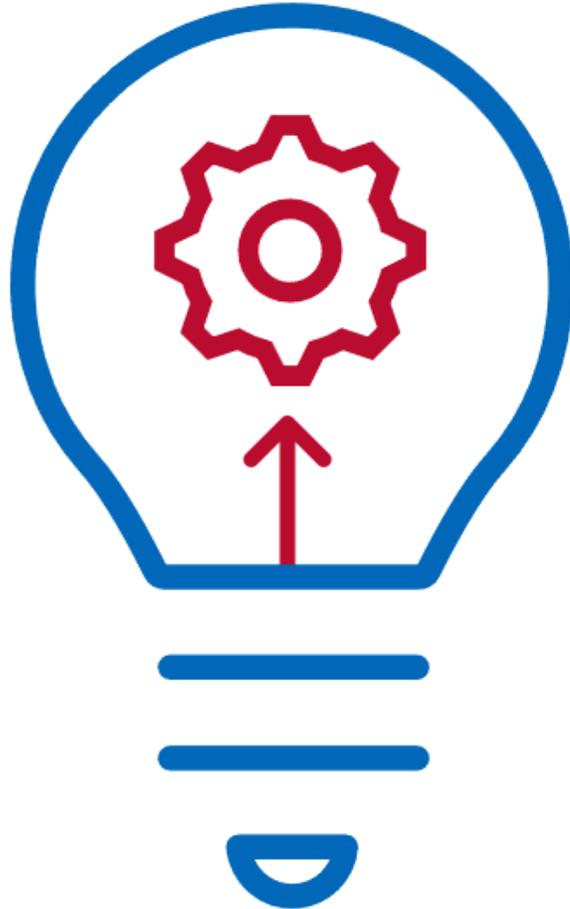




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# **PSE Opportunities Tool**

## *User Guide*

**A resource for identifying opportunities for PSE in Activity Design  
for Development and Humanitarian Activities**

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# Acronyms

**CDCS** – Country Development Cooperation Strategy

**IR** – Intermediate Result

**PSE** – Private Sector Engagement

**PSLA** – Private Sector Landscape Analysis

**Sub-IR** – Sub-intermediate result

## Background

Private Sector Engagement (PSE) is about pursuing market-based approaches and investment as a means to address development or humanitarian challenges. PSE represents an opportunity for USAID to expand our impact and achieve development objectives in a scalable, sustainable way.

To maximize this opportunity, the PSE Policy lays out a set of questions that USAID staff and implementing partners should consider every time we approach a development or humanitarian issue. These questions inform a set of considerations that you can bring to bear across your work with the private sector. These questions are presented in order in the PSE Policy, but in practice, any question may take more or less prominence at any given point in evolving discussions. These questions are:

<input checked="" type="checkbox"/>	<b>1. Can the private sector solve this problem by itself?</b>
<input checked="" type="checkbox"/>	<b>2. Could there be a Market-Based Approach to Addressing this Challenge?</b>
<input checked="" type="checkbox"/>	<b>3. What are the Roles and Interests of the Private Sector in Addressing this Challenge?</b>
<input checked="" type="checkbox"/>	<b>4. Are there Factors Constraining the Private Sector from Involvement and Investment?</b>
<input checked="" type="checkbox"/>	<b>5. Is There a Role for USAID to Help Alleviate or Eliminate these Constraints?</b>

By asking these questions, we have an opportunity to identify market-based solutions for sustainable generation of development outcomes, which will enable valued and impactful solutions to live beyond USAID's investment. They help us look for how and why the private sector might be interested in collaborating with us for development, and what unique capabilities and perspectives they may bring. They also help us find ways in which we can work with the private sector to understand and address barriers to investment and market development, with the goal of fostering enterprise-led development. Finally, it helps to identify ways for USAID to contribute that would be additional, i.e., will lead to a positive change that would not happen without our support.

How you begin to answer these questions will vary according to the context, sector, and scope of the challenge. For example, in [Fragile and Conflicts-Affected Settings](#) or, where markets are thin and largely informal, viable market-based options might take a different form. USAID can look for ways to include informal markets while also focusing on the development of market systems, institutions, and enabling environments that support

commercial approaches. Such a focus would include a deliberate engagement of local and international private sector actors, as well as civil society and host-country governments, to identify and remove barriers to formal private sector investment and entrepreneurship. This may also involve private sector development as a means to further a private sector engagement strategy, although this is not a tool designed to identify when and how to engage in private sector development.

### When to use:

This tool is designed specifically to be used with the development of your Country Development Cooperation Strategies (CDCS), at the strategic level, activity design, or at the operational level. However, PSE can sometimes be a lengthy process that starts very early in strategic discussions and lasts well into activity implementation. As such, this tool is designed to be modular and each question can be visited at any point during the Program Cycle. Additionally, this tool is designed to help you identify private sector players that may be relevant for solving the development or humanitarian challenge and therefore, you do not need to have a specific partner in mind.

### This tool can be used for the following steps in the Program Cycle:

	<p><b>Strategic level:</b> It is possible to work through this tool at a higher level, and particularly when building a Results Framework after the Development Objective has been identified. This tool can help identify intermediate results (IR) and sub-intermediate results (Sub-IR).</p>
	<p><b>Project or Activity design:</b> This tool was crafted with activity design in mind. You can start with your development challenge at the IR or Sub-IR level or when thinking through a more specific challenge. For emergency or early response situations, this tool works best after you have already identified your critical market systems. Begin to identify ways to address the issue starting with PSE Policy Question 1 and moving through the remainder of the questions throughout the design process.</p>
	<p><b>Partnership level:</b> If you are already engaged in conversations with a partner, this tool can be useful for thinking through PSE Policy Questions 2 through 5 as you structure the partnership and identify the shared value proposition.</p>

It is best to start using this tool when you have a specific development or humanitarian challenge in mind and you are examining if and how to include PSE as one approach to addressing this challenge.

### How to use:

This tool helps interpret each of the 5 PSE Policy Questions, and provides sub-questions to guide you through a process to identify the items that can help address the development or humanitarian challenge, the beneficiaries and their needs, the interests of private sector actors and their constraints, and how USAID’s help can be additional (see table below). This tool is a framework for discussion and decision-making. This tool can be used to focus your analysis that is commonly conducted as a standard part of designing a PSE strategy and can be very complementary to a Private Sector Landscape Analysis (PSLA) and market analyses.

All sub-questions provide guidance on how to analyze them and data sources. Specific individuals to speak with are identified in red font. You do not need to answer all sub-questions, they are there to help thinking creatively and all questions may not be relevant to your activity design. You can start from the beginning or with any of the PSE Policy Questions below to help guide your design process. You do not need to answer the PSE Policy Questions in the order presented in this tool.

