Key Takeaways

▪ There is an increased political push across the board for international development institutions to operate in low-income countries and, in particular, fragile and conflict-affected states. The U.S. International Development Finance Corporation (DFC) is also mandated to focus its investments in these difficult contexts and is now equipped with a better set of development finance tools to help these countries foster their private sectors and attract more private financing.

▪ The needs in these fragile environments has never been greater, especially in the context of the Covid-19 pandemic and the economic devastation it is creating.

▪ Yet finding good deals in sufficient volume is more difficult in these high-risk environments. Technical assistance (TA) is a tool that can help to generate a robust deal flow in these countries. As part of the BUILD Act, the DFC has been given the authority to conduct TA, that is, to provide advice to help current investments mature or prepare future deals for financial and development success.

▪ However, the DFC does not have significant TA resources itself, so it needs to work together with other U.S. government agencies and like-minded development finance institutions (DFIs) to leverage these different sets of resource pools in order to be more effective in fragile contexts.

▪ Being able to coordinate effectively with other entities means the DFC needs to have a very clear view of its role in TA, an understanding of the types of skills that are needed, and a plan to incorporate any lessons learned from other instances of cross-agency coordination.
Introduction

In late 2018, the United States passed an important piece of foreign policy legislation, the Better Utilization of Investment Leading to Development (BUILD) Act, which created a new agency called the U.S. International Development Finance Corporation (DFC). From 1971 until 2019, the Overseas Private Investment Corporation (OPIC) served as the U.S. development finance institution (DFI) but had limited finance tools and development reach. Through the DFC, the ability of the United States to help countries develop their private sectors has been strengthened. Yet the DFC is not just merely a modern DFI—it is also an agency that serves U.S. foreign policy objectives, including countering China’s state-sponsored development model.

As part of this modernization and foreign policy process, the DFC has been given the authority to conduct technical assistance (TA), that is, to provide advice to help current investments mature or prepare future deals for financial and development success. This is an important tool, especially in high-risk markets (i.e., low-income and lower-income countries) where the DFC has a mandate to operate. Coupled with another authority—the ability to conduct equity investments—TA will be an especially useful tool in these high-risk markets, where both the enabling environment for the private sector is weak and the necessary deal flow is missing, meaning finding good deals is harder and deals that do exist tend to be smaller. Poorer countries and fragile states will require more than money to support these countries in their development path: it will take a combination of diverse financing tools, advice, and development approaches. These countries are also the ones that will be most heavily impacted by the ongoing Covid-19 pandemic, both in terms of health and economic outcomes.

The DFC has an opportunity to increase its collaboration across U.S. government development agencies and bilateral DFIs by using TA strategically to support the recovery and growth of the private sector in places where it is most needed but also hardest to generate. As the DFC shifts its geographic focus going forward, combining TA with financing can act as a force multiplier of investment deals and will ensure that U.S. taxpayer money is well spent.

What is Technical Assistance and Why Is it Important?

Aid agencies and DFIs provide both financing and TA to countries to help them address a variety of development challenges. “Technical assistance” (or “technical cooperation”) in the development field broadly refers to support for a specific project or country program, in the form of technical advice, research and data sharing, and skills training, among other activities (see Box 1 for definitions). TA includes activities to strengthen countries’ regulatory environments, improve their investment climates, or prepare and mature an institution or investment opportunity, among others. The expertise provided by these development institutions can improve the outcomes of a program, project, or investment, and for many countries, TA might be more valuable as a development tool than the amount of financing received.

Box 1: Definitions of Technical Assistance

- **USAID** defines TA as “the provision of goods or services to developing countries and other USAID recipients in direct support of a development objective-as opposed to the internal management of the foreign assistance program.”

- The **OECD** states that TA is the “provision of resources aimed at the transfer of technical and managerial skills or of technology” for the purpose of building up general national capacity (i.e., free-standing
technical cooperation, also known as FTC) or for the purpose of implementing specific investment projects (i.e., investment-related technical cooperation, also known as IRTC).

- The **World Bank** highlights that TA is “a key instrument for improving policies and project design, enhancing skills, and strengthening implementation capacity, and for institutional development in general.”

The type of assistance that a traditional aid agency provides vis-à-vis a DFI differs but is often interlinked and complementary (Box 2). Aid agencies mainly provide advice to governments on policy and regulatory reform, research and data collection, and capacity building at the national and subnational levels, while advice from DFIs centers mainly on the private sector, companies’ business practices, and supporting specific investment transactions to increase their chances of success. However, DFIs do venture to the private sector on occasion, and many aid agencies work at times with the private sector.

