The Missing Link in the Value Chain: Financing for Rural Farmers and Microentrepreneurs

Strategic Alliances for Financial Services and Market Linkages in Rural Areas

Lillian Diaz Villeda
and Jennifer E. Hansel

Conceptual Note
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Acknowledgments

The Practitioner Learning Program (PLP) of SEEP is a USAID-funded initiative that focuses on generating, communicating and leveraging the results and lessons of microenterprise practitioners' work to benefit the industry as a whole. The program sponsors a collaborative learning process to document and share findings, enabling participants to identify effective, replicable practices and innovations. Its principal purpose is to support organizations and the broader industry to explore challenging issues in the field.

This paper relies on the work of many people. It synthesizes the workshop that launched the PLP project, "Strategic Alliances for Financial Services and Market Linkages in Rural Areas," held in Turin, Italy, May 9–13, 2005. The paper is a product of facilitated discussions, small group work and reams of flip-chart notes by workshop participants and resource panelists.

A key outcome of the launch workshop was to identify a set of common questions that project participants want to explore over the course of the project. The questions will serve as a framework for their learning journey, which will facilitate rural access to financial services. The learning framework reflects the issues that participating organizations have themselves identified.

The authors would like to thank all of the following workshop participants, as well as the people who worked and provided feedback on this paper. A special thanks to Geoff Chalmers, who not only contributed to the conceptualization of this PLP, but also provided insightful comments on the learning framework.

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Henry Panlibuton – AFE
Eva Galvez Nogales – FAO

Lillian Diaz Villeda – PLP Learning Facilitator

Executive Summary

Pushing the frontiers of micro- and small-enterprise interventions to rural areas is the current focus of many organizations. These kinds of projects are attracting the attention of donors and practitioners alike. In the microfinance field, innovations are being tested and replicated to increase the access of rural clients to financial services on a sustainable basis. In the enterprise development/business development services (BDS) field, new approaches for facilitating market opportunities and linkages for rural enterprises and farmers in weak markets are beginning to emerge.

This round of PLP grants responds to the growing interest in reaching rural markets from both a microfinance and enterprise development perspective. By drawing lessons and expertise from these two technical areas, the strategic alliance project will explore different methods for facilitating financing for rural farmers and microentrepreneurs in order to upgrade in different value chains for rural products.

The principal issue that the project will address is whether strategic alliances and partnerships between rural financial institutions, market development facilitators, service providers, value-chain actors and micro and small enterprises (MSEs) can increase access to financial services in rural areas. By facilitating such access, this PLP ultimately seeks to explore and document models that assist MSEs to take advantage of potential market opportunities to upgrade the value chains in which they operate.

The seven projects funded by PLP grants can be categorized into two groups. The first group is comprised of financial institutions that will form strategic alliances with a service provider or value-chain actor(s). As a result of these alliances, the financial institution will directly provide financial services to rural MSEs and farmers. In some cases, the strategic alliance will enable a value-chain actor to provide better or improved financial services through established business relationships.

The second group of projects is comprised of market-development facilitators that will assist other actors to improve rural access to financial services. In some cases, these facilitators will work with rural financial institutions and value-chain actors to jointly develop suitable financial products that can leverage the value chain of local rural products. In other projects, they will work to stimulate a service market that supports financial institutions in a commercial manner.

The organizing principle behind the learning framework for this project was to have the participants jointly identify the steps needed to facilitate rural access to financing. These steps are categorized into four project milestones: market assessment; selecting partners and structuring strategic alliances; implementing solutions; and exit strategy and replication. These milestones will serve as the basis for peer learning and guide the participants in documenting lessons and findings throughout the project.

The main purpose of this paper is to articulate the learning framework for the PLP project in greater detail. This project creates a space for practitioners to meet and share their knowledge. Using tested knowledge sharing and learning tools, it will begin to answer questions that are relevant to practitioners and the broader industries of microfinance and small and microenterprise development. By addressing the challenge of enhancing the access of rural farmers and microentrepreneurs to financial services, the project hopes to identify effective, replicable practices and innovations for upgrading the value chains of rural products. Equally important, the project also seeks to identify practitioner approaches that require adjustment, as well as mistakes that should be avoided in practice.

Section 1.
Overview of the SEEP Pracitioner Learning Program

Purpose

The purpose of this round of PLP grants is to explore different methods for facilitating rural access to financing. Such financing is intended to enable rural farmers and micro and small enterprises (MSEs) to overcome financial constraints by investing in capital upgrades, as well as to improve their position and leverage in the value chains in which they operate. In value chains where financial constraints affect a number of actors, overcoming this bottleneck has the potential to improve the functioning and efficiency of entire value chains, leading to better overall benefits for all market participants.

