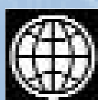
WORLD BANK WORKING PAPER NO. 76

Strategic Alliances to Scale Up Financial Services in Rural Areas

Joselito Gallardo
Michael Goldberg
Bikki Randhawa



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Washington, D.C.

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Acronyms and Abbreviations

ASA	Association for Social Advancement (Bangladesh)
ATM	Automated Teller Machine
AusAid	Australian Agency for International Aid
BancaSol	Banca Privado para el Desarollo S.A. (Guatemala)
Banrural	Banco de Desarollo Rural (Guatemala)
BASIX	Bhartiya Samruddhi Investments and Consulting Services Ltd. (India)
BPI	Bank of the Philippine Islands (Philippines)
BSP	Bangko Sentral ng Pilipinas (Philippines)
CARE	Cooperative for Assistance and Relief Everywhere, Inc. International
CDRO	Cooperative for Development of the Western Region (Guatemala)
CFI	Cooperative Financial Institution
CGAP	Consultative Group to Assist the Poor
CRS	Catholic Relief Services
DfID	United Kingdom Department for International Development
FENACOAC	National Federation of Savings and Loan Cooperatives (Guatemala)
FINCA	Foundation for International Community Assistance
Genesìs	Fundación Genesìs Empresarial (Guatemala)
GLICO	Gemini Life Insurance Co. Ltd. (Ghana)
IADB	Inter-American Development Bank
ICCO	InterChurch Organization for Development Cooperation (Netherlands)
IFC	International Finance Corporation
LBP	Land Bank of the Philippines
MFI	Microfinance Institution
MIS	Management Information System
NGO	Non Governmental Organization
NRBSL	New Rural Bank of San Leonardo (Philippines)
OI	Opportunity International
ProFund	ProFund Internacional, S.A. (Costa Rica)
RFI	Rural Finance Institution
TSPI	Tulay Sa Pag-Unlad Development Corporation (Philippines)
USAID	United States Agency for International Development
WOCCU	World Council of Credit Unions

Executive Summary

Despite more than 25 years of large financial investments and technical assistance programs, access to financial services in rural markets has not expanded at the massive scale and on the financially sustainable basis that have been expected in a number of countries and regions. Recently donors, academics, and government policymakers have shown renewed interest in rural finance, hoping to build on lessons learned about subsidized interest rates, directed credit and the growth of sustainable microfinance.

This sector work aims to analyze the motives of selected rural finance institutions (RFIs) in the alliances they form with other commercial and non-profit organizations. It examines how constraints to access and delivery of financial services in rural markets are relieved through strategic alliances. The analysis points out the types of RFIs that are effective in helping formal sector entities to penetrate rural markets, highlights the new financial products (such as international remittances and micro-insurance services) that result from these alliances, and notes the objectives of different models of strategic alliances. Strategic alliances comprise a new theme in rural finance and the duration of experiences of rural finance institutions vary widely. Those alliances with longer duration enable measurement of the nexus between strategic alliances and scaling up whereas those with shorter duration allow only for indicative trends.

The study focuses on the experiences of selected rural finance institutions, primarily in Guatemala and the Philippines, in employing strategic alliances and development partnerships to overcome obstacles and barriers to scaling up access through introducing new products and expansion in market coverage. Examples from Ghana and India are also provided. The alliances and partnerships enabled the rural finance institutions to access significant new capital resources, manage transaction costs, acquire technical and management skills, link up to banking technology and infrastructure, and provide an expanded array of financial products and services.

Conceptual Framework for Alliances and Partnerships in Rural Finance

Business firms structure strategic alliances with other firms to achieve one of five specific objectives. These are: (i) overcome a resource constraint, (ii) manage transactions costs, (iii) acquire new technical and management skills, (iv) build customer loyalty by enhancing product value, and (v) gain competitive advantage and market position. The underlying principles of strategic alliances in the business world apply as well to the collaborations in rural finance. In both cases, the alliances can be used to address similar strategic objectives. One difference is that collaborations in rural finance may have a strategic or development orientation: institutional relationships can be grouped into strategic alliances at one end of the spectrum and development partnerships at the other end, as illustrated in Chart 1, later.

The collaboration between a RFI and its partner(s) is strategic when the RFI obtains a financial or economic advantage, and the intangible benefits beyond those explicitly included in the partnership arrangement (formal or informal) can be gained by the parties involved.

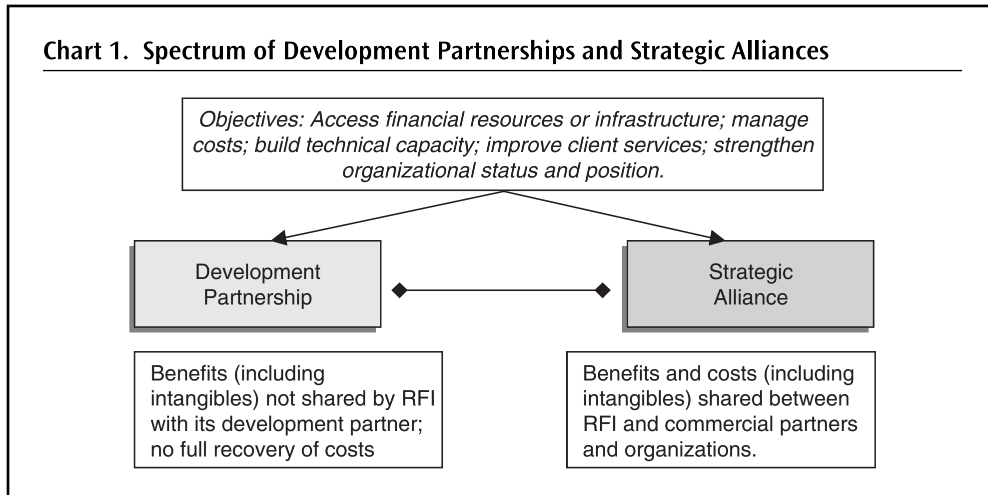


Chart 1. Spectrum of Development Partnerships and Strategic Alliances

On the other hand, the collaboration is a development partnership when the gains and benefits (including the intangible ones) are not shared between the participating institutions but have a unidirectional flow from a development partner to the RFI. Instruments and mechanisms made available to the RFI to meet an identified objective may not be charged at market cost. The less-than-market costing injects an element of permanent or temporary subsidy. Some development partnerships may progress, in time, into commercially-driven strategic alliances, while others may not go beyond the developmental relationship.

The rural finance institutions analyzed in the study employed strategic alliances and development partnerships with commercial banks, insurance companies, international remittance service networks and other financial institutions, development organizations, apex organizations and umbrella federations and commercial enterprises, to help them achieve two or more main objectives. These objectives are: (i) ease resource constraints, (ii) manage transaction costs, (iii) improve product value to clients and customers, (iv) access new technical knowledge, skills, systems and infrastructure, and (v) position the institution or product strategically for competitive advantage.

Strategic alliances and development partnerships were used to scale up access of rural households and micro-businesses to financial services. The study focused on two approaches used to achieve scaling up objectives. In the first approach, the scaling up of access is accomplished by introducing new financial services to an existing client base, thereby: (i) reducing drop-out rates and increasing client retention; (ii) increasing client satisfaction with overall quality and quantity of services available; and (iii) attracting potential new clients. In this first approach, the scaling up experience of the RFIs studied was product-driven. Two products that best exemplify the scaling up achieved through alliances are servicing international remittances and providing micro-insurance products. In the second approach, the scaling up of access is accomplished by expanding the volume and availability of existing financial services to a larger geographical area and/or households and small businesses in other income strata. In this second approach, RFIs' alliances with other commercial institutions/organizations were driven by the goal of addressing two or more combinations of strategic objectives.

Findings—Strategic Alliances and Development Partnerships in Rural Finance

The experiences of the RFIs in the study show that identified organizational objectives to scale up access to financial services in rural markets can be met by structuring strategic alliances or development partnerships with commercial organizations or development organizations. The dynamics of access to financial services in rural areas has at least two important aspects: first, availability of a varied array of financial services other than credit and second, increasing numbers of rural market participants who make productive use of the financial products. Non-credit financial services such as savings deposits, remittances/money transfers, payments facilities (through ATMs, smart cards and check cashing), discounting of warehouse/storage receipts, input-supply and output-marketing contracts, and insurance products are important in rural markets. These products expand not only the range but especially the scale of access to financial services available to households and small-scale producers and businesses in rural areas.

The experiences of the RFIs in scaling up financial services underscored three important areas: (a) the development partnerships and strategic alliances that RFIs sought with commercial or development organizations were informed by one or more objectives from the same set; (b) the types of RFIs actively engaged in strategic alliances, and (c) the financial products and services with established market demand and dependent on strategic alliances for delivery.

Development Partnerships of RFIs with Commercial and Development Organizations. These were aimed at one or a combination of the same fundamental objectives driving strategic alliances. In the case of CDRO these objectives were access to financial resources and infrastructure, expand the menu of services for clients and enhance organizational status. For Banrural the development objectives were mainly to penetrate into rural markets at manageable costs, and build up technical knowledge of rural-based microfinance. For San Leonardo, the key objective in its development partnerships was to secure committed long-term funds to backstop development of critical mass in operations and market areas and establish market share and position as it commenced operations. The experience of TSPI is instructive in demonstrating the evolution and emergence from partnerships with development organizations (Opportunity International, ASA Bangladesh) to strategic alliances with commercial banks for resources to expand the existing menu of credit services.

Engaging Rural Finance Institutions in Strategic Alliances. Rural finance institutions that were effective in expanding the range of products and pushing the boundaries of access consisted of credit unions/cooperative financial institutions, agricultural banks, non-bank rural/microfinance institutions and rural banks with a well-established presence in rural markets. Postal financial service networks have also been reported in other studies to have the potential and the capability to help expand the delivery of financial products and services in rural communities. The commercial alliances and development partnerships were determined principally by the strategic goals and the new or additional financial products and services on which the RFIs focused.

Credit unions and cooperative financial institutions. Member-based and owned financial cooperative institutions (CFIs) comprise a large segment of the rural sector in many countries, with the organizational status and capability to penetrate into rural areas where

formal sector banks and even non-bank microfinance institutions might not be able to enter. Credit unions usually have the advantage of membership in upper-tier local federations and international organizations which provide access to capacity-building and systems-development technical assistance. When the regulatory framework is clear, the organizational and legal status of credit unions may be more easily accepted by formal sector banks and financial institutions (for example, compared to non-profit NGOs) for purposes of structuring strategic alliances for delivering financial services to rural areas that the commercial bank does not have the physical capability and staff skills to enter.

At the same time, it should be noted that CFIs in a number of countries have had to counter problems with governance arising from the organizational and operational characteristics where owners are also managers and clients. Moreover, the common bond that is supposed to hold the membership together may become increasingly diffused and ill-defined as the membership expands to larger numbers. Active and direct participation of members become increasingly difficult as the membership base expands (Emmons and Schmid 1999).

Rural banks. Not all countries have licensed banking institutions in the rural bank tier or category. However, microfinance-focused rural banks such as New Rural Bank of San Leonardo and others in the Philippines, and the rural and community banks in Ghana have demonstrated the capability to serve rural markets with innovative quality financial products (albeit basic banking products). Strategic alliances with large commercial banks enabled the RFIs to access banking facilities and infrastructure that would otherwise be too costly to acquire and operate on their own. Rural banks have demonstrated their ability to expand the variety and scale of access to financial services in the countries that do have them and are able to adequately supervise their financial soundness and operations.

Non-bank rural microfinance institutions such as TSPI in the Philippines and Genesis Empresarial in Guatemala can become important in providing access to a wider range of non-credit financial services through strategic alliances with licensed banking institutions, as well as through the collaborative intercession of umbrella development organizations.

Postal financial networks. The RFIs in this study did not have servicing relationships with postal financial networks. However, there are many cases in the material and literature on rural finance and development where postal financial networks have demonstrated their usefulness in helping to manage transaction costs in delivering financial services such as collecting loan repayments, providing savings deposit facilities, money transfer (both domestic and international remittances) services, and pension payments in rural areas. Postal financial networks are becoming increasingly modernized and professionally-managed, to provide greater security and integrity to their operations.

The role of umbrella organizations and apex institutions. The alliances that have been successful in meeting combinations of the five key strategic objectives have usually (but not always) included the collaboration or sponsorship of an umbrella organization (such as FINCA, Opportunity International, World Council of Credit Unions) or apex institution (for example, Rural Bankers Association of the Philippines, ARB Apex Bank Ghana, regional federation of credit unions or cooperatives such as FENACOAC in Guatemala or FEDLUZCO in the Philippines). The participation and collaboration of such an umbrella organization or apex institution facilitates clear understanding of the division of labor, distribution of responsibilities and sharing of economic benefits between a rural finance institution vis-à-vis strategic partners. However, while a number of umbrella organizations

and apex institutions have been successful, the overall experience with their effectiveness and key roles in intermediating technical assistance, wholesale funds and capacity building is generally uneven, as many are beset with operational, governance and autonomy problems.

Financial Products with Established Market Demand and Dependent on Strategic Alliances for Retail Delivery—such as delivery of international remittances, various insurance products, payments and transfer facilities (check-cashing, access to ATM networks, money transfers) were the focus of RFIs' strategic alliances with commercial and financial institutions with the legal charter and organizational capability to provide the product or service. The alliances were indispensable because the RFIs did not have the legal charter to offer the products (international remittances and insurance), or did not have the technology and infrastructure to provide the additional services (check-cashing, access to ATM networks, money transfers).

Remittances, money transfers and payments facilities. The experience of several rural finance and other institutions presented in the study show that among non-credit financial services, the servicing of remittances is a commercially-focused financial service with a readily measurable schedule of service fees and potential income for a rural finance institution. The servicing of remittances to recipients in rural areas also presents a singular opportunity for a rural finance institution to attract the recipient to become a regular client or a member of the rural-based credit union or financial institution.

The methods and systems for servicing the delivery of the remittance to a recipient has been well-documented by international organizations like WOCCU and other international organizations, such that the business alliance between a local credit union and the remittance network could be replicated in other country settings. As the scale of emigration and volume of remittances continue to expand, this particular product will assume even greater importance and prominence in scaling-up access to financial services in rural areas.

