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Social Sector Office

Creating Change at Scale through Public-Private Partnerships

Lessons from an innovative financial inclusion partnership in Mexico
A case study prepared for the Clinton Global Initiative

Working Document
September 2009

ACKNOWLEDGEMENTS

McKinsey & Company would like to thank the institutions that are featured significantly in this report (in alphabetical order): Bansefi, the Bill & Melinda Gates Foundation, Diconsa, and Oportunidades. We are grateful for their time and thoughtfulness in supporting the writing of this paper.

This paper represents a significant component of McKinsey's commitment to the Clinton Global Initiative to offer insight on how to design and scale effective and innovative public-private partnerships. McKinsey closely studied the Diconsa financial services partnership in Mexico. The Bill & Melinda Gates Foundation provided the catalytic funding to launch the partnership and is now supporting scale-up. McKinsey has provided strategic guidance and overall support to the partnership. Throughout this case study, we also draw on previous work on public-private partnerships, which included more than 60 in-depth interviews with officials from leading partnerships and other experts in the field, and case studies of 15 partnerships that are active in the areas of public health, economic development, education and humanitarian relief.

Abstract

The Diconsa financial services partnership in Mexico – a joint effort between government agencies, private community-owned stores, a public sector bank, a private technology provider, and the Bill & Melinda Gates Foundation – is building a platform to provide access to government benefits and financial services for the hardest to reach of Mexico's rural poor. The partnership emerged after several failed attempts to make distribution of government benefits more accessible to some of the poorest families in the country. Thanks to smart and aggressive work by all involved, this innovative effort has already reached nearly 200,000 households and is on track to provide financial services to four million households. Several key lessons have emerged from the Diconsa example – lessons that can and should be applied to other partnerships to support their success.

Introduction

At their best, partnerships between public, private and social sector institutions can help create beneficial social change on a large scale. Such collaboration plays a critical role in tackling difficult challenges in areas such as public health and economic development that have proved resistant to government-only, business-only, and nonprofit-only solutions. An optimal mix of the unique strengths of these different sectors can often accomplish much more than even the most determined effort by any one or two operating alone.

The most well known public-private partnerships (PPPs) are large multinational efforts with one or more corporate partners, direct involvement from several governments, and participation of a host of private NGOs and foundations.[1] Well known examples include the Global Fund to Fight AIDS, Tuberculosis and Malaria and the SEED Initiative, which supports sustainable development. There are also country-specific PPPs that operate within the borders of one nation. While challenges such as disease readily cross borders and need a transnational solution, other problems are country-specific, such as the delivery of services (e.g., primary healthcare, financial services). Both types of PPPs have important roles to play, depending on the issue at hand.

Efforts to overcome challenges that were traditionally addressed by governments alone have recently benefited from the increased involvement and partnership of private sector players. Private foundations have been among the most consistently supportive institutions. For example, between 1996 and 2002, the Rockefeller Foundation provided management advice and seed funding for six partnerships, including the International AIDS Vaccine Initiative (IAVI) and the Global Alliance

1 The social sector plays a critical role in public-private partnerships (PPPs), both as funders and implementing partners. In this paper the social sector is comprised within our description of "private." There are principled arguments for and against combining the for-profit and social sectors under the same heading. Since "PPP" is the most common term for these kinds of partnerships, and since we do not want terminological debates to get in the way of full consideration of this case study and its findings, we have decided that it is most practical to use "private" to refer to companies, foundations and NGOs.

for TB Drug Development.[2] At the same time, many leading for-profit private sector institutions are determined – partly as a result of inner conviction, partly owing to outside pressure – to create social value beyond their economic contribution to their customers and shareholders. When Kofi Annan, former Secretary-General of the United Nations, urged the private sector to become more involved in addressing social challenges, the private sector responded positively. One result was the creation of the UN Global Compact initiative.

There are important nuances in PPPs' story of the growth. For example, enthusiasm around health PPPs is flattening out at a global level, even as it may be increasing at the level of individual countries. The number of PPPs created to address medical product development (e.g., new vaccines for neglected diseases) peaked in 2000, when more than 15 were launched in a single year, while during the period of 2004-07, no new PPPs focused on this area.[3] There is a funding challenge, too. According to a 2007 study, leading global health PPPs are facing an average budget deficit of 60%, causing long-term sustainability challenges.[4] Enthusiasm for these multinational partnerships may be past its peak, but at the level of individual countries, there may be significant possibilities for health PPPs. For example, the International Finance Corporation recently published a major report on private healthcare in Africa, which found that the private sector accounts for 50% of the healthcare provided in some of the poorest African countries.[5]

Public-private partnerships of both the global and national varieties can do much good, but they also incur costs associated with both formation and management. For example, the Global Fund to Fight AIDS, Tuberculosis and Malaria logged operating expenses of roughly $166 million in 2008 (about 7% of the $2.4 billion committed to grantees).[6] While the Global Fund is widely acclaimed, the costs of partnership also lead to a high level of scrutiny. As Dr. Margaret Chan, Director-General of the World Health Organization, said of global health PPPs of which the WHO is a part, "The transaction costs are very high. We need to be honest with ourselves and ask the question, are all these partnerships still relevant?"[7] Given this introspection, current and potential partners in PPPs can benefit from detailed examples of what has and has not been effective in these situations.

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2 The four other partnerships were the International Partnership for Microbicides (IPM), the Pediatric Dengue Vaccine Initiative (PDVI), the Medicines for Malaria Venture (MMV), and the Centre for the Management of Intellectual Property in Health R&D (MIHR).

3 Stefanie Meredith and Elizabeth Ziemba, "The new landscape of product development partnerships (PDPs)," in *Health Partnerships Review*, ed. Matlin, Stepen et al. (Geneva: Global Forum for Health Research, 2008).

4 Kent Buse and Andrew Harmer, "Global health: Making partnerships work" (London: Overseas Development Institute, 2007).

5 The International Finance Corporation, The World Bank, *The Business of Health in Africa: Partnering with the Private Sector to Improve People's Lives* (December, 2007).

