



Independent Evaluation

Development Effects of SIFEM's Investment Interventions

Economic Cooperation and Development Division
Quality and Resources

Bern, April 2013



Independent Evaluation

« The Development Effects of SIFEM's Investment Interventions »

Commissioned by the Quality and Resources Section (WEQA),
Economic Cooperation and Development Division at the State Secretariat for Economic
Affairs (SECO)

Bern, April 2013

Content:

- I. Foreword
- II. Management Response to the Evaluation Report
- III. Position of the Evaluation Committee
- IV. Evaluation Report

Foreword

With the purpose of learning and accountability, the Economic Cooperation and Development Division at the State Secretariat for Economic Affairs (SECO) undertakes regular and systematic assessments of on-going and/or completed projects, programs or policies in order to identify and to disseminate results. The aim is to determine the relevance, the development effectiveness and the efficiency, the impact and the sustainability of its different modalities of interventions in partner countries. Based on credible and useful information, evaluations should also enable the incorporation of lessons learned into the decision-making process of both recipients and donors, in order to foster continuous improvements of development support.

The Economic Cooperation and Development Division distinguishes and undertakes three different types of evaluations, namely internal reviews, external evaluations and *independent evaluations*. While internal reviews and external evaluations are under the direct responsibility of the operational units, independent evaluations are commissioned and managed by the Evaluation Function – an independent unit from the operations - and are submitted for discussion to an external Committee on Evaluation, composed of 5 members external to SECO. Independent evaluations focus on assessment of sectors, programs, strategies, instruments, country assistance strategies, cross-cutting issues or themes and impact evaluations. On average, the Evaluation Function commissions one to three independent evaluations per year, which can be undertaken jointly with other donors or partner organizations, in line with our commitment to the Paris Declaration. SECO expects evaluations of its development interventions to adhere to the DAC/OECD standards and to the Swiss Evaluation Society (SEVAL) standards.

This report presents the results of the independent evaluation of *'the Development Effects of SIFEM's Investment Interventions'* between 2003 and 2011. In this period, SIFEM made commitments of \$357 million, disbursed \$225 million to private equity funds and other investment vehicles, and achieved an internal rate of return (IRR) of 2.90% and an unrealized gain of \$16.5 million. First the report examines the SIFEM portfolio by using established objectives, tools, and metrics set by the Federal Council and adopted by SIFEM. Second, the evaluation examines the relevance and alignment of existing tools with the SIFEM strategic mission established by the Federal Council in 2011. The ultimate purpose of the evaluation is to use lessons from previous SIFEM investments to inform SIFEM's future interventions.

The evaluation report was used as reference for the formulation of SECO's management response. The results, recommendations of the report, as well as SECO's management response were first presented to and discussed with the Evaluation Committee, who then formulated its position. The management response and the position of the Evaluation Committee are published jointly with the final evaluators' report on SECO's website and on the DAC/OECD Evaluation network.

Process:

<i>Conduct of the evaluation and elaboration of the Report</i>	<i>May 2012 – Nov. 2012</i>
<i>Discussion of the Report with the Evaluation Committee</i>	<i>November 2012</i>
<i>Management Response</i>	<i>April 2013</i>
<i>Position of the Evaluation Committee</i>	<i>April 2013</i>

Management Response

Independent Evaluation of the Development Effects of SIFEM's Investment Interventions

By Dalberg Global Development Advisors (Geneva)

April 2013

1) Introduction

This independent evaluation of the SIFEM (Swiss Development Finance Institution) has been a complex undertaking and for SECO a novel and unique evaluation in several ways: It is the first time that the developments effects of Switzerland's Development Finance Institution (DFI) have been assessed in such a comprehensive manner whilst at the same time the evaluation exercise faced important methodological challenges, including the difficulty to be able to measure results beyond outcomes, the lack of benchmarks because the evaluation failed to obtain data from other DFIs, and the application of the standard DAC evaluation criteria proved trickier than expected.

The dedicated team of Dalberg evaluators has, however, worked very hard to meet these challenges during an intensive and constructive process in producing this Report. Whilst the Report is the sole responsibility of Dalberg, it would not have been possible to draft it without the engagement of the SIFEM board, the management and team of Obviam as well as the fund managers in the field, who all generously shared their valuable time and knowledge with Dalberg.

2) Report Findings

The Report provides an overall informed, realistic and carefully balanced opinion about SIFEM and its performance in producing development results. The Report's findings are generally very positive:

- The evaluation validates the relevance of SIFEM as Switzerland's DFI which is considered a well-designed and well-suited instrument for private sector development in developing and transition economies;
- It rates very highly the implementation of the mandate and, to this end, the performance of SIFEM/Obviam which has consistently met or surpassed its operational targets and is being praised by fund managers as one of the most active, constructive and professional investors, thereby creating value (both financial and non-financial) as Limited Partner and building bridges between public and private stakeholders.
- It confirms that SIFEM is able to and indeed has produced, both in terms of quantity and quality as well as in an efficient manner, important development effects in partner countries, notably but not exclusively large scale employment.

3) Report Utility

The Report is highly valuable because it allows to communicate to SIFEM's owner, the Swiss Parliament, the wider public and other stakeholders these results and findings in a credible manner. It is also a particularly timely evaluation in view of SECO's task in 2013 to draft new Strategic Objectives for SIFEM. Importantly in this respect, it is explicitly forward looking and contains a number of observations and recommendations (see below) with a view to further improve on both the mandate as well as the operational and investment guidelines of SIFEM.

4) Report Shortcomings and other Important Considerations

This being said, the Report also displays certain weaknesses and in some instances may not have sufficiently taken into account other important parameters and framework conditions of SIFEM.

For one thing, the rating of the standard DAC criteria is not very nuanced and appears too positive, especially in relation to other results dimensions.

SECO would have welcomed an explanation of and a value judgment on SIFEM's financial instruments, which are equity-based more than any other European DFI and which favor indirect over direct investments.

Most importantly, the context in which SIFEM has been operating changed repeatedly. In addition, albeit neither the institutionalizing of SIFEM AG nor the question of SIFEM's financial sustainability have been part of the terms of reference for the evaluation, they must not be ignored. In fact, these aspects may help to better understand, if not rectify certain limitations that the evaluators have identified in terms of SIFEM achieving even greater impact. This is why we have factored them into our reading of and response to the evaluators' recommendations and their follow-up.

5) SECO position on the Report Recommendations

Operational Level

Recommendation	Management response	responsibility	date
<p>a. Align Federal Council expectations with objectives, investment guidelines and guiding principles</p>	<p>The evaluators rightly point out the need for SIFEM to have a fully consistent hierarchy of objectives, that is, a complete alignment between the Strategic Objectives of the Federal Council, SIFEM's investment guidelines as well as the procedure manual.</p> <p>The evaluators also rightly emphasize that to establish a consistent set of guidance will require to resolve several important trade-offs which exist at the conceptual level and thus create conflicts in meeting the operational objectives and targets. The specific issues identified in the evaluation will have to be dealt with during the forthcoming Strategic Objectives drafting exercise.</p>	SECO & SIFEM	2013
<p>b. Set more ambitious targets for operationalized objectives</p>	<p>We believe there are two aspects to this recommendation which are distinct and should, therefore, be looked at separately:</p> <p>We concur that it is justifiable to consider increasing at least some of the target <u>levels</u> which presently are indeed not overly ambitious. To do so, however, will necessitate to take into account and reconcile the mentioned tensions that exist between operational targets.</p> <p>By contrast, it may not be entirely easy and feasible to completely switch to indicators that move us from ex-ante standards to downright developmental performance measures. In fact, SIFEM must produce an annual development effects report while SECO reports annually to Parliament on the fulfillment of the Strategic Objectives. The time and human resources effort to gather the necessary data for drafting these reports must by all means remain reasonable. Determining development performance and impact should, however, be possible on a 4-year cycle in the context of the in-depth reporting to Parliament and, additionally, of full-fledged evaluations such as the present one.</p>	SECO & SIFEM	2013

<p>c. Reconsider the distinction between mature and pioneer funds</p>	<p>The first part of this recommendation concerns primarily, but not exclusively SIFEM/Obviam and we will ask them to adopt a convincing, meaningful and well understood terminology in terms of categorizing fund managers according to experience and track record which also corresponds to industry practice. As to the hypothesis of Dalberg that there is no linkage between the development effect of an investment and the categorization of a fund, we believe it is necessary to search for more convincing evidence regarding the lack or rather existence of such a correlation because it has profound implications on the decision-making of SIFEM's investment committee (where SECO has a seat as an observer). This is even more true for the argument of Dalberg that there is not necessarily a trade-off between financial return and development impact, given that SIFEM – unlike some of its peers - does currently not have the possibility to conduct some of its investments off-balance sheet.</p>	<p>SIFEM/Obviam</p>	<p>2013</p>
<p>d. Improve development impact data collection</p>	<p>We are, in principle, fully supportive of this recommendation but its implementation depends on the feasibility to adapt and expand SIFEM's currently applied impact assessment and monitoring tool ("GPR"). Because the GPR is used by several EDFIs, this may be more than just a purely technical issue at the sole discretion of SIFEM/Obviam (<i>see also recommendation <e> below</i>).</p>	<p>SIFEM/Obviam</p>	<p>2013</p>
<p>e. Work with co-investors to develop a harmonized impact monitoring system</p>	<p>We welcome and fully support this recommendation for all the reasons that evaluators mention and will, therefore, ask SIFEM/Obviam to follow-up on it in the framework of EDFI. However, we are well advised to recall that standardizing and harmonizing inevitably reduces the space for meeting specific individual requirements and wish-lists, for example when aspiring to aligning SIFEM's monitoring system with the Strategic Objectives of the Federal Council.</p> <p>Secondly and importantly, it is not only up to SIFEM/Obviam to advocate for an improved impact monitoring system with its peers. A harmonized system obviously makes sense only if the DFIs are allowed and willing to share data among themselves and with their shareholders. SECO, therefore, will have to work through the OECD/DAC and by way of contacting certain European administrations with a view to to allow a meaningful exchange of development impact data.</p>	<p>SIFEM/Obviam SECO</p>	<p>2013 Tbd</p>

Strategic Level

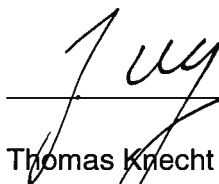
Recommendation	Management response	responsibility	date
f. Target fund managers that focus on inclusive growth in addition to economic growth	The widening economic disparities in emerging economies and middle income countries is one of the greatest challenges of the 21 st century. It is an important reason why SECO's priority list of partner states focusses on middle income countries. We, therefore, accept and support this recommendation and will carefully consider how it can be best reflected in the new Strategic Objectives 2014-17 for SIFEM as well as be promoted in SIFEM's investment guidelines and decisions. There is, however, an important caveat to be taken into account: the lack of clear empirical evidence regarding the link between Private Equity (PE) investments, economic growth, the reduction of economic disparities and, ultimately, poverty reduction. Therefore, we feel that this recommendation should not be interpreted as advocating for a radical shift in SIFEM's investment model (see also recommendation <g> below), but rather for a careful analysis on the fund managers' approach regarding ESG and the selection of their investee companies.	SECO / SIFEM	2013
g. Support fund managers that intend to produce development returns as well as financial returns	This is perhaps the trickiest and most controversial recommendation. In fact and unlike the evaluators suggest, it could well be that there exists a principal-agent-problem in two ways, that is, not only will commercial investors pursue financial returns at the expense of development results, but socially oriented fund managers may not be able to sufficiently focus on the financial returns, thereby affecting SIFEM's financial sustainability. In short, we feel that at present we lack solid guidance and face a shortage of benchmarks to convincingly make either case. This is why we need to first discuss in detail this recommendation and its potential trade-offs with SIFEM.	SECO / SIFEM	2013
h. Explore models to increase demand for technical assistance	The recommendation is helpful because we have since long planned to revisit the set-up and administration of the existing SIFEM Technical Assistance Facility with a view to reduce the application burden for all parties, to increase demand and, as a result, to strengthen the Facility's contribution to the fulfilment of SIFEM's mandate. When doing so, we will also have to consider the proposition of Dalberg to expand the current concept by way of including pre-investment TA which would constitute an important strategic shift.	SECO	asap

Berne, April 2013



Beatrice Maser Mallor

Head, Economic Cooperation and
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Thomas Knecht

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**Position of the External Committee on Evaluation on the
Independent Evaluation of the Development Effects of SIFEM's Investment Interventions, and
SECO/WE Management Response**

1. Members of the External Committee on Evaluation (the Committee) discussed on November 19, 2012 the Report by Dalberg Global Development Advisors, Geneva (Dalberg) on the Independent Evaluation of the Development Effects of the Swiss Investment Fund for Emerging Markets (SIFEM)'s investments from 2003 to 2011 as well as the Response by SECO/WE's Management to its main findings and recommendations.
2. The Committee very much welcomes this very important and strategic independent evaluation. This evaluation is of strategic importance as the Federal Council expects SIFEM to become one of the pillars of the Swiss Confederation's instruments to promote sustainable private sector-led growth in developing countries and transition economies, with a view to foster economic growth, reduce economic disparities and facilitate the economic integration of those countries in the international economy. The findings and recommendations are especially timely as they will be very helpful for SECO/WE and SIFEM in formulating the new Strategic Objectives for SIFEM.
3. The overall evaluation process has been a challenging undertaking not only for Dalberg but also for SECO/WE's and SIFEM's staff. It is the first time that SIFEM's activities have been assessed in such a comprehensive way against the background of its position within the European Development Finance Institutions (DFI) community. While SIFEM is one of the smaller DFIs in terms of total commitments, it has very specific features as more than 80% of its portfolio is invested in equities compared to an overall average of approximately 50% for the other DFIs.
4. The Dalberg evaluation report is well structured, informed, balanced, and also critical thanks to its constructive and forward-looking approach through the "Theory of Change" methodology. It captures well the specific nature of SIFEM as a relatively young DFI that is still evolving. It rightly praises SIFEM that (...) "stood out compared to other public and private investors as more responsive, more engaged, and more understanding of the operating environment." (...) It validates the relevance of SIFEM, it rates very highly the implementation by and the performance of SIFEM through its tangible development effects in partner countries, notably large scale employment creation. It emphasizes that according to SIFEM *Geschäftspolitisches Projektrating* tool SIFEM's investments perform at good or very good levels which supports its overall financial sustainability. It contains a number of relevant forward-looking concrete recommendations both at the operational and strategic level that should help SIFEM in achieving an even greater impact in the near future. Among them it suggests to pursue more direct development objectives, in particular as they relate to reducing economic disparities in partner countries by focusing on inclusive growth in addition to economic growth. The Committee fully supports these recommendations and is pleased to see that SECO/WE Management also broadly agrees with them.

5. Nevertheless from a methodological perspective the report raises some important questions. First of all, the Committee considers that SIFEM's assessment, in particular by using the OECD/DAC criteria, is too positive as it includes eight highly satisfactory out of twelve overall ratings which are all positive. A more nuanced rating would have been more appropriate and also credible. This could have been possible for instance by comparing SIFEM's performance with that of a few private investment funds. Second, the Committee would have welcomed a more deep analysis -- that should have focused realistically on a few investment funds -- about the perspective of the new jobs created by SIFEM's investment in order to assess the quality of such jobs, especially in terms of their future sustainability. This could have better documented the effectiveness of SIFEM's investment contribution to the truly remarkable cumulative creation of 46,000 new jobs. Third, the Committee regrets that the report has not been able to focus more on the compliance of SIFEM's investment with the important Environmental, Social and Governance (ESG) standards. In particular, the assessment that "100% of funds reported compliance with ESG criteria within two years following investment" (page 10) is credible in terms of good intentions but is probably debatable in practice. The experience of multinational companies with the implementation of ESG standards show that overhauling ESG conditions and standards in developing and transition countries is a medium- to long term undertaking that requires Management leadership, transparency and constant monitoring, including along the supply-chain.

6. The Committee welcomes the openness and constructive spirit of the SECO/WE Management response, in particular (i) the need to align completely the Strategic Objectives of the Federal Council, SIFEM's investment guidelines as well as the procedure manual; and, (ii) the enhanced focus on inclusive growth in addition to economic growth and targeted support to fund managers that intend to produce development returns as well as financial returns. With respect to the specific responses the Committee has the following remarks. First, with respect to the work with co-investors aimed at developing a harmonized impact monitoring system, the Committee fully shares SECO/WE Management's disappointment for their refusal not only to publish but also to exchange internally selected development impact data. This behavior is not acceptable as it does not contribute to improve DFI's overall credibility and reputation. The Committee therefore encourages SECO/WE and SIFEM to renew its engagement with other DFIs and push for the development of a truly harmonized impact monitoring system for all DFIs, including transparency and open access to the data. Second, with respect to the enhanced focus on inclusive growth beyond economic growth, the Committee believes that this is consistent with SECO/WE's current focus on middle-income countries. As emphasized by Dalberg, 72% of the world's poor live in middle-income countries. Through a selective well targeted focus on reducing economic disparities through the identification of funds that create jobs, deliver goods and services, purchase supplies, and participate in distribution networks that are targeted to poor people SIFEM would be even more consistent with its mission. Third, with respect to supporting fund managers who intend to produce development returns as well as financial returns, the Committee believes that this should be both feasible and rewarding in terms of greater development returns in areas such as renewable energies, forestry, agro-business and urban infrastructure. The Committee thinks that the risk of affecting SIFEM's financial sustainability could be balanced through a prudent approach to socially-oriented fund managers according to the specificities of SECO/WE's priority countries.

7. In **conclusion**: the Committee recommends the disclosure of the Public Report by Dalberg as well as the accompanying SECO/WE Management Response and the Response by the Committee on SECO internet website.



