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Swiss Agency for Development
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SDC HANDBOOK ON PRIVATE SECTOR ENGAGEMENT

Preface

Partnership is central to international cooperation and a key driver of sustainable development. Today's global challenges – climate change, poverty, inequality, and fragility – are too complex for any single actor to address alone. Achieving the Sustainable Development Goals (SDGs) requires cross-sector collaboration that mobilises diverse expertise and resources. This is why the Swiss Agency for Development and Cooperation (SDC) works closely with the private sector. Companies bring innovation, capital, and operational know-how that enhance the impact and scale of development efforts.

Private sector engagement (PSE) complements traditional development cooperation. Public institutions, civil society, governments, and businesses each offer distinct strengths. When combined, they generate solutions that are more sustainable, scalable, and transformative.

Effective PSE unlocks new opportunities: technologies adapted for vulnerable populations, investment in underserved markets, and the creation of decent jobs and livelihoods. Such partnerships generate shared value by aligning business interests with development outcomes.

The SDC aims to expand and strengthen private sector partnerships across all themes and regions. Scaling up PSE is about engaging more strategically and tailoring approaches to each context. To mobilise greater investment in underserved markets, the SDC sees strong potential in catalytic concessional finance to de-risk private investment. This shift from a purely grant-based to an investment-oriented approach enables the SDC to mobilise additional resources, especially in areas where it has strong expertise such as food security, sustainable agriculture, renewable energy, climate resilience, financial inclusion, water, health, and education.

PSE is not a standalone solution, nor is it appropriate in every context. But when well designed, it adds value and complements other development instruments. The SDC is committed to ensuring that all partnerships respect human rights, uphold responsible business conduct, and protect the environment. When these conditions are met, private sector collaboration becomes part of the solution.

This revised Private Sector Engagement Handbook reflects lessons learned since its first edition in 2021 and responds to emerging needs. It provides practical guidance to the SDC staff on how to design, implement, and manage effective private sector partnerships. Its principles and standards also inform private sector actors and implementing partners about the SDC's expectations and approach.

Above all, this Handbook is a tool to strengthen our work, and a commitment to the belief that public-private collaboration is essential to achieving the 2030 Agenda and building a more inclusive, resilient, and sustainable future.



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1. The foundations of private sector engagement at the SDC

This section provides clarity on several foundational questions: It clarifies what private sector engagement (PSE) is, outlines what the Swiss Agency for Development and Cooperation (SDC) seeks to achieve through such engagements and highlights the potential for increased private sector engagement considering the 2030 Agenda for Sustainable Development.

The Swiss Agency for Development and Cooperation (SDC) has a long history of collaboration with different private sector actors in the context of specific development projects or in multi-stakeholder platforms. These interactions with private sector actors can take many forms, in which the SDC and the private sector hold different roles.

Private sector engagement (PSE) is one specific form of collaboration with the private sector. **It refers to partnerships in which the SDC and one or several private sector actors join forces (directly or indirectly) on an equal footing for impact-driven development initiatives, based on shared values, benefits, risks, and costs.**

PSEs build on the need to unlock financial resources from multiple sources to contribute to the **2030 Agenda for Sustainable Development**, including the **17 Sustainable Development Goals (SDGs)**, the **Addis Ababa Action Agenda** and the **Sevilla Commitment**. As official development aid flows are trending downward, the SDG financing gap – the estimated amount of financial resources needed to reach the SDGs by 2030 – is growing, underlining the need to mobilise additional resources from the private sector. Indeed, it is estimated that US\$3.5 trillion is needed by 2029 to achieve significant progress in five key areas – education (SDG 4), health (SDG 3), road infrastructure (SDG 9), electricity access (SDG 7), and water and sanitation (SDG 6). However, even with that amount, SDG targets in these areas are unlikely to be fully achieved¹.

Switzerland's International Cooperation Strategy (IC Strategy) 2025-28, which entered into effect on 1 January 2025, highlights the importance of maintaining flexible and agile approaches in response to current geopolitical and financial uncertainties. It puts particular emphasis on the need to work with the private sector to mobilise resources, expertise, and innovation for the achievement of the **2030 Agenda for Sustainable Development**.

Engaging with the private sector is **a modality of intervention – a means to an end – complementing other forms of development cooperation**. PSE has no geographic or thematic focus of its own; rather, it supports the SDC's existing strategies, **especially in areas in which private sector actors can bring development benefits through their entrepreneurial spirit, market and sector knowledge, distribution channels, and financial resources**.

To be effective and impactful, **private sector engagement must adhere to strict principles, such as additionality, non-distortion of markets, and compliance with social, environmental, and governance criteria**. As in any partnership, there are rights and obligations on both sides. These are recognized in the *Federal Act on International Development Cooperation and Humanitarian Aid* as well as in the *General Guidance on the Private Sector in the context of the International Cooperation Strategy (2025)*.

Potential and objectives of private sector engagement

The **2030 Agenda for Sustainable Development** can only be achieved if all relevant stakeholders join forces, 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. In particular, the financial resources of the private sector are needed to bridge the financing gap to achieve the SDGs.

Therefore, increasing private sector engagement can complement traditional cooperation approaches, with a significant potential to achieve greater impact towards sustainable development.

For example, for the private sector, collaboration with the SDC provides an opportunity to mitigate the financial risks of impact investment, or to pilot innovative approaches to create new market opportunities for products and services with clearly added development value. A collaboration can also support the promotion of responsible business practices and sustainable industry standards.

¹ IMF Policy Paper, 4th Financing for Development Conference—Contribution of the IMF to the International Financing for Development Agenda, May 2025.

2. Understanding private sector engagement at the SDC

This section explores more concretely what constitutes PSE at the SDC by presenting the various formats used in PSE arrangements and describing the main characteristics of the private sector actors who engage in PSE projects.

2.1. Core attributes of private sector engagement

Private sector engagement (PSE) refers to partnerships in which the SDC and one or several private sector actors join forces (either directly or indirectly) on an equal footing for an impact-driven development intervention, based on shared values, benefits², risks and costs.

The three core attributes of private sector engagement are co-funding, co-steering and co-initiating of the intervention.

- **Co-funding** refers to the joint contribution of resources for the PSE partnership, which is a fundamental requirement (PSE does not exist without co-funding from the private sector). The contribution provided by the private sector partner can be cash or in-kind (including staff time, products, or services). Generally, the SDC aims to fund no more than 50% of the collaboration costs.

However, this cap can be exceeded when the partnership generates significant public good value, making a higher SDC contribution justified³.

- **Co-steering** refers to a formalized governance mechanism through which the SDC and the private sector partner(s) jointly guide, oversee, and influence the direction and implementation of the partnership. Typically, both the SDC and the private sector partner(s) actively participate in the governing body of a PSE collaboration. Co-steering is a fundamental requirement for a PSE and can take many forms.
- **Co-initiating** refers to the joint establishment of a collaboration, including the identification of new ways to address development challenges. The spirit of co-initiation, co-creation, or co-design is meant to foster shared responsibility and accountability. Co-initiation is not always applicable in practice; in some cases, the SDC may join an already established partnership or take part in an existing structure. Therefore, co-initiation is an optional element in PSE collaborations.

The combination of these core attributes paired with an appropriate structuring of the partnership is meant to ensure fair and balanced collaboration (fair play) among partners, with shared costs, risks, and benefits (see Figure 1).

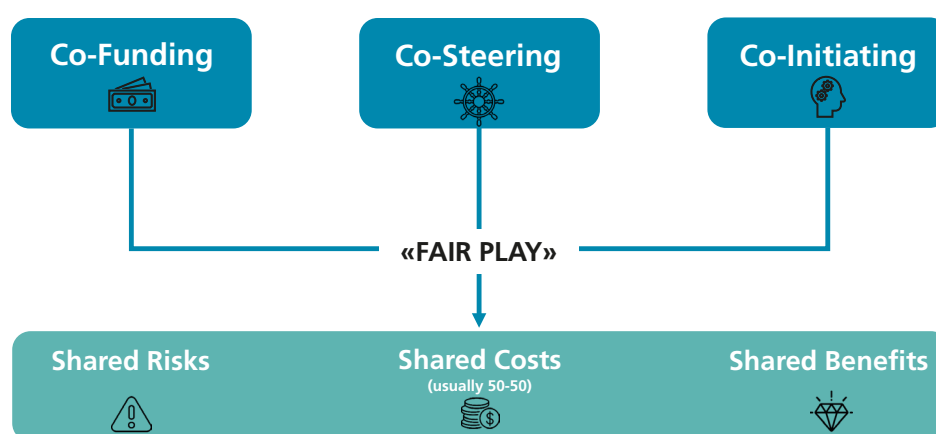


Figure 1: Core attributes of PSE

² The term benefits is to be understood in a broad sense, with reference to development impact – which should be the ultimate objective of any PSE. See also chapter 5.3 for further information about the analysis of profits of private sector partners.

³ See chapter 5.2 for further information about personal contribution of private sector partners.

2.2. Private sector engagement or private sector development?

Beyond the core attributes described in chapter 2.1, the role that private sector actors take on **differentiates PSE projects from other forms of interaction with the private sector**. In PSE projects, private actors are development partners to the SDC, working together for a common goal. Outside of PSE projects, private sector actors may take on different roles. For instance, they could be the target of policy interventions (such as regulatory reforms financed by the SDC) designed to strengthen their contribution to achieving development objectives. Private sector actors may also benefit from technical assistance, capacity building, or other forms of support financed by the SDC in connection with the achievement of development objectives. Similarly, when the SDC contracts private sector actors to deliver specific services with a development objective, they are not considered PSE partners⁴ (see Figure 2).

Private sector engagement (PSE) versus private sector development (PSD)

- **Both private sector engagement and private sector development contribute to development objectives.**
- In the case of **PSE, the private sector acts as a development partner**. The SDC and one or several private sector actors collaborate and combine resources to contribute to a specific development objective. PSE can therefore leverage the existing capacities of the private sector actor(s).
- **Some interventions may include both PSE and PSD elements**. For instance, some PSD interventions targeting the local private sector (as the recipient) may also involve a PSE modality with one larger or sector-wide actor playing a leading role and contributing resources as a partner but not as a recipient.

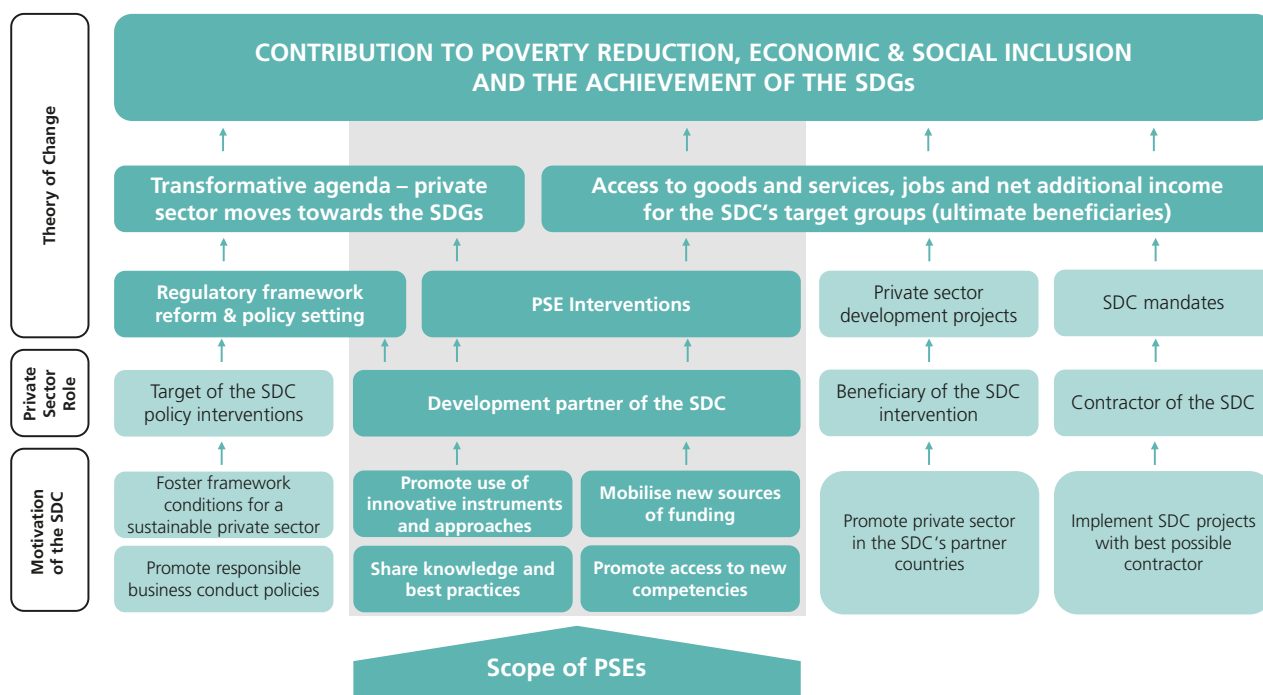


Figure 2: Four areas of the SDC's private sector involvement in sustainable development with different roles for the private sector

⁴ See General Guidance on the Private Sector in the context of the International Cooperation Strategy (2025) for further information about the different forms of the SDC's interaction with the private sector.

2.3. Direct versus indirect PSE arrangements

PSE arrangements may be direct or indirect:

- **Direct PSE projects** refer to arrangements in which the SDC engages directly with one or several private sector actors and signs legal agreements with them defining the rules of the partnership (e.g., a contract, memorandum of understanding or equivalent). There is no intermediary structure or partner between the SDC and the private sector partner(s) (see Figure 3, left-hand side).
- **Indirect PSE projects** refer to arrangements in which the SDC does not engage directly with private sector actor(s), and in which its partnership with private sector actor(s) is managed by an intermediary organisation⁵. In this scenario, the SDC has a contractual arrangement with the intermediary organisation, which manages all legal arrangements with the private sector partners (see Figure 3, right-hand side).

There are two different types of indirect PSEs:

- **Contribution:** The SDC contributes funding to an organisation to enable that organisation to engage with private sector partners through a PSE modality.
- **Mandate:** The SDC organises a public tender process to select an implementing partner that will engage with private sector partners through a PSE modality.

The distinction between direct and indirect PSE projects is important for the analysis and structuring of PSE arrangements, especially with regard to risk assessment (see chapter 5.5) and contractual arrangements (see chapter 5.6).

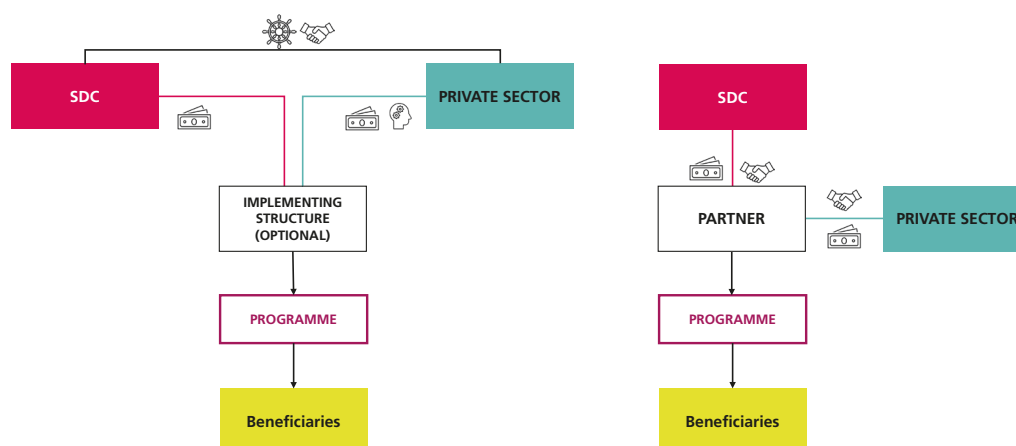


Figure 3: Direct (left-hand side) and indirect (right-hand side) PSE

⁵ An intermediary organisation can be a non-governmental (NGO), international organisation or even a private sector organisation such as a foundation for instance, but in that case its role will be to engage with other private actors, thereby sitting in-between the SDC and the private sector actors.

2.4. The different formats of private sector 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. The SDC may assume different roles in these structures, either as a traditional donor or as an investment enabler. This crucial distinction differentiates the **two main categories of PSE for the SDC: development project-oriented PSE and financial market-oriented PSE**.

Within each of these two categories, several formats have been defined, which refer to different types of organisational structures or setups. A detailed description of the different PSE formats is provided in Annex 2.

