

RESPONSIBLE TAXATION POLICY

2021

1. POLICY STATEMENT

Fostering responsible tax behaviour and transparency have become international priorities in order to enhance domestic revenue mobilization in developing and emerging markets, which is one of the key challenges to achieve the Sustainable Development Goals (SDGs).

As a responsible impact investor, SIFEM recognises that Development Finance Institutions (DFIs) have an important role to play in encouraging financial intermediaries and their clients to respect their share of the “social contract”, namely to comply with tax laws and to refrain from engaging in inappropriate and artificial, but nevertheless legal, shifting of taxable profits from the developing countries in which they operate. SIFEM recognises that a holistic approach is needed when it comes to responsible tax practices, in line with the policy guidelines approved by all European Development Finance Institutions.

SIFEM pays its taxes in accordance with applicable laws. As Switzerland’s DFI, SIFEM is exempt from cantonal and communal taxes (corporate income tax, tax on capital, inheritance and gift taxes) and federal direct tax in Switzerland, but is otherwise subject to taxes.

SIFEM’s Responsible Tax Policy describes SIFEM’s approach to responsible tax matters, with reference to the instruments promoted inter alia by the Organisation for Economic Cooperation and Development (OECD). It is aligned with the policy principles approved by all members of the European Development Finance Institutions association (EDFI)¹.

2. SCOPE AND APPLICATION

The purpose of this Policy is to assess and monitor the responsible tax aspects of SIFEM’s investment opportunities.

At the same time, SIFEM recognises that there are limitations in the application of this Policy. First, as an investor, SIFEM primarily invests in local or regional risk capital funds (Funds), often in collaboration with other DFIs, or by providing credit lines to local banks and other financial institutions (FIs). SIFEM therefore relies on these financial intermediaries to approach taxation matters in a responsible and transparent manner. Second, SIFEM can neither assume the role of tax authorities in sovereign jurisdictions, nor can it assume responsibility for the tax compliance of third-party investors.

SIFEM respects the sovereignty of countries in designing their tax policies and regimes, including the use of bilateral treaties intended to avoid double taxation, and also recognises the right of private businesses to make effective use of incentive regimes.

3. POLICY PRINCIPLES

Underpinning SIFEM’s fiduciary responsibility is its commitment to invest responsibly, SIFEM commits to:

3.1. RECOGNISE THAT THE ROLE OF TAX REVENUES IS FUNDAMENTAL TO SECURE THE FINANCING OF PUBLIC SERVICES AND PROMOTE SUSTAINABLE DEVELOPMENT.

SIFEM recognises that tax revenues are critical to sustainable development because they provide local governments with independent revenue for investing in development, reducing poverty and delivering public services. Private sector companies and their employees contribute most of the tax revenues that support government operations. Supporting successful SMEs and fast-growing businesses is therefore crucial to enhance domestic revenue mobilization, which is one of the key challenges to achieve the SDGs.

¹ https://www.edfi.eu/wp/wp-content/uploads/2018/05/EDFI-Responsible-Tax-Principles_Final-180509.pdf

In providing financing to SMEs and fast-growing businesses, SIFEM complements other efforts of Switzerland's international cooperation in the field of domestic revenue mobilization and effective public financial management².

SIFEM collects and publishes aggregate data on the tax contributions of its investees on an annual basis, complementing other development metrics collected for all investments.

3.2. REQUIRE ITS DIRECT AND INDIRECT INVESTEES TO BE COMPLIANT WITH TAX LAWS IN THE DEVELOPING COUNTRIES IN WHICH BUSINESS IS CONDUCTED.

SIFEM requires that all investment Funds and underlying portfolio companies - as well as other financial intermediaries- benefitting from SIFEM's financing, comply with all applicable laws and regulations in the countries in which they operate.

In particular, SIFEM requires Fund managers and other financial intermediaries to procure that all investments comply with all applicable tax laws in the countries in which the Fund or the financial intermediary conduct business. In the case of Fund investments, SIFEM also requires the companies that are a part of a Fund's administrative structures to report the income related to the compensation paid by the Fund to the tax authorities of the jurisdiction in which they are resident.

SIFEM requires its Fund managers to commit to further require underlying portfolio companies to comply with all applicable tax laws, to adequately monitor such compliance and to take appropriate action within their power if any material non-compliance is observed.

