OPENING MARKETS THROUGH STRATEGIC PARTNERSHIPS:

AN ANALYSIS OF THE ALLIANCE BETWEEN FIE AND PROMUJER

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OPENING MARKETS THROUGH COMPETITIVE PARTERNERSHIPS: THE STRATEGIC ALLIANCE BETWEEN FIE AND PROMUJER

Accelerated Microenterprise Advancement Project (AMAP) is a four-year contracting facility that USAID/Washington and missions can use to acquire technical services to design, implement, and evaluate microenterprise development, which is an important tool for economic growth and poverty alleviation

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ABBREVIATIONS

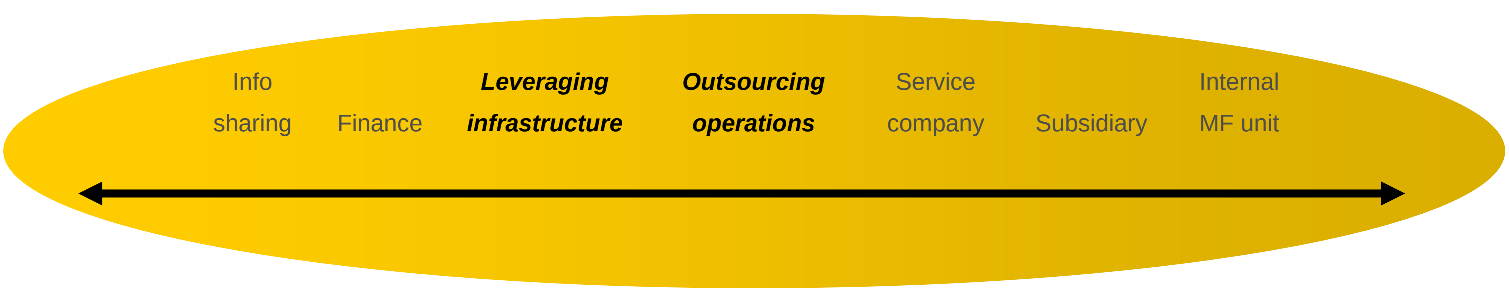
ASOFIN	Asociación de Entidades Financieras Especializadas en Micro Finanzas
COSUDE	Coopération Suisse au Dévelopment
DAI	Development Alternatives, Inc.
FIE	Fomento a Iniciativas Economicas
FINRURAL	Asociación de Instituciones Financieras para el Desarrollo Rural
FFP	fondo financiero privado (private financial fund)
GTZ	Gesellschaft für Technische Zusammenarbeit
MAP	Movilización de Ahorros Populares
MFI	microfinance institution
MSI	management information system
NAFIBO	Nacional Financiera Boliviana
NGO	nongovernmental organization
ProMujer	Programa para la Mujer
SBEF	Superintendencia de Bancos y Entidades Financieras
USAID	U.S. Agency for International Development

FOREWORD

Strategic alliances have been commonplace among Fortune 500 companies for years: witness Toyota and GM, IBM and Apple, and Dow Chemical and Corning. Alliances among financial institutions serving low-income clients in developing clients are a relatively new trend, however. In our research, we define strategic alliances as agreements between firms or institutions in which each organization commits resources to achieve a common set of objectives that each would have difficulty achieving alone. Although companies may form strategic alliances with a wide variety of organizations—customers, suppliers, competitors, universities, or divisions of government—the topic of this research focuses on the mechanics of the linkages formed between formal and informal financial institutions that seek to provide financial services to low-income clients. Through linkages, these financial institutions can achieve a range of specific objectives, including improved competitive position, access to new markets, supplemented or enhanced services and skills, and shared risks and costs of product development.

There are a wide range of linkages occurring among micro, small, and medium-sized enterprise finance institutions in developing countries today. These linkages often occur between more informal, unregulated entities such as nongovernmental microfinance institutions (MFIs) serving low-income clients and regulated financial institutions, including banks, finance companies, and regulated cooperatives. The diagram below illustrates a continuum of common linkages observed. Linkages on the left side of the spectrum depict less formal or more one-off relationships; linkages on the right side may involve more formalized contractual or ownership arrangements. Nonetheless, the continuum represents important advancements in service provision to the low-income market, and presents possibilities for providing more sophisticated or expansive financial services. Moreover, these linkages serve to overcome institutional or operational obstacles faced by financial institutions, as well as obstacles related to physical infrastructure, geography, limited population density, or regulation.

TYPOLOGY OF LINKAGES



As part of the Accelerated Microenterprise Advancement Project Financial Services Knowledge Generation project, Development Alternatives, Inc. (DAI) is undertaking research to document innovative and replicable types of linkages. Specifically, this research focuses predominantly on those types of linkages in the middle of the continuum, where banks or nongovernmental organizations (NGOs) are able to leverage the infrastructure of their allies or where a bank has been able to outsource its services and operations for low-income services to an unregulated entity.

The *Fomento a Iniciativas Economicas* (FIE)/*Programa para la Mujer* (ProMujer) linkage described in this case study presents an interesting demonstration of how a regulated finance company, FIE, is able to leverage the branch infrastructure linkage of an NGO, ProMujer, to offer deposit services. Through this linkage, FIE is able to capture deposits from thousands of new clients without building new branches and ProMujer is able to offer regulated deposit service without transforming into a regulated financial institution.

This case study was chosen as an example of two institutions that chose to collaborate in order to better their positions within the highly competitive Bolivian microfinance market. Increased competition, combined with a decreased availability of donor funds, has pushed Bolivian MFIs to become even more innovative, client-focused, and efficient. This innovative alliance allows each institution to offer more services to clients at a lower cost than they would have been able to achieve on their own. Although the Bolivian microfinance market is in many ways unique, there are important lessons to be learned from the challenges that FIE and ProMujer faced in creating their alliance by other institutions contemplating similar arrangements. The fundamental hypothesis of this case study is that, under the right conditions, strategic alliances can increase the scale and scope of services, improve efficiency, and lower costs for both the institution and the client.

