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Approved for tabling.

REPUBLIC OF KENYA



THE NATIONAL ASSEMBLY

ELEVENTH PARLIAMENT – FOURTH SESSION

THE DEPARTMENTAL COMMITTEE ON AGRICULTURE,
LIVESTOCK AND CO-OPERATIVES

REPORT ON THE BENCHMARKING VISIT TO INDIA ON WAREHOUSE RECEIPT
SYSTEMS AND COMMODITY EXCHANGE ON 18TH TO 24TH OCTOBER 2015

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16/02/16
paper land
By the chairperson
for Agriculture
Hon. Aden Nany
on Tuesday
16/2/2016
[Signature]

16 FEB 2016

DIRECTORATE OF COMMITTEE SERVICES,
CLERK'S CHAMBERS,
PARLIAMENT BUILDINGS,
NAIROBI

FEBRUARY, 2016

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Abbreviations/Acronyms:

AFFA	- Agriculture, Fisheries and Food Authority
COMEX	- Commodity Exchange
EAGC	- East Africa Grain Council
EATTA	- East Africa Tea Trade Association
EWRs	- Electronic Warehouse Receipts
ICT	- Information Communication Technology
IFC	- International Finance Corporation
LIC	- Life Insurance Corporation
NABARD	- National Bank for Agriculture and Rural Development
NCDEX	- National Commodity Derivative Exchange
NCPB	- National Cereals and Produce Board
NSE	- National Stock Exchange
NWRS	- Negotiable Warehouse Receipt Systems
PPP	- Public Private Partnership
RFI	- Rural Financing Institutions
SGS	- <i>Société Générale de Surveillance</i>
SLCM	- SohanLal Commodity Management
WDRA	- Warehousing Development and Regulatory Authority
WRF	- Warehouse Receipt Financing
WRS	- Warehouse Receipt Systems

1.0 PREFACE

Mr. Speaker Sir,

On behalf of the Departmental Committee on Agriculture, Livestock and Cooperatives and pursuant to provisions of Standing Order 199 (6), it is my pleasant privilege and honour to present to this House the Report of the Committee on the visit to India for benchmarking on the Warehouse Receipt Systems and Commodity Exchange between 18th to 24th October 2015.

1.1 Committee Mandate

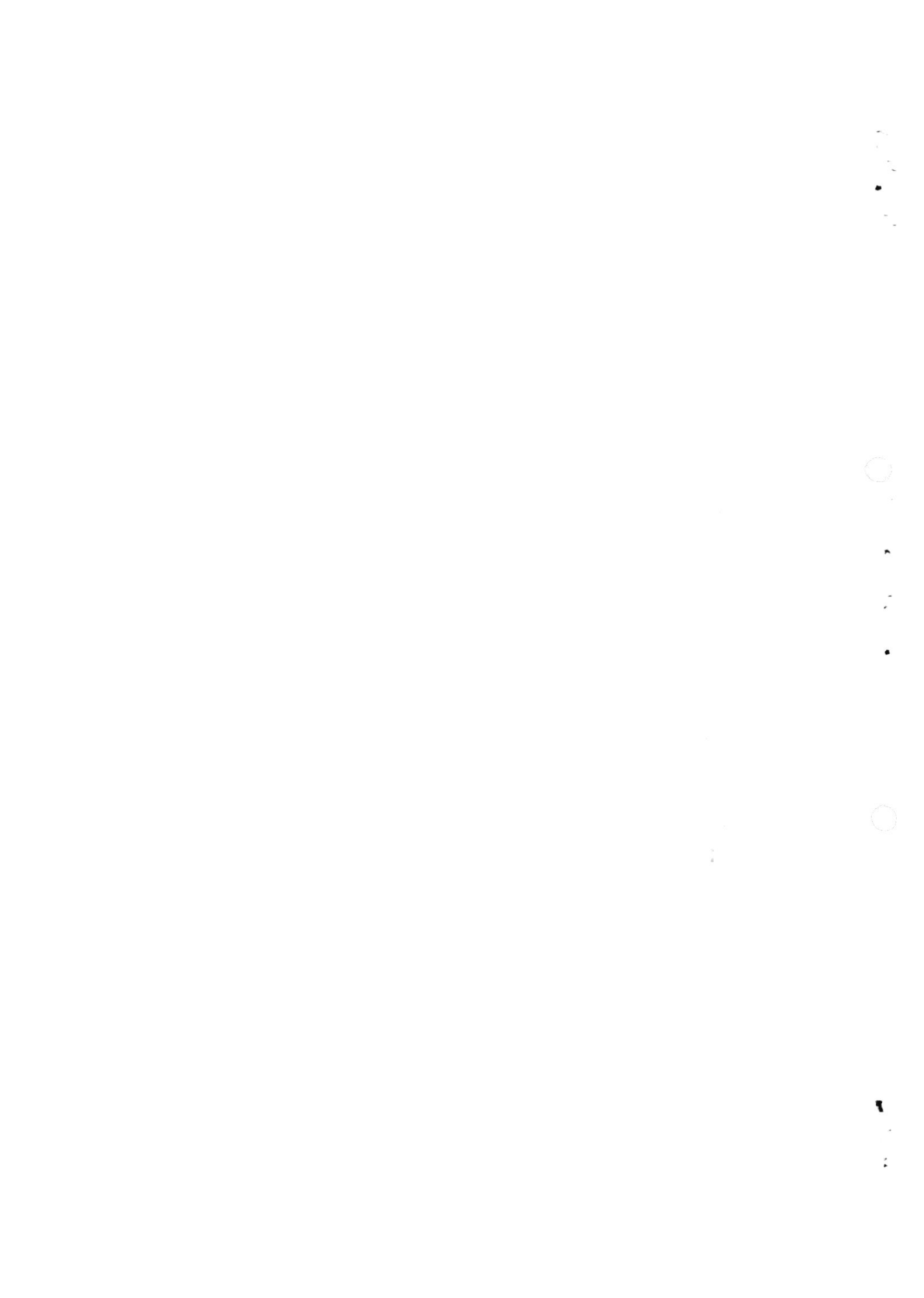
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- (a). investigate, inquire into, and report on all matters relating to the mandate, management, activities, administration, operations and estimates of the assigned Ministries and departments;*
- (b). study the Programme and policy objectives of the Ministries and departments and the effectiveness of the implementation;*
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- (f). vet and report on all appointments where the Constitution or any other law requires the National Assembly to approve, except those under Standing Order 204 (Committee on Appointments); and*
- (g). make reports and recommendations to the House as often as possible, including recommendation of proposed legislation.*

The Committee is also mandated to scrutinize the budget of line Ministries and Departments as provided under Standing Order No. 235.

The Departmental Committee on Agriculture, Livestock and Co-operatives oversees the performance of the following Ministries and Government department:-

- (i) Agriculture,
- (ii) Livestock,



- (iii) Irrigation,
- (iv) Fisheries development,
- (v) Co-operatives development, and
- (vi) Production and marketing.

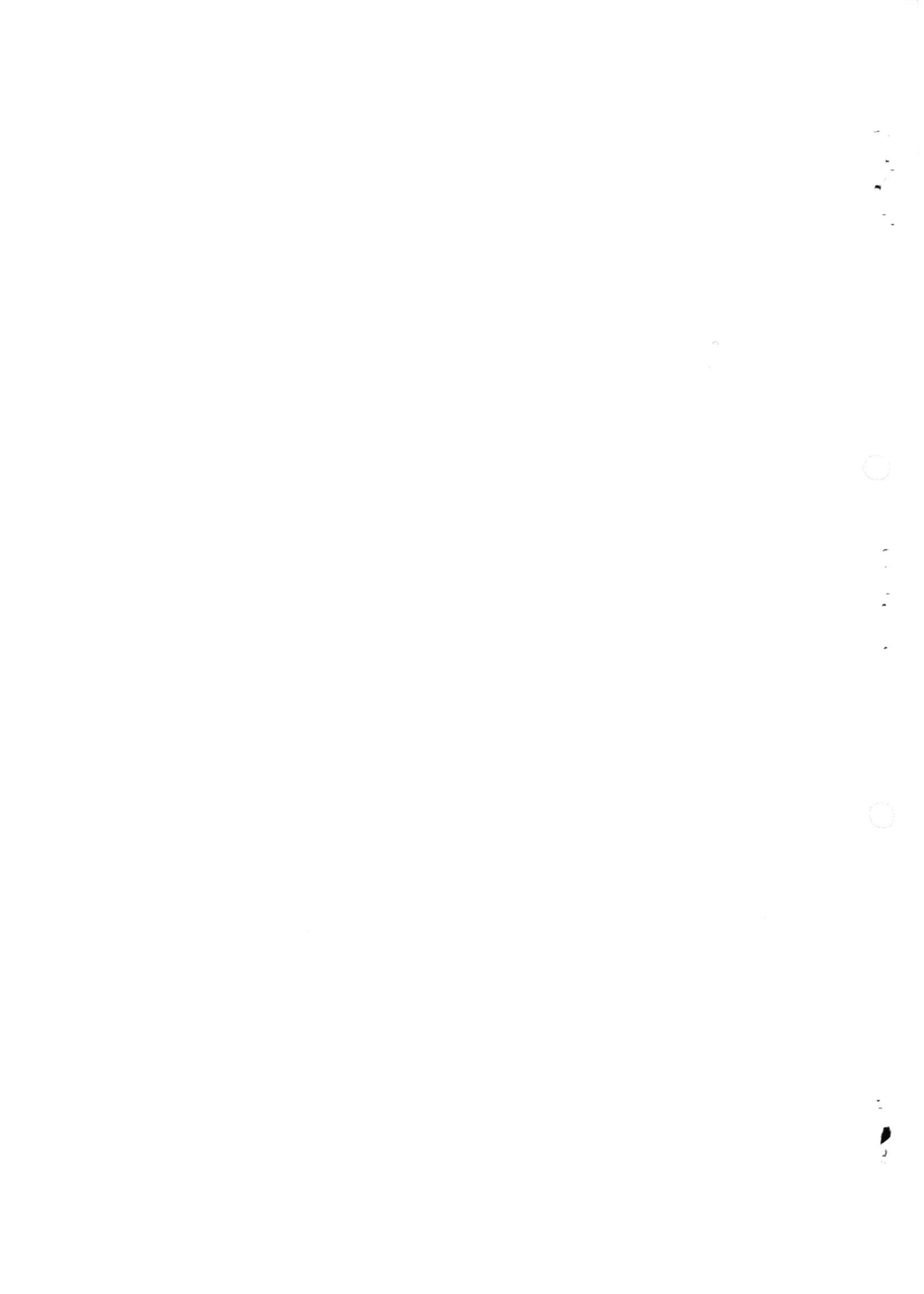
Under the above Ministries, the Committee covers the following subjects;

- (i) Agriculture policy
- (ii) Livestock policy
- (iii) Fisheries policy
- (iv) Cooperative societies

1.2 Committee Membership

The Committee comprises the following Members:-

- | | |
|---|-------------------------|
| 1. The Hon. Adan Mohamed Nooru, MBS, M.P. - | Chairperson |
| 2. The Hon. Japhet M. Kareke Mbiuki, M.P. - | Vice Chairperson |
| 3. The Hon. Mary Wambui Munene, M.P. | |
| 4. The Hon. Kabando Wa Kabando, M.P. | |
| 5. The Hon. Raphael Letimalo, M.P. | |
| 6. The Hon. Patrick Wangamati, M.P. | |
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| 17. The Hon. Benjamin Jomo Washiali, M.P. | |
| 18. The Hon. (Dr.) Victor Kioko Munyaka, M.P. | |
| 19. The Hon. John Bomet Serut, M.P. | |
| 20. The Hon. Millie Odhiambo - Mabona, M.P. | |
| 21. The Hon. Fredrick Outa, M.P. | |
| 22. The Hon. Maanzo, Daniel Kitonga, M.P. | |
| 23. The Hon. James Opiyo Wandayi, M.P. | |
| 24. The Hon. Ferdinand Kevin Wanyonyi, M.P. | |
| 25. The Hon. Paul Simba Arati, M.P. | |
| 26. The Hon. Florence Mwikali Mutua, M.P. | |
| 27. The Hon. Hezron Bollo Awiti, M.P. | |
| 28. The Hon. John Kobado, M.P. | |



29. The Hon. Zuleikha Hassan Juma, M.P.

1.3 Objectives of the Visit

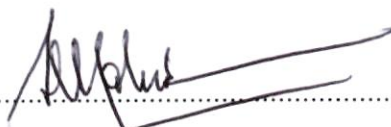
The benchmarking visit was undertaken to achieve the following;

- (i) To understand the policy, legal and institutional framework and linkages required for a functioning COMEX and WRS system;
- (ii) To examine the alternative models for integrating WRS and COMEX and associated legal and institutional framework
- (iii) To clearly understand the role of government in facilitating and regulating the warehousing and commodity trade;
- (iv) To get first-hand exposure to the working of a commodity exchange and warehouse receipt system;
- (v) To Interact with key players/institutions involved in the agricultural commodity trade;

1.4 Acknowledgement

Mr. Speaker Sir,

On behalf of the delegation and members of the Departmental Committee on Agriculture, Livestock and Cooperatives, I am pleased to table the report of the Committee on its visit to India for consideration and adoption.

