



OFFICE OF INSPECTOR GENERAL
U.S. Agency for International Development

Improved Guidance, Data, and Metrics Would Help Optimize USAID's Private Sector Engagement

AUDIT REPORT 5-000-21-001-P
DECEMBER 9, 2020

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MEMORANDUM

DATE: December 9, 2020

TO: USAID Acting Deputy Administrator, John Barsa

FROM: Assistant Inspector General for Audit, Thomas Yatsco /s/

SUBJECT: Improved Guidance, Data, and Metrics Would Help Optimize USAID's Private Sector Engagement (5-000-21-001-P)

This memorandum transmits the final report on our audit of USAID's engagement with the private sector. Our audit objectives were to (1) identify USAID's approach to engaging the private sector in achieving U.S. foreign development goals, and any benefits that key stakeholders cite in these partnerships; (2) identify any external challenges that affect private sector engagement, according to key stakeholders; and (3) assess USAID's guidance, data, and metrics for implementing and tracking private sector engagements. In finalizing the report, we considered your comments on the draft and included them in their entirety, excluding attachments, in appendix B.

The report contains seven recommendations to improve USAID's private sector engagement. After reviewing information you provided in response to the draft report, we consider all seven recommendations resolved but open pending completion of planned activities.

For recommendations 1 through 7, please provide evidence of final action to the Audit Performance and Compliance Division.

We appreciate the assistance you and your staff provided to us during this audit.

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INTRODUCTION

Engagement with the private sector is a major component of USAID's efforts to encourage country self-reliance. According to the Agency, over the last 20 years it has entered into thousands of partnerships with private sector organizations involving billions of dollars in contributions. In December 2018, USAID released its new private sector engagement policy to encourage USAID staff and partners "to embrace market-based approaches as a more sustainable way to support communities in achieving development and humanitarian outcomes at scale."¹ USAID states that with the policy's successful implementation it will "result in an increase and deepening of our collaboration with the private sector in addressing the challenges countries face on the Journey to Self-Reliance; an embrace of market-based solutions, and support for market systems across sectors; expanded opportunities for American firms; and consistent leveraging of the private sector's expertise, resources, and investment in addressing development challenges."

In a July 2018 congressional committee report, Congress directed OIG to "submit a report to the Committees on Appropriations on USAID's use of public-private partnerships² for achieving development goals, metrics for evaluating their performance, and their advantages and disadvantages."³ Accordingly, we conducted this audit to (1) identify USAID's approach to engaging the private sector in achieving U.S. foreign development goals, and any benefits that key stakeholders cite in these partnerships; (2) identify any external challenges that affect private sector engagement, according to key stakeholders; and (3) assess USAID's guidance, data, and metrics for implementing and tracking private sector engagements.

To conduct our work, we judgmentally selected and examined 53 activities identified in USAID's partnership database as completed or ongoing between fiscal years 2013 and 2016, with some activities still active in fiscal year 2019 when fieldwork was conducted.⁴ We used the database to identify activities that were based in countries with reported large concentrations of partnerships. The activities were located in eight countries: Colombia, India, Indonesia, Kenya, Peru, Philippines, South Africa, and Tanzania. Our

¹ USAID's "Private-Sector Engagement Policy," December 2018.

² USAID states that it is attempting to move away from the phrase "public-private partnerships" because this tends to be associated with making contracts and grants to implementers. USAID prefers to use the term private sector engagement in order to involve partners earlier for codesigning and cofinancing programs when interests align.

³ The directive was contained in House Report 115-829 accompanying H.R. 6385, the 2019 Department of State, Foreign Operations, and Related Programs Appropriations Act. The explanatory statement accompanying the Consolidated Appropriations Act (Public Law 116-6, February 15, 2019) incorporated this directive by reference to the House Report.

⁴ In this report, we refer to partnerships, projects, or activities as a way to generally describe what USAID is doing with the private sector. The terms are used interchangeably and will vary from USAID's technical distinctions between the use of these terms as defined in its glossary of Automated Directives System (ADS) terms. We have determined that any variances do not affect our findings or recommendations.

sample also included activities from the Bureau for Food Security⁵ and Global Health, and Power Africa. We also reviewed Agency, bureau, and mission strategies and policies, and information on private sector engagement, as well as relevant documents for the selected partnership activities, and interviewed USAID headquarters and mission officials, implementers, and private sector partners. We conducted our work in accordance with generally accepted government auditing standards. See appendix A for a complete discussion of our scope and methodology.

SUMMARY

Based on examined partnerships in eight countries, we identified six engagement approaches that USAID generally used in an effort to boost private sector investment in foreign development: (1) working with host governments to reform regulations to better encourage private sector investments, (2) providing technical assistance to the private sector around new business opportunities, (3) providing financial assistance to minimize investment risks, (4) testing new concepts for private sector expansion, (5) showcasing development opportunities, and (6) tasking implementers to secure private sector funding and in-kind benefits. For example, in Colombia USAID formed partnerships to contribute to the goal of eradicating the coca plant, which can be refined into cocaine, by helping businesses buy cacao from areas in the country where no one else was willing to invest in due to safety concerns. To support and manage its financial and nonfinancial resources when using one or more of these approaches, USAID employed a variety of formal and informal methods, including broadly structured memorandums of understanding (MOUs), traditional grants and contracts, unique financing arrangements, and branded initiatives. Regardless of the approach and methods used, USAID and the private sector cited a number of benefits from partnering on foreign development, including bringing development interventions to a larger scale to achieve greater impacts.

However, USAID and private sector stakeholders, as well as implementers, reported a number of challenges that can limit successful engagement and partnering on development projects. For example, the private sector's focus typically extends beyond USAID projects, but its financial burden can occur early in a project, compelling private investors to focus on profit to remain viable. Differences such as these can make it difficult to align USAID's and the private sector's respective interests in development areas such as global health, food security, migration, and countering economic and democratic threats. Several U.S. companies also reported that competing in foreign countries can be challenging because USAID engages broadly and openly with the private sector to promote its development objectives. In other words, it does not give preference to U.S. companies—a distinction from the development organizations of other foreign governments, which typically give preference to businesses within their countries.

⁵ USAID's Bureau for Food Security was absorbed into the new USAID Bureau for Resilience and Food Security which was made operational on March 9, 2020.

In addition to these challenges, insufficient Agency-wide implementation guidance and insufficient data and metrics have hindered missions' ability to design, manage, and oversee private sector engagement and maximize engagement, as USAID's private sector engagement policy calls for. Specifically:

- USAID lacks clear guidance, such as those for vetting, selecting, and approving partners, leaving missions to develop their own processes for partnering with the private sector, which in some cases has resulted in oversight gaps. For example, the Bureau for Food Security, which asserted that it had conducted a due diligence review of a Swiss-based company, ultimately led to the Administrator signing an MOU with a Chinese state-owned enterprise that had acquired the Swiss-based company—an outcome that has put USAID's reputation at possible risk.
- The Agency's data and metrics for private sector engagement are insufficient and do not comply with Federal standards for internal control. Specifically, data were out of date, not recorded uniformly across missions, and incomplete. Multiple systems and databases across the Agency contributed to these problems. For example, available data on private sector engagement activities are captured in at least three different databases, with an additional system dashboard under development that aims to make the data more user-friendly and align to database capabilities. According to Agency officials, USAID's partnership database was not intended to capture all engagement activity and information on individual partnerships. Instead, USAID relies on missions and other operating units to separately capture such data. While a number of adjustments to USAID's data were made over the course of our audit by the Agency—including adding \$23 billion in USAID and private sector contributions that were not captured in the partnership database—such discrepancies raise questions about the accuracy and completeness of information reported, the controls associated with data collection and information reporting, and the capacity to manage this process.
- The values of some private sector engagement activities may be under- or over-reported, largely because the metric USAID uses to evaluate the impact of private sector engagement is limited to dollar-value leverage; that is, the value of private sector contributions toward an activity that USAID also contributes to. Although widely considered to be the easiest metric to capture and understand, dollar-value leverage only shows the value of cash or services from partners—not an activity's progress made toward achieving development goals through private sector engagement. These shortfalls inhibited USAID's ability to assess the impact of its private sector engagement and partnerships beyond anecdotal accounts.

We are making seven recommendations aimed at helping USAID maximize private sector engagement and its impact. USAID agreed with all of our recommendations.

BACKGROUND

USAID defines private sector engagement in its policy as “a strategic approach to planning and programming through which USAID consults, strategizes, aligns,

collaborates, and implements with the private sector for greater scale, sustainability, and effectiveness of development or humanitarian outcomes.” USAID states that partnering with the private sector helps encourage country self-reliance.

According to the Agency, for nearly 20 years it has entered into thousands of partnerships with private sector organizations and expects to receive billions of dollars of contributions that benefit development activities in areas where USAID has an interest. Agency initiatives to partner with the private sector go back to at least 1998 (see figure 1).

Figure 1. Timeline of Select Historical Private Sector-Related Events

1998	Congress grants USAID authority to provide credit guarantees, also known as the Development Credit Authority (DCA). A credit guarantee from USAID allows the Agency to cofinance or share risk with a borrower. It allows a borrower to obtain lending from a private sector banking institution.
2001	The Global Development Alliance (GDA) initiative is launched. This is a type of partnership model that requires USAID programs to find external resources, such as private sector funds, to contribute toward a shared development goal.
2013	Power Africa is launched as a U.S. Government-led partnership, coordinated by USAID, to address Africa’s energy crisis. According to Power Africa, the initiative brings together collective resources from public and private sector partners, including the world’s top companies, political leaders, and financial institutions, to double access to electricity in sub-Saharan Africa.
2014	USAID creates the U.S. Global Development Lab with a focus on “the belief that science, technology, innovation, and partnership (STIP) can make development happen faster, more cheaply, and more sustainably.”

Source: OIG analysis of USAID documentation related to each event.

According to USAID documents, three units have historically had primary responsibility for promoting and coordinating wider use of private sector engagement methods across the Agency:

- The U.S. Global Development Lab’s Center for Transformational Partnerships (CTP) aimed to accelerate and scale development impact through private sector engagement, new collaborative approaches, and improvement of the social and economic environment affecting local entrepreneurship. CTP also led and coordinated the collection of partnership leverage data from USAID projects reportedly interacting with the private sector.
- The Development Credit Authority sought to provide incentive for foreign banks and financial institutions to lend in new sectors and to new borrowers. This lending, according to USAID, helps both the bank and development goals for a fraction of the cost of traditional development projects. DCA instruments vary, but typically USAID provides partial credit guarantee to a financial institution on loans to beneficiaries in underserved sectors, who normally have had difficulty obtaining credit. The negotiated guarantee is between the financial institution and USAID, so financial risk

is shared between USAID and the private sector. DCA reported having a portfolio of \$6.1 billion through fiscal year 2019.

- The Office of Private Capital and Microenterprise (PCM) within the Bureau for Economic Growth, Education, and Environment aimed to mobilize private finance and expertise in support of development priorities to increase sustainability and scale of development results. Specifically, PCM offered strategic planning and programming assistance to catalyze investment in priority sectors; provided transaction structuring support; delivered training (capital markets, blended finance) and knowledge management tools for engaging private investors; and helped missions identify and screen new investment partners.

In October 2019, an Agency official said the DCA component started to transfer to the U.S. International Development Finance Corporation (DFC).⁶ DFC plans to proactively address development needs of foreign countries through new tools to make equity investments, provide technical assistance, conduct feasibility studies, provide political risk insurance, and provide debt financing through direct loans and guarantees. USAID's Administrator holds a position on DFC's board of directors, and through this leadership position, along with DFC's Chief Development Officer, it is expected that DFC and USAID will work together on development activities.

The Agency's August 2018 congressional notification proposed creating a Bureau for Development, Democracy, and Innovation (DDI) to drive sustainable development in certain sectors and cross-cutting areas by unifying USAID's expertise in one structure. The bureau will house elements from CTP and PCM under one dedicated unit called the Private Sector Engagement Hub. The focus of the hub, according to the notification to Congress, will be to "support the Agency in advancing the use of market-based approaches and private sector engagement to deliver development and humanitarian results across all sectors." USAID expects the hub to drive change by "spearheading USAID's efforts to increase private-sector engagement dramatically and foster a major cultural and operational transformation in the way USAID conceives of, designs, and delivers [its] work." The creation of the bureau, which became operational on November 16, 2020, has been a long process (see figure 2).

