



PARTNERING TO ACCELERATE ENTREPRENEURSHIP

CATALYZING INVESTMENT IN LATIN AMERICA

Through the **Partnering to Accelerate Entrepreneurship (PACE) Initiative**, USAID's U.S. Global Development Lab aims to catalyze private sector investment into early-stage enterprises by identifying and testing innovative models or approaches that help entrepreneurs bridge the pioneer gap—thus unlocking the potential of thousands of promising enterprises around the world.

THE CHALLENGE

Small and growing businesses (SGBs) create jobs for local economies, connections to regional and global markets, and access to critical goods and services for underserved communities. Yet despite their importance, SGBs, especially women-owned or -led businesses, have trouble accessing the appropriate kind of finance. These businesses often lack the collateral that traditional banks request; without this collateral, they are unable to access the credit they need to grow.

In 2015, Agora Partnerships, Enclude, and Santa Clara University's Miller Center for Social Entrepreneurship launched the Variable Payment Obligation (VPO) program, an initiative that aims to demonstrate that a traditional commercial bank can lend to SGBs based on their cash flow, as opposed to their collateral. Launched in August 2015, VPO aims to expand access to finance for SGBs, targeting women-owned or -led enterprises, with a type of loan that assesses risk and repayment through variable payments and cash flow, rather than traditional assets. VPO also seeks to demonstrate that bundling an appropriate credit product with business development services, such as classroom training and individual consulting, can lower the borrower's risk of default and increase the loan's impact on the business's growth.

However, the partners needed a stabilizing institution, such as USAID, to mitigate the risks that the traditional bank partner, Banco de America Central (BAC) Nicaragua, still perceived.

THE PARTNERSHIP

In 2016, USAID and the VPO partnered through the Partnering to Accelerate Entrepreneurship (PACE) Initiative. Through the partnership, each partner has a unique role. Enclude manages the overall program and provides technical support to BAC; Agora provides business development services to loan recipients in Nicaragua; the Miller Center for Social Entrepreneurship developed the initial variable repayment loan product and consults on the program design; and BAC Nicaragua serves as the local partner bank that lends to the entrepreneurs. USAID's grant, alongside investment from Argidius Foundation, a philanthropic organization, supports the business development services that entrepreneurs receive.

USAID also brings stability to the partnership, as traditional financial institutions, like BAC Nicaragua, may be uncertain about lending to new markets or using new tools. Traditional corporations often view USAID's involvement as a stamp of assurance. USAID has credibility as a U.S. government agency and a brand that is respected globally, making partners like BAC Nicaragua more likely to engage in investment they would otherwise deem too risky.



USAID PARTNERS

- Enclude
- Agora Partnerships
- Miller Center for Social Entrepreneurship at Santa Clara University
- Banco de América Central (BAC) Nicaragua
- Argidius Foundation

THE RESULTS

The VPO program aims to distribute variable term loans, up to a maximum of five years, to up to 40 qualified SGBs in its initial pilot phase. Typical loan recipients are women-led or women-owned small- to medium-sized enterprises.

As of March 2017, the program pilot in Nicaragua is underway, with nine VPO loans approved, of which four have been disbursed. Borrowers use their VPO loans both for working capital and capital investments. One such example is Fátima Carazo, the owner of Rosquerillería Alondra, a producer of rosquillas, a corn biscuit typical to Nicaragua. Ms. Carazo used her VPO loan to purchase a new industrial oven for her business, and has since been able to increase her monthly sales to meet demand.

As the program sees success, the partners anticipate that more banks and third-party lenders throughout the region will realize the potential opportunities of lending to this new market segment.

For More Information

To learn more about the PACE Initiative, visit [usaid.gov/pace](https://www.usaid.gov/pace).

About the U.S. Global Development Lab

The U.S. Global Development Lab serves as an innovation hub. The Lab takes smart risks to test new ideas and partner within the U.S. Agency for International Development (USAID) and with other actors to harness the power of innovative tools and approaches that accelerate development impact.

The Lab is focused on solutions around Science, Technology, Innovation, and Partnership—reflecting USAID's broad embrace of innovation to bring about positive change and solve some of the world's most pressing challenges. It works across USAID and within the broader international development community to test innovative tools and methods. When a new approach proves effective, the Lab works to increase its adoption throughout USAID and with our partners.