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Federal Department of Economic Affairs,  
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POSITION PAPER

# SECO Approach to Private Sector Engagement in Development Cooperation



# Introduction

**Harnessing the private sector's potential is essential for achieving sustainable development and climate action targets.** It is widely recognized that official development assistance (ODA) and public sector solutions are insufficient to meet these goals. The private sector plays a key role in fostering sustainable development, as private business activities, investments and innovation are important drivers of productivity, job creation and inclusive economic growth. ODA can be used in a catalytic way to unlock private resources and knowledge for development. The 2023 Agenda for Sustainable Development and the Paris Climate Agreement highlight the need to engage with the private sector to mobilize financing, knowledge and innovation to address climate change and promote sustainable growth.

**Private Sector Engagement (PSE) has been a crucial aspect of SECO's<sup>1</sup> international cooperation since the 1990s.** SECO is the center of expertise for economic development cooperation. It focuses its activities on all core issues of economic and trade policy, in particular on creating framework conditions for inclusive economic development, including private sector development and urbanization. In that context, partnerships with the private sector can make a significant contribution to SECO's objective of promoting economic growth and sustainable prosperity, thereby contributing to overcoming poverty, inequality and global challenges.

**PSE plays an important role in the Swiss international cooperation.** Both, Switzerland's Strategy for International Cooperation<sup>2</sup> and the Federal Council's 2030 Sustainable Development Strategy<sup>3</sup> emphasize the role of PSE in advancing global development. The legal basis for Swiss international cooperation, encourages SECO to use of private resources for development goals<sup>4</sup>. With its PSE projects, SECO also contributes to the implementation of Switzerland's Foreign Economic Policy Strategy, which emphasizes the contribution to sustainable development in partner countries<sup>5</sup>.

## Definition

For SECO, PSE is an intervention modality in which SECO and private sector actors enter into a collaborative partnership aimed at achieving a common development objective. It means that the private sector becomes an active partner in development cooperation projects, rather than only a beneficiary, with interactions characterized by joint responsibilities and joint ownership of results. More specifically, the partnership is characterized through some degrees of co-initiating, co-steering and co-funding by the private sector actors. Therewith, the focus is on the active contribution of the private sector in the form of knowledge, experience and/ or financing to contribute to the achievement of the Sustainable Development Goals (SDGs) and the climate agenda.

What sets PSE apart from other forms of cooperating with private sector - such as contracts awarded to private sector actors for the design, implementation or evaluation of SECO projects/ programmes, or initiatives to support private sector development (cf. below) – is its shared responsibility and joint ownership of results.

In line with the Strategy for International Cooperation 2025-28, SECO defines the private sector as actors which are not majority-owned by the state and are profit oriented<sup>6</sup>. Private sector actors can be local or international companies (cf. below). The set-up of

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1 In this paper, "SECO" is used to refer to the Economic Cooperation and Development Division (WE) of SECO.

2 Switzerland's international cooperation strategy 2025-2028

3 2030 Sustainable Development Strategy

4 Ordinance on International Development Cooperation and Humanitarian Aid (1977)

5 Switzerland's foreign economic policy strategy

6 Federal Department of Foreign Affairs - Strategies Glossary: The private sector refers to actors which are not majority-owned by the State and exist for the purpose of generating profits. In the present strategy, the term also includes social enterprises, impact investors and certain grant-making foundations (primarily those of multinational companies).

the collaborative arrangement (partnership) with the private sector can cover a wide spectrum, from a relationship with a relatively low level of formality to a more formalized partnership, e.g. through a memorandum of understanding or a contract. The collaboration can be direct or indirect via an intermediary, in general, SECO works through an intermediary, i.e. an implementing agency (including MDBs).

**PSE is different from Private Sector Development (PSD):** PSD is a thematic focus of SECO that supports the local private sector by improving the business environment, typically for small and medium-sized enterprises, or by strengthening entrepreneurial skills in partner countries. Therewith, PSD refers to activities carried out with the objective of promoting an enabling environment for the private sector in SECO's partner countries whereas PSE refers to a specific modality of development cooperation, as highlighted above. PSE can occur in any sector or area (e.g. education, private sector development, renewable energy, infrastructure, governance, etc.) and PSE is often used as a modality in PSD.

