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## Menace of Middlemanship in the Light of Islamic Teachings

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### Abstract

Despite abundant agricultural production, the prices of fruits, vegetables, and other agricultural items remain high, keeping these products out of the a common man's reach. Although small and poor farmers work hard throughout the year, yet they remain indebted and poor. There might be various reasons for their plight such as the extraordinarily high prices of agri-food items; however, the role of the middleman (Arhti) seems to be the most damaging in this regard. This paper analyses the role palyed by the middleman in Pakistan in the light of Islamic teachings and primary (through survey questionnaire) and secondary data. The study found that generally, the middleman is a cruel character and causes distortions in the economy, particularly in the agro-food market. He deprives poor farmers of meaningful profit, keeps them under the pressure of debt, and causes price hikes of essential items which leads to artificial inflationary pressures in the economy. Ultimately, this phenomenon exerts pressure on the government as well. The current study also found that the presence of middleman in the supply chain of agro-food items deprives poor farmers of their right of earning genuine profit. Moreover, it also increases the price of essential food items. Hence, in the light of *Shariah* guidelines, unnecessary brokering needs to be restricted so that farmers are able to sell their produce themselves. Furthermore, the middleman's role needs to be curtailed for the welfare of the farmers, improvement of the agriculture sector, and the betterment of the economy. The study recommends the framing of comprehensive long-term policies for the purchase of crops, monitoring of fruit / vegetable markets, provision of interest-free loans to farmers, setting up of an efficient market mechanism, establishment of effective consumer courts, and the improvement of the transportation system.

**Keywords:** agriculture, exploitation, Islamic teachings, middleman

### Introduction

Historically, the economy of Pakistan has been largely dependent on agriculture; however, with the passage of time, the share of agriculture has declined substantially. In 1949, the contribution of agriculture to the GDP of Pakistan was about 50%. In 1999-2000 it was 25.9% and by 2019-20, its share has been reduced to just 19.3% (Economic Survey 1999-00, Economic Survey 2019-20). As per the

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data of the United Nations Food and Agriculture Organisation (UNFAO) and the Ministry of National Food Security and Research (MNFSR), Pakistan ranks among the top producers of various commodities. It is the 2<sup>nd</sup> largest buffalo milk producer, 3<sup>rd</sup> largest producer of goat milk and cottonseed, 4<sup>th</sup> largest producer of cotton and guava, 5<sup>th</sup> largest producer of sugarcane, and 6<sup>th</sup> largest producer of dates (FAOSTAT, 2017). However, in recent years, the agriculture sector's performance has deteriorated and its average growth during the last decade has remained below 3%. The cultivation of crops is skewed towards wheat, cotton, rice, sugarcane, and maize with around 75% of total land utilization (Economic Survey, 2019-20). Unfortunately, Pakistan's land distribution is also skewed in favour of large landowners since more than 11% of the arable land is owned by about 13,000 (0.2%) big landowners, and the rest of the land is distributed among the remaining 99.8% owners, including small (89.5%) and medium (10.3%) landowners (PBS, Agricultural Statistics of Pakistan 2014-15).

Although the agriculture sector has the capacity to produce various crops in abundance, still their production is not increasing as per the potential. Moreover, despite the availability of food crops, fruits, and vegetables in sufficient amounts, their prices remain out of the reach of the common man. The hard work and dedicated efforts of millions of small farmers hardly help them to get adequate returns. Most of the farmers remain indebted and poor and their miseries seem unending. They are unable to feed their families properly or provide education to their children. In the context of Pakistan's economy, a weak and poorly performing agriculture sector implies low GDP growth, lesser employment opportunities, reduced production, a greater reliance on imports, a higher trade deficit, and pressure on the foreign exchange reserves. Therefore, there is no choice but to improve the condition of the agriculture sector, since a strong agriculture sector is essential for poverty alleviation and a healthy national economy.