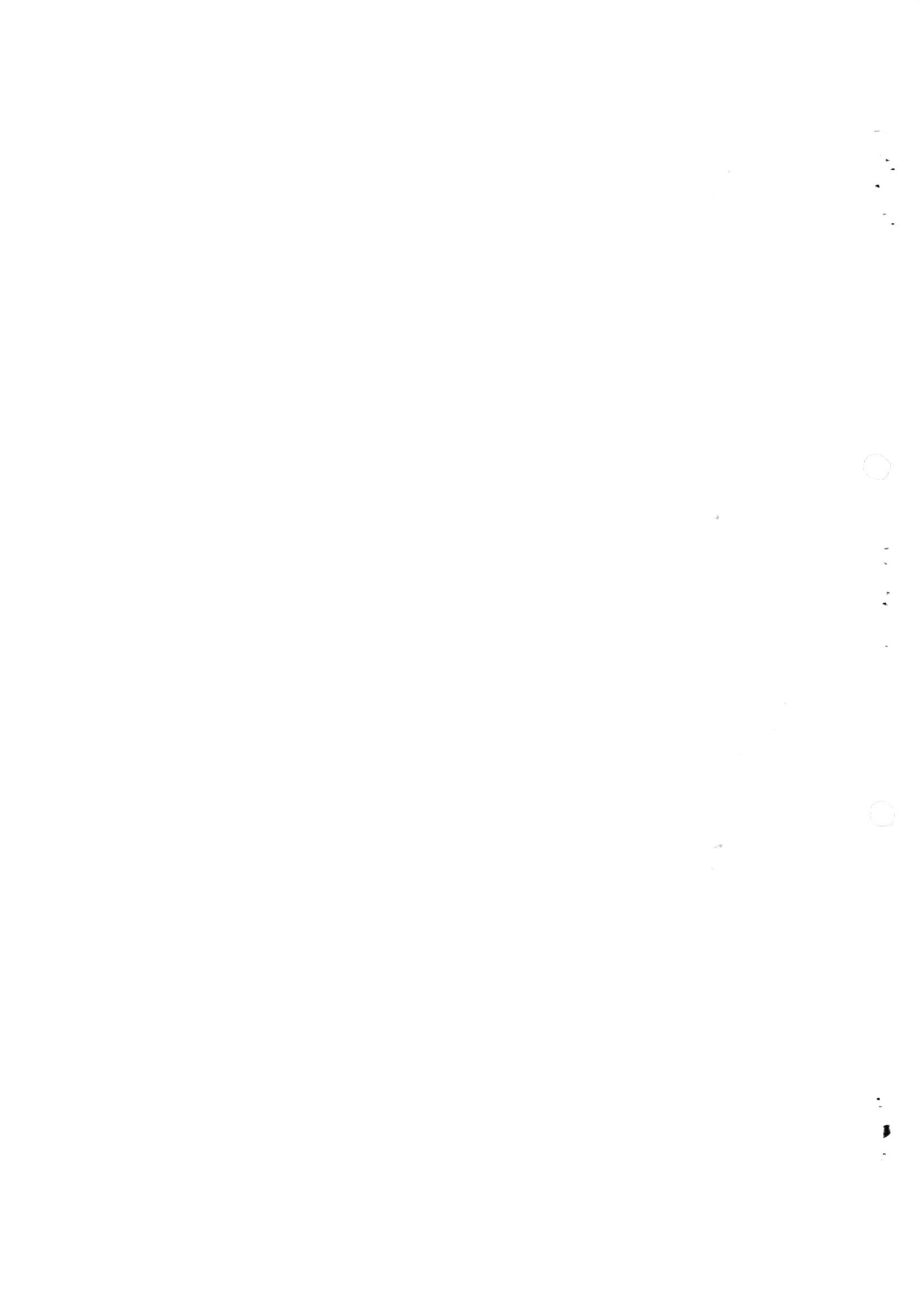


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HON. ADAN MOHAMED NOORU, MBS, M.P

**CHAIRPERSON, DEPARTMENTAL COMMITTEE ON AGRICULTURE,
LIVESTOCK AND COOPERATIVES.**

Date.....*9th Feb. 2016.*.....



2.0 BENCHMARKING VISIT TO INDIA

2.1 Overview

This report is written subsequent to a benchmarking tour undertaken by a high-level Kenyan delegation comprising of senior Government officials from the executive, legislature, representatives of IFC-World Bank Group and the private sector. The delegation was led by Dr. Ibrahim Mohammed, Principal Secretary, Commerce and Tourism, Ministry of East African Affairs, Commerce and Tourism. The other members included Chairperson and a member of the National Assembly Committee on Agriculture, Livestock and Cooperatives; representatives from the State Department of Agriculture, Ministry of Agriculture, Livestock and Fisheries; Ministry of East African Affairs, Commerce and Tourism; Office of the Attorney General and Department of Justice; National Cereals and Produce Board; CEO, Eastern African Grain Council; Private Sector Development Specialist –IFC/World Bank Group (See Annex I for list of delegates).

The report gives a background on the status of the development and state of structured trading in agricultural commodities; the rationale for the benchmarking trip; the learning objectives; the detailed account of the institutions visited and useful lessons for Kenya; the general and specific observations and recommendations. The important background information supporting the various sections of the report are annexed.-

2.2 Background

Agricultural commodity trade in Kenya is largely “spot” market based (the buying and selling of physical commodities and delivery of the same at a negotiated price) and no derivatives or futures market as the country does not have an established exchange for agricultural and other commodities. There exist a Tea Auction based in Mombasa managed by the East Africa Tea Trade Association (EATTA) and a Nairobi Coffee Exchange managed by the coffee Directorate of the Agriculture, Fisheries and Food Authority (AFFA). Both the auction and exchange have elaborate regulatory frameworks and established systems, practices and infrastructure, like trading floors and warehouses. However, they are dedicated to only the two commodities.

The country is currently pioneering a Warehouse Receipting System (WRS) for major staple food commodities (maize and wheat), spearheaded by the National Cereals and Produce Board (NCPB), Eastern Africa Grain Council (EAGC), Export Trading Co. and Lesiolo Grain Handlers with maize as the main commodity. Though the pilot phase is promising it is faced with the following challenges:-

- (i) Limited scale in commodity range, volumes and outreach/coverage;
- (ii) Lack of trust and acceptability by the majority of small scale farmers;
- (iii) Absence of legal framework for credible and dependable WRS and commodity exchange;



- (iv) Low awareness by farmers on the opportunities and potential benefits of WRS and Commodities Exchange; and,
- (v) Limited involvement of financial and insurance institutions

2.3 Justification for the Benchmarking Trip

The country is currently working on the development of legal frameworks for both the Commodity Exchange and a Warehouse Receipt System. These legal frameworks take the form of draft Bills for the regulation of the Warehouse Receipt System and the Commodity Exchange. The WRs Bill has been developed and is currently in the National Assembly having undergone two readings.

As Kenya moves towards implementation of Warehouse Receipt System and the development of a commodity exchange, there is need to benchmark with international best practices on structured commodity marketing. India was identified as a country with a success story and that has experience with small-scale farmer-based agriculture. India presents scenarios that are similar to Kenya's. The country has done fairly well in the establishment of commodity exchanges underpinned by a well-established network of warehouses across the Country.

2.4 Delegation

The delegation that undertook the benchmarking visit to India comprised of the following;

Name of Delegate	Position and Institution
1. Dr. Ibrahim Mohammed	- Leader of delegation and Principal Secretary, Commerce and Tourism, Ministry of East African Affairs, Commerce and Tourism
2. Hon. Adan Mohamed Nooru, MBS, M.P	- Chairperson, National Assembly Committee on Agriculture, Livestock and Cooperatives
3. Hon. Ferdinand Wanyonyi, M.P	- Member, National Assembly Committee on Agriculture, Livestock and Cooperatives
4. Mr. Newton K. Terer	- Managing Director, National Cereals Produce Board
5. Ms. Sarah Ochieng	- Private Sector Development Specialist - IFC/World Bank Group
6. Ms. Rebecca Wahome	- Deputy, Director of Agriculture, Ministry of Agriculture, Livestock and Fisheries
7. Dr. Gerald Masila	- CEO, Eastern African Grain Council
8. Mr. Ahmad Adan Guliye	- Clerk Assistant, Departmental Committee on Agriculture, Livestock and Cooperatives National Assembly
9. Mr. John Ngetich	- Legal Counsel, National Cereals Produce Board



- | | |
|---------------------------|---|
| 10. Mr. Dunstan Ngumo | - Economic Advisor to the Chairman, Agriculture Committee of the Council of Governors |
| 11. Mr. David Ombalo | - Principal Agriculture Officer, Ministry of Agriculture, Livestock and Fisheries |
| 12. Mr. Anthony Njeru | - Senior Economist, Ministry of East African Affairs, Commerce and Tourism |
| 13. Ms. Annastacia Kivuva | - Principal Agriculture Officer, Ministry of Agriculture, Livestock and Fisheries |
| 14. Mr. Robert Okoth | - Trade Specialist, Ministry of East African Affairs, Commerce and Tourism |
| 15. Ms. Leah Aywah | - Principal State Counsel, Office of Attorney General |
| 16. Ms. Rosemary Makotsi | - IFC, World Bank Group |

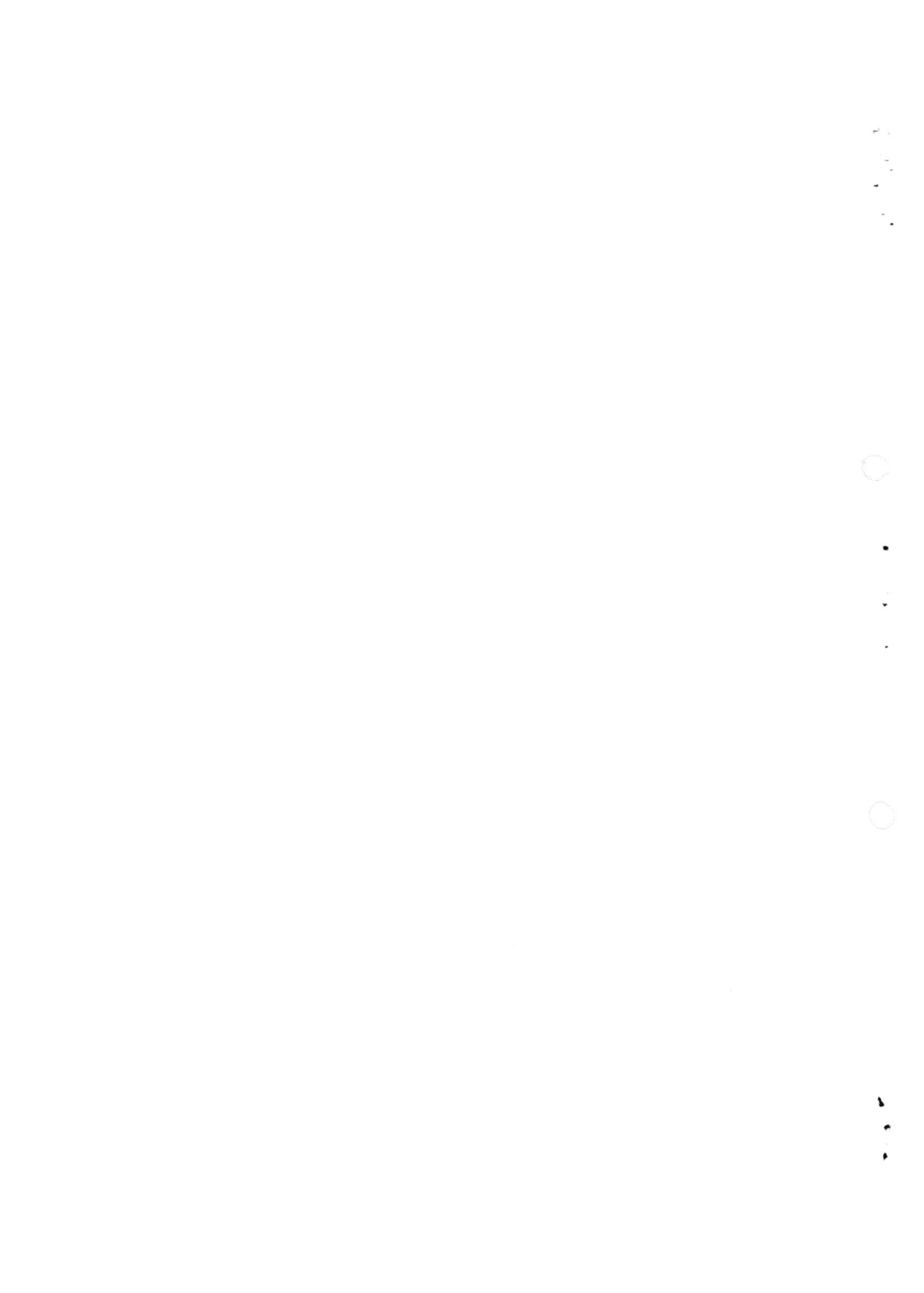
2.5 Learning Objectives

The overall objective of the visit was to bench-mark with Indian WRS and COMEX best practices through getting exposure on what it takes to establish and successfully manage a Commodity Exchange supported by an efficient WRS. The legislators targeted to benefit the discussions on the WRS Bill while the technical team targeted the benchmarking to inform the development of a framework for the commodity exchange and formulation of regulations for operationalizing the WRS Bill once it is enacted into law.

2.5.1 Specific Objectives

The benchmarking trip had the following specific objectives;

- (i) To understand the policy, legal and institutional framework and linkages required for a functioning COMEX and WRS system;
- (ii) To examine the alternative models for integrating WRS and COMEX and associated legal and institutional framework
- (iii) To clearly understand the role of government in facilitating and regulating the warehousing and commodity trade;
- (iv) To get first-hand exposure to the working of a commodity exchange and warehouse receipt system;
- (v) Interact with key players/institutions involved in the agricultural commodity trade;



3.0 INSTITUTIONS VISITED IN INDIA

The delegation visited a total of eight institutions involved in financing, banking, collateral management, regulation, warehousing and commodity trading. The eight institutions and their core areas of focus are outlined below;

3.1 National Commodity Derivative Exchange (NCDEX) of India Ltd

Core Area of focus

- (i) The workings of a national level commodity exchange with shareholding comprising of large national level institutions, large public sector bank and companies.
- (ii) On-line multi commodity exchange
- (iii) Trade in a wide spectrum (agricultural and non-agricultural) of commodity derivatives
- (iv) Public Private Partnership (PPP) models for COMEX.