## Why does SECO engage with the private sector?

SECO's mandate in economic development cooperation emphasizes market-based approaches and private sector-led development as central to its interventions.

**For SECO, PSE is not an end in itself, but a means to an end:** SECO engages with the private sector to increase the effectiveness and sustainability of its activities. SECO has long recognized the fundamental role of the private sector as an important partner in creating decent jobs, driving innovation and providing essential infrastructure. The private sector has valuable insights and expertise in different sectors and it can provide inputs for policy reforms and investment patterns across sectors. The SDGs require trillions of dollars in investment, particularly in areas like infrastructure, health, education, and clean energy. Public resources are insufficient to cover these vast needs, so the mobilization of private capital is essential to fill the gap.

**PSE is instrumental also to meeting the mitigation and adaptation targets of the Paris Agreement.** Achieving these targets will require significant investments, particularly from the private sector. Working with the private sector to develop appropriate instruments to unlock private sector investments will be critical. In addition, private sector engagement is required to supply the technologies and services to increase climate resilience and achieve emission reductions.

## How does SECO work with the private sector?

SECO follows international guidance and principles in working with the private sector<sup>7</sup>. In particular, SECO actively participates in the Donor Committee for Enterprise Development (DCED)<sup>8</sup> to contribute to the evolving thinking around PSE. SECO is also regularly engaging and coordinating with the Swiss Agency for Development (SDC), which also works with the PSE modality<sup>9</sup>.

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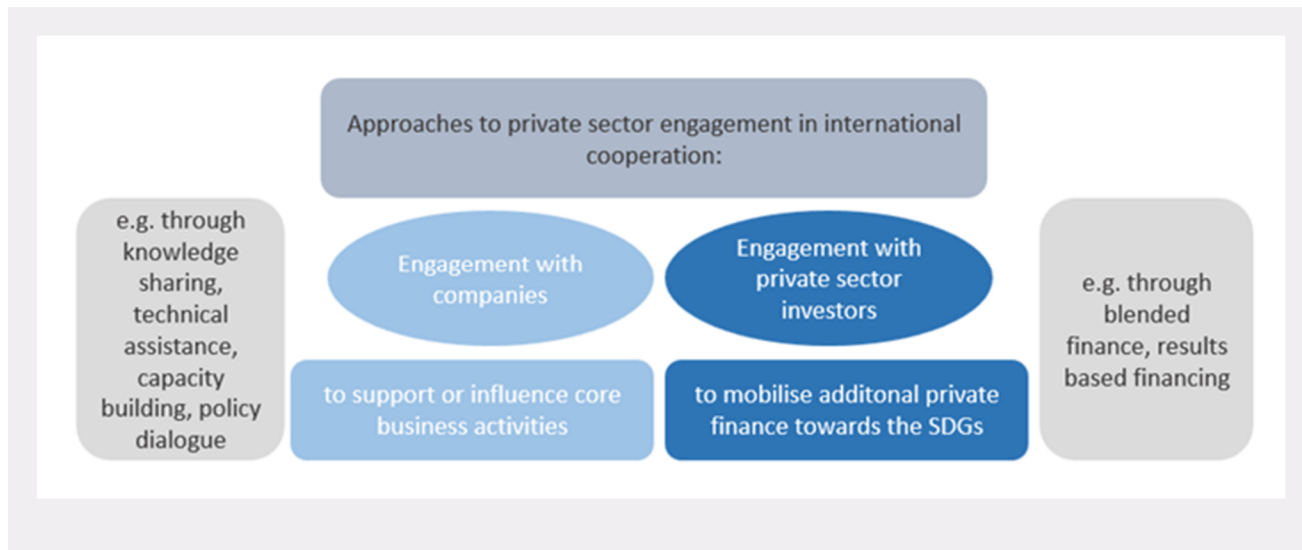
7 OECD - Private sector engagement ; Global Partnership for Effective Development Co-operation - Kampala Principles; OECD DAC Blended Finance Principles

8 Donor Committee for Enterprise Development - DCED

9 Cf. SDC Handbook on Private Sector Engagement

In line with international donor practice established by DCED<sup>10</sup>, SECO pursues its engagement with the private sector mainly along the two approaches illustrated below.

