



May 3, 2019

The Honorable Nita Lowey
Chairwoman, Committee on Appropriations
Chairwoman, Subcommittee on State, Foreign Operations, and Related Programs
United States House of Representatives
Washington, DC 20515

The Honorable Kay Granger
Ranking Member, Committee on Appropriations
United States House of Representatives
Washington, DC 20515

The Honorable Harold Rogers
Ranking Member, Subcommittee on State, Foreign Operations, and Related Programs
Committee on Appropriations
United States House of Representatives
Washington, DC 20515

Dear Chairwoman Lowey, Ranking Member Granger, and Ranking Member
Rogers:

I am writing to respond to the Committee's request for the Office of Inspector General (OIG) to review U.S. development agencies' efforts to leverage private capital to help achieve development objectives. Our report—"Select U.S. Agencies' Use of Private Capital in Advancing International Development," Report No.9-000-19-004-P—is attached. This request was made on July 24, 2017, through House Report 115-253 and confirmed in our meeting with Subcommittee staff on May 10, 2018.

To answer this request, our objectives were to (1) identify the primary types and sources of private capital that USAID, MCC, USADF, IAF, and OPIC mobilize and (2) describe the approaches the agencies use to engage the private sector and to mobilize and track private capital.

Should you have any questions, please contact me or my staff at 202-712-1150.

Sincerely,

Thomas Yatsco /s/
Assistant Inspector General for Audit

cc: USAID, Administrator, Mark Green
MCC, Head of Agency, Vice President, and Chief Financial Officer,
Cynthia Huger
USADF, President and CEO, C.D. Glin
IAF, President and CEO, Paloma Adams-Allen
OPIC, Acting President and CEO, David Bohigian



OFFICE OF INSPECTOR GENERAL
U.S. Agency for International Development

Select U.S. Agencies' Use of Private Capital in Advancing International Development

AUDIT REPORT 9-000-19-004-P
MAY 03, 2019

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The Office of Inspector General provides independent oversight that promotes the efficiency, effectiveness, and integrity of foreign assistance provided through the entities under OIG's jurisdiction: the U.S. Agency for International Development, U.S. African Development Foundation, Inter-American Foundation, Millennium Challenge Corporation, and Overseas Private Investment Corporation.

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INTRODUCTION

For eight decades the international community has recognized the private sector’s role in foreign development. The U.S. Government has used private capital and private sector engagement since the 1960s to achieve foreign policy goals by helping foreign governments strengthen their market economies. Some in the private sector, in turn, recognize that investing in and achieving sustainable global development opens markets, creates opportunities, drives innovation, enhances reputations, and can result in improved efficiency and greater returns.¹

The U.S. House of Representatives Committee on Appropriations, Subcommittee on State Foreign Operations and Related Programs, directed us to look at U.S. development agencies’ efforts to leverage private capital to help achieve U.S. development objectives abroad.² Accordingly, we (1) identified the primary types and sources of private capital that the U.S. Agency for International Development (USAID), Millennium Challenge Corporation (MCC), U.S. African Development Foundation (USADF), Inter-American Foundation (IAF), and Overseas Private Investment Corporation (OPIC) mobilize and (2) described the approaches these agencies use to engage the private sector and to mobilize and track private capital.³ For purposes of this report, private sector actors included non-U.S. Government participants—such as investment firms, foundations, private companies, and individual donors—who work with the five agencies we oversee and provide support to their projects and beneficiaries. We did not assess the effectiveness of the private capital activities we identified.

To conduct our work, we interviewed and requested information from knowledgeable officials at the five agencies’ headquarters in Washington, DC; reviewed relevant documentation; and researched commonly used mechanisms for private sector engagement. We reviewed the agencies’ approaches to incorporating private capital as outlined in their statutes (Foreign Assistance Act of 1961 and other legislation), strategic plans, and specific policies and procedures, such as those related to gifts and donations. We also reviewed recent legislation that affects the private sector’s role in foreign development, including the Better Utilization of Investments Leading to Development

¹ Business & Sustainable Development Commission, “Better Business Better World,” January 2017, http://report.businesscommission.org/uploads/BetterBiz-BetterWorld_170215_012417.pdf, accessed on March 11, 2019.

² The directive was contained in House Report 115-253, which accompanied H.R. 3362, State, Foreign Operations, and Related Programs Appropriations Bill, 2018: “A vibrant private sector is a necessary condition for economic growth and poverty reduction . . . the Committee directs the OIG to submit a report to the appropriate congressional committees on how USAID, MCC, USADF, IAF, and OPIC attract, include, and transition private capital into their projects.” The final FY 2018 appropriations bill was enacted on March 23, 2018, as Division K, Department of State, Foreign Operations, and Related Programs Appropriations Act, 2018, of Public Law 115-141, Consolidated Appropriations Act, 2018.

³ Other U.S. agencies collaborate with the private sector, but our report focuses on the programs and operations of the five U.S. foreign assistance agencies we oversee: USAID, MCC, USADF, IAF, and OPIC.

Act of 2018 (or the BUILD Act of 2018), which incorporates OPIC and some key private capital functions of USAID into a development financial institution.⁴

Our audit scope covered the agencies' private sector engagement and private capital mobilization for fiscal year 2018 and their reporting of these activities for fiscal years 2017 and 2018; we relied on each agency's definition of private capital. We also considered the scope of the ongoing mandated audit related to USAID's use of public-private partnerships. We conducted our work from June 2018 through March 2019 in accordance with generally accepted government auditing standards. We sought technical comments on a draft report from all five agencies and incorporated them where appropriate. Appendix A provides additional information about our scope and methodology.

SUMMARY

The types and sources of private capital that agencies reported using to engage the private sector vary. For example, USAID and OPIC engage through financing, such as loan guarantees, while USADF and IAF primarily receive gifts, donations, and joint funding. USAID and MCC also use technical assistance, partnerships, and advisory or training services to engage the private sector. The types and sources used are framed by the agencies' missions and development objectives. For example, because OPIC's mission is to mobilize private capital, it offers political risk insurance, investment guarantees, direct lending, and investment funds.