PSE policy questions	The focus of the sub-questions
1. Can the private sector solve this problem by itself?	The items or services that people or communities need (or would benefit from) to address that development or humanitarian challenge and which private sector actors may be able to provide
2. Could there be a market-based approach to addressing this challenge?	Identifying the target population groups, their demand for these items or services, and the market dynamics at play
3. What are the roles and interests of the private sector in addressing this challenge?	Examining whether potential firms are willing to provide these items or services to the target populations
4. Are there factors constraining the private sector from involvement and investment?	Identifying constraints to the private sector actors who are providing these items or services to the target populations
5. Is there a role for USAID to help alleviate or eliminate these constraints?	Brainstorming ways USAID can help address these constraints and ensure its role is additional in this market-based approach

This tool cannot provide the answers to these questions but is designed to provide a framework for focusing your research, discussions, and design and to help you think creatively and strategically about ways to engage with the private sector.

### The starting point for all questions



## What is your development or humanitarian challenge?

*Be as specific as possible. This is your starting point for using the PSE Policy Questions to guide your PSE design strategy. Development challenges should be aligned with your strategic documents and/or Results Framework. For emergency and early response situations, your starting point is knowing which critical market system you intend to work within.*

### Additional Resources:

This User Guide provides detailed guidance and suggested data sources for all sub-questions that can be found in the PSE Opportunities Tool. Examples of completing the tool can be found in the Use Cases. And a template for completing this analysis is available.



## PSE Opportunities Tool User Guide

*This user guide provides more details for thinking through each sub-question of the PSE Opportunities Tool and possible data sources to help inform your analysis.*

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### Question 1: Can The Private Sector Solve This Problem By Itself?

This question examines what it takes to solve this problem and whether the private sector is, or could be, involved in providing part of that solution. Specifically, what **items or services are, or could be, provided by the private sector** that would address the development or humanitarian challenge. These items are likely to be the development inputs, outputs, or outcomes you may have considered as part of your theory of change, or products and services in your critical market systems as part of a humanitarian intervention, including disaster response, risk reduction, and early recovery. If the private sector is able to provide these items, we would like to explore those further.

#### a) What is needed to solve your development or humanitarian challenge?

*It may help to think about the inputs, outputs, or outcomes that are essential for solving the challenge, or the main product or service in the critical market system identified for emergency response, risk reduction, or early recovery. These could be tangible items like improved seeds or pharmaceuticals. It could be services such as insurance, private education, or ecotourism packages. And there could be other benefits such as jobs or clean water. There could be multiple options involving multiple sectors or different population groups.*

**Analysis:** Identify the items or inputs, outputs, or outcomes that are needed to solve the development challenge, which may be part of the theory of change for your project or activity, or the product or service that is produced, traded, and consumed in the critical market system identified as part of your emergency response. These items or services may differ depending on who is impacted by this challenge; for example women may require different items/services than men.

A full How-To Note about steps for thinking through a project logic model can be found on the USAID Learning Lab [here](#). From this document, relevant steps for the purposes of identifying key items, such as products or services, that could solve this challenge should focus on the operational level of major interventions in your logic model or theory of change:

- **Armed with a theory of how a set of lower order outcomes can contribute to achieving the purpose**, the team should then work to identify major interventions it can implement to directly or indirectly achieve these sets of outcomes. The degree of specificity in defining these interventions will largely depend on the nature of the problem and the context in which it is situated.

- **Examine the interventions for the key items or services that are needed.** For example, if youth unemployment is the problem, key services could be skills training and a private sector providing jobs. Both of those might be items to consider for PSE in the following sub-questions.

In an emergency situation, you will want to review or conduct a gap analysis, to produce a final estimate of the total shortfall or gap that the target population is facing for this critical item or service. The [EMMA Toolkit](#), Step 7 has guidance on how to conduct this analysis.

**Commission:** If not already completed, a sector assessment or study that identifies the causes of this challenge and viable solutions would be useful.

## b) Are there any private sector actors that can help solve some or all of this challenge?

*The solution to the challenge may not be the same thing as what the private sector produces - for example, the solution may be to create more jobs for young people and you have determined that the private sector actors in the garment sector are best placed to provide those jobs.*

*If the private sector is not active or interested in solving this challenge, it does not necessarily mean that there is no opportunity for PSE. You may want to examine Question 3 closely to see if you can identify a market interest for the private sector in this solution. If not, this may not be a good opportunity for PSE.*

**Research:** A good starting point is to access existing studies including Private Sector Landscape Analyses (PSLAs), reports, or statistics on the overall business environment and specific sectors. These can be found with national and local government agencies, national and local business associations, multilateral agencies, development actors and civil society groups. The [American Chamber of Commerce](#) has information on local economies in over 100 countries focused on high value and export-oriented sectors. In emergencies, look for household economic analysis studies, emergency needs assessments, rapid livelihood assessments, or livelihood-assessment reports coming from long-term development programs.

Web research could help identify specific companies and information about products or services offered that may help address your challenge. In many countries, local companies communicate primarily on social media and having a local language speaker review social media may be helpful. Search the web for companies that may be providing these items, especially in similar or nearby countries.

**Discuss:** Consultation of staff and/or **external experts** with local market knowledge or who have visited the area (this approach will generally be more reliable in smaller countries or less economically active regions such as conflict-affected, remote or impoverished areas. This may also be the best option in a rapid-onset emergency situation).

Additionally, consultations with **value chain entrepreneurs, support service providers** or other stakeholders who can provide an overview and/or preliminary information on the sector. **Large market actors** (e.g., wholesalers) will likely have the best overview of the market system as a whole, including the roles of services (such as finance, transport), policy, and regulation. Other stakeholders in the **value chain or sectoral experts** may be familiar with items in other countries.

*For USAID officers:* Individuals who may be particularly knowledgeable about the local economy are **FSNs** as well as other staff who have spent a lot of time in-country (current and past), **State Department Economics Officers, Commerce Department**, and the **Foreign Agriculture Service** in-country officers. Reach out to **USAID-Washington pillar bureau colleagues** who may be familiar with items addressing a similar development challenge in other countries.

**Analyze:** It may be useful to create a market-system map, or create a “chain” of different market actors who exchange, buy, and sell products/services as those items move from primary producer to final consumer.

**Commission:** You may want to commission a study or PSLA for deeper analysis, more complex economies, and/or if you want to gather market research on a number of topics (e.g., Question 4 below).

**c) If there are active private sector actors, what has been their experience in participating in the solution you've identified to the challenge? Has their participation, or business, been growing steadily in recent years? Are they reaching USAID's intended beneficiaries?**

*If the private sector is already engaged in providing items (products/services) that are helping to solve your challenge or address your humanitarian needs, and if their business is growing steadily, it may be that the private sector is poised to solve this problem on its own and there is no need for USAID's involvement. Proceed to Question 2 to see if the private sector is reaching the target beneficiaries, or proceed to Question 4 to see why they are not solving the problem on their own.*

**Research:** PSLAs, reports, or statistics on the overall business environment and specific sectors may also provide insights about industry growth.

Examine the information provided by the active private sector actors, such as their annual reports, public statements, or other corporate information to determine how their business may be growing in the area that may help address your challenge.

