SDC Handbook on
Private Sector Engagement

Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Swiss Agency for Development and Cooperation SDC

Table of contents

This document has no pre-defined date of expiry; however, it will be periodically updated and revised in order to take account of new learnings, reference policies and guidelines, instruments and operational developments. The next update is planned for 2023 in order to incorporate the orientations set out in the next International Cooperation Strategy (2025–28). With a view to maximising efficiency, the document will be revised through a lean process.

Preface

A dynamic private sector is an essential driving force for reducing global poverty and promoting sustainable development. In developing countries, nine out of ten jobs are provided by the private sector. In addition, many companies bring innovative products to market that improve living conditions for poor people and vulnerable groups – be it technologies for the use of renewable energies in rural areas or new medicines against fatal diseases.

Thus, sustainable development can only be achieved by joining forces with all relevant stakeholders, including the private sector. Such an approach corresponds to the international consensus on how to reach sustainable development, as presented in the **2030 Agenda** of the United Nations and specifically in Sustainable Development Goal 17 'Partnerships for the Goals'. Accordingly, the private sector must be seen as part of the solution. This is why the **International Cooperation Strategy 2021–24** prioritises increasing the mobilisation of private sector expertise and resources.

In its **'General Guidance on the Private Sector in the context of the International Cooperation Strategy 2021–24'**,[1] the SDC has set the general parameters for its interaction with the private sector on the basis of the following areas of activity:

1. Economic policy frameworks: promoting favourable framework conditions for a sustainable private sector
2. Promotion of local companies: developing the local private sector in the SDC's partner countries
3. Collaboration with the private sector: cooperating with the private sector in joint development endeavours
4. Public procurement: promoting sustainable principles in SDC contracts awarded to private sector actors.

This Handbook focuses only on **the third area of activity** and deepens it. The specific modality of interaction with the private sector herein described is referred to as **private sector engagement**, or **PSE**. With PSE, the SDC and one or several private sector partners join forces to achieve a common development impact. Both sides – public and private – share ownership of the collaboration and engage in a symmetrical relationship. Co-ownership of the intervention is what differentiates PSE from other forms of interaction with the private sector.

This document provides comprehensive yet hands-on guidance for our colleagues who design, implement and steer partnerships with the private sector. It addresses the SDC's South Cooperation, Cooperation with Eastern Europe, Global Cooperation and Humanitarian Aid departments and serves as inspiration for the SDC's country programmes, global and multilateral programmes, as well as development and humanitarian projects. The Handbook relies on lessons learnt from the past and provides a common basis for the future. It formulates a vision and a medium-term orientation for the SDC's PSE with the goal of maximising impact while carefully managing risk.

This document has no pre-defined date of expiry but will be periodically updated or revised. The **next update is planned for 2023** in order to incorporate the orientations set out in the subsequent International Cooperation Strategy (2025–28), taking account of new learnings, instruments and operational developments.

I am confident that this new conceptual basis will motivate us to increasingly engage with private sector actors and use PSE as a modality for delivering international cooperation.

Patricia Danzi
SDC Director General

1 This paper is not normative in nature; its main purpose is to ensure adequate external communication for interested stakeholders.

PART A: GENERAL ORIENTATION

Part A of this Handbook builds upon the 'General Guidance on the Private Sector in the context of the International Cooperation Strategy 2021–24' and provides **answers to the basic questions** underlying private sector engagement (PSE): What are the SDC's lessons learnt so far? What are the SDC's vision and objectives in the area of PSE? What are the constitutive elements of PSE that differentiate it from other forms of interaction with the private sector? Who does the SDC partner with? What are the concrete modalities and formats used in PSE? And how can Swiss competencies be promoted for better impact?

1. Private sector engagement at the SDC

1.1 International and national framework

The overarching international framework for international cooperation is provided by the **2030 Agenda for Sustainable Development**, including its **17 Sustainable Development Goals** (SDGs), and the **Addis Ababa Action Agenda**. As referenced in the 'General Guidance on the Private Sector in the context of the International Cooperation Strategy 2021–24', these are supplemented by various frameworks and sets of principles covering specific aspects to be considered when working with the private sector.

At the national level, the main reference frameworks are the Federal Act on International Development Co-operation and Humanitarian Aid and the Federal Act on Cooperation with the States of Eastern Europe, their related ordinances, and the Federal Council's dispatches on Switzerland's international cooperation. **Switzerland's International Cooperation Strategy 2021–24** has been in effect since 1 January 2021. In addition to traditional PSE approaches, the new dispatch provides for the use of innovative financial instruments to increase the volume of public-private cooperation, including in least developed countries (LDCs) and fragile contexts.

1.2 History and lessons learnt

For decades, the SDC has seized opportunities to partner with private sector actors to further its development goals.[2] The Dispatch on Switzerland's International Cooperation 2017–20 called for a **substantial increase in engagement with the private sector**.[3] The **Competence Center for Engagement with the Private Sector (CEP) was created and initiated operations at the beginning of 2017**, supporting the SDC in its efforts to set up new PSE collaborations[4] of high quality. In 2018, SDC senior management mandated the CEP to formulate a guidance document for private sector engagement,[5] triggering a series of learning processes that were completed in 2020. The end product is the present Handbook.

To date, the main lessons learnt to be considered when designing new PSE initiatives are the following:

- In PSE collaborations, specific attention is needed to bridge the different cultures and mindsets of the partners. The collaboration set-up is often more complex than in standard project mandates or contributions (see Annex V for a description of the different possible PSE formats). The public side is often concerned about the possible reputational risks whereas, for the private side, administrative procedures might become cumbersome. All partners involved need **to step out of their comfort zone**, adapt internal procedures, and **be willing to undertake risks**, while implementing suitable mechanisms to mitigate these risks.

- Planning and implementing PSE collaborations requires new skills and suitable **capacity building measures** in order to bridge the aforementioned differences in cultures and to master the new collaborative approach. In the case of particularly complex PSE formats, it is advisable to consult external experts or envisage external solutions.

- Successful partnerships require a considerable time investment upfront to establish mutual trust and clarify values, expectations and roles among the different actors. Therefore, it is worthwhile building on this initial investment and seeking to progressively **establish different collaborations with the same private sector partner**. Moreover, a **partner management system needs to be established** in order to ensure a coordinated approach towards private sector actors.

- Environmental, social and governance (ESG) **risks**, as well as fiduciary and compliance risks, **have to be taken into account at an early stage**.

2 For an example of an early case of a PSE collaboration, see the project Medicine for Malaria Venture in Annex III.

3 In parallel, the 'Concept for increased mobilisation of the private sector for climate-friendly investments in developing countries' (in German) was approved in 2019 by the Interdepartmental Platform on Funding International Cooperation on Environmental and Climate Issues (PLAFICO).

4 The term PSE collaboration (or, occasionally, PSE intervention) describes a project or a project component (or partial action) realised according to the modality of private sector engagement.

5 In April 2020, the SDC decided to replace the previously used term 'engagement with the private sector' by the term 'private sector engagement', which is more commonly used in the international arena.

- Collaborations with large corporations, which are often under close public scrutiny, require sufficient political attention and resource investments from the SDC in order to adequately **manage reputational risks**.

- To be successful, PSE collaborations must be perceived as a **joint endeavour** by the partners involved. In order to achieve a high degree of motivation and mobilisation of resources on all sides, the benefits of the specific collaboration must be clearly spelled out for each partner.

- The **'rules of the game'**, the steering and decision mechanisms for the implementation of a PSE collaboration as well as the rules for external communication need to be agreed upfront.[6] All partners must actively participate in the steering of the collaboration.

- Even promising PSE collaborations can fail in the planning phase if there is a geographic or thematic mismatch between the SDC and the private sector actor. To a certain extent, this problem can be resolved through the creation of **flexible support modalities** on the SDC's side.

1.3 Potential for increased engagement

The potential for increased SDC engagement with the private sector depends heavily on the alignment of interests, the availability of relevant skills, and the (political) will of the actors involved. Seizing this potential entails strengthening skills and networks and fostering positive experiences. To date, the SDC's PSE partnerships have been developed through seized opportunities. Based on this Handbook, the SDC will pursue a more systematic approach to identifying new PSE opportunities (see section 2.4).

Bilateral operations and global programmes

PSE is a means to an end, a modality, a way of working. It has no geographic or thematic focus of its own, but **supports the SDC's existing strategies.** Currently, around 8% of the total number of projects funded by the SDC are implemented through partnerships with the private sector. The SDC has made an initial estimation of the **potential for private sector engagement in its bilateral operations and global programmes.** This estimate builds on workshops in some of the SDC's cooperation offices and in global programme divisions.[7] The potential refers to the percentage of projects that could be realised in partnership with the private sector in a long-term perspective.[8] The assessment takes into account the specificity of fragile contexts and the differing suitability of PSE with regard to the 17 SDGs. Based on a combination of these factors, it is estimated that – in the long term and given the necessary conditions for an effective collaboration – around **20–25% of all of the SDC's operations could be implemented in collaboration with the private sector**. These estimates will be continuously verified and adjusted in the future. Crucially, the SDC will allow for flexible use of the PSE modality, e.g. in the context of the development-humanitarian nexus.[9]

Multilateral institutions

The SDC is a member and supporter of numerous multilateral organisations, both in the areas of development cooperation and humanitarian aid, and participates in several multi-donor trust funds and initiatives, which are linked to or hosted by multilateral institutions. Specifically, the SDC supports UN organisations, international financial institutions (IFIs), and thematic funds such as the International Fund for Agricultural Development (IFAD), the Green Climate Fund (GCF), and the United Nations Capital Development Fund (UNCDF). Several multilateral partners of the SDC have their own strategies for engaging with the private sector. As PSE is a topic of strategic relevance for most multilateral institutions, the **potential for the SDC to support PSE initiatives in the multilateral space is estimated to be at least as high as in the bilateral domain**.

6 Depending on the format of the collaboration, the agreement can be legally binding (contract) or non-binding (memorandum of understanding).

7 PSE 100 Workshops (see Part B section 4.2.1 of this document).

8 In a long-term perspective, there are fewer constraints related to adapting the SDC's project portfolio, projects currently under way will be phased out or evolve into new projects. Moreover, it is assumed that the necessary basis for optimally engaging with the private sector (e.g. with regard to internal skills and networks) will be available.

9 For an example of a PSE collaboration in the nexus, see the project in the Kakuma refugee community in Annex III.

2. Vision and orientation

2.1 Vision and objectives

Within its overarching mandate to reduce poverty, the SDC's vision is to contribute to sustainable development by increasing its engagement with the private sector to foster innovation and achieve greater impact, including in difficult and fragile contexts. If the expected outcome of a PSE partnership does not contribute to achieving this vision, the SDC will not engage in such a partnership.

The SDC's medium-term[10] axes of action in the area of PSE are the following:

1. **Increasing the PSE portfolio:** the SDC will strengthen PSE as a modality of work. This should result in an increase in the number of collaborations and in the financial volume of the PSE portfolio. However, the SDC will enter into PSE partnerships only if they support the SDC's overall mandate; therefore, it is not meaningful to set a specific quantitative growth objective.

2. **Strengthening risk management:** handling risks as part of its programme cycle management (PCM) and in close collaboration with other relevant units[11] will continue to be important for the SDC. New specific instruments have been developed and strengthened for this purpose. The latter applies in particular to reputational and ESG risks linked to private sector partners.

3. **Managing PSE in humanitarian contexts and scenarios of conflict:** in case of partnerships in conflict and humanitarian contexts, specific aspects have to be taken into consideration. These include how to ensure the respect for international humanitarian law, humanitarian principles (neutrality, impartiality and independence), human rights and Swiss neutrality.

4. **Developing new approaches and instruments, suitable for difficult contexts:** the SDC will develop new approaches and instruments to promote and financially support promising business models which enhance a positive social and ecological impact for the population living in partner countries. This will include **strengthening PSE approaches in LDCs** as well as **effective responses to the health and economic crises caused by the COVID-19 pandemic**.

5. **Fostering capacity building**: the SDC will develop new offerings in order to strengthen the capacities of its own staff to deal with private sector actors and to plan and steer PSE interventions.

Key performance indicators will be used for steering the PSE collaboration portfolio and tracking progress in the medium term (see Part B section 4.1 in this Handbook).

Against the backdrop and vision of the 2030 Agenda, there are several compelling reasons for both public and private actors to strive for PSE collaborations. The rationale for public-private engagement is described in section 3 of the 'General Guidance on the Private Sector in the context of the International Cooperation Strategy 2021–24'.

2.2 Definition and conceptual delimitations

This section defines PSE, its core attributes and the scope of PSE collaborations and further presents important conceptual delimitations.

Definition of private sector engagement

PSE refers to the **SDC and one or several private sector partner joining forces on an equal footing for an impact-driven development intervention**. Co-ownership and co-funding of the intervention is what differentiates PSE from other forms of interaction with the private sector, such as contracts awarded to the private sector or interventions aimed at supporting local companies in the SDC's partner countries (see box below).

10 I.e. until the end of the implementation period of the International Cooperation Strategy 2021–24.
11 Specifically, the Division Contracts, Procurement, Compliance (CPC) of the Federal Department of Foreign Affairs.

The SDC can delegate its own role in the PSE partnership to an implementer. If implementers act explicitly on behalf of the SDC in a symmetrical partnership with private sector partners, this is also considered a PSE collaboration. Private sector partners are expected to contribute in cash and/or in kind to a PSE collaboration. In-kind contributions count as cash-equivalent if they can be capitalised in line with international accounting standards. For reasons of monitoring and quality assurance, every project that includes PSE subcomponents and PSE partial actions is considered a PSE collaboration. The PSE initiatives of multilateral partners specifically supported by the SDC also count as PSE collaborations.[12]

Core attributes of PSE collaborations

Co-initiating refers to the joint setting up of a collaboration, including the identification of new ways to address development challenges. An optional 'co-initiation phase' allows for better alignment of objectives among partners. Co-initiation does not always apply, however. In particular, this is the case when integrating new partners into existing collaborations, when the SDC enters ongoing collaborations, or in the case of certain PSE formats such as matching grants[13] (see Part B section 4.2.2 on *Co-creation* in this Handbook for more details).

Co-steering reflects the shared engagement of the partners towards collaboration success. Typically, both the SDC and the private sector partner(s) actively participate in the governing body of a PSE collaboration. This attribute does not always apply. In particular, co-steering is less suited for strictly humanitarian interventions and in the case of certain PSE formats, such as matching grants.

Co-funding is a compulsory element of PSE collaborations. Without co-funding, there is no PSE. Generally, the SDC aims to fund no more than 50% of the collaboration costs, while recognising that this rule cannot be applied in all situations. The cost-sharing mechanisms must be established in each individual case and depend on the following factors:

- the public good character of the collaboration (the larger the share of public goods and services created, the better a higher level of public funding can be justified, and vice versa);
- the level of context-related risks (e.g. in high-risk, fragile contexts, the SDC may assume a higher cost share in order to motivate private sector pioneers to become active in the region, while in low-risk, stable contexts it is expected that the private sector share will be higher);
- cost-benefit considerations (e.g. when the SDC partners with a small enterprise with highly innovative development-relevant expertise but limited financial possibilities, it may be justifiable for the SDC to assume a higher cost share);
- the number of funding partners involved (the more partners, the lower the SDC's contribution will be).

Overall, the implementation of PSE core attributes differs from traditional practices of development cooperation and requires a new collaborative mindset and way of working.

12 E.g. Business Call to Action of the United Nations Development Programme (UNDP).

13 Matching grants or challenge funds refer to a competitive PSE format in which the donor launches a call for proposals focused on a specific development challenge, and private sector actors can submit a project proposal, which includes their own co-funding.

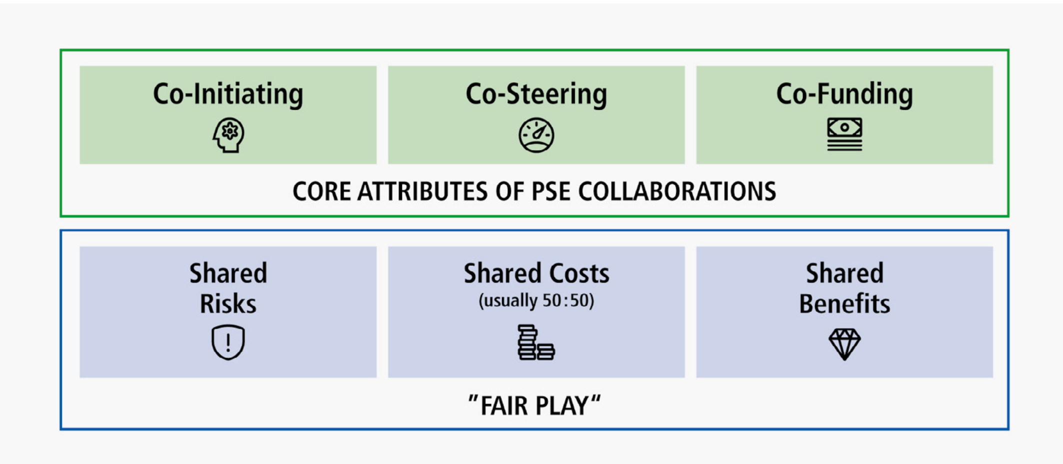

Figure 1: Characteristics of PSE initiatives

Conceptual delimitations

Within the scope of PSE:

- **Private sector as a development partner** refers to a modality where the SDC and private sector actor(s) jointly engage in a symmetrical collaboration for impact on the basis of 'shared values, shared benefits, shared risks and shared costs' (e.g. co-funding, together with a Swiss multinational company, a collaboration aimed at improving the quality and relevance of vocational education and training for Ukrainian plumbers).

- **Private sector as an ally** refers to situations where the SDC financially supports private sector platforms to promote a common agenda oriented towards sustainable development (e.g. supporting the Swiss chapter of the UN Global Compact through a specific project contribution).

Outside the scope of PSE:

- **Private sector as the target of SDC policy interventions**, e.g. in international forums and norm-setting processes (as illustrated in area of activity 1 of the 'General Guidance on the Private Sector in the context of the International Cooperation Strategy 2021–24').

- **Private sector as a beneficiary** in projects supporting local companies (as illustrated in area of activity 2 of the aformentioned General Guidance).

- **Private sector as an implementing partner or a contractor** in all kinds of projects.

Private sector engagement vs. private sector development: While PSE is a modality that can be applied to basically all sectors and contribute to all SDGs to varying degrees, in private sector development (PSD), local companies as such are the direct or indirect beneficiaries of an SDC-funded intervention. PSD aims at the development of a dynamic private sector in SDC partner countries; therefore, it contributes to those SDGs that focus on the economy (mainly SDGs 8, 9 and 12). Certain projects can encompass both PSE and PSD.

2.3 The range of private sector partners

Categories of private sector partners and opportunities for engagement

The SDC pursues PSE initiatives with well-established[14] private sector actors that share its commitment to sustainable development.

The SDC engages with different categories of private sector actors: large companies and multinational enterprises, small and medium-sized enterprises (SMEs), social enterprises,[15] impact investors,[16] and grant-making foundations.[17] The form of the engagement varies depending on the type of partner and its specific strengths and assets:

- **Large companies and multinational enterprises** bring their considerable up-scaling potential: good practices which have been developed within a collaboration with the SDC can be widely replicated throughout the company's internal network. In addition, this category of private sector partner may become a key player in sectoral initiatives or in the development and implementation of new standards.

- **SMEs** often add value to PSE collaborations thanks to their innovative niche products, e.g. satellite-based technologies that can be used for crop insurance solutions for smallholder farmers.

- **Social enterprises** have a mission to address social or environmental problems: to ensure employment or access to health services for poor people, to foster the use of clean and renewable energy in rural areas, etc. Their business model is therefore widely congruent with the goals of the SDC.

- **Impact investors** are *financial investors* that focus on development outcomes. Engaging with impact investors is a way of mobilising substantial development-oriented investments with relatively limited SDC resources (e.g. by providing a technical assistance facility to an investment fund that invests in local companies sourcing from smallholder farmers). In addition, the rapidly growing niche of

14 In the context of PSE collaborations, direct cooperation with start-ups is generally excluded; it can be pursued only in exceptional situations, i.e. when the expected development benefits are particularly high (e.g. if the start-up aims at developing and marketing a new product that would contribute to overcome a development challenge in several developing countries).

15 A social enterprise is an organisation which has social or environmental objectives as its primary purpose. A social enterprise may be a for-profit or non-profit entity or a hybrid form. The profits of social enterprises are usually reinvested to maximise the benefits for society.

16 Impact investors are individuals or institutions making investments in companies, organisations and funds with the intention of generating a measurable, positive social or environmental impact alongside a financial return.

17 A grant-making foundation is a charitable foundation which disposes of its own capital and does not rely on donations to finance its activities.

impact investment has a potentially long-term transformative effect on the financial sector to promote practices of sustainable and inclusive finance.

- **Grant-making foundations** are usually derived from large companies or wealthy entrepreneurs and are therefore included in the universe of the SDC's private sector partners. They are important partners particularly in areas where commercial investors are not yet ready to invest due to high risks, high transaction costs, etc. Therefore, they are often ideal anchor investors for blended finance initiatives. Like social enterprises, grant-making foundations show a high degree of congruence with the mandate of the SDC.

Private sector partners in a PSE collaboration can be **from any geographic region**.

It is also important to note that, while NGOs, research centres and academic institutions are not part of the private sector, they are often involved in the set-up of PSE collaborations (e.g. as an implementing partner or convener) on account of their specific know-how.

Criteria for engagement with a private sector partner

A successful PSE partnership calls for the partners to find **common ground**. This consists of different elements:

- a **shared set of values such as respect for human rights and avoiding corruption** as well as a **shared vision towards sustainable development**, including the principle of *leaving no one behind*; the private sector partner must also adhere to relevant standards for responsible and sustainable business conduct;
- the SDC and the private sector partner should be **willing to exchange knowledge and experiences** and to enter into a joint learning process;
- mutual responsibilities and the 'rules of the game' have to be reflected in a **formal agreement** in line with the core characteristics of effective PSE collaborations as described in section 2.2 (co-initiating, co-steering, co-funding).

As a further important criterion, the **risks related to the partnership must be acceptable** and overcompensated by the opportunities opened by the partnership. In order to support the decision whether or not to engage with a potential partner, the SDC has put in place a specific PSE Risk Management Process (see Part C of this Handbook).

2.4 The modalities of private sector engagement

Basic principles of engagement in a collaboration

On top of the criteria for engaging with a private sector actor, which have been spelled out in section 2.3, the following principles must be observed for each specific PSE collaboration:

- **Compatibility with the SDC's objectives:** the collaboration must contribute to the strategic objectives set out in the SDC's International Cooperation Strategy and in its geographic and thematic programmes.
- **Measurable development outcomes:** the collaboration must define clear and measurable development outcomes to be achieved.
- **Additionality:** importantly, the SDC wants to trigger engagements or investments that the private sector would not otherwise make, or make them happen more quickly, on a bigger scale, or more successfully in terms of development outcomes. In short: it has to be clarified why the SDC's contribution is needed (see Annex VII on how to assess additionality).
- **Complementarity:** the SDC and the private sector partner must reach a shared understanding of the assets and strengths of each partner (financial resources, expertise and skills, networks and platforms, products and technologies) and how to mobilise them in a way to create effective synergies.
- **Subsidiarity:**[18] the SDC will not substitute for the funding or responsibilities of other parties. In the context of PSE, this refers to the SDC not taking over roles and responsibilities of the private sector.
- **Avoiding the distortion of functioning markets and crowding-out effects:** while in the early phase of an intervention it may be justified to limit the partnership to just one or a small number of private sector actors willing to incur specific risks or engage in a development-relevant innovation, PSE is also aimed at scaling up successful practices across companies within an industry. In this sense, the principle of avoiding market distortion and crowding-out effects should guide the long-term orientation of each engagement with the private sector.
- **Transparency:** both private and public actors involved commit to agree on standard disclosure provisions with regard to collaboration-relevant information, in line with

18 The subsidiarity principle is linked to the previous principle of complementarity.

the methodology of the Development Assistance Committee of the Organisation for Economic Cooperation and Development (OECD DAC) for measuring the amounts mobilised from the private sector.[19]

The cascade approach

To decide on **the scope of a PSE collaboration**, the SDC will increasingly use the **cascade approach**, originally developed by the World Bank Group. This approach entails a reversal of the current financing logic when facing a development challenge: instead of starting with an intervention that is fully financed by the SDC as standard, the question should first be asked as to whether or not the private sector could provide the required service (fully or partly) in an effective way. If so, there is no or less need for public funding – in line with the principles of additionality and avoidance of market distortions. If the private sector does not do so on account of the high risks, an assessment should be carried out as to whether activities financed through official development assistance (ODA) funds could influence the risk profile in such a way as to make an investment more attractive to the private sector. Hence, next to other considerations, the cascade approach seeks to assess the extent to which ODA funds are needed to engage the private sector and **trigger additional funds** for sustainable development. It must be mentioned that the cascade approach **does not seek to reduce the role of the state** in partner countries. In fact, in many cases, development interventions must remain within the realm of the public sector. For these cases, development agencies can support partner countries in adopting sustainable policies in order to create a fertile ground for leveraging additional private investments without jeopardizing the overall responsibility of the state (see Annex VI for more information on the cascade approach).

Pursuing a more systematic engagement

The SDC will continue to determine its directions according to its guiding frameworks and programmes – **and PSE is a means of supporting this**. The present Handbook will not determine additional content or change any of the existing geographic and thematic programmes of the SDC (country programmes, mid-term orientations). It is designed to strengthen these programmes – including the underlying ownership of the SDC's partner countries – by using the specific modality of PSE. This equally applies to the global programmes.[20] In this context, PSE is not about outsourcing public tasks to private companies but to ensure the **availability of public goods for sustainable development**.

19 Methodologies for measuring the amounts mobilised from the private sector by official development finance interventions (OECD-DAC,2020, draft).

20 Examples are product development partnerships, where public and private partners join forces to develop new medicines against diseases that disproportionately affect people living in developing countries.

In the past, most PSE initiatives emerged from situations in which the SDC seized specific opportunities. This path has been successful in creating the existing portfolio, which includes some successful and innovative PSE collaborations – and, as such, it should be continued. In addition, however, the SDC sets out to establish **a more systematic approach** when engaging with private sector actors and developing PSE interventions, taking into account the following factors:

- the number of PSE collaborations within the SDC is rapidly increasing, calling for a more structured approach;

- a more systematic approach is needed with regard to not only the project portfolio but also the selection of partners: in order to achieve specific impact objectives, it is important to select the right type of partner based on a clear understanding of the different categories of private sector partners, their characteristics and interests.

Transversal topics

Gender equality

From an economic perspective, gender blindness results in missed opportunities (e.g. gender diversity in teams increases profitability and value creation[21]) and losses in terms of profit and growth created by various gender gaps.[22] This is also increasingly recognised by private investors, as reflected in the growing significance of **gender lens investing**.[23] Additionally, the costs of inaction with respect to the prevention of sexual exploitation, abuse and harassment (PSEAH) are considerable.[24]

From an institutional perspective, gender mainstreaming in general and gender-principal or gender-significant projects in particular deliver better and more sustainable overall results than interventions which do not apply a gender lens. This applies beyond gender equality outcomes as such.[25] Furthermore, the SDC has a clear mandate to address gender equality in all its work. Crucially, gender equality is a human right to which Switzerland is strongly committed.

To integrate gender equality, PSE collaborations should include the following elements:

- **A gender analysis**, as recommended by the 2018 Report on Effectiveness in the field of gender equality,[26] which should identify entry points towards more inclu-

21 'Delivering Through Diversity', McKinsey & Company (2018).

22 'Closing the Gender Gap', International Monetary Fund (IMF, 2019).

23 Gender lens investing is the practice of investing for financial return while also considering the gender impact of that investment. There are three main approaches to gender lens investing: investing in businesses, initiatives or programmes which a) are led by women, b) promote gender equity in their internal practices and policies or c) offer products or services that positively impact women.

