

Technology-enhanced savings and green loans development and financial education for rural clients with CIDRE IFD in Bolivia

1. DEVELOPMENT RELEVANCE

Economic and poverty context

In 2022 Bolivia has a population of almost 12 million inhabitants, of which 30% are under 30 years of age. GDP per capita stands at USD 3,414. The national poverty headcount is nearing 40% whilst people living on less than USD 2.15/day is 3.1% (the international poverty rate). The economy has been hit hard by the effects of the post-election protests of 2019 and the COVID-19 pandemic from 2020 to 2022. Unemployment reached 8.1% in 2021 and has continued at that level in 2022. Bolivia ranks very low in the Index of Economic Freedom, does not have foreign direct investment and has a negative trade balance. Compared to neighbouring countries, inflation is under control. However, international reserves at the Central Bank are reaching historic lows. The economic outlook is uncertain and natural gas reserves are depleting. In the interim, the rise in agriculture and mineral exports could contribute to economic stabilization in the near future.

Table 1 ¹ : Population and economic indicators	
Population in millions (2022)	12.07
GDP growth (2021)	6.1 %
Inflation (2021)	0.7%
Trade balance (%of GDP) (2021)	-3.4%
Foreign direct investment (net) (% of GDP) (2020)	-3.1%
Net ODA received (% of GNI) (2020)	0.9%
Remittances received (% of GDP) (2020)	3.1%
Economic Freedom Index ¹ (Rank among 186 countries) (2022)	169
Poverty indicators	
GDP per capita (USD) (2021)	3,414
Gini Index (0= equality 100= inequality) (2020)	43.6
International poverty rate (2020; at 2.15 USD/day)	3.1%
National poverty rate (2020)	39%
National rural poverty headcount rate	N/A

Multidimensional poverty index chart², (Bolivia, 2020)

7% of the total Bolivian population ranked as part of the World Bank Multidimensional Poverty Index in 2020.



Financial sector context

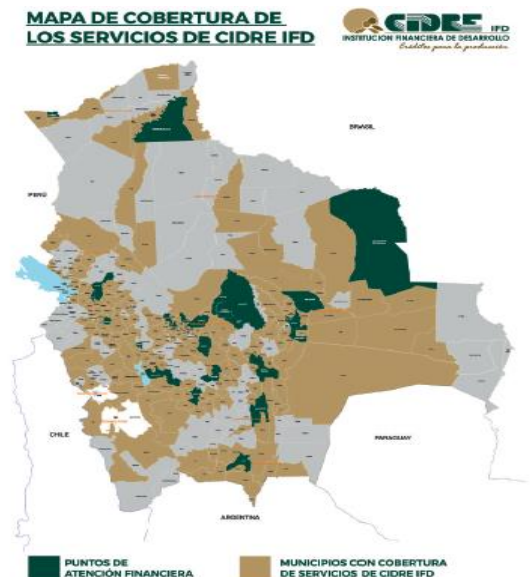
Financial inclusion has increased in Bolivia since 2011 when only 28% of its economically active population had access to financial services. This number reached 69% in 2021, which represents an increase of 2.45x in a decade. Bolivia is only behind Venezuela, Brazil and Argentina in this category.

In June 2022 the country registered 14.3 million savings accounts (1.2 accounts per inhabitant) with deposits totalling USD 30.7 billion. Active borrowers for the same month totalled 1.8 million. The combined portfolio of all financial institutions reached USD 29.7 billion of which USD 13.8 billion was for productive activities (as opposed to consumer credit).

¹ <http://data.worldbank.org/indicator>

² <http://data.worldbank.org/indicator/SI.POV.NAHC/countries/all?display=graph>

Financial Sector Partner



Areas in green are served by CIDRE IFD Bolivia.

CIDRE IFD is a financial entity with more than 40 years of existence, a nationwide presence and specialization in the development of the rural sector. CIDRE's mission is to contribute to the development and growth of economic initiatives, particularly the agricultural sector and micro and small enterprises in Bolivia by offering specially tailored financial services and products. CIDRE's vision is to be an inclusive, sustainable, and ethical financial institution. Its key financial objectives are increasing economic sustainability and reducing the cost of access to financial services, especially credit. CIDRE has a portfolio size of USD 122,538,815 as of October 2022 with an average annual growth rate of 5% since 2017. CIDRE's main competitors are Diaconia, Fondecó, Fubode, Impro, Sembrar Sartawi, FIE, Banco Sol and BDP.

