



EVALUATION OF THE PRIME MINISTER'S AGRICULTURE RELIEF PACKAGE

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Executive Summary

IPR welcomes the Prime Minister's relief package for farmers. Announced at a time of falling output prices, the package attempts to extend essential support to agriculture. Evaluation of the package, however, raises issues about the timing and adequacy of cash support, as well as its mechanism. Questions remain also about the measures to reduce input cost and to provide access to credit. Cost of the package could increase fiscal deficit by an estimated 0.4 percent of GDP. This report estimates that cash support and access to credit would have positive effect on small farmers. Other measures may help medium and large farmers. It recommends a number of additional measures to increase effectiveness of the package. Lack of consultation with provincial governments is a special worry.

CASH SUPPORT

With a year-to-year drop of 13% each in price of rice and cotton, cash support for small farmers was much needed. Some issues need attention:

- Government has announced cash support even before damage has occurred. It is not clear how well the announced compensation reflects actual loss to farmers. Under compensation seems inevitable. For example, if the price were to drop by 15%, support of Rs. 5,000 per acre would meet 68% of loss for rice farmers and just 29% for cotton growers. Experts estimate a price decline of 28% for cotton and 22% for rice in 2016.
- Even within the scale of announced compensation, the amount set aside for the purpose is inadequate. The twenty billion rupees provided for rice and cotton each would fall short by 34% and 30% respectively taking into account the number of small farmers and the acreage.
- Targeting of benefits would be a challenge. It requires estimating cropping patterns at individual farm level. This would likely lead to leakage during disbursement and government must do all to prevent it.

REDUCTION IN INPUT COST

With fertilizer comprising 35% of farm variable input cost, government is right to target reduction in its price. The estimated 15% reduction in price of potassium and phosphate also has the potential to improve the country's fertilizer mix. Some questions remain, especially with respect to effect on fiscal operations:

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- The burden of cost to be borne by each province is not clear.
- The package does not quantify the fiscal effect of withdrawal of price increase on Urea. If the reduction comes through reduced GST, the revenue loss would be Rs 10 billion.
- Similarly, estimate of Rs. 7 Billion as the fiscal effect of tariff reduction seems incorrect. Its true impact is Rs. 10 billion or 43% higher.
- Government estimates GST support by provinces to cost Rs. 7 billion whereas it would cost Rs. 11 billion, or 57% higher.
- Continued load-shedding takes away the real impact of reduction in tariff

ACCESS TO CREDIT

Through a number of measures, the package attempts to correct the bias in access to credit for agriculture. However, there are questions about its viability when farm profits are falling. ZTBL, the main supplier to small farmers, already has 20% non-performing loans. It is uncertain if it is prudent for ZTBL to take on higher risk. Regardless, the announced measures would likely benefit small farmers.

ASSESSMENT OF IMPACT OF PACKAGE

The package provides balanced relief to all farm sizes. Cash support and credit targets small farmers while reduced costs help large and medium sized farms. The package seems to have underestimated by Rs. 31 billion its cost to the federal and provincial budgets. Overall, it would increase the fiscal deficit by a half percent of GDP. This is entirely justified though may need special advocacy with the IMF.

MISSING INCENTIVES

It is time for government to look holistically at its policy in support of agriculture. Commodity prices would likely stay low for some time to come. In addition to measures in force already, government may consider the following:

- As it did until the 1990s and briefly during 2008-09, government may announce support price for a number of products in addition to wheat and sugarcane. Rice and cotton need immediate inclusion. Government may need to be explicit about its plan to deal with support price for wheat. The current policy has created a stock of two million tons. The present price has no relation with the market.
- Government may provide export subsidy for rice to help dispose off present stock as well as stabilize domestic price
- Government may reduce price of Light Diesel Oil, as 90% of all tube wells work on diesel. IPR recommends reduction in GST on LDO from the present 29.5% to 7%. Estimated revenue loss from this is Rs. 2 billion.

