DATA BRIEF

BLENDING WITH TECHNICAL ASSISTANCE

FEBRUARY 2019

HIGHLIGHTS

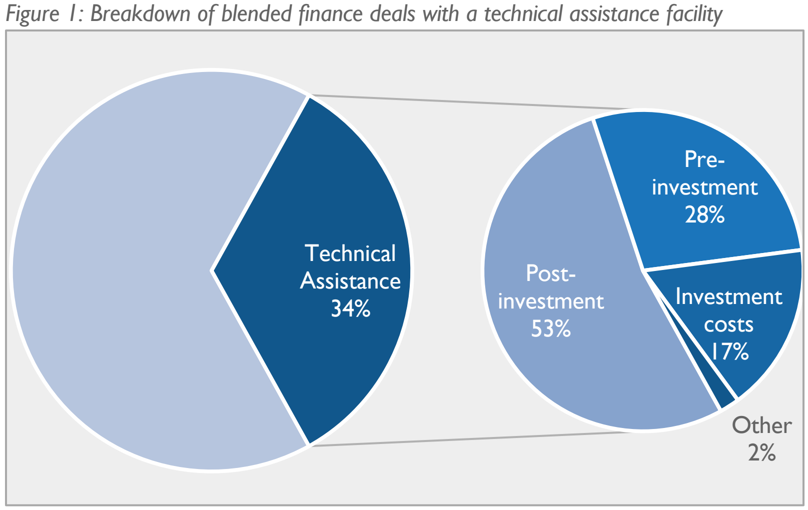
- Technical assistance is a versatile development tool that can be deployed to mobilize additional sources of finance for the Sustainable Development Goals (SDGs), including to support project preparation, project implementation, or the broader business environment (e.g., improving legal environment).
- One-third of blended finance transactions to date have included a technical assistance facility, which is a dedicated pool of resources that can be deployed pre-investment (e.g., to develop pipeline), during investment (e.g., reforms), or post-investment (e.g., operational support).
- The largest proportion of technical assistance in blended finance has been for post-investment support to investee companies and projects, including for ESG integration (or the integration of other reporting frameworks) and providing capacity building and training for operational efficiency.
- Technical assistance has been most commonly deployed alongside commercial investments targeting the agriculture and financial services sector, where there is a bridgeable gap in access to finance for smallholder farmers and entrepreneurs.
- Blended finance transactions have more commonly deployed technical assistance in low-income countries, which may reflect its potential to strengthen markets and build the capacity of local stakeholders.
- Technical assistance facilities have been most commonly funded by the public sector, which account for 79% of technical assistance grants. USAID, Multilateral Investment Fund, PROPARCO, and IFC have been the most frequent providers of technical assistance grants, with the latter two (i.e., DFIs and MDBs) acting as conduits for donor funds.

One-third of blended finance transactions include technical assistance funds

Technical assistance is a versatile, widely-applicable tool that can offer direct benefits to projects, investees, and investors by addressing the risks in new, uncertain, or fragmented markets. Grant-funded technical assistance, most commonly provided by public and philanthropic funders, mobilizes additional financing for the Sustainable Development Goals (SDGs) from commercial investors by lowering the risks and reducing high transaction costs associated with investments in nascent markets, technical uncertainty, and the inability to build a pipeline.

This Brief analyzes the use of technical assistance facilities alongside commercial investment, where a technical assistance facility is defined as a dedicated pool of resources that is complementary to SDG investments. According to the Convergence database, one-third (34%) of blended finance transactions have had an associated technical assistance facility. These blended finance vehicles have leveraged technical assistance facilities primarily to (i) develop pipeline (pre-investment) or (ii) bolster impact (post-investment), as well as to (iii) subsidize project/investment costs or (iv) support the enabling environment.

Figure 1: Breakdown of blended finance deals with a technical assistance facility



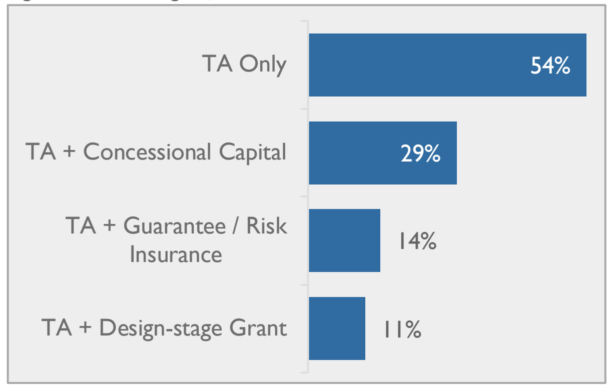
The majority (53%) of technical assistance facilities have included post-investment support, often for the purposes of integrating environmental, social, and governance (ESG) principles (or other reporting frameworks) or providing capacity building and training for operational efficiency. Pre-investment technical assistance has accounted for only 28% of facilities to date, yet it is critical for building the pipeline of investment-ready projects, especially in higher-risk segments (e.g. least developed countries, healthcare). A smaller but not insignificant portion, 17%, has been used to subsidize project and investment costs in order to make them feasible and commercially viable, this includes feasibility studies, project preparation and management, and legal fees.

