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# Technical assistance, a development tool serving the private sector

*Including consultancy as part of the investment package not only increases businesses' chances of survival but also their ability to improve living conditions for local communities.*

*EDITORIAL BY DOV ZERAH PRESIDENT OF PROPARCO*

Consultancy and support are an important component of the service that development finance institutions provide to businesses in emerging and developing countries, particularly in Africa. Small and medium sized enterprises are deficient in these areas, especially in governance and financial management, and this hinders their growth as well as their ability to contribute to development.

To support them more and encourage them to change, in recent years the universal development banks have been co-financing consultancy programmes to help them improve their information systems, develop new products and break into new markets. This approach, a combination of private investment and financial incentive, enhances both the stability and economic impact of the companies on the receiving end.

But the legitimacy of providing grants to support private-sector development is questioned in many circles. How can we justify donating funds to profitable companies? This is the subject tackled in Issue 11 of *Private Sector & Development* magazine.

Grants provided by development finance institutions may be justified when they contribute to the long-term survival of companies and boost their economic impact. But to ensure that this new tool is effective, fills a genuine lack and avoids distorting competition, the impact of funding provided for such projects needs to be measured. This is something to look at again in the future because the variety of different systems of measurement currently in place makes it difficult to evaluate and compare programmes between institutions.

The experience built up over several projects nonetheless provides some lessons. With a strong commitment and ownership of the project on the part of the beneficiary company, and monitoring by the lender, a technical assistance programme increases the chances of success. And technical assistance in support of the private sector can become a valuable development tool, available to public development agencies to increase the leverage of their financial input. —

Proparco
GROUPE AGENCE FRANÇAISE DE DÉVELOPPEMENT

# Combining funding and technical assistance

*Development finance institutions sometimes provide their clients with technical assistance to strengthen their capacity in governance, management and financial administration. While the use of public funds for profit-making enterprises raises certain issues, it also requires efficiency. A project based on a strategic vision, real commitment and monitoring of outcomes may help to make a business more sustainable.*

**Cyril Renault**

*Proparco*

The private sector is now acknowledged to be a crucial link in development processes. Small and large enterprises alike create jobs and wealth and contribute to state budgets, making them vectors for growth. Europe's development finance institutions, or DFIs, which work together under the umbrella of the European Development Finance Institutions (EDFI),[1] have long been involved in support for the private sector. This support – worth an estimated EUR 4.7 billion in 2010, invested in 770 projects through loans, equity or guaranty schemes– serves as a catalyst for investment to help develop a network of sound, dynamic businesses in regions having a higher risk profile.

CYRIL RENAULT

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Some of these European bodies have been in existence for many years, but the move towards funding being linked to technical assistance is more recent. Giving advice to private-sector actors in developing countries has, of course, long been a natural part of the work of DFIs, but beyond this support role, European DFIs are now suggesting devoting additional resources to building businesses' capacity. The European Commission (European Commission, 2011) has argued that "working together with the private sector as a driver of inclusive growth and sustainable development is an area where the EU has long seen great potential" and that "the European Union and its Member States could use more blending of loans and grants".

The term "grants", however, lies at the heart of the debate around the legitimacy of what DFIs are now offering. Issues are also being raised about their role in building private sector capacity and the use they make of Official Development Aid.[2] If the aim of building capacity in private sector businesses is to make their development sustainable and to support initiatives with greater developmental impact, how can grants to profit-making businesses be justified? Furthermore, are DFIs the best organisations to build capacity in the private sector?

## Support from DFIs still modest

In 2006, the OECD'S Development Assistance Committee[3] defined capacity-building for businesses as "the process whereby people, organisations and society as a whole unleash, strengthen, create, adapt and maintain capacity over time" (OECD, 2006). More specifically, for the DFIs it means providing the end beneficiary (the business) with advice, information management, reorganisation and research work, with part of the cost being met from the funding provided. Capacity-building activities were first used during the last decade, by Norway's Norfund (in 2000) and by France's Proparco (in 2008) - Table 1. The total value of such programmes ini-

*[1] This body represents 15 bilateral finance institutions. Mandated by their national governments, they work to implement the Millennium Goals, in particular by supporting "sustainable" projects in developing countries.*
*[2] Official Development Aid comprises the entire range of resources from public bodies (or organisations working on behalf of public bodies) that is destined for developing countries or multilateral institutions, coupled with favourable conditions (in cases where the grant element is at least 25%), with the aim of boosting economic development and improving standards of living.*
*[3] This is the main body with responsibility for cooperation and development issues within the Organisation for Economic Cooperation and Development (OECD). It is a forum for coordinating donors on the practice of mobilising and implementing public development assistance.*

tiated by European DFIs was just under EUR 40 million in 2010. By way of comparison, expenditure by the International Finance Corporation on advice to business in the same year was USD 268 million, equivalent to just under 3.95% of its total investment. Austria's OeEB and the Netherlands' FMO contributed to financing half of the overall expenditures on technical assistance, partly reflecting their specific situation in having no "parent company" with a cooperation remit. The total value of these projects varied between EUR 20,000 and EUR 1 million, with an aveage for 2010 of under EUR 100,000.

*"The suggestion that funding be linked to technical assistance is a more recent move."*

The resources earmarked by European DFIs for technical support are limited, amounting to less than 0.85% of their annual funding in 2010. Moreover, DFIs do not qualify for centralised funding from the European Union, so some – such as Germany's DEG – use their own resources. As the emphasis of European DFIs is on the private sector, with the bulk of their support taking the form of capital funding to create and expand businesses in the countries of the emerging markets, they have not, so far, been very effective as channels for the flow of public development assistance.

## Heavy demand for advice on good governance

By their nature, development finance institutions have a long record of helping to improve their partners' capacity, in particular through giving advice on investment structuring. Beyond making extensive recommendations to help their clients make sound investments and to boost the developmental impact of their work, DFIs now also use public money alongside their own funds to support their partners. They carry out pilot studies and support companies in setting up internal workshops in such areas as improving information systems, consolidating administrative and financial management and training corporate social and environmental responsibility experts in partner financial institutions. This means they are also able to have an impact at institutional level (on governance), at organisational level (on quality and performance) and at individual level (on expertise and skills).

Requests for support are made either by businesses themselves or by financial intermediaries, such as banks and investment fund management teams – in both cases, stakeholders who work very closely with small businesses. In most cases, technical assistance projects require only short-term expertise for a one-off or iterative purpose. Sometimes, though, the scale of the change needed may require a manager to be placed with the enterprise. In late 2009, for example, AMSCO[4] had more than 270 managers placed with 181 businesses. The managers it recruits have to manage client businesses that have embarked on a process of performance enhancement. They are on three-year temporary but renewable contracts with the client businesses and help their clients to improve their operational and financial performance as well as training the local managers who will eventually take over from them (AMSCO, 2009).

Just under half of the requests for capacity development in small and medium-sized enterprises (SMEs) that Proparco receives from partner investment funds relate to issues of leadership and financial management within the businesses concerned. Good governance is seen as an essential precondition for developing new goods and services that will have developmental impact, another area in which advice is heavily sought.

## Using European public funds

There is, however, debate about whether subsidising profit-making businesses can be justified and whether these businesses could not meet their own costs themselves. In general terms, businesses are reluctant to embark on internal restructuring because of the human and financial resources involved and the difficulty of assessing the impact that external advice has. This reluctance is even greater when businesses need to commit to new and innovative market segments for which the customers are among the country's lowest earners. In such cases, using public funds to provide grants encourages businesses to innovate. And when a business is given an incentive to enhance its governance and environmental and employment standards and to broaden its scope, it is more likely to be sustainable and make a greater developmental impact.

*"European development finance institutions devote less than 0.85% of their annual funding to technical assistance."*

As a result, greater combination of public funding with private investment in Europe has been driven by the major development aid bodies, including the European Investment Bank, the French Development Agency, and Germany's KfW Bankengruppe. Since 2009, the European Union has been ▸▸▸

[4] *AMSCO is an operational unit of the United Nations Development Programme (UNDP) with responsibility for a project entitled "African Training and Management Services", or ATMS. The aim of this project is to build capacity and skills in small and medium-sized enterprises in Africa.*

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▸▸▸ facilitating a mechanism for pooling aid and investment.[5] These combined programmes, originally designed to encourage investment in sectors that have major developmental impact, do not systematically target capacity-building, and money may also be used to guarantee and subsidise loans or to jointly fund an investment programme. DFIs, by contrast, use public funding mainly to build their partners' capacity. It is rare for them to underwrite loans or subsidise investment, their view being that to do so risks distorting competition. The cost of a project rarely exceeds 10% of the sum invested, which limits deadweight and similarly minimises the impact on competition.

## Underpinning the efficiency of capacity-building projects

*"The issue is whether subsidising profit-making businesses can be justified."*

Mobilising public funds to help the private sector implies that development finance institutions have to be accountable, since they are required to demonstrate to donors and public bodies that the support they give to capacity-building is effective.

To ensure that their support is effective, they pay particular attention to the quality of leadership in each business concerned. The process of capacity-building is effective when it responds to a request from the business and when it is based on a strategic future vision and a shared commitment to change. For example, the business is virtually always asked for a cash contribution that varies between 20% and 50% of the cost of the project, depending on the level of risk and the balance that has been struck between innovation and commitment. In exceptional cases, the cost of support is borne entirely by the business itself. For example, Business Partners, an organisation that funds SMEs, provides advice in South Africa for which it grants interest-free loans. These advances are also widespread in the carbon finance sector.

*"Combining investment with capacity-building is a new approach to meeting the challenge posed by development."*

In most cases, identifying shortcomings in capacity and approaches merely requires supporting entrepreneurs in their thinking. DFIs must, therefore, demonstrate good listening skills and sound knowledge of the issues faced by the relevant sector and be able to formalise structural issues that will underpin the decision-making process. The effectiveness of capacity-building projects also, finally, requires effective adaptation to the enterprise's own pace of change. To maximise the chances of success, project cycles must include three key stages: at the planning stage, definition of the framework for selecting and approving projects (eligibility conditions); procurement (which is to be supported with strict procedures for encouraging competition and efficiency); and implementation of the advisers' recommendations.

In terms of projects, setting some key target indicators means that the work of the advisers can be monitored and the concrete outcomes for the businesses evaluated. It has, however, proved more difficult to gauge the impact of the support measures: in most cases, this is done for the project as

[5] *The role of the European Union Africa Infrastructure Trust Fund and the three regional mechanisms, the Neighbourhood Investment Facility, the Latin America Investment Facility, and the Investment Facility for Central Asia, is to develop infrastructure (such as social services, the environment, transport, telecommunications, energy, and water) and to support the development of SMEs.*

### TABLE 1: EUROPEAN DEVELOPMENT FINANCE INSTITUTIONS TECHNICAL ASSISTANCE FUND CHARACTERISTICS PEER OVERVIEW

| | FMO (Netherlands) | DEG (Germany) | BIO (Belgium) | PROPARCO (France) | OeEB (Austria) | Norfund (Norway) |
|---|---|---|---|---|---|---|
| TA fund active since | 2006 | 2005 | 2004 | 2008 | 2008 | 2000 |
| Average volume per year (EUR) | 6,700,000 | 2,100,000 | 1,455,000 | 1,000,000 | 11,300,000 | 3,800,000 |
| Average number of projects per year | 70 | 39,7 | 15 | 10 | 18 | 40 |
| Average contracted amount per project | 135,000 | 52,900 | 97,000 | 150,000 | 808,000 | 63,000 |
| Funding range (EUR) | 15,000 – 1,000,000 | 10,000 – 193,000 | 10,000 – 300,000 | 10,000 – 400,000 | Project specific | 8,000 – 400,000 |
| Minimum client contribution | 25 – 50% | 50% | 25% | 25 – 50% | 20 – 50% | No fixed percentage |

*Source: BIO, DEG, FMO, Norfund, OeEB, PROPARCO, 2011*

## TWO TYPES OF INTERVENTION WITH SIMILAR GOALS

European development finance institutions mostly intervene after they have made investments, focusing on the specific needs of each enterprise that they are supporting. Traditional donors, such as the European Investment Bank, the *Agence Française de Développement* (AFD), and Germany's KfW Bankengruppe, take approaches that reflect to a greater extent the business climate and the specific dynamics of the sector concerned. Their action is usually integrated into national policy and is linked to local private-sector support agencies.