INSTITUTIONAL

Largely, success of this relief package depends on commitment by provincial governments. They must meet a portion of the cost and provide direct executive support. The package does not have consent of the four provincial governments as two of them have questioned its validity. Once again good intentions may fail to convert to sound deeds and leave the feeling of unilateral policymaking. This is hardly advisable for strengthening the Federation.

An Evaluation of the Prime Minister's Agriculture Relief Package

The Prime Minister has announced the much awaited agriculture relief package. The package shows due recognition by a democratically elected government of the plight of a major segment of the population, the farming community, due to sharply falling commodity prices. The deteriorating conditions of farmers have been highlighted in agitation by them, especially in Punjab. The Prime Minister has rightly said that the prosperity of the country is linked to the well-being of the farmer.

According to the Agricultural Census of 2010, there are 8.3 million private farms in Pakistan, which support a population of almost 100 million. 89% of the farmers are small, with farm size of 12.5 acres or less. These farms have limited incomes and a significant negative shock can take many of them below the poverty line. 64% of small farms are in Punjab, 13% in Sindh, 20% in Khyber-Pakhtunkhwa and 3% in Baluchistan.

The Federal Government has taken the lead in announcing the relief package. However, agriculture has always been a provincial subject. It would have been more appropriate if the Provincial Chief Ministers had also been invited to participate in the event on the package. Furthermore, the Prime Minister has announced equal sharing of the costs of cash support and other relief measures between the Federal and Provincial Governments. Therefore, the package ought to have been taken to the Council of Common Interests.

As of now there remains some uncertainty about the coverage of this package. Is it only for Punjab (with a PML-N Government) or for all four Provinces? A Federal program ideally should not discriminate among Provinces and be undertaken with the concurrence and co-operation of all Provincial Governments. The statement by Mr. Asif Zardari that the package is a 'political gimmick' indicates that Sindh may not participate in the compensation scheme.

There is also the perception that the package is partial and incomplete in character and more announcements will come later. Currently, the package primarily covers relief to rice and cotton growers. Policies with regard to other crops like sugarcane and wheat will need to be made public subsequently, preferably by the end of October 2015.

The objective of this paper is to analyze the different components of the relief package and assess their likely impact. There are eight sections of the paper. The first section presents the case for a relief package. The subsequent three sections describe and analyze the different components of the package. This is followed by an assessment of the impact of the package and identification of missing initiatives. The final section presents the key conclusions.

1. CASE FOR RELIEF PACKAGE

Information on farm gate prices of crops is generally not available. Therefore, the change in wholesale prices is used as a proxy for the change in farm gate prices. As shown in Table 1, the latest prices of cotton and rice in August 2015 are down by 13% in each case, on a year-to-year basis. On a month-to-month basis, in relation to July 2015, they have fallen by 4% in the case of cotton and by 2% in the case of rice. In fact, the price level of the two crops is below that prevailing in the month of August three years ago. Further, there is the prospect of big declines seasonally in the immediate post-harvest period.

As opposed to the significant fall in output prices, costs of inputs have shown a variable trend. The price of the largest input, fertilizer, has risen by about 1% on a year-to-year basis.

There has been a big jump in the price of pesticides of over 13%. Similarly, the electricity tariff has gone up by 3%. Input costs of two relatively small inputs, insecticides and diesel oil, have fallen by 23% and 32% respectively. Overall, input costs have risen somewhat while output prices of cotton and rice farmers are falling sharply.

| Table1: Wholesale Price Index of Output and Inputs | | | | |
|---|-------------|-------------|-------------|---------------------|
| Wholesale Price Index (2007-08=100) of Outputs* | | | | |
| | 2012 | 2013 | 2014 | 2015 |
| Rice | 158.39 | 177.57 | 180.50 | 157.78 (-12.59)* |
| Cotton | 186.59 | 214.52 | 175.37 | 152.62 (-12.97) |
| Wholesale Price Index of Inputs (2007-08=100) As of August | | | | |
| | 2012 | 2013 | 2014 | 2015 |
| Fertilizer | 261.86 | 269.62 | 270.28 | 271.71 (0.52) |
| Pesticides | 184.15 | 212.36 | 270.02 | 306.30 (13.43) |
| Insecticides | 117.64 | 124.43 | 181.05 | 138.59 (-23.45) |
| Diesel Oil | 160.78 | 176.54 | 260.69 | 177.90 (-31.75) |
| Electrical Energy | 226.10 | 279.61 | 287.44 | 295.50 (2.80) |
| *Growth rate in 2015 versus 2014. Source: PBS | | | | |

