

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

BOLIVIA

**THE IMPACT OF DIFFERENT STRATEGIES TO PROMOTE SUSTAINABLE BUSINESS
PRACTICES AMONG MICROENTERPRISES**

(BO-T1468)

PROJECT DOCUMENT

This document was prepared by the project team consisting of: Team Leader: Vera Cossio, Diego Alejandro (RES/RES); Alternate Team Leader: Yanez Pagans, Patricia; Attorney: Mendoza Benavente, Horacio (LEG/SGO); Team Members: Escobar Genes, Myriam Helvecia (RES/RES); Hoffmann, Bridget Lynn (RES/RES); Sarrazin, Tom (RES/RES); Urquiola Ralero, Montserrat (RES/RES); Blackman, Allen (CSD/CSD)

BOLIVIA
THE IMPACT OF DIFFERENT STRATEGIES TO PROMOTE SUSTAINABLE BUSINESS PRACTICES AMONG MICROENTERPRISES
BO-T1468

PROJECT SUMMARY

Operation Type:	Technical Cooperation
Sector:	PRIVATE FIRMS AND SME DEVELOPMENT
Subsector:	MICROENTERPRISE DEVELOPMENT
TC Taxonomy:	Research and Dissemination
Project Number under the Operational Support Taxonomy:	N/A
Technical Responsible Unit:	RES-Research & Chief Economist
Unit with Disbursement Responsibility (UDR):	RES/RES-Research & Chief Economist
Executing Agency:	Inter-American Development Bank

PROJECT OBJECTIVE

The general objective of the TC is to provide evidence on how to increase the sustainability of SMMEs' business practices and the effects of the adoption of sustainable business practices on business outcomes, such as revenue, credit, and market access.

FINANCIAL INFORMATION

Financing Type	Fund	Amount in US\$
TCN - Nonreimbursable	W2F - OC SDP Window 2 - Economic Growth	250,000
Total IDB Financing		250,000
Counterpart Financing		0
Total Project Budget		250,000
Donors:	N/A	
Disbursement Period:	30 30 months	
Execution Period:	24 24 months	

ADDITIONAL FINANCIAL INFORMATION

N/A

I. JUSTIFICATION AND OBJECTIVE

- I.1 **Diagnostic.** The adoption of sustainable business practices among micro, small and medium enterprises (MSMEs) is key to improving sustainability in Bolivia and other countries of Latin America. In Bolivia, these firms account for 83% of total employment ([CAF, 2012](#)). They represent 95% of the business sector and they generate 29% of GDP ([CAF, 2012](#)). MSMEs impact the local environmental quality through their business practices such as inefficient industrial processes, burning solid waste, lack of recycling, and use of highly polluting vehicles. Improving the sustainability of these businesses is key to improving local environmental quality.
- I.2 Investing in sustainable business practices is also central to economic growth and is increasingly feasible ([Blackman et al, 2024](#)). For example, financial institutions (FIs) are increasingly adopting Environmental and Social Risk Management systems (SARAS in Spanish) to address the potential negative impacts of their operations. While they collect extensive data from their credit clients on social and environmental practices that is used for risk reporting and compliance purposes, many institutions are missing an opportunity to leverage it to promote the widespread adoption of sustainable business practices within their client base.
- I.3 As more tools are made available to MSMEs, the challenge is how to make the best use of these tools. In several cases, data from SARAS remains unsystematized, limiting its potential to be used by FIs to drive impactful engagement and decision-making. Supporting businesses to adopt sustainable practices is increasingly important—not only for environmental reasons but also because sustainability is increasingly linked to market access, resilience, and competitiveness as market demands evolve. However, most MSMEs face a combination of credit constraints, uncertainty, competing demands on time and limited information, making it difficult to invest in longer-term improvements. Even when motivated to adopt sustainable practices, microenterprise owners are often subject to present bias, to insufficient access to green technologies or lack targeted assistance.
- I.4 There are two important challenges that both FIs and their clients (MSMEs) face to make effective use of the new tools at hand. First, MSMEs may need support on ways to use new information available to them through FIs in an effective way. Second, FIs may need to test different ways of engaging with their customers, considering the resource constraints that their clients face.
- I.5 This TC aims at filling three knowledge gaps that stem from the two issues described above. First, although SARAS systems are widely adopted by FIs, there is little evidence on how to use the data they generate to inform interventions that encourage sustainable business practices among MSMEs. This study will be among the first to examine how a standardized risk management framework can be used not only for compliance, but also to design scalable strategies that can lead to changes in firm behavior and outcomes. Second, while prior studies have evaluated different delivery modes for information and training, there is limited evidence on the effectiveness of strategies such as digital nudges, gamification, and performance-based incentives for encouraging the adoption of sustainable practices among micro and small enterprises. Third, the study will assess how the

adoption of sustainable practices influences other business-level outcomes, such as credit and market access.