Pietro Veglio

Chairman of the External Committee on Evaluation

Members of the Committee:

Gilles Carbonnier

Felix Gutzwiller

Christoph Stückelberger

Independent Evaluation of the Development Effects of SIFEM's Investment Interventions

Final Evaluation Report

commissioned by:

State Secretariat for Economic Affairs (SECO)

Economic Development Cooperation

Quality and Resources (WEQA)

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Table of Contents

Executive Summary	i
1 Introduction	1
2 Evaluation Based on Established Evaluation Criteria	7
3 Evaluation Based on the Theory of Change.....	17
4 Lessons Learned and Recommendations	26
Annex 1: SIFEM Evaluation Approach Paper.....	31

List of tables

Table 1.1: Overview of OECD DAC Evaluation Criteria	i
Table 2.1: Assessment of OECD DAC Evaluation Criteria: Relevance	7
Table 2.2: Assessment of OECD DAC Evaluation Criteria: Effectiveness	9
Table 2.3: Assessment of OECD DAC Evaluation Criteria: Efficiency	11
Table 2.4: Assessment of OECD DAC Evaluation Criteria: Sustainability	12
Table 2.5: Operationalized Objectives and targets for development impact.....	13

List of exhibits

Figure 1.1: SIFEM Development Effects Theory of Change	3
Figure 1.2: Landscape of European DFIs	4
Figure 1.3: Regional allocation of committed capital, over time and for 2003-2011 (\$m)	6
Figure 3.1: SIFEM portfolio allocation by country income classification and investment type....	18
Figure 3.2: Timing of SIFEM investments (\$m)	19
Figure 3.3: Disbursed capital and number of investments, by size of enterprise (\$m).....	21

Abbreviations

BIO	Belgian Investment Company for Developing Countries
CDC	CDC Group plc
COFIDES	Compañía Española de Financiación del Desarrollo
DAC	OECD Development Assistance Committee
DEG	Deutsche Investitions-und Entwicklungsgesellschaft
DFI	Development Finance Institution
EDFI	European Development Finance Institutions
ESG	Environmental, Social and Governance
FDI	Foreign Direct Investments
FINNFUND	Finnish Fund for Industrial Cooperation
FMO	Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden
GIIRS	Global Impact Investing Ratings System
GPR	Corporate-Policy Project Rating (Geschäftspolitisches Projektrating)
GRI	Global Reporting Initiative
IFC	International Finance Corporation
IFU	Industrialization Fund for Developing Countries
IRIS	Impact Reporting and Investment Standards
IRR	Internal Rate of Return
MIS	Management Information System
NORFUND	Norwegian Investment Fund for Developing Countries
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OeEB	Oesterreichische Entwicklungsbank
PROPARCO	Société de Promotion et de Participation pour la Coopération Economique
BMI-SBI	Belgian Corporation for International Investment
SECO	Swiss State Secretariat of Economic Affairs
SIFEM	Swiss Investment Fund for Emerging Markets
SIMEST	Società Italiana per le Imprese all'Estero
SME	Small or medium enterprise
SOFID	Sociedade para o Financiamento do Desenvolvimento
Swedfund	Swedfund International

Executive Summary

Dalberg Global Development Advisors (Dalberg) was engaged by the Swiss State Secretariat of Economic Affairs (SECO) to conduct an independent evaluation of the development effects of the Swiss Investment Fund for Emerging Markets (SIFEM)'s investments.

The study examines the SIFEM portfolio using three different lenses:

- First, it considers the development effects of the SIFEM portfolio in the context of the established objectives, tools, and metrics. In Chapter 2, it considers the evaluation criteria based on the Organisation for Economic Co-operation and Development (OECD) Development Assistance Committee (DAC) evaluation methodology (Section 2.1), the targets established by the Federal Council and adopted by SIFEM (Section 2.2), and the Corporate Policy Project Rating (Geschäftspolitisches Projektrating or GPR) tool, which was developed by the Deutsche Investitions-und Entwicklungsgesellschaft (DEG) (Section 2.3).
- Second, the study examines the relevance and alignment of existing tools to the SIFEM strategic mission established by the Federal Council in 2011 (Section 2.4).
- Third, in Chapter 3, the study provides a strategic evaluation of development effects based on the theory of change developed to complement the existing tools and targets, to offer a forward-looking perspective on the challenges and opportunities that confront SIFEM.

Based on the findings from these evaluations, the report presents lessons learned and recommendations to increase the SIFEM development effects.

Evaluation using established objectives, tools and metrics

SIFEM meets or exceeds all of its Operationalized Objectives that relate to development effects during the 2003-2011 evaluation period. In particular, it has effectively supported job creation: over three-quarters (78%) of the portfolio companies of SIFEM investments added jobs following SIFEM's investment. SIFEM also fulfils its mandate to invest in priority countries and develop the financial sector. Furthermore, its investments score highly based on the OECD DAC evaluation criteria and on the GPR tool.

Table 1.1: Overview of OECD DAC Evaluation Criteria

Criteria	SIFEM Overall Rating
Relevance	Satisfactory. SIFEM provides capital and expertise, which are the primary needs of their investees.
Effectiveness	Highly satisfactory (at output level) and satisfactory (at outcome level). Output level effects include increasing access to capital, supporting capacity development of the financial sector, and supporting capacity development of small and medium enterprises. Outcome level effects include contributing to economic returns, social and environmental returns, and financial sector specific returns.
Efficiency	Highly satisfactory (for cost effectiveness, implementation, and management) and satisfactory (for monitoring and evaluation). SIFEM achieved development effects while producing a financial return, exceeded the benchmarks from peer organizations by creating more than 45 jobs per \$1 million dollars invested, and its business model and management approach were well aligned to achieve the intended results.

Criteria	SIFEM Overall Rating
Sustainability	Highly satisfactory. The portfolio's positive financial returns, suggest that the SIFEM investments will continue to be viable after SIFEM divestment.

Overall, based on the criteria established by the Federal Council as well as international standards, such as the DEG GPR rating tool, SIFEM has had a positive development effect in the transitional and developing countries in which it operates. It has provided access to finance that enabled entrepreneurs to build and grow their companies and contributed to the development of the financial sector. SIFEM fund managers are professional investors who are committed to producing a return on SIFEM's investments and help companies grow.

Relevance and alignment of existing tools to the SIFEM strategic mission

SIFEM's strong performance against the Operationalized Objectives reflects both the organization's commitment to the investment guidelines and guiding principles as well as the modest targets established by the Swiss Federation. The Operationalized Objectives are useful for screening and selecting potential investments. The targets are less well suited, however, for measuring the operational performance and for tracking development effects after the investment decision.

In its current form, the GPR reports are effective screening components of the due diligence process. However the tool has limitations such as poor alignment with the SIFEM mission, only assessing the guiding principles on an ex-ante basis, and an inability to distinguish between compliance and proactive development effects.

Strategic evaluation of development effects

The strategic evaluation examines the linkages between SIFEM inputs, outputs and outcomes based on a capital value chain that considers the development effects at three levels: between SIFEM and its investees, between investees and their portfolio companies, and between the portfolio companies and broader society.

Development Effects between SIFEM and Its Investees

Provide capital that the market does not provide

The overwhelming majority (90%) of SIFEM investments are in middle-income countries (44% in lower-middle-income countries and 47% in upper-middle-income countries). An important caveat of this finding, however, is that the categorization of countries has changed significantly over the period of the evaluation. Based on the World Bank classification of the country for the vintage year of the fund, 31% of the SIFEM portfolio was invested in low-income countries, 52% in lower-middle-income countries, and 17% in upper-middle-income countries.

Maximize the flow of private investment to target countries and clients

Over four-fifths (82%) of SIFEM funds have private co-investors and 95% have public co-investors. Between 2003 and 2011, for every dollar that SIFEM invests, private sector investors invest \$3.15 and public sector investors invest \$4.74. This exceeds SIFEM's goal of having twice as much private capital committed as SIFEM capital. This is due, in part, to SIFEM's approach of co-investing alongside other public investors. The ratio of public capital to private capital (as opposed to only SIFEM capital to private capital) is significantly lower: for every dollar that public institutions (including SIFEM) invest, private sector actors invest \$0.55.

Provide management expertise

SIFEM is a valued and respected partner. Fund managers repeatedly praised SIFEM's practical approach and its consistent and active participation in fund governance. Fund managers reported

that contributions by the management team and external consultants contributed to the growth of their funds. Furthermore, SIFEM has played a significant role in its investees' moments of crisis, helping negotiate compromises between limited partners to ensure that a fund can continue to operate.

Development Effects between Investees and their Portfolio Companies

Fund Managers invest in Small and Medium Enterprises (SMEs)

Based on responses to GPR surveys, all SIFEM equity fund investments in Asia, Latin America, and CEE & CIS provide financing for small and medium enterprises (SMEs). Over four-fifths (83%) of funds in Africa offer SME financing.

While the number of funds offering financing to SMEs is notable, the amount of capital that is ultimately provided to SMEs is only a portion of the total amount invested by SIFEM. Almost one-third (31%) of the companies that reported the number of employees are large enterprises that have more than 300 employees at the time of investment. As would be expected given draw down patterns, large enterprises also receive a disproportionate amount of paid-in capital - nearly half (46%) of the SIFEM disbursed capital is invested in large enterprises.

Financial intermediaries intend to produce positive social impact

SIFEM does not have an explicit mandate to seek out investment managers who strive to achieve a social impact in addition to financial returns. The expectation is that by investing in commercial funds, SIFEM will contribute to economic growth which will filter through all levels of the economy.

SIFEM provided an assessment of their perceptions of the degree to which the fund managers or the fund strategy are impact oriented or commercially oriented. SIFEM considers – and the evaluation confirms – that all of its investments are development oriented and offered the ratings to show gradations within the portfolio. Based on this classification, SIFEM allocated approximately \$99 million (or 28% of commitments) to investments that SIFEM investment managers perceive to have development effects and a predominantly commercially-focused strategy, and \$66 million (or 18% of total commitments) to investments that SIFEM investment managers perceive to have development effects and a predominantly impact-focused strategy. The remaining 54% of investments fell between these two extremes.

Provide technical assistance to portfolio companies

In the current structure, SECO is responsible for approving and disbursing technical assistance funds once requested by fund managers in which SIFEM invests. In 2008, SECO created a technical assistance fund to support private equity funds and financial institutions. As of December 31, 2011, the fund had disbursed approximately CHF 1 million to four funds. Technical assistance has had a much smaller effect, which is consistent with the relatively small size of disbursed funding.

Development Effects between Portfolio Companies and Broader Society

Support employment and job creation

SIFEM has contributed to the creation of 46,000 jobs (33,400 through investment in funds and 12,400 through investments in facilities) and supported 202,000 jobs. Between 2008 and 2010 the number of jobs at SIFEM portfolio companies grew at a faster rate than in the broader economy in which they operate for 12 out of 16 countries that reported three or more investments. Overall, job growth for this period was 9.7% for the SIFEM portfolio compared to 0.1% as a weighted average for the economies in which SIFEM invests.

Adhere to the principles of financial, economic, social and environmental sustainability

SIFEM directly contributes to sustainability by being a responsible investor and by mandating that its funds and their portfolio companies abide by international ESG standards. Few of its investments

specifically target improving working conditions of women and while certain portfolio companies make positive contributions few of its investments directly focus on SECO priority sectors of clean energy, education, health, or agribusiness. SIFEM's preference for generalist funds may be appropriate given the size of SIFEM's portfolio and its need to remain financially sustainable despite potentially limiting the development effects of its investments to indirect benefits.

Lessons Learned and Recommendations

The opportunities, expectations, and challenges confronting investors that aim to achieve financial and social goals have changed significantly during the period the evaluation considered. As such, the recommendations contained in this document are forward-looking and focus on ways that SIFEM can have a greater impact in the future. They should not be interpreted as a criticism of past decisions, particularly since metrics and objectives have been developed since 2005 and the evaluation period started in 2003. Furthermore, the recommendations reflect, in part, trends that SIFEM has already undertaken.

Operational Lessons Learned and Recommendations

SIFEM relies on two tools to measure its performance: the Operationalized Objectives, which translate its mandate into quantifiable targets; and the GPR tool, which measures development effects on an ex-ante and ex-post basis every two years after investment. The tools would benefit from being more consistent with requirements of the Federal Council, more ambitious, and more closely aligned to the systems of SIFEM co-investors. Based on these lessons learned, SIFEM should explore the following options to strengthen their monitoring and evaluation systems:

- Align the Federal Council's expectations with SIFEM's objectives, investment guidelines, and guiding principles
- Revise monitoring and evaluation systems to align with the Federal Council's expectations and the entire investment lifecycle
- Set more ambitious targets for the Operationalized Objectives
- Reconsider the distinction between mature and pioneer funds
- Improve data collection for development effects
- Work with co-investors to develop a harmonized impact monitoring system

Strategic Lessons Learned and Recommendations

For the purpose of the evaluation, we define development in line with the expectations of the Federal Council as expressed in the SIFEM Concept for Controlling and Supervision – to foster economic growth, reduce economic disparities, and facilitate economic integration – and with the SIFEM guiding principles – subsidiarity, leverage, additionality, and sustainability.

SIFEM has historically operated based on the assumption that investing in low and middle income countries will produce development effects. While SIFEM has achieved development effects as a result of this approach – in particular with regards to economic growth – we did not find evidence that this approach systematically supports all three strategic expectations. In addition, we did not find that reducing economic disparities or facilitating economic integration – unlike economic growth or financial sustainability – were systematically considered in investment decisions or assessed as part of established monitoring and evaluation tools.

The specific nature of SIFEM development goals is a political decision; however, if the expectations of the Federal Council remain the same, the evaluation suggests opportunities for SIFEM to pursue more direct development objectives in particular as they relate to reducing economic disparities:

- Target fund managers who focus on inclusive growth in addition to economic growth
- Support fund managers who intend to produce development and financial returns
- Explore models to increase demand for technical assistance

1 Introduction

Dalberg Global Development Advisors (Dalberg) was engaged by the Swiss State Secretariat of Economic Affairs (SECO) to conduct an independent evaluation of the development effects of the Swiss Investment Fund for Emerging Markets (SIFEM)'s investments. The assessment focuses on the development effects of SIFEM investments from 2003 to 2011 without losing sight of the expected financial sustainability of SIFEM.

1.1 Study Objectives

As part of the evaluation, Dalberg focused on the following objectives:

- **Evaluate development effects.** The primary objective was to examine how SIFEM investments achieved positive economic, social and environmental effects in developing and transitional economies. Consistent with the OECD Development Assistance Committee (DAC) criteria, the evaluation considered the effectiveness, efficiency, and sustainability of these investments. In particular, the study focused on SIFEM's role investing in underserved geographies and as a catalyst for mobilizing private sector investors.
- **Validate the relevance of the SIFEM Operationalized Objectives for development impact.**¹ Based on the information collected in the evaluation, Dalberg assessed the Operationalized Objectives and targets for development effects that have been established by the Federal Administration and acknowledged by SIFEM's Board. Beyond assessing the achievement of the targets, Dalberg examined the alignment of the objectives to the SIFEM investment strategy and the SECO mission of contributing to sustainable economic growth, of reducing economic disparities, and of integrating partner countries in the world economy. Whenever benchmarks were available, the study examined whether or not the targets were set at the appropriate level given the scale of SIFEM operations and the performance of other international institutions.
- **Support institutional learning.** Dalberg suggested recommendations to SECO on how to strengthen the relevance, effectiveness, efficiency, and sustainability of SIFEM's investment interventions and the alignment of their monitoring and evaluation systems with their goals. In particular, the study presented ways that SIFEM can best leverage investments to achieve its strategic development objectives.

The recommendations and findings contained in this document are forward-looking and focus on ways that SIFEM can have a greater impact in the future while remaining financially viable. Assessing the operational or financial implications of the recommendations was beyond the scope of the independent evaluation of the SIFEM portfolio's development effects. These implications must be assessed as part of the strategic review to ensure that SIFEM is financially sustainable and continues to successfully fulfil its mission.

1.2 Study Approach

The study evaluates the development effects of the SIFEM portfolio and the relevance of the targets for development. First, the study examines the SIFEM portfolio using established objectives,

¹ As presented in the Concept for Controlling and Supervision of SIFEM AG, version 1.0 of August 2011, SIFEM uses the following operational objectives to control its strategic objectives for development impact (Objectives 1.1 to 1.5):

1. Positive overall development effect by internationally agreed standards
2. Company-level job creation
3. Aggregate job creation
4. Financial sector development
5. Positive environmental and social impact of investments

tools, and metrics that have been set by the Federal Council and adopted by SIFEM. These tools and metrics include: the SIFEM Operationalized Objectives that address development effects, the OECD Development Assistance Committee (DAC) evaluation criteria and the Corporate Policy Project Rating (Geschäftspolitisches Projektrating or GPR) tool.²

Second, the study examines the relevance and alignment of existing tools to the SIFEM strategic mission established by the Federal Council in 2011. This includes both an assessment of targets associated with the Operationalized Objectives and of the alignment of the Operationalized Objectives and the GPR with SIFEM's strategic mission and guiding principles.^{3,4}

Finally, the study provides a strategic evaluation of development effects based on the theory of change developed to complement the existing tools. The theory of change considers each step in the capital value chain: between SIFEM and their investees, between investees and their portfolio companies, and between the portfolio companies and broader society.

² The Operationalized Objectives were defined and approved in 2011. In addition, the Concept for Controlling and Supervision of SIFEM AG from August 2011 presents the Strategic Objectives of the Federal Council for SIFEM for January 7, 2010 to December 31, 2012. These objectives state that the Federal Council expects "SIFEM [to] become one of the pillars of the Federal Council's instruments to promote sustainable private sector-led growth in developing countries and transition economies, with a view to foster economic growth, reduce economic disparities and facilitate the economic integration of those countries in the international economy. [In addition], SIFEM shall assist the private sector in developing countries and transitional economies either by investing in financial intermediaries that provide long-term capital and know-how to local small and medium sized companies (SMEs) or by directly co-financing sustainable private businesses."