In emergency situations, this question examines if the market system be capable of responding to demand if the target population had cash to buy what they need (using the gap analysis produced as part of question 1a). You will want to examine past or present trade volumes, or the market system's capacity to contribute to the emergency response. Additionally, you will need information about the current availability (stocks) of the critical food or item; for most staple food crops, national food balance sheets can be found through the [FAOSTAT website](#). Lastly, information on the lead-times (between order and delivery) expected at each link in the supply chain will help assess if the private sector is capable of responding. The [EMMA Toolkit](#), Step 8 has guidance on how to conduct this analysis.

**Discuss:** Consultations with **value chain entrepreneurs, support service providers** or other stakeholders who can provide an overview and/or preliminary information on a business sector. This could also include meetings with relevant **public sector agencies**. These interviews would let you know what industries are thriving where the poor are engaged and affected. In emergencies, this information will come from interviews with **market actors** (e.g. traders, retailers) identified in the previous question. It is important to triangulate data with responses from multiple individuals.

*If you have identified items/services that might help solve your challenge and their current availability in your market, you can proceed to the next question.*

*In major emergencies, the ability of the domestic private sector to respond to the emergency need is often a concern. In these cases, it may be necessary to look for private sector actors globally who have not traditionally provided these products or services in this market. Proceed to the next question.*

*In smaller emergencies, if the domestic market actors have provided key products/services in the past and seem capable of continuing to do so (i.e., there is sufficient capacity or supply), it could be that the emergency focus needs to be on the demand side and the lack of spending capacity (e.g., access to cash or markets). Check first if there are no new constraints as a result of the emergency (Question 4). If not, this does not need a targeted PSE engagement. Exit the tool.*

## Question 2: Could there be a market-based approach to addressing this challenge?

Market-based approaches<sup>1</sup> depend on the presence of an effective **demand** to achieve scale and sustainability of items that advance development objectives. If you've been able to identify some items or services in Question 1 that could address your development or humanitarian challenge, and private sector actors that are providing these items either locally or internationally, let's examine if there is demand for these items.

### a) Who has to buy, use, or access these items or services offered by the private sector, that may help in solving this challenge

*This could be individuals (e.g., recipients of socially beneficial products), or business associates such as suppliers, agents, or distributors (e.g., providing them with improved incomes and opportunities). It could also be the government, schools, health facilities, etc.*

**Analysis:** For each item that could help solve your development or humanitarian challenge, you likely already have a target population group in mind. This could come directly from the development challenge (e.g., who the intended USAID beneficiaries are) or it could come from the logic model, or it is the target population most in need during an emergency. The target population may not be USAID's intended beneficiaries.

Any characteristics that distinguish the target population are useful and may include: geographic location, distance from major commercial centers, markets, or ports and the total number of possible beneficiaries or people at risk/in need of assistance. You cannot assume that all individuals have similar needs, opportunities, and vulnerabilities (especially in emergencies). As far as possible, the different experiences, capabilities, and needs of women and men, and the differences between other social, ethnic, religious, income, or age-based groups, should be taken into account.

### b) Do the target groups want the items or services provided by the private sector that would help solve your challenge? Why are these items/services in demand?

*If no, there may not be a market-based solution to this problem. In some circumstances, it may be worthwhile to build awareness and demand for these items/services, or to pilot these items/services to test if there is demand. This approach likely entails a certain amount of risk and patience. In this case, discuss the possibilities with the private sector and examine the market drivers as you proceed with the tool. If not, exit the tool and examine other ways to provide the needed items/services to solve the development or humanitarian challenge.*

This question examines the incentives to consume/buy/access these items. There could be many reasons consumers may demand an item/service such as: financial gain or higher incomes; improved health, nutrition and wellbeing; safety and long-term security; survival or protecting livelihoods; improved education or skills, improved resilience to shocks and stresses, and more responsive governance and equal opportunities in the law.

**Analysis:** It would be helpful to examine who is already consuming these items in your country. It may be a specific type of population group (e.g., only wealthier individuals) or only in one part of the country (e.g., in urban areas). Carefully consider any differences among various population groups by sex, social, ethnic, religious, income, or age-based groups, as relevant.

Examine if consumers are importing or traveling to access these items/services. Try to identify if there are "work-arounds" in the economy with individuals or companies trying to access these items in a different way.

<sup>1</sup> Defined in the USAID PSE Policy as: Market-based approaches use business models and catalyze markets to solve development and humanitarian challenges more efficiently, sustainably, and at scale.

For example, people are traveling abroad for a better education. Or people are purchasing small water systems because the municipal utility is not providing sufficient access to water.

**Research:** Check the internet to see if a similar item has ever been tested in the market or in this country and what the consumer response was.

It could also be that there has already been market analysis or research for these items; for example, if you are already in conversations with a partner, they may have already performed this research. In emergency situations, there was likely an emergency needs assessment that informed the selection of your critical market systems that may detail why these products/services are in need (if it is not self-evident).

**Commission:** A detailed market analysis/research may be useful to help answer this question if the previous sources do not provide enough information.

### c) Do you have any reason to believe the target groups would be willing and able to pay for this item/service?

*If no, there are many items/services that potential beneficiaries need or want, but are not willing to pay for. For example, online data privacy or perhaps clean water. There are some items the beneficiary would not be expected to pay for, such as jobs. In disasters, the target population's ability to pay is often affected (because they have less money or are unable to access markets). These questions examine the commercial viability of a private sector engagement in providing these items/services and consumer willingness to pay is just one angle. In Question 3, examine whether the private sector can still provide these items/services in a commercially viable way even if beneficiaries are not willing and able to pay for them. Alternatively, addressing this issue may be a role for USAID to play (consider this in Question 5).*

**Analysis:** To examine willingness and ability to pay, are there similar items traded on the local market? Are people or firms willing to pay for those? This could be demonstrated with cash transactions, or paid for in time spent accessing these items. Willingness and ability to pay may vary by different types of consumers, and especially by sex, social, ethnic, religious, income, or age-based characteristics.

Research the experience in other similar countries or in other markets in your country. How was this resource promoted and what was the consumer uptake?

If you are unsure if the target populations will be willing and able to pay for it, try to examine if they might benefit financially if they do consume or have access to the product or service. This may not be relevant for all products or services (e.g., for items that lead to improved health outcomes), but it can be a useful way to forecast if consumers are willing to pay for an item. You may consider conducting a financial analysis or back-of-the-envelope calculation to determine if consumers will financially benefit. For example, if private education leads to higher lifetime earnings, is it greater than the cost of private education? Will the higher yields pay for the cost of improved seed?

Be careful here - just because an item/service that would be beneficial to the target population does not mean they are willing to pay for it or even consume it. For example, efforts to promote fortified wheat flour for improved nutrition have failed because people did not enjoy the taste.

**Research:** You may be able to find studies on willingness to pay for certain products or services for individuals.

Otherwise, some market analysis or research may exist in your country or similar countries that have analyzed consumer demand for this item/service, which may include aspects of affordability and willingness to pay.

