

JULY

2017



INSIGHTS FROM THE IMPACT PROGRAMME

USING TECHNICAL ASSISTANCE TO BUILD IMPACTFUL BUSINESSES



**THE
IMPACT
PROGRAMME**

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THIS BRIEFING PAPER SUMMARISES INSIGHTS GENERATED BY THE IMPACT PROGRAMME ON THE STRUCTURE AND USE OF TECHNICAL ASSISTANCE ALONGSIDE IMPACT INVESTMENTS, WITH THE AIM OF SUPPORTING BUSINESSES TO BECOME BOTH COMMERCIALY SUCCESSFUL AND HAVE SIGNIFICANT DEVELOPMENT IMPACT. IT DRAWS ON THE FIRST YEAR OF TECHNICAL ASSISTANCE EXPERIENCE OF THE IMPACT PROGRAMME'S TWO INVESTMENT VEHICLES, THE IMPACT FUND AND IMPACT ACCELERATOR, WHICH ARE MANAGED BY CDC GROUP, THE UK'S DEVELOPMENT FINANCE INSTITUTION. WE HOPE IT WILL BE USEFUL FOR INDIVIDUALS AND ORGANISATIONS INVOLVED IN IMPACT INVESTMENT, AND PARTICULARLY FOR THOSE WHO ARE SPECIFICALLY INTERESTED IN FUNDING AND/OR MANAGING A TECHNICAL ASSISTANCE FACILITY.

Context

The Impact Programme was launched by the UK Department for International Development (DFID) in 2012 and aims to transform the market for social impact investment in South Asia and Sub-Saharan Africa.

The Impact Fund (IF) invests in funds and other intermediaries that cannot yet attract commercial capital and have the potential to achieve significant development impact through investments in financially sustainable, scalable private sector enterprises. The Impact Accelerator (IA) makes direct investments in highly developmental opportunities that have the potential to be commercially sustainable, but where the risk is too high and/or the financial return is too low for purely commercial investors. In terms of impact, both seek to generate economic opportunities (e.g. good jobs and access to markets) and access to basic goods and services for underserved groups or in remote, fragile or otherwise challenging geographies.

The Impact Programme's Technical Assistance Facility provides support to pipeline and portfolio companies in both the Impact Fund and Impact Accelerator. This support began in 2015 for the Impact Fund and 2016 for the Impact Accelerator.

Why does the Impact Programme provide technical assistance funding?

DFID has made funding for technical assistance available as it recognises that the Impact Fund and Impact Accelerator, by and large, invest in young, fragile or high growth companies as well as those in challenging contexts. Such companies generally require significant support - going beyond the limits of what standard fund management fees can cover - in order to assist the passage to commercial sustainability and to maximise the likelihood that development outcomes are achieved.

In addition, technical assistance funding is designed to be made available to identify and implement ways in which development impact might be enhanced - for example, through changing the structure of the supply chain to reach different people, or through enabling a company to put innovative partnership agreements in place.



What types of projects does the Technical Assistance Facility support?

A limited amount of technical assistance funding is available for pipeline companies following the screening process (pre-investment) in order to address urgent factors - some of which might otherwise preclude investment. However, during the Financial Year 2015-16, the vast majority of technical assistance funding was used post-investment.

Examples of appropriate uses of technical assistance funds includes support for:

- Market analysis (including validation studies and risk assessments)
- Business development services (such as developing business plan and marketing strategies)
- Technical support (for seconded sector experts and guidance on legal/regulatory frameworks)
- Training and staff development
- Financial and business information management
- Environment, Social and Governance (ESG) (including ESG action plans and management systems)
- Social and environmental impact data collection and performance management

Activities not eligible for technical assistance funding include capital and ongoing operating expenditure, working capital smoothing and 'life support' to sustain failing businesses.

How does the Technical Assistance Facility operate?

The facility has clear guidance, policies and procedures in place to govern how technical assistance funds should be used, as well as rigorous quarterly monitoring processes. A Technical Assistance Committee, comprised of representatives from the CDC Group and independent members, provides oversight of the facility, including ensuring that the funds are being deployed in a transparent and accountable manner. It is chaired by one of the independent members.

To aid efficient and expedient disbursement of technical assistance, decision making about how, when and where to use technical assistance is delegated to deal teams (for IA) and individual fund managers (for IF) for all 'Standard' projects. After the Impact Fund closes a new investment, a needs assessment takes place which sets out the scope for 'Standard' technical assistance. Fund managers then disburse technical assistance funding according to investee company needs within these agreed parameters. 'Non-standard' technical assistance needs to be approved on a case by case basis by the Technical Assistance Committee. Projects are typically classed as non-standard if for example they are above \$50,000 (£33,250*), if the company cost share requirements cannot be met, if the investment is pre-investment or is unusual in some way, or if TA has been used for the same purpose in the past.