2. INTERVENTION APPROACH

Capacity building needs

CIDRE approached Symbiotics Association for Sustainable Development (SASD) and SCBF for funding and technical assistance support to implement a 'go-to-market' strategy for two new products through the design, pilot test, refinement and launch process. The two new financial products: are **savings** (including digitized channels) and a **green loan** product that satisfies the objectives of mitigation and/or adaptation to climate change. A financial education program and staff training activities were conducted to support the adoption, acquisition, and generation drive of these innovations. This support intervention would help facilitate access to financing for micro and small rural producers, contributing to adapting their production activities to climate risk and improving their quality of life. Upon project completion, the financial institution would be in a position to reach 4,600 savers and issue green loans to almost 3,000 new borrowers.

Main activity areas (goals, targets, resources & time frame) and outputs

Ahorro Programado Turbo (Scheduled Savings):

The main activities executed to bring this product to the market were: a) Design and implementation of financial education for clients, b) Market research, c) Design of product concept, d) Process mapping, e) Financial viability analysis, f) Software programming, g) CORE System programming, h) Pilot testing and evaluation and i) Go/No go decision. After an internal proof of concept testing from August to September 2022, the product was approved for market launch by the Board of CIDRE in October 2022.

Agua para Riego (Water for Irrigation - Climate Loan):

The main activities to bring this climate-specific loan to the market were: 1) Product conceptualization, 2) Market research for two alternative product options which were Agua para Riego (water for irrigation loan) and Sustainable Housing/Construction loans. The following activities were executed for both products: a) Process mapping, b) Economic analysis, c) Product risk analysis, d) Financial projections, e) Development of product manuals, and f) Design of a climate impact measurement database to monitor the impact generated by the "water for irrigation" product. The decision to move to the pilot required the selection of one of these products. CIDRE chose Agua para Riego (water for irrigation loan) based on the urgent need for a solution to the drought problem in Bolivia and more potential demand in the market.

Training

607 people have been trained during the project covering topics related to:

- Savings mobilization
- Irrigation
- Microfinance and climate change



Picture of training participants

Table # 2: Training

TOPIC	PARTICIPANTS	DATE	SESSIONS
Savings: Basic Concepts and Behaviour	315	November 24 th , 2020	8
Promotion and sale of savings products	72	March 22 nd , 2022	3
Irrigation Systems	8	August 5 th , 2022	1
Microfinance and Climate Change	212	August 8 th , 2022	5
TOTAL	607		

3. RESULTS ACHIEVED AND NOT ACHIEVED

Client-level

Two (2) products were developed during the intervention. The **first product** is **Ahorro Programado Turbo**, which is a scheduled savings product that enables CIDRE to increase the number of active savings accounts in its portfolio and allows its clients to save towards identified goals with the help and support of CIDRE.

The innovative component of this product is the **Turbo** component. This is a microloan that is triggered (as per the client’s request) after the client has completed 50% or more of his/her targeted deposits. This microloan allows the client to reach his/her goal at half the time, while continuing to make deposits as originally scheduled.



Interviewed internal and external clients during the proof-of-concept testing

Client satisfaction has been measured during the proof of concept (POC) process, and all interviewed internal and external clients were very satisfied with the product. Financial service officers have been trained on the theory and behaviour behind effective savings methodologies. It is expected that they are going to be passing on this knowledge to their clients. Learning how to save effectively through a change in their mindset and behaviours could allow CIDRE’s clients to make significant improvements in their daily lives.