One key method for facilitating rural financing will be to test whether strategic alliances between rural financial institutions, market development facilitators, service providers, value-chain actors, micro and small enterprises (MSEs) and/or farmers can increase access to financial services in rural areas.

Although a number of financial institutions have documented how to serve underserved rural clients, lessons are only beginning to emerge on how these institutions can work with input suppliers, processors, storage providers and other value-chain actors to address financial constraints evident in the value chains of rural products. At present, for example, there is little understanding of how financial institutions can work with market development facilitators[1] to jointly conduct market research or develop profitable, demand-driven financial products.

In the fields of enterprise development and business development services (BDS), the value-chain approach is showing great potential for identifying bottlenecks that limit market opportunities to increase the value of product markets. Recent studies have explored the importance of financial constraints in value chains and the nature of financial relationships among value-chain actors, as well as between these actors and financial institutions. More research is needed on these relationships to understand how they can increase the flow of financial services to rural areas. In addition, more work needs to be done to identify the potential roles of market development facilitators in stimulating service markets to support rural financial institutions.

This PLP will build on past experiences, lessons learned and research in these technical areas. Literature on strategic alliances, mostly from the private sector, will provide useful information as the practitioner-grantees explore various methods of facilitating rural access to financial services.[2]

The Learning Process

The *learning process* that will guide this project has three principal features:

1. It is designed to foster intermediate knowledge sharing. In other words, knowledge-sharing tools (e.g., online discussions, peer exchanges, and other means) will be used to foster the exchange of information and experience as the participating organizations undertake project implementation tasks. The knowledge shared will be tailored to individual needs and learning styles.

2. It is designed to answer both specific questions of individual participants and broader questions articulated by the learning framework, which participants will address collectively.

3. It is flexible, allowing participants to develop practical "learning products" (e.g. case studies, articles, newsletters) that capture their collective learning for a practitioner-based audience.

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[1] See glossary for a definition of market development facilitator.
[2] Refer to Bibliography for a full list of sources.

Section 2.
PLP Network Projects — What Will They Do?

PLP Project Description

This PLP project is comprised of two types of organizations: rural financial institutions (RFIs) and market development facilitators. A distinction is made here between microfinance and rural financial institutions. Rural financial institutions often confront challenges that are not always faced by microfinance institutions, such as a dispersed client base, crop cycles and weather factors. A brief description of the seven projects that comprise this PLP learning network follows.

1. ACCION and El Comercio (Paraguay)

Accion and its affiliate El Comercio, an RFI, seek to offer financial services to poor small farmers in rural areas of Paraguay. Their main objective is to reduce the financial and credit risk of lending to small farmers by forming strategic alliances with BDS providers, such as the Institute for Community Development (Instituto para el Desarrollo Comunitario), and value-chain actors, such as silos and other storage facilities. Accion and El Comercio will build on their successful past experience in developing financial products for the soy value chain, which demonstrated that strategic alliances between farmers and silos were the key to successful lending. El Comercio will try to replicate such alliances for other crop-based lending, such as loans for sesame, canola, corn and wheat production.

2. American Refugee Committee (Sierra Leone)

The "Making the Link" of the American Refugee Committee (ARC) Project will support implementation of the USAID-funded "Promoting Linkages for Livelihood Security and Economic Development" (LINKS) Program. "Making the Link" will focus on building ARC's ability to conduct in-depth value-chain analysis and work with partner organizations, including RFIs and commercial businesses, to adapt their financial products to address value-chain bottlenecks. ARC anticipates that financial products and relationships will be formed to fill gaps or improve existing ties within selected value chains.

3. Caja Rural de Ahorros y Credito Nor Peru (Peru)

Caja Rural Nor Peru (CNP), an RFI, seeks to develop strategic alliances with private-sector commercial businesses willing to share the risk of financing small farmers, enabling the latter to enter more competitive and formal markets. Strategic alliances are slated to be established with commercial exporters of artichokes and sweet peppers. CNP wants to test if an RFI can reduce the risk of lending to small-scale agriculture and seeks to find new, innovative solutions for agricultural development in the region.

4. EDA Rural Systems Private Limited (India)

EDA Rural Systems Private Limited (EDA), a market development facilitator, will develop a practical model to enable RFIs to provide appropriate financial services to microentrepreneurs and marginal farmer-producers in a cost-effective manner. EDA will act as the facilitating agency and will attempt to forge or strengthen links between RFIs and credit agents; between RFIs, banks and associations of microenterprises; and between banks and value-chain players such as traders, input suppliers and processors.

5. International Development Enterprises India (India)

International Development Enterprises India (IDEI) plans to test the effectiveness of strategic alliances between RFIs and other players in the rural product value chains in the IDEI operating region. Ultimately, IDEI seeks to understand if and how strategic alliances help increase the flow of credit to small rural farmers, enabling them to invest in upgrading (e.g., the purchase irrigation technologies) and improve their incomes by integrating them into better markets.

