



PARTNERING TO ACCELERATE ENTREPRENEURSHIP

PALLADIUM 2.0: VARIABLE PAYMENT OBLIGATION (VPO) COLOMBIA

Photo Credit: Palladium

USAID

TIMEFRAME

TOTAL LEVERAGE
EXPECTED

GEOGRAPHY

\$800,000

2 Years (2019-2021)

\$1 M

Colombia

Entrepreneurs play a critical role in driving economic growth--creating jobs and the products and services that improve people's lives. Through the **Partnering to Accelerate Entrepreneurship (PACE) Initiative**, USAID catalyzes investment into early-stage enterprises by identifying and testing models or approaches that help entrepreneurs bridge the pioneer gap and grow.

THE CHALLENGE

Entrepreneurs everywhere face many challenges when seeking capital. These firms do not have the track record of more established companies and thus they are more risky investments. These challenges are further compounded in emerging markets where the depth and breadth of financial systems are less developed. According to an International Finance Corporation study, approximately 55 to 68 percent of small and growing businesses (SGBs) in developing economies—13.8 to 20.4 million firms—are unserved or underserved by the formal financial sector. This amounts to a credit gap of as much as \$1.1 trillion.

Women entrepreneurs face additional legal and social barriers. Ownership of an account with a formal financial institution remains more limited in developing economies--only 67 percent of men and only 59 percent of women, compared to 72 percent and 65 percent globally. according to the World Bank's Global Findex Database 2017. Women entrepreneurs frequently do not have equal access to information, markets, networks and finance as men, yet many women-led SGBs have the potential to become commercially viable.

These challenges represent an opportunity for finance providers to meet the demand, but higher risks and transaction costs to access the credit worthiness remain a barrier--particularly when women do not own the land or immovable assets used for collateral. Moving more banks--who hold large pools of capital in local currencies--into lending to SGBs is essential for SGBs.

THE PARTNERSHIP

Through PACE, USAID partnered with Palladium in Nicaragua on a Variable Payment Option (VPO) Program, which provides loans based on a company's revenue instead of requiring collateral. The VPO Program includes: 1) a loan product; 2) 'enter growth services' (EGS) to accelerate the growth of the borrower's enterprise, reduce the risk of default, improve loan monitoring, and increase program impact; 3) technical assistance to local bank partners; and 4) an optional liquidity and risk sharing mechanism enabling third-party investors to co-lend alongside the bank.

USAID's partnership with Palladium supports business development services and startup costs. The original award aims to distribute revenue-based loans to 40 qualified women-led SGBs and create a sustainable business model that can potentially support thousands of businesses. This award expands the program to Bancamía in Colombia. This expansion will develop specialized business development services, and assist Bancamía design and adapt appropriate financial products--including a financial product that would allow women-led businesses to confront cultural barriers to finance after the life of the project.

EXPECTED RESULTS

The VPO Program aims to enhance women entrepreneurs' access to appropriate financial and non-financial services through a cash flow-based credit product paired with integrated enterprise growth services. This will drive business growth by increasing revenue and number of employees, thereby bolstering economic growth and prosperity. The expansion of the VPO program aims to provide financing and training to at least 250 women-owned small and growing businesses (loans of \$25,000 to 250,000).

Simultaneously, the success of Bancamía and other local bank partners in the broader VPO Program will demonstrate the commercial viability of cash flow-based lending. This innovative loan structure will ideally prompt a shift in the market where more financial institutions will compete for the business of SGBs.

FOR MORE INFORMATION

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

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