24 Questions related to PSEAH are embedded in the SDC's risk assessment and due diligence framework for private sector partners.

25 'Report on Effectiveness: Swiss international cooperation in the field of gender equality 2007–2016', SDC (2018).

26 ibid.

sive development within a collaboration with the private sector.

- Based on the insights from that analysis, **activities, objectives and indicators** to address gender gaps in PSE collaborations are to be designed and the progress monitored.

- **A specific gender target in the portfolio of PSE** is to be considered so as to contribute to transformative change and respond to the SDC's institutional mandate (see the list of key performance indicators for PSE in Part B section 4.1 of this Handbook).

For an example of a PSE collaboration promoting gender equality, see the project fostering access to finance for Syrian refugee women in Annex III.

Good governance

Assessing the **principles of good governance** – **transparency, accountability, participation, rule of law, effectiveness, efficiency, equality and non-discrimination** – is a basic requirement for PSE to deliver effective results. The focus in private sector collaborations has traditionally been placed on transparency, accountability and the rule of law, with other principles such as participation gaining traction in the international discourse on PSE and blended finance.

A key component in the risk management approach for PSE collaborations is the assessment of ESG risks. In the area of governance risks, particular attention is given to issues such as compliance with human rights and labour standards as well as avoiding risks of corruption, misuse of public funds or illicit financial flows, particularly in contexts with risks of state capture. Therefore, **all PSE initiatives have to apply a risk assessment which integrates corresponding oversight systems and prevention measures** (see Part C of the Handbook). In fragile contexts, working on conflict-sensitive business practices may allow private sector actors to better assess risks and opportunities for engagement.

The assessment of good governance standards in PSE collaborations is complemented by other efforts conducted by the SDC and the State Secretariat for Economic Affairs (SECO) in view of improving the overall framework conditions regulating the activities of the private sector in developing countries. For more details, see the area of activity 1 'Economic policy frameworks' in the 'General Guidance on the Private Sector in the context of the International Cooperation Strategy 2021–24'.

Formats of engagement

There are different ways to structure a collaboration with the private sector, depending on the development objective, the context and the type and number of actors involved. Therefore, the SDC distinguishes between various types of engagement modalities – the **PSE formats**. These can be divided into two main categories:

A. Development project-oriented PSE formats follow a traditional development **project logic**, e.g. in the framework of a project co-financed by the SDC, one (or several) private sector actor(s) and possibly other donors.

B. Financial market-oriented PSE formats follow an **investment logic** and can be subdivided into two subcategories:

- **Grant-based instruments** consist of non-refundable contributions aimed at facilitating private investment with development goals; these include, e.g. technical assistance facilities for private investment funds with development objectives as well as 'pay-for-results' instruments (impact bonds and social impact incentives).

- **Return-based instruments** differ from grant-based instruments insofar as repayments are envisaged or at least possible; they include, e.g. shares, loans, stakes in structured funds and guarantees.[27] Repayment conditions have to be clarified from the outset.

A brief description of the different PSE formats is provided in Annex V. It should be noted that the SDC already has experience in using all the formats listed therein.

Financial market-oriented PSE formats have high potential. Globally, Switzerland is one of the most important financial markets with a very high volume of assets under management and with specialised, professional staff. This applies to the entire financial sector as well as the rapidly increasing niche of impact investing. The **mobilisation potential of blended finance** is thus high. An example of an SDC-funded project using an innovative financial market-oriented format with high mobilisation effects (social impact incentives) can be found in Annex III. More information on relevant approaches, such as blended finance and risk transfer, can be found in Part B section 1 of this Handbook.

The SDC will increasingly use all PSE formats. As the handling of **return-based financial market-oriented formats** calls for specific expertise, the **SDC will in future increasingly cooperate with specialised organisations** such as the Swiss Investment Fund for Emerging Markets (SIFEM) and other specialised actors.[28]

27 In the case of guarantees, a non-disbursement may occur instead of a repayment.

28 The use of these formats also raises legal and financial administrative questions that require special clarifications, which are currently under way. For this reason, new projects for which the SDC would directly or indirectly (i.e. via implementing partners) use shares, loans, stakes in structured funds and guarantees are subject to a moratorium until the ongoing clarifications have been completed. This is expected to be the case in 2021.

3. How to promote Swiss competencies

3.1 Swiss added value

The SDC's main criterion for a PSE collaboration is the potential development impact towards achieving the SDGs – and not the nationality of the private sector partner. Therefore, the SDC actively engages with private sector actors of all nationalities. However, as described in the 'General Guidance on the Private Sector in the context of the International Cooperation Strategy 2021–24', Swiss private sector actors have a specific added value towards achieving the SDC's goals.

For an example of a PSE collaboration promoting Swiss competencies, see the project aimed at improving sanitary education in Ukraine in Annex III.

3.2 Whole-of-government approach

As stated in the 'General Guidance on the Private Sector in the context of the International Cooperation Strategy 2021–24', investing public resources for development requires a good level of coordination among all Swiss public actors. In the area of PSE, the SDC will coordinate and **exploit synergies** for maximum impact in particular **with SECO,[29] SIFEM, the Peace and Human Rights Division (PHRD) of the Federal Department of Foreign Affairs (FDFA), and the Federal Finance Administration (FFA)**. Other relevant actors are the State Secretariat for International Finance (SIF) and Switzerland Global Enterprise (S-GE). Additionally, close cooperation with the economic and commercial sections of the Swiss embassies will contribute to extending the relevant networks and reach out to more private sector actors. For an example of a PSE collaboration actively promoting a whole-of-government approach, see the Renewable Energy, Energy and Resource Efficiency Promotion in International Cooperation (REPIC) platform in Annex III.

As a general principle, **PSE**, like other aid modalities such as engaging with NGOs and using country systems, is universal in nature and will therefore be **used by different governmental units working in international cooperation**. Good coordination and a meaningful division of labour is periodically discussed and agreed at different levels with regard to thematic topics and the overarching orientation, operational programmes and work instruments.

3.3 Donor coordination

PSE is a relatively new area of work for almost all donors. It is, however, gaining strong traction. It is therefore essential to exchange experiences and good (and bad) practices in order to learn from each other. Some donors have, for instance, developed expertise in a specific PSE format.[30]

The SDC therefore actively participates in the most relevant donor coordination platforms on PSE in order to learn from other donors while also actively sharing its own innovations, e.g. the PSE format of the social impact incentive.

The main donor platforms are the **PSE Working Group** of the **Donor Committee for Enterprise Development (DCED)**, as well as different coordination platforms and events – mainly in the area of blended finance – within the framework of the **OECD**. Other international platforms also deal with the private sector, in particular the **Global Partnership for Effective Development Co-operation (GPEDC)**. The SDC actively participates in and periodically co-chairs these platforms and may selectively join other emerging donor coordination forums.

29 SECO has long-standing experience in cooperating with the private sector: SECO Approach to Private Sector Engagement

30 The Swedish International Development Cooperation Agency (Sida) has a large guarantee scheme, while the Foreign, Commonwealth & Development Office (FCDO) of the United Kingdom has well-established experience in impact bonds.

3.4 Promoting private sector engagement in the SDC's multilateral partner institutions

The SDC's **multilateral partnerships** are to be used to **leverage the impact at scale of PSE initiatives.** Measures will include:

- Engaging in knowledge-sharing and learning exchanges on PSE with multilateral institutions and bringing best practices and experience from PSE collaborations into the policy dialogue with multilateral partner institutions (the 'elevator approach'). This can be reached by way of Swiss participation on the boards of these organisations but also through other processes such as the follow-up to the Addis Ababa Action Agenda, i.e. the Financing for Development Forum.[31]

- Advocating in the governing bodies of multilateral institutions for enhanced PSE interventions and, to this end, promoting the PSE awareness and skills of Swiss representatives on the boards of these institutions.

- Supporting the enhancement of respective institutional policies and their related implementation and outreach activities.

- Fostering multi-bi collaboration in PSE initiatives.

- Making the SDC's private sector partners attentive to PSE opportunities in multilateral and multi-stakeholder forums and platforms and integrating private sector actors into relevant international processes.[32]

- Using multilateral/multi-stakeholder forums to enhance the SDC's visibility as a donor active in PSE.

31 As an example, the SDC organised a side event on impact investment during the Financing for Development Forum, giving the topic higher visibility at the UN level.

32 E.g. by encouraging their participation in the Group of Friends of Monterrey or the Financing for Development Forum (in particular the SDG Investment Fair).

© Solara / Antenna (REPIC)

4. How to walk the talk – Implementation of this Handbook

This Handbook is designed to support the SDC's operational units in planning more PSE collaborations of good quality. Specific advice on associated implementation aspects is provided in Part B and Part C of this Handbook, covering the following topics:

Part B:

- Relevant approaches for engaging with the private sector, in particular **blended finance, risk transfer and research partnerships**;
- **Roles and responsibilities** within the organisation;
- **Human resources:** staffing and external resources as well as organisational development, capacity building and knowledge generation;
- The main **instruments for Programme Cycle Management:** overall PSE management system, planning tools, result measurement, contracts and procurement;
- **External and internal communication**;
- **Next steps towards implementation** of this Handbook.

Part C:

- The **PSE Risk Management Process: the steps and procedures of the PSE Risk Management Process are mandatory** and must be followed when planning, implementing or exiting a PSE collaboration.

While these new conceptual bases and instruments will facilitate the SDC's engagement with the private sector, the success of PSE will depend on an increasing number of SDC staff members being committed to and enthusiastic about using PSE as a modality for delivering international cooperation in their daily work.

PART B:
HOW TO MAKE IT WORK

Part B of this Handbook fleshes out relevant approaches, concepts and instruments for the **implementation of private sector engagement (PSE)**. It further addresses issues around roles and responsibilities, human resources and communication. Lastly, it describes the next steps with regard to adapting existing instruments and developing new tools for PSE implementation.

1. Relevant approaches for private sector engagement

1.1 Blended finance

The financial market-oriented PSE formats often make use of an approach called 'blended finance'. Most players agree with the understanding that **blended finance involves the strategic use of public or concessional funding to catalyse private sector investments for development**.[33] The rationale for blended finance is to support investments with high development impact potential but which would not attract funding on strictly commercial terms.

While using blended finance, it is important to follow internationally recognised principles.[35] In particular, it is crucial to always properly assess each blended finance transaction in terms of **leverage** and **additionality**.

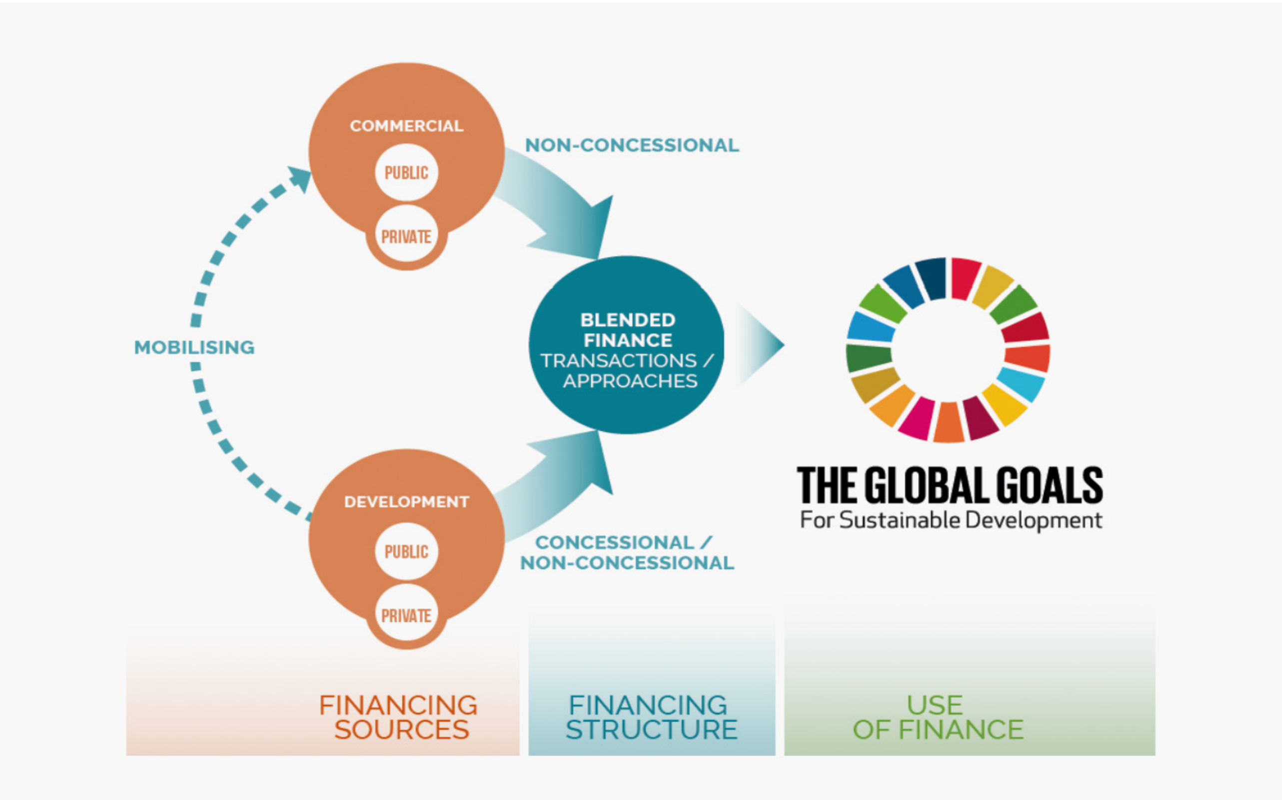

Figure 2: OECD: The logic of blended finance[34]

33 Two main definitions of blended finance have emerged: 1) The OECD defines blended finance as "the strategic use of development finance for the mobilisation of additional finance towards sustainable development in developing countries"; 2) The development finance institutions (DFI) working group defines blended finance as "combining concessional finance from donors or third parties alongside a DFI's normal own account finance and/or commercial finance from other investors, to develop private sector markets, address the SDGs, and mobilise private resources".

34 'Blended Finance Principles Guidance', OECD (2020, p. 6).

35 The OECD refers to the following blended finance principles: 1) Anchor blended finance use to a development rationale; 2) Design blended finance to increase the mobilisation of commercial finance; 3) Tailor blended finance to local context; 4) Focus on effective partnering for blended finance; 5) Monitor blended finance for transparency and results.

Leverage always has to be looked at in a holistic manner, taking into account the following factors:

- Country/geography
- Sector
- Target beneficiaries
- Project/enterprise life cycle
- Innovativeness of the financing structure
- Other collaboration-specific framework conditions

See Annex VII for further information on how to assess additionality.

1.2 Risk transfer

Risk transfer is a risk management technique used in financial investments. It is defined as **the assignment of a risk to another party by means of a legal agreement**. Three types of risk transfer may be distinguished:

1. The most common risk transfer takes place from individuals to an insurance company, whereby the latter may re-insure risks upon a certain threshold with a reinsurer. This type of insurance is concluded for assets or social risks.
2. Another kind of risk transfer englobes derivatives. They are often purchased by companies to prevent (hedge) financial risks such as price fluctuations or currency risks over time.
3. Risk transfer also comes along with outsourcing of a task or process. Obligations are normally set out in contracts, which also specify penalties if the requirements are not met.

In the context of PSE, all these risk transfer mechanisms can be used for de-risking, i.e. reduce the risks of an investor or market participant. Transposed to the context of international development cooperation, the corresponding de-risking tools are:

1. Incidence insurance (flood, drought, assets invested, etc.).
2. De-risking facilities for exchange rate risks, price fluctuations (especially for commodities), but also political risks, e.g. covered by the Multilateral Investment Guarantee Agency (MIGA).[36]
3. Covering certain risks of doing business between private sector partners who do not know each other.

36 As a member of the World Bank Group, MIGA provides coverage against the risks of transfer restriction, expropriation, war and civil disturbance, and breach of contract to the equity investor and all of the project's private sector lenders as well as FMO, the DFI of the Netherlands.

© Xavier Ding

Each partner in a PSE collaboration can bear a certain degree of risk and thus contribute to a more fertile investment environment. As a development agency with access to all parties, including in its partner countries, the SDC should make sure to only bear risks that can be influenced, i.e. reduced. This requires close support at every level (from the involved partners up to a political level) in order to minimise the risks.

One important question concerns the pricing: which part of the risks should be transferred and at what price? De-risking can be considered as a subsidy for the private sector provided by the public sector (e.g. the SDC) to encourage private investments. Inadequate de-risking will not build markets where they fail to emerge and will not increase investments (e.g. in public goods). Excessive de-risking may interfere with the principles of additionality and subsidiarity and possibly lend support to investments that are financially non-viable. Therefore, over a period of time, the SDC will consolidate a range of best practices for the appropriate level of de-risking for different contexts and cases.

1.3 Research partnerships

The 2030 Agenda and the 2019 Global Sustainable Development Report encourage science to build bridges and forge partnerships with actors from policy and practice (including the private sector) in order to co-create solutions to the most pressing global challenges. The SDC supports scientific research targeting solutions to global problems and the provision of global public goods. For the SDC, the main objective of research is to deliver new findings and innovative approaches and to use and disseminate scientific knowledge in international cooperation. The SDC's operational units and research desk support scientific research through two modalities:

1. **Contributions** to international/multilateral/competition-based research programmes, institutions and networks;

2. **Commissioned research and mandates** with a research component.

Additionally, the CEP provides a contribution to the University of St Gallen aimed at developing different activities and innovations focused on PSE. One component of this contribution **concerns research on different PSE-related topics** through an 'action-research' approach involving SDC employees in regular reflections and facilitating continuous knowledge generation and dissemination. Results of this research will be formulated not only for the scientific community but also translated into the language of practitioners and disseminated among the wider PSE community in Switzerland and abroad.

Going forward, the SDC will increase its focus on knowledge utilisation and innovation, promoting solutions-oriented research conducted in partnership with implementing partners from civil society, governments and the private sector. Partners from the private sector may have two different roles within research partnerships:

1. **Joint funding and steering:** private sector actors, mainly grant-making foundations, act as strategic partners and co-funders of research initiatives which target global development challenges;

2. **Target group:** the SDC increasingly promotes interdisciplinary solutions-oriented research and multi-stakeholder approaches that help address global risks and advance poverty eradication and support the validation, implementation and scaling-up of science-based solutions through innovative (entrepreneurial) models. In this sense, private sector actors, such as social enterprises or start-ups, are the beneficiaries and/or implementers of findings and results emerging from scientific research.

2. Roles and responsibilities

The SDC is a widely decentralised organisation. Operations are identified and planned in the embassies and cooperation offices or in the operational units at head office. Therefore, the **SDC's operational units have an important role in reaching out to private sector partners and in identifying and planning PSE collaborations** together with them.

The **CEP** provides several services to the whole of the SDC, in particular in the following areas:

- **Policy guidance:** formulation of policy and overall guidance on PSE (provided by this Handbook);
- **Strategic advice:** focus on how to integrate PSE in country programmes or mid-term orientations;
- **Operational advice:** focus on how to plan or adapt concrete PSE collaborations;
- **Development and piloting of innovations:** successful innovations (e.g. new approaches such as co-creation, new PSE formats such as social impact incentives) can be subsequently scaled up within the SDC and shared with other development partners;
- **Knowledge management:** this includes developing and moderating a network of 'PSE pioneers' within SDC's operational units, sharing best practices, developing new tools and instruments, and ensuring access to them via a regularly updated Shareweb, as well as maintaining an overview of the SDC's PSE portfolio;
- **Capacity building:** this includes the direct provision of short learning units for different categories of SDC staff members, or the development of specific trainings of PSE together with external partners;
- **Partner relations:** reaching out and maintaining structured relations with private sector partners, in particular with umbrella associations and partners with whom the SDC engages in several collaborations;
- **International policy dialogue:** ensuring the active participation of the SDC in PSE-relevant international forums;
- **National policy dialogue:** this includes ensuring a well-functioning whole-of-government approach on PSE, supporting suitable external communication on PSE-related issues, and reacting to external demands (e.g. federal political affairs).

Over time, some of these tasks may be progressively **delegated to a network of PSE pioneers** across the organisation, who would ensure peer-to-peer advice or assume responsibility for maintaining structured relations with private sector partners.

The following organisational units also play an important role in specific areas:

- **Division Contracts, Procurement, Compliance (CPC) of the FDFA:** the CPC assesses issues related to agreements, contracts and public procurement, among other legal issues. In PSE collaborations, these issues are often more difficult to address than in regular mandates or contributions as the collaboration set-ups are often quite complex and the standard SDC contracts may not always be suitable. Furthermore, co-creation approaches pose challenges with regard to public procurement. It is therefore important to involve the CPC in an early planning stage of PSE collaborations. Additionally, new standard tools, e.g. standard memoranda of understanding (MoUs) and contracts with private sector partners, depending on the PSE format, will be developed.

- **Strategic Financial Planning unit of the SDC:** this unit is in charge of ensuring the financial planning of SDC operations and should therefore be kept informed about those PSE collaborations which require a specific financial-administrative handling. This applies in particular to the return-based financial market-oriented PSE formats (shares, loans, stakes in structured funds, guarantees).

Given the specific features of PSE collaborations, **SDC operational units are required to involve the CEP in the early planning stage of any PSE collaboration**, so that the latter can mobilise the necessary (internal or external) expertise. In this way, the SDC will further improve the quality of its PSE collaboration portfolio. The involvement of the CEP is particularly important in the case of PSE collaborations using financial market-oriented formats and, in general, PSE collaborations of high complexity or innovative content. The CEP can ensure the coordination with the CPC and, where relevant, the Strategic Financial Planning unit.

© Ludmyla Nestryliai

3. Human resources

3.1 Staffing and external resources

In line with the stated intention to increase PSE collaborations, the SDC needs to allocate sufficient human resources to PSE. This concerns both the operational units and the CEP.

With regard to the **SDC's operational units**, as at 2020 there are over 50 staff members who have already acquired experience in planning and steering PSE initiatives. This is an important asset, enabling the SDC's operational units to progressively embed PSE expertise in their own operations. For the future, it is envisaged to create a network around these 'PSE pioneers' and broaden it progressively. In order to ensure genuine peer-to-peer learning across operational units and an active contribution to the **PSE network**, its members are to allocate a limited portion of their working time to the network's activities – as is standard practice in the SDC's thematic networks. Besides that, each operational department of the SDC[37] is encouraged to appoint an internal **PSE adviser** – based at head office – and/or regional PSE advisers based in embassies or cooperation offices with more expertise in and time allocated to PSE.

As at the end of 2020, the **CEP** comprises 3.3 permanent full-time equivalents (FTEs) – plus 0.8 FTEs for administrative support. The SDC senior management has decided to appoint an **additional 0.5 FTEs**, to become available during 2021.

Last but not least, in order to implement PSE collaborations of high quality, the SDC will increasingly rely on **specialised external support**. This includes a set of consultants with different specialisations and skills: in PSE operations using **development project-oriented formats**; in PSE operations using **financial market-oriented formats**; and in **partner relations and risk management**. By the beginning of 2020, long-term contractual relationships in all these areas had been established. The consultants can support the CEP and the SDC's operational units in planning new collaborations, shaping new partnerships and managing risks. A further area where external support is needed concerns **legal issues** (contracts, procurement) when planning PSE collaborations.

37 South Cooperation, East Cooperation, Global Cooperation, and Humanitarian Aid.

3.2 Organisational development, capacity building and knowledge generation

A progressive increase of the SDC's PSE requires a process of organisational development and building internal capacities. First, there is a need to strengthen the **organisation's openness towards new forms of engagement** and of delivering international cooperation, as well as its **readiness for innovations**.[38] Second, promoting PSE requires – at all levels of the organisation – a greater **willingness to accept but also to actively manage risks**. Third, it requires also a **readiness to adapt** those SDC internal **procedures** which are only partly compatible with PSE approaches.[39] And fourth, fostering partnerships with private sector actors can succeed only if staff capacities are strengthened and **new skills and capabilities developed**.

Fostering the SDC's internal capacities will require a bundle of various interventions:

- internal and external communication to promote PSE and demonstrate top management's ownership;
- a variety of offerings in capacity building and knowledge generation, targeted at different segments of the SDC's staff. This will include short-term training courses in innovative finance instruments as well as more in-depth training on how to co-create, negotiate and set up PSE collaborations (see text box on the 'Public Entrepreneurship Academy');
- a well-developed set of self-service and online tools;
- scaling-up of strategic advice to SDC operational units, aimed at identifying opportunities for more PSE collaborations of high quality;
- operational advice combined with on-the-job learning opportunities, e.g. in co-creation settings;

38 E.g. consistent use of the cascade approach or co-creation approaches.
39 See section 6 for a list of internal procedures which might require adaptation.

- peer-to-peer learning among 'PSE pioneers' and within the future PSE network, and the consistent use of internal and external learning platforms (e.g. global or regional face-to-face events, online learning tools and exchange platforms, including e-learning offering of the DCED donor platform);

- linking the Swiss Humanitarian Aid Unit (SHA) with talent management programmes and other organisational incentives (e.g. sabbaticals) in the private sector;

- setting up new SHA backstopping modalities with private sector partners for technical collaborations in common countries of intervention.

Capacity building in PSE will be complemented by a management attitude aimed at **fostering the intrinsic motivation** of SDC staff to engage in partnerships with the private sector. This requires an appreciation of the PSE-relevant achievements of individual staff members, in particular by documenting and valuing achievements in the Management by Objectives (MbO) process, as well as an empowering attitude by way of granting responsibilities in PSE, e.g. by delegating the responsibility of managing relations with private sector partners. Beyond that, intrinsic motivation can be enhanced by enabling a sense of community (e.g. through peer-to-peer exchanges and network meetings of the PSE pioneers) and by allowing staff engaged in PSE to receive PSE-specific training. Finally, in individual cases, secondments of SDC staff to private sector partners may be considered an interesting tool to foster motivation, as long as they are in line with both institutional and individual interests. In view of promoting the SDC's capacities in PSE, related **competencies** will be also increasingly **valued in hiring processes**.

Finally, in a medium-term perspective, the SDC will also **promote capacity building in PSE within its main partners** – the SDC's partner multilateral organisations, Swiss NGO partners as well as implementing partners.

The Public Entrepreneurship Academy: in-depth training on how to co-create, negotiate and set up PSE collaborations. Within the framework of its cooperation with the University of St Gallen, the SDC launched the Public Entrepreneurship Academy, which is intended to comprehensively respond to the PSE-related capacity building needs of the SDC and other stakeholders. This tailor-made training focuses on the most important skills for a successful engagement with the private sector, including: private sector rationality, different entrepreneurship models, co-creation formats and blended finance, managing PSE-related risks, establishing relationships and negotiating with the private sector. The 2021 pilot edition of the Public Entrepreneurship Academy is dedicated to SDC staff; in a second step, the training will be open to other donors. In the future, it is foreseen to develop similar training offerings for the private sector and the non-profit sector. The overall goal of the Public Entrepreneurship Academy is to provide practitioners from different sectors with impact-driven entrepreneurial skills so as to collaborate more effectively towards achieving the desired impact. The training lasts 2–3 weeks, spread over a year, and is accompanied by professional coaching made available to the attendees implementing their own PSE collaborations. The main target group at the SDC are the PSE pioneers and SDC staff taking part in the PSE 100 Workshops (see section 4.2.1.)

4. Programme cycle management: Main instruments

4.1 PSE management system

As a general principle, the PSE management system relies as far as possible on existing PCM tools that already exist at the SDC. In most cases, the existing tools might require a (slight) adaptation or specific add-ons in order to better incorporate PSE.[40] In other areas, such as risk management (see Part C of this Handbook) as well as results measurement and contracts and procurement (see below), there will be a **need to use specific PSE tools**.

In line with the roles and responsibilities outlined in section 2 of Part B, the CEP will be responsible for supporting the operational units with different tools and services, for ensuring a close follow-up of complex and innovative PSE collaborations at an early planning stage, and for ensuring the systematic **monitoring of the overall PSE portfolio at the institutional level** by using a few PSE key performance indicators (KPIs). For their part, the operational units will be in charge of managing the achievement of their own objectives in the area of PSE, for proactively including the CEP while planning their PSE interventions, and for reporting on the KPIs to the CEP.