A. Development project-oriented PSE formats follow a development project logic, combining grant resources from the SDC (and sometimes other public donors) and from private sector actors. The SDC's role as a donor is the same as in other development cooperation projects, but the co-funding and co-steering of the intervention with private sector actors make it different from traditional donor-financed projects. There are four separate formats in this category: single private partnership, multi-stakeholder partnership, support facility, and secondment. The most common development project-oriented PSE formats in the SDC portfolio are multi-stakeholder partnerships and single partnerships, while the other formats tend to be exceptions (see Figure 4).

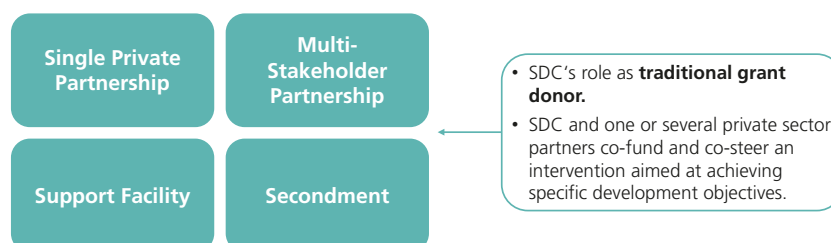


Figure 4: Development project-oriented PSE formats

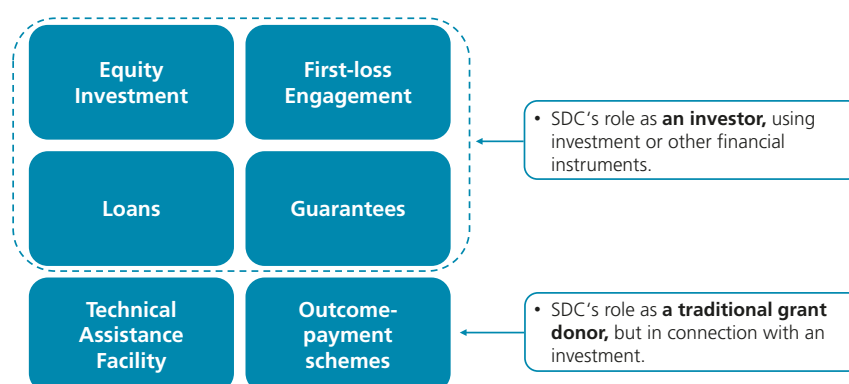


Figure 5: Financial market-oriented PSE formats

B. Financial market-oriented PSE formats follow an investment logic linked to a development objective and seek to have a catalytic effect by mobilising additional capital from other investors, particularly private investors. There are six formats within this category, each belonging to one of two groups depending on the SDC's role. The first group includes formats that use returnable financial instruments such as equity, first-loss capital, or guarantees. In such formats, the SDC assumes either directly or indirectly an investor role within blended finance structures that combine concessional and commercial capital⁶. In doing so, the SDC improves the risk-return profile for other investors, which helps channel more investments toward SDG-relevant contexts (de-risking role). The second group includes formats such as technical assistance facilities (linked to investment structures) or outcome-based payments (such as SIINCs). In these formats, the SDC provides traditional grants to encourage or enable investments but does not take a direct investment role (investment enabler role) (see Figure 5).

⁶ See Annex 2 for details on which instruments the SDC may or may not use directly.

2.5. The range of private sector actors

In a PSE collaboration, the SDC engages with a range of well-established⁷ private sector actors with diverse profit-driven approaches and risk appetites. The private sector encompasses 100% private owned companies as well as non-majority-state-owned organisations, including both profit-oriented companies and less profit-maximizing or non-profit entities such as social enterprises, impact-driven businesses, and philanthropic foundations. Private sector actors can be national or international. The form of engagement varies depending on the type of private sector actor and its specificities.

For-profit private sector actors

- **Large companies and multinational corporations (MNCs)** with global presence, substantial financial resources, and complex organisational structures. MNCs have a unique focus on global operations. They often establish subsidiaries and branches in multiple countries, while maintaining a centralized decision-making structure. Given their global footprints, these private sector actors can play a vital role in the development and implementation of new industry standards.
- **Small and medium-sized enterprises (SMEs)**⁸ account for the majority of businesses in developing countries and are important contributors to job creation and global economic development.
- **Social enterprises**⁹ are organisations (often SMEs) combining a societal purpose (social and environmental) with the pursuit of profit. By virtue of their dual mission, social enterprises are hybrid organisations that combine aspects of traditional businesses (through the conduct of commercial activities) with those of not-for-profit organisations (through the pursuit of a social mission). Their profits are usually reinvested in advancing their mission rather than distributed to shareholders, in order to maximize benefits to society.

- **Impact investors** are typically private asset owners who engage in impact investments. They invest with the intention to generate positive, measurable social or environmental impact alongside a financial return. They represent a diverse group of actors with differing risk appetites and return expectations: at one end of the spectrum there are private asset owners such as pension funds, insurance companies, banks, family offices, and high-net worth individuals, interested in impact but also expecting risk-adjusted market returns. At the other end, there are investors such as private foundations and impact-driven family offices, which accept concessional returns in exchange for the impact generated.
- **Cooperatives** are independent associations of individuals who collaborate to fulfil their shared economic, social, and cultural needs and aspirations through a jointly owned and democratically governed enterprise. Their primary objective is to promote the economic interests of their members through collective self-help. Profits are either reinvested in the cooperative or returned to the members.

⁷ 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).

⁸ There is no universal definition of SMEs since company size is highly context and sector specific. A useful benchmark is provided by the International Finance Corporation (IFC), according to which SMEs in emerging markets have between 50 and 300 employees, and/or assets/sales comprised between USD 100'000 and 15 million.

⁹ The positive social or environmental impact may be the main goal of the enterprise (for impact) or part of its entrepreneurial activities (with impact). Depending on the local regime, a social enterprise may be defined as a for-profit, non-profit or hybrid legal entity.

Non-profit private sector actors:

- **Grant-making foundations** are usually set up and funded by large companies (corporate foundations) or wealthy families or individuals (private foundations) with an initial endowment to support charitable causes related to the purpose of the foundation. They are important partners, particularly in areas in which commercial investors are not yet ready to invest due to high risks, high transaction costs, or low returns. They are often ideal anchor investors for blended finance initiatives.
- **Business and professional associations** serve the collective interests of their private sector members. They usually represent a particular industry, profession, or business sector and focus on activities such as advocacy, networking, training, and industry research. They can be useful partners from a systemic perspective, given their sector outreach and representation.

While non-governmental organisations (NGOs), research centres, and academic institutions are not part of the private sector, they are often involved in the setup of PSE collaborations (e.g., as implementing partners or conveners).

Swiss added value

The SDC's main criterion for a PSE collaboration is the potential development impact towards achieving the SDGs, rather than the nationality of the private sector partner. Therefore, the SDC actively engages with private sector actors from all countries. However, the Swiss private sector can offer specific value added in areas in which Switzerland has recognized expertise, such as water, agriculture and food, health, vocational skills development, disaster risk reduction, and sustainable financial services.



3. The SDC PSE portfolio: status and perspectives

This section presents the main characteristics of the SDC's PSE portfolio, the main lessons learned from the past four years, and the strategic orientation for the period 2025-2028.

3.1. The SDC's current PSE portfolio

At the end of 2024, the SDC's active PSE portfolio included around 100 different projects, for a total commitment volume of CHF 800 million. It represents around 17% of the SDC's total active bilateral cooperation portfolio in terms of financing volume. Development project-oriented PSEs still constitute around 75% of PSEs in the SDC's active portfolio (in shades of green in Figure 6), while the share of financial market-oriented PSEs is around 25% (in shades of blue in Figure 6). **In terms of formats¹⁰, approximately two-thirds of the total portfolio are multi-stakeholder partnerships**, while other commonly used formats include outcome-based payment mechanisms, technical assistance facilities, or single private partnerships.

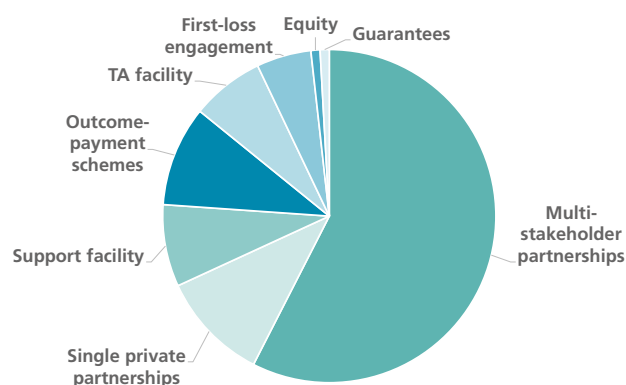


Figure 6: Number of PSE by formats as of the end of 2024

In financing volume, almost 40% of the SDC's PSE portfolio consists of projects addressing employment and income, followed by health (30%), food security and nutrition (10%), migration (6%) and climate change & environment (4.5%).

As of 2024, the SDC has over 800 different direct or indirect private sector partners¹¹, most of which are local small and medium-sized enterprises (SMEs). Large corporations and social enterprises also represent a significant share (see Figure 7).

Among private sector actors, private foundations contribute the largest share of financing, followed by private investors and social enterprises.

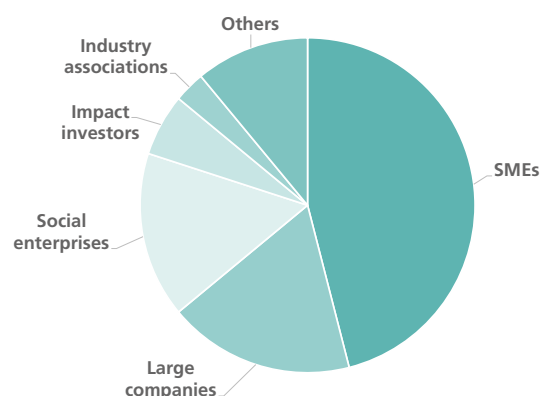


Figure 7: Distribution of private PSE partners by type as of the end of 2024

¹⁰ See Annex 2 for the description of the different PSE formats used by the SDC.

¹¹ In some projects, several private sector partners are bundled together in the database (for confidentiality reasons).

3.2. Lessons learned with the PSE modality during 2021-2024

During the last four years, the SDC has gained valuable experience in implementing PSE arrangements, leading to important lessons on its practical application. For instance, it has become clear that **the vast majority of PSE arrangements** are indirect, meaning an intermediary organisation sits between the SDC and the private partners involved. This setup has important implications for governance and PSE risk management.

The SDC has also gained experience in the use of investment instruments, most notably through **first-loss participation in structured impact investment funds**, which are designed to have a leverage effect on private investors. Specific processes have been developed to formalise, assess and manage such structures, which follow a different logic than traditional development cooperation projects.

The main lessons learned since the publication of the first PSE Handbook in 2021 about the design and structuring of PSE arrangements are the following:

- Engaging with the private sector requires **bridging different institutional cultures, mindsets, and decision-making frameworks to ensure alignment on common goals**.
- Engaging with the private sector requires **genuine alignment between the SDC and the private sector actor(s) in terms of the vision and objectives of the partnerships**. For collaborations to succeed, the partners involved must perceive it as a joint endeavour.
- **Setting up and structuring a PSE is usually more complex than a traditional development cooperation project**, because it involves bringing together different partners who do not usually work together. It is important to allocate sufficient time and resources to establishing mutual trust, clarifying values, understanding each other's needs and constraints, and defining expectations and roles.
- Given the unique characteristics of many PSE arrangements, **continuous internal capacity building and knowledge exchange are essential** to ensure that processes remain adapted to implementation realities.
- Engaging with the private sector, whether directly or indirectly, **exposes the SDC to a range of reputational and financial risks that need to be assessed and understood from the outset**. On the reputational side, these risks are linked to the behaviour of businesses, particularly concerning environmental, social, and governance issues. On the financial side, specific risks may arise from the use of investment instruments. It is therefore critical to conduct a detailed risk assessment of the private sector partner as early as possible in the design process of a PSE arrangement¹².
- **Mobilising additional private financial resources through investment structures is particularly challenging in the SDC's priority countries and regions, especially in least developed countries (LDCs) and fragile and conflict-affected settings**. It is therefore important to set realistic expectations and to recognize the role that alternative investors, such as multilateral and bilateral Development Finance Institutions (DFIs) can play.
- **Reaching scale requires greater standardization and more streamlined PSE processes to foster compliance and to reduce the transaction costs both for the SDC's staff and private sector partners**. Clarity on sequencing and the anchoring of PSE in the SDC's project cycle management (PCM) are essential.

¹² See chapter 5.5 for further information about PSE risk management. A dedicated Guidance Note on PSE risk management processes is also available to the SDC staff.

3.3. Potential for increased engagement: vision and objectives 2025-2028

Engaging with the private sector is essential given the existing SDG financing gap. The SDC's vision is to contribute to sustainable development, alongside other efforts, by increasing its engagement with the private sector to drive innovation and enhance impact, including in fragile and conflict-affected contexts.

To achieve the objectives set out in the IC Strategy 2025-2028, the SDC is pursuing the following PSE priorities:

- **Scaling PSE projects across the SDC's thematic priorities and regions, with a particular focus on financial market-oriented PSE.** The potential of financial-market-oriented PSE to mobilise private sector capital could be further explored in areas where the SDC has some specific expertise such as food security, sustainable agriculture, renewable energy access, climate resilience, financial inclusion, safe water access, and other essential services including health and education. Here, catalytic concessional capital can leverage additional capital through de-risking, thanks to blended finance investment structures and through impact-linked finance facilities and programmes. These approaches require shifting from a grant-making logic to an investment logic, embedding the PSE approach as a core operational model, which can complement more traditional forms of development cooperation, even though it cannot replace traditional approaches in environments where markets are ineffective.

- **Developing appropriate, tailored approaches for fragile and conflict-affected settings.** This applies particularly to partnerships in conflict and humanitarian contexts, as well as to reconstruction efforts.
- **Professionalizing PSE projects and portfolio management.** This includes further disseminating the PSE requirements laid out in this Handbook and integrating the PSE process management¹³ into the SDC's standard processes.
- **Enhancing the PSE-related skills and competencies of the SDC's staff** through practical, hands-on internal advisory services and training, based on lessons learned from previous PSE collaborations.



¹³ See chapter 4.4 for further information about the PSE process management.

4. Private sector engagement in practice

This section presents the main principles of engagement and the transversal themes applicable to all PSE partnerships. It then investigates how to operationalise PSE arrangements. It also clarifies the internal division of labour related to PSE partnerships and covers internal and external coordination, accountability and reporting.

4.1. Basic principles of private sector engagement

Engaging with the private sector rests on several basic principles that must be met in any PSE partnership:

- **Compatibility with the SDC's objectives:** The collaboration must contribute to the strategic objectives set out in the current IC Strategy and in its geographic and thematic programmes.
- **Measurable development outcomes:** The collaboration must define clear and measurable development outcomes.
- **Additionality** (see also chapter 5.1): The SDC must assess whether its resources are used effectively and generate impact that would either not occur or occur at a much slower pace if only public or private sector actors were involved.
- **Subsidiarity:** The SDC only engages with the private sector if the PSE does not substitute funding from other parties, including the private sector partner itself or a commercial lender. In other words, the SDC does not support projects that the private sector would finance or implement without its involvement.
- **Avoiding market distortions:** The SDC only engages with private sector actors with the view to developing sustainable market-based solutions. When using concessional financing, the SDC seeks to address specific market failures and inefficiencies, but its interventions should not distort markets¹⁴.

- **Due process:** The SDC must follow a standardized and sequential process to define, structure, monitor, and evaluate its PSE arrangements. This is precisely the topic of the following section.

The **cascade approach**, originally developed by the World Bank, provides a useful starting point when assessing the potential of a PSE, as it integrates several of the principles mentioned above. More specifically, it helps identify the extent to which the private sector can address a development challenge on its own or whether donor involvement is required. The cascade approach, therefore, reverses traditional financing logic: instead of assuming that an intervention should be entirely financed by donor grants, it asks whether the private sector could (partially) solve a development challenge. If this is the case, there is little or no need for public funding – in line with the principles of additionality and avoidance of market distortions. If not, a thorough context analysis is required to identify existing obstacles, risks, and constraints, and to assess whether concessional financing through official development assistance (ODA) funds could address such constraints or market failures sustainably, without creating new distortions. The analysis should examine whether ODA funds could adjust the risk profile of a project to make it more attractive to private investors when the private sector is reluctant to act due to high perceived risks.