Many small- and medium-sized companies (SMEs) and financial institutions in developing countries face business obstacles that hinder their ability to grow. Some of these challenges pertain to the “macro” level, such as obstacles in terms of the business environment and access to finance and human capital. But they also face more “meso-” or “micro-level” challenges, at the industry or firm level. Firms might not possess the know-how or experience to enter a new market, develop a new product or process, or structure an investment. DFIs have the expertise needed and can contribute to the growth of the private sector and promote more sustainable businesses in developing countries. By providing TA, DFIs can increase the impact of their financial investments.

**Box 2: Types of Technical Assistance**

The types of TA provided by an aid agency include:

- **Policy, Regulatory, and Institutional Reform:** Development institutions provide specific, country-focused advice related to regulatory and institutional reforms. In their guidance, agencies aim to strengthen the policies and regulations of a country. This technical advice serves as a channel for policy implementation in areas such as governance, oversight, competition, compliance with environmental regulations, good business practices, and sustainability, among other topics.

- **Research and Data Collection:** Development agencies collect essential data and statistics, conduct research and impact studies, and support organizations that do the same. These public goods help policymakers make better decisions that are evidence based, increase transparency and accountability of government actions, and strengthen the country’s measurement and performance systems.

- **Capacity Building:** This kind of support relies on designing and implementing training programs and organizing staff exchanges for the public sector.

The types of TA provided by DFIs include:

- **Feasibility Studies:** When planning a project, assessments are carried out that evaluate the technical and engineering aspects of an infrastructure project as well as the key social, environmental, economic, and financial risks to determine the potential impacts of the project and weigh risks against benefits.

- **Detailed Environmental and Social Impact Studies:** Such studies are necessary at the back end of the traditional feasibility studies before proceeding to project financing.
Improving Business Practices: These include strengthening corporate governance, improving human resource processes and information systems, consolidating administrative and financial management and accounting practices, and training corporate social and environmental responsibility.

Conducting Market Analysis and Special Industry Studies: These are assessments conducted for certain sectors to understand better the competition, areas of growth and risks and include gathering detailed quantitative and qualitative information.

Legal Guidance: This includes legal advice and capacity building to governments and companies on vulture fund litigation, complex commercial negotiations and related sovereign transactions---a service especially valuable to SMEs and particularly important for Public Private Partnership negotiations which require advisory services to the government (e.g., the African Legal Support Facility).

**Delivering Technical Assistance: Working In-house or Contracting Out?**

TA can be delivered in-house—by using internal personnel—or by contracting out TA to other firms. In the case of the International Finance Corporation (IFC)—the largest multilateral DFI—TA is provided by a cadre of experienced staff and individual consultants, which are mostly located in developing countries. In the case of USAID, most of the TA is contracted out to a network of implementing partners, such as NGOs and contractors, both local and headquartered in the United States.

The IFC provides TA to companies and governments through its advisory platform. For companies, the IFC provides market insights as well as advice on how to improve their operational performance and sustainability and how to adopt good practices and standards to increase competitiveness and productivity. For governments, the IFC helps structure public-private partnerships (PPPs) in infrastructure and basic services and implement reforms that encourage private investment.

Part of the IFC’s strategy is to create opportunities by identifying and addressing key market gaps. Also known as upstream work, the strategy adopted by the IFC primarily consists of pre-investment TA (e.g., technical support and capacity building). The upstream approach adopted by the IFC is critical to drive growth in the global economy and requires collaboration from other agencies; it is about working together to develop markets in the very early stages. The IFC also collaborates with other DFIs and aid agencies to structure investments and crowd in more investments or TA. The DFC can support the SME Ventures program of the IFC in terms of both TA and investments. Focused specifically in high-risk markets, the program helps investees to expand their business through the provision of risk capital and TA.

Among the largest bilateral DFIs, the United Kingdom’s CDC group provides training sessions and develops toolkits on environmental, social, and governance (ESG) standards. The training sessions implemented by the CDC focus on enhancing occupational health and safety standards, improving working conditions and the reporting of accidents, and managing risks in supply chains. The organization also has a TA and support facility (CDC Plus), funded by the Department of International Development (DFID), which aims to contribute to five SDGs—poverty, gender equality, decent work and economic growth, inequalities, and climate. Some of the TA projects implemented by the CDC use in-house TA and partner with local institutions. In other projects, CDC Plus selects a partner that will be responsible for hiring and managing a team of experts. Also known as the “implementing partner,” it performs functions related to financial management, human resources, operations, and risk management. The CDC’s investments are focused on businesses in Africa and South Asia.
The Dutch DFI—FMO—provides TA in two forms, capacity development and the provision of ESG toolkits. The capacity development program of the FMO seeks to support the sustainable growth of businesses by focusing on gender equality, governance and risk management, and environmental and social risk management. Instead of using in-house staff, the group contracts out consultants, trainers, and experts. The FMO has developed toolkits that can be easily downloaded on their website and used by any company or individual. The toolkits cover topics such as ESG risk management for private equity investment, corporate governance for banks, corporate governance for corporates, and multilateral finance institution (MFI) and SME sustainability guidance.