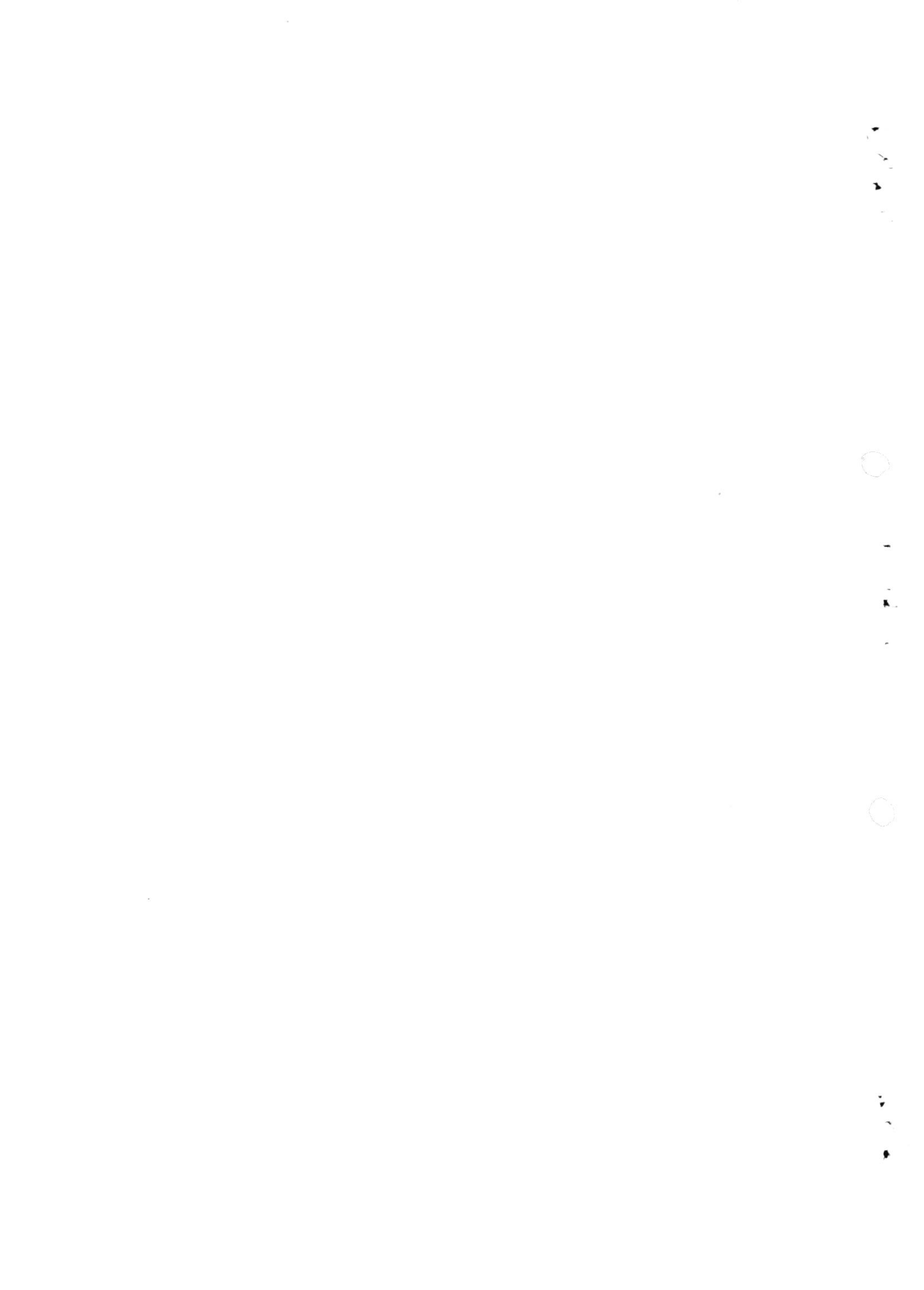
National Commodity and Derivatives Exchange Limited (NCDEX) is a public limited company incorporated on April 23, 2003 under the Companies Act, 1956. NCDEX is also regulated by Securities and Exchange Board of India. NCDEX is subject to various laws of the country that include the Securities Contracts (Regulation) Act, 1956, Companies Act, Stamp Act, Contract Act and various other legislations. NCDEX headquarters are located in Mumbai and offers facilities to its members from the centers located throughout India.

NCDEX is a professionally managed on-line multi commodity exchange. The shareholders of the exchange comprises of large national level institutions, large public sector bank and companies. NCDEX is the only commodity exchange in the country promoted by national level institutions. These include ICICI Bank, Life Insurance Corporation of India (LIC), National Bank for Agriculture and Rural Development (NABARD) and National Stock Exchange of India Limited (NSE).

NCDEX is a technology driven de-mutualized on-line commodity exchange that offers a wide spectrum of commodity derivatives driven by best global practices, professionalism and transparency.

The National Commodity and Derivatives Exchange NCDEX is one of the three major Commodity exchanges in India. NCDEX trades in more than 30 commodities across India. The Exchange operates 45,000 terminals in 700 centers and has over 2 million clients spread across India. The company pioneered electronic accounting in commodity trading. It has a network of 400 warehouses with a total capacity of 2 million tons. The delivery and in trade of commodities averages 80,000 MT/month for the exchange.

Because of its performance and transparency in operations, NCDEX has established qualities and standards for various crop varieties which are used as benchmarks by the other industry players.



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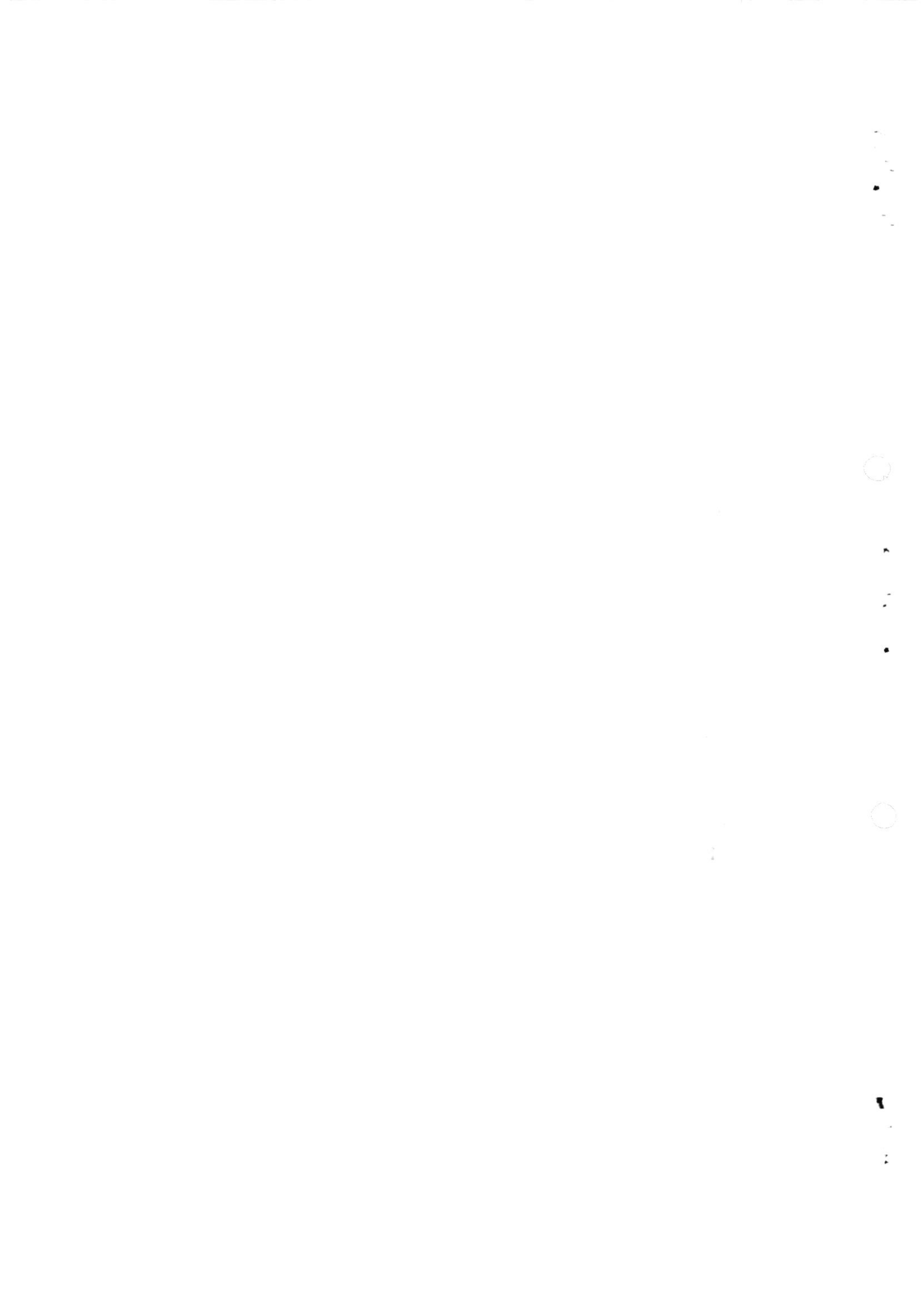
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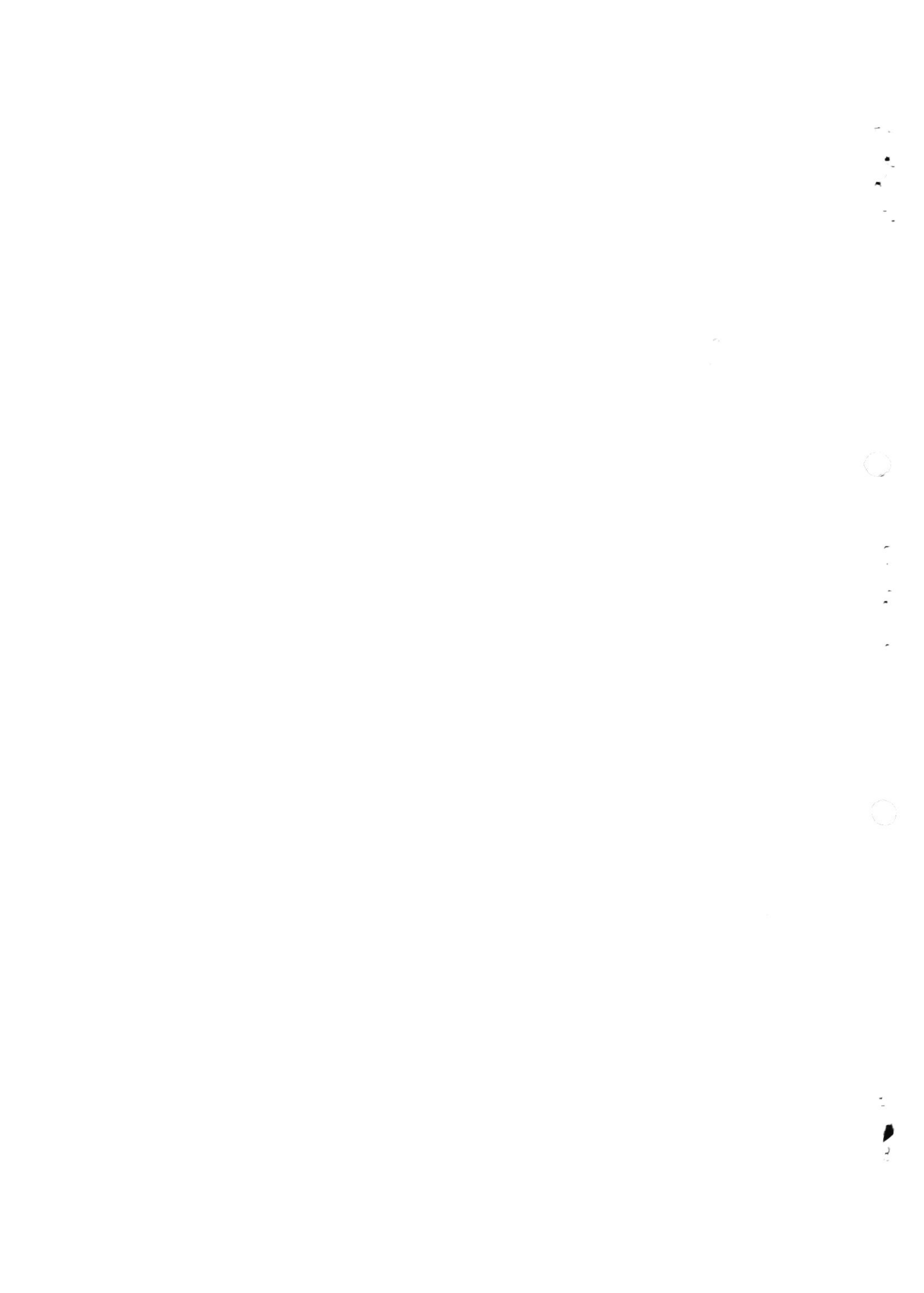
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1.3 Objectives of the Visit

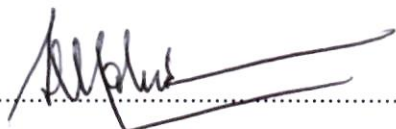
The benchmarking visit was undertaken to achieve the following;

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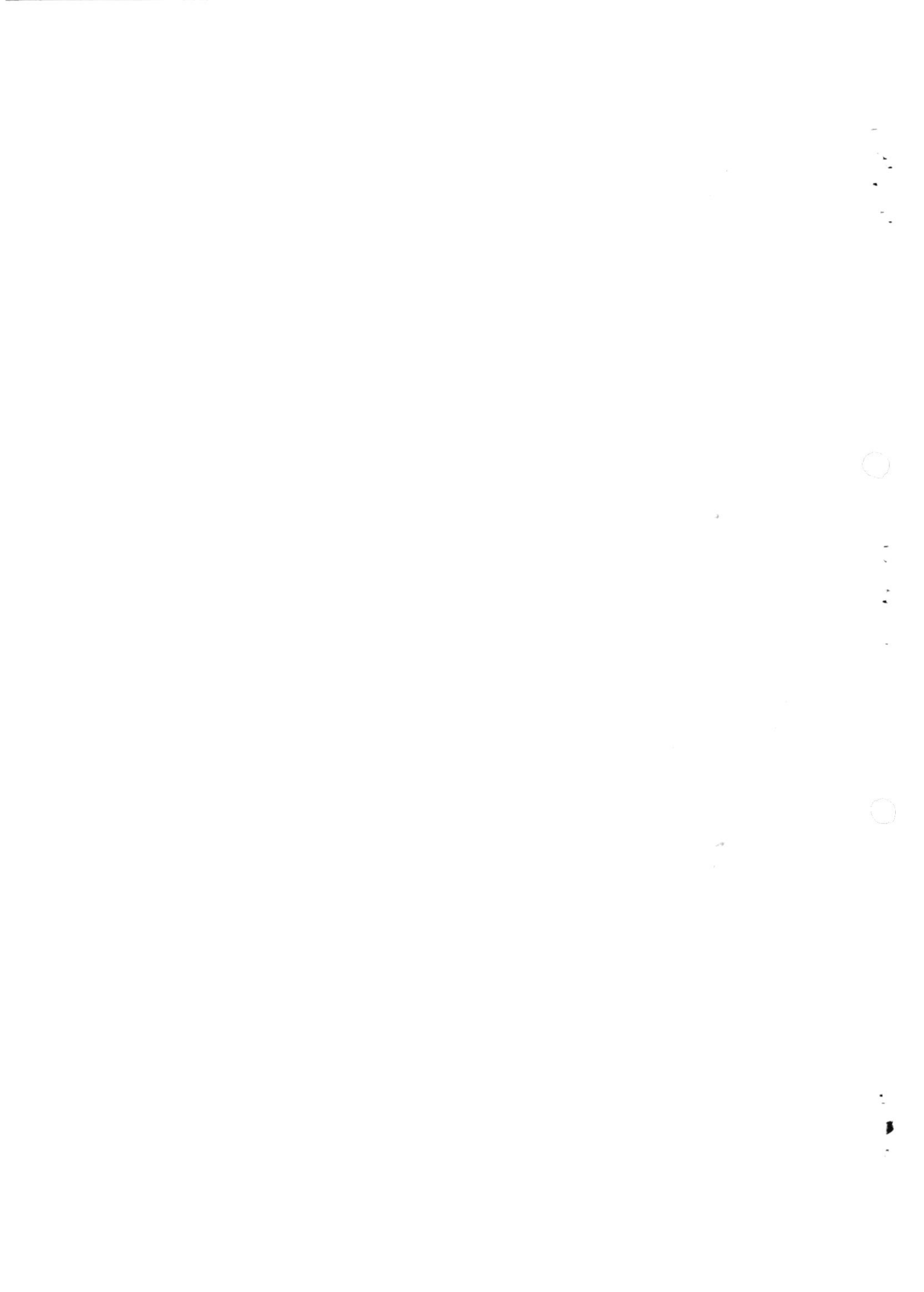


