



MORGANA WINGARD / USAID

PARTNERING TO ACCELERATE ENTREPRENEURSHIP

BRIDGING THE PIONEER GAP: SUPPORTING EARLY-STAGE ENTREPRENEURS

Entrepreneurs play a vital role in driving economic growth, creating jobs, and innovating to improve people's lives through market-based solutions. In low-income countries, small and medium enterprises contribute to 78 percent of full-time employment and foster development impact in critical sectors such as agriculture, energy, health, and education.

However, these entrepreneurs often struggle to access the financing needed to test their business models and grow, particularly in the early stages of their development. They often operate in business environments and entrepreneurial ecosystems that are not yet well developed, with limited access to networks, market information, business development services, and market infrastructure.

At the same time, impact investors are struggling to build a pipeline of investment-ready businesses that can generate both financial and social returns. This “pioneer gap” between investors and entrepreneurs prevents promising early-stage or high risk enterprises from receiving the investment they need.

THE PACE INITIATIVE

USAID’s **Partnering to Accelerate Entrepreneurship (PACE)** initiative catalyzes private sector investment into early-stage enterprises and identifies innovative business models and approaches that help entrepreneurs bridge the pioneer gap and unlock the potential of thousands of promising enterprises around the world.

Working in partnership with more than 40 incubators, accelerators, and seed-stage impact investors, USAID’s U.S. Global Development Lab creates public-private partnerships dedicated to testing innovative models or approaches to bridge this gap and foster entrepreneurship. The partnerships are expected to leverage more than \$100 million in private capital over life of the projects.

THE PACE APPROACH

USAID works to spur entrepreneurship in a number of ways — from investing directly in entrepreneurs through programs like Development Innovation Ventures (DIV) and Grand Challenges for Development, to fostering critical industry infrastructure and country-level policy through partnerships with organizations like the Global Impact Investing Network (GIIN) and the Aspen Network of Development Entrepreneurs (ANDE).

The PACE approach strengthens entrepreneurial ecosystems by supporting the intermediary organizations that are critical for helping entrepreneurs grow their businesses, such as accelerators, incubators, and seed-stage investment funds. By working with these partners, PACE aims to catalyze private investment for early-stage entrepreneurs in the developing world that might not otherwise occur.

The PACE Initiative brings together acceleration services and investment by:

- Supporting acceleration approaches that source entrepreneurs with strong business models and preparing these entrepreneurs through technical assistance and mentoring to find appropriate investors, raise the capital they need, and utilize that capital to grow.
- Working to blend public and private capital, providing access to seed funding for small and growing businesses (SGBs) and “crowding in” private investment into high-risk and earlier-stage market segments.

EXAMPLES

Open Capital Advisors (OCA), an East African consulting firm, has supported SGBs within the region since 2010 and is seeking to expand its reach to innovative but smaller and less established businesses. To do this, OCA wanted to pilot a new, tailored technical assistance approach that selects SGBs by relying on local referrals and co-funds the pre-investment support with SGBs and investors. By co-funding the technical assistance programs, OCA more closely aligns investors’ and SGBs interests. By partnering with USAID through the PACE Initiative, OCA is able to defray its piloting costs for the initial roll out of its new acceleration model. This new approach has evaluated 222 businesses since the beginning of the PACE partnership.

Village Capital — a nonprofit organization that finds, trains, and invests in entrepreneurs — had already run dozens of successful acceleration cohorts using their innovative “peer selection” methodology, through which participating entrepreneurs select which enterprises receive seed funding. However, this funding was provided through one-off investment commitments that had to be sourced and negotiated separately for every cohort.

To streamline this process, Village Capital and USAID partnered through the PACE Initiative to create an investment vehicle that can efficiently unlock private capital for seed-stage impact investments. By doing so, VilCap Investments raised and closed a fund with more than \$15 million in private capital commitments. Basing the fund’s investment decisions on this peer selection approach and leveraging USAID’s support to de-risk private investments, Village Capital has quickly become the most active seed-stage social investor in sub-Saharan Africa.

CONTACTS

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