For example, AFD-supported programmes to upgrade enterprises in Tunisia and Senegal combine capacity-building with investment funding provided by the partner banks associated with the programme, with the banks benefitting from refinancing at preferential rates. These programmes are intended to help small and medium-sized enterprises to integrate into an increasingly competitive economy in which preference is given to what the state considers to be priority areas. With the support of AFD, eligibility criteria reflecting the thrust of public policy are, therefore, defined by an upgrading department that is autonomous but accredited by the state and includes a wide range of private-sector partners.

These two approaches – microeconomic and mesoeconomic – are complementary, and both benefit the private sector. In both cases, capacity-building is used to make it easier to implement economic and social projects that contribute to sustainable growth and development and, hence, to the Millennium Development Goals. The choice of approach is determined solely by the nature and specific goals of each body – either funding private investment in the case of development finance institutions or, in the case of official development agencies, promoting growth through support for public authorities and non sovereign entities, such as local communities, non-governmental organisations and businesses.

a whole – that is, investment and support are evaluated together.

Some organisations have found innovative ways of doing this. Aureos Capital, which manages the Africa Health Fund, receives a grant to develop the capacity of the SMEs in its portfolio to have a greater impact on the populations at "the bottom of the pyramid". Part of the grant is used to fund impact measurement, while the fund manager's remuneration depends on the outcome. Combining provision of capacity-building, funding for impact measurement and an incentive to developmental impact therefore represents a way of ensuring that action is effective.[6]

### Building capacity to boost development

Combining investment with capacity-building within private sector enterprises is a new approach to meeting the challenge posed by development. Supporting activity by means of funding and making enterprises more sustainable by means of better organisation and better governance, and by developing new, tailored goods and services, enables European development finance institutions to strengthen the leverage of public development assistance funds and make it more likely that the Millennium Development Goals will be met. Indeed, by developing their own social and environmental responsibility, enterprises can enhance their role as a driving force for improved living conditions in their local communities.

Development finance institutions all have a role to play in this process. Their legitimacy is the result of their close work with, and knowledge of, the companies that, in some cases, they have been supporting for more than 40 years. In 2010, EDFI set up a working group of practitioners in the capacity-building field, and, in 2011, it also created a task force with a brief to establish how European Commission public development funds could be mobilised. This is a new and promising departure that augurs well for a stronger role for European DFIs in providing global support to the private sector. ●

[6] *On this topic, see the article by Tobias Bidlingmaier, p.22 in this issue of Private Sector & Development.*

References / **AMSCO, 2009.** Annual report. // **European Commission, 2011.** *Enhancing EU Accountability on Financing for Development towards the EU Official Development Assistance Peer Review*, report. // **OECD, 2006.** *The Challenge of Capacity Development: Working towards Good Practice*, report.

# Achieving impact through technical assistance

*Economic development can be directed into emerging markets by promoting private sector engagement. By providing technical assistance to companies, industries, and governments, development finance institutions seek to help grow the private sector in emerging markets by improving the investment climate, increasing access to finance and basic infrastructure, and promoting sustainable businesses.*

**Halah Al-Jubeir, Gilles Galludec and Peer Stein**

*International Finance Corporation (IFC)*

Technical assistance (TA) seeks to promote the economic, social and political development of emerging markets through targeted interventions at both the macro and micro levels. Through projects and programmes that mitigate systemic market distortions and failures, address competitive inefficiencies, simplify cumbersome regulations, and improve access to goods and services, TA programmes can help beneficiary countries make progress towards the Millennium Development Goals (MDGs).[1]

Introducing TA programmes that enhance the capacity, skill and behaviour of private sector actors catalyses social and economic development: in addition to providing new capital investment, private entities promote innovation and entrepreneurship, create new jobs, and open up new markets. Advisory programmes create attractive conditions for local and foreign investment and help emerging economies alleviate poverty.

Although the primary objective of TA programmes has remained the same over the past fifty years, the nature of involvement has evolved from feasibility studies of development projects and management of their implementation to a much broader approach that incorporates capacity-building, legal and regulatory reform, environmental and social standard-setting, and economic development. According to the World Bank Institute, this transition has occurred over three generations; the first generation in the latter half of the twentieth century was largely supply driven, with donor countries mandating the transfer of knowledge and technologies. At the turn of the century, TA began to focus on capacity development through participative, strategic planning and best practice models. Today, a third generation is surfacing that integrates contextual frameworks and change dynamics into longer term engagements that address the needs of multiple stakeholders.

As TA programmes have evolved, so too have the relationships between the parties concerned. Today, jointly-implemented projects bring together a variety of players, ranging from development institutions to public and private actors. As programmes progress, lessons learnt are reviewed and reincorporated into subsequent project designs.

## Providing Technical Assistance: IFC's Advisory Services

In recent years, Advisory Services have become an important pillar of the International Finance Corporation's (IFC) operations and serve as the primary mechanism for IFC's interventions in both the poorest countries and those with the most chal-

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[1] *The Millennium Development Goals (MDGs) are eight international development goals that all United Nations member states and at least 23 international organizations have agreed to achieve by the year 2015. They include eradicating extreme poverty, reducing child mortality rates, fighting disease epidemics such as AIDS, and developing a global partnership for development.*

lenging business environments. This importance is reflected by the significant growth in TA programming: between 2001 and 2010, expenditure for Advisory Services grew more than tenfold, and staffing increased by a factor of six. Today, nearly 40% of IFC staff is engaged in designing and implementing almost USD 300 million per year in Advisory Services internationally.

IFC's Advisory Services programmes are organised around four business lines that provide targeted advice and training. The Access to Finance (A2F) line helps increase the availability and affordability of financial services to households and micro, small and medium enterprises (MSMEs), while the Investment Climate line helps governments implement reforms that encourage investment and foster competition and growth. The Public-Private Partnerships line assists governments to structure public-private partnership transactions in infrastructure and other public services, and the Sustainable Business line promotes cross-cutting environmental and social performance standards.

## Closing the global gap on financial services

Poor financial infrastructure in many developing countries restricts financial institutions from expanding their service offerings to underserved segments of the population. Key financial elements in developed markets often do not exist or are less advanced. This infrastructural weakness, together with limited access to finance, means that the global gap in access to financial services remains a challenge. Today, there are over 2.5 billion unbanked individuals and more than 300 million MSMEs with a credit gap of over USD 2 trillion across the globe. Through its A2F Advisory Services, the largest of IFC's TA programmes, IFC works with financial institutions and regulators to improve financial infrastructures and increase access to finance for the unbanked.

*"Technical assistance programmes can help beneficiary countries make progress towards the Millennium Development Goals."*

IFC runs a variety of programmes that seek to improve access to finance for SMEs and business clients. For example, many farmers do not have access to seeds and other inputs when their credit risk is adjudged too high by banks. As one way to address this situation in Eastern Europe, IFC launched the Ukraine Agri-Insurance Development Project to develop well-designed insurance products and reduce the banks' risk. In the initial stages, the project surveyed banks and input suppliers to understand lending practices, credit risks, collateral requirements, and staff capabilities. In February 2010, a training programme was launched to help banks understand the advantages of insurance as a risk management tool and to use it more efficiently when providing loans to agri-business clients. In June 2010, the leading agri-finance provider in Ukraine contacted the project to play a coordinating role in 'Insuring the Field of Ukraine', a bank-initiated project that seeks the acceptance of crop insurance as collateral for farm lending. When realised, the anticipated results of this project include lending to at least 150 farms in six different regions of Ukraine, amounting to USD 36 million in seasonal credits. Spin-offs from this programme are likely to occur as other banks take notice of the work and adopt similar strategies for their lending programmes.

IFC also works with bank and non-bank institutions to increase access to financial services for micro and retail customers through programmes in microfinance, housing finance, retail payments, insurance and responsible finance. In Kenya, for example, IFC launched Kilimo Salama ('Safe Agriculture') in partnership with the Syngenta Foundation for Sustainable Agriculture, Safaricom and UAP insurance. Kilimo Salama, an insurance product to cover farmers' inputs in the event of drought or excessive rainfall, is index-based, with payouts determined by annual comparison to historical, regional rainfall patterns (when rainfall amounts do not reach the index, payouts are made according to the magnitude of the deviation). This represents a large departure from traditional indemnity-based insurance, which disburses based on crop damage and can require cumbersome processing times.

In addition, as the first microinsurance product to be distributed and implemented over a mobile phone, Kilimo Salama increases affordability and convenience for both farmers and insurance agents, as it reduces the cost of implementation. To date, the project has shown remarkable growth: from the piloting phase in 2009 to June 2011, the number of farmers insured grew nearly 100-fold, from 200 to 19,000. To increase its outreach, in April 2011, Syngenta Foundation and UAP Insurance entered into a partnership with One Acre Fund, an organisation that distributes seed and fertilizer on loan and trains the rural poor to achieve better harvests by using a 'market bundle' method (Weather Index Insurance is bundled together with the loan to protect the farmers in the event of unfavourable weather conditions). ▸▸▸

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▶▶▶ Likewise with microfinance – IFC provided over USD 61 million in advisory services to foster the growth of microfinance institutions (MFIs) globally. These projects have strengthened existing MFIs; helped commercial banks downscale to serve the micro and small business segment; supported the transformation of mature MFIs from non-governmental organisations to regulated, deposit-taking institutions; and established greenfield MFIs in frontier markets. As of June 2010, IFC's MFI partners had an outstanding portfolio of nearly 8.5 million in micro loans, worth nearly USD 11 billion.

Recognising technology's potential to achieve scale, depth and efficiencies in financial services, IFC has developed a growing body of experience in innovative delivery channels, such as mobile phone, card-based and point-of-sale transactions. IFC's portfolio in this field includes six investments with dedicated e-payment service providers, in addition to investments with financial intermediaries and mobile network operators offering mobile wallets such as Bank South Pacific, Tameer Bank and MTN Group. In parallel, IFC has heavily invested in the Mobile Money Toolkit©, which is publicly available and includes proprietary tools and materials that help clients develop inclusive, appropriate mobile business models.

*"Today, there are over 2.5 billion unbanked individuals and more than 300 million MSMEs with a credit gap of over USD 2 trillion across the globe."*

To expand access to financial services in Afghanistan by improving financial infrastructure, IFC is working with the World Bank's Financial Sector Strengthening Project, to provide advisory services to help the Afghan Central Bank establish credit information-sharing systems that provide lenders with efficient risk assessment tools and a secured lending framework that includes a collateral registry for movable property. In 2009, Afghanistan put these infrastructures into law, and these legislative acts helped increase Afghanistan's 'Doing Business Getting Credit' ranking by more than 50 points.

## The need for strong evaluation mechanisms

While the specific objectives of TA programmes vary from one institution to another, the overarching goal is the same: to increase the beneficiary's ability to become more productive, more competitive and more attractive to foreign investment. Often these achievements are reflected by improvements in global ranking systems.

Although TA programmes can facilitate growth, there is a limit to their impact when applied alone. Advisory work with individual firms can be more effective when an investment relationship strengthens client commitment to implement the advice, and provides resources to enable the advice to be implemented at scale. Recognising these synergies, the World Bank's Independent Evaluation Group has found that advisory projects tend to deliver stronger development results when associated with an IFC investment. As such, IFC has more purposefully aligned its Advisory and Investment services in recent years.

## Achieving Development Impact

Even where quantifiable goals are set and pursued, the efficacy of TA programmes is often difficult to measure due to the intangible nature of knowledge management and capacity-building: robust monitoring and evaluation mechanisms that measure both outcomes and outputs are necessary.

Development effectiveness is a guiding principle of IFC's work. Building on its best-practice evaluation system, IFC has added tracking of development results through the project cycle for its clients, through its Development Outcome Tracking System (DOTS) for investments and its Development Results Measurement Framework for advisory projects.

IFC's results measurement activities build on its ex-post evaluation framework and allows for real-time feedback into project design and implementation. By using standard indicators, IFC can aggregate results, capture development impact, and compare development effectiveness across regions and industries. In addition, IFC rates the value-addition of its intervention by determining whether the organisation played both an innovative and an irreplaceable role in providing TA.

By integrating this results-tracking fully into their work at every step in the project cycle, IFC project teams actively use this data to articulate expectations, identify benchmarks, monitor progress, and rate the project's development outcome when appropriate (Figure 1 and 2).