To investigate this hypothesis, Hillary Miller Wise of DAI and John Berry of the U.S. Agency for International Development's (USAID) Office of Microenterprise Development performed a literature review on strategic alliances, conducted interviews in Bolivia with a wide range of key informants in La Paz, and carried out focus group interviews with clients in three ProMujer branches in El Alto. Two of these focus groups were composed of ProMujer clients who use a teller window to make deposits in FIE, while the third group was composed of ProMujer clients who do not have a teller window in their branch.

The authors would like to thank Colleen Green and Mary Miller of DAI and Lilly Villeda and Anicca Jansen of USAID for their careful editing and compassionate critiques. Special thanks go to friends and colleagues in the Bolivian microfinance industry who gave of their time and expertise, especially Pedro Arriola, Cecilia Campero, Sergio Duchen, Salomon Eid, Heike Fiedler, Fernando Mompó, Fernando Prado, and Steve Smith. Above all, the authors would like to thank the staff of FIE S.A. and ProMujer Bolivia for their support and generosity, especially Hugo Bellot, Elizabeth Nava, Jorge Rios, Milton Soria, and Carmen Velasco.

EXECUTIVE SUMMARY

In the late 1990s, the Bolivian microfinance market found itself in a crisis. Donor funds, which had been leveraged to build the microfinance industry there for nearly two decades, began to decline. In 2001, economic and political crisis hit the country and microfinance clients—saddled with debt and facing declining demand—found it more difficult to repay their loans. Spurred by political opposition leaders, some of these clients launched a revolt against the microfinance institutions (MFIs), storming and looting branch offices and refusing to repay their loans. The overindebtedness crisis forced the MFIs to reevaluate the way they were doing business. They needed to find new markets, to gain access to capital, and to cultivate a new image.

As part of an effort to offer new and better services to microentrepreneurs, innovative regulations were created that permit regulated finance companies or banks to align with unregulated MFIs. It was in this context that *Fomento a Iniciativas Economicas* (FIE) and *Programa para la Mujer* (ProMujer) began negotiations to form an alliance. What resulted from these discussions was the first strategic alliance of its kind. FIE—a regulated private financial fund—would use the existing branch infrastructure of ProMujer—an unregulated nongovernmental organization—to open teller windows in peri-urban markets where it had little or no presence. Through these teller windows, ProMujer clients would have access to safe and convenient deposit services in the same branch where they receive loans and other services. At the same time, FIE would gain access to thousands of new savings clients from ProMujer, and to a steady, low-cost source of funds to capitalize its loan portfolio.

A combination of external and internal factors drove the creation of this alliance between FIE and ProMujer. External factors included:

- a supportive legal and regulatory framework;
- an intensely competitive microfinance market that drives institutions to innovate;
- clear client demand for more products and better service; and
- donor willingness to fund the start-up costs of establishing the alliance.

More importantly, the two organizations were able to structure an agreement that was ultimately successful. Internal factors included:

- the commitment of senior management to the alliance;
- good communication between senior managers;
- a substantial existing deposit base among ProMujer clients; and
- solid institutional reputations in the market.

This case study offers insights into the types of partners best suited to form an alliance, the importance of establishing a clear but flexible structure for the alliance, the key role of communications in establishing and implementing an alliance, the positive and negative influences of donor involvement, and, finally, the dynamic nature of alliances themselves. The primary conclusion of this study is that, under the right conditions, alliances such as the one created by FIE and ProMujer can be replicated in a sustainable way.

INTRODUCTION

"In the decades to come, managers will either be part of an alliance or competing with one."
Paul Lawrence, Harvard Business School

As one of the birthplaces of the microfinance movement, the Bolivian market has evolved into a mature and competitive environment for financial services to the poor. A diverse array of financial institutions offers a wide range of products and services to low-income clients. The microfinance market is dominated by four private financial funds (FFPs), one commercial bank (BancoSol), and half a dozen microfinance nongovernmental organizations (NGOs).[1] As of September 2004, the FFPs and BancoSol were managing an outstanding loan portfolio of $315 million, and the four largest NGOs reported $36 million in outstanding portfolio. These institutions were largely credit-led and historically had not emphasized deposit mobilization. In addition, the financial institutions serving the microfinance market competed heavily for urban clients, leaving an estimated 65 percent of the municipalities—mostly in rural and peri-urban areas—with limited or no access to financial services.

In the late 1990s and the early part of the new century, a number of forces converged and prompted financial institutions to revise their market strategy and expand into underserved markets as well as to bolster their deposit services. First, the volume of donor funding for microfinance had begun to decline. Donor funds were being diverted from portfolio capitalization and microfinance institution (MFI) building to the development of an enabling policy environment and to building the broader industry in which these institutions operated. As a result, FFPs sought to mobilize public deposits to capitalize their loan portfolios. Additionally, the emphasis on deposit mobilization also resulted when some FFPs had reached their limit of allowable funds from *Nacional Financiera Boliviana* (NAFIBO), a second-tier bank that lends to MFIs

A protracted and often violent debtors' revolt beginning in the late 1990s also contributed to a change in strategy for many MFIs. The revolt forced the microfinance institutions to focus on improved client service in an effort to improve client loyalty and corporate image. For some MFIs, the development and promotion of savings and other services was one part of that strategy, based on the assumption that clients are often more loyal when they maintain savings in the institution than when they just have debt.

It is in this context that *Fomento a Iniciativas Economicas* (FIE) and *Programa para la Mujer* (ProMujer) began discussions about forming an alliance that would extend deposit, payment, and money transfer services into rural areas of Bolivia. FIE, an FFP, was among the MFIs seeking to increase its deposit base. Meanwhile, ProMujer was searching for ways to provide demand deposit services to its clients without incurring the cost of transforming to a regulated institution.