6 The Global Fund to Fight AIDS, Tuberculosis and Malaria, annual report, 2008.

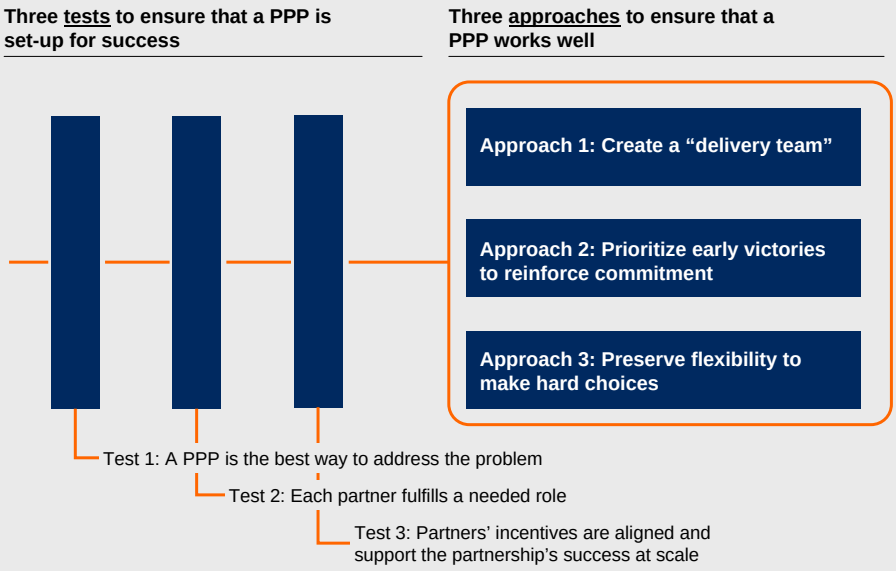
7 http://www.who.int/dg/chan/interviews/taking_office/en/index.html

The Diconsa financial services partnership in Mexico is an example of a country-level PPP that is achieving scale. Diconsa is a government-run distribution network that supplies basic goods to more than 22,000 private community-owned stores in rural Mexico. In 2008, it joined with another government agency, a public sector bank, a private technology provider and the Diconsa-supplied network of private, community-owned stores to form a new partnership whose mission is to distribute government benefits and provide financial services in the poorest, most remote regions. In little over a year, the Diconsa financial services partnership grew from an idea into a well-functioning collaboration that serves approximately 175,000 people. The partnership will soon be able to offer a breadth of financial services and much easier access to benefits to between 2.5 and 4.0 million households.

The purpose of this paper is to share the story of the Diconsa partnership and identify the lessons that have implications for other PPPs, and especially those focused on delivering services in a national context. While focusing primarily on the Diconsa partnership, this report also incorporates brief examples and lessons from other leading public-private partnerships, drawing on both interviews and secondary literature.

We have identified six specific lessons to help partnerships achieve positive impact at scale. Three lessons are tests to ensure that a partnership is set up for success, and the other three are specific approaches to ensure effective delivery against the partnership's goals (Exhibit 1).

Exhibit 1: Lessons learned from the Diconsa financial services partnership about how to create and scale PPPs



- To ensure that the partnership is set up for success, apply three tests:
  1. A PPP is the best way to address the problem
  2. Each partner fulfills a needed role
  3. Partners' incentives are aligned and support the partnership's success at scale
- To ensure the partnership works well, apply three approaches:
  1. Create a "delivery team"
  2. Prioritize early victories to reinforce commitment
  3. Preserve flexibility to make hard choices

The following section of the report describes the Diconsa financial services partnership in some detail. The balance then discusses the lessons that we have identified.

Diconsa financial services – a partnership for the "last mile"

Like many developing countries, Mexico faces a significant challenge from persistent poverty. In 2006, nearly 40% of Mexicans were unable to afford basic transportation, while 15% were unable to afford needed food. Poverty in Mexico is particularly concentrated in the smallest, most rural communities. While only 22% of Mexicans live in towns of less than 2,500 inhabitants, 42% of those unable to afford adequate food live in such towns.[8]

Among the ways that the Mexican government addresses poverty in these regions is through programs such as Oportunidades (formerly known as Progresa), 70 y más (an old age assistance program), Procampo and the Programa de Apoyo Alimentario (PAL).[9] Oportunidades, for instance, gives direct cash transfers to 5 million families, on the condition that they send their children to school and make regular health clinic visits.[10] These programs have been effective; for example, school enrollment in beneficiary families is up 10-20% compared to a control group, and early childhood illness rates are down 12%.[11] Yet, the government faces a significant challenge in getting the benefits into the hands of those who need them. Much of the target population is so geographically remote that people must travel long distances just to collect a benefit, incurring additional expenses and opportunity costs. Recipients who live in the town of Maxtaloya, Puebla, for example, must travel an average of more than six hours to collect Oportunidades payments.

Poor families in rural Mexico also suffer from limited access to basic financial services such as savings accounts, insurance, payment services and credit. As many as 50% of Mexicans – overwhelmingly in poorer, more rural areas – neither actively save

8 ENIGH 2006; poverty lines from: Comité Técnico para la *Medición de la Pobreza (2002), Medición de la pobreza. Variantes metodológicas y estimación preliminar*, Secretaría de Desarrollo Social, México

