

PRIVATE-SECTOR ENGAGEMENT POLICY



A business owner in Uganda who received business support.
Photo credit: Bobby Neptune, USAID.



USAID
FROM THE AMERICAN PEOPLE

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Administrator's Message

I am pleased to share with you our new policy on private-sector engagement. This policy comes at an exciting time in which leaders in both the public and private sectors are figuring out how to take the unique capabilities of each and apply them to problems that neither could address fully on their own. This engagement can make addressing challenges that once seemed insurmountable very real and achievable.

Private-sector engagement is fundamental to our goal to end the need for foreign assistance. This policy is a call to action for staff from the U.S. Agency for International Development (USAID) and our partners to embrace market-based approaches as a more-sustainable way to support communities in achieving development and humanitarian outcomes at scale. This is based on our premise that private enterprise is one of the most-powerful forces for lifting lives, strengthening communities, and accelerating countries to self-reliance.

I believe the future of international development is enterprise-driven. "Enterprise-driven development" means aligning with private enterprises as co-creators of market-oriented solutions, with shared risk and shared reward. It means recognizing the value of engaging the private sector in development and humanitarian assistance to help shape solutions that achieve sustained impact and can carry forward long after USAID's support has ended, and reorienting our investments to open markets for U.S. firms.

Implementing this policy will require a major cultural and operational transformation in the way USAID and our partners work. We must commit to deepening our collaboration with the private sector in seeking market-based approaches across all areas of our work, from economic growth, power, agriculture, and global health to humanitarian assistance, women's empowerment, education, and addressing crisis and conflict.

The approach will require us to adjust our role. In many ways, we will be steering, more than rowing, in an effort to create a force-multiplier that will allow us to work together with the private sector to achieve greater impact than either of us could achieve alone. With a focus on building a freer, more peaceful, and more prosperous world, true to our democratic values, this policy represents an important first part of a major transformation in the way we operate. Ultimately, increasing our collaboration with the private sector across all areas of our work will make us better development and humanitarian professionals, bring us closer to our purpose of ending the need for foreign assistance, and provide greater opportunities for American businesses.



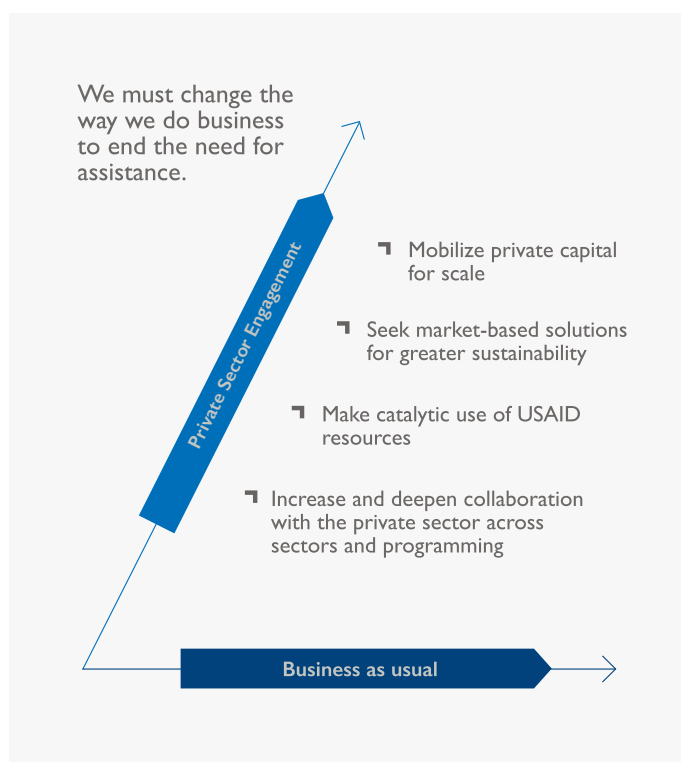
Ambassador Mark Green
Administrator, USAID

I. Vision and Purpose of this Policy

The private sector is an inextricable stakeholder in driving and sustaining outcomes capable of moving countries beyond the need for assistance. Today, the private sector is playing an unprecedented role in creating and shaping opportunities that improve the lives of the people and communities USAID supports. Private sources now represent nearly 90 percent of financial flows to developing countries.^a The private sector creates nine out of ten jobs in the developing world, and provides an important pathway to self-reliance.^b It is the driving force behind new innovations that solve problems. It brings expertise to building local markets that match local savings with investment opportunities, and provide countries with the tools to finance their own development. The private sector has the scale and resources to match the complexity of challenges countries face on their Journey to Self-Reliance.

Changes in the global development context have increased the alignment of interests between the private sector and development actors. On their own, donor agencies are unable to fulfill their goals for sustainable development. There is growing recognition within the private sector of the need for, and benefits of, investing in the developing world. At the same time, governments are expanding efforts to diversify their economies and connect with capital for investment. In addition, the increasing scale, length, and frequency of disasters and conflicts around the world means that humanitarian actors alone can no longer address the complex needs of crisis-affected people. The confluence of these trends provides a watershed opportunity for USAID, our partner governments, and civil society to increase collaboration with the private sector to support countries on their Journey to Self-Reliance.

To capitalize fully on this opportunity and reach our goal—ending the need for assistance—it is imperative that USAID increase and deepen our collaboration with the private sector. Thus, this policy is an **Agency-wide call to action, and a mandate to work hand-in-hand with the private sector to design and deliver our development and humanitarian programs across all sectors**, and to harness our resources to open markets and provide opportunities for U.S. businesses.



This policy is a first step within a larger cultural and operational transformation to expand our engagement with the private sector to achieve outcomes of shared interest Agency-wide. The purpose of the policy is to accomplish the following:

- Set forth the vision and operating principles that will guide and advance USAID's engagement with the private sector; with an emphasis on promoting U.S. economic growth;
- Illustrate ways USAID can consistently and comprehensively integrate private-sector engagement into the Agency's operating model and programming across sectors; and
- Clarify and harmonize concepts, terminology, and definitions. (See Appendix B.)

Through this policy, we begin the process of institutionalizing private-sector engagement as a core tenet of USAID's operating model. The Agency's larger Transformation efforts, which include a new leadership philosophy for the Agency, partnering and procurement reforms, skill-building and talent-management, adapting and addressing performance incentives, evidence and learning, and other issues, will support the implementation of the policy. This policy is part of USAID's overall Policy Framework, which articulates overarching policy goals for achieving our mission and guides the Agency's policy, strategy, and programming.¹

Successful implementation of this policy will result in an increase and deepening of our collaboration with the private sector in addressing the challenges countries face on the Journey to Self-Reliance; an embrace of market-based solutions, and support for market systems across sectors; expanded opportunities for American firms; and consistent leveraging of the private sector's expertise, resources, and investment in addressing development challenges. In humanitarian contexts, its implementation will result in working with private-sector partners to drive increasingly effective humanitarian responses that incorporate innovative practices and systems to complement existing capacities during all phases of responding to disasters and crises.

¹ Consistent with Automated Directive System (ADS) Chapter 200, this is a "policy" document as opposed to a "strategy." As such, it sets a direction for a cross-cutting priority consistent with the Administrator's directives, and does not set specific, time-bound targets.

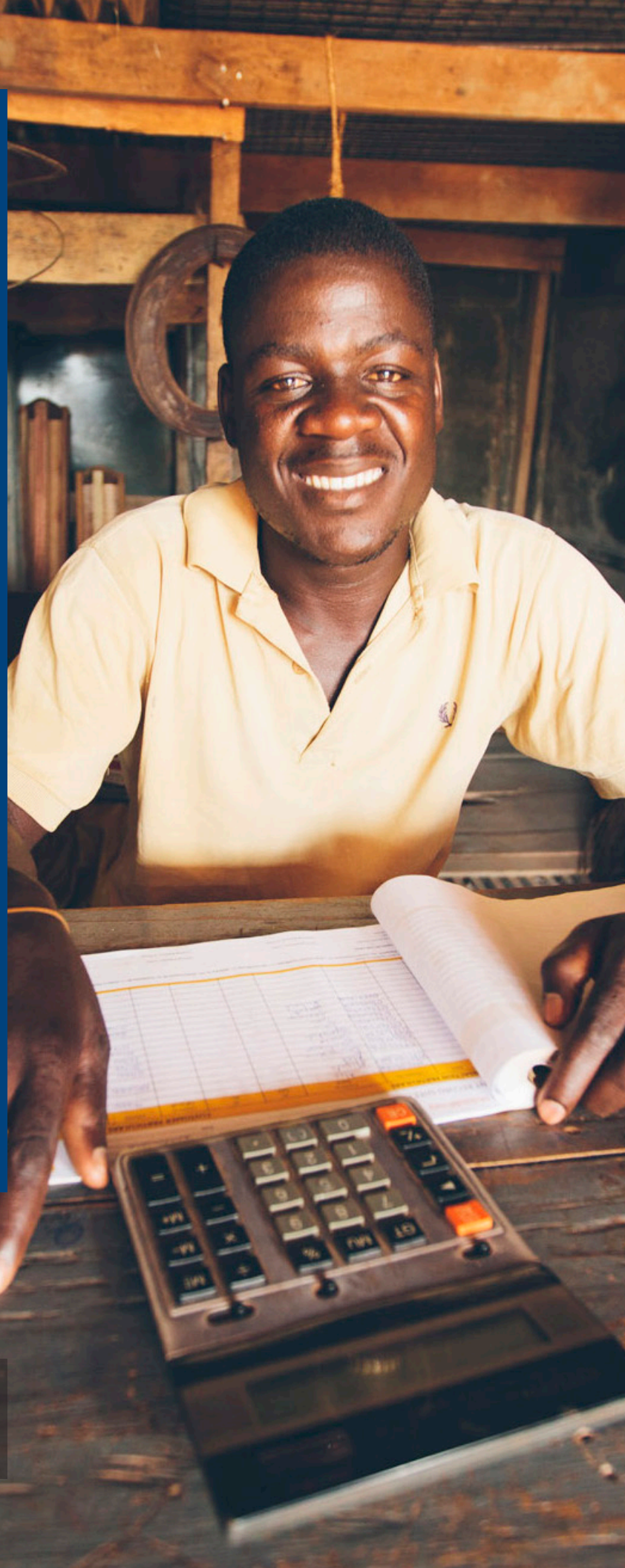
A Strong Foundation on Which to Build

The approaches defined in this policy are not all new. USAID has led the development community in engaging the private sector to support its mission since its inception. Our experience, including successes, lessons learned, expertise, and research, is the foundation upon which we have built this policy. A quantitative snapshot of USAID achievements in PSE through 2018 includes the following:

- Brought the private sector into 2,300 Global Development Alliances (GDA) and other partnerships, expected to leverage more than \$43 billion in non-U.S. government funds towards U.S. objectives;
- Enabled \$5.5 billion in credit in over 80 countries through more than 500 loan guarantees (42 percent of recipients were first-time borrowers) via the Development Credit Authority (DCA);
- Secured \$54 billion in private- and public-sector commitments for energy infrastructure since 2013 through Power Africa;
- Unlocked \$9.2 billion in investment from 200 companies for sustainable agricultural practices in Africa through the New Alliance for Food Security and Nutrition; and
- Facilitated over \$4.5 billion in investments and loans into the agriculture and food sector through Feed the Future, which spurred \$10.5 billion in agricultural sales for beneficiary farmers and SMEs.

This policy intends to build on and elevate our engagement of the private sector as a means for achieving our purpose—supporting countries in achieving sustained development and humanitarian outcomes. This requires adapting our culture and operations to work with the private sector in new ways, as a true partner to build countries' self-reliance.

A local business owner supported by USAID in Uganda. Photo credit: Bobby Neptune, USAID



2. What is Private-Sector Engagement (PSE)?

PSE is a strategic approach to planning and programming through which USAID consults, strategizes, aligns, collaborates, and implements with the private sector for greater scale, sustainability, and effectiveness of development or humanitarian outcomes.

PSE is a pathway for countries to accelerate their Journey to Self-Reliance. Each country must lead its own Journey to Self-Reliance, defined as its ability to plan, finance, and implement solutions to its own development challenges. Engaging the private sector to address challenges, alongside host-country governments and civil society, can accelerate self-reliance. Through PSE—and the market-based approaches it leverages—USAID and our partners can support countries in building the requisite skills, resources, knowledge, local institutions, and incentives that enable local systems and markets to become self-sustaining. With a vested interest in sustaining outcomes over the long term, a strong local private sector is an important pillar of countries' self-reliance.

PSE is a means to an end. It has the potential to enable USAID to: mobilize market-based solutions for more-sustainable outcomes; mount a more-effective humanitarian response; and leverage private-sector expertise, innovation, and resources that build country-level capacities for self-reliance. PSE is neither an end unto itself, nor a replacement for working with government and civil-society stakeholders, including academia, as appropriate to the context. Instead, it is a more-deliberate alignment and collaboration with private-sector actors as pivotal stakeholders in increasing country and market capacities, driving inclusive economic growth, better meeting humanitarian needs, and achieving more-sustainable outcomes at scale.

PSE spans a spectrum of different types of relationships, in which the private sector has an increasingly important role to play. This spectrum runs from public- or donor-funded activities to activities in which private-sector entities take the lead, or primary role, in addressing challenges. The ways we engage along this spectrum can vary from leveraging the private sector's resources, innovation, and capabilities to catalyzing private investment toward shared interests. Within the spectrum, engagement should include holding the private sector accountable for making inclusive business investments that have a positive social and environmental impact on communities. All along the spectrum, PSE could entail a strategic and dynamic mix of financial and non-financial approaches tailored to address specific development and humanitarian challenges at the country, project, and activity level. The ways we engage the private sector along this spectrum are not mutually exclusive, and the Agency could deploy these in tandem as appropriate. In humanitarian contexts, the private sector can play a vital role in filling gaps in responses, while supporting longer-term capacity-building of local actors and building resilience.

The private sector's interest in engaging with USAID also spans a spectrum from corporate philanthropy and corporate social responsibility (CSR) to expanding their market share for a product or investment. Within this spectrum, there are other motivations for the private sector, including a commitment to industry standards and creating stable conditions for longer-term operations. While USAID welcomes all kinds of PSE for greater impact, this policy calls for prioritizing engagement with prospective partners' core business for more-transformational outcomes at scale.

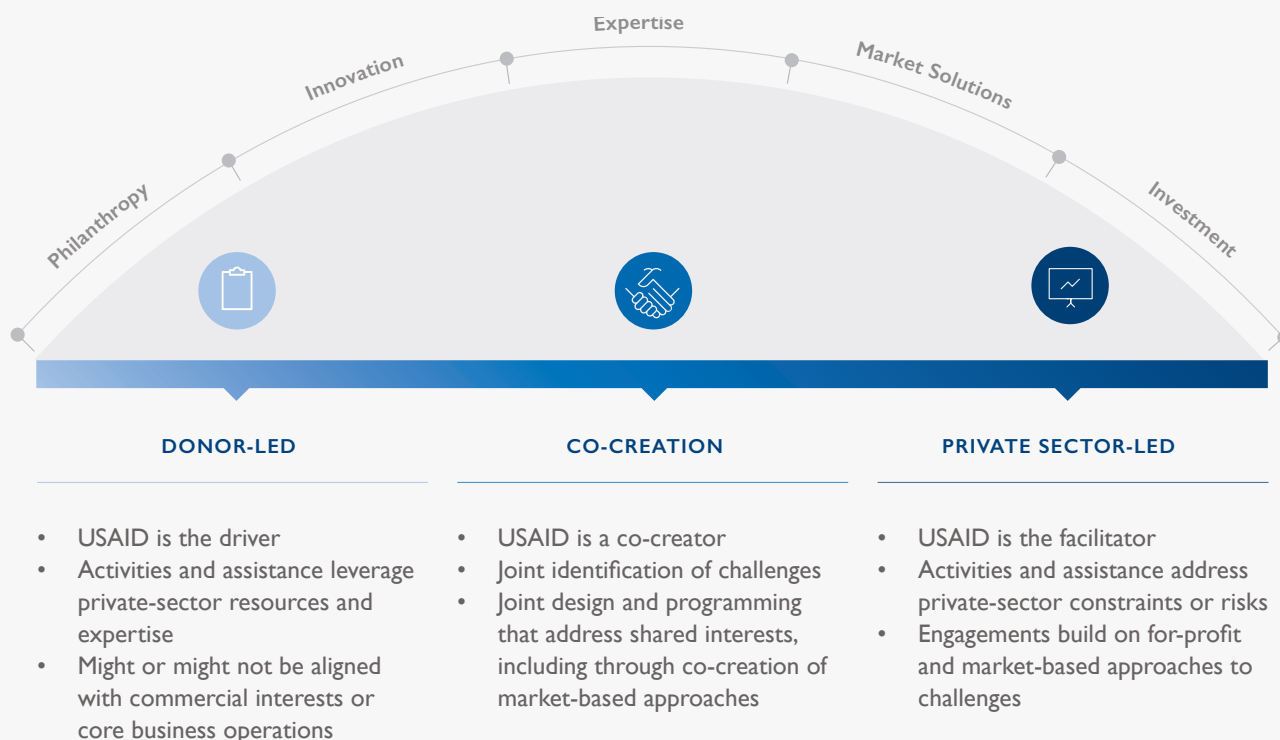
Who is the Private Sector?

This policy defines the “private sector” as the following:

- For-profit, commercial entities and their affiliated foundations;
- Financial institutions, investors and intermediaries;
- Business associations and cooperatives;
- Micro, small, medium and large enterprises that operate in the formal and informal sectors;
- American, local, regional, and multi-national businesses; and
- For-profit approaches that generate sustainable income (e.g., a venture fund run by a non-governmental organization (NGO) or a social enterprise).

The private sector is large and diverse, and encompasses the part of the economy run by individuals and companies for profit and is not state-controlled. Because of this diversity, USAID needs to tailor its approaches to private-sector engagement to specific contexts and private-sector actors (e.g., investors, multinational companies, entrepreneurs, local companies, or commercial banks). USAID must also take into consideration actors that can serve as potential multipliers, such as business associations, chambers of commerce, and business accelerators and incubators.

PSE SPANS A SPECTRUM OF DIFFERENT TYPES OF ENGAGEMENT



Fundamental to this policy is the premise that market-based approaches can lead to greater scale and sustainability of outcomes.² This is based on the assumption that as long as a business case or market system exists for a good or service, it has a greater likelihood of sustaining itself without external support. In this way, seeking market-based approaches will move us closer to our goal of ending the need for assistance.

PSE is relevant across many sectors. From improving health outcomes to providing access to commodities in complex emergencies, private-sector entities have a vital role in achieving development and humanitarian outcomes as a direct or indirect by-product of their businesses and investments. (See Appendix A: “PSE Myths and Mythbusting” for examples of PSE’s applicability across sectors, including education, health, water and sanitation, and democracy and governance.) The wide range of private-sector actors across industries, such as technology, financial services, the food supply, logistics, and natural resources, are critical partners in addressing the many complex challenges that countries and communities face. Across development sectors, private-sector actors generate jobs, influence policy, create innovative solutions, invest in supply-chains that underpin public services, and provide inputs that expand opportunities for better livelihoods.

PSE is important to all stages of a country’s Journey to Self-Reliance. PSE is relevant across country contexts from those plagued by conflict or recovering from disaster to those with burgeoning economies that are struggling with corruption and making growth more inclusive. As the examples in the graphic below illustrate, PSE can take many forms, and has a role to play in different contexts, and at all stages of the Journey to Self-Reliance. In countries where markets are thin and the private sector is weak, PSE could focus on working with key private-sector actors and host-country governments to address market systems and the constraints to commercial development; designing programs that create incentives for private-sector participation; or, piloting approaches to build the capacity of the local private sector and draw in new private-sector actors.

Crisis, conflict, and disaster can set countries back, and present roadblocks to self-reliance. In the humanitarian context, effective PSE means leveraging the private sector’s unique expertise and access—to people, technologies, distribution networks, and more—to save lives and build resilience. It means using approaches that enable people and populations to act for themselves with dignity. Through PSE, we can extend the reach of assistance, help overcome dependency on aid by working with private-sector actors and local systems, and advance early recovery. USAID can invest in innovations that share risk, overcome barriers, and build the business case for the private sector in complex emergencies.

