Peer Learning Country Report

United States

OECD
BETTER POLICIES FOR BETTER LIVES

The United States has a long history of private sector engagement in development co-operation that has evolved over time. The US approach to private sector engagement focuses on the private sector as partners in development in light of growing international investment, a greater focus on corporate social responsibility and the potential to leverage the private sector toward development outcomes. Premised on the principle of shared value, US partnerships with the private sector involve co-investment of resources to achieve shared objectives and increasingly link to the core business interests of private sector actors. The United States' experience highlights the importance of high-level leadership and the creation of appropriate incentives to promote and consolidate private sector engagements. The country has learned the value of working with a wide range of partners in private sector engagements, seeing partnerships as relationships rather than contracts, and ensuring that multi-stakeholder partnerships are rooted in clear roles and expectations with mechanisms that allow for flexibility as partner needs change over time. Notably, the United States has had success in promoting innovation by identifying desired systemic changes from the outset of partnerships and creating space for different potential partners to identify and co-create solutions to complex development challenges.

INTRODUCTION

On 21-24 March 2016, representatives from Denmark, Korea and Sweden participated in a mission to the United States as part of the Organisation for Economic Co-operation and Development's (OECD) Development Assistance Committee (DAC) peer learning exercise on working with and through the private sector in development co-operation. Supported by the OECD-DAC Secretariat, the mission included discussions with a range of government actors, implementing partners and private sector representatives. Discussions touched on all aspects of the analytical framework for the peer learning exercise, including policies, institutional make-up, human resources, government co-ordination, operational frameworks and key insights related to the management of private sector engagement mechanisms and specific partnerships. Cross-cutting issues such as ensuring additionality, realising results, and monitoring and evaluation were prominent themes during the week.

This report provides an overview of the United States' approach to private sector engagement and key lessons learned. It also includes a list of key resources.

THE US APPROACH TO PRIVATE SECTOR ENGAGEMENT

The United States has a long history of private sector engagement in development co-operation. Generally, the country seeks to harness the power of the private sector's expertise, supply chains, technologies and investment flows to drive economic growth and increase the reach and sustainability of development impacts. Since 2009, the United States has placed special emphasis on working with the private sector in development co-operation, specifically endorsing a greater focus on harnessing the private sector and development finance.

Private sector development of local economies is the foundation of the United States' private sector engagement. Interventions have included reducing costs of doing business for the private sector in developing countries, enhancing skills and workforce development, addressing trade barriers, privatising state-owned enterprises, expanding access to sustainable capital and building local private sector systems. Private sector development has been a hallmark of the US Agency for International Development's (USAID) work since the 1960s. In 1971, the United States established the Overseas Private Investment Corporation (OPIC) as the US government's development finance institution.

The US approach to private sector engagement has evolved over time. In the 1990s and early 2000s, the United States increasingly focused on the private sector as partners in development in light of growing international investment, a greater focus on corporate social responsibility and the potential to leverage the private sector toward development outcomes. USAID's private sector engagement approach involves efforts to leverage additional resources, expertise and market knowledge from private partners in international development. The Development Credit Authority, which provides guarantees to local financial institutions to improve access to finance, was established in 1999, while Global Development Alliances, which operate under the US Global Development Lab and serve as USAID's main public-private partnership model, followed in 2001. More recently, the United States added a focus on private sector and multi-stakeholder alliances, which entail large-scale initiatives to mobilise private resources for the achievement of development objectives. Premised on the principle of shared value, US partnerships with the private sector involve co-investment of resources to achieve shared objectives and increasingly link to the core business interests of private sector actors. Beginning in 2009, OPIC began to dramatically expand its development financing, which has increased by nearly 60% to date.

The United States has made significant efforts to institutionalise and mainstream private sector engagement across government institutions responsible for development co-operation through policy and leadership support, training and human capacity building. Private sector engagement is embedded in strategies and programming portfolios across all regions and sectors. The United States has a number of whole-of-government flagship initiatives that incorporate a range of government institutions and include strong private sector engagement components. Feed the Future and Power Africa are prominent examples.

Key actors and institutions

The US has a number of agencies that engage the private sector in development co-operation. USAID is the US government's lead agency that works to end extreme poverty globally. Its budget and operations fall under the auspices of the secretary of state. Private sector engagement is integrated throughout the work of the agency, which has a number of units dedicated to working with the private sector. Currently, USAID focuses on four key areas to support private enterprise, namely skills and capacity building, access to finance, enabling environment, and linkages and private sector engagement. The mission of the US Department of State is to promote a peaceful, prosperous, just and democratic world and foster conditions for stability and progress for the benefit of all people everywhere. The Department of State implements the US President's Emergency Plan for AIDS Relief (PEPFAR), Secretary's Office of Global Partnerships and Global Entrepreneurship Program, all of which include partnerships with the private sector. In addition, it carries out trade missions and engages the private sector through policy dialogue and multi-stakeholder initiatives. The Millennium Challenge Corporation, which is governed by a board chaired by the secretary of state, provides grants for projects designed to remove binding constraints to economic growth. It plays a major role within US bilateral aid to partner countries aimed chiefly at broad-based economic growth in well-governed developing countries. It adopted a strategy for private sector engagement in 2013 to engage the private sector more purposefully in its operations.

