

## LEARNING BRIEF



### PRIVATE SECTOR ENGAGEMENT RELATIONSHIP QUALITIES IN A MARKET SYSTEMS DEVELOPMENT ACTIVITY

This learning brief<sup>1</sup> provides evidence and learning from the team of the USAID/Honduras Transforming Market Systems (TMS) [Activity](#) on how to most effectively engage the private sector and the relationship qualities that influence the achievement of partnership results. This brief contributes to the USAID Private Sector Engagement (PSE) Evidence and Learning [Plan](#) evidence base on “*What PSE relationship qualities influence results?*”

#### KEY LEARNING: PSE RELATIONSHIP QUALITIES THAT INFLUENCE RESULTS

The litmus test for a successful private sector partnership is often considered to be (1) the right idea with (2) the right partner. But TMS reflections and learning also show the importance of a third factor (3) the right relationship. This relationship factor is particularly important when working in complex settings to address wicked societal problems such as inequality, poverty, hunger, or lack of opportunity.

In these contexts, it may be impossible to know exactly what idea is right, so therefore ever more critical to have the right relationship with the right partners to be able to discover the novel, right solution(s) to the problem. Below is a summary of the twelve most salient reflections by TMS with regards to relationship qualities.

- (1) *Measure relationship quality because it matters to making real change on tough problems*
- (2) *Give a third option to a yes or no decision to proceed with a partnership*
- (3) *Emphasize alignment and complementarity in multi-stakeholder partnerships*
- (4) *Support and motivate all staff – whether technical or support – to add value*
- (5) *Facilitate relationships between partners as a way to add value*
- (6) *Shift from output to outcome-based milestones with performance incentives*
- (7) *Use flexible, contractual mechanisms to ensure commitment in partnerships*
- (8) *Focus on getting communication right to the needs of the partnership*
- (9) *Emphasize feedback and learning within partnerships*
- (10) *Invest in and leverage a solid reputation to support trust-building with partners*
- (11) *Reduce the downside risk to collaboration perceived by partners with thought leadership*
- (12) *Ask yourself – and your partner – often, is this partnership on the right track*

#### TMS APPROACH TO PSE RELATIONSHIP QUALITIES

TMS organizes its understanding of relationship quality around five evidence-based relationship indicators and one ‘fit check’ indicator to assess if the partnership is perceived to be on the right track (as it is too early in partnerships to assess results). The selected relationship qualities and associated survey questions are informed by ACIDI/VOCA’s Partnership Health Assessment Tool and a 2016 USAID study conducted by Dahlberg Global

<sup>1</sup> This report was made possible by the support of the American People through the United States Agency for International Development (USAID). The contents of this report were prepared by ACIDI/VOCA and do not necessarily reflect the views of USAID or the United States Government. It is the second brief in a series of learning products produced under the TMS Activity as part of its Learning Agenda. The first brief on [Metrics and Data for Self-Reliance](#) can be found on USAID Learning Lab.

Development Advisors. The study includes surveys and exit interviews with USAID and private sector leaders of 100 active partners to determine what relationship attributes are important to success.<sup>2</sup>



### ALIGNMENT

*Shared understanding of objectives of the partnership, each other's work culture, and established mutual expectations.*



### COMMITMENT

*Shared satisfaction with each party's level of commitment, dedication, and the goals of the partnership.*



### VALUE-ADDITIVE

*Support other than financial resources - that provides significant added value - other than what could be done alone.*



### OPENNESS

*Informed about context and understand the challenges; offer honest perspectives and share relevant information.*



### TRUST

*More than a point of contact for contract questions, but as a useful resource and trusted advisor to the enterprise.*



### RIGHT DIRECTION

*Extent to which partners agree the partnership is on the right track to achieve results.*

It is important to note that these relationship qualities are interrelated. For example, the degree of openness within a partnership was important to building trust between TMS and the partner. Adding value beyond funding was necessary to fostering shared commitment. In the instances where there was not strong alignment between TMS and the partner, both tended to perceive the partnership was not headed in the right direction.

## RELEVANCE OF TMS PARTNERSHIPS TO CATALYZING BROADER CHANGE

For TMS, partnerships with influential public and private sector actors are critical to catalyze broader market systems change. Influence does not mean the largest or most well-connected enterprises. Rather, based on TMS's experience, influence refers to the willingness to try and innovate ideas and invest resources to expand market share – or to create new industries and markets altogether. These so-called disruptors generate competitive pressures that encourage wider adoption of new practices and innovations, as well as transform the structures of the market system itself - enabling access to new goods, services, and markets for others in the market system.

