

**LASER PULSE**

**Long-term Assistance and Services for Research (LASER)**

**Partners for University-Led Solutions Engine (PULSE)**

# **USAID PSE PROCESS ANALYSIS EXECUTIVE SUMMARY**

**SUPPLEMENT TO AGREEMENT NO. AID-7200AA18CA00009**

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## LASER PULSE

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 2,500+ 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.

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The United States Agency for International Development (USAID) is the world's premier international development agency and a catalytic actor driving development results. USAID's work advances U.S. national security and economic prosperity, demonstrates American generosity, and promotes a path to recipient self-reliance and resilience.

## Executive Summary

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 PULSE program to conduct USAID's PSE Process Analysis to address the questions in their [PSE Learning and Evidence Plan](#). *The overall purpose of this research is to help USAID understand process bottlenecks that may limit them from being 'Partner of Choice' for the private sector.*

## Research Methods

The research team used a systems engineering<sup>1</sup> and multi-stakeholder perspective approaches to examine the end-to-end private sector engagement process employed by USAID from problem definition, partner selection, engagement negotiation, implementation, and closeout to: 1) map out the engagement processes; 2) identify bottlenecks and root causes that affect PSE formation, operations, relationships and health using a systems approach; and 3) identify best practices to address these challenges. This study explored timing of interactions, the nature of shared information, evaluative criteria used in partner selection, and contextual variables of the engagement (e.g., stakeholder roles, engagement level, technical focus, implementation context). This work aims to add valuable insights into engagement processes that can enhance the success of PSE.

Qualitative research methods including process mapping techniques, focus group discussions (FGDs), semi-structured interviews, in-depth multiple cases study analysis and narrative analyses were used. This study utilized several research techniques to maintain scientific rigor related to trustworthiness of qualitative research including measures for research validity and reliability such as piloting instruments, multiple interviewers, data triangulation, coding book, inter-rater reliability, internal validity checks and external member checks for data accuracy.

To understand the interactions between USAID and the PS before an engagement is formalized, FGDs and interviews were conducted to understand perspectives from 13 USAID personnel in Washington and selected Missions. To understand the full scope of PSE efforts, the research team identified 8 USAID partnerships across USAID sectors such as health, agriculture, education, technology, economic growth and environment and across geographic regions (East Asia, South Asia, Middle East, Latin America and Africa). Forty-three (43) participants across USAID, PS, Implementing Partner (IP) and other stakeholders were interviewed to gain a 360-degree view of the engagement from various perspectives.

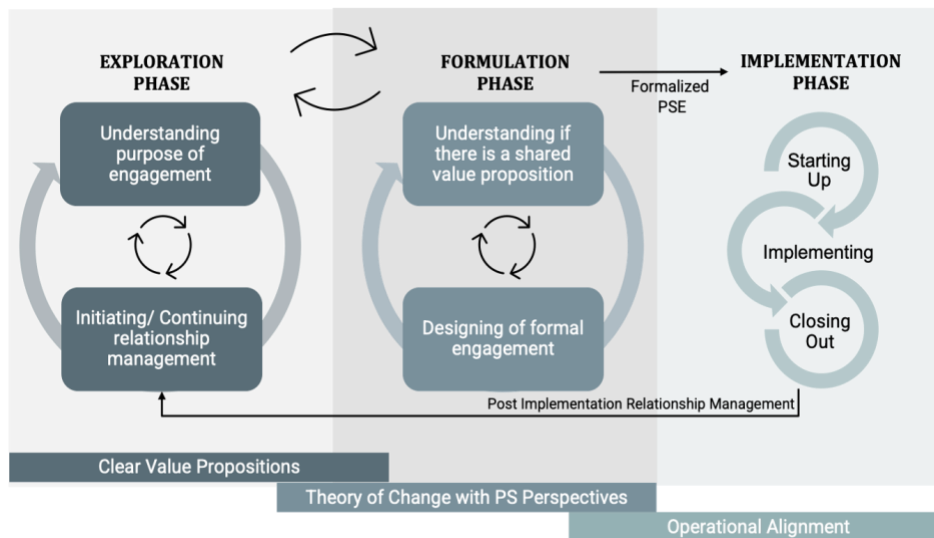
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<sup>1</sup> Systems engineering is an interdisciplinary field of engineering and engineering management that focuses on how to design, integrate, and manage complex systems over their life cycles. At its core, systems engineering utilizes systems thinking principles to organize this body of knowledge. We used the "virtual Gemba walk", an essential part of the Lean management philosophy in systems engineering to understand the actual work process involved in USAID PSE.