What is the outlook for crop prices? The IMF makes projections of primary commodity prices. According to its latest projections, prices of rice and cotton are likely to continue falling throughout 2015-16. The magnitude of the likely fall of the average price in 2015-16 in relation to 2013-14 (when prices began falling) is 28% in the case of cotton and 22% in the case of rice. Beyond 2015-16, there is the expectation that prices may stabilize somewhat, although there is a fairly high probability that the process of decline will persist. Therefore, medium-run prospects for farmers may not be much better.

Given this outlook, the Government is fully justified in offering a relief package with the objectives of sustaining to the extent possible the agricultural economy and the livelihoods, especially of small farmers. The package announced by the Prime Minister has four components, as follows:

- i) Cash compensation to small growers
- ii) Measures to reduce cost of production
- iii) Improved access to and lower cost of agricultural credit
- iv) Roll-over of loans.

We describe and analyze each component in subsequent sections of the paper.

2. CASH COMPENSATION

It is proposed to give a cash compensation of Rs. 5000 per acre to small farmers, with farm size up to 12.5 acres, in the case of cotton and rice respectively. The total amount of compensation is Rs.20 billion in each case. This cost is to be shared equally between the Federal and Provincial Governments.

A number of issues arise in the context of the proposed compensation scheme. The first issue relates to the timing. The second issue relates to the size of the compensation. The third is with regard to the adequacy of funds allocated and the fourth to the effectiveness of the mechanism for distribution of funds to individual farmers.

The cash compensation has effectively been announced in advance even before the actual damage has fully occurred. Clearly, there ought to be a link with the magnitude of the eventual loss. Instead, a lump sum amount of Rs 5000 per acre is proposed. The question is to what extent is this likely to reflect the loss. Table 2 gives estimates of the loss in income per acre for different magnitudes of fall in prices.

The results indicate that there is likely to be substantial under compensation especially in the case of small cotton growers. If the fall in price is 15%, then the amount of Rs 5000 per acre compensates for 68% of the loss incurred by a rice grower. The corresponding figure for a cotton grower is only 29%. Clearly, the relief package is only partial in nature and even the small growers will have to bear a large part of the loss.

| Table 2: Magnitude of Loss of Income per Acre for Different Reductions in Price (Rs/Acre) | | |
|---|-------------|---------------|
| % Reduction in Price | Rice | Cotton |
| 10 | 4950 | 11350 |
| 15 | 7400 | 17000 |
| 20 | 9900 | 22650 |

Source: Estimated

The next question is whether the amount of Rs 20 billion per crop will be adequate. Based on the data from the Agricultural Census of 2010, Tables 3 and 4 indicate the number of farmers that will need to be compensated and the amount of compensation at the rate of Rs 5000 per acre in each Province.

| Table 3: Number of Rice Growers to be Compensated and the Amount of Compensation in each Province | | | | |
|--|---|---|---|--|
| Wholesale Price Index (2007-08=100) of Outputs* | | | | |
| | No. of Small Farmers* Growing Rice (000) | Area under Rice of Small Farmers (000) | Amount of Compensation (Rs in million) | Amount to be financed** by the Provincial Governments (Rs in million) |
| Punjab | 1567 | 3974 | 19870 | 9935 |
| Sindh | 319 | 1146 | 5736 | 2868 |
| Khyber-Pakhtunkhwa | 63 | 94 | 470 | 235 |
| Baluchistan | 30 | 167 | 835 | 418 |
| Pakistan | 1979 | 5381 | 26911 | 13456 |