In 2009, IFC investments helped provide 2.2 million jobs, treat 7.5 million patients, educate 1.4 million students, and extend 10 million loans worth USD 110 billion to MSMEs. Likewise, IFC's Advisory Services programmes helped governments design and implement 70 reforms to their business environments, helped nearly 10 million people receive new or improved infrastructure, and enabled MFIs to provide USD 3.5 billion in financing to 3.8 million micro-enterprises.

### DEVELOPING A STRATEGY FOR ACHIEVING TANGIBLE RESULTS

Every year, these development results feed into IFC's strategy process and, ultimately, its corporate strategy. Most recently, informed by several years of tracking development results, IFC decided to adopt a set of corporate goals that provide an overarching framework for strategy-setting, express IFC's ambitions in terms of tangible targets, and provide credible metrics for measuring progress in reaching those targets. These IFC Development Goals (IDGs) are inspired by the MDGs and provide targets for reach, access, or other tangible development outcomes designed to measure clients' contributions in strategic priority areas as a result of IFC support. The IDGs complement IFC's existing results measurement framework, helping drive IFC strategy and operational decision-making with systematically greater attention on development results.

Currently, IFC is testing its IDGs in six areas (agriculture, health and education, finance, infrastructure, MSMEs and climate change) that represent areas of strategic focus for IFC, where it can meaningfully measure results and make a difference.

Although DFIs have generated impressive development results over the past fifty years, there remains much that can be achieved. As TA transitions into its 'third generation', DFIs, beneficiary governments, and the donor community can push programmes beyond traditional methods into innovative mechanisms that incorporate context, local ownership, and flexibility.

IFC – in partnership with multiple stakeholders – delivers nearly USD 300 million in advisory services annually to improve the investment climate, develop basic infrastructure, increase access to finance, and promote sustainable business in beneficiary countries. By building on lessons learnt, working in partnership with all stakeholders, and generating a new perspective on interventions, IFC and other DFIs can push TA even further. But to do so will require clearly articulated goals, multistakeholder cooperation, and innovative and adaptable approaches. ●

### FIGURE 1: DEVELOPMENT OUTCOMES: INVESTMENTS

| Performance Category | General Indicators and Benchmarks | Examples of Specific Indicators Assessed Against Targets |
|---|---|---|
| Financal performance | Returns to financiers | Return on investment capital, return on equity, project implemented on time and on budget |
| Economic performance | Returns to society | Numbers of connections to basic services, loans to small enterprises, people employed, tax payments |
| Environmental and social performance | Project meets IFC's Performance Standards | Improvements in environmental and social management, effluent or emission levels, community development programs |
| Private sector development impact | Project contributes to improvement for the private sector beyond the project company | Demonstration effects |

*Source: IFC*

### FIGURE 2: DEVELOPMENT OUTCOMES: ADVISORY SERVICES

| Performance Category | General Indicators and Benchmarks | Examples of Specific Indicators Assessed Against Targets |
|---|---|---|
| Strategic relevance | Potential impact on local, regional, national economy | Client contributions, alignment with country strategy |
| Efficiency | Returns on investment in advisory operations | Cost-benefit ratios, project implemented on time and on budget |
| Effectiveness | Project contributes to improvement for the client, the beneficiaries, and the broader private sector | Improvements in operations, investments enabled, jobs created, increase in revenues for beneficiaries, coast savings from policy reforms |

*Source: IFC*

# Private equity and TA, a winning combination for SMEs

*Is it still possible to envisage SME development in Africa without providing technical assistance as well as financial investment? After all, it is thanks to technical assistance programmes that private equity investment in Africa has emerged. Experience shows that support geared to the needs of African SMEs and the specifics of the local economy is essential to their development. Should this support be stopped or increased?*

**Aziz Mebarek**

*Co-founder and Executive Director, Tuninvest-AfricInvest Group*

It has long been common practice to provide technical assistance to support the development of institutions and companies in Africa, and Tuninvest-AfricInvest places support for small and medium size enterprises (SMEs) at the centre of its investment operations. The impact of this assistance could be as important to the development of SMEs as the financial investment.
While the fund management company can provide strategic support, SMEs very often require specific external capabilities that they themselves are unable to attract or finance. Technical assistance instruments are therefore essential in addressing these needs and promoting the development of the fabric of SMEs in Africa.
SMEs form the backbone of sustainable development in African economies. This is why all public-sector programmes that support the private sector place the emphasis on improving the regulatory and institutional framework of the SME system. These initiatives have led to taxation reforms that have reduced the burden on companies and encouraged greater transparency. They have also helped to simplify administrative and customs procedures (like the creation of a single agency for setting up a company in Senegal), and to improve training and stabilise the financial sector (banking, insurance and markets).

AZIZ MEBAREK

A graduate of the *École Nationale des Ponts et Chaussées* engineering school in Paris, Aziz Mebarek held various positions in industry before becoming Advisor to the Chairman & Managing Director of the steel conglomerate Tunisacier-Ilva Maghreb from 1987 to 1991, and Managing Director from 1991 to 1994. He was then involved in setting up the investment firm Tuninvest-AfricInvest Group. He is also co-founder of the African Venture Capital Association and the *Association Tunisienne des Grandes Écoles*.

## Strenghts and weaknesses of African SMEs

In spite of these advances, African SMEs are often still undercapitalised and rely excessively on credit. They present a number of shortcomings, for example poor control of the operating cycle and lack of monitoring of production facilities and marketing techniques, which generates significant working capital requirements. They also have difficulty in adopting the rules of good governance, particularly as relates to managing conflicts of interest and financial management, which can lead to accounting inaccuracies or even misuse of corporate assets. We should emphasise the shortcomings in the design and planning of strategic projects which have more to do with the administrative obligations associated with credit applications than the managerial roadmap. So what are the consequences? Investment decisions based on intuition, insufficient use of information systems and organisational inefficiencies resulting in duplication of effort, undermining of responsibility and centralised decision-making. Finally, we would draw attention to a recruitment and wage policy that makes it difficult to attract and retain the best skills, and the difficulty of anticipating and managing change.

## Contributing to the development and long-term survival of SMEs

In the mid-1990s, the majority of countries in the Global South were involved in restructuring programmes, synonymous with an opening up to external trade and progressive disengagement from state-controlled production systems. This economic transition involved supporting the private sector and private equity investment activity to bring in the necessary equity and managerial skills, against a backdrop of very high debt, controlled inflation and fierce competition. It was at this time that private equity investment came into being in Tunisia, with the support of development finance institutions, including Proparco which played a leading role. The emergence of private equity investment in Africa would not have taken place without significant technical and financial support. Several private equity investment teams have benefited from technical assistance programmes. Tuninvest-AfricInvest was supported by the French company Siparex, before in turn lending its support to help other fund managers structure and develop their business.

Taking into account the immaturity of Africa's SME fabric, the intervention of investment funds, to be effective, could not be confined to financial support alone. In addition to providing stable resources and helping to build the financial structure of SMEs, private equity investment firms have always helped to improve governance practices in Africa, by breaking their partners' isolation and enabling directors to exercise their full powers thanks to better quality of information. This support relies on the one hand on the expertise of the fund management company's personnel and their proximity to the companies in the portfolio and their management, and on the other its extensive network which the SMEs benefit from. Their management and strategic control experience also means they are well placed to encourage SMEs to optimise costs and improve operational efficiency. Private equity investment firms can also offer advice and support to implement efficient organisational structures to attract skills as well as remuneration systems that align the interests of the companies with those of shareholders and employees.

## The keys to success

Given the complexity and diversity of issues that African companies are faced with, it is logical that they should turn to outside, mainly international expertise. The companies in which Tuninvest-AfricInvest Group invests are fast-growing SMEs seeking to innovate in their respective markets by launching new products, new areas of intervention or new techniques. They require specialist external expertise to help them develop their project, avoid errors, optimise costs and speed up time to market.

The support provided must reflect local realities and characteristics. When Tunisia's first factoring company was launched, the Crédit Agricole group supported Tuninvest-AfricInvest by making an expert available for a week a month for two years to implement a new strategic plan geared to the local situation, characterised by the absence of an equivalent of the Dailly[1] law for subrogation of debt. In Algeria also, Tuninvest-AfricInvest helped an Internet service provider preparing to launch an ADSL and Wimax business to review its marketing strategy using a telecoms consultant who took into account both European/US norms and local constraints. The company, which initially focused on expanding its network coverage then on targeted marketing aimed at corporate customers, is now a leader in this market segment. In Côte d'Ivoire finally, a supermarket chain benefited from support to reorganise its distribution network and redesign its information system, enabling it to keep track of stock turnover and margins by product and by outlet. This support, which took account of consumer habits in Côte d'Ivoire, helped to reduce losses and improve the company's working capital requirement and profitability.

*"The emergence of private equity investment in Africa would not have taken place without significant technical and financial support."*

Taking the local context into account in this way means that the company's personnel need to be included in the work of the consultants, in particular via working groups. This active participation also results in more effective transfer of know-how and enables the company to develop resources and build on acquired knowledge in a constantly changing environment.

## How to support technical assistance programmes

Tuninvest-AfricInvest co-finances technical assistance projects with subsidies granted by its fund investors (Table 1). The use of subsidies is justified either by the financial nervousness of companies in the start-up phase or when management is reluctant to call on international expertise, which it is not accustomed to and which costs more than local expertise. Once the start-up or turnaround phase is past, and having experienced international expertise, companies are generally more willing to pay for the services of outside experts.

Since its establishment, Tuninvest-AfricInvest has invested in some one hundred SMEs. The inclusion of technical assistance since ▶▶▶

[1] *The Dailly bill of January 1981, named after the French Senator who was behind it, relates to the transfer and assignment of business debt. It provided a legal framework for factoring.*

### FOCUS

**Having begun its activities in Tunisia** in 1994 and later extended its operations to other countries in central North Africa, Tuninvest-AfricInvest Group has been active in Sub-Saharan Africa since 2004. Targeting SMEs, the group manages assets of more than USD 500 million through ten investment funds. It has a team of 37 investment specialists and has invested in 90 companies in some ten countries from its six offices in Abidjan, Algiers, Casablanca, Lagos, Nairobi and Tunis.

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▶▶▶ 2008 has enabled these businesses to make a quantum leap and improve return on investment. Eight companies in Tuninvest-AfricInvest's portfolio have benefited from technical assistance services worth a total of EUR 436,000. According to these companies and the management company, the technical assistance provided was at least as valuable as the financial resources allocated.

The success of such programmes relies to a large extent on the terms laid down by the financial backers. Tuninvest-AfricInvest has asked the European development finance institutions –Proparco in France, FMO in the Netherlands and BIO in Belgium – to ensure that the facilities granted are flexible with regard to the choice and selection of experts, and that they require a minimum contribution on the part of the beneficiary to ensure in advance that the project is relevant and follow it up afterwards.

*"Technical assistance has enabled businesses to make a quantum leap and improve return on investment."*

In Nigeria, the AfricInvest Financial Sector fund in April 2008 invested in Abbey, a company specialised in the financing of social housing, in order to develop the mortgage offer. Financial support was accompanied by technical assistance covering the company's restructuring and operating review, strengthening of its information system, setting up new refinancing lines with longer maturity periods and changing the product range. In the absence of local experts, technical assistance was managed over a 3-year period by a Canadian consultant specialised in mortgage financing, 50% of whose remuneration was met by Abbey. The mission enabled Abbey to achieve its quality improvement objectives (improvements to the organisation, offer and risk management, and identifying new funding) and improve its profitability (double outstanding credit, a marked reduction in the cost of risk, and an improvement in net profitability of more than 100%).

## Strengthening and expanding the scheme

Seven of the eight SMEs involved saw positive development as a result of the technical assistance provided. Technical assistance for SMEs is thus revealed as a key factor in the development of the SME fabric. However, the low level of funding granted so far is preventing investors from stepping up their support programmes.