The middleman (Arhti) is the major factor in the deterioration of the country's agriculture sector. Indeed, such middlemanship or brokering which creates socioeconomic distortions is banned by Islamic teachings. Islam discourages the negative role of the middleman and also unnecessary brokering. This is the first-ever study that analyses middlemanship in Pakistan in the light of Islamic teachings and primary and secondary data. The purpose of this study is to evaluate the role of the middleman and suggest corrective policies and administrative measures that would address the real issues faced by the poor farmers. The paper recommends policy change and other measures in the light of its research findings. It presents briefly the relevant literature review, followed by a discussion on major concerns

and research methodology. The next section presents data analysis and the findings that validate the claims. Lastly, this paper concludes with some recommendations.

### **Literature Review**

Various studies and reports have discussed the menace of the middleman in detail. The available literature discusses the exploitative and exorbitant interest rates charged by the middleman and explains his role as a monopsonist in the purchase of crops. It also examines his role as a supplier of fertilizers at a higher rate. According to the Development Finance Review (2015), the basic problem is the deficiency of institutional credit, which is limited to about 2.2 million farmers out of a total of 6.6 million farmers. In fact, various other agricultural credit problems emanate from the deficiency of institutional credit. Moreover, the gap created by the deficiency of credit is filled by non-institutional sources such as the middleman, shopkeepers, and professional money lenders. These sources, albeit of their greater real cost, are still more popular because of their better accessibility, which is why most of the small landowners obtain credit from informal sources (SBP Financing Scheme for Small Farmers, n.d; and Mahmood, B & Hussain, S. 2004). Among the informal sources, a major chunk of credit is traceable to the middleman (Arhti), who retains a central place in the rural credit market. Haq et al. (2013) stated that the interest rate charged by the middleman is generally very high and varies from case to case, indeed the rates charged by him range between 62% to 80%. According to Zuberi (1989), there is a greater reliance on the middleman (Arhti) by the farmers and he noted that the middleman charges 10% interest per month, which sums up to 120% interest per year. In a like manner, Qadir (2005) also noted the higher interest rates charged by the middleman (Arhti). According to Kaleem and Wajid (2009), the middleman is the main financier and buyer of crops in the rural economy. Among the informal sources, the major financing contributor is the middleman instead of friends, relatives, and shopkeepers (Haq et al., 2013). According to Khan (2010), without the support of the middleman, farmers may not be able to grow their crops. The middleman is known as a monopsonist or a single buyer who buys the crop from the poor farmers at the lowest possible price (Jones & Shaikh, 2005). He is the financier and also the buyer of crops in the rural economy, whereby only 10% of transactions are conducted on a purely cash basis (Kaleem & Abdul Wajid, 2009). So, there is an ample opportunity for him to exploit farmers, since he is the major buyer of their crops. The middleman purchases agricultural produce at very cheap rates and sells it to wholesalers at very high rates, it allows him to earn a huge profit without efforts and risks. A report on the rural finance policy by Khan (2010) discusses various components of rural finance such as the concept of rural finance, savings mobilization, insurance services, payment

system, the agri-credit system before partition and after independence, livestock, fisheries and poultry financing, policy advocacy, institutional growth, and development. She rightly noted that the absence of an institution (body) was a major missing link needed to synergize various rural finance agencies. Hence, she recommended establishing an institution within the State Bank of Pakistan (SBP) to fill this gap.

Keeping in view the negative role of the middleman, several seminal voices have raised concerns against his presence in the country's agriculture sector. In this regard, (Ahmad et al., [2013](#); Amjad et al., [2007](#); Zuberi, [1989](#); Kaleem & Wajid, [2009](#); Khan, [2010](#)) recommended eliminating the interference of the middleman to encourage the farming community at the grassroots level. Unfortunately, it has been noted that despite the negative effects of their presence, middleman plays an important role in Pakistan's agriculture sector since he supplies the needed services to poor farmers by keeping friendly relationships with them (Jones & Shaikh, [2005](#)). Haq et al. ([2013](#)) also found a good number of farmers believing in the middleman's role as supportive. However, the question is that despite great potential in the agriculture sector and the availability of fruits, vegetables and grains throughout the year, why do the prices of agri-food items remain high, reliance on imports increases and as a whole, the agriculture sector seems to be inefficient?

