



USAID FIRMS PROJECT

# Agricultural Marketing Policy Framework – Punjab & Sindh

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# Abstract:

The laws applied in Punjab and Sindh regulating agricultural markets date from the British colonial period. They prescribe a framework focused on control and privilege tied to wholesale marketplaces. The report identifies the distortions created by the current system, compares practices of other countries to performance of agricultural markets and policy framework in Pakistan and estimates the economic impacts of restrictions. A rapid rural market appraisal generated findings that were important to the framing of the recommendations.

The proposed new policy framework for the governance of agricultural markets is consistent with both international best practice and the contexts in Punjab and Sindh provinces. Particular attention was given to stakeholder analysis, identifying issues of concern to affected parties. Specific recommendations are formulated for management of wholesale markets and facilitation of value chain development. Proactive roles are identified for Provincial Government and other public institutions as well as suggested support from the FIRMS Project.

# Acronyms

CA	Commission Agent, also referred to in Law as Dealer
EDO	Executive District Officer
MANDI	Wholesale Marketplace
NGO	Non-Governmental Organization
PAMCO	Punjab Agrimarketing Company
Sunday Bazaar	Open Public Retail Marketplace, Often Held On Different Days Of The Week
Taluka	In Sindh refers to sub-district level for municipal administration
Tehsil	In Punjab refers to sub-district level for municipal administration
USAID	United States Agency for International Development

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# Executive Summary

The primary focus of provincial agricultural marketing policy in Pakistan is to provide for formation of market committees for management of wholesale markets. Whereas most other countries charge local governments with establishing public retail markets, many fail to focus on development of wholesale marketplaces. Pakistan has an opportunity to build on its current system and develop modern, dynamic agricultural marketing systems. For this to happen, a radical shift is needed to a demand-driven focus that is open to competition and that promotes new market channels directly linked to growers.

More than half-wholesale markets are for fresh fruits and vegetables. Therefore, the consultancy focused on marketing fresh fruits and vegetables, but took into account wholesale and distribution processes in general. Of primary importance is value chain development, as quality improvement and application of best practices in one market channel has positive impacts throughout the agricultural sector.

The findings of the consultancy provide ample evidence of serious distortions in the agricultural marketing system. One of the primary concerns is that virtually all fresh fruits and vegetables are handled through one single market channel: public wholesale markets controlled by powerful licensed dealers. The system is fully supply-driven, with focus on collection of commissions and fees. Current distortions and disincentives are so great that reforming policies can be expected to generate an impact of 500 million USD per year within a period of 2-5 years.

Liberalizing the overall agricultural marketing policy will shift focus to demand-driven marketing approaches. This profound shift in the policy framework has far-reaching implications for behavior and performance of the marketing system—from privilege to competition. Cosmetic modification will only slow the process of change. Several measured, bold steps should be taken to get the process started, as follows:

De-notify existing market areas and products. From this single all-encompassing step flow all others, as “notification” of areas and products forms the means of restrictive control in the current framework.

Devolve wholesale market management to the District Government office that currently manages weekly bazaars. The specific office may vary from one District to another. Alternatively, devolve to market companies. In either case, markets are de-notified and management must self-finance market operations.

Provincial Agricultural Marketing Wing backed up by District agricultural officers initiates surveys and conducts rapid appraisals to generate databases for market management and performance monitoring. Set indicators and targets with District offices in charge of markets. In time, expand the system to embrace the entire sector, including alternate marketing channels.

District Government or market companies assign professional managers to each *mandi*. Management focus should be on security, maintenance, cleaning, electrical services, and such.

Define positions descriptions based on services required and budget limitations. Professional managers, whether under District Government or market companies—free from political pressure—should work with actors involved in the marketplace to determine personnel requirements.

Based on budget requirements, establish maintenance dues based on allotted space in the market—a system that is transparent and enforceable. Each *mandi* can be self-sufficient with

revenues averaging only one percent of the value of fruits and vegetables. Each marketplace should attract dealers and buyers and should compete on its own merits. Some *mandis* may close while many will need to restructure.

Form advisory groups of users—including buyers/retailers, suppliers, and dealers—to participate in decision making with professional managers. Instead of a single board, various advisory groups can represent legitimate interests and form positive proposals related to market management. Especially important is the participation of the group of allottees. As they will be asked to bear the cost of market maintenance and operations, they should review budgets and participate in decisions.

Provincial Agricultural Marketing Wing provides technical guidance on restructuring markets, sometimes combining wholesale and retail activities in a single marketplace. In order to re-tool its team and develop the capacity to carry out its appropriate role, the Provincial and District agricultural staff will require expertise and assistance from USAID projects like FIRMS. Besides technical assistance, especially emphasize linkages to similar institutions in other countries, exposure to commercial sectors in Pakistan and elsewhere and visits to markets in other countries in the region.

Where preferred, let management contracts to specialized service providers. Either District Governments or market companies may prefer to contract specialize management services for routine operations such as security, electricity, sanitation, traffic control, and maintenance. Medium term contracts are used to promote development of professional service providers and managers.

Provincial Government coordinates with other agencies to carry out food health and safety programs. Each day at a different *mandi* in the District, a sample of a product subject to use of pesticides is taken for laboratory testing. The crate identifies the supplier and farm of origin. If problems arise, the Provincial Department of Agriculture develops a training program with farmers and others involved. More stringent actions can follow if further residues are detected.

District Governments expand public retail markets and weekly bazaars. Local governments should further develop bazaars and other retail marketplaces to serve residential areas at all income levels. Price controls would be suspended, as they curtail development of high-value supply chains. Direct provision of fresh produce from local farms, using the farmer market concept, will be used to promote value chains through bazaars. District Governments will conduct pilots by surveying shoppers and keeping a market open more days of the week.

Expand opportunities for female entrepreneurs in agricultural produce marketing. In Sunday bazaars, women vendors earn additional income for their families by taking advantage of business opportunities. Expanding retail public market outlets to more days of the week will attract still larger numbers of businesswomen.

Provincial Government facilitates development of value chains linking into growers with support of Projects such as FIRMS. Suppliers, farmers, growers (rural families) and distributors develop business plans guided by business advisors in concert with buyers interested in obtaining quality at superior prices. In each case a solid business opportunity with a committed buyer is translated into action. Support from development projects will help jump-start their development.

The recommended roadmap based on the proposed policy framework defines the direction for an initial period of adjustment. Once these adjustments are set in motion, further opportunities will emerge for continuous improvement in agricultural marketing processes

# 1. Background

The laws applied in Punjab and Sindh regulating agricultural markets date from the British colonial period. They prescribe a framework focused on control and privilege that is clearly at odds with the policy directions that Pakistan is defining in its development plans to modernize its economy and promote private sector investment. The prescriptive framework tied to public marketplaces (*mandis*) defines roles of actors and even the form in which commercial transactions are to be carried out. Development of alternate market channels and value chains is restricted, creating distortions that cost the Pakistani economy millions of dollars each year in lost opportunities.

Recognizing the severe limitations and distortions inherent in the current laws, the Secretary of Agriculture of Punjab and the Special Secretary of Finance in Sindh Provinces requested that the FIRMS project of USAID based in Lahore analyze the likely results that would be expected from different policy options. FIRMS responded positively, offering to develop a new recommended policy framework that leads to application of Best International Agricultural Practices. The Specialist in Agricultural Economics and Marketing was contracted for an eight week period for this purpose. Through a separate consultancy, the FIRMS Project will also draft of an international best practice law that reflects the policy framework recommended under the current scope of work.

The Scope of Work for the consultancy defined the challenge as drafting a policy and regulatory framework for the governance of agricultural markets that is consistent with both international best practice and the contexts in Punjab and Sindh provinces. The proposed policy should include a recommended regulatory framework, business processes and institutional set-ups consistent with fair, efficient, growth-oriented agricultural markets.

The final report should: 1) include a draft agricultural markets policy in a format consistent with that used by the provinces, 2) identify the capacity building needs of the provincial agriculture departments and other relevant institutions and 3) identify down-stream FIRMS Project actions that will strengthen/support the agricultural markets system of the provinces.

To develop a proposed policy and regulatory framework, the Agricultural Marketing Specialist will:

- a. Review the agricultural markets of the provinces, evaluate their performance, and compare and contrast them to markets operating under policies, laws, and regulations recognized as international best practice.
- b. Review the agricultural markets policies, laws, and regulations of the provinces, and compare and contrast them to the policies, laws, and regulations governing markets in nations viewed as having fair, efficient, and growth-oriented markets.
- c. Identify and detail the deficiencies and distortions, if any, in the current provincial policies, laws, and regulations in enabling the fair, efficient, and growth-oriented functioning of provincial agriculture markets, and estimate the economic impact of such deficiencies/distortions.

The FIRMS team responsible for the assignment included Senior Policy Advisor and Head of the Business Enabling Environment (BEE) component, Mr. Suleman Ghani, legal consultant Dr. Dil Mohammed Malik and BEE liaisons Mr. Azim Asfar and Mr. Hassan Ghazali in coordination with Ms. Asma Malik. Mr. Abdul Aleem Khan provided support from the Karachi office in Sindh.

Mr. Shahzad Safdar was responsible for conducting a Rapid Rural Market Appraisal in support of the consultancy. The assignment was carried out between April 18 and June 19, 2010. Responsibility for this final report lies with the international consultant in Agricultural Marketing, Dr. Preston S. Pattie.

As agreed with the Department of Agriculture, the consultancy focused on fresh fruits and vegetables, but took into account wholesale and distribution processes in general. Of primary importance is value chain development, as quality improvement and application of best practices in one market channel has positive impacts on operations in others.

The following section reviews the performance of agricultural markets and policy frameworks compared to practices of other countries. Section III describes the Rapid Rural Market Appraisal and presents general findings that were important to the framing of the recommendations. Section IV sets forth the recommended policy framework, beginning with a statement of objectives. The premise is that the new framework should focus on opportunities for market access by growers.

Section V turns to identification of stakeholders that would be affected by the proposed changes in agricultural marketing policy. Section VI identifies crucial aspects related to management of wholesale markets. Section VII presents opportunities for value chain development. Finally Section VIII proposes proactive roles for public institutions and suggested support from the FIRMS Project.

## 2. Review and International Comparisons

Many countries have adopted policies to regulate agricultural marketing, often with intent of mitigating against shortages and price hikes. Some governments purchase and maintain strategic supplies, especially as a safeguard for years of low harvests caused by bad weather. Sometimes countries delegate authority to local governments to control prices at the retail level. The results of such programs are usually disappointing, as cost of program operations and price supports turn out to be unsustainable, and effective enforcement of price controls becomes an impossible and conflictive task.

