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PAPER

SECO Approach to Private Sector Engagement

Introduction

The 2030 Agenda for Sustainable Development and the Paris Climate Agreement highlight the need to mobilise different sources of finance for sustainable development. The private sector plays a key role in fostering sustainable development. Official Development Assistance can be used in a catalytic way to unlock private resources for development.

Private Sector Engagement has been a crucial aspect of SECO's[1] international cooperation since the 1990s. Partnerships with the private sector can make a significant contribution to SECO's objective of reducing poverty and managing global risks by promoting **sustainable inclusive growth**.

Definition

For SECO, Private Sector Engagement is a collaborative arrangement between public sector and private sector actors aiming at achieving a common development objective. We define the private sector as private companies or business associations. A collaborative arrangement can range from a memorandum of understanding to a commercial contract.

Development cooperation approaches realised with and through the private sector span a large spectrum. They include arrangements to leverage private finance and know-how, engagements with companies with regard to core business investments that generate development outcomes, and public-private partnerships. The latter cover contractual agreements under which the private sector delivers an infrastructure product or service.

Private Sector Engagement is different from private sector development, which is a thematic focus of SECO. Private sector development focuses on supporting the local private sector by improving the business environment or strengthening entrepreneurial skills in partner countries.

Why engage with the private sector?

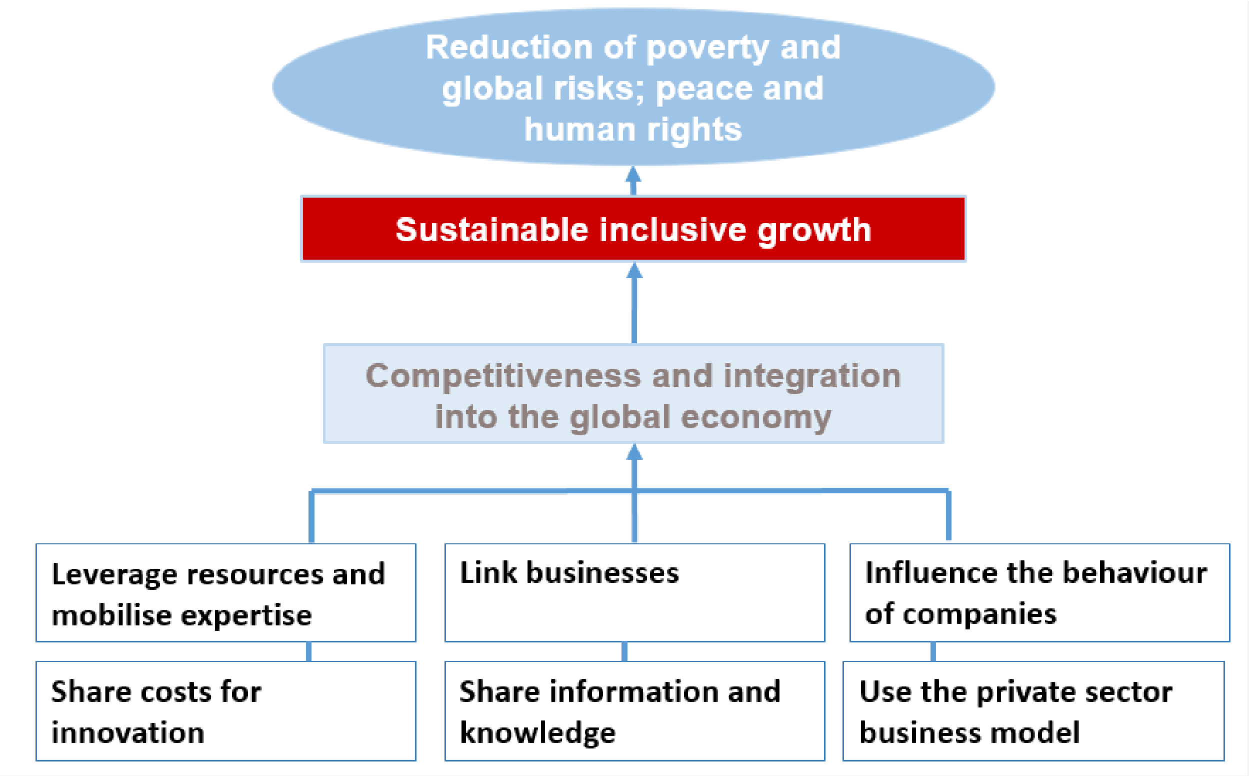
SECO has long recognised the **fundamental role of the private** sector as an important partner in contributing to sustainable growth and the ultimate goal of poverty reduction. Market approaches and private-sector driven development are at the core of SECO's interventions. Furthermore, SECO is actively engaging with the private sector to support the achievement of its development objectives. For SECO, **Partnerships are not a goal in themselves, but a means to an end**. SECO engages in partnerships to increase the effectiveness and sustainability of its activities by:

- **Sharing information and knowledge for joint solutions:** Addressing large-scale global, regional or sectoral challenges requires exchanging and disseminating ideas and solutions with aid agencies, private firms, as well as NGOs, universities, and others. Engaging with all relevant actors right from the beginning increases the acceptance, legitimacy, and the ownership of the outcome and the likelihood of sustaining results over time. By taking on the role as a facilitator, SECO contributes to the development of innovative collective solutions.
- **Influencing the behaviour of companies**: Through their activities, companies can have an impact on people's lives and the delivery of public goods. By encouraging positive business practices, SECO reduces negative externalities and catalyses the positive effects of private-sector activities.
- **Leveraging financial resources and mobilising expertise from the private sector**: A growing number of companies are becoming aware of the benefits of integrating sustainability considerations in their corporate strategies. They are increasingly willing to invest their own resources to promote sustainability within their industry. This provides opportunities for SECO to engage with private companies to either leverage additional financial resources or mobilise the companies' expertise.

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

- Linking businesses: Private companies in developing countries often lack relevant market information and understanding of global value chains that would enable them to benefit from trade or investment opportunities. By supporting networks between companies in developed and developing countries, SECO contributes to creating business opportunities both in partner countries and at home.
- Sharing investment costs for innovation: SECO may share some of the costs and risks to encourage private companies to engage in high risk, high development return activities.
- Using the private sector business model: Private companies continuously improve their work practices and invest in innovative approaches to expand their business into new markets. For SECO, working with private companies provides the opportunity to identify, test, and promote innovative business models.

Figure: Why is SECO engaging with the private sector?



How do we work?

SECO is guided by the following principles in working with the private sector:

- Subsidiarity: SECO only engages with the private sector if the initiative does not substitute funding from other parties, including the company itself or a commercial lender. In other words, SECO does not support projects that would be financed or implemented by the private sector anyway.
- Additionality: SECO expects the private sector partnership to significantly contribute to the achievement of its development objective. The collaborative arrangement has to create additional value in terms of scale, scope, quality, and sustainability that would not have been achieved otherwise.
- Complementarity: SECO aims at fostering synergies between the programmes or projects implemented through partnerships and its other activities. For example, working with the private sector can strengthen the policy dialogue on business conditions that SECO is leading with its partner government.
- Avoiding market distortion: SECO is aware that engaging with one single company may lead to an unfair competitive advantage. Therefore, SECO uses, whenever possible, mechanisms based on an open application and partner selection process.

- **Assessing environmental and social risks**: The assessment of environmental and social risks is a standard component of the approval process of each SECO project or programme. The goal is to ensure that the investments comply with all applicable laws and regulations while meeting best international environmental, social and governance standards.

Who are SECO's partners?

SECO engages with various private partners, depending on the development goal that is being pursued. **Multinational or large companies** have a comparative advantage in addressing global or sectoral development challenges. They are well placed to scale up and reach out to a large number of beneficiaries and benefit from greater visibility than smaller actors. The risks associated with entering into a partnership with multinational or large companies relate to their strong bargaining power and the reputational risks linked to their higher visibility. **SMEs** have a comparative advantage in tailoring specific solutions or piloting small-scale innovations adapted to the local context. Engaging with SMEs may entail higher transaction costs.

SECO may also decide to enter into a partnership with **a single firm**. In this case, the design of the partnership is relatively simple, because the partnership is usually limited in time and scope. It may also be used to test innovative approaches that could later be scaled up. Some partnerships involve **several private actors** to enable greater outreach, reduce market distortions, and spread the operational risks and costs. A **multi-stakeholder approach** includes several private companies, as well as other actors, such as trade associations, NGOs, or private foundations that pool their resources and expertise to solve a more complex issue on a larger scale. While such partnerships can be complex given the variety of interests involved, they are more likely to provide a more comprehensive solution.

