

PPCR expert panel comment	IDB response
Bolivia: Inclusive Finance to improve Climate Resiliency of Bolivian Agricultural Producers	
<p>An indication of the market context is needed to further hone the project proposal.</p>	<p>The Bolivian economy is heavily dependent on agriculture, as more than 30% of the economically active population works in the sector. This dependency is even greater amongst a number of vulnerable groups, including indigenous people and women. Changing precipitation patterns and the availability of water as a result of climate change are substantial threats to agricultural productivity, the country's food security, and the livelihoods of vulnerable groups. Use of irrigation – and thus the improved ability to withstand droughts brought on by climate change – is low, as only 10% of cultivated area is irrigated.</p> <p>However, three obstacles reduce investment in climate change adaptation measures. First, both agribusinesses and SMEs in Bolivia lack access to finance – one study estimated that the financing gap for SMEs was \$US1.3 billion. In 2010, a survey by Bolivia's Instituto Nacional de Estadística showed that only around 20% of SMEs had access to formal credit. The main constraints for financing were inflexible credit conditions and lack of collateral and guarantees. The Supervisory Authority for the Financial System in Bolivia estimates that the agricultural sector requires US\$1 billion in order to bridge the gap in the financing demand. As of June 2012, the Bolivian banking system had provided US\$7.4 billion in funding to the private sector, of which only US\$388 million was directed to the agribusiness sector (5.22% of loan portfolio of the Bolivian banking system). While the number of loans provided to this sector has been growing steadily in the past years (53.7% since 2009) there is still an unmet demand in the sector.</p> <p>Second, investments in climate change adaptation technology have characteristics that make them difficult to support with commercial finance. There are high up-front costs involved in investing in water-efficient irrigation or flood protection, for example. These large initial costs are difficult to finance given that returns from such investments are often spread out over many years, with long pay-back periods.</p> <p>Third, there is a lack of experience amongst local FIs and farmers with climate change adaptation investments. As such, the business case for investments in water efficient and other climate-resilient investments is not well developed. FIs lack experience in providing credit for these investments and financial products that are tailored to the needs of sub-borrowers. In the majority of cases, farmers do not have adequate technical experience in installing or maintaining water-efficient technology, for example.</p> <p>The project will target two different agro-ecological regions in Bolivia that are especially vulnerable to climate change as identified by the Bolivian SPCR: the Andean Altiplano and the Rio Grande basin. In the arid Andean Highlands, agricultural production is confronted with water scarcity due to erratic rainfall and low efficiency in traditional irrigation systems. Climate projections indicate that water scarcity will likely increase due to climate change. Therefore, the main potential climate resilience investment type is increasing the</p>

	<p>cropping area under optimal irrigation (new irrigation technologies). In mid- and low-elevation sub-basins of the Rio Grande, investments will be aimed at increasing the resilience of agricultural production by water management systems that help manage both increased incidence of heavy rainfall and shorter rainy seasons that begin later in the year. Combined irrigation, water harvesting, and/or flood protection technologies will be targeted here.</p> <p>The IDB is in advanced stages of negotiations with some large FIs in Bolivia and draft term sheets have already been shared. One of the FIs, Banco Nacional, is the largest provider of agricultural lending for SMEs in Bolivia with a portfolio of about US\$56 million in agriculture. Large commercial banks, such as Banco Nacional, are exceptionally well positioned to reach scale, leverage their networks, mobilize partners, and develop the financing products to unlock adaptation finance. This is expected to achieve large scale lending to Bolivian farmers and create demonstration effects and replication potential, given the FIs' broad presence and capillarity.</p> <p>Please refer to the proposal for further details of the market context.</p>
<p>Secondly, it would appear that the success of this project hinges on the availability of technical assistance and training to the local financial institutions (Fis) and farmers. It will be important that these arrangements are put in place in advance of the deployment of PPCR funds.</p>	<p>Noted. IDB is confident that technical assistance resources will be available. IDB will be in a position to further advance design of both the financial and technical assistance packages, and the program's implementation arrangements, as soon we have some confidence on the availability of PPCR concessional resources, without which the program would not be possible. This cannot be done without such indication, as technical assistance resources would be wasted and credibility with the client will be lost if this work was advanced and PPCR resources were not to materialize later.</p> <p>Should PPCR resources become available for this project, and to support the adequate definition of relevant technical assistance and implementation arrangements, IDB will advance the market study immediately, funded with its own resources. IDB has contracted several consultants for market studies in the past and can therefore quickly suggest a list of consultants for this study. Other TA resources (such as training for installation and maintenance of equipment) will be deployed simultaneously with the disbursement of the PPCR/IDB loan; further definition of such training/capacity building activities will also be done during project preparation (as part of the technical design of the project and budget planning), upon endorsement of the concept by the PPCR.</p>
<p>Moreover, and equally important, Experts felt that the proposal would also need a replication and scale-up strategy to be developed for the project to have a fair chance of realizing its full potential.</p>	<p>The team agrees on the importance that any PPCR interventions should be replicable and scalable, as one of the key PPCR principles. That is precisely why the team approached two of the largest commercial banks in Bolivia, with a vast network of branches, services and clients throughout the country, and significant demonstration and scale-up capability (please see details of targeted Fis' broad reach in section VII of the proposal). One of the FIs, Banco Nacional, is one of the largest FIs in Bolivia and has a portfolio of about \$56 million USD in agriculture, the largest in Bolivia.</p> <p>The proposed project is expected to leverage USD \$50 million in sub-loans to at least 1,250 SME farmers,</p>