- I.6 **Request.** This TC was selected for funding through the Bank's Development Effectiveness Intelligence Fund (DEIF) because it complements the Bank's operations. This TC is aligned with the Bank's environmental and sustainability objectives (as described in detail below) and it recognizes the key role of the private sector in achieving climate and sustainability goals.
- I.7 **Objective.** The general objective of the TC is to provide evidence on how to increase the sustainability of SMMEs' business practices and the effects of the adoption of sustainable business practices on business outcomes, such as revenue, credit, and market access. The specific objective is to study these two questions in the context of SARAS systems used by FIs to understand how data from SARAS can be harnessed to increase sustainable business practices among MSME clients and the effects of adoption of sustainable business practices on business outcomes. The knowledge resulting from this TC will be used to create an IDB and IDB Invest working paper and a Spanish language publication such as policy brief or discussion paper focused on the policy implications. We will disseminate the knowledge resulting from this TC through blog posts, and bilateral meetings with policymakers.
- I.8 **Complementarity.** This proposal is associated with an IDB Invest approved project with BancoSol (Banco Solidario, S.A.). The project (14388-01) is currently under execution and has led to the issuance of the first social gender bond in the Bolivian market, supported by a Partial Credit Guarantee from BID Invest covering up to 50% (up to US\$15 million) of the total US\$30 million issuance. The bond proceeds have financed MSMEs, especially those owned or led by women, to support productive investment and economic growth. As part of the project, IDB Invest has entered into a technical assistance agreement with BancoSol to support the enhancement of their impact measurement capabilities. Through this collaboration, IDB Invest teams have been actively working with BancoSol to refine their diagnostic survey, an integral component of their SARAS system, and to strengthen their impact data collection processes. During this phase, the opportunity to conduct an impact evaluation has emerged, and BancoSol has expressed strong enthusiasm for pursuing this initiative.
- I.9 **Strategic Alignment.** This proposal is directly aligned with the three core objectives of the IDB Strategy+: Addressing Climate Change, Sustainable Growth, and Reducing Poverty and Inequality. This proposal seeks to increase MEs' resilience to climate impacts and to reduce their environmental footprint. Furthermore, it seeks to promote sustainable growth by improving MEs sustainability and risk metrics to increase their access to customers, credit, and suppliers. Finally, because the revenue of MSMEs is the main source of income of most of the owner's households, improving the business resilience and growth prospects is likely to contribute to reducing poverty or the vulnerability to it (over 70% of individuals in Bolivia are self-employed). The proposal will generate evidence, including the cost-effectiveness of various strategies to increase MEs' sustainability that can be used to scale the interventions to additional firms and markets. This TC is aligned with the objectives of the Window providing funding

(W2F) as it will provide rigorous evidence on how sustainable business practices can promote firm growth and, consequently, contributes to the Economic Growth Priority area.

- I.10 The evidence emerging from this proposal is directly aligned with key IDB Strategy+ focus areas: first, because this proposal will provide evidence on how private-sector tools (SARAS) can operationalize productive development and innovation this proposal is directly aligned with the productive development and innovation through the private sector focus area. Second, because the outcomes from this proposal will generate actionable evidence on what works to promote sustainability in MSMEs, the proposal is directly related to the biodiversity, natural capital and climate action focus area.