**Discuss:** If firms are your target consumer group, you may need to ask them directly in discussions what they would be willing to pay. You will also want to discuss directly with the target groups their ideas and preferences on humanitarian assistance (e.g., do they prefer firewood or liquefied natural gas).

#### d) Is the current price of this item/service equal to or lower than what target groups are willing and able to pay?

*If yes, it could indicate a commercially viable and market-based solution.*

*If not, there may still be a market-based solution if constraints facing the private sector are removed to lower the price (see Question 4). If that is not feasible, then there may not be a market-based solution in the short-run and this is not a good opportunity for PSE. Exit the tool.*

**Analysis:** This question begins to understand whether the items, provided by the private sector that may help solve the challenge, may be commercially viable. It may be difficult to answer for a new item that is not yet available or provided locally. However, to the extent possible try to understand what the price is in similar countries or in other markets in your country. If these items are offered in other countries, is it at a price point that might be reasonable in your country?

Additionally, some items are subsidized or directly provided by governments or USAID may help provide these items at an affordable cost to the target populations (for example, in emergency situations). If this is necessary to ensure the target populations have access to these items, you might want to think carefully about the long-term sustainability of these subsidies or direct provision.

For some commodities or products that are traded in your country, it may be relevant to compare the import price of the commodity/product (the border price when it is imported) to the local market price for the same or very similar commodity/product produced in the local market. If the local market price is lower than the import price, there is reason to believe that the commodity/product can be produced (or scaled) locally at a competitive price.

**Discuss:** This question is a good one to discuss with the **private sector** directly. It may be helpful to hear from them about the price point at which they might be able to provide this item/service to the target populations (if relevant). Is there other support that might be provided alongside the item/service that would make it more attractive to target groups? Does the private sector believe the target groups have the willingness and ability to pay for this item at the price they can provide it (if relevant)? In emergency situations, providing items/services may be more expensive than normal; try to understand what is driving that price increase from the private sector perspective (which may feed into an understanding of constraints - see Question 4).

#### e) What other market drivers may be influential in the supply or demand of this item/service?

*Key considerations may include competition, comparative advantages, government policies and regulation, global trade patterns, consumer preferences and buyer knowledge, change in technology and people's access to technology, supply chain and sourcing advantages, product and technology standards, etc. Keep in mind that consumer preferences and buyer knowledge and access can vary significantly by different population groups (e.g. by sex, social, ethnic, religious, income, or age-based groups).*

**Research:** Look for market analyses/assessments, news, and reports on the market for the specific product/service you believe will help address the challenge and is provided by the private sector. The type of research you may need to do will depend heavily on the context.

**Discuss:** This question is a good one to discuss with the **private sector** and **business associations** directly. The private sector will most likely have already developed studies and a sophisticated understanding of the market drivers.

## Question 3: What Are The Roles And Interests Of The Private Sector In Addressing This Challenge?

When a market-based solution becomes commercially viable, the private-sector has a financial incentive to continue and to operate it at scale, which increases the sustainability of the intervention, and decreases the need for donor support over time. At this point, we know that there are items provided by the private sector (either locally or internationally) that address the development or humanitarian challenge, and that there is a demand for them by the target populations we are hoping to help. However, we need to also know if the private sector is willing to **supply** these resources to these populations.

Answer these sub-questions by thinking about the private sector actors that were identified in Question 1. There may be more than one private sector player and it may involve many players in a supply chain.

### a) What are the private sector interests in solving this challenge?

*If the private sector interests include philanthropy or even corporate social responsibility, there is still an opportunity for PSE. However, the PSE Policy is encouraging engagements that enhance the competitiveness of the firms since these strategies tend to be more sustainable. Before proceeding, you may want some assurances that there is not a more sustainable way to engage with the private sector.*

**Discuss:** Talk to the **private sector actors** you identified at the start of this question. Frame your communication with their interests in mind. Find out what their incentives are (often profit, but also could be social capital, reputation, or some combination of all of these) and incorporate them into your communication.

Possible interests include:

- New products
- New markets
- Reliable supply chains
- Lower risk
- Long-term profitability (lower costs, higher sales)
- Access to an educated/skilled workforce
- Innovation
- Brand recognition or positive reputation
- Community goodwill
- Corporate Social Responsibility (CSR)
- Retaining/reaching current customers (e.g., in an emergency situation)
- Philanthropy

**Commission:** If there are many potential private sector actors, you might consider surveying these actors to ask about their interests, as well as their constraints (see Question 4). This could be part of a PSLA.

### b) What are the long-term business goals for these private sector actors and how does that relate to your development or humanitarian challenge?

**Discussion:** In discussions with the **private sector actor(s)**, try to understand how sustainable or feasible the supply of these items might be. You will want to understand if this is a completely new venture for these companies or if they have relevant experience in providing similar items either locally or abroad. You will want to ask them if they have tried to provide these items (products/services) already, to whom, and what their experience was.

Try to check that provision of the items or services you have in mind aligns with the long-term goals of the private sector actor(s). The perspective tends to be short-term in emergency situations, but engaging with private sector actors who are interested to maintain an engagement over the long-term could help the transition from emergency support to market-based provision of these products/services.

### c) What advantages would the private sector bring towards solving your challenge? Why might working with them be better than other modalities/mechanisms that USAID has access to?

**Analysis:** Answering this question may be premature at this point, so it is fine to return to this question later when trying to understand the private sector value proposition. However, understanding what the private sector can bring towards the provision of these items/services may be helpful in understanding a potential role for USAID (see Question 5). Potential advantages the private sector brings could include:

- **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 systematic societal challenges. The private sector's extensive networks and operations provide distribution channels to reach, and communicate with, underserved populations and individuals. The private sector's ability to easily or quickly provide needed items/services to hard-to-reach target populations severely affected in a crisis.
- **Ability to influence policy:** The private sector's ability to deliver what country governments seek to achieve, such as improved service-delivery, investment, tax revenues, jobs, and life-saving interventions, gives businesses/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, 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.

## Question 4: Are There Factors Constraining The Private Sector From Involvement And Investment?

So far, you have identified that there is an item that can address your development or humanitarian challenge, there is demand for this item, and private sector actors would benefit from providing this item. Now we will focus on why the private sector is not providing this item to our target population groups and if they are experiencing **constraints**.

This question examines constraints to the private sector. This could be the private sector actors identified in Question 1, or you may already be in direct discussions with a potential partner. It could also include constraints preventing investors from financing these private sector actors. Keep in mind that the constraints faced by the private sector might be to their business operations that differ from the item identified in Question 1. For example, if you are trying to find ways to create more jobs for young people, you have determined that the private sector actors in the garment sector are best placed to provide those jobs, but they need to grow. This question focuses on what is constraining growth to the garment sector (not constraints to the job market).

### a) What are the most significant issues that constrain the private sector actors you identified in Question 1 (or the companies you are interested in)?