Insurance and risk management products are prudentially regulated and the companies that provide them licensed by countries' insurance authorities. The products are commercially attractive to RFIs because of commission revenues from premiums collected and because of their ability to shield the rural finance institution from adverse effects on their loan portfolios from loan defaults. However, the process of establishing a strategic alliance between a rural finance institution as agent and the licensed insurance company as its principal is often complicated and time consuming. In many cases they require the intervention through technical and funding support from a development organization to carry out needed market studies and product design and development tasks necessary to make the products attractive and affordable to rural households, small businesses, and producers. As demonstrated in the case of GLICO Ghana, the approval of the National Insurance Commission was a prerequisite to introducing and marketing the new product, as well as in constituting rural banks as authorized agents of GLICO.

Credit lines to support loan portfolio expansion. Access to financial resources at concessionally-priced (as in the case of New Rural Bank of San Leonardo in the Philippines) or on commercial terms (as in the case of TSPI in the Philippines) was critical to the ability of RFIs to expand their outreach to rural clients in new areas or lower levels of income and, more importantly meet and maintain levels of profitability and financial self-sufficiency. The main sources of additional capital funds have been formal-sector banks and financial institutions for resources at commercial terms and, in a diminishing role,

internal development agencies and other foreign donors. In some cases, RFIs have been able to leverage a commercially-based credit relationship with a formal sector bank to include access for its clients to payments facilities through ATM cards, smart cards and check-cashing systems.

Operational Implications for the World Bank

Necessary Conditions for Strategic Alliances. Certain conditions must be present for strategic alliances to succeed and generate synergistic economic benefits. When these conditions exist, RFIs tend to form strategic alliances with formal finance institutions, commercial enterprises and development organizations to expand outreach and improve financial performance. First, there should be a range of informal and semi-formal institutions serving rural markets, complemented by formal financial institutions that have the legal status to offer a range of financial products and services such as commercially priced credit lines, check cashing and affinity-based ATM facilities, domestic correspondent banking services for money transfers and payments, and international remittances. Second, the legal and regulatory framework must clearly establish the types of services that each institution can provide, and the business collaborations that are permitted. As strategic alliances to scale up access to financial services in rural areas is a new theme in rural finance, it is important to understand the *process* by which strategic alliances contribute to outreach to new clients and markets and the introduction of new products.

Questions to Address Early in Project Preparation. A basic requirement to be addressed early in project preparation is the collection of relevant information on rural markets, RFIs and the demand for financial services from households and businesses. These sources of key information in specific countries include Household Income and Expenditure Survey data, Living Standards Measurement studies, periodic reports and surveys of microfinance network associations, postal financial services, banks, and credit union federations.

Additional information can be derived from the World Bank's Economic and Sector Work that can contribute to understanding the barriers to strategic alliances in rural financial markets. Data and information collected and analyzed early in the project preparation phase will be instrumental in addressing a number of important questions, including the legal and regulatory framework, the existence of registries for movable assets, credit information systems, factoring and warehouse finance systems, the extent of client demand for new financial and other products, determining if there is a presence of well performing RFI and MFIs and the existence of technologies that could decrease transaction costs.

Critical Operational Issues. If the conditions are right for strategic alliances in rural finance, the World Bank and its partners can raise interest and awareness by sponsoring seminars, workshops and other events to bring likely partners together, to identify key legal and regulatory constraints, institutional capacity needs, and technological challenges. World Bank projects, grants and counterpart funds can be used to disseminate examples of successful strategic alliance experiences and encourage experimentation. Since this is a new approach to rural finance and other services, many institutions may not be aware of the options, advantages, and limited risks that exist in strategic alliances with experienced RFIs. This awareness-raising work should take an inclusive approach, inviting urban-based

financial services providers, insurance companies, credit card providers, health service providers, money transfer operators and others who might consider strategic alliances in rural markets.

Strategic alliances require time to be established, and often last much longer than the typical World Bank project cycle. Standard investment loans of three to five years can resolve some of the roadblocks to strategic alliances and promote greater outreach in rural markets. There are also at least two principal World Bank products that help to surpass the time limitations often imposed by the loan project cycle. Learning and Innovation Loans (LILs) can encourage experimentation that could result in improved coverage of rural financial markets. Adaptable Program Loans (APLs) which can be structured in phases for a total of 12 to 15 years indispensable in fleshing out the long-term vision for the developmental results of a particular World Bank sectoral intervention.

Strategic Alliances to Scale Up Access to Financial Services in Rural Areas

Despite more than 25 years of large financial investments and technical assistance programs, access to financial services in rural markets has not expanded at the massive scale and on the financially sustainable basis that have been expected. Recently, donors, academics, and Government policymakers have shown renewed interest in rural finance, hoping to build on lessons learned about subsidized interest rates and directed credit. The resurgence of interest can be attributed to the successes of a number of rural financial institutions (RFIs). With assistance from the donor community, they have achieved significant expansion in outreach with financial sustainability (Morduch and Armendariz 2003). In addition, sustainable microfinance, which has emerged and developed in mostly urban and peri-urban settings, has applications and lessons for rural finance.

Development experience has shown that deeper, more efficient financial markets can contribute to accelerated agricultural growth and greater food security. Scaling up access to a wider array of financial services in rural markets through a range of financial intermediaries becomes critical to help rural households to smooth consumption and enhance labor productivity. Labor is the most important production factor that the poor can contribute. Also, agriculture has strong forward and backward multiplier effects for the overall economy. Economic growth in agriculture is a key precondition for overall economic growth and poverty reduction. At present, most of the world's poor still live in rural areas. (Zeller 2003; Robinson 2001).

The World Bank has renewed its efforts to improve the state of rural financial markets as noted in the 2003 document, *Reaching the Rural Poor: A Renewed Strategy for Rural Development*. The strategy calls for a diversity of products and institutions to meet the financial service needs of rural communities to increase incomes and jobs measurably. This initiative responds directly to recent demands from client countries seeking to build a new rural finance approach modeled upon the successes achieved by the largely urban microfinance institutions and the achievements of a select number of large RFIs.

To help identify new directions for the World Bank's work in rural finance this economic and sector work examines how access to financial services in rural markets is expanded through strategic alliances between financial intermediaries and other commercial and developmental institutions. Strategic alliances are defined broadly as collaborative arrangements between two or more institutions that pool their resources to achieve mutually compatible goals that each institution cannot achieve alone. Such alliances contribute to improving access to financial services in rural markets, by taking advantage of the strengths of the different types of institutions.

Global experience indicates that a number of rural finance institutions (RFIs) have leveraged relationships with other organizations to achieve one or several objectives. These objectives generally fall into the same five categories of objectives found in business world strategic alliances: (i) expand outreach and market service areas, (ii) reduce and manage transaction costs, (iii) broaden clients' access to varied financial products, (iv) acquire new skills for management and staff, and (v) access additional technical and financial resources to achieve or enhance sustainability. At one end of the spectrum of relationships, some are development partnerships while, at the opposite end, others are strategic alliances.

Objectives of the Sector Work

The sector work aims to identify and analyze the combinations of objectives that drive the relationships of selected RFIs with commercial and other organizations. It examines what specific constraints to access and delivery of financial services in rural markets are relieved through strategic alliances formed. An outgrowth of the analysis is the identification of the types of RFIs that are effective in delivering and providing new financial products (such as international remittances and micro-insurance services) to rural markets through alliances with formal sector entities.

The employment of strategic alliances is a new theme in rural finance, and the duration of experiences of RFIs envelops a wide range. RFIs with alliances that have been in place for a longer number of years enable measurement of the nexus between strategic alliances and expansion in outreach, improvement in financial performance and diversification of services offered. In contrast, alliances of shorter duration allow only indicative trends that can be elicited even when the financial products have an established market demand, such as international remittances or microinsurance. The emphasis of the study is on understanding the mechanisms and instruments which are applied to reach new clients and markets and introduce new products.

The report starts by summarizing the constraints to expanding access to financial services in rural areas in Section C, and the experience of several types of rural and microfinance institutions in developing strong rural business portfolios in Section D. The framework for understanding and assessing strategic alliances is presented in Section E, using models from the corporate business world. The discussion in Section F focuses on applying the framework for strategic alliances in rural finance and presents the experiences of RFIs pursuing alliances which are commercially-driven as well as those with developmental goals. The Report summarizes the main findings of the study in Section G, and concludes in Section H with a discussion of the principal implications for the World Bank's operational work in rural finance.

Constraints to Accessing Financial Services in Rural Areas

Rural financial markets in developing countries face several critical constraints that limit the availability of financing for both agricultural and off-farm activities. In some cases, the menu of financial services is limited to short term credit. In other cases there are significant geographical gaps where no formal financial intermediaries are present. Thus, the growth of rural markets is often impeded by a scarcity of viable financial institutions and by a limited range and lack of affordability of financial services available. Even when short-term working capital credit is available, rural communities may not have reliable access to savings services, long-term financing for equipment, payments and money transfer services, or insurance products (Rutherford, Matin, and Hulme 1999).

The main constraints to the sustainable provision of financial services in rural markets include the following:

- Low levels of economic activity and population density result in dispersed demand for financial services, leading to high information collection and transaction costs which make rural clients less attractive for market-driven financial institutions.
- Weak institutional capacity of community-based rural finance providers limit the potential for cost-effective alliances with commercial financial institutions.
- Limited capital resources for credit and ability to provide non-credit services such as savings, check clearing, payments and money transfers curtail rural finance providers from scaling up access to finance in rural markets.
- Problems with registry systems for land title and moveable assets limit acceptable collateral that rural producers may be able to provide.
- Seasonality and co-variance of agricultural and farm production activities, which lower likely margins and increase the risks of such operations.

Despite the importance of these constraints, in every region there are MFIs that have overcome the costs and other challenges of extending access into rural markets. The next section analyzes the range of microfinance providers which have overcome these barriers.

Leaders in Rural Financial Market Access

Success in large scale rural finance outreach comes in different institutional forms, especially through a new breed of agricultural development banks, postal financial networks, specialized microfinance institutions (NGO MFIs; regional, development and rural banks; non-bank finance companies; and other legal forms) and credit unions/cooperative financial institutions. Input-supply contracts between rural producers and suppliers, and output-marketing linkages between rural producers and distributors have also expanded access to finance in rural areas. Similarly, access is being expanded through better knowledge and dissemination about a number of financial instruments such as warehouse receipts and lease financing mechanisms. On the other hand, commercial banks do not generally seem to fit this market niche, although there are some notable exceptions. Some NGO MFIs have tried to transform into regulated, supervised financial institutions but this has not always resulted in expanded financial services and outreach in rural areas.

Agricultural development banks in a few countries have succeeded in progressing into more sustainable institutions by offering demand-driven financial services, building credible lending contracts and using full-cost recovery interest rates. Dynamic and profitable leaders in Asia include Thailand's Bank for Agriculture and Agricultural Cooperatives (BAAC), Bank Rakyat Indonesia's (BRI) village units in its micro-banking system (Zeller 2003; Yaron and Charitonenko 1999), and the privatization and restructuring of Mongolia's Agricultural Bank (Boomgard, Boyer, and Dyer 2003). In East Africa, Tanzania's National Microfinance Bank also demonstrates that state-owned banks can be transformed into successful rural financial intermediaries with business oriented reforms. However, this can only be achieved when there is firm political commitment, ownership of reforms, management autonomy and incentives (Zeller 2003).

Membership-based models have built impressive portfolios in rural markets. Savings and loan cooperatives and credit union movements have grown rapidly in such diverse settings as the Philippines, Indonesia, Guatemala, Ecuador, Kenya, Senegal, Mali, countries in Central and Eastern Europe, and the Newly Independent States.[1] Emphasis on internal systems, demand-driven products, and strict maintenance of high portfolio quality has contributed to the improvements in performance (Lennon and Richarson 2001). The village banking methodology pioneered by FINCA International has shown that rural community-based self-managed financial entities can become self-sustaining. Adaptations of this village banking model have been used by CARE, Catholic Relief Services, World Vision and even a few commercial banks (such as Bancafe in Guatemala).

Several specialized microfinance institutions have shown that they can profitably serve large numbers of relatively poor households and micro businesses. The client base can include peri-urban markets or rural off-farm business activities. A growing list of microfinance institutions has moved beyond an initial urban client base to tailor their products to rural clients. Leaders in this approach are the Equity Building Society in Kenya, Banco do Nordeste through its CrediAmigo microfinance program in Brazil, Financiera Calpia in El Salvador, and the BASIX group in India. These experiences point toward the possibilities of adaptation and replication by other financial intermediaries operating in predominantly rural markets. Other successful MFIs have transformed into regulated financial institutions, and their experiences are highlighted below. Some have moved into rural markets, while others have remained entirely urban in their orientation. The Consultative Group to Assist the Poor (CGAP) has prepared profiles of commercial banks entering the microfinance market, by either building up their retail banking capabilities or indirectly by linking up with specialized microfinance institutions (CGAP 2004).

Commercial banks have begun to enter the microfinance market but have not entered the rural and agricultural credit markets on a substantial scale in most developing countries, despite incentives designed to encourage downscaling and rural market penetration. In Latin America, commercial banks which have downscaled into microfinance markets include Banco de Pichincha and Banco Solidario in Ecuador, Banco del Estado in Chile, Bancafe in Guatemala, Banco Caja Social in Colombia, and Vision de

1. The World Council of Credit Unions played a key technical assistance role in the Philippines, Ecuador and Guatemala. Freedom from Hunger, which pioneered the village banking model in Ghana and Burkina Faso, offers a variety of publications on impact, training requirements, and findings. See Stack and Thys (2000).

Box 1: Short-term Incentives Are Not Enough for Commercial Banks to Cover Rural Markets

The Rural Financial Services pilot component of the Agricultural Technology and Land Management project in Nicaragua (1997–2000) provided subsidies to private banks to open new branches in towns with less than 20,000 residents. Commercial banks competed on a least-subsidy basis for two-year contracts. After two years, participating banks were to fully absorb all operating expenses for the branches. The majority of pilot resources were invested in the establishment of 22 private bank branches in rural communities. A complementary technical assistance facility for new product design (loans under US$450) was not attractive to the banks, and funds were reallocated. Nearly all of the new branches reported fast and steady growth in deposit accounts but originated very few loans. The inability of all pilot branches to reach sustainability became apparent as the project closed. The lessons learned from the project are that programs to expand outreach in rural areas should not overlook long-term sustainability of products and facilities, and must have a supportive legal and regulatory framework within which to operate.