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HON. ADAN MOHAMED NOORU, MBS, M.P

**CHAIRPERSON, DEPARTMENTAL COMMITTEE ON AGRICULTURE,
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Date.....

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2.0 BENCHMARKING VISIT TO INDIA

2.1 Overview

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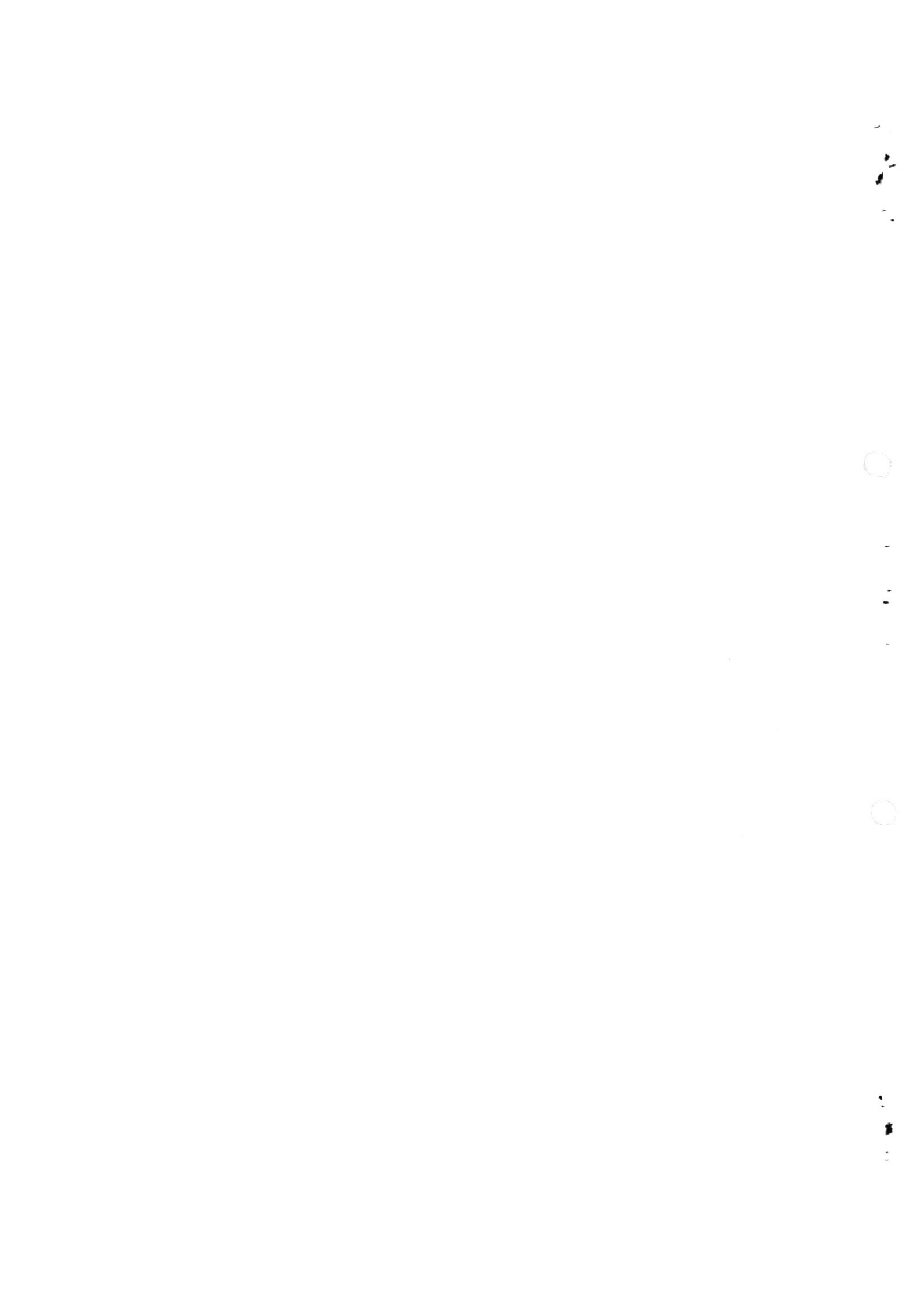
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2.2 Background

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- (iv) Low awareness by farmers on the opportunities and potential benefits of WRS and Commodities Exchange; and,
- (v) Limited involvement of financial and insurance institutions

2.3 Justification for the Benchmarking Trip

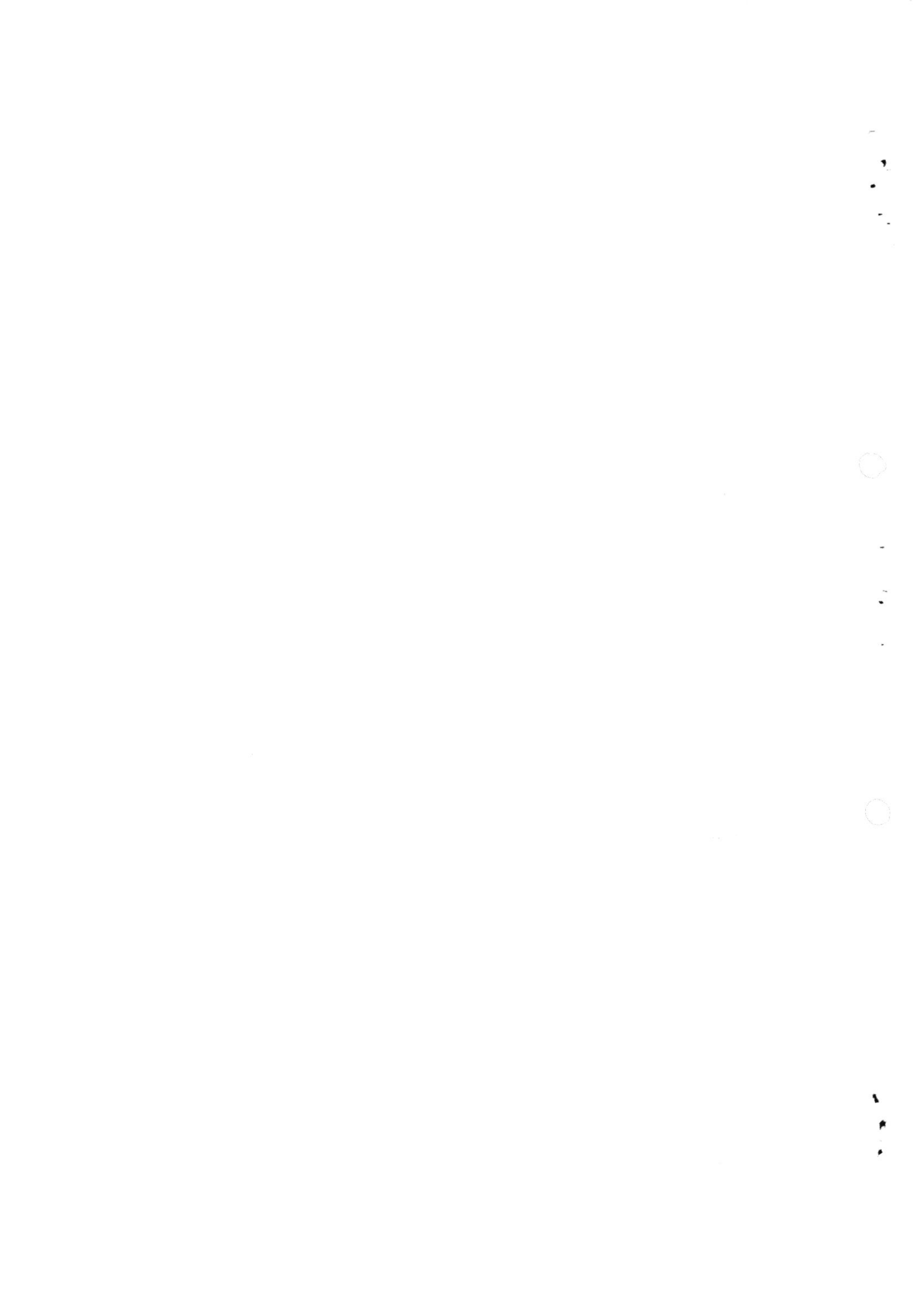
The country is currently working on the development of legal frameworks for both the Commodity Exchange and a Warehouse Receipt System. These legal frameworks take the form of draft Bills for the regulation of the Warehouse Receipt System and the Commodity Exchange. The WRs Bill has been developed and is currently in the National Assembly having undergone two readings.

As Kenya moves towards implementation of Warehouse Receipt System and the development of a commodity exchange, there is need to benchmark with international best practices on structured commodity marketing. India was identified as a country with a success story and that has experience with small-scale farmer-based agriculture. India presents scenarios that are similar to Kenya's. The country has done fairly well in the establishment of commodity exchanges underpinned by a well-established network of warehouses across the Country.

2.4 Delegation

The delegation that undertook the benchmarking visit to India comprised of the following;

<u>Name of Delegate</u>	<u>Position and Institution</u>
1. Dr. Ibrahim Mohammed	- Leader of delegation and Principal Secretary, Commerce and Tourism, Ministry of East African Affairs, Commerce and Tourism
2. Hon. Adan Mohamed Nooru, MBS, M.P	- Chairperson, National Assembly Committee on Agriculture, Livestock and Cooperatives
3. Hon. Ferdinand Wanyonyi, M.P	- Member, National Assembly Committee on Agriculture, Livestock and Cooperatives
4. Mr. Newton K. Terer	- Managing Director, National Cereals Produce Board
5. Ms. Sarah Ochieng	- Private Sector Development Specialist - IFC/World Bank Group
6. Ms. Rebecca Wahome	- Deputy, Director of Agriculture, Ministry of Agriculture, Livestock and Fisheries
7. Dr. Gerald Masila	- CEO, Eastern African Grain Council
8. Mr. Ahmad Adan Guliye	- Clerk Assistant, Departmental Committee on Agriculture, Livestock and Cooperatives National Assembly
9. Mr. John Ngetich	- Legal Counsel, National Cereals Produce Board



- | | |
|---------------------------|---|
| 10. Mr. Dunstan Ngumo | - Economic Advisor to the Chairman, Agriculture Committee of the Council of Governors |
| 11. Mr. David Ombalo | - Principal Agriculture Officer, Ministry of Agriculture, Livestock and Fisheries |
| 12. Mr. Anthony Njeru | - Senior Economist, Ministry of East African Affairs, Commerce and Tourism |
| 13. Ms. Annastacia Kivuva | - Principal Agriculture Officer, Ministry of Agriculture, Livestock and Fisheries |
| 14. Mr. Robert Okoth | - Trade Specialist, Ministry of East African Affairs, Commerce and Tourism |
| 15. Ms. Leah Aywah | - Principal State Counsel, Office of Attorney General |
| 16. Ms. Rosemary Makotsi | - IFC, World Bank Group |

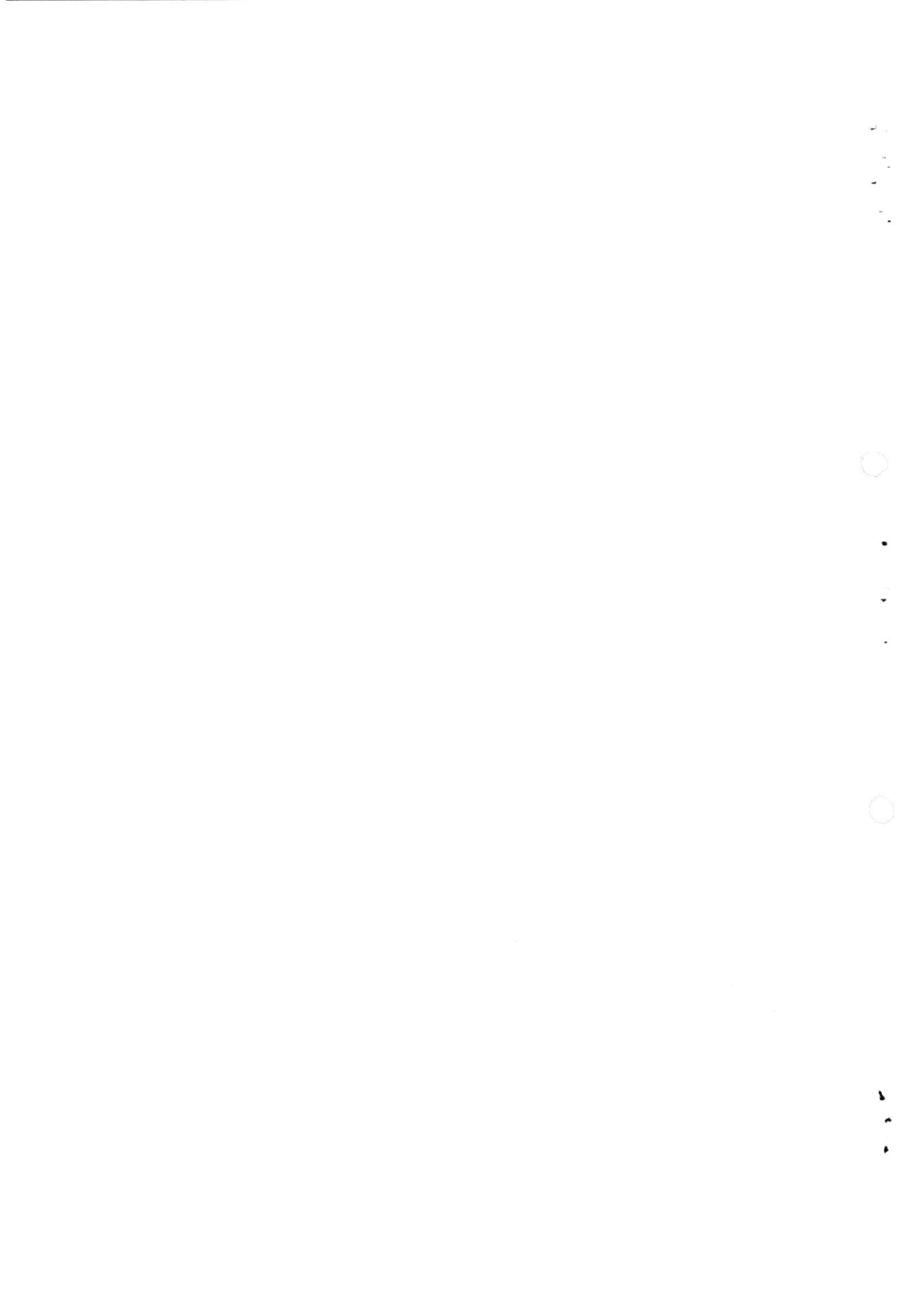
2.5 Learning Objectives

The overall objective of the visit was to bench-mark with Indian WRS and COMEX best practices through getting exposure on what it takes to establish and successfully manage a Commodity Exchange supported by an efficient WRS. The legislators targeted to benefit the discussions on the WRS Bill while the technical team targeted the benchmarking to inform the development of a framework for the commodity exchange and formulation of regulations for operationalizing the WRS Bill once it is enacted into law.

