

Strategic Objectives of the Federal Council for SIFEM AG 2014–2017

1 Introduction

SIFEM AG (Swiss Investment Fund for Emerging Markets) is a limited liability company (Aktiengesellschaft) of the Swiss Confederation under private law. It is an independent institution in terms of its organisation and management of its business and maintains its own account. The purpose and basic mandate are described in the Ordinance on International Development Cooperation and Humanitarian Aid¹ as well as in the Ordinance on Cooperation with the States of Eastern Europe². Based on this the primary task of SIFEM AG encompasses investments primarily in local or regional funds and financial intermediaries, for the benefit of SMEs, fast growing companies³ and private infrastructure projects in developing and emerging countries. SIFEM investments are done through shareholdings (risk capital) or loans and often in conjunction with other European development finance institutions. In this way it facilitates access to long-term financing and know-how for companies, contributing towards their sustainable growth as well as job creation and eventually reducing poverty in developing and emerging countries.

The Swiss Confederation is currently the sole proprietor of SIFEM AG. The shareholder rights are exercised by the Federal Council. In this context it recognises the freedom of the Board of Directors with regard to decision-making on matters relating to business strategy and policy. Based on Article 30c of the Ordinance to the Development Aid Law and in accord with the priorities of economic development cooperation, the Federal Council defines the strategic objectives of SIFEM AG for a four-year period⁴. The Board of Directors of SIFEM AG is responsible for the implementation of the strategic objectives.

2 Strategic areas of focus

The Federal Council anticipates that SIFEM AG will be an acknowledged, highly effective and efficient instrument of Switzerland's economic development cooperation and serve to promote long-term, sustainable and broad-based growth in developing and emerging countries; it is intended to make a contribution towards the integration of these countries into the global economic system and be measured against other instruments on the basis of these criteria.

2.1 Programme-related areas of focus

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

- *Subsidiarity*: SIFEM AG will provide financing which is either unavailable on the market or not available at reasonable terms and conditions, or in sufficient amounts or maturity.
- *Sustainability*: In its investment activity SIFEM AG will adhere to the basic principles of financial, economic, social and environmental sustainability.
- *Leverage effect*: SIFEM AG will mobilise optimum additional capital from other private and institutional investors for the target countries or the beneficiary companies.

¹ SR 974.01, in particular Section 8a

² SR 974.11

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

⁴ See Dispatch on International Cooperation 2013-2016, Chapter 4 (BBI 2012 2485).

To this end, in accordance with its mandate, SIFEM AG will bear a portion of the political or commercial risks and conversely will share the returns from the investments with the private and institutional investors.

- *Complementarity/Additionality*: SIFEM AG will carry out investments that not only fill a gap in financing but also include tangible value add, particularly in the form of knowhow-transfer and technical support for financial intermediaries and companies.
- *Geographic concentration*: SIFEM AG will basically restrict the area of investment to those developing and emerging countries which, according to the current list of the Development Assistance Committee of the OECD, show a per capita GNP less than the threshold for IBRD categorisation which is defined annually by the World Bank⁵. Within this area of investment SIFEM AG will concentrate its activities on the priority countries and regions of Swiss development cooperation.

Regional or global funds are deemed to be investments in focal countries if it can be assumed that on the basis of credible documentation and the information relating to the deal pipeline at least 50 percent of the investments by the fund will be made in priority countries and regions of Swiss development cooperation (this share is set at 20 percent for Sub-Sahara Africa).

2.2 Task and company-related objectives

The Federal Council anticipates that SIFEM AG will achieve the task and company-related objectives described below.

2.2.1 Offering, performance, impact

The Federal Council anticipates that SIFEM AG:

- a. will carry out investments which produce a specific and verifiable development impact through the promotion of viable and dynamic SMEs and fast growing companies in the private sectors of the target countries. This entails first and foremost the creation of lasting and decent work as well as the diversification and strengthening of the local financial markets/financial intermediaries, improvement in the management of the portfolio companies and their access to external finance, increased tax revenues at the investment locations etc.;
- b. will ensure a balance between development effects, portfolio liquidity, regular income and risk diversification by creating a combination of its investment instruments. In this context SIFEM AG will apply the following instruments:
 - *Alternative investment funds*: Investments in specialised risk capital funds as well as mezzanine funds («Growth» funds according to the SIFEM categorisation), as well as in Special Objectives Funds, (known as «economic development funds» and «social impact funds»).

