SIFEM
SWISS INVESTMENT FUND
FOR EMERGING MARKETS

DEVELOPMENT IMPACT REPORT 2016

FOREWORD

Dear Reader,

Inclusive economic growth is recognized as a necessary condition for poverty reduction in the 2030 Agenda for Sustainable Development, adopted by the United Nations in 2015 and featuring 17 specific goals (Sustainable Development Goals – SDGs). These new goals put great emphasis on a development model where the private and public sectors have complementary roles in supporting sustainable growth and improving lives. They highlight, in particular, private business activity, investment and innovation as major drivers of productivity and job creation. Indeed, it is estimated that by 2020, some 600 million jobs need to be created, mainly in Africa and Asia, as a result of demographic trends, technological change and migration pressures. However, it is not just about the quantity of jobs produced. The quality of the jobs created is equally important.

This is where Development Finance Institutions (DFIs) such as SIFEM play a critical role. DFIs are one of the three main channels for development finance from the OECD DAC donor countries and multilateral institutions to low and middle income countries, i.e. traditional development aid (grants that don't have to be repaid), public sector loans and investment in private businesses.

As the DFI of the Swiss Government, SIFEM is a small actor in the Swiss development architecture (a total of USD 793.1 million has been invested in 115 investments to date), but it makes an important contribution to development. By providing long-term finance to small and medium-sized enterprises and other fast-growing companies, SIFEM helps these firms to expand and strengthens local entrepreneurship, thereby supporting and creating jobs and generating income and taxes. Since 2005 SIFEM has created and supported about 575,000 jobs, together with other co-investors.

SIFEM is also working on improving the quality of employment: for example, staff training is being provided by nearly all SIFEM's investment partners, and the portfolio companies pursue the provision of a safe working environment for their employees. SIFEM is closely monitoring the improvements and is supporting the local partners and the portfolio companies if they encounter problems and challenges.

It is estimated that by **2020**, some **600 million jobs need to be created**, mainly in Africa and Asia.

This report provides a snapshot of how SIFEM's investments in developing and emerging countries contribute to sustainable development impacts with concrete examples. In particular, it focuses this year on the issue of "more and better jobs", which is one of the top priorities of Switzerland's economic development cooperation.

We hope the stories and examples will help shed some light on the difference SIFEM's investments can make on the ground, while recognizing that these achievements remain fragile. Many SMEs evolve in risky environments and have to constantly adapt to changing political and economic conditions.

SIFEM has a successful track record in generating important development effects. We are confident that with the support of the Swiss government, SIFEM will be able to maintain its commitment capacity in the future and help more companies in developing countries to grow, to create jobs, and to improve the lives of their employees and their families.

Yours faithfully

Jean-Daniel Gerber, Chairman of the Board of SIFEM

WHAT IS SIFEM

The Swiss Investment Fund for Emerging Markets (SIFEM) is the Swiss development finance institution. It is owned and capitalized by the Swiss Government and is one of the instruments of the bilateral development cooperation. SIFEM is specialized in providing long-term financing to small and medium-sized enterprises and other fast-growing companies in developing and emerging countries, focusing on the priority countries of Switzerland's development cooperation. This helps to create and secure decent jobs and reduce poverty while also contributing towards the integration of these countries into the global economic system.

WHAT IS THE ROLE OF A DEVELOPMENT FINANCE INSTITUTION (DFI)?

DFIs are government-backed institutions that provide finance to private sector companies in developing and emerging countries. They have a double mandate to generate development impact as well as financial profitability. Indeed, only profitable companies on the ground will be able to generate sustainable development impact with lasting development effects on people and society. As a complement to traditional aid and public sector loans, DFIs are one of the key channels for development finance from donor countries to beneficiary countries.

DFIs can help sustainably shape the private sector in developing countries, where companies tend to have insufficient or inadequate access to finance, and as a result are hampered in their growth, technological innovation and job creation.

