



# PARTNERING TO ACCELERATE ENTREPRENEURSHIP

## MCE SOCIAL CAPITAL: ENABLING SMALL BUSINESS LOANS

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

MCE Social Capital, an impact investing firm based in San Francisco, CA, has provided loans to microfinance institutions (MFIs) since its founding in 2005. Using a unique model of loan guarantees—recruiting high-net worth individuals and investors to back the loans that MCE provides to MFIs—MCE has disbursed more than \$133 million in capital in the developing world, catalyzing investment that otherwise would not have happened.

Through its work, MCE identified a financial gap between MFIs and commercial lending: financing for early-stage, small and growing businesses (SGBs). Too big for microloans but too small for commercial investments, these businesses are often unable to access the financing they need to grow, despite playing a vital role in driving economic growth, creating jobs and innovating to improve people's lives through market-based solutions.

To address this need, MCE developed a plan to launch a fund focused on investing in early-stage SGBs in developing countries, but the start-up costs required additional support.

### THE PARTNERSHIP

In September 2016, MCE and USAID formed a partnership through the Partnering to Accelerate Entrepreneurship (PACE) Initiative to create a fund to support SGBs in sub-Saharan Africa and other emerging markets. Capitalizing on the success of its MFI fund, MCE aims to efficiently deploy venture debt in order to strengthen early-stage businesses that will generate jobs for women and in rural communities.

MCE works with foundations and individuals as guarantors who pledge to make tax-deductible contributions to cover a loss if an SGB fails to repay a loan. MCE uses these pledges as collateral to borrow capital from U.S. financial institutions and accredited investors, enabling MCE to provide relatively small loans with flexible terms and affordable interest rates that early stage SGBs need. The loan default rates for the MFI fund—less than one percent of its MFI loans have defaulted—provide a testament to the potential for this new fund.

With USAID's support, MCE was able to attract loan guarantors to its SGB fund by capping the losses that any one guarantor would face each year. And with the risk distributed across a large pool of pledges, MCE's guarantors can facilitate millions of dollars in lending. By leveraging the power of loan guarantees, USAID's partnership with MCE addresses a critical market gap and supports the creation of promising, high growth and sustainable entrepreneurial ventures.



## USAID PARTNERS

- MCE Social Capital
- First Republic Bank

## THE RESULTS

Since the start of its pilot program to lend to SGBs in 2013, MCE has disbursed \$1.8 million in loans to seven SGBs across six countries in sub-Saharan Africa, of which \$333,000 has successfully matured. Collectively, these businesses employ 910 individuals, support 30,000 smallholder farmers, and facilitate safe water access to 28,000 people.

In March 2017, in partnership with USAID, MCE launched its new fund backed by loan guarantees to unlock millions of dollars of private sector capital to finance SGBs in sub-Saharan Africa and other emerging economies. Since then, MCE has received 19 guarantee commitments totaling \$9.5 million for the SGB fund.

### 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.