Mobilising internal finance within a forest and farm producer organisation

A case study of Alternative Finance for Development (AFID) of El Ceibo

Access to Finance Case Study 5: Bolivia

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Forest and Farm Facility

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Cover photo: Cocoa producer from the Villa El Carmen Cooperative and member of El Ceibo showing his cocoa plantation financed through credit from AFID © Rubén Darío Usnayo Ramos

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Acronyms

AFID	Alternativa Financiera para el Desarrollo (Alternative Finance for Development)
ASFI	Autoridad de Supervisión del Sistema Financiero (Bolivian Financial Regulatory Authority)
FOMIN	Fondo Multilateral de Inversiones (Multilateral Investment Fund)
IDB Group	Inter-American Development Bank Group
PIAF	Programa de Implementaciones Agro-ecológicas y Forestales (Agroecological and Forest Implementation Programme)
Pro-Rural	Asociación Boliviana para el Desarrollo Rural (Bolivian Association for Rural Development)

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Summary

Founded in the 1970s, El Ceibo RL (Central Regional Agricultural Industrial Cooperatives or Central Regional Agropecuaria Industrial de Cooperativas) is a second-tier cooperative forest and farm producer organisation (FFPO) owned by 48 first-tier cooperatives representing more than 1,300 producer families who produce organic and Fairtrade-certified cocoa.

This case study describes how in 2011, El Ceibo developed Alternative Finance for Development (AFID), a communal financial entity, to support its members to invest in improvements to their cocoa production. Since 1994, El Ceibo had been testing different financing models that would work within the organisation. In 2008, it partnered with Pro-Rural (the Bolivian Association for Rural Development or Asociación Boliviana para el Desarrollo Rural) to establish a rural investment fund under the shared risk modality. El Ceibo and Pro-Rural invested resources to establish AFID in order to provide credit to small-scale cocoa producers, with a structure that made it possible for individual producer cooperatives to administrate their own financial programmes and incorporate operating systems and approaches that would allow for risk management. Pro-Rural concluded its support in 2012 after the constitution of AFID as a separate entity from El Ceibo.

The success of AFID cannot be understood without understanding the success of its parent organisation El Ceibo and the technical and financial support it has provided, which has allowed AFID to grow and consolidate over time. El Ceibo's members are also AFID's main clients and the creation of AFID made it possible to mobilise money from El Ceibo's cooperatives to offer appropriate credit products to its members. El Ceibo has also been able to effectively channels external financial resources to AFID, through negotiations with banks and other financial institutions, which has allowed AFID to grow and develop its activities.

AFID had an assisted start thanks to the support of Pro-Rural, which meant that less time was required for AFID to begin its operations. Pro-Rural initially provided fundamental support in terms of introducing and developing credit technology, information systems and accounting records. Now, AFID's management must ensure that has the appropriate technical support and that its staff have the experience and skills required to lead the institution towards financial consolidation, to determine the most appropriate legal status for AFID, and to comply with future regulatory processes. AFID must also make a significant effort to address ongoing credit arrears in order to reduce its delinquency portfolio.

Financial mechanisms such as AFID have an important advantage over conventional banking systems, which prioritise generating profit. In contrast, producer's own financial institutions are adapted to better serve their peers and redistribute profits within their own organisations, despite the enormous operating costs involved. In addition, producer organisations are the main actors caring for their environment. AFID provides appropriate finance that is channelled towards organic production and agroforestry, activities which contribute towards the fight against climate change.

1 El Ceibo's Alternative Finance for Development (AFID)

El Ceibo RL (the Central Regional Agricultural Industrial Cooperatives or Central Regional Agropecuaria Industrial de Cooperativas) is a second-tier cooperative founded 5 February 1977 by 12 first-tier cooperatives to support the commercialisation of their cocoa production. Since then, it has evolved to consolidate the commercialisation of its members' cocoa-based products to both national and international markets. El Ceibo currently consists of 48 first-tier cooperatives representing more than 1,300 producer families who produce organic and Fairtrade-certified cocoa.

Over time, it has generated specialised units to support its activities:

- An agroindustry unit, responsible for the transformation and commercialisation of its products
- PIAF Foundation (Agroecological and Forest Implementation Programme or Programa de Implementaciones Agro-ecológicas y Forestales), responsible for research and providing technical assistance to cocoa producers[1]
- El Ceibo Real Estate (El Ceibo Inmobiliaria), responsible for managing real estate and conducting real estate business in general, and
- AFID (Alternative Finance for Development or Alternativa Financiera para el Desarrollo), a communal financial entity that provides savings, loans and a range of services to its members who are affiliated to El Ceibo.

El Ceibo's vision is to be a leading association that promotes rural development in Bolivia and the improves the quality of life of its members. Its headquarters are located at Av El Ceibo 100 in Palos Blancos municipality in the town of Sapecho, Alto Beni region, Sud Yungas province of the Department of La Paz. Sapecho is the geographic centre of the most important cocoa-producing area in Bolivia. AFID also has two registered offices: one in the town of Yucumo in the municipality of San Borja, José Ballivián province, Department of Beni and another close to the seat of government, at Av Juan Pablo Segundo 2560 in the city of El Alto in the Department of La Paz. The AFID addresses are the same as the addresses of El Ceibo.

1.1 Membership and management structure

AFID is a communal financial entity as per Law 393 relating to financial services.[2] AFID is regulated by the Bolivian Financial Regulatory Authority (Autoridad de Supervisión del Sistema Financiero or ASFI) AFID has been operating for years as a civil association and it is now in the process of becoming formally a communal financial entity. The regulation of financial entities is a mandatory requirement to operate in Bolivia, and this process has many requirements and can be lengthy. A communal financial entity is similar to a credit and loan cooperative, but as per Bolivian legislation it is constituted by producer organisations with communal capital.

