

Role of Warehouse Receipt Finance in Augmentation of Economic Growth of Rural India

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Abstract – The Paper describes the current status of agriculture warehousing in the country. It points to the need to develop the Warehousing (Development & Regulation) Act, 2007 and the introduction of negotiable warehousing receipts. The Paper describes the various PPP initiatives taken by the Central Government to develop modern warehousing infrastructure under the National Policy on Handling, Transportation and Storage of Food grains 2000, as well as under the Private Entrepreneurs Godown Scheme, 2008. The Paper concludes that with these initiatives there would be rapid growth of warehousing infrastructure in the country.

Keywords – Warehouse, Finance, Economic, Growth, Rural

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INTRODUCTION

Though warehousing is an independent economic activity, yet it is closely linked with production, consumption and trade. Development of agro processing and agricultural marketing needs a strong warehousing system. Warehousing is the most important auxiliary service for development of trade and commerce. There has been lack of sustained investment in the warehousing sector. Private sector initiatives have been small and sporadic in the warehousing sector. Besides, most of the private sector warehousing capacities available in the country are of poor quality, small, fragmented and do not meet the requisite infrastructure standards.

The warehousing capacity available in India, in public, cooperative and private sector is about 108.75 million MT. The warehousing capacity available in India, in public, cooperative and private sector is as follows:

S. No.	Name of the Organization /Sector	Storage Capacity in Million MT
1.	Food Corporation of India (FCI)	32.05
2.	Central Warehousing Corporation (CWC)	10.07
3.	State Warehousing Corporations (SWCs)	21.29
4.	State Civil Supplies	11.30
5.	Cooperative Sector	15.07
6.	Private Sector	18.97
	Total	108.75

As a result, a substantial quantity of foodgrains is stored in Covered and Plinth (CAP).

Due to record levels of procurement in the last four years, several States have been facing a problem of

covered storage capacity. In the Rabi Marketing Season (RMS) 2011–12, the Food Corporation of India (FCI) has procured more than 280.31 lakh MT of wheat which is around 30 lakh MT higher than the earlier record procurement. As on 01.06.2011, the FCI held 65.5 million MT of wheat and rice stock which is the highest level, ever achieved. This is against buffer and strategic norms of 319 lakh MT of foodgrains.

The Warehousing (Development and Regulation) Act, 2007 has been made effective from 25th October, 2010. As per the provisions of the Act, the Warehousing Development and Regulatory Authority has been set up by the Government from 26th October, 2010. The negotiable warehouse receipt system has been formally launched by Prof. K. V. Thomas, Hon'ble Minister (Independent Charge), for Consumer Affairs, Food and Public Distribution on 26.04.2011 at New Delhi.

The main objectives of the Warehousing (Development and Regulation) Act, 2007 are to make provisions for the development and regulation of warehouses, negotiability of warehouse receipts, establishment of a Warehousing Development and Regulatory Authority (WDRA) and related matters. The Negotiable Warehouse Receipts (NWRs) issued by the warehouses registered under this Act would help farmers to seek loans from banks against NWRs.

The available legal remedies were also time consuming and inadequate. Further, the format of

warehouse receipts used in the country was not uniform. Therefore, it was envisaged to establish a negotiable warehouse receipt system for all commodities including agricultural commodities. On the other, it will allow banks to improve the quality of their lending portfolio and enhance their interest in lending in respect of goods deposited by farmers in registered warehouses.

An effective warehouse receipt system also benefits financiers. The system can reduce the risks of lending to farmers and other agricultural producers by creating secure collateral. By allowing for the simple and quick liquidation of collateral in case of debtor default and the prioritization of the receipt holder's claims vis-à-vis other creditors in liquidation proceedings, the warehouse receipt system can effectively manage risk and loss recovery. The lenders' interests, in case of loss or damage of the stored commodities, are protected by performance guarantees that are required of licenced warehouses.

Lastly, the overall agricultural sector may benefit from mobilized credit and improved performance of agricultural marketing systems. Furthermore, increased storage of agricultural commodities after the harvest season may help stabilize commodity prices, thereby mitigating seasonal price fluctuations that can follow market liberalization in the agricultural sector. Also, a comprehensive warehouse receipt system can improve product quality through setting quality standards, improving storage and handling and overseeing compliance.

