Understanding Private Sector Engagement (PSE) Processes Using Eight (8) Field-Based Case Studies

Prepared by,

Priyanka Brunese, Ph.D.
Min Kyung Lee, M.S.
Yuehwern Yih, Ph.D.

PURDUE UNIVERSITY
<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>01</strong></td>
<td>Background Research</td>
</tr>
<tr>
<td><strong>02</strong></td>
<td>Private Sector Engagement Life Cycle</td>
</tr>
<tr>
<td><strong>03</strong></td>
<td>Private Sector's Functions in PSE</td>
</tr>
<tr>
<td><strong>04</strong></td>
<td>Models of PSE Operationalization</td>
</tr>
<tr>
<td><strong>05</strong></td>
<td>USAID's Six Ways of PSE</td>
</tr>
<tr>
<td><strong>06</strong></td>
<td>Using the Case Studies</td>
</tr>
<tr>
<td><strong>07</strong></td>
<td>Characteristics of 8 Case Studies</td>
</tr>
<tr>
<td><strong>08</strong></td>
<td>Case 1: Engaging PS for ecological sustainability</td>
</tr>
<tr>
<td><strong>09</strong></td>
<td>Case 2: Engaging PS for market-based healthcare services</td>
</tr>
<tr>
<td><strong>10</strong></td>
<td>Case 3: Improving agricultural value-chain through PSE</td>
</tr>
<tr>
<td><strong>11</strong></td>
<td>Case 4: Community economic development through CSR</td>
</tr>
<tr>
<td><strong>12</strong></td>
<td>Case 5: Establishing infectious diseases COE through CSR</td>
</tr>
<tr>
<td><strong>13</strong></td>
<td>Case 6: Engaging PS through impact investment</td>
</tr>
<tr>
<td><strong>14</strong></td>
<td>Case 7: Impact investment in SMEs through PS funds</td>
</tr>
<tr>
<td><strong>15</strong></td>
<td>Case 8: Engaging PS to establish innovation center</td>
</tr>
<tr>
<td><strong>16</strong></td>
<td>PSE Resources and Tools</td>
</tr>
<tr>
<td><strong>17</strong></td>
<td>Contact Information</td>
</tr>
</tbody>
</table>
USAID has been a leader in private sector engagement (PSE) within the development sector. This wealth of experience informs current USAID practices and processes when engaging the private sector (PS) and is the foundation for the PSE Policy. Through its PSE Policy, USAID has taken a strategic approach to consult, strategize, align, collaborate, and implement with the PS to achieve greater scale, sustainability, and effectiveness of development or humanitarian outcomes. However, despite an existing body of evidence on PSE practices and effects of PSE approaches, critical gaps remain in understanding how to most effectively engage with the PS to achieve and sustain results. To better understand USAID’s PSE processes and potential bottlenecks, in 2018 the Center for Transformational Partnerships (Lab/CTP, now DDI/PSE Hub) funded the LASER PULSE¹ program to conduct USAID’s PSE Process Analysis research. For details on the larger research project, please visit this link. For accessing the executive summary, please visit this link.

RESEARCH AIM & METHODS
Examined the causes and contexts of sub-optimal or unintended outcomes and looked to identify root causes, with an eye towards sharing appropriate lessons learned and opportunities for improvement in PSE throughout USAID.

The research team used a systems engineering and multi-stakeholder perspective approaches to examine the end-to-end private sector engagement process employed by USAID including problem definition, partner selection, engagement negotiation, implementation, and closeout. This work aims to add valuable insights into engagement processes that can enhance the success of PSE.

RESEARCH TAKEAWAYS

1. To engage different types of PS partners including local businesses in a meaningful way, it is essential to have more streamlined processes and clear communication channels with PS.

2. A ‘good’ or ‘satisfactory’ partnering experience is important to formalize the engagement and continue to stay engaged. PS and USAID operate differently. We found the misalignment in shared values and operational expectations were key causes for poor partnering experience for PS.

3. To reduce bottlenecks in the process and make the overall partnering experience better, PS perspectives need to be included in the design of theories of change for activities that include PS engagement.

¹ LASER (Long-term Assistance and SErvices for Research) PULSE (Partners for University-Led Solutions Engine) is a five-year, $70M program funded through USAID’s Innovation, Technology, and Research (ITR) Hub, that delivers research-driven solutions to field-sourced development challenges in USAID interest countries. A consortium led by Purdue University, with core partners Catholic Relief Services, Indiana University, Makerere University, and the University of Notre Dame, implements the LASER PULSE program through a growing network of 2,700+ researchers and development practitioners in 61 countries. LASER PULSE collaborates with USAID missions, bureaus, and independent offices and other local stakeholders to identify research needs for critical development challenges, and funds and strengthens capacity of researcher-practitioner teams to co-design solutions that translate into policy and practice.
USAID’s PSE Lifecycle is nonlinear, cyclical and complex in nature, consisting of three interrelated phases (Exploration, Formulation and Implementation). These phases require an underlying foundation of:

- **Clear value propositions** for each stakeholder to participate in the engagement (cost benefit analysis)

- **Well-articulated Theory of Change** that outlines how the contributions of the various partners (value proposition) will result in the intended outcomes

- **Agreed shared values** of how the results will be achieved

- **Well-defined operational alignment** among the partners that outlines how they will work together, where they will work, how decisions will be made, and how conflicts and communication will be managed to foster an environment that promotes effective engagement among the partners
Private Sector's Function is a combination of:

- Private Sector's role in the engagement
- Private Sector's level of involvement through the engagement

Our study identified five PS functions:

1. **Financial Supporter** when PS provides mostly funding with low involvement in the design or implementation of PSE activities.

2. **Financial Collaborator** when PS provides funding, with a moderate-to-high level of involvement during design and implementation, but the PS was not responsible for implementing activities.

3. **Co-Partner** when PS provides funding, innovations, technology, thought leadership, had higher involvement in the design and were responsible for implementing PSE activities.

4. **PSE Collaborator** when PS participates in USAID-supported activities with some monetary contribution (matching or fee-based), with low-to-moderate involvement in design and higher involvement during implementation.

5. **PSE Participant** when PS participates in USAID-supported activities without any monetary contribution, with low involvement in design, but moderate-to-high involvement in implementation.

<table>
<thead>
<tr>
<th></th>
<th>Co-design of Activities (Formulation)</th>
<th>Support/ Collaboration (Implementation)</th>
<th>Implementation of Activities (Implementation)</th>
<th>PS' Contributing Role</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Supporter</td>
<td>Low</td>
<td>Low</td>
<td>Low</td>
<td>Funding</td>
</tr>
<tr>
<td>Financial Collaborator</td>
<td>High-moderate</td>
<td>High-moderate</td>
<td>Low</td>
<td>Funding Implementation support</td>
</tr>
<tr>
<td>Co-Partner</td>
<td>High</td>
<td>High (Led)</td>
<td>High</td>
<td>Cash/In Kind Leads Implementation Thought leadership</td>
</tr>
<tr>
<td>PSE Collaborator</td>
<td>Moderate-low</td>
<td>Moderate</td>
<td>High</td>
<td>Cash/In Kind Participates in implementation</td>
</tr>
<tr>
<td>PSE Participant</td>
<td>Low</td>
<td>No</td>
<td>Moderate-high</td>
<td>No funds Participates in implementation</td>
</tr>
</tbody>
</table>
Models for PSE are not unified in development work although there are different ways of engaging partnership and how PS work in the development project. Our analysis showed that the PSE Lifecycle was operationalized differently across the 8 cases we examined. We established four models of PSE operationalization that were differentiated based on the four characteristics: Initiating Partner, PS' Function, Linkage between PS' commercial interest and/or expertise to the formalized engagement’s activities and the partner leading the implementation. These four models show the diversity in context and approaches to PSE. Details on these four operationalization models can be found here.

**Research Findings: Models of PSE Operationalization**

**MODEL 1: IP led PSE related to PS accessing new markets**

**MODEL 2: Philanthropy-based PSE implemented by IP**

**MODEL 3: Impact investment-based PSE led by PS Fund Manager**

**MODEL 4: Multi-stakeholder approach to market-based solutions to address development challenges led by PS**

USAID may or may not have direct engagement with SME, but may rely on PS Funds Manager.
# USAID's PSE Policy: Six Ways of Engaging PS

<table>
<thead>
<tr>
<th>No.</th>
<th>USAID’s Ways of PSE</th>
<th>Objective</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Information-Sharing and Strategic Alignment</td>
<td>Engagement that aims to identify shared interests, respective capabilities, and experiences. It does not necessarily entail investment of financial resources.</td>
</tr>
<tr>
<td>2</td>
<td>Advancing Learning and Market Research</td>
<td>Engagement that advances shared market research, good practices for PSE, and joint strategic planning and project design within the USAID Program Cycle.</td>
</tr>
<tr>
<td>3</td>
<td>Harnessing Private-Sector Expertise and Innovation</td>
<td>Engagement that harnesses innovation, technology, research and development, industry expertise, and/or entrepreneurial skills to achieve development outcomes.</td>
</tr>
<tr>
<td>4</td>
<td>Catalyzing Private-Sector Resources</td>
<td>Engagement that mobilizes private-sector resources and action – including philanthropy and CSR assets – to address a specific issue and/or objective.</td>
</tr>
<tr>
<td>5</td>
<td>Unlocking Private Investment</td>
<td>Engagement that addresses constraints to a transaction or broader investment. The emphasis is on activities that can be replicated or brought to scale, inclusive of efforts to “crowd in” and shape investment.</td>
</tr>
<tr>
<td>6</td>
<td>Strengthening the Enabling Environment</td>
<td>Engagement on issues of importance to multiple U.S. and local private-sector actors, such as regulatory reforms, policy, compliance with standards, and government capacity building.</td>
</tr>
</tbody>
</table>

For more details, see [USAID’s PSE Policy](#) (pg. 19)
Using These Case Studies

WHAT IS THE PURPOSE OF THESE CASE STUDIES?
These case studies are not written as success stories, which are more typical in international development. The purpose of these case studies is to showcase the complex, iterative processes that are typically used while exploring, formulating and implementing these partnerships. These case studies present the narrative story of the partnership from a process perspective, including different external events or internal changes that resulted in challenges or bottlenecks in the process and impacted the partnership’s progress and planned outcomes.

These case studies are to be used by any individual in USAID, PS, or implementing partner who is trying to understand how to effectively establish and implement such partnerships. These case studies can be used for training and learning purposes. They help the readers understand that PSE is not a ‘one-size-fits-all’ model. These case studies show that there are different ways to engage the PS in development, different models for operationalizing them, PS can play different roles and have different levels of involvement in them, and that these partnerships are dynamic, complex systems that require enough time, resources and monitoring to keep them on track for planned progress. These case studies showcase how USAID’s PSE Lifecycle is operationalized by Missions, PS and other partners. They are context-specific, but still show processes that can be replicated. We recommend that these case studies be used to understand the nuances of PSE and complement them with other tools and frameworks developed as part of this research.

HOW THESE CASE STUDIES WERE DEVELOPED?
8 field-based formalized partnerships between USAID and private sector (PS) organizations were examined individually using process analysis and case narrative research methods. Start to finish processes were investigated using multiple data sources including in-depth semi-structured interviews conducted with USAID personnel, private sector staff, implementing partner staff and any other partners that were involved; and publicly available documents related to each engagement.

HOW ARE THESE CASE STUDIES STRUCTURED?
Each case study includes: (1) The geographic location, (2) USAID sector, (3) type of PS, (4) estimated funding size of the engagement, (5) the PSE Policy’s ways of engagement that was addressed, (6) the formulation mechanism and (7) private sector’s Function, (8) the value propositions for each partner, and (9) the operational structure of the engagement. The case study then presents a narrative of the process, events, challenges and any identified best practices across the Exploration, Formulation and Implementation phases of the PSE Lifecycle. Reflections from interview participants on lessons learned are then presented with interview excerpts.

Note: To maintain anonymity of all the participants we interviewed, we have de-identified the specific contexts and our data.
## Characteristics of the 8 Case Studies

<table>
<thead>
<tr>
<th>Case No.</th>
<th>Geographic Region</th>
<th>Sector</th>
<th>Way of Engagement</th>
<th>Operational Model</th>
<th>Type of Private Sector</th>
<th>Private Sector's Function</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>East Asia</td>
<td>Environment/Ecology</td>
<td>PSE Way 6, PSE Way 1</td>
<td>Model 1</td>
<td>Family-owned Local, National &amp; Multinational PS</td>
<td>PSE Collaborator</td>
</tr>
<tr>
<td>2</td>
<td>East Asia</td>
<td>Health</td>
<td>PSE Way 6, PSE Way 2</td>
<td>Model 1</td>
<td>National and Multinational</td>
<td>PSE Collaborator</td>
</tr>
<tr>
<td>3</td>
<td>East Asia</td>
<td>Agriculture/Economic Development</td>
<td>PSE Way 4, PSE Way 1</td>
<td>Model 1</td>
<td>Local SME Family-owned and National</td>
<td>PSE Collaborator</td>
</tr>
<tr>
<td>4</td>
<td>West Africa</td>
<td>Agriculture/Economic Development</td>
<td>PSE Way 4</td>
<td>Model 2</td>
<td>Multinational</td>
<td>Financial Collaborator</td>
</tr>
<tr>
<td>5</td>
<td>West Africa</td>
<td>Health</td>
<td>PSE Way 4</td>
<td>Model 2</td>
<td>Global</td>
<td>Financial Supporter</td>
</tr>
<tr>
<td>6</td>
<td>Latin America</td>
<td>Agriculture/Economic Development</td>
<td>PSE Way 5</td>
<td>Model 3</td>
<td>Multinational Investment Fund Manager; Small-sized agribusinesses</td>
<td>Co-Partner, PSE Participant</td>
</tr>
<tr>
<td>7</td>
<td>Latin America</td>
<td>Agriculture/Economic Development</td>
<td>PSE Way 5</td>
<td>Model 3</td>
<td>Multinational Investment Fund Manager; National private investors; Medium-sized agribusinesses</td>
<td>Co-Partner, Financial Collaborator; PSE Participant</td>
</tr>
<tr>
<td>8</td>
<td>Middle East</td>
<td>Education/Youth</td>
<td>PSE Way 3</td>
<td>Model 4</td>
<td>Multinational</td>
<td>Co-Partner</td>
</tr>
</tbody>
</table>
CASE STUDY ONE:

Engaging private sector for ecological sustainability
CASE STUDY 1: Addressing Ecological Sustainability Through PSE

**Problem and Opportunity**
Businesses have struggled to keep pace with the exploding global demand without harming the ecology, consequently jeopardizing the wild population. IP was a well-known implementing partner operating in the country and was working toward sustainable ecology objectives with local businesses and intermediaries. They wanted to address these issues by enhancing traceability and transparency in the country's local businesses, and by positioning these businesses for recognition of its sustainability through certification.

