Policy and Institutional Reforms to Improve Horticultural Markets in Pakistan
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Commissions and Omissions:
Agricultural Produce Markets in Pakistan

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Abstract
Whether or not the Pakistani farmer gets a fair price for his produce depends significantly on the effectiveness of the legal and intuitional frameworks for marketing of agricultural produce. Unfortunately, the legal framework is archaic and restrictive, and the institutional framework is inadequate. Developed several decades ago, these frameworks have not evolved with the changing context. Consequently, farmers are shortchanged in a thoroughly rigged market. Since the law restricts bulk sales and purchases to officially approved market places and through licensed agents (except in Sindh province), this is nothing less than 'state coercion' that restricts farmers' marketing choices. Further, provincial and local institutions are miserably failing in discharging their essential functions. Consequently, markets have become too congested and messy for farmers to sell their produce without engaging a number of meditators, each of whom receives his pound of flesh. In gross violation of the spirit of the existing law, market governance has been entrusted to politically appointed administrators whose claim to this position of responsibility is far from obvious. Arhti – a market operative working for a commission – emerges as the lynchpin of the system who manipulates it for personal advantage. This paper is a critical examination of the legal and institutional framework for agricultural produce markets in Pakistan.

Keywords
Agricultural produce markets; commission agents (arhtis); legal and institutional reform

1. Introduction

Whether or not the Pakistani farmer gets a competitive price for his produce depends *inter alia* on the overall design and architecture of the agricultural produce markets (APMs), which are the principal instrument for connecting producers and consumers of agricultural commodities in Pakistan. APMs are the physical places where farmers – most of them – bring their produce personally or through a representative or through a middleman for auction/sale to other middlemen, wholesalers, retailers or consumers. Therefore, what happens in these markets, how their operations are carried out, how entry of various sellers and buyers is restricted or enabled, how much information is available about other markets, what are the information asymmetries between market actors, and what infrastructure is available to carry out market operations affects in an uncontestable manner the price a farmer gets for his produce.

A key influence on the working of APMs is the legal and institutional framework in which they operate. An appropriate framework enables farmers to sell their produce competitively, i.e. to a buyer willing to offer them the best price at the time of transaction. It provides the context in which various APMs strive to efficiently clear farmers' produce in unpredictable cycles of under/over supply. This framework is historically specific and has evolved over time in a space hotly contested by market actors.

Considering their importance in agricultural societies, it is not unreasonable to expect the existence of a large body of literature on various aspects of the existence and functioning of APMs. In most countries, this is the case. For example, in India, a large body of academic research and market surveys are carried out every year by various government agencies, research institutes, think tanks, international donors, non-governmental organizations, and farmers' groups. Academic journals bring out special issues on APMs – the prestigious Economic and Political Weekly published a special issue in 2012 under the broad theme of 'Review of Rural Affairs.'

Pakistan, sadly, is an exception. There is a dearth of information and analysis on how these markets have evolved over time, how they function, who are the key actors, and which market distortions have become institutionalized. Even basic data on their number, physical infrastructure, equipment and facilities, procedures, volume of sales, marketing margins, and taxes and fees are not readily available – at least in the public domain. Often official data are a far cry from what exists on the ground. This discrepancy is most pronounced in volumes of sales, which are grossly under-reported in government documents. In the absence of such data and analysis, policy has to rely on partial and anecdotal evidence.

This paper is an effort to fill this gap. It contains a much-needed discussion on various aspects of the APMs, in particular the legal and institutional framework that governs their functioning. It is argued that the current framework is archaic and monopolistic, and has several features that systematically undermine farmers' interest. Government's failure to establish new (public or private) markets despite several-fold increase in agricultural outputs, and restricting sale of agricultural commodities to *only* officially approved places severely restricts farmers' choices.

This tantamounts to nothing less than what Hayek (1960) calls 'coercion', as state services are not only monopolistic but they are also crucial to farmers' existence as sellers of primary commodities. By forcing farmers and consumers to transact *only* in designated spaces under an exploitative framework, state action leads to loss, rather than gain of freedom for both. At the same time, the bureaucratic apparatus grows without any apparent increase in services, or in service quality, to farmers and/or consumers.

The paper is organized in five sections. Section 2 describes the methodology. Section 3 examines in detail the previous, current and proposed laws to govern APM operations in various provinces of Pakistan. Section 4 discusses the bureaucratic apparatus to implement these laws. This section also explores the role of the Commission Agent (CA) – commonly known as the Arhti – the lynchpin of the system, and arguably the richest and the most powerful actor in market operations. Since the objective here is to influence policy, Section 5 concludes the paper with a set of recommendations for the government to consider.

2. Methodology

Each province in Pakistan has its own laws and a dedicated bureaucratic apparatus within its agriculture department to establish and manage APMs. These laws and institutions are very similar to one another, as they evolved from common colonial ancestors in slightly varying cultural and political contexts. Therefore, we focus by and large on the province of Punjab and discuss laws and institutions of other provinces only to the extent of their difference. Sindh province enacted a new (progressive) law in 2010, which is discussed in detail.

Secondary and primary data for this paper were collected from four sources: 1) published reports and articles; 2) government documents, in particular office files of the Punjab Directorate of Agriculture Economics and Marketing (AEM); 3) unstructured interviews with key informants; and 4) field visits to various markets. There are only a few published reports and academic articles on APMs in Pakistan. However, there exists a substantial body of global literature, which was reviewed to inform the analysis of the Pakistani case. In particular, literature on APMs in India was very relevant as several of the problems and issues are the same in India as in Pakistan. As for government documents, an effort was made to look at official correspondence, circulars, advisories and notifications to understand the rationale behind proposals for legislative and institutional reform. Securing access to official documents was a challenge due to the prevalent culture of secrecy and also because records were not maintained systematically.

Primary data were generated through semi-structured interviews. In all 32 interviews were conducted and nine markets of various sizes were visited during May-August 2017 and in June 2018. The selection of key informants and field visit sites was based on availability and ease of access, rather than any systematic criteria. It is not easy to approach MC officials and CAs. So we snowballed from our first contact and interviewed/visited whosoever we could lay our hands on. Key informants included farmers, consumers, retailers, middlemen, workmen in the market, CAs and their staff, cold storage owners, and government officials. Almost all interviews were conducted *in situ*. Three of the markets visited were in Lahore, two were in South Punjab, and the rest were in Central Punjab. We also spent substantial time hanging around key sites, such as storage facilities, auction platforms, arhtis' offices to closely observe the micro-processes of selling and buying.

The spread of fieldwork over two years and ethnographic observation of various actors and processes provided critical insights into the working of APMs that would have been difficult to gain otherwise. Most of the fieldwork was carried out in 2017. However, in 2018, official data were updated and short visits were made to (mostly the same) respondents and key sites for verification of observations across years and also to clarify confusions that had emerged while writing this paper.

3. Legal Framework

Legislation regarding sale of agricultural produce has evolved over the past century in response to the changing context of production, transportation, information dissemination, and consumer preferences. Generally, protection of farmers from exploitative practices of middlemen and traders has been a key policy concern and has invariably reflected in legislation, though not always in practice. Originally, produce markets were conceptualized and designed as places where commodity prices would be set competitively through open auction carried out by market agents for a commission. For this purpose, these markets were required to provide the necessary physical infrastructure and regulatory environment. However, over time, these markets became a choke point for both consumers and farmers. For the latter, in particular, these markets grew into a maze that they could navigate only with the help of a series of middlemen, each of whom would keep his pound of flesh.

This Section critically examines the historical development of the legal framework that governs the APMs in Pakistan. Several proposals to reform the current system have also been floating among policy communities since the past few years. Some of these proposals are also discussed briefly.

3.1 Royal Commission on Agriculture in India, 1928

The report of the Royal Commission on Agriculture (1928) makes an interesting read for two reasons. First, it elaborates upon the context in which the principal legislation to regulate APMs in the Indian sub-continent – the Agriculture Produce Markets Act of 1939 – was enacted. The current APM legislations in both India and Pakistan borrow heavily from the 1939 Act with a few (minor) amendments here and there. Second, it tells us how little things have changed during the last 100 years. The issues and challenges faced by the farmer in marketing his produce – and the consequences for failing to do so – are still very much the same.

In the beginning of the 20th century, there were numerous public and private markets in India. Their exact number in the entire country was not known; but only in the provinces of Bihar and

Orissa, there were 432 principal markets and 2,464 minor markets (Royal Commission on Agriculture 1928: 384). Some markets had been established (and were operated) by local Boards or municipalities. Most markets, however, were private markets, which were operated under a license from the local Board or municipality usually by the landlord whose land these markets were established on or a lessee thereof. Both types of markets varied substantially in their size, commodities traded, infrastructure, and trading practices. They ranged from modern, large-size markets in the canal colonies of Punjab (e.g. Faisalabad) to 'small village markets which are often little more than open spaces' (Royal Commission on Agriculture 1928: 384).

Despite their immense diversity, markets at the beginning of the last century had several common features. One was the presence of several middlemen. Often farmers were forced to use the services of brokers, who would invariably be more sympathetic to other market actors due to their close proximity with them in comparison with farmers with whom they came in contact only occasionally. The net effect of the presence of these middlemen was that 'the difference between the price received by the cultivator and the price paid by [the processor] or the exporter … [was] twenty per cent of the total price' (Royal Commission on Agriculture 1928: 387). Another common feature of these markets was that the farmer was cheated on several steps and these practices had become institutionalized over time. Overall, market operations were characterized by uncertainty, exploitative opportunism and poor service quality. The following observation by the Royal Commission sums up how the system was thoroughly rigged against the farmer.

> Scales and weights and measures were manipulated against him … Deductions which fell entirely on him but against which he has no effective means of protest are made in most markets for religious or charitable purposes and for other objects. Large "samples" of his produce are taken for which he is not paid even when no sale is effected. Bargains between the agent who acts for him and the one who negotiates for the purchaser are made secretly under a cloth and he remains in ignorance of what is happening. (p. 389)

Despite such massive shortchanging in produce markets, the Royal Commission observed that farmers got a better price if they were able to sell in a market than when they disposed off their produce in the village. Farmers, the Commission noted, did not sell in the market mostly because the transport and communication network was poor, and they were indebted to the middlemen. So the Royal Commission recommended setting up APMs throughout the country under provincial legislation. This was a suggestion to do away with private, unregulated markets and replace them with public, regulated markets. 'The feeling of confidence and receiving fair play' (p. 389) created by well-regulated markets would not only get the famer a good price, but will also induce him to invest in production and to adopt better farming practices. The Commission recommended setting up market committees to regulate these markets and that at least 50% members of a market committee should be growers. These market committees should employ their own staff, which would be neutral to the farmer. The Commission also recommended setting up weighbridges, appropriate storage facilities, and dispute resolution mechanisms in each market for the benefit of farmers.

3.2 The Punjab Agricultural Produce Markets Act, 1939

The first legislation for APM regulation was the Berar Cotton and Grain Market Act of 1897. It was limited in scope since it extended only to the Berar province and only to cotton and major grains. The report of the Royal Commission provided the much-needed impetus for other provinces to legislate on this important subject. In quick succession, the following laws were enacted: The Bombay Cotton Markets Act of 1927; The Hyderabad Agricultural Markets Act of 1930; The Central Provinces Agricultural Produce Act of 1935; and The Punjab Agricultural Produce Markets Act of 1939 (Pillal and Bagavathi 2009: 521).

The Punjab APM Act of 1939 incorporated most recommendations of the Royal Commission. Its scope extended to all food, feed and horticultural crops, livestock, poultry and their products. Through this Act, the government wanted to: 1) establish a physical space where agricultural commodities could be competitively traded; 2) eliminate or reduce exploitative practices that the Royal Commission lamented; and 3) induce farmers to bring more of their produce to the market instead of selling it in the village. The Act authorized the Punjab Government to notify areas within which sale and purchase of agricultural produce could take place only in regulated APMs and under a duly issued license (Section 4(2)). However, growers selling their own produce and consumers buying for household consumption were exempted. In other words, excepting non-commercial exchange and small-scale sale/purchase, all trade in agricultural commodities could only be carried out in spaces designated by the government as APMs and duly regulated under specific institutional arrangements. The produce would normally be sold through auction.

The Act authorized the government to constitute Market Committees (MCs) for efficient management of these markets. An MC could have 10 or 18 members depending upon its size, but in each case at least half the membership would be from growers of the notified area. Remaining members were to be from consumers, market traders and government officials. The Act specifically barred a broker or a dealer to sit on the MC on the growers' quota, even if he happened to be a *bona fide* grower in addition to being a broker or a dealer. An MC could elect its own chairman and vice-chairman, and could employ staff for regulatory purposes and for facilitating growers who brought their produce in the market.

Under the 1939 Act, a key function/prerogative of the MC was to issue licenses to 'brokers, weighmen, measurer, surveyors, warehouseman, changers, palladars, boriatas and tolas' for carrying out their business in the market (section 9(2)). Without such license, no person could carry out these activities. These licenses were issued for one year and could be renewed. Time limited nature of licenses allowed the MC to continuously regulate the performance of its licensees and cancel the same in case of inappropriate conduct.

MCs were supposed to be self-financing units. Their main sources of income were the fees on issuance and renewal of licenses, and market fees that the MC could charge from buyers and sellers on commodity transactions in the market. A part of the income so generated was to be credited into a provincial fund – to be used for setting up of new markets and building infrastructure. The remaining was to be used for paying salaries of MC staff and for maintaining facilities for market operations. These facilities included 'shelter shades, parking accommodation and water for the persons, draught cattle and pack animals coming to the market, and similar other purposes …' (Section 21(viii)).

The 1939 Act envisaged markets to be body corporates operating autonomously. However, overall government superintendence was ensured through giving certain overruling powers to the Deputy Commissioner – the chief bureaucrat in the district. The government also retained the power to supersede an MC that was deemed to be 'incompetent or perform[ing] or persistently mak[ing] default in performing the duties imposed on it by or under this Act, or abuses its powers' (Section 25(1)). A superseded MC could be replaced by an administrator or another MC. The government could also abolish an MC and/or de-notify an area.

This, in a nutshell, was the framework that the British created in Punjab for regulating sale and purchase of agricultural produce. Very similar laws were enacted in other provinces, including Sindh, the then North Western Frontier Province, and the erstwhile Bahawalpur state. When the provinces of what now constitutes Pakistan were administratively merged as 'One Unit' in 1955, the word 'Punjab' in the 1939 Act was replaced by the word 'West Pakistan.' One Unit was dissolved in 1958, and Pakistan returned to provincial laws to regulate APMs.

