

## PRIVATE SECTOR ENGAGEMENT: AN OVERVIEW

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### Investing with MCC

MCC invests in projects that lead to economic growth and help people lift themselves out of poverty by focusing on the underfunded areas of development like roads and infrastructure and expanding access to vital services like electricity, education and clean water. MCC investments are revitalizing and strengthening energy sectors across Africa, improving market access and information for small-holder farmers globally, and providing technical and vocational training for the next generation, among others. MCC's deep analysis and sector-wide approach ensures all its projects meet the strictest environmental and social standards.

*MCC's model and approach is oriented around creating the right circumstances for businesses to invest in partner countries.* Catalyzing the private sector for development is fundamental to MCC's work and helps ensure long-term sustainability for its investments. We strongly believe that strategic long-term capital support is key to achieving lasting results. And like a venture capitalist, we offer a high-level of engagement to support our partner countries and build their capacity for growth while ensuring sustainability and stewardship that outlives MCC engagement. MCC provides a platform for mission-aligned investors, companies and grant makers to make investments at scale into vetted and viable projects with the goal of providing long-term sustainability. Working with MCC offers the following advantages -

1. **Targeted, strategic investment in growth sectors.** Our data and research powers investment decisions. We develop projects and make investments with *data-driven analytical rigor and a focus on results* that target the barriers to growth in partner countries.
2. **Access to new markets.** Our Compacts connect investors to new, underserved markets on a geographical basis – Africa, South East Asia, Eastern Europe, Latin America – or a sectoral interest – energy, water, infrastructure, finance, climate change, agriculture, education, and human development, while expanding access to vital services and creating new opportunities for the poor to participate in the global economy.
3. **Success Tracking and Pushing Boundaries.** Promoting US best practices and innovations abroad while building new markets, MCC investments tackle poverty and create more stable, prosperous countries through sustainable, inclusive growth with stringent monitoring and evaluation processes to measure success.

### Private Sector Engagement

MCC *prioritizes private sector engagement* throughout its investment development and implementation cycles. By strategically engaging the private sector at the earliest stages of the compact development and investment cycle, MCC aims to leverage private and public resources to advance development objectives in MCC's partner countries and further align private investment with development priorities to strengthen impact.

MCC recognizes that robust private investment is key to sustaining economic growth and understands that potential investors consider risks and rewards associated with a country's business climate, sector-specific policies and private and public institutions. Within this context, MCC is actively involving the private sector in its programs in three ways:

#### **Process:**

MCC conducts intensive consultations with the private sector, including business, NGOs and civil society to understand key growth sectors, obtain insights into program design and identify opportunities for collaboration during compact development and implementation. MCC continues to engage stakeholders throughout the compact process to catalyze private sector interest, mobilize additional capital and foster commercial activity that complement MCC's own direct compact interventions, leading to increased trade and investment.

**Projects:**

MCC creates opportunities for private capital to invest in and around our projects through public private partnerships, co-investments and parallel investments. Our projects mitigate investment risk and foster private sector development by improving regulatory and policy frameworks while supporting private enterprise financing and financial sector development.

**Procurement:**

MCC and partner countries offer worldwide business opportunities for the private and non-governmental sectors through procurements issued for goods and services during compact development and implementation. MCC encourages U.S. companies to compete to provide goods, works, and services to execute our investments in procurements that are fair, open and competitive.

MCC integrates private sector governance principles, expertise, competition, and investment in and around our compact programs through:

- **Private sector participation in Advisory Councils:** Advisory Councils provide MCC and partner countries with operational advice and insight on innovations in infrastructure, technology, and sustainability; perceived risks and opportunities in emerging markets; and new financing mechanisms. In addition to the MCC Advisory Council, which meets at MCC headquarters twice a year and serves as a forum to seek advice from the private sector about operational-level work in MCC's country portfolio, MCC plans to establish a few pilot Advisory Councils at the partner country level to institutionalize the practice of systematic engagement with the private sector.
- **Private sector outreach:** MCC engages private investors through open and sector-targeted consultations, public requests for information, and calls for ideas with MCC-eligible countries as part of the compact design phase;
- **Procurement outreach:** MCC conducts outreach with U.S. companies to build awareness of the procurement opportunities generated through MCC investments in our partner countries; and
- **Policy and regulatory reform to promote private investment:** MCC utilizes compact investments to incentivize policy and institutional reforms that facilitate open markets and greater opportunities for private investment.