Some of these kinds of interventions have been applied in Pakistan with similar results. However, the policy framework of Provincial Governments has prioritized development of a wholesale market system. The present document specifically reviews the framework for marketing of fresh fruits and vegetables which is currently handled through wholesale marketplaces established and managed through Provincial Government.

Whereas most other countries authorize local governments to establish public retail markets, many fail to focus on development of wholesale marketplaces. Pakistan has an opportunity to build on its current system and develop modern, dynamic agricultural marketing systems. For this to happen, a radical shift is needed to a demand-driven focus, open to competition, with emphasis on development of diverse market channels.

### Market Performance

The current system provides for formation of Market Committees and authorizes collection of fees for self-financing market management operations. Marketing of most fresh agricultural produce is effectively controlled within the *mandi* system. Produce is physically brought into *mandis* for sale by Licensed Commission Agents (CAs) through auctions. The CA is expected to operate as a disinterested agent that will not directly participate in commercial transactions. He should facilitate transactions through the process of auctions, but is not to become a dealer or wholesaler on the side. Practice, however, has not followed the prescribed roles envisioned in the laws.

Under the current arrangement, two aspects are crucial: First a general concern is to ensure that all possible products are “regulated” within reach of the *mandis*. CAs share this interest in common, for which coordinated action backed by Market Committees and Government is required. The clearest indication of the limitations created by the current legislation is the need for exemption required for organizations such as Metro to undertake wholesale activities. Initiatives of this kind outside the control of Market Committees would be virtually impossible without such special dispensation. The exemption excludes operations of Metro from “inspection,” but an agreed-upon fee is paid to the Market Committee.

Second, the CA does not have an absolute monopoly, as he is in competition with other CAs. His incentive is to increase his position in the market as a percentage of total volume. This would be done by first obtaining products in the field and village, and then consigning products to vendors to his wholesalers. Advance payment for produce and consignment to vendors are ways to gain position in the market. Therefore, to be successful, they become the primary financial agents of the market.

Thereby, the market system becomes inward looking and fully supply-driven. Competition is limited to capturing greater volumes of produce for collection of commissions. Buyers or clients--from wholesalers, distributors, retailers to consumers--receive little attention.

CAs are allotted virtually all the space in the public markets, yet they do not physically handle produce. Wholesaler is left to the streets and open spaces with no infrastructure provided. Much of the activity takes place along the road and in front of the *mandi*, rather than within the market boundaries.

The orientation of the current policy framework is on control of agricultural marketing by Provincial Government through the *mandis*. The system has led to emphasis on collection of commissions and of fees for self-financing the operation of marketplaces.

The auction, prescribed in the current system as the only method for carrying out commercial transactions, provides a false perception of transparency. Although useful in some markets, such as livestock or grain futures, fruits and vegetables should not rely solely on this means of transaction. The auction implies that the grower first produces, and only after harvest and shipment to market, comes into contact with the buyer--another example of the supply-driven approach. Produce is handled as homogeneous commodities, rather than as products differentiated by special quality standards to gain higher value with buyers serving different market segments or niches.

Under the current marketing system, health and safety standards for food products are given low priority.

Despite the limitations, wholesale markets facilitate thousands of transactions each day, clearing markets and setting reference prices. The most serious limitation is not within the *mandi*, but is instead in the lack of development in rest of the market system. Dependence on one single market channel limits initiatives to improve alternate channels to serve high value markets. Value chains imply forming direct linkages from buyers serving specific market outlets through suppliers linking back to growers. Only through the value chain approach can the market apply Good Agricultural Practices, Best Agricultural Practices or Quality Improvement for demanding markets. These concepts often apply to different kinds of certification, such as Fair-Trade or organic certification. New certifications emphasizing environmental and product quality are continually created, while current systems such as GLOBALGAP expand coverage.

Improving alternate channels for distribution to restaurants, hotels, upscale shops and groceries is not encouraged by the current system. Whereas large foreign firms are often visible enough to obtain concessions or exemptions in order to establish modern distribution systems, smaller Pakistani businesses are not so privileged. Local distributors have attempted to emerge. Now they will be squeezed by the public authority given to the CAs in the *mandi* system on the one side and by Metro with an exemption from the system on the other. Clearly the current framework leads to some of the worst kinds of distortions holding back development of agricultural markets in Punjab and Sindh as well as the remainder of the country.

### **Comparison with Policies of Other Countries**

Provincial Government in Pakistan is charged with framing agriculture sector policies and providing support services. Because Provincial Governments have prioritized infrastructure and operations of wholesale markets, policy concerns are skewed for that purpose. In fact the framing of the Provincial Laws equates the rules for operating the *mandi*-type wholesale marketplace with agricultural markets in general. That is, no other system or channel is considered; in fact they are specifically prohibited.

While the present exercise focuses on wholesale markets for fresh fruits and vegetables, it is important to maintain perspective in comparing policy frameworks for marketing various kinds of agricultural products. Policy priorities vary according to sector and market channel, for example:

- EXPORT MARKETS: Customs, phytosanitary regulations, trade negotiations, port facilities and logistics.
- VALUE CHAINS: Organized supply with close relation between buyers and suppliers, linked back to growers, quality specifications and infrastructure, cold chain.
- SUPERMARKETS: Depend on organized value chains.
- DISTRIBUTION SYSTEMS: Business development of distributors to public retail markets, bazaars, farmer markets, restaurants and other retail outlets.
- PUBLIC MARKETS: Infrastructure, sanitary services, transportation and handling, weights/measures, price information, health and sanitation.

Not all countries have laws to establish a special regime for marketing agricultural products. But virtually all countries have laws related to public health (wholesome foods, unspoiled, free from pesticide contamination, not harmful to consumer). Most countries also authorize local government to establish public markets. Pakistan has similar laws in place and currently District Governments operate retail markets—particularly in the form of weekly bazaars.

A few examples of specific laws related to agricultural marketing show the differences in priorities defined in each country:

- Chile: Commodities exchange, organic products.
- Mexico: Protect farmers from low priced imports, compensate through government fund.
- Sri Lanka: Regulate imports through permit system.
- Ecuador: Promote private investment and small companies in agricultural marketing.
- Taiwan: Planned production (rice stocks), compensate for loss due to low-priced imports through government fund.
- Jordan: Protect farmers against unfair competition through trade negotiations. Also price information services.
- New Zealand: Dairy products hygiene, packaging.
- Canada: Fees and levies to cover costs of regulation and other services, prescribe methods of payment to farmers in cooperatives, tribunal for settlement of claims and conflicts, and grain quality standards.

None of the examples taken from other countries—including Latin America, North America, Europe, middle east or other Asian countries offer specific examples that suggest the next steps that Pakistan might follow.

The primary motivation behind the 1939 covering India-Pakistan under British rule was undoubtedly to muster political patronage by providing special privileges through licensing of commission agents. The 1978 provincial government law adopted by Punjab was to break farmers' dependence on village money lenders—a holdover from pre-partition days. Unfortunately the law copied the same style as before and placed control of markets in hands of a given number of dealers or commission agents. The policies seem to assume that markets must be directed by government in order to operate. However, in both Sindh and Punjab the bureaucracies have degraded into a virtual taxation scheme with direct negative effects on farm

prices—contrary to the intentions of original policy makers that framed the laws. Due to this distortion, the key to acceptance of policy recommendations may have little to do with performance and efficiency of markets, but instead to regulation for collection of revenue.

The particular 1939 and 1978 laws governing agricultural markets are unique. Aside from India and Pakistan, no other country has a comparable policy framework. Some observers simply recommend the repeal of these laws—an option that may not be as radical as it first appears. Two articles recently published in Pakistan severely criticize the current rent-seeking system and call for immediate repeal of the agricultural marketing laws.<sup>1</sup>

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<sup>1</sup> Unconstrained Agricultural Marketing, Dawn Economic and Business, 15 September 2008. And Marketing of Fruits to the Total Disadvantage of Farmer and Ruination of Growers (Artificially created fruit price crisis, after cotton price crisis), M. H. Panhwar, [www.panhwar.com](http://www.panhwar.com). No date.

### 3. Findings and Economic Impact

Documents and first impressions can lead to errors in perception. Therefore FIRMS conducted a rapid appraisal in conjunction with economic and policy analyses. Hypotheses were developed and presented in an “Inception Report” which was reviewed with the Secretary of Agriculture of Punjab in addition to the Special Secretary of Marketing and his staff on May 10. The Appraisal was oriented to test these hypotheses as the consultancy advanced.

The approach known as Rapid Rural Market Appraisal allows research teams flexibility while pursuing various lines of investigation and interaction with actors in the market. Rather than the question-answer method used by surveys, the team is able to follow leads and adapt its approach to find the best sources of information and orientation. Ideally the team would consist of researchers from various disciplines, who would gather insights through visits to markets in the morning and discussion and evaluation of findings in the afternoons.

The appraisal first covered buyers and suppliers at fruit and vegetable *mandis* in large cities and then *mandis* in outlying districts. We briefly touched on processors. Then the appraisal branched out to retail shops, including restaurants and groceries as well as the multinational chains operating in Pakistan, and worked backward to distributors, identifying a few examples of integrated value chains operating in local markets. We also covered on weekly bazaars operated by Local District Governments. The appraisal did not reach farmers (except as suppliers at *mandis*) nor exporters.

Finally, the exercise allowed the investigators to produce several examples of marketing margins—from the amount received by the supplier on one side of the *mandi* to the amount paid by the retailer on the other side. To this we added the retail mark-up by obtaining prices to consumers at retail outlets.

Some of the principal findings from the appraisal and consultancy are summarized below:

1. Central *mandis* in cities such as Karachi and Lahore are serving an essential function as wholesale terminal marketplaces—bringing multiple buyers and suppliers together, clearing the market each day, establishing reference prices.
2. *Mandis* in smaller districts serve as wholesale marketplaces, and sometimes as seasonal collection centers for vegetables in which the region specializes. Fruits, on the other hand, are usually handled in full truckloads and shipped directly to terminal *mandis* in destination marketplaces.
3. Most buyers at fruit and vegetable *mandis* are retailers. Some consumers also shop there. Other buyers include traders that ship produce for resale in other wholesale markets in the region and stockists that store less perishable products such as potato and apples for later resale.
4. Most retailers obtain fruits and vegetables from *mandis*. But for more discerning retail outlets, including restaurants, quality is a serious concern. Time and logistical difficulty of

purchasing in the *mandis* is a problem for all buyers, due primarily to congestion. Unsanitary conditions are mentioned by many.