It was hoped that establishment of regulated markets in the public sector would help farmers get a better price for their produce. In particular, the following three features of the 1939 framework were expected to ensure this: 1) 50% representation of growers in the MCs; 2) sale of commodities (mostly) through open auction; and 3) employment of staff by the MCs as neutral functionaries to oversee market operations. In practice, however, the legal framework could not stop consolidation of market power in the hands of brokers, who emerged as the biggest source of non-institutional credit for the farmer. Over time, the market framework created under the 1939 Act became a source of income for unscrupulous government functionaries, local politicians and commission agents, instead of providing facilities to the farmers.

3.3 The Punjab Local Government Act, 1975

The next major legislative development was the passage of the Punjab Local Government Act of 1975, which repealed the 1939 Act and devolved to local bodies most of the functions previously assigned to the provincial government. The power to notify areas was delegated to the Deputy Commissioner, and establishment of new markets for sale and purchase of agricultural produce was assigned to Municipal Committees in larger towns and to Halqa Councils in smaller towns. Maintenance of physical infrastructure, and provision of water, lighting and other facilities was to be the responsibility of the local body concerned. For each market, there was to be an MC comprising five members – two growers, one member of the local body, one license holder of the market and one person from amongst professional service providers in the market. Importantly, all of these were to be *elected* by the local body concerned, i.e. MC membership was to be collectively decided. MCs could issue licenses – and determine fees – for carrying out various functions in the market. The local body concerned would determine the market fee to be levied on sale/purchase of agricultural produce. Existing MCs were deemed to have been constituted under the 1975 Act. The usual restrictions of sale/purchase of agricultural commodities only in the market, and the usual exemption to sale/purchase of/for own production/consumption applied.

This was a decentralized structure in which most decisions were made by elected local bodies. There were two implications of this decentralization. First, different local bodies could have different market specifications, fees, and facilities. There was no one size that could fit all. Second, since decisions were to be taken at the local level, markets structures and institutions could evolve to suit specific local needs. Local bodies would also compete for a greater volume of produce being sold in markets located within their jurisdiction, as they were to receive part of the income from market operations.

What the 1975 Act omitted was as important as what it prescribed. Significantly, the 1975 Act was agnostic about sale, purchase, storage and processing of agricultural produce in the notified area outside the market. The Act did allow the Deputy Commissioner to *notify* area, but did not prohibit carrying out activities therein. By implication, the jurisdiction of MCs extended only to the market, rather than to the entire notified area (as was the case in the 1939 Act). In this sense, it was an enabling legislation. It enabled the local bodies to set up markets, to regulate business carried out within these markets, and to levy fees for self-sustaining their market operations. But it was wisely silent about what happened *beyond* the geographical space of the market.

Unfortunately, the new decentralized framework for APMs under the Punjab Local Government Act of 1975 could not be operationalized at first due to delays in holding local bodies' elections, and later due to the suspension of the 1975 Act by the military who seized power after overthrowing the elected government in 1977.

3.4 The Punjab Agricultural Produce Markets Ordinance, 1978

Upon suspending the 1975 Act, the then military regime had two options regarding APM regulation. It could either reinstate the 1939 Act or bring a new law reflecting its thinking regarding the produce markets. Not wanting to be seen as reverting to a discarded (and discredited) legislation, and not having any plans of its own, the military government conveniently re-legislated the 1939 law under a new name. Thus came the Punjab Agricultural Produce Markets Ordinance of 1978, which is substantially the same as the 1939 Act *mutatis mutandis*.

The 1978 Ordinance authorizes the government to notify areas and to constitute market committees for overseeing commercial trading of agricultural produce in the notified area. Agricultural produce is generously defined to include all major and minor crops, fruits and vegetables, poultry, and livestock products (Section 2). In the original enactment, livestock was also included but was later excluded through an amendment in 1980. Fish and its products are also excluded from the purview of the Ordinance. Once an area has been notified, no person or local authority can set up a facility for sale/purchase, storage or processing of agricultural produce, or undertake such activities unless so licensed (Section 4). A farmer selling his own produce, or a consumer buying for his domestic consumption is exempted from the licensing requirement; otherwise, this blanket prohibition extends to all and sundry within the notified area (Section 4). Any violation is punishable with fine (Section 34).

For each notified area, the government is to constitute a market committee as a body corporate to oversee the operations of the market(s) within its jurisdiction. The MC can comprise 10 or 17 members. In either case, half members must be growers of the area, one member must be a government official and one member must be a consumer of the area (Section 8). The remaining members are to be selected from amongst the tradesmen carrying out their business under a license in the market. All these members are to be nominated by the District Council, viz. the elected local body at the district level, or by the government upon recommendation of the Deputy Commissioner. MCs are constituted for 3-year terms. No member can be nominated for more than two terms. An MC is supposed to elect its chairman and vice chairman (Section 12).

MCs perform a range of functions important to the smooth running of the produce markets. Perhaps the most important function is to issue licenses to: 1) people and establishments carrying out sale, purchase, storage or processing of agricultural produce *outside* the market; and 2) tradesmen for carrying out business *within* the physical space of the market (Section 9). The former would include all agribusiness (ginneries, textile mills, sugar mills, flour mills, cold storage facilities, etc.) and retailers. The latter would include Commission Agents (CAs), weighmen, rehri walas, palledars, surveyors, etc. who are permanently stationed in or associated with the marketplace. These licenses are issued for a fee and for a specified time period. The MC can also rescind a license, should it notice a breach of its conditions. Another important function is to levy market fee. This fee is to be determined by the MC subject to the limits imposed by the government (Section 19). The fee is chargeable from the buyer based on the transaction volume. This fee is to be paid only once, i.e. subsequent sales/purchases after value addition are exempt. Income from these two – the license fee and the market fee – are intended to make MC a self-sustaining entity.

The *raison d'etre* of MCs is to facilitate market transactions. Towards this objective, MCs are supposed to maintain and develop the physical infrastructure, systems and procedures in the market space. They are required to provide lighting and cleaning arrangements, parking facilities, and clean drinking water for people and animals. They are also required to construct and maintain auction platforms, warehouses, godowns, cold storages, pack houses, and grading facilities. Establishment of feeder markets, collection and dissemination of market information (e.g. on prices), holding of agricultural fairs and exhibitions, and training of staff also fall within their mandate (Section 21).

Like its predecessor legislation, the 1978 Ordinance envisages MCs to be autonomous organizations. Still, ample provision has been made to discipline an errant MC and to maintain overall superintendence by the government. Sections 27, 28 and 33 firmly place MCs under the thumb of the provincial agriculture department. Section 27 gives the government power to:

> … call for the record and annul any proceedings of a market committee or its sub-committees which it considers not to be in conformity with law or rules or bye-laws and may do all things necessary to secure such conformity, or may suspend any resolution which it considers likely to lead to breach of peace, or to cause injury or annoyance to public or to any class or body of persons, or is likely to affect adversely the interest of the market committee or of growers or dealers transacting business in agricultural produce or of any class of functionaries working in the notified market area.

This is an extremely broad provision and grants the government *carte blanche* to overrule any proceedings of the MC. The government also retains the right to suspend the operation of any 'resolution or order of a market committee … or prohibit the doing [of] any act …' (Section 27(2)). To further affirm MC's subordination to the government, Section 28 grants government the power to supersede it for a period of 90 days with another committee or with 'such authority … as the government may deem fit.' Section 33 is regarding emergency powers of the government using which the government may 'assume to itself all or any of the powers vested in or exercisable by any market committee.' There is no time limit for the assumption of such powers by the government under this Section. Sadly, this is the most often invoked provision of this Ordinance!

Another provision in the same tradition is Section 28-A, which was not part of the original legislation but was added through an amendment in 1994. It says:

> Notwithstanding anything contained in the Ordinance where a general election to the National or Provincial Assembly or both is announced, and the Government is satisfied that it is in the public interest to prevent the Market Committees from using their funds or influence for political purposes, the Government may by notification dissolve the Market Committees … all powers and functions of the Market Committees shall be exercised and performed by such persons or authorities as the Government may appoint in this behalf, as Administrators …

This provision is unusual. The connection of dissolution of MCs with national and provincial elections is interesting. Local bodies nominate members to numerous government and semi-government agencies (e.g. District and Health Education Authorities), but none but the MCs is dissolved even when new elections are to be held for the concerned local body itself, not to speak of the provincial or national elections. And yet here we have Section 28-A unambiguously authorizing the government to dissolve MCs 'in the public interest.' Hardly anything could be a louder recognition of the role that an MC may – and does – play in local political economy.

3.5 Punjab Agricultural Produce Markets (General) Rules, 1979

Rules are a subordinate legislation carried out by the government (as against the provincial assembly or the parliament) to give effect to provisions of the law. They expand and elaborate, and provide the procedure for implementation of legal provisions. In respect of the 1978 Ordinance, the Punjab Government notified a comprehensive set of Rules in 1979. Their key features are briefly discussed below.

These Rules classify markets into three categories on the basis of 3-years' average income from market fees and license fees. These categories are A (income ≥ Rs. 1.6 million), B (income between Rs. 0.8 – 1.6 million) and C (income Rs. ≤ 0.8 million). Usually, a new market is first established as a C category market, but can quickly graduate to a higher category depending upon the income that it generates. The only differences between various category MCs is in their staff seniority and number.

The Rules specify procedures for setting up a new market. Interestingly, the owner of the land where a new market is to be established is to be paid only Rs. 100 per marla (i.e. Rs. 16,000 per acre) as compensation of his land (Rule 67(6(a))). This is a paltry sum considering the very high land prices in rural Punjab (usually Rs. 4-5 million per acre). So the landowner has to be compensated elsewhere. In a new market, 60% plots are to be allotted to CAs of the existing market and remaining 40% plots are to be sold through open auction. The landowner receives 30% share from the auction proceeds of shops in the new market (Rule 67(6(e))). He also enjoys a windfall if the price of any other land that he may own in the vicinity of the new market escalates. These two are his main income and motivation for offering his land for establishment of a new market.

The Rules also provide detailed procedures for constitution of the MC, for election of its chairman and vice-chairman, for conduct of meetings, for keeping records, for carrying out audits, etc. One important thing they specify is the license fee – Rs. 5,000 are to be charged from various agribusinesses (sugar mills, flour mills, ginning factories, oil mills, etc.), and Rs. 1,500 are to be charged from CAs, wholesale grocers, etc. Fees for renewal are to be determined by the MC. Another important item specified by the Rules is the market fee, which is charged at the volume of agricultural produce rather than *ad valorem*. Market fee is fixed at Rs. 1 per quintal (i.e. 100 kg) for grains, pulses, oilseeds, fruits, vegetables, wool and livestock products, and at Rs. 0.5 per quintal for fodders (Rules 36(10)). These rates were last revised in 1996. These are tiny sums; so tiny that the government of Pakistan no longer mints a coin of Rs. 0.5 or Rs. 1 since they are not worth even the cost!

Fees to be charged by CAs and other licensees are also specified. As per Rules 66 1(a) and 66(3), a CA may charge the seller as follows: 1.5% of the value of agricultural produce in case of food grains and other crops; 2.5% in case of fruits; and 3.12% in case of vegetables. So the CA has an incentive to auction agricultural produce at a higher rate. Fees chargeable by brokers, palledars, weighmen, etc. are also specified. These are small amounts and are payable by the seller if he uses a service.

An important set of Rules relates to the powers of MC officials and government's control on them. MCs are authorized to 'enter into any building, enclosure or place,' to 'inspect, weigh or measure … any agricultural produce,' and to 'seize any agricultural produce in respect of which … any breach of the provisions of the Ordinance … is reasonably suspected to have been committed' (Rule 55(1)). Upon seizer, such produce is to be kept in custody by the official concerned and cost thereof is to be recovered from the owner. Similar authority is conferred upon the government in respect of MC affairs. The Director of AEM and his staff are authorized to enter into any MC premises, inspect any operations, call for any record, and require submission of any reports, statements and accounts (Rule 61).

In 2001, the government amended the Rules to create allowance for establishment of markets in the private sector. The instrument for this is Rule 67-A, which allows a person (called a developer) to set up a market after obtaining government's approval. The developer must have land in his own name, should submit a development plan and should enter into an agreement with the government. The market must be developed in accordance with the development plan, in particular the area reserved for 'common services' i.e. amenities must remain intact (Rule 67-A(6(d))). All persons operating in this private market should obtain a license from the concerned MC. The latter will not collect any market fee from the private market (Rule 67-A(5).

In Section 67-A, use of the term 'developer' for the entrepreneur who establishes a new market is interesting. He is being visualized as a person whose major income will be from the auction of plots, rather than from continuing operations of the market. He may collect the market fee, but there is nothing in the Rules to suggest that he may fix the rate or charge *ad valorem*. Since the rates fixed by the Directorate are nominal, his income from maintenance of facilities and provision of services is very small. Thus, his role is being envisaged as one-time, to become *functus officio* after the plots have been developed and sold to market operators. Clearly, this is not a sustainable business model, and actual operations of a private market must revert to the MC or to an informal association of market operators. In the former case, the spirit of establishing a private market is undermined; the in the latter case, there is no neutral institutional arrangement to safeguard the interest of farmers and consumers.

3.6 (Draft) Punjab Agricultural Produce Markets (Development and Modernization) Act of 2010

Even a sympathetic observer will find it hard to argue that the legal framework created in 1939 and continuing today *mutatis mutandis* is efficiently serving the interests of producers and consumers. A series of developments in the broader social and economic context has rendered the existing archaic system of produce markets redundant in some ways and stifling in others. It is redundant because MCs have neither the resources nor the ambition to set up new markets, maintain facilities in existing markets, and oversee an efficient system of disposal of agricultural produce. Consequently, markets have become chaotic places, aggressively used by exploitative market operators and MC functionaries to advance their personal interests to the determinant of both buyers and sellers. At the same time, the legal framework is stifling as it forces producers to bring their produce to a market place, which does not give them a fair deal. Service providers – warehouses, pack houses, cold storages, processors, exporters – have to submit to intrusive inspections and extortions from MC officials without receiving any service at all in return.

The realization that all is not well with the APM system produced numerous calls for legislative and institutional reform. In 2009-10, the Punjab Department of Agriculture requested the United States Agency for International Development (USAID) for technical assistance in preparing a new law for agricultural marketing in the province. The result was the draft Agricultural Produce Marketing (Development and Modernization) Act of 2010. Its salient features are discussed below.