DFIs also have a key demonstration effect for private investment flows. Compared to the majority of private investors which only operate in developed markets, DFIs have a higher risk tolerance, a longer-term investment horizon and a successful track-record in difficult markets. DFIs will typically remain invested in projects for an extended period of five to 10 years, or even longer. At the end of the investment period, the proceeds of the investment including the profits are then reinjected in other investments.

HOW IS SIFEM WORKING?

SIFEM provides mostly long-term financing to small and medium-sized enterprises (SMEs) as well as other fast-growing companies in developing and emerging countries by investing in local or regional risk capital funds, or by providing credit lines to local banks and other financial institutions, often in collaboration with other development finance institutions and private investors. Investing through local funds and financial institutions is in general a more efficient solution than providing direct support to individual SMEs. This investment strategy contributes to strengthening the local financial and capital markets in developing and emerging countries, which are important development facilitators.

SIFEM is working together with fund managers and financial institutions not only to deliver relevant financing solutions, but also to add value to local businesses. In fact, SIFEM's role goes beyond the provision of long-term finance: for example, it seeks to strengthen the capacity of local fund managers or financial institutions to monitor environmental, social and governance risks at the level of their underlying portfolios. This is especially important when considering investing in high-risk companies from a social or environmental perspective such as those operating infrastructure, forestry, construction, heavy industry etc. SIFEM needs to make sure that the risks are not only understood but also appropriately addressed.

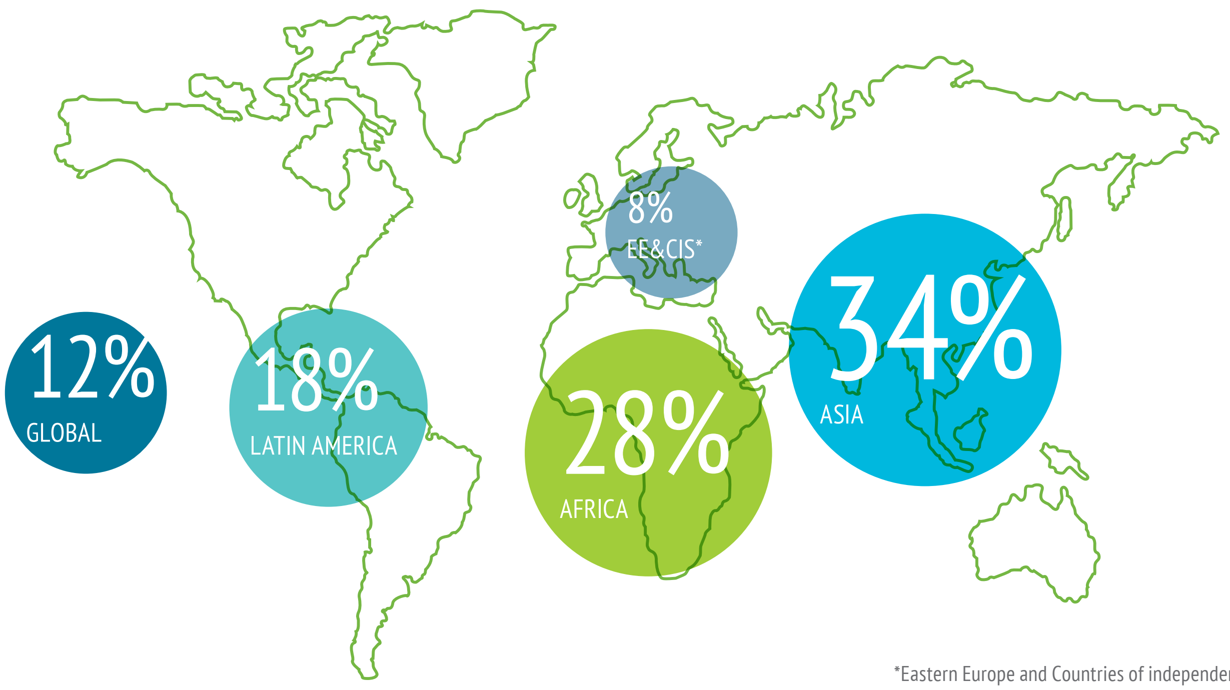
At the operational level, SIFEM's modus operandi is similar to the way other bilateral development cooperation actors implement their projects: most traditional development cooperation projects financed by Switzerland are implemented by local partners or local teams of professional development organizations (NGOs, foundations, multilateral and UN agencies). In the case of SIFEM, those local partners are fund managers or local financial institutions such as SME banks or microfinance institutions.

