'Recovery lending' helps disaster-stricken farmers get back on track

By Robert Kibet

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Accessing credit has long been a major hurdle for small-scale farmers in Africa, who produce some 70 percent of the continent's food. Not only does this mean yields fall far below their full potential, but the ability of farmers to manage the increasingly frequent and severe weather shocks brought about by climate change is also greatly reduced.

Kate Holt AusAID via Wikimedia Commons

However, help could be at hand. A new method of aid micro-financing, known as recovery lending, aims to give such farmers a much-needed short-term boost, especially in times of crisis.

Vision Fund International (VFI) is a project of the international NGO World Vision. It sourced a two-million-euro returnable grant from the UK's Department for International Development to be loaned to 14,000 families in Kenya, Malawi, and Zambia after disasters so they can rebuild their lives and start generating income again.

Farmers need loans at the beginning of agricultural seasons to buy seeds, fertilisers, and other vital inputs. But as smallholders often lack title deeds or other forms of collateral, traditional banks don't view them as viable debtors, while the rules imposed by other kinds of lenders - the return of the principal sum in full, for example - don't always suit the seasonal economics of farming.

Charity Mati, VFI Kenya's business development and integration manager, explained that the lender tries to tailor its repayment terms to borrowers' needs, unlike other microfinance institutions that charge interest every month, leaving the entirety of the loaned sum due on maturity. "Most of our clients are farmers," Mati told IRIN. "While recovering from the El Niño rains, they were met with a second shock: the drought. We sat down with them and developed workable repayment plans, listened to their voices, and arrived at a solution," she told IRIN.

A case study

In 2015, Alice Muthee, a smallholder farmer in Motonyi, a village nestled in Kenya's Narok County, took out a $200 loan from a microfinance organisation and leased an acre of land with the aim of turning a good profit from growing tomatoes. "With five mouths to feed, in addition to the pressure of educating my children, life had seemed overwhelming," recalled

Muthee. "I had had to sell livestock to meet the rising demand for finances in my family."

Muthee believed her tomatoes would bear fruit and she would be able to repay the loan within three months. But tomatoes are a notoriously fickle crop and certainly no match for the El Niño rains that wreaked havoc in late 2015, not only in parts of Kenya, but also in Somalia, Uganda, and Ethiopia.

"From the cost of leasing the land, labour, purchase of seedlings, and fertiliser, I ran a deficit," Muthee told IRIN. "My several attempts to have extra money for buying pesticides failed. When the 2015 rains persisted, I watched helplessly as my tomatoes disappeared."

Facing the daunting prospect of having to sell more livestock in order to repay her loan - the terms of which required full settlement of the principal sum in a single payment at the end of the agreed period - Muthee heard about a new kind of finance geared specifically for smallholder farmers, small businesses, and communities recovering from disaster shocks.

'Hand up', not 'hand out'

Recovery lending, described as a "hand up" rather than "hand out" approach, was pioneered by VFI in the aftermath of 2013's Typhoon Haiyan in the Philippines, with the disbursement of almost 5,000 loans with an average value of $430 designed to help people restart their lost small businesses.

According to Philip Ochola, CEO of Vision Fund Kenya, in the wake of major disasters, many microfinance institutions grow reluctant to continue extending loans because potential customers lack collateral and are seen as having little ability to make repayments. "Credit is required most during post-disaster to help rebuild communities," said Ochola. "Governments' help to affected communities during disasters usually come in form of relief, which is not sustainable.

"Preparing the communities for loans, helping them establish business and embrace agri-business is the sustainable assistance you can give to a vulnerable community." VFI distributes loans on the basis not of lenders' available collateral but on an assessment of their likely ability to repay. It then provides business training to its customers.

Muthee took out a $300 recovery loan from VFI, which she invested in growing vegetables and starting a business selling second-hand clothes. She has since been able to settle her previous loan and pay her children's school fees.

Aid, with conditions

In all, VFI has loaned out some $1.2m in Kenya. "DFID gave us the money, not as a grant to dish out in the field, but a returnable one to be used wisely, lend it wisely, recover it, and pay back. Aid with conditions is good," said Ochola.

"Aid is aid and human beings are human beings. If I know that appearing as poor as possible will make me continue receiving charity from you, I will always want to appear that way. But if it comes with conditions, it will help me get on my feet, stabilise, and work."

Among the other beneficiaries is 38-year-old Chiwai Ole Taka, a father of six who lost seven cows and 10 sheep during a severe drought. He used his $300 loan to buy weak sheep and goats, which, thanks to the training that came with the loan, he fattened up and sold for a profit. "It is not the first time that I have lost livestock to drought. It has happened before. This drought threatened to drive our community to extreme poverty," said Ole Taka, adding that he was now much better placed to meet his family's basic needs.

Recovery lending was the result of joint research by Stewart McCulloch, global insurance director of VFI, and Professor Jerry Skees of GlobalAgRisk. The thinking behind the initiative was published in a report titled: *A New Model for Disaster Preparation and Response for Microfinance Institutions*.

"Recovery loans are not suitable for the highly indebted or those without viable cash-generating livelihood options, but rather for the economically active poor, including (but not limited to) those not normally targeted for humanitarian aid," the report says. "The support to this group should have a disproportionate effect on the community's economic recovery."

While Alice Muthee could be a poster child for the success of recovery lending, others like Ole Peres have found themselves unable to keep up with VFI's terms amid multiple climate shocks. Peres, whose maize was destroyed by rains, had trouble making the $55 monthly repayments on a $300 loan.

"I obtained a second loan of $450 where I bought 10 sheep for fattening, but the drought killed five of them. With a monthly loan repayment of $40 for a 12-month period, I sold the remaining animals I had bought and ventured into maize buying and selling at a profit, but have been faced with shortage," he said. Peres is now in even greater debt and seeking a reduced interest rate on his loans.

The UN's World Food Programme has flagged estimates that hunger and malnutrition could increase by up to 20 percent by 2050 if bold efforts to improve people's ability to prepare for, respond to, and recover from climate shocks aren't undertaken.

Recovery lending is not a panacea for all the problems African farmers face, but it is helping.

Author Note

Part of a special project that explores the impact of climate change on the food security and livelihoods of small-scale farmers in Kenya, Nigeria, Senegal and Zimbabwe

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