SIFEM
SWISS INVESTMENT FUND
FOR EMERGING MARKETS

SIFEM – INVESTING IN SUSTAINABLE DEVELOPMENT

2020 EDITION

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FOREWORD

Dear Readers,

The world economy has entered the worst recession since the Great Depression of the 1930s, triggered by the COVID-19 pandemic. The shock has led to massive supply chain disruptions, a steep decline in world trade and commodity prices, and record-high employment losses. For emerging markets and developing countries, the economic and social costs of the current crisis have been severe due to the absence of large-scale safety nets for people and businesses. Some 495 million jobs had already been lost by mid-2020 and 245 million additional job losses could be recorded by the end of 2020, potentially unravelling a substantial share of the jobs created in developing countries in the last ten years. At the same time, private investors are shying away from developing countries, with private capital outflows reaching nearly 100 billion dollars over the past nine months. This will have severe implications for the Sustainable Development Goals (SDGs), and for the decent job agenda in particular.

SIFEM, the Development Finance Institution (DFI) of the Swiss Confederation, is closely monitoring the situation and actively supporting its investees in mitigating the impact of the crisis. Since 2005, SIFEM has invested a total of approximately USD 1,059 million in 141 projects across Africa, Asia, Latin America and South-eastern Europe – and thereby created and supported more than 870,000 jobs. In 2019, it engaged in nine new investments totalling USD 104.5 million. By providing long-term finance to SMEs and other fast-growing companies, SIFEM helps firms to expand and strengthen local entrepreneurship.

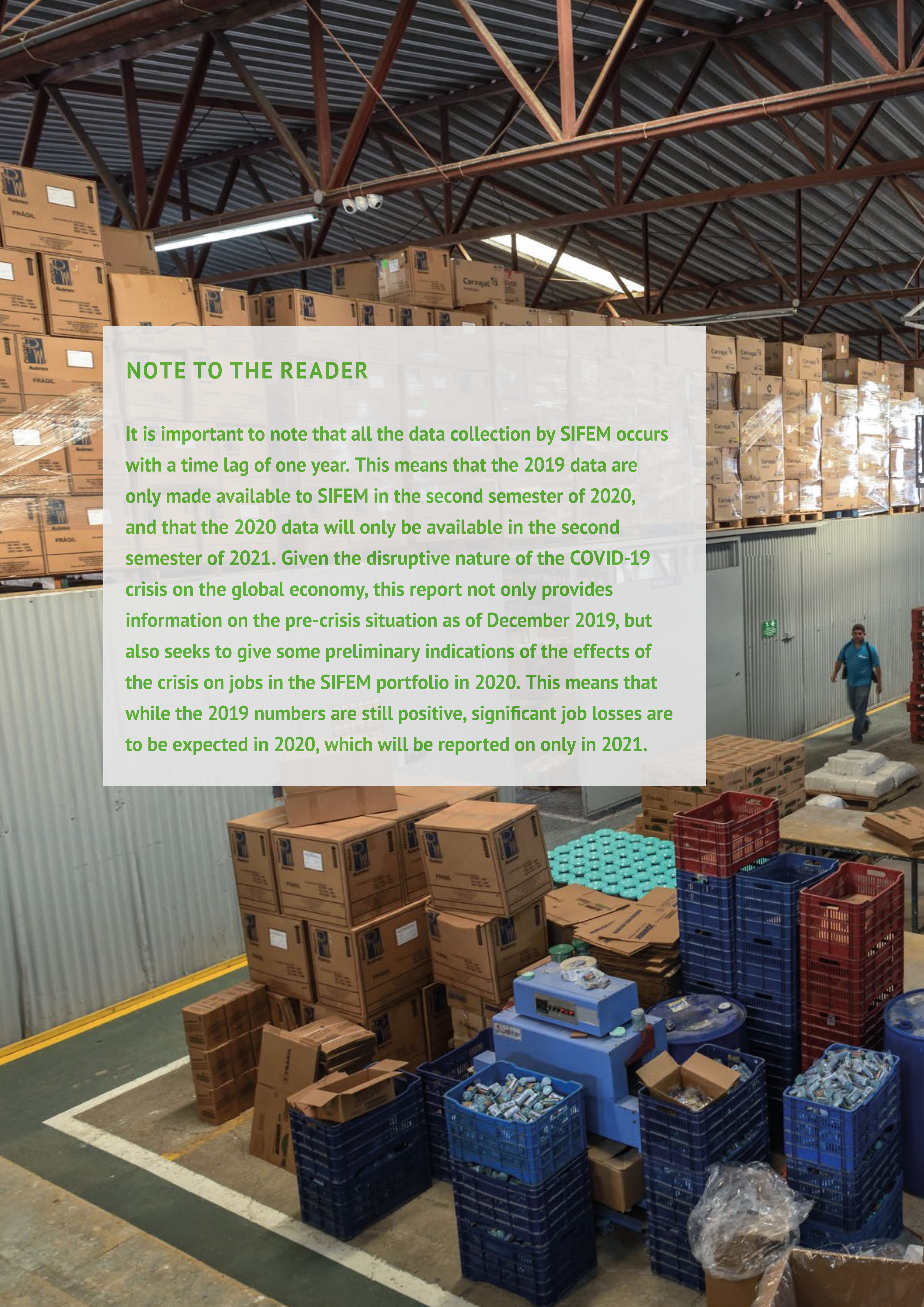
Creating and supporting decent jobs in target countries is one of the main developmental focus areas for SIFEM, in line with the priorities of the Swiss Government in the field of economic development cooperation. But the past successes in this respect are at risk of unravelling in the context of the current health and economic crisis. For this critical reason, this report explores, in a dedicated chapter, the role of SIFEM in supporting decent jobs. As the COVID-19 crisis unfolds, this report details the characteristics of jobs prior to the crisis, based on December 2019 portfolio data, but also explores the potential consequences and implications of the crisis. At this moment, however, its impact cannot be fully fathomed. Even if SIFEM portfolio companies have so far been remarkably resilient, some job destruction appears to be inevitable, and much will depend on the timing as well as the pace of the economic recovery. With the emergence of new job data collected by SIFEM, the picture will become clearer by next year.

This report features interviews with two of SIFEM's partners, one in Colombia and one in Madagascar, in order to discuss how to respond to job challenges in the midst of the crisis. Finally, Switzerland's Ambassador to the International Labour Organization (ILO) in Geneva, H.E. Mrs Valérie Berset Bircher, shares her views on how the current crisis is reshaping the world of work and what this means for developing countries and emerging markets.

In the face of this unprecedented crisis, DFIs like SIFEM constitute an effective front line in the struggle to preserve businesses in developing countries. At a time when private financial flows into developing countries have ground to a halt, DFIs have a unique opportunity to act in a counter-cyclical fashion and to lead other investors back into emerging markets in the medium-term. The current crisis represents a defining moment for DFIs as they will have to absorb significant losses and may initially have limited commitment capacities. Only a strong, socially and environmentally conscious response can help the businesses bounce back on the other side of the crisis. Workers losing their jobs, especially the most vulnerable and among them many women, should not be forgotten. It is the joint responsibility of governments and businesses to support them in hard times and to prepare them for the challenges of a different economy.

SIFEM will keep focusing on the decent job agenda and will pay increasing attention to the contractual situation of workers to ensure appropriate levels of social protection in the post-COVID recovery. This also includes young workers, who are increasingly at risk of long-term marginalisation. The SIFEM Board is committed to working together with its partners to overcome the extraordinary challenges arising from this crisis and to be a catalyst for positive change. In other words, to contribute to a more resilient economic recovery in developing countries and emerging markets, investing more in climate-friendly businesses which have the potential to generate sustainable jobs and contribute to the transition towards a low-carbon economy.

Jörg Frieden
Chairman of the Board of SIFEM



NOTE TO THE READER

It is important to note that all the data collection by SIFEM occurs with a time lag of one year. This means that the 2019 data are only made available to SIFEM in the second semester of 2020, and that the 2020 data will only be available in the second semester of 2021. Given the disruptive nature of the COVID-19 crisis on the global economy, this report not only provides information on the pre-crisis situation as of December 2019, but also seeks to give some preliminary indications of the effects of the crisis on jobs in the SIFEM portfolio in 2020. This means that while the 2019 numbers are still positive, significant job losses are to be expected in 2020, which will be reported on only in 2021.

SIFEM

WHAT IS SIFEM

The Swiss Investment Fund for Emerging Markets (SIFEM) is the Swiss Development Finance Institution (DFI). It is owned by the Swiss Government and is an integral part of the instruments of economic development cooperation. SIFEM is specialised 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 more and better 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 will be able to generate 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 into other investments.

THE ASSOCIATION OF EUROPEAN DEVELOPMENT FINANCE INSTITUTIONS (EDFI)

In 1992, seven European DFIs agreed to establish the Association of European Development Finance Institutions (EDFI), based in Brussels, to strengthen cooperation and to facilitate knowledge-sharing and

learning among DFIs. Other European DFIs progressively joined the Association and today, the organisation counts fifteen members, including SIFEM.[1]

HOW DOES SIFEM WORK?

SIFEM provides 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 DFIs 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 countries and emerging markets, 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 manage 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 in the infrastructure, forestry, construction, and heavy industry sectors. SIFEM needs to make sure that the risks are not only understood but also appropriately addressed.

