

PRIVATE SECTOR ENGAGEMENT FOR DEVELOPMENT

USAID is undertaking a major cultural and operational transformation to expand Private Sector Engagement Agency-wide. Through its new **Private Sector Engagement Policy**, USAID is issuing an Agency-wide call to action and mandate to work hand-in-hand with the private sector to design and deliver our development and humanitarian programs in all sectors. This policy signals an intentional shift towards enterprise-driven development as a more sustainable way to empower people, communities and countries on their journey to self-reliance.

ENTERPRISE-DRIVEN DEVELOPMENT

This policy comes at a time in which the private sector is playing an unprecedented role in creating and shaping opportunities that improve the lives of the people and communities USAID supports. The private sector creates nine out of 10 jobs in the developing world, providing the best pathway out of poverty. It is the driving force behind new innovations that solve problems. Its scale and resources match the complexity of the challenges that countries face on the journey to self-reliance.

At the same time, emerging markets have become increasingly attractive to private businesses and investors as places to sell their products, invest their money, and do business. Enterprise-driven development means aligning with the private sector as co-creators of market-based solutions, with shared risk and shared reward. Engaging the private sector in this way can shape solutions that achieve sustained impact and carry forward long after USAID's support has ended. Building on our history of working with the private sector in key areas of our work, we are committing to collaborate with the private sector and seek market-based approaches across all areas of our work – from economic growth, energy, agriculture and global health to gender equality, education, and addressing crisis and conflict.



Private enterprise is the single most powerful force for lifting lives, strengthening communities, and accelerating self-reliance.

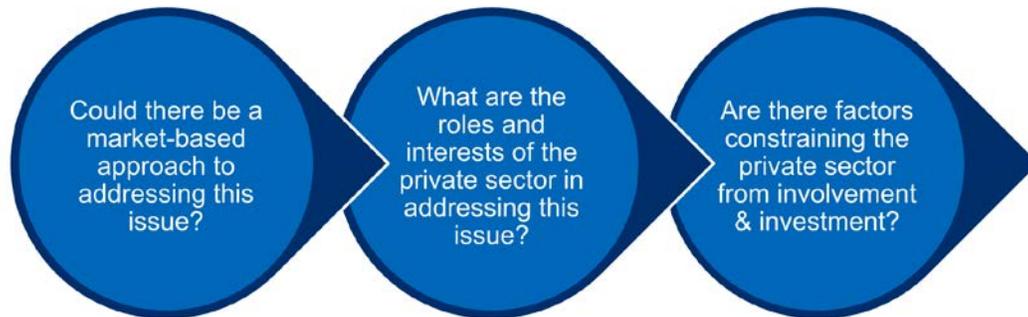
— USAID Administrator Mark Green

Private Sector Engagement (PSE) Concepts Defined

- **PSE** is a strategic approach to planning and programming whereby USAID consults, strategizes, aligns, collaborates, and implements with the private sector for greater scale, sustainability, and/or effectiveness of development or humanitarian outcomes across all sectors.
- The **private sector** includes for-profit, commercial entities and their affiliated foundations; financial intermediaries; business associations; large, medium and small businesses; American, multinational, regional and local businesses; and for-profit approaches which generate sustainable income (e.g., a venture fund run by an NGO).
- **Market-based approaches** or solutions are interventions that address development and humanitarian challenges and also provide a return on investment for the private sector.

WHAT'S NEW ABOUT THIS POLICY?

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, USAID will ask three questions:



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.

OPERATIONAL PRINCIPLES

Principle 1: Engage Early and Often. Early and ongoing engagement with local and international private sector actors is essential to achieving better outcomes. This engagement allows USAID to identify market-based solutions, understand the role of the private sector and its barriers to investment, and identify the private sector's potential role in building country capacities.

Principle 2: Incentivize and value PSE throughout planning and programming. Integrating PSE at every stage of strategic planning, design, and execution better positions USAID to understand private sector interests and capabilities, and continuously adapt to new evidence, opportunities or circumstances. USAID also recognizes that this shift in focus requires USAID to increasingly prioritize outcomes over inputs and outputs. To effectively institutionalize and incentivize PSE, USAID will adapt its talent strategy as well as operational and performance measurements of success to support and incentivize integration of financial and non-financial PSE approaches.

