



SDC IED
Expert Team Inclusive Economic Development

COVID-19 Special Series

Good Practices Learnt by SDC Projects in Responding to COVID-19

Series Case No 1

FINANCIAL ACCESS & FOOD SECURITY IN TIMES OF COVID-19: HOW SDC ADDRESSED THESE CHALLENGES FOR SMALLHOLDER FARMERS IN BOLIVIA

COUNTRY	BOLIVIA
PROJECT	INCLUSIVE MARKETS, 7F-08634
PERIOD	2017-2021
THEME	FINANCIAL SECTOR DEVELOPMENT

AUGUST 2020



Background

The current phase of the Inclusive Markets project (2017-2021) in Bolivia has the main objective to improve the living conditions and reduce poverty of agricultural producers, craftsmen and women, young people and entrepreneurs in the Andean high plateaus and valleys who are particularly vulnerable to the effects of climate change and food insecurity. The project works on increasing their economic opportunities, capacities and income with a particular focus on empowering women. It is funded jointly by the Swiss Agency for Development and Cooperation (SDC) and the Swedish International Development Cooperation Agency (SIDA) and implemented by a consortium formed by Swisscontact and PROFIN (a Bolivian foundation specialized in financial inclusion and innovation).

To achieve sustainability, scale and impact, the project is using a Market Systems Development (MSD) approach and includes the component "development and access to markets for financial products and services". The aim of this component is to secure access to finance for rural population by providing financial training as well as promoting microfinance, insurance and micro insurance products.



Figure 1: Rural financial management work promoting access to credit for small rural producers

Impact of COVID-19

The Inclusive Markets project has been particularly affected at two levels by the Covid-19 pandemic:

Food security: Due to the Covid-19 pandemic, the country was in lockdown and transports and logistics came almost to a total halt causing scarcity and delays in food supply chains. This has led to reduced food security and increased fear among the population which ultimately impacted prices on the markets.

Access to markets of financial products and services: Due to social distancing regulations, financial institutions have reduced client contacts and thus also granted fewer loans. However, customers faced liquidity shortages and needed additional cash or were unable to service their debts and interest payments on time.

Project's response

To respond to the persistent challenges posed by the Covid-19 pandemic, the project has facilitated negotiations between banks and clients for bridging temporary liquidity shortages of farmers and producers and thus helped to prevent the interruption of food supply chains.

To address these immediate needs of the farmers, the project has strengthened four of its ongoing interventions:

1. Micro-factoring: Micro-factoring is a financial product that provides smallholder farmers and producers with immediate liquidity. Its operation consists of a financial institution acquiring a pending invoice from a smallholder farmer in exchange for an advance. In other words, a smallholder farmer hands over the invoice to the bank, which advances the invoice amount minus a small fee (up to five percent) to the client and thus provides him with immediate liquidity. Micro-factoring has turned out to be a very effective tool during the Covid-19 pandemic, as it allowed smallholder farmers to overcome liquidity shortages in their businesses and thus guarantee payments to suppliers, employees and for any unforeseen events. Additionally, with the use of micro-factoring smallholder farmers and producers managed to keep prices stable, and competitive during the past months of the pandemic.



Figure 2: Farmer who purchased an inclusive life insurance policy to protect her family

2. Financial Broker: The project provided tailored trainings to local brokers in remote areas, since they have faced less restrictions to travel large distances during the Covid-19 pandemic and were closer to both financial institutions and clients. This has reduced miscommunication and delays in repayments, and has accelerated access to urgently needed financial services.

3. Guarantee Fund: The aim of the fund is to provide guarantees to both urban and rural micro, small and medium-sized enterprises (MSMEs) and to facilitate access to financing. In the current Covid-19 pandemic, the guarantee fund has permitted:

- To secure better access to small loans,
- to negotiate acceptance of guarantees by regulators as first class risk coverage,
- to secure access to market segments currently not served by warranty limitations,
- to improve the cost structure of the financial institutions and to reduce its financial commissions,
- to cover up to 50 percent of the small producers' unpaid capital balance,
- to incentivize financial institutions to create new credit products using guarantee as a risk protection

4. Insurance Market Promotion Fund managed by PROFIN¹: The fund aims to facilitate access for low income people to insurance products, through partial subsidy of the premium cost. During the Covid-19 pandemic the project and PROFIN have negotiated the inclusion of Covid-19 related deaths as well as the extension of the insurance coverage for the insured clients. As of May 2020, over 6000 clients have benefited from the micro insurance product, and it is estimated that at least another 4000 clients will benefit. The project is planning to increase awareness in the insurance sector to design life/accident insurance products that protect Bolivian families from the effects of Covid-19 and to reach out to the different sector actors and to promote the scaling-up of the products.

¹ PROFIN created a trust fund, which financial yields are used to incentivize the micro-insurance market. PROFIN is the main partner and implementer of the project.

Outlook

In the coming months, the project continues with Covid-19 related interventions on two levels:

Food security:

- To develop a web solution to facilitate supply and demand of food supply chains on national level (in collaboration with the Agricultural Ministry):
<http://sisma.ruralytierras.gob.bo/>
- To promote the use of databases, communication platforms, biosafety supplies and monitoring of subnational governments and private sector actors.
- To support the management of circulation permits, organization, biosafety and logistics supplies for the private sector actors along value chains.
- To establish networks and platforms for exchange between agricultural suppliers, traders and smallholder farmers in partnership with universities.



Figure 3: Financial manager promotes access to credit in the Bolivian Altiplano

Access to markets of financial products and services

- To coordinate the regulation of "Pronto Pago" innovation (micro-factoring) with national entities.
- To involve financial brokers in government projects and programmes.
- To engage in digital payments schemes and technology (\$IMPLE payment solution).