6. KENYA BDS and Resource Mobilization Center (Kenya)

The main objective of the Resource Mobilization Center project ("Facilitating Access to Savings Mobilization Services in the Lake Victoria Fish Subsector Project") is to expand a pilot for improving savings mobilization among fisher- men and women into a full-fledged intervention. The program will test the commercial viability of savings mobilization brokers and explore various techniques for bringing RFIs to "the beach" with product offerings that meet the financial needs of people who fish for a living.

7. Mennonite Economic Development Associates and National Association of Business Women in Tajikistan (Tajikistan)

Mennonite Economic Development Associates (MEDA), a Canadian-based NGO, and the National Association of Business Women (NABW), an RFI in Tajikistan, will promote increased incomes for Tajik farmers in the winter months by improving their storage options and market opportunities. The goal of the project is to address value-chain constraints, in particular, lack of suitable storage facilities and access to more profitable markets. A strategic alliance with NABW will allow for the development of loan products appropriate to rural farmers.

"Inside" or "Outside" the Strategic Alliance

The organizations that are embarking on this PLP learning journey come from two different perspectives. Some organizations will build on previous experience in rural finance and aim to develop innovative, commercially viable ways to increase the provision of financial services to rural areas. Other organizations will build on previous experience in facilitating value-chain upgrading and service market development. These organizations aim to address financial and non-financial bottlenecks in the value chains that they support.

There are thus two categories of projects within this PLP network: projects “inside” the strategic alliance and projects “outside” the strategic alliance.

Category 1

These projects are led by RFIs “inside” a strategic alliance. The RFIs will actually form an alliance and directly provide financial services to rural micro and small enterprises (MSEs) and farmers. In some projects, RFIs will work with value-chain actors (such as input suppliers and processors) to increase the volume of financial services that these actors provide to MSEs and farmers.

Category 2

These projects are led by market development facilitators that operate “outside” of the strategic alliances that they help create. These facilitators will play a crucial role in facilitating and strengthening such alliances. In some projects, they will work with RFIs to jointly develop suitable financial products. In others, they will stimulate a service market that supports RFIs in a commercial manner.

The perspectives of both RFIs and market development facilitators are a tremendous resource for this PLP project. Understanding the thought process of each group is helpful when structuring a strategic alliance and will provide a beneficial sounding board within the network of participants. For example, RFIs can help market development facilitators develop strategies for engaging RFIs in their institutional context. Similarly, market development facilitators can provide insight as to how RFIs can engage with them to develop more appropriate financial products for rural farmers and entrepreneurs.

Table 1 provides an overview of the two categories of projects that comprise this PLP, their goals, and examples of the activities that they will undertake.

Table 1. "Inside" or "Outside" the Strategic Alliance

	Participant Type	Goals	Example	PLP Projects
"Inside"	RFIs that form strategic alliances with value-chain actors, market development facilitators, and/or service providers, farmers and MSEs.	To develop suitable financial products and/or commercially viable delivery models that specifically address constraints in the value chains of their target market.	RFIs may work with value-chain actors to design financial products with processors that can then onlend to small farmers.	Caja Nor Peru (Peru) NABW (Tajikistan) El Comercio/ Accion (Paraguay)
"Outside"	Market development facilitators that foster strategic alliances between RFIs, value-chain actors, service providers, farmers and MSEs.	To facilitate entry of new players into rural financial markets by assisting them to design suitable financial products and/or commercially viable delivery mechanisms that specifically address constraints in the value chains of their target market.	A market development facilitator might partner with one or more RFIs to identify specific financing needs and constraints of microenterprises in the targeted value chain.	ARC (Sierra Leone) EDA (India) IDEI (India) Kenya BDS/RMC (Kenya) MEDA (Tajikistan)

Section 3.
PLP Learning Framework:
Rural Finance for Value Chains

Learning Stages

In order to effectively capture the learning process of this group of PLP grantees, it was vital to develop a learning framework. The learning framework for a market development facilitator or RFI has three stages.

> **Learning Stage 1:** Addresses the overall question of how to facilitate rural access to financial services. The entire network of participating organizations will jointly explore this question over the course of the project with the aim of providing helpful lessons for the microfinance and small and microenterprise industries.
>
> **Learning Stage 2:** Addresses questions associated with each of the four milestones: market assessment, selecting partners and forming strategic alliances, implementing solutions, and exit strategy and replication.
>
> **Learning Stage 3:** Focuses on individual question(s) of the seven distinct projects. This paper will not discuss this stage; its focus is the broader learning processes that all participants will undergo.