*up to 12.5 Acres
 ** The same amount by the Federal Government
Source: Agricultural Census,2010

| Table 4: Number of Cotton Growers to be Compensated and the Amount of Compensation in each Province | | | | |
|--|---|---|---|--|
| Wholesale Price Index (2007-08=100) of Outputs* | | | | |
| | No. of Small Farmers* Growing Cotton (000) | Acre under Cotton of Small Farmers (000 Acres) | Amount of Compensation (Rs in million) | Amount to be financed** by the Provincial Governments (Rs in million) |
| Punjab | 1422 | 3934 | 19670 | 9835 |
| Sindh | 478 | 1252 | 6260 | 3130 |
| Khyber-Pakhtunkhwa | n | n | n | n |
| Baluchistan | n | n | n | n |
| Pakistan | 1900 | 5186 | 25930 | 12965 |
| n= negligible *up to 12.5 acres **The same amount by the Federal Government Source: Agricultural Census, 2010 | | | | |

Table 3 indicates that for a country as a whole almost 2 million small rice growers will have to be compensated. Over 79% of these farmers are in Punjab and 16% in Sindh. The remaining 5% are in Khyber-Pakhtunkhwa and Baluchistan. The total cropped area to be covered by the compensation scheme is almost 5.4 million acres. As such, the cost is Rs 26.9 billion, almost 35% more than estimated in the relief package. The cost to the Government of Punjab is close to Rs 10 billion. For the other three Provinces combined it is Rs 3.5 billion. Apparently, the Government of Punjab has been closely involved in the preparation of the relief package and has committed to financing up to Rs 10 billion. The question is whether the other three Provinces are on board.

Turning to Table 4, the estimated number of small cotton growers is 1.9 million. Bulk of these growers is in Punjab and Sindh, with shares of 75% and 25% respectively. The total cropped area to be compensated is 5.2 million acres. This implies a total compensation package of Rs 25.9 billion. Here again, the cost is higher than anticipated in the relief package. The Governments of Punjab and Sindh will have to bear costs of Rs 9.8 billion and Rs 3.1 billion respectively.

The next issue is the coverage of the compensation scheme. This is estimated in Table 5. It appears that bulk of the growers is covered. However, the larger farmers, who are not covered, account for a large part of the cropped area. In Sindh, this is more than 50% for each crop.

It may legitimately be questioned by farmers, say, in the size category of 12.5 to 25 acres, why they have been excluded from the cash compensation. A sliding scale of compensation may instead have been developed.

Finally, in the context of the cash support scheme, there are a number of issues with regard to its implementation. When will the compensation be given? If this is done, more or less, immediately then there will be allegations that this is as a way of buying votes in the local government elections. Therefore, the appropriate time may be after the harvest, when the extent of loss has been established.

The other issue relates to the degree of targeting efficiency. While small farmers can be easily identified, it will also be necessary to determine ex-post their individual cropping patterns in the Kharif season, in terms of the area devoted to rice or/and cotton. This increases the possibility of leakages and corruption in the payment of compensation by the local administration at the tehsil /district level.

| Table5: Extent of Coverage of the Compensation Scheme | | |
|--|-----------------------------|----------------------------------|
| | % of Growers Covered | % of Cropped Area Covered |
| Rice | | |
| Punjab | 90 | 63 |
| Sindh | 83 | 47 |
| K-PK | 88 | 53 |
| Balochistan | 70 | 35 |
| Cotton | | |
| Punjab | 95 | 59 |
| Sindh | 90 | 49 |
| Source: Agricultural Census,2010 | | |

4. REDUCTION IN INPUT COSTS

4.1. Fertilizer

The largest input, in terms of cost, is fertilizer. The total combined cost of different forms of fertilizer is equivalent to about 35% on average of the costs of production of farmers. Therefore, a key component of the PM's relief package is a reduction in prices of fertilizer as follows:

- i. A fertilizer fund of Rs 20 billion to reduce the price of potassium and phosphatic fertilizer by Rs 500 per bag (of 50 kgs). This fund is to be equally contributed by Federal and Provincial Governments.
- ii. The fertilizer companies have recently increased the price of urea by Rs 200, following the hike of 63% in the tariff of gas as a feedstock into the production of urea. The Government will negotiate for withdrawal of this increase.
- iii. The federal budget of 2015-16 already contains the provision for subsidy on imported urea of Rs 25 billion.