There is no dearth of literature discussing the role of the middleman as an exploitative factor, but there is hardly any study available that discusses Islamic teachings about middlemanship and its socioeconomic implications for the economy. Hence, this study strives to fill in the existing research gap. Therefore, it would be a valuable addition to the literature on the subject and will also be helpful for policymakers and other stakeholders.

### **Hazards of the Middleman and Islamic Teachings**

There can be a multitude of reasons for the poor performance of Pakistan's agriculture sector, such as the lack of patronage by the government, scarcity of water, outdated farming techniques, improper use of fertilizers, lack of institutional credit, the involvement of interest, and the role of the middleman. All the said factors affect the performance of this sector; however, there is a strong perception that the middleman's negative role and greed have caused greater damage.

### **Middleman – A Real Hazard**

It is a reality that the middleman has dominated agricultural finance in rural areas for centuries (Haq et al., [2013](#)). If the middleman does not provide credit, it may deprive a majority of farmers of the purchase of necessary inputs, including

seeds and fertilizers. Jones and Shaikh (2005) noted that the middleman is a monopolistic buyer who buys fruits and vegetables from the poor and indebted farmers at the lowest possible prices and sells them at very high rates; thus, earning a huge profit without putting in efforts or taking any risks.

In most cases, an indebted farmer is helpless during the process of growing, harvesting, and selling crops. Generally, the farmer has to purchase costly inputs from designated suppliers and sell his produce to them at throwaway prices, which hardly cover the cost of production. The middleman (Arhti) is the major beneficiary of this chain of activities. His exploitative role starts from the supply of credit on exorbitant interest rates and continues via the selling of costly inputs to the farmers, purchasing crops at the lowest possible rates, and selling them at the maximum possible rates. He creates artificial shortages of commodities to raise prices and earns lucrative profits. He is also responsible for creating artificial price hikes of abundantly produced fruits and vegetables in the economy, whereas the hardworking farmers are deprived of their actual profit. Furthermore, these artificial price hikes caused by the middleman hurt the masses as well. This unwanted situation has many socioeconomic demerits. Along with hurting poor farmers and final consumers, it creates unnecessary inflationary pressures in the economy, which undermine the governmental economic relief efforts. The ongoing presence of this unwanted situation in Pakistan has caused many inefficiencies in the agriculture sector and the national economy. Hence, there is a need to analyse this issue, frame appropriate policies, and take other necessary measures to address the said issue.

### **Middlemanship / Brokering in the Light of Islamic Teachings**

The objective of Islamic teachings is to promote a culture of honesty, simplicity, and fairness for earning a livelihood and of love and respect for each other. To attain these objectives, the Islamic *Shariah* has declared *Riba* (interest), hoarding, short-weighting, stealing, and *Gharar* haram. Similarly, *Najsh* (fake bidding or ghost bidding, offering higher prices while having no intention to buy), deceiving, brokering, lying in business, and efforts to cause losses to others have been forbidden as well. Lawful businesses and trade are not possible without eliminating such prohibited elements. Some of the traditions of the Holy Prophet (صلى الله عليه وسلم) on the subject are presented below:

Narrated 'Abdullah bin' Umar: Allah's Messenger (صلى الله عليه وسلم) said, "You should not try to cancel the purchases of one another (to get a benefit thereof), and do not go ahead to meet the caravan (for buying the goods) (but wait) till it reaches the market." (Bukhari 2165).

Narrated Nāfi': *Ibn' Umar told us that the people used to buy food from the caravans in the lifetime of the Prophet, The Prophet; used to forbid them to sell it at the very place where they had purchased it (but they were to wait) till they carried it to the market where foodstuff was sold (Bukhari 2123).*

Narrated Ibn 'Abbas: Allah's Messenger (ﷺ) said, "*Do not go to meet the caravans on the way (for buying their goods without letting them know the market price); a town dweller should not sell the goods of a desert dweller on behalf of the latter.*" Ibn 'Abbas was asked, "*What does he mean by not selling the goods of a desert dweller by a town dweller?*" He said, "*He should not become his broker.*"(Bukhari 2158)

Narrated Anas bin Malik: "*We were forbidden that a town dweller should sell goods of a desert dweller*" (Bukhari 2161).