**USAID’s PSE Lifecycle**

USAID’s PSE Lifecycle is nonlinear, cyclical and complex in nature, consisting of three interrelated phases (Exploration, Formulation and Implementation) as shown in *Figure 1*. These phases require an underlying foundation of:

1. Clear value propositions for each stakeholder to participate in the engagement (cost benefit analysis)
2. Well-articulated Theory of Change that outlines how the contributions of the various partners (value proposition) will results in the intended results
3. Agreed shared values of how the results will be achieved
4. Well defined operational alignment among the partners that outline how they will work together, where they will work, how decisions will be made, how conflicts and communication will be managed to foster an environment that promotes effective engagement among the partners



*Figure 1: USAID’s PSE Lifecycle: Key Phases and Components*

**Key Reasons Why Some PS Engagements Do Not Get Formalized**

We found three overall categories of reasons that reduced the likelihood of formalizing engagement as shown in *Figure 2*. These reasons occurred in the Exploration and/or Formulation phases of the PSE lifecycle and included: (1) insufficient alignment on shared values or operational approaches, (2) breakdown in communication and relationship management, and (3) complexity and length of USAID processes. Our data indicated that in some cases, even if the PS had interest, motivation and a clear purpose to engage with USAID, these factors could be significant enough to result in the PS reducing or withdrawing their support, participation, and resources from engaging with USAID.

