Commission Agent System

Significance in Contemporary Agricultural Economy of Punjab

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Despite favourable policy measures, growth of financial institutions and public interventions in the marketing of agricultural produce, the structure of Punjab's agricultural economy makes farmers dependent on commission agents. These agents trap the farmers in a vicious circle of indebtedness. Based on a field survey, this study locates the commission agent system in Punjab's agriculture set-up and recommends reframing it in order to extricate farmers from the clutches of these agents.

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In the new world economic order, farmers' interests seem to be lined up against well-planned manifestos or development agendas of various political parties. Of late, agriculture managed to get some space in the news because of inflation. This has, somewhat indirectly, given weight to farmers' interests. The middlemen, the so-called *arhtiyas* of the marketing system of agricultural produce, have gained attention once again. The Narendra Modi government's decision to eliminate all fruits and vegetables from the Agricultural Produce Market Committee (APMC) Act so that farmers can sell them directly is being projected as pro-farmer and anti-inflation. However, since agriculture is a state subject, it is doubtful if this decision will bring the desired results. Anyhow, middlemen in the fruits and vegetables trade have gained notoriety.

The Congress-led United Progressive Alliance government had also made an announcement to abolish middlemen from fruit and vegetable markets, though initially only in Congress-run states. We, then, need to answer a few question about these middlemen. Why are they so important? How have they become an inseparable constituent of the Indian agricultural affairs? Why is any decision—with varying motives—pertaining to such middlemen crucial to the fortunes of any government?

The moneylending system attained full bloom with the Green Revolution. The Green Revolution was based on a set of measures aimed at technological transformation of traditional modes of production. It was introduced in a few selected regions of the country during mid-1960s. As a result, agricultural production process of these regions, especially Punjab, became highly mechanised and capital-intensive. Unfortunately, institutional and non-institutional sources of finance for investment in farm structure and agrochemicals could not keep pace with the requirements of farmers (Singh et al 2008: 1–2).

Although, Punjab's peasantry had been facing economic hardship and indebtedness before the mid-1960s, the transformation of traditional agriculture towards a modern capital-intensive one increased farmers' capital requirements, and in turn, made them dependent on the credit market. Farmers in general, and small farmers in particular, borrowed funds from institutional and non-institutional sources. Among the non-institutional sources of finance, commission agents were the most widely accepted sources (Singh et al 2009: 313–16). At present the state's total agricultural debt amounts to approximately Rs 35,000 crore of which about 38% is catered by the non-institutional sources (Singh 2014a: 2).

The commission agent system is intertwined with the financial and marketing system of Punjab's agriculture. Traditionally, these agents were petty shopkeepers and merchants who supplied domestic consumable articles on credit. They were also involved in moneylending. These agents, popularly known as arhtiya, *katcha* arhtiya, or moneylenders, now act as a crucial link between farmers and buyers. For a commission, they offer to sell agricultural produce in the market. The traditional moneylending system as represented by commission agents is undergoing changes in rural Punjab.

As Punjab's agrarian crisis is deepening day by day, the peasantry has sunk deep into indebtedness. Farmers have become increasingly dependent on commission agents for a steady flow of cash not only for farming, but also for other vital needs. Unlike the traditional usury system, where the moneylenders earned a rate of interest on the principal amount lent for maximum exploitation, under the modern lending system the moneylenders, who are the commission agents, have proliferated in almost all spheres of the rural economy. They have become the exploitative alternative for supply of credit, farm and domestic inputs as well as sale of produce. Not only do they provide credit for purchasing essential articles, but also push the farmers to purchase the same from the shops they, or their friends, own. In this way they control the state's agricultural market.

These agents are an integral part of the state's agricultural marketing system, wherein farmers are under obligation to sell their produce to buyers channelled through them for which they charge a commission, receive payment and then disburse the same to the farmers after deducting outstanding loan amounts (Singh and Dhaliwal 2011: 32–36). The farmers remain at their mercy. All this poses a question mark on the existing system of agriculture in Punjab. Focusing on the pioneer state of the agricultural revolution of the 1960s, this paper highlights the role, ways and means, relevance and significance of the commission agents in Punjab's agriculture.