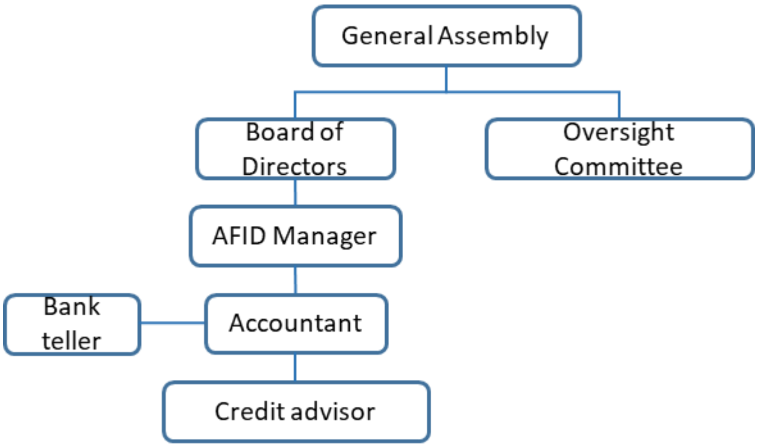
The management structure of AFID is similar to a cooperative, including a general assembly, board of directors and oversight committee, and its main activity is granting credit to members of El Ceibo (see Figure 1). The structure is simple and its operational staff includes five people: the manager, the operational team (credit advisors), and an accountant. The current structure is minimal, but sufficient to attend to the number of beneficiaries it serves. While AFID currently lacks internal capacity in terms of risk management, internal control, the prevention of money laundering, fundraising and other areas, once it becomes regulated these areas will be addressed. AFID's portfolio of credit products is detailed in its credit regulations that are periodically updated (see Table 1).

El Ceibo's board of directors consists of members who have previously been board members of their first-tier cooperatives. Candidates must have a track record of good management, have be up to date with all contributions and obligations and also have good ideas for working management proposals.

[1] Technical assistance services provided to cocoa producers by El Ceibo date from the 1980s. Originally called Copeagro, in 1993, the unit became known as the PIAF Foundation. In 2007, through a decentralisation process, the PIAF Foundation was created with a degree of administrative autonomy.

[2] In Boliva, Communal Financial Entities (Entidades Financieras Comunales) consist of producer organisations and are characterised as social organisations that are based on trust, social control and social development. Article 295 of Law 393 relating to financial services defines a Communal Financial Entity as 'a legal organisation, created by one or more producer organisations or any other legal entity [that] may establish communal capital in the form of grants to finance members' activities in terms of their promotion, and for non-member producers when they are authorised by ASFI [the Bolivian Financial Regulatory Authority]' (Ministry of Economy and Public Finance undated).

Figure 1. AFID's organisational chart



Source: Based on the current statutes of AFID

Table 1. AFID's current credit products

Credit product	Beneficiaries	Purpose	Amount in Bolivian bolivianos (Bs)	Interest rate	Term
Organic agriculture production	Members and their children belonging to producer cooperatives associated with El Ceibo	To improve cocoa plantations and other agricultural products	25,001–200,000	11.95%	Capital operations up to 24 months Capital investments up to 72 months
Unrestricted productive credit MN**	Members and their children belonging to producer cooperatives associated with El Ceibo	Unrestricted – can be used for any purpose	200,001–300,000	16%	Up to 72 months
CrediSeguro	Micro and small enterprises and their employees within the area of influence of AFID	Unrestricted – can be used for any purpose	3,500–160,000	12%	Up to 48 months
Ratuki credit	Members and their children belonging to producer cooperatives associated with El Ceibo	Unrestricted – can be used for any purpose	3,500–25,000	18%	Up to 18 months (up to Bs15,000) or 24 months (more than Bs15,001)
AFID Salaried credit	Credit for salaried workers (preferably linked to El Ceibo)	Available to salaried workers	Up to 25,001	18%	The maximum term will be 24 months.
AFID Internal Credit	AFID board of directors and staff	For the expansion and growth of agricultural crops	Up to 10,000	8%	Up to 12 months
Emergency Credit	Employees of El Ceibo RL	Unrestricted – can be used for any purpose	3,500–7,000	12%	Up to 12 months
Post-COVID reactivation and recovery credit	Members and children belonging to the producer cooperatives associated with El Ceibo	To improve cocoa plantations and other agricultural products	10,001–35,000	6%	Capital operations up to 24 months Capital investments up to 48 months

Source: Based on AFID's credit regulations. **MN (*moneda nacional* or national currency) refers to credit provided in Bolivianos, as per AFID's credit regulations. Until 2017, credit was provided in United States dollars (*moneda extranjera* or foreign currency).

Most of AFID's credit products are tailored to the needs of El Ceibo members and their children who are affiliated to the different cocoa producers' cooperatives. The purpose of these credit products is to support cocoa production and other needs, although not all products are necessarily linked to cocoa production (for example, the organic production credit product is aimed at agricultural production).

Ratuki Credit (in the native Aymara tongue, '*ratuki*' means 'fast') is a form of 'fast credit' that can be disbursed in a single day once the required documentation is completed, offering loans of up to a maximum of Bs25,000. The unrestricted MN Production Credit is similar to Ratuki Credit in terms of its intended beneficiaries and purpose. However, the amounts of credit offered are much higher (between Bs200,001 and Bs300,000), which involves a longer processing time and a different requirement of guarantees.

The CrediSeguro credit product is intended for people on salaries or who run enterprises within AFID's area of operations, which helps to diversify AFID's portfolio of clients. This credit product requires a fixed-term deposit guarantee within the range of established amounts, and up to 80% of the fixed-term deposit is financed. Similarly, AFID Salaried Credit is aimed at people who receive a salary. Although AFID's credit regulations prefer these beneficiaries to be 'linked to El Ceibo' those earning salaries from other employers are also considered.

Urgent Credit is aimed exclusively at El Ceibo personnel. The credit amounts are low and the only guarantee required is their work certificate, according to AFID's credit regulations. Urgent credit can be disbursed up to one hour after the required documentation has been completed. The AFID Internal Credit is aimed at AFID's board of directors and staff, and is disbursed on the same day once the required documentation is completed.

The Post-COVID Reactivation and Recovery Credit is one of AFID's latest products. Its main feature is its low 6% interest rate. Its conditions are not specifically related to COVID-19. However, because the local economy was negatively impacted by the pandemic, this product was created to support local producers (providing financing for both cocoa plantations and other crops).