Agency approaches for engaging the private sector and for mobilizing and tracking private capital are influenced by internal and external factors, including drivers such as agency leadership and economic opportunities, and challenges such as limited resources and difficulty finding companies to partner with whose goals align with the agency's. Tracking and reporting varied across the agencies and was affected by program-specific reporting requirements and ad hoc information requests. Some agencies identified challenges validating data, and others have taken steps to improve private capital mobilization through training and new policies.

Given the descriptive nature of the congressional request and the scope of the audit, we are not making recommendations in this report.

BACKGROUND

USAID was established in 1961 to administer aid to foreign countries and promote social and economic development. USAID programs combat the spread of disease, address food insecurity, promote democratic reform, and support economic growth to

⁴ The BUILD Act of 2018 was integrated under the Federal Aviation Administration Reauthorization Act of 2018, Public Law 115-254.

alleviate poverty. The Agency also provides assistance to countries recovering from disaster and periods of conflict. USAID's development and foreign assistance activities help expand stable, free societies; create markets and trade partners for the United States; and promote goodwill abroad.

Several USAID offices are responsible for promoting the mobilization of private capital, including the following:⁵

- The Global Development Lab, Center for Transformational Partnerships (CTP), aims to accelerate and scale development impact through private sector engagement, new collaborative approaches, and improvement of the social and economic environment affecting local or regional entrepreneurship. CTP develops and supports partnerships with the private sector in priority areas and increases capacity throughout USAID to strategically engage the private sector and other key stakeholders to accelerate sustainable development.
- The Office of Development Credit Authority (DCA) establishes risk-sharing relationships with private financial institutions to mobilize local private capital. Established in 1999, DCA has provided partial guarantee coverage (typically 50 percent) for loans to entrepreneurs in underserved sectors worldwide. The BUILD Act of 2018 calls for DCA to be transferred to the U.S. Development Finance Corporation. According to USAID, the target date for this transfer is October 1, 2019.
- The Office of Private Capital and Microenterprise (PCM) aims to mobilize private finance and expertise in priority development sectors and regions to increase the sustainability and scale of development results. Specifically, PCM offers strategic planning and programming assistance to catalyze investment in priority sectors; provides transaction structuring support; delivers training (capital markets, blended finance) and knowledge management tools for engaging private investors; and can help missions identify and screen new investment partners. The BUILD Act of 2018 authorizes PCM to be transferred to the U.S. Development Finance Corporation.
- The Bureau for Policy, Planning, and Learning (PPL) shapes USAID's development policy and programming guidance to help ensure the Agency's work is grounded in evidence and reflects the most advanced thinking in international development—including using private capital. PPL provides guidance and builds staff capacity in strategic planning, project design, and monitoring and evaluation, as part of USAID's program cycle and learning objectives.

Table I describes the other four agencies' missions and how they provide foreign assistance. Appendix B provides more detailed fact sheets on all five agencies.

⁵ We selected these four offices because we determined that they are the main ones that track private capital information.

Table I. Agency Missions and Approaches to Foreign Assistance for MCC, USADF, IAF, and OPIC

Agency Mission	How Agency Provides Foreign Assistance
Millennium Challenge Corporation	
To reduce poverty through economic growth in well-governed developing countries around the world.	Provides time-limited grants that support country-led projects in areas such as agriculture and irrigation, anticorruption, education, energy and power, transportation infrastructure, health, and finance and enterprise development.
U.S. African Development Foundation	
To support African-led development that grows community enterprises by providing seed capital and technical support.	Provides seed capital and local technical support to early stage agriculture, off-grid energy, and youth-led enterprises in Africa. Awards grants of up to \$250,000 to African organizations for operational assistance, enterprise expansion, linkages to new markets, and follow-on funding to sustain growth.
Inter-American Foundation	
To promote and invest in grassroots development to help communities in Latin America and the Caribbean thrive.	Provides grants to support creative self-help programs and activities that promote more profitable agriculture, microbusinesses, and community enterprises; expand employment opportunities through skills training; and offer access to water, basic utilities, and adequate housing. Encourages partnerships among community organizations, businesses, and local governments.
Overseas Private Investment Corporation	
To mobilize and facilitate the participation of U.S. private capital and skills in the economic and social development of less developed countries and areas, and countries in transition from nonmarket to market economies.	Provides loans, guarantees, political risk insurance, and other financial products to give U.S. businesses the tools needed to manage the risks associated with foreign direct investment.

THE TYPES AND SOURCES OF PRIVATE CAPITAL THAT USAID, MCC, USADF, IAF, AND OPIC MOBILIZE ARE FRAMED BY THEIR MISSIONS

Because of their unique missions and structures, the agencies define and mobilize private capital in different ways. Agencies engage with the private sector through a number of mechanisms and mobilize private capital from a variety of sources. Some agencies provided reasons for not using certain mechanisms authorized by the U.S. Government, such as direct lending (which they did not use to avoid crowding out private capital) and grants and gifts (which they avoided because these might overlap with other agency programs).

Agencies' Missions and Operations Inform Their Definitions of Private Capital

Agencies independently define private capital based on their missions. However, the definitions they provided were largely unofficial or not spelled out in agency policies and procedures.

