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State Bank of Pakistan allows Electronic Warehouse Receipt as collateral for bank financing

As a major move towards addressing the challenge of access to finance to farming community, State Bank of Pakistan has amended its Prudential Regulations of Agriculture Financing, SME Financing, and Corporate & Commercial Banking by allowing banks to accept Electronic Warehouse Receipts as collateral for lending against storage of agriculture produce and commodities.

Warehouse Receipt Financing (WHRF) is a mechanism whereby farmers, traders and processors may avail financing facility from banks while collateralizing their produce and agricultural commodities as a security stored in accredited warehouses. WHRF would benefit small farmers who usually find it difficult to access credit from banks due to non-availability of agricultural land as collateral. Further, WHR financing would provide liquidity to commodity market and help in improving food security and price stability.

The State Bank of Pakistan and Government are proactively seeking innovative methods and measures to improve institutional financing to agri-sector and rural population, particularly the small farmers. For this purpose, Securities & Exchange Commission of Pakistan (SECP), in consultation with key stakeholders including the State Bank of Pakistan, notified the Collateral Management Companies (CMC) Regulations 2019 on July 31, 2019, under the Companies Act 2017 to promote warehouse receipt financing and electronic trading of agricultural commodities. Under these regulations, any private entity can form a collateral management company which would accredit warehouses to store agricultural commodities and issue warehouse receipts eligible for banks loans.

It is expected that the development of a collateral management and warehouse receipt system would improve access to formal credit, reduce the losses arising from wastage of agricultural commodities after harvest, increase farmers' profitability due to better price discovery and reduce risks of banks by allowing agricultural commodity as an alternate collateral. Going forward, this system would also facilitate trading of agricultural commodities at commodity exchanges opening new business avenues in national and international commodity markets. Further, development of the entire eco system would encourage investors to set up warehouses of high standards for which State Bank's refinance scheme for setting up storage facility is already available.
