

# **Cereal Banks: Receipt of Deposit as a Method for Improving Liquidity at the Local Level**

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## **Foreword:**

Cereal Banks are a combination of warehouse and financial institution, where farmers can deposit their harvest and receive a receipt. By storing goods in the warehouse, the farmers can wait until prices increase before selling their harvest on the market. By receiving a receipt they can circulate as money, they are not forced to sell their crops when prices are at their lowest, generally following the harvest. Thus in this piece we refer to both a Warehouse and a Rural Credit Bank as being two arms of a "Cereal Bank".

## **Introduction:**

Cereal Banks are probably the earliest form of banking institution. Thousands of years before Christ the Egyptians already knew a system of paying receipts based in amounts of wheat deposited in a warehouse administered by the state. The administration the amount deposited by each farmer. The value is determined by noting the quantity and quality and the year of the harvest. The farmer is thus insured against the dangers of robbery, fire, flood, drought, etc. The high cost of storage is thus shared between many farmers paying small amounts.

The system also makes it possible to transfer value of one account to that of another by means of a system of checks. In this fashion the farmer might pay for costs that he would otherwise have to wait for a sale at the market in order to pay. This type of system makes it possible to circulate receipts between different warehouses, and thus different communities in a region. Another important characteristic of the system is that the depositor pays for the service of storage. The amount to pay depends of the amount and quality of goods in storage. One way to avoid this cost is to provide seed for next year's planting to the warehouse, which they can sell to other farmers to make up storage costs.

## **Operation of the Warehouse Receipt system:**

In the many of the rural communities assisted by FUNDER, one can think of a Rural Credit Bank that is involved in the construction of a warehouse, where the farmers can deposit their corn, beans, rice, or other products of basic consumption basic that are capable of keeping for several months. In exchange for the deposit, the Bank Cereal presents the farmer with a Warehouse Receipt for each amount of grain deposited, for example a bushel or kilogram. The receipt cites the amount and the date of the deposit. If the quality of the seed is uniform (e.g. with a humidity less than 14%), it is not necessary to mention quality on the receipt, since the warehouse provides the best available standard of quality in return. The quality can be identified at the time of deposit using the most common methods of evaluation.

The Warehouse Receipt can be used in several ways:

- As a medium of exchange "(money)" for purchases made inside the community. The receipt will be accepted since this endorsed by the warehouse and backed by an amount of food which is stored at the warehouse.
- As a guarantee for obtaining a loan at the Rural Credit Bank. The loan can be made to 80% of the actual amount of grain. This is an interesting option because the farmer wants to store the harvest as soon as it's complete (in the month of December in Honduras), while at the same time having a money while taking advantage (through the storage of the harvest) of the ability to sell when prices return to normal (in the months of May and June). Thus farmers do not have to sell their harvest right away, when prices are always the lowest. When the loan is repaid, the Rural Credit Bank, in cooperation with the warehouse, can determine how prices have affected the value of money during that time, by adjusting the remaining 20% of the deposit. If prices that year are good, the rate of interest on the loan is adjusted accordingly, ideally to avoid additional payment by the farmer.
- Sell the receipt to a local investor (which can be a private body or the Rural Credit Bank. The purchase price will usually be equal to the market price of the stock at the instant of sale. In principle, one can think of the Rural Credit Bank as ensuring the convertability of the receipt between the deposit at the warehouse and conventional money. A fund can be established to ensure convertability, and be reduced little by little as confidence in the system increases and the receipts are increasingly treated as money.

### **Benefits of the "Warehouse Receipt"**

The great benefit of this system for the community is that it enlarges the monetary base (or alleviates the scarcity of money.) If there was no Cereal Bank, the deposit would have been:

1. Sold to a coyote (loan shark or those who profit from the misfortune and desperacy of others) at a price well below the market rate, allowing for a very small rate of return to the farmer.
2. Stored at home, losing the potential of the seed as guarantee.

Due to the lack of monetary liquidity at the local level, many farmers are compelled to sell their goods immediately after harvest. The Cereal Bank allows the farmer to store their deposit until the price rises in the future, while giving the farmer access to "money". This additional injection of money will increase the dynamics of the local economy generating additional income and employment. Of course the absolute condition need in order to gain this advantage is to ensure the widespread acceptance of the receipt as a medium of exchange at the local level.

### **How is the Cereal Bank Financed?**

To cover the administrative expenses, natural depreciation of goods in the silos (due to rot & rodents), we are thinking of several options:

1. The Cereal Bank can charge a commission of 1% monthly on each deposit. The commission can be paid in the form of the goods already deposited. In fact the receipt can be worth less 1% each month from the date of issue (date of deposit). This

method has a disadvantage for use as a medium of exchange, because each receipt is worth a different amount, depending of your date of deposit.

2. The Cereal Bank can demand that holder of the receipt buy a seal or stamp at the end of each month, allowing for the value of the receipt to remain the same. This method , known as "demurrage" was applied with success during the Great Depression years (1929-) in many communities in Europe and North America. This method has the effect of accelerating economic activity (because nobody wants to pay for the stamp at the end of the month) and consequently local economic activity increases.
3. A third method could be that the Cereal Bank can charge a certain amount for the deposit and redemption of stock in the warehouse, taking into account the average cost of storage. The disadvantage of this method is that it reduces the desire to deposit the grain in the warehouse in the first place. On the other hand, it stimulates use of the receipt as a medium of exchange. The initial amount paid could be returned to the farmer if sale prices for the stock were good in that year.

One supposes that the losses of the Cereal Bank are minimal compared to other methods of storage (such as at home with poorer quality storage methods which can cause losses of 10 to 20%). This implies again that if the prices hold stable, the farmer will benefit by depositing the stock. The Bank Cereal gives local investors, particularly the Rural Credit Bank and Health Program (see Community Economic Complex information below) an interesting way of moving the community towards greater economic health and the possibility of greater capital generation.

### **The Cereal Bank and the Community Economic Complex (CEC)**

The Community Economic Complex is a model for integrating various local economic components into a coordinated whole. The Cereal Bank forms part of this complex of community enterprises, all financed directly or indirectly through the Rural Credit Bank. The main bonds between the Cereal Bank and the other community enterprises are:

<b>Unit</b>	<b>Cereal Bank</b>
<b>Credit Union</b>	<ul style="list-style-type: none"> <li>• The Credit Union gives initial credit to the Cereal Bank or contributes to infrastructure development.</li> <li>• The Credit Union accepts the Warehouse Receipts as a loan guarantee for clients.</li> <li>• The Credit Union can grant credit to producers in the form of inputs, in addition to the Producer's Cooperative, and recoup this credit in the form of stock in the Cereal Bank.</li> <li>• The Credit Union can accept part payment in Warehouse Receipts, being a profitable easily convertible form of money.</li> </ul>
<b>Cooperative Store</b>	<ul style="list-style-type: none"> <li>• The Cooperative Store can sell some of the stock stored at the Warehouse.</li> <li>• The Cooperative Store can accept receipts as a form of payment, which can then be used to pay for local expenses</li> </ul>

	(employees, etc.), or as a way of purchasing other goods for sale in the store.
<b>Producer's Cooperative</b>	<ul style="list-style-type: none"><li>• The Producer's Cooperative knows the productive situation of its members and is therefore the best vehicle for promoting the Cereal Bank among its members and between other cooperatives.</li></ul>