5. The current policy framework and organization of marketplaces scarcely consider the wholesaler and retailer, including requirements for access, space and infrastructure requirements. Areas between the trading platform and main access road are congested, while the areas from trading platform to back of the market area are underutilized.
6. The inefficiencies of *mandi* organization are passed on to retailers as hidden costs or higher transaction costs due to time taken for purchasing and variations in quality that cause uncertainty about shelf-life.
7. Fruit suppliers at central *mandis* are primarily pre-harvest contractors and traders. In the case of vegetables grown in the region near the city, farmers are often present. But not for fruits that are shipped from long distances.
8. Commissions of 5 to 10% are collected from suppliers, having a direct impact on prices paid to farmers. That is, contractors surely pass their costs of operations, transport and commissions back to farmers.
9. Charges of commission agents cover a number of services, including recovery of cost of capital advances made to contractors. Amounts of capital in advances to contractors are an essential service and are given in significant amounts.
10. Markups of over 18% are common in wholesale markets and another 30 to 50% markup is added from the retailers to final consumer. Little of wholesale markup is captured for operation of marketplaces.
11. The current framework holds back the development of value chains. The frustration of buyers such as groceries, department stores, up-scale shops, restaurants and others with difficulties of obtaining quality products provides ample evidence that business opportunities exist in high value markets.
12. Specialized suppliers/distributors sometimes link farmers and high-value market outlets through a value chain approach. But most operators in the market, including pre-harvest contractors and wholesalers have not considered alternative approaches.
13. Processors also face difficulties in obtaining the quality they require. Some scattered alternate channels are working to supply to processors and crushers in bulk.
14. One of the primary stakeholders—small growers in the form of independent farmers, tenants or leaseholder/contractors—seems to be silent. Individually at the *mandi* and elsewhere, growers express frustration regarding the market system and control of commission agents, but farmer organizations are apparently incapable of representing growers to formulate a position and participate in policy dialogue.
15. The current system intends for each Market Committee to be self-financing. Fruit and vegetable *mandis* depend on commission agents to collect fees based on volume. Despite

the teams of inspectors that follow up with commission agents to ensure that declarations are accurate, not all transactions are reported. Market Committees that depend on fruit and vegetable *mandis* often cannot cover costs.

16. Another system employed is to collect fees from suppliers before produce is unloaded and auctioned. But again, only a portion of operating costs is covered.
17. License fees are very low. Commissions are charged to back suppliers and fees forward to wholesalers and retailers, while dealers that control market space pay little.
18. Agro-industries such as cotton gins, oil processors and sugar mills also pay fees to Market Committees, even though their products do not enter *mandis*. Market Committees in notified areas that include agro-industries generate revenue above their needs. Therefore “taxes” levied on processed products are subsidizing operation of *mandis* for fresh products.
19. Lots offered for auction are very small, sometimes less than a single wholesaler or retailer would require. Multiple transactions of tiny lots increase revenue to commission agents, who charge buyers 5 to 10 Rupees for each lot auctioned. When lots contain many items such as crates, the Rs 5-10 fee is charged on each item.
20. Regulation under the current system refers to collection of fees. Even regulation of crucial aspects related to health and food safety are virtually ignored.

The reader is referred to FIRMS Project report “Rapid Market Appraisal—Fruit and Vegetable Marketing in Punjab” by Shahzad Safdar for detailed findings of the Appraisal.

### **Economic Impact of Deficiencies and Distortions**

The findings provide ample evidence of serious distortions in the agricultural marketing system. One of the primary concerns is that virtually all fresh fruits and vegetables are handled through one single market channel: public wholesale markets controlled by powerful licensed dealers. The system is fully supply-driven, with focus on collection of commissions and fees.

The value of fresh fruits and vegetables in Punjab and Sindh came to nearly 2.5 billion USD in 2007/08.<sup>2</sup> Current distortions and disincentives are so great, that an impact of 20 percent--500 million USD per year—from policy reform can be expected. The reform and adjustment process may take a period of 2-5 years to fully develop. This projection is based on assumptions related to three areas: grower revenue, market efficiency and consumer options.

First, collecting commissions of 5-10% from suppliers depresses farmer incentives to plant high value fruit and vegetable crops. Second, there is clear evidence of high value market opportunities, but suppliers are not linking up with growers to take advantage. Improving these aspects will increase revenue to growers—not just through an increase in general price levels to growers, but more importantly through access to high-value markets that offer better prices for quality. Both combine into increased incentives to produce for high-value markets, implying

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<sup>2</sup> Derived from Fruit, Vegetable and Condiments Statistics of Pakistan, 2008-2009. Government of Pakistan, Ministry of Food and Agriculture (Economic Wing), Islamabad, December 2009. An estimated 30% reduction of total value of fruits and vegetables was made to account for amounts that are processed, exported, or that otherwise are not sold through *mandis*.

greater volumes as well. Both combined will increase revenue to fruit and vegetable growers by perhaps 10%.

Second, the appraisal estimated the median wholesale mark-up, including commissions, to be more than 18%. Services to clients (mostly retailers) provided at the *mandis* do not justify mark-ups of this magnitude. A 5 percent reduction in wholesale margins coupled with improvement in services is not out of reason.

Third, inefficiencies in market process are passed on to consumers. Markups of 30 to 50% in the rudimentary retail process are common. Consumers have few options to encounter superior products of guaranteed, uniform quality. Consumers benefit from improvements throughout the system, but specifically, increased options for consumers to find products of desired, uniform quality can bring a 5% increase in value.

## 4. Recommended Policy Framework

Principle features: Truly demand-driven, open to business development, organization of supply with growers in response to market opportunities, separation of market management operations from policy and performance monitoring.

Major benefits: Increased revenue for growers, range of choices and options for consumers, efficiencies throughout marketing system, increased private investment and job creation.

The proposed Provincial agricultural policy departs from traditional methods of licensing and privilege that permeated the laws coming out of times of British colonial rule. The new direction understands that markets need to evolve, develop new approaches and reach consumers with better services to deliver wholesome, healthy food products of uniform quality at reasonable prices. The policy and legal framework will refrain from prescribing roles and procedures for doing business, but rather will allow flexibility for private initiative to innovate and improve. As each actor seeks a competitive advantage through application of new technology and organizational strategies, commercial systems evolve and progress.

Cosmetic modification will only slow the process of change, which in any event will require a few years to take hold. The proposal is to cause a shift from privilege to competition. For this, the Government will need to first engender trust, ensuring that it is serious and determined in establishing and following a new policy direction. With this in mind, the objective of the policy framework should be expressly stated:

To promote agricultural market systems that facilitate commercial development through multiple channels, thereby providing closer linkages of farmers to markets, both domestic and export. Participation of entrepreneurs in investment and operation of agricultural marketing enterprises at any scale is to be promoted.

Publically announcing the purpose and direction of the new policy alerts public officials and commercial actors alike that a major change is underfoot so as to stimulate private interest and to facilitate adjustment of public institutions as they come to terms with their appropriate roles. In particular the message should attract interest on the part of business people that might see potential opportunities.

### **Demand Driven**

Public authorities in Pakistan recognize the need to actively stimulate and promote business development and facilitate market linkages. Therefore the proposed policy strategy starts with consumers and works back to link into supply systems with the grower. The first areas of concern relate to retail outlets:

Options for consumers: Fresh products available through various different outlets are of similar quality, while consumers desire a greater range of choices and options. With the emergence of alternative supply and distribution systems, formal retailers, including supermarkets and restaurants will be the first to compete for clients based on the quality of fresh produce.

Retailers as primary clients of wholesale system: The inefficient organization of wholesale markets (*mandis*) should not be passed on to retailers as hidden costs or higher transaction costs due to time taken for purchasing and variations in quality that cause uncertainty about shelf-life. Following the demand-driven strategy, where dealers compete to attract clients,

attention will shift from control to facilitation of wholesaler-retailer transactions. Buyers will be viewed as the “clients” in the *mandi*. Facilitating purchasing process for retailers will lower their costs and margins, thereby benefitting consumers.

Expand public retail markets: Weekly bazaars and other public markets should be expanded to more locations and to cover all days of the week. This mechanism provides an alternative channel for direct market access for suppliers and growers. Local governments should further develop bazaars and other retail marketplaces to serve residential areas at all income levels.

### **Competition in Value Chain Development**

Private investment and job creation: All persons are free to utilize space in public markets or establish separate facilities for trading in agricultural products. Private initiative will be promoted to invest in facilities in various forms, from packing sheds in the field to warehouses, cold storage or distribution centers in cities. Location and design should be determined based on particular needs of each business, and will not be prescribed by Government.

Promote healthy competition: Registration of dealers and other actors in the market will be open to entry/exit of participants. Without special privileges or licenses, dealers and wholesalers earn a reasonable marketing margin for services provided. As more competition arises, roles of various actors in the market will evolve. In particular, orientation will turn from control and fee collection toward clients that purchase products.

Private business opportunities: Formal retail outlets such as supermarkets and full-service groceries will expand, giving rise to improved channels for supply and distribution. These kinds of services will also be developed for delivery of quality products to hotels and restaurants. These and other high value opportunities, including export trade, have already been identified and can be developed with private initiative and investment. The new policy promotes private investment and business development in value chains where supply is organized in direct response to demand through buyers of superior products.

All scales of business: The policy is neutral regarding different actors in the value chain or market. However the special focus of government support in business development will be for small and medium size enterprises, especially those working with small growers.

### **Greater Market Efficiency**

The *mandis* will always be part of the agricultural marketing scheme, especially for fruits and vegetables and some grains. But as reliance on one single market system and facility decreases, excessive pressure on the *mandis* will therefore be released.

Lower costs and margins: The privileged position of commission agents does not provide incentives to improve efficiency of market processes and thereby lower fees, but rather to handle a larger share of produce. If anything, the commission agent would be interested in higher commission rates. When dealers no longer collect commissions and fees, they become wholesalers and must compete for clients based on services, as in other countries. Their earnings come from margins--the spread between the price paid to suppliers and the price obtained from retailers. This implies competition to increase efficiency by offering uniform products and superior services at reasonable prices.

Space utilization: As dealers that are currently allotted space in *mandis* become involved in offering product to retailers/clients, they will feel a need to utilize space to display products in a more hygienic and attractive manner.

