TRANSFORMING AGRICULTURAL MARKETS IN PAKISTAN

POLICY BRIEF

APRIL, 2026

The Pakistan Business Council
FOSTERING ECONOMIC GROWTH
(A Company set up under Section 42 of the Companies Ordinance 1984)

Acknowledgements

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The Pakistan Business Council (PBC) is a research-based business policy advocacy platform, supported by over 100 private sector companies, local and multinational, that have significant and long-term commitment to sustainable growth of the country. They come from 17 major sectors of the formal economy, generate 40% of annual exports, contribute a third of Pakistan's total tax revenues and employ three million. Their combined sales represent every 9th Rupee of Pakistan's GDP. PBC's major thrust is "Make-in-Pakistan" with three pillars: "Grow More/Grow Better", "Make More/Make Better" and "Serve More/Serve Better," all with the objective of generating jobs, promoting exports and reducing imports. This study is under the "Grow More/Grow Better" pillar. (www.pbc.org.pk)

THE PAKISTAN BUSINESS COUNCIL

COMPANY OVERVIEW

The Pakistan Business Council (PBC) is a research-based business advocacy platform established in 2005. It is now supported by over 100 private sector local and multinational businesses with significant investment in, and long-term commitment to sustainable growth of the country. They come from 14 countries, have leading roles in 17 major sectors of the formal economy, generate 40% of annual exports, contribute a third of Pakistan's total tax revenues and employ three million. Their combined sales represent every 6th Rupee of Pakistan's GDP.

PBC's major objectives are to advocate polices that lead to creation of jobs, value-added exports and reduction in import reliance through improved competitiveness of manufacturing, services and the agriculture sectors. It also promotes formalization of the economy.

PBC's over-arching theme, "**Make-in-Pakistan**" consists of three pillars: "**Grow More/Grow Better**", "**Make More/Make Better**" and "**Serve More/Serve Better.**"

Its evidence-based advocacy is backed by over a hundred studies to date through its full-time research team, supplemented by collaborative research with renowned industry experts and economists.

Through its Centre of Excellence in Responsible Business (CERB), PBC works to build capacity and capability of businesses beyond its membership, to adopt high environmental, social and governance standards. PBC holds conferences, seminars and webinars to facilitate the flow of relevant information to all stakeholders in order to help create an informed view on the major issues faced by Pakistan. Through its presence in Islamabad and Karachi, it works closely with relevant government departments, ministries, regulators and institutions, as well as other stakeholders including professional bodies, to develop consensus on major issues impacting the economy.

PBC is a pan-sectoral, not-for-profit, Section 42 entity. It is not a trade body; therefore, it does not advocate for any specific business sector. Rather, its key advocacy thrust is on easing barriers that thwart competitiveness of businesses in Pakistan. Further information on the PBC is available on: www.pbc.org.pk.

The PBC's founding objectives are:

1. To provide for the formation and exchange of views on any question connected with the conduct of business in and from Pakistan.
2. To conduct, organize, set up, administer and manage campaigns, surveys, focus groups, workshops, seminars and fieldwork for carrying out research and raising awareness in regard to matters affecting businesses in Pakistan.
3. To acquire, collect, compile, analyze, publish and provide statistics, data analysis and other information relating to businesses of any kind, nature or description and on opportunities for such businesses within and outside Pakistan.
4. To promote and facilitate the integration of businesses in Pakistan into the World economy and to envcourage in the development and growth of Pakistani multinationals.
5. To interact with governments in the economic development of Pakistan and to facilitate, foster and further the economic, social and human resource development of Pakistan.

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Executive Summary

Pakistan's agricultural marketing system is a complex but functional ecosystem that supports both rural livelihoods and national food supply. At its core are traditional wholesale markets (mandis), intermediaries such as commission agents (aarhtis) and aggregators, and a nascent layer of formal market institutions including warehouse receipt systems and exchange-based trading. While this system is resilient and solves critical problems such as liquidity access, market linkage, and informal enforcement, it also generates inefficiencies, including weak price transparency, inconsistent quality valuation, and limited risk management options for farmers.

Most farmers operate under constraints such as small volumes, lack of storage, and immediate cash needs, often tied to informal credit arrangements with intermediaries. As a result, their bargaining power is limited, and sales decisions are driven more by urgency than price optimization. In mandis, price discovery occurs through rapid, opaque bargaining rather than transparent mechanisms, leading to discrepancies between reported wholesale prices and actual farmer earnings. Intermediaries persist because they bundle essential services—credit, aggregation, logistics, and settlement—which are not yet adequately provided by formal systems.

