Hawassa University Journal of Law (HUJL)

Journal Homepage: https://journals.hu.edu.et/hu-journals/index.php/hujl

HUJL Volume 10 | July 2026

# Revisiting the Ethiopian Legal Regime of Warehouse Receipts (WRs): Toward Inclusive Agricultural Finance and Food Security

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## Abstract

Food security remains a global priority, calling for innovative approaches to, among other things, increase food crop production and enhance efficient utilisation of harvests. The lack of inclusive access to agricultural finance is a major structural barrier limiting the sector's ability to support food security in Ethiopia. Warehouse Receipts (WRs) contribute to tackling both challenges by, inter alia, unlocking credit and reducing post-harvest losses across food crop value chains. However, the uptake of WRs in Ethiopia has yet to reach a scale sufficient to deliver the expected outcomes. This article employs a qualitative, comparative doctrinal method to assess Ethiopian law governing the legal status, transferability, and pledging of WRs – particularly Proclamation No. 372/2003 and related instruments – against international best practices reflected in the UNCITRAL–UNIDROIT Model Law on Warehouse Receipts (MLWR). The analysis identifies lacunae and ambiguities on (i) the legal status of WRs, (ii) issuance and governance of electronic WRs, and (iii) rules on "holder" status and transfer mechanics. It further maps how secured-transactions rules interact with WR-based lending and highlights points where clearer legislative design is needed to support predictable collateralization and enforcement. The article proposes targeted statutory amendments and complementary policy measures to scale adoption while maintaining inclusivity during digitisation, and it also cautiously draws lessons from India on scaling inclusive uptake of WRs.

## Keywords

Warehouse Receipts; Electronic Warehouse Receipts; Secured Transactions; Financial Inclusion; Food Security.



**DOI**: https://dx.doi.org/10.4314/hujl.v10i1.2

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Submitted: 15 September 2025 | Accepted: 23 February 2026 | Available Online: 24 July 2026

## 1. Introduction

Food security is a pressing global agenda with profound implications for poverty eradication, health, peace, and climate resilience. More than 600 million people worldwide are projected to face chronic food insecurity in 2030.[1] The United Nation's Global Report on Food Crisis (GRFC) indicated that 295.3 million people worldwide already faced high levels of acute food insecurity in 2024, with Africa, including Ethiopia, among the affected regions.[2] Tackling food insecurity requires multifaceted interventions aimed at ensuring a stable and sufficient food supply, while also improving access, affordability, and sustainability at local and regional levels.[3] Boosting agricultural production and improving post-harvest handling practices across food crop value chains in developing nations like Ethiopia are among the key interventions that can play a crucial role in addressing food insecurity.[4]

Financial inclusion has also emerged as another global priority, attracting growing attention from governments worldwide for its role in promoting economic growth, employment, poverty reduction, gender equality, and resilience.[5] It is particularly vital for the agricultural sector, which is the backbone of many developing economies, including Ethiopia.[6] Ethiopia's agriculture is dominated by smallholder farmers (SHFs), who cultivate about 95% of the country's farmland, largely relying on rain-fed cultivation.[7] SHFs also account for nearly 95% of the nation's production of major crops—including cereals, pulses, oilseeds, vegetables, root crops, fruits, and cash crops.[8] This centrality of SHFs underscores the need for an inclusive approach when

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[1] United Nations Department of Economics and Social Affairs, Sustainable Development Goal 2 (SDG 2), End hunger, achieve food security and improved nutrition and promote sustainable agriculture. https://sdgs.un.org/goals/goal2 Last visited May 12, 2025

[2] FSIN and GNAFC, Global Report on Food Crises (Rome, 2025), https://www.wfp.org/publications/global-report-food-crises-grfc. Last visited September 30, 2025

[3] FAO, IFAD, UNICEF, WFP, and WHO, The State of Food Security and Nutrition in the World 2024 – Financing to End Hunger, Food Insecurity and Malnutrition in All Its Forms (Rome: FAO, 2024), https://doi.org/10.4060/cd1254en. Last visited May 12, 2025

[4] Kumar, Anil, Chiragbhai Sureshbhai Prajapati, Khan Chand, Poonam Abrol, Gurwinder Singh, Sneh Gangwar, Sudha Darbha, and Rita Fredericks. 2025. "Sustainable Post-Harvest and Value Addition Practices in Agriculture: A Review". Journal of Experimental Agriculture International 47 (6):172-93. https://doi.org/10.9734/jeai/2025/v47i63480.

[5] World Bank, Global Financial Development Report 2014: Financial Inclusion (Washington, DC: World Bank, 2014).

[6] In Ethiopia, agriculture sector accounts for 32.1% of the GDP, 67% of jobs, and about 88% of the export earnings. (See the NBE Annual Report 2022/23 and the World Bank data on Employment in Agriculture.)

[7] F. Ademe et al., "Rainfall Analysis for Rain-Fed Farming in the Great Rift Valley Basins of Ethiopia," Journal of Water and Climate Change 11, no. 3 (2020): pp. 812–828; See also A. S. Taffesse, P. Dorosh, and S. A. Gemessa, "Crop Production in Ethiopia: Regional Patterns and Trends," in Food and Agriculture in Ethiopia, ed. P. Dorosh and S. Rashid (Philadelphia: University of Pennsylvania Press, 2012), 53–84.

[8] C. Shiferaw, B. Alemu, and E. Adgo, "Challenges of Smallholder Farming in Ethiopia and Opportunities by Adopting Climate-Smart Agriculture," Agriculture 11, no. 3 (2021): p.192.

designing financial services for the agricultural sector. Although financial inclusion is a broad concept covering a wide range of financial products and services tailored to clients' needs, access to credit remains at its core.[9] The lack of inclusive access to agricultural credit is one of the major structural barriers facing Ethiopian agriculture, limiting the sector's ability to fully realise its potential to improve production and productivity and, in turn, contribute to food security.[10]

WRs are an innovative trading instrument and form of financial collateral that contribute to addressing both food security and financial inclusion challenges. WRs enhance inclusive agricultural finance by unlocking new sources of credit for the sector by converting agricultural produce, the most widely accessible asset for farmers, into bankable collateral.[11] The additional financing pouring into the sector can strengthen farmers' capacity to grow, store, and market their products, thereby supporting broader efforts to achieve food security. In Ethiopia, improved access to finance, particularly for credit-constrained SHFs, has been shown to increase yields per hectare by up to 60%.[12] Moreover, the professional storage services and inventory management introduced through WRs improve poor post-harvest practices, which contribute to significant losses in grain value chains - estimated at 30% of annual production.[13] Reducing the post-harvest losses (PHL) not only preserves significant volumes of food and contributes to food security but also mitigates the climate impacts associated with food waste.[14]

Ethiopia is among the earliest African countries to incorporate WRs into its legal system. Both the Civil Code and Commercial Code of Ethiopia, promulgated back in the 1960s, comprised provisions on WRs, although in a fragmented and limited manner.[15] Ethiopia enacted a more comprehensive WRs legislation in 2003: the Warehouse Receipt System Proclamation No

[9] World Bank *Supa* note 5

[10] Adamon N. Mukasa, Anthony M. Simpasa, and Adeleke O. Salami, "Credit Constraints and Farm Productivity: Micro-level Evidence from Smallholder Farmers in Ethiopia," Working Paper No. 247, African Development Bank, (2017) p. 27

[11] The United Nations Comision on International Trade Law, UNCITRAL – UNIDROIT Model Law on Warehouse Receipts (2024) https://uncitral.un.org/en/mlwr

[12] Mukasa et al. *supra* note 10

[13] Food and Agriculture Organization, Postharvest Loss Assessment of Maize, Wheat, Sorghum and Haricot Bean (Rome: FAO, 2017).

[14] PHL contribute to climate change by, *inter alia*, generating greenhouse gases, such as methane, when spoiled or decomposing food releases emissions. Food and Agriculture Organization, *The State of Food and Agriculture 2019: Moving Forward on Food Loss and Waste Reduction* (FAO, 2019) https://www.fao.org/3/ca6030en/ca6030en.pdf).

[15] See Articles 2806-2824 of the Civil Code of the Empire of Ethiopia, Negarit Gazeta Extraordinary Issue, 19th year, No. 2, Addis Ababa 5th May 1960. See also Article 732 of the Commercial Code. The Civil Code designates Warehouse receipt as 'Receipts and Vouchers' whereas the Commercial Code refers to it as 'Warehouse Goods Deposit Certificate. (See Articles 2813 and 732 of the Civil Code and the Commercial Code, respectively).

ISSN (Print): 2664-3979 ISSN (Online): 2791-2752
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372/2003 (WRS Proclamation), which was followed by the issuance of the long-awaited directive: the Warehouse Receipt System Directive No. 835/2021 (WRS Directive). The enactment of the WRs laws, along with the other related comprehensive legal reform Ethiopia undertook on secured transaction law through the promulgation of the Movable Property Right Proclamation (MPSRP),[16] paved the way for the operationalisation of the WRs at the national level.

The first successfully national WRS pilot was launched during the 2021-22 harvest season with the participation of farmers, farmer organizations and agro-processors.[17] In parallel with the national system, the Ethiopia Commodity Exchange (ECX) has also recently relaunched its electronic receipt-based WRS primarily to benefit farmers and farmer organisations.[18] Data obtained from the Movable Collateral Registry (MCR) Office indicates that between 2024 and mid-2025 alone, ETB 2.5 billion in bank credit was disbursed using WRs as collateral under the national framework and the ECX system.[19]

Despite notable progress, the potential of WRs to expand post-harvest finance for farmers and other value-chain actors – and to support storage and marketing practices relevant to food security – has not yet been realised at scale in Ethiopia. Gaps and ambiguities in the legal framework governing WRs may be among the factors constraining the next steps towards scale-up. This study examines Ethiopia's legal framework governing the legal status, transferability, and pledging of WRs and asks which legal design gaps most directly constrain the use of WRs, particularly electronic warehouse receipts (eWRs), as transferable documents of title and reliable collateral.[20]

The study argues that scaling inclusive uptake of WRs requires, inter alia, (i) an operational definition of WRs as documents of title with clear third-party effects; (ii) modernised transfer and protected-acquisition ("protected holder") rules to reduce transactional uncertainty; and (iii) an electronic functional equivalent of possession ("control") aligned with secured-transactions rules on perfection and priority. The study contributes to the limited Ethiopia-focused scholarship by providing a doctrinal analysis of the relevant legal instruments, assessed against international

[16] Movable Property Security Right Proclamation No. 1147/2019.
[17] Bisrat Mulugeta Zewdu (2025). "Agriculture Inventory Financing (AIF) in Ethiopia: Legal and Operational Overview", 19(2) Mizan Law Review: 217-254
[18] Ibid.
[19] The data were obtained from the National Bank of Ethiopia (NBE), Collateral Registry Office, which is mandated to manage the national registry of movable collateral, including WRs. The data are on file with the author.
[20] This paper does not address the regulatory dimensions of WRs, particularly the licensing and supervision of WRs-issuing warehouses, which remain important areas for future research.

benchmark approaches reflected in the MLWR.[21] It also draws on selected Indian[22] policy instruments aimed at scaling WRs uptake, while outlining Ethiopia-specific feasibility constraints. Methodologically, the study applies qualitative, comparative doctrinal legal research to identify gaps and propose reforms. [23]

In using the UNCITRAL–UNIDROIT Model Law on Warehouse Receipts (MLWR) as a comparative benchmark, this study does not assume that "best practice" implies wholesale legal transplantation. The MLWR is used principally because it synthesises transaction-focused private-law rules for warehouse receipts and their electronic equivalents, including third-party effects, protected acquisition, transfer mechanics, and functional equivalents of possession. For purposes of this article, a "gap" is identified where Ethiopia's framework is silent on a transaction-critical rule (for example, issuance, transfer, or control of electronic receipts), where provisions are ambiguous, internally inconsistent, or scattered in a way that increases uncertainty for depositors, transferees, or secured creditors, or where the WR framework is misaligned with secured-transactions rules on perfection, priority, or enforcement. The benchmark is applied as an evaluative tool for the private-law design questions addressed in this article, while adoption considerations are assessed separately in light of Ethiopia-specific institutional constraints.

