



Management Response

To the independent evaluation on the engagement of SECO's economic cooperation division with the private sector during 2013-2021

By orange & teal

August 2022

1) Background

An essential part of the Economic Cooperation and Development Division's (SECO-WE) evaluation policy is to ensure an impartial assessment of its interventions. Independent evaluations are therefore regularly conducted at portfolio level on SECO-WE's priority themes for accountability and learning purposes. These evaluations are initiated and overseen by the External Evaluation Committee, an independent body of representatives from academia, politics, civil society, international cooperation and the private sector. The committee independently selects, approves and analyses the themes to be evaluated.

For SECO-WE, private sector engagement (PSE) is not an objective in itself, but a means to achieve development objectives. SECO-WE has partnered with the private sector since the 1990s and incrementally increased its engagement over time. The present evaluation (PSE evaluation) assessed for the first time the PSE modality at portfolio level.

This independent evaluation was carried out by orange & teal GmbH (Switzerland) between November 2021 and August 2022. SECO-WE's evaluation function managed the evaluation process and an internal sounding board including the evaluated sections (i.e. WEHU, WEIF, WEIN and WEPO) accompanied the entire process.

As defined in the terms of reference, the expectation was that the PSE evaluation would provide insights on:

- To what extent has SECO-WE's engagement with the private sector through official development assistance contributed to successfully leverage the private sector's know-how, innovative power and financial contribution and to influence the behaviour of companies in order to reach the sustainable development goals?
- How are SECO-WE's principles for working with the private sector implemented, the six principles being subsidiarity, additionality, complementarity, avoiding market distortion, assessing environmental / social risks? How does SECO-WE handle these principles when deciding on entering or exiting an engagement with the private sector?

- Are SECO-WE's PSE principles and approach adequate, i.e. in line with regard to development effectiveness? Are some context-specific prerequisites necessary or favourable (such as development status of partner countries)? How are risks managed?
- What is SECO-WE's added value as a development agency in PSE?

2) Appreciation of the Report: Structure, Methodology & Process

SECO-WE appreciates the clear structure of the report. It is well written, follows an understandable logic and keeps the findings at an appropriate length. With regard to the methodology, the evaluation team followed a classic approach by grouping the analysis to three overarching "approach dimensions" (capital, solutions, commitments) based on the six dimensions in SECO-WE's PSE Approach Paper. While parts of chapter 4.2 on concepts and systems could also have been integrated in one of the subsequent chapters on the OECD DAC dimensions, keeping them separate allows to highlight important elements in terms of guidance, communication and usefulness of the PSE approach paper.

SECO-WE also welcomes the comparison made (when and where meaningful, i.e. under risk taking considerations, or under the DAC criteria) between the PSE and non-PSE portfolio. This was made possible for the first time a.o. due to the introduction of a PSE marker in 2021 and the thorough exchanges between the evaluation team, the evaluation unit and operational staff in order to verify the PSE classification of projects.

SECO-WE acknowledges the limitations encountered by the evaluation. SECO-WE appreciates the transparent communication on these limitations and welcomes the relevant recommendations in the report. The evaluation report adds value in terms of a clearer analysis of the current situation regarding PSE projects and highlights areas for improvement. The latter include a) the lack of awareness of SECO-WE's PSE approach and its dimensions, b) the too little and not comprehensive use of key principles of PSE (incl. in credit proposals), c) the lack of distinction between PSE and PSD when the PSE marker was introduced.

The Theory of Change (ToC) for the evaluation (developed by the evaluators with the internal sounding board) is very useful and can be used as a basis for a sharpened strategy and operationalization of the PSE approach in the future. There is however little content-related conclusion on what works at sector level or in the three dimensions of the ToC. SECO-WE Management notes that the recommendations are more of procedural nature and only slightly touch content. Content issues will need to be further addressed, a.o. in follow-up workshops and in internal discussions on the new strategy for international cooperation 2025-28.

With regard to process, the evaluation team reached out to a relevant and sizeable number of interviewees from SECO-WE and its partners (private sector, development partners, NGOs, colleagues from the federal administration) which corroborates an inclusive approach leading to meaningful results.

The work of the evaluation team is timely and will serve as an input to the ongoing internal reflections, in particular for the preparatory work of the strategy on international cooperation 2025-28.