In summary, the cascade approach aims to determine the extent to which ODA funds are necessary to engage the private sector and mobilise additional funding for sustainable development. The approach does not aim to diminish the role of the state in partner countries or privatize the delivery of goods and services. In many cases, development interventions must remain within the realm of the public sector. In such contexts, development agencies can support partner countries in adopting sustainable policies that create an enabling environment for leveraging additional private investment without undermining the state's overall responsibility (see Annex 3 for more information on the cascade approach).

¹⁴ For operational guidance, see the practical Guidance Note of the Donor Committee for Enterprise Development (DCED) on how to minimize the risk of market distortions in PSEs, available at https://www.enterprise-development.org/wp-content/uploads/DCED_Minimising-the-Risk-of-Market-Distortions-in-PSE_Practical-Framework.pdf.

4.2. Transversal themes in the implementation of PSE partnerships

Good governance

Good governance is both an end in its own right and a fundamental precondition for effective development cooperation. Ensuring accountability and justice is indeed an essential enabler for achieving all other SDGs. The SDC's approach to governance builds on long-standing experience and Swiss values, anchored in its own political practice.

The SDC follows a set of governance principles that underpin its development work, including its engagement with the private sector. These principles – **transparency, accountability, participation, rule of law, effectiveness, efficiency, equality and non-discrimination, and respect for human rights** – ensure that development initiatives are fair, effective, and sustainable¹⁵. In the context of PSE partnerships, these principles guide how the SDC selects partners¹⁶, designs programmes, and monitors outcomes.

Gender equality

The SDC is committed to promoting gender equality in all areas of its work and to enabling women and men to realise their potential and use their resources equally and meaningfully. The SDC's work is guided by the *2030 Agenda* and, in particular, SDG 5 on Gender Equality and the Empowerment of Women and Girls.

When gender is overlooked in economic decision-making (gender-blindness), opportunities are missed. For example, evidence shows that gender-diverse teams improve profitability and value creation¹⁷, and gender gaps continue to cause losses in profit and growth. Private investors are increasingly aware of these dynamics, as shown by the growing interest in **gender lens investing**¹⁸. Engaging with the private sector may therefore constitute a promising opportunity to promote gender equality and women's rights¹⁹.

Green & inclusive development

Green and inclusive development is an essential component of sustainable economic development, one of the four objectives of Switzerland's IC Strategy 2025-28. This objective encompasses key dimensions such as social and economic inclusion and the sustainable management and preservation of natural resources. Future PSE partnerships can contribute to this important objective, given the crucial role of the private sector in accelerating the green transition and providing concrete economic inclusion opportunities for current and future generations. However, this requires the private sector to behave responsibly and sustainably, starting with the proper management of key environmental and social risks²⁰.

4.3. Roles and responsibilities

Overall, the operational unit (OU) at the SDC in charge of a specific PSE project is responsible for establishing and managing the PSE according to the PSE process management. The OU develops the PSE project, submits the entry and credit proposal, provides financing, negotiates and signs the legal agreement, and assumes overall responsibility for the management of the PSE, including internal PSE reporting. The *Competence Centre for Private Sector Engagement (CEP)* provides PSE training as well as operational advice and backstopping in the structuring of all PSE projects²¹ and coordinates the PSE risk assessments and associated due diligence (DD), or provides support in the case of third-party DD. The *Contracts, Procurement, Compliance Division (CPC)* of the *Federal Department of Foreign Affairs (FDFA)* provides legal advice and supports the OU in the content and negotiation of contracts.

¹⁵ See the SDC's Guidance Note on Governance (2020).

¹⁶ In practice, the SDC ensures that all private sector partners uphold human rights and promote equity, avoiding practices that could exacerbate inequality or harm the environment, focusing on the assessment of key Environmental Social and Governance risks (ESG risks).

¹⁷ Delivering Through Diversity, McKinsey & Company (2018)

¹⁸ Gender lens investing is the practice of investing for financial return while also considering the gender impact of that investment.

¹⁹ See the SDC « How to note » on Gender Analysis (2018).

²⁰ See chapter 5.5 for further information about the PSE risk assessment.

²¹ Note the SDC's *Regional Thematic Advisors (RTAs)* are the first point of contact for all operational units sitting in the field and these are responsible for looping the CEP into the operational discussions.

4.4. PSE process management

Engaging with the private sector in the context of specific projects and programmes follows the same project cycle management (PCM) as other non-PSE projects. However, there are a few important differences that require further consideration when establishing and managing a PSE:

- **Allow time to find a common vision:** Partnerships with private sector actors require building a shared vision among stakeholders who often have fundamentally different roles, objectives, incentives, and institutional cultures. Reaching this common ground can take time and depends on context-specific factors, but it is essential for effective collaboration and successful outcomes.
- **Analyse reputational risks thoroughly:** The presence of one or more private sector actors entails specific reputational risks that must be analysed ex ante and appropriately mitigated or managed to assess whether engaging with such actors is desirable.
- **Make space for a more complex governance structure:** The governance of PSE projects is often more complex than that of more traditional development cooperation projects, due to their specific legal requirements. In particular, financial market-oriented PSE arrangements have specific administrative, financial, and contractual requirements that reflect specific financial risks, which must be thoroughly analysed.

The SDC's experience shows that establishing PSE projects takes time, as each project, structure, and contractual arrangement is often unique. To ensure effectiveness, a clear process and sequence must be followed when initiating, structuring, managing, and closing a PSE. The CEP plays a key role in guiding operational units through this process and must be involved in the structuring stage as early as possible. In addition, because drafting and negotiating non-standard contracts takes time, it is important to start early.

The PSE process management consists of six stages, in accordance with the PCM: 1) PSE exploration, 2) Prior to the entry proposal, 3) Prior to the credit proposal, 4) Prior to signing of contractual agreements, 5) PSE monitoring, and 6) Closing and evaluation.

The specific features of PSE projects mainly concern stages 1 to 4. These stages must be followed when planning, implementing, and exiting a PSE collaboration, in close coordination with the SDC's *Regional Thematic Advisors* (as the first point of contact), the CEP, and the CPC²².

Stage 1: PSE exploration

This initial stage aims to determine whether to pursue a PSE. During this first stage, the following aspects must be assessed:

- The alignment of the PSE concept with the SDC's strategic objectives and priorities
- The role and contribution of the potential private sector partner
- The SDC's role and additionality
- The potential nature of the PSE arrangement (indirect or direct PSE, potential PSE format)

This assessment informs the decision on whether to pursue the PSE further.

Stage 2: Prior to the entry proposal

For any new SDC project, including a PSE, an entry proposal must be completed. The entry proposal is a formal document outlining the project's concept and goals and serves as a basis for the SDC's decision on whether to proceed.

This second stage aims to define the main PSE components for the entry proposal, including:

- The PSE development objectives and Theory of Change
- The SDC's additionality in the PSE project²³
- The intervention strategy
- The parties involved in the PSE project
- The type of PSE arrangement: direct versus indirect PSE
- The possible PSE governance structure

In addition, a PSE risk assessment must be initiated, based on the existing understanding of the PSE setup at this stage²⁴.

²² The PSE process management as described mainly reflects the standard case involving an entry proposal and a credit proposal. However, the same process applies to all other cases (example: single phase), noting that all the elements listed under prior to entry proposals and prior to credit proposals would have to be implemented before submitting a formal credit proposal. Further details are provided in a Guidance Note on the PSE cycle management, available to the SDC staff.

²³ See chapter 5.1 for further information about additionality.

²⁴ See chapter 5.5 for further information about the PSE risk management.

Stage 3: Prior to the credit proposal

To secure funding for any SDC project, including PSE projects, a credit proposal must be submitted. The credit proposal is a standard SDC document including detailed information about the project's objectives, activities, budget, risks, setup, and intervention strategy. It serves as a basis for the SDC's decision on whether to provide funding.

Prior to the credit proposal submission, the following aspects of the PSE structure and format must be clarified and included in the credit proposal:

- The selection and description of the PSE format
- The contractual partner(s)
- The contractual structure and PSE governance²⁵
- The calculation of the personal contribution²⁶ of the private partner(s) in the PSE and the profit analysis²⁷
- The identification of key performance indicators (KPIs) and targets
- The cost-efficiency and cost-benefit analysis²⁸
- The identification of main contractual and financial risks

The PSE risk assessment must be finalized, including, if applicable, a DD. The scope and depth of the DD depend on the PSE arrangement, format, and risk exposure²⁹. Summary information on the SDC's additionality, the private partner's personal contribution, and the assessment of private profits must be presented in a dedicated PSE checklist in the credit proposal (see Annex 5). The latter is part and parcel of the SDC Guidance for entry and credit proposals.

Stage 4: Prior to signing of contractual agreements

Collaborations with one or more private sector partners require a contract³⁰ to set out the terms and conditions of the joint activities, including common objectives, modes of cooperation, partnership governance, intellectual property, external communication, transparency rules applicable to the public administration (and to its engagements), liability rules, and criteria to exit the partnership.

At this stage, the contract must be drafted and negotiated with the private sector partner. This would involve consultations with the *Compliance, Procurement, and Contract Division* of the FDFA if provisions are needed to reflect the specificities of the PSE. The contract must be signed in accordance with the same signature rules that apply to any other SDC projects.

Stage 5: PSE monitoring

During implementation of the collaboration, as with other types of projects, the PSE project and contractual agreement(s) must be regularly monitored. The level of monitoring shall be commensurate with the level of risks at stake (reputational, financial, operational, etc.).

Stage 6: Closing and evaluation

At the end of a collaboration, an evaluation must be carried out as per the SDC's internal rules and guidelines applicable to all projects, to assess the achievement of objectives and to identify lessons learned and recommendations for future PSE collaborations.

²⁵ Except in the case of tenders, in which the contract partner is not known until after the tender.

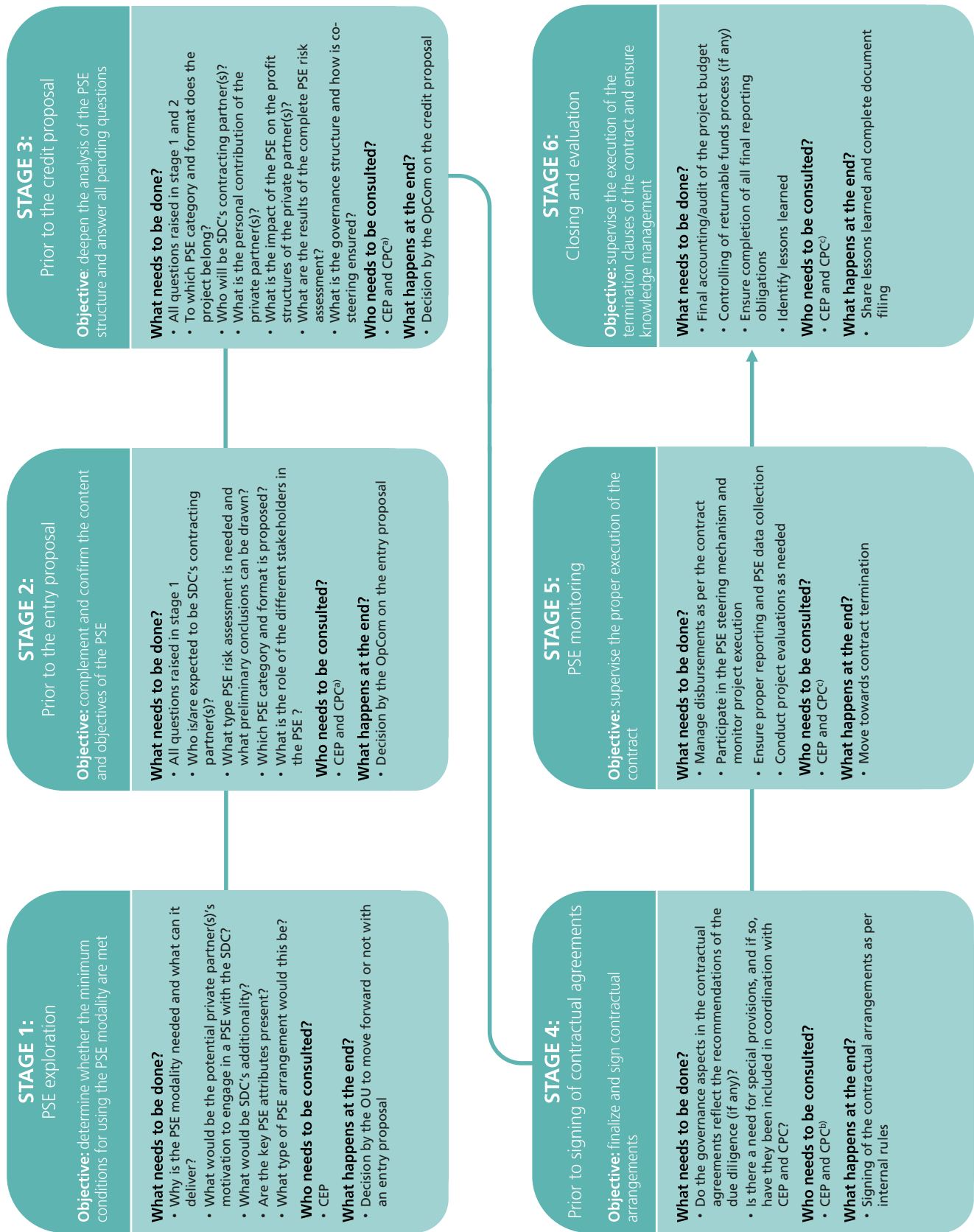
²⁶ See chapter 5.2 for further information about personal contribution.

²⁷ See chapter 5.3 for further information about profit analysis.

²⁸ See chapter 5.4 for further information about cost-benefit analysis.

²⁹ See chapter 5.5 for further information about the PSE risk management.

³⁰ See chapter 5.6 for further information about contracts.



a) For non-standard cases or procurement questions, b) For non-standard cases involving special provisions, c) As needed

Figure 8: The six stages of the PSE process management

4.5. Accountability and reporting

The annual reports of the Swiss Cooperation Programmes include a specific and compulsory reporting template on PSE projects. The purpose of this reporting template is twofold. First, it serves as a strategic tool for reviewing and discussing PSE implementation at the portfolio level, to support the development of more and better PSE projects. Second, it compiles financial information related to the SDC's PSE portfolio, contributing to overall accountability.

The SDC has developed a dedicated tool to collect and consolidate financial data on PSE projects. The data is updated on an annual basis as part of the reporting cycle. This data collection provides information about the total number of active PSE projects and the resources contributed by the public and private sector, disaggregated by the SDC's thematic priorities, regions or countries, PSE formats, and types of PSE partners.

Finally, for every new PSE project, the newly established PSE checklist must be completed (Annex 5). It summarises the main elements of the PSE as defined in the PSE process management and forms an integral part of the guidance for preparing credit proposals.

4.6. Whole-of-government approach and international coordination

As stated in the *General Guidance on the Private Sector in the Context of the International Cooperation Strategy (2025)*, investing public resources for development requires a high level of coordination among all Swiss public actors. Regarding PSE, the SDC and the *State Secretariat for Economic Affairs (SECO)* are striving to further strengthen their complementarity and ensure coherence in their PSE approaches and instruments. The SDC also seeks to develop synergies for maximum impact with the *Peace and Human Rights Division*

(PHRD) of the FDFA and the *Swiss Investment Fund for Emerging Markets (SIFEM)*, while coordinating with important actors such as the *Federal Finance Administration (FFA)*, the *State Secretariat for International Finance (SIF)*, and *Switzerland Global Enterprise (S-GE)*. Additionally, close cooperation with the economic and commercial sections of Swiss embassies helps extend relevant networks and reach more private sector actors.

As with any other modality of international cooperation, effective PSE partnerships are disclosed and closely coordinated with the governments of partner countries. Lessons learned from PSE collaborations can be particularly useful for policy dialogue with partner countries.

The SDC uses its lessons and good practices gained through its PSE projects to shape the global framework on financing for development, for example, by contributing to the UN-led financing for development workstream or by engaging with financing platforms such as *Building Bridges* in Geneva. Emphasis is placed on impact-linked finance and on social impact incentive formats (SIINCs).

