



Expanding Opportunities Worldwide

Private Sector Engagement Toolkit



**Developing
Meaningful
Milestones**

January 2021

About this Series

The Private Sector Engagement (PSE) Toolkits draw upon insights from USAID guides, ACDI/VOCA staff experiences, and other PSE resources.

The toolkits are intended to be living documents and will periodically be updated.

Using Milestones

ACDI/VOCA activities that focus on market systems often include a Partnership Fund to provide direct grants to private sector firms and other local actors to support a range of activities that will lead to systemic changes in targeted market systems. These firms also co-invest their resources in activities. Some of the desired goals behind these grants include:

1. Encouraging the private sector by de-risking investment in pilot innovative technologies and business models to address systemic constraints limiting smallholder farmers' access to inputs, services, and markets.
2. Mobilizing private sector resources to scale up proven business models and technologies to accelerate transformation of market systems across the agriculture sector in a targeted geographic area.
3. Promoting inclusiveness through piloting business models and technologies that integrate and empower women, youth or other groups that are often marginalized from the market system, replication of successful business models and technologies in sectors where there is a preponderance of women and youth, and in areas dominated by ethnic communities.
4. Bridging a gap in financing due to insufficiency of resources or collateral of the proponent in combination with other financial products.

Private sector perspective on pay-for results-based grants:

The private sector prefers outcome-based agreements when working with development firms for several reasons:

1. Performance-based milestones established at the outset of the partnership allowed both USAID and the companies to remain focused on commercial outcomes rather than process.
2. Investments are tailored to companies projected expansion costs. The structure of the financing and payment allocation does not distort financials or core business operations by providing too much funding or too little.
3. The finite nature of a partnership, coupled with activities that directly support the company's efforts to expand a new technology or service in a market, provides strong incentive for companies to reach commercial viability by the end of a partnership.
4. Companies raised or invested their own funding to match USAID investment, which strengthened internal commitments and allows for the pursuit of activities in the most cost-effective manner.

A key finding from previous Partnership Funds is structuring the grant agreements around milestone payments – or more broadly known as “paying for results.” Milestones are a series of periodic targets

that will **demonstrate** the private sector partner is making progress toward the desired impact. Once a milestone is achieved, the partner receives a portion of the grant funding. Milestones establish a **vision** for what you and the partner want to achieve, while giving partners the **flexibility** with regards to how they achieve certain **outcomes**. In addition, milestones should also be designed in a way that fosters viability and good business strategies, helping the company become more successful.

Milestones must be based on **concrete achievements** of key outcomes and contribute to the impact and sustainability of subaward activities. Milestones have two parts:

1. **Results** to be achieved, deadline, and portion of the grant that will be paid out upon reaching that milestone.
2. The **means of verification** (MOV) that describes the documentation the partner must submit for a milestone to be approved and paid.

MOV provides clarity and specificity for achieving intended business and development goals. By eliminating confusion and misinterpretation, MOV are a crucial component of negotiating effective performance-based milestones.

Milestones result in benefits for the donor and the private sector through:

- **Establishing clear expectations** with clearly negotiated results, milestone deadlines, and means of verification for each milestone. This is particularly helpful for firms that may not have received donor funding before.
- **Flexibility:** Allowing partners to adjust the way they respond to challenges and achieve their overall goals.
- **Lower Donor Risk:** Payments are tied to the achievement of agreed upon outcomes.
- **Reduced Reporting Requirements:** All reporting information is extracted from documentation a company must submit as part of the milestone submission process.

“The milestone-based agreement was wonderful, it made it easy to manage the project. And since milestones and means of verification were agreed on in the beginning, we had absolutely no issues around meeting expectations. A project manager’s dream!”

—Project Manager from a company in Kenya

Developing Milestones

When developing milestones, think of a chocolate cake! If you just ask for a chocolate cake, you might not get what you want. Instead, you need to specify how many layers the cake should have, what flavor frosting you want, and if there’s cream filling or coconut sprinkled on top. Likewise, milestones need to be clearly defined descriptions of specific, measurable deliverables.