Principle 3: Expand the use of USAID approaches and tools that unlock the potential of the private sector. From leveraging our convening power to connect investors and businesses, to providing a grant as a first-loss guarantee to extend affordable healthcare services to the poor, there are many ways to engage the private sector to achieve our intended outcomes and catalyze market-based approaches. This policy calls for consideration of the full breadth of USAID's financial and non-financial resources and core competencies in PSE. It also recognizes that as the Agency seeks to deepen its engagement with a broader set of private sector partners, it may need to enhance its tools and approaches to better align with the constraints and risks these partners face.

Principle 4: Build and act on evidence of what works and what does not in PSE: USAID will develop a knowledge base on what types of PSE work best under different circumstances. Fundamental to the success of operationalizing PSE, USAID will work with partners to establish metrics that measure, value, and incentivize PSE which delivers increased sustainability and deeper impact.

UNDERSTANDING OUR VALUE PROPOSITION

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

USAID Offers	Private Sector Offers
<p>Enabling Environment Support Working with governments, USAID can help create a stronger enabling environment for inclusive market growth through support for policy & regulatory reform, fair & open competition, adoption of standards, and government capacity-building.</p> <p>Sector Expertise and Knowledge USAID has wide-ranging technical expertise across development and humanitarian sectors. It also offers deep understanding of developing markets, providing insights and market intelligence that can inform and shape private sector investment.</p> <p>Risk Mitigation and Flexible Authorities USAID can use its funds, authorities, and technical expertise to de-risk investments and crowd in public and private investors to support investments that further development goals.</p> <p>Reputation and Credible Convening Power USAID can lend authority to private sector investments and convene actors around business opportunities that address challenges.</p> <p>Strong In-Country Networks and Relationships USAID has relationships with national and local governments, businesses, and civil society that are useful to the private sector in making plans for market entry, collaboration, and co-investment.</p>	<p>Unique Expertise and Capabilities Businesses and investors can bring innovation and technologies, entrepreneurship, industry expertise, market-based solutions, managerial and operational expertise including risk management, distribution networks, and investment capacity.</p> <p>Ability to Influence Policy The private sector’s ability to deliver what host country governments seek to achieve—such as jobs, investment, and tax revenues—gives businesses and investors a strong, knowledgeable voice to inform policy.</p> <p>Scale and Sustainability The private sector’s vast financial resources and market-based approaches have the potential for achieving scale and sustainability in tackling systemic societal challenges.</p> <p>Efficiency and Effectiveness With improved project systems and processes, the private sector can bring more efficiency and effectiveness to achieving outcomes.</p> <p>Flexibility and Pace The private sector is often inherently more flexible, as they have a financial incentive and interest to move quickly and to respond immediately to opportunities and develop new markets.</p>

Ways USAID Can Engage



Information Sharing and Strategic Alignment

Align and coordinate respective strategies and efforts for achieving outcomes of shared interest



Leverage Private Sector Expertise and Innovation

Harness innovation, technology, R&D, industry expertise, and entrepreneurial support to achieve development outcomes



Catalyzing Private Sector Resources

Mobilize private sector resources and action to address a specific issue and/or objective



Unlocking Private Investment

Address constraints to a transaction or broader investment. Emphasis is on activities that can be replicated or brought to scale, inclusive of efforts to “crowd in” and shape investment



Strengthening the Enabling Environment

Engage on issues important to multiple private sector actors such as regulatory reform, policy, compliance with standards, and government capacity-building



Advancing Learning and Market Research

Advance shared market research, good practices for PSE, and joint strategic planning and project design

WHAT'S NEXT?

This policy makes a bold statement and represents a major shift for USAID and its implementing. It is also just the first step in the process of institutionalizing PSE as a core tenet of USAID's operating model. Following on this policy, USAID will strengthen its tools and resources to ensure staff are prepared to engage the private sector in new ways. For example, USAID will:

- Shift away from an over-reliance on traditional procurement-focused models, and begin to prioritize collaborative solutions which unlock private investment.
- Seek to increase the evidence on what works and what doesn't when engaging the private sector to achieve development outcomes.
- Evaluate potential of models that focus on both financial returns and impact, through blended public and private capital.
- Adapt its talent strategy, as well as operational and performance measurements of success to support and incentivize integration of financial and non-financial PSE approaches
- Go beyond measuring the leverage of engaging the private sector, and seek to measure their development impact without creating burdensome reporting for the private sector.

To learn more, contact: partnerships@usaid.gov

RELEVANT ACROSS SECTORS

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 frontrunners 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.