**Case Overview**

<table>
<thead>
<tr>
<th>Geography</th>
<th>Southeast Asia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sector</td>
<td>Environment/Ecology</td>
</tr>
<tr>
<td>Type of PS</td>
<td>National, international, SMEs</td>
</tr>
<tr>
<td>6 Ways of Engagement (USAID’s PSE Policy)</td>
<td>Strengthening enabling environment, Information sharing and strategic alignment</td>
</tr>
<tr>
<td>Size of Engagement</td>
<td>~ $10 million (1:1 matching)</td>
</tr>
<tr>
<td>Partnership Mechanism with PS</td>
<td>MOU between IP and PS</td>
</tr>
<tr>
<td>PS’ Function</td>
<td>PSE Collaborator</td>
</tr>
<tr>
<td>PSE Operationalization</td>
<td>IP Led PSE (Model 1)</td>
</tr>
</tbody>
</table>

*PS: Private Sector Enterprise; *IP: Implementing partner

**Process Overview**

<table>
<thead>
<tr>
<th>Exploration</th>
<th>Formulation</th>
<th>Implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>- There was a pre-existing initiative by IP and other donors. - Alignment of partnership objectives occurred between USAID, IP and other donors. - IP used previously conducted study evidence to design PSE incentive program funded by USAID and other Donors. - IP initiated contact with local and global PS and explored their interest in participating in the PSE incentive program.</td>
<td>- IP shared PSE incentive program’s objectives and showcases potential incentives including a certification, networking, improving PS’ reputation and access to technical expertise. - IP signed an MOU with PS.</td>
<td>- IP led implementation of PSE incentive program with PS. - PS contributed cash and in-kind for implementation of PSE activities. - IP provided training, capacity building and technical assistance for PS. - Regular meetings occurred to check progress and share lessons learned.</td>
</tr>
</tbody>
</table>
Engagement Structure and Objectives
This PSE was established through a GDA between Donor 1 and USAID, though Donor 2 was already funding similar work by IP. Donor 2’s resources were used to establish minimum requirements for ecological sustainability as well as to develop technology to lower the cost and enhance verification of initial sustainability standards and traceability. Building on this work, Donor 1 and USAID collaborated to scale the approach. Donor 1, USAID and Donor 2 had worked together and shared information in the past and were all motivated to work towards similar environmental and ecological sustainable goals, which made the alignment clear from the beginning. IP had worked with SMEs in the country and other parts of the world in the past, making them a good fit as an implementing partner. The purpose of this PSE was to recruit PS into an incentive program and build their capacity so that they could become eligible to be certified as a sustainable business.

Value Proposition for Partners
- **USAID**: To coordinate a unified voice and effort across different actors and stakeholders to support the ecological sustainability goals.
- **PS**: Access international markets and premium prices; Reduce reputational risks around environmental challenges; Obtain legitimacy (certification); Adapt to sustainable business models
- **Other Donors**: Corporate/Foundation social responsibility
- **IP**: To use evidence-based practices and develop incentive program for PS

Operationalization of USAID’s Private Sector Engagement Lifecycle

**Exploration Phase: Understanding Purpose of Engagement and Initiating Relationship**
This PSE was part of several initiatives. It included formal and informal relationships among USAID, Donor 1, Donor 2 and a host of local and international implementing partners in a coalition which is, “more of a coordinating platform where the organizations get together and compare notes and talk with each of the grantees how to make the most of each other’s effort.”

As part of this larger initiative, IP conducted a study to collect evidence to support the issues related to ecological sustainability. Based on this scientific evidence, IP brought the idea for the program to Donor 1, who then brought it to USAID. According to other donors, USAID played an important role in ecological sustainability. USAID served as an “important actor, contributor and influencer, so we pay attention to USAID.”

There was alignment among the actors on the larger goals around making the ecosystem more sustainable in Southeast Asia. The actors involved in formulating this activity included USAID, Donor 1 and IP, with an ancillary role from the Donor 2. USAID was motivated to be part of these discussions as the “potential activities were aligned with our five-year strategy, Country Development Cooperation Strategy”, while for the other donors, this
activity aligned with their own objectives. The presence of scientific evidence on the impact of fishing in the country’s ecosystem also motivated all the donors to support this activity proposed by IP. Thus, the pre-existing relationships among the actors allowed for informal discussions for them to take the idea forward to formalizing the activity.

USAID needed the ‘theory of change’ to include private sector engagement. So, USAID, IP and Donor 1 aligned on these specific goals and program structure which included IP to lead the development and implementation of the initiative and engage private sector companies in the industry to incentivize them to join the FIP program. USAID and Donor 1 signed an MOU and GDA agreement to contribute an equal share of the funding to support IP through separate parallel agreements. IP had separate reporting requirements for both donors.

Once the initiative started, IP led the development of the PSE activity to incentivize the private sector to meet incentive program standards to then potentially get the sustainability certification. This incentive program also engaged with local and national government entities to potentially create policy based on evidence.

IP used the previously established scientific evidence to design PSE standards for any private sector company that wanted to join the PSE activity. (Private sector was not engaged in the development of the standards)

However, it was challenging to explore PS’ value propositions and establish shared value as the PSE design was established by IP without fully understanding PS’ perspectives on the incentive program’s activities.

“Participation (in the PSE incentive program) by the industry was free. But it's not without cost, because it requires them to change their business practices. And of course, there's a cost associated with that. And, in addition, we are also working with them to set off some of the costs for monitoring.”

After developing the operating principles and PSE standards, IP initiated contact with local, national, international businesses to invite them to participate in the PSE activity. IP used pre-existing relationships as well as reaching out to new private sector companies to make initial contact.

Formulation Phase: Formulating Engagement with PS

During the initial meetings, IP personnel would introduce the PSE activity, share the objectives and showcase the benefits of receiving the sustainability certification. They would also share other incentives that the company would receive such as using the IP’s logo or use IP’s network to make connections with potential buyers if they joined the program. IP would also provide technical assistance to the companies on data collection and development of traceability systems.

To join the PSE activity, companies would have to sign an MOU with IP to formalize the collaboration, which included a monetary contribution (a percentage of their business commodity) towards operations of PSE activities and sharing their business operations data as they comply with PSE guidelines.
However, businesses did not have the same priorities as development actors. IP shared that private sector companies were usually not aware of iNGOs and development actors and didn't always understand the concept of sustainability.

**PS’s motivation to participate in the PSE activity was related to improving their business.** Even though the certification was not expected immediately, PS was incentivized by getting certified, which improved their reputation and connections through IP would also open new markets and buyers.

“*So basically nowadays, most of the buyers are looking for sustainable sources, which have certification. Unfortunately, Southeast Asia now doesn't have any certified businesses yet. So, we just joined this program as a push to get certified.*”

“*Honestly speaking, it is for the business. If we don't have a certified document to support our business, it is really hard nowadays to sell without certification.*”

IP was successful in recruiting about 15 PS into the FIP, with the incentive that joining could eventually lead to sustainability certification and better prices from their customers.

**Implementation Phase: Implementing Program Activities**

Once IP recruited private sector companies to join the PSE activity and signed MOUs, the companies were required to share their business data with IP on a regular basis. IP would then analyze whether the PS companies were adhering to the incentive program’s standards. IP also provided training, capacity building and technical assistance to the companies on setting up data collection and reporting systems.

IP also organized quarterly meeting events that included all the PS companies involved in the PSE activity, the donors USAID and Donor 1, as well as other stakeholders like Donor 2, government actors and other LGHs. During these meetings, IP facilitated discussions around lessons learned, challenges faced and provided reporting on the progress.

There were several challenges faced by PS companies during implementation related to complying with the standards set by IP in the PSE activity.

**There were compliance issues related to the standards which affected IP’s performance of implementing the FIP.** Not all PS companies were meeting the standards set by the PSE program. When IP had the quarterly meetings, they shared openly which companies were complying to the set standards. They found that “*out of 15 PS companies, only four could achieve that commitment, and then the rest are still below the target.*”

**There was a mismatch between market demand and incentive program’s standards.** PS was not convinced by the standards and research conducted by IP. According to the PS company, “*IP’s thinking is basically very different.*” and “*when you go to the market, it is totally opposite*”. Instead of changing market behavior, their methodology focused on changing PS’ business behavior, which is driven by market demand. This created a mismatch between market trends and incentive program’s standards as the PS companies in the program were expected to meet certain standards that limit their behavior, even though there was a high demand from the market.
CASE STUDY 1: Addressing Ecological Sustainability Through PSE

This made it challenging for the PS to stay competitive in the market. One PS company stated that “our company has to sell to the US. But the problem we have is that the US market requirements are different from what is asked from the PSE program and so that's the problem in the market.”

Businesses that complied with set standards felt disadvantaged. When IP shared information about which companies were able to comply and which did not meet the standards during the joint meeting, PS companies were not comfortable sharing information about their business with others. It created friction among the companies and IP as companies that adhered to the requirements felt that they “have been put at a disadvantage by changing our practices, as we now know that some of the other companies are not complying, and we have made the (business) changes that you required as per FIP requirements.”

It was challenging for some businesses to contribute administrative costs associated with FIP. To sustain the FIP, participating businesses were asked to contribute “two cents per pound for one transaction”. This meant that some part of the profit made was to be contributed to the PSE activity. One business shared “for some participants I think, this is considered as a big amount. So, a lot of people kept silent. I think the money part is challenging.” The PSE activity is still ongoing and has not closed out. IP was in the process to recruit more businesses in the program.

Reflections from Participant Interviews

There is a need for private sector actors to have clear value propositions and shared value for collaboration. “They'll get this certification, which might lead to some rewards. I don't think that that's true. And I think this is part of the challenge. So when you're looking at sort of the private sector solution, you have to think about their incentives, right? Like who's buying their commodity? And who's going to pay and what benefit are they getting?” - Donor 2

The theory of change for this program was not born out by reality. There was a lack of information on the demand-supply aspects of the market and role of the government. Programming needed to influence “government adoption and government reforms” instead of only focusing just on the private sector’s ability to change their business practices, because “no amount of companies committing to change their business operations is going to really improve the health of the whole stock.” - Donor 2

The outcome was suboptimal for this program. Donors wanted to see impact, instead of funding activities that are not outcome oriented. “In the beginning of our funding, we were like, let's see how this goes. But hopefully, by the end of three years, you see a real pathway to government adoption of both the data collection, and the actual reforms needed to manage the industry. And by the end of the grant, it was sort of like, just give us more money to do what we're doing. And we'll still need another three years to figure it out. So, for me, that doesn't really argue for more funding, I'm tired of funding the same thing without seeing the end in sight.” - Donor 2

Implementing partner seemed to have taken a ‘green-washing’ approach without fully understanding the market. “I don't think IP are experts in this, they certainly entered this program without fully understanding that world. I think IP saw this PSE activity as this is the
silver bullet, and over three years, they've learned that it probably isn't. This PSE activity, in general, is seen as greenwashing.” - Donor 2

There was a need for a phased operational approach that included developing shared value with other stakeholders such as government actors. "The government focuses more on social-path and IP focuses more on the environment-path. The government should basically ask IP to maybe take a step-by-step approach. It shouldn't be just one straight path and ask businesses to change their buying model-- this is hard for everyone. Maybe the government should set the standard." - PS
CASE STUDY TWO: Engaging private sector for market-based healthcare services
CASE STUDY 2: Addressing need for sustainable healthcare services through PSE

Problem and Opportunity
USAID had worked closely with the country to respond to the health emergency by “delivering prevention, care and treatment services, and by advocating for policies that will improve sustainability, improve access to quality of services, and strengthen the overall health system.” USAID was motivated to develop a sustainable response to a specific health related development challenge which included changing consumer consumption behavior towards specific services and products.

Overview

<table>
<thead>
<tr>
<th>Geography</th>
<th>Southeast Asia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sector</td>
<td>Health</td>
</tr>
<tr>
<td>Type of PS</td>
<td>National and international, SMEs, social enterprises, multinational corporations</td>
</tr>
<tr>
<td>6 Ways of Engagement (USAID’s PSE Policy)</td>
<td>Strengthening enabling environment, Advance learning and market research</td>
</tr>
<tr>
<td>Size of Engagement</td>
<td>~$15 million</td>
</tr>
<tr>
<td>Partnership Mechanism with PS</td>
<td>Non-Disclosure Agreement (NDA) between IP and PS on sharing of information internal to PS</td>
</tr>
<tr>
<td>PS’ Function</td>
<td>PSE Collaborator</td>
</tr>
<tr>
<td>PSE Operationalization</td>
<td>IP Led PSE (Model 1)</td>
</tr>
</tbody>
</table>

*PS: Private Sector Enterprise; *IP: Implementing partner

Process Overview

<table>
<thead>
<tr>
<th>Exploration</th>
<th>Formulation</th>
<th>Implementation</th>
</tr>
</thead>
</table>
| • USAID proposed the idea and put forth a call for proposal for IP.  
• IP submitted a concept note and a full proposal.  
• Co-creation occurred between USAID and IP to design a market study.  
• IP conducted market study and developed a market-based health focused initiative to engage PS.  
• IP initiated contact with local and international PS and explored their interest in participating in the health initiative. | • Negotiated and formalized investment terms with PS through NDAs.  
• Co-creation occurred between IP and PS on how IP can support PS to develop market-based solutions to address the development challenge. | • IP provided technical assistance (branding, product registration, legal guidance) for selected PS.  
• Implementation of planned activities by PS and IP. |
Engagement Structure and Objectives

USAID in collaboration with IP, established the partnership initiative. According to USAID, it aimed to develop a sustainable response to the development challenge by: (1) enabling the environment and policies, by asking ‘what policies are needed to enable the private sector to invest in specific disease related goods and services?’ (2) From a user/consumer side, how can the demand for any new products or services be increased? (3) From a supply side, how can the private sector create a commercial market for specific disease related goods and services.

With USAID’s support, IP facilitated a transition from free or partially subsidized specific health related commodities and services to a locally sustainable market by providing technical assistance. IP signed NDAs with private sector companies, which enabled bidirectional exchange of resources. PS committed to sharing business development plans and finances. IP in return guided policy and regulatory frameworks to support access and market growth.