II. COMPONENTS

- 2.1 **Component 1: Research on the design and impact of interventions to encourage sustainability practices among microenterprises (\$240,000).** This component will finance an IDB and IDB Invest working paper and a discussion paper or policy brief that is a shorter, policy-focused description of the main results and policy implications to be published in Spanish.
- 2.2 The main activities include designing and implementing a series of randomized controlled trials (RCTs) to test different interventions, collecting data, checking data, preparing data, data analysis, presenting results in figures and tables, and writing publications.
- 2.3 These interventions will be carried out on a study sample of approximately 200000 MSMEs. The participant firms will be selected as follows. A diagnostic survey will be administered to MSMEs that are new clients of BancoSol or those that request debt refinancing, this last group represents about 90% of their current clients (~225,000 MEs). Within this group the study will focus on those clients using the BancoSol App (approximately 80% of its clients ~200,000). The intention is to implement the diagnostic survey through BancoSol's App. Priority will be given to economic sectors where BancoSol has a higher concentration of clients, or sectors that may benefit more from improvements in sustainable practices. The diagnostic survey will collect data about sustainable business practices.
- 2.4 Within the sample study, the project will implement RCTs to evaluate three types of interventions. First, interventions that tackle issues of inattention (e.g., nudges). Second, interventions that increase the skills of the entrepreneurs (e.g., training or mentoring). Third, interventions that increase incentives to implement sustainable business practices like gamification or performance-based rewards. Moreover, because BancoSol can reach their clients both through credit officers and its App, when possible, the study will also experimentally vary the mode of delivery of some interventions (e.g., through Apps or in person through credit officers). In total, and given the potentially large sample size, the proposal envisions implementing approximately 6 interventions.
- 2.5 Data to evaluate the impact of these interventions will come from two sources. First, the research team will utilize administrative records collected by our partner institution to evaluate the impact of the interventions on a firm's income statements and balance sheets and debt repayment. Second, the research team will leverage the close relationship between the partner institution and its clients to collect additional data through surveys (both through BancoSol's App and in person) on the type of business practices implemented due to the interventions.
- 2.6 Component 1 will finance one consultancy firm to help in the design and implementation of the interventions. Hiring another consulting firm for data collection is also contemplated in this component. Component 1 will also finance an individual consultant for two years who will support the project team. This consultant will have a profile similar to the Research Fellows of IDB's Research

Department or of a Post-Doctoral fellow at the IDB. Ideally, this individual consultancy will take place at Headquarters to facilitate close collaboration between the consultant and the project team.

- 2.7 The timeline for completion of Component 1 is 22 months.
- 2.8 **Component 2: Dissemination (\$10,000).** This component will finance the dissemination of the knowledge generated by this TC. The first goal is to disseminate the results to policy makers, private sector, and other target audiences, including academics and practitioners, in the beneficiary country and other countries in the region. A second closely related goal is to inform the design and implementation of IDB Group (IDBG) operations. Dissemination of research results within IDBG will help to achieve this goal by strengthening the case for operations that incorporate innovative approaches to promote the use of sustainable business practices by firms in the region.
- 2.9 The main activities include publishing blog posts and Research Insights in English and Spanish. In addition, we will disseminate the results and knowledge generated through a bilateral meeting with policymakers in the beneficiary country. This component will finance the costs of dissemination such as the costs of organizing in-person meetings or workshops with policymakers and other stakeholders, which could include travel for any in-person meetings.
- 2.10 The timeline for Component 2 is 2 months, following the completion of Component 1.
- 2.11 **Expected Results.** The expected results of this TC include a broader knowledge base to inform financial institutions about the best practices to encourage the adoption of sustainable business practices among their clients and the effects of sustainable business practices on their client's revenue, profit, and loan repayment. In particular, this TC will provide the beneficiary country with important information about the role of financial institutions as a powerful tool to provide advice to micro and small enterprises and on the effectiveness of multiple ways of interacting with them. These lessons have also implications for multiple financial products offered by the IDBG that try to mobilize financial resources to micro and small enterprises like loans to implement sovereign guarantees funds or thematic bonds.
- 2.12 **Beneficiaries.** The project will benefit numerous stakeholders. First, the results of the project will directly inform the operations and business decisions of our implementing partner and the beneficiary country. Second, the project will provide valuable lessons for policy makers in the region about how to engage micro and small firms in more sustainable practices. Third, the project will inform the design of operations and projects either by the IDB and/or IDB Invest that aim at spurring firm growth while at the same time promoting the use of sustainable practices.

III. BUDGET

- 3.1 **Budget.** The TC's total budget is US\$250,000 financed by the OC SDP Window 2 - Economic Growth (W2F). The execution will be in 24 months and 30 months for disbursement.

