Strategic alliances for scale and scope economies: Lessons from FADES in Bolivia*

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Acronyms

AFP   Administradora de fondos de pensiones
ATM   Automated Teller Machines
FADES Fundación para Alternativas de Desarrollo
FFP   Fondo Financiero Privado
FIE   Centro de Fomento a Iniciativas Económicas
FINRURAL Asociación de Instituciones Financieras para el Desarrollo Rural
FONDESIF Fondo de Desarrollo del Sistema Financiero y de Apoyo al Sector Productivo
GDP   Gross Domestic Product
MFI   Microfinance Institution
NGO   Non-governmental organization
PRODEM Promoción y Desarrollo de Microempresas
SBEF  Superintendence of Banks and Financial Entities
SIDESA Sistema Descentralizado de Sanidad Agropecuaria
Strategic alliances for scale and scope economies: Lessons from FADES in Bolivia

Abstract: The case study of FADES in Bolivia makes an interesting case for non-traditional financial linkages. FADES, a non-regulated NGO and the third largest MFI in Bolivia, decided to enter into strategic alliances with several public and private institutions, with the sole purpose of expanding its rural outreach, despite the existence of restrictive legislation and infrastructural constraints. These linkages resulted in new services becoming available to old, and new clients, since the partnerships brought with it inherited clients. The new services range from additional financial services (e.g., remittances, deposit mobilization) to the payment of utilities and social programme benefits benefiting the elderly. This article introduces FADES’ innovative range of diverse linkages, and share initial results. We urge the readers to follow FADES’ progress, and continue to learn from this interesting linkage “laboratory”.

Introduction

The supply of financial services in rural areas of developing countries is not easy. Financial organizations that seek to establish a rural presence face numerous obstacles, including severe information, incentive and contract enforcement problems (Gonzalez-Vega, 2003) and difficulties associated with agriculture (Harper, 2005). Thus, the expansion of rural outreach is an uneven and slow process. Further, managerial, funding, and regulatory constraints keep many organizations from offering a wider range of services.

In addressing these challenges, some financial organizations take advantage of their greater proximity to rural clients, but typically they offer only a narrow range of services. In part, this is explained by their unregulated nature, which prevents them from engaging in deposit mobilization and other functions reserved for regulated entities. In part, it is explained by their inability to generate sufficient economies of scale, economies of scope, and portfolio diversification to lower operating costs and risks. The ability to increase rural outreach in a competitive environment is grounded on declining costs.

Bolivia is interesting for the analysis of these questions, given the pioneering role of many organizations in the development of microfinance, under a flexible but demanding framework of prudential regulation and supervision, which raised standards of performance and prepared the organizations for the difficult times the country has experienced. Moreover, substantial externalities and demonstration effects influenced the evolution of non-regulated financial organizations such that, as their regulated counterparts, they are among the best in the world.

There are two ways to address the difficulties. One is to develop a comprehensive, in-house structure to offer a whole range of services (a la PRODEM, in Bolivia). The coordination and internal control challenges associated with this model are formidable and require superior managerial skills and supporting logistics. This approach frequently leads to transformation into regulated entity. Another way is to create the equivalent of a planetary system and supply a number of services through inter-institutional linkages, developed around a core program. This is the approach followed by FADES.

This study focuses on the Fundación para Alternativas de Desarrollo (FADES), a non-regulated NGO specialized in the supply of financial services, with 20 years of experience. In terms of rural outreach, FADES is one of the leading non-regulated microfinance institutions (MFIs) in Bolivia. In recent years, the numbers of clients and branches and the loan portfolio grew substantially. This growth forced its management to seek
additional funding, while at the same time making sure that the organization remained financially self-sufficient and sustainable in the long run.

Both the motivations for expansion and its cost consequences persuaded FADES’ management to seek strategic alliances for the supply of additional services. The approach is conceptually valid, but it has not been easy to apply in practice. The decision was made to supply a wide range of non-traditional financial services simply because they are valuable for clients. Given FADES’ own limitations, however, this choice required strategic alliances with public and private organizations. The multiplicity of linkages is not, therefore, fortuitous or unintended. Rather, it is an intentional and central component of FADES’ institutional strategy, consistent with its mission of supplying an integrated array of financial services to its target population.