To share experiences, exchange know-how, and foster best practices among donors and multilateral institutions, the SDC actively participates in the most relevant donor coordination platforms on PSE. This allows the SDC to learn from other donors while also actively sharing its own innovations, such as SIINCs. These platforms include the *PSE Working Group* of the *Donor Committee for Enterprise Development (DCED)* and other working groups and initiatives within the framework of the *Organisation for Economic Co-operation and Development (OECD)*.

5. Key topics on PSE structuring and management

This section provides additional operational guidance on selected topics in PSE structuring and management. These key topics include the additionality assessment, the personal contribution calculation, the profit analysis, the cost-benefit analysis, and the PSE risk assessment process. Each topic is presented with reference to the different stages of the PSE process introduced in chapter 4.

5.1. Additionality assessment

No later than stage 2

Additionality is a key requirement for any SDC-supported project. In the context of private sector engagement, the meaning of additionality is narrowly defined. The SDC's additionality³¹ must be carefully assessed to **ensure that public resources are used effectively and generate impact outcomes that would not be achieved through public or private sector involvement alone**. Without additionality, a PSE project cannot be justified.

The SDC follows the OECD's *Development Assistance Committee (DAC)*'s more general framework on additionality, which encompasses three dimensions: financial additionality (mobilising private resources or investment that would not have been committed otherwise), value additionality (leveraging the SDC's policy influence, convening power or thematic expertise), and development additionality (generating better, deeper or more inclusive development outcomes), in line with the overall objectives of private sector engagement. Building on this framework, the SDC assesses whether **its intervention enables, scales, deepens, or accelerates a given development outcome**.

The SDC ensures that its contributions to a PSE project complement private sector efforts and are grounded in a clear impact rationale. Without additionality, a PSE risks misallocating limited public funds, replicating market-based solutions, causing market distortions, and falling short of delivering meaningful benefits to target communities.

A PSE's additionality can be assessed through a **structured two-step process** that helps determine whether and how the SDC's involvement creates value that would not occur otherwise.

- **Step 1: Identify the type(s) of development additionality enabled by the SDC's involvement.** The aim is to assess what kind of difference the SDC's engagement makes – that is, what changes occur because of the SDC's involvement that would otherwise not have taken place. This establishes the counterfactual scenario (what would happen without the SDC). The different types of change include: 1) Enable: contribute to market creation or pioneer specific solutions in a given context. 2) Scale: help an existing solution grow to reach more SDC target groups, geographies, or markets. 3) Deepen: improve the quality, inclusiveness, or sustainability of the intervention or its results. 4) Accelerate: speed up the process or timing of a change or investment.
- **Step 2: Determine the lever through which the additional development impact occurs, by linking it back to the role of the SDC in the PSE.** This includes determining whether the role of the SDC is financial, non-financial (value-based), or both. **Financial additionality** means that the funding provided by the SDC enables projects to be realized that would not be possible with existing financial resources alone (commercial or philanthropic). **Value additionality** means that the SDC provides the credibility, influence, technical capacity, and convening power necessary to achieve better, more inclusive, and sustainable outcomes.

The additionality assessment is only one part of the broader assessment process used when evaluating a potential PSE collaboration. Even if a PSE demonstrates strong additionality, it is important to assess whether the scale and type of SDC support are proportionate to the value delivered. This requires an economic and financial analysis (EFA).

³¹ The SDC has developed an internal Guidance Note on additionality assessment, available to the SDC staff.

5.2. Personal contribution

No later than stage 3

As mentioned in chapter 2.1, co-funding is a compulsory element of any PSE collaboration. **Co-funding by a private sector partner is defined as the personal or own contribution³² to the PSE collaboration.** This personal contribution is a legal requirement. The *Swiss Federal Act of 19 March 1976 on International Development Cooperation and Humanitarian Aid* states in Article 11 that it is possible to support the endeavours of private institutions that comply with the principles and objectives of this Act, provided these private institutions make an appropriate contribution of their own. This principle is also reflected in *Switzerland's Law on Subsidies*, which states in Article 7 that the recipient of a subsidy shall make the personal contribution that can reasonably be expected based on its economic capacity.

The personal contribution provided by the private sector partner can **include cash or in-kind contributions**, such as staff time, products, or services. In addition to its own resources, the private sector partner can also mobilise resources from other private sector actors. If possible, part of the personal contribution should be made in cash. In-kind contributions must be valued in monetary terms, based on transparent calculations that are accepted by both parties and can be verified by auditors.

The appropriate share of private co-funding depends on the context, the type of private sector partner involved, and the specific characteristics of a PSE project. The SDC aims to fund no more than 50% of total collaboration costs. However, it also recognizes that this benchmark cannot be applied in all situations, and the appropriate cost-sharing level must be assessed on a case-by-case basis. Particularly in cases with high context-related risks, the share of for-profit private sector partners in the total PSE budget is expected to be lower. Furthermore, a distinction can be made between commercial, for-profit private partners and not-for-profit private partners, such as grant-making foundations. Grant-making foundations may have a high contribution potential even in high-risk contexts, whereas the contribution capacity, especially in cash, of for-profit partners may be lower.

5.3. Profit analysis

No later than stage 3

The SDC uses public contributions or concessional financial resources when engaging with private sector partners. These are considered subsidies under Switzerland's legal framework. Although Swiss law does not explicitly address the

issue of profits, a recent interpretation of the law emphasizes that subsidized activities should not generate profit, based on the principle of the economic and rational use of resources³³. This does not mean that private partners receiving a subsidy cannot be profitable, or that profitable companies cannot be subsidised. Rather, **no excessive or unexpected profits³⁴ should be created through subsidies.** If a private sector partner generates substantial profits, the rationale behind the subsidy is questionable, as it could indicate potential market distortion and pose reputational risks for the SDC. Therefore, when structuring a PSE project with for-profit private sector partners, the potential for excessive or unexpected profits should be assessed, as private partners are treated as subsidy recipients under the Swiss legal framework. The following guiding principles apply to PSE projects with for-profit private sector partners:

- A comparative analysis must be conducted to assess how a PSE collaboration affects the profit structure of the private partner.
- The profit made by a private partner should be deemed appropriate in relation to the expected development outcomes of the PSE collaboration.
- The SDC may only support PSE activities that go beyond what the private sector partner would undertake on its own (additionality).
- For PSE projects involving start-up businesses³⁵ or innovative market solutions, the SDC's support should be time-limited and structured so as to mitigate reputational risks in the event of commercial success.

5.4. Economic and financial analysis

No later than stage 3

An Economic and Financial Analysis (EFA) is a **systematic process for calculating and comparing the benefits and costs of an investment over time.** At the SDC, the EFA is instrumental for results-based management, aiming to improve the effectiveness of programmes by linking results with resources. An EFA can be conducted for a programme's individual beneficiary, for a programme partner (a financial EFA), or for society as a whole (an economic EFA). It may also be carried out ex ante (during programme design) or ex post (as part of the final evaluation). Conducting an ex ante EFA is mandatory for all SDC project phases with a budget exceeding CHF 6 million.

33 https://www.efk.admin.ch/wp-content/uploads/publikationen/fachtexte/20032024_hinweise-umgang-subventionen_d.pdf

34 The SDC has developed an internal Guidance Note on the issue of analysis of profits, available to the SDC staff.

35 As mentioned in chapter 2.5, direct cooperation with start-up businesses is generally excluded, but there can be exceptional cases.

32 The SDC has developed an internal Guidance Note on the operationalization of the personal contribution topic, available to the SDC staff.

As PSE projects often address economic development challenges through market-based approaches, conducting an **EFA is particularly important for assessing their sustainability, based on their financial and economic viability**. EFA in PSE projects should be combined with an analysis of excessive profits of the private actors involved, as described above.

5.5. PSE risk management

As early as possible but no later than stage 3

Risk management is an integral component of the project cycle management (PCM), which is mandatory for all SDC projects and programmes³⁶. It is a **structured process that enables the proactive identification, assessment, and mitigation of potential risks**³⁷, in order to increase the likelihood of project success by anticipating and addressing threats. This approach is not intended to avoid or reject high-risk interventions, but rather to balance expected results and impact with associated risks, ensuring that risks are deliberately and systematically managed and monitored.

The standard SDC partner risk assessment (PRA) primarily evaluates the capacity of contractual partners to implement projects.

However, in the context of PSE projects, two key factors necessitate a complementary yet distinct risk assessment process:

- Private sector actors often differ significantly from the SDC's traditional partners – such as public authorities, NGOs, or civil society organisations – in terms of structure, motivations, and operating models.
- The SDC's credibility and public trust could be undermined by partnerships with private sector actors whose real or perceived practices may conflict with the SDC's principles and values, particularly in areas like transparency, environmental, social, human rights, and governance standards.

To address these specific challenges, the SDC has established a **dedicated PSE risk management process (PSE RMP) embedded in the PSE process management** (see chapter 4.4), in line with the approach used by RepRisk Analytics and reflected in its database of company exposure to Environmental, Social and Governance (ESG) risks. **It does not replace the PRA but complements it**. The PSE risk assessment (PSE RA) is specifically designed to account for the unique characteristics of partnerships with private sector partners. It informs the decision-making of the SDC's operational units on whether to proceed with a PSE project; it also provides recommendations and proposes mitigation measures. The PSE RA is mandatory for all new PSE projects, and for new phases of ongoing projects that include a PSE component.

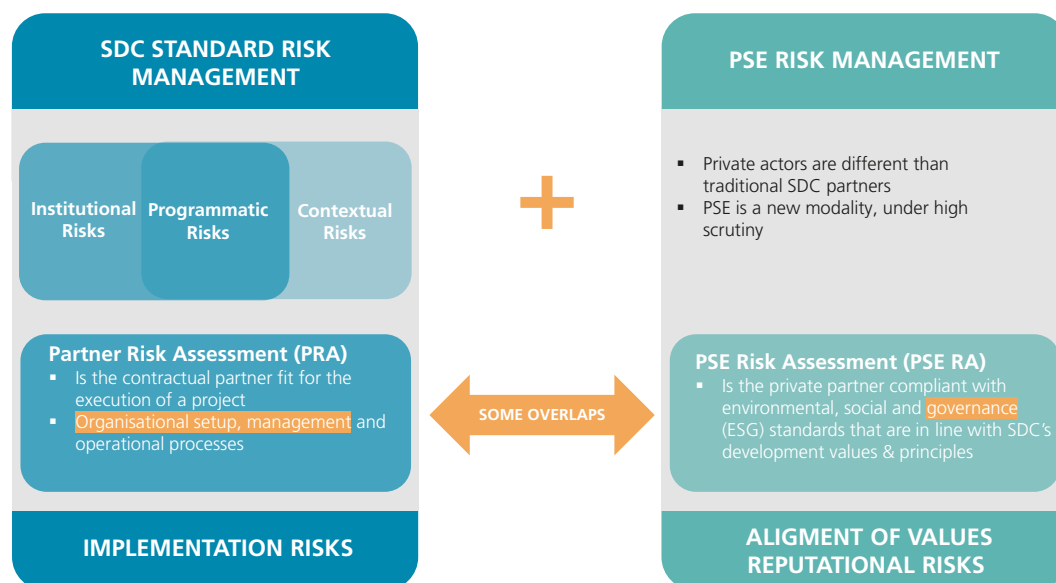


Figure 9: PRA and PSE RA

³⁶ In alignment with both international and national reference standards, the SDC's overarching approach to risk management is detailed in the internal SDC Guidelines for risk management, which classify risks into three categories: contextual, programmatic, and institutional. Institutional risks include reputational risks related to the collaboration with the SDC partners.

³⁷ The SDC has developed an internal Guidance Note on PSE risk management processes, available to the SDC staff.

Depending on the PSE arrangements between the SDC and private sector actor(s), different **types of PSE RAs** are conducted:

a) In a direct PSE arrangement, the PSE RA is used to evaluate the risk profiles of the SDC's private sector partner(s). It consists of two steps:

i. Pre-assessment of the private sector partner(s): The content and approach of the pre-assessment depend on the type of private partner (for-profit or non-profit). For for-profit organisations, the pre-assessment includes screening against the SDC's exclusion list, the SDC's list of critical sectors and practices³⁸, Environmental, Social and Governance (ESG) risks, Human Rights risks, and politically exposed persons (PEPs).

ii. More in-depth due diligence (DD): This step confirms that the potential private sector partner(s), including any relevant subsidiaries, are legally compliant, uphold the SDC's principles and values, and respect internationally accepted corporate responsibility standards such as the *UN Guiding Principles on Business and Human Rights (UNGP)* and the *OECD Guidelines for Multinational Enterprises*. The DD also ensures that partners follow both general and sector-specific good business practices and can adequately mitigate identified risks.

b) In an indirect PSE arrangement, the PSE RA is used to evaluate the intermediary organisation's (or implementation partner's) approach, process, and instruments. This assessment is called an **eligibility check**. **In indirect financial market-oriented PSE arrangements, a third-party DD** must also be conducted.

The PSE RA should begin as soon as one or several PSE partners are identified, but no later than the submission of the entry proposal. The process must be finalized no later than the submission of the credit proposal. In line with the basic principles of PSE projects – co-steering, co-initiation, and partnership on equal footing – it is important to inform potential PSE partners early about the PSE RA.

The SDC's operational unit responsible for a specific PSE collaboration oversees the overall PSE RMP and takes the final decision on whether to engage with a potential PSE partner. The CEP is part of the SDC's *Economy and Education Section (E+E)*. The CEP conducts the PSE risk assessments during the initial stages with the support of backstoppers and provides ongoing support to the operational unit throughout the entire PSE RMP.

³⁸ See Annex 4 for the SDC's exclusion list and list of critical sectors and practices

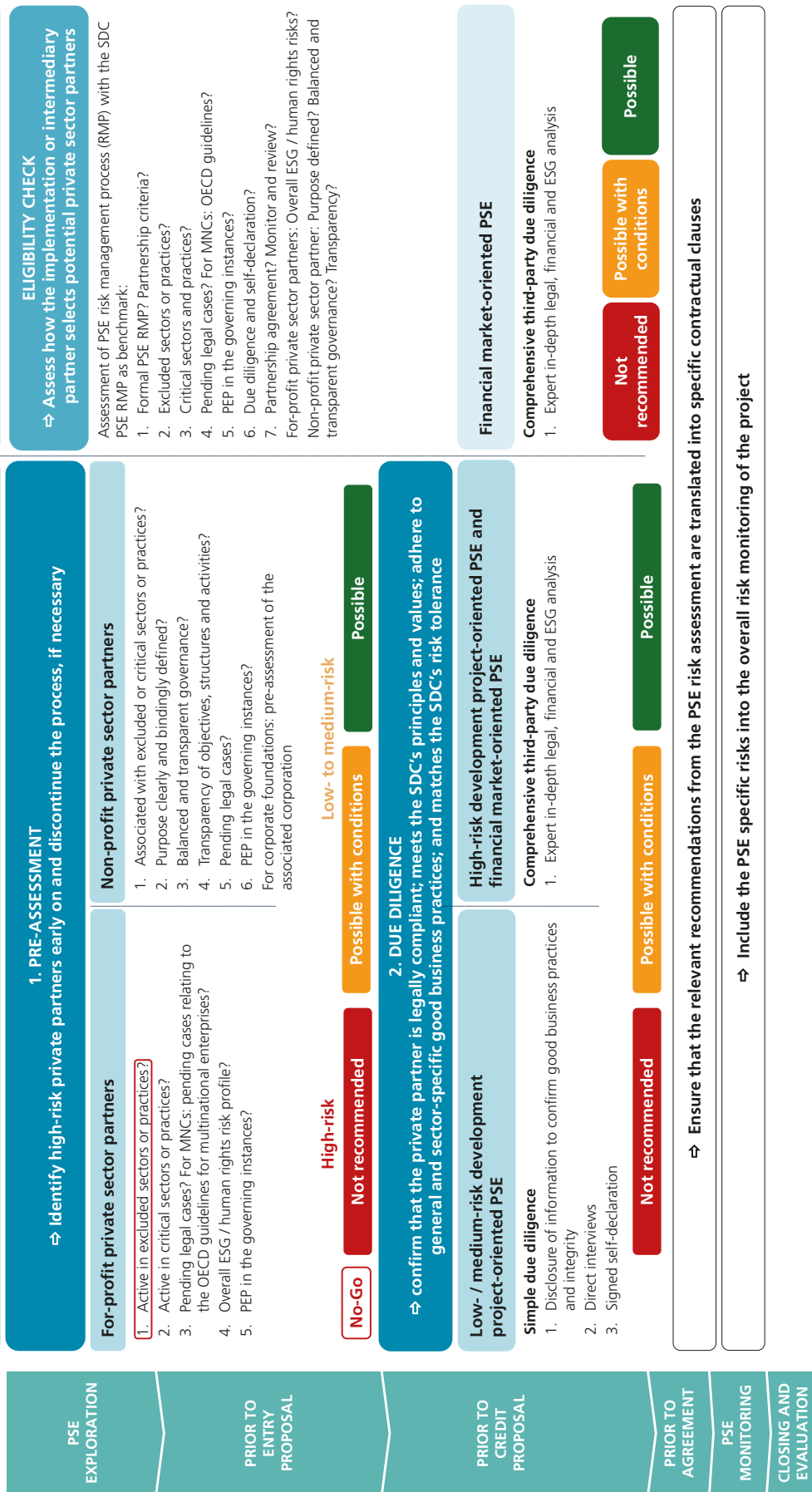


Figure 10: Overview of the PSE RMP

5.6. Governance & contracts

As early as possible

As mentioned in chapter 5.2, **when the SDC engages with the private sector and co-finance a PSE collaboration, its contribution is considered a support measure** according to the *Federal Act on international development cooperation and humanitarian aid*³⁹. Legally, this support measure constitutes a subsidy and is therefore **regulated by the Subsidy Act**. However, the structure of some PSE collaborations may involve public procurement situations: for instance, **whenever specific services need to be procured** for a PSE collaboration, the public procurement law applies. Another example is an **indirect PSE, in which a third party is mandated by the SDC to implement a PSE collaboration**. In such a case, a competitive tender process must be conducted in accordance with the public procurement law.