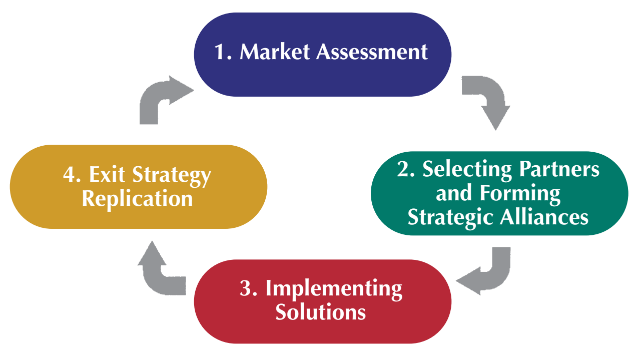
Learning Stage 1: Overall Learning Question

Given the unique contextual challenges in rural areas, the overall question that participants will seek to answer is: How can strategic alliances between value-chain actors, RFIs, and/or market development facilitators-which provide for risks, costs and responsibilities to be shared among alliance members-help deliver better financial solutions and market linkages to rural MSEs, allowing them to take advantage of market opportunities?

Learning Stage 2: Sub-questions

The four project milestones will drive the learning process and serve as the basis for peer learning and documentation of lessons learned.

Figure 1. Milestones for Rural Finance for Value Chains*



* For a complete version of our learning framework, contact Lillian Villeda, PLP Learning Facilitator (lillian@online.com.kh).

Numerous learning questions correspond to each project milestone. In addition, the milestones are further broken down into 10 steps that most PLP projects will undertake as they implement their individual projects (see table 1).

While the four milestones and ten steps may occur in sequential order, it is important to note that they may also be implemented simultaneously and/or iteratively. For instance, a project may begin working on an exit

Box 1. Ten Steps for Facilitating Rural Access to Financial Services

Milestone 1. Market Assessment

Step 1. Identify and select a product market
Step 2. Analyze the value chain
Step 3. Use financial services lens to examine value chain
Step 4. Identify constraints and potential commercial solutions

Milestone 2. Selecting Partners and Forming Strategic Alliances

Step 5. Develop criteria and assess potential partners
Step 6. Structure strategic alliance or partnerships

Milestone 3. Implementing Solutions

Step 7. Develop financial product or service delivery model
Step 8. Pilot product or service and evaluate results

Milestone 4. Exit Strategy and Replication

Step 9. Exit strategy
Step 10. Replication

strategy (milestone 4, step 9) while developing criteria to assess potential partners (milestone 2, step 5).

Project Milestones

Milestone 1: Market Assessment

During the May 2005 workshop that launched the strategic alliance project, participants reached a consensus that value-chain analysis was critical for identifying and prioritizing constraints to the specific value chains in which rural MSEs and farmers operate. During the workshop, participants added new terminology to this process, discussing the importance of conducting value-chain analysis with a financial services lens.

What is value-chain analysis using a financial services lens? It is analysis that pays attention to the role of financial services within value chains, rather than solely within financial systems. It complements a financial market orientation with a product market orientation and designs studies and interventions accordingly. Input suppliers, processing firms, warehouses and other commercial actors in the agricultural and rural sectors provide critical financial services to small- and medium-sized rural producers. Viewing the value chain through the lens of financial services can more easily identify significant economic demand and potential interventions that could expand the existing supply of services in efficient and sustainable ways.

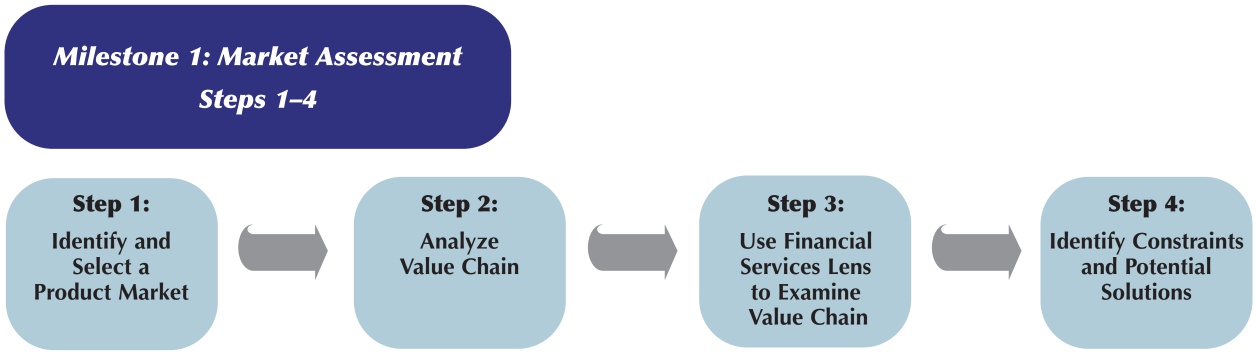
The information gathered using a financial services lens may prove useful to rural financial institutions that seek to reach a rural customer base, as well as to market development facilitators that seek to work with financial suppliers (e.g., RFIs and value-chain actors) to develop financial products and alternative delivery models suitable for a given market.

