

Director's Report

Pakistan Agricultural Coalition

FY18-19

Market access for farmers: electronic trading platform

Pakistan's current wholesale markets inadequately serve those who are interested in high-quality produce grown to specifications. The quality of the product is not preserved as the traditional markets lack the appropriate infrastructure and expertise. Non-transparent pricing is the norm because of the concentration of market power among certain intermediaries. The market mechanism does not reward quality, which does not provide the farmer with an incentive to invest in modern and efficient agricultural practices.

Based on the above assessment, PAC decided to bring together different contributors to the agricultural value-chain in order to build an e-Trading Platform where high-quality standardized agricultural products are traded. The e-Trading Platform for red chilies was officially launched in October 2015, where PAC was able to secure the involvement of three specialized partners in this market model: Agility Logistics, SGS Pakistan, and Pakistan Mercantile Exchange (PMEX). The services, which constitute this model—world class testing by SGS, warehousing by Agility, Trading Platform by PMEX, and facilitation/extension services by PAC—are covered by a transaction charge.

Even with this transaction charge, the sellers make a higher profit at the e-Trading Platform compared to traditional mandi prices as they are getting better price, quick payment, and no unfair deductions. Red chilies worth \$ 10 million have been traded between 2015 and 2019 seasons and red chilie strading is now a regular feature at PMEX. PAC is now working on replicating this model for other crops with PMEX.

Unlocking credit: Agri-collateral management pilot through e-warehouse receipts

Farmers' access to formal sector credit is highly constrained and they are mostly stuck with lenders from the informal sector who charge exorbitant interest rates. A key reason for constrained agri-lending is the use of farmers' land as collateral by banks.

PAC has successfully piloted a business model for lending against crop (not land) as collateral for wheat farmers/sellers with the participation of Agility, SGS, PMEX, HBL for wheat crop in district Sheikhpura, Punjab, where HBL lent Rs. 4.8 million against 232 tons of wheat as collateral. PAC has also replicated the same model for Basmati Paddy farmers in district Sheikhpura in November 2017 with Bank Islami, which also helped develop an Islamic banking model for the program. During the summer 2018 maize harvest, PAC conducted a comprehensive final pilot with MCB Bank as the conventional bank, Bank Islami as the Islamic bank, FINCA as the microfinance bank, Adamjee Insurance as the insurer, Islamabad Feeds as the warehouse operator and Agility Pakistan as the collateral manager.

The eco-system for electronic warehouse receipts-based agri-lending through the collateral management company (CMC) has been firmed up by these pilots. SECP, in collaboration with State Bank of Pakistan (SBP), Central Depository Company¹ (CDC), Pakistan Mercantile Exchange² (PMEX), Pakistan Agricultural Coalition

¹Central Depository Company is recognized as the infrastructure backbone of the Pakistan Capital Market and is the sole securities depository in the country (<http://cdcpakistan.com/>)

(PAC) and other key stakeholders, notified Collateral Management Regulations in July 2019 which will help expedite the formation of a CMC. A number of leading business groups have pledged equity participation in the proposed company to be registered under this regime and have applied for registration of the said company with SECP.

Training on capacity building of Chili farmers for adaption of best Agriculture Practices for food safety and Export Market

Pakistan is one of the red Chili producing and exporting countries of the world. The Dandi-cut variety of red chili with its round or oval-shape, strong aroma, pungency and colour makes it unique in the world. Yet the Chili sector faces serious problems throughout its supply chain from inefficient seed selection to improper handling and storage that has significantly lowered Chili production in Pakistan to 145,856 tons in 2013 from 188,859 and 171,736 tonnes in 2009/10 and 2010/11 respectively.

To address this issue, Pakistan Agricultural Coalition initiated the training of **Chili farmers for capacity-building and adoption of best agriculture practices for food safety and export market** with the USAID/AMD at Kunri in Sind, Pakistan, one of the largest production centres for red chilies in Asia. The approved syllabus consists of six modules covering all aspects of the chili value-chain. Pakistan Agricultural Coalition is conducting a series of 3-day trainings in three separate clusters for groups of 20 contractual farmers from each cluster, i.e. Kunri, Naukot and Umerkot, while each training session comprises of three days of training for each of six modules, so that each group receives 18 days of training, while 60 contractual farmers benefit from the training program.

Training modules are as follows:

Module 1: Selection, treatment and storage of seed

Module 2: Land preparation and management

Module 3: Weed management

Module 4: Fertilizer management as per soil conditions

Module 5: Pest management

Module 6: Harvesting and post-harvesting management

PAC employed a variety of training methodological approaches including the development of training manual in Urdu comprising of comprehensive step-by-step guidelines for chili growers involving land preparation, seed selection, nursery raising and transplanting, irrigation, fertigation, insect/pest management, harvesting, post-harvest handling and marketing among others. Based on this experience, PAC intends to conduct similar trainings for farmers for other crops.

Current and upcoming projects FY19-20:

1. Doubling Pakistan's Rice Exports by 2023:

PAC has been working with the Rice Exporters Association of Pakistan (REAP) since December, 2018 to develop and implement a multi-year program for doubling Pakistan's rice exports from \$2 billion in 2018 to around \$5 billion by 2023. PAC is actively coordinating between all stakeholders which includes leading progressive farmers, exporters, and input providers among others to conduct pilot projects on up to 4,000 acres in three districts in Sindh for the 2019 rice season. The lessons of these pilots would inform the final

2. Formation of the Collateral Management Company on Warehouse-receipts-based financing:

The agri-financing regime based on electronic warehouse receipts (eWHRs) is ready to be launched in Pakistan's agriculture sector. Preparations and pilots since 2010 have brought the regime to full readiness.

The regime will not only bring financial access to farmers but also create strong incentives for crop testing, grading, and standardization, proper storage, reduction in post-harvest losses, and preservation of crop quality for exports. There is sufficient storage capacity in Pakistan's crop value chains to launch this regime. It will create an eco-system that will attract much-needed investment in near-farm storage. PAC has already helped the sponsors of the upcoming company to be registered under the CMC Regulations 2019 apply for grant of registration from SECP to commence business starting March-April 2020.

3. Promoting Food Security through quality Drying and Storage services:

Pakistan produces some 44 million tons of non-perishable agri commodities worth PKR 1.8 trillion each year (Wheat, maize, oilseeds in winter; paddy, rice, cotton and sugar in summer). Of this, an estimated 15-20% is lost due to poor post-harvest handling and lack of drying and storage. Currently, a limited capacity of quality storage is available but only inside the mill facilities. Therefore, most market participants are not able to preserve the quality of commodity after harvest.

Quality storage facilities (with drying where applicable) can offer a way for most market participants to preserve the quality of commodity after harvest. Such facilities are not coming up because of weak incentives for their full utilization. The upcoming warehouse receipts regime (with participation of leading banks) will ensure utilization of such facilities. The prospect of bank borrowing (against the stored commodity as collateral) incentivizes market participants to use these facilities, thereby making them commercially viable.

PAC is conducting two pilots with Engro, one for maize in Okara and Depalpur regions and other for paddy in Muridke on operating commercially viable quality storage facilities (with drying where applicable) where commodity owners can deposit their agri-produce (wheat, maize, paddy etc.) after harvest to preserve the quality of commodity while also acquiring bank-financing (using the stored commodity as collateral). Commodity prices normally appreciate a few months after harvest, at which time, commodity-owners can sell their stored commodities at higher prices, which is generally sufficient to pay the fees for the above-mentioned services and any bank mark-up. The cost of providing these services plus a margin can be recovered through fees charged to depositors. The pilots with Engro will help design program scale-up.



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