TMS private sector partnerships range from agro-industrial “anchor” firms, e-commerce providers, financial institutions, business chambers and other private sector actors in priority market systems. These partnerships with influential actors are designed to advance changes in priority market systems in order to increase economic opportunities, through more business sales and jobs for Hondurans and reduce incentives to migrate, while building the foundation for broad-based, long-term economic growth.

MARKET SYSTEM	PRIORITY CHANGES	INFLUENTIAL PARTNERS	TARGET SUB-SYSTEMS
(1) Value-added agriculture	Transform agricultural products and services to create value and expand market share.	Agroindustry (processors, exporters) and support service providers (finance, extension, inputs).	Fruits and vegetables, dairy, coffee, meat, cacao, forest products and spices.
(2) Tourism and creative industries	Develop attractive experiences that motivate	Destination organizations, tour operators, attractions, hotels, and municipalities.	Lake Yojoa, Atlántida, the Lenca-Maya Route,

<sup>2</sup> Ouellette, A. (2016, August 17) USAID's partnership health: 5 lessons from the private sector. DEVEX. <https://www.devex.com/news/usaids-partnership-health-5-lessons-from-the-private-sector-88565>

	tourists to visit and spend in Honduran destinations.		and the Valley and Mountain District
(3) <b>Entrepreneurship Services</b>	Deliver the resources needed by entrepreneurs to establish new ventures and grow their enterprises.	Business service providers, ICT enterprises, financial institutions, and ecosystem network actors.	Entrepreneurial ecosystems in San Pedro Sula, Tegucigalpa, and Western Honduras
(4) <b>Business enabling environment</b>	Establish institutional and legal environments to improve ease of doing business / competitiveness.	Municipalities, ministries, administrative agencies, business chambers and research institutions.	Priority institutions such as property rights, regulating externalities, public goods, etc.

This shift towards transformational partnerships has substantial implications for how USAID missions and Implementing Partners (IP) engage with the private sector. Research has shown that the indicators of relationship quality are predictive of partnership performance.<sup>3</sup> Similarly, early insights on relationship qualities can support adaptation to improve performance. TMS invests significantly in relationship management. **In FY2020, TMS held more than 130 Co-creation and Pause and Reflect meetings with more than 237 individuals from 64 organizations** in addition to regular coordination meetings.

In complex contexts, it can be impossible to know exactly what idea is right, so it is ever more critical to have the right relationship with the right partners to be able to discover the novel, right solutions to the problem.

To be accountable and to ‘take the pulse’ of partner perceptions on this engagement, TMS in September 2020 incorporated into its annual evaluation several relationship quality indicators. This internal evaluation covered eleven active partners (the FY2020 pilot portfolio) – a relatively small number compared to the FY2021 portfolio which by December 2020 has since grown to 45 partnerships.

The results were overwhelmingly positive, yet also very informative. TMS intends to use these indicators on a semi-annual basis with partners to allow for more frequent feedback and reflection by the TMS team on how to continue to improve partnership relationship health and improve performance.

## REFLECTION, LEARNING AND ADAPTATION BY RELATIONSHIP QUALITY

This section describes the reflections, learning, and adaptations by the TMS team related to the twelve key reflections about PSE relationship quality. This learning was captured from interviews and surveys with both private sector partners as well as TMS staff as part of the annual internal evaluation process. The key reflections are organized by one overall theme, five relationship indicators and one fit-check indicator.



### OVERALL REFLECTION: MEASURING RELATIONSHIP QUALITY

#### *Key reflection 1 - Measure relationship quality because it matters to making real change on tough problems*

The first reflection is based on the learning we had from evaluating relationship quality and the adaptations it has enabled TMS to make. The measurement of relationship quality is critical to support the improvement of relationship quality. This first year of using relationship indicators for TMS has further emphasized the importance of constant reflection and learning to understand and monitor the relationships as part TMS’s internal evaluation process which includes adherence to principle as an evaluation domain – **i.e. how we act as an Activity is as important as what we do to ensuring performance and the sustainability of outcomes.**

In the sections below, we include the relationship quality, the specific survey question used, a selected quote from one of TMS’s partners and several key insights on learning from TMS on that quality.