Certain adjustments would improve the way this works, for example the introduction of a repayment clause if the project is successful and the setting up of revolving lines of credit to improve leverage of funds. Financing fixed-term employment contracts for local or expatriate directors would, when necessary, make it easier to integrate experts into the management team of SMEs. Creating specific facilities could help to sustain investors' incubation activity during the first four to five years of an SME's existence, as is already the case for microfinance institutions. ●

### TABLE 1: TECHNICAL ASSISTANCE PROJECTS CARRIED OUT BY TUNINVEST

| Business sector | Country | Project date | Funds allocated to TA (EUR) | Nature of project |
|---|---|---|---|---|
| Microfinance | Tanzania | March 2010 – September 2010 | 144,000 | Setting up information system and procedures relating to commitment and risk management<br>Defining the product offer |
| Cardboard packaging manufacture | Algeria | June 2010 – June 2011 | 99,960 | Industrial reengineering and coaching in organisational, human resources and technical areas |
| Real estate financing | Nigeria | July 2008 – July 2011 | 90,463 | Assistance with mortgage development strategy, particularly related to social housing funding<br>Information system implementation assistance |
| Pharmaceutical industry | Ghana | September 2009 – September 2010 | 51,100 | Technical assistance programme bringing in outside expertise in the three key areas of the company's business: Research & Development, Marketing, Quality Assurance/Control |
| Leasing | Nigeria | September 2009 – January 2011 | 30,000 | Information system overhaul |
| Internet service provider | Algeria | October 2009 – February 2010 | 12,000 | Strategic support in regulatory and technical areas, marketing and distribution |
| Banking sector | Kenya | December 2010 – January 2011 | 8,495 | Preliminary analysis |
| Banking sector | Rwanda | May 2011 – March 2012 | 116,700 | Project management assistance for the implementation of a new information system |

*Nota bene: The projects listed above relate to two technical assistance allowances made available to Tuninvest-AfricInvest Group: a EUR 500,000 capacity development fund allocated by the entrepreneurial development bank of the Netherlands FMO in September 2008, and an allowance from the Fonds d'Investissement et de Soutien aux Entreprises en Afrique (FISEA) - Proparco/AFD - on 26 March 2010.*
*Source: Tuninvest-AfricInvest, 2011*

# Accelerating the expansion of microinsurance

*Technical assistance provided by LeapFrog Labs enables microinsurance companies to grow stronger and innovate. A dedicated team and bespoke service ensure that the funds invested perform more efficiently. By capitalising on experience and analysing the projects its supports, LeapFrog Labs has built a corpus of knowledge that serves its entire portfolio and, beyond that, the sector as a whole.*

**Nina Schuler**

*Director of LeapFrog Labs Ltd.*

Leveraging technical assistance (TA) resources alongside an investment fund offers a unique way to help portfolio companies grow and innovate. LeapFrog Labs (Labs) is the technical assistance facility of the world's first microinsurance investment fund, LeapFrog Financial Inclusion Fund. With over EUR 3.5 million at its disposal, Labs is exploring new ways of structuring and implementing technical assistance resources. By adding value to a diverse portfolio of companies at the forefront of microinsurance in Africa and Asia, Labs is helping to demonstrate that microinsurance is a viable, profitable business that provides low-income people with risk mitigation tools to help them weather economic shocks and pursue their financial/life goals. Labs works in partnership with portfolio companies to design and implement specific interventions that help these companies strengthen their businesses and stimulate innovation.

This article highlights LeapFrog's investment strategy for microinsurance, describes the design and implementiation of its innovative technical assistance facility – Labs – and offers examples of how technical assistance, provided in this way, can achieve significant results.

NINA SCHULER

**Nina Schuler** has been the director of LeapFrog Labs since its establishment in 2009. Previously, at the World Bank she advised governments in East and Southern Africa on local governance and HIV/AIDS investments. Nina has also worked in Sri Lanka, India and Indonesia as an expert on urban poverty, local economic development and anti-corruption. She is both a German and American national, and holds an MSc from the London School of Economics and a BA from Brown University.

## Providing quality insurance products for low-income communities

Microinsurance is insurance provided to low-income clients. Poor people, like everyone else, are exposed to financial shocks. But, unlike their wealthier counterparts, they do not have a cushion of assets to fall back upon when a family member dies or needs hospitalisation, when crops fail or their dwelling burns down. The impact of these financial shocks can be devastating: sometimes it means destitution for entire families. Accordingly, there is considerable interest among the poor to be able to manage their risk. Being able to mitigate risk through appropriately targeted and priced insurance products can significantly improve the personal and financial wellbeing of vulnerable individuals and households. However, this natural market for insurance products remains severely underpenetrated, with only 3% of people in the world's poorest countries currently able to access any type of formal insurance (Lloyd's, 2010; Roth, McCord and Liber, 2007; Swiss Re, 2010).

However, insurance can be provided at relatively low cost if companies are able to design simple products, utilize innovative distribution channels and create streamlined administrative systems. This requires both management commitment (to invest in a new and often misunderstood market) and technical expertise (to implement the business strategies to successfully reach the microinsurance market). The LeapFrog Fund offers both.

The LeapFrog Financial Inclusion Fund is the world's first investment fund to focus on microinsurance. It offers capital investment (between USD 5-20 million), strategic leadership and expertise (active support from LeapFrog partners), and technical assistance (from LeapFrog Labs). It will be investing over USD 100 million of capital in ▸▸▸

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▶▶▶ companies serving target areas of Africa (Kenya, Ghana, South Africa and Nigeria) and Asia (India, the Philippines and Indonesia) that are poised to achieve scale with products which provide low-income people with critical savings and risk mitigation tools. It aims to reach 25 million beneficiaries, 15 million of whom are women and children.

### Designing optimum structures to provide technical assistance

LeapFrog invests in companies that are committed to expanding the reach of quality insurance products to low-income people. These could be insurers, distributors, third-party administrators (TPAs), or pension funds. It backs companies with strong management teams that are committed to the 'profit-with-purpose' ideal. These dedicated entrepreneurs have a vision for where they want to expand using the investment and strategic technical assistance provided, allowing them to follow through on their business plans.

In the interest of catalyzing the impact of the Fund's capital investment to rapidly expand the reach of microinsurance, some of LeapFrog's investors, including Proparco (*Fonds d'investissement et de soutien aux entreprises en Afrique* - FISEA), European Investment Bank, The Development Bank of the Netherlands (FMO) and the German KfW Development Bank, have provided additional grants – over EUR 3.5 million – to help portfolio companies expand their business plans and identify opportunities for innovation. If leveraged strategically, these grants can provide an extraordinary opportunity for the Fund, its portfolio companies and the field of microinsurance, to fast-track innovation and rapidly scale up success within companies and across the portfolio.

*"LeapFrog can deploy between EUR 100,000 to EUR 400,000 of grant support to help portfolio companies address challenges, innovate and scale their businesses."*

In order to maximize the potential value of these grant funds for technical assistance, the LeapFrog team reviewed best practices and sought considerable advice from investors and industry practitioners. As a result, it identified what it embraces as its two critical factors for success: a dedicated and separate TA team and a commitment to customized TA. Labs incorporates these two critical factors and was established in 2009 as a not-for-profit company, alongside the Fund, with the sole purpose of managing TA grant resources.

As a dedicated TA facility it avoids the pitfalls of TA as an 'add-on task' for investment officers. Instead, Labs' staff are dedicated to the implementation of TA and to ensuring that each project is aligned with the vision of the portfolio company and LeapFrog, is strategic and focused to achieve results, and is implemented by world-class experts. In addition, a dedicated TA facility can better capture lessons learned and apply best practices across the Fund. Labs maintains its independent ability to raise additional grant funds and to build partnerships in the field. In this way, it is separate from the immediate pressures of the investment, and is able to serve as a partner to portfolio companies, by helping to identify and deploy the resources that can facilitate their rapid growth and encourage innovation.

### HELPING PORTFOLIO COMPANIES GO THE EXTRA MILE: A CASE STUDY FROM KENYA

A current example from Lab's portfolio highlights the way in which Labs is leveraging grant resources and international expertise to help businesses grow and innovate. APA Insurance (APA) is the second largest general insurance company in Kenya, with 4.6 million Kenyan schillings (USD 45.4 million) of gross written premiums in 2010. The company was established in 2003 as a result of the merger of the general insurance businesses of Apollo and Pan-Africa, and has historically outperformed market growth to position itself just behind the market leader, with an 8.4% market share. In March 2011, LeapFrog signed a deal to invest USD 14 million in the holding company, Apollo Investments Ltd. The goal of this investment is to support the expansion of Apollo's insurance business, with a strong focus on the growth of business lines that service low-income clients.

In this case, Labs began engaging with the CEO of APA prior to investment, to investigate potential areas of collaboration. On finalizing the deal, Labs and APA agreed to focus TA resources on an initial 100-day project to address a number of technical business challenges identified by APA. Labs and APA prepared the project's 'request for proposals' jointly and are identifying qualified consultants to implement comprehensive reviews of two business lines that APA would like to see performing better. In this case, Labs is adding value by working with management to define a large, complex scope of work (a comprehensive 10-week review of each business line) and to help identify experts to implement it rapidly.

The availability of technical support from Labs – project design, grant support to subsidize the implementation cost and access to world class consultants – has allowed APA's management to kick-start this important piece of work. The outcome of the projects(s) will be targeted action plans that APA can implement to downwardly manage their loss ratios. In improving the performance of their existing product lines, APA is improving the processes that will better allow them to design new products, enabling them to reach more clients who are further down the income pyramid.

## From vision to implementation: the mechanics of technical assistance

Leap Frog Labs provides technical assistance to LeapFrog's portfolio companies. It can deploy between EUR 100,000 to EUR 400,000 of grant support (in addition to company contributions) to help portfolio companies address challenges, innovate and scale their businesses. LeapFrog is committed to ensuring that portfolio companies provide clients with quality, relevant and affordable insurance products. To this end, Labs also supports portfolio companies in collecting and analyzing key metrics to help assess the social performance of their businesses, with an emphasis on microinsurance.

*"Technical assistance works best when it is led by a dedicated team that can work closely with the Fund and with portfolio companies to design and implement strategic and critical interventions."*

Labs has a small team that works closely with the investment partner leading the deal. It usually begins interacting with the portfolio company during the pre-investment phase, when it is introduced as a value-adding member of the team. On finalizing the deal, Labs begins working with the senior management of the portfolio company and the deal lead to identify an initial change-inducing TA project as part of the first 100 days of the investment. Labs and the portfolio company define the project/s and source consultants required to implement it (often tapping into Lab's extensive database of international experts).

Over the course of the investment (4-7 years) the company may work with Labs to implement several TA projects; each defined to achieve a specific goal set out by management to strengthen their business and stimulate innovation. While each project is tailored towards the needs of the particular company, there are some recurring aspects, such as support-to-social-impact measurement, agent training, product design, etc. Over time, it is anticipated that the sum of the TA projects will contribute to the success of these microinsurance companies, and strengthen the microinsurance industry (as successful innovations may be adapted in other markets).

Labs also carries out some targeted research and development. In target markets, Labs supports specific research projects to strengthen knowledge of critical microinsurance issues and opportunities. As the portfolio expands, there will also be opportunities to identify learning opportunities and economies of scale across the portfolio (8-12 companies). Labs will support efforts to facilitate and share this portfolio learning.

## Building the evidence: one company at a time

Labs has been built on the premise that TA works best when it is led by a dedicated team that can work closely with the Fund and with portfolio companies to design and implement strategic and critical interventions. Over the coming years, Labs expects to add value to a diverse portfolio of companies in Africa and Asia that will be at the forefront of the microinsurance industry. These companies will add to the body of evidence demonstrating that microinsurance is a viable, profitable business that provides low-income and excluded people with risk-mitigating financial products. In turn, these products help impoverished communities to weather economic shocks in a way that allows them to preserve and pursue their financial goals.