## PRIVATE SECTOR ENGAGEMENT: IN PRACTICE

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While private financial flows to developing countries far outweigh official aid, most private capital is destined to only a few major emerging markets. MCC's partners have grown significantly over the past two decades and are receiving increasing amounts of private capital, but most of their economies remain small, and troubled by high rates of poverty, low savings, difficult business environments, weak institutions, and low labor productivity. These factors shape MCC's ability to stimulate private investment and expand private enterprise in them.

### **Public-Private Partnerships**

MCC recognizes the importance of leveraging private sector expertise and capital towards large infrastructure investments through public private partnerships (PPPs). Given the limits on public budgets and donor resources, MCC has made "leverage" a key element of its operational strategy. While MCC has historically invested in infrastructure and in improving enabling environments through policy and institutional reform, MCC is taking collaboration with the private sector to the next level by actively seeking out PPP opportunities in its infrastructure portfolio and by assisting in the preparation of bankable PPP projects to help governments find new ways to finance and manage their infrastructure needs. Providing attractive business opportunities for the private sector amplifies MCC compact objectives. ***MCC's extensive investment in early project preparation and due diligence expands the pipeline of bankable projects***, including public-private partnerships. More broadly, MCC's grants can and should also be used to target roadblocks to the flow of private capital, such as information failures, skill deficits, collective action problems, and first mover costs and risks.

### ***MCC's Public-Private Partnership Platform***

In July 2015, MCC launched an initiative to assist partner countries develop financeable public-private partnership (PPP) projects over the next five years to help bridge the expanding infrastructure gap and support inclusive economic growth. The Public-Private Partnership (P3) Platform is a commitment of \$70 million in MCC grants to support P3 in partner countries.

MCC's P3 Platform:

- Leverages MCC's focus on policy and institutional reforms to help MCC partner countries create the conditions for private sector investment.
- Brings financially viable public-private partnership projects to market that meet international standards for technical feasibility, financial structuring and social and environmental safeguards.
- Compiles a comprehensive, coordinated package of tools and resources on financing, technical assistance, and technology transfer from U.S. Government agencies to support the preparation of selected P3 projects
- Unlocks investment and growth opportunities for U.S. companies in MCC's partner countries, and catalyzes critical financing that will advance MCC's mission of reducing global poverty.

### ***Viability Gap Financing: Jordan Compact***

MCC, in partnership with the Government of Jordan, recently completed a five-year, \$275 million investment that is expected to benefit more than three million people across Jordan. As one of the most water poor countries on Earth, most households receive water only once or twice a week and depend on expensive outside sources of water to meet basic needs. The projects were designed to increase the supply of water available to households and businesses and improve the efficiency of water delivery and wastewater treatment.

Building on earlier work by USAID, MCC's Jordan Compact provided \$93 million to help the government finance the As-Samra plant expansion. ***MCC's investment helped mobilize an additional \$110 million from the private sector and \$20 million from the Jordan Government, representing MCC's first large-scale public-private partnership in infrastructure.*** The public-private partnership financing structure multiplies MCC's investment impact and furthers the project's sustainability, with the private sector committed to operating and maintaining the As-Samra plant for 25 years.

The public-private partnership financing structure multiplies MCC's investment impact and furthers the project's sustainability. The partnership has helped make the Jordan Compact one of MCC's most successful — transforming a key element of Jordan's water sector on time and under budget. The innovative approach will serve as a model as MCC works with its partner countries to mobilize and attract the capital, expertise and efficiency of the private sector to deliver high-quality, affordable and sustainable development outcomes.