Depending on the PSE arrangement and format, different contractual requirements⁴⁰ must be fulfilled, resulting in diverse contracts or agreements. For direct development project-oriented PSE collaborations, various types of contractual arrangements following a contribution logic may be used, such as contribution agreements. Depending on the content of the PSE, standard SDC contracts must be supplemented by specific provisions or a Memorandum of Understanding (MoU) to cover governance aspects. The situation is more complex for financial market-oriented PSE collaborations. In the case of direct PSE arrangements involving investment instruments, the SDC uses specific types of contracts from the financial industry (for example, Subscription Agreements in the case of investment funds). In the case of indirect PSE arrangements, implemented through specialised finance intermediary partners, a contribution agreement may again be used as a basis, supplemented by specific provisions.

If the intermediary partner uses returnable investment instruments (e.g., loans or equity), the SDC must ensure that the partner includes specific clauses in its contracting agreements with third parties. Contracting specifics must be discussed with the CEP and with the CPC of the FDFA.

As mentioned previously, **co-steering** is a key element of a PSE collaboration. Clarifying the roles and responsibilities of the PSE partners and the governance mechanisms overseeing the partnership is essential. **The governance structure must be tailored to each PSE collaboration**. Nevertheless, certain elements must be considered for every PSE governance structure. These include the roles, rights, and responsibilities of the PSE partners; the form of co-steering (for example, through a specifically appointed committee); the roles, rights, and responsibilities of the steering bodies; the reporting structure expected by the SDC; and the dispute resolution mechanisms and associated legal jurisdiction. The agreed governance structure must be reflected in the partnership agreement with the PSE partners.

³⁹ Art 11 indicates that “The Federal Council may, within the limits of the resources available to it, support activities of private institutions that meet the objectives set out in this Act. These institutions must contribute to this by providing appropriate services.”

⁴⁰ The SDC has developed an internal Guidance Note to operationalize this concept, available to the SDC staff.

Annexes

Annex 1: List of abbreviations

- BII: British International Investment (British DFI)
- CEP: Competence Centre for Engagement with the Private Sector
- CITES: Convention on International Trade in Endangered Species of Wild Fauna and Flora
- CPC: Contracts, Procurement, Compliance Division
- DCED: Donor Committee for Enterprise Development
- DD: Due diligence
- DEG/KfW: German Investment Corporation / Credit Institute for Reconstruction
- DFI: Development Finance Institution
- DIBs: Development impact bonds
- EDFI: Association of European Development Finance Institutions
- E+E: SDC Economy and Education Section
- EFA: Economic and Financial Analysis
- ESG: Environmental, Social and Governance
- FDFA: Federal Department of Foreign Affairs
- FFA: Federal Finance Administration
- FMO: Dutch Entrepreneurial Development Bank (Dutch DFI)
- IC: International cooperation
- ICRC: International Committee of the Red Cross
- IDB: Inter-American Development Bank
- IFC: International Finance Corporation
- KPI: Key performance indicator
- LDCs: Least developed countries
- MNC: Multinational corporation
- MoU: Memorandum of Understanding
- NGO: Non-governmental organisation
- NORFUND: The Norwegian Investment Fund for Developing Countries (Norwegian DFI)
- ODA: Official development assistance
- OECD: Organisation for Economic Cooperation and Development
- OECD DAC: Development Assistance Committee of the Organisation for Economic Cooperation and Development
- OpCom: Operational Committee
- OU: Operational unit
- PCB: Polychlorinated biphenyls
- PCM: Project cycle management
- PEP: Politically exposed person
- PHRD: Peace and Human Rights Division
- PRA: Partner risk assessment
- PROPARCO: Société de promotion et de participation pour la coopération économique (French DFI)
- PSD: Private sector development
- PSE: Private sector engagement
- RMP: Risk management process







- SDC: Swiss Agency for Development and Cooperation
- SDG: Sustainable Development Goal
- SECO: State Secretariat for Economic Affairs
- SIBs: Social impact bonds
- SIINC: Social impact incentive
- SIF: State Secretariat for International Finance
- SIFEM: Swiss Investment Fund for Emerging Markets (Swiss DFI)
- S-GE: Switzerland Global Enterprise
- SME: Small and medium-sized enterprise
- TA: Technical assistance
- UN: United Nation
- UNDP: United Nations Development Programme
- UNESCO: United Nations Educational Scientific and Cultural Organization
- UNGP: United Nations Guiding Principles on Business and Human Rights

Annex 2: PSE formats

Catalogue of development project-oriented formats

This category of PSE follows a traditional development project logic, combining grant resources from the SDC (and sometimes from other public donors) and from private sector actors. The SDC's role as a donor is the same as in other development cooperation projects, but the co-funding and co-steering of the intervention with private sector actors make it different from traditional donor-financed projects.

Legend of all PSE formats

	Management/implementation of the PSE objectives		Co-funding provided by the different PSE partners (SDC + private sector partners). Note that depending on the formats, the co-funding can take the form of a contribution (cash or in-kind) or an investment.
	Contract or contract equivalent linking the SDC and other partners in the context of direct or indirect PSEs		Development impact
	Expertise which is expected to be mobilised, mostly from private actors	<div style="border: 1px solid black; padding: 2px; display: inline-block;">Type of Partner(s) (Specific role)</div>	The different types of partners are featured in the colour boxes, indicating the specific role they assume in the setup
	Steering mechanism linked to the PSE co-steering condition		

Note that the term contribution used in some charts is to be understood as grant by opposition to an investment, as defined in the Glossary.

A. Single private partnership

Single-partner collaborations refer to partnerships that are co-funded, co-steered and in some cases also co-initiated (or at least co-designed) with a private sector partner. The co-funding and co-steering elements are reflected in the agreement between the SDC and the private sector partner, as shown in Figure 11 below. The implementation of the PSE

may take place at the level of the private partner, or more frequently, may be carried out by an external organisation (for example, an NGO). In that second case, the project implementation structure is subject to public procurement rules, entailing a direct award in the case of contributions or a tender process in the case of a mandate. This is depicted in Figure 11 below.

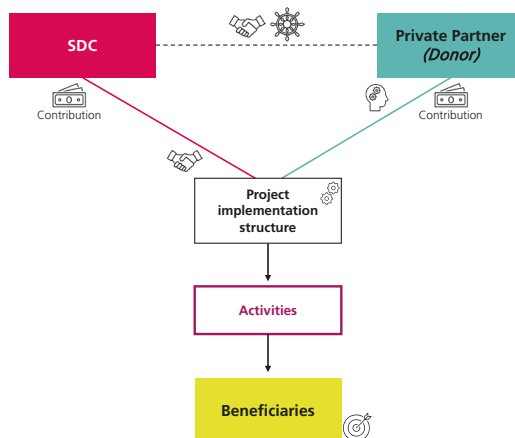


Figure 11: Single private partnership

B. Multi-stakeholder partnership (general case, see below for a specific case)

Multi-stakeholder partnerships are PSE collaborations between the SDC and one or several private sector partner(s) and, depending on the case, other partners such as other bilateral donors, national and local governments, and international organisations. These partnerships tend to be co-funded and co-steered by all stakeholders involved. A specific co-steering arrangement must exist

between the SDC and the private partner(s) to satisfy the co-steering requirement. Depending on the nature of the partnership, the implementation can be managed by the involved partners or more frequently by an external organisation (for example, an NGO). In that case, the project implementation structure is subject to public procurement rules, entailing a direct award in the case of contributions or a tender process in the case of a mandate. This is common and is depicted in Figure 12.

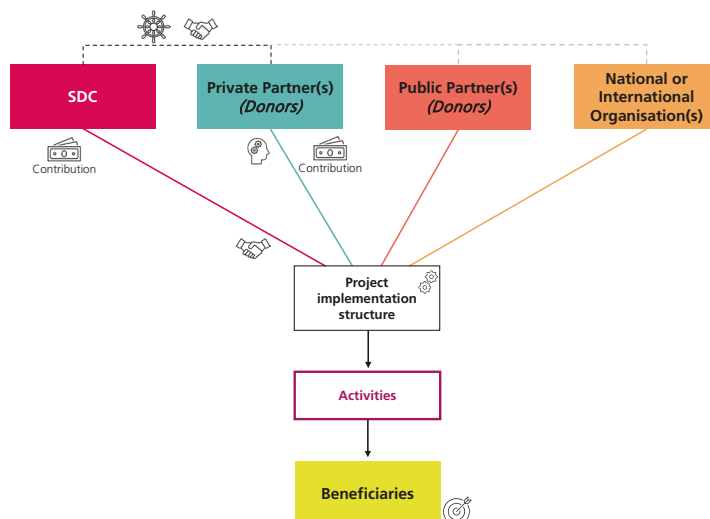


Figure 12: Multi-stakeholder partnership

C. The formalised multi-stakeholder partnership: a type of multi-stakeholder partnership

Formalised multi-stakeholder partnerships are partnerships in which the partners involved set up an independent entity, such as an association, a foundation, or a non-profit organisation, with a dedicated governance structure in which all partners have a role (for example, General Assembly, Board). All funding partners – including the SDC and private partners

– participate in the steering of the facility as part of the governance of the partnership. Usually, an independent entity or structure (hired by the partners) is responsible for the implementation and management of the partnership's activities, as depicted in Figure 13. This form of multi-stakeholder partnership typically applies to political alliance platforms or sector-specific partnerships that are active regionally or globally.

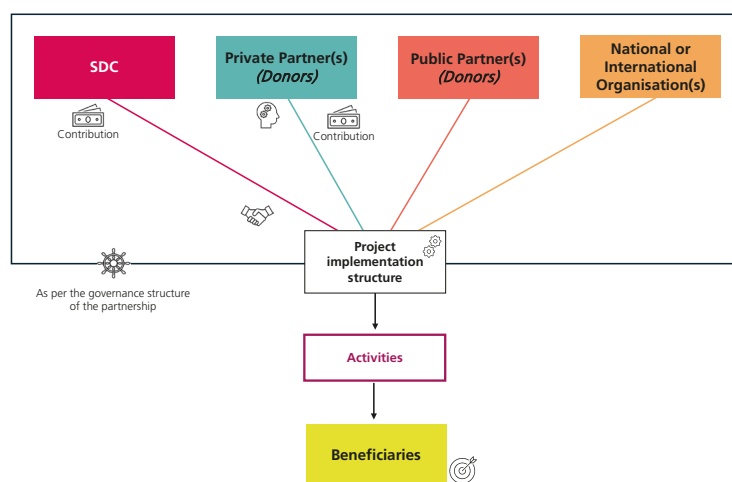


Figure 13: Formalised multi-stakeholder partnership

D. Support facility

Support facilities are unique facilities funded by donors and private sector partners, which then select impact-oriented projects and activities of private companies or SMEs to be supported with technical assistance or contributions, as

shown in Figure 14. The facility can be either managed by an implementing partner or by an external organisation, subject to public procurement rules. All funding partners – including SDC and private partners – participate in the steering of the facility as part of the governance of the facility.

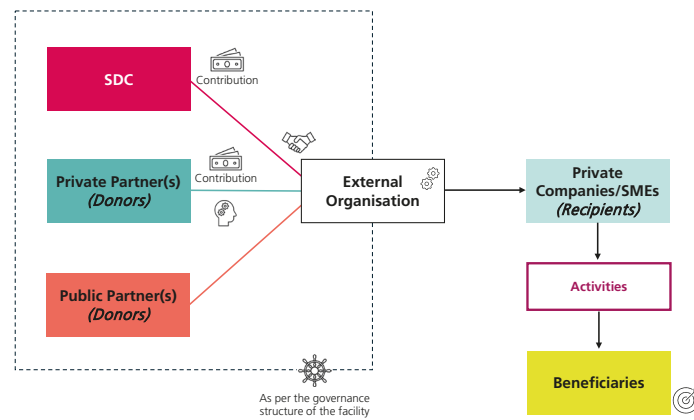


Figure 14: Support facility

E. Secondment

A secondment is an agreement between the SDC and a partner (international organisation, NGO, or private partner), whereby the partner sends an employee to work in a recipient

organisation (private partner, international organisation, or NGO). The seconded employee works for the recipient organisation for a certain period of time before returning to their original workplace. The SDC can either be the sender or the recipient organisation.

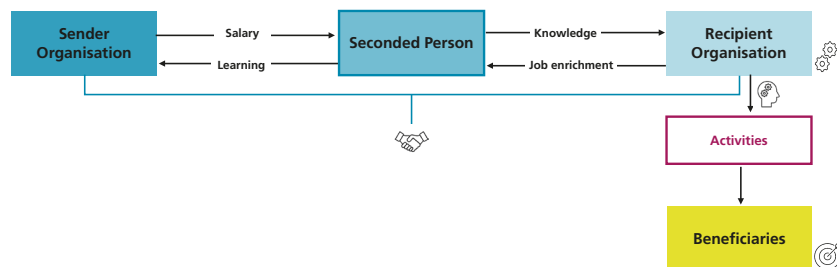


Figure 15: Secondment

Catalogue of financial market-oriented formats

Financial market-oriented PSE formats follow an investment logic linked to a development objective and seek to have a catalytic effect by mobilising additional capital from other investors, particularly private investors. There are six formats within this category, each belonging to one of two groups depending on the SDC's role. The first group includes formats that use returnable financial instruments such as equity, first-loss capital, or guarantees, in which the SDC assumes an investor role within blended finance structures, structures that combine concessional and commercial capital. In doing so, the SDC helps improve the risk-return profile for investors and channel more investments toward the SDGs (de-risking role). The second group includes formats such as technical assistance facilities (linked to investment structures) or outcome-based payments (such as SIINCs). In these formats, the SDC provides traditional grants to encourage or enable investments but does not take a direct investment role (investment enabler role).

A. Equity investment

Equity investments are direct investments in legal private entities, enabling the investor to become a shareholder. Equity investments can be catalytic because, with a higher capital base, a private entity can secure additional debt funding from banks or other investors.

The use of direct equity investments is not authorized for the SDC and is therefore not further described.

The SDC may, however, engage in an indirect PSE collaboration via a contribution agreement with a finance intermediary partner, which could then use equity investment instruments

First group: formats using investment and other financial instruments

Note: all PSE project setups (direct and indirect) involving the use of investments and other financial instruments such as guarantees are subject to specific requirements in terms of project preparation, contracts, monitoring, and reporting: first, a thorough due diligence must be carried out on the partner's capacity to use investment and financial instruments; second, annual financial reporting on the performance of the instruments and outstanding amounts must be carried out; third, any outstanding amount or unused fund at the end of project phase is to be reimbursed to the SDC, unless agreed otherwise⁴¹. For all direct PSE arrangements in this first group, the SDC would be the investor and use its internal investment credit. For all indirect PSE arrangements in this first group, the SDC would use grants (internal transfer credit).

in its own name and at its own risk. In other words, the SDC would provide a grant to the finance intermediary partner, which could also receive grant financing from other donors (public or private). For the PSE logic to hold, the finance intermediary partner would have to mobilise private funding as well and propose co-steering arrangements acceptable to the SDC. The mobilised private funding could either take place at the level of the finance intermediary partners (donors) or at the level of other investors, as depicted in Figure 16 below. Furthermore, the SDC cannot delegate the use of direct equity investments to an implementing partner via a mandate, because, in the case of a mandate, the implementation partner would carry out its activities on behalf and in the name of the SDC.

