



# USAID Private Sector Engagement Policy Frequently Asked Questions

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## **GENERAL AND OVERVIEW QUESTIONS**

### **Q. What is Private Sector Engagement (PSE)?**

**A.** 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.

### **Q. Who is the Private Sector?**

**A.** USAID's PSE 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 multinational 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).

### **Q. What is the USAID Private Sector Engagement (PSE) Policy?**

**A.** USAID's PSE Policy sets priorities and direction for USAID's engagement with the private sector. The policy is a call to action for USAID staff and partners to increase and deepen our engagement with the private sector and embrace market-based approaches as a more sustainable way to achieve development and humanitarian outcomes. The policy comes at a time when the private sector is playing an unprecedented role in creating and shaping opportunities that improve the lives of the people and communities USAID supports. By outlining key PSE operational principles and roles and responsibilities, the Policy sets a course for expanded and better integrated PSE across all USAID sectors and activities.

**Q. How does the policy affect USAID programming and investments?**

**A.** The USAID PSE Policy provides direction to all USAID missions and operating units on ways to engage the private sector when assessing development and humanitarian challenges, and in designing and delivering solutions. It outlines the ways in which the Agency will alter policies, strategies, and ultimately change the way that USAID budgets and invests American taxpayer dollars. It includes recommendations and requirements for implementing the policy, roles and responsibilities of USAID staff, and basic guidance for integrating PSE into all stages of USAID program planning. Through more collaborative engagement with the private sector, USAID anticipates greater mobilization of resources, better solutions, and more sustainability in the work that we do.

**Q. What are the core tenets of the USAID PSE Policy?**

**A.** The PSE Policy signals a shift to pursue market-based approaches and investment as a means to increase the sustainability of outcomes and accelerate countries' progress on the Journey to Self-Reliance. The Policy outlines four operating principles to guide USAID practices and programming:

- Engage with the private sector early and often.
- Incentivize and value PSE throughout planning and programming.
- Expand the use of USAID approaches and tools that unlock the potential of the private sector in achieving development outcomes.
- Build and act on the evidence of what works and what does not in PSE.

**Q. What new changes does the PSE Policy call for in its approach to planning and programming?**

**A.** At its core, this policy signals an intentional shift to pursue market-based approaches as a means to increase sustainability. For every development or humanitarian issue, this policy calls for USAID staff and partners to ask and address the following threshold questions:

- 1) Can the private sector solve this problem itself?
- 2) Could there be a market-based approach to addressing this issue?
- 3) What are the roles and interests of the private sector in addressing this issue?
- 4) Are there factors constraining the private sector from involvement and investment?
- 5) Is there a role for USAID to help alleviate or eliminate these constraints?

By asking these questions in this order, USAID will first focus on seeking more sustainable and

enterprise-driven outcomes from the outset. Second, we will look for how and why the private sector may be interested in collaborating to address an issue, and what unique capabilities and resources private sector actors might bring. Third, we will actively identify ways in which we can work with the private sector to understand and address barriers to investment and market development. By engaging private sector entities early and gaining insight into their roles, motivations and responses as market and system actors, USAID staff can help steer and catalyze private resources (human, technical and financial) toward investments and responses that have longer term and more sustainable development impact.

**Q. When and how should the new PSE Policy be applied?**

**A.** The policy is fully applicable upon its release in December, 2018. The policy will not have a set end date and is meant to guide USAID programming and investments over the short-term as well as promote support for long-term, sustained change. The policy is intended to be flexible and adaptive to unique country contexts and specific Bureaus and Offices. USAID will issue expected timelines for meeting policy requirements following on the policy's release. USAID will assess progress made in its implementation after two years to ensure that lessons are learned and adaptations made to its operating principles in practice. The policy will be reviewed, and updated if necessary, approximately every five years.

**Q. What sectors and types of programming does the policy cover?**

**A.** The policy applies to all sectors and all types of programming.

**Q. Who does the USAID PSE Policy apply to?**

**A.** This is an Agency-wide policy that applies to all USAID operating units. Any bureau, office and mission, regardless of the account, program area, or funding source should ensure their programming is aligned with the principles and priorities of the policy. In addition, this policy serves as a call to action for USAID partners, development and private sector actors to apply the principles of the policy to development and humanitarian programs -- both in collaboration, and independent from, their work with USAID.

**MEASURING AND REPORTING RESULTS**

**Q. How will targets be set and results measured?**

**A.** With this policy, USAID commits to being accountable for results, measuring impact, managing adaptively and developing a robust Agency-wide PSE learning agenda. The Agency is developing a

*PSE Evidence and Learning Strategy* 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. 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.

