



TOWARDS TRANSFORMATIONAL IMPACT: SYNERGIES OF PSE AND MSD



USAID is at a pivotal crossroads in the Agency's efforts to advance more enterprise-driven, market-based approaches across its portfolio that lead to locally-led solutions for sustainable, scaled, and inclusive outcomes. Private sector engagement (PSE) and the market systems development (MSD) approach are both key to advancing this agenda and delivering this impact at scale.

This brief offers insights into how PSE and MSD can contribute to transformational impact, with a focus on opportunities for more intentional, strengths-based collaboration and learning. It is intended as a launchpad for additional initiatives that offer targeted guidance and case studies, build capacity, and strengthen networks.



Key Takeaways

- PSE and MSD objectives can intersect in the ambition to drive transformation—systemic change that produces scaled, sustained results—and a shared embrace of the private sector as pivotal actors in catalyzing and investing in this process.
- Aiming for transformational impact, there are opportunities to build on respective strengths— e.g., MSD can leverage PSE's strengths in corporate relationship management, diverse investment, and partnership strategies; PSE can leverage MSD's strengths in systems analysis, replication strategies, and metrics beyond dollars leveraged.
- Important nuances remain in how PSE and MSD interpret and implement for transformation; understanding this can enhance effective collaboration and learning.

It is important to acknowledge that PSE and MSD are not equivalent approaches. As presented below, MSD is a more narrowly defined and applied approach. While PSE is also a concrete approach that involves firms of all sizes, it takes many forms, has already achieved broad cross-sectoral application, and has expansive influence at USAID. Yet, the practice of engaging the private sector is also reflected in many other approaches, including MSD. Thus, the lines between PSE and MSD can be blurry, and elements of both approaches are often intertwined within and across activities.




TOWARDS TRANSFORMATION: A SHARED AMBITION

PSE and MSD can intersect around a common ambition to drive transformational impact through engagement with the private sector. As explored more below, there are opportunities to nurture this intersection further. While transformation has always been the explicit focus of MSD, within PSE the intention away from one-off transactions towards transformation has increased over time and is evolving. USAID's approach to engaging the private sector formally began with establishing the Global Development Alliance mechanism over two decades ago, focusing on appealing to private sector corporate social responsibility interests. In these early days and beyond, engagement was more ad hoc and opportunistic. Over time, USAID has increasingly approached PSE as a means to an end, with the ultimate goal of unlocking private sector constraints to involvement and investment in areas that held shared business and development value, eliminating the need for development assistance long term. The 2018 PSE Policy squarely signals the Agency's intention to use PSE as a core approach across its development and humanitarian work and foster transformation. This brief focuses on PSE practice oriented towards transformation.

What exactly is meant by transformation? This often-used term is rarely defined, often debated, and has different interpretations, but generally, qualities of transformation include the interrelated elements of **scale, sustainability, and systemic change.**

Transformational Impact Is a Shared Priority for PSE and MSD

PSE and MSD share many common tactics to achieve transformational impact, including a focus on **shared value** where core business objectives align with development goals. This requires crafting a value proposition for change by leveraging aligned incentives of market actors, often through **co-creation and co-investment.**

 Scale	 Sustainability	 Systemic Change
<p><i>How many benefit?</i></p> <p>The relative size of impact from an activity, compared to other activities & dollars invested. A subjective concept.</p>	<p><i>Will it last?</i></p> <p>A system's ability to produce valued results, generate or attract needed resources, & be resilient to changing circumstances.</p> <p><small>(Adapted, USAID PSE: Market-Based Approaches, 2021)</small></p>	<p><i>Are things fundamentally different?</i></p> <p>Deep shifts in a system's underlying structure (e.g., networks, organization,) & predominant behaviors of individuals & groups.</p>




Yet in diving deeper, there are also important nuanced distinctions between how PSE and MSD approach these qualities or elements of transformation. Understanding these nuances can be an essential foundation for discovering relative strengths, the focus of a latter section. The next section offers a brief overview of PSE and MSD and explores key features of each approach through the lens of the qualities PSE and MSD contribute to advancing transformation.