The POC testing was conducted in four branches (Muyurina, Colomi, Santa Cruz and El Alto). 140 accounts were opened in 60 days and mobilised USD 85,192 in savings. The POC was solely conducted by back-office staff due to capacity constraints of front-office staff whose priority at the time was to help clients reschedule the loans impacted by COVID-19. Owing to this limitation, the product could not be rolled out on a larger scale before the expiry of the funding window to reach the intended 4,600 savers. However, the potential of the product has been demonstrated through proof-of-concept testing and it is projected that CIDRE could open between 8,000 to 12,000 Ahorro Programado Turbo accounts in 36 months and to achieve this, CIDRE plans to implement a new 3-year commercial strategy which will be approved by the Board of Directors in December 2022, with a planned roll-out from January 2023. Meanwhile in the medium term, CIDRE intends to add two

additional features for the product that have already been designed: The first is a reminder that alerts the client through the mobile phone to make a monthly deposit when it is due. The second is an automated button that allows the client to make this transfer quickly and effectively using a mobile phone.

The **second product**, Agua para Riego, is the first in the country **Climate Lending Financial Product** designed to capture **climate impact data** in Bolivia. This climate loan is targeted to those farmers and producers affected by drought, which has become a prevalent climate risk in the country since 2015.

The newly designed product categorizes clients into three drought risk exposure profiles, which allows for adapted technical solutions available per profile. The climate Impact database contains details for each profile and this innovative approach allows the Loan Officer (Financial Services Officer – FSO) to offer tailored solutions to their clients in the field.

During the lending process, the FSO collects field data to build a baseline for impact measurement. Through later visits, scheduled six months apart, the FSO collects additional information to measure the impact of the Climate Finance product. Some examples of these variables are: a) Seed resistance to drought, b) Level of soil organic component, c) Access to irrigations systems, d) Water sources available, e) Probability of switching crops, f) Probability of migration. These variables are specific to one type of climate risk: drought.

The Climate Impact Database will generate reports that could be later presented to current and potential funders. Funding for the current project expired before the Impact Database could be completed hence the 3,000 new borrowers could not be reached. CIDRE is committed to bringing the products to market as evidenced by the extensive training that has been provided to the entire institution (more than 315 collaborators) for both the Ahorro Programado Turbo product (savings) and the Agua para Riego product (Microfinance and Climate Change). However, a key pre-requisite for the market launch of Aqua para Riego is the programming and implementation of the Impact database which was planned to come under the TA programme but now will not be implemented due to termination of the TA programme. For the product to be implemented, CIDRE will have to secure resources outside of the TA programme for the programming and implementation of the Impact Database.

Financial Sector Partner level

Loans/Savings³

The goal of the Ahorro Programado Turbo is to increase the number of active savings accounts for CIDRE.

Table 3:	
Profitability and Self-Sufficiency (data as at Oct. 2022)	
ROA	0.23%
ROE	3.05%
Total Expenses/ Assets	8.68%
Financial Revenue/Assets	8.61%
Efficiency and Productivity	
OPEX/Total Portfolio	12.82%
Admin Exp/Total Portfolio	8.18%
Portfolio Quality	
PAR 30	1.14%
Rescheduled Loans/Total Portfolio	7.99%
Portfolio in Arrears + Execution/Total Portfolio ⁴	2.96%
Source: FINRURAL	

The product has been approved by the Board and will be rolled out in 2023. Current projections by Parity-CB (the Technical Consultant) show a current Loan to Deposit Ratio of 15.31 for October 2022⁵. This number could be reduced to 8.8 by 2025 if CIDRE adds 8,751 new accounts in the next 36 months and the current savings portfolio keeps growing at an annual rate of 15%.

Savings mobilization is important for CIDRE since it enhances its financial self-sufficiency. The institution's self-sufficiency needs enhancement since ROA for October 2022 was 0.23%. ROE for October 2022 was 3.05%⁶. Other indicators like Total Expenses/Assets and Financial Revenue/Assets show that a delicate balance has been reached between Revenues and Expenses. One more factor to consider is that CIDRE has a

Debt/Equity ratio of 12.10 x as of October 2022.

Green Loan Product – Agua para Riego

This product has been designed to measure adaptation and climate impact. Good reporting is going to enhance CIDRE's ability to source less expensive funding, especially if it is aimed at reducing climate risk. Lower

³ Please refer to the CGAP Consensus Guidelines (<http://www.cgap.org/sites/default/files/CGAP-Consensus-Guidelines-Definitions-of-Selected-Financial-Terms-Ratios-and-Adjustments-for-Microfinance-Sep-2003.pdf>)

⁴ Source: Finrural, Bolivia

⁵ Source: FINRURAL, Bolivia.