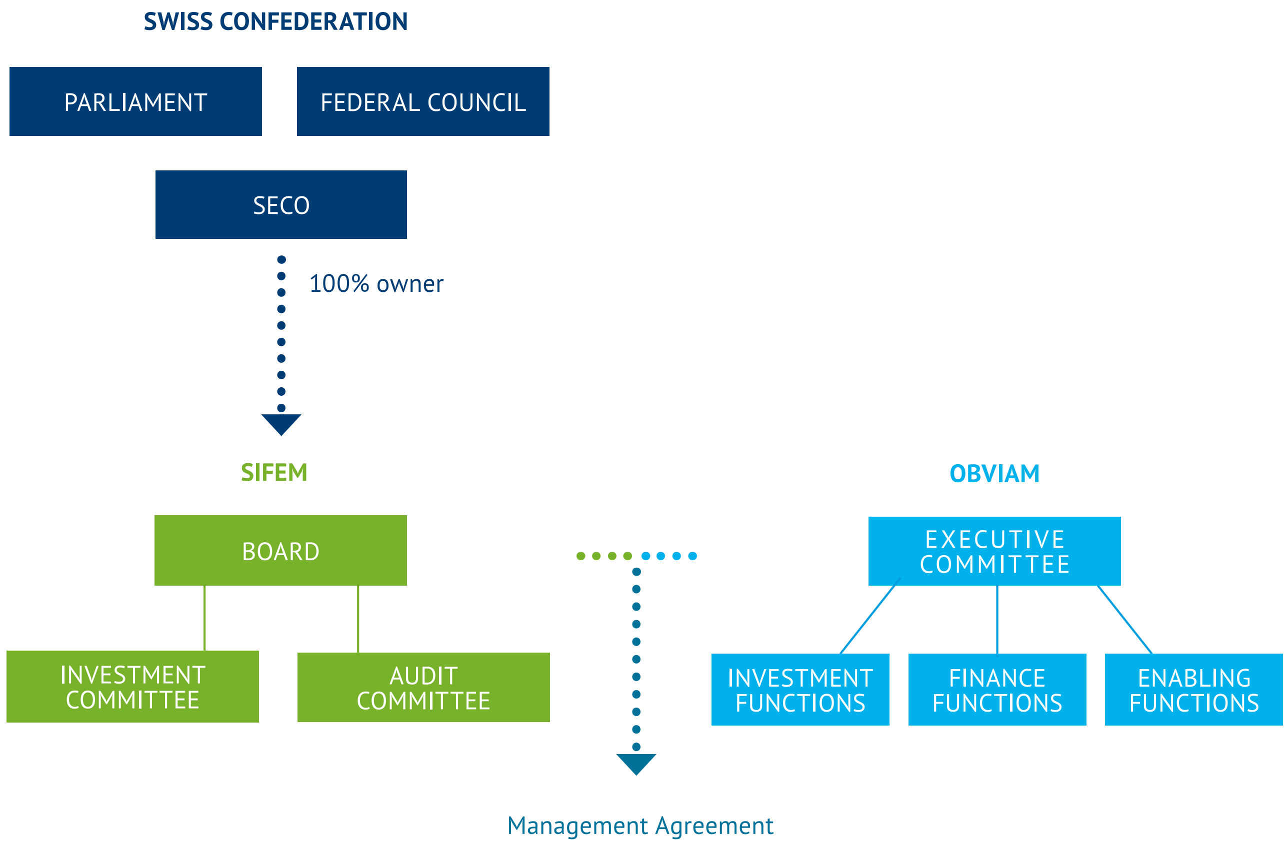
At the operational level, SIFEM's modus operandi is similar to the way other bilateral development cooperation actors implement their projects: most traditional development cooperation projects financed by Switzerland are implemented by local partners or local teams of professional development organizations (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 2019, around two-thirds of SIFEM's investments targeted Swiss priority countries for development cooperation (State Secretariat for Economic Affairs, SECO and Swiss Agency for Development and Cooperation, SDC), thereby complementing the offerings of both SECO and SDC via their respective programmes. Complementarity is sought particularly in relation to private sector promotion measures, which improve financial market infrastructure and the business environment in the target countries.

[1] Association of European Development Finance Institutions (EDFI), https://www.edfi.eu/

CORPORATE GOVERNANCE



SWISS CONFEDERATION
SIFEM AG is a private limited company, the shares of which are 100 per cent owned by the Swiss Confederation. The shareholder rights are exercised by the Federal Council. It defines SIFEM's strategic objectives, usually for a four-year period. Acting on behalf of the Swiss Government, the State Secretariat for Economic Affairs (SECO) is responsible for the control and oversight of SIFEM. SECO conducts regular controlling and portfolio review meetings with the SIFEM Board and Obviam. An oversight concept and supervisory framework ensure that SIFEM is investing in line with its remit.

SIFEM
The Board of SIFEM is responsible for investment decisions and other executive management tasks. As per its Organisational Regulations, the Board has delegated certain responsibilities to two committees: the Investment Committee and the Audit Committee. Investment and divestment decisions are delegated to the Investment Committee. The Audit Committee validates valuations of SIFEM investments, reviews SIFEM's financial accounts and related matters, and liaises with the auditor. SIFEM does not have any employees besides the part-time Board secretary.

OBVIAM
The management of SIFEM's investment portfolio and its day-to-day operations have been delegated to Obviam, an independent company specialised in impact investments in developing countries and emerging markets. This facilitates the raising of third-party capital by Obviam, thus fulfilling SIFEM's objective of mobilising private investments into target countries, while shielding SIFEM and the Swiss Government from liability risks.

SIFEM BOARD MEMBERS

JÖRG FRIEDEN
Chairperson of the Board, Chairperson of the Investment Committee, since May 2018

SUSANNE GROSSMANN
Vice-Chairperson of the Board, since 2014, Member of the Investment Committee, since 2011

REGINE AEPPLI
Member of the Board, since 2017

JULIA BALANDINA JAQUIER
Member of the Investment Committee, since 2011, Chairperson of the Audit Committee, since 2014

GEOFF BURNS
Member of the Investment Committee, Member of the Audit Committee, since 2014

ANGELA DE WOLFF
Member of the Investment Committee, since 2017

KATHRYN IMBODEN
Member of the Investment Committee, since 2014

A biography of the members of the SIFEM Governing Board can be found on the SIFEM website:
www.sifem.ch/about-us/board

THE ROLE OF DFIS DURING THE COVID-19 CRISIS

The COVID-19 pandemic has engulfed our planet. It is a human tragedy and is having an enormous impact on the global economy, which will likely see the worst contraction since the Great Depression of the 1930s. All emerging markets and developing economies not only face a health crisis, but have also witnessed a severe external demand shock, a sudden stop in capital inflows, and a sharp drop in commodity prices, which will have a severe impact on their economic activity. It is estimated that the economies of developing and emerging markets may contract by at least 3.3% in 2020, but this may be a conservative estimate. It also hides significant regional differences: the economic downturn is expected to be more severe in Latin American countries because of the size of their domestic outbreaks and exposure to global spillovers, while it is likely to be less severe in Asia, except in India.[2]

The IMF, the World Bank, the African Development Bank and other multilateral institutions have stepped up the fight against the virus by creating financing mechanisms to support cash-stretched governments across the world, in particular in Africa. The crisis also calls for a vigorous response to support the private sector, including job-support mechanisms and actions to help existing businesses survive.

DEVELOPMENT FINANCE INSTITUTIONS (DFIS) ARE THE FRONT LINE

In the face of this unprecedented crisis, Development Finance Institutions (DFIs) such as SIFEM have a crucial role to play. They form an effective front line in the struggle to preserve businesses in developing countries – from Colombia to Cambodia and from South Africa to the Ukraine – and are the institutions best suited to help the private sector in these markets. At a time when capital flows into developing countries have ground to a halt, DFIs have a unique opportunity to act in a counter-cyclical fashion and by leading other investors back into emerging markets in the medium term. The current crisis represents a defining moment for DFIs as they will have to absorb significant losses and may have limited commitment capacities. But only a strong response can help the businesses bounce back on the other side of the crisis.

In April 2020, SIFEM joined an alliance of fifteen DFIs from Europe, the US and Canada, which has committed itself to reducing the impact of the crisis on business activities in developing countries through enhanced collaboration and the leveraging of pooled resources, with a view to helping resolve current liquidity issues in financial sectors, support the viability of existing companies impacted by the pandemic, and promote new investments in goods and services necessary to global health, safety, and economic sustainability.[3] Moreover, in November 2020, SIFEM participated in the creation of a new dedicated COVID-19 financing initiative through the existing European Financing Partners (EFP) scheme, along with other EDFI members and the European Investment Bank (EIB). This EUR 280 million initiative has been designed to provide financial support to businesses and local financial institutions in emerging markets which are currently faced with economic challenges resulting from the COVID-19 pandemic. SIFEM has contributed EUR 8 million to this initiative, which started operations in late 2020.[4]

[2] International Monetary Fund: World Economic Outlook, Revised Projections, October 2020

[3] https://www.edfi.eu/news/development-finance-institutions-join-forces-to-help-alleviate-impact-of-covid-19-in-developing-countries/

[4] https://www.edfi.eu/news/european-bilateral-development-finance-institutions-and-eib-launch-eur-280-million-financing-initiative-to-support-covid-19-impacted-businesses/

SIFEM'S ROLE IN THE COVID-19 CRISIS

SIFEM has taken the necessary steps to preserve its portfolio's financial value and development impact. This implies providing financing and advice to SMEs and other investment partners which are critical for the preservation of local jobs. This also includes additional social risk management to mitigate the adverse effects of the crisis. In 2020, SIFEM has provided liquidity to local financial intermediaries for the purpose of strengthening financial intermediation and maintaining financing options for local companies. Beyond this necessary short-term response, SIFEM has a unique opportunity to 'build back better' and extend financing to those resilient financial intermediaries which can position themselves in a flexible and innovative way to finance private sector companies in emerging markets.