IN WHICH COUNTRIES IS SIFEM ACTIVE?

SIFEM closely follows the geographical priorities of Switzerland's development cooperation but also requires some flexibility to diversify its portfolio risks. In 2014-2016, around two-third of SIFEM's investments targeted Swiss priority countries for development cooperation (SECO and SDC).

The focus on Swiss priority countries allows for complementing the offering of both SECO and SDC in their respective programs: traditional development cooperation projects tend to focus inter alia on improving the business environment, increasing the efficiency of public institutions and services, fostering trade and competitiveness, strengthening the financial sector infrastructure and public finance management, strengthening the capacity of local actors (such as economic associations or civil society organizations) and encouraging sustainable business practices, while SIFEM's investments focus on private sector financing.

INVESTMENT VOLUME BY REGION AS OF 31 DECEMBER 2016
(ACTIVE COMMITMENTS)



*Eastern Europe and Countries of independent states

HOW WE MAKE A DIFFERENCE

SIFEM'S DEVELOPMENT CONTRIBUTION

SIFEM is an "impact investor," as all SIFEM investments are made with the intent to generate a measurable development impact, based on specific indicators and corresponding targets such as job creation, skills development, tax payments in developing and emerging countries, financial sector deepening and diversification, as well as the implementation of international best practice environmental, social and governance standards. The SIFEM development effects are reported to Parliament as contribution to the target outcomes ("Wirkungsziele") of Switzerland's economic development cooperation framework.

SIFEM is relying on a result measurement framework in line with the practice of other development finance institutions, allowing for the monitoring and aggregation of results at the portfolio level. This framework is fully in line with the 2030 Agenda for Sustainable Development adopted by the United Nations in 2015 featuring 17 specific goals (Sustainable Development Goals – SDGs). These new goals put great emphasis on a development model where the private and public sectors have complementary roles in supporting sustainable growth and improving lives. They highlight in particular private business activity, investment, and innovation as major drivers of productivity, inclusive growth and job creation.

2016 DEVELOPMENT HIGHLIGHTS

GENDER

30% OF THE EMPLOYEES IN SIFEM PORTFOLIO COMPANIES ARE WOMEN (*)

EMPLOYMENT

575,000 JOBS SUPPORTED AND CREATED SINCE 2005 (TOGETHER WITH INVESTMENT PARTNERS)

TRAINING

80% OF SIFEM PORTFOLIO COMPANIES PROVIDE TRAINING TO THEIR EMPLOYEES (*)

TAX REVENUE

USD **897 MILLION** IN TAXES PAID BY UNDERLYING PORTFOLIO COMPANIES IN TOTAL (*)