Efficiency in market management: The shift from regulation for the purpose of revenue collection to marketplace management is a major step, as it implies a re-orientation in senior managerial and administrative staff and the composition of personnel. Each marketplace has

different needs, therefore professional management should be charged with defining job descriptions and employing personnel as needed and as budget limitations permit. Decision makers should proactively consider the option of contracting services with specialized management companies.

Self-financing: Each marketplace should generate sufficient funds for its own operations. Products and market actors that do not use the services of a *mandi* should not have to bear the cost. The users of space in a market are the primary beneficiaries and should support market management operations. Each marketplace should generate its own revenues, without the need for cross subsidization.

Participatory decision making: Participation of persons concerned with improving management of marketplaces. First priority should go to retailers, who are the most numerous users of the *mandi* and have the strongest opinions about its operations. Retailers of all kinds will pass increased efficiencies on to consumers.

### **Crucial Roles of Public Sector**

To make all the above a reality, more government is needed, not less, but with the focus on public concerns, for instance in areas of public health and sanitation and environmental standards.

Separate policy and performance monitoring from operation of marketplaces: This measure in the policy framework is essential to strengthen the Provincial Government's role as policy maker and performance monitor. Responsibility for routine market management should be shifted to an independent professional management groups, not dependent on the Provincial Government institutional set-up. The Marketing Wing of the Provincial Agriculture Department would then assume the role of policy maker, technical advisor, monitor, information manager and trainer. Some of the functions to be performed are as follows:

- Rules for market management, provisions for investment funds, and such
- Coordination regarding health and safety issues
- Performance indicators and targets
- Performance monitoring
- Feasibility studies
- Guidance to best practices in market management
- Advice on revenue sources
- Facilitation of advisory groups
- Training and information
- Preliminary designs for infrastructure improvements

Solve local problems locally: Routine management of each *mandi* should be devolved to a local level concerned with the efficiency of its operations, capable of proposing improvements, and capable of generating meaningful participation of local actors.

Organization of supply in response to demand: Governments in countries like Pakistan, with large populations of poor, marginalized growers, have a particular responsibility to ensure participation of small farmers in value chains. The private sector acting alone is limited in its abilities to negotiate with large numbers of growers, ensure application of improved agronomic

and post-harvest practices, promote and control for quality according to market needs, etc. Priority on facilitation of commercial linkages to farmers through projects such as FIRMS and NGOs is a key recommendation of the policy framework.

## 5. Stakeholder Analysis

For purposes of this analysis, stakeholders are divided into five general categories: Provincial Government, Market Committees, District Government, General Population and Private Companies. Specific stakeholder groups are identified in each general category. Finally, a score card is developed balancing likely reactions to proposed changes that would liberalize the agricultural marketing framework and promote development of multiple market channels.

### PROVINCIAL GOVERNMENT

#### Top levels of Provincial Government

The system is currently self-financing. The Provincial Government Revenue Department neither obtains additional resources through fees or commissions collected, nor does it expend public funds to support the system. Proposals that do not specify mechanisms for self-financing of *mandi* operations would affect the public treasury.

Private investment and job creation have declined in Pakistan in recent years, and the Government is rightly prioritizing this aspect. Proposals that do not stimulate private investment along with jobs and income generation will not help Government reach its goals.

Greater efficiency to reach consumers with wholesome products at reasonable prices is another important aspect for Government to highlight.

#### Department of Agriculture

Obtaining higher returns to growers is the primary objective the Department of Agriculture would like to achieve. This implies not just increased price levels for the same product. It implies generating options for improving quality and quantity, access to new markets, and increasing value.

#### Marketing Wing

Correcting the difficulty of revenue generation by fruit and vegetable markets is a concern. These are more than half of all *mandis* and they generate little revenue due to dependence on commission agents for collection and declaration of fees based on transactions and volume.

Increased professionalism of market management and managers is of primary importance, along with obtaining effective involvement of actors at local level, avoiding political interference in managerial aspects.

### MARKET COMMITTEES

#### Members of Market Committees

Unfortunately, the primary benefit of Market Committee membership and chairmanship is to enhance influence and power in both political and commercial endeavors. Committee members operate out of Market Committee offices to conduct private business activities. These perks would be at risk with a radical change in policy framework.

#### Commission Agents

Some of the power enjoyed by Commission Agents is derived from the privileged position allotted them in the law. However, their role as dealers with disproportionate influence will not be affected by eliminating licensing. Spaces are limited in markets. Relationships are far-reaching. Dependencies through pre-harvest contractors, village traders and farmer groups will

continue for many reasons. A change in market management will help, but will not immediately threaten the position of Commission Agents.

### **Wholesalers**

Wholesalers are currently dependent on Commission Agents and have no chance for obtaining allotted space in the markets. They have very limited options to enter into deals aside from fulfilling their functions in a subjugated position to the Commission Agent. (In contrast to the Commission Agent who can become involved in business activities in many different ways—as many as he finds to his benefit.) Liberalizing policy would allow for mobility with greater fairness and competition.

### **Market Committee Staff**

As change creates natural anxieties, many senior staff may fear for loss of employment. Perhaps more importantly, authority to conduct inspections for fee collection that undoubtedly gives rise to inappropriate payments would also be lost. It is not surprising that senior staff were among the first to enlist support of others to oppose the changes proposed in 2007 for Punjab.

### **Functionaries**

Again, a natural tendency is to fear for loss of employment. In this case the fear is largely unwarranted, as indeed the continued services of functionaries will always be required. In fact, workers will have flexibility to move into various different capacities, since their life-long roles will no longer be prescribed by law. Increased competition among traders will mean more employment opportunities and less dependence of a subservient class. If anything, workers as a whole will benefit. However, they can also be easily mobilized by others to oppose the law, again out of anxieties caused by change.

## **DISTRICT GOVERNMENT**

### **Top levels of District Government**

Assuming responsibility for the cost of *mandis*, without fee collection over notified areas and products, would likely be a cause for concern public officials. They may feel pressure to maintain some *mandis* in operation, even though they are unable to generate sufficient revenue through maintenance fees from dealers and other actors in the market. At the same time, increased devolution to broaden the overall scope of local government would be attractive.

### **EDO for Enterprise and Investment**

This office already operates weekly bazaars, and adding wholesale markets to its responsibility would be seen as an expansion of the importance of this office. The EDO may not be overly concerned with financing as it has experience and can find options, including consolidation of *mandis* or merging wholesale with retail.

## **GENERAL POPULATION**

### **Landowners**

Landowners or large farmers that operate through tenants or peasants to work the land use their position of power primarily to muster political support and income. They rarely express dissatisfaction with the current marketing system, and may be generally neutral to change. Exceptions are the “farmers” that aspire to becoming members of Market Committees, or that obtain political support of commission agents, or otherwise benefit politically. In these cases, special privileges would be at least partially placed in jeopardy.

### **Growers**

Small growers that obtain their family income from cultivating and delivering product to market would have more opportunities. Especially as new buyers appear with access to more discerning markets, opportunities arise for increasing income by supplying quality products. The farmer will no longer be obligated to follow one prescribed channel to reach the market, but has alternatives. With an improved product and more than one buyer, he has greater negotiating power.

However, the current system stimulates advance payments for crops to ensure that it gets to market through a commission agent. Most growers are apparently comfortable with this system of close ties, dependencies and protection. Many might be persuaded to oppose a change that could threaten the continuation of the current system.

### **Retailers**

Retailers rely primarily on wholesalers to obtain products of uniform quality, in adequate amounts, offered in sanitary conditions, trading with no hassles and pressures in sanitary and wholesome surroundings, at reasonable prices, and with less uncertainty regarding uniformity and shelf life. As wholesalers become more empowered, they can improve on their conditions within the *mandis*. Other distributors will also offer produce through alternative supply channels. Retailers will again benefit from improved services.

### **Consumers**

As retailers benefit from improved efficiencies, so do consumers. Consumers are currently offered a similar quality of fruits and vegetables at any outlet—roadside stand, corner shop, Sunday bazaar, multinational supermarket, or up-scale restaurant. Virtually all are supplied through the same channel—the wholesale market system. Most consumers have become accustomed to finding the same quality at all outlets. Some, however, aware of the alternatives, would like the option of shopping for quality. Consumers will benefit from improved service and value.

### **Women—Roles of Genders**

The roles women can achieve in production and market operations go beyond menial labor. In Sunday bazaars, women are vendors, earning additional income for their families by taking advantage of a business opportunity. Expanding retail public market outlets to more days of the week will attract still larger numbers of women, as indeed week-day shoppers will likely be dominated by women.

### **PRIVATE SECTOR COMPANIES**

As a group these include investors, exporters, distributors, financial institutions, and others. Business opportunities will be expanded and increased investment and employment will be generated. Risk of arbitrary public regulation, such as revenue-seeking inspections, will be minimized. Support to business development and facilitation will be prioritized.

Note however that Metro may not be an ally in supporting change in current framework. Metro reportedly paid fees of Rs. 75 million for an exemption, the only one of its kind so far. A change in the framework would make this special treatment unnecessary. Maintaining the current regime with the exemption has the effect of excluding competition.

**Table 1 Stakeholder Score Card**

<b>STAKEHOLDER SCORE CARD</b>				
Likely positions regarding proposed changes to liberalize policy framework and promote alternative market channels for agricultural produce:				
		<b>Favor</b>	<b>Neutral</b>	<b>Oppose</b>
<b>PROVINCIAL GOVERNMENT</b>				
	Top levels of Provincial Government	✓		
	Department of Agriculture	✓		
	Marketing Wing	✓	✓	
<b>MARKET COMMITTEES AND ACTORS</b>				
	Members of Market Committees			✓
	Commission Agents		✓	✓
	Wholesalers	✓		
	Market Committee Staff			✓
	Functionaries		✓	
<b>DISTRICT GOVERNMENT</b>				
	Top levels of District Government	✓	✓	
	EDO for Enterprise and Investment	✓		
<b>GENERAL POPULATION</b>				
	Landowners		✓	
	Growers		✓	
	Retailers	✓		
	Consumers	✓		
	Women	✓		
<b>PRIVATE SECTOR COMPANIES</b>				
		✓		

In conclusion, while many important segments of the general population and private sector would argue strongly and support change, the real stakeholders that currently gain privileges from the current system and that can be expected to oppose change include Market Committee members and senior staff. Opposition from Commission Agents may not be as strong, as their position relies as much on consolidated position and relations in the market, as on special privileges under the law.