With regard to the **KPIs for PSE**, the following indicators will be used:

- number of PSE collaborations, disaggregated by geography (continent / region / country) and sector or theme;
- financial volume of PSE collaborations (SDC financial commitments and financial commitments of private sector partners[41]), disaggregated by geography (continent / region / country) and sector or theme;
- percentage of PSE collaborations which have fostered innovations;
- percentage of PSE collaborations which have fostered systemic changes;
- percentage of PSE collaborations which have fostered gender equality;
- percentage of PSE collaborations which have fostered inclusion of vulnerable groups to be defined according to the context, e.g. ethnicity, age, disability (*leave no one behind*);
- skills development of SDC staff in PSE (based on number of staff members that attend PSE training).

In addition to using the KPIs for monitoring performance in the area of PSE and in view of its own learning and accountability purposes at the institutional level, the SDC will occasionally arrange for **independent evaluations of PSE**, the first being planned to start in 2021.

40 For instance: i) including a specific annex on PSE in the structure of the SDC's Annual Report (such an annex has already been introduced as at end-2020); ii) enhancing the guidance on how to assess the opportunities for engaging with the private sector in the guidelines for formulating medium-term programmes and country programmes and in the guidelines for entry or for credit proposals; iii) strengthening PSE-related aspects in different templates and guidelines for project reporting and evaluation.

41 With PSE claiming to mobilise more resources for the achievement of the SDGs, information on the commitments of private sector partners which are leveraged by the SDC is obviously of particular interest. The new PSE annex to the SDC's Annual Report will allow for the collection of reliable data on the financial contributions of private sector partners.

4.2 Planning

The CEP has developed two approaches for the SDC's operational units to systematically plan more high-quality engagements with the private sector: PSE 100 Workshops and co-creation.

4.2.1 PSE 100 Workshops

PSE 100 Workshops are events organised by CEP staff and/or CEP consultants for the SDC operational units. They have a twofold purpose: to clarify the terms, approaches and methods used in PSE, and to support the operational units in the identification of new PSE collaborations. In this sense, the workshops are a **tool for both capacity building and planning in one, scoping opportunities for PSE collaborations within the programme of the involved operational unit**. In line with the cascade approach, the starting point of the PSE 100 Workshops is the following question: *"What if all our development challenges could be tackled in cooperation with the private sector, or if our entire portfolio consisted of PSE collaborations?"*. PSE 100 Workshops usually last three days and follow a predefined structure. To date, PSE 100 Workshops have been carried out for some global programmes and in a few cooperation offices, in both relatively stable and fragile countries. This initial experience has provided useful insights into the particular aspects to be taken into consideration when fostering PSE in fragile contexts.

4.2.2 Co-creation

Co-creation is a second approach to achieving stronger alignment and a clearer view of the 'right' private sector partner for specific impact objectives and to develop pertinent solutions through PSE initiatives. The development of new cross-sector solutions for impact requires innovative and collaborative approaches. **Co-creation is the creation of shared value through interaction among a number of stakeholders in an open environment**. By bringing different stakeholders together, including private sector actors, new ideas and mutually valued outcomes are created, based on a vast variety of perspectives, insights and experiences.

In order to promote co-creation, the SDC, together with the Competence Center for Social Innovation of the University of St Gallen (CSI-HSG), is adapting and customising to the SDC's needs the **Lab of Tomorrow** (LoT), an approach developed by the German Corporation for International Cooperation (GIZ). The LoT is a comprehensive process to co-create impact-driven business models to address specific development challenges. Target group centricity, rapid prototyping and iteration are the distinctive features of this approach, providing great potential for transformation. At the core lies a **multi-stakeholder innovation workshop** bringing together people with different backgrounds and expertise (from civil society, public sector, social enterprises, corporates, etc.). The LoT facilitates the development of novel and effective solutions and fosters shared ownership. To ensure targeted application and maximise the chances of new solutions gaining traction, the innovation workshop leverages the ecosystem around the LoT. In this sense, the LoT allows the SDC and its operational units to jointly develop solutions with its partners that are of mutual interest and which may result in PSE collaborations.

4.3 Results measurement

While section 4.1 presented KPIs to measure the *institutional* performance of the SDC in the area of PSE, this section addresses the question of how to measure results in *individual* PSE collaborations.

PSE is a modality which can be applied to all sectors and domains of interventions to a greater or lesser extent. Results measurement[42] typically relies on a general measurement framework but also on sector-specific indicators; therefore, there is **no universal approach to measure the results of PSE interventions**. There are, however, certain specific features which have to be taken into account:

42 Results refer to the outputs, outcomes and impact of an intervention. In the private sector, the focus lies on impact measurement and management. Impact measurement refers to the identification of the positive and negative long-term effects of a project (or an investment or a business) on people and the planet. Impact management refers to the way to mitigate the negative impact and maximise the positive impact.

- In general, donors and the private sector have developed their own approaches to measure results.

- Donors have developed comprehensive and internationally recognised standards for results measurement.[43] The same is true for the private sector. One important **platform for building global consensus within the private sector** on the framework used to understand, measure, compare and report environmental, social and governance risks as well as the positive impact is the **Impact Management Project** (IMP; see Figure 3). Sector-specific indicators can be inspired by indicator collections such as IRIS+.[44] However, despite the existence of these common platforms and tools, private sector actors still use a variety of approaches for measuring and reporting on results.

- Against this background, it should be acknowledged that certain instruments used within the donor community are more familiar to private sector partners and therefore more suitable for measuring results in PSE collaborations. This applies in particular to **impact indicators** and potentially also to cost-benefit and cost-effectiveness analyses and, to a lesser extent, project evaluations. Other instruments, such as the **logical framework**, are not used by the private sector and are thus less suited.

The IMP reached global consensus that impact can be deconstructed into five dimensions: What, Who, How Much, Contribution and Risk

Impact dimension	Impact questions each dimension seeks to answer
What	→ What outcome(s) do business activities drive? → How important are these outcomes to the people (or planet) experiencing them?
Who	→ Who experiences the outcome? → How underserved are the affected stakeholders in relation to the outcome?
How much	→ How much of the outcome occurs – across scale, depth and duration?
Contribution	→ What is the enterprise's contribution to the outcome, accounting for what could have happened anyways?
Risk	→ What is the risk to people and planet that impact does not occur as expected?

Figure 3: Impact Management Project (IMP): understanding of the impact in the private sector[45]

43 See the general standards of the OECD Development Assistance Committee (DAC) as well as sector-specific standards and indicators.
44 IRIS+ is a system for measuring, managing and optimising the impact, which is generally accepted among impact investors and is managed by the Global Impact Investing Network (GIIN).
45 Impact Management Project

- Furthermore, the means of **monitoring and assessing results also depends on the specific PSE format**. Project monitoring tools are suitable for PSE collaborations using development project-oriented formats. In the case of financial market-oriented formats, project monitoring tools are to be supplemented (or replaced, depending on the format) by results measurement at the level of the supported business or investee, which is usually a small or a social enterprise in a developing country. As the usual results measurement methodologies are rather complex and costly, the use of 'lean data'[46] and similar approaches relying on mobile technologies can help overcome these challenges.

- When aggregating data of different enterprises at the level of a PSE intervention, additional effects such as systemic changes or avoided costs for the public sector need to be taken into account. To this end, the SDC can rely on its proven instruments and **existing standards for results measurement in the private sector**, e.g. from the Social Performance Task Force (SPTF) or the DCED. Active engagement in these donor platforms allows the SDC to be effectively connected to international best practices in results measurement.

- While different tools such as 'lean data' and international standards for results measurement in the private sector are available, there is a **need to promote their use within the SDC**.

4.4 Contracts and procurement

As a general principle, public procurement regulations apply equally to PSE collaborations. However, the **relation between the SDC and the private sector partner in a PSE collaboration is by definition not one of procuring goods or services**, but a relationship of equals. Procurement can occur within the structure of PSE collaborations, e.g. if a third party is mandated by the SDC to implement a PSE collaboration. However, this depends on the PSE format and has to be assessed on a case-by-case basis. The use of innovative approaches such as co-creation might pose certain procurement-related challenges. The same applies to the use of innovative PSE formats such as social impact incentives, where the few market players that are able to professionally use these formats would ideally be already involved in the design phase of a PSE collaboration. For these reasons, **most donors face similar challenges when trying to combine the 'PSE logic' with the 'procurement logic'**.

To provide support to the operational units on how to correctly plan PSE collaborations from a legal perspective, the CEP, with the support of the CPC and specialised legal consultants, will develop practical tools such as:

- a **guidance document on how to address procurement issues**, differentiated by PSE format;

- a **set of standard MoUs or contracts** with private sector partners, again differentiated by PSE format;[47] as a general rule, the engagement with a private sector partner should always be formalised by way of an MoU or a contract;

- the documents mentioned above will address issues such as reasons for suspending or exiting a partnership, external communication, transparency rules that apply to the public administration (and to its engagements), intellectual property rights, liability rules, and phasing-out rules after the end of the collaboration, among other things.

46 Lean data refers to a fast and reliable customer-centric approach to results measurement which relies on low-cost technology.

47 The type of legal document to be signed with the private sector partner(s) depends on the format. For instance, in a classic single-partner collaboration, the SDC and its private sector partner would sign an MoU – a contractual agreement would then be signed with the implementing partner of the project. In the case of a matching fund implemented directly by the SDC, the SDC and the private sector partners instead sign contractual agreements.

5. Communication

5.1 External communication

The move towards a more strategic approach to PSE will require a **proactive, regular, coordinated and target group-tailored communication**.

Beyond the usual communication and coordination that takes place within an individual collaboration, the overall PSE communication strategy of the SDC will rely on the following pillars:

- **annual one-to-one coordination meetings** with the private sector partners with whom the SDC engages through several PSE collaborations;
- **regular larger meetings** with different categories of private sector partners and their umbrella organisations;[48]
- organisation of **joint learning events** (e.g. conferences) with private sector partners;
- a set of **PSE flyers** for different categories of stakeholders (private sector partners, political decision-makers, other interested stakeholders);
- occasionally, **articles on PSE,** e.g. in the SDC's journal *One World* or in Swiss newspapers;
- a list of **FAQs** on PSE, with related answers;
- a well-structured **webpage on PSE** for the general public;
- **PSE success stories**/lighthouse collaborations (in visual or written form).

The building blocks of the SDC's external communication on PSE will be progressively formulated during 2021–22, where appropriate in cooperation with FDFA Communication. The launch of the 'General Guidance on the Private Sector in the context of the International Cooperation Strategy 2021–24' represents an excellent initial opportunity for external communication.

5.2 Internal communication

The successful implementation of this Handbook will equally require intensive efforts with regard to the SDC's internal communication. This **communication will promote the SDC staff's ownership and enthusiasm** for PSE as an increasingly important and innovative modality for delivering development assistance. It will also demonstrate the **backing of the SDC's senior management** for PSE.

Different channels of internal communication are planned:

- **town hall meetings** with the SDC's senior management (or their written messages) on the occasion of important developments, e.g. the official launch of this Handbook;
- informational **meetings and discussions at the level of the SDC's departments or divisions** on issues of interest in the area of PSE;[49]
- regular **learning events** for the growing PSE network and other interested colleagues, such as global or regional face-to-face events, network meetings, online learning events, etc.;
- individual **briefings with interested individuals,** e.g. in the event of their rotation to a new position;
- using external communication products also for internal communication (e.g. **PSE success stories**);
- a **newsletter**: in order to exploit synergies, a joint newsletter is produced at least twice a year for three different networks (Agriculture and Food Security; Employment and Income; PSE);
- the **PSE Shareweb** will allow for both structured communication within the PSE network and, selectively, for external communication by making it accessible to partners.

In order to foster ownership in regard to PSE, it is planned to give voice to the increasing number of 'PSE pioneers' within the organisation while communicating internally and externally.

48 Industry-specific associations and platforms, general private sector platforms such as the Global Compact national networks, and umbrella organisations such as SwissFoundations.

49 Beyond that, PSE 100 Workshops (see Part B section 4.2.1) are also excellent opportunities for internal communication on PSE.

6. Next steps

The implementation of this Handbook will require the **adaptation of several existing tools as well as the development of several new products, instruments and modalities** mentioned in this document:

- The guidelines for various standard SDC documents (among others: country programmes and medium-term programmes, annual reports, entry and credit proposals) as well as different templates and guidelines for project reporting and evaluation should be reviewed in order to better include PSE; this should be done in close cooperation with the SDC's Quality Assurance Unit.

- Where applicable, existing approaches and tools, e.g. conflict-sensitive programme management (CSPM), gender analysis, leave no one behind (LNOB), disaster risk reduction (DRR), are to be combined with PSE; this will be done in close cooperation with the responsible thematic units.

- An analysis on how to implement PSE interventions in contexts with a high presence of the informal sector or in humanitarian settings is to be conducted and a corresponding guidance tool formulated.

- A platform for co-creating PSE collaborations will be launched in cooperation with the University of St Gallen.

- New modalities for the use of return-based financial market-oriented formats (mainly equity and debt) in SDC contexts will be put in place via a new cooperation with the SIFEM.

- The SDC's PSE network, which represents a major internal asset for PSE knowledge, will be activated and enlarged.

- In cooperation with the University of St Gallen, the Public Entrepreneurship Academy will be further established as a new capacity building offering; this will allow SDC staff and other interested donor representatives to acquire in-depth knowledge about PSE.

- Depending on the available resources, capacities with regard to PSE may also be enhanced in SDC partner organisations (Swiss NGO partners, implementing partners, interested multilateral organisations).

- Depending on the available resources, a range of best practices for the appropriate level of de-risking in different contexts and cases will be consolidated.

- The PSE Risk Management Process and related tools will be regularly updated.

- Suitable tools for results measurement in PSE collaborations will be promoted within the SDC.

- External specialised support on legal issues will be sought, and guidance and standard instruments on PSE-related contract and procurement issues developed; this will be done in close cooperation with the CPC.

- A structured approach to partner relations will be developed.

- Instruments for external and internal communication will be developed.

The **implementation of these tasks in the envisioned timeline (2021–23)** will tie up considerable CEP resources. Once available, the PSE Handbook and related instruments will greatly facilitate the SDC's engagement with the private sector.

PART C:
PRIVATE SECTOR ENGAGEMENT RISK MANAGEMENT PROCESS

Part C of this Handbook is dedicated to risk management as a structured process that allows for **risks to be identified and managed proactively, with the aim of increasing the chance of success by preventing and mitigating threats**. Risk management is applied at the level of the Swiss Federal Council, federal departments and organisational units. The SDC's risk management guidelines are based on and are fully coherent with the federal instrument '*Weisungen über die Risikopolitik des Bundes*', which itself is aligned with ISO 31000.[50] The Copenhagen Circles approach suggested by the International Network on Conflict and Fragility (INCAF) of the OECD provides the guiding risk classification framework applied at the SDC. The main risks are categorised as **contextual risks, programmatic risks and institutional risks**.

Risk management for PSE is **part of the SDC's overall risk management**:[51] it builds on the SDC's comprehensive risk approach and existing practices (e.g. Partner Risk Assessment (PRA), which is a standard process for all new projects) and is aligned with the PCM. In PSE collaborations, the focus of risk assessment has traditionally been on institutional and particularly reputational risks. However, it has been acknowledged that a more comprehensive while at the same time pragmatic risk management approach is required. The existing risk management approach for PSE collaborations has been revisited, and several tools and instruments have been developed. The PSE Risk Management Process applies both to development and humanitarian projects.[52]

50 Weisungen über die Risikopolitik des Bundes (2010).
51 SDC Quality Assurance (2018); SDC Guidelines for Risk Management (2018).
52 In humanitarian contexts, PSE seeks support from the private sector to enhance the capacity to operate in an efficient manner, recognising that the expertise and financial capacity of the business community has great potential to help the SDC and its partners to achieve their humanitarian objectives.

Overview

Process

The PSE Risk Management Process (PSE RMP) takes place along the entire partnership. It consists of four interlinked phases (see Figure 4) with risk aspects being systematically (re)assessed along the PCM process (see Figure 5):

I. **Assess the PSE prospect**, with the aim of substantiating the decision on whether to engage with a potential private sector partner (the 'PSE prospect').

II. **Prepare the engagement**, substantiating the decision on whether the proposed collaboration meets good practices for PSE, and subsequently formalising the partnership.

III. Actively **monitor and review the engagement** and the contextual, programmatic and institutional risks identified in an ongoing collaboration, **and adapt the engagement** correspondingly.

IV. **Exit the engagement** in the case of excessively high risks and ineffective mitigation measures, or at the end of a PSE collaboration.

The different phases of the PSE RMP are based on internationally accepted principles, standards and practices. During the whole process, the criteria, requirements, guiding methods and assessment instruments are adapted to the type of private sector partner and the PSE format.[53] Results and recommendations of relevant assessments, reviews and studies related to contextual changes conducted by the SDC, such as MERV (Monitoring System for Development-Related Changes), should be taken into account, as they could trigger a reassessment of specific risks within a PSE collaboration. In order to ensure transparency and traceability, each step and decision within the PSE RMP must be documented.

53 See Annex V and the PSE Format Finder

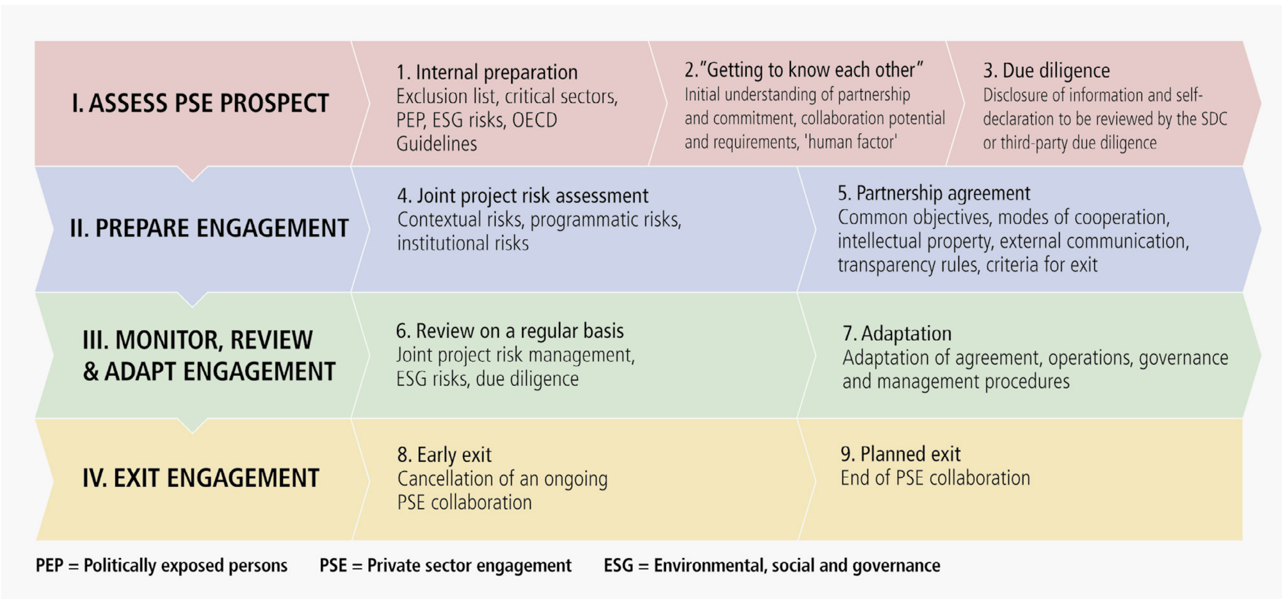

Figure 4: Main phases and underlying steps of the PSE Risk Management Process

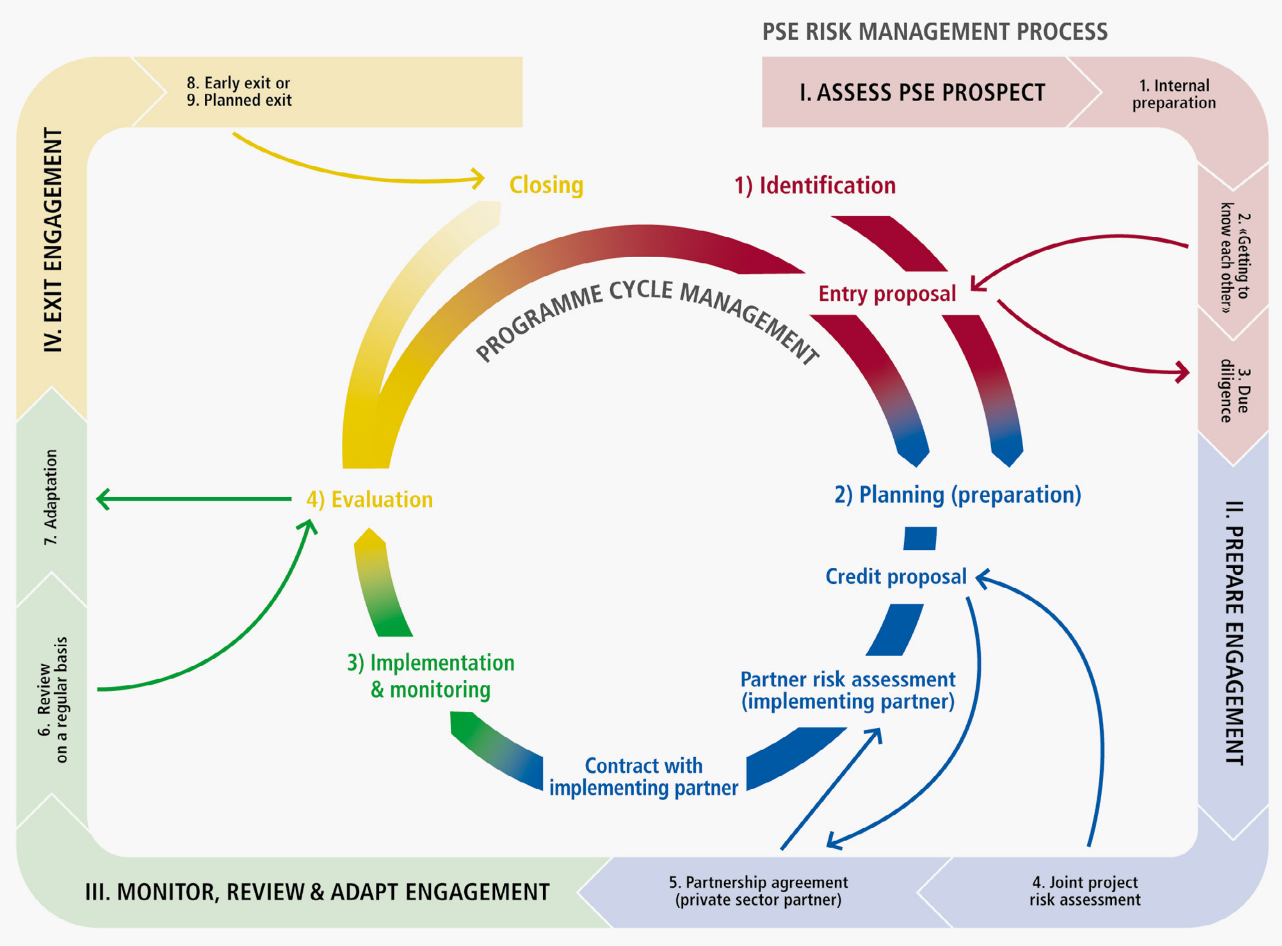

Figure 5: Alignment of and interlinkages between the PSE Risk Management Process and the PCM

Roles and responsibilities

Effective implementation of the PSE RMP requires a process-oriented definition of roles and responsibilities. The SDC's operational unit in charge of a specific PSE collaboration oversees the overall PSE RMP and takes the final decision on whether to engage with a PSE prospect. The CEP will conduct various assessments during the initial stage and supports the operational unit throughout the entire PSE RMP. The Quality Assurance and Poverty Reduction Section and the Internal Control System (ICS) Network take ownership of the overall PCM and the general risk management framework. The role of SDC senior management includes overall strategic guidance on the PSE risk management framework, final decisions of high political relevance and adequate resource allocation, while the head of the FDFA must be kept informed of decisions of high political relevance. The detailed responsibilities for each step of the PSE RMP are illustrated in the corresponding sections below. Annex IX also provides a graphic overview of the roles and responsibilities along the PSE RMP, including those on the side of the private sector partner and its different organisational units.

Implementation and revision of the PSE Risk Management Process

In order to facilitate the implementation of the PSE RMP, training sessions and support tools specific to the type of private sector partner and the PSE format are provided. The PSE RMP will be regularly adapted and optimised based on lessons learnt. The next revision is planned for 2023.

I. Assess the PSE prospect

The first phase of the PSE RMP, which is generally expected to take place during the identification phase of the PCM, assists in the decision-making on whether or not to engage with potential PSE prospects. It includes three major steps: 1) a thorough internal preparation; 2) a formal step of 'getting to know each other'; and 3) a due diligence on the potential partner. The internal preparation consists of a short pre-assessment of the PSE prospect, based on publicly available and third-party information. Both sector-specific and sector-independent aspects are considered. In the case of a positive outcome, the second step, an in-depth interaction with the PSE prospect, takes place. The aim of this interaction is to explore a potential cooperation and 'get to know each other' better. In addition, results of the pre-assessment should be discussed with the PSE prospect. The information and insights gathered up to this point are generally expected to be reflected in the entry proposal, which ideally should be approved before continuing the PSE RMP. Subsequently, a due diligence analysis is initiated, which is a partner-specific assessment. The aim is to confirm good practices and the integrity of the PSE prospect.

The ultimate responsibility for initiating the PSE RMP and deciding on a PSE prospect's eligibility for a partnership lies with the operational unit that plans to fund the PSE collaboration. The CEP supports the operational units by covering all steps of the internal preparation, with the exception of the assessment of politically exposed persons (PEP).[54] Decisions relying on the application of exclusionary criteria are binding, while all the other steps are formulated as recommendations from the CEP to the operational units.

Starting point

The starting point for any PSE collaboration is a specific development challenge to be tackled. From a PSE RPM point of view, the starting point is a) a concrete cooperation request from a PSE prospect; b) the identification of an idea for possible cooperation during an initial contact between the SDC and the PSE prospect, e.g. at an event; or c) the conclusion of a strategic assessment (e.g. resulting from a strategic workshop aimed at assessing the potential for PSE collaborations within an operational unit of the SDC).

54 The PEP assessment is the responsibility of the operational units.

1. Internal preparation

Following the starting point, a short pre-assessment needs to be conducted, including the screening against 1) the SDC's exclusion list; 2) the SDC's list of critical sectors; 3) politically exposed persons; 4) environmental, social and governance (ESG) risks;[55] and 5) observance of the OECD Guidelines for Multinational Enterprises (OECD Guidelines). It is crucial to conduct a pre-assessment of the PSE prospect in the explorative stage in order to identify high-risk partners early on and discontinue the process, if necessary.

1.1 Exclusion list: DFIs, multilateral or regional development banks,[56] the UN and other international organisations,[57] as well as global private banks, insurance companies and pension funds[58] apply exclusionary criteria for financial decision-making and/or for entering into a temporary strategic, operational and/or philanthropic partnership.[59]

In the same vein, any sectors, activities, products, services, trades and involvements that are illegal and/or have inherent negative impacts contrary to the SDC's objectives and cannot be mitigated are considered unacceptable by the SDC and fall under the exclusion list. The SDC's exclusion list has been compiled based on publicly available exclusion lists of reputed international and national institutions actively promoting the SDGs. The SDC list will be updated based on a regular screening of the relevant reference lists. The assessment of sector-independent risks and practices, such as infringement of human rights, child labour or corruption, are part of the ESG risk analysis (see section 1.4) and the due diligence analysis (see section 3).