Value Proposition for Partners:

- **USAID**: Creating a sustainable response to the development challenge
- **PS**: Market entry (Introducing innovative solutions in the market); Access to community and govt actors; reduce business risk by getting access to technical expertise and resources
- **IP**: Creating a sustainable market-based model for the development challenge

Operationalization of USAID’s Private Sector Engagement Lifecycle

**Exploration Phase: Understanding Purpose of Engagement and Initiating Relationship**

As a response to USAID’s call for proposals, IP was selected as they had a history of working with the private sector, their subject matter expertise and their strong relationship with the government. Based on USAID’s request, IP conducted a market research study in collaboration with USAID to conduct a survey and interviews with different stakeholders from both demand and supply sides, including the private sector (manufacturers, retailers and distributors of specific disease related goods and services), the government, as well as different vulnerable communities and community-based organizations.

Using the findings from the market study, IP and USAID designed and established the initiative which aimed at: (i) enabling the environment by working with the government so private sector can invest in the market, (ii) influencing consumer behavior and increasing demand for new services and products by working with community-based organizations, and (iii) creating supply of new goods and services in the market by partnering with the private sector and providing technical assistance.
IP led the PSE activities of identifying and contacting both domestic and international private sector companies that might be interested in joining the initiative. IP not only contacted companies with whom they had pre-existing relationships, but also initiated new relationships. They shared their insights from the market research to convince the companies to enter the market in the country.

However, the challenge they faced during the exploration phase was stigma related to the disease and finding shared value with PS companies who did not want to enter the stigmatized market. According to IP, “it was a hurdle to overcome with some of the organizations or companies that we were talking to, where you could see their eyes just sort of shift when you talk about the diseased population in need.”

IP also engaged the government and community-based organizations to disseminate the findings from their market study.

**Formulation Phase**

Using the market research data, IP co-created potential market entry options with the selected private sector companies. There were several value propositions for the private sector companies to join the initiative.

- **Access to a new market:** Private sector would have access to a population that was not being served. *“We knew that there's a true opportunity in Southeast Asia -- there is an at-risk population, a marginalized population that isn't being served.”* - PS

- **Access to resources:** According to one of the companies, they are a small company compared to bigger health/pharmaceutical companies, and most of their resources are used for their business operations. Having access to the market data from IP, as well as IP’s expertise and resources would allow them to determine the target market and market entry approach.

- **Access to networks:** Working with IP would allow PS to access IP’s network and connections to other private sector actors such as distributors and retailers as well as government actors.

- **Reduced financial risk associated with entering a new market:** For many PS companies, being part of the initiative meant getting technical assistance to navigate the challenges associated with entering a new market.

If companies and IP were able to find shared value in formulating the engagement, the next step for IP was conducting a due diligence process and then signing a non-disclosure agreement (NDA) with the private sector company.

*However, finding shared value with the “right” type of private sector company was challenging.* In one instance, IP was unable to move the formalization forward as they found that one of the manufacturing companies “just didn't seem to have the right ethics and didn't seem to really align with what we were trying to achieve. And so early on, we parted ways with them.”

**Implementation Phase: Implementing Engagement with PS**

Once the NDA was signed between IP and the PS company, it allowed them to “lean in and work together”. The NDA enabled them to share information and allowed IP to provide
CASE STUDY 2: Addressing need for sustainable healthcare services through PSE

technical assistance on registration and branding of product, legal guidance, coordination with government and community actors to enable the private sector company to enter the market.

According to IP, their role was, “advise and provide support, make recommendations on different local companies that they might want to work with, help answer questions, help them navigate confusion, because it's really tough to register a product in a new market. And, what we (IP) have is insight into the price point of these different companies. And we can kind of push back on them and say, this is coming in way too high, compared to what we see from other manufacturers and from the willingness to pay. We have data that we use as a point of negotiation with a given company.”

One of the challenges that PS faced while collaborating with IP was finding operational alignment around timing of activities and planning. One of the PS companies shared that they conduct five-year strategic planning as compared to the annual planning and work plan development for the initiative. This sometimes created a “mismatch between our long-term strategic development and their annual planning.”

There were several challenges that the PS faced to enter the Southeast Asia market through the PSE Initiative.

First, it was challenging for some PS enterprises to get their ‘new’ product registered with the government of Southeast Asia (It was a risk for the government). When introducing a new product, PS needed to register it with the government. According to IP, getting the product registered was the “first hurdle” and it required a “huge amount of work”. According to one of the companies, introducing a non-traditional product or service that the government does not have systems in place to evaluate or the evidence that the new product worked, the government “didn’t know how to register it”.

Best practice: However, “the IP through the PSE initiative provided that guidance, to be able to identify those risks and try to provide evidence to say it's really the benefit outweighs the risks and taking action” – PS

PS manufacturers also faced challenges to negotiate prices and formulate agreements with distributors and retailers to be able to sell their product. “So, trying to connect the originator and the retailer together to strike a deal on what the price points are going to be for the product, and getting that right is where a lot of deals have broken down or where we've had to spend a lot of time.” – IP

Lastly, some social enterprises found it challenging to engage government authorities due to the stigma associated with the disease when working in communities and with community-based organizations. “I would like to share the stigma and discrimination towards this vulnerable population in Southeast Asia is very high. So, we need to make a lot of efforts to prove to local and national authorities about the importance of community organization for this disease.” – PS

As the agreements between IP and the PS companies’ sunsetted, IP assisted the companies with the development of business sustainability plans as several companies were wanting to continue building their presence in the country, but also scale their products and the model of entering a new market to other countries.
One of the PS companies shared, “I hope that there's proportionally similar funding to smaller countries like Cambodia and Laos. And if USAID is in place, and says, we're going do the same thing for these other smaller countries, like we did in this country and help to scale it up, we need to provide the evidence, help you have other guidelines in and bring it to market so that way, after a period of time becomes a sustainable model, it's a private model, then, at least it's it brings the smaller population, smaller market opportunities, countries into same par in terms of having access to new technology, new tools.”

Another company opened franchises to serve different communities/neighborhoods in the country based on their success with the initiative and is now recognized as a service provider by the local government.

Contrary to the success of some enterprises, the poor enabling environment dissuaded one PS company from making a long-term investment in the Southeast Asia market. IP was able to pilot a product with this company in the market and increase demand for that product. However, “after four years, the product was not available in Southeast Asia, because the company was facing the problem of getting market authority into the Southeast Asian market...and due to lack of an enabling environment, they were not keen to invest.”

Reflections From Participant Interviews

There needs to be shared value between all partners. “The private company needs to have a clear mission vision and value of the company and see if that fits with USAID value. The activity of this company needs to consider social impact because if the company only worked for their own business to get the money, I don't think that would fit with the USAID value...So, collaborating with any private company it is important to understand the strategy of the company and identify the cost IP between that company and USAID and IP.” - PS

Program design and implementation needs to have clear goals and needs to involve all stakeholders from the demand, supply and enabling environment perspective from the start. “We need regular meetings and be inclusive in terms of the project implementation. You need to make sure that everyone gets the ownership of the project, not just us, either USAID or the implementing partner, all the stakeholders, even the government, you have to make sure that the project benefits them as well.” - USAID

There needs to be a plan for sustainability from the start of engagement. “So, it's just really clear milestones in terms of introducing and creating markets that are really sustainable. Ultimately, funding is not going to continue forever. It is about creating opportunities for flexing the market where the investment for a small company would make it sustainable. Sustainable in the sense of us (private sector) having to invest but also becoming a public health partner in the ministry of health so they also can focus their limited resources and fixed resources elsewhere.” - PS

Conducting market research was critical to have intentional engagement with the private sector as it allows for shared value propositions with PS. “The market survey was really useful when we designed anything since we need data to drive the initiative. So, without the data, it is really difficult for you since you have to base on your gut and sometimes it could be not realistic. So, you have to make use of data to design any new initiative.” - USAID
CASE STUDY 2: Addressing need for sustainable healthcare services through PSE

“The market data and understanding about public health motivated private sector investment was the key thing, and for the private sector to see how they can invest in which areas in the local market.” - IP

**Finding operational alignment among partners takes time.** “I wish things would have been faster, but it was not because of USAID or IP. It was really just waiting for things to align, and letting people who are in these positions, to be able to digest it, tell you what they’re comfortable with.” - PS
CASE STUDY THREE:
Improving agricultural value chain through PSE
CASE STUDY 3: Improving agricultural value chain through PSE

Problem and Opportunity
Agriculture is one of the key economic drivers in the country. According to USAID, “a lot of focus for the past 30 years from all the donors was the production side,” resulting in high quality produce at an increased cost. However, there is a gap in the agricultural value chain related to processing that could extend the life of agricultural products. The country lacked sufficient processing hubs to turn raw produce into other food products (e.g., dried fruit) at a quality that could be exported, and they lacked business linkages, especially with the international markets. USAID wanted to address this value chain gap, by focusing on engaging local agribusinesses, especially those processing facilities in the value chain. USAID Mission had an existing project that was faced with severe implementation challenges and had to be “de-scoped”. To re-program the allocated funds, USAID decided to design a new initiative to address this value chain gap.

Case Overview

<table>
<thead>
<tr>
<th>Geography</th>
<th>South Asia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sector</td>
<td>Agriculture</td>
</tr>
<tr>
<td>Type of PS</td>
<td>Local SMEs (Agribusinesses)</td>
</tr>
<tr>
<td>6 Ways of Engagement (USAID’s PSE Policy)</td>
<td>Catalyzing private-sector resources Information sharing and strategic alignment</td>
</tr>
<tr>
<td>Size of Engagement</td>
<td>$50,000-$200,000</td>
</tr>
<tr>
<td>Partnership Mechanism with PS</td>
<td>Matching grants with SMEs</td>
</tr>
<tr>
<td>PS’ Function</td>
<td>PSE Collaborator</td>
</tr>
<tr>
<td>PSE Operationalization</td>
<td>IP Led PSE (Model 1)</td>
</tr>
</tbody>
</table>

*SMEs: Small Medium Enterprises; *PS: Private Sector Companies; *IP: Implementing partner

Value Propositions for Partners

- **USAID**: To address challenges in the agricultural market value chain from the demand side by creating commercial incentives for private sector
- **PS**: Access to markets, Reputation of working with USAID, Funding for business expansion, Capacity building on new technologies and services
- **IP**: To implement USAID funded program
**Process Overview**

<table>
<thead>
<tr>
<th>Exploration</th>
<th>Formulation</th>
<th>Implementation</th>
</tr>
</thead>
</table>
| - USAID proposed the idea and put forth a call for proposal for IP.  
- IP submits a concept note and a full proposal.  
- Co-creation between USAID and IP to design PSE activities under a market-based agriculture focused initiative.  
- IP initiated contact with local/national businesses and explored their interest in participating in the agriculture initiative. | - USAID and IP conducted consultation workshops and provided technical assistance for the local SMEs to complete the matching grant application.  
- PS applied for the grant.  
- IP and USAID reviewed the PS matching grant applications and selected those that matched their criteria.  
- Agreements and MOUs were signed among USAID and PS. | - IP and PS co-created market-based solutions specific to each PS’ needs.  
- PS matched USAID grants and participated in PSE activities.  
- IP led implementation of PSE activities.  
- IP provided on-site technical assistance, as well as troubleshooting, trial-run and installation of the agricultural equipment. |

**Engagement Structure and Objectives**

The overall goal of the project was to support the development of local commercial agriculture and livestock sectors to compete in national and international markets. To achieve this goal, the PSE activity focused on: (i) support upgrading and streamlining of supply chains by generating private sector driven investments, (ii) provide technical assistance to optimize profit margins, and (iii) promote cooperation and integration amongst the value chain actors and ancillary service providers.

With USAID’s support, IP conducted a market analysis to determine four commodities to design the PSE activities. IP signed agreements with PS partners to provide technical assistance and training, allowing them to leverage private sector investment and encourage production innovation. The purpose of this PSE was to allow PS partners to streamline and modernize their farming techniques and supply chains through matching grants from USAID.
Operationalization of USAID’S Private Sector Engagement Lifecycle

Exploration Phase: Initiating and Developing Relationships with Local SMEs
This PSE predated the recent USAID PSE policy and before the call for engaging more private sector organizations. The agriculture team within USAID Mission held informal consultations with the private sector to develop the initial statement of work. Previous USAID Mission activities and initiatives often focused on building capacity or training. However, with this PSE initiative, “for the first time, we started from the private sector’s perspective-- how to increase commercial exports. And from there, it became something of a demand side ‘pull’, rather than a supply side ‘push’.”

As a response to USAID Mission’s call for proposals, IP was selected as their approach was oriented towards the market side, had expertise in the field of agriculture, and had previously managed USAID projects. IP conducted several meetings with agribusinesses across the country as a “situation analysis and a needs assessment” to understand “the gaps in the industry and what sort of intervention they suggest for the development of the business.” Based on these initial assessments and discussion with local and global consultants, the PSE initiative was designed to have a grant and a technical assistance component for private sector SMEs and farmers. The matching grant program was a different approach taken by IP and USAID, as they developed a request for proposals to invite local SMEs and agribusinesses to apply for various levels of matching levels between USAID and the private sector partner (e.g., 1:2, 1:3 or 1:4). IP led the activities of identifying and contacting local SMEs that might be interested in joining the initiative.

However, the project faced challenges gaining interest as several SMEs and agribusinesses operate in the rural market economy and were not familiar with grants or USAID requirements. According to IP, “communicating in a clear way what the USAID project is about with the farmers to come in the grant program, was a challenging task.”

Best Practice: This challenge was addressed jointly by IP and USAID by conducting stakeholder consultations. “PS were communicated, and information was disseminated to them, along with a newspaper advertisement that people should come in this stakeholder consultation so that we may sit on both sides of the table and present our model.”

Formulation Phase
IP and USAID Mission designed 20 grants ranging from $50,000-$200,000, where private sector partners matched at least double the value. The purpose of the matching grant was to allow SMEs to invest in processing equipment or resources such as machinery for production, feed formulation software, processing vacuum pack machines and blast freezers.

However, many PS faced challenges in the application process and the questions on USAID grant applications were not straightforward for SMEs. According to USAID, “it was not only like, tell us what you want, or how you think you can work with USAID, it was a very, very highly technical Request for Application...but the first round was challenging because people wanted to know how we present our case in the black and white, to address all the cross cuttings and make them eligible and potential to be in the part.”