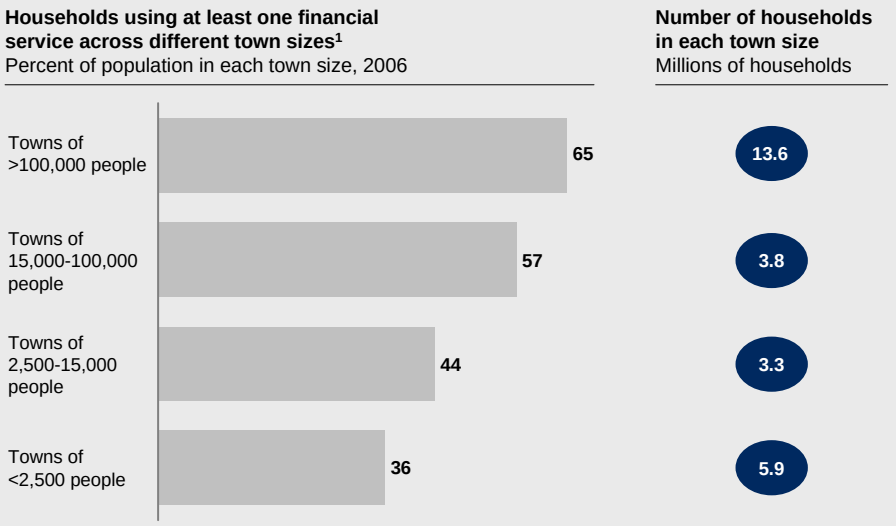
9 PAL was created in September 2003 and administered by Diconsa since February 2004; it is designed to provide nutritional and financial support in communities that are too small and hard to access to be part of Oportunidades.

10 Matriz de indicadores de resultados del programa de oportunidades (por entidad federativa), May-July bimonthly support.

11 Paul Gertler, "El impacto del programa de Educación, Salud y Alimentacion (PROGRESA) sobre la salud," Washington, D.C.: International Food Policy Research Institute (IFPRI, 2000).

money in formal institutions or informal savings groups, nor use credit, nor have life insurance (Exhibit 2).[12]

Exhibit 2: Usage of financial services in Mexico



1 Households where at least one person uses at least one of savings (formal or informal), credit or life insurance

SOURCE: ENIGH 2006

The lack of access to financial services exacerbates the challenge to poor households from unexpected events such as illness, accidents or natural disasters. It also makes it harder to take advantage of opportunities such as education, investing in a small business, or financing needed household purchases such as appliances. The primary problem is cost in terms of time and money – physical access to such services is often far away, and fees and minimums are too often expensive. For example, only 15% of towns between 2,500 to 15,000 people have a formal financial services outlet, and the proportion is essentially zero among smaller towns.

With funding from the Bill & Melinda Gates Foundation, the retail supplier Diconsa, with its network of over 22,000 private, community-owned stores, joined with Oportunidades to address these problems. The core idea was to use the Diconsa stores as conduits for government benefits and access points for financial services. These private, community-owned stores are often the only commercial outlets accessible to Mexicans in the most hard-to-reach rural towns. As a first step, the partnership focused on providing families with Oportunidades payments through the stores,

12 60% of those outside the formal financial system are too poor to afford transportation or clothes, and 25% cannot afford food on a regular basis; Instituto Nacional de Estadística, Geografía e Informática. Encuesta Nacional de Ingresos y Gastos de los Hogares 2006, Aguascalientes: INEGI, 2006.

Background on Diconsa and its recent transformation

Diconsa is a government-run retail and distribution network that supplies 22,449 private, community-owned stores in rural Mexico with food and other basic goods. An agency of the government's Department of Social Development (SEDESOL), it serves the rural poor by providing an affordable food supply, nutritional assistance, response to natural disasters, and a safety net for grain markets. In return for a government subsidy equivalent to 11.5% of its income, Diconsa delivers a consistent supply of staple foods like corn, flour, and oil to rural consumers at an average discount of 20% less than urban prices. Its nutritional assistance program (Programa de Apoyo Alimentario or PAL) currently delivers cash and food to approximately 170,000 families per year and is planning to grow further. In 2007, in the wake of five hurricanes and flooding in Tabasco and Chiapas, it distributed more than $750 million in emergency supplies.*

Since President Calderon's government took office in December of 2006, Diconsa has focused on improving its financial and operational performance, with good results. Management has reduced the average length of accounts payable by almost 70 days and increased total sales by 25% from 2007 to 2008, improving the organization's fiscal health and giving it more flexibility to innovate. An investment of more than $35 million in warehouse and transportation equipment has also improved Diconsa's ability to reach its target population. With this stronger base, management has decided to transform the stores into one-stop centers for goods and services. This includes, for example, an effort to extend telephone service to 15,000 stores – in many cases connecting communities for the first time. The financial services partnership is part of Diconsa's ongoing transformation of the stores to one-step community centers for goods and services.

* Diconsa's reporting of results to the Social Development Committee, Mexican Congress, April 29, 2008: http://www3.diputados.gob.mx/camara/001_diputados/008_comisioneslx/001_ordinarias/010_desarrollo_social/008_documentos_de_interes/044_presentaciones_diversas/(offset)/12, p. 25

allowing them to avoid the long hours and expense of traveling into neighboring towns to collect benefits.

Beginning with a series of pilots in November 2008, the partnership focused on distributing Oportunidades benefits electronically, with the private stores serving as points of distribution. Oportunidades issued biometric identification cards to beneficiaries, which they presented at their local Diconsa store when eligible to collect a payment. A point-of-sale device verified the beneficiaries' identities using a fingerprint scan, and the store operator paid the benefit in cash. Personnel at Diconsa's warehouses managed the cash, calculating the needs of different stores and distributing additional reserves when the stores' own receipts were insufficient to cover scheduled payments. Meanwhile, the private company that supplied the cards

and point-of-sale technology acted as a data clearing house, sending and receiving payment information to and from Diconsa stores and Oportunidades. Oportunidades transferred cash for payments directly to Diconsa, and submitted beneficiaries' eligibility information directly to the stores, through the point-of-sale system.

The pilots were successful. Before the program's launch in Hueytamalco, Puebla, families spent on average 41 pesos (U.S. $3.10) in travel and food costs to collect an Oportunidades payment – a very significant transaction cost, considering that bimonthly education grants range from 105-660 pesos (U.S. $8-51) per child. In the pilot, the average cost for a family of collecting a payment dropped to one peso (U.S. $0.08). Just as important, the average time required to collect a payment dropped from 6.4 hours to 30 minutes. Time is precious to everyone, but a day's work missed can be an especially significant hardship for the rural poor. Additionally, under the old system, payments were available only on a designated day. Under the pilot, beneficiaries could collect payments at any time during a designated week. And as the partnership expands, benefits will be available for collection at beneficiaries' convenience.