The draft law aims to shift regulatory focus from control to facilitation. The preamble says it all:

> Whereas it is necessary to provide for development and modernization of agricultural produce marketing in the province in order to enhance its efficiency, profitability and sustainability, and prepare it for challenges of globalization by: creating enabling business environment, encouraging meaningful participation of private sector, diversifying market opportunities, provide for efficient alternate dispute resolution, undertaking transition of existing markets into responsible and sustainable entities, endeavoring for equitable returns of inputs for farmers, investors, and value for money for consumers …

The draft law de-notifies all areas in Punjab, abolishes all MCs, and sets up an Agricultural Produce Marketing Board to look after the affairs concerning APMs in the province. The Board is to comprise of a chairman and 12 members, all appointed by the government for a 3-year term. Four members are to be experts in agriculture, finance, marketing, law, etc., and one member each is to be selected from the academia, farmers, retailers and the corporate sector. The remaining four members are ex-officio nominees of relevant government agencies. At least two members must be women. The Board is entrusted a wide range of enabling functions, such as monitoring the working of markets, establishing new markets, developing alternative marketing channels, promoting farmers' co-operatives, controlling unfair marketing practices, promoting grading, managing training institutes, and establishing marketing information services. This is an enormous mandate and the Board is authorized to recruit staff and take other necessary measures in pursuance of this mandate.

All existing markets controlled and managed by MCs (called public markets) and their staff are to fall under the direct administrative control of the government (i.e. the Punjab Agriculture Department) for an interim period of three years. During this period, the government will take measures to make these markets self-sustaining (presumably by improving collection efficiency of fees) and to convert them into companies. By the end of the three years, all public markets must be registered with the Board, failing which they cannot continue operations.

The draft law loudly proclaims that 'there shall be freedom of marketing in agricultural produce in the province.' Accordingly, any person may set up a wholesale market, cold storage, pack house, processing units, etc. or work as a dealer or market functionary. However, such 'freedom of marketing' is subject to provisions of the draft law, which require a person intending to set up the above markets or facilities, or act as a broker, etc. to seek registration with the Board. The procedure for registration is simple and is to be completed within 30 days. Nevertheless, the draft law allows carrying out these acts only *after* the registration has been granted.

However, there is a range of important activities that can be carried out without registration with the Board. This includes setting up a retail market, a farmers' market, a consumers' market, or a collection point. Similarly, it is possible to sell or purchase agricultural produce, or 'enter into futures, options or contract farming agreements' without registration with the Board. Importantly, the draft law prohibits charging of market fee from areas outside the market. Since the concept of 'notified areas' has been done away with, there is no need to carry out inspections outside a registered market.

In other words, in the proposed scheme of things, farmers' markets, consumers' markets, collection points and retail markets can be established without any let or hindrance from the government. The government leaves them in peace. No services are to be provided, and no fees are to be charged. Wholesale markets, on the other hand, need registration with the Board. These can be entirely private markets, or public markets operating as companies. In either case, post registration, government's role is limited to providing a set of support services.

Notwithstanding a few visible omissions – e.g. it is not clear whether or not private markets can charge fees on market transactions and determine rates thereof – the draft law envisages a paradigm shift in how agricultural produce is to be disposed off. It aims to increase private sector's role in agricultural marketing, and to shift regulatory attention to setting standards, disseminating prices and providing broad oversight. It is hoped that enhanced 'freedom of marketing' will produce better outcomes for both buyers and sellers.

But a better outcome for buyers and sellers may mean reduced margins for the middlemen. Multiplication of marketing channels may reduce dependence on the small number of CAs who currently monopolize sale of agricultural produce in public markets (discussed in the next section). A smaller role for the government may translate into shrinking opportunities for MC officials (and their higher ups in the Punjab Agriculture Department) of patronage and rent seeking. These – CAs, other middlemen, and marketing officials – are powerful groups fully capable of deploying their personal and professional networks to protect their interests. This was exactly what they did.

A law that threatened powerful interests of middlemen and frontline officials could have a chance only if the ones hoping to gain therefrom were also powerful groups. Sadly, this was not the case. Neither farmers nor consumers, especially of the smaller variety whose needs were unmet in the current system, were organized enough to mount sufficient pressure on the government to legislate in the face of opposition from the aforementioned groups. There were no street protests. On the other hand, marketing officials simply did not pursue the draft law. The bureaucratic leadership of the agricultural department, which wanted to reform the existing system, faced no pressure from any quarter to pursue the draft law in the face of covert opposition from their own lower tiers. The draft law simply withered away.

3.7 The Punjab Agricultural Marketing Regulatory Authority Act, 2018

The Punjab Agricultural Marketing Regulatory Authority (PAMRA) Act of 2018 is the latest legislative development to regulate agricultural produce marketing in the province. It is a limited mandate law and simply establishes an Authority to oversee agricultural marketing in the province (presumably by replacing the Directorate of AEM.) The Authority is to comprise 12 members – three officials, three members of the provincial assembly of Punjab, one vice chancellor of an agricultural university, and four agricultural experts from the private sector. The Punjab Government is to nominate all non-official members, except one provincial assembly member to be nominated by the opposition leader in the Punjab Assembly. Although the Authority is broad-based, nomination of all but one members by the government undermines genuine external policy input into Authority's working.

PAMRA's main task is to register and regulate wholesale markets, collection centres, warehouses, cold storages, accreditation bodies, and 'key service providers' (brokers, graders, assayers, CAs, etc.) for doing business in agricultural produce. No person can set up a wholesale market, collection centre, etc. or work as a 'key service provider' without registering with PAMRA. The Act also specifies penalties for violation of its express provisions. It does not repeal the 1978 Ordinance, but has an overriding effect in case anything is contained to the contrary in the latter.

The PAMRA Act of 2018 is silent on what will happen to the existing markets, collection centres and service providers. Presumably, they will continue to function as before. After a period of two years, the government may transfer the management of a market registered under the 1978 Ordinance to PAMRA. How will this actually affect market functioning is not clear. The Act is also agnostic about how the new markets are to be managed. In the absence of any specific provision in the new Act, MCs can only be constituted under the 1978 Ordinance. Similarly, MCs will continue to collect market fees on transactions from the entire notified area.

Significantly, the PAMRA Act exempts farmers' markets from registration. A farmer or a group/association thereof may set up a farmer market under the name *Kissan Bazar* or *Apni Mandi* – both vernacular for farmer/own market. The Act, however, is completely silent beyond this one-liner exemption. How farmers' markets are to function, what type of infrastructure is to be provided, whether or not a market fee can be charged, are some of the questions the Act leaves completely unaddressed.

Prima facie, the PAMRA Act of 2018 is an effort to reform the higher regulatory institutional framework without attempting a reform on ground. Perhaps the latter is too difficult to attempt. The Punjab government seems to have learnt its lessons from the failed reform effort in 2010.

But the consequence is that the new legislation is largely irrelevant to what happens in the APMs. It is unlikely to do anything except enlarging the bureaucratic apparatus at the provincial level and to provide it a new nomenclature.

3.8 The Sindh Wholesale Agricultural Produce Markets (Development and Regulation) Act of 2010

The Sindh province continued with the 1939 Act to regulate sale/purchase of agricultural produce until 2010. In that year, it enacted a new law called The Sindh Wholesale Agricultural Produce Markets (Development and Regulation) Act of 2010. The express objective of this new legislation is to support the establishment of private markets. The preamble reads as follows:

> Provide for enhanced competition and efficiency by enabling the establishment of private sector wholesale agricultural produce markets, promoting private sector investment to develop the agricultural marketing system, and allowing effective regulation for more competitive transparent, modern and efficient wholesale agricultural produce markets in the province of Sindh …

The 2010 Act repeals the 1939 Act, though not immediately; a 3-year overlap is provided for smooth transition. No new areas are to be notified and no new markets are to be established under the 1939 Act during the transition period (Section 3(4)). All MCs are dissolved forthwith (Section 5(1)). All existing markets (i.e. public markets) are to be converted into companies under the Companies Ordinance of 1984 with an independent governance structure. Each marketing company is to be governed by a Board comprising seven Directors, three of which will be agriculturists (two nominated by farmers' organizations and one by the government), three will be nominated by market operators who have been allotted any property in the market (i.e. CAs who have shops in the market), and one will be nominated by the Sindh government. The Board will elect its own chairman and appoint staff as deemed necessary. It will appoint a duly qualified and experienced Chief Executive Officer and a Chief Financial Officer. It will have 'complete autonomy … to manage the business and affairs of the market company' (Section 9(9)).

The Act takes a number of measures to liberalize agricultural marketing in the province. First, it allows a farmer to sell his produce anywhere and in any manner as deemed appropriate without feeling any compulsion to sell his produce at a public or a private market (Section 4(2)). This allows the grower to sell directly to, say, grocery stores, restaurants, processors and exporters without any interference from MC officials. Second, it clearly states that any person or entity, except the federal government or a local government, can establish one or more wholesale markets for sale or purchase of agricultural produce (Sections 14). Such markets are called private markets. They must be registered with the government.

The Act stipulates that in a public or a private market, agricultural produce is to be disposed off only through open auction, the procedure for which may be specified by the government through Rules framed under the Act. Significantly, a grower for the purposes of this Act includes a grower who is a dealer or a broker as well. This opens up the possibility of nominating a grower cum CA/dealer on the Board of Directors of a marketing company. The staff of existing markets is to be transferred to the new companies. Generally, markets of either type are to be managed autonomously by their respective Directors or owners, as the case may be, but the government reserves the right to inspect their premises, processes or records. The Act is agnostic to charging of market fee. Presumably, this will be addressed in the Rules, which are yet to be framed.

In summary, the 2010 Sindh Act allows establishment of private markets, converts existing (public) markets into companies, and grants farmers the freedom to sell wherever they deem appropriate, even outside a market. Produce markets in this scheme of things are a facility to be availed – for a fee. This frees the farmer from the monopolistic control of market operatives. If a market offers value, the farmer will bring his produce to it; otherwise, he will sell elsewhere. Similarly, the bulk buyers are not constrained to buy from the market; they can as well procure directly from the producer or a middleman. This opens the way for backward integration in the value chain, contract farming, e-commerce and so much more. Furthermore, the Act does not require agribusiness to obtain a license or seek registration with the government for the purposes of agricultural produce marketing. This means the agribusiness are no longer subject to inspections and market fees. Good riddance!

These are important changes with far reaching consequences. As always, there are winners and losers. The latter include CAs and MC officials. A key question to ask is: how was the Sindh government able to overcome their opposition? This was largely due to two factors. One was the institutional representation of farmers' organizations, namely the Sindh Abadgar Board and the Sindh Chamber of Agriculture – both organizations of large farmers, as Directors of new market companies, which created a direct stake of these powerful organizations in the new regime. Second, the freeing of agribusiness from liability to pay market fees and the ability of bulk buyers (e.g. superstores) to buy directly ensured support of agribusiness, large retailers, superstores, restaurants, and processors for the new law. Influence from these powerful lobbies was an effective counterweight to opposition from vested interests of the erstwhile marketing system.

The battle between these conflicting interests, however, is far from over. A unanimous passage of the 2010 Act by the provincial assembly simply meant that the conflict moved to the implementation stage. The officialdom has so far successfully undermined progress on the new law by not framing Rules, which are required to operationalize the Act. In the absence of Rules, the process of converting existing markets into autonomous companies has not begun, although the 2010 Act stipulated it to conclude within three years. There has been some progress on establishment of private markets. In all 20 private markets were established, of which 13 have already become non-functional. Alternate marketing channels, however, are mushrooming, as more and more bulk buyers now prefer to buy directly from the producer or a small-scale aggregator. Despite serious implementation challenges and mixed success of private markets, the 2010 Act is a welcome development.

4. State Coercion: The Institutional Framework

An elaborate institutional framework was created by the British to operationalize the 1939 Act. This institutional set up has evolved over the years – it has become much bigger, new organizational layers and functions have been added, and nomenclatures have changed. But it remains fundamentally the same. There is one organization at the provincial level – now called the Directorate of AEM – to perform aggregate functions, and there is one organization at the market level – historically called the Market Committee (MC) – to manage operations of the market. How the law is operationalized depends to a large extent on this institutional framework. Unfortunately, it has evolved over the years into a self-serving monopolistic bureaucratic apparatus that thrives at the cost of buyers and sellers for whose service it was originally created.

We find Hayek's (1960) notion of *coercion* very relevant for this historically-evolved, monopolistic institutional framework for marketing of agricultural produce. According to Hayek, freedom is absence of coercion, and coercion occurs when one person is made to act through use of force or otherwise in a manner so as to serve another person's purpose. Absence of choice is key to this concept. It is not that the person being coerced does not choose, but that the choices are so arranged that 'the conduct that the coercer wants me to choose becomes for me the least painful one' (Hayek 1960: 200). Since the alternatives are determined by the coercer, the person has no real choice – he chooses what the coercer wants. This naturally becomes the case in monopoly-like provision of goods or services that are of great significance for people's survival or well being. The ability to withhold an indispensable service is key to exercise of coercion.

> A monopolist could exercise true coercion, however, if he were, say, the owner of a spring in an oasis. Let us say that other persons settled there on the assumption that water would always be available at a reasonable price and then found perhaps because a second spring dried up, that they had no choice but to do whatever the owner of the spring demanded of them if they were to survive: here would be a clear case of coercion. (Hayek 1960: 203)

For Hayek, this is bad because it not only hurts the interests of the individual being coerced, but also because it diminishes his contribution to the community at large.

As we shall see in the following pages, both conditions of coercion as defined by Hayek exist in the case of APMs in Pakistan. The service they provide is essential for farmers' economic survival, yet there is no real choice given that farmers can only sell at a very small number of markets, and there too through a handful of commission agents.

This also appears a case of bureaucratic oversupply. Bureaucracies typically design their programs and services in a manner that continues and increases their budget without a serious concern for whether or not people are benefitting from these services. Consequently, the quality of service and its coverage decline over time. The increased cost of these (deteriorating) services must be met with increased taxes, which the politicians are reluctant to impose, with the result that 'bureaucratic oversupply' inevitably leads to budgetary deficits in public sector organizations (Niskanen 1974: 64; Heywood 2013: 65). Sometimes, bureaucracies provide services for which there is no real 'demand,' only to continue their own existence and privilege. This is exactly what has happened with the produce markets in Pakistan. As will be seen shortly, APMs are redundant as well as stifling as far as producers and consumers are concerned. The state of facilities in these markets is pathetic in most cases, to the extent that farmers mostly prefer to sell to middlemen instead of taking a chance with the auction in the market. Nevertheless, the bureaucratic apparatus continues to thrive. It is looking healthier than ever to the extent that it has been able to thwart reform efforts in Punjab and Sindh as discussed above.

The institutional set up is very similar in the four provinces of Pakistan. In this section, we restrict our examination to the province of Punjab, and mention other provinces only when and to the extent that these are materially different from Punjab.

