



**USAID**  
FROM THE AMERICAN PEOPLE



CREDIT: ZACH VESSELS

# USAID CATALYZE

## Annual Report

OCTOBER 2020

This publication was produced for review by the U.S. Agency for International Development (USAID).  
It was produced by Palladium International Ltd.

# USAID CATALYZE

## Annual Report

**Submission Date:**

30 October 2020

**Contract No:**

7200AA19C00080

**Submitted by:**

Roland V. Pearson, Jr.  
Executive Director, CATALYZE  
Palladium 1331 Pennsylvania Ave NW  
Washington DC 20004  
[CATALYZE@thepalladiumgroup.com](mailto:CATALYZE@thepalladiumgroup.com)  
[www.usaid.gov/catalyze](http://www.usaid.gov/catalyze)

**DISCLAIMER:**

This document is made possible by the support of the American people through the U.S. Agency for International Development (USAID). The contents of this document are the sole responsibility of Palladium International Ltd. and do not necessarily reflect the views of USAID or the U.S. Government.

# TABLE OF CONTENTS

<b>List of Acronyms</b> .....	<b>iii</b>
<b>Foreword</b> .....	<b>1</b>
USAID CATALYZE – Mobilizing Private Capital for Development.....	2
CATALYZE Approach and the “Five Point Framework” .....	3
<b>Building a Diverse Portfolio</b> .....	<b>5</b>
CATALYZE AT-A-GLANCE .....	6
<b>Adopting a Co-Creation and Co-Design Approach</b> .....	<b>15</b>
SPOTLIGHT: Co-Designing Ethiopia’s Market Systems for Growth .....	16
<b>Pushing Boundaries</b> .....	<b>18</b>
Integrating gender-lens investing.....	19
Working in underserved sectors and regions .....	19
Using innovative financing mechanisms .....	20
Engaging non-traditional partners .....	21
Emphasis on learning.....	21
SPOTLIGHT: Mobilizing Private Capital to Close the Financing Gap in Education.....	22
<b>Promoting Resilience – COVID-19 Impact and Response</b> .....	<b>24</b>
Safeguarding staff.....	25
Going virtual.....	25
Revising expectations.....	26
Building resilience .....	26
Introducing new products and services.....	27
<b>Observations and Lessons Learned</b> .....	<b>28</b>
Establish a common understanding of blended finance early on.....	28
Use COVID response to build resilience .....	29
Use co-creation and co-design approach to bring diverse perspectives.....	29
Hire with diversity and inclusion in mind.....	29
Reimagine procurement to surface innovative solutions .....	30
Streamline communications approval process and segment messaging for different stakeholder.....	30
SPOTLIGHT: Lessons Learned about Cost Plus Award Fee Contracts.....	31
<b>Looking forward</b> .....	<b>33</b>

## LIST OF ACRONYMS

ANDE	Aspen Network of Development Entrepreneurs
BASP	business advisory service providers
BDS	Business Development Services
CDC	Center for Disease Control and Prevention
CPAF	Cost Plus Award Fee
CPFF	Cost Plus Fixed Fee
CO	Contracting Officer
COR	Contracting Officer's Representative
DRC	Democratic Republic of Congo
EoG	Engines of Growth
GIIN	Global Impact Investing Network
HQ	Headquarter
LAC	Latin America and the Caribbean
LOP	life of project
MEL	monitoring, evaluation and learning
MS4G	Market Systems for Growth
OCA	Open Capital Advisors
OSD	Private Sector Development
PCA	Peru Cocoa Alliance
PEAS	Promoting Equality in African Schools
PSE Hub	Public Sector Engagement Hub
PWS	performance work statement
SME	small and medium enterprises
SOO	statement of objectives
SOW	statement of work
WGDP	Women's Global Development and Prosperity
WHO	World Health Organization

## FOREWORD

Development practitioners broadly agree that private sector capital and innovation have big roles to play in attaining global development goals – whether for feeding the world, equipping students to meet 21st century needs or meeting our energy needs while tending to the environment. Over the last decade USAID, World Bank Group and other development organizations have provided catalytic capital to mitigate real and perceived risks associated with the private sector investing in emerging and frontier markets and sectors that deliver development impact.

However, the financing gap remains enormous and progress in closing that gap only incremental and uneven. Convergence data indicate that neither the pace nor scale of blended finance transactions have progressed to a point where such transactions can substantially meet priority development goals in the foreseeable future. The just released GIIN Annual Impact Investor Survey 2020 noted, “Collectively, both the volume of capital invested and the number of investments made in 2019 fell short of plans by 15% and 13%, respectively”. This shortfall will only worsen in 2020 and into 2021, as we deal with the immediate and longer-term effects of COVID-19. The presence of blended finance and private capital remain paltry in emerging countries and frontier markets, as well as social sectors like education, which has seen recent declines in private and blended finance investment. Moreover, according to research done by the Overseas Development Institute, in low-income countries \$1 in public financing mobilizes just \$0.37 of private capital.

Despite stubborn challenges and inadequate progress, the potential remains to attract private capital to development priorities. Globally we see increased appetite for small and large businesses to “do good” while turning a profit, and the beginnings of a movement to prioritize broad and diverse groups of stakeholders, instead of just shareholders. Development organizations continue to test new approaches to unlock private capital. For example, bundling smaller deals into a portfolio of investments shows some promise for attracting more institutional investors. Programs like CATALYZE and others distinctly look to enhance local market systems, by engaging more local, regional and non-traditional partners. Evidence-building and advocacy initiatives have begun to diversify the set of actors engaged in blended finance, beyond donors and development practitioners.

COVID-19 presents a new set of challenges for blended finance. Lockdowns and other COVID-19 restrictions have disrupted supply chains, depressed consumer demand, caused massive loss of jobs and sent the global economy into a tailspin. Early data show that poor and marginalized communities and women have disproportionately borne the brunt of this global recession. As we recover from this crisis, we have the added responsibility to ensure that blended finance mitigates existing inequities instead of reinforcing them. At CATALYZE, we will promote responsible and inclusive business models, prioritizing small growing businesses and local actors and promoting investment through a gender lens.



Roland V. Pearson, Jr.  
Executive Director, CATALYZE





CREDIT: YONATAN TESFAYE

## USAID CATALYZE – MOBILIZING PRIVATE CAPITAL FOR DEVELOPMENT

Launched in October 2019, over the 8-year<sup>i</sup> life of the program, CATALYZE, implemented by Palladium, will work with local and international businesses and investors, as well as other key market actors to solve the world's most pressing challenges. CATALYZE will unlock \$2 billion in private sector financing for development impact, especially in underserved social sectors and frontier countries, using up to \$250 million in catalytic capital from USAID. CATALYZE enables USAID Missions and Bureaus to meet their

objectives and those of host countries and regions by developing a pipeline of financeable projects in target countries and sectors, linking them to private sources of capital and applying adaptable approaches to structuring financial transactions. The catalytic capital sourced through the initiative can take many forms, including pay-for-performance incentives and technical assistance or advisory services, grants, low/no cost loans, first-loss capital, and other forms of blended finance.

