

**Common Format for Project/Program Concept Note for the Use of Resources from the PPCR
Competitive Set-Aside (Round II)**

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|-----------------------------------------------------------------------|--------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------|------------|
| 1. Country/Region: | Plurinational State of Bolivia | 2. CIF Project ID#: | TBD |
| 3. Project/Program Title: | <i>Microfinance and climate resilience for smallholder farmers in Bolivia.</i> | | |
| 4. Date of Endorsement of the Investment Plan: | November 2011 | | |
| 5. Funding Request (in million USD equivalent): | <i>Non-Grant (loan, equity, guarantee, etc.): US\$ 4,000,000 for concessional loan</i> | | |
| 6. Implementing MDB(s): | Multilateral Investment Fund – Inter-American Development Bank (MIF-IADB) | <input checked="" type="checkbox"/> Private sector arm <input type="checkbox"/> Public sector arm | |
| 7. Executing Agency: | Bolivian Microfinance Institution (s) | | |
| 8. MDB Focal Point and Project/Program Task Team Leader (TTL): | <i>Headquarters- Focal Point: IADB - Alfred Grunwaldt</i> | <i>TTL: MIF/IADB - Avril Benchimol y Lorena Mejicanos</i> | |

I. Project/Program Description:

Bolivia is highly vulnerable to the negative impacts of climate change. Changes in seasonality, frequency and intensity of precipitations, as well as the increase in average temperatures and the retreat of subtropical glaciers, had the most severe consequences for Bolivia's rural population.^{1,2} Loss of crops, reduced crop yields, migration of new plagues, and the emergence of new cattle diseases related to climate change, negatively affect small holder farmers' ability to maintain their crop yields and generate income through their traditional farming activities.³ Their capacity to cope with climate change greatly depends on their ability to adapt to climate change.⁴

¹ 80% of the economically active population in rural areas is dedicated to farming activities. There are 600 thousand farming productive units, from which 400 thousand are family units formed by poor farmers and indigenous. Source: National Development Plan, 2006.

² Poverty in rural areas in Bolivia reached 66% in 2009. Source: <http://www.ine.gob.bo/indice/EstadisticaSocial.aspx?codigo=30601>

³ Irregularity of rain and low temperatures cause a total loss of harvests in average one every 5 years. Source: Second National Communication to UNFCCC, 2009.

⁴ Adaptation measures to climate change may include: micro irrigation systems, phytosanitary control measures, biological control of plagues, use of organic fertilizers and for sectors the use of enhanced seeds. For the case quinoa, special attention will be given to crop rotation, agroforestry practices to avoid soil degradation from wind erosion, water scarcity and overproduction, identification of more resistant seeds for particular soils and climate conditions, preservation of native seeds, and better post harvesting management, which will enable smallholder farmers to become part of an organic value chain, providing access to better markets and adding value to their products.

Effective adaptation to climate change will require training and financing to invest in adaptation measures. In general, the main providers of finance for smallholder farmers are local microfinance institutions (MFIs). Consequently, this project aims to support smallholder farmers in three departments of Bolivia with necessary training and financing products from local MFIs in order to invest in adaptation measures, promote sound natural resource management and maintain their income stability, hence increasing their resilience to climate change.⁵

MFIs will provide financing through two mechanisms. First, MFIs will offer a standardized green finance product that combines technical assistance and loans for adaptation measures directed to their agricultural clients in their loan portfolios. In this context, part of the funding from the PPCR (US\$ 1million) is requested to bring to scale an existing “green microfinance” pilot project of 300 smallholder farmers in three highly vulnerable areas of La Paz (municipalities of Batallas, Palos Blancos and Sorata).

Second, MFIs can specifically support quinoa producers through value chain finance. Quinoa was selected as a priority crop because of its climatic adaptability and resilience as well as for its relevance for food security at a national level.⁶ In this mechanism, MFIs will structure lending with strategic partners in the quinoa supply chain in order to offer lending to 2,000 organic quinoa small producers in the departments of La Paz, Oruro and Potosi. To achieve this goal, the project is requesting additional US\$ 3 million for the supply chain finance.