**GRAPH 1: APPROACHES TO PRIVATE SECTOR ENGAGEMENT IN INTERNATIONAL COOPERATION**



## More specifically, SECO distinguishes the following two broad approaches:

**Engagement with companies:** Networks, partnerships and multi-stakeholder initiatives focused on developing more sustainable solutions and improving business practices at market and sector level

Establishing and strengthening collaboration and dialogue with and among private sector actors allows to connect development issues with core business interests, providing an opportunity to increase the pool of ideas for addressing development challenges. Such collaboration can also strengthen frameworks for responsible business conduct, contribute to increasing the number of market actors that comply with sustainability standards, and support the involvement of private actors in the development of national and international standards. SECO can facilitate the engagement of private sector actors with other relevant actors, in particular civil society and academia, promote networking as well as information sharing and knowledge exchange, and support policy dialogue and standard setting at national and international level. Engaging with all relevant actors right from the outset increases the acceptance, legitimacy, and ownership of outcomes and the likelihood of sustaining results over time.

SECO has been particularly successful in establishing multi-stakeholder initiatives, e.g., in the area of commodities (cocoa<sup>11</sup>, coffee<sup>12</sup>), extractive industries<sup>13</sup>, and infrastructure<sup>14</sup>. A multi-stakeholder approach involves engaging with various interest groups, such as private sector companies, NGOs, business associations, government bodies. Incorporating the input and perspective of a wide range of stakeholders enables more inclusive and responsible decision making and more sustainable outcomes.

SECO can also support the governments in its priority countries to engage their private sector in a similar way to replicate these successful initiatives.

10 Based on: Donor Committee for Enterprise Development - Private-Sector-Engagement-Synthesis-Note.pdf

11 Swiss Platform for Sustainable Cocoa

12 Swiss Sustainable Coffee Platform

13 For instance: Extractive Industries Transparency Initiative | EITI; Swiss Better Gold Initiative

14 For instance: Hydropower Sustainability Standard; Blue Dot Network

**Engagement with private sector investors:** Financing instruments to mobilize additional private finance for the achievement of the SDGs

The funding gap for the SDGs falls short by USD 4 trillion annually<sup>15</sup>. Addressing this gap requires bringing together different actors and different sources of capital. Private capital plays a crucial role in this. While a growing number of companies are becoming aware of the need and associated benefits of integrating sustainability considerations into their strategies, the perceived high risk of investing in certain geographies hinders their willingness to invest at scale. This is where public capital comes in. SECO can provide concessional blended finance or other de-risking solutions to leverage additional private capital. The combination of concessional and commercial financing results in acceptable risk-return profiles for private sector financing partners. SECO has a long-standing experience in this field and has contributed to the creation of a number of financing instruments to enable private capital mobilization.

Based on SECO’s own experience, the development of such instruments requires time, expertise and experience. Therefore, SECO has consolidated the number of financing instruments it works with, while remaining open to testing new approaches if deemed necessary.

<b>TABLE 1: OVERVIEW SECO FINANCING INSTRUMENTS</b>	
<b>INSTRUMENT</b>	<b>APPROACH</b>
<u>SIFEM – Swiss Investment Fund for Emerging Markets</u>  Equity and fixed-income for funds Loans to financial intermediaries	Provision of long-term financing to SMEs and other fast-growing companies in developing and emerging countries via local and regional funds or local financial institutions.
<u>PIDG - Private Infrastructure Development Group</u>  Early-stage equity Long-term debt Guarantees Grants for Technical Assistance	Blended finance platform mobilizing private sector funding for sustainable infrastructure in sub-Saharan Africa and south-east Asia. PIDG works through the infrastructure lifecycle, from early-stage incubation and development to credit solutions that bridge gaps in local capital markets
<u>SIFI - SDG Impact Finance Initiative</u>  (Conditionally repayable) grants; junior tranche equity/ first loss	International platform to mainstream impact investing. The key idea behind this initiative is that it allows the private sector to compete for funding to support their own solutions, rather than the initiative deciding what inputs are needed. This approach aims to foster innovative private sector solutions and to generate new private sector partnerships to mobilize funds.
<u>SECO Startup Fund (SSF)</u>  Loans to start-ups	The SECO Start-up Fund provides loans to Swiss domiciled start-ups to promote investment projects and contribute to job creation in partner countries of the Swiss development cooperation.
<u>REPIC - Renewable Energy, Energy and Resource Efficiency Promotion in Developing and Transition Countries</u>  Grants to projects	A platform of Swiss Federal Offices that supports the early and pre-commercial phase of projects in renewable energy, energy and resource efficiency in developing and transition countries. It provides matching grants to projects submitted by Swiss companies, universities and NGOs.