4.1 Directorate of Agricultural Economics and Marketing

In Punjab, the Directorate of AEM – established in 1967 – is responsible for all affairs concerning the marketing of agricultural produce in the province. It is led by a Director, who is assisted by a team comprising a Deputy Director, 39 Extra Assistant Directors, 40 Agriculture Officers, and several clerks, data entry operators and auxiliary staff. Most of them are posted in district-level field offices. The Directorate is also the administrative authority for the MC staff. Put together, the Directorate has a total staff of about 2,500 people to discharge its functions.

The Directorate performs the following six major functions: 1) establishment of new markets; 2) constitution of MCs and their supervision; 3) monitoring the working of various markets, in particular auction, and supply and demand of various commodities; 4) collecting and disseminating market information; 5) training of MC staff and market operatives; and 6) specifying (license and market) fees. Its performance in discharging these functions is discussed below and a summary is given in Figure 1 (below).

Tables 1 and 2 provide time-series data on the establishment of public and private APMs in Punjab since the passage of the 1939 Act, which provided the legal basis for their creation. Year of establishment for markets established before 1963 is not available with the Directorate, so these markets have been clubbed together in the 1939-62 category. Feeder markets were established during the 1970s mainly as collection points for large markets, but could not take off due to lack of facilities and are non-functional since. Since there was no provision for establishing private markets in the 1939 Act and in the 1978 Ordinance until 2011, the ones established earlier were set up after the Punjab government relaxed the Rules using its power to do so under Rule 72 of the 1979 Rules. But this was an unusual step, and most private markets were established post-2011 when Rule 67-A was inserted in the 1979 Rules (discussed above). Not all of these markets are currently functional.

Table 1: Public Markets in Punjab by Year of Establishment

	New markets				Relocated	Total
	Grain	F&V	Both	Feeder		
1939-62	107	62	-	-	-	169
1963-70	1	-	1	-	1	3
1971-80	2	1	2	7	1	13
1981-89	1	2	-	-	-	3
1990-99	1	5	-	-	3	9
2000-09	3	3	-	-	16	22
2010-17	1	3	-	-	10	14
Total	116	76	3	7	31	233

Source: constructed from data of the Punjab Directorate of AEM

Table 2: Private Markets in Punjab by Year of Establishment

	New markets				Relocated	Total
	Grain	F&V	Both	Feeder		
1939-62	-	-	-	-	-	-
1963-70	-	-	-	-	-	-
1971-80	-	-	-	-	-	-
1981-89	1	-	-	-	1	2
1990-99	-	-	-	-	-	-
2000-09	-	4	-	-	-	4
2010-17	7	15	1	-	-	23
Total	8	19	1	-	1	29

Source: constructed from data of the Punjab Directorate of AEM

Tables 1 and 2 are a sad commentary on the working of the Directorate – at least in regard to function 1 listed above, viz. establishing new markets. During the last 54 years (1963-2017) for which we have data, the Directorate established only nine grain markets, 14 Fruits and Vegetables (F&V) markets, and 3 markets for both grains and F&V. Another 31 markets were relocated to new, larger sites when the original location became inconvenient or too congested to operate the market. Furthermore, the Director allowed establishment of 29 markets by the private sector. This is not an impressive performance, especially considering the growth of the produce volume of major crops in Punjab during the last few decades (Table 3). The produce volume of selected crops has increased several fold since 1963, but the total number of (new and relocated) public and private markets has increased by a mere 51% since 1963. There is no reason to assume that APMS established pre-1963 had huge surplus capacity, which is now being utilized to dispose off the several-fold increase in produce volumes. This means that APMs are now stretched beyond – way beyond – their capacity due to the gross mismatch between growth in production volumes and establishment of new markets. This is exactly what we observed during our field visits to various markets!

Table 3: Produce Volume of Major Crops ('000 tonnes)

	Wheat	Rice	Maize	Potato	Tomato	Onion	Citrus	Mango
1963-64	3,209	531	240	87	-	100	361	122
1971-72	5,291	992	341	172	-	121	422	328
1981-82	7,962	1,451	405	326	17	143	1,097	388
1991-92	11,492	1,342	415	696	55	158	1,554	508
2001-02	14,594	2,266	742	1,549	62	225	1,751	650
2011-12	17,739	3,277	3,442	3,235	86	362	2,077	1,304
2014-15	19,282	3,648	4,020	4,020	95	303	2,328	1,313
Growth 1964-2015 (%)	601	687	1,675	4,621	559*	303	645	1,076

Source: constructed from various publications of the Pakistan Bureau of Statistics (namely, Agricultural Statistics of Pakistan 2014-15; Area and Production by Districts); and data from Crop Reporting Services Punjab
*for 1982-2015

Directorate's second function is to constitute MCs for new and existing markets. According to the 1978 Ordinance, an MC is to be constituted immediately upon establishment of a new market and then reconstituted after every three years as per the composition specified in the Ordinance. We present data on the leadership of three MCs of Lahore during the period 2001-2017 in Annex 1. Only during 2002-05, there has been a properly constituted MC with a Chairman. This was the period when the new local government system had just been introduced and the decentralization discourse dominated policy. Other than this brief interlude of three years, the Punjab Government has opted to exercise its emergency powers under Section 33 of the 1978 Ordinance to appoint administrators. These administrators have exercised all powers of the MC without being responsible to anyone except their appointing authority, viz. nominally the Directorate of AEM, but in reality, the Punjab government. Admittedly, the decision to run MCs through handpicked administrators is made at the highest political level in the province, and the Directorate cannot be held responsible for the non-constitution of MCs. Nevertheless, the fact remains that all APMs in Punjab have been functioning without MCs since 2005.

A close examination of data in Annex 1 leads to two further observations. First, the tenure of an incumbent administrator is stable only when a local notable well integrated into the politics of the ruling party is appointed as the administrator. Otherwise, the game of musical chairs goes on with several people alternating for short tenures. Second, administration of an MC appears to be an attractive proposition. Otherwise, why would it attract sitting members of the national or provincial assembly and their kith and kin?

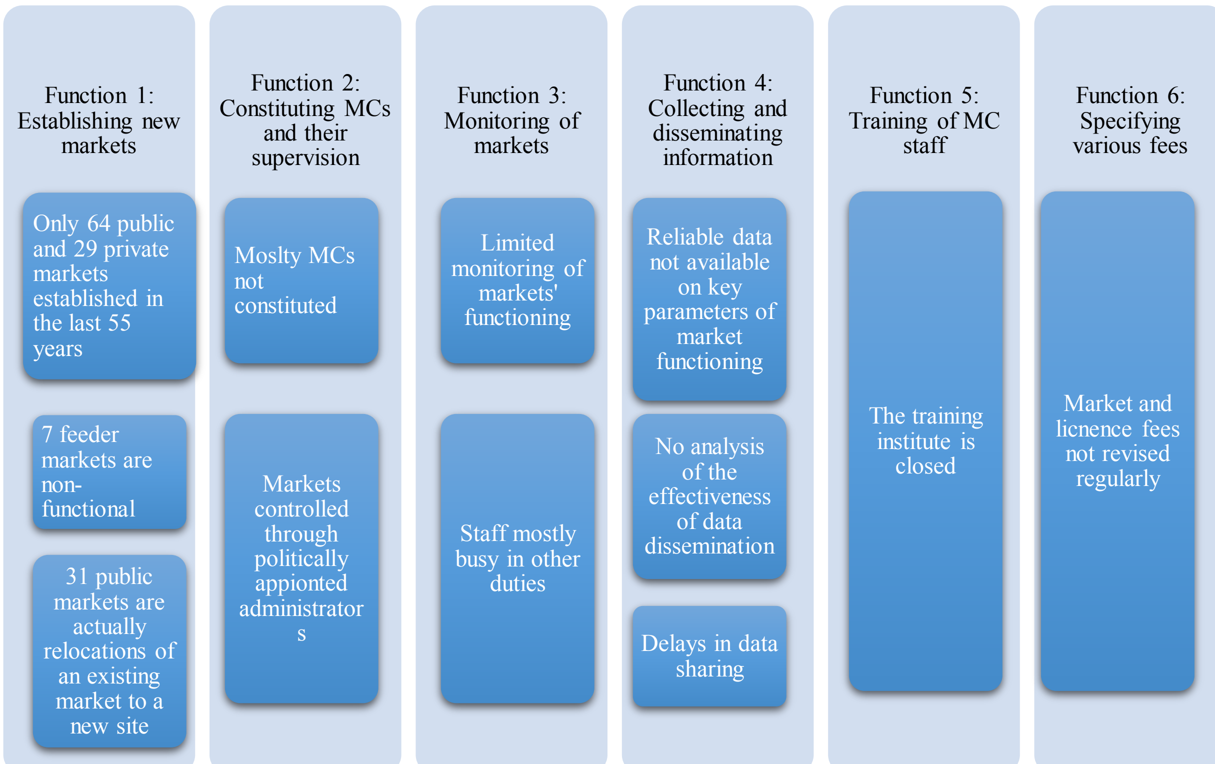
The third major function, viz. monitoring MCs' performance, has come to mean monitoring the staff, as MCs have not been constituted since 2005. The Directorate directly controls the staff working in various markets and is responsible for their appointment, transfer, leave, performance evaluation, etc. Ordinarily, these functions would be performed by the respective MC, and the Directorate can focus on a strategic oversight. Worse still, the Directorate and its staff in the districts have been conscripted by the Punjab government for help in miscellaneous campaigns, such as wheat procurement, Ramzan Bazars, Sunday Bazars, etc. The latter two are special markets set up by the municipal authorities to provide cheap – sometimes subsidized – grocery items including fruits and vegetables to urban consumers. The local administration liberally utilizes the services of the Directorate's field staff for managing these special initiatives with the consequences that the field staff has little time or energy left to attend to their key task of monitoring APMs. This was one complaint we frequently heard during the field work. It is also arguable that the field staff are assigned extraneous duties because they are (perceived to be) not doing their main tasks, hence under-worked and available for reassignment.

The fourth function is collecting and disseminating market information. For this, the Directorate has launched the Agricultural Marketing Information Service (AMIS) with the objective of providing 'timely, reliable and usable market information to growers and other stakeholders' (AEM Directorate 2017). AMIS comprises a number of initiatives to collect information on commodity prices, market fees, license fees, etc. from various markets, and putting this information on www.amis.pk as well as disseminating through brochures and mobile phone messages. These are laudable initiatives but our field work reveals that their impact on the marketing of agricultural produce is limited. For one thing, the information is neither timely nor reliable. By the time information is collected from markets, compiled and uploaded on the web, it is already dated for business purposes. None of the five Arhtis and six farmers we interviewed for this study used the AMIS price information. Instead, the Arhtis directly called their colleagues in other markets, and farmers called Arhtis, to find out what the price trends were. Similarly, data on cost of production of various crops is incomplete and/or dated. For example, the AMIS website (accessed on 7th June 2017) has wheat's cost of production data only for 2012-13 and 2013-14. Second, the outreach of AMIS initiatives is limited. For example, the daily price bulletin of 10 major markets for 81 commodities is circulated to 195 recipients, and daily price trends with last year's comparison for 18 commodities is sent to 48 recipients (mostly senior government functionaries) (AEM Directorate 2017). Perhaps the most extensive is the phone message on daily prices, which goes to more than a million recipients. The Directorate has never analyzed if and how its information services are actually used by the target audience, viz. farmers and consumers.

The fifth function is training of APM staff, farmers, traders and various market operatives. For discharging this function, the Directorate established the Punjab Institute of Agricultural Marketing in 2006, but the same could not take off due to litigation by staff. It is currently non-functional.

The sixth major function is fixing the market fee for various commodities and the license fees in various categories. The same have not been revised since 1996 and 2011 respectively. Both are now miniscule. For example, the annual license fee for the Arhti – arguably the richest actor in the market – is a paltry Rs. 1,500, which is about the current price of a family size pizza in Lahore.

Figure 1: Performance of the AEM Directorate



Source: author

We conclude this section with a brief discussion of the annual budget of the Directorate during the last five years. Data presented in Table 4 leads to four observations. First, the budget has substantially increased each year. The budget in 2016-17 was 164% of the budget in 2012-13. Second, staff salaries and allowances account for more than 60% of the total budget. In fact, increase in employee-related expense has been largely responsible for the increase in total budget. Third, communication – a key function of the Directorate – receives a miniscule budget, and the same has not increased during the past five years. Fourth, there is no allocation at all for market research, staff training or any other program activity. Fourth, since the Directorate does not have any income of its own or from the MCs, the entire cost is met by the Punjab government from its regular budget. We have all the characteristics of bureaucratic oversupply.

Table 4: Annual Budget of the Punjab Directorate of AEM (Rs. in million)

	2012-13	2013-14	2014-15	2015-16	2016-17
Staff salaries and allowances	75.6	100.2	123.4	147.8*	117.0
Communication	2.4	2.4	2.8	2.1	2.3
Utilities	1.6	3.3	3.8	2.4	2.4
Rent of offices	2.5	2.6	3.1	3.6	4.6
Travel	18.4	22.1	32.4	36.9	29.5
Repair and maintenance of vehicles and offices	6.7	4.6	8.1	11.2	15.6
Miscellaneous	8.1	8.0	9.6	17.4	17.6
Total	**115.3**	**143.2**	**183.2**	**221.4**	**189.0**
Staff salary and allowance as % of total budget	65.6 %	70.0 %	67.4 %	66.8 %	61.9 %

Source: Directorate of AEM
*Staff received arears of ad hoc allowance in 2015-16.

4.2 Market Committees

MCs are categorized according to their annual income. Punjab has three categories and Sindh has four. The composition of MCs – when they are constituted – has been discussed in section 3.4 above. They are mandated to perform a range of functions including setting up new markets, developing and maintaining market infrastructure and facilities, issuing licenses to market operatives, and collecting fees. The latter two are revenue generating functions and essential for enabling an MC to perform the former two functions. In reality, however, the latter two functions have become a means of sustaining MC staff, rather than facilitating producers and consumers. MC staff comprises a Secretary, several inspectors and sub-inspectors, an accountant, a few traffic controllers, clerks, peons and sweepers. Large MCs also have a computer operator.

