

Agricultural marketing vis-a-vis warehousing facility (Case study of Central Warehousing Corporation)

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Key Words

Rural development, Warehousing Facility, Agricultural Development

Abstract

Agriculture is the lifeblood of the rural economy and hence the agricultural development will positively foster rural development. Agriculture of Marketing is nothing but commercialization of agricultural produce. In the context of agricultural development, the warehousing development cannot be sidelined. In this regard let us bring out the relationship between development of warehousing & agriculture which includes rural development too. Similar to transportation, storage is also an economic function. Since the warehousing activity in the context of agricultural sector is too large, the present study is limited only to CWC as a case study. Warehousing activities of CWC include food grain warehouses, industrial warehousing, custom bonded warehouses, container freight stations, inland clearance depots and air cargo complexes. Apart from storage and handling, CWC also offers services in the area of clearing & forwarding, handling & transportations, procurement & distribution, disinfection services, fumigation services and other ancillary activities. The seasonal character of agricultural production and continuous consumption throughout the year makes storage an integral part of agricultural marketing. The paper focuses the relationship between warehousing facility and agricultural goods. It tries to analyse the importance, limitations and bring out the various suggestions which will enable the farmers to have an optimum utilization of the said facility.

Introduction

To quote Mahatma Gandhi, India lives in villages. Our nation's economic development is, therefore, synonymous with rural development. Agriculture is the lifeblood of the rural economy and hence the agricultural development will positively foster rural development. Development in agriculture could be brought about by commercialization of agriculture. Agriculture of Marketing is nothing but commercialization of agricultural produce. Better agricultural marketing facilities enable the farmers to think beyond subsistence, expand production, enhance productivity and thus bring in more revenue. Good agricultural marketing is therefore a vital component of agricultural development in general and rural development in particular. Warehousing is one of the most significant aspects of agricultural marketing. This has bearing on the rural economy in general and the small farmers in particular. The significance of warehousing is both negative as well as positive. The paper focuses the relationship between warehousing facility and agricultural goods. It tries to analyse the importance, limitations and bring out the various suggestions which will enable the farmers to have an optimum utilization of the said facility.

Objectives of the Study

1. To assess the performance of warehousing facility for agricultural product in Maharashtra state.

2. Agriculture being an important component of rural development, to study the relationship between agricultural development and rural development.
3. To examine the concept of surplus agricultural produce and marketable produce and the inadequacies of traditional agricultural marketing prices.
4. To examine the extent to which the state regulation of the marketing of Agricultural produce has contributed to the economic well-being of the agricultural producers and, in turn, rural development.

Scope of the Study

As a starting point, the study covers the origin and development of warehousing in India. The present study is, however, delimited to dwelling into the operations of the CWC's.

Research Methodology

The present study is based on the secondary data collected from different journals, magazines, various books, periodicals, website information and research articles pooled from the library collections which are clearly mentioned in the bibliography attached.

Hypothesis

The present research work is based on the following hypothesis:

1. Though agricultural warehousing facility has been extended far wide in India particularly for the benefit of the primary producer, the actual experience is far from the goal envisaged. This hypothesis is tested in this study with the help of information relating to the warehousing activities of the CWC's in India.
2. The commercialization of agriculture would lead to substitution of food crops by cash crops. Therefore it was necessary to construct a concrete agricultural marketing infrastructure such as storage facilities.

Warehousing

The prevalence of the 'subsistence farming and below-subsistence could be attributed to exploitation arising out of non-availability or inadequate or defective warehousing is the loss of agricultural produce in transit. It is estimated that from the time it is produced till the time it is lost, the 'spill over' or 'wastage' ranges between 5% to 10%. That loss is borne by the producer and the poor farmer is further squeezed.