3) Key Findings and Lessons learned

Key findings and lessons learnt are derived from the analysis enabled by a good methodology and structured process of the evaluation and its report. The report raises

important elements regarding steering, monitoring and collaboration. SECO-WE shares the recognition that “there is much consensus among development partners about the need to engage with the private sector and to leverage its resources and creativity to meet the SDG.” Management also acknowledges that “Monitoring, learning, and collaboration mechanisms regarding the PSE modality are characterised by a large degree of non-formalisation.” The momentum created by this evaluation and the parallel discussions on our PSE approach shall be used to support a certain degree of formalization.

Main findings according to the OECD DAC criteria

Relevance: The evaluation finds that engaging with the private sector is necessary to meet the SDGs. SECO-WE’s projects are seen to be aligned with private sector interests. An interesting observation is on the motivation of the private partners to engage with SECO-WE: While the private sector indicates ethical considerations as key for their engagement in a development project, other stakeholders assume market position and access as the private sector’s priority motivation. Another helpful observation is that there often seems to be little discussion why the PSE modality is chosen. Project stakeholders should be more conscious and critical in this respect.

Coherence: At strategic level, coherence with the Swiss international cooperation strategy 2021-24 (e.g. strengthened collaboration with the private sector) and also with the new Swiss Foreign Economic Policy Strategy (e.g. promotion of ESG standards) is confirmed by the evaluation. In terms of coherence with private sector initiatives, there seems to be no misalignment between objectives in SECO-WE’s projects and private sector projects with similar objectives. This is encouraging. With regard to the level of ambition when collaborating with the private sector (including the use of other instruments than grants as well as timeframe and order of magnitude), more reflections are still necessary on the way to the next strategic framework 2025-2028. The evaluation emphasizes the importance of PSE in the current strategy and highlights the emerging role of SDC in this area, by indicating notably the fact that SDC invests considerable resources in developing and implementing its PSE approach, which should “add weight to the question of whether SECO-WE needs to rethink its structures and resources for PSE.” Management welcomes this suggestion which supports the internal reflections on the role of PSE and the approach taken in view of the next strategy on international cooperation.

Effectiveness: SECO-WE takes from the evaluation that PSE enables to mobilise private capital, to benefit from multi-stakeholder approaches and to generate innovation. While there is considerable evidence of success in SECO-WE’s PSE projects, it is less obvious to what extent the ambitions of the PSE approach were achieved. The lack of baselines and clear targets in many projects are mentioned as main reason. This observation will benefit the reflections on the dispatch 2025-2028. SECO-WE is successful when it comes to setting up funding vehicles (such as SIFI, PIDG, etc.). Success is also noted in terms of knowledge sharing in networks (such as SSF, DCED). The role of SECO-WE might need some sharpening when it comes to support for responsible business conduct which can already be “regulated” to some extent by the market. Another helpful observation, given the high level of satisfactory effectiveness ratings, is to further look at the appropriate “risk appetite” of SECO-WE in its PSE projects. As highlighted by the evaluators, SECO-WE could undertake riskier endeavours. SECO-WE appreciates that its presence in partner countries is seen as an asset and that private sector partners value the non-interference and hands-off approach from SECO-WE, and the ability to move quickly, to support de-risking projects which the private sector cannot. SECO-WE also takes good note of hindering factors brought forward by the evaluation, such as the risks linked to early stages of pilot projects, bureaucracy, untargeted support, and too strict requirements by SECO-WE itself regarding matching funds and contributions which in turn can generate out of proportion transaction costs.

Efficiency: In the evaluated PSE portfolio, efficiency is rated high in the long-term, albeit initial efforts to set up projects might take considerable efforts where SECO-WE should keep an eye on the cost-benefit ratio and its link with the size of projects (“fewer but larger”) without losing sight of the importance of innovative smaller PSE projects with a higher risk-profile. The evaluation raises the point on M&E which can add an unintended burden on partners. SECO-WE will need to pay the necessary attention to this aspect.

Impact: The evaluation survey confirms the view of interviewees that impact can be increased with the PSE approach. Impact cannot easily be measured by the existing set of Standard Indicators and is of a more qualitative nature. This in turn makes an analysis at PSE portfolio level difficult. Or, in other words, this is probably better analysed at project level. To be impactful, it is also important that SECO-WE’s PSE principles are known and applied. A common understanding of the principles and their application (i.e. subsidiarity, additionality, complementarity, market distortion and ESG risks) among concerned staff of the Swiss Confederation staff (e.g. from SECO-WE, SDC, Federal Finance Administration) and partners should not be taken as granted, as the evaluation highlights, and will need to be further emphasized in the future.