Source: World Bank, "Agricultural Technology and Land Management Project, IDA Credit No. 2536-NI," World Bank Report No. 2254, November 27, 2001.

Finanzas in Paraguay. A CGAP survey has identified over 225 commercial banks and other formal financial institutions currently engaged in microfinance in one way or another. As the survey reports, commercial banks have entered the microfinance market directly by creating dedicated, internal microfinance units, as in the case of Bank Rakyat Indonesia and Agricultural Bank of Mongolia. Others have established a separate specialized financial institution to carry out the microfinance business as in the case of Finadev in Benin. Still others have directly approached the microfinance business by establishing a non-financial service provider to perform microfinance loan origination and portfolio management services, as in the case of SOGEBANK and its service company SOGESOL in Haiti (CGAP 2004).

Commercial banks have made their entry into the microfinance market through indirect approaches, employing alliances with MFIs. One approach is to outsource retail operations, as in the case of ICICI Bank with Spandana in India and Banrural with CDRO in Guatemala. Another approach is to provide commercial loans and/or to provide infrastructure and systems to MFIs, as exemplified by Land Bank of the Philippines with TSPI (CGAP 2004).

World Bank experiences in Mexico and Nicaragua demonstrate the difficulties of finding an attractive set of short-term incentives to convince banks to make a long term commitment to rural intermediation. A study by Valenzuela found that more than 50 banks had entered microfinance in Latin America, but the results had been only moderately encouraging and more idiosyncratic than based on a single approach (Valenzuela 2002). In spite of assistance and support from the World Bank, a project in Nicaragua to encourage private commercial banks to go down-market to rural areas did not meet with success. The unsuccessful effort is summarized in Box 1.

Transformation of an NGO microfinance institution to a regulated, supervised financial institution (such as a bank or finance company) can be another path to greater rural outreach and sustainability.[2] An important goal of this model is to substitute donor funds with commercial capital (shares and savings) to finance outreach expansion, improvements

2. For additional information on NGO MFI transformation, see Campion and White (2002), Drake and Rhyne (2002).

in client service and a wider array of financial products. PRODEM in Bolivia used this approach in 1992, resulting in the establishment of BancoSol, a regular commercial bank specialized in microfinance. K-Rep Bank evolved from K-Rep's NGO in the late 1990s but it took over two years to gain the bank charter required. The transformation from NGO to regulated financial institution of MiBanco in Peru, Financiera Calpia in El Salvador and CARD Rural Bank of the Philippines were less difficult because the regulatory frameworks existed, but Genesis Empresarial (Guatemala) failed in its bid to transform into a full-service commercial bank. In general, the legal and regulatory framework may permit transformation of an NGO microfinance institution to licensed/supervised status but it is often difficult and costly in terms of staffing changes, information and reporting requirements to the supervisory entity, and capitalization requirements.

Framework for Understanding and Assessing Strategic Alliances

Strategic Alliances Between Firms in the Corporate Business World

There is a large body of literature[3] on the empirical experience and business philosophy underlying strategic alliances as a significant factor in the competitive growth of business enterprises and corporations (Varadajaran and Cunningham 1995; Gomes-Casseres 2000; Zaman and Mavondo 2001; Williamson 1979). This research on experience and applications of strategic alliances, especially in marketing and distribution companies, identifies several theories of firm behavior as driving forces underlying the formation of strategic alliances. The term "strategic alliance" includes a large and diverse range of collaborative agreements which can be explained by different theories regarding firm behavior and the pursuit of strategic objectives (Hynes and Mollenkopf 1998). The principal categories of strategic alliances in the corporate business world can be identified according to the reasons and motivations which drive strategic alliances, summarized below:

Resource dependence principle. As few firms are self-sufficient in specific resources, they embark on strategic alliances to complete the package of resources they require to keep or expand market position. Deficiency in one or more strategic resource constitutes the driving force for collaboration, and a measured approach to reducing uncertainty and managing the dependency. Resource dependency theory and transaction cost economics (see below) comprise a broader theory which implies that companies adapt or react to their environment (Varadarajan and Cunningham 1995).

Transaction cost economics. Firms form alliances to manage and minimize their costs and/or risks. Strategic alliances of this type represent an approach to adapting to an uncertain environment—an internalization process by which the firm minimizes its exposure to market price uncertainties, accompanying negotiation, and risk (Williamson 1979).

3. The National Conference Board, with membership from 2,500 enterprises in 60 countries has organized an annual Strategic Alliances Conference since 1995. Business and academic journals, for example, Harvard Business Review, Academy of Marketing Science, Management Studies, McKinsey Quarterly, regularly feature articles and papers on strategic alliances in corporate and enterprise business. A website dedicated to the theory and practice of strategic alliances can be found at: www.AllianceStrategy.com.

Relationship marketing. The notion of domesticated markets refers to the tendency of firms in industrial markets to form strong relationships with their customers and suppliers in order to provide superior customer value. This type of strategic alliance is perceived as the least risky and most effective means of providing services or products that will enhance the relationship with the customer base (Webster 1992; Gomes-Casseres 1998).

Strategic behavior or competitive advantage theory focuses on a firm's behavior from a managerial, rather than a marketing approach, explaining that companies are expected to seek cooperative arrangements if they believe those will improve their ability to meet strategic objectives, especially in maximizing profits or in protecting or enlarging market share (Gomes-Casseres 2000).

Knowledge-building or competence-based theory. In this type of strategic alliance, one view is that firms are motivated to acquire knowledge as the means to retain or acquire specific competencies (which are analogous to resource dependency theory) and thereby maximize their ability to adapt to their environment. The alternative view is that firms acquire knowledge through strategic alliances in order to compete at different levels of the value chain, and thereby alter the industry structure in which they operate. Firms adapt to a competitive environment by seeking specific knowledge which can be obtained through licensing agreements, or by obtaining organizational or technical knowledge that is embedded in key individuals, that is, "... tacit knowledge which can be transferred only by learning alongside the individual" (Mollenkopf 1998).

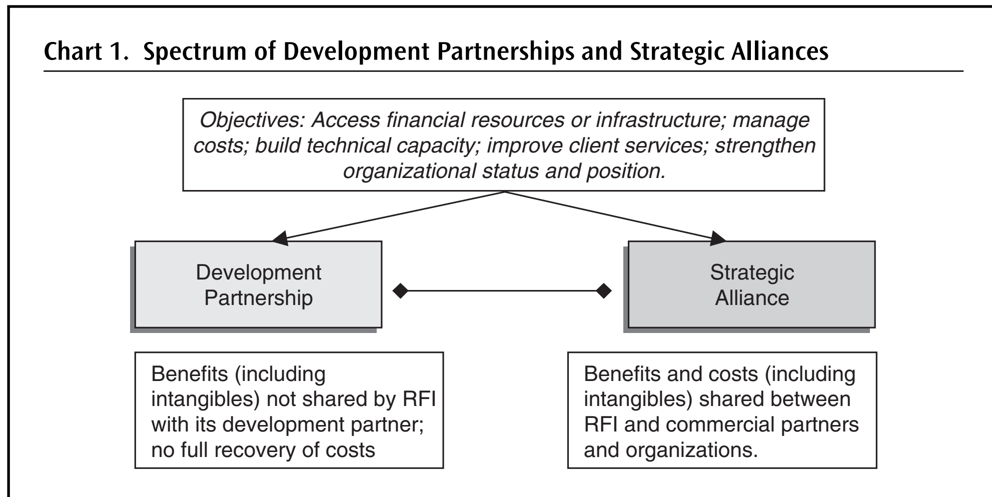
Strategic Alliances and Development Partnerships in Rural Finance

The principles of strategic alliances used in the corporate business world apply as well to the collaborations in rural finance. In both cases, the alliances can be used to address similar strategic objectives. One difference is that strategic alliances in the corporate business have an underlying commercial basis, while alliances in rural finance may have a strategic or development orientation—the institutional relationships can be grouped into strategic alliances occupying one end of the spectrum and development partnerships at the other end, as illustrated in Chart 1, later.

The commercial relationship between a RFI on the one hand, and its partner(s) may be categorized as strategic, when the RFI obtains a financial or economic advantage and the intangible gains and benefits beyond those explicitly included in the partnership arrangement (formal or informal) can be gained by the parties involved. On the other hand, the relationship between an RFI and its partner(s) may be classified as a development partnership when the gains and benefits (including the intangible ones) are not shared between the participating institutions but have a unidirectional flow from a development partner to the RFI. The use of instruments and mechanisms made available to the RFI to meet an identified objective may not be charged at market cost, which injects an element of subsidy into the collaboration.

Strategic alliances in rural finance are virtually identical to those found in the corporate business world: RFIs enter into strategic alliances with banks, financial institutions, and other commercial companies to gain a financial benefit or strategic marketing goal by relieving constraints from resources, market presence, or communications-infrastructure

Chart 1. Spectrum of Development Partnerships and Strategic Alliances



technology and systems, reduce transaction and operating costs, or gain competitive advantage. A development partnership, in contrast, often includes an economic or institutional benefit whose cost may not be fully recoverable from or charged to the rural finance institution (some element of temporary or permanent subsidy). Some development partnerships may progress, in time, into commercially-driven strategic alliances, while others may not go beyond the developmental relationship.

In a strategic alliance the RFI may have only one partner, or it may have alliances with multiple commercial entities and development organizations as can be seen in the cases studied. Strategic alliances in the business world are generally one-on-one, in terms of business organizations involved and in terms of the specific objective sought by a firm. In contrast, the strategic alliance or development partnership structured by a RFI may be motivated by one or more (a combination) of the following goals: (a) gain access to financial resources, services or infrastructure not otherwise available to it because of its legal status, (b) reduce transaction costs or operational costs, (c) enhance relationships with clients by improving product value, (d) acquire new technical skills and product knowledge, or (e) improve the competitive position of the institution.

Applying the Framework to Alliances and Partnerships in Rural Finance

The strategic alliances and development partnerships analyzed in this study cover four main aspects: (a) the constraints in financial resources, branch network, and communications-technology infrastructure involved, (b) mechanisms and instruments employed in the alliances, (d) products and services provided by the RFI, and (e) results achieved by the RFI in terms of outreach and financial performance. The study keeps a limited focus on rural financial services—concentrating on credit and savings facilities, servicing of domestic payments and international remittances, and insurance products for rural households and businesses. The limited focus does not include large value transactions in rural finance, intermediation mechanisms such as warehouse receipts and lease financing, and input-supply and

output-marketing linkages. Even though reforms and modernization of postal financial services in a number of countries have expanded the ability of both urban-commercial financial institutions to reach deeper and farther into rural areas, the linkage and service relationships of RFIs in this study did not include postal financial networks. This aspect is therefore not covered.

The study focuses on the experiences of RFIs in Guatemala and the Philippines, given their operational relevance to the World Bank and the number of strategic alliances developed locally. The country context of Guatemala and the Philippines helps to underscore the key characteristics of strategic alliances that have worked (and some that have not worked), providing guidance to those responsible for the design of the World Bank's rural finance projects and components. The experiences of selected RFIs in Ghana and India are also highlighted to demonstrate the role that strategic alliances can play in scaling up access to financial services in rural markets.

The Philippine experience provides examples of innovative approaches in expanding access to financial services in rural areas. Rather than create a new framework to license microfinance entities, existing prudential regulations were adapted to the characteristics of rural and urban microfinance. Existing tiers of regulated banking institutions were enabled to provide banking services to rural and microfinance sectors without sacrificing compliance with prudential standards. Like Guatemala, the Philippines is operationally relevant for the World Bank's work on rural financial markets and access to finance.

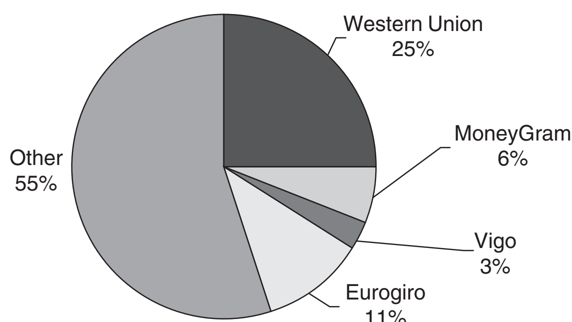
Strategic Alliances in Rural Finance

Strategic alliances can be employed to scale up access of rural households and micro-businesses to financial services. The scaling up can be achieved through two approaches which require a RFI to seek out and form strategic alliances with other commercial institutions. In the first approach, scaling up is accomplished by introducing new financial services to an existing client base, thereby: (i) reducing drop-out rates and increasing client retention; (ii) increasing client satisfaction with overall quality and quantity of services available; and (iii) attracting potential new clients. In this first approach, the RFIs' scaling up experience was product-driven. Two products that illustrate the scaling up achieved through alliances are *servicing international remittances* and *providing micro-insurance products*.

In the second approach, scaling up is achieved by expanding the volume and availability of *existing* financial services to a larger geographical area and/or households and small businesses in other income strata. In this second approach, RFIs' alliances with other commercial institutions were driven by the goal of addressing two or more combinations of strategic objectives.

Strategic Alliances to Introduce New Products: International Remittances. There is increasingly more documentation of the volume of formal remittance transfers within and between specific countries, and recent World Bank estimates of global formal cross-border remittance transfers place the volume at US$88 billion in 2002 and US$93 billion in 2003, producing an estimated US$18 billion in industry revenues on some 320 million transactions handled. According to the report prepared by Isern, Deshpande, and van Doorn (2004) the formal money transfer market consists of person-to-person transfers, which is dominated by large, specialized money transfer companies (such as Western Union, MoneyGram,

Figure 1. Estimated Market Share of International Person-to-Person Transfer Providers, 2003 (by number of transactions processed)



Source: Ratha, "Workers' Remittances;" First Data, SEC Form 10-K; MoneyGram, SEC Form 10; Bezard, *Global Money Transfers;* Great Hill Partners, "Great Hill Partners Form GMT Group;" private estimates of Gera Voorrips and Hans Boon, ING Postbank; authors' estimates.