In 1999 and 2000, the microfinance and rural banking associations (*Asociación de Entidades Financieras Especializadas en Micro Finanzes de Bolivia* (ASOFIN), and the *Asociación de Instituciones Financieras para el Desarrollo Rural* (FINRURAL), began to lobby the Superintendence of Banks and Financial Entities (SBEF) to adopt norms that would permit FFPs, banks, or regulated cooperatives to form alliances with unregulated financial institutions in order to expand the range of financial services to underserved markets.

[1] The four FFPs are Prodem, Caja Los Andes, FIE, and Ecofuturo. BancoSol is the sole commercial bank dedicated to this market. Among the most dominant microfinance NGOs (in terms of portfolio) are ANED, Crecer, FADES, and ProMujer. There are also many financial cooperatives operating throughout Bolivia but their market share is very small.

In early 2000, the SBEF adopted two norms that permitted alliances. The first norm—correspondence contracts (*contratos de corresponsalia*)—permits regulated and nonregulated institutions to form alliances such that the unregulated NGO microfinance institution would offer payments services (for example, utilities, salaries, and so on), transfers, and remittances to clients in the name of a licensed and regulated entity.[2] The second norm allows a regulated financial intermediary to open up a teller window (*caja externa*) in the branch of the unregulated entity to mobilize deposits or offer payment, transfer, remittances, and currency exchange services.

[2] The *contratos de corresponsalia* was outlined in the SBEF Circular 324 / 2000. The teller windows are sanctioned under Title I, Chapter II, Section 1, Art. 6 of the "*Recopilación de Normas para Bancos y Entidades Financieras*."

THE INSTITUTIONS

A long-standing professional relationship and camaraderie between senior managers of FIE and ProMujer facilitated the initial discussions of an alliance between the two institutions. Senior managers Elizabeth Nava, Commercial Manager of FIE, and Carmen Velasco, Executive Director of ProMujer, understand one another and each other's organizations. This relationship as well as the similarities and differences between the two MFIs have proven to be both an asset, especially in the formation of the alliance, and at times a liability in its implementation, as will be discussed later.

FIE

Founded as a nonprofit organization in 1985, FIE transformed into a private financial fund in 1998 to provide a variety of regulated financial services, including deposit services, to the urban markets in Bolivia. FIE is third largest microfinance FFP in Bolivia (as measured by the size of the portfolio) behind Caja Los Andes and Prodem. It has historically exhibited strong financial management, even during recent macroeconomic and political crises and the debtors' revolt, and has remained profitable. At the same time, FIE's social mission is still pivotal to its market orientation and has not been overshadowed by financial objectives. This has proven to be beneficial to the alliance with ProMujer, for whom the social mission is clearly paramount.

For years, FIE has had the distinction of being one of the most efficient MFIs in Latin America. FIE serves the main urban markets in Bolivia with 20 branches and 10 mini-branches around the country and a central office in La Paz offering flexible products. It has pursued a more conservative market strategy relative to some of its competitors, which means that it has not sought to be a market leader in product innovation; it has performed well by relying on a solid but limited range of products and services in familiar markets, including loan, deposit, payment, and transfer services. Though this strategy has served FIE well to control costs, the institution has lagged behind other more aggressive FFPs with respect to market penetration.

TABLE 1: FIE PRODUCTS AND SERVICES

Credit Products	Savings Products	Other Financial Services
Microenterprise loans	Liquid savings accounts	Transfers
Small and medium-sized enterprise loans	Fixed-term deposits	Remittances
Emergency loans	Programmed savings	Currency exchange
Housing loans		Bill payment
Fixed income loans		

FIE has historically been a credit-led institution and until 2002–2003, it had not invested significant resources in developing its savings services. This is typical among many FFPs in Bolivia, which historically have had access to large volumes of donor funding to capitalize their portfolios.3 In preparation for expanding its savings services, FIE launched an aggressive marketing campaign to

[3] For more information on this phenomenon, see Hillary A. Miller, "Why Microfinance Institutions in Bolivia Have Virtually Ignored Savings," *Small Enterprise Development*, Vol. 14, No. 3.

promote its products and services and changed its brand image in the market. This included enhancing the physical image of its branch offices and headquarters with strong corporate colors, developing new promotional material, and planning for the creation of a marketing department. It also entailed offering more competitive pricing on dollar-denominated and Boliviano savings accounts.

The development of savings services facilitated the alliance with ProMujer since it meant that FIE had more robust products to offer. The alliance would allow FIE to expand its deposit volumes quickly.

PROMUJER

ProMujer Bolivia was established in 1990 as international nonprofit women's development organization with the mission of empowering women to lift themselves and their families out of poverty. Although initially ProMujer focused on providing nonfinancial services such as health, family planning, and child development to its members, in 1993 it also began providing small group loans and savings as part of an integrated package. Today, ProMujer still focuses on the most economically marginalized clients, particularly women, who comprise 95 percent of the portfolio. ProMujer operates primarily in peri-urban regions, especially in El Alto, where many other MFIs (including FFPs) have a strong presence. ProMujer is the second largest NGO MFI in Bolivia (in terms of numbers of clients) and currently operates in six regions.

TABLE 2: PROMUJER PRODUCTS AND SERVICES

Financial Products	Nonfinancial Services
Group solidarity loans	Business development training
Individual loans	Health and nutrition education
Compulsory savings	Legal services

Because of its legal structure, ProMujer provides a more limited range of financial services intended to meet the demands of its clients. Group loans are its largest product by volume. The solidarity group clients are required to save 20 percent of their loan amount during the first three loan cycles. During subsequent loan cycles, savings requirements are lowered. Clients are prohibited from withdrawing their deposits until their loans are paid off. Compulsory savings are popular among these clients. Many poor women prefer to save in a group rather in individual accounts so their husbands will not pressure them to withdraw their savings. For the same reason, many clients prefer to deposit their additional savings (beyond the compulsory amount) in the group account.