² USAID’s internal research on a limited sample of private-sector partnerships shows that market-oriented approaches have a higher likelihood of creating enduring results.

PSE IS RELEVANT TO ALL STAGES OF THE JOURNEY TO SELF-RELIANCE



CHALLENGE

HAITI

Haitians urgently need decent, affordable housing, but financial institutions perceive high risk of non-payment.

AFGHANISTAN

Rampant corruption plagues the Afghan economy, undermining national security and development efforts.

GHANA

Ghana's robust economic growth and increased urbanization rates are exacerbating a long-standing power supply deficit. Power outages disrupt businesses and cost the country an estimated \$2.1 million in production loss daily.

INDIA

100 million urban poor in India lack access to affordable health care. With over 70 percent of health care provided through the private sector, small and medium-sized enterprises offer affordable care, but lack access to financing and technical skills needed to go to scale.

TUNISIA

Tunisia suffers from high unemployment rates, particularly among its relatively well-educated youth.

SOUTH AFRICA

Pharmacies are the front line for health care in underserved areas but face capacity gaps.

SOLUTION

USAID and other donors created the HOME program, which provides performance-based incentive payments to financial institutions once they disburse housing loans to target beneficiaries.

USAID worked with the Afghan National Army and Police to adopt a market-based approach to fight corruption in salary pay, by switching from cash to digital payments. This resulted in an increase of 30 percent in payments received, improved retention, and produced a more stable security force.

Through Power Africa, USAID worked with the Overseas Private Investment Corporation (OPIC) and other U.S. agencies to advance the Amandi Energy Project – a \$552 million, 200 MW power plant – to financial close. The USAID-funded advisor in Ghana's Ministry of Energy convened public and private stakeholders while providing overall analysis of the sector.

Partnerships for Affordable Healthcare Access and Longevity built a platform that expands access to credit for SMEs through technical assistance, DCA guarantees, and innovative financing. The platform works with partners to bring down the price of services by introducing new technologies, insurance products, and service delivery models.

USAID created opportunities for private firms to integrate into existing, high-value supply-chains. USAID's program support created or matched more than 23,000 new, full-time jobs at an average cost of \$878 per job, and facilitated over \$65 million in equity, credit, and foreign direct investment for Tunisian enterprises.

USAID worked with the private sector to create Lulama, which strengthens pharmacies, and provides them access to credit.

PSE depends on trusted relationships that broaden collaboration over time. The goal of engagement should be to enable the identification of market-based solutions and create opportunities for collaboration that will increase self-reliance at the country level. However, USAID's emphasis is on more deliberate, consistent, and frequent engagement with the private sector. Not every engagement will, or should, lead to a formal partnership or market-based solution; nor will all PSE lead to the allocation of financial resources. Engagement itself can be valuable in achieving better development and humanitarian outcomes. For example, integrating private-sector perspectives in country strategic planning and mapping of local systems can lead to better identification of market constraints and market-based approaches in the design and implementation of projects. Where USAID and commercial entities identify shared interests, aligning efforts and/or sharing information could be sufficient to address challenges or make more informed decisions in planning, design, and resource-allocation.

3. The Change We Seek

The purpose of foreign aid is to end the need for its existence. To achieve this, USAID is building local capacities and systems that bolster countries' self-reliance. Unless we develop sustainable, market-based solutions, mobilize private investment for scale, and deepen our collaboration with the private sector, achieving this goal will not be possible.

Topline Change We Seek: While PSE across the full spectrum is valuable in enhancing development and humanitarian outcomes, this policy signals an **intentional shift to pursue market-based approaches and investment** as a means to accelerate countries' progress on the Journey to Self-Reliance. On this basis, **the policy calls for USAID and our partners to ask and address the following questions every time we approach a development or humanitarian issue:**



By asking these questions in this order, USAID will focus on seeking more-sustainable and enterprise-driven outcomes from the outset of our planning and programming. In addition, we will look for how and why the private sector might be interested in collaborating to address an issue, and what unique capabilities and resources different private-sector actors might bring. Finally, we will actively identify ways in which we can work with the private sector to understand and address barriers to investment and market-development, which is essential to building countries' capacity for self-reliance.

How USAID will apply these questions will vary according to the context, sector, and scope of the challenge. For example, where markets are thin and largely informal, viable market-based options might not exist. In these cases, USAID should focus on the development of market systems, institutions, and an enabling environment that supports commercial approaches. This focus should also include a deliberate engagement of local and international private-sector actors, civil society, and host-country governments to identify and remove barriers to investment.

Key Concepts and Definitions

- **Market-based approaches** use business models and catalyze markets to solve development and humanitarian challenges more efficiently and sustainably (e.g., by engaging USAID beneficiaries as customers, offering them socially beneficial products at prices they can afford, or as business associates—suppliers, agents, or distributors—providing them with improved incomes and opportunities).
- **Enterprise-driven development** means aligning with the private sector as co-creators of market-oriented solutions. Together, this drives shared interests and shared risk, while working toward results that create shared value.
- **Sustainability** refers to the ability of a local system to produce desired outcomes over time by obtaining the resources necessary to produce those outcomes. Programs contribute to sustainability when they strengthen the system's ability to produce valued results, to generate or attract needed resources, and be both resilient and adaptive in the face of changing circumstances.

Alternatively, in other situations, market-based solutions might not be able to reach intended beneficiaries—for example, the poorest and most-vulnerable populations in a country. In these cases, the focus should be on examining the role and comparative advantages different local and international private-sector actors can play in filling critical gaps, sparking innovation, offering expertise, providing vital infrastructure and supply-chains, shaping investment, and building the resilience of communities.

With this policy, USAID remains committed to our humanitarian mandate for saving lives and meeting the immediate needs of people adversely affected by disaster, crisis, and conflict. In these circumstances and when appropriate, USAID will engage with relevant private-sector actors before, during, and after a disaster strikes, or conflict erupts, for stronger alignment, readiness, and response. USAID will also ensure conflict sensitivities influence strategies for private-sector engagement, especially in environments affected by crises and violence.

PSE Operational Principles: To integrate PSE effectively into our operating model, this policy commits USAID to adopting the following principles.

Principle 1: Engage early and often. USAID will emphasize engagement, collaboration, and partnership with a range of private-sector actors and other partners in designing and implementing strategies and projects of shared interest and shared value.

Principle 2: Incentivize and value PSE throughout planning and programming. Integrating PSE at every stage of USAID's Program Cycle better positions us to understand the private sector's interests and capabilities and adapt continuously to new evidence, opportunities, or circumstances. To institutionalize and incentivize PSE effectively, USAID will adapt operational and performance measurements of success in support of both financial and non-financial approaches.

Principle 3: Expand the use of USAID's approaches and tools that unlock the potential of the private sector.

This policy calls for consideration of the full breadth of USAID's financial and non-financial resources, procurement mechanisms and core competencies in PSE. From leveraging our convening power to connect investors and businesses to providing a grant as a first-loss guarantee to extend affordable health care to the poor, the Agency has many ways to engage the private sector to achieve our intended outcomes and catalyze market-based approaches.

Principle 4: Build and act on the evidence of what works, and what does not, in PSE. Fundamental to the success of putting PSE into practice, USAID will work with partners to establish metrics that measure, value, and incentivize engagement that builds self-reliance and delivers increased sustainability and deeper impact.

This policy acknowledges that engaging the private sector is not a panacea for addressing the myriad of development and humanitarian challenges that countries and communities face. Rather, USAID's engagement with international and local private-sector actors—along with host-country governments, local communities, civil society and academia—is important to increase countries' capacities for self-reliance, and move us closer to ending the need for assistance.

A Focus on More-Sustainable Outcomes

In pursuing market-based approaches, USAID seeks more-sustainable development impact over time.

Examples: A market-based approach could support the private sector to develop a pay-per-use model that expands sanitation infrastructure and services that underserved customers would previously not be able to access. Another market-based approach could build the healthcare ecosystem through technical assistance and access to finance that allows for better provision of care through small and medium enterprises. When a market-based solution becomes commercially viable, the private sector has a financial incentive to continue and operate it at scale, which will decrease the need for donor support over time.

Trade-offs: We acknowledge this approach could result in a trade-off over short-term gains. In working more collaboratively with the private sector, USAID's assistance could reach fewer beneficiaries over the immediate term, while market systems and supply chains capable of providing and sustaining quality services expand over the long term.

USAID's Shifting Role: This shift in focus requires USAID increasingly to prioritize outcomes over outputs. It also means USAID must move toward playing a more-catalytic role in achieving results, rather than fully funding and managing projects. This is in alignment with USAID's larger Transformation to support countries on their Journey to Self-Reliance.

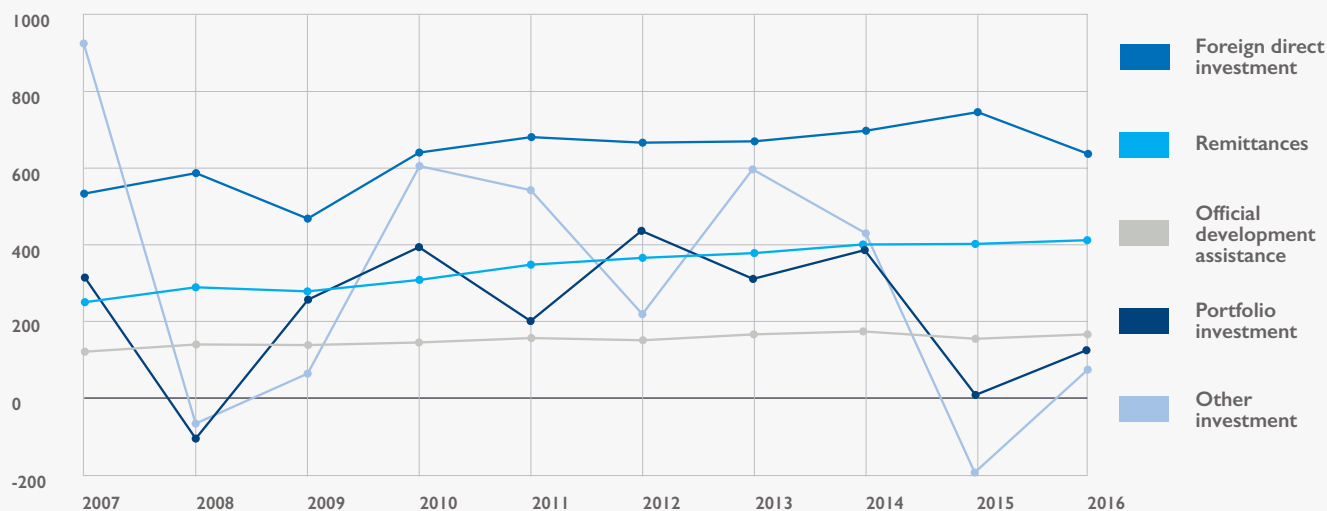
4. The Case for PSE

Changes in financial flows and an intensely economically integrated world have rendered the private sector an increasingly important actor and stakeholder in global development. The domestic and international private sectors are engines of economic growth, and key enablers of development progress. In times of crisis, businesses are often among the first responders after a natural disaster, and remain engaged through recovery efforts to build important capacities for resilience. Businesses and investors create jobs; develop and fund technologies and innovation; and provide critical goods and services demanded by households, communities, other private-sector entities, and the government. For USAID and its partner countries, this means that the private sector is more than just an important stakeholder; domestic and international businesses and investors represent indispensable partners on the Journey to Self-Reliance.

Specific global trends that contextualize and support USAID's commitment to expanded PSE include the following:

Financial flows to, and within, developing countries have changed dramatically in recent years, as private resources far outpace Official Development Assistance (ODA). In the 1960s, when USAID was formed, private capital accounted for only 29 percent of financial flows to developing countries;^c by 2016, private sources accounted for 84 percent of these flows.^d Figure 1 illustrates this transformation of external financial flows over the last 12 years. Foreign direct investment (FDI) has remained the largest, and one of the least volatile, sources of external financial flows to developing economies, on average.³ In aggregate, domestic resources have also experienced accelerated growth, driven by increases in Gross Domestic Product (GDP) and tax revenue in the public domain, and the maturation of local capital markets in the private sector.^e We must acknowledge, however, the wide disparities within these trends across countries, as fragile states and the world's least developed countries often lag far below the average, and remain much more donor-dependent.

FIGURE 1: EXTERNAL SOURCES OF FINANCE FOR DEVELOPING ECONOMIES, 2007–2016
(BILLIONS OF DOLLARS)



Source: UNCTAD, based on World Bank World Development Indicators (for remittances), UNCTAD (for FDI), IMF World Economic Dataset (for portfolio investment and other investment) and OECD (for ODA and other official flows).

For investors and companies, developing-country markets represent an opportunity for expanding their businesses. From 2010 to 2015, developing and emerging economies accounted for close to 70 percent of global output growth, and just over 70 percent of global consumption growth.^f From 2015 to 2030, forecasts estimate that growth in consumer spending in emerging and developing markets will be three-times faster than in developed markets.^g This includes the roughly 4.5 billion low-income people in developing countries who collectively spend more than \$5 trillion a year.^h It also includes spending by women, who drive 75-80 percent of all consumer purchasing worldwide.ⁱ

³ China is the largest FDI recipient among developing countries and the second largest in the world, behind the United States. China is also the third largest investor in the world. World Investment Report 2018, The United Nations Conference on Trade and Development (UNCTAD), p. 4-6.

There is a growing alignment of interests among the private sector, governments of developing countries, and donor agencies. Looking to diversify their economies, upgrade infrastructure and deliver critical services, governments are expanding their efforts to leverage private capital for investment. At the same time, companies are seeking new markets; and increasingly embracing sustainable, environmentally friendly, and responsible business practices as sound investments for increased competitiveness. As more businesses shift their strategies to account for their long-term impact on the communities in which they operate, they are looking for new ways to collaborate with the public sector. More than one quarter of assets under management globally are now being invested according to the premise that environmental, social, and governance (ESG) factors can materially affect a company's performance and market value.^j Donors, including USAID, have an interest in connecting this demand for investment from host-country governments with the supply of capital and expertise from the private sector.

"To prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society. Companies must benefit all of their stakeholders, including shareholders, employees, customers, and the communities in which they operate."

Excerpt from a 2018 letter to CEOs by Larry Fink, Chief Executive Officer of BlackRock

The increasing rate of humanitarian crises, which affect the private sector's operations and revenue, also contributes to a shared interest in preparedness and risk-management for crises and disasters. Studies indicate the ability of local economies to cope, recover, and reconstruct is an important parameter to estimate the overall vulnerability of a population to, disaster or crisis.^k

This landscape presents USAID with an unprecedented opportunity to combine, and align, with private resources and efforts that can help countries advance on their Journey to Self-Reliance. Key points of evidence to support the case for PSE are the following:

Private-sector resources and capabilities are required to address the scale and complexity of humanitarian and development challenges effectively and sustainably. Public finance alone will not be sufficient to achieve the global development agenda.^l A thriving private sector invested in the overlapping agendas of both business and development is integral to achieve and scale development outcomes in ways that help communities advance their self-reliance and resilience.

The private sector has a vital role to play across all sectors. Even for basic social services, such as health and education, the private sector provides an underlying supply-chain that is critical for the effective and inclusive delivery of goods and services. The private sector also provides products and services that underpin all aspects of development. For instance, a wide body of evidence demonstrates how access to financial products and services produces a range of economic and social benefits for firms and households, including by building financial buffers, smoothing consumption, protecting assets, expanding businesses, and promoting equality between men and women, and women's economic empowerment.

Jobs and businesses provide vital pathways to self-reliance. The private sector creates nine out of ten jobs in the developing world, which makes it a powerful force for raising living standards.^m Micro and small enterprises account for the bulk of employment-generation in developing countries, even in middle-income ones.⁴ In fact, the creation of millions of new, more productive jobs from 1981-2008 was a key driver behind halving the share of the population in the developing world that lives on less than \$1.25 per day.⁵ USAID has a role to play in facilitating job creation led by the private sector, including by advocating for reforms that make it easier to start new companies; supporting a first-of-its-kind business or industry, so others will follow suit; or helping shape investments that lay the foundation for an inclusive, robust private sector (e.g., gender-lens investing, through which investors consider financial returns and addressing disparities between men and women).

PSE provides the opportunity for USAID to shape and influence private-sector investments for greater development and humanitarian impact. Businesses are increasingly embracing the framework of the "triple bottom line" (social, environmental, and financial) to evaluate their performance in a broader perspective to create greater business value. USAID can play a valuable role in incentivizing and shaping the investments businesses make to encourage more inclusive, environmentally friendly, and broad-based social impacts. USAID can help ensure that private-sector actors do not contribute to, or exacerbate, existing vulnerabilities to conflict, which can impede growth and stability.

The private sector is a driving force in innovation and the adoption of new technologies in developing countries. Technological progress improves productivity, expands the possibilities for countries to create jobs in higher-skilled production

⁴ Defined as firms with fewer than ten employees. (WB WDR 2013 Jobs, p. 105-106.)

⁵ The share of the population that lives on \$1.25 dropped from 52 to 22 percent from 1981-2008. This reduction is the result of multiple factors, but the creation of millions of new, more-productive jobs, mostly in Asia, but also in other parts of the developing world, has been the main driving force. (World Bank WDR 2013, Jobs, p.7.)

activities, and increases their ability to link to international value chains in services and manufacturing. A recent study found that the increased application of digital technologies could add \$1.36 trillion to total global economic output by 2020.⁸ As an example of the role of government in collaboration with the private sector, in 2015, 54 international organizations followed USAID's leadership and endorsed the Principles for Digital Development, which provide guidance for development and humanitarian professionals on how to responsibly integrate technology advances developed by the private sector in the context of our work in emerging markets and fragile states.⁹

The private sector can help provide in a sustainable way the goods and services populations need in both development and humanitarian contexts. The private sector directly invests in critical infrastructure and basic social services, including energy, water and sanitation, information and communication technology, transportation, education, and healthcare. It also helps governments create the institutions needed to make markets work better, such as a banking-supervision agency, a quality-inspection program, or transparent regulatory and permitting processes. In addition, it strengthens the systems that provide goods and services. In humanitarian contexts, the private sector is a pivotal actor in the implementation of strategies to reduce and manage the risk of disasters.

A vibrant and diversified domestic private sector is an important pillar of self-reliance. Local private-sector actors generate revenue, jobs, innovation, services, and opportunities within every economy and community with which we work. A vibrant local private sector stimulates entrepreneurship, replication of successful business models, and the growth of small and medium-sized enterprises (SMEs). A growing local private sector broadens the tax base, not only with direct tax revenue, but by creating formalized, tax-paying jobs and increasing wages. This potential increase in the tax base makes countries less reliant on external assistance and increases their ability to finance public infrastructure and services sustainably.

Empowering women through enterprise-driven development helps ensure that families, economies, and societies can reach their fullest potential. Recent estimates suggest that closing the global gender gap in workforce participation by 25 percent by the year 2025 could grow the world's Gross Domestic Product (GDP) by \$5.3 trillion and generate increased tax revenues of up to \$1.4 trillion.¹⁰ On average, women spend more of the income they control on food, healthcare, home improvement, and schooling for their families, which can improve outcomes for children and contribute to long-term economic growth.¹¹ Research published by USAID in 2018 indicated that women-led businesses may significantly outperform their male peers, with the subset of female entrepreneurs in this study shown to grow revenues 1.5 times faster and create jobs twice as fast. Addressing the unmet financial needs of women-led businesses – a gap estimated at \$260-\$320 billion a year – represents an opportunity for women entrepreneurs, financial investors, families and communities, and the global economy.¹²

The expansion of economic opportunities improves security and stability by creating the conditions for communities to thrive. Inclusive economic growth increases economic opportunity and enhances access to everything from energy and financial services to health and education. While inclusive growth promotes prosperity, poverty and the lack of opportunity can exacerbate political instability and make populations more susceptible to insecurity.