The paper is based on the study "Problems of *Arhtiyas* vis-à-vis Farmers in Punjab," funded by National Bank for Agricultural and Rural Development (NABARD) (Singh 2014b). For this study, primary data from sample households were collected on specially structured schedule through personal interview method during 2012–13. Six districts and six markets from the selected districts from three agroclimatic zones in Punjab state were selected randomly in proportion to the net sown area in each zone. Thereafter, one market from each selected district was chosen. A total sample of 60 commission agents; 10 from sub-mountainous zone, 30 from central zone and 20 from south-western zone were selected (Table 1). Similarly, 50 farmers from the sub-mountainous zone, 150 farmers from the central zone and 100 farmers from the south-western zone were selected. Thus, a total sample of 300 farmers was taken from the adjoining villages of the selected markets. In this way, a total sample of 360 respondents—both commission agents and farmers—was taken for the study.

Table 1: Sampling Design of the Study

Zone	Total Districts	Selected Districts	Selected Grain Markets	Sample Size: Commission Agents	Sample Size: Farmers
Sub-mountainous (zone I)	Rupnagar, Hoshiarpur, SBS Nagar	Hoshiarpur	Hoshiarpur	10	50
Sub-total	3	1	1	10	50
Central (zone II)	Amritsar, Ludhiana, SAS Nagar, Moga, Barnala, Sangrur, Patiala, Fatehgarh Sahib, Jalandhar, Tarn Taran, Kapurthala, Gurdaspur, Pathankot	Ludhiana Amritsar Patiala	Khanna Ajnala Patiala	10 10 10	50 50 50
Sub-total	13	3	3	30	150
South-western (zone III)	Faridkot, Muktsar, Bathinda, Mansa, Firozpur, Fazilka	Bathinda Mansa	Rampura Phul, Bhikhi	10 10	50 50
Sub-total	6	2	2	20	100
Total	22	6	6	60	300

Source: Field Survey 2012–13.

The paper is divided into three sections. Section 1 focuses the role of these agents in the agricultural economy of Punjab. Section 2 highlights the modus operandi and earnings of these agents. Section 3 brings out the significance and relevance of these agents.

1 What Do the Commission Agents Actually Do?

In the current marketing system of farm produce in Punjab, a commission agent is the most influential person. These agents, who act as middlemen for marketing of produce of the farmers, are a source of credit and they supply articles for domestic and farm needs on cash and credit basis. Some of the important roles performed by these agents that make them an intrinsic part of the rural economy are:

(a) Middlemen in Marketing of Agricultural Produce: Wheat, rice, cotton and maize are Punjab's main crops. They take up almost 85% of Punjab's gross cropped area. Almost all the produce that comes to the market—paddy and wheat has been increasing over a period of time—is sold through commission agents. It was found that per farm production of wheat crop was 171.81 quintals and about 113.39 quintals (65.99%) of this produce was sold through the commission agents (Table 2). For paddy crop, the total production per farm was 136.7 quintals and almost whole of it—about 995—was sold through commission agents. Similarly, about 96% of the production of cotton crop (7.4 quintals) was sold through commission agents.

Table 2: Quantity of Major Crops Sold through Commission Agents by Sampled Farmers in Punjab (Qtls)

Crops	Production (Per Farm)	Production Sold: Per Farm	Production Sold: Per Commission Agent
Wheat	171.81	113.39 (65.99)	5,899.27
Paddy	136.7	135.25 (98.94)	7,036.27
Cotton	7.4	7.1 (95.95)	369.37
Maize	4.98	4.71 (94.58)	245.03

(i) Figures in parenthesis indicate percentages of the respective production.
(ii) Less than 1% of the marketable surplus is being sold through agencies other than commission agents. About 35% of wheat, about 3% of maize and about 0.5% of paddy and cotton are used for domestic consumption, seeds and animal feed.
Source: Same as Table 1.

This affirms the obligation of farmers to sell their produce through the commission agents. In Punjab, on an average, each commission agent facilitates selling of as much as 5,899 quintals of wheat, 7,036 quintals of paddy, 369 quintals of cotton and about 245 quintals of maize. Farmers bring their produce to the already scheduled open markets where the buyers can reach them easily. The farmers pay for unloading, the Punjab Mandi Board arranges for the infrastructure and required equipment; and the charges for various activities like sieving, cleaning, filling of gunny bags, etc, which have been fixed by the board, are borne by the buyers. The only activity performed by the commission agents is arranging labour. But the picture that is often painted by the associations of these agents is that they perform the most important role (acting as a link between buyers and sellers) in the marketing process. They deserve a commission for that purpose, the burden of which lies on both the farmers and buyers of produce.