## 6. Recommendations for Management of Wholesale Markets

While wholesale marketplaces can serve different functions, the primary function performed by *mandis* in Pakistan is to break bulk of large lots for direct purchase by small retailers. Thousands of transactions are completed each day among multitudes of market operators. At a minimum, operators include suppliers arriving with products, wholesalers and retail buyers plus transport services. Wholesale terminal marketplaces bring these multiple buyers and suppliers together, clearing the market each day, establishing reference prices. Some *mandis* in smaller districts also serve as centers for consolidation of small shipments of seasonal vegetables into truckloads for more economical long-distance movement. Fruits, on the other hand, are usually handled in full truckloads from farms and shipped directly to a terminal *mandi* in destination market.

Perhaps 99% of fresh fruits and vegetables in Pakistan follow this single market channel. By comparison, one third of produce in USA and eastern Canada was channeled through wholesale markets several years ago.<sup>3</sup> Shippers sold to many buyers in wholesale and retail markets. In today's marketing environment, however, many retail and foodservice channels compete for discriminating shoppers. As a result, retail food buyers seek to establish longer term relationships with suppliers to ensure steadier pricing, supply availability, and better quality control. The cultural divide between the procurement and marketing sides of food retail firms is disappearing as long-term supply relationships take precedence over short-term price negotiations. The rapid shift toward supply chain integration is being encouraged.<sup>4</sup>

The *mandi* network in Pakistan is relatively well advanced. However, Market Committees place little emphasis on developing market infrastructure—location, design, functions, logistics, administration, maintenance and services. Operations of wholesale marketplaces are deficient due to congestion and poor organization. Only dealers are allotted space on trading platforms and own plots and shops in the marketplace. However, dealers do not handle products. Consequently, allotted space is underutilized while wholesale-retail trading takes place largely on the streets.

The role of “dealers” or commission agents is ambiguous. On the one hand, their prescribed role is to facilitate transactions as a disinterested party through transparent auction. In reality, however, dealers provide financing, trade in products, and even supply inputs. Without doubt, they are the most powerful and influential actors in the entire market system.

While the current framework prescribes roles for functionaries down to the workers, wholesalers and retailers are not mentioned.

“Regulation” under the current system is a myth; it really refers to collection of fees. Even regulation of crucial aspects related to health and food safety are virtually ignored.

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<sup>3</sup> The Importance of Wholesale Produce Markets, University of Florida, March 1991. See appendices.

<sup>4</sup> Convention of the Produce Marketing Association, March 2008.

Provincial Governments have focused on revenue collection and creation of jobs, while investing little in wholesale market infrastructure and management.

*Mandi* operations are supply-driven. Dealers obtain the majority of commissions from suppliers delivering product to the marketplace. While for every truckload delivered, there might be 20 transactions from wholesaler to retailer, no physical space, infrastructure or attention is given to the demand side of the marketing process. A demand-driven focus would prioritize buyers.

Liberalizing the overall agricultural marketing policy will shift focus to demand-driven marketing approaches. This profound shift in the new proposed framework has far-reaching implications for behavior and performance of the marketing system. While dealers currently seek to maximize control over supply to gain a larger share of the market, now they will fulfill the role of wholesalers with a focus on demand. In a demand-driven system, only by satisfying shoppers—mostly retailers—the wholesale business grows and prospers. Dealers or wholesalers will compete to obtain consistent supplies of products to attract customers. Dealers will utilize shop and stall space to display and offer products to buyers, who are mostly retailers. Market management will consider space and facilities for wholesale-retail handling and transactions, which is the primary purpose of the *mandis*.

Given this orientation, the fundamental questions about market management focus on four areas: 1) Who manages the market, 2) How do you finance market management, 3) Who participates in decisions and determinations, and 4) How to invest in market infrastructure?

### **Who Manages the Marketplace?**

Wholesale market or marketplace is understood as a defined area where many actors operate and where management maintains common areas and public services to facilitate operations. In Pakistan, much of the space and infrastructure in wholesale markets is already allotted to private sector in the purchase of plots, construction of warehouses and offices, and even purchase of space on trading platform. Therefore responsibility for management of common areas is reduced primarily to streets, parking areas and other open spaces for public use.

Consistent with the directions of the new policy framework, professional market management is recommended to improve logistics, efficiency and overall operations. This can be achieved in a number of ways by defining roles of Provincial Government, local government, commercial actors in the market and managerial services.

Senior officers of Market Committees are currently recruited and appointed by the Provincial Department of Agriculture. This system had the potential of developing a professional managerial staff. However its objectives have been distorted to focus on collection of revenue. As the stakeholder analysis shows, this group of market committee staff will form the strongest opposition to change. More importantly, as shown in the next section, Provincial Government should carry out a number of policy and performance monitoring functions, without which a major leadership gap will continue to exist in the agricultural marketing system.

Dynamic evolution to a demand-driven orientation and modern market management approach requires a break with the current bureaucratic system. The system employed to manage more than one hundred bazaars in Karachi is for District EDO for Enterprise and Investment contracts managerial services of private firms appears to be an adequate model. Devolution to local government seems appropriate for various reasons:

- Provincial law through Local Government Ordinances already allows local governments to carry establish and operate markets (in absence of special APM Laws).
- Local governments currently manage retail markets such as weekly bazaars.

- Some local governments contract service providers to operate markets.
- Local issues can better be resolved locally.
- Meaningful participation of local actors can be achieved.
- Provincial Government could focus on policy, performance monitoring, guidance, capacity building, information, coordination and facilitation.

Effective management deals with people: Supervision, reorganization of roles and functions, participation in plans and goals-setting, modifications in job descriptions, personnel changes, promotions, training, recognition, capture of complaints and suggestions. Management functions of this kind can best be accomplished through professional management companies. District Governments, therefore, would be encouraged to let contracts for market management, either one per district or separate contracts for each city or *mandi*. Companies experienced in managing residential areas or apartment/condominium complexes are among possible candidates. Medium-term contracts are preferred to prevent frequent turnover in personnel, as the intention is to create a specialized group of market managers.

The Sindh Government is considering another option: that of transferring markets to companies. The specifics are under consideration by the Provincial Assembly. If the approach achieves de-notification, shifting the cost of market management to commission agents and eliminates privileges and categories and roles of different actors in the market, the measure would be a major step forward. The consultant proposes that if companies are established among actors in the marketplace, current wholesalers and especially retailers should be included.

### **How do you finance market management?**

It is assumed that in Pakistan the construction and operation of wholesale markets must be self-financing. But marketplaces are normally regarded as “public goods” and governments assume responsibility for investments. While management operations are financed through user fees, major infrastructure investments are normally funded through various sources, including the public treasury. Hence, in Sindh, for example, Asian Development Bank assists in financing the establishment and improvement of *mandis* through Provincial Government.

Notification of areas and products to collect revenue has provided incentives to form markets, which has led to the expansion of the *mandi* system, probably beyond what is needed and beyond the limits of the public sector support. At least in Sindh, the Provincial Government wants to rid itself of the responsibility of managing *mandis*, and has wisely announced that new markets, if formed, are not subject to notification. The proposed Bill also prohibits formation of new markets by the Provincial Government.

As a public good, the cost of market management would best be spread among several actors, rather than falling on one. While governments often fund basic infrastructure, those who benefit most from the market are called upon to finance its operations. Rather than recover costs from suppliers and buyers, operations of public markets should be financed by dealers.

The current system of using inspectors to obtain declarations from commission agents is high cost and of questionable effectiveness. It also leads to an important distortion in the perspective of the Market Committee. Rather than looking out for the efficiency of the market, the system becomes inward looking, concerned with its own sustainability. Market management should collect monthly maintenance or management dues from dealers based on plot size—a system that is transparent and enforceable. This is consistent with normal best practices applied in markets where public space is not allotted or sold to dealers or vendors but is normally rented.

Fees should not be charged if there are no commensurate services. This simply amounts to a form of additional taxation on agricultural production. Therefore, processors, exporters and others that do not utilize wholesale markets should not bear the cost of their operation. It is not necessary to apply a special tax on agricultural products only for the purpose of operating wholesale markets.

A rough calculation shows that the average Fruit and Vegetable *mandi* in Punjab and Sindh handles nearly 10 million US dollars of product per year. Operating costs of an average size *mandi* may be as high as USD 100,000 and perhaps another 50,000 can be set aside for future investments in infrastructure. Therefore, the total cost of *mandi* management falls within 1-2% of the value of fruits and vegetables. This should be absorbed within the 18% wholesale margin calculated through the Rapid Appraisal.

This system implies that each *mandi* can be self-financing separately from others. It is not necessary to group *mandis* under Market Committees. Nor is it advisable to do so, as each marketplace should attract dealers and buyers without relying on funds from other markets. That is, each should compete on its own merits.

### **Who Participates In Decisions And Determinations?**

Effectiveness of Market Committees: Some fundamental motivations for forming participatory decision-making bodies such as market committees are:

- Promote participation of varied interest groups
- Obtain agreement and commitment from influential actors or key groups
- Resolve local issues locally before they evolve into larger problems
- Inform, facilitate hands-on experience, educate committee members

Market committees not seem to be obtaining these goals. Instead, they contribute to the social class structure that permeates Pakistani society. Positions in Market Committees, especially that of chairman, are coveted as a means of gaining position and influence. The effectiveness of market management is of less concern. Most market committees are influenced by agendas of political parties, rather than local interest groups. Conditions in the market and efficiency of operations are of secondary concern. Because much of market management involves routine tasks such as sanitation and traffic control, it should not become a target for political influence. Therefore, it is recommended that Market Committees be dissolved.

The structure of a new board or committee would naturally fall into the same pattern as before, dominated by powerful and well-connected people with political leanings. Instead of a single board, the formation of advisory groups representing legitimate interests with positive proposals related to market management is recommended. The first such group should be made up of retailers. Another should consist of growers who habitually bring produce to the *mandi*. Another should be of wholesalers, and another of traders. Still another group can be made up of market functionaries or workers. Especially important is the participation of the group of allottees. If they are being asked to bear the cost of market maintenance and operations, they have every right to review budgets and participate in decisions.

Professional managers should be responsible for the process of forming advisory groups, however Provincial Government has a role in facilitating meaningful participation. Especially imparting objective and relevant information has a positive impact on the way people interact on complex and conflictive issues.

Key decisions should be made in conjunction with advisory groups. For instance, if asked to bear cost, dealers and other actors in the market must have a say in preparing the budget. Personnel requirements should be based on needs and budget limitations of each *mandi*.