Along with other DFIs, SIFEM can play an important role in accelerating local economic recovery, while integrating one of the most important lessons learned from the COVID-19 crisis: the importance of financial, social and environmental sustainability for the build-up of resilient private sector companies.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BD-T15D
TROLLEY SPEAKER
Free Lossless
Audio Codec
NFC
REFRIGER
FRONT
DO NOT CLA
WARNING
DO NOT CLAMP

PORTFOLIO

NEW INVESTMENTS

In 2019, a total of USD 104.5 million of new investment commitments were made. The new portfolio positions are as follows:

BANK OF GEORGIA
Georgia
SIFEM investment:
$ 10 m

MICROFINANCE ORGANIZATION KMF
Kazakhstan
SIFEM investment:
$ 10 m

XACBANK
Mongolia
SIFEM investment:
$ 10 m

NAVEGAR II
Philippines
SIFEM investment:
$ 15 m

CATHAY AFRICINVEST INNOVATION FUND
Africa
SIFEM investment:
€ 7 m

VICTORIA COMMERCIAL BANK
Kenya
SIFEM investment:
$ 10 m

AFRICAN DEVELOPMENT PARTNERS III
Africa
SIFEM investment:
$ 15 m

EXCELSIOR CAPITAL VIETNAM PARTNERS
Vietnam
SIFEM investment:
$ 12 m

HATTHA KAKSEKAR LIMITED HKL
Cambodia
SIFEM investment:
$ 15 m

CATHAY AFRICINVEST INNOVATION FUND

(EUR 7 million committed)

The Cathay AfricInvest Innovation Fund (CAIF) is a pan-African fund that targets innovative companies using modern technologies, including mobile connectivity and internet-based services. Target sectors include education, where e-learning technology could increase reach and provide access to educational materials at lower costs, and agriculture, where, for example, technology could provide data to farmers to allow for better access to markets. Further sectors for investment include energy and clean technology, healthcare, financial services, and retail and distribution. SIFEM's investment in CAIF will support a response to Africa's socio-economic challenges with innovative products and services. It will foster financial sector deepening and financial innovation and support technological research and innovation as well as social inclusion.

HATTHA KAKSEKAR LIMITED HKL

(USD 15 million committed)

HKL is the third largest Microfinance Institution in Cambodia and is in the process of converting into a bank. Its product offering includes micro and SME (MSME) loans, personal and mortgage loans, as well as current and savings accounts. Eighty-two per cent of its clients live in the rural regions of Cambodia, and 66 per cent are women. Nearly two-thirds of the loan portfolio is directed towards MSMEs, and the small loan sizes facilitate access to finance among the low-income population. HKL has endorsed the Client Protection Principles[5] and achieved certification in 2016. It has implemented a dedicated financial education program for its credit officers to enable them to provide basic financial literacy training to HKL's clients. Credit officers also raise their clients' awareness on environmental and social issues relevant for their businesses. SIFEM's loan to HKL supports access to credit for MSMEs, and contributes to job creation, financial inclusion and the overall growth of the Cambodian economy.

MICROFINANCE ORGANIZATION KMF

(USD 10 million committed, in local currency)

KMF is the largest microfinance institution in Kazakhstan, with over 245,000 clients. It has a network of nearly 120 branches and outlets situated in urban and rural areas. The institution offers loans for agriculture and business purposes to micro and small entrepreneurs, with a focus on rural areas; it fosters financial inclusion through its reach to the lower income segment of the population, and offers both individual and group loans. Micro loans represent 79 per cent of the portfolio, 59 per cent of the total portfolio are loans provided to women, and 35 per cent of the total portfolio are loans for agricultural purposes. KMF is supporting its clients by providing not only financial services, but also financial literacy education and business management training. SIFEM's long-term loan disbursed in local currency will support KMF to provide financing to MSME clients that have largely been ignored by commercial banks, enabling them to operate and further grow their businesses. It will contribute to the long-term sustainability of the Kazakh economy through financial sector deepening and job creation.

[5] https://www.smartcampaign.org/about/smart-microfinance-and-the-client-protection-principles

NAVEGAR II

(USD 15 million committed)

Navegar II will invest in mid-sized companies in the Philippines in need of growth capital. The Fund will target sectors such as fast-moving consumer goods, financial services, healthcare, and tourism. The Fund Manager seeks to maximize the value of its portfolio companies by providing financial, operational and strategic guidance. With a population of over 105 million, the Philippines still faces significant hurdles to broad economic prosperity and job creation. While the poverty rate has fallen in recent years, more than 20 per cent of the population is still living below the national poverty line. SIFEM's investment will contribute to economic and social development by creating more and better jobs in the country. The investment will also help broaden the country's tax base.

VICTORIA COMMERCIAL BANK

(USD 10 million committed)

Victoria Commercial Bank is a privately-owned bank in Kenya specialised in SME financing, with a focus on the medium-size company segment. Through its four branches in Nairobi, it reached more than 800 borrowers and around 2,300 depositors in 2018. The Bank aims to grow by expanding its SME customer base, including outside of the capital, Nairobi. SMEs in Kenya account for 78 per cent of the entire labour force but they lack access to finance and are therefore constrained in their growth prospects. SIFEM's loan to Victoria Commercial Bank will support access to credit for SMEs and contribute towards the creation and maintenance of jobs.

XACBANK

(USD 10 million committed)

XacBank began its operations in 1998 as a microfinance project in Mongolia and obtained a banking license in 2001. It has 480,000 active depositors and 120,000 borrowers who are served through 87 branches, half of them located in rural areas. It offers retail, microfinance, SME and corporate banking services. Women represent the majority of XacBank's clients (64 per cent in 2018) and one of the ways the bank demonstrates its commitment to female clients is by offering tailor-made products and discount rates to women entrepreneurs. SIFEM's loan is part of a syndicated transaction led by IFC, and will help XacBank to provide additional financing support to micro and small entrepreneurs during the economic recovery. It will foster financial inclusion by increasing access to finance in rural areas and contribute to the diversification and long-term sustainability of the Mongolian economy through job creation, financial sector deepening and financial innovation.

AFRICAN DEVELOPMENT PARTNERS III

(USD 15 million committed)

African Development Partners III is a private-equity fund that will make up to 14 investments to support established and growing consumer-focused businesses by improving their processes and expanding regionally across Africa. The Fund is managed by DPI, an independent Pan-African private equity firm known for its strong track record and desire to have a best-in-class approach to fund management, investment, value-add,

and ESG. DPI stands out as the only women-led Fund Manager operating in the African upper mid-market and as of one of the very few women-led private-equity managers across the entire African market. SIFEM's investment will contribute to economic and social development by creating more and better jobs and addressing gender inequality.

BANK OF GEORGIA

(USD 10 million committed)

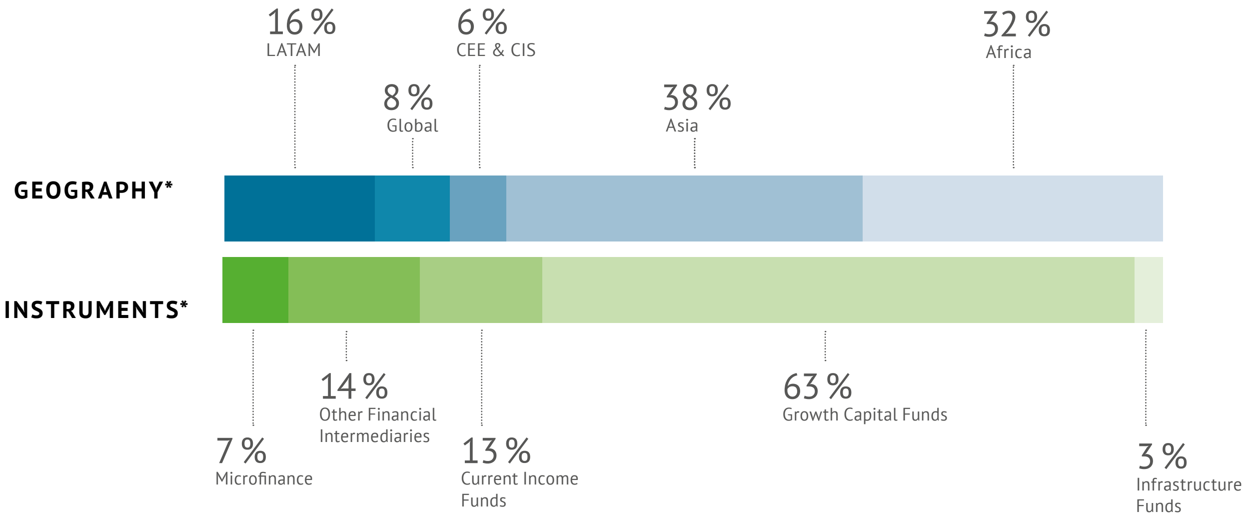
Established in 1994 as a private bank, Bank of Georgia is an industry-leading and systemically important universal bank, serving 2.5 million clients through 276 branches, which is the largest distribution network in Georgia. Currently, the Bank is the largest contributor to MSME lending in Georgia. SIFEM participated in a syndicated transaction led by FMO (Netherlands) to provide Bank of Georgia with a subordinated loan. This transaction will allow Bank of Georgia to further grow its loan portfolio towards the MSME segment, which continues to be one of the main drivers of economic growth in Georgia, employing more than 60 per cent of the total workforce. It is also a good opportunity for SIFEM to provide its first direct debt investment in Georgia and increase its footprint in the Caucasus, an under-invested region.