ROLE OF WAREHOUSE RECEIPT FINANCE IN AUGMENTATION OF ECONOMIC GROWTH OF RURAL INDIA

The Core Group setup by the Government of India in 2004 for drafting the Warehousing (Development and Regulation) Bill had studied and examined the negotiable warehouse systems prevailing in other countries. In the US Warehousing Act, 1916, the licensed warehouses have to meet certain basic requirements in terms of physical facilities, capital adequacy, liquidity, managerial qualities and insurance coverage. The same criteria have been followed while drafting the Warehousing Bill. The provision for accreditation agencies has been made in the Act to verify these basic requirements. The WDRA is also considering establishing a system of independent inspection of warehouses on the lines of the US system. The important features of NWR in Canada have also been incorporated in the Warehousing Act in India.

In order to reduce storage and transit losses of food grains at the farm and commercial level, to modernize the system of handling, storage and transportation of food grains procured by the Food Corporation of India (FCI) and to bring in additionality

of resources through private sector participation, the Government of India had approved a National Policy dated 15th July 2000.

Under the scheme, the Food Corporation of India would now give a business guarantee of ten years for assured hiring. A capacity of about 15.2 million MT is proposed to be created in 19 States under the Private Entrepreneurs Godown (PEG) scheme through private sector participation and Central and State Warehousing Corporations.

The Planning Commission is also keen for augmentation of storage facilities for the storage of food grains through Public Private Partnership (PPP). There is a proposal for setting up modern silos with a total capacity of 2.0 million MT in PPP mode.

Warehouse receipts are documents issued by warehouses to depositors against the commodities deposited in the warehouses. The warehouse receipts may be either non-negotiable or negotiable. The negotiable warehouse receipt may be transferred either by endorsement or by physical delivery. Any one, either the original depositor of the goods or the holder of NWR in due course (transferee) can claim the commodities from the warehouse. The NWRs issued by the warehouses registered with the WDRA provide secure collateral for banks by assuring holders of the existence and quality of agricultural commodities deposited in the warehouses.

Effective warehouse receipt systems allow agricultural producers to access credit at competitive rates by borrowing against receipts issued for goods stored in independently controlled warehouses. These systems enable producers to delay the sale of their products until after harvest, to a moment when prices are generally more favorable. Warehouse receipt systems can therefore mobilize credit for the agricultural sector and improve agricultural trade. A supportive legal framework is a common precondition for confidence in and acceptance of warehouse receipts for producers, credit providers and market participants.

Warehouse receipts are documents issued by warehouse operators that state the ownership of a specified good or commodity, its quantity and characteristics and in what warehouse it is stored. The basic concept for warehouse receipt financing for agriculture is largely the same in all countries. A farmer or other agricultural producer deposits a quantity of agricultural products in a warehouse. The warehouse issues a receipt to the producer, who can then use this receipt as collateral to obtain a loan from a creditor such as a bank or an agricultural inputs supplier. The producer sells the stored goods underlying the warehouse receipt when they are mature or market conditions are

favourable. Depending on the agreement, the buyer pays either the creditor or the producer who in turn pays the creditor. After the loan is repaid, the creditor returns the warehouse receipt that the buyer takes to the warehouse to retrieve the bought goods.

Effective and enabling legislation should protect the rights and obligations of depositors, creditors and warehouses to strengthen confidence among participants and ensure the wide use of warehouse receipts.

The form of legislation on warehouse receipts and its details differ depending on the legal tradition of a country and the time of its initial introduction. These forms of legislation include a comprehensive specific law governing the overall warehouse receipt system or basic general provisions contained in the commercial or civil code. The majority of the countries reviewed in this study tend towards the first.