## CATALYZE APPROACH AND THE “FIVE POINT FRAMEWORK”

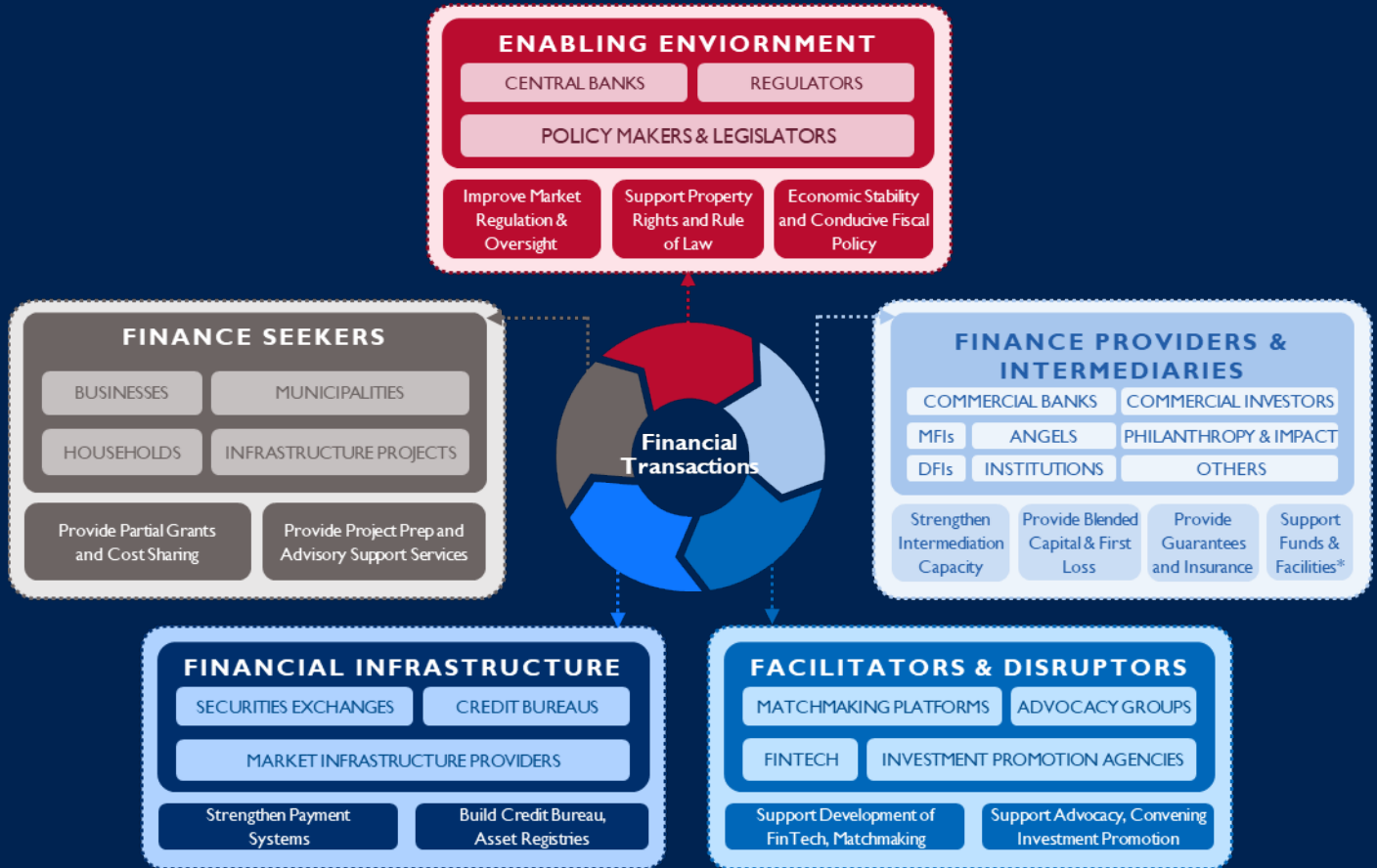
The USAID Private Sector Engagement Hub (formerly the Office of Private Capital and Microenterprise) has overseen development of a ‘Five Point Framework’ to guide implementation of its programs, like CATALYZE, focused on mobilizing private capital for development. That framework encompasses five spheres of actors and activities – namely, Enabling Environment, Finance Providers and Intermediaries, Facilitators and Disruptors, Financial Infrastructure, and Finance Seekers. In short, the framework posits that to drive sustainable flows of financial transactions, particularly those involving the mobilization of private capital, each of those spheres must operate in harmony at the highest levels of individual and integrated capacity as possible.

The CATALYZE mission focuses on both mobilizing private capital and extending USAID and industry knowledge about the mix of multiple approaches required to mobilize private capital across a diversity of geographies and development objectives. This especially applies to frontier and fragile markets, as well as social sectors and other sectors that have historically seen relatively little private investment.

Many of the 17 CATALYZE “buy-ins” covering more than 20 countries will focus substantially upon adapting pay-for-results mechanisms that create incentives for Facilitators and Disruptors to close transactions on behalf of Finance Seekers demanding financing from Finance Providers and Intermediaries. CATALYZE also anticipates the policy makers, capital markets players, and others who comprise the Financial Infrastructure and Enabling Environment components of the Five Point Framework will become important partners through our buy-ins, as we seek to develop functioning long-term markets for private financing of challenging development priorities globally.

Yet, our suite of approaches will need to go beyond just providing incentives for intermediaries and finance providers. Especially for the tough markets and under-financed sectors that predominate in the CATALYZE portfolio, we also will combine multiple approaches to create the incentives and capacity for private capital mobilization. In the context of the ongoing effects of COVID-19, we foresee the need for technical assistance, both at the enterprise and financial institution levels, to help those market actors adapt to new circumstances. Our market assessments have begun to reveal the narrow and shallow state of business and transaction service provider pools in small, underdeveloped and fragile markets – which, in turn, creates demand for technical assistance and other forms of support to ensure their capacity to build pipelines of credible transactions and close those deals. In markets where CATALYZE has taken on intractable problems such as youth employment, improving educational outcomes, and women’s labor force participation, we will complement our financial and business advisory intermediary incentives and support with creative partnerships that enjoin the participation of relevant Government and non-governmental entities to shift policy, share knowledge, and otherwise address constraints to attracting private capital that go beyond the intrinsic risks embedded in financial transactions. Successfully innovating to spur a digital economy or create alternative agricultural livelihoods, as some of our buy-ins challenge us to do, will necessitate CATALYZE engaging with market actors among all five points of the framework, because financial transactions will become viable, concomitant to the building of foundational market elements.

# THE FIVE POINT FRAMEWORK



(Source: USAID/ Deloitte – *Mobilizing Private Finance for Development – A Comprehensive Introduction*)



## BUILDING A DIVERSE PORTFOLIO

During the first year of its operation, CATALYZE worked closely with USAID Missions to successfully build a diverse portfolio of “buy-ins”, both in terms of region and sector. Our buy-ins include a wide range of sectors from agriculture and education to information and communication technologies. We work in Africa, Latin America and the Caribbean, Asia and the Western Balkans. Our 17 buy-ins covering more than 20 countries, are expected to draw \$1 billion in private financing in the initial five-year base period of the contract, leveraging over 178 million dollars in USAID funding (of which \$98 million is obligated). The diversity and volume of commitments by USAID missions and bureaus to use the CATALYZE mechanism demonstrates the growing interest in and demand for blended finance approaches to address development goals globally.

Most of the buy-in commitments were made in May of 2020 and are currently in different stages of development and implementation. EduFinance has completed five market assessments in Africa to identify opportunities and challenges in the sector. Several other buy-ins are currently conducting assessments, including six EduFinance activities in Latin America and the Caribbean, two in Ethiopia (for Financial Ecosystems and Business Advisory Services), one in the Peruvian Amazon, and three in Sri Lanka (on SME competitiveness and gender inclusion, Business Advisory Service Provider mapping, and financing for SMEs). Despite restrictions on travel many buy-ins are identifying and onboarding staff and, where possible, establishing a local presence. In other cases, buy-in teams have worked remotely to identify local partners and subcontractors to start up projects, and build relationships with local stakeholders.

Although the buy-ins vary in region, sector and deal size, there is potential for learning from each other. Many of the approaches like co-creation and co-design and gender-lens investing cut across buy-ins. Buy-ins can learn from one another about mobilizing private capital, structuring blended finance deals and advancing service delivery during the pandemic, among other things. When it comes to measuring development impact, we are actively developing a series of core indicators and targets that can be tracked across buy-ins.



## CATALYZE AT-A-GLANCE

# 17 BUY-INS

USAID HQ - Private Sector Engagement Hub

USAID HQ - Education

Women's Global Development and Prosperity (W-GDP)

USAID LAC Regional Bureau (Education)

USAID Democratic Republic of Congo (Education)

USAID Tanzania (Education)

USAID Zambia (Education)

USAID South Africa (Education)

USAID Africa (Sustainable Development)

USAID Asia

USAID Ethiopia

USAID Burkina Faso (Sahel)

USAID Niger (Sahel)

USAID Sahel

USAID Europe and Eurasia/Western Balkans

USAID Peru

USAID Sri Lanka

Budget of \$178.2M (\$98.4M obligated)



**5-YEAR BASE  
PERIOD CAPITAL  
MOBILIZATION  
TARGET OF \$1.02B**



**PROGRAM  
DURATION**

Oct 2019 – Sep 2024



**20 COUNTRIES**

in Asia, Africa, Latin America and  
Caribbean and Western Balkans



**SECTORS**

Education, financial sector, agriculture,  
information and communication  
technologies, tourism, commercial  
care sector, garments sector,  
infrastructure, social protection, small  
businesses across sectors



**3 SUB-CONTRACTS  
ISSUED**

Moonshot Global, Open Capital  
Advisors, Dalberg

# EDUFINANCE

## BUY-IN SUMMARY



Improve and Sustain Learning Outcomes for Children and Youth, Particularly Those Who Are The Most Marginalized and Vulnerable



Projected LOP budget of **\$50.5M**, of which **\$42 M** is obligated. Capital mobilization target of **\$90.7M**



Oct 2019 – Sep 2024



Democratic Republic of Congo, Rwanda, South Africa, Tanzania, Zambia, Latin America and the Caribbean



Partners in final stages of contracting

**Zambia** - Strengthen regulatory environment to reduce barriers for school entrepreneurs and scale a network of low-fee schools

**Democratic Republic of Congo (DRC)** – Provide financing mechanisms and technical assistance to improve quality of education

**South Africa** - Support Early Childhood Development centers to access low-cost capital and provide quality pre-primary education

Market assessments underway in **Rwanda, Tanzania and Latin America and the Caribbean (LAC)**

## YEAR 1 HIGHLIGHTS

- Received six confirmed USAID Mission buy-ins for EduFinance activities in DRC, South Africa, Zambia, Tanzania, Rwanda and LAC Bureau
- Approved four business plans for implementation partners in DRC, South Africa and Zambia
- Completed five market assessments of education finance landscape in DRC, Zambia, South Africa, Tanzania and Rwanda.
- Issued subcontracts for six market assessments in Latin America and Caribbean - Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti and Paraguay
- Completed a detailed literature review on “Blended Finance for Education”
- Launched a community of practice on “Private Sector in Education”

# WOMEN'S GLOBAL DEVELOPMENT & PROSPERITY

## BUY-IN SUMMARY



### Advance Women's Economic Empowerment



Projected LOP budget of **\$10M**, all of which is obligated.  
Capital mobilization target **\$3M (TBD)**.