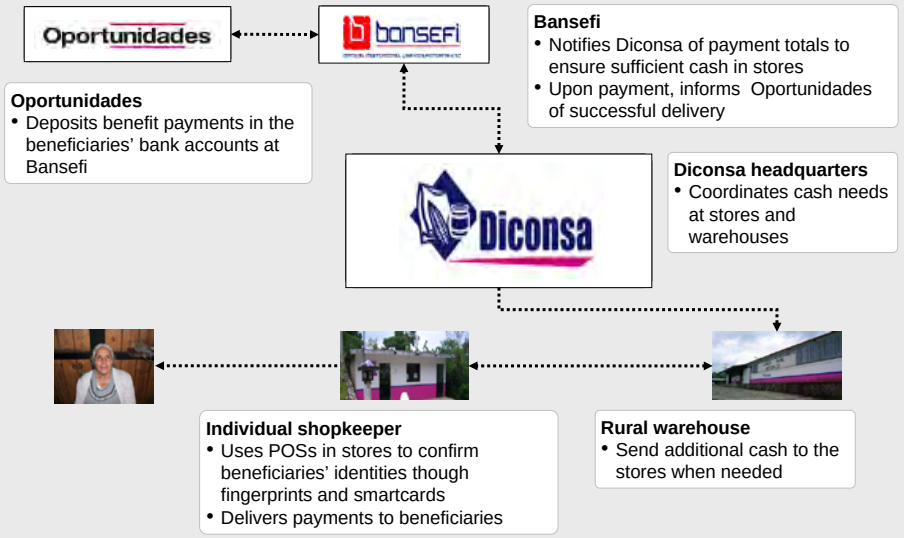
During the pilots, store owners benefited from the program in two ways – they received a small commission for each payment processed, and beneficiaries spent more money in the stores. For Diconsa, the volume of cash transported between the pilot communities and the warehouse was cut in half, lowering cash handling and insurance costs and reducing the risk of robbery for Diconsa drivers.

The success of the pilots convinced the partners to launch the program across more Diconsa stores. The founding partners approached the government savings and development bank, Bansefi, and its technology provider, FIMPE, which joined the partnership.[13] Between March and May 2009, the expanded partnership scaled up the program to include 35,000 more Oportunidades beneficiaries and nearly 170,000 beneficiaries of PAL.[14] Under the new plan, beneficiaries received payment cards backed by Bansefi savings accounts. In addition to making the collection of benefits more convenient and reliable, this arrangement also provides the base for a broader range of financial services (Exhibit 3).

13 Fideicomiso para Extender a la Sociedad los Beneficios del Acceso a la Infraestructura de Medios de Pago Electrónicos

14 PAL's objective is to improve nutrition among the poor; the program provides food and cash transfers to about 170,000 families, and is planning to serve about 110,000 more by the end of 2009.

Exhibit 3: Model for delivering Oportunidades payments through Diconsa stores



SOURCE: Diconsa Financial Services Partnership

If the plan to extend the service to more than 2.5 million beneficiaries over the next 16 months is achieved, the collective savings for Oportunidades beneficiaries alone would exceed $70 million in cash expenses annually. As the partnership grows, the intent is to include other government programs, including old-age benefits (70 y más) and potentially agricultural subsidies (Procampo). The financial services platform will also offer a wide range of financial services as part of this expansion, including savings accounts. The program is sustainable over the long-term, and will require no further subsidy than the support that the Bill & Melinda Gates Foundation has already provided to design the program, scale it up to the full network of stores, and build out the financial services platform. This is because ongoing costs for the infrastructure and benefits distribution will be funded by the resources currently used to fund manual distribution of Oportunidades benefits.

The Diconsa financial services partnership is having an impact because the partnership is well-designed to meet its goals and operates effectively. The problem requires collaboration – neither government nor the private sector alone can get the job done. Each partner fills a needed role, and the partners' incentives are aligned. Operationally, the partnership has created a central delivery team to manage execution, prioritized early wins to build commitment among partners, and preserved flexibility to make hard decisions by minimizing institutionalization. The following sections draw out these lessons in detail.

Three tests to ensure that the partnership is set up for success

Today's broad enthusiasm for PPPs carries with it the risk that some efforts could be formed without paying enough attention to whether a partnership is right for the task at hand. Partnerships are not always the best way to tackle a given issue. Even where multi-party collaboration is required, simple outsourcing or consultation could be an adequate alternative. And where organized and sustained collaboration seem worthwhile, the costs of partnership might still exceed the value that it adds in addressing the problem. Aligning the long-term interests of all the partners, and ensuring that they interpret the effort's goals the same way, can present additional challenges. Prospective partnerships that pass the following three tests have an increased chance of success.

Test 1: A PPP is the best way to address the problem

Public-private partnerships are valuable when a combined approach can accomplish ends that no one partner or sector, acting alone, can. Collaboration is not always required and not always effective. It does, however, nearly always incur transaction costs – in money, time, and talent – that could outweigh any potential benefit. Partners should begin their work with a clear understanding of why they are coming together, why they cannot meet their goal by other means, and why the benefits of partnership will outweigh the costs.

To build a financial services platform, Diconsa, Bansefi, Oportunidades, the Bill & Melinda Gates Foundation, and the private community-owned stores had to overcome a range of challenges. Some were operational, such as implementing the technological capability to reach remote communities; some were cultural, such as establishing trust between service providers and customers. Some challenges were institutional, such as garnering support among key stakeholders, given that previous attempts to address the problem had failed; and others were financial, since those in a position to implement did not have sufficient financial resources of their own to invest. No single entity could have overcome all these challenges by itself. This is why partnership was so appealing.