The OPIC operates on a self-sustaining basis. It provides US investors with financing through loans and guarantees, political risk insurance, and support for private equity funds when commercial financing is unavailable elsewhere.

A number of other US government institutions also work with the private sector in development. The US Trade and Development Agency offers assistance to US companies that work in infrastructure in developing countries through early project-stage financing. The US Department of Energy promotes policy and regulatory capacity building for energy diversification in developing countries. Within the US Department of Defense, the Task Force for Business and Stability Operations aims to leverage American economic power as a strategic tool for promoting economic stabilisation and security in developing countries. The US Department of the Treasury supports multilateral development banks to encourage private finance for infrastructure as well as participates in the G20 Development Working Group and G20 Investment and Infrastructure Working Group.

Mechanisms for private sector engagement

The United States has a range of mechanisms and approaches to engage the private sector, which include the provision of loans, guarantees, insurance and grants, technical assistance, participation in multi-stakeholder partnerships, policy dialogue, and trade missions. Key mechanisms include:

Global Development Alliances (USAID, US Global Development Lab)

- At least one-to-one leverage (cash and in-kind contributions) of USAID grant-based resources.
- Common goals defined by all partners, innovative, market-based, sustainable solutions to development challenges jointly defined and shared resources, risks and results.
- Must include a non-traditional resource partner from the private sector of any nationality.
- Grounded in seven partnership principles, namely trust, equity, competencies, inclusivity, partnership alignment, mutual benefit and transparency.

Other grant-based programmes

- The US Trade and Development Agency provides financing for feasibility studies, project planning and pilot projects, including for infrastructure.
- The OPIC-implemented U.S.-Africa Clean Energy Finance Initiative supports project development.
- Challenge or matching grant facilities within Millennium Challenge Corporation compacts are used to support co-investment and parallel financing opportunities and accessed on a competitive basis according to transparent evaluation criteria.
- The Millennium Challenge Corporation's Public-Private Partnership (P3) Platform,[1] established in 2015, commits USD 70 million to support public-private partnerships in partner countries, with African countries set to receive grants totalling USD 52 million. The platform will bring financially viable partnership projects to market and compile a comprehensive, co-ordinated package of tools and resources on financing, technical assistance and technology transfer, including from other relevant US government institutions.

Development Credit Authority (USAID)[2]

- Partial credit guarantees designed to reduce risks in order to generate additional lending to underserved markets and demonstrate the long-term commercial viability of lending in developing markets.
- Four credit guarantee products offered, usually to local financial institutions: loan portfolio guarantee (most popular, representing 80% of the portfolio), loan guarantee, bond guarantee and portable guarantee (rarely used).

- Guarantee loan maturities of up to 20 years.
- Loans registered in a simple online Credit Management System.
- Pre-approval not required for individual loans placed under loan portfolio guarantees.
- Guarantees may be paired with USAID or other technical assistance projects.

Office of Private Capital and Microenterprise (USAID)

- Assists development professionals across sectors to connect with investors who are interested in viable business opportunities that have a sustainable development outcome.
- Develops and supports tools and structures that can sustainably mobilise private financing at scale to key sectors in developing countries.

Loans (OPIC)

- OPIC offers medium- and long-term funding to support large US companies and small and medium-sized enterprises, as well as large-scale projects that include a US company.
- Recently introduced an impact investing portfolio[3] that allows for investments in smaller impact projects and to assist companies with working capital.
- The loan term is usually between five and 15 years, depending upon the type of project and its debt-servicing capability. It is common to allow a period of one to two years for principal repayment at the beginning of the term to allow for project completion. Payments are usually made quarterly or semi-annually. Leverage of 50% debt to 50% equity is standard for capitalisation of new projects. Higher leverage is possible if circumstances warrant. The loan size is from USD 350 000 to USD 250 million. Various fees are charged depending on the instrument.

Guarantees (OPIC)

- OPIC offers loan guarantees and local currency guarantees between USD 350 000 and USD 250 million. It introduced Green Guarantees in 2014.
- The majority of OPIC's financing is used to cover capital costs (e.g. design and engineering services, facility construction and equipment) associated with the establishment or expansion of a project in a non-financial industry or to fund the expansion of lending capacity (e.g. microfinance, small and medium-sized enterprise lending or mortgage lending) by a financial services provider.