Oct 2019 – Sep 2024



Global



Partners - Finance providers including banks, fintechs, innovative financial education providers

WGDP is developing a suite of activities to build learning around an "incentives toolkit" and mobilize finance for women-led small and medium enterprises (SMEs). The approach will test a number of interventions to gauge what moves the needle for women and addresses the financing gap. This includes technical assistance for banks, training for women, interest rate incentives and the introduction of flexible loan products.

## YEAR 1 HIGHLIGHTS

W-GDP approved three exciting sub-activities to increase lending to women-led SMEs:

- **Financial Resilience for Women-Led Enterprises:** A co-created initiative with the Development Finance Corporation (DFC) to work with its existing financial institution clients in LAC. The two components of the initiative will i) rapidly assess and restructure at-risk loans to ensure sustainability for women-led SMEs; and, ii) assist women-led SMEs who have graduated from micro-finance and want to grow their business by providing them with necessary technical assistance to access a bank loan, while ensuring financial products and services meet this demand. The team held two meetings with bank clients - BAC El Salvador and Guatemala to ensure the approach responds to current needs of the bank and will move the needle on lending to women-led SMEs
- **The Variable Payment Obligation (VPO) Program** will address access to finance constraints for women-led small businesses in the Dominican Republic. Using an approach pioneered in the agriculture sector, loans with a variable repayment scheme tracked to SME income will be adopted by participating financial institutions to tackle the 1.3bn credit gap for women-led small businesses. A co-creation session was held with USAID's office in the Dominican Republic to discuss appropriate financial institutions to partner with.
- **Competition to Catalyze Gender:** The final sub-activity will tap into Global South talent to help non-Bank financial institutions to apply a gender lens to investment activities

# ETHIOPIA – MARKET SYSTEMS FOR GROWTH

## BUY-IN SUMMARY



Foster Private Enterprise Growth, Primarily in Agricultural Markets, to Create Jobs and Increase Income



Project LOP budget of **\$55M**, of which **\$15.8M** is obligated. Capital mobilization target of **\$440M**.



May 2020 – Sep 2024



Ethiopia



Partners – Subcontracting plan in development

**Initiative 1:** Catalyze business growth for job creation

**Initiative 2:** Build capacity for market-led workforce skill building

**Initiative 3:** Improve the business enabling environment

**Cross-cutting Effort 1:** Enhance US government capabilities to catalyze trade and investment

**Cross-cutting Effort 2:** Advance the digital economy

**Cross-cutting Effort 3:** Increase exports

## YEAR 1 HIGHLIGHTS

- Finalized Year 1 workplan that details upcoming project activities and initial monitoring, evaluation and learning approaches
- Mobilized Country Director and Deputy Country Director to Ethiopia, where they began preparations for opening an office space and recruiting in-country team
- Conducted over a dozen key informant interviews with experts in Ethiopian trade and investment, as well as, implementing partners in agriculture and water, sanitation and hygiene, to ensure out approach is well-informed and consistent with the Ethiopian context
- Drafted Terms of Reference for the Addis-Prosper Africa Deal team, which outlines MS4G's support of this inter-US agency working group, including deal tracking and assessment and secretariat support
- Kicked off two assessments, for Financial Ecosystems and Business Advisory Services, which will inform MS4G's work in these areas

# PERU

## BUY-IN SUMMARY



### CATALYZE Investment and Access to Finance in the Peruvian Amazon



Projected LOP budget of **\$15M**, of which **\$5M** is obligated. Capital mobilization target of **\$100M**.



May 2020 – June 2023



Peru

*Develop projects and business models with direct supplier relationships that include innovation in financing and technology.*

*Build capacity of Business Advisory Service Providers and develop a more robust market for their services in financial facilitation and business development through pay for performance models.*

*Provide technical assistance and incentives to financial institutions (FIs) to motivate and enable FIs to increase funding in target geographies.*

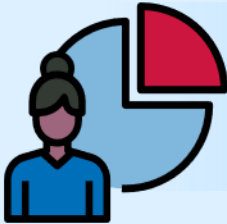
*Develop a digital information system with the goal of adding value for all actors involved in a business model – smallholders, SMEs, off-takers, end buyers, input suppliers and financial institutions.*

## YEAR 1 HIGHLIGHTS

- Received USAID confirmation to start CATALYZE activities in Peru, with the overarching goal to increase access to finance to enterprises, with particular attention to agriculture, SMEs and rural areas in the Peruvian Amazon. Drafted Work Plan and established the activities from June 1, 2020 to June 30, 2021
- Started the financial institutions' assessment with an in-house team of knowledgeable local and US-based experts. The main goal of this assessment is to identify financing and investment opportunities, understand investor and financial institution interests and requirements for financing in the Peruvian Amazon. The goal is to create maps of the business ecosystem in target sectors and identify approximately 20 potential partnerships
- Led and negotiated procurement of local subcontracts to conduct an Opportunity Assessment to create maps of the business ecosystem in target sectors and identify approximately 20 potential partnerships
- Led and negotiated procurement of the local provider to conduct assessment to better understand the Business Advisory Services' market in Peru

# SRI LANKA – PRIVATE SECTOR DEVELOPMENT

## BUY-IN SUMMARY



### Promote Economic Diversification and Employment Opportunities for Women



Projected LOP budget of **\$19.5M**, of which **\$5.7M** is Obligated. Capital Mobilization Target of **\$160M**.



May 2020 – Sep 2024



Sri Lanka



Partners - TBD

*Increased SME competitiveness - Strengthened business services industry to increase SME capacity and technology adoption, improved market linkages and info and advanced private markets, increased innovation*

*Improved Women's Labor Force Participation - improved care economy, professional development for women, increased growth of women-led enterprises*

*PSD will focus on tourism, ICT, the commercial care industry, the garment sector, and one additional sector that will be selected based on its potential to create productive employment opportunities, including for women, increase SME revenues, and contribute to economic diversification.*

## YEAR 1 HIGHLIGHTS

- *Initiated three market assessments covering the SME sector in Sri Lanka: SME Competitiveness and Gender Inclusion, Business Advisory Service Provider mapping, and Financing for SMEs using best practice methodologies from Palladium's portfolio of programs.*
- *Identified candidates for leadership positions to be onboarded in Q1FY21*

# SAHEL

## BUY-IN SUMMARY



### Increase Financing to Support Capital Investment in the Agricultural Sector and in Youth-led Enterprises



Projected LOA budget of **\$10.2M** of which **\$5.9M** is Obligated. Capital Mobilization Target of up to **\$19M**.



August 2020 – Sep 2024



Burkina Faso, Niger, Mauritania (to be confirmed)



Partners – Cabinet d'Ingénierie et de Conseil en Développement D'entreprises (Burkina Faso), Yalwa, Yidgiri, Bridge Youth Connect, WATIH, DFC, USADF, Sahel CC

**Component 1:** Mobilize lending from financial institutions (FIs)

**Component 2:** Provide incentives for facilitators who link FIs and other finance sources with the farmers, cooperatives and enterprises in targeted regions & sectors

**Component 3:** Project Development Facility to finance small-scale community infrastructure in Niger (optional component pending Year 1 review)

Components 1 & 2 are expected to run the duration of the program. **Component 3 may start in Year 2 or 3 depending on early program results.**

## YEAR 1 HIGHLIGHTS

- Conducted Burkina Faso Activity co-design workshop with USAID Sahel RO, Burkina Faso country representative, agriculture & private sector experts and local market actors including investors
- Received USAID confirmation to start CATALYZE activities in Sahel. Developed Work Plan and established the activities for Year 1 period of August 1, 2020 to September 30, 2021
- Engaged USAID on design of Program-for-Results (P4R) incentive schedules for Burkina Faso and Niger
- Completed procurement process to identify and onboard a local implementing partner (LIP) in Burkina Faso for start-up activities for initial four months. The LIP will help refine the initial incentive schedule design and solicitation process for P4R partners.
- Finalized Task Orders with Open Capital Advisors for development of Finance Facilitator toolkits and training materials and to commence Niger Market Assessment in early FY 2021



# WESTERN BALKANS – ENGINES OF GROWTH

## BUY-IN SUMMARY



### Increase Small and Medium Enterprises' (SME) Access to and Use of Finance to Drive Enterprise Growth



Projected LOP budget of **\$18M**, of which **\$4M** is obligated. Capital mobilization target of **\$180M**.