55 E.g. RepRisk ESG Risk Platform; ESG Risk Atlas of Standard & Poor's Global
56 E.g. International Finance Cooperation (IFC); European Investment Bank (EIB); Kreditanstalt für Wiederaufbau (KfW); Swiss Investment Fund for Emerging Markets (SIFEM)
57 E.g. Guidelines on a Principle-based Approach to the Cooperation between the United Nations and the Business Sector; WHO; UNDP, ICRC
58 E.g. Pension fund of the City of Zurich (PKZH), Swiss Re, Swiss Association for Responsible Investments (SVVK)
59 In the humanitarian context, in the case of advocacy of humanitarian principles and humanitarian dialogue with enterprises operating in conflict-prone areas, companies can be approached irrespective of whether their policies and activities are consistent with the exclusion criteria. In this case, the SDC might establish relations with a company because the latter has a direct or indirect influence on the situation of war victims. The SDC's objective is not to seek any material or financial support.

All PSE prospects must be screened against the following exclusion list. The SDC does not enter into partnerships with a PSE prospect (or its subsidiary[60]) that is engaged directly[61] in one of the following excluded sectors (a) or practices (b):

a) Excluded sectors: if any of the following products form a substantial part of a company's business activities such as production and trade:[62]

- Armaments, weapons, munitions and/or their components;
- Alcohol beverages (except beer and wine);[63]
- Tobacco;[64]
- Gambling, casinos and equivalent enterprises (except public lottery companies, e.g. of Swiss cantons).

b) Excluded practices: if the company is involved in any of the following illegal, banned or harmful activities:

- Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements, or subject to international bans, such as certain pharmaceuticals, certain pesticides/herbicides, ozone-depleting substances, polychlorinated biphenyls (PCBs), wildlife or products regulated under the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES);[65]
- Production or trade in wood or other forestry products from unmanaged forests;
- Illegal and/or uncontrolled use of fire for forest clearance;
- Involvement in activities with adverse impacts on UNESCO World Heritage Sites;
- Prostitution or pornography;[66]
- Production or trade in radioactive materials; however, this does not apply to the purchase of medical equipment, quality control (and measurement) equipment, and any equipment where the radioactive source is trivial and/or adequately shielded;
- Cross-border trade in hazardous waste and waste products, unless compliant with the Basel Convention and the underlying regulation;[67]
- Production or trade in unbounded asbestos fibres. This does not apply to the purchase and use of bounded asbestos cement sheeting where the asbestos content is less than 20%;
- Drift net fishing in the marine environment using nets in excess of 2.5km in length.

In the case of **corporate foundations[68]** – if the founding company falls under the exclusion list – a partnership is only possible if the following governance rules are met:

- The purpose of the foundation is not excluded according to the exclusion list;
- There is an independent foundation board: board members are independent of the company;
- The foundation implements its purpose in a contemporary manner and in the most efficient and effective way possible;[69]
- The foundation ensures that there is a balanced relationship between management and controlling for all key decisions and processes (checks and balances);[70]
- The foundation maintains the highest possible degree of transparency with regard to its guiding principles, objectives, structures and activities;[71]
- Grant-making decisions are made independently of the company.

! **Responsibility for conducting Step 1.1 Screening against the exclusion list:**
CEP (at the request of the operational unit)

If a PSE prospect falls under the exclusion list, a partnership is not possible.

Tools available for Step 1.1 Screening against the exclusion list:

- SDC exclusion list

60 If the share / participation of the PSE prospect is ≥ 10%.
61 Important first-tier (i.e. direct) suppliers are treated similarly but are assessed at a later stage of the process, during the due diligence (see section 3).
62 Definition: for companies, 'substantial' means more than 10% of their consolidated sales revenues. For financial institutions (banks, asset managers, investment funds), 'substantial' means more than 10% of their underlying portfolio.
63 SIFEM Exclusion list
64 UNDP Exclusionary Criteria; ICRC Guidelines for Screening Private Donors and Partners
65 CITES listed species
66 ICRC Guidelines for Screening Private Donors and Partners
67 Basel Convention on the Control of Transboundary Movements of Hazardous Waste
68 A corporate foundation is an independent legal entity which is nonetheless de facto associated with a company as it is funded by the latter.
69 SwissFoundation Code
70 Ibid.
71 Ibid.

1.2 Critical sectors: based on their business operations, services and products, several sectors are to be considered critical because of their potentially adverse environmental and social impact or because they face a high risk of being associated with specific controversial practices, even though their business operations and products are compliant with national regulations and international standards. The SDC list of critical sectors has been compiled based on publicly available policies of reputed international, public and private financial institutions and multilateral organisations.[72] The list will be updated based on a regular screening of the relevant reference lists.

It is important for the SDC to recognise the existence and extent of the risk exposure associated with a potential partnership and to address it systematically. A partnership with a private sector actor engaged in a critical sector is only possibly if: 1) the PSE prospect adheres to relevant sustainability-related sectoral policies and principles and/or actively engages in initiatives fostering sector-specific sustainability stewardship practices; and 2) the engagement directly or indirectly addresses key negative impacts of the PSE prospect, e.g. reduction of greenhouse gas emissions in the case of the oil and gas sector.

1) **Sectoral policies, principles and sustainability stewardship practices** aim at defining positions or expectations on ESG issues and risks that are inherently relevant to specific sectors in which the PSE prospect is doing business. They are used by the SDC to a) address the sustainability issues it could face when engaging with a PSE prospect and b) decide if a collaboration can at all be considered. DFIs, multilateral or regional development banks or infrastructure investment banks,[73] global private banks, insurance companies and pension funds[74] apply sector policies and guidelines defining their positions on ESG issues (including human rights) related to specific sectors. These sector policies and guidelines are applied for deciding whether or not an investment will be made, or a temporary strategic, operational and/or philanthropic partnership terminated early. Some examples of sectoral policies and principles are provided below. A comprehensive list of relevant policies and initiatives is provided in the list of critical sectors.

2) The requirement that a partnership with a private sector actor engaged in a critical sector must directly or indirectly address **key negative impacts** of the partner needs to be considered during the first interactions with the PSE prospect. An overview of the key impacts of each critical sector is provided below.

Before any in-depth discussions are held on a partnership, **it must be assessed as to whether a PSE prospect is active or engaged in any of the critical sectors below**:

- Commodity trading, particularly cotton, precious metals (e.g. gold) and gemstones (e.g. diamonds):
  - Potentially critical risks: human rights abuses, adverse impacts on natural habitats, vulnerable groups and/or critical cultural heritages, violation of occupational health and safety standards, child labour.
  - Key impact areas: human rights, core labour standards, environmental protection, business integrity and governance principles such as rule of law and transparency.
  - Relevant reference policies, principles and initiatives comprise, e.g.:
    - Cotton: Better Cotton Initiative[75]
    - Gold: International Cyanide Management Code (ICMC),[76] Swiss Better Gold Association[77]
    - Diamonds/jewellery: Kimberley Process Certification,[78] Responsible Jewellery Council[79]

72 I.a. IFC Industry Sector Guidelines; Swiss Re Sustainable Business Risk Framework; UBS Environmental and Social Risk Policy Framework; ICRC Guidelines for Screening Private Donors and Partners; Guidelines on a principle-based approach to the Cooperation between the United Nations and the business sector
73 IFC General EHS Guidelines
74 UBS Environmental and Social Risk Management Framework
75 Members of the Better Cotton Initiative (BCI).
76 Signatories of the International Cyanide Management Code (ICMC).
77 Members of the Swiss Better Gold Association.
78 Participants of the Kimberley Process Certification (KP).
79 Members of the Responsible Jewellery Council (RJC).

- Mining, including coal, gemstones, critical and precious ferrous and non-ferrous metals (e.g. cobalt, rare-earth metals):

  – Potentially critical risks: human rights abuses, adverse impacts on natural habitats, vulnerable groups and/or critical cultural heritages, violation of occupational health and safety standards, child labour.
  – Key impact areas: human rights, core labour standards, environmental protection, greenhouse gas emissions, business integrity and governance principles such as rule of law and transparency in relation to concessions and prospecting rights, among others.
  – Relevant reference policies, principles and initiatives comprise, e.g.:
    › International Council on Mining and Metals (ICMM)[80]
    › Global standard for the good governance of oil, gas and mineral resources of the Extractive Industries Transparency Initiative (EITI)[81]
    › Voluntary Principles on Security and Human Rights for extractive industries[82]

- Oil and gas, other mineral resources and extractives:

  – Potentially critical risks: human rights abuses, adverse impacts on natural habitats, vulnerable groups and/or critical cultural heritages, violation of occupational health and safety standards, child labour.
  – Key impact areas: human rights, core labour standards, environmental protection, greenhouse gas emissions, business integrity and governance principles such as rule of law and transparency in relation to concessions and prospecting rights, among others.
  – Relevant reference policies, principles and initiatives comprise, e.g.:
    › Global standard for the good governance of oil, gas and mineral resources of the Extractive Industries Transparency Initiative (EITI)[83]
    › Voluntary Principles on Security and Human Rights for extractive industries[84]

- Timber, pulp and paper, soy, palm oil:

  – Potentially critical risks: illegal logging, uncertified logging and timber/oil palm processing in sensitive regulatory environments, greenhouse gas emissions from peatland conversion, timber processing activities and/or forest clearance using bushfires, adverse impacts on natural habitats, vulnerable groups and/or critical cultural heritages.
  – Key impact areas: biodiversity, greenhouse gas emissions, core labour standards, water management.
  – Relevant reference policies, principles and initiatives comprise, e.g.:
    › Palm oil: Roundtable on Sustainable Palm Oil (RSPO)[85]
    › Soy: Roundtable on Responsible Soy (RTRS)[86]
    › Timber and forestry: Forest Stewardship Council (FSC),[87] Programme for the Endorsement of Forest Certification (PEFC)[88]

- Garments and accessories:

  – Potentially critical risks: human rights abuses, violation of occupational health and safety standards, illegal use of skin and fur of endangered species (accessories), child labour.
  – Key impact areas: core labour standards (child labour, forced labour, health and safety, minimum wages), human rights, environmental protection (e.g. of water resources).
  – Relevant reference policies, principles and initiatives comprise, e.g.:
    › Fair Wear Foundation[89]

- Animal testing:[90]

  – Potentially critical risks: unethical and inhumane treatment of animals.
  – Key impact areas: animal welfare.
  – Relevant reference policies, principles and initiatives comprise, e.g.:
    › Directive 2010/63/EU on the protection of animals used for scientific purposes[91]

80 Members of the International Council on Mining and Metals (ICMM).
81 Country status in implementing global standard for the good governance of oil, gas and mineral resources defined by the Extractive Industries Transparency Initiative (EITI).
82 Members of the Voluntary Principles on Security and Human Rights for extractive industries.
83 cf. footnote 81.
84 cf. footnote 82.
85 Members, certified growers and supply chain certificate holders of the Roundtable on Sustainable Palm Oil (RSPO).
86 Members of the Roundtable on Responsible Soy (RTRS).
87 Members of Forest Stewardship Council (FSC).
88 International Stakeholder Members of Endorsement of Forest Certification (PEFC).
89 Members of the Fair Wear Foundation.
90 Swiss Re Sustainable Business Risk Framework
91 Directive 2010/63/EU of the European Parliament and of the Council of 22 September 2010 on the protection of animals used for scientific purposes.

- Dams:[92]
  - Potentially critical risks: human rights abuses, adverse impacts on natural habitats, vulnerable groups and/or critical cultural heritages (particularly on indigenous people), non-involvement of affected neighbouring states and other relevant stakeholders, child labour.
  - Key impact areas: human rights, peace, resettlement, environmental protection, business integrity, water management.
  - Relevant reference policies, principles and initiatives comprise, e.g.:
    - World Commission on Dams (WCD)[93]
    - International Hydropower Association Sustainability Assessment Protocol[94]

- Fish and seafood:[95]
  - Potentially critical risks: illegal, unreported and unregulated fishing (particularly of protected fish and other marine creatures), violation of occupational health and safety standards.
  - Key impact areas: animal welfare, environmental protection, core labour standards, food security.
  - Relevant reference policies, principles and initiatives comprise, e.g.:
    - Marine Stewardship Council (MSC)[96]

- Power generation:[97]
  - Potentially critical risks: adverse impacts on climate and natural habitats (activities associated with coal-powered energy production if the share is equal to or higher than 30% of the company's consolidated earnings), country of domicile has not ratified the Treaty on the Non-Proliferation of Nuclear Weapons (activities associated with nuclear-powered energy production).
  - Key impact areas: environmental protection (incl. water), greenhouse gas emissions, peace.
  - Relevant reference policies, principles and initiatives comprise, e.g.:
    - Treaty on the Non-Proliferation of Nuclear Weapons[98]
    - Paris Agreement[99]

92 Swiss Re Sustainable Business Risk Framework; UBS Environmental and Social Risk Policy Framework
93 The World Commission on Dams (WCS) Dams and Development: A New Framework for Decision-Making
94 International Hydropower Association: Hydropower Sustainability Assessment Protocol (HSAP).
95 UBS Environmental & Social Risk Policy Framework
96 The Marine Stewardship Council Chain of Custody Standards
97 UBS Environmental & Social Risk Policy Framework
98 United Nations Office for Disarmament Affairs (UNODA)
99 Paris Agreement under the United Nations Framework Convention on Climate Change

In the case of **corporate foundations**, the founding company – if it belongs to one of the listed critical sectors – must adhere to the sector-specific reference policies, codes, practices and initiatives. In addition, a cooperation with the corporate foundation is only possible if the governance rules outlined in section 1.1 are met.

! **Responsibility for conducting Step 1.2 Assessing critical sectors:** CEP (at the request of the operational unit)

If the PSE prospect is active or engaged in one of the listed critical sectors, cooperation is only possibly if 1) the PSE prospect adheres to the relevant sustainability-related sectoral policies and principles and/or actively engages in initiatives fostering sector-specific sustainability stewardship practices, and 2) the engagement with the private sector directly or indirectly addresses key negative impacts of the partner. Explore the awareness, preparedness and adherence of the PSE prospect to relevant standards or sustainable practices during the in-depth interaction (see Step 2 'Getting to know each other') and make sure that the engagement directly or indirectly addresses key impacts of the PSE prospect.

Tools available for Step 1.2 Assessing critical sectors:

- List of critical sectors

1.3 Politically exposed persons (PEPs): a PEP is defined as an individual currently or formerly in a high public office or who is closely associated with such an office through family or personal ties or as a result of business relations. The involvement of PEPs may represent an increased risk on account of the possibility of individuals holding such positions misusing their power and influence for personal gain or advantage, whether for themselves, close family members and/or close associates. Such individuals may also use their families or close associates to conceal funds or assets that have been misappropriated through the abuse of their official position or as a result of bribery or corruption. In addition, they may also seek to use their power and influence to gain representation and/or access to, or control of, legal entities for similar purposes.[100]

100 The Wolfsberg Group Guidance on Politically Exposed People

All PSE prospects need to be assessed for the presence of any PEPs with the assistance of a corresponding database. If a PEP is involved, conduct a risk assessment in accordance with the SDC Guidelines for Entry Proposals.[101]

! **Responsibility for conducting Step 1.3 Assessing politically exposed persons:** operational unit

If the PEP-related risk is acceptable and manageable, the assessment will be communicated to line management for approval, with the head of the FDFA being responsible for the final decision (in keeping with current practice for all SDC projects).

If the PEP-related risk is too high, a partnership is not possible.

Tools available for Step 1.3 Assessing politically exposed persons:

- PEP database (SDC licence for using a suitable database will be purchased in 2021)

1.4 Relevant ESG risks: PSE prospects that are prepared to go beyond the regulation and actively and transparently manage those ESG aspects which are relevant to their stakeholders (e.g. climate change, pollution and careless use of natural resources, human rights violations, social discrimination, unsafe and unfair labour practices, etc.) have a better risk profile than those who remain passive. Various organisations provide comprehensive databases on sector and company-specific ESG risks and practices that can be used to assess PSE prospects.

Sector-specific ESG risks and business-conduct risks of **PSE prospects from any sector** must be assessed and possibly discussed with the PSE prospect during the first interaction. For most publicly listed companies, the RepRisk Analytics database[102] will be used, while for all other PSE prospects a short desk research must be conducted, covering the sector-relevant ESG issues derived from the ESG industries reference list.[103]

In line with the approach used by RepRisk Analytics, the assessment of ESG risks should ideally take into consideration the following wide range of risks:

- **Environmental:** climate change, greenhouse gas emissions and global pollution; local pollution; impacts on landscape, ecosystems and biodiversity; overuse and wasting of resources; waste issues; animal mistreatment.

- **Social and community relations:** human rights abuses; corporate complicity; impacts on communities; local participation issues; social discrimination.

- **Governance (corporate governance and employee relations):** corruption, bribery, extortion, money laundering; executive compensation issues; misleading communication, e.g. 'greenwashing'; fraud; tax evasion; tax optimisation; anti-competitive practices; forced labour; child labour; freedom of association and collective bargaining; discrimination in employment, cases of sexual abuse and harassment; occupational health and safety issues; poor employment conditions.

- **Crosscutting issues (always in combination with one of the issues mentioned under the previous bullet points):** controversial products and services; products (health and environmental issues); violation of international standards, including involvement in activities which are in violation of international humanitarian law (as defined in treaties and customary law); violation of national legislation; supply chain issues.

If the overall ESG risk profile of the PSE prospect is high or very high, a more in-depth qualitative review needs to be conducted to assess the preparedness and practices of the PSE prospect aimed at preventing or mitigating the relevant ESG risks. The review is based on publicly available information.

101 SDC Guidelines for Entry Proposals (Annex 3), Management of the risks associated with politically exposed persons (PEPs) from March 2017.

102 RepRisk Analytics Ltd. is an environmental, social, and corporate governance data science company based in Zurich, specialising in ESG and business-conduct risk research. It runs an online database of the risk exposures of companies, projects, sectors and countries related to 23 specific and 5 crosscutting ESG issues. It assesses, based on a set of clearly defined criteria and a certified methodology, daily risks, allegations, and criticism pertaining to environmental degradation, human rights abuses, child labour, forced labour, fraud and corruption that can impact an organisation's reputation or lead to compliance issues. The database includes over 120,000 companies and analyses ESG risks related to sectors and countries.

103 Tool describing the specific ESG issues for 33 sectors derived from the RepRisk Analytics database.

The purpose of the assessment of the ESG risks is not to exclude per se a cooperation with a PSE prospect that has been directly or indirectly (i.e. through its partners in the value chain) involved in any instance related to such risks. A cooperation can be envisaged if the PSE prospect clearly commits itself to avoiding or minimising negative impacts, and if it has a credible system in place to identify, prevent and mitigate risks.

! **Responsibility for conducting Step 1.4 Assessing relevant ESG risks:**
CEP (at the request of the operational unit)

If the ESG risk profile is low to medium, a partnership is possible.

If the ESG risk profile is high or very high, a qualitative review of publicly available information needs to be conducted.

If the ESG risk profile is high or very high and the qualitative review concludes that the PSE prospect's preparedness and practices for preventing or mitigating the identified ESG risks are insufficient, a partnership is not recommended.

Tools available for Step 1.4 Assessing relevant ESG risks:

- RepRisk Analytics database
- ESG industries reference list
- ESG qualitative review

1.5 Observance of OECD Guidelines for Multinational Enterprises: these guidelines (the 'OECD Guidelines') set standards for responsible business conduct across a range of issues such as human rights, labour rights and the environment. The OECD Guidelines also establish a unique, government-backed, international grievance mechanism to address complaints between companies covered by the OECD Guidelines and individuals who feel negatively impacted by irresponsible business conduct.[104] All governments adhering to the OECD Guidelines are required to establish a National Contact Point (NCP) to hear complaints by communities or workers harmed by corporate activity. In Switzerland, the NCP is with SECO.

104 OECD Watch

If the PSE prospect is a multinational enterprise, it must be checked whether it previously cooperated with the NCPs in cases where a complaint was raised.[105]

! **Responsibility for conducting Step 1.5 Assessing the observance of OECD Guidelines for Multinational Enterprises:**
CEP (at the request of the operational unit)

If a PSE prospect did not previously cooperate with NCPs where a complaint was raised, a partnership is not recommended.

Step 1 Internal preparation

If no critical aspects emerge out of the pre-assessment, proceed to Step 2 'Getting to know each other'.

→ The results of the pre-assessment form the basis of the interaction with the PSE prospect and determine the depth of the due diligence (Step 3).

! **Roles and responsibilities:**

Step 1.1 Screening against the exclusion list:
CEP (at the request of the operational unit).

Step 1.2 Assessing critical sectors:
CEP (at the request of the operational unit).

Step 1.3 Assessing PEPs: operational unit.

Step 1.4 Assessing ESG risks:
CEP (at the request of the operational unit).

Step 1.5 Assessing the observance of OECD Guidelines for Multinational Enterprises:
CEP (at the request of the operational unit).

Based on the results of Step 1, the CEP provides 1) a binding decision on whether the partnership is to be excluded on the basis of the exclusion list (Step 1.1) and, if not, 2) an overall recommendation as to whether to proceed with the next steps or to refrain from a partnership. The ultimate decision lies with the operational unit (unless a partnership is not possible on the basis of the exclusion list).

105 OECD Guidelines for Multinational Enterprises: a) database of specific instances, and b) the Annual Report on the OECD Guidelines for Multinational Enterprises 2018, see Recommendation: 'The Swiss administration should not cooperate with a company which has refused in the past to cooperate with the National Contact Point(s) for the OECD Guidelines in the case of an issue submitted against its behaviour (specific instance).'

2. 'Getting to know each other'

After successful completion of the internal preparation, an in-depth meeting with the PSE prospect can be initiated, with the aim of exploring a potential cooperation and getting to know each other better. It is crucial to make sure that there is a common understanding of the partnership and the related commitment. Particular attention should also be paid to the 'human factor', the organisational culture and the values of the PSE prospect.

For every in-depth meeting with a PSE prospect, a customised discussion guideline must be developed. The meeting should be informed by the results of the internal preparation. In addition to specific questions for each PSE prospect, the general key points listed below should be assessed and clarified. Specific additional points to be included in the discussion guidelines for initial meetings with PSE prospects, depending on the private sector category, can be found in Annex X. The CEP will offer customised training in order to best prepare SDC operational staff for this kind of discussion with potential private sector partners.

Discussion guidelines for initial meetings with PSE prospects

2.1 Initial understanding of partnership and commitment

The following aspects should be explored:
- Prospect's preliminary ideas of a joint intervention
- Commitment to contribute to the SDGs and the 2030 Agenda
- Availability of financial and non-financial resources (long-term vision)
- Envisaged modalities of the partnership
- Relevant material sustainability topics of the PSE prospect with economic, environmental and social impacts

2.2 Collaboration potential and requirements

The following aspects should be explored:
- Thematic match with the SDC's strategic orientation
- Geographical match with the SDC's priority countries
- Need for the SDC's support (additionality)
- Ideas about the potential role of the SDC (subsidiarity and complementarity)
- Avoiding distortion of functioning markets and crowding-out effects
- Agreeing on transparency rules

2.3 'Human factor'

The competence and credibility of the representatives of the PSE prospect need to be checked, including their:
- Expertise in the specific area of the envisaged collaboration
- Interest in cooperating with donors in general and the SDC in particular

In cases where not all relevant topics can be discussed during the first meetings, or if there are any remaining doubts, additional research should be conducted and/or the PSE prospect should be asked to provide further information.

Tools available for conducting Step 2 'Getting to know each other':

- Discussion guidelines for initial meetings with PSE prospects and additional points specific to each category of private sector partner

Step 2 'Getting to know each other'

If the meetings results are satisfactory and both the PSE prospect and the SDC are interested in a partnership, proceed to Step 3 Due diligence.

→ Results from the pre-assessment and the interaction with the PSE prospect determine how comprehensive the due diligence on the partner has to be.

! **Roles and responsibilities:** the operational unit exploring a PSE collaboration is in charge of Step 2. The CEP provides support through coaching and training.

3. Due diligence

After the approval of the entry proposal but before going forward and entering into a formal partnership agreement, due diligence on the PSE prospect must be conducted to confirm that the potential partner, including its relevant subsidiaries,[106] are legally compliant, meet the SDC's principles and values, adhere to general and sector-specific good business practices and match the SDC's risk tolerance. Where possible and appropriate, due diligence analyses may be conducted jointly with other actors (e.g. other donors).

The due diligence analysis complements and formalises the assessments conducted during Steps 1 and 2 by including additional information required from and provided by the PSE prospect and reviewed either through a plausibility check or through a comprehensive third-party assessment (depending on the risk level of the partnership). The areas to be covered by the due diligence process are potentially the same as for the assessment of the relevant ESG risks (Step 1.4), with a focus on high-risk areas. Additionally, the following points should be assessed:

106 Relevant subsidiary: where the PSE prospect's share is ≥ 50%.

- Past sentences, current litigations and lawsuits and compliance framework.

- Supplier issues and supply chain management policy and practices, including information on major first-tier (i.e. direct) suppliers.[107]

- Liquidity (depending on the category of the PSE prospect).

- In the case of a comprehensive third-party due diligence analysis of private investors, fund managers or beneficiaries (supported entrepreneurs) or their intermediaries: legal, financial, tax, commercial, customer, personnel and technical aspects.

3.1 Option 1: Disclosure of information and self-declaration to be reviewed by SDC: the PSE prospect is requested to disclose relevant information in order to confirm good practices and business integrity. The information submitted and supporting documents will be validated upon consultation of the CEP either by a mandated, eligible independent expert or an internal pool of professionals with business administration, finance, legal and other relevant knowledge. Further information on the documents to be disclosed can be found in Annex XI. In addition, the PSE prospect will be asked to confirm good practices based on a self-declaration. For the PSE prospects, this implies filling out and signing a questionnaire (see Annex XII). The questions depend on the PSE format as well as the ESG risks identified in the first phase of the PSE RMP.

3.2 Option 2: Disclosure of information and comprehensive third-party due diligence: in the case of collaborations with a high risk exposure, a comprehensive third-party due diligence analysis is required. In general, this applies to the following cases:

- For PSE collaborations with a SDC budget of over CHF 5 million, or if the SDC finances more than 50 % of the PSE collaboration and the SDC's budget is over CHF 3 million.

- For financial market-oriented PSE formats where repayments might be expected, namely venture investments (equity and debt), stakes in structured funds, and guarantees.[108]

- In the case of the PSE prospect having a complex structure (i.e. holding, consortia with four or more private sector partners).

- If the PSE prospect is active in a critical sector (Step 1.2) and is not able to provide the necessary evidence to confirm its adherence to sustainability standards and good practices (e.g. because it is a relatively small company).

- If the information provided on the PSE prospect's preparedness and practices (in any sector) for preventing or mitigating the ESG risks identified is insufficient.[109]

In case of a comprehensive third-party due diligence, no self-declaration is required, unless the third-party conducting the due diligence requests so specifically. Further details on the comprehensive third-party due diligence analysis are specified in the due diligence guidelines. The decision as to whether to conduct a third-party due diligence analysis should be made in consultation with the CEP.

Tools available for Step 3 Due diligence:

- Due diligence questionnaire for private sector partner (based on the elements provided in Annex XII)
- Due diligence guidelines

Step 3 Due diligence

If legal compliance and adherence to the SDC's principles and values as well as general and sector-specific good business practices can be objectively confirmed, a partnership can be initiated.

!

Roles and responsibilities: operational unit with the support of the CEP and external specialised consultants.

107 Procurement of critical supplier ≥ 2% of total procured goods.
108 In the case of guarantees, there may be a non-disbursement instead of a repayment.

109 This applies in the case of those PSE prospects which have been retained after Step 1.4 Assessment of relevant ESG risks.

II. Prepare the engagement

The second phase, to **prepare the engagement**, concerns the concrete planning of the PSE collaboration and is generally expected to take place during the planning phase of the PCM. This means that the results and findings from the first phase of the PSE RMP should be reflected in the credit proposal.