2.5.1 Specific Objectives

The benchmarking trip had the following specific objectives;

- (i) To understand the policy, legal and institutional framework and linkages required for a functioning COMEX and WRS system;
- (ii) To examine the alternative models for integrating WRS and COMEX and associated legal and institutional framework
- (iii) To clearly understand the role of government in facilitating and regulating the warehousing and commodity trade;
- (iv) To get first-hand exposure to the working of a commodity exchange and warehouse receipt system;
- (v) Interact with key players/institutions involved in the agricultural commodity trade;



3.0 INSTITUTIONS VISITED IN INDIA

The delegation visited a total of eight institutions involved in financing, banking, collateral management, regulation, warehousing and commodity trading. The eight institutions and their core areas of focus are outlined below;

3.1 National Commodity Derivative Exchange (NCDEX) of India Ltd

Core Area of focus

- (i) The workings of a national level commodity exchange with shareholding comprising of large national level institutions, large public sector bank and companies.
- (ii) On-line multi commodity exchange
- (iii) Trade in a wide spectrum (agricultural and non-agricultural) of commodity derivatives
- (iv) Public Private Partnership (PPP) models for COMEX.

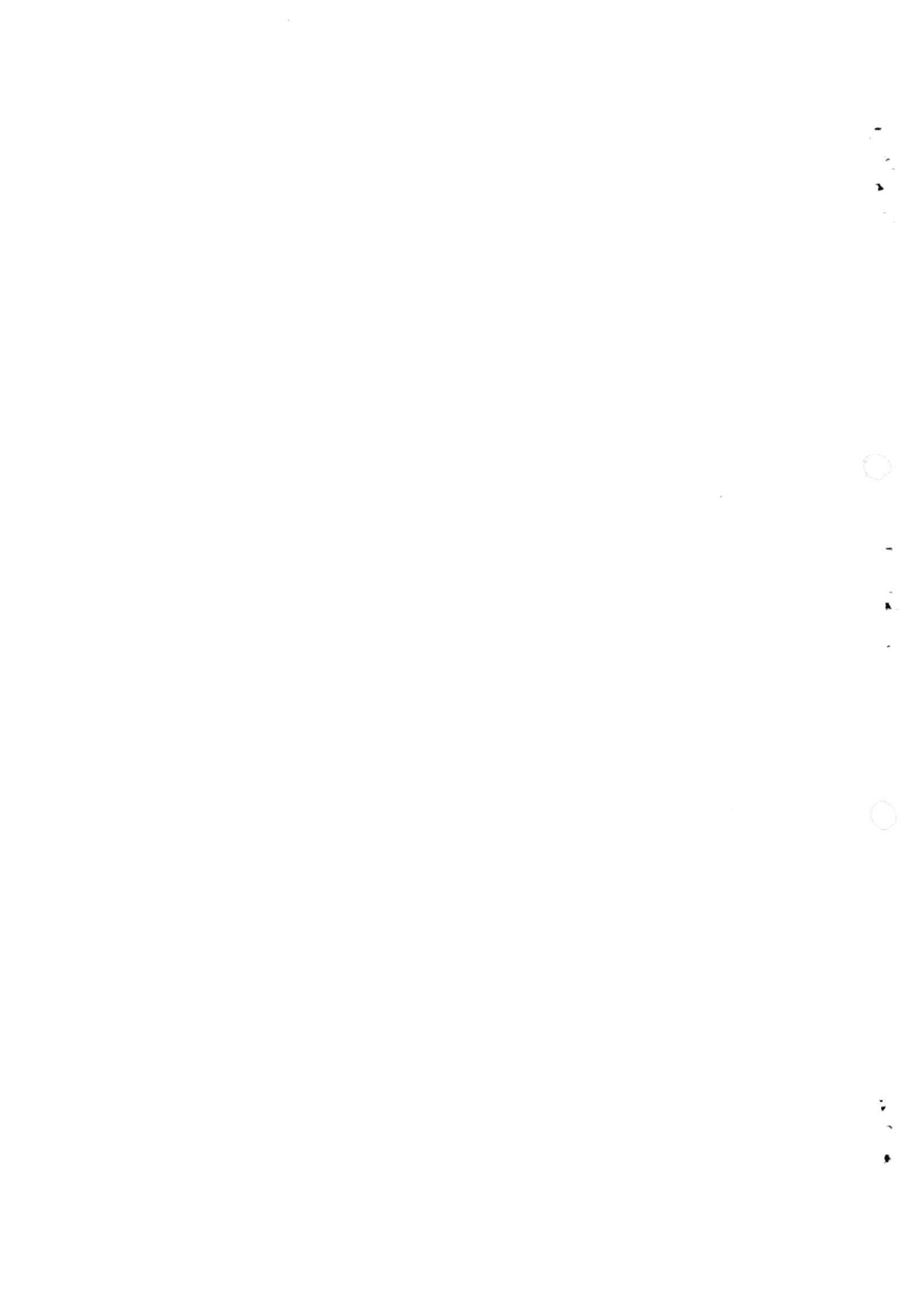
National Commodity and Derivatives Exchange Limited (NCDEX) is a public limited company incorporated on April 23, 2003 under the Companies Act, 1956. NCDEX is also regulated by Securities and Exchange Board of India. NCDEX is subject to various laws of the country that include the Securities Contracts (Regulation) Act, 1956, Companies Act, Stamp Act, Contract Act and various other legislations. NCDEX headquarters are located in Mumbai and offers facilities to its members from the centers located throughout India.

NCDEX is a professionally managed on-line multi commodity exchange. The shareholders of the exchange comprises of large national level institutions, large public sector bank and companies. NCDEX is the only commodity exchange in the country promoted by national level institutions. These include ICICI Bank, Life Insurance Corporation of India (LIC), National Bank for Agriculture and Rural Development (NABARD) and National Stock Exchange of India Limited (NSE).

NCDEX is a technology driven de-mutualized on-line commodity exchange that offers a wide spectrum of commodity derivatives driven by best global practices, professionalism and transparency.

The National Commodity and Derivatives Exchange NCDEX is one of the three major Commodity exchanges in India. NCDEX trades in more than 30 commodities across India. The Exchange operates 45,000 terminals in 700 centers and has over 2 million clients spread across India. The company pioneered electronic accounting in commodity trading. It has a network of 400 warehouses with a total capacity of 2 million tons. The delivery and in trade of commodities averages 80,000 MT/month for the exchange.

Because of its performance and transparency in operations, NCDEX has established qualities and standards for various crop varieties which are used as benchmarks by the other industry players.



The NCDEX has automated most of its systems to improve efficiency and accountability in its operations. For example NCDEX –approved Warehouse are allowed to issue electronic warehouse receipts in a demutualization of deposits that are then reflected in electronic registers. The use of negotiable electronic warehouse receipts has reduced abuse that is rampant with the use of hardcopy paper receipts. The system is designed in a manner that enables the generation of electronic receipts upon the deposit of commodities in NCDEX approved warehouses. The depositor is given a deposit slip as proof of deposits but negotiability is done online thereby checking misuse.

Most of the major cereal commodities are traded in lots of 10 MT. In order to address challenges of aggregation associated with India's predominantly small holder based agriculture, NCDEX works with small holder farmer corporations who do the aggregation to the required volumes.

Lessons Learnt

- (i) Linkages and levels of integration between commodity exchanges and WRS system are necessary for a well function trading platform.
- (ii) Automation of systems through the employment of electronic Warehouse Receipts and the demutualization of the same are effective in reducing fraud associated with use of paper warehouse receipts.

3.2 National Bank of Agricultural and Rural Development (NABARD)

Areas of Focus

- (i) National Government financing of agriculture sector activities, refinancing to Rural Financial Institutions (RFI);
- (ii) Direct credit to famers for value addition;
- (iii) Capacity Building;
- (iv) Marketing through Aggregation of produce;
- (v) Supporting farmers with market information

Brief history of NABARD

National Bank of Agricultural and Rural Development (NABARD) was established on 12 July 1982 by a special Act of the Parliament of India. NABARD has its headquarters in Mumbai and other branches are spread all over the country. NABARD is 99.6% owned by government with only 0.4% owned by private entities and is the largest financial institution in India for promotion of sustainable agriculture and rural development. The bank has 31 regional offices and one cell at Srinagar, an extensive network throughout the country with 400 district development officers, a number of subsidiaries and 4,500 regulated markets.

NABARD is India's apex development financial organization whose key mandate is to bring rural prosperity through credit and non-credit initiatives in agriculture, cottage and village industries, handicrafts and small scale industries. It is accredited with "matters concerning

policy, planning and operations in the field of credit for agriculture and other economic activities in rural areas in India".

Main Roles/Functions of NABARD:

In financing agriculture, NABARD's broad functions are mainly:

a) Financial/Credit Functions:

(i) Refinancing to Rural Financial Institutions (RFI)

- Short and medium loans
- Long term loans - Loans to state governments
- Direct Financing- Rural Infrastructure Development Fund;
- Loans to Producer organizations, agro-processing units, central cooperatives;

(ii) Direct credit to famers for value addition;

- Credit for market development;
- NABARD Warehousing Scheme- through the Warehouse Infrastructure Fund.

b) Development Functions

- Strengthening Rural Financial Institutions;
- Capacity Building
- Addressing climate change related issues

c) Supervisory Function

- Capacity for financing warehouses;
- Reliable warehouse certificates, basic and physical standards;
- Grading and instrumentation systems.

d) Other Functions

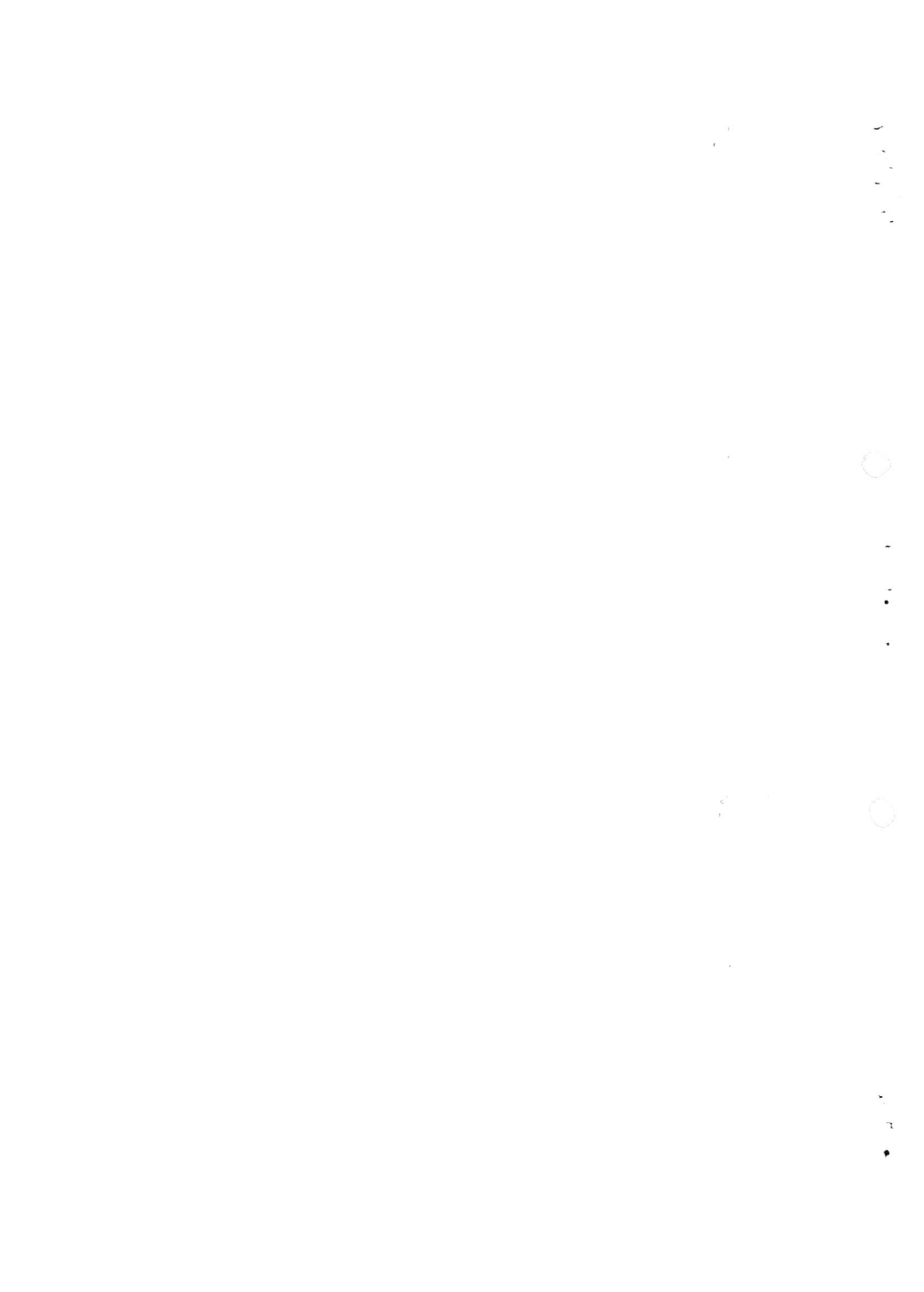
- Marketing through Aggregation of produce;
- Help the small scale and medium farmer in scientific and preservation to arrest post-harvest losses;
- Supporting farmers with market information;
- Regulation

Observation/ Comparative Analysis

The delegation sought clarification on the following issues:

Composition of the NABARD Board members and the appointing authority; interest rate charged on credit; risks and any mitigation measures in place.