The article proceeds as follows. Section 2 presents the conceptual foundation of WRs and their development as a commercial instrument. Section 3 reviews international benchmarks to the legal frameworks governing WRs and policy tools for scaling their inclusive uptake. Section 4 evaluates Ethiopia's WRs laws against international best practices to identify gaps and propose reforms. Section 5 examines policy instruments promoting WRs adoption in Ethiopia, drawing lessons from India. The paper concludes with key findings.

[21] UNCITRAL – UNIDROIT Model Law on Warehouse Receipts (2024) https://uncitral.un.org/en/mlwrThe MLWR is benchmarked for the legal analysis because it's the first soft law instrument on WRs that has been adopted by the UN General Assembly, to which Ethiopia is also a member. (See The UN General Assembly Res 79/118, Model Law on Warehouse Receipts of the United Nations Commission on International Trade Law, 76th Session, UN Doc A/RES/76/95 (12 December 2024))
[22] India is chosen as a benchmark for its success in promoting the adoption of WRs (both electronic and paper-based) in a similar agrarian context dominated by SHFs and rainfed cultivation. In 2023-24 fiscal year alone a record high ₹ 3,962 crore (39.62 billion) financing has been facilitated against WRs. For more details see *infra*-section 3.2
[23] Comparative legal study is a well-established and widely used legal research method that is meant to deprovincialize researchers' mind set and facilitate "cross-fertilization" of laws and best practices between jurisdictions. See Gunter Frankenberg, "Critical Comparisons: Re-thinking Comparative Law," Harvard International Law Journal 26, no. 2 (Spring 1985): pp.411–455.

ISSN (Print): 2664-3979 ISSN (Online): 2791-2752
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## 2. Conceptual Framework: WRs as Documents of Title and Collateral

WRs are documents issued by warehouses certifying that goods of a specified type, quantity, and quality have been deposited on behalf of the depositor or another rightful claimant.[24] Depending on the jurisdiction's legal framework, WRs may be used to transfer ownership over the underlying goods or offered as collateral to obtain credit from lending institutions.[25] The use of documentary instruments, to signify ownership or control of goods in storage or transit, dates back to antiquity.[26] In ancient Mesopotamia, throughout the third millennium B.C., grain emerged as a strategic resource for expanding palace and temple institutions, with storage facilities serving as a means of institutional control and symbols of economic power and political authority. The storage facilities used proto-cuneiform[27] tablets dating from 3100–2900 BC as evidence for deliveries and distribution of grains such as barley and emmer wheat.[28] These perhaps represent one of the earliest "receipts" or written documents signifying ownership or control of goods in storage.[29]

In the early 19th century, WRs emerged as integral part of the modern commercial transactions when companies started issuing dock warrants for stored goods. In Britain, the West India Dock Company, established in 1803, pioneered large-scale commercial warehousing by issuing dock warrants for goods received for storage before shipment or importation.[30] These warrants were transferrable, and the company honoured deliveries to the warrant holders or transferees.[31] Although the transfer of title through dock warrants initially faced judicial scepticism, their widespread commercial use gradually gained traction, supported by British case law.[32] Parliamentary recognition of dock warrants and warehouse keepers' certificates as title documents,

[24] J. Coulter and G. Onumah, "The Role of Warehouse Receipt Systems in Enhanced Commodity Marketing and Rural Livelihoods in Africa," Food Policy 27, no. 4 (2002): pp.319–337.
[25] John Hanna, "The Protection of a Holder of a Warehouse Receipt," Minnesota Law Review 15 (1930): pp.1 - 2. Lending institutions may include banks, microfinance institutions, Saving and Credit Cooperative Societies (SACCOSs) and other non-bank formal lending institutions
[26] T. S. Paulette, Grain Storage and the Moral Economy in Mesopotamia (3000–2000 BC) (PhD diss., University of Chicago,2015).https://isac.uchicago.edu/sites/default/files/uploads/shared/docs/Research_Archives/Dissertations/Paulette_2015_dissertation%20%28small%29.pdf
[27] Proto-cuneiform is recognised as the earliest form of writing developed in ancient Mesopotamia. See Ibid.
[28] The Met. 'Cuneiform tablet: administrative account concerning the distribution of barley and emmer Sumerian ca. 3100–2900 BCE'. https://www.metmuseum.org/art/collection/search/327384. Last visited July 26, 2025
[29] Despite the strong evidence on the representation of stored goods by written documents it should be noted that the absence of verbs in early writings makes it difficult to understand the text with certainty. See Ibid.
[30] Michael J. Vaughn, "Warehousing Security Transactions: Progeny of Twyne's Case," Baylor Law Review 20 (1968). p. 1
[31] *Ibid*
[32] *Ibid* pp. 13 -14.

although in a limited sense, also strengthened their status.[33] Nevertheless, contemporary English courts have taken a restrictive approach, treating WRs simply as evidence of a bailment relationship, not a title document *per se*.[34]

WRs have also had a long history tied up with grain trade in the United States.[35] The receipts particularly gained momentum in the mid-19th century with the transitioning of Chicago from a fur-trading outpost to a hub for commodity trading.[36] The growth in trade spurred the construction of grain elevators, which began issuing tradable WRs to facilitate futures trading and enhance market efficiency.[37] However, by the late 1860s, elevators' malpractices of over-grading grains and over-issuance of WRs as well as traders' speculations called for regulation.[38] The state of Illinois, where Chicago is located, was among the first movers to enact laws regulating the grain elevators and WRs, followed by many other states adopting similar legislation.[39]

Over time, the US has developed a comprehensive legal framework for WRs, making them one of the country's most effective security devices for facilitating credit in agriculture and other sectors.[40] WRs have long been recognised as a reliable representation of the underlying goods in the US system.[41] Currently, the US Warehouse Act (USWA) of 1916 and Article 7 of the Uniform Commercial Code (adopted in 1951) are the primary laws governing WRs. The USWA creates a voluntary licensing regime for warehouse operators under the Secretary of Agriculture.[42] UCC Article 7 provides a harmonized legal framework for commercial transactions with documents of

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[33] See Section 1(4) of the 1893 Sale of Goods Act

[34] *Natixis SA v Marex Financial Ltd* [2019] EWHC 2549 (Comm) https://www.twentyessex.com/wp-content/uploads/2019/11/Approved-Judgment-Natixis-SA-.pdf. August November 3, 2025.

[35] Coulter (2009) *supra* note 24

[36] T. Leslie, "Chicago's Other Skyscrapers: Grain Elevators and the City, 1838–1957," Journal of Urban History 48, no. 1 (2022): pp.3-34.

[37] *Ibid*

[38] *Ibid.;* See also Barry Mohun, "The Effect of the Uniform Warehouse Receipts Act," Columbia Law Review 13 (1913): 202–205.

[39] Leslie (2022 *supra* note 36

[40] Hamilton, N. D., & Looney, J. J., Federal and state regulation of grain warehouses and grain warehouse bankruptcy, South Dakota Law Review, Vol 27 no. (1982) pp. 334- 336. See also Tibor Tajti, "The Resurrection of Field Warehousing: The Booming Hungarian Field Warehousing Sector, the Incomplete English Narrative and the Unexplored Field Warehousing Law of the United States," Acta Juridica Hungarica 55, no. 3 (2014): 185–188.

[41] Substantiating the representation of stored goods by WRs, the US court noted that "The transfer of receipt is not a symbolical delivery; it is a real delivery to the same extent as if the goods had been transported to another warehouse named by the pledgee" See Union Trust Co. v. Wilson, 198 U.S. 530 (1905). https://supreme.justia.com/cases/federal/us/198/530/ Accessed August 3, 2025.

[42] D. L. Kershen (1994) "Comparing the United States Warehouse Act and U.C.C. Article 7," Creighton Law Review 27, no. 3: p. 735. The United States Secretary of Agriculture is mandated with the power of licensing and regulating agricultural warehouses by virtue of the 1931 Amendment to the Act.

titles including WRs.[43] The US Congress also approved an amendment to the USWA in early 1990s, which authorized the digitisation of WRs.[44] This marked a breakthrough in the WRs development by enhancing transparency, efficiency and security of WRs transactions.[45]

WR has also been used in other parts of the world. In Europe, it had been used for financing of internationally traded commodities in the early days.[46] WRs are also widely used as an agricultural financing instrument in Eastern Europe, Latin America, and parts of Asia, although publicly available data on their performance remain limited.[47] From Asia, India stands out as one of the most successful in operationalizing and scaling the WRS.[48] In Africa, many countries, including Ethiopia, have introduced WR as a financing device to the agriculture sector although the implementation modalities and the levels of success are different.[49] South Africa has the most advanced WRF scheme on the continent which uses electronic Silo Certificate.[50] The South African WRF scheme was developed by the private sector linking it with the Johnsburg Securities Exchange (JSE) following the liberalization of grain trade in the mid 1990s.[51]

Recent initiatives to expand the use of WRs as security device and trading instruments are largely driven by the goal of improving agricultural finance and strengthening post-harvest handling practices in developing economies.[52] As a security device, WRs convert agricultural produce, assets that are readily accessible to farmers, into bankable collateral, enabling farmers and other

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[43] M. H. Ruud, "Warehouse Receipts, Bills of Lading, and Other Documents of Title: Article VII," Arkansas Law Review 16, no. 1 (1961): pp.81-97.
[44] Kershen (1994) *supra* note 42
[45] Vlado Kovačević, Vladimir Zakić, Miloš Milovanović, Jonel Subić and Marko Jeločnik, "Electronic Warehouse Receipts Registry as a Step from Paper to Electronic Warehouse Receipts," Ekonomika Poljoprivrede 63, no. 3 (2016): p,801–815.
[46] Frank Höllinger and Lamon Rutten, The Use of WRF in Agriculture in ECA Countries (EBRD and FAO, 2009). p. 7. Belgium and France are mentioned among the major countries widely using warehouse receipt, in the form of field warehousing, to unlock financing.
[47] *Ibid*
[48] For more details see *infra*-section 3.2
[49] Anthony Aboagye (2023) "Structuring African Warehouse Receipt System to Succeed," Athens Journal of Business & Economics 9: 1–2, https://doi.org/10.30958/ajbe.X-Y-Z. Ethiopia, South Africa, Tanzania, Uganda, Kenya, Burkina Faso, Cameroon, Cote d'Ivoire, Ghana, Madagascar, Malawi, Mozambique, Niger, Senegal, and Zambia are among the countries that have introduced WR at different times.
[50] Gideon E. Onumah (2012) Warehouse Receipts and Securitization in Agricultural Finance to Promote Lending to Smallholder Farmers in Africa: Potential Benefits and Legal/Regulatory Issues," Uniform Law Review 17, no. 1 pp 351-368; F. Höllinger, L. Rutten, and K. Kiriakov, The Use of WRF in Agriculture in Transition Countries (FAO, 2013), https://openknowledge.fao.org/items/ee5b4786-69bf-49de-9f46-41036708e0db.. p. 143 and Aboagye *supra* note 49 p.2
[51] Höllinger and Rutten *supra* note 46 p. 143.
[52] Balikisu Osman, 'WRS in Sub-Saharan Africa: Making Progress in Finance, Market and Post-Harvest Risk Management' Comparative Policy Brief (PARM, IFAD, 2017). pp 1- 4

value-chain actors to access short-term credit against the receipts.[53] WRs enable farmers to escape the distress sale during harvest and access more remunerative market for their produce later in the season.[54] This generates higher income for the farmers and serves as an incentive for increased investment in production and productivity. It also addresses the financing needs of farmers to cover the costs of agricultural inputs and advanced technologies for the next cropping season. From the aggregators' side, WRs play a crucial role in addressing the working capital shortages faced by farmer organisations and agro-processors during harvest, when much of their capital is tied up in the stock. Aggregators can obtain additional working capital through WRF by offering their existing stocks as collateral to aggregate more during the peak season when prices are lower, and the produce is fresh, coming almost directly from the farm.