For LeapFrog, the critical aim of TA is to support the success of portfolio companies by allowing them to overcome key challenges and encouraging them to innovate with new approaches and products. Its aim is also, over time, to build a pool of knowledge on microinsurance and to be able to identify and share the successes of companies that have a strong social impact and robust financial returns. For innovative industries that provide new products to new market populations, technical assistance can be an invaluable contribution alongside investment – helping to speed up innovation and to achieve rapid success. •

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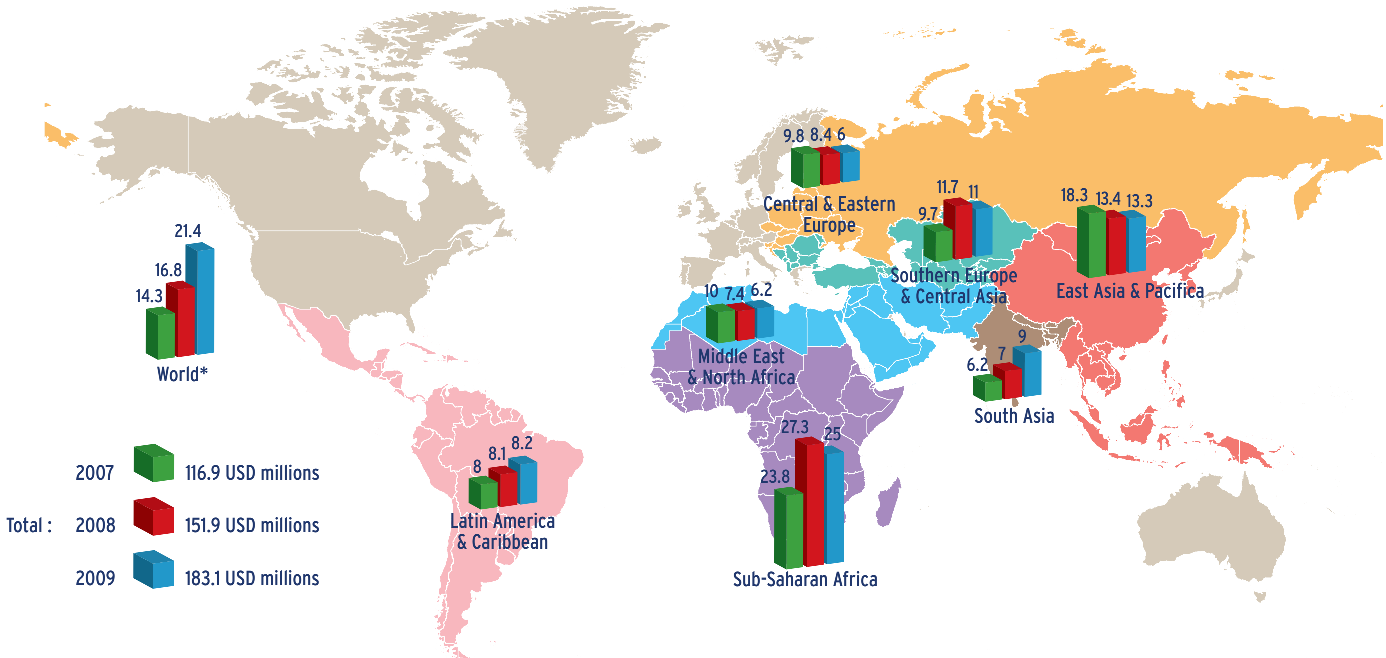
Technical assistance, a development tool serving the private sector

*Technical assistance, for a long time the exclusive domain of public development institutions, has more recently been offered as a service by development finance institutions. Implemented at macro, meso- and microeconomic level, technical assistance is helping to ensure the long-term future of the private sector in the Global South. However, the funds devoted to it are still minimal compared to the sums allocated to investment.*

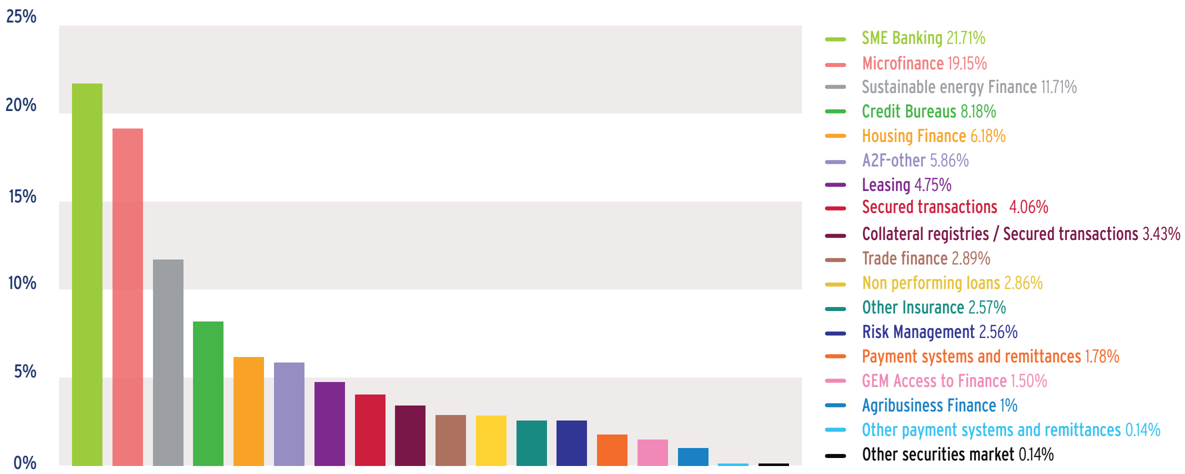
# IFC's technical assistance project expenditures by region (USD millions and % total)




*"World" refers to technical assistance projects covering several geographical areas.

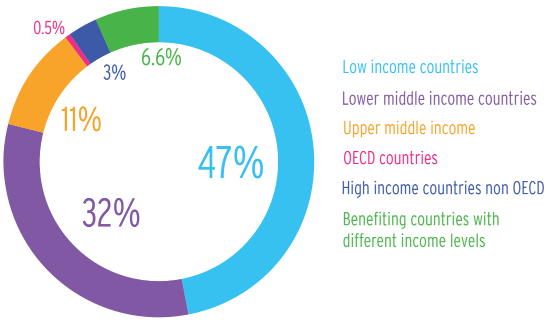
*Source: IFC*

## IFC's technical assistance activity spendings per activity in 2010



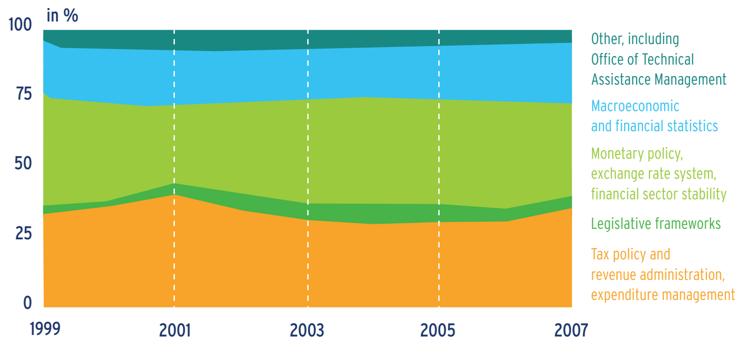

*Nota bene: IFC's advisory services are carried out by its Access to Finance department (A2F), which aims to create a broader, deeper, and more inclusive financial system for the underserved in emerging economies. Government bodies, investment clients and other private and public sector enterprises benefit from A2F activities. Overall amount spent on Access to Finance activities in 2010: USD 50 millions.*
*Source: IFC, A2F Highlight Report 2010*

## Country profile of IMF's fund technical assistance beneficiaries (2002-2007 allocation)*



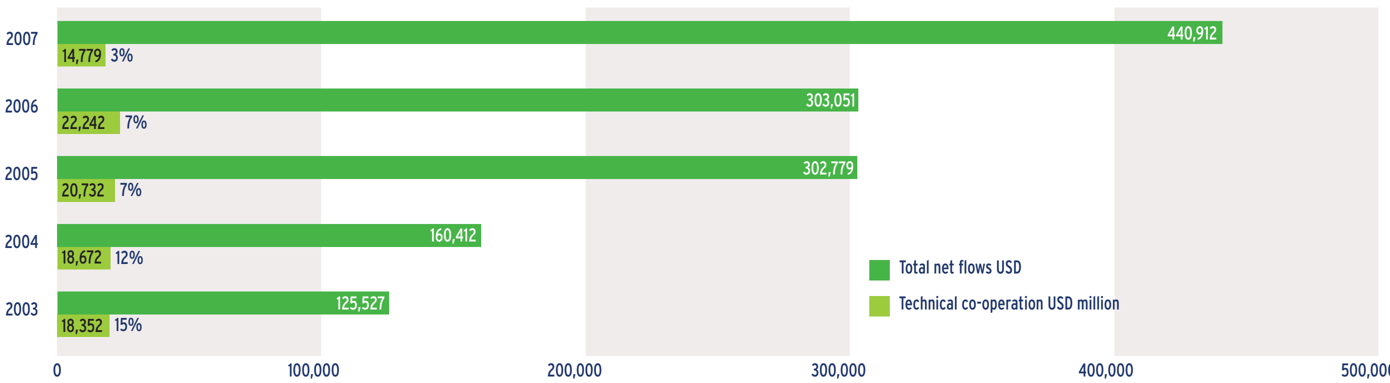

* Excludes CARTAC (Caribbean Regional Technical Assistance Center)
Nota bene: Fund TA is focused on low income and lower middle income countries (TA is provided to public sector institutions and entities).
Overall amount spent on Technical Assistance activities in 2007 by International Monetary Fund: USD 218 millions.
*Source: IMF, Enhancing the Impact of Fund Technical Assistance, 2008*

## Repartition of IMF's fund technical assistance per areas of expertise*



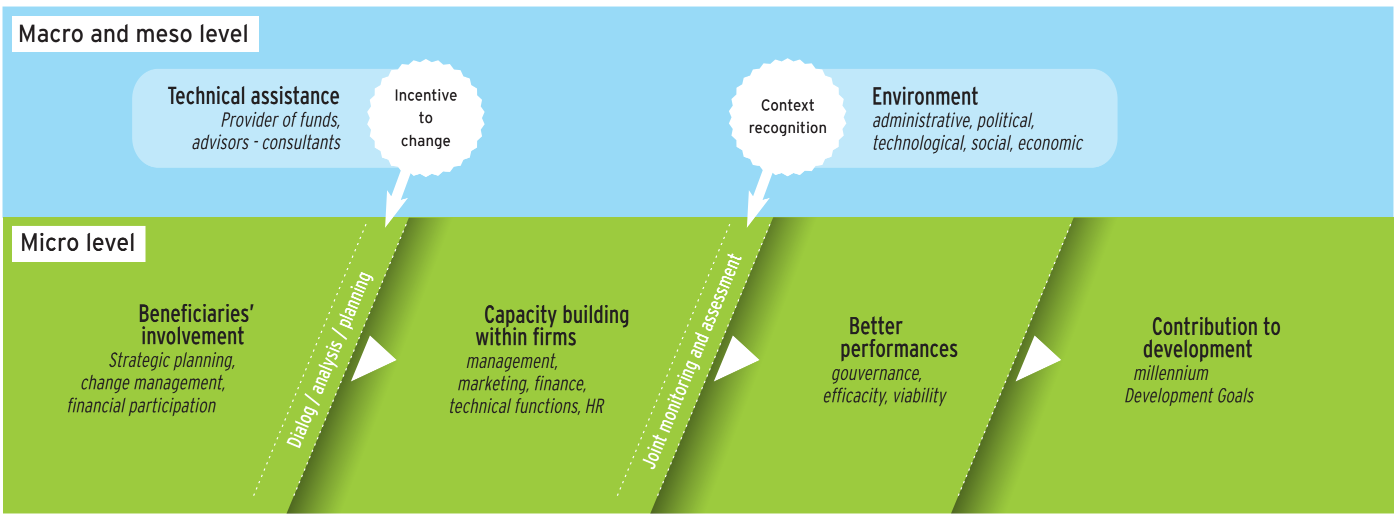

* Excludes CARTAC (Caribbean Regional Technical Assistance Center)
*Source: IMF, Enhancing the Impact of Fund Technical Assistance, 2008*

## Technical assistance net flows from development aid committee countries




*Nota bene: Technical co-operation includes both: a) grants to nationals of aid recipient countries receiving education or training at home or abroad; and b) payments to consultants, advisers and similar personnel as well as teachers and administrators serving in recipient countries (including the cost of associated equipment). Assistance of this kind provided specifically to facilitate the implementation of a capital project is concluded indistinguishably among bilateral project and programme expenditures, and is omitted from technical co-operation in statistics of aggregate flows.*
*The OECD's Development Assistance Committee (DAC) is a forum for 24 selected members states (23 countries plus the European Commission) to discuss issues surrounding aid, development and poverty reduction in developing countries.*
*Source: OECD Journal on Development, Development co-operation Report, 2009*

## Capacity building mecanisms developed by development financial institutions




*Source: Proparco-Private Sector & Development, 2011*

# European Union support for the private sector

*European Union technical assistance is implemented at micro-, meso- and macroeconomic level to encourage growth and benefit different sectors of the population, including the poorest. Programmes aim to incorporate developing countries in the international trade loop by involving numerous economic stakeholders and taking social considerations into account. An in-depth look at one of the development drivers implemented by the European Union.*

**Jan ten Bloemendal, Alessandra Lustrati et Sonia Pagliaro**

*European Commission*

The technical assistance funded by the European Union (EU) to strengthen the private sector in developing countries takes place in the inter-related fields of Trade and Private Sector Development (TPSD). These are 'two sides of the same coin' and may also form part of the support framework for regional integration. TPSD programmes consist mainly of technical assistance in specific areas, such as enhancing the business-enabling environment, and improving business development services and access to finance. Such technical assistance is delivered at different levels of intervention (macro, meso, micro), with national or regional dimensions. The European Commission seeks to deliver sustainable technical assistance by promoting the development of local expertise and institutions. It also explores technical assistance for innovative models of inclusive business[1] and stronger synergies with development financial institutions.