Sustainability: measuring this dimension is always challenging. SECO-WE takes note of the highlighted success factors for sustainability: i) PSE should consistently be rooted in the ambition to generate development outcomes and business profits (shared value); ii) PSE projects need a clear business case incl. opportunity to generate profit to incentivise the private sector to replicate and scale and to ensure success and long-term sustainability; and iii) Inclusion of domestic stakeholders promotes sustainability by ensuring wider ownership and buy-in at the country level and greater collaboration on shared priorities across sectors.

Based on the recommendations and a discussion at the SECO-WE conference of the heads of sections in September 2022 for defining future steps for the Strategy on international cooperation 2025-28, SECO-WE decided to work on defining its future orientations regarding its PSE portfolio and the use of new financial instruments such as loans, participations and guarantees. Against the backdrop of various clarifications carried out regarding the feasibility and implications of new financial instruments, SECO-WE will define what instruments are most appropriate to reach its objectives and to determine the timing and size of future non-grants PSE projects. The result of these reflections will form part of the financial planning of the Strategy on international cooperation 2025-28 and a kind of strategic “business plan” of SECO-WE for 2025-28. In particular, SECO-WE will look at the model of an implementing partner for loans, possible diversification and extension of SIFEM through new windows of activities, the potential of guarantees, ways to increase innovation and options to reinforce SECO-WE’s climate portfolio. Following these reflections on future investments, SECO-WE will then look at the implications and need for support for the implementation as well as forms of collaboration within SECO-WE.



4) Recommendations

RECOMMENDATIONS	MANAGEMENT RESPONSE			RESPONSIBILITY	TIMING
Primary recommendations					
Recommendation 1	Fully agree	Partially agree	Not agree		
Clarify and operationalise SECO-WE's PSE ambitions and plans ¹	<p><u>Response</u></p> <p>SECO-WE Management (WEMG) agrees with the need to clarify the concept and a common understanding of PSE being a modality, i.e. a means to an end both internally and with its partners. It is therefore important to better clarify what, how and when PSE is to be applied (e.g. by help of a sector-by-sector Theory of Change). Or, in other words, the level of ambition with regard to which SDG objectives and market failures should be addressed. Ambition should not primarily be understood in terms of financial volume but mainly with regard to impact/relevance and innovation (e.g. Social Impact Bond Program, SDG Impact Finance Initiative). It would also be important to clarify under PSE some elements of the approach, e. g. cost/risk sharing (being explicitly a criteria?).</p> <p>Management doesn't fully agree with the "operationalise" part of the recommendation. This, because the PSE modality is already widely and successfully applied, taking the existing understanding of PSE already</p>				

¹ Only the short version of the recommendations are cited in this document, the comprehensive recommendations can be found in the evaluation report.

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	<p>well on board. New findings under the approach (qualitative clarification) would continuously flow into the operational work. Hence the partially agree.</p>		
	<p><u>Measures</u>: check if PSE marker and PSE definition align and if not, adapt where appropriate (and explain the rationale for and the content of the changes (in definition and marker to staff).</p> <p>SECO-WE will work on defining its future orientations regarding its PSE portfolio and the use of new financial instruments such as loans, participation and guarantees. SECO-WE will define what instruments are most appropriate to reach its objectives and to determine the timing and size of future non-grant PSE projects. This will also include the identification of flagship projects to better communicate SECO-WE's portfolio. In a second step, SECO-WE will look at the operationalization, in particular regarding tools, needs for support and organizational matters.</p> <p>SECO-WE's PSE approach paper shall be scanned for gaps as identified in this evaluation and receive a light-touch update, based on the learnings of this evaluation and the proposed ToC. However, the existing PSE approach is already very usable and useful. An update should lead to an orientation how and when SECO-WE should use PSE, as well as a possible update of the definition of the PSE policy marker. SDC has produced significant material which is partly also relevant to SECO-WE and can - to an appropriate extent - be used (SDC Handbook on PSE, SDC's PSE contractual and legal framework based on Herakles). The light-touch update could lead to a clearer definition of PSE objectives and an indicative set of criteria on what successful PSE means. However, the notion that PSE has higher (initial) transaction costs should also be borne in mind. As we move forward, databases (such as RDM or others) can help to better and quicker demonstrate if, where and how PSE is effective and sustainable.</p>	<p>All sectors</p> <p>WEPO and PSE focal point WEIF, plus support from WEHU/WEIN</p>	<p>End Q2/2023</p>

