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## THE OFFICE OF PRIVATE CAPITAL AND MICROENTERPRISE

Bureau for Economic Growth, Education and Environment (E3)

Private investment flowing to developing countries far exceeds official development assistance. This trend will continue to increase as global demand for investment and opportunities for business grow. Sustained private investment has the ability to create jobs, increase economic opportunity, enhance access to and quality of services – from financial and energy to health and education – and ultimately, reduce poverty.

The Office of Private Capital and Microenterprise (PCM) demonstrates USAID's commitment to develop a more strategic relationship with private investors focused at the nexus of business opportunities and development priorities. PCM engages investors and reduces business risks primarily through: direct transaction support, and facilitating investment partnerships. PCM's approach strengthens USAID's business model by deploying resources that catalyze private resources – capital and expertise – into priority development sectors and regions.

### Service Offering

The Office and its staff of technical experts develop and support tools, approaches, and intermediaries that can mobilize private finance at scale in the developing world.

#### PCM Support to Investors and Financiers:

- Develop risk mitigation tools
- Provide transaction structuring support for blended finance models
- Support intermediaries linking capital supply and demand
- Coordinate across USAID offices with other USG agencies to support and/or accelerate transactions
- Convene financial, donor and public sector partners around opportunities for private finance within development priorities

#### PCM Support to USAID:

- Offer strategic planning and programming assistance to catalyze investment into priority sectors
- Provide transaction structuring support
- Deliver training and knowledge management tools for engaging private investors
- Partner with investors that provide access to capital and expertise
- Identify and screen new investment partners

## MOBILIZING PRIVATE CAPITAL TO MAXIMIZE DEVELOPMENT RESULTS

The Office of Private Capital and Microenterprise (PCM) is a new office within the Bureau for Economic Growth, Education and Environment (E3).

PCM engages private capital providers to mobilize greater resources and expertise in support of development priorities. This approach complements traditional development programming by drawing in private investment that is capable of addressing development needs sustainably and at greater scale.

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# NATIONAL ASSOCIATION OF SECURITIES PROFESSIONALS

An Investment Partnership that Mobilizes Institutional Investment for African Infrastructure

Access to energy, transport, water and sanitation, and telecommunications is essential to economic growth and poverty alleviation. Yet developing economies face an infrastructure gap that cannot be addressed with domestic resources and official development assistance alone. In Africa, for example, the spending required to address infrastructure needs is estimated at \$93 billion annually.

The good news is that capital does exist in global markets – institutional investors are estimated to hold \$70 trillion in assets. However, it is difficult to match this supply with demand given differing investment mandates, risk tolerance, and regulatory restrictions of institutional investors. To effectively mobilize capital, infrastructure projects require appropriate financial and marketing expertise to reduce risks and expose investors to suitable opportunities.

USAID's Office of Private Capital and Microenterprise (PCM) and the Africa Private Capital Group of the Southern Africa Mission have partnered with the National Association of Securities Professionals (NASP), a U.S.-based membership organization supporting women and minorities working in the securities and investment industry. Most of its 500+ members manage large pension funds or advise institutional investors in the U.S.

USAID and NASP will convene a first of its kind U.S. and Africa Institutional Investor conference in sub-Saharan Africa in 2017 to facilitate relationships that build the capacity of local investors and expose U.S. financiers to investment opportunities. The partnership will bring U.S. financial professionals to sub-Saharan Africa to help structure and advise on transactions and financial vehicles that support infrastructure development. The U.S. Department of Commerce, through its Minority Business Development Agency (MBDA), will reach out to U.S. minority-owned businesses to communicate potential opportunities resulting from the NASP partnership.

This partnership exemplifies a mutually beneficial U.S.-Africa commercial and development relationship, in which the U.S. can provide investment and build the capacity of local institutions. At the same time, it provides new opportunities for U.S. businesses and individuals, with an emphasis on women and minority businesses, seeking access to opportunities in sub-Saharan Africa's fast growing markets.



USAID Administrator Smith with NASP Chair-Elect Donna Sims Wilson at the U.S.-Africa Business Forum signing ceremony.

## PCM Support to Investors:

- Provides structuring support for blended finance models
- Provides support to intermediaries linking capital supply and demand
- Convenes financial, development, and public sector partners around opportunities for private finance

## PCM Support to USAID:

- Provides transaction structuring support for infrastructure projects
- Builds partnerships with investors that provide access to capital and expertise
- Identifies and screens new investment partners

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Photo © Mike Bloomberg



# USAID PARTNERS FORUM

Bringing Private Sector Insights and Expertise to Development Financing

The Office of Private Capital and Microenterprise (PCM) catalyzes private sector investments that advance key development priorities. Through the establishment of PCM, USAID is committed to developing a more strategic relationship with private investors – focused at the intersection of where business opportunities and development priorities meet.

To support its mandate, PCM established a group of business leaders and industry experts from the United States and emerging markets and developing economies, known as the USAID Partners Forum. Members meet quarterly with USAID senior leadership, sharing insights and highlighting emerging opportunities in sectors that are of interest to the private sector and that align with USAID priorities. The partners also help the Agency develop and strengthen relationships with business leaders and investors in key sectors.