This PLP network will explore the following questions related to market assessment:

- In practice, how does an organization integrate value-chain analysis with a financial services lens? What additional information can one collect using a financial services lens?
- How does an organization use the results of this value-chain analysis (one that examines financial relationships and constraints) to identify promising solutions, including the design of innovative financial products?
- How does conducting value-chain analysis help in partner selection and the design of better RFI products?

Figure 2 illustrates the four key steps of the first milestone.

Figure 2. Milestone 1: Market Assessment



Milestone 2: Selecting Partners and Structuring Strategic Alliances

How does an organization choose partners? What information and knowledge would interest possible partners in joining a strategic alliance to serve a rural customer base? In the launch workshop, many participants discussed the challenges of effectively communicating and negotiating with potential partners. One example focused on how market development facilitators could demonstrate the benefits of potential bank lending to farmers, especially when farmers are purchasing technology.

For RFIs, partner selection is relevant when working with value-chain actors to develop new financial products or increase or improve existing financial services for farmers and rural MSEs. For market development facilitators, partner selection involves identifying opportunities for strategic alliances, as well as determining the financial supplier with which to partner to develop new financial products.

Strategic alliances are attractive for many reasons. Such alliances allow partners to exchange information, take advantage of complementary resources, achieve economies of scale and position themselves for expansion.

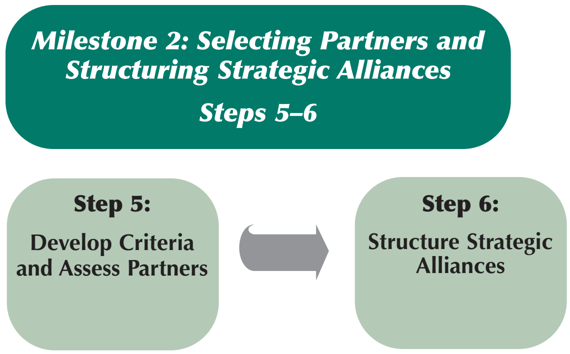
In practice, however, forming strategic alliances is difficult. Some common obstacles discussed at the start-up workshop included calculating the costs, benefits, and "nuts and bolts" of structuring strategic alliances that address each partner's needs over time.

This PLP network will explore the following questions related to selecting partners and structuring strategic alliances:

- How does an organization choose the partners in a strategic alliance? What are the roles and responsibilities of each partner?
- How does an organization structure a strategic alliance? How does the alliance effectively share responsibility, rewards, and costs?
- How does a strategic alliance account for changes in partner and client needs over time?
- How does an organization raise awareness and measure the benefits to all actors before and after a strategic alliance is formed?

Figure 3 illustrates the two key steps that correspond to project milestone 2

Figure 3. Milestone 2: Selecting Partners and Forming Strategic Alliances



Milestone 3: Implementing Solutions

For the most part, RFIs in this project will implement solutions that focus on developing financial products to meet the needs of value-chain actors, MSEs and farmers. Using information from their market assessment, as well as information gained from partnerships with either service providers, market development facilitators and/or value-chain actors, the RFIs will pilot potentially sustainable financial products to meet identified needs.

During the workshop, considerable attention was given to the product development process for effectively designing, piloting and rolling out financial products tailored to the market. Participating organizations will use a five-step product development process:

Step 1: Internal evaluation and/or assessment to establish strengths and weaknesses

Step 2: Research to identify end-user needs in the context of threats and opportunities

Step 3: Concept design, followed by extensive testing and, finally, development of a prototype

Step 4: Pilot test that includes monitoring and evaluation

Step 5: Revision and roll-out

Projects that develop financial products (mostly RFIs) will explore the following learning questions related to implementation:

- How does an organization develop an appropriate product development team? How does it ensure that everyone is "on board"?
- How does an organization develop financial products on the basis of analysis that applies a financial services lens?
- Can risk sharing among value-chain actors and RFIs deliver more and better financial solutions to a larger number of MSEs?
- How do you measure the results of a pilot exercise?

Market development facilitators in this project will be implementing a range of solutions. Some will work with financial institutions and value-chain actors to develop financial products, while others will use market development principles to facilitate service markets (e.g., credit agents and savings mobilizations brokers) to commercially deliver services that increase access to finance in rural areas.