ACCESS TO FINANCE

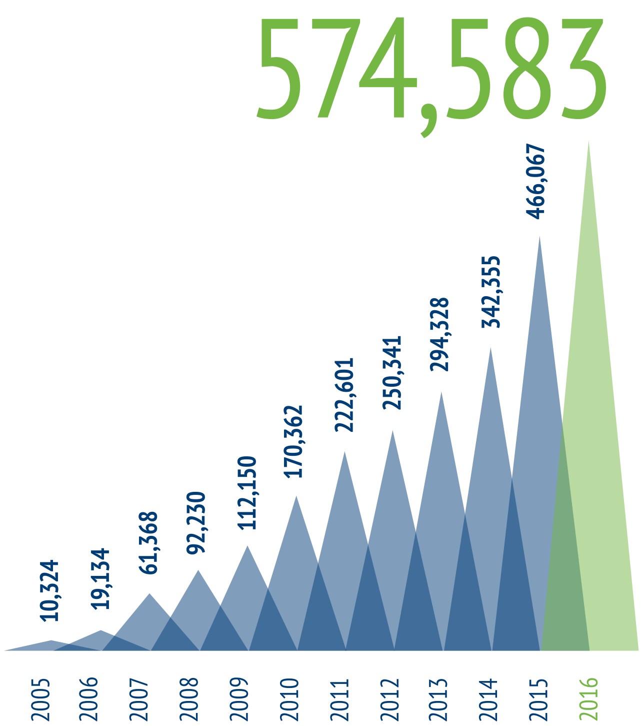
2.6 MILLION MICRO LOANS, 68,000 SME LOANS AND 90,000 HOUSING LOANS GRANTED BY SIFEM PARTNER INSTITUTIONS AND THEIR UNDERLYING PORTFOLIO COMPANIES (*)

(*) FOR POST-2013 INVESTMENTS

SUPPORTING JOBS IN DEVELOPING AND EMERGING COUNTRIES

Jobs are the principle escape route out of poverty: jobs boost living standards, help to build self-esteem and social cohesion, and thus contribute to a country's economic and social development. The first challenge is the sheer number of jobs needed to cope with the socio-demographic developments in developing and emerging countries. Some 200 million people are currently unemployed, many of them young people, and it is estimated that by 2020, some 600 million jobs need to be created, mainly in Africa and Asia, largely driven by demographic trends, technological change and migration pressures. The second challenge is to ensure that those jobs also offer decent working conditions: they must comply with minimum local legal requirements and with the core labour standards of the International Labour Organization (ILO), eg. the elimination of forced and compulsory labour or the abolition of child labour, and they must provide safe working environments and personal development opportunities for the employees. The prevalence of high informality in the job market of many developing and emerging countries is a vivid illustration of this challenge, as informal jobs elude any record and regulation and are often associated with poor working conditions and no protection of basic labour rights.

JOBS SUPPORTED BY SIFEM'S OVERALL PORTFOLIO SINCE INCEPTION



The private sector plays a critical role in job creation: more than 9 out of 10 jobs in developing countries are provided by the private sector. Yet, private companies typically face growth bottlenecks, the most important being the lack of access to finance, the lack of know-how, the lack of access to electricity and the prevalence of informality. Access to long-term funding is a necessary condition for sustainable business expansion, the creation of diversified job opportunities and ultimately, more inclusive growth and the reduction of inequalities.

SMEs are important for job creation but so are other fast-growing companies: SMEs represent on average about 66% of permanent, full-time employment in developing countries according to the World Bank[1]. However they also tend to be more vulnerable and more likely to fail and disappear than larger firms. Larger firms usually provide better working conditions than smaller ones, and tend to be more productive and innovative. SMEs are not defined the same way everywhere, but about 70% of the companies in the SIFEM portfolio are SMEs.

SIFEM'S JOB CONTRIBUTION IN 2016

MORE JOBS

Together with its investment partners, SIFEM has created and supported almost 575,000 jobs as of year-end 2016 since 2005.

The job distribution according to regions reflects largely the geographical distribution of the investment portfolio (see page 7).

About 85% of the jobs in the active SIFEM portfolio are in the priority countries of Switzerland's development cooperation. Within the list of SECO priority countries, most jobs were created and maintained in Vietnam, South Africa, Indonesia, Tunisia and Ukraine. Within SDC priority countries, most jobs were supported in Nicaragua, Kenya, Cambodia, Tanzania and Bolivia.