(b) Supply of Farm Inputs: Capital-intensive agricultural practices require use of various inputs like seeds, fertilisers, pesticides, fuel and lubricants. Commission agents supply almost all these inputs to farmers either from their own or connected shops. A large proportion of the seeds are available with the farmers themselves—they are retained from the previous year crop. Apart from such seeds, the per farm expenditure by farmers on seeds was found to be Rs 8,009, of which seeds worth Rs 545 (6.80%) were supplied by the commission agents (Table 3).

Table 3: Supply of Farm Inputs by Farmers from Different Agencies in Punjab

(Rs/farm)

Farm Inputs	Commission Agents		Public	Cooperative	Total
	Owned Shops	Connected Shops	Agencies	Societies	
Seed	545	5,624.40	1,839.92	0	8,009
	(6.80)	(70.23)	(22.97)	(0.00)	(100.00)
Fertilisers	574	2,873.24	0	25,259	28,706
	(2.00)	(10.01)	(0.00)	(87.99)	(100.00)
Pesticides	2,132.04	11,362.16	0	710.68	14,205
	(15.01)	(79.99)	(0.00)	(5.00)	(100.00)
Fuel and lubricants	436	18,887.52	0	261.6	19,585
	(2.23)	(96.44)	(0.00)	(1.34)	(100.00)
Animal feed	11,280	10,550	0	0	21,830
	(51.67)	(48.33)	(0.00)	(0.00)	(100.00)
Total	14,967.04	49,297.32	1,839.92	26,231.28	92,336
	(16.21)	(53.39)	(1.99)	(28.41)	(100.00)

Figures in parenthesis are percentages from respective totals.
Source: Same as Table 1.

Seeds worth Rs 5,624 (70.22%) were supplied by shops owned by people connected to these agents, and the share of public agencies was 22.97%. For fertilisers, the total per farm expenditure was about Rs 28,706, of which fertilisers worth Rs 574 (2%) were supplied by commission agents, while fertilisers worth Rs 2,873 (10.01%) were procured from the shops owned by people connected to these agents. The share of cooperative societies in the total expenditure on fertilisers was as high as 88%. The total per farm expenditure on pesticides was Rs 14,205, of which pesticides worth Rs 2,132 (15.01%) were supplied from owned shops of commission agents, while pesticides worth Rs 11,362 (80%) were procured from the shops owned by people connected to these agents. The share of cooperative societies in this expenditure was 5%. Fuel and lubricants are other important inputs. The per farm expenditure on them was Rs 19,585, of which fuel worth Rs 436 (2.23%) was supplied from shops owned by these agents while, fuel worth Rs 18,888 (96.44%) was obtained from shops owned by people connected to these agents.

Similarly, the per farm expenditure on various kinds of dairy inputs was Rs 21,830, of which inputs worth Rs 11,280 (51.67%) were procured from shops owned by commission agents, while inputs worth Rs 10,550 (48.33%) were obtained from shops owned by people connected to these agents. Hence, the table shows that commission agents—or the people connected to them—are the main suppliers of required inputs. These agents provide an alternative to purchasing inputs from the market by supplying them on credit, thereby making the utmost of the feeble financial health of farmers which is aggravated by long gestation period.

(c) Supply of Credit: Being a seasonal profession, the time lag between the cash inflow and outflow in farming is long enough to make farmers involuntarily dependant on borrowed funds. Farmers require funds not only to meet farm expenditure, but also for domestic requirements. The modern farm technology, being capital-intensive, has increased the requirement of finance manifold. Dismal profitability levels mean a farmer fails to cater to farm as well as domestic needs, and hence, falls prey to the vicious circle of indebtedness. As a result, their dependence on outside sources for finance has increased (Singh and Toor 2005: 345). The commission agents, through their role in the rural economy, have managed to sweep a large share (about 36%) of the total credit market of the agricultural sector which is as much as Rs 35,000 crore. These agents, also acting as moneylenders, charge exorbitant interest rates. The average rate of interest charged by the commission agents was about 18% per annum and that charged by the institutional sources of finance was 8% (Singh 2014a: 2).

