

### Chapter 3: Investment Opportunity Process

#### Introduction

To enhance the economic impact and sustainability of MCC compacts, eligible countries use the Investment Opportunity Process (IOP) during compact development to identify and develop opportunities to promote private investment in and around a compact program. By focusing on concrete opportunities for private investment, the IOP complements the [Constraints to Economic Growth Analysis](#), which seeks to understand constraints to private investment.

The Compact Development Team is responsible for conducting the IOP, which begins during the Constraints Analysis and continues throughout compact development. Conducting the IOP process requires dedicated Compact Development Team staff, and specialized outside expertise may be required to develop private sector partnerships or investment opportunities. The Compact Development Team will also require financial resources to cover travel or hosting meetings.

Staff from MCC's Finance, Investment and Trade (FIT) Team<sup>1</sup> will support the Compact Development Team to conduct the IOP; advice and assistance may also be required from Compact Development Team, MCC and private sector experts.

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<sup>1</sup> The MCC Finance, Investment and Trade (FIT) team works with country counterparts, MCC staff, private enterprise, other donors, civil society organizations and other stakeholders to proactively identify and develop opportunities to increase private investment in and around a Compact program.

**Identify Key Constraints to Business Investment**

During the CA, identify key constraints to business investment in a wide range of industries (e.g., poor infrastructure, excessive government red tape, market failure within value chains, deficient human capital, low access to credit, etc.).

**Identify Opportunities to Promote Private Investment**

Identify opportunities to promote private investment in & around projects proposed to alleviate these constraints (e.g., policy reform to minimize red tape; PPPs to finance infrastructure; partnerships to co-finance projects; etc.).

**Identify Potential Private Partners**

If appropriate, solicit partnership proposals from private enterprise to invest in or around proposed project(s).

**Define Project Activity**

Define key terms of private investment in the Compact project(s) & how to implement it.

**Compact Signing****Implement Project(s)**

MCA implements each project according to Compact terms

**Continue to Identify Opportunities & Partners**

During Compact implementation, MCA continues to identify and develop opportunities to promote private investment in and around the Compact.

**Overview of the Investment Opportunity Process**

The IOP consists of the following steps during the phases of compact development:

**Phase 1 - Start-up and Preliminary Analyses**

As the Compact Development Team is established, a Private Sector Development Expert should be hired to lead the Investment Opportunity Process and engagement with the private sector. MCC will assign a staff member to act as a counterpart to the Compact Development Team Expert.

During the Constraints Analysis, the Investment Opportunity Process begins through an identification of the eligible country's key industries (based on factors such as an industry's growth rate, share of GDP and exports, and the number of people employed). The industries should include sectors that have been economic drivers during the past ten years, and/or have potential to be economic drivers in the future.

This high-level analysis can draw from in-country and international data sources; several years of data should be gathered if possible to evaluate historical trends. In exports, for instance,

research should include trade statistics by sector, such as volumes and prices received by country exporters in comparison to those received by other countries in world markets. MCC can provide the Compact Development Team with resources to obtain this level of data and templates to structure the information.

With this data-driven overview of the economy, the Compact Development Team's economist and FIT specialist(s) then will consult with businesses in each of the key industries identified above (and other appropriate industries) to identify key constraints to private investment in these businesses. These constraints may include poor infrastructure, excessive government red tape, market failure within value chains, low access to credit, deficient human capital, etc. The table below indicates how some of the information could be structured to inform and validate findings from the Constraints Analysis.

Sector	Industry	Infrastructure			Policy / Enabling Environ.	Land Rights	Inputs / Supply Chain	Access to Finance	Labor Capacit y	Worker Health	Environ. / Social Risks
		Energy	Water	Transport							

Legend	Constraint <b>Mildly</b> Affects Sector/Industry	Constraint <b>Moderately</b> Affects Sector/Industry	Constraint <b>Strongly</b> Affects Sector/Industry
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In identifying companies to consult, note that while leading companies typically are easy to identify, smaller or ancillary firms can be found by contacting industry associations and line ministries within the country and foreign companies can be found via chambers of commerce or embassies.

After companies have been identified, the Compact Development Team should clearly articulate the information needed and structure questions that target these needs, while leaving room for additional insights that businesses can provide. When engaging the private sector, the Compact Development Team should use the appropriate forum based on the type of information sought. Conferences, roundtables, interviews and surveys have their strengths and weaknesses. This is especially the case when determining the most appropriate method for gathering sensitive information regarding government policy and institutional concerns. Roundtable discussions with government representatives present may inhibit participants whereas one-on-one interviews may be a more effective option.

In trying to engage the private sector, the Compact Development Team should ensure that contact with private sector entities is open and transparent. FIT staff can advise the Compact Development Team on how to solicit ideas and information from the private sector without giving undue preference to any business that might seek collaborative or procurement opportunities within the Compact.

## Phase 2 - Project Definition

When the Constraints to Economic Growth Analysis has identified key constraints to economic growth, the Compact Development Team then develops and provides Concept Notes that propose potential projects to address these constraints. In these Notes, the FIT specialists on the

Compact Development Team identify opportunities to promote private investment and activity in and around each proposed project based on information gathered during the preliminary analysis. To find these opportunities, the Compact Development Team private sector development specialists should clearly identify areas where public and private sector interests overlap and where they can work together for mutual benefit. If needed, FIT staff can assist the Compact Development Team in identifying these opportunities.