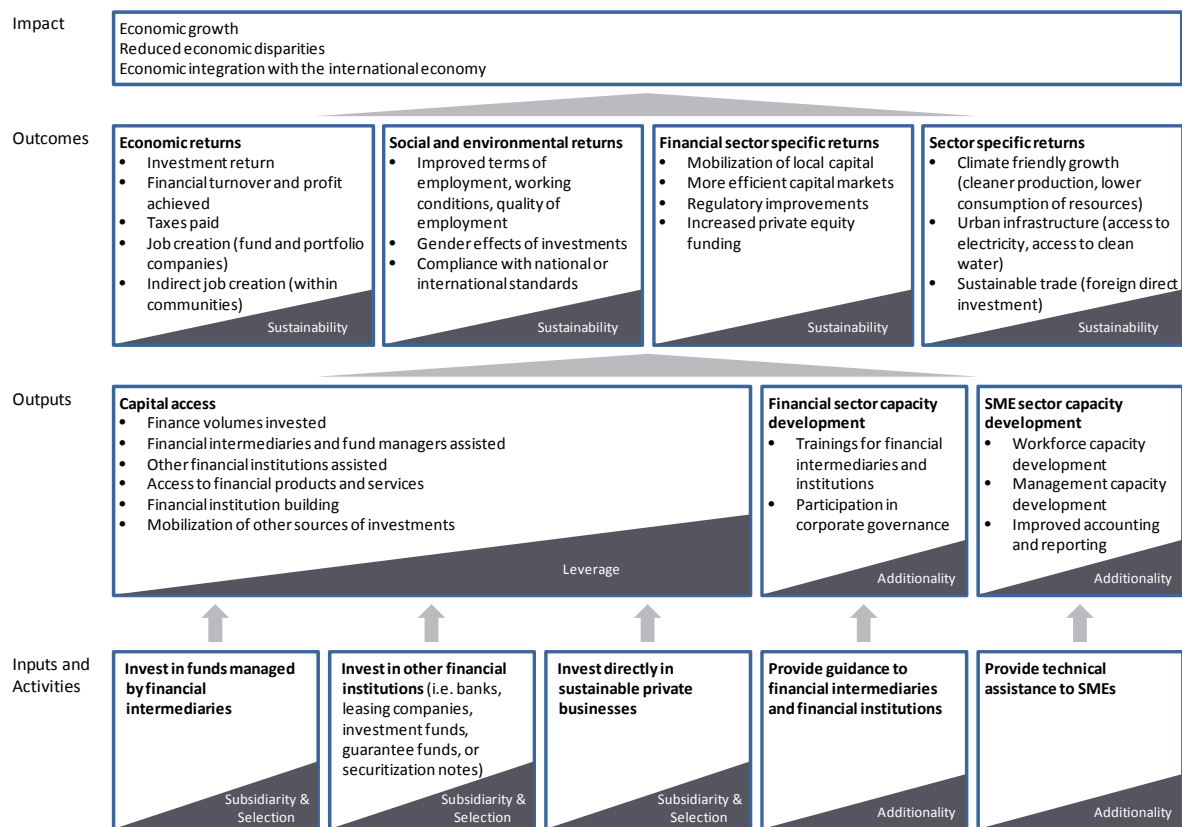
³ Per the Concept for Controlling and Supervision of SIFEM AG Version 1.0, dated August 17, 2011, the guiding principles are defined as follows:

- Subsidiarity - SIFEM shall provide financing that the market does not provide, or does not provide on an adequate scale or on reasonable terms.
- Additionality - SIFEM shall invest where it can bring more than financial additionality (closing a financial gap), for instance through the provision of technical assistance or expertise to financial intermediaries and clients.
- Leverage - SIFEM shall seek to maximize the flow of private investment to target countries and clients. It shall do this, wherever possible, by sharing the political and/or commercial risks, as well as the financial returns, with private investors.
- Sustainability - SIFEM's investments shall strictly adhere to the principles of financial, economic, social and environmental sustainability. Its investment policy shall include an exclusion list following international best practice (World Bank guidelines).

SIFEM refers to the guiding principles as both operational principles and guiding principles. For the purpose of this document, we will refer to them as guiding principles.

⁴ The guiding principles differ from the Operationalized Objectives. Guiding principles consist of approaches and values that SIFEM aims to achieve through its investments and non-financial support. Operationalized Objectives refer to the specific metrics and targets that are used to evaluate SIFEM performance, including adherence to the guiding principles.

Figure 1.1: SIFEM Development Effects Theory of Change



What is a Development Finance Institution?

Development Finance Institutions (DFIs) are government-controlled institutions that invest in sustainable private sector projects with the two-fold objective of spurring development in developing countries while remaining financially viable. DFIs' investments in the private sector are complementary to traditional overseas development assistance, which is typically focused on investments through the public and not-for-profit sectors. Investment in the private sector can be seen as a third pillar in international development policy, standing alongside:

- Aid-donations provided to public and civil society partners through bilateral and multilateral channels
- Development bank public sector lending and guarantees

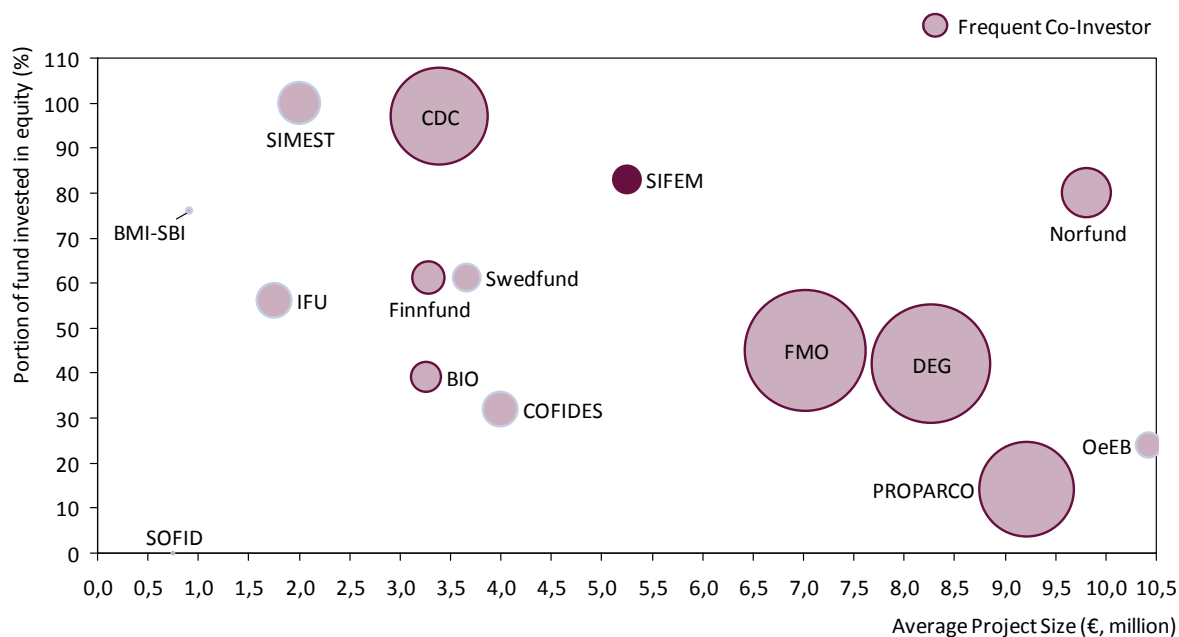
All three of these pillars are valid and important components of international development policy. They represent very different and highly complementary approaches to fighting poverty. All three recognize the role of private sector growth in ensuring sustainable development. However, DFIs are the channel that most directly delivers this strategy by providing private sector finance where it is most needed in developing countries. It will be very difficult to achieve international development goals without sustaining and scaling up these efforts. This is particularly the case in the context of the global financial crisis, which has had a negative impact on foreign investment in developing countries by creating downward pressure on public spending in donor countries, including the amount spent on overseas development assistance.

More information on DFIs and their role in international development policy can be found at <http://edfi.be/component/downloads/downloads/43.html>

1.3 SIFEM's position within the European DFI community

SIFEM is one of the smaller DFIs (ranked 11th out of 15 in 2011 in terms of total commitments) and differs from other DFIs by having more than 80% of its portfolio invested in equities compared to an overall average of approximately 50%. SIFEM's average deal size of approximately \$7 million and geographic distribution of its investments are typical for its peers.⁵ Since its recent ownership restructuring, SIFEM has joined the majority of European DFIs that are wholly owned, or more than 99% owned, by their national government. SIFEM collaborates closely with many European DFIs and co-invests most frequently with CDC, FMO, and Finnfund.

Figure 1.2: Landscape of European DFIs⁶



In interviews and site visits, fund managers consistently praised SIFEM for its practical and constructive approach. They were impressed by SIFEM's professionalism, engagement in fund operations, and recognition of the economic and financial context in which the fund managers operate. In particular, SIFEM stood out compared to other public and private investors as more responsive, more engaged, and more understanding of the operating environment.

Compared to its peers, SIFEM is a relatively young DFI and is still evolving. CDC (founded in 1948), DEG (1962), and FMO (1970) have longer histories and more established processes. The SIFEM organizational structure changed twice during the period of the evaluation. In 2005, SECO outsourced the management of its development investment portfolio to a team of emerging market finance specialists, which formed a new management company. In 2011, the ownership of the portfolio was transferred from SECO to SIFEM, which was established as the Swiss DFI. While the management team has been consistent through this period, the scope of activities, the financial constraints, and the operationalization of the SIFEM mission shifted as a result of these transitions.

In comparison to other DFIs, the relatively small size of the SIFEM portfolio, the relatively high percentage of investments in equity, and the evolving nature of the organizational structure are

⁵ As discussed below, differences in size, investment approach, and operating structures make defining a peer group difficult. In general terms, the evaluation uses European DFIs as the SIFEM peer group. More specifically, it considers the funds that co-invest the most frequently to be the closest peers, in particular IFC (19 co-investments), CDC (14 co-investments), FMO (13 co-investments), and Finnfund (13 co-investments).

⁶ The size of the bubbles represents the total portfolio size of the DFI. Source: EDFI 2011 Annual Report; Dalberg Analysis

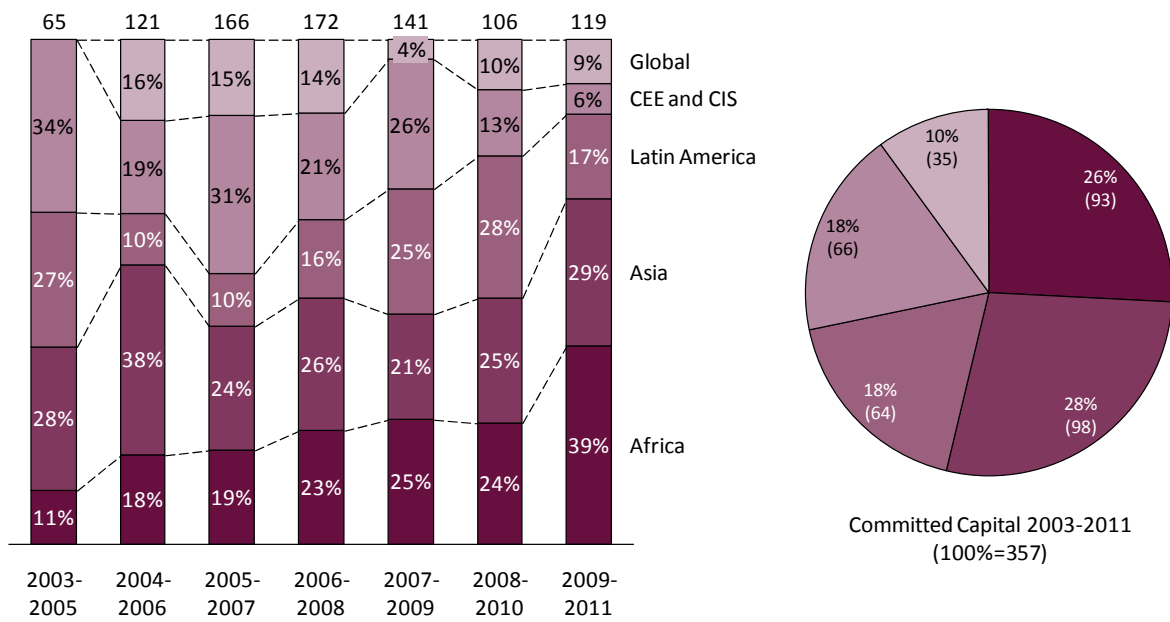
important factors, when considering the development effects of the SIFEM portfolio and making direct comparisons with other DFIs. For example, given the high percentage of its portfolio invested in equity we expected – and found – that SIFEM would leverage close relationships with fund managers in order to produce development effects. Likewise, its relatively small portfolio size enables SIFEM to be more responsive than its peers. However, these characteristics also make achieving development effects and maintaining financial sustainability more difficult. For example, given the smaller portfolio and similar average deal size, SIFEM’s portfolio is less diversified and it accepts a higher overall risk-profile than its peers. In addition to frequently co-investing with other DFIs, SIFEM pursues common objectives, such as the adherence to ESG standards by fund managers and portfolio companies. Overall, despite a common approach that achieves development impact by investing in private sector companies, these constraints inhibit the use of SIFEM’s peer DFIs as benchmarks.

1.4 Overview of SIFEM Investments

Between 2003 and 2011, SIFEM made commitments of \$357 million, of which \$225 million has been disbursed to private equity funds. Fully consistent with its mission to contribute to the economic growth of emerging markets and developing countries, the majority (54%) of SIFEM committed capital during the evaluation period is in Asia (28%) and Africa (26%). On a per-country basis, 64% of SIFEM disbursed capital has been invested into SIFEM priority countries. Within the priority countries, the largest amounts were invested in Vietnam (10%), Azerbaijan, Albania, South Africa and Peru (7% each), and Colombia (5%). China and India, two non-priority countries, account for 14% of disbursed capital (8% and 6% respectively). SIFEM has 57% of its capital in the smaller list of SECO priority countries.⁷

⁷ According to the Concept of Controlling and Supervision of SIFEM, which the SIFEM board took note of at its meeting of August 17, 2011, 100% of SIFEM direct investments and at least 60% of indirect investments are expected to take place in the following “priority countries”: Albania, Azerbaijan, Bosnia and Herzegovina, Georgia, Kyrgyz Republic, Macedonia, Serbia, Kosovo, Tajikistan, Ukraine, Uzbekistan, Armenia, Benin, Burkina Faso, Chad, Egypt, Ghana, Mali, Mozambique, Niger, South Africa, Tanzania, Tunisia, Bangladesh, Cambodia, Indonesia, Lao PDR, Nepal, Pakistan, Vietnam, Bolivia, Colombia, El Salvador, Honduras, Nicaragua, and Peru. As of May 2012, the shorter list of SECO priority countries are Ghana, Egypt, Tunisia, South Africa, Peru, Columbia, Indonesia, Vietnam, Albania, Bosnia-Herzegovina, Macedonia, Kosovo, Serbia, Kyrgyzstan, Tajikistan, Azerbaijan, and the Ukraine.

Figure 1.3: Regional allocation of committed capital, over time and for 2003-2011 (\$m)



Over three-quarters (78%) of the SIFEM portfolio consists of investments in four sectors: financial intermediation (40%), manufacturing (24%), transport, storage and communications (7%), and agriculture, fishing, hunting and forestry (7%).

2 Evaluation Based on Established Evaluation Criteria

SIFEM achieved very strong development effects based on the OECD DAC criteria, the targets established in the SIFEM Operationalized Objectives, and the GPR rating tool.

2.1 OECD DAC Criteria

The evaluation team assessed SIFEM performance based on the OECD Development Assistance Committee (DAC) evaluation criteria and aligned with a four-point scale provided by SECO.⁸ Consistent with these criteria, SIFEM offers a relevant, effective, efficient, and sustainable approach to achieving development outcomes.

2.1.1 Relevance

SIFEM provides capital and expertise, which are the primary needs of their investees. Likewise, the SIFEM strategic objectives of promoting sustainable private sector-led growth are relevant to the developing countries and transition economies where SIFEM invests. However, SIFEM investment criteria and operational guidance do not incorporate the mission objectives of reducing economic disparities, which prevented the relevance rating from being highly satisfactory.

Table 2.1: Assessment of OECD DAC Evaluation Criteria: Relevance

Relevance Criterion 1:	SIFEM investments address important development issues of the partner country and of concerned beneficiaries, such as investees and portfolio companies.
Rating:	Satisfactory
<p>SIFEM investments largely address key development issues of countries and beneficiaries by focusing on economic growth through private equity investments. In addition, investees repeatedly praised SIFEM as an active and valued partner.</p> <p>Private sector investment is strongly associated with economic growth. According to one major global survey by the World Bank, more than 70% of the world's poor believe that the best way to escape poverty is to get a job. According to EMPEA, "private equity (PE) is a critical source of financing for companies in emerging market economies, making possible positive development outcomes while simultaneously providing investors with the opportunity to achieve superior financial returns".</p> <p>By investing in private equity funds, SIFEM provides needed risk capital to spur private sector growth and employment creation. During the evaluation period, SIFEM provided \$269 million in committed capital to private equity funds and \$88 million in direct investments to financial institutions and other financial intermediaries. However, as discussed in Section 3.3.1 and Section 3.3.2, SIFEM focuses on economic growth, but does not explicitly incorporate aspect of its mission, such as reducing economic disparities, into its mission or investment criteria. Likewise, the effect of funding on development challenges such as education, health, or environment is mostly indirect. Only 4% of the SIFEM portfolio is invested in the health, social education and recreational sectors.</p>	

⁸ SECO uses a four-point scale of Highly Satisfactory, Satisfactory, Unsatisfactory, and Highly Unsatisfactory to evaluate programs.

Relevance Criterion 2:	SIFEM investments are aligned with national priorities and policies of partner country and partner institutions
Rating:	Highly Satisfactory

The evaluation only considered this criterion in the context of the three site visits. SIFEM largely aligned with national goals in Vietnam, Ghana, and South Africa. In Ghana, SIFEM provided consulting support to the Venture Capital Trust Fund, an initiative of the Government of Ghana to provide finance to small and medium enterprises (SMEs). In South Africa, the Industrial Development Corporation, the South African DFI, was a co-investor in one of the funds. In Vietnam, as part of World Trade Organization (WTO) accession, the government passed legislation to enable private equity activity.⁹

Relevance Criterion 3:	SIFEM investments are consistent with SECO priorities
Rating:	Satisfactory

While SIFEM meets or exceeds all of the development targets established in the Operationalized Objectives, the evaluation team did not find that the investment portfolio was fully consistent with SECO strategic priorities.

Appendix 1 of the Concept for Controlling and Supervision of SIFEM AG from August 2011, the Strategic objectives of the Federal Council for SIFEM for January 7, 2010 to December 31 2012 states that the Federal Council expects “SIFEM [to] become one of the pillars of the Federal Council's instruments to promote sustainable private sector-led growth in developing countries and transition economies, with a view to foster economic growth, reduce economic disparities and facilitate the economic integration of those countries in the international economy. [In addition], SIFEM shall assist the private sector in developing countries and transitional economies either by investing in financial intermediaries that provide long-term capital and know-how to local small and medium sized companies (SMEs) or by directly co-financing sustainable private businesses.”