Political risk insurance (OPIC)

- Available to US investors, lenders, contractors, exporters and non-governmental organisations for investments in 150 developing countries, including high-risk countries.
- OPIC offers several types of political risk coverage: currency inconvertibility, expropriation, political violence and more targeted specialty products.
- Insurance policies for equity coverage are available for up to 20-year terms. For loans, leases and transactions covered by the contractors and exporters insurance products, the term is generally equal to the duration of the underlying contract or agreement.
- OPIC can insure up to 90% of an eligible investment. Loans and capital leases from financial institutions to unrelated third parties may be insured for 100% of principal and interest. For equity investments, OPIC typically issues insurance commitments equal to 270% of the initial investment – 90% representing the original investment and 180% to cover future earnings.
- Available to small businesses at a reduced cost and through a streamlined approval process.

Equity (OPIC)

- Support for the creation of privately owned and managed investment funds that make direct equity and equity-related investments in new, expanding or privatising emerging market companies. OPIC generally contributes no more than 25% of a private equity fund's capital base and its position is in the form of a non-amortising loan to the fund. OPIC issues certificates of participation investors in US debt capital markets, the proceeds of which are provided as a loan to the private equity fund. Base interest is paid to investors holding certificates of participation, not OPIC.

Investor matching (OPIC)

- The Aligned Capital pilot programme seeks to match potential investors with innovative entrepreneurs seeking financing for projects. The programme accepts project profile submissions from developers who have applied to OPIC and profile submissions from investors who may be interested in what OPIC applicants are developing. The programme's database will correlate developer and investor preferences by sector, geography and financial instrument and alert participating investors to opportunities that match their criteria.

Multi-stakeholder alliances (USAID, US Department of State)

- USAID's multi-stakeholder alliances focus on collective action, engagement with a broad set of stakeholders across sectors, and work to align, co-ordinate and influence actors in an ecosystem in ways that help them achieve results at meaningful scale.
- Launched in 2009, the Department of State's Secretary's Office of Global Partnerships aims to strengthen US diplomacy and development around the world through partnerships that leverage the creativity, innovation and core business resources of partners for greater impact. The office works as a convener, catalyst by launching new projects, collaborator by working with partners, and cultivator by nurturing partnerships through providing access to space, networks, capital and mentoring assistance.

Relationship Managers Network (USAID)

- Network of dedicated points of contact for key corporate and philanthropic partners.
- Aims to build trust between USAID and private sector partners.

Allocations

OPIC has a portfolio of roughly USD 20 billion. It does not have a sectoral or country focus. Since 2002, OPIC has committed USD 38 billion in development finance. The new projects that OPIC supported in fiscal year 2015 alone are expected to catalyse, at a conservative estimate, at least USD 9 billion in private investment in developing countries and emerging economies (OPIC, n.d.a.).

USAID[4] has formed more than 1 500 public-private partnerships with over 3 500 distinct partner organisations, with an estimated value of more than USD 16 billion in public and private funds since 2001. In 2015 alone, USAID leveraged more than USD 6.4 billion from private sector and other partners through more than 360 active partnerships. In fiscal year 2014, country missions leveraged USD 250 million in private sector resources toward new Global Development Alliances. Across new and ongoing public-private partnerships, USAID is leveraging over USD 1 billion in combined private sector resources. In fiscal year 2015, country missions expect to leverage nearly USD 400 million in private sector resources toward new Global Development Alliances over the life of their projects as shown in Table 1. Across new and ongoing Global Development Alliances, country missions are leveraging nearly USD 2.3 billion in combined private sector resources over the life of their projects.

The Development Credit Authority works across sectors in developing countries. Since its inception in 1999, it has provided 474 guarantees to more than 340 financial partners, thereby unlocking over USD 3.9 billion in private capital. Since 2010, its credit guarantees have nearly doubled – in fiscal year 2015 alone, USAID leveraged USD 695 million in credit using just USD 39.6 million in USAID funds. USAID also entered into 47 guarantees with 46 financial partners in 23 countries in 2015.

Table 1. **Global Development Alliances, 2015**

Region	Obligations to all Global Development Alliances, Actual (numerator)	Total Mission Obligations, Actual (denominator)	Percentage Total, Mission Obligations	Leveraging, Actual from New Fiscal Year 2015 Global Development Alliances
Afghanistan and Pakistan	USD 17 581 723	USD 1 887 443 207	0.9%	USD 98 826 796
Africa	USD 36 305 947	USD 3 975 293 707	0.9%	USD 58 792 167
Asia	USD 30 287 062	USD 992 907 577	3.1%	USD 149 190 443
Europe and Eurasia	USD 6 278 983	USD 664 481 997	0.9%	USD 9 928 841
Latin America and Caribbean	USD 31 103 802	USD 943 842 393	3.3%	USD 70 040 297
Middle East	USD 50 660 008	USD 1 408 678 244	0.4%	USD 12 941 882
Total	USD 126 623 517	USD 9 872 647 124	1.3%	USD 399 720 426

Note: This table uses official data reported in fiscal year 2015 for USAID Forward – a reform agenda that was established to strengthen USAID by embracing new partnerships with a focus on leveraging at least 1:1 resource commitments from private sector partners, investing in innovation and focusing on results. Official USAID Forward numbers are based on data submitted and vetted as of 1 April 2016. Obligations captured here are to partnerships with an expected private sector leverage ratio of 1:1 or greater over the life of the project.