Market dynamics vary significantly by crop type. Perishables, due to their time sensitivity and lack of cold storage, expose farmers to sharp price volatility and distress selling. In contrast, storable crops such as wheat and rice offer greater potential for improved outcomes through storage and delayed sales, especially when supported by financing mechanisms. Government policy plays a particularly strong role in staple markets like wheat, where procurement and stock management influence price expectations. However, recent shifts toward reduced public procurement and greater private sector participation require credible and stable policy frameworks to succeed.

Efforts to modernize the system have introduced tools such as Electronic Warehouse Receipts (EWRs), enabling farmers to store produce in accredited facilities and access bank financing using stored commodities as collateral. While promising, this formal layer remains limited in scale due to gaps in infrastructure, grading standardization, and financial inclusion.

Key structural challenges include weak price discovery, lack of standardized quality grading, widespread distress selling, reliance on intermediaries, and limited access to formal storage finance. Addressing these requires a phased and integrated reform approach. Priorities include improving transparency and infrastructure in mandis, establishing reliable grading and testing systems, scaling accredited warehousing, expanding EWR-based financing, and reducing policy uncertainty to encourage private investment.

Ultimately, modernization should focus on integrating, rather than replacing, existing systems by unbundling and upgrading the core functions currently performed by intermediaries. A gradual, commodity-specific approach—anchored in better storage, finance, and transparent price signals - can enhance farmer incomes, reduce volatility, and create a more efficient and resilient agricultural market system.

Introduction

Pakistan's agricultural markets sit at the heart of both rural livelihoods and national food consumption. Yet the way most crops are bought and sold, how prices are discovered, how quality is valued, how payments are settled, and who carries risk, remains poorly understood outside farming communities and market yards.

This policy brief aims to explain, in practical terms, how Pakistan's agricultural marketing system works today: the roles played by mandis and intermediaries, why prices can swing sharply even within a season, and why the current structure often leaves farmers with limited bargaining power and few options to manage risk.

This description is followed by a discussion on binding constraints and reforms and shows where modern market infrastructure (grading, warehousing, collateralized storage finance, and exchange-linked price discovery) could gradually integrate into the existing system rather than attempting to replace it overnight.

Current Agricultural Marketing System in Pakistan: How It Works and Who Shapes Outcomes

Pakistan's agricultural markets operate through an ecosystem that combines legacy regulated wholesale markets (mandis), powerful intermediaries who bundle trade with finance and logistics, and a growing (but still thin) set of formal market and finance institutions (warehouse receipts, regulated brokers, and exchange-based contracts).

For most farmers, the market is where they convert a crop into cash under time pressure, often while repaying earlier borrowing and arranging transport and handling. This is why the system is highly resilient: it solves real problems (liquidity, access, enforcement), even as it produces persistent inefficiencies (weak transparency, uneven competition, limited quality-based pricing).

At a high level, Pakistan operates with **three overlapping realities**:

01.

Traditional wholesale markets (mandis) remain the dominant channel for trading most crops, especially fruit and vegetables. A mandi is essentially a regulated wholesale yard where licensed market actors transact at scale and daily prices are formed.

02.

Staples with stronger state influence, especially wheat, where procurement, stock management, and trade decisions shape expectations and market behavior alongside private trade.

03.

An emerging formal layer of commodity exchange trading via PMEX, regulated under SECP frameworks, and a parallel push to build electronic warehouse receipts (explained later in this brief) that can be financed by banks and potentially linked to structured markets.

These layers interact, but they are not yet integrated in a way that consistently improves outcomes for farmers and processors.

How a typical mandi transaction works in practice
In many cropping systems, the farmer's first decision is not "where can I get the best price?" but "how do I get this produce sold quickly and safely, and how do I get paid?" Farmers may sell directly in the mandi or sell to a local collector who aggregates produce and brings it to wholesale markets. In either case, sales are typically facilitated by a commission agent, commonly known as an aarhti, who connects sellers to buyers and handles settlement.

Prices in mandis are often described as being discovered through auction. It helps to think of this as rapid bargaining and bidding in a busy physical market, not a clean electronic auction with perfect monitoring. In crowded markets where quality varies widely and volumes move quickly, it can be difficult to ensure that every transaction is fully transparent, consistently recorded, and strictly aligned to posted rules. This is one reason why the official wholesale price that gets reported can sometimes feel disconnected from what a farmer experiences as their final net outcome.