For USAID and our partners, PSE has the potential to accelerate countries on their Journey to Self-Reliance by embracing the market-based approaches, resources, and expertise the private sector offers to address key challenges. Integrating PSE throughout USAID's work reflects an explicit recognition of the private sector's central role in scaling and sustaining development progress. An increasing number of private-sector actors want to use their expertise to meet the demand of underserved customers, build local supply-chains, improve community and workplace safety, collaborate with host-country governments, and use blended-finance approaches to mitigate risks for investments they would not be able to otherwise make on their own.¹³ Within this context, the potential of PSE is evolving from *ad-hoc* and opportunistic efforts toward strategic and transformational collaboration that enhances the competitiveness of companies, while also improving the economic and social conditions within communities.

Engaging the Local Private Sector to Expand Markets

In Bangladesh, through USAID's Feed the Future assistance, USAID partnered with local oil and wheat flour milling company, Northern Consumer Products Limited, to produce sunflower oil from sunflower grown in Bangladesh for the first time. Over 750 farmers, nearly 30 percent of which were women, produced the sunflower in coastal Bangladesh, where soil salinity is a problem. This partnership increased the average value of sunflower sales by four times compared to the previous year. Over the coming years, the company plans to expand a contract grower scheme to more farmers. These schemes provide farmers with much needed access to new crop production technology, high quality inputs, markets, and greater economic opportunities to support their family. The local company benefits from higher quality and quantity of products for processing. USAID's support has created and fostered these win-win private sector partnerships.

¹³ "Blended finance" is the strategic mobilization of additional capital to match public funds to increase sustainable development in developing countries.

While the private sector is not a monolith, and agendas might not always align, the increasing potential for collaboration presents a significant opportunity for USAID to increase the scale and sustainability of our work. More important, governments and civil society cannot afford to overlook engagement with the private sector as they build their capacities to plan, finance, and implement sustainable solutions to their own challenges.



A vendor gets his strawberries from a farm in the West Bank that is receiving USAID assistance to grow larger, higher-quality fruit.

Photo credit: Bobby Neptune, USAID

5. Value Propositions: What USAID and the Private Sector Bring When We Work Together

Supporting countries on their Journey to Self-Reliance requires the unique contributions of host-country governments, local communities, civil society and philanthropy, academia, the private sector, and USAID, in coordination with other donors and other parts of the U.S. Government. Effective PSE leverages the comparative advantages of USAID and the private sector to deliver more-effective and sustainable outcomes. Furthering the case for PSE, this section highlights the key value propositions of USAID and private-sector entities.⁷

USAID Offers

Strong In-Country Networks and Relationships

USAID has relationships with national and local governments, businesses, faith-based organizations, local community leaders, and civil society that are useful to the private sector in making locally informed plans for market-entry, collaboration, and co-investment.

Support to Strengthen Enabling Environments

Working with host-country governments, USAID can help create a stronger enabling environment that fosters transparent, inclusive economic growth. USAID supports policy and regulatory reform that encourages fair and open competition, institutional reforms and the adoption of standards, and government capacity-building.

Sectoral Expertise and Knowledge

USAID has wide-ranging technical expertise across development and humanitarian sectors. USAID offers deep economic, political, conflict, and gender-sensitive understanding of developing markets, market intelligence that can inform and shape private-sector investment, and robust, evidence-based monitoring and evaluation.

Risk-Mitigation and Flexible Authorities

USAID can use our funds, authorities, and technical expertise to mitigate the risks of investments and “crowd in” public and private resources that further humanitarian and development goals. USAID’s technical assistance can ready smaller companies for financing, or help expand their markets.

Reputation and Credible Convening Power

USAID has strong capabilities in convening actors around business opportunities that address development challenges. USAID offers a neutral platform for actors to collaborate in addressing larger challenges.

Private Sector Offers

Scale, Sustainability, and Reach

The private sector’s vast financial resources and expertise in market-based solutions have the potential for achieving scale and sustainability in tackling systemic societal challenges.⁸ The private sector’s extensive networks and operations provide distribution channels to reach, and communicate with, underserved populations and individuals.

Ability to Influence Policy

The private sector’s ability to deliver what host-country governments seek to achieve—such as improved service-delivery, investment, tax revenues, jobs, and life-saving interventions—gives businesses and investors a strong, knowledgeable voice to inform policy that supports transparent, inclusive economic growth.

Innovation, Expertise, and Capabilities

Businesses and investors can bring innovation and technologies; entrepreneurship; industry expertise; market-based solutions; distribution networks; investment capacity; and managerial and operational expertise, including risk-management.

Flexibility and Pace

The private sector is often inherently more flexible than the public sector, as it has a financial incentive to respond quickly to opportunities and develop new markets.

Efficiency and Effectiveness

With improved systems, processes, and logistics, the private sector can bring more efficiency and effectiveness to achieving outcomes.⁵

⁷“Value proposition” is a business or marketing statement that a company uses to summarize why a consumer should buy its product or use its service. For the purposes of this policy, it refers to the unique offerings that USAID and the private sector bring to an engagement or partnership. (See Appendix B for definitions.)

⁸When a market-based solution becomes commercially viable, the private sector has a financial incentive to continue and operate it at scale, which increases the sustainability of the intervention and decreases the need for donor support over time.

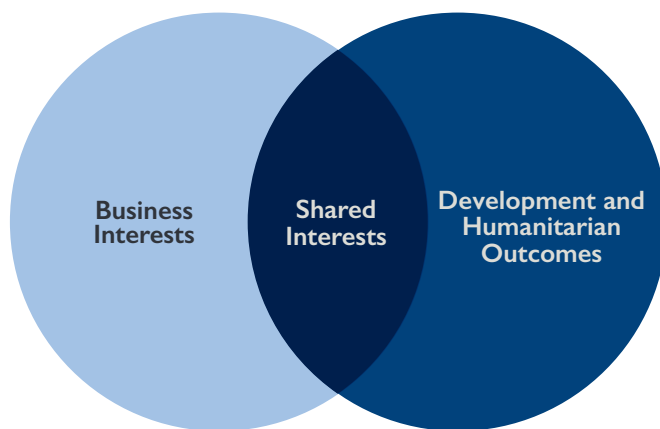
6. How We Engage

There is no single, specific recipe for how to engage with the private sector. PSE is an iterative process that is unique to each country's challenges and opportunities, as well as to the incentives, capabilities, mandates, and risk profiles of private-sector partners. However, there are core principles and practices that better position USAID's staff to identify and develop sustainable, market-based approaches to challenges, and expand and deepen our collaboration with the private sector for improved outcomes. This section provides an overview of these practices according to the PSE Operational Principles set forth in Section 3.

Principle 1: Engage Early, and Often, with the Private Sector

USAID will implement this policy through more-deliberate and consistent engagement of the private sector. Early, and ongoing, engagement with local and international private-sector actors is vital to achieving better outcomes.⁹ This contact allows USAID to gain a fuller understanding of a country's development and humanitarian challenges by incorporating the perspective and knowledge of private-sector stakeholders, identify market-based approaches, and understand the role of the private sector and its barriers to investment and greater collaboration with local stakeholders. PSE depends on shared ethics and values, including high standards in corporate governance, environmental impact, social inclusion, and transparency. While PSE practices vary throughout the Program Cycle (See *Program Cycle Graphic*), ongoing consultation and relationship-building with the private sector remain constants.

- **Regular consultation and information-sharing that inform analyses:** USAID should consult with a wide range of private-sector actors—such as local enterprises, large multinational corporations, impact and “angel” investors, private-equity firms, and pension funds—all of which play a role in furthering countries' Journey to Self-Reliance across multiple sectors. This ongoing communication with the private sector can support USAID and our partners in identifying strategies to tackle challenges at the country or sectoral strategic-planning stages, uncovering new partners and market opportunities that will shape the design of programs, and adapting to new opportunities throughout implementation. USAID should aggregate and analyze information gathered through consultations to ensure a strong understanding of issues such as private-sector competitiveness, additionality and the appropriate role of government, market-distortion, opportunities to spur firm entrance, inclusive investment, and innovation with social impact. (See *Appendix A for myths on communicating with the private sector*.)
- **Promoting Responsible Business Practices:** This policy complements U.S. and international initiatives focused on responsible business conduct, including the United Nations (UN) Guiding Principles on Business and Human Rights; Organization for Economic Co-operation and Development's Guidelines for Multinational Enterprises; and the UN Global Compact. In implementing this policy, USAID will promote the importance of responsible, environmentally friendly, inclusive, and transparent business practices, and seek to collaborate with those companies that serve as global leaders in bringing shared value to, and acting responsibly in the communities where they do business. Moreover, USAID will examine these considerations when we conduct due diligence and assess reputational risks. (See *Section 7 on Identifying, Assessing and Managing Risk*).
- **Building relationships and aligning efforts:** Relationships in which USAID and the private sector share expertise, market intelligence, and experience are the foundation for effective PSE. Relationships are important, even when no funding is involved. Some examples of collaboration in which funding is not involved include aligning strategies for greater impact, providing thought-leadership on the environmental impact of business activities, and exchanging market information to target support for livelihoods in recovery. In addition to specific actors, USAID should build relationships with business networks and associations that are important to private-sector interests in each partner country. Gaining an understanding of each other's perspectives, interests, and challenges can take time, and might not immediately result in a specific collaboration opportunity. However, this investment in relationship-building is still valuable, as collaboration opportunities are more likely to emerge as partners gain greater trust and understanding of each other. USAID's ability to work closely with national country governments to support coordination with local government and community priorities is fundamental to informed consultation and fostering alignment with the private sector.



Promoting Responsible Business Practices

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⁹ USAID's experience and internal studies show that early and continuous engagement with the private sector leads not only to better identification of market-based opportunities, but also increases flexibility and coordination necessary to leverage private-sector resources and expertise in later programming phases.

Country/Regional Strategic Planning

- Identify, map, and consult local and international private sector actors of varying size, maturity, and industry.
- Discuss respective priorities, jointly analyze constraints to inclusive growth, and identify potential areas of shared value.

Illustrative practice: In Indonesia, early and extensive Country Development Cooperation Strategies (CDCS) consultations led to prioritizing issues, such as water and sanitation, youth employment, and biodiversity. As part of this strategy, the USAID Mission called for robust PSE in solicitations that resulted in many new partnerships.

Project Design and Implementation

- Identify constraints jointly, and assess market-based solutions.
- Build in flexibility to enable collaboration at various stages.
- Manage adaptively based on evidence and market opportunities.
- Integrate private-sector perspectives and constraints to investment into projects' theories of change, analyses, and monitoring, evaluation and learning plans.

Illustrative practice: As part of USAID/Vietnam's PSE strategy, staff who were designing projects in all sectors identified areas for PSE, and conducted outreach to potential partners. Staff "ground-truthed" their design assumptions by conducting interviews with international and local enterprises. The results led to a significantly better-informed design, identification of potential market-based solutions, and greater opportunities for collaboration in implementation.

Monitoring and Evaluation (M&E)

- Define a small set of targets, indicators, and benchmarks jointly (not to overburden private-sector partners) to monitor progress toward development and business outcomes.
- For CDCS and Project Appraisal Documents (PAD), focus M&E efforts on monitoring progress, performance, and assumptions for both development and market objectives.
- Consider the tangible and intangible impacts of PSE, the costs and benefits of different approaches, and lessons-learned in maximizing PSE for better outcomes.

Illustrative practice: In support of Feed the Future, USAID co-developed the Mali Investment Facilitation Platform (MIFP) to provide free transaction support services that catalyzed investment into new or expanding businesses in the agriculture, agribusiness, water, and sanitation sectors. By monitoring progress against both business and development outcomes (e.g., value of new private investment, jobs created, tax revenue generated, increased agricultural output, increased access to clean water), the MIFP activity articulates development impact alongside a track record for investment, which can raise awareness of investment opportunities and decreases perceived risk for future investors.

Activity Design and Implementation

- Co-create market-based solutions and activities with partners; look for ways to align efforts; consider issuing joint solicitations.
- Develop and assess the business case or competitive value for the private sector; in addition to development impact.
- Make creative use of existing resources and authorities; engage with the Office of Acquisition and Assistance (OAA), the Office of the General Counsel (GC) and/or the Regional Legal Officer (RLO) early on. (OAA and the Office of the General Counsel are expanding resources available as part of procurement reform efforts under USAID's Transformation).
- Establish flexible agreements with clear expectations and regular check-ins.

Illustrative practice: In Kenya, the national government transferred more responsibility to County governments for investment and service-delivery. USAID/Kenya identified an opportunity to support and scale up market-based models for water, sanitation, and hygiene (WASH). The resulting activity – Kenya Integrated WASH Project – works with providers of water and sanitation to develop bankable business plans, improve their operations, and facilitate access to financing.



Collaborating, Learning and Adapting (CLA)

- Invest in building relationships over time that are critical on countries' Journey to Self-Reliance, and enable information-sharing and opportunities for collaboration. Involve leadership of USAID operating units (OUs) to build relationships with decision-makers and local staff to create longevity in relationships.
- As part of project management and implementation, develop relationship-management plans with designated points of contact, updated lists of contacts, and transition/transfer plans as staff leave post.
- Test promising PSE approaches; seek opportunities to create a learning agenda with private sector partners; build on successes, and adapt based on lessons-learned; actively identify and disseminate good practices and lessons learned within OUs, and Agency-wide, for tighter learning and iteration loops.

Illustrative practice: In Honduras, the USAID Mission established several good CLA practices, including: investing in relationship-management and establishing a protocol for relationship-transfer; creating a PSE working group with representatives from each office; developing a due diligence tracker; building the capacity of implementing partners in due diligence; and launching a PSE learning agenda for the Mission.

Principle 2: Incentivize and value PSE throughout planning and programming. Integrating PSE throughout the Program Cycle better positions USAID to identify market-based approaches, mobilize private-sector investment and expertise, and make more-catalytic use of USAID's resources. At the same time, it enables USAID to adapt continuously to new evidence, opportunities, or circumstances. To ensure its full potential, the focus should be on engaging the private sector as early as possible in the Program Cycle, and, in particular, in project design – the point at which we can build in flexibility and strategically align with the private sector for mutually valued outcomes. While not exhaustive, the graphic entitled, "PSE in Practice: Across the Program Cycle," provides an illustration of the effective integration of PSE practices into each stage of the Program Cycle. The intended results of the iterative process are deeper impact; sustainability of results; and a more efficient, strategic use of resources from all partners.

This principle emphasizes not only *valuing* PSE throughout the Program Cycle, but also *incentivizing* its implementation. USAID's leadership at all levels has a vital role to play in incentivizing, and valuing, working in this new way. However, this policy acknowledges that integrating PSE throughout the Program Cycle can be at tension with existing Agency incentives and systems that focus on the management of USAID funds within certain timeframes. For example, we need to adapt our measurements of success to reward building relationships; taking responsible risks; and making the catalytic use of USAID resources, including those that do not entail funding. Moreover, engagement with the private sector often runs over multiple budget cycles and Foreign Service deployments. To institutionalize and incentivize PSE effectively at every stage of our work, USAID will need to integrate relationship-management into its core operating practices. Following on the policy, we will adapt our operational and performance measurements of success to support and incentivize the integration of financial and non-financial PSE approaches.

Principle 3: Expand the use of USAID's approaches and tools that unlock the potential of the private sector in achieving more effective and sustainable outcomes. In addition to our longstanding tools for PSE, such as Global Development Alliances (GDAs) and Development Credit Authority guarantees (DCAs),¹⁰ USAID has other flexible authorities and a wealth of resources. This policy calls for a much more-aggressive deployment of the full breadth of USAID's financial and non-financial resources and core competencies to engage and collaborate with the private sector for more sustainable outcomes. As outlined in the table below, at times, information-sharing and alignment with local and international private-sector actors could be sufficient in and of themselves to achieve certain outcomes.¹ In other cases, we must work with the private sector to leverage investment, expertise, and innovation to address development and humanitarian challenges.

As illustrated in the box below, USAID can use a range of approaches to work with the private sector to achieve an outcome. Options will range both in their alignment with the private sector's interests and capabilities, as well as the extent to which they increase the reach, efficiency, effectiveness, and sustainability of USAID's impact. The key is for USAID staff to assess which partners and approaches have the best potential to catalyze the achievement of sustained outcomes and increase community and national self-reliance over time.

As we make this assessment, we might also recognize the need to expand the ways we work with the private sector for greater scale and sustainability. The box entitled, "Mobilizing Private Investment for Development," on page 20, illustrates approaches for working with investors and businesses in ways that address constraints to investment and unlock private capital capable of meeting challenges at scale.

Illustrative Example: How can PSE achieve outcomes?

A USAID officer who is seeking to improve nutrition outcomes and decrease child-mortality rates could design and fully fund a grant for a public health campaign, or alternatively consider a range of potentially more-sustainable and cost-effective PSE options, including the following:

- Engaging a private manufacturer to align efforts in support of a behavior-change campaign;
- Coupling technical assistance with a partial-credit guarantee to enable private providers to offer nutrition counseling and stock quality nutritional supplements;
- Convening public and U.S. and local private entities to co-create solutions that address the lack of distribution channels to deliver existing supplements;
- Providing seed funding to promising innovations that address specific micronutrient deficiencies (e.g., edible cooking oils fortified with vitamins); and,
- Designing jointly with government and private-sector partners a milestone-based grant to incentivize public and private clinics to integrate the diagnosis and treatment of malnutrition into primary care visits.

¹⁰ Under the BUILD Act, passed in October 2018, the DCA will move to the new U.S. International Development Finance Corporation (USIDFC) by October 1, 2019, subsequent to the release of this policy.