15 UNSDG | Developing countries face staggering \$4 trillion investment gap in SDGs

SECO often partners with Multilateral Development Banks (MDBs) for the mobilization of private capital (PCM). MDBs bring unique expertise, leverage and capabilities in PCM, as outlined in Box 1 below.

**Box 1: The role of Multilateral Development Banks (MDBs) in private capital mobilization**

Private capital mobilization (PCM) is an important aspect of the business model of MDBs in their efforts to better address development challenges. Beyond the direct financing of projects with the private sector, MDBs increasingly crowd-in private capital by issuing guarantees and risk-sharing instruments to reduce the risks of private investments. They also support policy and sector reforms and help build institutional capacity to strengthen the framework conditions that unlock additional investment opportunities for private actors.

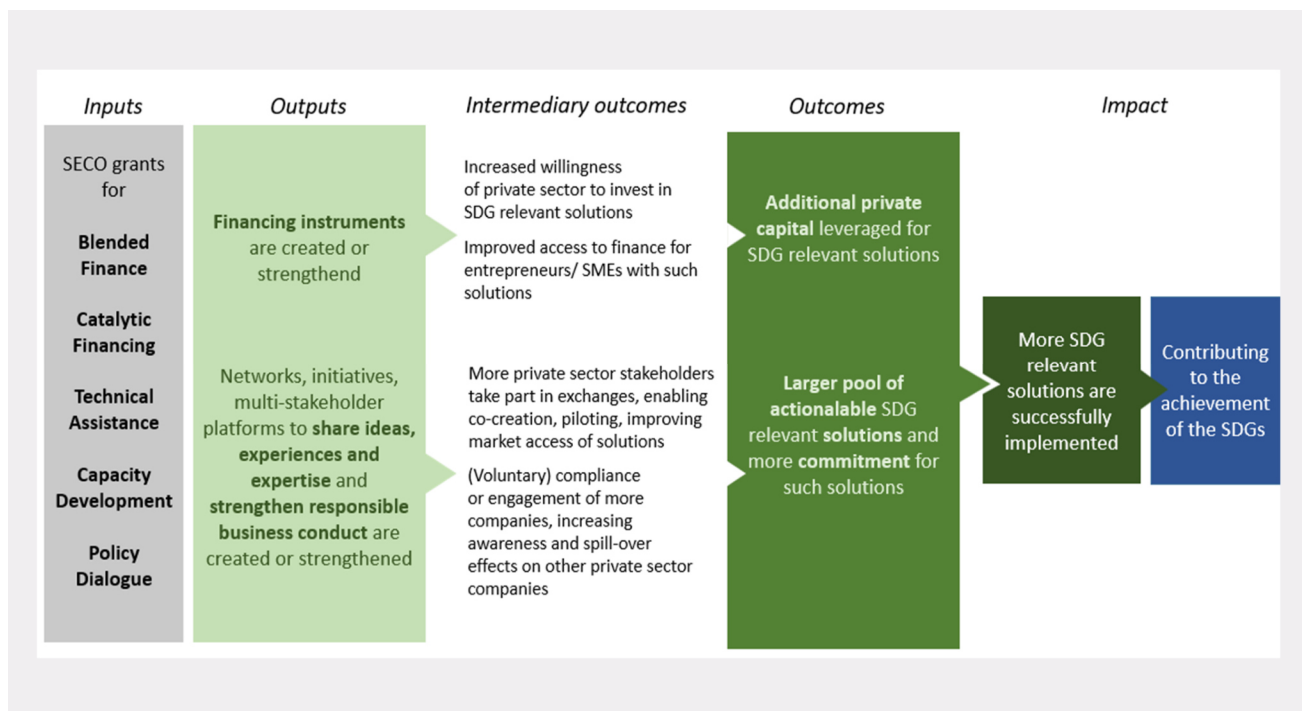
MDBs have established a joint methodology for defining, measuring and attributing private capital<sup>16</sup> in order to quantify private financing mobilized by MDBs. To increase confidence of private actors to invest in emerging markets and developing economies, the Global Emerging Markets Risk Database (GEM)<sup>17</sup>, which includes 25 MDBs and development finance institutions, provides credit risk data to private investors and the broader public.