The Key Players - And What Each One Controls

Farmers are the sellers at the start of the chain, but most do not arrive at the market with equal bargaining power. Small and medium farmers typically face three constraints: limited volumes, limited ability to store, and immediate cash needs. Their marketing choices are shaped by:

- distance to market,
- transport constraints and perishability,
- access to storage,
- and, most importantly, interlinked credit.

Because many farmers need liquidity at sowing or before harvest, they often accept arrangements that reduce flexibility at sale time and end up being tied to a particular intermediary.

Local Collectors and Aggregators
(Beoparis) operate between the farmgate and the wholesale market, especially in horticulture. They reduce the farmer's transport burden and can speed up sale, but they also become important price-setters when farmers have few alternatives or lack reliable, timely market information. Their market power varies by crop, season, and market concentration. Depending on the crop and expected market conditions, these beoparis may also buy standing crops at a pre-agreed price, often with partial payment upfront and the remainder settled later, after which they take responsibility for harvesting and marketing the produce.

Commission Agents
(Aarhtis) are the central node of the traditional system because they often bundle two functions that are otherwise missing at scale: credit and market access. In many areas, an aarhti is not just a broker, they are also a source of advance financing for inputs or household needs, with repayment typically tied to crop sale proceeds. This relationship-based finance can be faster and more flexible than formal lending, but it also means farmers either pay much higher interest rates and/or may be effectively locked into selling through a particular channel. For market modernization, this is a critical point: reforms that assume intermediaries can simply be "removed" tend to fail because the intermediary is also providing liquidity and informal enforcement in a system where formal contracts and bank credit do not reach everyone.

Traders and Wholesale Buyers / Stockists
They purchase from mandis and move produce to either processors or urban wholesale distribution and retail (depending on the commodity). Their market power varies by commodity and season. In some crops and locations, competition among buyers is strong; in others, a small set of buyers may dominate daily purchases, giving them greater ability to shape bids, especially when quality is hard to verify and farmers are under time pressure to sell.

Market Committees

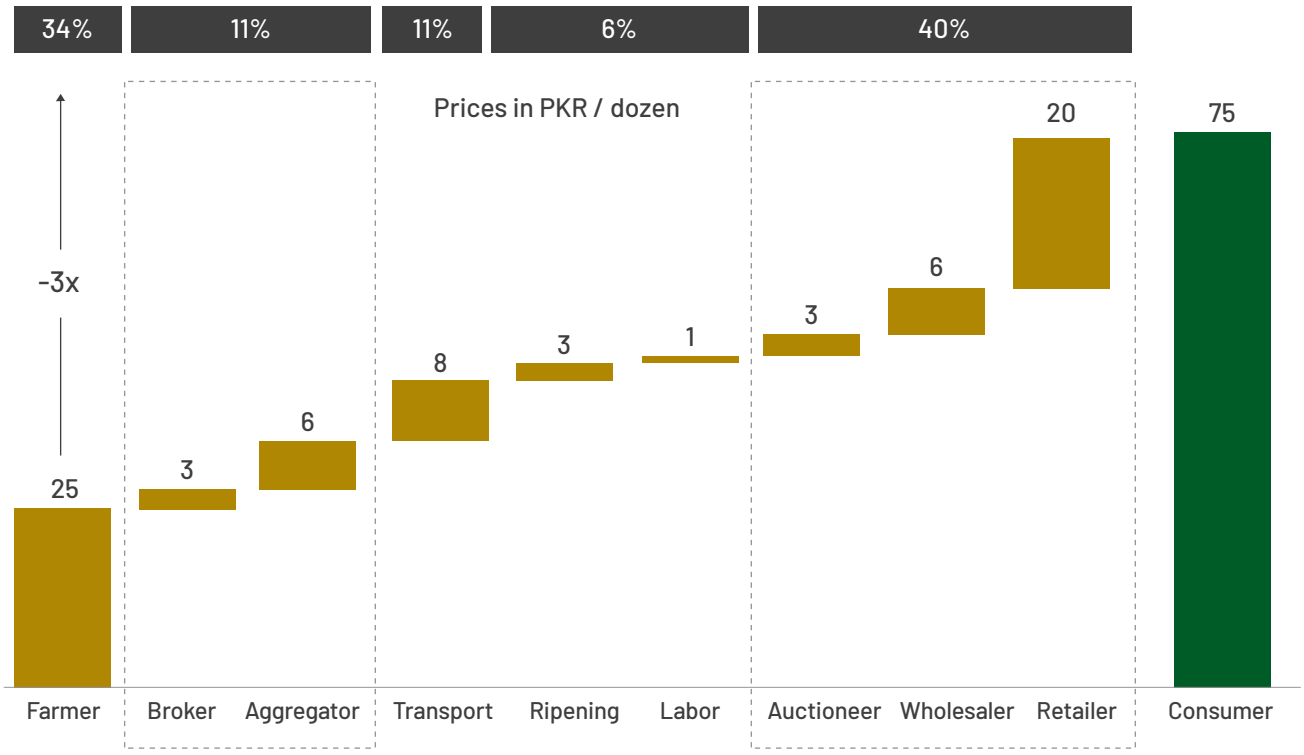
and provincial market administrations set and enforce the rules of the mandi such as fees, market operations, basic infrastructure, and record-keeping. In theory, these institutions create orderly markets and protect participants. In practice, outcomes depend on governance quality and enforcement capacity; i.e., whether committees can maintain infrastructure, prevent discretionary practices, and ensure fair competition. When these functions weaken, transaction costs rise and trust falls, and the market becomes more dependent on informal arrangements.