The development of alliances has been deemed a necessary condition to address the burden of fixed costs that the extensive infrastructure of branches, needed for rural outreach, represents. The supply of additional services creates economies of scale and economies of scope at the branch level, facilitates liquidity management throughout the organization, and allows a diversification of FADES’ sources of revenues. Because of the multiplicity of linkages, FADES has become a valuable laboratory for the testing of different schemes for offering services through strategic alliances and for understanding the institutional requirements for doing so efficiently.

Microfinance in Bolivia

With a rugged landscape covering over one million square kilometres and with less than nine million inhabitants, density of population is very low in Bolivia, except in a few urban centres. This creates high transaction costs for rural microfinance. In Latin America, only Haiti and Nicaragua have lower per capita GDP (US$ 960 in 2004). Hyperinflation in the early 1980s was followed by successful macroeconomic control, which required reduction of the public sector’s size, privatization of state-owned enterprises, closing of public banks, and market-oriented policies. Price stability and rapid economic growth ensued, accompanied by the formation of a large informal sector. In this scenario, the Bolivian microfinance revolution emerged in the late 1980s.

Recently, Bolivia has again experienced macroeconomic difficulties, social disturbances, and political uncertainty. The crisis has induced financial disintermediation, with reductions of deposits and credit portfolios and higher default rates for all types of intermediaries. In contrast to banks, MFIs rapidly reacted to these challenges and the growth and health of their portfolios continued uninterrupted. Features of microfinance clients and the innovations of MFIs contributed to their superior performance (Gonzalez-Vega and Villafani-Ibarnegray, 2004).

In recent years, one-fourth (US$ 115 million) of the loan portfolio of MFIs has been disbursed in rural areas, to 130,000 clients. Given this outreach, bringing additional financial services to remote and dispersed rural communities will be costly. After the crisis, most MFIs reconsidered the timing of their rural expansion and focused on the consolidation of urban achievements.

The Superintendence of Banks and Financial Entities (SBEF) supported innovations in microfinance as desirable on social grounds and to promote financial stability. In 1993, it approved the license for the first microfinance bank (BancoSol). By 1995, it created the charter of Fondo Financiero Privado, thus allowing Caja Los Andes, FIE, EcoFuturo and PRODEM to become regulated. SBEF regulations create options for inter-institutional linkages between regulated and non-regulated entities. Windows are an outlet for specific services, such as tax collection and payment of utilities, which can be placed in public or
private facilities (SBEF, 2002). *External cash desks* include ATMs, offices in supermarkets and stores, and “auto banks.” *Correspondence* creates a contract between regulated intermediaries and NGOs or associations, which operate on behalf of the former for a fee. These contracts allow the: collection of money from clients of the financial intermediary, to be transferred for final credit to the client’s account; receipt of cash to be transferred to other offices of the regulated institution and acceptance of transfer payments and international remittances; payment of salaries of public employees and, tax collection. One of the first inter-institutional linkages was created, in 2002, by FIE FFP and the NGO Pro Mujer, which introduced external cash desks in nine centres of Pro Mujer. Another experience has been the linkage between FADES and Trapetrol, which led to a correspondence contract in April of 2002.

**The Strategic Transformation of FADES**

FADES is among the most important organizations in Bolivia’s rural microfinance landscape. Measured by the value of its rural portfolio (US$ 18.6 million), it is the largest financial NGO. FADES also built the second largest rural portfolio among all MFIs, regulated and non-regulated, only surpassed by PRODEM. From the perspectives of the number of rural clients (22,000), FADES is the third largest MFI in Bolivia. To underpin this breadth of rural outreach, FADES built the largest branch network among financial NGOs (74 offices), developed a large number of inter-institutional linkages and is co-owner of a regulated MFI (EcoFuturo). From a rural origin, when created in 1986, FADES grew by offering services to clients in rural and peri-urban areas, based on its extensive branch network. As a pioneer in rural microfinance and agricultural credit, in particular, it developed credit products for its rural clientele.