WAYS WE ENGAGE	OBJECTIVES	ILLUSTRATIVE EXAMPLE
<p>Information-Sharing and Strategic Alignment:</p> <p>Engagement that aims to identify shared interests, respective capabilities, and experiences. It does not necessarily entail investment of financial resources.</p>	<ul style="list-style-type: none"> • Better understand challenges at hand; • Align and coordinate respective strategies and efforts for achieving outcomes of shared interest; • Identify resources and potential solutions; and • Enable private-sector actors to support development objectives. 	<p>Convening for Aligned Investment in Brazil: Under <i>Mais Unidos</i>, or “More Together,” USAID worked with more than 100 American companies operating in Brazil to shape the development impact of their investments in the Amazon region. The alliance established a social investment fund worth more than \$500,000; supported Ministries in the Brazilian federal government to extend English-language learning opportunities; and funded educational activities that promote the preservation of the Amazon region’s biodiversity.</p>
<p>Advancing Learning and Market Research:</p> <p>Engagement that advances shared market research, good practices for PSE, and joint strategic planning and project design within the USAID Program Cycle.</p>	<ul style="list-style-type: none"> • Identify and implement solutions to development challenges; • Address information asymmetries; and • Build evidence for what works in PSE. 	<p>Healthy Markets Vietnam: The Government of Vietnam recognizes a more sustainable response to the HIV epidemic is necessary to ensure access to pharmaceuticals, supplies, and services for <i>all</i> affected populations. USAID’s Healthy Markets Initiative, under the President’s Emergency Plan for AIDS Relief (PEPFAR), segments populations based on their need and ability to pay. This approach enables the Government to prioritize finite public resources for the most-vulnerable, and supports growth of a commercial market for those with the ability to pay. By filling gaps in market information, the Initiative attracted the private sector to invest, which allowed USAID to phase out its funding.</p>
<p>Harnessing Private-Sector Expertise and Innovation:</p> <p>Engagement that harnesses innovation, technology, research and development, industry expertise, and/or entrepreneurial skills to achieve development outcomes.</p>	<ul style="list-style-type: none"> • Deploy private-sector expertise, technology, and other capabilities to address development and humanitarian challenges; and • Enable private-sector actors to engage effectively in development (e.g., through the application of market-based approaches or support for the design of projects). 	<p>Tapping Private-Sector Manufacturing Expertise for Maternal Child Health: In Nepal, one in 28 children dies before his or her fifth birthday. Many newborns die from preventable infections of their umbilical cords. Working with local manufacturers and the Nepalese Government, USAID funded the introduction and scale up of a life-saving intervention: chlorhexidine antiseptic gel. When the gel is applied within 24 hours of birth in high-risk settings, neonatal deaths drop, on average by 23 percent. Producing chlorhexidine locally through private-sector partners built in-country capacities that support Nepal’s Journey to Self-Reliance. A local manufacturer has also supplied the life-saving gel to other countries.</p>
<p>Catalyzing Private-Sector Resources:</p> <p>Engagement that mobilizes private-sector resources and action – including philanthropy and CSR assets – to address a specific issue and/or objective.</p>	<ul style="list-style-type: none"> • Mobilize more resources (financial and non-financial) to address development and humanitarian challenges; • Focus stakeholders’ efforts on specific issues and/or approaches; and • Use philanthropic or concessional funds to attract more commercially-oriented businesses and investors, and unlock further resources. 	<p>Coffee Farmer Resilience Initiative: In Central America, USAID worked with Root Capital, Keurig Green Mountain, Cooperative Coffees, and Equal Exchange to help 40,000+ smallholder farmers combat coffee rust, a disease that threatened their harvests. USAID provided Root Capital with a \$15 million DCA credit enhancement to cover the risks of lending to cooperatives. Keurig Green Mountain is covering the Fund’s first \$400,000 in potential losses. By mitigating risk and acting as first movers, USAID and Keurig have attracted new investors, and an additional \$8 million.</p>
<p>Unlocking Private Investment:</p> <p>Engagement that addresses constraints to a transaction or broader investment. The emphasis is on activities that can be replicated or brought to scale, inclusive of efforts to “crowd in” and shape investment. (See box entitled, “<i>Mobilizing Private Investment for Development.</i>”)</p>	<ul style="list-style-type: none"> • Mobilize greater financial resources and expertise to address development challenges; • Support the expansion of more and better businesses with a development impact (focused on unlocking investments that would not occur without USAID support); and • Finance new models and solutions to development challenges. 	<p>Attracting Investment in Ghana’s Agricultural Value-Chain: The transaction costs associated with learning new markets are high for potential investors in Ghana. To unlock capital, USAID developed a milestone-based payment program, FinGAP, which deploys local advisors to scout promising businesses and develop investment requests. This reduces risk for investors, and makes investees more attractive. Advisors receive compensation only when businesses receive financing. Investors also compete for grants that USAID disburses only once they make investments.</p>
<p>Strengthening the Enabling Environment:</p> <p>Engagement on issues of importance to multiple U.S. and local private-sector actors, such as regulatory reforms, policy, compliance with standards, and government capacity-building.</p>	<ul style="list-style-type: none"> • Develop policy agendas and frameworks at the international, national, and local levels that reflect all parties’ interests; and • Improve the capacities of host-country government to create strong business-enabling environments, and to engage private-sector partners to support their Journey to Self-Reliance. 	<p>Power Africa in Sénégal: USAID worked with Sénégal’s Ministry of Energy and the national utility company, Senelec, to develop a master plan for generation and transmission that enhances the Government’s ability to make investment decisions in the sector. USAID built Sénégal’s capacity to integrate and manage more than 400 megawatts of grid-connected solar power. By addressing key constraints and capacity gaps in the power sector, Power Africa is helping Sénégal open the doors to future investment.</p>

Mobilizing Private Investment for Development

Private capital often remains underinvested in, or does not flow to, sectors important to USAID because of challenges such as risk-aversion, immature markets, high transaction costs, or lack of market knowledge. USAID, with its flexible authorities, convening power, and on-the-ground presence, can help channel and shape the investment of private resources to maximize development impact and opportunities for U.S. investors. USAID must consider the relevant characteristics, motivations, and risk profile of the potential investors in mobilizing capital. For example, pension funds require bankable projects and are attracted to longer-term opportunities, such as infrastructure, while social-impact investors have different metrics and objectives. USAID can mobilize private capital through the following:

- *Mitigating investor/lender risk:* By issuing credit guarantees or providing first-loss capital, USAID can address perceived and real risk, which can protect investments against potential losses, especially in underserved sectors. For example, in Ghana, USAID's Office of Education issued a DCA guarantee to allow banks to finance the construction and expansion of schools—a sector traditionally underserved by debt capital.
- *Results-based financing:* Through Development Impact Bonds (DIB) and other pay-for-results structures, USAID makes payments when implementers achieve milestones or outcomes. For example, USAID launched a DIB in India's Rajasthan State to reduce the number of maternal and newborn deaths. Investors, in this case the UBS Optimus Foundation, raise capital for the DIB from private philanthropic/social investors to improve the quality of care in up to 440 private health facilities, so they can meet national accreditation standards. As the clinics meet the standards, USAID and Merck for Mothers will repay investors their principal plus a return, which they will recycle into other philanthropic/social programs.
- *Catalytic capital:* Through its flexible authorities and programs, USAID can provide up-front funding to businesses, funds, and projects to attract additional private investment that they would not be able to attract without concessional support (e.g., funding for feasibility studies, market validation, etc.). For example, the Saving Lives at Birth Grand Challenge enabled one grantee - Odon Device - to receive a commitment by Becton, Dickinson & Company; to develop further and launch the device. Odon used the \$250,000 grant from USAID to implement small-scale clinical trials to test the safety and efficacy of the device.
- *Investment facilitation support:* USAID works with intermediaries and advisors to provide businesses and projects with transaction support to catalyze private investment into a business or project. Through the East Africa Trade and Investment Hub, USAID deployed an investment facilitation team to accelerate private investment into 30 transactions; support ranged from due diligence and connecting businesses to interested investors to refining business plans and providing key market information. To date, 15 transactions in sectors such as agriculture, financial services, health innovation, and technology have reached financial close, which have mobilized over \$96 million in investment.

Principle 4: Build and act on the evidence of what works, and what does not, in PSE. With this policy, USAID commits to being accountable for results, measuring impact, managing adaptively, and developing a robust Agency-wide PSE learning agenda. Building the evidence base for PSE starts with the good practice of USAID and private-sector partners defining jointly shared or aligned goals, and a small set of core indicators and targets to monitor progress of shared interests, so as not to overburden either partner. Over time, USAID will develop our knowledge base on what types of PSE work best under different circumstances, and will actively identify and fill gaps in the evidence base for PSE. Fundamental to the success of operationalizing PSE, USAID will work with partners to establish metrics that measure, value and incentivize PSE that leads to sustainability, promotes the Journey to Self-Reliance, and increases fair and open market access for U.S. firms and investors. Learning loops will encompass private-sector partners, local stakeholders, donors, and implementing partners across development and humanitarian assistance. (See Section 9: “PSE Evidence and Learning Agenda” for more details.)

7. Identifying, Assessing, and Managing Risk

Engaging and collaborating with the private sector allows USAID to expand our reach and impact, but also has inherent risks. Transforming our operating model to embrace enterprise-driven development entails a significant shift in USAID's role, and its control over resources and programming. Under an enterprise-driven development model, USAID will play a more catalytic role in achieving results, rather than fully designing, funding, and managing the majority of its projects.

USAID's Risk Appetite Statement signals a willingness and commitment to assume greater risks when engaging the private sector. This commitment reflects the belief that the potential benefits of PSE outweigh the potential costs and the possibility of failure. For example, the Statement stipulates:

- We will coordinate, co-design, and co-invest with private-sector entities to increase the impact of our work, while recognizing that sometimes ventures with promising development or humanitarian benefits will fail, or partners will not deliver on their commitments.
- We will pursue market-based and inclusive approaches with the goal of achieving more sustainable results that will end the need for assistance. We recognize that these approaches might be more time-intensive and challenging to manage; they may fail to mobilize promised capital; or they may come at the cost of short-term results.

Within the U.S. Government, “risk” means “the effect of uncertainty on objectives.”¹¹ This definition differs from the everyday use of the word, because it is not necessarily positive or negative. Instead it emphasizes the continual weighing of potential costs and benefits.¹²

In implementing the PSE policy, USAID will continue to develop our in-house capacity to identify, assess, and respond to risks. To identify risks, we will consider the relevant systems, markets, and relationships, and how they could affect our strategy, objectives, and results. We will then weigh the probability that a risk could occur and its potential positive, or negative, impact. Together the probability and impact will determine the extent of the risk. Once staff have evaluated the extent of risk, they should outline alternatives to address, and mitigate, the most-relevant risks.

Considering Risk for Private Sector Partners: Intellectual Property Rights (IPR) and Proprietary Business Information

We must consider IPR and proprietary business information in PSE. When engaging with private-sector partners, USAID should understand the interests of the Agency as well as the interests of the commercial partner in assessing when, and how, the Agency can protect IPR and proprietary business information. When appropriate in advancing sustainable, market-based solutions with strong additionality, USAID may commit to protect intellectual property and the non-disclosure of proprietary information. This could occur in assessing a potential investment, where the prospective partner needs to disclose the business case for analysis on a potential collaboration, but the private-sector partner is not willing to disclose business-planning information to the general public.

USAID's General Counsel can assist technical teams and Contracting Officers with making this assessment and protecting information and intellectual property appropriately for a specific partnership.

Good practices for mitigating risks in PSE include the following:

- All PSE requires some level of **due diligence**, which includes, at a minimum, assessing past performance, reputation, policies, and future plans of a private-sector partner. In conducting due diligence, USAID should carefully consider issues of additionality and shared ethics, including upholding responsible business practices, environmental protection and respect for human rights. The Agency can often mitigate reputational and fiduciary risk through comprehensive due diligence conducted early on in the engagement.
- Effective **relationship-management** is one of the best ways to identify opportunities and address potential misalignment of values or objectives, by fostering transparency, accountability, and flexibility. In the design of projects, appropriate incentive structures can minimize threats to strategic alignment (e.g., pay-for-performance approaches). Clear management and governance structures can outline how to address conflicts in a partnership, and enable flexibility to adapt and adjust approaches and interventions over the course of engagement.

¹¹ USAID's Risk Appetite Statement provides USAID staff and partners with broad-based guidance on the amount and type of risk the Agency is willing to accept—based on an evaluation of opportunities and threats at a corporate level, and in key risk categories—to achieve the Agency's mission and objectives. (USAID Risk Appetite Statement, June 2018, <https://www.usaid.gov/policy/risk-appetite-statement>.)

¹² This is consistent with USAID and U.S. Government guidance to integrate and achieve effective Enterprise Risk Management (ERM) in updated Office of Management and Budget Circular A-123. USAID's ERM is a holistic, Agency-wide approach to risk management that emphasizes addressing the full spectrum of risks, and managing their combined impact as an interrelated risk portfolio, rather than examining risks in silos, which can sometimes provide distorted or misleading views with respect to their ultimate impact. Similarly, assessing risk should include examining risks and opportunities (see ADS 200maa, ADS 201mat, and ADS 201mal), as well as environmental impacts, (ADS 204), consistent with USAID policies, guidance and resources.

- Engaging new partners through PSE could require USAID to **provide private-sector partners with detailed support on how best to work with USAID**. Staff can structure procurements to provide private-sector firms with limited experience in working with USAID the support necessary to engage with USAID to reduce programmatic and fiduciary risk.
- USAID should structure PSE in a manner that avoids displacing functioning markets. If the private sector can, and should, accomplish something on its own, USAID should stand aside. Examples for how to minimize market distortion include: using **competitive approaches** to access external support; looking for opportunities to generate impacts that benefit other businesses in the target sector or geography; and using **financial, economic, and systems analysis** to determine the impact on stakeholders, sustainability, and additionality created by engaging in an opportunity with the private sector.
- In the humanitarian context, USAID should ensure PSE is consistent with, and upholds, humanitarian principles including, **“do no harm.”** A good practice is to establish communication channels for an open exchange of information with private-sector actors at the onset of a crisis, to avoid duplication of efforts and ensure a coordinated and efficient response. In fragile contexts, USAID should consider how our assistance, including PSE, could destabilize the local context in ways that exacerbate social divides; create, or worsen, grievances; or incite parties and actors toward violence.

Enormous opportunities arise from working with the private sector; from tapping into new financial resources for development; to collaborating on innovations that enable breakthrough solutions to difficult problems; to opening markets for U.S. companies and investors. Recognizing both the opportunities and threats, we are committed to good risk-management practices. With this commitment, we acknowledge that it is often neither possible nor practical to achieve the level of information we seek, and that the biggest risks of all are often the opportunity costs of inaction.

Categories of Risk Typically Associated with PSE

Programmatic Risk: Events or circumstances that could potentially improve, or undermine, the effectiveness or acceptability of USAID’s development or humanitarian assistance. For example, USAID could provide seed funding for an innovation or new technology that exceeds anticipated development outcomes; private-sector partners could fail to mobilize promised capital; or investments could have unintended consequences (e.g., pollution).

Fiduciary Risk: Events or circumstances that could result in fraud, waste, loss, or the unauthorized use of U.S. Government funds, property, or other assets. Fiduciary risk also refers to conflicts of interest that could adversely affect the accountable use of U.S. taxpayer dollars, or the realization of development or humanitarian outcomes. For example, by working with non-traditional partners, USAID could engage partners that are unfamiliar with U.S. Government requirements and regulations.

Reputational Risk: Events or circumstances that could potentially improve, or compromise, USAID’s standing or credibility with stakeholders. For example, USAID could engage with a private-sector firm that is facing public scrutiny for its business practices. Alternatively, USAID could provide a seed grant for a new business that later becomes known for solving a significant development challenge.

Legal Risk: Events or circumstances that could potentially improve, or compromise, compliance with laws, regulations, Executive Orders, or other sources of legal requirement. For example, USAID could support the design of a fund that does not fully comply with local legal requirements in a given country.

Market Risk: Interventions that could potentially support, or distort, the market. For example, USAID’s support for an activity could be something the private sector could, and would, undertake anyway (i.e., lack of additionality); reduce competition or “crowd out” local, market-based solutions; or create a demonstration effect that supports a new market.

Note: In addition to the risks above, the USAID Risk Appetite Statement also discusses human capital risk and information technology risk as key categories.

Myth:

Under PSE, competitive approaches are always required to ensure that USAID is not picking winners.

Mythbuster:

In many cases, a competitive process will reduce market distortion and lead to more-sustainable results. However, in some cases, catalyzing investment into new markets requires collaboration with a single or small group of market actor to spur market growth that would not otherwise occur. This is often true when the size of the market is very small, the market failures being addressed are very challenging, and/or the private sector has demonstrated limited willingness to enter a market. In these circumstances, it is important for USAID to establish long-term principles of non-exclusivity, even if it will be some time before another actor enters the market. For example, in Liberia, USAID worked with CSquared to catalyze investment in high-speed ICT infrastructure, after conducting market analysis that defined the need for, and barriers to, investment. Under a non-exclusive license to build infrastructure, this partnership is spurring economic recovery and growth, and paving the way for more business activity in the country.

Why it matters:

Market leaders are market-enablers – they provide the infrastructure for others to operate (as in Liberia); create a demonstration effect and signal to others the commercial potential; or improve the enabling environment. (See Appendix A for more PSE Myths & Mythbusters)

A village savings and loan group supported by USAID in Malawi. Photo credit: Feed the Children / Amos Gumulira

8. Putting PSE into Practice

Successful implementation of this policy by Agency staff at all levels, and in every country, will enable USAID to help accelerate self-reliance. Furthermore, it will make us better development and humanitarian professionals by setting our programs and assistance on a sustainable path – to ending the need for their existence.

Putting this policy into practice will take an Agency-wide effort through several complementary work streams. The policy prizes flexibility, creativity, and aggressiveness among USAID's leadership and staff to define the policy's implementation and tailor it to each Operating Unit's (OU) unique context and role.¹³

Required:

- OUs **must designate PSE Point(s) of Contact (POCs)**, who should have experience and/or have received training on how to engage the private-sector across USAID's work.
- OUs **must define a plan for how to put this policy into practice**, including to promote U.S. economic interests, which could include a Mission Order or OU notice.
- OUs **must conduct due diligence** for formal partnerships, and put in place MOUs and/or other documents to govern them (by using the appropriate templates per Agency guidance).

Should:

- OUs should develop **an annual PSE Action Plan**, as part of, or in parallel with, their annual Operational Plan, which should include priority industries or sectors for PSE, specific private-sector relationships to develop, specific market analysis needed, etc.
- In developing CDCS's and designing PADs, OUs should take measures, such as mapping the landscape of local private-sector actors (including U.S. firms and investors), **to ensure the consideration of a wide range of private-sector perspectives, resources and capabilities for integration into priorities, strategies, approaches, and designs**. In conjunction with Country Economic Reviews, PSE analysis should be part of each CDCS. In designing projects, USAID should conduct analysis on how to employ PSE to build self-reliance, including through a mapping of opportunities and priorities for PSE and the identification of potential market-based approaches to addressing challenges.
- OUs should **assess and actively pursue market-based approaches to achieving objectives and results** at each stage of the Program Cycle. At the project and activity levels, this includes **analyzing the role that local, regional, U.S. and multinational firms and investors could play in addressing priorities; consulting and co-creating activity-design documents** with key private-sector stakeholders; and **aligning efforts and implementing activities jointly**, where possible.
- OUs **should report on progress related to PSE** in the Performance Plan and Report (PPR) through a set of standardized indicators and key issue narratives; this will be critical to advance learning related to PSE over time.¹⁴

Putting the Policy into Practice in the Humanitarian Setting:

In the unique context of humanitarian operations, roles and responsibilities will follow the principles set forth in the policy with requirements to designate a POC for the OU and develop a plan for making the policy operational. OUs must coordinate with USAID's humanitarian experts and disaster teams. Operational efforts will focus on collaborating with the private sector for more-effective humanitarian responses to crisis or disaster; building community and country resilience to shocks, and preventing and preparing for disasters. Specifically, humanitarian OUs should do the following:

- Establish communication channels with private-sector actors for sharing and disseminating information on cultural, contextual, and political considerations;
- Develop partnerships with the private sector to synchronize data during a disaster or crisis, in coordination with other aggregation efforts;
- Build up relationships with private-sector entities for greater awareness of humanitarian needs in advance of a disaster or crisis, to create opportunities for collaboration in response;
- Learn and share knowledge and good practices on PSE in humanitarian assistance; and,
- Link up humanitarian actors and companies that have potential shared interest in humanitarian contexts.

Recommended:

- As the participation of OU leadership is critical to effective PSE, **Missions/OUs should establish a PSE working group** chaired by the Mission Director or OU leadership that focuses on building private-sector relationships and applying PSE across all sectors and the Program Cycle. This working group should **develop a plan to collaborate on PSE with U.S. Government interagency colleagues** in the Embassy (for Missions), and with key interagency stakeholders closely connected to their scope (for Washington-based OUs).

¹³ An Operating Unit (OU) within USAID is a Mission, Bureau, or Independent Office.

¹⁴ As of 2018, current PPR reporting requirements include reporting on Public-Private Partnerships and DCAs. In conjunction with the PSE Evidence and Learning Strategy, which the Agency will publish in 2019, USAID expects to update and strengthen these indicators to capture the breadth of PSE activities and link key metrics to development and humanitarian outcomes more effectively.

8.1 USAID's Roles and Responsibilities

Successful implementation of this policy requires leadership at all levels, and ongoing efforts to ensure that staff have the appropriate resources, capacities, and skills for PSE. It also relies on building a culture in which all staff across functions embrace PSE, including contracting and assistance, legal advisory, legislative and public affairs, policy and programming, and human capital and talent-management. This policy applies to all OUs, and covers policy and programmatic operations in Washington and Missions. To institutionalize this policy, USAID staff and OUs should carry out the following roles and responsibilities:

Senior Leadership (Front Offices of the Agency, Bureaus, Independent Offices, and Missions) will set the stage and foster commitment for PSE within the Agency. Senior staff and supervisors will create a culture that enables and incentivizes staff to focus their efforts on engaging the private sector in design and strategic planning, relationship-management, networking, partnering, and brokering. As champions and advocates for PSE, senior leaders are often best positioned to develop relationships with senior-level decision-makers in the private sector; to ensure the necessary human and financial resources are available for successful PSE, and to realize the Agency's commitments to develop and implement new approaches to doing business.