*Consider the appropriate lens for the constraints. Constraints could be those that affect the entire economy, or it could be a constraint that is much more geographically narrow (e.g., an issue that only affects a sub-national region, such as an area impacted by an emergency) or a constraint that only affects one type of consumer (e.g. the ability to reach female vs. male consumers). Additionally, sectors may face specific constraints that are not seen economy-wide.*

*A table is provided below with common constraints facing the private sector and symptoms of these constraints.*

**Research:** For development challenges, the following documents are designed to identify the most significant cross-cutting constraints in the economy, and sometimes at the sectoral level, which may be applicable to the items/services you have in mind:

- USAID/DDI Country Economic Reviews, USAID/DDI Inclusive Growth Diagnostics, [MCC Constraints Analysis](#), [IFC Country Private Sector Diagnostic](#), [World Bank Systematic Country Diagnostic](#), and [World Bank Enterprise Surveys](#) ask local firms to explicitly identify their largest obstacles (which can be examined by sector, size of firm, geographic location). Many country diagnostics across all donors can be found [here](#).

In emergency situations, a market-system or impact analysis will often identify constraints to the provision of needed items/services in emergency-affected markets. Comparison between baseline and crisis-affected prices – provided that they are seasonally relevant – can be useful for identifying bottlenecks or constraints in the market system caused by the crisis.

**Discuss:** Discussions with the following individuals are very likely to help your understanding of the biggest constraints facing the private sectors: **investors** and **sector specialists**. Discussions with **foreign or multi-national companies** are particularly important if there are no companies engaged in the country or region you are interested in; then you would want to ask interested companies why they have not entered these markets or what their concerns are. And most importantly, hold discussions with representatives of **private sector actors** directly involved in delivery of those products/services. Ask how their businesses are running. Try to understand what is working or not working in their business plan, market, external environment, etc. or how the emergency may have affected previously functioning markets.

*For USAID officers:* Your **Mission Economist** may be able to assist in identifying constraints in the market or economy using research methods. Additionally, you may also benefit from discussions with **FSNs** who know

their economy very well or **sector specialists in other development organizations**. The CDCS process may have also commissioned relevant market analysis that could be valuable in answering this question.

**Commission:** If needed, commission a market systems analysis or include this question in a PSLA. This may be especially useful for very complicated value chains with many stakeholders, each of whom may have their own constraints.



## Constraints to the Private Sector

Once you have identified the main constraints, please categorize them into the following challenges using the figure below. More details for each constraint can be found in the table below. There may be more than one constraint. If you have identified at least one of these constraints, please proceed to Question 5. If not, please read on.

Government Failure	Incomplete Markets	Information Failure	Imperfect Competition	Missing Inputs	Externalities	Exclusion
Poor property regulations or weak enforcement	Lack of access to finance Coordination failure in supply chains or industries	Limited transparency First mover disadvantage Limited adoption of modern practices	Barriers to entry	Lack of basic infrastructure Poor workforce health and education	Detrimental environmental practices	Discriminatory formal and informal institutions

### Constraints facing the private sector

**Weak property rights:** Private property rights need to be well defined, and investors need to enjoy the legal protection of the local authority. When property rights are not adequately (1) defined and (2) protected by the government, property rights are weak. If firms are not sure about their legal ownership over land and other productive inputs, they are unlikely to make any investments.

**Lack of access to finance:** Lack of finance occurs when firms are willing to pay for loans but financial institutions do not offer them financial products (such as credit facilities, insurance, leasing, equity), even when doing so would be profitable. Ideas and opportunities are not financed because financial services providers might be liquidity constrained or they might lack the necessary information to comfortably provide resources to a potentially profitable project. Similarly, financial institutions may be providing financial products but at rates that are too high or with terms that are untenable for firms. Finally, financial institutions may be

### Symptoms sometimes associated with constraints

Small firms do not have property titles over their assets, local patent system or copyright law does not protect intellectual property, government does not enforce legal contracts, or ongoing land disputes. This brings risk to the private sector.

Financial institutions reject firms that apply for credit because they lack information about firm creditworthiness, limited or inactive credit bureau, very high interest rates or black market rates, small businesses in particular struggle to find funding, onerous collateral requirements, borrowing from informal sources, internal financing, or a break-down of credit arrangements in an emergency. This is a resource cost to the private sector.

providing some financial products, but with limited sophistication or diversity to satisfy the needs of firms (perhaps due to limited asset registries, payment systems or clearing houses).

**Coordination failures in supply chains or industries:**

Private sector actors are unable to coordinate, although it is in their mutual best interests. For example, private sector interests could combine in order to further an agenda of strengthening a particular sector and reforming the enabling environment, but individual firms may be wary of committing resources to lead that effort. Or local firms are unable to find buyers or markets for their commodities.

New and successful businesses tend to be vertically integrated (or multiple stages of production are combined in one firm when normally it would be operated by separate companies), growth responds to new industries when they appear, few new industries and low sophistication of products and services, wastage of inputs along a supply chain (e.g., raw commodities).

**Limited transparency (or asymmetry of information):**

Transparency and accountability is crucial to inform investment decisions. When investors are unsure about the activities and financial results of a company, it is harder for them to gauge the risks and returns from investment. Hence, otherwise profitable companies may go unfunded due to the lack of information. Similarly, if investors do not have enough clarity about government regulation or decision-making, it may be risky to enter a market.

Businesses are unable or unwilling to provide proper accounting, companies do not publish financial information, financial audits are irregular or inadequate, companies do not release negative news, and other poor corporate governance practices. Companies cannot understand government regulations or plans, companies do not know who to speak to in order to gain clarity. This brings risk to the private sector.

**First-mover disadvantages:** In many cases markets are “thin” and underdeveloped. As a result, it may be unclear if producing a product in the local economy will be profitable and/or if anyone will buy it. Sometimes to create this product or service, companies need specialized inputs but input providers will not manufacture these inputs until there is a guaranteed demand. This makes it very difficult to enter the market in the first place, without more information. Often, many firms prefer to wait to see if others will succeed in innovating and testing the market for that good/service.

Low sophistication in the products or services provided on the domestic market, lack of innovation in domestically produced products and services, limited science and research institutions. This brings risk to the private sector.

**Limited adoption of modern practices:** Firms may be reluctant to rely on a market with relatively low levels of productivity or low quality of a domestic product or service. This may happen because market firms lack information, education, or skills in business management or their technical area.

Firms are importing supply chain inputs although the domestic market produces these inputs (though not as well), poor customer service, firms are unable to trade internationally, relatively low use of modern technologies compared to similar firms in other countries (e.g., mobile phones, computers, accounting software) or they are unable to attain international standards for quality and safety. This could imply high resource costs to the private sector.

**Barriers to entry:** Initial hurdles involved in the startup of businesses are a powerful deterrent for new firms to enter local markets. This is true for small or informal local firms, as well as foreign firms interested in entering a new country. These hurdles include complex regulations and procedures governing new business creation, as well as excessive financial regulations on machinery and inputs necessary for production or paid-in minimum capital requirements to operate formally in an economy.