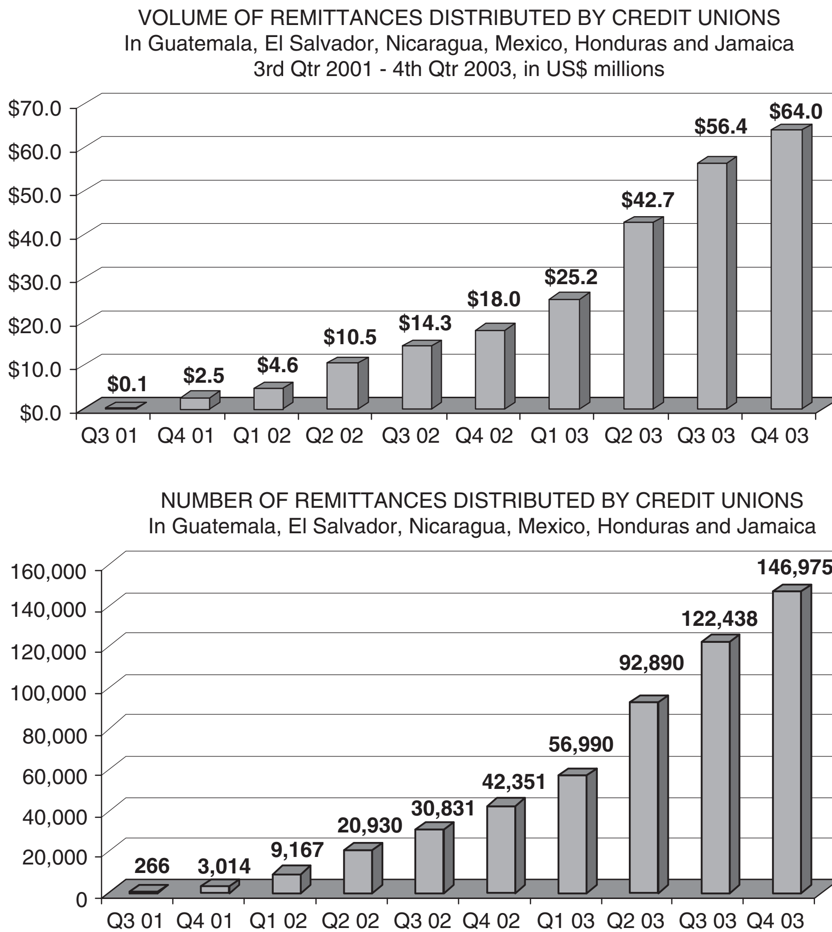
Eurogiro and Vigo). The rest of the market is fragmented among commercial banks, postal financial service networks, foreign exchange bureaus, credit unions and cooperative financial institutions, and niche-oriented money transfer companies. The estimated market-sharing over the international person-to-person money transfer business among several service providers is summarized graphically in the Isern paper.

International remittances are contributing to improved standards of living and overall economic development in communities where recipients reside. The dramatic rise of remittances is most apparent in Latin America, as illustrated in the Chart 2, later. Credit unions and cooperative financial institutions are often the only formal financial institutions serving rural areas where the recipients of remittances live. However, servicing remittances from family members working abroad is a financial service that is beyond the organizational and technical capability of most rural credit unions. This has set the stage for commercially-driven strategic alliances in which credit unions become the main delivery points for remittances.

Guatemala: FENACOAC Credit Unions as delivery service institutions under the WOCCU IRnet® international remittance program. The Guatemalan credit unions recognized that remittances represented an important new financial service that could attract new members. Through the national federation FENACOAC, 25 credit unions have linked up with the World Council of Credit Unions (WOCCU) and its international remittance program. These credit unions hold about 80 percent of total assets of financial cooperatives in Guatemala, valued in excess of US$110 million at the end of 2003. The credit unions serve some 508,000 members through 121 service points, of which 95 percent are in rural areas. As mutual assistance organizations whose clients are also owners united by membership under a common bond, credit unions face significant obstacles in attracting new clients and enlarging their market share. Because credit unions are often not integrated into the formal banking sector, there are major barriers to servicing remittances as a new financial service.

The product: international remittances. A remittance is the portion of an overseas worker's earnings sent back to family members in the worker's country of origin. Remittances

Chart 2. Volume and Number of Remittances Delivered by Credit Unions



Source: Adapted from Evans (2004).

have become important in America and the Caribbean, where the Inter-American Development Bank estimates that $32 billion in remittances was sent to recipients in the region in 2002 (WOCCU 2004). Recent surveys in Central America and Mexico report that significant numbers of residents of Mexico (18 percent), Guatemala (24 percent), El Salvador (28 percent), and Honduras (16 percent) receive remittances from overseas. Because more than two-thirds of recipients in Mexico and three-fourths of those in Central America do not hold bank accounts, there is an opportunity for rural credit unions to develop a mechanism for the receipt and use of such funds (Bendixen & Associates 2003a, 2003b).

Strategic objectives sought by FENACOAC and the participating credit unions were to acquire the technical capacity and competence to provide a new product to the members-clients, namely local delivery of inward international remittances to recipients in their market areas, as well as exploit the opportunity to expand the membership to potential members from among the non-member recipients.

Results achieved. Remittances from Guatemalans living abroad have grown from US$585 million in 2001 to US$2.1 billion in 2003. The majority (69 percent) of emigrants sending money home did not have bank accounts, while among the recipients in Guatemala slightly more than 40 percent had bank accounts. Between August 2001 and March 2004 the credit unions delivered 354,200 individual remittances valued at US$161 million. By March 2004, some 31,000 remittances per month were being delivered, mostly to non-members of the credit unions. Some 55 percent of total remittances distributed to recipients are concentrated in five credit unions, which have 44 branches offering financial services in the four regions of Guatemala with the highest emigration levels.

Parroquial Guadalupana, based in Guatemala City, receives high volumes of remittances. Their system has proven to be quick, safe, and efficient. Since non-members received about 45 percent of total remittances between November 2003 and March 2004, this product is a prime opportunity to attract new members to the credit union.[4] In the case of Ecosaba (another leading credit union) with 38,500 members, 80 percent of the regular recipients of remittances are members (77 percent of them women); 14 percent of the new members joined Ecosaba because of incentives offered by the credit union for membership: direct deposit of remittances into savings account, waiver of fees, and remittances are considered an integral part of a member's steady income stream in the assessment of capacity and willingness to repay loans (Evans 2004).

Strategic partners. The World Council of Credit Unions (WOCCU), its member affiliates in the region and its money transfer partner VIGO Remittance Corp. (VIGO) are expanding the reach of remittance distribution and integrating unbanked receivers of remittances into the formal financial system. After experimenting with cross-border remittances from California to El Salvador in 1995, WOCCU broadened the experiment in 1997 to include more credit unions in California and in Guatemala, and launched its IR*net*® brand of fund remittance service, with transfers directly from U.S. credit unions to credit unions in Guatemala and El Salvador (WOCCU 2004). WOCCU formed a strategic alliance with VIGO to access its substantial network infrastructure: VIGO is the third largest money transfer operator globally with money transfer services to 35 countries, and the second largest market share in the U.S.-to-Mexico corridor. WOCCU interlinks national credit union organizations in other countries and credit unions in the U.S. together with VIGO so that workers in the U.S. can remit funds from VIGO's 3,200 outlets in 38 U.S. states for distribution to the recipients through credit unions.

The commercially-driven strategic alliance between the credit unions in the FENACOAC federation and WOCCU through its IR*net*® remittance program illustrates the intersection of relationship marketing and resource-based alliances, as summarized in Table 1, later.

A remittance pilot in Mexico (Caja Popular Mexicana). The parallel experience of another WOCCU member, Caja Popular Mexicana (CPM) illustrates the organizational and financial benefits that can be captured through strategic alliances that enhance the menu of financial services. The CPM serves over 700,000 members-clients through 300 branches. It piloted the remittance service in a few branches in August 2003 and, by the end of 2003 had ramped up the new product/service to 326 branches. Over an 8-month period from August 2003 to April 2004 CPM received and distributed over 11,000 remittances valued at $US 4.7 million. More than 82 percent of recipients were members, and 92 percent

4. Parroquial Guadalupana handled $830,000 of remittances in March 2004 (a total of $11.7 million from start of the WOCCU project through March 2004).

Table 1. Strategic Alliance of Guatemalan Credit Unions with WOCCU-IRnet®

Strategic Alliance Goals	FENACOAC Credit Unions	WOCCU-IRnet®
Relationship marketing to enhance value to customers	Offer fast, safe and efficient delivery of inward remittances to credit union—member recipients, and attract non-member recipients to join credit union.	Use the benefits of IRnet® remittance service to enhance the value of credit union's membership in WOCCU through the national Federation.
Managing and mitigating resource dependency	Alleviate and mitigate the lack of direct access to international money transfer services through participation in WOCCU IRnet® remittance program.	Access VIGO's extensive network and infrastructure in 38 of the states in the US and 35 countries globally to provide international remittance service to member credit unions and federations.
Strategic behavior theory	Maintain competitive position vis-à-vis commercial banks and others servicing overseas money remittances from Guatemalan workers and citizens, to protect & retain membership/client base.	Enhance competitive position vis-à-vis Western Union, international and Guatemalan banks in distribution and servicing of international remittance.

were women. Fifty-six percent of non-member recipients have joined CPM, attracted largely by the quick, safe and less costly way to receive remittances (WOCCU 2004). CPM has also increased the number of its member-clients served by 99 percent, from 477,396 to 950,440 since the WOCUU program began.

In Mexico, Banco del Ahorro Nacional y Servicios Financieros (Bansefi) began an alliance with MoneyGram Payment Systems in April 2003. The large savings and loan association Bansefi is providing 1,000 locations throughout Mexico to service inward international money transfer services to recipients. The MoneyGram service becomes immediately available to 290 new towns, many of which are in rural areas; remittance senders in the U.S. without access to commercial bank accounts will be able to use MoneyGram's CAMBIO PLUS service, to send out money transfers at low cost using the MoneyGram outlets. On the México side, Bansefi works through its L@Red de la Gente network, which is comprised of Bansefi branches and diverse organizations of *caja* (small savings associations), cooperatives and financial institutions in rural areas. Together, the MoneyGram Bansefi and L@Red de la Gente network have a total of 5,800 agents.[5]

Strategic Alliances to Introduce New Products: Micro-insurance

Marketing yield-risk, property-loss and life insurance products in rural areas in India. Strategic alliances in rural finance have been used to develop and market non-credit products—insurance—to cover a range of risks faced by rural households and producers. The experience

5. *Source:* TravelersExpress MoneyGram Company Information, January 2005, from the website: http://www.moneygram.com

of BASIX Group in India in leveraging business alliances with insurance companies is highlighted below. BASIX aimed to offer new financial products, namely cattle and livestock insurance, agriculture crop production insurance, and a specially designed life insurance policy for low-income rural households. It could not on its own provide or offer these services except as an authorized/accredited agent of a licensed insurance company. BASIX also sought to develop a mechanism to protect its loan portfolio against risk of loan default by borrowers on account of loss of livestock, adverse weather affecting groundnut and castor bean farmers, and death/disability.

BASIX is one of India's largest rural/microfinance institutions with a borrowing-client base of 60,000 in 9 States in India, offering a growing range of financial services to its rural client base. BASIX provides savings deposits, crop loans and credit for non-farm activities the group's Krishna Bhima Samruddhi Local Area Bank (KBSLAB), a licensed microfinance bank. None of the operating units within the BASIX Group have the legal capacity or the organizational capability to provide a variety of non-bank financial services (primarily insurance and risk mitigation/management products) to the client base. Moreover, without these capabilities BASIX would be hard pressed to install and adopt appropriate loan portfolio risk protection mechanisms and thereby avoid costly financial reversals.

Commercially-driven goals. Strategic alliances with insurance companies have enabled BASIX to offer a variety of insurance products to its clients at affordable prices on a commercial basis. The insurance products enhance the value to clients of their relationships with the BASIX Group and, at the same time provide BASIX the opportunity to provide other non-credit services and products that it could not, on its own provide. In addition, the availability of the insurance products enables BASIX to attain a key objective of protecting its loan portfolio from default risk.

Products developed and results achieved. BASIX offers cattle and livestock insurance to its rural borrowers through Royal Sundaram General Insurance Company; crop insurance to farmers under the Kisan Credit Card/Rashtriya Krishi Bima Yojana program. In addition, BASIX also developed a yield risk insurance product for dry-land, rain-fed agriculture crop production using a weighted and capped rainfall index. Its strategic partner ICICI Lombard General Insurance Company, issued the bulk insurance policy to BASIX, which then retails insurance coverage to smallholder and medium-size groundnut and castor bean farmers in Andhra Pradesh. BASIX a specially-designed life insurance policy, "CreditPlus" to borrowers and non-borrowing customers, as a corporate agent of Dabur CGU (AVIVA) Life Insurance Company. The policy's sum assured amount exceeds the amount of credit extended such that the claim amount in excess of the loan outstanding, in the event of death, accrues to the surviving family. AVIVA was attracted to develop the life insurance product for rural households because of the BASIX Group's operational presence in over 4,300 villages, and some 225 customer service agents who visit 15 villages each on a weekly basis.

The BASIX microfinance institution and rural bank introduced India's first index-based weather insurance program in 2003. Groundnut farmers, and BASIX as a lender, were both exposed to monsoon failure risk. The risk was modeled by CRMG and purchased by a large reinsurance company. BASIX played the role of market intermediary. ICICI Lombard, the Indian insurer, wrote this risk and reinsured itself in international markets. In 2004, BASIX bought a weather risk insurance contract for its own crop lending portfolio, the first time a bank has purchased weather risk protection. CRMG has assisted

Table 2. Strategic Alliance of BASIX Group with Insurance Companies

Strategic Alliance Goals	BASIX Group	Insurance Companies
Relationship marketing to enhance value to customers	Introduce and offer a variety of risk-mitigating insurance products for crop-yield protection against weather risks; cattle and livestock asset insurance; and group-life insurance to borrowing clients and farmers.	Benefits to companies (AVIVA, Royal Sundaram, and ICICI-Lombard) consist of additional revenue generated from new business in rural areas.
Managing transaction costs for new products		Manage the costs of securing and servicing new business in rural market segments through alliance with BASIX.
Managing risk of loss in credit portfolio from loan defaults and non-payments	Through the insurance products from different licensed insurance companies offered by BASIX to client base, risk of loss and defaults in its loan portfolio is mitigated.	
Strategic behavior theory	Maintain competitive position vis-à-vis local area banks, MFIs and other RFIs in its market areas, protect and retain client base.	Insurance companies (AVIVA, Royal Sundaram, ICICI-Lombard) are enabled to penetrate into and generate new business with BASIX as corporate agent or retailer of insurance coverage policies.

these transactions. In 2004, two more insurance companies replicated this weather insurance product and sold policies to 17,000 farmers.