PROMUJER PERFORMANCE INDICATORS
(September 30, 2004)

No. of borrowers	46,007
No. of branches	37
Outstanding portfolio	$5,005,162
Portfolio at risk >30 days	0.53%
Average loan size	$109
Return on assets (ROA)	8.34%
Return on equity (ROE)	13.29%

Source: Boletín Mensual, September 2004, FINRURAL

For senior managers at ProMujer, the primary motivation for the alliance with FIE was to offer safe and convenient deposit services to its clients. However, once the concept of an alliance began to take shape, it was obvious that other services that ProMujer is legally barred from offering could also be made available through the teller windows, namely payments and transfers. Prior to the alliance, ProMujer clients made their water, electricity, and telephone payments either at a bank branch or at the office of the utility. This meant that, in addition to making financial transactions at ProMujer branches for loans and savings, clients also spent time traveling to other locations and waiting in line to make utility payments elsewhere. The teller windows would permit the clients to consolidate many of their financial transactions into one geographic location through a service provided solely for them.

OPERATIONALIZING THE ALLIANCE

LAYING THE FOUNDATION

In 2003, FIE and ProMujer agreed that FIE would open teller windows in some of ProMujer's existing branches. FIE and ProMujer each had its own objectives in forming this alliance. FIE sought to increase its volume of deposits quickly, and to capitalize its loan portfolio, while ProMujer wanted to provide its clients with safe and convenient deposit services, and to reduce administrative costs. A welcome byproduct for ProMujer was that the alliance would give the NGO a competitive advantage by enabling it to offer deposit, payment, and transfer services, which other nonprofit competitors did not. Both institutions had expected that, through the more formal relationship resulting from the linkage, ProMujer would have access to an on-demand line of credit from FIE to capitalize its loan portfolio. However, ProMujer has exercised this option to date because it found itself with excess liquidity soon after forming the linkage.

A four-year contract, drafted and signed in February 2003, stipulated FIE's operational responsibilities for the teller windows. By law, the tellers would be FIE employees, and FIE would be responsible for all cash management. Through the teller windows, FIE would offer only deposit, transfer, and bill payment services. The agreement included a noncompete clause that prohibited FIE from offering credit services to ProMujer clients during the life of the contract. This clause was included to assuage ProMujer's fears that the teller windows would provide FIE with an opportunity to "steal" ProMujer loan clients by directly offering them loans.

The contract also included an exit strategy for FIE in the event that the linkage proved unsustainable. If the teller windows did not achieve certain savings targets, ProMujer would have to either buy out FIE or begin to pay FIE for the service. Otherwise, the contract would continue until expiration. The noncompete clause and exit strategy were essential to the design and implementation of this model because they gave both MFIs the security they needed to assume the risk involved in the partnership.

KEY POINTS OF THE FIE/PROMUJER AGREEMENT

- FIE to offer deposit, payment, and transfer services through teller windows located in ProMujer branches
- FIE staff to have operational responsibility for teller windows
- Nine teller windows to be opened within eight months
- Noncompete clause for lending through internal teller windows
- Cost of administering deposits must be less than the cost of commercial funds for FIE

In order to launch this strategic alliance, FIE and ProMujer sought donor funding to cover the start-up costs. Nearly 100 percent of the costs of the linkage were donor-funded. The donors—the U.S. Agency for International Development (USAID), Gesellschaft für Technische Zusammenarbeit (GTZ), and the Swiss development agency COSUDE (through the Bolivian government's savings mobilization project called MAP)—were eager to be part of this innovation. USAID donated $98,001 for fixed costs, while the donations of GTZ ($31,574) and MAP/COSUDE ($54,107) were earmarked for operating costs, for a total of $183,682 in donor funds. In fact, the only costs that the two MFIs paid themselves were indirect costs that were mistakenly omitted from the business plan, such as back office costs for accounting and processing, senior managers' time, and equipment maintenance (primarily printers and computers in the teller windows).[4]

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[4] Neither organization tracks these costs individually; therefore, there are no specific data to report regarding these costs.

A business plan was drafted using donor resources to pay a consultant who drafted the document with some input from the two parties. According to the business plan for the alliance, the fixed costs of setting up and equipping a teller window in a ProMujer branch were projected to be nearly $6,000, totaling about $53,000 for nine teller windows. This included the cost of a computer, a safe, and the construction of the teller window. The cost to operate a teller window was estimated at $982 per month, equaling nearly $9,000 in salaries and benefits for nine tellers.

The plan had a very ambitious implementation schedule. It called for the opening of nine new teller windows in the first eight months of the project (between March and November of 2003). It also assumed that all of the deposits—both compulsory and voluntary—held by ProMujer would be transferred to FIE all at once. In addition, the plan projected breakeven to occur within six months of start-up.[5] Some of these ambitious assumptions proved unrealistic.