May 2020 – Sept 2024



Western Balkans



Individual missions considering CATALYZE: Albania, Bosnia & Herzegovina, Kosovo, Montenegro, North Macedonia, and Serbia

This activity will engage market actors and other stakeholders to identify key constraints and opportunities and develop one or more activities to minimize the access to finance constraint. EoG will focus on the following primary objectives:

- Mobilize capital to viable SMEs in the wake of COVID-19 to sustain SMEs and retain/rehire workers and capacity for future growth.
- Facilitate longer term financing to support growth-ready SMEs
- Develop financial products and services to meet the need of underserved populations and areas
- Create a COVID-19 Dashboard to help USAID and regional public institutions to monitor the impact of COVID-19 on the Western Balkan economies and financial markets and inform the design of future programs and policies.

## YEAR 1 HIGHLIGHTS

- Conducted seven information gathering/ co-design sessions with missions across the region with representatives from USAID and relevant projects
- Co-designed the project with a focus on facilitating financing to viable SMEs in the wake of COVID-19 to sustain companies and facilitate longer term financing to support growth-ready SMEs.
- Issued Request for Proposals (RFP) for COVID-19 Dashboard to the partner network to design a Dashboard that will provide data on critical indicators on the ongoing impact of the pandemic on the economies in the Western Balkans
- Drafted RFP on the selection of business advisors on a pay-for-performance basis for comments by USAID missions and stakeholders. Subsequently we will release the RFP to select business advisor partners in a few target countries.

# ASIA SOCIAL PROTECTION

## BUY-IN SUMMARY



Improve access to financial and social protection for vulnerable women in Asia



*Projected LOP budget of \$ 440,000. Seeking at least 4:1 private sector matching of USAID's funding*



*Sep 2020 – TBD*



*Began with 18 candidate Asian countries, currently list is narrowed to 12. Next steps are to empirically winnow list to 5, followed by consultations to a final selection of 2-3 investment cases*

*Improve evidence for best practices in social protection (SP) for vulnerable female workers*

*co-develop and launch a platform incorporating innovations, including using blended finance, for SP interventions*

*monitor and evaluate the SP interventions launched for impact*

## YEAR 1 HIGHLIGHTS

- *Shortlisted countries from 18 to 12, with guidance from Asia Bureau*
- *Held launch meeting with client and received approval for the 12 country shortlist; agreed upon timeline and expectations*
- *Developed screening indicators and weighting methodology for further winnowing— pending final approval from client on October 14th*
- *Currently on track for completion of data collection by end of October 2020*

A woman with a large, curly afro hairstyle is standing outdoors. She is wearing a white, long-sleeved kaftan with intricate, colorful embroidery along the neckline, down the front, and on the cuffs. She is also wearing a headscarf, a necklace, and a bracelet. The background shows a stone wall and some greenery.

## ADOPTING A CO-CREATION AND CO-DESIGN APPROACH

A participatory approach is at the heart of CATALYZE, and many of our activities are conceived through co-creation and co-design. Our co-creation process brings in stakeholders from various sectors and with diverse experiences and perspectives to inform activity development. When done right, co-creation yields new insights, identifies blind spots and sparks new ideas that can strengthen programs. Substantial effort and preparation go into designing a robust and dynamic co-creation session. We ensure that the dialogue is structured and goal-oriented but approach the process with an open and learning mind-set. CATALYZE has used a variety of co-creation methods including feedback surveys, stakeholder interviews, and interactive multi-stakeholder workshops.

## **SPOTLIGHT: CO-DESIGNING ETHIOPIA'S MARKET SYSTEMS FOR GROWTH**

USAID CATALYZE Market Systems for Growth (MS4G) organized a virtual two-day co-creation session in August 2020, bringing together 40 experts on Ethiopian private sector development, trade and investment, workforce development and women's empowerment. The goal of the session was to gain insights about opportunities and challenges presented by the Ethiopian economy and inform the strategic planning of CATALYZE MS4G. The MS4G initiative seeks to foster private enterprise growth in Ethiopia and create jobs.



CREDIT: GIFT HABESHAW

### **1.1.1. LAYING THE GROUNDWORK FOR CO-CREATION**

While we held the co-design session at a critical juncture of our planning – to inform the first year workplan for MS4G – we embraced co-creation and co-design early on and integrated it into every stage of our start-up process. During the four months leading up to the event, we held over a dozen key informant interviews with stakeholders, who have a broad and deep knowledge of private sector investment in Ethiopia. We used these conversations to test our initial assumptions and prioritize sectors and approaches that are likely to create the most development impact.

### **1.1.2. STRUCTURING A SUCCESSFUL CO-CREATION SESSION**

We found that a successful co-creation process requires a balance between creating an open and collaborative environment and ensuring that conversations are structured and result in specific and actionable ideas. Our approach to striking this balance included having open-ended and wide-ranging conversations one-on-one with experts early in our process. As we moved along, we focused the discussion on specific design elements. This built up to our co-design session during which we sought feedback on specific questions, either collectively or in smaller break-out sessions. Thus, our initial informant interviews, and regular conversations with the USAID Mission in Ethiopia, helped to create a shared understanding with the stakeholders and lay the groundwork for a more productive dialogue during the co-design session. This was particularly beneficial given the significant challenges presented by the COVID-19 crisis. Due to travel restrictions, we had to use online conferencing technology and keep the sessions relatively short. To ensure a productive session and robust participation, we did dry runs of our presentations and designated clear roles for addressing technical issues or spotty internet connectivity.

### 1.1.3. WHAT DID WE LEARN FROM THE CO-CREATION SESSION?

The workshop helped to surface the unique challenges and opportunities facing entrepreneurs and businesses in Ethiopia. Two such challenges identified during the co-creation session were attracting skilled workers and getting access to good business development service (BDS) providers.

When it comes to workforce development, there is a dearth of training institutions and the training within schools is frequently not aligned with employer needs. Participants recommended facilitating stronger ties between universities and the private sector to ensure students have a better understanding of the job market. Businesses can also build good training and mentorship programs for new recruits to support workforce development.

Small businesses in Ethiopia often do not tap into much-needed business development services like HR and tax services, because they are costly, or the quality of service provided is sub-standard. Further, female small business owners often face additional constraints in accessing finance and BDS. Improving the quality of services, underwriting the cost of BDS providers initially to prime the pump, clustering similar businesses together to allow cost sharing, and compensating BDS providers on a success fee basis can help.

Our key informant interviews also provided valuable context around the complicated political environment in Ethiopia, for example, demonstrating the need not only to lobby for laws that remove barriers to investment – but also, supporting the implementation of newly-passed legislation. Understanding the nuances of the changing policy landscape in Ethiopia, which includes the upcoming privatization of the ICT sector, will enable MS4G to find and harness key opportunities to catalyze economic transformation and boost private enterprise.

The co-creation session also uncovered how the COVID-19 pandemic is having differential impacts across the Ethiopian economy. While discussing

opportunities in light manufacturing in Ethiopia's industrial parks, participants noted that makers of adult clothing in Ethiopia were hit harder by the impacts of COVID-19 than those who assemble children's clothing, due to demand being relatively constant for the latter category. Another observation was that dairy farmers were converting their milk into butter to extend shelf life. Butter was flooding the market, driving down prices and ultimately, sinking their profits while input costs increased by as much as 40%.

### 1.1.4. LOOKING AHEAD

MS4G's commitment to co-design extends far beyond initial planning into project implementation and developing a learning agenda. Following our broader co-design conversation, we recently held a smaller session focusing particularly on monitoring, evaluation and learning. While a co-creation approach takes significant time and effort upfront, it's clearly beneficial when our activities can be better informed by the local context.



CREDIT: TAYLOR TURTLE



## PUSHING BOUNDARIES

Blended finance, which is the use of public and philanthropic capital to mobilize private capital for development outcomes, has grown steadily by around \$15 billion per year since 2015. However, it has the potential to grow far more. Blended finance currently operates within a very narrow scope because of the limited risk appetite of investors. More than 95% of private capital in blended finance transactions flows to countries with a credit rating. Data from Convergence shows that less than 12% of aggregate blended finance flowed to low-income countries. This is because working in frontier markets comes with many risks including political, macroeconomic, and regulatory. Mobilizing private capital for development impact is also fairly concentrated within two commercially-viable sectors - energy (44%) and financial services (28%). Institutional investors are the largest potential pool of private capital for development goals.<sup>ii</sup>

The goal of USAID CATALYZE is to work in underserved markets that have higher barriers to entry or are deemed too risky by traditional investors. In many cases, we work with non-traditional partners and investors to test our innovative approaches to mobilize private capital.