Introducing a life insurance product for households in rural areas in Ghana.[6] Through a strategic alliance with a licensed insurance company, which was promoted by CARE-Ghana, a number of rural and community banks in Ghana have been able to offer the insurance product to their respective rural market areas. Aside from the expansion of financial products offered to existing clients, the RFIs in the program have the opportunity to enlarge their client bases.

Gemini Life Insurance Company (GLICO), Rural and Community Banks and ARB Apex Bank and CARE-Ghana. GLICO is a Ghanaian company licensed by the National Insurance Commission to offer life and health insurance and pension-investment products. It has 10 offices in 8 of the 10 regions of Ghana, with over 200 sales agents and 62 permanent staff, managing 80,000 individual policies and over 20 medium to large corporate clients in its group life insurance business. With a grant from the UK Department for International Development CARE-Ghana launched a two-year product design and market study for life insurance tailored to lower-income rural households, micro entrepreneurs and

6. The discussion and analysis are based on information, background materials and reports from field research and interviews in May 2003 by Randhawa and Gallardo, data and information from internet websites, and correspondence with Gemini Life by Gallardo in May and June 2004.

small businesses. Several insurance companies responded to the search for a suitable insurer, and GLICO emerged as the successful bidder to develop a group-term life insurance product in rural areas to clients of rural banks.

Constraints and obstacles addressed. The rural areas serviced by rural and community banks comprise a potential market of 300,000 individuals for lower policy-value group term life insurance policies. However, penetrating this market segment with conventional life insurance products and servicing policy holders would involve product development, marketing and transaction costs that were expected to make the product line unprofitable and not likely to gain approval of the National Insurance Commission.

Strategic objectives and development goals. The pilot project presented the opportunity for GLICO to design and market-test a suitable life insurance product, develop systems and procedures to collect premiums and service clients at transaction cost levels where the product is commercially viable. The rural banks could enhance client relationships by offering a new insurance product, and also derive commission income as agents of GLICO in a principal-agent relationship.

Products and services developed. The Anidaso group-term life insurance policy targets low-income households, micro entrepreneurs and small businesses who are clients of rural banks. The policy terminates at age 60, with 18–55 years as the eligible age range for policyholders. The death benefit is 5 million cedis (US$650) with benefit riders for a spouse and 2 dependent children (at 50 percent and 25 percent of policy face value respectively). The monthly premium is 12,000 cedis (US$1.60), and 22,000 cedis (US$2.95) with the 10,000 cedis (US$1.35) investment-pension option included. The insured individual must be a client of a participating rural or community bank—monthly premiums are automatically debited to the insured's savings account. The first four rural banks and one savings and loan company in the program each have a client base of at least 10,000 clients.

Operating and organizational results achieved. GLICO piloted and test-marketed Anidaso for six months in 2003 jointly with CARE-Ghana and ARB Apex Bank, with oversight by the National Insurance Commission. Staff of the rural banks selected and trained to market and service the policy were doubled the number of subscribers from the initial 454 individuals to almost 1000 subscribers in the first quarter after the pilot period. After the exit of CARE-Ghana, GLICO decided to pursue commercial implementation of the group-term life product by engaging an international consultant to develop additional sales and servicing tools for its sales staff that will be based with the participating rural banks, to better service policy holders and backstop designated staff of the rural banks.

Strategic Alliances to Expand an Existing Menu of Financial Services. In the study and analysis of the experience of RFIs, several have combined developmental and commercial relationships with banking, financial and other commercial entities as well as development organizations in their endeavor to accomplish two or more key objectives. These objectives generally fall into the same five categories that are found in strategic alliances employed in the corporate business world: (a) expand outreach and market service areas, (b) reduce and manage transaction costs, (c) access additional technical and financial resources to achieve or enhance sustainability, (d) broaden clients' access to varied financial products, and (e) acquire new skills for management and staff.

The experiences of RFIs in evolving development partnerships and transiting to strategic alliances is still a relatively new and little-known area of rural finance. However, as the topic

Table 3. Strategic Alliance of GLICO Insurance Company with Ghana Rural Banks

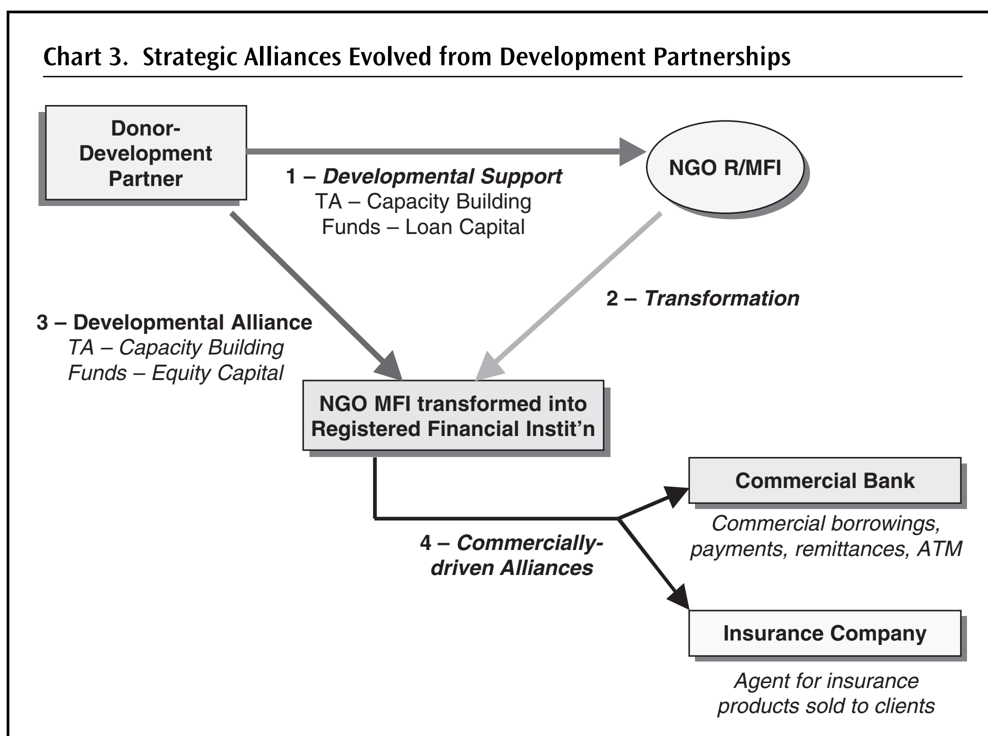
Strategic Alliance Goals	GLICO	Rural Banks
Managing transaction costs of new product in rural market areas	Minimize costs of introducing specially-designed group-term life insurance policy for low-income families and households in rural areas.	Participating rural banks generate new revenue from agency commissions paid by GLICO.
Acquiring technical knowledge, new competency and capacity	Acquire improved understanding and knowledge of income flows and insurance needs in rural areas.	Acquire technical knowledge and competence in selling and servicing GLICO group term life product.
Strategic behavior theory	Enhance competitive position vis-à-vis other insurance companies in Ghana by cultivating rural market areas.	Attract potential new clients, since GLICO group term life product requires policy-holder to have account with Rural Bank.

is important the insights elicited from the experience of selected institutions may have significant relevance to understanding how strategic alliances can be employed to scale up access to finance in rural areas. The experience of TSPI Development Corporation (TSPI) in the Philippines is a good illustration of a strategy to evolve and emerge from development partnerships towards strategic alliances. TSPI started as microfinance NGO totally dependent on donor resources for loan capital and capacity building. Operations and performance progressed such that it then transformed its legal status from a trust entity into a registered (but not prudentially regulated) entity. It structured strategic alliances with two large commercial banks to access larger quantities of commercially-priced funds in order to fuel expansion. The experience is illustrated graphically in Chart 3 later.

The Philippines: TSPI Development Corporation and multiple alliances. TSPI Development Corporation (TSPI)[7] was registered with the Philippine Securities and Exchange Commission as a non-stock, non-profit development organization in October 1981. Using grants and donations from local foundations and Opportunity International and small credit lines from local banks, its development-oriented operations focused on loans to urban and rural microenterprises and small businesses. Group-based loans finance the purchase of motorcycles with side-cars used for public transportation, and working capital of poor women with existing microenterprises. Individual loans finance working capital and investment in equipment of larger agri-based microenterprises and small businesses, including successful women clients graduating from group-based programs and needing larger amounts of working capital for expansion. TSPI's legal status permits it to receive grants and to borrow from commercial sources, but not to mobilize deposits from the public. Increased access, and in larger amounts, to financial resources was critical to expansion in operations and outreach. Loans to individuals and to women borrowers in small solidarity

7. The discussion and analysis are based on data, information, background materials and report on field research and interviews conducted in May and June 2004 by Magdalena S. Casuga, Consultant.

Chart 3. Strategic Alliances Evolved from Development Partnerships



groups worked relatively well but limited the growth of its client base and expansion to new markets in rural areas. Finally, growth of the portfolio and the number of active borrowers coupled with the constraints in physical presence required innovative ways to manage transaction costs.

Strategic objectives. Emerging from the development partnerships in its earlier years as a NGO MFI TSPI turned to structuring strategic alliances with several institutions to attain outreach objectives, product diversification goals, relieve resource-based constraints and quickly acquire new knowledge, systems and competencies. However, the strategic alliances with commercial banks for increased funding to support loan portfolio expansion were dependent on TSPI demonstrating its operational and financial self-sufficiency. Development collaboration with a Bangladeshi NGO to incorporate a new lending methodology and the continuing relationship with Opportunity International were instrumental in executing plans to reach new markets and expand geographical presence.

Results achieved by TSPI from strategic alliances are summarized in Table 4, later. Over the past 8 years TSPI achieved operating self-sufficiency by the end of FY1999–2000 (105 percent) and financial self-sufficiency in FY2000-2001 (102 percent), with the levels increasing further in the following years. The client base expanded to 92,500 by mid-2004, served through 55 branches—16 in Metro Manila and the rest in peri-urban and rural areas of 9 provinces on Luzon Island in the Philippines. Borrowers in the Kabuhayan solidarity-group based loan program comprise 89 percent of client base. The ASA-Bangladesh adaptation has been operational for 3 years and serves some 11,000 women borrowers (11 percent of TSPI's client base).

Table 4. TSPI Operating Performance and Financial Highlights, 1996–2004

End of Fiscal Year	No. of active clients	Loans outstanding (₱million)	No. of Branches	Operating Self-Sufficiency	Financial Self-Sufficiency	Assets (₱Million)	Liabilities (₱million)	Capital Funds (₱million)
1996–97	8,200	109.0	18	94.0 %	—	165.3	90.7	74.6
1997–98	10,375	96.0	18	81.3 %	—	156.3	79.15	77.15
1998–99	11,931	101.4	18	95.1%	—	167.9	84.97	82.9
1999–00	21,905	144.5	20	105.0 %	—	213.8	117.9	95.9
2000–01	33,121	178.2	21	126.6%	102.0%	255.3	142.55	112.75
2001–02	49,649	229.0	32	118.0%	115.0%	334.9	174.6	160.3
2002–03	75,617	286.0	42	120.6%	118.4%	399.8	266.9	132.9
2003–04[a]	92,581	299.8	55	—	—	492.0	290.1	201.9

[a] As of May 31, 2004.

Partners and the instruments used in the strategic alliances. Commercial credit lines from leading commercial banks with extensive branch networks enabled TSPI to effectively address constraints from limited financial resources. Bank of the Philippine Islands (BPI) provides an ₱8 million (US$150,000) credit line, while Land Bank of the Philippines (LBP) has increased its commercial credit line to TSPI to ₱100 million (US$1.8 million)[8], enabling TSPI to move forward quickly with expansion plans. Current outstanding usage on the line is ₱30 million (US$545,000). Both BPI and LBP have made available the use of their ATMs in selected locations for delivery and servicing of microfinance services, enabling TSPI to develop cost reducing approaches to loan disbursement and collection.

To further scale up outreach, TSPI launched the *Asa* ("hope" in the vernacular) group-loan in 2001 with one-time technical assistance from the Association for Social Advancement-Bangladesh (ASA) in group-formation and retention, and MIS for loan administration and management. The ASA-Bangladesh approach for solidarity group loans to women in groups of 10–20 individuals, with each individual being cross-guaranteed by three other women (instead of the five- to six-person groups in the Grameen adaptation) enabled TSPI to reach larger segments of the market in the new rural areas it had entered. Its relationship with Opportunity International as institutional supporter and sponsor from inception enabled TSPI to access financial assistance from the Australian Agency for International Development (AusAid) through the intercession of Opportunity International-Australia, for a grant of AS$40,000 (approximately ₱1 million), to open its 35th branch in Baliuag, Bulacan.

Group-based loans have micro-insurance cover through United Coco Planters' Life (COCOLIFE) which provides insurance benefits of ₱25,000 (US$500) with a disability rider and reimbursement of up to 10 percent of medical expenses. Clients pay ₱1.00 (US$0.02) premium for every ₱1,000 (US$20) loan. Clients in the Sakbayan and Individual Lending Assistance Program (ILAP) have credit risk insurance through Great Pacific Life Insurance Co. (GREPALIFE), where the coverage is similar to the COCOLIFE cover for group-based borrowers. Many MFIs protect against credit risk from loan defaults

8. Exchange rate used is ₱55 = US$1 (2004); *source:* http://www.nscb.gov.ph/stats/pesodollar.asp

Table 5. Strategic Alliances of TSPI with Multiple Partners.

