

Chapter 26: Guidance for Private and Non-Governmental Sector Engagement

Overview

MCC recognizes the key role that the non-governmental sector – including the private sector (international as well as domestic, small- and medium-sized as well as large), foundations, philanthropic and social responsibility funds, non-governmental organizations (NGOs), non-profits generally, and international financial institutions - can play in economic growth and poverty reduction, particularly in regard to the sustainability of investment impact and the efficient mobilization and application of capital.

Although these are very different types of institutions, this guidance refers to them collectively as “the private sector” as a short-hand for non-governmental engagement and because of the importance MCC attributes to encouragement of commercial, for-profit engagement as an engine for economic growth. MCC wants to encourage government partners to reduce dependence on government action to solve problems, and is particularly interested in encouraging partnerships with the private sector in the narrower sense to catalyze and leverage investment. Funding under MCC compacts can go to the private sector, NGOs and other actors where there is a genuine public good which can be achieved through such funding.

MCC is especially interested in supporting partnerships which, directly or indirectly, contribute to making investment in a country or a sector more attractive to private (that is, non-governmental) capital. While this may be foreign inward investment, MCC is very much interested in domestic inward investment as well. MCC considers that in the long run, it is domestic markets and domestic capital that will underpin sustained economic growth. Consideration and, where feasible, inclusion of private sector partners and strategies for private sector development is expected to be a factor in the development and implementation of compact programs, and MCC will be seeking evidence that at a minimum private sector-led or directed strategies have been considered as part of the compact development process.

Alongside encouragement of broad types of partnerships focusing on program design and delivery, MCC is also interested in encouraging a broad range of financing instruments and innovative program content, including the application of new and appropriate technology. Attraction of new partners and promotion of new types of program content often depends on a creative use of the types of financing vehicles available. MCC is interested in encouraging new instruments – guarantees and other risk-sharing instruments, investment facilities, output-based aid, performance contracting, parallel financing, matching grants, first loss facilities, etc. – to the extent that such instruments can be used under MCC and USG policies. These types of instruments can be considered if they follow logically from the identification and analysis of constraints to growth, are part of projects that have promising returns in terms of poverty reduction and economic growth, and have the potential to increase the impact and/or sustainability of MCC funded investments.

Objectives of Private and Non-Governmental Sector Engagement

The private sector is not a blanket solution to all problems. The relevance and effectiveness of private sector engagement depends on a range of factors which need to be considered. For example, delivery of education and health programs may strongly benefit from partnerships among NGOs, public entities, and the private sector. Agricultural projects (including credit facilities, value-chain and market enhancement, applied technology, etc.) may depend on a creative engagement of the private sector for long term viability. On the other hand, delivery of certain goods and services – such as roads, schools, public clinics, or services like E-Government – is generally carried out by the public sector, sometimes with private sector operating contracts. MCC’s basic objective is to ensure that our country partners consider when and how the private sector can be most effectively and productively engaged in order to leverage or otherwise enhance project impact and sustainability. This may at times lead to relatively higher cost solutions, rather than a direct form of government implementation, but may reflect a better overall risk transfer or sustainability profile.

MCC is actively engaged in assisting country counter-parts to have as broad a range of options in regard to private

sector participation as possible. Working with our country counter-parts, MCC encourages in particular:

1. Implementing a private sector engagement strategy;
2. Leveraging compact funding;
3. Encouraging trade and investment that builds on compact investments; and
4. Optimizing procurements.

In pursuing private sector engagement, MCC encourages its country partners to develop a private sector engagement strategy or plan. In developing this plan, consideration should be given to such approaches as publishing formal solicitations for partnership proposals; retention of private sector advisory and training services; identification of sectors or regions which look particularly promising for economic growth (ideally as part of a broader analysis of constraints to growth analysis); production of business opportunity memos (highlighting areas identified in the constraints analysis); and recognizing opportunities to broaden competition in procurements in order to maximize potential cost-effectiveness. The discussion below provides further discussion, but is not intended to be exhaustive. MCC is happy to explore possible approaches more fully.