Figure 2. Key Events in Creation of the Bureau for Development, Democracy, and Innovation

August 2018	USAID proposes DDI to Congress in a congressional notification. The aim of the new bureau is to reorient headquarters-based technical expertise to drive program decision making toward the field, offering more consistent, coordinated, and responsive technical support.
June 2019	Congressional holds on the creation of DDI are lifted and USAID moves forward with next steps to create the bureau.

⁶ The Better Utilization Act of Investments Leading to Development Act of 2018, or the BUILD Act, was signed into law October 5, 2018. DFC operations officially began on January 2, 2020, when the DCA office and the Overseas Private Investment Corporation (OPIC) were absorbed into DFC.

October 2019	USAID announces leadership designations for DDI, a key milestone in creating the bureau.
July 2020	The bureau becomes legally established.
November 2020	The bureau becomes operational.

Source: OIG analysis of USAID notices and transformation documentation.

In 2018, USAID developed a new policy for engaging with the private sector, with the effort spearheaded by former Administrator Mark Green (see figure 3).

Figure 3. Timeline of Recent Private Sector Engagement Initiatives

December 2018	USAID issues its private sector engagement policy, a document articulating USAID’s strategy for helping countries achieve self-reliance and requirements for operating units to (1) designate points of contact, (2) define a plan for putting the policy into practice, and (3) conduct due diligence for formal partnerships.
April 2019	USAID issues a broad development policy framework, which emphasizes private sector engagement. The policy framework primarily encourages self-reliance in countries that receive U.S. development assistance, an aim that USAID has branded as the Journey to Self-Reliance.
May 2019	USAID issues the Private Sector Engagement Evidence and Learning Plan, a 12-page guide to “strengthen and improve the use of evidence in decision-making on [private sector engagement] approaches.”
February 2020	The Interim Strategic Workforce Plan is developed, which calls for positions to expand private sector engagement.

Source: OIG analysis of USAID documentation supporting each initiative.

OIG has previously reported on USAID’s engagement with the private sector and has pointed to areas that needed improvement, including data collection and reporting around GDAs.⁷ Most recently, OIG issued a report in May 2019 on the use of private capital across five U.S. Government development agencies, which concluded that while USAID and the other agencies OIG oversees are taking steps to advance private sector engagement and mobilize private capital to help achieve U.S. development objectives, the agencies identified challenges to fully collaborate with the private sector.⁸ Additionally, in the same audit, we reported on the Global Development Lab’s database integrity for reporting on leverage from private sector partners; specifically, two USAID offices stated data was insufficient to evaluate the effectiveness of public-private partnerships.

⁷ USAID OIG, “Audit of USAID’s Reporting on Global Development Alliances” (9-000-09-007-P), June 4, 2009.

⁸ USAID OIG, “Select U.S. Agencies’ Use of Private Capital in Advancing International Development” (9-000-19-004-P), May 3, 2019.

USAID AND THE PRIVATE SECTOR ENGAGED THROUGH VARIED APPROACHES AND CITED BENEFITS FROM PARTNERING

As USAID continues to formalize its private sector engagement policies, missions and bureaus have worked to boost private sector investment in foreign development. Based on examined partnerships in Colombia, India, Indonesia, Kenya, Peru, Philippines, South Africa, and Tanzania, we identified six engagement approaches that USAID generally used. USAID employs a variety of formal and informal methods to support and manage its financial and nonfinancial resources when using one or more of these approaches, including MOUs, traditional grants and contracts, unique financing arrangements, and branded initiatives. Regardless of the approach and methods used, USAID and the private sector cited a number of benefits from partnering on foreign development, including bringing development interventions to a larger scale to achieve greater impacts.

Examined Projects Point to Six Approaches USAID Used To Engage the Private Sector, Including Providing Various Types of Financial and Technical Assistance to Host Governments, Implementers, and Private Sector Partners

USAID is uniquely positioned to convene diverse public and private sector development groups; help resolve up-front investment hurdles; ensure a multipronged or whole-of-government approach; and identify local partners. In examining 53 activities, we identified six primary approaches to categorize the ways USAID engages the private sector (see figure 4 for project examples):

1. *Spur Host Government Reforms.* USAID projects work with host governments to help drive local and national-level policy, regulatory, and institutional reforms that enhance the business operating environment. Assisting host governments helps make private sector markets work better by creating new market opportunities and in turn encouraging private sector investment.
2. *Provide Technical Assistance on New Business Opportunities.* USAID's upfront technical assistance to develop plans, conduct studies, offer training, and provide advice can encourage private sector partners to focus on areas they might otherwise have delayed pursuing or not pursued at all.
3. *Give Financial Assistance To Minimize Private Sector Investment Risks.* Through DCA loan guarantees, coordination with OPIC and its successor DFC, and innovative or blended finance arrangements, USAID helps private enterprises cover potential early

losses and thereby helps mitigate their risk.⁹ Innovative finance programs sometimes allow for increased investments.

4. *Test Concepts for Private Sector Expansion.* USAID partnerships can also help minimize private sector risk by testing new concepts to prove viability before the private sector expands those concepts to scale.
5. *Showcase Development Opportunities.* USAID projects have brought governments, donors, and the private sector together to highlight development problems and opportunities and generate interest in private sector engagement solutions.
6. *Implementers Secure Private Sector Funding and In-Kind Benefits To Augment USAID-Funded Projects.* For its directly funded programs, USAID tasked its implementers to secure private sector contributions, which ranged from cash contributions, such as a 50-percent private sector funding match, to in-kind donations from the private enterprise’s corporate social responsibility (CSR) activities and funds. In other instances, USAID joined an existing alliance that was securing funding and in-kind benefits from other sources, without USAID’s direction, that supported USAID’s common goal with the alliance.

Figure 4. Examples of Approaches and Tactics Projects Used To Engage with the Private Sector

Project	Tactical Approach for Private Sector Engagement
Spur Host Government Reforms	
Market Integration and Transformation Program for Energy Efficiency (MAITREE)	Under this project in India, USAID worked with government and private sector partners to develop policies and codes for energy efficiency in buildings. MAITREE is a follow-on to the Partnership to Advance Clean Energy—Deployment (PACE-D) project, which had helped address national energy efficiency standards.
Building Low Emission Alternatives To Develop Economic Resilience and Sustainability Project	By collaborating with local and national governments in the Philippines, USAID helped advocates at all levels pursue or intensify climate change mitigation actions, such as supporting the country’s Department of Environment and Natural Resources develop a domestic policy for incentivizing and recognizing private sector investments in forestry projects.
Indonesia Clean Energy Development (ICED)	Working with the host government, USAID helped review policies and legislation and conduct policy and regulatory studies and assessments to boost clean energy development and use. A follow-on project assisted the Government of Indonesia by establishing policies, regulations, and incentives to encourage private sector growth in the low-emission energy sector. For example, the project helped the state-owned power company develop procurement strategies for renewable energy projects, and guidelines for Indonesia’s Financial Services Authority on assessing energy projects for financing.

⁹ During our audit, DCA loan guarantees were a financial assistance tool controlled by USAID, while OPIC was an independent U.S. Government agency also with access to financial tools to help the private sector minimize risk. Both DCA and OPIC since January 2020 have been consolidated under the independent DFC.

Project	Tactical Approach for Private Sector Engagement
<i>Provide Technical Assistance on New Business Opportunities</i>	
Millennium Alliance: An India-U.S. Partnership for Global Development	The project, in collaboration with its mentoring partners, helped new innovator organizations in improving their businesses through intensive mentoring from business experts and building networks for new business opportunities.
Kenya Resilient Arid Lands Partnership for Integrated Development	USAID contributed to the under-funded water sector in Kenya by creating a platform for interested parties to come together. The project supported the private sector to develop technology for water sensors that regulate usage and supply in boreholes, which are managed by government municipalities.
<i>Give Financial Assistance To Minimize Private Sector Investment Risks</i>	
Partnering to Accelerate Entrepreneurship Initiative	The project resource partner stated that the Association for Savings and Investment South Africa (ASISA) represents about 98 percent of the mutual and life insurance and asset management companies in South Africa. USAID contributed grant funding to the ASISA fund to assist the identification of small and medium enterprises to invest in and provide pre- and post-investment support. According to a USAID official and the implementer, the project assistance to ASISA mitigated risks for the fund and encouraged other donors to join. USAID's initial funding allowed ASISA to sell other funders the opportunity to join at a lower risk, resulting in more investments in the fund.
Ending Preventable Maternal and Child Deaths Among India's Urban Poor	The project supported private sector healthcare providers through DCA-backed credit lines. By offering access to financing, credit facilities aim to enable healthcare providers to expand the services they offer, improve quality, and achieve business sustainability, all at affordable costs. To expand on new healthcare financing sources, the project also promoted other innovative financing mechanisms and models such as impact bonds. The project worked on fundraising and reached out to investors, donors, foundations, and high-net worth individuals to build the funds.
M-Power: Million Solar Homes	A USAID implementer in Tanzania said that USAID helped with the initial expansion efforts of Zola Electric, a personal solar product company in Africa. Through a USAID grant, Zola expanded from operating in one region to another region. USAID also provided an understanding of what it takes to scale up a business.
<i>Test Concepts for Private Sector Expansion</i>	
Mobilizing Maternal Health in Tanzania	With USAID's help, the Vodafone Foundation (Vodafone) developed a centralized call system to dispatch local taxis for maternal and newborn emergencies to refer them to healthcare providers—a concept that USAID and partners say has proven to be viable. During audit fieldwork, an implementer official said that Vodafone's award with USAID will end in 2019, and Vodafone will take over with plans to roll out the system in other countries.

Project	Tactical Approach for Private Sector Engagement
Promoting Cacao Industry in Colombia and Peru	In Colombia, USAID supported businesses like Casa Luker, which USAID believed would contribute to the goal of eradicating coca, a plant that can be refined into cocaine. USAID helped Casa Luker buy cacao from areas of Colombia, such as Tumaco, that no one else was willing to invest in due to safety concerns. Similarly, USAID promoted the development of Peru's cacao industry by supporting small farmers in increasing production of cacao ideal for local and international buyers. The implementer reported that the work supporting the many elements of the cacao value chain has brought more value to the private sector markets, including small farmers, and reduced growers from producing coca in the country.
African Agricultural Technology Foundation II	USAID helped develop markets for hybrid and drought-tolerant genetically modified maize seeds. Private sector companies developed and donated improved seed technology, and USAID through its implementer worked on providing farmer education around improved seeds. According to project implementer, once the population was educated on the benefits of the seed technology and the knowledge base and demand increased, the Kenyan Government began to ease restrictions on such technologies.
Showcase Development Opportunities	
Rural Financial Initiative	USAID/Colombia hosted a day-long event in 2019, which we attended, to promote this project—an alliance of 23 nongovernment organizations and other financial companies with the goal of eliminating barriers and strengthening access to finance in 170 municipalities. The event included the Colombian Vice President as the keynote speaker and participants from The Alliance for Rural Financial Inclusion, which was created to improve economic alternatives in rural areas, especially those that are affected by drug trafficking.
Southern Africa Trade and Competitiveness Program	The project used a USAID grant to host a trade show in South Africa—the country's biggest trade show with 250 exhibits and 9 international pavilions in 2019—to showcase latest agricultural technology and farming solutions.
Implementers Secure Private Sector Funding and In-Kind Benefits To Augment USAID-Funded Projects	
Basa Pilipinas Project and Education Governance Effectiveness	The projects reportedly established public-private partnerships in the Philippines that included cash and non-cash resources from its private sector partners throughout the projects' lifecycles. Cash resources were used to construct classrooms and playgrounds and support program activities such as training; non-cash resources were donations such as books, supplementary reading materials, school supplies, and beauty products for teachers and other training participants.
Ahmedabad Sanitation Action Lab	According to project documentation, this project in India partnered with private sector entities to fund and implement its water and sanitation activities. For example, Sintex Industries Ltd., the project's CSR partner, supported the installation of modular toilets in one targeted area, while Theatre Media Centre held a street play to communicate the importance of proper sanitation and handwashing.

Project	Tactical Approach for Private Sector Engagement
Indonesia Marine Protected Areas Governance	The project in Indonesia received funding from foundations such as the David and Lucile Packard Foundation, Walton Family Foundation, and Cargill Foundation. The award document for this project included private sector requirements. According to a USAID official, these foundations provided technical assistance and logistics support to implement the project activities.

Source: OIG analysis of approaches with examples from USAID project documents, such as awards and progress reports, and interviews with officials from USAID, implementers, and the private sector.