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* All figures converted from USD exchange rate 0.665

Novastar investee company, East Africa

Technical assistance in action

Who: A company in Injaro's portfolio received \$21,442 (£14,260*) of technical assistance in 2016/2017. This was used for a farmer awareness programme. The company provides high quality seeds to the agricultural market in Mali.

When: In July 2016 – The farmer awareness intervention was launched, which saw the NGO Malimark being brought in as the service provider of the TA. The intervention lasted until December and was co-funded by DFID and Lundin Foundation.

What: The farmer awareness intervention allowed the company to showcase the grain yield performances of its improved seeds compared to standard seeds on the market. Hundreds of smallholder farmers in four regions of the country could witness the 40% additional yield using the improved seeds. This was achieved with the help of Malimark, who helped to install 15 demonstration farms across the four regions and conduct training sessions of local producers. Those demonstration farms, as well as training sessions, were used by Malimark to train over 586 smallholder farmers who were taught to use best agricultural farming practices whilst using the improved seeds provided by the company. Each of these demonstration plots were monitored by a trained committee composed of 20 local smallholder farmers. The 586 individuals involved were able to experience the yield difference first hand, see the improved resistance of plants in front of diseases and hard weather conditions and also see the rapid development and density of the improved plants.

Why: The technical assistance helped to serve three key functions:

1. To promote/showcase the benefits of using the improved seeds.
2. To develop the company's customer base, and build relationships with smallholder farmers across Mali.
3. To promote the use of best practice agricultural techniques, which both improve the capabilities of smallholder farmers in the country and help to maximise the benefits of using the improved seeds.

Looking Forward: Having strengthened the relationship with these 586 smallholder farmers, the company can now reach them for marketing purposes and track their purchases over time. Moreover, the company will now closely track its sales in those regions over the upcoming season and conduct periodical trainings there in order to keep farmers aware of new seed varieties and production systems. This example shows how a single technical assistance intervention is able to simultaneously promote business development, broaden market analysis and provide customer level technical support, all of which have the potential to be of real business value to the company involved.



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Injaro investee company, Mali

How do we ensure technical assistance adds value?

All technical assistance needs to comply with eight core principles to ensure it is being used to stimulate impactful commercial businesses that can, over time, become stronger and less reliant on concessional finance:

1. Business 'buy-in' and ownership:

Only those companies that believe in the need for and value of the technical assistance will provide sufficient time and commitment to enable it to be successful and sustainable. As such, the Technical Assistance Facility requires a contribution towards technical assistance project costs from businesses benefitting from the support.

2. Additionality:

Requests should articulate how the assistance will influence the pace, direction or scale of business growth and development impact, beyond what would have happened without it. This may be through, for example, enhancing an investee's potential for future commercial viability or scalability.

3. Openness and transparency:

Whilst respecting commercial confidentiality, the Technical Assistance Facility will be as open and transparent as possible. The awarding of technical assistance and lessons generated from its use will be shared publicly. Where appropriate, any intellectual property rights emerging from the technical assistance will be managed in a way that maximises sharing of lessons and/or benefits with the broader impact investing community.

4. Accountability:

Technical assistance funding is used for the purposes agreed and delivers expected outcomes. To this end, all projects must have:

- an agreed input, output, outcome logic
- milestones that facilitate effective monitoring
- (where appropriate) payment schedules linked to achievement of milestones with explicit KPIs.

5. Proportionate:

Technical assistance funding should be proportionate to the size of the business and Fund investment in it. Funds (cumulative) should not generally exceed the equivalent of 10% of the capital committed to an investee business.

6. Appropriate:

Technical assistance must reinforce commercial principles wherever possible, offering a range of products (including recoverable grant or non-returnable grant) depending on the nature of the request and the commercial status of the business (e.g. early stage or scaling and taking on new risks).

7. Simplicity:

Investing in impactful business in Africa and South Asia can be challenging so technical assistance should not create a bureaucratic mechanism that diverts attention from this core aim. With this in mind all processes and procedures need to be consistent, responsive, timely and simple.

8. Learning:

The Technical Assistance Facility is committed to capturing, sharing and integrating lessons generated from its work. It will particularly focus on innovative uses of technical assistance.



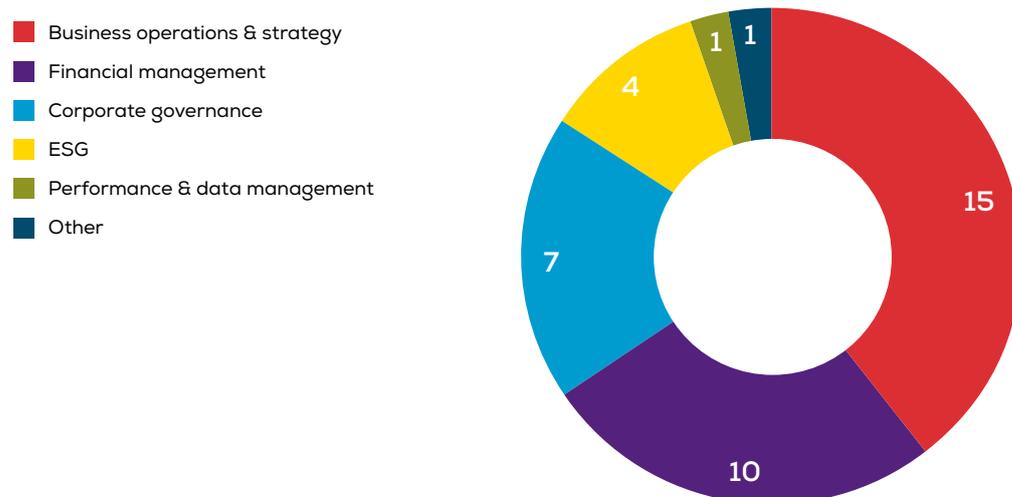
How has technical assistance been deployed?