Market development facilitators will explore the following questions relating to implementation:

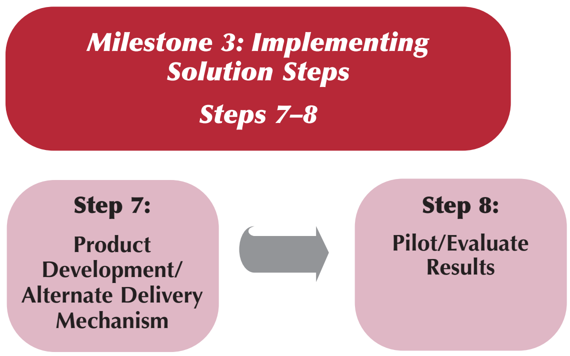
- What is the role of a market development facilitator in the product development process?
- How can market development facilitators assist in commercializing the role of financial intermediaries, such as agents and brokers?
- What commercially viable models have been most successful?

Figure 4 illustrates the two key steps of project milestone 3.

Milestone 4: Exit Strategy and Replication

What are the roles of different actors over the long run? At the start-up workshop, the differing perspectives of the participants generated an interesting discussion of

Figure 4. Milestone 3: Implementing Solutions



exit strategies. The RFIs predominantly envision that their role, and the strategic alliances they form, will continue to operate after the project is over. Market development facilitators, on the other hand, envision their role as short term. They will facilitate a strategic alliance or a service market, but their function will be phased out at the end of the project unless they replicate this role with different partners or in a different region.

During the initial PLP workshop, the participating projects drew project maps illustrating all the actors that will be involved in each project and the relationships among them: RFIs, service providers, market development facilitators, value-chain actors, MSEs and farmers. A second map of each project was drawn to illustrate what relationships will be in place when the project is over. The purpose of the exercise was to ensure that all participants are aware of their role(s) in the market and can plan an exit strategy (if their role is temporary) or a sustainability plan (if their role will continue after this PLP project has concluded.)

The following questions will be explored with respect to exit strategies and replication:

- What are the factors that lead to and result in sustainable strategic alliances in different contexts?
- How does an organization replicate these models and approaches in other contexts?
- How can a demonstration effect be used to encourage more organizations (service providers and RFIs) to create strategic alliances in order to increase rural access to financial services?
- How do strategic alliances account for changes in partner and client needs and/or demands over time?
- How effectively do strategic alliances promote solutions that benefit farmers and MSEs?

Figure 5 illustrates the key steps that correspond to project milestone 4.

Cherie Tan, Silvia Mendez and Geoff Chalmers drawing project maps to clarify the exit strategies of some of the projects in this PLP network.

Figure 5. Milestone 4: Exit Strategy and Replication

The first two stages of the learning framework will guide the learning process throughout the project. Participants will focus on answering the overall learning question, as well as the many sub-questions relevant to each milestone. As they continue the learning process, the questions will be altered and refined to reflect the reality on the ground in the six countries where the individual projects are operating. It is possible that some questions may be removed and others added, allowing the learning framework to flexibly respond to new opportunities and lessons learned.

Section 4.
Creating Learning Products that Advance Rural Finance and Enterprise Development

Products Tailored to a Practitioner-based Audience

During the start-up workshop for this PLP project, the participants discussed the importance of developing learning products that would answer not only the project's learning questions, but also advance the microfinance and micro and small enterprise development fields. The main audience for such learning products consists of other practitioners working in micro and small enterprise development. Therefore, the learning products need to be concise, innovative, practical and easy-to-read. Possible types of learning products include think pieces, progress notes, technical notes, conceptual notes, case studies, synthesis papers, audio interviews, templates, checklists, "how to's," videos, training materials and newsletters.

The program will publish a quarterly newsletter that will highlight key PLP events and serve as a forum for participants to share and package their learning. The first edition of the newsletter, which will be distributed in October 2005, will include an "Ask the Expert" column featuring Bob Fries of ACDI/VOCA, who will address the value-chain approach using a financial lens.

Products for Rural Finance and Enterprise Development

Practitioners are the primary audience of the learning products that will be developed under this PLP grant round. It is important to recognize, however, that the learning questions of this project are relevant to the broader rural finance and micro and small enterprise development fields. This audience is comprised of donor agencies, policymakers, researchers, rural finance and enterprise/BDS development technical experts and other organizations that support or promote micro and small enterprise development fields. Where appropriate and feasible, this PLP network will shed light on broader industry questions and challenges.

Questions that participating organizations have identified as being of interest to the broader micro and small enterprise development field are listed below.

Questions with potential relevance to the broader **micro and small enterprise development field:**

- How and under what conditions are strategic alliances most effective?
- How does the industry define strategic alliances?
- Which objectives, areas of compatibility, distinctions in functions, power gaps, information gaps, and differences in business culture, encourage or undermine the success (or failure) of strategic alliances?
- How can facilitators and potential allies most effectively communicate potential benefits to engage value-chain actors and RFIs?
- What donor parameters encourage or undermine the formation of strategic alliances?
- Can the same institution effectively deliver financial and non-financial services? If so, how and under what conditions?