## Partners Forum members include:

Dale Mathias, Chair  
Pulara Partners Investments

Runa Alam,  
Co-Founding Partner and CEO  
Development Partners International

Tutu Agyare  
Managing Partner and Chief Investment Officer  
Nubuke Investments

Tom Barry  
CEO, Zephyr Management, L.P.

Tony Elumelu  
Chairman, The Tony Elumelu Foundation

Paul Hinks  
Co-Founder and CEO  
Symbion Power Company

Ed Mathias  
Managing Director and Partner  
The Carlyle Group

Mutuma Marangu  
Director  
Sage UK Services Limited

John Neipold  
Managing Partner  
SQM Frontier Management

Eric Postel  
Associate Administrator  
USAID

Andrea Redmond, Independent  
Consultant

Margie Sullivan  
Founder and CEO  
Sullivan Strategy

Adam Wolfensohn  
Co-Managing Partner  
Encourage Capital

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*“The Partners Forum serves as a sounding board for USAID senior leadership, bringing perspectives that only private investors and industry experts can provide. We identify opportunities in which strategic business interests and key development priorities intersect. The Forum brings to bear investment and best business practices to development problems for the purposes of accelerating and scaling sustainable solutions to economic and other challenges in developing countries.”*

*Dale Mathias, Chair, Partners Forum*



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# SARONA INVESTMENT PARTNERSHIP

## Piloting a Foreign Currency Risk Mitigation Tool to Catalyze Investment

Institutional investment (e.g. pension funds, insurance companies) represents an important source of patient capital for key development priorities, such as improved infrastructure. Yet, institutional investment is severely constrained by foreign currency risk – the possibility that an investment's value will decrease due to fluctuations in the local currency. Currency risk prevents billions of dollars of institutional investment from flowing to developing countries, severely inhibiting private sector development.



Through an investment partnership with Sarona Asset Management, USAID is working to develop and pilot a currency risk mitigation tool that can hedge or insure against currency fluctuations, thereby attracting more institutional investment to development priorities. The partnership will engage institutional investors to improve understanding of foreign exchange (FX) challenges in emerging markets. Sarona will leverage its industry affiliations and existing investor base to develop the tool and test it in a USAID country catalyze investment that supports development objectives. Sarona, a private equity firm that invests in frontier and emerging markets, has nearly \$200 million in assets under management.

Typically, currency hedging instruments use complicated “forward contracts” for a single investment that “lock-in” exchange rates for specified currencies at a future point in time. In emerging markets, these forward contracts are often prohibitively costly or administratively burdensome. The Sarona Investment Partnership seeks to work on a broader portfolio or fund-basis to circumvent just enough of the currency exposure to attract substantial institutional capital. Those funds, that cannot be risked in volatile local currencies, can be invested in priority development sectors.

The currency risk mitigation tool will target USAID missions, institutional investors, funds, and intermediaries that invest in volatile markets and are interested in accelerating additional investment by lowering currency risk. Mitigating the potential downside risk of currency fluctuations will entice large pools of capital into developmentally beneficial investment in frontier and emerging markets.

Investors interested in developing similar risk mitigation tools and USAID missions and offices that are interested in piloting similar products, should contact PCM at [pcminfo@usaid.gov](mailto:pcminfo@usaid.gov)

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### PCM Support to Investors and Financiers:

- Develops risk mitigation tools
- Provides structuring support for blended finance models
- Supports intermediaries linking capital supply and demand

### PCM Support to USAID:

- Offers strategic planning and programming assistance to catalyze investment into priority sectors
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# THE CROSSBOUNDARY ENERGY PARTNERSHIP

## Direct Transaction Support for Clean Energy Projects

African businesses typically cannot rely on national power grids, and instead generate their own power using diesel fuel. Although diesel is an expensive and polluting option, most small businesses cannot finance the conversion to renewable energy.

In response to this challenge, USAID and CrossBoundary Energy are working together to provide African businesses with a new model for energy services. The solution finances solar installations that serve enterprises in sub-Saharan Africa, increasing access to electricity and driving adoption of renewable energy technology.



For the first time in Africa, USAID and CrossBoundary have instituted an “energy as a service” model, whereby African businesses can pay a monthly tariff for their power and avoid the large upfront capital costs of clean energy installations. In this way, CrossBoundary enables African businesses to afford clean and reliable solar energy systems and to save their investment dollars for new business lines and development of their employee base. On the investor side, the fund aggregates medium scale clean energy assets for the first time into a new asset class that can be invested in at scale.

To support the CrossBoundary model, USAID’s Office of Private Capital and Microenterprise (PCM) created an investment structure whereby \$1.3 million in grant funding was contributed to the CrossBoundary Energy fund as subordinated capital. Power Africa’s funding was used to attract \$7.5 million in private sector equity as well as up to \$10 million in debt. Once fund investors are paid back their principal investment in the fund, the United States government will receive the entire amount of the grant back plus a capped return.<sup>1</sup> The CrossBoundary project catalyzed investment from six U.S.-based investors who had not previously worked with USAID.