Table 5 provides the total number of MCs and markets in each province. Category-wise number of MCs in Punjab is given in Table 6. Since an MC can operate multiple markets, latter's number is larger than former's – except in Sindh. Sindh's case is curious. The number of MCs is more than twice the number of markets they manage. Assuming (for simplicity sake) that there are no MCs with multiple markets, Sindh has 37 *surplus* MCs. The obvious question is: without any markets to supervise, what do these MCs do? These surplus MCs merely collect market fee from the notified area without providing any service at all! In the absence of any market to maintain, the entire fee collected is utilized on upkeep of MC staff and politically appointed administrators. In comparison, Khyber Pakhtunkhwa (KPK) province has only two MCs to manage a hefty 36 markets. In Punjab, almost all tehsils have an MC and at least one market – most tehsils (and their MCs) have one grain and one F&V market. Hazro, Fateh Jang, Chakwal and Rawalpindi are the only MCs without a market. Data in Table 6 show that above 2/3rd markets in Punjab are B and C class, i.e. fairly small scale.

Table 5: Markets and Market Committees in Pakistan

Province	No. of MCs	No. of markets			No. of markets	
		Grain	F&V	Total	Public	Private
Punjab	135	140	122	262	233	29
Sindh	71	13	21	34	27	7
KPK	2	5	31	36	2	34
Balochistan	12	2	10	12	12	-
Islamabad	1	-	1	1	1	-
Total	221	160	185	345	280	65

Source: author's construction from data collected from various provincial Directorates

Table 6: Category-wise Market Committees in Punjab

Category	Income level (Rs.)	Number
A class	≥ 1.6 million	42
B class	0.8 – 1.6 million	42
C class	≤ 0.8 million	51
Total		135

Source: Punjab Directorate of AEM

In the absence of properly constituted MCs, politically appointed administrators run the show in all provinces. Their sole claim to such appointment is their integration into local networks of power. Their appointment is a gift from the top political leadership, a form of patronage granted – and withdrawn – at will. Sometimes a practicing farmers is appointed as the administrator, but this is not always the case. Consequently, administrators have little understanding of – or sympathy with – the issues faced by the grower in the marketplace. They use their appointment as an opportunity to enjoy themselves, to solidify their position within the local social and political networks, and to reciprocate the favour of the top political leadership. Reportedly, most administrators also end up amassing significant sums of money – it's a lucrative assignment. In the process, facilitation of growers and consumers – even if it was once on the agenda – is conveniently thrown out of the window.

In between various political administrators, occasionally a government official is also appointed on an additional charge basis (see Annex 1). These are often stop-gap arrangements – during political uncertainly (e.g. elections) or when intense competition between rival groups within the ruling party makes it difficult to bestow the appointment on any one group. These officials can be the regular staff of the Directorate (Extra Assistant Director Agriculture (EADA) for smaller markets and Director for larger ones), or the bureaucratic heads of administration, namely the Assistant or the Deputy Commissioners. Their performance *vis-a-vis* political administrators is only marginally better. Generally, they are able to improve collection of the market fee, or perhaps get the market cleaned more regularly, but that's how far they can go. Beyond that, in the views of our key informants in Sindh and Punjab, these government officials are as clueless as political administrators about the actual functioning of the market, and are equally indifferent to the raw deal that farmers and consumers receive therein. It is worth reiterating that the 1978 Ordinance stipulates that only a grower member of the MC can be elected as its Chairman. The stipulation exists for a reason. Only the wearer knows where the shoe pinches!

Next in line is the Secretary. He is quite an influential person – someone not to be taken lightly. He is responsible for implementing policy. He issues the daily retail rate list, monitors the performance of MC staff, and maintains accounts. But his role is not limited to these rather mundane tasks; he also performs a set of strategic functions that are the source of immense power.

First, he assigns or withdraws inspectors to various beats. He may assign an aggressive and intrusive inspector and make the lives of growers, processors, agribusiness and consumers difficult to the extent they deal in agricultural produce. He may as well look the other way and make lives as much easier.

Second, the secretary is the key person in issuing and renewing licenses to agribusinesses and various market operatives, most notably the arhtis. Usually the number of licenses for working as a commission agent in the market is much larger than the actual number of working arhtis. (In the Lahore Badami Bagh fruits and vegetables markets, only around 200 arhtis are working from a total of 1,026 licensees. In the Sheikhupura market, only around 40 are working from amongst 100 licensees.) Normally, an applicant should have a shop in the market to be considered for a license. But existing (proprietor) arhtis frequently rent out part of their shop – often to some kin – to qualify the latter for grant of a license. The secretary looks the other way. (In the two Badami Bagh markets, the total number of shops is 211, against which 1,026 licenses have been issued.) These licenses are periodically renewed although most of these new licensees do not actually work as arhtis in the market. Again the secretary looks the other way.

Third, the secretary plays a crucial role in allotment of plots in new markets. Whenever a new market is set up, 60% plots are allotted to existing licensee commission agents of the MC, and the rest are disposed off through open auction. There is a huge difference between the allotment price and the auction price. Often the latter is as high as 4-5 times the former. This is the moment for the non-practicing licensee to claim a share in the allotment quota. If the number of applicants for plot allotment in the new market is larger than the number of plots available, eligible applicants are prioritized according to payment of market fee and year of license. Usually, the government constitutes a committee under the Deputy Commissioner to carry out the allotment process. Secretary MC does all the paper work for the committee and informs its decisions.

The secretary and the arhtis have a symbiotic relationship. Both need each other. Arhtis keep the secretary in good humor so that he issues new licenses to their tenants – without cancelling their own licenses – and for allotment of plots whenever a new market is set up. They also need him to look the other way when they encroach area reserved for public utilities, charge commissions higher than prescribed, charge fees not due, and so on. The secretary needs the arhtis for smooth running of the market, and for financing the out-of-budget expenses that the secretary has to frequently make in compliance to informal – and illegal – demands of his higher ups. Sadly, this relationship of mutual dependence is anchored in personal survival and aggrandizement, rather than the performance of legitimate functions for the benefit of producers and consumers of agricultural produce.

Collection of market fee is an important source of revenue for the MC. As per section 19 of the 1978 Ordinance, fee is chargeable on all bulk sale of agricultural produce within the notified area. In other words, the fee can be collected not only from within the market, but also from without. The MC does not provide any service at all regarding sale/purchase of agricultural produce outside the market. Hence, collection of market fee therefrom is totally indefensible. Market fee is assessed and collected by inspectors. For collection from inside the market, they are supposed to inspect auctions to ascertain the volume of sale, but they take the easy route and instead rely on arhtis' statement in this regard. For collection from outside the market, they rely on field inspections. In both cases, the assessment and collection function is combined in the person of the inspector, and is allegedly the cause of much pilferage and rent seeking. Reportedly, around 4/5th of the collected market fee is pilfered and only 1/5th reaches the MC accounts.

Annual budgets of three MCs of Lahore district for the past three years are provided in Annex 2. These MCs are of different sizes – MC Lahore is the largest in the district (also in Punjab), and MC Raiwind is very small (has only one (private) market). Their regular sources of income include license fee, market fee, and rent of property. Collection of license and market fee uusally falls short by 10-15% of the budgeted amount. In large markets, parking stands also fetch a substantial amount. All MCs contribute 10% of their income to the provincially maintained Market Fund, from which they receive grants and loans for developing infrastructure and procuring large equipment. This is a pooling mechanism, which allows MCs to make large expenditure. In practice, however, this has become a budgetary support measure. Sometime, sale of property brings a large, one-off income (e.g. in Multan Road MC in 2015-16). Securities (e.g. from parking contractor) are received at the beginning of the year and refunded at the end. So their net impact is zero.

Market fee could have been an important source of revenue for the MC, but it is not for four reasons. First, the fee is assessed on volume of produce, rather than *ad valorem*. Hence, any increase in the value of a commodity does not lead to a corresponding increase in the fee. In other words, it is not a dynamic levy. Second, its rates – last revised in 1996 – are negligibly small. The market fee of Rs. 1 per quintal, say for mangoes, is only 0.0083% of their wholesale price in the peak season. Second, in the absence of site supervision, undocumented transactions, and arhtis' vested interest in under reporting the sale volume, collection is a tiny fraction of what it should be. Third, even this tiny fraction is largely eaten up by unscrupulous officials. The combined effect of these three is that market fee collection is far below its potential.

As for expenditure, expectedly, employees' salary and allowances are the major charge accounting for 2/3rd of the total expense in the largest markets and 3/4th in the smallest. In comparison, amenities and facilities – the core function of the MC – consumes a paltry 6% and 3% respectively in these markets. Development works has been consistently allocated no amount in the smaller MCs, and negligible amounts in the largest MC.

As per budget estimates, all three MCs for which data have been presented in Annex 2 consistently present a surplus. In reality, all are in the red. MCs deliberately inflate their income estimates to claim a larger share from the Fund, and to have more sanctioned posts and vehicles. Collection invariably falls short of the budget estimate, so much so that it is common for MC employees to be paid with a delay.

A key function of MCs is to issue the list of retail prices of agricultural produce. This rate list is based on wholesale prices from the auction plus 16% margin – 6% for the pharia (discussed shortly) and 10% for the retailer. This rate list is printed in large numbers and sold to retailers – every retailer must have one prominently displayed. The idea is to discourage retailers from charging excessively. In practice, the rate list has become a joke – every retailer has one, but no one takes it seriously.

There are several issues with the rate lists. First, agricultural commodities are quite variable in their quality on account of their different size, variety, ripening stage, packaging, etc. They come ungraded to the market, are auctioned as such, and are graded thereafter. Thus, there is a large range in the auction price of most commodities. Concerned MC officials everyday face the challenge of condensing this large range into 2-3 grades that the rate list can accommodate. Second, retailer's pricing decisions are influenced by several factors, including product quality, wastage, his own incidentals, and his assessment of what his customers are ready to pay for the commodity. The flat 10% margin over the (ungraded) wholesale price is agnostic to all these factors. It is naïve to expect a street hawker and an air-conditioned specialty shop to sell at the same price. Third, and most fatally, rate lists consistently under report commodity prices as part of a grand self-deception to show that prices of essential commodities are not much higher than, say the previous years' prices. The Badami Bagh market staff generally takes the lower auction prices of the day, depresses them a little, adds the 16% margin and issues its rate list. Other MCs use the Badami Bagh rate list as the reference point, add a percent or two, and issue their own rate list.

Just to illustrate: in one market that we visited, the auction price of bananas (converted to per dozen) ranged between Rs. 85 and Rs. 160 depending upon their quality. Adding flat 16% gives us a retail rate of Rs. 99 for the lowest quality and Rs. 186 for the top quality. In comparison, the officially issued retail rate per dozen was Rs. 85-90 for Grade B bananas and Rs. 107-112 for Grade A bananas. If a retailer were to sell at the official prices, he would be selling at his wholesale purchase price for the lowest quality and at a large deficit for the best quality. One must have a fortune to squander to continue doing business like this even for a year.

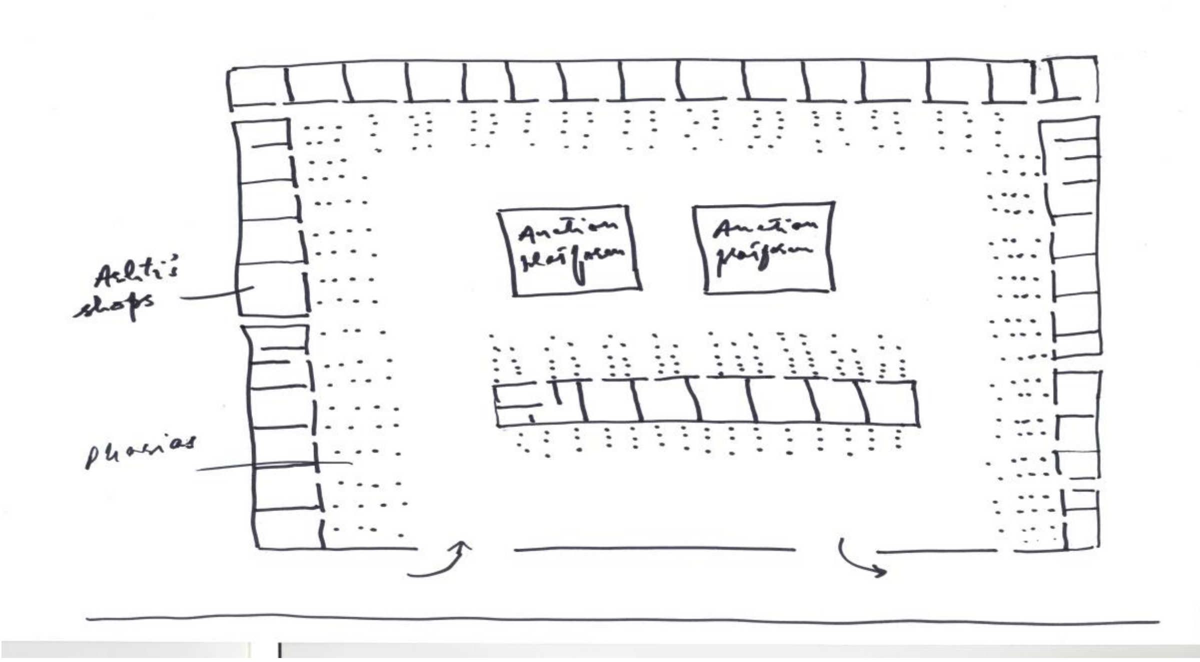
Everyone at the ground knows what's happening. MC officials, their supervisors in the Directorate, arhtis, and retailers know well that the rate lists are fictitious, and will be honored more in the breach than in the observance. Still the farce is religiously enacted each morning to quickly reach nooks and corners of the notified area through the retailers, as it allows the political leadership at the top to proudly, *albeit* falsely, boast that prices of essential commodities are stable.

Next, we turn to the question of the relationship between private markets, the MCs and the Directorate. In the current legal and institutional framework, the former do not operate autonomously. Post-2011, it is possible to set up a private market *after* approval from the Directorate, which is a long, bureaucratic and arduous process. The Directorate requires the developer to deposit a large sum as the security deposit, which is to be returned only upon the completion of the entire structure according to the building plan. This may take years during which time the money remains with the government. Further, the developer is required to transfer the public utility area in the market to the title of the Agricultural Marketing Fund Board, a subsidiary of the AEM Directorate. This is an onerous demand on the developer, for he ends up transferring valuable real estate to the Fund Board regardless of the success or otherwise of the market as a commercial venture. Allotment of shops in the private market is for the developer to do, but licenses to arhtis and other market operatives are issued by the MC. The fee therefrom goes into MC's income. Once the market is functional, the developer may collect the market fee at official rates. This means the developer of the private market can earn mainly from the sale of plots, which is a one-off income. His regular sources of income are the rentals, market fee, and parking fee, all of which are small amounts as seen from the data in Annex 2. Thus, establishment of new markets is viewed by the developer as a real estate venture, rather than a business with a regular income.