Questions with potential relevance to the **enterprise development-BDS field:**

- What is the role of market development facilitators in helping facilitate access to financial services by an underserved rural client base? What is their role in working with RFIs?
- How can using the value-chain approach with a financial lens help identify commercially viable solutions?

- What are some ways that market development facilitators can facilitate these commercial solutions?

- Can strategic alliances or partnerships with RFIs and/or value-chain actors increase the success of value-chain interventions in weaker markets, such as those in rural areas?

Questions with potential relevance to the **rural finance field:**

- How does an organization form strategic alliances with value-chain actors, service providers or market development facilitators that result in increased access to financial services for rural clients?

- What factors contribute to successful alliances?

- How can partnering with market development facilitators assist an RFI to develop more suitable products for a rural client base?

- How can RFIs use the results of analysis that applies a financial services lens to select potential partners for a strategic alliance and/or develop suitable rural financial products?

- Do strategic alliances and/or partnerships result in an increase in rural access to financial services?

- Do strategic alliances and/or partnerships improve the "bankability" of rural clients?

Section 5.
Moving Forward

There are variations in the pace and ways in which the seven projects of this PLP will facilitate rural access to financial services. For instance, some projects are conducting market assessments by applying the financial services lens to their value-chain assessments, while other projects are identifying potential partners and negotiating terms of strategic alliances.

By using various learning tools, the project will foster knowledge sharing and peer support among participants. When appropriate, various practical learning products will be developed and disseminated to the broader field. A combination of the following tools will be used to foster peer learning, document and disseminate lessons learned, and answer the questions of the learning framework:

- **PLP workspace (www.seepnetwork.org).** This password-protected workspace permits participating organizations to post and store documents, assign tasks, keep a project calendar, and initiate and store on-line listserv discussions.

- **Bimonthly diaries.** In order to share experiences among participants, bimonthly diaries will allow each participant to capture what their organization has learned and share it with their peers. The diaries provide a way for PLP participants to learn from each other, even when they are not taking the same "step" at the same time.

- **Online listserv discussions.** Online listserv discussions will allow participants to share experiences and hold in-depth discussions related to the learning questions discussed earlier. The first such discussion began September 12, 2005, and addresses how to apply the financial services lens in practice, as well as value-chain finance.

- **Ask the expert.** This tool allows participants to draw on technical expert(s) for specific project-related advice during a specified time period on topics defined by the participant network.

- **Peer assist.** This tool will allow participants to present a problem they are facing and vet ideas with peers and resource panelists. This method can be conducted via email (as requested by the participants) or in a workshop setting.

- **Peer exchanges.** Participants learn from one another on a deeper level through exchanges than via online discussions. This tool will also allow participants to strengthen ties within this PLP network, collaborate and problem-solve together on a particular issue, as well as contribute to the project's learning agenda.

- **Facilitator visits/Resource panelist visits.** The learning facilitator and resource panelists have an in-depth understanding of the seven projects of this PLP and will provide technical feedback as needed. In addition, facilitator visits will generate knowledge sharing amongst participants.

The learning questions will be explored using various learning tools throughout the duration of the project. The answers discovered by the participants will enrich the seven individual projects, as well as the broader rural finance and MSE development fields, providing helpful information and practical tools for practitioners who work in weak, rural markets.

The PLP network begins to form alliances. Launch Workshop, May 9-13, 2005.

Glossary of Terms

The following terms are defined as they are used in this paper. These definitions may vary from those used in other publications.

agricultural finance. The subset of rural finance dedicated to financing agricultural-related activities, such as input supply, production, distribution, wholesale, processing and marketing.[3]

business development services. A wide range of services used by entrepreneurs to help them operate efficiently and expand their businesses.[4]

business development services provider. A firm or institution that provides business services to enterprises. Such a firm may be a private for-profit enterprise, an NGO, a parastatal, a national or local government agency, or an industry association.[5]

commercially viable. Sustainability created by responding to value-chain constraints via private-sector providers and market players through their functions, payment systems and delivery methods.[6]

exit strategy. A time-bound strategy that offers solutions which are sustainable by market forces once facilitator-led interventions have ended.[7]

financial services provider. Regulated or non-regulated entities (e.g., microfinance institutions, NGOs, private financial companies, commercial banks) that provide financial services, including loans, savings (e.g., liquid savings accounts, fixed-term deposits, programmed savings), transfers, remittances, currency exchange, and bill payment.