Over the last several years, FADES experienced important transformations (Rodríguez-Meza, Gonzalez-Vega and Quirós, 2003). One milestone was the decision to create EcoFuturo, in 1999, with three other non-regulated MFIs. FADES traded its least rural offices for shares of stock in EcoFuturo. The plan was segmentation, in terms of the rural-urban market niches served. The growing penetration of EcoFuturo into rural markets, however, questioned the simultaneous existence of FADES and EcoFuturo.

A second milestone was the change in strategy. A new Executive Director was appointed in February 2002 and implemented major revisions in approach that reflected changes in how the institutional mission is interpreted. While in 2000 the mission was described as supporting the development of the lowest-income groups, two years later it became a contribution to economic alternatives that benefit lower-income groups, with priority in rural areas (FADES, 2003). This must be complemented by efforts to achieve sustainability and make the organization viable in the long run.

After 1996, FADES rapidly expanded its loan portfolio. Most of it is rural but not necessarily agricultural, as loans are granted for trade, services and small-scale manufacturing. FADES used several sources of funds, showing interest in diversifying its liabilities. It was one of the first to borrow in Euros, from Oiko Credit in 1999, and was quick to pay in advance when this currency appreciated. Still, 55 percent of its funding came from FONDESIF, a state-owned apex.
Table 1 FADES. General information, 2000-2004.

<table>
<thead>
<tr>
<th>Variable</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity (million US$)</td>
<td>4.8</td>
<td>4.3</td>
<td>4.0</td>
<td>4.0</td>
<td>4.1</td>
</tr>
<tr>
<td>Assets (million US$)</td>
<td>17.7</td>
<td>20.4</td>
<td>21.5</td>
<td>21.0</td>
<td>20.5</td>
</tr>
<tr>
<td>Loan portfolio (million US$)</td>
<td>11.7</td>
<td>13.2</td>
<td>15.0</td>
<td>16.1</td>
<td>17.7</td>
</tr>
<tr>
<td>Rural portfolio (percentage)</td>
<td>n.a</td>
<td>n.a</td>
<td>94.7</td>
<td>93.0</td>
<td>92.0</td>
</tr>
<tr>
<td>Average loan size (US$)</td>
<td>518</td>
<td>631</td>
<td>737</td>
<td>751</td>
<td>791</td>
</tr>
<tr>
<td>Portfolio in arrears (percentage)</td>
<td>6.5</td>
<td>10.9</td>
<td>24.4</td>
<td>16.3</td>
<td>n.a.</td>
</tr>
<tr>
<td>Clients</td>
<td>22,582</td>
<td>20,929</td>
<td>20,344</td>
<td>21,436</td>
<td>22,387</td>
</tr>
<tr>
<td>Female clients (percentage)</td>
<td>n.a</td>
<td>n.a</td>
<td>35.0</td>
<td>35.0</td>
<td>33.5</td>
</tr>
<tr>
<td>Branches</td>
<td>24</td>
<td>35</td>
<td>55</td>
<td>65</td>
<td>66</td>
</tr>
<tr>
<td>Portfolio per branch (US$)</td>
<td>487,500</td>
<td>377,143</td>
<td>272,727</td>
<td>247,692</td>
<td>268,182</td>
</tr>
<tr>
<td>Clients per branch</td>
<td>941</td>
<td>598</td>
<td>368</td>
<td>330</td>
<td>339</td>
</tr>
<tr>
<td>Employees</td>
<td>102</td>
<td>120</td>
<td>154</td>
<td>186</td>
<td>211</td>
</tr>
</tbody>
</table>

Sources: FADES, FINRURAL

Between 2000 and 2004, the numbers of fixed and mobile branches and of employees increased three-fold and two-fold, respectively (Table 1). The contrast between increases both in the loan portfolio and number of branches and the stagnant behaviour in the number of clients is striking. The average portfolio per branch decreased almost by half and the number of clients per branch became one-third compared to four years earlier. This created pressures on FADES, in general, and on each branch, in particular. The new management is aware of the dangers of this rapid growth in the numbers of branches.

Inter-institutional linkages are, therefore, a mechanism for supporting each branch’s efforts in becoming self-sufficient, by generating economies of scale and of scope at the branch level. FADES offers multiple non-traditional financial services. These services did not result from isolated initiatives; they are part of a strategy based on an integrated vision of the promotion of rural development. FADES’ non-regulated nature, however, restricts its operations and prevents it from mobilizing deposits. FADES thus established strategic alliances to supply financial services other than credit and transfer payments.