The decision to reduce the price of potassium and phosphatic fertilizer by almost 15% is an appropriate decision. The use of fertilizers in Pakistan is characterized by an imbalanced mix, with too much reliance on urea. The reduction in price will help in improving the mix.

However, the cost of the price reduction of Rs 500 per bag appears to be overstated. Inclusive of the consequential loss in GST revenue, the cost at the current levels of off-take is approximately Rs 11 billion. Also, how the Provincial share will be distributed among the individual provinces has not been indicated.

The withdrawal of the increase in price of urea by Rs 200 per bag will require steps by the Federal Government. Either the increase in gas tariff will have to be withdrawn or the GST rate on urea brought down from 17% to 5%. The cost to the Federal Government will be about Rs 10 billion. This has not been explicitly budgeted for in the relief package.

Overall, the total cost of reduction in prices of different types of fertilizer to the Federal and Provincial Governments combined is estimated at Rs 46 billion. This will have to be reflected in the respective budgets for 2015-16.

4.2. Electricity

The proposed reduction in electricity tariffs for agricultural consumers, primarily for the running of tube wells, is given in Table 6 below. The reduction is much larger in the peak tariff. Overall, the average reduction proposed is Rs 1.48 per kwh. This implies a loss in revenue of distribution companies of Rs 10 billion, which is Rs 3 billion higher than the estimated cost in the relief package.

| | Peak Tariff | Off-Peak Tariff | Average Tariff* |
|-------------|--------------------|------------------------|------------------------|
| Existing | 15.00 | 9.10 | 12.00 |
| Proposed | 10.35 | 8.85 | 10.52 |
| Reduction | -4.65 | -0.25 | -1.48 |
| % reduction | -31.00 | -2.7 | -12.3 |

*estimated 28% of consumption is in peak hours
Source: NEPRA

The elimination of GST on agricultural consumers is expected to cost Rs 7 billion, according to the package. This is to be borne by the Provincial Governments. Based on the NEPRA data, it appears that this cost is also understated. It is closer to Rs 11 billion. The share of Punjab is estimated at 72%, followed by 11% by Balochistan, 12% by Sindh and 5 % by Khyber- Pakhtunkhwa.

Overall, the cost of tariff reduction and the elimination of GST is approximately Rs 21 billion. Farmers will, no doubt, welcome the reduction in average tariff by about 12%. However, for increased use of electricity it is essential that the high incidence of load shedding in rural areas is reduced.

4.3. Machinery

The total incidence of taxes on imported machinery is to be reduced from 43% to 9% as part of the relief package. Also, the GST on purchase of domestically produced machinery (including tractors) has been reduced from 17% to 7%.

The revenue loss due to these measures has not been quantified. In 2014-15, the value of import of agricultural machinery was \$104 billion. Given the above mentioned reduction in taxes, the revenue loss is likely to be Rs 3.5 billion. The foregone revenue on locally produced machinery, especially tractors, is Rs 6.5 billion. The aggregate revenue loss is Rs 10 billion.

The package also proposes a number of fiscal incentives for preserving profitability and promoting investment in agriculture. Service providers for cold supply chain will be exempt from income tax for three years. Rice millers will be exempt from turnover tax. Halal meat producers will be tax exempt for four years. Withholding tax benefits to dairy producers will also now be available for fish farmers.