DISCUSSION

The analysis of the core elements of warehouse receipt legislation in this publication shows the reader the spectrum of options for their regulation and a description of their potential benefits, weaknesses and relevant considerations. It points to guidance on good practices for developing enabling legislation for effective warehouse receipt financing according to country needs. However, there are no general recommendations or is no single model design for warehouse receipt legislation. Rules for effective organization and operation depend on country-specific legal, agricultural and economic conditions, and a legal framework should be tailored accordingly. The analysis allows a country that wishes to introduce or reform warehouse receipt legislation to compare the contextual factors with its own and to assess the available options for the system's legal design in light of its own specific conditions.

The basic concept of warehouse receipt financing for agriculture is largely the same in all countries with a warehouse receipt system. The first step is a farmer or other agricultural producer deposits a quantity of agricultural products in storage. Depending on the country and type of commodity, deposits may be made in a public, private or field warehouse. A public warehouse stores commodities for third parties and acts as a custodian for a set fee. A private warehouse is a storage facility on the site of a manufacturing or processing company. A field warehouse is a storage facility that is, entirely or in part, leased by a collateral management or credit support company from a depositor or a public warehouse for a nominal fee. The collateral management or credit support company is responsible for the control of the stored commodities.

Putting goods in storage allows producers to extend the period in which they are able to sell the harvested goods and to wait until more favourable market conditions arise. Upon maturity or in favourable market conditions, the producer sells the stored goods underlying the warehouse receipt (5). Depending on the agreement, the buyer either pays the creditor directly (6) or pays the producer who in turn pays the creditor. Upon loan repayment, the creditor returns the warehouse receipt (7) and allows the buyer to go to the warehouse, present the receipt (8) and retrieve the bought goods (9). Should the producer default and fail to repay the loan upon maturity, the lender holds the warehouse receipt and the ability to seize and sell the underlying stored goods to recover its loss.

A well-designed warehouse receipt system can provide benefits for all concerned parties including producers, traders, creditors and warehouses, as well as for the agricultural sector overall. Benefits may vary from one country to another, depending on country conditions. For farmers and other agricultural producers, one important benefit is that it facilitates access to credit and allows for the delayed sale of agricultural products until after the harvest season, when price conditions are more favourable. Market liberalization in the agricultural sector can contribute to lower prices during harvest season, which subsequently raises prices as agricultural stock depletes. But warehouse receipt systems enable producers to store their goods in a licensed warehouse after harvest and wait until prices rise again to sell their produce. In the meantime, producers may use the warehouse receipt as collateral to obtain short-term credit to finance working capital requirements or household consumption needs.

A warehouse receipt system can also enable smallholder farmers to participate in commodity markets by providing them with the possibility to consolidate their crops in a warehouse and sell jointly for higher prices to larger traders or processors further down the value chain. This is an important advantage in developing countries where evidence shows that smallholders could benefit from the system especially through participating in marketing groups.

The system also helps reduce market transaction costs by allowing for independently enforced commodity standards, in particular that receipts are issued when commodity-specific quality standards are met.

Effective warehouse receipt systems have other benefits for smallholder farmers. For example, the warehouse services could have benefits that depend on the needs of producers in a given country. Smallholder farmers in particular can benefit considerably from the provision of postharvest handling and storage offered by warehouses, including cleaning, drying, grading,

packaging, storing and preserving the product's quality so that producers can sell it later for a favorable price.

CONCLUSION

A warehouse receipt system can facilitate market transactions that are beneficial for various stakeholders, which can enhance agricultural trade. Regional trade can be facilitated through harmonized commodity standards that allow trade of commodities based on their description and identification. And an effective and transparent warehouse system provides government authorities with timely and accurate information about the aggregate of stored agricultural commodities in the country, which can help them forecast food shortages.

It should be noted that existing agricultural policies, market structure and legal framework must be carefully examined to determine the suitability of a warehouse receipt system for a given country. Factors that are likely to impact the potential benefits of a warehouse system include government interventions in relevant markets; existing agricultural trade policies (e.g. import restrictions, export taxes or export bans); the price dynamics governing the agricultural market; and the extent and nature of agricultural subsidies applied in the country. Likewise, the broader legal framework – concerning collateral, property rights, insolvency and enforcement procedures – may contain provisions that warehouse receipt legislation may not derogate from and that may limit its benefits.

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