## **INTEGRATING GENDER-LENS INVESTING**

All CATALYZE buy-ins are designed and implemented with a gender-lens—to ensure that women and men accrue equal access to blended finance opportunities; and, to boost women-owned/led enterprises that offer products and services that improve the lives of women. We also implies make a conscious effort to ensure that our rhetoric matches our own internal processes, to ensure gender equity in hiring, procurement and promotion across our operations.

The Women's Global Development and Prosperity (WGDP) buy-in is solely focused on developing a suite of activities to build learning around an "incentives toolkit"—understanding what works and what market incentives are needed to finally address the Gender Financing Gap. Pilot interventions include technical assistance for banks, training for women, interest rate incentives, and the introduction of flexible loan products.

## **WORKING IN UNDERSERVED SECTORS AND REGIONS**

CATALYZE Sahel is working in frontier regions in Burkina Faso and Niger and testing the idea that capital mobilization to improve agricultural productivity can improve livelihoods of vulnerable communities and make them more resilient in the face of political violence, food insecurity, and climate change.

Another activity, CATALYZE Peru, is working in the Amazon region which has not experienced extensive investment proportional to its potential. Our initial assessments revealed that there are several challenges in the region including informality, a lack of infrastructure needed for investments (such as internet connectivity) and an atomized market (i.e. many smaller companies) in the region. While we are currently completing assessments of ecosystem, opportunities, and financial institutions, we look forward to using innovative approaches to mobilize investment to the region.

## USING INNOVATIVE FINANCING MECHANISMS

Across buy-in activities the CATALYZE team will use pay-for-performance awards as a de-risking mechanism to incentivize financial institutions and business or transaction support service providers to enter new sectors and geographies. On the 'supply side' these pay-for-performance contracts or grants will be structured to reward banks who develop new and innovative lending products that respond to enterprise needs. It will also incentivize financial institutions to re-evaluate or revise their methodology for determining creditworthiness, expanding the diversity of their lending portfolios. The pay-for-performance approach allows financial institutions the flexibility to innovate and reach a broader customer base, increasing the likelihood that they will devise sustainable approaches that will continue long after the de-risking performance payments disappear and result in permanent market changes.

In Peru, CATALYZE will increase access to finance for enterprises by using an 'aligned' blended finance structure that provides transaction origination and demand-side support, in conjunction with assistance to the supply side (Finance Providers) to move down market and into new sectors. It will build the capacity of and incentivize Peruvian financial intermediaries to profitably enter and serve geographic areas and markets which they had not previously served and support anchor corporations seeking to strengthen linkages in those areas. CATALYZE Peru will function as a private entity to engage market actors that can be catalysts, bringing together groups of small and medium enterprises and farmers with financing, buyers and technology. As opportunities present, it will provide transaction advisory services to enable large inbound investments, for example via partnership with the Peru Cocoa Alliance (PCA). It will also have the capacity to structure national and/or sub-sovereign public/private transactions.

In the Dominican Republic, CATALYZE will use another 'aligned' blended finance structure to work with banks to develop a tailored variable payment loan product targeting fast growing, women-owned enterprises. This innovative lending model requires low or no fixed assets for collateral and ties loan repayment to enterprise revenues allowing repayments to vary due to the seasonality of sales, or in response to economic shocks. For many banks, it is one of their first forays into collateral-lite or collateral-free lending and they have significant concern about risk. The support services strengthen the relationship between the bank and the enterprise, while also providing the bank with a view of business activity to allow them to pinpoint potential repayment challenges before they arise. Enterprises that receive loans are also provided with support services to improve business management and/or upgrading of products and expansion of markets. The variable payment model has been piloted in several other Latin American markets where it was successful in helping increase women's access to finance and boost enterprise growth and proved to be particularly effective increasing resiliency to economic shocks.



## ENGAGING NON-TRADITIONAL PARTNERS

CATALYZE shares all solicitations for upcoming activities with the USAID Private Sector Engagement Hub Partners Network, actively seeking engagement with non-traditional partners who have niche expertise in mobilizing finance for specific social sectors. Additionally, especially with COVID-related travel constraints, the CATALYZE team has relied heavily on solicitations targeting local organizations for a variety of market assessments and start-up support. This has allowed the teams to crowd in a great deal of local expertise and identify valuable resources for implementation from smaller local businesses or independent consultants.

The Edufinance team is working with Kaizenvest, a fund manager and first time USAID partner, and UBS Optimus Foundation, which has previously invested in a USAID-backed Development Impact Bond but has not worked as an implementing partner. The extensive co-creation process under Edufinance allowed CATALYZE to equip these new partners with critical expertise in designing and funding non-state school private enterprises that will be profitable and sustainable.

For our market assessments in Sri Lanka, we are actively trying to recruit consultants with banking sector experience or experience working on or with start-ups. Many of them have not worked on USAID contracts before but bring private sector credibility and expertise to program design. In Sri Lanka, we also put out a call to invite innovative concepts from new and non-conventional partners to address the secondary economic impacts of COVID-19. We will be working with these actors to finetune their concepts into viable grants and subcontracts.

## EMPHASIS ON LEARNING

One of CATALYZE's goals is to test new ideas and advance USAID's understanding of blended finance, i.e. the use of catalytic public or philanthropic resources to mobilize private capital. There are many areas of learning including contracting mechanisms, structuring blended finance deals, engaging non-traditional partners, engaging in co-creation and co-design etc. We will also develop, refine and test a suite of tools to accelerate blended finance projects such as a Financial Sector Diagnostic, Opportunity Optimization Toolkit, Toolkit for Training Business and Transaction Advisors, COVID-19 Dashboard etc. Through learning and knowledge-sharing, CATALYZE will engage actively in market building for blended finance.



## **SPOTLIGHT:** MOBILIZING PRIVATE CAPITAL TO CLOSE THE FINANCING GAP IN EDUCATION

The global call for access to quality education for all by 2030 comes with a hefty price tag. To meet this target, we need \$40 billion in additional funding every year for primary and secondary education alone. To begin closing this gap, new approaches to mobilizing more resources will be imperative, since development agencies and philanthropic organizations do not have the funds to fill the gap on their own. Closing the gap requires mobilizing the world's largest financing pools— private capital. Yet many areas where private investment could have significant social impact are considered too risky by investors.

The USAID CATALYZE EduFinance program develops private sector partnerships to accelerate innovations in financing and service delivery that increase access to low-cost, quality education. CATALYZE EduFinance mobilizes blended finance – the strategic use of public funds to increase private sector investment – to crowd in private capital into non-state schools and education enterprises in USAID partner countries.

Examples of successful blended finance transactions are limited, particularly in Sub-Saharan Africa and Latin America and the Caribbean (LAC). LAC is considered an “untapped market” for private sector investment in education and CATALYZE EduFinance is pushing the boundaries of what’s known about the investment appetite for education in LAC by conducting market assessments in 6 countries. In South Africa, Zambia, Dominican Republic of Congo (DRC), and beyond, the EduFinance Activity is working with non-traditional private sector partners, such as Kaizenvest and Chancen International, to expand opportunities for blended finance by uniting private sector expertise with USAID leverage opportunities. Through concerted contracting efforts, CATALYZE EduFinance has helped increase non-traditional private sector partners’ capacity to work effectively with USAID, expanding opportunities to utilize blended finance in the future.



CATALYZE Edufinance works in countries with historically very low educational outcomes - Zambia, Democratic Republic of Congo, South Africa, Tanzania, Rwanda. In Zambia 70% of second graders cannot read. South Africa ranks high on education spending but its education outcomes are one of the lowest in Sub-Saharan Africa.

CATALYZE Edufinance is mandated by the US Congress to serve low to moderate income households in these countries. Children from lower income families attend affordable private schools that are usually run by individual proprietors. This market of mom-and-pop schools is highly fragmented and often their financials are not prepared by professional accountants. These schools are not easy to appraise and are not viewed as creditworthy borrowers by traditional lenders or attractive investments by investors who are looking to finance larger deals. CATALYZE Edufinance will work with aggregators (banks, microfinance institutions, service providers) to serve this market efficiently through financial and technical assistance products.

In South Africa, CATALYZE Edufinance partner, Kaizenvest, will use financial and non-financial incentives to motivate school operators to improve education quality and school infrastructure. Using a rewards and recognition system, schools will be rewarded for reaching education quality targets and publicly recognized for their achievement. Public recognition raises the schools standing in the community while also motivating their peers to improve their standards.

In Zambia. CATALYZE Edufinance partner, Promoting Equality in African Schools (PEAS), will use a public-private model to extend quality affordable education in rural areas in partnership with the government of Zambia.

In Democratic Republic of Congo, CATALYZE Edufinance partner, Opportunity International, will offer gender and inclusion training to schools, motivating them to invest in gender sensitive infrastructure, for example gender-segregated washrooms, investing in better lighting to improve student safety in schools, and introducing gender-responsive pedagogy in the classrooms.