4.3 How the Market Works

The market is a messy place. On a given day, thousands – or tens of thousands if it is a large market – of people of all hues visit it for a variety of concerns. Not everybody here is a buyer or a seller, or a commission agent; many are service providers – transporters, auctioneers, weighmen, porters, accountants, caterers, and cleaners. The market never sleeps. Its hustle and bustle continues with brief intervals for cleaning. Different commodities have their time slots during which no other trading takes place.

Figure 2: Layout of a Large Market in Punjab



Source: author

A typical market has at least one large entrance and one large exit. Large markets have an auction platform or two in the middle, surrounded by multi-story shops of arhtis. These shops line up along the outer boundary of the market with a road in between for movement of vehicles carrying agricultural produce (Figure 2). A large strip of land is left between the road and the shops on both sides for people's movement and miscellaneous activities. In smaller markets, there is no trading platform *per se* but the rest of the layout is broadly the same. In these markets, auction is carried out in front of arhtis' shops. Most arhtis rent out part of their shops, so there are multiple arhtis operating from the same shop. Part of the arhtis' shops is used to house transporters or farmers who bring their produce from far-off areas and have to spend a night or two in the market before they can finish their business. Parking facilities are inadequate and most vehicles are parked on the outskirts of the market. There is rarely a separate arrangement for storing the produce. So the arhtis (temporarily) store the produce in their shops, or on the trading platform, or anywhere in the common area in front of their shops. Arhtis also rent out the space in front of their shops to *pharias* (discussed in the next section). In fact, there are several rows of pharias operating from the common area in front of each shop. Most common space thus occupied, essential market activities, such as auction, movement of commodities to and from the auction place, movement of buyers and sellers, waste disposal, etc. have to fit into whatever little space is still left unoccupied.

Table 7: Area of Markets in Lahore

MC	Market name (type)	Area (kanal)	No. of licensee arhtis
Lahore	Badami Bagh (vegetable)	85.0	530
	Badami Bagh (fruit)	119.8	496
	Akbari Mandi (mixed)	1,200.0	541
Kot Lakhpat	Kahna Nau (grain)	11.6	12
	Kacha (F&V)	1,045.0	339
Multan Road	A I Town (F&V)	294.5	164
Raiwind	Sunder Road (F&V)	47.2	57
Singhpura	Singhpura (F&V)	44.4	89
	Jallo Morr (F&V)	17.6	21
	Jallo Morr (grain)	5.9	7
	Burki (grain)	7.6	0

Source: constructed from Punjab AEM Directorate data
Notes: 1 kanal = 5,400 sq. ft.; Jallo Morr (F&V) and Barki (grain) markets are non-functional

Another reason for markets to be over-crowded is their small area. Table 7 provides data on the area of markets in Lahore district. Most markets comprise a very small area. Perhaps these areas were sufficient in the early stages of their establishment, but over the years increasing volumes of trade carried out therein has made them highly insufficient. For example, Akbari Mandi has the largest area of all markets in district Lahore, and yet is an extremely congested place. It is an old (pre-1963) market and is the major trading hub of much more than just F&V and grains. The volume of trade grew organically over the years, but no new markets were established with the consequences that the market infrastructure is now stretched beyond – way beyond – its capacity. Similarly, Kacha (F&V), which is a new market established since 2011, is already exhibiting congestion as common areas are encroached under one pretext or another while the MC staff looks the other way.

No data are collected on the volumes traded in various markets. Had the market fee been assessed properly, it would have provided a convenient basis for calculating sales volumes. But as discussed above, arhtis and inspectors collude in pursuance of their respective interests to grossly under-report the sales volume. Further, sales volumes vary substantially from month to month due to seasonal nature of agricultural produce. Therefore, only rough estimates are possible. According to relevant officials, in the Badami Bagh fruits and vegetables markets the daily volume is around 70,000 – 80,000 quintals each. This helps us estimate the potential of market fee. Even at the minimal rate of Rs. 1 per quintal, MC Lahore should be able to collect a market fee of Rs. 51 – 58 million per year from the two Badami Bagh markets alone. In comparison, the actual market fee collection of MC Lahore (which has another large market besides the two Badami Bagh markets) was only Rs. 19 million in 2015-16. Thus, the potential of market fee is 3-3.5 times higher than the current collection, even if rates are not revised.

The question naturally arises: where does the margin between the potential and the actual collection go? There are three parties to the assessment and collection of market fee, viz. the buyer, the arhti and the inspector. Market fee is a charge on the licensee buyer to be collected at the time of auction/sale (Rule 36(1)). Since arhti is the conduit between the buyers and the seller, he charges the buyer an extra sum on each sale for payment of the market fee. There is no evidence to suggest that the arhti passes on any benefit of his under-reporting of sales volumes to the buyer. In fact, as we discuss in the next section, the sum he charges the buyer is much higher than the prescribed fee. In other words, he manages to over-charge the buyer and short change the MC. There is no evidence to suggest that inspectors receive a bribe from the arhti for looking the other way while this is done. Inspectors cannot possibly keep track of all auctions, so they have to rely on arhtis' statement regarding their sales volumes. Furthermore, the two operate in a symbiotic relationship as shown earlier. Thus, the arhti emerges as the principal beneficiary of the inefficient regime for the collection of market fee.

As estimated by our informants, only 10-15% of the produce sold in markets is brought by farmers because the time and hassle is not worth the benefit. Instead farmers sell to the middlemen, called beoparis. Orchards, in particular, are sold to beoparis pre-harvest (called *Bekhars*). Beoparis are not arhtis' front men, but are closely associated with them. Arhtis finance their purchases, and are often consulted – some arhtis would pay a personal visit – prior to the purchase. Once a standing orchard has been purchased by the beopari, its upkeep and harvesting is his responsibility. He arranges to bring the produce to the market, or sells by the truckload to other beoparis for sale in other markets. The case of vegetables is slightly different, as a larger proportion of farmers brings their produce to the market. Whosoever brings the produce to the market also varies by the size of the market. Large, terminal markets handle large volumes, which individual farmers are unlikely to have. The beoparis performs the aggregation function by purchasing small volumes from multiple farmers and bringing the aggregate to the market. In contrast, small markets handle small volumes, and offer the option of direct purchase from individual farmers.

Most markets have separate time slots for auction of different commodity groups. The beopari or the farmer – whosoever brings the produce to the market – must arrive in time, or wait until the slot allocated for his specific commodity. Arhtis often give a bonus for just-in-time delivery. This temporal distribution of business allows the market to quickly clear commodities, especially the perishables. During the allocated interval, the produce is off-loaded on the trading platform or at the arhti's shop. Beoparis and farmers alike have a preferred arhtis for sale of their produce. Sometimes, they have a debt obligation to settle through sale of produce through the arhti-creditor. Even when there is no obligation, sellers approach an arhti who in their view has a stable clientele of buyers. Such an arhti is more likely than another arhti to quickly sell their produce at a good price.

Some time during the allocated interval, the arhti starts the auction. In large markets, such as Lahore's Badami Bagh, auction is by the truck-load or half a truck-load. There is no time for grading of produce into smaller lots. The buyers have had opportunity to pre-examine lots while they lay in the common space waiting to be auctioned. They can visually inspect them again during the auction. If these are large quantities, only pharias participate in the auction. They are wholesalers. They buy large quantities, grade these into smaller lots and sell to retailers. The process of unpacking, sorting, grading, and repacking takes place wherever the pharia can find a space. This whole process must be completed within the time slot allocated for the commodity group, where after the space is required for the next commodity group. All these activities are carried out manually, and quickly. Smaller buyers, such as retailers or households, take their purchase as such and perform the sorting function elsewhere.

Pharias are also retailers. They occupy small spaces in the common area, which they (illegally) rent from arhtis. They set up their stalls here and sell to retailers as well as households. In essence, they are bulk-breakers. They buy wholesale and sell retail. Often they perform both operations in the same market, but some pharias buy from a large market and sell/auction in smaller markets. In both cases, their function and business process remains the same.

Grading of produce takes place at multiple stages. The pharia and the retailer do the grading in an obvious sense. But the farmer and the beopari also grade the produce, *albeit* in a queer manner. It is commonplace for crates and boxes of fruits and vegetables to be carefully packed at the farm gate so that the best quality is in the top layer and each lower layer is of progressively declining quality. This is a very deliberate act performed consistently by farmers and beoparis. They are very aware of the varied quality of their produce. The buyer – be it a pharia or a retailer or a consumer – also knows this. So he places his bid accordingly. The farmer/beopari could as well have brought two (or more) different boxes to the market each containing one uniform grade. He would, in such case, expect a higher price for his top quality box, and a lower price for the other. This is exactly how imported fruit is sold in markets. It is unheard of an Iranian or a New Zealander apple box to have even a single apple of a lower quality. But the Pakistani farmer/beopari would like to try his luck in cheating the buyer. In his assessment, the lower average price he gets for mixed quality is still higher than the average price he would receive for selling different grades separately. Both parties, i.e. the buyer and the seller, seem to have settled on a low-value equilibrium in which each hopes to gain from other's gullibility.

This lays to rest the myth that farmers/beoparis bring ungraded produce to the market. Instead, what they bring is carefully graded, *albeit* for the wrong reason and *mala fide*. This is a cultural issue and a focus on awareness raising or setting quality standards or providing grading equipment is unlikely to help.

Twice or thrice in between the auctions, the market is cleaned up. Most MCs do not have enough staff or resources for this purpose. They simply do not generate enough money to do an ordinary job at waste removal. So the local municipal authorities have to come to their rescue. But municipal resources are also often stretched to the limit. So part of the waste remains uncollected, toilets remain un-cleaned, and streets remain un-broomed. Rainy days are the worst. But market lives on with its characteristic hustle and bustle.

4.4 The Arhti and the Pharia

Arguably, arhti is *the* most important actor in agricultural produce marketing. He mediates the commodity exchange relationship between agricultural producers and consumers. His strong forward and backward linkages often span over several generations. He has creatively developed a high-risk, high-profit business model that runs on mutual trust in an undocumented economy. He provides a range of critical services in which his role is anything but mechanical. He also has deep pockets. His presence is writ large on the entire marketing landscape.

Arhti performs a set of formal and informal functions, such as: 1) auctioning agricultural produce for a commission; 2) providing credit and selling commodities on credit; 3) purchasing and storing commodities for inter-temporal smoothening of consumption; 4) providing storage services for a fee; and 5) managing the market. These functions are briefly examined below.

Quintessentially, arhti is a commission agent. He has a shop in the market, or a portion thereof – owned or rented – to conduct his operations from. Farmers and beoparis bring the produce to his shop, he auctions them, collects the payment from the buyer, deducts him commission (and other dues, if any), and pays the remaining amount to the farmer/beopari. Commission rates are specified by the 1979 Rules (66(a)): 1.5% on food grains; 2.5% on fruits; and 3.12% on vegetables worked out on the basis of the value of the produce. But arhtis across the board manage to charge commission at much higher rates – up to 3% on grains; 7% on fruits; and 5% on vegetables. These rates are variable for different markets, crops and clients. Nevertheless, they are higher than the official rates. Since commission is calculated on the basis of value, rather than volume as is the case for the market fee, arhti's charges grow as commodity prices increase over time. This is presumably a mechanism to incentivize the arhti to auction the produce at the best possible price. Importantly, they have become institutionalized – hardly anyone raises an eyebrow on something that can easily qualify as extortion.

What enables the arhti to charge substantially higher commission rates than the ones legally mandated? Principally, it is his mediating role in the marketplace that allows him to carry out the business on his terms. All produce brought to the market must be sold through auction, i.e. through the arhti. Furthermore, their number is very small for the volume of agricultural produce they handle. In all, there are 27,242 licensed commission agents in Punjab as per the AEM Directorate's data. However, the actual number of working arhtis is much smaller than this. For the two markets we presented data in section 4.2, only 1/5th and 2/5th licensees were estimated by our informants to be actually engaged in the market operations. The rest had obtained licenses – some were even paying token amounts as market fee to exhibit business activity – with an eye on allotment of shops in a new market, as and when one was set up. Even if we use the higher estimate of 40%, we have around 11,000 working arhtis in the entire province. This is a very small number given that there are 262 markets in the province, i.e.

around 42 arhtis per market on average. Since markets vary in size, the range is around 8-10 arhtis for small markets and 100 or so for large ones. It is this small number that controls an essential – legally mandatory – step in produce marketing. No wonder, arhtis manage to charge the commission they please.

New licenses are issued very sparingly for two important reasons. First, being a successful arhti requires deep pockets and substantial social capital to form the basis of large financial transactions in an undocumented economy. Not everyone has these. Especially social capital can only be built over time through a series of transactions. That's why most arhtis in a market come from a small number of families. Second, it is in arhtis' interest to restrict entry. Therefore, they effectively deploy their networks, especially their representation on the MC, towards this end. Consequently, the number of arhtis in a market grows very slowly, if at all.

The dynamics change altogether as soon as MC/Directorate's intention to establish a new market is widely known. There is a scramble for obtaining new licenses. Since existing licensees are entitled to a quota of plots – and the market value of plots is several times higher than the allotment price (see section 4.2 above) – every arhti is lobbying for a license for his kith and kin. Hitherto it was in their interest to restrict entry; now it is in their interest to let in a few favored ones. Consequently, the number of arhtis substantially swells around the time of allotment of plots in a new market. Table 8 provides data on the number of licenses issued in the Badami Bagh (F&V) markets during the last ten years. The spike in the number of licenses issued during 2007-14 can be explained by the establishment of a new market (Katch (F&V)) in 2011. While only 224 and 264 licenses had been issued since the pre-partition establishment of these markets, 304 and 232 licenses respectively were issued in just eight years. The surge quickly died down once the allotment phase was complete.

Table 8: Licenses issued in Badami Bagh Markets

	Until 2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
Vegetable market	224	45	52	44	28	60	4	51	20	2	0	530
Fruit market	264	21	31	69	28	43	10	23	7	0	0	496

Source: MC Lahore records

The second function an arhti performs is to provide credit to a range of market actors. Most importantly, he provides credit to the farmer. The latter has a long term relationship with him, which forms the basis of collateral-free loaning. Some arhtis now require that the borrowing farmer provides them with a post-dated cheque. Since no documentation is involved, credit disbursement is quick and convenient. Farmers borrow for production as well as for consumption purposes. Cost of production of various crops is well-known; the arhti advances loan based on farmer's area under cultivation. Sometimes, the arhti provides inputs for cultivation instead of cash. These inputs may not be priced higher than the market, but the arhti certainly gets to keep the usual sales margin, which are substantial for pesticides and fertilizers. Arhtis similarly lend to beoparis for their purchases.

