Policy Percolations: Tracing the Two-Year Policy Disaster Through Pakistan's Wheat Supply Chain

By Azhar Rashid Khan, PSP

I. The Origin: A Policy Withdrawal Without a Replacement

The current wheat crisis did not emerge from a single crop failure or weather event. It is the cumulative product of a policy sequence error—the withdrawal of state support before a functional market alternative was in place.

In May 2024, under IMF pressure as part of a $7 billion Extended Fund Facility, Pakistan ceased announcing a minimum support price (MSP) for wheat and halted government procurement operations. The Memorandum of Economic and Financial Policies committed to "winding down PASSCO" and phasing out "federal and provincial government price-setting for agricultural commodities." By 2025, PASSCO—Pakistan's equivalent of India's FCI—had not procured a single tonne.

The policy had a clear fiscal logic: government procurement was funded through high-interest commercial loans, with outstanding debts reaching Rs0.68 trillion in Punjab alone by June 2023, and storage losses of up to 30 percent. But the execution was catastrophic. As one analyst put it: "The state has pulled back from direct procurement faster than the private sector has built the capacity to take its place."

II. Percolation 1: The Farmer—Where the Damage Began

The Signal

When the government abolished the MSP, it sent a singular, devastating signal to farmers: plant at your own risk. With no price assurance and rising input costs—land rental at Rs180,000 per acre, seed, fertiliser, irrigation, and harvesting pushing per-acre costs beyond Rs64,000—farmers made rational calculations.

The Response

The result was immediate and measurable. Wheat cultivation area shrank by 6.5 percent in 2025 compared to the previous year, with farmers switching to more profitable crops such as vegetables, oilseeds, mustard, and pulses. The Food and Agriculture Organisation (FAO) attributed this decline directly to "the removal of the minimum support price (MSP) in May 2024 and low domestic wheat prices during planting." A survey found that 26 percent of large farmers, 26 percent of medium farmers, and 13 percent of small farmers expected to switch to alternative crops.

The Result

Wheat production fell by 8.9 percent in 2024-25. The policy goal of reducing state intervention had succeeded—but at the cost of national food security.

Responsibility

Federal Government—for abandoning MSP without a credible alternative and for delegating procurement to provinces without a coordinated national framework.

III. Percolation 2: The Harvest—When Farmers Were Abandoned

The Promise

In October 2025, the federal government approved the Wheat Policy 2025-26, setting a benchmark procurement price of Rs3,500 per 40kg and shifting procurement to private aggregators operating with state support. Financing was subsidised, and intermediaries were protected with guaranteed margins of 10 to 16 percent.

The Reality

When the 2026 harvest arrived, the system collapsed. Private aggregators—nine of eleven shortlisted companies—failed to procure any wheat. Procurement centres were limited, buyers were missing from markets, and private companies were unwilling to buy at the benchmark price when market rates were higher.

The Farmer's Plight

Farmers were trapped. Harvest happens in April. Loan repayments fall due in April. They could not wait for the market to "sort itself out." As one analysis described the small farmer in Sahiwal:

"His cost of production per acre—seed, fertiliser, tubewell hours, harvester hire—is now around Rs50,000. His wheat has been harvested. The bags are stacked and ready. His loan falls due this week. If he cannot repay on time, he not only faces higher financing costs, but also risks losing access to credit for the next crop. He cannot afford to wait... He has to sell now, to whoever shows up, at whatever price is on offer."

That price in many parts of Punjab was Rs2,900 to Rs3,200 per 40kg—below the official benchmark of Rs3,500—and in some cases as low as Rs2,000 to Rs2,200 per maund. Meanwhile, input costs remained high, with farmers spending over Rs64,000 per acre, and most barely breaking even or incurring losses.