RECOMMENDATIONS	MANAGEMENT RESPONSE			RESPONSIBILITY	TIMING
<p>Recommendation 2</p> <p>Enhance common understanding of key concepts</p>	Fully agree	Partially agree	Not agree		
	<p><u>Response</u></p> <p>Management agrees with this recommendation. Without a sound common understanding of key concepts it seems difficult to work on the deficiencies identified in the evaluation report. While doing so, human resources considerations must be made in parallel, given the limited size of SECO-WE and its various fields of engagement. The question of embedding more PSE knowledge in sectors concerned can be approached in different ways (i.e. network, small core team, a focal point per section etc.). While making good use of SECO-WE’s network (e.g. FCDO, SDC or Asset Managers, for due diligence and KYC/Know your costumer procedures), SECO-WE needs to consider what this means in terms of existing and future SECO-WE resources.</p> <p>An important aspect of this recommendation is to have a common understanding with all stakeholders of an intervention and this requires “Investing time and resources in understanding, clarifying, and communicating the different parties’ motivation and what is to be achieved is the key to success”. In a first step, and when updating the PSE approach paper, adding a graphic illustration, also for external communication, seems to be meaningful.</p>				
	<p><u>Measures</u></p> <p>When up-dating the PSE approach paper, include graphics for better communication.</p> <p>Reach out to partners with up-dated PSE approach paper.</p> <p>Reflect on human resources questions and how to best work together</p>			<p>WEPO with support of PSE focal point WEIF, plus support from WEHU/WEIN (tbd)</p> <p>All sections concerned in their work</p> <p>As per section:</p>	<p>End Q2/2023</p> <p>Continuously</p> <p>End Q2/2023</p>

RECOMMENDATIONS	MANAGEMENT RESPONSE			RESPONSIBILITY	TIMING
	with backstoppers and technical partners.			each section to reflect on prioritisation of human resources on PSE. As for SECO-WE: WEMG to assure that SECO-WE is well organised for 2025-28 strategy period.	End Q4/2023
Recommendation 3 Support the application of principles	Fully agree	Partially agree	Not agree		
	<u>Response</u> Management fully agrees with this recommendation. It goes by itself that when working on an up-dated PSE approach paper that the principles must then also be applied. Recommendation 3, therefore, builds in our view on recommendations 1 and 2 (i.e. clarifying concepts, use of databases). It can be expected, if the update of the approach paper is done in an appropriate (i.e. inclusive) process that the subsequent application will follow more or less automatically, supported by management action (i.e. reference in concept and operation committees) as well as individual counselling and trainings				
	<u>Measures</u> Promote the application of the PSE principles in concept and operation committee notes as soon as the PSE marker is used			All sections concerned in their work, Cooperation Offices, L WEOP, members of OpK	Continuously
Recommendation 4 Enhance support and	Fully agree	Partially agree	Not agree		
	<u>Response</u>				

RECOMMENDATIONS	MANAGEMENT RESPONSE			RESPONSIBILITY	TIMING
learning structures	<p>Management, in principle, fully agrees with this recommendation. While addressing the recommendation, various constraints must be taken into account: human resources are unlikely to increase (rather, budgetary cuts are not impossible). Therefore, we have to work within the given situation, mainly by reinforcing competences and knowledge in all sectors. Before establishing a “learning structure”, the current structures would need to be looked at. One option is, to create a PSE network. However, networks also cost time. And adding new networks is stretching existing structures even more. An alternative way could be to adapt selected job descriptions for new job openings and add a PSE focus which links up with the sector-specific angle of PSE. A light exchange on lessons learnt (2x/year) can support knowledge transfer. Associating support from backstoppers could complement this support structure.</p>				
	<p><u>Measures</u></p> <p>Review existing networks at SECO-WE and, assuming there can be some space freed, establish a light PSE group. This group could meet twice a year, moderated by an external PSE expert or team of experts (e.g. DCED Secretariat or an arrangement with SDC with regard to using their external support on PSE risk assessment and management including due diligence) who will also provide support (for papers, communication, external events, etc.) on request.</p> <p>Pursue reflections on resources within the working group on modalities for the strategy 2025-28.</p>			<p>WEMG to assure that SECO-WE is well set up for the 2025-28 strategy period.</p> <p>Working group modalities</p>	<p>End Q2/2024</p> <p>Q1/2023</p>
<p>Recommendation 5</p> <p>Conduct a sustainability review</p>	Fully agree	Partially agree	Not agree		
<p><u>Response</u></p> <p>WEMG doesn't agree with this recommendation. While taking sustainability very serious and recognising that it is a constant challenge, such a review is not seen as useful.</p> <p>If the measures mentioned above will be implemented, there should be</p>					