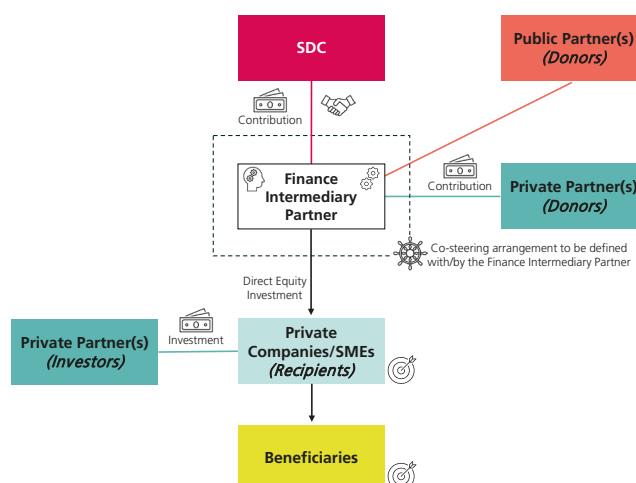


Figure 16: Indirect PSE involving equity investments

41 The SDC staff should consult *Weisung 307* for details and explanations.

B. First-loss engagement

In a first-loss engagement, the SDC directly invests in the first-loss tranche of a structured investment fund (a type of investment fund with different share classes, corresponding to different risk-return profiles), as shown in Figure 17. Technically, this is an equity investment but with a first-loss characteristic: its role is to de-risk the structure

for other categories of investors, thereby mobilising additional investors, including private investors. The co-steering element takes place within the governance structure of the fund, usually in an advisory committee:

Direct first-loss engagements are only authorized for the CEP with a specific budget (investment credit).

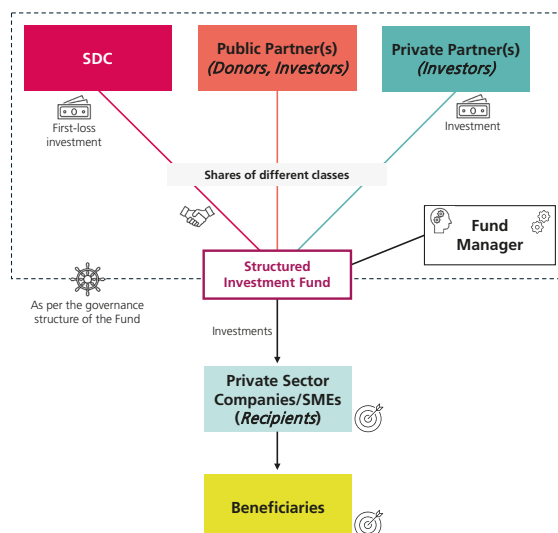


Figure 17: First-loss engagement (direct first-loss investment by the CEP)

The SDC may also engage in an indirect PSE collaboration via a contribution agreement (grant) with a finance intermediary partner, which then uses first-loss investment instruments in structured funds in its own name and at its own risk (see Figure 18). The co-funding element holds at the level of the structured fund itself (private co-investors in the structured fund), while a co-steering arrangement

needs to be defined by the finance intermediary partner to structure the interactions between the SDC and private sector partners. The SDC could also delegate the use of first-loss investments to an implementation partner via a mandate: The implementation partner would then invest on behalf and in the name of the SDC.

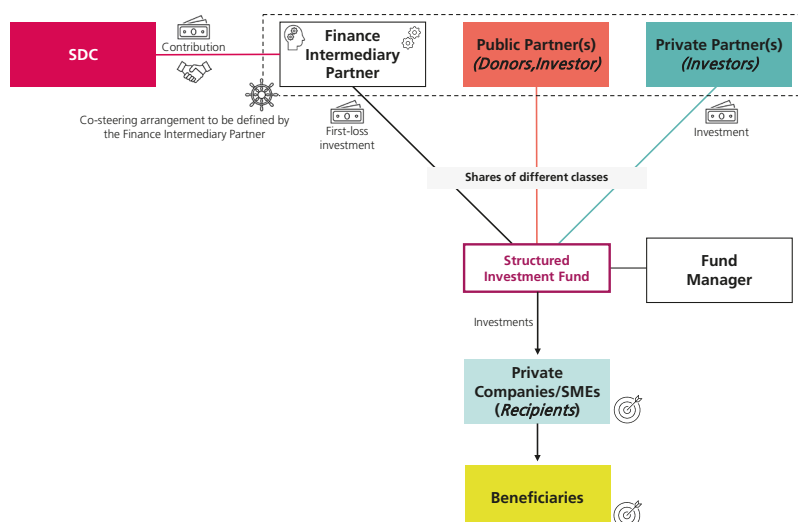


Figure 18: Indirect first-loss engagement via a finance intermediary partner

C. Loans

Loan instruments are not automatically catalytic; it depends on the type and terms of the loan instruments (see Glossary for details).

The use of direct loan instruments with a market interest rate is not authorized for the SDC and is therefore not further described. The SDC can only use concessional loans (interest-free loans or impact-linked loans with reduced interest payments) when investing directly, and this instrument is only possible for the CEP within a specific budget (investment credit).

The SDC may, however, engage in an indirect PSE collaboration via a contribution agreement with a finance intermediary

partner, which could then use any type of loan instruments (concessional or non-concessional) in its own name and at its own risk. The SDC could provide a grant to the finance intermediary partner, which could also receive grants from other donors (public or private). For the PSE logic to hold, the finance intermediary partner has to mobilise additional private funding and propose co-steering arrangements acceptable to the SDC. The mobilized private funding could either take place at the level of the finance intermediary partner (donors) or at the level of other investors, as depicted in Figure 19. Lastly, the SDC could also delegate the use of concessional loans to an implementation partner via a mandate, subject to standard public procurement rules: the implementation partner would then use concessional loans on behalf and in the name of the SDC.

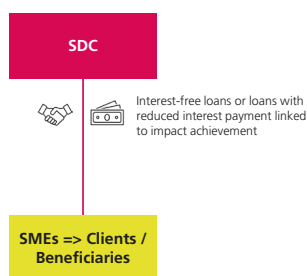


Figure 19: Indirect loan investment via a finance intermediary partner

D. Guarantees

Guarantees are a specialised form of contracts applying to financial transactions, in which the risk of default is assumed by a third-party external to the original transaction. It is commonly applied to debt transactions, in which a guarantor agrees to pay an amount due on a loan instrument in the event of non-payment by the borrower. Guarantee instruments are highly catalytic since their function is to absorb the risk of default, subject to specific conditions.

The use of direct guarantee contracts is not authorized for the SDC and is therefore not further defined.

The SDC may, however, engage in an indirect PSE collaboration via a contribution agreement with a finance intermediary partner, which could then use guarantee instruments in its own name and at its own risk (see Figure 20). For the PSE logic to hold, the finance intermediary partner would have to mobilise private funding as well. In this case, the loan portfolio leveraged by the guarantee instruments would count as private co-funding. The finance intermediary partner would also have to propose co-steering arrangements acceptable to the SDC. The SDC cannot delegate the use of direct guarantee instruments to an implementing partner via a mandate because, in the case of a mandate, the implementation partner would carry out its activities on behalf and in the name of the SDC.

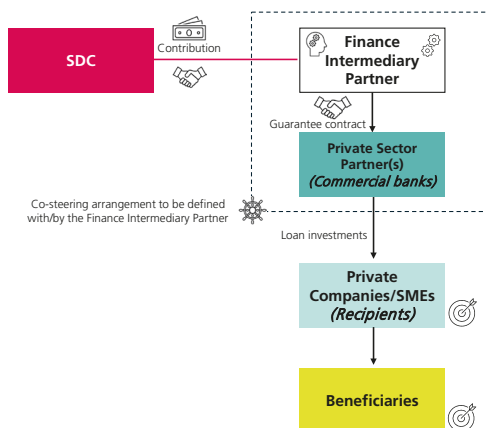


Figure 20: Indirect guarantee contract via a finance intermediary partner

Second group: traditional grant formats, which encourage or enable investments

E. Outcome-payment schemes

An outcome-payment scheme is a contract between the SDC and an enterprise (typically, a social enterprise), whereby the SDC agrees to pay the enterprise an amount of money if the company achieves pre-defined development outcomes. The company must also attract private sector investment (for example, a loan or an equity investment). Once implementation is completed, the extent to which the desired

development outcome has been achieved must be verified, typically through an independent evaluator. If all conditions are met, the SDC pays or reimburses the company. Typical outcome-payment schemes include SIINC's and social or impact bond arrangements. Using direct outcome-payment schemes is possible for the SDC, but this format is usually used in the context of indirect PSE arrangements. This occurs, for instance, when an implementing structure or implementation partner acts as an intermediary between the SDC and the client. The implementing partner is responsible for reporting on the co-funding aspect (mobilisation of private sector investment) and managing the co-steering element. This is depicted in Figure 21.

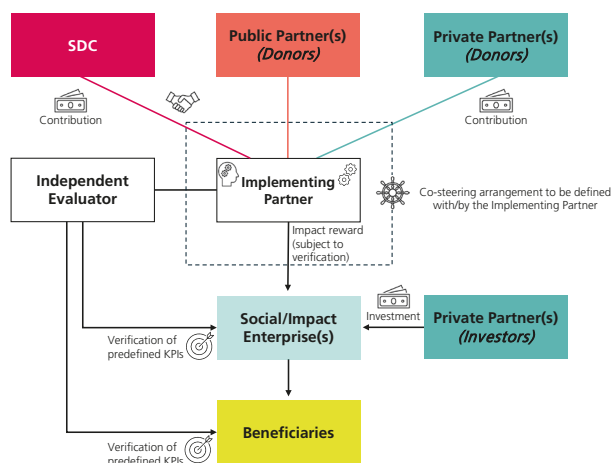


Figure 21: Indirect outcome-payment schemes via an implementation partner

F. Technical Assistance (TA) facility (linked to an investment fund)

This type of partnership refers to a technical assistance facility that is linked to an investment fund. Such a facility provides technical assistance and capacity building services to the investees of the investment fund to mitigate business risks (for example, financial management, risk management) or to enhance impact (for instance, impact management,

environment, and social risk management). This format supports an investment vehicle (as shown in Figure 22). The design and management are comparable to other TA facilities (e.g., including support facilities) used in traditional development projects. The co-funding and co-steering aspects are typically managed by the manager of the TA facility. The financing of a TA facility linked to an investment fund may take place even if the SDC is not an investor in the fund.

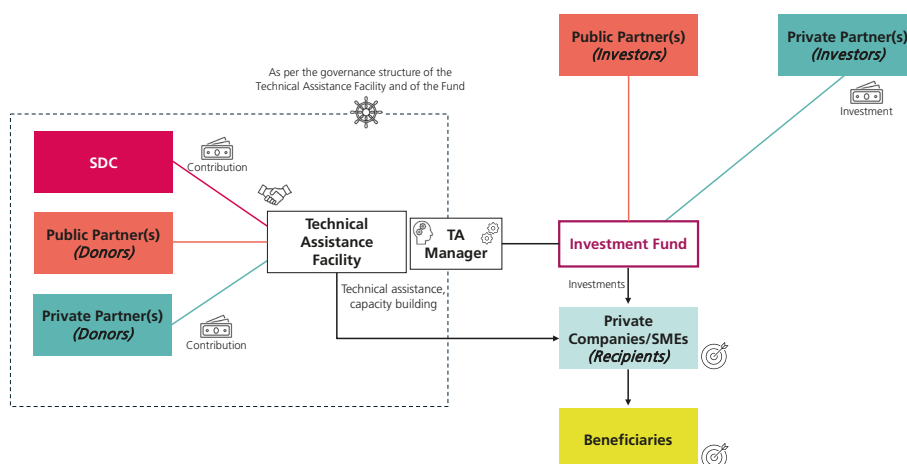


Figure 22: Technical assistance facility linked to an investment fund

Annex 3: Details of the cascade approach and its implementation

Definition

The cascade approach provides 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 23) that help assess the extent to which the private sector should be able to address the challenges on its own or whether donor involvement is warranted. In doing so, **scarce public resources can be directed toward interventions that most need them**, i.e., where no other actor can help.

Implications for the SDC

- Instead of automatically granting donor funds as a default solution, the SDC should **first critically reflect on whether the private sector could deliver the required service, either fully or partially**.
- If the private sector is unable to act due to excessively high risks, the SDC should **assess whether ODA-funded activities could improve the risk profile sufficiently to make an investment viable for private sector actors**.
- Thus, the cascade approach encourages **an assessment of how and to what extent ODA funds are needed to engage the private sector and mobilise additional funds** for sustainable development.

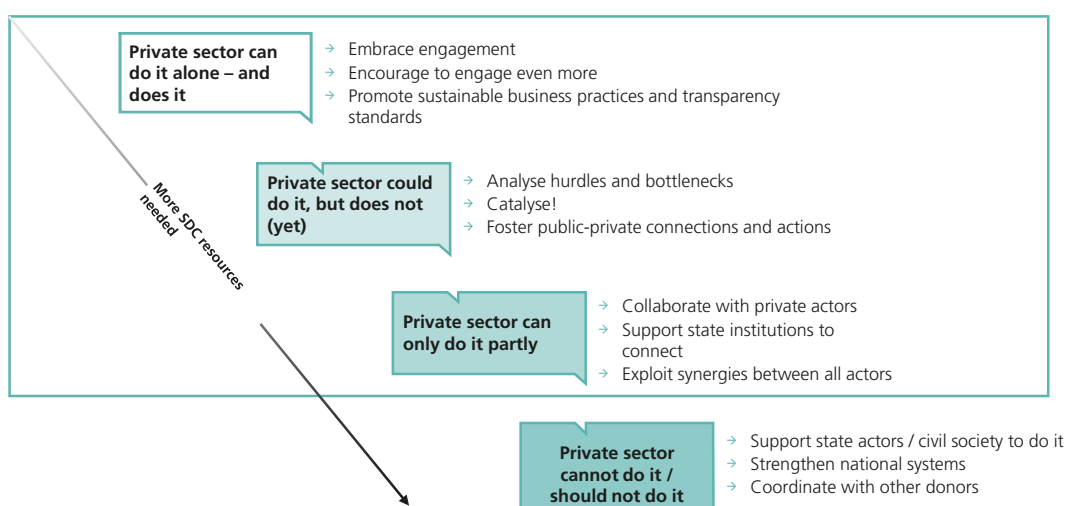


Figure 23: Cascade approach

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. In such cases, **development agencies can support partner countries in adopting sustainable policies** that 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 terms of risk allocation
 - address equity and affordability concerns for consumers
 - ensure environmental and social sustainability
- The **costs and benefits of private versus public solutions** must be carefully 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 for the private sector, the following steps are recommended:

- Analyse the local context to understand who the private sector actors are and what role they play.
- Determine the role the SDC could play, and through which measures it could act.

The decision tree below supports the SDC in assessing these two steps, (see Figure 24).