### **How to Invest In Market Infrastructure?**

Broadening the focus of policy to consider efficiency of the entire marketing system changes perspective on the issue of funding *mandis*. The *mandi* system is relatively advanced, compared to public retail markets and value chains directly linking producers to market outlets. Development of alternate channels that facilitate value chains will reduce pressure on these wholesale marketplaces, making the entire system more efficient.

As each *mandi* competes to attract buyers, dealers and suppliers, undoubtedly some will close, others will consolidate with other *mandis* and many will restructure. *Mandis* in central urban locations will find it useful to strike a balance between wholesaling and retailing. That is, areas would be open to retail vendors to attract consumers.

While District Governments may draw on resources from the public treasury to invest in market infrastructure, budgets of each *mandi* operation should set aside funds each year for infrastructure improvements. Professional management can be charged with developing projects and fund-raising with the private sector, local community and donors.

Provincial government can evaluate, conduct feasibility studies and propose preliminary designs. It should consider needs to space for public services, such as health inspectors, including a small on-site laboratory.



## 7. Development of Alternate Market Channels

The wholesale market system is relatively far along in its development with 325 *mandis* in Punjab and 64 in Sindh, more than half for fresh fruits and vegetables. Several fruit and vegetable *mandis* are operating in each District—at least one per Tehsil. While market infrastructure and management can always be improved, a working system is in place. Other parallel market channels for fresh produce, on the other hand, are still the exception.

Although wholesale markets serve an important role, over reliance on this single market channel suppresses other business initiatives to serve high value markets—either domestic or international. Most fresh produce in Pakistan today is sold at a *mandi*, usually to a wholesaler, then to retailer (typically for a shop or road-side stand) and finally to consumer. This single market channel is well-known to farmers and others in the marketplace, but the development of a more successful, dynamic marketing system depends on the emergence of many different market channels. For instance, full-service groceries and supermarkets are just beginning in Pakistan. Their fresh produce sections are still mediocre and require supplies of quality product following wholesome and sanitary practices. Discerning markets such as up-scale restaurants can afford to obtain supplies through guaranteed specialized suppliers, but these scarcely exist today. Other outlets such as shops and roadside stands in middle income and higher income areas provide market opportunities for improved products. Price differences of fruits and vegetables from low-middle income to high income outlets are in the order of 20%, pointing to market opportunities. Weekly bazaars in several cities have been highly successful. This outlet can certainly be expanded to more days of the week and more points around the cities. Processors also face difficulties in obtaining the quality they require. Some scattered alternate channels are working to supply fruits to processors and crushers.

In a strong entrepreneurial commercial environment, business people will identify market opportunities such as those mentioned above. Business deals, transactions, linkages back to suppliers working with land owners and growers would emerge. Investments in handling and distribution follow. One would expect to see further improvements in cold storage and transport on the one end of the value chain, and in field practices and harvest conditions on the other. Business deals turn into more permanent relationships over time as levels of trust and confidence among buyers and suppliers gradually improve.

The process begins with identification of buyers willing to pay for quality products. A handful of these business opportunities were identified in the Rapid Rural Market Appraisal conducted to support the development of the proposed policy framework. As projected above, many more opportunities will emerge as entrepreneurs gain trust in the new government policy and open additional market channels.

Satisfying high value opportunities leads the way for improvements in remaining market segments. Business initiatives are not sector-wide. Instead they depend on entrepreneurial leaders willing to pioneer a new venture in response to perceived opportunities. When some ventures succeed, others follow. Innovations (such as supermarkets with high quality fresh produce) that seem remote today, eventually set the new standard. As the standard is raised in one segment of the market, it tends to rise in others as well. For instance, when varieties and practices are adopted for export markets, quality of supplies available to local markets also improves. The same occurs with produce harvested and handled with better practices for high

value market segments—either domestic or export. The remaining produce available to other market segments also improves. In turn, overall standards rise throughout the market.

There is ample evidence of the need for alternative market channels for fresh fruits and vegetables. One is the significant price differences among grades based on sorting by wholesalers and retailers from product arriving at the market. Another is the frustration indicated by floor managers of department stores regarding quality obtained. Still another example can be taken from the initiatives at creating Sunday bazaars first in Islamabad and now in most large cities. Through the Market Appraisal, we also learned of private distributors serving up-scale restaurants.

While encouraging, these examples are still the exception. Quality of produce available in virtually all outlets is similar—from street vendor to major grocery or fine hotel and restaurant. (The only exception observed by the consultant was a small shop in Islamabad where the owner indicates that he obtains produce directly from villagers.) Even Metro obtains over half its produce from the *mandi* system.

It is apparent that the consumer in Pakistan has become accustomed to the quality of fresh products available. But if offered an alternative, many consumers will respond positively. For instance, supermarkets strive to offer products of uniform quality, appealing in appearance, in a pleasant, hassle-free environment to their shoppers. Wholesomeness, sanitation and health are other important factors that should be stressed.

### **Retail Markets and Bazaars**

A public market is normally a permanent retail facility where multiple small vendors gather to sell fresh and prepared food from stalls as well as other consumer products, attracting shoppers by the variety of items available in one place. A first opportunity to develop alternative market channels exists with urban retail market markets, initially weekly bazaars. As opposed to most countries with similar income levels cities in Pakistan have few municipal markets where agricultural produce is offered. In most countries, such markets are built and operated by municipal or other local governments. Contrary to the concepts contained in the Laws of Punjab and Sindh, local governments mainly act as landlords, installing, managing and maintaining the facilities. Spaces are rented, and income is used to pay for services, such as street lights, garbage collection, cleaning, and general maintenance.

Project for Public Spaces (PPS), a non-profit organization engaged in stimulating the creation of public markets throughout the United States identified these key characteristics of a public market:

- Public goals such as preserving local agriculture; and
- Create public spaces where people can gather,
- Contain locally-owned independent businesses such as local farmer vendors and other small retailers.
- Usually operate indoors on a permanent, year-round basis, distinct from farmers' markets which operate outdoors on a seasonal, part-time basis.

Sections in the marketplace are defined for various purposes. For instance fresh meats are restricted to the section with appropriate facilities, usually with tiled stalls for cleaning and sanitation, sometimes with space for cold storage (that may be installed by the vendor), water and drainage, overhead hooks, etc. There is often a section for food service, mainly for vendors, staff and others that spend long periods in the market, but also open to the general public. Management decisions such as improvement of services, expansion or investment plans, settling disputes over conflicting uses of space, control of traffic and congestion caused

by street or sidewalk hawkers are handled by local government managers, often with participation of vendors. Participation can be formalized by forming organizations of vendors and others working in the market, but these have limited authority. Different governmental agencies may also operate within the facility to verify weights and measures, gather market information, and conduct health inspections.

In the absence of public retail markets, consumers in Pakistan rely primarily on street vendors for fruits and vegetables. These retailers, in turn, rely on supplies from the *mandis*. However, bazaars are very well attended by consumers, especially on Sundays. Whereas street vendors are frequently seen waiting for a customer to appear from time to time, vendors at Sunday bazaars sometimes have lines of shoppers waiting their turn to make a purchase. The Appraisal uncovered evidence of interest by shoppers in expansion of bazaars to more days of the week. With only 30 such bazaars in Lahore and only on Sundays, these important outlets are still very limited. Facilities constructed for this purpose—at least in some cases very adequate—could be better utilized by opening at least to limited market activity throughout the week. District Governments responsible for bazaars should conduct a pilot by surveying shoppers and keeping a market open more days of the week.

Significantly, many vendors at bazaars are women—in contrast to wholesale markets where female wholesalers are rare—if any at all. Of the shoppers on Sunday perhaps 40% are female, but several women shoppers interviewed also expressed interest in having the bazaar open on week days. Therefore it would be expected that women shoppers would be in a majority during the week. This would provide an opportunity to further promote women in the role of vendors/entrepreneurs during the week.

As the number of bazaars increases, both in locations and days of the week, some suppliers—farmers, farmer organizations, perhaps assisted by NGOs or projects, and pre-harvest contractors—will discover the opportunity of delivering directly to vendors. As retail bazaars begin around 9 am and do not peak until after noon, there is time for delivery earlier in the day without causing congestion. There are several advantages:

- Product can be selected and prepared according to the preferences of shoppers at each bazaar or market.
- Price based on quality preferences can compensate for special care in harvest and post-harvest handling.
- Direct delivery to vendor can be more efficient.
- Direct contact with vendors and consumers sensitizes growers about market preferences.

Therefore, public markets or bazaars with large numbers of vendors concentrated in a single area open important opportunities to develop alternative channels that can evolve and develop according to the needs of shoppers.

Government programs can jump-start the process by identifying vendors interested in promoting quality and facilitating their contact with groups of producers able to respond. Prices must compensate for higher quality standards. Other novel marketing innovations can be tried, such as occasionally highlighting the products of a particular village and offering it directly from the truck to the consumer. Selling melon from one or two trucks parked near the entrance to the bazaar, for example, could attract additional attention to the bazaar as a channel able to provide fresh produce directly from farmers.

Competitions can be held among bazaars. The management team able to increase sales of fresh produce the most in a single month should be publically recognized for its efforts. Other competitions should be held for bazaars having the greatest participation of women vendors.

### **Groceries and Supermarkets**

Full-service groceries and supermarkets are limited to only a few stores in major cities of Pakistan. However, in many countries with similar standards of living, supermarkets have become a routine shopping option for a large portion of the population. While there is no guarantee of success, some international chains have opened in Pakistan, obviously because of the business opportunity offered by the domestic market. At least 90 percent of floor space for food items is dedicated to processed products—the majority of which are processed in Pakistan. Fresh sections include fruits and vegetables, as well as spices. Flowers and other ornamentals were not present. Products in the fresh section were well marked with signboards, and interestingly identified by country of origin. The impression is that locally grown products are appreciated by consumers and that the store is proud to display them. A serious effort is made to handle products in a hygienic manner using plastic crates. However, the difficulties in obtaining quality produce from suppliers are obvious. At least some shoppers are aware that the product is brought from the *mandi* where handling conditions are not up to the same standards as the supermarket.

Several local grocery chains and department stores have been developed by Pakistani entrepreneurs. Again quality issues are holding back the expansion of their fresh produce sections. One floor manager reported that he is “fed up” with the uncertainties of obtaining supplies from the *mandi* and another recently closed its fresh section for the same reason.