TA projects of the German Development Finance Institution (DEG) include not only individual advice in all phases of the project life cycle (consultancy services) but also feasibility studies financed with funds from the Federal Ministry for Economic Cooperation and Development (BMZ). DEG has representatives in 20 countries it operates in.

Proparco (Groupe Agence Française de Développement), the French DFI, provides TA through its capacity-building program, which focuses on strengthening financial and risk management and environmental and social management systems and developing energy management solutions. It supports businesses and financial institutions (i.e., banks, investment funds, and microfinance institutions) in Africa, Asia, Latin American, and the Middle East. The group finances feasibility studies, audits, and projects that are performed by one or more consultants. The projects are financed with Proparco’s own budget or by mobilizing facilities such as the FISEA TA facility and the Governance Capacity Building Facility (FRCG).

Technical Assistance within the DFC

In the past, OPIC provided limited TA in the form of partnership with other organizations. For example, through its partnership with the organization Global Communities, it provided technical support to small agribusinesses in Malawi in order to increase food production. Another example was USAID and OPIC’s partnership—the African Technical Assistance Initiative—whereby OPIC’s Enterprise Development Network was used to provided TA to SMEs in sub-Saharan Africa, an initiative of $1.5 million. Small grants of $25,000 were allocated to African entrepreneurs to fund expenditures to improve financial management, installation of accounting systems, business consulting, feasibility studies, and evaluations. However, more commonly OPIC relied on the USTDA, USAID, or the MCC to provide TA to countries; the reliance on partnerships for TA created a series of issues associated with budgetary control, bureaucratic priorities, and differences in organizational cultures.

The BUILD Act expanded the DFC’s TA authorities and specifically states that the DFC:

- may administer and manage special projects and programs in support of specific transactions undertaken by the Corporation, including programs of financial and advisory support that provide private technical, professional, or managerial assistance in the development of human resources, skills, technology, capital savings, or intermediate financial and investment institutions or cooperatives, and including the initiation of incentives, grants, or studies for energy, women’s economic empowerment, microenterprise households, or other small business activities.

The DFC will be able to provide three types of activities to support transactions: (1) TA, (2) feasibility studies, and (3) training. TA can increase developmental impact, improve commercial sustainability, and ensure that potential projects are suitable for DFC financing or insurance. For TA, the host country project sponsor will choose the company that will complete the work with DFC approval. The project sponsor and the DFC will split the costs of TA evenly.
The DFC created a new Office of Development Policy, including specifically a Technical Assistance and Feasibility-Studies Unit, which will “develop, manage, and provide oversight for technical assistance.” The unit will also ensure that USAID, the MCC, and other relevant agencies are not duplicating work.

In addition, within the DFC’s Office of Development Credit, the Mission Transaction Unit (MTU) (formerly USAID Development Credit Authority) will support credit portfolio guarantees. Currently, USAID missions provide funds to support guarantees that the MTU issues, and generally USAID also manages the associated TA. However, in cases where USAID does not have a deployable TA mechanism, USAID can buy into the DFC’s TA program. USAID will then transfer the funds to the DFC, and the DFC will manage the TA activities which support the MTU transaction. This is very important for extensions of lines of credit to financial institutions to support SMEs. Otherwise, commercial banks extending small loans is simply not commercially viable unless TA helps build loan portfolios.

The president’s FY 2020 budget requested $50 million for the DFC to carry out “credit subsidies, feasibility studies, and project-specific technical assistance.” The FY 2020 congressional budget reduced this figure to $30 million; however, only approximately $10 million will be allocated for TA, while the approximate $20 million remaining will fund credit subsidies. Although a start, the amount of money allocated for TA pales in comparison to other established DFIs such as the IFC, which conducted more than 700 advisory projects worth $1.5 billion in 2018. The DFC will need to partner with other DFIs and collaborate more closely with other U.S. development agencies in order to be able to make its TA resources go further.