Implementing a Private and Non-Governmental Sector Engagement Strategy

As a country develops and evaluates project concepts and proposals, it is important to develop a strategy or plan to obtain specific feedback from potential private sector investors on how proposed projects under a compact can attract additional investment. Even where projects are likely to remain embedded in the public sector, it is often extremely useful to get private sector input on their design and ultimate impact. Involving potential partners as projects are being conceptualized and developed significantly increases the likelihood for leveraging MCC's grant, either through direct private sector participation in MCC projects or in complementary investments alongside MCC projects. International as well as domestic companies and organizations can offer significant insight about their perceptions of constraints to economic growth and investment in compact-eligible countries, and often have valuable experience with successful and unsuccessful approaches to addressing these constraints. MCC can assist countries in the development of such strategies or plans during the constraints analysis and project conceptualization phase.

MCC's compact development guidance requires that partner countries consider conditions for growth in private sector activity in their countries, and actively seek input from the private sector and other stakeholders. Some additional ways to approach obtaining and acting upon private sector feedback are summarized below, with more information and advice available from MCC upon request.

Private Sector Partner Research and Analysis

As a first step, a country can conduct systematic research to identify potential local and international partners and/or investors that could synergize compact investments with their own resources. For example, if a proposed compact activity includes support for a specific value chain, the country core team should reach out to input suppliers, transporters, finance providers, trade associations, and buyers, among others. The country core team can also conduct research and analysis of best practice private sector partnership models in priority sectors, identifying key factors for success and risks to mitigate. World Bank "Doing Business" indicators can also be used to identify priority investment climate constraints.

Engaging the Private Sector

Where potential for private sector engagement exists, it is important to explore directly the types of cooperation which make sense in a particular context and possible ways to formalize working relationships. These may range from parallel but largely separate activities through formal agreements to full and integrated collaboration. Over and above direct discussion, it is often useful to hold professionally facilitated workshops, roundtables, and targeted discussions with potential collaborators to ensure that all parties understand the concept or proposal and its objectives and to get the benefit of varying perspectives on project design and implementation. Such discussions also help to identify the roles, responsibilities, and resources which potential collaborators can add bring to a project. It may also be useful to publish partnership solicitations that seek feedback from the private sector on specific compact partnership opportunities or potential solutions for particular problems. Examples are available from MCC upon request.

Documenting Agreements between Parties

Where cooperation makes sense, it is important to document what is agreed so that all parties share a common understanding of expectations. As noted above, some forms of collaboration – such as parallel but separate project development – may only require some way of memorializing the understanding about how the projects will interface or relate to one another. Other forms of cooperation may rise to the level of legal, financial, or operational partnerships. In due course, some of these would require formal legal documentation. In both cases, it is important that all parties intending to collaborate develop what might be called “collaboration agreements”. While these would not be legally binding in most cases, they are a useful way of recording expectations about the roles and responsibilities, joint and separate activities, timelines, and resources required to move forward together. They should be based on a clear articulation of why a collaborative arrangement fits with the criteria MCC uses to assess the viability of proposed projects. An “action plan” should be the basis for moving from the conceptual to the substantive phase of project development. During that process, country core teams – in consultation with MCC - will need to consider the type of cooperative arrangement suited to the circumstances. Formal partnerships would require structuring and negotiation of terms for collaboration, including financing, as described in the section below.