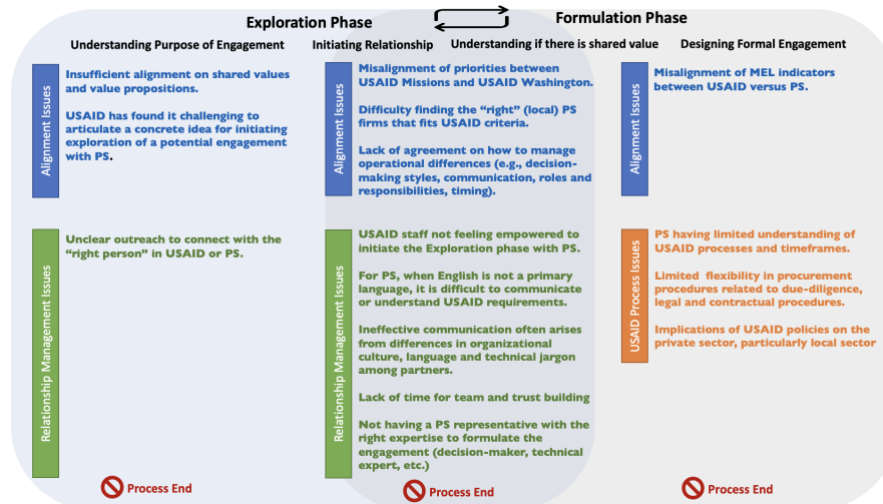


Figure 2: Reasons for Failed PSE Formalizations

### Four Models of PSE Operationalization

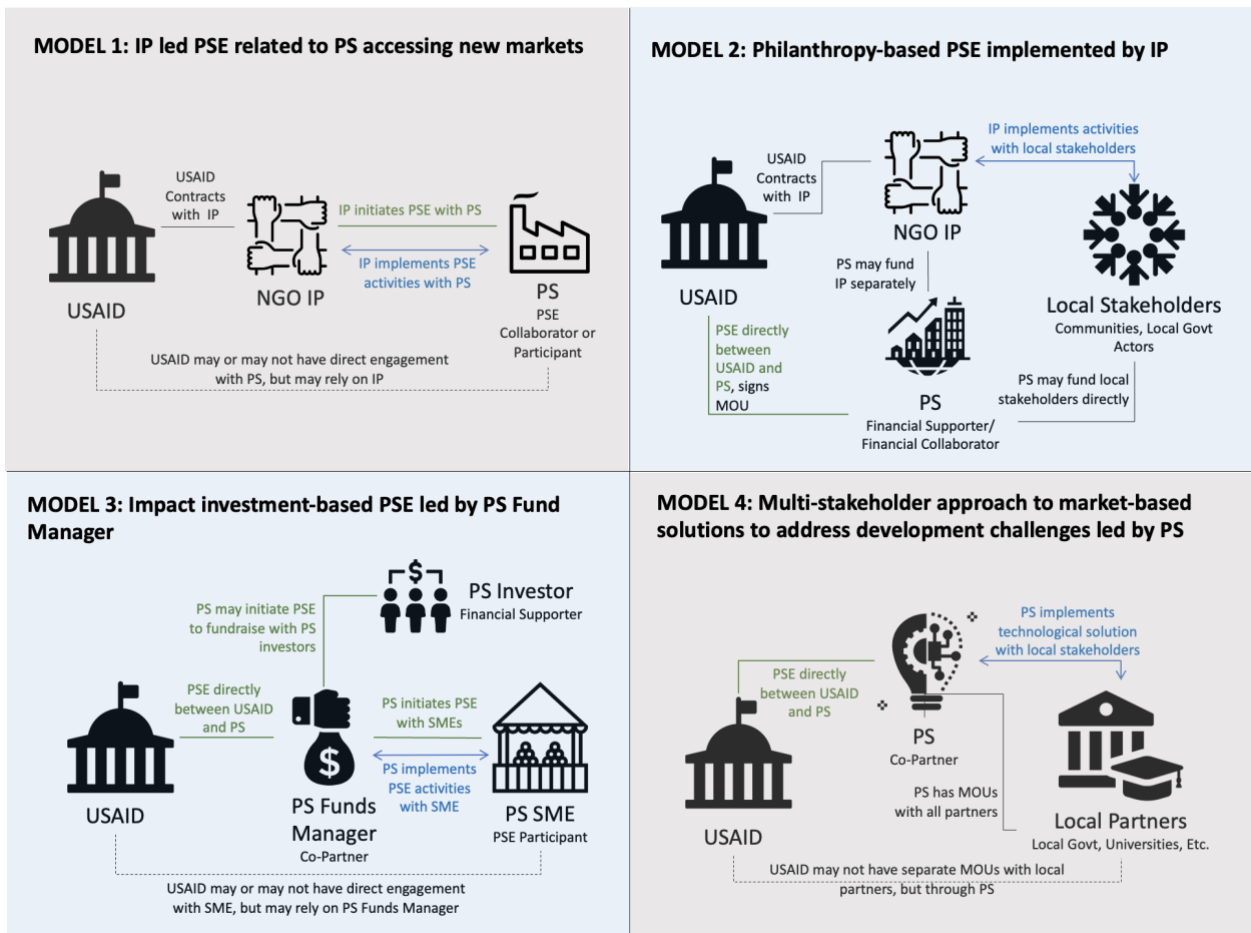
There are different models of operationalizing USAID's PSE Lifecycle through Exploration, Formulation and Implementation phases. We found four 'Models of PSE operationalization' across the 8 cases examined in this study which differed on four key characteristics:

- 1. Initiating Entity.** Out of the 8 cases examined, 5 cases had direct contact between USAID and PS, and in all 5 of these PS approached USAID with the idea. In the other 3 cases, the IP initiated engagement with PS. Whether PS perspectives were included in the way the PSE was formulated was dependent on who initiated PSE.
- 2. PS' Function, both their role and level of involvement through the engagement.** There was a correlation between the role of the PS' and their level of involvement in PSE activities. We found five PS functions:
  - *Financial Supporter* when PS provides mostly funding with low involvement in the design or implementation of PSE activities.
  - *Financial Collaborator* when PS provides funding, with a high-moderate level of involvement during design and implementation, but the PS was not responsible for implementing activities.
  - *Co-Partner* when PS provides funding, innovations, technology, thought leadership and had high involvement in the design and they were responsible for implementing PSE activities.
  - *PSE Collaborator* when PS participates in USAID supported activities with some monetary contribution (matching or fee-based), with moderate-low involvement in design and higher involvement during implementation.
  - *PSE Participant* when PS participates in USAID supported activities without any monetary contribution, with low involvement in design, but moderate-high involvement in implementation.
- 3. Linkage between PS' commercial interest and/or expertise to the formalized engagement's activities.** In two case studies we found that PS functioned as a 'financial supporter' or 'financial collaborator', the formalized engagement's activities had limited links to PS' commercial interests or expertise. In those cases, the PS involvement was lower, which may have been influenced by the funding focusing on societal benefits rather than business interests. When the PS' function was 'co-partner' in 3 cases, the PSE activities had strong links to PS' commercial interests or expertise. PS was very engaged in these cases since they were not only providing funding but their

innovation/expertise/product to address a key challenge with USAID and other partners. Lastly, in the 3 cases where the PS was a ‘participant and collaborator’ in USAID supported activities, there were clear linkages to PS’ commercial interests and incentives (e.g., new markets, expertise) for PS to participate.