- According to USAID, private capital broadly refers to the funds the private sector contributes to an agreed-upon USAID project to achieve one or more defined development objectives. USAID does not have a single, official definition of private capital; the term can be and is used throughout the Agency, but its meaning or definition is context-specific. A very common context in which the term “private capital” is used is public-private partnerships.⁶
- In supporting country-led projects, MCC follows the Organisation for Economic Co-operation and Development’s (OECD) ‘blended finance’ definition: “The strategic use of development finance for the mobilization of additional finance towards sustainable development in developing countries.”
- Private capital is not an operational term at USADF. Even though USADF does not designate gifts, donations, grants or ‘alongside’ funding from individuals, foundations, financial institutions, and private corporations as private capital, these mechanisms are ways in which non-USADF money is mobilized to further USADF’s mission.⁷
- As at USADF, private capital is not an operational term at IAF. IAF also does not designate gifts, donations, contributions to joint initiatives, or funding secured by grantees from other sources as private capital, but these mechanisms are ways in which non-IAF money is mobilized to further IAF’s mission.
- Consistent with its mission to mobilize private capital to help solve development challenges, OPIC defines private capital as U.S. or foreign private sector funding (debt or equity), including funding from U.S. equity investors that receive OPIC political risk insurance.⁸

⁶ Public-private partnerships are collaborative working relationships with external, non-U.S. Government partners (such as businesses, financial institutions, entrepreneurs, investors, nonprofits, universities, philanthropists, and foundations) in which the goals, structure, and governance, as well as roles and responsibilities, are mutually determined and decision making is shared.

⁷ ‘Alongside’ funds are provided by the donors directly to the beneficiary. These funds are provided concurrently with or subsequent to USADF grants.

⁸ When private political risk insurance is not available, OPIC provides coverage of up to \$350 million against losses resulting from currency inconvertibility, expropriation, regulatory risk, political violence, or breach of contract.

Agencies Use a Variety of Mechanisms and Sources To Mobilize Private Capital

There is no one-size-fits-all approach to mobilizing private capital. Agencies described a variety of mechanisms and instruments that support their development priorities and identified various sources of private capital.

- **USAID.** According to Agency officials, USAID’s private sector engagement includes financing, technical assistance, knowledge sharing, policy dialogue, and capacity development. The engagement is mostly driven by program activities in the field.

USAID’s primary sources of private capital are for-profit, commercial entities and their affiliated foundations; financial institutions, investors, and intermediaries; business associations and cooperatives; micro-, small, medium-size, and large enterprises; and for-profit mechanisms that generate sustainable income, such as venture funds run by nongovernmental organizations (NGO) or social enterprises.

USAID uses procurement instruments (such as contracts, cooperative agreements and grants) to create and manage “a range of discrete activities, programs and mechanisms for the purposes of mobilizing private capital.” For example, these instruments can be used to develop host-government capacity for engaging the private sector and to provide advisory services for promoting investment in key sectors. USAID also accepts gifts and donations from the public and private sectors.

Through DCA, USAID incentivizes financial institutions to lend to borrowers in new or underserved sectors or regions by assuming part of the risk.⁹ It does this with instruments such as loans, loan portfolios, bonds, and portable guarantees.¹⁰ USAID partially covers (typically at 50 percent) any losses realized by institutions that agree to this new type of lending, in the event that targeted borrowers default on any of their loans.

USAID also works with intermediaries and advisors to provide businesses and projects with transaction support to catalyze private investment in a business or project. USAID uses its networks, relationships, and convening power to bring together private businesses, financial partners, and governments to grow investment in target sectors. Under Power Africa, for example, USAID partnered with private-sector companies to improve access to electricity in sub-Saharan Africa.

- **MCC.** MCC officials said the corporation engages with the private sector directly through contracts with private sector entities and through collaborative partnerships. These involve the exchange of technical ideas, data, networks, and knowledge; the development of shared goals and objectives; and cost sharing.

⁹ Borrowers targeted under DCA include new or underserved borrowers who would have been denied loans due to insufficient collateral or lack of credit history.

¹⁰ A portable guarantee is a commitment letter USAID issues to a potential borrower for a loan guarantee when the lender has not yet been identified.

MCC also engages with the private sector indirectly through the partner country. MCC has used (1) cofinancing (or blended financing) to leverage MCC and third-party resources while sharing risk and governance responsibilities in achieving common objectives and goals, such as reducing poverty; (2) technical assistance, training, and policy dialogue to improve the business climate, catalyze private investment, and strengthen small and medium-size enterprises; (3) nonfunded collaborative partnerships that encourage the exchange of ideas, data, and networks and the joint development of opportunities; and (4) MCC-funded grants that companies can compete for and that target roadblocks to the flow of private capital, such as skill deficits, information failures, and the costs and risks of being the first to enter a new market. As an example of blended financing, MCC supported the expansion of a wastewater treatment plant, the costs of which were shared by MCC, the Government of Jordan, and a private company through debt and equity. MCC's contribution made the project more affordable to the Government of Jordan and financially attractive for the private company and Jordanian banks to get involved.

MCC sources and partners are primarily private investors—multistakeholder convening and advocacy organizations, donors, multilateral development banks, national development finance institutions, private foundations, commercial banks, institutional investors and insurers, think tanks, and NGOs.

- **OPIC.** In alignment with its mission, OPIC primarily provides financial products—political risk insurance, investment guarantees, direct lending, and investment funds. In providing political risk insurance, OPIC covers any losses to tangible assets, investment value, and earnings that result from political risks, giving U.S. businesses more opportunity in emerging markets. In providing investment guarantees, OPIC lends directly to an eligible borrower using funds from either a third-party lender or the U.S. debt capital market, which gives businesses access to financing when conventional financial institutions are reluctant or unable to provide lending. With direct lending, OPIC uses U.S. Treasury funds to expand businesses' access to financing beyond conventional financial institutions. Last, with investment funds, OPIC provides financial support for the creation of privately owned and managed investment funds that make direct equity and equity-related investments in new, expanding, or privatizing emerging-market companies.

OPIC reported that it has supported a variety of types and sizes of legal entities in many sectors. For example, OPIC reported providing financing to a small U.S. business so that it could use innovative drilling technology to extend the life of an oil field in Colombia. We identified examples of other entities OPIC has supported, including foundations, individuals, banks, limited liability corporations, small businesses, and international corporations.