The warehouse issuing the receipt undertakes an obligation to redeliver the goods specified on the WRs to the rightful claimant.[55] The custodial arrangement offered by the warehouse may mainly take either the public or private warehousing models.[56] The public warehousing custodial arrangement is a more inclusive approach allowing the participation of multiple small-size depositors while the private warehousing model is catered to bigger players having large volume stocks.[57] Regardless of the warehousing model, the historical development shows successful adoption of WRs requires a conducive policy and legal regime enabling their use as both trading and security devices.

## 3. International Benchmarks

A legal framework that recognises and supports WRs as instruments of trade and security is typically essential for their effective use in the market.[58] Indeed, WRs may be utilised in the market even in the absence of a robust policy and legal framework; however, in such a situation, the transaction costs and risk of using the receipts would be higher, undermining the accessibility of

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[53] P. Varangis and J. S. Geours, Warehouse Finance and WRS: A Guide for Financial Institutions in Emerging Economies (Washington, DC: World Bank, 2013). pp. 1-2. See also, Vaughn *supra* note 30 p. 1
[54] *Ibid.*
[55] Vaughn *supra* note 30
[56] Robert H. Skilton, 'Field Warehousing as a Financing Device: The Warehouseman Goes to the Storer: Part I,' Wisconsin Law Review, no. 2 (1961): p 224
[57] J. Coulter, 'Review of Warehouse Receipt System and Inventory Credit Initiatives in Eastern & Southern Africa (UNCTAD: All ACP Agricultural Commodities Programme, 2009).
[58] Höllinger and Rutten *supra* note 46; See also Coulter & Onumah (2002), *supra* note 24; Onumah (2012) *supra* note 50 and Coulter (2009) *supra* note 24

ISSN (Print): 2664-3979 ISSN (Online): 2791-2752
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the instrument for small-scale actors and deterring lenders from financing the receipts.[59] A well-designed and enabling legal framework for WRs that clearly defines rights and obligations of participating parties as well as ensures the integrity of the system can significantly increase the benefits and accessibility of the WRs by building trust in the instrument.[60] The laws governing WRs shall, *inter alia*, cover the legal status, transferability and pledging of the receipts.[61]

Effective use of WRs also requires a coherent, enabling policy environment that supports market-based solutions and limits government intervention in agricultural markets to predictable and minimal levels.[62] Ad hoc and unpredictable policy interventions aimed at stabilising food markets or advancing other governmental priorities often risk eroding market actors' confidence in WRs and restraining adoption.[63] Beyond avoiding policies detrimental to the effective operationalisation of WRs, policymakers should also devise policy measures targeted at driving market adoption of WRs, with a particular focus on expanding access for marginalised segments of the agricultural value chain, especially SHFs.[64] This section explores international best practices in the legal framework and implementation of WRs, focusing on the MLWR and India's inclusive policy instruments.

### 3.1. The UNCITRAL- UNIDROIT Model Law on WRs (MLWR)

As the relevance and uptake of WRs increases across the world, the UNCITRAL, in collaboration with the UNIDROIT, developed the MLWR, which is assumed to reflect the best international practices and guide the legal reforms taking place in member states towards modernising and creating a conducive legal framework for WRs.[65] The MLWR primarily aims to facilitate commercial transactions involving stored goods while also enabling their use as collateral to unlock short-term financing in the agriculture sector.[66] The MLWR covers only the private law

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[59] FAO, Designing Warehouse Receipt Legislation: Regulatory Options and Recent Trends (Rome: FAO, 2015).See also Ibid

[60] Ibid

[61] R. Lacroix and P. Varangis, "Using Warehouse Receipts in Developing and Transition Economies," Finance and Development 33, no. 3 (1996) pp. 36-39 https://www.imf.org/external/pubs/ft/fandd/1996/09/pdf/lacroix.pdf; See also Höllinger and Rutten *supra* note 46

[62] Ibid

[63] Höllinger and Rutten *supra* note 46

[64] For instance, in US government guarantee was provided through the US Department of Agriculture to enable farmers use WR as collateral to get post-harvest inventory financing (See Lacroix & Varangis, *supra* note 61). As it will be further discussed in Section 3.2.3 below, countries like India have also followed similar approach by providing government credit guarantee scheme for WRF to encourage lending against WRs.

[65] *Ibid*

[66] UNCITRAL & UNIDROIT. (2024). UNCITRAL-UNIDROIT Model Law on Warehouse Receipts with Guide to Enactment. United Nations.

aspects of the WRs, which are confined to laying down the rights and obligations of parties to "a WR in a transactional context".[67] The regulatory aspects, which constitute a sine qua non element of a comprehensive legal framework for WR, remain unaddressed.[68] However, for this paper, which focuses on legal status, transferability and pledging of WRs, the MLWR provides substantial coverage of the relevant issues, except for pledging, which falls under secured transaction law.

The MLWR provides a framework that allows issuance and transfer of both paper-based and electronic warehouse receipts (eWRs), consistent with its objective of expanding access to agricultural finance, particularly for farmers who are not yet ready for fully digitised WRs.[69] While the benefits of eWRs - greater transparency, efficiency, and fraud mitigation - are crystal clear, effective digitisation in rural economies requires substantial investment in infrastructure, awareness creation, and trust-building. Until these conditions are met, the coexistence of paper and electronic WRs ensures that rural households in developing economies are not left out.[70]

The MLWR clearly defines a 'holder' of WRs, both in electronic and paper form, which is a point that remains insufficiently articulated in the legislation of many jurisdictions, including Ethiopia.[71] It also provides for the requirements for claiming a status 'protected holder' of negotiable WR, which includes the notion of the 'holder in due course' status that is incorporated in the Ethiopian WRs legislation.[72] The model further lays down the standard for determining the reliability and integrity of an electronic WRS, which is crucial for countries heading to digitisation.[73] The MLWR recognises both the single-receipt system, where the property rights in the stored goods are represented by a single document of title often referred to as WRs, and the dual system, where the stored goods are represented by two documents: one represents a title document conveying

[67] Ibid. page 25.
[68] Although the regulatory part is not included in the model law, Guide to the Enactment of the MLWR has covered matters that should be covered by the regulatory provisions. The regulatory aspects of WRs include the warehousing business licensing requirements and procedure; the regulatory structure, power and mandates of the authority in charge of overseeing the WRS; and other enforcement mechanisms related to offense, penalties and other administrative measures. See *Ibid*. Paragraph 195 et seq.
[69] MLWR, Chapter II and III
[70] Kovačević et al (2016) *supra* note 45
[71] MLWR, Article 2(3) of the
[72] Ibid., Article 17 and WRS Proclamation, Article 2(12)
[73] MLWR, Article 6 and 7

ownership rights while the other is a pledge bond representing security rights in the underlying goods.[74]

Although the MLWR incorporates numerous best practices, some provisions merit further scrutiny. For instance, the provisions providing for the WR's content put storage fees and quality of stored goods on the optional list.[75] The exclusion of storage fees in the WR may prejudice the interests of both lenders and transferees because they would not have the information about the outstanding claim or lien of the warehouse operator.[76] The same is true with a WR lacking the quality of the goods. Especially for agricultural products, if WR does not specify the quality of the goods, neither transferees nor lenders would accept the receipt since they can hardly determine the market value of the receipt without accurate information about the quality of the goods. In fact, Article 11(3) provides that if the goods covered by the receipt are fungible and their quality is not stated on the receipt, it shall be assumed to have average quality. This somehow reduces the information asymmetry, but may not necessarily gain wider market adoption as the notion of "average quality" may be contested in markets like Ethiopia, where widely accepted quality standards and quality-based trading are underdeveloped.

Another point that may undermine tradability and collateral use of WRs is the introduction of a separate storage agreement between the depositor and warehouse operators, in addition to the WRs.[77] The very existence of a separate document outlining rights and obligations may prompt parties to review it before accepting WRs for trade or collateral, thereby undermining their seamless negotiability. Indeed, the MLWR stipulates that the storage agreement cannot be invoked against a negotiable receipts holder if the terms and conditions of the storage agreement are inconsistent with the express contents of the WRs.[78] This may help parties to mitigate the uncertainty by checking all essential information is expressly included in the WR; however, the risk of encountering unforeseen obligations arising from the separate storage agreement on matters not covered by the WR may still persist, particularly for less experienced market participants. To

[74] This means that in the dual system one is assumed to have unencumbered ownership rights in the stored goods only when he/she is in possession of both documents. If the depositor wants to pledge the stored goods, he/she shall hand over to the creditor only the pledge bond while retaining the document of title. Many Latin American countries have adopted the dual system. Although a single system may appear more efficient, it requires a more rigorous review of both systems to determine which is truly better.
[75] MLWR, Article 11
[76] Ibid., Article 25
[77] Ibid., Article 9(1)
[78] Ibid., Article 9(2)

overcome similar challenges, the Ethiopian WRs legislation recognised the WRs themselves as contractual documents that define the rights and obligation of the parties rather than introducing additional mandatory storage agreement underlying the WRs.[79]

Since the MLWR is based on best international practices drawn from diverse jurisdictions, the above-mentioned provisions may align with the legal systems and markets of certain economies. Nevertheless, in developing countries like Ethiopia, where the agricultural sector and market systems remain at a rudimentary stage, these provisions may barely constitute a perfect fit and may require some customisation to local realities. Overall, the MLWR is a valuable international document that can promote the adoption and expansion of WRs as trading and security instruments, offering comprehensive guidance on private law aspects that can be adapted locally while preserving harmonisation principles.

