<u>Partnership approach in Microfinance</u>

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Abstract

Alliances and partnerships have long been part of the business world, but have, until recently, been comparatively rare in the microfinance industry. However, in the past five years several innovative business models based on linkages, often supported by new technology innovation, show promise to substantially change the way financial services are delivered to the poor. But what are the implications of this for both the service providers and their clients? What are the pitfalls and constraints? And how might these constraints best be managed?

As the microfinance industry matures and becomes more integrated within the formal finance sector, it is possible that we will see greater consolidation of service providers on the one hand, while at the same time seeing greater diversity and specialization of services and institutions. In this environment, the ability of institutions to strengthen their engagement with external parties, and to form strategic alliances, will become increasingly important to their survival – both for those institutions directly providing financial services, as well as those that support the industry through financing, capacity building or ancillary services. But forging these alliances, in many cases with non-traditional partners, may require a different skill set than is currently present in traditional MFIs or banks. How well equipped are current players in the industry to respond to these changes – especially the smaller MFIs?

The essence of a partnership approach is to bring together complementary resources and skills from diverse organizations, drawing on each partner's core strengths, to address complex development problems that no one party could address alone. Two such problem areas in microfinance may be the need to rapidly broaden outreach of rural financial services in a sustainable way (the supply perspective), and maximizing the impact of these services on economic development, poverty reduction and the improvement of people's lives (the demand perspective). There has traditionally been a degree of tension between these two perspectives in the history of the microfinance industry. Can partnership approaches help to bridge this gap? Can they also contribute to a new round of innovation in microfinance?

Beyond microfinance, the concept of multi-stakeholder partnerships has rapidly gained influence as an approach to sustainable development and poverty reduction in other sectors such as such as extractive industries, water and sanitation, information and communication technologies and the environment. There is much that can be learned from experience in these sectors regarding the processes of building successful multi-stakeholder partnerships, and helping to develop a more systematic approach to partnerships in microfinance.

Partnerships are not, however, a panacea: they are not appropriate in all circumstances, carry significant risks and hidden pitfalls, are rarely easy, and can take far more time and resources to establish and maintain than may first appear. However, when implemented well and appropriately, the resulting win-win solutions can have profound effects.

Commercially-driven, business-to-business partnerships in microfinance are, and will continue to be, driven primarily by the market. But should the process be left exclusively to the market? It is the view of this author that rapid scaling up of partnership approaches in microfinance is unlikely to occur without active leadership by organizations and individuals in a position to facilitate the process, based on a sound understanding of the dynamics of the partnering <u>process</u>. Further, a commitment is needed to build the capacity of organizations, especially of small MFIs, to actively broker and enter into partnerships on an equitable basis.

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What is a partnership, why do it, and when?

In Brazil, Sri Lanka, India and elsewhere, commercial and State banks are forming alliances with post offices, retail outlets and other non-financial partners, self-help groups and community institutions to greatly expand their outreach in rural areas.

In Uganda, a group of specialists from the IT industry, microfinance and rural development drawn from the private sector, government and NGOs came together to develop an technology tools to assist microfinance institutions (MFIs) improve outreach to isolated rural clients more cost effectively.

While in countries across Asia, MFIs have formed linkages with economic and social service providers to help manage their credit risks as well as extend the social and economic impact of their services.

These are only a few examples of the many ways linkages are being used to extend the reach and impact of microfinance. Many other examples have been given in this conference. The objectives and nature of the linkages are diverse, as are the range of partners - including banks, MFIs, NGOs, community associations, government agencies and other entities in both finance and non-finance sectors. Drivers of such linkages are diverse. In some cases the primary motivation for each partner is strictly commercial. But there may be many other motivations for one or more of the partners, for example, improved public image, access to new markets or opportunities, access to technical and financial resources, opportunity to influence policy, addressing a "double bottom line", enhancing accountability and transparency, and increasing social impact.