	<p>contributing to the scalability and replication sought. Such demonstration is expected to promote further replication by its competitor banks.</p> <p>Activities supported by technical assistance will also help to replicate and scale results from the project. TA will be provided to the bank to build its capacity to execute loans under the project. The skills and financial products developed under the TA will enable the bank to replicate the operations supported by the PPCR. Moreover, TA funds will support knowledge materials specifically designed to demonstrate results and lessons learned from the project.</p> <p>Upon concept endorsement by the PPCR, we will be able to further engage with the target FIs to better define relevant TA/knowledge management activities to adequately support the demonstration and replication objectives. Such TA activities will be included in the follow-up detailed proposal to be submitted to the PPCR for funding approval.</p>
<p>Finally, the project should also explicitly be linked into the Bolivian SPCR.</p>	<p>Regional alignment: The project will target two very different agro-ecological regions in Bolivia that are especially vulnerable to climate change related variability in water availability as identified by the Bolivian SPCR – the Andean Altiplano and the Rio Grande basin. In the arid Andean Highlands, agricultural production is confronted with water scarcity due to erratic rainfall and low efficiency in traditional irrigation systems. Climate projections indicate that water scarcity will probably increase due to climate change. Therefore, the main potential climate resilience investment type is increasing the cropping area under optimal irrigation (new irrigation technologies). In mid- and a low-elevation sub-basins of the Rio Grande, investments will be aimed at increasing the resilience of food security and agricultural production by water management systems that help manage both increased incidence of heavy rainfall and shorter rainy seasons that begin later in the year. Combined irrigation, water harvesting and/or flood protection technologies will be targeted here.</p> <p>Thematic alignment: The project will contribute to the three components of the SPCR of Bolivia: i) increase resilience to climate change of production systems, ecosystems and prioritized settlements; ii) generate results and lessons learned from planning, designing and implementing of integrated investments that improve climate resilience for setting; and iii) adjust national standards for public planning and investment. The project also addresses key climate threats described by the Bolivia SPCR, including: increased frequency and intensity of extreme weather events and the predicted increase of water scarcity. In order to align with PPCR objectives, the project’s expected results and indicators follow core indicators from the PPCR Monitoring and Reporting Toolkit:</p> <ul style="list-style-type: none"> • PPCR Core Indicator 3 – Quality and extent to which climate responsive instruments/investment models are developed and tested. The project will contribute to this indicator by designing and implementing a financing instrument for investments in climate change resiliency. • PPCR Core Indicator 4 - 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. The project will contribute to this indicator by supporting vulnerable businesses that lack access to credit to use PPCR supported investments.

- PPCR Core Indicator 5 –Number of people supported by the PPCR to cope with the effects of climate change. The project will contribute to this objective by supporting farmers to improve their ability to adapt to climate change.