Use of grant facilities

While MCC funding of the compact is itself in the form of grants, MCC also encourages the use of grant facilities as a method of disbursement on projects within compacts. Such facilities may be particularly useful as, for example, a mechanism for distributing compact funds in a number of small grants to individuals or firms (e.g., to allow farmers who have been in a training program to buy equipment). MCC is actively exploring the use of grant facilities to promote more innovative approaches to project design and development as well as to delivery of projects in the field. It is important to keep in mind that cooperative arrangements need to pass a number of tests, including an appropriate balance of public versus private goods, proper consideration of whether a procurement or a partnership is the appropriate vehicle for cooperation, effect on risk allocation, avoidance of undue subsidization, etc. For example, there might be a call for proposals from NGOs for ideas about how to address water management issues in a rural agricultural area or a design competition for energy efficient housing. Respondents would be selected to participate in design and development on the basis of such factors as relevant experience in the specified field (e.g., water management), relevant experience in the country, reputation for quality of service/product delivery, location in the target areas, availability of staff, etc. Forms of grant may also be used within the compact to implement certain projects (for example, farmers who have received training and need specific equipment, households who need assistance to purchase energy efficient appliances, NGOs who can deliver an important good or service but who need some form of matching grant to expand their activities even after making in-kind contributions).

Creating a Window for Innovation and Collaboration

MCC is exploring the possibility of creating “space” within the compacts for innovation, especially where it would involve taking advantage of opportunities for collaboration and partnership that arise after compact signing, as well as introduction of new approaches, including new technologies or financial products, as they evolve. Accordingly, country counter-parts are encouraged to consider creating “innovation and partnership facilities” within new compacts, based on a clear outline of the types of new engagements or project content which would be considered most suitable within the overall compact structure and having regard for the economic and investment constraints identified. These proposals should be linked to overall compact objectives and ideally to specific project proposals, but would allow for the possibility that new opportunities might arise during compact implementation. For example, a compact which included activities addressing energy accessibility and affordability issues might create an “innovation facility” for funding new innovations in alternative energy (e.g., solar or wind power) as they became available. Note that such facilities cannot simply be open-ended, and will require a basic structure and rationale which ensures that they meet core MCC policies and principles. “Innovation and partnership facilities” would need to have a clear project logic even where the specific activities and beneficiaries may be unknown, and would be approved based on such considerations as operational structure, proposed evaluation criteria (including minimal economic rates of return), relevance to addressing identified constraints, focus on relevant target populations or regions, etc.

Keeping Everyone Informed

Designing, developing, and ultimately implementing compact programs involves country teams and MCC staff working cooperatively in their respective spheres (for example, country teams on programming and MCC staff on due diligence and oversight). It is important that the parties work closely together, and this means keeping one another well informed about private sector engagement beyond the formal structures outlined in the compact development guidance. Both the country core teams and MCC in Washington are likely to be contacted by the private sector, and while some preliminary independent exploration of possibilities is appropriate, the other party should be informed at an early stage. It is important that proposed forms of collaboration are in compliance with the various policies and procedures which govern use of MCC funding as well as with local laws and regulations. In particular, the distinctions between what is appropriate for partnership and what is appropriate for procurement are issues which may require case-by-case analysis.

Leveraging Compact Funding

A key objective of cooperation on projects with the private sector is to increase leverage of skills, experience, technology, and funding in order to improve performance, impact, and sustainability. Many of the activities which MCC regularly funds can benefit from the additional resources of the private sector. Many NGOs, for example, are already engaged in delivering services (such as health, education and skills training) and goods (such as solar pumps, clean cook stoves, and mosquito nets) and can provide a tested and established basis for outreach and distribution alongside their specific target programs. Because of their existing networks and potentially complementary activities, they may be an efficient and effective delivery mechanism for new programs while bringing significant resources to a cooperative effort, rather than just providing services under a contract.

Private sector entities, including but not limited to social responsibility funds, can sometimes provide matching funding and co-financing for activities as well as at cost equipment, training, and support. The objective in developing a collaborative relationship is to consider: what is the problem we are trying to solve? And then to consider: what is the best way of doing so, given the available resources? In many cases, the answer to the second question will involve bringing in the private sector so that ultimately a “road project” may become a “road corridor project”, a “water and sanitation project” may become a “community development project”, and engagement of private sector entities may significantly increase the scope, resources, and technology available to a former training project.