There was encouraging precedent for the partnership's approach. In Brazil, several banks adopted a model to distribute financial services through post offices, lottery

outlets, local grocery stores and retailers. In 2000, before this effort began, nearly a third of Brazil's more than 5,600 municipalities lacked a bank or any provider of formal financial services. By 2004, all municipalities had at least one outlet providing these services. The number of bank accounts in Brazil shot up from 45 million to 54 million in only three years, with 40 to 60% belonging to customers who earn less than $4 a day.[15]

Test 2: Each partner fulfills a needed role

Once the need for collaboration is certain, the next steps are to find the right mix of partners and to establish well-defined roles for all participants.

From the start, the contribution needed from each partner in the Diconsa collaboration was clear. Oportunidades would provide a "product" with established demand (i.e., the cash benefits). Diconsa had the distribution network with the private stores that would serve as conduits to beneficiaries. Bansefi brought institutional capabilities in financial services and information technology. And the Bill & Melinda Gates Foundation would provide funding and serve as the critical catalyst. Importantly, these well-defined roles played to each partner's strengths.

Diconsa and the stores they work with share an unmatched presence in Mexico's poorest and most isolated communities. Almost half of the stores are accessible only by dirt road, dirt track, or a water route, and in more than 4,000 communities, the Diconsa store is the only retailer. Diconsa operates a well-developed logistical system, with 300 central and rural warehouses and a fleet of 3,700 vehicles that keep the stores well stocked. More importantly, local people trust and support their local store. Each store is community-owned and managed by a local operator and a "rural supply committee" of at least 5 local citizens. The rural supply committee works as a "board of directors" for the store, deciding who the manager will be and if the store will work with suppliers other than Diconsa. In some cases, the local manager also partially owns the store (e.g., the store is located in her house).

When offering financial services through retail outlets in rural areas, it can be difficult to get people to adopt the services initially. By beginning the program with the distribution of Oportunidades payments, the partnership is ensuring significant adoption of the financial services platform from the start. A high percentage of Diconsa's target population consists of Oportunidades recipients, and more than 2.5 million Oportunidades families live in or near a village with a Diconsa store.

None of this could have been achieved, however, without the bank, and the Bill & Melinda Gates Foundation. Diconsa, Oportunidades and the private community-owned stores lacked experience in collaborative ventures of this sort and especially in

15 "Promoting Financial Inclusion: Lessons from Around the World," McKinsey & Company; "New Vistas in Financial Services: Lessons from International Experiences," Proceedings of the International Conference on Banking and Financial Services, Indian Merchants Chamber and The Institute of Chartered Accountants of India, 2008.

financial services. They also lacked the financial resources to design and launch the program. The other partners filled these remaining gaps.

Bansefi has the financial services capabilities that are critical for current service and future expansion. Bansefi not only provides the electronic transfer system that will underpin the current offering at scale, but also the regulatory permission to provide the savings accounts and other financial products such as remittances and insurance that will make up the second phase of a strategy for fuller financial inclusion. In the long run, Bansefi's experience serving this population will complement the scale that Diconsa is providing to its government partners.

The Bill & Melinda Gates Foundation contributes financially and with its expertise and worldwide network of contacts. The ample resources of Diconsa and Oportunidades are largely committed to current services and priorities, making experiments with new offerings difficult to sustain. Jaime Gonzalez, the CEO of Bansefi, noted that many have tried "experiments with different programs, but usually these were not profitable from the beginning," making it impossible to expand them to scale. The Bill & Melinda Gates Foundation's grant provided the "patient capital" to achieve scale. As Max Henderson, Diconsa's VP of Commercialization, said, this allowed the partners "to pay an operative team that is in the field analyzing, taking the day-to-day measurement of the project – resources [which have been] necessary to make this a success." In Gonzalez's words, "done like this, with philanthropic capital, it is possible to invest much more" in testing and program development, both of which are necessary for long-term success.

The foundation's help did not stop there. As Max Henderson observed, "the [Bill & Melinda] Gates Foundation ... in the last few years has been involved in this topic [of financial inclusion] in a very serious way ... it is not only a matter of money, but also of the experience and human capital they offer." Drawing on lessons learned from their other global partners, foundation officials challenged initial plans and consulted others with expertise in product design (e.g., the designers of savings products for Bank Rakyat in Indonesia), technology (e.g., a microfinance institution in Malawi with experience in fingerprint technology), and consumer behavior (e.g., experts who emphasized the importance of readily available customer support to prevent shopkeepers from being blamed for technical glitches).

Other examples demonstrate the importance of clearly defined roles. TNT, a global transportation and distribution company based in the Netherlands, decided to offer its logistical capabilities to help deliver humanitarian food relief. It followed that decision with an extensive planning process that laid out the company's potential contribution and its expected impact in detail. Officials drafted a clear business plan that compared projected benefits and costs. They also performed detailed due diligence analyses of all their potential public sector partners. As a result, when TNT negotiated its "Moving the World" partnership with the World Food Program in 2001-02, all parties shared a high degree of confidence that the right partners were in place.

Test 3: Partners' incentives align and support the partnership's success at scale

A key reason for the Diconsa financial services partnership's success is the alignment of partner incentives. The first partners to begin collaborating were the Bill & Melinda Gates Foundation, Diconsa and Oportunidades. Each carefully defined and communicated their role and value proposition to the others, and together the partners crafted clear communications materials for future partners, carefully explaining the business model and emphasizing the benefits. A further document spelled out likely lessons and their applicability for replication that the Bill & Melinda Gates Foundation might pursue in other countries. Clarity about the benefits of partnership is intended to be neither self-serving nor a distraction from the central social objective. The goal is to reinforce the social objective by grounding partnership in a clear set of aligned incentives.