Local MFIs are the main providers of target beneficiaries of this project. These MFIs usually perceive agricultural lending as risky due to the seasonality of cash flows and longer maturities needed to match agricultural cycles. Adaptation measures are perceived as an additional risk to agricultural lending. This is why the funding needed to test adaptation initiatives will require longer terms, attractive pricing (i.e interest rates offered), and more flexible installments. Therefore, a concessional lending from the PPCR would facilitate the scale-up phase of the green microfinance project and the supply chain finance project. Concessional lending from the PPCR could help reduce the risk of mismatch in maturities (i.e longer repayment terms of the adaptation loans that fit seasonal income of smallholder farmers), and address risk perception of MFIs to support investing in new agricultural methods needed for adaptation to climate change.

This microfinance model has been designed to be operated solely by the private sector through microfinance institutions and is aligned with the country's adaptation priorities identified in the PPCR's Strategic Program for Climate Resilience in Bolivia. In particular, it focuses in agricultural production which has impacts on food security, farmer's incomes and rural poverty.

This project will complement and leverage technical assistance from two MIF initiatives: (i) a “green microfinance” pilot project that is currently in implementation under a regional green microfinance Facility, co-financed by the Nordic Development Fund (NDF); and (ii) a project that is been prepared to implement a sustainable development model for the quinoa in the Bolivian highlands (*Altiplano*).⁷

During the execution of this project, at least two MFIs would be receiving the PPCR funding: (i)

⁵ Project indicators include income per smallholder farmer household as well a crop yield indicators.

⁶ Native agricultural products with high nutritional value include quinoa, amaranth, tarhui, cañahua, etc. These products have high growth productivity and production potential for covering the internal market needs and generate surplus for external markets and industrialization. Source: National Development Plan, 2006.

⁷ Expected to be approved mid 2014

one that has been already selected to scale up the “green microfinance” pilot project; and (ii) one that will be chosen through a competitive process to channel finance to the small organic quinoa producers through a value chain finance mechanism. Both entities could eventually be the same and the criteria for this competitive process will be determined during project preparation.

II. Context and market:

The project focuses in three departments of Bolivia: La Paz, Oruro and Potosi where the majority of smallholder farmers are indigenous, and poverty levels are high (between 66% and 80%).⁸ These regions are situated in different climate zones and are affected by different climate risks. Nevertheless, they all have in common an increase in hydrological stress due to reduced water supply. Crops in these areas are heavily dependent on rainfall and suffer from frosts, droughts, hail and flooding, and in general a decrease in water availability caused by glaciers’ retreat.^{9,10} In general, the crops of these areas include: quinoa, potato, barley, alfalfa, oat, fava bean, yucca, banana, rice, corn, coffee, peas, wheat, cacao, peach, papaya among others. The existing pilot on green microfinance will identify the best adaptation practices for the different crops and other farming activities in the selected vulnerable areas.

The project will dedicate special resources to quinoa producers. Quinoa is almost exclusively produced by smallholder farmers. The quinoa value chain in Bolivia is comprised of approximately 30,000-50,000 small scale producers dispersed over a vast geographic area comprised between the central and southern Altiplano. Small quinoa farmers cultivate between 5 and 15 hectares of conventional quinoa with traditional methods which results in an average yield of 12 quintals per hectare in a single annual harvest.¹¹ Furthermore, from 2001 to 2011, global quinoa production doubled from 40,000 metric tons to 80,000 metric tons; more than half was produced in Bolivia. Bolivia produces “Quinoa Real” or “Royal Quinoa” which are varieties that grow only in the area surrounding the Bolivian salt flats, at 13,000 feet of altitude. The rich mineral soil and arid conditions produce a seed that is 1/3 larger than those produced in other regions of the world. The high demand for quinoa presents a great opportunity for Bolivian small producers to improve their agricultural practices and prepare to adapt to climate change. Quinoa yields were reduced by 50% over the past decade due to climate change. With a current price of US\$3,200 per ton, the value of quinoa tripled since 2006. As a result, Bolivia’s cultivated area for quinoa expanded from 63,000 hectares in 2009 to 104,000 hectares in 2012, reaching a total production of 58,000 metric tons.

Bad agricultural practices, such as displacement of camelids (source of organic fertilizers), non-rotation of crops, and others, could endanger the cultivation model. However, climate change has created a business opportunity for the quinoa sector by expanding the areas where it can be cultivated, as rising temperatures in the Altiplano have made some areas more suitable for this crop.