The *PSE 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, and builds on the overlap between USAID’s objectives and business interests.

In addition, OUs will be evaluated based on their implementation of the recommendations and requirements set forth in the policy (see below). These requirements and recommendations are designed to allow for the flexibility needed to tailor it to each OU’s unique context and role.

**Required:**

- OUs must designate PSE Point(s) of Contact (POC(s))
- OUs must define a plan for how to put this policy into practice, 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.

**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 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.
- 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.

**Recommended:**

- 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.

**IMPLEMENTATION GUIDANCE AND TECHNICAL RESOURCES**

**Q. What are the expectations of staff for implementation of this policy?**

**A.** 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. To institutionalize this policy, USAID staff and OUs should carry out the following roles and responsibilities:

- **Senior Leadership** set the stage and foster commitment for PSE within the Agency by creating a culture that enables and incentivizes staff to focus their efforts on relationship management, networking, partnering and brokering. As champions and advocates for PSE, senior leaders are the only ones who can develop relationships with senior-level decision makers in the private sector and commit the Agency to develop and implement new approaches to doing business.
- **Technical Officers** are the principal engagement and relationship managers. They will network, convene, and broker engagements with the private sector in order to identify opportunities to mobilize private sector resources and solutions.
- **Economists** will lead in providing an analytical framework to understand market failures, opportunities, and constraints to investment that inform programming and strategic planning.
- **Program Officers** will lead Offices and Missions in integrating PSE principles into strategic planning and procurement across sectors. They will play a critical role in connecting the dots across Operating Unit portfolios, evaluating success, and adapting to integrate PSE related learning over time.
- **Contracting and Agreement Officers** will collaborate with teams to embrace co-creation approaches, design market-based solutions and 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 Agency solicitations and awards to incorporate PSE when appropriate and adopt USAID's risk-forward posture on collaborating with the private sector.
- **Resident Legal Officers**, 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. GC will counsel staff on ways to appropriately use USAID's flexible authorities, in

addition to traditional procurement instruments, to develop private sector partnerships, transactions, and agreements. GC will also serve as the primary USAID Office for intellectual property rights issues and proprietary business information.

- **Financial Management Officers (FMOs)** can play a valuable role in building financial management capacity of new small and local private sector partners. When supporting new private sector partners, FMOs should consider adopting approaches that bear a minimal reporting burden and incorporate best practices in corporate financial management.
- **USAID/Washington** will provide support through technical assistance to Missions, knowledge management and tools, linkages between Missions, and Agency-level engagement. Pillar Bureaus will also be responsible for leading headquarters-level PSE and relationship management with industries that are primarily tied to their sector (e.g., Global Health Bureau and the pharmaceutical industry). The Administrator will designate an Office or Hub to lead and coordinate implementation of this policy across all sectors and geographies, which will establish an inclusive process for coordination across all Pillar and Regional Bureaus.

**Q. What resources will be made available to staff for implementation?**

**A.** While USAID has a strong foundation of existing PSE tools and resources available, there is a substantial amount of work 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;
- Develop and refine models that focus on both financial returns and development impact through blended public and private capital;
- 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.

**Q: What is the relationship of the policy to the new U.S. International Development Finance Corporation (USIDFC)?**

**A:** 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 the Overseas Private Investment Corporation (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 and Operating Units 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.

**Q: How does the PSE Policy fit within the context of the 2030 Agenda for Sustainable Development and the Sustainable Development Goals (SDGs)?**

**A:** USAID's goal of expanding its engagement with the private sector is aligned with the 2030 Agenda for Sustainable Development, including the SDGs and in particular with the Addis Ababa Action Agenda (AAAA), which provides a foundation for implementing the global sustainable development agenda in part through enhanced engagement by and with the private sector. The AAAA included an explicit commitment to work toward unlocking the transformative potential of the private sector to help solve critical development challenges through a range of innovative approaches and by better aligning private sector incentives with public goals and interest. USAID's PSE policy seeks to do just that, and expand on the work USAID has been doing for years to encourage and incentivize partnerships and investments that benefit both public and private stakeholders.

**Q: How does the PSE policy relate to USAID's procurement reform work?**

**A:** USAID's 2018 Transformation Task Team has focused on a number of important and related initiatives, including Private Sector Engagement (PSE) and Effective Partnering and Procurement Reform (EPPR). There has been strong, ongoing collaboration across these teams in order to ensure that USAID's procurement approaches are well aligned with the needs and opportunities for PSE. For this reason, as USAID has developed its new Acquisition and Assistance Strategy, the Agency has placed strong focus on improving opportunities and guidance for co-creation and adaptive management; increasing awareness of the broad communication opportunities available to USAID personnel in exchanging information with the private sector; and increasing awareness of current private sector engagement modalities, solicitations, tools and guidance available to the Agency and our partners.