Often, the mission *is* the incentive. Oportunidades wants to provide assistance to the people who need it. Diconsa seeks to expand the range of services it offers to the rural poor. In the words of Max Henderson, "we can go further [in services] without significantly growing our operating costs." The Bill & Melinda Gates Foundation sees an opportunity to have significant social impact in Mexico and test a banking model for the poor that could be replicated in other parts of the world. Carlos Cuevas, Deputy Director of the Financial Services for the Poor initiative at the foundation, said, "Very soon, we will be able to identify other countries in which we can apply this experience, following the Diconsa [partnership]."

Other benefits are more visible on the bottom line. Bansefi has so far gained 175,000 new clients from the initial rollout and is on track to gain millions more. Bansefi is also able to use the partnership to conduct a low-cost test case for wider "correspondent banking" (a term describing the offering of financial services in non-financial retail outlets such as grocery stores or post offices). Oportunidades should see its distribution costs decline and its service improve as it moves increasingly towards electronic distribution of benefits. And once the program is fully implemented, sales at stores across the network could increase dramatically: the private community stores used for the pilot program saw sales growth that averaged nearly 30%.

In the most effective partnerships, benefits to private sector participants will likely not be restricted to the "feel good" effect from participating in philanthropy. While the prospect of for-profit businesses benefiting from social action may make some uneasy, experience shows that a clear business rationale for private involvement helps businesses dedicate and sustain resources toward the efforts. Involvement in worthy efforts can also enhance a company's reputation, creating shareholder value. For example, Telefónica officials learned from market research that their customers are more loyal when they believe that the company is making a positive difference on environmental and social issues. Telefónica now considers the results of an annual

reputation survey to track the impact of its corporate social responsibility program in its strategic planning processes.[16]

There is nothing to lose, and much to gain, from candid, up-front discussions of the value proposition for each potential partner – including the partners motivated by economic incentives. In 1999, when USAID began recruiting corporate partners for its NetMark initiative to get more insecticide-treated bed nets into Africa, it discussed not only the public health benefits but also the expected gains from establishing stable retail markets for the nets in Africa and beyond. As a result, more than 35 African and 9 international commercial partners eagerly signed up.[17]

16 Sheila Bonini, Timothy M. Koller, and Philip H. Mirvis, "Valuing social responsibility programs," *McKinsey on Finance*, No. 32, Summer 2009.

17 Academy of Education Development: Center for Private Sector, Health Initiatives, *NetMark: A Case Study In Sustainable Malaria Prevention Through Partnership with Business*, April 2005.

Three approaches to make sure a partnership works well

It is difficult to execute partnerships well. Staff can get bogged down in too much planning. Partners can be slow to act. And sometimes the infrastructure of a partnership – and the necessity of coordinating across several very different partners – makes adapting to change difficult. Planning is important but so is practice. There is no substitute for trial and error.

Approach 1: Create a "delivery team"

In the case of the Diconsa partnership, the number of stakeholders and their different (albeit complementary) interests required a central hub to make day-to-day decisions and see through their execution. The partnership created a "delivery team," based out of Diconsa's offices and led by their staff, with additional support from internal and external consultants.

The delivery team's size has varied over the course of the partnership, with between 10 and 20 members. The team's primary responsibilities have been to conduct analysis to inform decision-making and to support implementation and scale-up. For example, in the partnership's early days, the team developed strategic options, ran the small-scale pilots to gather evidence that supported program expansion, and handled negotiations when Bansefi joined.

At its core, the delivery team's job is intensely operational, requiring significant effort as much as strategic wherewithal. When assembling the team, the partnership's leaders prioritized staff with enthusiasm for the project and in some instances selected team members with high levels of energy and commitment, even when they had relatively less experience. To ensure appropriate guidance and judgment, the team does report to senior leadership from across the partner organizations.

Each member of the delivery team owns a particular piece of the process through a mini-matrix of functional and geographic responsibilities. For example, in the second round of pilots, one team member was responsible for training at all of the new pilot sites, while another was responsible for overall implementation at one site, across multiple functions. This allowed for a practical balance of responsibility, expertise and reinforcement.

The delivery team's structure was critical to its success. It is placed at the center of the partnership with clear responsibility for execution. It is made up of young, committed team members who have clear, but reinforced, responsibilities within the team. As would be expected, the team has been important for fostering cross-partner links. As Jaime Gonzalez, Bansefi's CEO, says, "to make this [partnership] work, each participant institution has to stick to its role." This has been possible only because there was a team at the center that could manage any potential hiccups in an effective and time-efficient way.

The Diconsa delivery team has had positive impact in unexpected areas. The team has effectively worked across organizational hierarchies (from the store owners to CEOs), as well as serving as a translator between the needs of the communities and the different partners.

To ensure success during the initial pilots, on-the-ground support was needed, especially among local Diconsa leadership. At Diconsa, clusters of several warehouses are grouped into "operating units." The heads of these operating units are very influential at the local level. Delivery team members made repeated visits to the operating unit heads, and were initially concerned about a perceived lack of enthusiasm for assuming new responsibilities. In their conversations with the operating unit heads, the delivery team observed that the heads, based in regions usually many hours drive from Mexico City, had relatively little exposure to Diconsa's top leaders. So the team arranged for the operating unit heads to be invited to events celebrating the Diconsa partnership with the CEO and Head of Commercialization. This reinforced the project's importance and also made sure that unit heads received recognition for the extra effort they were contributing.

As the pilots got under way, the delivery team also faced moments of cross-cultural translation between partners and community members. In the second round of pilots, for example, the POS devices would occasionally produce an error message that read "corrupted file." This is a typical computer error message. But any reference to "corruption" was major cause for alarm among shopkeepers and beneficiaries. The delivery team worked with the technology provider to find alternative language and avoid future problems in the communities.

One core requirement of a delivery team is that it be located at the center of a partnership, with the ability to coordinate among all partners. Delivery teams can come in varying levels of formalization. The most formal methods could include permanent staff and governance groups that run the partnership on behalf of partners, as is common among many of the leading global health partnerships. But the need can be met in other ways. TNT's Moving The World partnership with the World Food Program has a coordinating staff of TNT employees that performs a role similar to that of Diconsa's staff in the delivery team.