The following guidelines will help ensure that effective milestones have been developed. Note that to the extent possible we should be collecting sex-disaggregated data per the ACDI/VOCA GESI policy (and other disaggregates) which needs to be clearly communicated to the partner at the beginning:

- Milestones reflect **alignment** between the two partners and demonstrate what we can help a company do that they would not be able to achieve without our support.
- Milestones should be **linked to broader systems change** we want to see in the market.
- Focus on the **most important outcomes** of the partnership, rather than the activities that lead to those outcomes.
- Limit the number of milestones to **no more than 12** in a partnership agreement or it becomes hard to manage.
- Consider **inclusion-specific milestones** that make the business case for gender and social inclusion outcomes.
- Consider including milestones that make the business case for nutrition outcomes.
- Look to incorporate inclusion and development metrics into **MIS/CRM systems of companies** to incentivize them to value data and collect sex-disaggregated data to analyze preferences or purchasing patterns between men and women.
- Balance partners' **cash flow needs** with the alignment of when commercial and development goals are happening.
- Milestones with the **most impactful results** including sales, number of farmers reached, or outcome associated with addressing a systemic constraint should be **associated with the highest payment**.

Below are also some tips and tricks for managing milestone conversations:

It can be time-consuming and challenging upfront for you and the partner to agree on what the major milestones should be and appropriate stage-gated funding for each. However, with good coordination, communication, and shared understanding, over the course of a longer-term grant period a milestone table can be co-developed and followed. A few helpful tips:

- Be clear and consistent in communications including what you expect of the partner.
- Put yourself in the perspective of the private sector and seek to understand their value proposition.
- Don't be afraid to negotiate! The private sector will push hard to get what they want, so it's up to you to ensure shared risk and alignment.
- Don't go into negotiations assuming that businesses are interested in "women's empowerment." Present gender and social inclusion as a viable business opportunity using "business speak" instead of "development speak." Present partners with the business case

and/or targeted and context-relevant evidence and data; don't present project targets on gender/youth targets as talking points.

When to Negotiate Milestone Changes:

It is nearly impossible to predict progress and obstacles for a new business model or innovation; inevitably the milestone table developed at the start of the award will need adaptation. Therefore, building in flexibility for pivoting and efficient award modifications for timeline and milestone changes is critical. Here are some factors that might lead to negotiating milestone changes:

- Current milestones are not capturing the intended purpose of the partnership
- The commercial and/or development impact included is either less than, or more than can be realistically achieved
- Making the business case for gender and social inclusion and/or improved nutritional outcomes is not integrated into the design of the partnership
- The milestones don't contribute to the project's systemic change goals and/or can't be measured
- Incentives don't align with key points of commercial or development impact

Milestone Plan Example:

Milestone Plan Example (1 of 2)