LESSONS

Building blocks for private sector engagement

Politics and policies

- **Development objectives and desired results should determine the selection of partners.**

The US approach to private sector engagement emphasises the importance of setting development objectives first and then identifying the best partners to realise desired results. The best private sector partners are those that can help realise development objectives while achieving value for their companies.

- **Direction from high-level officials is an important contributor to momentum behind private sector engagement.**

In the United States, presidential directives and initiatives place a clear emphasis on private sector engagement, which creates momentum within and between government institutions responsible for development co-operation to work individually and together with the private sector.

- **Continue to communicate the value of private sector engagement to external stakeholders.**

It is helpful to continue to demonstrate the value addition of working with the private sector to external stakeholders over time. Communication is necessary to engage with both critics and champions of private sector engagement to allay concerns, disseminate lessons learned and results, and bolster support for the approach.

Institutions

- **Support an organisational culture that embraces engagement with the private sector and ensure that appropriate incentive structures are in place.**

It is important to build a culture within organisations that embraces private sector engagement with all employees on board including those responsible for legal issues, contracting, legislative and public affairs, policy and programming. Success requires high-level leadership and ongoing efforts to ensure that staff have appropriate capacities and skills. Facilitating and supporting private sector engagement through the use of targets can encourage the use of specific instruments. However, this approach can also create incentives to meet partnership targets, rather than the objective of maximising development impacts through the use of appropriate tools.

- **Do not underestimate the time and resources needed to mainstream private sector engagement in institutional portfolios and ensure that staff have appropriate capacities and skills.**

Private sector engagement can be time-consuming and resource-intensive for government institutions. It is essential to ensure that there are sufficient staff with the right capacities in the right places for effective engagement at headquarter and field level. A number of strategies exist to ensure that institutions are appropriately equipped. One is to recruit directly from the private sector. A second is to develop systems for continued training and skills development to build internal capacity, particularly in light of staff rotation and turnover. An effective approach in this regard is the use of dedicated focal points or units and resources that provide training and support to other units to ensure that all staff have the ability to identify opportunities, understand when interests with the private sector are aligned, and know what tools are available for partnership. The length of time needed to establish engagement mechanisms and individual partnerships should not be underestimated.

- **Soft skills – inter-personal skills, flexibility, adaptability, communication and resourcefulness – are critical to successful private sector engagements.**

The United States' experience shows that good relationships and relationship management are key success factors in private sector engagement, specifically in terms of the relationships between headquarter and field staff, between government institutions, and between institutions and private sector partners.

- **Establish incentives and build capacity to ensure buy-in from country missions regarding private sector engagement initiatives.**

It can be challenging to ensure that initiatives originating at headquarters have sufficient buy-in from country missions. Engagement with country missions in the development of initiatives and the use of incentives, such as funding, and capacity building are ways to ensure buy-in. As countries develop, missions often see greater incentives to engage with the private sector to leverage diminishing aid resources and take advantage of new opportunities that emerge owing to development progress.

Co-ordination

- **Whole-of-government initiatives are a useful way to co-ordinate private sector engagements.**

In a complex government system characterised by many government actors and other partners with differing interests and levels of capacity, a unified understanding of where initiatives are headed through clear guidance is important. Whole-of-government initiatives are one way to provide guidance and enable co-ordination across government institutions and between headquarter and field levels. This approach promotes coherence between institutions and facilitates formal co-ordination mechanisms. For example, the Power Africa initiative includes a co-ordinator role that ensures coherence across activities.

Focus and delivery of private sector engagement strategies

Countries and sectors

- **Private sector engagement mechanisms should be aligned to country type and context.**

Low-income countries are often characterised by poorer enabling environments, making it more challenging to promote investment. As such, financial mechanisms used in these contexts tend to be fairly simple. Possibilities for more sophisticated financial mechanisms exist in middle-income countries.

- **Establish clear expectations for partnership with private sector stakeholders in advance of humanitarian crises.**

The development of memoranda of understanding with private sector actors beforehand regarding how co-operation will occur is useful to ensure efficient and effective responses in times of crisis. In addition, avenues for long-term recovery and resilience should be considered from the outset of humanitarian crises, including in terms of private sector engagements.

- **It is possible to work with the private sector in all sectors.**

The United States has mainstreamed private sector engagements in all thematic focus sectors including non-traditional sectors such as health. The private sector can serve as an important partner in improving social outcomes, such as those in health and education, that are critical to encouraging broader private investment in countries.

In terms of focusing efforts in country, the United States has found that the constraints to growth analysis is an effective tool to narrow sectoral focus, from which opportunities for private sector engagement can be derived.

- **It is possible to target private sector engagement activities toward better outcomes for the most vulnerable groups.**

The United States incorporates vulnerable groups as a cross-cutting theme in programming and uses dedicated programmes as part of its private sector engagement activities.