Arhtis do not charge interest. Instead, they require that the produce be sold *only* through them. So the borrowing farmer or beopari forfeits his freedom to sell in any market and through any arhti he chooses. If he goes to another arhti, the latter immediately asks where has he been selling before and why is he switching. The new arhti will auction the produce only after satisfying himself that the farmer/beopari is not reneging on a prior commitment. Thus, the farmer/beopari must bring his produce to the lending arhti. This has three implications. First, it enables the arhti to recover his money. When the produce is auctioned, he receives the payment from the buyer, deducts his loan (and his commission), and pays the balance to the farmer. If the produce has been smaller than expected, or the farmer needs money for something else, arhti may as well reschedule the loan and pend recovery to the next crop. Second, it enables the arhti to charge a commission higher than the ones prescribed by the Rules. An indebted farmer or beopari lacks the bargaining power to argue over the legitimacy and reasonableness of commission rates. Third, it cements the relationship between the arhti and the farmer/beopari. A series of transactions, often extending over multiple generations, creates the social capital that enables the former to advance large sums of money without any collateral and without much documentation, and the latter to obtain credit hassle free.

Growing outreach of microfinance institutions (MFIs) in rural areas of Punjab poses some challenge to farmers' dependence upon arhti as the principal source of credit. If a farmer needs, say, a few bags of fertilizer, he may borrow from the arhti, or he may borrow from an MFI. MFIs charge interest, but their procedures are also simple and their loaning hassle-free. Now the farmer at least has an option. If he borrows from an MFI, he ends up paying a hefty amount as interest, but retains his freedom to sell his produce in whichever market offers a better price. If he borrows from the arhti, he pays no interest and can also get his loan rescheduled if need be, but he must forfeit his selling choices.

Another group of market operators that arhtis lend to are the pharias (called *Masha Khor* in Sindh). They are not arhti's front men, but have a very close working relationship with him. They are small-time traders, who buy in wholesale, break the lot, grade the produce, and sell it in the same market or another. If they plan to sell in the same market – often on space rented from the arhti –, they pay for their purchase towards the end of the day after it has been sold. In other words, they purchase on a short-cycle credit. Some pharias sell in other markets wholesale or retail. Even they may manage to buy on credit, if they have a long-standing relationship with the arhti based on mutual trust. They are called *ladaniyas*.

After the arhti, pharia is probably the most important market operative. He is simultaneously a buyer and a seller of agricultural produce. Until the 1980s, he used to operate under a retailer's license, whence his licensing requirement was terminated. He performs two very useful functions in the market. First, he breaks large lots into smaller, manageable quantities. Second, he grades the produce. Some pharias may sell wholesale in smaller markets after buying wholesale from a large market. But mostly their clients are retailers and the common households who need small quantities. Thus, pharia emerges as the essential link between the market and the retailer/consumer. His role becomes more significant in larger markets because of the large quantities that are presented for auction. In smaller markets, it is still possible for retailers and households to directly purchase in an auction, but the same is out of question in large markets.

While the pharia disposes off the produce, the farmer/beopari has (mostly) been paid already. Arhti's skill lies in successfully establishing a cycle whereby money received from pharias for an earlier sale is used to pay the farmer/beopari for the current sale. As was the case with farmers, his credit operations enable the arhti to build a stable clientele of pharias. This is important for two inter-related reasons. First, it helps the arhti in quickly clearing whatever produce has reached him. The more pharias an arhti has, the more likely he is to attract the trust of farmers/beoparis that their produce will be sold competitively. Second, he earns his commission on the value of sale.

Thus, arhti's lending extends backwards as well as forwards. These are extensive operations. Not all of his dealing is on credit, but most of it certainly is. Our respondents estimate the total credit portfolio of a small arhti to be around Rs. 10-15 million and of a large arhti to be ten times as much. He is literally the Mr. moneybags whose credit oils the entire marketing chain in APMs.

Arhti's business model is high-risk, but also high-profit. It is not uncommon for arhtis to lose money. Both farmers and pharias may delay or default for a variety of reasons. Part of the reason for arhtis' willingness to reschedule their loans is to avoid a default. And yet defaults do take place. But the upside of his business model is that he builds a stable and loyal client base on the supply as well as the demand side. His commission is hefty, and the sales volume is so large that a default here and there does not hurt much.

Another set of arhti's functions relates to purchase and/or storage of agricultural produce. Most arhtis maintain some storage capacity, which they may use for their own purchased commodities, or rent out for a fee. In either case, his role extends beyond that of a mere commission agent. When he auctions what he has already purchased, he is no longer a neutral auctioneer; he has a stake in inflating the price. Sometimes a distinction is made between a pucca arhti and a katcha arhti on this basis (e.g. Haq et al. 2013: 8), the former being the one who purchases wholesale.

Finally, arhtis manage the market collectively. They are represented on the MC, whenever one is constituted. Even in the absence thereof, they are a key source of support for the administrator. The latter must keep them on his side for smooth operations of the market. Arhtis are organized in market-based associations, which cluster at the district and provincial levels. These are powerful lobby groups. They also provide useful services to members, such as publishing directories of arhtis.

Commission on auction of agricultural produce is by no means arhti's only source of income. He has at least three other sources. Sales margin on inputs that farmers/beoparis procure from a shop on arhti's recommendation have already been discussed. These margins are substantial. In addition, arhtis charge the buyer a small amount under the pretext of payment of market fee. Rates vary from market to market. In the markets that we visited for this study, arthis charged buyers Rs. 20 per basket (15-20 kg) of fruits and vegetables. This is a significant deduction. In comparison, market fee is only Rs. 1 per quintal. In other words, arthi's charge the buyer 100 times of what they are legally mandated to pay as the market fee. Furthermore, there are numerous involuntary deductions on one pretext or the other. Examples are masjidana and the chungi. The former is a cash 'donation' for maintenance of the market mosque, and the latter is a handful collected from each basket ostensibly for arhti's personal consumption. Arhtis keep on collecting chungi in a basket – to be sold as soon as it is full.

5. Conclusions and Policy Recommendations

5.1 Summary

It is worth summarizing the discussion above. First, the legal framework for APMs is archaic and restrictive. The structure erected in 1939 is effectively still in place. It was created to rid farmers of the exploitative practices in unregulated private markets. The hope was that public markets will provide better facilities and a more competitive business environment than was the case in private markets. Over time, however, public markets also failed to keep pace with growing volumes of agricultural produce. Since the law restricted bulk sales and purchases to notified markets and through licensed agents, there was hardly any opportunity for the farmer to explore private alternatives. Recent legislative developments in Punjab have not made much difference. Nominally, now it is possible to set up private markets, but only after completing an arduous and bureaucratic process, and after meeting unreasonable requirements (e.g. security deposit and transferring title of public utility space). Even when a private market is set up, its arhtis must seek a license from the local MC, which also collects the license fees. The private developer can collect market fees, but only at abysmally low official rates. These measures severely constrain private market's ability to operate autonomously. In the absence of a link between the facilities provided and the fees charged, the former deteriorate quickly as the latter stagnate. The situation is somewhat better in Sindh where the new law loudly proclaims farmers' freedom to sell wherever they please. This opens the way for (public and private) markets to exist as an optional facility to be availed for a fee.

Second, the institutional set up created under these laws is equally archaic and restrictive. Over the years it has suffered substantial decay and is now largely dysfunctional. Both provincial and local institutions are miserably failing in discharging their essential functions. A comparison of the number of new markets set up during the last six decades with growth in the volume of agricultural produce shows how insufficient the former is. Consequently, public markets have become too crowded and messy for farmers to sell their produce without engaging several middlemen. These institutions are also failing to upgrade market physical infrastructure, provide necessary facilities, and ensure that market transactions broadly adhere to legal limits. Gradually, public utility spaces have been encroached by various market operatives under one pretext or the other; essential facilities like toilets, parking, clean drinking water, etc. have deteriorated to an extent that they are no longer usable; and official rates for arhti's commission, and market fee are openly violated. The law envisages markets to be regulated by properly constituted MCs having adequate representation of growers, consumers and market operatives. Instead, these are being run through politically appointed administrators whose claim to this position of responsibility is far from obvious. MCs are supposed to be self-sufficient – they have a resource base. In reality, fee collection has fallen to such an extent that most MCs are struggling to pay salaries. An analysis of their budgets shows that they do not have sufficient fiscal space to allocate money for providing facilities and amenities, or for undertaking development projects.

Third, the arhti emerges as the lynchpin of the APM regime. He exploits the system to his advantage. He has developed a very successful high-risk, high-profit business model in which he extensively advances credit to a set of actors in the marketing chain to develop a loyal client base. His success lies in attracting more and more farmers/beoparis and buyers/pharias to his auction platform, which he does through his backward and forward linkages, rather than provision of facilities or discounts. These linkages, and his social capital, are built over time through years of business interaction, often spanning over generations. He is far from fair in his dealings – he overcharges both the seller and the buyer. He also makes several small involuntary deductions under various pretexts. Still, his shenanigans are tolerated – without protest – because he controls an important, legally-mandated step in agricultural produce marketing, viz. auction. Had the number of arhtis been growing along with the volume of produce, farmers' options would be larger. Sadly, this has not been the case. The total number of licensed arhtis is small; the number of actually working arhtis is smaller. Besides arhti, pharia emerges as an important market operative. He is the quintessential buyer from the auction, at least in the larger markets. In a good marketing system, his preferences would drive the process. But, the current marketing regime does not facilitate him much, the usefulness of his bulk-breaking and grading functions notwithstanding. He has no formal standing – he operates without a license; and does not have an officially dedicated space – he operates from encroached public utility space for which he pays rent to the arhti.

5.2 The State-Citizen Relationship

How do we make sense of this in terms of the state-citizen relationship? Five observations are in order. First, to the extent of APMs, the Pakistani state emerges as a largely dysfunctional state. It is failing to implement its own legislation. The 1979 Rules specify market fee and arhti's commission for various commodity groups, and yet several times more is openly charged from buyers and sellers respectively. Further, markets are to be governed by duly constituted MCs, whose chairman has to be a grower. Instead, they are being governed by arbitrarily appointed administrators. The state is also failing to provide essential services to a very large, productively important, segment of society, viz. farmers. The produce marketing system has become so arduous that only 10-15% of the produce coming to (public and private) markets is estimated to be brought by farmers, which means the rest prefer to sell to middlemen. This is a serious blow to the very rationale of produce markets – they were established to facilitate the farmer in selling his produce; instead, they have loaded him with a set of middlemen.

Second, the state also emerges as quite disinterested in and indifferent towards farmers' marketing issues. For, how else can one understand state's inability to modify the legal and institutional framework according to changing requirements. It is not that the government is not aware of the inadequacy of current frameworks – its consideration of several alternate laws in Punjab and Sindh testifies to the realization that all is not well. And yet, the Punjab government has not made any serious effort at all to legislate any of the proposals, and the Sindh government has not passed subordinate legislation that is required to operationalize the 2011 law. In Punjab, MC officials collect rent in the name of market fees from wholesale business in the notified area, although the MC does not provide any service/facility at all to such activity. The only beneficiary of this predatory practice – *albeit* mandated by law – are the unscrupulous MC officials. How much effort would it take the bureaucratic and political leadership in the province to amend the current law to this extent, and free from the exploitative levy not only the farmers but also a variety of agribusinesses. Not much really, were there an interest.

Third, there exists a serious capacity deficit at all levels. This deficit exists in the number and quality of human resource, as well as in the equipment, infrastructure and linkages. For example, the number of inspectors at the market level is far too insufficient to effectively monitor auctions for accurate assessment of market fee. Consequently, inspectors have no option but to rely on arhti's statement as to his daily sales volumes. Similarly, an important function of the AEM Directorate is to train market operatives and to carry out research. But there is hardly any capacity for either. The Directorate does not have the technical capacity, wherewithal and linkages for an accurate forecasting of supply and demand of agricultural commodities. Another ready example of capacity deficit comes from the fact that both the Sindh and the Punjab Agriculture Departments relied on USAID's (United States Agency for International Development) technical assistance for drafting legislative proposals for them. Thus, state's dysfunctionality is as much a question of willingness as of capacity.

Partly because of indifference and partly because of lack of capacity, not enough information is being collected that can enable an effective regulation of produce markets. Even basic information is not readily available. There is no mechanism for accurately recording the produce volume handled in various markets. None of the provinces keep a record of how many cold storages exist and what is their total capacity. The number of markets with a raised auction platform is not known. Even reliable survey-based estimates are not available for these important aspects of agriculture produce marketing. In the absence thereof, policy has to rely on anecdotal evidence.

Fourth, tokenism is the order of the day. The latest draft law doing the rounds in Punjab, viz. the Punjab APM Authority Act of 2017, is a superficial effort that is irrelevant to market issues at all. It proposes to set up a supervisory Authority at the provincial level (presumably replacing the AEM Directorate), but the connection with improved services in produce markets is not immediately clear. Similarly, Sindh's 2011 Act is only partly operational in the absence of subordinate legislation. It has been six years since the passage of the new law, and the Sindh government is happy to take credit for a progressive step, and yet there is no effort to undertake institutional changes that are the pre-requisite of a meaningful reform. At the field level, situation is no better. Most markets do have parking, toilets, etc., but they are far too insufficient to be of any value. Sheikhupura market, for example, has only one sweeper for the clean up. Everywhere, there is a gross mismatch between the scale of the problem and the scale of the solution.

Fifth, we find plenty of evidence of bureaucratic oversupply. Data presented in the previous section show that Punjab AEM Directorate's budgets have been growing consistently. Employees' pay and allowances – rather than research, training, improvement of facilities, and establishment of new markets – accounts for most of the expansion in the budgetary outlay. Now there are offices in each district, and the total number of staff has steadily grown. The Directorate has launched several new initiatives to claim and justify increased budgets. But there is no analysis of whether or not people are benefitting from these services. In fact, it is possible to argue that these new initiatives are largely marginal to the issues farmers face in marketing their produce. Characteristically, ever growing cost of the bureaucratic apparatus is being met from general tax revenue, and there is no effort to increase market and license fees, or to improve collection efficiency.

5.3 Policy Recommendations

The analysis above readily lends itself to numerous policy recommendations. The need for legal reforms cannot be over emphasized. The APM Ordinance of 1978 provides the framework in which important institutions exist and markets operate. The latter can perform so much better if the former morphs into an enabling framework. For that, it is not necessary to repeal the existing law and its subordinate legislation and replace these with a set of entirely new ones. Instead, existing legal instruments can be suitably amended to reflect changing priorities. This is the subject of our first set of recommendations.