A research study highlighted that the rate of interest charged by the commission agents varied from 15% to 24% (Singh 2014b: 79). However, by providing facilities of easy borrowing procedure, all time, and by providing all purpose and non-collateral credit, these agents attract farmers to borrow at high rate of interest. An oft-repeated plea of these agents is that they advance loans without any security. However, by receiving the amount of produce on behalf of the farmers from the buyers and then disbursing the amount only after deducting the outstanding loan amounts ensures repayment. The study exhibited that Punjab farmers were indebted to the tune of Rs 2,18,092 per household (Table 4). The amount of debt per household was directly related to farm size. It was the lowest for marginal farm households (Rs 1,07,217) followed by small farm households (Rs 1,45,964), semi-medium farm households (Rs 2,28,951), medium farm households (Rs 2,42,146) and large farm households (Rs 3,97,883).

Table 4: Incidence and Magnitude of Farmer Indebtedness in Punjab, 2012–13

(Rs/household)

Farm Category	Sample Size (No)	Indebted Households (%)	Institutional Sources	Commission Agents	Others	Total Amount
Marginal	28	89.29	64,187	25,330	17,700	1,07,217
(<1ha)			(59.87)	(23.63)	(16.50)	(100.00)
Small	66	90.91	76,303	49,622	20,039	1,45,964
(1–2 ha)			(52.28)	(33.99)	(13.73)	(100.00)
Semi-medium	79	93.67	1,17,096	1,08,382	3,473	2,28,951
(2–4 ha)			(51.14)	(47.34)	(1.52)	(100.00)
Medium	102	86.27	1,48,520	93,048	578	2,42,146
(4–10 ha)			(61.33)	(38.43)	(0.24)	(100.00)
Large	25	68	3,56,819	41,064	0.00	3,97,883
(>10 ha)			(89.68)	(10.32)		(100.00)
Average	300	88	1,33,844	76,880	7,368	2,18,092
			(61.37)	(35.25)	(3.38)	(100.00)

Figures in parenthesis are percentages from respective totals.
Source: Same as Table 1.

Punjab farmers borrowed from both institutional and non-institutional sources. An average farm household in the state was indebted from institutional source of credit to the tune of Rs 1,33,844 (61.37%). Although the banking system is highly developed in the state, 35.25% (Rs 76,880 per household) of the total farmer credit was still being advanced by commission agents and 3.38% by other non-institutional sources like big landlords, shopkeepers, relatives, and friends. The field survey also revealed that 6.88% of the total credit was borrowed from sources, with commission agents as middlemen. The fact to consider is that due to inability of the institutional sources to meet the credit needs, the farmers are left with no alternative but to borrow from non-institutional sources at higher rates of interest. Moreover, facilities like loan without security, availability of both productive and non-productive credit, uncomplicated and less time-consuming procedures to avail loan, etc, were some of the undeniable attraction of these sources of finance.

(d) Supply of Credit and Produce Sold through Commission Agents—Interrelationship: In Punjab's agriculture, the commission agent is one of the most common and easily accessible source of finance for farmers, especially the smaller ones. It is presumed that commission agents have been performing a challenging job as they advance non-collateral loans to farmers. Ironically, to their best interest, the indirect mode of payment acts as a surety/security for advancement of loans. Table 5 exhibits the interlinkages between credit taken and produce sold through commission agents.

Table 5: Interlinkage between Credit Taken and Produce Sold through Commission Agents in Punjab (Rs/household)

Farm Category	Produce Sold	Credit Taken	Gap
Marginal	67,594	25,330	42,264
Small	1,52,256	49,622	1,02,634
Semi-medium	2,87,381	1,08,382	1,78,999
Medium	6,14,375	93,048	5,21,327
Large	14,73,360	41,064	14,32,296
Average	4,47,150	76,880	3,70,270

Source: Same as Table 1.

In Punjab, an average marginal farmer sold produce worth Rs 67,594, small farmer sold produce worth Rs 1,52,256; semi-medium for Rs 2,87,381; medium farmer for Rs 6,14,375 and large farmer for Rs 14,73,360 through commission agents. The credit advanced by these agents was Rs 25,330, Rs 49,622, Rs 1,08,382, Rs 93,048 and Rs 41,064 to marginal, small, medium, semi-medium and large farmers, respectively. What is left after deducting loan dues becomes the actual payment to farmers which is further used for repayment of institutional loans as well as fulfilment of domestic, social and farm needs. This shows that commission agent advances credit to farmers on the basis of volume of marketed surplus of the produce. Making farmers sell their produce through commission agents ensures repayment of loans. These moneylenders charge exorbitant rate of interest which is much higher than the institutional rate of interest under the plea of charging for the risks they incur in lending without collateral security and without any assurance of timely payment. However, under the existing indirect payment system, by receiving the payment for the produce on behalf of the farmers and handing it over to the farmers only after deducting the outstanding loan amounts, the commission agents cover all their risks and earn huge interests at the same time.