5. ACCESS TO CREDIT

Given the strained liquidity position of farmers due to lower prices, the relief package includes a number of measures for greater access to credit, as follows:

- i. The total quantum of agricultural credit was over Rs 500 billion in 2014-15. This is to be raised to Rs 600 billion in 2015-16. Most of the increase of Rs 100 billion or so will be targeted to small farmers, with farm size up to 12.5 acres.

- ii. The Federal Government and SBP plan to reduce mark up rates by 2 percentage points on agricultural loans, at the annual cost of Rs 11 billion.
- iii. Collateral free loans will be given to 300, 000 farmers (holding up to 5 acres of canal irrigated land and 10 acres of barani land). The Federal Government will provide loan guarantees to cover 50% of the credit risk. Each farmer will be given a loan of Rs 100,000. Therefore, the size of the scheme is Rs 30 billion.
- iv. Interest free loans for conversion to solar tube wells, with an annualized cost of Rs 2 billion.
- v. Value of each PIU increased from Rs 2000 to Rs 4000 to facilitate access to credit.
- vi. The outstanding loan of Rs 34 billion from rice traders to be rescheduled up to June 2016.
- vii. Support to 700,000 farmers through payment of insurance premium for loan repayment, costing Rs 2.5 billion.

Therefore, one of the salient features of the relief package is the effort to reduce the negative bias in the allocation of credit to the agricultural sector by the banking system, especially with respect to the access of the small farmer. Currently, the share of agricultural lending in the total bank advances is only 11%, while the contribution to the GDP is over 20%.

The latest figures by the SBP reveal that agricultural credit disbursed was Rs 516 billion in 2014-15. The share of the big five banks (ABL,HBL,MCB,NBP and UBL) in 2013-14 was 50%, followed by other domestic private banks at 22%, ZTBL at 20%, micro finance banks at 6% and others at 2%. The big five banks and the other domestic private banks generally lend to large farmers, with average loan size of Rs 2.9 million and Rs 2.4 million respectively. However, the ZTBL and MFBs lend to small farmers mostly with loan sizes of Rs 93,000 and Rs 33,000 respectively.

The fundamental issue is that of supply of more credit to the agricultural sector, especially to small farmers, at a time when profitability has been affected by falling prices. Already, the sector is characterized by a relatively high ratio of non-performing loans, equivalent to 14% of outstanding loans. This ratio has reached a peak of 20% in the case of ZTBL; as compared to 7% for the big five banks.

The relief package will need to ensure that the additional credit, especially for the forthcoming Rabi season, will be available by taking some additional measures. The credit guarantee scheme is a step in the right direction. In addition, given that the banking sector is largely privatized, a fiscal incentive may be offered. This could be in the form of a tax credit equivalent to 2% of the additional lending during a particular year to small farmers. This will compensate for the higher risk and cost of lending.

6. MAGNITUDE OF IMPACTS

The magnitude of impact of the different relief measures is given in Table 7. The relief package has a, more or less, balanced impact by size of farmer. The cash compensation scheme benefits only the small farmer. The reduction in cost of inputs like fertilizer, electricity and machinery disproportionately benefits more the medium-sized and large farmer. The improved access and lower cost of credit benefit both size categories of farmers. Therefore, the perception that the package has a small-farmer bias is not necessarily valid.

Turning to the budgetary implications of the relief package, Table 8 indicates that the fiscal costs have been underestimated by the Federal Government. The consolidated cost to both Federal and Provincial Governments of the package is Rs 146 billion, according to IPR. This is Rs 31 billion higher than the official estimate. The sharing of the cost between the two levels of Government is 70:30.