EXCELSIOR CAPITAL VIETNAM PARTNERS

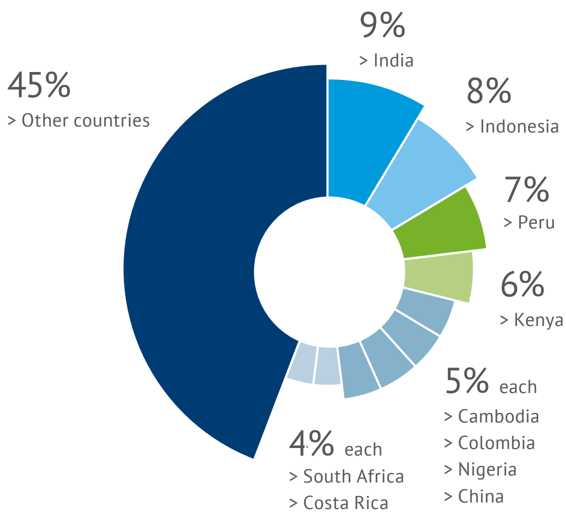
(USD 12 million committed)

Excelsior Capital Vietnam Partners is a private-equity fund that will primarily invest in established SMEs and mid-sized businesses in Vietnam. The fund will specifically target high-growth sectors such as healthcare, industrials, clean technologies, food & agri-business, media, as well as consumer products. The fund will be managed by a newly established Vietnam Team of the Excelsior Capital group, a leading private equity house in Asia. SIFEM's investment will contribute to the further development of Vietnamese SMEs and medium-sized businesses, and in particular, to the formalisation of jobs through increased training and skills development.

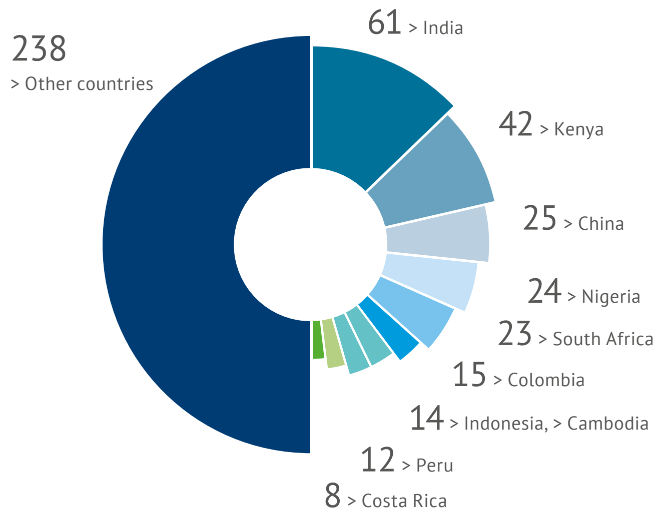
PORTFOLIO OVERVIEW



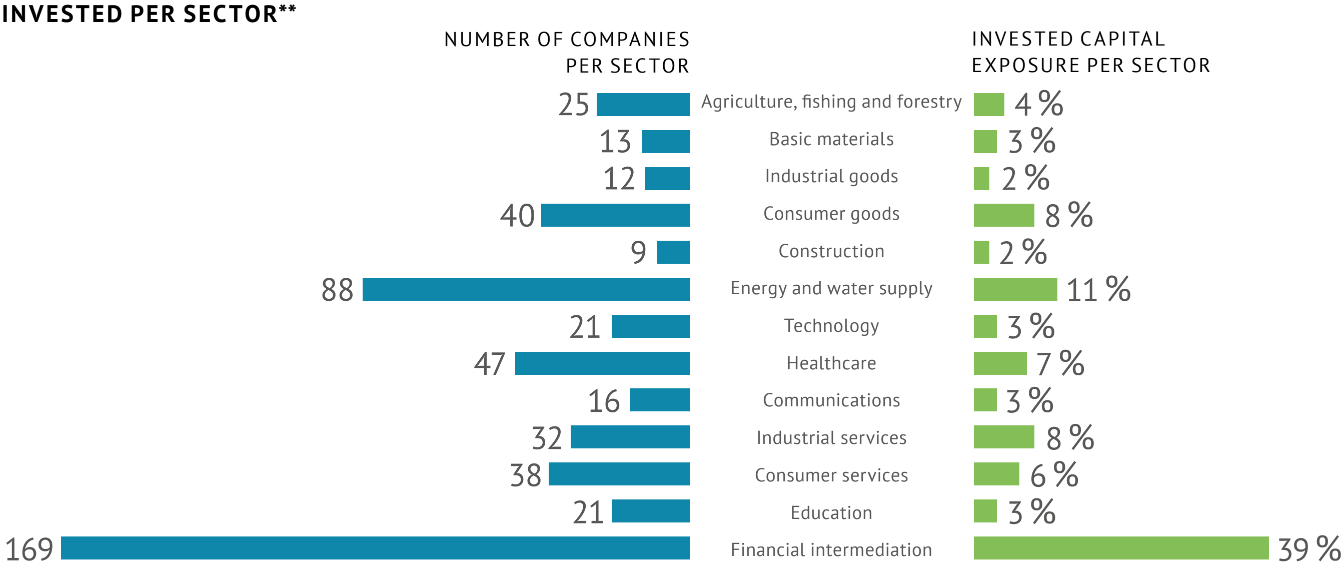
LARGEST COUNTRY EXPOSURES BY INVESTED CAPITAL**



LARGEST COUNTRY EXPOSURES BY NUMBER OF COMPANIES**



INVESTED PER SECTOR**



* Data as of 31 December 2019 ** Data as of 30 June 2019

FINANCIAL HIGHLIGHTS

	2019	2018
OPERATIONAL HIGHLIGHTS in USDm		
Commitments and cash flows		
Total commitments made to date	1,059,3	958,1
Total active commitments	839,0	782,0
Uncalled commitments	240,3	225,2
Cumulative paid-in capital to date	820,2	742,5
Cumulative reflows received to date	596,3	539,8
Cumulative net cash flow to date	–223,9	–202,7
New investment commitments	104,5	70,0
Reflows from investments	56,5	55,9
Investment portfolio valuation		
Residual value	420,5	388,4
Internal rate of return (%)	6,0 %	6,3 %
Total value over paid-in (%)	124 %	125 %
Private finance mobilised		
Total private investor commitments advised by Obviam	113,5*	123,5
New co-investments from private investors	0,0	5,3

USD 104.5 m
NEW INVESTEMENT COMMITMENTS

	2019	2018
FINANCIAL STATEMENT HIGHLIGHTS in CHFm		
Annual results		
Investment profit/-loss	16,0	–12,5
Operating result	5,1	–22,5
Total comprehensive income	–6,9	–17,0
Balance sheet		
Balance sheet total	643,3	621,4
Cash and cash equivalents	217,2	218,5
Uncommitted capital	–15,5	–3,5
Financial assets	407,2	382,8
Shareholder's equity	628,8	606,0
Equity ratio (%)	97,7 %	97,5 %

CHF 407.2 m
FINANCIAL ASSETS

Note: Operational highlights are presented in USD, the functional (base) currency in which SIFEM's accounts are held. The Financial Statements are translated into the presentation currency CHF for reporting purposes. Annual result and balance sheet figures per IFRS account; investment portfolio valuation based on rolled-forward data as of 30 September 2019.

* The total private investor commitments advised by Obviam decreased by USD 10 million in 2019 due to the discontinuation of an advisory mandate. No new co-investment took place in 2019 because all funds under management had already been fully committed by the end of 2018. However, Obviam has been able to acquire a new mandate from a large Swiss foundation for the set-up and management of USD 60 million in 2020.


AREA DE RECUPERADO

SIFEM'S CONTRIBUTION TO DEVELOPMENT

HOW DOES SIFEM 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 in developing and emerging countries, including job creation, skills development, tax payments, financial sector deepening and diversification, and implementation of international best practice environmental, social and governance standards.

SIFEM's main development effects are reported to Parliament as contributions to the target outcomes ("Wirkungsziele") of Switzerland's economic development cooperation framework. SIFEM is relying on a result measurement system 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 goals put great emphasis on a development model in which the private and public sectors have complementary roles in supporting sustainable growth and improving lives.

The result measurement framework used by SIFEM is composed of three different components: First, an internal rating tool (SIFEM GPR) originally developed by the German Development Finance Institution (DEG), is used to appraise investments and track their development performance over time. In order to do this, a benchmark is established prior to investment to reflect the expected development effects. Second, a number of indicators are collected for each investment to measure development effects, which can be aggregated at the portfolio level and reported to Parliament. Third, case studies are conducted on an annual basis to take a closer look at the effects and value-add of SIFEM's investments in specific contexts[6].

SIFEM'S RESULT MEASUREMENT FRAMEWORK

INTERNAL RATING TOOL	DEVELOPMENT METRICS	CASE STUDIES
SIFEM GPR System providing an assessement of the development performance during the whole investment period	Development indicators (employment, training, tax payments, financing volume, climate change mitigation, access to healthcare etc.)	2-4 case studies per year

Each year, SIFEM collects and monitors data on the key development effects of the underlying portfolio companies (531 companies in more than 75 countries as of December 2019). Underlying portfolio companies report on the direct effects of their operations, using indicators which are harmonised, to the extent possible, with other Development Finance Institutions and with the standardised metrics developed by the impact investing community. These metrics capture portfolio-wide effects applicable to all investments, and sector-specific effects (for example: clean energy production, access to healthcare) whenever applicable. Changes in the composition of SIFEM's portfolio (new investments, exits, delays in getting annual data) lead some of the figures that describe the development effects of SIFEM's investments to fluctuate from year to year.

As part of its "Impact Policy" in use since January 2018, SIFEM commits to maximise the development effects throughout the whole investment cycle, from investment analysis, investment decision-making, to investment management and monitoring. For this purpose, SIFEM analyses and monitors the contribution of its investments to four broad development pillars, which are fully in line with the 2030 Agenda for Sustainable Development and with the strategic objectives assigned to SIFEM by the Swiss Government for the period 2018-2020.