> *The term 'partnership' is commonly used to describe a range of different relationships, and has arguably become overused. In this discussion,* ***an ideal, multi-stakeholder partnership*** *can be defined as follows:*
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> *An alliance among* ***diverse parties*** *- which may include businesses, public agencies, and civil society organizations; formed for a* ***specific purpose*** *to address one or more key development challenges – especially those that have not successfully been addressed by organizations acting alone.*
>
> *Partners combine their resources and competencies in a* ***complementary*** *and synergistic way, based on* ***what they do best.*** *Partnerships are based on principles of equity and transparency. Importantly, they imply a* ***sharing of both risks and benefits****, and achievement of the partnership goals in a way which is mutually beneficial to of each of the partners and their clients.*

But partnerships are not appropriate in all cases. They carry significant risks and are difficult to establish and maintain. They work best in situations where single-organisation approaches have failed to achieve the desired goals. In microfinance, these could include:

1. Scaling up (and deepening) outreach, particularly in rural areas: [i] Successfully scaling up access to financial services in rural areas – the last large untapped market for financial services – requires business models that may include new types of product and service, an emphasis on reducing transaction costs, efficient means to interact with dispersed clients, upgraded physical and communications infrastructure, and knowledge of the local rural economy. Providing for these conditions may imply costs and expertise that no individual organization has the resources and expertise to meet on its own, requiring organizations to enter into alliances.

2. Addressing the "double bottom line": Impacting on poverty remains a major goal of many microfinance institutions, governments and donor agencies. Addressing this simultaneously with achieving profitability, or at least financial sustainability, is a challenge that few individual institutions have successfully achieved. Solutions may need to draw on several components, including: supportive policies and regulations; physical infrastructure; human capacity, both in terms of MFI management and skills to enable users to make use of services; and economic services to support enterprise development.

Some Questions:

- What is your understanding of what constitutes a partnership? Can we define a typology?
- What are the drivers and motivations behind partnerships you have been involved in?
- In what circumstances do you feel partnership approaches can best be applied?

What are the characteristics of successful partnership? What are the constraints?

Experiences in a range of sectors have begun to distil the factors that most contribute to, or detract from, the success of partnerships between diverse partners (see boxes)[ii]. The difficulties involved in establishing and maintaining a successful partnership relate to the complexity of the partnership, both in terms of the number of partners involved, and the diversity in background of the partners. In a simple business-to-business partnership involving two partners that work in the same sector and with the same motivation – such as between a bank and an investment fund, or between two MFIs – the difficulties are relatively little. .

Partnership success Factors

- *Openness, transparency and clear communication to build trust*
- *Partners all bring an essential element to the table and these elements are complementary*
- *Each partner's contribution is based on their core competencies;*
- *Clear goals, roles, responsibilities, objectives and ground rules;*
- *Mutual respect of differences in approach, objectives and underlying interests*
- *Mutual benefit: the partners achieve their own as well as the common objectives;*
- *Strong, high-level support and champions for the partnership.*
- *Developed within a realistic timeframe*

Constraints to successful partnerships

- *Lack of trust and mutual understanding by partners of each other's interests.*
- *Differences in modus operendi between organizations: clashes of organizational culture, different working methods, accountabilities, objectives, timeframes, use of language and decision-making styles.*
- *Lack of clarity in communication, for example in respect to goals, roles, responsibilities and external accountability.*
- *Lack of the skills and competencies, within one or more of the partner organizations, that are needed to build effective partnerships: these can be managerial, technical and attitudinal.*
- *Hostile external context: political, social and economic.*
- *Imbalances in levels of power or commitment between different partners, and imbalances in the levels of benefit..*
- *Underestimation of the time and resources required to build and establish the partnership.*