The positive aspect of warehousing is that it enhances 'waiting capability' of the agriculturists so they can sell their produce when remunerative prices are offered in the market. The development of scientific and technical knowledge and its application enables the agriculturists to store even perishable commodities like onion. The emergence of cold-storage facility has proved to be a boon to the agriculturists. The storage and warehousing facilities have given remunerative prices for their produce and have gone a long way in improving the lot of the rural poor. It will not be out of place to mention here that one of the significant reasons for the success of the 'green revolution' has been the availability of warehousing and establishment of relationship between the storage of agricultural goods and the development of agriculture as well as the rural economy with the help of the centre-periphery Theory of Development.

Agriculture and Economic Development

Agriculture is the largest sector of economic activity in India. Agriculture provides not only food and raw materials but also employment to very large section of population. As a result, the increase in the national output depends on the output in agriculture to a large extent. For the same reason, it has to provide the capital required for its own development and make

available surplus for national economic development. Further, the exports of primary goods enable to earn valuable foreign exchange which can be used to import capital goods for the development of industry and infrastructure. Because of all these reasons, an improved and efficient agriculture is a dire necessity in our economy.

A number of drawbacks were found in traditional agricultural marketing practices, some of which could be listed as under:

- Inadequate storage facilities
- Inappropriate transport and communication network
- Lack of reliable market information
- Presence of number of intermediaries
- Use of unscientific and substandard weights and measures
- Lack of standardization and grading
- Fraudulent practices by traders & middlemen in unlawful ways.
- Inadequate marketing facilities

Warehousing and Agricultural Development

In the context of agricultural development, the warehousing development cannot be sidelined. In this regard let us bring out the relationship between development of warehousing & agriculture which includes rural development too. Similar to transportation, storage is also an economic function. It adds time utility to goods because there is always a time lag between production & consumption. During this period commodities remain in storage of somebody- the producer, the middleman or the consumer. But in most cases, it is the intermediary who renders this service as neither the producer nor the consumer or the user possesses sufficient money and/or facility to store them. In short, storage is the process of carrying forward surplus stocks for future consumer. The seasonal character of agricultural production and continuous consumption throughout the year makes storage an integral part of agricultural marketing. Moreover, agricultural production is prone to cyclical changes which mean a bumper crop in one year is not only carried forward to the year of storage but it also facilitates availability of the produce throughout the year. Briefly speaking, a properly well-organized system, of storage is a sine qua non for an orderly system of marketing.

Significance of Warehousing

Warehousing is storage for the purpose of commercial gain by specialized agencies. A warehouse is an establishment consisting of large technical personnel in charge of goods, stored under the care of a warehouseman with safeguards provided by law and subject to the supervisory control of a public authority. Warehousing is sometimes confused with storage, but it does imply storage as a regular industry. Warehousing comprises many functions: its main component is storage. It is often viewed as a mere auxiliary service. The term 'warehousing' encompasses the facilities and services incidental to or connected with storage, transport, handling and distribution of inputs, finished goods and all kinds of other commodities.

Marketing covers all the business activity involved in the flow of goods and services from the producer to the consumer. Warehousing is an important chain in the system of marketing. No scheme of marketing can be complete without a reliable and efficient system of warehousing. The establishment of a well-planned network of warehouses is important both for domestic and internal trade and public distribution of essential commodities. Warehousing is an essential infrastructure for trade, commerce and physical distribution of agricultural goods. The serious problem which the underdeveloped countries are facing is wastage of food grains particularly. Inadequate transport and storage facilities cause much waste and are directly responsible for

food shortage, at least partially, which is already acute. This underlines the importance of an appropriate storage system which can reduce the preventable losses the advantages of efficient system of warehousing are as follows.