### **Innovation Grants**

Challenge or matching grant facilities within MCC compacts are used to ***identify and support co-investment and parallel financing opportunities that advance the compact's goals or test solutions*** to address a particular development problem. Designed to spur shared value, these funds are accessed on a competitive basis according to transparent evaluation criteria.

### ***Green Prosperity: Indonesia***

MCC's \$600 million compact with Indonesia is designed to reduce poverty by promoting economic growth through three projects: the Green Prosperity Project; the Community-Based Nutrition to Prevent Stunting Project; and the Procurement Modernization Project.

Green Prosperity, the largest project of the Indonesia Compact, seeks to address critical constraints to economic growth while supporting a more-sustainable, less carbon-intensive future. MCC's \$332.5 million project provides ***commercial and grant financing to help mobilize greater private sector investments in renewable energy and sustainable land use practices.*** The

project provides technical assistance to support project preparation, improve land use planning and strengthen local and regional capacity to pursue low-carbon development.

Green Prosperity is an innovative project to fight poverty that supports Indonesia’s economic and environmental priorities, with the intent of establishing a new and lasting model for developing, financing, and implementing green growth projects at the local level. The project will help catalyze greater private sector investment in low-carbon growth strategies for Indonesia, spur local entrepreneurship through emerging opportunities in renewable energy and innovative land use practices, and build greater capacity and commitment among government, civil society, and the private sector to the principles of sustainable development.

### **Sector Reform and Parallel Investments**

MCC compacts help create enabling environments for trade and investment activity that make it easier for companies to expand into developing markets through pro-growth policy reforms and upgraded infrastructure. A country’s ability to meet MCC’s eligibility standards is widely regarded as a seal of approval, signaling to the private sector the country is well-governed and “open for business.”

MCC compacts often build a foundation for parallel or post-compact investments by the private sector. Private sector investment in projects complementary to compact investments enhance the impact of MCC’s work while catalyzing economic growth.

#### ***El Salvador Investment Compact***

The five year, \$277 million El Salvador Investment Compact seeks to increase private investment in El Salvador by improving key logistical infrastructure, workforce skills, and regulatory and institutional effectiveness that the country needs to increase productivity. The Compact’s Investment Climate Project will help the GoES eliminate and streamline regulations and improve the investment climate while stimulating investment through:

- El Salvador Investment Challenge (ESIC). This innovative grant facility of \$75 million is designed to efficiently and transparently allocate scarce public resources and encourage private investment in the trade sector by providing matching funds to catalyze infrastructure and public service investments in key areas required for private sector-led growth.
- Public Private Partnerships (PPP). The Compact aims to strengthen the capacity of GoES to use PPPs as an alternative way to finance, manage and sustain infrastructure and other public services, including by helping GoES to bring specific PPP projects to market. The Compact currently is supporting the development of four potential PPP projects as well as a pipeline of additional PPP projects.

#### ***Ghana Power Sector Compact***

The five-year, \$498.2 million Ghana Power Compact seeks to reduce poverty and open Ghana’s energy markets to private investment by supporting the transformation of Ghana’s power sector. The compact aims to create a financially viable power sector that will meet the needs of households and businesses, as well as create credible off-takers for fuel supply and generated electricity.

A private sector stakeholder group was consulted throughout compact development. This stakeholder group consisted of gas and power generation and distribution companies, including independent power producers, international banks and financial institutions, equipment suppliers, utility managers and international oil companies. The stakeholder group identified the following key constraints to investment that the compact addresses:

1. Existence of a credible off-taker
2. Provision of reliable gas supply
3. Development of a clear, robust independent power producer framework

General Electric credits MCC’s engagement with the Government of Ghana and the private sector on power sector reform as a key factor in its decision to build a 1,000-megawatt power park valued at \$ 1. 5 billion.