The Impact Policy requires that every SIFEM investment contributes at least to the first two outcomes (Economic viability and Economic development), which are at the core of SIFEM's interventions. Furthermore, some

6 http://sifem.ch/impact/case-studies/

SIFEM investments may also contribute to additional development effects captured by outcome 3 (Social Inclusion) and 4 (Global Public Goods & Challenges), depending on the characteristics of the investment: for instance, a sector-specific investment fund targeting clean energy installation will also contribute to outcome 4, while an investment in a financial institution fostering the financial inclusion of low-income clients will also contribute to outcome 3.[7] The above-mentioned results measurement framework is used to track SIFEM's contribution to these different outcomes.

SIFEM's current practice of impact management is broadly aligned with the Operating Principles for Impact Management, which were developed by the International Finance Corporation (IFC) and launched on 12 April 2019 at the World Bank Group Spring Meetings in Washington DC. The Principles provide a common market standard for what constitutes an impact investment. They describe the essential features of managing investments into companies or organisations with the intent to contribute to measurable positive social, economic, or environmental impact, alongside financial returns. Impact considerations have to be integrated into all phases of the investment lifecycle: strategy, origination and structuring, portfolio management, exit, and independent verification. Critically, the Principles call for annual disclosure as to how signatories implement the principles, including independent verification, which will provide credibility to the adoption of the Principles.

SIFEM was among the first adopters of these Principles, committing to manage its impact assets in accordance with the Principles. To date, more than 100 investors have become signatories of these Principles covering more than USD 340 billion of assets under management.[8] SIFEM's alignment with the Principles has been confirmed through an independent verification process carried out in November 2020.

IFC OPERATING PRINCIPLES FOR IMPACT MANAGEMENT

Strategic Intent

1. Define strategic impact objective(s) consistent with the investment strategy
2. Manage strategic impact and financial returns at portfolio level.

Origination & Structuring

3. Establish the investor's contribution to the achievement of impact.
4. Assess the expected impact of each investment, based on a systematic approach.

Portfolio Management

6. Monitor the progress of each investment in achieving impact against expectations and respond appropriately.

Impact at Exit

7. Conduct exits, considering the effect on sustained impact.
8. Review, document, and improve decisions and processes based on the achievement of impact and lessons learned.

5. Assess, address, monitor, and manage the potential risk of negative effects of each investment.

9. Publicly disclose alignment with the Principles and provide regular independent verification of the extent of alignment.

Independent Verification

[7] The full text of the SIFEM "Impact Policy" is available at http://sifem.ch/impact/impact-policy/

[8] https://www.impactprinciples.org/

2019 DEVELOPMENT HIGHLIGHTS

EMPLOYMENT

CREATING MORE JOBS WITH DECENT WORKING CONDITIONS

Through its investments, SIFEM helps SMEs and other fast-growing companies to support and create formal sustainable jobs

870,600
jobs supported and created since 2005 (together with investment partners)

60%
of SIFEM portfolio companies provide training to their employees (*)

GENDER

CREATING ECONOMIC OPPORTUNITIES FOR WOMEN

Through its investments, SIFEM promotes gender equality and equal opportunities

38%
of the employees in SIFEM portfolio companies are women (*)

ACCESS TO FINANCE & FINANCIAL INCLUSION

PROVIDING ACCESS TO FINANCIAL SERVICES & PRODUCTS

Through its investments, SIFEM facilitates access to finance to SMEs and fosters financial inclusion

5.9 mn micro loans
152,000 SME loans
84,000 housing loans
outstanding as of end 2019 at the level of SIFEM partner institutions and their underlying portfolio companies (*)

CLIMATE CHANGE MITIGATION

ACCELERATING THE ENERGY TRANSITION

Through its investments, SIFEM fosters access to clean energy and to more efficient energy & resources management solutions

5,882 GWh
of clean energy produced

5.5 mn tons
of CO_2 emissions avoided (together with investment partners) in 2019

DOMESTIC REVENUE MOBILISATION

BROADENING THE LOCAL TAX BASE

SIFEM's investees and their underlying portfolio companies comply with tax regulations and pay taxes where they conduct business

USD 2,370 mn
Corporate and other taxes paid locally by underlying portfolio companies (*)

PRIVATE INVESTMENT MOBILISATION

REDUCING THE FINANCING GAP

SIFEM leverages further private investment for development

1 to 5
For each dollar invested by SIFEM, there were USD 5 of private investment in 2019

* For post-2013 investments as of end 2019
Note: the metrics reported are aggregated across the whole portfolio as of end December 2019, with a 5% error margin.

THE JOB CHALLENGE IN EMERGING MARKETS

MORE JOBS ARE NEEDED ...

Creating an increasing number of decent jobs has long been identified as one of the top priorities for global development. Jobs are the principle escape route out of poverty: jobs boost living standards, help to build self-esteem and social cohesion, and are critical for economy-wide productivity growth. In other words, jobs are instrumental to achieving economic and social development. The centrality of jobs is fully recognised in the Sustainable Development Goals (SDGs), and in particular in SDG 8 ("Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all").

Even before the COVID-19 crisis broke out in early 2020, the global job market was characterised by large deficits and mismatches: according to the International Labour Organization (ILO), only 57% of the world's working-age population was in employment in 2019, 4% was unemployed and a staggering 39% was not part of the labour force.[9] However, unemployment figures hide a much more fundamental problem, namely underemployment and labour underutilisation. More than 470 million people worldwide lack adequate access to paid work as such or are being denied the opportunity to work the desired number of hours. In other words, total labour underutilisation is more than twice as high as unemployment alone. Underemployment/underutilisation is an even a larger problem in low- and middle-income developing countries, especially for young people and women. In fact, the labour force participation rate of young people (aged 15 to 24) has continued to decline between 1999 and 2019, and among those young people who are not in employment, education or training, a large majority are young women. Prior to the current crisis, it was estimated that 600 million new jobs would need to be created in emerging markets between 2020 and 2030 to cope with the socio-demographic changes, mainly in Africa and South Asia, which have fast-growing youthful workforces.[10] As illustrated in Box A, these jobs will have to come from private sector companies, with a key role for SMEs and larger companies.

BUT JOB QUALITY MATTERS EVEN MORE ...

Beyond purely quantitative considerations, it is crucial to recognise that the world of work is very diverse and multifaceted in developing countries. Diversity refers here not only to the number of hours worked but also to the characteristics of jobs. As recognised by development practitioners for a long time, focusing merely on job numbers in such environments is misleading, since not all of these jobs come with the same contractual terms and

BOX A: MAIN FEATURES OF JOBS IN DEVELOPING COUNTRIES

- **9 of out 10 jobs are provided by the private sector.**
- **The large majority of firms have fewer than 10 permanent workers. Micro and small enterprises often constitute up to 95% of all firms.**
- **Large enterprises are the principal source of employment in the formal private sector, accounting for 45% to 70% of employment. SMEs account for 30% to 55% of employment, the highest share being in Sub-Saharan Africa and lowest shares in South Asia and Latin America. Formal jobs tend to be concentrated in a small number of large firms.**
- **The contribution of SMEs to total employment has grown rapidly in the last decade, as SMEs and young firms are often more dynamic than large firms with respect to employment growth. However, employment in SMEs is volatile, since SMEs are more likely to fail than larger firms.**
- **Job quality is often weaker in SMEs than in large firms, especially in sectors and activities with high occupational, health and safety risks, such as primary agriculture and forestry, manufacturing, and construction. Larger firms also tend to provide better working conditions and formal terms of employment. Workers in large firms report more than 20% higher hourly wages than those in SMEs in low- and middle-income countries.**

Sources:
IFC Jobs Study "Assessing private sector contributions to job creation and poverty reduction", 2013;
World Development Report 2013 – World Employment Social Outlook 2017 – Sustainable Enterprises and Jobs, ILO, 2017; Jobs: Pathways to Better Jobs in IDA countries, Job Series Issue N°14. The World Bank, 2018;
"Making it big: why developing countries need more larger firms", the World Bank, 2020.

9 World Employment and Social Outlook Trends 2020, ILO, January 2020, pp.18-19
10 Pathways to Better Jobs in IDA countries, Job Series Issue N°14. The World Bank, 2018, pp.5-6

working conditions. Indeed, there can be large differences between permanent job positions and workers employed with temporary, seasonal, or on-demand contracts, not only in terms of wage income, but also in terms of basic workers' rights and social security coverage. In other words, it is fundamental to care about the type of jobs supported, that is, about the quality of these jobs. All too often, the lack of income or other means of financial support compels workers to engage in informal jobs that offer low pay and provide little or no access to social protection and rights at work. Indeed, informality is estimated to be around 84% of economic activity on average in middle-income countries and as high as 90% on average in low-income countries.[11] In addition, almost 50% of jobs in developing countries are in farming and small household enterprises, or in casual or seasonal day labour, outside the scope of an employer-employee relationship. This also implies looking at workers' characteristics. Some categories of workers may face worse working conditions than others, particularly low-income workers, young workers, and women, which results in vulnerable employment. One example of discrimination remains the gender pay gap: according to the ILO, women are on average paid approximately 20% less than men in low- and middle-income countries, with large variations across countries.[12]

The qualitative dimension of work is embedded in SDG 8, which builds on the ILO's "decent work agenda". Originally coined in 1999 by the ILO, this ambitious agenda

Rights at work (ILO Core Conventions)	Social & labour protection	Social dialogue	Access to employment & skills development
• Protection of children and young persons • Equality of opportunity and treatment in employment • Abolition of forced or compulsory labour • Freedom of association & right of collective bargaining	• Social security coverage • Health & Safety at Work • Contractual terms (employment relationship, worked hours, termination) • Wages & earnings	• Tripartite dialogue (governent, employers, employees)	• Opportunities for skills upgrading and development • Life-long training

GENDER EQUALITY / NON-DISCRIMINATION

[11] World Employment and Social Outlook-Trends 2020, ILO, January 2020, pp.18-19

[12] Global Wage Report 2018/19 - What lies behind gender pay gaps, ILO, 2018. pp.23-26

comprises four equally important pillars, namely rights at work, social & labour protection, social dialogue, and access to employment & skills development, with gender equality and non-discrimination as cross-cutting issues.[13]

The "decent work" agenda is therefore very broad, and its components are highly context-specific. Despite a lack of formal consensus on what constitutes "job quality", it should be understood to incorporate the normative elements of the Decent Work Agenda (the Core Labour Standards), as well as specific elements of the Social & Labour Protection Pillar.