### 3.2. India as a Policy Comparator: Scaling Uptake of WRs

Agriculture plays a sizeable role in the Indian economy.[80] The sector is dominated by SHFs who produce around 60% of the total food grains largely relying on rain fed cultivation.[81] After going through several policy changes and revolutions (green, white, blue….), the agriculture sector has made huge strides over the last decades making the country the world's second largest sugar exporter and the second largest producer of food grains, fruits, and vegetables.[82] The enormous growth of the agriculture sector is partly attributable to consistent government policy support which, *inter alia*, centred on improving access to agricultural finance.[83] Over the years, the government has implemented multiple policy tools aimed at improving access to agricultural finance which resulted in a remarkable change in India by reducing the share of non-institutional credit in the agriculture sector from 90% in 1950 to 23.40% in 2021-22.[84]

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[79] WRS proclamation, Article 3(2)

[80] Agriculture accounts for 42.3% of jobs and 18.2% of the Indian GDP. See the Ministry of Finance, Economic Survey of 2023-24 presented to the Parliament, 22 July 2024, Release ID: 2034943.

[81] Sunil Kumar D. U. M. Rao, Pratibha Thombare and Pandurang Kale 'Small and Marginal Farmers of Indian Agriculture: Prospects and Extension Strategies' Indian Research Journal of Extension Education Vol 20 no 1, 2020.

[82] India Brand Equity Foundation (IBEF), Agriculture and Allied Industry Report, August 2024, https://www.ibef.org/industry/agriculture-india. Accessed December 10, 2024.

[83] Supriya Gautam and L. C. Mallaiah, 'Potential and Expansion Strategies for Small and Marginal Farmers in India Agriculture' IJFMR Vol 6, no. 2 (2024).

[84] The 2023-24 Economic Survey of India indicated that the total amount loans disbursed to the agriculture sector until January 2024 has hit ₹ 22.84 lakh Crore (near to ₹ 22.84 trillion). See the Ministry of Finance, Economic Survey 2023-24, 22 July 2024, (Release ID: 2034945)

ISSN (Print): 2664-3979 ISSN (Online): 2791-2752
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WRs have been among the financing instruments promoted by the government to extend financial access to the last mile of agricultural value chains. In 2023-24, the amount financing facilitated using WRs as collateral hit a record high ₹ 3,962 crore (USD 39.62 billion) while the number of registered warehouses issuing electronic WRs reached 5854 warehouses with a storage capacity of around 41.1 million tons.[85] This is part of the results of the various public policy measures that are carefully crafted and implemented to promote agricultural financing in general and WRF in particular. Narrowing the scope to policy instruments enabling to drive agricultural financing from the supply side, five major policy tools are discussed below.[86]

#### 3.2.1. The Multi-agency Approach

India's shift to a multi-agency approach was a key strategic move aimed at expanding the rural reach of financial service providers in order to meet the growing demand for agricultural financing.[87] This approach entails the involvement of multiple types of financial service providers in the rural areas to extend financial services to the last mile.[88] The multi-agency approach not only expands outreach and access of financial services in the rural areas but also diversifies credit sources, enhances healthy competition and drives financial inclusion.[89]

The network of multiple agencies operating in the India's rural credit landscape include: Regional Rural Banks (RRBs), established in 1976 to finance SHFs and other small rural enterprises; NABARD, created in 1982 to channel small-size rural loans through Self-Help Groups; and a broad network of Scheduled Commercial Banks, Rural Cooperative Banks, Non-Banking Financial Institutions (NBFIs), Microfinance Institutions (MFIs), and Small Finance Banks (SFBs) serving diverse customer segments.[90] Despite the proliferation of several financial institutions, commercial banks retained the highest share of formal credit to farmers, covering 75% of

[85] WDRA, Annual Report of 2023-24, November 2024. https://wdra.gov.in/documents/20143/139675979/WDRD+ANNUAL+REPORT+ENGLISH+23-24.pdf/8ff1a439-22f7-ba3b-586a-0534a256ddcd

[86] From the demand side, Kisan Credit Card (KCC) is among the popular approach that is introduced in 1998 to provide farmers with easy access to agricultural inputs and cash for their production needs. (See Government of India, Press Information Bureau (PIB), 'Strengthening Agricultural Finance and Welfare - CGS-NPF to enhance post-harvest financing and agricultural support', Release ID: 2086154. (December 19, 2024). https://pib.gov.in/PressReleasePage.aspx?PRID=2086154)

[87] N. Sandhu, 'Dynamics of Banks' Lending Practices to Farmers in India' Journal of Small Business and Enterprise Development 28, no. 1 (2021) pp. 68–85.

[88] Ashok Gulati and Ritika Juneja, 'Agricultural Credit System in India: Evolution, Effectiveness and Innovations' ZEF Working Paper Series, no. 184 (Bonn: University of Bonn, 2019).

[89] Sandhu, *supra* note 87

[90] *Ibid.*, see also Gulati and Juneja, *supra* note 88

disbursement in 2017.[91] The commercial banks in India are required to open four branches in unbanked rural or semi-urban areas for every new branch opened in areas where there are already one or more branches.[92]

The introduction of NBFIs has been particularly important, allowing warehouse operators to leverage economies of scope. Many warehouse operators and collateral managers in India have set up NBFIs as sister companies to expand their service to lending at lower marginal cost by leveraging existing infrastructure, information (quality, quantity and condition of the inventory collateral) and collateral control and enforcement mechanisms. [93] Particularly, the collaboration of warehousing corporations and collateral managers with commodity markets has enabled them to do collateral valuation and facilitate the agricultural produce trading more efficiently.[94] This has also facilitated a more convenient, one-window service (both storage and lending) to the farmers.[95]

### 3.2.2. The Priority Sector Lending (PSL) Policy

The Priority Sector Lending (PSL) policy has been popular in India since 1969.[96] The PSL policy initially required banks to allocate 33% of their lending portfolio to priority sectors, including agriculture, and later the target was raised to 40%.[97] In 1980, additional sub-sector specific target was introduced requiring banks to allocate 16% of lending to agriculture and allied sectors, later raised to 18%.[98] In the effort to take it to the last mile, a revised guideline was issued in 2015 to introduce a new sub-target requiring banks to channel 8% (from the 18% target) of lending to SHFs.[99]

[91] *Ibid*
[92] *Ibid*
[93] Shalendra, M.S. Jairath, Enamul Haque and Anu Peter V.., "Issues Limiting the Progress in Negotiable Warehouse Receipt (NWR) Financing in India," Agricultural Economics Research Review 29, no. 1 (2016), https://doi.org/10.5958/0974-0279.2016.00018.5.
[94] Asokan, S. R., and Anita Arya 'Scope for Warehouse Receipts Financing of Commodity Markets in India' Productivity Vol 52, no. 2–3 (July–December 2011).
[95] S. M. Deshpande and D. Pillai, 'Warehouse Receipt Financing for Farmers: Challenges and Way Ahead' Journal of Rural Development Vol 40, no. 5 (2021) pp.741–750, https://doi.org/10.25175/jrd/2021/v40/i5/170709.
[96] Reserve Bank of India, 'Trend and Progress of Banking in India 2020-21' (2021). 68. <https://rbidocs.rbi.org.in/rdocs/Publications/PDFs/0RTP2020CF9C9E7D1DE44B1686906D7E3EF36F13.PDF>
[97] Reserve Bank of India, *Report of the Internal Working Group to Review Agricultural Credit (September 2019)* https://www.rbi.org.in/scripts/PublicationReportDetails.aspx?UrlPage=&ID=942. See also Gulati and Juneja, *supra* note 88. 21.
[98] *Ibid*
[99] *Ibid*

ISSN (Print): 2664-3979 ISSN (Online): 2791-2752
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Another innovative part of the policy is the PSL Certificates system, which enable overachievers, banks which exceeded the PSL target, to sell the excess PSL obligations to underachievers, banks which are not able to meet the PSL target.[100] Put differently, the certificates facilitate 'buying for shortfall and selling for overachievement of PSL targets without corresponding transfer of loan, cash flows or risk.'[101] The certificates are traded on an electronic platform known as e-Kuber, which is set up by the RBI.[102] The PSL trading system not only provides agriculture-focused or rural banks with additional income and supports sector specialisation but also prevents other banks from being forced to divert resources to priority areas where they may lack efficiency.

RBI strictly enforces the PSL policy to make sure that all banks meet the financing targets. Banks which failed to meet the target are required to deposit the shortfall amount in the Funds dedicated to financing underserved groups. If the banks fail to deposit the shortfall, RBI takes the next measure of imposing fines. For instance, in November 2024, RBI imposed a penalty of ₹ 10 million on Lalbaug Co-operative Bank Ltd. for failing to meet the PSL target as well as for the non-compliance with subsequent instruction of shortfall deposit.[103] Besides fines, the banks may also face reputational risks and stricter regulatory scrutiny. Lending against electronic negotiable warehouse receipts (eNWR), has been made eligible for the classification of the PSL to encourage banks to provide credit against eNWRs.[104]

### 3.2.3. Credit Guarantee Scheme

Besides pushing financial institutions to expand agricultural lending, the government offers risk-sharing facilities to offset the sector's inherent risks. The 'Credit Guarantee Scheme for e-NWR Based Pledge Financing (CGS-NPF)' is a recently approved government's risk-sharing facility of ₹10 billion for loans extended against eNWRs that are issued by warehouses registered with the WRs regulatory authority.[105] The guarantee scheme is intended to prevent farmers distress sale

[100] Reserve Bank of India, Master Directions – Priority Sector Lending (PSL) – Targets and Classification. Master Directions FIDD.CO.Plan.BC.5/04.09.01/2020-21 (As updated as on April 29, 2021) https://rbidocs.rbi.org.in/rdocs/notification/PDFs/MDPSL803EE903174E4C85AFA14C335A5B0909.PDF
[101] *Ibid*
[102] *Ibid*
[103] RBI, Press Release:2024/2025 1509 https://www.rbi.org.in/commonman/English/scripts/PressReleases.aspx?Id=3666
[104] RBI Directive, RBI/FIDD/2020-21/72, Master Directions FIDD.CO.Plan.BC.5/04.09.01/2020-21 https://www.rbi.org.in/Scripts/BS_ViewMasDirections.aspx?id=11959
[105] PIB *supra* note 86

and improve post-harvest practices by encouraging banks to lend against WRs.[106] Leveraging the CGS-NPF, the government targets to boost WRs-based lending to ₹ 5.5 lakh crore (5.5 trillion) in the next ten years.[107]

### 3.2.4. Interest Subvention Policy

Studies indicate that one of the barriers to farmers' participation in the WRS is the high cost of credit, particularly in the form of elevated interest rates.[108] Interest subvention is a smart subsidy targeted to reduce the cost of lending for farmers. India started providing interest subvention back in 2006 to make agricultural credits affordable. Multi-layer interest subsidy programmes have been provided to farmers. The central government offers 2% interest subvention to crop loans and additional 3% subsidy[109] (prompt repayment incentive) to farmers who repaid on or before the maturity date.[110] In addition to central government subsidies, several regional states (Bhanot et al. list more than ten regional states)[111] offer additional subsidies that have in some states, such as Madhya Pradesh, pushed the interest rate down to zero.[112] WRF is among the lending products qualifying for the interest subvention scheme.[113] Although its feasibility in resource-constrained countries like Ethiopia remains doubtful, the evidence from India indicate that interest subvention is one means of improving accessibility of affordable financing for marginal section of the rural community.