4. **The partner leading implementation.** In 3 cases IP led implementation with moderate-high involvement of PS when they were a ‘PSE Participant and Collaborator’. IP also led implementation in 2 cases when PS’ function was ‘Financial Collaborator’ or ‘Financial Supporter’ with low-moderate involvement of PS in implementation. In 3 cases, PS led implementation when their function was ‘co-partner’.

As shown in *Figure 3*, we established four models of PSE operationalization that were differentiated based on the four characteristics explained above. These four models show the diversity in context and approaches to PSE. We had three cases under Model 1, two cases under Model 2, two cases under Model 3 and one case under Model 4. Overall, the structural characteristics, process bottlenecks and root causes identified were similar across cases under a particular Model. The details for each Model are explained below including a short summary of issues identified in each Model. The subsequent sections present key bottlenecks and root causes across all four models in the PSE Lifecycle.



*Figure 3: Four Models of PSE Operationalization*

**Model 1: IP led PSE related to PS accessing new markets.** USAID contracted an IP to initiate the engagement with PS. PS was not involved in the design between USAID and the IP. The IP developed incentives for PS to participate in a USAID supported effort, and to assist PS to access new markets. PS was a PSE Participant, as PS contributed in cash

(matching grants) or in-kind support. PS were typically local or national enterprises that were trying to access new markets. PS were expected to be highly involved in implementation activities which were led by the IP.

*Key issues identified: PS was not involved in design to align interests; Unclear PS value propositions; Lack of shared value between USAID and PS; Limited understanding of current market and different PS perspectives among diverse PS stakeholders; Cultural and language (English not first language) differences; Operating differences between PS and IP; Limited understanding of the implications or unintended consequences of USAID's policies on PS' operations; Limited understanding of PS' capacity to participate and perform as expected.*

**Model 2: Philanthropy-based PSE implemented by IP.** USAID had direct engagement with PS, who was a “Financial Collaborator”. PS, USAID and IP co-created the development solution focused on economic development and capacity building of communities. It should be noted that these activities had limited linkage with the PS' commercial interest or expertise. PS had limited involvement in implementation; IP was contracted by USAID to implement the development solution. These are typically multinational companies with established corporate social responsibility departments or foundations who tend to manage these engagements with USAID.

*Key issues identified: Misalignment between USAID Washington and Mission offices; Misaligned expectations between USAID, PS, IP, and local stakeholders related to role, contribution and level of involvement; Misalignment of funding flows and lack of financial accountability; Misaligned workplans, metrics and reporting; Limited understanding of local stakeholders' capacity to perform as expected; Turnover in USAID staff.*

**Model 3: Impact investment-based PSE led by PS Fund Management Enterprise.** USAID had direct engagement with PS, whose function was Co-Partner; they were highly involved in both co-creating the design and implementation. The investment thesis was closely linked with their commercial interest and expertise. PS investment funds were managed by the PS firm who used philanthropic ‘patient capital funds’ or fundraised for other private capital investment. The PS firm developed investment plans by engaging with local small-medium sized enterprises (SMEs) to build their capacity.

*Key issues identified: Limited understanding of SME market; Limited understanding of the capacity of SMEs to receive investments; Misalignment between USAID's requirements and current market conditions; Limited understanding of PS investors' value propositions; Lack of shared value among all partners; USAID reporting requirements not aligned with PS; Underestimation of technical support needed.*

**Model 4: Multi-stakeholder approach to market-based solutions to address development challenges led by PS.** USAID has direct engagement with PS and other stakeholders. PS' function was *Co-partner* as they co-created and co-implemented efforts with all stakeholders to introduce their commercial product and expertise to strengthen the market and build local capacity. PS was typically a medium-large national or international company that developed scalable technologies or innovations.