4. Joint project risk assessment

Before formally entering into an engagement, a joint project risk assessment together with the PSE prospect must be conducted in order to identify potential risks related to the collaboration and to define measures to prevent or mitigate these risks. This is done with the joint project risk assessment tool incorporating existing SDC tools and best practices of the Impact Management Project (see Part B, section 4.3). However, the assessment can also be conducted based on tools of the PSE partner. No joint project risk assessment is necessary for support facilities, and in cases where the SDC is not the initiator, or a member of the steering committee of a multi-stakeholder collaboration/formalised multi-stakeholder consortium/political dialogue alliance. The results of the joint project risk assessment are expected to be reflected in the credit proposal.[110]

The following risk categories should be considered in the systematic identification of preventive or mitigation measures and monitoring thereof during the implementation:

- **Contextual risks** refer to those risks linked to the context over which the SDC and the PSE prospect have limited or no direct control.
- **Programmatic risks** refer to the risk of failure to achieve collaboration goals and objectives or the risk of causing harm to others through the PSE collaboration.
- **Institutional risks** refer to the risks faced by the aid provider(s): security, fiduciary failure, reputational loss, domestic political damage, etc.

The result of the joint project risk assessment will form the basis for a regular review during subsequent steps of the PSE RMP (see section 6).

Tools available for Step 4 Joint project risk assessment:
• Joint project risk assessment tool

<u>**Step 4 Joint project risk assessment**</u>

If the potential risks identified could be prevented or mitigated with adequate measures and if there is a shared perspective on the relevant risk management measures with the PSE prospect, a partnership agreement may be drawn up.

! **Roles and responsibilities:** the SDC's operational unit negotiates a shared perspective on the relevant risks and risk management measures directly with the PSE prospect. The CEP offers operational support and will design specific training for SDC staff to be able to manage such discussions and negotiations.

110 According to Annex 3 of the SDC Guidelines for Credit Proposals.

5. Partnership agreement

Collaborations with a PSE partner require a joint **partnership agreement to set out the terms and conditions of the collaboration** including the common objectives, the modes of cooperation and various important issues such as intellectual property, external communication, transparency rules applicable to the public administration (and to its engagements), liability rules, and criteria for exiting the partnership. For each PSE format, specific contract templates or elements thereof will be developed. Reporting and other requirements in line with the PCM will be appropriately reflected in these templates.[111]

Tools available for Step 5 Partnership agreement:
• PSE format-specific contract templates or elements thereof (to be developed)

Step 5 Partnership agreement

If both the SDC and the PSE prospect agree on the terms and conditions of the partnership, the PSE collaboration can be started.

Roles and responsibilities: the operational unit negotiates the partnership agreement with the PSE prospect. The CEP provides support; the CPC must be consulted.

111 Depending on the PSE format, it might be necessary to sign an individual agreement with the PSE partner or have a multi-party agreement which also includes the implementation partner.

III. Monitor, review and adapt the engagement

The third phase, to **monitor, review and adapt the engagement**, is generally expected to take place during the implementation and monitoring phase of the PCM. It involves a **review of risks on a regular basis** and, if needed, a **joint adaptation** of the risk mitigation measures. The monitoring and review of the PSE collaboration should be linked to the PCM of the country programme or the mid-term orientation of the operational unit, as applicable. In particular, it should take account of the results of relevant assessments, such as the MERV.

6. Review on a regular basis

Certain aspects of the PSE RMP must be integrated into a continuous improvement process for PSE collaborations:

- **Joint project risk assessment:** the joint project risk assessment should be conducted on a regular basis (e.g. yearly) together with the PSE partner to identify new emerging risks and avoid negative impacts with targeted measures. Changes should be discussed with the PSE partner (e.g. in the steering committee).

- **ESG risks:** regular monitoring of the PSE partner's ESG risks is essential in order to identify new emerging risks at an early stage and to be able to act, if necessary. For this purpose, ESG risk alerts, provided by the RepRisk Analytics database, should be used.

- **Due diligence:** the due diligence analysis of the PSE partner should be repeated on a regular basis (e.g. biennially), at the latest at the start of a new phase of the PSE collaboration. In the case of due diligence based on a self-declaration, the PSE partner should be asked to indicate all relevant changes since the last self-declaration.

Tools available for Step 6 Review on a regular basis:

- Joint project risk assessment tool
- RepRisk Analytics database
- ESG industries reference list
- ESG qualitative review
- Due diligence questionnaire for private sector partner (based on the elements provided in Annex XII)
- Due diligence guidelines

<u>Step 6 Review on a regular basis</u>

On a regular basis, update the joint project risk assessment, monitor ESG risks and repeat the due diligence analysis in order to identify new emerging risks at an early stage and to be able to make adaptations, if necessary.

Roles and responsibilities: updating the joint project risk assessment is the responsibility of the SDC's operational unit, with the support of the CEP. Updating the ESG risk assessment is the responsibility of the CEP (at the request of the operational unit). Conducting a new due diligence analysis is the responsibility of the operational unit with the support of the CEP and external specialised consultants.
At the portfolio level, the CEP is responsible for setting up and maintaining an effective overarching risk monitoring system and for making sure that continuous risk management is a priority for the SDC's operational units.

7. Adaptation

Based on the regular reviews, an **adaptation of the partnership agreement** and the related operations and/or governance and management procedures may be jointly agreed upon in an ongoing PSE collaboration. The adaptation of the engagement can also take place after an evaluation and enter into force in the next phase of a PSE collaboration, if the collaboration is to be continued.

<u>Step 7 Adaptation</u>

If circumstances or risks change, and if there is agreement among all parties on the required adaptations, adapt and continue the PSE collaboration.

Roles and responsibilities: the operational unit is in charge of deciding on the necessary adaptations. The CEP provides support upon request. The CPC must be consulted for any substantial amendments of the partnership agreement.

IV. Exit the engagement

A PSE collaboration ends either when planned, i.e. at the end of the collaboration, or earlier if certain high risks materialise. This generally corresponds to the closing phase of the PCM.

8. Early exit

An **early exit** occurs if an ongoing PSE collaboration is cancelled before the stipulated end of the collaboration, e.g. if certain high risks materialise in the course of the PSE collaboration. An early termination of a collaboration should be discussed and, if possible, jointly decided with the PSE partner. The following aspects, among others, should be addressed: closure process for the collaboration, implications for the actors involved, communication and reporting, handling of financial obligations. Depending on the circumstances and the reasons for an early exit (according to the partnership agreement), the partnership can also be terminated unilaterally by each partner. **In the case of critical exits, where there is potentially a high risk of political exposure, high reputational damage or media attention, the SDC senior management decides on an early exit, and the decision is noted by the head of the FDFA**. In the case of legal risks, the CPC is to be consulted. After termination, an evaluation of the collaboration should be conducted in order to identify lessons learnt and mitigate similar risks for future PSE collaborations.

Step 8 Early exit

If certain high risks materialise, discuss the necessity for an early exit with the PSE partner(s). Depending on the circumstances and the reasons for an early exit, the partnership can also be terminated unilaterally (according to the partnership agreement).

! **Roles and responsibilities:** the operational unit decides on an early exit and is responsible for discussing this with the PSE partner and realising the final exit. The CEP provides operational support. In the case of critical exits, the SDC senior management decides on an early exit, and the decision is noted by the head of the FDFA.

9. Planned exit

A **planned exit** takes place at the stipulated end of the PSE collaboration, **as defined in the partnership agreement**. For financial market-oriented PSE formats, particularly if the SDC provides guarantees or holds assets (e.g. shares or loans), it is essential to define and plan the exact exit modalities with the PSE partner when signing the partnership agreement.

In accordance with the PCM, at the end of the collaboration, an evaluation can be conducted in order to assess the degree of achievement of the objectives and formulate lessons learnt and recommendations for future PSE collaborations. The communication of key results should be discussed and agreed with the private sector partner.

Step 9 Planned exit

! **Roles and responsibilities:** the operational unit is responsible for the realisation of the planned exit. The CEP offers operational support.

Limitations of the SDC's PSE Risk Management Process
The PSE RMP allows risks to be identified and managed proactively along a structured process, with the aim of increasing the chance of success by preventing and mitigating risks. However, implementation of the PSE RMP cannot guarantee that a risk will not occur.

ANNEXES

General

Annex I: List of abbreviations
Annex II: Glossary

Part A: General orientation and Part B: How to make it work

Annex III: Examples of private sector engagement in practice
Annex IV: Theory of change
Annex V: PSE formats
Annex VI: The cascade approach
Annex VII: How to assess additionality
Annex VIII: Useful links and resources

Part C: Private Sector Engagement Risk Management Process

Annex IX: Roles and responsibilities along the PSE Risk Management Process
Annex X: Interaction with private sector actors: additional points for the general discussion guidelines
Annex XI: Disclosure of information
Annex XII: Self-declaration based on questionnaire for each PSE format

Annex I: List of abbreviations

CPC	Division Contracts, Procurement, Compliance of the FDFA
CEP	Competence Center for Engagement with the Private Sector
CITES	Convention on International Trade in Endangered Species of Wild Fauna and Flora
CSI-HSG	Competence Center for Social Innovation at the University of St Gallen
CSPM	Conflict-sensitive programme management
CSR	Corporate social responsibility
CSV	Creating shared value
DAC	Development Assistance Committee of the OECD
DCED	Donor Committee for Enterprise Development
DFI	Development finance institution
DRR	Disaster risk reduction
EDGE	Economic Dividends for Gender Equality
EIB	European Investment Bank
EITI	Extractive Industries Transparency Initiative
ESG	Environmental, social and governance
FAQ	Frequently asked question
FCDO	Foreign, Commonwealth & Development Office of the United Kingdom
FDFA	Federal Department of Foreign Affairs
FFA	Federal Finance Administration
FOEN	Federal Office for the Environment
FSC	Forest Stewardship Council
FTE	Full-time equivalent
GCF	Green Climate Fund
GIIN	Global Impact Investing Network
GIZ	Global Corporation for International Cooperation
GPEDC	Global Partnership for Effective Development Co-operation
GRI	Global Reporting Initiative
HSD	Human Security Division
ICMC	International Cyanide Management Code
ICMM	International Council on Mining and Metals
ICS	Internal Control System
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IFI	International financial institution
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IMP	Impact Management Project
INCAF	International Network on Conflict and Fragility
ISO	International Organization for Standardization
KfW	Kreditanstalt für Wiederaufbau (German state-owned development bank)
KPI	Key performance indicator
LDC	Least developed country
LLC	Limited liability company
LNOB	Leave no one behind
LoT	Lab of Tomorrow
Ltd.	Limited (company)

MbO	Management by Objectives
MERV	Monitoring der entwicklungsrelevanten Veränderungen (Monitoring System for Development-related Changes)
MFW	Microfund for Women
MIGA	Multilateral Investment Guarantee Agency
MMV	Medicines for Malaria Venture
MNE	Multinational enterprise
MoU	Memorandum of understanding
MSC	Marine Stewardship Council
NCP	National Contact Point
NFR	Non-financial reporting
NGO	Non-governmental organisation
ODA	Official development assistance
OECD	Organisation for Economic Co-operation and Development
PCBs	Polychlorinated biphenyls
PCM	Programme cycle management
PDP	Product development partnership
PEFC	Programme for the Endorsement of Forest Certification
PEP	Politically exposed person
PKZH	Pension fund of the City of Zurich
PLAFICO	Interdepartmental Platform on Funding International Cooperation on Environmental and Climate Issues
PPDP	Public-private development partnership
PRA	Partner Risk Assessment
PSD	Private sector development
PSE	Private sector engagement
PSEAH	Prevention of sexual exploitation, abuse and harassment
REPIC	Renewable Energy, Energy and Resource Efficiency Promotion in International Cooperation
RMP	Risk Management Process
RSPO	Roundtable on Sustainable Palm Oil
RTRS	Roundtable on Responsible Soy
SCBF	Swiss Capacity Building Facility
SDC	Swiss Agency for Development and Cooperation
SDG	Sustainable Development Goal
SECO	State Secretariat for Economic Affairs
SFOE	Swiss Federal Office of Energy
S-GE	Switzerland Global Enterprise
SHA	Swiss Humanitarian Aid Unit
Sida	Swedish International Development Cooperation Agency
SIF	State Secretariat for International Finance
SIFEM	Swiss Investment Fund for Emerging Markets
SIINC	Social impact incentive
SME	Small and medium-sized enterprise
SPTF	Social Performance Task Force
Swiss GAAP FER	Swiss Generally Accepted Accounting Principles – Accounting and Reporting Recommendations
TA	Technical assistance
UN	United Nations
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Programme
US GAAP	United States Generally Accepted Accounting Principles
WCD	World Commission on Dams

Annex II: Glossary

Addis Ababa Action Agenda (AAAA): At the UN's Third International Conference on Financing for Development, held in Addis Ababa in July 2015, countries agreed on a series of measures to overhaul global finance practices and generate investment for tackling a range of economic, social and environmental challenges. The resulting Addis Ababa Action Agenda was adopted by world leaders and provides a foundation for implementing the global sustainable development agenda. This marked a milestone in forging an enhanced global partnership that aims to foster universal, inclusive economic prosperity and improve people's well-being while protecting the environment.

Additionality: The extent to which an intervention triggers investments that businesses or international cooperation would not otherwise make, or makes them happen more quickly, on a bigger scale, or more successfully in terms of development outcomes. One of the main rationales for public-private partnership is that it facilitates faster, larger or better development impacts than either the private or public sector would be able to achieve alone. Such a collaborative arrangement must create additional value in terms of scale, scope, quality and sustainability that would not have been achieved otherwise.

B Corp: An organisational form of for-profit company that is committed to solving social and environmental problems through the power of business. Organisations that are serious about this commitment can become certified B Corps, or B Corporations, through the non-profit organisation B Lab. Today there are more than 2,350 certified B Corps globally that meet the rigorous standards. Among them are some major brands like Ben & Jerry's and Patagonia. Not to be confused with a 'benefit corporation' (not certified by B Lab), which is a legal status in 30 US states. As at the beginning of 2021, Switzerland had 40 certified B Corps with a further five pending.[112]

Blended finance: The strategy of using philanthropic or public funds to attract private investors' capital for development outcomes. The OECD defines blended finance as 'the strategic use of development finance for the mobilisation of additional finance towards sustainable development in developing countries'. The SDC uses the following blended finance formats: venture investment (equity and debt), guarantees, structured funds, impact bonds, social impact incentives and technical assistance to financial vehicles. For more details, see the PSE Formats (Annex V and the PSE Finder on the Shareweb).

Cascade approach: Framework introduced by the World Bank Group to maximise financing for development by leveraging the private sector and optimising the use of scarce public resources. The grant logic model is replaced by the question as to whether the private sector can (partially) solve a development challenge and what can be done to catalyse private sector engagement for sustainable development. For further details, see Annex VI.

Challenge fund: A competitive PSE format (also known as a matching grant) in which the donor launches a call for proposals focused on a specific development challenge, and private sector actors can submit a proposal, which includes their own co-funding.

Co-creation: This refers to a collaborative approach, often in the form of innovation labs, involving stakeholders from different sectors to develop system-changing solutions for sustainable development. In the case of PSE, this means involving private sector partners in jointly developing such solutions.

Competence Center for Engagement with the Private Sector (CEP): Created at the beginning of 2017 and part of the SDC's Inclusive Economic Development expert team, the CEP provides support to the SDC's operational units to ensure the quality and accelerate the implementation of PSE collaborations.

Complementarity: The extent to which an intervention identifies and exploits synergies, mutual strengths and resources between partners, enhancing each one's contribution by joining forces.

Concessional finance: Finance provided on more generous terms than market conditions. For instance, concessional loans are loans that are extended on terms substantially more generous than market loans. The element of concessionality is achieved through either interest rates below those available on the market or extended grace periods, or a combination of both.

Copenhagen Circles: Proposed by the OECD/INCAF, this approach provides the guiding risk classification framework used at the SDC. The three risk spheres in the Copenhagen Circles comprise contextual, programmatic and institutional risks.[113]

112 B Lab Switzerland

113 SDC Guidelines for Risk Management

Corporate social responsibility (CSR): Initiatives by companies to assess and take responsibility for their impact on the environment and social wellbeing. The term is often used to describe activities that go beyond regulatory or legal requirements. The International Organization for Standardization (ISO) has set out guidelines for companies to integrate corporate social responsibility into their operations.[114]

Creating shared value (CSV): A business concept originally introduced by Michael E. Porter and Mark R. Kramer of Harvard Business School. It is based on the premise that a company's competitiveness and the health of the communities around it are interdependent. Therefore, 'creating shared value' is a business strategy in which companies find a business opportunity in solving social or ecological problems.[115] In PSE, the concept of creating shared value is the basis for ensuring that *all partners* benefit from the collaboration.

Crowding out: The displacement of private demand by public demand.

Debt: Amount of money borrowed by one party (e.g. a company) from another (e.g. a bank). Debt is used by many companies and individuals as a means of making large purchases that they could not afford under normal circumstances. A debt arrangement gives the borrowing party permission to borrow money under the condition that it is to be paid back at a later date, usually with interest.

Ecosystem: A business ecosystem is the network of organisations – including suppliers, distributors, customers, competitors, government agencies, and so on – involved in the delivery of a specific product or service through both competition and cooperation. The idea is that each entity in the ecosystem affects and is affected by the others, creating a constantly evolving relationship in which each entity must be flexible and adaptable in order to survive, as in a biological ecosystem.

ESG: Environmental, social and governance factors are typically used to evaluate the sustainability risks of companies and investment opportunities and to measure how advanced companies are with regard to addressing sustainability principles or mitigating/managing ESG risks.

Equity: Shareholder equity represents the amount of money that would be returned to a company's shareholders if all of the assets were liquidated and all of the company's debt was paid off. In other words, equity investors provide companies with longer-term money, thereby becoming owners of the company. They are entitled to decision-making and profit-sharing rights (primarily through dividends).

Gender blindness: The failure to recognise that the roles and responsibilities of men/boys and women/girls are given to them in specific social, cultural, economic and political contexts and backgrounds, in turn leading to a failure to recognise the different needs of women and men. Gender-blind policies, programmes and collaborations thus risk reinforcing a given context of gender inequality.

Gender lens investing: The practice of investing for financial return while also considering the gender impact of that investment. There are three main approaches to gender lens investing: businesses, initiatives or programmes which investing in a) are led by women, b) promote gender equity in their internal practices and policies, or c) offer products or services that positively impact women.

Global Partnership for Effective Development Co-operation (GPEDC): A multi-stakeholder platform to advance the effectiveness of development efforts by all actors, deliver results that are long-lasting and contribute to the achievement of the SDGs.

Grant-making foundation: A charitable foundation which has its own capital at its disposal and does not rely on donations in order to finance its activities.

Guarantee: A financial instrument in which a guarantor (typically from the public or non-profit sector) agrees to pay a certain amount due on a loan instrument in the event of non-payment by the borrower. Guarantees are a specialised form of insurance with respect to financial transactions, in which the risk of default by either party in a transaction is assumed by a third party external to the original transaction. Guarantees can be provided for financial institution loan portfolios, financial institution individual loans, or to enterprises seeking a loan (which is referred to as a 'portable guarantee').

Innovative finance: Innovative financing instruments aim to mobilise additional resources for development by addressing specific market failures and institutional barriers, and so complement traditional international resource flows, such as aid, foreign direct investments, and remittances. While there is no single agreed definition, innovative finance can be summarised as a set of financial solutions and mechanisms that create scalable and effective ways of channelling both private money from the global financial markets and public resources towards solving pressing global problems.

114 'Understanding Key Terms and Modalities for Private Sector Engagement in Development Co-operation', OECD-DAC (2016)
115 'Creating Shared Value: How to reinvent capitalism—and unleash a wave of innovation and growth', Harvard Business Review (2011).

Impact bonds (social / development / humanitarian): Social impact bonds (SIBs), development impact bonds (DIBs) and humanitarian impact bonds (HIBs) are new financing mechanisms designed to achieve development and social outcomes by bringing together private investors, implementers, governments and donors. (Private) investors lend capital for implementation to intermediaries and service providers. Implementers use capital to design and implement programmes that achieve the desired social outcomes. Outcome funders pay back private investors' loans, with interest, if the service providers achieve pre-determined targets.

Impact investors: Individuals or institutions making investments in companies, organisations or funds with the intention of generating a measurable, positive social or environmental impact alongside a financial return.[116]

Impact measurement and management: Impact measurement refers to the identification of the positive and negative long-term effects of a collaboration (or an investment or business) on people and the planet. Impact management refers to ways of mitigating the negative and maximising the positive impact.

In-kind contribution: In economics and finance, 'in kind' refers to goods, services and transactions not involving money or not measured in monetary terms.

Investment fund: A supply of capital belonging to numerous investors used to collectively purchase securities while the individual investors retain ownership and control of their own shares.

Junior debt / junior equity: Junior debt is debt that has a lower priority for repayment than other debt claims in the case of default. Similarly, junior equity is equity that has a lower priority for repayment than other equity claims in the case of default.

Lab of Tomorrow (LoT): An innovative multi-stakeholder process to co-initiate and co-create impact-driven solutions and business models (including PSE initiatives at the SDC) to address specific development challenges.

Lean data: A fast and reliable customer-centric approach to results measurement based on low-cost technology.

Loan: Money, property or other material goods given to another party in exchange for future repayment of the loan value or principal amount, along with interest or finance charges (see also 'Debt').

Market distortion: An effect occurring as a result of (government) interference in a market that significantly affects prices, risk-taking and/or asset allocation. In the PSE context, this could entail an unfair competitive advantage caused by partnering with just one private sector actor.

Matching grant: A competitive PSE format (also known as a challenge fund) in which the donor launches a call for proposals focused on a specific development challenge, and private sector actors can submit a proposal that includes their own co-funding.

Memorandum of understanding (MoU): An agreement between two or more parties outlined in a formal document. It is not legally binding but signals the willingness of the parties to realise joint activities and possibly move forward with a contract.

Mezzanine financing: A hybrid form of debt and equity financing which gives the mezzanine owner the right to convert a loan into equity in case of default.

Microfinance: Banking services (loans, payments, saving accounts) provided to low-income individuals or groups who otherwise would have no access to financing because they lack the collateral for the size of the loan they need.

Mobilisation of resources from the private sector: Refers to all activities involved in securing new and additional resources from the private sector for development objectives. The private sector is especially important for its potential to transfer knowledge and technology, create jobs, boost overall productivity, enhance competitiveness and entrepreneurship, and ultimately eradicate poverty through economic growth and development.

Official development assistance (ODA) funds: Government aid designed to promote the economic development and welfare of developing countries. Aid may be provided bilaterally, from donor to recipient, or channelled through a multilateral development agency such as the UN or the World Bank.

Outcome fund: A fund which pools grant money from different donors, paying for measurable social or environmental outcomes rather than for activities or outputs.

Pay-for-results instruments: Financial instruments (such as outcome funds, impact bonds or social impact incentives) that are results-based, i.e. payments only occur if pre-agreed social or environmental outcomes are achieved. Thus, resources are disbursed based solely on outcomes and not on the completion of certain activities.

116 'Annual Impact Investor Survey', GIIN (2017)

Portfolio approach: A situation in which a critical mass of projects is grouped into a portfolio and strategically steered using a few key performance indicators.

Private sector: The private sector is not homogenous but composed of various types of businesses and organisations, from for-profit enterprises to social businesses and grant-giving foundations. In the context of PSE, beyond a 'legal' framing, the potential role and the contribution of a business or organisation in a given partnership is key. As a partner, the private sector can act as a resource provider in terms of funding and expertise, a developer or a reformer of business models.

Private sector engagement (PSE): PSE is based on the interest of donors to work with the private sector in a relationship as equals. It is a modality that aims to engage with the private sector to deliver development results, and involves the active participation of the private sector in terms of co-initiating, co-steering and co-funding as guiding principles.

Product development partnership: In product development partnerships, public and private partners join forces to develop new products to benefit the poor in developing countries (e.g. medicines against diseases that disproportionately affect people living in developing countries).

PSE 100 Workshop: A three-day workshop based on the notion of a paradigm shift, starting with the question: *"What if all our development challenges could be tackled in cooperation with the private sector, or if our entire portfolio consisted of PSE collaborations?"*. PSE 100 Workshops are designed, offered and delivered by the CEP to the SDC's operational units to

a) identify ways of using PSE as a modality to implement the programmes of the SDC's operational units,

b) train SDC operational units in using the cascade approach, for which knowledge and understanding of the private sector's activities in sustainable development is needed.

PSE collaboration: A project or project component (partial action) based on the modality and principles of private sector engagement.

PSE formats and PSE Format Finder: Collaborations with the private sector can be structured in different ways:

A) Development project-oriented formats that follow a traditional development project logic and include single-partner collaborations, multi-stakeholder collaborations, formalised multi-stakeholder consortia, political dialogue alliances, support facilities, and secondments;

B) Financial market-oriented formats that follow an investment logic and include venture investments (equity and debt), guarantees, structured funds, impact bonds, social impact incentives, and technical assistance to financial vehicles.

All current PSE collaborations are structured according to these formats. More details on each PSE format can be found in Annex V and the PSE Format Finder on the Shareweb.

PSE pioneers: SDC staff members experienced in designing and implementing PSE collaborations. Some of them are cutting-edge innovators, developing fundamentally new approaches or collaboration setups, some of them are quick learners, replicating and improving established concepts with proven impact. All of them are 'public entrepreneurs', many of them serial ones, striving for systemic change for the better and for more sustainable development in different fields of the SDC's activities.

Public-private development partnership (PPDP): A form of qualified cooperation between public and private partners which presumes a closer collaboration than a simple cooperation. PPDP and PSE are used as synonyms.

Public-private partnership (PPP): Partnership between an agency of the government and an organisation from the private sector aimed at the delivery of goods or services to the public.

Responsible business conduct: Entails compliance with laws, such as those on respecting human rights, environmental protection, labour relations and financial accountability, even in countries where these are poorly enforced. It also involves responding to societal expectations – in terms of environmental, social and economic outcomes – communicated by channels other than the law (e.g. by intergovernmental organisations, within the workplace, by local communities and trade unions, or via the press).[117] Reference documents include the OECD Guidelines for Multinational Enterprises on responsible business conduct and the United Nations Guiding Principles on Business and Human Rights.

Risk assessment: The continuum of risk mitigation and control measures that are developed and implemented to address an identified risk.[118]

117 'Understanding Key Terms and Modalities for Private Sector Engagement in Development Co-operation', OECD-DAC (2016).
118 SDC Guidelines for Risk Management

Risk-return profile: The risk-return trade-off states that the expected return rises with an increase in risk. Typically, different expectations regarding risk and return are used to determine the risk-return profile of an investment.

Risk transfer: A risk management technique used in financial investments whereby the risk is assigned to another party by means of a legal agreement.

Risk treatment: The continuum of risk mitigation and control measures that are developed and implemented to address an identified risk.[119]

Senior debt / senior equity: Senior debt refers to a debt financing obligation issued to a company by a financial institution or a donor that holds legal claim to the borrower's assets above all other debt obligations. Because it is considered senior to all other claims against the borrower, in the event of bankruptcy it will be first to be repaid before any other creditors or stockholders receive repayment. Similarly, the holders of senior equity ('preferred stockholders') have repayment seniority over common stockholders. Because of its greater degree of safety, senior debt or equity will generally offer lower returns than debt or equity below it in the seniority hierarchy.

Share (A share, B share, C share): A unit of ownership interest in a company or financial asset that provides for an equal distribution of profits, if any are declared, in the form of dividends. Shares can have different types of subordination (such as A, B, C or junior and senior shares), which assign a ranking in the priority ladder when it comes to paying out dividends but also taking losses in equity capital.

Social business: A business with a for-profit business model which is set up with the objective of solving social or environmental issues and generating profits at the same time (i.e. 'creating shared value' is at the core of the organisation).

Social enterprise: An organisation which has social or environmental objectives as its primary purpose. A social enterprise may be a for-profit or non-profit entity or a hybrid form. The profits of social enterprises are usually reinvested to maximise the benefits for society.

Social impact incentive (SIINC): A funding instrument that rewards high-impact enterprises with premium payments for achieving social or environmental impact. The additional revenues enable them to improve profitability and attract investment to scale. SIINCs can effectively leverage public or philanthropic funds to catalyse private investment in underserved markets with high potential for social impact.