These alliances also require administrative efforts, including additional staff training, adequacy of software, acquisition of IT hardware, and periodic reports to each partner. To coordinate these efforts, FADES established a National Office of Auxiliary Financial Services. The staff of this office is, however, limited: only three, including the person in charge and two assistants, one in La Paz and another in Santa Cruz (who oversees the Trapetrol alliance).

Auxiliary services create positive and negative consequences. Questions are: How profitable are they? What share of total revenues do they generate? What are the costs of administration? The flagship services are two of FADES’ own products, currency exchanges and local transfers (giros), which account for over 50 percent of the total revenue generated by auxiliary services. Non-traditional services still represent, however, a small portion of total operating revenues (3 percent), while the rest comes from the loan portfolio and stock investments. Some alliances were recently introduced, so it will take time for some products to be fully operational and, until then, it is difficult to determine how attractive they are for the organization and its clients.
FADES has information on the volume of operations and dollar amounts, for each service and branch, to calculate revenues. It does not have activity-based costing, so it lacks estimates of how much each product costs and ignores how profitable each one is, individually or per branch. The Financial Manager estimates that all products are globally profitable, but some are not in certain branches. The collection of payments of utilities levies the least administrative burden.

Up to 2002, there were no problems in transferring funds to the branches. Each branch collected money and sent it, every day, to the main office; when they needed funds, they received them from La Paz. With rapid growth, it became difficult to administer liquidity. Now, there are 74 branches, all over the country, with different patterns of collection and disbursements. The challenge of administering liquidity is closely linked to the supply of auxiliary financial services, because the latter provide FADES with funds to disburse loans at the branch level. This allows a more efficient management of its flows of funds but requires, however, sophisticated mechanisms of internal control.

Non-traditional services forced FADES to speed up steps to improve software adequacy, internal control and human resources. These reforms caused high levels of stress. The organization decided, however, to identify the potential ahead, continue growing, and establish reliable controls.

**Inter-institutional linkages**

By December 2004, FADES had developed an impressive set of inter-institutional linkages: eleven strategic alliances with private and public entities (Table 2). These linkages resulted in 20 new services, offered to three types of clients: its traditional clientele; inherited clients, coming from partner institutions and people in communities where FADES operates, who visit its offices looking for the new products. The linkages range from those that allow the organization to offer additional financial services (e.g., remittances, deposit mobilization) to the payment of utilities and social programme benefits.

**Table 2 FADES. Summary of strategic alliances, as of December 2004**

<table>
<thead>
<tr>
<th>Type of institution</th>
<th>Name and line of activity</th>
<th>Number of alliances*</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Financial entities</td>
<td>a. Trapetrol/regulated credit union</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>b. Western Union/remittances</td>
<td></td>
</tr>
<tr>
<td></td>
<td>c. AFP Previsión/private pension fund administrator</td>
<td></td>
</tr>
<tr>
<td>3. Utilities</td>
<td>a. Entel/Fixed and mobile phone service</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>b. Elfec/Electric power</td>
<td></td>
</tr>
<tr>
<td></td>
<td>c. Cotel/Fixed phone service</td>
<td></td>
</tr>
<tr>
<td></td>
<td>d. Nuevatel-Viva/Mobile phone service</td>
<td></td>
</tr>
<tr>
<td>2. State programs</td>
<td>a. Bonosol/benefits for the elderly</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>b. Fundaempresa/vendor of enterprise card, for bids of public projects</td>
<td></td>
</tr>
<tr>
<td></td>
<td>c. Caja Nacional de Salud/social security</td>
<td></td>
</tr>
<tr>
<td>4. Other</td>
<td>a. Folade/International NGO</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>11</td>
</tr>
</tbody>
</table>

*Source: Interviews with FADES’ senior Management, December 2005.*

The services currently offered are not the only motivation; rather, a broader spectrum of products, available at partner institutions, might eventually be added. The range of alliances and other relationships are depicted in Figure 1. The resulting planetary model
illustrates a system of strategic alliances developed to overcome different types of restrictions, which keep FADES from directly offering services.

