

Proposal for Study on Livestock and Value Added Parts of the Agribusiness Sector of Pakistan

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Proposed Deliverables of the Project Study

1. Assessment of what kind of export potential exists in the livestock sector of Pakistan and how it could be developed.
2. Identification of the prospects of introducing innovations into the value added parts of the agriculture in Pakistan to make it more competitive.
3. Determination of the financial needs of the value added parts of the agriculture sector of Pakistan.

Substantive Livestock & Dairy Sector in Pakistan

- National herd consists of 24.2 million cattle, 26.3 million buffaloes, 24.9 million sheep, 56.7 million goats and 0.8 million camels.
- In addition to these there is a vibrant poultry sector in the country with more than 530 million birds produced annually.
- These animals produce 29.472 million tons of milk (making Pakistan the 5th largest producer of milk in the world), 1.115 million tons of beef, 0.740 million tons of mutton, 0.416 million tons of poultry meat, 8.528 billion eggs, 40.2 thousand tons of wool, 21.5 thousand tons of hair and 51.2 million skins and hides.

Also a Substantial Economic Activity

- Livestock and dairy sector accounts for 52% of agriculture economy. It presently contributes nearly 11.4 per cent to the GDP, which is more than the aggregated contribution of entire crop sector (10.3 per cent) of the country.
- Livestock production is one of the major activities as about 38 million people of rural areas (involving 6 million farms) are engaged in raising livestock and deriving 30-40 per cent of their incomes.

Major Opportunity for Poverty Reduction and Involvement of Women

- The volatility in agricultural growth is mainly caused by crop sector which is associated with the vagaries of mother nature, pest attacks, adulterated pesticides etc. Such volatility is detrimental to income growth of farmers and hamper government efforts to reduce poverty
- Livestock is more evenly distributed than are land and access to water
- Livestock growth (3.8% annually) is pro-poor and has significant involvement of women.

Export Performance of Livestock & Dairy Sector

- Meat and meat preparations exports in 2007-08 have been \$ 42 million – (31% UAE, 29% Saudi Arabia, Kuwait 19.4%, Qatar 8.65%, Oman & Bahrain)
- Poultry exports to Afghanistan – \$ 475,000
- Pakistan is the 5th largest producer of milk in the world but only 2% of this is processed against 40% in India.
- The local market for meat is growing by 5% annually while demand for meat and live animals both organized and illicit in the neighboring countries is drawing down on availability of live animals and resulting in explosive meat prices.

Impediments to Exports of Livestock Products from Pakistan

- The country's phyto-sanitary, hygiene, health, and safety regulations are not aligned with international standards
- Difficulties in meeting SPS (Sanitary and Phyto-Sanitary) standards imposed by importing countries owing to small scale of export operations.
- Less productive livestock, poor feeding quality along with poor health cover are also major constraints in the livestock sector.
- There are some improvements in collection system of milk and egg supply through commercial poultry farms, however slaughtering of animals and its marketing needs major reforms.

World Trade in Livestock and Livestock Products (LLPs)

- Livestock and livestock products (LLPs) account for around 17% of world trade in agricultural products.
- Meat exports, mainly of bovine, pig and poultry – make about half of the total value of world trade in LLPs.
- Developed countries account for 88% of world exports of LLPs and 75% of the imports.
- Developing countries are net importers of LLPs. Dairy is single biggest import of developing countries – accounting for 50% of their LLPs imports.
- Low Income countries (like Pakistan) hold mere 1.5% share of world exports of LLPs – Least-income countries hold 0.5% share, rest by middle-income countries.
- Developing countries have been more successful in exporting live poultry, poultry meat, eggs and goats.
- Halal food export market is said to be \$ 40 billion and rapidly growing.
- Demand in developing countries rising faster – Central Asian countries, Middle-East, Africa.

National Priority to Develop Livestock and Dairy Sector

- Pakistan Government has realized that livestock sector offers tremendous potential for growth and has taken a large number of initiatives in this direction:
 - Updating legal framework to make it more investment friendly
 - Ensuring Credit availability
 - Private sector-led companies for promotion and facilitation of livestock i.e. Livestock and Dairy Development Board and Pakistan Dairy Development Company.
 - Approval of Livestock development policy
 - Increasing public-sector investment to facilitate and promote the sector development
 - Duty free import of all machinery
 - Approval of package for corporate agriculture farming including livestock
- Strengthening livestock services for improving disease control; milk and meat production; breed animal husbandry and management practices; in the county.
- **Need also to work on building export potential.**

Domestic Potential for Value Added Agriculture

- With a rapidly growing population, the domestic demand for fruit and vegetables and their processed products is expanding, which presents an opportunity for producers and processors.
- The income elasticity of fruits ranges across income groups, but on average is high enough to sustain an annual growth in demand of about 8%, given the current annual population growth rate of 1.9%, and GDP growth rate of 6.4%.
- Income elasticities for vegetables and fresh milk are lower than fruits, but still significantly positive, and support an estimated annual growth in demand of about 6%.
- The income elasticities for processed fruits, vegetables, and milk products are much higher, and result in annual increases in demand in excess of 10% on average, indicating a sizeable potential market for domestic processors.