Partners

- **Include partner governments in private sector engagement activities.**

Partner governments' perspectives should inform local-level private sector engagement activities. Such inclusion is critical for country ownership and local buy-in, as well as building country-level capacity to engage with the private sector. In this regard, ensuring space for partner governments' input on centrally developed private sector engagement initiatives is important.

- **Harness the financial and non-financial contributions that governments can make to private sector engagement initiatives.**

Governments have a leveraging effect through financial mechanisms used to engage the private sector. Their non-financial contributions are equally important. Governments provide signals to the private sector and other stakeholders and play a role in convening stakeholders across sectors. Government initiatives signal to the private sector which issue areas are priorities (e.g. the launch of the Power Africa initiative signalled a US government focus on energy). They can also signal to other stakeholders that a company has been vetted as a credible partner. In their role as convenor, governments bring together a range of partners (e.g. donors, the private sector, civil society organisations, universities, etc.) and facilitate networking and connections. This role creates opportunities to reduce transaction costs by enabling the private sector to tap into the expertise of government and other stakeholders and mitigates risk by facilitating the co-ordination of initiatives across sectors.

- **Include universities and research institutions in multi-stakeholder alliances.**

Universities and research institutions can serve as valuable research and development partners, particularly in terms of developing innovations that can be taken to market or used to inform private sector engagements activities. Notably, the Feed the Future initiative allocates 15% of resources to universities that engage in research and development. Innovations developed by universities can then be tested and scaled, as appropriate, by implementing partners.

- **Consider the role of civil society organisations in initial planning stages when establishing multi-stakeholder initiatives and involve them, as appropriate, throughout the duration of initiatives.**

Civil society organisations bring valuable perspectives to private sector engagements as issue advocates, implementing partners and representatives of citizens and marginalised communities. Provisions for civil society consultation on and involvement in private sector engagements are important, particularly for large-scale multi-stakeholder initiatives.

- **Work with private sector partners that have an incentive to ensure the long-term sustainability of projects and initiatives.**

The United States works with private sector partners whose core business aligns with the US government's development objectives and focuses on opportunities that generate shared value. This approach helps to ensure the sustainability of projects and initiatives. At the country level, local companies are equally important. Domestic companies will continue to operate in their countries, whereas foreign investors sometimes leave when country-level circumstances change.

- **Clearly communicate engagement opportunities to the private sector.**

Companies should have a clear understanding of how to engage if they are looking to do business or partner with government institutions. Private sector partners appreciate efforts by USAID to reach out with regard to opportunities for engagement. In the case of humanitarian crises, potential private sector partners have many questions. Clear guidance in advance can improve the efficiency and effectiveness of responses when crises occur.

- **Harness momentum within the private sector toward responsible business practices.**

There is significant momentum within the private sector toward social and environmental responsibility. Private sector partners are becoming more interested in impacting development results, which presents an opportunity for development partners to harness changing attitudes and business practices. The United States has found that by working with the private sector on a range of issues, government institutions can be well positioned to address more contentious topics within the context of broader engagement.

Tools for private sector engagement in development co-operation

Suite of tools

- **Efforts to support business-enabling environments in partner countries are critical for private sector engagement.**

Business-enabling environment initiatives impact the possibilities for private sector engagement and promotion of sustainable economic growth. A multi-layered approach creates opportunities to bring private sector solutions to a range of issues in addition to addressing enabling environments in countries with more traditional tools such as technical assistance.

- **Develop a mix of financial and non-financial private sector engagement mechanisms that work together.**

The use of a suite of engagement tools, including financial mechanisms such as debt, guarantees and grants and non-financial mechanisms such as policy dialogue and technical assistance, is an effective way to coherently address development challenges. While private sector engagement mechanisms that generate shared value are important, philanthropy and corporate social responsibility also have roles to play in development co-operation.

A variety of tools facilitate working with different types of private sector partners whose capacities vary. Small and medium-sized enterprises often lack the capacity to effectively take advantage of new mechanisms and bring projects to the financing stage. Efforts to streamline approval processes and develop specialised mechanisms specifically for these enterprises appear to be an effective way to further their engagement in development.

- **Experiment with and reflect on the effectiveness of private sector engagement mechanisms and approaches.**

Allowing time to test new mechanisms and approaches, as well as experiment with and engage in an iterative process that allows for evaluation, learning and evolution, helps to ensure that they are fit for purpose. Consideration and review of available mechanisms and approaches facilitates understanding of when and where private sector engagement best applies. Such consideration is also important for avoiding the proliferation of private sector engagement mechanisms and ensuring that they are developed with users – private sector partners – in mind.

- **Mechanisms for engagement should be flexible.**

A mechanism should not necessarily determine how private sector engagement occurs. Rather, partners should look at how they would best like to engage with one another and then find ways to work through and adapt existing mechanisms as appropriate. The challenge is selecting appropriate means to maximise the impact of partnership.

