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Subject: Amendment #03 to Annual Program Statement (APS) # APS-OAA-13-000003 titled - PUBLIC-PRIVATE ALLIANCES

The Purpose of amendment #03 to the above referenced APS is to post the announcement titled “CALL FOR PARTNERSHIP CONCEPT NOTES FOR THE PARTNERING TO ACCELERATE ENTREPRENEURSHIP (PACE) INITIATIVE” as an addendum to the above referenced APS.

The detailed announcement is as follows:

ANNOUNCEMENT

CALL FOR PARTNERSHIP CONCEPT NOTES FOR THE *PARTNERING TO ACCELERATE ENTREPRENEURSHIP (PACE) INITIATIVE*

**UNDER EXISTING ANNUAL PROGRAM STATEMENT
APS No.: APS-OAA-13-000003**

PLEASE NOTE: This is an addendum to an existing announcement. All interested organizations should carefully review both this addendum AND the full announcement, which can be found here: <http://www.usaid.gov/work-usaid/get-grant-or-contract/opportunities-funding/global-development-alliance-annual-program>. Important information contained in the full worldwide announcement is not repeated in this specific addendum.

This program is authorized in accordance with Part 1 of the Foreign Assistance act of 1961, as amended.

Through this Addendum to the 2013 Global Development Alliance (GDA) Annual Program Statement (APS), the Global Partnerships Division of the United States Agency for International Development (USAID) is issuing a special call for the submission of Concept Papers focused on fostering entrepreneurship and catalyzing private investment into early stage enterprises operating in developing countries.

USAID is launching the *Partnering to Accelerate Entrepreneurship (PACE)* initiative to identify and advance innovations that enable early stage entrepreneurial enterprises to refine and improve their business models in a manner that achieves commercial viability, scale and sustainable growth, and to increase private investment into such enterprises. USAID will direct up to \$10 million over the next three years to identify and test innovative models for incubating and catalyzing private investment into promising early stage enterprises in developing countries.

In order to source new ideas and a diverse set of partners in this effort, USAID is launching this call for concept papers. The Agency invites organizations to submit ideas for partnering and co-investing with USAID on PACE. USAID is focused on partnerships that address one or more of the following objectives:

1. **Stimulate the development of sustainable and scalable models that support the successful incubation of early stage enterprises in developing countries.** These approaches should substantially increase the ability of such enterprises to obtain the human and financial resources necessary to refine their business models, grow their enterprises, and attract private investment. USAID is particularly focused on investing in incubation models which align incentive structures between incubators/accelerators, investors, and entrepreneurs, and enable each to achieve their objectives in a financially sustainable manner. USAID is also interested in testing new models that can have a demonstration effect and can be replicated in other sectors or geographies.
2. **Identify and test blended investment approaches** that enable private capital (debt or equity), venture philanthropy, and/or grant capital to be blended and used to increase private investment flows to early stage enterprises. USAID is open to partnering with a wide range of traditional and nontraditional funders – angel investors, impact investing funds, financial institutions, foundations, venture arms of NGOs, and others – to test and evaluate models that use patient capital or grants to catalyze private investment.
3. **Catalyze the development of entrepreneurial ecosystems** in specific sectors, industries, or geographies by addressing ecosystem gaps and/or “building” supportive elements of the ecosystem. USAID is open to collaborating with a wide range of partners in building ecosystems in which early stage entrepreneurial enterprises can thrive, with a particular focus on sectors aligned to USAID priority development goals in agriculture and food security, climate change, energy, water, health, and education.

USAID **may** allocate **up to** \$10,000,000 over the course of the next three fiscal years to fund a portfolio of partnerships, with funding for individual partnership proposals estimated in the range of \$500,000 to \$5 million. Ideally, the portfolio will enable USAID to ensure that each of the above objectives is advanced. However, priority will be placed on supporting the most promising approaches, even if the resulting portfolio only advances one or two of the objectives described above.

Unless otherwise stated herein, all terms and conditions of the GDA APS FY13 apply.