	TSPI Development Corp.	Institutional Partners
Strategic objectives	1. Access large new sources of commercial funds to support outreach & loan portfolio expansion.	1. Land Bank: ₱100 million ($1.8 million) commercial credit line.
	2. Manage and minimize costs of loan disbursements and collections.	2. Land Bank and Bank of PI: access by TSPI clients to banks' ATMs to withdraw loan proceeds and make scheduled loan payments.
	3. Protect vs. loan default due to death, disability, illness.	3. CocoLife and GrepaLife: group insurance policies with premiums paid by borrowers.
Development-oriented goals	1. Acquire new group-based lending methodology and monitoring system.	1. ASA-Bangladesh: technical assistance to apply large group-based loan methods and MIS for loan monitoring/ tracking.
	2. Expand geographical coverage of the market.	2. Opportunity International: funding and TA from AusAid to open major new branch.

through self-insurance schemes funded by surcharges on loans accumulated in a notional reserve account. In contrast TSPI uses insurance products from third-party licensed insurance companies, which minimize portfolio risk from death/disability of borrowers and, at the same time provide insurance benefits to clients' families.

The massive expansion in outreach was made possible by strategic alliances and development partnerships that allowed TSPI to access significant amounts of new financial resources to support expansion in lending operations and geographical market presence, as well as to adopt new but proven techniques in group-based lending to its own operations. At the same time, other institutional alliances to adapt new microlending techniques helped enhance the attractiveness of TSPI microfinance products to existing and new clients (to reduce and minimize drop-out rates from borrowing groups formed). Table 5 above summarizes the combination of commercial objectives that TSPI pursued in its strategic alliances with other commercial institutions and development organizations.

Prospects for the near and medium-term. There are strong indications that TSPI will consolidate its commercially-motivated relationships with LBP and BPI into medium- to long-term strategic alliances, not only for the commercial credit lines which support TSPI's expanding loan portfolio and outreach. The strategic alliances which provide access to the banks' ATM facilities as the principal mechanisms to manage and minimize costs of lending operations will become more important especially in the new provincial and rural areas which are farther away from TSPI's headquarters and prospective regional operating centers. TSPI may be able to work out arrangements with the banks, which have the most extensive branch networks in the country, for TSPI clients to have additional access to savings

and payments/money transfer facilities. Insofar as the developmentally-oriented relationships are concerned, the large base of TSPI clients-borrowers could prove attractive to the insurance companies for the purpose of designing other insurance products that the lower-income owners of microenterprises and small businesses may have a demand for.

Guatemala: planned merger between Genesis Empresarial and BancaSol.[9] Génesis Empresarial and Banca Solidario (BancaSol) is the leading MFI in Guatemala: 42 branches in 17 of Guatemala's 23 departments and a loan portfolio of US$18.2 million as of end-2003. Its client base of 33,000 is made up predominantly of group-based loans and loans to village bank and, to a lesser extent, loans to individual borrowers (Westley 2004). Founded by the national sugar processing industry in 1995 Banca Privado para el Desarrollo S.A. (BancaSol) is one of the smallest private sector banks in Guatemala, with a loan portfolio of US$16.8 million and assets of US$30.4 million as of February 2004. Three of its 6 branches are in Guatemala City and the rest in the sugar crop zones on the southern coast.

Constraints and obstacles addressed. During its evolution, Genesis received financial and technical assistance from the Ministry of Economy, USAID, BCIE, InterAmerican Development Bank, and the Governments of Sweden and Spain. Genesis does not rely on concessionally-priced funds to finance its portfolio and has had little trouble financing expansion with commercially-priced liabilities. However, its legal status as a NGO limited financial services only to microcredits and no deposit services for clients. BancaSol has aimed to provide banking services to micro businesses using methodologies developed by ACCION International. But this goal has proved elusive: 80 percent of the loan portfolio is comprised of consumer loans and another 11 percent for construction, and BancaSol does not have the physical presence through branches to penetrate rural areas outside Guatemala City and the sugar producing zones.

Strategic objectives and development goals. Genesis sought to obtain a special charter as a licensed microfinance bank, but the Bank Superintendency declined the application. With the transformation path blocked, Genesis sought out a partner that already had a bank license and shared its objectives. BancaSol was an appropriate choice, since some members of the BancaSol Board had previously worked with Genesis and both institutions had a relationship with ACCION International at one time. The ambitious legal merger of the two institutions was expected to have dramatic implications for both. International investors had already committed funds to the merger, including ACCION International, Triodos Bank, including ProFund which had committed US$1.0 million in mezzanine loans to support the merger.[10] Genesis branches, products and staff would have been absorbed into surviving merger entity, while the former BancaSol would instantaneously have a greatly expanded branch network and an operating technology and philosophy geared to microfinancing services in the unbanked rural markets.

Failure to complete the strategic alliance. Over 18 months of negotiations, the loan portfolio of Genesis continued to grow rapidly, while BancaSol operations were relatively flat.

9. The discussion and analysis are based on data, information, background materials and report on field research and interviews conducted in May and June 2004 by Jacobo Nitsch, Consultant.

10. *ProFund Internacional, S.A.* is a for-profit investment fund incorporated in 1995 based in San Jose, Costa Rica. ProFund provides equity and quasi-equity resources to Latin American and Caribbean financial intermediaries focused on small and microenterprises. The investment fund is one of the projects of the Inter-American Development Bank Group's Multilateral Investment Fund.

Table 6. Planned Alliance of Genesis Empresarial and BancaSol

	Génesis Empresarial	BancaSol
Overcoming financial and infrastructure resources constraints	Gain legal ability to offer voluntary savings products and other banking-type services to its client base.	Gain access to large client base of Genesis, consisting of individuals, group-based borrowers and village banks in Genesis' nationwide coverage.
Managing transaction costs	Ability to mobilize voluntary savings deposits from clients can translate to highly-reduced costs of funds for loan operations.	Avoids the operating and organizational costs of developing new branches and offices, as well as new market bases.
Acquiring technical knowledge, new competency and capacity	Access knowledge and competency in banking transactions and services, instead of limited focus on loans only.	Acquire knowledge and competency in the characteristics of doing microfinance business in rural areas.
Strategic behavior theory	Maintain its dominant position as one of the top rural/ microfinance institutions in the country and region.	Achieve, almost instantaneously, a greatly expanded market presence and market share.

Valuation of Genesis' loan portfolio and branch network failed to accurately reflect the increased value of its operations, leading to disagreement over key financial aspects of the proposed merger. A revaluation would have, in effect, given Genesis managerial control over the commercial bank. BancaSol viewed the change in the balance of power as a virtual takeover, and did not agree to a revaluation; the planned merger fell apart. While Genesis does not have a longstanding commitment from the prospective investors, it is likely to seek their assistance after a new proposed law on non-bank financial institutions is approved, possibly in late 2004. BancaSol remains a small urban bank with a limited branch network and increasing competition in the consumer finance market.

Summary Findings on Strategic Alliances.

- Two of the approaches to scaling up access to financial services in rural areas consist of (i) introducing new products such as servicing international remittances and tailoring insurance products to rural households' and businesses' needs, and (ii) expanding a menu of existing financial services (mainly credit products) to a larger client base.
- Rural markets need access to a variety of non-credit financial services (for example, international remittances and insurance coverage) which, often, only licensed banks, insurance companies and regulated entities are permitted to provide. Remittances increasingly account for a significant component of household incomes in rural areas and will continue to grow in importance as a product whose safe, timely and cost-effective delivery can be a profitable business operation as well as a source for potential new clients for RFIs.

- Rapid expansion in the scale of international migration in recent years has been accompanied by the increasing importance of remittances, which connect families across international borders, increase standards of living in the communities where recipients reside, and contribute to the growth of countries. Credit unions and cooperative financial institutions are key players in Latin America in expanding access through the servicing of remittances because of organizational links with WOCCU and other money transfer service providers. The international organizations have developed and are operating remittance transmission, delivery and receipt systems which are easily replicable in many countries.
- In other countries with large numbers of overseas migrant workers, rural banks and non-bank MFIs have seen servicing remittances as a profitable commercial line. These RFIs have structured strategic tie-ups with other remittance service networks such as commercial banks, money-transfer companies, and postal financial networks in order to have a part of the business of delivering remittances to recipients in the rural areas they operate in.
- Insurance products enable RFIs to protect their loan portfolios against default risk, and are indispensable to their clients for managing and mitigating risks in their operations, production and daily life. Strategic alliances of RFIs with licensed insurance companies comprise a reasoned approach to overcoming resource, technology, regulatory and other constraints in order for a rural finance institution to provide insurance products in rural markets.
- Even though remittances and insurance are products with an established and visible market demand, the strategic alliances structured by RFIs have not been in place long enough to generate quantitative measures of outreach expansion and financial performance improvements achieved by the RFIs. Nonetheless, there are clear indications that the credit unions delivering remittances as a financial service are gaining new members and generating additional income. With respect to insurance products for rural markets, BASIX continues to market and service an increasingly varied array of insurance products to its rural client base.

Development Partnerships

A development partnership may be structured between institutions from different tiers or sectors of the financial structure. In some cases the assistance of third-party organizations is necessary in order to expand outreach, broaden clients' access to varied financial products, and achieve financial sustainability. The experience of CDRO and Banrural in Guatemala highlights the objectives and mechanics of the development partnership between an association of community-managed development agencies vis-à-vis a restructured rural finance institution with mixed public-private ownership and private management to attain strategic goals of the partnering institutions. The experience of New Rural Bank of San Leonardo in the Philippines demonstrates that development partnerships can be instrumental to a newly-established licensed rural bank to quickly reach scale, size, and area of operations consistent with commercial viability and financial self-sufficiency. Without the commitment of long-term resources from development-partners, San Leonardo's goal of attaining sustainability would have involved a longer time period with less certainty of reaching profitability.

Guatemala: Development-oriented Partnership Between Cooperative for Rural Development of the Western Region (CDRO) and Banco de Desarrollo Rural (Banrural).[11] The Cooperative for Rural Development of the Western Region (CDRO) was established in the late 1980s to develop the "social fabric" and a common vision among the communities it serves. CDRO has a presence in the western mountain zone of Guatemala, specifically in the largely indigenous departments of Huehuetango, Quezaltenango, Totonicapan, San Marcos, and southern El Quiche, serving 15 associations which function as community-run development agencies, and with 2,800 clients in its credit program. Banco de Desarrollo Rural (Banrural) is a mixed public-private commercial bank with 51 percent government ownership. The predecessor entity Bandesa, a government rural development bank had performed very poorly but offered some useful branch infrastructure. Banrural required significant donor input as well, to meet the capital requirement of about US$13 million for a full-service bank in Guatemala. Its operations are focused on rural development, with universal banking services and national coverage, directed primarily towards the agricultural, commercial and artisan sectors and to micro, small and medium size businesses. Banrural's loan portfolio consists of about 15,000 individual loans, 5,000 group-based loans and about 1,000 loans to village banks (as of 2001–2002; Westley 2004).

With its relatively small size and limited area of operations in the western mountainous zone of Guatemala CDRO was not capable of meeting the US$13 million minimum capital requirement for a banking license. Moreover, moving in the direction of a formal sector bank would not be consistent with the community focus of its work and, as a non-financial cooperative organization, it cannot offer savings deposit services, payments, or remittance products. Banrural had dramatically expanded its network to 270 branches but its loan portfolio had not kept pace with infrastructure growth: loans represented only 30 percent of total assets from 2001 to 2003.

Development-oriented objectives. Both CDRO and Banrural needed to access additional resources to diversify offerings of financial services, improve technologies, reduce operating costs, and reduce risk. In 1988, CDRO attempted to launch a specialized financial services institution to be called BancoPOP but the Superintendency of Banks informed CDRO that without a bank charter it could not use "bank" as part of its business name. In addition, CDRO lacked the financial infrastructure, such as well developed back-office systems required to operate as a banking-type institution. Neither did it have the legal ability to offer deposits, payments, or remittance services. In spite of the growth in operations and its branch network, Banrural needed to develop an increasing stream of revenues, principally from a growing loan portfolio and client base. Its operations are financed largely by savings, which represent 83 percent of liabilities and capital.

The rights and responsibilities of each of the partners were formalized in a contract, which contributed to the transparency and sustainability of the arrangement, as summarized in Table 7, later.

Results achieved from the development partnership. CDRO's drive for market expansion benefits from the image of Banrural as a stable, licensed commercial banking institution, the convenience of the new branches' locations, the use of Banrural's security system, and the expanded menu of financial services for CDRO clients. In turn, Banrural has gained

11. The discussion and analysis are based on data, information, background materials and report on field research and interviews conducted in May and June 2004 by Jacobo Nitsch, Consultant.

Table 7. Mutual Responsibilities in the Developmentally-oriented Alliance Between CDRO and Banrural

Items	Banrural	CDRO
Contributions	■ Agency Equipment, Communications facilities and Security Services ■ Human Resources ■ Credit Technology and MIS software	■ Space in the headquarters building ■ Installations ■ Services ■ Savings clients
Obligations	■ Banrural will not offer the same products as CDRO to CDRO's clients	■ Use Banrural for banking transactions in CDRO territory
Rights	■ Use of the CDRO infrastructure to develop finance operations in the agency installed in the headquarters	■ Use of the Banrural support infrastructure for loan collection and recovery
Modifications to agreement	■ Modifications to be mutually agreed by each institution's Board of Directors	■ Modifications to be mutually agreed by each institution's Board of Directors
Functions of each window	■ Normal operations; no loans to CDRO clients ■ Cashing checks to CDRO clients at Tierra Blanca branch ■ Receiving payments for CDRO clients in any of 270 branches ■ Daily balance reports	■ Provide loans to 15 community agencies through central office ("Agencia POP") ■ Disburse loans in form of checks that can be cashed at Banrural window

access to CDRO savers, and expanded its loan portfolio through the credit line it has been providing to CDRO. An additional part of the strategic alliance is Banrural financing for CDRO's loan portfolio. Banrural offers a credit line at 10 percent interest to CDRO for onlending to member associations. CDRO onlends the funds to the associations according to their demand, capacity to repay loans, and management capacity. Interest Rates applied to the final clients of CDRO vary with the level of maturity of the group, and the methodology employed. The rates range from 15 percent for agencies with strong capacity and portfolio management experience, to 18 percent for weaker associations. Solidarity groups, individual loans and larger micro business loans are all priced at 24 percent.

The development partnership between CDRO and Banrural illustrates the point that several objectives may inform a particular relationship, as summarized in Table 8, later.