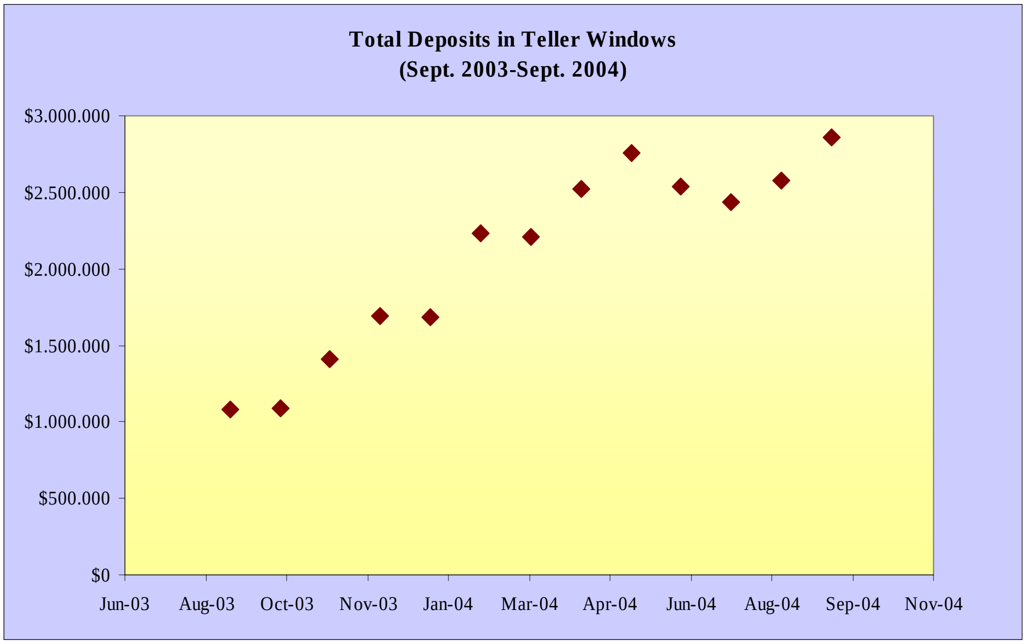
THE LINKAGE IN PLACE

Since the launch of the alliance, 13 teller windows have been opened in ProMujer branches in six regions of Bolivia (El Alto, Sucre, Cochabamba, Santa Cruz, Tarija, and Potosí). The average monthly growth in deposits is nearly 6 percent, which mainly reflects the migration of large volumes of existing deposits held by ProMujer clients. Nearly 55 percent of FIE's demand deposits are currently held by ProMujer clients ($2.7 million out of a total of $4.9 million, as of September 2004). Total deposits among all of the FFPs increased during that same period, from $70 million to $180 million, which indicates that the FIE/ProMujer linkage did not simply result in a transfer of deposits from other regulated financial institutions to FIE, but, rather, was part of a larger expansion of the deposit base in Bolivia, especially of smaller deposits.

All of the teller windows offer the same services, which include interest-bearing demand deposits, fixed deposit accounts, payment services for water and electricity, transfers, and remittances. Under the agreement, FIE is not permitted to offer credit services through the internal teller windows. Each teller window is branded with the FIE logo and marketing materials and is painted in FIE's corporate colors. All internal teller windows are built inside ProMujer branches. These teller windows are not visible from the street and there is no sign on the outside of the building advertising the services. Since neither MFI envisioned the teller windows serving clients other than those of ProMujer, there was no need to display marketing material externally. However, in two of the ProMujer branches – Senkata and PanAmericana – external teller windows were opened on the ground floor of existing branches and have street access. At these two locations, FIE offers all of its products and services, including credit. The two MFIs chose to open these two external teller windows with storefront service offering credit because there are no other financial institutions operating in these markets. In these locations, FIE and ProMujer sought to leverage the alliance to benefit the entire community with more full-service "mini-branches" of FIE operating on the ground floor of the ProMujer branch office.

[5] This projection assumed a 3 percent rate of growth in deposits per month, and an opportunity cost of 3.5 percent.

FIGURE 1: INCREASE IN DEPOSITS AT TELLER WINDOWS



Source: FIE FFP

THE CHALLENGES OF IMPLEMENTATION

FIE and ProMujer faced four major challenges in forging and implementing their alliance. While not insurmountable, these challenges presented problems for the efficiency of operations, the quality of service provided by the tellers, and staff morale.

First, the planning process was flawed. The senior managers of FIE and ProMujer relied heavily on an outside consultant, paid with donor funds, to conduct the analysis and develop the business plan. The business plan made a number of unrealistic postulations about the volume of savings that would be transferred to teller windows, the speed with which new teller windows would be opened, and the speed with which new products would be rolled out. For example, the plan assumed that nine new teller windows would be operational in eight months, which proved to be too ambitious. A rapid roll-out of the teller windows left no room for sound pilot-testing. Senior managers at both FIE and ProMujer agreed that more realistic projections might have been developed if the business planning process had been done internally and if they had not felt pressure from the donors to launch the teller windows quickly.

Second, the quality of service at the teller windows was inconsistent. Many clients complained that the teller windows were not open long enough. Most tellers start their day at 9 a.m. but spend two hours on administrative tasks before opening the window at 11 a.m., which some clients complained is too late. Other clients complained that they were unable to get to the teller window before it closed at 4 p.m. Clients also complained about cashiers not accepting old bills or taking too long to count coins. Some of the complaints can be attributed to differences in the institutional cultures of the two institutions; others stemmed from the lack of online connection, which affected service provision.

Whatever the causes of each complaint, the two institutions were initially challenged to provide better customer service and to respond to customer complaints more quickly.

FIE's lack of online connection was the third substantive challenge facing the alliance. Because it is a regulated entity, FIE needs to have an online connection to submit daily reports to the Central Bank on operations. Because the teller windows are not online, the tellers enter all of the data into the computer twice—first during the day in the ProMujer management information system (MIS), and then again at the end of the day into the FIE MIS at the nearest FIE branch. In order to enter client and financial data into both systems, many tellers work 10 to 12 hours per day. This extra work is one of the reasons that some FIE employees consider working at the teller windows to be a punishment. The extra hours also mean that the tellers cannot extend the customer service hours of the teller windows and still complete their work. In short, the lack of connectivity is perhaps the most significant obstacle to client and employee satisfaction, and ultimately to the growth of the teller windows.

FIE and ProMujer did not consider simply creating a software patch that could link their MISs as an alternative to online connectivity largely because of the challenges that both institutions faced in installing new MISs in 2003 and 2004. In addition, FIE has been reluctant to pay to bring the teller windows online because of the high fixed costs. Each teller window would cost about $3,000 to get online, or almost $40,000 for all 13 teller windows. FIE needed empirical evidence that the teller windows would be viable before making such a large investment. Now that the teller windows have proved viable and the obstacles presented by a lack of connectivity are clear, FIE has committed to bringing the teller windows online beginning in early 2005.[6]

Finally, the teller window operations encountered some difficulties resulting from a lack of training and internal marketing before the launch of the project. The first formal and joint training of FIE and ProMujer staff was held 16 months after the opening of the first teller window. As a result, misinformation spread through the staff and lowered morale. For example, some tellers believed that working in the teller window was a demotion and that these tellers did not receive full benefits. Some FIE tellers and ProMujer staff felt uncomfortable around one another.[7] In addition, not everyone in both organizations seemed to have fully understood some of the terms of agreement. For example, in two teller windows, marketing material promoting all of FIE's products and services, including credit, were prominently displayed in violation of the agreement.

