Annex I: List of Abbreviations

BCtA	Business Call to Action
CCCP	Competence Center for Contracts and Procurement
CEP	Competence Center for Engagement with the Private Sector
CITES	Convention on International Trade in Endangered Species of Wild Fauna and Flora
CSPM	Conflict Sensitive Program Management
CSR	Corporate Social Responsibility
CSV	Creating Shared Value
DAC	Development Assistance Committee of the OECD
DCED	Donor Committee for Enterprise Development
DFI	Development Finance Institution
DFID	(British) Department for International Development
DRR	Disaster Risk Reduction
EPS	Engagement with the Private Sector
ESG	Environmental, Social and Governance
FDFA	Federal Department of Foreign Affairs
FOEN	Federal Office of Environment
FTE	Full Time Equivalent
GCF	Green Climate Fund
GDP	Gross Domestic Product
GIIN	Global Impact Investing Network
GPEDC	Global Partnership for Effective Development Cooperation
GRI	Global Reporting Initiative
HSD	Human Security Division
IDA	International Development Association
IDEPI-HSG	Center for Impact-driven Entrepreneurship and Public Innovation at the University of St. Gallen
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IFI	International Financial Institution
IMF	International Monetary Fund
IMP	Impact Management Project
INCAF	International Network on Conflict and Fragility
ISO	International Organization for Standardization
Komm-EDA	FDFA's communication unit
KPI	Key Performance Indicator
LNOB	Leave No One Behind
LoT	Lab of Tomorrow
MIGA	Multilateral Investment Guarantee Agency
MMV	Medicines for Malaria Venture
MoU	Memorandum of Understanding
NGO	Non-Governmental Organization
ODA	Official Development Aid
OECD	Organisation for Economic Cooperation and Development
PCM	Program Cycle Management
PDP	Product Development Partnership
PEF	Pandemic Emergency Financing Facility

PEP	Politically Exposed Person
PLAFICO	Interdepartmental Platform on Funding International Cooperation on Environmental and Climate Issues
PPDP	Public Private Development Partnership
PRI	Principles for Responsible Investment
PSD	Private Sector Development
PSEAH	Prevention of Sexual Harassment and Abuse
REPIC	Renewable Energy, Energy and Resource Efficiency Promotion in Developing and Transition Countries
SCBF	Swiss Capacity Building Facility
SDC	Swiss Agency for Development and Cooperation
SDG	Sustainable Development Goal
SECO	State Secretariat for Economic Affairs
SFOE	Swiss Federal Office of Energy
S-GE	Switzerland Global Enterprise
SHA	Swiss (Corps for) Humanitarian Aid
SIDA	Swedish International Development Cooperation Agency
SIFEM	Swiss Investment Fund for Emerging Markets
SIINC	Social Impact Incentive
SME	Small and Medium Enterprise
SPTF	Social Performance Task Force
TA	Technical Assistance
UN	United Nations
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Program
USAID	United States Agency for International Development

Annex II: Glossary

Addis Ababa Action Agenda (AAAA): Countries agreed on a series of measures to overhaul global finance practices and generate investments for tackling a range of economic, social and environmental challenges at the United Nations Third International Conference on Financing for Development, being held in Addis Ababa in July 2015. Following this groundbreaking agreement, the *Addis Ababa Action Agenda*, provided a foundation for implementing the global sustainable development agenda that world leaders adopted. This marked a milestone in forging an enhanced global partnership that aims to foster universal, inclusive economic prosperity and improve people's well-being while protecting the environment.

Additionality: To trigger investments that businesses or the international cooperation would not make otherwise, or to make them happen more quickly, at a bigger scale or better in terms of development outcome. One of the main rationales for partnership is that it facilitates faster, larger or better development impacts than the private sector or the public sector would not have been able to achieve alone. The collaborative arrangement has to create additional value in terms of scale, scope, quality, and sustainability that would not have been achieved otherwise.

b-corp: *B-corps*, or benefit corporations, are an organizational form of for-profit companies that are committed to solving social and environmental problems through the power of business. Those that are serious about this commitment can become certified B-corps through the nonprofit *B Lab*. Today there are more than 2,350 certified B-corps globally that meet these rigorous standards. Among them are some major brands like Ben & Jerry's or Patagonia. Benefit corporation (also if non-certified by B-lab) is a legal status in 30 states of the USA. Switzerland currently counts 24 certified B-corps and 5 more are pending.

Blended Finance: The strategy of using philanthropic or public funds to attract private investors' capital for development outcomes. OECD defines Blended Finance as "the strategic use of development finance for the mobilisation of additional finance towards sustainable development in developing countries." SDC uses the following blended finance formats: Venture Investment (equity and debt); Impact Bond; Social Impact Incentive; Structured Fund; Technical Assistance to Financial Vehicles; Guarantee (see Annex VI and the EPS format finder for more details).

Cascade Approach: Approach introduced by the World Bank Group to "Maximize financing for development" by leveraging the private sector and optimizing the use of scarce public resources. The grant logic is replaced by the question whether the private sector can solve a development challenge and what can be done to catalyze private sector engagement for sustainable development. Therefore, the approach implies the reversal of the current financing logic: instead of starting with a grant as a standard, first the question should be answered, if not the private sector can provide the needed service. If the private sector refrains from doing so due to overly high risks, it can be clarified whether activities financed through funds of Offical Development Assistance (ODA) can influence the risk profile in such a way as to make an investment affordable to the private sector. The grant should always be the last financing instrument used after examination and rejection of all other options. This is because the grant is the "most expensive" instrument in that it uses up 100% of the ODA funds. If part of the task is taken over by the private sector or controlled by market mechanisms, with the same benefit, the ODA funds used can be reduced.

Challenge fund: challenge funds (or matching grants) refer to a competitive EPS format in which the donor launches a call for proposal focused on a specific development challenge, and private sector actors can submit a project proposal, which includes own co-funding.

Co-creation: often in form of Innovation Labs, refers to a collaborative approach involving stakeholders of different sectors to develop system-changing solutions for sustainable development. In case of EPS this means involving private sector partners in jointly developing solutions to development challenges.

Competence Center for Engagement with the Private Sector (CEP): Created at the beginning of 2017 and located in the Cluster Inclusive Economic Development of SDC, the CEP provides support to the SDC's operational units to ensure quality and accelerate implementation of EPS projects.

Complementarity: To identify and exploit synergies and mutual strengths and resources. To enhance each other's contribution, by joining mutual forces and resources.

Concessional finance: Concessional finance refers to finance provided on more generous terms than market conditions. For instance, concessional loans are loans that are extended on terms substantially more generous than market loans. The concessionality is achieved either through interest rates below those available on the market or by long grace periods, or a combination of those.

Copenhagen circles: The *Copenhagen Circles* approach, proposed by OECD/INCAF and applied at SDC, provides the guiding risk classification framework that is considered most appropriate for development cooperation. The Copenhagen Circles comprise contextual, programmatic and institutional risks. *(From SDC Guidelines for risk management)*

Corporate Social Responsibility: Initiatives by companies to assess and take responsibility for effects on environmental and social wellbeing. The term is often used to describe activities that go beyond regulatory or legal requirements. The International Organization for Standardization has set out guidelines for companies to integrate corporate social responsibility into their operations *(From OECD 'Understanding key terms and modalities for Private Sector Engagement in Development Co-operation).*

Creating Shared Value (CSV): Creating Shared Value is a business concept originally introduced by Harvard Business School's professor Michael E. Porter. It is based on the central premise that competitiveness of a company and the health of the community around it are mutually independent. Thus Creating Shared Value is a business strategy in which companies find a business opportunity in solving social (or ecological) problems. *(From https://en.wikipedia.org/wiki/Creating_shared_value).* In EPS the concept of Creating Shared Value is the basis that *all partners* profits from the collaboration.

Crowding-out: the displacement of private demand by public demand.

Debt: an amount of money borrowed by one party (e.g. a company) from another (e.g. a bank). Debt is used by many corporations and individuals as a method of making large purchases that they could not afford under normal circumstances. A debt arrangement gives the borrowing party permission to borrow money under the condition that it is to be paid back at a later date, usually with interest.

Engagement with the Private Sector (EPS): Engagement with the Private Sector (EPS) (called Private Sector Engagement (PSE) at DCED) refers to the interest of donors to work with the private sector in a relationship as equals. It is defined as an activity that aims to engage with the private sector for development results, and as a guiding principle_involves the active participation of the private sector in co-initiating, co-steering and co-funding.

Ecosystem: A business ecosystem is the network of organizations – including suppliers, distributors, customers, competitors, government agencies, and so on – involved in the delivery of a specific product or service through both competition and cooperation. The idea is that each entity in the ecosystem affects and is affected by the others, creating a constantly evolving relationship in which each entity must be flexible and adaptable in order to survive, as in a biological ecosystem.

EPS 100 workshop: A three-day workshop based on the notion of paradigm shift: the playful starting point of the EPS 100 workshops is the question: "What if all our development challenges could be tackled in cooperation with the private sector, or if our entire portfolio consisted of EPS projects?". EPS 100 workshops are designed, offered and delivered by the CEP to SDC's operational units to
a) identify ways how to use EPS as a modality to implement the strategies and programs of SDC's operational units,
b) train SDC operational units in using the Cascade approach, for which knowledge and understanding of the private sector's activities in sustainable development is needed.

EPS Formats and Format Finder: Collaboration with the private sector can be structured in different ways or formats: i) development-project-oriented formats are close to traditional cooperation formats and include Single Partnership Projects, Multi-stakeholder Projects, Formalized Multi-stakeholder Consortia, Political Dialogue Alliances, Support Facilities, and Secondments; ii) financial-market-oriented formats follow an investment logic and include Venture Investments (equity and debt), Impact Bonds, Social Impact Incentives, Structured Funds, Technical Assistance to Financial Vehicles and Guarantees. All current EPS projects are structured according to these formats. More details on the single EPS format can be found in the EPS Format Finder (see Annex VI and the EPS Shareweb[1] for Details).