In addition, coordinated implementation of the PSE policy and procurement reforms will enable USAID to continue developing private sector engagement approaches, solicitations, tools, and guidance materials that build on existing assets while further expanding Agency options and resources. This would include:

- Revisions to USAID’s Automated Directives System (ADS) materials to ensure internal procedures are consistent with supporting PSE;
- Development and use of exemplary solicitation and award language that advances private sector engagement;
- Development of implementing partner guidance on private sector engagement; and
- Increased understanding and use of award types and approaches that are more appropriate to private sector partners, such as “pay for results” approaches.

**Q: What are USAID’s current tools and approaches for PSE?**

**A:** USAID has broad and flexible authorities to collaborate with the private sector, and is able to pursue collaboration through an array of formal and informal tools and approaches, including:

- Building Public Private Partnerships
  - Specific programs leveraging USAID & private sector resources, jointly created and managed under the Global Development Alliance (GDA) Annual Program Statement (APS) or other partnership approaches
- Catalyzing Investment & Resources
  - Multi-stakeholder coalitions to mobilize resource and action commitments (E.g., Power Africa, Better Than Cash Alliance, New Alliance for Food Security, TFA 2020)
  - Targeted supply chain investments and seed grants to catalyze/de-risk market entry
  - Provision of first-loss or concessional capital to de-risk investment funds with social impact, where needed
  - Investment prep services, matchmaking and technical assistance for investors and investees
  - Investing in entrepreneurial ecosystem development (eg, Entrepreneurship & Diaspora funding platforms)
  - Establishing Enterprise Funds where authorized by Congress to mobilize private investment
  - Grand Challenges and Development Innovation Ventures (DIV) which link R&D/innovation to follow-on investments and supply chains
  - Use of gift authority to raise philanthropic funds
- Mobilizing Local Private Capital
  - Development Credit Authority (DCA) Partial Loan Guarantees
  - Partnering with, and building capacity of, local pension funds and institutional investors
  - Pay for Performance Models including development impact bonds, reimbursable grants, and other innovative financing structures
- Policy and Collective Action

- Joint engagement on issues of critical importance to multiple private sector players , particularly related to regulatory reforms and enabling environment issues (e.g., land tenure, financial reforms)
- Learning & Thought Leadership
  - Funding of shared market research as a global public good
  - Advancing knowledge on best practices and evidence in partnerships and private sector engagement
  - Collaboration between USAID Missions and Bureaus and the private sector in the strategy and CDCS process (as well as in other phases of the program cycle) to inform strategy development for both partners

**Q: What does the policy mean for USAID’s collaboration with NGOs, civil society, academia, partner governments, and donor partners?**

**A:** 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.

USAID’s implementing partners will be at the forefront of seeking and proposing market-based approaches to address development and humanitarian challenges. 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, targeted value-chain interventions that take advantage of unique corporate capabilities, and more. 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.

PSE is not a replacement for working with government and civil society. In fact, engaging the private sector alongside 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.

**Q: How does private sector engagement increase the sustainability and effectiveness of USAID’s work?**

**A.** Fundamental to this policy is the premise that market-based approaches can lead to greater scale and sustainability of outcomes. 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.

For example, the Government of Vietnam recognized a more sustainable response to the HIV epidemic is necessary to ensure access to pharmaceuticals, supplies, and services for all 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.

In another example, USAID partnered with local oil and wheat flour milling company in Bangladesh, 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 Feed-the-Future partnership increased the average value of sunflower sales by four times compared to the previous year. Over the coming years, the company plans to increase 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. A vibrant and diversified domestic private sector is an important pillar of self-reliance; it has the ability to generate revenue, jobs, innovation, services, and opportunities within every economy and community with which we work.

**Q: How will USAID make sure that in expanding its engagement with the private sector it won't displace or distort functioning markets?**

**A:** In implementing this policy, USAID will expand our use of financial, economic and systems analysis to determine the impact on stakeholders created by engaging in an opportunity with the private sector. We will seek to catalyze investment and design activities and approaches which have strong additionality, sustainability, and avoid displacing functioning markets. Where the private sector can advance a solution itself, we will get out of the way. We will also work to minimize market distortion by using competitive approaches where possible and by designing solutions which benefit multiple businesses in the target sector or geography. In the humanitarian context, we will ensure that PSE is consistent with and upholds humanitarian principles including do no harm.