Prospects for the near and medium term. The alliance between Banrural and CDRO is assisting each organization to achieve their respective developmentally-oriented goals. The alliance gives Banrural access to larger community-based markets for its extensive branch network, expansion of its loan portfolio through wholesale loans to CDRO associations, and cost effective outreach to remote rural communities through the CDRO network. For CDRO, its community associations have gained access to a larger pool of stable fund resources to support expansion in loan operations and are able to offer secure and convenient

Table 8. Development Partnership Between CDRO and BanRural in Guatemala

Development Objectives	CDRO	Banrural
Relieve resource constraints to provide more services, and to expand into new market segments.	Provide associations' clients access to safe and convenient savings facilities, payments and remittance services though Banrural; gain access to stable fund sources to support loan expansion.	Expand its loan portfolio through wholesale loans to CDRO associations, and develop new base of depositors from CDRO associations' clients.
Build up technical capacity to provide new services and to go into new market segments.	Acquire technical skills in providing new financial services to community association clients through Banrural systems and facilities.	Acquire specialized marketing skills and techniques in providing banking services in rural communities through CDRO network.

savings deposit facilities and other banking services like remittances and payments to their clients. The formal, transparent agreement has the potential to develop over time into a commercially-motivated strategic relationship where the costs and benefits to each partner can be more specifically measured and institutionalized.

Philippines: Development Partnerships of New Rural Bank of San Leonardo.[12] New Rural Bank of San Leonardo (NRBSL) opened for business in 1994 in San Leonardo town, Nueva Ecija province of Central Luzon, Philippines. The bank's founder intended to focus on microfinance services to rural areas of the rice-growing province. In spite of its status as a banking entity licensed by the Philippine Central Bank NRBSL needed to have capital resources beyond the ₨3.9 million (US$160,000 in 1994) capital requirement in order to compete effectively with other formal and informal credit providers, and demonstrate operating and financial sustainability to attract customers to become loyal clients. The long-term strategic plan would require significant financial resources over and above shareholders' capital and manpower skills attuned to microfinance in a rural setting.

Development objectives. NRBSL needed to access long-term financial resources from patient and sympathetic organizations because building up a deposit base would be a lengthy process. NRBSL would need to leverage its equity capital in order to quickly build client base to a critical mass, provide the new micro-banking products and enter new markets without rural finance facilities without sacrificing the key goal of financial self-sufficiency.

Development partners. The InterChurch Organization for Development Cooperation (ICCO), Netherlands provided a ₨30 million (US$1.2 million) term loan, at 4.5 percent interest over 12 years to support NRBSL as a dedicated bank for the poor in rural areas. For ICCO the financial commitment was a prime opportunity to move from grant funding of several small NGOs towards organized long-term support for poverty-targeted development projects in the Philippines.

12. The discussion and analysis are based on data, information, background materials and report on field research and interviews conducted in May and June 2004 by Magdalena S. Casuga, Consultant, and the website of New Rural Bank of San Leonardo.

Table 9. Operating and Financial Results for New Rural Bank of San Leonardo (US$000)

Year	Assets	Loans Outstanding	Deposits	Net Income After Tax	Net Worth
1994	581.8	115.6	82.7	20.0	103.3
1995	925.6	293.0	209.4	49.5	152.1
1996	1,101.3	589.1	295.5	61.8	213.9
1997	1,391.2	787.4	490.3	75.3	291.8
1998	1,592.7	1,008.1	586.8	107.1	398.9
1999	1,887.0	1,405.3	778.1	115.8	491.1
2000	2,321.9	1,634.1	1,082.3	115.1	583.6
2001	2,784.4	1,963.8	1,300.6	152.6	715.6
2002	3,896.5	2,493.6	1,746.7	200.5	896.2
2003 (Aug)	4,276.0	2,825.4	2,138.7	185.2	1,065.3

Source of data: NRBSL Annual Reports and company information, available at website: http://www.nrbsl.com
Note: All figures in US Dollars (at 55.00 = US$1).

The Foundation for a Sustainable Society Inc. (FSSI) administers a fund created out of a cancelled Philippine bilateral debt to Switzerland[13]. In 1996, FSSI deposited ₱4 million (US$160,000) as a guarantee fund for NRBSL's non-collateralized loans to small entrepreneurs and agrarian reform beneficiaries. In addition, FSSI placed a ₱12 million (US$230,000) developmental time deposit in 2003, which has further boosted NRBSL's ability to provide agriculture and agri-based business loans to clients through an expanding branch network in 8 major centers of 5 provinces in central and northern Luzon in the Philippines.

Products and services developed. NRBSL has been able to roll out 6 different competitively-priced deposit products including a personal retirement plan, 10 rural-sector focused microcredit-type loans for agriculture production and processing, poultry and livestock raising, trading and market vendors, land redemption for land reform beneficiaries, housing repairs, and community infrastructure.

Operating results achieved. As of August 2003 NRBSL had ₱131 million (US$2.4 million) of loans outstanding (85 percent of the total loan portfolio) from its rural-sector focused microfinance operations, ₱118 million (US$2.1 million) in deposits from 19,500 depositors, and a net worth of ₱58.5 million (US$1.1 million). It has maintained a past due loan ratio of 1.0 percent and a capital-to-risk assets ratio of 26 percent (versus 18 percent for the rural banking system) as of end-2002.

13. Bilateral Agreement on Reduction of External Debt signed by the Governments of the Philippines and Switzerland, August 11, 1995. The Fund, with a value equivalent to Php. 454.8 million (US$1.75 million) in September 1995, was to be used by FSSI to support and promote sustainable enterprises that are community-oriented, economically sound, and economically viable; and projects that provide maximum benefit to the maximum number of beneficiaries.

Table 10. Development Partnership of New Rural Bank of San Leonardo with Development Agencies

Development Objectives	New Rural Bank of San Leonardo	Development Organizations
Relieve resource constraints to provide more services, and to expand into new market segments	Acquire commitments for long-term funds to serve as quasi-equity and loan capital for rapid market penetration and expansion of client base.	Commitment of long-term funds (as interest-bearing loans) to NRBSL helps to simplify administration and implementation of diverse and disconnected funding grants to numerous, small community-based NGOs.
Build up technical capacity to provide new services and to go into new market areas and segments	Acquire technical skills in providing new varieties of microfinance-oriented rural banking services to an expanding community-based clients.	
Strategic behavior goals	Minimize dependence on building up voluntary savings base during the early years of the institution. Achieve high visibility as major player in rural finance in market areas covered.	Rationalize program to provide funding and technical support to large number of small, highly dispersed community-based organizations in the country.

Summary Findings on Development Partnerships.

- Development partnerships may be crafted between RFIs and formal sector banks and institutions as a controlled experiment to establish commercial feasibility of a formal alliance to bring a financial product to rural markets. Such partnerships are also used to more accurately identify the components, financial and skilled resources, and costs involved in providing the product or service on a commercial basis. Some development partnerships can progress to commercially-driven alliances (such as the case of TSPI in the Philippines), while others may not prosper beyond the trial phase. The experience of CDRO in its developmentally-oriented alliance with Banrural is fairly new and recent, and only indicative trends as to Banrural's ability to reach remote rural areas and improvements in CDRO's financial performance as it expands its client base and loan portfolio through wholesale loans from Banrural.
- Commercial banks can expand their market base and protect competitive position by reaching down into rural areas, but will encounter additional transactions and operating costs. Well-structured partnerships with community-based RFIs present the opportunity to manage the costs of servicing rural markets as well as gaining knowledge about the characteristics and dynamics of rural finance. Constraints in the legal status and organizational structure of community-based rural finance entities can be overcome by access to resources, technology and banking infrastructure from formal sector banks. Often, but not always, the participative intervention of international development organizations (such as WOCCU, FINCA or

ACCIÓN) or local apex institutions (such as the Ghanaian or Philippine Rural Bankers' Association) may be required to forge development partnerships and linkages between formal sector banks and companies and the community-based RFIs.
- Even a fully-licensed rural bank or financial institution (as in the case of New Rural Bank of San Leonardo in the Philippines) can benefit from a partnership with development organizations to more quickly achieve critical mass in client base and scale of operations. San Leonardo's alliances with development organizations provided access to a large amount of long-term funding to support rapid expansion in client base and market area coverage and a more secure path towards financial sustainability.

Main Findings of the Study

The experiences of the RFIs in the study show that identified organizational objectives to scale up access to financial services in rural markets can be met by structuring strategic alliances or development partnerships with commercial organizations or development organizations. The dynamics of access to financial services in rural areas has at least two important aspects: first, availability of a varied array of financial services other than credit and second, increasing numbers of rural market participants who make productive use of the financial products. Non-credit financial services such as savings deposits, remittances/ money transfers, payments facilities (through ATMs, smart cards and check cashing), discounting of warehouse/storage receipts, input-supply and output-marketing contracts, and insurance products are important in rural markets. These products expand not only the range but especially the scale of access to financial services available to households and small-scale producers and businesses in rural areas. The experiences of the RFIs in scaling up financial services underscored three important areas: (a) the development partnerships and strategic alliances that RFIs sought with commercial or development organizations were informed by one or more objectives from the same set; (b) the types of RFIs actively engaged in strategic alliances, and (c) the financial products and services with established market demand and dependent on strategic alliances for delivery.

Development partnerships of RFIs with commercial and development organizations were aimed at one or a combination of the same fundamental objectives driving strategic alliances. In the case of CDRO these objectives were access to financial resources and infrastructure, expand the menu of services for clients and enhance organizational status. For Banrural the development objectives were mainly to penetrate into rural markets at manageable costs, and build up technical knowledge of rural-based microfinance. For San Leonardo, the key objective in its development partnerships was to secure committed long-term funds to backstop development of critical mass in operations and market areas and establish market share and position as it commenced operations. The experience of TSPI is instructive in demonstrating the evolution and emergence from partnerships with development organizations (Opportunity International, ASA Bangladesh) to strategic alliances with commercial banks for resources to expand the existing menu of credit services.

Engaging rural finance institutions in strategic alliances. Rural finance institutions that were effective in expanding the range of products and pushing the boundaries of access

consisted of credit unions/cooperative financial institutions, agricultural banks, non-bank rural/microfinance institutions and rural banks with a well-established presence in rural markets. Postal financial service networks have also been reported in other studies to have the potential and the capability to help expand the delivery of financial products and services in rural communities. The commercial alliances and development partnerships were determined principally by the strategic goals and the new or additional financial products and services that the RFIs focused on.

- *Credit unions and cooperative financial institutions.* Member-based and-owned financial cooperative institutions (CFIs) comprise a large segment of the rural sector in many countries, with the organizational status and capability to penetrate into rural areas where formal sector banks and even non-bank microfinance institutions might not be able to enter. Credit unions usually have the advantage of membership in upper-tier local federations and international organizations which provide access to capacity-building and systems-development technical assistance. When the regulatory framework is clear, the organizational and legal status of credit unions may be more easily accepted by formal sector banks and financial institutions (e.g., compared to non-profit NGOs) for purposes of structuring strategic alliances for delivering financial services to rural areas that the commercial bank does not have the physical capability and staff skills to enter.

  At the same time, it should be noted that CFIs in a number of countries have had to counter problems with governance arising from the organizational and operational characteristics where owners are also managers and clients. Moreover, the common bond that is supposed to hold the membership together may become increasingly diffused and ill-defined as the membership expands to larger numbers Active and direct participation of members become increasingly difficult as the membership base expands (Emmons and Schmid 1999).
- *Rural banks.* Not all countries have licensed banking institutions in the rural bank tier or category. However, microfinance-focused rural banks such as New Rural Bank of San Leonardo and others in the Philippines, and the rural and community banks in Ghana have demonstrated the capability to serve rural markets with innovative quality financial products (albeit basic banking products). Strategic alliances with large commercial banks enabled the RFIs to access banking facilities and infrastructure that would otherwise be too costly to acquire and operate on their own. Rural banks have demonstrated their ability to expand the variety and scale of access to financial services in the countries that do have them and are able to adequately supervise their financial soundness and operations.
- *Non-bank rural microfinance institutions* such as TSPI in the Philippines and Genesis Empresarial in Guatemala can become important in providing access to a wider range of non-credit financial services through strategic alliances with licensed banking institutions, as well as through the collaborative intercession of umbrella development organizations.
- *Postal financial networks.* The RFIs in this study did not have servicing relationships with postal financial networks. However, there are many cases in the material and literature on rural finance and development where postal financial networks have demonstrated their usefulness in helping to manage transaction costs in delivering financial

services such as collecting loan repayments, providing savings deposit facilities, money transfer (both domestic and international remittances) services, and pension payments in rural areas. Postal financial networks are becoming increasingly modernized and professionally-managed, to provide greater security and integrity to their operations.

- *The role of umbrella organizations and apex institutions.* The alliances that have been successful in meeting combinations of the five key strategic objectives have usually (but not always) included the collaboration or sponsorship of an umbrella organization (such as FINCA, Opportunity International, World Council of Credit Unions) or apex institution (e.g., Rural Bankers Association of the Philippines, ARB Apex Bank Ghana, regional federation of credit unions or cooperatives such as FENACOAC in Guatemala or FEDLUZCO in the Philippines). The participation and collaboration of such an umbrella organization or apex institution facilitates clear understanding of the division of labor, distribution of responsibilities and sharing of economic benefits between a rural finance institution vis-à-vis strategic partners. However, while a number of umbrella organizations and apex institutions have been successful, the overall experience with their effectiveness and key roles in intermediating technical assistance, wholesale funds and capacity building is generally uneven, as many are beset with operational, governance and autonomy problems.

Financial products with established market demand and dependent on strategic alliances for retail—such as delivery of international remittances, various insurance products, payments and transfer facilities (check-cashing, access to ATM networks, money transfers) were the focus of RFIs' strategic alliances with commercial and financial institutions with the legal charter and organizational capability to provide the product or service. The alliances were indispensable because the RFIs did not have the legal charter to offer the products (international remittances and insurance), or did not have the technology and infrastructure to provide the additional services (check-cashing, access to ATM networks, money transfers).

- *Remittances, money transfers and payments facilities.* The experience of several rural finance and other institutions presented in the study show that among non-credit financial services, the servicing of remittances is a commercially-focused financial service with a readily measurable schedule of service fees and potential income for a rural finance institution. The servicing of remittances to recipients in rural areas also presents a singular opportunity for a RFI to attract the recipient to become a regular client or a member of the rural-based credit union or financial institution.