USAID projects sometimes use a combination of private sector engagement approaches. This was the case for a project under the whole-of-government Power Africa initiative. First, in the Kipeto wind power project—the second largest wind power project in Kenya—USAID developed a biodiversity action plan to mitigate the impact on endangered raptors, a major roadblock to wind development, which is an example of technical assistance that allowed the new business opportunity to proceed. Second, USAID worked with Actis, a private equity company that invests in alternative energy projects, to minimize private sector investment risks. According to Actis, Power Africa’s involvement in projects can be a catalyst for successful project completion. Power Africa also worked with First Solar, a U.S. solar panel manufacturer with business interests in Africa, along with funding from OPIC and a finance entity in Zambia. According to a company official, Power Africa helped First Solar manage relationships with government entities and other private sector partners to bridge financing and communications, which helped introduce First Solar to more developers in the region. Finally, USAID worked with Power Africa partners to showcase the initiative’s results and opportunities by attending and hosting conferences for the energy industry, providing technical assistance to various partners, and reporting on development successes.

USAID Used Formal and Informal Agency Methods To Directly and Indirectly Implement Private Sector Engagement Approaches

We identified formal and informal methods through which USAID implemented its various approaches to private sector engagement (see figure 5).

Figure 5. Methods and Examples USAID Used To Implement Private Sector Engagement Approaches

OIG Definition	Method Types	Project Examples
Formal		
Outlined in USAID policy or other regulations like the Federal Acquisition Regulation (FAR), the Code of Federal Regulations, and ADS.	<ul style="list-style-type: none"> • Broad Agency Announcements^a (ADS 300mat) • Contracts (ADS 302) • Cooperative agreements (ADS 303) • DCAs (ADS 249) • Global Development Alliances (Annual Program Statement) • Grants (ADS 303) 	<ul style="list-style-type: none"> • Gavi, the Vaccine Alliance, is funded through a direct grant to the organization along with other donors to provide immunizations. • A GDA in Colombia to SEAF, an investment management group, contributed to capitalizing a fund to invest in rural agribusinesses.
Informal		
Not governed by formal Agency-wide policies or regulations but developed or structured for specific circumstances in the absence of a formal, Agency-wide process.	<ul style="list-style-type: none"> • MOUs • Unique whole-of-government initiatives • Mission- or office-specific guidance • New financial tools, like impact bonds • Other transaction authority 	<ul style="list-style-type: none"> • Power Africa is addressing electricity access in Africa through a unique USAID-led whole-of-government initiative. • A non-binding MOU between USAID/Indonesia and the Packard Foundation led to collaboration on marine biodiversity activities.

^a While considered a formal method of engaging with the private sector, a Broad Agency Announcement is a procurement tool to collaborate with the private sector and may not lead to an award or a formal partnership.

Source: OIG analysis of USAID policies, federal regulations, interviews, and project documents.

USAID engages the private sector directly or indirectly. Direct partnerships and engagement, as we define it, are those where USAID explicitly outlines responsibilities with a partner, such as a written arrangement with a pre-identified private sector resource partner to achieve a certain project objective. For example, USAID had direct engagement with at least five other organizations—which included Coca-Cola, the Global Fund, and the Bill and Melinda Gates Foundation—that resulted in Project Last Mile to improve the effectiveness and efficiency of health commodity supply chains in Africa. Indirect partnerships and engagement, as we define it, occur when an implementer agrees to partner with the private sector to leverage resources. For example, in India USAID relied on one of its implementers, IPE Global Limited, to sign an MOU and work with GE India Industrial Private Limited to explore opportunities for addressing healthcare needs of the urban poor.

Some USAID offices broadly described the approaches and methods used to engage the private sector. For example:

- USAID/India’s clean energy and environment office diagrammed office-specific descriptions on four facets of systematic engagement: (1) incubation, (2) advisory, (3) financing or funding, and (4) creating a “push and pull” enabling environment.
- USAID’s “Partnering for Impact: USAID and the Private Sector” report for 2014 to 2016 described how USAID can partner “as a: (1) co-investor of resources, (2) a convener of diverse stakeholders to tackle an issue, and (3) as risk-mitigator to

facilitate investments.” The report provides some specifics like mobilizing local capital with DCAs, spurring innovation and entrepreneurship, and collaborating on policy and advocacy issues.

- USAID’s private sector engagement policy outlines the spectrum of engagement, which spans activities led by USAID where it leverages resources and expertise, or private sector-led activities where USAID assistance is meant to address constraints and risks affecting private sector for-profit or market approaches.

USAID, Implementers, and the Private Sector Cited Benefits of Engaging Together, Including Access to Capital and Technical Expertise for Expanded Foreign Development Activities

USAID representatives, implementers, and the private sector in Washington, DC, and across the eight missions we visited cited positive impacts from the Agency’s partnerships with the private sector for the 53 activities we examined. According to these sources, USAID’s brand name was beneficial in building credibility, and USAID’s missions provide a forum for linking partners to companies and capital that they normally would not be able to reach. USAID’s reach and ability to work with private sector entities largely result from the solid reputation it has established over decades of responding to other countries’ development challenges affecting vulnerable populations. In turn, the private sector’s capital, ability to implement and conduct activities at larger scale, and technical know-how allows USAID to have greater impact for a smaller taxpayer investment.

USAID and its implementers reported that USAID’s convening power has brought new private sector partners and host country governments together to work on development objectives and leverage resources. Benefits cited include capacity expansion and increased investment to promote the use of technology. For example:

- Officials from Harambee, a USAID implementer in South Africa that brings together both private and public sector organizations, stated that it needed the public sector to scale up its Youth Labor Market Solutions to Promote Inclusive Economic Growth program. USAID convened U.S. companies to see what the implementer was doing, giving Harambee access to a broader range of employers than it otherwise might have had. Working with USAID also helps build Harambee’s credibility with outside entities, including other funders. Harambee asked to be introduced to more American companies and reported that USAID followed through.
- USAID’s Economic Development Alliance for San Martin (EDA) project in Peru reported that it leveraged \$10.8 million from other donors, which included the private sector, to continue assisting areas where coca had been eradicated by focusing on alternatives, such as cocoa and coffee. The implementer reported that throughout the life of the project, EDA worked with a total of 28,101 cacao producers, 1,266 established coffee producers, and 2,161 coffee-and-cacao producers. The implementer also stated that with these producers there was then a

critical mass to guarantee a path to a more licit and prosperous economy in areas where the project worked.

- An official at the USAID mission in India noted that the first awards made under the India Partnerships Program—with a 50 percent match and codesign from the private sector—changed how the mission and staff thought of development awards and projects, and that pitching ideas under the new development model was an “exciting time.” The mission uses the India Partnerships Program to partner with private and public sector organizations by collaborating and implementing concepts for achieving development impact with the goal of leveraging money, technology, expertise, or other assets from partners. One example is the Ahmedabad Sanitation Action Lab project, which according to the implementer leveraged \$11 million from private sector partners—far exceeding the implementer’s commitment to leverage over \$750,000. The implementer not only leveraged financial resources, but according to a project document, partners also contributed non-financial technical support to the project.

USAID also devotes a chapter in its private sector engagement policy on a value proposition that delineates similar benefits the Agency and the private sector bring when working together, such as USAID’s vast in-country networks, support for improving enabling environments, and strong reputation, and the private sector’s ability to use its vast financial resources and expertise, innovation and technology, and relative flexibility to act quickly to tackle societal challenges.

STAKEHOLDERS REPORTED ENGAGEMENT CHALLENGES RELATED TO INHERENT DIFFERENCES IN THE PUBLIC AND PRIVATE ENVIRONMENTS

USAID, implementers, and private sector stakeholders reported several external challenges that can limit successful engagement and partnering on development projects. Reported challenges include:

- *Divergent USAID and Private Sector Business Models and Objectives.* USAID’s country development strategies and projects typically span up to 5 years and often require flexibility to adapt to changing circumstances. Two private sector organizations commented that USAID’s short-term focus can be problematic and USAID may need to be involved over a longer-term to ensure objectives are successful. While the private sector’s focus typically extends beyond USAID projects, its financial burden can occur early in a project, compelling private investors to focus on profit to remain viable. Individuals said these differing business models and objectives can make it difficult to align USAID’s and the private sector’s respective development interests in areas such as food security and economic growth. According to the final evaluation report of the Southern Africa Trade Hub project, “there is a need for

more consistent and long-term engagement in order to effectively build linkages between buyers and sellers.”

Two examples show that USAID overcame the challenge of a short-term development focus by implementing multiple projects over a longer period of time to better support the enabling environment of the private sector. The first example was in India: When USAID’s multiyear PACE-D project ended, which focused on national reforms and local building requirements, USAID designed a new project to further the work of PACE-D in order scale up the deployment of energy-efficient buildings and air conditioners. The implementer stated that there were limits to the extent that national and policy level work would be put into play and have an impact with private sector participation. MAITREE was then implemented to focus on changing building codes at the government policy level, finding a partner to move energy efficiency efforts along, and showing how to make buildings more energy efficient. Under MAITREE, the implementer reported that it took a market transformation approach with private sector and consumer engagement and enabling policies so the “market for energy efficiency in buildings and air conditioning will be transformed through large-scale interventions.” A USAID/India official noted that while convening and bringing partners together might be important, USAID needs to also consider the private sector’s bottom line and devote the necessary time and resources to better engage the private sector. This was also the case in Peru where USAID’s long-term focus enabled farmers to grow high-quality cacao beans, which helped chocolate producers’ bottom line and furthered USAID’s objective to reduce the reliance on coca crops that are used for illicit narcotics.

USAID also stated in a 2017 strategic review of its partnerships that the private sector tends to focus on emerging markets in areas with large populations—such as Brazil, Russia, India, China, Indonesia, South Africa, and Nigeria—making it difficult to entice the private sector to less developed countries and nonpermissive environments, where USAID tends to focus its development efforts.¹⁰

- *U.S. Companies’ Expectations.* Several U.S. companies reported that competing in foreign countries can be challenging because USAID engages broadly and openly with the private sector to promote its development objectives. In other words, USAID does not give preference to U.S. companies. Representatives from two U.S. companies stated this is different from some foreign governments, which typically give preference to businesses from their countries. Three U.S. private sector company officials working with USAID stated that Chinese companies and other foreign companies have more direct government support to push their countries’ private sector interests.

¹⁰ In March 2017, USAID prepared a document called “Partnering With the Private Sector: A Strategic Review” that was used for internal Agency discussion and helped inform recommendations on private sector engagement to Agency leadership. While the review was not finalized and made public, an Agency official stated it resulted in focusing on follow up actions and was a precursor to the launch of the private sector engagement policy.

- *U.S. Government Funding Streams.* Officials said development funding is often earmarked for specific purposes but evolving U.S. Government priorities, including annual funding, can affect the availability of money for programs, including those where USAID has had strong engagement with the private sector. This was the case with the ICED-II project in Indonesia, which had to request a new source of funding to meet project objectives once climate change funds were no longer available. Further, an official explained that interagency offices control how certain earmarks should be spent. For example, mission officials in South Africa noted the State Department’s Office of the U.S. Global AIDS Coordinator and Health Diplomacy (OGAC) provides direction on HIV/AIDS activities and can direct USAID missions to work in public versus private efforts or on specific treatment interventions versus prevention activities. A USAID official in South Africa stated there are ideas on how to engage the private sector, but with OGAC’s current focus on treatment goals it means there is less opportunity to focus on private sector prevention activities for HIV/AIDS. With the inherent limitations of earmarks, some officials said there were not enough discretionary funds to explore new opportunities with the private sector. USAID also reported in its 2017 strategic review on partnering with the private sector that it is unable to execute some high potential engagement opportunities because of a lack of Agency funding availability or flexibility, or a lack of clarity on how and when they can integrate the private sector into existing programs and funding cycles.
- *U.S. Government Administrative Requirements.* According to stakeholders, U.S. Government administrative requirements related to award terms or changes made by new administrations can be difficult to follow and become bureaucratic. For example, one implementer in India highlighted the challenge and identified two private sector partners who were not comfortable with the restrictions and compliance burden of a policy requirement and had to be dropped as partners as a result. Similarly, partners in South Africa and Kenya said that complying with the administrative requirements related to receiving money from the U.S. Government is time consuming, and the processes for approving awards and completing projects move at a slower pace than the private sector is accustomed to.