PSE POCs will serve as PSE Champions within their OUs. They will be Team Leads for putting the PSE policy into practice, including working with leadership and coordinating teams to develop an operational plan, and adopt and expand PSE practices; building up capacity and structures strategically for institutionalizing the policy across the OU; serving as the POC for USAID/Washington (USAID/W), other OUs, and private-sector partners as appropriate; building support for, and promoting awareness of, PSE and its potential for achieving more-sustainable outcomes across sectors; working closely with each Mission and OU's Program Office and technical teams to integrate PSE into the Program Cycle; and, supporting their OU with resources to engage the private sector for more sustainable outcomes. As *all* staff have a responsibility for PSE, POCs should not be responsible for implementing *all* PSE efforts within their OUs.

Regional Bureaus and/or Regional Missions will be responsible for building relationships with private-sector stakeholders in each region (as many private-sector companies organize themselves regionally and make investment decisions from their regional headquarters). They will also serve as PSE liaisons to make connections between these private-sector stakeholders and the Missions in their geographies. They will coordinate with USAID/W to support Missions in building skills and capacity in PSE, as well as shaping PSE opportunities in the region.

Pillar Bureaus will be responsible for PSE technical assistance to Missions, knowledge-management, linkages between Missions, and Agency-level engagement. Pillar Bureaus will also be responsible for leading headquarters-level PSE and relationship-management with companies and industries that are primarily tied to their sector; especially in the United States. The Administrator will designate an Office or Hub in USAID/W to lead and coordinate implementation of this policy across all sectors and geographies, and establish an inclusive process for coordination across all Pillar and Regional Bureaus.

Technical Officers will be the principal engagement and relationship managers. They will network, convene, and broker engagements with the private sector in order to identify opportunities to mobilize resources and solutions. They will foster alignment of shared interests with the private sector; while



After the 2010 earthquake in Haiti, merchant Belleus Pierre leveraged mobile money technology to help ensure a steady flow of customers to her store. Photo credit: Mercy Corps

working closely with host-country governments, civil society, and other implementing partners on the local and national level to ensure coordination and sustainability. They will design market-oriented analysis to understand the private-sector landscape in each country and constraints in their technical area; create opportunities to co-design and collaborate in the design and implementation of activities; and advise partners on opportunities and learning related to PSE.

Economists will lead in providing an analytical framework to understand market failures, opportunities, and constraints to investment that will inform programming and strategic-planning decisions.

Program Officers will lead offices within Bureaus and Missions in integrating PSE principles into strategic planning and procurement across sectors. They will play a critical role in connecting the dots across OU portfolios, evaluating success, and adapting to integrate PSE-related learning over time.

Contracting and Agreement Officers (COs/AOs) will collaborate with teams to promote co-creation approaches, design market-based solutions, and develop private-sector partnerships. They will understand, and advise on, how USAID can collaborate with the private sector through a multitude of approaches. In concurrence with design teams, they will tailor the Agency's solicitations and awards to incorporate PSE when appropriate, and to adopt USAID's forward-leaning risk posture on collaborating with the private sector. For support in adopting new approaches to engage the private sector, COs and AOs should contact the USAID/W Assistance and Acquisition Innovation Lab.

General Counsel (GC), including Regional Legal Officers (RLOs), will provide legal and transactional support for PSE by providing assistance with the structuring and documentation of transactions within the Agency's available statutory and regulatory frameworks, including conflict-of-interest matters and cases in which there are not formal partnerships. GC will counsel USAID staff on ways to use USAID's flexible authorities appropriately, in addition to existing procurement instruments, to develop private-sector partnerships, transactions, and agreements. GC will also serve as the primary USAID Office for matters around intellectual property-rights and proprietary business information. GC should review and clear all MOUs developed in collaboration with the private sector, which must use the appropriate template as per Agency guidance, with appropriate customization. For support on new approaches to engage the private sector, Legal Advisors and Officers should contact the USAID/W GC Innovation Team.

Financial Management Officers (FMOs), including Controllers and Chief Accountants, will provide financial support for PSE by ensuring sound financial-management practices for activities, and by providing thorough financial data and guidance to USAID staff, and private-sector partners, on Agency's requirements. FMOs will also serve as a source of expertise to improve the quality of public and private-sector accountancy, including auditing when new commercial partners work to develop the capacity of countries' financial-management systems.

Human Capital and Talent-Management (HCTM) will support the USAID/W PSE team in developing and implementing an Agency-wide talent strategy to build USAID's PSE capabilities and expertise over time, including through increasing training in PSE for current staff. HCTM will support recruitment and placement led by Missions and OUs of staff with PSE skills, within existing budget and staffing constraints. In addition, HCTM will continue to support updates to human-resource performance-management processes to incentivize and reward effective PSE among USAID's staff. Understanding and collaborating with the private-sector is a critical skill for 21st-century development and humanitarian professionals, and USAID must grow its capacity to work effectively in this way.

Celebrating the Creation of a New U.S. International Development Finance Corporation (USIDFC)

In October 2018, the U.S. Congress passed a new law called the Better Utilization of Investments Leading to Development Act—or the BUILD Act—which will bring together USAID's DCA and OPIC into the USIDFC. The establishment of the USIDFC will bolster USAID's abilities to implement this policy effectively and create a unique opportunity for USAID to expand and scale the use of a broader array of financing instruments to support our development and humanitarian work. Through the USIDFC, USAID Missions will be able to take advantage of an expanded toolbox of financing options beyond guarantees (including loans, political-risk insurance, and equity) and a broader range of private-sector expertise to support and reorient ongoing programs toward enterprise-led development.

8.2 Role of USAID's Implementing Partners

USAID's implementing partners, including NGOs, faith-based organizations, public international organizations (PIOs), universities, private firms, and other types of organizations, have a vital role to play in implementing this policy. The policy is a call to action for USAID and our many implementing partners to work together in increasing and deepening PSE across our work. Over time, USAID expects that the implementation of this policy will diversify USAID's partner base to include more private enterprises (e.g., financial investors and businesses of all sizes from across many industries), in addition to strong continued collaboration with our partners.

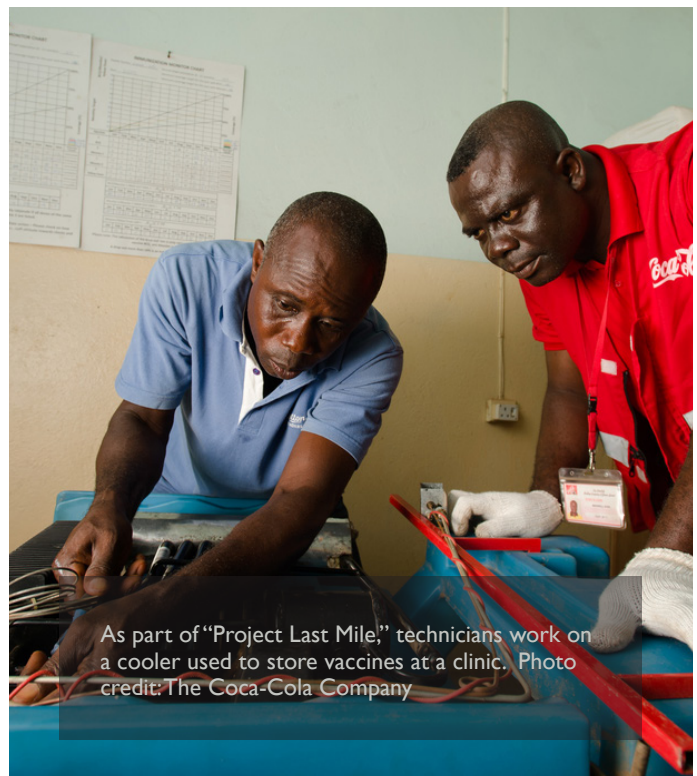
USAID's implementing partners will be at the forefront of seeking and proposing market-based approaches to address development and humanitarian challenges. Indeed, many of USAID's partners have already demonstrated leadership in pioneering new ways of working through PSE, including by launching impact-investment and venture funds, business-franchising models, and targeted value-chain interventions that take advantage of unique corporate capabilities. USAID's implementing partners will continue to play an important role in conducting the analyses necessary to engage the private sector in an informed way, including by mapping the private-sector landscape, identifying opportunities for alignment, and articulating and analyzing market-based solutions.

Embracing PSE operational principles, USAID implementing partners should work with USAID to: engage and build relationships with private-sector partners; conduct due diligence and bring in commercial partners that offer unique value; emphasize different forms of PSE, including non-financial collaboration; expand and pilot PSE approaches for greater impact; and share PSE experiences to enhance learning across the development and private sectors. In many sectors, including the humanitarian sphere, PIOs also play an important role, have considerable convening power, and are often on the frontier of PSE in disaster-preparedness, risk-management, and humanitarian response.

9. PSE Evidence and Learning Agenda

Despite the Agency's substantial experience in working with the private sector, gaps remain in the evidence base for PSE. In the past, PSE metrics have largely focused on tracking the financial resources the private sector brings, rather than their value-added in helping to achieve better development and humanitarian outcomes. This focus on "dollars leveraged" has limited the evidence base needed to demonstrate what works, and what does not, in creating more-sustainable development and humanitarian outcomes through PSE.

With this policy, USAID commits to identifying and filling gaps in our knowledge, and improving the rigor of research and evaluation. The Agency is developing a *PSE Evidence and Learning Strategy* to focus on critical gaps, intended to strengthen decision-making in the integration of PSE for both USAID and our partners across all phases of collaboration, including planning, design, implementation, monitoring, evaluation, and learning. The *Strategy* will take an iterative learning approach to generate evidence and guidance on good practices to expand and deepen our collaboration with the private sector. The *Strategy* will build on important initiatives already underway, including the Agency's publicly-available PSE databases, and a multiyear study that assesses key factors, including gender-balance, for achieving more sustainable results.



As part of "Project Last Mile," technicians work on a cooler used to store vaccines at a clinic. Photo credit: The Coca-Cola Company

In addition to learning and research, the Evidence and Learning Strategy will champion the development of a concise set of meaningful indicators for PSE to monitor and evaluate the progress of USAID and our partners in achieving positive outcomes. These indicators will measure both the effectiveness of USAID's efforts to engage with the private sector and the development and humanitarian results of specific PSE activities. The aim is to create a set of indicators, relevant to both USAID and our private-sector partners, that builds on the overlap between USAID's objectives and business interests. This will help ensure USAID and our commercial partners can quantify both the business and the development or humanitarian impact of an engagement with USAID.

10. What's Next?

This policy makes a bold statement, and represents a major shift for USAID and our implementing partners. It is just the first step of the larger process of transformation and institutionalizing PSE as a core tenet of USAID's operating model. While USAID has a strong foundation of existing PSE tools and resources available, there is substantial work to be done to support our staff in embracing and working effectively on, PSE. Following on this policy, USAID will do the following:

- Issue implementation guidance, including appropriate revisions to the ADS and a timetable for assessing progress made in the implementation of the policy;
- Develop a fuller suite of PSE training and skills-development resources for USAID staff and partners;
- Adopt a talent strategy to attract and retain an agile and diversely-skilled workforce in support of PSE;
- Adapt our operational and performance measurements of success to ensure the creation of incentives and rewards for embracing financial and non-financial approaches to PSE;
- Strengthen the Agency's tools, advisory services, and resources for Missions to analyze and assess market-based approaches to challenges effectively, map the private-sector landscape, and engage private-sector actors strategically;
- Develop and refine models that focus on both financial returns and development impact through blended public and private capital;
- Include PSE, especially in the service of self-reliance and the promotion of U.S. economic interests, in all USAID CDCS's, PADs, and regional strategies;
- Prioritize procurement reforms that enable flexibility, creativity, and the co-creation of market-based solutions that address challenges and unlock private investment, including to meet the Agency's Priority Goal on procurement reform in the U.S. Department of State-USAID Joint Strategic Plan; and
- Advance learning on PSE across the Agency and among our partners and increase the evidence base of what works, and what does not, when engaging the private sector to achieve development and humanitarian outcomes.

The hard work of implementing this policy lies ahead. Achieving the Transformation we seek requires staff across sectors to change the way we approach development and humanitarian challenges. Increasingly, we will become a collaborator and facilitator of solutions, rather than the driver. This does not minimize our role, or the importance of our work; in fact, it makes us better development and humanitarian professionals. Through a more collaborative relationship with the private sector, we are able to bring more resources, better solutions, and more sustainability and scale to the work we do. This approach supports our partner countries on their Journey to Self-Reliance by building their capacity to overcome challenges and manage their own development. It brings us closer to our purpose of ending the need for foreign assistance.

APPENDIX A:

MYTHS AND MYTHBUSTERS REGARDING PRIVATE-SECTOR ENGAGEMENT

In the course of drafting this policy, the U.S. Agency for International Development (USAID) uncovered a number of misperceptions or “myths” about what the Agency permits, and does not permit, in engaging the private sector in our programs. It also uncovered misperceptions on the value of PSE in achieving development and humanitarian objectives. This document captures those “myths,” and debunks them head-on, through examples and the articulation of USAID’s authorities, policy, and practice. Based on their practical experience in partnering with the private sector, USAID Missions provided many of these examples.

The following table summarizes PSE “myths” and “mythbusters” with the subsequent pages providing more detailed explanations and examples. This document is intended to serve as living guidance to support USAID and our partners in implementing USAID’s vision and policy for PSE to achieve development and humanitarian outcomes.

SUMMARY TABLE

ALIGNMENT WITH THE PRIVATE SECTOR		01
Myth: PSE is a subset of economic-growth strategies and responsibilities, and is not relevant to other sectors.	Mythbuster: PSE is a means to an end: achieving USAID’s objectives across all sectors. The private sector has interests in every sector in which USAID works.	
Myth: Being profit-driven, the private sector’s objectives run counter to those of USAID.	Mythbuster: There is a growing alignment of interests as donors seek more sustainable outcomes and the private sector looks to developing countries for new markets and sees business value in addressing social issues. Under the President’s National Security Strategy, USAID and other U.S. Government Departments and Agencies are to promote U.S. commercial interests as part of their missions.	
IMPACT ON LOCAL SYSTEMS		02
Myth: USAID’s PSE focuses on collaboration with U.S. and international companies, which has the potential to “crowd out” local companies.	Mythbuster: In addition to collaboration with American and multinational companies, USAID is emphasizing engagement with a wide range of local private-sector entities for greater sustainability and the building of in-country capacities for self-reliance.	
Myth: PSE is likely to undermine the role of governments and inherently public-sector functions.	Mythbuster: PSE has proven to be an effective means for building government capacity, supporting supply-chains that underlie basic social services, and filling gaps in demand for services in many cases.	
HOW WE ENGAGE THE PRIVATE SECTOR		03
Myth: The only/best/preferred way to engage the private-sector is through co-funded partnerships.	Mythbuster: Co-funded partnerships are just one of many ways in which USAID can engage the private sector for better and more-sustainable outcomes.	
Myth: Opportunities for PSE are limited by where a Mission is in the Program Cycle. New or separate funding is needed for PSE.	Mythbuster: USAID can engage the private-sector at any point in the Program Cycle for better outcomes, with or without dedicated funds.	
USAID PROCUREMENT ISSUES IN ENGAGING THE PRIVATE SECTOR		04
Myth: Because of “procurement sensitivities,” USAID cannot discuss potential or planned programming with the private sector, which limits co-creation opportunities.	Mythbuster: USAID should consult with external stakeholders, including the private sector, in market research, strategic planning, and design, to understand fully the context, inform decision-making, and co-create market-based solutions. A number of USAID’s authorized co-creation approaches allow for joint planning with the private sector.	
Myth: USAID cannot support income-generating activities with the private sector.	Mythbuster: Provided USAID’s collaboration with the private sector fosters positive development outcomes and results that do not wholly, and solely, accrue to a commercial partner(s), USAID can fund income-generating activities with the private sector.	
Myth: USAID cannot fund the private-sector directly; USAID funds must go to a third-party non-governmental organizations (NGO) or other “traditional” implementing partner.	Mythbuster: USAID has broad authorities that allow the Agency wide latitude in directly funding a variety of actors, including private-sector entities.	
Myth: New authorities/instruments/mechanisms are needed for PSE.	Mythbuster: USAID’s existing authorities and mechanisms allow the Agency great latitude and flexibility in PSE to support our mission.	
Myth: To satisfy competition requirements, USAID cannot work with one company in an industry without working in the same way with other companies in the same industry.	Mythbuster: USAID maintains an open door to all private-sector partners for collaboration, and, in doing so we can, and do, work with individual companies. In these cases, USAID should assess the potential for market-distortion, and promote long-term principles of competition through non-exclusive agreements.	
Myth: USAID branding requirements are a deterrent to partnerships with the private sector.	Mythbuster: In many instances, collaborating with USAID provides credibility to private-sector partners, and USAID branding is an incentive for a firm or organization to collaborate with USAID. In some cases, USAID waives branding requirements for private-sector partnerships.	

Myth

PSE is a subset of economic-growth strategies and responsibilities, and is not relevant to other sectors.

Mythbuster

PSE is a means to an end: achieving USAID's objectives across all sectors. Half of all the Agency's private-sector partnerships have focused on health, education, and the environment. Nearly one quarter of them have supported democracy and governance, water and sanitation, information and communication, gender equality and women's empowerment, and humanitarian assistance. Even sectors traditionally considered basic social services often have underlying private-sector supply-chains. The private sector could also have a stake in strengthening these services because of their impact on business operations. Effectively integrating PSE in the Agency's Program Cycle and operating model will entail incorporating it into the strategies of Missions and Bureaus across all sectors.