Narrated Ibn `Abbas: *The Prophet forbade the selling of foodstuff before receiving it. I consider that all types of selling should be done similarly (Bukhari 2135).*

However, seeking advice and support from others is something else, as the Holy Prophet (ﷺ) said, "If somebody asks the advice of someone else, then the latter should advise him" (Bukhari 2150).

Thus, there is a clear message in the above-mentioned traditions of the Holy Prophet (ﷺ) against unnecessary brokering or middlemanship.

### **Methodology**

This paper analyses middlemanship in the light of Islamic teachings on the subject. Prophetic teachings about middlemanship / brokerage are also presented. The paper highlights the potential of the agriculture sector of Pakistan. It also discusses briefly the exploitative role of the middleman and the miseries of the poor farmers. The current research is based on the secondary and primary data. Primary data was gathered from a sample of 70 respondents which included farmers, students, bureaucrats, and traders selected from the entire country. For this purpose, a simple questionnaire was designed to collect the primary data. Sale prices gathered from the farmers living in different parts of the country were averaged out. The data was presented in the shape of graphs and tables prepared in excel sheets.

The major sources of secondary data were the Pakistan Bureau of Statistics (PBS), Economic Surveys, and the Ministry of National Food Security and Research (MNFSR). Moreover, some farmers and producers of fruits and vegetables, particularly those who grow tomato, onion and potato, were also interviewed for a deeper analysis.



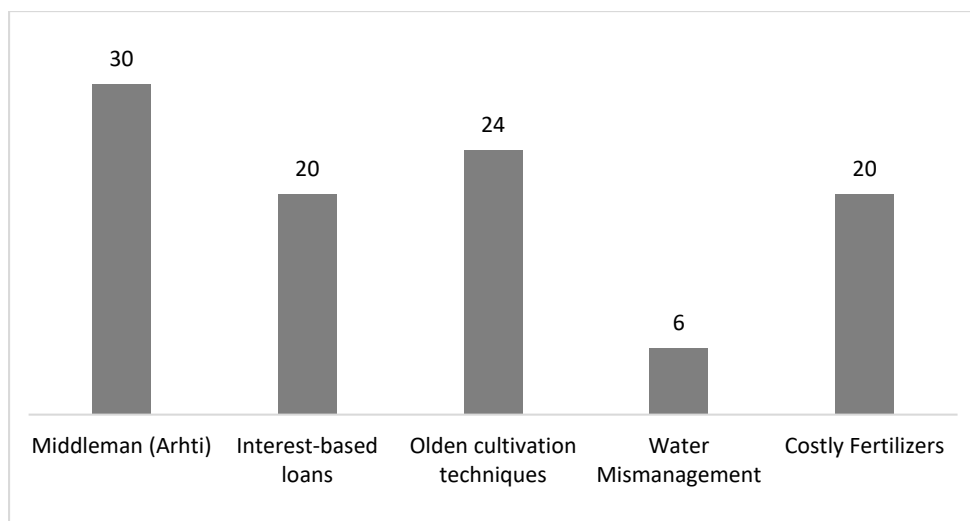
## Data Analysis and Findings

### Major Problems of Pakistan's Agriculture Sector

The respondents were asked to rate the five most serious problems of agriculture in Pakistan. As a whole, 30% of respondents believed that the first major problem is the middleman, 20% blamed interest-based loans and costly fertilizers, 24% blamed old techniques of cultivation, and 6% thought that mismanagement of water resources is the most serious problem.

