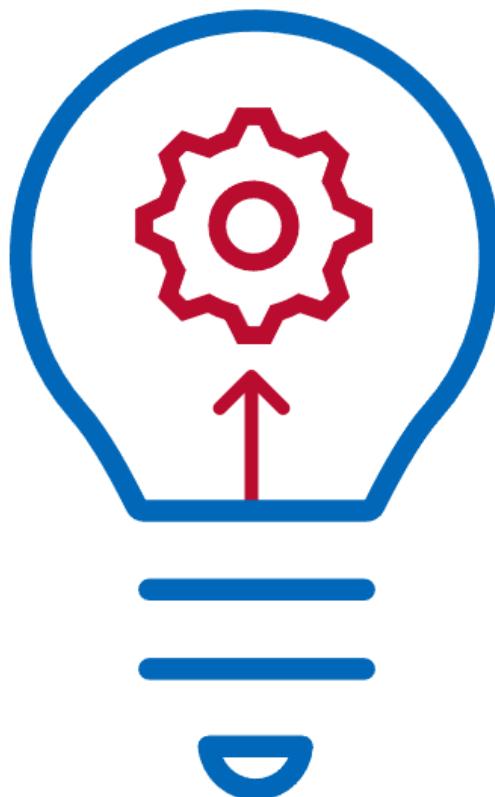




USAID
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PSE Opportunities Tool

**A resource for identifying opportunities for PSE in Activity Design
for Development and Humanitarian Activities**



The PSE Opportunities Tool

The PSE Opportunities Tool is designed to help identify opportunities for PSE in addressing your development or humanitarian challenge. This tool interprets each of the 5 PSE Policy Questions and provides sub-questions to stimulate ideas, discussions, and creative ways to think about and identify market-based and commercially viable PSE opportunities. Detailed guidance and suggested data sources for all sub-questions can be found in the PSE Opportunities Tool's User Guide. Examples of completing the tool can be found in the Use Cases. And a template for completing this analysis is also available.

PSE Policy Questions:

Starting Point – What is your development or humanitarian challenge?

Question 1: Can the Private Sector Solve this Problem by Itself?

a) What is needed to solve your development or humanitarian challenge?

Think about the **inputs, outputs, or outcomes** that are essential for solving the challenge, or the main product or service in the critical market system identified for emergency response, risk reduction, or early recovery. These could be tangible items like improved seeds or pharmaceuticals, or services such as insurance, private education, or ecotourism packages, or it could be jobs or clean water. There could be many options in multiple sectors or different population groups.

b) Are there any private sector actors that can help solve some or all of this challenge?

The solution to the challenge may not be the same as what the private sector produces - e.g., the solution may be to create more jobs for young people and you have determined that the private sector actors in the garment sector are best placed to provide those jobs. If the private sector is not active or interested in solving this challenge, it does not necessarily mean that there is no opportunity for PSE. You may want to examine Question 3 closely to see if you can identify a market interest for the private sector in this solution. If not, this may not be a good opportunity for PSE.

c) If there are active private sector actors, what has been their experience in participating in the solution you've identified to the challenge? Has their participation, or business, been growing steadily in recent years? Are they reaching USAID's intended beneficiaries?

If the private sector is already engaged in providing products/services that solve your challenge or address your humanitarian needs, and if their business is growing steadily, it may be that the private sector is poised to solve this problem on its own and there is no need for USAID's involvement. Proceed to Question 2 to see if the private sector is reaching the target beneficiaries, or proceed to Question 4 to see why they are not solving the problem on their own.

Question 2: Could there be a Market-Based Approach to Addressing this Challenge?

a) Who has to buy, use, or access these items or services offered by the private sector, that may help in solving this challenge?

This could be individuals (e.g., recipients of socially beneficial products), or business associates such as suppliers, agents, or distributors (e.g., providing them with improved incomes and opportunities). It could also be the government, schools, health facilities, etc.

b) Do these target groups want the items or services provided by the private sector that would help solve your challenge? Why are these items/services in demand?

If no, there may not be a market-based solution to this problem. In some circumstances, it may be worthwhile to build awareness and demand for these items/services, or to pilot these items/services to test if there is demand. This

approach likely entails a certain amount of risk and patience. In this case, discuss the possibilities with the private sector and examine the market drivers as you proceed with the tool. If not, exit the tool and examine other ways to provide the needed items/services to solve the development or humanitarian challenge.

c) Do you have any reason to believe the target groups would be willing and able to pay for this item/service?

If no, there are many items/services that potential beneficiaries need or want, but are not willing to pay for (e.g., online data privacy, jobs). In disasters, the target population's ability to pay is often affected (because they have less money or are unable to access markets). These questions examine the commercial viability of a private sector engagement in providing these items/services and willingness to pay is just one angle. In Question 3, examine if the private sector can still provide these items/services in a commercially viable way even if consumers are not willing/able to pay. Alternatively, addressing this issue may be a role for USAID to play (consider this in Question 5).

d) Is the current price of this item/service equal to or lower than what target groups are willing and able to pay?