1.2 Benefits of AFID to El Ceibo's members

AFID's credit products benefit cocoa producers whose cooperatives are affiliated to El Ceibo. Producers can opt for credit at rates as low as 6% per year. This directly helps to increase cocoa production, which also benefits El Ceibo, since the marketing of cocoa and its derivatives constitutes its main source of income.

2 Origins and evolution of the AFID finance mechanism

2.1 Establishing AFID

El Ceibo's first credit services were provided through its PIAF Foundation. Due to the growth in demand for its products, El Ceibo wanted to create new credit services to support the increase in cocoa production in volume and yield. Consequently, in the early 2000s, El Ceibo developed the PIAF Foundation, a body specialised in providing technical assistance to its associate members. As a result, members were able to make investments in cocoa seedlings of improved varieties, as well as in infrastructure and other improvements (IDB MIF 2015). El Ceibo also implemented a revolving fund between 1994 and 2006. In its first phase, it provided loans in kind with cocoa seedlings, and in its second phase it provided cash credits.

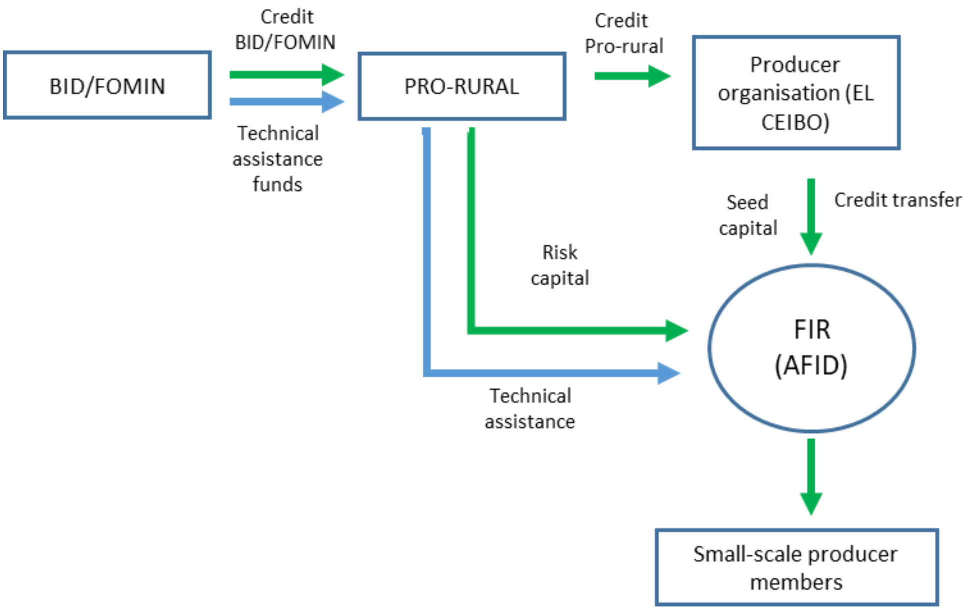
El Ceibo continued to explore appropriate financing models to channel further resources to its associates and discovered a credit shared risk option[3] offered by Pro-Rural (the Bolivian Association for Rural Development or Asociación Boliviana para el Desarrollo Rural). Pro-Rural is a non-profit organisation founded in 2000 dedicated to strengthening rural and urban producers and entrepreneurs who conduct socially, environmentally and financially sustainable business. Pro-Rural offers rural investment funds to rural enterprises under a shared risk modality. It works with producer associations such as El Ceibo to jointly implement credit programmes for affiliated producers. The rural investment funds are managed with the support of the Multilateral Investment Fund of the Inter-American Development Bank Group (IDB Group).[4] The resources for the rural investment fund were provided under Loan Contract No. SP/SF-08-04-BO and the Non-Reimbursable Technical Cooperation Agreement ATN/SF-11205-BO, within the framework of the Social Entrepreneurship Programme as part of the project Shared Risk in Services Rural Financiers with Associations of Small Producers (Pro-Rural and IDB Group 2014) .

Initially in 2008, El Ceibo asked Pro-Rural to administer its revolving fund. Pro-Rural did not operate as a first-tier financial intermediation entity but in August 2008, the two organisations agreed to establish a rural investment fund under the shared risk modality. El Ceibo and Pro-Rural invested resources to establish AFID in order to provide credit to small-scale cocoa producers, with a structure that made it possible for individual producer cooperatives to administrate their own financial programmes and incorporate operating systems and approaches that would allow for risk management. The shared risk contract to establish AFID was signed in December 2008 and operations began in 2009, comprising contributions of US$214,500 from El Ceibo (68%) and US$100,000 from Pro-Rural (32%). These resources were complemented with US$400,000 from the IDB Group's Multilateral Investment Fund that was channelled to AFID by Pro-Rural as a loan (Pro-Rural and IDB Group 2014). Figure 2 provides an outline of how the rural investment fund model operates.

[3] 'Shared risk' means distributing the potential negative consequences or uncertainties associated with an investment or financial transaction across different participants, rather than having a single party bear the entire risk. In this case, Pro-Rural is sharing the risk with the producer organisation, El Ceibo.

[4] For more information about the IDB Group's Multilateral Investment Fund (known as FOMIN or Fondo Multilateral de Inversiones in Spanish) see www.iadb.org/en/resources-businesses/resources-businesses-2

Figure 2. Outline of the rural investment fund model



Key: BID/FOMIN – IDB Group's Multilateral Investment Fund; FIR – rural investment fund

Initially, AFID was known as the AFID Microfinance Department and operated within El Ceibo as part of the PIAF Foundation. The department was responsible for granting credit and seeking forms of financing for its operations (FINDEPRO 2012). Once AFID was sufficiently developed, it would become an autonomous entity with its own legal status, allowing for the gradual departure of Pro-Rural support. AFID concluded its relationship with the Pro-Rural/IDB Group Multilateral Investment Fund in December 2012 (Pro-Rural and IDB Group 2014). AFID mobilises economic surpluses from savings and fixed-term deposits generated by the cooperatives affiliated with El Ceibo that are then loaned to members as credit.