The second component of a successful PPP delivery team is its ability to drive execution. In separate McKinsey research on delivery in the public sector, we have

found significant value in dedicated delivery units that measure progress against clear goals and metrics, have regular communication with both frontline managers and senior leaders, engage in creative and incremental problem solving, and create a strong sense of urgency.

Even with clear goals, roles, and benefits, PPPs can find success elusive because of transaction costs and overall complexity. The challenges can undermine the mission, frustrate partners, and discourage potential additional partners from signing up. A delivery team is one way to manage and mitigate these costs and ensure timely and effective implementation of a partnership's programs.

Approach 2: Prioritize early victories to reinforce commitment

PPPs are formed to address significant challenges that require multi-year commitments from partners. Some PPPs, such as those focused on developing specific vaccines, may be designed to exist only until they accomplish their specific goals. Others, such as those focused on delivering health, education or financial services, are set up to exist in perpetuity. Given the complexity and scope of PPPs, there is significant and appropriate pressure for them to keep a view on their ultimate goals. The earlier lessons around partnership formation also stress selecting partners who will be a good fit for the long-term.

Even with all of this emphasis on long-term perspective, in the case of Diconsa, the partners quickly realized that if their partnership were to go from concept to a long-term sustainable financial services platform, they would also need to prioritize early on-the-ground victories. When it comes to developing and scaling up PPPs, the psychological, relationship-building and reputational value of early victories cannot be understated.

In November 2008, just 4 months after the partnership was formed, the partners launched their first pilot in six rural communities. Through this initial pilot, the partners were able to begin working together with minimal risks and build joint confidence and excitement about the program's aims, methods and potential impact.

Establishing an early track record of success was especially important for the Diconsa partnership because it faced significant skepticism in its initial stages. The partnership followed several attempts to accomplish similar goals, all of which failed. Oportunidades first experimented with providing savings accounts to beneficiaries in 1996, but aggressive, skeptical and mocking media coverage doomed the plan. Later, a pilot arrangement to distribute government benefits through bank branches in Veracruz failed because banks resisted working with poor customers, who were expensive to serve and generated minimal revenues. Oportunidades even tried once before to deliver payments through Diconsa stores, but ran into insurmountable (at the time) technical problems. Finally, in 2003, a similar attempt to make payments

through gas stations was plagued by lax security, with payments often disappearing before ever reaching beneficiaries.[18]

The partnership took all these experiences to heart as it implemented its own first round of pilots. The team actively tackled potential issues, such as ensuring the accuracy of payments. It stayed connected with the field by practically living in the pilot communities to address issues quickly. And it constantly refined the pilot, dedicating members of the team to gather feedback. The partners benefited from the frequency of Oportunidades benefits payments across the communities. If there was a problem in a community's payments one week, then the team could try a potential solution in another community a couple of weeks later.

The partnership chose to pilot in just six stores, a very small proportion of Diconsa's network of over 22,000 community-owned stores, so that the process could be "over-managed." The partnership was comfortable with the possibility of a failed pilot, as long as it failed for the "right" reasons – such as a flaw in the basic concept – rather than because of an addressable error in execution. For example, when the POS devices struggled to register some beneficiaries' fingerprints, the delivery team went to the communities over the weekend and rescanned the fingerprints so that the pilot could go on. This was an example where less aggressive support would have led to a failed pilot, even though the problem was simply a one-time implementation mistake (one which was later corrected in other pilot communities). In the second round of pilots, which were in more than 250 communities and could not receive the same level of ongoing attention from the delivery team, the team still sent a member to each community to intensively train the shopkeepers.

Once it was clear that the first round of pilots were going well, the partners pushed to consolidate their success. Oportunidades already had a 98% delivery rate with its traditional form of making payments, with failures occurring for such reasons as beneficiaries missing the collection time or a problem with verifying identification. The early pilots had a success rate of 99%, better than the traditional approach. But the 1% of beneficiaries who still had trouble collecting their payments became a focus for the delivery team. The partners also commissioned independent evaluators to assess the effectiveness of the pilots as soon as the first round of payments was made.[19] These figures were used among the partners and with outside stakeholders to increase support for the project.

Quick and significant returns came from this focus on early victories. Partners increased their commitment to the project and pushed for rapid expansion. As one of the members of the management team stated, "when the pilot turned out to be so

18 Santiago Levy and Evelyne Rodriguez, *Sin herencia de pobreza*, Inter-American Development Bank, New York, pp. 68-73; *La Jornada*, 19 October 1996; interviews with key stakeholders.

19 The evaluations were carried out by the Centro de Investigación y Docencia Económicas, a public research center, and Fundación Idea, a nonprofit institution dedicated to public policy analysis and evaluation.

successful, there was this incredible momentum behind the project and the scale-up." Two months after the first pilot was evaluated, two larger pilots were launched. The partnership used these as opportunities to increase both the breadth and depth of services offered, by serving 250 additional communities and adding PAL payments.[20]

Other partnerships have also seen the value of investing heavily to reinforce early commitment. In July 2000, during the G8 meeting, participating leaders agreed that the world's existing development institutions could not by themselves successfully fight some diseases, such as HIV/AIDS, tuberculosis and malaria. This insight was the seed of the Global Fund. Despite the immense difficulty of establishing and scaling up such a vast effort, in less than three years the Global Fund was already at work. In the words of Jacques Chirac, "The Global Fund is an outstanding instrument. It was set up in record time. It is already operating on the ground, saving lives."[21]

Approach 3: Preserve flexibility to make hard choices

PPPs often involve trying something new. They could involve a new approach to a social challenge or a combination of partners simply working together for the first time. In either case, early implementation is unlikely to go as planned. It is critical for PPPs to maintain their flexibility to change approaches or even partners, for example, by resisting overbuilding their institutions early on.