ANALYSIS

Technical assistance has been commonly deployed on its own, but also alongside other blending approaches

Technical assistance alone has successfully mobilized additional commercial investment; for more than half (54%) of blended finance vehicles with associated technical assistance facilities, technical assistance is the only form of concessional capital. The remaining 46% of blended finance transactions with an associated technical assistance facility have leveraged either two or three blended finance approaches. The combination of concessional capital and technical assistance has accounted for nearly 30% of deals with an associated technical assistance facility.

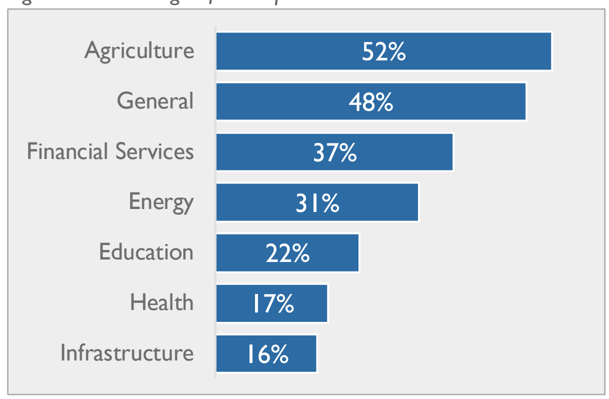
Figure 2: Percentage of deals with technical assistance



Agriculture and financial services have been ripe for technical assistance

Technical assistance facilities have been most commonly deployed alongside commercial investments targeting the agriculture and financial services sectors. Here, technical assistance is often deployed to bridge the gap between the lack of access to finance and the lack of an investment-ready pipeline that is in line with the investor's desired ticket size and risk return expectations. Approximately half of general debt and equity funds, which often provide direct financing to SMEs, have an associated technical assistance facility. This analysis does not include independent project preparation facilities, which are not typically linked directly to commercial investment, but rather support projects in reaching bankability (i.e., attracting commercial investment).

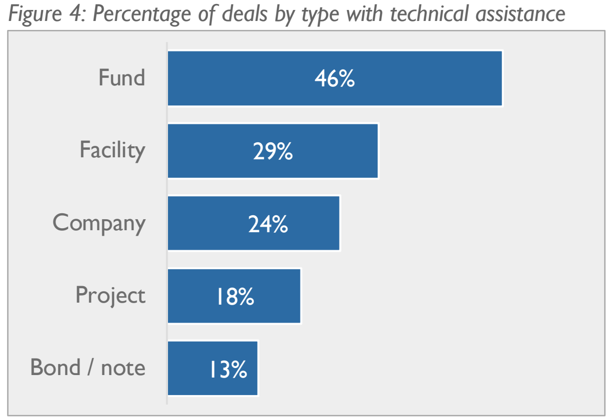
Figure 3: Percentage of deals per sector with technical assistance



Nearly half of blended finance funds have leveraged technical assistance

46% of blended finance funds have an associated technical assistance facility, often deployed to support investees in integrating ESG principles into their business activities, as well as operational support for underlying investments. It is important to note that many blended finance transactions deploy more than one type of blending approach. About one in four blended finance facilities and companies have had an associated technical assistance facility. According to this dataset, technical assistance has been deployed to a lesser extent to projects, commonly to provide pre-investment support including project preparation, implementation, and stakeholder negotiations.

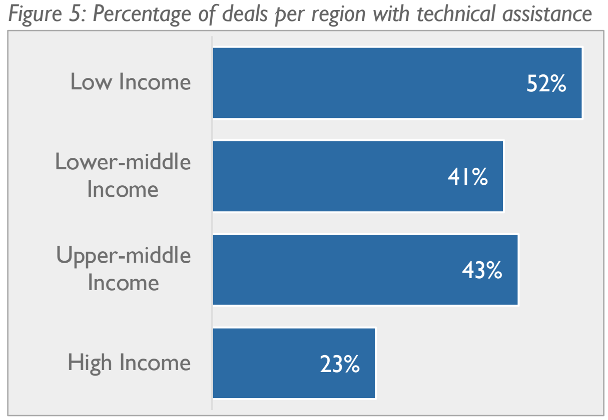
Figure 4: Percentage of deals by type with technical assistance



Low-income countries have received the most technical assistance

More than half (52%) of blended finance transactions that have targeted one or more low-income countries have had an associated technical assistance facility, the highest proportion across country income levels. Technical assistance can play an important role in strengthening markets by building the capacity of local stakeholders and broadly supporting the local enabling environment. Regionally, technical assistance facilities have most commonly been deployed alongside blended finance transactions targeting the Middle East and North Africa (53% of blended finance transactions targeting Middle East and North Africa) as well as Sub-Saharan Africa (38% of transactions targeting Sub-Saharan Africa).