PSE CONTRIBUTIONS TO TRANSFORMATION

As USAID's [PSE Policy](#) states, **"PSE is 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."** PSE aims to channel enterprise resources, expertise, technology, and influence to address development or humanitarian problems. PSE leverages USAID's convening power, relationships, and technical know-how to co-create market-oriented solutions with private sector partners, generating shared value. Useful PSE tactics that can contribute to transformation include:

- **Generating alignment** on engagement objectives, partner roles, resource contributions, and activities through effective co-creation during the partnership design phase.
- **Fostering good relationship health** to build trust and willingness to work through challenging situations together, which increases the likelihood of achieving results.
- **Conducting strategic opportunity identification** so that USAID is working with partners, or a coalition of partners, most likely to drive systemic impact and focus on the most strategic activities.
- **Determining USAID's role is additional** before deciding to engage in order to justify that the partner could not carry out the initiative without USAID's support and complementary strengths.
- **Leveraging the influence of power brokers within the market system** to attract and facilitate private investments that will bring sustained benefits to target populations.

Table 1: PSE’s Relationship to the Elements of Transformational Change

Elements of Transformation	PSE
 <p>Scale <i>How many benefit?</i></p>	<p>In PSE, scale is often achieved through the significant influence that partner firms have on their supply/marketing chains or partners in the pre-competitive space. Scale is often assessed as a measure of the number of actors (e.g., firms, suppliers, and consumers) that benefit from the intervention with a firm or group of firms at the end of USAID’s involvement or from industry-level changes (e.g., sourcing standards and child labor) achieved through multi-stakeholder alliances.</p>
 <p>Sustainability <i>Will it last?</i></p>	<p>In PSE, sustainability hinges upon effectively linking business success—growth, profitability, and risk mitigation—with substantiated benefits to target populations, such as new markets for small and medium enterprises or increased farmer incomes. Successful partnerships will result in business practices or investments continuing beyond USAID’s support, with sustained benefit accruing to target populations and the economy. For examples and lessons learned on sustainability in private sector partnerships, see USAID’s Enduring Results Study 3.0.</p>
 <p>Systemic Change <i>Is it fundamentally different?</i></p>	<p>Strategic engagement can shine a light on systemic factors that constrain private sector involvement and investment. While acknowledged as good practice, the explicit focus on systemic change is not yet as widely adopted in PSE; it is currently more common in multi-stakeholder alliances. By identifying the leverage points within a system, USAID as a neutral broker can help to align interests and to build coalitions between the private sector, government, and civil society. Coordinated action among market actors can pave the way for the private sector to take on new system functions while advancing commercial success.</p>

For more on PSE, see USAID’s [PSE Policy](#), [Partnerships in Agricultural Value Chains](#), [PSE in Fragile and Conflict-Affected Situations Primer](#), insights on [Multi-Stakeholder Initiatives](#), and dozens of PSE [examples](#).

MSD CONTRIBUTIONS TO TRANSFORMATION




The goal of the MSD approach is to catalyze more competitive, inclusive, and resilient market systems. To do this, practitioners use a systems lens to “**engage with local market actors (both businesses and governments) as partners to bring about enduring changes in incentives, rules, norms, or supporting functions of the system. When this works, the impact is more likely to achieve both scale and sustainability.**”¹ The MSD approach integrates:

- **A strategy that targets root causes** (instead of symptoms) of low competitiveness, inclusion, and resilience, is informed by iterative analysis that embraces diverse perspectives, and identifies areas of leverage that allow investments to have outsized development impacts.

¹ Osorio-Cortes L. & Albu M. The results achieved by programmes that use the market systems approach: a narrative synthesis of current evidence. BEAM Exchange, 2021. Accessed from <https://beamexchange.org/resources/1543/>.

- **Facilitation tactics that work with and through** stakeholders with permanent roles in the market and leverage their incentive, capacity, and influence to catalyze positive change in behaviors, minimizing an activity’s direct delivery of services.
- **An emphasis on adaptive management and monitoring, evaluation, and learning (MEL)** to test new models, take action under uncertainty, learn and adapt quickly, and embrace [complexity-aware MEL](#).