EPS Pioneers: EPS Pioneers are SDC staff members experienced in designing and implementing EPS projects. Some of them are cutting-edge innovators, developing fundamentally new approaches or project setups, some of them are quick learners, replicating and improving established concepts with proven impact. All of them are "public entrepreneurs", many of them serial ones, striving for systemic change for the better and for more sustainable development in different fields of SDC's activities.

ESG: Stands for Environmental, Social and Governance. In finance, ESG factors are typically used to evaluate the sustainability risks of companies and investment opportunities, as well as how advanced companies are with regard to addressing sustainability principles or mitigating/managing ESG risks.

Equity: Equity is typically referred to as shareholder equity which represents the amount of money that would be returned to a company's shareholders if all of the assets were liquidated and all of the company's debt was paid off. In other words, equity investors provide companies with longer-term money, thereby becoming owners of the company and entitled to decision-making and profit-sharing (mostly through dividends).

Gender blindness: Failure to recognize that the roles and responsibilities of men/boys and women/girls are given to them in specific social, cultural, economic and political contexts and backgrounds.

Gender lens investing: Gender lens investing is the practice of investing for financial return while also considering the gender impact of that investment. There are three main approaches to gender lens investing: investing in businesses, initiatives or programmes that a) are led by women, b) promote gender equity in their internal practices and policies or c) offer products or services that positively impact women.

[1] https://www.shareweb.ch/site/EPS/memberarea/Pages/Manage/Format-Finder.aspx

Global Partnership for Effective Development Cooperation (GPEDC): The Global Partnership for Effective Development Co-operation is a multi-stakeholder platform to advance the effectiveness of development efforts by all actors, to deliver results that are long-lasting and contribute to the achievement of the Sustainable Development Goals (SDGs).

Grant-making foundation: A grant-making foundation is a charitable foundation which disposes of its own capital and doesn't rely on donations in order to finance its activities.

Guarantee: A financial instrument in which a guarantor (typically the public or non-profit sector) agrees to pay some amount due on a loan instrument in the event of non-payment by the borrower. Guarantees are a specialized form of insurance related to financial transactions, in which the risk of default by one of the two sides in a transaction is taken on by a third party external to the original transaction. Guarantees can be provided for financial institution loan portfolios, financial institution individual loans, or to enterprises seeking a loan (which is referred to as a "portable guarantee").

Innovative Finance: innovative financing instruments aim at mobilizing additional resources for development by addressing specific market failures and institutional barriers, and so complement traditional international resource flows – such as aid, foreign direct investments, and remittances. While there is no single agreed definition, Innovative Finance can be summarized as "a set of financial solutions and mechanisms that create scalable and effective ways of channeling both private money from the global financial markets and public resources towards solving pressing global problems".

Impact Bond (Social / Development / Humanitarian): Social Impact Bonds (SIBs), Development Impact Bonds (DIBs) and Humanitarian Impact Bonds (HIBs) are new financing mechanisms designed to achieve development and social outcomes by bringing together private investors, implementers, governments and donors. (Private) investors loan capital for implementation to intermediaries and service providers. Implementers use capital to design and implement programs that achieve the desired social outcomes. Outcome funders pay back private investors' loans, with interest, if the service providers achieve pre-determined targets.

Impact Investors: Individuals or institutions making investments into companies, organizations, and funds with the intention to generate a measurable, positive social or environmental impact alongside a financial return *(From "2017 Annual Impact Investor Survey" (PDF). The Global Impact Investing Network).*

Impact Measurement and Management: Impact measurement refers to the identification of the positive and negative long-term effects of a project (or an investment or a business) on people and the planet. Impact management refers to the way how to mitigate the negative and maximize the positive impact.

In-kind contribution: In economics and finance, in kind refers to goods, services, and transactions not involving money or not measured in monetary terms.

Investment Fund: An investment fund is a supply of capital belonging to numerous investors used to collectively purchase securities while each investor retains ownership and control of his own shares.

Junior debt / junior equity: Junior debt is debt that has a lower priority for repayment than other debt claims in the case of default. Similarly, junior equity is equity that has a lower priority for repayment than other equity claims in the case of default.

Lab of Tomorrow (LoT): a comprehensive process to co-create impact-driven business models (including EPS initiatives in the context of SDC) to address specific development challenges.

Lean data: Lean Data refers to a fast and reliable customer-centric approach to result measurement, which relies on low-cost technology.

Loan: A loan is money, property, or other material goods given to another party in exchange for future repayment of the loan value or principal amount, along with interest or finance charges (see also "Debt").

Market Distortion: Unfair competitive advantages that may be caused through partnering with one single partner.

Matching grant: matching grants (or challenge funds) refer to a competitive EPS format in which the donor launches a call for proposal focused on a specific development challenge, and private sector actors can submit a project proposal, which includes own co-funding.

Memorandum of Understanding (MoU): A memorandum of understanding (MOU or MoU) is an agreement between two or more parties outlined in a formal document. It is not legally binding but signals the willingness of the parties to realise joint activities and possibly move forward with a contract.

Mezzanine: Mezzanine financing is a hybrid of debt and equity financing. It gives the mezzanine owner the right to convert a loan into equity in case of default.

Microfinance: Microfinance refers to banking services (loans, payments, saving accounts) provided to low-income individuals or groups who otherwise would have no other access to financial services, because they lack collaterals, or the loan amounts would be too small.

Mobilization of resources from private sector: Refers to all activities involved in securing new and additional resources from private sector for development objectives, as the private sector is especially important for its potential to transfer knowledge and technology, create jobs, boost overall productivity, enhance competitiveness and entrepreneurship, and ultimately eradicate poverty through economic growth and development.

Official development assistance (ODA) funds: Government aid designed to promote the economic development and welfare of developing countries. Aid may be provided bilaterally, from donor to recipient, or channeled through a multilateral development agency such as the United Nations or the World Bank (*From OECD*).

Outcome fund: An outcome fund pools grant money from different donors, paying for measurable social or ecological outcomes, rather than for activities or outputs.

Pay-for-result instruments: Financial instruments (such as outcome funds, Impact Bonds or Social Impact Incentives) that are result based, i.e. payments only occur if pre-agreed social or environmental outcomes are achieved. Thus, resources are disbursed based on outcomes, and not on the basis of the completion of activities.

Portfolio approach: describes a situation in which a sufficient critical mass of projects is grouped into a portfolio and strategically steered using a few Key Performance Indicators.

Private Sector: The private sector is not homogenous but composed of various types of businesses and organizations, from for-profit enterprises, to social business and to grant giving foundations. In the context of EPS, beyond a 'legal' framing, the potential role and the contribution of a business or organization in a given partnership is key. As a stakeholder or a partner the private sector can notably act as a resource provider in terms of funding and expertise, as a developer or reformer of business models, as an active participant in a policy dialogue or be the target of a given regulation.

Product Development Partnership: In Product Development Partnerships, public and private partners join forces to develop new products to the benefit of the poor in developing countries (e.g. medicines against diseases that over-proportionally affect people living in development countries).

Public-Private Development Partnership (PPDP): A PPDP describes a qualified cooperation between public and private partners, which presumes a closer collaboration than a simple cooperation. PPDP and EPS are used as synonyms.

Public-Private Partnership (PPP): partnership between an agency of the government and an organisation from the private sector aimed at the delivery of goods or services to the public.

Responsible business conduct: entails compliance with laws, such as those on respecting human rights, environmental protection, labor relations and financial accountability, even in countries where these are poorly enforced. It also involves responding to societal expectations – in terms of environmental, social and economic outcomes – communicated by channels other than the law (e.g. by inter-governmental organizations, within the workplace, by local communities and trade unions, or via the press). The OECD has OECD Guidelines for Multinational Enterprises on responsible business conduct and the United Nations has developed Guiding Principles on Business and Human Rights *(From OECD 'Understanding key terms and modalities for Private Sector Engagement in Development Co-operation).*

Risk assessment: Overall process of risk identification, analysis and risk evaluation *(From SDC Guidelines for risk management).*

Risk-return profile: The risk-return tradeoff states that the expected return rises with an increase in risk. Typically, different expectations regarding risk and return are used to determine a risk-return profile of an investment.

Risk transfer: a risk management technique used in financial investments. It is defined as the assignment of a risk to another party by means of a legal agreement.

Risk treatment: The continuum of risk mitigation and control measure that are developed and implemented to address an identified risk *(From SDC Guidelines for risk management).*

Senior debt / senior equity: Senior debt refers to a debt financing obligation issued to a company by a financial institution or a donor that holds legal claim to the borrower's assets above all other debt obligations. Because it is considered senior to all other claims against the borrower, in the event of a bankruptcy it will be first to be repaid before any other creditors or stockholders receive repayment. Similarly, the holders of senior equity (so-called preferred stockholders) have repayment seniority over common stockholders. Because of its greater degree of safety, senior debt or equity will generally offer lower returns than debt or equity below it in the seniority hierarchy.

Share (A-share, B-share, C-share): Shares are units of ownership interest in a company or financial asset that provide for an equal distribution in any profits, if any are declared, in the form of dividends. Shares can have different types of subordination (such as A, B, C or Junior and Senior shares), which involves a ranking in the priority ladder when it comes to paying out dividends but also taking losses in equity capital.

Social Business: A business with a for profit business model, which is set up with the objective to solve social or environmental issues by generating profits at the same time (Creating Shared Value is at the core of the organization).

Social Enterprise: A social enterprise is an organisation which has social or ecological objectives as its primary purpose. A social enterprise might be for-profit, non-for-profit or use a hybrid model. Profits of social enterprises are usually reinvested in order to maximise benefits for the society.