In considering the more formal types of private sector engagement in particular, there are a number of resources which are available in the public domain. These include the following donor facilities that award grants for technical assistance, workshops, feasibility studies, and transaction execution. They welcome funding applications for any type of project, but are particularly interested in applications that directly support development or implementation of a compact project. Any core team interested in formally applying for funding from one or more of these three resources should inform MCC, as MCC has existing institutional relationships with each.

Public-Private Infrastructure Advisory Facility (PPIAF)

PPIAF funds consultants to design and implement strategies for private sector participation; stakeholder consultation; policy, regulatory, and institutional reforms; capacity building; and facilitation of pioneering transactions. MCC is an official donor to this trust fund so has direct access to its resources. PPIAF is funding a financial sustainability plan for the Malawi compact’s proposed power project and transaction design for the Mozambique compact’s water project.

Global Partnership on Output-Based Aid (GPOBA)

GPOBA funds consultants to design output-based aid (OBA) schemes. OBA seeks to increase access by poor communities to basic public services through innovative delivery approaches, such as performance-based connection subsidies. Applicable sectors are energy, transport, water, sanitation, education, and health. GPOBA has funded a study focusing on wastewater connections for the Jordan compact.

International Finance Corporation (IFC) and Private Infrastructure Development Group (PIDG)

IFC manages a trust fund called DevCo, which is formally part of the donor-funded PIDG. DevCo funds transaction execution for most kinds of public-private partnership. Related PIDG funds called InfraCo and AgDevCo partner with governments to develop partnerships in infrastructure and agriculture. IFC has advised the

Government of Benin on a concession of the Port of Cotonou's compact-funded South Wharf.

Encouraging Trade and Investment that Builds on Compact Investments

Trade and investment, both domestic and cross-border, are widely regarded as critical factors in sustainable economic development. MCC is committed to promoting and supporting investment and trade opportunities in compact proposals and encourages country counter-parts to consider these objectives in developing compact proposals as well as in compact implementation. This interest is an integral part of MCC's broader interest in private sector engagement. Countries are encouraged to identify projects with a demonstrable linkage to improved trade prospects or attraction of direct investment. MCC is particularly interested in encouraging direct domestic investment by local entities. Promotion of foreign or domestic investment may involve legal and regulatory reform and/or development of local capital markets.

Agriculture is one sector likely to be a focal point for promotion of both trade and investment. Projects in this area might, for example, target private businesses involved in business activity which complements MCC investments. Potential opportunities might include value chain inputs, processing, marketing, commercial infrastructure, support services (financial, equipment, IT, quality testing), and technological innovation. These opportunities provide solutions that add value within targeted economic sectors, and can build on existing compact investments, growth strategies, and in-country institutions like trade promotion agencies. One source of support for exploration of trade and investment promotion is set out below, but many countries have their own internal trade promotion institutions, and many regional development banks also provide support in this area.

U.S. Trade and Development Agency (USTDA)

USTDA, a U.S. Government agency, funds consultants to define public-private investment opportunities, and to advise officials on trade, technology, standards, and regulations in a variety of sectors. USTDA funded feasibility studies supporting private trade and investment around the Morocco compact's agriculture project, the El Salvador compact's road project, and the Ghana compact's agriculture project. USTDA funds "reverse trade missions," through which compact country officials learn about U.S. technology and can identify prospective counter-parts.

Optimizing Procurements – A Particular Type of Engagement

Increasing the effectiveness of procurements in both the compact development and compact implementation phases is a particular type of engagement with the private sector aimed at getting best value for money. Since most projects within compacts are ultimately delivered through contracted agents, effective and competitive procurement provides the foundation for successful compact implementation. MCC's *Program Procurement Guidelines* specify the rules for managing procurements. MCC has determined that making extra efforts up-front to attract a wide range of quality candidates for procurements and therefore going beyond minimum requirements in order to increase awareness about procurement opportunities associated with compact programs can significantly improve the quality of the contractors, the competitiveness of the pricing, and the speed and quality of implementation.