The diagram also depicts the influence of its founding members (namely, NGOs willing to offer an integrated set of products to the target clientele) and sources of funding (FONDESIF, by and large). It includes FADES’ investments in two firms. These relationships (founders, financiers, investments) are institutional linkages, indeed, but are perceived as different. They are typical connections, compared to the more innovative strategic alliances. Their influence on FADES matters, but they are just typical lending or investment contracts. The description of the innovative inter-institutional linkages begins with Trapetrol, the most important alliance in terms of volume of operations, profitability, complexity, and lessons learned.

**Figure 1** FADES, main institutional linkages

**Trapetrol** is a credit union regulated by the SBEF, based in Santa Cruz, where FADES has operated for years. Regional rivalries make it difficult, however, for organizations from the highlands (Altiplano) to engage in alliances with entities from Santa Cruz. The inter-institutional linkage between FADES and Trapetrol matters, because it is one
of the few and earlier attempts to establish an operational relationship between a regulated intermediary and a financial NGO.

The linkage began in April 2002. Achieving and keeping it alive required extensive support from Profin, the microfinance support programme of the Swiss International Cooperation (Cosude). This donor played a key role in analyzing and choosing the best legal option (correspondence), selecting Trapetrol from a short list of potential partners, and supervising the alliance (Campero, 2004). For some, the linkage would have never occurred without this support. The donor is a member of the Operations Committee, a board that oversees issues related to the linkage. At the time of the study, the Committee had not met for six months, despite a pressing agenda. This probably reflected the recent removal of managerial staff at Trapetrol, for reasons not related to the alliance.

Routine problems are resolved through local coordinators, one in each institution, who replaced the original general coordinator. This person was located in Trapetrol and, with time, practically became an employee of the credit union, working in activities unrelated to the alliance, and inclined to solve disputes in favour of Trapetrol. The nature of some difficulties (telecommunications, software, procedures) suggests the convenience of visits to branches, but few take place. A large number of offices of both organizations are involved: FADES has 16 branches, ten fixed and six mobile, in Santa Cruz, while Trapetrol has 17 branches, seven of them rural. The agreement prevents either organization from opening branches where the other already has one.

The alliance allows FADES to offer services in rural areas far away from the city of Santa Cruz. The farthest branch is seven hours away, by car, and it takes longer by public transportation; in some cases, this option is only available once or twice a day. The linkage helps FADES in reaching this rural population with services that otherwise would have been unavailable or only accessible to some, at high transaction costs. This is a substantial benefit for clients, revealed by the large unsatisfied demand for these services.

Five services are offered by the FADES/Trapetrol alliance. First is the payment of public utilities (electricity, phone, and water bills). This service reduces the clients’ transaction costs and, thereby, the total costs of these utilities; it also facilitates the collection of fees in distant communities, which would be too costly for utility providers, thereby encouraging them to develop services in remote and sparsely populated areas. Through this alliance FADES has contributed to a better public utilities infrastructure for these communities.

Second is the processing and payment of wages and benefits for public employees (teachers and social security beneficiaries). This matters for employees who work in communities far away from Santa Cruz, where their pay checks must be cashed. Instead, they get their money at the nearest FADES branch, with a significant reduction of transaction costs. Each month, a FADES officer goes to the bank and cashes the checks. Third, transfer payments sent (or received) by clients of Trapetrol and FADES are offered throughout the region. Fourth, Trapetrol loans are repaid at FADES, and Trapetrol collects payments on loans disbursed by FADES.

Fifth, deposit mobilization, one of the most interesting dimensions of the alliance, is the least developed one. Several reasons explain this slow progress, including: lack of real-time connections between branches in distant rural communities and the regional office; low fees for FADES and the opportunistic behaviour of clients, who use savings accounts to transfer large amounts of money to Santa Cruz, thus avoiding transfer fees, explain the Regional Director’s lack of interest.

FADES perceives three benefits from the linkage with Trapetrol. First, a service is offered that allows rural communities greater access to electricity, water and phone services, by reducing the operation costs of providers (increased supply) and saving the inconvenience
of travelling to Santa Cruz to pay bills (increased demand). Local welfare effects are substantial. This matters, given FADES’ institutional values of rural development.