SECO is engaged in many global partnerships, which include **firms from all over the world** as well as Switzerland. Direct partnerships with **Swiss firms** are mainly at partner country level, especially to develop export capacities of local firms for sustainable trade. SECO also uses the modality of matching funds to specifically target the expertise of Swiss SMEs.[2] The advantages of engaging with Swiss private companies include the level of sophistication of the Swiss market (e.g., demand for fair trade or organic products), the specific expertise or positioning of the Swiss industry in a sector as well as the proximity of the companies, facilitating the establishment of long-standing relations.

Partnerships with local **private actors in partner countries** also provide opportunities for achieving SECO's development objective. For example, SECO works with local investors and financial intermediaries, such as banks, to increase lending and investments to companies in a transparent and sustainable way. Specific examples can be found in this brochure or on the website www.seco-cooperation.admin.ch.

What have we done?

SECO has pioneered partnerships with the private sector in many of its business lines. Sustainable trade and access to finance are the two main business lines where this type of collaboration has been used.

International trade supports a more efficient global division of labour, creates jobs, and makes an important contribution to poverty reduction. Demand for more **sustainable** trade has increased over the years – with a particular emphasis on more environmentally friendly and socially responsible production methods and better working conditions. In response, several international and regional initiatives have brought together producers, traders, private companies, or NGOs to define a set of agreed standards. SECO was a founder and early participant of these global initiatives (e.g., Better Cotton Initiative, roundtables on responsible soy, coffee, cocoa, sustainable biomaterials) and continues to launch initiatives, such as the Swiss Sustainable Cocoa Platform and the Better Gold Initiative.

[2] A matching fund creates a mechanism to select individual firms that will receive a grant or a loan from the public sector to match their own contribution. It is based on clear criteria and a due diligence process and thereby ensures transparency in the selection of each firm.

The Better Gold Initiative for Artisanal and Small-Scale Mining (BGI for ASM)

The BGI for ASM is a partnership between SECO and the Swiss Better Gold Association (SBGA) that aims to develop a market for responsibly sourced gold from artisanal and small-scale mines through internationally recognised sustainability standards. Responsibly sourced gold is assigned a premium, which is spent on sustainable development and community development projects. The BGI started in 2013 in Peru and was extended to Colombia and Bolivia. SECO has played a broker role in the initiative and supports small miners in producing better gold. Between 2013 and 2017, more than 2.5 t of gold from certified mines was exported from three Latin American countries to Switzerland.

SECO supplements this approach to sustainable trade with country-level projects that help small-holders implement the new standards, which are set through these international initiatives or required by international buyers.

Scaling up organic and fair trade cocoa in Ghana

The twin objective of the project is to scale up the production of organic and fair trade cocoa in three districts in Ghana, and to sell the produce to the Swiss chocolate sector via traceable value chains. The project supports farmers and improves their livelihoods in a sustainable way by adopting sustainable agroforestry-based cocoa production. Max Felchlin AG, a Swiss company, is a key partner. Max Felchlin AG has signed a purchase agreement with eligible local providers and provides its expertise to improve the post-harvest process.

Lack of **access to long-term investment capital** is a critical bottleneck for economic growth in developing countries, especially for SMEs. The Swiss Investment Fund for Emerging Markets (SIFEM AG), which is the Swiss Development Finance Institution (DFI), provides long-term finance to venture capital funds and financial institutions in developing and emerging markets. SIFEM's primary focus is on institutions investing in the small and medium enterprise (SME) sector as well as other fast-growing companies. Together with the other DFIs, SIFEM has supported 575'000 jobs until 2017. Between 2014 and 2017, private sector investors contributed USD 9.30 for every dollar invested by SIFEM.

SECO is also directly involved in several structured investment vehicles and social investment funds to further support SME financing, and has established a matching mechanism, the SECO Start-up Fund, for Swiss entrepreneurs that invest in projects in certain newly industrialised or emerging countries.

The SECO Start-up Fund

The SECO Start-up Fund is a credit instrument that promotes private sector investment projects in countries with developing or transitioning economies. The projects must be commercially viable, and meet recognised environmental and social standards. For example, the SECO Start-up Fund supports a project that promotes production of high-quality milk in the Winnitska region in Ukraine. Two Swiss agronomists and their Ukrainian partner acquired old farm buildings supported by a loan from the SECO Start-up Fund to co-finance the start-up phase. Today, their herd counts 230 cows, producing 2.8 tonnes of milk a day. The project created a total of thirty jobs, and the farm has incorporated the requirements of the Swiss Protection of Animals Act. The loan granted by the SECO Start-up Fund was fully repaid and the business continues to grow steadily.