<sup>3</sup> Ouellette, A. (2016, August 17) USAID’s partnership health: 5 lessons from the private sector. *DEVEX*. <https://www.devex.com/news/usaids-partnership-health-5-lessons-from-the-private-sector-88565>



## RELATIONSHIP QUALITY: ALIGNMENT

To what extent do you agree that you and your Activity Technical Liaison have a shared understanding of the objectives of the partnership, each other's work culture, and have established mutual expectations?

### LEARNING FROM TMS IN THE PAST YEAR WITH REGARDS TO ALIGNMENT HAS HIGHLIGHTED LESSONS –

The alignment of interests and sense of shared value are foundational factors to partnership relationship quality. TMS staff has identified co-creation as one of the core processes that has helped TMS to ensure this foundation is solid from the beginning.

*Key reflection 2 - Give a third option to a yes or no decision to proceed with a partnership*

The use of an *exploratory* phase as a third option allows TMS to assess whether an idea is aligned or not with TMS development objectives before committing to funding. For example, TMS was uncertain whether the market demand and economics behind local sheep meat processed products made sense and whether it would lead to desired results. The partner identified a similar risk to the project and agreed to co-invest with TMS in an exploratory market study with TMS to validate this opportunity.

*Key reflection 3 - Emphasize alignment and complementarity in multi-stakeholder partnerships*

One of the modalities of private sector engagement are multi-stakeholder partnerships in which TMS is a “minority player – in dollar and in muscle – but [still] central”<sup>4</sup> to the partnership. In an urban revitalization initiative, TMS invests twelve percent of the total activity amount together with multiple donors and investors. To support continued alignment between diverse funders, TMS collaborates as part of an executive committee to support coordination and shared decision-making. In addition, TMS has focused on its own complementarity with a focus on creative market development and entrepreneurship.

**Quote from Partner:** “Common objectives and shared understanding of the enterprise and the ecosystem in Honduras with our TMS liaison has been a key factor in the program's success.”



## RELATIONSHIP QUALITY: VALUE-ADDITION

To what extent do you agree that the support provided by the USAID Activity - other than financial support - is important in achieving your organization's objectives and provides significant added value other than what you could achieve on your own?

### LEARNING FROM TMS IN THE PAST YEAR WITH REGARDS TO VALUE ADDITION HAS HIGHLIGHTED LESSONS –

The value proposition – not only by the private sector partner, but also by USAID – drives many of the other relationship qualities. The goal is to move beyond a proposition that is solely as a funder to other forms of value-addition e.g. convener, broker/facilitator, thought leader, etc.

*Key reflection 4 - Support and motivate all staff – whether technical or support – to add value*

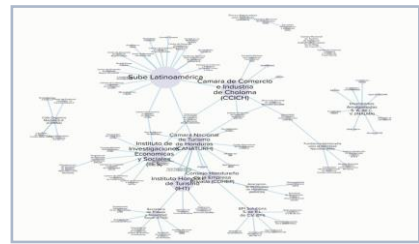
It is widely recognized that partnership managers (called Technical Liaisons by TMS) can play a value-added role during the partnership process. TMS has also found that back-office support teams - whether monitoring, contractual or communications – also add significant value. From *Frequently Asked Questions* to online video and training offers, TMS has mainstreamed a more customer-oriented relationship management approach across its entire team. In addition, TMS has incorporated these soft skills as part of annual performance evaluations and provided coaching/mentoring to the team to be more effective in adding value.

*Key reflection 5 - Facilitate relationships between partners as a way to add value*

**Quote from Partner:** “The added value of institutional strengthening [by TMS] is extremely important for the sustainability of the actions.”

<sup>4</sup> Quote by Andrew M. McCown USAID/Honduras Deputy Office Director, Economic Growth

Partners identified one of the most impactful ways TMS adds value to partnerships is as a relationship-builder (networker, facilitator, convener, or broker) with other organizations. For example, TMS has connected a financial technology partner with partners and organizations to become certified fintech advisors - assisting MSMEs in digitalization. The network map to the right illustrates the relationships that TMS strengthened in FY2020 among its partners and with other organizations in the market system. Two-thirds of those relationships are identified as having a large contribution to performance.