Most of the smallholder farmers in La Paz, Oruro and Potosi are usually organized by households

⁸ Percentage of population classified as poor: La Paz 66%, Oruro 68% and Potosi 80%. Source: http://www.pieb.com.bo/sipieb_estadistica.php?idn=6750. In particular, for the three selected municipalities in La Paz department, the rural population classified as poor is: Batallas 83%, Palos Blancos 66% and Sorata 75%. Poverty Map <http://geocommons.com/maps/168767#>

⁹ Ministry of Development Planning, Systemization of the participative research results about vulnerability and climate change adaptation in the regions of Lake Titicaca and the Valles Cruceños of Bolivia.

¹⁰ Sorata Municipal Diagnosis and Palos Blancos Municipal Development Plan (2008-2012).

¹¹ Traditional methods for quinoa crops include: manual processes and conventional seed not adequate to the local climate and soil conditions—with limited introduction of agricultural best practices.

where family members also contribute to farming activities and occasionally sell handicrafts or carry on marginal commercial activities. The farms are small: between 1 and 5 hectares, with an average of 2.8 hectares per household. Harvests are usually used for self-consumption (subsistence farming), and any surplus is sold in local markets. Exportable products like quinoa, cocoa, coffee, and bananas are also sold through intermediaries or by cooperative associations. The farming activities of smallholder farmers usually provide annual incomes between US\$ 1,200 and US\$ 20,000 and farmers usually own the land; property is protected by law.

Financial services for smallholder farmers in rural Bolivia are limited. The country's National Development Plan recognizes limited financial assistance to poor smallholder farmers. As a result, the Government of Bolivia issued in August 2013 a new Financial Services Law (No. 393), aimed at regulating financial services to attend this economic segment. The law seeks to foster financial services especially for the farming segment, fishermen, timber producers, artisans and the micro, small and medium enterprise, mainly in rural and peri-urban areas of Bolivia. This law also enables the Government of Bolivia and the local Financial Supervisory Authority to determine credit allocation per economic segment and potentially establish caps on interest rates and fees charged by MFIs. This may in turn be a challenge for the MFIs if they are unable to cover their operational costs with mandatory loan portfolio allocations and caps to interest rates, hence limiting sustainability.

The main market barriers for the deployment of microfinance products for adaptation are: (i) the lack of knowledge and information on adequate adaptation measures; (ii) the need for adequate financing mechanisms in terms of maturity and interest rates both for the clients and the MFI; (iii) MFI risk perception of adaptation finance; and (iv) regulatory impacts of the new Financial Services Law if interest rates caps are established.

III. Project description and Innovation:

a. Project Description

This project's objective is to support smallholder farmers with necessary training and financing products to invest in adaptation measures, promote sound natural resource management and maintain their income stability, hence increasing their resilience to climate change.

The project will seek to bring to scale: a standard "green microfinance" product which combines technical assistance and lending for climate change adaptation jointly provided by an MFI in coordination with local civil society organizations; and supply chain microfinance for 2,000 organic quinoa small producers in the central and southern Altiplano of Bolivia who will also gain access to an organic value chain.

The notional amount requested from the PPCR is US\$ 4,000,000 to reach approximately 3,000 smallholder farmers and their families, 2,000 of them dedicated to royal quinoa production. As a result the use of proceeds will be US\$ 1,000,000 for the scaling-up of the green microfinance project, and US\$ 3,000,000 for the supply chain financing mechanism.

The PPCR concessional loan would allow the microfinance institution(s) to scale up the green microfinance model, once the product has been adjusted considering the results of the pilot project.

The concessional lending from the PPCR would be required in the second half of 2015..¹²

b. Innovation

The project will contribute to the development of a climate change adaptation model through the private sector, i.e. microfinance institutions. The adaptation green microfinance product would also be the first to combine both, credit and technical assistance for smallholder farmers in Bolivia, as well as the supply chain finance strategy will be used to incentivize smallholder farmers to adopt efficient climate adaptation practices.

Additionally, the MFIs will develop strategic alliances with local institutions for the technical assistance service included in the loan (NGOs, universities, quinoa cooperatives and other organizations) in each community. These strategic partners have extensive knowledge and experience with local agricultural techniques and more importantly, are capable of involving local communities using methods of participative collaboration. Partnering with these organizations will ensure the integration of local communities and will seek to mainstream traditional knowledge from the indigenous communities into the adaptation measures to be implemented. It is expected that these partnerships will facilitate the adoption of new practices by smallholder farmers in these regions.