SECO strongly supports MDBs’ efforts to scale up PCM and encourages partnerships between the private sector and the multilateral development banks, in particular the International Finance Corporation (IFC), the European Bank for Reconstruction and Development (EBRD) and the private sector windows of the other regional development banks. The development funds of the African and Asian Development Bank have established similar windows. SECO also supports efforts by climate funds to increase their private sector engagement and mobilization using innovative financing modalities, such as the Green Climate Fund (GCF) through its private sector window.

## Theory of change for SECO’s engagement with the private sector

The following graph illustrates a generalized theory of change for SECO’s private sector engagement<sup>18</sup>, focusing on the core narrative of SECO’s approach rather than specific realities of individual projects.

**GRAPH 2: THEORY OF CHANGE FOR SECO’S ENGAGEMENT WITH THE PRIVATE SECTOR**



<sup>16</sup> MDB Methodology for Private Investment Mobilization: Reference Guide (2018)

<sup>17</sup> GEM Global Entrepreneurship Monitor (gemconsortium.org)

<sup>18</sup> The theory of change is based on the external evaluation of SECO’s approach to private sector development: SECO Cooperation | Independent evaluations (admin.ch)

## SECO's PSE principles

SECO's engagement with the private sector is based on best practice and international principles for development effectiveness<sup>19</sup>. In addition to SECO's standard criteria in development cooperation, such as complementarity, transparency, and contribution to measurable development results, SECO's cooperation with the private sector is guided by the following specific principles:

- **Additionality:** The engagement with the private sector needs to provide financial and/or non-financial additionality. Financial additionality refers to the fact that SECO only engages with the private sector, if SECO funding does not substitute financing that would be provided by the private sector anyway. Non-financial additionality (value additionality) refers to the added-value SECO can provide that would not have occurred without the involvement of the public sector. Such added value consists of providing knowledge and expertise, promoting social and environmental standards or fostering corporate governance, leading to better development outcomes. PSE has to create additional value beyond business as usual in terms of scale, scope, quality, and sustainability.
- **Promoting market efficiency:** SECO is aware that engaging with one single company or financial institution can lead to unfair competitive advantage and market distortion. Therefore, SECO generally uses open and competitive mechanisms (e.g., call for proposals) for partner selection process to avoid (any) market distortion.
- **Assessing and managing ESG risks:** The assessment of ESG risks is a standard component of the approval process of any SECO project or programme. However, ESG risks, including fiduciary and compliance risks, can be heightened in PSE, depending on the specific sector or partner(s) SECO engages with, thereby increasing the reputational risk for SECO. Therefore, special attention is paid to these elements during the project preparation and approval process, as well as during project implementation. PSE projects must comply with SECO's exclusion list and all applicable laws and regulations, while meeting international environmental, social and governance standards.

## Who are SECO's private sector partners?

**SECO collaborates with various private partners**, ranging from SMEs to multinational or large companies, business associations, impact investors and asset managers, depending on the development objective being pursued. When engaging with companies, SECO aims at impact at market level and therefore usually **collaborates with a groups of companies** rather than individual companies. Engagement with individual firms is possible in exceptional cases where there is an opportunity to achieve a demonstration effect and thus reach a larger number of companies. Multi-stakeholder approaches (cf. above) are particularly helpful in addressing complex issues that are unique to a specific industry (e.g. gold, cocoa, coffee, etc.).

## IMPRINT

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