Risk

- **Due diligence is necessary, but not sufficient to fully assess potential partners.**

A company may be able to pass due diligence processes and still not be a good partner. It is important to assess company interests and ensure that shared value exists. Risk comes in many forms. Risk mitigation and management requires significant communication across organisations and within entities responsible for various risk aspects.

- **Government institutions must be willing to take risks if they want to encourage the private sector to do likewise.**

Government can promote greater risk taking on the part of the private sector by taking relatively high risk itself. High impacts often come with greater risks. Companies appreciate the role of governments in sharing risk, particularly in terms of longer-term finance. In addition, government institutions can provide important demonstration effects. For example, development finance institutions show that it is possible to work in higher-risk markets, make a return and promote development.

- **Diligent risk management and effective communication of successes and failures by government institutions help ensure external stakeholder buy-in for higher-risk profiles.**

Low tolerance for risk by stakeholders, such as politicians and the general public, can present a challenge to government institutions that use official funds to engage the private sector in development co-operation. Frequent communication of successes is an important way to tackle this challenge. Conversations with key stakeholders that highlight successes make talking about failures less difficult because failures can be seen within the context of overall portfolios. It is important to educate stakeholders that working with the private sector carries intrinsic risks and that failures are not a sign that something is wrong, but that institutions are supporting innovation, adapting and evolving.

Supporting innovation

- **Identify desired systemic changes from the outset during the establishment of projects and partnerships.**

It can be difficult to move from one-off partnerships or innovations to larger-scale initiatives. Scale and sustainability should be in mind when supporting innovations and incorporated into the design of initiatives.

- **Use approaches that encourage individuals to innovate and work together to find solutions to complex challenges.**

Among other approaches, USAID uses its Broad Agency Announcements to collaborate and promote innovation with the private sector and other organisations to address development challenges without clearly defined solutions. Under this approach, the private sector is invited to submit solutions to development challenges. The approach encourages private sector partners to co-define problems and co-create solutions with government, including through the use of system-level thinking.

Insights on multi-stakeholder partnerships

- **Know how to negotiate and what can be negotiated when partnering with the private sector.**

Be prepared to put next steps on the table, rather than allowing discussions to circle around ideas. Be prepared to cut ties when it is clear that a partnership is not going to work.

- **See partnerships as a relationship rather than a contract and dedicate resources accordingly.**

The use of relationship managers appears to be a resource-efficient way to dedicate a portion of staff time to relationships with large companies with whom multiple partnerships exist. The growth and expansion of new partnerships requires maintenance of existing relationships. This approach also allows for easy exchange of potential ideas and facilitates co-creation processes. Flexibility is critical, including building in ways to ensure flexibility within initiatives as partner needs and contexts change. Mechanisms for frequent and effective communication are also a success factor. Notably, it is important to understand the right level of information on partnerships and mechanisms that should be made available to stakeholders. Information should coincide with what is needed and desired by stakeholders while respecting the confidentiality needs of partners.

- **Address the challenges that exist for private sector partners seeking to work with government institutions.**

Bureaucratic processes can be a challenge for the private sector. Willingness on the part of government institutions to facilitate processes and, to some extent, shield private sector partners from internal processes, are appreciated. The complexity and variation of rules and regulations used across DAC members presents a challenge for companies that seek to engage with multiple donors.

- **Partnerships work best when they are based on shared value, interests, comparative advantages, risks and rewards. The establishment of clear roles and responsibilities in partnerships is critical.**

When working through multi-stakeholder partnerships that include government, the private sector and civil society, it is important to understand the goals and needs of each partner, focus on value addition from the outset and establish clear roles and expectations. Decision-making processes should be clearly outlined. In this context, developing shared terminology can be a challenge. Partners undergo a learning curve in this regard. In some respects, they must understand the varied terminologies used by government, the private sector and civil society.

Measurement Challenges in Working with and through the Private Sector

- **Develop new and updated data management and information systems to effectively track private sector engagements.**

The effective tracking of private sector engagement activities requires new and updated data management and information systems, particularly when private sector engagement is a cross-cutting approach for all development co-operation activities. Such systems are critical for being able to track and report on allocations, results and leverage. The use of shared reporting systems is one way to ensure coherence across government institutions that work on the same initiatives. Effective knowledge management also plays an important role in capturing and disseminating evidence of what works.

Leverage

- **Report on leverage.**

Reporting on leverage can be an important way to garner political support for private sector engagements in development co-operation. At the same time, it is important to balance concerns with leveraging additional finance with equal concern for ensuring additionality in partnerships – while avoiding market distortions – and realising development results.

- **Use leverage ratios to ensure that all partners are fully committed to initiatives.**

Leverage ratio requirements ensure that all partners have a stake in the outcomes of a partnership.

Additionality

- **Develop systems to ensure that government support to the private sector reduces the risk of market distortions.**

Ensuring financial additionality mitigates against market distortion and ensures value for money. The provision of concessionary finance in instances where a business case exists is a concern for private sector partners because it undermines competition. Additionality is an important principle for all government institutions that engage the private sector in development co-operation, regardless of the mechanisms for engagement used, such as loans and guarantees or grants and technical assistance.