The project will also consider a gender approach by adjusting the technical assistance component of the green microfinance product to women specific necessities: the pilot project currently in execution will provide data on adaptation finance tested with a specific group of female beneficiaries.¹³ The project will also seek to raise awareness in local communities through local media, including radio spots and brochures in native languages.

c. Technology, Product, and/or Business Model:

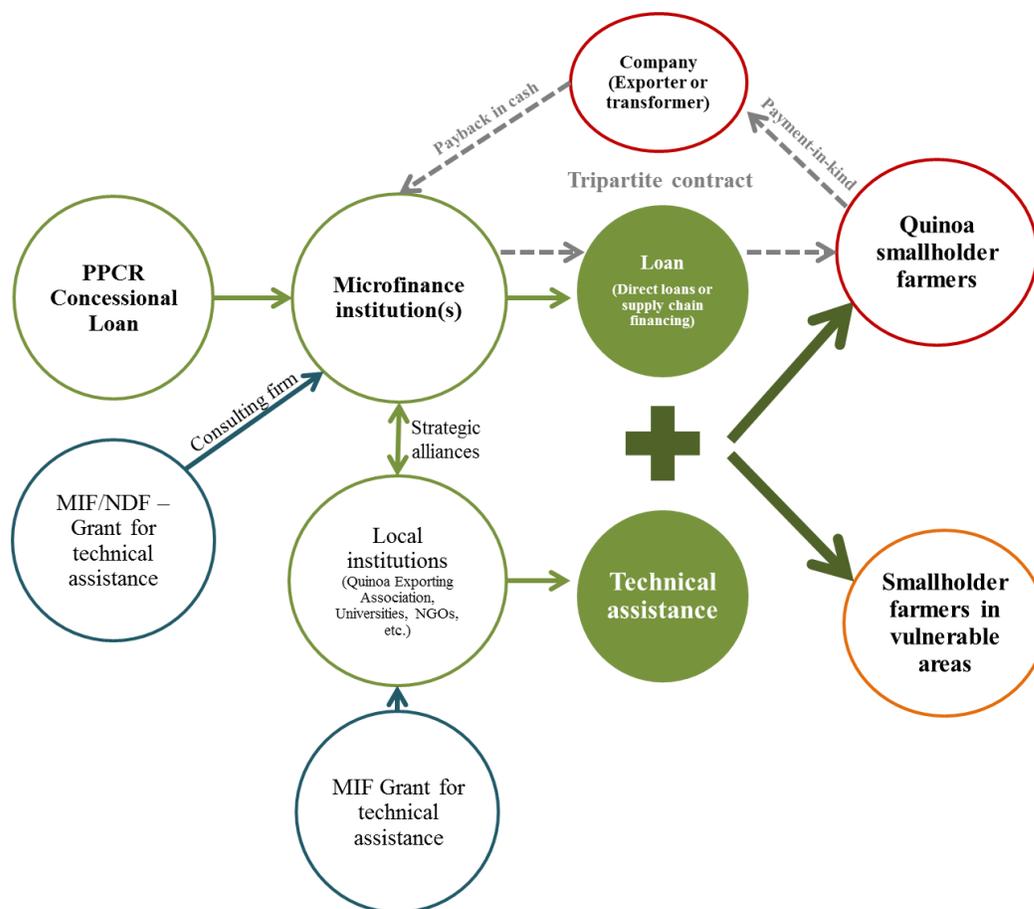
This adaptation model will test whether a financial product that combines financing and technical assistance for climate change adaptation through the support of local MFIs, quinoa associations and civil society partners is an appropriate way to reduce vulnerability to climate change for both the microfinance institutions as well as their clients.

The business model is focused on: (i) a green microfinance product that includes loan and technical assistance for the implementation of adaptation measures by smallholder farmers in the department of La Paz; and (ii) developing a value chain finance mechanism to support small quinoa producers in adopting climate adaptation practices.