MCC can provide the benefit of experience in many countries and sectors in regard to procurement. A few useful suggestions include:

- ★ Bundle procurements into sizeable contracts / packages suitable for regional and international firms;
- ★ Utilize "multipliers," such as embassies and trade associations, that can disseminate opportunities to their business contacts and memberships;
- ★ Visit and present opportunities in countries regionally and internationally that share the partner country's language and may have interested bidders;
- ★ Make presentations and distribute brochures outlining procurement opportunities at relevant conferences and other events;
- ★ Advertise high-profile opportunities in international publications, such as *The Economist* and *Engineering News-Record*; and
- ★ Incorporate, especially in the case of goods and large works, life cycle cost analysis in the determination of specifications, to consider the value of alternative technologies over the project's useful life (i.e., impact on ongoing operations and maintenance costs) rather than focus solely on up-front cost.

MCC is able to supplement to a limited extent country-led outreach by making presentations at public events and conferences; organizing sector roundtables; meeting one-on-one with potential bidders; and aggregating award and planned procurement data for analysis and public dissemination.

MCC's Role in Private Sector Engagement

Increasing private sector engagement has been identified as one of MCC's core priorities. In accordance with that objective, MCC has created an Investment and Risk management (IRM) office within the Office of the Chief Executive and a Private Sector Development (PSD) team within the Department of Compact Operations (DCO). Both of these units will be working closely with MCC transaction teams during both compact development and implementation and stand ready to provide advice and support in the evolution of engagement strategies. Each MCC transaction team will designate a staff member to coordinate and support private sector engagement with country counter-parts. This staff member will serve as the point of contact for core team and accountable entity staff seeking advice and support from MCC on ways to engage, possible collaboration arrangements, and project structuring around such engagement.

The Department of Policy and Evaluation (DPE) manages the constraints analysis process, provides assessments of the economic viability of proposed investments, and will play a critical role in policy reform. It is therefore an important source of guidance for country counter-parts as the private sector engagement strategy is developed and applied, and DPE representatives will be assigned to MCC country teams as needed. To promote transparency and sharing of information, MCC will seek agreement from its partner countries to post constraints analyses, concept papers, and other relevant documents as soon as possible after each stage of drafting. This is one of the foundational steps in starting dialog with potential private sector partners.

MCC holds regular outreach meetings with the private sector, NGOs, and other donors concerning compact programs, upcoming procurement opportunities, and possible collaboration across multiple countries or the entire portfolio. MCC intends to publish Program Statements and/or Requests for Applications for potential partnerships, some of which will be developed in cooperation with country counter-parts and will be focused on specific compact opportunities.

Examples of Private Sector Engagement around Signed Compacts

Benin Compact, Access to Markets Project

The Benin compact's \$169.5 million Access to Markets project aims to expand capacity, reduce costs, and improve the performance of the Port of Cotonou.

- ★ Compact-funded infrastructure improvements include doubling the length of the port's sand-stopping barrier; improving internal transport and security infrastructure; and building a new South Wharf. The South Wharf is expected to generate up to \$32 million in new revenues annually and \$250 million in complementary investments provided by the new, competitively selected, private-sector South Wharf operator, Groupement Bolloré-SMTC. The International Finance Corporation (IFC), hired by the Government of Benin, managed the competition for the award of the South Wharf concession, which was signed on September 10, 2009.
- ★ The Groupement Bolloré-SMTC proposal included commitments to: (1) pay fees of \$200 million over the first eight years of operations – with a \$15 million entry fee; (2) invest \$256 million in operating equipment and civil works over the 25-year life of the concession; (3) increase container traffic from 350,000 to more than 720,000 twenty-foot equivalent units (TEUs) during the first eight years of operations; and (4) create 500 jobs. Based on IFC's analysis, the concession will generate a positive fiscal effect exceeding \$1.5 billion for the country over 25 years. MCC-funded construction will end in 2011. Bolloré expects to complete the first phase of its own construction investments in order to start South Wharf operations in January 2013.
- ★ Millions of consumers of imported products as well as exporters of Beninese products will benefit directly or indirectly from improvements at the Port.