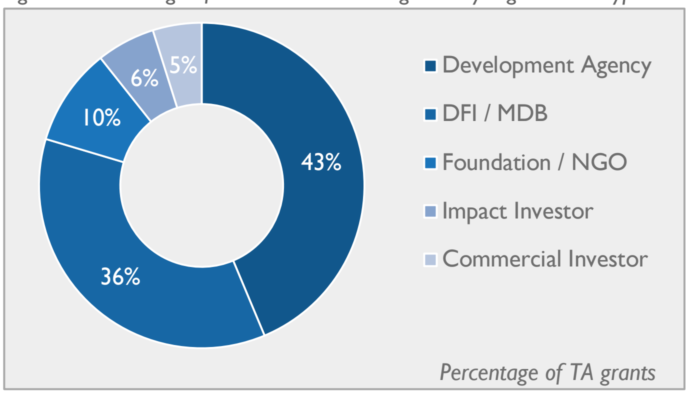
Figure 5: Percentage of deals per region with technical assistance



Public sector has provided 80% of technical assistance grants

Funding for technical assistance facilities has been most commonly provided by the public sector. Development agencies, development finance institutions (DFIs), and multilateral development banks (MDBs) have accounted for 79% of grants provided to blended finance transactions for technical assistance. Technical assistance is an ODA-eligible way for development agencies to participate in blended finance transactions. Impact investors and commercial investors have been the least likely to provide technical assistance funds, but some blended finance transactions (e.g., PACE Investment Readiness Program) have sought to show investors the potential value of pre-investment support.

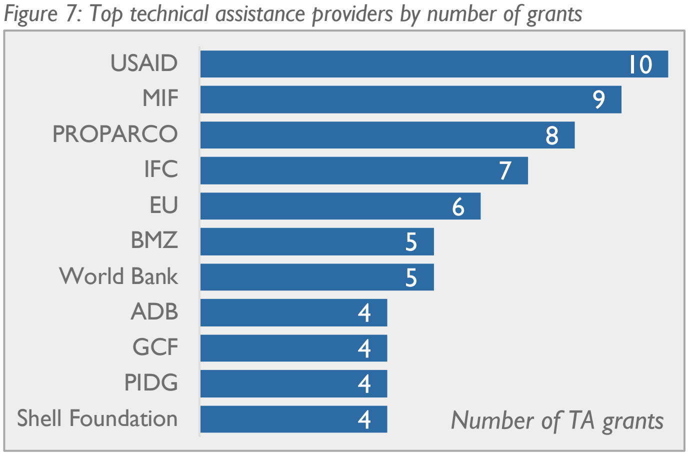
Figure 6: Percentage of technical assistance grants by organization type



USAID, Multilateral Investment Fund, PROPARCO, and IFC have been the top technical assistance providers

The most frequent providers of technical assistance funds to-date have been the United States Agency for International Development (USAID), the Multilateral Investment Fund (MIF), the French DFI, PROPARCO, and the International Finance Corporation (IFC). It is important to note that DFIs and MDBs deploy technical assistance through donor funds or in partnership with aid agencies. For example, MIF is funded by 39 donors and provides technical assistance for private-sector development in Latin America and the Caribbean.

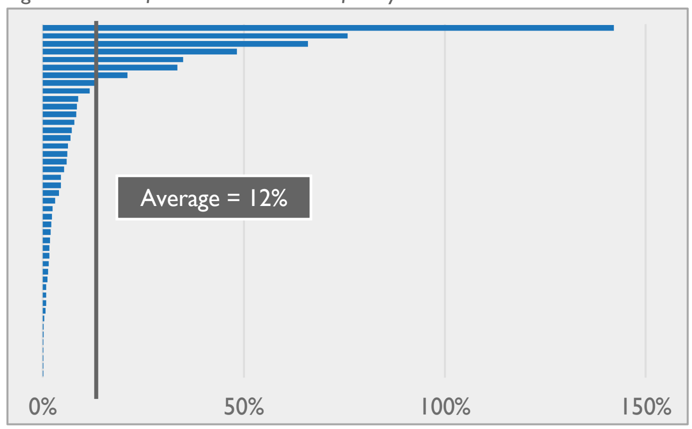
Figure 7: Top technical assistance providers by number of grants