Social Impact Incentive: Social Impact Incentives (SIINC) is a funding instrument that rewards high-impact enterprises with premium payments for achieving social or ecological impact. The additional revenues enable them to improve profitability and attract investment to scale. SIINC can effectively leverage public or philanthropic funds to catalyze private investment in underserved markets with high potential for social impact.

Start-up: a recently established company that is in the first phase of a company's life cycle.

Structured Fund: Structured funds are funds which combine share classes, which have different types of subordination and therefore different risk-return expectations. In blended finance, structured funds are used in order to crowd-in private investors.

Subsidiarity: To not substitute funding or responsibilities from other parties. In the context of EPS, this refers to the public sector not taking over roles and responsibilities of the private sector.

Support Facility: Support Facility is an EPS modality in which impact-oriented projects and activities of private sector actors are selected according to a competitive procedure and supported with technical assistance or financing.

Sustainable Finance: Sustainable finance refers to any form of financial service integrating environmental, social and governance (ESG) criteria into the business or investment decisions for the lasting benefit of both clients and society at large (*From: Swiss Sustainable Finance*).

Triple bottom line: The triple bottom line is an accounting framework with three parts: social, environmental and financial.

Venture Capital: Venture capital is a form of financing that investors provide to startup companies and small businesses that are believed to have long-term growth potential.

Annex III: Theory of Change

EPS is a modality that can be implemented virtually in every sector, using different approaches and formats. Therefore, specific theories of change have to be elaborated for each EPS intervention. This annex provides a generic theory of change for EPS interventions, consisting of a narrative rationale, a result chain, and underlying hypotheses.

Rationale: SDC aims at contributing to sustainable development by increasingly engaging with the private sector to foster innovation and achieve greater impact, including in difficult and fragile contexts.

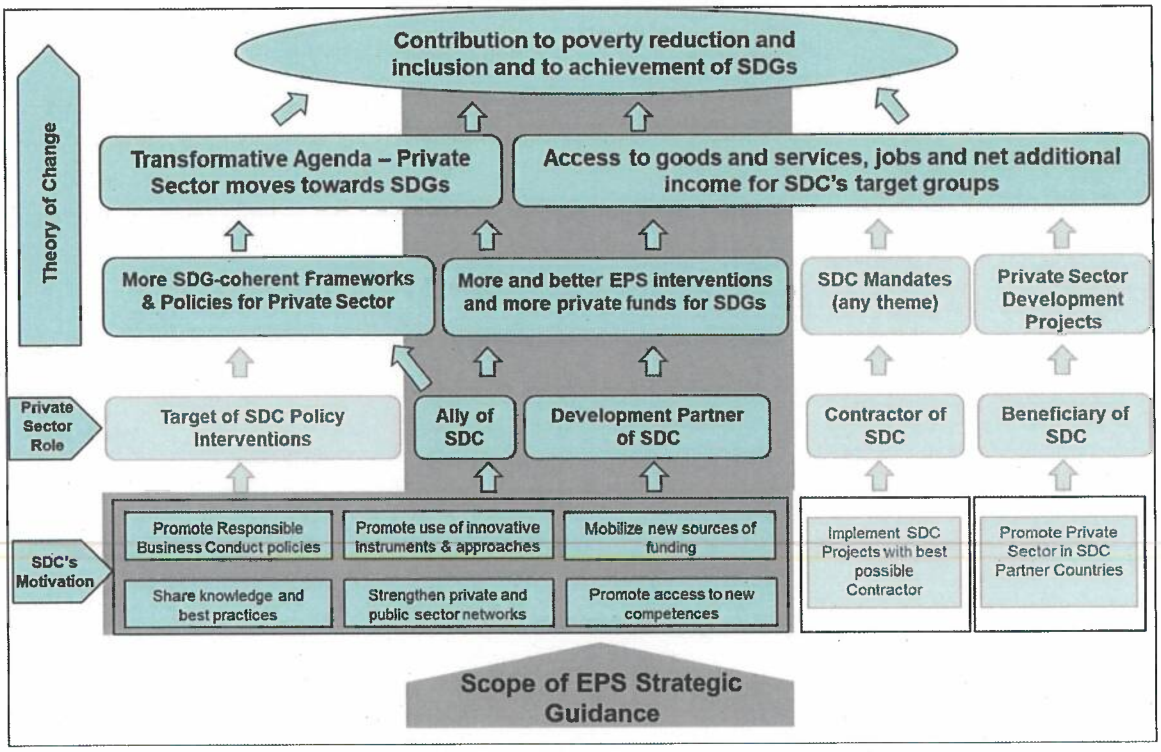

Figure 4: Generic result chain for EPS interventions

Underlying hypotheses:

- Political decision-makers support SDC's intention to increase its engagements with the private sector.
- The private sector is willing and interested in entering in cooperation with SDC.
- SDC is able to internally promoting new skills and mind-sets, which are necessary to implement the planned increase of EPS interventions.
- SDC is able to mobilise the financial and human resources, which are necessary to implement the planned increase of EPS interventions.

Annex IV: Estimation of the EPS Potential

The EPS potential for Bilateral Operations and Global Programs

The estimates of the EPS potential for bilateral operations and global programs builds on first experiences with strategic workshops in SDC's cooperation offices, which have been validated with representatives of the different cooperation domains of SDC.

The first step is an estimation of the EPS potential by domain of intervention resp. sector. SDC estimates the potential for engagement with the private sector in its bilateral operations and global programs as follows (potential means: percentage of projects that could probably be co-designed, co-steered and co-funded with the private sector in a long-term perspective):

Domain of Intervention	Potential in %
Employment and Income	60-100
Climate Change and Environment	40-70
Water and Sanitation	30-60
Agriculture and Food Security	40-60
Health	30-40
Migration and Protection	20-30
Governance, Peace and Civil Society	20-30
Basic Education	20-30
Humanitarian Aid	10-30

Table 1: EPS Potential by Domain of Intervention

It is important to notice that the values presented in Table 1 describe the EPS long-term potential and are not target values. The estimated ranges will be continuously verified and adjusted in the future. In line with the different potential per SDC's domain of intervention, it shall also be acknowledged that EPS as a modality to deliver International Cooperation is more suitable to contribute achieving certain SDGs rather than others.[2]

As SDC is working in difficult and fragile contexts, the specific attributes of these contexts have to be taken into account when estimating the EPS potential. Following a rather conservative approach to estimating the EPS potential, **country-specific "reduction rates" are used to calibrate the potential to the different contexts** in which SDC works. These have been calculated using SDC's internal estimates combined with the following indices: i) Fragile States Index[3], ii) Doing Business Index[4], and iii) Human Development Index[5]. The "reduction rates" per country are presented in the table below:

Country	Reduction rate*
Afghanistan	0.18
Albania	0.85
Armenia	0.72
Azerbaijan	0.85
Bangladesh	0.68
Benin	0.45
Bolivia	0.58
Bosnia and Herzegowina	0.80
Burkina Faso	0.42
Burundi	0.18
Chad	0.37
Colombia	0.67

[2] For instance, SDG 16 "Peace, Justice and Strong Institutions" is less suitable for an enhanced Engagement with the Private Sector – even if the Private Sector can provide a targeted contribution also to the achievement of this SDG, e.g. through support of free mass media.
[3] See https://en.wikipedia.org/wiki/List_of_countries_by_Fragile_States_Index#2019_Fragile_States_Index.
[4] See https://www.doingbusiness.org/en/rankings.
[5] See http://hdr.undp.org/en/data.

Country	Reduction rate*
Cuba	0.40
Djibouti	0.48
DPRK North Korea	0.15
DRC	0.20
Egypt	0.75
Eritrea	0.18
Eswatini	0.52
Ethiopia	0.42
Georgia	0.75
Haiti	0.33
Honduras	0.65
Iraq	0.23
Jordan	0.45
Cambodia	0.60
Kenya	0.62
Kosovo	0.75
Kyrgyztan	0.65
Laos	0.50
Lebanon	0.40
Lesotho	0.48
Libya	0.17
North Macedonia	0.90
Malawi	0.47
Mali	0.25
Morocco	0.00
Moldova	0.75
Mongolia	0.82
Mozambique	0.43
Myanmar	0.42
Nepal	0.58
Nicaragua	0.55
Niger	0.42
Pakistan	0.00
Occupied Palestinian Territories	0.52
Rwanda	0.65
Serbia	0.87
Somalia	0.08
South Africa	0.65
South Sudan	0.18
Sudan	0.25
Syria	0.12
Tajikistan	0.62
Tanzania	0.43
Tunisia	0.80
Turkey	0.50
Ukraine	0.82
Uzbekistan	0.65
Venezuela	0.20
Yemen	0.10
Zambia	0.50
Zimbabwe	0.32

** Reading support: for example, a reduction rate of 0.2 means that the EPS potential by Domain of Intervention has to be multiplied with a factor 0.2. Countries with reduction rates of 0 have no EPS potential because of SDC's short-term exit perspectives*

Table 2: EPS Potential: "Reduction rates" by country

For each country, the EPS potential is calculated as follows: starting point are the domains of intervention in the respective country program, where possible weighted according to their financial volume; these are multiplied with the EPS potential per domain of intervention, and then reduced using the corresponding country "reduction rate".
In case of the global programs, the potential is calculated by using the EPS potential per domain of intervention as per Table 1.
Taking all potential estimations together, it results that, in the long-term, it should be realistic to implement **17-27% of all SDC's operations in collaboration with the private sector**.