**Areas for Future Engagement**

***Blended Finance***

MCC is uniquely positioned within the USG, finance sector and wider develop community to play a more catalytic role in the strategic use of development finance to mobilize private capital flows to our partner countries. MCC can continue to push the boundaries of blended finance to drive significant new capital flows into high-impact, growth sectors in our partner countries while effectively leveraging private sector expertise in project design and development outcomes. In continuing to strengthen its blended finance role, MCC aims to align business strategies with development priorities and strengthen outcomes through:

- ***Leverage*** – use of MCC funding to attract private capital in and around compact projects,
- ***Impact*** – making investments that drive social, environmental and economic returns in partner countries,
- ***New Markets and Risk mitigation and Returns*** – opening new markets in partner countries to private investors with returns that are in line with market expectations and perceived risk.

***Innovation***

Complex development issues and the desire to create markets that benefit the poor and underserved and bring them into the global economy requires new approaches and innovative thinking. Market-based solutions have significant potential to address development challenges and innovative business models can build and sustain markets for socially beneficial goods and services, without permanent reliance on public support. Enterprises and entrepreneurs are key drivers of economic growth and job creation, and form a large part of the innovation landscape in developing economies. Yet many enterprises and entrepreneurs in MCC partner countries lack the resources and the know-how to source innovations and grow.

By catalyzing innovative inclusive business models and providing early stage grant funding to ventures that want to adapt proven innovations and business models with the potential to reduce poverty, MCC, through its partner country model, is uniquely positioned to find innovations validated by evidence, and help partner country governments and the private sector scale and sustain them. By focusing on innovations that have already passed the proof of concept stage and have a performance track record, MCC will further drive systemic impact in it partner countries.

**Annexes**

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1. MCC: An Overview
  - Outlines MCC’s Model and Agency responsibility for engaging the private sector
2. Current MCC Compacts
3. Compact Lifecycle Timeline

## MCC: AN OVERVIEW

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Founded as an innovative and independent U.S. foreign aid agency in 2004, MCC provides *competitively selected, well-performing developing countries with large-scale grants to fund country-led solutions for reducing poverty through sustainable economic growth*. MCC sets clear and transparent criteria for country selection based on ruling justly, investing in people and economic freedom. MCC's investment is called a compact and *is identified and designed in partnership with partner country governments*. With portfolio of over \$11.5 billion, the Millennium Challenge Corporation consistently expands the frontiers of development effectiveness.

### 1. Founding Principles:

- MCC's single mission: **reducing poverty through economic growth**.
- Aid is more effective in countries where there is *good governance, personal and economic freedom, and investment in people*.
- *Country ownership* of programs from the start is essential for sustainable success.
- *Data-driven analytical rigor and a focus on outcomes* should govern resource allocation, project design, and results measurement.
- *Transparency and accountability* must be embedded in all aspects of the country partnership

### 2. Evidence-based Approach:

MCC's commitment to making *decisions based on data and evidence* pervades all stages of its engagement.

- *Chooses partners based on 20 publicly available indicators* that measure democracy, good governance and sound economic and social policies.
- *Focuses* compacts based on the *binding constraints to economic growth* in the countries.
- *Chooses projects based on careful due diligence, including cost-benefit analysis and beneficiary analysis to ensure cost-effectiveness*, and a projected economic rate of return (ERR) greater than 10 percent
- *Monitors and tracks progress* through the life of the compact, making adjustments to programs as needed.
- *Emphasizes outcome measurement* to be able to assess how and if projects boost living standards for beneficiaries.
- *Draws lessons from rigorous evaluations* conducted by independent experts.