Second, representatives of partner institutions and other local organizations get acquainted with this financial NGO. They might deal directly with FADES, avoiding the intermediation of Trapetrol. Third, a steady flow of cash to the branch allows better liquidity management. FADES recognizes, however, costs from sharing commissions with Trapetrol, as FADES could establish a direct relationship with the utilities.

Other linkages will be described only briefly. The main agent for Western Union in Bolivia is Banco de la Unión. FADES became the bank’s agent, a linkage that took shape in June 2004. FADES participates only in the Bolivian portion of the transfer and receives a 12.5 percent commission from the bank. International remittances arrive from Argentina, Spain, and the United States. The service is technically available in 45 of 47 fixed offices, because there are communications problems in two. It had operated only for five months at the time of the study and is expected to have great impact in rural areas. The link with Giros Folade, since 2003, offers international remittances from the United States, Europe and Costa Rica at the La Paz office.

AFP Previsión is one of two pension-fund administrators in Bolivia’s private pension system. The linkage required the approval of the Superintendency, which first rejected the plan arguing that FADES is not regulated. However, FADES was already disbursement benefits for the elderly (Bonosol), so the linkage was authorized. Branches become collection agents for contributions. This allows FADES to compete against regulated MFIs, which have a limited rural presence.

Entel, a major phone company, contacted FADES in 2003 to establish a linkage that has grown fast. ELFEC is an electric power company in Cochabamba. The linkage has been active since January 2003. The service lowers transaction costs for clients of the power company, who become potential clients for FADES. Cotel, a cooperative with the monopoly of fixed phone services in La Paz, was contacted by FADES. Service began in March 2004, demanded by clients and non-clients alike. If FADES does not offer it, some other MFI will. The linkage with Nuevatel-Viva, a mobile phone company, began in August 2004. Viva’s phone cards are popular and FADES wants to capture a large share of the rural market.

Bonosol grants annual benefits (US$224) to Bolivians 65 years and older. The linkage, since 2003, has been between FADES and three organizations, Futuro, Previsión, and Datacom. The former two are pension-fund administrators; the latter selects organizations for disbursement of the benefits. FADES is the main provider of this service in rural areas. The private firm Fundaempresa won a public bid for the sale of the enterprise card, which allows small and medium producers to participate in public sector bids. Caja Nacional de Salud administers health and pension systems. For a few of these linkages, the volume of operations is low, which may justify termination. Finally, some alliances are recent, which makes it difficult to examine the full extent of their impact.

Lessons learned

The alliances developed by FADES have produced an invaluable laboratory to learn about a multiplicity of issues. The lessons are useful for negotiators, supervisors and coordinators of inter-institutional linkages. First, some services increasingly provided by financial NGOs, like payments of utilities, are sometimes ignored or criticized because of their presumed non-financial nature. Financial institutions all over the world, however, have broadened the scope of their services. In corporate banking, the largest share of revenues is generated by these products rather than by traditional credit and deposit services. Similar reasons are behind
FADES’ search for a broader array of services: the need to generate economies of scale and scope, lower costs, diversify risks, and obtain additional sources of revenue.

The multiplicity of linkages assures a volume of operations and financial sustainability that allow FADES an expansion of its rural network and operations, which would otherwise be unsustainable. FADES expects to be perceived as capable of managing these arrangements and as trustworthy, even if not regulated. In Santa Cruz, where closed local associations are dominant, linkages can be effective ways to bypass sometimes impenetrable shields.

Several reasons motivated FADES to develop inter-institutional linkages to allow clients (traditional and non-traditional) to pay for public utilities at their offices. These linkages generate important flows of people at the branch, and FADES hopes some may become traditional clients. Indeed, clients of non-traditional services inquire about other financial services, especially credit. Second, these services guarantee flows of funds at the branch level that reduce the need for transfers within the network. Except for harvest seasons (when most loans are collected), the high costs of sending cash to branches, mainly due to insurance, are lowered, while staff exposure to theft risk is eliminated. Third, the fees charged are often high enough to pay for several expenses at the branch, such as the cashier’s salary and electricity and water bills. Moreover, except for once a month, when utility bills are due, the cashier has plenty of time to spare. In smaller offices, sometimes he becomes a credit officer. In remote branches, however, valuable credit personnel are also used for activities different from those they were hired and trained for. The evidence suggests a positive net outcome, as only a few days a month someone has to devote time to non-traditional clients. This is, indirectly, a way of paying credit officers with the additional revenues.