The EPS Potential for Multilateral Institutions

The following table presents a qualitative assessment of the EPS potential for the main multilateral partner institutions of SDC:

Institution	**EPS strategy**	**EPS potential**
A) Development institutions		
A.1) International Financial Institutions		
World Bank – International Development Association	Exists	high
African Development Bank and African Development Fund	Exists; focus is mainly on traditional Public-Private Partnerships	medium
Asian Development Bank and Asian Development Fund	Exists	high
Inter-American Development Bank	Exists	high
Asian Infrastructure Investment Bank	Doesn't exist	medium
A.2) UN System		
United Nations Development Program (UNDP)	Exists	high
United Nations Children's Fund (UNICEF)	Exists	high
United Nations Population Fund (UNFPA)	Exists	medium
International Fund for Agricultural Development (IFAD)	Exists	high
United Nations Capital Development Fund (UNCDF)	EPS is at the core of UNCDF activities	high
World Health Organisation (WHO)	Exists	medium
UN WOMEN	Exists, under revision	medium
UNAIDS	Exists	medium
A.3) Global Funds and Networks		
Green Climate Fund (GCF)	Under development	(high)
The Global Fund to fight Aids, Tuberculosis and Malaria (GFATM)	Exists	medium
Global Partnership for Education (GPE)	Exists	medium
B) Humanitarian institutions		
International Committee of the Red Cross (ICRC)	Exists	high
International Federation of Red Cross and Red Crescent Societies (IFRC)	Doesn't exist	low
World Food Program (WFP)	Exists	medium
United Nations High Commissioner for Refugees (UNHCR)	Exists	high
UN Office for the Coordination of Humanitarian Affairs (UN-OCHA)	Exists, under revision	medium
UN Office for Disaster Risk Reduction (UNDRR)	Exists partly	low

Table 3: EPS Potential: Qualitative overview by Multilateral Institution

The overview in Table 3 provides an indication that the EPS potential within multilateral partner institutions of SDC is probably at least as high as the potential for SDC's bilateral operations and global programs.

Annex V: Exclusion and sectorial criteria

i) **Exclusion criteria**: in close alignment with the exclusion list of the IFC, SDC does not cooperate with companies or enterprises which engage in the following 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, wildlife or products regulated under the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES).
   - Production or trade in **weapons and munitions. Gambling, casinos** and equivalent enterprises.[6]
   - Production or trade in **radioactive materials**. This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any equipment where SDC considers the radioactive source to be trivial and/or adequately shielded.
   - Production or trade in **unbounded asbestos fibers**. This does not apply to purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20%.
   - **Drift net fishing** in the marine environment using nets in excess of 2.5 km in length.
   - **Logging** of the rainforest.

   Besides that, SDC requires that the private sector partner **conforms to ESG principles** and disposes of an **effective system to prevent and mitigate human rights violations, health and environmental damages, cases of corruption**, etc. Is such a system not in place, then this becomes an **exclusion criterion**.

ii) **Sectorial criteria**: engaging with companies from specific sectors, whose activities are potentially harming for human beings and/or the natural environment or which are controversial, is not excluded per se, but requires **a precautionary approach**, meaning that the private sector actor needs to prove fulfilling high (general or sector-specific[7]) standards, particularly in conflict-affected and fragile contexts. Sectors for which these criteria apply are: tobacco and cannabis; alcoholic beverages; oil and gas; mining (incl. coal, precious metals, gemstones, critical ferrous and non-ferrous metals such as cobalt); commodity trade (in particular for the commodities cotton, precious metals and gemstones); garments and accessories; timber, pulp and paper (including palm oil). The specific standards to be fulfilled by companies from these sectors will be detailed in SDC's risk management system (see Annex VII).

In addition, private sector partners must fulfil the following **criteria**, depending on the category of private sector actors:

- **Large companies and multinationals**: criteria for cooperation from SDC's perspective are:
  - **Acceptable risk exposure**: the company's risk exposure related to ESG issues should not pose a significant (reputational) risk for SDC; companies must have a functioning and comprehensive governance, risk management and compliance system in place, including a policy for the Prevention of Sexual Abuse and Harassment (PSEAH).
  - **Adherence to good sustainability practices** consisting of
    a) a formal commitment, ideally based on a globally accepted framework (e.g. UN Global Compact, Principles for Responsible Investment (PRI), etc.) or a Standard (ISO 26'000) or at least described in a publicly available Code of Conduct[8] and
    b) a transparent, traceable and verifiable reporting, ideally in accordance with the Global Reporting Initiative (GRI) Standards or other common international or national standards for non-financial or CSR reporting.

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[6] This does not apply to companies who are not substantially involved in these activities. "Not substantially involved" means that the activity concerned is ancillary the company's primary operations.
[7] E.g. the respect of specific industry conventions or an enhanced traceability along the supply chain.
[8] The use of other standards and tools such as EDGE Certification (which is the leading global assessment methodology and business certification standard for gender equality) are further important criteria to be considered.

- **Credible commitment to the Agenda 2030**, including information on the SDG achievements that the company intends to promote with its activities and within its organization.

An engagement with large companies and multinationals that don't fulfil the criteria above is possible within the EPS format of policy dialogue, with the main objective to influence responsible business conduct and striving for more sustainable standards. In these cases, the expected outcome needs to justify the reputational risks.

- **Start-ups, SMEs, Social Enterprises**: When working with these categories of partners, it is important to assess whether their business model is commercially sound, their ownership and governance structure, as well as their commitment to the Agenda 2030. An effective system to prevent and mitigate human rights violations, health and environmental damages, cases of corruption, and Sexual Abuse and Harassment shall be in place.

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Annex VI: EPS Formats

There are different modalities and ways to structure a collaboration with the private sector, depending on the development objective, the context and the type and amount of actors involved. Therefore, SDC distinguishes between different types of engagement modalities – the **EPS formats**. Projects that are implemented as part of SDC Engagement with the Private Sector can be divided into two main categories: **development-project-oriented EPS formats** and **financial-market-oriented EPS formats**.

A. **EPS projects according to development project-oriented formats** are designed in the logic of a development project. These include the following six formats:

   i. *"Single-partner projects"* refer to projects and programs that are co-financed, co-steered and ideally also co-initiated with a private sector partner. [redacted]

   ii. *"Multi-stakeholder projects"* describe similar projects that are, however, implemented with several private sector partners. [redacted]

   iii. "*Formalised multi-stakeholder projects"* are "multi-stakeholder projects" in which the partners set up an independent organisation (association, foundation, company, etc.). [redacted]

   iv. *"Policy Dialogue Alliance"* is a format in which a large number of partners form an alliance platform with the primary goal of policy advocacy. [redacted]

   v. *"Support Facility"* is an EPS modality in which impact-oriented projects and activities of companies are selected according to a competitive procedure and supported with technical assistance or financing. [redacted]

   vi. Finally, "*Secondments"* between private sector partners and the SDC can also be envisaged – [redacted]

B. **EPS projects according to financial-market-oriented formats** follow an investment logic - either an investment in a company or in a project (e.g. infrastructure project). Such EPS projects are classified according to the following six formats:

   i. *"Venture investments"* in the form of shares or loans are used when the SDC and other private sector partners provide a company (typically a start-up) with capital in the form of equity or debt. [redacted]

   ii. *"Structured funds"* are constructs in which various categories of investors, e.g. private commercial investors, Development Finance Institutions (DFIs) and donors with different *"risk-*

return profiles" jointly invest in a financial vehicle. [redacted]

iii. *"Guarantees"* are instruments that provide a loss guarantee for investors in the case of risky investments. [redacted]

iv. *"Technical Assistance (TA) to Financial Vehicles"* is used to reduce transaction costs for private (impact) investors. To this end, TA is used for the benefit of the organisation in which the investor invests (e.g. a microfinance institution) or for the benefit of the final beneficiaries (e.g. smallholder farmers). [redacted]

v. *"Impact bonds"* are instruments in which an (impact) investor advances the funds for an investment in a development or humanitarian project and an outcome payer pays a return to the investor if the project achieves predefined development outcomes. [redacted]

vi. Like impact bonds, *"Social Impact Incentives (SIINC)"* belong to the category of *"pay-for-results"* instruments. The main difference to impact bonds is that SIINC is paid to the company itself (typically a social enterprise) and not to the investor, provided that predefined development outcomes are achieved and additional investment is mobilised. SIINC were co-developed by the SDC [redacted]

For a more detailed description of the different EPS formats and their respective fields of application see the EPS Shareweb[9].

[9] https://www.shareweb.ch/site/EPS/memberarea/Pages/Manage/Format-Finder.aspx

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Annex VII: Implementation of the Strategic Guidance

VII.1 Relevant Approaches for Engaging with the Private Sector

Blended Finance

The financial-market-oriented EPS formats often make use of an approach called Blended Finance. Most players agree with the understanding that **Blended Finance involves the strategic use of public or concessional funding to catalyse private sector investment for development.**[10] The rationale for Blended Finance is to support investments with high development impact potential, but that would not attract funding on strictly commercial terms. Therefore, by using Blended Finance approaches, SDC can make a catalytic use of its resources in order to mobilize private capital.

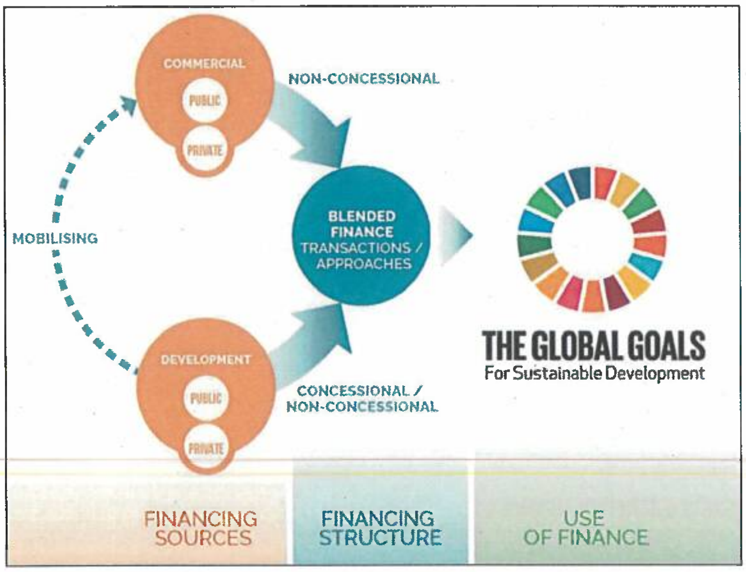

Figure 5: The logic of Blended Finance (Source: OECD, 2018)

While using Blended Finance, it is important to follow internationally recognized principles[11]. In particular, it is crucial to always properly assess each Blended Finance transaction in terms of leverage and additionality.
Leverage always has to be looked at in a holistic manner taking into account the following factors:

- Country/Geography,
- Sector,
- Target Beneficiaries,
- Project/enterprise life-cycle,
- Innovativeness of the financing structure,
- Other project-specific framework conditions.