For example, if the Constraints to Economic Growth Analysis identifies poor infrastructure as a binding constraint to growth, the Compact Development Team may wish to consider a public-private partnership (PPP) that outsources the cost of designing, building, operating and/or maintaining the public infrastructure to private enterprise. PPPs may be appropriate for projects in a wide range of sectors, including transportation (e.g., roads, ports), energy, water supply, sanitation, education, health clinics, etc. FIT staff can assist the Compact Development Team in identifying examples of appropriate PPP models.

If the Constraints to Economic Growth Analysis identifies government red tape in a certain sector or area as a binding constraint, the Compact Development Team should explore institutional and regulatory reforms that address this constraint. FIT staff can assist the Compact Development Team in understanding key problems in the institutional and regulatory environment and how to address them.

If the Constraints to Economic Growth Analysis identifies market failures in a supply chain as a binding constraint, the Compact Development Team may want to explore ways to partner with private enterprise and leverage their resources to address this constraint and/or enhance the impact and sustainability of the project proposed to address the constraint. Again, FIT staff can assist the Compact Development Team in identifying and structuring these partnership opportunities.

Upon review of the Concept Notes, MCC will identify which projects are more likely to receive Compact support and should be further developed in Concept Papers. FIT staff will provide feedback on the private sector engagement opportunities related to such projects, other opportunities to promote private investment and activity in and around such projects, and partners who might be able to provide specific expertise on developing such opportunities, such as the Public Private Infrastructure Facility and International Finance Corporation.

Based on MCC's recommendations, the Compact Development Team then drafts Concept Papers to further develop the proposed projects. During this step, the Compact Development Team and MCC also more clearly define the opportunities to promote private investment in and around these proposed projects using data gathered from research, dialogue with the private sector and other key stakeholders, and other relevant information.

### **Phase 3 - Project Development and Appraisal**

After MCC has reviewed the Concept Papers, the Compact Development Team prepares detailed proposals for approved project concepts, and MCC conducts formal appraisal of developed projects and provides recommendations to MCC senior management regarding this appraisal. During this time, the Compact Development Team develops the opportunities it has identified to

promote private investment in and around proposed projects, including continuing to engage private enterprise in this development. Private sector considerations are integrated into relevant Terms of Reference and deliverables for feasibility studies and/or due diligence contract. Private sector impact is also integrated into beneficiary analysis and all monitoring and evaluation work including baseline surveys conducted prior to signing.

For example, to develop specific partnership opportunities that have been identified, the Compact Development Team might consider soliciting partnership proposals through a Country Partnership Solicitation or similar open and competitive process shortly after Concept Paper approval. Partnerships generally take time and effort to develop, so soliciting proposals early in compact development increases the likelihood that they can be received, reviewed and agreed upon during Compact development and the resulting partnerships can be supported in the Compact. Also, the development of a partnership can be complex and may require specialized expertise. MCC might be able to provide pre-Compact “609(g)” funding needed to acquire such expertise.

To develop opportunities to improve the business climate or identify value chain deficiencies, the Compact Development Team should consult more deeply with private enterprise and other key stakeholders to fully understand what policy reforms or value chain links are most needed to spur business growth and how the Compact might best address these needs.

To the extent possible, all parties (e.g., the host country, MCC, private company, other stakeholders) to a proposed partnership should seek to define all key terms and conditions of the partnership before the Compact is signed, including its objective, the contribution each party will provide (and when), and how the partnership will be managed.

#### **Phase 4 – Compact Negotiation and Signing**

MCC and the Compact Development Team will ensure that the Compact includes all activities, terms and condition that the parties agree upon to promote private investment in and around the Compact. The Compact budget will include resources to support these activities, as appropriate.

#### **Phase 5 – Pre-Entry into Force (EIF) Activities**

Before or during this phase, the partner country creates an MCA - Accountable Entity and the budget and work plans that it will follow under the Compact. As part of its staff, the MCA hires a Private Sector Specialist (with an MCC no objection) to manage the private sector engagement activities that the Compact will support. The FIT Team provides guidance for ongoing private sector engagement, including the development of the Private Sector Engagement Plan. The plan is developed by MCA and approved by MCC prior to Entry into Force and incorporated into program and project work plans. In developing projects generally, the promotion of private investment should be integrated into relevant contract terms of reference and work plans, and private sector impact should be integrated into beneficiary analysis and all monitoring and evaluation work, including baseline surveys conducted prior to signing.

#### **Compact Implementation**

Early during compact implementation, the Private Sector Engagement Plan is included as a topic during the Implementation Workshop. The MCA Private Sector Specialist ensures coordination,

integration, and implementation of the PSE Plan with other project and sector specialist on the MCA Team. FIT Team staff provides support and oversight to MCA on implementation of relevant projects, policy reforms, and the Private Sector Engagement Plan. Both the MCA Private Sector Specialist and FIT Team staff review relevant projects for performance on private sector engagement initiatives. Sustainability through private sector engagement is integrated into relevant activities of the Compact Closure Guidance.