Company founders cannot complete incorporation procedures themselves and need to rely on middlemen, lawyers, and accounts, high levels of informal firms, lengthy and numerous procedures to comply with business entry regulation. Foreign firms may express high uncertainty about how the local market operates and what risks may exist. This could imply high resource costs to the private sector.

**Lack of basic infrastructure:** Key infrastructure may be missing or unreliable, causing low returns for projects that require them. These are inputs that individual investors cannot provide themselves. Public goods that affect the

Many businesses invest in their own generators or private supply of water, firms trying to develop production that is not reliant on poor infrastructure (e.g., moving away from water-intensive manufacturing like food and beverages

productivity and the profits of firms include roads, rail, air transportation, ports, information and communications technology, energy, water and sewage, customs and border control, etc.	where water infrastructure is poor), firms operating in rural areas remain isolated, or an emergency causes damage to transport infrastructure (roads, bridges, waterways) that affect trade. This could imply high resource costs to the private sector.
<b>Poor workforce health and education:</b> Human resources with the right set of skills and health may be in short supply or harder to hire, making them either too expensive or just not available and thus causing low returns on investment. Additionally, an inflexible labor market can also make accessing the right kind of staff difficult for firms and raise their costs of production.	Higher than average levels of informal employment, importing skilled labor, large numbers of people emigrating, a large number of companies investing in training and employee development, firms have difficulty hiring and firing employees, high levels of employee absenteeism or high job turnover. This could imply high resource costs to the private sector.
<b>Detrimental environmental practices:</b> Detrimental environmental practices by local businesses, when not taxed or sanctioned by the government, negatively affect the conditions for other productive activities in the same geographical space. Additionally, uncontrolled use and depletion of natural resources can threaten the long-term viability of companies who may depend on those resources.	Industries that cut down trees in forests and urban areas do not replace them, fisheries are overexploited by the local fishing industry and have collapsed, trade groups have raised formal complaints. This could imply high resource costs or risks to the private sector.
<b>Discriminatory formal and informal institutions:</b> Legal and regulatory frameworks, social norms, discrimination, and violence might exclude certain members of society from participating more fully and equally in the economy. This can result in exclusion from key economic assets (including education and training, and physical and financial capital).	Legislation that accords men or privileged groups with decision-making authority (including for credit or when seeking legal advice), commercial institutions that preference privileged members of society, customary law is often used to deprive women and other groups of any land rights. In an emergency, look for worsening restrictions on where and when certain market actors can trade or actions by governments (or humanitarian agencies) which temporarily disadvantage vulnerable producers. This could constrain revenue for certain private sector actors.

There are other key constraints that may face the private sector and lead to high uncertainty of an investor's potential return on investment, for example:

	<b>Macroeconomic risks</b> (e.g., inflation, access to foreign exchange, monetary policy, fiscal management)
	<b>Government failures</b> (e.g., high corruption, concerns about expropriation)
	<b>Crime and security</b> (e.g., social and political unrest)

*If the constraints you identified are listed in these bullets or do not fit into these categories in the table above, it is likely that you have a constraint that is more appropriately handled using other forms of assistance (if deemed desirable and aligns with USAID's strategic objectives). This is not to suggest that PSE cannot work in these environments, rather that PSE may not be the best tool to directly address these issues specifically. Exit the tool.*

*If you have not identified a constraint and it's a smaller emergency, it could be that the emergency focus needs to be on the demand side and the lack of spending capacity (e.g., access to cash or markets). This does not need a targeted PSE engagement. Exit the tool.*

*Note: Addressing the constraints to enable the private sector to thrive sometimes creates challenges for other sectors or private sector actors. This may be an important consideration as you proceed with PSE opportunities.*

## **b) Why is the private sector interested in working with USAID? What do they want from USAID?**

The private sector may have many constraints to their business, but may have a specific role in mind for USAID that does not necessarily address all or some of their constraints.

It is possible that discussions with the private sector are not advanced enough to know the answer to this question. Alternatively, it could be that the private sector is not yet convinced they want to enter this market and therefore, have not formulated their thoughts about what they would need from USAID in order to do so.

**Discuss:** The **private sector** should be able to articulate at some point what purpose they see for USAID in addressing their constraints to providing the item to the target population. This does not need to direct USAID's approach but it is good to be aware of the private sector's hopes for their engagement with USAID.

## Question 5: Is There A Role For USAID To Help Alleviate or Eliminate These Constraints?

PSE activities need to be assessed to determine if USAID’s contribution will be **additional**, i.e., whether there is sufficient evidence to suggest that a specific private sector investment would not have taken place in the absence of USAID support. The first sign that USAID’s approach is additional is if it addresses one or more of the constraints you identified in Question 4. The table below suggests engagement strategies that are well suited for addressing the constraints identified in Question 4 above. Identified engagement strategies must be designed to account for, and build on, past and existing efforts from multilateral and bilateral donors to address institutional constraints to private sector involvement and investment.



### Illustrative Roles for USAID in Response to Private Sector Investment Constraints

#### 1. Government Failure & Weak Property Rights

Involvement in projects that spur on change in policy, sector, institutional or regulatory frameworks, or enhance practices at the sector or country level. Potential roles could include:

<input checked="" type="checkbox"/>	<b>Convening power</b> – Donors can play a role in bringing regulators and industry together to identify opportunities for regulatory change, overcome oversight and compliance pain points, develop new tools for addressing them, and support integration of those tools by the marketplace. This could happen through facilitating the establishment of a standing body, with plans for local support over time, for government-industry exchange.
<input checked="" type="checkbox"/>	<b>Technical assistance</b> – Provide targeted technical assistance to equip industry associations or consumer-advocacy groups with the skills and coordinative capacity to engage in policy dialogue or lobby while representing a broad cross-section of the marketplace.

#### 2. Incomplete Markets

USAID can help increase access to credit and insurance markets and coordinate supply chains and industries to facilitate greater access to markets. Potential roles could include:

<input checked="" type="checkbox"/>	<b>Technical assistance to improve the (perceived) creditworthiness of firms</b> – USAID can provide access to business planning support that increases bank confidence in the project. USAID can provide technical assistance to the firms to develop financial systems and demonstrate their creditworthiness to lenders.
<input checked="" type="checkbox"/>	<b>De-risking the provision of capital and insurance</b> – Lower the cost or de-risk the provision of capital (e.g., through partial loan guarantees or other innovative financing structures) as a way to foster greater investment flows into the sector from impact investors and commercial financiers.
<input checked="" type="checkbox"/>	<b>Providing catalytic capital</b> – Provide catalyst grants to investment funds as a mechanism to function as a sort of “first loss” or to cover initial management expenses and unlock further investor