AND THE NATURE OF WORK IS CHANGING …

The job challenge in developing and emerging markets also involves some profound structural changes linked to the Fourth Industrial Revolution and the growing computer-controlled automation of so-called routine tasks. Because some types of manual and routinised work can be easily handled by computers, machinery, and artificial intelligence, large-scale automation is poised to have significant and wide-reaching effects on workers in developing countries. On the negative side, countries facing the greatest risk from automation are those depending on production sectors in which many jobs involve manual or routinised manufacturing tasks, such as sorting, lifting, and tracking, that can be easily automated. In Ghana and Kenya, for instance, 42% and 22% of jobs respectively have a very high estimated automation risk according to a recent research study.[14] In Vietnam and Laos, the corresponding numbers are 25% and 33%, respectively. On the positive side, automation technologies including artificial intelligence and robotics typically generate significant benefits for users, businesses and economies, hence lifting productivity and creating new economic opportunities which did not exist before.

All this means that major transitions lie ahead, which could match or even exceed the scale of historical shifts out of agriculture and manufacturing. The extent to which these technologies displace workers will depend on the pace of their development and adoption, economic growth, and growth in demand for work. According to global research conducted by McKinsey, between 3% and 14% of the global workforce will need to switch occupational categories in the next 10 years.[15] On average, job displacement induced by technological change is expected to be lower in Sub-Saharan Africa than in Asia or Latin America. Across developing countries, labour demand is expected to rise – especially for those jobs requiring secondary or advanced education degrees, with the largest number of new jobs in occupations requiring a secondary education, but the fastest rate of job growth for occupations currently requiring a college or advanced degree. The skills and capabilities required will also shift, requiring more social and emotional skills and more advanced cognitive capabilities, such as logical reasoning and creativity. Providing job retraining and enabling individuals to learn marketable new skills throughout their lifetime will be a critical challenge – and for some countries, the central challenge.

One prime example is the broad range of "new jobs" made possible by the digital economy, often through the help of web-based platforms connecting consumers and businesses, which are characterised by low operational costs, flexibility and the elimination or reduction of intermediaries. This so-called "gig economy" is sometimes portrayed as the present and the future of work in developing countries.[16] According to some estimates, some 4.8 million people derive some income from digital work in key African markets, and in India, around 24% of workers are engaged through online platforms.[17] Yet, these digital jobs also come with important risks and challenges for workers, in terms of employment status and labour protection, but also in terms of work safety, income, and data protection. Gig opportunities tend to be highly competitive, not only within countries but also across borders. Furthermore, competition may even accelerate in the future, as the economic impact of the COVID-19 crisis fosters a global shift into the digital sphere, sending millions of workers out looking for alternative sources of income.

[13] ILO Declaration on Social Justice for a Fair Globalization, ILO, Geneva 2008

[14] Engaña del Sol, P., "The Future of Work in Developing Economies: What can We Learn from the South?", MIT Sloan School of Business, December 2019.

[15] Jobs lost, jobs gained. Workforce Transitions in a Time of Automation, McKinsey Global Institute, 2017.

[16] Ng'weno, A., Porteous, D. "Let's Be Real: The Informal Sector and the Gig Economy are the Future, and the Present, of Work in Africa", CGD Note, Center for Global Development, October 2018.

[17] Estimates quoted from an Ergon Associates research commissioned by SIFEM and CDC in 2020 on jobs and livelihood in the platform economy.

COVID-19: FROM LOCKDOWNS TO MASSIVE JOB LOSSES

Firms and workers in every part of the world have been affected by the COVID-19 shock. Some preliminary enterprise surveys run by the World Bank in the first half of 2020 showed that sales fell for about 85% of firms in developing countries relative to the same period in 2019, and that micro and small firms have been affected disproportionately compared to larger firms.[18] To be sure, more than half of micro and small firms are in arrears or expect to fall into arrears during the coming six months.

As the world has entered its worst recession since the Great Depression of the 1930s, 495 million jobs had already been lost by mid-2020[19] and 245 million additional job losses could be recorded by the end of 2020, potentially unravelling a substantial share of the jobs created in developing countries in the last ten years. Unemployment rates are already rising but in most developing countries, the consequences are likely to be even more dramatic in terms of increased under-employment, income reduction and vulnerable employment conditions, especially for some segments of the workforce. These include people living in densely populated urban areas, people with underlying health conditions and older workers, young workers, unprotected workers (e.g. self-employed, seasonal or temporary workers, and more broadly all informal workers) and women. Indeed, women account for a large proportion of workers in front-line occupations, especially in the health and social care sectors. The crisis also poses a serious threat to the occupational safety and health of workers, and the global gains in reducing child labour may even be reversed for the first time in twenty years.[20]

The implications of the dual health and economic crises on the world of jobs are therefore severe. Informality will rise further, and so will poverty levels. COVID-19 is expected to push some 100 million people into extreme poverty during 2020 alone, especially in South Asia and Sub-Saharan Africa. It not only affects the already poor and vulnerable people who are being hit hard: the crisis is also partly changing the profile of global poverty by creating millions of "new poor." According to the World Bank,[21] the new poor are more urban, better educated, and less likely to work in agriculture than those living in extreme poverty before COVID-19.

[18] https://blogs.worldbank.org/psd/firms-struggle-stay-afloat-after-losing-half-sales-still-keep-workers

[19] ILO Monitor: COVID-19 and the world of work (6th edition), 23 September 2020.

[20] The Sustainable Development Goals Report 2020, United Nations, 2020.

[21] Poverty & shared Prosperity in 2020: Reversal of Fortune, The World Bank, 2020.

SIFEM'S CONTRIBUTION TO THE JOB CHALLENGE

As mentioned in the note to the reader at the beginning of this report, this report not only provides information on the pre-crisis situation as of December 2019, but also seeks to give some preliminary indications of the effects of the crisis on jobs in the SIFEM portfolio in 2020. This means that while the 2019 numbers are still positive, significant job losses are to be expected in 2020, which will be reported on only in 2021.

THE JOB SITUATION IN SIFEM'S PORTFOLIO AT THE END OF 2019

MORE JOBS – At the end of 2019, SIFEM had, together with other co-investors, cumulatively created and supported more than 870,000 jobs. About 60% of the jobs in SIFEM's active portfolio at the end of 2019 are in the priority countries of Switzerland's development cooperation, which is slightly below the financial exposure of SIFEM in those countries (65% based on paid-in capital). 12% of the jobs supported are in Least Developed Countries (LDCs), which is slightly above the financial exposure of SIFEM in those countries.

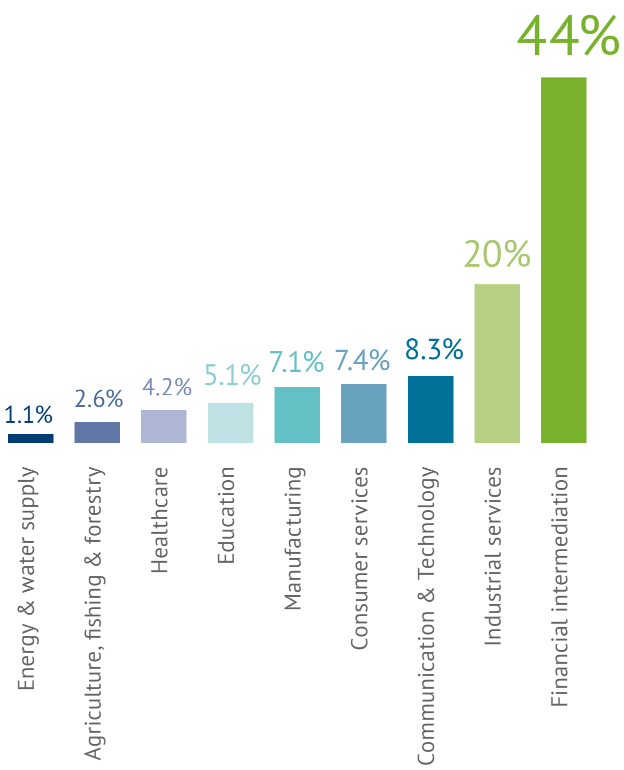
FOCUSING ON 2019, ONE OBSERVES THE FOLLOWING FEATURES:

Geographical concentration: around 43% of the jobs in the portfolio were in Africa, 33% in Asia, and 12% in Latin America, while the remainder were in CEE/CIS and distributed "globally" (or in several regions). The five largest country exposures in terms of jobs supported were South Africa, Nigeria, India, Indonesia, and Cambodia. These five countries account for 53% of all jobs in the portfolio. These five countries belonged to SIFEM's top financial exposures.

