

Private Sector Participation in MCC Compacts

Enhancing Sustainability and Mobilizing Capital

The Millennium Challenge Corporation (MCC) is an innovative and independent U.S. foreign aid agency that is helping lead the fight against global poverty. Created by the U.S. Congress in 2004 with strong bipartisan support, MCC is changing the conversation on how best to deliver smart U.S. foreign aid by focusing on good policies, country ownership, and results.

MCC forms partnerships with some of the world's poorest countries, but only those committed to good governance, economic freedom, and investments in their citizens. MCC provides these well-performing countries with large-scale compact grants to fund country-led solutions for reducing poverty through sustainable economic growth. MCC compacts range from \$65 million to nearly \$700 million per country.

Incorporating private sector participation into MCC compact investments can help ensure sustainability and mobilize additional sources of funding. MCC's Private Sector Toolkit (available at <http://www.mcc.gov/private-sector>) details four models of private sector participation in MCC compacts: 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. Private sector participation 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.
- ★ Co-financing, construction, and operation of new rural electricity lines, connections, and extensions in El Salvador with Arlington, Virginia-based AES Corporation.

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

Invitation to Innovate

MCC's *Invitation to Innovate (I to I)* initiative is a framework designed to facilitate the development of partnerships with the private sector and non-governmental organizations. MCC's goal is to solicit innovative partnership ideas from the private and non-governmental sectors that will expand the impact of MCC's investments and support the agency's mission of reducing poverty through economic growth.

Partnerships solicited through the *Invitation to Innovate* initiative will introduce new technologies and approaches for development, enhance training and expertise, and increase the sustainability of MCC investments. Successful partnerships are expected to leverage resources and concentrate on priority development activities that meet MCC's core principles of good policies, accountability, and results.

I to I awards may range from \$50,000 to \$2,000,000, depending on the length and characteristics of the agreement, and are likely to be funded as sub-grants under the relevant compact or pre-compact agreement between MCC and the MCA partner country. Partnerships will last from 12 to 60 months.

U.S. and international companies and organizations may apply for a partnership opportunity with MCC by submitting a short concept paper for review by MCC and the relevant MCA (the partner country implementing entity). If the review is favorable, a full proposal will be invited. Specific details regarding concept paper requirements are noted in the Annual Partnership Solicitation posted at www.grants.gov.

Invitation to Innovate eligibility criteria, concept paper instructions, application, and a full program description are available at www.grants.gov. For more information, contact Patrice Lopez at lopezpa@mcc.gov.

Leveraging Resources for Economic Growth

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 private sector participation in MCC compacts is three-fold:

- ★ **Partners:** Enhance MCC's strategic operational collaborations with development partners, based on respective institutional comparative advantages.
- ★ **Platforms:** Explore alternative approaches to project origination (*e.g.*, challenge grants), development (*e.g.*, outsourcing to developers), and implementation (*e.g.*, output-based aid).
- ★ **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.

Through private sector participation in compacts, MCC hopes to draw more broadly on partners to leverage MCC resources and to stimulate new investment and new development practices. These partnerships, although often complex and challenging to structure, offer the possibility of mobilizing additional resources for development and promoting greater program effectiveness and sustainability—providing an opportunity to substantially increase the impact of MCC-funded projects.

To learn more about private sector participation in MCC compacts, please visit www.mcc.gov or send an email to info@mcc.gov.