In response, the delegation was informed that the Government of India through the Ministry of Finance appoints Board member to the Board of NABARD. Direct financing attracts a margin.



For instance, if the commercial rate is 10% or 12%, the NABARD would lend at a slightly lower rate of 8% or 10% respectively; and use of Credit guarantee scheme to mitigate the lending risks for non-agricultural products;

The agricultural products have Agriculture Insurance Scheme, Yield Based Insurance; Livestock Insurance for risk mitigation.

NABARD has established or set up own weather based stations all over India (over 3000 stations) for monitoring weather situation for ensuring that reported crop failure is accurate and not just mere excuse by farmers in the event of crop failure; The Government of India provides agriculture subsidy up to about 40%; For the convenience of farmers with difficulty in servicing their loans, terms of lending these loans are reviewed from short term to long term;

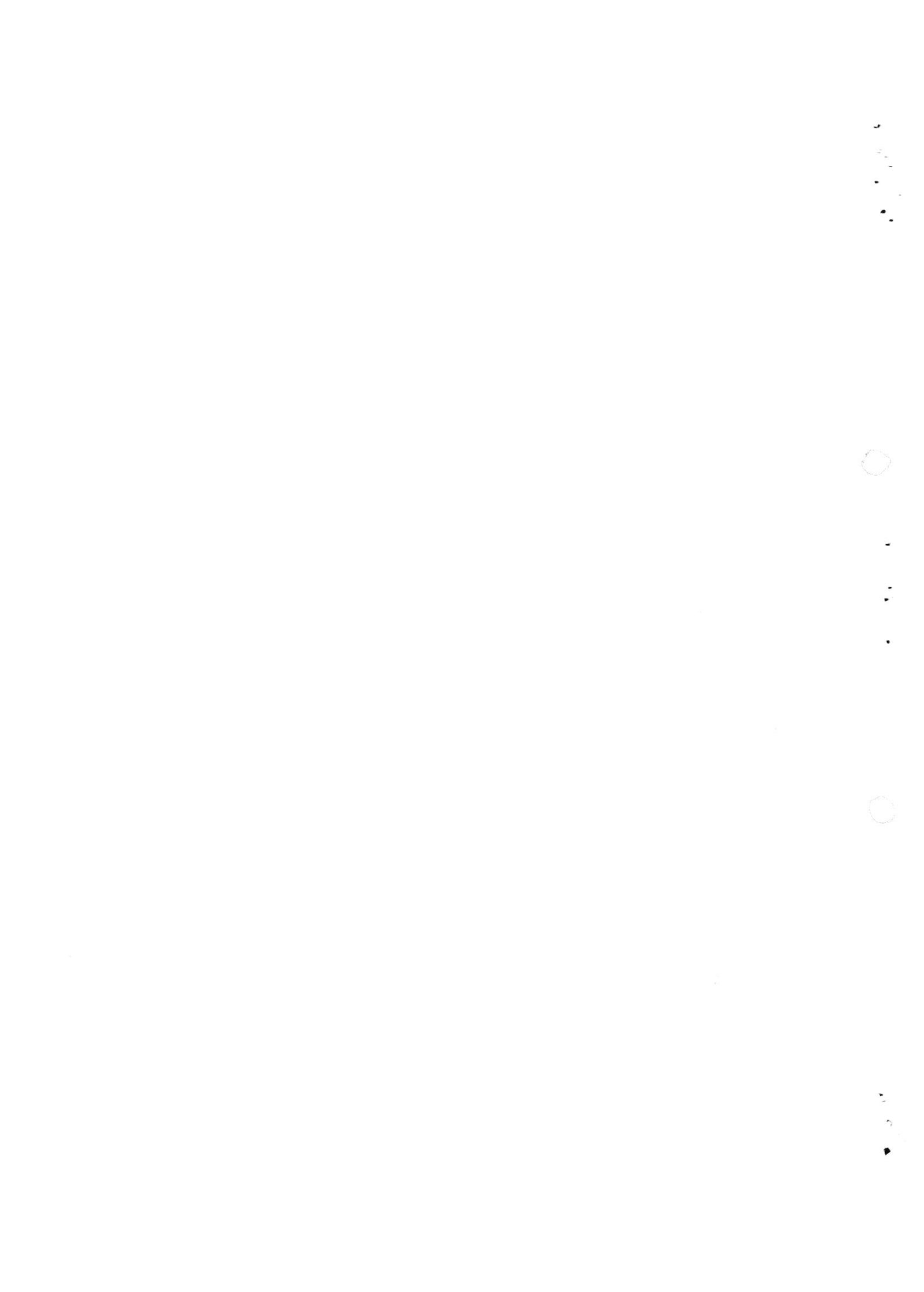
Asked how NABARD helps to control brokers or intermediaries in the agricultural market chain, it was noted that NABARD gives special incentives to farmers' companies and cooperatives to encourage aggregation which positions farmers to compete effectively with other market players but it is not possible to completely keep away intermediaries.

The delegation was informed that agriculture is the backbone of the economy of India with small scale farmers having less than 5 acres of farm land accounting for 85%. Key constraints in marketing include limited number of the markets (Mandis), pricing, and lack of incentives, limited access to information, lack of key utilities for grading, sorting and other forms of value addition. Traditional agriculture faces high losses incurred by farmers dealing in perishable products which range between 30-35%.

The team was taken through the basics of WRS and the elements and requirements of a successful WRS. The benefits of a warehouse receipt which include prevention of sale through distress by farmers, financing of production, cash and forward markets among others were explained. Some of the prerequisites for the warehouse receipt financing mentioned included a supportive legal, regulatory system and a functional institutional framework. It was clarified that aggregation of the small scale farm produce is done through warehousing. Modern agriculture with the advent of Warehouse receipt system is fundamental for addressing the traditional challenges by providing support services such as logistical, financial, and technology services.

Other important elements and requirement of a well-functioning WRS includes collateral management and an electronic platform for management of warehouse receipts. The default rate on agricultural credit was 7% but has since dropped to 1% due to adoption of collateral management.

The warehouse industry is \$10 billion worth. NABARD also offers warehouse accreditation through its subsidiary, NABARD Consultancy Services (NABCONS) through which it has



accredited 600 warehouses. India has an established Warehousing Infrastructure Fund (WHF) for supporting the development of warehouses.

Learning points

- (i) The well-organized agricultural and rural development credit system by NABARD has helped to make agriculture in India more competitive and sustainable in the best interests of all stakeholders and mainly for farmers.
- (ii) The lower credit interest rate by NABARD to farmers has helped farmers edge against commodity price fluctuations and productions costs.
- (iii) The scientific storage and preservation system through WRS has helped to arrest post-harvest losses, thereby helping to improve returns to farmers and helping to boost food security and agricultural growth.
- (iv) The agricultural financing system by NABARD and the organized storage system through WRS and forward marketing system has helped to reduce distress selling and market uncertainties for farmers.

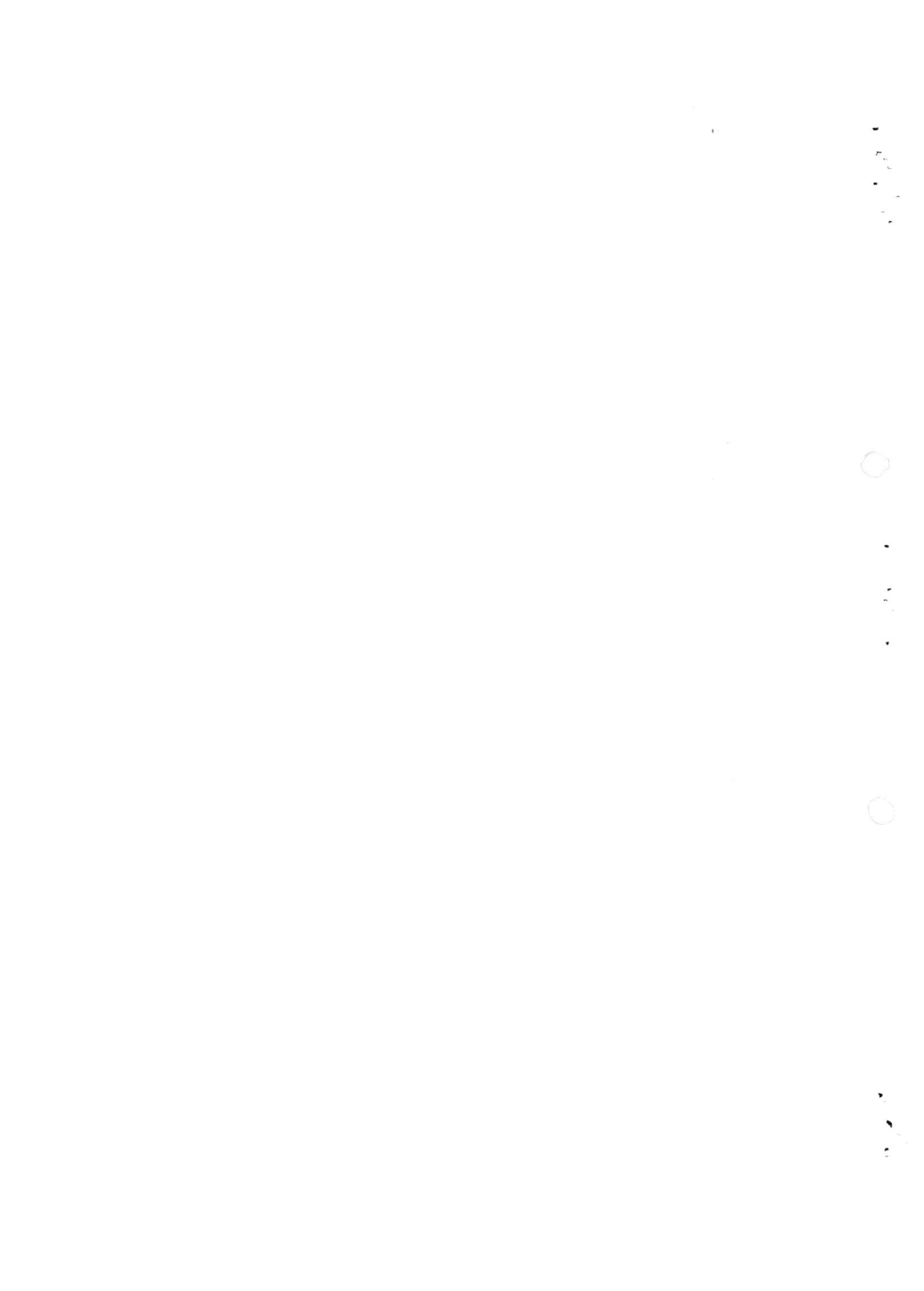
3.3 SGS India - Quality Testing Laboratory

SGS is one of the world's leading inspection, verification, testing and Certification Company. SGS is recognized as the global benchmark for quality and integrity. Established in 1878, the company consists of ten business segments operating across ten geographical regions. Having started as a grain inspection house, it has steadily grown into a force to reckon with in the industry and expanded its mandate in 2001.

The company has offices in 19 locations spread out across the country with over six hundred employees. The company operates a network of more than 1,650 offices and laboratories around the world. In Kenya, the main office is located in Upper hill, Nairobi and the registered head office is in SGS House, Mombasa. The company is contracted by Kenya Bureau of Standards (KEBS).

SGS core services can be divided into four categories:

- (i) **Inspection:** SGS has a comprehensive range of world-leading inspection and verification services, such as checking the condition and weight of traded goods at trans-shipment. This helps the client to control quantity and quality, and meet all relevant regulatory requirements across different regions and markets.
- (ii) **Testing:** The Company has a global network of testing facilities, enables clients to reduce risks, shorten time to market and test the quality, safety and performance of their products against relevant health, safety and regulatory standards.



- (iii) **Certification:** SGS enables client to demonstrate that their products, processes, systems or services are compliant with either national or international standards and regulations or customer defined standards, through certification.
- (iv) **Verification:** Ensures that products and services comply with global standard and local regulations. SGS covers the entire supply chain from raw materials to final consumption.

The company is involved in a range of products and for the purposes of the objective and the mandate of the tour, discussion focused on agricultural commodities especially grains.

Agriculture and Food As agricultural goods transit from farm-to-fork, they require attention, tracking and integrity. SGS offers an end-to-end supply chain range of services that reduce risk, ensure quality and improve productivity. The company ensures the integrity of the food chain by managing crops, enhancing seed development, conducting soil testing and harvesting, moving products through the global supply chain and managing trade inspection at export and import.

Learning points:

- (i) Need to have clear standards for the commodity to be traded.
- (ii) Important to have an independent competent and credible organization(s) to carry out testing, inspection, verification, and certification in relation to standards to create confidence to all other stakeholders in the system i.e separation of duties for confirmation of the quality and safety of the warehouse commodity.
- (iii) As a prerequisite to ensure proper functioning of WRS and COMEX is clear standards for grading and quality certification.

3.4 RBL Bank

RBL Bank is one of India's fastest growing banks with 183 branches spread all over India. One of the notable factors responsible for the Bank's growth has been significant growth in "Priority Sector Lending Business". The Bank has achieved all its Priority Sector Lending as well as all sub-sector targets for the last three years. The bank was honored as the Best Bank Priority Sector Lending (Private Sector) at Dun & Bradstreet Banking Awards and as a Global Growth Company by the World Economic Forum in 2014.

RBL Bank focuses on Agriculture, Rural Banking and Financial Inclusion because of the potential of the Agricultural sector in driving the growth for Indian banking Industry. Agriculture sector remains the mainstay of the Indian economy (although it contributes about 14% of the National Gross Domestic Product (GDP)) as 60% of Indian families are still dependent on agricultural income for livelihood. While agriculture share in India's economy has continued to decline due to the high growth rates of the industrial and services sectors, the agriculture sector's importance in India's economic and social well-being goes well beyond this indicator.



In this regard, the Bank emphasizes on an inclusive banking system which will drive economic growth and also to address the two key areas of concern namely, Financial Inclusion and Food Security.

Key stakeholders for the bank include;

- i. Borrowers
- ii. Warehouse owners
- iii. Collateral managers
- iv. Banks
- v. Processors/exporters
- vi. Corporates
- vii. Insurance companies

The Bank adopts a five-point approach to increase its relevance in Rural India

- Focus on direct farmer banking requirements
- Develop innovative products and market specific schemes for farmers and rural customers
- Tap the entire value chain including farmers, artisans and other players in the different catchments
- Increase outreach through expansion of institutional network and use of technology
- Work with farmers and corporates to forge both forward and backward linkages

The Agribusiness financing for the bank has been modelled to address the different target markets in a focussed manner across the value chain.

