

## Why Cereal Bank Projects Rarely Work: A Summary of Findings

Lawrence Kent - January 1998

These findings are based on extensive research on grain markets and cereal banks (CBs) in the Sahelian countries of West Africa. Cereal Banks are village cooperatives that buy, store and sell grain with the intention of promoting food security.

1. Grain trading is a risky, difficult and competitive business. Buying grain right after the harvest, storing it and selling it during the hungry season is no guarantee of making a profit, or even breaking even. People tend to remember the years that prices doubled between seasons, but they tend to forget the years prices increased slightly, not at all or even fell. When we look at monthly price records over a number of years for most markets, we usually find that price movements between the seasons are not as large or predictable as people assume, particularly in "good years".

2. Even when prices rise between seasons, they must rise substantially for a CB or a trader to cover his costs and make a profit. These costs include:

- purchase costs
- warehousing costs
- bagging costs
- labor/handling costs
- management costs
- the costs of physical losses due to pests, rotting, theft, etc., and
- interest costs (or the opportunity cost of tying up one's money/resources)

If we calculate these costs accurately, we usually find that the selling price must be substantially above the purchase price in order for a CB or a trader to break even or to make a profit. Promoters of CBs often try to ignore some of these costs when they calculate their profitability, resulting in false hopes for sustainability. For instance, we can ignore the costs of community-built warehousing and volunteer labor, but sooner or later warehouses need to be repaired or replaced and workers need to be paid if we expect them to work sustainably. We can ignore the opportunity cost of capital, but sooner or later villagers begin to take it into account and wonder "why are we tying all of this money up in grain when it could be earning higher returns elsewhere?" If CBs had to borrow at the rates charged by CRS in its micro-lending programs (over 30% annually in Burkina), most would have difficulty surviving. It makes one wonder: is this the best way for people to invest scarce resources? (They wouldn't do it with their own money or with money lent to them as individuals.)

3. The track record of cereal banks regarding sustainability is poor. Of the 1,500 cereal banks created in Burkina Faso before 1991, over 1,200 went bankrupt within five

years of their creation (over 80%). Most CBs functioned acceptably for two or three years (during which time they received intensive NGO monitoring and subsidies) but subsequently decayed, with the amount of their stocks decreasing annually. Recent estimates from Niger indicate a 90% failure rate for cereal banks. A review of 100 cereal banks created by the FAO in Niger found that only one was able to survive after the end of outside support. In 1993, the German aid agency GTZ published a study called "Cereal Banks: Have they all gone Bankrupt?" and held a workshop in Mali to discuss the high failure rates. A few cereal banks manage to survive in each country, but the overwhelming majority fall apart after the subsidies end.

4. There are other contributing factors to the failure of CBs beyond the riskiness of grain speculation. One is that providing grain on credit often results in defaults, which in turn provoke other defaults that decapitalize CBs ("Why should I pay back if he didn't, and besides this is a charitable institution that should provide free food to poor people like me.") Another reason for failure is embezzlement. Not infrequently, the treasurer, warehouse manager, president, or buyer steals the CB's money or makes unauthorized loans from the cashbox that are never paid back. In Senegal and Niger, dishonest NGO field agents also have stolen money from CBs. Another reason for failure is bad decision-making by cumbersome CB committees constituted by people with little expertise in grain trading. These committees have trouble competing with more agile and diversified private traders.

5. The positive side effects that CB promoters predict rarely occur. CBs rarely make a profit thus they rarely are in a position to subsidize other village activities, like literacy training. Occasionally CBs fund other activities but almost always by decapitalizing their own revolving funds. CBs rarely succeed, thus they rarely build community spirit or promote empowerment. More frequently they generate arguments and the sentiment that coops don't work.

6. It is no surprise that communities ask donors for cereal banks, because CBs usually involve a large gift of food aid or money (revolving funds). It is also no surprise that communities almost never use their own resources to create cereal banks (i.e., without outside subsidy) because villagers usually have better things to do with their own resources and they'd rather store their own grain at home, where they can keep their eyes on it, rather than in some collective structure where it can be subject to neglect, mismanagement, or theft. CILSS, a regional Institute in the Sahel, has measured physical storage losses at only three to five percent in traditional household structures, but higher in modern government warehouses.

7. A CB can potentially harm a village's food security if it displaces private traders, breaks traditional relationships between traders and villages, or keeps such relationships from developing. There have been cases in Mauritania and northern Niger where subsidized cereal banks have driven private traders out of business (essentially through unfair competition) leaving villagers precariously dependent on an unsustainable CB for their food security. There have been cases in Burkina Faso of CBs working with local government officials to ban private grain trading from their villages (thereby ensuring the CBs a monopoly). Villagers' food security probably can

be better served by encouraging dynamic, competitive trade links with other villages and regions. Private traders should be encouraged, not discouraged, from operating in Sahelian villages.

8. Empirical data on the timing of Sahelian farmers' sales of cereals does not support the widely-held belief that farmers are forced to sell off most of their harvest during the low price season (a belief that is used to justify the creation of CBs). A detailed two-year national survey of farmers in Burkina Faso conducted by the University of Michigan revealed that farmers' sales of cereals are surprisingly evenly spread over the calendar year and that the largest sales quarter is not the one right after harvest. A detailed two-year national survey of cereal farmers in Chad found similar results. Both surveys revealed that only a small minority of farmers sell cereals post harvest and buy cereals in the hungry season. A detailed survey of 150 households in rural Senegal found that only five were "selling low and buying high". Most farmers sold small quantities of grain as needed throughout the year.

9. Overall, collective village institutions appear to be ill-adapted to the riskiness of grain trading. They have trouble surviving without ongoing subsidies. Villagers' grain marketing needs are more likely to be served sustainably by for-profit traders. If these traders are in competition, as they usually are given the ease of entry into the business, they will provide their services at competitive prices. A dynamic, competitive group of private traders is essential to long-term agricultural development. CRS should not try to discourage or replace the middleman, either directly or indirectly.

10. CRS is more likely to succeed in increasing food security in the Sahel by:

- promoting the creation of roads (possibly through food-for-work) which improve access to villages and reduce the costs of trade, especially food trade;
- promoting agricultural improvements through the extension of new technologies or improved techniques, especially soil and water conservation measures (using food-for-work if necessary);
- promoting the development of alternative sources of income, through off-season gardening, animal fattening, handicrafts, etc.;
- developing credit and savings institutions that have a real chance of sustainability, i.e., village banks, credit unions or inventory credit schemes that use commodities as collateral.

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