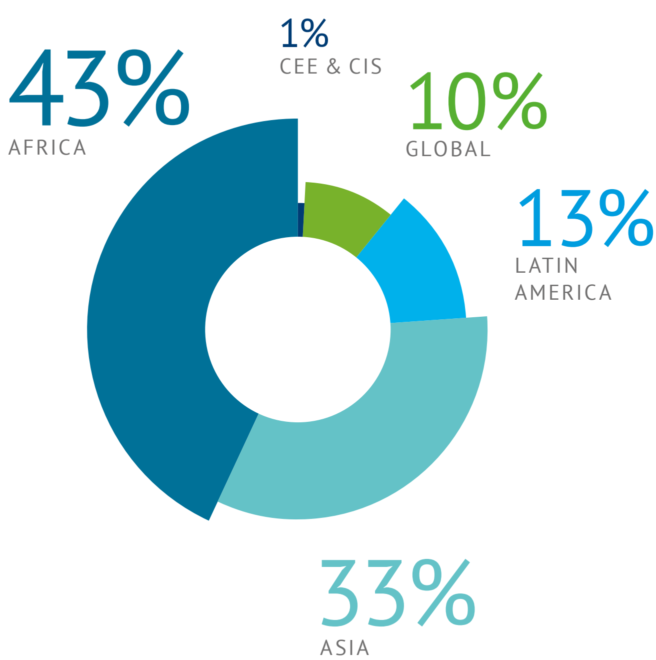
Company concentration: job concentration tends to be fairly high in the portfolio, that is skewed towards a few large companies, coming from a handful of funds. To be sure, the largest 10 investees in the SIFEM portfolio accounted for nearly 46% of the jobs in the portfolio in December 2019. One investment fund in particular contributed 25% of the total jobs.

Sector concentration: 44% of the jobs were concentrated in financial intermediaries, followed by industrial services (20%) and communications & technology (8.3%). The share of industrial services was the highest in Africa and Latin America, whereas it was quite low in Asia. In contrast, the share of healthcare and education was relatively high in Asia (18%) while it was much smaller elsewhere. Jobs in agriculture, fishing & forestry were mostly found in Africa and Latin America but accounted for only 3% of the total. Jobs in manufacturing were mostly found in Africa and accounted for 7% of the total.

JOB CONCENTRATION BY SECTOR (2019)



REGIONAL DISTRIBUTION OF JOBS (2019)



SME versus large company jobs: SMEs accounted for around 54% of all fund investees in the SIFEM portfolio. However, these SMEs accounted for only 5.3% of total jobs in fund investees. The average number of jobs per SME is 79 while for larger companies, it is around 2,349. Again, this essentially reflects the high concentration of jobs in the portfolio in a limited number of large companies, and it shows that while SMEs dominate the portfolio, most of the jobs come from larger companies. In terms of sectors, SME jobs were mostly found in financial intermediation and technology. With respect to larger companies, jobs were mostly found in financial intermediation and industrial services. When the jobs induced indirectly from the loan portfolios of the financial institutions supported by SIFEM were added to the dataset, the share of SME jobs moved to 16% of total jobs.

Job type: 84.3% of the jobs were direct jobs in the funds' investee companies. The remainder were composed of the staff of the financial institutions (4.7% of total) and of the funds (0.1%), as well as the jobs induced indirectly from the loan portfolios of the financial institutions supported by SIFEM, which represented 10.9% of the total.

Gender concentration: it is estimated that women accounted for approximately 38% of the employees in SIFEM's portfolio companies. Women accounted typically for the majority of the workers in healthcare, education and consumer services, while their share of the workforce in the construction sector and in technology was very low (around 5%).

Job Growth: overall, employment in the SIFEM portfolio companies grew by around 9% on average in 2018-19. Average employment growth was much stronger in Asia than in other regions, and large company jobs grew slightly faster than SME jobs, however with significant variation across regions.

BETTER JOBS – According to SIFEM's Impact Policy, SIFEM captures the qualitative dimension of jobs by examining three complementary aspects:

COMPLIANCE WITH NATIONAL LEGAL REQUIREMENTS

SIFEM's fund managers and financial institutions contractually commit to operating in line with national labour and occupational health and safety regulations. They also commit to work according to defined time frames to meet the ILO core standards and basic terms and conditions of employment when national legislation falls short of these standards. SIFEM requires that these financial intermediaries' contracts with their portfolio companies and clients also include the same types of commitments. However, SIFEM invests in countries where national regulations may be weak and/or not enforced, and in countries where laws are rigid and could create incentives for the use of flexible contractual arrangements such as contract labour. Consequently, SIFEM ensures that its financial intermediaries develop Environmental and Social Management Systems and engage qualified personnel to manage these systems. The reason for this is that they are equipped to identify risks related to labour and working conditions and actively work together with their respective portfolio companies and clients over defined time frames to meet SIFEM's requirements.

BOX B: STRUCTURAL TRANSFORMATION AND JOB QUALITY

In 2019, SIFEM commissioned a research study to look at the contribution of SIFEM's investments to the creation of better quality jobs. The research focused specifically on the manufacturing sector, which has been experiencing significant changes in production processes, mainly driven by technological innovation and automation. Approximately 10% of SIFEM's active portfolio companies operate in the manufacturing sector and are mainly located in Africa and to a lesser extend in Latin America and Asia. The research was carried out by Ergon Associates, a specialised consultancy company based in the UK. The research combined a desk study, a survey of more than 20 Fund Managers, additional interviews with stakeholders and field visits to selected portfolio companies.

MAIN FINDINGS:

- **Total jobs in SIFEM portfolio companies in the manufacturing sector shows a clear upward trend across all regions from 2005 to 2017. During this period, on average, nearly 600 jobs per company were supported. As of December 2017, 36 354 manufacturing jobs were supported, accounting for 9.6% of the total number of jobs supported or created through SIFEM's fund investments. Approximately 70% of these manufacturing jobs are located in Africa, 22% in Asia and 8% in Latin America.**
- **Most manufacturing companies supported by SIFEM growth capital do not appear to have been affected by automation trends as of 2019 due to their focus on lower value industrial goods and due to high technology costs. As a result, no case of large job disruption driven my automation has been identified, although some short-term disruption or recourse to more flexible contracts has been observed.**
- **Job quality remains notoriously difficult to assess, as it is complex and multifaceted. As a result, it is hard to measure and quantify job quality in a uniform way. Job quality indicators often need to be contextualised in order to make sense, making cross-comparisons potentially difficult. Indeed, job quality depends on the type of enterprise concerned and its particular situation.**

PROGRESS MADE IN HEALTH & SAFETY AT WORK, ABOVE AND BEYOND LEGAL REQUIREMENTS

SIFEM has required that the managers of the funds that it has invested in after 2017 set occupational, health and safety targets that exceed relevant local regulations. Occupational health and safety (OHS) are important components of what constitutes quality jobs – decent work is safe work. All but one fund investments made to date were required to report on targets going above and beyond local OHS regulations. These targets are company-specific, as they depend on the nature of the company's activities and the company's performance against occupational health and safety standards. For instance, one Fund Manager operating in South Asia had identified the need to improve fire and life safety awareness among the workforce of one specific portfolio company. The company established a Safety Committee and Safety Workgroups which were made responsible for providing safety training, reorganising safety signalisation, and delivering work permits to external contractors meeting safety standards. More information on these targets will be reported in 2021.

TRAINING OPPORTUNITIES FOR STAFF AND MANAGEMENT

SIFEM monitors the professional development of portfolio companies' staff. SIFEM recognises that investing in human capital development is an important dimension of job quality, particularly for low-skilled and other vulnerable workers. Training serves to support the growth and development of the fund managers, portfolio companies, and their respective employees' professional development.

During 2019, 60% of SIFEM's companies provided training to their employees. In addition, 25 capacity-building and training interventions have been provided to some 16 Latin American portfolio companies by a Technical Assistance (TA) facility partially financed by SECO. These interventions focused on different areas, such as HR management, risk management and business development.

STRUCTURAL TRANSFORMATION, DIGITALISATION AND JOBS

In 2019, SIFEM commissioned a research study carried out by the UK-based consultancy firm Ergon Associates to look at the contribution of SIFEM's investments to the creation of more and better jobs. The research focused specifically on the manufacturing sector, which has been experiencing significant changes in production processes, mainly driven by technological innovation and automation. As highlighted in Box B, most manufacturing companies supported by SIFEM growth capital do not appear to have been affected by automation trends as of 2019 due to their focus on lower value industrial goods and due to high technology costs. As a result, no case of large job disruption driven my automation has been identified, although some short-term disruption or recourse to more flexible contracts has been observed.

- **Through a detailed survey of more than 20 Fund Managers involved in the SIFEM portfolio, the research study found that Fund Managers are well aware of jobs-related compliance requirements and challenges, and that they acknowledge the business case for engaging more in human resource management with their portfolio companies to accelerate change.**

- **More jobs does not automatically imply more quality jobs. Although SMEs are typically associated with job creation, they often struggle more than larger companies to offer decent work opportunities. In general, job quality may be lower in SMEs compared to larger enterprises due to, among other things, less job security, poor workplace safety, lower wage income, lack of formal work contracts and fewer non-wage benefits. As a result, SMEs often require significant assistance to comply with national and international labour requirements over time.**

ON THE BASIS OF THESE RESULTS, THE AUTHORS OF THE STUDY PUT FORWARD THREE MAIN RECOMMENDATIONS:

1. **Strengthen collaboration with Fund Managers to promote decent working conditions through better labour risk management tools;**
2. **Gradually complement the available information with additional data to assess the impact of SIFEM on the promotion of decent working conditions across its portfolio;**
3. **Work with other Development Finance Institutions (DFIs) to develop harmonised definitions and methods to measure job quality.**

Since the completion of the study in November 2019, SIFEM has started to implement these recommendations. With the disruptions induced by the COVID-19 pandemic and its economic consequences, the focus has been to provide guidance on how to manage labour issues during the crisis.

