21st January, 2019 | The Hindu Business Line

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Farm Reform

Setting store on warehouse receipts

If regulation turns supportive and the RBI mandates banks to lend against electronic negotiable warehouse receipts (eNWRs), they may soon take off

RAJALAKSHMI NIRMAL

Two weeks ago, I was in Suryapet district of Telangana. Here's a short story of an English-speaking farmer from there, who greeted me with "good afternoon' as I wished "*namaskaram*".

Venkateshwara Rao hails from Chinna Nemila village in Maddirala tehsil. He has a five-acre land on which he cultivates paddy, the *samba mahsuri* variety. He has studied till class 10th. Every year, he stores a good portion of the harvest to sell after 10-12 months. Aged *samba mahsuri* earns a better price. But a good portion of the stored grain get damp during rains and also eaten by rodents.

Then, a friend introduced Rao to the Central Warehousing Corporation (CWC), a public warehouse operator. For the past two years, Rao has been a happy man. He stores his produce in a CWC warehouse and remains worry-free. He spends money on transporting the paddy from his farm to the godown. But it still makes sense, he said, as he saves at least 5-6 kg per bag (of 65 kg), which would have otherwise been lost to rodents.

Rao currently has 87 bags of paddy at the CWC warehouse in Suryapet. The current market price of paddy is ₹1,800/quintal. Rao said he will wait till the price gets to ₹2,400/quintal to sell the stock.

This is the ideal scenario: after harvest, a farmer sells only a portion of his produce and stores the balance to sell later when supply thins and prices go up. But can small farmers actually do this? Most of them lead a hand-to-mouth existence and would want to sell their crop immediately and get money. So, what's the way out?

I posed the question to Suryapet CWC warehouseman KV Satyanarayana. "Small farmers can use the warehouse receipt to raise finance of up to 75 per cent of the stock's value. Through eNWRs (electronic negotiable warehouse receipts), the process can be really quick now."

Warehouse receipt financing has not worked in the country for many reasons, which include lack of trust in the instrument and increasing number of frauds.

So then from where comes this con-

On my way back to the city from Suryapet, I travelled along with an officer from National E-Repository Ltd (NERL). From the conversation which lasted over an hour, I learnt that a silent revolution has been happening in rural India in warehouse receipt financing — thanks to the entry of repositories, and physical warehouse receipts giving way to eNWRs.

tion of repositories and creation of eNWRs.

Following this, in 2017, the National Commodity and Derivatives Exchange (NCDEX) and Central Depository Services Ltd (CDSL), a company that offers depository services for capital market participants, made an application to SEBI and got the sanction to offer commodity repository services.

Venkateshwara Rao

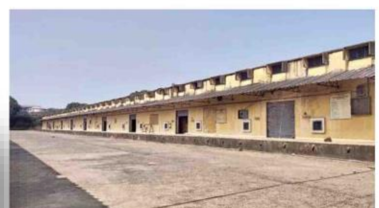
NERL (established by NCDEX) and CCRL (CDSL Commodity Repository Ltd) are now the two commodity repositories in the country that create, store and keep track of eNWRs for their customers.

eNWR aims to transform agri-financing by bringing in transparency and real-time traceability of stocks, leading to better risk management for warehouse service providers, and

after getting back to Chennai, I reached out to the repositories to understand the process.

Farmers who wish to stock their commodity and get an eNWR, have to approach a repository registered with NERL/CCRL. But for now, the repositories are reaching out to farmers through CWC/SWC or private warehouse operators and opening accounts. Once the repository account is opened, the farmer has to take his stock to a WDRA-registered warehouse, where it will be assayed and graded. The warehouseman will upload the assaying results online and initiate the process of issuing an eNWR through the repository.

An eNWR significantly reduces the processing time of a pledge loan. Given that it is only the negotiable warehouse receipt that has become electronic now, it is, any day, a better tool than the physical warehouse receipt that is non-transferable.



Suryapet CWC warehouse

A negotiable warehouse receipt (NWR) is one where the ownership of the stock in the warehouse can be transferred by transfer of the instrument (without physically moving the stock).

The advantage with NWRs is also that RBI permits banks to lend against NWR from WDRA-registered warehouses at the crop loan rate of 7 per cent.

But, there is very little awareness on this benefit. Many farmers today stock their produce in unregistered warehouses that issue physical warehouse receipts, and borrow against them from banks at over 11-12 per cent.

Unregistered warehouses

India's total warehousing capacity is an estimated 158 million tonnes; which is, in fact, a good number. While about 50 million tonnes of them are in the private sector, the rest are divided among FCI, CWC, State Warehousing Corporation (SWC), State agencies and the cooperative sector. But the problem is: not all of these warehouses are registered with WDRA.

Currently, only 870 warehouses with an aggregate capacity of 7.25 million tonnes are registered with WDRA.

Warehouses do not register with WDRA as there is no legal compulsion.

According to the Warehousing (Development and Regulation) Act, 2007, only those warehouses that intend to issue NWRs need to register with the authority.

Thus, warehouses that want to keep themselves away from the purview of regulations can do so by refraining from issuing NWRs and issue only physical warehouse receipts.

The risk in lending against a physical warehouse receipt of an unregistered warehouse is that if there is pilferage/loss of stock, the warehouse will not take responsibility. But banks turn a blind eye to facts and lend

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- Cheaper registration fee
- No criteria on minimum capacity

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for warehouses operated by farmer producer organisations (FPOs) and co-operative societies.

There is no minimum net worth requirement for an applicant who is a FPO/co-operative society; it is enough if the owner's net worth is positive. Also, the registration fee per warehouse has been ₹5,000 irrespective of capacity, compared with ₹20,000-30,000 (depending on capacity) for others. Even warehouses with capacity of just 100 tonnes can be registered; there is no criteria on minimum size.

Unwillingness of banks

Over their one-plus years of operation, the two repositories claim to have reached out to a good number of farmers and other participants in the value chain. NERL, which started operations in September 2017, has opened 1,600 beneficiary accounts, of which 150 are of farmers and FPOs. It has roped in 200 warehouses, 71 repository participants and a few banks.

But lending against eNWRs hasn't yet begun in a major way.

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But this was from an NBFC at the rate of 18 per cent per annum, as banks haven't come forward to lend.