In some developed countries, full-service groceries and supermarkets were developed about 50 or 60 years ago, offering primarily processed food products (dominated at first by canned goods and more recently with frozen products). The fresh food sections were at first marginal, but now have expanded to perhaps half the floor space, and contribute more than half of net earnings. Supermarkets compete for customers mostly on the quality of their fresh produce, which now includes flowers as well. Turnover of inventory is up to 30 times per year (gross sales divided by average inventory), which means that delivery of products is daily, and no item should be missing from the shelf. Most supplies arrive from long distances outside the region, but distribution systems for processed products are regional. Local specialized suppliers in close touch with producer organizations and companies often offer fresh products such as vegetables. There is a demand for such specialized suppliers in Pakistan today and the demand will increase as supermarket outlets expand. So far, most actors in a position to develop value chains linking into up-scale markets comment on inconsistency of deliveries from growers and limited assortment of products.

### **Distributors**

Development of urban distribution systems would greatly reduce pressure on *mandis*, as fewer buyers would have to visit the market every morning. In fact, large wholesale markets in countries such as the United States and Canada serve largely as transfer points for products shipped from long distances to local distributors. Individual retailers are less frequent at wholesale markets.

The street corner vendor in Pakistan undoubtedly prefers to be his own distributor, rather than paying another person for that service. He would feel little pressure for time, as sales pick up later in the day, rather than early morning. Above all, the vendor might be skeptical about the selection of products and negotiation of prices made on his behalf. Therefore the chances of reducing buyers/clients of *mandis* appear to be remote.

Distribution to other outlets, such as groceries and restaurants, is another matter, as an assortment of products is required, besides fruits and vegetables. Here, the field is open as the demand for services is apparent. Metro has stepped in to this area, not by design but in response to demands of its customers. Their advantage is a large assortment of products, reputation and reliability. The consultant sees a great need for expansion in this important area. As distributors emerge and expand, so can suppliers of fresh produce of high quality.

### **Farmer Businesses**

The missing link in the value chain seems to be with the grower. This crucial link in the value chain is often the weakest in countries similar to Pakistan, as special facilitation is needed. Value chains linking to small farmers do not always develop by market forces alone. Class differences, cultural difference, interference of organizations, local leaders, political leaders, other authorities often prevent or at least encumber such initiatives. Chemonics has considerable experience in this area, implementing rural development project of the US Agency for International Development. Below the consultant will provide detail on the strategy of these initiatives, which can be applied in Pakistan.

Harvest and post-harvest handling are critical phases where quality and value can be lost in a matter of a few hours. When the crop is picked with over and under-ripe fruit of all sizes mixed together, it becomes inefficient to attempt to correct the problem later in the market channel. When the product is handled badly and damaged, nothing can be done later to re-gain the lost value. This is why value chains for fresh produce need to focus on packing and handling in or near the field. Only by involving the grower directly in the value chain can the process improve further down the various market channels. Involvement of the grower then leads back into agronomic practices that may include such aspects as selection of variety, seed and planting times. It also embraces environmental issues and gender-based roles.

The value chain approach applies the notion: *“Produce what you sell, rather than sell what you produce”*. This market-led approach means that buyers must be involved from the start of the production process.

A special effort in developing social capital is often required to induce a response by small farmers. Therefore, business advisors who are often from agronomic backgrounds, should also be highly sensitive to social conditions of families. Investing and risking very limited personal resources on a new business venture is a huge step for peasant families. It usually entails issues such as formation of a producer association at the local or village level, administration of funds, quality control and contracts—whether written or not. Roles of men and women change as demands for use of time and talents become more pressing. One communication mechanism for inducing small farmers to take interest in commercial production coordinated in a value chain is to organize visits to other areas where the model has been successful.

Once growers (rural families) are on board, development of a business plan is guided by the business advisor in concert with the buyer interested in obtaining the quality and volume required by his client in the market. The steps are simple on paper, but may take some time to develop with growers:

1. Ensure a solid business opportunity is clearly identified with commitment of buyer.
2. Describe characteristics of the farmer organization (business client)
3. Identify bottlenecks that need to be overcome
4. Specify actions to be taken and resources required
5. Budget indicating that the majority of resources will be provided by the growers (business client) and that the project will complement in certain areas through a grant.

6. Schedule benchmarks with amount of grant disbursement attached to each. Benchmarks may begin with an implementation plan, then systematic establishment of plantations, then completion of a packing shed or other infrastructure, and finally first shipment of quality product to the buyer.

The business plan is presented to a technical team for review and approval. The team analyzes the practical feasibility of the business, the capability of the growers to implement and especially the effectiveness of project support and benefit/cost efficiency, seeking a ratio of at least 5 dollars in increased sales to every dollar invested by the project.

The business plan is implemented by the group of growers, including hiring local technical assistance, improving plantations, obtaining inputs, adopting improved practices and constructing infrastructure. All the kinds of things that projects customarily do for farmers, they are to do themselves. The procedure applied by the project accompanies implementation:

1. As the Plan is implemented, business clients report on achievement of benchmarks which are then verified by the business advisor.
2. Once verification is completed, disbursement is made.
3. The monitoring captures base line and increases in sales.

Grower groups form spontaneously in response to business opportunities. Imposing theoretical models only serves to take the initiative away from farmer groups—who should be the interested party. However many face difficulties with lengthy and expensive processes to attain legal standing—necessary to open bank accounts and enter into contracts. Legal methods can be adopted to allow informal groups to operate, at least on a transitional basis until they become more consolidated and experienced. Later they can take additional, gradual steps toward formalization.

Our experience shows that poverty is based on a mind-set cultivated by marginalization from mainstream society. For that reason, overcoming poverty depends on changing that mind-set. Only the grower or rural family can achieve this change. However the right kind of environment and support services can entice greater numbers of families to reach the decision to change their lives.

### **Export Markets**

Finally, although not part of the analysis of Provincial wholesale markets, channels developed for export markets become relevant as they often bring technological and organizational improvements throughout a given sector. Sometimes by exporting only a relatively small portion of a given product, local markets markedly improve. When new varieties and modern production and handling practices are adopted for export markets, quality supplies are available to local markets and greater competition ensues. These secondary effects can be enhanced by helping local entrepreneurs identify and benefit from business opportunities.

## 8. Institutional Setting/ Role of Public Sector

### Roles of Public Institutions

Separation of policy and performance monitoring from responsibility for marketplace management is a key to success. The lack of documented information--such as surveys of buyers at the *mandis*, data on volumes and value of products handled in each *mandi*, marketing margins, identification of distribution channels or value chain assessment--point to the lack of attention to performance monitoring. For instance, in the implementation of the consulting assignment, much initial information obtained was anecdotal and unreliable. Precious little was documented. While procedural aspects are sometimes laid out in detail, larger implications are blurred. Open questions not addressed in existing literature or resolved by the Rapid Appraisal relate to advances provided by dealers versus other sources of funding to farmers and pre-harvest contractors.

Provincial Government is charged with carrying out the agricultural policies defined by law, and should therefore take on the role of performance monitor, guiding the system to attain continual improvement, while devolving managerial operations to the local level. Some of the functions that should be carried out at this level are:

- Development of rules
- Coordination of health and safety issues
- Truth in labeling
- Performance indicators and targets.
- Performance monitoring
- Feasibility studies for market expansion
- Proposed strategies in market management
- Guidance to best practices in market management
- Advice on revenue sources
- Facilitation of advisory groups
- Training and information
- Preliminary infrastructure designs

The list is not exhaustive. For instance, additional assistance to Districts could support the process of contracting professional managerial services. The Provincial Government might prepare a model expression of interest, request for proposals, model contracts and similar documents. It could also sit on selection committees in an advisory capacity.

Formation and facilitation of advisory groups to participate in management decisions of each *mandi* is a task that will always surpass the time available. Training, information, and guidance in this respect can achieve a great deal.

To achieve a fresh start, it was recommended in the earlier section on Wholesale Market Management that this responsibility be shifted to an appropriate District EDO, probably

Enterprise and Investment, leaving District Agriculture Offices free to participate in monitoring. Turing management responsibility over to private market companies could achieve the same purpose. Again, separation of operations from monitoring is essential. Personnel at the Provincial level under Special Secretary of Economics and Marketing are not more than 10 in Punjab and only 5 in Sindh. Meanwhile, counterparts in each District number only 2-3. District agricultural officers would participate in conducting surveys, appraisals, gathering information for studies and for performance monitoring. The size of staff is barely enough to carry out the monitoring and support functions identified above.

A different approach is needed to assist in value chain development. As the new policy framework takes hold, investment in alternate market channels will become more attractive to the private sector. The consultant proposes the formation of a public-private institution<sup>5</sup> to develop and support business plans with suppliers and growers, and with distributors and others in the value chain, following the pattern described earlier for development of alternate market channels. FIRMS can help jump-start this process by helping identify business opportunities and facilitating contacts including grocer-distributor, supplier-grower and wholesaler-vendor.

### **Capacity Building and FIRMS Project Actions**

The FIRMS Project can accompany and bolster the process of transformation and transforming Provincial Government capacity in key areas. Support should be strategic in nature, selecting interventions for short-run assistance with focus on transition that ensure desired outcomes.

Besides technical assistance, Agriculture Department staff would especially benefit from linkages to similar institutions in other countries, further exposure to commercial sectors in Pakistan and elsewhere and visits to markets in other countries in the region. It is unlikely that a single model will be found in another country in the region for Pakistan to follow, but examining experiences of different countries will clarify many issues and doubts. These activities would be useful at the outset while the new policy framework is still under consideration.

Once the giant step in policy is definitely taken—that of repealing all reference to “notification” of areas and agricultural products to be regulated, then a schedule of assistance should be agreed upon for the first one-year period of transition. The most urgent need for technical assistance is to help develop a reliable base of information. A small team of local advisors should conduct surveys, estimate volumes of products, estimate costs of managerial operations of marketplaces, propose restructuring, closing, or consolidation of marketplaces, and such.

A third proposed action is the preparation of feasibility studies to help in the restructuring of pilot *mandi* marketplaces. Whether under District Government, market companies or any other independent body, specific studies to reorganize market management will be required. FIRMS can help set the process in motion and develop technical guidelines by conducting initial studies, perhaps four in Punjab and three in Sindh. In each Province, one central, terminal wholesale market should be included.

Finally, countries like Pakistan, with large populations of poor, marginalized growers, have a particular challenge to ensure participation of small farmers in value chains. Given the feudal history in Pakistan, particularly in Sindh and southern Punjab, promoting and facilitating such linkages is paramount in order to ensure success while empowering marginalized portions of the population in a positive, productive manner. The private sector rarely has the time, patience and skills to involve of large numbers of small growers in an organized supply system. Projects like FIRMS can carry out a special role in this regard, accompanying a new public-private institution during its start-up phase. As proposed in the earlier subsection on farmer businesses,

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<sup>5</sup> PAMCO is an example of this kind of institute, and might be expanded to fulfill this role in lieu of forming a new organization.

emphasis should be placed on deal making and business plans, rather than traditional capacity building.