*Key issues identified: Competing priorities among partners; Differences in operating approaches among all partners (PS, local partners - local government and academic institutions and USAID); Cultural and language differences; External factors like Covid 19 pandemic; Lack of a sustainability plan.*

## Signs Of Bottlenecks in USAID's PSE Lifecycle

We found several indications when the PSE process faced bottlenecks. These 'red flags' were observed throughout the Exploration, Formulation or Implementation phases. "Red Flags" during the Exploration or Formulation phases resulted in either a failed attempt to formalize an engagement or a poorly designed engagement if formulation proceeded. 'Red flags' across the phases included:

- Long delays in processes (e.g., signing MOUs, receiving government approval, funding flows) and activities not starting or finishing on time
- Prolonged time intervals between interactions/meetings
- Waning partner enthusiasm/interest to engage in meetings and contribute to the discussions/ activities, or partners disengaging altogether
- Medium to high levels of frustration about operations and/or progress among partners
- Partners taking a long time to make decisions or unclear decision-making process
- Partners' performance issues related to the inability to meet expectations
- Work plans not synchronized or sequenced in way to meet the objectives (during implementation specifically)
- Delays in submitting progress reports and issues with collecting evidence on MEL indicators (during implementation specifically)

## Root Causes of Bottlenecks in Formalized PSE

**1. Private sector perspectives not clearly reflected/ understood when designing the Theory of Change.** A TOC developed by USAID for their development programs are often inclusive of multi-stakeholder perspectives (e.g. government, NGOs). However, we found that PS perspectives were not fully incorporated in the TOC development process. This was especially an issue given that there were often multiple types of PS entities who had differing perspectives. As a result, the TOCs were poorly designed with:

- Limited understanding of current market dynamics
- Unclear PS value propositions and insufficient shared value
- Limited understanding of PS and other stakeholders' capacity to participate
- Limited understanding of the unintended consequences that USAID policies have on PS

**2. Persistent operational misalignment between USAID and PS.** USAID and PS have their own reasons for engaging (value propositions), ways of operation, and expectations. We found that operational misalignment (e.g., how decisions will be made, what gets funded when) was a key factor hindering formalization and successful implementation of engagements with the PS. Key areas of insufficient alignment between PS and USAID included:

1. Differences in pace of work and decision-making
2. Language and cultural differences
3. Different organizational regulations and policies
4. Availability and timing of funds
5. Work planning and coordination of activities
6. Differences in metrics to monitor the PSE processes and outcomes

**3. Unsatisfactory 'partnering experience' for PS during the PSE Lifecycle.** We found that when PS did not have a positive and satisfactory experience engaging with USAID, their level of commitment and level of engagement reduced, resulting in bottlenecks in the process



and suboptimal outcomes of PSE activities. We learned that PS' 'partnering experience' at any point in the PSE Lifecycle was based on whether they perceived that there was ENOUGH WORTH in staying engaged and continuing their participation in the PSE activities. We establish this phenomenon as "*PS' Perceived Worth of Continuing Engagement (PWCE)*" in the PSE Lifecycle. When the 'partnering experience' was positive, "BENEFITS" of engaging outweighed the 'Costs', and PS continued their participation. On the other hand, when the 'partnering experience' was negative, "COSTS" of engaging outweighed the 'Benefits', and the PS reduced or withdrew their support. This ratio fluctuated across all three phases of the PSE Lifecycle. For example, even when the PS had interest, motivation and a clear purpose to partner with USAID, they were often frustrated by the long time that it took to reach agreement, the slow pace of funding availability, lack of understanding of USAID processes and policies. Hence, a strong value proposition was not enough to tip the scales, if insufficient operational alignment, ineffective communication, weak relationships, insufficient capacity existed, making the cost of the engagement outweigh the benefits, resulting in the PS reducing or withdrawing their support.

### **Partnering Experience Framework: Factors Influencing PS' Perceived Worth of Continued Engagement (PWCE)**

We identified several factors, both internal (partnership dynamics) and external (changes in the business environment) that influenced PS' PWCE, resulting in either a more positive or a more negative 'partnering experience' for PS. These factors and their influence on PWCE are depicted as a balancing scale in *Figure 4* and are further described below. These factors were often related and compounding in nature. Thus, we found that PS' PWCE decreased when they experienced challenges in one of these factors and compounded as challenges were experienced in more than one factor. If the PWCE dropped below their threshold when costs outweigh benefits, PS reduced their involvement and/or disengaged altogether, negatively impacting the engagement's overall success. Understanding these factors that incentivize and disincentive engagement can provide insights for USAID to foster sustained PS engagement throughout the PSE lifecycle.