For further information on the topic, a Guidance Note, a Tool which calculates a range for the appropriate leverage factor, and a Tool to calculate the additionality of Blended Finance transactions are available (see Annex VIII).

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[10] Two main definitions of Blended Finance have emerged: 1) The OECD defines Blended Finance as "the strategic use of development finance for the mobilisation of additional finance towards sustainable development in developing countries"; 2) The DFI Working Group defines Blended Finance as "combining concessional finance from donors or third parties alongside DFI's normal own account finance and/or commercial finance from other investors, to develop private sector markets, address the SDGs, and mobilize private resources."
[11] The OECD refers to the following Blended Finance principles: 1) Anchor Blended Finance use to a development rationale; 2) Design Blended Finance to increase the mobilization of commercial finance; 3) Tailor Blended Finance to local context; 4) Focus on effective partnering for Blended Finance; 5) Monitor Blended Finance for transparency and results.

Risk transfer

Risk transfer is a risk management technique used in financial investments. It is defined as the assignment of a risk to another party by means of a legal agreement. Three types of risk transfer may be distinguished:

1. The most common risk transfer takes place from individuals to an insurance company, whereby the latter may re-insure risks upon a certain threshold with a reinsurer. Such insurances are concluded for assets or social risks.
2. Another kind of risk transfer englobes derivatives. They are often purchased by companies to prevent (hedge) financial risks such as price fluctuations or currency risks over time.
3. Risk transfer comes also along with outsourcing a task or process. Obligations are normally specified in contracts as well as penalties in case that the requirements are not met.

In the context of EPS, all these risk transfer mechanisms can be used for de-risking, i.e. to reduce the risks of an investor or market participant. Translated in the context of International Cooperation, corresponding de-risking tools are:

1. Incidence insurance (flood, drought, assets invested, etc.).
2. De-risking facilities for exchange rate risks, price fluctuations (especially for commodities), but also political risks, e.g. covered by the Multilateral Investment Guarantee Agency (MIGA)[12].
3. Covering certain risks of doing business between private sector partners which do not know each other.

Every partner of an EPS project can bear a certain risk and so contribute to a more fertile investment environment. As a development agency with access to all parties, also in the partner country, SDC should make sure to bear risks that can be influenced in order to reduce them. This requires a close support at every level (from the involved partners up to a political level) in order to minimize the risks. One important question is related to the pricing: Which part of the risks should be transferred and at which fee? De-risking can be considered as a subsidy for the private sector (from the latter's point of view) as well as a price tag (for SDC) to encourage private investments. Too low de-risking will not build markets where they fail to emerge or will not enhance investments (e.g. in public goods). Too important de-risking may interfere with the principles of additionality and subsidiarity and eventually support financially non-viable investments. Therefore, with the time SDC will consolidate a range of best practices for the reasonable level of de-risking for different kind of contexts and cases.

An innovative de-risking mechanism: the World Bank Pandemic Emergency Financing Facility (PEF), co-funded by the Multilateral Affairs Division of SDC's Humanitarian Aid

The PEF is being designed as a global financing facility that can channel funds swiftly through governments, multilateral agencies, NGOs and others to finance efforts to contain dangerous epidemic outbreaks before they turn into pandemics. Financing from the PEF would be linked to the preparation and execution of strong country-level epidemic and pandemic emergency preparedness plans. One of the main pillars of the PEF is a market based insurance mechanism.

In developing countries insufficient health systems and poor "whole of society" preparedness do not allow an appropriate reaction in case of epidemic outbreaks. The international community has also proved being ill-prepared to help developing countries tackle a pandemic threat. Ebola pandemic has fully exposed the consequences of such a situation. PEF develops and puts in place a rapid paying, insurance-based mechanism combined with an early warning system to limit the spread of infectious diseases so as to limit the risk of pandemic. The PEF is a multi-donor initiative which involves World Bank, Swiss Re, Munich Re, numerous other Bilateral Agencies, Private Foundations, Private Investors, etc. SDC's contribution allowed financing the modelling of the PEF's insurance mechanisms.

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[12] Being a member of the World Bank Group, MIGA is providing coverage against the risks of transfer restriction, expropriation, war and civil disturbance, and breach of contract to the equity investor and all of the project's private sector lenders as well as FMO, the DFI of the Netherlands.

Research partnerships

The 2030 Agenda and the Global Sustainable Development Report 2019 encourages science to build bridges and forge partnerships with actors from policy and practice (including the private sector) to co-create solutions to the most pressing global challenges. The SDC supports scientific research targeting solutions to global problems and the provision of global public goods. For the SDC, the main objective of research is the production of new findings and innovative approaches and the use and dissemination of scientific knowledge in International Cooperation. SDC's operational units and research desk support scientific research through **two modalities: (i) contributions to international/ multilateral/competition-based research programmes, institutions and networks; (ii) commissioned research and mandates with a research component**. Additionally, the CEP provides a contribution to the University of St. Gallen aimed at developing different activities and innovations focused on EPS. One component of this contribution **concerns research on different EPS-related topics** through an "action-research" approach, which will involve SDC employees in regular reflections and in this way facilitate continuous knowledge generation and dissemination. Results of this research will not be only elaborated for the scientific community, but also translated into a practitioner's language and disseminated among the wide "EPS community" in Switzerland and abroad.

From 2020 onwards, the SDC will increase its focus on knowledge utilisation and innovation, promoting solutions-oriented research conducted in partnership with implementing partners from civil society, governments and private sector. Partners from the private sector may have two different roles within research partnerships:

- **Joint-funding and steering**: Private sector actors, mainly grant-making foundations, act as strategic partners and co-funders of research initiatives which target global development challenges.
- **Target group**: SDC increasingly promotes interdisciplinary solutions-oriented research and multi-stakeholders approaches that help address global risks and advance poverty eradication and supports the validation, implementation and scaling up of science-based solutions through innovative (entrepreneurial) models. In this sense, private sector actors, such as social enterprises or start-ups are the beneficiaries and/or implementers of findings and results emerging from scientific research.

VII.2 Roles and Responsibilities

SDC is a widely decentralized organization. Operations are identified and planned in the Embassies and Cooperation Offices or in the operational units at the headquarters. This applies also to EPS projects. Therefore, **SDC's operational units have an eminent role in reaching out to private sector partners and in identifying and planning EPS projects** together with them.

SDC's **Competence Center for Engagement with the Private Sector** provides several services to the whole of SDC, in particular in the following areas:

- **policy guidance**: elaboration of policy and strategic guidance on EPS for the whole of the organization (provided by this document);
- **strategic advice**: focus on how to integrate EPS in country programs or mid-term orientations;
- **operational advice**: focus on how to plan or adapt EPS projects;
- **development and piloting of innovations**: successful innovations (e.g. new approaches such as co-creation, new EPS formats such as Social Impact Incentives, etc.) can subsequently scaled up within SDC and shared with other development partners;
- **knowledge management**: this includes among others developing and animating a network of "EPS pioneers" within SDC operational units, sharing best practices, developing new tools and instruments, and ensuring access to them via a well-functioning shareweb, as well as maintaining an overview on the EPS portfolio of SDC;

- **capacity building**: this includes the direct provision of short learning units for different categories of SDC staff members, or the development, together with external partners, of specific trainings on EPS;
- **partner relations**: one of the tasks of the CEP is also to reach out and maintain structured relations with private sector partners, in particular with umbrella and category associations and with those partners with whom SDC engages via various projects;
- **international policy dialogue**: ensuring the active participation of SDC in relevant international fora dealing with EPS;
- **national policy dialogue**: this includes ensuring a well-functioning Whole of Government Approach on EPS, supporting a suitable external communication on EPS related issues, and reacting to external demands (e.g. federal political affairs).

With the time, some of these tasks can be progressively **delegated to a network of "EPS pioneers"** across the organization, who could ensure peer-to-peer strategic or operational advice, or take over the responsibility for maintaining structured relations with those private sector partners with whom SDC engages via various projects.

The following organizational units play also an important role in specific areas:

- **Competence Center for Contracts and Procurement (CCCP) of the FDFA**: the CCCP assesses issues related to agreements, contracts and public procurement, among other legal issues. In EPS projects, these issues are often more difficult to address than in usual mandates or contributions, due to the fact that the project set-up is more complex, the standard SDC contracts are not always suitable, and co-creation approaches poses challenges with regards to public procurement. It is therefore important to associate the CCCP already in an early planning stage of EPS projects. Additionally, new standard tools, e.g. standard Memoranda of Understanding and contracts with private sector partners, depending on the EPS format, will have to be developed after approval of this Strategic Guidance.
- **Strategic Financial Planning of SDC:** this unit is in charge of ensuring the financial planning of SDC operations and has therefore to be kept informed on those EPS projects which requires a specific financial-administrative handling. This applies in particular to the return-based financial-market-oriented EPS formats (shares, loans, stakes in structured funds, guarantees). As it is planned to delegate in future the handling of these formats to an external organization (see ch. 3.5), this information duty refers mainly to already on-going projects.

In view of the peculiarities of EPS projects, **SDC operational units are required to involve the CEP in the early planning stage of an EPS project**. The involvement of the CEP is particularly important in case of EPS projects using financial-market-oriented formats, and more in general, of EPS projects of high complexity or innovative content. The CEP can ensure a coordination with the CCCP and, where relevant, the Strategic Financial Planning unit.