Table 2: MSD’s Relationship to the Elements of Transformational Change

Elements of Transformation	MSD
 <p>Scale <i>How many benefit?</i></p>	<p>In MSD, scale tends to be assessed proportionally—for example, of all the input suppliers in the market, what percent have adopted an improved customer-centric business model and how many farmers in a region are benefitting? Is this approaching a tipping point threshold for change across the industry?</p> <p>MSD embraces many pathways to scale, including actively seeking to spur a competitive market response by other firms by supporting a demonstration effect and amplifying positive behaviors and successes. For more, see Reconsidering the Concept of Scale in Market Systems Development, which explores scaling strategies through systemic change.</p>
 <p>Sustainability <i>Will it last?</i></p>	<p>Like PSE, sustainability in MSD can be identified in the viability of a business model, indications of additional co-investment, and continued engagement. There is also a strong linkage to stakeholder ownership in driving and iterating change, consistent with the core MSD principle of facilitation. Sustainability is achieved by working through market actors rather than taking a direct role, planning for exit strategies from the outset, and focusing on strengthening capacities at the systems level to respond to new opportunities and risks. MSD takes a patient approach to achieve results, reducing risks that gains are temporary.</p>
 <p>Systemic Change <i>Is it fundamentally different?</i></p>	<p>Systemic change is an explicit focus in MSD. Sustained, scaled outcomes (e.g., increased incomes, firm and industry growth, employment, and women’s access to services) are viewed as most achievable through strategies that target shifts in the underlying network structure (e.g., how a market is organized and the diversity and connectivity of players within it) and business and social norms. MSD’s emphasis on adaptation and learning is strongly linked to the complexity of systems and how they change. As A Pragmatic Approach to Assessing Systemic Change explores through practical examples, MSD regularly employs a diverse, ever-growing set of tools to monitor systemic change.</p>

For more on MSD, see [USAID’s Inclusive Market Systems Framework](#), several short animations on the [approach](#), and [implementation examples](#).

FROM ASPIRATION TO ACTUALIZATION: BUILDING ON RELATIVE STRENGTHS TO DRIVE TRANSFORMATION

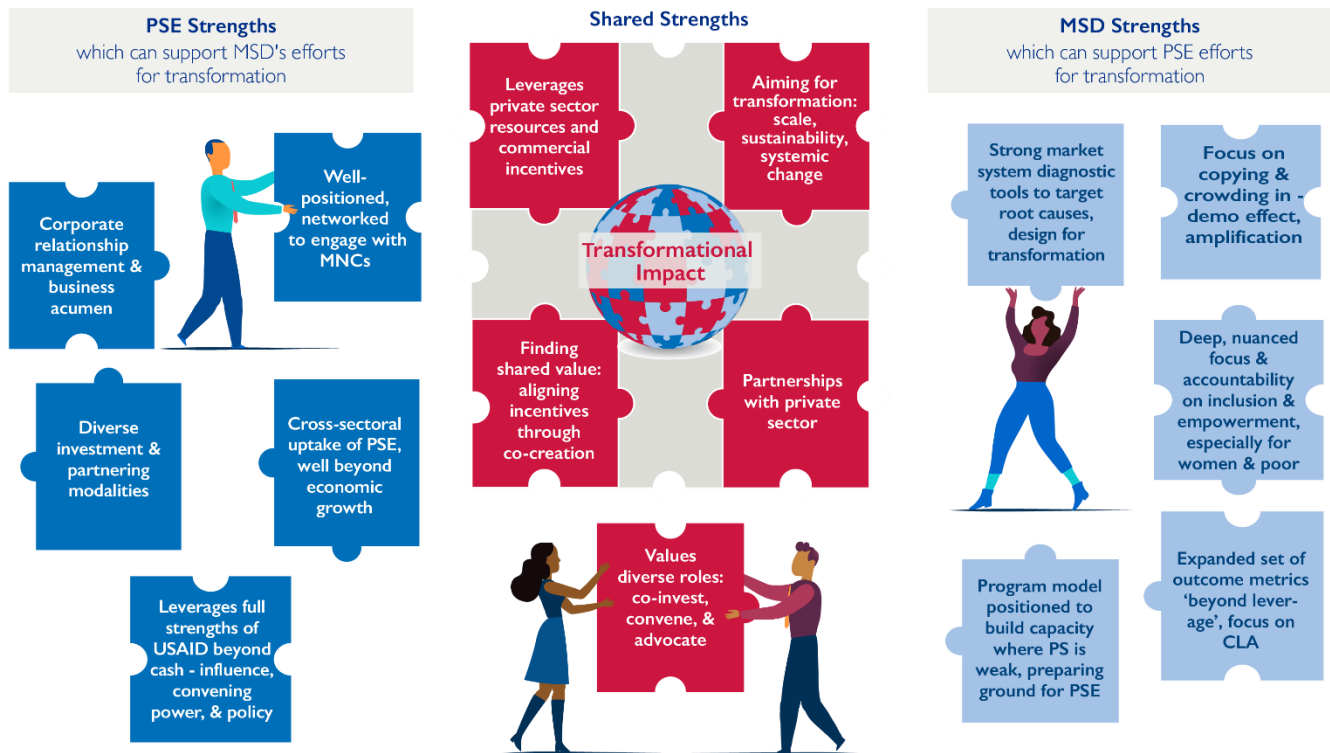
As both PSE and MSD approaches advance their aspirations of achieving transformational impacts with greater consistency, there are opportunities to leverage the strengths of each approach. The figure below highlights a number of these opportunities or pieces of the transformation puzzle. It does not suggest merging two approaches into one, but rather a more intentional exchange of tactics, modalities, and learning to advance the

ambition and opportunity that both PSE and MSD approaches offer to facilitate transformational impact. The goal is for each approach to internalize the appropriate strengths of the other to the point where they are shared strengths. Several examples follow as illustrative starting points.