Linkages between formal and informal institutions (such as those described in the FAO/Ford Foundation study at this Forum) involve greater complexity. While those involving parties from multiple parts of society (for example government regulators, commercial banks and NGOs) or different sectors (e.g. retail, IT and finance industries) – in which parties tend to speak different "languages" and have different motivations, are more complex still, and may require professional facilitation. However, these latter types of partnerships also hold out greater promise for real innovation

Some questions:

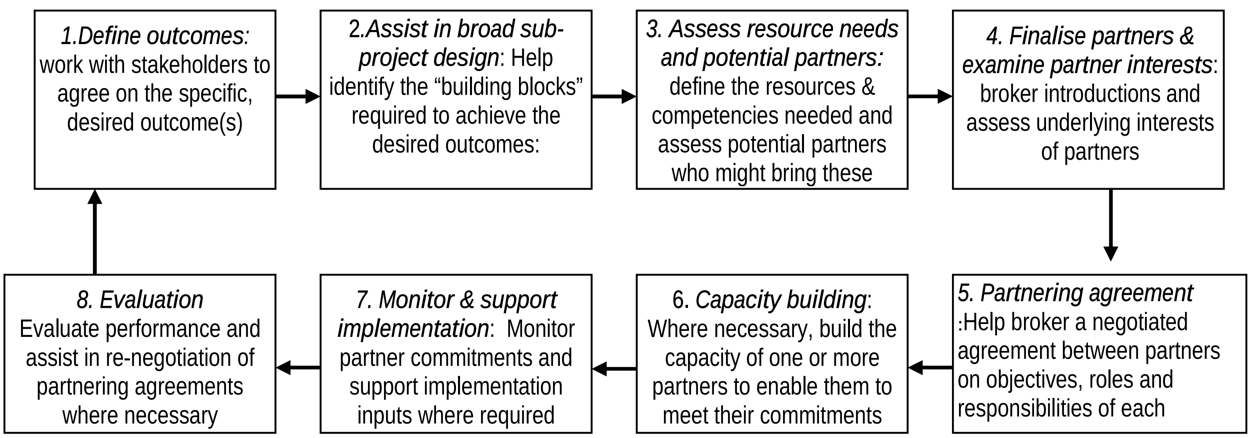
- In your experience, what have been the difficulties in establishing partnerships and alliances?
- How were these overcome?

Where to go next? How can partnerships be stimulated to best drive forward innovation, outreach and impact?

Commercially-driven, business-to-business partnerships in microfinance are, and will continue to be, driven primarily by the market. But not all potentially valuable partnerships fit this model, and in many cases the market cannot be relied upon to exclusively drive their formation. Rapid scaling up of partnership approaches in microfinance is unlikely to occur without active leadership by organizations and individuals in a position to facilitate the process, based on a sound understanding of the dynamics of the partnering process. Further, a commitment is needed to build the capacity of organizations, especially of small MFIs, to actively broker and enter into partnerships on an equitable basis.

Documenting existing experience: Substantial experience already exists in the formation of linkages and partnerships, and some exercises have already been undertaken to document this experience. Is there value in extending these to a wider range of linkages and partnerships, and with a focus on Asian experience?

*Capacity building and s*ystematic facilitation of partnerships: In many cases one or more of potentially valuable partners may not have the skills and capacity to enter into a partnership agreement. External, independent facilitation can also be helpful to speed up the process, increase the chances of success, and contribute to the building of necessary capacity. Many partnerships develop in an *ad hoc* manner, often beginning with a sponsoring partner who then brings in others on the basis of their existing knowledge and networks.   However, a more systematic approach can help to ensure greater clarity in the objectives of the partnership, greater surety that the right players are brought to the table, and clearer agreement between partners on their roles and responsibilities. A facilitation process might look something like the below:



“Pioneer projects”: Would there be value in a discrete initiative to support the identification, design, resourcing and evaluation of a select program of projects that replicate/scale up existing successful partnerships in microfinance. A high-profile and carefully documented program of projects that are strategically chosen and systematically designed, based on best practices in partnering, could serve as a beacon to other efforts to replicate or scale up partnership activities in microfinance, and provide an unparalleled learning opportunity.