INSUFFICIENT IMPLEMENTING GUIDANCE, DATA, AND METRICS LIMIT USAID’S ABILITY TO MAKE INFORMED PRIVATE SECTOR ENGAGEMENT DECISIONS AND GAUGE OUTCOMES

According to USAID’s December 2018 private sector engagement policy, missions should engage with the private sector to the maximum extent possible. To achieve Agency objectives, such as increased private sector engagement, Federal standards for internal control call for using quality information by obtaining, processing, and evaluating

relevant data from reliable internal sources in a timely manner.¹¹ However, the Agency has lacked comprehensive guidance to ensure its private sector engagement policy is effectively implemented. The Agency's data and metrics to gauge success are similarly insufficient. These shortfalls inhibit USAID's ability to assess the impact of its private sector engagement and partnerships beyond anecdotal accounts.

USAID Lacks Comprehensive Implementation Guidance for Engaging With the Private Sector

While USAID has a policy document for private sector engagement, it had not completed plans to better develop and codify implementation guidance to address gaps in the current policy.¹² Moreover, the Agency has not developed implementation guidance that delineates the roles, responsibilities, and requirements for implementing the policy or the approaches available to missions and bureaus to engage the private sector like the ones we identified. Clear guidance and procedures to support engagement with the private sector could open up new avenues for success by producing quality information for decision making and strengthening knowledge management through better information sharing.

Through our work we noted the following gaps with the Agency's current policy and approach to engaging the private sector:

- *Private Sector Engagement Not Clearly Defined.* USAID's December 2018 policy broadly defines private sector engagement. However, officials from all missions we visited had various concerns with the definitions of private sector engagement and partnerships such as what is or is not private sector engagement, who is the private sector, what type of involvement USAID should have with the private sector, what types of resources to focus on from the private sector such as CSR funds, and what are other types of approaches for private sector engagement that are not GDAs. USAID's 2017 strategic review on partnering with the private sector also found that "Agency-wide definitions on concepts such as partnerships, leverage, or investment commitment are not always clearly defined, interpreted, or implemented." Without more clarity, the Agency and its partners risk not accurately capturing engagement data or having a shared understanding of what private sector engagement encompasses and how it should be shaped.
- *Incomplete Partner Information.* USAID's partnership database lacks basic demographic information on private sector partners, including the specific areas where partners

¹¹ U.S. Government Accountability Office (GAO), "Standards for Internal Control in the Federal Government" (GAO-14-704G), September 2014, Principle 13 says management should use quality information to achieve the entity's objectives.

¹² In October 2019, a meeting with three USAID officials about the private sector engagement policy revealed delays in revisions to the ADS and plans for more integrated knowledge management due to lack of staff and not having the Private Sector Engagement Hub in place. A private sector engagement policy implementation plan from October 2019 that we analyzed showed 50 of 61 steps not started or completed. In July 2020, Agency officials commented that an internal private sector engagement website would be a sufficient place to hold resources staff needed but acknowledged that more improvements are necessary so staff can fully and clearly find information related to private sector engagement.

work, partners' level of involvement, and the types of resources that directly and indirectly contributed to USAID's development objectives. Systematically collecting such information would contribute to an Agency-wide understanding of how USAID is engaged and could streamline future efforts to engage with partners and address development objectives. Agency officials leading the creation of the Private Sector Engagement Hub stated that a strategic approach to gathering information on private sector partners would be beneficial in developing coherent and comprehensive insights and analytics. Another group of Agency officials responsible for knowledge management also stated in October 2019 that the Agency needs to improve internal capacities to be ready for more external engagement with the private sector and be more strategic with corporate relationship connections.

- *Effective Engagement Methods Not Delineated.* USAID's private sector engagement policy does not provide guidance that detail the procedures, controls, and processes unique to the methods that missions can use to engage effectively and appropriately with the private sector. Without such information and guidance, missions may not know the type of private sector engagement they should be designing and implementing, and what data they should collect.
- *Lack of Guidance for Engaging in Partnerships.* USAID does not uniformly provide guidance for weighing options and tools for informal private sector engagement—such as Broad Agency Announcements, investment and impact funds, MOUs, broad technical assistance awards, and GDAs—when making decisions on private sector engagement. Without such guidance, missions may not be aware of the options available or how tools work, which in turn could create inefficiencies or lost opportunities.
- *No Clear Process for Assessing Risk When Conducting Due Diligence Reviews.* USAID lacks a clear process for assessing risk when approving partnerships. The private sector engagement policy states that a good practice for mitigating risk is conducting “some level” of due diligence.¹³ However, prior to this policy and during its implementation, the absence of a clear process and comprehensive guidance leaves individuals to interpret on their own the process to take to assess risk and conduct due diligence for partnering with the private sector, resulting in real oversight gaps.

For example, one implementer in the Philippines selected two different private sector partners based on personal relationships, and the mission office responsible for the award was aware of the practice and stated it did not conduct additional due diligence on the private sector partners, which raises potential risks under USAID projects such as abuse.¹⁴ Three mission staff in the Philippines responsible for private sector engagement activities indicated that due diligence was a challenge or it was

¹³ Due diligence, according to USAID's private sector engagement policy, is “the necessary assessment of the past performance, reputation, and future plans of a prospective partner, private-sector entity, or other organization, with regard to various business practices and principles to evaluate the risks and benefits of working together.”

¹⁴ GAO, “Standards for Internal Control in the Federal Government,” September 2014, Principle 8 states abuse “includes misuse of authority or position for personal gain or for the benefit of another.”

difficult to perform because there were no established procedures on how to properly conduct such a review for private sector engagement, and one of the three individuals stated there was no mandate to do it. This reveals the uncertainty among officials we talked to about the process for how to assess risk. In another case, which involved the Bureau for Food Security and a private sector company, the bureau asserted that a due diligence review was completed in 2013. However, Agency officials did not provide evidence of a comprehensive review in 2017 when a new MOU was prepared. The USAID Administrator ultimately signed an MOU with a Chinese state-owned enterprise that had acquired the private sector company, causing one major U.S. company official to question USAID's interest in Chinese partnerships and ultimately creating a possible risk to USAID's reputation. USAID lawyers and officials offered varied responses on what the process was for conducting appropriate due diligence. This is because there was no Agency-wide policy outlining formal procedures, document retention, and key considerations for assessing and mitigating risk. In the December 2018 private sector engagement policy USAID clarified that due diligence was now required, and then in August 2020 USAID announced enhanced information on due diligence to help clarify the process and retention requirements after our audit work ended.

According to the Agency, missions are responsible for determining how to meet the due diligence requirement in the private sector engagement policy, so bottlenecks are minimized by not having to wait for headquarters' approvals. The Agency also noted that its Knowledge Services Center and guidance on the private sector engagement website for GDA reputational risk assessments are available to support missions in conducting due diligence. However, this support is not clearly laid out in comprehensive guidance with a clear process codified in official policy, leaving the exact nature of the requirement and the available support unclear.

- *Poor Coordination Among Missions, Regional Offices, and Bureaus.* Coordination among missions, regional offices, and bureaus is largely ad hoc. This is problematic for USAID because Federal standards for internal control stipulate that an organizational structure should be established whereas there is an understanding of responsibilities so the organization operates efficiently, effectively, and can reliably report quality information.¹⁵ In contrast, officials from four missions reported that communication is siloed, making it difficult to share information on regional or cross-country programs and activities, and how they contribute to USAID's objectives and strategy for a given country. In Kenya, for example, seven mission and private sector officials discussed issues about how USAID projects can be siloed, with some of these individuals saying that USAID is missing an opportunity to build synergies between projects and sectors. USAID's 2017 strategic review on partnering with the private sector found that missions interested in expanding private sector engagement did not always know where to look for resources and support, relying on personal networks more than institutional knowledge. USAID's review also found that

¹⁵ GAO, "Standards for Internal Control in the Federal Government," September 2014, Principle 3 says management should establish an organization structure, assign responsibility, and delegate authority to achieve the entity's objectives.

without a system to coordinate activities, there was increased risk of overlapping efforts or inefficient use of scarce resources. We confirmed that three missions were not always aware of programs managed or funded by USAID headquarters offices that were captured in the partnership database we were provided.

- *Reliance on Traditional Approaches.* Interviewees in six countries and USAID’s 2017 strategic review reported challenges with traditional USAID approaches when making awards to organizations that conflict with shifting to new approaches for engaging the private sector. For example, USAID/India’s traditional approach tended to focus on securing CSR funding from the private sector. While these funds augment USAID funding, CSR funds are only one avenue for engaging the private sector according to the Agency’s private sector engagement policy. The policy also states that because CSR funds are not part of the company’s core business and do not provide immediate financial benefit to the company, the focus for the Agency should be on prioritizing engagement with the private sector partner’s core business for more transformational outcomes at scale.

At other missions, there were apprehensions about the culture change needed to focus on private sector engagement. Individuals noted that part of the cultural difference was related to how USAID’s traditional processes can undergo long durations of time for approvals, such as during project design. These lags frustrate both USAID staff and private sector partners when the private sector requires quicker decision making. USAID’s internal field needs study from November 2018 found similar concerns, which stated that USAID employees wanted processes for forming partnerships expedited.¹⁶ Two USAID lawyers working on private sector engagement stated the Agency does not need new authorities or tools beyond contracts and grants, but rather the Agency needs to use existing tools to be more innovative—for example, by combining tools to use blended finance approaches. A 2004 USAID assessment of GDAs highlighted that awards to the private sector required more flexibility than the existing procurement processes, which were rigid and slow.¹⁷ Furthermore, it was recommended that because grants and contracts did not meet the new needs of the Agency at that time, it should devise new ways to enter into alliances to reach the private sector partners it seeks. This reinforces that the Agency’s processes and culture of relying on traditional approaches, then and now, are problematic for efficiently engaging the private sector on development activities.

¹⁶ USAID, “PSE Field Needs Study,” November 2018.

¹⁷ USAID Bureau for Policy and Program Coordination publication, “An Assessment of USAID’s Global Development Alliances,” October 2004.

- *Undefined Staff Responsibilities and Lack of Necessary Skill Sets for Engaging the Private Sector.* According to USAID officials and five internal USAID reviews, staff performance in activities such as collaborating with the private sector is lacking or is not generally encouraged.¹⁸ Moreover, six officials noted that staff often do not have the time or experience to engage with the private sector. Four officials stated that USAID needs to develop staff skills and competency in this area, and a mission official noted that if there is an increased focus on private sector engagement, a new job position should be created. Federal standards for internal control require management to commit to recruiting, developing, and retaining competent individuals to carry out and accomplish their assigned responsibilities—in this case, to engage the private sector.¹⁹ Power Africa reportedly had taken steps to create an environment conducive to regularly connecting with the private sector. For example, Power Africa stated it has empowered staff to communicate and meet routinely with the private sector and encouraged this responsibility along with other daily tasks even if it is just to build relationships.

Issues with staffing and having relevant skills to effectively engage the private sector is not a new problem. Sixteen years ago, the 2004 USAID GDA assessment recommended changes to the Agency’s human resources and found that USAID needs “more staff who are familiar with—and comfortable dealing with—the productive private sector.” USAID officials leading the creation of the Private Sector Engagement Hub commented in July 2020 that the Agency plans to identify core private sector engagement competencies for building more capacity and has already started a training program to improve how staff engage with the private sector. According to USAID officials overseeing the rollout of elements of the private sector engagement policy, the responsibility for developing and implementing actions associated with the December 2018 policy had been slowed by too few staff in CTP and PCM and issues associated with the Agency’s Human Capital and Talent Management office. Further, officials responsible for the private sector engagement initiative stated that all missions and bureaus need staff with private sector engagement competencies and leadership in order for private sector engagement to be successful—not just staff recruited in specific offices like the planned Private Sector Engagement Hub.

- *Omission of DFC Products in USAID Policies and Processes.* DFC was designed to subsume USAID’s DCA office, which USAID staff identified as an important lending resource. While USAID’s ADS has yet to formalize the policy and process for interacting with DFC, Agency officials stated DFC guidance was shared in January 2020 with all of USAID. Having established processes and responsibilities—such as those detailing how USAID will cooperate with DFC and how USAID missions and

¹⁸ The five internal USAID reviews are: (1) “An Assessment of USAID’s Global Development Alliances,” October 2004; (2) “Evaluating Global Development Alliances: An Analysis of USAID’s Public-Private Partnerships for Development,” May 2008; (3) “Partnering with the Private Sector: A Strategic Review,” March 2017; (4) Information Memo for the Administrator, “Expanding Private Sector Engagement,” August 2017; and (5) “PSE Field Needs Study,” November 2018.