Many measures have been adopted since independence to improve the credit as well as product market. The expert committee constituted by the Government of Punjab in 1998 to see "Possibilities to Reduce the Number of Intermediaries in Agriculture Marketing System in State of Punjab," recommended reduction in the number of middlemen/intermediaries in agricultural marketing. To streamline the marketing system and reduce the dependence on agents in foodgrain trade, the committee suggested a separate licence for katcha and pucca arhtiya under Section 10 of Punjab APMC Act 1961. The committee also recommended direct purchase by the procurement agencies without the help of commission agents. However, under Rule 11 of the act, the indirect payment system again came to the forefront and the commission agents through their political clout and strong associations, once again proved their mettle.

(e) Supply of Domestic Articles: The system forces farmers to buy substantial amounts of domestic articles and consumable goods like sugar, pulses, condiments and spices, tea leaves, washing articles, edible oil, clothing, etc, either directly from the shops owned by the commission agents or it establishes these agents as a link between third party suppliers and farmers. It was found that expenditure per household on the food items was Rs 34,163, of which items worth Rs 19,278 (56.43%) were purchased from the shops of commission agents, while items worth Rs 14,885 (43.57%) were purchased from other shops (Table 6). As far as non-food items are concerned, the expenditure per household on these items was Rs 50,956, of which items worth Rs 7,487 (14.69%) were purchased from these agents, and items worth Rs 43,469 (85.31%) were purchased from other shops.

Table 6: Domestic Items Purchased by Farmers through Commission Agents and Other Agencies in Punjab (Rs/household)

Article	Commission Agent Owned/ Connected Shops	Other Shops	Total
Food items	19,278 (56.43)	14,885 (43.57)	34,163 (100.00)
Non-food items	7,487 (14.69)	43,469 (85.31)	50,956 (100)
Total	26,765 (31.44)	58,354 (68.56)	85,119 (100)

Figures in parenthesis are percentages from respective totals.
Source: Same as Table 1.

2 Modus Operandi of Commission Agents

The most common mode of exploitation of farmers is the indirect payment system, wherein the commission agents receive payment of the sale of produce from farmers. Other tools of exploitation like non-registration as moneylenders, system of indirect payment of farm produce, non-issuance of J-form, slip mechanism, multiple licences and multiple business constitute the modus operandi through which the business of commission agents flourishes.

(a) System of Payment: Paying farmers through commission agents is the system's backbone. It is an exploitative system. The Punjab APMC Act, sub-rule 24 (II) states that the commission agent shall pay the seller after weighing of the produce is over. So, the procurement agencies do not make payment directly to the farmers. But on 25 April 2013, the state government decided to curtail the role of the commission agents by providing farmers an option of directly receiving payments for their produce after negotiating with purchasers (Singh 2014c: 10). However, in the current scenario of market structure, the farmers are not in a position to avail the option of direct payment system as they are under the pressure of commission agents (Sidhu et al 2014: 21; Johl 2009: 8). Only if this decision is made mandatory and not left optional, the role of commission agents can be curtailed.

On the basis of the Punjab APMC Act, 1961, the Punjab Mandi Board had fixed commission for different crops, including fruits and vegetables. The rate of commission was fixed at 1.5% of the value of farm produce on 26 May 1961 on ad valorem basis, that is, it increases automatically with the increase in market arrivals and prices of crops. However, commission agents have managed to increase this rate from time to time by exerting continuous pressure on the state government. The rate of commission charged for all agricultural commodities, except fruits and vegetables was raised to 2% on 11 April 1990 from 1.5% in 1961 which was further raised to 2.5% on 22 May 1998 (Table 7).

Table 7: Changes in the Rate of Commission Paid to Commission Agents in Punjab

Period		Commission	Average Annual
From	To	(ad valorem basis) (%)	Commission (Rs crore)
26–05–1961	10–04–1990	1.50	25.26*
11–04–1990	21–05–1998	2.00	160.63
22–05–1998	Continue	2.50	508.84

*Average amount of commission from 1971–72 to 1990.
Source: Punjab Mandi Board.