Based on this mission statement, SIFEM supports economic growth, but the evaluation team did not find evidence that SIFEM intends or realizes effects on reducing economic disparities.¹⁰ None of the companies visited during the site visits had business models that intended to directly address economic disparities within the country or produce social or environmental returns.¹¹ In addition, while the evaluation found positive effects in terms of

⁹ The Investment Law, the Enterprise Law, the Securities Law along with Government Decree No. 139, which became effective in 2008, removed (subject to certain important limitations) in-principle restrictions on foreign ownership of Vietnamese private companies (http://www.duanemorris.com/articles/static/vietnam_inhousecomm_0210.pdf).

¹⁰ Sections 3.2 and 3.3 present the evaluation findings on how SIFEM investments contribute to economic growth, but had less effect on reducing economic disparities and supporting the economic integration of countries in the international economy.

¹¹ These objectives are different from the mission described in the SIFEM procedure manual. SIFEM meets or exceeds all of the objectives in its mandate described in the January 2012 Procedure Manual and is fully consistent with SECO priorities, strategies, defined roles and comparative advantage as expressed in the Operationalized Objectives. Consistent with the mandate described in the procedure manual, it:

SME sector capacity development, 46% of SIFEM disbursed capital is invested in companies with more than 300 employees at the time of investment.

2.1.2 Effectiveness

At the output level, SIFEM investments achieve all of the objectives specified in the theory of change: capital access, financial sector capacity development, and SME sector capacity development. At the outcome level, they achieve the majority of the objectives specified in the theory of change: economic returns, social and environmental returns, and financial sector specific returns. The evaluation team did not observe intentional sector specific returns, such as supporting clean energy and environmental sustainability or education.

Table 2.2: Assessment of OECD DAC Evaluation Criteria: Effectiveness

Effectiveness Criterion 1:	SIFEM investments achieve the development effects expressed at output level of the theory of change: Capital access, Financial sector capacity development, and SME sector capacity development
Rating:	Highly Satisfactory
<p>SIFEM investments support capital access in the following ways:</p> <ul style="list-style-type: none"> • SIFEM made \$357 million in commitments to 54 different investments. • SIFEM supported funds provided access to finance for 329 companies. • In addition to SIFEM investments, public and private co-investors provided approximately \$2.1 billion in funding to SIFEM private equity funds. <p>SIFEM investments support the financial sector capacity development in the following ways:</p> <ul style="list-style-type: none"> • SIFEM supports first-time fund managers. Nine funds out of 38 are first-time managers, receiving 21% of committed capital. Based on a broader definition of first-time teams that are supported by larger institutions, 19 of the 38 funds are first-time teams. • During our interviews, fund managers noted that SIFEM has played an active, professional, and critical role in their organizations. Several of the fund investees noted cases where SIFEM has, through their role on the advisory board, brokered deals that have kept the funds solvent. <p>SIFEM investments support SME sector capacity development in the following ways:</p> <ul style="list-style-type: none"> • 70% of the companies supported by SIFEM funds have fewer than 300 employees, although only 54% of the disbursed capital is received by small or medium sized enterprises. <p>100% of SIFEM fund managers provide some form of non-financial support. The most common types of support are guidance on governance and strategy, environmental and social standards monitoring systems implementation, improving accounting and reporting and general consulting.</p>	

- Contributes to the development of profitable and sustainable companies in Africa, Asia, Latin America and transition economies by making commercial risk capital investments directly in companies in the form of share capital (equity), loans and guarantees, as well as indirectly in risk capital and investment funds; and
- Contributes to the promotion of sustainable development and a sound environment in addition to good business ethics and working conditions in the portfolio companies.

Effectiveness Criterion 2:	SIFEM investments achieve development effects specified at the outcome level of the theory of change: Economic returns, Social and environmental returns, Financial sector specific returns, Sector specific returns
Rating:	Satisfactory
<p>SIFEM achieved the majority of outcome objectives identified at the outcome level of the theory of change.</p> <p>SIFEM investments produced economic returns:</p> <ul style="list-style-type: none"> • On a portfolio basis, the SIFEM investments contributed to the creation of 46,000 jobs (33,400 through investment in funds and 12,400 through investments in facilities) and supported 202,000 jobs. • Consistent with increasing valuations of the portfolio, the revenues of the portfolio companies of all three funds visited produced positive revenue growth since 2008. • Consistent with positive revenue growth and the findings at a portfolio level, the taxes paid by portfolio companies of all three funds visited increased between 6% and 24% on an average annual basis. <p>SIFEM investments produced social and environmental returns:</p> <ul style="list-style-type: none"> • 100% of funds reported compliance with ESG criteria within two years following investment • No ex-ante data was available to determine the quality of employment prior to investment. However, reviews of ESG reports during site visits show that SIFEM portfolio companies continue to improve the working conditions for their employees. • Consistent with an investment approach that focuses on broad-based economic growth rather than focusing specifically on women, we did not find evidence of significant gender effects at the funds visited during the site visits. <p>SIFEM investments produced limited financial sector specific returns:</p> <ul style="list-style-type: none"> • While all SIFEM investments expand financing to new regions, new sectors, or to SMEs within their country, based on GPR ex-ante assessments, SIFEM rarely focuses on either novel types of institution for the country or novel instruments or services. • We did not observe significant demonstration effects during the site visits in South Africa or Vietnam. However, in Ghana, where SIFEM investment was paired with policy intervention by the government, there was a more pronounced demonstration effect. <p>The evaluation team did not observe meaningful sector specific returns in terms of clean energy, education, health, or agribusiness. These objectives are not formal parts of SIFEM’s mandate.</p>	

2.1.3 Efficiency

The evaluation found that SIFEM was highly satisfactory for cost effectiveness because it achieved development effects while producing a financial return. In addition, it created 45 jobs for every \$1 million dollars invested, which exceeds the benchmark for excellent of a peer DFI of 10 jobs for every \$1 million dollars invested. In addition its business model and management approach were well aligned to achieve the intended results. However, the evaluation team found that the monitoring and evaluation tools were in place, but only partially used to steer or influence the investments.

Table 2.3: Assessment of OECD DAC Evaluation Criteria: Efficiency

Efficiency Criterion 1:	Investments are cost effective.
Rating:	Highly Satisfactory
<p>In addition to achieving the development effects described above, SIFEM produced a positive return during the period of the evaluation.</p> <p>Within the portfolio, SIFEM exceeds the benchmark of a peer DFI that 10 jobs per million dollars invested is considered excellent by averaging approximately 45 jobs per million dollars invested.</p>	
Efficiency Criterion 2:	The approach / mode of implementation is efficient for achieving the intended results
Rating:	Highly Satisfactory
<p>Investing in financial institutions and private equity funds is an optimal approach to achieve the development of the private sector in developing countries.</p> <p>Fund managers repeatedly praised SIFEM as an active and valued partner. During interviews and site visits, the evaluation team consistently heard appreciation for the role of SIFEM and its support as a Limited Partner in the fund. This recognition is notable given the relatively small size of SIFEM’s management team and limited resources.</p>	
Efficiency Criterion 3:	Fund management and steering mechanisms are in place and adequate for the efficient implementation of the activities
Rating:	Highly Satisfactory
<p>Based on interviews and site visits, SIFEM is an active and effective participant in fund governance. The management and steering of projects or programs ensures a highly efficient use of the resources.</p>	
Efficiency Criterion 4:	Monitoring system is designed (logframe) and effectively used for steering and reporting
Rating:	Satisfactory
<p>SIFEM relies on two tools to measure its performance: the Operationalized Objectives, which translate its mandate into quantifiable targets, and the GPR tool, which measures development effects on an ex-ante and ex-post basis every two years after investment. SIFEM uses these tools consistently to screen investments and to measure development effect.</p> <p>The Operationalized Objectives are useful for screening and selecting potential investments. The targets are less well suited, however, for measuring the operational performance and tracking development effects after the investment decision.</p> <p>In its current form, the GPR reports are effective screening components of the due diligence process. However the tool has limitations such as poor alignment with the SIFEM mission, only assessing the guiding principles on an ex-ante basis, and an inability to distinguish between compliance and proactive development effects.</p>	

2.1.4 Sustainability

The portfolio's positive financial returns suggest that the SIFEM investments will continue to be viable after SIFEM's divestment. SIFEM directly contributes to sustainability by being a responsible investor and by mandating that 100% of its funds and their portfolio companies abide by international ESG standards. SIFEM only exited two funds that were included in the evaluation.

Table 2.4: Assessment of OECD DAC Evaluation Criteria: Sustainability

Sustainability Criterion 1:	Results (outputs, outcomes, or benefits) will last beyond or continue after project's or program's closure
Rating:	Highly Satisfactory
<p>Given the high percentage of SIFEM's portfolio that is invested in equity investments and SIFEM's commitment to supporting local fund managers, it is very likely that outputs and outcomes will be maintained, last and further grow or develop following SIFEM investments.</p> <p>While the evaluation was not able to find evidence as to whether or not fund managers and companies that currently produce positive returns will continue to be financially sustainable in the future, the skills and expertise developed as a result of SIFEM's investments will be maintained. Furthermore, since SIFEM works predominantly with local fund managers – and, frequently, with local fund managers who have international experience before returning to their countries – it is likely that the skills and expertise will continue to be deployed within the country after SIFEM exits the investment.</p>	
Sustainability Criterion 2:	Local institutions/capacities have been strengthened to sustain results
Rating:	Highly Satisfactory
<p>SIFEM, alongside other DFI co-investors, has built strong capacities for fund managers. It is likely that local institutions will continue to operate and further grow.</p> <p>This support was provided primarily through informal guidance and advice and by participating in the fund operations as a Limited Partner. Technical assistance has had a much smaller effect, which is consistent with the relatively small size of disbursed funding. Between 2008 and 2011, SECO distributed CHF 1 million of technical assistance compared to \$153 million in commitments and \$65 million in disbursed capital for funds approved by the Investment Committee during the same time period.</p>	
Sustainability Criterion 3:	Financial sustainability has been achieved
Rating:	Highly Satisfactory
<p>The positive IRR of the SIFEM portfolio suggests that results can be replicated without further financial support.</p>	

2.2 SIFEM Operationalized Objectives

Based on the targets defined in the SIFEM Controlling and Supervision Concept, the 2003 to 2011 portfolio meets or exceeds all of the Operationalized Objectives established by the Federal

Administration.¹² It exceeds the target for positive overall development effect (sub-goal 1.1) with 90% of investments scoring good or better on the GPR assessment. Likewise, it exceeds the target for company-level job creation (sub-goal 1.2) with 75% of indirect investees witnessing identifiable job increases. It meets expectations for aggregate job creation (sub-goal 1.3), financial sector development (sub-goal 1.4), and positive social and environmental impact. It also exceeds the targets for all three sub-goals associated with the SIFEM guiding principles (sub-goals 3.1 through 3.3).

Table 2.5: Operationalized Objectives and targets for development impact

Sub Goal	Target	2003-2011 Portfolio Performance
Development Impact Objectives		
1.1 Positive overall development effect by internationally agreed standards	In ex-post measurements, 60% of SIFEM’s investments shall score “good” or better in the development monitoring system accepted as best practice among European Development Finance Institutions (EDFI).	<p>Exceeds Target – 90% of evaluated investments score good or better.</p> <p>Of the 53 investments in vintage years 2003-2011, nine investments did not undergo a GPR assessment and eleven investments have yet to reach the ex-post assessment stage.¹³ Each of the ten investments for which the two-year ex-post assessment is the latest has exceeded the threshold of a good project. Of the 23 investments for which a four-year ex-post assessment has been completed, 20 (87%) exceed the threshold of a good project.</p>
1.2 Company-level job creation	At least half of SIFEM’s indirect investees have witnessed job increases over the time of investment.	<p>Exceeds target – 75% of indirect investees witness job increases.</p> <p>211 investees of SIFEM investees have reported two or more years of employment numbers to SIFEM (reporting of jobs began in 2005). Of these 211 companies, 158 (75%) have seen job increases since the SIFEM fund made its investment. Additionally, 18 of 23 (78%) of the investments that have completed a four year ex-post assessment show an increase in jobs in portfolio companies over their two-year ex-post assessment.</p>

¹² The Operationalized Objectives were established in 2011 and represented the first time that SIFEM’s mandate was translated into specific metrics and targets. Given that they were instituted at the same time as the SIFEM institutionalization process, there was an explicit intent to ensure that they would not be burdensome for SIFEM and that they would be reviewed after 18 months.

¹³ The SIFEM GPR system for evaluating development impact is discussed in more detail in section 3.

Sub Goal	Target	2003-2011 Portfolio Performance
1.3 Aggregate job creation	On a three-year floating average, the aggregate number of jobs in all of SIFEM's indirect investees (excluding new investees added during the period) shall witness a net annual increase.	Meets target. The aggregate number of jobs in SIFEM indirect investees witnessed a net annual increase. The 55 indirect investments in the 2003-2011 portfolio that reported job numbers in both 2007 and 2010 showed a 26% (8% compound annual growth rate, CAGR) growth in employment over that time. The 140 indirect investments in the 2003-2011 portfolio that reported job numbers in both 2008 and 2010 showed 20% (10% CAGR) growth in employment over that time.
1.4 Financial sector development	Every SIFEM investment in some way contributes to diversifying the financial sector or credit allocation in target countries.	Meets target. All ex-post GPR reports completed show that the investee is either a novel institution, offers a novel type of instrument for their country or that they expand financing to new regions, new sectors, or to SMEs within their country.
1.5 Positive environmental and social impact of investments	All SIFEM investees have committed to implement SIFEM's environmental and social standards.	Meets target. All SIFEM fund investments that have completed an ex-post GPR assessment report on their latest assessment that they introduced environmental and social standards monitoring to investees
Compliance with Guiding Principles Objectives		
3.1 Investing in priority countries of the Swiss development cooperation	60% of SIFEM's commitments shall be directed toward priority countries of the Swiss development cooperation.	Exceeds target. 64% of all capital invested by SIFEM that can be tracked to a specific country has reached a SIFEM target country. ¹⁴

¹⁴ Because SIFEM often commits capital to funds with regional or global investment focuses it is not possible to calculate the percentage of commitments to SIFEM target countries. As such, for fund and facility investments we have looked at disbursed capital by the SIFEM investee into specific countries.

Sub Goal	Target	2003-2011 Portfolio Performance
3.2 Subsidiarity and Additionality	At least 80% of SIFEM's investments shall be expected to have "positive" or "very positive" effects both in terms of Subsidiarity and Additionality at the time of investment.	Exceeds target. 76% of SIFEM investments included an assessment of the guiding principles in their decision notes. Of these investments, 90% reported positive or very positive effects of additionality, and 95% reported positive or very positive effects of subsidiarity. ¹⁵
3.3 Mobilization of private capital for development	In at least half of the funds in which SIFEM invests, every dollar invested by SIFEM shall mobilize at least \$2 of private investments.	Exceeds target. 61% of the funds (23 of 38) in the 2003-2011 portfolio have seen \$2 or more in private commitments for every \$1 committed by SIFEM. On average, private investors invest \$3.15 for every \$1 invested by SIFEM.

2.3 DEG GPR Tool

In addition to the Operationalized Objectives SIFEM has used the Corporate Policy Rating (Geschäftspolitisches Projektrating or GPR) tool, which was developed by DEG, to assess their development effects since 2005. This section provides an overview of the GPR tool and presents the SIFEM scores for investments made between 2005 and 2011. SIFEM has implemented GPR Benchmark 2, which assesses the development effects and sustainability of the SIFEM investment and SIFEM's strategic role prior to investment and two and four years following investment.

With few exceptions, the SIFEM GPR scores show that the investments perform at the good or very good levels. These performance levels exceed SIFEM's Operationalized Objective to achieve "positive overall development effects by international standards".¹⁶ Overall 91% of the 33 investments that received GPR ex-post scores (either two or four years after commitment) scored higher than 80, the threshold for a good project.

Furthermore, SIFEM has achieved on average good scores consistently over time. While there is some variation from year to year, the average GPR score for the all SIFEM investments that have an ex-post GPR assessment is 99, or at the threshold of a good and very good project.¹⁷ This is notable because no SIFEM project receives points due to gender effect since gender is not an explicit goal of any SIFEM investment.

On average, GPR scores increase over the life of the investment. Across all classes of investments, the average GPR score four years after commitment is higher than after two years and the ex-ante

¹⁵ The actual scale used in decision notes is "very strong", "strong", "neutral", "weak", and "very weak". This analysis assumes that "very strong" corresponds to "very positive" and that "strong" corresponds to "positive".

¹⁶ According to the Concept for Controlling and Supervising SIFEM, dated August 17, 2011, the Operationalized Objective sub-goal of achieving development effects at an international level is: "In ex-post measurements, 60% of SIFEM's investments shall score "good" or better in the development monitoring system accepted as best practice among European Development Finance Institutions (EDFI)."

¹⁷ This number is based on using GPR scores after four years for investments from 2005-2007 and GPR scores after two years for commitments made in 2008 and 2009.

evaluation. Since the GPR is not weighted by the number of investments in an investments portfolio, this trend may reflect the time lag due necessary to identify attractive opportunities and to achieve development effects such as increased employment or profitability.

Based on the GPR scores, SIFEM produces strong development effects. This reflects SIFEM's selectivity – the average ex-ante score is already 88 – as well as effective management and growth over time once the fund begins operations and investments.

2.4 Assessment of Monitoring and Evaluation Tools and Metrics

SIFEM's strong performance against the Operationalized Objectives reflects both the organization's commitment to the investment guidelines and guiding principles as well as the modest targets established by the Swiss Federation. The Operationalized Objectives are useful for screening and selecting potential investments. The targets are less well suited, however, for measuring the operational performance and tracking development effects after the investment decision.

In its current form, the GPR reports are effective screening components of the due diligence process. However the tool has limitations such as poor alignment with the SIFEM mission, only assessing the guiding principles on an ex-ante basis, and an inability to distinguish between compliance and proactive development effects. As a result, the evaluation relies primarily on the individual questions that make up the GPR rather than the scoring system or final result.