	funds. Provide a milestone grant or contract to promising innovators through local accelerators or incubators.
<input checked="" type="checkbox"/>	<b>Funding to strengthen financial soundness, creditworthiness and/or governance of the client</b> – Provision of equity, guarantees first-loss financing, and terms and conditions (i.e., interest rate, payback period) that is not available in the market.
<input checked="" type="checkbox"/>	<b>Market information</b> – USAID can play an important role in collecting market research and large-scale surveys to help the private sector better understand viable market segments and underserved communities.
<input checked="" type="checkbox"/>	<b>Facilitating access to markets</b> – USAID can help to connect local and global value chains where producers can sell their items and services to play a productive role in their economies. This could be through business matchmaking programs, trade shows, study tours, peer-to-peer exchanges, or business fairs. This could be through support to commodity exchanges or transparent pricing mechanisms (e.g., catalogs with pricing information, mobile push service that delivers up-to-date daily market information). In markets where consumer uptake is weak or they are unaware of the product/service, USAID could co-sponsor a portion of the cost of scaling to its target markets or pay for an awareness campaign, possibly by relying on the NGO community.
<input checked="" type="checkbox"/>	<b>Convening power</b> – USAID can bring numerous private sector actors together to align and coordinate respective strategies and efforts for achieving mutually beneficial outcomes, identify resources and potential solutions, better understand interrelated challenges, and enable the private sector to support development objectives.
<input checked="" type="checkbox"/>	<b>Coordination</b> – USAID can serve the pivotal role of bolstering coordination between donors, investors, local firms, and the government to fund business ventures that depend on the complementary actions of many actors. This could take the form of regular public and private sector dialogues on public regulation and policies.
<input checked="" type="checkbox"/>	<b>Emergency response</b> – Legal or logistical help with importing goods (food, essential items, material) into an emergency area.

### 3. Information Failures

Potential roles for USAID to increase transparency, mitigate first mover disadvantages, and encourage adoption of modern practices could include:

<input checked="" type="checkbox"/>	<b>Market research and market transparency</b> – Engagement that advances shared market research, good practices, and increases transparency. For example, interventions monitoring the business practices and financial results of local companies helps investors construct objective risk assessments about business venture profitability.
<input checked="" type="checkbox"/>	<b>Attracting investment</b> – Attracting investors toward innovative business ventures and technology-intensive industries, can be powerful for promoting research and development and other socially-beneficial economic activities that would otherwise go unfunded.
<input checked="" type="checkbox"/>	<b>Knowledge diffusion</b> – Provision of support to clients/partners in raising standards by promoting improved policies (for example, gender equality) and providing expertise in environmental, social, and governance standards (ESG) and on integrity and procurement best practice. Education, technical support, and training are likely to improve local business practices across entire business sectors, as knowledge is easily transferred across firms within a region. This could be done with traditional USAID technical assistance programs or directly bringing in the private sector such as co-sponsoring the development of capacity-building programs with industry associations, universities, or other training centers. Co-sponsor technical assistance for firms to enable alignment

	with or certification in industry-level good practices. Additionally, USAID can help introduce companies to key players in the government to increase transparency.
<input checked="" type="checkbox"/>	<b>Providing catalytic capital</b> – Provide catalyst grants to investment funds as a mechanism to function as a sort of “first loss” or to cover initial management expenses and unlock further investor funds. Provide a milestone grant or contract to promising innovators through local accelerators or incubators. For first movers, the emphasis is on de-risking new ideas, for example by launching a challenge fund.
<input checked="" type="checkbox"/>	<b>Promoting new lines of business</b> – To encourage a new or locally unproven line of business, USAID may facilitate access to credit to demonstrate the viability to all firms in the local market. Use philanthropic or concessional funds to attract more commercially-oriented businesses/investors and unlock further resources. This helps the first firm to reduce risks and serves as a demonstration effect that will attract market entry and additional investment.
<input checked="" type="checkbox"/>	<b>Emergency response</b> – direct business grants/loans, guarantees for traders (letters of credit or other financial guarantees), support for producer groups (grants/loans), support for micro-finance institutions (capital grants or loans, temporary financing of credit unions). Informing market actors about what is happening and planned by humanitarian agencies. Making available the results of monitoring - especially prices in different market locations.

#### 4. Barriers to entry

Improving the business registration legislation may require a large policy-level effort with the local government as part of business enabling activities, as well as more targeted assistance to new or informal firms, or firms operating outside of the country. Ways USAID could engage include:

<input checked="" type="checkbox"/>	<b>Convening power</b> – USAID can play a role in bringing regulators and industry together to identify opportunities for regulatory change, overcome oversight and compliance pain points, develop new tools for addressing them, and support integration of those tools by the marketplace. This could happen through facilitating the establishment of a standing body, with plans for local support over time, for government-industry exchange.
<input checked="" type="checkbox"/>	<b>Technical assistance</b> – Provide targeted technical assistance to equip industry associations or consumer-advocacy groups with the skills and coordinative capacity to engage in policy dialogue while representing a broad cross-section of the marketplace. Encourage local business advisory services to identify and provide reasonable cost services to companies wishing to formalize.
<input checked="" type="checkbox"/>	<b>Knowledge diffusion</b> – Co-sponsor industry-informed studies of policy topics and corresponding implications for early-stage marketplace. Provide objective risk assessments and information to external firms about the business environment, potential consumers, start-up procedures and sufficient information to help firms assess risk. Additional ideas include facilitating networking and mentorship opportunities between market leading firms and local start-ups.
<input checked="" type="checkbox"/>	<b>Emergency response</b> – Lobbying government officials for improvements in food movement policy, tariff reductions, speed of import clearances, emergency tax holidays, or safe passage for traders.

## 5. Missing Inputs

Insufficient infrastructure, poor health, and low education are challenges that USAID is experienced in addressing through their infrastructure, energy, water, health, and education portfolios. However, there are some ways that USAID could engage:

<input checked="" type="checkbox"/>	<b>Mobilize private sector resources</b> – this could be done with concessional funding, depending on the ability of private investors to charge users (e.g., for infrastructure).
<input checked="" type="checkbox"/>	<b>Advocate with the government to allow responsible private entrants into public service provision</b> – a regulatory framework and reasonable competition legislation needs to be in place to allow private provision of health care and education.
<input checked="" type="checkbox"/>	<b>Coordination</b> – Coordinate with the private sector to fund, support, and develop the curriculum for private technical institutes to develop potential employees in specialized skills in the resources of interest.
<input checked="" type="checkbox"/>	<b>Emergency response</b> – grants to restore market stalls, kiosks, storage facilities, water, temporary market places, livestock markets, leasing of vehicles to traders, desalination and debris removal on agricultural land, reconstruction of fish ponds, drainage ditches, irrigation channels, or construction of jetties.