3.3. REQUIRE ITS DIRECT AND INDIRECT INVESTEES TO ACT RESPONSIBLY AND TRANSPARENTLY IN MATTERS RELATED TO TAXATION.

SIFEM expects its direct and indirect investees to assess the potential tax risks associated with their business activities, and to take measures commensurate with these risks. SIFEM monitors the projects it finances and seeks to promote increasing responsible tax practices and transparency in these companies.

SIFEM expects its direct and indirect investees not to participate in potentially harmful tax arrangements which contribute to artificially divert taxable profits from the countries in which they operate. In particular, SIFEM requires Fund managers to further require their portfolio companies to comply with the arm's length principle when engaging in intra-group transactions (if any) and/or to handle transfer pricing documentation transparently vis-à-vis the relevant tax authorities.

3.4. INVEST THROUGH INTERMEDIATE JURISDICTIONS OR HOLDING COMPANY STRUCTURES OUTSIDE HOST COUNTRIES ONLY WHEN SUCH STRUCTURES ARE DEEMED NECESSARY FOR LEGITIMATE BUSINESS REASONS, AND AS LONG AS THEY COMPLY WITH INTERNATIONAL TAX TRANSPARENCY STANDARDS.

SIFEM may invest in Funds registered in intermediate jurisdictions or involving corporate structures outside beneficiary countries ("offshore" structures). Such structures can be required to mitigate the risks of investing in institutionally challenging environments – for instance where investment protection is inadequate or the legal and regulatory system insufficient -, to insulate companies or assets from legal risks or to pool investors together in an efficient manner in order to provide financing to SMEs in different countries.

SIFEM recognises that some intermediate structures may contribute to unfair tax practices or erode the tax base in jurisdictions where economic value is actually created. SIFEM's investment through intermediate jurisdictions is, however, always motivated by non-tax benefits and not to avoid payment of taxes or transparency. As a responsible investor, SIFEM promotes tax transparency in investing only through intermediate structures involving cross-border operations which meet the following conditions:

- a) Have a legitimate business rationale linked to the investment activity, which is not limited to tax benefits.
- b) Are not classified as "harmful tax regimes" with reference to internationally accepted standards and instruments defined by the Global Forum on Transparency and Exchange of Information for Tax Purposes (the "Global Forum") and the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting ("BEPS").

For the purpose of this Policy, "harmful tax regimes" shall mean any jurisdiction which:

² <https://www.seco-cooperation.admin.ch/dam/secocoop/en/dokumente/dokumentation/publikationen/budgethilfe-strategie.pdf.download.pdf/Budget%20Support%20Strategy.pdf>

- 1) Following a phase I review, has either not been permitted by the Global Forum to proceed to a phase 2 peer review or has proceeded to a phase 2 peer review and not received an overall rating of “compliant” or “largely compliant”³.

OR

- 2) Following the BEPS peer-review mechanism shows evidence of any harmful tax practice (BEPS Action 5), deemed to facilitate base erosion and profit shifting, and therefore have the potential to unfairly impact the tax base of other jurisdictions⁴.

3.5. DISCLOSE PROJECT SPECIFIC INFORMATION, TO THE EXTENT POSSIBLE AND WITHIN THE LEGAL LIMITS OF CLIENT PROTECTION

SIFEM publishes information on its entire portfolio, including whether an intermediate structure is used in each investment and where the investee Funds and companies are domiciled.

Due to legitimate expectations of privacy, this would not usually extend to disclosure of beneficial ownership of investees unless such disclosure is already required by law. However, SIFEM requires due diligence to confirm the beneficial ownership of its projects, including where the projects involve intermediate jurisdictions. SIFEM carefully assesses the integrity and business reputation of prospective clients, which is one of the most important tools to help ensure that SIFEM investments are actually implemented with integrity.

4. IMPLEMENTATION & REVIEW OF POLICY

This Policy is valid starting from 1 January 2021 and shall apply to all investments approved by SIFEM’s Investment Committee (IC) after this date.

SIFEM’s Investment Advisor’s CEO may under extraordinary circumstances grant and revoke waivers of this Policy, and report to the SIFEM IC accordingly.

In recognition that this area continues to evolve, SIFEM will continue to closely monitor development and review this Policy regularly, at least on a biennial basis in close coordination with other European and Multilateral DFIs.

³ <http://www.oecd.org/tax/transparency/about-the-global-forum/>

⁴ <http://www.oecd.org/tax/beps/beps-actions/action5/>