Also, local SMEs did not understand USAID’s gender and environmental requirements. “Most applicants did not know the meaning of gender integration, like how they would
CASE STUDY 3: Improving agricultural value chain through PSE

Integrate gender or why they would engage with more women while working under USAID grant. They also did not know how to fulfill environmental compliance requirements.”

IP and USAID also faced challenges in convincing SMEs to invest in matching grants. “Although it was a cost share, and they (private sector) had to come up with cash, in-kind contribution wasn't accepted.” “So to prepare themselves for investment, we had to assure them that this project will materialize.”

IP and USAID reviewed the proposal and conducted due diligence but found that very few good quality applications were submitted. Several applications had to be disqualified.

Poor quality of matching grant applications. “So the quality of applications that we received was very, very low. And out of probably 80 applications that we received, only two qualified.”

Disqualification of applications due to unethical business practices. “So as a process of USAID regulations, we cannot engage with any of the private sector, where the child labor is engaged. So that company was also dropped.”

Bias in the selection process, as only those SMEs that have worked with USAID in the past understood and matched the application requirements. “You're trying to get new partners engaged, people who have never received USAID funding before. But they don't have two years of financial records. So you end up coming back to the same people who already have the records.”

Selection of only those SMEs that can afford cost-sharing. “And because they (private sector companies) were already earning money, so that was not a big challenge for them to invest that money back in the business and get the grant as well. But those people who are new to such investment need a sort of a strong mobilization.”

Best Practice: Stakeholder consultations and workshops were conducted in local languages. IP and USAID/South Asia staff provided information and “hand-holding” for the local SMEs to complete the grant application for the request for proposals. These workshops were conducted in native language and translation services were also provided to assist in filling out the application.

IP and USAID faced further slowdown during this formalization phase due to the introduction of new USAID regulations. A new regulation from USAID Washington was introduced in which “grants under contract, they have to be vetted under this regulation.” This slowdown created frustration among the private sector as “they had to wait almost nine months to get their verification, which caused delay in our (USAID’s) uptake of the grants program”. Once the verification was done, the matching grants were awarded to selected private sector entities.
Implementation Phase: Implementing Engagement with PS
As a first step, the project had to establish clear expectations, particularly around the matching requirements, roles and responsibilities.

However, there was no designated Chief of Party, causing severe delay in the procurement approval process. According to USAID, “So the biggest challenge was the project was without a chief of party (COP) for a very, very long time. And that delayed some of the equipment because the COP had to sign the purchase orders. And at their end, a certain threshold that the chief of party could sign and then there was a certain threshold that IP headquarters would approve those grants. So, there were multiple layers of bureaucracy involved in the delay.”

There were also delays due to government regulations around customs and duty on imported equipment. USAID shared “the local government requires private sector companies to either get a waiver for the general sales tax, and customs duty if they are importing, or they have to pay it upfront. None of the private sector companies were ready to pay the customs duty or the general sales tax up front and they asked for a waiver.”

These delays resulted in several issues that hampered the implementation process.

Missing the production season and potential benefit. The delay in awarding the grants and the equipment procurement delays meant that “we’re going to miss the production season and we (USAID) really wanted to provide them with the equipment so that they can start using it in season.”

SMEs faced financial issues due to the procurement delay. “He’s also frustrated because they have to wait and are locked in at the same price that they have quoted. The dollar value fluctuates almost every day. So if they have to wait for like six months, the prices can go up. Then they will give us a notice, like a one-week notice. And tell us that sorry, we cannot provide you the equipment at the same price. And the whole process is initiated again.” – USAID

IP also faced several challenges related to coordination and reporting of PS activities and USAID needed to intervene to motivate the private sector partners to meet the negotiated performance goals.

PS had difficulty with understanding USAID procurement processes. USAID requirements did not make sense to the grantees because they were very price sensitive, particularly given their high level of investment in the project. SMEs could not understand why USAID regulations did not allow procurement of certain equipment, which were more affordable.

There were challenges in finding incentives to motivate PS SMEs to perform and meet set objectives. “We knew that this private sector partner was getting late, but we didn't really have the levers to push them. I went there twice and I tried to push the guy. He was very polite and he made promises. It did get close to getting done, but it took a lot of pushing. At some point, we did say to him, you know, we are going to pull our equipment back, we are going to not give you the grant. But that'll work for some people. And that won't work for others.” – USAID
CASE STUDY 3: Improving agricultural value chain through PSE

Some private sector partners lost interest during implementation. USAID shared “we were providing the machine he was going to make the building. So till the last minute, he wasn't pushed. The guy who was a billionaire, he just didn't care. So you have to be careful and walk that balance between people who can actually do it, and people who are actually just there.” – USAID

Implementation: Partnership Closeout with PS led by IP
As IP and USAID closed out on the different program activities with the private sector partners, some activities had been more successful than others.
Some private sector partners faced financial risk due to unsuccessful outcomes. According to USAID, when a particular technology/innovation did not work as hoped for a producer, “he thought his crop failed, he wasn't interested in pursuing it any further.” USAID could not assist any further. The private sector partner “still has the facility and is still paying his operational costs every month, which are not insignificant. And he's still hoping to kind of, you know, link up to an international market, but as far as USAID and IP, we have moved on and we have left them.”

There are challenges in sustaining relationships, especially with unsuccessful outcomes after project closeout. “As far as the Mission goes, I think the Mission is kind of done. They're not interested. You know, once the project is over, I can't get any traction for it internally. We don't have an ongoing one that once the project sunset is done, we do not maintain, for example, unless it's informal, or we do it on a personal basis. I don't think there are any formal, structured means for engagement.

Reflections From Participant Interviews

A strategic approach is needed with involvement of PS perspectives early during design of the PSE initiative and continuously throughout the process to develop meaningful relationships and clear objectives. “I hope we seriously consider having more consultations with the private sector than we had in the past so that we can openly discuss with them what is the end objective, the high-level objective that we are going to achieve, or we are aiming to achieve and not put conditions on it. And we should focus on what is needed on the ground. We need to understand what the baseline is right now and where do we want to take this sector? What are the steps that are required? What is it that is lacking, and we should not tell them that this is what we want to do, for example?” - USAID

Program design needs to consider local context. “Integration is great, but sometimes we really struggle on incorporating a number of women like for example, by policy, we have to involve 30 percent women. But how many agribusinesses in South Asia are women owned? I think you can count on your fingers. Very few women own the land in South Asia. But ask what is in it for a common woman farmer? If we are aiming to work in contract farming, working with a processor, and we expect the contract with the farmer to include 30 percent of women? How is that going to happen? Our goals and aims should be realistic.” - USAID

Capacity building and technical assistance are needed when engaging local SMEs. “Start with the technical assistance, so that we may better judge and make a good assessment on which private sector players are more competitive, and they have the potential to, to match the cost here and make the best use of the grant.” - IP
CASE STUDY 3: Improving agricultural value chain through PSE

Consider the delays in the Formulation phase to evaluate established objectives and develop realistic deliverables for the Implementation phase. “As far as approvals and such things are concerned, I think we should streamline and get it done on a faster, more keeping in view the duration of project. If the duration of the project is five years and you are waiting for one year for the approval of the grant in that case, you are not going to deliver the level which is expected of you.” - IP

Program needs to include the local government for sustaining efforts after the funding for the PSE initiative ends. “When we are working directly with the private sector, I believe that we are not leaving any institutional mark. We are not leaving something that can be carried out or followed and monitored after the project. So, I believe that if these projects are run by involving on government sector as well, especially the regulating authorities and regulating departments, it will become easier to control the grantees.” - IP
CASE STUDY FOUR: Community economic development through corporate social responsibility
CASE STUDY 4: Community economic development through private sector’s CSR

**Problem and Opportunity**

PS played a major role in the socio-economic activities of the rural commune of West Africa. However, its operations caused serious environmental and social problems. Their past business practices have resulted in massive destruction of agricultural land, losses of life and communal riots. These problems caused reputational issues for PS.

PS wanted to address these issues, rebuild trust with the community and the local government. One key area that they were interested in exploring was alternative livelihoods such as agriculture development that could provide better, more sustainable economic opportunities for the community members.

**Case Overview**

<table>
<thead>
<tr>
<th>Geography</th>
<th>West Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sector</td>
<td>Agricultural/Economic</td>
</tr>
<tr>
<td>Type of PS</td>
<td>Multinational Company</td>
</tr>
<tr>
<td>6 Ways of Engagement (USAID’s PSE Policy)</td>
<td>Catalyzing private-sector resources</td>
</tr>
<tr>
<td>Size of Engagement</td>
<td>$3 million</td>
</tr>
<tr>
<td>Partnership Mechanism with PS</td>
<td>MOU between PS and USAID</td>
</tr>
<tr>
<td>PS’ Function</td>
<td>Financial Collaborator</td>
</tr>
<tr>
<td>PSE Operationalization</td>
<td>Philanthropy Based PSE (Model 2)</td>
</tr>
</tbody>
</table>

*PS: Private Sector Enterprise; *IP: Implementing Partner

**Process Overview**

<table>
<thead>
<tr>
<th>Exploration</th>
<th>Formulation</th>
<th>Implementation</th>
</tr>
</thead>
</table>
| • PS initiated the idea of an alternate economic development program for the community they are situated in and contracted IP to conduct an agricultural feasibility study.  
• IP introduced USAID to PS.  
• Alignment of partnership objectives occurred between USAID and PS through informal meetings. | • Based on the feasibility study, USAID, PS and IP designed the PSE activities.  
• USAID and PS sign an MOU.  
• Contractual and procurement steps based on USAID’s regulations were followed. | • IP implemented PSE activities geared to benefit and build capacity of the rural community.  
• IP coordinated workplans and MEL reporting. |
CASE STUDY 4: Community economic development through private sector’s CSR

Engagement Structure and Objectives

This initiative, a private sector GDA between USAID and PS, was established with an MOU signing ceremony with key dignitaries from the USAID Mission and PS. This PSE aims to increase opportunities for individuals and communities affected by PS business practices by (i) strengthening linkages between agricultural market system actors through producer organizations in the local community, and (ii) by improving supply system capacity through investment in processing facilities.

Both USAID and PS invested $1.5 million through the initiative. USAID and PS were funding the IP through separate contractual/cooperative agreements. With USAID’s and PS support, IP was responsible for implementing and coordinating activities from the workplan and worked closely with community members and community-based organizations.

Value Propositions for Partners

- **USAID**: To implement development goals
- **IP**: To implement USAID and PS funded activities
- **PS**: Corporate social responsibility; Build relationship with the local communities and maintain positive interaction and goodwill locally

Operationalization of USAID’s Private Sector Engagement Lifecycle

**Exploration: Understanding Purpose of Engagement and Initiating Relationship**

USAID Mission had received funding that could be used only in areas most affected by Ebola and through partnership with the private sector. According to PS, they were “looking for a partnership with any organization to help them implement their agricultural and social component of their activities”.

USAID Mission reached out to PS to develop a new relationship and explore the possibility of a partnership through the GDA mechanism (because of the nature of funds). Several meetings occurred between USAID and PS.

PS was interested in pursuing this partnership for both funding support as well as USAID’s experience in the agricultural sector. USAID had also found a potential private sector partner who had vested interest in the development of the local community.

**PS’s Motivation** “At some point, we are going to close our operations in this community. Now what we are looking at is how do we leave the communities better off, one currently as we are operating, but most importantly, when the operations are closed. We are looking at programs or projects that we will leave as a legacy and sort of replace the business activity that we started today for the economy of the area in this instance, to continue to grow sustainably in the absence of our (PS) presence.”
CASE STUDY 4: Community economic development through private sector’s CSR

PS’s Motivation to Partner with USAID “So we need to partner with people that are in the area that have got the experience and so on...USAID was readily available in the country, and we decided to pursue a relationship with them. But not only as a third pair of eyes. But also in terms of sustainability. USAID is an institution that will have an interest in the project for as long as they are there.”

However, there was no agreement in the Mission on whether they should engage with this company. Also, the USAID Foreign Service Officer (FSO) that PS initially approached, was concerned about PS’ poor reputation in the community and how any relationship with them might negatively affect USAID’s credibility.

Due to reputational risk concerns, USAID Mission did not move the engagement to formulation. USAID shared “it came to sort of an impasse, particularly insofar as PS at that time was facing some opposition from the community around a number of issues...Because the reputational risk of associating ourselves with somebody who is doing that just was not worth whatever short-term development results, we might get out of it. And I believe that it was even at a point where USAID, these guys had been really in pretty deep into detailed discussions with PS about setting up this partnership.”

PS did not get a response from USAID, but they wanted to continue the project even without USAID’s buy-in. PS hired IP to conduct an agriculture feasibility study to identify profitable crop(s) that could grow in the existing land and the possibility of building a processing facility for the identified crop.

Back to Exploration: Continuing relationship

It had been almost two years since PS had heard back from USAID. In early 2018, the Mission personnel changed. USAID FSN (foreign service national) believed in this idea and continued to advocate for this partnership.

[Process for Shared Alignment] “I (new FSO) asked around, I asked my local staff what they thought, they seemed to think that the partnership was still a good idea. But I still wasn’t totally convinced, until we went and we talked to the people from PS...And then we did eventually meet with people from PS. And we kind of learned about what they were doing. We also met with the youth group from that area, which had been one of the primary sort of civil society forces that had been opposed. PS had redoubled their commitment and their consciousness that it was important to really maintain good relationships with the local community.”

The new FSO bought-in to this idea as advocated by his local Mission colleagues, and he was willing to partner with PS after several meetings with PS as well as conducting an informal due diligence on the current relationships between PS and the community. In late 2018, USAID decided to start formulating the design of a potential partnership.

Formulation Phase

With a lot of input from PS, IP submitted the concept note first and then the full proposal. USAID then conducted a formal due diligence process to assess the reputational risk of working with PS at that time. USAID’s GDA mechanism was used and expectations were set as the Memorandum of Understanding (MOU) was developed with PS.
Formulation of partnership was delayed due to leadership turnover and lack of authority. Once the formal due diligence process was completed, USAID had to go through several contractual and procurement steps and paperwork that they had not expected as part of the GDA process. In addition, the Mission experienced a turnover of several procurement staff. These issues caused the formalization process to be delayed.

