



# Financial Products to Promote Climate Change Resilience in Bolivia

Country / Region: **Bolivia** | Project Id: **PPCRBO602A** | Fund Name: **PPCR** |

Comment Type	Commenter Name	Commenter Profile	Comment	Date
Comment 1	Colette O Neil	United Kingdom	Dear Mafalda The UK has no objections. Regards	Aug 09, 2017
Response 1	Gloria Visconti	IDB	Colette The IDB/MIF thanks the UK delegation.	Aug 22, 2017
Comment 2	Michael Koemm	Germany	Germany highly appreciates the goal of the project, which is to improve the access to credit for small agricultural producers in Bolivia in order to facilitate investment in adaptation measures for promoting the sustainable management of natural resources and for contributing to agricultural productivity. The project seeks to achieve this goal by providing the Investment and Development Revolving Fund (DIACONIA-FRIF) with loans to disseminate its "Resilient Agriculture Credit" in up to eight rural agencies in areas where no other financial institution is offering financial products for adaptation. Scaling-up an existing financial product for which strong demand is observed seems very reasonable. However, as the pilot has been conducted very recently (in 2017) and its major lesson learned so far is 'only ' that there is demand for such financial products while no evidence is given yet, that the pilot project will actually be successful in promoting sustainable management of natural resources and contributing to agricultural productivity, <b>it would be helpful to get more insights and details on how the project's overarching goal will be achieved, including reaching 4,000 beneficiaries, and how lessons learned of the pilot will be applied to the project for moving forward.</b>	Aug 16, 2017
Response 1	Gloria Visconti	IDB	Thank you for your comment. Please see below MIF/IDB comments: As the results framework mentions, the overarching goal is to contribute to improving the climate change resilience of small-scale farmers and ranchers in Bolivia by making available to them, credit for investments in activities, practices and measures that have been shown to increase resilience in similar contexts. This will be achieved by actions that Diaconia will undertake to promote and disburse small loans to the farmers and ranchers (for the above-mentioned investments, also noted in footnote 9) together with basic technical assistance in applying these measures and technologies. Diaconia has been successful in designing these financial products with the support of the Frankfurt School, as well as the marketing materials needed to explain the benefits of these products to potential clients. Diaconia also has extensive experience in designing and placing many different innovative financial products, and has been successful in bringing them to scale. Given that the measures/practices/technologies to be financed with the small loans have shown to improve resilience in similar contexts, we expect that by reaching 4,000 clients in Diaconia's sphere of influence will have a similar effect. In the pilot program, Diaconia placed 335 green loans in just five months, with a brand-new product. Based on Diaconia's calculations, the roll out of these products in their 8 agencies will allow them (under the intermediate scenario) to place 624 loans per semester in year 1, increasing to 755/semester in year 3, which adds to 4,130 loans in only three years (see Annex 3 of the document for details on projections). These numbers were calculated using an estimate of loans disbursed in each of the 8 agencies in which the product will be promoted. With regard to the future application of the lessons learned from the pilot (as summarized in paragraph 2.5 of the project document), Diaconia: (i) will ensure that they accompany the green loan clients throughout the entire production cycle (from planting to harvest/sale) to observe the effects of the resiliency measures financed; (ii) will continue to incorporate (as they have done to date) local and cultural customs and traditions	Aug 23, 2017



into the use of the adaptation measures to be financed; and (iii) will apply the information gathered, stored and analyzed in its new agricultural credit risk evaluation tool, in order to continue to adjust and tweak the financial product and the adaptation measures based on the results of the analyses generated by the tool.