- 1) It facilitates the obtaining of advances from bankers against the security of warehouse receipts, which are documents of title of goods. It will save farmers from the clutches of the moneylenders.
- 2) It brings about stability in prices. As the function of the storage is to equate supply and demand, it exerts an important influence on prices. That is to say, it tends to stabilize the prices throughout the year.
- 3) It will ensure farmers to get the benefit of remunerative prices by storing their produce till favorable price could be obtained. It helps in getting incentives back to farmers, which is essential for modern agriculture.
- 4) It will prevent distress sale of agricultural produce immediately after harvest when the prevailing prices are at their lowest.
- 5) It will reduce pressure on transport facility in post-harvest periods of peak demand for transport.
- 6) The goods are handled properly and stored scientifically to prevent damage, deterioration and loss during handling and storage.
- 7) This will also make available agricultural inputs required for growing crops and increasing production. The loss, if any, in quality or quantity is minimum.
- 8) Warehouses are being run in public interest on business principles. These are not profit-motivated. They realize storage charges for providing scientific storage of goods and a minimum percentage of supervision charges on handling, transporting and other incidental expenditures incurred on behalf of the depositors.

Central Warehousing Corporation: (A Case Study)

Warehousing facilities are necessary to prevent the loss arising out of defective storage and also to equip the farmers with a convenient instrument of credit. The concept of public warehousing is a recent development in India though the royal commission on agriculture in 1928 had stress the need of warehousing in India. On the basis of the recommendations, the government of India passed agricultural produce (development and warehousing) corporation act,1956, which was later on replaced by warehousing corporation act,1962 and thus established central warehousing corporation (cwc) at the national level and state warehousing corporations (swcs) at the state level.

Performance highlights-Consistent Growth during Last 6 years

Parameter	2008-09	2009-10	2010-11	2011-12
Capacity (lakh MT) as on 31 st March	105.25	105.98	102.477	100.85
Owned/Constructed Capacity (Lakh MT)	67.60	68.46	69.85	71.81
Capacity Utilization (%) yearly average	82	85	88	91
Utilization by Foodgrains (Lakh Mt)	36.50	43.88	48.72	52.16
Utilization by Foodgrains (% of total utilization) yearly average	45	48	54	57
Turnover (Rs. In Crore)	849.25	9877.95	1029.55	1218.65
Gross Sale (Rs. In Crore)	831.42	930.86	999.16	1152.03
Gross Margin (Rs. In Crore)	155.14	203.36	236.58	204.42

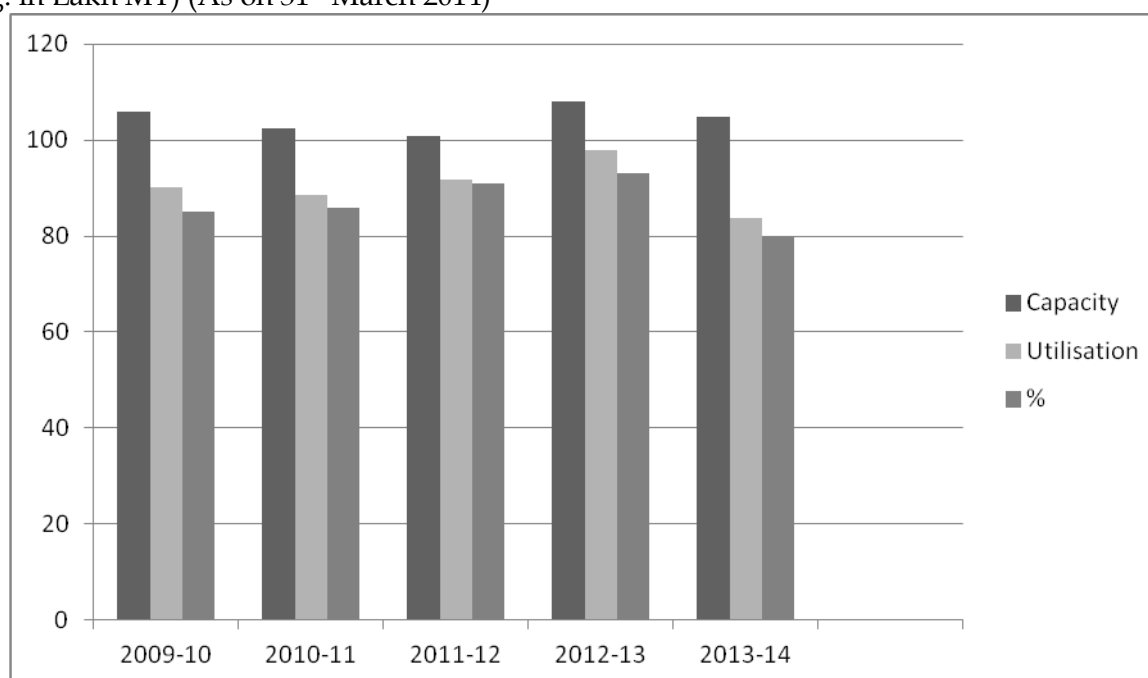
Profit before Tax (Rs. In Crore)	110.44	163.88	203.73	159.12
Profit after Tax (Rs. In Crore)	110.46	130.52	136.17	100.46
PCS Income (Rs. In Crore)	12.56	14.14	15.93	16.81
CRT Income (Rs.in Crore)	50.02	48.46	51.55	50.85
TEUs Handled (Lakh TEUs)	10.59	11.21	12.32	11.55
Dividend (%)	30	38	40	40