Start-up: A recently established company that is in the first phase of a company's life cycle.

Structured fund: A financial construct that construct in which various categories of investors, e.g. private commercial investors, DFIs and donors with different share classes and risk-return profiles jointly invest in a financial vehicle. In blended finance, structured funds are used to crowd in, i.e. encourage, private investors.

Subsidiarity: The principle of not assuming the funding or responsibilities of other parties. In the context of PSE, this refers to the public sector not taking over the roles and responsibilities of the private sector.

Support facility: A PSE modality in which the impact-oriented projects and activities of private sector actors are selected according to a competitive procedure and supported with technical assistance or financing. See also challenge fund and matching grant.

Sustainable finance: Sustainable finance refers to any form of financial service integrating ESG criteria into the business or investment decisions for the lasting benefit of both clients and society at large.[120]

Triple bottom line: An accounting framework with three parts: social, environmental and financial.

Venture capital: A form of financing that investors provide to start-up companies and small businesses that are believed to have long-term growth potential.

119 SDC Guidelines for Risk Management

120 Swiss Sustainable Finance

Annex III: Examples of private sector engagement in practice

1. An example of an early PSE collaboration: Medicines for Malaria Venture, co-funded by the SDC's Global Programme Health

To counteract the increasing problem of drug resistance and to accelerate the elimination of malaria, the Geneva-based Medicines for Malaria Venture (MMV) drives the discovery, development and implementation of new antimalarial drugs. Working with pharmaceutical companies, academia and partners from affected countries, MMV – a formalised multi-stakeholder consortium (see Annex V: PSE format A iii.) – reduces costs and ensures affordable and equitable access to quality medicines for vulnerable groups at risk of malaria, in particular children and pregnant women. Starting in the late 1990s, drug development projects for diseases of the poor moved increasingly from the public domain to newly established public-private partnerships, which became known as product development partnerships (PDPs). MMV was launched as one of the first PDPs in 1999 with initial seed money from the SDC, the United Kingdom's Department for International Development, the government of the Netherlands, the World Bank and the Rockefeller Foundation. MMV has established the strongest malaria drug development pipeline in history. Since 2010, 17 pre-clinical drug candidates have emerged from MMV discovery research, 15 of which have progressed into clinical development. MMV-supported products have saved an estimated 2.2 million lives since 2009. Specific examples include: 1) 390 million treatments of Coartem Dispersible (Novartis), which were delivered to more than 50 countries, saved an estimated 980,000 children's lives; 2) over 20 million vials of Artesun saved an estimated 840,000 additional lives.

The SDC's main role in this PSE is to provide the necessary co-funding to enable the piloting of innovative methods and approaches. The SDC's goal is to ensure that the innovations developed by the collaboration are sustainable and lead to affordable and equitable access to quality medicines for vulnerable groups. Moreover, the SDC promotes the dialogue with public, private and academic partners in order to ensure their participation in the collaboration and, consequently, an endorsement of affordable malaria drugs at the industry level.

2. 'PSE in the nexus': PSE in Kakuma, Kenya, co-funded by the SDC's Eastern and Southern Africa Division

Kenya is the tenth-largest refugee-hosting country in the world. Almost 200,000 refugees live in camps in Kakuma and near Kalobeyei, often in a situation of protracted displacement. In order to harness the potential and respond to challenges in a market-oriented way, a three-pillar programme implemented by the International Finance Corporation (IFC) was launched: 1) a challenge fund to spur the growth of social enterprises, the local private sector and other SMEs willing to ensure a long-term presence in the area; 2) policy engagement and advocacy for better framework conditions for refugees; and 3) hands-on support for corporates willing to invest in the region. The collaboration seeks to attract private sector solutions for refugees and host communities by mobilising private investments. As a challenge fund, the collaboration is set up as a support facility combined with elements of a technical assistance facility (see Annex V: PSE formats A v. and B vi.). Thanks to improved services, potentially lower prices and new jobs, refugees and host communities in Kakuma and Kalobeyei benefit from new economic opportunities and increased capacities, resulting in greater self-esteem, dignity and empowerment. The supported refugee entrepreneurs, social enterprises and private companies boost local product and service delivery through commercially feasible solutions while simultaneously tackling social and environmental issues. The programme complements Swiss humanitarian experience in addressing forced displacement with a development approach, while ensuring adequate protection (the nexus). The programme was developed in consultation with SECO, which has overall institutional responsibility for Switzerland's relationship with the IFC. The SDC co-funds the programme, including key positions and various surveys to support its design and kick-off. For instance, before programme implementation, a thorough assessment of the local context was conducted to ensure that the programme and the market actors would contribute to social cohesion rather than exacerbating conflicts. Additionally, the SDC fosters a better understanding of the business environment and regulatory framework and cultivates dialogue between the relevant private and public stakeholders on business environment, policies and legislation.

3. A PSE collaboration promoting gender equality through women's financial inclusion: access to finance for Syrian refugee women, a project co-funded by the SDC's employment + income focal point

The Swiss Capacity Building Facility (SCBF) is a platform launched by the SDC bringing together some 25 partners, mainly Swiss financial institutions and impact investors. As a support facility (see Annex V: PSE format A v.), the SCBF aims to support financial institutions in the Global South in the development and upscaling of innovative financial products for low-income households in order to promote responsible financial inclusion. In 2018 the SCBF launched an innovative project in cooperation with Jordan's Microfund for Women (MFW), aimed at introducing a loan programme tailored to Syrian refugee women. MFW is the leading microfinance institution in Jordan, with 80 percent of its clients being female. Thanks to the feasibility study conducted with SCBF support, MFW was able to identify the similarities and differences between the needs of Syrian refugees as opposed to other foreign-born residents and began adapting its service offering accordingly. The project provided lending services to around 4,000 Syrian refugee women, allowing some of them to start an economic activity (e.g. a tailoring shop) and achieve economic independence. The success of this pilot led MFW to increase its lending and non-financial services to this client segment and generated interest in refugee lending programmes among other Jordanian and foreign microfinance institutions.

The SDC played a key role in creating the SCBF, in particular in convening the platform and ensuring the necessary core funding for its functioning. With regard to support for MFW, the SDC (via the SCBF) provided the necessary co-funding to pilot a new business model which, focusing on one particularly vulnerable group, was perceived ex ante as being too risky to be developed on a purely commercial basis.

4. An innovative financial market-oriented format: the social impact incentive (SIINC), promoted by a programme co-funded by the SDC's Latin America and the Caribbean Division

Social entrepreneurs find innovative, effective and efficient solutions to social problems with an entrepreneurial approach. One example is the Peruvian company Inka Moss. In the Andean highlands, there are few opportunities for employment and reliable income for subsistence farmers living in small, remote villages. Inka Moss is the only Peruvian company that sustainably collects and processes sphagnum moss – a natural product in high demand among international orchid growers. The company trains smallholder farmers to collect the moss and become suppliers in its value chain. Inka Moss provides them with fair wages, training, materials and tools, as well as infrastructure development in their communities. In order to support social entrepreneurs such as Inka Moss and help them to rapidly upscale their business model, the SDC – in cooperation with a consultancy firm – devel-

© Inka Moss / Roots of Impact

oped a new PSE format: the social impact incentive (SIINC, see Annex V, PSE Format B v.). This is a funding instrument that rewards social or high-impact enterprises with premium payments, subject to two conditions: 1) the achievement of predefined social outcomes – in the case of Inka Moss linked to the number of communities shifting to a higher level of production, the number of new harvesters, and the number of harvesters who move to a higher earnings bracket – and 2) the mobilisation of additional investments. In fact, the additional revenues provided by the SDC have enabled the company to improve profitability and attract private investment to scale.

The role of the SDC in this cooperation was not only to co-develop the SIINC as a new PSE format but also to pilot it within the framework of a specific programme covering several Latin American countries and to promote it as a highly promising format in the international arena, thereby encouraging its adoption by other donors. In line with the spirit of the SIINC, the SDC's catalytic funding leveraged considerable additional private sector funds for the benefit of Inka Moss and other social enterprises.

5. Building on Swiss competencies: a single-partner collaboration to improve sanitary education in Ukraine, co-funded by the SDC's Eurasia Division

In Ukraine, vocational schools focus on theory rather than on practical training and do not yet provide their graduates with the skills and competencies demanded by the market. This mismatch is a significant cause of low productivity. Against this background, the Swiss company Geberit and the SDC agreed to co-finance a single-partner collaboration (see Annex V: PSE format A i.) aimed at improving the quality and relevance of vocational education and training for plumbers. Improved skills and knowledge tailored to the needs of the market will increase young people's employability and income. So far, 260 qualified plumbers have been trained and a further 820 have recently enrolled. A new plumber training curriculum, professional standards and materials have been developed and introduced in six vocational schools. New infrastructure for practical training has been installed in 25 schools. The project cooperates with the Ministry of Education and Science of Ukraine and plans to involve other industry actors in its second phase.

Beyond this co-funding, the SDC's main role in this cooperation is to facilitate dialogue with the Ministry of Education and Science of Ukraine in order to ensure that the innovations developed by the project are in line with the ministry's plans and are introduced in the revised curriculum and teaching materials. Moreover, the SDC promotes dialogue with other industry actors in order to ensure their participation in the project and therefore an endorsement of the new educational model at the overall industry level.

6. Whole-of-government approach put into practice: the interdepartmental platform REPIC, co-funded by the SDC's Global Programme Climate Change and Environment

Renewable Energy, Energy and Resource Efficiency Promotion in International Cooperation (REPIC) is an interdepartmental platform of the federal offices SECO, the SDC, the Federal Office for the Environment (FOEN) and the Swiss Federal Office of Energy (SFOE). As a support facility (see Annex V: PSE format A v.), the REPIC platform makes an important contribution to the implementation of a coherent Swiss policy and strategy for the promotion of renewable energies, energy and resource efficiency in international cooperation. It contributes to the implementation of global climate protection agreements and the promotion of a sustainable energy supply through the transfer of Swiss know-how and technology. REPIC profiles itself as a market-oriented competence centre. It aims to support high-potential bottom-up projects from the private sector, civil society and academia. Thanks to its financial contributions, REPIC makes it possible to realise promising projects with increased participation of Swiss companies and organisations. Additionally, the REPIC platform supports the exchange of experiences and networking of Swiss and foreign stakeholders. Since its launch in 2004, more than 160 projects have been promoted. All projects are co-financed by the submitting organisations, with REPIC funding no more than 50 percent of the project costs; therefore, REPIC is not only an example of interdepartmental cooperation but also a PSE collaboration in itself.

Annex IV: Theory of change

PSE is a modality that can be implemented in virtually every sector, using different approaches and formats. Therefore, specific theories of change must be formulated for each PSE intervention.

This Annex provides a generic theory of change for PSE interventions, consisting of a narrative rationale, a results chain, and the underlying hypotheses.

Rationale: Within its overarching mandate to reduce poverty, the SDC seeks to contribute to sustainable development by increasingly engaging with the private sector in order to foster innovation and achieve greater impact, including in difficult and fragile contexts.

Underlying hypotheses:

- Political decision-makers support the SDC's intention to increase its engagement with the private sector.
- The private sector is interested in cooperating with the SDC.
- The SDC is able to promote new skills and mindsets internally which are necessary to implement the planned increase in PSE interventions.
- The SDC is able to mobilise the financial and human resources which are necessary to implement the planned increase in PSE interventions.

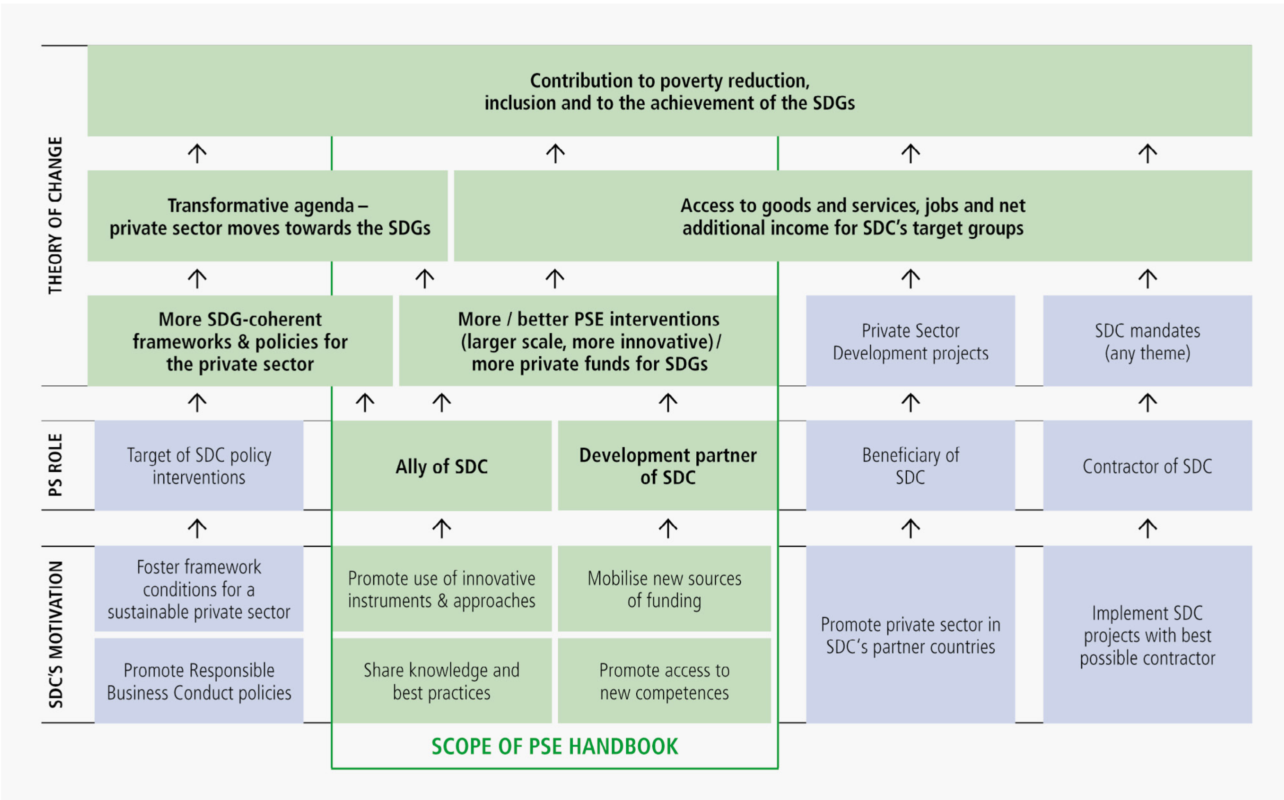

Figure 6: Generic results chain for PSE interventions

Annex V: PSE formats

There are different modalities and ways to structure private sector engagement, depending on the development objective, the context and the type and number of actors involved. Therefore, the SDC distinguishes between different types of engagement modalities – the **PSE formats.** Collaborations that are implemented as part of the SDC's engagement with the private sector can be divided into two main categories: **development project-oriented PSE formats and financial market-oriented PSE formats**.

A. PSE collaborations according to development project-oriented formats are designed like a development project. These include the following six formats:

i. ***Single-partner collaborations*** refer to partnerships that are co-financed, co-steered and ideally also co-initiated with a private sector partner. An example of a single-partner collaboration is **PPDF for Improved Sanitation Education in Ukraine** (Eurasia Division with Geberit).

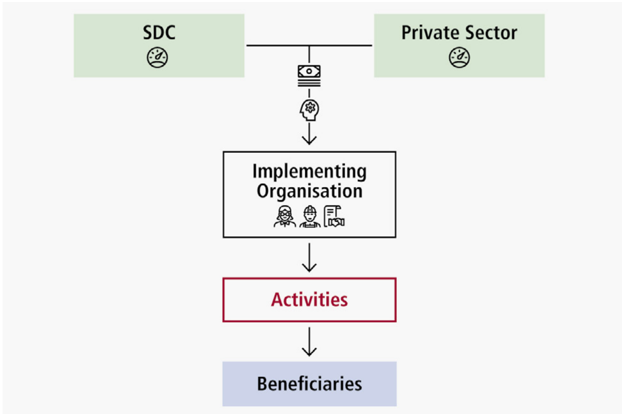

Figure 7: Single-partner collaboration

Icon legend

ii. ***Multi-stakeholder collaborations*** describe similar partnerships but they are implemented with several private sector partners. Examples of multi-stakeholder collaborations are *Remote Sensing-based Information and Insurance for Crops in Emerging Economies* (RIICE) of the Global Programme Food Security with the Swiss companies Swiss Re and Sarmap, among others, and the collaboration *Bangladesh Agricultural and Disaster Insurance Programme* (BADIP) of the Asia Division together with the Syngenta Foundation for Sustainable Agriculture and Swiss Re, among others.

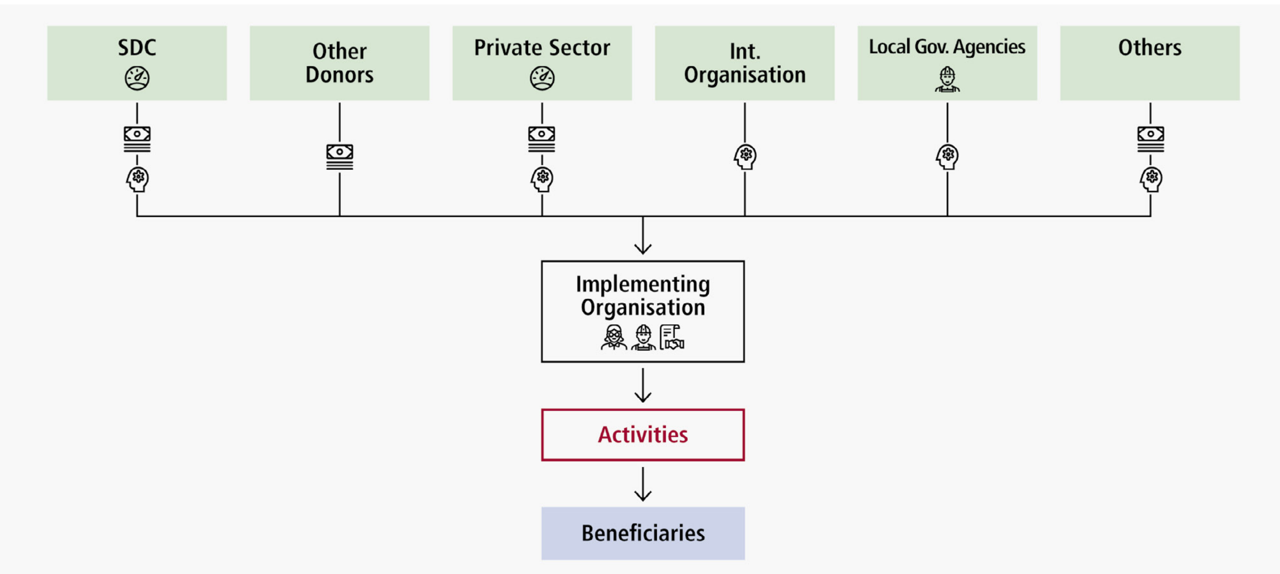

Figure 8: Multi-stakeholder collaboration

iii. ***Formalised multi-stakeholder consortia*** are multi-stakeholder partnerships in which the partners set up an independent organisation (association, foundation, company, etc.). Collaboration examples of this format are *Medicines for Malaria Venture (*MMV) and *Innovative Vector Control Consortium* (both of the Global Programme Health).

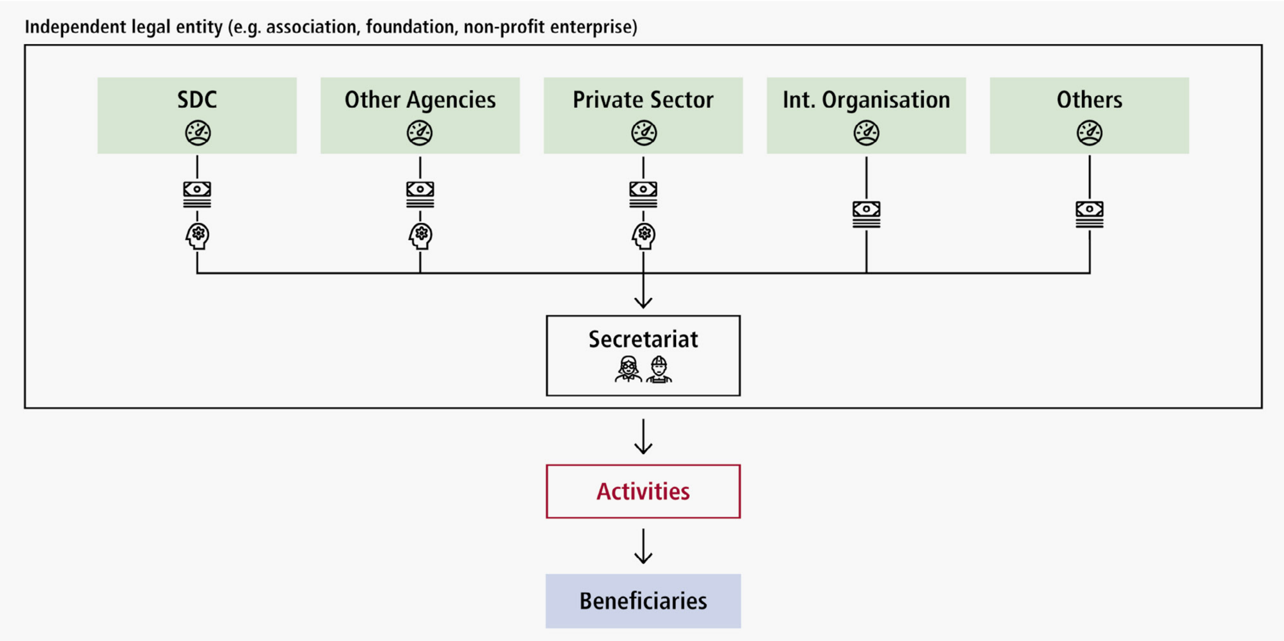

Figure 9: Formalised multi-stakeholder consortium

iv. ***Political dialogue alliance*** is a format in which a large number of partners form an alliance platform with the primary goal of policy advocacy. Examples of this format are the collaborations *Promoting Water Stewardship 2030* of the Global Programme Water and *Global Compact Network Switzerland and Liechtenstein* of the Analysis and Policy Division.

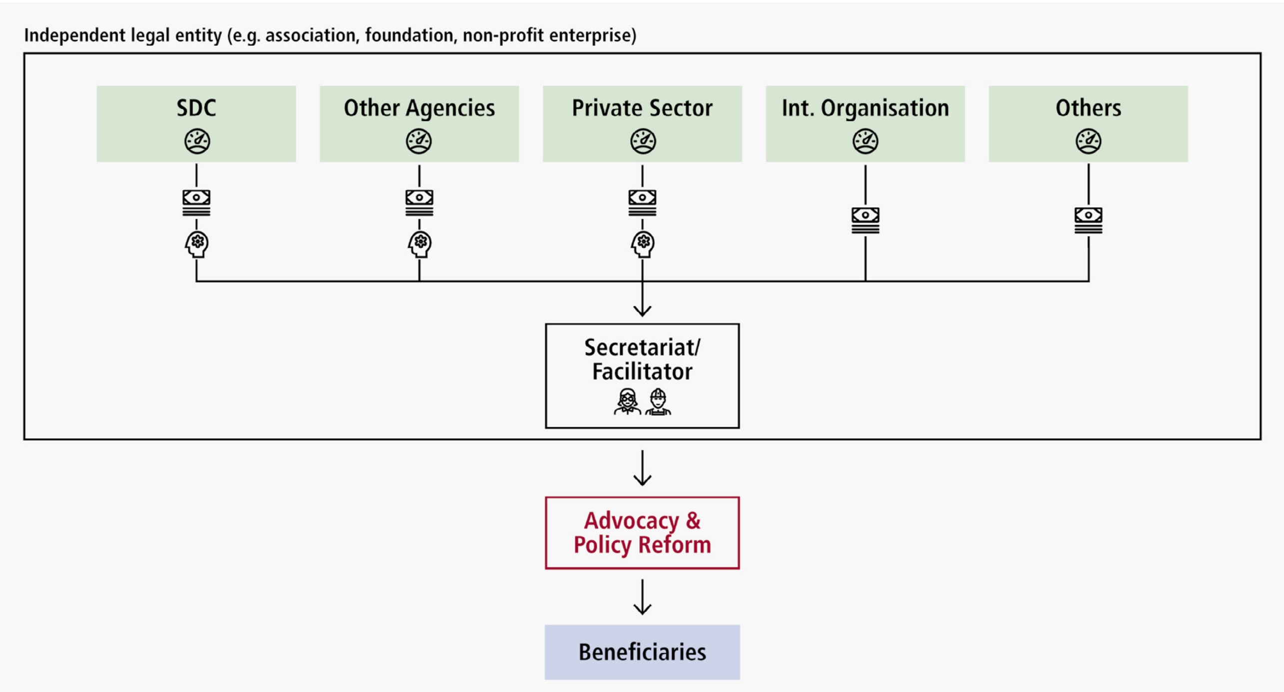

Figure 10: Political dialogue alliance

v. ***Support facility*** is a PSE format in which impact-oriented projects and activities of companies are selected according to a competitive procedure and supported with technical assistance or financing. Support facilities are supported by, for example, the Global Programme Climate Change and Environment as part of the *Renewable Energy, Energy and Resource Efficiency Promotion in International Cooperation* (REPIC) *platform* and by the Latin America and the Caribbean Division via the project *Supporting Social Entrepreneurs in Latin America.*

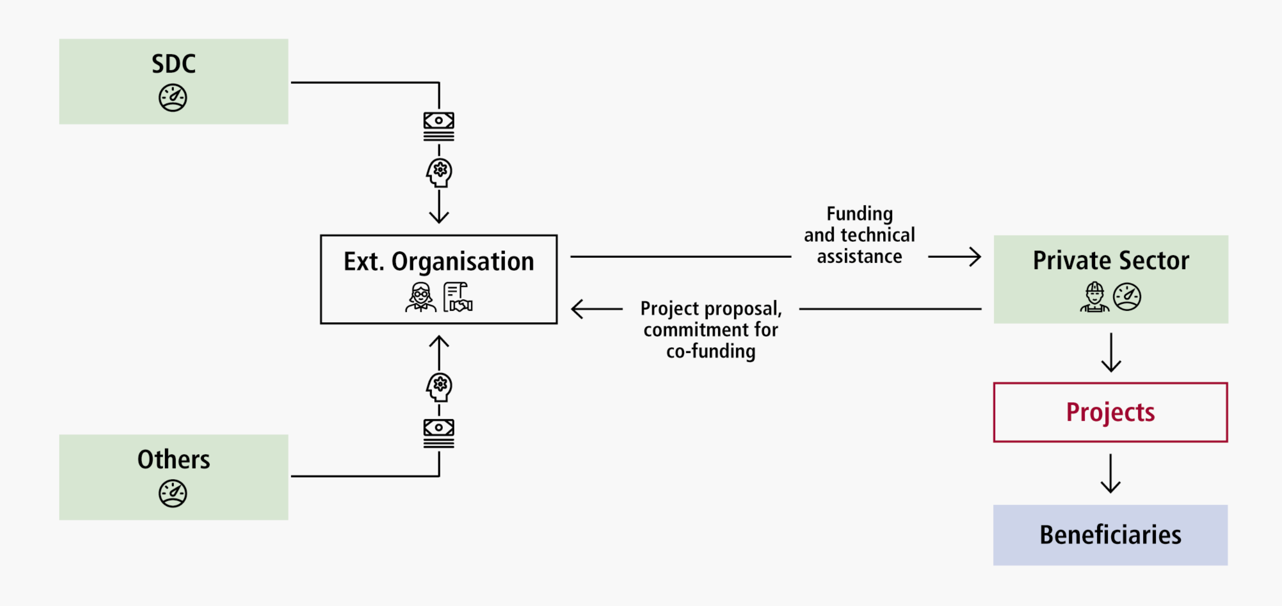

Figure 11: Support facility

vi. ***Secondments*** between private sector partners and the SDC can also be envisaged – a prominent example is the Swiss Humanitarian Aid Unit (SHA) model. Note that, in a specific instance of this PSE format, SDC is either the sender or the recipient organisation.

