

# **Strategic Objectives 2018–2020 of the Federal Council for SIFEM AG**

## **1 Introduction**

SIFEM (Swiss Investment Fund for Emerging Markets) is the development finance institution of the Swiss Confederation. As a corporation (Aktiengesellschaft) under private law, SIFEM is an independent institution in terms of its organization and management of its business and maintains its own account. The purpose and basic mandate are described in the Ordinance on International Development Cooperation and Humanitarian Aid<sup>1</sup> of 12 December 1977 as well as in the Ordinance on Cooperation with the States of Eastern Europe<sup>2</sup> of 6 May 1992. Based on this, the primary task of SIFEM encompasses investments primarily in local or regional funds and financial intermediaries, for the benefit of SMEs, fast growing companies<sup>3</sup> and private infrastructure projects in developing and emerging countries. SIFEM invests through shareholdings (risk capital) or loans and often in conjunction with other European development finance institutions. In this way, SIFEM facilitates access to long-term financing and know-how for companies, contributing towards their sustainable growth as well as job creation and eventually reducing poverty in developing and emerging countries.

The Swiss Confederation is the sole proprietor of SIFEM. The Federal Council exercises the shareholder rights, recognizing the freedom of the Board of Directors with regard to decision-making on matters relating to business strategy and policy. Based on Article 30c of the Ordinance on International Development Cooperation and Humanitarian Aid and in accord with the priorities of economic development cooperation, the Federal Council defines the strategic objectives of SIFEM for a four-year period<sup>4</sup>. The Board of Directors of SIFEM is responsible for the implementation of the strategic objectives.

## **2 Strategic areas of focus**

The Federal Council anticipates that SIFEM:

- continues to be an important instrument for fostering private sector development in developing and emerging countries, complementary to other measures of the economic development assistance;
- promotes sustainable and inclusive growth in developing and emerging countries as well as their integration into the global economic system;
- focuses on the creation and maintenance of more and better jobs as well on the improvement of working conditions and skills, recognizing that more and better jobs are the main driver of poverty reduction as well as social inclusion in developing and emerging countries and that they offer an alternative to irregular migration. In this way, SIFEM helps to fight the root-causes of irregular migration and contributes towards the mandate of Parliament to strategically link international cooperation with the migration issue;
- promotes the development of sustainable business in developing and emerging countries, based on internationally recognized environmental, social, and governance standards;

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<sup>1</sup> SR 974.01, in particular Section 8a

<sup>2</sup> SR 974.11, in particular Section 11

<sup>3</sup> These companies can be larger than SMEs and are characterised by the fact that they create a proportionately high number of new jobs.

<sup>4</sup> According to the Federal Council's decision of 17 February 2016 the periodicity of the strategic objectives for SIFEM shall henceforth match those of the Dispatches and the Framework Credits respectively for International Cooperation. For this reason, this strategy period is valid for three years (2018-2020) instead of the usual four years.

- contributes to strengthening resilience of these countries, *inter alia* against climate change;
- Strives to meet the highest standards of integrity, transparency, and professionalism, resulting in a strong reputation and recognition in the general public.

## **2.1 Programme-related areas of focus**

The Federal Council anticipates that SIFEM will adhere to the following programme-related areas of focus:

- **Sustainability:** In its investment activity, SIFEM will observe the basic principles of financial, economic, social and environmental sustainability.
- **Financial Additionality:** SIFEM will provide finance that cannot be obtained from the private capital markets (local or international) with reasonable terms or quantities and for similar developmental purposes without official support.
- **Value Additionality:** SIFEM offers to recipient entities or mobilizes, alongside its investment, non-financial value which is supplementary to the private sector and which will lead to better development outcomes, e.g. by providing or catalyzing knowledge and expertise, promoting social or environmental standards or fostering good corporate governance or skills development.
- **Leverage effect:** SIFEM will mobilize additional capital for the target countries or the beneficiary companies from the private sector that would not have otherwise invested. To this end, in accordance with its mandate, SIFEM will bear a portion of the political or commercial risks and conversely will share the risks and returns from the investments with the private and institutional investors.
- **Geographic concentration:** SIFEM will concentrate its activities on the priority countries and regions of Swiss development cooperation. To a lesser extent other developing and emerging countries according to the current list of the Development Assistance Committee of the OECD are also eligible for investment, if they show a per capita GNP less than the threshold for IBRD categorization which is defined annually by the World Bank<sup>5</sup>.