VII.3 Human Resources

Staffing and external resources

In order to cope with its declared ambitions to increasingly engage with the private sector, SDC needs to allocate sufficient human resources for EPS. This refers to both the operational units and the CEP.

With regards to the **SDC's operational units,** at the end of 2019 there is group of around 35 staff members that have already experience in planning and steering EPS initiatives. This is an important asset, which will allow the SDC's operational units to progressively embed EPS expertise in the own operations. For the future, it is envisaged to create a real network around these "EPS Pioneers" and progressively enlarge it. In order to ensure a real peer-to-peer learning across operational units and an active contribution to the **EPS network**, its members shall allocate a limited portion of their working time to activities of the network – this is a standard practice in SDC's thematic networks. Besides that, each Operational Department of SDC[13] is encouraged to appoint an internal **EPS Advisor** – based at the headquarter – and/or regional EPS Advisors based in Embassies or Cooperation Offices with a more substantial expertise and time allocation for EPS.

With regard to the **CEP**, at the end of 2019 it disposes of 2.5 permanent Full Time Equivalents (FTEs). SDC Directorate has already decided to appoint **additional 2.3 FTEs** (including administrative support), which shall become available until latest mid 2020.

Last but not least, in order to put in place EPS projects of high quality, address related challenges and reduce risks, SDC will increasingly rely on **specialized external support**. This includes a set of consultants with different specializations and skills: i) in EPS operations using **development-project-oriented formats**, ii) in EPS operations using **financial-market-oriented formats**, and iii) in **partner relations and risk management**. By the end of 2019, long-term contractual relationships in all these areas have been established. The consultants can support the CEP and the SDC's operational units in planning new projects, shaping new partnerships and managing risks. For the specific area of the return-based financial-market-oriented formats, where a cooperation is planned with SIFEM (or other organisations), SDC will rely on the expertise available to these organisations. Finally, a further area where external support is needed concerns **legal issues** (contracts, procurement) when planning EPS projects; a support on these questions shall become available during the year 2020.

Organisational Development, Capacity Building and Knowledge Generation

A progressive increase in SDC's Engagements with the Private Sector requires a process of organizational development and of building internal capacities. First, there is a need of strengthening the **openness of the organization towards new forms of engagement** and of delivering International Cooperation, as well as the **readiness for innovations**[14]. Second, promoting EPS requires – at all levels of the organization – a higher **willingness to undergo, but also to actively manage risks**. Third, it requires also the **readiness to adapt** those SDC's internal **procedures**, which are only partly compatible with EPS approaches.[15] And fourth, fostering partnerships with private sector actors can succeed only if staff capacities are strengthened and **new skills and capabilities promoted**. Fostering SDC's internal capacities will require a bundle of different interventions:

- deployment of internal and external communication to promote EPS and demonstrate top management's ownership;
- different capacity building and knowledge generation offers targeted at different segments of SDC staff: this will include short-term trainings in innovative finance instruments as well as a more in-depth training on how to co-create, negotiate and set-up EPS projects (see text box on the "Public Entrepreneurship Academy");
- a well-developed set of "self-serve" and on-line tools;
- scaling-up strategic advice to SDC operational units, aimed at identifying opportunities for more EPS projects of high quality;
- operational advice combined with on-the-job learning, to be acquired e.g. in co-creation settings;
- peer-to-peer learning among "EPS Pioneers" and within the future EPS network, and the consistent use of internal and external learning platforms (e.g. global or regional face-to-face events, on-line learning tools and exchange platforms, including e-learning offers of the DCED donor platform).

The **"Public Entrepreneurship Academy": an in-depth training on how to co-create, negotiate and set-up EPS projects**. Within the framework of its cooperation with the University of St. Gallen, SDC is planning to promote the establishment of a so-called "Public Entrepreneurship Academy", which will respond in an encompassing way to EPS-related capacity building needs of SDC and other

[13] South Cooperation, East Cooperation, Global Cooperation, and Humanitarian Aid.
[14] E.g. using consequently the Cascade Approach or co-creation approaches.
[15] See VII.6 for a list of internal procedures which might require adaptation.

stakeholders. This tailor-made training will focus on the most important skills for a successful Engagement with the Private Sector, including: private sector logic and main tools used by businesses, different models of social entrepreneurship, innovative finance and impact investing, establishing relationships and negotiating with the private sector, impact management and measurement in EPS. In a first step, a "Public Entrepreneurship Academy" for SDC and other donor agencies is planned; in a second step, similar training offers will be developed for the private sector and the non-for-profit sector. The overall goal is to provide practitioners from different sectors with impact-driven entrepreneurial skills in view of collaborating more effectively towards impact. The training will last 2-3 weeks distributed along a year and will be accompanied by a professional coaching, which will be offered to the attendees on the way to implementing their own EPS initiatives. Within SDC, the main target group will be "EPS pioneers" and SDC staff taking part in "EPS 100 workshops" (see VII.4).

Capacity building offers on EPS shall be complemented by a management attitude aimed at **fostering the intrinsic motivation** of SDC staff to engage in partnerships with the private sector. This requires an appreciation of EPS-relevant achievements of individual staff members, in particular by documenting and valuing achievements in the Management by Objective process, as well as an empowering attitude via granting of responsibilities in EPS, e.g. by delegating the responsibility of managing relations with private sector partners. Beyond that, intrinsic motivation can be enhanced by enabling a sense of community (e.g. through peer-to-peer exchanges and network meetings of "EPS Pioneers") and by allowing staff engaged in EPS to follow EPS-specific training offers. Finally, secondments of SDC staff at private sector partners can be considered, in individual cases, as an interesting tool to foster motivation, as long as they are in line both with institutional and individual interests. In view of promoting SDC capacities in EPS, related **competences** shall be also increasingly **valued in hiring processes**.
Finally, in a medium-term perspective, SDC shall also **promote capacity building on EPS also within its main partners** – interested SDC's partner multilateral organisations, SDC's Swiss NGO's partners, as well as SDC's implementing partners.

VII.4 Programme Cycle Management: Main Instruments

EPS Management System

As a general principle, the EPS Management System relies as far as possible on existing Program Cycle Management (PCM) tools that already exist at the SDC. In most cases, the existing tools might require a (slight) adaptation or specific add-ons in order to better incorporate EPS as a modality of delivering International Cooperation.[16] In other areas, there will be the **need to use specific EPS-tools**, which shall allow responding to specific issues to be tackled while Engaging with the Private Sector. This applies in particular to the areas of Risk Management, Result Measurement, and Contracts and Procurement (see below).
In line with the roles and responsibilities outlined under VII.2, the CEP will be responsible for supporting the operational units with different tools and services, for ensuring a close follow-up of complex and innovative EPS projects already in an early planning stage, and for ensuring the strategic monitoring on the overall EPS portfolio at the institutional level by using a few Key Performance Indicators (KPIs) for EPS. On their side, the operational units will be in charge of managing the achievement of their own strategic objectives in the area of EPS, for proactively including the CEP while planning their EPS interventions, and for reporting on the KPIs to the CEP.

[16] For instance: i) including a specific section on EPS in the structure of the Annual Report; ii) enhancing the guidance on how to assess the opportunities for Engaging with the Private Sector in the Guidelines for Elaborating Medium Term Programs and Cooperation Strategies and in the Guidelines for Entry resp. for Credit Proposals; iii) strengthening EPS related aspects in different templates and guidelines for project reporting and evaluation.

With regards to the **KPIs for EPS**, the following indicators will be used:

- Number of EPS projects, disaggregated by the type of context (fragile / non-fragile);
- Financial volume of EPS projects (SDC financial commitments, and, if data allows, financial commitments of private sector partners[17]), disaggregated by the type of context (fragile / non-fragile);
- Quality of EPS operations (based on self-assessment);
- Risk category of EPS operations (based on self-assessment);
- Percentage of EPS projects which have fostered innovations;
- Percentage of EPS projects which have achieved systemic changes;
- Skills development of SDC staff on EPS (based on number of staff members that attend EPS trainings).

Planning

The CEP has developed two approaches for SDC's operational units to strategically plan more engagements with the private sector of high quality: EPS 100 workshops and Co-creation.

EPS 100 Workshops

EPS 100 Workshops are events organized by CEP staff and/or CEP consultants for the SDC operational units (Cooperation Offices or units at the Headquarters). They have a twofold purpose: to clarify the terms, approaches and methods used in the EPS, and to support the operational units in the identification of new EPS projects. In this sense, the workshops are a **tool for capacity building and strategic planning in one** and have the potential to achieve strategic alignment between objectives and strategies of SDC's operational units and the EPS initiatives created. In line with the Cascade Approach, the playful starting point of the EPS 100 workshops is the question: "What if all our development challenges could be tackled in cooperation with the private sector, or if our entire portfolio consisted of EPS projects?". EPS100 workshops usually last for three days and follow a predefined design. EPS 100 workshops were so far carried out for some global programs and in a few Cooperation Offices, both in stable and in fragile countries. These first experiences provided useful insights on the peculiar aspects to be taken into consideration when fostering EPS in fragile contexts.