¹⁹ GAO, “Standards for Internal Control in the Federal Government,” September 2014, Principle 4.

offices can access DFC tools for development activities—would help USAID staff and partners navigate DFC, which is an independent agency. However, as of July 2020, USAID officials noted that it would take a year before the Agency completes an update of ADS policy. In the interim, opportunities may be lost to engage with the private sector where a partner could benefit from a financial tool controlled by DFC.

USAID outlined initiatives that it plans to undertake to provide better support on overall private sector engagement and share information.²⁰ For example, the Agency launched a private sector engagement actions dashboard to share information on specific activities across the Agency.²¹ Information sharing enhances the Agency’s ability to learn and adapt to improve development outcomes, which is an important element of USAID’s policy on using development data.²² Early initiatives to share private sector engagement information were based on quarterly phone calls and monthly newsletters, but these are discrete snapshots and not comprehensive or consolidated views of everything happening worldwide. However, according to staff leading private sector engagement efforts, initiatives have stalled due to issues such as staffing shortages; leadership changes and uncertainties; and time required for the creation and approval of the new DDI bureau, which will house a dedicated hub for coordinating USAID’s private sector engagement strategy. Further, since many resources are documents on the private sector engagement webpage, it is unclear how private sector engagement resources are integrated with official ADS policies because the website is not the official policy repository for the Agency.

Ultimately, private sector engagement across USAID is largely improvised and dependent on individuals with the right skills or willingness to champion engagement and take individual risks. The 2004 GDA assessment emphasized that alliances with the private sector are more successful when there is powerful advocacy from a champion or leadership-level engagement and support. Through our discussions with USAID staff, it became clear that the additional responsibilities related to private sector engagement can have an empowering effect on the ability to lead private sector efforts, such as when mission staff are helping teams focus on private sector engagement in missions like Colombia, India, and Tanzania, and with Power Africa. From our discussions with USAID leadership, the Agency appears to have an appetite to embrace more risk-taking and new ideas. But without better knowledge management and information sharing on private sector engagement results and approaches, the interpretation and application of USAID’s private sector vision will largely depend on individuals’ risk appetite and creativity.

²⁰ USAID’s in-process and planned initiatives include the Private Sector Engagement Evidence and Learning Plan which will focus on “(1) filling critical knowledge gaps and (2) improving the rigor of [private sector engagement] research and evaluation” intended to strengthen evidence on effective private sector engagement. Other in-process or future initiatives include an indicator handbook and mechanisms such as Promoting Excellence in Private Sector Engagement (PEPSE), field support through INVEST and INVEST+, and a systematic approach to investment facilitation referred to as CATALYZE.

²¹ The private sector engagement actions dashboard was announced on June 24, 2020.

²² ADS chapter 579, “USAID Development Data.”

Limited Data and Metrics Increase the Possibility of Under- and Over-Reported Results

Federal standards for internal control require communicating quality information internally and externally,²³ and USAID’s internal control policy states that relevant personnel at all levels should receive relevant, reliable, and timely information.²⁴ Articulating outcomes is fundamental to good stewardship as it informs decision making and provides transparency. For USAID’s private sector engagement, this means maintaining comprehensive and reliable data that demonstrate how Agency projects advance U.S. foreign development objectives with private sector assistance.

USAID collects, stores, and tracks partnership data—typically aggregated with other private sector engagement data—in a database managed by CTP, and reports partnership activities anecdotally in annual narratives for the performance plan and report process that blend in private sector engagement activities. According to a USAID official, CTP has had difficulty managing the database, and the database may not provide a complete picture of its partnership efforts. Our review of USAID’s partnership data and interviews with USAID staff identified multiple lapses in complying with Federal standards for internal control—deficiencies that leave USAID with data that provide little benefit to gauge and inform its private sector engagement. Specifically:

- *Data Are Out of Date.* As of October 1, 2018, partnership information in USAID’s partnerships database did not include data beyond fiscal year 2016.²⁵ According to a USAID official, the database requires manual cleanup and coordination with the missions after data input, which takes several months. The fiscal year 2017 data were delayed due to an error in the State Department’s Foreign Assistance Coordination and Tracking System (FACTS Info) and the data were never published. Staff shortages on the USAID team responsible for data cleanup exacerbated delays. USAID’s fiscal year 2019 financial statements included a footnote that points to a data transition process and resulting data inaccuracies.
- *Data Are Not Recorded Uniformly Across Missions.* USAID staff indicated that it is not clear what type of partnerships are required to be reported. Ultimately, missions use

²³ GAO’s “Standards for Internal Control in the Federal Government,” Principle 13 states that management should use quality information to achieve the entity’s objectives. Principle 14 states management should internally communicate the necessary quality information to achieve the entity’s objectives, and Principle 15 states management should externally communicate the necessary quality information to achieve the entity’s objectives.

²⁴ ADS chapter 596, “Management’s Responsibility for Internal Control.”

²⁵ In December 2019, USAID released on its intranet an analysis of fiscal year 2018 data associated with private sector engagement titled “USAID Private-Sector Engagement (PSE): An Agency-wide Snapshot.” The analysis from USAID acknowledged that data limitations were present because: (1) partnership activities may have been underreported or incomplete, (2) many missions did not report any active partnerships in fiscal year 2018, (3) data did not include DCA guarantees, and (4) data “did not capture the full range of ways” USAID engages with the private sector. Furthermore, the analysis stated that: (1) the Agency was working to improve the collection of high-quality data, (2) greater insight was needed into where private sector engagement evidence and learning efforts should be focused, and (3) more meaningful private sector engagement indicators were needed.

judgment on how, when, and what to count as leverage, which has resulted in variations that undermine analyses across missions and partnerships. For example, one mission reported on partnerships at the award level only (those that were agreed to in the award instrument), while others reported on partnerships beyond the award, such as a partnership entered into by the implementer to achieve certain project objectives or activities. In addition, our data verification identified differences between the reported partnership value in the USAID partnership database and the missions' confirmations.

- *Data Are Incomplete.* According to Agency officials, the partnership database was not intended to and does not capture all private sector engagement activity and information on individual partnerships. In other words, USAID does not have a consolidated source or method for capturing all private sector engagement-related data for purposes such as tracking and reporting. USAID relies on each mission or operating unit to separately capture data on private sector engagement activities, making it difficult if not impossible to ensure all data are available to inform USAID's private sector engagement as needed. For example, a Power Africa official provided data with about \$21 billion in partnership resources for projects that have arranged financing and are ready to be initiated—a key metric for the initiative—but this funding data is not captured in USAID's partnership database. Similarly, DCA data with loan guarantees of about \$5 billion are maintained separately in a credit management system database. According to Agency officials, DCA activities are distinct types of engagements and require a separate system.

Multiple systems and databases contribute to these problems. For example, available data on private sector engagement activities are captured in different systems, such as an external partnership database, an internal database, and in FACTS Info NextGen and related components. Further, beginning in fiscal year 2019, USAID began developing an alternative system component called a private sector engagement actions dashboard. This new system dashboard is an interface to compensate for delays in Excel-based data collection methods into the FACTS Info NextGen platform—an effort intended to make the data more user-friendly and align it with new FACTS Info NextGen database capabilities.

Over the course of our audit, a number of adjustments were made to USAID's data mainly because the data were kept in different systems at different periods of time. For example, the Global Development Lab added in an updated report for our audit showing approximately \$23 billion in contributions that USAID and other partners had made to Gavi—contributions that were originally missing from USAID's partnership database. USAID/Global Health officials emphasized that the Gavi partnership is a large and successful Agency partnership, and they had continuous discussions with the Lab on how to capture Gavi activities. Other adjustments made to reported investment values in projects that involved the private sector remain difficult to reconcile. As of fiscal year 2016, the total reported investment value in the partnership database was around

\$20 billion when we accessed it, but almost \$9 billion was in duplicated project entries.²⁶ We removed the duplicates, leaving \$11 billion in investment value—\$36 billion less than the investment value in the Lab’s updated internal database of \$47 billion. The Lab—which oversees the partnership database and data collection for USAID’s private sector engagement—attributes most of the difference to the additional \$23 billion of Gavi partnerships. These differences continue to raise questions about the accuracy and completeness of information reported on private sector engagement, the design of controls associated with data collection and information reporting, and the capacity of the Lab to manage this process.

Even if reported values for some private sector engagement activities were reconciled, impact may continue to be under- or over-reported, largely because the metric USAID uses to evaluate the impact of private sector engagement is limited to dollar-value leverage, which is the value of a private sector contribution compared to the value of USAID’s contribution.²⁷ Leverage is widely considered to be the easiest metric to capture and understand. However, recording leveraged dollars only shows the value of cash or services from project partners—not an activity’s success or a major development impact—and USAID does not systematically and uniformly require its missions and bureaus to establish and collect metrics that gauge progress made toward achieving development goals resulting from private sector engagement activities.

Other limitations in USAID’s private sector engagement metrics can positively or negatively skew USAID’s actual success:

- *Variations in Quantifying Leverage.* Without sufficient guidance on what, when, and how to collect and measure leverage, quantifying actual leverage is often open to interpretation. Information from the partnership database, USAID documents, and interviews across selected missions demonstrated the wide variability in how missions interpret leverage in capturing something of value that USAID obtains from a partner. For example, some projects report intangible or in-kind leverage—which is more difficult to quantify than tangible leverage such as cash allotments—while other projects do not. Reporting leverage commitment versus actual leverage also varied.
- *Leverage Consolidated As One Value Across Different Partners.* Missions record leverage from a variety of different sources such as nonprofits, foundations, private enterprises, foreign companies, U.S. companies, or other governments. However, the partnership database does not allow for differentiation between the types of organizations that partner with USAID; instead, it shows leverage as one value containing all non-U.S. Government investments. Obscuring the types of leverage

²⁶ USAID officials acknowledged that the Agency was not aware of the duplication and said that they corrected the issue once we revealed it to them.

²⁷ For example, equal contributions would be considered a 1:1 ratio. Leverage, according to USAID policy, consists of “non-U.S. Government resources, including cash and in-kind gifts and services provided through private sector partnerships, with the exception of cost-share.”

sources through consolidation limits USAID's ability to conduct strategic engagement and provide transparent reporting.²⁸

- *Mission- and Other Operating Unit-Specific Financial Metrics.* In addition to USAID's dollar leverage metric, three Agency operating units identified unique metrics such as funds committed and indirect leverage. For example, Power Africa counted partner investments—up to \$59 billion of commitments—in addition to the \$21 billion it reported on estimated costs of projects with financing; an India project counted indirect leverage, which according to the implementer could be as high as \$3 billion; and USAID/Colombia developed a quarterly metric across all projects to show the maximum potential from the private sector of the mission's activities, which went beyond financial leverage. According to two senior Power Africa officials, the initiative's unique metrics aim to convey the successes of USAID's private sector partnerships more fully, and not to overstate the value of all the partner investments. However, missions' and bureaus' metrics related to partner investments that were made independent of USAID are not captured in USAID's partnership database. Whether or not USAID chooses to adopt metrics in addition to leverage, using varying approaches across the Agency, can skew—positively or negatively—USAID's successes.
- *Leverage Equated to USAID-Driven Engagement.* USAID's partnership database does not clearly identify who catalyzed leverage—USAID or another entity—or USAID's role in engaging the private sector. Consequently, the recorded leverage amount may give the impression that USAID's role was larger than it was. For example, a USAID program in India reported as leverage \$239 million in commitments that the Indian Government had allocated before the program started and USAID became involved. In another instance, one Power Africa partner thought USAID took too much credit for other entities' work. However, two other partners were less concerned and commented that the results of working with Power Africa may take a long period of time to realize and they considered partnerships with or assistance from Power Africa a success. An official from a private investment company with Power Africa commented that partnerships are like an orchestra: It takes all instruments for it to be successful.
- *Leverage Amount Versus Outcomes.* While the value of leveraged goods and services that the private sector provides toward a USAID project may be significant, the wider result around development outcomes is unclear. For example, the Mobilizing Maternal Health in Tanzania program had a positive outcome of helping pregnant women obtain transportation to hospitals. However, a USAID official said that the costs of the project—including the development of the technology for the transportation and medical call system—was significant for USAID, and the use of the technology was still dependent on the national government, as it would have to

²⁸ In July 2020, a USAID official identified an internal database from 2017, which does not consolidate leverage, and noted a dashboard is in development that will allow disaggregation of leverage by partner. The database and further details on the dashboard, which was launched on June 24, 2020, were not available to us during our audit.

absorb and take ownership of the technology. Ultimately, the same official said that a success story of the project was that there were 57 women’s lives saved. Further, USAID’s awards that we examined rarely had partnership or private sector metrics that would measure progress toward desired outcomes. USAID’s Evidence and Learning Plan identified the issue of developing more meaningful indicators when it was released in May 2019, but the plan only acknowledges the issue and USAID has not taken steps to fix it.²⁹ The Agency expects to publish a separate handbook on indicators.

