Review Of Warehouse Receipt Financing Method Of Funding Working Capital

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Abstract: The paper identifies the various aspects of warehouse receipt financing method of funding working capital. The importance of WRS financing, types, limitations, scope to develop in future and ways to benefit individual farmers, producers in short- term. Lack of awareness about WRF and EWRF among the rural farmers and others and insufficient warehouses and banking facilities are the notable constraints. By providing sufficient warehouses to store with warehouse receipts or electronic warehouse receipts, simplifying bank procedures to avail WR finance (loans), the farmers and logistic-holders can be profited by storing their produces (products) and avail required finance with a view to mitigate the short- term financial requirements. “Warehouse Receipt Financing- Golden Eggs in the Hands of Depositors”

Keywords: Warehouse Receipts, Finance, Electronic Warehouse Receipts, Collateral, Commodity, depositors, farmers and risk

1. INTRODUCTION
Warehouse Receipts are the certified documents issued to the depositors by the warehouse managers of the commodities that are stored in the warehouses. The warehouse receipts give the assurance to the depositors that their commodities are safe and guaranteed quality, quantity and grade. The warehouse receipts can be used as collateral to avail loans (finance) from the financial institutions by the depositors (clients). Warehouse receipt financing concept date back to ancient times i.e. the first written records is found in ancient Mesopotamia. Warehouse Receipt is a negotiable instrument that can be used by the clients like farmers, processors, traders and others, to secure short- term finance from the financial institutions who accept the receipt as collateral. It is also known as “Inventory Credit”. The warehouse receipt can be presented in bank to receive a loan. The bank will lend the fund as loan to a specific percentage of the value of commodities that are stored in recognized warehouses. The clients can sell the commodity at maturity to the buyers who then will pay the bank in direct or pay the borrowers who then repay the bank. The banks will surrender the warehouse receipts to the buyer or seller on receiving the specified fund. Then the receivers of warehouse receipts can submit it to the warehouse manager to release the commodity. Public warehouses are given more importance in financial institutions.

2 LITERATURE REVIEW
Gideon E. Onumah (2003) found that the sustainable provision of rural financing is useful to overcome the problems in the rural financial environment, which includes high and covariant risks, lack of suitable collateral, missing markets for risk management instruments. Provision of rural population opportunities to manage and reduce the risks and will reduce the “wrinkles” on their faces that is on the perception of being high risk borrowers and it will improve their chances of receiving formal credit. The rural borrowers can get bank loans with acceptable collateral which is readily available with them i.e. Warehouse Receipts. However, WR finance is often unavailable to rural producers in Africa. The Zambian model, all-comers were open with a regulated WR system that would offer sustainable system. Dr. Devajit Mahanta (2012) found WRS is one of the important aspects of the Indian commodity derivative market as an alternative solution which can be used as collateral for accessing the short- term finance by the market participants. The system is created by initiating measures to grade commodities in accordance to their quality, rating warehouse in accordance to their size, integrity, reputation etc. In India, the receipts which are issued by Central/ State Warehouses are accepted as collateral by banks and there is scope for expanding infrastructure of warehousing by making it mandatory for the banks to endorse private WRS. Zakic, V., Kovacevic, V., Ivkov, I., & Mirovic, V. (2014) studied the economic viability of the use of warehouse receipts based on the analysis of trends in product prices, storage costs in public warehouses and interest rate of loans against warehouse receipts for the storage of wheat and corn. Case study method and econometric model has been used for this study and concluded that the strategy of using public warehouses and postponing is the profitable strategy for the sale of grains after harvest to the agriculture producers. They have also pointed out that there is of great importance to introduce electronic warehouse receipts, need for establishment of public warehouses for both agricultural products and industrial products with all the three components such as licensing producers, inspection body and indemnity fund. World Bank Group (2015) reported that in many developing countries, agriculture producers do not own properties that can be leveraged for loans as collateral from financial institutions. Warehouse Receipt Financing is a mechanism to address the short- term financial needs to the farmers by securing loans from financial institutions. They underwent the pilot study and the first step raised awareness among farmers about the product with critical information about financial options available. They provided double key option that one key with manager of warehouse and another one with the bank. The pilot study resulted that the cost of transporting commodities from rural area to warehouse as a major challenge. Also there was a key issue for all warehouse
receipt and inventory credit operations remain extend of price fluctuations. For enhancing the efficiency of the product, the commodity types to be stored and financed are to be diversified.