The value chain financing mechanism will be developed by an MFI with expertise in the area and works as follows: the MFI, the quinoa company (transformer or exporter) and the small producer subscribe a tripartite agreement in which: (i) the *small producer* accepts to pay back the loan to the company with production that complies with organic certification and demonstrate the adoption of best adaptation practices; (ii) the *company* agrees to buy the certified quinoa at fair prices and to pay back the small producer loan to the MFI; and (iii) the *MFI* accepts the pay back from the company.. In addition, there will be a loan contractual agreement between the MFI and the small producer.

¹² The average loan size was provided by the MFI in the pilot phase of the green microfinance project. This amount is calculated taking into account an average loan size of US\$1,000 and for the case of quinoa producers, US\$1,500

¹³ More information can be found on Section III. Inclusivity



d. Sustainability of intended results:

Financial sustainability for the MFIs offering the standard green finance product and the supply chain financing is expected to be achieved through scaling up their financial products. If the financial products adequately respond to market demand, the green microfinance product and the supply chain financing will be profitable and sustainable for the MFI. Additionally, MFIs will benefit from the tools and capabilities acquired during the green microfinance pilot project to manage climate risks in their loan portfolio. If MFI clients are able to improve their climate resilience, the MFI will also benefit as their clients' capacity of repayment improves.

Furthermore, this project will help MFIs to comply with the new Financial Services Law No. 393, which considers the mandatory compliance of social objectives such as assisting the sustainable development of smallholder farmers.¹⁴

¹⁴ Art. 273. The Development Financing Institution is a non-profit organization with its own legal standing, created with the objective to provide financial services with a comprehensive focus that includes social management, seeking to influence favorably in the social and economic progress of persons people and organizations, as well as contribute to the sustainable development of the smallholder farmer, fisherman, and woodsman (timber-yielding or not), and of the micro and small enterprises, mainly in rural and peri-urban areas. Art. 283 Social Management: The Development Financing Institution, along with providing financial services, must develop — within the framework of integrated credit technologies — a social management that complements social objectives, social performance indicators and strategies, which will be subject to measurement and enforcement by the Financial Supervisory Authority (ASFI in Spanish).

IV. Inclusivity:

Gender

Climate change has different effects and impacts depending on gender. Women in particular, are more vulnerable to climate change as a result of their social roles, discrimination, and poverty.¹⁵ In Bolivia, rural women are usually in charge of domestic chores, subsistence farming, supporting the man with productive work and other small-scale, income-generating activities. They tend to focus on improved and innovative practices like the search for alternative water sources, planting new varieties of crops or supplementing their income with other local activities such as selling handicrafts.¹⁶ Women also tend to be more rooted in their communities, becoming responsible for the daily management of the natural resources in their households.¹⁷

Given this context, the green microfinance pilot project will mainstream gender in all of its operations, and will generate indicators disaggregated by gender that can be used for the scale up phase for which the project is requesting PPCR funding. During the pilot, a specific group of female beneficiaries consisting of women farmers, who are associated in Farmers Economic Organizations (Organizaciones Economicas Campesinas or OECAS) in the municipality of Sorata, will be included and monitored separately.

Indigenous communities

Indigenous populations are especially affected by climate change while they are also recognized as owning traditional knowledge and practices that may allow them to manage climate adversities.¹⁸ The selected departments have predominantly indigenous populations, with Aymara, Mosenen and Quechua ethnic origins.¹⁹ In order to include these ethnic and cultural differences, the green microfinance product will be jointly offered with local strategic partners counting with experience in working with socio-cultural and economic differences in each community. This collaboration will allow incorporating local traditional knowledge in the adaptation measures to be implemented, thus increasing indigenous communities' acceptance of the green microfinance product and interest to be part of a sustainable value chain. Additionally, awareness campaigns and technical assistance for smallholder farmers will be provided in the native languages of each community.²⁰

As for the case of quinoa, indigenous communities have protected and preserved different quinoa varieties through natural germplasm banks with the objective of preserving the genetic purity of native species and preventing their hybridization, to achieve higher yields and as a strategy to differentiate Bolivia from other quinoa productive countries. Consequently, the project will make sure that the smallholder quinoa producers benefiting from the loans will only use native species of royal quinoa.

¹⁵ Resources of gender for climate change, UNDP 2008.

¹⁶ The Dynamic of Gender and Climate Change in Rural Areas of Bolivia. World Bank, 2011.

¹⁷ Idem

¹⁸ Indigenous peoples and climate change, GIZ 2011.