Despite their contribution to reducing lending costs, the subsidy is criticized for undermining efficiency.[114] However, experts suggest the use of smart subsidies supporting dissemination of innovative technologies and agricultural inputs to farmers, particularly in the SSA countries where the utilization of inputs is one of the lowest, in order to fuel agricultural intensification and reduce

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[106] *Id.*, See also *The Hindu, 'Govt to launch ₹1,000 cr Credit Guarantee Fund to boost pledge financing for farmers' September 18, 2024* https://www.thehindu.com/news/national/govt-to-launch-1000-cr-credit-guarantee-fund-to-boost-pledge-financing-for-farmers/article68656448.ece. accessed February 19, 2025.
[107] Ibid
[108] Deshpande and Pillai *supra* note 95
[109] Disha Bhanot, Vivek F. Farias, and Deeksha Sinha, 'Interest Subvention for Crop Loans in India: Win-Win or Win-Lose' (2021), 1–3, https://ssrn.com/abstract=3846070. Bhanot et al. indicated that the prompt repayment incentive scheme alone cost the central government USD 2.89 billion in 2021.
[110] Gulati and Juneja, *supra* note 88
[111] Bhanot et al. (2021). 2
[112] Gulati and Juneja *supra* note 88
[113] PIB *supra* note 86
[114] Gulati and Juneja, *supra* note 88

poverty.[115] Indeed, for the subsidy to reach the intended beneficiaries, prevent loan diversion, and encourage farmers to eventually graduate to market rates, it should operate within a governance structure in which policy objectives, eligibility criteria, and subsidy levels are clearly defined, among others.

Overall, the combination of the above-mentioned policy interventions has remarkably increasing agricultural lending in India through WRs and several other lending products mainly driven by the supply side efforts to comply with regulatory requirements and take advantage of the incentives offered by the government.[116] Nevertheless, despite the remarkable achievements the financial needs of the agriculture sector are yet to be met.[117] The SHFs still face challenges pertaining to limited access to credit, formal markets, and high-quality inputs like seeds, and farming equipment.[118] Moreover, some flaws have been reported with the implementation of the policy instruments. For instance, the credit subsidies have, at times, led to market distortion and diversion of funds to non-agricultural activities.[119] Importantly, politically driven interventions like a general debt waiver often announced ahead of elections not only result in inefficient use of financial resources but also distort the credit market by undermining the culture of repayment among farmers, who may come to expect the ability to default without consequence.[120] Therefore, while adapting some of the policy instruments of India caution has to be taken not to replicate the downsides as well.

[115] Innovative Financing to Fund Development Leading Group, Innovative Financing for Agriculture, Food Security and Nutrition: Report of the High-Level Expert Committee to the Leading Group on Innovative Financing for Agriculture, Food Security and Nutrition, International Expert Report (Permanent Leading Group Secretariat, 2012), pp.7 - 8, http://www.leadingroup.org. accessed May 1, 2022.
[116] Vikas Shrotriya and Arvind Kumar Yadav, "Analysis of Kisan Credit Card Scheme (A Case Study of Rajasthan)," Skit Research Journal 7, no. 2 (2017). Other government programmes such as Kisan Credit Card that are more focused on input financing have also played crucial role in improving access to agricultural and rural finance in India.
[117] Gyanendra Mani and P. K. Joshi, "Financing Agricultural Value Chains: An Overview of Issues, Lessons Learnt, and Policy Implications," in Financing Agriculture Value Chains in India: Challenges and Opportunities, ed. G. Mani, P. K. Joshi, and M. V. Ashok (Singapore: Springer Nature, 2017).
[118] Gautam and Mallaiah *supra* note 83
[119] A. Hoda and P. Terway, "Credit Policy for Agriculture in India: An Evaluation," Working Paper No. 302, Supporting Indian Farms the Smart Way (2015).
[120] The first major general debt waiver was announced in 1990. In the subsequent year, banks reported a decline in loan recoveries which resulted in the reluctance banks to continue lending to the agricultural sector due to concerns over rising default risks. (See. Ibid.)

## 4. The Legal Framework of WRs in Ethiopia: Lacunae and Proposed Reforms

The WRS Proclamation, which superseded the Civil Code provisions on WRs,[121] establishes the legal framework governing the financial and commercial functions of WRs in the Ethiopian market.[122] The WRS proclamation is complemented by the relevant provisions of the Civil and Commercial Codes.[123] Particularly the provisions of the Civil Code on Contracts in General, Contracts of Bailment and compensatory sales are applied to WRs whenever necessary.[124] The long-overdue implementing legislation – the WRS Directive - was enacted in 2021 after almost two decades of legislative gap.[125] The directive fully operationalized the national WRS for the first time by addressing several crucial issues, such as the types and levels of insurance coverages and the amount and modality of posting performance bonds, which are left in the Proclamation to be determined by subsidiary legislation.[126] Alongside the specific WRs laws, the MPSRP also forms an essential part of the broader legal regime governing the creation and enforcement of security interests in WRs.

This section mainly analyses the provisions of the WRS Proclamation relating to the legal status, transferability and pledging of WRs through a comparative legal lens, drawing on the UNCITRAL-UNIDROIT Model Law to inform potential enhancements to Ethiopia's legal framework.

### 4.1. Legal Status of WRs

In Ethiopia, WRs function as legally recognised documents of title that formalise and codify ownership claims over the underlying goods. This can be inferred from the first paragraph of the WRS Proclamation's Preamble which states that depositors shall be able to receive a document of title[127] upon delivery of their agricultural products to the warehouseman. This is further reinforced by the second paragraph of the same Preamble which envisages transfer of ownership over the stored goods by mere delivery of WRs. Nevertheless, the absence of a provision in the

[121] Article 2806 to 2824 of the 1960 Civil Code are expressly repealed by the WRS Proclamation, 2003. (See Article 46(1) of the WRS Proclamation)
[122] WRS Proclamation No. 372/2003
[123] WRS Proclamation, Article 4(2)
[124] Ibid., Articles 7(2) and 17(3)
[125] WRS Directive No. 835/2021.
[126] WRS Proclamation, Article 31; WRS Directive Articles 15,16 and 17. The specifics of the insurance coverages and performance bond are crucial because both are set as requirements for issuing warehousing license.
[127] Definitional provision of the law states that a document of title confers the entitlements "to receive, hold and dispose of the document and the goods it covers'. Seet Article 2(7) of the WRS Proclamation. Article 2(20) the Proclamation also implies that the receipt is evidence for storage of goods belonging to the depositor.

ISSN (Print): 2664-3979 ISSN (Online): 2791-2752
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Proclamation expressly defining WRs as documents of title, combined with Article 7(1) of the Proclamation, which is captioned "legal status" but merely states that WRs constitute valid contracts, creates ambiguity regarding their actual legal status. Thus, a dedicated provision explicitly recognising WRs as documents of title is essential to enhance clarity.[128]

Ethiopia had previously a double-receipt system where stored goods were represented by two separate documents called 'voucher' and 'receipt' as provided under the Civil Code.[129] The 'receipt' confers a bare ownership title while the 'voucher' confers pledge or security rights over the stored goods represented by the document.[130] However, with the enactment of the 2003 WRS Proclamation which superseded the provision of the Civil Code governing WRs,[131] it has switched to a single-receipt system where the stored goods are represented by a single document known as a 'Warehouse Receipt'.[132] While further investigation is warranted, the single-receipt system appears to offer greater efficiency in facilitating WRs transactions. As discussed earlier, the MLWR recognises both the single and double receipts systems.

In Ethiopia, WRs can be issued only by a warehouse operator registered/ licensed under the WRS proclamation to provide warehousing service and issue WRs.[133] As this matter falls under the regulatory aspects, it is not covered in the MLWR. But looking at the experience of comparable jurisdictions like India, a similar approach is employed by restricting the right to issue WRs only to registered and regulated warehouses to ensure integrity of the instrument.[134] However, the scope of restrictions in Ethiopia and India is different. Ethiopia prohibits issuance of any type of WRs, be it negotiable or non-negotiable, electronic or paper-based, by unlicensed warehouses. In contrast India confines the prohibition to negotiable WRs only, allowing non-negotiable WRs to be issued by unregistered/unlicensed warehouses.[135]

Confining the registration/licensing requirements to warehouses issuing negotiable WRs may create a space for the proliferation of alternative warehousing businesses, such as collateral

[128] For instance, the Indian and Tanzania laws explicitly recognise WRs as title document. (See Section 32(2) of the Indian WR Act and Section 11 of the Tanzanian Warehouse Act, 2007)
[129] Civil Code, Article 2813
[130] *Ibid.,* Articles 2817 and 2820
[131] WRS Proclamation, Article 46(1)
[132] *Ibid.* Articles 2(20) and 24
[133] *Ibid.* Article 5
[134] Article 3 of the Warehouse Act, 2007.
[135] See the discussion on Indian experience in Chapter 3

managers which provide custodial services for specific depositor and lender under a private tripartite agreement, known as Collateral Management Agreement, without the need be licensed under the WRS Proclamation to issue negotiable WRs.[136] In many jurisdictions, collateral management companies operate alongside licensed warehouses, providing an alternative mechanism for obtaining loans secured by agricultural products.[137] However, such flexibility will not come without cost. It may, at least, keep a large number of warehouses managing huge volume of stocks under private CMA out of the regulatory oversight as it is the case in India.[138]

In Ethiopia, where the WRs are at the early stage of operationalization, letting non-negotiable WRs to be issued by unlicensed warehouses may also cause unnecessary confusions in the market, undermining the credibility of negotiable WRs as well. Hence, Ethiopia would be better off retaining the mandatory licensing requirement for warehouses issuing all types of WRs. This is unlikely to significantly impede the growth of parallel collateral management businesses, as they can continue issuing functionally, though not legally, equivalent documents, such as Goods Received Notes (GRNs), to acknowledge receipt of goods, consistent with current practice.[139]

The WRS Proclamation recognises eWRs, adopting similar approach of the MLWR that allows electronic and paper-based receipts to coexist.[140] Nevertheless, the Proclamation does not address the basic matters related to issuance, control and transfer of eWRs.[141] The only provision in the Proclamation (Article 40) that attempts to lay the foundation for the issuance of eWRs also presents certain drafting limitations. The provision seems to imply that a system provider issues eWRs.[142] This contradicts other provisions of the WRS Proclamation and the MLWR which spell out that

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[136] In this arrangement, the WR is mainly intended to serve simply as a confirmation for the bank that a certain stock is under the control of the warehouse operator. The parties have no the intention to use the receipt as tradable device in the market or offer it as collateral to another lender through a simple procedure. Hence, non-negotiable serves the purpose of such transactions and warehouse may choose pursue this kind of transaction without the need to go through the registration/ licensing process under the WRS legal regime. This is a common type financing arrangement in India. Forn instance, National Bulk Handling Corporation (NBHC), which is one of the leading collateral managing company in India, reported rendering collateral management services to 54 banks and other lending institution in January 2022. (See NBHC Press Release in the website

[137] Bisrat (2025) *supra* note 17

[138] *Ibid.*

[139] *Ibid.*

[140] WRS Proclamation, Articles 2(20) and 40

[141] In fact, back in 2003 Indeed, when the Proclamation was first drafted, electronic WRs were in their infancy and had not yet gained widespread legal or operational recognition.

