

---

## **Bulk Warehouse Receipt Funding (BWRF)**

**Debasis Dash,  
Asst. Prof. of Marketing, USBM, Bhubaneswar**

### **Introduction:**

This article is an output of my personal experience and study, on farmer funding (especially Exporters operation in Delhi, NCR, including Kuruksetra, Dhand, etc.).

I came across this knowledge, when I was working with ICICI Bank, New Delhi, in the RMAG (Rural Micro-Agribusiness Group), as Manager Operations and later as Manager Stock Audit Team during the period 2006-2008.

Though the concept of farmer funding is not new, but few knowledge has been published in this regard for the awareness of managers and people in general.

I strongly feel that people should know the process of farmer funding. This would help the Indian farmers to realize that they can earn from their stocks of produce as well.

Among the various types of funding, this paper aims at throwing some light on RWR (Retail Warehouse Receipt Funding) which is most common among agricultural funding houses, especially Banks.

### **Text:**

Agribusiness is used to describe agricultural business as well as agriculture and business. It includes the growth, funding and sales of all crops, dairy products, oil products, processed food products etc.

Numerous numbers of articles, publications and departmental works conducting research, training and teaching on agricultural aspects have been existent since decades, but have achieved pace only in recent years. This has been a major area of focus in recent days, as the Indians at large have finally realized that growth is possible, only if importance is given to the core area of business, which is agriculture. Forty percent of the country's population is still under the purview of agriculture, and thus has to be developed, for India to develop.

Agricultural business includes farm instruments such as tractors, tillers, grass cutting machines, irrigation facilitating instruments, and other instruments used by farmers for production; food processing industries for preparing processed food to be stored for use for a longer period than their normal life cycles, to help cater to requirements of different class of the population. One of the major contributions of the business is the dairy industry, which uses milk as raw material to provide a number of milk products like milk powder, butter, cheese, ghee, curd, paneer, ice-cream, processed milk etc. The

major dairy industries are Mother Dairy (India's largest milk and milk product, producer) and different milk cooperatives of different states.

Let us talk about an important aspect of agribusiness. Money is considered to be the life-blood of any business and so for agriculture. Besides assistance from the Central and State Governments in this regard, certain financial institutions have extended hands farmers and agricultural produce, to enable them to cater to the sector. Certain Banks have played applaud able roles in this field, some of them being ICICI Bank, HDFC Bank and the State Bank of India, that have been assisting agribusiness for over a decade now.

Various types of financing in recent years are- Farmer financing; Crop loans; Tractor loans; Commodity financing- BWRF (Bulk Warehouse Receipt Financing), CWC (Central Warehouse Corporation), SWC (State Warehouse Corporation), Demat Receipt Financing; Vendor Bill Discounting; Pledge loans; Short term loans; loan receivables; Agri Credit Line (loan against mortgages), etc.

Farmer financing is done directly to farmers through a provision of granting loans as per the nature and repayment capabilities of the farmers. The loans may be of three types: short term (3-18 months) for crops; intermediate terms (18 months – 10 years) for maintenance of machinery and live stock; and long term (more than 10 years) for acquiring and developing land and building.

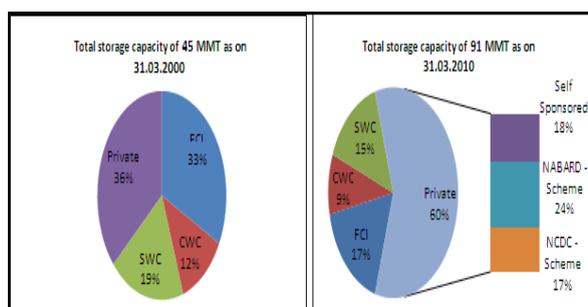
### **Bulk Warehouse Receipt Funding (BWRF):**

Commodity based financing is the main area of focus for Banks, since the risk involved in it is comparatively very low. Since the possession of commodity is with banks until the repayment of loan amount, and can later be owned or taken over by banks if the loan is not repaid on time, this becomes a more secure form of financing.

BWRF is done on listed warehouses which are also registered, and may be private, CWC (Central Warehouse Corporation) or SWC (State Warehouse Corporation), FCI (Food Corporation of India). Commodities are stored in such warehouses so that the farmers can sell them in future when the commodity prices increase.



We all have gone through various theories of Demand and Supply in Economics. This stands to be a good example of the theory. When harvested the crops are not in much demand and since the supply is more, the people and the market procure the same for less prices. Hence, the farmers ploy a strategy. They sell a part of the produce that will cater to the existent demand of the market and the rest is stocked to be sold at a higher price when the existing stock in the market ends and there is a rise in demand for the produce.



Farmers store the produce in SWCs and CWCs, as the warehouses are located at convenient places, charges for space used are minimal and the stock is insured against damages. In exchange the warehouses provide the farmers with a receipt on which the date of stocking, commodity- quality; quantity and value, and the date of stock release are mentioned in details.

The farmers pledge the original warehouse receipt with the banks for exchange of money to be utilized for further crop production. This is done for a specific period and on fulfillment of conditions like physical verification of stock and market value of stock as per existing prices. When the period is over, the farmer pays back the loan amount along with the interest thereto, and receives back the original warehouse receipt.

Even if the financing system sounds good it is not risk free at all. There are chances of farmers getting into defaults and not being able to pay back the loan at all. To avoid losses or risk the banks operate on a margin on the value of stock, which is the difference between actual value of stock and the loan amount disbursed. If the value of stock is 100 rupees and the disbursed amount is 80 rupees, then the margin is 20 rupees.

An example would make it easier for us to understand the process. Assuming the price of export quality Basmati rice as of the date of applying for loan is 40 rupees per kilogram. The quantity mentioned in the receipt is 40,000 kilograms. Hence the value of rice will be 16, 00,000 rupees. The price of rice on repayment date may be more or less than the existent price. Here to minimize the risk in case the farmer is unable to payback and the bank has to realize the money by actually selling the

Commodity in the market, it will fund (disburse) a loan amounting to 70-80% of the value of the commodity.

The system of BWRP is more used by exporters and large farmers who need ample amount of money to be circulated to keep producing commodities. The system has helped both ways, i.e. to the farmers by ways of providing scope to realize good prices against the produce, and on the other hand to the banks, to generate huge funds through heavy interests, as the BWRP generally allows farmers a limit upon 30 crore rupees.

We are still to relate other financing subsystems to actually get into the depth of agribusiness. And the same will need to be discussed in days to come to assess the importance of agribusiness in India.

### **References:**

1. TNAU Agri Portal- Agricultural Marketing and Agri- Business.
2. ICICI Bank Pvt. Ltd- Agri Credit Line.
3. India Microfinance- Agricultural Warehousing in India.
4. Warehousing Development & Regulatory Authority- Report, September 1, 2015.