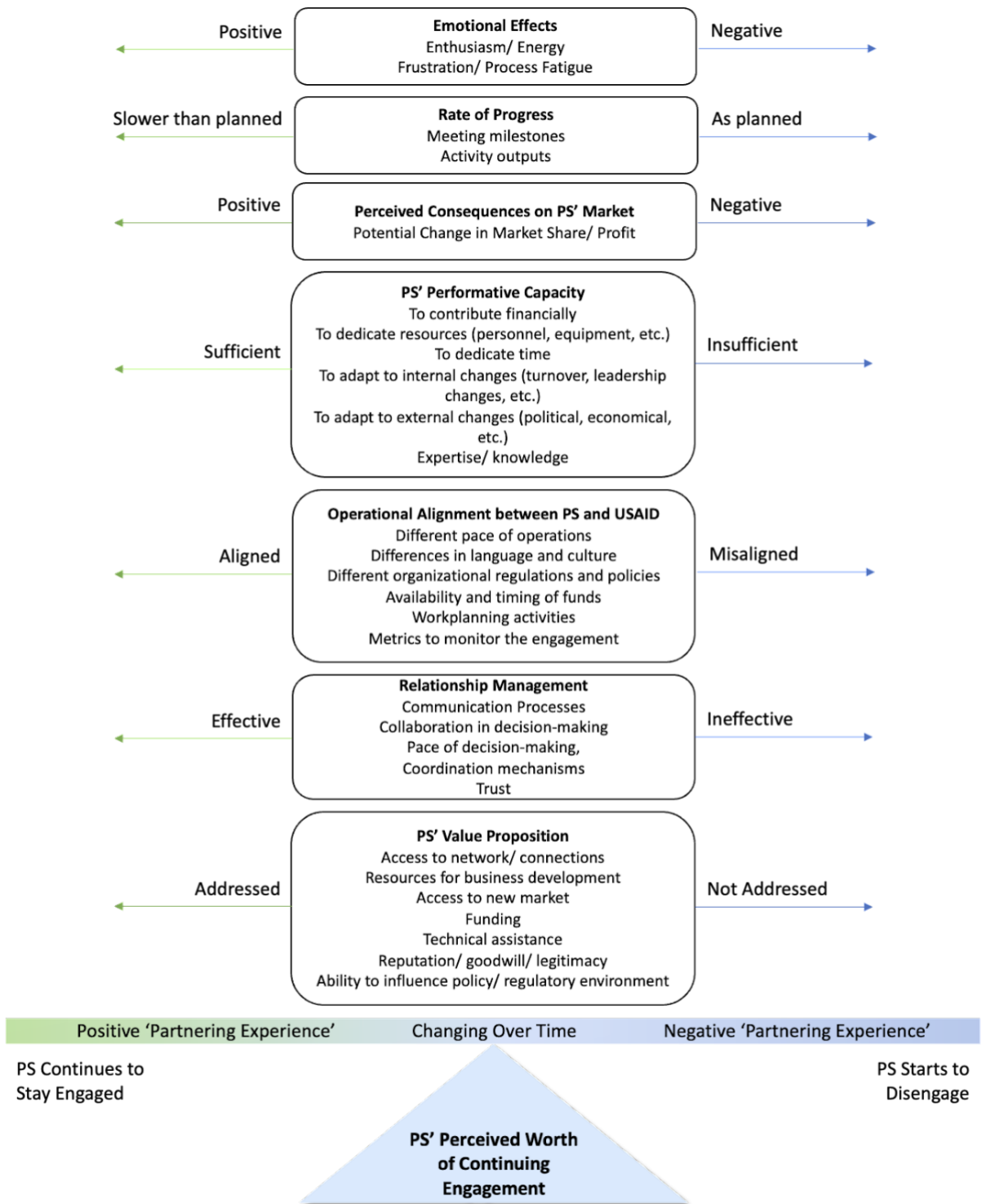


Figure 4: Factors Influencing PS' Perceived Worth of Continuing Engagement

**Recommendations**

**1. During the Exploration phase, make initial scoping easier.** Both USAID and PS should: 1) have initial point-of-contacts easily accessible; 2) involve the individuals with ‘right’ expertise for idea exploration; 3) get buy-in and identify ‘champions’ of proposed concept in each organization; and 4) invest time to build the relationship, clarifying key priorities and operational processes. USAID DC should invest time understanding Mission priorities and local context constraints.