A long list of linkages generates concerns about their cost-benefit. MFIs that develop a large set of services sometimes fail to see deficiencies in the supply of their original flagship products, in aspects like design and back-office support. Further, developing additional products is not costless. There is an analogue with institutional linkages. Rather than strengthening them, a large uncontrolled number of alliances may dilute consolidation efforts and sharply increase costs. Typical expenditures result from time and resources needed for internal control and to train personnel on the new services, although training often takes place through automated programs, either in each computer (FADES), accessed through a main frame or by videoconference, all of which require minimum infrastructure.

In the best of cases, each product requires programming and adaptations, to include the service in the organization’s software and enable the two systems (FADES and its partner) to “talk” to each other. In the worst of cases, compatibility problems between the systems’ platforms arise, which happened to FADES. Lack of compatibility forced FADES to run different programs in more than one computer. Additional hardware must be purchased, when computers are old and without capacity.

The alliances require a separate department to oversee day-to-day operations, coordinate with institutions, conduct periodic evaluations, prepare reports, and promote services among employees and clients. The National Office of Auxiliary Financial Services has a staff of three, which is not enough. During 2004, the person in charge was not able to visit branches. No formal evaluations of the linkages have been conducted, although a couple have had almost no activity. Aware of these limitations, FADES is considering creating a larger unit.

A multiplicity of linkages offers insights about key factors to consider when selecting a partner. Some are related to the institution’s size, mission, and formality. If the organizations have different lines of activity, it may not matter that one is a large enterprise and FADES a small NGO. This is the case of ELFEC, a large electric power company, because this firm needs FADES for its rural expansion. In contrast, when the partners have the same line of activity, large differences in size may present problems. FADES might be
looked down, as a subordinate rather than a partner. One example was its experience in searching for a partner in Santa Cruz. The managers of Jesús Nazareno, the largest credit union in Bolivia, looked down at FADES. Next, at La Merced, a mid-size credit union, there was no interest because they were already operating in the same region. Finally, FADES visited Trapetrol, a relatively small credit union, and was greeted with interest, as an equal.

Once the potential partner is selected, institutional policies, mission and vision must be checked. Similarities help both during the negotiation and when problems begin to appear during implementation. In the FADES-Trapetrol alliance, the latter had mostly an urban outreach and had no idea of the difficulties of operating in rural areas. FADES, in turn, was concerned with information and telecommunication technology, as a consequence of the lack of minimum infrastructure where its branches are located.

Despite FADES’ apprehension, the agreement was reached. Later on, when the linkage was implemented, Trapetrol demanded a quicker response from FADES in solving communication problems, but the issues were exogenous and beyond FADES’ control.

Finding a potential partner of similar size and equal mission are ideal conditions but not sufficient to assure success. Due diligence is also necessary. In the case of Trapetrol, an analysis but not an in-depth evaluation of the organization was undertaken. FADES later on found out that Trapetrol lacked regulations, procedures and manuals. Many decisions (for authorizing expenses, for example) only required the general manager’s approval. Surprisingly, FADES was a more formal institution than Trapetrol. This caused disagreement and led the credit union to frequently describe FADES as bureaucratic. Although regulated, Trapetrol’s lack of formality was at the root of the institutional crisis it experienced, with replacement of most of its leaders. Unrelated to the linkage, this episode threatens its sustainability. One might conclude that the credit union was not the best institutional choice for a linkage, but there was little more to choose from in Santa Cruz. The best organizations were either too large or uninterested and the rest too small and weak.

Although problematic, alliances with state-owned entities are inevitable, given the far-reaching presence of the public sector in Bolivia. FADES has three of these linkages. They are seen as leverage for negotiating future linkages with the public sector. When agreements are discussed with private firms, a record of linkages with the state might be a valuable asset, particularly important for non-regulated entities. Complex and lengthy negotiations are typical, however, of agreements with the state, particularly because of transparency issues. A linkage between FADES and a public sector entity may expect a higher frequency of external audits than an alliance between two private organizations. Delays in payments of commissions are typical.