I. Background

Scope and Definitions: For the purposes of PACE, USAID’s focus is on **entrepreneurial enterprises** that are small in size, have been created with the intent to grow, and fit the Aspen Network for Development Entrepreneurs (ANDE) definition for Small and Growing Businesses¹. Entrepreneurs include individuals working independently, small family businesses, or business owners employing up to 250 people, so long as the entrepreneurs “seek to generate value through the creation or expansion of economic activity by identifying and creating new products, processes or markets.”²

¹ Small and Growing Businesses (SGBs) are defined by ANDE as commercially viable businesses with five to 250 employees that have significant potential, and ambition, for growth. SGBs differ from the more traditional characterization of small and medium enterprises (SMEs) in two fundamental ways. First, SGBs are different from livelihood-sustaining small businesses, which start small and are designed to stay that way. Second, unlike many medium-sized companies, SGBs often lack access to the financial and knowledge resources required for growth.

- See more at: <http://www.aspeninstitute.org/policy-work/aspen-network-development-entrepreneurs/ande-home/small-growing-businesses-sgbs#sthash.3xJZBwsQ.dpuf>

² As defined by the OECD.

Entrepreneurial ecosystems refer to the set of policies, institutions, resources, and incentives that enable individual entrepreneurs to thrive. Elements of this ecosystem can include a positive business enabling environment; a skilled labor force; ready access to information and capital; business service providers; incubators and accelerators; and a diverse range of investors targeting various forms of investment in enterprises at various stages of maturity.

Incubation is broadly defined as a set of activities and services provided to early-stages enterprises to help them refine their business models and become “investment-ready”. Incubation services often include advisory and business development services, infrastructure support, mentoring and peer networking. Incubation can also include or be combined with some form of financial support, often bringing together different forms of capital in support of enterprises, which helps to unlock private investment.

Global Context: Entrepreneurial ventures are **engines of economic growth**. Not only do entrepreneurs drive **innovation**, but the potential of their ventures to create industries and open new markets can be the key to **job creation**. From 1980-2005, firms less than five years old accounted for all net job growth in the US.³ Fostering entrepreneurship can catalyze sustainable economic growth through market-based solutions that can operate without ongoing donor support. Furthermore, enterprises – including “social enterprises” – also offer market-based models of achieving sustainable development impact in multiple sectors, including agriculture and food security, climate change, energy, water, health, and education.

While entrepreneurship has been a key driver of job creation and innovation in the US and other developed economies, it has not reached its full potential in most emerging markets.

In the past decade, we have seen the emergence of a class of impact enterprises that deliver development impact via financially sustainable business models. However, only a relative handful of these enterprises – have reached scale and attracted significant private capital. A recent study showed that out of 400+ Africa-based enterprises, only 32 percent of these businesses were commercially viable and had the potential to scale, with only 13 percent of total enterprises currently operating at scale.⁴ This is in contrast with a 2011 survey from J.P. Morgan that found the number of institutions and high net worth individuals familiar with impact investing had doubled since 2010.⁵ This increase in the number of donors and financiers, coupled with the lack of investable enterprises, further highlights the need to support the entrepreneurial ecosystem to increase the number of enterprises that are commercially viable, capable of achieving scale, and worthy of investments whereby they can eventually become self-sustaining.

The Challenge of Early Stage Incubation: The level of maturity and dynamism of entrepreneurial ecosystems varies across the developing world, as do the key gaps and challenges in these ecosystems. However, recent research points to a particularly salient challenge regarding a gap between early stage enterprises and the growing ranks of investors seeking to identify promising investments in developing countries. This issue has been addressed in Monitor Deloitte’s *From Blueprint to Scale* research, which highlights the burden shouldered by enterprises that are pioneering new business models for social change. Monitor-Deloitte identified four stages through which these enterprises typically progress: creating – or “*blueprinting*” their core idea for a product or service; *validating* their business model through market trials with customers in the marketplace; *preparing* the enterprise itself for growth as well as preparing the

³ Kauffman Foundation, “Where Will the Jobs Come From?” November 2009.

⁴ Monitor Deloitte, “From Blueprint to Scale,” April 2012.