It needs to be highlighted that the declared total cost of the relief package is Rs 341 billion. However, 57% is the increased allocation of credit. The more direct and relevant cost of the relief package is the fiscal cost. As highlighted above, this is estimated by IPR at Rs 146 billion. A provision has

already been made in the budget for the Rs 25 billion subsidy on imported urea. Therefore, there will be an increase in the target fiscal deficit for 2015-16 by 0.4% of the GDP. The IMF needs to be told unambiguously that this has become essential if the growth momentum, export expansion and food security are to be sustained in the presence of a large negative shock to the agricultural sector of Pakistan, due to the fall in international commodity prices.

| Table 7: Magnitude of Benefit to Farmers of Different Components of Relief Package (L = large, M = Medium, S = Small benefit) | | |
|--|---------------------------------------|----------------------|
| Measure | Large and Medium-Sized Farmers | Small Farmers |
| • Rs 5000 per acre compensation to rice & cotton growers | - | L |
| • Reduction in Fertilizer price of K&P by Rs 500 and of Urea by Rs 200 per bag | M | S |
| • Subsidy on Imported Urea | L | M |
| • Reduction in Electricity Tarrifs | M | S |
| • Payment of GST on Electricity | M | S |
| • Reduction in Taxes on Machinery | M | S |
| • Reduction in Mark Up on Loans | M | S |
| • Interest Subsidy on Loans for Solar Tubewells | S | - |
| • Credit Guarantee Scheme Subsidy | - | S |
| • Increase in Credit to Small Farmers | - | L |
| TOTAL | | |
| Large (L) | 1 | 2 |
| Medium (M) | 5 | 1 |
| Small (S) | 1 | 6 |
| Source: Derived | | |

The positive aspect of the impact is the increase in welfare of urban consumers due to falling prices. Already the retail price of rice has fallen by 11% on a year-to-year basis, by August 2015. There is the prospect of further reduction in price. However, despite the fall in price of cotton, textile products have shown a trend of rising prices. Cotton cloth price has gone up by 4%, readymade garments by 7% and hosiery by 6%. This needs to be investigated.

7. MISSING INITIATIVES

Given the prospect that commodity prices will remain low in a medium-run setting, the time has come to explore the expansion of the procurement/support price regime. This is essential if incentives are to be given for higher production and major changes avoided in cropping patterns, due to risks arising from fluctuations in prices.

| Table 8: FISCAL IMPLICATIONS OF THE RELIEF PACKAGE | | | | | | |
|---|---------------------------|--------------|-------------------------------|-------------|----------------|--------------|
| (Rs in Billion) | | | | | | |
| Measure | Federal Govt According to | | Provincial Govts According to | | Consolidated | |
| | Relief Package | IPR | Relief Package | IPR | Relief Package | IPR |
| • Rs 5000 per Acre Compensation to Small Rice Growers | 10.0 | 13.5 | 10.0 | 13.5 | 20.0 | 27.0 |
| • Rs 5000 per Acre Compensation to Small Cotton Growers | 10.0 | 13.0 | 10.0 | 13.0 | 20.0 | 26.0 |
| • Fertilizer Fund to Reduce Price-By 500 per bag a | 10.0 | 5.5 | 10.0 | 5.5 | 20.0 | 11.0 |
| • Reduction in price of Urea by Rs 200 per bag | - | 10.0 | - | - | - | 10.0 |
| • Subsidy on Imported Urea | 25.0 | 25.0 | - | - | 25.0 | 25.0 |
| • Increase in TDS b due to reduction in electricity tariffs | 7.0 | 10.0 | - | - | 7.0 | 10.0 |
| • Payment of GST on electricity | - | - | 7.0 | 11.0 | 7.0 | 11.0 |
| • Reduction in Taxes on Agricultural Machinery | - | 10.0 | - | - | - | 10.0 |
| • Reduction in Markup on Agricultural Loans | 11.0 | 11.0 | - | - | 11.0 | 11.0 |
| • Interest Subsidy on Loans for Solar Tubewells | 2.5 | 2.5 | - | - | 2.5 | 2.5 |
| • Credit Guarantee Scheme Subsidy | 2.5 | 2.5 | - | - | 2.5 | 2.5 |
| TOTAL | 78.0 | 103.0 | 37.0 | 43.0 | 115.0 | 146.0 |

Source: Estimated

Pakistan, in fact, had a fairly elaborate support price regime up to the late 90s. Commodities like rice, cotton, potato and onion were also covered by this regime, as shown in Table 9. In some cases, following the induction of the last PPP Government, support prices were reintroduced for a short period in 2008-09. Currently, only wheat and sugarcane are offered a support or procurement price. There is a strong case for bringing back at this time support prices for rice (paddy) and cotton (phutti). Also, vegetable prices need to be stabilized through minimum support prices.