No.	Milestone Description	Weight (%)	Value (\$)	Justification
1	Milestone: work/business plan completed and submitted for approval.	10%	\$10,000	As a key implementation tool that will help the AG Seed LLC plan activities for the duration of the partnership, the workplan/business plan is 10% of the total budget. In addition to setting up the overall schedule, the work plan/business plan milestone provide start-up funds for AG Seed to begin project activities.
2	Milestone: production records, demonstrating 50MT produced over three months, submitted for approval.	7%	\$7,000	As soon as the workplan/business plan is set, AG Seed LLC must begin production of the certified tomato seed for sale. Since production is a precursor to sales, AG Seed LLC will begin by producing 50 MT, which is approximately 30% of total production required under this activity. As a whole, production milestones will make up 15% of the total budget; this first production milestone is accordingly weighed at 7% of the overall budget.
3	Milestone: sales records indicating sales of AG Seed certified tomato seed sold to 200 smallholder farmers submitted and approved.	5%	\$5,000	With product on hand, AG Seed LLC will begin to sell in the market. This subaward includes four sales milestones, which increase sales targets incrementally, and equal 40% of the overall budget. This first sales milestone begins at 5% of the total budget.
4	Milestone: production records, demonstrating 100 MT (cumulative 150 MT) produced over six months, submitted for approval.	8%	\$8,000	AG Seed LLC will complete their second production milestone in preparation for further sales. They will double production to 100 MT to reach their production requirement under this activity. As such, this milestone is weighed at 8% of the overall budget.
5	Milestone: sales records indicating sales of AG Seed certified tomato seed sold to 400 smallholder farmers (cumulative 600 smallholder farmers) submitted and approved.	10%	\$10,000	As the second sales milestone, this doubles the sales target and is weighed at 10% of the total budget. As a key indicator of commercialization – i.e. access and adoption of technology – this sales milestone begins to inform both the AG Seed LLC and Partnering for Innovation about the business's financially status and progress towards their break-even point.
6	Milestone: customer/farmer impact survey conducted and submitted for approval.	5%	\$5,000	The impact survey will collect data on target customers and the impact of the activity in the market to inform AG Seed LLC of the market response to their product. As a mid-activity milestone, when sales and market demand are growing, this will be an informative tool on product health. The milestone is valued at 5% of the overall budget.

1 Initial milestones provide start-up funds and set the activity up for success

2 Milestones linked to businesses processes

3 Milestone that aligns with key indicator of commercialization and dev't outcome (multiple milestones)

Milestone Plan Example (2 of 2)

No.	Milestone Description	Weight (%)	Value (\$)	Justification
7	Milestone: sales records indicating sales of AG Seed certified tomato seed sold to 1,600 smallholder farmers (cumulative 2,200 smallholder farmers) submitted and approved.	10%	\$10,000	As the fourth sales milestone, the sales target here is again increased, this time by four times the previous target. As such it is weighed at 10% of the total budget. As a key indicator of commercialization – i.e. access and adoption of technology – this sales milestone will further serve to inform both the AG Seed LLC and Partnering for Innovation about the business's financial status and progress towards their break-even point.
8	Milestone: AG Seed facility completed and operational.	10%	\$10,000	Construction activities must meet safety and quality standards. For AG Seed, construction of the facility is critical to the success of the partnership and ongoing scaling of activities. Given the importance and expense of the construction activity, the construction milestone is valued at 10% of the total budget.
9	Milestone: sales records indicating sales of AG Seed certified tomato seed sold to 3,000 smallholder farmers (cumulative 5,200 smallholder farmers) submitted and approved.	15%	\$15,000	The sales target here is again increased, this time by double the previous target. As such it is weighed at 15% of the total budget. At this point, sales data collected will be used by Partnering for Innovation to determine the rate of return of the program's investment.
10	Milestone: final leverage report completed and submitted for approval.	10%	\$10,000	The final leverage report is required by Partnering for Innovation to hold AG Seed LLC accountable for completing their private sector investment. Given the importance of demonstrating the subawardee's investment, the milestone is weighted 10% of the total budget.
11	Milestone: investor readiness profile completed and submitted for approval.	10%	\$10,000	30% of the total subaward is reserved for the final milestone. The final milestone is designed for AG Seed LLC to prepare for further investment following the partnership. This milestone requires the AG Seed LLC to develop materials necessary for investors or banks to enhance company's presence in the market and support their commercial sustainability.

- ★ *Incentivizing businesses to complete investment critical to their success*
- ★ *Achievement of key activity result (reaching 5,200 smallholder farmers) weighted the most. The final milestones are also a good opportunity to focus on inclusion targets.*
- ★ *Final milestone can be used to support the firm in continuing to pursue and grow new model*

Additional Resources

- [Setting, Pricing, and Administering Performance Metrics in Pay-for-Results Programming](#)
- [Pay for Results in Development: A Primer for Practitioners](#)