The Procurement Failure

Province	**Target**	**Actual**	**Shortage**
Punjab	3 million tonnes	480,000 tonnes	2.42 Million Tonnes
Sindh	1 million tonnes	200,000 tonnes	800.000 Tonnes

Responsibility

Provincial Governments—for failing to ensure procurement readiness. Punjab chose the market route without ensuring private capacity existed. Sindh retained state procurement but arrived too late. As one analysis observed: "A procurement system that arrives late functions little differently from one that fails to arrive at all."

IV. Percolation 3: The Market—Distortions and Hoarding

The Price Paradox

While farmers sold at Rs2,000–Rs3,200, consumers soon faced prices of Rs4,611 per 40kg (Rs115 per kg) in early July 2026. Wholesale wheat prices in Karachi hovered around Rs116–120 per kg, with warnings they could rise to Rs125 per kg—and farmer leaders cautioned prices could reach Rs6,000 per maund if the situation continued.

The Hoarding Scandal

The disappearance of approximately 4.5 million tonnes of wheat from Punjab points to systematic hoarding. Grain moved cheaply out of farmers' hands at harvest and was later released at higher prices. As one analyst noted: ***"The result was entirely predictable: oversupply, lower state procurement, falling farm-gate prices, and a windfall for traders who had storage and liquidity."***

The Inter-Provincial Breakdown

Punjab restricted wheat movement outside the province for a second consecutive year. The Pakistan Flour Mills Association warned that Punjab's ban ***"distorted the free market and fuelled inter-provincial smuggling,"* *creating* *"insecurity, particularly in Khyber Pakhtunkhwa, despite the province's surplus production."*** As one analysis put it: ***"A procurement failure in Punjab travels. It moves through flour prices in Peshawar, through grain flows to Quetta."***

Responsibility

Federal and Provincial Governments—for failing to coordinate inter-provincial movement and for weak enforcement against hoarding. ***"Wheat is provincial in production. Food security is national in consequence."***

V. Percolation 4: The Storage Deficit—A Perennial Weakness

The Scale of Loss

Pakistan produces nearly 29.6 million tonnes of wheat annually, yet modern storage facilities remain 300,000 to 500,000 tonnes short of what is needed. The overall storage deficit is estimated at 20 to 25 million tonnes. Wheat losses alone are estimated at over Rs140 billion annually. As Agriculture Republic Co-Founder Aamer Hayat Bhandara described it, Pakistan's storage infrastructure is "***one of the weakest links in the agricultural value chain***."

The Consequence

Farmers lack the financial capacity to hold produce after harvest. Banks show limited interest in post-harvest financing, forcing distress sales at harvest when prices are lowest. The Punjab government has launched a Rs20 billion initiative to establish modern wheat silos, expected to prevent nearly 3 million tonnes of post-harvest losses annually. But the Budget 2026-27 allocation of just Rs7.1 billion for agricultural storage has been widely criticised as far below the scale of the crisis.

Responsibility

Federal and Provincial Governments—for chronic underinvestment in storage infrastructure and post-harvest financing.

VI. Percolation 5: The Consumer—Paying the Price

The consumer, at the end of the chain, bears the final cost. Flour prices rose approximately 38 percent between July 2025 and January 2026. By July 2026, the national average wheat price had reached Rs4,611 per 40kg. The government's response—importing 1 million tonnes at international prices—will cost billions of rupees that could have been spent supporting farmers.

As farmers' leader Khalid Hussain Bath argued: "Had farmers received fair prices for their produce, they would have continued producing more wheat than the country's requirements... ignoring farmers had forced the country to pay the price through costly wheat imports."

VII. Rectification: Protecting the Next Wheat Crop

A. Immediate Actions (Before Next Sowing)

1. Announce Support Price Early
Farmer organisations have demanded that the support price be announced every August, fixed at "cost of production plus a 25 percent profit margin" to enable informed cultivation decisions. The government must commit to this timeline.

2. Secure Fertiliser Availability
Two urea plants—Agritech and Fatima Fertilizer—have been shut down due to gas supply disruptions, with potential production losses of 718,000 tonnes by September. The government must restore gas supply to fertiliser plants immediately. As one analyst noted: "Urea will be 'totally short' during the wheat season" if action is not taken.