¹⁹ In Batallas and Sorata within the Department of La Paz, the ethnic origin of the population is mainly Aymara . In the case of Palos Blancos, the ethnic group, Mosenen, initially the majority, has seen how migrations of Aymara and Quechua from the Andean high plateaus and central valleys have changed the ethnic constitution of the region and converted it into a multilingual, multicultural and multiethnic land in which 47.11% of the population is of Aymara origin, 20.14% Quechua and 9.87% Mosenen . Source: Municipal Development Plans.

²⁰ In the Municipality of Sorata, the native language is Aymara and half of the population in this sector is bilingual, i.e., they speak Spanish and Aymara; in Batallas, the main spoken language is Aymara which 87.51% of the population speak, of which 31.66% speak only Aymara and 54.81% are bilingual. Finally in Palos Blancos, 54.2% of the population speak Spanish, 28.3% Aymara and Spanish, 11% Quechua and Spanish, and 6.5% Quechua, Aymara and Spanish.

V. Financial Plan (Indicative):

| Source of Funding (by type of instrument, equity, debt, guarantee, grants, credit lines, etc.) | Amount (USD million equivalent) | Percentage (%) |
|---------------------------------------------------------------------------------------------------------|------------------------------------|-------------------|
| Project developer ²¹ | 2.26 | 26.5 |
| MDBs | 2.28 | 26.7 |
| PPCR | 4.00 | 46.8 |
| Local banks | | |
| Other investors | | |
| Bilaterals | | |
| Others | | |
| TOTAL | 8.54 | 100% |

VI. Expected Results and Indicators²²

| Indicator(s) | Expected Result(s) | |
|--------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------|------------------------------------------------------|
| | Pilot project | Scaling-up |
| Total value of green microfinance products for smallholder farmers granted for implementation of adaptive measures. | US\$400,000 | US\$1,000,000 |
| Total value of finance to organic quinoa supply chain small producers | | US\$3,000,000 |
| Number of smallholder farmers receiving financing and technical assistance (for the implementation of climate change adaptation measures). | | 2,000 for quinoa producers exclusively ²³ |
| | 300 | 1,000 for rural clients of MFIs |
| Number of smallholder farmers with stable or increased agricultural or livestock yields | | 2,000 for quinoa producers exclusively |
| | 200 for rural clients of MFIs ²⁴ | 800 for rural clients of MFIs ²⁵ |
| Number of institutions receiving technical assistance for the development of a green microfinance product for climate change | At least 1 | At least 1 |

²¹ Counterpart resources from MIF operations BO-X1011 and BO-M1060 will be the local execution agencies.

²² These indicators will need to contribute to the five agreed PPCR core indicators which are monitored at the level of the endorsed SPCR.

²³ An average of US\$1,500 per small producer

²⁴ Estimating that 65% of the smallholder farmers that receive the green microfinance product in the pilot phase will implement the adaptive measures.

²⁵ Estimating that 80% of the smallholder farmers that receive the green microfinance product in the scale up phase will implement the adaptive measures. The rate increases as the results from the pilot phase has been used to adjust the product and the implementation model.

| Indicator(s) | Expected Result(s) | |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|-------------------------------|
| | Pilot project | Scaling-up |
| adaptation. | | |
| Number of organization of small producers trained in climate change adaptation practices | At least 5 | At least 5 |
| Yield per Hectare | | |
| <i>Development Result(s):</i> | | |
| Number of smallholder farmers with stable or increased income from farming activities. | | 2,000 for quinoa |
| | 200 for rural clients of MFIs | 800 for rural clients of MFIs |
| <p>The project indicators contribute to the following PPCR core indicators:</p> <p>A.1.3 Number of people supported by the PPCR to cope with the effects of climate change</p> <p>B1 Extent to which vulnerable households, communities, businesses and public sector services use improved PPCR supported tools, instruments, strategies and activities to respond to climate variability or climate change.</p> <p>B5 Quality and extent to which climate responsive instruments/investment models are developed</p> | | |

VII. Implementation Arrangements and Feasibility:

For several decades, the MIF has supported the microfinance industry in Bolivia. Therefore, this project will build upon local institutional capacity that MIF created and strengthened throughout the years in order to reach low income and indigenous population, and support innovative supply chain finance models that facilitate finance inclusion of clients who lacking collateral.