Partnerships facilitated by TMS



## RELATIONSHIP QUALITY: COMMITMENT

To what extent do you agree that your organization and the Activity Technical Liaison have a shared satisfaction with each party's level of commitment, dedication, and the goals of the partnership?

### LEARNING FROM TMS IN THE PAST YEAR WITH REGARDS TO COMMITMENT HAS HIGHLIGHTED LESSONS –

Partnerships launch with high expectations, but it is the grit and commitment of the teams working together and persevering through expected and unexpected challenges that ultimately determines success. Commitment is the factor with the most variance for TMS, reflecting the reality that not all partners are in it for the long-term, nor all ideas are really built to scale or last. It also demonstrates the importance of renewing commitment and knowing when there is no longer commitment to the other partner or need to modify the idea as it was originally conceived.

**Quote from Partner:** “The satisfaction is constant, for each of the activities that are carried out, objectives that are fulfilled, they demonstrate the commitment of each actor of the project.”

#### *Key reflection 6 - Shift from output to outcome-based milestones with performance incentives*

In FY2020, following an internal Pause and Reflect, TMS realigned its entire portfolio to tie at least some significant portion of new agreements to milestones with concrete performance results. A prior TMS milestone would for example include the completion of a training as a milestone, whereas an outcome-oriented milestone would include the adoption of the new practice and the resulting investment, sales, and jobs. In addition, TMS has included some performance-based incentives for timely completion and achievement of results. The TMS team has found that these outcome-based milestones require a higher degree of skill in negotiation up-front, but in general, minimize stress to the partnership in the future by reducing ambiguity and by helping to identify problems with commitment upfront during the negotiation process.

#### *Key reflection 7 - Use flexible, contractual mechanisms to ensure commitment in partnerships*

The reality is that not all partners or ideas will make it – or scale in the way desired. The key to mitigating this risk is to effectively manage the pivot. The pivot is something recognized by both USAID/Honduras and the TMS IP as essential to achieving real, long-term change. The flexibility to pivot without substantial contracting costs (time, paperwork, etc.) reduces the friction of this process. TMS uses an IDIQ umbrella mechanism to establish overall partnership commitments, and through iterative subawards, updates and renews those commitments, with modifications to both partners and ideas.



## RELATIONSHIP QUALITY: OPENNESS

To what extent do you agree that you experienced an open attitude with the Activity Technical Liaison? Openness is the degree to which both are informed about context, understand the challenges, and are willing to offer honest perspectives and share relevant information.

### LEARNING FROM TMS IN THE PAST YEAR WITH REGARDS TO OPENNESS HAS HIGHLIGHTED LESSONS –

The degree to which partners feel open to speak their minds and give their opinions is essential to relationship quality and effective implementation of adaptive management approaches. Deliberate efforts must be made to create a culture of openness from the beginning of the partnership when the default, starting levels of trust are generally low as there is limited experience working together.

*Key reflection 8 - Focus on getting communication right to the needs of the partnership*

The most open partnerships are generally those in which the most effective communication is happening. This communication may be scheduled or ad hoc but is highly responsive to the needs of the partnership. Take this quote from a partner: “I think I communicate with TMS from Monday to Sunday three to a hundred times...it is a relationship of openness and trust.” There is a challenge inherent to the efficiency of such communication which is managed by ensuring a dedicated team member to the relationship with the support of a *scrum*-like, small-team structure with delegated authorities.

**Quote from Partner:** “TMS has been flexible and open to making modifications throughout the process, understanding, and committing to collaboration and understanding the need to adapt. There is flexibility and agreement.”

*Key reflection 9 - Emphasize feedback and learning within partnerships*

To help private sector partners excel and thrive, it is critical to support them with feedback and learning. TMS has found the most effective feedback comes from other actors in the market system - whether the customer, the visitor, or the supplier. For example, TMS included in its annual evaluation indicators on client satisfaction with products and services, as well as open-ended feedback that is shared with partners. This feedback has helped to spotlight needed improvements and changes in the partnership. A second take-away is that feedback from TMS should be based on ‘what is working’ in the partnership – market-based solutions are much more idiosyncratic than donor-led solutions which can be more tightly controlled and planned. A positive approach is generally better suited to finding that market fit.