3 Evaluation Based on the Theory of Change

The theory of change presents the linkages between SIFEM inputs, outputs and outcomes based on a capital value chain that examines the development effects at three levels: between SIFEM and their investees, between investees and their portfolio companies, and between the portfolio companies and broader society.

The theory of change was designed for the purposes of this evaluation. It was necessary to complement the existing tools to align the strategic documents covering mission, mandate, Operationalized Objectives, and guiding principles. By consolidating these different directives into a single picture to describe SIFEM mission, the theory of change articulates the beliefs and hypotheses that SIFEM uses to achieve development effects. In addition, by mapping existing metrics against the strategic objectives, and adding metrics on quality of investments such as leverage and subsidiarity, the theory of change offers a more comprehensive monitoring and evaluation structure. As such it can be used to measure performance against existing metrics as well as against metrics developed for the evaluation purposes, to assess progress against strategic mission and guiding principles.

3.1 Development Effects between SIFEM and Its Investees

Consistent with SIFEM's guiding principles, the evaluation asks three broad questions concerning the relationship between SIFEM and financial intermediaries:

- Does SIFEM provide capital that the market does not provide (subsidiarity)?
- Does SIFEM maximize private sector capital (leverage)?
- Does SIFEM provide expertise and guidance in addition to capital (additionality)?

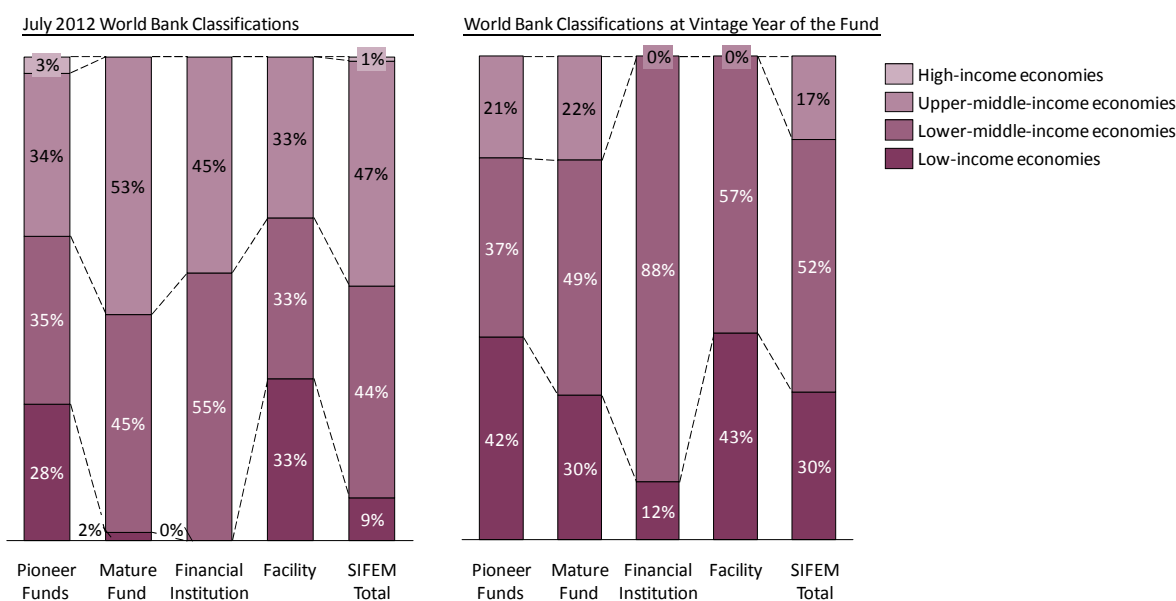
Subsidiarity

The overwhelming majority (90%) of SIFEM investments are in middle-income countries (44% in lower-middle-income countries and 47% in upper-middle-income countries). While the limited availability of detailed portfolio data from other DFIs makes comparisons difficult, publically available data shows that SIFEM's high allocation of resources in upper-middle-income countries differs for its peer DFIs.¹⁸ An important caveat of this finding, however, is that the categorization of countries has changed significantly over the past eleven years. Based on the World Bank classification of the country for the vintage year of the fund, 31% of the SIFEM portfolio was invested in low-income countries, 52% in lower-middle-income countries, and 17% in upper-middle-income countries. Of the eleven SIFEM priority countries where SIFEM has not invested, seven are low-income countries, which may reflect their recent inclusion in the list of priority countries, as well as the challenges of investing in low-income countries that have less developed financial sectors.^{19, 20}

¹⁸ FMO and Swedfund have higher portions of their portfolio committed to low-income economies (42% and 53% respectively). Finnfund has a similar portion of its investments in low-income countries, but is able to allocate more than twice as much to lower-middle-income countries (relative to the overall size of the portfolio). Investment selection reflects different priorities and organizational structures. While SIFEM could reallocate its portfolio to reach low-income and lower-middle-income countries if it made that a strategic priority, this change may require a different operating structure and, potentially, a higher allocation of the portfolio to direct investments.

¹⁹ This may reflect the decision to add Georgia, Uzbekistan, Armenia, Benin, Chad, Mali, Niger, Bangladesh, Cambodia, Indonesia, Lao PDR, Nepal, Pakistan, Colombia, El Salvador, Honduras, and Nicaragua as priority countries in 2009. Of the seven low-income priority countries where SIFEM has not yet invested, six became priority countries in 2009.

Figure 3.1: SIFEM portfolio allocation by country income classification and investment type



A second approach to assess subsidiarity is to examine the funding to individuals, who struggle to raise capital from the market, such as first-time fund managers or first-time teams. A relatively small portion of SIFEM commitments (nine funds out of 38 and 21% of committed capital) are to first-time fund managers. This reflects, in part, SIFEM’s approach to invest in first-time teams – as opposed to first-time managers – that are supported by larger institutions. Based on this broader definition, 19 of the 38 funds were first-time teams and accounted for 51% of the paid in capital. As a point of comparison, approximately 50% of IFC fund managers are first-time managers.²¹ Likewise, between 2004 and 2011, 43% of CDC funds were managed by first-time fund managers.²²

This geographic distribution and preference for more experienced fund managers is fully consistent with SIFEM’s mandate and may be appropriate given SIFEM’s size and preference for equity investments. By focusing on middle-income countries, SIFEM can sustainably contribute to financial development, facilitate the economic integration of these countries in the world economy, and reduce the dependency of middle-income countries on traditional international aid, while absorbing less risk. This investment approach, however, reduces the scope of development effects to countries that have already demonstrated economic growth and may be agnostic to reducing economic disparities. The high proportion of investments in middle-income (particularly upper-middle-income) countries and the re-categorization of countries based on income level suggests that SIFEM needs to continuously rebalance its portfolio if it aims to prioritize low-income countries for investment. This approach would respect the requirement to invest in priority countries and fulfill the expectations of the Federal Council that SIFEM promotes sustainable private sector-led growth in developing countries with a view of reducing economic disparities in addition to fostering economic growth and facilitating the economic integration of those countries in the international economy.²³

²⁰ For example, the SIFEM Investment Committee approved an investment in BPI Mozambique, but the deal did not materialize after 18 months of effort due to local regulation constraints.

²¹ http://www1.ifc.org/wps/wcm/connect/Industry_Ext_Content/IFC_External_Corporate_Site/Industries/Home/

²² CDC Group 2011 Annual Review. [http://www.cdcgroup.com/uploads/cdcannualreview2011\[0\].pdf](http://www.cdcgroup.com/uploads/cdcannualreview2011[0].pdf)

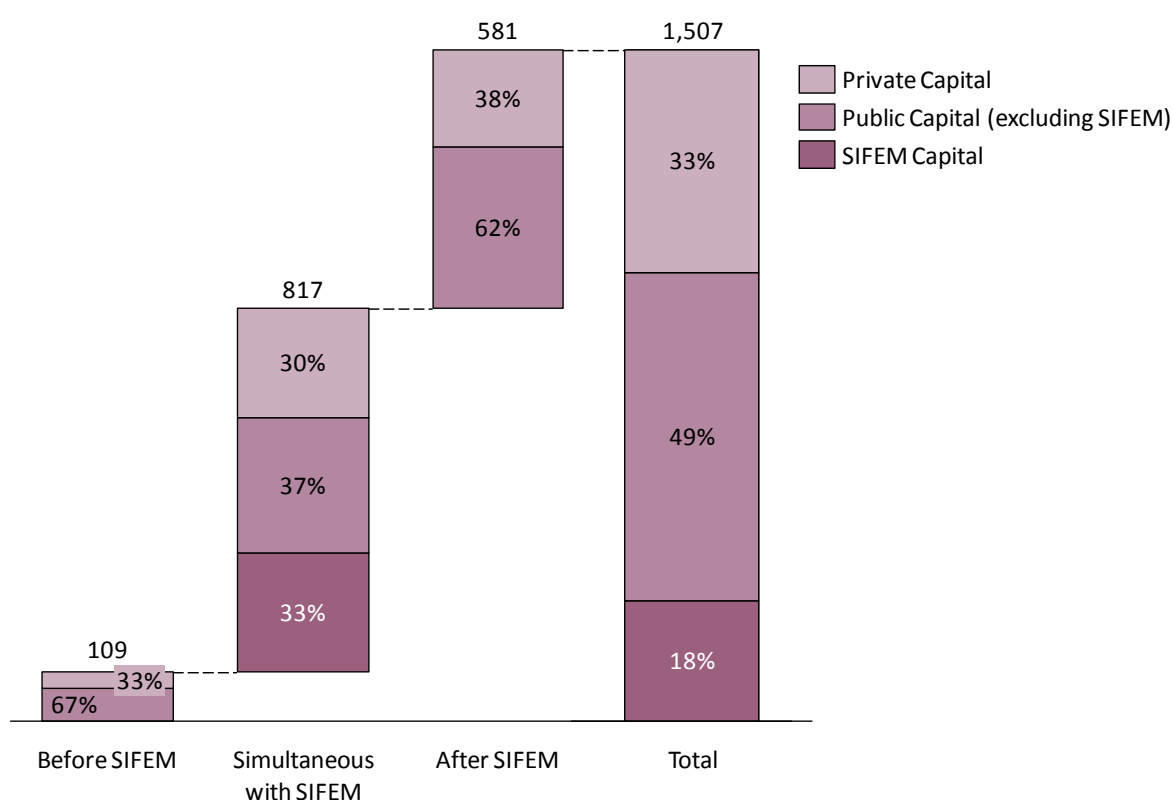
²³ As discussed below, this is not the only approach to meeting the expectations of the Federal Council. An alternative approach could be to maintain the amount of the portfolio that is allocated to middle-income

Leverage

Over four-fifths (82%) of SIFEM funds have private co-investors and 95% have public co-investors. Between 2003 and 2011, for every dollar that SIFEM invests, private sector investors invest \$3.15 and public sector investors invest \$4.74. This exceeds SIFEM's goal of having twice as much private capital committed as SIFEM capital. This is due, in part, to SIFEM's approach of co-investing alongside other public investors. The ratio of public capital to private capital (as opposed to only SIFEM capital to private capital) is significantly lower: for every dollar that public institutions (including SIFEM) invest, private sector actors invest \$0.55.

The timing of the investment offers a second perspective on SIFEM's role maximizing private investment. Of the \$1.5 billion that SIFEM and its co-investors have invested only \$109 million (7% of the total and 9% of the non-SIFEM capital) was committed prior to SIFEM. This suggests that SIFEM is an early investor that commits to fund managers when they are still struggling to raise capital.

Figure 3.2: Timing of SIFEM investments (\$m)



In addition, SIFEM leveraged private investment through the rABOP investment, an innovative joint product with responsAbility Social Services and Credit Suisse that SIFEM created in 2007 and has since won praise from the G20. This fund-of-funds vehicle, which frequently invests alongside SIFEM, leverages \$30 million of private sector capital (including \$25 million from Credit Swiss Asset Management) for \$4 million of SIFEM capital.

During interviews and site visits, fund managers praised SIFEM's role in helping to identify additional public investors to co-invest. However, there is less evidence of SIFEM's role attracting private sector capital. The ratio of public-to-private capital is constant before, concomitantly, and after SIFEM investments (2:1). This suggests that SIFEM plays an important role in helping fund

countries but invest with fund managers who have explicit development targets or have an investment thesis that focuses on inclusive business models.

managers raise money, but this commitment does not result in a disproportionate number of private investors investing following SIFEM's commitment compared to prior to SIFEM's commitment.

The goals of leverage – sharing risk and return with the private sector – and subsidiarity – supplying capital that the market does not provide – exist in tension. Going forward, SIFEM should consider how they will balance these goals and the relative advantages and disadvantages of co-investing primarily with other DFIs.

Additionality

Fund managers repeatedly praised SIFEM as an active and valued partner. During interviews and site visits, the evaluation team consistently heard appreciation for the role of SIFEM and its support as a Limited Partner in the fund. This recognition is notable given the relatively small size of SIFEM's management team and limited resources.

SIFEM is valued for its practical perspective and the role it plays building relationships and negotiating between private and public partners. During our interviews, fund managers noted that SIFEM has played an active, professional, and critical role in their organizations. Several of the fund investees noted cases where SIFEM has, through their role on the advisory board, brokered deals that have kept the funds solvent.

SIFEM, along with other DFIs, requires investees to adhere to strict guidelines with respect to financial accounting, and environmental social and governance (ESG) reporting. All funds that SIFEM committed to between 2005 and 2009 reported that they have introduced ESG standards into their portfolio companies. Given that SIFEM frequently co-invests with other DFIs, implementing these standards was made possible as a result of SIFEM's collaboration and coordination with other DFIs.

3.2 Development Effects between Investees and their Portfolio Companies

In examining the relationship between financial intermediaries and their portfolio companies, the evaluation asks three questions:

- How effective are funds at achieving SIFEM's objectives of investing in SMEs?
- How effective are funds at achieving development effects in addition to commercial returns?
- What is the effectiveness of SECO technical assistance?

Investments in SMEs by Fund Managers

SIFEM's mission is to invest in growth-oriented SMEs, Micro-Finance Institutions (MFIs), infrastructure projects, and financial institutions that meet the needs of SMEs.^{24, 25} Based on

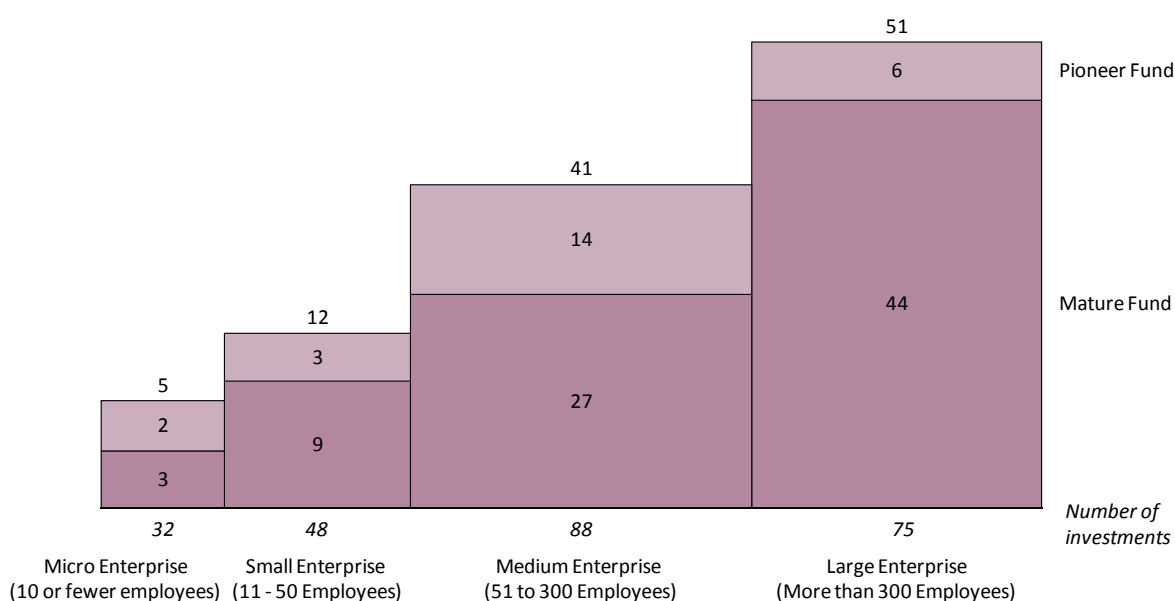
²⁴ The SIFEM Controlling and Supervision Concept Appendix I: Strategic objectives of the Federal Council (section 7, paragraph B) (August 2011) states: "SIFEM shall assist the private sector in developing countries and transitional economies either by investing in financial intermediaries that provide long-term capital and know-how to local small and medium sized companies (SMEs) or by directly co-financing sustainable private businesses." The SIFEM Procedure Manual Appendix I: Investment Guidelines (dated February 2, 2012), however, provide SIFEM with the authority to invest in businesses other than SMEs. It states: "SIFEM shall make investments...through funds or directly in growth oriented SMEs, Micro Finance institutions, infrastructure projects, in financial institutions and in funds managed by financial intermediaries and serving the needs of SMEs, in the target countries. Investments in larger companies through funds or directly from time to time are not excluded provided they are likely to contribute to reducing the overall risk in the portfolio and are meaningful from a developmental point of view."

²⁵ SIFEM does not define the term SME and different organizations and countries set their own guidelines for defining SMEs. For the purpose of this paper, we will use the criteria of having fewer than 300 employees at the time of investment. This is one of the most encompassing definitions and is consistent with the World

responses to GPR surveys, all SIFEM equity fund investments in Asia, Latin America, and CEE & CIS provide financing for small and medium enterprises (SMEs). Over four-fifths (83%) of funds in Africa offer SME financing.

While the number of funds offering financing to SMEs is notable, the amount of capital that is ultimately provided to SMEs is only a portion of the total amount invested by SIFEM. Almost one-third (31%) of the companies that reported the number of employees are large enterprises that have more than 300 employees at the time of investment. As would be expected given draw down patterns, large enterprises also receive a disproportionate amount of paid-in capital - nearly half (46%) of the SIFEM disbursed capital is invested in large enterprises. SIFEM investments in large companies produce development impact. Nevertheless, these percentages show that SIFEM constantly needs to rebalance its portfolio to remain compliant with the expectation that its investments focus on serving SMEs.