2.2 Foundation and membership

Founded in 2011, AFID is made up of El Ceibo members and AFID is therefore dependent on its parent organisation. To become members, producers must meet a series of requirements established by each first-tier cooperative. However, new members must also meet general criteria required by all first-tier cooperatives, including that they have at least three hectares of cocoa in production or development. All producers affiliated to El Ceibo and AFID must also be involved in organic production of cocoa and/or other agricultural products.

2.3 Sources of funds

When operations began, AFID did not need to register its own assets since it operated within El Ceibo. However, by the end of 2011, AFID had produced its own statement of assets. Table 2 shows that in 2011, its main financial asset was its loan portfolio. Its main financial liabilities were obligations to banks and other financial entities (Table 3).

Table 2. AFID's assets' statement (31 December 2011)

ASSETS	Amount (Bs)
Cash and cash equivalents	147,267
Portfolio (net of provisions)	4,566,718
Other accounts receivable	86,473
Fixed assets (net of depreciation)	54,560
Other assets	11,629
TOTAL ASSETS	4,866,647
LIABILITIES	
Obligations to banks and financial institutions	3,694,703
Other accounts payable	918,833
Provisions	126,783
TOTAL LIABILITIES	**4,740,319**
EQUITY	
Shared capital	0
Accumulated results	146,328
TOTAL ASSETS	146,328
TOTAL LIABILITIES AND EQUITY	4,886,647

Source: Based on AFID's financial statements

Table 3. AFID's financial liabilities (2011)

Financial liabilities	Amount (Bs)
Agroindustries El Ceibo	220,422
Agroindustries El Ceibo Shared Risk	696,000
Pro-Rural	2,777,080
Interest payable to partners	1,201
Total	**3,694,703**

Source: Based on AFID's financial statements

To increase its available capital, according to Article 12 of AFID's statutes, AFID established that associated individual producers would need to pay a one-off membership fee of Bs900. Since AFID is part of El Ceibo, the fees apply to all El Ceibo members and were made successively in the following management periods. For its part, El Ceibo as a legal entity also made an important contribution to AFID's asset in the form of a donation.

Over the years, AFID's main source of financing has come from resources that El Ceibo channels as a loan through its dealings with different bank and other organisations. Another source of financing comes from deposits made by its members in the form of regular savings and fixed-term deposits. Table 4 shows AFID's balance sheet as of 31 December 31 2021. It shows a significant growth in AFID's assets, with its loan portfolio constituting 97.1% of AFID's assets (Bs16,874,960). It also shows an increase in equity from 2020 to 2021 (share capital and accumulated results) that AFID reinvests in its loan portfolio.

Table 4. Comparing AFID's statements of assets for 2021 and 2020

	2021 in Bs	2020 in Bs
ASSETS		
Cash and cash equivalents	275,540	743,620
Portfolio (net of provisions)	16,874,960	15,719,205
Other forecasts	0	-57,384
Other accounts receivable	156,225	159,155
Fixed assets (net of depreciation)	48,294	53,107
Other assets	22,600	116,208
TOTAL ASSETS	17,377,619	16,733,911
LIABILITIES		
To the public	133,303	93,126
To banks and financial institutions	3,337,278	4,488,182
Other accounts payable	8,680,207	7,762,315
Other forecasts	0	6,000
Outstanding items allocation	0	114,908
TOTAL LIABILITIES	**12,150,788**	**12,464,531**
EQUITY		
Share capital	1,824,142	1,728,785
Accumulated results	2,499,349	2,233,888
Net result from the exercise	903,340	306,707
TOTAL ASSETS	**5,226,831**	**4,269,380**
TOTAL LIABILITIES AND EQUITY	**17,377,619**	**16,733,911**
Order Accounts	2,209,933	1,363,995

Source: Based on AFID's financial statements.

Regarding its liabilities, in 2021 AFID had obligations to the public (Bs133,303) and obligations to banks and financial entities (Bs3,337,278). AFID's main obligations were to 'other accounts payable' (Bs8,680,207), which includes foundations, other cooperatives and its members. Included in this amount are savings and fixed-term deposits made by members (which is one of the reasons why the state seeks the regulation of this type of financial entity), as well as employer contributions, accruals for financing and other minor amounts.

2.4 How AFID has evolved

AFID was established with the support of Pro-Rural. Later in 2011, it became part of FINDEPRO, a coordinating non-profit organisation that brings together community-based finance entities.[5] AFID received temporary technical assistance from FINDEPRO to develop its activities, including a computer system for portfolio management and accounting.[6]

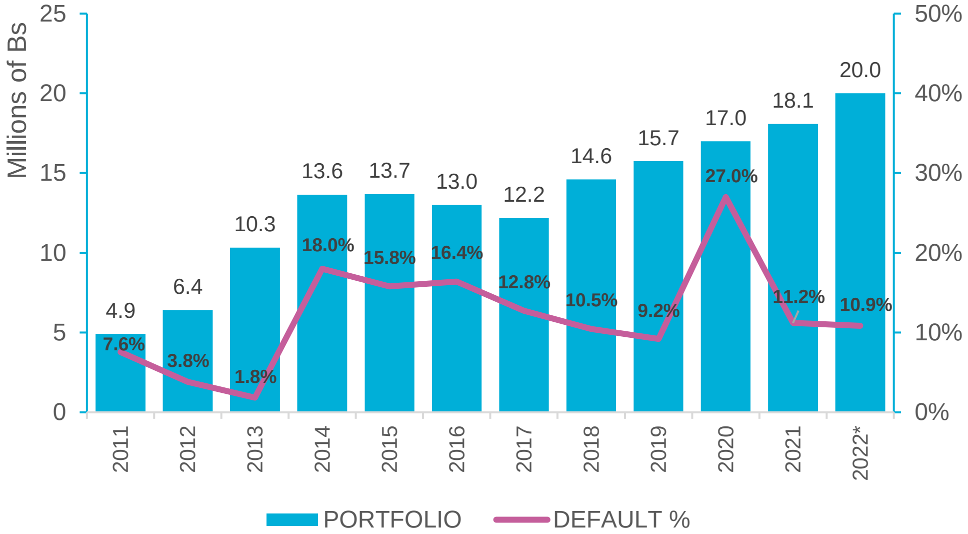
After its assisted start and once it had accumulated sufficient institutional experience, AFID began to manage its portfolio independently. There were some periods of instability, however, particularly in terms of its management, which affected the quality of its portfolio. This was due to insufficient checks that failed to identify where beneficiaries had defaulted or were liable to default on payments.