Overall, employment in the SIFEM portfolio companies grew by more than 13% in 2015-2016. This is roughly twice as much as in the 2014-2015 period, and is mainly driven by a few larger

[1] IFC Jobs Study: Assessing private sector contributions to job creation and poverty reduction, Washington DC; January 2013.

companies that recorded spectacular growth rates in 2016, such as Mobile World, a telecommunications company in Vietnam (see page 8).

Around 30% of the employees in the companies that are part of the SIFEM portfolio since 2013 are women (as per year-end 2016). The majority of women work in sectors such as health and education, or are clients of microfinance institutions.

BETTER JOBS

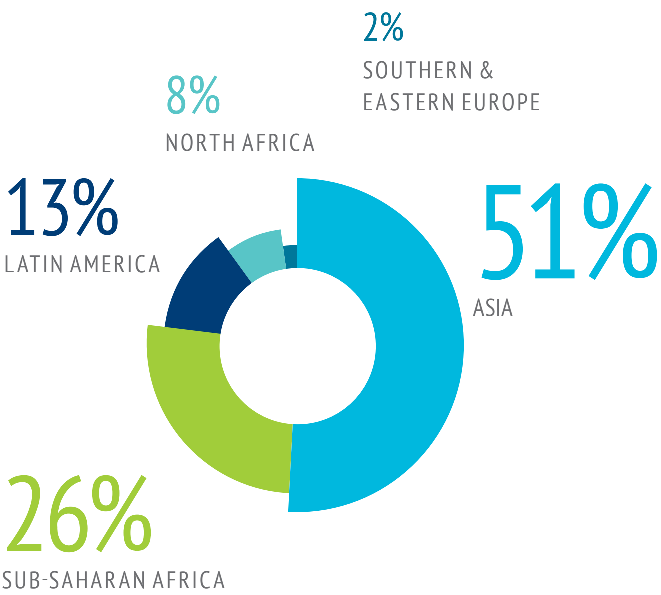
SIFEM captures the qualitative aspects of jobs in the following manner: on the one hand, SIFEM's financial institutions and fund managers commit to ensuring that their portfolio companies meet national labour and occupational health and safety legislation and will work over defined time frames to meet the ILO Core Standards, when national legislation is less ambitious than these Standards. On the other hand, SIFEM is monitoring the professional development of the staff of portfolio companies.

SIFEM's portfolio companies may experience challenges to comply with these different standards. For example, additional costs may be required to invest in the safety of their employees, or the companies must request their subcontractors to also comply with national labour standards.

SIFEM ensures that local partners anticipate or address these challenges together with the portfolio companies. This is part of a continuous process during the lifetime of an investment.

Regarding continuous improvements in staff development in 2016, about 90% of SIFEM's local fund managers provided training to their employees, and over 50% of them also to outside stakeholders (e.g. providers, students etc.) often in cooperation with local universities and industry associations. In addition, 80% of the portfolio companies report that they have formal training in place for their employees. In addition, 25 capacity building and training interventions have been provided to portfolio companies mainly located in Asia and Latin America by the Technical Assistance (TA) facility financed by SECO in various areas such as quality control issues, financial management and social & environmental impact management.

DISTRIBUTION OF JOBS ACCORDING TO REGIONS AS PER END OF 2016



MOBILE WORLD – FROM A VIETNAMESE START-UP TO A MAJOR JOB ENGINE

Mobile World was established in 2004 by a team of 5 people, initially focusing on the distribution and reparation of mobile phones in Ho Chi Minh City. The company developed relationships with mobile phone distributors and operators and started to grow. Yet, Mobile World quickly encountered capital constraints and looked for a long-term financial partner. SIFEM invested through a local fund manager in Mobile World in 2007. The investment enabled what initially began as a small start-up in Vietnam to grow into the country's largest mobile device retailer. Mobile World not only played an essential role in making mobile device ownership and access to current technologies available to a growing number of people in Vietnam, but has in the process also created over 25,000 new jobs spread across every province, of which 10,000 occurred during the year 2016 alone. Mobile World also benefitted from the Technical Assistance facility provided by SECO for SIFEM's investments. With the support of an internationally-renowned expert in the field of consumer electronics retailing Mobile World enhanced its corporate governance practices and introduced best practice standards. The company also improved its human resources management system so as to be able to recruit and integrate thousands of staff across the country.