Co-creation

A second approach to achieve stronger strategic alignment and a clearer view on the "right" private sector partner for the specific impact objectives, as well as to develop new EPS initiatives to address development challenges, are co-creation settings. The development of new cross-sector solutions for impact requires innovative and collaborative approaches. **Co-creation is the creation of shared value through interaction among a number of stakeholders in an open environment**. By bringing different stakeholders together, including private sector actors, new ideas and mutually valued outcomes are created based on a vast variety of perspectives, insights and experiences.
In order to promote co-creation, SDC, together with the Center for Impact-driven Entrepreneurship and Public Innovation of the University of St. Gallen (IDEPI-HSG), is adapting and customizing to the needs of SDC the **"Lab of Tomorrow"** (LoT), an approach developed by the German Cooperation. The LoT is a comprehensive process to co-create impact-driven business models (including EPS initiatives in the context of SDC) to address specific development challenges. Target group centricity, rapid prototyping and iteration are the distinctive features of the approach, providing a large potential for transformation. **At the core lies a multi-stakeholder innovation workshop** which brings together people with different backgrounds and expertise (from civil society, public sector, social enterprises, corporates, etc.) and allows developing and testing ideas by creating prototypes and getting instant feedback. The LoT facilitates the development of novel and effective solutions and fosters shared

[17] With EPS claiming to mobilize more resources for the achievement of the SDGs, the information on the commitments of private sector partners, which are leveraged by SDC is obviously of particular interest. On the other side, the experiences so far show that it is difficult to collect reliable data on the financial contributions of private sector partners.

ownership. To ensure a targeted application and maximize the chance that new solutions gain traction, the innovation workshop is embedded in a comprehensive process and leverages the ecosystem around the LoT. In this sense, the LoT allows SDC and its operational units to develop jointly with its partners, including private sector actors, solutions which are of mutual interest and which may result in EPS partnerships and initiatives.

Risk Management

Risk Management is applied at the level of the Federal Council, Swiss Federal Departments and organisational units. SDC Risk Management guidelines are based on and are fully coherent with the federal instrument '*Weisungen über die Risikopolitik des Bundes*', which itself is aligned with ISO 31000. The *Copenhagen Circles* approach, proposed by the International Network on Conflict and Fragility (INCAF) of the OECD and applied at SDC, provides the guiding risk classification framework that is most appropriate for International Cooperation. As such, the main risks are categorized as **Contextual Risks, Programmatic Risks and Institutional Risks**.

Risk Management in the context of EPS is aligned with the Risk Management practices of SDC. The main risk categories of EPS projects are the same as in classical development projects and encompass contextual, programmatic and institutional risks. In case of EPS projects, the focus has traditionally been put on the institutional, and in particular on the reputational risks. However, it has been recognized that a more comprehensive Risk Management approach for EPS projects is required.

The EPS Risk Management takes place along the entire partnership and project life cycle. In particular, the following three phases are foreseen:

1. **Pre-selection**: Prior to engaging with a specific private sector actor, the first phase of the EPS Risk Management process supports the decision whether or not to engage. This phase consists of the following elements:
   - **Pre-assessment:** prior to engaging, a pre-assessment is carried out, which includes screening against exclusions criteria (see Annex V), Politically Exposed Persons (PEPs) as well as ESG risks (in the case of publicly listed and large non-listed companies).
   - **Interaction:** guidance is provided on how to assess and ensure that there is a common understanding of the partnership and the commitment, and to confirm that the organization's culture and values are in line with those of SDC; this step takes place in direct interaction with the potential partner. In case of fragile and conflict-affected contexts, SDC assesses also whether the private sector partner has a conflict sensitive approach.
   - **Due Diligence**: Before specifying and formalizing a partnership and cooperation, a due diligence must be carried out, addressing, among others, current litigations, supplier and human rights issues. The extent and form of the due diligence depends on the format of engagement.[18]
   - **Partnership Risk Assessment**: Before formalizing a partnership, the risk of the particular partnership/project is assessed jointly with the private sector partner. This forms the basis for the future Risk Management and steering of the project. The extent and content varies, depending on the format of engagement.
2. **Implementation**: Risks and risk mitigation measures identified at the beginning through the Partnership Risk Assessment are to be monitored throughout the implementation of the project, for example within the framework of the project steering committee.

[18] For instance, for venture investments (in case SDC would decide to foresee the in-house use of this EPS format again in the future) a proper, in-depth due diligence to be carried out by specialized consultants would be always required, whereas for other formats the completion of an adapted, adequate questionnaire by means of self-declaration might be sufficient.

3. **Suspension or Exit:** Risk management also includes measures on how to suspend[19] or exit partnerships, in particular in the case where risks materialize in the course of the implementation of a project, or if the partner engages in activities which are going against SDC exclusion criteria.

The EPS Risk Management provides guidance and/or tools along all different phases of the Risk Management process. It should be noted that, throughout the entire EPS Risk Management process, **criteria, requirements and supporting/guiding tools are adapted** to the type of private sector partner, the existing knowledge and the experience of cooperation with the partner, the format of engagement, the size of the engagement, and the country context (e.g. fragile environment). Where possible and adequate, due diligences are conducted jointly with other actors (e.g. trusted NGOs or other public agencies), or existing due diligence results of other actors who already worked with the private sector partner are considered.

The existing Risk Management approach for EPS is being revisited, and the tools and instruments (checklists, guidance notes, etc.) necessary for its implementation will be elaborated in 2020. Aspects related to Conflict Sensitive Program Management will be integrated into these instruments. The institutional set up and organizational anchoring within SDC will also be reassessed. It is clear that the unit in charge of Risk Management will have to dispose of the necessary capacity and experience in order to ensure that the Risk Management is conducted in a consistent way and that the operational units are professionally supported and coached. Resources need to be put in place to ensure an effective and efficient Risk Management for EPS and to enable fruitful partnerships with private sector partners.

Result Measurement

Earlier in this Annex, some KPIs aimed at measuring the performance of SDC in its Engagements with the Private Sector have been presented. These KPIs measure the institutional performance of SDC in EPS, but not the results achieved in the single EPS operations. This section addresses the question on how to measure results in EPS projects.
Engaging with the Private Sector is a modality which can be applied to all sectors and domains of interventions – to a greater or lesser extent. Result measurement[20] typically relies on a general measurement framework, but also on sector-specific indicators; therefore, there is **no universal approach how to measure results of EPS interventions**. There are, however, certain specificities which have to be taken into account:

- In general, donors and the private sector have developed their own approaches to measure results.
- Donors have developed comprehensive and internationally recognized standards for Results Measurement.[21] The same is true for the private sector. One important **platform for building global consensus within the private sector** on the framework to be used to understand, measure, compare, and report environmental, social and governance risks and positive impact is the **Impact Management Project** (IMP; see Figure 5). With regard to specific impact indicators, they depend on the specific sector and can be inspired by indicator collections such as IRIS+[22]. However, despite the existence of these common platforms and tools, reality shows that private sector actors still use a variety of approaches for measuring and reporting on results.

[19] For instance, if a private sector partner of SDC (incl. its suppliers) gets involved in violations of human rights, use of child, forced or compulsory labor, systematic corruption, etc., SDC enters into a bilateral dialogue at institutional level. The continuation of a partnership will be made dependent on a credible plan aimed at eliminating the identified problems. The joint financial engagement can be suspended until the problems have been solved.
[20] Results refer to outputs, outcomes and impact of an intervention. In the private sector, the focus lies on Impact Measurement and Management. Impact measurement refers to the identification of the positive and negative long-term effects of a project (or an investment or a business) on people and the planet. Impact management refers to the way how to mitigate the negative and maximize the positive impact.
[21] See the general standards of the OECD Development Assistance Committee (DAC) as well as sector specific standards and indicators.
[22] IRIS+ is a system for measuring, managing, and optimizing impact, which is generally accepted among impact investors and is managed by the Global Impact Investing Network (GIIN); see https://iris.thegiin.org/.

- The DCED has recently started efforts to bring together the donor and the private sector communities in view of creating a common approach on how to measure results. However, this process is still at a nascent stage.
- Against this background, it shall be acknowledged that certain instruments to monitor and assess results, which are in use within the donor community, are more familiar to private sector partners and therefore more suitable for measuring results in EPS projects. This applies in particular to **impact indicators**, potentially also to Cost-Benefit- and Cost-Effectiveness Analyses, and to a lesser extent to project evaluations. Other instruments such as the **Logical Framework** are instead not in use in the private dector and therefore less suited for jointly monitoring and assessing results of EPS projects.
- Besides that, the way of **monitoring and assessing results depends also on the specific EPS format**. Project monitoring tools are suitable for EPS project using development-project-oriented formats. In case of financial-market-oriented formats, project monitoring tools shall be complemented (or replaced, depending on the format) by result measurement at level of the supported business resp. investee, which is usually a small or a social enterprise in a developing country. Considering the fact that usual result measurement methodologies are quite complex and costly, this poses specific challenges, which can be addressed by using **Lean Data**[23] and similar approaches relying on mobile technologies.
- When aggregating data of different enterprises at the overall project level, projects may need to take into account additional effects such as systemic changes, avoided costs for the public sector, etc. To this purpose, SDC can rely on its proven instruments and **existing Standards for Result Measurement in the private sector**, e.g. from the Social Performance Task Force (SPTF) or the DCED. The active engagement in these donor platforms allows SDC to be effectively connected to international best practices in Result Measurement.
- While different tools such as Lean Data and international standards for Result Measurement in the private sector are available, there is a **need to promote** their **use within SDC**.