- **USADF and IAF.** USADF and IAF have less engagement with the private sector than USAID, MCC, and OPIC. The foundations' primary engagements are with the corporate sector and philanthropic organizations and individuals. USADF engages with the private sector by attracting financing, technical assistance, and capacity development. USADF mobilizes private capital in the form of gifts, donations, grants,

or alongside funding in coordination with its program coordinators, partner organizations, and grantees to provide more small enterprises with seed capital. For example, USADF partners with Citi Foundation to support an entrepreneurial financing program for Africa’s young business leaders.

IAF’s private sector engagement involves attracting financing, knowledge sharing, and capacity development. The financing mobilized is primarily through gifts and donations, joint funding initiatives, and other partnerships. The gifts and donations received by IAF are generally used to help fund grants. The joint funding initiatives and other partnerships include, for example, IAF’s RedEAmerica—a network of more than 80 corporate foundations that fund grassroots development projects with IAF and build the capacity of the communities they work in.

Agencies also reported some authorities (abilities or powers outlined in the Foreign Assistance Act of 1961 and other legislation) that they do not use and why (table 2).

Table 2. Authorized Mechanisms That Agencies Reported Not Using

Agency	Mechanism Not Used	Reason
USAID	Direct loans	Not used because of risk of crowding out private capital and because banks are willing to give loans and have better tools
MCC	Cash gifts	Little incentive for donors to make a cash gift when they can fund alongside MCC projects
OPIC	Grants and gifts	Last used in the early 1980s; possible overlap with other agencies’ programs
	Equity	Never appropriated by Congress
	Direct lending in foreign currency	Never used because of concerns by the Department of Treasury regarding raising local currency

NOTE: USADF and IAF said they do not have any mechanisms authorized that are not used. OPIC said it only sporadically uses some of its authorized mechanisms, such as local currency guarantees and transferred funds used for grants, technical assistance, incentives, and gifts.

Private sector relationships develop over time. For some agencies, relationships are formally agreed to. For example, USADF has memorandums of understanding with private partners; USADF reported that over the next 5 years, companies and philanthropic foundations have committed \$2.6 million to support its projects. The agencies we oversee are increasing efforts to strengthen ties with the private sector. For example, IAF has plans to hire dedicated staff for this purpose, and USAID has multiple offices to manage partnerships.

INTERNAL AND EXTERNAL FACTORS AFFECT PRIVATE SECTOR ENGAGEMENT APPROACHES, TRACKING, AND REPORTING

Agency approaches for engaging the private sector are influenced by internal and external factors that can promote or curtail private capital mobilization—such as leadership vision, political emphasis, and market opportunities. While agencies have identified opportunities to capitalize on engagement drivers and address mobilization challenges, reporting varied across agencies, and data validation challenges exist.

Drivers and Challenges Influence Private Sector Engagement and Mobilization Decisions

Agencies reported a variety of drivers that promote private sector investment, as well as challenges they faced in mobilizing private capital (table 3). Drivers included U.S. priorities, market opportunities for investing in emerging economies, new agency strategies for engaging the private sector, and leadership’s vision toward this end. Challenges included insufficient staffing resources to dedicate to private sector engagement; finding companies to partner with whose goals align with the agency’s; uncertain political, economic, and social influences that discourage private investment; and shifting agency priorities due to leadership changes.

Table 3. Key Drivers and Challenges Agencies Identified

External Drivers	Internal Drivers
<ul style="list-style-type: none"> • Political emphasis on increasing private funding and improving inter- and intra-agency coordination toward this end • Market opportunity for investing in developing countries and emerging economies • Increased interest from the private sector in the social impact of their businesses and partnerships with international development actors 	<ul style="list-style-type: none"> • Agency strategies and goals to spur private sector engagement and investment • Leadership’s vision to increase private sector engagement or private capital • Plans, policies, and guidance that incorporate private sector engagement opportunities • Assignment of specific roles and responsibilities to agency operating units regarding private sector engagement • Assistance of the agency’s advisory council to formalize exchanges with the private sector
External Challenges	Internal Challenges
<ul style="list-style-type: none"> • Investor reluctance to manage Government administrative and bureaucratic burdens • Investor desire to invest at home, not overseas • Company goals that do not align with the agency’s mission • Competition with other agencies to attract and engage the private sector • Lack of predictability regarding political, economic, and social factors affecting projects in emerging markets • Proposed changes to the agency under direction of the current administration 	<ul style="list-style-type: none"> • Insufficient staffing resources to dedicate to private sector engagement • Time and flexibility involved in building relationships with the private sector • Communication with the private sector and finding the right message to attract investment • Leadership transitions and shifting priorities • Lack of incentives for staff to attract private sector investment • Lack of clear direction, mutual understanding, or mandate on private sector engagement • Lack of metrics that capture the partnerships

External Challenges	Internal Challenges
<ul style="list-style-type: none"> • Cultural differences between the private sector and development sector • Insufficient evidence to demonstrate return on investment in developing countries 	<ul style="list-style-type: none"> • High transaction costs for partnerships with the private sector • Limitations in the agency’s business model

Private capital mobilization decisions varied across the five agencies. Some said their process for determining how and when to attract and include private capital is centralized, managed out of headquarters, and in some cases approved by the agency president and chief executive officer (CEO). Other agencies said their process is decentralized and decisions are made in the field.

- At USAID, policy development is led out of headquarters, but mobilization determinations rest with country missions, and decisions are typically made by the project team or the mission/office director.
- At MCC, mobilization determinations are left to partner-country programs, and according to staff, involve ad hoc conversations between MCC representatives and partner-country representatives. All programs include members of the MCC Finance, Investment and Trade team that identify opportunities to mobilize capital in the selected sector and projects.
- USADF’s decision-making process is currently centralized to the foundation’s president and CEO, but the process of engaging the private sector is being decentralized to its in-country, local staff, and partner organizations.
- IAF’s process is both decentralized and centralized. IAF said that for corporate support that goes directly to grantees, the process is relatively decentralized and occurs largely in-country. For partnerships with foundations and corporations, leads may be developed by any IAF office (although most often by the Office of External and Government Affairs or the Office of Programs); partnerships are then negotiated and require final approval by IAF’s president and CEO.
- OPIC’s process for mobilizing private capital is centralized. Depending on the dollar amount, final decisions for approving projects for financial or insurance support are made by the origination department’s vice president, OPIC’s president and CEO, or the board of directors.

