

Mobilizing Private-Sector Finance for Electricity

FOMILENIO, the entity established by the Government of El Salvador to implement El Salvador's MCC Compact, has successfully attracted private-sector financing and investment to complement its compact grant.

In May 2009, FOMILENIO's Board of Directors approved a \$33 million contract with local subsidiaries of Arlington, Virginia-based AES Corporation. The contract involves private co-financing, construction, and operation of electricity distribution networks. The project supports 1,300 kilometers of new rural electrification lines, connections, and extensions of existing lines throughout the Northern Zone of El Salvador.

At the time of contract signature, it was estimated that the project, along with a previous contract for 115 kilometers of new lines, would enable electricity grid access to over 30,000 mostly low-income families currently without power. Communities in El Salvador now connected to electricity will benefit from safer, well-lit neighborhoods; improved conditions in schools; and reduced health risks posed by wood-burning stoves used for lighting, heating, and cooking. MCC and the Government of El Salvador are funding up to 85 percent of the projected investment in electrification efforts. The executing entity, AES El Salvador, is funding the balance of 15 percent.

AES El Salvador Vice President Miguel E. Bolinaga Serfaty said, "The rural electricity connection projects have developed within a professional and transparent process. Given the size and importance of the project, the two teams have developed a good relationship and coordination, complying with expectations in terms of time and quality. A well-established project implementation system has been structured, allowing us to comply with the different stages of the contract expeditiously. It has been a satisfactory experience."



MCC and AES Corporation are partnering to reduce poverty through investments in electricity infrastructure in rural El Salvador.

Access to electricity is anticipated to result in immediate financial savings to beneficiaries, and is expected to significantly increase household productivity. Households with new access to electricity are expected to save up to \$25 per month.

In El Salvador's mountainous regions, where power line construction is nearly impossible, MCC is funding installation of 1,950 solar panels in a separate project expected to bring electricity to over 8,500 Salvadorans. Once installed, the solar panels require low maintenance, are cost-effective, and provide reliable renewable energy to supply basic lighting and power small appliances. (Learn more about the project in MCC's "Making Headway" story *Lighting the Way to Economic Growth with Green Energy*.)

MCC recognizes that the private sector is the key driver of economic growth. Private-sector investments in MCC-funded projects help ensure sustainability and mobilize additional sources of funding. MCC's Private Sector Toolkit details four models of private-sector participation in MCC Compact investments:

- ★ Private finance of infrastructure
- ★ Outsourced management
- ★ Social service franchising
- ★ Output-based aid

MCC's overall objective in its private-sector initiatives 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.

AES El Salvador's Miguel Serfaty adds, "At AES El Salvador we understand that electrical power, our business, is no doubt at the heart of the great global challenges. Therefore it is essential to ease access to electricity to those in greater need, inform and educate on the rational and safe use of electricity, as well as to generate concrete actions to conserve the environment. At AES El Salvador we act concretely to give sustainability to these initiatives, which are also part of our entrepreneurial objectives."

For more information about private-sector initiatives and to download MCC's Private Sector Toolkit, visit <http://www.mcc.gov/privatesector>.