Figure 3.3: Disbursed capital and number of investments, by size of enterprise (\$m)



Investors that aim to produce social and financial returns invest in SMEs because they are more labor intensive, which should support job creation; they increase competition within a sector, which should increase output and customer outcomes; and, once financial and operational constraints are loosened, have greater potential to be productive. While economists recognize a correlation between growth of SMEs and broader economic development, there is limited evidence of causation.²⁶ Furthermore, as discussed below, within the SIFEM portfolio, large employers are more efficient drivers of job growth per dollar invested.

SIFEM should evaluate whether or not SMEs are the most effective channel to achieve their development objectives. While the investment guidelines allow SIFEM to invest in larger companies

Bank definition which defines an SME as a firm with fewer than 300 employees, less than \$15 million in assets, and less than \$15 million in revenue. As a point of comparison, Egypt defines SMEs as having more than 5 and fewer than 50 employees and Vietnam considers SMEs to have between 10 and 300 employees. The Inter-American Development Bank, meanwhile, describes SMEs as having a maximum of 100 employees and less than \$3 million in revenue. The European Union defines SME as ‘enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding 50 million euro, and/or an annual balance sheet total not exceeding 43 million euro.’ (Adapted from *Report on Support to SMEs in Developing Countries Through Financial Intermediaries*, Dalberg, November 2011)

²⁶ Benjamin Leo, “New SME Financial Access Initiatives: Private Foundations’ Path to Donor Partnerships”, Center for Global Development, May 2011.

“from time to time”, the investment approach for 2003-2011 resulted in the disbursement of a large percentage of capital to companies with more than 300 employees. This allocation of resources, while permitted by the SIFEM investment guidelines, is not reflected in the strategic objectives or mission statement expressed in the Controlling and Supervision concept.²⁷

Intended Social Impact of Financial Intermediaries

Unlike the focus on SMEs, SIFEM does not have an explicit mandate to seek out investment managers who strive to achieve a social impact in addition to financial returns. The expectation is that by investing in commercial funds SIFEM will contribute to economic growth, which in turn will filter through all levels of the economy. Consistent with this expectation, only two funds in the SIFEM portfolio are listed on ImpactBase, a leading database of impact investing funds.^{28, 29} Additionally, of the funds interviewed, all but two described themselves as commercially oriented and predominantly focused on financial returns. During evaluation site visits, none of the companies visited had business models that intended to directly address economic disparities within the country or produce social or environmental returns.³⁰

ImpactBase, which is primarily a tool to connect fund managers with potential investors, is an imperfect measure of impact orientation. To complement it, SIFEM provided an assessment of their perceptions of the degree to which the fund managers or the fund strategy are impact oriented or commercially oriented. SIFEM considers – and the evaluation confirms – that all of its investments are development oriented and offered the ratings to show gradations within the portfolio. Based on this classification, SIFEM committed approximately \$99 million (or 28% of commitments) to investments that have development effects and a predominantly commercially-focused strategy,

²⁷ The strategic objectives of the Federal Council, which were approved in March 2010, are valid from July 1, 2010 through December 31, 2012. As such, many of the investments were made prior to this mission statement being approved.

²⁸ Impact investing is a nascent trend of investing for positive social and environmental benefit and the term has since been adopted globally by a wide variety of investors, intermediaries and entrepreneurs. Using the broadest definition, impact investing is responsible investing in commercially viable companies that provides capital the market does not provide, catalyzes additional investment, or supports sustainable development. Using this definition, all of SIFEM’s investments qualify as impact investments. An emerging definition, however, focuses on the intent of the fund manager. JP Morgan and the Rockefeller Foundation define impact investing as “an investment designed with intent to generate positive social and/or environmental impact”. The definition also specifies that “the business into which the investment is made should be designed with intent to make a positive impact”, and goes on to summarize some of the ways in which businesses can deliver positive outcomes specifically to the base of the pyramid: through their methods of production, such as by providing quality jobs, facilitating local asset accumulation, purchasing inputs from local or smallholder providers, or promoting energy efficiency; and through the goods or services they make available to low-income consumers, such as affordable health care, clean water, education or access to energy”. JP Morgan and the Rockefeller Foundation (2010) ‘Impact Investments: An Emerging Asset Class’

²⁹ ImpactBase is a database of both impact-first and financial-first impact investment funds maintained by the Global Impact Investing Network (GIIN). Although ImpactBase does not reflect the entire universe of impact investment opportunities, the database now represents 191 funds and over \$11.6 billion in committed capital. GIIN leads a broader effort to create standards for benchmarking impact investing funds.

³⁰ Unlike the expectation that SIFEM investments contribute to a reduction in economic disparities, SIFEM does not have an explicit requirement to address social or environmental returns. Nevertheless, many of these trends are already occurring, in particular with regards to environmental sustainability. For example, though considered out of scope for the purpose of this evaluation, in 2012, SIFEM invested in Latin Renewable Infrastructure Fund (LRIF), which targets renewable energy generation projects in Latin America. In 2011, SIFEM invested in GEF Africa Sustainable Forestry Fund, which invests in timber and forestry-related assets in Sub-Saharan Africa.

and \$66 million (or 18% of total commitments) to investments that have development effects and a predominantly impact-focused strategy.³¹

This approach is fully consistent with SIFEM's mandate as expressed in the SIFEM Procedure Manual and investment guidance.³² Nevertheless, while the percentage of funds with predominantly commercial focus produce economic growth and compliance with ESG principles, they may inhibit or not contribute to the achievement of other development goals included in the SIFEM concept of operations such as reducing economic disparities or providing broader access to finance.

Technical Assistance to Portfolio Companies

In the current structure, SECO is responsible for approving and disbursing technical assistance funds once requested by fund managers in which SIFEM invests. In most cases SECO provides a portion of the technical assistance funding along with other investors and the fund manager. In 2008, SECO created a technical assistance fund to support private equity funds and financial institutions. The fund had a three-year mandate, funding of CHF 3 million, and the authority to provide grants up to CHF 250,000 to portfolio companies. As of December 31, 2011, the fund had disbursed approximately CHF 1 million to the portfolio companies of four funds.

Disbursing fewer resources than anticipated reflects low demand as well as the pre-screening process conducted by SIFEM, in accordance with the SECO Technical Assistance Manual. SECO has received five funding requests and approved four. The small percentage of technical assistance disbursed suggests, however, that SECO and SIFEM should collaborate to make this resource more easily accessible and to increase demand for technical assistance funding.

We did not find evidence that having the fund managed by SECO dissuaded fund managers from applying for assistance or reduced the efficiency of the fund. However, more closely positioning the administration of technical assistance funding to the investees – and explicitly targeting operational and management improvements needed for business success – could increase the use (and impact) of the funds. With appropriate decision-making rules to ensure the independence between grant

³¹ Based on SIFEM's assessment, 13 investments and \$66 million in commitments were perceived as having a predominantly impact-focused strategy; seven investments and \$54 in commitments were perceived as having mostly impact-focused strategy; 13 investments and \$90 million in commitments were perceived as having neither an impact nor a commercially dominant strategy; six investments and \$48 million were perceived as having a mostly commercially focused strategy; and 15 investments and \$99 million were perceived as having a predominantly commercially focused strategy. SIFEM determined the rating based on objectives elements (such as geography, sector, clients targets) as well as their perception of whether the fund manager gives importance to the impact it delivers on the ground, tries to measure it, or if it is part of the mission statement of the company. Notably, many of these investments were made at a time when the focus of the fund – and other leading impact investors – was on socially-responsible investments that promoted ESG compliance.

³² According to the SIFEM Procedure Manual, procedure manual, dated February 2nd, 2012, SIFEM's overall mandate is to:

- Contribute to the development of profitable and sustainable companies in Africa, Asia, Latin America and transitional economies by making commercial risk capital investments directly in companies in the form of share capital (equity), loans and guarantees, as well as indirectly in risk capital and investment funds; and
- Contribute to the promotion of sustainable development and a sound environment in addition to good business ethics and working conditions in the portfolio companies.

These objectives are different from the strategic objectives described in the Concept of Controlling and Supervision from August 2011, which focus on “fostering economic growth, reducing economic disparities and facilitating the economic integration of those countries in the international economy.”

and investing decisions, the SIFEM will ultimately be in the best position to diagnose technical assistance needs and assess if they are in line with the overall investment thesis.

3.3 Development Effects between Portfolio Companies and Broader Society

Finally, the evaluation considers the final stage of the capital value chain: the effects associated with a portfolio company's operations. In evaluating the development effects due to a company's contribution to broader society, the evaluation considers two questions:

- What are the effects on direct employment?
- What are the indirect effects on broader society (sustainability)?³³

Effects on Direct Employment

SIFEM has contributed to the creation of 46,000 jobs (33,400 through investment in funds and 12,400 through investments in facilities) and supported 202,000 jobs. This includes supporting 588 jobs from direct employment in funds and 4,647 jobs from direct employment in financial institutions. Based on an analysis that scales the number of jobs based on SIFEM's contribution to the total investment (as opposed to the contribution of all investors), three sectors created 73% of the jobs: wholesale and retail sales (27%), financial intermediation (25%), and electricity gas and water supply (21%) –. Notably, only 3% of SIFEM's capital is in wholesale and retail sales, while 23% is invested in financial intermediation, and 10% is invested in electricity, gas, and water supply. For all sectors, large enterprises with more than 300 employees at the time of investment were the largest drivers of jobs created and supported.

Between 2008 and 2010, the number of jobs at SIFEM portfolio companies grew at a faster rate than in the broader economy in which they operate for 12 out of 16 countries that reported three or more investments. Overall, job growth for this period was 9.7% for the SIFEM portfolio compared to 0.1% as a weighted average for the economies in which SIFEM invests.

In addition to the number of jobs created, we assessed how much capital SIFEM must invest to create a job. On average, when SIFEM invests \$61,000 for one year it will create one job. These investments generate a return so it would be inaccurate to compare them directly to grants. In addition to the jobs created and other development benefits SIFEM generates an average financial return of \$1,525 that can be reinvested in the portfolio.³⁴ Comparing the amount of SIFEM investment with the average GDP per employed individual provides a sense of efficiency by which the capital produces wages. Overall, the average GDP per employed individual is 5.9 times the SIFEM investment, suggesting that if the employer sustains the jobs it created for six years the amount invested has contributed more to the livelihoods of average workers through wages than had the money been handed directly to the worker through a grant.

Sustainability

SIFEM focuses on the development effects that accrue as a result of job creation, economic growth, and a more diversified financial sector in developing countries. While these are important objectives, the SIFEM guiding principle of sustainability also directs SIFEM to be a "triple bottom-

³³ Sustainability is a term that can have a broad range of meanings. For the purpose of this study, we use the definition embedded in the SIFEM guiding principle of sustainability: "SIFEM investments should adhere to the principles of financial, economic, social and environmental sustainability. Its investment policy shall include an exclusion list following international best practice (World Bank guidelines)".

³⁴ The \$61,000 per year figure takes into account both the amount invested as well as the tenor of the investment. Other DFIs do not use this approach and only consider the amount invested. Based on this alternative approach, an illustrative rule of thumb is that 10 jobs per million dollars invested is considered excellent. SIFEM exceeds this benchmark, averaging approximately 45 jobs per million dollars invested.

line” investor.³⁵ Based on GPR surveys, at least a third of funds in all regions except CEE & CIS provide financing for environmental purposes. Notably, far fewer funds focus on the empowerment of disadvantaged groups.

SIFEM directly contributes to sustainability by being a responsible investor and mandating that 100% of its funds and their portfolio companies abide by international ESG standards. Few of its investments specifically target improving employment and working conditions of women and while certain portfolio companies make positive contributions few of its investments directly focus on SECO priority sectors of clean energy, education, health, or agribusiness.³⁶ This preference for generalist funds may be appropriate given the size of SIFEM’s portfolio and its need to remain financially sustainable despite potentially limiting the development effects of its investments to indirect benefits.

³⁵ SIFEM understands “triple bottom-line investing” to refer to an expansion of the traditional accounting and reporting systems. Based on this definition, as stated below, all of the fund managers are compliant.

³⁶ SIFEM was not mandated to focus on these SECO priority sectors; however, in recent years the composition of the portfolio has shifted with a focus on funds that invest in clean tech/energy, education, and sustainable forestry. While many of these commitments were made after the evaluation period, they reflect a shift in approach for SIFEM. For example, in 2012, SIFEM invested in Latin Renewable Infrastructure Fund (LRIF), which targets renewable energy generation projects in Latin America. In 2011, SIFEM invested in GEF Africa Sustainable Forestry Fund, which invests in timber and forestry-related assets in Sub-Saharan Africa.

4 Lessons Learned and Recommendations

The opportunities, expectations, and challenges confronting investors that aim to achieve financial and social goals have changed significantly during the period the evaluation considered. As such, the recommendations contained in this document are forward-looking and focus on ways that SIFEM can have a greater impact in the future. They should not be interpreted as a criticism of past decisions, particularly since metrics and objectives have been developed since 2005 and the evaluation period started in 2003. Furthermore, the recommendations reflect, in part, trends that SIFEM has already undertaken, such as investing in environmental sector funds and participating in the DFI working group on harmonization.

4.1 Operational Lessons Learned and Recommendations

SIFEM relies on two tools to measure its performance: the Operationalized Objectives, which translate its mandate into quantifiable targets; and the GPR tool, which measures development effects on an ex-ante and ex-post basis every two years after investment. SIFEM uses these tools consistently to screen investments and to measure development effect.

The tools would benefit from being more consistent with strategic requirements, more ambitious, and more closely aligned to the systems of SIFEM co-investors. For example, we found that the GPR did not closely align to the SIFEM strategic objectives. Likewise, the target for aggregate job creation (sub-goal 1.3) is that the aggregate number of jobs in all of SIFEM's indirect investees (excluding new investees added during the period) represents a net annual increase. This target could be met by creating one job over the three-year period.

Based on these lessons learned, SIFEM should explore the following options to strengthen their monitoring and evaluation systems.

- **Align Federal Council expectations with objectives, investment guidelines, and guiding principles.** The Controlling and Supervision Concept of August 2011 defines the Federal Council's expectations for SIFEM with a view towards investing in SMEs, reducing economic growth, and facilitating integration with the international economy. The SIFEM Procedure Manual, however, states that SIFEM's overall mandate is to contribute to profitable and sustainable companies and the promotion of sustainable development. The investment guidelines, which were included as an Annex I to the Procedure Manual, state that SIFEM should invest in financial intermediaries that serve SMEs, but make exceptions for investments that "contribute to reducing the overall risk in the portfolio and are meaningful from a developmental point of view."

The evaluation identified a number of tensions within the SIFEM guidance. For example, it found that SMEs, while an explicit part of the SIFEM investment guidelines, required larger investments to create the same number of jobs. Since two of the SIFEM Operationalized Objectives use the number of jobs created as targets, it would be logical to increase the portion of the portfolio allocated to large firms. However, since in many developing countries jobs in large firms are limited and not easily available to the poor, this would likely reduce SIFEM's ability to make investments that aim to reduce economic disparities.

Likewise, there is a tension between the guiding principle to provide capital that the market does not provide and to share risks and returns with private investors. It is not clear when SIFEM should focus on providing additional capital and when SIFEM should be aiming to maximize the amount of private capital.

As part of the upcoming strategic review, SIFEM and SECO should review the policies and develop a theory of change that clearly links how SIFEM's capital and non-financial assistance will promote its government mandate.

- **Revise monitoring and evaluation systems to align with Federal Council expectations and the entire investment lifecycle.** When evaluating a potential investment, SIFEM assesses the alignment of the investment with the guiding principles as part of the investment committee review. This process could be strengthened by applying more rigorous criteria. For example, when assessing subsidiarity, the ex-ante evaluation system rates investments based on the assumption that long-term equity investments in local currency will always provide financing that the market does not provide. SIFEM monitoring and evaluation systems should consider the availability of alternative equity investments in the financial market where they are making the investment and incorporate this information within the ex-ante assessment of subsidiarity.³⁷ By incorporating macro-economic information into the evaluation tool, SIFEM could strengthen the ex-ante assessment of development effects and more strategically target investments.

In addition, SIFEM could strengthen the effectiveness of the ex-post monitoring and evaluation systems by considering a broader range of potential development outcomes and aligning the scores for different outcomes with SIFEM priorities. Currently SIFEM relies on bi-annual ex-post measurement through the GPR as part of its monitoring regime. However, this assessment tool has a number of weaknesses that prevent it from accurately capturing the full range of development outcomes such as awarding points based on binary “yes/no” responses.

SIFEM could strengthen the ex-post monitoring of development outcomes by allowing a broader range of responses, aligning the point allocation with SIFEM priorities, and incorporating characteristics such as length and amount of the investment into the assessment criteria.

- **Set more ambitious targets for Operationalized Objectives.** The targets associated with the Operationalized Objectives are better suited for ensuring that SIFEM meets the minimum requirement of the Federal Council’s mission rather than measuring development performance. The Operationalized Objectives would be more effective measures of performance if they aligned with the broader development goals of the Swiss government, promoted explicit social and environmental returns, and embedded ESG principles in operational decision making.
- **Reconsider the distinction between mature and pioneer funds.**³⁸ The evaluation did not identify a linkage between development effects and the categorization of funds as mature or pioneer funds. While there was a relationship between the categorization and financial returns, this did not have any influence on development. In addition, there is not necessarily a trade-off between financial return and development impact. The experience of other DFIs, including FMO, IFC, and DEG, show that there is a correlation between development effects and long-term financial performance. As such, SIFEM should consider changing the categorization to focus on more meaningful distinctions, such as explicit development targets or the risk level of the investment.
- **Improve data collection for development effects.** The GPR would be more effective if used more broadly and more deeply. “More broadly” refers to including additional Benchmarks -

³⁷ This information is currently reviewed as part of the investment committee discussion, but is not incorporated into the GPR ex-ante monitoring and evaluation tool.