Implementation Phase: Implementing Engagement with PS

Implementation of the partnership activities were affected due to the delay in USAID’s procurement process. USAID was not able to fund IP for almost a year and a half since the initiation of the formalization process. This resulted in the lack of dedicated and “on the ground” IP staff to support the project from the start. This delay also caused some frustration for IP, PS as well as the local community.

This resulted in frustration among partners. “People are expecting that they come with all this machinery, and electricity. So there was a high pressure on IP and PS to start local social activities. I will almost say that they were in a hurry, setting these activities with USAID. Of course, USAID is a very slow organization. I’m from West Africa, and the region that they are working in is West Africa. The guy who was speaking my local language asked me, is it true that you will come down, are you lying or are you just slow? So I felt their anger.”

PS did not want to wait on implementation, so the partners decided that IP could start with the PS supported activities. Thus, IP started implementation activities for PS five months before the USAID award was finalized. This split in implementation of activities meant that the partners could not develop an integrated joint work plan. IP had to create a work plan and reporting process for PS first. Once the agreements were signed with USAID, IP had to create a work plan and separate reporting process for USAID. Because of this stagnated implementation process, there were several challenges faced by IP.

There was a mismatch in work plans and reporting expectations between PS and USAID. IP shared, "Part of what has made it challenging for us is that the PS contract was signed five months before the USAID one. So we were implementing for a number of months before USAID fully came on board... but the timeline just ended up not being fully aligned and in sync from both sides. So essentially, we had to develop an initial work plan for PS before USAID was even in the picture. And then we developed a second work plan for USAID.”

IP faced challenges to synchronize and prioritize activities that PS wanted to implement first versus those that USAID wanted. For example, PS was more interested in prioritizing activities that would yield the crop, while USAID needed IP to focus on capacity building on gender and environmental mandates. IP shared, “For example, some projects include a gender study, other projects will include an environmental assessment, this one did. So there’s kind of a number of studies that are conducted in the beginning, that, ideally, would involve both partners, and ideally would happen at the very start. But again, because one part of the project started before the other, we were not able to begin work on some of these USAID deliverables until we received the USAID portion of funding. And I had to work on other activities before that, and be judicious in how we realigned the work plan in that case”
IP also faced further coordination challenges as the seasonal planting and harvesting calendar for the crop also needed to be considered in the planning and implementation of activities. Activities were also delayed by the Covid-19 pandemic. All of these challenges created capacity issues for IP as they were trying to implement two different implementation and reporting requirements.

Joint implementation for PS and USAID activities finally began in May 2020, five months after IP started implementing activities using PS’s funds. To address all the issues caused by the delay, the team now has quarterly meetings with all partners. IP has also made an effort to staff in-country personnel and have created a joint work plan. PSE activities are still ongoing, but all partners have identified the need to have a sustainability plan after the funding ends.

Reflections From Interview Participants:

**Internal alignment within USAID is critical to avoid missed opportunities and bottlenecks.** “I think that my local team member was pretty convinced of the validity of this project all along, even when some of the American staff balked in 2015. But ultimately, it’s the American staff that’s going to say yay or nay to this. And so it just so happened that one group left, and then another group came, and I was that second group, and I thought it was a fair thing to do. Granted, again, the conditions have changed and some of the original red flags had been addressed by this point. But anyway, I guess just one of the lessons is that it kind of depends a lot on the American staff, the local staff is going to be the institutional memory, and they can try and influence how things go. But a lot of times their voice is subordinated to the American staff’s voice and preferences.” - USAID FSO

**Program design needs to account for operational alignment regarding timing of funds, sequencing activities and turnover within USAID.** “This type of a GDA, where there’s a private partner and potentially a different timeline to consider scheduling kind of routine and regular check-ins with all three partners, even before the signing of the award. It is challenging when the two parties are moving on different calendars. Being able to do the joint work planning, for example, before the project has started, even without the funding would be helpful or, or if there’s a potential for USAID to use its discretionary powers to pre-authorize spending in some cases.” - IP

**PS and USAID priorities related to implementation activities were different even when broader goals are the same.** “A broader challenge of understanding each side’s priorities, which are kind of the same goals in the end, but how you get there are sometimes articulated differently. And there’s kind of this element of translation between development speak and private sector speak, that has to happen.” - IP

**There needs to be a sustainability plan for program activities geared towards beneficiaries once the USAID and PS funding towards capacity building ends.** “PS will not be there that long. So it gives us comfort that an institution like USAID will have an interest and would always want to know what’s happening with the project, and will always be there where assistance is required to provide the support that will be required in 10, 15, 20 years of time when PS is not there anymore” - PS

**Conducting a feasibility study was critical to assess if development solutions being designed could be implemented with the current capacity and context of the beneficiary.**
“So we did a study for them looking at different value changes, potential agricultural opportunities. And from that, we identified a particular crop as one of the best opportunities for this particular area. And from there, we did a second study with them. And that was the feasibility study looking at the possibility of constructing a Processing Factory, very close to the catchment area for where all these crops already exist, and then training the local farmers who own the crops to improve the quality and the volumes supplied in order to supply this factory. So we developed a feasibility and pretty high level business plan for how this could work.” - IP
CASE STUDY FIVE: Establishing infectious diseases 'Center Of Excellence' through corporate social responsibility
CASE STUDY 5: Establishing center of excellence to address infectious diseases through PSE

Problem and Opportunity
Infectious disease outbreaks in the country had drained the local health system of vitally needed resources, slowing subsequent economic growth and development. Infectious diseases remain a major health issue across the country and particularly in the densely populated capital city.

Case Overview

<table>
<thead>
<tr>
<th>Geography</th>
<th>West Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sector</td>
<td>Health</td>
</tr>
<tr>
<td>Type of PS</td>
<td>Multinational Company</td>
</tr>
<tr>
<td>6 Ways of Engagement (USAID’s PSE Policy)</td>
<td>Catalyzing private-sector resources</td>
</tr>
<tr>
<td>Size of Engagement</td>
<td>~$1-2 million</td>
</tr>
<tr>
<td>Partnership Mechanism with PS</td>
<td>GDA between USAID and PS</td>
</tr>
<tr>
<td>PS’ Function</td>
<td>Financial Supporter</td>
</tr>
<tr>
<td>PSE Operationalization</td>
<td>Philanthropy Based PSE (Model 2)</td>
</tr>
</tbody>
</table>

*PS: Private Sector Enterprise; *IP: Implementing Partner; *LGH: Local Government Hospital

Process Overview

<table>
<thead>
<tr>
<th>Exploration</th>
<th>Formulation</th>
<th>Implementation</th>
</tr>
</thead>
</table>
| ● USAID DC had informal discussions with PS.  
● PS presented their conceptual idea of investing in the facilities and capacity of LGH to USAID. | ● PS and IP submitted a joint concept note to the call of GDA.  
● USAID DC conducted a normal GDA review process and delegated the GDA process to USAID Mission.  
● USAID Mission organized planning sessions with all stakeholders involved.  
● An MOU was signed between USAID DC, USAID Mission, PS and LGH.  
● IP was funded by USAID. | ● IP led PSE activities as planned in the USAID workplan, while LGH was responsible to implement activities funded by PS.  
● IP coordinated overall implementation of workplan and MEL reporting. |
CASE STUDY 5: Establishing center of excellence to address infectious diseases through PSE

Engagement Structure and Objectives

USAID awarded the agreement to an IP, but they could not begin work until a memorandum of understanding (MOU) was executed between LGH, PS and USAID. The initiative aimed to establish a specialized center at LGH to support post-disease recovery and achieve measurable improvements in the lives of West Africans through improved management of Infectious Diseases (ID). To achieve this goal, the project was implemented in a phased approach. Phase 1 has three goals: 1) refurbish and equip the LGH’s allocated space for patient care, 2) strengthen the capacity of health care workers, and 3) improve access to specialized clinical care for infectious diseases.

Value Propositions for Partners

- **USAID DC**: Use Congress allocated Ebola funds towards PSE activities.
- **USAID Mission**: Forward the health priorities in the country
- **IP**: Implement the PSE activities
- **PS**: Corporate Social Responsibility [Monetary commitment to govt]

Operationalization of USAID’s Private Sector Engagement Lifecycle

**Exploration: Understanding Purpose of Engagement and Initiating Relationship**

USAID had received funding from Congress with a specific earmark for working with the private sector. USAID’s Center for Transformative Partnerships created a specific GDA addendum to work with the private sector. They were focused on “second order impacts of infectious diseases” which included impacts on the job losses, educational disruptions and efforts to enhance the health system.

**USAID’s Motivation**: To work with the private sector to rebuild systems and structures that were impacted, in partnership with the private sector.

Before the infectious disease outbreak, PS had received a concession from the country government, requiring PS to donate $10M. PS had an existing relationship with LGH, funding other initiatives.

**PS’ Motivation**: PS wanted to meet their commitment made to the Government as part of their corporate social responsibility. “We (PS) are committed to support community engagement efforts, primarily in the health sector and economic enterprise development to receive the concession.”

PS representatives in the country made an informal connection with USAID Mission through several ministerial meetings at the US Embassy in the country. Through these meetings, PS presented their conceptual idea of investing in the facilities and capacity of LGH.
CASE STUDY 5: Establishing center of excellence to address infectious diseases through PSE

Initiation Process: According to PS, “The Foreign Commercial Service was working very closely with PS and other U.S. companies, we had regular meetings, where we shared our ideas. So, when the disease outbreak happened, the U.S. Government immediately said, Okay, what do we want to do? What can we do?” And we were working with the Ministry of Health and so we said, “Well, this is what we are doing. We have a concept, building the capacity of LGH to be a center of excellence, let's formalize it.”

PS’s main motivation to partner with USAID. PS wanted to have effective project management and coordinated training, by tapping USAID’s expertise in these areas, “for the purposes of training for the purposes of effectively managing the project or implementing the project.”

PS, in collaboration with IP, submitted their joint concept note to the call of GDA concept notes put out by USAID Development Lab in Washington. The concept note went through USAID’s review process in Washington and was identified as one with potential. At this point, USAID Mission was not involved in the process of co-creation. USAID/CTP decided to select PS and IP’s concept note to move to the next phase for full proposal.

Formulation Phase

After the PS/IP concept note was selected as “promising” for further development, USAID/CTP initiated formalization processes with USAID Mission (Health team), PS and IP. “Large planning sessions” were conducted in the country including the beneficiary (LGH) as well as the Ministry of Health.

There were several challenges that USAID (Washington and Mission), PS and IP faced during these planning meetings with the beneficiary.

First, there were differences in expectations around the co-creation process. USAID-PS-IP team expected the staff from LGH to write the details on how the health center would be established and managed. However, LGH was “completely understaffed” after the epidemic, and their staff perceived that too much was being asked of them. This capacity issue caused delays in the co-creation process as the team was unable to “get the right attention and expertise from LGH” to attend the planning meetings.

Not having the right people and expertise with enough bandwidth from all parties during co-creation USAID shared “I would say that the biggest challenge was getting the right attention and expertise from LGH, and it was a little bit hard because they obviously were in a mode where they were recovering from all the devastation of ID-- number of possible doctors and nurses and so they were completely understaffed somewhat officially they were already understaffed.”

There were differences in expectations related to the level of involvement in the co-creation process across the different partners. According to USAID, “well, if you (LGH) want to have a center of excellence for infectious disease funded by USAID and PS, you need to come to the table and talk about what it looks like and how you would manage it. We're not going to just write it. They often were unable to attend meetings or couldn't bring advice back to the meeting. I think from their perspective we're asking for too much of them”
CASE STUDY 5: Establishing center of excellence to address infectious diseases through PSE

Second, there were differences in expectations around the design of the financial structure and processes of the potential partnership. PS’s funds were provided directly to LGH with the aim that they would use those funds to implement the objectives jointly co-created through this partnership. This arrangement could not be replicated for USAID funds as LGH being affiliated with the government did not meet USAID standards for primary recipients. Thus, USAID funded IP to coordinate the implementation activities. This arrangement of USAID funds was not in alignment with LGH’s expectations, causing a major process slowdown and high levels of frustration among the team.

There were differences in expectations related to financial structure and management as the government hospital expected to receive and manage funds directly. IP shared, “LGH didn't want to sign off on the project, because they felt like USAID’s million dollars should go straight to them, because PS was giving their million dollars straight to the hospital. And they didn't like that USAID was using an implementing partner to manage the funds. So we really went back and forth for a long time trying to negotiate with the National stakeholders just to get their approval for us to move forward with the award. In that time period, PS lost interest.”

Third, there was also ambiguity on who approves the activities and the work plan at LGH. The team would make agreements with the hospital CEO, which were then taken to the board of directors (Ministry of Health), who would again convene new day-long meetings to revisit the agreements made with the CEO. Since this was a global GDA the key POC were in Washington, rather than in the Mission. Given that these negotiations were happening in-person, it was challenging for USAID Washington to negotiate with country stakeholders. According to USAID, “it was really challenging to move the process along because the work planning was drawn out.”

USAID was struggling to convince the hospital administrators. However, PS was able to use their existing relationships to influence LGH’s leadership and played an important role to move the process forward. It took several months to get the MOU vetted across USAID, PS and LGH. It took about 8 months for USAID to get mutual agreement on roles and collect signatures on the MOU from LGH’s leadership and Ministry of Health before implementation could start.

Fourth, USAID Washington and the Mission were not in agreement in awarding the project to the select implementing partner, since the Mission had faced challenges on a different project. The resolution was that the IP would not share personnel on the project, but this caused further delays. A USAID Mission staff shared, “The IP was already working in the country, but their reputation was not stellar. We were able to put conditions on this project to address past project red flags.”

During the final stages of formalizing the partnership, PS shared with USAID that their oil exploration in the country was not successful, and they would be exiting the country during project implementation.

Implementation Phase: Implementing Engagement with LGH

Challenges faced during the formalization phase including limited availability and commitment of leadership and staff to engage in the partnership, ambiguity around decision-
CASE STUDY 5: Establishing center of excellence to address infectious diseases through PSE

making processes, misalignment on selection of IP, difference in financial expectations and reduction in PS’ involvement, caused major trust issues among everyone involved.

As implementation began, USAID had to pivot their original plan as they found that basic amenities required to establish the physical space for the health center were missing such as adequate infrastructure, electricity and water.

These issues were further exacerbated due to lack of accountability and unclear roles and responsibilities.