At times, missions take broad latitude or alternatively are overly cautious when recording partnership leverage, which results in overstated or understated amounts in the partnership database. The difficulty with understanding leverage is the result of the Agency not coming to a clear agreement about the data to collect and the metrics necessary for measuring success, as well as not having a comprehensive system for monitoring results for decision-making and reporting purposes. This could result in USAID reporting incomplete or inaccurate information to internal decision makers, as well as to interested parties outside of the Agency such as Congress and potential partners. The importance of having better data is a challenge that USAID acknowledges in a communications toolkit and evidence and learning plan. Lack of good data prevents the Agency from understanding what types of private sector engagement approaches are effective and should be replicated.

In an August 2017 informational memorandum for the Administrator, a USAID work group recommended changes to the Agency’s private sector engagement policies, skills, and evidence in three focus areas (see figure 6).

Figure 6. USAID Internal Recommendations To Improve Private Sector Engagement Processes

Focus Area	Recommended Action
Strategy and Policy	<ul style="list-style-type: none"> • Launch a strategy, revise USAID policy framework, and integrate new tools from design to evaluation in the way the Agency works. • For new tools, develop guidance that defines how authorities should be used and how private sector engagement fits into the program cycle, as well as addressing gaps and exploring new engagement approaches.
Evidence and Learning	<ul style="list-style-type: none"> • Develop a plan for evidence and learning with new, relevant indicators. This begins with an Agency-wide “stock-taking” of existing partnerships and approaches and identifying gaps in evidence; and then developing meaningful indicators to be used across all partnerships and some tailored to specific circumstances.
People and Skills	<ul style="list-style-type: none"> • Incentivize employees to adopt new engagement approaches, increase employee risk tolerances, build in new metrics for employee performance plans and evaluations, reduce internal processes to enable external engagement, and right-size the workforce for scaling up private sector engagement.

²⁹ As of July 30, 2020, at the audit’s exit conference, the Agency had not issued additional guidance or requirements on indicators or metrics.

Focus Area	Recommended Action
	<ul style="list-style-type: none"> • Create a centralized team for technical support, to develop new tools, encourage links across sectors and regions, and coordinate knowledge management.

Source: OIG analysis of internal USAID memorandum regarding expanding private sector engagement, dated August 9, 2017.

While progress has been made on some focus areas, key areas for improvement remain 3 years later. Specifically, the Agency has articulated a strategy for private sector engagement, revised its policy framework, and developed an evidence and learning plan. However, key pieces of guidance and the tactics for ensuring private sector engagement is optimized and reaches maximum potential have yet to be fully implemented or realized.

CONCLUSION

Since at least the launch of GDAs in 2001, USAID has actively engaged the private sector to advance U.S. development objectives, and despite several inherent challenges, Agency officials and the private sector cite many benefits in partnering. USAID’s December 2018 private sector engagement policy was an important step forward in better ensuring missions maximize partnerships that encourage country self-reliance. However, a number of ambiguities in how missions can best engage with the private sector remain. USAID will continue to risk falling short of reaching the full potential of partnering with the private sector until it takes additional steps to define and articulate the goals of its partnerships; clarify engagement roles, responsibilities, and available tactics; collect reliable data; and establish robust metrics for assessing progress in engaging the private sector.

RECOMMENDATIONS

We recommend that USAID’s Acting Deputy Administrator:

1. Develop and codify implementation guidance that addresses gaps for developing and managing private sector engagement activities in a directory or other medium that captures all private sector engagement-related material and requirements.
2. Develop a workforce plan for dedicated private sector engagement staff with appropriate competencies across the Agency, including a team established in the Bureau for Development, Democracy, and Innovation, that has adequate resources, such as staffing and leadership, to support the Agency’s implementation of the private sector engagement policy.
3. Incorporate into USAID’s Automated Directives System guidance on the process and responsibilities for coordinating development activities with the U.S. International Development Finance Corporation.

4. Develop a plan on how to best capture and distribute the worldwide knowledge associated with private sector engagement approaches so missions and staff can better access and share information with each other to learn and adapt and achieve optimal development results associated with private sector engagement.
5. Implement a process and timeline for assessing the reliability and accuracy of private sector partnerships data from prior fiscal years. Elements to consider for the assessment could include: (1) the usefulness and reliability of data that is aggregated for private sector engagement results; (2) conducting a review of mission data submitted as appropriate; and (3) determining whether to communicate information externally, taking into consideration the completeness and accuracy of data.
6. Develop a plan for a whole-of-Agency process for collecting, analyzing, and disseminating private sector engagement data that results in the ability to actively manage private sector engagement and inform timely decision making. Elements to consider for this improved data collection process could include data and information related to: (1) programmatic private sector engagement efforts, (2) capacity of missions and staff to engage the private sector, and (3) private sector relationship management.
7. Clearly document in guidance to missions and bureaus an Agency approach to identifying and implementing consistent, useful metrics that further the Agency's goals for private sector engagement.

OIG RESPONSE TO AGENCY COMMENTS

We provided our draft report to USAID on October 8, 2020, and on November 19, 2020, received its response, which is included in appendix B. The report included seven recommendations, which the Agency agreed with, and we acknowledge management decisions on all of them. We consider all recommendations resolved but open, pending completion of planned actions.

APPENDIX A. SCOPE AND METHODOLOGY

We conducted our work from October 2018 through October 2020 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We conducted this audit to:

1. Identify USAID's approach to engaging the private sector in achieving U.S. foreign development goals, and any benefits that key stakeholders cite in these partnerships;
2. Identify any external challenges that affect private sector engagement, according to key stakeholders; and
3. Assess USAID's guidance, data, and metrics for implementing and tracking private sector engagements.

These objectives were based on language in House Report 115-829, accompanying H.R. 6385, the 2019 Department of State, Foreign Operations, and Related Programs Appropriations Act, directing OIG to report on USAID's use of public-private partnerships in achieving development goals, metrics for evaluating their performance, and their advantages and disadvantages. OIG met with staff members of the House of Representatives and Senate to discuss this request in February and March 2019.

Our audit scope sampled USAID partnership activities that were active from fiscal years 2013 to 2019. We made our sample selection based on the availability of data in USAID's partnership database and in order to obtain a broad view of the Agency's engagement with the private sector.³⁰ In answering the audit objectives, the team conducted fieldwork site visits from November 2018 to October 2019 in Colombia, India, Indonesia, Kenya, Peru, Philippines, South Africa, Tanzania, and Washington, DC. Additionally, we interviewed Agency officials from the U.S. Global Development Lab's CTP who are responsible for USAID's private sector engagement policies and data collection; and USAID's Bureau for Global Health, the Bureau for Food Security, and Power Africa who manage or provide oversight of the multicountry activities we examined.

To answer the first and second objectives to describe USAID's approaches, benefits, and challenges to engaging with the private sector:

- We selected a sample of 53 partnership activities from eight countries and three other operating units to review in detail. We selected our sample from the partnership database, which listed approximately 2,400 partnerships that were

³⁰ USAID maintains a database of its public-private partnerships on its website, <https://partnerships.usaid.gov/>, accessed October 1, 2018. We refer to this database as the USAID partnerships database.

implemented globally, as of the end of fiscal year 2016 (the last fiscal year for which USAID collected partnership data, as of October 1, 2018). Using the database, we narrowed our population of activities for review by selecting partnership activities that were active at some point during fiscal years 2013-2019, resulting in an adjusted population of 970 partnership activities.

- We used this adjusted population to select eight countries with large concentrations of partnerships by considering each country's partnership investment amounts and the quantity of partnerships. In addition, we considered other factors such as travel and security restrictions and geographical location. We also selected three units—the Bureau for Global Health, the Bureau for Resilience and Food Security, and Power Africa—because these operating units have significant private sector engagement activities and manage multicountry activities.
- We selected our nonrandom sample of 53 partnership activities based on factors within the target countries, such as partnership investment amounts, sector, partnership status (i.e., active versus inactive partnerships), and mission suggestions on key partnership activities. Although our sample is not generalizable, we believe our sample selection and methodology provides compelling, valid, and reliable evidence to support our conclusions despite the data limitations we identified through work conducted to answer objective three. Specifically, we found that data were not complete, accurate, or recorded in a timely or consistent manner across operating units.
- We reviewed Agency, bureau, and mission strategies and policies, including the private sector engagement policy that was issued in December 2018; guidance; internal and external review reports; and evaluations to obtain an understanding of USAID's engagement with the private sector, identify USAID's approaches to partnerships, and identify any reported benefits and challenges of partnering with the private sector.
- For our sample partnership activities, we reviewed award documents such as contracts and cooperative agreements, MOUs, and progress reports to further confirm the various approaches that USAID used to partner with the private sector; identify implementation tools, approaches, or mechanisms to structure partnerships; and document reported benefits and challenges of partnerships with the private sector.
- We conducted 188 semistructured interviews of three groups of stakeholders when they were available during our country visits—USAID interviews (108), implementer organizations (42), and private sector organizations (38)—to gather information from various perspectives on USAID's approach to partnering with the private sector and the benefits and challenges of these partnerships. Specifically, we interviewed private sector advisors and other officials who work closely on private sector engagement, contracting and agreement officer's representatives, chiefs of party or other implementer officials knowledgeable on the partnership activities we examined, and U.S. and foreign private sector partners.

To answer the third objective to assess USAID's guidance, data, and metrics for implementing and tracking private sector engagements:

- We analyzed the fiscal year 2016 partnership data from USAID's partnership database to determine if it was reliable. We confirmed the accuracy of partnership data for partnership activities at the eight selected missions, the Bureau for Global Health, the Bureau for Food Security, and Power Africa. We further verified the partnership data through interviews and document reviews.
- We interviewed USAID headquarters and mission officials who work closely on private sector engagement, including officials from the U.S. Global Development Lab's CTP, and officials knowledgeable on DCA and its transition to the new DFC and the new Bureau for Development, Democracy, and Innovation.
- To assess USAID's metrics and tools on partnerships, we reviewed Agency, bureau, and mission policies and guidance related to implementing and tracking private sector engagement. For example, we reviewed the private sector engagement policy, mission orders, policies and guidance on partnerships, public-private partnership narratives in the missions' annual performance plan and reports, and key documents related to the selected partnership activities. We also reviewed relevant past audit reports from USAID OIG and GAO. We used criteria from GAO's "Standards for Internal Control in the Federal Government," principles 3, 4, 13, 14, and 15, and USAID ADS chapters 579 and 596.

In answering the audit objectives, we considered, but did not rely extensively on, computer-processed data. USAID indicated that the partnership database, which we used to identify the concentrations of partnerships, brings together partnership information throughout the Agency. In answering objective three, we found that the data were insufficiently reliable but we believed they were sufficient to use for selecting the areas for review under the first and second objectives, considering that the Agency's partnership information was maintained in this database. Our results of analytical procedures on the data are documented in a report finding for answering audit objective three, and we believe our alternate procedures for substantive testing were sufficient to support our audit findings and conclusions with enough compelling evidence.

We assessed internal controls necessary to answer our audit objectives. In particular, we assessed the control environment, risk assessment, information and communication, monitoring controls, and control activities such as the design and implementation of policies and procedures and performance measures related to private sector engagement.

APPENDIX B. AGENCY COMMENTS



MEMORANDUM

TO: Thomas Yatsco, Assistant Inspector General for Audit

FROM: John Barsa, USAID Acting Deputy Administrator /s/

DATE: November 19, 2020

SUBJECT: Management Comments to Respond to the [Draft Audit Report](#) Produced by the Office of Inspector General titled, *Improved Guidance, Data, and Metrics Would Help Optimize USAID's Private-Sector Engagement* (5-000-21-00X-P)

The U.S. Agency for International Development (USAID) would like to thank the Office of Inspector General (OIG) for the opportunity to provide comments on the subject draft report 5-000-21-00X-P. The Agency agrees with the recommendations, herein provides plans for implementing them, and reports on significant progress already made.