Mobile World has created more than **25,000** jobs spread across every province.

2007
INVESTMENT YEAR

100

3.5 MIO
USD FUND INVESTMENT

26,207
EMPLOYEES AS OF 31 DECEMBER 2016

COUNTRY EXAMPLE FROM THE PORTFOLIO: TUNISIA

COUNTRY CONTEXT

Following the "Arab Spring" revolution of 2011, Tunisia has taken important steps in its democratic transition, but the disparities at the root of the revolution have deepened in terms of unemployment, health, education and income. As a result, the general standard of living has fallen, and the structural impediments to inclusive growth have not fundamentally changed: the economy remains segmented with limited options for the private sector to compete with large state-owned companies, the labor market suffers from serious distortions which results in rising unemployment among skilled workers, and the financial sector is unable to direct resources towards the most promising projects. Security concerns and regional conflicts have also negatively impacted the economy. In addition, Tunisia has become a transit country for migrants and asylum seekers. The job challenge is therefore particularly acute in Tunisia: job creation has been weak overall and most of the new jobs were created in the public sector. This situation puts an unsustainable burden on the state budget, hence the need to foster private sector job creation.

SIFEM'S ROLE IN THE IMPLEMENTATION OF SWITZERLAND'S DEVELOPMENT PRIORITIES

Tunisia is not only a SECO priority country, but is also part of a "whole of government" approach involving other Federal offices of the Swiss Government, i.e. the Federal Department of Foreign Affairs, SDC and the State Secretariat for Migration (SEM). SIFEM contributes directly to one of the three priorities of the economic development cooperation program led by SECO in Tunisia, i.e. "enhance private sector development, competitiveness and job creation", and complements other Swiss efforts geared towards reforming the business environment, improving basic infrastructure and supporting vocational education and training.

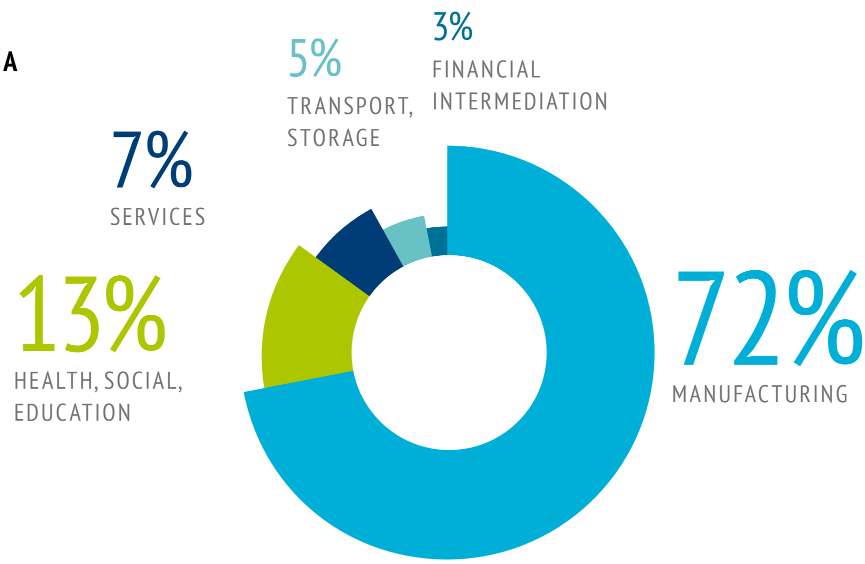
THE SIFEM PORTFOLIO IN TUNISIA: A SNAPSHOT