⁶ Source: Finrural, Bolivia

borrowing costs are going to improve Self-Sufficiency indicators, which in turn enhances the institution's outreach capacity.

CIDRE

COVID-19 had a significant impact on the portfolio quality of the institution as almost 8% of the current portfolio had to be rescheduled.

Investments mobilized: In the case of *Agua para Riego*, CIDRE is going to mobilize funds from Banco de Desarrollo Productivo's (BDP) Infrastructure Trust. BDP is a private-public financial institution that offers subsidized funds for agriculture and infrastructure projects.

Financial sector level

Deepening of financial inclusion:

The new savings product is supporting financial inclusion deepening by offering a new and interesting alternative for savings to clients in the rural areas of Bolivia. Most importantly, since the clients have committed themselves to periodic deposits for periods ranging from 6 to 36 months, this is going to create an important source of funds for CIDRE that could help reduce liquidity risks.

Imitation effects:

It is expected that the *Agua para Riego* product is going to be imitated by CIDRE's peers in the industry since it is going to showcase the importance of having financial products designed for climate adaptation or mitigation that have the innate ability to capture, process and report impact.

BDP has recently released Green Finance Product *Ecoeficiencia*, which differs from *Agua para Riego*, CIDRE IFD's Climate Credit Product. *Ecoeficiencia* focuses on producing more with less, in this case with less energy and less contamination. This is a product that targets *Climate Mitigation*, whereas *Agua para Riego* was designed to focus on *Climate Adaptation*, specifically reducing the risk of drought.

Most importantly, *Agua para Riego* will be able to generate automatic and objective reports demonstrating the level of impact generated with each loan. These reports are going to allow CIDRE IFD to gain access to more competitive funds and therefore offer competitive market rates as well as targeted solutions to reduce the impact of drought in Bolivia's the main agriculture value chains.

4. LESSONS LEARNT

How effective was the design and implementation of the intervention?

The intervention design was effective, however, the impact of COVID-19 could not have been foreseen. The pandemic had a detrimental effect on Bolivian MFIs. CIDRE IFD was hard hit by this, which created a shift in priorities. The project, even though important, received less attention and resources from CIDRE during the peak and the aftermath of the pandemic.

Was the intervention implemented as planned? If not, what were the main adjustments?

Implementation fell short of planned targets due to adjustments that took place at: a) Product design, b) Software programming, c) Delay in POC/Pilot execution.

What have been the challenges during the implementation of the capacity-building intervention?

The main challenges were a) Scope expansion (more product and design options), b) Programming the CORE System instead of parallel temporary systems, and c) Focus by the commercial team (field and front office staff) on helping CIDRE clients to reschedule the loans impacted by COVID-19.

To what extent did the intervention achieve / not achieve what was expected?

The project goal was to have at least one technologically enhanced financial product launched and to provide financial education to the internal and external clients of CIDRE IFD. Based on these criteria, the project reached its main goals.

What should have been done differently? What has proven to be the appropriate approach?

At the beginning of the project, a steering committee should have been established with representation from SASD, the Technical Consultant Parity-CB and the relevant stakeholders from CIDRE, the partner financial institution. SASD and the Consultant had only one point of contact within CIDRE which limited effective communication and coordination especially when the attention of the CIDRE team was focused on the effects

of the COVID-19 pandemic. Furthermore, designing and implementing two products in parallel, during and after COVID-19 proved too much of a stretch for CIDRE's operational capacity as the products had to be designed one after the other as opposed to in parallel as per project design.

What are critical success factors?

- Obtaining commitment from both senior and middle management of the institution before starting the project and their continued involvement through the steering committee and working groups as appropriate.
- For projects that have a product development component influenced or determined by a market/feasibility study, the market/feasibility study must be conducted not too long before commencing the TA intervention. This is to ensure the validity of the results of the feasibility study. For this project, a new market study had to be conducted for both savings and green loan products.

What should be avoided?

- Major changes in the scope of the project.
 - Multiple TA objectives, in this case, products, which rely on the same team in the partner financial institution for implementation as they will not have the capacity.
 - No cost extensions in the absence of a clear solution to address the issues that led to the initial delays.
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