The growth of AFID's loan portfolio can be seen in Figure 3. Its portfolio is now worth Bs20 million, demonstrating AFID's strength to increase its capital. However, in 2020, due to the presence of COVID, a spike in arrears was recorded. To mitigate the financial impacts of the rigid quarantine, the state

[5] FINDEPRO (Organización Nacional de Entidades Financieras Comunales de Productores – National Organisation of Community Financial Institutions of Producers) consists of three organisations: FINCAFE (La Asociación de Servicios Financieros Cafetaleros – Coffee Financial Services Association), FAAAS (Financiera Asociación Agropecuaria del Altiplano Sur – Financial Agricultural Association of the Southern Altiplano) and AFID.
[6] In 2020, AFID's management adopted a different portfolio and accounting information system, and migrated its data to the new SFI platform. However, the new system does not show the deferred portfolio as part of the entity's total portfolio, which makes it difficult to monitor. As of October 2022, the deferred portfolio reached Bs1.4 million.

ordered the 'deferral'[7] of the portfolio. This is important, because AFID should have deferred more loans to prevent the growth of the non-performing portfolio.

Figure 3. Evolution of AFID's loan portfolio and default rate



Notes: Based on reports generated by AFID. *Data correct as of October 2022.

Members of AFID identify with the institution and consider it their own. However, some assume that because AFID is a credit union, it should be more flexible in recovering debt than traditional banks, which has led to increased credit delinquency rates. Another explanation for delinquency rates is that some of those granted credit by AFID and who have subsequently defaulted on their repayments are not El Ceibo-affiliated producers, meaning there was less social pressure on them to repay their loans. Therefore, to ensure the sustainability of its operations, AFID must make significant efforts to normalise its portfolio, probably by reinforcing the financial education it offers to its members. The longer a loan is in arrears, the harder it becomes to recover the credit owed.

2.5 Management

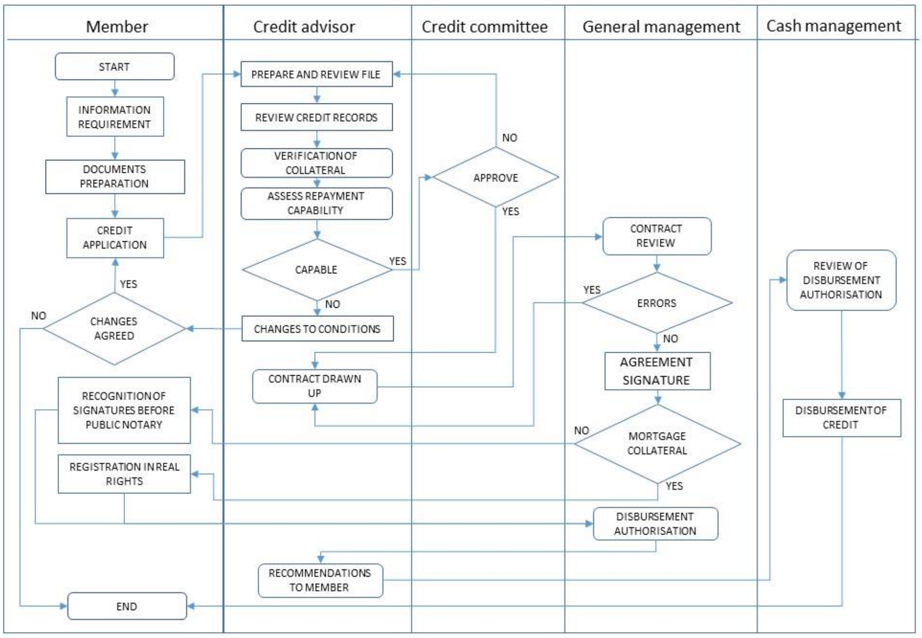
All members of AFID's board of directors are also members of the board of directors of El Ceibo, thus maintaining a single instance of administration. Regarding AFID's management, although it reports directly to its own board of directors, it also reports to the general management of El Ceibo, who evaluate AFID's work from a technical point of view. This is a particular case, since AFID is an entity that specialises in credit and should have sufficient management autonomy beyond the technical perspective of El Ceibo.

One of El Ceibo's policies is to employ its members or members' children. In the case of AFID, the institution's management includes professionals with economic and financial expertise, with varying experience in banking or managing financial institutions. AFID's credit advisors and the accountant are all very experienced personnel.

Regarding credit management, AFID has a credit regulation that outlines AFID's credit process and those responsible for each stage of the process (see Figure 4). However, there was no evidence of a process manual to complement the existing regulations. AFID follows a conventional credit process, similar to that of other financial institutions.

[7] The 'deferral' of credit repayments was introduced by the state due to the pandemic in February 2020. All repayments (on principal and interest) were deferred until 31 December 2020. After this time, borrowers could either opt for refinancing their debt or rescheduling repayments. Meanwhile, they were maintained as active loans.

Figure 4. Flowchart showing AFID's credit process



Source: Based on AFID's credit regulations

The process of applying for credit begins with a request for information about the credit requirements and supporting documents that must be provided. A credit application can then be made. After the application is received, the credit advisor assembles the applicant's folder and reviews the documents verifying that the applicant is a member of a first-tier cooperative affiliated to El Ceibo, as well the identity documents. The credit advisor also reviews documents relating to the type of guarantee that the member is presenting. With the completed folder, the credit advisor then proceeds to review the credit history of the applicant and guarantor, which requires authorisation from applicant. The credit advisor then consults the credit information bureau to verify whether the applicant has received an A or B credit rating[8] during the last 12 months. The credit advisor also verifies that the applicant does not have more than three existing loans at the time of application and that they are up to date with their contributions to AFID.