Transporters, loaders, weighers, and service providers may seem peripheral, but they are a large part of the farmer's final outcome. Deductions, handling losses, and payment timing matter. Even when the headline price looks attractive, the net amount a farmer receives can be eroded by a chain of costs and deductions that are not always fully visible or standardized.

Finally, in some commodities, processors and large buyers (such as mills and large food companies) influence market structure by setting procurement standards and creating demand for consistent quality. Where processors insist on tighter specifications and reliable supply, they can create a "pull" for better grading and aggregation. Where they buy opportunistically in spot markets without clear standards, quality remains discounted rather than rewarded.

Why Perishables Behave Differently From Grains

A major feature of Pakistan's market structure is that not all crops face the same marketing economics. Perishables (tomatoes, onions, most fruits and vegetables) are highly sensitive to time, handling, and temperature. When storage and cold chain are limited, the farmer's bargaining position weakens because delayed sale quickly turns into loss. This tends to strengthen the position of intermediaries and buyers who can move volumes quickly or absorb short-term risk.



Source: *Sanakhawan Hussain, Co-Founder & CEO Indus Acres*

The waterfall diagram illustrates how the consumer price builds up as bananas move from farmgate to the final retail sale. In the example shown, the consumer pays roughly PKR 75 per dozen, while the farmer receives about PKR 25 per dozen, meaning the consumer price is roughly three times the farmgate price. The intervening steps reflect a combination of (i) unavoidable costs (loading/unloading, transport, ripening, and labor), and (ii) margins captured by intermediaries who aggregate, finance, move, and sell the product across multiple handoffs.

It is important to note that this chart is not claiming that every rupee between PKR 25 and PKR 75 is "excess profit." Rather, it shows where value is being captured across the chain: by brokers/aggregators early on, by auctioneers/wholesalers in the mandi layer, and by retailers at the end. In perishable supply chains, these spreads are often large because the product is time-sensitive and loss-prone: quality deteriorates quickly, and wastage risk is real.

This is precisely why perishables behave differently from grains because without reliable cold chain, standardized grading, and efficient logistics, the wedge between farmgate and consumer prices can remain wide, and farmers can face sharp boom-bust outcomes even when consumers experience high prices.

Storable crops (wheat, rice, maize) are different. Where storage is reliable and finance is available, farmers or aggregators can delay sale and avoid distress selling. This is why reforms around warehousing, collateralization, and finance can have outsized impact in grains as they change the farmer's "distress sale" timeline and therefore change bargaining power.

The Role of the State and Why It Matters More In Some Markets than Others

For some crops, especially the wheat staple, government actions such as procurement, stock releases, and trade policy have shaped price expectations and private behavior. Institutions such as Pakistan Agricultural Storage and Services Corporation (PASSCO) and provincial food departments have influenced the market not just through direct purchases, but through the signals they send about future availability and policy direction.

More recently, however, the wheat market is undergoing a significant shift. The government is stepping back from large-scale direct procurement. Public sector procurement and storage has often been reviewed as an inefficient mechanism associated with high fiscal and operational costs, leakage and governance issues, and accumulation of circular debt within the broader wheat and flour supply chain.

In its place, the government is increasingly looking to the private sector to undertake procurement and storage within a defined price band, with financing provided by banks. For this model to function at scale, a government guarantee is typically essential as it enables private firms to borrow at reasonable terms and provides confidence that policy will not shift abruptly in ways that strand capital or inventory. Under the emerging approach, the government would maintain clear visibility over stock positions, knowing which private-sector entities hold what volumes, so that strategic reserves can be managed more predictably.