- **A government's contribution is more than financial when working with the private sector.**

Government know-how on how to facilitate investments according to standards and best practices is an important form of additionality. Moreover, the demonstration effect of government investments in higher-risk markets is a critical value addition.

Results

- **It is difficult to capture the direct and indirect results of private sector engagements and communicate the full story.**

It is sometimes difficult to measure impacts through standard indicators owing to differences in countries, sectors, projects and modalities. A significant challenge is systematically capturing and reporting qualitative impacts, such as job quality, though it can also be challenging to consistently demonstrate quantitative results across projects as well. Examples of harmonised reporting systems exist, including the use of indicators by OPIC that are harmonised with other development finance institutions.

Monitoring and evaluation

- **Establish provisions for monitoring and evaluation at the outset of partnerships.**

Establishing clear provisions for monitoring and evaluation during the initial planning phase of partnerships is important to ensure that all partners have a common understanding of what is expected and resources are allocated appropriately. This approach facilitates reporting on impacts and lessons learned. Without such provisions, it is challenging to conduct ex-post evaluations of private sector engagements. Once contractual arrangements with private sector partners are over, there is no obligation for partners to report on longer-term results.

- **Make use of thematic cluster evaluations.**

Thematic cluster evaluations for particular sectors can facilitate assessments of different types of partnerships within a sector and identify lessons learned. Drawing on its decades of experience, OPIC plans to release a series of short documents that outline lessons learned with respect to the agricultural, education, health and housing sectors.

- **Ensure that strong accountability mechanisms exist for realising development results in private sector engagements.**

Within US government institutions, offices of the inspectors general play an important role in ensuring accountability for how these institutions work with and through the private sector and the results that they realise.

- **Knowledge management is important to ensure that new initiatives and approaches build on lessons learned.**

US government institutions that engage the private sector gather data and conduct research to better understand the results of and lessons learned from private sector engagement activities and inform future strategies and approaches for engaging the private sector. For example, a number of reports looking at the effectiveness of Global Development Alliances have been produced.

KEY RESOURCES

Policy and approach	
OPIC (2010), "Environmental and social policy statement", Overseas Private Investment Corporation, Washington, DC, www.opic.gov/sites/default/files/consolidated_esps.pdf.	Statement that outlines: OPIC's mission and statement of purpose; objectives, scope of application, and roles and responsibilities in the areas of screening and categorisation, environmental and social review and standards, public consultation and disclosure, conditions and compliance, monitoring and country eligibility.
US Department of State (2013), "The power of partnerships", www.state.gov/s/partnerships/achievements/index.htm (accessed 29 April 2016).	Web page with infographic that illustrates the US Department of State's role in and approach to private sector partnerships.
USAID (2014), "Development Credit Authority: Putting local wealth to work" (fact sheet), United States Agency for International Development, Washington, DC, www.usaid.gov/sites/default/files/documents/1865/DCA%20One-Pager%20for%20Financial%20Partners_FY2015_Final.pdf.	Fact sheet on the Development Credit Authority, how it functions and its achievements.
USAID (2014), "Partnering for impact: USAID and the private sector", United States Agency for International Development, Washington, DC, www.usaid.gov/sites/default/files/documents/15396/usaid_partnership%20report_FINAL3.pdf.	Report that describes how the United States partners with the private sector in agriculture and food security, energy access, education and youth development, health, climate change, water, sanitation and hygiene, financial inclusion and innovation, and inclusive development, and highlights partnership examples and results.