³⁸ . SIFEM’s investment into private equity funds are divided into two categories of funds:

- **Pioneer investments.** These funds, which tend to have less experienced fund managers, often invest in more volatile and less sophisticated economies and bear a higher commercial risk. Per the investment guidelines, this higher risk should be balanced against specific development goals.
- **Mature investments.** These investments focus on management teams with a proven track record and the potential to produce higher annualized rates of return.

specifically using Benchmark 1, which collects data on the long-term profitability of the enterprises, and Benchmark 3, which measures the alignment with SIFEM strategic objectives on an ex-post basis. “More deeply” refers to collecting additional data such as the number of jobs created in addition to the total number of employees, to capturing a more nuanced response to yes/no questions, and to reconsidering the weighting of the assessment. This should be done in addition to the current binary approach in order to maintain consistency with other DFIs that use the GPR.

- **Work with co-investors to develop a harmonized impact monitoring system.** The Paris Declaration on Aid Effectiveness commits its signatories to harmonize their efforts and monitor results through a limited set of indicators. The harmonization of core private sector development indicators is a key component of this effort. SIFEM should remain engaged with other DFIs and continue to be an active participant in international working groups.

4.2 Strategic Lessons Learned and Recommendations

For the purpose of this evaluation, we define development in line with the expectations of the Federal Council as expressed in the SIFEM Concept for Controlling and Supervision – to foster economic growth, reduce economic disparities, and facilitate economic integration – and with the SIFEM guiding principles – subsidiarity, leverage, additionality, and sustainability. This definition was based on the explicit reference in the SECO Approach Paper that formed the terms of reference for this study, and reflected in the evaluation inception report that presented the study methodology.³⁹ In the evaluation, the three development goals and four guiding principles were considered equally important and we assumed that they reflect the current government mandate for SIFEM.⁴⁰

SIFEM has historically operated based on the assumption that investing in low- and middle-income countries will produce development effects. While SIFEM has achieved development effects as a result of this approach – in particular with regards to economic growth – we did not find evidence that this approach systematically supports all three strategic expectations. In addition, we did not find that reducing economic disparities or facilitating economic integration – unlike economic growth or financial sustainability – were systematically considered in investment decisions or assessed as part of established monitoring and evaluation tools.

The specific nature of SIFEM development goals is a political decision; however, if the expectations of the Federal Council remain the same, the evaluation suggests opportunities for SIFEM to pursue more direct development objectives in particular as they relate to reducing economic disparities. SIFEM’s peer DFIs and other impact investors are in the process of exploring similar opportunities and of adopting more proactive investment strategies that focus on specific goals such as increasing sustainability or creating jobs for the most vulnerable populations in addition to responsible investing.⁴¹

³⁹ The expectations of the Federal Council were referred to as the “overall goal” of SIFEM on page 1 of the SECO Approach Paper and page 2 of the inception report.

⁴⁰ The Concept for Controlling and Supervision was approved in August 2011, after all of the investments in the evaluation were already approved. As such, a lack of evidence to demonstrate positive effects for any of these goals should not reflect poorly on the past investment decisions of SIFEM. Nevertheless, they provide useful guides for the expectations of the Federal Council. As such, based on this definition of development, the evaluation focuses on the strengths and weaknesses of the current portfolio and hopes to provide a basis for a discussion of the SIFEM strategy and investment decisions in the future.

⁴¹ For example, FMO is currently developing its strategy for 2013-2016 to continue its mission, create development impact and empower entrepreneurs

<http://www.fmo.nl/l/nl/library/download/urn:uuid:299a9ddc-517f-412a-8596->

Furthermore, there is conflicting evidence to support the perception of a trade-off between achieving development returns and producing financial returns. For example, the average GPR scores after four years for investments with a positive return is virtually the same as investments with a negative return.⁴² Likewise DFIs with larger portions of their investments in low-income countries have comparable or higher financial returns. For example, FMO, which has a target of placing at least 35% of their portfolio in low-income countries, achieves an IRR of 18% in low-income countries.⁴³ Rather than presenting a trade-off, development and financial objectives may be correlated. Overall, FMO found correlation between development and financial outcomes for 77% of projects supported between 2004 and 2006.⁴⁴ Similarly, the IFC has found that financial performance tends to be closely correlated with development results.⁴⁵ While this achievement may be due to economies of scale, the use of off-balance sheet reporting for certain investments, and a more diverse set of instruments, the performance of other DFIs shows that it is possible to align private and social benefits.

Based on these lessons learned, SIFEM could explore ways to increase the potential of their development effects and reduce economic disparities. The following options are suggestions that SIFEM and SECO can consider in the future:⁴⁶

- **Target fund managers who focus on inclusive growth in addition to economic growth.** Consistent with its mission to “promote sustainable private sector-led growth in developing and transitional economies, with a view to fostering economic growth, reducing economic disparities, and facilitating economic integration”, SIFEM could focus on inclusive growth, beyond economic growth.⁴⁷ Two decades ago, 93% of the world’s poor lived in low-income countries. Today, 72% of the world’s poor live in middle-income countries.⁴⁸ In order to reduce economic disparities, SIFEM needs to be more proactive in identifying funds that strive to provide employment, deliver goods and services, purchase supplies, and participate in distribution networks that are targeted to poor people.

Inclusive Businesses (IBs) are profit-making companies that bring systemic impact in scale to the poor and vulnerable people under the \$3 international poverty line. These Inclusive Businesses are focused on making a reasonable profit (an IRR of 10-20%) while contributing to systemic impact on the lives of the poor. This can occur in a number of ways – specifically by including the poor as suppliers, consumers, employees, and distributors.⁴⁹ While the number of businesses that have attained that level of scale is currently low, providing equity and supporting fund managers – even fund managers that remain commercially oriented – who

[1cca503d037a/fmo+interim+report+2012.pdf](http://www.cdc.gov/global-research/strategy/1cca503d037a/fmo+interim+report+2012.pdf)). CDC has recently released a new strategy that contains a more explicit strategy to “support the building of businesses throughout Africa and South Asia, to create jobs and making a lasting difference to people’s lives in some of the world’s poorest places.”

(http://www.cdcgroup.com/uploads/cdcstrategypresentation_2012.pdf).

⁴² After four years the difference in GPR score between a fund with a positive return and a fund with a negative return is only four points out of a possible 140.

⁴³ <http://www.upsides.com/2012/05/21/new-wave-of-emerging-markets-on-the-rise>

⁴⁴ FMO Evaluation Report 2010-2011. http://www.fmo.nl/!nl/library/download/urn:uuid:5fb7b4aa-b651-4e85-9de4-981f9b531e24/evaluation+report+2011final.pdf?format=save_to_disk&ext=.pdf

⁴⁵ IFC Annual Portfolio Review: Development Results, 2011.

http://www1.ifc.org/wps/wcm/connect/100e28804a9567c8ace3fe9e0dc67fc6/web_APR2011.pdf

⁴⁶ The recommendations do not suggest ways to more directly increase integration with international economies given the size of the portfolio and the SIFEM priority countries.

⁴⁷ Adapted from the SIFEM Controlling and Supervision Concept, August 2011.

⁴⁸ Ravi Kanbur and Andy Sumner, *Poor Countries or Poor People? Development Assistance and the New Geography of Global Poverty*, February 2011. Poor people are defined as people living under \$1.25 per day (PPP).

⁴⁹ <http://www.adb.org/sites/default/files/ib-market-study-india-sri-lanka.pdf>

target inclusive businesses can support SIFEM's financial sustainability as well as increase its development effects.

- **Support fund managers who intend to produce development returns as well as financial returns.** SIFEM's approach of investing in funds rather than directly in companies is a natural consequence of its relatively small size and global mandate. However, by investing in commercial funds that focus predominantly on financial returns, SIFEM engenders a principal agent problem whereby some fund managers seek commercially viable opportunities with limited development impact. While investments in businesses that do not intend to have a development effect still support economic growth, the approach inhibits SIFEM's ability to address other development objectives.

Increasing the allocation of the portfolio to investments that intend to produce both development and financial returns is not a radical shift and would allow SIFEM to achieve greater development returns in areas such as renewable energies and improving urban infrastructure. It is also consistent with the current fund-of-fund approach. Investing in fund managers that seek development and financial returns should not come at the expense of maintaining SIFEM's financial sustainability nor should it constitute the entirety of the SIFEM portfolio. Many of these initiatives are already underway and SIFEM's reputation and expertise working with fund managers makes it well positioned to champion this approach within development finance in the future.

- **Explore models to increase demand for technical assistance.** Investments in SMEs in frontier markets involve disproportionately high transaction costs. Because of these transaction costs, technical assistance funds are widely considered to be essential for SME private equity models to work, particularly those focused on socially-oriented businesses.⁵⁰ In order to increase demands for technical assistance, SIFEM could consider establishing technical assistance funds directly tied to specific investments or a new pre-investment technical assistance fund where pre-selected fund managers could recommend grants for key firms in their pipeline that are just short of being "investment ready." DFIs, which are expected to be financially sustainable while still producing development effects, often rely on technical assistance to accelerate the growth of investments that need additional support to become profitable. Focussing on the world's poor as suppliers, consumers, employees, and distributors and investing in innovative business models and technologies have a higher risk profile. By incorporating technical assistance that is limited in duration and focused on specific objectives, SIFEM could undertake investments that reduce economic disparities while remaining financially sustainable.

⁵⁰ See, for example, Mebarek, Aziz. 2011, "Private equity and TA, a winning combination for SMEs," available at Proparco.fr; also supported by prior Dalberg research on fund managers and members of the Aspen Network of Development Entrepreneurs (ANDE).

Annex 1: SIFEM Evaluation Approach Paper

The following approach paper was developed by SECO to describe the process and expectations of the SIFEM evaluation.



Independent Evaluation

Development Effects of SIFEM's investment interventions

APPROACH PAPER

November 2011

Reference: 2011-11-11/460-lei

- 1) Background on SIFEM
- 2) Purpose of the evaluation
- 3) Objectives and focus of the evaluation
- 4) Indicative evaluative questions
- 5) Deliverables
- 6) Methodology and process
- 7) Evaluation team
- 8) Reference materials

1. Background on SIFEM

1.1. Overall objective

The Swiss Investment Fund for Emerging Markets (SIFEM) is the Swiss Development Finance Institution (DFI). SIFEM's overall goal is to contribute to the long-term economic growth of emerging markets and development countries, reduce economic disparities and facilitate the economic integration of those countries into the world economy.

By way of assisting and strengthening local financial intermediaries (banks, fund managing companies or micro finance institutions), SIFEM contributes to the mobilization of local investment capital, financial institution-building and financial sector diversification.

The financial intermediaries on-lend the investment capital to investee companies (SMEs), which is often combined with technical assistance and capacity development, enabling the latter to sustainably grow thanks to the combination of financial investment and enhanced entrepreneurship.

It is the objective of SIFEM to earn a minimum commercial return and at the same time to reach development effects, such as job creation, enhanced entrepreneurship or deepened and strengthened local financial sectors.

1.2. Investment policy, operational objectives and guiding principles

SIFEM focuses on developing and transition economies. It may only invest in countries whose GNI per capita is below the World Bank's IBRD graduation threshold (adapted regularly, USD 6,725 per capita as of 2011). SIFEM invests on a medium to long term time horizon; its interventions have to show a significant potential for development effects and be in compliance with SIFEM's environmental, social and governance (ESG) standards⁵¹.

SIFEM is bound by and accountable to a set of Operational Objectives (see Annex 1).

Furthermore, SIFEM's investments are based on the following guiding principles:

Leverage: Share the financial returns and the political and commercial risks with private investors, thereby maximizing private investment flows to target countries.

Subsidiarity: Target companies with no access to capital markets at reasonable terms.

Additionality: Enhance investment performance through active provision of management expertise to portfolio (investee) companies, implementing appropriate management practices, and improving accounting, corporate governance, reporting, quality control, marketing and business strategy.

Sustainability: Adhere to social and environmental sustainability principles.

1.3. Portfolio composition; investment focus, countries covered and instruments applied

As of 30.06.2010, SIFEM's investment portfolio had commitments in excess of USD 450 million, and covered more than 30 countries in Africa, Asia, Eastern and South Eastern Europe and Latin America. According to SIFEM's investment guidelines, 60% of the annual investment volume are to be spent in priority countries of the State Secretariat of Economic Affairs (SECO)⁵². SIFEM's investment focus are commercially viable small and medium enterprises (SMEs). Until 2009, more than 360 SMEs in a variety of sectors have benefited from SIFEM investments.

SIFEM predominantly invests through private equity funds (77%), followed by 15% non-fund and direct investments. Micro finance funds, mezzanine funds and infrastructure funds play a marginal role in relation to the overall portfolio.

⁵¹ The ESG standards were initially defined by the World Bank and are used by most DFIs.

⁵² Since 2009 the priority countries of the Swiss Development Cooperation (SDC) are as well included in this guideline for allocation of financial means.

1.4. Institutional setting

With its seat in Bern, SIFEM AG was founded in 2005 as a privately maintained stock company in order to manage the investment portfolio for SECO within the framework of a provisional arrangement. Between 2005 and 2010 SECO has allocated around CHF 170 million to SIFEM. In 2011, SIFEM has been transferred into the full proprietorship of the Swiss Confederation, and the entire investment portfolio of SECO is being assigned to this stock company.

The management of SIFEM is outsourced to Obviam⁵³, a private firm which has specialized in performing investment advisory services for private equity investments in developing and transition countries.

SIFEM's strategic controlling and governance is complex and regulated in detail; the most important cornerstones being the following:

- the strategic objectives of SIFEM are fixed by the Federal Council of Switzerland, who represents the shareholding interests of the Swiss Government;
- the responsibility for strategic controlling rests with SECO which has defined detailed objectives for SIFEM with regard to development impact, financial sustainability, compliance with operational principles and institution building (Annex 1). Those institutional objectives are binding, but have been fixed only recently, while before 2011 SIFEM's objectives were less explicitly defined;
- SIFEM's board of directors is responsible for corporate management. It assumes responsibility for all the activities of SIFEM with regard to the Swiss Confederation as the owner of SIFEM. As such, the board takes investment decisions, implements the strategic and operational objectives of SIFEM and mandates and oversees the portfolio manager, Obviam (as far as the management of SIFEM's portfolio is concerned). SECO is for a transitional period⁵⁴ a member of the SIFEM board;
- the Swiss Federal Audit Office holds the full audit rights; an annually commissioned audit is carried out by an external audit firm;
- the investment committee (a sub-group of the board) takes investment decisions based on proposals submitted by Obviam. SECO is an observer in the investment committee of SIFEM.

1.5. Development effect tracking

Since 2006 SIFEM applies the GPR Tool⁵⁵ for the measurement of development effects. The tool is used throughout the investment process. The first step defines the expected development effects of an investment ex-ante and fixes a benchmark. The following eight indicators are used to fix the benchmark: 1. employment, 2. gender, 3. training, 4. mobilization of local capital, 5. diversification of the financial sector, 6. diversification of credits, 7. creation and strengthening of financial intermediaries and 8. development of companies. The development effects are tracked post-investment every second year and

⁵³ The term 'Obviam' is used in this document to refer to the Obviam Holding AG as well as its affiliates.

⁵⁴ After the transitional period it will be decided whether the Swiss Confederation shall for corporate governance reasons abstain from being a board member.

⁵⁵ GPR means „Geschäftspolitisches Rating“ and the tool has been developed by the German DFI DEG in 2001, since then further developed and regularly reviewed.

compared to the benchmark. Results are then aggregated and presented in a report. Those post-investment measurements continue until the fund is fully committed or for financial institutions until the maturity date of the credit has been reached.

2. Purpose of the evaluation

The Swiss Federal Audit Office, auditing SECO's activities, as well as the External Evaluation Committee of SECO, selecting the topics for independent evaluations, have both asked for an evaluation of SIFEM's development effects.

SECO which is in charge of the strategic controlling of SIFEM figures in this function as the contractor of this independent evaluation.

The independent evaluation of SIFEM's interventions serves the following purposes:

- *Accountability*: To assess the development effects of SIFEM's interventions and to inform interested stakeholders on achieved results. Investments by SIFEM on behalf of SECO are considered as Official Development Assistance (ODA) and SECO is, therefore, accountable to parliament and the general public for the effective and efficient use of these public funds.
- *Improvement of interventions*: To learn from past experiences in order to continuously improve SIFEM's strategies, instruments and interventions so as to strengthen SIFEM's development results.

3. Objectives and focus of the evaluation

3.1. Objectives

The main objective of this independent evaluation is to review the achievements of past and current interventions in terms of development effects. SIFEM's operational objectives (see Annex 1) will be taken as reference, but cannot be regarded as binding for this evaluation, as they have been defined only recently. The operational objectives have evolved over time since the institutionalization of SIFEM, therefore there is no clearly fixed benchmark that can serve for all interventions undertaken by SIFEM over the course of time.

The evaluation shall provide findings, conclusions and recommendations at the following four levels:

Investee level:

Review SIFEM's development effect in terms of

- *employment effects*;
- *financial effects*;
- *institutional effects*;
- *environmental effects*;
- *social effects*;
- *governance effects*;

- *if relevant specific technical assistance effects.*

Investment-Portfolio level:

Review the instruments applied by SIFEM with regard to

- *relevance to the needs of investees;*
- *design additionality;*
- *demonstration effects;*
- *adequacy in terms of enhancing development effects;*
- *development effects of equity capital versus credit lines to financial institutions;*
- *relevance for SECO's mandate (economic development cooperation).*

Review the portfolio-composition by way of analysing

- *the relation between high financial returns and high development potential;*
- *risk diversification.*

Financial sector level:

Review achievements in terms of

- *strengthening of financial intermediaries;*
- *mobilization of private local and private and public international investment capital (and conditions);*
- *diversification of the local financial sector.*

3.2. Focus and scope

The independent evaluation of SIFEM shall focus on the development effects of SIFEM's interventions, without losing sight of the expected financial sustainability of SIFEM.

The evaluation shall assess SIFEM's investment portfolio as a whole and generate findings for the evaluation objectives described above for the period 2003 – 2011 (see Annex 2 for list of SIFEM investments).

Apart from a general assessment of SIFEM's portfolio, the consultants shall undertake an in-depth assessment of a number of selected interventions between 2003 – 2009⁵⁶, in two geographical regions, tentatively identified as sub-Saharan Africa and Asia/Mekong, or Maghreb regions on the basis of field missions. The final selection of the case study regions as well as the investments to be looked at, will be proposed by the consultants and agreed at the time of the inception report. Interventions being representative of SIFEM's investment portfolio and the availability of reliable data will be important selection-criteria.