To evaluate an applicant's ability to repay their loan, the credit advisor also evaluates their family economic unit, that is, the family's income and expenses and the economic activity to be financed. This evaluation takes place on the family farm. The credit advisor verifies the applicant's assets and gathers information on their economic activities. Once they have this information, they can assess the ability of the applicant to make the necessary repayments based on the following criteria to determine levels of risk:

- **Repayment capacity:** For new clients, this corresponds to 75% of their net profit and for existing clients, up to 80% of their net profit.
- **Working capital:** When determining the current assets of the credit applicant, credit advisors should consider that the amount of credit offered should not be greater than the applicant's working capital.
- **Investment capital:** Up to 80% of the investment required can be financed.
- **Leverage:** No more than 80% of the assets can be financed.
- **Agricultural risk:** Credit applicants producing more than one agricultural crop are considered favourably, as are those with additional sources of income. The historical losses of the type of

[8] For agricultural microcredit, according to the Compilation of Standards for Banks and Financial Entities of the Bolivian Financial Regulatory Authority (ASFI), an 'A' credit rating is given to clients considered to present a low credit risk while a 'B' credit rating is given to clients considered to present a higher credit risk.

crop produced by the application are also considered, including a calculation of the probability of negative impacts due to climatic effects and pests.

Once the credit advisor has determined that the client has the ability to make repayments, the application is passed to the corresponding credit committee for approval.[9] If an applicant is found to lack the ability to make repayments, this is explained to the applicant and the credit advisor will then propose modifying the conditions (such as reducing the amount of credit offered or extending the term). If these conditions cannot be met by the applicant, the process ends.

Once an application is approved, a credit contract is drawn up by the credit advisor. It is then reviewed by the general management. If there are no errors, the document is signed. The contract contains the type of guarantee that is required for credit to be granted, although combinations of guarantees can be made. For loans of less than Bs70,000, the guarantee can be a personal pledge or documents held in custody. For larger amounts, a mortgage guarantee is requested, which requires registering the applicant's real estate in the Public Land Rights Registry (Registro Público de Derechos Reales). If the credit contract does not require a mortgage guarantee, the contract must be signed by both parties before a public notary. This means that in the event of legal action to recover the credit (if the applicant defaults on repayments) AFID can recover the credit more quickly.

Once this step is concluded, AFID's management authorises the disbursement of the credit, after which the credit advisor proceeds with making the necessary recommendations to the applicant prior to the disbursement (such as the date the first repayment is due, the importance of making punctual repayments, highlighting the benefits of having a good credit history, and the importance of the honouring the credit agreement between the applicant and AFID). The most important points of the contract and the plan of repayments will be reiterated to applicants and their guarantors (if guarantors are involved). The credit is then disbursed in cash.

[9] The credit committee responsible for approving smaller loans of up to Bs25,000 consists of AFID management and credit advisors. For loans greater than Bs25,000, a member of the AFID board of directors participates on the committee.

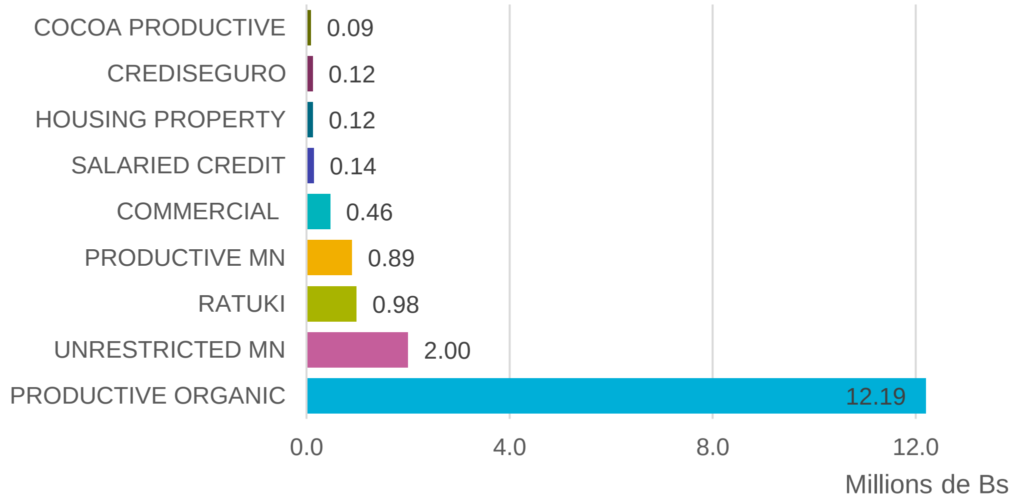
3 Impact of the AFID finance mechanism on its members

3.1 Impacts on the commercial operations of El Ceibo

The increase in sales made by El Ceibo is directly related to the increase in cocoa production. Because of this, El Ceibo has expanded its presence in the national market. A decade ago, 30% of sales were made to the Bolivian national market and 70% to exports. This situation has now reversed, and sales to the national market are El Ceibo's main source of income.

AFID's portfolio shows that the main destination of the finance it offers is for cocoa production, channelled through its Organic Production product, which represents 72% of AFID's total portfolio (Figure 5). However, specific economic activities are not tagged in the AFID database, so those variables cannot be presented here.

Figure 5. AFID's loan portfolio by product[10]



Source: Based on reports generated by AFID

AFID does not have credit products specifically aimed at supporting women. However, Table 5 shows the number of AFID products accessed by women and men.

[10] According to the credit regulations in force at the time of the study, there are several loan products that are no longer part of AFID's offerings detailed in Table 1. The portfolio balances of these products will remain in the database until the outstanding balances are paid in full.