**2. Exploration and Formulation phases should include intentional and systematic design of Theory of Change (TOC) that includes multiple PS’ perspectives.** We found that there are different ways to engage the PS and operationalize PSE. Across all our findings, 10 factors emerged as critical in developing a TOC that builds on a full understanding of differing PS priorities and needs. These factors have a ripple effect throughout the PSE Lifecycle. In one of our case studies, the Mission aimed to raise funds from private investors to support agricultural companies in remote conflict areas. However, private investors were not included in the formulation phase, and they were not interested in agriculture investment, making fundraising difficult.

We recommend using the [PSE Theory of Change Design Workbook](#) (can be found in the Detailed Report submitted to USAID’s PSE Hub), to intentionally and systematically design a PSE TOC that understands and includes perspectives of PS that might be engaged.

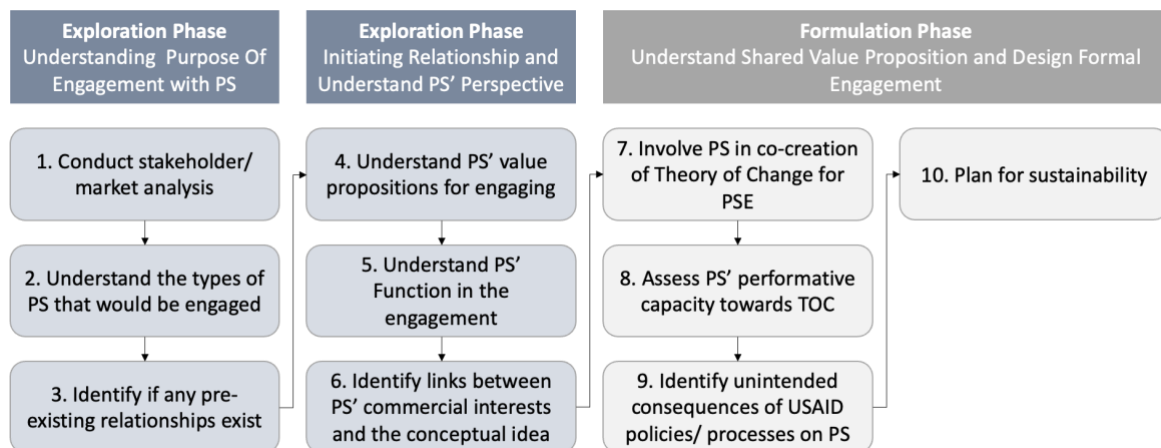


Figure 5: Systematic Framework to Design PSE Theory of Change

As shown in *Figure 5*, we have grouped these 10 key factors by the phases of the PSE Lifecycle. These factors will allow USAID to systematically develop a TOC by:

1. Understanding the purpose of engaging with PS and expected outcomes
2. Initiating/building relationships different types of with PS (e.g., MNC, local) and understand their perspectives and capacities
3. Developing shared vision with different partners and identifying how each contributes to the vision
4. Developing operational processes that are aligned between USAID and PS to achieve results.

**3. During the Implementation phase, USAID needs to regularly assess the health of the engagement.** We recommend an embedded approach to monitor and assess process health once an engagement is formalized and the partners start the Implementation phase. USAID

and its partners need to develop systems, as presented in *Figure 6*, to regularly identify any ‘red flags’ that result in tension or frustration among partners in the process.

We found 6 key categories of root causes that influence the PS’ Perceived Worth of Continuing Engagement (PWCE), as shown in Figure 3 above. For example, if the PS has a high level of process fatigue, they may be less inclined to want to work with USAID and fully engage. These root causes need to be addressed jointly through adaptive management approaches and by allocating enough time and resources towards sustaining that change.