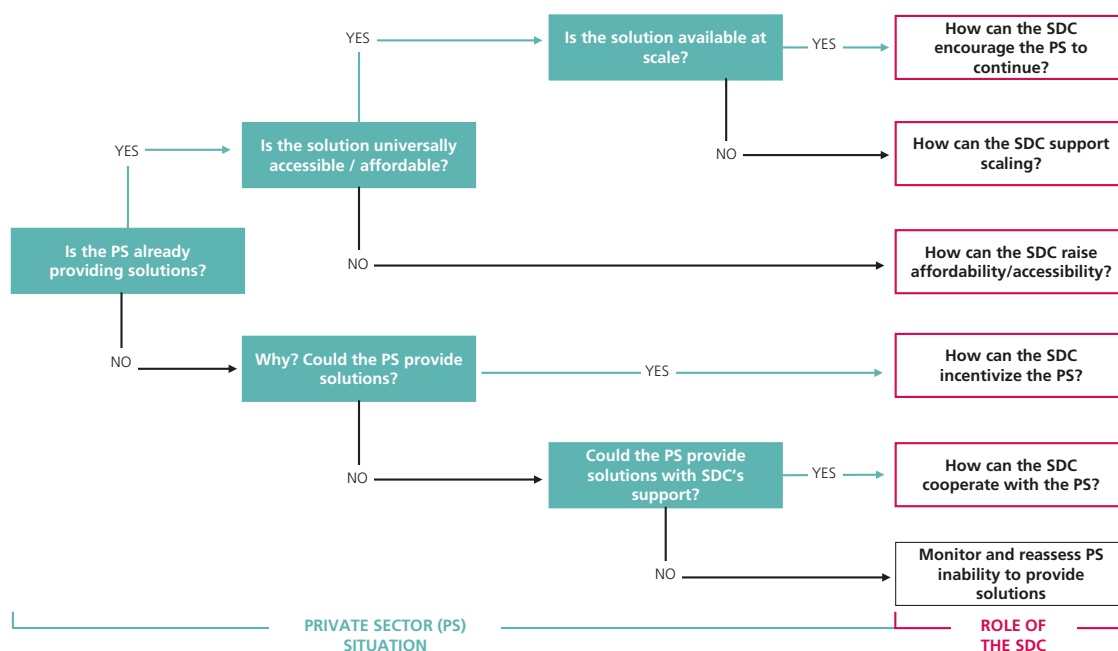


Figure 24: Cascade approach – decision tree

Annex 4: PSE risk management references

The SDC exclusion list

The exclusion list is an integral part of the PSE risk management process⁴². It is presented here for transparency and is used to check whether a potential private partner is engaged in excluded sectors and practices. This is the first step in the PSE risk assessment, which determines whether to proceed.

All potential private sector partners must be screened against the following exclusion list. The SDC does not enter into partnerships with a commercial organisation (or its subsidiaries⁴³) that is engaged directly in⁴⁴, or with a grant-making foundation associated with, one of the following excluded sectors (a) or practices (b).

a) Excluded sectors: if any of the following products form a substantial part of an organisation's business activities (production or trade)⁴⁵:

- Armaments, weapons, munitions and/or their components;
- Alcohol beverages (except beer and wine)⁴⁶;
- Tobacco⁴⁷;
- Gambling, casinos and equivalent enterprises (except public lottery companies, e.g., of Swiss cantons);
- Fossil fuel production and its associated activities⁴⁸.

b) Excluded practices: if the organisation 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)⁴⁹;
- 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 pornography⁵⁰;
- Production or trade in radioactive materials (this does not apply to the purchase of medical equipment or quality control and measurement equipment and any equipment in which 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 regulation⁵¹;
- Production or trade in unbounded asbestos fibers (this does not apply to the purchase and use of bound 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;
- Forced labour⁵² or child labour⁵³;
- Racist and/or anti-democratic media.

The SDC list of critical sectors and practices

A partnership with a private sector actor engaged in a critical sector (see list below) is only possible if: 1) the potential private sector partner 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 potential private sector partner.

- **Commodity trading**, particularly cotton, precious metal (e.g., gold) and gemstones (e.g., diamonds)
- **Mining and mineral resources**, including gemstones, critical and precious ferrous and non-ferrous metals (e.g., cobalt, rare-earth metals)
- **Timber, pulp and paper, soy, palm oil**
- **Garments and accessories**
- **Animal testing**
- **Dams**
- **Fish and seafood**
- **Power generation**
- **Agrochemical products** (e.g., synthetic pesticides, GMO)

⁴² Details of the PSE risk management process are included in a dedicated Guidance Note available to the SDC staff.

⁴³ If the share / participation of the private sector partner is $\geq 10\%$.

⁴⁴ Important first-tier (i.e. direct) suppliers are treated similarly but are assessed at a later stage of the process, during the due diligence.

⁴⁵ 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.

⁴⁶ SIFEM Exclusion list

⁴⁷ UNDP Exclusionary Criteria

⁴⁸ As defined in the harmonized EDFI Fossil Fuel Exclusion List.

⁴⁹ CITES listed species

⁵⁰ ICRC Guidelines for Screening Private Donors and Partners

⁵¹ Basel Convention on the Control of Transboundary Movements of Hazardous Waste

⁵² Forced labour means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty as defined by ILO conventions.

⁵³ Persons may only be employed if they are at least 14 years old, as defined in the ILO Fundamental Human Rights Conventions (Minimum Age Convention C138, Art.2), unless local legislation specifies compulsory school attendances or the minimum age for working. In such cases the higher age shall apply.

Annex 5: PSE checklist for entry or credit proposals

The PSE checklist summarises the most important PSE characteristics of an SDC intervention (development objective and additionality, personal contribution, profit analysis) and provides a dashboard of the PSE structuring process. Both elements can guide operational teams in the preparation and submission of entry and credit proposals involving PSE formats (preliminary presentation and layout).

I. PSE process checklist (dashboard)

- **Has the CEP been consulted in/associated with the discussion of the PSE format and structure?**
YES ☐ NO ☐
If no, please explain: _____
- **Has the CPC been consulted on the legal/contractual implications of the PSE format and structure?**
YES ☐ NO ☐
If no, please explain: _____
- **Based on consultations with CPC, is there any specific issue justifying the recourse to external legal assessment services?**
YES ☐ NO ☐
If yes, please explain: _____
- **Does the project include a development project-oriented PSE or a financial market-oriented PSE?**
Development project-oriented PSE ☐ Financial market-oriented PSE ☐
- **Does the envisaged PSE involve any intermediary or implementation partner between the SDC and the private partners, or beneficiaries?**
YES ☐ NO ☐
- **Has the PSE risk assessment (step 1: pre-assessment or eligibility check) been conducted on the PSE partner(s) involved?**
YES ☐ NO ☐
If no, please explain: _____
Details on the outcome of the PSE risk assessment can be found on page _____
- **If applicable (all financial market-oriented PSE projects, development project-oriented PSE with SDC budget > CHF 5 million or SDC budget > CHF 3 million and SDC shares > 50%, development project-oriented PSE with high PSE risks), has the external operational and financial due diligence process been conducted?**
YES ☐ NO ☐
If no, please explain: _____
- **In case of financial market-oriented PSE involving reimbursable financial instruments, have the administrative, monitoring, and reporting details that need to be part of the contract been identified?**
YES ☐ NO ☐
If no, please explain: _____

II. PSE development objectives / SDC additionality

a) Why is a PSE needed, and how is it compatible with SDC's strategic objectives and priorities?	Text or page reference
b) Why couldn't the private sector partner(s) finance and implement the expected development objectives on its own without SDC?	Text or page reference
c) What would be SDC's specific role and value-added in the PSE, linked to the development additionality of the project?	Text or page reference

III. Specific PSE aspects linked the Subsidy Law: Personal contribution and profits

a) What is the total amount (and in % of the total project budget) of the personal contribution of the private sector actor(s) in the PSE, and how is it calculated?	Text or page reference
<u>For development project-oriented PSE projects:</u> b) Is the PSE directly influencing the business activity and profits of the private partner(s)? If so, are the profits made possible by the PSE the result of expected growth in business volume or partners' profit margins?	Text or page reference
<u>For financial market-oriented PSE projects:</u> c) Does the PSE enable private sector partners to earn a profit? How do the expected profits of private sector partners compare to market alternatives in risk-comparable assets?	Text or page reference
d) Are the benefits made possible by the PSE justifiable from a public interest perspective, particularly in terms of measurable development impact?	Text or page reference

Annex 6: Glossary and definitions

Preliminary remarks:

- *This glossary does not include the definitions of the individual SDC PSE formats. Please see Annex C for details on the different formats,*
- *All underlined terms in the definitions below are specifically explained in this glossary.*

Additionality: the OECD defines additionality in international development as “the extent to which a financial intervention (e.g., a donor contribution or development finance) leads to outcomes that would not have been achieved without that intervention”. Several forms of additionality exist when working with the private sector through PSE collaborations. Financial additionality ensures that public financing is provided only when other financing cannot be obtained with similar terms or in similar amounts from local or international private sources. Value additionality refers to the specific contribution of the public sector in providing non-financial support when collaborating with the private sector, such as the provision of knowledge or expertise. Finally, development additionality refers to the development outcomes that are achieved through a partnership that would otherwise not occur. This can include greater, higher-quality, or faster outcomes than what would occur if partners operated alone. These different forms of additionality are often interlinked.

Beneficiaries: In the context of this Handbook, beneficiaries refers to the individuals or organisations that ultimately benefit from the SDC’s funding and expertise, either directly or indirectly. Examples include SMEs and underserved groups, such as women or young people in target countries.

Blended finance: According to the OECD, blended finance refers to the strategic use of development finance to mobilise additional finance towards sustainable development in developing countries. The objective of blended finance is to mobilise commercial capital – particularly from private sources – to increase the total pool of finance available for sustainable development. Technically, blended finance is a structuring approach that combines concessional and commercial capital from various sources (public and private) to fund interventions, particularly those that seek to achieve social, environmental, or development outcomes alongside financial returns. This approach uses a variety of instruments and is commonly used in structured investment funds, which have different layers of share classes corresponding to different risk-return profiles, following a subordination logic⁵⁴.

Co-funding: Co-funding refers to the combination of resources from different sources. This is a compulsory element of any PSE collaboration. Without co-funding, there is no PSE. Generally, the SDC aims to fund no more than 50% of collaboration costs, while recognizing that this principle cannot be applied in all situations (for instance, when the public good character of the collaboration is important).

Co-initiating: Co-initiating refers to the joint establishment of a collaboration, including the identification of new ways to address development challenges. The spirit of co-initiation, co-creation, or co-design is to foster shared responsibility and accountability. Co-initiation is not always applicable in practice; in some cases, the SDC may join an already established partnership or take part in an existing structure. As a result, co-initiation is an optional element in PSE collaborations.

Co-steering: Co-steering reflects the partners’ shared commitment to the success of a cooperation. For the SDC, this is a compulsory element of any PSE collaboration – without co-steering, there is no PSE. As a rule, both the SDC and the private sector partner(s) actively participate in the governing body of a PSE collaboration. Co-steering can take many forms, both formal and informal, depending on the type of collaboration.

Commercial capital: Commercial capital refers to funds provided under standard market conditions by profit-oriented institutions such as banks and other financial institutions or commercial investors (public or private). Commercial capital providers expect risk-adjusted returns, in which perceived risks are fully compensated by financial returns. Commercial capital is one of the key components of blended finance, in which commercial capital providers are willing to invest if they can benefit from a protection layer. In blended finance transactions, this layer of protection is provided by concessional capital.

Concessional capital: Concessional capital refers to funds provided to an organisation, project, or investment vehicle at below-market rates and with an element of subsidy. This type of capital typically comes with lower return expectations (lower interest rates, longer repayment periods, or other advantages). Concessional capital is most commonly provided by donor governments, development banks, multi-lateral organisations, or philanthropic foundations. It is a key component of blended finance, in which its role is to de-risk transactions for other investors. In such a structure, concessional capital is intended to mobilise commercial capital that would have invested without such de-risking.

⁵⁴ In the context of blended finance investment structure, subordination refers to which investors gets paid first if risks materialize. Junior investors are subordinated to senior investors because they absorb more risks and provide protection to senior investors and will get paid last. Senior investors are the most protected investors.

Contribution: A contribution is a grant-based cash or in-kind resource provided by a donor to an implementing partner, such as an NGO, international organisation, donor trust fund, or private foundation, to support specific development or humanitarian objectives. A contribution may be general or earmarked, and may include specific conditions or requirements for accountability, reporting, and alignment with agreed objectives. A contribution is not an investment, since no financial return is expected. In some cases, contributions may be reimbursable (for instance, in the case of unused or outstanding funds at the end of a project).

Contribution agreement: A contribution agreement is a formal contract between a donor and an external organisation, such as an NGO, international organisation, trust fund, that sets out the terms under which the donor provides financial resources (a contribution) to support a specific programme, project, or fund. Such programmes may also be co-financed by other contributions provided by other donors.

Development Finance Institution (DFI): DFIs are specialised financial institutions established by governments or multilateral organisations to promote economic development in developing countries. Their primary objective is to provide long-term capital and financial services to private sector companies for projects that contribute to social, economic, or environmental development, especially in sectors or regions where private capital might be insufficient or unavailable due to high risks or low returns. While DFIs are not profit-maximising, they seek financial returns that allow them to reinvest and remain operationally sustainable. Their development role is to act as patient investors with a higher risk appetite than traditional commercial investors and to incubate markets in a proactive manner, thereby creating strong demonstration effects on private investors. DFIs include multilateral DFIs such as the IFC (World Bank Group), IDB Invest (Inter-American Development Bank), and the private sector operations of regional development banks (African Development Bank, Asian Development Bank, European Bank for Reconstruction and Development). They also include bilateral DFIs set up by national Governments such as SIFEM (Switzerland), BII (British International Investment - UK), Proparco (Promotion and Participation Company for Economic Cooperation - France), FMO (Dutch Entrepreneurial Development Bank- Netherlands), DEG/KfW (German Investment Corporation / Credit Institute for Reconstruction - Germany), or Norfund (The Norwegian Investment Fund for Developing Countries - Norway).

Development project-oriented PSE: Development project-oriented PSE follows a traditional development project logic combining grants and other resources from the SDC (and sometimes other public donors) with those from private sector actors. The SDC's role as a donor is the same as in other development cooperation projects. However, the co-funding and co-steering of the intervention with private sector actors distinguish it from traditional donor-financed projects.

Direct private sector engagement (Direct PSE): Direct PSE projects are arrangements in which the SDC engages directly with one or several private sector actors and signs legal agreements with them defining the rules of the partnership. There is no intermediary structure or partner between the SDC and the private sector partner(s).

Due diligence (DD): A due diligence is the process of thoroughly investigating and assessing a business, organisation, or person before entering into a contractual relationship. The goal is to ensure that all material facts, financials, legal matters, and potential risks are fully understood and that decisions are based on accurate, complete, and reliable information. In practice, different types of due diligence may be conducted depending on needs. The main types include commercial and financial due diligence (analysis of business plan, business strategy, and teams, financial performance, and sustainability), legal due diligence (assessment of legal and regulatory compliance and corporate governance), and ESG management due diligence (identification of environment, social, governance, and other reputational risks). The scope of a due diligence, therefore, varies depending on the transaction's characteristics but typically combines elements of a commercial, legal, and ESG DD.

Eligibility check: An eligibility check is the PSE risk assessment applicable to indirect PSEs. The objective of an eligibility check is to assess how an intermediary organisation selects potential private sector partners. It applies to all types of intermediary organisations, whether private or not. The SDC PSE RMP serves as a benchmark for this assessment.

ESG risks: ESG risks are the potential negative impacts or threats to a company or investment arising from Environmental, Social, and Governance (ESG) factors. These risks can affect a company's financial performance, reputation, legal standing, and long-term sustainability. These risks include environmental and climate risks, such as carbon emissions, resource depletion, biodiversity losses, pollution, waste management, social risks, such as labour practices and workplace safety, human rights violations, diversity and inclusion, privacy data protection, and customer protection and governance risks, such as corruption, shareholders' rights, transparency, and accountability. Effective management of ESG risks is crucial for responsible investing and sustainable business practices.

Equity investment: An equity investment is the purchase of ownership shares⁵⁵ in a company, which gives the investor a claim on a portion of the company's assets and earnings. As shareholders, equity investors are part of the corporate governance structure of the company, with specific rights and responsibilities related to the company's management and decision-making processes. Equity investors benefit

⁵⁵ Technically, a company share refers to a portion of the company ownership, which is held by a specific owner.

from the company's success through share price appreciation and dividends, but they also assume the risk of loss if the company performs poorly. Equity shareholders are subordinated to the company's creditors. In the event of bankruptcy, shareholders only receive a payout after all outstanding debts have been satisfied, making equity investments riskier than debt investments (loans).

Financial market-oriented formats: Financial market-oriented PSE projects follow an investment logic linked to a development objective, and aim to have a catalytic effect, mobilising additional capital from other investors – particularly from private investors. There are six formats within this category, each belonging to one of two groups depending on the SDC's role. The first group includes formats using returnable investment instruments such as equity, first-loss engagement, or guarantees, in which the SDC assumes an investor role within blended finance structures (de-risking role). The second group includes formats such as technical assistance facilities (linked to investment structures) or outcome-based payments (such as SIINCs). In these formats, the SDC provides traditional grants to encourage or enable investments but does not have a direct investment role (investment enabler role).

