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Opening Markets Through Strategic Partnerships—The Alliance Between FIE and ProMujer

The FIE/ProMujer alliance presents an innovative model for opening markets through strategic partnerships. Not only has this partnership exceeded the goals of the two partners, but the linkage has prompted other institutions in Bolivia to forge similar alliances.

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By forming strategic partnerships or alliances, formal and informal financial institutions can overcome institutional and operational obstacles as well as obstacles related to physical infrastructure, geography, limited population density, or regulation.

In the late 1990s, the Bolivian microfinance market found itself in a crisis. A number of forces converged and prompted financial institutions to revise their market strategies and expand into underserved markets as well as to bolster their deposit services. 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 microfinance institutions (MFIs). It was in this context that *Fomento a Iniciativas Economicas* (FIE) and *Programa para la Mujer* (ProMujer) began negotiations to form an alliance that would extend deposit, payment, and money transfer services into rural areas of Bolivia—the first strategic partnership of its kind.

FIE—a regulated private financial fund—would use the existing branch infrastructure of ProMujer—an unregulated nongovernmental organization (NGO)—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.

This microNOTE examines how the partnership between FIE and ProMujer was formed, the implementation challenges faced, and the measures of success, and highlights lessons learned and recommendations for other institutions exploring similar types of partnerships.[1]

OPERATIONALIZING THE ALLIANCE

Laying the Foundation

A combination of external and internal factors drove the creation of the 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.

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.

In 2003, FIE and ProMujer agreed that FIE would open teller windows in some of ProMujer's existing branches. The four-year contract, drafted and signed in February 2003, stipulated FIE's operational responsibilities for the teller windows. FIE/ProMujer agreed to the following:

- FIE to offer deposit, payment, and transfer services through teller windows located in ProMujer branches;
- FIE staff to have operational responsibility for the teller windows;
- Nine teller windows to be opened within eight months;
- FIE to sign a non-compete clause that prohibited it from offering credit services to ProMujer clients during the life of the contract; and
- The cost of administering deposits must be less than the cost of commercial funds for FIE.

The contract also included an exit strategy for FIE, in the event that the alliance 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.

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 were donor-funded, including the costs of a consultant to draft a business plan with input from the two parties. The plan had an ambitious implementation schedule. It called for the opening of nine new teller windows in the first eight months. 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 break-even to occur within six months of start-up. Some of these ambitious assumptions proved unrealistic.

The Linkage in Place

Since the launch of the alliance, 13 teller windows have been

[1] This microNOTE is based on the Accelerated Microfinance Advancement Project (AMAP) Financial Services Knowledge Generation (FSKG) report *Opening Markets Through Strategic Partnerships: The Alliance Between FIE and ProMujer,* prepared by John Berry and Hillary Miller Wise. The full report is available on http://www.microlinks.org.

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.

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. Since neither MFI envisioned the teller windows serving clients other than those of ProMujer, there was no need to display marketing material externally.

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. 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. 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, the two institutions were initially challenged to provide better customer service and to respond to customer complaints more quickly.

FIE's lack of online connectivity was also a substantive challenge facing the alliance. Because it is a regulated entity, FIE must have an online connection to submit daily reports to the Central Bank on operations. However, since the teller windows are not online, the tellers enter all of the data into the computer twice a day. This lack of connectivity is perhaps the most significant obstacle to client and employee satisfaction, and ultimately to the growth of the teller windows. Now that the teller windows have proven viable and the obstacles presented by a lack of connectivity are clear, FIE committed to bringing the teller windows online beginning in early 2005.

Finally, the teller window operations encountered some difficulties resulting from a lack of training and internal marketing before the launch of the project. As a result, misinformation spread through the staff and lowered morale. Once the two institutions launched an internal marketing campaign, however, staff understood the initiative better and began to feel more committed to it, which improved morale.

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 (*Nacional Financiera Boliviana)* 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.

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. 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. With the teller windows, ProMujer reduced the loan 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.

LESSONS LEARNED AND RECOMMENDATIONS

Many of the lessons learned from this strategic partnership illustrate the importance of good project planning and management.

1. A detailed contract and realistic business plan that outline roles and responsibilities are essential. 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 non-compete clause (if applicable); and include detailed and accurate cost estimates.

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.

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.

4. Both institutions should be directly invested in the alliance and share responsibility for its design and implementation. Both parties 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. Although the risk-reward sharing does not have to be equal, an alliance must create a win-win situation for each partner.

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 a prescriptive regulation that supported the creation of alliances between private financial funds 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. Donor money should complement —not replace—the direct investments by the institutions, and it should be conditioned on performance.

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 that 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, however, 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. If it were to penetrate these markets, FIE would pose a formidable challenge to ProMujer, which would find it hard to compete for clients eligible for individual loans.

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. As global microfinance markets deepen and grow more competitive, the incentive to form alliances will undoubtedly increase.