During the first year of the Technical Assistance Facility, a total of £244,850 was approved to fund 38 technical assistance interventions across 14 companies in the Impact Fund portfolio*. Most funding has been used post-investment to support:

- Business operations and strategy
- Financial management
- Corporate governance/ESG
- Performance and data management

To date, this is helping portfolio companies to realise a diverse range of outputs and outcomes, a sample of which are set out in the table below.

Technical Assistance interventions as at December 2015



What kind of outputs and outcomes has technical assistance delivered?

Category of technical assistance	Technical Assistance Facility
Business operations and strategy	<ul style="list-style-type: none"> • Increased regulatory awareness affecting ability to export • Formulated strategy for engaging with EU standards
Environmental, social and governance	<ul style="list-style-type: none"> • Increased environmental risk awareness which led to new risk mitigation policies and procedures • Implemented an ESG strategy for benefit of small scale suppliers
Financial management	<ul style="list-style-type: none"> • Developed an accurate financial model to raise debt from investors • Accounts and finance reports improved and new accounting and sales management software installed • New procedures designed to report on social impact

* As at end of Q3 2016, £285,338 had been approved for 43 TA projects across the two active funds and £109,299 spent.

What the key insights and lessons for technical assistance funders and managers

- **Make technical assistance aligned but arms-length from the deal team.**

Technical assistance needs to be fully aligned with investment strategies and business plans in the most commercially-orientated way possible. In practice, this means bringing technical assistance facilities as close as possible to the deal teams (so that decisions can be made in consultation with investment teams) whilst having an independent governance structure for technical assistance to ensure that there are no conflicts of interest in final decision-making.

- **Ensure additionality through careful screening.**

Requests for technical assistance need to be carefully screened to ensure they support catalytic 'one off' - rather than recurrent - activities. This can mitigate the risk that technical assistance is used to subsidise costs which could lead to market distortions. Companies need to be clear at the outset about the steps they will eventually take to move to a self-financing and self-sustaining model for the technical assistance activity area. Longer-term assistance should be structured so that companies increase their contribution over time to encourage this ultimate transition. In practice, this means that increasing company contributions towards the proposed technical assistance is an important proxy for the relative importance of the activity area versus other priorities that company may have.

- **Recognise the limitations of technical assistance.**

Technical assistance can plug critical gaps in financial management, business operations and in ESG, but it is not a silver bullet for the many capacity constraints facing small and medium enterprises (SMEs) in frontier markets.

- **Address constraints in service supply.**

Companies often struggle to find suitable technical assistance service providers. Given the time and effort required to source and vet quality providers, a key focus of donor support could be on finding cost-effective ways to intermediate between the supply of and demand for technical assistance, and build sustainable service markets. Given that business in different sectors have very different needs, these will likely be sector-specific.

- **Consider technical assistance that helps address sector-level constraints.**

Requests for technical assistance can be similar across several portfolio companies, especially those in the same sector or geography. In some cases, recurrent, system-wide constraints could be better addressed with a 'sector' level technical assistance project, rather than on a company-by-company basis. Donors should recall the history of their strategies for private sector development, which have shifted from providing discrete business development services to individual SMEs towards developing commercially viable supporting markets that can benefit SMEs operating across an industry².

- **Actively engage with the technical assistance ecosystem.**

Impact investors need to be aware of the technical assistance 'eco-system', which encompasses a range of actors from commercial service providers to development aid projects. Coordinating with other donors/ investors providing technical assistance co-investment is critical. This helps to ensure that input is complementary and there are no unintended negative consequences such as overlapping or duplicative assistance which distract from core operations, or the high transaction costs for companies managing multiple inputs.

Technical assistance needs to be fully aligned with investment strategies and business plans in the most commercially-orientated way possible.

² See, for example, the 2005 BDS Reader: www.bdsknowledge.org/dyn/bds/docs/452/Reader_2005_final_LOW_RES.pdf



THE IMPACT PROGRAMME

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The Impact Programme is a project funded by the UK's Department for International Development ("DFID") and is managed by PricewaterhouseCoopers LLP as the Programme Coordination Unit, working alongside CDC Group and other market building partners.

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