The project has already produced results. For example, CrossBoundary Energy recently completed the largest solar “energy as a service” installation in sub-Saharan Africa, powering a mixed commercial and residential development in Nairobi. This demonstration fund is expected to complete 20-25 installations for a total of 15MW of clean power over its lifetime and lead to larger investment vehicles in the future to support clean energy adoption.

### PCM Support to Investors and Financiers:

- Develop risk mitigation tools
- Support intermediaries linking capital supply and demand
- Provide transaction structuring support for blended finance models

### PCM Support to USAID:

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Photo © Power Africa, Kenya

<sup>1</sup> CrossBoundary Energy does not profit from USAID funds from a management fee or carried interest.



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# C40 CITIES FINANCE FACILITY

## A Partnership to Mobilize Finance for Sustainable Urban Infrastructure

Rapid, unplanned urbanization in developing countries often leaves cities disproportionately vulnerable to climate change impacts like flooding and extreme weather events. Infrastructure investment decisions made today will determine a country's ability to achieve its development objectives and climate change goals.



Access to financing is one of the key barriers that cities face in financing critical infrastructure projects and delivering on their climate change action plans. Even when financing is available, city officials often lack the capacity to access the right resources or to manage the funds effectively.

With PCM's support, the USAID Global Climate Change Office is helping cities in developing countries finance infrastructure projects that reduce greenhouse gas emissions and can withstand the impacts of climate change. The German Corporation for International Cooperation (GIZ) will implement the C40 Cities Finance Facility (CFF) in collaboration with the C40 Cities Climate Leadership Group. The partnership aims to unlock up to \$1 billion for low carbon, climate resilient infrastructure investments in clean water, efficient transportation and secure housing, for example.\* In October 2016, USAID announced a \$2.3 million grant to GIZ to fund this work. Currently, the CFF is funded by the German Federal Ministry for Economic Cooperation and Development (BMZ) and USAID, with support from the Inter-American Development Bank (IADB).

City administrations and their officials are a key focus of CFF's project preparation process. It will provide technical assistance to build capacity for infrastructure projects, improve access to a broad range of finance instruments, and help officials make connections with investment partners.

The CFF is piloting its approach with two urban infrastructure projects in C40 cities:

- Bogotá, Colombia will build a first-of-its-kind 25-kilometer bicycle highway traversing the city.
- Mexico City, Mexico will buy at least 100 electric buses and install a Green Bus Corridor on one of its major thoroughfares, Eje 8 Sur.

Successful financing and project structuring models and mechanisms will be shared with other cities in C40's network and, through other partnerships, with secondary cities to increase the CFF's impact.

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Global

\* The C40 Cities Finance Facility was launched in 2015, at the United Nations climate change conference in Paris. It is currently funded by USAID and BMZ, with support from IADB. The C40 Cities Climate Leadership Group and GIZ will coordinate and deliver technical assistance.



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# THE SUSTAINABLE DEVELOPMENT INVESTMENT PARTNERSHIP

## An Investment Partnership to De-Risk Infrastructure Projects

Investments in clean water, electricity, sanitation and sustainable transit systems can transform societies, but public and donor funds will never be enough to meet the financing demand for these projects. Each year, trillions of dollars are needed for investments in infrastructure around the world.

As a founding member of the Sustainable Development Investment Partnership (SDIP), USAID's Office of Private Capital and Microenterprise

(PCM) is supporting a global effort to scale up sustainable infrastructure investments in developing economies. The Partnership combines risk mitigation, co-investment and technical assistance to enable specific projects to gain access to private capital.

SDIP's ambitious goal is to mobilize \$100 billion in private financing and investment by 2020 to help countries achieve the Sustainable Development Goals. It will support investments in water and sanitation systems, transportation, clean energy, agriculture, health, telecommunications and climate adaptation.

At the heart of SDIP is the Project Review Group (PRG), which convenes regularly to review transactions that are in need of additional risk mitigation, technical assistance and/or financial structuring by SDIP partners in order to be considered "bankable" by banks and investors. Over the past year, the PRG has reviewed over 30 projects across multiple regions and sectors totaling approximately \$28 billion with a financing gap of about \$3.5 billion. These transactions range from a wind farm in Indonesia to a solid waste facility in India to a rapid bus transit system in Jordan.

USAID is a member of the SDIP Secretariat and provides strategic advice on sourcing and financing transactions. SDIP is open to governments, local and global private banks, institutional investors and other financiers active in emerging economies, development finance institutions, bi- and multilateral development banks, and other organizations committed to applying substantial energy and resources to support the activities of the partnership.



### PCM Support to Investors and Financiers:

- Support development of risk mitigation tools
- Provide structuring support for blended finance models
- Support for intermediaries linking capital supply and demand
- Convene financial, donor and public sector partners around opportunities for private finance

### PCM Support to USAID:

- Offer strategic planning and programming
- Provide transaction structuring support
- Identify and screen new investment partners

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