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**Swiss Agency for Development
and Cooperation SDC**

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inclusive economic development
competence center for engagement
with the private sector

Private sector engagement

The 2030 Agenda for Sustainable Development can only be achieved by joining forces with all relevant stakeholders, including the private sector. As the world's biggest employer, the private sector plays a key role in economic development. Its innovative power, expertise and resources are crucial for addressing development challenges. The Swiss Agency for Development and Cooperation (SDC) aims to diversify and strengthen partnerships with the private sector to promote sustainable development in the countries of the Global South, Asia and Eastern Europe.

Potential and objectives of private sector engagement

The 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, access to information and data for improving agricultural production, micro-insurances for vulnerable households, affordable water purification and sanitation systems or medical services against fatal diseases.

Switzerland's International Cooperation Strategy 2021–24 emphasises the great potential in strategically collaborating with the private sector and prioritises the mobilisation of its expertise and resources. Within its overarching mandate to reduce poverty, the SDC's vision is to foster innovation and achieve greater impact towards sustainable development by increasing its engagement with the private sector.

Objectives

For **the SDC,** the main reasons for collaborating with the private sector are the following:

- A **wider reach and greater impact:** the private sector has a broad range of resources – technology and infrastructure, specialist knowledge and organisational capacities, and funding – needed to bridge the financing and technology gaps to achieve the Sustainable Development Goals (SDGs).
- The **development of innovative tools and approaches:** the private sector is a wellspring of innovation for new products and technologies and for new business and financing models. Partnerships provide an opportunity to test new approaches for reaching poor or disadvantaged groups. This can also contribute to the 'leave no one behind' approach espoused in the 2030 Agenda.
- The **promotion of sustainable solutions** to meet development challenges: private sector solutions to development problems have to target a 'triple bottom line', creating social and environmental as well as financial value. Therefore, when successful, approaches developed by private sector actors make a lasting contribution to addressing development challenges in economic, social and environmental terms.

For **the private sector,** the main incentives to collaborate with the SDC are:

- The **SDC's field presence and long-term commitment** in different geographical regions as well its credibility as a facilitator in international cooperation: this creates added value for private sector partners wishing to develop and introduce sustainable solutions with the public sector in these regions.
- An opportunity to **mitigate financial risks:** the SDC's financing can help attract and de-risk private investment where private sector funding is needed to help achieve the SDGs.
- An opportunity to **pilot innovative approaches:** the SDC's financing can make it possible to trial innovative methods and approaches designed to create new market opportunities for products and services with clearly added development value.
- The **promotion of sustainable business practices** and a more level playing field: various private sector actors are interested in engaging with the SDC and the public sector in general on specific initiatives and projects to promote sustainable industry standards.

Private sector engagement

Private sector engagement (PSE) refers to the **SDC and one or several private sector partners joining forces on an equal footing for an impact-driven development intervention.** PSE is a means to an end, a modality, a way of working. It has neither a geographic nor a thematic focus of its own, but supports the SDC's existing strategies.

Core attributes of PSE collaborations are:

- **Co-initiating** refers to the joint setting-up of a collaboration, including the identification of new ways to address development challenges.
- **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.
- **Co-funding** is a compulsory element of PSE collaborations.

Die gemeinsame Verantwortung und die gemeinsame Finanzierung unterscheiden diese Zusammenarbeit von anderen Formen der Interaktion mit dem Privatsektor, namentlich der Vergabe von Aufträgen an den Privatsektor oder der Unterstützung der Entwicklung von lokalen Unternehmen in den DEZA-Schwerpunktländern.

Modalities and criteria for engagement with the private sector

A successful PSE partnership calls for the partners to find common ground. This consists of different elements such as a shared set of values, a shared vision towards sustainable development, the willingness to exchange knowledge and experiences, and mutual responsibilities.

Partnerships with private sector actors also present certain challenges. It is therefore crucial to achieve a common understanding on how to deal with risks within the framework of a comprehensive risk management system. Additionally, it must always be considered whether and to what extent public funds are actually needed to achieve the desired (or a greater) development impact. Furthermore, such partnerships must not create a distortion of functioning markets.

All partnerships with the private sector must meet clearly defined criteria with respect to content – first and foremost a shared vision for sustainable development as well as measurable development results, respect for human rights and anti-corruption standards.

The range of private sector partners

The SDC works with different private sector partners: **large companies and multinational enterprises, small and medium-sized enterprises, social enterprises, impact investors and grant-making foundations.** Each category of partner has its own specific strengths. Non-governmental organisations, research centres and academic institutions are often involved in such partnerships on account of their specific knowledge, for example as implementing partners.

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:

- **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.
- **Financial market-oriented PSE formats** follow an investment logic, such as grant-based instruments consisting of non-refundable contributions aimed at facilitating private investments with development goals. The International Cooperation Strategy 2021–24 provides for the use of such innovative financing instruments to mobilise private sector funding. In future, instruments where repayments are envisaged or at least possible might also be increasingly used by the SDC. Such new financing instruments are developed in consultation and coordination with the State Secretariat for Economic Affairs (SECO) and the Federal Finance Administration (FFA).

Risk management process

As a further important criterion, the risks related to the partnership must be acceptable and compensated by the opportunities opened up 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. Risk management for PSE is part of the SDC's overall comprehensive risk management and builds on existing practices. The PSE Risk Management Process takes place throughout the entire partnership and consists of four interlinked phases, in which risk aspects are systematically assessed:

I. **Assess a PSE prospect,** with the aim of substantiating the decision of whether or not to engage with a potential private sector partner.

II. **Prepare the engagement,** substantiating the decision of whether or not the proposed collaboration meets best practice 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 Risk Management Process are based on internationally accepted principles, standards and practices.

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More information: **Competence Center for Engagement with the Private Sector**
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SDC Website
Partnerships with the private sector