Agencies Identified Opportunities To Improve Private Capital Mobilization

Agencies are taking steps to improve private capital mobilization to support their development objectives. For example, in December 2018, USAID issued its Private-Sector Engagement Policy—which it described as a first step in a larger cultural and operational transformation to expand its engagement with the private sector for achieving outcomes of shared interest Agency-wide. The purpose of the policy is to outline the vision; illustrate ways to integrate private sector engagement; and clarify and coordinate concepts, terms, and definitions. The policy calls for additional actions including the following:

- Implementing guidance, appropriate revisions to agency policy, and a timetable for assessing progress.
- Providing training and skills-development resources for USAID staff and partners.
- Developing strategies to attract and retain a workforce that supports private sector engagement.
- Establishing operational and performance measurements of success that ensure incentives and rewards recognize financial and nonfinancial approaches to private sector engagement.
- Strengthening tools, advisory services, and resources available to staff.
- Prioritizing procurement reforms that enable flexibility and unlock private investment.
- Determining what works and what does not when engaging with the private sector.

Other agencies also cited some of the actions they are taking to improve private capital mobilization.

- MCC is researching whether partner countries can use the proceeds from their MCC grants to pay administration costs for third-party-funded loan guarantees and hedges. MCC seeks to work with investors who view its work in developing a pipeline of investable projects and strengthening the enabling environment around these projects as a way to access new markets. MCC said that its partner countries often do not meet the credit risk profile criteria to satisfy institutional investors who need a guarantee to invest.
- USADF launched plans in 2018 to build the capacity of in-country field staff and partner organizations for developing partnerships with host-country governments, NGOs, and private firms. Additionally, USADF is making technical improvements to receive donated funds through pay.gov in fiscal year 2019.¹¹
- As of December 2018, IAF was in the process of hiring a public-private partnerships specialist to improve and further develop private sector engagement.
- OPIC pointed to blended finance for supporting investments in emerging markets, and providing capital to speed up projects in the form of recoverable grants or convertible notes.¹²

Private Capital Tracking and Reporting Vary Across Agencies

Private capital reporting varied by agency for the fiscal years we reviewed. Agencies reported some quantitative results externally, as shown in table 4. However, some agencies include technical assistance, training services, and other indirect private sector

¹¹ Pay.gov is a web-based application that provides a secure way to pay U.S. Government agencies.

¹² OPIC said recoverable grants are only repayable upon success of the project and defined convertible notes as short-term debt repayable in the form of equity in the borrower.

engagement as private capital—which are inherently more difficult to assign a dollar value to.

Table 4. Selected External Private Capital Reporting of Quantitative Results, by Fiscal Year

Agency	Fiscal Year 2017	Fiscal Year 2018
USAID Sampled offices:		
DCA ^a	Leveraged \$213.9 million in guaranteed lending	Leveraged \$389 million in guaranteed lending
CTP ^b	Private sector contributions totaled \$679.9 million	Private sector contributions not provided
PCM ^c	Mobilized more than \$29 million in private resources (subset of the \$679.9 million above)	Amount mobilized in private sector resources not provided
OPIC	Reported in its Annual Report on Development Impact that it anticipates projects will support \$8.2 billion in private sector capital investment	Reported in its Annual Report it estimates \$3.8 billion to be mobilized, excluding OPIC commitment and other public investment
MCC	Amount leveraged from the private sector not provided	Calculated that of the \$6.4 billion leveraged from third parties, \$5.6 billion came from the private sector since inception
IAF	Reported in its Annual Management Report that donations totaled \$395,310	Reported in its Annual Management Report that donations totaled \$680,236; counterpart funds committed totaled \$19.9 million
USADF	Reported, in its public board of directors reports, private sector donations of \$650,000	Reported, in its public board of directors reports, private sector donations of \$605,000

^a DCA publishes the Agency’s guarantee utilization and claims on <https://www.data.gov>.

^b CTP manages the Agency’s public-private partnerships database <https://www.usaid.gov/data/dataset/83ace88b-c6a3-4520-990f-439ffc74e08f>.

^c PCM manages the Microenterprise Results Reporting database <https://mrr.usaid.gov/>.

NOTES: (1) We did not verify the accuracy of the reported results. (2) PPL does not manage programs related to private capital and therefore did not have anything to report.

Agencies said they had program-specific reporting requirements, performed internal tracking, or responded to ad hoc information requests; some of those examples follow.

- The Microenterprise Accountability and Results Act of 2004 requires USAID to report all matching assistance provided for the prior year by recipients of microenterprise development assistance under such title.¹³
- MCC tracks third-party leverage (non-MCC funds leveraged from the private sector, public sector, and others) and reports this figure to the Office of Management and

¹³ Matching assistance is assistance from non-U.S. Government sources, including private donations, multilateral funding, commercial and concessional borrowing, savings, and program income.

Budget and the White House when requested. The amount leveraged from the private sector can be teased out from the total third-party leverage figure, but it is not regularly tracked.

- USADF officials said the foundation receives less than \$2 million annually in grants, gifts, and donations directly to USADF from the private sector, and reports this information internally and externally.
- OPIC tracks private capital mobilization and private capital leverage ratios and provides private capital mobilization data when requested from external and internal stakeholders.¹⁴

Agencies Identified Challenges in Capturing and Validating Data

To support their private capital reporting, agencies capture data from a variety of sources—including documentation, agency staff, and third parties—and organize it in databases or other presentations. We did not verify the accuracy of reported results, but agencies identified some factors affecting data collection and validity.