The relief package ought to have also included an export subsidy for rice, especially on basmati rice. This is essential not only to dispose of the outstanding stock with rice traders but also to stabilize the domestic price.

The reduction in electricity tariff primarily benefits farmers with electricity-operated tube wells. But 90% of tube wells run on diesel. Therefore, consideration ought to have been given to reducing the GST rate on LDO, which has recently been raised to 29.5%. If the rate is brought down to 7%, as in the

| Table 9: COVERAGE OF PROCUREMENT / SUPPORT PRICES | |
|---|------------------------------|
| | Last Year of Coverage |
| Wheat | 2014-15 |
| Rice | |
| Basmati 385 | 2008-09 a |
| Irri - 6 (F.A.Q) | 2008-09 a |
| Rice (Paddy) | |
| Basmati 385 | 2009-10 b |
| Basmati Super 2000 | 2009-10 b |
| Irri - 6 | 2009-10 b |
| Sugarcane | 2014-15 |
| Cotton Lint | |
| Desi | 1995-96 |
| AC-134 NT | 1991-92 |
| B-557 149-F | 1995-96 |
| Sarmast Qallandari | 1995-96 |
| Seed Cotton (Phutti) | |
| Desi | 1997-98 |
| AC-134 NT | 1991-92 |
| B-557 F-149 Niab 78 | 2008-09 |
| Sarmast Qallandari | 1997-98 |
| Potato | 2000-01 |
| Onion | 1998-99 |
| a Discontinued in 1997-98 and reintroduced for one year in 2008-09 | |
| b Discontinued in 2006-07 and reintroduced for two years, 2008-09 and 2009-10 | |
| Source: Pakistan Economic Survey | |

case of some other agricultural inputs, the price of LDO will decline from Rs 53.59 to Rs 44.27 per litre. This will benefit over 900,000 tube well owners. The estimated revenue loss is less than Rs 2 billion.

As opposed to crops, prices of livestock products have been increasing steadily. On a year-to-year basis, the wholesale price of milk is higher by 4%, of meat by 4% and of raw hides and skins by 8%. In the incentives for agriculture included in the Budget of 2015-16, there was a proposal for introduction of a Livestock Insurance Scheme. But this scheme has not been included in the relief package. This should be done and, in addition, banks may be encouraged to increase livestock credit.

Finally, shortly there will be a need to fix the procurement price for wheat for the next season in coordination with the Provincial Governments. Last year's price of Rs 1300 per 40kgs looks unsustainable, given the size of the export subsidy offered. Consequently, no significant exports have taken place in 2014-15 and stocks of over two million tons have piled up. Currently, the export parity price is less than Rs 1000 per 40 Kgs. Will the Government be able to bring down somewhat the procurement price of wheat or raise the export subsidy? Similarly, the sugarcane support price will have to be reviewed by the Provincial Governments.

8. CONCLUSIONS

The Federal Government must be commended for preparing the relief package for farmers at this time of falling prices. Of course, this should have been announced after due deliberations with the Provincial Governments, preferably in the CCI, to achieve a consensus on cost sharing.

The relief package has four key components including cash compensation, reduction in input costs, increased access to and roll-over of credit. The package benefits both small and large farmers in a, more or less, balanced manner. The cash compensation scheme only partially covers the potential loss and has limited coverage.

The fiscal/budgetary cost of the package is Rs 146 billion, as estimated by IPR. This is Rs 31 billion higher than the official estimate and equivalent to 0.5% of the GDP.

The package could have been made more effective by expansion of the support price regime, inclusion of an export subsidy on rice, reduction in the price of LDO and introduction of a livestock insurance scheme. The emphasis must now be on effective implementation of the package.



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