

Role of warehousing in the national market for agriculture

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National market: Components

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- 2 No mandi-wise license requirements for transactions.
- 3 This requires:–
 - 1 standardisation across information availability, regulation, monitoring and enforcement;
 - 2 de-linking of assaying, storage and sale; and,
 - 3 free movement of agricultural commodities across borders.
- 4 Market moves from one based on trust to one based on contract enforcement.

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- 2 Adds value to the agricultural market –
 - 1 de-linking venue of storage from production enables independent maintenance of agricultural commodities.
 - 2 allows for independent analysis of the quality and quantity of commodities.
 - 3 increases efficiency by de-linking the point of storage and sale.
 - 4 reduces the power of the intermediary by de-linking assaying and storage from sale.
 - 5 the issuance of warehouse receipts enables post-harvest credit, and can potentially enable private capital investment into farming.
- 3 Good warehousing is therefore necessary for a national market in agriculture.

The WR market - Hypothesis

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- Dynamic, growing rapidly.
 - Government-owned
 - Captive warehouses
 - Collateral managers/warehouse service providers, and
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 - Standalone warehouses.
- Wide spectrum of quality of warehouses.
- For goods owners/lenders/traders:—
 - Low information about past performance
 - Inadequate assurance about future performance
 - Poor risk absorption capacity
- Rise of closed user groups and collateral managers
- High premium for the few high-quality warehousing service providers

The warehousing market - survey data

- 1 WDRA commissioned the first ever sample survey on warehousing practices and infrastructure: 1,000 warehouses (above 2,000 MT), 3,000 depositors, 170 lenders across 100 districts. (Based on NABARD database of approximately 65,000 warehouses):

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 - 1 75% of warehouses were privately owned, 19% are govt. owned (9% PACs)
 - 2 Most private warehouses are sole proprietorships.
 - 3 48% of warehouse owners say they are new to the business (1-5 years).
 - 4 More than 60% of warehouse owners chose the location based on proximity to Mandis.
 - 5 Avg. cost of building a warehouse across the sample - Rs. 2 cr (minus land - 52% owned the land before).
 - 6 45% of the sample was in the 2,000-6,000 MT range in terms of capacity. 25% of warehouses were above 10,000 MT.
 - 7 25% of depositors identified as farmers, 64% traders, and 11%

The warehousing market - survey data

- 1 Farmers with small to medium land holdings (2-10 hectares) are largest sub-group of warehouse users.
- 2 Most users state they use licensed warehouses - 85%.
- 3 Majority of warehouses claim to meet BIS standards - 60%.
- 4 Approximately 40% of warehouse owners claim they conduct quality testing at the time of deposit.
- 5 Around one third of warehouses outsource quality testing.
- 6 PAC warehouses generally have much lower infrastructure standards and risk mitigation measures (e.g. insurance).
- 7 Primary reason for using warehouses is just pure storage (60%). Pledge financing is a reason for storage for close to one-third of depositors.
- 8 Lenders stated commodity finance comprises more than 50% of their business (58%). They stated that loans against WRs have grown by 26% in the past 5 years.

Immediate takeaways

- ① Market is diverse, dynamic.
- ② Farmers constitute a larger proportion of warehouse users than generally thought (a lot of govt. attention is paid on getting farmers to use warehouses).
- ③ Warehouses above 2,000 MT capacity are generally storage worthy.
- ④ Financial risk absorption capacity is lower than it should be - low insurance coverage.
- ⑤ Market is developing on its own. However,
 - ① frauds, major disputes will potentially retard its growth.
 - ② availability of better information can provide a filip.
 - ③ enforcement of standard practices and minimal quality is necessary to enable a national market.

Warehouse regulation as a public good

- 1 General problems in the sector revolve around lack of good information about the warehouse or goods in a warehouse, and their security.
- 2 Literature from Africa - CMC dominated markets - issues regarding access, equity - benefits mainly to large farmers, traders.
- 3 Good regulation - creating minimal standards and entry barriers, proper supervision and enforcement, increasing information availability can ensure equitable market development.
- 4 This is required for a national market.

Role of regulator

- 1 WDRA has mandate to develop *and* regulate market for NWRs.
 - Regulate and supervise: warehouses/warehousemen; accreditation agencies; certifying agencies; other relevant agencies.
 - Maintain panel of arbitrators for dispute resolution, and appoint arbitrators.
 - Facilitate development of warehousing market: promote efficiency, promote professional organizations.
 - Regulatory overreach may inhibit growth. Nuance required.
- 2 Advantages of WDRA as a regulator: national standards, supervision framework, national electronic warehouse receipt system.

WDRA value proposition

WDRA draft warehouse registration rules:

1 Relevant entry barriers:

- 1 Storage worthiness of infrastructure
- 2 Risk absorption capacity
- 3 Profile of operator

2 Performance requirements:

- 1 Standard operating procedures
- 2 Performance obligations: non-discrimination, KYC processes.
- 3 Information reporting requirements

3 Inspections:

- 1 Mandatory inspections at time of registration
- 2 At least one annual physical inspection and complete audit of warehouse operator.
- 3 Inspection of compliance with own SOP.

WDRA value proposition

Electronic Negotiable Warehouse Receipts - draft Repository rules

- 1 One key regulatory role is to create better information.
- 2 WDRA will license repositories for issuing e-NWRs. No physical receipts will be issued.
- 3 Repositories will enable pledging, can also be used for NAM, exchanges.
- 4 Will be critical to the success of having warehouses designated as mandis.

In addition, WDRA will create a portal to provide other warehouse related information.

Benefits of regulation

- 1 Common regulatory entry barriers will create a minimal quality standard.
- 2 Regulation of operational practices will again create standardisation in practices.
- 3 Common risk-based inspection framework.
- 4 e-NWR repository allows:
 - 1 national access to local information
 - 2 reduces scope for fraud, duplication
 - 3 serves as a base for other electronic platforms in the agricultural market

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- 2 Good, transparent, nuanced regulation can provide a filip
- 3 Other professions such as grading, inspection can become specialised, leading to the modernisation of the agriculture sector.
- 4 e-NWR repository is an ideal base for electronic platforms in this sector.

Thank You.