4. Indicative evaluation questions

⁵⁶ This timeframe allows for an analysis of sufficiently advanced interventions.

The independent evaluation shall apply a result-oriented approach, *focusing on outcomes* and if possible impact and less on outputs, which are usually well-known. The following questions are in line with the DAC evaluation criteria, taking into account relevant aspects from a development perspective.

4.1 Relevance

- Are SIFEM interventions addressing the needs of the investees?
- Based on which criteria does SIFEM select fund managing companies?
- Are the selected fund managing companies well positioned to contribute to the envisaged development objectives of SIFEM?
- How and to what extent does SIFEM use its steering power being a board member of an investment fund to enhance the development effect of the fund?
- How does SIFEM determine developmental potential?
- Are SIFEM's interventions complementary to what other DFIs and/or the private sector offer?
- What is the comparative advantage of SIFEM in its interventions?
- Is there demand for other instruments/approaches than what SIFEM is offering?
- Are SIFEM's strategic objectives relevant?

4.2 Effectiveness

In terms of outputs (not regarded a priority of this evaluation):

What have been the levels of achievements of SIFEM's portfolio with regard to

- Finance volumes invested
- Banks assisted
- Fund managing companies assisted
- Trainings facilitated for investees / financial intermediaries / fund managing teams

In terms of outcomes:

To what extent SIFEM's interventions contributed to:

Investee level:

Employment effects:

- Sustained existing jobs
- Direct and indirect job-creation
- Improved terms of employment, working conditions, quality of employment

- Gender effects of investments
- Capacity development, management development
- Technical Assistance effects where relevant

Economic effects:

- Improved accounting and reporting
- Financial profit made
- Financial turnover achieved
- Taxes paid
- Mobilisation of other sources of investments

Institutional effects:

- Improved management capacities
- Improved corporate governance
- Improved strategic guidance

Environmental effects:

- Cleaner production
- Lower consumption of resources
- Compliance with national or international standards

Investment-Portfolio level:

Demonstration effects

Financial sector level:

Diversification of local financial sector:

- Access to financial products and services
- Financial institution building

In terms of impact:

Being aware that the evaluation won't be able to come to firm conclusions on the level of impact, it shall rather give indicative information on the following areas:

- Mobilization of local and international investment capital
- Capital market development

4.3 Efficiency:

What are the factors – in terms of efficiency – that have influenced the results at output, outcome and impact levels:

- Are SIFEM's guiding principles (see 1.2) respected, adequately monitored and do they contribute to the achievement of a development effect?
- How does the applied development measurement tool (GPR) define development effect? Are the applied indicators adequate and sufficiently representative to measure the development effect? How does SIFEM monitor the collection of data and verify the information? Is the measurement tool suitable to reach its aim? How does the collected data influence the strategic planning of SIFEM?
- How does SIFEM assure appropriate implementation of the environmental, social and governance standards (ESG)? How is it monitored?
- Are there other than financial criteria that are guiding for the exit of an investment (i.e. development effect criteria)?

4.4 Sustainability:

These questions can only be analysed for the two case study regions and even there it might be difficult to get to the required data.

- Are investees 3 years after divestment still operating?
- How many people do investees employ 3 years after divestment compared with the time of investment?
- What else can be observed in terms of development effect?

4.5 Additional questions:

- To what extent are there synergies between SIFEM's investment activities and SECO (providing macroeconomic support and private sector development support)? Are there mechanisms in place to make best use of potential synergies?
- Does SIFEM make appropriate use of the existing TA-line⁵⁷ for the explicit support to SIFEM investments? And what are the effects of this TA-line?
- Is the risk management (strategy and tools) suitable to reach the development objectives of SIFEM?
- How is SIFEM's work influenced by external factors (such as for example country legal and regulatory framework, public sector capacity, world economic development)?

⁵⁷ SECO holds a TA-credit line, which is open for SIFEM/Obviam project proposals of tailor-made TA support to investees

- Considering the recent financial economic crisis, what were its impacts on SIFEM's investment decisions and how SIFEM's interventions reflect its role of subsidiarity and additionality?
- Is there a need for a redefinition of SIFEM's strategic objectives?

The list is not exhaustive and additional relevant questions shall be identified by the evaluators and mutually agreed upon at the time of discussion of the inception report. Based on findings and conclusions, the evaluation shall formulate recommendations to SECO on how to optimise the development effect of interventions.

5. Deliverables

The evaluation team should provide the following documents in the course of the assignment and according to an agreed time schedule:

- i) an evaluation work plan at the beginning of the assignment
- ii) an inception report including:
 - a) a systematic *overview of how to approach the objectives* as defined in this approach paper, in particular in terms of identification of key evaluative questions, in order to get results on output, outcome and if possible impact level, especially providing suitable indicators on each level, that will serve to get concrete results. Provide an analysis of risks and constraints for each level of objectives;
 - b) as there is no set of operational objectives valid as references for all interventions undertaken by SIFEM over time, a recommendation on how to handle this moving target will be formulated in the inception report;
 - c) the methodology and data (including information on data availability and reliability, as well as confidentiality issues) which is planned to be used;
 - d) the selection of the portfolio to be reviewed, incl. the selected regions to be deeper assessed during field missions;
 - e) a review of other DFIs strategic approaches on how to assure an optimal development effect through investment interventions and how to measure it.
- iii) at the end of the assignment:
 - a) a *technical evaluation report* containing detailed findings, conclusions and recommendations, not exceeding 40-50 pages (plus annexes), as well as for each case study region, a case study report, not exceeding 15-25 pages,
 - b) a *shorter public report*, not exceeding 20 pages, including an executive summary, findings (presented in a way that respects the confidentiality of the involved banking and business data), generalized conclusions and recommendations being relevant for a broader public.

The reports shall be written in English. The shorter report will be published on SECO's website.

6. Methodology and process

6.1. Methodology

For the inception report, the evaluation will review the relevant internal documents / reports / reviews, conduct interviews at SECO/WE headquarter and SIFEM/Obviam as well as with SIFEM board-members and telephone interviews with fund managing companies, as well as with selected experts.

For each of the field-studies, which shall provide detailed qualitative and quantitative analysis and should go beyond inputs and outputs, the evaluation team will undertake interviews with local partners, bankers, fund managing companies and investment clients, other donors and DFIs.

A *Steering Group* will be established, comprising of SECO representatives (from the Quality and Resources Division Iren Leibundgut as well as from the Division of Private Sector Development Thomas Knecht), a representative from Obviam, Claude Barras, Chief Executive Officer and/or Andrea Heinzer, Investment Manager and two external specialists (consultation in this regard is still ongoing). The main tasks of the Steering Group will be to accompany and monitor the whole process as well as to provide consultation on the different deliverables. The Steering Group will ensure the quality of the process, by securing that consultants have access to all necessary information and that feedback on key deliverables of the evaluation is consolidated among several actors.

The board of directors of SIFEM will be informed on this approach paper once it is finalized. A discussion and information session with/to the board is foreseen at the moment of the inception report as well as once the final evaluation report is available.

Once the evaluation team is selected, an exchange (meeting or phone conference) will be organized between the evaluation team and the Steering Group, assuring a *common understanding on objectives, scope, focus and process of the evaluation*.

Once the draft inception report is available, a meeting will be organized between the evaluation team and the Steering Group, to have an in-depth *discussion on the methodology* suggested by the evaluation team, as well as on the questions to be answered by the evaluation. The case study regions as well as the sample of investments to be looked at will be definitely selected during this meeting.

A *synthesis workshop*, based on main conclusions and recommendations will present the draft evaluation report for feedback and validation to SIFEM/Obviam and SECO.

6.2. Process

The main steps of the evaluation are *tentatively* depicted as follow:

Activity	Tentative deadline	Responsibility
Draft Approach Paper	December 8 th , 2011	Evaluation officer + SIFEM/Obviam, WEMG, WEIF and Evaluation Committee
Final Approach Paper	January 2012	Evaluation officer

Call for offers	February 2012	Evaluation officer in consultation with WEIF
Selection of consultants	April 2012	Evaluation officer in consultation with WEIF
Contract with evaluation team	End of April 2012	Evaluation officer
Discussion and clarifications on the Approach Paper with the evaluation Team	May 2012	Evaluation officer + Consultants + Steering Group
Drafting of the Evaluation Work Plan and preliminary desk review	May 2012	Consultants and Evaluation officer
Submission of the Inception Report and discussion with SECO/WE	June 2012	Consultants + Evaluation officer + Steering Group + SIFEM
Desk review and Missions	July –September 2012	Consultants
Draft Evaluation Report and discussion with SECO and partners	September/October 2012	Consultants + Evaluation officer + Steering Group + SIFEM
Synthesis Workshop	November 2012	Consultants + Evaluation officer + Steering Group + SIFEM
Final Evaluation Report	November 2012	Consultants
Management Response	December 2012	WEIF + WEMG
Presentation of the Evaluation Conclusions and Recommendations to SECO/WE Independent Evaluation Committee	March 2013	Evaluation officer
Publication	March 2013	Evaluation officer

6.3. Organisational arrangements

For any interaction on the conduct, scope, organisation, logistic and reporting, the evaluation team will interact with the SECO/WE Evaluation Officer, Mrs. Iren Leibundgut.

To access general information with regard to SIFEM, the evaluation team will refer to SECO/WE thematic division Private Sector Development, Mr. Thomas Knecht.

To get access to the necessary investment portfolio information, the evaluation team will refer to Obviam, Mrs. Andrea Heinzer, Investment Manager.

The evaluation team is contracted by SECO/WE Quality and Resources Division, under the supervision of Mrs. Iren Leibundgut, Evaluation Officer. All the deliverables (see chapter 5) are submitted to the evaluation officer, who is responsible to organise the appropriate

consultation processes. Consolidated feedback to the evaluation team on the deliverables will be as well organised and forwarded by the SECO/WE Evaluation Officer.

7. Evaluation team

The evaluation team shall unite the required experience in the field of private equity / venture capital as well as evaluation work. In case the set of required experience is not available within one company, a consortium of two international experts can be established.

The *evaluation team* is expected to have the following profile:

- Professional investment and private sector development experience: familiar with the role and work of a DFI from a financial as well as developmental point of view, familiar with private sector development in emerging markets;
- professional evaluation experience: familiar with DAC Evaluation guidelines; evaluation methodology (incl. qualitative and quantitative methods in measurement of development effects);
- field experience in developing and/or transition countries;
- strong analytical and editorial skills and ability to synthesise;
- strong ability to interact with a multitude of partners and beneficiaries at different levels;
- fluent in English.

8. Reference materials

- Internal Project Decision Notes
- Investment Guidelines of SIFEM
- Development Effects Reports of SIFEM
- SIFEM project documents
- Reference documents to GPR (Impact Tracking Tool) utilized by SIFEM
- Available Evaluations on DFI work:
 - Systemprüfung in der Evaluation in der deutschen Entwicklungszusammenarbeit; 2008 (Review of the GPR Tool).
 - Development Finance Institutions and Infrastructure: A Systematic Review of Evidence for Development Additionality; 2011.
 - International Development Committee fifth report: The future of CDC; 2011.
 - Evaluation Bio – Société belge d'investissement pour les pays en développement; 2007.
- Any other relevant document

All the reference materials will be made available on a CD. A list of resource persons will be prepared.

Annex 1:

Operational Objectives as bases for Strategic Controlling:

Goals	Sub goals	Targets	Measurement
1. Development impact	1.1 Positive overall development effect by internationally agreed standards	In ex-post measurements, 60% of SIFEM's investments shall score "good" or better in the development monitoring system accepted as best practice among European Development Finance Institutions (EDFI).	As per the development monitoring system of Obviam described in the procedure manual
	1.2 Company-level job creation	At least half of SIFEM's indirect investees have witnessed job increases of 10% or more over the time of investment	As measured annually in the job tables used as part of the development monitoring system of Obviam
	1.3 Aggregate job creation	On a three-year floating average, the aggregate number of jobs in all of SIFEM's indirect investees (excluding new investees added during the period) shall witness a net annual increase	As measured annually in the job tables used as part of the development monitoring system of Obviam
	1.4 Financial sector development	Every SIFEM investment in some way contributes to diversifying the financial sector or credit allocation in target countries	As measured in the development monitoring system of Obviam, as described in the procedure manual
	1.5 Positive environmental and social impact of investments	All SIFEM investees have committed to implement SIFEM's environmental and social standards	As described in the procedure manual

Goals	Sub goals	Targets	Measurement
2. Financial sustainability	2.1 Positive return on investments	On a five-year floating average, the annual investment reflows shall exceed all expenses and fees of SIFEM plus CHF 25 million	As measured in the quarterly portfolio reports to shareholders, please see indicator 2.2 in relation to the CHF 25 million benchmark

<i>Goals</i>	<i>Sub goals</i>	<i>Targets</i>	<i>Measurement</i>
	<i>2.2 Sufficient annual commitments</i>	<i>On a 3-year floating average, SIFEM shall commit at least CHF 25 million per year</i>	<i>Will be visible in the quarterly portfolio reporting, the CHF 25 million benchmark is from the decision of the Federal Council</i>
<i>3. Compliance with operational principles</i>	<i>3.1 Investing in priority countries of the Swiss development cooperation</i>	<i>60% of SIFEM's commitments shall be directed toward priority countries of the Swiss development cooperation</i>	<i>As defined in the investment guidelines of SIFEM at the time of investment</i>
	<i>3.2 Subsidiarity and Additionality</i>	<i>At least 80% of SIFEM's investments shall be expected to have "positive" or "very positive" effects both in terms of Subsidiarity and Additionality at the time of investment</i>	<i>As determined in the Decision Note and reviewed by the Investment Committee, see template annexed to the procedure manual</i>
	<i>3.3 Mobilisation of private capital for development</i>	<i>In at least half of the funds in which SIFEM invests, every dollar invested by SIFEM shall mobilise at least two dollars of private investments</i>	<i>Can be extracted from Obviam's management system</i>
<i>4. Institution building</i>	<i>4.1 Appropriate management and governance structure</i>	<i>SIFEM AG shall implement and maintain a proper risk management system</i>	<i>The auditor of SIFEM AG shall come to a positive conclusion with regard to the internal control system, audited in accordance with Art. 663 b Ziff. 12 OR.</i>
	<i>4.2 Professional cooperation with Federal administration</i>		<i>SIFEM shall not leave any request by the Federal administration unanswered for more than 30 days</i>

Annex 2:

List of SIFEM investments 2003 – 2011

Fund name	Geography	Focus	Vintage
SEAF Trans Andean Fund	Latam	SME PE Fund	2003
Aureos East Africa Fund	SSA	SME PE Fund	2003
ASEAN China Investment Fund	Asia	SME PE Fund	2004
Global Microfinance Facility	Latam	Financial Institution	2004 / 2007
Emergency Liquidity Facility	Latam	Financial Institution	2004
SEAF South Balkan Fund	CEE & CIS	SME PE Fund	2005
Vietnam Equity Fund	Asia	SME PE Fund	2005
Euroventures Ukraine II	CEE & CIS	SME PE Fund	2005
Solidus Investment Fund	Latam	MF Equity Fund	2005
Balkan Financial Sector Equity Fund	CEE & CIS	MF Equity Fund	2005
Symbiotics MFLO 1	CEE & CIS	Financial Institution	2005
Mekong Enterprise Fund II	Asia	SME PE Fund	2006
Capital North Africa Venture Fund	MENA	SME PE Fund	2006
Maghreb Private Equity Fund II	MENA	SME PE Fund	2006
BTS India Private Equity Fund	Asia	SME PE Fund	2006
GroFin East Africa Fund	SSA	SME PE Fund	2006
European Financing Partners	Global	Financial Institution	2006 / 2010
Horizon Fund III	SSA	SME PE Fund	2007
SEAF Blue Waters Growth Fund	Asia	SME PE Fund	2007
Central American Small Enterprise Investment Fund II	Latam	SME PE Fund	2007
Fidelity Equity Fund II	SSA	SME PE Fund	2007
Vantage Mezzanine Fund	SSA	Mezzanine Fund	2007
Aureos Latin America Fund II	Latam	SME PE Fund	2007
7L Capital Partners Emerging Europe	CEE & CIS	SME PE Fund	2007
JS Private Equity Fund I	Asia	SME PE Fund	2007
VenturEast Proactive Fund LLC	Asia	SME PE Fund	2007
rABOP	Global	SME PE FoF	2007
VenturEast Proactive Fund	Asia	SME PE Fund	2007
TTB	SSA	Financial Institution	2007
Business Leasing Uzbekistan	Asia	Financial Institution	2007
AccessBank	Asia	Financial Institution	2007
Symbiotics MFLO 3	Global	Financial Institution	2007
Credins	CEE & CIS	Financial Institution	2007 / 2008
SEAF LATAM Growth Fund	Latam	SME PE Fund	2008
VI (Vietnam Investments) Fund I	Asia	SME PE Fund	2008
Evolution One Fund	SSA	SME PE Fund	2008
AfricInvest Fund II	SSA	SME PE Fund	2008
Bancentro	Latam	Financial Institution	2008
DemirBank OSJC	Asia	Financial Institution	2008
Altra Private Equity Fund I	Latam	SME PE Fund	2009
EV Amadeus Asian Clean Energy Fund	Asia	SME PE Fund	2009
Sphinx Turnaround Fund	MENA	SME PE Fund	2009
Europe Virgin Fund	CEE & CIS	SME PE Fund	2010
Kendall Court Mezzanine (Asia) Bristol	Asia	Mezzanine Fund	2010

Merit Fund			
E+Co	Global	Financial Institution	2010
Corporacion Interamericana para el Financiamiento de Infraestructura	Latam	Financial Institution	2010
Interact Climate Change Facility	Global	Financial Institution	2010
New Africa Mining Fund II	SSA	PE Fund	2011
GEF Africa Sustainable Forestry Fund	SSA	PE Fund	2011
Kaizen Private Equity Fund	Asia	SME PE Fund	2011
Maghreb Private Equity Fund III	MENA	SME PE Fund	2011
EMI Cambodia-Laos Development Fund	Asia	SME PE Fund	2011
VI (Vietnam Investments) Fund II	Asia	SME PE Fund	2011
Higher Education Finance Fund	Latam	Financial Institution	2011