3 MITIGATING PRICE RISK
Shaban Kapala Millao (2011) stated that producers in most developing countries find difficulty to mitigate price risk, and it affect their income and ability to repay loans. The study was to assess the performance of WRS by adopting Simple random sampling techniques were employed in selecting farmers and descriptive and quantitative techniques were employed to meet the objective of the study. With the presence of WRS, the profits of cotton farmers get increased. The major challenges were insufficient information system, poor knowledge about the system, unimproved infrastructure. WRS should be adopted in other crops, because apart from credit facilities provision, it enables traders to pool financial resources and form networks for marketing. Mr. Nachiket Mor and Dr. Kshama Fernandes (2009) found the existence of warehouse receipt financing has been in India for a long time and traders and large farmers receive benefits by availing the mechanism, but small and marginal farmers have been virtually left out of it. In the point of view of the small farmers' the advantages and disadvantages of Warehouse Receipt Financing in India have been discussed. In spite of the growth projections, what remains the reality of the agriculture- related business is its high dependence upon seasonality. The two major problems of farmers are non- availability of intermediate finance and lumpy cash flows. Even if financing against warehouse receipts appears to be an attractive option, there are concerns due to its inherent speculative nature. Warehouse Receipt Financing is profitable only if the expected increase in value of the stored product is really more than the cost (includes storage cost, borrowed funds such as loan principal, interest payments, bank fees etc). As a result of IFMR Trust’s Pilot in Kadi Taluka (Gujarat) the WR financing would dramatically reduce inter-seasonal price fluctuations, small and marginal farmers who have no choice to resort to distress sales can be benefited. The mechanism can provide the rural entrepreneurs by stimulating long- term rural economic growth and development with a route to capital accumulation that can be invested in more diversified and sustainable ventures, it will also contribute to the overall economic growth.

4 TYPES OF WAREHOUSES

- Public warehouse- Open to anyone on a non-qualifying basis.
- Field Warehouse- Managed on the premises of another business.
- Dual- key Warehouse- The depositor and the bank will have keys to the warehouse for access facility.
- Self-managed or Single- key Warehouse- The warehouse is completely controlled by the depositors.
- Trading Warehouse- On behalf of the depositors, the warehouse operator trades the stored commodity.

Warehouse financing experience in Niger (1996) provides the following insights: The banks felt difficult to meet the scheduled appointments in rural areas as it was difficult to contact the bank in the even that a producer could not make an appointment. They concluded that individual producers need to be educated on the market’s behavior and to ensure that profits are not lost by speculative activities, they should be given adequate tools. Richard Lac R Oix and Panos Varangis (1996) found warehouse receipt provide an essential addition to the store of negotiable instruments in a financial sector of a country. Especially they can be useful in developing and transition economies where new market instruments need to be created. Warehouse receipts provide a method of collateralizing crops and lowering the risk to the lender, hence lowering financing charges to the borrower and it also provide a marketing tool to the emerging private sector, hence allowing orderly withdrawal of the state from commodity marketing. Reserve Bank of India Working Group on Warehouse Receipts & Commodity Futures Report (2005) explained that the overall efficiency of markets, especially in the agribusiness sector, massively improves if producers and commercial outfits are able to easily convert the inventories of agricultural raw materials or finished products into a readily instrument. Producers receive a receipt against goods of a given quality, quantity and grade deposited in accredited warehouses and these negotiable instruments, can be traded, sold, swapped, used as collateral to enable borrowing, or accepted for delivery against a derivative instrument such as a futures contract.

5 ELECTRONIC WAREHOUSE RECEIPTS
Working Group On Warehousing Development And Regulation For The Twelfth Plan Period (2012-17) Report (2011) found the storage capacity available with FCI and CWC and SWCs is used for the storage of food-grains procured by Government agencies. But the storage space available in the country is not sufficient to cater to the procured stocks. So the substantial quantity of food- grains is stored in Cover and Plinth (CAP) storage. It reduces the chances to avail the warehouse receiptfinancing to the farmers. Report also laid that Electronic Warehouse Receipts are the warehouse receipts that are in electronic forms. It electronically connect farmers and consumers which will go a long way in eliminating intermediaries. EWR reduce the manual paper handling, elimination of transportation of paper warehouse receipts, reduction in chances of forgery and enable quick access of information. Shalendra, M.S. Jairath, Enamul Haque and Anu Peter V. (2016) explained that even though the warehouse receipt system has the potential to improve the access to institutional credit of farming community, the progress of loan against NWR is notified to be slow. They have analyzed the issues responsible for limited popularity of pledge finance amongst farmers. The lack of awareness of physical availability of warehouses, procedures are some important factors that limit the use of loan against a NWR. By giving sufficient awareness about advantages of WRS loans needs to be generated by involving banks, Krishi Vigyan Kendras, State Agricultural Marketing Boards, Regulated Market Committees, NGOs, Co- operatives, FPOs and APMCs, warehouse receipt financing can be improved. With a view to inculcate storage habit and promote storage among the producers, warehousing should be encouraged under public- private partnership mode. Nina Holle. Working paper, June 2017 found the demand for agricultural loans in developing countries is high. But still, farmers and producers are unable to obtain credit to purchase
agricultural inputs and invest in equipment due to lack of collateral limiting the growth of business and productivity. These collateral constraints can be circumvented by using the movable assets i.e. WRS. The depositor can use it to obtain working capital until they sell the commodity depending on the nature of the warehouse receipt.

6 CONCLUSION
From the views of different authors, we can conclude that warehouse receipt finance has wider scope to aid the depositors by availing finance (loans) from banks and other financial institutions. In future, by removing the constraints, aware the rural farmers and other producers about the WRS and EWR and minimizing the financing procedures, the Warehouse Receipt Financing method can reach its objective of providing short-term credits and helping the needy people. Also new mechanism should be adopted to avoid forgery. The Working Capital Fund requirement can be lessened by Warehouse Receipt Financing which in turn helps to maximize the returns by minimizing the risk.

“AVAIL THE WAREHOUSE RECEIPT FINANCING & AVOID SHORT-TERM ILLIQUIDITY”

7 REFERENCES