Finance intermediary partner: A finance intermediary partner is a specialised organisation that manages investment instruments (such as loans or equity) or other financial instruments (such as guarantees) on behalf of other institutions, in line with agreed objectives, standards, and timelines. In financial market-oriented PSE arrangements at the SDC, a finance intermediary partner is used in indirect PSE arrangements in which the SDC contributes to an intermediary organisation, which then uses this contribution to provide returnable investment instruments (such as equity or loans) or other financial instruments such as guarantees.⁵⁶ These intermediaries can be specialised non-profit organisations, international organisations, or private foundations. In the case of mandates (public procurement) or in the case of contribution agreements involving the use of grant-based instruments (technical assistance, outcome-based payments such as SIINCs), the intermediary organisation is called an implementing partner, as defined in this glossary.

First-loss engagement: First-loss engagement is a type of equity investment in the riskiest tranche or layer of a structured fund, in the context of a blended finance approach. It involves investing with concessional capital in the first-loss (or junior) share class of a structured fund to absorb potential losses and thereby provide protection to other investors. This process is known as de-risking. First-loss investors are typically donors like the SDC or philanthropic foundations, which can use concessional capital to take on higher levels of risk

without being compensated by a corresponding financial return, in exchange for the development impact generated by the investment fund's activities. While a first-loss engagement refers to an investment instrument, a first-loss effect – that is, the protection against certain losses – can also be achieved with other instruments such as guarantee contracts.

Fund manager (or asset manager): A fund manager is a professional firm responsible for managing investment funds on behalf of clients, to maximize returns while managing risk. These managers make decisions on the allocation of capital based on the fund's investment strategy and the specific objectives of its investors. In the case of impact investing, some fund managers have developed specialised impact management and measurement capabilities, allowing them to manage both financial returns and development impact in a credible manner. Fund or asset managers typically earn compensation via a management fee, which is a fixed percentage, (usually between 1.5% and 2.5% of the assets under management), and a performance fee, calculated as a fixed percentage of the profits (usually 15-20%, paid after a minimum and pre-agreed rate of return has been achieved).

Grant: A grant is a sum of money issued by a government, organisation, foundation, or other entity to fund a specific project, initiative, or purpose, typically with no expectation of repayment (except in exceptional cases such as reimbursable grants). Grants are usually awarded to support activities that align with the goals or mission of the grant provider, such as development or social objectives. Unlike investments, grants are not expected to generate a financial return for the grant provider, but rather aim to achieve social or environmental return.

Grant-making foundations: Grant-making foundations are organisations typically established and funded by large companies (corporate foundations) or wealthy families or individuals (private foundations) with an initial endowment to support projects related to the purpose of the foundation⁵⁷.

Guarantee: A guarantee is a specialised contract in financial transactions, whereby a third-party assumes the risk of full or partial default. It is commonly applied to debt transactions, in which a guarantor agrees to pay part or all of a loan in the event of non-payment by the borrower. Guarantee contracts are not provided free of charge: A premium is usually paid to the guarantor, depending on the coverage level and the estimated risk of default. Guarantees can cover full or partial losses (a first-loss coverage effect), depending on the terms of the guarantee contract. They can apply to loan portfolios or individual loans, as well as to enterprises seeking a loan.

⁵⁶ For the SDC staff, these differences are regulated and explained in *Weisung 307*.

⁵⁷ Please note that some entities, initiatives or platforms are legally registered as foundations but do not manage an initial private endowment and actually seek donations from public donors to finance their own activities. These types of foundations are not considered private sector actors in the PSE context.

Impact: As defined by the OECD *Donor Assistance Committee*, impact refers to the long-term, significant and sustainable changes – positive or negative, intended or unintended – that result from development interventions such as programmes, policies, or projects. These changes usually relate to improvements in the well-being of individuals, communities and societies, going beyond the immediate effects of development interventions. The understanding of impact is the same in the context of PSE collaborations as in other interventions, since PSE is a modality of intervention.

Impact investing and impact investors: Impact investors refer to individuals or institutions making investments in companies, organisations, or funds with the intention of generating a measurable, positive social and/or environmental impact alongside a financial return⁵⁸. Impact investors include a broad range of actors, with different ownership structures (public or private), risk appetites, and return expectations. Public impact investors include Development Finance Institutions (DFIs) and donors providing concessional financing. Private impact investors can be private asset owners such as pension funds, insurance companies, banks, family offices, and high-net worth individuals expecting risk-adjusted market returns; and more philanthropic investors, private foundations, impact-driven family offices, wealth individuals, who may prioritize impact generated by the investments, accepting sub-market returns. These actors may invest in investment vehicles like blended finance investment funds, managed by private asset managers or fund managers. The beneficiaries of investment vehicles or funds are local SMEs or entrepreneurs seeking capital to finance their growth and generate development impact (e.g., job creation, reforestation, delivery of goods and services to local communities).

Implementing partner: An implementing partner is an organisation or entity responsible for executing projects, programmes, or activities on behalf of a donor agency, international organisation, or government, following agreed objectives, standards, and timelines. Within the PSE framework at the SDC, private sector engagement may be delegated to an intermediary organisation either via a public tender or through a contribution agreement. The SDC may also organise calls for proposals in the market to identify partner organisations that can bring a personal contribution, as defined in this glossary. Implementation partners can be NGOs, international organisations, or private sector actors such as foundations. Indirect development-oriented PSE projects are typically carried out by implementing partners. The case of indirect financial market-oriented PSE projects is more complex (see: indirect PSE and finance intermediary partners).

Impact-linked finance: Impact-linked finance is a financing approach that ties financial rewards or terms to the achievement of measurable social or environmental outcomes. It links financial incentives directly to verified impact – the stronger an organisation's impact performance, the more favourable its financial terms. Impact-linked finance differs from traditional impact investing by embedding variable financial terms directly tied to impact, rather than offering fixed returns regardless of outcome. Typical instruments of impact-linked finance include impact-linked loans (loans with interest rates or repayment terms adjusted based on the achievement of predefined impact targets), social impact incentives (SIINC), and social or development impact bonds (SIBs or DIBs).

Indirect private sector engagement (Indirect PSE): Indirect PSE refers to PSE arrangements in which the SDC does not engage directly with private sector actor(s), and its partnership with private sector actor(s) is managed by an intermediary organisation. The SDC has a contractual arrangement with this intermediary, which manages legal arrangements with the private sector partners. The intermediary may be an NGO, an international organisation, or a private sector actor such as a foundation. Depending on the project's characteristics, the SDC's contractual arrangement with the intermediary organisation can be a mandate or a contribution (public procurement rules of the Swiss Government apply). In development project-oriented PSE arrangements at the SDC, the intermediary organisation is called an implementing partner. The case of financial market-oriented PSE is more complex: for mandates (public procurement), the intermediary organisation is called an implementing partner, for contribution agreements involving the use of grant-based instruments (technical assistance, outcome-based payments), the intermediary organisation is also called an implementing partner, except for contribution agreements involving the use of returnable investment instruments, in which the intermediary organisation is called a finance intermediary partner⁵⁹.

Intermediary organisation: see indirect private sector engagement.

Investment: An investment refers to the allocation of money to an asset to generate a future financial return or profit. The primary goal of an investment is to increase the value of the initial input over time. Investment options typically include returnable financial instruments such as loans or equity. The relationship between risk and financial return is fundamental to investing. In general, the higher the potential return on an investment, the higher the risk associated with it, and each investment has an associated risk-return profile.

58 As per the GIIN definition <https://thegiin.org/publication/post/about-impact-investing/#who-is-making-impact-investments>

59 For the SDC staff, these differences are regulated and explained in *Weisung 307*. The SDC staff also have access to a dedicated Guidance Note on the operational differences between direct and indirect PSEs.

Investment fund: An investment fund is a financial vehicle managed by a professional fund manager that has its own legal identity and pools capital from multiple investors. An investment fund aims to achieve a risk-adjusted return on its investments. The fund can deploy capital through debt, equity, or other financial instruments, depending on its objectives and strategy. There are different types of investment funds. In a simple investment fund, each investor owns a single share class or portion of the fund. The value of each share fluctuates based on the performance of the fund's investments, meaning all investors share the same risks and returns in proportion to their investment in the fund. A structured fund functions slightly differently.

Loan (debt investment): A loan refers to a transaction in which one party (the lender) provides money to another party (the borrower) with the expectation that the borrower will repay the amount with interest over an agreed-upon period. There are various types of loan instruments, classified according to their repayment priority and the level of security (collateral) backing them. Senior secured loans are the highest-priority loans, meaning they are the first ones to be repaid in case of default, and they are backed by collateral (cash, machinery, real estate, or other forms of collateral). Senior unsecured loans are also high-priority loans, but are not backed by specific collateral. Subordinated loans are lower-priority loans that are repaid only after senior debt has been reimbursed.

Loan agreement: A loan agreement is a formal, legally binding contract between a lender and a borrower that outlines the terms and conditions of a loan. It specifies how the loan will be disbursed, repaid, and what happens in the event of default. Loan agreements are designed to protect both parties by clearly outlining their respective expectations and responsibilities.

Mandate: In public procurement, a mandate is an official authorization or instruction issued by a public entity (such as the SDC or other government body) to an external entity (the mandatary) to carry out specific activities on its behalf. It represents a formal delegation of authority from a public entity to another party to execute or oversee certain activities. The mandatary has a responsibility to comply with legal, regulatory, and procedural requirements, ensuring transparency and efficiency in the process. While the mandate allows a third party to act on behalf of the public entity, the latter retains ultimate responsibility and accountability for the outcome. Within the PSE framework, mandate contracts apply to indirect PSEs signed between the SDC and an implementing partner.

Market distortion: Market distortion refers to any interference or disruption in the natural functioning of a market economy, causing prices, supply, demand, or other market mechanisms to behave in ways that do not reflect their true economic values. Market distortions often arise from external interventions or anomalies that prevent the market from operating under the principles of supply and demand. They

can manifest in various forms, such as government intervention (use of subsidies, price controls, tariffs, and non-tariff trade barriers), dominant market power (monopolies or oligopolies), information asymmetries, and regulatory loopholes. These distortions can lead to an inefficient allocation of resources, mispricing of assets, or suboptimal economic outcomes.

Market failure: Market failure occurs when, without intervention, a market fails to allocate resources efficiently. It arises when the actions of individuals or firms result in outcomes in which social costs and benefits considerably differ from private ones, preventing the market from reaching a socially optimal level of production or consumption. Common causes of market failure include the presence of externalities (such as pollution, where private costs don't reflect social costs), the presence of public goods, information asymmetry (when buyers or sellers have more information than the other party, leading to suboptimal decisions), the effect of market power (monopolies or oligopolies that restrict output or raise prices), or incomplete markets. When market failures exist, the public sector may intervene to improve outcomes for the community, the environment, businesses, and the economy.

Memorandum of Understanding (MoU): A Memorandum of Understanding is a formal, typically non-legally binding agreement between two or more parties that outlines the objectives, roles, and responsibilities of a collaboration.

Personal contribution: Within the framework of PSE at the SDC, a personal contribution refers to the contribution (in the sense of the German term 'Eigenleistung' made by the private sector partner to fulfil the co-funding element of a PSE collaboration. As defined in Switzerland's *Law on International Development and Humanitarian Assistance* and in Switzerland's *Law on Subsidies*, this personal contribution must be appropriate, meaning that it must be in line with what can reasonably be expected given the economic capacity of the private sector partner. The personal contribution may be a mix of cash and in-kind, such as the provision of staff time, specific products or services, or the mobilisation of third-party contributions. All in-kind contributions must be expressed in monetary terms to be included in the calculation of the private sector partner's contribution. As a general principle, the SDC aims to fund no more than 50% of collaboration costs, but it recognizes that this principle doesn't apply to all situations. The burden-sharing ratio must be determined on a case-by-case basis, depending on factors such as the public good character of the collaboration, the level of context-related risks, cost-benefit considerations, and the number of co-funding partners involved.

Pre-assessment (PSE risk management): Pre-assessment refers to the first step of the PSE risk assessment in a direct PSE. Its objective is to assess, early in the development of a PSE, the risk profile of one or several private sector partners in order to determine whether to proceed with or halt the design of the PSE.

Private sector: As defined in Switzerland's *International Cooperation Strategy (IC Strategy) 2025-28*, the private sector generally refers to actors that are not majority-owned by the state. Within the framework of the IC strategy, the term also includes social enterprises, impact investors, and certain grant making foundations.

Private sector engagement (PSE): Private sector engagement refers to partnerships in which the SDC and one or several private sector actors collaborate (either directly or indirectly) on an equal footing in an impact-driven development intervention, based on shared values, benefits, risks, and costs. The three core attributes of private sector engagement are co-funding, co-steering, and co-initiation of the intervention. Co-funding and co-steering are mandatory elements, while co-initiation is optional.

Public Good: In economics, a public good is a good that is non-excludable, non-rivalrous, or both. A good is non-excludable if individuals or firms cannot be excluded from consuming it or, more broadly, cannot be excluded from obtaining any benefit from it. A good is described as non-rivalrous when someone's consumption of a good does not prevent someone else from consuming the same good. In the international development context, public goods usually refer to goods, services, or conditions that provide widespread societal and developmental benefits across borders and that are typically underprovided by markets, because private actors have little incentive to invest in them. Their provision, therefore, requires collective action. Public goods can either be global or national in scope. Examples of global public goods include climate change mitigation, control of infectious diseases, financial stability, peace building, and rule of law. Examples of national public goods include basic infrastructure, universal access to education and health, and universal access to safe water.

Risk-return profile: The risk-return profile of an investment refers to the trade-off between the potential return and the risk of losing the capital invested. Higher returns typically come with higher risks, and investors must determine the level of risk they are willing to accept to achieve their desired returns.

Social (impact) enterprise: A social (impact) enterprise is an organisation that combines a societal (social and/or environmental) purpose with the pursuit of profit. By virtue of their dual mission, social enterprises are hybrid organisations that combine aspects of traditional businesses (through the conduct of commercial activity) and not-for-profit organisations (through the pursuit of a social mission). Their profits are usually reinvested in advancing their mission rather than distributed to shareholders, to maximize benefits to society⁶⁰.

Social or development impact bonds (SIBs or DIBs):

Social or development impact bonds (SIBs or DIBs) are outcome-based financial instruments in which private investors provide upfront funding to finance social or environmental programmes. The repayment of the investment, along with any return, is contingent upon achieving specific, measurable outcomes – typically related to social, environmental, or development goals. Investors are repaid by an outcome funder (typically a government, development agency, or foundation). SIBs or DIBs, therefore, reward investors for risk-taking. The structuring of these instruments is usually very complex.

Social impact incentive (SIINC): Social impact incentives or SIINCS are outcome-based payment mechanisms that reward a social or impact enterprise with premium payments for achieving a pre-defined social or environmental outcome or impact, subject to an external verification process. The premium is paid by an outcome funder, usually a donor like the SDC or a grant-making foundation. A pre-condition for using SIINCS is that the enterprise has already raised funding from other investors (for example, a loan from a local bank), and has sufficient capital to work on its social or environmental outcome or impact. The SIINC rewards enterprises' ability to achieve the desired outcome or impact.

Structured (investment) fund: A structured investment fund is a type of investment fund offering multiple share classes designed for investors with different risk tolerances and return expectations. In blended finance vehicles, structured funds usually include a first loss or junior share class that can absorb a pre-determined portion of the losses, in order to de-risk more senior classes of investment according to a subordination logic⁶¹. Structured funds are not all designed in the same way and are typically bespoke structures, tailored to the investment strategy of the fund.

Subscription agreement: A subscription agreement is the contract between an investor (often called a limited partner, or LP) and an investment fund (managed by a general partner, or GP) setting out the terms under which the investor commits capital to the fund. It is the formal agreement to subscribe (i.e., commit) money to an investment fund.

60 Achieving Development Outcomes with Social and Impact Enterprises: A guidance paper for Swiss Agency for Development and Cooperation staff and partners, October 2024. <https://www.sdc-economy-education.ch/en/social-and-impact-enterprises>

61 In the context of blended finance investment structures, subordination refers to which investors receives payment first if risks materialize. Junior investors are subordinated to senior investors because they will get paid last, thereby absorbing more risks and providing protection to senior investors. Senior investors have the greatest protection.

Annex 7: Examples of PSE partnerships

Examples of PSE partnerships are being developed and will be made available in a separate document.