⁵ J.P. Morgan, “Insight into the Impact Investing Market,” December 2011.

target customers (e.g. through consumer awareness); and finally, *scaling* the enterprise to reach large numbers of customers.⁶

The research cites a “Pioneer Gap” – noting that while many investors are seeking to fund enterprises that have entered the more mature “scaling” phase, few are willing to invest in earlier stage, higher risk “pioneer” enterprises. This gap has led to a concentration of funding from investors and donors into a limited number of more mature enterprises with proven track records. As a result, less attention is paid to earlier stage enterprises that offer tremendous growth potential, but lack the financial and human resources necessary to refine and test their business models in order to grow and attract private investment. To bridge this Pioneer Gap, Monitor Deloitte suggests that philanthropic funding, used as part of a layered capital approach, can help enterprises move through the earlier stages of validating their business models and preparing the market, and to overcome the inherent difficulties of attempting to grow enterprises operating within ecosystems that have substantial gaps. Under PACE, USAID seeks to test this hypothesis and accelerate the development and growth of developing world entrepreneurs by partnering with organizations capable of bridging the Pioneer Gap.⁷

Furthermore, while support for individual enterprises is a critical component for driving growth, the development of entire *sectors* in which enterprises can thrive is the ultimate goal. Sector development leads to healthy ecosystems that provide jobs, and create development impact. Individual firms come and go, but the growth and scaling of entire industries result from continued competition and interplay among multiple firms. In its *Priming the Pump* research, Omidyar Network identifies several types of organizations that play roles in creating, incubating, and scaling sectors for change; *innovators* – those that create a new product or service before its profit potential is obvious to most investors; *scalers* - enterprises that offer a new product or service and operate in sectors or geographies where ecosystem gaps already have been addressed and de-risked; and *infrastructure builders* – those that advance a sector by helping address collective needs of the other players and build a supportive ecosystem.⁸

In line with the findings of the Pioneer Gap research, Omidyar Network cites that growth capital is often available only to the scalers, as they offer both strong financial and impact returns. These investable enterprises, however, could never have been created without the hard work of innovators and infrastructure builders who have taken the initial risk in building a sector and putting in place the building blocks that many firms can use. Unfortunately, capital for these initial innovators and infrastructure players is less common; yet, without that high risk capital, many new sectors, and the early stage enterprises within them, will not get off the ground. Under PACE, USAID seeks to identify ways in which different forms of capital can be utilized to spur the development of the necessary components for growth and social change in relevant sectors.

Finally, as noted above, entrepreneurs function within a larger ecosystem of policies, institutions, resources, and incentives; entrepreneurship thrives when that ecosystem encourages and enables the work of talented people and their teams. Under PACE, USAID is seeking partnerships with other “infrastructure builders” seeking to invest in elements of entrepreneurial ecosystems that can enable entire markets and sectors to grow.

⁶ Monitor Deloitte, “From Blueprint to Scale,” April 2012.

⁷ Bridging the “Pioneer Gap”: The Role of Accelerators in Launching High-Impact Enterprises, Aspen Network for Development Entrepreneurs and Village Capital, 2013.

⁸ Bannick, Matt, and Paula Goldman, “Priming the Pump: The Case for a Sector Based Approach to Impact Investing”, Omidyar Network, 2012.

II. Solicitation

USAID is launching the *Partnering to Accelerate Entrepreneurship* (PACE) initiative to identify new innovations which can address the Pioneer Gap, and help create sustainable organizations that will continue building and growing enterprises and sectors to create development impact.

Through this announcement, USAID seeks to develop new and innovative public-private alliances with the private sector - including businesses, investors, foundations, NGOs, and other stakeholders focused on advancing entrepreneurship - that address the goals outlined above and below.

Proposed alliances may target one or more of these objectives. The specific objective(s) that the alliance will support must be explicitly stated. USAID will prioritize innovative, cost-effective, private-sector driven concepts that include the illustrative types of interventions and activities outlined below. These interventions are illustrative only and are not meant to limit applicant creativity. Consistent with the terms of the 2013 GDA APS, proposed alliances under this call for concept papers must leverage private sector resources at a ratio of at least 1:1, and preferably 2:1 or greater.⁹

Applicants should refer to the GDA APS for more detailed information on the requirements for leverage of private sector resources. Applicants are encouraged to explore and finalize their concepts and proposals with the IDEA/GP Division of USAID.

Objective 1: Stimulate the development of sustainable and scalable models that support the successful incubation of early stage enterprises in developing countries.