The literature review, “[Blended Finance in the Non-State Education Sector](#)”, which CATALYZE published in August 2020, confirmed and deepened our understandings of the challenges faced in mobilizing private capital for one of the most financially under-served sectors globally, namely, basic education. A comprehensive study of the latest evidence revealed that the market for education finance lacks scale, shows deep fissures of fragmentation, faces uphill policy and public perception battles, and predominantly includes informal non-state entities operating sub-commercial business models. Already in the bottom decile for global assets under management by sector according to the Global Impact Investing Network (GIIN), the proportion of impact investment funds going to education has declined further over the last year. None of this bodes well for leveraging substantial sums of private capital for primary education, especially not to benefit the low-income communities in the marginal markets where CATALYZE has been asked to focus.

Nonetheless, CATALYZE has begun work with specialist partners who have proposed promising ideas for delivering on improved educational outcomes and private capital mobilization, some tested in markets other than those under CATALYZE. Consonant with the consistent CATALYZE theme of paying for results, some of the proposed models incorporate financial and other incentives for schools and other education service providers to achieve measurable improvements in educational outcomes in exchange for financial incentives and discounts. At the same time, CATALYZE has seen interest in these edufinance models from a small group of venture philanthropists and other private investors seeking below market rate returns. In turn, we anticipate that CATALYZE will emphasize engagement with these types of investors over the coming months and years to help demonstrate viability, which eventually we hope would attract more and a greater diversity of investors over the long-term.



## PROMOTING RESILIENCE – COVID-19 IMPACT AND RESPONSE

The COVID-19 pandemic and the subsequent economic tailspin have resulted in the deepest recession in decades. The World Health Organization reports that there have been over 39.5 million confirmed cases of COVID-19 as of mid-October 2020, including 1.1 million deaths. Besides the direct human toll and the pressure on health systems, the pandemic has far-reaching consequences globally including massive job losses, business closures, school and university closings, disruption of food systems, obstruction in supply chains and loss of trade and tourism. The World Bank forecasts that the global

economy will contract by 5.2% in 2020. The economic downturn is expected to reverse years of progress towards development goals and push up to 150 million people back into extreme poverty by 2021.<sup>iii</sup> Moreover, COVID-19 has disproportionately impacted poor and disadvantaged communities and is widening gender and economic inequalities.

During our first year of operation, COVID-19 presented a new set of challenges for CATALYZE, which required rapid operational shifts. From education to agriculture and from Africa to Latin America – the sectors and regions we work in have been impacted by the pandemic. The pandemic has reshaped our priorities and, in some cases, slowed down our start up process. However, in light of the COVID-19 crisis, CATALYZE has and continues to pivot, adapt, and push forward effectively.

## SAFEGUARDING STAFF

To limit transmission of COVID-19, Palladium, like many workplaces across the United States, asked employees to work remotely and hold off on non-essential travel. A decision-making committee, which includes representation from Safety & Security, Human Resources, Communications, and Global Health was set up with full authority to act quickly and effectively. The committee is regularly evaluating COVID-19 information from trusted and authoritative sources like the World Health Organization (WHO) and the Center for Disease Control and Prevention (CDC) and communicating regularly with staff.

We are also keeping COVID-19 protocols in mind, as we set up our field offices. For instance, in Ethiopia, we are considering larger office spaces that will allow social distancing. Ensuring proper cleaning of the building, social distancing and personal protective equipment for staff are top priority.

## GOING VIRTUAL

Most of the Washington DC-based staff were recruited during the pandemic and have been working remotely from the start. All the onboarding, training and team building for new CATALYZE staff took place online. Using collaboration tools like Teams and SharePoint have made it easier for staff to work together more effectively in a virtual environment. Weekly project update meetings for all staff, catch-up calls with USAID as well as internal “Learn and Review” sessions have also accelerated learning and collaboration across CATALYZE’s diverse initiatives.

Given the travel restrictions, the CATALYZE team had to make an operational pivot and market assessments and co-creation workshops for several CATALYZE initiatives in the Africa and Latin America and Caribbean regions were conducted fully or partially online. For instance, in the Democratic Republic of Congo, we partnered with a local consultant to lead on-the-ground organization and logistics and physically bring together key government and private sector stakeholders. We liaised via web platform for a half-day series of presentations, activity brainstorming sessions, and critical design discussions. In August, the EduFinance team also hosted a virtual event to launch the “Private Sector in Education” Community of Practice, which was attended by 115 people from the private sector, civil society, partner government ministries, USAID, implementing partner agencies, academia and think tanks.

Currently we are in the process of recruiting field teams in Peru, Sri Lanka and Ethiopia and most of the job interviews are being conducted remotely.



CREDIT: CHRISTINA WOCINTECHCHAT

## REVISING EXPECTATIONS

COVID-19 has dramatically impacted activity baselines, making updated baseline assessments a necessity for some cases. Targets and goals are being developed in light of the pandemic. For example, in Ethiopia and Western Balkans we have determined that in the short run we will not be able to create jobs through the mobilization of financing, but more likely we will preserve jobs and stem the rise of unemployment in the wake of COVID-19. This crisis has forced us to think differently about non-traditional types of indicators that measure the resilience of small businesses such as the number of jobs preserved.

## BUILDING RESILIENCE

Businesses worldwide are reeling from lockdowns, disruptions in trade and supply chains and rapid shifts in consumer demands. In the Western Balkans our “Engines of Growth” activity is working with Business Advisory Service Providers (BASP) on a pay-for-performance basis to mobilize financing to viable small businesses and help them navigate the uncertain business environment and preserve jobs.



In Peru and Sahel, CATALYZE will provide technical assistance to financial institutions to tap into concessional capital from international and domestic sources to report to liquidity shortages. Given the pandemic-induced credit squeeze, we will be incorporating modules on loan restructuring in our finance facilitator training and toolkits.

CATALYZE EduFinance partner in Zambia and Democratic Republic of Congo, Opportunity International, will work with financial institutions to develop products responding to the financial needs of schools that were closed for an extended period. Examples of potential financial products include working capital to ameliorate the impact of temporary declines in student enrolment and school fees. These products will be designed to assist otherwise viable schools from failing because of the short-term acute disruption to their operations.

CATALYZE has co-created an initiative with the Development Finance Corporation (DFC) to build financial resilience for women-led enterprises. We are working with DFC’s existing financial institution clients in Latin America and the Caribbean under the 2X Challenge that calls for the G7 and other development finance institutions (DFIs) to invest in women’s economic empowerment. The two components of the initiative will i) rapidly assess and restructure at-risk loans to ensure sustainability for women-led SMEs; and ii) assist women-led businesses who have graduated from micro-finance and want to grow their business by providing them with necessary technical assistance to access a bank loan, while ensuring the financial institution’s products and services meet this demand. CATALYZE has been able to pivot its approaches to help bank partners respond to the financial impacts of COVID-19 on global markets on the one hand—and most importantly, on the sustainability of women-led businesses on the other.

In Sri Lanka, we are soliciting innovative concepts for addressing the secondary impacts of COVID-19 and building resilience for small businesses, particularly women-led enterprises.

## INTRODUCING NEW PRODUCTS AND SERVICES

CATALYZE activities are also introducing new products and services as a direct response to the pandemic. In Western Balkans, we are in the process of designing a COVID-19 Dashboard that will provide feedback on indicators to help measure the impact of COVID-19 on critical areas of the economy (like health, real economy, financial markets, and government policy). The idea behind the dashboard is to help USAID and regional stakeholders monitor the impact of the crisis and inform upcoming programs, policies and support measures.

CATALYZE partners, Promoting Equality in African Schools (PEAS) and Kaizenvest, are bringing their experience in COVID-19 response from other markets. In Zambia, PEAS will offer a low-tech response to maintain contact with students using phone trees and text messaging as well as radio-based education. Kaizenvest will bring their expertise in involving and engaging with the family to provide at-home early childhood education in South Africa.

COVID-19 has depressed real economy demand and the incomes of millions of enterprises, small and large. In turn, assessments in multiple CATALYZE markets have documented depressed credit demand. Small businesses prudently have shown reticence to take on more debt in an economic plummet, with potential long-term structural implications. In some countries, especially those in the Western Balkans, Governments have doled out grants or enforced loan repayment holidays and other fiscal, monetary, and sector programs that have replaced or reduced the short-term demand for finance. We expect these real economy and financial sector issues resulting from the COVID-19 pandemic will have lasting impacts on the supply of and demand for capital at least for another one to two years. Many banks seem safely liquid and will be in no rush to accelerate lending, especially not into new markets that they likely will only

perceive as riskier than they had previously. Investors and capital providers will likely remain cautious in starting or scaling up funds. And many small and medium enterprises may remain shy to over-burden their balance sheets with new debt, especially when they likely will have to begin repaying debts now subject to payment holidays.