**Figure 1**

*Most Serious Problem of the Agriculture Sector: Respondents' Views*



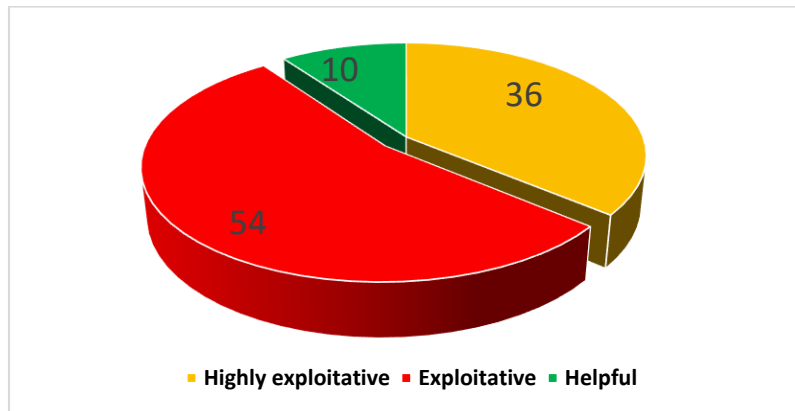
### Role of the Middleman is Highly Exploitative, Exploitative, Helpful

In this regard, 54% of the respondents termed the middleman's role as 'highly exploitative', while 10% described his role as 'exploitative'. On the other hand, 36% of the respondents were of the view that the middleman's role is 'helpful'. The opinion of these 36% respondents also carries weight and it implies that the provision of loans and the purchase of inputs, though having huge costs, are still beneficial for the farmers to some extent. This view has been endorsed by (Jones & Shaikh, 2005; Haq et al., 2013), who believe that despite various negative influences the middleman plays an important role by supplying the much needed services to the farmers. It also implies that some appropriate checks and measures may help to curb the negative aspects associated with the middleman and may boost his positive role as a supportive intermediary in the rural economy.



**Figure 2**

*Role of Middleman is Highly Exploitative, Exploitative, Helpful?*

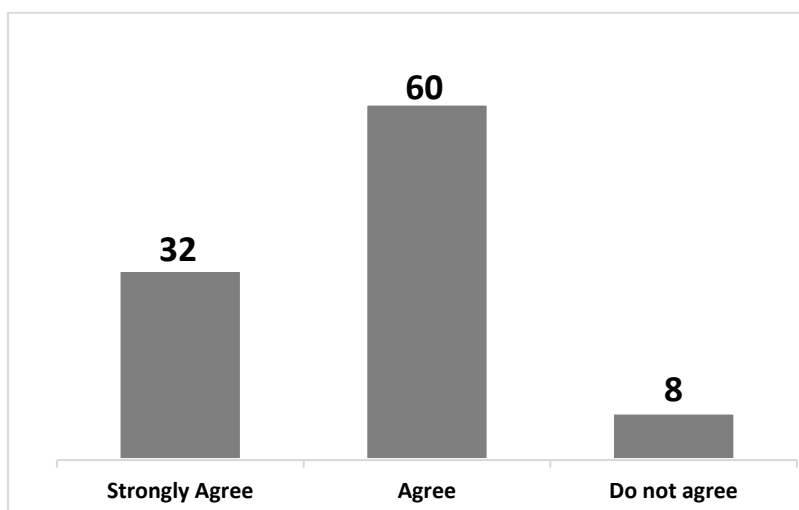


### **Middleman is Responsible for Unnecessary Price Hikes of Agro-Food Items**

Another important question was about the middleman's role in causing price hikes of the agro-food items in the country. In this regard, similar to previous results, a vast majority of respondents, that is, 60% agreed and 32% strongly agreed to the perception that the middleman's negative and exploitative role impacts the prices of agro-food items, extraordinarily.

