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WAREHOUSING DEVELOPMENT IN INDIA*

Warehousing facilities have always been regarded as important adjuncts to orderly marketing. The first tangible step for promotion of this activity was taken by the Reserve Bank of India in 1944, when it recommended to the then Provincial Governments and important Indian States to enact legislation for the establishment and supervision of warehouses. Accordingly, some States enacted the necessary legislation and displayed interest in the construction of godowns by co-operatives. But neither in these States nor in the country as a whole was any progress made in the development of organized storage. The real progress commenced only after the All-India Rural Credit Survey Committee recommended active participation of States for promoting warehousing on a country-wide scale.

Organizational frame-work needed for initiating a country-wide programme of warehousing development was provided in the Report of the All-India Rural Credit Survey Committee. The Committee's recommendations in this behalf were given effect to by enacting the Agricultural Produce (Development and Warehousing) Corporations Act in 1956 providing for establishment of a National Co-operative Development and Warehousing Board, the Central Warehousing Corporation and State Warehousing Corporations in all the States (except Jammu and Kashmir). The functions of the Board are to promote planned development of co-operative processing and marketing, to promote planned development of warehousing, to give financial assistance to State Governments and through them to co-operative institutions and to give general directions to the Central Warehousing Corporation. Under the Act the Board set up the National Co-operative Development Fund and the National Warehousing Development Fund, finance for which is made available by the Government of India to the Board by way of annual grants. The former fund is meant for making long-term loans to State Governments to enable them to subscribe to the share capital of co-operative processing and marketing societies and for giving recurring and non-recurring subsidies to the State Governments, and through them, to co-operative societies for their development ; the latter fund is meant for subscribing to the share capital of the Central Warehousing Corporation and for making loans to State Governments to enable them to subscribe to the share capital of the State Warehousing Corporations and to develop warehousing and storage through co-operatives.

For operational purposes, certain areas are allocated between the Central Warehousing Corporation, which may be called the focal body, and a State Warehousing Corporation in each State. Whereas centres of all-India importance figuring in the export/import trade or inter-State trade are to be provided with warehouses by the Central Warehousing Corporation, the State Warehousing Corporations are to take care mainly of centres of regional importance. The State Corporations are not, however, supposed to function below the sub-divisional level. To complete the chain, warehouses at centres below sub-divisional level are to be provided by a number of co-operative societies, to be set up all over the country. The entire warehousing activity is, therefore, planned to be undertaken by these three agencies : (1) The Central Warehousing Corporation at centres of all-India importance, (2) The State Corporations at centres above sub-divisional level and of State importance and (3) Co-operatives below the sub-divisional level.

* Views expressed in the note are the personal views of the author.

Under the provisions of Section 3 of the Agricultural Produce (Development and Warehousing) Corporations Act, 1956, the Government of India established the National Co-operative Development and Warehousing Board on September 1, 1956 ; the Board started functioning with effect from November 7, 1956. Under the same Act, the Central Warehousing Corporation was established on March 2, 1957. The Corporation is managed by the Board of Directors comprising 14 directors, of whom four are nominated by the Government of India to represent scheduled banks, co-operative societies, insurance companies, investment trusts and recognized institutions and joint stock companies dealing in agricultural produce. While general control, direction and supervision are exercised by the Board of Directors, the execution of policy is attended to by the Executive Committee consisting of five members. The strength of Board of Directors of a State Warehousing Corporation is ten, besides a managing director. Five directors each are nominated by the Central Warehousing Corporation and the State Government.

The authorised share capital of the Central Warehousing Corporation is Rs. 20 crores and that of each of the State Warehousing Corporations is not to exceed Rs. 2 crores. State Warehousing Corporations find their capital from State Governments and the Central Warehousing Corporation on a fifty-fifty basis. The Central Warehousing Corporation has, however, its capital open for subscription (the Government of India can subscribe up to 40 per cent of the entire authorised capital of Rs. 20 crores) to banks, insurance companies, joint stock companies dealing in agricultural produce, financial institutions and co-operative societies. The idea is to associate with it, besides the Government, as large a set of economic institutions in the country as possible so as to make warehousing a national venture.

Progress of Warehousing

The Second Five-Year Plan provided for the construction of 100 warehouses by the Central Warehousing Corporation, 300 warehouses by the State Corporations, 1,500 godowns at the *mandi* level by the marketing co-operatives and 4,000 godowns at the village level by large size societies. Subsequently, the target fixed for Central Warehousing Corporation was reduced to 50 warehouses in view of the fact that the Corporation was set up one year after the Second Plan commenced and that it started functioning effectively from a much later date.