## RELATIONSHIP QUALITY: TRUST

How would you best describe your current relationship with your Activity Technical Liaison? A trusted advisor; A useful resource – more than just there to answer partnership administration/contract questions; A point of contact to help us with questions about the partnerships/contract

LEARNING FROM TMS IN THE PAST YEAR WITH REGARDS TO **TRUST** HAS HIGHLIGHTED LESSONS –

Trust requires confidence on the part of partners to take-on risks to try new and novel approaches and to solve issues that emerge in implementation. Trust is built incrementally within the partnership, largely through openness. Trust can also benefit from a broader reputation by establishing credibility in the market system as a thought-leader and garnering a broad reputation for working openly and fairly.

*Key reflection 10 - Invest in and leverage a solid reputation to support trust-building with partners*

**Quote from Partner:** “There is a very close trust. They [TMS] share information, feedback and participate in key events at the Central American level and are already considered a key player.”

One of the enabling factors for TMS is the relatively fewer set of restrictions or strings-attached on the contractual mechanism, which allows TMS to be more open and engage private sector on more equal footing. For example, USAID/Honduras and the IP incorporated the private sector in the formative design of TMS - from sector selection to prioritized areas of intervention through an inception phase of the Activity. This reputation has been bolstered through a track record based on openness and collaboration with the ongoing and continuous co-creation processes with the private sector. A solid reputation pays dividends with the private sector reducing the time/effort it takes to build trust with new partners.

*Key reflection 11 - Reduce the downside risk to collaboration perceived by partners with thought leadership*

Trust is also about risk and the perceived upside (and downside) of collaboration, particularly when that collaboration involves some form of risk-taking together to try something new. Expertise and thought leadership

are important to managing this risk. This involves intentional hiring decisions of partner liaisons with inside knowledge, reputable experience, and broad contacts from within the industry. It also includes deliberate research and knowledge-sharing actions with the industry that establish thought-leadership and build confidence of the private sector to trust and take on risk of collaboration.



## FIT CHECK: RIGHT DIRECTION

To what extent do you believe the partnership is on the right track?

It is important to note the risk inherent in a private sector partnership. Both partner as well as the donor and IP are making multi-year investments to achieve some result – whether developmental or for profit. There is a period of uncertainty between when the investment is first made and when the results are achieved. If you are doing something innovative, it is likely that the initial idea or partnership is imperfect. There are however thousands of opportunities to make changes and to course correct when needed – if you and the partner are aligned, committed, adding value, and there is mutual openness and trust.

***Quote from Partner:** “The truth is that we think this is the best way to work, not with big turns because it was going in the wrong direction and nobody realized until the project was well advanced; but they are small turns, critical to take the boat in the right direction.”*

*Key reflection 12 - Ask yourself – and your partner - often is this partnership on the right track*

Asking yourself if this partnership is headed in the right direction, on the right track or on the right course is a way to fit check relationship quality with performance. A partnership in which the relationship quality is low and there is a belief that the partnership is on the wrong track is a strong sentinel indicator to stop investing in the partnership. On the other hand, a partnership in which the relationship quality is high yet there is a belief the partnership is on the wrong track, then it is entirely possible to navigate it back on course through incremental changes to the idea (or its execution) or even by going back to drawing board through a new phase of co-creation. This is the case of what happened with a TMS partnership which started as an activity solely focused on rural entrepreneurship for youth in the first year, and then shifted in the second to promote specialty coffee differentiation to generate more demand for youth entrepreneur services in the area. This course correction was possible because of the underlying relationship qualities that facilitated the joint adaptive management decision.

## FINAL THOUGHTS AND FUTURE CONSIDERATIONS

This learning brief augments insights to the PSE Learning Question on what relationship qualities drive results from the experience of a field-based market systems development activity in Honduras. Many of the areas explored in this brief are the focus of continued learning for TMS. For example, we would like to deepen our understanding of the characteristics of private sector partners and the differences we observe in development outcomes – with actionable evidence on *who* we choose to partner with as an Activity. Similarly, we observe changes in *how* we engage with the private sector and the openness of those partners to change how *they* partner with other private sector actors in the market system – with actionable evidence on relationship- (or network-) based change strategies. Finally, we have found the benefit to sharing this knowledge more broadly to contribute to a culture of openness that builds trust with other USAID missions and IPs in order to learn from each other in this emerging area of best practice which is transforming how development assistance is provided.