**Supporting Deals in “High-Risk” Countries**

Part of the DFC’s mandate is to provide development impact and crowd in private-sector capital in more challenging geographies, such as low-income countries and lower-middle-income countries (Figure 1). Some of these countries are fragile, conflict-affected areas facing a whole set of development challenges, including political instability, rising poverty and inequality, macroeconomic uncertainty, anemic private-sector growth, and significant environmental threats. In the past, OPIC invested approximately one-quarter of its portfolio in countries classified as fragile by the OECD. By working in more challenging environments, the DFC will be making riskier investments and have some projects fail, but that should be expected in the circumstances. TA can complement certain investments thereby improving the likelihood of success for the project, a key reason why increasing TA funding is vital.

**Figure 1: OPIC’s Portfolio, 2003-2018**
An Opportunity to Enhance U.S Interagency Coordination on Technical Assistance

The DFC has also been mandated to coordinate with other U.S. development agencies, including USAID, as necessary, to deliver TA. Given the limited funding that the DFC has for TA, this collaboration will ensure that different sources of TA have a multiplier effect on U.S. development investments abroad. In fact, all U.S. development agencies that conduct TA will be more successful if they coordinate their efforts and make sure their work is complimentary. The DFC TA cannot generate the deal flow required to deliver on its development mandate without effective coordination and collaboration with other agencies. In fragile states, where both the enabling environment for the private sector is weak and the necessary deal flow is missing, there is an especially high demand for TA. It is important to find the right balance and division of labor among agencies to avoid repetition but still meet the high demand for TA.

The DFC will need to pursue a more coordinated approach with other U.S. agencies on the ground, including USAID, the State Department, the MCC, and the U.S. Trade and Development Agency (USTDA), when approaching private-sector development in a country. This will be particularly important in more fragile contexts where the private sector is nascent and overlapping efforts would be wasteful. This collaborative approach should also guide the work of the DFC with the private sector and other bilateral DFIs by pursuing joint projects on the ground. Competing for a handful of projects in these more difficult contexts would be ineffective and would not serve the country’s development needs.

The BUILD Act stipulates that the DFC “shall coordinate with the United States Agency for International Development and other agencies and departments, as necessary, on projects and programs supported by the Corporation that include technical assistance.” However, the TA provided by the DFC will be to support specific DFC deals, while other U.S. development agencies can complement this role by working on macro policies to strengthen countries’ enabling environments for business and fund advisory services to strengthen governments’ abilities to close on PPP deals and private investments requiring government concessions.
A USAID and DFC coordination report provides some guidance on how the two agencies can work together on TA. According to the report, USAID will use its technical expertise to assist the management, monitoring, and evaluation of DFC-funded transactions to ensure that they are producing measurable results and supporting the objectives of U.S. foreign policy. In other words, USAID will provide post-investment TA. The DFC will be responsible for providing USAID country missions with targeted relationship-management support—engaging and developing long-term relationships with new financing partners.

In terms of project-specific TA, U.S. government agencies, including the State Department, USAID, and the DFC, will work closely to design and, when necessary, de-conflict TA programming, and "USAID will also work with the DFC to direct its ongoing technical-assistance programs to improve the enabling environment for business to support DFC-backed transactions where needed." In summary, the report prescribes roles: USAID directs its TA to both upstream efforts to improve the enabling environment for business and downstream, post-transaction TA to strengthen private-sector operations. This can be direct enterprise support or complementary efforts to strengthen the business support services sector. The DFC would focus its TA on pre-transaction support, including identifying and enhancing the transaction pipeline in target countries/regions. Thus, the principles are clear. The challenge is operationalization. In addition, the DFC will need to explore whether and how these (or other) principles apply to the TA of other agencies such as the MCC or USTDA (see Box 3).

There are several funding streams for TA across U.S. development agencies, including ones that focus more on the enabling environment and others that deal with the financing aspects of projects. Traditionally, USAID has been strong in addressing the enabling environment, especially to help governments develop the tools and standards to successfully carry out TA. USAID also has strong teams on the ground that are essential in USAID successfully carrying out TA. In this regard, the DFC has an opportunity to partner with and leverage USAID’s INVEST program, which focuses on mobilizing private capital in developing countries. The DFC can complement one of these areas (identifying investment opportunities or structure funds) by providing more expertise and ensuring that private capital is being channeled to key regions and sectors, including to high-risk markets.

The DFC, on the other hand, can only conduct TA on specific projects or deals. The key is for all U.S. government development agencies to work together to define clearer lanes while allowing flexibility for each agency to play to respective strengths. Through close coordination with all of the agencies, these different funding streams can be a force multiplier. It is important to allow TA to be “passed on.” In other words, if one agency facilitates a deal but is unsuccessful, it can pass that deal to another agency to complete and thereby avoid wasting TA efforts. However, in order for the DFC to take a deal over, it must be related to a DFC project.