[142] See WRS Proclamation, Article 40 reproduced herein

> A warehouse receipt may be created by means of electronic records and *may be issued to a bailer or his transferee by a system* provider appointed by the Ministry or its designate in line with procedures to be established for this purpose. [Emphasis added]

WRs, be it electronic or paper-based, shall be issued by a warehouse operator only.[143] Normally, the role of the system provider shall be to create the technology platform enabling the warehouse operator to electronically issue WRs.[144] Read together, Articles 40 and 2(20) suggest that only warehouse operators issue WRs; however, Article 40 should be redrafted for clarity.

The WRS proclamation rightly refers detail technical issues related to eWRs to be determined by secondary legislation or operational manuals.[145] However, it also omits major issues that require primary legislative attention. For instance, the Proclamation does not provide the basic standard the electronic system shall meet to protect the interest of all parties involved. This gap can be addressed by adopting the MLWR provision that requires an electronic system to meet three basic standards: 1) the system must enable clear identification of each eWR; 2) it must allow full control of the eWR from issuance to extinction; and 3) it must retain the integrity[146]of the eWR.[147] The MLWR also contains provisions that allow converting WRs from paper to electronic receipts or vice versa upon the request of the depositor without affecting the rights and obligations of parties.[148] This offers depositors the flexibility to convert a WR into their preferred medium at any time. It may also incentivize holders to adopt the electronic system, knowing that they retain the option to revert to a paper format anytime. The provisions offering such flexibility are also worth considering to incorporate into Ethiopian law.

### 4.2. The "Holder" of WRs

The WRS Proclamation provides definition for a 'holder' of WRs though it lacks clarity.[149] In defining the requirements for a 'holder' status, the Proclamation fails to distinguish between negotiable and non-negotiable WRs, let alone between electronic and paper-based formats.[150] For instance, the WRS Proclamation appears to consider possession as a requirement for a holder of

[143] See Ibid., Article 5 and MLWR, Article 5
[144] For instance, the Indian Warehouse Act, 2007 clearly states that eWRs shall be issued by a registered warehouse operator (See Article 2(u) of the Act)
[145] WRS Proclamation, Article 40
[146] As per MLWR, Article 6(2) 'integrity' refers to the capability of the system to retain and protect the original information contained in the eWRs and prevent any unauthorized changes to eWRs except those transactions happening legally based on the procedure set out for the purpose.
[147] MLWR, Articles 6(1) and 7
[148] MLWR, Article 14
[149] WRS Proclamation, Article 2(11)
[150] Article 2(11) defines holder as "a person who is in possession of a WRs issued or endorsed to him or to his order or to bearer or in blank." See *Ibid*

all types of WRs, including the non-negotiable receipts.[151] This would be misleading as possession may not be a determining factor to qualify as a holder of non-negotiable WRs.

To avoid such confusions, the MLWR sets out a distinct, more precise and clearer requirements for each type of receipt which Ethiopia can adopt. The requirements to be a holder of negotiable WRs are divided into two. In cases where the negotiable WR is issued to a bearer or endorsed in blank any person can qualify as a 'holder' of the WR simply by possessing it.[152] However, if the WR is issued to the order of a named person, it is only the named person or the most recent endorsee who can qualify to be a 'holder' by having possession of the WR.[153] When it comes to non-negotiable WRs, the MLWR does not at all provide possession as a requirement to qualify as a holder of the receipt. It rather defines a 'holder' of non-negotiable WR as "a person to whom delivery of the goods is to be made in accordance with the terms of the receipt".[154]

The MLWR also provides definition for a holder of an eWR, which is another missing point in Ethiopian law. Unlike Ethiopia's WRS Proclamation, which offers only a generic, possession-based definition of a "holder," the MLWR provides a more nuanced and functionally appropriate definition for holder of eWRs. [155] Recognising the dematerialized nature of eWRs, the MLWR replaces the traditional notion of physical possession with the concept of "control"[156] to establish legal entitlement.[157] This distinction is critical from a property rights perspective, as it ensures that rights over digital assets are clearly defined and enforceable. Adopting the relevant provisions of the MLWR can resolve the lack of clarity and legal ambiguities in Ethiopia's WRS law regarding the definition of the 'holder' across different types of WRs.

[151] *Ibid.*
[152] MLWR, Article 3(a)(ii)
[153] MLWR, Article 3(b)(ii)
[154] MLWR, Article 3(c)
[155] WRS Proclamation, 2(11) and MLWR, Article 3(a)(i) and (b)(i)
[156] MLWR spells out that a person is assumed to have *control* when 1) she exercises exclusive control over the eWR; 2) the electronic system identifies her as a person having control of the eWR; and 3) that she can transfer control over the receipt to another person. See MLWR, Article 6(3)
[157] MLWR further provides three requirements to determine the person having control of the receipt. A person is assumed to have control when 1) she exercises exclusive control over the eWR; 2) the electronic system identifies her as a person having control of the eWR; and 3) that she can transfer control over the receipt to another person. See Article 6(3) of the MLWR

ISSN (Print): 2664-3979 ISSN (Online): 2791-2752
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### 4.3. Transfer Mechanics of WRs

Clearly delineated and enforceable procedures for the transfer of both negotiable and non-negotiable WRs are crucial for the institutional integrity of the WRs, as they ensure a reliable and efficient transfer of property rights in the market. Even though the Ethiopian law does provide mechanisms for the transfer of both negotiable and non-negotiable WRs, the existing legal framework suffers from ambiguities and occasional inconsistencies. To begin with negotiable WRs, Article 20(4) of the WRS Proclamation sets out "endorsement and delivery" as requirements of valid transfer. The conjunction "and" used in the provision appears to make endorsement and delivery cumulative conditions for valid transfer of all types of negotiable WRs, be it a receipt issued to the order of a named person or to the bearer.[158] In contrast, Article 2(13) of the Proclamation states that negotiable WRs can be transferred by endorsement or delivery implying the possibility for transfer of certain negotiable WRs by delivery alone. The two provisions are not only contradictory but also lack clarity about which types of negotiable WRs can be transferred by delivery alone or by both endorsement and delivery.

The Proclamation's Preamble further complicates the matter by envisaging transfer of rights over stored goods by mere delivery of the WRs, regardless of the type of WRs.[159] Moreover, the very nature of 'endorsement and delivery', which presupposes physical handling of the receipts render it inapplicable to dematerialized eWRs. Those legal texts combined together make the procedures of transfer of negotiable WRs ambiguous and inconsistent.

The MLWR offers well-crafted provisions addressing the aforementioned gaps and limitations, which Ethiopia may consider adopting. The MLWR first categorizes negotiable WRs into two based on their unique features affecting the procedure for their valid transfer. These are WRs issued to 'the order of a named person' and WRs issued to the bearer.[160] If a negotiable WR is 'issued or endorsed to the order of a named person', it shall be transferred by endorsement and delivery

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[158] Article 20(4) reads as follows:

> *A negotiable warehouse receipt may be transferred to third parties by endorsement and delivery [empahsis added]. A provision in a negotiable warehouse receipt that limits negotiability shall be of no effect.*

[159] WRS Proclamation, Paragraph 2.

[160] MLWR, Article 2(4)

because it bears a name of specific person.[161] But if the negotiable WR is 'issued to bearer' or 'endorsed in blank or to bearer', it can be validly transferred by delivery alone.[162]

Regarding negotiable eWRs, Article 15(2) of the MLWR appropriately replaces the traditional requirements of 'endorsement and delivery' with the notion of 'transfer of control,' which is suitable for the digital systems. In line with the MLWR approach, it is recommended that the Ethiopian law (i) clearly recognise the two categories of negotiable WRs, and (ii) outline the procedures for valid transfer in each category separately. The Ethiopian law should also incorporate the notion of 'transfer of control' in lieu of 'endorsement and delivery' for the transfer of eWRs.

Unlike negotiable WRs, which involve more complex but institutionally robust transfer procedures, non-negotiable WRs follow a relatively straightforward yet less efficient and more traditional mode of transfer. The Ethiopian law sets out that non-negotiable WRs shall be transferred only "in accordance with rules governing sale or those on ordinary assignment".[163] The limited transferability of non-negotiable WRs constrains the flexibility and liquidity of property rights, thereby impeding their broader economic utility. Indeed, non-negotiable WRs may effectively work in private contract-based arrangements, such as CMA, where the WRs are not needed for broader trading and financing transactions.[164]

Under the Ethiopian law, valid transfer of WRs confers the transferee with the rights of the transferor over the underlying goods represented by the WRs.[165] But when the transferee is a *bona fide* purchaser of negotiable WRs, the law extends addition protection by enabling the transferee to "enforce his right in the instrument free from all previous claims and defects".[166] Although the provisions of the WRS Proclamation precisely spelt out the three essential elements of the transaction that the buyer shall acquire the WR in good faith, for value and without notice of any defect or adverse claim, the inclusion of a 'possession' requirement in the definition renders it incompatible with dematerialized WRs.[167] The MLWR overcomes this limitation and embraces eWRs by replacing 'possession' with a general requirement of the transfer of the negotiable WRs

[161] MLWR, Article 15(1)(a)
[162] MLWR, Article 15(1)(b)
[163] WRS Proclamation, Article 20(3)
[164] For more discussion on CMA-based financing See Bisrat (2025) *Supra* note 17
[165] Article 20(6) of the WRS Proclamation
[166] Ibid.
[167] Article 2(12) of the WRS Proclamation states that the person shall be in possession of the WRs.

in accordance with the relevant law.[168] If the WRs is electronic, it shall be transferred to the acquirer based on the procedure laid down under law for the transfer of eWRs and if its physical WRs it shall follow the provisions on physical WRs transfer.[169]

Similarly, when it comes to the scope of protection of a 'holder in due course' the WRS Proclamation indicates that the person shall have full ownership over the goods represented by the WRs free from any previous defects.[170] Although this reflects the main corpus of the legal protection, the Proclamation would benefit from replacing the existing scattered and less comprehensive provisions by the explicit and robust scope of protection provided under Article 18 of the MLWR.[171] The legal text of Article 18 is compatible with the existing Ethiopian law since it leaves a room for the exceptional limitations the WRS Proclamation imposes on the rights of the holder in due course.[172] Ethiopia may also consider adopting the clearer terminology of 'protected holder,'[173] as used in the MLWR, in lieu of 'holder in due course,' to enhance legal clarity and simplicity, particularly to facilitate easier understanding within the farming community, which is intended to be a primary targeted beneficiary of WRs in Ethiopia.

