



**USAID**  
FROM THE AMERICAN PEOPLE

# PRIVATE-SECTOR ENGAGEMENT POLICY

EXECUTIVE SUMMARY

*USAID is undertaking a major cultural and operational transformation to expand our engagement with the private sector to achieve outcomes of shared interest and shared value. The Private-Sector Engagement 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 other opportunities for U.S. businesses. 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.*

## ENTERPRISE-DRIVEN DEVELOPMENT

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. The private sector creates nine out of ten jobs in the developing world, and provides an important pathway to self-reliance. 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. 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. In embracing enterprise-driven development, USAID recognizes 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.



## KEY PSE CONCEPTS AND DEFINITIONS

The policy defines the “private sector” as: 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 scale 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).

**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.

**Enterprise-driven development** means aligning with the private sector as co-creators of market-oriented solutions, with shared risk and shared reward.

**Market-based approaches** use business models and catalyze markets to solve development and humanitarian challenges more efficiently and sustainably.

## THE CHANGE WE SEEK

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.

## OPERATIONAL 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 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.

## UNDERSTANDING OUR VALUE PROPOSITION

Effective PSE leverages the comparative advantages of USAID and the private sector to deliver more-effective and sustainable outcomes.

### 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. 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.

## ROLE OF USAID IMPLEMENTING PARTNERS

USAID recognizes that supporting countries in achieving their development goals requires the unique contributions of all sectors: governments, civil society, philanthropy, faith-based organizations, academia and the private sector. In fact, many philanthropic and development-focused organizations have been front-runners in embracing market-based approaches and integrating the distinctive capabilities of the public and the private sectors to achieve greater development impact, including: launching impact investment and venture funds, business franchising models, and targeted value chain interventions leveraging unique corporate capabilities, as well as holding the private sector to account for making responsible, inclusive business investments which make a positive social and environmental impact on communities in which they operate.

For this reason, USAID believes that all sectors have a vital role to play in implementing this policy and engaging the private sector to address humanitarian and development issues in our work together. Over time, USAID expects that 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 traditional development partners.

## WAYS USAID CAN ENGAGE



**Share Information and Strategically Align:** Identify shared interests, respective capabilities, and experiences; does not necessarily entail investment of financial resources.



**Advance Learning and Market Research:** Advance shared market research, good practices for PSE, and joint strategic planning and project design within the USAID Program Cycle.



**Harness Private-Sector Expertise and Innovation:** Bring innovation, technology, research and development, industry expertise, and/or entrepreneurial skills to achieve development outcomes.



**Catalyze Private-Sector Resources:** Mobilize private-sector resources and action—including philanthropy and CSR assets—to address a specific issue and/or objective.



**Unlock Private Investment:** Address 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.



**Strengthen the Enabling Environment:** Engage on issues important to multiple private sector actors such as regulatory reform, policy, compliance with standards, and government capacity-building.

## WHAT'S NEXT?

This policy makes a bold statement, and represents a major shift for USAID and our 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 a substantial amount of work to be done to support our staff in embracing PSE and working effectively in this way. Following on this policy, USAID will:

- Issue implementation guidance, including appropriate revisions to Agency operational policies (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 strategies and program design documents;
- Prioritize procurement reforms that enable flexibility, creativity, and collaborative models for the co-creation of market-based solutions that address development 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.

**TO LEARN MORE, CONTACT: [GLOBALPARTNERSHIPS@USAID.GOV](mailto:GLOBALPARTNERSHIPS@USAID.GOV)**