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	<p>better evidence on the effectiveness and sustainability of PSE. Also, SECO-WE has mandated an external sustainability review to identify best practices and shortcomings as recently as 2019 and is still capitalizing on the recommendations and lessons learned from this comprehensive assessment. Sustainability needs to be constantly put in the centre of our attention, however management sees no need to have a specific “PSE lens” in doing so.</p> <p>Last but not least, a specific sustainability review on PSE alone would be highly work intensive and might not bring much value added.</p> <p>However, SECO-WE sees merit to critically look at the sustainability of PSE projects in ex-post evaluations of PSE projects.</p>				
	<p><u>Measures</u></p> <p>Mandate at least 1 if not 2 ex-post evaluations of PSE projects.</p>			WEOP	Q4/2024
Emerging recommendations²					
<p>Recommendation 6</p> <p>Explore further, what type of exchange and collaboration would work best for SECO-WE.</p>	Fully agree	Partially agree	Not agree		
	<p><u>Response</u></p> <p>Management in principle agrees with this recommendation. To some extent, it is already on-going with the various SECO-WE networks (e.g. country focal points at WELG with other sections, climate network, controlling network, WEHU/DAIN, etc.). The level of formalisation and the scaling of a dissolution of the section logic needs to be kept in check though. While encouraging cross-sector cooperation (also in the light of the 2025-28 strategy and commensurate with the level of PSE ambition) and keeping SECO-WE fit and agile in terms of thematic</p>				

² In addition to the five primary recommendations above the evaluation presents what could lead to further recommendations, which can however not yet be sufficiently substantiated or justified for the lack of a solid information basis. These "emerging recommendations" could be used as seeds for further SECO-internal discussions and analysis.

RECOMMENDATIONS	MANAGEMENT RESPONSE			RESPONSIBILITY	TIMING
	competence (e.g. framework conditions improvements, MIC, trade and investment, private sector development with a focus on SMEs, implementing partners), reporting lines must remain clear.				
	<u>Measures to be determined</u> in further discussions and analysis				
Recommendation 7 Assess further what "spaces" for innovation would have the best fit with SECO's specific culture, rules, and assets.	Fully agree	Partially agree	Not agree		
	<u>Response</u> For WEMG, it is not clear how this recommendation differs from R6. It mentions new partners and new modalities. SECO-WE already exploits such spaces for innovation, based on its large network of partners. As indicated in response to recommendation 2, creating an internal network is also an option up for consideration. On expanding the forms of engagement and financial modalities, regular discussions take place with the Federal Finance Administration, backstoppers and SDC in the framework of the 'Herakles' project.				
	<u>Measures to be determined</u> in further discussions and analysis				
Recommendation 8 a) Further discuss risk management and risk culture in relation with innovation b) Consider expanding the platform approach to other commodities, building on the experience and good practice from the BGI, SPSC, PIDG projects where SECO can	Fully agree	Partially agree	Not agree		
	<u>Response</u> on a) as much more public scrutiny of PSE modality than for other modalities, taking more risks is a double-edged sword: Management welcomes this recommendation and encourages risk taking, but acknowledges that taking too many risks can also backfire. All in all, management believes that there is to some extent more room for ex-ante risk-taking, mainly when it comes to innovative projects. However, due diligence capacities need to be available in-house or externally to keep the ex post risks within acceptable levels. on b) replication is good, but the limited resources should not be strained. Therefore, we recall that the last WEHU portfolio evaluation (2019) recommended to limit support to a selected number of				

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showcase the sector approach, act as facilitator, and with limited seed funding create private sector led / driven initiatives.	international value chains. However, it is planned to expand the platform approach to other sectors (e.g. coffee). Yet, this is not so much a question of considering risks, but rather grasping opportunities. SECO-WE should invest in sectors where it expects SECO and the Swiss private sector to have real leverage. These sectors are limited. In addition, the platform approach is very resource-intensive and cannot be scaled infinitely, at least not with the current institutional setup.		
	<u>Measures to be determined</u> in further discussions and analysis		

Place, Date

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