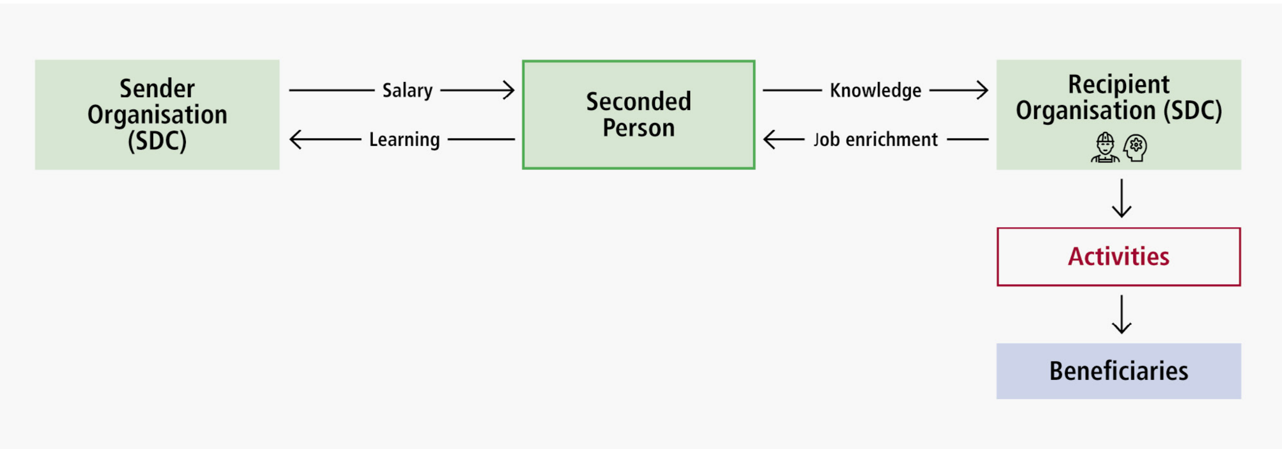

Figure 12: Secondment

B. PSE collaborations according to financial market-oriented formats follow an investment logic – either an investment in a company or in a project (e.g. infrastructure project). Such PSE collaborations are classified according to the following six formats:

i. ***Venture investments*** in the form of shares or loans are used when the SDC and other private sector partners provide a company (typically a start-up) with capital in the form of equity or debt. Examples are the *Futuro Micro Banco* collaboration of the Eastern and Southern Africa Division (equity) and the *Swiss Bluetec Bridge* collaboration of the Global Programme Water (loans).

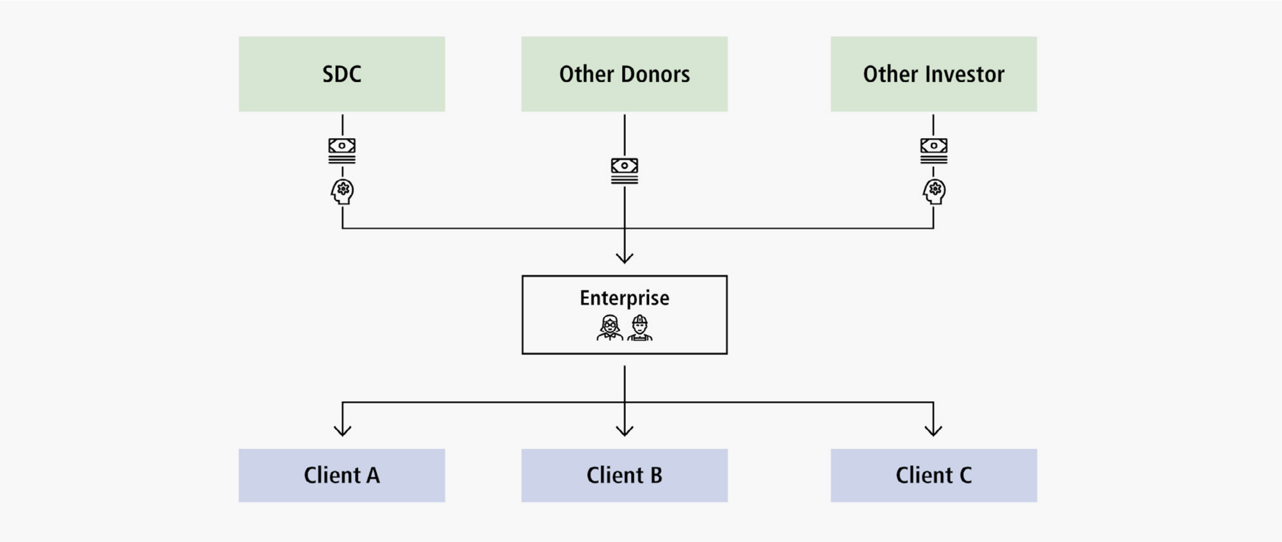

Figure 13: Venture investment

ii. ***Guarantees*** are a specialised form of insurance with respect to financial transactions, wherein the risk of default by either party in a transaction is assumed by a third party external to the original transaction. Guarantees are used, for example, in Bolivia as part of the *Mercados rurales* collaboration of the Latin America and the Caribbean Division for the benefit of the Fundación Profin.

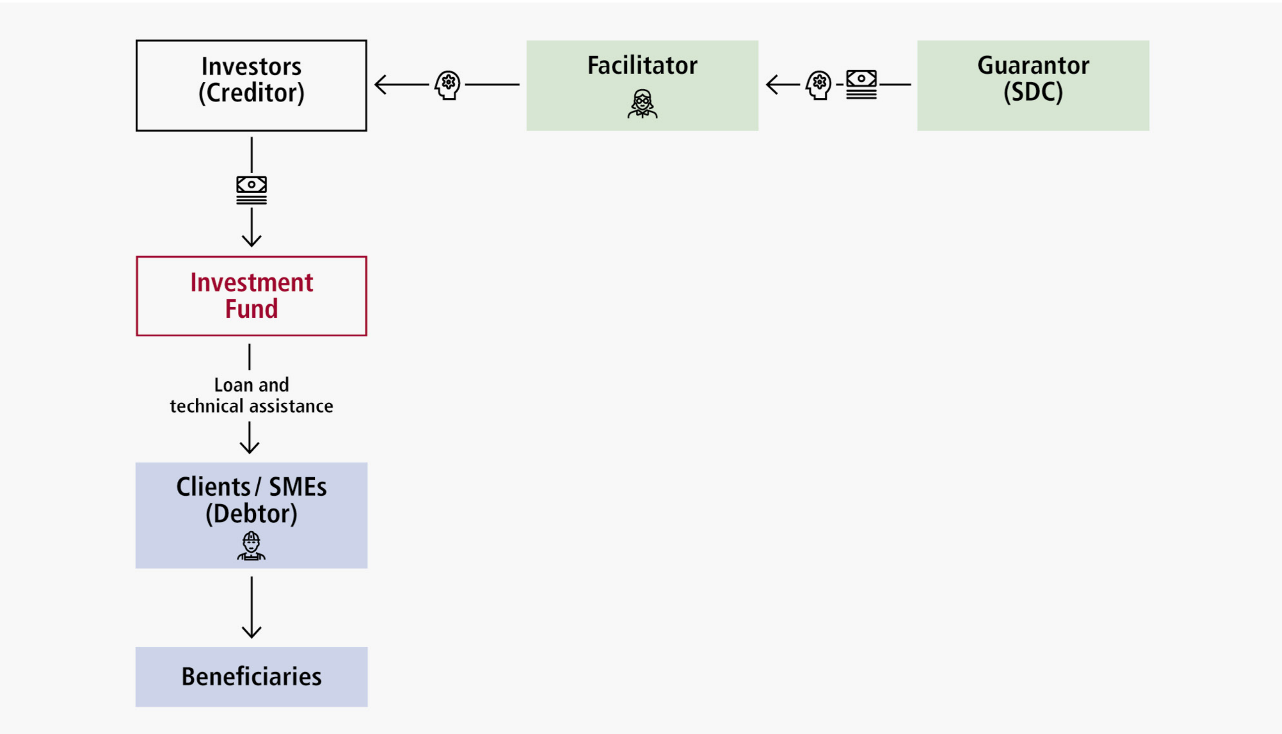

Figure 14: Guarantee

iii. ***Structured funds*** are constructs in which various categories of investors, e.g. private commercial investors, DFIs and donors with different risk-return profiles jointly invest in a financial vehicle. One example is the *European Fund for South Eastern Europe* (EFSE), in which the Western Balkans Division holds shares (known as 'C shares').

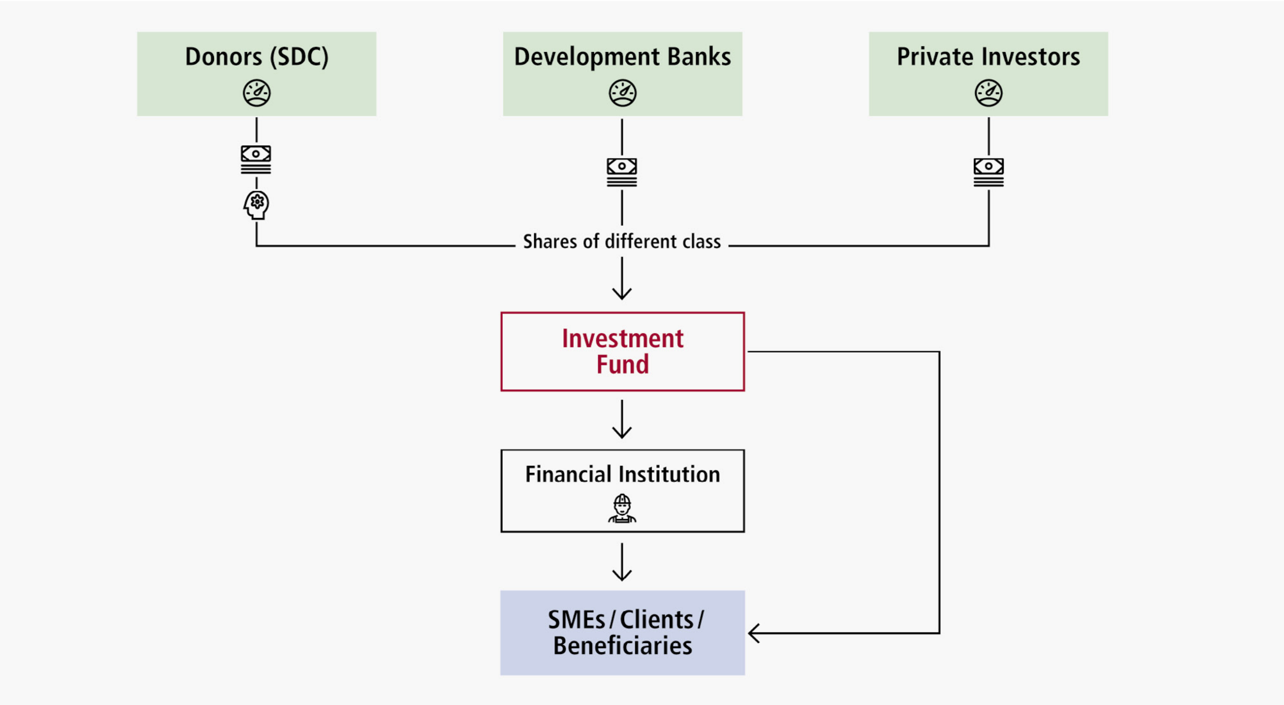

Figure 15: Structured fund

iv. ***Impact bonds*** are instruments in which an (impact) investor advances the funds for an investment in a development or humanitarian project and an outcome payer pays a return to the investor if the project achieves predefined development outcomes. One example is the *Humanitarian impact bond*, in which the Humanitarian Aid Department participates as an outcome payer.

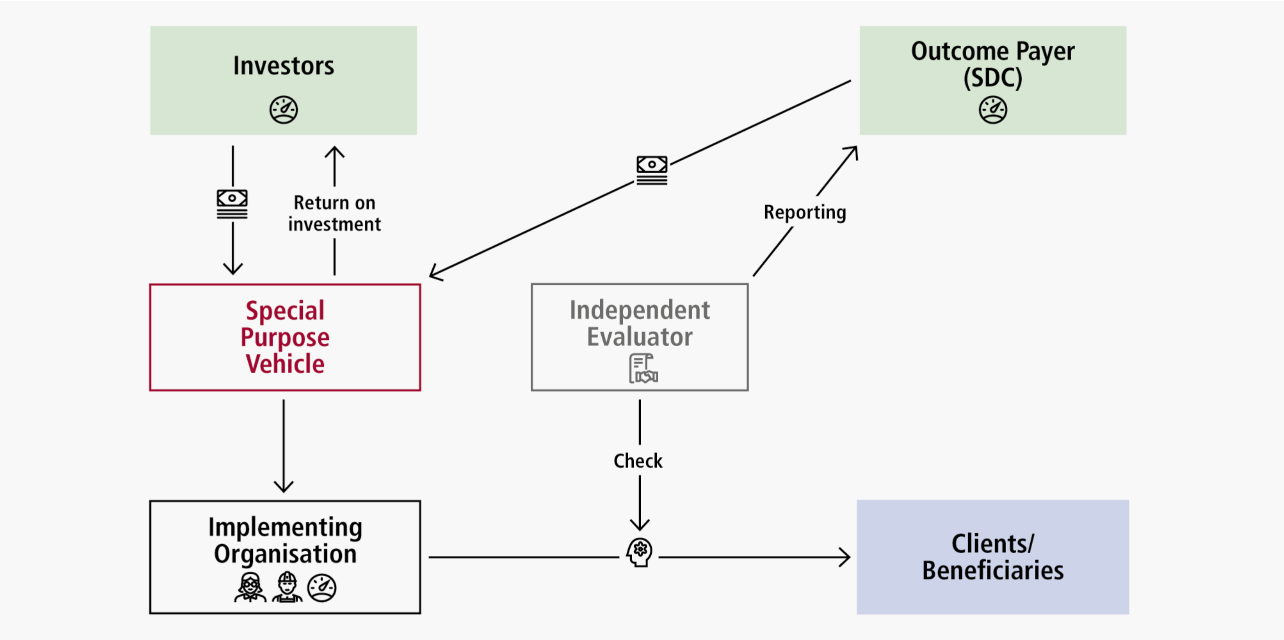

Figure 16: Impact bond

v. ***Social impact incentives (SIINCs)***, like impact bonds, belong to the category of pay-for-results instruments. The main difference with respect to impact bonds is that SIINCs are paid to the company itself (typically a social enterprise) and not to the investor, provided that predefined development outcomes are achieved, and additional investment is mobilised. SIINCs were co-developed by the SDC and are used, for example, in the *Social Entrepreneurship SIINC* programme of the Latin America and Caribbean Division.

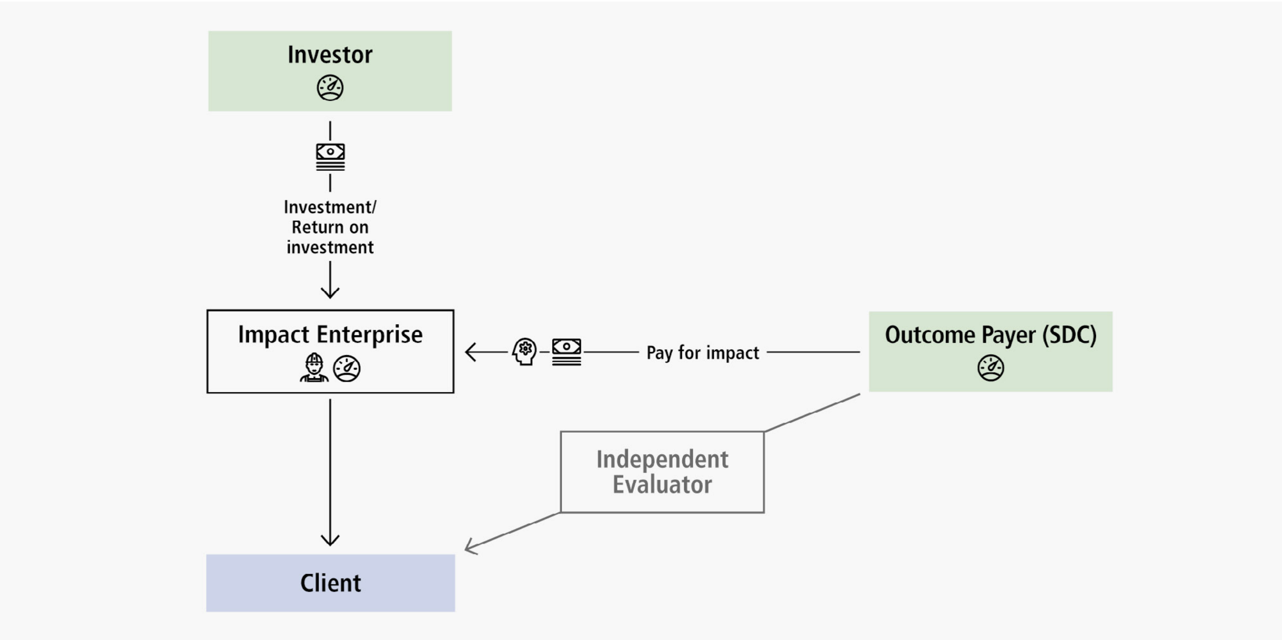

Figure 17: Social impact incentive

vi. ***Technical assistance (TA) facility to financial vehicles*** is used to reduce transaction costs for private (impact) investors. To this end, TA is used for the benefit of the organisation in which the investor invests (e.g. a microfinance institution) or for the benefit of the final beneficiaries (e.g. smallholder farmers). One example is the TA facility of the Global Programme Food Security in cooperation with the Swiss impact investor responsAbility.

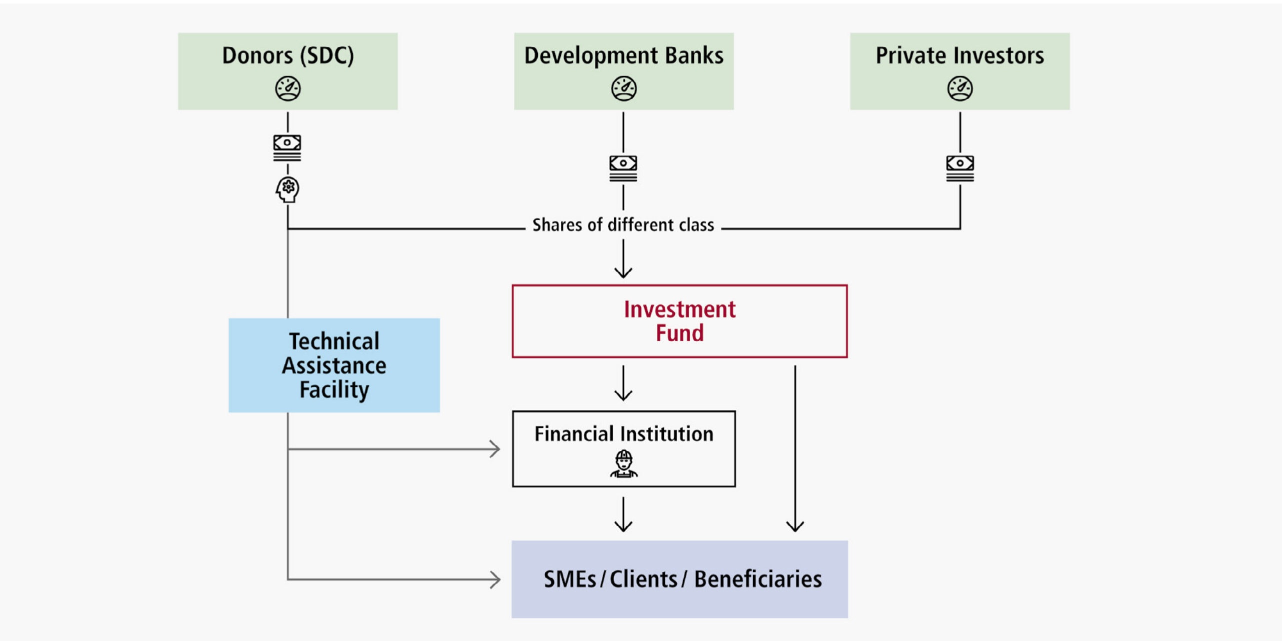

Figure 18: Technical assistance facility to financial vehicles

For a more detailed description of the different PSE formats and their respective fields of application, see the PSE Shareweb

Annex VI: The cascade approach

Achieving the 2030 Agenda and the Paris Climate Agreement requires investments of trillions of dollars. New sources of finance are therefore needed to increase the capital available to meet these goals without pushing the public sector into unsustainable levels of debt and contingent liabilities. The private sector has invested over USD 200 trillion in global financial markets; redirecting a fraction of this capital would bridge the financial gap for meeting development challenges. The cascade approach was therefore adopted by the World Bank Group in 2017 **to maximise finance for development by systematically looking for and acting upon opportunities to create markets**.

Definition:
The cascade approach offers a **framework for deciding whether ODA funds should be spent or whether private sector actors can (partially) address the development challenge at hand.** The approach is structured around **four sequential statements** (see Figure 19 below) which help to identify the extent to which the private sector should be able to address the challenges on its own or whether a donor involvement is required. This way, **scarce public resources can be channelled into those interventions most in need of such resources**, i.e. where no other actor can help.

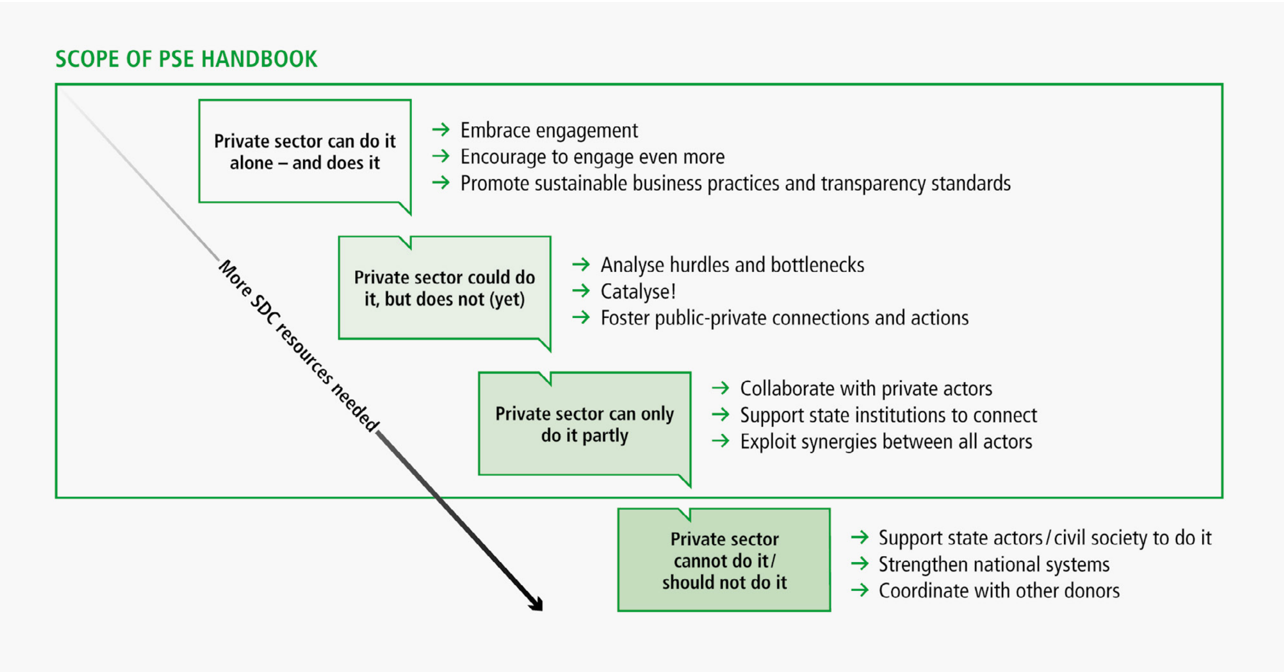

Figure 19: Cascade approach

Implications for the SDC:

- Instead of automatically granting donor funds as the default solution, the SDC should **first critically reflect on whether the private sector could not provide the required service, either fully or partially**.

- If the private sector does not do so on account of the excessively high risks, it should be **assessed whether ODA-funded activities could optimise the risk profile in such a way as to make an investment affordable for the private sector**.

- Thus, in addition to other considerations, the cascade approach promotes an **assessment of the extent to which ODA funds are needed to engage the private sector and trigger additional funds** for sustainable development.

Considerations:

- The cascade approach does **not seek to reduce the role of the state in partner countries.** On the contrary, in many cases development interventions must remain within the realm of the public sector. For these cases, **development agencies can support partner countries in adopting sustainable policies** in order to create a fertile ground for leveraging additional private investments without jeopardizing the overall responsibility of the state. Moreover, **interventions should not be reduced to a 'privatise everything' approach and should always consider national strategies and preferences**.

- Private sector solutions should be promoted only if they:
  - are economically viable
  - are fiscally and commercially sustainable
  - are transparent in regard to risk allocation
  - address equity and affordability concerns for consumers
  - ensure environmental and social sustainability

- Therefore, the **costs and benefits of private versus public solutions** must be properly assessed.

The cascade approach in practice

How can the SDC apply the cascade approach?

Methodological approach:

Once the SDC has identified an unresolved development challenge, **the selection and design of an appropriate intervention is crucial.** When considering a potential role by the private sector, the following steps are recommended:

1) analyse the local context to understand who the private sector actors are and what role they currently play;
2) understand which role the SDC could play and through which measures it could act.

The decision tree enables the SDC to assess these two steps.

