[**Seeds of hope**](https://www.dawn.com/news/1692728/seeds-of-hope)

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IN February this year, the State Bank of Pakistan unveiled a new financing system for maize farmers in Kasur designed to boost their access to finance and shore up the country’s crucial agriculture sector. Electronic warehouse receipt financing (EWRF) allows warehouses to issue receipts as evidence that commodities are stored there securely. Farmers can then use these receipts as collateral to borrow from banks under a secure and regulated framework.

The programme in Kasur builds on an initiative begun last year that aims to address two long-standing challenges for farmers in Pakistan — the limited availability of pre- and post-harvest financing, and a lack of suitable, modern infrastructure to store and transport their produce. This has resulted in estimated post-harvest losses of up to 50 per cent for fruits and vegetables, and up to 30pc for cereals, as indicated in Pakistan’s Country Private Sector Diagnostic.

These figures are especially important because agriculture represents Pakistan’s largest economic sector. It contributes almost a quarter of the country’s GDP and employs half the labour force. It also feeds the country’s rapidly growing population.

Commodity-backed finance, which uses inventories as collateral, helps to increase the financing options for the millions of farmers in the country — many of them smallholders — who lack traditional forms of collateral-like land, boosting investment and development in the sector.

Post-harvest credit enables farmers to sell their crop over time.

For traders and processors, the ability to access such credit enables them to purchase inputs they need, including seeds, fuel and fertilisers, before and during the harvest, when their seasonal financing needs are significant.

For producers and producer associations, accessing post-harvest credit enables them to sell their crop over time, rather than immediately upon harvest when prices are often lowest. It also allows them to pay their members and employees without having to wait for the sale of their products. Commodity-backed finance using agricultural inventories also helps stimulate investment in professional warehouse infrastructure. This boosts food security, reduces post-harvest losses, and improves the quality of the goods stored, all vital to boosting farmers’ livelihoods.

But to ensure the system’s success the right foundations are essential. That means a dedicated legal and regulatory framework and a proper warehouse licensing and inspection authority. IFC, the private sector arm of the World Bank Group, has been working with Pakistan’s government over the last three years to help lay the groundwork for both.

Our work has included assisting the government in creating a reliable warehouse receipts system, which we helped the Securities and Exchange Commission of Pakistan launch, and helping develop the regulations for the new collateral management companies who accredit the warehouses and supported the creation of SOPs for warehouses.

Accredited warehouses have exclusive access to the EWRF system and can issue receipts to depositors seeking secure, professional facilities that guarantee the quantity and quality of the stored commodities. To promote investments in agri-warehousing infrastructure, the government has also put in place a new facility under the State Bank offering financing at special terms and introduced tax incentives.

As a result, the country’s first private registered collateral management company, Naymat Collateral, was launched two years ago. It has accredited four warehouse operators so far, with a collective capacity of 50,000 tons, that have issued 396 electronic warehouse receipts. Just over three-quarters have been used as collateral for bank loans. The Bank of Punjab and HBL are key players, but an additional 25 banks recently signed user agreements with the company.

While these results are promising, the system is still in its infancy. Going forward, Pakistan will need many more hundreds of accredited warehouses and will also have to increase awareness among farmers and traders about the logistics and benefits of the new system.

In the meantime, the State Bank is playing a vital role in further developing warehouse receipt financing and encouraging banks to use it as acceptable collateral, amending its regulations three years ago to make it easier for banks to accept the receipts.

Transforming Pakistan’s agricultural sector and enabling all its key workers to access credit securely, while also reducing wastage and helping to improve food security, will not happen overnight. But commodity-backed financing systems like this one are sowing the seeds for real change — to help the sector, and the country, build back better, provide more and better food security for its people, and improve the livelihoods of millions of farmers.

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