Given this landscape, CATALYZE will need to find counter-cyclical and new growth investment opportunities that still align with our development objectives. For example, edtech and promotion of digital delivery of business support services may feature more prominently than they might have pre-COVID-19. Staple industries, such as agriculture, could present relatively safer investment profiles than might have otherwise been the case. Equipping businesses to deal with new realities in the wake of COVID-19 may justify a higher proportion of technical assistance for finance seekers, relative to our budget allocations for Intermediary incentives.

Finally, CATALYZE expects that local sources of capital will play an even larger role in our pursuit of private capital than what we projected at project inception. Travel restrictions and new or exacerbated information asymmetries faced by international investors will continue to raise barriers for international investors (impact and commercial) to invest, especially in the frontier markets that comprise most of CATALYZE's portfolio. Furthermore, we believe that many of the finance seekers, for example enterprises, that will serve the populations that our development objectives are meant to reach will be small- to medium-sized enterprises that require locally denominated debt to finance their endeavors. In turn, CATALYZE is well equipped to deploy its P4R approach for local business and transaction advisors and financial institutions, complemented by local market systems building interventions.



## OBSERVATIONS AND LESSONS LEARNED

During our first year, the focus of CATALYZE was set-up and start-up activities. Most of our buy-ins were confirmed in May/June 2020 and have only begun market assessments, planning, and other early stage implementation activities in the last quarter of the project fiscal year. Given that we have just started rolling out our activities, most of the learnings from the first year were operational rather than technical and provide strong insight into moving forward effectively and efficiently over the remaining life of the project. Here are some things we learned during this initial phase:

## ESTABLISH A COMMON UNDERSTANDING OF BLENDED FINANCE EARLY ON

For many USAID Mission staff, blended finance is a new approach, and some have a marginal understanding of financial markets and the potential role of private capital in supporting social sector development goals. This can lead to confusion in early co-creation discussions. The CATALYZE team has learned that it is important to engage with the Missions early on to gauge Mission staff's familiarity with financial concepts. Using this information, the initial co-creation discussions can be tailored to include a background introduction to financial concepts, definitions, and the role of blended finance in development.



USAID Missions that are not familiar with blended finance projects often find setting monitoring and evaluation targets around capital mobilized daunting. To support the buy-in process and help Missions in designing future projects focused on blended finance, the CATALYZE staff plans to develop a methodology or tool on how to calculate an achievable multiple for capital mobilized considering factors such as country, program focus, and sector.

## USE COVID RESPONSE TO BUILD RESILIENCE

Developing and implementing projects in a COVID-19 environment creates additional uncertainties and operational complexities. CATALYZE is tackling this issue by presenting missions with a menu of operating approaches and structures, including remote assessments and co-creations using digital engagement tools and making full use of the range of subcontracting options to engage local partners or consultants, or work through core international subcontractors who have country experience or presence.

COVID's significant, unanticipated negative impact on economies around the world is not unlike other economic crises, past and future. Activities to help SMEs weather this shock should be designed to address both the immediate crisis and create resiliency to weather further shocks. CATALYZE will use proven blended finance approaches, such as pairing technical assistance to help SMEs increase efficiencies or pivot operations with access to emergency working capital or variable payment loans to provide short term relief and long-term resiliency for SMEs. The challenge of capital mobilization through traditional sources of financing such as commercial banks during a period of global economic crisis offers an unanticipated opportunity to mobilize non-traditional sources of financing for SMEs.

## USE CO-CREATION AND CO-DESIGN APPROACH TO BRING DIVERSE PERSPECTIVES

A co-creation and co-design approach engages stakeholders and takes a participatory approach to program design. Several CATALYZE buy-ins have adopted this approach throughout the project cycle from gathering local insights during the assessment phase, designing project activities to developing monitoring, evaluation and learning plans. The co-creation process is time-consuming and requires substantial preparation to gather and synthesize diverse feedback from participants. However, when done right, we have found the co-creation approach to be very valuable. It gives stakeholders a sense of ownership, crowds in local knowledge and helps to create shared goals.

## HIRE WITH DIVERSITY AND INCLUSION IN MIND

As we expand the CATALYZE team in Washington DC and start recruiting for the field offices, we have adopted measures to ensure diversity and inclusion, such as asking our Gender-Smart Investing Specialist, Emily Brearly, to advise buy-in teams on ensuring gender equity in recruitment and hiring. This includes examining the job requirements closely to reduce implicit bias and broadening recruitment networks (which may include sharing the vacancy announcement in leading local newspapers). This Broadening typical results in a larger candidate pool which often requires more time and resources to sift through the applicants and shortlist candidates, however we feel the additional upfront effort is worth the investment to identify uniquely talented candidates. We are also standardizing interview processes by asking established questions and using the same scoring methodology for all candidates.

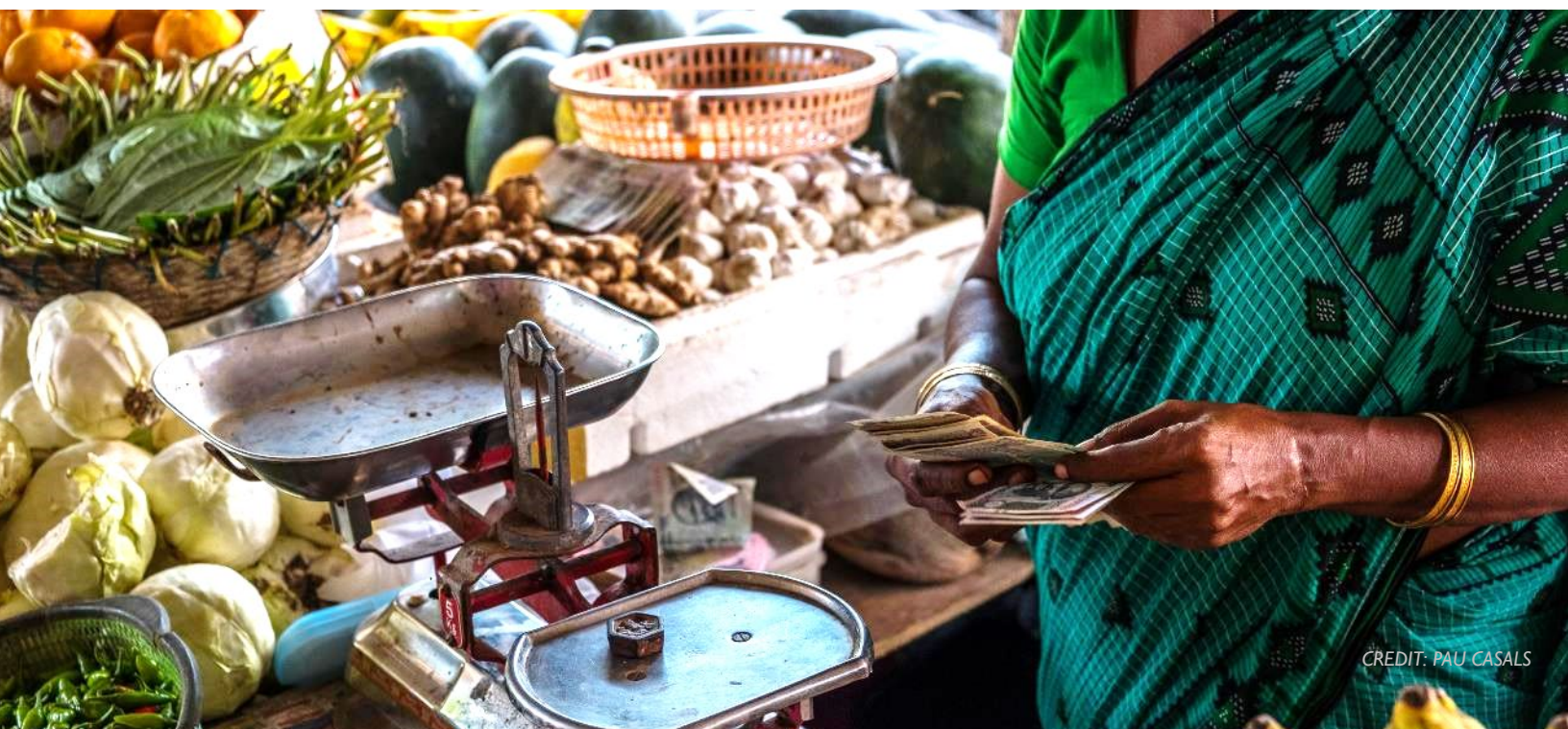
## REIMAGINE PROCUREMENT TO SURFACE INNOVATIVE SOLUTIONS

Early on during start-up of the Sri Lanka Private Sector Development (PSD) buy-in, USAID/Sri Lanka obligated \$2M in funding for providing relief for the secondary impacts of COVID-19 in Sri Lanka. The Mission requested that PSD solicit innovative concepts from potential grantees and sub-awardees that would address the secondary economic impacts of the pandemic, with the guidance that it should be open ended in order to invite as broad a response as possible. However, once we advertised the funding opportunity, it became clear that Sri Lankan organizations would benefit from additional guidance on both structuring their concepts and submitting proposals and applications correctly. The concept notes we received after the first-round deadline varied widely in budget (from \$15,000 to \$2M) and scope and during evaluation none of the concepts were found to be feasible within PSD's scope. Acknowledging these issues, PSD is in discussions with the USAID Mission on fine tuning both the technical scope laid out in the funding opportunity notice as well as improving outreach to include guidance on how to apply for funding.