There was a lack of clarity on roles and responsibilities for all partners. By the time implementation started, PS had moved but the roles and responsibilities outlined in the MOU were not updated. PS had played an important role with IP and LGH, and their departure exacerbated the already high levels of mistrust. Without PS' influence it was more challenging to keep the government partners accountable, especially around the financial management of PS’ funds that were provided directly to the hospital. IP shared, “from our perspective, we pushed back pretty hard, and USAID agreed that it was not appropriate for us to manage those (PS) funds, because we didn't have any visibility into how they were being used.”

IP and LGH, and their departure exacerbated the already high levels of mistrust. Without PS' influence it was more challenging to keep the government partners accountable, especially around the financial management of PS’s funds that were provided directly to the hospital.

There were challenges due to lack of involvement from PS in decisions around implementation. USAID shared “I would agree that PS became less engaged. We got less of their perspective because they weren't necessarily wanting to achieve anything, they just wanted to close it up. We also were losing the relationship. More like a donation from PS, you know, rather than a true partnership in delivering.”

There was a lack of financial transparency and accountability in financial management of funds. PS provided the fund directly to LGH, but this created lack of accountability in the management of funds. According to IP, “I think in an ideal public private partnership like that, PS would have been at the table, they would have felt like they had a stake in this, they would have been pressured since they had given their million dollars directly to the hospital, they would have been pressuring the hospital to use those funds effectively. And you know, really holding the hospital accountable. But PS just disappeared and left their money with the hospital. So they sort of weren't an equal partner in this, which we really needed.”

This management of PS’ funds caused a slowdown in implementation of other planned activities. There was a “limited budget to carry out all activities,” which significantly affected the project. According to the publicly available MEL reports, “the project has not been able to secure private funding to leverage additional funds from USAID.” Given all the struggles, LGH had never really become committed to the partnership. They did not prioritize their leadership's time or cooperation. USAID and IP struggled to get access to the appointed point of contact for the project or have timely communication or decisions. It was clear that they had not endorsed the objective of the partnership.

There were challenges due to lack of leadership and administration capacity of hospital administrators during implementation. It was hospital doctors who oversaw implementation
CASE STUDY 5: Establishing center of excellence to address infectious diseases through PSE

of the program, not hospital administrators. According to PS, “One of the things that frustrated us with this project is that they (hospital doctors) were probably not trained as hospital administrators...I think the biggest challenge we have in this was in the administration side of things. One of the components of this was actually to hire administrators. And again, we were trying to get somebody that actually knew something about administration, as opposed to maybe being just a medical doctor, that was stuck with the name of administrator.”

Access to leadership or staff of government partners was challenging. USAID Mission shared, “We had trouble meeting with the leadership. So, it was supposed to be implemented between us, we were supposed to have a team of just like two people from the IP, working with the hospital to create this health center. But the hospital leadership was sort of in chaos during that time. And they were unable to sort of have appropriate people meet with us.”

Implementation Phase: Partnership Closeout

Eventually, there was turnover at LGH and new management became involved and was more supportive. However, the IP had to drastically reduce the scope due to lack of funds and capacity. The Mission, USAID Washington, and IP and occasionally the new management from LGH were able to create detailed project updates and document decisions made. After 3 years of implementation, the health center was inaugurated. Most of the staff involved across USAID, IP and PS had turned over and there was no continuity once the funding ended.

There was a heavy management burden for limited impact. USAID staff reflected, “I think the process was quite burdensome, it wasn't ideal for engaging the private sector only on market-based interests. I don't think maybe the juice is worth the squeeze in this case. And that's not just because I talked about the dollar value, but like there are cases where the dollar value investment actually leads to a lot more impact than the comparable activity or higher-level activity. And I think that in this case. If you counted the dollar investment plus all of the time required on the USAID side. I don't think we got as much out of it.”

The outcomes delivered were suboptimal for some PS. The partnership was not successful in achieving the partnership goals. According to PS, “I was disappointed in the fact that there was a huge investment put into the design, and you know, and development of this project, but there's not no implementation per se, they did all of the work around getting the project up, and like, you know, further furnishing and renovating their space bringing in the equipment that we needed in the materials that they need it but it's not running, it's not running yet.”
CASE STUDY 5: Establishing center of excellence to address infectious diseases through PSE

Reflections From Interview Participants

If there is limited connection with PS’ commercial interest, the PS partner may not remain throughout the entire lifecycle of the partnership. “Market based approaches and direct commercial linkages, I think that those kinds of things that can be early flagged, because if it’s not more closely tied with their business interests, you know tapping out like PS did is a risk that you that you can, you should anticipate, and the team was pretty clear when that was happening with us.” - USAID

Program design needs to understand PS commitment and their role in the entire lifecycle of the engagement. “Better vet the interests of the private sector going into this and like, how committed are they to this project, and what’s their role going to be? So that we can sort of better know how to work with them.” - IP

Alignment and communication related to financial and detailed objectives are needed across all partners from the beginning. “But I think hindsight is 20-20. And in a situation where we weren't racing against the clock like ID recovery. I would prefer to clearly delineate not just like the top line objectives that we're trying to achieve together but like how money is flowing and what part of those objectives will be responsible, the responsibility of which pieces of. But I think that we were moving quickly, and people were making decisions on both sides, without as much communication as we should have had across the partnership.” - USAID

Inclusion of all relevant partners in the co-creation of the engagement would reduce delay in implementation. “You know, typically we (IP) negotiate MOU ourselves with the MOH or get their approval on our work plans and have that direct conversation with them. But with this (project) we had to wait for PS and the Ministry of Health, and everybody to sign off on the MOU themselves, which took a really long time.” - IP

Dedicated and in-country staff across all partners are needed to implement the project. “Many staff were involved as a percentage of their time but having dedicated staff from all parties could have smoothed the implementation process. Since this project was managed through the Washington office, the local USAID Mission staff did not have as much authority over implementation.” - USAID

Alignment between Washington and Mission needed related to decision-making. “Maybe the headquarters should have been tougher on them (partners), because actually, I was the activity manager, I don't have any authority. Maybe their agreement officer, they should have listened to these concerns, and do something more drastic.” - Mission Staff
CASE STUDY SIX:
Engaging private sector in post-conflict regions through impact investment
**Problem and Opportunity**

According to a USAID Fact Sheet, there is a growing inequality between urban and rural areas around the rate of poverty in this specific country. Armed conflict has also hampered the inflows of private investments into these rural areas, accentuating the social and economic exclusion of the rural communities and deepening the income gaps. USAID Mission in Latin America aims to improve economic opportunities for the rural poor that have been impacted by decades of armed conflict, and where traditionally, investors have been reluctant to make financial commitments or investments.

**Case Overview**

<table>
<thead>
<tr>
<th>Geography</th>
<th>Latin America</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sector</td>
<td>Agriculture</td>
</tr>
<tr>
<td>Type of PS</td>
<td>Non-profit global private equity investment fund</td>
</tr>
<tr>
<td>6 Ways of Engagement</td>
<td>Unlocking private investment</td>
</tr>
<tr>
<td>Size of Engagement</td>
<td>$5 million (1:1 matching)</td>
</tr>
</tbody>
</table>
| Partnership Mechanism with PS | 1:1 GDA style matching private equity funds between USAID and PS  
Equity-based investments between PS and small-sized agribusinesses |
| PS’ Function  | Co-partner (PS), PSE Participant (small sized agribusinesses) |
| PSE Operationalization | Impact investment-based PSE |

*PS: Private Sector Enterprise - PS Funds Manager

**Process Overview**

<table>
<thead>
<tr>
<th>Exploration between USAID and PS</th>
<th>Formulation between USAID and PS</th>
<th>PS Led Implementation of Investment Model with SMEs</th>
</tr>
</thead>
</table>
| • Pre-existing relationship existed between PS and USAID.  
• PS initiated the idea and shared their investment theory. | • PS submitted a concept note and a full proposal under USAID’s assistance.  
• PS and USAID co-designed PSE activities related to impact investment. | • USAID and PS identified potential small-sized agribusinesses for investment.  
• PS initiated contact and explored shared interest with SMEs for investment opportunities.  
• PS assessed SMEs to check they meet the eligibility criteria.  
• PS negotiated and formalized investment terms with SMEs.  
• PS coordinated MEL reporting and financial reporting. |
Engagement Structure and Objectives

This PSE was a joint effort between PS and USAID that used a market-based approach to promote private investment in social enterprises to catalyze economic growth in Latin America’s conflict-affected regions. It sought to invest in pioneering enterprises to generate wealth, employment and improved incomes for the rural poor. PS used patient capital funds to invest in SMEs. PS prioritized social impact over financial return on investment as part of their investment theory. The GDA was extended for 2 more years from the initial 4-year period.

Value Propositions for Partners

- **USAID**: Rural economic development; sustainability for small, local, rural companies to integrate within larger value chain; gender equality
- **PS Investment Fund Manager**: “impact investment” to stimulate PS investment for economic development in post conflict areas; prioritized impact over ROI

Operationalization of USAID’s Private Sector Engagement Lifecycle

Exploration Phase: Understanding Purpose of Engagement and Initiating Relationship

PS had a pre-existing relationship with the USAID Mission as it was part of the Mission’s private sector advisory board. The initial conversation and exploration of the idea happened informally between PS and the Director of the Rural Economic Development Office in the Mission, with whom PS shared their investment theory.

PS’ motivation. The value position for PS was related to building sustainable businesses and markets. PS shared, “*We are much more interested in impact and in returns. For us investing is a means not an end...So for us, we're happy if we get back our capital, and a small return like a little bit of above inflation...we want to make sure that the business can repay us our capital...So by putting this yardstick that we need to recuperate our money, and that this is an investment and that we're going to be partners, and that we're going to be on the board, and we're going to work together. And this is for long, in the long haul, then that just changes the whole dynamic with communities.*”

USAID supports small-scale agricultural producers through technical assistance and other support. It is the local SMEs next up in the value chain who buy produce from these small producers. The USAID Mission was motivated to work with these local SMEs especially in rural, post-conflict regions. The Mission saw alignment with their objectives to stimulate private-sector investment in post-conflict areas and PS’s investment strategy focused on investment for SME sustainability. USAID Mission reached out to PS asking them to submit a concept note based on the shared idea through the GDA APS.
CASE STUDY 6: Impact investment in SMEs based in post-conflict regions

Formulation Phase between PS and USAID Mission
The co-creation process led USAID Mission to request PS to submit a full application that was approved thereafter. When identifying shared value, USAID recognized that PS “complements very well in activities that are targeted to promote legal economies, to promote private sector investment in municipalities, and to promote their financial inclusion on unproductive financing for these types of producers and businesses in rural, conflict affected municipalities.”

However, PS had limited understanding of USAID processes, making formulation processes time consuming. PS had not partnered with USAID and lacked understanding of USAID processes especially related to ethics and gender requirements causing delay in the application process.

PS also had limited dedicated staff making Formulation processes time consuming. PS also faced capacity challenges as there were not enough dedicated in-country staff working on the application. PS shared, “At that point, the staff in-country was three people. So I did most of it myself. I had support from our headquarters, but really, it was a lot of just one person doing it.”

USAID Mission developed efficient processes to assist PS in the GDA process.

Best practice: USAID Mission created localized GDA Addendums. “We normally rely on the GDA APS in Washington. But we went one step further and we issued an addendum, specifically for our country base. So we were basically letting the private sector know what were the areas we wanted to focus on. So, I think that generally makes a huge difference. Because we had like a full team working full speed for those to see if there's any other negotiable things with people in the technical side.”

Best practice: USAID Mission helped build the technical capacity of PS on USAID paperwork and processes. “We were educating PS through the referendum process. We are not only doing addendum, but we have several workshops with those potential applicants and we went over 36 pieces. We covered things like financial management, emerging markets, and environmental compliance. Even though not all of them, at the end of the process, they were very good. They understood how USAID worked because it's not easy for them to understand how we work.”

Once the full application was submitted, a co-creation process was then initiated between the Mission and PS to have an open dialogue regarding any questions, concerns or clarifications needed. In a month the application was resubmitted with all needed adjustments and the agreement between the Mission and PS was signed 6 months later. It took a year from submission of the concept note to signing of the agreement. The GDA made the investment expectations clear for PS and “the $1:$1 ratio was clear since the beginning”.

Implementation Phase: PS Led Exploration, Formulation & Investment activities with SMEs

Exploration of Local SMEs by PS Investment Enterprise
The local SME engagement was conducted by PS, with some guidance from the Mission. According to the PS, they “used all sort of connectors, precisely USAID implementers, to be able to identify potential investments that that could work, we use our personal connections, you know, throughout the country, we have connections at the level of producers associations in the regions, we have all sorts of connections through NGOs to be able to source deals.”

Each identified SME went through PS’ due diligence process to verify if they met the eligibility criteria. Trying to find operational alignment between PS and USAID was challenging.

There was operational misalignment between USAID Mission and PS related to the time required by PS for the due diligence process. USAID shared that “the ‘exploration’ phase is a “bottleneck” and is inherently slow due to the nature of PS’ due diligence process that “might take up to two years, or maybe even more...That’s something that is very delicate and has a lot of processes behind it. So, it's not that fast, ” making the investment in the GDA “expensive”. The Mission expected the Exploration phase for potential SMEs to occur faster than the pace PS was delivering.

PS also faced challenges in identifying high quality, creditworthy rural based SMEs that met eligibility criteria. According to PS, it was very challenging “to find the right companies (in rural, post-conflict regions) that have the potential to scale from a financial standpoint, and that have the social impact embedded into their business models.”

Formulation of Investment Partnership with SMEs by PS Investment Enterprise

Once the potential SMEs were identified, PS’ due diligence process extended into negotiation with each SME to formulate a potential investment strategy. This involved negotiating the investment terms (e.g., board seat, some decision-making authority). PS then shared the potential decision to formalize investment with a selected SME with the USAID Mission. The Mission could provide some feedback but did not have authority to veto a decision made by PS.

It was challenging for PS to estimate potential capital investment required for an SME. According to PS, “we have traditionally kind of underestimated the working capital needs of those companies. So usually, that has been sort of like another pitfall that we've encountered.” However, they have “refined our business model and our investment model, to make sure to incorporate projections that are more fine tuned in terms of the working capital needs of those businesses.”

It was also challenging for PS to recruit and select SMEs which have staff/ personnel who are capable of implementing the investment. PS has also faced challenges formalizing investments with SMEs who have “the right people to lead those initiatives and to be able to find the right people to manage those companies” once they make their investment.