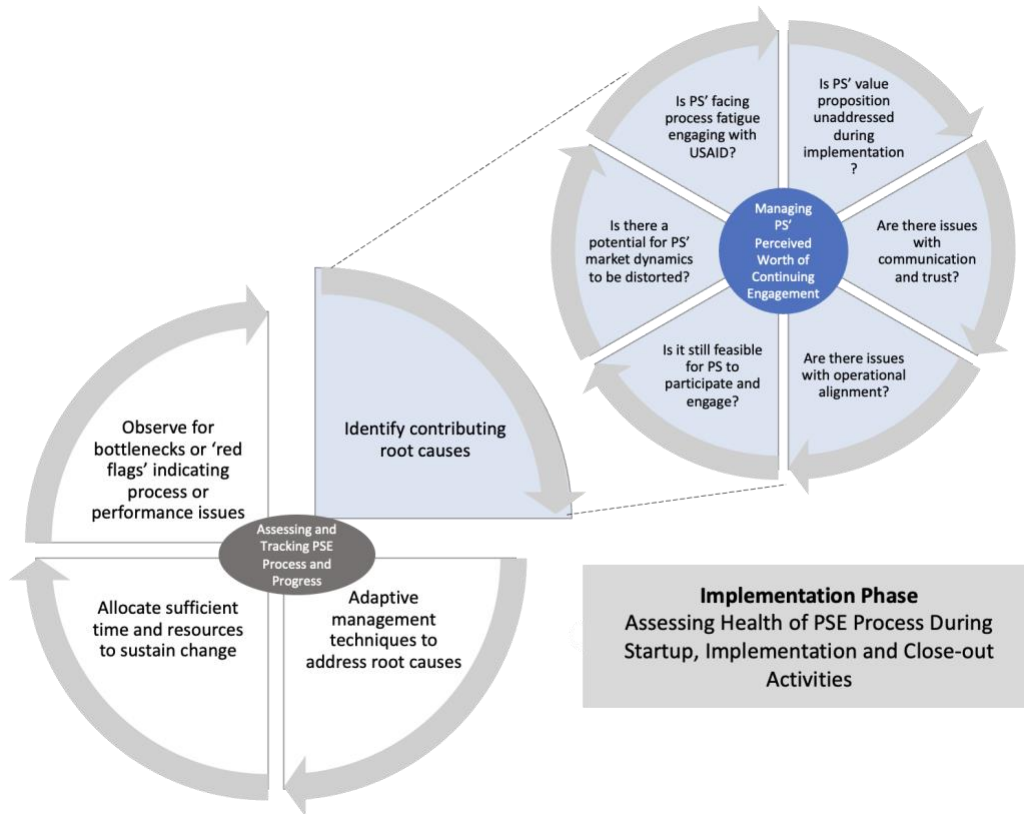


Figure 6: Systematic Approach to Assess PSE Process Health

**Conclusion**

Our key takeaway from this research was that for USAID 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. 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. Thus, by including PS perspectives in the design of PSE Theory of Change, including them in co-creation of development solutions, understanding their value propositions for partnering, accounting for unintended consequences of USAID’s policies and regulations on PS’ operations/ market share, and managing their ‘Perceived Worth of Continued Engagement’ throughout the PSE Lifecycle will potentially reduce bottlenecks in the process and make the overall partnering experience better.

## Research Contributions

Our study’s findings are grounded in the rich and complex USAID’s processes of engaging with PS and showcases the diversity in USAID’s PSE approaches and the different contexts in which PSE is conducted. However, the insights presented in this report emerged across all these different contexts examined in this study and can be used universally across USAID Missions and in Washington DC. The Detailed Report not only provides more information on the findings and recommendations condensed in the Executive Summary, but also includes several translated products that USAID offices in Washington DC and Missions can use as they plan, engage and implement PSE.

<b>Research Translation Product</b>	<b>To be used in PSE Lifecycle Phase</b>	<b>Description</b>	<b>Audience</b>
<a href="#">8 Case Studies</a>	Exploration, Formulation and Implementation phases	In-depth narratives, analysis and process flows of USAID’s PSE Lifecycle for 8 diverse formalized engagements.	Internal to USAID for training purposes.
<a href="#">PSE Theory of Change Design Workbook</a>	Exploration and Formulation phases	10 design variables to consider for designing and developing PSE’s Theory of Change.	USAID when engaging PS.
<a href="#">Assessment of PS’ ‘Partnering Experience’</a>	Implementation phase	Questionnaire to assess factors influencing PS’ positive/negative experience	USAID and IP
<a href="#">Checklist for Observing Signs of Bottlenecks</a>	Implementation (Maybe Formulation) phase	Questions to identify signs of bottlenecks	All partners involved in implementing PSE activities.
<a href="#">Checklist for Identifying Root Causes</a>	Implementation phase	Questions to identify root causes of bottlenecks	All partners involved in implementing PSE activities.
<a href="#">USAID’s PSE Process Flowchart</a>	Exploration, Formulation and Implementation phases	Flowchart that shows different activities across all phases.	USAID, PS and IP