Furthermore, the proposed *value chain financing* model was already piloted by the MIF, through a social entrepreneurship project (SEP), targeting small producers and microenterprises of quinoa, camelids and touristic services in the departments of Oruro and Potosi. The model was successfully implemented and had a positive impact on the income of the project beneficiaries, who had an average increase of 28% of their net income as a result from production and sales increase (33% and 26% respectively). Additionally, the default rate for the credits placed under this model was only 0.21%, validating that it represents also an effective model for financing institutions.²⁶

As for the capacities of the MFI already selected for the pilot phase of the green microfinance program to manage funding from International donors, the institution did receive a loan from the MIF to implement a different project, which was successfully completed in 2013.

Likewise, with regards to the other potential MIFs to be invited to participate to facilitate the value chain financing, all of them have had previous successful business relationship with the MIF.

In 2013, the MIF created PROADAPT, a regional facility co-financed by the Nordic

²⁶ Final Evaluation of the Social Entrepreneurship Project: "Entrepreneurship Integrated Services for Small Producers in the *Altiplano*". MIF, August 2012.

Development Fund aimed at piloting new methodologies, tools, and business models to help MSMEs increase their climate resilience and seize climate related business opportunities. PROADAPT will develop a knowledge platform to disseminate lessons learned and successful business cases generated in this facility.

VIII. Potential Risks and Mitigation Measures:

In order to ensure project sustainability, the project identified the following risks and mitigation measures.

- a. *Regulatory reform of the financial system.* The new Financial Services Law No. 393 published in August, 2013, considers that the Government of Bolivia through the Financial Supervisory Authority (ASFI in Spanish) will regulate (i) interest rates that apply to loans and deposits, (ii) minimum shares of loan portfolios to be allocated to rural and peri-urban MSMEs, smallholder farmers and communities (iii) caps on fees and other charges, and (iv) impositions on gratuities. This new law still lacks many of the required regulations for its full implementation. Therefore, there is still uncertainty on the real impact that this law may have on MFIs, such as the one selected for the pilot. This presents a risk for the Project because the interest rate set by the Authorities may limit the ability of the MFI to ensure the coverage of operational costs. For this reason the MFI needs additional concessional funding for scaling up the project, to be able to sustainably offer the green finance product at interest rates within the limits established by the law. At the same time, this law presents business opportunities for MFIs interested in expanding their skilled and differentiated services to unattended population that hasn't been financially included.
- b. *Involvement of Public Financial Institution as finance providers of smallholder farmers.* The Law No. 393 suggests that the public sector will participate directly in the financial system by providing finance directly and indirectly to the public through its public banks Banco de Desarrollo Productivo (or PDB) and the Banco Union. Private sector entities, such as MFIs may not be able to compete with subsidized interest rates that may be offered by these Banks. To cope with this risk, the MFI plans to promote other benefits of their product namely: flexibility and expedite procedures, simple documentation requirements, and the possibility of receiving technical assistance along with the loan which is specific to this product.
- c. *Cultural stumbling blocks.* Indigenous communities benefiting from the pilot project present cultural, ethnic and religious differences and may resist to changing behavior and accepting new adaptation practices into their traditional farming activities. Unless the MFI partners with local organizations that are perceived by local communities as long-term partners, smallholder farmers may not be willing to adopt new adaptation strategies. In the green microfinance pilot, the selected strategic partners have several years of working experience in agricultural activities with indigenous communities. In addition, with the supply chain finance model the small quinoa producers will have access to better and more stable markets (reduction of the middlemen and better prices), technical assistance to introduce best agricultural practices to increase their resilience to

climate change, coverage of the organic certification cost and inclusion in a national traceability system. All this support will be provided by MIF, the quinoa industry (mills, transformers and exporters) and other donors (Denmark and The Netherlands).

- d.** *Vulnerability of the quinoa supply chain.* The Project will strengthen strategic alliances between small producers and the industry to ensure, both, the supply of high quality quinoa in the demanded quantities and timeframe for the national and international markets.
- e.** *Reduction of quinoa prices and demand.* Quinoa price is expected to remain stable or increase. ²⁷ Market expectations lead to the assumptions of higher demand from national and international markets.

²⁷ <http://www.washingtonpost.com/blogs/wonkblog/wp/2013/07/11/quinoa-should-be-taking-over-the-world-this-is-why-it-isnt/>