Implementing the Investment with SMEs by PS Investment Enterprise

Once the agreement was signed between PS and the vetted SME after negotiating the terms of investment, PS provided on-going support, hands-on technical assistance and capacity building to the SME. PS collected and reported MEL data back to USAID on a regular basis.
Investment Closeout by PS Investment Enterprise
Once the term of the investment was completed, PS decided the right time for them to exit the partnership with the SME and sell equity back to the SME. PS made this decision after evaluating the social impact made by the SME and whether their expected return on investment was achieved.

However, a clear marketing/communication plan was not developed, leading to less visibility for USAID. One challenge that PS faced was around giving “enough” credit to USAID for the social impact made by the SME. There seemed to be a mismatch of expectations related to attribution to USAID in press releases.

Reflections From Interview Participants

There is a need for guides/manuals for PS to better understand USAID processes. “I'm thinking like if this were a corporation, who are contracting with USAID, having that sort of guide on how to do the different parts (how do you develop a M&E policy? How do you report? How do you put together a quarterly report? How do you know, how do you put a Counter Trafficking in Persons policies?) for the private sector, I think could be really helpful. I mean, we improvised it, and it turned out okay, and I also have the legal department inside to help me. And as you said, our mindset is quite aligned with that of USAID. So, but I think that could be really helpful if the USAID wants to go down the route of more GDAs.” - PS

Same measures cannot be utilized for different instruments that are developed to engage the private sector. There is a need to measure success differently depending on the type of partnership and funding mechanisms “I think there is some kind of a contradiction within the agency. We're measuring some of these results with the same tools that we're using to measure results in other instruments so I think investment funds are completely different, they're different types of funding, so they have to be treated differently.” - USAID Mission

Investments in businesses located in remote rural areas with high rates of return are challenging because businesses have not had access to private capital. Investments need to match the level of business maturity. “Considering the USAID culture, I will say probably the awards are more successful because they are working with the private sector. But in a way that mirrors what we're doing, with our traditional partners, I will say those are as successful. In the case of investment funds, I think it really depends on the country, and it really depends on the risk appetite and sometimes no country like [project country], specifically as a country that had conflict over the last 60 years, is not easy to convince investors to invest in rural areas. That's why I think this scale is super important.” - USAID Mission

Having a ‘champion’ in the Mission, especially an agreement officer who is willing to try new initiatives and has a larger risk appetite is essential. “I think we were very blessed because we had an agreement officer, our office director who's now our executive admission director. She/he was cutting edge, and is a person with an open mind. Because I've seen in other offices, we're not, we're not really trying different initiatives. And I think in this case, that was a critical piece of how successful the process was.” - USAID Mission
CASE STUDY SEVEN: Impact-investment in SMEs in post-conflict regions through PS fundraising
CASE STUDY 7: Impact-investment in SMEs in post-conflict regions through PS fundraising

Problem and Opportunity
According to a USAID Fact Sheet, there is a growing inequality between urban and rural areas around the rate of poverty. Legacy of armed conflict and continued instability has also hampered the inflows of private investments into these rural areas, accentuating the social and economic exclusion of the rural communities and deepening the income gaps. USAID Mission in Latin America aims to improve economic opportunities for the rural poor that have been troubled by conflict, and where traditionally, investors have been reluctant to make financial commitments or investments.

Case Overview

<table>
<thead>
<tr>
<th>Geography</th>
<th>Latin America</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sector</td>
<td>Economic Development and Agriculture</td>
</tr>
<tr>
<td>Type of PS</td>
<td>Global private equity investment fund</td>
</tr>
<tr>
<td>6 Ways of Engagement</td>
<td>Unlocking private investment</td>
</tr>
<tr>
<td>Size of Engagement</td>
<td>~$10 million which then reduced to ~$5 million (1:1 matching)</td>
</tr>
</tbody>
</table>
| Partnership Mechanism with PS | 1:1 GDA style matching private equity funds between USAID and PS  
Equity fund between private investors and PS  
Equity-based investments between PS and medium-sized agribusinesses |
| PS’ Function    | Co-Partner (PS Funds Manager), Financial Collaborator (Private Investors), PSE Participant (Agribusinesses) |
| PSE Operationalization | Impact investment PSE (Model 3) |

*PS: Private Sector Funds Manager

Value Propositions for Partners
- **USAID**: To invest in rural economic development; sustainability for small, local, rural companies to integrate within larger value chain; gender equality
- **PS Funds Manager**: Opportunity to implement their investment model in a new market and new target group (medium sized agri-businesses)
Process Overview

<table>
<thead>
<tr>
<th>Exploration between PS and USAID</th>
<th>Formulation between PS and USAID</th>
<th>Implementation of Investment Model by PS</th>
</tr>
</thead>
<tbody>
<tr>
<td>● Pe-existing project existed between PS and USAID.</td>
<td>● PS submitted a concept note and full proposal.</td>
<td>● PS conducted fundraising activities with potential PS Financial Collaborator to invest in the fund.</td>
</tr>
<tr>
<td>● PS and USAID decided to use ROI from the previous project to design a new fund.</td>
<td>● PS and USAID co-created social and financial impact metrics.</td>
<td>● PS identified and engaged potential medium-sized agribusinesses.</td>
</tr>
</tbody>
</table>

Engagement Structure and Objectives

This PSE served to promote rural economic growth in marginalized areas of Latin America. The partnership was formed between USAID Mission and PS in a five-year engagement. PS and USAID wanted to improve the lives of people in the rural areas by investments in fast-growing, small and medium-sized enterprises (SMEs), which will in return foster employment, improve income, enhance their agribusiness capabilities and help reduce poverty. PS aimed to achieve this by (i) providing debt and equity in fast-growing, medium-sized enterprises, (ii) raising capital from other investors, and (iii) providing technical assistance tools for small and medium-sized businesses participating in rural agribusiness value chains.

With USAID’s contribution, it was expected that PS would leverage additional funds from private investors for the investment fund. Any financial returns on USAID’s investment funds would be reinvested by PS.
CASE STUDY 7: Impact-investment in SMEs in post-conflict regions through PS fundraising

Operationalization of USAID’s Private Sector Engagement Lifecycle

Exploration Phase: Understanding Purpose of Engagement and Initiating Relationship
There was a formal pre-existing relationship between the Mission and PS where USAID provided seed funding and operational support to local businesses that are typically underserved by traditional financial support.

PS, through their original partnership with USAID, “saw the opportunity to create a debt and equity fund to support growth of local, rural medium-sized enterprises. There were no private equity funds back then locally, this industry was fairly recent in this country.”

PS’ Motivation. The value proposition for PS was to access a new market and to expand their investment model. Once the previous project ended, PS was able to make successful investments and get a favorable return on their investment, in terms of both financial and social impact. The two partners decided to explore opportunities to create another fund but with a different design than the previous fund.

Formulation Phase between PS and USAID Mission

The Exploration Phase continued with PS submitting a concept note through the Global Development Alliance (GDA) process. After co-creation, PS was asked to submit a full proposal. A key recommendation from the application was for PS to include the technical assistance component to support the businesses to develop to be more attractive to investments, this was vital to achieving the Mission’s goals.

USAID’s Motivation. USAID Mission’s reason to support this activity was the perception of shared value with PS. USAID Mission supported PS’ concept because it focuses on sustainability. According to USAID, “impact investing was not philanthropy, We have investors that want to have a social impact and environmental impact, but mainly a financial return on the investment. In that way, the money you’re investing in companies serves three purposes -- financial returns, social returns, and environmental returns.”

The partners were aligned on the broader scope that included designing an impact investment fund that included debt and equity to support SMEs in rural, post-conflict areas.

The Mission and PS co-created social and financial impact metrics. PS relied on USAID Mission’s country and cultural expertise to develop an investment thesis. According to PS, “USAID told us this is USAID's view of how to rebuild the social fabric of places in the country... We took that input, we added it and we said, well, we believe this is very complicated to measure. It probably does not make sense to do that, but do this. So it was that kind of relationship we have with them, in which they said okay, fine, but let's give and take.”

Once these details were agreed upon, the MOU based on the GDA was signed between the Mission and PS and the engagement was formalized. PS was supposed to raise matching funds from private investors for the debt and equity investments. The Mission would start their funding only when PS had raised at least the matching amount of funds based on the GDA mechanism. In order to convince potential investors to support the fund, PS relied on
CASE STUDY 7: Impact-investment in SMEs in post-conflict regions through PS fundraising

the partnership with USAID to show trust and goodwill and that “if USAID is putting money here, it is because there is something good that is going on”.

The Mission reduced their financial risk by not funding PS' operational costs, “We're not really paying for technical assistance, so there is no loss for us, right, if it doesn't work, it doesn't work.”

Implementation Phase: PS Led Fundraising, and Exploration, Formulation & Investment activities with SMEs

PS led fundraising from Private Sector Investors and Obtaining Approvals
When PS started their fundraising activities by engaging potential investors to fundraise for at least the matching amount, they faced challenges.

There was a delay in obtaining permits and approvals. The process to engage potential investors was delayed as PS had to wait for “longer than expected” to get the investment fund approved by the Financial Regulator.

Change in the economic and political environment also made it challenging for PS to fundraise. About the time that PS started fundraising, there was a “huge devaluation of the currency in the country” and the security situation in the country worsened. These challenges caused liquidity issues as “more pesos were needed for a US dollar, increasing the dollar amounts committed for fundraising.”

Furthermore, PS faced several challenges engaging and convincing potential investors to invest in their agribusiness fund, which led to some critical consequences to the process and outcome of this partnership.

There was unclear value proposition for potential investors and misalignment in shared values as investors were more interested in ROI than impact. According to PS, there was a bias associated with the term ‘impact investment’ as there is a “tendency to think that impact investing is about a trade off between social and financial returns” and the potential investors “rather invest in a fund that is only focused on investment returns, and just continue with my philanthropy thing. So combining the idea was difficult”.

Potential investors were more interested in investment in other sectors and considered investment in agribusinesses in rural, post-conflict areas to be high financial risk. Fundraising was also challenging as the potential investors were more interested in investing in “infrastructure, bigger on energy, especially oil and real estate”. Investing in agribusinesses is “perceived as dangerous or unstable given that agribusiness takes place in the rural areas where the conflict has been, and people were skeptical about whether or not peace agreement was going to work”.

Furthermore, potential investors were not interested in investing in small funds like that created by PS as it was perceived as a high financial risk. According to PS, the feedback they received when they engaged with potential investors, specifically pension funds was “we are not sure we can, or we would like to invest in this small fund, because probably the economics are not that obvious”.

CASE STUDY 7: Impact-investment in SMEs in post-conflict regions through PS fundraising

Implementation: Identifying, Engaging and Investing in Potential Medium-Sized Agribusinesses

PS had to engage, select and invest in potential medium-sized agribusinesses. According to USAID, investing in these types of agribusinesses is important “because they can create more jobs.” However, even USAID realized that developing such an instrument that focuses on medium-sized agribusinesses is “going to be harder for PS to do.”

It was challenging for PS to adhere to USAID’s criteria. PS found that most medium-sized agribusinesses were in more urban regions, typically in regions that were more stable. According to PS, “the agribusiness sector firms are run by entrepreneurs, and those entrepreneurs are not going to the middle of the jungle, or to the middle of the conflict, they will go to small, medium, or large cities where there's not only banks, not only safety, but also a whole ecosystem for doing business: banks, lawyers, schools for their kids.”

Even though PS understood USAID’s expectations, PS shared with USAID that those expectations were “not realistic” and that they had to re-evaluate these selection criteria for medium-sized agribusinesses through open dialogue and trust.

Process for finding alignment and adapting the objectives. PS shared how they found middle ground with USAID when they were having difficulty identifying companies that fit the original criteria. “So we told them, the way we see it is different from the way you see it. There are very few companies in the middle of the jungle, or the middle of where the conflict took place. So let's really align your view with our view. The company does not necessarily have to be located there. But actually located near a city or in a city where their supply chain is backward integrated with those places you would like to impact positively. With that, it just gave you probably the best example of how our view and their view combined in our investment”.

Several potential agribusinesses failed PS’ due diligence process. There were companies identified for potential investment. But due to malpractices such as money laundering and other legal and financial difficulties, these companies failed the due diligence process and could not be selected for investment.

It was challenging for PS to negotiate with potential companies due to lack of alignment on investment terms. PS conducted due diligence on potential medium-sized agribusinesses and faced difficulty closing the negotiation deal “in the very last step in the negotiation process” due to “the owner of the company not agreeing with the price that they were willing to sell shares”.

It was challenging for PS to negotiate with potential companies due to companies not trusting ‘strangers.’ When engaging with medium-sized agribusinesses and convincing them to let PS’ investment fund invest in their business, PS found that the businesses were not open to sharing their financial, capital and governance information openly. As part of the investment, PS wanted to be a minority shareholder with a seat on their board with veto rights on certain things. This negotiation term was usually responded to by “do we really want to have a non-family member in our company?”

It was challenging for PS to perform at a quicker pace due to limited staff. Lastly, PS faced capacity challenges within its own organization. PS had a small team dedicated to fundraising
CASE STUDY 7: Impact-investment in SMEs in post-conflict regions through PS fundraising

as well as identifying potential companies, conducting due diligence, negotiating and implementing the investment models and providing technical assistance to selected agribusinesses.

PSE Closeout
The challenges faced by PS during the implementation phase greatly impacted the outcomes of fundraising activities and implementing the investment fund.

Overall, this engagement resulted in suboptimal performance. USAID shared that “it has already been five years and PS has not been able to leverage money through fundraising and there are no investments so far”.

It was challenging for USAID to decide if they should continue their support as their funds were not being spent in the engagement. USAID was skeptical if PS would be able to deliver on these activities as initially committed and discussed internally, “So the award was going to end in five years, and we were internally deciding if we wanted to keep supporting this initiative, or if we should close it and reprogram the funds.”

Process for risk management related to continued support USAID decided to extend the duration of their support for two more years, with reduced USAID contribution. The objectives were also re-evaluated and further reduced by USAID. USAID decided to “reduce USAID’s contribution to the award. So instead of $30 million, we’re only going to commit $5.4 million. So we’re reducing our participation in less than half. And as well your leverage is going to be reduced. And that way we have $8.4 million that you have already raised (which then satisfies the 1:1 matching), you will have already committed the leverage minimum that was required for the GDA and start doing the investment.”

Also, since the duration of the investment fund is 10 years, and the GDA with PS would end earlier, USAID “would not be able to monitor the full result of the fund”.