**Figure 3**

*Is Middleman Responsible for Unnecessary Price Hikes of Agro Food Items?*

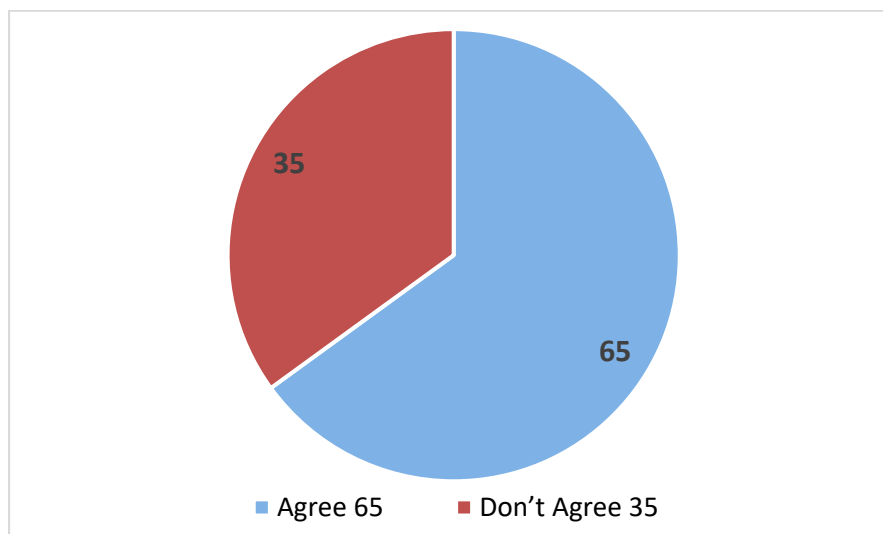


## Eliminating the Role of Middleman

However, when asked about the elimination of the middleman's role, 35% of the respondents wanted the middleman's role to remain intact, while 65% wanted it to be eliminated.

**Figure 4**

*Should te Role of the Middleman be Elimanted?*



The respondents were also asked to suggest remedial measures to handle this specific issue. In this regard, in the light of suggestions received from the respondents, a summary is presented below.

The respondents suggested various policy and administrative measures for improvements in the agriculture sector. A summary of the respondents' views is presented below:

- A. *Policy*: Most of the respondents suggested that the government should formulate a comprehensive long-term policy for the purchase of crops determining the prices of inputs and seeds, and also a regulatory policy for private money lenders. Moreover, according to them, there should be a policy and monitoring mechanism in place to monitor lending by private or non-institutional sources. Such a monitoring mechanism in place can help to reduce the exploitative practices.
- B. *Interest-Free Loans*: The majority of the respondents believed that interest-based loans with exorbitant rates are a big problem for the farmers which

allows the middleman (Arhti) to exploit them. They suggested that the government should provide interest-free loans to the farmers. It would enable them to evade the middleman. This would improve the ability of the farmers to cultivate land more efficiently and earn better profits.

- C. *Market Mechanism*: The respondents also believed that the absence of an efficient market mechanism for agricultural produce creates problems and allows exploitative forces to buy crops at lower rates and sell them at the highest possible rates. It results in unnecessary price hikes, which cause huge economic losses to the farmers and the end consumers. During the whole process, it is the middleman who earns huge profits without putting in any real efforts. Hence, they demanded the elimination of the middlemen in the country. The respondents' feedback further supports direct access of farmers to the market, which is nearer to the Islamic teachings since the Holy Prophet (صلى الله عليه وسلم) also prohibited the purchasing of agricultural produce before it reaches the market.
- D. *Facilitation of Farmers*: The lack of facilities is also among the basic problems faced by the farming community, particularly the poor and illiterate farmers. The respondents suggested that the government and concerned institutions should enhance the facilities available to farmers in all respects. Adequate facilities should enable them to have access to easy loans, inputs, proper seeds, water, awareness, cheap electricity for tube wells, and markets for the selling of crops.
- E. *Hoarding*: Interestingly, some of the respondents rightly pointed out the menace of hoarding in the country and its negative implications for supply chain, such as price fluctuation of essential items including flour and sugar. They demanded severe punishments for the hoarders, as without eliminating hoarding it is not possible to keep the prices of essential items in control.
- F. *Other Suggestions*:
- a. Regularization of the middleman's trade through effective legislation.
  - b. Creation of effective and trustworthy consumer courts.
  - c. Effective price monitoring in fruit and vegetable markets (Sabzi Mandi) in the country, particularly in big cities.
  - d. Purchase Management of Crops: Government should arrange the purchase of basic food items through its designated departments. The Utility Stores Corporation (USC) can also purchase various items

directly from the farmers at suitable rates. It will help USC to provide essential food items at lower rates to the public.