Proposed alliances may address areas including but not limited to the following:

- Models that incubate early stage enterprises via incubators, accelerators, or other similar organizational structures that provide a means to help entrepreneurs tap the expertise, networks, advisory support and financial resources needed to grow and access private capital, with a focus on testing and/or scaling innovative models that make such incubation services more financially sustainable;
- Ways to cultivate linkages between accelerators/incubators and investors to facilitate the flow of financing towards promising enterprises and align incentive structures between investors and incubators;
- Opportunities to work with investors/impact investors on models which enable them to engage promising early stage enterprises directly, build their capacity, and strengthen their readiness to accept commercial investment.

Proposed alliances addressing this issue should clearly articulate how the proposal demonstrates a new or innovative model that is highly effective at “graduating” enterprises that have the ability to secure private capital. Proposed alliances should have a “demonstration effect” that results from proving a model and stimulating others to adapt or replicate the model for use in other sectors and geographies. As such, applicants should identify how the proposed incubation model could be replicated in a cost-effective manner and become financially sustainable.

⁹ Consistent with terms of the 2013 GDA APS, if concept papers propose the use of debt or equity investment as leverage, a 5:1 ratio is required. See the 2013 GDA APS for further guidance if this approach to leverage is used.

Objective 2: Identify and test blended investment approaches that enable private capital (debt or equity), venture philanthropy, and/or grant capital to be blended and used to increase private investment flows to early stage enterprises.

Proposed alliances may address areas including but not limited to the following:

- Test investment models that blend private, patient, or philanthropic capital in ways that enable enterprises to grow and become sustainable;
- Encourage investors and investor communities to focus on channeling private capital to earlier stage enterprises not currently serviced by impact or angel investors.

Proposed alliances addressing this issue should clearly articulate why grant resources are necessary, and how USAID resources will be used to leverage private capital. Proposed alliances should articulate a distinct model for blending capital sources and demonstrate a model that can be replicated or adapted by others. Proposed alliances should be prepared to justify, measure, and evaluate the effectiveness of their proposed solutions with varying ratios of subsidized-to-private capital.

Objective 3: Catalyze the development of entrepreneurial ecosystems in specific sectors, industries, or geographies by addressing ecosystem gaps and/or “building” supportive elements of the ecosystem.

USAID is open to collaborating with a wide range of partners to “build markets” in which entrepreneurial enterprises can thrive, with a particular focus on sectors that align with USAID priority development goals with respect to agriculture and food security, climate change, access to energy, and market-based approaches to health and education.

Proposed alliances may address areas including but not limited to the following:

- Address an identified gap in an entrepreneurial ecosystem, such as a need to develop human capital, access to finance, or access to advisory services, mentors, networks, etc.;
- Build a specific sector that encourages entrepreneurial growth by addressing one or several key sector gaps or needs that can be difficult to address at a firm level, such as policy issues, consumer education, or gaps in supply or distribution chains.

Geographic Scope

Partnership proposals should focus on countries where USAID is currently present. For a full list of USAID presence countries, please see <http://www.usaid.gov/where-we-work>

Under PACE, single-country or multi-country alliance proposals will be considered; however, USAID will demonstrate a preference for proposals that can identify, test, and accelerate innovations with potential applicability and scalability in other markets, sectors, or geographies.

Sectoral Scope

USAID is open to proposals that are both sector-specific (e.g. clean energy, agriculture) or broad-based and multi-sectoral. Any sector-specific partnership proposals should specify how the proposed effort aligns with relevant USAID Presidential Initiatives or other priority USAID programs (e.g. Feed the Future, Global Health Initiative, Power Africa)

USAID Learning Agenda

A key PACE objective is to demonstrate new innovations and models that can be replicated to accelerate entrepreneurship throughout the developing world. As such, USAID will support an agenda that seeks to extract lessons learned from the portfolio of funded alliances and will share these with a range of

stakeholders focused on advancing entrepreneurship. Proposed alliance partners must be open to sharing key learnings as a public good, and should identify ways in which they can make data available to the broader entrepreneurship community.

