



microNOTE #11

PRIVATE VOLUNTARY ORGANIZATIONS AS OWNERS AND STAKEHOLDERS IN THE TRANSITION TO PRIVATE CAPITAL

PVOs AND THE COMMERCIALIZATION OF MICROFINANCE

ACCION, Grameen, and FINCA¹: U.S. Private Voluntary Organizations (PVOs) have been synonymous with the fast-growing microfinance sector and at the forefront of the industry almost since its inception. They have been instrumental in the development of the sector, providing technical assistance, funding and invaluable contacts and knowledge to many emerging and expanding microfinance institutions (MFIs) in developing countries.

As microfinance moves increasingly towards commercialization, PVOs have had to adjust and reinvent themselves. Due to global competition, fast-growing markets and broader interest in microfinance, MFIs are successfully seeking private investors and new sources of commercial funding. The search for private capital is fundamentally changing PVO-MFI relationships in a variety of ways, putting interaction on an increasingly commercial transaction basis.

Under USAID's knowledge generation program, researchers collaborated with U.S. PVOs to better understand their experiences and future roles in the commercialization of microfinance and transition to private capital. The research had three parts: a primary survey and interview process, secondary literature review, and a one-day facilitated workshop to bring together thought leaders from the leading PVOs. It was co-sponsored by USAID, ACCION International and the SEEP Network.

¹ ACCION, Grameen and FINCA represent "networks" of affiliated microfinance institutions, but each have different relationships with partner MFIs. FINCA is the "owner" of its affiliates, whereas ACCION and Grameen are "partners."

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Anticipating Change: PVOs and Their Future Roles

Secondary research and a survey investigated five main topics: i) Nature of the network and relationship with affiliates, ii) Funding sources, iii) Financial Instruments, iv) Services Provided and v) Commercialization Model utilized.

Two main categories of PVOs emerged from the research – those that are Microfinance-specific (with microfinance as their main activity) and those that are Multi-focused (programs include other topics such as health, education, etc.).

Research showed that Microfinance-specific PVOs tend to partner more often with local, independent NGOs while Multi-focused PVOs often manage dependent MFI programs, not legally separate from the PVO itself. In addition, research revealed that while Microfinance-specific PVOs currently receive most of their funding from private donors and the Multi-focused from public donors, all PVOs expect to receive more funding from the private sector and commercial transactions in the future.

Through the survey and the workshop, PVOs expressed their views on their evolving roles in supporting affiliates in the future. PVOs anticipated their most important roles in the future will revolve around provision of technical assistance, governance support and direction, and access to capital. They believe that filling these roles will involve a number of challenges, the most significant of which are maintaining appropriate human resource

capacity and securing funding for their activities.

Conclusions and Recommendations

U.S. PVOs continue to play an important role in the microfinance industry; however, as the industry evolves and becomes more sophisticated, these PVOs must innovate if they are to remain relevant to partner MFIs. While PVOs will seek an increasing amount of private funding in the future, donors are still needed and can provide assistance in the following areas to support the commercialization and the transition to private capital:

- Funding for strategic planning related to commercialization;
- Funding for legal changes;
- Funding for PVO programs that lead to greater commercialization and access to private capital among affiliates (e.g. various funding mechanisms and service models)
- Funding knowledge development and exchange on commercialization and private capital access (e.g., Council of Microfinance Equity Funds); and

- Funding to improve human resource capacity of PVOs, including strategies for recruiting, retaining and hiring staff.

Funding for U.S. PVOs to pioneer new microfinance frontiers may be essential to the growth of the industry. And like any development intervention, much of what must come to the industry requires some form of subsidized support. What is clear, however, is that PVOs can do more on a commercial basis and can bring ideas and projects to a commercial basis much faster than ever before.

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