3. Reduce Input Costs
Farmers face elevated prices for urea, diesel, and electricity with no major subsidy buffer. The government must provide targeted input subsidies for the next wheat season.

B. Medium-Term Reforms (During Next Season)

4. Scale the PMEX-EWR Infrastructure
The Electronic Warehouse Receipt (EWR) system allows farmers to deposit wheat at accredited warehouses and receive receipts usable as collateral for bank financing—up to 70 percent of stored wheat value within 24 hours. Currently, less than 1 percent of domestic crops are sold through PMEX, with just 37 accredited warehouses. This must be scaled nationwide.

5. Ensure Procurement Readiness
Whether through private aggregators or state procurement, the system must be operationally ready before harvest begins—not after. This means pre-positioning financing, ensuring aggregator capacity, and establishing clear procurement timelines.

6. Invest in On-Farm and Community Storage
The Punjab government's Rs20 billion silo initiative and on-farm silos enabling farmers to "avoid distress sales and retain ownership of their produce until market conditions become favourable" must be expanded. Warehouse facilities should be placed under communal ownership—farmer cooperatives, community trusts, or local government entities—to prevent monopolisation.

C. Long-Term Structural Changes

7. Build a National, Not Provincial, Wheat Framework
"Pakistan treats wheat procurement as a provincial matter. The market does not." A national coordination mechanism—with clear federal responsibility for strategic reserves, inter-provincial movement, and emergency releases—is essential.

8. Encourage Value Addition and Branding
Local cereal and agri-food companies must be enhanced in their roles for branding, procurement, and exports. The natural evolution of flour mills into cereal manufacturing facilities can capture regional shortages and earn foreign exchange.

9. Invest in Climate-Resilient Varieties
Drought-tolerant genotypes including Ujala-16, C-271, Chakwal-50, and DH-11 require less water and shorter growing times. Research centres developing these varieties must receive sustained state support.

VIII. Alleviating the Present Plight of Farmers

Immediate Relief

1. Compensate Farmers for Losses
Farmers who sold below cost—at Rs2,000–Rs3,200 per maund—have suffered direct losses. A compensation mechanism must be established, funded by savings from reduced import volumes or through a dedicated agricultural support fund.

2. Loan Restructuring
Banks must be directed to restructure farm loans for the 2026 season, providing extended repayment periods and interest relief to prevent farmers from being locked out of credit for the next crop.

3. Emergency Procurement

For any unsold wheat still in farmers' possession, the government must establish emergency procurement centres at fair prices—at minimum the Rs3,500 benchmark, ideally higher to reflect current market realities.

Building Farmer Resilience

4. Warehouse Receipt Financing
Accelerate the EWR system so farmers can store their wheat and access bank financing against it, eliminating the need for distress sales.

5. Farmer Cooperatives
Encourage the formation of farmer cooperatives for collective marketing, storage, and price negotiation—reducing the power of middlemen and traders.

6. Crop Insurance
Expand crop insurance coverage to protect farmers against both price and yield volatility.

IX. Conclusion: From Crisis to Correction

The 2026 wheat crisis is not a natural disaster. It is a policy failure—the product of abandoning a support system without building a replacement. As the International Institute for Strategic Studies observed: "The concern is not with the principle of market pricing but with the contradictions in government policy"—withdrawing support while continuing to control prices, leaving farmers exposed to market volatility without any safety net.

The path forward is clear:

· Protect the next crop through early price announcements, fertiliser availability, and input subsidies.
· Build market infrastructure—PMEX exchanges, warehouse receipts, and storage—before withdrawing state support.
· Coordinate nationally—wheat is provincial in production but national in food security.
· Support farmers—through fair prices, loan relief, and emergency mechanisms when markets fail.

"Supporting farmers today means protecting Pakistan's food security tomorrow."

The question is not whether reform is needed. It is whether Pakistan has the wisdom to sequence reform correctly—and the courage to protect those who feed the nation while the transition unfolds.

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