USAID interviewees said the Agency faces several challenges in tracking private capital across its offices, including incomplete or incorrectly defined indicators, defective tracking systems, partner agreements that do not have tracking requirements, and field office underreporting. Additionally, interviewees identified the following weaknesses:

- DCA’s tracking system in headquarters is not aligned with its field program reporting and relies on dedicated staff for manual data collection, verification, and entry.
- USAID’s CTP and PCM receive limited, self-reported information from the missions. CTP and PCM identified this data as insufficient to evaluate the effectiveness of the public-private partnerships, and failing to capture follow-on investing. USAID is working on a strategy to address this problem.

MCC, IAF, and OPIC also identified challenges, such as calculating matching funds and validating third-party data.

- MCC relies on third-party data sources to estimate investments made by the private sector without the ability to directly validate the numbers.
- IAF noted that common accounting issues, such as collecting proper receipts, can be a challenge when calculating matching funds. In terms of achievements of its grants, IAF also mentioned that it can be difficult to assess outcomes versus outputs.

¹⁴ Private capital leverage ratio: For projects committed in a given year, OPIC calculates total investment sources (borrower/sponsor and other U.S., host-country, and third-country investments) and divides that by total projected OPIC funding. When OPIC refers to private capital leveraged, it does not include investment dollars from the U.S. Government, other international development finance institutions, host countries, or other sources.

- OPIC administers an annual survey of borrowers to collect private capital data on their specific projects. However, according to OPIC, the survey is 25 pages, the language is hard to follow for respondents whose first language is not English, and the self-reported data are subject to error. OPIC mentioned that its transformation under the BUILD Act presents an opportunity to revamp this part of OPIC's data collection and tracking process.

CONCLUDING OBSERVATIONS

USAID, MCC, USADF, IAF, and OPIC are taking steps to advance private sector engagement and mobilize private capital to help achieve U.S. development objectives. The extent and type of their private sector engagement depend on their unique, diverse missions. While agencies reported that certain opportunities and drivers help mobilize private capital, they also identified challenges to fully collaborating with the private sector in promoting economic growth and reducing poverty throughout the developing world.

APPENDIX A. SCOPE AND METHODOLOGY

We conducted our work from June 2018 through March 2019 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The first audit objective was to identify the primary types and sources of private capital that USAID, MCC, USADF, IAF, and OPIC mobilize. The second audit objective was to describe the approaches these agencies use to engage the private sector and mobilize and track private capital.

These objectives were based on language in House Report 115-253, which accompanied H.R. 3362, Department of State, Foreign Operations, and Related Programs Appropriations Act, 2018, directing OIG to report on how USAID, MCC, USADF, IAF, and OPIC attract, include, and transition private capital into their projects.¹⁵ The final FY 2018 appropriations bill was enacted on March 23, 2018, as Division K, Department of State, Foreign Operations, and Related Programs Appropriations Act, 2018, of Public Law 115-141, Consolidated Appropriations Act, 2018. OIG met with staff of the House Committee on Appropriations, Subcommittee on State, Foreign Operations, and Related Programs to discuss this request on May 10, 2018.

Our audit scope covered the agencies' private sector engagement and mobilization for fiscal year 2018, and their reporting of these activities for fiscal years 2017 and 2018. We relied on each agency's definition of private capital to inform fieldwork and understand how they each engage with the private sector. Our audit was not designed to test the internal controls of private capital activities or results reporting; however, we did consider the control environment of each agency in terms of private capital engagement. In answering the audit objectives, the team conducted its work in Washington, DC, at USAID, MCC, USADF, IAF, and OPIC headquarters, where most of the interviewees familiar with the private capital process are located. Documentation reviewed to answer the audit objectives included available agency strategies, policies, presentations, assessments, annual program statements, annual reports, statutory requirements, and enabling legislation.

To answer the first audit objective, we interviewed knowledgeable officials that work closely with private capital and private sector engagement activities in the respective agencies, such as the general counsel; chief operating officer; deputy assistant administrator; and directors, vice presidents, and officers of relevant programs. We reviewed relevant documentation and provided questions to the agency to identify the ways it engages with the private sector, the types of private capital the agencies

¹⁵ House Report 115-253, page 39.

mobilize, and the private sector actors that provide financing. We formally requested this information via email. The agencies identified the appropriate individuals with the knowledge to respond to our request. These individuals included the general counsel, deputy vice presidents, program directors, chief operating officer, finance and budget officer, and congressional affairs staff. Agency responses were cleared internally by the general counsel, program directors, or President and CEO. We considered these responses official.

In addition, we researched the types of commonly used mechanisms for private sector engagement and reviewed relevant agency documentation to determine the types of mechanisms used. We also questioned agency officials to determine if any available mechanisms are not used and the reasons why.

To answer the second objective, we used the same approach as described for the first objective. We asked the same agency officials and reviewed relevant documentation on what drives agencies to mobilize private capital, what impediments they face, and whether agencies track the funding and achievements for private capital they mobilize. This information was collected from each agency as an official response vetted internally by the appropriate agency staff.

Where applicable we reviewed documentation supporting their tracking activities for fiscal years 2017 and 2018 to determine the extent of tracking, but we did not verify the results. For USAID, when identifying the population of bureaus and offices, we determined that surveying the entire population would be time-consuming. Therefore, we judgmentally selected four units (the Center for Transformational Partnerships, which manages the public-private partnership database; Office of Development Credit Authority, which manages loan guarantees; Office of Private Capital and Microenterprise, which manages the Microenterprise Results Reporting database; and the Bureau for Policy, Planning, and Learning, which manages monitoring and evaluation for the Agency) to report on their tracking activities. We selected these offices because we learned through the review of USAID's guidance on private sector engagement and interviews with knowledgeable officials that these are the main offices that track private capital information. PPL was selected because it shapes USAID's development policy and programing guidance.