### 4.4. Pledging WRs

In Ethiopia, the security rights created in WRs are governed by the Movable Property Security Rights Proclamation No. 1147/2019 (MPSRP), which establishes a streamlined procedure for the creation, perfection and enforcement of a security rights in movable assets. Article 4(1) of the MPSRP stipulates that security rights in movable assets, including WRs, shall be created by a written security agreement. This marks a major shift from the Civil Code which requires the

[168] MLWR, Article 17(1)(a)
[169] Article 15 of the MLWR provides separate procedures for valid transfer of paper-based and eWRs
[170] WRS Proclamation, Articles 9 and 20(6)
[171] Article 18 of the MLWR provides for two options of legal texts the enacting states may consider. Option 1 provides the following comprehensive description on the scope of protection of holder in due course:

> *A protected holder [holder in due course] of a negotiable warehouse receipt acquires ownership of the receipt and the goods covered by the receipt, and the benefit of the obligation of the warehouse operator to hold and deliver the goods in accordance with the terms of the receipt, free of any right, claim or defense of the warehouse operator or any other person, other than any right, claim or defense that arises under the terms of the receipt or under this Law.*

[172] Articles 13(2)(a) and 23 of the WRS Proclamation respectively dictate that warehouse operator lien and the claims of a bona fide purchaser of the physical goods stored in the warehouse shall prevail over the rights of the holder in due course. The last phrase of the legal text recommended in the MLWR (Article 18) leaves a room for exception by states that "*other than any right, claim or defense that arises under the terms of the receipt or under this Law [the WRS proclamation]*." See *Ibid*.
[173] MLWR, Article 17 and 18

grantor's dispossession of collateral for valid creation of security rights in movable assets.[174] Under the MPSRP, a farmer may grant a security right in agricultural products merely by signing a security agreement, thereby avoiding the need for transfer of possession and related logistical costs for moving, storing, and handling large inventories. [175] Likewise, security rights in WRs can be simply created by a security agreement without the need to transfer possession of receipt.

The MPSRP has also introduced an electronic system[176] through which lenders shall easily perfect their security rights by a simple procedure of filling notice of the security interest on the Movable Collateral Registry Office's (MCRO) website (https://emcr.nbe.gov.et), set up within the National Bank of Ethiopia.[177] Exceptionally, security rights in negotiable WRs can also be perfected by taking possession of the documents.[178] In this case, the grantor would technically relinquish possession of the collateral, but with far less inconvenience than would be involved in the physical transfer of possession of goods. The law further strengthens protection for holders of negotiable WRs by granting priority to security interests perfected through possession of such WRs over competing interests perfected by any other method.[179] Although the MPSRP incorporated possession as alternative method of perfecting security rights in negotiable WRs, it has omitted to include equivale notion of 'control' that is compatible for digital setting (eWRs).[180] In this regard the MPSRP is suggested to adopt the notion of "control" enshrined in MLWR.

The MPSRP offers lenders a more favourable enforcement pathway - both in terms of speed and procedural flexibility - relative to the enforcement mechanisms provided to immovable collateral.

[174] Ethiopian Civil Code, Article 2825

[175] MPSRP, Article 4(5)

[176] The electronic registration system not only prevents fraud and unnecessary bureaucracy but also promotes efficiency and transparency of the security rights enforcement system. However, the accessibility of the system is questioned due to limited coverage of electricity and internet services, particularly in the rural areas. (See Asress Adimi Gikay, (2018) "Examining Suitability of the Draft Ethiopian Personal Property Security Rights' Law to the Local Context," Hawassa University Journal of Law 2)
Yet, as far as banks and other formal lending institutions are concerned, the system has turned out to be quite convenient and efficient.

[177] The notice registration is designed as a simple notice filing system that can be completed by the lender alone without the need for the approval or authentication of the MCRO. Normally, the registration becomes effective at the moment the lender finishes the notice filing process. (See Article 13(1) of MPSRP and the NBE Directive No. MCR-01-2020).

[178] MPSRP, Articles 18(2). Although the MLWR doesn't cover detail procedures for pledging WRs, it recognises both registration and possession as alternative methods of perfecting security rights in negotiable WRs, similar to the Ethiopian approach. (See MLWR, Article 19)

[179] MPSRP, Article 64(1)

[180] Article 13(1) and (2) of the MPSRP. Indeed, Article 13(3) of the MPSRP incorporated "control" as a perfection method but that is specifically for a deposit account and electronic security. Per Article 2(15) electronic securities refers to shares and bonds registered and transferable electronically.

ISSN (Print): 2664-3979 ISSN (Online): 2791-2752
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For instance, MPSRP allows a secured creditor to automatically take possession of the collateral upon default of the borrower without the need to serve notice or apply to the court, provided that the parties agreed for the same in the security agreement.[181] If the secured creditor faces resistance in the attempt to possess the collateral, it can seek for the assistance of the MCRO, which is mandated to order the police force to execute possession.[182] By contrast, the foreclosure of immovable collateral requires the creditor to provide a notice of at least 30 days before initiating any enforcement measures. [183]

The MPSRP likewise imposes a duty of notice, but only for collateral disposal, not for dispossession.[184] The MPSRP also shortens the minimum notice period to 10 days and provides for a wider room for waiving the notice requirement.[185] For instance, if the movable collateral will be sold in a recognised market like the ECX, the creditor can directly proceed with the disposal without the need to serve notice.[186] If the movable collateral perishes within 10 working days or its value deteriorates rapidly, these circumstances also constitute sufficient ground for waiving the notice requirement.[187] The provisions of the MPSRP on disposal methods and procedures are also crafted in a manner favourable for secured creditors lending against movable collateral.[188]

## 5. Policy Options for Ethiopia: Scaling Uptake among SHFs

WRs have long been recognised as financial instruments within Ethiopian legal and policy frameworks, evidenced by their incorporation in Ethiopia's Civil and Commercial Codes back in the 1960s. Notably, the promulgation of a dedicated WRs legislation (WRS Proclamation) marked

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[181] MPSRP, Article 81(1)

[182] MPSRP, Article 81(3). Asres noted forceful dispossession may expose the debtor to extrajudicial deprivation of the constitutional property rights. See Asress supra note 176. Tajti also sharply criticizes adoption of self-help repossession in the civil law legal system like Ethiopia. See Tibor Tajti 'The efficient enforcement challenge of secured transactions law reforms in civil law systems—self-help repossession, strict foreclosure, and other methods for the acceleration of enforcement of security interests' Uniform Law Review, 2024, 29. 139
However, on the flip side, it should be noted that the debtor may also prejudice lender's interest by easily relocating or transferring the movable collateral, rendering the security rights enforcement almost impossible. Unless effective mechanism, such as self-help repossession, put in place to mitigate the risk, lenders uptake of asset-based lending could remain very low. The dispossession after default can also be viewed as a more favourable condition the MPSRP offered to the debtor as compared to the older law which generally set dispossession as validity requirement for creation of security rights.

[183] Article 3 of the Proclamation No. 97/1998. A Proclamation to Provide for Property Mortgaged or Pledged with by Banks. Federal Negarit Gazeta, 4th Year No. 16 Addis Ababa. 19th February 1998.

[184] MPSRP, Article 83

[185] *Ibid*, Article 83(1)

[186] *Ibid*, Article 83(5)(c)

[187] *Ibid*, Article 83(5)(a) and (b)

[188] *Ibid*, Artcle Art 82

a stronger recognition of WRs as a policy tool to tackle the financial and marketing challenges in the agriculture sector. The WRS Proclamation's Preamble, which is assumed to reflect policy objectives, emphasises the need to protect farmers from price volatility and distress sales at harvest by creating access to formal credit using WRs as collateral. The Proclamation also seeks to advance other broader policy objectives, including enhancing the efficiency of agricultural marketing, promoting the trading of standardized agricultural produce, and facilitating financial transactions within the sector.[189] The 2019 secured transactions law (MPSRP) also represents another major policy measure that reinforces the use of movable assets, such as WRs, as collateral to unlock agricultural financing by expanding the collateral menu.[190]

WRs also feature in other policy documents and development plans. For instance, the ten-year agricultural development plan and the national agriculture-focused investment plan indicate WRs as a means of improving agricultural financing.[191] However, neither document provides a detailed account of the policy, strategic framework, nor broader enabling environment required to support the effective operationalization and scaling-up of WRs within the agricultural sector. It is only recently that Ethiopia has put in place a more detailed and concrete framework for the promotion of WRs and related agricultural lending products, with the issuance of the National Agricultural Finance Implementation Roadmap (NAFIR) in 2025, representing a late but significant shift toward more comprehensive and structured agri-finance framework.[192] NAFIR not only recognises WRs as strategic instruments for scaling agricultural finance, but also incorporates selected policy tools somehow similar with that of India to drive uptake of WRs and other agricultural lending products. Some of these policy tools are highlighted in the discussion below, in the context of the lessons Ethiopia can draw from India.

Despite a broadly favourable policy environment for using WRs as collateral, especially with the approval of NAFIR, Ethiopia has yet to adopt targeted policy measures/instruments that fully harness the huge potential of WRs to advance financial inclusion and food security. As a result, the strategic role that WRs could play in the agricultural sector has been under-explored,

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[189] *Ibid.,* Paragraph 4 of Preamble and Article 3(3)
[190] MPSRP, The Preamble
[191] See the Ten-Year Agricultural Sector Perspective Plan 2021-30 and National Agricultural Investment Plan (NAIP) 2021-30. https://faolex.fao.org/docs/pdf/eth236072.pdf
[192] NBE and MoA, 'National Agricultural Finance Implementation Roadmap (NAFIR)', July 2025 https://nbe.gov.et/wp-content/uploads/2025/07/NAFIR.pdf

ISSN (Print): 2664-3979 ISSN (Online): 2791-2752
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warranting deliberate policy attention to elevate and integrate WRs more effectively into national development priorities. Ethiopia should therefore consider repositioning WRs within its socio-economic development agenda, not merely as another lending product, but as a strategic intervention in the agricultural sector.

Doing so enables the country to unlock agricultural finance for SHFs and other value-chain actors at a scale, raise rural incomes, reduce post-harvest losses, enhance product quality, and ultimately advance financial inclusion, food security, poverty reduction, and export competitiveness. Particularly, focusing on smallholder farmers, the Indian experience demonstrates that promoting the adoption of WRs, both among SHFs and more broadly across agricultural value chain actors, requires implementation of tailored and coordinated policy instruments that drives agricultural lending from the supply side while also mitigating sector-specific credit risks for the lenders and lowering borrowing costs for target beneficiaries.

In Ethiopia, physical accessibility remains a significant barrier for improving rural financial access in general.[193] Ethiopia should consider adopting the Indian multi-Agency approach to diversify and increase the number of financial institutions operating in the rural credit market, thereby increasing physical accessibility of financial institutions. Based on the Indian experience the multi-agency approach can be implemented in two ways.

The first one is encouraging existing banks and microfinance institutions to gradually improve their rural presence by imposing a modest requirement of urban-rural branch network balancing directive.[194] For instance, initially banks could be required to comply with the requirement of opening one branch in rural areas for every new branch opened in already banked/urban areas. Indeed, the rapid expansion of digital financial services over the last few years may downplay the role of physical branch networks. The Indian experience also shows that well-designed digital systems can broaden access to agricultural finance despite socio-cultural and infrastructural barriers.[195] However, in the Ethiopian context where a large share of the rural population is still unbanked, it is difficult to leapfrog directly to fully digital finance and achieve rapid digitisation

[193] Mohammed Seid Hussen and Mustafe Abdi Mohamed 'Impact of Financial Inclusion on Household Welfare in Ethiopia' Future Business Journal 2023, 9(1):67 https://doi.org/10.1186/s43093-023-00243-y accessed August 12 2025

[194] See the discussion *supra*-section 3.2.1.

[195] N. S. Aishwaryalaxmi and Pralhad Rathod, "Digital Financial Inclusion and Rural Transformation Through Internet Banking," Journal of Informatics Education and Research 5, no. 3 (2025): pp.12–29.

of trust. A modest but deliberate improvement of physical accessibility of financial institutions remains essential to advance financial literacy, build trust at the grassroots level, and lay the foundation for broader adoption of digital financial services. The rural branches need not necessarily match the scale of urban branches, which entail higher upfront and operational costs. These can be designed as satellite outlets or retail touchpoints that provide basic banking services, coordinate banking agents, and support broader rural penetration efforts, while fostering customer engagement and the digitisation of financial trust.