Another key factor in any alliance is for information to flow smoothly. Each organization should spread the news of the linkage, so all personnel are aware of it. In one of FADES’ alliances, while the management staff knew all details, mid-level personnel did not. Some problems can often be resolved between cashiers of both organizations, but this is not always the case, particularly when the rules of the game are not in writing or are ambiguous. In the FADES-Trapetrol case, the Operations Committee decided that each organization would name a coordinator responsible for the alliance, in charge of addressing communication problems. It is frequent for the staff to be afraid of the excess work that the linkage may generate. These fears are often unfounded. Non-traditional services do not require much time, except on peak days. Before an alliance begins, the institutions involved should have a good internal communication strategy and incentives compatible with the goals of both the linkage and the organization.

As in any legal document, linkage contracts should be clear and unambiguous. Wording of contracts that sequentially include several products require special attention. In these cases, common practice is to prepare a general contract for the partnership and specific
regulations for each service. Additional complications arise when a partner (Trapetrol) brings to the alliance a set of services that originate from a third party (payment of electric bills). Trapetrol had an agreement with the electric company, which included conditions on fees. When FADES and Trapetrol added the payment of bills to their alliance, the wording of clauses in the contract did not match the conditions that the electric company expected. There was a verbal agreement with Trapetrol regarding fees. When the fees became high, the company stopped paying Trapetrol, arguing that the agreed upon fee was lower. Trapetrol, in turn, stopped paying the corresponding share to FADES.

Conclusions

Macroeconomic and political instability discouraged most Bolivian MFIs from expanding their rural outreach. FADES followed a counterintuitive path: a sharp increase in its number of branches, beyond its already important rural network. FADES also developed the largest set of strategic alliances among non-regulated MFIs. Many of the linkages are recent, so their impact is yet to be seen. Its multiplicity, however, allows some conclusions.

The multiplicity of linkages is not fortuitous. The board of founders mandated a consolidated approach in the provision of an integrated set of services, either purely financial (deposit mobilization, remittances) or less traditional (collection of utility payments and social security and pension contributions and cashing of salaries). Although the goal is for each branch to be self-sustainable through its credit portfolio, the additional services secure the viability of some branches. Otherwise, some branches should be closed. Several linkages have the potential of developing into major sources of revenue, thus contributing to FADES’ overall sustainability. Some linkages have reduced client transaction costs and assisted in the development of markets and infrastructure. In other cases, the linkages have allowed FADES to bypass regulatory constraints, as in indirect deposit mobilization through regulated intermediaries.

Despite the justifications for an alliance, any NGO has to be careful with whom it develops one, particularly because it may be harder and costlier to break apart than create a linkage. Based on FADES’ experience, it is important to look for organizations of similar size, if the partner also provides financial services. If the organization operates in a different sector, size does not matter much. An alliance between organizations with similar objectives is also recommended. A linkage with a firm with comparable mission and vision facilitates rapport and leads to better understanding of each other’s difficulties in solving problems that the joint delivery of a service may introduce. Ideally, each organization should be able to conduct a due diligence evaluation of the other.

Managing the set of institutional linkages and defining adequate procedures for the implementation of each alliance are not trivial issues. Organizations with as many linkages as FADES require a separate unit for sound administration. This unit should prepare on-time reports, facilitate information for both internal and external clients, visit branches, coordinate administrative issues with counterparts, and perform evaluations of the linkages.

An important step in establishing a new alliance is to persuade branch-level personnel of the benefits, for the organization as a whole and for them in particular. A helpful practice is to write a procedure manual before the linkage is implemented. Another prerequisite is to have all the hardware, software and telecommunication devices needed for success in place. For complex linkages, it may be convenient to prepare a pilot programme.

In the end, both the sustainability of the linkages and their contribution to the sustainability of the organization matter. When installed capacity represents fixed costs and is not completely utilized, the new services generate economies of scale and help in diluting these costs with additional revenues. The joint production of several products creates
economies of scope, through additional information and relationships that favour development of additional products. Client loyalty improves, as the value of the relationship increases, and opportunistic borrower behaviour declines. Some of the non-traditional services are not highly correlated with other local activities, so risk can be diversified. All these effects simultaneously enhance rural outreach and sustainability.
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