duties and sales tax have been levied on key farm inputs by the federal government to plug the fiscal deficit in pursuit of macro-economic stabilization. Given its fiscal needs, the government has been unwilling to lower these duties and taxes, even as crop prices fell.

The recent Government response: The Kisan Package

Both the federal and provincial budgets have supported the Kisan Package, which contains provisions to address both the long term productivity of agriculture and farmers' terms of trade.

Within the **federal budget**:

Reduction in the price of fertilizer. Government has reduced duties on the two most-used fertilizers: as a result the price of a bag of Urea should fall from Rs 1800 to Rs 1400 and a bag of diammonium phosphate (DAP) from Rs 2800 to Rs 2500.

More and cheaper credit. Agriculture credit will be increased to Rs 700 billion for small farmers and Rs 1 billion rupees will be allocated for the Credit Guarantee Scheme for small farmers.

Reduction in electricity tariff. The Concessional Electricity Tariff (off-peak) will be reduced to Rs 5.35 per unit from Rs 8.85 for agriculture tube wells.

These measures will help improve the terms of trade for the Punjab farmers. Since these are federal government announcements farmers in all provinces will benefit.

Within the Rs 100 billion Kisan package (spread over two years) announced in the **Punjab budget**, the main measures are:

Interest-free credit. Rs 50 billion earmarked for 2016-17 will be spent largely as interest-free credit to small farmers. The credit, intermediated through commercial banks, will be delivered to farmers using smart phones.

Farmer information highway. Credit delivery via smart phones will help create an information highway to farmers that can later be used to communicate information on output and input prices, guidelines for planting and sowing, fertilizer application, prevention of disease and flood warnings.

The smart phone information highway has to be backed by reform of markets to break local monopolies in output and input markets. More competitive markets will help farmers get better prices, increase returns and promote investment to raise productivity.

Allocations for other rural infrastructure. The package includes funding of Rs 5 billion each for critical irrigation schemes and livestock.

Beyond the Kisan Package

While the federal government holds the key to the terms of trade faced by farmers (relative prices of inputs and outputs), the solution to many of the long term productivity concerns lie with provincial governments. The Punjab budget goes much further to address agriculture's structural problems than the two-year Rs 100 billion Kisan package.

The 2016-17 Punjab Annual Development Program has allocated Rs 10 billion to agriculture (in addition to Rs 10 billion of the Kisan package) for interventions to enhance farm productivity. These include **precision land levelling** and **mechanization** programs. **Irrigation** is allocated Rs 36 billion (in addition to Rs 5 billion of the Kisan package) to rehabilitate and extend the irrigation network.

Other salient measures include the Rs 30 billion **Saaf Paani scheme**, which provides safe drinking water in rural areas, and the Rs 27 billion **Rural Roads Program**. Importantly, the Punjab Skills Development Fund is gearing up for a big push to improve **farmer skills** initially to manage livestock and then extended to crops.

The Punjab government has announced the establishment of the **Punjab Agriculture Commission** to track productivity growth and terms of trade on a regular basis and make timely recommendations to address problems.

The budgetary measures lower farmer cost by 5-6 percent and alone are unlikely to fully compensate the farmer for the substantial reduction (40 percent or so) in revenue due to rice/cotton price decline. However, the debate in the run up to the budget has brought a much needed focus on agriculture and has highlighted the urgency to address the factors that result in stagnant farm income. The proposed Punjab Agriculture Commission would need to prepare itself quickly to monitor terms of trade and trends in long term productivity and respond diligently. A sensible agriculture income tax also needs to be implemented to capture revenue in times of plenty to support farmers in times of distress.