### The 'quality' of economic growth and Aid for Trade

Effective, long-term poverty reduction requires economic growth models that allow people to generate wealth and benefit from it in their own country. Both the quantity and the pattern (or 'quality') of economic growth determine whether the poor can benefit sustainably from this process. Promoting pro-poor, inclusive growth is a key objective of EU interventions in TPSD.

The European Commission recognises the correlation between trade openness, private sector performance, economic growth and poverty reduction. Reducing a country's trade barriers can benefit enterprises and consumers, while trade and investment links with other countries introduce new technologies and more efficient production processes. However, changes in trade can impact local communities differently, depending on changes in prices of goods and services, enterprise profits and wages, taxes and other transfers. Trade-based growth should, therefore, be inclusive and pro-poor, at both national and regional levels. Corroborated by the global Aid for Trade (AfT) initiative, launched in 2005 by the international donor community[2] and by the EU AfT strategy, the connection between trade-related assistance and private sector development is the point of departure for designing the TPSD technical assistance programmes of the Euro-

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**Sonia Pagliaro** is a TPSD specialist with 20 years of experience working for several donors and international agencies in North Africa and Asia. From 2008 to 2011, she has also worked with EuropeAid in the 'Business, Trade and Regional Integration' unit, where she was in charge of thematic support to EU-financed development programmes in West Africa.

[1] *An inclusive business is a sustainable business that benefits low-income communities, by involving the poor not just as consumers, but also as producers and distributors in value chains with pro-poor growth potential.*

[2] *The 2005 World Trade Organisation (WTO) Ministerial Meeting in Hong Kong put the spotlight on the Aid for Trade (AfT) initiative, a complementary though separate initiative to the international trade negotiations' Doha Development Agenda.*

pean Commission. This corresponds to the 'wider' AfT agenda as an overall approach to integrating developing countries into the international trade system.

The EU addresses TPSD issues in developing countries mainly by providing long-term technical assistance aimed at building the capacities of key economic and institutional players at national and regional levels. Tools such as twinning and financial instruments (e.g. investment facilities), among others, are used.

Figure 1 illustrates how the different forms of trade-related and supply-side support converge to strengthen the local private sector's role in achieving inclusive economic growth and reducing poverty. Local enterprises are at the centre of TPSD interventions: they are designed to enhance firms' capacities (micro level) and their access to adequate services (meso level) and to the wider environment in which they operate (macro level). This holistic approach delivers needs-based assistance at appropriate levels and encourages systemic change rather than benefiting only individual firms.

### Intervening at the appropriate level and in the key areas of TPSD

Given the complexity of TPSD, it is important to strategically focus the relevant technical assistance. The framework in Table 1 identifies the possible level(s) and types of intervention, based on local context and stakeholders' needs and priorities. Macro-, meso- and micro-level interventions can take place in parallel, as an integrated strategy. Alternatively, emphasis may be placed on just one or two levels. Although an enabling environment is a prerequisite for sustainable growth, focusing technical assistance only at the macro level is insufficient to stimulate economic development.

*"Trade-based growth should, therefore, be inclusive and pro-poor, at both national and regional levels."*

Most EU assistance is designed to develop the capacity of partner countries' economic and institutional actors at the macro- and meso-level. This contributes towards the enhancement of *competitiveness* as a function of *productivity, diversification and quality* levels. While support of firms may be useful, direct technical assistance to key enterprises (or groups thereof) ▶▶▶

**TABLE 1: EU TECHNICAL ASSISTANCE IN TPSD: LEVELS AND AREAS OF INTERVENTION**

| | |
|---|---|
| Macro level | • Improving the business enabling environment, and investment climate through review and reform of policy, legal and regulatory frameworks (for example, business registration, licensing and taxation), and through developing the capacity of relevant public institutions and agencies.<br><br>• Improving the financial services environment for MSMEs, for example, by revising financial sector policies, banking regulations and supervisory systems.<br><br>• Improving the trade-related environment through assistance on: trade policy (policy formulation and trade negotiations); trade facilitation (customs legislation, system harmonisation and capacity building of customs authorities); quality systems (developing legislation on SPS/TBT and capacity building of competent authorities). |
| Meso level | • Enhancing the access of local enterprises (especially MSMEs) to advocacy functions and business development services (BDS) (managerial or technical training, product design, organization of production, marketing) by, for example: building the capacity of business intermediary organisations and local BDS providers; introducing incentives for MSMEs to use BDS services; supporting relevant networks/platforms.<br><br>• Improving MSMEs' access to finance by, for example: strengthening the capacity of local financial institutions; developing appropriate financial products/services; building the financial infrastructure (credit bureaus, collateral registers, service providers).<br><br>• Promoting investment in the local economy through, for example: providing assistance to develop Investment Promotion Agencies; preparing investor guides/online resources; facilitating investment projects involving local firms and international enterprises (through brokering and matchmaking).<br><br>• Enhancing private sector capability to meet trade-related requirements (quality, customs, etc.), for example by providing technical assistance to trade associations on dissemination and capacity building on these subjects, and by assisting compliance bodies, businesses and consumer associations with quality-control systems. |
| Micro level | • Increasing capacities of value chain actors concerning productivity, innovation and market access, through technical assistance at the firm/cluster level.<br><br>• Facilitating MSMEs' access to finance, for example by disseminating information among MSMEs, helping firms prepare bankable business plans, and conducting pre-investment feasibility studies and due diligence assessments. |

*Nota bene: MSMEs means micro-, small- and medium-scale enterprises; SPS: sanitary and phyto-sanitary measures; TBT: technical barriers to trade*
*Source: European Union*

Technical assistance, a development tool serving the private sector

▶▶▶ should be limited to where the market mechanism is ineffective: for example, to unlock the potential of a cluster, address a value chain bottleneck, or stimulate processes with positive spill-over and/or multiplier effects.[3] While assistance delivered through a TPSD programme directly to individual enterprises might be needed in the short term, it could also involve local organisations 'learning on the job', with the aim to develop a local and sustainable business development services (BDS) market.
Apart from factors affecting access to markets, developing countries tend to face internal supply-side constraints that inhibit economic growth due to the limited competitiveness of their economies. Different approaches to enhancing competitiveness can be adopted: for example, sector-based approaches, *value chain development, cluster development and industrial upgrading,* can all contribute to strengthening the productivity of local firms. These methods can be adopted in various combinations.

*"While support of firms may be useful, direct technical assistance to key enterprises should be limited to where the market mechanism is ineffective."*

Addressing cross-cutting issues is also within the ambit of EU-funded TPSD technical assistance programmes: it includes the promotion of gender equality and decent work, the fight against HIV/AIDS, the protection of human rights and environmental concerns. For example, assistance is provided to national authorities and intermediary organisations to enhance their capacities to help the private sector employ environmentally-conscious methods of production.

### Improving the capacity of a wide range of TPSD stakeholders

The recipients of technical assistance for TPSD include policy-making institutions, government ministries and regulatory authorities, as well as chambers of commerce, business associations and BDS providers. Such industry bodies connect public sector and business, as they undertake advocacy and lobbying activities, and provide advice and information to small and medium-scale enterprises (SMEs).
Trade unions, civil society organisations, universities and research institutions can also benefit from technical assistance, for example by improving their capacity to assess industry needs and to interact with the enterprise sector.
The financial sector also plays a key role: finance and investment are vital for productivity increases and for innovation.[4] Regulatory bodies, credit bureaus, banking training institutes and individual financial institutions can benefit from technical assistance to better understand the needs of specific industry segments, and to enhance their contributions to a financial sector conducive to TPSD.

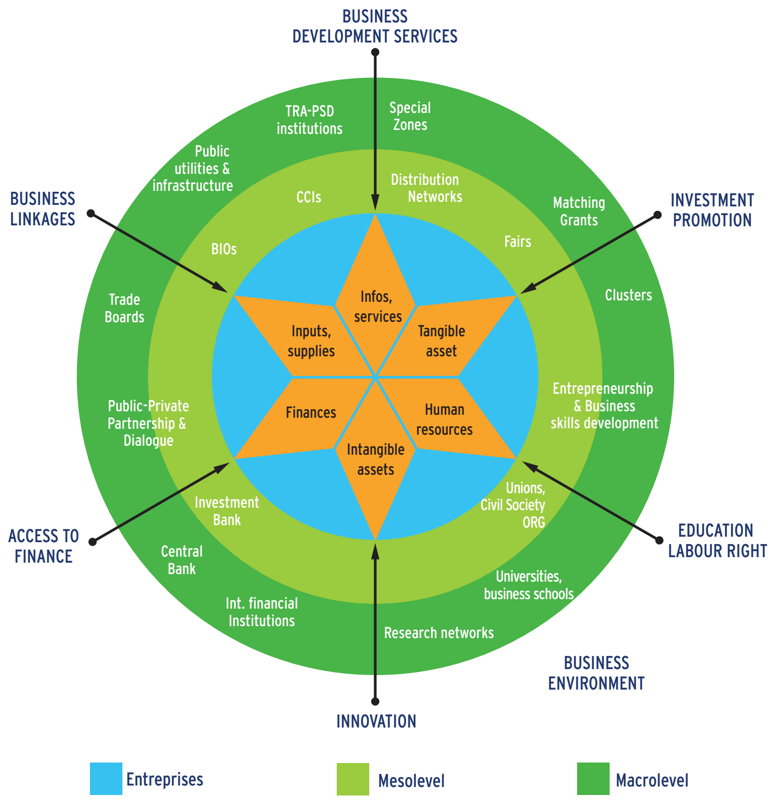
### Effective implementation of TPSD technical assistance

The EU support to TPSD is mostly delivered through national programmes, and less frequently via more articulated regional programmes. The European Commission seeks to develop synergies between national and regional programmes providing technical assistance in the areas of trade facilitation, quality infrastructure and harmonisation of the business environment. These areas are key to regional integration between countries with markets of a very small size and limited capacities.
EU-funded technical assistance is delivered through a variety of implementing bodies, depending on needs, opportunities and comparative advantage, such as experience in a specific area, long-term presence in a partner country, and support of complementary activities.
The Commission's technical assistance activities aim at consistent quality, effectiveness and sustainability (of the assistance and of its outcomes). Besides reforming 'technical cooperation' (focused on capacity development and on country-owned implementation arrangements), the Commission has an internal quality management process designed to verify and develop the technical, methodological and procedural soundness of each project. This involves scrutiny by thematic, geographic coordination, finance and contract units, and by the EU delegations submitting project proposals. Since 2008, the Commission has offered a fully revised internal training programme to enhance the skills of EU staff involved in TPSD programmes. As a tool for thematic support to colleagues in headquarters and country offices, the Commission also developed the 'Reference Document on Trade and Private Sector Policy and Development', which deals with TPSD in an integrated manner.[5]

*"Most EU assistance is designed to develop the capacity of partner countries' economic and institutional actors at the macro- and meso-level."*

[3] *This might entail working directly with a 'lead firm' in a significant segment of a local value chain: The enhanced performance resulting from technical assistance brings about benefits in terms of income and employment generated, both to the firm and other local actors through its backward and forward linkages.*
[4] *Financial partners may also provide advice on business strategies and plans.*
[5] *This document will be available as from mid-2011.*

FIGURE 1: CONVERGENCE OF DIFFERENT FORMS OF TRADE-RELATED AND SUPPLY-SIDE SUPPORT, STRENGTHENING THE ROLE OF THE LOCAL PRIVATE SECTOR




*Nota bene: CCIs means chambers of commerce and industry;*
*BIOs: business intermediary organisations; TRA: trade-related assistance; PSD: private sector development*
*Source: European Union*

## Technical assistance can help the private sector engage in development

While the European Commission supports TPSD in various manners, it also explores ways of enhancing the private sector's engagement as a driver of development. This may include testing and developing 'inclusive business models' in order to promote pro-poor PSD and sustainable growth. for example through financial or technical support to local or international companies to assess project feasibility, develop appropriate partnerships or broker investments. It may also entail broadening access to finance for local SMEs, for example by building the technical, managerial and financial capacity of the local financial sector to increase its outreach to larger segments of local business (including agri-business) and by utilising grant resources to reduce risk (in both equity and debt financing) through blending mechanisms.