Table 5. Data on the number of AFID clients by gender and by product up to 2022[11]

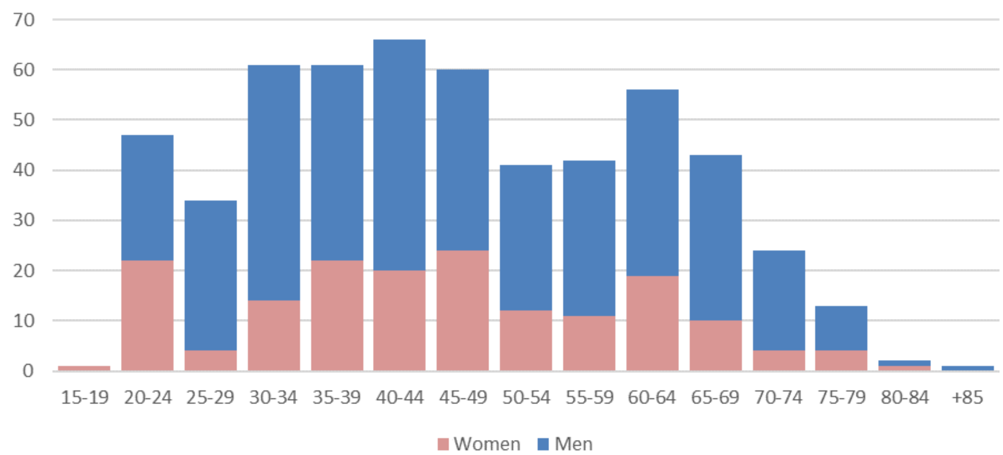
Credit products	Men	Women	Total
Productive MN	784	279	1,063
Unrestricted MN	670	388	1,058
Emergency MN	8	-	8
Productive premium MN	4	2	6
Unrestricted premium MN	3	-	3
Ratuki	238	131	369
Salaried credit	11	21	32
Housing/property	-	1	1
CrediSeguro	10	11	21
Commercial	7	3	10
Productive organic	283	148	431
Total general	**2,018**	**984**	**3,002**
%	**67.22%**	**32.77%**	**100%**

Source: Based on reports generated by AFID

The historical client data in Table 5 shows us that since its creation, only 33% of AFID's clients have been women. The low levels of women accessing credit still persists in rural areas. However, this does not mean that they are not co-debtors nor that they do not contribute towards credit repayments, because most families manage their debt as a family unit. The greatest participation of women as the main debtor occurs in the salaried product available to those who work for El Ceibo.

Regarding the participation of young people, Figure 6 shows the composition of AFID beneficiaries by age range. There is a concentration of partners aged between 60 and 64 years. This is probably because they are the first generation of El Ceibo members to access financing from AFID. Another important point to note is the number of much older members who have been able to access credit through AFID. Older people normally have difficulties accessing finance from traditional financing systems (financial exclusion).

Figure 6. AFID beneficiaries by age range



Notes: Based on AFID reports.

[11] Several products shown in Table 5 are no longer part of AFID's offer (Unrestricted Premium MN, Housing/Property, Productive Premium MB, Emergency MN, Commercial), due to their low volume of disbursements and delinquency problems.

Also important to note is the participation of second-generation producers (usually those aged between 30 and 49 years) and third-generation producers (those aged under 24) who are active El Ceibo members.

3.2 Impacts on internal relations

El Ceibo is one of the best examples of a successful social enterprise based on the cooperative model, as it also provides technical assistance to those who access financing from AFID. The benefits of AFID's activities include:

- The availability of appropriate credit products for cocoa producers affiliated with El Ceibo (enhancing financial inclusion) offering:
    - Favourable borrowing conditions specifically tailored to producers' needs (due to El Ceibo's knowledge of the characteristics and production conditions), and
    - Competitive rates of interest.
- An agile and efficient service to cocoa producers, supported by the proximity of AFID's office in Sapecho (the geographical centre of the cocoa-producing area) and AFID's knowledge of producer associations.
- Most AFID members are also members of El Ceibo and benefit from the support of both organisations.
- Although at present, all AFID's profits are reinvested, but at some point profits will be distributed to members.

However, there have been some negative impacts. The arrears in AFID's portfolio has generated tension between members, the leadership of the first-tier cooperatives and AFID (which is responsible for recovering outstanding debt).

3.3 Impacts on external relations (banks, markets and government)

The credit provided by AFID has enabled producers to increase production have to produce good-quality cocoa that is marketed by El Ceibo. However, production can also be affected by climate change impacts and other factors, resulting in the production of low-quality cocoa that cannot be sold to El Ceibo. A market has developed to acquire cocoa that is not sold to El Ceibo or of different qualities, although the price for this cocoa tends to fluctuates. Nonetheless, the emergence of this market is important, as it enables producers to sell more of their cocoa that they cannot sell to El Ceibo.

Cocoa producers who have obtained credit from AFID and who later apply for credit from private banks, have the advantage that the private financial system takes into account their positive credit experiences with AFID. In addition, the fact that they are members of the El Ceibo cocoa cooperative is evidence for banks that the credit applicant already has access to a good market for their cocoa.

El Ceibo's development of a broad social base that revolves around cocoa production has meant that the state has also generated support programmes for the sector. An example is the National Cocoa Programme, which strengthens producers by providing equipment to improve their production. For many producers, financing from AFID enables them to access this support, since an AFID loan provides the counterpart of funds required to access the programme.

There are still limitations on AFID's ability to channel financing from public and private sources directly to its members. The main reason for this is that it is not currently regulated. However, AFID still obtains resources through its parent organisation El Ceibo, which allows AFID to continue growing its operations.

As a second-tier cooperative, AFID is monitored by the state and its regulation process is monitored by the state through ASFI as well as the Productive Development Bank.[12] The Productive Development Bank is an important partner as it provides specific financing lines for environmental protection. AFID

[12] The Productive Development Bank of Bolivia (Banco de Desarrollo Productivo – Sociedad Anónima Mixta) is a first- and second-tier financial intermediary. It is regulated by the ASFI and is constituted as a private legal entity; 80% of its shares are owned by the Plurinational State of Bolivia and 20% by the Development Bank of Latin America (Corporación Andina de Fomento).

offers outstanding potential as it brings together a significant number of producers under an agroforestry system and organic production. It also supports local development by growing community economies, empowering its members, generating sources of employment and improving the living conditions of its members' families and communities.