## 6. Detrimental environmental practices

Potential way for USAID to engage includes:

<input checked="" type="checkbox"/>	<b>Advocacy</b> – When individual firms do not compensate others for the harmful effects of their activities, USAID can engage with local governments to advocate for improved regulation, such as compensation mechanisms, taxation, production quotas, and economic sanctions. These interventions are particularly useful for those sectors where the actions of individual firms have the potential to harm public health or drastically affect the environment.
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## 7. Exclusion

Potential ways for USAID to engage could include:

<input checked="" type="checkbox"/>	<b>Convening power</b> – Donors can play a role in bringing regulators and industry together to identify opportunities for regulatory and legislative change to be more inclusive and develop new approaches for addressing discrimination where it may occur with informal institutions at the national or sub-national level. This could happen through facilitating the establishment of a standing body, with plans for local support over time, for government-industry-civil society exchange.
<input checked="" type="checkbox"/>	<b>Technical assistance</b> – Provide targeted technical assistance to equip industry associations or civil society organizations with the skills and coordinative capacity to engage in policy dialogue.

*These approaches are a good starting point and likely need to be further explored and refined during subsequent activity design. As you further examine and design these approaches, here are some additional considerations to determine whether this engagement would be additional.<sup>2</sup> Potential questions to help you are:*

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<sup>2</sup> A summary of a useful approach for considering additionality can be found [here](#): The Donor Committee for Enterprise Development (DCED) (2014). Demonstrating Additionality in Private Sector Development Initiatives. A Practical Exploration of Good Practice for Challenge Funds and other Cost-Sharing Mechanisms.

## a) How is your proposed approach responding to a constraint identified in Question 4?

Reference the list of illustrative roles listed above if helpful, by each constraint.

*If your proposed approach is not responding to a constraint, there is a chance you are subsidizing or supporting the private sector in a way that may not be the best use of USAID funds or expertise. However, some interventions may be necessary in circumstances where the private sector needs help developing, before they can be actively engaged with USAID in solving the challenge. Private sector development may be an intermediate step to longer-term PSE strategies.*

**Analysis:** In an emergency situation, consider first if the constraints could be overcome within the timeframe dictated by the humanitarian context. If yes, this favors an indirect response to work with the private sector in strengthening the market system. This is a key consideration for USAID to shift its role from “service provider” to temporary “facilitator”. If you are unsure about the timeframe, it may be worthwhile to favor direct (in-kind) relief distribution to target groups (exit the tool).

If you are considering providing funds to support a company (e.g., financial additionality):

## b) Does the company/ies have sufficient funds to self-finance the project (within a reasonable timeframe)? Does the company/ies have access to capital on suitable terms or quantities through the conventional marketplace?

*If yes, do not finance and seek alternative ways to engage (for example, facilitating access to finance).*

**Analysis:** This question is very relevant for small or medium sized companies. Whereas with large companies with a lot of financial resources, you may be more likely to focus on whether the company would invest in the specific project without donor support.

Examine their balance sheets if available. Based on financial accounts, the company’s current and projected equity should be considered insufficient to allow it to self-finance the project at all or within a reasonable time frame.

Ensure that the company has not already started to implement the project and is progressing.

Check that the company has not successfully self-financed a similar project elsewhere.

The company may already have loans rejected for this activity.

**Discuss:** The answer to this question may be difficult to ascertain but may be possible to learn in discussions with the **company/ies** and possibly also through discussions with **banks**, which may be able to provide capital to these companies.

If you are considering providing knowledge or technical assistance to a company or group of companies (e.g., non-financial or ecosystem additionality):

## c) Does the company/ies truly lack this knowledge or competencies to design, scale, and/or implement a business model in a way that has an impact on your development or humanitarian challenge?

*If no, do not provide knowledge or technical assistance and seek alternative ways to engage.*

**Analysis:** Examine if the company could afford to hire consultants or other specialists to provide the knowledge or technical assistance at a similar level of quality, rather than relying on USAID.

Check if the company proposal is relevant but there are clear opportunities to enhance its development potential (in ways that USAID is knowledgeable about).

Check that company staff do not have any experience in implementing the development-relevant parts of the proposal.

If this is the first time the company would implement a project of the proposed kind, it could be a sign that they do not have the knowledge or technical expertise.

#### d) Would any of these engagements have the potential to improve the efficiency and competitiveness of a large number of local firms in the long run?

*Note: this is especially relevant if you are advocating for a policy change, or helping to provide missing inputs such as infrastructure or health and education.*

*If no, there are some partnerships that will not necessarily increase the competitiveness of a large number of firms but provide the desired development or humanitarian outcome at scale. However, examine this partnership closely to see if there is not a way to achieve greater efficiency for more firms.*

This question may also be useful in thinking about what types of partners may be interested in working with USAID. For example, partners may be reluctant to work with USAID in developing a specific product, if it will generate demand and benefit their competitors. In this case, you may even want to work with a group of companies or associations, rather than just one company.

**Analysis:** Examine if this project would likely have positive multiplier effects on local economic activity (e.g., through local sourcing).

Who is the target audience for the policy change? How many firms would it benefit in the short-term?

If improving the health or education of individuals, would other firms be able to easily hire these individuals?

#### e) Is this engagement likely to displace other companies already operating or ready to enter the market?

*If yes, there is reason to believe that the private sector is poised to solve your challenge themselves. If that is the case, there is no need for USAID's involvement. If USAID's involvement gives a competitive advantage to a small number of players at the expense of other companies, then look for ways to benefit more companies in the market.*

Be careful not to “pick winners”. We do not want to cause displacement through competitive disadvantage for other firms that already are operating, or wish to enter, the same market as a supported partner. In emergencies, you will want to avoid creating unsustainable aid-dependency and market disruption by minimizing the direct role in the market system, and the duration of their intervention.

**Analysis:** Evidence you would want to look for include: 1) There are no competitors operating in the target market implementing a similar business activity (or immediately planning to do so), or 2) The proposed business activity is new to the target region or country.

**Research:** An existing PSLA should have enough information to help you understand what other players are currently operational in your market.

## f) Does this work duplicate the work of other donors?

*If yes, there may be no need for USAID's engagement or you need to find an alternative or complementary way to work with the other donors.*

**Research:** Research donor websites that seem to be active in a similar area to look for complementarities. In emergencies, find out what is already being done or planned by various humanitarian agencies. For example: check [UN OCHA's "Who Does What Where" matrix](#).

**Discuss:**

*For USAID officers:* Consult with **donors** that seem to be active in a similar area to look for complementarities. In emergencies, join the relevant **cluster group** or **coordination meetings** and speak with the **UNDP**.

## g) Have these companies worked with other donors in the past to solve this challenge, especially in this country?

*If yes, do you have any reason to believe it will be more sustainable this time? However, this may be less relevant to humanitarian situations where private sector actors may commonly work with donors on a short-term, as-needed basis as part of the humanitarian response.*

**Analysis:** Evidence you would want to look for include: The business(es) has not received funding from a donor-funded program within the last few years (less relevant for humanitarian situations).

**Research:** The [USAID Partnerships Database](#) can be a useful resource to identify if companies have partnered with USAID before in this country or another.

Other internet research may reveal if companies partnered with other donors.

## h) Sniff test - Would a skeptical (but reasonable) observer find your argument convincing that you are not subsidizing the private sector?

**Analysis:** This is a judgment call.

**Discuss:** It may be good to pitch the idea to **a colleague** and ask them if it sounds like it may be *additional*.