SIFEM SWISS INVESTMENT FUND FOR EMERGING MARKETS

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Viewpoint

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Why Does SIFEM Invest Through Offshore Financial Centres?

SIFEM is a limited company under private law held by the Swiss Confederation. Most of its investments take the form of risk capital in developing countries and emerging economies, giving small and medium enterprises (SMEs) there an opportunity to access long-term financing. SIFEM thus contributes to these companies' sustainable growth and job creation as well as private sector development and poverty reduction in the target countries.

As part of its investment operations in developing countries and emerging economies, SIFEM participates in investment vehicles which are domiciled in offshore financial centres ("OFCs")[1], for the following reasons:

1. The use of OFCs often enable risk capital investments to the benefit of the target countries in the first place. In particular, OFCs allow several investors to pool their resources in funds and then put the combined capital to work in SMEs in countries with a difficult legal and regulatory environment where investor protection is limited. In other words, OFCs accommodate the requirements of risk capital investors and permit SIFEM's investee funds to access international capital markets.

2. SIFEM's primary motivation for using OFCs is not to avoid taxes. In fact, taxes are paid in the developing countries and emerging economies by the portfolio companies (SMEs) of the funds[2] in which SIFEM has invested and by SIFEM's co-investors in their home country when their money is repatriated. However, OFCs allow investors not being taxed twice which is permitted in bilateral tax treaties and national tax laws. The resulting lower tax environment of OFCs is an added value for the development mission of SIFEM because it increases the investment amount at SIFEM's disposal. This is because SIFEM re-invests all reflows from successful investment operations in other private sector projects, thereby achieving a multiplier effect.

[1] As defined in the 'Policy on the Use of Offshore Financial Centers in World Bank Group Private Sector Operations' adopted by the Board of Directors in November 2011.
[2] SIFEM started to systematically collect data on taxes paid by the investees of the funds in which SIFEM invested after August 2013. In 2014, these companies cumulatively paid USD 446m of taxes to their respective governments.

3. OFCs make possible to set-up investment funds with a regional scope which can thus invest in multiple countries. What's more, investments structured through OFCs typically offer a wide range of financial structures (including mezzanine, equity, debt and combinations thereof) suitable for investments in the private sector of developing and transition countries.

All this also helps to multiply SIFEM's development impact. SIFEM's approach to the use of OFCs in this manner is in line with the 'Policy on the Use of Offshore Financial Centers in World Bank Group Private Sector Operations' accepted by Switzerland. SIFEM's investee funds are domiciled in jurisdictions that adhere to the internationally agreed tax standards. SIFEM fully abides by the Swiss Anti-Money Laundering Law.

SIFEM constantly reviews the use of OFCs in light of the work of the Global Forum on Transparency and Exchange of Information for Tax Purposes and seeks to follow evolving internationally agreed standards.

As SIFEM's target countries mature in terms of the respect for the rule of law, legal enforcement, investment fund regulatory frameworks, regulatory know-how as well as currency stability and convertibility, SIFEM is determined to invest a larger proportion of its portfolio through on-shore structures.

In this regard, SIFEM also coordinates closely with the State Secretariat for Economic Affairs SECO, which supports measures to improve the business environment and local regulatory capacity (including the promotion of Anti Money Laundering and Combatting the Financing of Terrorism standards) in developing countries and emerging economies through its economic development assistance programmes.