Comment 3	Michael Koemm	Germany	As stated on p. 4, "DIACONIA-FRIF currently has a list of 18 possible adaptation measures that clients may implement with loan resources". On p.5 it is added that "the development [...] of the adaptation measures must be based on local and cultural practices of the intervention area". Yet, it is not explained how eligible adaptation measures were selected and whether the suggested measures can be adopted by local farmers at reasonable costs and with adequate results. We would thus recommend <b>summarizing the rationale and selection process of the 18 measures</b> . Furthermore, it should be shortly <b>assessed whether the expected productivity increase will generally suffice for farmers to repay the loans</b> . It should also be <b>specified whether the current list of eligible activities can be adapted to reflect, for example, project results or technological change</b> .	Aug 16, 2017
Response 1	Gloria Visconti	IDB	Please see below MIF/IDB comment: The eligible adaptation measures and practices were developed by a team of experts from the Frankfurt School who were hired by Diaconia with funds from the IDB/MIF's EcoMicro project mentioned in paragraph 2.3. These experts worked closely with local agronomists, sociologists and economists on the Diaconia team to identify these 18 measures and ensure that the local and cultural customs and practices were incorporated into their offering. Each of the measures was assessed on its potential implementation cost, acceptability by local farmers, expected results on productivity, quality, resilience, etc. The result of this investigation was the current list of the first 18 adaptation measures, and this list can obviously be adapted over time to reflect the results of the project, technological changes, uptake by clients, suggestions by clients, etc. It should be mentioned that while an increase in productivity is the preferred outcome, in the face of uncertain climate change effects, even the maintenance of current productivity levels can be considered a successful outcome. When Diaconia carries out the credit analysis of each client who requests a loan, this analysis includes a detailed assessment of cash inflows and outflows of the family unit, in order to determine capacity to repay the loan, and their new agricultural risk analysis tool allows them to improve this process by incorporating climate risk into the equation. Diaconia's credit analysis methodology has proven to be quite accurate, as evidenced by their loan delinquency rate of below 1.5%, among the lowest in Bolivia. If the credit analysis shows that the projected inflows are insufficient to cover the loan payments and all other family costs, then Diaconia would not approve the loan.	Aug 23, 2017
Comment 4	Michael Koemm	Germany	As described on p. 2, "training, information and financial resources will be required to support small farmers seeking to adapt their productive processes and lead them to invest in adaptation measures". We would suggest <b>describing how can it be ensured that farmers actually participate in technical training programs</b> , particularly considering issues such as time restrictions, illiteracy and potentially long travelling distance for farmers. Moreover, it should be <b>specified how it can be made sure that women are equally trained in the correctly applying the eligible adaptation measures</b> , given that they might not be as involved in technical or innovative solutions as men. Finally, we would highly appreciate an <b>explanation of how will it be made sure that technical assistance is available for a time period that is sufficiently long</b> , until new technologies have been fully adopted by farmers.	Aug 16, 2017
Response 1	Gloria Visconti	IDB	While it is impossible to ensure that farmers participate in training, Diaconia will carry out certain actions to increase the probability that they will. These include: (i) establishing alliances with local technical assistance providers (as described in the project) to provide technical assistance and information to the farmers where they live; (ii) offering interest rate reductions to farmers that implement one of the 18 adaptation measures, and requiring these farmers to receive technical information and assistance on the implementation measure to be implemented; (iii) preparing technical information in a highly graphic format (few words, lots of drawings) and in the local language and cultural context, and also in radio programs that reach the farmers where they live. In addition, Diaconia's clientele for these green products are the ones that value most the technical assistance, with no need to convince them about its importance. There are only few things that must be agreed with them, such as the most convenient venue and schedule to conduct the TA and training. As paragraph 1.12 states, the women in the project area tend to focus on improved and innovative practices such as the search for alternative water sources, sowing	Aug 23, 2017



new varieties, and supplementing their incomes. As such, they will likely be keen to receive the training that is offered. Diaconia will work with the technical assistance providers to ensure that they proactively seek to include women in the technical assistance activities and materials provided, and offer them at times in which women are most likely to be able to attend.

Diaconia is committed to, and has the incentives to ensure that the new technologies are fully adopted by the farmers, as this is what will help them to expand their outreach to a larger number of farmer clients and ensure the successful application of the technologies that will provide incomes to the farmers and a source of loan repayment. For this reason, Diaconia will continue to build on and expand its existing network of local technical assistance providers in their intervention areas, and will continue to prepare the technical informational material that its clients require to fully adopt the technologies. These activities are included in their annual operating plan and their medium-term strategic plan.

Comment 5	Michael Koemm	Germany	The indicators proposed to measure the project's success seem reasonable, yet remain relatively limited. We recommend <b>adding indicators to measure the project's overall contribution to climate resilience and sustainable management of natural resources</b> , such as 'Percentage of farmers with access to financial services' or 'Percentage of agricultural land with improved irrigation'. A list of potential useful indicators has been published by BMZ/GIZ ( <i>Repository of Adaptation Indicators</i> ).	Aug 16, 2017
Response 1	Gloria Visconti	IDB	We have included an indicator that will measure the NUMBER of farmers with access to financial services, but measuring PERCENTAGE is complex and beyond the capacity of Diaconia in this project, because it requires that Diaconia have access to the total number of farmers by area, information on which farmers have access to financial products offered by other institutions, etc. Likewise, with the suggested indicator on percentage of agricultural land with improved irrigation. These proposed indicators are more applicable to a public-sector lending product. Diaconia is a private sector, financial institution, dedicated to providing financial services to its clients, and measuring macro results on a sectoral basis does not fall within its mandate or capacities.	Aug 23, 2017
Comment 6	Michael Koemm	Germany	Sustainable agricultural development is one of the priority areas of German development cooperation with Bolivia. Germany is currently supporting the implementation of one project in Bolivia which focuses on sustainable and resilient agriculture ( <i>Sustainable agricultural development in Bolivia, PROAGRO III (2014-2017)</i> ). We recommend <b>actively engaging with this project and exchanging the emerging lessons and good practices from the respective approaches</b> . It might also be helpful to <b>assess synergies with other relevant projects supported by Germany in the region</b> ( <i>Conservation of biodiversity, forests, and mitigation and adaptation to climate change (Ecuador, 2013-2017), Integrated financial management of climate risks in the agricultural sector (Peru, 2014-2019)</i> ).	Aug 16, 2017
Response 1	Gloria Visconti	IDB	Thank you for the information and recommendation. IDB/MIF will recommend to Diaconia that they investigate possibilities to engage with the PROAGRO III project (although it appears that it will end this year) and exchanging lessons and good practices. IDB and MIF personnel can look into possible synergies with the projects mentioned in other countries (Ecuador and Peru).	Aug 23, 2017