Once the two institutions launched an internal marketing campaign, staff understood the initiative better and began to feel more committed to it, which improved morale.

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[6] Nevertheless, FIE could have developed an interface between the MISs of the two institutions, but it did not. Senior managers explain that the transition from the old MIS to the new Oracle-based system was a more important and very demanding priority for the institution as a whole. Development of an interface was also thought to be too costly.

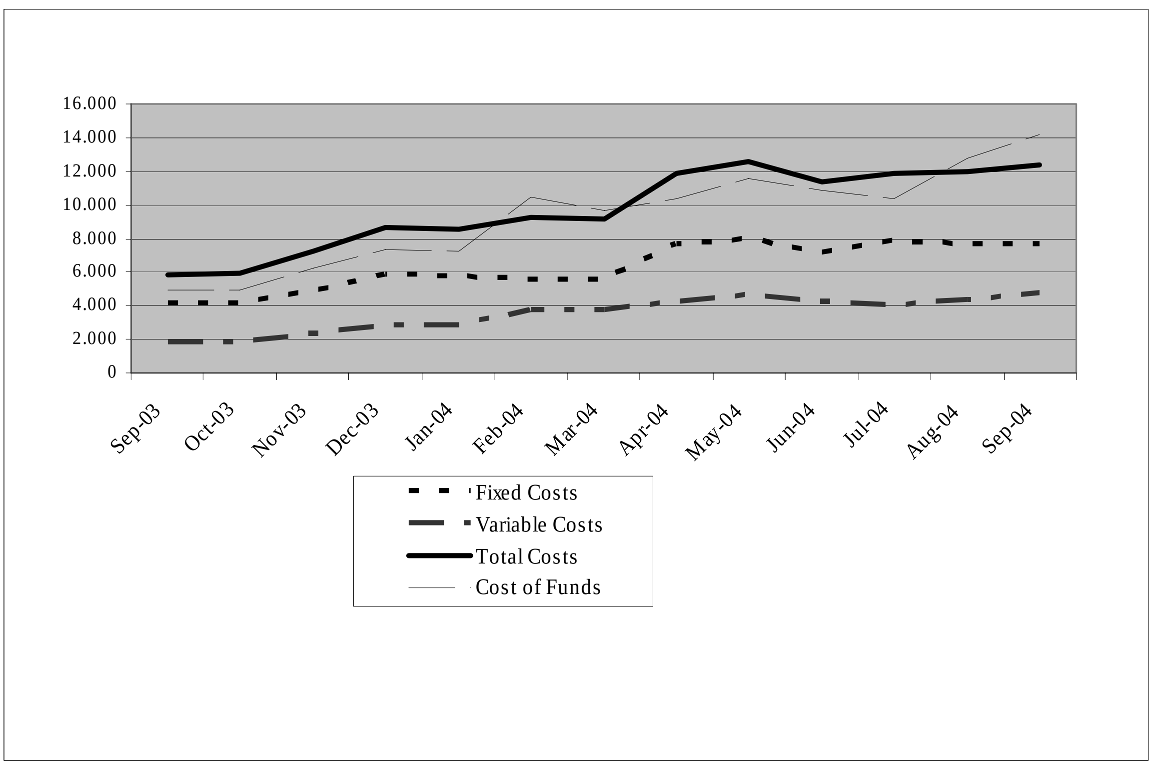
[7] Interviews conducted by the authors with ProMujer clients and credit officers in the branches of Juan Pablo, Villa Tejada, and PanAmericana, September 2004.

MEASURES OF SUCCESS

Just as the objectives of each institution in the alliance differed, so did their measures of success. For FIE, the most important measure was the capacity of the teller windows to mobilize new deposits. Specifically, the cost of mobilizing deposits had to be less than the cost of a commercial loan from NAFIBO in order for the linkage to be a success for FIE. This measure illustrates that FIE's primary motivation in the linkage was access to cheaper funds. By that standard, the teller windows are a success.

Figure 2 shows the fixed and variable costs of the teller windows by month and compares them to the cost of funds. From this graph, it is possible to see that the cost of funds surpassed the total cost of the teller windows in August 2004. As of August 31, 2004, the average cost of capturing savings through the teller windows was 4 percent less than the cost of a line of credit from NAFIBO. To be more specific, the total cost of operating the teller windows in August 2004 was $11,932 (fixed costs of $7,642 and variable costs of $4,292). The total deposits for that month were $2,575,033. If FIE had borrowed the same amount from NAFIBO at 5.94%, the cost of those funds would have been $12,746, which slightly exceeds the cost of operating the teller windows. At that point, the teller windows broke even, and the trend has continued upward. In addition, these funds are more stable than a line of credit or large deposits.

FIGURE 2: FIXED AND VARIABLE COSTS OF THE TELLER WINDOWS COMPARED TO COST OF FUNDS (ACTUAL AND PROJECTED DATA) (USD)



Source: FIE FFP

ProMujer's measure of success was less bottom-line-driven given that it was incurring only a fraction of FIE's costs. In addition, there are no direct financial benefits of the teller windows to ProMujer.[8] For example, ProMujer does not earn a fee for providing the space to FIE. The key success factor from ProMujer's point of view was the delivery of safe and convenient deposit services to its clients. The steady and rapid growth of deposits in the teller windows by ProMujer clients indicates that, through the alliance, ProMujer has provided its clients with a desired service.

An unforeseen result of the linkage for ProMujer has been greater efficiency in its lending operations. Prior to the opening of the teller windows, ProMujer's loan process required that clients travel to different locations to receive loan disbursements and make loan repayments. Under the old scheme, clients received their disbursement checks at ProMujer branches, cashed their loan checks at a commercial bank, met bi-monthly to make and collect loan payments and savings at the ProMujer branch, and then returned to the bank branch to make their loan payments and deposits. With the teller windows, ProMujer reduced the process to two steps, with the majority of the transactions taking place in the ProMujer branch office. The teller windows facilitated this streamlining because it obviated the need for clients to go to the nearest bank branch to process disbursements, payments, and deposits.