In this context «Economic development funds» describe funds which make a special contribution towards the development of risk capital markets in previously underserved countries or sectors or contribute to the provision of global public goods.

The explicit purpose of «social impact funds» is to facilitate access for disadvantaged segments of the population (base of the pyramid) to affordable products and services as well as jobs and consequently inclusion within the economic structure and to make a contribution towards reducing inequality in the long-run.

 - *Investments in financial institutions*: Investments in local financial institutions and financial intermediaries which grant medium to long-term financing primarily to SMEs but also to micro financial institutions and infrastructure projects.
 - *Loans and other debt instruments*: Loans can be granted as secured or unsecured, junior debt, convertible or tied to investment securities.

⁵ For illustration: This threshold value was set at USD 7,115 for loans by the World Bank in the fiscal year 2014.

- *Investments in direct participations or quasi-participations*: Equities in private companies or financial intermediaries.
 - *Guarantees* to cover equity participations as well as to help borrowers gain access to financing.
- c. will exhibit an effectiveness which enables it to reach a critical mass of annual commitments for new investments at the terms and conditions defined in the investment policy and taking into account the programme-related areas of focus.

In accordance with the current practice of European development financing companies, throughout the entire investment cycle SIFEM AG continually monitors the impact of development under a. resulting from its investments; it submits a separate annual report on this impact for the attention of SECO as representative of the Swiss Confederation.

2.2.2 Positioning, development

The Federal Council anticipates that SIFEM AG:

- a. will portray its investment activities as part of Switzerland's economic development cooperation, ensure coherence with it and adequately take into account the cross-cutting themes of economic governance and gender equality;
- b. within the framework of its statutory mandate and taking into account the financial objectives, will also make investments in Special Objectives Funds which, through innovative solutions, contribute towards the provision of global public goods (climate protection, healthcare, biodiversity etc.) or which enable the poorer sections of the population to access affordable goods and services⁶.

2.2.3 Risk policy and risk management

The Federal Council anticipates that SIFEM AG:

- will operate a specific system for the identification, monitoring and management of both its investment and operational risks as well as conduct regular analysis and control reviews and develop these further as required;
- will not take on any excessive financial risks in the development of additional sources of income or in its liquidity management;
- in addition to the uncommitted cash reserves, will hold liquid assets which provide sufficient cover for those commitments which have been entered into but not yet released;
- will insure itself appropriately against its liability risks.

3 Financial Objectives

The Federal Council anticipates that SIFEM AG will meet the following financial objectives.

3.1 Operating efficiency

SIFEM AG will keep its operating costs in proportion to the size of the investment portfolio.

3.2 Financing

SIFEM AG will ensure its long-term self-financing through the reflows from investments (comprising capital, interest, dividends and profits) and an appropriate level of uncommitted cash reserves enabling it to meet its operating costs and achieve a critical mass of annual new investments. During the course of the strategy period within a normal economic environment the reflows increase by comparison with the average annual new commitments.

⁶ Conversely SIFEM AG does not make any investments that contradict Switzerland's objectives on climate change policy.

3.3 Financial result

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

3.4 Investments

The Federal Council anticipates that SIFEM AG:

- will define and achieve differentiated performance targets for investments in Special Objectives Funds («economic development & social impact funds») and in growth funds respectively. However, all investment categories will have a positive annual return and an annual value multiplier greater than 1⁷;
- will make comparisons with similar investment vehicles in the annual reporting in respect of the performance as well as strategic developments and those of the context in which SIFEM AG and these investment vehicles operate.

4 Human Resources and Social Welfare Policy Objectives

The Federal Council anticipates that SIFEM AG will work to ensure that Obviam DFI AG, to which the Board of Directors has outsourced the business management of SIFEM AG with the approval of the Federal Council:

- pursues a forward looking, socially responsible, transparent and reliable policy on human resources and will offer competitive working conditions for all age groups within a working environment that promotes personal development and performance;
- encourages an approach to work amongst managers as well as employees which is based on integrity;
- cultivates a leadership practice based on appreciation, offers and promotes performance and creates confidence through internal and external communication;
- includes the key parts of the strategic objectives in the annual performance targets for the personnel of Obviam DFI AG and takes these into account in the performance assessment.

5 Cooperation Arrangements

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

6 Adaptation of the Strategic Objectives

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

7 Reporting

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

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

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

29.11.2013

On behalf of the Swiss Federal Council

The Federal President: Ueli Maurer

The Federal Chancellor: Corina Casanova