### 3. Focus on Results:

MCC is committed to achieving and measuring results, holding itself accountable for those results, transparently reporting its results data and evaluations, and learning from the evidence to improve future programs. MCC targets and achieves results in the following three ways:

- MCC **catalyzes results by incentivizing good policies and reforms**. MCC's stringent eligibility criteria and global credibility have created a powerful incentive for reform. *The MCC Effect* – countries are changing their laws in order to improve their performance and qualify for MCC assistance.
- MCC **drives results through its compact and threshold investments** which are tracked meticulously and evaluated independently.
- MCC **promotes systemic change in policies, institutions, and sectors that outlives MCC engagement**. It models best practices that are adopted and absorbed by partner countries. MCC's unique **model increases partner-country capacity and promotes sustainability, accountable fiscal stewardship, and transparent procurement processes** that outlast the lifetime of its compacts.

## The Agency, Responsibility and Accountability

MCC is a small agency of approximately 300 employees. Employees work in one of six departments. The Department of Compact Operations (DCO) *manages the day-to-day operational relationship with countries eligible to develop compacts and with countries that have signed compacts* with MCC and are implementing programs. In addition, with partner countries, DCO:

- *Prioritizes investments* to address binding constraints to growth;
- *Identifies areas for collaboration* with other development agencies and the private sector;
- Provides *technical and regional expertise* to ensure rigorous oversight of USG resources;
- *Promotes MCC core standards of accountability* by providing *technical expertise* fiscal accountability, procurement, environment and social performance, and private sector engagement; and
- *Tracks and reports on the performance* of MCC compact programs by collecting and analyzing performance measurement data.

DCO divides the management of the MCC compact portfolio into *two regional divisions* - Europe, Asia, the Pacific and Latin America (*EAPLA*); and *Africa*; and *two operations divisions* – Sector Operations (*SecOps*) and Infrastructure, Environment and Private Sector (*IEPS*). Within these two operations divisions are the two practice units primarily tasked with engaging the private sector:

### Finance, Investment and Trade Practice

MCC's Finance, Investment and Trade (FIT) practice *leads the agency's private sector engagement* and works collaboratively across the agency. FIT is a cross-cutting provider of advisory services, serving as the hub for motivating and tracking private sector-related activity, and provides technical leadership on projects focusing on enterprise development and business climate. FIT draws on skills from across the agency as well as specialized external expertise. Collectively, these efforts result in increased impact through better-designed projects that strengthen the private sector in MCC's compact countries.

FIT is the private sector's counterpart in exploring and navigating pathways for investment in MCC countries Overall, FIT *mobilizes private sector capital, resources and knowledge to catalyze and sustain economic growth.*

### Office of Strategic Partnerships

In March 2016, MCC established an Office of Strategic Partnerships (OSP) with the mandate to set *MCC's vision and strategy around partnerships*; develop the partnership infrastructure, lead knowledge management, and support to MCC staff in advancing partnerships; and provide leadership on corporate strategic partnership priorities. The range of potential strategic partnerships creates a demand for a focused approach and specialized skills sets within MCC to ensure that we reach our goals, enhance impact and sustainability of our operations, and augment MCC's principles and presence as an essential institution within the USG.

## CURRENT MCC COMPACTS

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**Benin:** The \$375 million Compact, which includes a \$28 million contribution from the Government of Benin, aims to strengthen Benin's national utility, attract private sector investment, and fund investments in electric generation and distribution infrastructure and off-grid electrification for poor and unserved households. It will have four components: 1) increasing generation capacity, output, and efficiency; 2) improving distribution and reducing technical and commercial losses; 3) improving corporate governance, financial management, and commercial operations of the utility; and 4) institutional reform and support for the power sector.

**Cabo Verde:** This \$66 million Compact with Cabo Verde is intended to increase household incomes by reforming two sectors identified as current constraints to economic growth: the water and sanitation sector and the land management sector. Each Compact project is an important component of the Government of Cabo Verde's economic transformation agenda, focused on shifting from a reliance on foreign aid and remittances to mobilization of private sector investment and improved domestic resource management.

**El Salvador:** Signed in 2014, this \$365.2 million Compact strengthens the Government of El Salvador's commitment to partner with the private sector to stimulate more investment and to prioritize and implement reforms needed to increase the effectiveness of key regulations and institutions. In addition, the Compact aims to improve the quality of education and skills development for Salvadoran students, thus increasing the labor productivity of future workers and improve critical portions of the logistical corridors.