Mythbusting Examples

Health: USAID/Ghana is improving maternal and child healthcare by expanding the access of private health providers to finance using a Development Credit Authority (DCA) guarantee, in cooperation with Fidelity Bank in Ghana. The USAID SHOPS Program is providing technical assistance to the Christian Health Association of Ghana (CHAG) to offer financing to its members and develop a mutual guarantee for CHAG. Kenop Care, a Ghanaian hospital, doubled its capacity to attend to 16,000 patients through accessing this financing. Also, the Presbyterian hospital Agogo has effectively expanded its outreach to serve remote communities within their catchment areas by using a DCA-guaranteed loan. This financing enabled the hospital to gain accreditation from the National Health Insurance Scheme, which increased community access to healthcare through follow-on financing from Fidelity. (Source: USAID/Ghana; POC: Nora Maresh)

Democracy and Governance: The private-sector plays pivotal roles in advocating for better governance to improve the efficiency, transparency and streamlining of government procedures such as licensing, registering a business, and open and transparent procurement. The private sector can also play important roles in supporting fair-trade certification and promoting human rights. For example, USAID has pioneered a new initiative in India called *Supply Unchained* to identify and counter human trafficking in global supply-chains. Through GoodWeave International, USAID is funding the replication of a model for identifying child labor and human-trafficking cases in the lowest tiers of global supply-chains, such as carpet-weaving. USAID is working with private-sector partners like Target that commit to selling GoodWeave-certified products in their stores. (USAID/DCHA/DRG; POC: Bama Athreya)

Another example of PSE in democracy and governance is USAID/Ukraine's funding for Social Boost - a local tech NGO that promotes open data and coordinates activities of more than 1,000 Information and Technology (IT) workers, IT companies, and government bodies in Ukraine through socially meaningful IT projects. SocialBoost builds the bridge between civic activists, government, and the IT industry through technology. In support of decentralization, SocialBoost has engaged the IT sector to develop tools for local governments for public engagement, participatory budgeting, and greater transparency in public administration. Using these tools, local governments have allocated more funds for citizens' projects, and are more accountable to citizen priorities. (Source: Blog "As Some Bail, Denis Gursky Sees Land of Opportunity" in Atlantic Council 2018; <http://socialboost.com.ua/>)

Food Security and Agriculture: USAID has engaged local and international private-sector actors extensively in agricultural value-chains. For example, the Solutions for African Food Enterprises (SAFE) alliance (2012-2018) focused on increasing the competitiveness of the African food-processing sector and expanding the availability of affordable and nutritious foods in Ethiopia, Kenya, Malawi, Tanzania, and Zambia. In the SAFE alliance, USAID worked with Partners in Food Solutions, a non-profit formed by General Mills that harnesses the technical expertise of Cargill, Royal DSM, Bühler, Hershey, and Ardent Mills. TechnoServe was the implementer of SAFE. As a result of SAFE interventions, assisted food-processors sold over 59,000 metric tons of improved nutritious food products, and the incremental net profit of these firms grew by 11 percent. (USAID/BFS; POC: Jay Daniliuk)

Bangladesh Agricultural Value Chains (AVC) is an activity funded by USAID under Feed The Future focused on improving the competitiveness and resilience of market systems in the Southern Delta region of Bangladesh. The AVC is a strong exemplar of enterprise-driven development that emphasizes relationships and linkages between farmers, agribusinesses, and other key actors in agricultural value-chains. Early on, the activity made a strategic shift from working with a large number of smaller grantees to engaging medium and large agribusiness companies to strengthen the agro-input supply-chains of select industries through catalyzing the flow of information between farmers, small and medium-sized enterprises

(SMEs), agro-input companies, and technology firms. The AVC makes productive collaboration with business possible by offering a flexible partnership mechanism that integrates USAID beneficiaries into select high-value industries. (USAID/BFS; POC: Aniruddha Roy)

Education: USAID is using PSE to promote literacy and improve higher-education outcomes in many countries. For example, USAID is part of The Global Book Alliance (GBA) of donor agencies, multilateral institutions, and civil-society organizations that aims to boost literacy worldwide by bringing books to every child by 2030. Using a market-based approach to filling gaps in the book supply-chain, GBA's approach has bridged funding gaps of over \$2 billion. GBA's engagement with the private sector on co-design and implementation directly benefits governments and donors—the largest procurers of early-grade reading materials—by increasing the supply and availability of books, improving efficiencies, and lowering costs. In the end, GBA seeks to foster a reading culture and increase demand for online, mobile, and print books, and in the process improve the quality of education overall. (Source: USAID/E3; POC: Lisa Blonder)

USAID has also leveraged PSE to strengthen higher education. For example, USAID/Vietnam has forged two university partnerships that leverage software companies' expertise in strengthening the rigor of science, technology, engineering, and math (STEM) curricula, as well as ensuring a steady input of well-qualified employees/engineers to the Vietnamese workforce. (Source: USAID/Vietnam; POC: Craig Hart)

Energy: USAID has a long history of fostering the enabling conditions for private-sector investment in the energy sector. By reforming energy sectors, exporting American good governance and regulatory systems, and introducing market competition, USAID has opened energy markets to private investment and enabled long-term self-reliance. For example, USAID's support of competitive procurement processes and catalytic investments of \$1-3 million in many countries has enabled billions in private investment. Technical support for Mexico's energy reform, and subsequent energy auction program enabled \$9 billion of investment from independent power producers. Technical support in Kazakhstan, Colombia, Pakistan, and Tanzania has also led to the announcement of energy auctions in those countries, opening up market opportunities for energy developers to compete transparently. (Source: USAID/E3; POC: Jeff Haeni)

Water, Hygiene, and Sanitation (WASH): Globally, 663 million people live without access to an improved source of drinking water; and 2.4 billion people lack access to basic sanitation. The Water and Development Alliance (WADA) is a unique and long-running partnership between the Coca-Cola Company, USAID and other partners that addresses community water needs in developing countries. With a combined investment of \$30 million since 2005, the Alliance has reached over 570,000 people with improved access to water; provided 244,000 people with improved access to sanitation; and strengthened the watershed-management of more than 1,000,000 acres of land in 30 countries in Africa, Asia, the Middle East, and Latin America. In 2016, USAID and the Coca-Cola Company announced the next five-year phase of this sector-leading alliance. (USAID/E3; POC: Seema Johnson)

Humanitarian Assistance: The private sector can play valuable roles in humanitarian interventions. Examples include the use of existing private-sector distribution networks, such as a local beverage-distributor in Haiti who freed up a third of its cargo space to help deliver disaster-relief supplies to areas affected by a hurricane; collaboration with ride-sharing services to map which roads are open in post-disaster situations; the "Smart Communities Coalition" with MasterCard that will harness Internet and smart-card technology to modernize registration and the distribution of assistance to 600,000 refugees and internally displaced persons who arrive at camps or settlements; and Google's Disaster Corps, which helps non-profits to support and rapidly scale solutions in a crisis.

The Humanitarian Grand Challenge illustrates an effective way of catalyzing private-sector innovation for complex emergencies. Innovations that were selected as finalists for the Challenge in 2018 include the following:

- an inflatable, surgical "mini operating room" that fits into a backpack;
- an inexpensive, electricity-free, cold-storage box that enables the storage of essential food and medication for more than 20 weeks; and
- a smartphone diagnostic device to test rapidly for cholera-causing bacteria.

These innovations are intended to address immediate needs while helping to develop the kinds of tools and service-delivery systems that increase a country's resilience to future shocks – a critical part of self-reliance. (Source: USAID/OFDA; POC: Deborah West)

In response to the 2014 Ebola crisis, Food For Peace within the Bureau for Democracy, Conflict, and Humanitarian Assistance (DCHA) employed a market-based approach to distribute food assistance to households affected by the epidemic, which increased access to food and bolstered local economies. When the Ebola crisis struck, governments closed borders and imposed quarantines that restricted movement, preventing people and traders from traveling to local markets. The diminished supply pushed food prices up, decreased households' purchasing power, and further dried

**Mythbusting
Examples
Cont.**

up markets. To support recovery from the resulting economic crisis in Guinea, Liberia, and Sierra Leone, Food for Peace invested in multiple NGOs to use a market-based approach, which reached approximately 900,000 people with cash transfers, food vouchers, and agricultural-input vouchers to restore households' purchasing power; promote the recovery of markets and trade, and support agricultural production. These programs also facilitated community savings-and-loan initiatives to build up cash reserves, and provided market recovery grants to small traders to replenish their food stocks. (Source: USAID/FFP; POC: Rang Hee Kim)

Myth

Being profit-driven, the private sector's objectives run counter to those of USAID.

Mythbuster

Increasingly, the private sector's interests and business opportunities align with the global development agenda. For example, the private sector has a vested interest in economic stability; open and fair markets; transparent citizen-responsive governance; thriving local businesses that can supply products and services in value-chains, workforce-development, the management of natural resources; and local systems that are resilient in the face of shocks like natural disasters. Sustainable investment, including socially-responsible, ethical, and Environmental, Social, and Governance (ESG) investing, is increasingly gaining a foothold in mainstream financial markets. Globally, sustainable investments grew by a quarter from 2015-2017 to \$23 trillion, according to the Global Sustainable Investment Alliance.^v

**Mythbusting
Examples**

- Nigeria's Niger Delta region is one of the world's richest sources of oil, yet more than 70 percent of its 32 million residents live in poverty. Operating in the region for more than 50 years, Chevron faced significant business costs because of unrest. In 2010, based on a shared interest in stability in the region, Chevron, USAID, and other donors launched initiatives to promote greater economic development in the region. Taking a market-based approach, Chevron and its partners invested more than \$190 million in the region's long-term prosperity through the Niger Delta Partnership Initiative. In addition to building linkages to Chevron's supply-chain, the alliance identified and worked through several growth industries to expand economic opportunities. The key findings of an impact-assessment released in 2016 revealed how market-based approaches helped drive systemic change and economic growth in the region. The assessment found that it often takes longer to design and implement market-based initiatives, but the results are more sustainable and scalable. (Source: USAID/LAB/CTP and Chevron)
- USAID/Indonesia has found that social-media firms, whose business models focus on advertising and analytics, are keenly interested in collaboration to counter violent extremism. These companies are attuned to host country government regulatory concerns that extremists, purveyors of false news, and groups that promote intolerance are using their platforms. USAID and these companies have aligned interests, and the opportunity for meaningful engagement going forward is strong. (Source: USAID/Indonesia; POC: Ignatius Indriartoto)

Myth

USAID's PSE focuses on collaboration with U.S. and international companies, which has the potential to "crowd out" local companies.

Mythbuster

USAID engages U.S., multinational, and local companies in achieving its objectives, depending on which are the best partner(s) to achieve our development and humanitarian objectives, as the examples below illustrate.

Mythbusting Examples

- USAID/Indonesia collaborates with a consortium of U.S. and local companies that are operating across the supply-chain for spices that are sustainably sourced and produced in the Papua region. Leveraging \$2 million in private-sector co-investment, the project strengthens local companies in the supply-chain, and links them to global purchasers. The partnership mutually benefits local and international companies. (Source: USAID/Indonesia; POC: Ignatius Indriartoto)
- USAID's East African Trade and Investment Hub connects American companies that are looking to source products from Africa under the African Growth and Opportunity Act. Key sectors of focus include African textiles, apparel, home decor, and leather accessories. (Source: USAID/Kenya; POC: Scott Cameron)
- In Zimbabwe, under Feed the Future, USAID links smallholder farmers to local input-suppliers (like seed companies) and local buyers (like processing companies). (Source: USAID/Zimbabwe; POC: Emma Siamena)

Myth

PSE is likely to undermine the role of governments and inherently public-sector functions.

Mythbuster

In many cases, PSE has proven to be an effective means for building up government capacity and filling gaps in demand for basic social services. In addition, for every public good or basic social service (e.g., health care and education), there is an underlying private-sector supply-chain.

Mythbusting Examples

- USAID/Indonesia collaborated with the U.S. medical technology company, Becton, Dickinson and Company (BD) from 2013-2017 to support the Indonesian Government's National Tuberculosis (TB) Program. BD contributed its expertise and in-kind resources to improve laboratory and diagnostic practices in Government laboratories. Building on the success of this program, USAID and BD will launch another partnership to improve the quality and efficiency of testing for drug susceptibility for TB and HIV through a partnership called Strengthening TB Resistance Testing & Diagnostic Systems (STRIDES). Such partnerships strengthen the Government's capacity to deliver improved public health outcomes, while providing an opportunity for companies to build their brand, and contribute to improved health care institutions that can provide market opportunities. (Source: USAID/Indonesia; POC: Ignatius Indriartoto)
- USAID/Pakistan supported four private-sector manufacturers to produce high-quality chlorhexidine gel to prevent infections of the umbilical cord among newborn infants. The Pakistani regulatory authorities approved the product for registration, and the companies are now producing and selling it locally. (Source: USAID/Pakistan; POC: Kanwal Bokharey)

Myth

The only/best/preferred way to engage the private-sector is through co-funded partnerships.

Mythbuster

Co-funded partnerships are just one of many different ways for USAID to engage the private sector. To fully tap the private sector's potential, USAID can act as a co-funder, but can also act as a convener, thought-leader, market-shaper, co-creator, facilitator, and risk-mitigator. In some cases, USAID can play a catalytic role in facilitating investment to achieve outcomes at a greater scale and sustainability without expending significant financial resources.

Mythbusting Examples

- USAID and CrossBoundary Energy, a U.S.-based, frontier-market investment firm, worked together to provide cheaper and cleaner solar energy for African businesses. The solution finances solar installations that serve enterprises in sub-Saharan Africa, increase access to electricity, and drive the adoption of renewable-energy technology – primary goals under Power Africa, a U.S. Government-led initiative managed by USAID. For the first time, African businesses have access to an “energy-as-a-service” model, whereby they can pay a monthly tariff for their power, avoid the large, up-front capital costs of solar-energy installations, and take no technical risk themselves. Serving as an **investment catalyst**, USAID, with support from Power Africa, created an investment structure for this project through which USAID leveraged \$1.3 million in grant funding to attract over \$7.5 million in private-sector equity, and up to \$10 million in debt, \$6 million of which the Overseas Private Investment Corporation (OPIC) formally committed. Once fund investors are paid back their principal investment in the fund, the U.S. Government will receive the entire grant amount back, plus a capped return. (Source: USAID/E3/PCM; POC: Cameron Khosrowshahi)
- USAID/Brazil has used its **convening power** to establish the Partnership Platform for the Amazon (PPA), which scales up and catalyzes investment in the green economy of the Brazilian Amazon. The PPA capitalizes on USAID/Brazil's deep experience in private-sector engagement to connect sustainable Amazon production – including value-chains like Brazil nut and *açaí* – to market-based demand. USAID/Brazil also shapes the private-sector agenda for investment, as well as improves the quality and impact of commercial contributions to the development sphere. For example, in working with *Mineração Rio do Norte (MRN)*, USAID serves as a **development advisor** for a 15-year, integrated regional development program that works with a target population of 100,000 people in three Amazonian municipalities, and includes Brazil's first-ever case in which traditional rural communities receive mining royalties. The program began with seed financing from MRN, which has committed to continue funding the program up to 2030. USAID support includes strengthening the governance structure for the overall program and community fund; guiding the development of a monitoring and evaluation framework; designing and contracting out independent, third-party evaluation services; and building capacity and enabling conditions among partners. (Source: USAID/Brazil; POC: Amy Daniels)

Myth

Opportunities for PSE are limited by where a Mission is in the Program Cycle and new or separate funding is needed for PSE.

Mythbuster

A key principle of USAID's Program Cycle is adaptive management on the basis of evidence and opportunities for increased impact. PSE can be part of any stage of the Program Cycle. Although the full potential of PSE is best realized in strategic planning and project design, there are many opportunities for its integration into ongoing design, implementation, monitoring, and evaluation of activities. PSE does not require separate or additional funding when projects and activities are designed with flexibility and/or integrated into existing and ongoing activities. USAID can engage the private-sector in a number of valuable ways that do not require financial resources.

Mythbusting Example

Under an existing activity, USAID/Pakistan worked with Telenor, one of Pakistan's largest mobile-network providers, to deliver tailored, mobile-enabled advisory and financial services to 15,000 farmers, some of whom live in conflict-prone areas. Farmers received customized information through text messages about crop prices, disease-prevention, and weather forecasts. USAID's investment of \$170,000 leveraged \$1 million in additional funds. The partnership reduced the loss, spoilage, and waste of crops by 40 percent and doubled revenues. Since USAID ended its support in 2014, Telenor has expanded its operations throughout the country, and attracted additional investment. (Source: USAID/Pakistan; POC: Kanwal Bokharey)

Myth

Because of “procurement sensitivities,” USAID cannot discuss potential or planned programming with the private sector, which limits co-creation opportunities.

Mythbuster

It is USAID policy to engage and consult with external stakeholders, including the private sector, in market research, strategic planning and design, to understand the development context fully, inform decision-making, and identify and co-create solutions. This can occur formally or informally. For example, pre-proposal conferences have been a good practice for incorporating consultations with the private-sector or other stakeholders.

Under assistance awards, USAID also has broad authority to **co-create approaches** with the private sector. The Annual Program Statement (APS) for the Global Development Alliance (GDA) invites the private sector—and organizations committed to engaging commercial firms—to work with USAID to discuss our respective interests and objectives, determine how those interests align, and identify jointly the challenges and opportunities we can most-effectively address by working together. Broad Agency Announcements (BAA) are also procurement tools that enable collaboration with the private-sector in co-creating solutions to development challenges.

To ensure compliance with Federal and Agency rules and regulations, **it is important to involve M/OAA and GC/RLO colleagues early on, and throughout, discussions and co-creation processes with private-sector partners.**¹⁵

Mythbusting Examples

- USAID/Honduras negotiated an agreement with Cargill and the World Food Program over several months for a two-year partnership that supports sustainable school-feeding supply-chains, designed to improve the nutritional status of school children and create economic opportunity for community family farmers. (Source: USAID/Honduras; POC: Sara Werth)
- In its CDCS, USAID/Indonesia made an explicit goal to consult the private-sector in defining priorities and designing projects. Project-design teams extensively consulted the private sector, and considered options for PSE in the development of Project Appraisal Documents (PADs), and technical-sector strategies. (Source: USAID/Indonesia; POC: Ignatius Indriartoto)

General Principles to Guide Communications with the Private Sector

- **Do not disclose any Sensitive But Unclassified (SBU) or Classified information;**
- **Do not disclose Procurement-Sensitive Information, or create an unfair competitive advantage for any potential implementing partner,** such as disclosing any information that is not publicly available, which might allow the recipient to compete more favorably. Note that often the private sector is working with USAID as a *resource partner*, not an implementing partner; in these cases, the Agency may share information more freely.
- **Seek only individual views, not consensus advice or recommendations, from a group of external partners.** The Federal Advisory Committee Act (FACA) governs the interactions of Federal Departments and Agencies with public-interest and private-sector groups. FACA allows for repeated meetings and roundtable discussions with multiple private-sector entities, as long as the Department or Agency is not asking these entities to come to consensus recommendations for the U.S. Government.
- **Avoid discussions with the private sector regarding an issue that will have a “direct and predictable effect” on your personal or professional financial interests,** including discussions of upcoming contracts or grants, or if you have a “covered relationship” with that organization (e.g., a close family member works for the organization, or you worked for the organization within the last year, etc.). Avoiding such discussions should not inhibit discussions regarding development topics or challenges, which the Agency encourages.

¹⁵ Note: Procurement prohibitions on disclosure primarily arise late in the Program Cycle, when specifics for an activity are being planned. If non-public information is disclosed, harm can be mitigated by providing such information to the public in the solicitation, or amending a solicitation if it has been issued. If the disclosure of non-public information included procurement sensitive information, consult with GC or M/OAA to determine appropriate corrective action.

USAID cannot fund income-generating activities with the private sector.

Mythbuster

In many cases, supporting market-based approaches to development and humanitarian challenges will lead to increased profits for the private sector. This is a good thing. It is part of USAID's theory of change that market-based approaches will lead to more sustainable outcomes when the business case or market exists for providing a good or service. In these cases, USAID should carefully assess the additionality and value of USAID support in enabling a market-based approach that achieves the intended outcomes. USAID should also conduct analyses to reduce the potential for market-distortions. If the private sector can, and should, do something by itself, USAID should stay out of the way.

USAID has certain limitations around how it directly supports profit-making and income-generating activities, depending on the type of instrument (i.e., acquisition or assistance). Federal and Agency regulations govern the treatment of program income. (See *Parts 200 and 700 of the 2 Code of Federal Regulations*). USAID cannot directly pay profit under assistance awards (i.e., grants and cooperative agreements); however, under both assistance and acquisition, USAID can fund income-generating activities when there is a compelling development or humanitarian reason to do so. When projects generate income, the Agency must consider profit-distribution arrangements, and fully analyze them for their potential impact on markets:

- Provided USAID's collaboration with the private-sector fosters positive development outcomes and results that do not wholly, and solely, accrue to the private-sector partner(s), USAID is able to use assistance and approaches used under the GDA to fund for-profit activities with the private sector;
- The DCA enables the Agency to fund for-profit banks and intermediaries through credit guarantees to extend financing to underserved markets; and
- By capitalizing on "shared value," companies may pursue profit-making strategies while addressing social issues in collaboration with USAID, where our interests align. Funding for-profit activities with the private-sector - which also have strong development and humanitarian outcomes - can effectively build sustainability.