Source: Annual Report of CWC 2013-14

It can be observed that the total turnover increased from Rs.849.25 crores in 2008-09 to Rs.1528.19 crores during 2013. As on 31st March, 2014, the corporation operated 471 warehouses with a total operating storage capacity of 104.94 lakh MT. This included 57 Custom Bonded warehouses, 31 CFSs/ICDs and 3 Air Cargo Complexes with storage capacity of 3.63 lakh Mt, 14.75 lakh MT and 5961 MT respectively. During the year under report, 2.03 lakh MT constructed storage capacities (covered godowns) was added. The average capacity utilization reduced to 86% from 93% achieved during 2012-13 mainly due to lower stock position of FCI in view of shortfall in wheat procurement as well as liquidation of stocks through PDS and export. Comparative position of the physical performance of the Corporation during the year under report as against the preceding two years is as under:-

STORAGE CAPACITY AND ITS UTILIZATION

(fig. in Lakh MT) (As on 31st March 2014)



Source: Annual Report CWC

Conclusion

The location of a large number of warehouses is not quite appropriate. They are situated in the consuming canters - in secondary or terminal markets rather than those in producing areas. A small or marginal producer with meager marketable surplus at his disposal hardly finds it convenient to carry his produce all the way from his farm to the warehousing point. The cost of warehousing in the warehouses is generally very high. In many parts of the country, warehouses charge many things apart from rent such as interest, deterioration, waste, etc.

Storage cost in co-operative warehouses is so high that at times it completely nullifies the rise in the price of the commodities stored. In fact, this explains to a great extent why small cultivators are not generally interested in storing their produce in the warehouses. The performance of the warehouses has suffered also because of absence of a well-laid down plan of action. Very little attention is paid to an evolving appropriate norm in regard to the coverage of area and commodity, the volume of agricultural produce to be handled, the various charges to be levied and so on. But very little attention has been paid to their proper upkeep and maintenance. As a result, in majority of godowns the condition under which produce is stored is far from satisfactory. A weight of almost all the agricultural commodities do suffer some loss during the period of storage due to the factors like outdated mode of storage, poor maintenance of godowns, operational inefficiency of the handling staff, etc. are responsible for it. With a host of incentives being granted in many states, contract farming which links marketing with production is expanding.

While this system which directly links farmers with the processing industry would reduce the problem of chocking of the markets and also the costs to a considerable extent, it would involve a different type of relationship between the farmers and the warehousing units. Far reaching changes like this and many others have transformed the systems and practices in agricultural marketing, including that of storage and warehousing. One of the main objectives behind promoting storage in the country has been to make use of warehouse receipts as an instrument to obtain credit from the commercial banks and other financial institutions. It was also the intention of the government to authorize the Reserve Bank of India to make advances on the promissory notes of any Scheduled Bank or State Co-operative Bank supported by documents of title of goods. Some headway in this direction has no doubt been made, however the warehouse receipt has not yet become a fully negotiable credit instrument in the same way as promissory notes or bills of exchange or cheques. As a result, warehouses have so far failed to be fully instrumental in ensuring timely credit/ financial assistance to the growers at large.