Notified areas, as they currently exist, are nothing more than hunting grounds for unscrupulous MC officials. There is no sense in 'notifying' areas when the government has no intention or capacity to provide any facility whatsoever for marketing of agricultural produce in the notified areas. Instead, the government should concentrate its attention on public markets. Public markets should exist – and multiply – as a facility to be availed for a fee. But if someone does not want to avail this facility, and is happy selling his produce elsewhere in a manner preferred by him, there should be no objection to that from any quarters.

For undertaking legal reform, some aspects of the (now repealed) 1975 Local Government Act are worth considering. The 1975 Act delegated the power to set up new MCs and markets to respective local governments. This is an interesting proposition. On one hand, local governments being closer to the grassroots are expected to be more proactive than the provincial Directorate in establishing new markets should there be an expressed demand for the same from farmers. On the other, they are also more likely to be hostage to the powerful arhtis, whose interest may not fully align with that of the farmers in liberally setting up new markets. Nevertheless, decentralization will definitely promote diversity. It will allow different local bodies to have different market specifications, fees, and facilities.

Recent legislative changes in Punjab and Sindh have created some legal space for private APMs. However, the current regime is still too restrictive to encourage effective private sector participation. In particular, we emphasize two aspects here. First, a private market can only be set up after obtaining multiple approvals from provincial authorities, which is a hassle some and arduous process requiring extensive paper work and multiple visits/inspections. Second, the twin requirements of depositing a large sum as the security deposit and transferring the title of public utility space to the provincial Fund Board are quite daunting. Both of these, i.e. the process and the requirements, undermine the spirit of recent legislative reform. They effectively enclose the space created for the private sector. Ostensibly, their purpose is to ensure that private markets adhere to some standards. Practically, they place the new enterprises firmly under the thumb of provincial authorities.

Instead, the government should specify the minimum standards which every (public or private) market must adhere to. Appropriate place for these specifications will be subordinate legislation, which may specify the requirements for each market – discriminating between various market sizes and types – regarding public toilets, public utility areas, weigh bridges, auction platforms, storage facilities, grading facilities and equipment, and pack houses, to name a few. These requirements should not be unreasonable, and importantly the government should not expect private markets to meet standards that it is struggling to meet in public markets.

Further, private markets should be a profitable enterprise, rather than just a one-off real estate venture. There must be something in the regular, day to day operations that retains the interest of the entrepreneur who sets these up in the first place. License and market fees are one such avenue. If the entrepreneur is allowed to fix and collect these fees, he will have a source of revenue to pay for market upkeep and maintenance. He may even make money, which shall be a welcome outcome. Given enough freedom, entrepreneurs will develop different business models to establish and operate private markets. Some of these will succeed.

The essence of the proposed legislative reform is to break the current 'state coercion,' whereby farmers are forced to sell in a small number of (mainly public) markets. Policy should support establishment of several new markets in the public and private sectors, by whichever means possible. These markets do not have to be large ones; in fact, small, commodity-specific, seasonal markets have a better scope. They are easy to set up – several have sprouted informally, and are easy to operate. Since, selling in any of these markets will not be a compulsion – the farmer may sell anywhere to anyone he pleases – they will have to compete for clients, sellers as well as buyers. More than anything else, this will compel them to maintain standards and facilities.

Finally, the reformed legal framework should not be over-prescriptive. For example, what is the point of Rules specifying license and market fees? These things are better left to individual MCs; for there has to be a link between the state of facilities and the sums charged. Similarly, why should the law specify arhti's commission rates? After all, he is providing a service, and only its quality should determine its price. If an arhti charges a higher commission, but is able to sell the produce at a premium – because he times the sale better, his network of pharias is larger, and so on –, the famer is still better off. Conversely, if his service is of poor quality, the arhti should offer it at a discount.

Our second set of recommendations concerns the reform of the institutional framework, without which legal reform will be meaningless. First of all, the role of provincial Directorates needs to be reimagined. They need to take up a support, rather than a merely regulatory role. Their research and analysis capacity in general, and market intelligence function in particular, should be strengthened. The current practice of managing MCs, including petty transfer and posting, directly from the provincial headquarter is not only wasteful but also counter productive. A reformed Directorate can provide useful services for both public and private markets.

An important function that provincial Directorates can perform is to support the development of storage capacity in the private sector. This can be done through provision of soft loans, technical assistance, etc. Current capacity is far too inadequate to meet farmers' needs. Enhanced capacity will allow the farmer to appropriately time the sale of his produce. Provincial Directorates can also provide institutional support for encouraging use of warehouse receipts in Pakistan. These are now globally accepted as valid collateral for credit, but hardly in Pakistan.

Similarly, MCs need massive reform. Most importantly, the current practice of running them through provincially appointed (political or official) administrators undermines the spirit of managing markets through involvement of local stakeholders. Provincial governments should constitute MCs and let them run the show. MC officials should not be given extra duties. They are caught in a vicious cycle: they are assigned extraneous duties because they are not doing their core duty, which leads to further dereliction and so on.

Pharia has emerged as an important actor from our discussion above. His role in marketing of agricultural produce needs to be formalized and supported. To begin with, he should be issued a license by the MC along with other market operatives – not as a mere retailer, but as a separate category. This will give him a legal standing. Then, he should be provided operational space. Currently space allocation is very heavily biased towards the arhtis; therefore, essential sorting, grading, repacking, and resale functions performed by the pharia are ignored. Given adequate and dedicated space, pharias' dependence over arhti will be correspondingly smaller, and their operational performance better. It must be remembered that pharia is *the* principal buyer in market auctions. A good market facilitates its buyers.

Arhti is the lynchpin of the current system and will continue to be so. There is no harm in this *per se*. He provides a useful set of services. Problems start emerging when his monopolistic positioning in the marketplace allows him to manipulate the system to his advantage. Therefore, rather than trying to eliminate or replace him, policy should aim at breaking his monopoly. This will require taking a liberal approach towards issuance of licenses. If anyone has a space in a market to operate from, and is happy to pay the license fee, why should he be refused? To guard against scramble for new licenses to obtain plots in new markets at reserve price, the policy of allotting a proportion of plots to sitting arhtis should be terminated. Whenever a new public market is set up, its plots should be open to all and sundry for purchase on market price. As MFIs further increase their outreach, they may meet part of farmers' short term credit needs, and to that extent reduce their dependence on the arhti. An increase in supply of institutional credit by the government will also serve the same purpose.

A key challenge for any comprehensive reform proposal will be to overcome resistance from groups whose interests will be adversely affected, viz. arhtis and government officials in this case. One possibility is to enlist the support of other powerful groups as a counterweight. For example, if farmers' organizations are invited to nominate growers' representatives on MCs, they will have an institutional stake in championing legal reform. Similarly, policy support for pharias to grow into arhtis can count on pharias' support for the reform effort. Reform is not going to be easy – meaningful reform never is.

Glossary of Terms

Arhti	Commission agent; he conducts auctions in the market
Beopari	Middleman who buys from the farmer and brings the produce for auction in the market; a Beopari who purchases pre-harvest is called Bekhar.
Chungi	A handful collected from each basket ostensibly for arhti's personal consumption. Arhtis mostly sell these as soon as a sizeable quantity has been collected.
Ladania	A pharias with a long-standing relationship with an arhti
Masjidano	A donation for maintenance of the mosque
Pharia	A middle man who buys large lots in auction, breaks these into smaller lots and sells to retailers; pharias also sell retail to individual customers.
Palledar	A helper in the loading and unloading

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Annex 1: Chairmen/Administrators of Selected Market Committees in Punjab

Market Committee Badamagi Bagh, Lahore

Sr.	Name	Designation	From	To	Remarks
1	Hassan Nawaz Tarar	Administrator	28-01-2001	24-07-2001	Deputy Commissioner Lahore
2	Capt. (Rtd.) Naseem Nawaz	Administrator	25-07-2001	13-08-2001	Additional Deputy Commissioner, Lahore
3	Mian Aamir Mahmood	Administrator	06-09-2001	03-02-2002	District Nazim Lahore
4	Mian Talat Ahmad	Chairman	04-02-2002	18-05-2005	Local leader of the ruling party
5	Ch. Zaheer Ahmad	Administrator	19-05-2005	27-09-2005	Arhti
6	Mian Asad Munir	Administrator	28-09-2005	19-03-2008	Son of the local member of the National Assembly
7	Ch. Ishfaq Hussain	Administrator	18-03-2008	10-04-2008	Director, AEM
8	Ch. Ahmad Saeed	Administrator	24-04-2008	09-06-2009	Director, AEM
9	Mian Muneer Ahmad	Administrator	10-06-2009	01-08-2010	Director, AEM
10	Sheikh Abdul Mannan	Administrator	02-08-2010	15-06-2011	Member Punjab Assembly
11	Haji Bashir Ahmad	Administrator	13-07-2011	28-05-2012	Director, AEM
12	Sheih Usman Mannan	Administrator	29-05-2012	13-05-2013	Son of the local member Punjab Assembly
13	Muhammad Ashraf	Administrator	14-05-2013	10-10-2013	Director, AEM
14	Sheikh Usman Mannan	Administrator	11-10-2013	To date	Son of the local member Punjab Assembly

Source: constructed from the MC Lahore data

Market Committee Multan Road, Lahore

Sr.	Name	Designation	From	To	Remarks
1	Fawad Hashim Rabani	Administrator	08-03-2001	14-08-2001	Assistant Commissioner
2	Sardar Adil Umar	Administrator	04-09-2001	18-02-2002	Town Nazim, Iqbal Town, Lahore
3	Malik Asghar Ali Khokhar	Chairman	18-02-2002	03-05-2005	Local leader of the ruling party
4	Rauf Arshad	Administrator	04-05-2005	23-05-2005	EADA, AEM

5	Muhammad Saleem Chatha	Administrator	24-05-2005	27-02-2008	Local notable allied with the ruling party
6	Aslam Sultan Sheikh	Administrator	28-02-2008	24-04-2008	EADA
7	Muhammad Akram	Administrator	25-04-2008	26-08-2008	Deputy Director, AEM
8	Mehr Lal Khan	Administrator	24-09-2008	13-10-2008	Deputy Director, AEM
9	Aslam Sultan Sheikh	Administrator	14-10-2008	29-04-2009	EADA, AEM
10	Muhammad Saeed Hashmi	Administrator	30-04-2009	11-02-2010	Deputy Director, AEM
11	Haji Bashir Ahmad	Administrator	12-02-2010	01-08-2010	Deputy Director, AEM
12	Mehr Mahmood Ahmad	Administrator	02-08-2010	03-04-2013	Local notable of the ruling party
13	Liaqat Ali Raza	Administrator	04-04-2013	23-09-2013	EADA, AEM
14	Tariq Mahmood	Administrator	24-09-2013	11-10-2013	EADA, AEM
15	Mehr Mahmood Ahmad	Administrator	12-10-2013	26-11-2013	Local notable of the ruling party
16	Tariq Mahmood	Administrator	27-11-2013	23-06-2014	EADA, AEM
17	Malik Asim Mustafa	Administrator	24-06-2014	To date	Local leader of the ruling party

Source: constructed from MC Multan Road data

Market Committee Raiwind, Lahore

Sr.	**Name**	**Designation**	**From**	**To**	**Remarks**
1	Ch. Ghulam Sarwar	Chairman	04-02-2002	23-05-2005	Local leader of the ruling party
2	Rana Muhmmad Fiaz	Administrator	24-05-2005	09-06-2005	-
3	Rauf Arshad	Administrator	10-06-2005	25-06-2005	EADA, AEM
4	Mian Shan e Elahi	Administrator	26-06-2005	23-08-2005	-
5	Ch. Iqbal Sandhu	Administrator	24-08-2005	28-11-2005	-
6	Munir Hussain Aamir	Administrator	29-11-2005	22-10-2007	-
7	Mian Shan e Elahi	Administrator	24-10-2007	05-03-2008	-
8	Muhammad Arslan Zahid	Administrator	06-03-2008	28-02-2009	Agriculture Officer
9	Muhammad Zaigham Nawaz	Administrator	06-05-2009	29-07-2010	Agriculture Officer
10	Haji Abbas Malik	Administrator	02-08-2010	03-04-2013	Local leader of the ruling party
11	Muhammad Khalid Naeem	Administrator	04-04-2013	10-10-2013	Agriculture Officer

12	Haji Abbas Malik	Administrator	11-10-2013	To date	Local leader of the ruling party

Source: constructed from MC Raiwind data

Annex 2: Market Committee Budgets (million Rs.)

	Lahore			**Multan Road**			**Raiwind**		
	2014-15	2015-16	2016-17	2014-15	2015-16	2016-17	2014-15	2015-16	2016-17
Income									
License fee	4.0	4.0	4.0	2.0	2.0	2.5	0.4	0.4	0.5
Market fee	25.0	20.0	20.0	8.0	9.5	10.5	3.5	4.0	4.0
Rent of property	3.6	3.8	4.0	0.4	0.4	0.0	1.6	1.7	2.5
Auction of parking stand	16.3	27.7	20.0	1.5	0.5	0.2	0.0	0.0	0.0
Sale of rate lists	1.2	1.4	1.4	1.5	0.5	2.0	0.2	0.2	0.1
Sale of immovable property	0.0	0.0	0.0	0.0	25.0	0.0	0.0	0.0	0.0
Arears of market fee	2.2	0.0	2.5	0.0	0.0	0.0	0.0	0.4	0.4
Share from the Fund	4.9	3.5	8.5	0.5	0.0	0.0	0.8	0.4	0.1
Securities	3.1	3.1	3.0	1.0	1.0	1.1	0.0	0.0	0.0
Others	1.0	2.5	2.3	0.1	0.1	0.2	0.0	0.0	0.2
Total income	61.3	66.0	65.7	15.0	39.0	16.5	6.5	7.1	7.8
Expenditure									
Salary and allowances	31.3	33.5	33.7	8.2	8.1	10.0	3.7	4.3	5.0
Contingencies	5.2	6.6	5.7	1.5	2.2	2.8	0.6	0.5	0.5
Amenities and facilities	2.2	8.2	3.4	0.9	1.2	0.6	0.1	0.2	0.2
Remittance to the Fund	8.8	0.2	2.4	0.5	0.7	1.3	0.4	0.1	0.4
Development works	0.3	0.3	1.8	0.0	0.0	0.0	0.0	0.0	0.0
Refund of securities	3.0	3.1	3.1	1.2	1.2	1.2	0.0	0.0	0.0
Others	2.8	2.6	2.5	3.72	0.7	0.6	0.0	0.2	0.3
Total expenditure	53.6	54.5	52.6	13.1	14.1	16.5	4.8	5.3	6.4

Source: constructed from Punjab AEM Directorate data