In aggregate, federal and provincial authorities are expected to maintain around six million tons of wheat as a strategic reserve, with private firms effectively providing a storage-and-holding service on the state's behalf.

This transition, however, depends on credible safeguards that reduce policy risk for the private sector. In particular, it requires that inter-provincial movement and cross-border procurement decisions remain predictable, and that private warehouses are protected from arbitrary interventions that create reputational or operational risk (such as random raids by Food Department). Equally important is assurance that private holders will not be compelled to sell at administered prices that force losses, especially in a system where declared stocks are visible to government and where firms could otherwise be singled out for enforcement actions. Without these protections, the private sector is unlikely to commit the balance sheet and warehouse capacity required to hold strategic wheat stocks at the scale envisioned.

In contrast, **most horticulture pricing remains largely mandi-driven,** with retail price controls often struggling to keep pace with fast-moving wholesale dynamics. Perishables move through markets quickly, quality varies from day to day, and arrivals can shift sharply with weather, disease outbreaks, or transport disruptions. In this environment, price formation is highly sensitive to short-term supply swings. For example, limited arrival of potatoes in the Lahore mandi on a particular day due to a delay in the arrival of trucks because of rains in Okara could affect the price of the commodity significantly for the next couple of days.

Tomatoes are also a particularly clear illustration of this volatility. In some years, farmers can make exceptional returns during narrow windows when supply is temporarily tight, whether due to seasonal gaps, localized crop failure, or delayed arrivals. In those periods, even modest shortages can drive prices up sharply, and both farmers and traders can earn significant margins.

But the same dynamics can reverse dramatically the very next season. When many farmers respond to last year's high prices by expanding area, and when import planning or market arrivals are poorly sequenced, the market can swing into oversupply. Gluts can trigger a rapid crash in prices at the mandi, pushing farmgate returns below the cost of harvesting and transport. In extreme cases, farmers find it economically rational not to harvest at all and letting cattle graze the crop or ploughing the plantation back into the soil, because picking, packing, and sending tomatoes to market would generate losses.

This is not a theoretical risk; it plays out in real farm decisions. Recently, a farmer near Mirpurkhas described how many neighboring growers did not even pick their tomato crop during a low-price period. He chose to harvest and carefully calculated his net returns, finding that after labour and transport costs, his profit averaged roughly PKR 1,200 per wagon delivered to the mandi; an amount so low that it was not worth the effort and risk involved.

Episodes like this underline why horticulture markets feel especially unstable to farmers. Without reliable storage, aggregation, and mechanisms to smooth price risk, short-run market swings translate directly into abrupt gains one year and severe losses the next.

Where the "Formal" Market Layer Fits Today

Pakistan has also been building pieces of a more formal market infrastructure such as standardized warehousing, and collateralized storage finance to reduce distress sales and improve access to liquidity after harvest. A key development in this ecosystem has been the creation of accredited warehousing arrangements so that farmers and other commodity holders can store produce in facilities that meet defined standards and are subject to oversight.

Naymat Collateral was established to help build and accredit a network of warehouses (both silos and flat stores) where farmers can safely deposit their commodity. When produce is deposited in an accredited facility, the warehouse issues an Electronic Warehouse Receipt (EWR) linked to a specific quantity and quality of the stored commodity. The warehouse's role is not merely storage: it is responsible for maintaining conditions so that quality does not deteriorate, with the depositor paying a storage fee for that service. Importantly, the commodity remains the farmer's property while it is stored; the warehouse receipt is simply a secure proof of deposit and title.

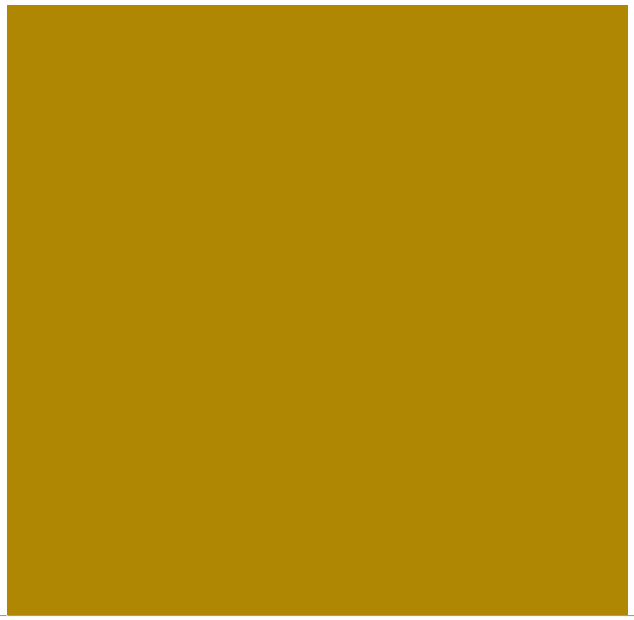
The EWR becomes financially valuable because it can be used as collateral. Farmers can approach banks to obtain short-term loans by pledging the electronic warehouse receipt, giving them liquidity without having to sell immediately at harvest-time prices which are typically the lowest then and generally move upwards in subsequent months. From the bank's perspective, the arrangement reduces risk: the underlying commodity is stored under standardized conditions, quality is monitored, and in the event of default the bank can liquidate the commodity through a clear process to recover its loan. In effect, collateralized storage finance turns stored produce into a bankable asset enabling farmers to delay sale, avoid distress pricing, and time market entry more strategically.