This could happen only on account of the continuous political pressure and lobbying by these agents. Despite various suggestions by academicians, protests by the farmers and visible exploitation by these agents, various political parties in power have disappointed the farmers and have not provided them any respite. The regulations, though in the name of protecting the farmers from the unscrupulous agents, are such that even the most desperate farmer cannot be bailed out. The agents in Punjab earned Rs 25.26 crore per annum, they earned Rs 160.63 crore per annum during 1990–98 and Rs 508.84 crore per annum during 1998–2013. The burden of the same falls entirely on the exchequer as the government is liable to pay the same to these agents.

(b) Non-registration as Moneylenders: As per the Punjab Registration of Moneylenders Act 1938, a person must be registered as a moneylender if he is involved in moneylending business. The act states that only a registered moneylender with a valid licence can file suits for recovery of his loan. If the commission agent registers himself as a moneylender, as per law, he has to maintain accounts for all transactions pertaining to all types of loans for each debtor separately. The Punjab Registration of Accounts Act, 1930 laid an obligation for moneylender to furnish legible statement of accounts signed by the creditor or his agent to each debtor after every six months. This statement, which includes balance or outstanding amount, must be furnished to the debtor on 30 June and 31 December every year. Our field survey revealed that among the sampled commission agents, not even a single commission agent has been registered as a moneylender. The practice of non-registration is detrimental for both the farmers and the government. The prime motive of commission agents for not getting registered is to evade taxes, pursue malpractices like exorbitant rate of interest, use of blank promissory notes, and so on.

(c) Perceptions of Farmers Regarding Direct Payment System: To have an in-depth knowledge of the farmers' reaction to the proposed system of direct payment, the study examined the perceptions of farmers (Table 8). Farm size-wise analysis of data revealed that, majority of the farmers (about 85%) are in favour of a direct payment system. There was a direct relation between the farm size and preference for direct payment system. All marginal farmers sampled felt that the direct payment system in agricultural produce will be beneficial and stimulate growth. About 94% of the small farmers, 87.34% of semi-medium farmers, 81.37% of medium and 48% of large farmers were in favour of the direct payment system for agricultural produce. However, 12% farmers were satisfied with the existing system of payment through commission agents for their produce (Singh and Bhogal 2013: 39). Education plays an important role in deriving a rational decision by an individual. It was found that more than 88% of the illiterate farmers and all of the postgraduate farmers were in favour of the direct payment system. Also, as many as 85% of the farmers who had primary and middle level education, about 81% of the matriculate farmers and 84.62% of the graduate farmers were in favour of direct payment system for their produce.

Table 8: Perceptions of Farmers Regarding the Direct Payment System on the Basis of Their Socio-economic Characteristics in Punjab

Category	No of Farmers	Favour	Against	Indecisive
Farm Size				
Marginal	28	28 (100)	0 (0)	0 (0)
Small	66	62 (93.94)	2 (3.03)	2 (3.03)
Semi-medium	79	69 (87.34)	7 (8.86)	3 (3.8)
Medium	102	83 (81.37)	16 (15.69)	3 (2.94)
Large	25	12 (48)	11 (44)	2 (8)
Total	300	254 (84.67)	36 (12)	10 (3.33)
Education level				
Illiterate	94	83 (88.3)	10 (10.64)	1 (1.06)
Primary	26	22 (84.62)	3 (11.54)	1 (3.85)
Middle	54	46 (85.19)	5 (9.26)	3 (5.56)
Matric	73	59 (80.82)	11 (15.07)	3 (4.11)
10+2	39	33 (84.62)	4 (10.26)	2 (5.13)
Graduate	13	11 (84.62)	2 (15.38)	0 (0)
Postgraduate	1	0 (0)	1 (100)	0 (0)
Total	300	254 (84.67)	36 (12)	10 (3.33)

Figures in parenthesis are percentages from respective totals.
Source: Same as Table 1.

(d) Non-issuance of J-Form: It is mandatory for the commission agents to issue J-form to the farmers after procurement of the produce, wherein the name of buyer, seller, commission agent and crop, volume of produce, incidental and other charges, net amount paid to the farmers are mentioned. Similarly, the commission agent issues an I-form to the buyer of the produce. The details of commodity procured, volume, rate, market charges and total amount paid are mentioned on I-form. However, our field study revealed that about 71% of the respondent farmers had received J-forms from the commission agents, while around 12% did not get it, and 17% of the farmers received only temporary slips from the commission agents (Singh and Bhogal 2013: 51). The non-issuance of the J-form is beneficial to the commission agents as they can evade taxes, market fee, and indulge in other malpractices. Due to the non-availability of J-forms as a certificate of sale of produce, farmers also bear losses as they are unable to get the "bonus price" (generally announced late) or any other compensation announced by the government. The temptation for this malpractice can be well-imagined as 1% exclusion of produce translates to the commission agent appropriating about 12% of the value of this produce, which is equivalent to taxes and development funds levied, and charges from the buyers who in any case pay these charges. However, this happens only for the private buyers. Another study drew similar conclusions (Singh 2009: 9–12). This highlights that the commission agents charge entitled commission for marketing of agricultural produce but in some cases they attempt to evade taxes by understating quantity of produce sold. In this way, they swell their commission from the entitled 2.5% to 14.5% of the value of the produce.