The second approach would be to consider establishing or providing attractive incentives for establishment of agriculture sector-specific financial institutions similar with the Indian NABARD, RRBs, SFBs that shall exclusively focus on serving the SHFs and other underserved customer segments in the rural areas.[196] Particularly, creating enabling environment for NBFIs is crucial in Ethiopia not only to diversify agri-focused financial institutions but also to improve accessibility of warehousing services in rural areas. As discussed in Section 3.2.1, in India NBFIs are usually established by warehousing companies as a sister company facilitating one window service for SHFs and enabling to leverage economies of scope. However, it is worth noting that adopting a multi-agency approach that diversifies lenders and products in rural markets should be complemented by strengthening the central bank's sector-specific regulatory capacity to ensure effective supervision and close potential consumer protection gaps.

Beyond improving physical access, it is also essential to ensure that agricultural finance receives a fair share of financial institutions' lending portfolios, particularly those of banks, in a manner that reflects the sector's sizable role in the economy. In Ethiopia, agricultural finance accounted for only 6.4% of the fresh bank loans disbursed in the 2022-23 fiscal year.[197]As discussed in Section 3.2.2. India has managed to improve similar financing gaps not only in agriculture but also in other priority sectors by implementing the PSL policy. Ethiopia has also started adopting a similar approach by issuing a Directive that requires banks to allocate at least 5% of their annual credit disbursement to the agriculture sector or micro, small and medium enterprises (MSMEs) taking only movable collateral.[198] Although this is a step in the right direction the policy

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[196] *Ibid*

[197] National Bank of Ethiopia (2024). 'Financial Stability Report' April 2024. https://nbe.gov.et/wp-content/uploads/2024/04/Finacial_Stability_Report.pdf accessed on May 16, 2024.

[198] National Bank of Ethiopia, Operationalization of Movable Collateral Registry, Directive No. MCR/01/2020. (See Article 19.1)

ISSN (Print): 2664-3979 ISSN (Online): 2791-2752
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intervention doesn't seem to achieve the desired goal of increasing agricultural financing using movable assets, such as WRs, as collateral.[199] One of the main reasons is that agriculture, which is viewed as risker by the lenders, had to compete with MSMEs which are mostly incorporated business entities with relatively better cash flow.

Learning from the Indian experience, Ethiopia should consider revising the percentage from time to time (the sub-sector target for agriculture is 18% in India) and set sector-specific targets to make sure that the agriculture sector will not be left out. Moreover, to reach the last mile of the agriculture value chain and benefit SHF, Ethiopia shall also consider setting customer segment specific target (for SHFs), which is currently 8% in India.[200] The PSL shall be complemented by the surplus lending certificates trading system where financial institutions that exceed their PSL targets will be able to sell credits to those falling short.[201] The trading system offers more efficient, market-based compliance pathway for banks, often lacking comparative advantage in agriculture, to meet their regulatory obligations while ensuring flow of the mandated level of financing to priority sectors.[202] It also promotes and incentivizes specialization by enabling financial institutions actively engaged in agricultural lending to generate additional income through the trading of surplus lending certificates.[203] NAFIR has adopted a similar system of inter-bank markets that would enable the trading of available loanable funds for Agri-credit among financial institutions.[204] Nevertheless, based on the lessons from India, for the trading system to serve the purpose it should be backed by mandatory sector and sub-sector specific targets as well as a dedicated surplus lending certificates trading system.

Ethiopia should also complement the above supply-side interventions with targeted and carefully designed risk-sharing guarantees and interest-subvention schemes, policy instruments that have been crucial to India's significant progress in expanding agricultural finance to the grassroot level (SHFs).[205] These two policy interventions are, indeed, resource-intensive and may be difficult to

[199] So far, only 1 percent of the registered collateral is agricultural products. See NAFIR (2025) *Supra* note 192
[200] See the discussion in Section 3.2.2.
[201] *Ibid*
[202] Sambhavi Dhingra, Arpita Agarwal, and Snehal S. Herwadkar "Priority Sector Lending: The Indian Experience" RBI Bulletin, September 20, 2024. See also Dhananjay Ashri & Muskan Kaur & Bibhu Prasad Sahoo, 2025. "Priority sector lending by the Indian public banks: impact on capital formation and NPAs," Global Business and Economics Review, Inderscience Enterprises Ltd, vol. 32(4), pp.441-463
[203] *Ibid*
[204] See NAFIR (2025) *Supra* note 192. p.16
[205] See the discussion in Sections 3.2.3 and 3.2.4.

implement under Ethiopia's current economic conditions.[206] Nonetheless, even partial adoption, whether supported by development partners or financed fully by the government, would signal a strong government commitment to expand agricultural finance. In line with this, NAFIR has introduced the National Agricultural Finance Accelerator (NAFA), which offers a combined solution of re-financing and risk sharing mechanisms for agricultural credit.[207] NAFA is designed to pool resources from various sources to make loanable funds available specifically for agricultural lending and provide structured risk sharing.[208] Although the proposed de-risking tool is not exclusively dedicated to WRs, unlike in India, it nonetheless constitutes a scheme that covers WRs as well.

To ensure that risk-sharing facilities achieve their objectives of increasing the flow of agricultural credit and preventing unintended market distortions, such schemes should incorporate minimum safeguard mechanisms. These include objective eligibility criteria, coverage caps, risk-sharing ratios, monitoring and evaluation mechanisms, and a clear governance structure. In this regard, NAFIR has incorporated the best practices in the area by adopting, *inter alia*, some eligibility criteria for financial institutions benefiting from the risk-sharing facility, which include having specialized agri-finance product design, emphasis on promoting agricultural assets as collateral, promoting data-driven lending, robust loan lifecycle procedures, and the application of fair but also commercially-based loan pricing for farmers.[209]

The interest subvention policy is also often contested for distorting the market; however, such concern can be mitigated by strictly targeting the most vulnerable actors, such as SHFs, and by structuring the subsidy to reward timely repayment.[210] India's approach, which combines an upfront interest reduction with additional incentives for on-time repayment, demonstrates how such design can strengthen repayment discipline and improve overall debt recovery. From the Indian experience, another major concern with subvention policy has been the political misuse of the policy (for example, loan-waiver schemes) as electoral tools. Ethiopia shall avoid similar pitfalls from the outset by ensuring that any debt-relief measures or other forms of subsidy are rule-based, transparently targeted, and insulated from political cycles. NAFIR appears to mitigate

[206] Bhanot et al. *supra* note 109
[207] See NAFIR (2025) *Supra* note 192. pp. 14 -18
[208] Ibid.
[209] Ibid. p.15
[210] See the discussion in Section 3.2.4.

the risks associated with interest subvention by avoiding direct interest subsidies and instead relying on more market-based incentives, such as refinancing and risk-sharing facilities, which can ultimately reduce loan pricing by lowering risk exposure and lending costs. However, without objective governance and high levels of transparency, market-based incentives may also be equally vulnerable to political interference and market distortions. Hence, where resources allow, similar with India, Ethiopia may consider providing direct interest subventions for targeted sub-segments, such as SHFs trapped in poverty, provided the programme is supported by a governance framework of high integrity.

## 6. Conclusion

WRs are innovative financial and trading instruments representing goods stored in a warehouse. They mainly play two complementary roles. First, WRs enhance financial inclusion by unlocking new source of finance for farmers and other value-chain actors using stored agricultural products as collateral; this financing, together with the income earned through orderly marketing, allows farmers to invest in improved inputs and technologies, thereby boosting yields in subsequent seasons. Second, they also enhance food security not only by reducing post-harvest losses and improving crop quality, but also by increasing potential future harvests through better utilization of inputs and technologies financed via WRs. The use of documentary instruments, such as WRs, to evidence ownership or control of goods has a long-standing historical precedent, tracing back to ancient Mesopotamia. In the modern times, WRs have been widely used as a security device to unlock financing for the agriculture sector and beyond in many parts of the world. Especially in the United States, WRs have been one of the most successful financing instruments, historically marked by low default rates.

The effective and widespread use of WRs presupposes an enabling legal framework that clearly defines, *inter alia*, the legal status, transferability and pledging of WRs. Besides the legal framework, in countries, like Ethiopia, where the agriculture sector is dominated by SHFs, it is imperative to consider devising public policy instruments that can promote and support the market adoption of WRs with a particular emphasis on reaching the underserved agricultural value chain actors, including the SHFs. The Ethiopian law recognises WRs (be it electronic or paper-based) as documents of title, despite the need for more legislative clarity. The WRs legislation also aligns with the MLWR in permitting the coexistence of both electronic and paper-based receipts, thereby maintaining system inclusivity while facilitating a smooth and gradual transition to a more efficient electronic framework.

However, the WRS proclamation has left unaddressed several issues that need primary legislation attention mainly related to accommodating the dematerialized nature of eWRs. For instance, the law does not incorporate the concept of "control" for eWRs, the functional equivalent of 'possession' for paper-based WRs. To address this and several other gaps in the operationalization of eWRs, Ethiopia should adopt the relevant provisions of the MLWR. Likewise, ambiguities in the Proclamation concerning the definition of a WR "holder," the notion of a "holder in due course," and the rules governing transferability should be clarified by drawing on MLWR provisions that reflect international best practice.

Despite the broader legal recognition, WRs are yet to gain wide scale market acceptance and benefit the various actors across the agriculture value chains, including the SHFs. The Indian experience shows that expanding the reach of agricultural finance, in general, and driving market adoption of WRs, in particular, demands implementing well-designed and coordinated policy instruments that are aimed at driving agricultural lending from the supply side, while also mitigating sector-specific credit risks for the lenders and lowering borrowing costs for target beneficiaries. In this regard, the recent approval of NAFIR represents a late but significant shift toward more comprehensive and structured agri-finance framework. Nevertheless, it is recommended to reinforce the policy tools incorporated in NAFIR by adapting the Multi-Agency Approach, mandatory and agriculture specific PSL scheme, credit guarantee scheme dedicated to WRs, and interest subvention to expedite the scale up of the WRS and extend its benefits to the last mile of the agriculture value chains. In adapting these policy instruments, Ethiopia should draw on India's experience to avoid known pitfalls and to enhance the overall impact and sustainability of the interventions.

More importantly, it is emphasised that the strategic role that WRs could play in the agricultural sector seems to be understated, warranting deliberate policy attention to elevate and integrate WRs more effectively into national development priorities. WRs should be repositioned in the policy dialogue, not merely as another lending product, but as a strategic intervention in the agricultural sector that can contribute to enhancing financial inclusion, supporting food security, boosting farmers' incomes, easing agro-industries' working capital constraints for raw materials aggregation, and promoting overall efficiency across agricultural value chains. Finally, it should be noted that this article is confined to a selected set of legal and policy issues that are critical for promoting the inclusive uptake of WRs. However, the effective implementation and large-scale operationalization of the WRS require a far broader range of regulatory, institutional, and operational conditions that warrant systematic examination in future research.

**Conflict of Interest**

The author declares no conflict of interest.