State Warehousing Corporation was established first in Bihar in 1956-57, followed in 1957-58 by Madhya Pradesh, Orissa, Uttar Pradesh, Bombay, West Bengal, Madras and Mysore. In the subsequent year, *i.e.*, 1958-59 Corporations were set up in five more States, *viz.*, Andhra Pradesh, Assam, Kerala, Rajasthan and Punjab. Thus, it was only by the end of March 1959 that all the States had established a State Warehousing Corporation. This fact needs to be kept in view while assessing the progress achieved.

Under Section 36(1) of the Agricultural Produce (Development and Warehousing) Corporations Act, 1956, the National Co-operative Development and Warehousing Board was expected to draw an annual programme of development before the commencement of each year. Accordingly, the Board fixed targets,

both physical and financial, for warehousing development for each of the years 1956-57 to 1960-61. The following physical targets were fixed in respect of Central and State Warehousing Corporations. To facilitate assessment, achievements are also given in Table I.

TABLE I—WAREHOUSES SET UP BY CENTRAL AND STATE WAREHOUSING CORPORATIONS

		Central Warehousing Corporation		State Warehousing Corporations	
		Targets	Achievements	Targets	Achievements
1957-58	..	—	—	—	—
1958-59	..	12	9	50	41
1959-60	..	10	17	103	106
1960-61	..	21	10	127	76
Total	..	43	36	280	223

No targets were fixed for the year 1957-58 mainly because the Central Warehousing Corporation and the State Warehousing Corporations were established in 1957-58 and they had to face initial teething difficulties in respect of organisation, selection of personnel, acquisition of sites, etc. The Central Warehousing Corporation was established in March 1957 ; however, personnel for running the warehouses was recruited in October 1957 and trained in November 1957. Further, since the Corporation was undertaking a venture whose complexities could not be foreseen fully, its Board of Directors rightly decided to make, as a matter of caution, an experimental beginning in a few hired godowns in order to assess the potentialities of the place before any construction activity was actually taken in hand. The State Warehousing Corporations were set up either in 1957-58 or in 1958-59 and they had to undertake preliminary investigations in regard to selection of centres and sites, etc. When these and many other initial difficulties were overcome, progress was quite rapid. As against a target of 12, 10 and 21 warehouses fixed for the Central Warehousing Corporation for the years 1958-59, 1959-60 and 1960-61, respectively, 9, 17 and 10 warehouses were set up in the respective years. Likewise out of total target of 280 warehouses to be set up by the State Warehousing Corporations, 223 warehouses were set up upto March 1961. Thus, more than 80 per cent of the targets was achieved by both the Central and State Corporations.

As for the programme of construction of godowns by large size societies and marketing societies, annual targets were fixed by the National Co-operative Development and Warehousing Board from the first year of the Second Plan as shown in Table II.

Targets were somewhat modest for the year 1956-57 mainly because the National Co-operative Development and Warehousing Board started functioning from the latter half of that year. In view of National Development Council's Resolution on Service Co-operatives and the subsequent report of the Working Group

TABLE II—PROGRESS OF CO-OPERATIVE WAREHOUSING—TARGETS AND ACHIEVEMENTS

	Godowns of large size societies		Rural godowns		Godowns of marketing societies		Total	
	Targets	Achievements	Targets	Achievements	Targets	Achievements	Targets	Achievements
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1956-57	.. 419	376	—	—	216	218	635	594
1957-58	.. 1,052	984	—	—	398	430	1,450	1,414
1958-59	.. 900	900	—	—	390	379	1,290	1,279
1959-60	.. 662	710	272	187	544	296	1,478	1,193
Total	.. 3,033	2,970	272	187	1,548	1,323	4,853	4,480

thereon, the Board drew up a supplementary programme of rural godowns to be constructed by village societies during 1959-60. Further, the targets of godowns to be constructed by marketing societies were revised upwards from 399 to 544 for that year; however, the number of godowns actually constructed by marketing societies was only 296. Barring this marked short-fall, overall progress was quite satisfactory inasmuch as in the first four years of the Second Plan 2,970 godowns were constructed by large size societies as against Second Plan target for them of 4,000 godowns. Because of shift in co-operative policy no targets were fixed for large size societies for the year 1960-61. Marketing societies constructed as many as 1,323 godowns as against target of 1,548 godowns, and even here achievement compares favourably with the Second Plan target of 1,500 godowns for the marketing societies.

Financial Assistance

The necessary financial requirements for carrying out the programme of warehousing development were met by the Central Warehousing Corporation and State Warehousing Corporations out of their share capital collected from the National Co-operative Development and Warehousing Board and other subscribers such as State Bank of India, scheduled banks, investment trusts, etc., in the case of the former and from State Governments and Central Warehousing Corporation in the case of the latter. There was also provision for loans and advances from the Board to these Corporations. As for the financial requirements of the co-operative institutions, loans and subsidies were given by the National Co-operative Development and Warehousing Board and the State Governments. Of the total cost of godowns to be constructed by these institutions, 15 per cent to be given by the State Government and between 15 per cent to 25 per cent, depending on merit of each case, to be given by the National Co-operative Development and Warehousing Board was in the form of subsidy and

the rest was to be given by the Board in the form of loans. The financial assistance for godowns given by the Board upto March 1960 is given in Table III.