Some Questions

- What practical things could be done to improve the quantity and quality of partnerships in microfinance?
- What future plans does your organization have to further develop linkage or partnership programs
- Would there be value in a specific program to promote partnerships in microfinance?

Illustrative Example: Microdevelopment Finance Team, Uganda

Context: Microfinance is a means of providing financial services (e.g. credit, savings, insurance) to the poor who would otherwise not have access to the formal banking sector. The microfinance industry serves largely the urban or peri-urban poor, lacking the means to reach out effectively to those who live in isolated rural areas. This is especially problematic in sparsely populated regions, as is the case in most African countries.

Development Aims: The goal was to develop an international industry standard technology to assist microfinance institutions (MFIs) to improve outreach to isolated clients more cost effectively and to progress microfinance development.

Partners: Hewlett Packard (HP), the main driver, identified key partners for the initiative - including microfinance experts, business strategists and microfinance leaders from public and private institutions - to form a multi sector team, known as the Microdevelopment Finance Team (MFT). The partners are ACCION International, Bizcredit, e-change. FINCA International, Freedom from Hunger, Grameen Foundation USA, PRIDE AFRICA. The MFIs working in partnership with the MFT during the piloting phase in Uganda were The Uganda Microfinance Union (UMU), The Foundation for International Community Assistance (FINCA), The Foundation for Credit Community Assistance (FOCCAS).

Partnering Process: HP initiated the MFT in 2002 – motivated by its business interest in the financial sector, a strong market for HP, as well as their e-Inclusion program which focused on developing new business opportunities in emerging markets. Recognizing that microfinance was not their core area of expertise, HP determined that development of an IT-based microfinance solution could only be done in collaboration with the right partners with the right expertise. HP was able to provide access to, and gain the engagement of, other key participants in the private sector, particularly in the technology arena. It was recognized from the outset that if each partner focused on attaining their own goals, they would only focus on a narrow part of the effort. A broad mission statement was therefore developed by the partners to provide a guiding vision that would enable each partner to achieve individual goals as well as develop a program that would address some of the most difficult problems in scaling up microfinance. Team members met in person quarterly, and held weekly conference calls. In addition a website was established to assist other people from partner organizations to become engaged. Through a website, people were welcomed to input comments, ideas, and innovations.

Outcomes: The team developed an IT solution, called Remote Transaction Solution (RTS), a combination of technology and a business process system that provides a cost-effective means of tracking loan information even in rural areas with little or no local infrastructure. The system is composed of three modules: a) market data and client profiles, b) brand management systems, and c) standardized reporting and information sharing. In 2003 the solution was successfully tested in Uganda. A key learning from the pilot was that re-engineering of the entire loan process by the microfinance institution to take advantages of the opportunities that technology offers was as important, if not more important, than the technology innovation itself.

All partners agreed to make the RTS widely available - with no licence fee - accessed via a source code license or a user licensed executable code to enable all players in the industry, especially smaller microlenders without sufficient resources to obtain sophisticated software, to benefit from the core technology. One of the main lessons learned within this project was the importance of the guiding principles/missions statement, and the way that all partners agreed on larger goals rather than coming together with a number of more individualistic goals. In 2005 a permanent organization, Sevak Solutions, was established to extend the RTS tool to other countries.
Challenges for this MSP have included establishing legal consensus among partners, a resistance to change to implement new methods, and finding innovative local coordinators.

Notes:
[i] A detailed study of examples of linkages between formal and informal finance institutions is being conducted by the FAO with support from the Ford Foundation, and was presented at this Forum by Maria Pagura
[ii] Adapted from a range of sources, including The Partnering Initiative (thepartneringinitiative.org); WEF "Partnering for Success: Business perspectives on Multistakeholder Partnerships; GKP/FDC Multi-stakeholder Partneships in ICT4D: an Issues Paper.