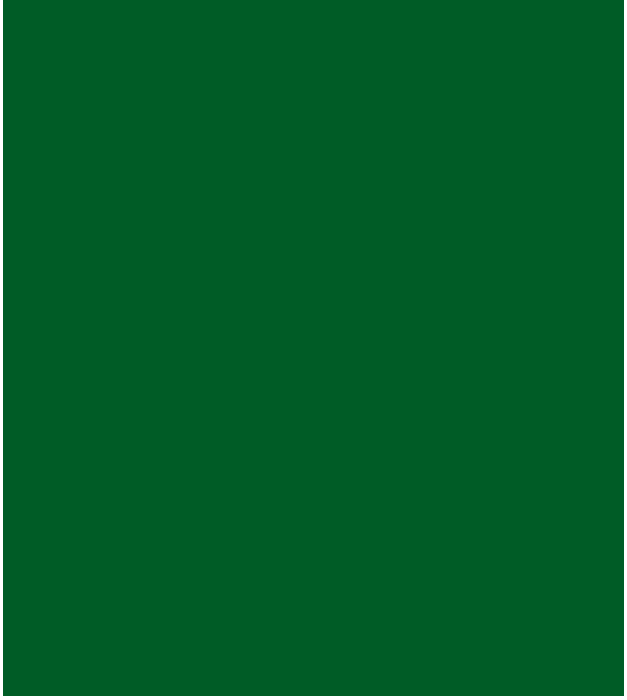
The most important institutions here include State Bank of Pakistan (because it shapes the rules and incentives for agricultural finance), Securities and Exchange Commission of Pakistan (because it regulates exchange and broker activity), and PMEX (because it offers mechanisms for price discovery and risk management).

State Bank of Pakistan amended prudential regulations to allow banks to accept Electronic Warehouse Receipts as collateral, explicitly framing this as a move to improve farmers' access to finance. In 2022, SBP also announced steps to operationalize EWR financing arrangements under approved collateral management companies and accredited storage operators, again emphasizing storage and liquidity as core benefits. The ambition is that warehouse receipts and standardization can eventually connect physical commodities to structured trading and better price discovery, including through platforms like Pakistan Mercantile Exchange.

However, the current reality is that this formal layer remains limited relative to the scale of mandi trade because the connectors are still incomplete: accredited warehousing at scale, trusted grading, aggregator models that can represent small farmers, bank products that can reach farmers competitively, and a dispute resolution system that farmers trust as much as the aarhti's relationship-based enforcement.

Without those connectors, the traditional system continues to dominate because it bundles the services farmers need, even if it does so in ways that reduce transparency and weaken the transmission of quality premiums.





What this tells us about modernization

Pakistan's agricultural marketing system is best understood not as a broken auction mechanism that needs a technical upgrade, but as an equilibrium where:

- Intermediaries fill missing finance and enforcement functions.
- Market committees lack the capacity and incentives to enforce transparent competition consistently, and
- Volatility is amplified by perishability and limited storage/credit options.

This is why reform cannot be framed as "mandis vs modern markets." A successful modernization agenda must unbundle and replace the functions currently bundled inside the mandi-intermediary relationship (credit, storage, grading, and trusted settlement) so that farmers can participate in more transparent price discovery without losing the liquidity and certainty that the current system (imperfectly) provides.

How Does A Modern Market Work?

Arrival and unloading into a controlled intake.

A truck is received at the facility and unloads directly into a pit (reduced spillage and quick handling).

Automatic sampling at intake through probe.

Sample shifted directly to laboratory for checks on moisture, impurities etc. and grading.

Transparent bidding on grain trading floor.

Typical Mandi Flow

Produce arrives in busy mandis, often under time pressure (especially perishables), with congestion and informal handling common.