Private enterprise is the most powerful force for lifting lives, strengthening communities, and accelerating development progress in our partner countries, and the private sector is an indispensable stakeholder in our efforts to end the need for foreign assistance. Private-sector engagement (PSE) is a strategic approach through which USAID consults, strategizes, aligns, collaborates, and implements with investors and commercial enterprises to improve the scale, sustainability, and effectiveness of development or humanitarian outcomes. In implementing our [PSE Policy](#), launched during the timeframe of this audit, USAID is transforming the way we conceive, design, and deliver programs by using market-based approaches and working hand-in-hand with the private sector to achieve greater outcomes. PSE is a pathway for us and our partners to help accelerate the Journey to Self-Reliance in our partner countries.

USAID has made many improvements to allow us to implement our PSE Policy to achieve our corporate strategic goals. These changes involve our organization structure, the competence of our staff, the quality of our data, and the metrics we use to evaluate the effectiveness and efficiency of PSE.

The new Bureau for Development, Democracy, and Innovation (DDI), operational as of November 16, 2020, houses USAID’s key PSE functions. DDI will reorient our Washington-based expertise to drive programmatic decision-making toward the field and offer more consistent, coordinated, and responsive technical support to our Missions. The PSE Hub within DDI will support the Agency in advancing the use of market-based approaches and PSE to deliver development and humanitarian results across all sectors, and is the locus of implementing the recommendations in draft report 5-000-21-00X-P.

COMMENTS BY THE U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID) ON THE REPORT RELEASED BY THE USAID OFFICE OF THE INSPECTOR GENERAL TITLED, *Improved Guidance, Data, and Metrics Would Help Optimize USAID’s Private-Sector Engagement* (5-000-21-00X-P)

Please find below the Management Comments from the U.S. Agency for International Development (USAID) on draft report 5-000-21-00X-P produced by the Office of the USAID Inspector General (OIG), which contains seven recommendations for USAID. The Agency agrees with the recommendations, as follows:

Recommendation 1: Develop and codify implementation guidance that addresses gaps for developing and managing activities in private-sector engagement in a directory or other medium that captures all material and requirements related to private-sector engagement.

- **Management Comment:** USAID agrees with the recommendation and believes we are well along the way to implementing it.

Since the launch of our [PSE Policy](#) in December 2018, the Agency has developed and codified implementation guidance for PSE in several important ways:

- **Discussion Notes:** The Agency has published two comprehensive discussion notes for staff on [Integrating Private-Sector Engagement into Country Development and Coordination Strategies](#) and [How to Conduct a Private-Sector Landscape Analysis](#).
- **Intranet Resources:** The Agency has developed and placed the following key resources to implement the [PSE Policy](#) on our PSE intranet site:
 - **Putting the [PSE Policy](#) into Practice:** This page targets PSE points of contact (POCs) designated in each Operating Unit (OU) and includes a PSE Actions Dashboard that highlights the full spectrum and status of core actions that USAID OUs are taking to advance PSE in their operations and programs based on each OU’s PSE plan.
 - **Initiatives and Support Mechanisms:** This page includes a list of

centrally managed support mechanisms (contracts and cooperative agreements) that are available for buy-ins from USAID's Missions, Bureaus, and Independent Offices for specific PSE programs and to mobilize finance support.

- ***PSE Resources:*** This page, which will soon be the PSE Toolbox, hosts several useful topics and tools broken down by category for implementing and executing PSE. Each category has helpful resources and relevant information for success in PSE.
- ***Development Finance:*** This page offers many resources to assist in understanding and using development finance, from the Finance Diagnostic and Intervention Toolkit, to case studies, examples, and learning, and information on the [U.S. International Development Finance Corporation](#) (DFC).
- ***Evidence and Learning:*** To address the gaps in our understanding of engaging effectively with the private sector and inform the application of PSE approaches at USAID, this page includes research and evidence on what works in PSE, including key reports from internal and external stakeholders, as well as yearly analyses of data on private-sector partnerships.
- ***Events and Opportunities:*** This page displays a calendar of internal and external events, webinars, and conferences related to PSE.
- ***Telling Your Private-Sector Engagement Story:*** This page includes resources for communicating PSE, such as the PSE Communications Toolkit, examples and stories of PSE, and key data-visualizations.
- ***Training Opportunities:*** This page offers course descriptions for PSE 101, Mobilizing Finance for Development, and other key PSE courses, as well as upcoming training dates and information on how to sign up.
- ***Stay Connected:*** This page provides several opportunities to stay engaged in the Agency-wide PSE Community of Practice, such as instructions for joining the Knowledge Exchange to start or join discussions on PSE, subscribe to the PSE mailing list to receive the USAID PSE Newsletter, and invitations to the PSE quarterly call.
- ***COVID-19 and PSE:*** This page captures information, resources, and guidance for PSE in preparedness for, and response to, the pandemic of COVID-19.
- ***PSE Toolbox:*** The PSE Team is currently developing a *PSE*

Toolbox, organized by the key categories for PSE action, which we believe will be the consolidated and accessible entry point and directory for all PSE-related materials the OIG is recommending. Illustrative categories of materials include guidance on engagement and PSE approaches, USAID’s Program Cycle, communications, internal operations, and procurement; evidence, research, and data; legal advice; professional-development materials; and analytical tools. Regular updating and maintenance of the PSE Toolbox will facilitate the identification of gaps in our guidance. The PSE Toolbox will be available on USAID’s Intranet by December 31, 2020. A designated individual within the PSE Hub in the Bureau for Development, Democracy, and Innovation (DDI) will regularly review and update the Toolbox.

- **Target Completion Date: December 31, 2020**

Recommendation 2: Develop a workforce plan for dedicated private sector engagement staff with appropriate competencies across the Agency, including a team established in [DDI], that has adequate resources, such as staffing and leadership, to support the Agency’s implementation of the private sector engagement policy.

- **Management Comments:** USAID agrees with the recommendation.

**A) To implement USAID’s
Talent Management (HCTM) will develop a workforce plan.**

The Agency’s [PSE Policy](#) calls for a “total operational and cultural transformation” in the way the Agency engages with the private sector in the design and implementation of its development programs. Specifically, it indicates the Agency will pursue a scaling and mainstreaming of enterprise-driven development through all programming, in all sectors, and across all Bureaus. As a result, the Agency will need to develop a workforce plan for dedicated PSE staff with appropriate competencies across OUs.

As part of this effort, the PSE Hub within DDI will create a “PSE Future Workforce” program within the Hub that will provide USAID’s OUs a range of services to make it easier for them to identify, hire, train, reward and manage the PSE-oriented workforce of the future. The PSE Hub will work in close collaboration with HCTM to help adapt the Agency’s current workforce-planning, training, retention and performance-management systems and processes to engage candidates from the private sector better. The goal of this program will be to improve the USAID’s capacity to develop, attract and retain employees with strong private-sector and investment backgrounds.

The PSE Hub within DDI also will lead in the development of a Mission Capacity

Index tool that will allow the Agency to identify and track PSE competencies across individuals and OUs throughout the organization. The first step in this process is to identify and articulate specific PSE competencies for USAID's staff at different levels of mastery. The PSE Hub, in close collaboration with HCTM and other technical colleagues across the Agency, is developing a catalog of PSE-related competencies for use across the organization. These competencies are meant to guide staff capacity-building and professional development in PSE and, therefore, support the successful implementation of the [PSE Policy](#). These competencies will assist in determining where USAID's staff and OUs stand in their abilities to implement the [PSE Policy](#) successfully; identify opportunities to build our staff's capacity for successfully engaging the private sector; and lay the foundation for creating the right incentives for implementing our [PSE Policy](#). The PSE Hub will collaborate with HCTM to incorporate these competencies into the Agency's workforce-planning and management, including recruitment, retention, and performance-management. An updated Agency workforce plan that addresses the need for dedicated PSE staff with appropriate competencies across USAID is planned for November 2021.

B) To implement the Agency's efforts to strengthen market-based approaches and training across USAID.

With respect to the establishment of a dedicated team in DDI to support the Agency's implementation of the [PSE Policy](#), USAID has addressed this part of the recommendation. Now that DDI is operational, its PSE Hub will support USAID in advancing the use of market-based approaches and PSE to deliver development and humanitarian results across all sectors. As such, the Hub will spearhead USAID's efforts to foster a major cultural and operational transformation in the way the Agency conceives, designs, and delivers our assistance in partnership with the private sector.

The goals of the PSE Hub include the following:

- 1) Adopting more market-based solutions to development challenges;
- 2) Being proactive to address market failures; and,
- 3) Increasing significantly the expertise, innovation, and collaboration of USAID's staff with private enterprise across our programming, including through the following:
 - a) developing USAID-wide frameworks for working and co-investing with private companies, creating new tools, aligning staff incentives, and bolstering processes to facilitate PSE across the Agency's work, from design to evaluation; and
 - b) designing contracts and cooperative agreements that aim to catalyze private-sector investment into early-stage enterprises and

identify innovative models or approaches that help entrepreneurs secure funding.

The Hub will provide comprehensive PSE training to USAID's staff and stakeholders. It will be responsible for defining and advancing the Agency's learning agenda on effective PSE and maintaining reporting databases, including on public-private partnerships. The Hub also will be the Agency's primary organizational interface with the DFC, to make maximum effective use of the U.S. Government's development-finance tools and approaches. Led by the PSE Hub, USAID is currently developing a catalog of PSE-related competencies and plans to have it available for use across the Agency by March 31, 2021.

- **Target Completion Date: November 30, 2021**

Recommendation 3: Incorporate guidance into USAID's Automated Directives System (ADS) on the process and responsibilities for coordinating development activities with the [DFC].

- **Management Comments:** USAID agrees with the recommendation.

In January 2020, the DFC published the [*U.S. International Development Finance Corporation Field Manual*](#) (*DFC Field Manual*) as comprehensive guidance on the process and responsibilities for USAID-DFC coordination. While USAID has yet to capture the *DFC Field Manual* in our Automated Directives System (ADS), all our staff have received it, and it serves as definitive and official guidance on the process and responsibilities for coordinating USAID's development activities with the DFC.

The *DFC Field Manual* includes an overview of the DFC, the processes and procedures for USAID-sponsored and -funded transactions, USAID-DFC coordination, the role and expectations of DFC Liaisons, and co-branding and communications, as well as appendix resources. The section of the *Manual* processes and procedures describes in detail the stages associated with a USAID-sponsored or -funded transaction, including 1) pipeline-development; 2) policy and development review; 3) credit and legal due diligence; 4) funding and the launch of transactions; 5) implementation and evaluation; and, 6) administration.

USAID plans to incorporate into the ADS the guidance contained within the *DFC Field Manual* once we and the DFC have tested its processes and responsibilities properly as we process and implement transactions. The first set of transactions are making their way through the DFC to financial close and should begin implementation in the Summer of 2021. Earlier this month, the DFC's Mission Transaction Unit (MTU) closed its first two USAID-funded transactions—a \$23 million co-guarantee in Bosnia and Herzegovina and a \$15 million co-guarantee in Georgia, both of which encourage access to finance and lending to micro, small, and medium-sized enterprises. These two deals are only the beginning.

We are encouraged by the DFC's robust current pipeline of 66 additional transactions financed or sponsored by USAID, including 41 deals with a medium-to-high likelihood of closing in the next two years that total approximately \$900 million.

In addition to the development of this robust pipeline, USAID and the DFC have made operational changes to ensure greater direct collaboration moving forward, including the following:

- **MTU:** Helped the DFC to establish its MTU as a one-stop shop for any USAID Mission or OU that wants to originate a transaction or use any of the DFC's enhanced set of financing products;
- **Budget Transfer:** Executed a Memorandum of Agreement, managed by the PSE Team in the former Bureau for Economic Growth, Education, and Environment (E3), to transfer the cost-subsidies needed to make investments through the DFC's loan and loan-portfolio guarantees and direct loans to advance USAID's development objectives;
- **Strategic Regional Engagement:** Initiated regular meetings between the leaders of our Regional Bureaus and their counterparts in the DFC's Office of Strategic Initiatives to discuss current deal flow, potential future opportunities, and region-specific economic and political trends and developments;
- **Food-Security Unit:** Funded the creation of the Food-Security Unit in the DFC, through the Bureau for Resilience and Food Security, to focus on agricultural and nutrition deals;
- **Development-Finance Fellows Program:** Established the Development-Finance Fellows Program through which USAID's Foreign Service Officers who have served at least one tour overseas can apply for a domestic tour of up to three years with the DFC in Washington, D.C.; and
- **Staffing Support:** Executed interagency transfers from both Power Africa and Prosper Africa to fund staffing support for the DFC to increase the flow of private-sector deals to advance these programs' respective mandates.