- **Retail Agribusiness:** The Bank leverages on the strength of its existing branch network and new branches to expand and grow its Agribusiness portfolio in Retail and Commodity business.
- **Wholesale Agribusiness & Value Chain Finance:** The bank finances Sugar factories, Dairies, Plantation companies, Agro-processing industries, Agri-input companies etc. The wholesale Agribusiness and Value Chain Finance forms an important segment of Agribusiness which addresses the key corporate and institutional relationships in agricultural sector to enable bulk farmer funding deals.
- **Commodity Finance and Pledge Finance:** The bank supports growth of Agribusiness through Commodity Finance and Pledge Finance to farmers against hypothecation of agricultural produce (including warehouse receipts). RBL Bank launched the Warehouse Receipt Financing program, where credit facilities are extended to farmers, processors and grader sorters, primarily based on the underlying asset i.e. Agri-commodities. The Bank offers commodity finance for both perishable and non-perishable commodities.

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Functions of RBL Bank in relation to Warehousing Receipt System

a) Warehouse receipt financing (WRF) to farmers

Warehouse Receipt Financing is a structured method of financing, wherein funds are extended to farmers, manufacturers, grader-sorter and processors based on Agri-commodities. WRF enables farmers, aggregators, processors, graders and sorters stock their own produce in the Warehouses for better price realization later and to meet immediate liquidity requirements.

b) Cold Storages

RBL Bank offers credit facilities for storage of commodities like Raisin, Potato, Chillies and Jaggery etc. Bank also provides term loan for construction of cold storage.

c) Funding for construction of rural warehouse & Go-downs

RBL Bank offers loans for developing scientific Agri-warehousing infrastructure

Lessons Learnt

The presence of financial institutions dedicated to financing warehouse receipts and the development of WRS is critical to proper functioning of a WRS

3.5 SohanLal Commodity Management (SLCM) Limited

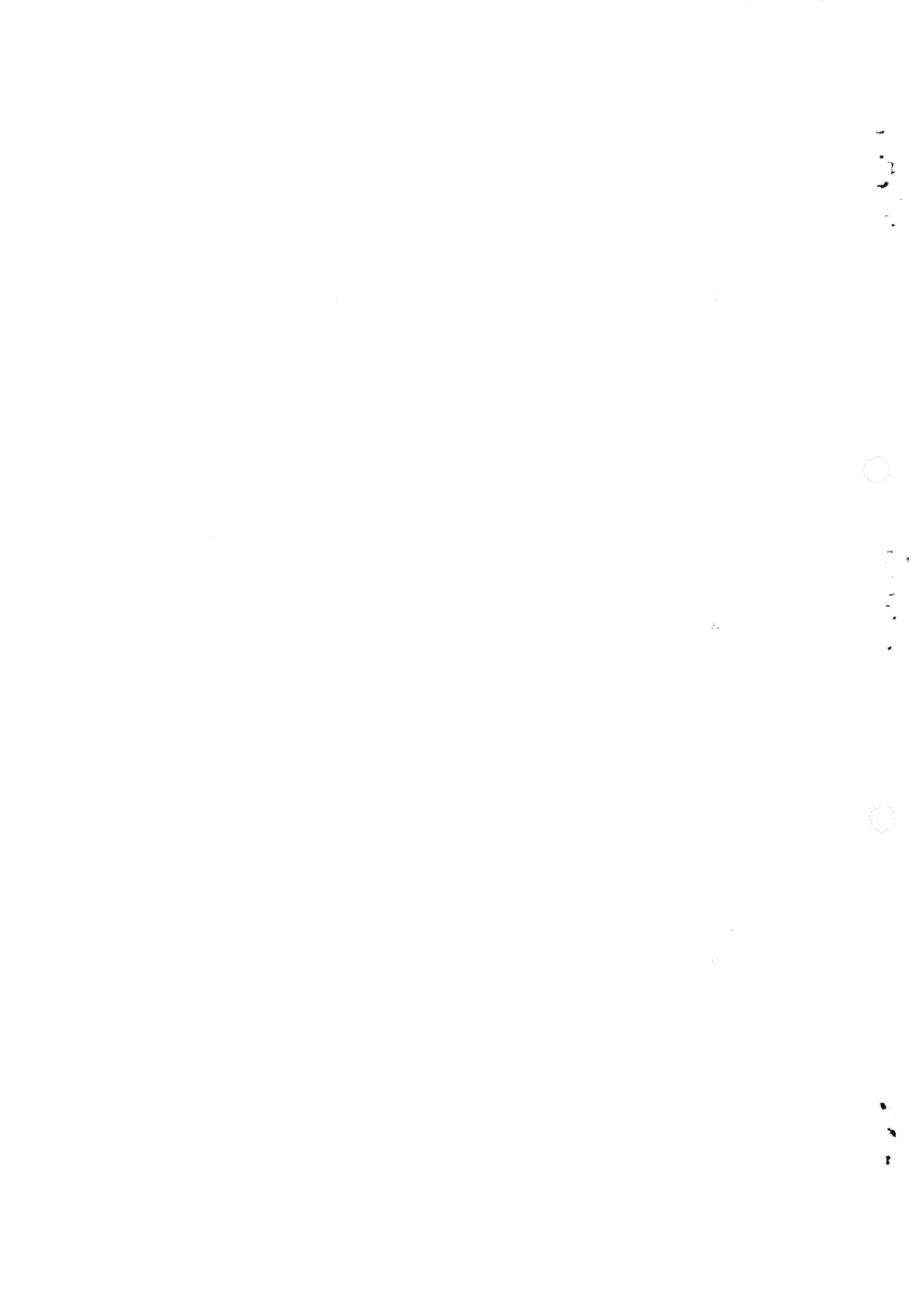
SohanLal Commodity Management Ltd (SLCM) is an ISO 9001: 2008 and ISO 22000: 2005 certified, Agri-Logistics Company. SLCM offers one-stop comprehensive solutions in providing warehousing services such as Scientific Storage for agriculture commodities, handling Day-to-Day Operations, Fumigation, Testing and Certification and Funding against Storage Receipts. The company provides its services to Farmers, Processors, Traders, Commodity Exchanges and the Government. SLCM has handled more than 165 agriculture commodities including Cotton, Barley, Bajra, Castor Seeds, Wheat, Pulses, Maize, Spices, Aloe Vera, etc., across India.

The main services offered are;

- (i) Commodity Warehousing
- (ii) Agri-Financing Collateral Management
- (iii) Procurement
- (iv) Other Allied Services

(i) Commodity Warehousing

SLCM in India has defined and implemented systems and scientific processes which are making agriculture logistics independent of infrastructure and not limited or constrained by geographical location irrespective of the crop. They are able to modify and improvise storage solutions and



guarantee the quantity and quality of the warehoused commodities and are not limited to conventional/traditional warehouses/stores or silos. They even use silo bags placed in open air and under shades. Their key focus is on scientific storage, management systems.

Warehousing Services can be broadly classified into the following categories:

- (i) Centralized internal audit
- (ii) Extensive audits
- (iii) Technologically integrated solution
- (iv) Replicable model
- (v) Insurance and other value added services

Under commodity warehousing SohanLal may take charge of the complete warehouse or its chambers/area on lease/long lease basis and offer the space to different clients for storage of the commodities. The rates and other terms and conditions are mutually agreed upon between SLCM and the customer through an agreement.

(ii) Exchange Warehouse

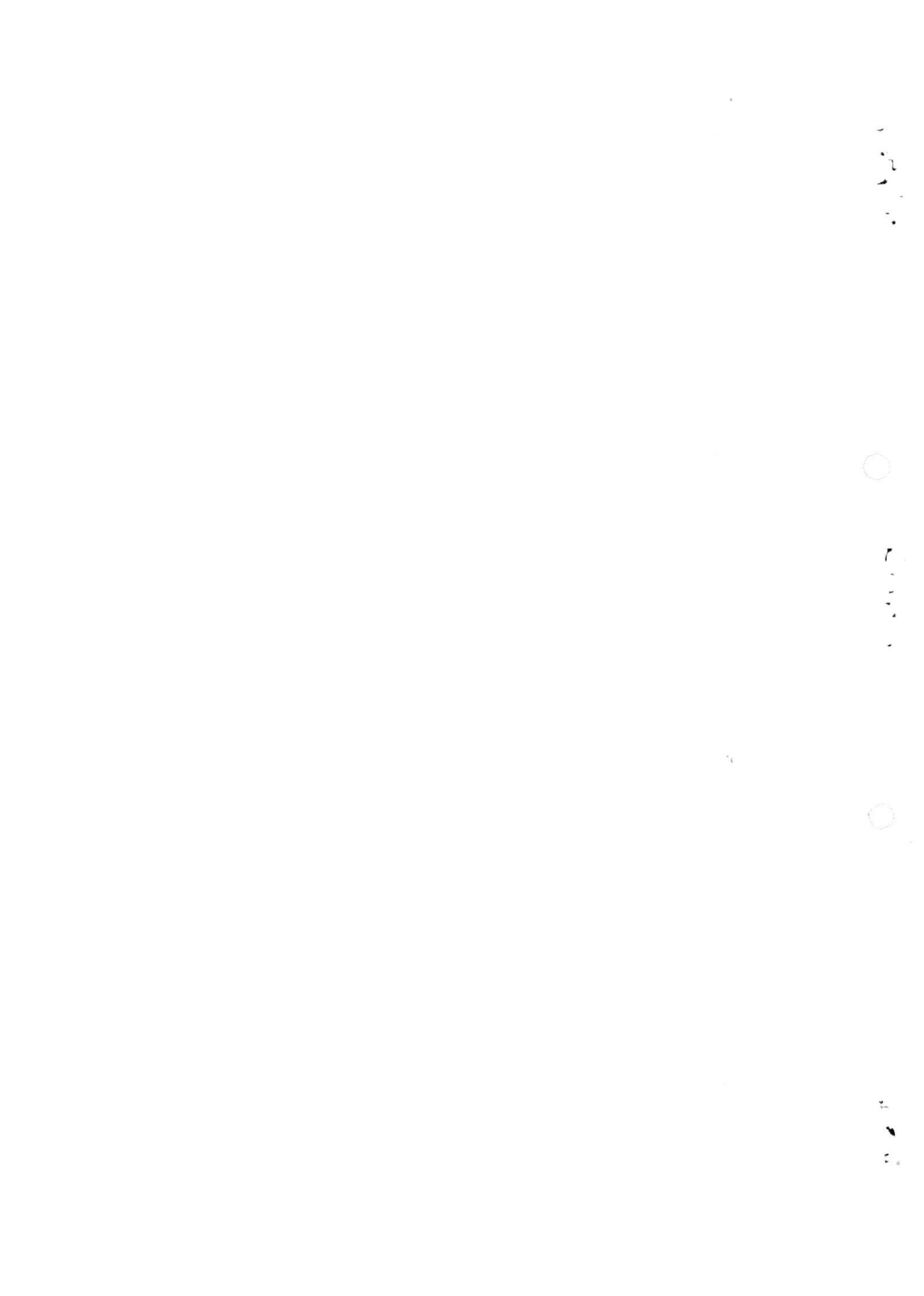
In this kind of warehousing service, commodities traded over Exchanges like {Multi Commodity Exchange of India Ltd, Mumbai (MCX), Ace Derivatives and Commodity Exchange Limited (ACE) and National Multi Commodity Exchange (NMCE)} are stored in SLCM warehouses as per the agreed terms through an agreement between Commodity Exchanges and SLCM. However, the rates for warehousing are declared by the commodity exchanges through circulars from time to time.

(iii) Warehousing Management Services (WMS)

In WMS, customer approaches SLCM to provide Warehouse Management Service for his commodities located at his (owned or leased) warehouse. SLCM then provides a package of services that includes stock management and deployment of manpower for managing the customer's commodities at their warehouse. The terms and conditions are mutually agreed upon between the two parties.

(iv) Private Entrepreneurs Guarantee (PEG) Schemes.

In India, Warehouse Owners approach SLCM to provide Warehouse Management Service for the commodities pertaining to State/Central Government. Such warehouses are accredited by the State/Central Government under Private Entrepreneurs Guarantee (PEG) Schemes. This in turn, means SLCM is managing the stock for the Government indirectly. The rate and period of warehousing is agreed upon through an agreement between SLCM and Warehouse Owner.



(v) Warehousing for Organic Products

SLCM has also initiated warehousing and warehousing allied services in the organic sector in India. The challenge with organic storage is that the product can't be treated with normal fumigation. To maintain the longevity of the product life; it is imperative that the processes are aligned with organic stature of the product. SLCM has evolved this service for more than 40 varieties of dry food products such as grains cereals and spices, condiment, etc. in four states in India and recently in Myanmar as well. Exporters who are certified by the world's best agencies like USDA Organic, India Organic, Fair Trade & Kosher in India have shown their trust in SLCM for the upkeep of their organic product.

Learning points

- (i) Need for technology to ensure smooth running of warehouses and checking of fraud
- (ii) Alternative model to run warehouses
- (iii) PPP arrangement works in warehouse management with heavy involvement of private sector. The initiative has great potential for creating jobs in related areas.
- (iv) As commodity exchange develops storage warehouses not necessarily connected to COMEX will come up (this is an independent operator who has both categories of warehouses- affiliated to COMEX and those which are not). This leads to better storage capacity and quality which has great potential in checking post-harvest losses

3.6 Warehouse Development and Regulatory Authority

The Warehousing Development & Regulatory Authority was created in 2007 by the enactment of the Warehousing (Development & Regulation) Act, 2007.

Functions of Warehousing Development and Regulatory Authority (WDRA)

The delegation was informed that the main functions of the Warehousing Development & Regulatory Authority include:

- (i) Registration and accreditation agencies to accredit warehouses. Appointment of accreditation agencies and that to-date 14 bodies have been accredited by the Authority;
- (ii) Registration of warehouses issuing negotiable warehouse receipts: To-date 949 warehouses have been registered by the Authority with the expectation that more would be registered as it is a continuous
- (iii) Determine the rates for fees, levies and other charges
- (iv) Promoting efficiency in conducting warehouse business;
- (v) Regulate and promote electronic systems of holding and transfer of credit balance of tangible goods deposited in the warehouse;

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- (vi) Notification of Agricultural Commodities for issuance of warehouse receipts. The Authority has so far notified 123 crops

Advantages of Negotiable Warehouse Receipt System (NWRS)

The delegation was informed of the key advantages of NWRS which include:

- a) Improved liquidity in rural areas;
- b) Encouragement of scientific warehousing of goods;
- c) Lower cost of financing;
- d) Better price risk management;
- e) Efficient and shorter supply chains;
- f) Enhanced grading and quality rewards; and
- g) Maximize sales price-realization by farmers ensuring better quality and services to consumers.