El Salvador Compact, Human Development Project

FOMILENIO, the MCA accountable entity in charge of implementing El Salvador's compact, has successfully attracted private sector financing and investment to complement its compact grant.

- ★ In May 2009, the FOMILENIO Board of Directors approved a \$33 million contract with Arlington, Virginia-based AES Corporation involving private co-financing, construction, and operation. The project supports 1,300 kilometers of new rural electrification lines, connections, and extensions of existing lines throughout the Northern Zone in El Salvador. MCC and the Government of El Salvador are funding up to 85 percent of the projected investment in the electrification efforts, with contributions from the executing entity, AES Electrical Distribution Company, comprising the balance of 15 percent of capital investment, and 100% of operations and maintenance costs.

Mali Compact, Airport Improvement Project

The Government of the Republic of Mali is launching procurement of a private concessionaire for Mali's main airport at Bamako-Sénou.

- ★ The concession will build on MCC's \$179 million compact investment in "airside" infrastructure, including a runway extension; "landside" infrastructure, including a new terminal; and institutional capacity. The airport concession will leverage MCC compact funding through private co-financing of complementary assets, rehabilitation, and added capacity. It will enhance the sustainability of compact funding through private operation of the airport on a performance basis for a term of thirty years.
- ★ Bamako-Sénou Airport is positioned geographically to become a major air travel hub for West Africa. Already, seventeen regional and international carriers service Bamako from or to 28 different destinations. The compound annual growth rate for passenger traffic from 2003 to 2008 was 8.2 percent, with 628,000 passengers in 2008.

Ghana and Morocco Compacts, Agribusiness Development Initiative

This initiative is designed to identify and secure investments complementary to existing MCC-funded agricultural development compact activities. The initiative, being piloted in Ghana and Morocco, aims to enhance the sustainability of the MCC compact investment through increased viability and profitability of targeted sectors.

- ★ MiDA (the MCA accountable entity responsible for implementing the MCC compact in Ghana) is beginning to leverage compact funding with commitments from the private sector. For example, MiDA is developing a partnership with Vegpro, a Kenyan company seeking to produce vegetables for export to Europe. Vegpro's intention in Ghana is to locate its farm adjacent to one of the 10 irrigation systems that MiDA may rehabilitate. The irrigation rehabilitation work is currently in the feasibility/design phase. Vegpro has already received approval from community and traditional leaders to obtain the land in question, and it expects the official land registration to be completed by November 2010. The company then intends to start cultivating in early 2011 in a demonstration area of 244 ha. They will test production protocols in Ghana and train smallholder farmers for two years. Once the irrigation rehabilitation is completed in 2012, Vegpro will be working with up to 2,500 MiDA-trained smallholder farmers.
- ★ MiDA, the Alliance for a Green Revolution in Africa (AGRA), and Standard Bank (known as Stanbic in Ghana) are collaborating on a guarantee facility to extend financing to value-chain operations – input suppliers, millers, and processors – that will benefit smallholder farmers.

Mozambique Compact, Water and Sanitation Project

During its compact development process, the Government of Mozambique (GOM) submitted to MCC a request to fund an ambitious conceptual proposal comprised of an extensive program of urban and rural water/sanitation, roads, and private sector development in four northern provinces of Mozambique. This proposal sought to consolidate and advance the GOM's water sector strategy, which is based on private sector participation in service delivery.

- ★ To assist the GOM in advancing the necessary program preparation work, MCC provided some initial pre-compact grant funding to the GOM to help it conduct pre-feasibility studies and to carry out other crucial institutional and financial analyses. In so doing, MCC worked closely with the GOM to build off of its pioneering World Bank-funded work begun in the mid-1990s to put in place the essential sectoral institutions and regulatory frameworks to attract private-sector involvement in construction, operations, and maintenance of systems.