Component	Description	IDB/Fund Funding	Counterpart Funding	Total Funding
Component I: Research	Design and impact of interventions to encourage sustainability practices among microenterprises	240,000	0	240,000
Component II: Dissemination	Dissemination of the knowledge	10,000	0	10,000
TOTAL		250,000	0	250,000

IV. EXECUTION STRUCTURE

- 4.1 This operation will be executed by the IDB through RES/RES in close collaboration with the Development Effectiveness team at IDB Invest (GEN/DVF) and CSD given RES, CSD and IDB Invest's expertise in research on environmental economics and microenterprises. The research has complementarities with Bank operations and research. The Research Department (RES/RES) will be responsible for the preparation, execution, and supervision of Components 1 and 2 following the policies established by the Bank. The team leader, Diego Vera (RES/RES), will be responsible for the execution and monitoring of the operation in collaboration with the alternate team leader, Patricia Yañez Pagans (GEN/DVF), and the rest of the team members. The team leader will directly supervise consultants and track that deliverables are completed according to the project's planned timeline with the support of the team members of the project.
- 4.2 The principal reason for this execution structure is that the IDB has expertise, capacity, and experience in similar research projects. A second reason is that the Bank has the capacity and channels to disseminate the knowledge generated by this TC to policymakers and target audiences in the beneficiary country and in other countries in the region. In many countries, financial institutions work closely helping MSMEs so that they can implement efficient and sustainable business models.
- 4.3 There will be no supervision by the IDB's Country Offices (COF) for the execution of the TC. However, the COF, and in particular, the IDB Country Representative, will be advised of the results and policy implications. The COF will be informed and consulted about missions related to implementation of the TC. The research

implemented as part of this TC will be in collaboration with Banco Sol and is part of IDB's on-going collaborative agenda with IDB Invest.

- 4.4 The TC will be executed by the Inter-American Development Bank (IDB), based on a request by the beneficiaries, in accordance with the Bank's Technical Cooperation Policy (GN-2470-2) and the Procedures for the Processing of Technical Cooperation Operations and Related Matters (OP-619-4), through the Unit of RES/RES.
- 4.5 **Procurement.** All procurement to be executed under this Technical Cooperation have been included in the Procurement Plan (Annex IV) and will be hired in compliance with the applicable Bank policies and regulations as follows: (a) Hiring of individual consultants, as established in the regulation on Complementary Workforce (AM-650) and (b) Contracting of services provided by consulting firms in accordance with the Corporate Procurement Policy (GN-2303-33) and its Guidelines.
- 4.6 Responsibilities for supervision and monitoring this operation will fall on RES/RES and GEN/DVF at IDB Invest, including regular meetings with Banco Sol, firms and consultants. The UDR for this TC will be RES/RES. The Team Leader should approve payments and supervise the deliverables from firms and consultants.

V. POTENTIAL RISKS

- 5.1 There are two main sources of risk for this TC. The first one relates to the ability of the partnering financial institution to provide the relevant data in a timely manner. The second one relates to the willingness of the partnering financial institution to work with our team to implement all the interventions related to the study. Both risks are mitigated by a constant dialogue with the partnering institution. In addition, the team will collect data to complement some of the administrative data requested to our partner. Moreover, the team will continue exploring the possibility of carrying out the research project with other partner institutions engaged with IDB Invest or IDB.
- 5.2 **Intellectual Property.** The knowledge products generated from Bank-executed activities within this technical cooperation will be the property of the Bank and may be made available to the public under a Creative Commons license. However, at the request of the beneficiaries, following the provisions of AM-331, the intellectual property of said products may also be licensed through specific contractual commitments that shall be prepared with the advice of the Legal Department. The knowledge products that will be generated as part of this TC will be produced and disseminated in accordance with AM-331 and AM-325.

VI. EXCEPTIONS TO BANK POLICIES

- 6.1 None.

VII. ENVIRONMENTAL AND SOCIAL ASPECTS

7.1 This Technical Cooperation is not intended to finance pre-feasibility or feasibility studies of specific investment projects or environmental and social studies associated with them; therefore, this TC does not have applicable requirements of the Bank's Environmental and Social Policy Framework (ESPF).

REQUIRED ANNEXES:

- Annex I: Request from Client
 - Annex II: Results Matrix
 - Annex III: Terms of Reference
 - Annex IV: Procurement Plan
 - Gender and diversity checklist
-