The Rural Credit Survey Committee contemplated that the three agencies recommended by it for providing warehousing facilities, viz. the Central Warehousing Corporation, the State Warehousing Corporation and the Co-operatives should function in a co-ordinate manner and operate in a clearly defined mutually exclusive area. Thus, while establishment of warehouses in centres of national / inter-state importance will be the function of the Central Warehousing Corporation, establishment of warehouses at centres of state importance will be the function of the State Warehousing Corporations. In rural and semi-rural areas, co-operative were expected to construct godowns. The programmes of the two warehousing corporations and the co-operatives were thus intended to be complementary to each other and there should normally be no conflict of interests among the three agencies. With the expansion of the warehousing facilities in many of the centres by the Central and State warehousing corporations and large expansion of co-operative godown programmes, it has been suggested that unless some amount of co-ordination is effected among these three agencies, there is always the risk of duplication of efforts with consequential under-utilization.

However, effective co-ordination and meaningful liaison among the three public warehousing institutions - CWC, SWCs and co-operative warehouses is yet to be brought about. What emerges out of the above analysis is that storage is still fraught with a number of limitations. As a matter of fact, the above account of the unsatisfactory performance of storage is far from exhaustive. It is only illustrative in nature and content. Many other factors too seem to have made their own contribution to the present state of affairs such as complete lack of grading of agricultural commodities, which is considered to be an essential pre-condition for bulk

storage, occasional withdrawal of storage cum credit facilities in some parts of the country and soon. Regarding the cost of storage too official data is conspicuous by absence. Some scanty details are gleaned in the course of personal discussions with the Directorate Officials. These godowns are provided to the farmers at free of cost.

According to the officials of the Marketing Directorate, the experience of rural godowns regarding utilization of the capacity is not very satisfactory. "Most of the godowns are under-utilized and empty for they are used as halls for carrying out marriage ceremonies and other functions and meetings in the villages. Even there are isolated instances when TAMASHA groups have performed their public shows in the godowns in the villages". The quotation speaks enough, no more comments are desirable. Mere construction of godowns is not enough, though it is the first. Attracting the real users of it is of greater importance. Due attention needs to be provided to this problem by all concerned.

Suggestions

After conclusion, the present research work makes the following suggestions to overcome the problems:-

- 1) Besides marketing co-operatives many other agencies are at work in the storage of the agricultural commodities. As discussed above, Central Warehousing Corporation (CWC), State Warehousing Corporations (SWCs), and Food Corporation of India (FCI) are more prominent among them. As things stand for the present, we do not find meaningful co-ordination among these public warehousing agencies. There is a dire need of an effective co-ordination in the working of these public warehousing agencies. Marketing co-operative through their own isolated efforts may not be expected to tackle the whole gamut of the problems involved in the process of storage and warehousing.
- 2) Selection of places where co-operative godowns are to be set must be done on sound economic considerations.
- 3) Since the objective of warehousing is to prevent distress selling and to secure fair prices to the producers, the bulk of warehousing programmes should be undertaken in the areas of concentrated production. Some warehouses may be located in centre of export or heavy consumption. "Marketing extension being a key factor to bring desirable changes in attitude, skills and behavior of the farmers, traders and consumers, the agricultural marketing extension will have to be strengthened."
- 4) In brief there is a big vacuum on data front regarding agricultural warehousing. Systematic efforts by the concerned institutions are the dire need of the time for a realistic formulation of warehousing policy for the benefit of the agriculturists.
- 5) Last but not the least, in concluding remarks mere construction of godown is not enough though it is the first step towards attracting the real users and is of greater importance. Due attention needs to be provided to this problem by all concerned through effective administration.

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