## **2.2 Task and company-related objectives**

The Federal Council anticipates that SIFEM will achieve the objectives described below:

### **2.2.1 Offering, performance, impact**

- a. SIFEM will carry out investments that produce a specific and verifiable development impact through the promotion of viable and dynamic SMEs and fast growing companies in the private sectors of the target countries. This entails first and foremost the creation of more and better jobs as well as the diversification and strengthening of the local financial markets or financial intermediaries, improvement in the management of the portfolio companies and their better access to external finance, increased tax revenues at the investment locations etc.;
- b. SIFEM will ensure a balance among development effects, portfolio liquidity, regular income, and risk diversification by deploying various investment instruments.  
In this context, SIFEM may use the following:
  - o Loans and other debt instruments (such as secured or unsecured loans, junior debt, debt instruments convertible into equity or tied to investment securities);
  - o Equity or quasi-equity instruments; and
  - o Guarantees to cover equity participations and to help borrowers gain access to financing.

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<sup>5</sup> For illustration: This threshold value was set at USD 6'895 for loans by the World Bank (International Bank for Reconstruction and Development IBRD) for fiscal year 2018.

SIFEM can invest in the following types of vehicles:

- o Alternative investments funds: Investments in specialized risk capital vehicles as well as mezzanine and debt funds;
  - o Financial institutions: Investments in local financial institutions and financial intermediaries that grant medium to long-term financing primarily to SMEs but also to microfinance institutions and infrastructure projects;
  - o Private companies (as long as commensurate with the SIFEM risk policy).
- c. SIFEM will be an active investor by participating whenever possible in the governing bodies of its investments, to be able to contribute expertise, address challenges and opportunities on sustainability issues, and ensure compliance with core elements of Swiss development assistance policy.
  - d. SIFEM enables with adequate measures the direct mobilization of private and institutional investors in order to grow the investment volume and increase the development impact. These co-investment resources complement the investment capital of the Swiss Confederation as well as the leverage effect at the level of funds and in the target countries respectively.
  - e. In accordance with the current practice of European development financing institutions, SIFEM continually monitors the development impact mentioned under *a* throughout the entire investment cycle. SIFEM submits a separate annual report on this impact for the attention of SECO as representative of the Swiss Confederation as well as for the interested general public.

### **2.2.2 Positioning, development**

- SIFEM will position its investment activities as contribution to the target outcomes (“Wirkungsziele”) of Switzerland’s economic development cooperation framework, look for synergies and ensure coherence with that framework, while factoring in the crosscutting themes of gender equality and sound economic governance.
- SIFEM contributes to the implementation of the Agenda 2030 for Sustainable Development of the United Nations by way of its investment activities and the mobilization of finance from the private sector.
- within the framework of its statutory mandate and taking into account the financial objectives, SIFEM will aim at maximizing the development impact of its investments. While all investments must be economically viable and contribute to economic development, it is expected that some investments specifically contribute to foster social inclusion (enabling affordable access to goods, services and jobs for poorer/disadvantaged segments of the local economies) and/or towards the provision of global public goods, in particular climate protection<sup>6</sup> as well as healthcare, education, food security and basic infrastructure.

### **2.2.3 Risk policy and risk management**

- SIFEM will operate a specific system for the identification, monitoring and management of both its investment and operational risks as well as conduct regular analysis and control reviews and refine them as required.
- SIFEM will not take on any excessive financial risks in the development of additional sources of income or in its liquidity management.
- SIFEM will hold liquid assets that provide sufficient cover for those commitments that have been entered into but not yet released.
- SIFEM is appropriately insured against liability risks.