4 Future perspectives

4.1 Future plans

El Ceibo has an advisory group made up of former members of its board of directors that advises the board on its management. Among the advisory group's recommendations for AFID is to evaluate the possibility of changing its legal status to become a Communal Financial Entity, although the process of regulation currently may be problematic, since this type of entity does not yet exist in operation (AFID would the first Communal Financial Entity in Bolivia), which generates delays due to regulatory gaps in the regulation process. Among the alternative possibilities being considered is for AFID to become development finance institution.[13] However, the work of defining the most appropriate legal status for AFID (as per the recommendations of the advisory group) will be entrusted to an external consultancy that will evaluate the different options.

El Ceibo's aim is to consolidate AFID and it accepts that a significant investment will be required. It also accepts that concluding the regulation process will require strict compliance with deadlines and legal, technical and financial requirements, as well as investments in infrastructure, equipment and personnel, generating internal regulations and maintaining financial indicators, as defined by the relevant regulatory authority. It is also foreseeable that AFID will also need to migrate to a new portfolio management and to the accounting software system CORE Financiero in order to meet regulatory requirements, since the current financial software system has technical limitations.

The current requirements of AFID are diverse so therefore strengthening its assets is important, including the resources it requires to increase its credit operations and therefore its income, which will be necessary to meet future regulatory requirements. Meeting those requirements will involve hiring more specialised personnel in areas that AFID does not currently have the necessary expertise (such as risk assessments and risk prevention, auditing). Likewise, it will require investments in infrastructure (such as vaults, exclusive-use offices security). Finally, AFID must also strengthen its ability to generate periodic reports without errors or delays for the regulatory body, otherwise fines will be applied.

4.2 Reflections on AFID's success

The constitution of a financial entity by a producers' association is in itself an experience worth sharing, as well as its permanence over time and its growth. Establishing a financial entity is not simple, even more so in an environment as competitive as in Bolivia. Private and state-assisted financial entities all offer regulated low-interest loans to the productive and agricultural sectors and financial regulations oblige the private sector to maintain customer service quotas. In Bolivia, interest rates are regulated and set to a maximum of 11.5% for productive microcredit.[14] While this this is beneficial for producers, it represents a lower income for financial entities in general, which have to compensate for this by attracting income from other types of credit (commercial, consumer, services). In the particular case of AFID, the main demand for credit is to increase production and its main clients are its own members. Therefore, to be competitive, its interest rates must be adjusted to market which for AFID means less income. However, despite this, AFID has still managed to sustain its growth.

The commitment of AFID's members is another aspect to highlight. The producer partners all made a capital contribution when AFID was initially constituted. As a result, members have a strong sense of

[13]Article 273 of Law 393 defines a development finance institution as 'a non-profit organization, established legally in order to provide financial services' that takes a comprehensive and integrated approach that includes its management seeking to favourably influence the economic and social progress of people and organisations, as well as contribute to the sustainable development of small agricultural, fish, and timber and non-timber forestry producers, and micro and small businesses, mainly in rural and peri-urban areas (Ministry of Economy and Public Finance undated).

[14] In contrast, interest rates for microcredit in most other Latin American countries can reach 40%, 60%, 80% or even more.

ownership and for this reason are willing to maintain AFID and if necessary, increase their capital to consolidate it. Most members believe that AFID to be independent of El Ceibo precisely so that it can achieve financial sustainability and employ more specialised staff.

The fact that El Ceibo has established AFID as an innovative form of self-financing demonstrates the management capacity of producer organisations and highlights the leadership of its governing body. While there are aspects that can be improved, these must be done gradually, particularly during the regulation process that will demand certain institutional capacities. However, there can be no doubt about AFID's success based on the cooperative model – and by setting its sights on regulation, AFID has demonstrated its institutional maturity.

4.3 Prospects for replication

To understand AFID's success, the success of El Ceibo must be also analysed as the two organisations are directly linked. A key success factor is the governance of both organisations and the management of both boards of directors. El Ceibo was able to capitalise on the accumulated institutional experience, of its advisory group (made up of former members of its board of directors). A similar advisory group should be set up specifically for AFID, to include people from the technical body that provided initial technical assistance (Pro-Rural). Having the ongoing support of an external technical body is important. In the case of AFID, Pro-Rural's departure occurred after a relatively short period of time (after four years). Given the time required to reach institutional maturity and given the rotation of AFID's leaders every three years (according to AFID's statute), a more gradual exit would have been better to allow for the transfer of responsibilities and empowerment from the technical team to AFID, particularly in relation to management and middle managers.

5 Main conclusions and recommendations

The success of AFID cannot be understood without understanding the success of its parent organisation El Ceibo and the technical and financial support it provided, which has allowed AFID to grow and consolidate over time. El Ceibo's members are also AFID's main clients and the creation of AFID made it possible to mobilise money from El Ceibo's cooperatives to offer appropriate credit products to its members. El Ceibo has also been able to effectively channels external financial resources to AFID, through negotiations with banks and other financial entities, which has allowed AFID to grow and develop its activities.

However, it is necessary for AFID to now acquire more specialised staff with experience and expertise in financial management. AFID had an assisted start thanks to the support of Pro-Rural, which meant that less time was required for AFID to begin its operations. Pro-Rural initially provided fundamental support in terms of introducing and developing credit technology, information systems and accounting records. Now, AFID's management must ensure that has the appropriate technical support and that its staff have the experience and skills required to lead the institution towards financial consolidation, to determine the most appropriate legal status for AFID and to comply with future regulatory processes. AFID must also make a significant effort to address ongoing credit arrears in order to reduce its delinquency portfolio.

Financial mechanisms such as AFID have an important advantage over conventional banking systems, which prioritise generating profit. In contrast, producer's own financial institutions are adapted to better serve their peers and redistribute profits within their own organisations, despite the enormous operating costs involved. In addition, producer organisations are the main actors caring for their environment. AFID provides appropriate finance that is channelled towards organic production and agroforestry, activities which contribute towards the fight against climate change.

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