USAID works in close coordination with the DFC to review and update the *DFC Field Manual* regularly, planned to be on a semi-annual basis. By May 31, 2021, we will update and make any necessary changes to the Chapters of USAID's ADS that refer to the former Development Credit Authority, now moved to the DFC. The revised ADS Chapters also will codify our [PSE Policy](#).

- **Target Completion Date: May 31, 2021**

Recommendation 4: Develop a plan on how best to capture and distribute the worldwide knowledge associated with private sector engagement approaches so Missions and staff can better access and share information with each other to learn

and adapt and achieve optimal development results associated with private sector engagement.

- **Management Comments:** USAID agrees with the recommendation.

Since the launch of our [PSE Policy](#), USAID has recognized the need for improved knowledge-management for PSE and already has taken significant steps to strengthen the knowledge-management cycle for PSE so that Missions and staff can access and share information to learn and adapt their PSE programs better.

To this end, the Agency has developed and launched several different knowledge-management platforms:

- ***PSE Intranet Site:*** Described in the Management Comments for Recommendation 1 above.
- ***The PSE Knowledge Exchange:*** Established by the PSE Team, the Knowledge Exchange is an opt-in email group that enables members to crowd-source advice and answers to their most-pressing questions on PSE; gain access to a diverse array of experience, tools, and expertise; and share successes, market-based approaches, and valuable resources directly with other staff worldwide. Since the launch of the Knowledge Exchange in October 2019, the group has grown to 462 members, and has engaged in more than 90 conversations. The PSE Hub within DDI monitors the listserv and, for relevant topics, will collect shared examples into a repository or synthesize them into a tip sheet of “good practices” that it then shares with staff.
- ***Agency-Wide Quarterly Calls on PSE:*** Hosted by the PSE Hub, the quarterly calls enable practitioners to share knowledge, opportunities, and resources. Calls feature updates from senior leadership; insights from the field; and highlights on new mechanisms, tools, training courses, and other announcements. The most recent quarterly call in May 2020 drew more than 250 staff from across the Agency.
- ***Agency-Wide PSE Newsletter:*** The PSE Hub develops and distributes this monthly newsletter, which shares important PSE-related announcements, events, upcoming training courses, stories from the field, and more to a listserv of almost 2,000 staff.
- ***Repository of Memoranda on PSE Due Diligence:*** This compilation of internal due-diligence memoranda of private-sector actors allows our staff to build on existing knowledge when considering new engagements.

Additional Agency-Wide PSE Knowledge-Management Platforms: Several additional knowledge-sharing platforms are available for our Missions and staff to

engage in PSE-related sharing with the development community, including *Marketlinks* on development finance and market systems and *Agrilinks* on agricultural development. Additional Agency-wide newsletters also often share PSE-related knowledge, such as the Feed the Future Partnering for Innovation Updates, the Global Health Innovation and Impact Newsletter, and Power Africa on Medium.

Knowledge-management requires the creation and capture of knowledge to develop new information as well as to identify existing internal knowledge; store, contextualize, and organize knowledge products into accessible repositories, including through quality-control and removing irrelevant material; the sharing and dissemination of knowledge to provide information to users through various media; and the application of knowledge to use evidence and learn. Each OU already has a designated POC, and USAID has a large PSE Community of Practice, both of which are engaged in active sharing across the Agency. Moving forward, USAID will target these key audiences further, as well as regional, sectoral, or other specialized sub-Communities of Practice for more focused sharing and learning for uptake.

USAID already is applying several models and examples:

- **PIVOT Cohort Program (PIVOT):** Described under Recommendation 2 above, PIVOT targets cohort teams in Africa to draw on the expertise of an Agency-wide group of advisors who represent different sectors and specializations. The cohort is a learning network that applies the application and testing of new knowledge to our Missions' PSE priorities.
- **Self-Reliance Learning Agenda (SRLA):** Under the Agency's SRLA, the PSE Team and PPL convened Mission PSE POCs who had identified a PSE-related learning question in their *Country Development Cooperation Strategies* for cross-Mission learning on these efforts.
- **Virtual PSE Learning Summit:** This Summit is currently planned for Latin America and the Caribbean (LAC) in 2021, led by a Steering Committee with representation from the PSE Evidence and Learning Team, USAID's LAC Bureau, and USAID's Missions in the Republics of Colombia and El Salvador. This Summit will serve as a model for field-centered learning events for potential replication in our other Regional Bureaus, and is an example of the PSE Hub's efforts to build the capacity of other OUs to plan, execute, and scale PSE-focused knowledge-sharing events.
- **Learning Series on Development Finance:** This series, hosted online on *Marketlinks*, will explore a different development-finance topic each month. The objective of the series is to build a greater understanding of

development finance across USAID and among development practitioners, as well as share our wealth of knowledge and experience in the topic area.

USAID will build on these many efforts by developing a new, more holistic PSE Knowledge-Management Plan for the Agency by March 31, 2021, including platforms, models, and examples.

- **Target Completion Date: March 31, 2021**

Recommendation 5: Implement a process and timeline for assessing the reliability and accuracy of private-sector partnerships data from prior Fiscal Years. Elements to consider for the assessment could include: (1) the usefulness and reliability of data that are aggregated for PSE results; (2) conducting a review of Mission data submitted as appropriate; and, (3) determining whether to communicate information externally, taking into consideration the completeness and accuracy of data.

- **Management Comments:** USAID agrees with the recommendation.

Information about USAID’s partnerships is an important asset for the Agency, our partners, academic and scientific communities, and the public at large. As indicated in ADS [Chapter 579](#), we increase the value of the data used in our strategic planning and the design, implementation, monitoring, and evaluation of our programs when we make them available throughout the Agency, and to all other interested stakeholders, in accordance with proper protections and redaction allowable by law.

Each year, USAID’s PSE Team (now the PSE Hub within DDI) collects and analyzes Agency-wide information on public-private partnerships (PPPs) through an annual data call. Over the past several years, the Agency has taken a number of actions to improve the process of collecting data on our partnerships and the quality and timeliness of the information. The data-collection process moved from a manual compilation of data in Excel to a more systematic collection in FACTS Info during 2017.

In coordination with the Office of Foreign Assistance at the U.S. Department of State and the integrated-product team for FACTS Info, USAID currently collects and stores our data in the PPP Module of the FACTS Info NextGen System. In addition to aligning with the Agency’s performance-reporting systems, this also has allowed our users to compile and monitor the enter of their partnership data more accurately, and permitted the Agency to aggregate high-level information and metrics on partnerships more easily. Through the incorporation of new fields and the clarification of field definitions, USAID has modified and refined the PPP Module of the FACTS Info NextGen System to promote the collection of higher-quality data over time.

In addition to the above systemic reforms, since the establishment of our [PSE Policy](#) in December 2018, the Agency has made a concerted effort to improve the annual guidance and resources available to our staff. This has included the publication of a revised annual guidance document, an Excel collection template, a system-user guide, and a dedicated Intranet page that compiles all these resources for participants in our data calls.

The Agency agrees that we should assess the historical data currently available in the FACTS Info PPP Module and our external database on partnerships (partnerships.usaid.gov) for accuracy and quality, and will identify and execute a process to do so by September 30, 2021.

- **Target Completion Date: September 30, 2021**

Recommendation 6: Develop a plan for a whole-of-Agency process for collecting, analyzing, and disseminating private-sector engagement data that results in the ability to actively manage private-sector engagement and inform timely decision making. Elements to consider for this improved data-collection process could include data and information related to: (1) programmatic private-sector engagement efforts; (2) the capacity of Missions and staff to engage the private sector; and, (3) private-sector relationship-management.

- **Management Comments:** USAID agrees with the recommendation.

PSE is a broad, and in many cases, new approach to development and humanitarian assistance. “Engagement” might refer to formalized partnerships, but it also could mean less-formal interactions such as convenings and consultations. Similarly, “engagement” might refer to direct discussions with a company, or indirect connections through financial intermediaries or implementing partners. Thus, the landscape for PSE is complex and requires a coordinated approach to collecting and applying data.

Creating intentional linkages between our understanding of programmatic PSE efforts, our Missions’ capacity for PSE, and relationship-management is critical to scale up and integrate PSE throughout the Agency. Therefore, the collection of accurate data in these areas will be a key function of the PSE Hub within DDI.

To this end, the PSE Hub will lead all relevant Bureaus and Independent Offices (B/IOs) across USAID to develop comprehensive and holistic plans for the design and upgrade/creation of three separate, but **highly related, PSE data systems:**

- **The Agency PSE Program Database:** This database would capture and collate all USAID’s PSE activities as defined in our [PSE Policy](#), which would improve significantly the Agency’s ability to manage, monitor, and understand our PSE efforts.

- **Customer Relationship-Management System:** This system would capture and organize data on all the Agency’s relationships and engagements, from local private-sector partners to high-profile corporate partners.
- **Mission PSE Competency Index:** This index would capture data on the competencies in PSE of our staff and Missions to inform and target the Agency’s PSE-related hiring, training, professional development, and performance-management efforts.

Establishing, installing, and refining a whole-of-Agency process for PSE data, as recommended by the OIG, will require time, energy, and resources. To be most effective, PSE-related data systems must complement other Agency-wide systems and workflows, such as the Development Information Solution and FACTS Info, and must account for existing cuff systems in each of these areas currently spread throughout the Agency.

Currently, USAID does not have an enterprise-wide system for private-sector relationship-management (PSRM). The PSE Hub, the Office of the Chief Information Officer, Prosper Africa, and other relevant USAID OUs are exploring different options to build or purchase an enterprise solution for customer relationship-management (CRM). The goal of the CRM solution would be to enable the Agency to collect, analyze, and disseminate data and information on programmatic, capacity, and relationship topics that are central to our ability to manage engagements effectively with the private sector and inform timely decision-making. We expect the CRM solution to create a singular portal for tracking the Agency’s relationships with private-sector entities worldwide, while eliminating informational silos and improving visibility, particularly on relationships that span multiple OUs.

By September 30, 2021, the Agency will complete a PSE Data Plan and procure and implement the three data systems listed above.

- **Target Completion Date: September 30, 2021**

Recommendation 7: Clearly document in guidance to Missions and Bureaus an Agency approach to identifying and implementing consistent, useful metrics that further the Agency’s goals for private-sector engagement.

- **Management Comments:** USAID agrees with the recommendation.

This recommendation aligns with our [PSE Policy](#)’s fourth Operational Principle, which commits USAID to “act on the evidence of what works, and what does not, in PSE.” To support this principle, USAID developed an Agency-wide [PSE Evidence and Learning Plan](#), published in May 2019, which calls for the creation of meaningful indicators to measure PSE. We acknowledge that, although

“dollars leveraged” has long been the primary indicator to define successful PSE at USAID, it is not the most meaningful metric for assessing development impact.

The PSE Hub is currently developing guidance and new indicators through collaborative efforts with Agency staff that will expand USAID’s current measurement of performance toward PSE and development goals. This process has included active feedback from teams examined as part of this audit. For example, Power Africa has been providing feedback on, and testing, new tools, and the Bureau for Global Health is reviewing existing partnerships to understand the best approaches and potential barriers to the successful adoption of the new indicators.

As described in our [PSE Evidence and Learning Plan](#), the PSE Hub is developing a PSE *Indicator Handbook* for both internal USAID staff and external business partners, which will follow the PSE Data Plan mentioned above. The *Handbook*, which will exist on a user-friendly virtual platform, rather than be a large, text-based document, will provide clear guidance to our Missions and Bureaus on a corporate approach to using consistent, measurable metrics that further the Agency’s goals for PSE.

Draft indicators and monitoring tools on PSE are already available for internal feedback. A complete *Indicator Handbook* on a virtual platform will be available by September 30, 2021, and we will incorporate these indicators into the Agency’s appropriate existing reporting systems, in alignment with our forthcoming PSE Data Plan.

- **Target Completion Date: September 30, 2021**

In view of the above, we request that the OIG inform USAID when it agrees or disagrees with these Management Comments.

APPENDIX C. MAJOR CONTRIBUTORS TO THIS REPORT

The following people were major contributors to this report: James Charlifue, audit director; Matthew Rathgeber, audit director; Emily Gardiner, assistant director; Abdoulaye Gueye, assistant director; Esther Park, assistant director; Jacob Rutz, lead auditor; Fawad Aslam, auditor; Tanner Horton-Jones, legal counsel; Eve Joseph, auditor; Sally Pabello, auditor; Laura Pirocanac, writer-editor; Karen Sloan, communications officer; and Mary Vanagas, auditor.