Operational frameworks and guides	
Saul, J., C. Davenport and A. Ouellette (2010), "(Re)Valuing public-private alliances: An outcomes-based solution", United States Agency for International Development and Mission Measurement, Washington, DC, and Chicago, www.usaid.gov/sites/default/files/documents/1880/RevaluingPublicPrivateAlliances.pdf.	Publication that addresses the problem of measuring public-private partnerships by financial resources and suggests an outcomes-based approach to forming, operating and measuring the value of public-private partnerships.
USAID (2014), "Introduction to USAID partnerships and the Global Development Alliance model", https://www.feedthefuture.gov/resource/introduction-usaid-partnerships-and-global-development-alliance-model (accessed 12 December 2015).	Sixty-minute online course that summarises USAID public-private partnerships and the Global Development Alliance model.
USAID (2013), "Building alliances sector guide series", www.usaid.gov/gda/building-alliances-sector-guide-series (accessed 12 December 2015).	Web page on Global Development Alliances with downloadable Alliance Guides that explain how to build public-private partnerships in specific sectors – agriculture, democracy and governance, economic growth and trade, education, emergencies, energy, extractives, health, microfinance, water, and workforce development.
USAID (2012), "Partnering with USAID: Building alliances for sustainable solutions", United States Agency for International Development, Washington, DC, www.usaid.gov/sites/default/files/documents/1880/Partnering_with_USAID_Diasporas%28GDF2012%29.pdf.	Publication that summarises how USAID partners with diaspora communities to increase the impact of remittances, provide grant-seeking advice to non-governmental organisations and private voluntary organisations, and offer acquisitions and contracts, as well as other funding mechanisms.
USAID (n.d.), *USAID Public-Private Partnerships Database*, https://partnerships.usaid.gov (accessed 12 December 2015).	Database that allows users to search for public-private partnerships based on various criteria including partner name, year, region and country.
US Department of State (2013), "The U.S. President's Emergency Plan for AIDS Relief (PEPFAR); PPP Incentive Fund: Round 3 guidance & application packet", United States Department of State, Washington, DC, www.pepfar.gov/documents/organization/219653.pdf.	Publication that summarises the PPP Incentive Fund Round 3, including engagement with implementing partners, application and selection processes, and management and reporting requirements.
Results, evaluations and reviews of private sector engagements in development co-operation	
Brady, C., B. Johnson and T. Zakaras (2015), "Local private sector partnerships: Assessing the state of practice in USAID's partnerships with local private sector actors", United States Agency for International Development, Washington, DC, https://www.usaid.gov/GlobalDevLab/documents/local-private-sector-partnerships-assessing-state-practice.	Comprehensive assessment of local private sector partnerships. Explores the unique value of local companies, why and how they engage, and the USAID's approaches to local partnerships.
Davenport, C. and S. Basak (2011), "Understanding private sector value: An assessment of how USAID measures the value of its partnerships", United States Agency for International Development, Washington, DC, www.usaid.gov/sites/default/files/documents/1880/Understanding%20Private%20Sector%20Value_Assessment%20Report_Final.pdf.	Report on how USAID defines and captures the value of partnering with the private sector. Includes sections on methodology, findings from observation of 70 alliances, the added value of private sector engagement, and the types of private sector contributions.

MCC (2012), "Policy for monitoring and evaluation of compacts and threshold programs", Millennium Challenge Corporation, Washington, DC, https://assets.mcc.gov/guidance/policy-050112-monitoring-and-evaluation.pdf.	Report summarising policies for compacts and threshold programmes as well as monitoring and evaluation activities through gender and transparency lenses.
OPIC (3 February 2016), "By the numbers: OPIC's far-reaching impact", *OPIC Blog*, www.opic.gov/blog/impact-investing/by-the-numbers-opics-far-reaching-impact.	Blog post that provides a snapshot of impacts in key sectors – agriculture, energy, health, education, housing, water, small businesses, and microfinance and small and medium-sized enterprises.
OPIC (2015), "OPIC 2014 annual report: Snapshots in development", Overseas Private Investment Corporation, Washington, DC, https://www.opic.gov/sites/default/files/files/opic-fy14-annual-report.pdf.	Report that includes sections on impact, supported sectors, clients and countries, services and innovations, and investments.
USAID (13 June 2016), "Evaluations", www.usaid.gov/dca/dca-evaluations.	Web page on the Development Credit Authority's evaluations. Includes evaluation summaries and full country evaluation reports.
USAID (2015), "Fast tracking development finance" (fact sheet), United States Agency for International Development, Washington, DC, www.usaid.gov/dca/infographic/2014-portfolio.	Infographic on the Development Credit Authority's 2014 portfolio, specifically the use of credit guarantees to increase access to finance and promote growth in 18 developing countries.
USAID (2013), "Impact brief 2013: Development Credit Authority", United States Agency for International Development, Washington, DC, www.usaid.gov/sites/default/files/documents/2151/2013ImpactBrief.pdf.	Brief on the Development Credit Authority's impacts on cocoa farming in developing countries.
USAID (17 September 2013), "Alliances in Action", www.usaid.gov/gda/alliances-action.	Web page with snapshots of key USAID partnerships. Incudes fact sheets for Global Development Alliances such as the African Diaspora Marketplace, Alianzas Guatemala and the Angola Development Alliance.
USAID (2008), "Evaluating Global Development Alliances: An analysis of USAID's private-public partnerships for development", United States Agency for International Development, Washington, DC, www.usaid.gov/sites/default/files/documents/1880/GDA_Evaluation_reformatted_10.29.08.pdf.	Analysis of the growing importance of the private sector's contribution to the social and economic growth of emerging markets, and the value and impact of the GDA model. Includes methodology, findings (impacts, monitoring and evaluation, roles and responsibilities) and recommendations.

Notes

1. See the mechanism profile here: www.oecd.org/dac/peer-reviews/develoPPP-de.pdf.
2. See the mechanism profile here: www.oecd.org/dac/peer-reviews/Development-Credit-Authority.pdf.
3. For more information, see: www.oecd.org/dac/peer-reviews/Overseas-Private-Investment-Corporation.pdf.
4. Figures provided by USAID.

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OPIC (n.d.a), "Annual reports", https://www.opic.gov/media-events/annual-reports (accessed 9 September 2016).

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