

## Private Sector Participation in Compacts Enhancing Sustainability and Mobilizing Capital

The U.S. Government's Millennium Challenge Corporation (MCC), a development assistance agency, partners with select countries worldwide to reduce poverty through economic growth. These countries propose and then implement MCC grant programs called "compacts." Infrastructure – roads, irrigation, water, facilities, and energy – constitutes more than 60% of total MCC compact commitments.

Incorporating private sector participation (PSP) into compact investments can help ensure sustainability and mobilize additional sources of funding, as noted in the Private Sector Toolkit published by MCC in June 2008. This Toolkit (available at <http://www.mcc.gov/privatesector>) details four models of PSP: private finance of infrastructure, outsourced management, social service franchising, and output-based aid. MCC's overall objective is to improve developmental outcomes by pursuing alternative aid assistance approaches that move beyond projects that are identified, developed, financed, executed, and operated by the public sector.

PSP in MCC's existing portfolio is concentrated in outsourced management of assets constructed or rehabilitated with compact funding. Examples include:

- ★ A private concession of Mali's Bamako-Sénou Airport following compact-funded rehabilitation of landside and airside infrastructure.
- ★ Leases and management contracts for water supply networks in Mozambique following compact-funded construction.
- ★ A private concession of Benin's Port of Cotonou South Wharf following compact-funded landside and waterside improvements.

In the future, MCC expects compacts to increasingly mobilize private debt and equity finance while incorporating increased risk transfer to the private sector. Examples include:

- ★ The Government of Jordan proposed expansion of a wastewater treatment Build-Operate-Transfer (BOT) plant with co-financing by private debt and equity.

- ★ The Government of Malawi proposed rural electrification through renewable energy and public-private partnership.

MCC's strategic vision is to: (1) increase the supply of well-structured projects that can attract commercial debt and equity financing; and (2) to help foster capital market development by mobilizing banks and institutional investors. Furthermore, MCC may fund improvements to the enabling environment through support for sector policy reforms and institutional strengthening. Accordingly, MCC's operating strategy for PSP is three-fold:

1. *Partners:* Enhance MCC's strategic operational collaborations with development partners, based on respective institutional comparative advantages.
2. *Platforms:* Explore alternative approaches to project origination (e.g., challenge grants), development (e.g., outsourcing to developers), and implementation (e.g., output-based aid).
3. *Products:* Use grants for viability gap funding to buy down capital expenditures and facilitate downstream project financings by using credit enhancements like partial risk/credit guarantees.

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