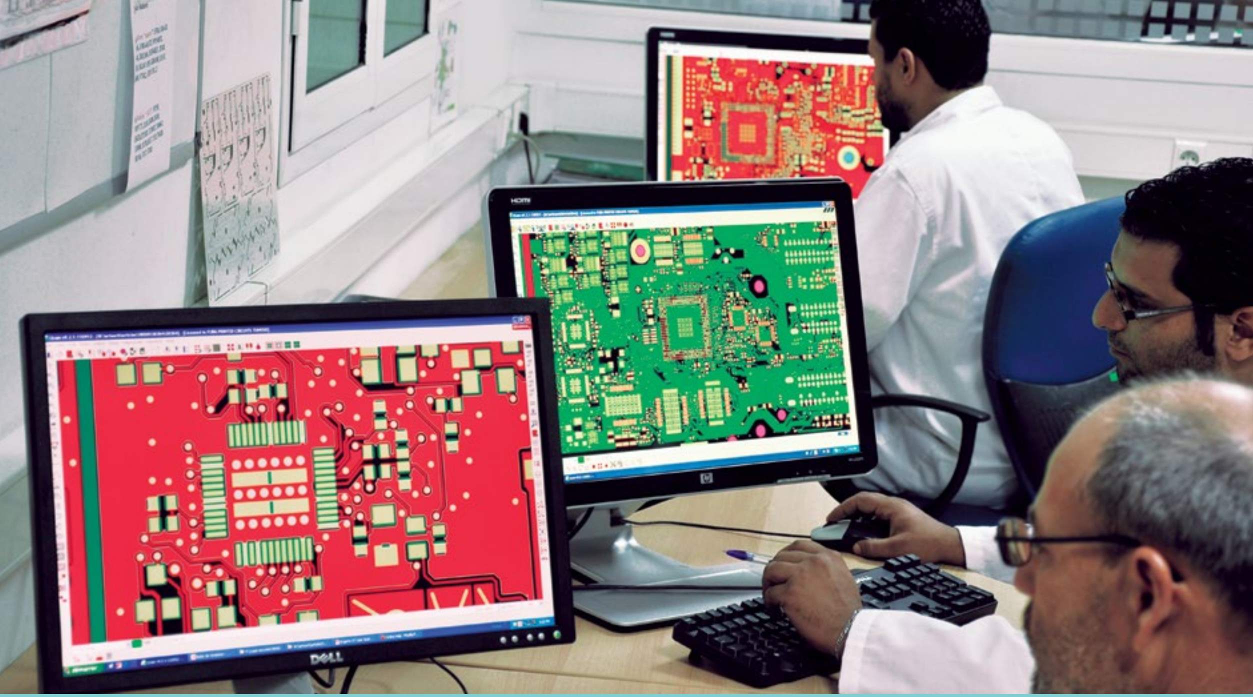
SIFEM has invested via 9 different funds in Tunisia to date. The provision of growth capital has supported private sector company expansion primarily in the manufacturing sector, health, social and education sectors, and services.

In 2016 the active portfolio contained 20 investee companies spread across 9 different provinces of the country. Two-thirds of those companies were SMEs at the time of investment, while the remainder was constituted of larger companies. Helping these companies to grow into larger businesses is important, since 55% of total employment is generated by larger firms in Tunisia.

In terms of jobs supported and created, with over 14,000 jobs supported to date, Tunisia accounts for about 4% of the total job numbers in the SIFEM portfolio, with the highest share being in the manufacturing sector. Overall, employment in Tunisian portfolio companies grew by an average of 4% in 2015-2016. This is much higher than real GDP growth during the same period (1%). SIFEM is therefore making a small yet significant contribution in this difficult environment.

