

Case Study Kenya: Marenyo

Marenyo Community Cereal Bank, WFP/P4P and Equity Bank: Value Chain Finance / Purchase Order Finance in Kenya

- Marenyo Community Cereal Bank (Marenyo), a staple food Farmers' Organization (FO) located in Siaya district, Kenya, received its first purchase order finance (POF) loan in September 2011. The loan was extended by Equity Bank - a leading Kenyan finance institution - which has introduced value chain finance collateralized by contracts, with support of COMPETE.
- Marenyo was formed in 2006 as part of the Millennium Village Project (MVP), a UNDP affiliated NGO, primarily to provide solution to the problems of food insecurity and extreme poverty. MVP is a project of Columbia's University Earth Institute and the United Nations Development Program (UNDP) pioneered by Professor Jeffrey Sachs. Currently, Marenyo has approximately 300 members - 187 women and 113 men.
- In 2010, USAID COMPETE built on MVP's work by supporting the Agricultural Market Development Trust (AGMARK) to help Marenyo organize and aggregate for the market. USAID COMPETE/AGMARK's support included post harvest handling training and equipment and introducing Marenyo to the WFP P4P program and to agro dealers in the area. The agro dealers provided Marenyo with timely inputs, storage, and access to markets.
- The United Nations World Food Program (WFP) purchases large quantities of food for distribution in emergency, recovery and development programs. Purchase for Progress (P4P) is a WFP pilot program that is being implemented over a five-year period (2009 – 2013) in 21 countries. In these countries WFP is testing alternative ways to purchase food and examine the impact of these acquisitions on market development, access to markets, and the welfare of smallholder/low income farmers. P4P seeks to learn how WFP can best use its procurement to catalyze partnerships to address constraints to smallholder farmers' sustainable access to remunerative markets.
- Marenyo sells about 90% of its produce to WFP with the remainder going to small buyers such as schools and hospitals in the area including a one-off sale to the National Cereals and Produce Board (NCPB)..
- A major challenge was the inability of the FO to secure finance to pay farmers when they delivered to the FO. Instead, because the FO lacked working capital (either owned or borrowed), it could only pay farmers once it was paid by the WFP. The longer farmers expected that they had to wait for payment; the greater the chance farmers would side-sell to traders, especially if they had urgent expenses. Also, market prices can change substantially between when prices are set and payment to farmers.
- This was an opportunity for a POF transaction. Equity Bank provided a 90-day working capital credit totaling US\$ 23,000 to Marenyo through a POF loan mechanism developed with technical assistance from COMPETE. The resources were used to cover processing and pre-shipment costs, allowing the Marenyo to take advantage of this market opportunity and timely fill WFP – P4P contract. Marenyo collateralized the operation only by transferring to Equity Bank, the accounts receivables of the WFP – P4P operation.
- Final bean uplift by WFP P4P occurred on November 10th. Marenyo has submitted final invoices and documentation to WFP P4P and expects to collect its earnings once WFP P4P pays Equity Bank for the produce and the bank clears the POF loan. Recently, Mary Asiko, Chairlady of Marenyo said: "Our vision is to be able to get financing to buy maize from Uganda/Busia when we are facing shortages this side of the border and supply schools, hospitals and traders at a time when profit margins are better".