The matrix below, developed by the BEE team, translates the proposed agricultural produce market reform framework into an action plan.

### AGRICULTURAL PRODUCE MARKET REFORM FRAMEWORK

SUBJECT	REFORM OBJECTIVE	PROPOSED ACTION	PROCESS
<b>POLICY FRAMEWORK</b>			
<b>Policy formulation</b>	Formulation of clear policy on agricultural market development incorporating best international practices and private sector participation	Adoption and implementation of policy by the provincial Government	Policy to be submitted by Agriculture Department to the provincial cabinet. This policy to either be derived from, or reflective of, the preamble of the proposed law
<b>Liberalization and deregulation</b>	Deregulating agricultural produce markets	<ul style="list-style-type: none"> <li>Eliminate notified market areas and produce</li> <li>Eliminate arbitrary system of licensing of Market Functionaries</li> </ul>	APM Act to be replaced by modern and liberal legal framework initiated by the Agriculture Department and transmitted via the Law Department
<b>Institutional Development</b>	Developing a sustainable entity to coordinate and oversee the reform process within the province	Establish a steering committee/facilitation bureau or advisory board under the Agriculture Department to oversee the reforms at the provincial level and to coordinate implementation with stakeholders	Summary for constitution and composition of such entity to be initiated by the Agriculture Department and to be approved by the Chief Minister  PC-I To be prepared and gotten approved if necessary
<b>Delegated Legislation</b>	Developing a comprehensive procedural and substantive framework for implementation of the APM Act	Notify relevant Rules and model by-laws for implementing the proposed APM Act e.g. Reporting Rules, Accounts Rules, Registration Rules, etc.	In order to notify necessary subordinate legislation to cover procedural and substantive matters, the Provincial Agriculture Department to transmit draft Rules and model by-laws to the Law Department
<b>Functional Realignment</b>	Separate policy making and supportive functions from management and administration of markets	Instead of engaging in direct management and administration of markets, the Government shall be capacitated to focus only on formulation and oversight of implementation of the agricultural produce market policy, and to provide facilitatory and supporting services for sector development	<ul style="list-style-type: none"> <li>Defining a clear role for government to formulate policies and to oversee their implementation in proposed legal framework</li> <li>Inserting substantive provisions in the proposed legal framework to ensure that the business of government is geared towards private sector facilitation and promotion of sector development</li> </ul>

<b>Standardization</b>	Establishment of standards for quality and safety	<ul style="list-style-type: none"> <li>• Issuance of appropriate standards and specifications to cater for infrastructure, services, sanitary and phyto-sanitary conditions, produce grading, labeling, etc.</li> </ul>	Proposed legal framework to include powers of Government and procedures to issue, review and enforce a range of minimum acceptable standards for infrastructure and services
<b>Knowledge Management</b>	To fill the information gap regarding efficient performance of agricultural produce markets	<ul style="list-style-type: none"> <li>• Establish sector baselines to benchmark performance</li> <li>• Generate database for market management and performance monitoring</li> <li>• To provide regular and authentic information relating to price and availability of produce</li> </ul>	<p>Enjoin provincial agricultural produce marketing wing/board or such other relevant entity to initiate surveys and gather and disseminate data by inserting legal obligation to do so in the proposed draft law.</p> <p>The said data to be accessible to the public and all market functionaries subject to payment of nominal fee</p>
<b>Capacity Building</b>	Building human and technical resources	Provision of training and technical resources to carry out functions of policy formulation, standardization, regulation, knowledge management	Creating the capacity to implement the provisions of the new law by mandating provision of resources necessary for carrying out functions
<b>PUBLIC MARKETS</b>			
<b>Transitional Arrangements</b>	Transforming public markets into more efficient and self-sustaining systems	Reform the management structure of the market to enable independent corporate structure for each market	<ul style="list-style-type: none"> <li>• Denotification of existing notified areas and notified agricultural produce</li> <li>• Dissolution of existing market committees</li> <li>• Constitution and composition of new market management companies under the proposed legal framework</li> </ul>
<b>Infrastructure development</b>	Improving the infrastructure of existing markets	Develop and adopt a strategic plan for infrastructure development and upgradation which is sensitive to the local area needs and circumstances	<ul style="list-style-type: none"> <li>• Needs assessment of existing markets</li> <li>• Improvements in existing markets carried out in collaboration with the private sector</li> </ul>
<b>Management</b>	Eliminating the monopoly and rent seeking behavior of existing market committees and improving market efficiencies through	Dissolve existing market committees and in their place establish independent entities for each market, with the capacity to outsource the management of existing public markets to	The proposed draft law to contain clear provisions for the dissolution and reconstitution of committees into professionally managed companies which are fully competent and capacitated to advertise and receive bids to enter into agreements with a

	modern management structures and practices	specialized service providers via a performance based contract  The existing public sector markets to be operated on professional lines with an independent governing body	service provider
<b>Maintenance</b>	Ensuring well maintained markets with timely and regular maintenance, repair and replacement of deteriorating assets	Outsource the maintenance and repair related functions in existing public markets to specialized service providers via a performance based contract	The proposed draft law to contain clear provisions for the constitution of professionally managed companies which are fully competent and capacitated to advertise and receive bids to enter into maintenance contracts with a service provider
<b>Revenue Generation</b>	Creating sustainable markets by making them self-financing and able to generate adequate own source revenues to cover expenditure	<ul style="list-style-type: none"> <li>Limit market revenue to approximately 1% of value of produce</li> <li>Levy maintenance fees based on allocated space in the market</li> </ul>	Insert a schedule of fees receivable against the provision of specified services in the new legal framework
<b>Financial Management</b>	Ensuring transparency and prudence in revenue collection and expenditure	Mandate the generation of regular reports on the income and expenditure in a market	The proposed draft law to contain substantive provisions that compel the generation of authentic and verifiable financial reports which will be accessible by the members of the public
<b>ROLE OF PRIVATE SECTOR</b>			
<b>Providing sufficient space for private sector participation</b>	Creating an enabling environment for private sector to establish and operate markets	<ul style="list-style-type: none"> <li>Limiting the role of public sector marketing</li> <li>Allowing the private sector to undertake agriculture produce marketing</li> </ul>	<ul style="list-style-type: none"> <li>Denotification of existing notified areas and notified agricultural produce</li> <li>Dissolution of existing market committees</li> <li>Encouraging and incentivizing the private sector to engage in agricultural produce marketing</li> </ul>
<b>Ensuring participation of private sector in APM</b>	To facilitate the private sector to play a larger role in APM	<p>Matchmaking by identifying vendors interested in promoting quality and facilitating their contact with producers</p> <p>Providing sufficient incentives and a supportive regime for private sector operations</p>	<ul style="list-style-type: none"> <li>An appropriate institutional set up to guide and support the private sector by carrying out pre-feasibility studies, project development studies, surveys, etc.</li> <li>Facilitate the establishment of a Trade Organization / Chamber of Agriculture in the province</li> </ul>
<b>Development of alternate market channels</b>	To enable non-conventional private market channels to operate and flourish	Removing barriers to entry and exit of the private sector	The proposed draft law to contain substantive provisions for enabling innovative and non-conventional market channels which would enable the establishment and operations of farmers markets, organic markets,

			etc. by the private sector
<p><b>Public Private Partnerships for establishing new Markets</b></p>	<p>To encourage the participation of the private sector in establishment and operation of APM</p>	<p>Execution of a binding Agreement for grant of concession, management contract, service contract, built operate transfer, etc.</p>	<ul style="list-style-type: none"> <li>• Government to conduct, or cause to be conducted, a pre-feasibility study to ascertain most appropriate use of available resources such as state land / human resources</li> <li>• Issuance of Expressions of Interest to pre-qualify interested parties and vendors</li> <li>• Receive financial and technical proposals on specific design/operational parameters in conformity with Public Procurement Regulatory Authority Act and Rules</li> </ul>

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## Appendix-2 Primary Persons Interviewed or Participating in Discussions

### Islamabad:

1. [REDACTED], Director, USAID/Pakistan Economic Growth Office
2. [REDACTED], COTR for FIRMS Project
3. [REDACTED], USAID Agriculture Office
4. [REDACTED], USAID Agriculture Office
5. [REDACTED], USAID Agriculture Office
6. [REDACTED], USAID Agriculture Office

### Karachi:

1. [REDACTED] – Officer in Charge, Sindh & Balochistan, USAID
2. [REDACTED] – Program Management Specialist, USAID
3. [REDACTED] USAID Development Assistance Specialist
4. Special Secretary Finance, [REDACTED] Government of Sindh
5. [REDACTED], Deputy Director Agrimarketing.
6. [REDACTED], Secretary to the Government of Sindh, Agriculture Department
7. [REDACTED] – Deputy Secretary (Dept. of Agriculture, Govt. of Sindh)
8. [REDACTED], Director, P&D Dept., Govt. of Sindh
9. [REDACTED] – Programme Coordinator P&D Dept., Govt. of Sindh
10. [REDACTED], Joint and Media Secretary, Fruit and Vegetable Processors and Exporters Association, Karachi
11. [REDACTED] Chairman for Karachi Wholesale Fresh Fruits Merchants Association

### Lahore:

1. [REDACTED], Secretary to the Government of the Punjab, Agriculture Department
2. [REDACTED], Special Secretary, Agriculture Marketing Department, Government of the Punjab
3. [REDACTED], In-charge Market Committees, Agriculture Marketing Department
4. [REDACTED], Secretary, Badami Bagh Market Committee
5. [REDACTED], President, Commission Agents Union, Badami Bagh Sabzi Mandi
6. [REDACTED], Vice-President, Commission Agents Union, Badami Bagh Sabzi Mandi
7. [REDACTED], Manager Exports, Metro Cash and Carry
8. [REDACTED], Buying Manager, Fruits and Vegetables, Metro Cash and Carry
9. [REDACTED], Quality Assurance Specialist Food, Metro Cash and Carry
10. [REDACTED] Chief Executive Officer, Punjab Agrimarketing Company (PAMCO)

- ██████████, General Manager, Marketing and Business Development, Punjab Agrimarketing Company (PAMCO)
12. ██████████, Marketing Coordinator, Punjab Agrimarketing Company (PAMCO)



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