Finally, EU support seeks opportunities to leverage the private sector's role and investment in the delivery of public goods, for example, by exploring support for forms of PPPs in areas like energy, infrastructure, water, health, education and vocational training, or by supporting the blending of loans and equity with grants for essential infrastructure investment projects.

Making use of such additional opportunities would complement and strengthen the types of TPSD technical assistance addressed in this article, which remain a key to building the productive and trading capacities of developing countries. In this regard, there will be great interest for the outcomes of the two global evaluations initiated at the beginning of 2011 by the European Commission on its trade-related assistance and private sector development interventions. •

References / **European Commission, 2008.** Reforming Technical Cooperation and Project Implementation Units for External Aid provided by the European Commission, A Backbone Strategy, report, July. // **European Commission, 2009.** Making Technical Cooperation More Effective, report, March. // **European Commission, 2010.** Reference Document on Trade and Private Sector Policy and Development.

# Impact assessment of technical assistance projects

*It is becoming increasingly necessary to assess the impact of technical assistance projects. But the standard indicators, most of which are based on quantitative measurements, are not necessarily appropriate given the diversity of the programmes concerned. When resources permit, the conceptualisation of an impact chain and use of a planning matrix help practitioners to develop indicators appropriate to each stage of the project.*

**Tobias Bidlingmaier**

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These days, impact assessment is in high demand. Donors want to know what happened to their money, and organisations are keen to demonstrate all the many, supposedly positive, developmental impacts their projects generate. This has become more pertinent as development aid has come under criticism from various stakeholders for not helping developing countries.[1] Even though technical assistance (TA) is not considered classical development aid, the (perceived) pressure to demonstrate the impacts generated with public funds is high.

Often, the result of this pressure is the production of tedious reports with large charts, numerous tables, long lists of the effects, and other 'evidence' of the development impact of the TA project concerned has supposedly generated. The various European Development Finance Institutions (EDFI) have had different approaches to impact assessment and reporting, ranging from modest to more sophisticated procedures. The form and content of these procedures often depends on the specific reporting requirements of the programme sponsor.

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## The quest for indicators

The trend is toward 'hard facts': a project's impact is normally required to be verified with quantifiable indicators. Ideally, a set of 'standard' indicators is applied to projects, allowing for a prompt assessment of developmental surpluses. In addition, one can assign grades or points to the indicators and then rank and compare projects in order to ascertain relative performance. With this information, one can identify, among others, 'best practices', lessons learnt and worst-case scenarios.

For a diverse TA programme, such as DEG's, which includes a range of different projects (in various sectors, relating to various topics and varying widely in size and length), it is not feasible to define a 'standard' set of indicators to measure individual project impacts. TA projects are often geared to address and remedy very specific issues: the impacts of a market study on Serbia's renewable sector cannot be compared to the impacts of asset liability training for bank employees conducted in many different countries. Unlike the assessment of 'regular' investment projects, applying a standard set of indicators to every TA project would not do justice to the diversity of the projects. However, what may be feasible is to cluster TA projects into distinct categories and define common indicators for each category. FMO (Entrepreneurial Development Bank of the Netherlands), for example, has been working with the following six categories: 'Management Strengthening', 'Environment and Social', 'Product Development', 'Seminars, Conferences', 'Organisational Strengthening' and 'Corporate Governance'.[2]

*"The pressure to demonstrate the impacts generated with public funds is high."*

## The impact chain

To consider the specific nature of a TA project when assessing its impact, it may help to revert to so- called 'impact chains'. A project's impact chain describes the connection

[1] *Compare to i.a. Moyo, Dambisa (2009) "Dead Aid: Why Aid Is Not Working and How There Is a Better Way for Africa", or Easterly, William (2007) "The White Man's Burden: Why the West's Efforts to Aid the Rest Have Done So Much Ill and So Little Good".*

[2] *Presentation by Andrew Shaw at the EDFI-TA Workshop in Köln on 7 April 2011.*

between the project intervention and possible resultant impacts. It builds on individual steps that exhibit cause and effect relations (based on plausibility considerations). The Figure 1 depicts a stylised impact chain with a few DEG TA project examples. Consider the first example of an energy efficiency check: a commissioned specialist performs an energy efficiency check at a partner company. The *output* of this TA project consists of a report with recommended energy savings' measures for the company. As a consequence of the report, the company implements energy savings' measures (*outcome*), which in turn reduces its energy consumption. This *could* eventually contribute to the broader goal of climate protection (*impact*). Note that the 'cause and effect relations' between the individual steps are based on certain assumptions; for example, the final impact 'climate protection' of the project is based on the assumption that the energy used by the company stems from fossil fuels.

Obviously, the energy efficiency example would score badly when applying standard impact indicators such as 'number of jobs created' or 'improved gender equality'. This is because the project pursues a very specific goal. In order to measure the success and impact of this project, it would therefore be more helpful to look at the impact chain, and from there to derive specific indicators. This can be done on different levels of the impact chain: on the *output* level, for example, the number of proposed energy efficiency measures or the projected amount of energy savings could be indicators to measure the quality of the specialist's report; on the *outcome* level, one could measure the change in electricity consumption of the company; an indicator for the project's *impact* on climate protection could be the (decreased) $CO_2$ emissions resulting from the company's energy consumption. The further down the impact chain one moves, the more difficult it is to measure the impact and to assign the impact to the project. It might be quite complex, for example, to go to the company's utility provider and measure the $CO_2$ emissions at the coal plant. Instead, it might be easier to monitor the company's electricity (or other energy) consumption.

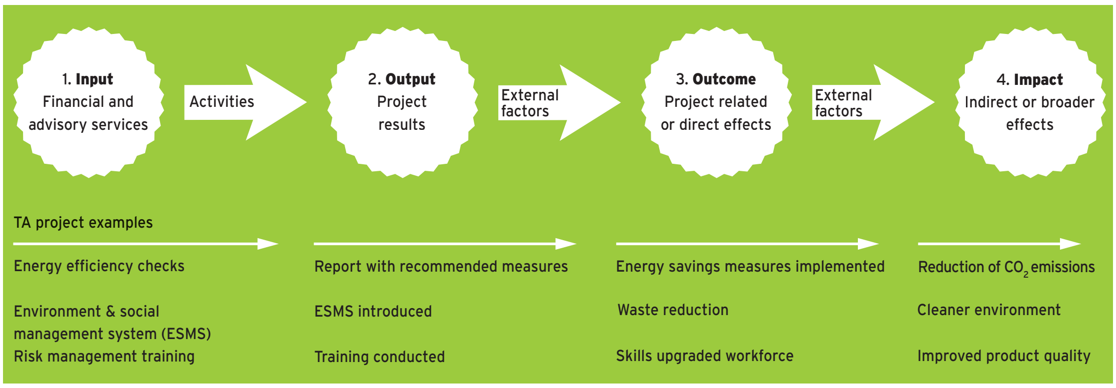
A tool that can be applied for these purposes is the so-called 'project planning matrix': this helps to structure a project and to define suitable goals and indicators. The first step is to define the goal of the project according to the specific bottleneck that is to be remedied. The goal usually relates to the outcome level. The asset/liability training of bank employees, for example, may have the (direct) goal of improving the bank's risk controlling and thereby increasing the bank's overall sustainability. The broader impact of such a measure could be a contribution to the stability of the financial system. Next, one could define specific steps that would lead to achieving the goal. These could be translated into the definition of various results on the output level of the project. With such a specification, one is able to derive measurable indicators on the output, outcome and impact levels. In the example of asset/liability training, these could be the number of people participating in the training (output level), the number of people that successfully pass a test (to demonstrate their upgraded skills), and a change in the ratio of non-performing loans.

*"Applying a standard set of indicators to every technical assistance project would not do justice to the diversity of the projects."*

## Thorough impact assessment

When measuring impact, two important issues must be considered. Firstly, a before and after comparison is needed for meaningful results on the *changes* resulting from the intervention. Secondly, external fac- ▸▸▸

FIGURE 1: TYPICAL DEG IMPACT CHAIN SHOWING MEASURABLE OUTCOMES




*Source: DEG*

▶▶▶ tors may influence and thereby distort the results. An increase in production, for example, can lead to the consumption of more electricity, even though energy saving measures were applied. To deal with the first issue, it might be necessary to conduct a baseline study to measure the indicators *before* the implementation of the TA project. This data can be compared to the data collected *after* the implementation. The second issue requires elimination or 'discounting' of the external factors. In the above example, this could be done by comparing the energy consumption for one output level. Since this is not always possible (or feasible), another common practice is to employ a 'control group' that has the same features as the target group, but does not receive the TA intervention. Only when comparing the results before and after, as well as the target and control groups, is one able to attain a sound and robust impact assessment.

## Effectiveness and efficiency

An efficient impact assessment method, frequently applied with DEG's TA projects, is ticking a pre-defined list of boxes (of the perceived impacts). This is done by the relevant project manager at the end of each project. The problem with this type of assessment is that it provides an estimation of impacts and may often merely reflect the intrinsic motivation of the project manager to demonstrate the positive results of his/her project. The clear advantage of this approach, however, is that it requires few resources (time and money).

From a practitioner's point of view, there is a trade-off between effectiveness and efficiency in the conduct of impact assessments. A thorough (more effective) impact assessment with control and target groups as well as a comparison of before and after is often not feasible because of limited resources. Therefore, one has to ask whether thorough assessments are appropriate, taking into account the circumstances, and decide how close one can get to this ideal, taking into account efficiency aspects.

DEG's TA team is exploring different ways of improving impact assessments. This is an on-going process. One of the main challenges of TA impact assessments is finding an efficient way to attain reliable information on the effects and impacts of a TA project in order to get closer to a thorough assessment. To cope with these challenges, one can apply seven steps that may be useful. The first step involves a clear definition of the goal of the proposed TA project; the more precise the definition of the goal, the easier the assessment of the success of the project will be. If the goal is clear, the second step would involve describing an impact chain illustrating ways of reaching the goal, as well as the impacts that would be generated by the project. The description should include the assumptions behind the individual steps, if necessary. A third step involves deriving measurable indicators from the impact chain; this can be done on various levels of the impact chain (at output, outcome, or impact levels). A fourth step, if necessary, would involve a baseline study to obtain reference values for the predefined indicators. The fifth step, at the end of the project, involves collecting and comparing data on the indicators to the baseline findings. A sixth step – if the data source is not reliable, or in the case of uncertainties and difficulties obtaining the data – involves having a third party collecting or verifying these on the ground. The seventh step, if appropriate, would involve a second assessment to be conducted at a later point to evaluate the long-term effects of the project. ●

*"Improving impact assessments is an on-going process."*

## FOCUS

**The German development finance institution's DEG,** a member of KfW Bankengruppe, has been carrying out TA since 2005, using public as well as DEG's own funds to enhance the developmental effects of DEG's financing projects. The program addresses DEG's clients exclusively.

In 2010, a total of 54 TA projects with a volume of EUR 3.8 million were realised. The character of the TA projects is very heterogeneous and ranges from risk management consultancy in the financial sector to various environmental and social measures and many different kinds of surveys and studies.

DEG's technical assistance program follows a co-financing scheme, i.e. generally, DEG finances no more than 50% of the overall project cost, with the balance being covered by the client company. The maximum co-financed project value is EUR 193,000. The average co-financed amount per TA project in 2010 was EUR 70,000.

# Traps to avoid, lessons to be learned

*What have the millions spent by development agencies on technical assistance actually been used for? What part will technical assistance play in the future? Critical examination of assistance programmes with a focus on private-sector support in Africa points to beneficiaries not being consulted, lack of local support for the project, absence of follow-up and poor coordination. We expose some of the most glaring problems and explore some avenues for improvement.*

**Klaus Niederländer, Peter Hinton**

*Cooperatives Europe, Summit Development Group*

While technical assistance (TA) is often provided to government bodies (such as central banks and ministries), it is also provided to develop the private sector and, in particular, small and medium enterprises (SMEs) in Africa. Such private sector TA focuses on the development of individual enterprises, but also on developing meso-institutions, such as business associations, training institutes and other business support organisations.