TABLE III—FINANCIAL ASSISTANCE GIVEN BY NATIONAL CO-OPERATIVE DEVELOPMENT AND WAREHOUSING BOARD TO CO-OPERATIVE INSTITUTIONS FOR GODOWNS

(In lakhs of rupees)

	Loans	Subsidy	Total
1956-57	39.1	8.6	47.7
1957-58	99.6	23.1	122.7
1958-59	94.2	20.9	115.1
1959-60	138.5	29.4	167.9
Total	371.4	82.0	453.4

During the first four years of the Second Plan period the National Co-operative Development and Warehousing Board gave a total financial assistance of Rs. 453.4 lakhs of which Rs. 371.4 lakhs were in the form of loans and Rs. 82 lakhs in the form of subsidy.

From the foregoing, it would appear that all the three agencies, viz., Central Warehousing Corporation, State Warehousing Corporations and co-operative institutions have implemented quite satisfactorily the programme of warehousing development envisaged in the Second Five-Year Plan. As a result of this achievement, an approximate storage capacity of 73,000 tons would be created by about 40 warehouses expected to be set up by the Central Warehousing Corporation upto March 31, 1961 and of 1.39 lakh tons by 147 warehouses of State Warehousing Corporations as at the end of March 1960. These storage facilities have been increasingly availed of by cultivators and traders. The quantity of produce stored in the warehouses of the Central Warehousing Corporation progressively increased from a nominal figure of 490 tons in April 1958 to 6,000 tons in March 1959, 19,000 tons in March 1960 and 33,000 tons in December 1960. The quantity of produce stored in the State warehouses stood at 87,000 tons in July 1960 and 93,000 tons in September 1960. In respect of the Central warehouses, during 1959-60 the maximum overall occupancy was 83 per cent and the minimum as high as 60 per cent. With the increase in the business, the financial results of the Central Warehousing Corporation showed improvements. The excess of expenditure incurred directly on warehouses over earnings dropped from Rs. 1.25 lakhs in 1958-59 to only Rs. 0.19 lakh in 1959-60. Receipts from storage charges increased from Rs. 0.76 lakh in 1958-59 to Rs. 3.18 lakhs in 1959-60. Further, the commodities stored in the warehouses make a long list of about 58 items ranging from foodgrains to spices, and cover practically all the agricultural commodities.

Programme in the Third Plan

As for the programme for the Third Plan period the Sub-Committee of the National Co-operative Development and Warehousing Board has in their draft outline of the Third Plan suggested a programme of constructing 9,060 godowns, most of which would be in rural areas. The Committee has also suggested that the U. S. P. L. 480 funds should be made available for assisting co-operative organizations in the matter of building godowns for storage. Further, the Central Warehousing Corporation is expected to have a total of 75 warehouses by the end of Third Five-Year Plan. In addition, it intends to set up 20 specialised storages including cold storages for perishable commodities like fruits and vegetables.

Marketing Finance

The success of Warehousing Scheme partly depends on the ease with which finance could be obtained from banks on the basis of warehouse receipts. During 1957-58 the Central Warehousing Corporation made vigorous efforts in this regard as a result of which the Reserve Bank of India agreed to exempt advances against warehouse receipts covering agricultural commodities from the purview of prohibitory orders restricting advances against such commodities. The State Bank of India also took active steps to simplify its rules and procedure so as to ensure prompt grant of advances against warehouse receipts. At present advances against warehouse receipts granted by the State Bank of India, commercial banks and co-operative banks are confined to the original depositor or to the first transferee of such depositor, because a warehouse receipt has not the attributes of free negotiability in the same way as promissory notes, bills of exchange or cheques have. The title to the goods covered by the receipt will be affected to the extent of any defect in the title of one or more intermediary transferees. Even so, this limitation is not likely to be a serious handicap since in normal course of business, a warehouse receipt is not likely to change hands as frequently as other negotiable instruments do. Therefore, the simplification of procedure for a quick grant of advances against warehouse receipts is far more important than the legal status of the warehouse receipt under the Negotiable Instruments Act. And the State Bank of India has already given a lead in this respect. Partly due to these steps, advances against warehouse receipts which were current in 395 cases amounting to Rs. 38.90 lakhs during 1958-59 rose to 1,368 cases amounting to Rs. 179 lakhs during 1959-60. If the amount and the number of cases involved in advances obtained appear modest, it is because this type of financing is new to our banking system. All the same, considering the developments in the banking sector in recent years, there is room for optimism that it would not be long before such financing partakes the character of normal banking business and unfolds the vast potentialities of the Warehousing Scheme as an instrument of marketing finance.

S. S. MADALGI