The audit did not rely on computer-processed data to support its findings. Instead, we relied largely on input from agency officials and documentary evidence to support our conclusions.

APPENDIX B. AGENCY FACT SHEETS

Private Capital Fact Sheet U.S. Agency for International Development



Established:
1961



FY 2018 budget:
\$18.7 billion



Size: Medium (1,000-
9,999 employees)



Global footprint:
Worldwide

Mission: To promote and demonstrate democratic values abroad, and advance a free, peaceful, and prosperous world.

How the agency works: USAID plans its development and assistance programs in coordination with the Department of State. Most projects are implemented through a grant, cooperative agreement, or contract with a development partner, such as an NGO, for-profit contractor, university, international organization, foreign governments, or civil society organization.

DEFINITION OF PRIVATE CAPITAL

Private capital refers to the funds the private sector contributes toward an agreed-upon USAID-supported project. Private capital is defined differently by the Agency's offices, missions, and bureaus depending on the context and is a tool used to implement foreign assistance.

ENGAGEMENT WITH THE PRIVATE SECTOR

Mostly driven by program activities at the field level with:

- Financing
- Technical assistance
- Knowledge sharing
- Policy dialogue
- Capacity development

SOURCES OF PRIVATE CAPITAL

- For-profit, commercial entities and their affiliated foundations
- Financial institutions, investors, and intermediaries
- Business associations and cooperatives
- Micro-, small, medium-size, and large enterprises
- For-profit approaches that generate sustainable income, such as venture funds run by an NGO or social enterprise.

Private Capital Fact Sheet

Millennium Challenge Corporation



Established:
2004



FY 2018 budget:
\$905 million



Size: Small (100-
999 employees)



Global footprint:
Worldwide

Mission: To reduce poverty through economic growth in well-governed developing countries around the world.

How the agency works: MCC provides time-limited grants that support country-led projects in areas like agriculture and irrigation, anticorruption, education, energy and power, transportation infrastructure, health, finance and enterprise development, among others.

DEFINITION OF PRIVATE CAPITAL

MCC follows OECD's blended finance definition: "the strategic use of development finance for the mobilization of additional finance towards sustainable development in developing countries."

ENGAGEMENT WITH THE PRIVATE SECTOR

- Collaborative partnerships that involve the exchange of technical ideas, data, networks, and knowledge; shared goals and objectives; and cost sharing
- Contracts with private sector entities / MCC-funded opportunities for which private sector companies can compete
- Co-financing (or blended financing) opportunities
- Technical assistance
- Training
- Policy dialogue
- Non-funded collaborative partnerships

SOURCES OF PRIVATE CAPITAL

- Donors
- Private foundations
- Commercial banks
- Institutional investors and insurers
- NGOs

Private Capital Fact Sheet

U.S. African Development Foundation



Established:
1980



FY 2018 budget:
\$30 million



Size: Very small
(<100 employees)



Global footprint:
Africa

Mission: To support African-led development that grows community enterprises by providing seed capital and technical support.

How the agency works: USADF provides seed capital and local technical support to early stage agriculture, off-grid energy, and youth-led enterprises in Africa. The agency awards grants of up to \$250,000 to African organizations for operational assistance, enterprise expansion, linkages to new markets, and follow-on funding to sustain growth.

DEFINITION OF PRIVATE CAPITAL

Private capital is not an operational term at USADF.

ENGAGEMENT WITH THE PRIVATE SECTOR

- Attracts financing through gifts and donations
- Attracts technical assistance, capacity building, and training provided by private entities to USADF grantees

SOURCES OF PRIVATE CAPITAL

- Corporate sector
- Philanthropic organizations and individuals

Private Capital Fact Sheet

Inter-American Foundation



Established:
1969



FY 2018 budget:
\$23 million



Size: Very small
(<100 employees)



Global footprint:
Latin America and
the Caribbean

Mission: To promote and invest in grassroots development to help communities in Latin America and the Caribbean thrive.

How the agency works: IAF provides grants to support creative, self-help programs and activities that promote more profitable agriculture, microbusinesses, and community enterprises; expand employment opportunities through skills training; and offer access to water, basic utilities, and adequate housing. IAF encourages partnerships among community organizations, businesses, and local governments.

DEFINITION OF PRIVATE CAPITAL

Private capital is not an operational term for the IAF.

ENGAGEMENT WITH THE PRIVATE SECTOR

- Attracting financing
- Knowledge sharing
- Capacity development

SOURCES OF PRIVATE CAPITAL

- Corporate sector
- Philanthropic organizations and individuals

Private Capital Fact Sheet

Overseas Private Investment Corporation



Established:
1971



FY 2018 budget:
\$99 million



Size: Small (100-999 employees)



Global footprint:
Worldwide

Mission: To mobilize and facilitate the participation of U.S. private capital and skills in the economic and social development of less developed countries and areas, and countries in transition from nonmarket to market economies.

How the agency works: OPIC provides loans, guarantees, political risk insurance, and other financial products to give U.S. businesses the tools needed to manage the risks associated with foreign direct investment.

DEFINITION OF PRIVATE CAPITAL

U.S. or foreign private sector funding (debt or equity), including funding from U.S. equity investors that receive OPIC political risk insurance.

ENGAGEMENT WITH THE PRIVATE SECTOR

- Political risk insurance
- Investment guarantees
- Direct lending
- Investment funds

SOURCES OF PRIVATE CAPITAL

- Foundations
- Individuals
- Banks
- Limited liability corporations
- Small businesses
- International corporations

APPENDIX C. AGENCY COMMENTS



April 24, 2019

MEMORANDUM

TO: Thomas Yatsco, Assistant Inspector General for Audit

FROM: Karl Fickenscher, Deputy Assistant Administrator, Bureau for Economic Growth, Education, and Environment /s/ KWF

DATE: April 23, 2019

SUBJECT: Management Comments to Respond to the Draft Audit Report Produced by the Office of Inspector General (OIG) titled, *U.S. Agencies' Use of Private Capital* (9-000-19-00X-P) (Task No. 99100218)

The U.S. Agency for International Development (USAID) would like to thank the Office of Inspector General (OIG) for the opportunity to provide comments on the subject draft report. The Agency agrees with and welcomes the OIG's conclusion that no recommendations are required as a result of this audit.