Mythbusting Examples

- A partnership between USAID and the National Association of Securities Professionals (NASP) and Mobilizing Institutional Investors to Develop Africa's Infrastructure (MiDA) facilitates and expands opportunities for infrastructure-investment in sub-Saharan Africa. The program focuses on American investors, exposes them to co-investment opportunities with African counterparts, and deepens relationships with African institutional investors. Listed by the International Monetary Fund (IMF) as the second-fastest-growing region through 2020, Africa increasingly offers attractive opportunities for U.S. businesses and investors. MiDA leverages these trends, and facilitates and expands opportunities for investment in infrastructure for those who seek higher returns, while also making progress toward development objectives and advancing U.S. interests in the region. (Source: USAID/E3/PCM; POC: Cameron Khosrowshahi)
- USAID support to small-scale, maize-growing farmers in Uganda provides another example of shared value in which multiple partners achieved a positive return on investment. In a community in Uganda, farmers were drying their maize on the ground near domestic animals. This meant that they lost 30-40 percent of their crop, and the remainder could not meet commercial standards. A large regional brewery owned by SABMiller operated in the area, but bought almost all of its grain from overseas. Through multiple USAID investments along the supply-chain and an off-taker agreement with the brewery to facilitate farmers' access to credit and inputs, farmers were able to purchase improved seeds, equipment, fertilizers, and irrigation solutions. After five years, the supply-chain increased to 27,000 farmers. Crop yields increased by 65 percent, and annual household income more than doubled. Farmers' families had a more-nutritious diet and were more resilient to drought because of insurance and better seeds. Annual sales of maize to the brewery increased from 480 to 12,000 metric tons, which produced a profitable outcome for farmers and the brewery. This attracted other investments to the region, and along the supply-chain. (Source: Harvard Business Review, *Inclusive Growth: Profitable Strategies for Tackling Poverty and Inequality*, 2018.)

Myth

USAID cannot fund the private sector directly; USAID funds must go to a third-party non-governmental organizations (NGO) or other “traditional” implementing partner.

Mythbuster

USAID has broad authorities that allow the Agency wide latitude in directly funding a variety of actors, including private-sector entities. The PSE policy encourages working more directly with private-sector and for-profit entities, particularly when doing so advances business activity that provides solutions to humanitarian and development challenges. In some cases, it is valuable to collaborate jointly with both commercial partners and traditional implementing partners, given their complementary expertise and capabilities. In other cases, the best partner for addressing a problem could be a private-sector partner, given the unique capabilities it could bring to the table.

Certain types of PSE could require collaboration with a single market actor, or subset of market actors, to spur market growth that would not otherwise occur. This is often true in instances where the market is small and challenging for the private sector to enter. In these circumstances, it is important for USAID to establish principles of non-exclusivity, even if another actor will not enter the market for some time. In other cases, market leaders are market-enablers that provide the infrastructure for others to operate; create a demonstration effect and signal commercial potential to others; or improve the enabling environment. In all of these cases, USAID should conduct rigorous market analyses to ensure our interventions are not creating market distortions, such as market dominance or undercutting a level playing field for enterprises to compete.

Given that the PSE policy calls for USAID personnel to seek out market-based approaches, direct funding to the private-sector will likely increase. For activities that generate program income, it is essential for USAID staff to engage M/OAA and GC/RLO colleagues early in the consultation process with private-sector partners.

Mythbusting Example

In the wake of the 2014 Ebola outbreak in Liberia, USAID worked with CSquared to catalyze investment in high-speed communications infrastructure which is expected to strengthen healthcare and spur economic recovery and growth. Under a non-exclusive license to build infrastructure, USAID is funding CSquared directly, because it is the most qualified party to build and operate fiber infrastructure. Without USAID's co-investment, CSquared would not have entered Liberia, and it would have been many more years before this type of investment in connectivity infrastructure occurred in the country. USAID negotiated this partnership directly with CSquared following independent market research, a review of the company's business case and assumptions, assessment of the additionality of the investment, and the establishment of terms of operation to support development outcomes. These terms included: transparency in published pricing (non-standard for the industry); rate discounts for government, educational, and medical facilities; extension of the infrastructure to the campus of the University of Liberia; and a commitment to reinvest a percentage of profits into expanding access to the digital economy for Liberian communities in the event the business exceeded its profitability expectations. CSquared will solely own and operate the infrastructure, and is bound to adhere to the terms of USAID's agreement for a period of ten years. (Source: USAID/Liberia and USAID/Lab; POC: Olu Olutola)

Myth

New authorities/instruments/mechanisms are needed for PSE.

Mythbuster

USAID's existing authorities and mechanisms allow the Agency great latitude and flexibility in PSE. A good practice is to work closely with M/OAA and GC/RLO colleagues to find the best ways to achieve intended outcomes. For support in adopting new approaches to engage the private sector, Contracting and Agreement Officers should contact the USAID/W Assistance and Acquisition Innovation Lab, and Legal Advisors should contact the USAID/W GC Innovation Team.

Mythbusting Example

USAID/Vietnam concluded that existing mechanisms and authorities have significant underused capacity to support PSE. The Mission benefited from having Contracting and Agreement Officers' Representatives (C/AORs) better informed on the capacity of existing mechanisms to encourage PSE from assessing the shared-value proposition (beyond leverage) to promoting greater competition between offerors and actively engaging both implementing partners and private-sector partners throughout implementation. (Source: USAID/Vietnam; POC: Craig Hart)

Myth

To satisfy competition requirements, USAID cannot work with one company in an industry without working in the same way with other companies in the same industry.

Mythbuster

USAID maintains an open door to all private-sector partners for collaboration, and in doing so we can, and do, work with individual companies. In these cases, USAID should assess potential for market-distortion, and promote long-term principles of competition through non-exclusive agreements. Agency policy and worldwide open solicitations, such as the GDA APS, invite private-sector partners to collaborate with USAID at any time. This provides equal opportunity to any company to explore opportunities with USAID, consistent with ensuring overall fairness. In pursuing a partnership with one company, USAID has no obligation to work with other companies in the same industry, but remains free to do so if it is appropriate to achieving USAID's development objectives. USAID must engage in competition to ensure overall fairness in the process and consideration of all eligible applications; proper use of solicitations like the GDA APS or BAAs satisfy requirements for competition. It is permissible to partner with one or several firms in the same industry if a partnership does not confer a long-term, unfair competitive advantage to one firm over another; and the benefits of a partnership do not accrue solely to the private-sector partner(s). It is important for USAID staff to engage with M/OAA and GC/RLO colleagues on issues of competition.

Mythbusting Examples

- USAID/Indonesia partnered with Coca-Cola to improve the urban poor's access to clean sources of water by building 3,334 water-infiltration ponds to capture rainwater into aquifers. Coca-Cola was proactive in seeking a partnership with USAID under the GDA APS; USAID's open invitation to all private-sector entities meant no one firm received any preference. (Source: USAID/Indonesia; POC: Ignatius Indriartoto)
- USAID/Indonesia and Nestlé joined forces to tackle a problem faced by every four out of ten Indonesians – access to clean water and sanitation. Nestlé collaborated with USAID to build 100 infiltration ponds to help recharge aquifers with up to 91 million liters of water per year, which will feed into springs that are critically important sources of raw water for communities. The collaboration also focused on increasing people's access to safe water supplies and sanitation facilities through communal facilities that benefit more than 320 households, by not only improving their basic needs but also their dairy farming needs, such as daily clean water and fodder for the cattle to help increase their farm productivity. (Source: USAID/Indonesia; POC: Ignatius Indriartoto)

Myth

USAID branding requirements are a deterrent to partnerships with the private sector.

Mythbuster

In many instances, collaborating with USAID provides credibility to private-sector partners, and USAID's branding is an incentive for the companies and firms to collaborate with USAID. In other cases, USAID waives its branding guidelines for private-sector partnerships, to enable the commercial partner to take the lead and create its own branding, with the goal of reducing a perception that the services or goods should be free because they are donor-subsidized. As with all private-sector partnerships, it is important to conduct due diligence on the risks involved, including reputational ones.

Mythbusting Example

USAID/Armenia has found that private-sector partners often appreciate co-branding with USAID because of the "non-financial" brand value USAID provides. For example, Coca Cola Hellenic Bottling Company Armenia appreciates collaborating with USAID/Armenia based on shared value as a responsible member of society due to the Mission's reputation as a trusted, transparent partner; that delivers on results. (Source: USAID/Armenia; POC: Jeffrey Paretchan).

APPENDIX B: KEY DEFINITIONS

The following is a set of terms and definitions relevant to the Private-Sector Engagement (PSE) Policy of the U.S. Agency for International Development (USAID). In most cases, the source of the definition follows each definition. In some cases, USAID has customized these definitions for the purposes of this Policy. Where possible, the definitions use standard business terminology, so they can help integrate private-sector language into USAID's lexicon and serve as a resource for USAID staff in getting to know business terminology, so as to create a common language to facilitate engagement and collaboration.

Private-Sector Engagement (PSE): PSE is a strategic approach to planning and programming through which USAID consults, strategizes, collaborates, and implements with the private sector for greater scale, sustainability, and/or effectiveness of outcomes.

Other terms:

Additionality: The net positive difference expected to result from a donor-business partnership, (i.e., the positive change that otherwise would not happen without public support). It signifies the extent to which activities (and associated results) are larger in scale, are at a higher quality, take place more quickly, take place at a different location, or take place at all as a result of a donor intervention. (Source: Donor Committee for Enterprise Development (DCED). Demonstrating Additionality in Private-sector Development Initiatives)

Bankability: A project or proposal is considered “bankable” if private investors are willing to finance it. (Source: The Organisation for Economic Co-operation and Development's (OECD) Development Assistance Committee (DAC), Peer Inventory 1: Private-sector Engagement Terminology and Typology)

Blended Finance: “Blended finance” uses catalytic capital from public or philanthropic sources to increase private-sector investment in developing countries for sustainable development. (Source: Convergence)

Bond: A fixed-income investment through which an investor loans money to an entity (typically corporate or governmental), which borrows the funds for a defined period of time, at a variable or fixed interest rate. Companies, municipalities, states, and sovereign governments use bonds to raise money and finance a variety of projects and activities. Owners of bonds are debtholders, or creditors, of the issuer. (Source: Investopedia)

Co-creation: A design approach that brings people together to produce collectively a mutually-valued outcome. It relies on a participatory process that assumes some degree of shared power and decision-making. Co-creation can range from informal collaborative and consultative methods to a more formal process that leads to specific designs or activities. (Source: Adapted from the USAID Automated Directive System (ADS))

Co-financing: Joint and/or pooled financing by USAID and another entity to fund a venture, program, project, activity, or entity. (Source: Adapted from the Asian Development Bank, “What is Co-financing?”)

Collaboration: “Collaboration” with the private-sector entails the sharing of information and ideas, and the coordination of efforts to achieve shared values and common goals, which can, but need not, include financing.

Collective Action: The behaviors or actions of a group working toward a common goal. When individuals engage in collective action, the strengths of the group's resources, knowledge, and efforts are combined to reach a goal shared by all parties (Source: Adapted from OECD)

Co-investment: The joint contribution of money or capital made by a private-sector actor and USAID that considers Return on Investment (ROI) as it relates to core business objectives alongside the achievement of development outcomes. (Source: Adapted from USAID and Investopedia)

Concessional Loan: A “concessional loan” offers better than market-rate terms, either through longer repayment times, lower interest rates, or both. Development finance institutions often use these loans to de-risk, or encourage, certain investments. (Source: Devex, Development Finance Glossary)

Corporate Social Responsibility (CSR): “CSR” encompasses a company's initiatives to assess, and take responsibility for, the firm's effects on environmental and social well-being. These issues typically align to a corporation's strategy and operations, but are not part of its core business. The term generally applies to efforts that go beyond what regulators might require. CSR is also known as “corporate citizenship,” and can involve incurring short-term costs that do not provide an immediate financial benefit to the

company, but instead promote positive social and environmental change. In contrast to CSR, corporate philanthropy is an act of a corporation or business to promote the welfare of others generally through charitable donations of funds or time. (Source: Adapted from USAID and Investopedia)

Cost-Share (also known as “matching”): The portion of project costs not paid by Federal funds (unless otherwise authorized by Federal statute) that meet the specific requirements of Part 200 of Title 2 of the Code of Federal Regulations (CFR, the Uniform Administrative Requirements, Cost Principles, and Audit Requirements For Federal Awards). Cost-share must be part of an award's budget, and is a requirement under the award. (Source: 2 CFR Part 200; see also ADS Chapter 303)

Debt: An amount of money borrowed by one party from another. Many corporations and individuals use debt as a method of making large purchases that they could not afford under normal circumstances. A debt arrangement gives the borrowing party permission to borrow money under the condition that it must pay back the sum at a later date, usually with interest.

Debt instruments include standard loans, bonds, asset-backed securities, and reimbursable grants. (Source: Investopedia and OECD DAC, Peer Inventory 1: Private-Sector Engagement Terminology and Typology)

Development Credit Authority (DCA): The legislative authority in the Foreign Assistance Act of 1961, as amended, that permits USAID to issue partial credit guarantees to external entities to achieve development objectives. DCA also authorizes USAID to make direct loans, but USAID does not exercise that authority. DCA partial credit guarantees are designed to both reduce risk to generate additional lending to underserved markets and sectors, and demonstrate the long-term commercial viability of lending in developing markets. They typically require at least a 50 percent *pari passu* guarantee on loan principal (i.e., not including fees or interest). Under the Better Utilization of Investments Leading to Development (BUILD) Act signed by President Trump in October 2018, the DCA will move to the new U.S. International Development Finance Corporation (USIDFC) by October 1, 2019. As the DCA transfers to the USIDFC, USAID Missions will continue to be able to access, and use, this authority in support of their work. In fact, the creation of the new USIDFC will broaden the array of financing instruments available to support our development and humanitarian work, which will enable USAID Missions to take advantage of an expanded toolbox of financing instruments in addition to guarantees. (Source: USAID ADS Chapter 249 and USAID)

Development Impact Bond (DIB): *See definition under “Pay-for-Results”*

Direct Loan: A disbursement of funds by USAID to a non-Federal borrower under a contract that requires the repayment of such funds within a certain time, with or without interest. The term includes the purchase of, or participation in, a loan made by another lender. (Source: Office of Management and Budget (OMB) Circular A-11 and ADS Chapter 623)

Domestic Resource Mobilization (DRM): The process through which national and sub-national governments raise and spend their own funds to provide for their people. DRM not only provides governments with the funds needed to alleviate poverty and deliver basic social services, but is also a critical step on the path out of aid dependence. Private philanthropy and private-sector finance can also be key components of DRM, even if the funds do not flow into government accounts.

Due Diligence: The necessary assessment of the past performance, reputation, and future plans of a prospective partner, private-sector entity, or other organization, with regard to various business practices and principles to evaluate the risks and benefits of working together. This assessment of a prospective partner would normally involve, at a minimum, examining their social, environmental, and financial track records, as well as assessing additionality from USAID's proposed involvement. (Source: ADS Chapter 201, with modifications)

Economic Analysis: “Economic analysis” is the study of economic systems. It can focus on the macro-economic country or global context, as well as evaluate the impact on society of a specific project, activity, or production process. The analysis seeks to determine how effectively a system or process is operating. For example, in considering a proposed investment in expanding the electric-power transmission system, an economic analysis might ask: Is the investment the best way to deliver greater quantities of more reliable power, or might policy changes to promote energy-efficiency and improved grid-management accomplish the same objectives at lower cost?” (Source: Adapted from the World Bank, Investment Project Financing Economic Analysis Guidance Note)

Enabling Environment (for business): The context in which commercial firms operate. It includes laws, regulations, policies, international trade agreements, and public infrastructure that affect the movement of a product or service along its value-chain. The business-enabling environment at the national and local level encompasses policies, administrative procedures, enacted regulations, and the state of public infrastructure. In addition to these more-formal factors, social norms, workforce-skill levels, business culture, and local expectations can be powerful aspects of the business-enabling environment. (Source: Modified from Market Links)

Enterprise-Driven Development: Aligning with the private-sector as co-creators of market-oriented solutions. Together, this drives shared interests and shared risk, while working toward results that create shared value. Conceptually, enterprise-driven development includes market-based, private-sector partnerships and PSE in which the private-sector is appropriately in the lead in providing market-based solutions to development and humanitarian challenges.

Environmental, Social, and Governance (ESG): A set of standards for a company's operations that help determine its long-term valuation and performance. The term is common in capital markets, and socially-conscious investors use it to screen investments. Environmental criteria focus on how a company performs as a steward of the natural environment. Social criteria examine how a company manages impact on and relationships with its employees, suppliers, customers, and the communities in which it operates. Governance reflects a company's leadership, executive pay, audits and internal controls, and shareholder rights. (Source: Modified from Investopedia and *Financial Times* Lexicon)

Equity Investment: The contribution of capital to a company or project through the purchase of shares, stocks, participations, or similar documents. Equity investors purchase shares on the expectation that shares or stocks will rise in value through capital appreciation, and/or generate capital dividends from the company. In the development-finance context, equity investments provide developmental support and long-term growth capital that private enterprises need. The objective is to exit the investment with a return of at least the initial capital, if not enhanced values to invest elsewhere. (Source: Adapted from the OECD Glossary of Foreign Direct Investment Terms and Definitions and the International Finance Corporation (IFC) of the World Bank)

Externality: A consequence of an economic activity experienced by unrelated third parties; it can be either positive or negative.

Financial Analysis: "Financial analysis" looks at a project from the perspective of the entity that is undertaking the investment, and ignores externalities. It uses market prices, whether or not those prices represent the true cost to society. Essentially, *ex ante* financial analysis consists of setting out and comparing (usually annual) expected revenue and expense streams (investment, maintenance, and operation costs) calculated from the point of view of the concerned economic agents in each project alternative, and in working out the corresponding financial ratios that help demonstrate likely profitability and sustainability. (Source: Adapted from the World Bank, Investment Project Financing Economic Analysis Guidance Note)

First-Loss Capital: A form of credit-enhancement in which a third party agrees to cover a certain amount of loss for an investor. By improving balance sheets and decreasing risk, first-loss capital catalyzes the participation of investors that otherwise would not have participated. If the project fails, the first-loss loan provider is the last to be repaid, which makes it more likely that other investors recoup some of their capital. USAID has a number of examples of providing first-loss capital as a grant to de-risk and catalyze investment from traditional investors. (Source: Adapted from *Global Impact Investing Network (GIIN)*, "Catalytic First Loss Capital," October 2013)

Foreign Direct Investment (FDI): An investment made by a firm or individual from one country into business interests located in another. Generally, FDI takes place when an investor establishes foreign business operations, or acquires foreign business assets, including by establishing ownership or a controlling interest in a foreign company. Foreign direct investments are distinguished from portfolio investments in which an investor merely purchases the equities of foreign-based companies. (Source: Investopedia)

Gift Authority: The legal ability of the Agency to accept gifts and donations, either in-kind or as cash, for carrying out its official functions. USAID has several gift authorities, as addressed in ADS Chapter 628.3.2.

Global Development Alliance (GDA) Annual Program Statement (APS): A solicitation aimed at fostering extensive collaboration with the private-sector to achieve greater development impact. While the value of the expertise, capabilities, assets and resources contributed to an alliance by the private-sector must equal or exceed the value of resources requested from USAID, this is NOT a matching-grants program. The APS invites the private-sector to proactively identify and define problems, scope, develop, and implement solutions. (Source: GDA APS)

An APS is an instrument for Federal assistance; the GDA APS is one of many issued annually by USAID across a variety of programmatic areas. The GDA APS has been a leading methodology for USAID's formal co-funded partnerships with the private sector, since the Agency published in 2001. Within USAID, GDAs are classified as one of several types of public-private partnerships (PPPs); see definition below.

Guarantee: A risk-sharing agreement under which a guarantor agrees to pay part or the entire amount due on a loan, equity or other instrument to a lender/investor in the event of non-payment by the borrower, or loss of value in case of investment. USAID uses loan guarantees most often in DCA transactions. (Source: OECD DAC, Peer Inventory 1: Private-Sector Engagement Terminology and Typology)

Impact Investments: Investments made with the intention to generate positive, measurable, social and environmental impact alongside a financial return. Core characteristics includes intentionality (i.e., an investor intends to have a positive impact); return expectation on capital, or at a minimum, a return of capital; and, measurement of social and environmental impacts. (Sources: GIIN and OECD DAC, Peer Inventory I: Private-Sector Engagement Terminology and Typology)

Intermediaries: “Intermediaries” facilitate transactions between the suppliers of capital and users of capital for mutual benefit. (Source: Adapted from Nasdaq glossary)

- **Financial Intermediaries:** Financial intermediaries are institutions or vehicles that channel capital between a lender/investor and a borrower/investee. Financial intermediaries include commercial banks, investment banks, private-equity funds, venture-capital funds, funds of funds, microfinance institutions, and leasing and insurance companies. (Source: Adapted from IFC and European Investment Bank)
- **Advisor Intermediaries or Transaction Advisors:** “Advisor intermediaries” help clients reduce transaction costs and information barriers by referring them to relevant specialist intermediaries or other advisors.