Reflections From Interview Participants:

Missions need to take calculated risks and test out new approaches even if they might not succeed fully. “It is important for us to test this type of new interventions because that's the way that we can in Missions tell other potential investors in the future if an instrument is feasible or not, or maybe also identify why it was not successful.” - USAID

The shared value between private sector investors, SMEs willing to be invested in and USAID was not aligned. Private investors were most interested in a financial ROI, while USAID was more interested in true impact investing that spans social, environmental and financial impact. “There's certain things for us that are deal breakers, we cannot just go out there and invest. Investing is easy but investing well is not that easy. So by investing well is being able to measure risks and potential returns. And if you add to that the need for social and environmental impact, it becomes even more complicated. And we found that smaller companies prefer to go to a bank, if they have the possibility, then working with an investor who is foreign to them.” - PS
CASE STUDY 7: Impact-investment in SMEs in post-conflict regions through PS fundraising

Dedicated, local personnel are needed from PS from the beginning, especially when they are implementing the solution. “PS should have put more resources into the local team in order to faster collect the information that they needed from the beginning; they should have brought more manpower into the initial implementation of the award in order to implement faster. I think those were the first red flags that we identified that I personally thought that one person was not enough for what was required at that moment of time.” - USAID

Missions need to regularly assess progress and evaluate continued support even if it’s in a reduced capacity versus closing out the partnership project. “I think we need to talk with different offices—technical, legal and finance to evaluate if it makes sense to keep supporting this type of progress. From my perspective, we should keep supporting it. But I understand that my technical perspective is not the only one, we need to decide from the financial perspective, or from the legal perspective, it would make more sense to cancel the award. And I think that we should have those conversations every three months or every six months because this is an ongoing process to keep evaluating if it works towards our ultimate objectives or not. And if it doesn’t, then we should close it.” - USAID

Missions need to be adaptive to external changes or uncertainties associated with implementing new instruments/programs. “I think there is a certain extent, in which they ([PS]) can’t really control the process --they need to get a certain approval, sometimes that takes time. So our role (USAID) is to cover those delays. We may extend the contract period. We may have to estimate the performance of the award, and we decrease the size of the investment fund. We don’t think that we realistically can predict all this. Let’s try to make this as successful as possible.” - USAID
CASE STUDY EIGHT: Engaging multiple stakeholders to establish innovation center to address educational gaps
CASE STUDY 8: Establishing an innovation center to address educational and vocational gaps through PSE

Problem and Opportunity
A study conducted by the African Economic Outlook found that the skills gaps related to new technologies were a driver of youth unemployment in several middle-income countries. The country strives to reform vocational training to boost youth employment. It is essential that new and emerging technologies are integrated within curricula to have youth and entrepreneurs gain the credentials needed to compete in the modern workforce.

Case Overview

<table>
<thead>
<tr>
<th>Geography</th>
<th>Middle East</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sector</td>
<td>ICD/Education</td>
</tr>
<tr>
<td>Type of PS</td>
<td>Multinational technology company</td>
</tr>
<tr>
<td>6 Ways of Engagement</td>
<td>Harnessing private sector expertise and innovation Information sharing and coordination</td>
</tr>
<tr>
<td>Size of Engagement</td>
<td>$30 million</td>
</tr>
<tr>
<td>Partnership Mechanism with PS</td>
<td>Matching funds MOU among all partners Bi-lateral agreements between PS and each partner</td>
</tr>
<tr>
<td>PS’ Function</td>
<td>Co-Partner</td>
</tr>
</tbody>
</table>

*PS: Private Sector Enterprise

Process Overview

<table>
<thead>
<tr>
<th>Exploration</th>
<th>Formulation</th>
<th>Implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>● PS initiated the idea and shared their innovation concept with the USAID Mission.</td>
<td>● PS, USAID and other partners co-created PSE design after some preliminary scoping. ● PS submitted a concept note and a full proposal. ● All partners signed a shared MOU (i.e. USAID, PS, HEIs, and government entities).</td>
<td>● Implementation of activities in the workplan was conducted jointly by all partners depending on their role and responsibilities. ● PS was responsible for the technology and training to establish a technology center; HEIs provided space, students and faculty expertise; the government provided other opportunities to expand the center. ● PS hired a COP to coordinate implementation and MEL reporting.</td>
</tr>
<tr>
<td>● PS and USAID conducted informal discussions to gather interest with government and higher education institutions.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
CASE STUDY 8: Establishing an innovation center to address educational and vocational gaps through PSE

Engagement Structure and Objectives

PS, together with USAID, signed a cooperative agreement and teamed up with a private university, the Ministry of Local Government, and a public university to establish an innovation center. The purpose was to “provide innovative and affordable learning solutions for skills development, in order to help reduce youth unemployment, promote entrepreneurship, and potentially increase industrial productivity.”

To support the government’s strategy for digital transformation, USAID worked with PS to 1) establish an innovation academy, 2) collaborate with academic institutions to expand the provision of technical solutions, 3) train experts in technology based knowledge transfer through the digital platform.

Value Propositions for Partners

- **USAID**: To implement development goals related to Education and Youth Development
- **Govt**: To develop and implement a national digital strategy
- **Universities**: To obtain innovative ways of learning/ modernize education
- **PS**: Business/Market Expansion

Operationalization of USAID’s Private Sector Engagement Lifecycle

Exploration Phase: Understanding Purpose of Engagement and Initiating Relationship

PS initiated the idea of establishing an educational center for digital technology and informally discussed it with some of the USAID technical staff who they know from a previous engagement.

**PS’ Motivation.** PS’ motivation was to access a new market for introducing new technologies through USAID’s network and potential funding support. “The proposition came from PS who was exploring the local market. And the door to access the country was through USAID, especially to secure some financial support through USAID programs and also to get access to local institutions or universities.”

**USAID’s Motivation.** USAID was interested in PS’ idea because the new center could provide vital support to improve youth employability, “USAID seeks to increase employability of youth by providing innovative and affordable learning solutions for skills development, to promote employment, entrepreneurship, and potentially increase industrial productivity.”
CASE STUDY 8: Establishing an innovation center to address educational and vocational gaps through PSE

However, at the time, USAID had limited funds to support the idea as they “were really tight in terms of budget.” So, they decided to share this idea with other stakeholders who might be interested and could potentially share the funding for this activity. According to USAID, “we love the idea, we're not sure we can fund it, but we don't want to give up on it. We wanted to help PS approach and pitch this idea to other potential partners in the country. So we started meeting some partners to see if there is any interest in the idea.”

USAID and PS had several informal discussions to gather interest with the Ministry of Education, the Ministry of Local Government, and public and private higher education institutions (HEIs). USAID played the role of a convenor as they facilitated the meetings among the actors. Informal discussions led to the provosts of interested HEIs and representatives from the Ministry of Local Government to provide letters of intent to participate in this engagement. Representatives from all interested parties visited PS’ innovation center in a different country, demonstrating that such innovation centers provided potential models for the partners which increased their commitment to the engagement. Then they co-created the solution that would be most appropriate to the local context and would have a shared value proposition for all partners involved.

Formulation Phase Among All Partners

It was a year from the time PS brought the idea to USAID until they were asked by USAID to submit a concept note. USAID also circulated to other partners involved to get their inputs and insights. Even though the partners had identified overall shared value, they faced challenges in obtaining operational alignment resulting in a year-long process of finalizing the Memorandum of Understanding (MOU).

First, there was competition between partners to host the innovation center and operational misalignment due to each partner’s institutional agendas. The HEIs were not in alignment on the physical location of the innovation center. “There was a lot of competition, every university wanted to have the center on their premises. And at some point, the Ministry of Local Government was interested to have this center in [location], as it is the center of the industrial activity in the country. Finally, discussions occurred, and it made more sense to align with USAID strategy to develop some region other than the center region.”

Delays in obtaining legal alignment and approvals with the privately funded HEI to host the innovation center delayed the signing of the MOU. According to USAID,” it took us a lot of time to get in agreement on the MOU because of their lawyers and their systems and documentation”. This caused a lot of frustration for PS as it really slowed down the formalization process.

It took more than two years from sharing the initial idea with USAID to formalizing the engagement with a signed MOU across all the partners and other bi-lateral agreements between PS and each of the partners.
CASE STUDY 8: Establishing an innovation center to address educational and vocational gaps through PSE

Implementation Phase: Led by PS and HEIs

Almost two years after the MOU was signed among all the partners, the innovation center was inaugurated with an official ceremony. However, after a month of opening the innovation center, there was the outbreak of COVID-19 pandemic requiring lockdown, which delayed starting the curriculum. This also meant that PS staff could not travel to the country to install the equipment or provide support which was critical during start-up. The engagement faced several challenges.

The outbreak of COVID led to delay in the financial transactions between the HEI partners and PS. According to PS, this caused “quite a bit of friction in the project as it was not possible to deliver everything and get it installed and up and running.”

The pandemic also resulted in shutdowns, leading to a delay in receiving the digital equipment. There were no PS personnel in the country to install the technology at the innovation center and perform a knowledge transfer to local HEI partners. This also impacted the program outcome as the HEIs were challenged to recruit students to participate in the training even virtually due to internet issues. The quality of training was also affected as the partners had not planned for a fully virtual curriculum and the HEIs were not able to deliver the training effectively.

Best practice. USAID helped manage this conflict among the partners by reminding them “this situation we have, no one could expect it. Now we need to help each other to solve this problem.”

The difference in cultures and operations posed challenges for the partners when collaborating on implementation activities. Partners had different communication styles. USAID observed that PS was perceived as communicating less formally than the protocols required for government or academic partners. This was not viewed well by the government and academic partners, creating mistrust.

Best practice. USAID had to provide some “hand-holding” to PS and had to manage expectations as PS expected a faster pace of operations as they were not used to the speed, time and priorities of government agencies and other development actors.

Best practice. To address the communication challenges, USAID worked with PS to help them understand the local context and communication styles of the government and academic partnership. They also changed the COP from an American to local personnel “who understood the culture and could anticipate potential issues and manage them efficiently with PS.” – USAID

Implementation: Planning for Sustainability

Given that the innovation center was a new concept there was a challenge to establish its legal status. “So for the time being, the innovation center has no legal status, because we cannot claim that it is part of the polytechnical University. It is neither the University’s property or USAID’s property. So that’s one of the things we’re trying to figure out.”
CASE STUDY 8: Establishing an innovation center to address educational and vocational gaps through PSE

The partners struggled on how the innovation center will sustain beyond the project lifecycle. HEI shared their frustration on what will happen beyond the project lifecycle, “will the innovation center be an NGO or an LLC? Who will pay for the maintenance, who will we pay for the students? Who will be taking charge? Is it free for them? If so, at some point, someone must pay for them. So who is the someone? And all those questions? We don’t have answers right now.”

Planning for sustainability of the innovation center revealed that the partners have different priorities. The partners faced challenges developing shared value propositions in the form of a Master Agreement which impacted mutual trust during program implementation. According to HEIs, “USAID, IP and the government ministry are more focused on the sustainability of the project, on the accomplishment of all the objectives that we set for this five-year duration... PS, on the other hand, is very ambitious for the expansion and probably quite aggressive commercial business approach.” HEIs believed that “at some level, we have to operate this center, and it costs money”, they questioned the roles of each partner in the sustainability plan, the ownership of the private sector product and commitment of the private sector beyond the 5-year funding and project closeout.

According to one of the HEI, “the innovation center should have its own identity. We (HEI) shouldn't be a competitor after five years. We don't know when PS will leave the country, will PS provide the product on behalf of the agency? So there's a lot of questions that we are asking ourselves now, after one year. And normally we should have asked those questions before.”

Reflections From Interview Participants

Program design must account for sustainability. “Maybe sustainability, and we have an agreement from the beginning on how the program will be sustained, and who will oversee running the program after the end of the USAID period. I would definitely work on that from the beginning, because sometimes you have a lot of interests on sustainability, but you have to be really realistic and come up with a roadmap on sustainability.” - USAID

There needs to be processes to navigate cultural and language challenges. “It helps to have part of the team based in the host country ... if I have to restart to have this COP with the same culture as in the host country, etc., here are like bigger parts of the project team with the same language and cultural background as the country we are working in, definitely would be my first recommendation.” - USAID

Enough time should be allocated for planning and team building including budgeting time for country customs/duty processes to import equipment. “We tend to always plan six months or something as a period for the setup of the program. The setup is a very important period. And usually, it takes almost one year from what I’m understanding, because it's really, it's not only getting meant and hiring people to be able to run the program, it's also learning how to work together, learning, making, building connections with the local partners with local institutions, creating the reputation of the program, like visibility, outreach, outreach, action, etc. I mean, it really takes time, and if we had to add to these custom challenges, it needs to be very careful in
CASE STUDY 8: Establishing an innovation center to address educational and vocational gaps through PSE

our planification...It takes time to, to set up a project and have all stakeholders on the same line together, have the equipment team up and running” - USAID

USAID needs to spend time assisting the PS to have a better understanding of USAID processes and time commitment required. “I think it would help if there is some explanation about the process, what it entails, what you have to do...But when you do it the first time, it's hard. I think many companies would give up in the process to be honest. Because it takes so much time.” - PS
PSE Resources & Tools

**Exploration & Formulation**

1. **8 Field-based Case Studies**: Use to understand different ways USAID has conducted PSE processes across different sectors and regions. [Developed as part of this research study]

2. **PSE Opportunities Tool**: Use when developing the Country Development Cooperation Strategies (CDCS), at the strategic level, activity design, or at the partnership level (including for unsolicited proposals from the private sector).

3. **PSE Addendum to USAID’s Theory of Change Workbook**: Use when designing and formulating the partnership structure, processes and implementation activities. [Developed as part of this research study]

4. **Harmonizing Indicators Tool**: Use when identifying and negotiating shared partnership metrics for reporting.

**Implementation**

5. **Partnering Experience Survey**: Use to monitor partnership relationship health throughout the PSE Lifecycle. [Developed as part of this research study]

6. **Partnership Bottleneck Checklist**: Use to collectively identify common partnership challenges and bottlenecks that might be causing delays in the partnership process. [Developed as part of this research study]

7. **Partnership Root Causes Checklist**: Use to identify root causes that are contributing to bottlenecks in partnership processes, and for facilitating constructive, problem-solving dialogue among partners. [Developed as part of this research study]

**Closeout**

8. **Partnership Outcome Review**: Use to better understand internal USAID evaluation requirements, processes, and practices during partnership closeout.

9. **Partnership Success Dissemination**: Use to communicate partnership results via a case study.

10. **Measure Enduring Results**: Use to design an ex-post evaluation of partnership outcomes.