**Georgia:** With \$140 million, this Compact, signed in 2013, seeks to increase the earning potential of Georgians through improvements in the quality of education in science, technology, engineering, and math (STEM) fields, and strategic investments in general education through technical training or advanced degree programs. The compact promotes shared American values through a focus on increasing women's participation in STEM professions.

**Ghana:** The \$498 million Compact with the Government of Ghana focuses on increasing economic growth by addressing problems in the power sector through catalyzing private sector investment in power generation and distribution as well as improvements that will reduce load shedding, power losses, and outages that currently affect millions of Ghanaians. The Program will support the turnaround of Ghana's electricity sector and stimulate private investment to create a self-sustaining sector meeting the current and future needs of households and business while ensuring inclusive access to power by its citizens.

**Indonesia:** Entered into force in 2013, this five-year, \$600 million Compact with the Republic of Indonesia is designed to reduce poverty through economic growth. The compact will focus on three projects to achieve economic growth: 1. The Green Prosperity Project will support low-carbon economic growth by expanding renewable energy and improving the management of natural resources; 2. The Community-Based Nutrition to Prevent Stunting Project is designed to reduce and prevent low birth weight, childhood stunting and malnourishment; and 3. The Procurement Modernization Project is designed to achieve significant savings in government procurements and improve the delivery of public services.

**Liberia:** The \$257 million Power and Roads sector Compact with Liberia includes funding for: 1) Rehabilitation of the Mt. Coffee Hydroelectric Plant, critical power generation infrastructure that will provide up to 88 megawatts of additional power; 2) Support for the development of a nationwide road maintenance framework; and 3) Electricity sector institutional development and policy reform activities. MCC's continued focus on combining infrastructure investments with policy and institutional reforms is expected to help Liberia modernize its power sector and strengthen its road main

**Malawi:** The \$350.7 million Compact is a single-sector program focusing on Malawi's power sector. Projects include the rehabilitation and upgrading of generation, transmission and distribution assets, an environmental and natural resources management project to improve the performance of hydropower plants and a power sector reform project designed to make



ESCOM, the national power utility, a credit-worthy entity and improve the enabling environment for greater public and private investment.

**Morocco:** MCC's \$450 million Morocco Employability and Land Compact supports two Moroccan Government priorities that have posed binding constraints to economic growth and investment in Morocco: high-quality education and land productivity. By improving the policy and institutional environment and engaging the private sector, the Employability and Land Projects will address both the supply and demand sides of the labor market. Both projects take a targeted approach to developing and demonstrating new models and building capacity so those models can be replicated and scaled up after the compact is completed.

**Niger:** MCC's \$437 million Niger Sustainable Water and Agriculture Compact will support improvements to three major constraints to economic growth and investment in Niger: lack of reliable access to water for agricultural use and livestock; lack of access to markets; and a fragmented and inefficient business regulatory system. The Compact includes a cross-cutting private sector engagement strategy and was developed in consultation with dozens of private sector firms with infrastructure investments in irrigation and roads that will lay the foundation for increased production and trade of commercial agricultural commodities by Nigerien producers.

**Zambia:** This \$354 million compact aims to address one of Zambia's most binding constraints to economic growth through infrastructure investment in Lusaka, the rapidly urbanizing capital. The compact will invest in water supply, sanitation and drainage infrastructure with the goal of decreasing the incidence and prevalence of water-related disease, productive days lost due to disease and time to collect water, cost of water and new sanitation, and business and residential flood losses. The compact will also support the Government of Zambia's ongoing water sector reform efforts by strengthening partner institutions. More than 1 million Zambians are expected to benefit from the compact.

#### **Compacts in Development:**

- Burkina Faso
- Cote d'Ivoire
- Mongolia II
- Nepal
- Philippines II
- Senegal II
- Sri Lanka
- Tunisia