SECTOR DISTRIBUTION OF JOBS SUPPORTED AND CREATED IN TUNISIA





ONETECH – SUPPORTING JOB EXPANSION AND SKILLS DEVELOPMENT

OneTech is a company based in Tunisia founded originally as a cabling company in 1978. Over the years, it has expanded and diversified its operations into cable production, electronics components, and information technology. It serves the automotive industry in Europe, while also pursuing to expand its client base in Africa. Although OneTech was already a larger company than a traditional Tunisian SME at the time of investment in 2015, it struggled to find long-term capital financing coupled with the strategic guidance needed to expand its operations outside of Tunisia after the Arab Spring. SIFEM invested in OneTech through Africinvest, a trusted local fund manager based in Tunis with extensive experience in managing growth capital throughout the Maghreb region. With the expansion of its activities, OneTech was also able to ramp up its production and increase its exports by 25% in 2016 compared to 2015. Through the investment, an action plan was issued to implement international best practices in the field of social, environmental and governance standards. For example, OneTech has implemented measures such as setting up hazardous waste management procedures and strengthening employee awareness on safety and emergency procedures.

OneTech is making an important contribution to job creation: since SIFEM's investment, the company has created an additional 1,000 jobs and has a total workforce of 3,800 employees as per the end of 2016, including 40% under 30 years of age. 1,700 jobs are held by women, including 16 in managerial positions and 4 at the Board level. Improvements in the working environment are also viewed as an important area of focus of the company especially in the field of skills development and continuous training: in 2016, about 800 employees received training and the company has set up an internal academy for "soft skills" (verbal and written communication, teamwork, time management etc.) with 300 people benefitting from this new facility each year.

100

2015
INVESTMENT YEAR

28.6 MIO
EURO FUND INVESTMENT

3,800
EMPLOYEES AS OF 31 DECEMBER 2016

SEIFEDDINE BAYAA
Engineer, 25 years old

"I have been working for OneTech since I was a student and have been able to complete internships in the different factories of the Group, as well as realize my final thesis with OneTech. Despite my young age and inexperience, I was selected to become an internal trainer at the "OneTech University". This demonstrates that the company chooses their employees based on performance and skill. OneTech is a company which believes in the potential of young people and invests in training so that our capacities are strengthened and the sustainability of the company is guaranteed."

CHALLENGES AND OPPORTUNITIES

The business environment remains very challenging in Tunisia, especially given the structural impediments to growth and creation of formal jobs for private sector companies. Tunisia combines restrictive regulations for permanent employment with an extremely permissive legislation on temporary work, resulting in a "dual labour market" which tends to trap young workers in precarious employment situations. Youth unemployment is close to 35%. 50% of workers between 15 and 24 years old operate in the informal sector. For the young generation, a prolonged period of unemployment raises the threat of poverty and fuels emigration pressures, particularly for the most skilled workers. Structural solutions are therefore needed to change labour market conditions and foster the links between schools and employers. Some of those important aspects are part of the Development Cooperation Strategy of Switzerland in Tunisia for the years 2017-2020.

Youth unemployment is close to **35%. 50%** of workers **between 15 and 24 years old** operate in the informal sector.

On the investment side, the high country risk perception tends to dissuade private investors from looking at long-term opportunities in the region. This makes the role of development finance institutions such as SIFEM even more important. Another important issue where DFIs can help is environmental and social management, since private sector businesses are not paying enough attention to their social and environmental obligations.

SIFEM AG
c/o Obviam DFI AG
Bubenbergplatz 11
3011 Bern
Switzerland

info@sifem.ch
+41 31 310 09 30

www.sifem.ch

Editing:
Thierry Buchs, Florence Derron, Monika Gysin, Kylie Seghi

Design:
Push'n'Pull, Bern

Photos:
Pablo Cambronero, Mostafa Darwish and various sources

Print:
Vögeli Druck, Langnau

GLOSSARY

Investment partners: other DFIs or private investors investing in local funds together with SIFEM
Local fund manager: Management team of local funds in which SIFEM has invested
Portfolio companies: local SMEs and other fast growing companies which were provided long-term financing by a fund
Underlying portfolio: totality of portfolio companies
Local partners: local fund managers and financial institutions