Traditionally, private sector TA has had three purposes. Firstly, to invest grant money in human capital to achieve a human development return. In this regard, the language used in the world of TA traditionally focuses on 'human capacity building', 'skills transfer' and 'training'. Secondly, to provide seed funding to new enterprises or initiatives in order to build organisational capital. Thirdly, private sector TA develops institutional capital via the creation or strengthening of private sector support institutions, and encourages innovation and the deepening of markets.

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**Peter Hinton** is the CEO of Summit Development Group. With a background in private equity, banking, retail, corporate finance and accounting, he has 25 years of commercial experience, with 18 in SME development in Africa. He is an associate fellow of Said Business School, Oxford and a strong proponent of the valuable role SMEs can play in economic development and job creation.

Millions have been spent by development agencies on TA, but to what end? Going forward, is there a role for TA, and if so, what form should it take? The purpose of this article is to provide a critical analysis of the efficiency as well as the efficacy of TA, and to highlight some of its starkest shortcomings. This evaluation will look at TA to private sector development in Africa, both to individual enterprises, groups of companies or business associations, and to public or private support organisations.

## Top-down, externally driven TA agenda – a recipe for waste

In recent years, a significant amount of TA support has been targeted at the development of business associations and business support structures. Unfortunately, these meso-structures have mostly been created from the top-down, i.e. via government-driven initiatives financed by external donors, who took little account of the actual needs of the beneficiaries they were trying to support. This usually started with the design of TA programmes where the content was decided between the development agency and the relevant government department, withlittle involvement of the private sector. This lack of involvement of the ultimate beneficiaries has usually resulted in a failure to create appropriate business service associations and company networks.

There are numerous obstacles or system-inherent weaknesses that prevent a significant involvement by the final beneficiaries and true ownership of the support provision. Development agencies' heavy administrative requirements, particularly in terms of cost and time, make it almost impossible for private sector organisations to implement TA. African governments can also cause problems due to their own vested business interests. ▸▸▸

### ▸▸▸ Inappropriate tools

A clear need of the African economies with the majority of people still working/living in the informal sector and with subsistence agriculture being by far the main provider of employment/survival is to address these realities and provide appropriate tools for change. The delivery of Western machinery and mechanisation has not fallen on fertile ground, nor has the provision of specialised consulting services to companies borne fruit. The relevance of TA has been undermined by focusing on a small group of formal enterprises in the non-agricultural, often capital-intensive sectors in many African countries.
As a result, the required technical agricultural skills have not been adequately developed, neither have technical colleges nor the labour-intensive sectors, such as the artisanal sector. The leather sector in Ethiopia is a case in point, where TA was concentrated on a few companies, some of whom could have afforded it themselves, and on the development of support institutions with Western machinery. These were not aligned with the realities of most tanneries in the country. In West Africa, the provision of TA to an industrialised textile sector has arguably hindered the strengthening or emergence of a professional artisanal sector, where the appropriate basic spinning, weaving and finishing skills were not developed.

### A maturing TA sector requires standards

The TA sector has developed over the last few decades, attracting numerous consultants and consultancies. The purpose of this predominantly public-funded sector is to support the development of the private sector. This can create problems, for example, when selecting the right service providers for TA missions. It is often an intermediary, the development agency, which chooses the TA provider. There is a tendency to choose the cheapest instead of the best-suited service provider, and the right skill set becomes secondary to administrative and financial requirements. There are also no uniform TA standards, as each development agency has created its own pool of service providers with their own set of reporting tools and objectives.
Despite their lack of public data, the main African economic sectors have been much studied. Yet, one would be hard pressed to find specific, implemented actions emerging from these. The 'one-week fact-finding mission without follow-up' is a classic feature of African TA, or consultants are asked to produce a report, which ends up unused.

### Lack of co-operation exchange

Where there are very limited resources and negative externalities (for example, lack of efficient public services, widespread corruption, adverse climate conditions), one would expect, for the sake of efficiency, the pooling of scarce resources. Unfortunately, this is often not the case with TA providers still work in isolation in order to raise their own flags, particularly when there is stiff competition between agencies for less and less money. Duplication of TA is observed in almost every country and sector in sub-Saharan Africa, and this is linked to a lack of involvement of private enterprise beneficiaries at the design/initial stage of TA and their consequent lack of buy-in.

### What makes TA succeed?

It is an increasingly held view that TA is more meaningful when linked with investment finance to grow businesses and local economies.[1] Where TA is provided alongside a loan or equity investment, interests can be better aligned between the TA provider and the beneficiary particularly where the provider has a stake in the beneficiary. For example, in Rwanda, German TA was provided to a financial institution to improve its ability to lend to SMEs alongside a loan for on-lending to SMEs. The UK Department for International Development's Financial Deepening Challenge Funds in Africa in the 1990s and 2000s were designed to encourage financial deepening and innovation. Such TA went hand in hand with private investment and was obtained via competitive tenders. The TA support was provided to specialised SME finance intermediaries and banks in order to build capacity to lend to SMEs.
Grofin, a Mauritian-based fund providing finance and business development support to SMEs in Africa, received TA from Shell Foundation,[2] which facilitated the research and development phase of establishing country operations in smaller markets in Africa. In Madagascar and Kenya, Business Partners (an SME finance provider that grew out of South Africa) received TA from the International Finance Corporation to provide business support to SMEs receiving finance, particularly to develop financial skills and business development skills.
In the above cases, private sector capital was at risk in the beneficiary companies. Moreover, beneficiaries and their investors were accountable to TA providers for implement-

[1] *On this topic, see the article by Nina Schuler, p. 13, in this issue of Private Sector & Development.*
[2] *Shell Foundation was established by the Shell Group in 2000 as an independent, UK-registered charity operating with a global mandate.*

ing the TA and the results achieved. Measurement of outcomes was specified upfront and took place during and after the life of the project, and lessons learnt were extracted.
Notwithstanding these positive results, the scaling up of such approaches is challenging. The current focus of finance and TA providers is currently limited in scope and improvements are needed to better monitor and support beneficiary companies. What is also required is that TA providers build up the necessary institutional and organisational capital to scale up positive results. This is particularly true for building the appropriate local finance structures in Africa, taking, for example, the current micro-finance experience into the mass-finance of locally-owned enterprises. The experience of co-operative enterprises that have established credit-cooperatives and co-operative banks in fuelling local economic growth in many development countries could provide vital input.

### Failures and their causes

Where TA has been provided without clear accountability, measurability, and with little or no investment at risk, it has often not fulfilled its purpose. At times, this has been because it either did not have a clear purpose (for example, a gift by the donor in order to buy from it – 'tied aid' as practiced by various countries), or it had conflicting purposes (for example, satisfying the political requirements of the donor rather than the needs of the beneficiary), or it simply had the wrong purpose, for example, installing the wrong machinery in the wrong place – the so-called 'white elephants' (such as fish factories in the north of Kenya). Where TA is 'push' – rather than 'pull', driven by real needs at the beneficiary company level, failure often results.

### The way forward

The lack of measurement and transparency of TA programmes has meant that many donors and recipients are ignorant of the impact of TA and the lessons learnt. Many TA providers do not share their results, perhaps through embarrassment at the repercussions. It is far easier to say how much TA has been spent rather than to measure and assess its efficacy. A sharing of results and experiences could assist all practitioners to improve on current TA approaches and practices.
In light of the above, there are a number of recommendations that can be made with a view to improving TA's effectiveness. A useful starting point would be to clarify the exact purpose of enterprise development support, focusing on critical skills development and self-help. TA should be used to support selected pilot projects for new sector development or innovation; scale up sector/SME development through the creation of bottom-up institutional capital at the meso level; and link TA with investment finance in order to create a true SME asset class. TA should also be linked to investment activity so that something is at stake and there is a vested interest in seeing the TA work. Where capital or debt is at risk and there is accountability to the TA provider by the beneficiary business, the chances of improved use of TA should increase.
At least a portion of the TA should be provided in the form of an interest-free loan so that the recipient has an obligation to repay part of the cost. It should be used to encourage innovation and new ways of doing business and to catalyse private sector capital – first-loss provision of capital for funds or covering start-up costs of new funds. A sustainable link with development finance should be developed and a co-operation/joint governance structure for managing TA funds should be created, geared towards human resource development and institutional capacity building. Finally, there should be ongoing measurement of the results of TA against the original objectives. If TA is provided to increase the capacity of a financial institution to lend to a particular sector, the expected results should be quantified and measured accordingly.
Private sector TA can play a valuable role in Africa by encouraging innovation, increasing financial inclusion, and building human and institutional capacity. With greater measurement, sharing of results and proper accountability, private sector TA has a real future. If, however, there is no sharing of experiences, little measurement and no accountability, Africa would be better off without it. •

### FOCUS

**Cooperatives Europe** is the European representative association of co-operative enterprises, uniting around 160,000 enterprises from 36 countries, directly employing 5.5 million people, and with over 100 million members. It is part of the International Co-operative Alliance (including the Americas, Africa and the Asia-Pacific regions). Co-operative associations have been long-time development actors around the world, focusing on sustainable enterprise development.

**Summit Development Group** (SDG) invests in banks and financial institutions in sub-Saharan Africa in order to focus them on the 'missing middle market' segment: SMEs, the unbanked, and low- and middle-income households in need of mortgage financing. By transforming financial institutions and supporting their customers, SDG provides both financial and social returns for investors looking to contribute to economic growth and development in Africa.

# Lessons learned from this issue

BY BENJAMIN NEUMANN *EDITOR IN CHIEF*

The inclusion of technical assistance in the investment package is a relatively new idea that could increase the role of the private sector in the development of the Global South. A promising mix combining direct funding and value-added support. Technical assistance can effectively contribute to the strengthening and long-term survival of the private sector in developing countries by providing small and medium sized enterprises (SMEs) with advice on setup, information management and restructuring.

Convinced of the wisdom of this two-pronged approach, development finance institutions have been stepping up such initiatives in the last few years. But the effectiveness and legitimacy of this "new" form of technical assistance is called into question when public funds are donated to profitable private enterprises. It is a particularly thorny issue considering the amount of criticism levelled at technical assistance: beneficiaries not being consulted, lack of buy-in, lack of follow-up, poor coordination, costly and unnecessary operations, risk of distorting competition, etc. Not to mention that measuring effectiveness still has little relevance. There is no "standard" set of indicators for measuring impact, nor are there uniform standards: objectives and reporting tools vary according to the networks of service providers specific to each development agency.

The experience built up over several projects nonetheless provides some pointers as to how to conduct a successful technical assistance mission. The watchwords are "commitment" and "ownership". The capacity-building process can be effective when it is undertaken at the request of the company and is based on a shared desire for change. For this reason companies are frequently required to make a cash contribution. A technical assistance mission must involve a precise onus on the company to take responsibility and measure the results. This can involve original solutions such as the inclusion of a reimbursement clause if the mission is successful.

Although the issue of evaluating technical assistance programmes is still open to discussion, that of the validity of support for private enterprise – in the form of donations over and above the project funding – has been fully resolved. Creating technical support instruments would seem to be a crucial response to businesses' needs, and is a key factor in the development of the SME fabric, particularly in Africa. Companies' requirements often call for the intervention of outside expertise which they do not have the means to attract or finance on their own. They nonetheless need this expertise, to help them avoid errors, optimise costs and bring their products to market more quickly. In most cases, the public funds used encourage companies to undertake internal restructuring programmes, venture into new, emerging market segments and diversify their product range, which they would not have done without the financial incentive, given the financial outlay and human resources involved.

Reducing poverty and inequality on a lasting basis calls for inclusive growth models that help the most impoverished sections of society. It is not just the quantity but also the "quality" of growth that determines whether the poorest populations will benefit in the long term. This is what is at stake when companies, which have a recognised role to play in development, benefit from technical assistance. Encouraged to improve their governance practices as well as their environmental and social standards, and to broaden the scope of their activities, companies have a better chance of survival and can play a greater role in improving living conditions for the local communities.

*In our next issue*

**The impact of private equity investment in sub-Saharan Africa**

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