- e. Improvement in the transportation system linking agricultural fields to the markets is also critical. An efficient transportation system can reduce the time and cost of shipments to the market, ultimately benefiting millions of end consumers.
- f. Also, there is a need for a proper pricing mechanism put in place to save farmers from exploitation by big buyers and mill owners.
- g. Various respondents demanded a more effective role of the government in curtailing the role of the middleman and for the improvement of the agriculture sector.

### **Re-Validating the Claims**

Apart from the data obtained through survey, to verify the above mentioned claims and perceptions, some of the farmers / growers of vegetables and fruits from the various parts of the country were contacted. They were the source of primary information used in this paper. The obtained information about the sale price of fruits / crops from farmers was compared with the official price data taken from the Pakistan Bureau of Statistics (PBS), while the retail price data was collected directly from the markets. This feedback was an eye-opener. A comparison of the purchase and sale prices at various stages and their differential is presented in the table1.

Table 1 indicates the size of the price differential between basic sale prices at the farm, wholesale, retail, and actual price levels. Price differential for some items is extremely high. For example, for tomatoes, the average price at which they are sold by the farmers is Rs. 6/per kg; however, its wholesale price is Rs. 102/per kg and retail price is Rs. 126/per kg. Moreover, the actual price of tomatoes (Rs. 150/per kg) is even higher than the official price indeed it is nearly 2000% higher than the basic farm price (Graph 5). The red area in Graph 5 indicates the price differential of ten items, which shows large gaps in their prices. A farmer informed us that he sold tomatoes in the last season at the rate of Rs. 30/per 40 kg; another farmer informed us that he sold a 10 kg bag of tomatoes at Rs. 60/. Similarly, price differential is significant for other items as well, which highlights the extent of the exploitation of both the farmers and the end consumers by the middleman.

**Table 1**

*Price Differential in Rupees and Percentage Terms*

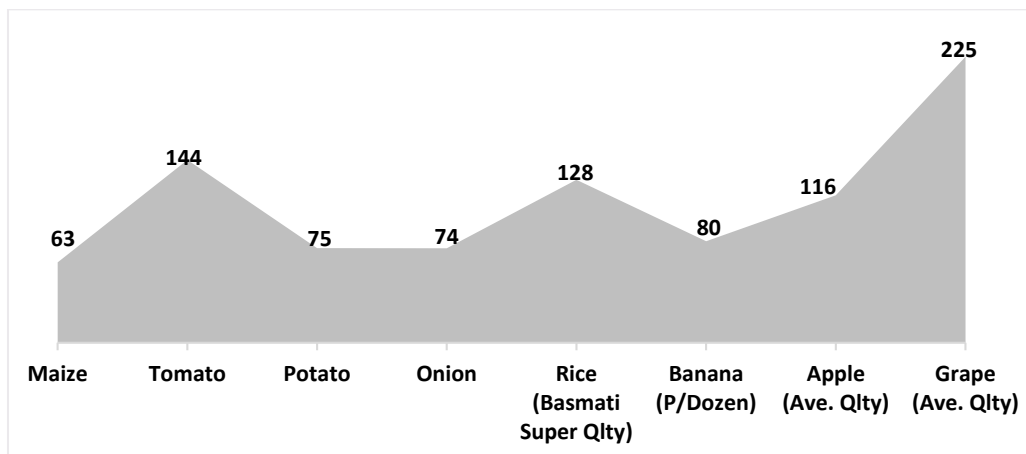
Items	Produce / Farmers price (Average) *	Wholesale Price (WSP) **	Retail Price (RP) **	Actual Price (AP) (Market Survey)	Price Differential					
					WSP - Produce Price		RP - Produce Price		AP - Produce Price	
					Rs P/kg	(%) Inc	Rs P/kg	(%) Inc	Rs P/kg	(%) Inc
	[Col 3-2]	[6/2]	[Col.4-2]	[8/2]	[Col.5-2]	[10/2]				
1	2	3	4	5	6	7	8	9	10	11
Maize	17	38	60	80	21	24	43	153	63	271
Tomato	6	102	126	150	96	1500	120	1900	144	2300
Potato	15	60	75	90	45	200	60	300	75	400
Onion	16	59	69	90	44	175	54	238	74	363
Rice (Basmati Super Quality)	42	146	165	170	105	150	124	195	128	205
Banana (P/Dozen)	20	45	61	100	25	25	41	105	80	300
Apple (Ave. Quality)	14	79	116	130	66	371	102	629	116	729
Grape (Ave. Quality)	15	165	211	240	150	900	196	1207	225	1400