In the case of the Diconsa partnership, the partners made the strategic decision to minimize institutionalization at the start of the partnership as a way to maximize their flexibility. This was a departure from the common practice of the Mexican government and large public health-focused PPPs (for which it would likely be a struggle to get started without some level of institutionalization). For Diconsa, resisting early institutionalization meant forgoing the benefits of permanent staff and a locked-in commitment among leaders of the partner organizations.

The choice to resist institutionalization was primarily driven by a desire to avoid over-committing to one approach or strategy before being confident of what would work. This was especially relevant because of the prominent role of partners in the Mexican government, who would face limited flexibility as they institutionalized the relationships. Having achieved initial scale, and with the path to full scale (relatively) clear, the partnership is now willing to forgo some flexibility for the benefits of institutionalization. The early formal links in the Diconsa partnership were minimal – the partnership was held together by only 3-4 contracts among the varying partners. This early flexibility paid off because it allowed for operational experimentation, efficient navigation of government bureaucracy, changes in the partner mix, and better decision-making about long-term organizational design.

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20 Procampo and the Programa de Apoyo Alimentario; see note 5 above.

21 Annual Report 2002-2003, Global Fund.

- **Operational experimentation.** In November 2008, before the first pilot started, the partners were encouraged to sign a long-term agreement with a private technology company, a private telephone company, and another government agency, which would have together ensured land-line connectivity with all of the stores. Connectivity is critical for processing the electronic transactions and thousands of stores were thought to lack it. The partners resisted, concerned about effectively expanding the partnership without much leeway. Through the first pilot, the partners learned that they had underestimated the prevalence of cell phone reception in the rural areas, making the more expensive agreement and additional partners unnecessary.

- **Efficient navigation of government bureaucracy.** The processes that are designed to avoid corruption and ensure fairness in bidding on public sector contracts are time-intensive and pose risks for government officials initiating new contracts – penalties for failure to obey procurement procedures are severe, making officials understandably cautious. The partners had to purchase 175,000 new smartcards for the second round of pilots. These cost nearly half a million dollars, a sum large enough to make their purchase subject to time-consuming requirements for new government procurement contracts. The partners were eager to build on the success of the early pilots, and the delays in purchasing the smartcards would threaten to derail the initial momentum. After a brief period of concern and frustration, the partners identified a solution within existing contracts that allowed them to make the purchase without delay. If the partnership had been more fully institutionalized, with all purchasing consolidated in a new formal office, it would have been difficult to make all the necessary purchases on time.

- **Changes in the partner mix.** At the outset of the Diconsa partnership, the partners asked one technology provider to design and supply the point-of-sale devices that identify beneficiaries. These devices – which combine chip card readers, fingerprint readers, and communications software – have to be sufficiently rugged to operate in difficult conditions. They also need to have built-in redundancies for power and memory and be highly portable. Despite a successful trial in the pilots, the partners soon realized that they would need a different provider for the rollout. While the pilots were focused on the distribution of government benefits, the Diconsa partnership's end goal is to offer a full suite of financial services, with a bank account sitting at its core. During the pilots, the team saw that the existing equipment was not suited to these wider tasks. Thus, when the partnership added Bansefi, it switched technology partners, using one that had an established interface with Bansefi's systems, making savings transactions easier.

- **Better decisions about long-term organizational design.** Early on, the partners had the opportunity to create an official "Financial Services Delivery Department" within Diconsa. Doing so is a significant step, requiring approval from the Ministry of Finance. The formal department's appeal was significant,

especially for those most directly involved in the Diconsa project. Much of the delivery team's staff is on temporary contracts, and the department would make these roles permanent. On the other hand, that permanence would limit the group's flexibility, both in figuring out what kinds of staff they need over time and how many. As it turned out, resisting creation of the official department was a very good decision. Initial plans suggested that the department would require a staff of 40. After the two rounds of pilots, those estimates have been revised down to 15, preventing a tremendous amount of waste that would have been difficult to undo once institutionalized.

Preserving flexibility by avoiding institutionalization had its risks. Three weeks before the second pilot was set to launch, the CEO of Diconsa was asked by the President of Mexico to lead another agency in the government. When the new CEO, Edgar Ramírez, arrived, he was under no obligation to continue support for the financial services partnership, given the lack of institutionalized structure around it. Fortunately for the effort, the new CEO is an enthusiastic supporter, but the experience illustrates the vulnerability that comes with prioritizing flexibility.

Not all PPPs can get off the ground while resisting creation of a formal institution. But they can be persistent in maintaining the flexibility to focus on the approaches that are most effective for their goals. When the Global Village Energy Partnership (GVEP) launched in 2000, its mission was to help governments develop plans to increase access to energy in remote rural areas. Over the course of their work, officials came to realize that providing technical assistance to small and medium businesses was more pressing, and could have greater impact in the near term, than formulating central plans. GVEP changed its mission and its organizational structure and began to seek out new private sector partners with whom it could engage directly. Some of GVEP's partners thought this change radical when announced in 2006, but today all of GVEP's partners embrace the new approach.

The Diconsa partnership's success to date has provided the impetus to increase the pace of institutionalization. The benefits of institution-building early on are appealing, and the psychological desire to institutionalize – to create something new and official – is significant. The Diconsa partnership's success to date has been contingent on resisting these temptations and prioritizing flexibility until the partners had a better sense of what kind of structure they would need.

Conclusion

The collective experience of Diconsa, the private community-owned stores, Oportunidades, Bansefi, and the Bill & Melinda Gates Foundation demonstrates the potential value of public-private partnerships. In a short time, the project has greatly reduced the time and cost required to deliver essential social benefits to hundreds of thousands of the poorest Mexican families, and its approach promises to reach millions more with a full range of financial services.

The Diconsa case study helps to illustrate what it takes for innovative public-private partnerships to succeed, especially as they scale-up. While no sure-fire formula for success can be derived from any single case study, lessons from actual events can provide important insights and texture for what it takes to succeed. The Diconsa story holds valuable lessons for those who want to deliver on public-private partnerships' potential.

Social Sector Office
September 2009
Designed by New Media Australia

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