market development facilitator. An organization that develops private-sector markets for goods and services so as to make them more inclusive of and beneficial to specific groups of enterprises or people.[8]

microfinance. Financial services for poor and low-income people provided via small loans (and flexible savings services, where permitted) that accept a wide variety of assets as collateral.[9]

product development process. A five-step process in which each step builds upon the previous one and informs the next. Investing small amounts up front in this process can save costs and/or generate larger revenues in the future. The five steps are: (1) internal evaluation and/or assessment to establish strengths and weaknesses; (2) research to identify needs in the context of threats and opportunities; (3) concept design, followed by extensive testing and, finally, prototype development; (4) a pilot test that includes monitoring and evaluation; and (5) revision and rollout.[10]

rural finance. The range of financial services offered and used in rural areas by people at all income levels.[11] These services may include farm and non-farm credit, savings accounts, loans, insurance products or money transfers, clearing, and equity finance.[12]

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[3] Douglas Pearce, "Financial Services for the Rural Poor," CGAP *Donor* Brief, no. 14 (October) (Washington, DC: CGAP, 2003).
[4] CGAP/The World Bank. December 2004. "Building Inclusive Financial Systems: Donor Guidelines on Good Practice in Microfinance." CGAP/The World Bank. Available on-line at http://cgap.org/docs/donorguidelines.pdf, accessed on September 15, 2005.
[5] Alexandra Miehlbradt, *Glossary of Terms,* "Using Market Research for Program Design" Course conducted by SEEP and EDA in New Delhi, India, June 2005.
[6] Ibid.
[7] Ibid.
[8] Ibid.
[9] Pearce, "Financial Services for the Rural Poor," 2003.
[10] Leonard K. Mutesasira, "Market Research and Product Development," presentation at The SEEP Network PLP in Strategic Alliances for Financial Services and Market Linkages, Launch Workshop, Turin, Italy, May 2005.
[11] Pearce, "Financial Services for the Rural Poor," 2003.
[12] See papers presented at the "Rural Financial Workshop" sponsored by the Food and Agriculture Organization (FAO) of the United Nations, Rome, Italy, October 26, 2004; also see "Rural Financial Learning Center" a website created by the CABFIN Partnership and funded by the FAO, GTZ, the International Fund for Agricultural Development, www.rural-finance.org (accessed July 8, 2005).

rural financial institution. Any type of financial intermediary that operates in rural areas.[13]

strategic alliance. Linkages between non-financial actors (e.g., producer associations, buyers, traders, input supplier, processors, etc.) and financial service providers that aim to facilitate greater access to rural finance and market opportunities. Incentives to enter a strategic alliance include information exchange, complementary resources, economies of scale and international expansion.[14] Strategic alliances often include linkages between micro and small enterprises, financial service providers and business development service providers.

strategic partnership. A long-term agreement between two or more entities which is understood by all parties and used to purchase inputs (e.g., inputs for transforming semi-finished products or research for product innovation) and combine them to produce a product.[15] Such a partnership is often formed to lower transaction costs and create a win-win situation for all partners involved.

sustainability. The development of local capacity to address recurring constraints. Recurring value-chain constraints should be addressed via policy and/or regulatory reform efforts and should feature commercial solutions for supporting business and financial services and improving inputs. Interventions should be temporary and an explicit exit strategy developed upfront (not at the end of a project) to ensure that project impacts are sustainable once project activities end.[16]

upgrading. Improving the overall value of a product through financial or business services development, such as reducing transaction costs between players in the value chain or accessing better markets, resulting in a greater profit for the microentrepreneur.

value chain. The full range of activities required to bring a product from conception to end use and beyond, including product design, production, marketing, distribution and support to the final consumer. The activities that comprise a value chain can be contained within a single firm or divided among different firms. Value-chain activities can take place within a single geographical location or spread over wider areas.[17]

value-chain analysis. Analyzing market information on a particular value chain in order to understand the value-chain players, markets, geographic coverage, governance, inter-firm cooperation and global competitiveness.[18]

value-chain analysis with a financial services lens. Analysis that pays attention to the role of financial services within value chains, rather than solely within financial systems. Such analysis complements a financial market orientation with a product market orientation and designs studies and interventions accordingly.[19] Input suppliers, processing firms, warehouses and other commercial actors in the agricultural and rural sectors provide critical financial services to small- and medium-sized rural producers. By viewing the value chain through the lens of financial services, it is easier to identify significant economic demand and potential interventions that could expand existing supply in efficient and sustainable ways.[20]

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13 FAO, *Glossary of Terms for Agricultural Insurance and Rural Finance* (Rome: FAO, 1992).
14 Paul A. Gompers, "A Note on Strategic Alliances," Harvard Business School, Harvard College, Boston, Massachussetts, October 26, 2001.
15 Ibid.
16 Miehlbradt, "Using Market Research," 2005.
17 Ibid.
18 Ibid.
19 Robert Fries and Banu Akin, "Value Chains and their Significance for Addressing the Rural Finance Challenge," Accelerated Microenterprise Advancement Project (AMAP) and ACDI/VOCA, Washington, DC, December 2004.
20 Pearce, "Financial Services for the Rural Poor," 2003.

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