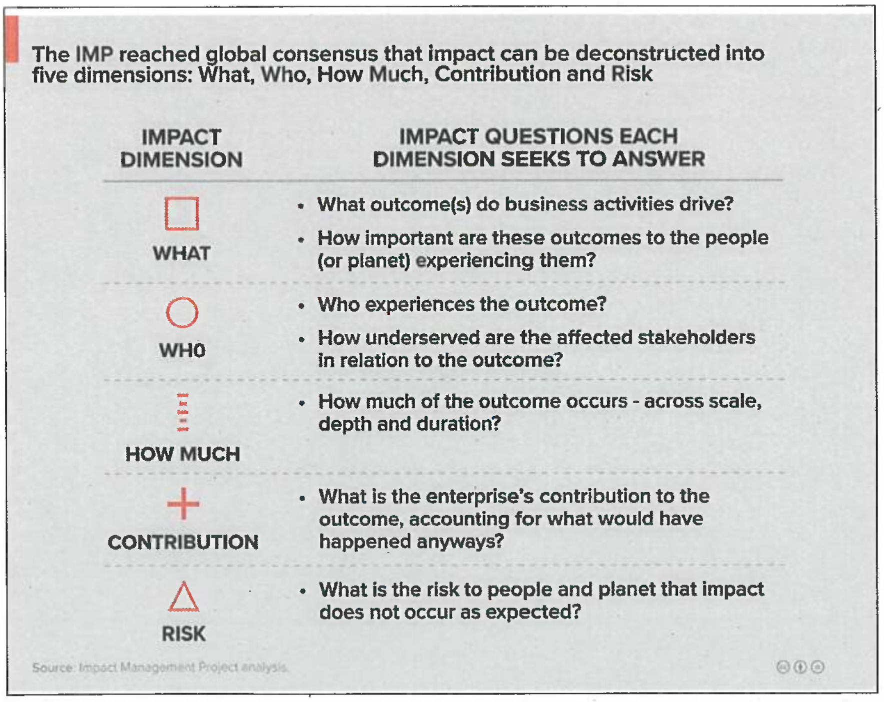

Figure 6: Impact Management Project: understanding of impact in the private sector

[23] Lean Data refers to a fast and reliable customer-centric approach to result measurement, which relies on low-cost technology.

Finally, for its own learning and accountability purposes at the institutional level, SDC will foresee from time to time **independent evaluations on EPS**, which can provide useful insights on the results achieved throughout the portfolio of EPS projects. The first independent evaluation on EPS is planned in 2021.

Contracts and Procurement

As a general principle, public procurement regulations apply equally to EPS projects. However, the **relation between SDC and the private sector partner in an EPS project is by definition not one of procuring goods or services**, but a partner relation – a relationship of equals. Procurement can occur within the structure of EPS projects, e.g. if a third party is mandated by SDC to implement an EPS project. However, this depends on the EPS format and has to be assessed on a case by case basis. The use of innovative approaches such as co-creation might pose certain procurement-related challenges. The same applies to the use of innovative EPS formats such as Social Impact Incentives, where the few market players that are able to professionally use these formats would ideally be associated already in the project design phase. For these reasons, **all donors are facing very similar challenges when trying to combine the "EPS logic" with the "procurement logic".**

To provide support to the operational units on how to correctly plan EPS projects from a legal perspective, the CEP, with the support of the Competence Center for Contracts and Procurement and specialized legal consultants, will develop during 2020 practical tools such as:

- a **guidance on how to address procurement issues**, with a differentiation according to the EPS format;
- a **set of standard Memoranda of Understanding (MoUs) or Contracts** with private sector partners,[24] again differentiated according to the EPS format; as a general rule, the engagement with a private sector partner shall always be formalized through a MoU or a contract;
- the documents mentioned above will address issues such as reasons for suspending or exiting a partnership, visibility, transparency rules that apply to the public administration (and to its engagements), intellectual property rights, liability rules, and phasing out rules after project's end, among others.

VII.5 Communication

External Communication

As mentioned in ch. 3.5, SDC will progressively move towards a more strategic approach in Engaging with the Private Sector. This will require, in turn, a **proactive, regular, coordinated and target-group-tailored communication** towards the different categories of private sector partners.

Beyond the usual communication and coordination that takes place within the framework of individual projects, the overall communication strategy of SDC towards the private sector will rely on the following pillars:

- **annual one-to-one coordination meetings** with those private sector partners with whom SDC engages through several EPS projects;
- **regular larger meetings** with different categories of private sector partners and their umbrella organisations[25];
- organisation of **joint learning events** (e.g. conferences) with private sector partners;
- a set of **EPS flyers** for different categories of stakeholders (private sector partners, political decision-makers, other interested stakeholders);
- occasionally, **articles on EPS**, e.g. in SDC's journal *Eine Welt* or in Swiss newspapers;

[24] The type of legal document to be signed with the private sector partners depends on the format. For instance, in a classical single-partner project, SDC and its private sector partner would sign a MoU – a contractual agreement would then be signed with the implementing partner of the project. In case of a matching fund implemented directly by SDC, SDC and the private sector partners sign instead contractual agreements.

[25] Industry-specific associations and platforms, general private sector platforms such as the Global Compact, and umbrella organisations such as SwissFoundations.

- a list of **Frequently Asked Questions** on EPS, with related answers;
- a well-structured **webpage on EPS** for the general public;
- **EPS success stories** / lighthouse projects (in visual or written form).

The building blocks of SDC's external communication on EPS will be progressively elaborated during 2020-2021, where appropriate in cooperation with FDFA's communication unit (*Komm-EDA*). The launch of these Strategic Guidance will represent a first, excellent opportunity for external communication.

Internal Communication

The successful implementation of this Strategic Guidance will necessitate intensive efforts with regards to SDC's internal communication. This **communication shall support SDC staff in developing ownership and enthusiasm** for EPS as an increasingly important and innovative modality of delivering development assistance. It shall also demonstrate the **backing of SDC's Senior Management** for EPS.

Different channels of internal communication are foreseen:

- **town-hall meetings** with SDC's Senior Management (or their written messages) on occasion of important developments – e.g. the official launch of this Strategic Guidance;
- informational **meetings and discussions at the level of SDC's Departments or Divisions** on issues of interest in the area of EPS[26];
- regular **learning events** for the growing "EPS Network" and other interested colleagues, such as global or regional face-to-face events, network meetings, on-line learning events, etc.;
- individual **briefings with interested individuals**, e.g. in case of their rotation to a new position;
- instruments of the external communication can be also used for the internal communication (e.g. **EPS success stories**);
- a quarterly **newsletter**; in order to exploit synergies, a joint newsletter is produced for three different networks (Agriculture and Food Security; Employment and Income; EPS);
- finally, a well-functioning **EPS Shareweb** will allow a structured communication within the "EPS Network"; parts of this Shareweb will be made accessible to private sector and other partners in order to improve the exchange of information and therefore will be used also for the external communication.

It order to foster ownership on EPS, it is foreseen to give voice to the increasing number of "EPS Pioneers" within the organisation while communicating internally and externally.

VII.6 Next Steps

The implementation of this Strategic Guidance will require the **adaptation of several existing tools as well as the development of several new products, instruments and modalities**, which have been mentioned across this document:

- the guidelines for various standard SDC documents (among others: Cooperation Strategies and Medium Term Programs, Annual Reports, Entry and Credit Proposals) as well as different templates and guidelines for project reporting and evaluation shall be revisited in order to better include EPS; this will have to occur in tight cooperation with SDC's Quality Assurance Unit;
- where applicable, existing approaches and tools – e.g. Conflict Sensitive Program Management (CSPM), Gender Analysis, Leave No One Behind (LNOB), Disaster Risk Reduction (DRR) – shall be combined with EPS; this will occur in tight cooperation with the responsible thematic units;
- an analysis on how to implement EPS initiatives in contexts with a high presence of the informal sector or in humanitarian settings shall be conducted and a corresponding guiding tool elaborated;
- a platform for co-creating EPS projects will be launched in cooperation with the University of St. Gallen;

[26] Beyond that, EPS 100 workshops (see VII.4) are also excellent opportunities for internal communication on EPS.

- new modalities allowing to professionally use return-based financial-market-oriented formats (equity, debt, guarantees, structured funds) in SDC contexts will be put in place; it will relies on a cooperation with a specialized external organization such as SIFEM;
- the SDC "EPS Network", which represents a major internal asset for EPS knowledge, will be activated and enlarged;
- a new capacity building offer (the "Public Entrepreneurship Academy") will be established in cooperation with the University of St. Gallen; it will allow SDC staff and other interested donor representatives to acquire in-depth knowledge on EPS;
- depending on the available resources, capacities on EPS can be also enhanced in SDC partner organisations (implementing partners, interested multilateral organisations);
- depending on the available resources, a range of best practices for the reasonable level of de-risking for different kind of contexts and cases will be consolidated;
- the EPS Risk Management system and the related tools will be revisited;
- suitable tools for Result Measurement in EPS projects will be promoted within the SDC;
- external specialized support on legal issues will be sought, and then guidance and standard instruments on EPS-related contract and procurement issues will be developed; this will occur in tight cooperation with FDFA's Competence Center for Contracts and Procurement;
- instruments for the external and internal communication will be put in place.

The **timeline for the implementation of these tasks is 2020-2022**; an important portion of the CEP resources will be absorbed by the work on these issues. Once available, the new conceptual bases and instruments will greatly facilitate SDC's Engagement with the Private Sector.

This Strategic Guidance has no pre-defined validity date; however, the Guidance will have to be periodically updated and revised in order to take into account new developments. The **next update is foreseen in 2023**, in order to integrate the strategic orientations of the next Strategy for International Cooperation 2025-2028 as well new learnings, instruments and operational developments. In order to maximize efficiency, the document will be revised through a lean process.

Annex VIII: Useful Links

- Format finder: https://www.shareweb.ch/site/EPS/memberarea/Pages/Manage/Format-Finder.aspx
- Guidance Note on Blended Finance: https://www.shareweb.ch/site/eps/Pages/Content/Profiles.aspx?SmartID=1997&item1=EPS%20Strategic%20Guidelines
- Tool to calculates a range for the appropriate leverage factor of Blended Finance transactions: https://www.shareweb.ch/site/eps/Pages/Content/Profiles.aspx?SmartID=1997&item1=EPS%20Strategic%20Guidelines
- Tool to calculate the additionality of Blended Finance transactions: https://www.shareweb.ch/site/eps/Pages/Content/Profiles.aspx?SmartID=1997&item1=EPS%20Strategic%20Guidelines
- One-pager on EPS 100 workshops: https://www.shareweb.ch/site/EPS/cep/_layouts/15/WopiFrame.aspx?sourcedoc=/site/EPS/cep/Documents/TaskDocuments/SC129-EPS100%20%20Backstage/EPS%20100%20factsheet.docx&action=default