  The methods and systems for servicing the delivery of the remittance to a recipient have been well-documented by international organizations like WOCCU and others, so much so that the business alliance between a local credit union and the remittance network is easily replicable in other country settings. As the scale of emigration and volume of remittances continue to expand, this particular product will assume even greater importance and prominence in scaling-up access to financial services in rural areas.
- *Insurance and risk management products* are prudentially regulated and the companies that provide them licensed by countries' insurance authorities. The products

are commercially attractive to RFIs because of commission revenues from premiums collected and because of their ability to shield the rural finance institution from adverse effects on their loan portfolios from loan defaults. However, the process of establishing a strategic alliance between a rural finance institution as agent and the licensed insurance company as its principal is often complicated and time consuming. In many cases they require the intervention through technical and funding support from a development organization to carry out needed market studies, product design and development tasks necessary to make the products attractive and affordable to rural households, small businesses and producers. As demonstrated in the case of GLICO Ghana, the approval of the National Insurance Commission was a prerequisite to introducing and marketing the new product, as well as in constituting rural banks as authorized agents of GLICO.

- *Credit lines to support loan portfolio expansion.* Access to financial resources at concessionally-priced (as in the case of New Rural Bank of San Leonardo in the Philippines) or on commercial terms (as in the case of TSPI in the Philippines) was critical to the ability of RFIs to expand their outreach to rural clients in new areas or lower levels of income and, more importantly meet and maintain levels of profitability and financial self-sufficiency. The main sources of additional capital funds have been formal-sector banks and financial institutions for resources at commercial terms and, in a diminishing role, internal development agencies and other foreign donors. In some cases, RFIs have been able to leverage a commercially-based credit relationship with a formal sector bank to include access for its clients to payments facilities through ATM cards, smart cards and check-cashing systems.

Strategic Alliances in Rural Finance: Operational Implications for the World Bank

Using strategic alliances to scale up access to financial services in rural areas is a new theme in rural finance. Different types of RFIs have developed strategic alliances to expand outreach, introduce new products, and improve financial performance. These experiences offer valuable operational lessons for World Bank task team leaders with rural finance projects. The operational implications are grouped into three categories: (i) necessary conditions for strategic alliances, (ii) key questions to be addressed in the early project preparation; and (iii) critical operational issues.

Necessary Conditions for Strategic Alliances

As the experiences of the RFIs in the study show, specific constraints to access and delivery of financial services in rural markets can be overcome through strategic alliances. There is a set of necessary conditions for strategic alliances to succeed. First, there should be a range of informal and semi-formal institutions serving rural markets, complemented by formal financial institutions that can offer a range of financial products. These include commercially priced credit, check cashing, ATMs, international remittances and insurance products. Second, the legal and regulatory framework must clearly establish the types of services that each institution can provide, and what business collaborations are permitted.

When these conditions exist, RFIs tend to form strategic alliances with formal finance institutions, commercial enterprises and development organizations to expand outreach and improve financial performance. For these purposes, they seek additional capital resources, financial infrastructure and technology that lower costs, technical assistance, market and product positioning for improved client relationships and a strong competitive advantage. Formal financial institutions and development organizations also seek strategic alliances and development partnerships to develop new market niches, lower transaction and operating costs in lower income segments, penetrate rural markets with their products, diversify risks, and protect market share.

The duration of strategic alliances involving RFIs vary widely. The gains from such alliances are easier to measure when these alliances have lasted for longer periods of time. For newly formed alliances, especially those involving new products (such as international remittances and microinsurance), the benefits to each party may not be so easily measured. As the study points, it is important to understand the *process* that strategic alliances contribute to outreach to new clients and markets and the introduction of new products.

Taking Stock—Key Questions to be Addressed Early in Project Preparation

Strategic alliances between RFIs and formal financial institutions, commercial enterprises and development organizations can complement other structural developments in rural finance. Downscaling by commercial banks, the transformation of non-bank MFIs and RFIs into regulated RFIs, and the application of new technologies may open new opportunities to some RFIs. These changes lead to expanded access and a wider menu of services for rural households and businesses.

A necessary prerequisite is the collection of relevant information on rural markets, RFIs and the demand for financial services from households and businesses. These sources of key information include Household Income and Expenditure Survey data, Living Standards Measurement Studies, periodic reports and surveys of microfinance network associations, and credit union federations in specific countries. For some countries in Africa, international donors and local network organization have mapped loan and savings volumes, size of client base and geographical location of branches and offices of commercial banks, rural banks, credit unions and non-bank RFIs and MFIs. On a more aggregated basis, the databases of the MicroBanking Bulletin,[14] TechnoRate and WOCCU are invaluable sources of the operating and financial performance profiles of MFIS in peer groups and country groupings. Additional information can be derived from the World Bank's Economic and Sector Work that can contribute to understanding of the barriers to strategic alliances in rural financial markets. The data and information collected and analyzed early in the project preparation phase will be instrumental in addressing the following questions.

14. The MicroBanking Bulletin is published by the Microfinance Information Exchange (MIX), a multi-institutional collaborative undertaking spearheaded by the Consultative Group to Assist the Poor. CGAP has a number of ongoing microfinance development-geared initiatives, such as in commercial bank downscaling, microinsurance, regulation, and standardization of accounts and audit reports, among others.

What are the legal, regulatory framework issues that provide incentives or disincentives to deepening financial services in rural markets, directly or through alliances? As the conclusions above demonstrate, one cannot overestimate the importance of the legal and regulatory environment that is at the heart of the incentives system for financial institutions. The framework includes both financial requirements and prudential norms (minimum capital requirements, key performance ratios). Another part of the framework is a matrix of related regulatory requirements, such as adequacy of human and technical resources; assets/equipment, MIS and communications systems and infrastructure; and sound marketing and servicing plans for planned business operations and expansion. There are often separate supervision structures, legal frameworks and prudential and non-prudential norms for banks, NBFIs, and savings and loan cooperatives. Finally, there are labor laws and tax code issues that can have enormous implications on how rural financial institutions and others behave.

Are there registries for movable assets, credit information systems, factoring and warehousing finance systems, and other key ingredients of a fully functioning financial market? These would lower the costs of entering rural financial markets. In the case of credit information systems, it would also lower the risks to financial institutions when they take on new clients. By lowering costs and risks, strategic alliances in rural markets become more attractive to various actors in the system.

Using financial performance indicators for RFIs and MFIs, are there well-performing institutions in (i) rural markets, (ii) saturated urban markets, or (iii) secondary cities? Are there sound commercial banks or NBFIs with consumer lending products? Strong competition in urban markets often drives MFIs into rural markets, although it can mean high costs in terms of new delivery systems, products, and types of clients and related risks. Financial institutions with consumer lending portfolios have already begun to solve the cost, collateral and creditworthiness issues that would be faced in microfinance operations in rural markets. Institutions using ATMs, mini-branches, or other cost-efficient means of providing credit and mobilizing savings might be good targets for strategic alliances in rural markets.

Are there technologies in place that could lessen transaction costs, if adapted to rural market conditions? For instance, formal financial institutions operating in countries with banking networks and ATMs would be in a good position to move into rural markets with lower transaction costs. International networks, such as WOCCU, ACCIÓN International, Opportunity International, CRS, and FINCA often offer such systems and technologies as part of a technical assistance and methodology package for national affiliates. A regional microfinance training center could also be a source of such know-how.

Are there commercial providers of complementary financial or other services who are actively seeking new markets? What would it take for them to adjust their package of technical know-how, delivery systems and products to move into rural markets? Interviews with providers of such products and services (for instance, remittances, insurance, and health care) could spark their interest in forming alliances with rural financial institutions especially when successful examples can be shared.

What role could credit unions and savings and loan cooperatives play? As examples in this paper have shown, a vibrant set of networks or large-scale individual cooperatives or credit unions could play a role as strategic allies and increase outreach. If international providers of technical assistance are active in the country, they can promote the use of international indicators and standards, as well as innovative products and examples of strategic alliances from other countries.

What is the extent of client demand for new financial and other products? Proxies to answer this include (i) drop-out rates of MFIs, (ii) client exit interviews and client satisfaction surveys conducted by MFIs, and (iii) information collected by a national microfinance association. Financial modules in a recent national Living Standards Measurement Study (LSMS) could also provide insights into what households and microbusinesses need. A high level of client dissatisfaction could be a clear indication that the MFI's services are unattractive or inadequate, and could benefit from a strategic alliance to develop a fuller range of products, lower transaction or financial costs.

What new financial and other products are under development, and could be scaled up through a strategic alliance? Interviews with leading formal financial institutions, development organizations, commercial enterprises, and MFIs (especially those active in or entering rural markets) could identify potential strategic alliances.

Critical Operational Issues

If the conditions are right for strategic alliances in rural finance how can interest be raised? The World Bank and its partners can sponsor seminars, workshops and other events to bring likely partners together. Such brainstorming can identify key legal and regulatory constraints, institutional capacity needs, and technological challenges that can be addressed by a study or the project.

World Bank projects, grants and counterpart funds can be used to disseminate examples of successful strategic alliance experiences and encourage experimentation. Since this is a new approach to rural finance and other services, many institutions may not be aware of the options, advantages, and limited risks that exist in strategic alliances with experienced RFIs. This awareness-raising work should take an inclusive approach, inviting urban-based financial services providers, insurance companies, credit card providers, health service providers, money transfer operators and others who might consider strategic alliances in rural markets.

Strategic alliances can complement, rather than crowd out, other types of assistance to the financial sector. There could be important spillover effects to rural financial markets, which could set the stage for strategic alliances. For instance, MFIs in both urban and rural markets stand to benefit from technological changes. These include mobile ATMs, expanded banking service networks, handheld devices for portfolio management, and advances in parametric models adapted to micro clients. Projects can be designed to support these changes at the level of the national industry, a subset of the industry (for example, savings and loan cooperatives), or with individual high performing MFIs. Other standard contributions from World Bank financial sector operations and assessments include warehousing receipts, moveable asset registries, and credit information systems.

The World Bank investment instrument should take into account the time required to develop and implement strategic alliances. It is important to recognize that strategic alliances require time to establish themselves, and often last much longer than the typical World Bank project cycle. Standard investment loans of three to five years can resolve some of the roadblocks to strategic alliances and promote greater outreach in rural markets. There are also at least two principal World Bank products that help to surpass the time limitations often imposed by the loan project cycle. Learning and Innovation Loans (LILs) can encourage experimentation that could result in improved coverage of rural financial markets. Adaptable Program Loans (APLs) which can be structured in phases for a total of 12 to 15 years indispensable in fleshing out the long-term vision for the developmental results of a particular World Bank sectoral intervention.

Are strategic alliances an opportunity for the International Finance Corporation (IFC)? As some cases in this paper illustrate, there are equity investment opportunities in some strategic alliances. The IFC is actively seeking new microfinance investments, and has financial transaction know-how that could be important in carrying out these alliances and mergers.

Donor coordination can play a role, especially with developmentally oriented strategic alliances. Standard World Bank lending instruments are limited by the lack of a grant facility. Bilateral and other multilateral donors may provide such grants and should be encouraged to recognize strategic alliances as an opportunity to expand outreach in rural markets.

Building in a role for second tier financial institutions and networks when appropriate. These institutions can provide technical assistance in the formative stage of a strategic alliance. In many cases apex institutions, networks, and federations can play a supportive or even an active collaborator's role in the formation of strategic alliances. Examples from the research include the Rural Bankers Association of the Philippines, ARB Apex Bank in Ghana, Federation of Luzon Cooperatives in the Philippines, and FENACOAC in Guatemala, FINCA International, and WOCCU. The role of the apex institution varies with the local context—from financial supporter to technical assistance provider, active alliance participant, or a combination of roles. Often, the networks (such as WOCCU, FINCA, CRS and ACCIÒN) or local apex institutions (such as the Ghanaian or Philippine Rural Bankers' Association) can promote developmentally-oriented strategic alliances between formal sector banks and companies and the community-based rural finance institutions (such as credit unions or village banks).

Using the World Bank's framework for guidance on financial intermediary lending. In any financial intermediation project supported by the World Bank, it is important to work with the financial institutions with an appropriate governance structure, sound portfolio performance, a capacity to mobilize and use commercially priced resources, and prudent practices and processes in place.[15] A second area is support for institutional development plans, which would enable financial institutions to decide how to improve systems and products and, in some cases, whether to enter into a strategic alliance.

15. World Bank Operational Policy 8.30, Financial Intermediary Lending, July 1998.

Insuring flexibility in project design and in the loan agreement. It is useful to describe the parts of a project in a way that allows for wide legal definitions of microfinance service providers, including networks, associations, and others that could play a key role in strategic alliances. Schedule 1 of the World Bank loan agreement (use of funds) should also be structured to give the project team the opportunity to take advantage of changes in the legal and regulatory framework, the introduction of new actors in the financial sector, and other changes that could lead to strategic alliances.

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Strategic Alliances to Scale Up Financial Services in Rural Areas is part of the World Bank Working Paper series. These papers are published to communicate the results of the Bank's ongoing research and to stimulate public discussion.

Firms have employed strategic alliances with other firms to effectively manage costs, overcome resource and technology constraints, and enhance competitive position. Strategic alliances can lead to productive institutional collaborations in rural financial markets, thereby expanding the array of financial products and scaling up access of rural households and micro-businesses to financial services.

Strategic alliances comprise a new theme in rural finance. The institutions in the study used strategic alliances to tap new capital resources, manage transaction costs, access banking technology and infrastructure, and acquire new skills to provide an expanding array of financial services to wider markets. The authors carefully examine the experiences of selected rural finance institutions and their strategic allies or development partners in Guatemala, the Philippines, Ghana, and India to draw out the main findings and share lessons that may be applied in other country settings. The study addressed a number of key questions:

- What motivated the rural finance institution to structure its alliance or partnership with a bank, commercial, or development organization?
- How are gains from and costs of alliances and partnerships shared between collaborating institutions?
- What are the key elements that make partnerships or alliances successful, and which conditions lead to unproductive ones?
- Which financial products and services are best introduced through strategic alliances?

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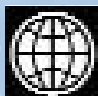

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