## STREAMLINE COMMUNICATIONS APPROVAL PROCESS AND SEGMENT MESSAGING FOR DIFFERENT STAKEHOLDER

As CATALYZE matures, its working practices are improving continuously. For example, the pathway of approvals for communications materials was early-on identified as a major project bottleneck. Communications materials had to go through several layers of internal CATALYZE approvals before passing to the relevant USAID Missions, USAID Communications team and USAID Contracting Officer's Representative, which could cause substantial delays. While some of this is unavoidable, given important content sensitivities and risks we are working with, the USAID team is creating standard approval processes that indicate who needs to sign off and provides guidance on how long the approval process might take. This can help us plan better especially when it comes to time-sensitive communications products.

Our communications products are often very USAID-centric and contain a lot of jargon and acronyms that are not easily understood by external audiences. We are making a conscious effort to create stories, blogs, factsheets etc that use more conversational language and are more easily understood by external audiences and stakeholders outside of USAID.



## SPOTLIGHT: LESSONS LEARNED ABOUT COST PLUS AWARD FEE CONTRACTS

One of the central themes of the CATALYZE project approach to mobilizing capital for development is the use of pay-for-performance or pay-for-results approaches, including in subcontracting and grant under contract mechanisms. Following this theme, the prime contract for CATALYZE is a hybrid Cost Plus Fixed Fee (CPFF) and Cost Plus Award Fee (CPAF) contract. The CPAF mechanism is still uncommon in USAID contracts, but well suited to the nature of the CATALYZE activity, which aims to incentivize new and innovative approaches to mobilizing capital, while generating learning and knowledge for USAID. In a CPAF structure, activity costs are reimbursable, but fee is only awarded based on USAID's periodic assessments of contractor performance. Working with this new mechanism in the first year of implementation has generated a number of lessons learned for both USAID and the CATALYZE team on how to ensure the CPAF contract mechanism is being used effectively.

- **CPAF works best with a Statement of Objectives (SOO)/Performance Work Statement (PWS).** The award fee, (pay-for-results) approach is designed to incentivize the contract awardee to achieve the goals of the project using whatever approaches and tools they think appropriate. This creates room for crowding in new partners and ideas and generating valuable learnings. However, it is still useful to have a unifying document that outlines the scope of the activity, ensuring USAID and the implementing partner agree on overall project focus. To enable adaptive management and focus on results, the USAID Private Sector Engagement Hub and CATALYZE found it most useful for the relevant USAID Missions and Bureaus to set out their goals in a Statement of Objectives (instead of a more prescriptive Scope of Work), and then work with CATALYZE to develop a Performance Work Statement. These two documents focus on the goals of the activity (for example capital mobilized), and the resources available (funding obligated, years of implementation), rather than the 'how' (specific activities, partners or staffing structures). This approach allows the implementing partner maximum flexibility to adapt and innovate in the effort to reach the activity goals and maximize results, and consequently, the fee earned.





- **Contracting Officers are critical resources for educating all stakeholders.** Most USAID Missions and Bureaus and implementing partners have never encountered a CPAF mechanism. The complex process requires all stakeholders to clearly understand the structure, steps, and incentives of the mechanism and the role that each stakeholder will play. Under CATALYZE this was amplified because the process involved not just the implementing partner, prime contract Contracting Officer, and Contracting Officer's Representative but also the relevant Missions and Bureaus. To address this learning need and mitigate misinterpretation and poor understanding of the contract language by both implementing partner and USAID technical teams, it was critical to involve the expertise of the contracting experts from both teams. Having the contracting officers readily available throughout the process is critical in helping translate contract language, clarifying misunderstandings and recognizing the mechanism's implications, rules and limits.
- **Standard templates and methodologies increase efficiency.** In addition to educating all stakeholders on the structure and incentives of the mechanism, it is helpful to develop a set of templates that standardize and systematize the steps from developing the award fee percentage and calculating the award fee pools for each period, to selecting the period specific award fee criteria and weightings and presenting the evaluation and final calculation of the award fee. Developing formulas that use objective criteria or data to help calculate things like the award fee (based on factors such as sovereign credit ratings, or investment statistics by sector) or the targets (based on benchmarks such as foreign direct investment or gross capital formation) can help create realistic benchmarks that facilitate negotiation and finalization of these key aspects of the award fee plan. Palladium has drafted and proposed a set of methodologies and templates to help both with facilitating the initial award fee negotiations and to help organize and systematize the multi-step award fee evaluation process.
- **Plan ahead and set realistic timelines.** As described above, the award fee design and implementation process have many steps and, especially at contract start, requires some negotiation. These discussions, which establish the ceiling budget, period of performance, award fee percentages and award fee criteria are all designed to happen in coordination with contract signing (or transfer of funds in a buy-in scenario) and before implementation begins. Because of the potential complexity of the process it is best to leave at least a month, but preferably 2-3 months, for these initial negotiations and planning steps. Beginning implementation before completing these initial steps can complicate and slow down negotiations. If an implementing partner has already made staffing or subcontracts decisions based on one set of CPAF assumptions, any changes to those assumptions that would impact project design become very costly and difficult to negotiate. For this reason, although USAID and the implementing partner are both eager to begin implementation, it is best to establish all award fee plan criteria and processes before the project begins, providing clear goals and incentives for the implementing partner to design and adapt the program to maximize results.

## LOOKING FORWARD

The focus of our first year was to work closely with USAID Missions and Bureaus to set up 17 “buy-ins” and negotiate the terms and deliverables. The “buy-ins” are currently at different stages of roll out. We hired over 20 staff and successfully onboarded them remotely during the pandemic. In addition, we identified three sub-contractors through a procurement process - Moonshot Global for monitoring, evaluation and learning services, Open Capital Advisors for intermediary assessment, training and capacity-building and Dalberg for market assessments, and tool development. A fourth sub-contractor, Aspen Network of Development Entrepreneurs (ANDE), which will work on knowledge management and stakeholder engagement, is currently pending approval from USAID.

On the Communications front, a CATALYZE page was created on the USAID website ([www.usaid.gov/catalyze](http://www.usaid.gov/catalyze)) and the first draft of the communications strategy was shared with the USAID Private Sector Engagement Hub. The CATALYZE team is currently working on creating a suite of marketing and communications collateral for various stakeholders.

The CATALYZE team is working alongside Moonshot Global to develop Monitoring, Evaluation and Learning (MEL) plans for the buy-ins through a series of consultative sessions and co-design workshops with relevant stakeholders. The MEL plans for the Ethiopia, Edufinance, Sahel, Peru and Western Balkans buy-ins are expected to be completed by December 31, 2020. The process will also help to surface knowledge management and learning priorities for CATALYZE. Here are some illustrative targets for development impact CATALYZE will try to reach at the end of 5 years. These may change once the buy-ins finalize their MEL plans.

1. \$1.02 billion private sector capital deployed in investments and/or transactions aimed at achieving development outcomes
2. 15,000 micro, small and medium enterprises (MSMEs), business advisory service providers (BASPs), financial and non-financial institutions receiving CATALYZE support
3. 80% change in awareness of blended finance best practices among USAID staff and engaged market actors
4. 40% of participants in CATALYZE programs designed to increase access to productive economic resources (assets, credit, income or employment) are female

While the first year was about setup of the buy-ins, this upcoming fiscal year will be about delivery, whereby we will mobilize private capital and achieve development impact. As part of this process, we expect to hire field teams in Peru, Sri Lanka, Ethiopia, Sahel and Western Balkans and two EduFinance regional leads in Zambia and Democratic Republic of Congo. We will also finalize the monitoring, evaluation and learning plan for the buy-ins and work on capturing baseline data. As we implement our activities, we will share success stories as well as toolkits and learning products on blended finance. In addition, we hope to create knowledge-sharing opportunities to encourage cross-fertilization of ideas across buy-ins as well as increase the proficiency of USAID Missions and Bureaus on blended finance

<sup>i</sup> 5 year baseline with possible 3 year extension

<sup>ii</sup> Convergence, State of Blended Finance 2019, <https://www.convergence.finance/resource/13VZmRUtiK96hqAvUPk4rt/view>

<sup>iii</sup> World Bank, Poverty and Shared Prosperity 2020, <https://www.worldbank.org/en/publication/poverty-and-shared-prosperity>

For more information contact:  
Roland V. Pearson, Jr.  
Executive Director, CATALYZE  
[CATALYZE@thepalladiumgroup.com](mailto:CATALYZE@thepalladiumgroup.com)

[www.usaid.gov/catalyze](http://www.usaid.gov/catalyze)