[8] There is an indirect financial benefit to ProMujer of added clients and increased client loyalty as a result of the new service, but it was not possible to quantify this trend as part of this research. Anecdotal evidence based on focus groups and interviews conducted by the authors suggests that some clients have chosen to stay with ProMujer instead of switching to another institution because of the teller window service.

LESSONS LEARNED AND RECOMMENDATIONS

Many of the lessons learned from the FIE/ProMujer alliance illustrate the importance of good project planning and management. The FIE/ProMujer linkage had many elements in place that led to the success of this alliance and allowed it to be innovative in a highly competitive market. Any factors missing at the start had to be remedied during the implementation stage. A great deal can be learned about those elements from the pioneering effort of FIE and ProMujer.

1. A detailed contract and realistic business plan that outline roles and responsibilities are essential. The contract must clearly define the roles and responsibilities of both partners. It should outline a structure for communication between the two entities, and a phased approach to making the alliance operational, including a closely monitored test phase. The agreement should also allow time for appropriate modifications before the launch of the product or service on a wider scale. The agreement should:

- determine and define the roles of each manager involved in the linkage as well as a clear process for communication between the two institutions;
- define an exit strategy;
- lay out intermediate and long-term objectives and targets;
- specify the terms of a noncompete clause (if applicable); and,
- include detailed and accurate cost estimates.

> "If one thing can undermine an alliance, it's a lack of governance. Most successful companies have institutionalized their alliance capabilities by creating internal teams to handle the task of creating, tracking and disbanding partnerships. Most firms that excel in alliances require managers to report to top officers rather than to department heads…. And they find ways to capture the knowledge and share it across the organization."
>
> *S. Greengard, "Not-So-Strange Bedfellows," Business Finance, February 1999*

Research on strategic alliances among multinational corporations found that the most effective governance structures are those in which an alliance team reports directly to senior management on performance.[9] Field staff involved with the day-to-day operations of the linkage should follow a process of reporting to senior management on glitches and tensions before they reach a crisis level. While communication between senior FIE and ProMujer staff is common, communication among other staff directly involved in the operations and with clients needs to be strengthened. In order to avoid confusion and conflict, lines of authority and responsibility in an alliance should be clear. At the same time, enough flexibility should be built into the structure of the alliance to allow it to adapt to changing circumstances.

An exit strategy or sunset clause should also be included to allow both parties to reevaluate the alliance as conditions change. No alliance is static; alliances need to be reviewed and reevaluated on a regular basis. Institutions must expect shifts in priorities, vision, and power. Institutions that resist these changes—rather than accommodate them—will watch their alliances crumble. Similarly, a noncompete clause may be necessary to define the parameters of the alliance. This is particularly true

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9 S. Greengard, "Not-So-Strange Bedfellows," *Business Finance*, February 1999.

for organizations that have similar products, services, or target markets. Such a clause has proven to be pivotal in the cohesion of the agreement between FIE and ProMujer, which have substantial overlap in their markets.

Finally, the business plan should reflect all direct and indirect costs associated with the linkage, and realistic projections must be developed. The FIE/ProMujer alliance business plan included a detailed description of the linkage, operations, costs and benefits, work plans, timelines, results matrixes, operational procedures and responsibilities, job descriptions, and even forms and instructions.

2. Management commitment and trust between the partners are imperative. Senior managers of both partners must be committed to championing the linkage, advocating for the changes required to form the alliance, and ensuring that appropriate resources are dedicated to it. In the case of FIE and ProMujer, senior managers were very supportive of the alliance, but more attention should have been paid to seeking buy-in from middle-level management and field staff. Without sufficient trust between partners, an alliance will quickly collapse. Each partner must be able to count on the other to fulfill its commitments and to follow the agreement. With FIE and ProMujer, this trust starts with top management. At the branch level, FIE tellers have to work to earn the trust of their ProMujer colleagues and clients.

3. Training and internal marketing are critical for attaining the buy-in of staff. The purpose of training and internal marketing is not just to teach employees policies, procedures, and systems; it helps employees of each institution understand the reasons for and benefits of the alliance, thus securing their buy-in to the venture. Training and internal marketing smoothes the start-up phase, creates crucial buy-in, and can help prevent bottlenecks and conflicts. It is not sufficient for only senior management to understand and believe in the alliance; all back and front office staff—especially those directly involved in its success—must understand the alliance. In the case of FIE and ProMujer, strong trust and commitment at the top levels of management did not immediately transfer into understanding and acceptance throughout the human resource layers of their institutions.

COMMON PITFALLS FOR STRATEGIC ALLIANCES

- Wrong partner
- Over-optimism
- Lukewarm commitment
- Poor communications
- Undefined roles
- Unclear value creation
- Vague agreement
- Little relationship building
- Weak business plan

Data Quest and Booz Allen & Hamilton

4. Both institutions should be directly invested in the alliance and share responsibility for the design and implementation. Both partners must invest time and money in the design and implementation of the alliance. In addition, the responsibility for the success or failure of the alliance must be shared. Financial risk and reward in a venture is a powerful motivator. Though the risk-reward sharing does not have to be equal, an alliance must create a win-win situation for each partner. In the FIE/ProMujer alliance, start-up risk was almost entirely assumed by donors. The willingness of the donor community to fund the start-up costs of the alliance resulted in the partners paying less attention to the design and implementation of the teller windows than they would have if they had been spending their own money.

5. A regulatory framework must exist that permits (or does not prohibit) an alliance. In some countries, a flexible regulatory framework may be necessary to allow regulated and unregulated entities to form an alliance that expands services to underserved markets. In Bolivia, the Superintendence created prescriptive regulation that supported the creation of alliances between FFPs or commercial banks and NGOs using the teller window model. Without this framework, the FIE/ProMujer alliance would have been illegal.