\*Source: Producers/Farmers,

\*\* WP, RP Source PBS except for Maize RP

**Figure 5**

*Price (Rs) Differential btween Farm Price (sold by farmer) and Actual Price (paid by consumer)*



For wheat crop, it is a normal practice for its growers to sell their crop for less than the officially announced wheat price. Again, the reason is poverty and the indebtedness of poor farmers. The poor farmer, who remains indebted to the middleman, has no option except to sell his crop to him at the price offered by him. Hence, the middleman is the major beneficiary; whereas, the farmers and the end consumers remain at a loss. During the year 2020, the country produced around 26 Million Metric Tons (MMT) of wheat, which is 6% higher than the previous year's produce (Indexmundi, 2020). However, the price of wheat crossed Rs. 2400/per 40 kg, which is double the official purchase price. Although hoarders played a role in this unprecedented price hike, the question is who is the major beneficiary, the farmer or someone else? Similarly, banana growers, particularly the small ones in Hyderabad district in the Sindh province, sell a dozen bananas for a price of just Rs. 15 to Rs. 20. Indeed, the exact sale price depends on the bargaining position of the farmer, which is generally weak. On the other hand, the price paid by the final consumer in the market ranges between Rs. 100 to Rs. 200 per dozen. This is a huge price differential ranging from Rs. 85 to Rs. 180. The leading beneficiary is the middleman and the losers are the farmers and the end consumers.

## Conclusion

Pakistan's agriculture sector produces most items in abundance, still the prices remain too high for the end consumer. The middleman (Arhti) purchases the crop from the farmers for a meagre amount and then sells it at the highest possible rates.

Thus, he deprives the farmers of their due profit, along with causing great economic loss to the end consumers. It is an irony that despite abundant agricultural production in the country, the middleman is able to earn a huge profit without putting in much effort. Islam strives to close all the means which cause economic / financial distress to the society. The Holy Prophet (صلى الله عليه وسلم) rightly prohibited the act of brokering or middlemanship during his time in Madinah. In the light of the above mentioned traditions, it is concluded here that the presence of middleman in the supply chain of agro-food items deprives poor villagers / farmers of their right to earn genuine profit. At the same time, it increases the prices of essential food items. Hence, unnecessary brokering and the role of middleman needs to be restricted for the betterment of Pakistan's agriculture sector. Furthermore, the farmers should also be facilitated so that they may flourish and can sell their produce themselves. It would enable them to earn genuine return for all their hard work and would also end the menace of artificial price hikes, thus benefiting the final consumers and the national economy as a whole.

It is concluded here that the middleman is mostly an insidious character who harms the economy and particularly the agro-food market. This study, in the light of the *Shariah* guidelines, concludes that the middleman's role is negative and unacceptable and needs to be curtailed for the welfare of the farmers, improvement of the agriculture sector, and betterment of the economy.

Moreover, the study recommends the framing of well-thought-out plans and policies for the agriculture sector on a long-term basis. These plans and policies need to focus on improving the system designed for the purchase of crops to minimize the role of the middleman, monitoring of fruit / vegetable markets, provision of interest-free loans, establishment of an efficient marketing mechanism, and the making of strict laws and their enforcement to curb hoarding. Similarly, the establishment of effective consumer courts, improvement of the transportation system from the fields to the market, facilitation of the farmers, and the dispensation of training and awareness to them should be the priority of the concerned quarters. It is concluded that framing of good policies, albeit a necessary condition, needs to be enforced properly, without which it may not produce the desired outcome. Hence, making appropriate policies in the light of the research findings, along with a clear road map and strict enforcement plan, would be instrumental to address the above mentioned issues.

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