**Box 3: Delivering Technical Assistance Across the U.S. Aid Agencies**

Several U.S. agencies deliver TA in the field of international development:

- USAID provides different kinds of TA, focusing on various industries and sectors. The Research Technical Assistance Center builds a global network of universities to help USAID Missions, Bureaus, and Independent Offices make strategic decisions based on strong evidence. A program on extractives TA is specific to Afghanistan and conducts geological surveys on factors such as deposit type and commodity value to inform potential mining contracts. Another program, INVEST, focuses on mobilizing private capital in developing countries in three ways. First, it identifies investment opportunities through market assessments. Second, it designs funds, investment platforms, and financial products. Third, it provides transaction advisory services to link investors to businesses. The aim of the program
is to facilitate the work between USAID and the investment community and achieve better development outcomes.

- The USTDA delivers TA through funding comprehensive analyses that help infrastructure projects move through financing to implementation. They also do feasibility studies and procurement training. The feasibility studies provide analysis to overseas sponsors on achieving financing and implantation of infrastructure projects. The USTDA launched the Global Procurement Initiative in 2013, which helps emerging economies develop life-cycle cost analyses and best-value determinations. The USTDA provides countries with advice to support policy, legal, and regulatory reform through the implementation of TA and training activities that aim to create more favorable business and trade environments for U.S. exports.

- The MCC also provides TA for several sectors. The Department of Compact Operations is the organization’s body responsible for identifying the potential areas to collaborate and partner with the private sector and other development actors. As an example, for the El Salvador Compact alone, the MCC provided TA for educational training, community development, business development, and more. The initiative in El Salvador supported the construction of a new technical community college, expanded and restored high schools, offered more courses to the population, improved curricula, and provided teacher training. It also provided training, seeds, equipment, and TA to farmers and craftsmen.

- The U.S. Treasury Department’s international assistance program, managed by the Office of Technical Assistance (OTA), supports the development of a strong public financial sector and capital markets in countries that are committed to reform. TA is provided by in-house staff; the OTA’s team is composed of experienced technical staff that works with government counterparts in finance ministries, central banks, tax departments, and other public-sector financial institutions. The OTA has both “intermittent advisors,” who travel to foreign countries for short-term assignments, and “resident advisors,” who provide assistance on a sustained basis, typically for several years.

**Collaborating with Other DFI to Catalyze Private Capital into High-risk Contexts**

The DFC together with other DFIs and donors can help these countries develop their private sectors and attract higher amounts of private financing: the private sector not only provides jobs and services but acts as an important stabilizer in these societies by building markets, working with governments, and contributing to development through different social programs. Yet as fragile states embark on their development paths, they will require more than money to support their efforts. These countries will need a combination of diverse financing tools, advice, and development approaches. DFIs and donor agencies will need to work in tandem with governments and the private sector to reform investment policies, provide financing to jumpstart innovations, and collaborate better to avoid overlap and waste.

The financing and TA that DFIs can provide for private-sector projects will ultimately be complementary to the work done by other development partners in enabling businesses to thrive. In this regard, the DFC will not be able to support these countries alone. Given the high risks and few deals available in these countries, the DFC has an opportunity to work with other like-minded DFIs and other donors to play a significant role. Some examples of areas where these institutions could undertake joint work to reinforce each other’s resources and technical expertise include supporting joint project preparation facilities, delivering joint trainings, and assisting developing country government agencies in putting together a pipeline of bankable projects.
In this regard, the ongoing Covid-19 pandemic underscores the need for more and better international cooperation on all fronts, including TA. Poorer countries are heavily impacted by this health crisis and are not equipped to deal with the pandemic, nor the economic fallout created by the crisis. The DFC has recently set up a Covid-19 deal team and can work together with other institutions through the DFI Alliance, which consists of development finance institutions from 16 OECD countries. This alliance released a joint statement outlining how it will coordinate Covid-19 response efforts. These efforts include working together to promote investments in the private sector by bringing increased liquidity to markets and supporting companies that are affected by the pandemic.

Through the work of the DFC, the United States has an opportunity to increase collaboration among U.S. allies on a country-by-country approach or a sector-by-sector approach. Collaboration also means avoiding duplication: DFIs are sometimes chasing after the same few deals, which leads them to undercut each other. In addition, DFIs will need to ensure that TA is more aligned; providing conflicting advice would also be ineffective and wasteful and undermine development efforts.

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