(e) Deduction in Farmers' Payment: The commission agents undertake various amounts of deduction at the time of paying farmers. There is, of course, the rightful share of commission for the sale of produce. However, the commission agents follow a practice of *damami* during times of low productivity. Under this practice, the commission charged by the agent is usually equivalent to the previous year's commission, irrespective of the low produce in the current year. This practice was mainly dominant in the cotton belt of the state during the crop failure of 1997–2003. However, after that, no such deduction has been made as there was no decline in production. It is a pity that the poor farmer, who gets a poor crop in the first place is rendered poorer by damami.

(f) Slip Mechanism: Commission agents also have allied occupations. Farmers always demand money from commission agents for their day-to-day needs. The commission agents prefer to sell articles to the farmer rather than paying cash. Thus, a farmer becomes not only a bonded seller, but also a bonded buyer. "Slip mechanism" is being used by the commission agents who issues a "slip" to farmers for obtaining items from their owned or connected shops. The price of these articles is always higher than the prevailing market price and commodities of comparatively lower quality are given to farmers with slips. Almost all the farmers reported that they bought goods on credit through this slip mechanism. On one hand, this mechanism is a way of exploitation of farmers, and on the other, an efficient business tool which enables their entrenchment in the existing marketing system. Even if commission agents provide quality goods to farmers at a competitive price, the farmers are bound to lose sovereignty of being a consumer. This mechanism enables commission agents to fully exploit the situation to their own benefit and tactfully make extra money which is deducted before the payment of the produce to the farmers.

(g) Multiple Licences: In Punjab for a person to trade in commodities notified under the APMC Act 1961, one has to get a licence from the Punjab Mandi Board for purchase, sale, storage and processing of produce as per Section 10 of the act. Under this legal system only one licence is issued to the commission agents and in case of malpractices, the licence can be cancelled. However, these restrictions hardly act as a restraint for the commission agents who often engage in exploitative practices. They often operate with more than one licence, usually issued to a relative. In our study, it was found that on an average a commission agent had 1.28 licences which facilitated extra earnings.

(h) Earnings of Commission Agents: The total number of farm households in Punjab is about 10.52 lakh. The estimated number of commission agents in Punjab is 20,232. Though the average number of farm households per commission agent is about 52, they control the existing marketing system of agricultural produce and manage to exploit farmers. Often these agents do not issue J-form to the farmers and earn money by selling farm produce to private traders. The total earnings of commission agents in the state through non-issuance of J-forms was about Rs 76 lakh for the year 2012–13 (Table 9).

Table 9: Estimated Total Earning/Exploitation by Commission Agents, Punjab

Sr No	Source of Earning	Punjab (Rs Crore)	Per Commission Agent (Rs)
1	Non-issuance of J-form	0.76	376
2	Income from high rate of interest	592	2,92,606
3	Income from normal rate of interest	780	3,85,775
4	Charging *arhat*	1,033.89	5,11,017
	Total	2,406.65	11,89,774

Source: Calculated from field survey 2012–13.

As mentioned earlier, the commission agents charge a much higher rate of interest than the government banks. By charging exorbitant interest rates they earn Rs 592 crore, that is, each commission agent earns Rs 2.92 lakh and from normal rate of interest they earn Rs 780 crore (Rs 3.86 lakh/commission agent). Besides, the commission agents charge commission (2.5%) from the farmers for facilitating marketing of farm produce. By charging this commission alone, the commission agents earn about Rs 1,034 crore, amounting to an average of Rs 5.11 lakh for each commission agent in the state. Thus, during 2012–13 the commission agents earned about Rs 2,407 crore from various sources. Each commission agent received about Rs 12 lakh per annum by acting as commission agent. Above all, the commission agents enhance their income through slip mechanism, supply farm inputs and domestic articles and act as middlemen in all transactions related with farming and domestic articles, cheating in weighing and pricing, etc. There is a need to inhibit the commission agents which have now become an integral part of the agrarian economy, and are flourishing at the expense of the government and farmers in Punjab.