Comparative Advantage *but* Low Returns

- Pakistan has a comparative advantage in the production and export of high value and non-traditional crops.
- Survey of the manufacturing sector estimated that number of firms directly related or allied to the agribusiness sector are 2% of all industries in Pakistan, which is minimal given the potential for value addition and processing provided by the large volume of horticultural crops produced.
- Despite this comparative advantage, returns to farmers are also low. Farmer income is greatly affected by post harvest losses, which average between 30 and 40%.

Export Performance of Agriculture

- While many developing countries have seen a fairly rapid expansion in agricultural exports over the past decade, Pakistan's share in total world exports has actually declined.
- Pakistan's agricultural exports have remained heavily concentrated in low-value-added goods, while other regional producers have improved product technology and value addition.
- The stagnation in the export market is largely because world markets are demanding better quality products and improved traceability, related to WTO regulations and standards, and other increasingly stringent standards in developed markets.

Export Potential

- Pakistan, which exports a mere 3.35% of its fruit and vegetable production, is currently ranked 44th globally, for trade in these commodities.
- Pakistan's export trade in fruits and vegetables, fresh and processed, can easily be either doubled or trebled.
- Floriculture is a relatively new subsector even in the domestic market, with a growth potential of at least 10%. The world trade in flowers is around \$30 billion, while Pakistan's annual floriculture exports are only about \$2 million. While the markets are competitive, opportunities do exist, and importers are continually seeking new products.
- **There are ripe prospects for introducing innovations into the value added parts of the agriculture in Pakistan to make it more competitive, for domestic and export markets.**

The Gap Between Demand and Supply of Agriculture Credit

- While lending to agriculture is increasing, in terms of the overall level of demand, market penetration is limited. A financing gap of almost PRs 283 billion (\$3.4 billion) has been identified. Demand has been recorded at Rs 533 billion as against the institutional credit target at just Rs 250 billion during 2009.
- Commercial banks tend to restrict lending to financing of seasonal production (70–75% of all loans) with the balance for development lending.
- Development lending is itself largely limited to on-farm investments such as tractors, tube wells, and farm equipment.
- Lending to agribusiness, other than for large-scale food and beverage enterprises, is almost nonexistent.

Gap in Financing of Agribusiness SMEs

- At the lower end of the market, potential sources of financing include recently established formal microfinance institutions and rural support programs offering credit services, although the loan ceilings and relative inexperience of these institutions (especially in agribusiness lending) limit the type and size of enterprise that they are able to serve.
- Therefore, a substantial gap remains in the financing of agribusinesses that operate on a scale between the large-scale enterprises served by commercial banks, and microenterprises that may be served by microfinance institutions.

Financing Viability of Agribusiness SMEs

- In an ADB project the financial viability of nine representative agro-enterprises was studied. All had a financial internal rate of return of more than 12%, clearly demonstrating the opportunities that exist for entrepreneurs in agribusiness.
- About 1.5 million people are employed in small- and medium-size horticultural enterprises.
- There is a pressing need to encourage the growth of micro horticultural enterprises to support the transition to small and ultimately medium-scale enterprises to make the sector competitive on domestic and international markets.
- **As a first step there is a need to assess the financial needs of the value added parts of the agriculture sector of Pakistan.**

Methodology, Funding and Time-Frame of the Study

- The study will involve secondary as well as primary investigation. Review of secondary information will be targeted at published data and recent relevant studies conducted on the livestock and value added agriculture (***may be limited to horticulture***) sector of Pakistan by the federal and provincial government departments as well as international donor agencies.
- Primary investigation will be based on meetings and discussions with managers of businesses in livestock and value added agriculture in Pakistan, financial institutions, agribusiness experts as well as relevant government officials.
- Latest competitiveness thinking and framework of national competitive advantage will be used to assess current state of competitiveness and prospects of livestock and value added agriculture in Pakistan.
- Funding of \$ 25,000 may be available for the study.
- Final report will be prepared in three months time.

Project Team and Competence of SDSB at LUMS

- Proposed project faculty team will be:
 - Dr Faheem ul Islam - Principal Consultant
 - Dr Imran Ali, Jamil Nishtar Professor of Agribusiness in SDSB at LUMS – Co-Principal Consultant
- Research Capability of SDSB & LUMS



Thank You