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<sup>6</sup> SIFEM does not make any investments that contradict Switzerland’s objectives on climate change policy.

### **3 Financial Objectives**

The Federal Council anticipates that SIFEM will achieve the objectives described below:

#### **3.1 Operating efficiency**

SIFEM will keep its operating costs in proportion to the size of the investment portfolio. To this end, it must not exceed the annual operating cost ceiling of 1.5% of the active commitments.

#### **3.2 Financing**

SIFEM will ensure its long-term self-financing through reflows from investments (comprising capital, interest, dividends and profits) and an appropriate level of cash enabling it to cover its operating costs and the annual new investments. During the course of the strategy period, the reflows increase in comparison to the average annual reflows between 2014-2017.

#### **3.3 Financial result**

SIFEM will achieve a positive operating result (EBIT, in accordance with IFRS) over the valid period of the strategic objectives.

#### **3.4 Investments**

- SIFEM will target a positive rate of return for each investment.
- SIFEM will achieve an annual rate of return of greater than 3 percent and an annual value multiplier of greater than 1.15 at the portfolio level<sup>7</sup>.
- For the reporting at the end of the strategy period, SIFEM will make comparisons with similar investment vehicles in respect of the performance.

### **4 Human Resources and Social Welfare Policy Objectives**

The Federal Council anticipates that SIFEM will achieve the objectives described below:

- SIFEM will work to ensure that Obviam DFI AG, which has been mandated by the Board of Directors with the business and portfolio management of SIFEM,
  - o pursues a forward looking, socially responsible, transparent and reliable policy on human resources and will offer competitive working conditions for all age groups within a working environment that promotes personal development and performance;
  - o encourages an approach to work amongst managers as well as employees which is based on integrity;
  - o cultivates a leadership practice based on appreciation, offers and promotes performance and creates confidence through internal and external communication;
  - o includes the key parts of the strategic objectives in the annual performance targets for the personnel of Obviam DFI AG and takes these into account in the performance assessment.
- SIFEM sets out in a Management Agreement the details regarding the compensation for Obviam DFI AG, a joint stock company und Swiss private law. This compensation comprises a fixed component (to cover the business management and administration costs) and a variable component, which must not exceed 20 percent of the fixed component. The variable component is calculated on the basis of the average performance of the investment portfolio over a period of at least two years, and may in-

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<sup>7</sup> The internal rate of return compares the development in the value of the portfolio with the outstanding amount, taking into account the period of the investment. With the total value over paid-in, all returns received to date plus the current market value of the investment portfolio, disregarding the time dimension, are divided by the capital deployed.

crease or decrease accordingly. The degree of success of the investment portfolio is to be assessed against the level of achievement of both financial goals and development goals.

- SIFEM ensures that in Obviam DFI AG the proportion of the highest individual fixed salary that results from the SIFEM mandate does not exceed the maximum amount of salary class 32 of the Swiss Confederation.
- SIFEM ensures that Obviam DFI AG provides complete transparency regarding the total amount of income it receives from third party mandates.

## **5 Cooperation Arrangements**

The Federal Council expects SIFEM to participate in appropriate networks and alliances of organizations with similar objectives insofar as this helps to achieve the strategic objectives.

## **6 Adaptation of the Strategic Objectives**

Within the valid period the Federal Council can adapt the strategic objectives as required. It will make decisions on their adaptation following consultation with the Board of Directors of SIFEM.

## **7 Reporting**

The Federal Council expects SIFEM to submit a written report to it, simultaneously and supplementary to the annual business report on the achievement of the strategic objectives in the previous year. It will collect the data and performance indicators required for this purpose.

In addition, SIFEM will hold regular consultations during the course of the year with representatives of the Confederation, particularly within the framework of the Controlling Meetings and the Portfolio Review Meetings which are held with the SIFEM proprietor at least every half-year.

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