On average, technical assistance facilities have been capitalized with approximately 12% of the total deal size

Technical assistance facilities have varied significantly in size, likely reflecting the type of technical assistance (e.g., pre-investment, post-investment, or investment costs) as well as the underlying context (e.g., sector, country, target beneficiary). The smallest technical assistance facility in this sample set was only 0.1% of the total deal size, while the largest facility was over 100% of the total deal size. Smaller technical assistance facilities are typically financed by a single donor, while larger facilities tend to be financed by either multiple donors or a dedicated pool of resources.

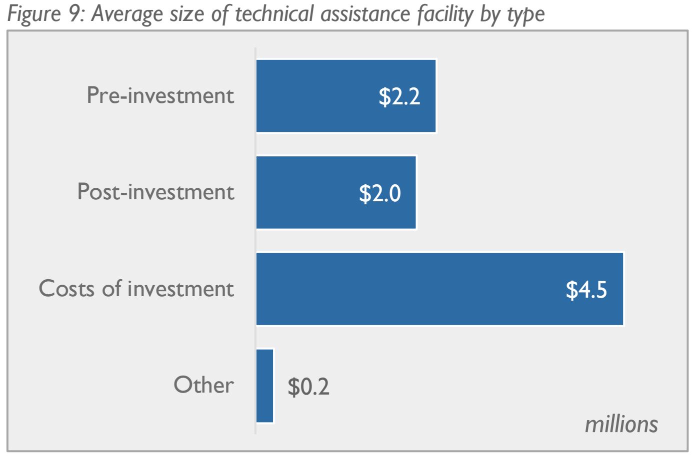
Figure 8: Size of technical assistance facility relative to deal size



Technical assistance facilities for post-investment support have been most common, but the smallest in quantum

The greatest number of technical assistance facilities have focused on post-investment supports to investees, but the quantum of this financing has been the smallest on average. The average size of a technical assistance facility providing post-investment support has been only $2 million and, similarly, the average size of a facility providing pre-investment support has been $2.2 million. Although less common, technical assistance facilities dedicated to supporting project or investment costs have been more than twice as large on average, at $4.5 million.

Figure 9: Average size of technical assistance facility by type



REFLECTIONS

Technical assistance is one tool for accelerating commercial sustainability and deepening development impact for projects and social enterprises aligned to the SDGs in developing countries. Technical assistance can be as effective as concessional capital in managing risks and supporting returns in blended finance transactions to mobilize additional commercial capital. As the pool of blended capital available for higher impact sectors (e.g., health, education) and lower income countries (e.g., least developed countries) grows, there will likely be a need for more pre-investment technical assistance to build the pipeline of investment-ready projects.

As we move toward blended finance 2.0, there is a need for improved coordination and standard setting for technical assistance linked to blended finance to determine where and how these funds can be used most effectively and efficiently to mobilize additional sources of finance for the SDGs and to maximize sustainable development impact. Additional research and evidence is required, especially given the diversity of technical assistance models and uses. Convergence intends for this Brief to be an initial starting point for greater dialogue around the use of technical assistance alongside commercial investments in blended finance transactions.

METHODOLOGY AND NOTES

1. Definition of technical assistance: For the purposes of this analysis, Technical Assistance Funds were defined as a grant-funded, independent pool of funding alongside the financial transaction dedicated to providing TA. Business advisory services/ mentoring and other forms of capacity support provided in-house without accompanying concessional financial support were not considered in this brief.
2. Scope of available data: This Brief analyzes 136 blended finance transactions with technical assistance facilities. Due to the current state of information-sharing regarding technical assistance funds, TA amounts and investors were quantified insofar as they were explicitly reported in deals. 67 deals in this analysis explicitly disclosed the investor(s) supporting technical assistance funds (amounting to 107 investments), and 46 deals explicitly disclosed investment amounts (amounting to 69 investments).
3. Technical assistance from DFIs and MDBs: DFIs and MDBs do not typically provide technical assistance grants off of their balance sheet, but rather act as conduits for donor funds, with the purpose of increasing development impact and commercial sustainability. All mentions of DFIs and MDBs as technical assistance providers should be considered with this in mind.
4. Additional reading: There has been limited research to date on the use of technical assistance to catalyze additional private sector investment. IDH and Alliance for a Green Revolution in Africa (AGRA) published a report on technical assistance to scale investments in the agricultural sector, where can be accessed here.