Investment Facilitation: Targeted, firm-level assistance to reduce transaction costs and/or information asymmetries to catalyze developmentally beneficial investments, without necessarily having donors directly fund the company or project. (Source: Center for Strategic and International Studies. “Investment Facilitation in Fragile and Transitional States”)

Innovative Finance: “Innovative finance” deploys proven approaches to new markets (including new customers and segments), introduces novel approaches to established problems (including new asset types), or attracts new participants to the market (such as commercially-oriented investors). This broad definition includes a variety of financial tools, including securities and derivatives (e.g., grants, guarantees, loans, bonds, and notes); results; output- or performance-based mechanisms (e.g., advance market commitments, challenge funds, and development-impact bonds); voluntary contributions (e.g., donations made as part of consumer purchases); and compulsory charges, such as taxes. (Source: Adapted from OECD DAC, Peer Inventory I: Private-Sector Engagement Terminology and Typology)

Instrument: A contract, cooperative agreement, DCA partial credit guarantee, bilateral agreement, or other legally-binding mechanism that obligates or sub-obligates program or Operating Expenses (OE) funds. (Source: ADS 201)

For the private sector, an “instrument” typically refers to a **financial instrument**. The International Accounting Standards (IAS) define a financial instrument as “any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.” Financial instruments can be real or virtual documents that represent a legal agreement that involves any kind of monetary value. Equity-based financial instruments represent ownership of an asset. Debt-based financial instruments represent a loan made by an investor to the owner of the asset. Foreign-exchange instruments comprise a third, unique type of financial instrument. Different subcategories of each instrument type exist, such as preferred-share equity and common-share equity. (Source: Investopedia)

Investment: The expenditure of money or capital with the expectation of obtaining an additional income or profit. (Source: Investopedia)

Investor: Any person or organization who commits capital with the expectation of financial returns. Investors make up a diverse group, each of which operates with different mandates, constraints, and risk-adjusted return preferences. Investors include the following:

- Owners of assets (e.g., commercial banks, pension funds, sovereign wealth funds, insurance companies, and endowments);
- Managers of assets (e.g., private-equity and venture-capital funds); and
- Individual investors (e.g., “angel” investors and family offices).

(Source: Adapted from Convergence, “Who is the Private Sector? Key Considerations for Mobilizing Institutional Capital through Blended Finance”)

Leverage: For the purposes of this policy, the term “leverage” describes non-U.S. Government resources, including cash and in-kind gifts and services provided through private-sector partnerships, with the exception of cost-share. Leverage directly contributes to a USAID project or activity, or augments its results by making it more sustainable or effective. Leverage must meet all of the following criteria:

- It is verifiable from the records of the contributor, the recipient, or other entities that access and use the resources;
- It is measurable;
- It creates a tangible and intended impact under a project;

- Its availability is attributable to USAID's engagement; and
- It is not counted in the approved budget as cost-share, as defined in 2 CFR 200.29.

Leverage can originate from any non-U.S. Government source, including, but not limited to, private-sector entities, foundations, non-governmental organizations (NGOs), universities, or other donors. (Source: USAID Office of Acquisition and Assistance and ADS Chapter 303)

For the business community, the term “leverage” is often a verb. It can refer to the use of various financial instruments or borrowed capital to increase the potential return of an investment. Leverage can also refer to the amount of debt used to finance assets. (Source: Investopedia)

Market-Based Approaches: Market-based approaches use business models and catalyze markets to solve development and humanitarian challenges more sustainably and at scale. A market-based approach can engage low-income people as customers, and supply them with products and services they can afford; or, as business associates (suppliers, agents, or distributors), to provide them with improved incomes. When a market-based solution becomes commercially viable, the private-sector has a financial incentive to continue and operate it at scale, which increases the sustainability of the intervention, and decreases the need for donor support over time. (Source: Adapted from Monitor: “Promise and Progress Market-based Solutions to Poverty in Africa”)

Market-Failure: “Marketfailure” occurs when freely functioning markets fail to deliver an efficient allocation of resources. The result is a loss of economic welfare, especially from the point of view of society as a whole. This is usually because the benefits that the free market confers on individuals or businesses that are carrying out a particular activity diverge from the overall benefits to society. Market failures often arise in the presence of information asymmetries, externalities, monopoly privileges, or public goods. (Source: World Bank, Investment Project Financing Economic Analysis Guidance Note)

Mobilizing Investment: In the context of this policy, “mobilizing investment” refers to raising or spurring return-seeking capital into a project, business or entity, investment vehicle, or initiative that has positive development or humanitarian impacts, as well as the potential of financial return. USAID can use contracts, cooperative agreements, guarantees, technical assistance, as well as its convening power and technical expertise to mobilize investment for development.

Official Development Assistance (ODA): Government aid that promotes and specifically targets the economic development and welfare of developing countries. ODA is the resource flows to countries and territories on the OECD DAC List of ODA Recipients, and to multilateral development institutions that meet the following criteria:

- Provided by official agencies, including state and local governments, or by their executive agencies; and
- Concessional (i.e., grants and soft loans), and administered with the promotion of the economic development and welfare of developing countries as the main objective. (Source: OECD)

Official Development Finance (ODF): ODF measures the inflow of resources to recipient countries and includes bilateral Official Development Assistance (ODA); grants and concessional and non-concessional development lending by multilateral financial institutions; and Other Official Flows for development purposes (including refinancing loans) that have too low a grant element to qualify as ODA. (Source: OECD)

Partnership: A collaboration between two or more actors with aligned objectives, shared risk and shared reward. There are many different types of partnerships, in both business and development.

Patient Capital: A form of investment capital with relatively longer terms and more-flexible repayment schedules. “Patient capital” is meant to allow growth-oriented firms to “put capital to work” without being constrained by early, frequent or ill-timed repayment obligations.

Pay-for-Results (PfR) and Results-Based Funding: Umbrella terms for initiatives that pay upon the accomplishment of predetermined results, rather than efforts to accomplish those results. In PfR, the funder sets financial or other incentives for an entity to deliver predefined outcomes, and rewards achievement of the results upon verification. There are many different types of PfR programming, but most fall into five categories:

- **Performance-Based Awards:** Awards that disburse upon the accomplishment of predetermined results. These arrangements are principally between funders and implementers or service-providers. (Examples include the Millennium Challenge Corporation's approach, the World Bank's PforR approach, and the Center for Global Development's proposed Cash on Delivery Aid2 approach).
- **Prizes:** An arrangement, usually through an open and competitive process, that provides financial rewards to one or more competitors that accomplish a desired result. (For example, a fresh approach to a development challenge.)

- **Impact Bonds:** A type of pay-for-results structure, where an outcome-funder (e.g., donor agency, private foundation, local government) only pays if an implementer achieves specific outcomes tied to social or development impact. An impact bond is typically applicable when (1) a service-provider needs up-front capital, to provide more flexibility to implement a program based on agreed-upon outcomes; (2) a third-party investor (often from the private sector) is willing to provide such up-front capital, and take on the performance risk of the service-provider; and, (3) measurable, verifiable outcomes are a reasonable basis upon which to base success payments. In return for taking on such risk, the investor stands to gain a potential financial return on its investment, while the outcome funder takes on little to no financial risk.
- **Advance Market Commitments (AMC):** “AMCs” are agreements to guarantee a price or market for a product upon its successful development, used to mitigate uncertainty in building products/markets. (AMCs were an initial vehicle to encourage the production of vaccines).
- **Conditional Cash Transfers / Social Payments:** Arrangements whereby cash payments go directly to low-income households (upon meeting predetermined conditions) to stimulate investment in human capital (e.g., ensuring periodic health checks or school attendance). (Source: “Pay-for-Results in Development: A Primer for Practitioners”, USAID and Palladium)

Political-Risk Insurance: A form of insurance that protects against losses that result from the inconvertibility of currencies, expropriation (i.e., government confiscation of property), regulatory risk, political violence (e.g., acts of civil unrest and war), and breach of contract. (Source: Combination of sources including the Overseas Private Investment Corporation)

Private Sector: For the purposes of this policy, “Private Sector” has the following definition:

- For-profit, commercial entities and their affiliated foundations;
- Financial institutions, investors and intermediaries;
- Business associations and cooperatives;
- Micro, small, medium, and large enterprises that operate in the formal and informal sectors;
- American, local, regional, and multi-national businesses; and
- For-profit approaches that generate sustainable income (e.g., a venture fund run by an NGO or a social enterprise).

Note, this policy calls for engaging more with for-profit actors, and/or using for-profit and market-based approaches. Therefore, the policy’s definition of “private sector” is more focused than the definition included in the GDA APS, which also includes grant-making foundations.

Program Cycle: USAID’s operational model for planning, delivering, assessing, and adapting development programming in a given region or country to achieve more effective and sustainable results to advance U.S. foreign policy. (Codified in ADS Chapter 201)

Private-Sector Development (PSD): A discipline and area of programmatic work focused on strengthening the business-enabling environment for the private sector to drive inclusive economic growth in the countries in which USAID operates. PSD often focuses on supporting regulatory reforms that improve business and investment climates, providing public goods that help strengthen the broader private sector, and/or facilitating investment from companies.

The broad range of PSD interventions can include firm-level assistance, access to finance, workforce-development, trade and investment, and macroeconomic policies and governance. It can also include technical assistance to private firms, groups of firms, or associations for the purpose of strengthening their role in economic growth, generating employment, and public-private dialogue.

Public Good: A product that one individual can consume without reducing its availability to another individual, and from which no one is excluded. Examples include national defense, sewer systems, and public parks. (Source: Modified from Investopedia)

Public-Private Partnership (PPP): Formal arrangements between public and private counterparties to share risks and rewards in the delivery of services and infrastructure. Characterized by joint planning, joint contributions, and shared risk, PPPs in development are an opportunity to leverage resources, mobilize industry expertise and networks, and bring fresh ideas to projects. Given ambiguity in the term’s usage, this policy does not use this term but rather refers to “private-sector partnerships.” (Source: Adapted from United Nation Conference on Trade and Development (UNCTAD), “What are PPPs”)

Remittances: Funds sent by people who are living and working abroad back to their home countries. In many developing countries, remittances are the largest external source of finance, greater than ODA and FDI (Source: OECD)

Relationship Management: A practice and approach to USAID's interactions with current and potential private-sector partners. Even if engagement does not result in a partnership, good relationship-management can enable valuable exchanges of information on an ongoing basis, and also ensure that private-sector contacts leave with the sense that their interaction with USAID was professional, productive, and positive – which can lay the groundwork for potential partnership and/or greater alignment in the future.

Return on Investment (ROI): A performance measure used to evaluate the efficiency of an investment, or compare the efficiency of a number of different investments. ROI measures the amount of return on an investment, relative to the investment's cost. To calculate ROI, the benefit or return of an investment is divided by the cost of the investment; the result is expressed as a percentage, or a ratio. Often, private-sector actors will have projected ROI targets, or required thresholds, for their investments. (Source: Investopedia.com)

Risk: The U.S. Government defines “risk” as the effects – whether positive or negative - of uncertainty on objectives. (Source: OMB Circular A-123)

Risk Mitigation: Strategies and approaches aimed at managing and controlling risk. In the context of PSE, risk mitigation is any strategy, approach, or tool that reduces the risk of investment for private-sector partners, USAID, local communities, or host countries.

Risk Transfer: A strategy to manage and control risk that involves the contractual shifting of risk from one party to another. One example is the purchase of an insurance policy, by which a specified risk of loss passes from the policyholder to the insurer. Another example of risk transfer is currency-hedging: Firms can transfer currency risk to a third party through a forward contract or options agreement, which allows them to either lock in an exchange rate (forward contract), or set the option to exchange currency at a specific rate (options agreement). (Source: Investopedia and CNA Financial)

Self-Reliance (of countries): “Self-reliance” entails a capacity to plan, finance, and implement solutions to local development challenges, and a commitment to see these through effectively, inclusively, and with accountability. Such solutions can come from government, the private sector, civil society, or citizens themselves.

Shared Value: A management strategy in which companies find business opportunities and create economic value in addressing social issues. This contrasts with corporate philanthropy and social responsibility efforts that focus more on the license to operate, “giving back,” or minimizing the harmful impacts of a business. Focusing on shared value enhances the competitiveness of a company, while simultaneously advancing the economic and social conditions in the communities in which it occurs. (Source: “Creating Shared Value—How to reinvent capitalism—and unleash a wave of innovation and growth,” Michael Porter and Mark Kramer: Harvard Business Review, February 2011)

Social Enterprise: An organization that addresses a basic unmet need or solves a social or environmental problem through a market-driven approach. Essential to the success of a social enterprise is an effective business model. (Source: Modified from Social Enterprise Alliance)

Social Impact Bonds: See definition under “Pay-for-Results.”

Sustainability: The ability of a local system to produce desired outcomes over time by obtaining the resources necessary to produce those outcomes. Programs contribute to sustainability when they strengthen a system's ability to produce valued results, to generate or attract needed resources, and to be both resilient and adaptive in the face of changing circumstances.

Systemic Change: A transformation in the structure, dynamics, and/or relationships among actors (public and private) within an economy, that results in an increased (or decreased) capacity of actors to anticipate and respond to change and in a manner that:

- Leads to impacts on large numbers of people, either in their material conditions or in their behavior; and
- Can bring about more (or less) effective, sustainable and inclusive functioning of the market system. (Source: The Department for International Development of the United Kingdom and the Swiss Agency for Development and Cooperation)

Transaction: An agreement between a buyer and a seller to exchange goods, services or financial instruments (*i.e.*, debt, equity, or grant). Within USAID, “transactions” often refer to investments in which USAID provides financial or non-financial support, often alongside other public and private actors. For example, transactions can include the purchase and construction of infrastructure, a new fund being structured, the design and implementation of a development-impact or social-impact bond, or funding of an entrepreneur or innovation. USAID might participate in these transactions by providing seed funding; investment facilitation support; a guarantee through DCA; other development-finance products such as loans, guarantees, equity, and political-risk insurance available from the USIDFC, or technical assistance. USAID might even just convene donors and investors without making a financial commitment.

Transaction Advisor: See definition under “Intermediaries.”

Value Proposition: A business or marketing statement that a company uses to summarize why a consumer should buy a product or service. (Source: Investopedia). For the purpose of advancing PSE, USAID would use the term to explain to potential private-sector partners the reasons why collaborating with USAID can be beneficial. For example, USAID's value proposition includes knowledge of developing-country environments, relationships with governments, understanding of regulatory frameworks, and convening authority.

Venture Capital: Money provided by investors to start-up firms with long-term growth potential. It typically entails high risk for the investor, but also above- average returns. (Source: Investopedia)

APPENDIX C:

END NOTES

^a The Index of Global Philanthropy and Remittances 2016, Hudson Institute, 2016, page 9.

^b WB WDR 2013 Jobs, page 7 and IFC Jobs Study: *Assessing Private Sector Contributions to Job Creation and Poverty Reduction*, January 2013.

^c Our Shared Opportunity: A Vision for Global Prosperity (Center for Strategic and International Studies), 2013, p.2.

^d The Index of Global Philanthropy and Remittances 2016, Hudson Institute, 2016, Page 9 Table 1. Financial flows include U.S. ODA, U.S. Private Philanthropy, U.S. Remittances, and U.S. Private Investment.

^e Development Initiatives, *Investments to End Poverty 2018* (Bristol, England: Development Initiatives, October 2018), <http://devinit.org/wp-content/uploads/2018/10/Investments-to-End-Poverty-2018-Report.pdf>.

^f International Monetary Fund, "Roads Less Traveled: Growth in Emerging Market and Developing Economies in a Complicated External Environment," in *World Economic Outlook*, April 2017: Gaining Momentum? (IMF, April 2017). <http://www.imf.org/en/Publications/WEO/Issues/2017/04/04/world-economic-outlook-april-2017>.

^g Euromonitor International, "Top 3 Drivers of Consumer Expenditure in Emerging and Developing Economies." <https://blog.euromonitor.com/2015/05/top-3-drivers-of-consumer-expenditure-in-emerging-and-developing-economies.html>

^h Global Consumption Data for Inclusive Business, IFC, https://www.ifc.org/wps/wcm/connect/a92b7f0043e733e1a906b9869243d457/IFC_IncluBus_Brochure_May_6.pdf?MOD=AJPERES

ⁱ "Top 10 Things Everyone Should Know about Women Consumers," *Forbes*, January 21, 2015. <https://www.forbes.com/sites/bridgetbrennan/2015/01/21/top-10-things-everyone-should-know-about-women-consumers/#1b1b78c86a8b>.

^j "According to the Global Sustainable Investment Alliance, at the start of 2016, sustainable investments constituted 26 percent of assets that are professionally managed in Asia, Australia and New Zealand, Canada, Europe, and the United States—\$22.89 trillion in total. Four years earlier, they were 21.5 percent of assets." McKinsey & Company, "From 'why' to 'why not': Sustainable investing as the new normal," October 2017, <https://www.mckinsey.com/industries/private-equity-and-principal-investors/our-insights/from-why-to-why-not-sustainable-investing-as-the-new-normal>.

^k "The Indirect Cost of Natural Disasters and an Economic Definition of Macroeconomic Resilience," World Bank Policy Research Working Paper, 2015.

^l "Forward Look – A Vision for the World Bank Group in 2030," prepared by the World Bank Group for the October 8, 2016 Development Committee meeting, page 2. See also OECD, *Making Blended Finance Work for the Sustainable Development Goals* (Paris: OECD Publishing, 2018), <http://www.oecd.org/dac/financing-sustainable-development/development-finance-topics/Making-Blended-Finance-Work-Executive-Summary.pdf>

^m WB WDR 2013 Jobs, p. 7. and IFC Jobs Study: *Assessing Private Sector Contributions to Job Creation and Poverty Reduction*. January 2013.

ⁿ Accenture and Oxford calculate that a 10-point improvement in digital density (on a 100-point scale) over five years would lift growth rates in GDP in advanced economies by 0.25 percentage points, and by 0.5 percentage point in emerging economies. (Accenture Strategy and Oxford Economics, "Digital disruption: The growth multiplier optimizing digital investments to realize higher productivity and growth," https://www.accenture.com/_acnmedia/PDF-4/Accenture-Strategy-Digital-Disruption-Growth-Multiplier.pdf)

^o The Principles for Digital Development, <https://digitalprinciples.org/about/>

^p International Labour Organization (ILO), *Economic Impacts of Reducing the Gender Gap* (What Works Research Brief No. 10), 2017.

^q Gonzales, C. et al. 2015. *Catalyst for Change: Empowering Women and Tackling Income Inequality*. International Monetary Fund. <http://www.imf.org/external/pubs/ft/sdn/2015/sdn1520.pdf>

^r *Accelerating Entrepreneurship: Insights for USAID Support of Intermediaries*, 2018. https://www.usaid.gov/sites/default/files/documents/15396/PACE_Strategic_Review_Mar2018.pdf

^s USAID, *Understanding Private Sector Value: An Assessment of How USAID Measures the Value of Its Partnerships*. Available at: https://www.usaid.gov/sites/default/files/documents/1880/Understanding%20Private%20Sector%20Value_Assessment%20Report_Final.pdf

^t The table includes concepts on modalities of PSE contained within Peer Inventory 1: Private-Sector Engagement Terminology and Typology Understanding Key Terms and Modalities for Private-Sector Engagement in Development Co-Operation. Donor Committee for Economic Development (DCED).

^u OMB Circular A-123.

^v *Incorporating ENVIRONMENTAL, SOCIAL and GOVERNANCE (ESG) Factors into FIXED INCOME INVESTMENT* Georg Inderst and Fiona Stewart, World Bank, 2018, p.1.