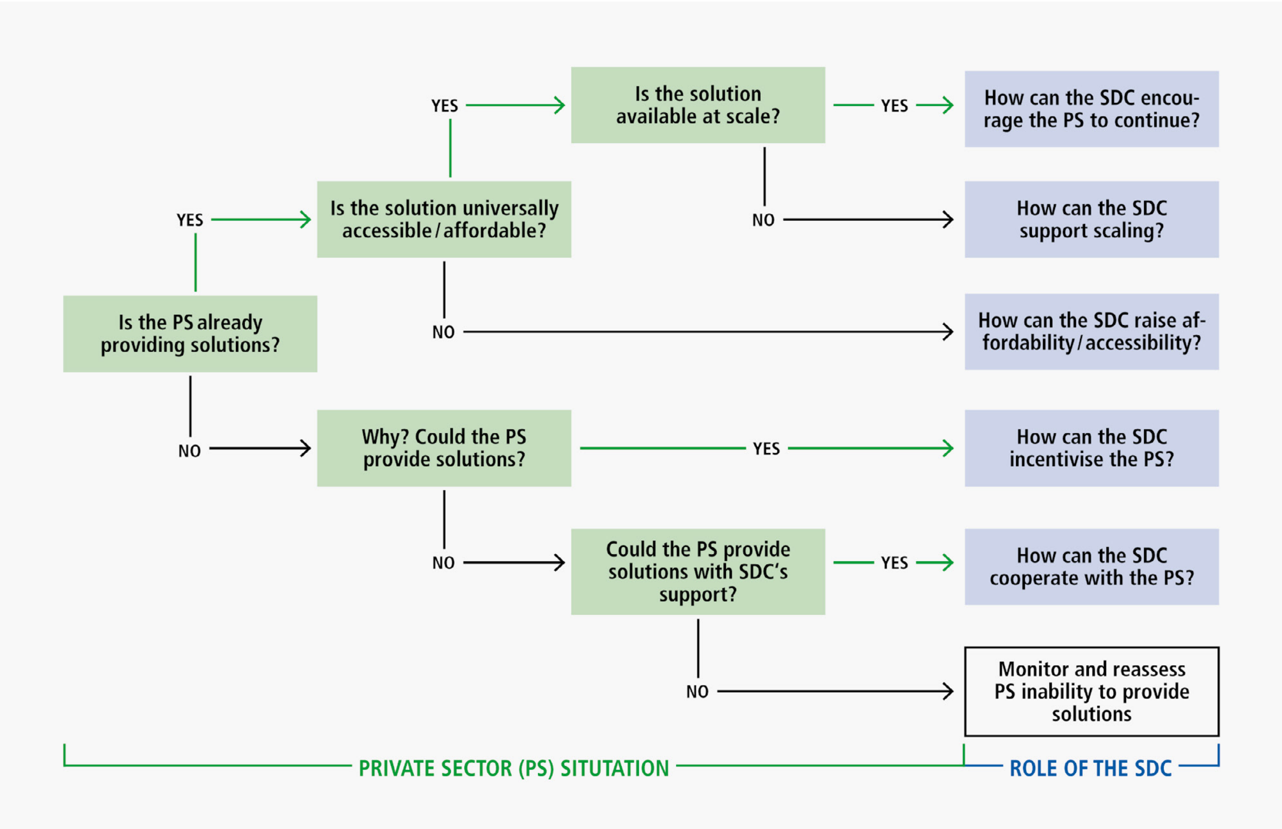

Figure 20: Cascade approach – Decision tree

	Context analysis	Intervention* assessment & selection
Goals	→ Understand the local context → Appreciate what the PS is doing or could do to address the identified unsolved development challenges	→ Understand which role the SDC could play → Design a set of measures the SDC could take
Activities	→ Understand and map local and international private sector actors who (could) address the gap → Pinpoint why the PS is not providing solutions → Identify their current activities, constraints and opportunities → Gather overview of possible interventions (long-list of options) → Build initial relationship with stakeholders → Understand the local government strategy	→ Identify the SDC's role based on PS mapping → Understand and review interventions (short-list) → Review PS partners: assess fit and level of engagement → Design a set of measures to be implemented → Develop a theory of change and define outcome metrics → Define a pilot project
Sources	→ Desk research (empirical evidence, interventions review) → Data collection using local network → Stakeholders interviews (government, communities, PS)	→ Private/ public sector & civil society experts consultation → Stakeholder engagement (PS, government, NGOs and UN agencies) → Field visits → Feasibility studies → Due diligence of potential partners
Tools	→ World Bank Group. Country Diagnostic Search Tool → MercyCorps. Private Sector Engagement Toolkit; Private Sector Firm Identification Tool; Business Sector Scan Tool; → USAID. Evidence Gap Map → The Springfield Center. The operational guide for M4P approach	→ MercyCorps. Due Dilligence Assessment Tool; Feasibility Assessment Tool; Stakeholder Analysis for PSE Tool → The Springfield Center. The operational guide for M4P approach → SDC Handbook on PSE (Part B)

* In this context, «intervention» refers to a role the SDC takes and the measures it implements – based on the cascade approach – in order to support the private sector (PS)

Figure 21: Design of an SDC intervention with potiential private sector involvement

Sources: : Private Sector Engagement Toolkit, MercyCorps. (2014);
The operational guide for the making markets work for the poor M4P approach,The Springfield Center (2015)

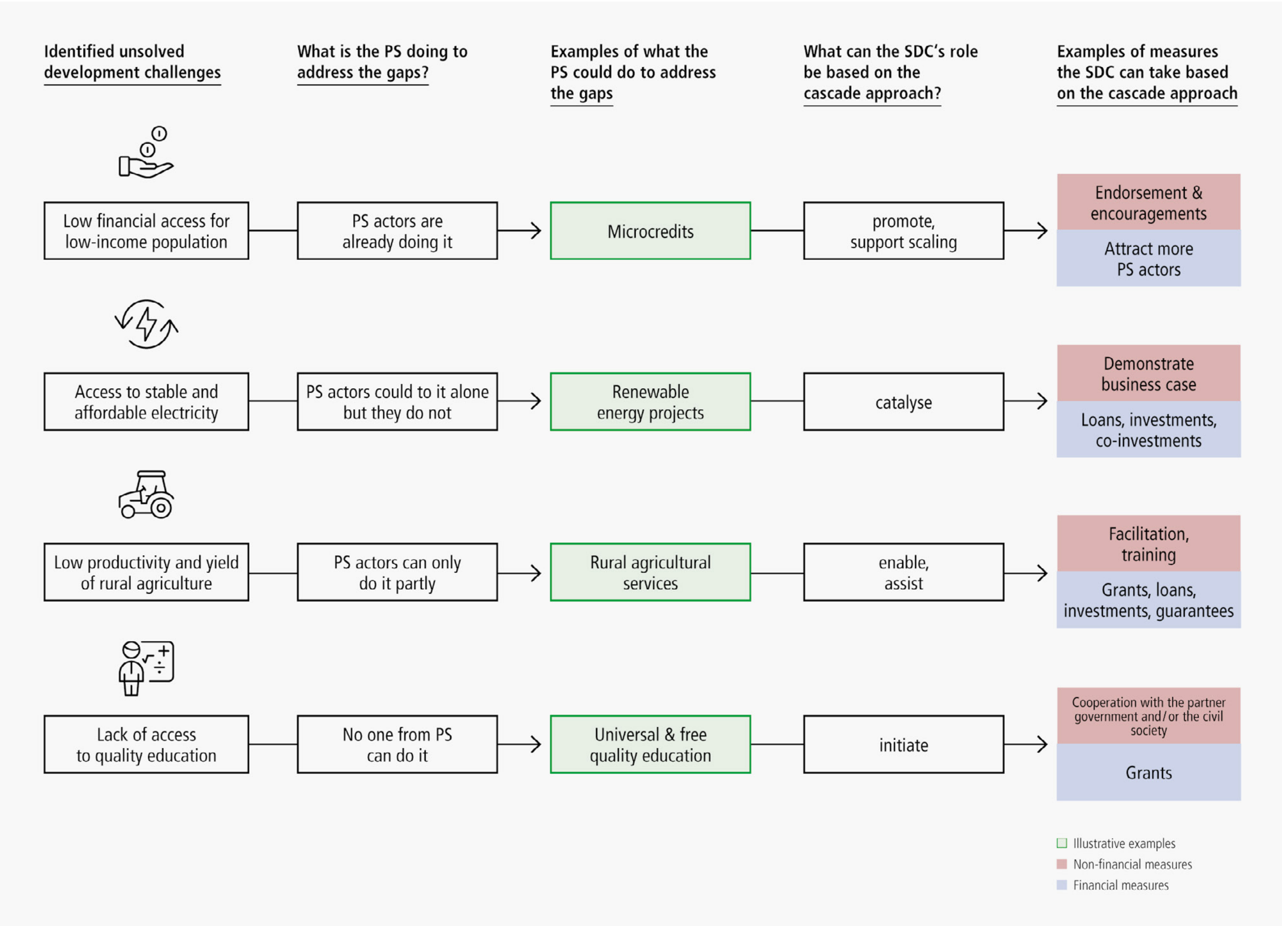

Figure 22: Four examples of the cascade approach in practice

Description of the four examples:

1. *Microfinance institutions* are **already providing an effective and appropriate private sector solution**, addressing the *restricted financial access for low-income populations* through microcredits and other financial products.

- To ensure that the private sector continues its work, the SDC should support, promote and help scale such solutions by:

i) **providing endorsements and encouragement** (e.g. promoting the establishment of credit bureaus or funding research on SME financing opportunities);

ii) **providing incentives to attract more private sector actors** to close the overall gap (e.g. expand to LDCs or to rural areas).

2. There is **no existing private sector solution** addressing the *lack of access to stable and affordable energy. Renewable energy companies* **could** however **provide solutions on their own** by setting up renewable energy projects.

- To help the private sector close this gap on its own, the SDC can act as a catalyst by:

i) **demonstrating there is a business case** for launching renewable energy projects;

ii) **providing (interest-free) loans or other forms of financial contribution** to the company.

3. There is **no existing private sector solution** addressing *the low productivity and yield of rural agriculture. Local agricultural SMEs* **could** however **provide solutions in collaboration with the SDC** by providing better infrastructure and education.

- To help the private sector (e.g. agricultural SMEs) close this gap on its own, the SDC can assist and enable it to operate by:

i) **facilitating and training** the private sector;

ii) **providing grants, loans, initial investment capital or guarantees** to the private sector.

4. There is **no existing private sector solution** addressing *the lack of access to universal and free quality education* and **no one** from *the private sector* **can provide solutions.**

- In such a situation, the SDC can contribute to closing the gap in access to universal and free quality education by:

i) **cooperating** with the partner government and/or civil society;

ii) **providing grants.**

Annex VII: How to assess additionality

Definition:

One of the basic principles of PSE collaborations is the need to assess and demonstrate additionality, i.e. **why ODA is needed to trigger engagements or investments that the private sector would not otherwise make, or make them happen more quickly, on a bigger scale, or more successfully in terms of development outcomes.**

To do so, the SDC builds on best practices and methodologies developed by international organisations and adopted by other like-minded donor agencies.

Eight principles for assessing and enhancing additionality ex ante:[121]

1. Be sensitive and creative in requesting additionality-related information from companies to increase the chances of honest and informative answers.

2. Maximise personal interaction with potential partner companies during the application or project design process.

3. Always seek to triangulate information as much as possible and involve experts in the review and decision-making process.

4. 'Adding additionality': Identify possible ways for enhancing the expected development impacts of the proposed project.

5. Consider several types and degrees of additionality to select the projects with the highest expected net positive difference resulting from donor support.

6. Seek to reduce financial subsidies to the minimum amount needed to trigger the desired actions.

7. Establish a transparent story on additionality, based on a clear theory of change, rather than complicated indices or other quantitative measures.

8. Additionality assessment criteria and processes should be clearly documented internally.

121 'Demonstrating Additionality in Private Sector Development Initiatives: A Practical Exploration of Good Practice for Challenge Funds and other Cost-Sharing Mechanisms', Donor Committee for Enterprise Development (DCED, 2014).

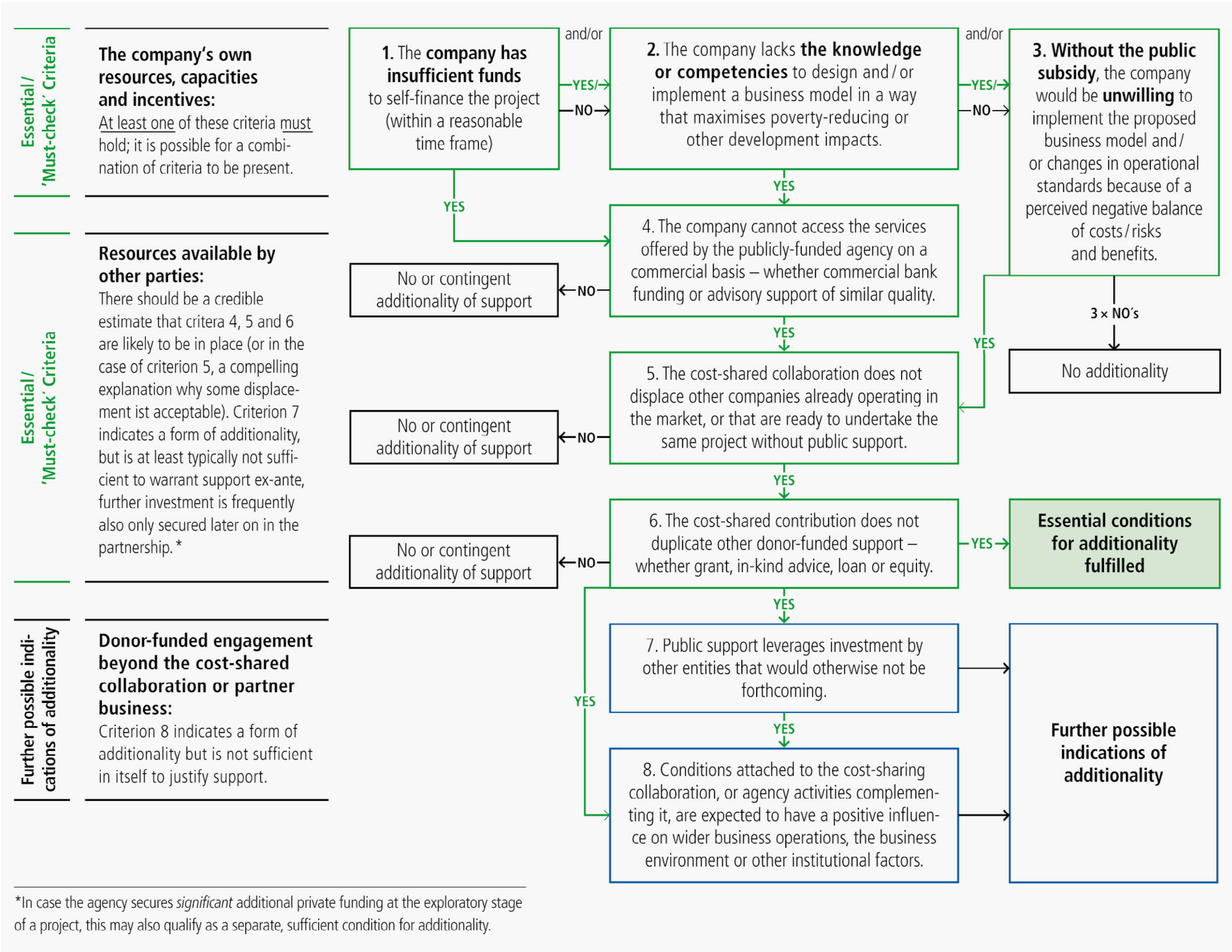

Figure 23: Flow chart for demonstrating additionality ex ante

Source: 'Demonstrating Additionality in Private Sector Development Initiatives: A Practical Exploration of Good Practice for Challenge Funds and other Cost-Sharing Mechanisms', DCED (2014, p.8)

Annex VIII: Useful links and resources

- PSE Format Finder on the Shareweb
- One-pager on PSE 100 Workshops

Annex IX: Roles and responsibilities along the PSE Risk Management Process

PSE RISK MANAGEMENT PROCESS (PSE RMP)		I. ASSESS PSE PROSPECT	II. PREPARE ENGAGEMENT	III. MONITOR, REVIEW & ADAPT ENGAGEMENT	IV. EXIT ENGAGEMENT
FUNCTION	ROLE	RESPONSIBILITIES / TASKS			
HEAD OF DEPARTMENT FDFA	Accountability vis-à-vis Swiss citizens	Review PEP decision			Take notice of critical exits
SDC SENIOR MANAGEMENT	Strategic guidance, final decisions, adequate resource allocation	Decide on PEP-handling			Decide on critical exits
SDC QUALITY ASSURANCE / ICS NETWORK	Ownership for PCM and related guidance, general risk management framework	Coordination and guidance with regard to general risk management, risk monitoring, PCM alignment and further development of the PSE RMP			
SDC CEP + BACKSTOPPERS	Guidance on PSE related issues, expert advice, coaching, monitoring	Manage central partner database Internal preparation (1.1 – 1.5 excl. 1.3 PEP)		Portfolio monitoring (6.)	
OPERATIONAL UNIT	Ownership for partnership (incl. final decision), initialise PSE RMP process, execute	Due diligence (3.) Mandate for PSE RMP to CEP, 1.3 PEP		Ask CEP for update of ESG risk assessment + due diligence (6.)	
PSE COLLABORATION*	In case of multi-stakeholder PSE collaborations, ownership for collaboration-specific risk management tasks	"Getting to know each other" (2.)	Joint project risk assessment (4.) Partnership agreement (5.)	Continued joint project risk management (6.) Adaptation of the partnership agreement (7.)	Early exit (8.) Planned exit (9.)
PSE PARTNER	Ownership for partnership (incl. final decision), initialise all steps on PS side		Risk assessment (partner perspective)	Risk assessment (partner perspective)	
PSE PARTNER'S DIFFERENT UNITS	Good governance on partner side (SDC hierarchy mirrored)	Management endorses (if needed) CSR dept. supports/co-funds	Legal dept. checks contracts		Comm. dept. accompanies Legal dept. & management endorse exit

Formal decisions

* Remark: the category "PSE collaboration" doesn't formally represent an organisational unit, but indicates the joint set-up in which two or more actors (SDC operational unit, one or more PSE partners, possibly others such as additional donors) get together and take joint actions and decisions.

Figure 24: Roles and responsibilities of the different stakeholders involved in the PSE Risk Management Process.

Annex X: Interaction with private sector actors: additional points for the general discussion guidelines

This Annex provides additional points for the general discussion guidelines in Step 2 of the PSE Risk Management Process, 'Getting to know each other' (see Part C of this Handbook). For each category of private sector partner, a specific set of additional points is listed below.

1. **Multinational enterprises (MNEs); publicly listed companies; large, non-listed companies**

- **Formal disclosure:** Verification as to whether the annual financial reporting complies with accepted national or international standards (relevant mainly for non-listed companies). These are, for example:
  - International Financial Reporting Standards (IFRS)
  - Swiss GAAP FER
  - US GAAP

- **Sustainability commitment:** The sustainability/corporate social responsibility/corporate responsibility commitment of the PSE prospect needs to be discussed. Indications of such commitment are, e.g.:
  - Signatory to the UN Global Compact
  - Non-financial reporting (NFR) in accordance with the standards of the Global Reporting Initiative (GRI) or International Integrated Reporting Framework (IIRC) or a regional/national NFR standard
  - ISO 14001 Certification, ISO 26000 Standard
  - Reference to the UN Guiding Principles on Business and Human Rights
  - EDGE Certification (the leading global assessment methodology and business certification standard for gender equality)

- **ESG risks:** If high or very high risks have been identified through the RepRisk Analytics database or the desk research, these risks need to be discussed with the PSE prospect, particularly to understand its awareness concerning those risks and any existing or potential prevention and mitigation measures.

- **Additional criteria for critical sectors:** If the PSE prospect operates in a critical sector, it must be determined whether the PSE prospect adheres to sector-specific voluntary standards/commitments/best practices and, if so, which ones.

2. **Small and medium-sized enterprises (SMEs), limited liability companies (Ltd. and LLC); social enterprises**

- **Registration:** The legal form, company status and management information/ownership details need to be discussed; it should be ensured that the PSE prospect is registered (commercial/trade registry; for Swiss companies, moneyhouse.ch can be used to check ownership and legal form). This information helps in appraising the PSE prospect's governance maturity.
- **Sustainability commitment:** The sustainability/corporate social responsibility/corporate responsibility commitment of the PSE prospect needs to be discussed to assess its awareness and preparedness in managing ESG-related risks. Indications for a solid commitment are, e.g.:
  - Written commitments in a strategic document, e.g. Code of Conduct, or part of the vision/mission statement
  - Non-financial reporting, ISO 14001 Certification, ISO 2600 Standard (although less common for SMEs and social enterprises)

- **ESG risks:** If high or very high risks have been identified, they need to be discussed with the PSE prospect, particularly to understand its awareness concerning those risks and any existing or potential prevention and mitigation measures.

- **Additional criteria for critical sectors:** If the PSE prospect operates in a critical sector, it must be determined whether the PSE prospect adheres to sector-specific voluntary standards/commitments/best practices and, if so, which ones.

- **Business model:** A PSE prospect should present the current status and outlook (e.g. five-year horizon) of its enterprise, addressing core business activities and support processes (human resource management, communication, etc.). This information helps to provide a better overview of potential synergies and complementarities and to assess the commercial perspectives and the impact potential of the PSE prospect.

3. **Grant-making foundations**

- **Non-partisan nature:** It must be verified that the foundation's position is non-partisan in nature, in order to prevent potential reputational damage.

- **Registration:** The legal and institutional status (foundation under public or private law), management information/owner details, and the sources of funding need to be discussed. It should be ensured that the foundation, depending on national regulation, has acquired either legal personality by public registry entry or by the mere action of being created through a document of establishment comprising (at least) its purpose, economic activity, supervision and management provisions, tax status of corporate and private donors, and provisions for the dissolution of the entity.

- **Purpose of the foundation:** It must be verified that the foundation's purpose is aligned with the SDC's overarching mandate and strategic objectives.

- **Certification** *(optional):* For Swiss foundations, it should be checked whether the foundation is ZEWO-certified, a member of Swiss Foundations, ProFonds or a similar membership-based organisation promoting good governance in foundation management.

4. **Impact investors**

- **Registration:** The legal status, management information/owner details, and – if applicable – place(s) of fund(s) registration must be discussed. This information is required to assess the PSE prospect's governance maturity.

- **Track record:** A PSE prospect should be asked for the reference list of past and present investments and should explain its investment strategy and approaches/policies for considering ESG aspects in investment decisions in order to ensure that its business practices meet the SDC's requirements.

Annex XI: Disclosure of information

This Annex describes the documents required from the PSE prospect for Step 3 of the PSE Risk Management Process, the due diligence (see Part C of this Handbook).

Depending on the category of the private sector partner and the risks identified in the first phase of the PSE RMP, the following documents may be required:

- Organisational information (mainly for non-listed organisations):
  - District registration
  - Business registration
  - Founding protocol
  - Roles within organisation
  - List of relevant subsidiaries (where the PSE prospect's share is ≥ 50%)

- Financials (mainly for non-listed organisations):
  - List of shareholders
  - Financial identification signed (bank details and account holder's data)

- Employment matters (mainly for non-listed organisations):
  - Company number for social security reporting of employees
  - Registration with the employer's liability insurance association

- Policies/guidelines (depending on the ESG risks identified:
  - Code of conduct
  - Supplier code of conduct
  - Anti-corruption policy
  - Human rights policy
  - Environmental policy
  - Health and safety policy
  - Data privacy policy
  - Diversity and gender policy

- References from other projects/collaborations with the SDC or other donors (if available):
  - Financial report
  - Operational report
  - Auditor's report

- Others (if available):
  - Judgments, orders or other rulings by courts with regard to past sentences, current litigations and lawsuits
  - Documents about compliance regarding health and safety, environment, data protection

Annex XII: Self-declaration based on questionnaire for each PSE format

This Annex describes the self-declaration requirements for the PSE prospect in the framework of Step 3.1 of the PSE Risk Management Process, the disclosure of information and self-declaration for conducting a due diligence (see Part C of this Handbook).

Depending on the format of the PSE collaboration, the following elements should be covered:

All PSE formats

A PSE prospect must declare whether it adheres to and/or has signed one of the following internationally recognised commitments, frameworks and guiding principles:

- UN Global Compact
- UN Guiding Principles on Business and Human Rights
- OECD Guidelines for Multinational Enterprises

1. **Single-partner collaboration**

A PSE prospect must fill out and sign a standard questionnaire including the following issues:

- Past sentences, current litigations and lawsuits
- Liquidity (e.g. bank statement)
- Supplier issues
- Human rights issues (incl. forced and compulsory labour, child labour), prevention measures
- Labour standards issues, prevention measures
- Cases of health and environmental damages, prevention measures
- Cases of corruption/misuse of public funds/illicit financial flows, prevention measures
- Cases of sexual abuse and harassment, prevention measures
- Access to remedy and grievance mechanism

2. **Multi-stakeholder collaboration / formalised multi-stakeholder consortium / political dialogue alliance**

Alternative 1: The SDC is neither the initiator nor part of the steering committee (i.e. not the lead of the PSE collaboration) and therefore is not responsible for the due diligence of other partners (e.g. initiator / steering committee is responsible for due diligence):

- Request due diligence reporting from the initiator / steering committee

Alternative 2: The SDC is the initiator or part of the steering committee and therefore responsible for the due diligence of other partners. All PSE partners must fill out and sign a standard questionnaire including the following issues:

- Past sentences, current litigations and lawsuits
- Liquidity (e.g. bank statement)
- Supplier issues
- Human rights issues (incl. forced and compulsory labour, child labour), prevention measures
- Labour standards issues, prevention measures
- Cases of health and environmental damages, prevention measures
- Cases of corruption / misuse of public funds / illicit financial flows, prevention measures
- Cases of sexual abuse and harassment, prevention measures
- Access to remedy and grievance mechanism

3. **Support facility (matching grant / challenge fund)**

The implementing organisation selects the entrepreneurs to be supported (i.e. the beneficiaries) and is therefore responsible for their due diligence. Accordingly, it must be assessed whether the implementer's beneficiary selection process meets the SDC's requirements. Minimum requirement: the implementing organisation adheres to a code of conduct with specific rules or guidelines for the evaluation and selection of beneficiaries and/or applies a specific 'code of conduct for beneficiaries'. The SDC may require from the implementing partner confirmation of the fact that a due diligence analysis has been conducted for the beneficiaries. The SDC may also require from the implementing partner a sample of due diligence reports assessing the beneficiaries.

4. **Secondment**

A PSE prospect must fill out and sign a standard questionnaire including the following issues:

- Liquidity (e.g. bank statement)
- Employment matters (e.g. organisational chart, copies of standard employment agreements)
- Social security, pensions (e.g. documents regarding pension funds or social security of the company, health insurance)
- Labour standards issues, prevention measures
- Cases of sexual abuse and harassment, prevention measures

5. **Venture investment (equity or debt)**

For venture investments (equity and debt) no self-declaration is needed as a comprehensive third-party due diligence must be conducted. However, the third-party conducting the due diligence process can request a self-declaration from the PSE prospect.

6. **Guarantee**

No self-declaration is needed as a comprehensive third-party due diligence analysis must be conducted on the recipients of a guarantee.[122] However, the third-party conducting the due diligence analysis can request a self-declaration from the PSE prospect.

7. **Structured fund / technical assistance facility to a financial vehicle**

In case of expected repayments (purchase of stakes in a structured fund), no self-declaration is needed as a comprehensive third-party due diligence must be conducted; however, the third-party conducting the due diligence process can request a self-declaration from the PSE prospect.

If no repayment is expected (e.g. in case of grant to a Technical Assistance Facility to a Financial Vehicle) and the project shows a low risk exposure, the PSE prospect (e.g. private investor, fund manager) must fill out and sign a standard questionnaire including the following issues:

- Past sentences, current litigations and lawsuits
- Liquidity (e.g. bank statement)
- Labour standards issues
- Cases of corruption / misuse of public funds / illicit financial flows, prevention measures
- Cases of sexual abuse and harassment, prevention measures
- Confirmation of relevant experience in strengthening the operational capacity of invested or potential portfolio companies of the structured fund and in building up fund's markets.

122 E.g. process for obtaining a project financing guarantee, EKF Denmark's Export Credit Agency.

8. **Impact bond**

In case of option 1 (due diligence based on the disclosure of information and a self-declaration), the PSE prospect (e.g. investor) must fill out and sign a standard questionnaire including the following issues:

- Past sentences, current litigations and lawsuits
- Liquidity (e.g. bank statement)
- Supplier issues
- Human rights issues (incl. forced and compulsory labour, child labour), prevention measures
- Labour standards issues, prevention measures
- Cases of health and environmental damages, prevention measures
- Cases of corruption / misuse of public funds / illicit financial flows, prevention measures
- Cases of sexual abuse and harassment, prevention measures
- Access to remedy and grievance mechanism

9. **Social impact incentive (SIINC)**

In case of option 1 (due diligence based on the disclosure of information and a self-declaration), the **social enterprise** must answer and sign a standard questionnaire covering the following issues:

- Past sentences, current litigations and lawsuits
- Liquidity (e.g. bank statement)
- Supplier issues
- Human rights issues (incl. forced and compulsory labour, child labour), prevention measures
- Labour standards issues, prevention measures
- Cases of health and environmental damages, prevention measures
- Cases of corruption / misuse of public funds / illicit financial flows, prevention measures
- Cases of sexual abuse and harassment, prevention measures

No due diligence of the **investor** is necessary, since the investor is not the partner of the collaboration and the social enterprise is responsible for finding investors. However, the SDC should make sure that no politically exposed persons (PEP) are part of or associated with the investor.

Publication details

Published by:
Federal Department
of Foreign Affairs (FDFA)
3003 Bern
www.eda.admin.ch

Design and layout:
FDFA Audiovisual Team, FDFA Communication, Bern

Graphics:
sags GmbH

Cover image:
© Ayenat Mersie, International Finance Cooperation

This publication will also be available in French
and can be downloaded at: www.eda.admin.ch/publikationen.