



Private Sector Engagement Spotlight on Co-creation: PACE Partnership with Village Capital

Co-creation can take many forms, ranging from a series of phone calls with a prospective partner to a structured, facilitated series of workshops with many partners.

A Global Development Alliance (GDA) is one way USAID works with the private sector to co-create and implement market-based solutions to key development challenges.

The GDA Annual Program Statement (APS) is an invitation to the private sector and other potential partners to co-create such solutions with USAID. After exploring whether and how their interests align, USAID and the private sector jointly develop market-based approaches aimed at achieving their business and development interests.

To learn more about the co-creation process under the GDA APS, visit www.usaid.gov/gda/co-creation-process or contact gda@usaid.gov.

To Explore additional Private Sector Engagement (PSE) resources visit www.usaid.gov/work-usaid/private-sector-engagement or contact the USAID PSE Hub at globalpartnerships@usaid.gov.

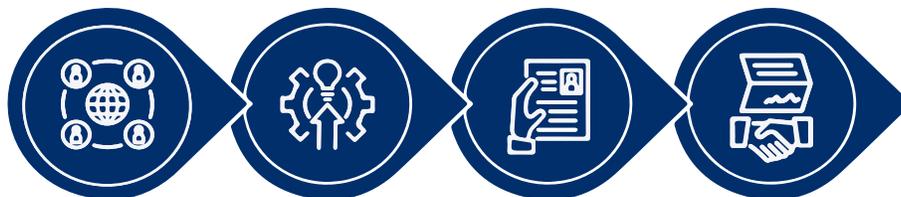
Creating Opportunities by Challenging Operational Norms and Expectations

How did USAID and [Village Capital](#), a nonprofit organization that finds, trains, and invests in entrepreneurs, use the GDA APS to co-create a new blended finance investment vehicle, [VilCap Investments](#), to invest in early-stage companies that deliver social and environmental impact?

Opportunities, Challenges, and Aligned Interests

Many impact investors operating in emerging markets are ready to invest in businesses with the potential to generate financial and social returns, but are unable to find the right projects. At the same time, many early stage enterprises or growth entrepreneurs are unable to move beyond grants and other small scale public funding and access funding through investors. This “pioneer gap” is what motivated the creation of USAID’s [PACE Initiative](#) in 2013. PACE aims to catalyze private sector investment in small and growing businesses and support entrepreneurs in emerging markets. In an open call under the GDA APS, USAID invited a broad range of partners — including investors, businesses, non-government organizations, incubators, and accelerators — to submit ideas for partnership and co-investment.

Village Capital responded to the call with a request for \$5 million to expand technical assistance programming and to contribute to an investment fund. However, through co-creation, Village Capital and USAID were able to dig deeper into the underlying challenges to address, and found a more streamlined way for USAID to provide support. By agreeing that USAID would provide operating costs for the fund, Village Capital was able to focus on testing and improving upon their [innovative model](#). USAID’s initial support has enabled VilCap to scale the approach to bring investment to more early stage enterprises.



INITIATE
Do we have something to talk about?

EXPLORE
Identify aligned interests

DIG DEEPER
Develop market-based approaches

MAKE A PLAN
Determine roles and responsibilities

COMMIT
Formalize partnership with appropriate agreements

COLLABORATE
Continue co-creative spirit throughout implementation

Phases of co-creation



USAID



Good Co-creation Practices

Address the root problem. Sometimes a potential awardee will submit a USAID proposal for something they think is needed. By digging deeper, co-creation conversations can help better define the core problem or issue and find more appropriate solutions. While Village Capital requested that USAID invest directly into its fund, several discussions unearthed what VilCap Investments *really needed*: to ensure the fund could *attract more investors*, with a model that met industry expectations, such as in fund management fees. USAID awarded them \$2.6 million to cover the costs for the initial operation and launch of the fund. The grant enabled VilCap Investments to charge the standard management fee to investors which enabled it to raise \$15 million in private investment.

Focus on outcomes, not inputs. With a \$2.6 million grant from USAID for operating costs, the partners could catalyze investment into small and growing businesses (SGBs) (the intended outcome) without USAID investing directly into the fund (an 'input'). This approach enabled Village Capital to stay better focused on testing and improving their business model.



Advancing PSE

Using the USAID grant to enable the new, small fund to charge standard market management fees acceptable to conventional or impact investors, the partners co-created a market-based approach. PACE funding helped VilCap Investments create the track record needed to raise subsequent funds. Future investment management fees for larger funds investing in more SGBs would cover the fee gap initially covered by the USAID grant. VilCap Investments has surpassed most programmatic targets including their goal of a 15:1 investment leverage ratio. Private investment was 52 times greater than USAID's contribution to the program.



The Co-creation Value Proposition

By committing to the co-creation process, the partners were able to establish trust they needed to have an honest and open dialogue. That space allowed them to strip away expectations and preconceived notions and establish what solutions would be optimal to achieve the desired goals.

Learn more about the [PACE and VilCap Investments](#)



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