Salient Features of Negotiable Warehouse Receipt System (NWRS)

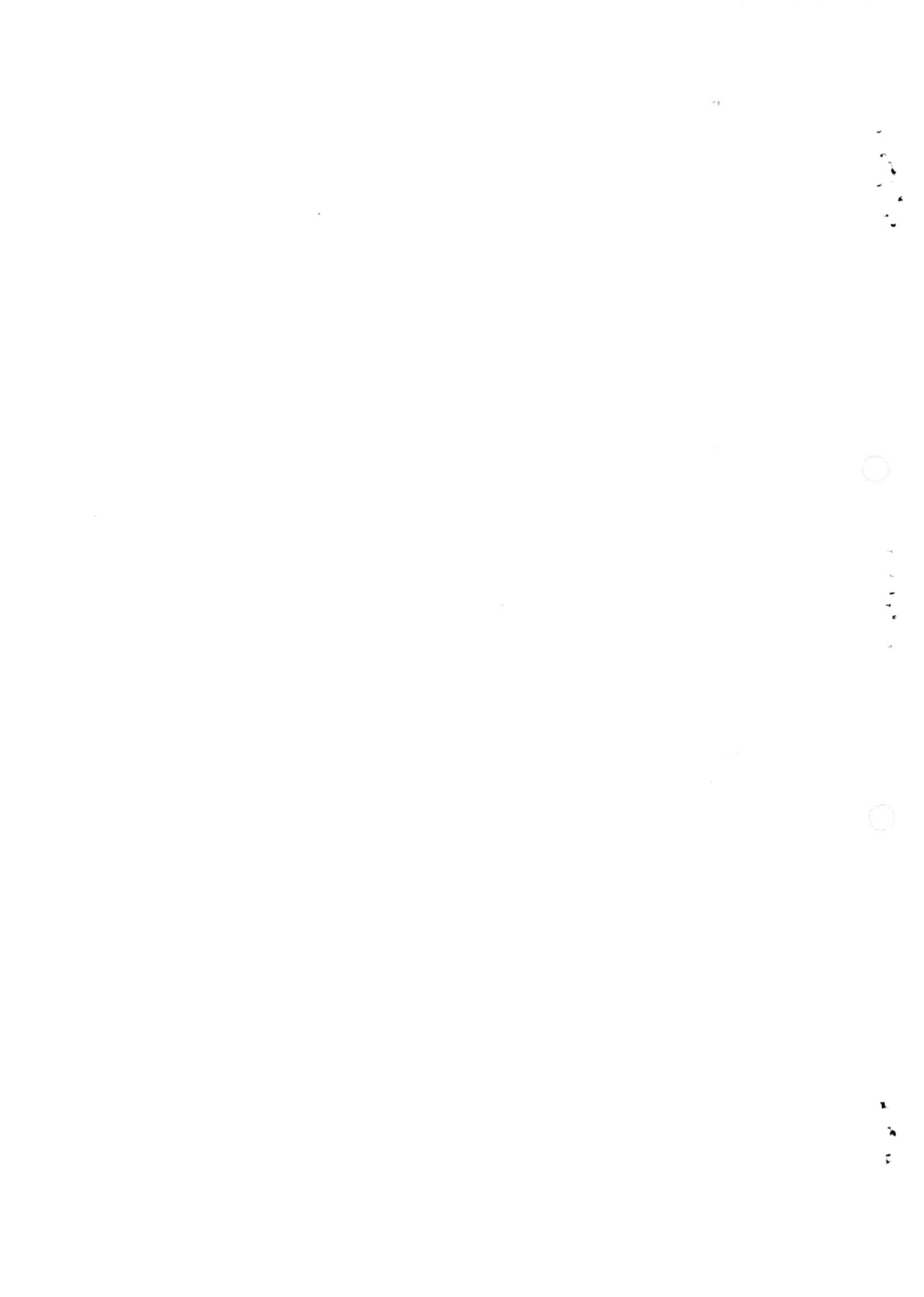
The delegation was informed of the salient features of NWRS which include the following:

- a) Regulation of warehouse activities;
- b) Warehouse receipts Negotiability; - the negotiable warehouse receipts can be traded with an endorsement by the receipt holder.
- c) Uniformity in negotiable warehouse receipt formats;
- d) Constitution of warehousing development and regulatory authority;
- e) Legal provisions for offences, penalties and appeals

Requirements for Registration of Warehouses

The delegation was informed of the requirements for registration of Warehouses some of which include the following:

- a) Insurance cover; - for buildings and stocks against flood, theft etc
- b) Construction of warehouse as per BIS/FCI/NABARD/CWC specifications;
- c) Storage worth with full proof security;
- d) Have highly trained staff with expertise in scientific storage of goods;
- e) Have equipment for weighing and quality measures;



- f) Positive net worth certified by Chartered Accountants; A credible certificate should apply to WDRA for registration. India has 0.2 million warehouses and out of this, 949 are registered with a storage capacity of 37.83 Lakh metric tonnes. These belong to; CWC (180), SWCs (130), PACs (252) and private organizations (383).

Advantages of Electronic Warehouse Receipts (EWRs)

The delegation was informed of the advantages enjoyed by adoption of EWRs which include the following:

- a) Avoidance of distress selling by farmers;
- b) Facilitating standardization of farm produce and their scientific storage;
- c) Promoting efficient clearing; and
- d) Integration of Primary Agricultural Societies (PACS) with NWR. The Authority has initiated accreditation of small warehouses belonging to the PACs

During the Question and Answer session, the Delegation sought the following clarification:

- (i) Specific number of banks involved in WRS and in response it was learnt that there was no restriction and therefore all banks are involved.
- (ii) On the period or length of storage time in the warehouse, the delegation was informed that this depended on the commodity being traded.
- (iii) On the Management structure of WDRA, the delegation was informed that the WDRA has a Chairperson and 2 other members appointed through a rigorous process as full time employees and that the Chairperson and one member forms a quorum. It was further explained that there are also some part time members who are also appointed.
- (iv) The Delegation was informed that WDRA is under the Ministry of Consumer Affairs and Food Distribution (Federal Government) and that it is fully funded by the government.
- (v) On the level of interaction with State government/other statutory bodies handling commodities and any other independent institution, the Delegation was informed that there is a coordination mechanism/interaction guided by the established legal and institutional frame work. For example, it is the State governments' responsibility to issue licenses and the Central governments to ensure the quality of warehouses and that of produce. The Delegation further learnt that the WDRA undertakes civic education.

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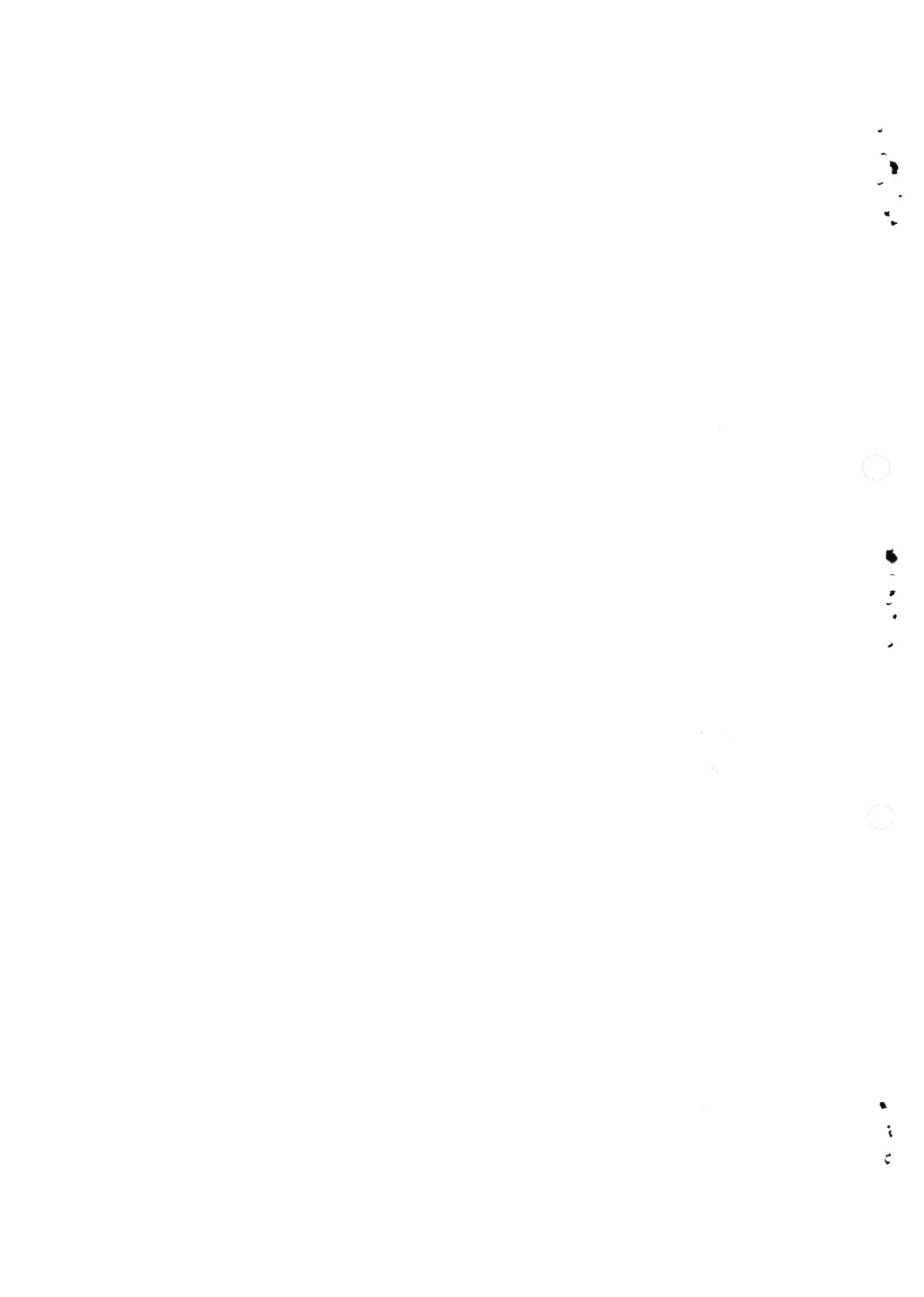
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- (vi) Seeking to know how successful in terms of coverage since its establishment in 2007, the delegation was informed that five (5) years of operation is a relatively short period but so far the Authority has registered 900 warehouses.
- (vii) Seeking to know the total staff/full time employees by the WDRA, the delegation was informed that:
 - a) WDRA has a chairman and 2 members, 20 employees and the number of employees is expected to reach 100 in the future.
 - b) Only concerned with integrity of warehouse receipt system;
 - c) Many activities are outsourced,
 - d) Inspections are done by 17 agencies;
 - e) Full time members/employees, cannot take employment in any other government/private entity(current government employees to be engaged must relinquish their current positions);
 - f) Appointment of the Chairman and the other 2 members is done by the government through a Committee chaired by the Prime Minister who considers all the proposed names before approval;
 - g) Initial period of service by the Chairman and the two members 5 years or 65 years of age not renewable(re-appointment through a similar process); conditions for removal from the office are relatively tough;
 - h) Forecast to have self-sustaining status; and
 - i) A Warehousing advisory committee exists and was established under the Act

3.7 Visit to a Warehouse

The delegation visited a warehouse on the northern part of Delhi on 23rd October, 2015 to have a feel on how goods are stored in a warehouse. The warehouse was managed by SohanLal Commodity Management. The delegation was taken through the basics of warehouse management which included methods and processes of storage. It was observed that the goods are stored in lots with each lot clearly distinguishable by a set of unique information. Each particular consignment had a tag indicating the kind of goods, the origin, the owner and the date a commodity was put in the warehouse..

The warehouse is opened for five (5) days a week for proper aeration. 5% of goods stored are sampled through random poking to ascertain whether the quality is maintained. Samples are tested for moisture content and the result is relayed to the headquarters of SLCM Headquarters for correlation of results with what was generated at the warehouse. The warehouse is manned by a warehouse manager who is on duty 24/7 and is routinely supervised by a warehouse supervisor.



For checking fraud and efficiency of operations, the warehouse is locked with a green seal that has a specific code which is communicated to the headquarters through mobile tablets. The regular physical checks undertaken by the inspectors re integrated into an electronic platform that ensures the inspector's physical presence at the warehouses premises. The seal is broken upon opening of the warehouse in the morning which is witnessed by the guards on duty at that particular time and the warehouse manager. The goods are stored at the discretion of the owner at a minimal charge.

4.0 OBSERVATIONS

Arising from the discussions held with the various institutions visited, the delegation observed the following;

1. An enabling environment through the development of appropriate supportive institutional, legal and regulatory framework is necessary to unlock WRS and COMEX potentials.
2. Separation of functions and mandates for the regulation of the WRS and COMEX eliminates conflicts of interest, inspires greater confidence and enhances efficiency of the systems.
3. Models that maximize synergies associated with outsourcing of functions relating to regulation players on the one hand, and implementation of activities of certification, collateral management on the other hand, minimizes conflicts of interest.
4. Clear and separate but complimentary roles by the national and state Governments for the regulation of WRS reinforces order and broadens options for the evolution and development of alternative innovative arrangements for spot markets and warehousing practices.
5. Alternative financing options for the warehouse capacity development and warehousing operations that include government support and private sector involvement is good for rapid WRS development.
6. Automation of systems using innovative ICT platforms has immense benefits that include efficiency of process and checking of fraud associated with warehousing and COMEX.
7. Capacity enhancement for WRS and COMEX value chain players and awareness creation for farmers on the benefits of WRS are critical uptake and successful implementation of WRS and COMEX.
8. Aggregation of the commodity among the small scale producers is necessary for them to participate in the WRS/COMEX either directly or indirectly.

5.0 RECOMMENDATIONS

The Committee recommends the following;

1. Kenya should adopt innovative approaches and employ ICT when establishing and operating commodity exchange.
2. Kenya's Agricultural finance institution should be remodelled along the NABARD structure since a well-organized financing institution is a prerequisite to a successful WRS.
3. Banks should be sensitized on their role in COMEX/WRS and the opportunities that exists in broadening their operations in a manner that is mutually beneficial to all.
4. Necessary legal, regulatory and institutional framework needs to be put in place in order to establish an effective WDRA.
5. Roles played by the two levels of government should be clearly spelt out in as far as regulation of WRS is concerned.
6. Use of modern ICT platforms (especially use of mobile telephony and tracking devices) should be integrated into the WRS as this will aid in the supervision of warehouses and reduce cost in the long run.

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