If yes, this could indicate a commercially viable and market-based solution. **If not**, there may still be a market-based solution if constraints facing the private sector are removed to lower the price (see Question 4). If that is not feasible, then there may not be a market-based solution in the short-run and this is not a good opportunity for PSE.

e) What other market drivers may be influential in the supply or demand of this item/service?

Key considerations may include competition, comparative advantages, government policies, global trade patterns, consumer preferences and knowledge, change in technology and people's access to technology, supply chain and sourcing advantages, product and technology standards, etc. Consumer preferences may vary by different groups.

Question 3: What are the Roles and Interests of the Private Sector in Addressing this Challenge?

a) What are the private sector interests in solving this challenge?

If the private sector interests include philanthropy or even CSR, there is still an opportunity for PSE. However, the PSE Policy is encouraging engagements that enhance the competitiveness of the firms since these strategies tend to be more sustainable. Before proceeding, you may want some assurances that there is no more sustainable way to engage with the private sector.

b) What are the long-term business goals for these private sector actors and how does that relate to your development or humanitarian challenge?

c) What advantages would the private sector bring towards solving your challenge? Why might working with them be better than other modalities/mechanisms that USAID has access to?

Question 4: Are there Factors Constraining the Private Sector from Involvement and Investment?

a) What are the most significant issues that constrain the private sector actors you identified in Question 1 (or the companies you are interested in)?

Consider the appropriate lens for the constraints. Constraints could be those that affect the entire economy, or it could be a constraint that is much more geographically narrow (e.g., only affects a sub-national region such as a crisis area) or one type of consumer (e.g. the ability to reach male vs. female consumers). Additionally, sectors may face specific constraints that are not seen economy-wide.

Government Failure	Incomplete Markets	Information Failure	Imperfect Competition	Missing Inputs	Externalities	Exclusion
Poor property regulations or weak enforcement	Lack of access to finance Coordination failure in supply chains or industries	Limited transparency First mover disadvantage Limited adoption of modern practices	Barriers to entry	Lack of basic infrastructure Poor workforce health and education	Detrimental environmental practices	Discriminatory formal and informal institutions

b) Why is the private sector interested in working with USAID? What do they want from USAID?

Question 5: Is There a Role for USAID to Help Alleviate or Eliminate these Constraints?

a) How is your proposed approach responding to a constraint identified in Question 4?

If not addressing a constraint, there is a chance you are subsidizing or supporting the private sector in a way that may not be the best use of USAID funds or expertise. However, some interventions may be necessary in circumstances where the private sector needs help developing, before they can be actively engaged with USAID in solving the challenge. Private sector development may be an intermediate step to longer-term PSE strategies.

Note: There are many examples of private sector engagement strategies listed for each constraint in the [User Guide](#).

*If you are considering providing **funds** to support a company (e.g., financial additionality):*

b) Does the company/ies have sufficient funds to self-finance the project (within a reasonable timeframe)? Does the company/ies have access to capital on suitable terms or quantities through the conventional marketplace?

If yes, do not finance and seek alternative ways to engage (for example, facilitating access to finance).

*If you are considering providing **knowledge or technical assistance** to a company or group of companies (e.g., non-financial or ecosystem additionality):*

c) Does the company/ies truly lack this knowledge or competencies to design, scale, and/or implement a business model in a way that has an impact on your development or humanitarian challenge?

If no, do not provide knowledge or technical assistance and seek alternative ways to engage.

d) Would any of these engagements have the potential to improve the efficiency and competitiveness of a large number of local firms in the long run?

Note: this is especially relevant if you are advocating for a policy change, or helping to provide missing inputs such as infrastructure or health and education. **If no**, there are some partnerships that will not necessarily increase the competitiveness of a large number of firms but provide the desired development or humanitarian outcome at scale. However, examine this partnership closely to see if there is not a way to achieve this.

e) Is this engagement likely to displace other companies already operating or ready to enter the market?

If yes, there is reason to believe that the private sector is poised to solve your challenge themselves, in which case there is no need for USAID's involvement. If USAID's involvement gives a competitive advantage to a small number of players at the expense of other companies, then look for ways to benefit more companies in the market.

f) Does this work duplicate the work of other donors?

If yes, there may be no need for USAID's engagement or you need to find an alternative or complementary way to work with the other donors.

g) Have these companies worked with other donors in the past to solve this challenge, especially in this country?

If yes, do you have any reason to believe it will be more sustainable this time? This may be less relevant for humanitarian responses.

h) Sniff test - Would a skeptical (but reasonable) observer find your argument convincing that you are not subsidizing the private sector?

Next Steps:

Once you have an engagement strategy in mind, you may want to:

☒	Begin detailed conversations with the private sector partner(s) you have in mind for this engagement
☒	Explore what mechanisms are available to you for this engagement
☒	Be in touch with your M/B/IO PSE team and/or the PSE Hub for questions on how to structure the partnership.