Sustainable infrastructure is indispensable for the economic, social, and ecological development of a country. Neither governments from developing countries nor traditional financing mechanisms by multilateral development banks or bilateral donors can adequately respond to the existing global infrastructure needs by themselves. This is why SECO teamed up with several donors to create the Private Infrastructure Development Group (PIDG), which aims to mobilise private investment.

PIDG contributes to the overarching goals of Swiss development cooperation. Since its foundation in 2002, PIDG has committed USD 303 million to renewable energy projects, leveraging USD 1.1 billion in private sector investments in countries where investments would otherwise have been too challenging.

SECO also participates in the Interdepartmental REPIC Platform. The platform allows Swiss private companies and NGOs to apply for matching grants in order to develop and pilot innovative renewable energy and energy efficiency solutions in developing countries.

PIDG: Vietnam COC San

In Vietnam, the demand for electricity is increasing rapidly. However, reliance on fossil fuel imports compromises the country's social and economic development. For example, the Lao Cai province in northern Vietnam faces a lack of affordable power. To address this issue, the Government of Vietnam has committed to reducing fuel imports and developing the country's renewable energy potential. The exploitation of Lao Cai's fast-flowing rivers plays a crucial role in achieving an ambitious provincial power development plan. The goal is to increase installed capacity to 1000 MW by 2020. Coc San's local sponsor had struggled to attract partners to realise this objective. In 2011, it approached the PIDG company InfraCo Asia, which invested USD 7.5 million in the project. In 2016, Coc San started to deliver clean, affordable power to 130,000 people. The wider impact includes lower fuel import costs and reductions in Vietnam's carbon emissions by 76,000 tonnes per annum. It further created 250 temporary construction jobs and 35 long-term positions in the Lao Cai province. It also stimulated growth and indirect employment in key industries. The outcome of the project has by far exceeded the specific project objectives.

Moving forward

SECO continuously explores opportunities to enter into new forms of partnership or develop new partnerships in its key thematic areas.

Forms of engagement

- SECO has introduced new results-based financing instruments, such as Development or Social Impact Bonds. It participates in international knowledge exchange and launches innovative pilot projects. For example, SECO recently launched the "SECO 17 – Partnerships to support the SDGs" project, where private companies provide technical assistance to promote investment for development.
- Matching funds are a means SECO and other development agencies use in appropriate cases to leverage public resources.
- Multi-stakeholder approaches have the potential to address large-scale development challenges. 41 actors from the Swiss cocoa sector have formed an independent association, the Swiss Sustainable Cocoa Platform. Together, these members are committed to strengthening sustainable management in the cocoa production and the value chain. SECO is scaling up the use of this modality for themes other than sustainable trade in commodities, such as climate change, urbanisation, and infrastructure financing.

Themes

- Building resilience into development requires innovative financial means, such as the earthquake bonds. The World Bank, with strong support and financial backing of SECO, has worked with Chile, Colombia, Mexico, and Peru to assess how catastrophe bonds could be designed to achieve the most effective transfer of risk to capital markets. Catastrophe bonds are the successful outcome of this collaboration and form part of a broader strategy to support all World Bank member countries in addressing natural disaster risk.

- Tackling **climate change** not only requires financing but also new approaches and partnership models. The World Bank recently established a cooperation with Swiss Re in the context of a SECO-World Bank partnership on financial risk management. The Disaster Risk Financing and Insurance Program aims at increasing financial resilience of partner countries through technical assistance and capacity building measures in the areas of analytical and advisory services, financial services, and convening services relating to disaster risk finance.

Addressing the challenges of urbanisation requires different instruments and modalities as well as the involvement of a range of actors from the private sector, civil society, and governments. Building on its experience with innovative financing mechanisms and platforms, SECO assesses how to build programmes that create synergies between the resources and expertise of all these actors.

SECO's experience shows that building partnerships with the private sector is based on both systematic reflections and pragmatic decisions. The key is to learn from experiences and identify opportunities for innovative approaches that successfully contribute to the achievement of SECO's development objective of sustainable inclusive growth.

Imprint

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