USAID looks forward to the implementation of our new Private Sector Engagement (PSE) Policy, which signals an intentional shift toward enterprise-driven development as a more sustainable way to empower people, communities, and countries on their Journeys to Self-Reliance.

USAID's comments below are limited to only those sections that address USAID and USAID concerns. We defer to the other Agencies for comments on their respective sessions.

The OIG evaluations provide a valuable opportunity to assess and improve upon USAID's policies, procedures, and programs. Thank you for the opportunity to respond to your draft report and for the courtesy shown by your staff while conducting this engagement.

**COMMENTS BY THE U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
(USAID) ON THE REPORT RELEASED BY THE USAID OFFICE OF
INSPECTOR GENERAL (OIG) TITLED, *U.S. AGENCIES' USE OF PRIVATE
CAPITAL (9-000-19-00X-P)***

Please find below the management comments from the U.S. Agency for International Development (USAID) on the draft report produced by the USAID Office of Inspector General (OIG), which contains no recommendation(s) for USAID:

- On Page 3, the following two paragraphs should be modified to read:
 - The Office of Development Credit Authority (DCA) establishes risk-sharing relationships with private financial institutions to mobilize local private capital. Established in 1999, DCA has provided partial guarantee coverage (typically 50 percent) for loans to entrepreneurs in underserved sectors worldwide. The BUILD Act of 2018 calls for DCA to be transferred to the U.S. Development Finance Corporation (*DFC*). *The target date for transfer of DCA to the DFC is October 1, 2019.*¹⁶
 - The Office of Private Capital and Microenterprise (PCM) aims to mobilize private finance and expertise in priority development sectors and regions to increase the sustainability and scale of development results. Specifically, PCM offers strategic planning and programming assistance to catalyze investment in priority sectors; provides transaction structuring support; delivers training (capital markets, blended finance) and knowledge-management tools for engaging private investors; and can help Missions identify and screen new investment partners. The BUILD Act of 2018 also *provided the legal authority* for PCM to be transferred to the DFC, *but the Administration has decided not to transfer PCM to the DFC and instead retain PCM with USAID, set forth in a DFC Reorganization Plan submitted to Congress on March 8, 2019.*
- On Page 6, the paragraph should be modified to read:
 - According to *one office within USAID*, private capital broadly refers to the funds the private sector contributes to an agreed-upon USAID project to

¹⁶ See, https://www.opic.gov/sites/default/files/files/Shelby_Letter_USIDFC_Reorg_Plan_08032019.pdf

achieve one or more defined development objectives. USAID does not have a single, official definition of private capital; the term can be and is used throughout the Agency, but its meaning or definition is context-specific. A very common context in which the term “private capital” is used is public-private partnerships.

- As correctly noted elsewhere in the same paragraph and on the same page, there is no “single, official definition of private capital [within USAID].” This lack of a definition was one of the reasons that we established an agency-wide common definition for the “Private Sector” as part of the new Private Sector Engagement policy.
- On Page 12, Table 4 should be modified to include a note stating:
 - This selected external private capital reporting of quantitative results is not exhaustive of all private capital reporting at USAID. Other USAID Teams such as Power Africa and the Bureau for Food Security track mobilization of private capital which is not fully captured in the data included here.

USAID has no other substantive comments.



Memorandum

Memorandum

DATE: April 23, 2019

TO: Thomas Yatsco
Assistant Inspector General for Audit
Office of Inspector General
U.S. Agency for International Development

FROM: Anthony Welcher
Vice President
Department of Compact Operations

RE: MCC Management Response to Report No. 9-000-19-00X-P
“U.S. Agencies’ Use of Private Capital in Advancing International
Development”

The Millennium Challenge Corporation (MCC) appreciates the opportunity to respond to the draft report from the Office of Inspector General (OIG) on the use of private capital in advancing international development. We have no comments with respect to the information that the OIG presents regarding MCC’s initiatives to engage the private sector in its programs. MCC appreciates the professionalism and courtesy demonstrated by the auditors throughout this engagement.

If you have any questions, please contact Amanda Jennings, Managing Director, Department of Compact Operations (DCO), at 202-521-2680 or jenningsae@mcc.gov, or Veronica Campbell, Senior Audits Advisor, DCO, at 202-772-6301 or campbellvm@mcc.gov.

cc: B. Schletz
A. Urrego
H. Hanson
A. Dixon
L. Stoll
R. Johnson
T. Hohenthauer
A. Jennings
A. Miller
J. Koval



Inter-American Foundation

An Independent Agency of the U.S. Government

April 25, 2019

Thomas Yatsco
Assistant Inspector General for Audit
U.S. Agency for International Development
Office of Inspector General
1300 Pennsylvania Avenue, NW
Washington, D.C. 20523

Subject: U.S. Agencies' Use of Private Capital in Advancing International Development
(Report No.9-000-19-00X-P)

Dear Mr. Yatsco:

On behalf of the Inter-American Foundation, I confirm the agency has no substantive comments to the Report.

I would like to convey my appreciation for your review of this important aspect of U.S. development work, and your assessment of the way the agency attracts and uses non-agency sources of funding to further its mission.

Sincerely,

Paloma Adams-Allen /s/
President and CEO

APPENDIX D. MAJOR CONTRIBUTORS TO THIS REPORT

The following people were major contributors to this report: Van Nguyen, audit director; Brianna Schletz, assistant director/lead auditor; Jill Randall, program analyst; Clare Sabo, program analyst; Karen Sloan, communications officer; Paola Tejada, program analyst; Augusto Urrego, auditor; and Mary Vanagas, auditor.