Getting to Transformational

A Strengths-Based View of Opportunities for Intentional Learning Between MSD and PSE

*The purpose of this visual is not to suggest a merging of two approaches into one, rather the purpose is to highlight **opportunities for intentional learning and exchange** that can advance both the ambition and opportunity of both approaches to facilitate transformational change.*



For example, embracing PSE’s robust, diverse menu of catalytic investment and partnering strategies, corporate relationship management tactics, and access to multinational corporations and industry leaders can help MSD programs enhance and right-size more sophisticated partnerships. Building upon PSE’s business acumen and ability to foster trust and overall [relationship health](#) among private and development partners can help MSD practitioners better speak commercial language to understand root causes, align incentives and draw in a wider range of vested stakeholders that can be leveraged as part of a systems change effort.

Likewise, MSD has a range of market system diagnostic resources that can be adapted to deepen the systemic focus of the strategic opportunity identification process that grounds many PSE efforts. In addition, MSD programs typically utilize diverse methods to [monitor and assess](#) a range of outcomes at the firm, target population, and system level, which can support PSE priorities to move beyond measuring dollars leveraged. Another MSD strength is the differentiated approach to inclusion, with a particular [emphasis on women](#), and tools for making the business case, finding shared value, practical partnership activities, and links to empowerment. The growing attention to gender-lens investment is an emerging, exciting space of shared growth.

REALITY CHECK

Acting on these strength-based opportunities will entail awareness, cross-pollination, experimentation, and peer exchange among PSE and MSD communities at USAID and its implementing partners. In pursuing this, it is helpful to acknowledge and even embrace some typical distinctions in the operating environments for PSE and MSD. This strengthens the understanding of where one approach might be more appropriate than another, as well as the broader set of influences that will shape how practitioners prioritize their time, uptake new practices, and design and manage activities. Some of these distinctions include:

- **USAID's Position:** To leverage the Agency's and firm's convening power and influence, PSE often desires high donor visibility. The MSD approach, however, often seeks to minimize USAID's presence in order to promote local ownership and avoid distorting market dynamics.
- **Scope for Capacity Building:** Typically in PSE, USAID and the private sector bring generally equal and complementary assets to any given alliance—each expert in its own domain. In MSD, a key objective is often to strengthen a firm's management capacity or competitiveness, and technical assistance is typically offered directly to the private sector partner to enhance the will and skill for PSE through more traditional routes to flourish.
- **Implementation Contexts:** PSE tends to be much better positioned and resourced to work across country, regional, and global contexts and build longer-term relationships with a coalition of influential corporations. MSD is typically implemented at a country-specific activity level, with dedicated staff and resources to play that kind of facilitative role, often with longer timelines than a two- or three-year partnership—more common in PSE.
- **Starting Point:** The starting point for PSE is the firm, industry, or firm-level business challenges, and how these intersect with development problems. A systems change pathway is not always (or even often) identified or prioritized during initial design and implementation. The starting point for MSD is the system, the desired systemic change, and the actors identified as most likely to drive that change. MSD often includes pilots with multiple firms that scale up, down, or are dropped as the most impactful model or pathway is revealed over time.
- **Social Inclusion:** In PSE, USAID often partners with firms that already see the business case for inclusivity to a certain extent, since partnership activities are designed to advance joint business and development objectives. During the engagement process, USAID can push the firm to deepen and broaden inclusive business practices. In MSD, an activity often makes the business case for social inclusion during the engagement process through market research, organizational development, pilots, or complementary interventions in related areas. MSD has a wealth of tools to support this and defined metrics that can hold firms accountable for advancement in this area.

WHERE TO NOW? A STRONG FOUNDATION TO BUILD ON

PSE and MSD are well-positioned to leverage each other's strengths to further advance sustainable, more systemic impact. Pockets of cross-fertilization already exist. Furthermore, USAID portfolios often include both MSD and PSE activities, supporting opportunity for tangible value in this exchange and connection. It is an exciting time for strengths-based collaboration and exchange, as both PSE and MSD practitioners take steps to further advance aims of transformational impact.