A SPECIAL NOTE ON THE ROLE OF DONORS

Donors can play an important role in fostering alliances to reach underserved and rural financial markets. However, donors must be careful about how and what they choose to finance. When donor money is present, it should complement—not replace—the direct investments by the institutions, and it should be conditioned on performance. Although donated funds can serve to prime the pump of an alliance, they can also cause the financial institutions to be more lax in the planning and implementation because they are not assuming the financial risk.

In addition, donors often impose a timetable that reflects their funding cycle rather than an alliance's business cycle. In the case of FIE and ProMujer, the partners felt rushed to open up teller windows much faster than they would have if they had financed the linkage themselves. As a result, there was not enough time for pilot-testing, capturing lessons learned, and modifying their approach. When soft money is present, the donors must ensure the strategy is driven by the market rather than by their own funding cycles.

FUTURE OF THE FIE/PROMUJER ALLIANCE

The evolution of the FIE/ProMujer alliance over time raises additional and important questions regarding this model: Is it meant to endure indefinitely? If this alliance ends when the contract expires, has it failed?

Undeniably, both institutions have gained in the short term. ProMujer has been able to offer safe and convenient deposit services to its clients, improve customer satisfaction, and gain a comparative advantage over its main competitors. In addition, the teller windows have permitted ProMujer to streamline its operations. Through the alliance, FIE has gained access to a large sum of deposits very quickly and has tapped new markets.

The future of the alliance in the long run is less clear. If the agreement were not renewed, for example, the incentive for FIE to begin offering its full range of products in these new markets once the alliance ends would be strong. Through the alliance, FIE has been able to build a stronger base in more remote and under-served markets. From a business perspective, these markets present an attractive opportunity for FIE. If it were to penetrate these markets with its full range of products and services, FIE would pose a formidable challenge to ProMujer, which would find it hard to compete for clients eligible for individual loans. In this scenario, however, the comparative advantage for ProMujer would still be that it targets lower-income clients who lack collateral for an individual loan.

In order for FIE to provide its full product offering, however, it would have to break its agreement with ProMujer (or allow it to lapse). At this stage, the two institutions remain committed to one another and to the alliance and are not entertaining a split.

From ProMujer's perspective, there are two possible scenarios if the alliance with FIE were to end: 1. forge an alliance with another FFP or bank, or 2. merge with a regulated financial institution. The first scenario is certainly realistic, given that other regulated MFIs have expressed interest in forging linkages with NGOs.[10] The second scenario is less likely because of ProMujer's intense loyalty to its clients and its reluctance to hand them over to another MFI. Furthermore, although many Bolivian

[10] BancoSol considered forging an alliance with CRECER in 2002–2003; however, a weak evaluation of CRECER by ACCION International made BancoSol and several donors sour on the idea.

MFIs have discussed the prospect of mergers, especially following the debtors' revolt, no two MFIs have yet merged.[11]

Some have argued that alliances are not meant to endure. "No alliance lasts forever, though companies might continue to work together to create new alliances," says Bob Gruss, managing director for Alliance Management International Ltd., a Cleveland-based consulting firm specializing in strategic alliances. "At some point, you've met your business objectives and you move on."[12]

Regardless of its longevity, the FIE/ProMujer alliance presents an innovative model for others to consider. Not only has it exceeded the goals of the two partners, the linkage has prompted other institutions in Bolivia to forge similar alliances (*see sidebar on the FADES-Trapetrol alliance*). As global microfinance markets deepen and grow more competitive throughout the world, the incentive to form alliances will undoubtedly increase.

FADES-TRAPETROL ALLIANCE

In 2002, FADES and Trapetrol formed an alliance under the Correspondence Contracts regulation. Through this alliance, FADES—an unregulated NGO—offers utility payment services, remittances, and transfers in the name of Trapetrol—a regulated cooperative based in Santa Cruz that is licensed to offer those services. The alliance was financed with donor funds and the institutions' own resources. The fee income is split 60/40 between FADES and Trapetrol, respectively. The estimated fee income from the alliance for 2004 is $15,000 for FADES and $10,000 for Trapetrol.

Sadly, the SBEF has placed Trapetrol in receivership following a major fraud earlier this year. Although FADES is concerned about the situation with Trapetrol, it has not ended the alliance and seeks to continue offering the services either in alliance with Trapetrol or with another regulated entity.

According to FADES, the lessons learned from this alliance are:

- Both partners must win in an alliance.
- Alliances must be based on trust.
- Partners should know each other well.
- Partners must be transparent and play by the rules.
- Good personal relationships help enormously.
- Alliances are easy to form and hard to dissolve.

11 FIE and Prodem nearly merged but FIE backed out when it realized that the deal was more of an acquisition. For more on this story, see Elizabeth Rhyne, *Mainstreaming Microfinance: How Lending to the Poor Began, Grew and Came of Age in Bolivia*, Kumarian Press, 2001.

12 S. Greengard, op. cit.

ANNEX 1: INTERVIEWS AND FOCUS GROUPS CONDUCTED

Interviews

Pedro Arriola, Los Andes FFP

Ximena Arroyo, ProMujer

Hugo Bellot, ProMujer

Cecilia Campero, Profin-COSUDE

Mercedes Cori, ProMujer

Sofia Cruz, FIE

Sergio Duchen, MAP

Roberto Duran, FIE

Salomon Eid, DAI

Heike Fiedler, GTZ

Fernando Mompó, FADES

Elizabeth Nava, FIE

Fernando Prado, ASOFIN

Jorge Rios, FIE

Yolanda Saire, ProMujer

Waldo Salinas, SBEF

Steve Smith, DAI

Milton Soria, FIE

Carmen Vargas, branch manager

Vivana Vasquez, FIE

Carmen Velasco, ProMujer

Rosi Vicente, ProMujer

Focus Groups

ProMujer Centro Focal Juan Pablo

ProMujer Centro Focal PanAmericana

ProMujer Centro Focal Villa Tejada