Unloading, sorting, repacking, and movement happens on-site, typically through manual labor and quick visual inspection.

Quality is assessed mostly by experience and negotiation (not consistently through standardized grades)

Many farmers sell via a commission agent (aarhti) or through local aggregators. Bids happen quickly in a physical setting, monitoring and recording can be uneven.

Challenges in Pakistan's Agricultural Markets

Pakistan's mandi system moves enormous volumes every day, but several binding constraints keep it from delivering stable farm incomes, credible price benchmarks, or efficient intermediation into storage and finance.

These are structural issues, and fixing one in isolation rarely changes outcomes unless others move with it.

01.

Price discovery is weak where it matters most

For most crops, especially perishables, the farmer's "price" is formed in fast, congested physical markets where deals are hard to audit consistently. Even when wholesale prices are recorded, the system often struggles to generate credible, tradable benchmarks that market participants trust as a reference for contracts, finance, and hedging. The result is that farmers and buyers make decisions under uncertainty, and volatility is amplified by limited ability to hold stock and smooth sales timing.

02.

Quality is not standardized, so quality is not priced reliably

A modern market turns produce into standardized lots, whereas Pakistan's system often prices produce as a negotiated bundle where quality is judged informally and inconsistently. Without reliable grading and sampling, (and enforcement of those standards), the market tends to discount quality rather than reward it. This blocks the emergence of scalable formal trading because exchanges and financiers need clear definitions of "what is being traded" and "what is being stored".

03.

Distress selling is built into the economics of many crops

In grains, the ability to store safely and borrow against stocks can fundamentally shift bargaining power. In perishables, limited cold chain and short selling windows force rapid sale. Either way, when farmers cannot delay sale, prices are more sensitive to short-term gluts, and intermediaries who can absorb risk gain disproportionate influence.

04.

Intermediaries persist because they bundle missing services

The aarhti and local collectors do not only "trade." They bundle services that are missing at scale: liquidity, settlement, enforcement, and access to buyers. That is why reforms framed as eliminating intermediaries often fail, unless the reform replaces the intermediary's functions with cheaper, more transparent alternatives (credit, aggregation, settlement, dispute resolution). Until then, farmers remain tied to channels through relationship-based finance and market access.

05.

Storage finance and formal participation remain thin because risk is hard to manage

Formal finance requires collateral, enforceable claims, and confidence that stored quality will not deteriorate. Pakistan has made progress by enabling Electronic Warehouse Receipts (EWRs) as acceptable collateral, which can expand credit access beyond land-backed lending. But scaling is still constrained by the limited network of accredited warehouses, lack of farmer and aggregator onboarding, and banks' risk appetite.

Pakistan Mercantile Exchange (PMEX) and Market Integration

PMEX becomes relevant for agriculture when the physical market can reliably translate produce into standardized, verifiable lots that can be traded and settled with confidence.

What PMEX is - and what it can realistically do?

Pakistan Mercantile Exchange is Pakistan's regulated futures exchange. In practical terms, PMEX is designed to support:

- Price discovery through transparent, centrally recorded trades (a market-based benchmark rather than an informal reference).
- Risk management (hedging) so commercial participants can manage exposure to price swings.
- Standardization and settlement discipline, because exchange trading requires clear contract specifications and defined settlement processes.

But PMEX cannot substitute for missing physical infrastructure. A futures platform becomes agriculturally meaningful only when the ecosystem can convert crop output into standardized, deliverable lots and channel farmers (usually via aggregators, warehouses, banks, or processors) into participation at low transaction cost.

EWR is the bridge between mandis and modern markets

Pakistan's EWR system has been enabled by the financial and regulatory actions that explicitly aim to make stored commodities financeable and tradable. The State Bank of Pakistan amended prudential regulations to allow Electronic Warehouse Receipts as collateral for bank financing, positioning Warehouse Receipt Financing as a way to expand credit access beyond land collateral, improve liquidity, and support price stability.

Punjab's wheat EWR financing provides a concrete model

Punjab's recent initiatives show what "integration" can look like in practice with a formal channel for electronic trading and structured participation. Short-tenor EWR-backed finance (e.g., up to ~120 days), lending against a percentage of stock value (e.g., financing up to ~70% with margin requirements), eligibility rules, and explicit provisions such as the government's first right to purchase at a fair market price notified by the market committee, along with some form of credit-loss coverage on a first-loss basis in the portfolio design. These design features matter because they directly address bank risk, farmer liquidity constraints, and the operational question of how stocks will be liquidated in case of default.