3 Significance and Relevance

Historically, moneylender or commission agent has been a key player in the two interlinked markets, credit and product markets. This traditional system played an important role in the pre-market agrarian economy of the state, wherein the government was disinclined to enter into the rural lending market, but with the passage of time, the traditional moneylending system has undergone varied changes. The emergence of financial institutions and assured marketing of important crops at predetermined prices are attempts to make the traditional role of commission agent as a creditor and marketing facilitator, less significant; but this seems to be a pipedream. It is important to make structural as well as functional changes in the prevailing commission agent system in Punjab's agriculture. The dominant and exploitative role of commission agents in the existing agricultural marketing system must be checked.

The main cropping pattern of Punjab is that of wheat and paddy which enjoy the assured market price fixed by the government. Also, under the APMC Act 1961, the government facilitates marketing of these crops. In such a scenario, the existence of the so-called middlemen raises eyebrows as the farmer gets produce to the markets, pay for unloading, loading, sieving, cleaning, filling and sewing of gunny bags and the government provides the required infrastructure and equipments; while the agents just arrange for labour. Those supporting the existing system of payment argue that the commission agents would deny credit to farmers if the money is not routed through them, thus making the small farmer suffer. But this is not a fact as the farmers have a favourable alternative. The existing vast network of the financial institutions provides impetus to farmers to break away from the age-old indirect payment system as these institutions offer loans at lower rate of interest and also, the farmers gain from any kind of credit waiver schemes if they have borrowed from institutional sources.

The commission agents charge a higher rate of interest to which the farmers unwillingly accept in desperation. Under the current scenario where the farmers are bonded to the commission agents for the sale of produce, financial needs, supply farms and domestic inputs on credit either from their own or connected shops, etc, at least the rate of interest on borrowing funds must be at par with the institutional sources. The flow of institutional credit to agricultural sector should be increased and the credit should be easily available not only for productive, but also for purposes such as health, education and social festivities. The cumbersome and costly credit delivery system should be improved so that the farmers can get adequate and timely loans with low transaction costs. Easy repayment facilities, along with rebates on interest rates for timely payment should be encouraged so that the farmer can get the required amount of money from institutional sources rather than going to private moneylenders.

The current study found that not even a single commission agent was registered as a moneylender in Punjab in violation of the rules of Punjab Registration of Money-Lender's Act 1938. This shows the loopholes in the existing legal set-up. The farmers remain in dark about their outstanding debts for they are not provided statement of accounts every six months. They are also not provided any certificate of sale in the absence of which they are unable to avail the various relief schemes introduced by the government. There is a need to get all the commission agents registered so as to bring about transparency and effective regulation of the vast rural credit market, especially in view of the fact that about 36% of the farmer' credit is sourced through commission agents. Though the exploitative and profiteering nature of the commission agent business is well known, changing the current system is a challenging job. The owners of agricultural produce lose their status in the market over time as these agents receive 100% payment from the procurement agencies—even though they are entitled to only a fraction of it. These agents form a strong political lobby that is strengthened by strong biases of political parties.

Although, some legal provisions have been enacted and modified from time to time, the commission agents find many ways of embezzlement which continue even when the market is more or less a monopolistic one and where public agencies are the major buyers. The regulations are not strong enough to completely uproot these agents. Since times have changed and procurement agencies are ready to reach the doorstep of the farmers, the government must amend the rules to safeguard the interest of farmers. In a recent meeting to discuss the Food Security Act in New Delhi, the union government officials instructed Punjab government to make direct payments to farmers for foodgrains procured for the central pool. The onus is now upon the state government to check the activities of these agents. The indirect payment system should be scrapped and replaced by a direct payment system through cheques or online payment to farmers. Though such provisions have been introduced, their effective implementation is still under a cloud as some farmers reported during our field survey.

Therefore, alternative marketing systems like direct state procurement system and the cooperative marketing system should be developed. These systems will be beneficial for the producer, consumer and the state. Several provisions of the Punjab APMC Act, 1961 favour commission agents, and the government too devised norms in the manner that benefited these agents. An expert committee that analysed the agricultural marketing system in the state suggested that intermediaries were superfluous if paddy and wheat were procured by the state agencies.

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