USAID seeks to address the following core question: *What incubation and blended financing models serve as the most effective methods for enabling early stage enterprises in developing countries to grow, attract investment, and thus deliver greater development impact?*

In addition, in evaluating alliances under PACE, USAID will seek to generate insights into questions such as the following:

- What is the cost per impact delivered by the organizations emerging from the incubation process?
- What is the ratio of subsidized-to-private capital employed at the enterprise level?
- How financially sustainable are the organizations that emerge from the incubation process?
- What are the most effective incubation methods for driving additional private investment into early stage enterprises?
- How cost-effective, replicable, and financially sustainable are these incubation methods?
- What is the ratio of subsidized-to-private capital employed at the incubation level?

Proposed alliances should incorporate one or more of these questions into their project design and monitoring and evaluation approaches.

III. Evaluation Criteria

Proposed alliances will be evaluated based on the criteria set forth in the GDA APS (Section IV: Concept Paper Evaluation Criteria). In addition, USAID recognizes that the knowledge, skills, and abilities needed for a successful alliance may not reside within any one organization. USAID supports organization consortia or alliances (academia, NGO, corporate, financial, or otherwise) that submit a joint response to this Addendum.

In the context of the PACE initiative, and in alignment with the GDA APS criteria, USAID will consider the following factors in determining whether to pursue proposed alliances:

- *Innovation*: USAID will prioritize partnership ideas that clearly demonstrate an innovation in addressing a gap in current entrepreneurial ecosystems. Applicants should identify the aspect(s) of their proposed methodology that differentiate it from existing models, while also indicating how this innovation will yield positive results;
- *Impact*: USAID will prioritize alliances that will result in cost-effective positive social or environmental impact at the individual level (jobs created, delivery of social/environmental benefits to end-users, etc.)
- *Replicability and Sustainability*: USAID seeks to identify incubation and investment approaches which - if proven to result in impact and are cost-effective - could be scaled and replicated in multiple geographic, industry, or sector contexts. USAID will prioritize investments in approaches that clearly demonstrate how the approaches are replicable and are, or will become, financially sustainable;
- *Leverage*: USAID will prioritize partnerships that significantly leverage USAID involvement and resources to catalyze involvement and resource contributions from other partner organizations. In the context of the partnership concept, USAID funding should be “catalytic”, enabling participation

and investment from external partners and investors that may have otherwise not been possible without USAID's role and presence in the alliance;

- *Monitoring, Evaluation, and Learning:* USAID prioritizes working with partners that focus on gathering robust data as part of their program design and implementation in order to inform ongoing monitoring, evaluation, and learning. Preference will be given to partnership proposals that commit to sharing lessons learned, propose needed metrics, and promote data gathering with the wider development, entrepreneurship, and impact investing communities.

Proposed alliances should be consistent with USAID legal and policy restrictions including those set forth in USAID's Automated Directives System (ADS) and in the Foreign Assistance Act of 1961.

IV. Application Instructions and Review Process

USAID/IDEA/GP will be responsible for proposal review and award management. Applicants are required to submit short concept papers (not to exceed 5 pages) to USAID/IDEA/GP through Mitchell Abuan (mabuan@usaid.gov). After review by IDEA/GP and relevant USAID staff based on the geography and sector of the proposed alliance, applicants will receive instructions from IDEA/GP on whether to proceed with a full application. Concept papers must be submitted by January 31, 2014 in order to be considered.

For information regarding guidelines and procedures for submitting a concept paper, please refer to USAID's GDA APS that can be found at the following website: <http://www.usaid.gov/work-usaid/get-grant-or-contract/opportunities-funding/global-development-alliance-annual-program>. Note that additional information on alliances can be found at <http://www.usaid.gov/gda>. Additional information on APS resources can be found at <http://www.usaid.gov/work-usaid/get-grant-or-contract/opportunities-funding/global-development-alliance-annual-program-0> .

IDEA/GP encourages applicants to become familiar with activities at the relevant USAID Missions or with USAID technical bureau staff in countries and sectors where activities are proposed prior to submitting a concept paper. USAID further encourages applicants to consult with IDEA/GP staff, as these personnel can discuss the extent to which a proposed idea is appropriate and aligns with USAID goals. Within IDEA/GP the contact person is Robert Schneider (roschneider@usaid.gov).