Reforms and How To Do Them

The central reform challenge is not choosing between "mandis" and "PMEX." It is building a market integration pathway that upgrades the physical market while creating credible bridges into finance and formal trading. The most workable approach is phased, commodity-specific, and built around the market functions that farmers actually need: liquidity, safe storage, quality recognition, and predictable settlement.

REFORM

Modernize mandis through "minimum viable transparency," not over-engineered digitization

What to do

- Improve the mandi's core functions: weighment integrity, fee transparency, basic infrastructure, and publication of representative prices and arrivals.
- For horticulture, prioritize logistics and quality handling (packhouse linkage, standardized crates, cold chain pilots) because futures-style instruments are not the first-order fix for perishables.

How to implement

- Pick a small set of pilot mandis in each province and deliver a visible package: transparent fee boards, digitized weighment slips, better unloading layouts, and daily arrivals/price dashboards that reflect actual executed transactions as closely as possible.
- Create a formal pathway for aggregators to participate transparently so farmers can benefit from scale without losing visibility over deductions and settlement.

REFORM

Build credible grading, sampling, and assaying where trade concentrates

What to do

- Establish standardized grades and testing protocols for priority commodities.
- Place testing capacity at the points that matter: accredited warehouses for grains; packhouses/wholesale hubs for selected perishables.
- Make grades "economically real" by linking procurement, bank collateral valuation, and large-buyer purchasing to grade certificates.

How to implement

- Use the EWR system as the enforcement anchor: if a lot is eligible for EWR finance, it must meet defined quality standards and sampling protocols. This embeds grading into incentives rather than relying on inspections alone.

REFORM

Scale accredited warehousing as public-interest infrastructure

What to do

- Treat accredited warehousing capacity as the backbone of modern grain markets, with clear service-level requirements (quality maintenance, insurance, reporting, dispute handling).
- Expand warehouse accreditation and monitoring capacity under the collateral management framework.

How to implement

- Prioritize districts where marketable surplus is high and where public procurement pressures are recurrent.
- Encourage private investment through predictable rules and bankable revenue models (storage fees + service payments), and align this with SBP's objective of expanding formal credit and reducing post-harvest losses.

REFORM

Make EWR finance the default post-harvest liquidity instrument for storable crops

What to do

- Shift the farmer's choice set from "sell immediately or borrow informally" to "store, borrow against receipt, and sell when conditions are favorable."
- Standardize bank product templates for EWR-backed lending to lower transaction costs and expand reach beyond a few pilots.

How to implement

- Use targeted risk-sharing only where needed (e.g., first-loss coverage within a capped portfolio), with transparent reporting and time-bound sunset clauses.
- Government could pick up the mark-up initially to incentivize farmers to deposit their commodity under the EWR regime.

REFORM

Reduce policy risk so private investment in stocks and storage becomes possible

This is particularly relevant in wheat. Policy credibility (rules around movement, storage, and intervention) determines whether the private sector will invest balance sheet and capacity in holding stocks. The reform task is to operationalize these objectives with predictable rules so that private actors can provide storage and logistics services without the fear of arbitrary loss.

Conclusion

Pakistan's agricultural marketing system is often described as "inefficient," but it is more accurately an equilibrium: mandis and intermediaries persist because they solve real problems, such as liquidity, access, and settlement, within a context of weak standardization and limited storage and finance. Modernization therefore cannot be reduced to a single intervention such as digitizing prices or listing more contracts on an exchange. It requires building a functioning market where quality becomes measurable, storage becomes reliable, receipts become financeable, and trading becomes transparent.

The most practical path to integration is to start where the economics are strongest, that is, storable crops and post-harvest liquidity, and use EWR finance as the bridge that brings farmers into formal systems without forcing them into complex trading behavior. The regulatory and financial groundwork for this exists as SBP has enabled EWR as collateral and framed it as a route to expand formal credit and improve price discovery, while SECP's collateral management framework creates the governance basis for accredited warehousing. The reform priority now is disciplined implementation: scale the warehousing network, standardize grading, embed incentives, and use PMEX as the transparent trading layer for receipts and benchmarks. If done in a phased and commodity-specific way, market integration can reduce distress selling, strengthen farm incomes, and create the credible price signals Pakistan needs for more productive agricultural decision-making.

With deeper liquidity and reliable delivery/settlement mechanisms, exchanges can introduce and scale futures contracts that are genuinely useful for risk management, ultimately allowing price risk to be transferred to those willing to bear it, while stabilizing procurement behavior and, indirectly, farm gate prices.

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