FIRST EFFECTS OF THE COVID-19 CRISIS ON THE SIFEM JOB PORTFOLIO

As highlighted at the beginning of this chapter, the data presented in the previous section covers the period predating the COVID-19 outbreak. As the crisis hit emerging and developing countries in the spring of 2020, the lockdowns imposed to contain the spread of the virus as well as the sudden disruption of economic activities strongly affected the SIFEM portfolio.

Drawing from the same classification used by the ILO to assess the impact of the crisis on economic output at the sectoral level, it would appear that up to 50% of jobs in the SIFEM portfolio could be potentially at risk. This concerns particularly jobs in consumer services, manufacturing, or wholesale and retail trade. These sectors are indeed labour intensive and often employ low-paid, low-skilled workers, particularly in the case of accommodation and food services and retail trade. This is only an estimate, however, which does not take into account country-specific aspects. Among the top job contributors in the SIFEM portfolio, India for example is likely to be much more badly affected than Vietnam given the impact of the crisis on their respective economic growth in 2020 and possibly in 2021. On a more positive note, the fact that the major job drivers in the SIFEM portfolio are larger companies provides some comfort, because these companies are often better equipped than SMEs to weather the crisis and manage labour risks associated with the COVID-19 pandemic.

The extent of total job losses will likely only be known over the course of 2021, but on the basis of the information received from SIFEM's partners in 2020, the following observations can be made:

- **Portfolio companies and Fund Managers have developed contingency plans to adapt to the crisis and mitigate its negative effects.** As illustrated by the case of Newpack in Madagascar (see interview with Adenia in this report), COVID-19 measures have included the re-configuring of workplaces to enable social distancing, distributing Personal Protective Equipment (PPE), the provision of transportation of employees and the distribution of food staples. Other companies have also negotiated temporary reductions in salaries or other measures aimed at cutting labour costs while preserving jobs in the short term.

- **Portfolio companies are so far holding on to workers, but retrenchment has already occured.** As illustrated in the interview with Altra Capital (see interview with Altra in this report) in Colombia, some staff retrenchment has already taken place. No retrenchment is currently planned among the investees with the largest number of employees in the portfolio. Nonetheless, significant retrenchment risks still exist in the portfolio, particularly among SMEs, and much will depend on the duration of the crisis and the pace of economic recovery.

- **Non-permanent workers were the first ones to be made redundant.** This illustrates that the crisis disproportionally affects some categories of workers, such as temporary and on-demand workers, which also happen to benefit from limited social benefit protection.

SIFEM has actively engaged with all its portfolio Fund Managers and Financial Institutions since the beginning of the crisis to monitor their own financial situations as well as the situation of their portfolio companies, and discuss concrete ways to help mitigate different risks, including labour risks, with a view to preserving long-term financial and social value. As an active member of the Association of European Development Finance Institutions (EDFI), SIFEM has also participated in the different COVID-19 emergency working groups to share best practices on COVID-19 challenges and responses. Moreover, as mentioned earlier in this report, SIFEM joined an alliance of 15 DFIs which committed to reducing the impact of the crisis on business activities in developing countries.

Last but not least, in the summer of 2020, SIFEM approved USD 16 million in emergency funding to support its portfolio, mainly in Asia and Sub-Saharan Africa. This investment aims to support portfolio companies that were in a sound financial position before the pandemic and that operate in sectors that have been severely affected by the crisis (tourism, trade, manufacturing), through the provision of financial liquidity.

LESSONS LEARNED, CHALLENGES & OPPORTUNITIES

1. **Measuring jobs and assessing job quality remains methodologically challenging for all impact investors, hence the need to work increasingly towards harmonised approaches and definitions.** The Association of European Development Finance Institutions (EDFI), of which SIFEM is an active member, embarked on an ambitious harmonisation agenda in 2018 regarding SDG 8. Harmonised definitions of direct and indirect jobs have been approved, and the work on job quality measurement will continue in 2021.

2. **A better understanding and more granular monitoring of job dynamics – including the qualitative side – is needed.** Making sure that future jobs provide good working conditions, adequate social protection and fair terms of employment requires first to take a closer

look at the types of employment and contracts, and at the different working conditions attached to these contracts. Given the sizable differences in legal and regulatory contexts in different emerging markets, looking at "jobs" in aggregate terms at the portfolio level may indeed hide some important nuances, such as the recourse to contracted labour, on-demand or seasonal employment. Development finance institutions, including SIFEM, may not have paid enough attention to the diversity of work arrangements and the importance of different contractual arrangements for job quality, focusing instead on highly aggregated "job creation" numbers.

3. **SMEs constitute the majority of investees in the SIFEM portfolio, but they account for only a limited number of jobs overall. The main direct jobs drivers, both in nominal terms and in terms of growth, are larger companies.** These companies have an important economic role: they create demand in their supply chains and are connected to a large number of suppliers, service providers and clients, grow markets of previously unavailable products and services, and generate local knowledge and know-how. Therefore, the indirect job effects of these companies should not be underestimated and should be better documented in the future.

4. **SMEs need support, especially through financial intermediaries, in order to broaden the opportunities for job creation.** This support will be key to help sustain jobs for surviving companies and for the post-COVID-19 reconstruction, and to allow promising SMEs to move up the ladder through innovation and economies of scale. DFIs have an important role in providing financing to the largest possible number of market participants, even if the direct job creation effects are initially limited.

5. **More than the COVID-19 pandemic per se, the related lockdown measures have caused significant job losses, affecting in particular the most vulnerable workers.** Given the scarcity of financing options for private sector companies, DFIs have a critical counter-cyclical role to play to facilitate the "job reconstruction" in developing and emerging markets. This constitutes an opportunity to reconstruct better, with increasing attention to working conditions and labour contracts, in order to make sure that the job recovery does not take place at the expense of "good quality jobs". The same applies to environmental management: the opportunity here is to invest more in climate-friendly businesses which have the potential to generate sustainable jobs and contribute to the transition towards a low-carbon economy.

6. **Widening inequality in terms of income, opportunity, and gender, represents a time bomb, which is exacerbated by the COVID-19 crisis.** This reinforces the importance of investing in people, which means investing in skills development (e.g. upskilling, re-skilling, re-training), with a view to facilitate "work transitions", that is the switch from occupational categories, and to adapt to new needs in the workplace. This also means investing in access to inclusive employment opportunities, particularly for women and young workers, and on non-discriminatory terms of employment. For DFIs and for SIFEM in particular, this means engaging more with financial intermediaries on the strengthening of the human resources management function and active management of labour risks.

7. **The nature of work is changing, with new working arrangements resulting from the Fourth Industrial Revolution worldwide.** A proliferation of digital platforms, which do not correspond to the traditional model of an employer-employee relationship, is creating good as well as bad quality jobs for workers. This highlights the need to carefully assess and manage the labour risks of these new opportunities, which are poised to play an important role in the post-COVID reconstruction in most developing and emerging markets. Joining forces with CDC, the British DFI, SIFEM has commissioned the development of a specific guidance note to assess work opportunities linked to digital platforms, which should become available at the beginning of 2021.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INTERVIEWS

INTERVIEW WITH SWISS REPRESENTATIVE TO THE ILO

"THESE PROBLEMS ARE NOT NEW, BUT THE CRISIS IS EXACERBATING THEM VIOLENTLY AND RAPIDLY"

In the following interview with Valérie Berset Bircher, Switzerland's representative to the International Labour Organization (ILO) in Geneva, explains the major challenges concerning job creation in developing countries, the situation of women and young workers, and the impact of the COVID-19 crisis on the ILO's "decent work" agenda.

PRIOR TO THE COVID-19 CRISIS, IT WAS ESTIMATED THAT 600 MILLION NEW JOBS WOULD NEED TO BE CREATED IN EMERGING MARKETS BETWEEN 2020 AND 2030 TO ADDRESS SOCIO-DEMOGRAPHIC CHANGES, MAINLY IN AFRICA AND SOUTH ASIA, IN ORDER TO ACHIEVE THE UN'S SUSTAINABLE DEVELOPMENT GOALS (SDGS). HOWEVER, PROGRESS HAS FALLEN FAR SHORT OF EXPECTATIONS. PRIOR TO THE COVID-19 CRISIS, WHERE DO YOU SEE THE MAIN CHALLENGES IN TERMS OF JOB CREATION IN DEVELOPING COUNTRIES?

According to ILO estimates before the crisis, the average GDP per capita growth in low-income countries was only 2% over the last 20 years, and the gap between developed or middle-income countries and low-income countries has widened further. It is clear that this slow economic growth has had a negative effect on job creation, but also on working conditions in general. Moreover, the global outlook was already uncertain before the crisis with trade and geopolitical tensions. In addition, what we observed before the crisis was that it was not enough to seek improvements at the level of private sector companies, but that it was also necessary to take a closer look at the framework conditions. These problems are not new, but the crisis is exacerbating them violently and rapidly. And so it gives us very clear signals as to where we need to act more substantially.

WHAT ABOUT THE SITUATION OF WOMEN AND YOUNG WORKERS, WHO OFTEN SUFFER FROM UNDEREMPLOYMENT AND CONSTITUTE AN IMPORTANT PART OF THE LABOUR FORCE?

The situation of women in the labour market was difficult even before the crisis, for example, by observing the large gaps between the labour activity rate of men and women. Youth employment was also very much of an issue, especially in developing countries with a much larger youth population. In future, gender equality must become even more part and parcel of a smart economic policy that would allow women to enter the labour market under good working conditions. We continue to be committed to the fight against discrimination, and to improve access to quality training, especially in sectors where we know that almost 80% of the workforce is made up of women, such as in the textile and clothing industry. And as for young people under 25, additional efforts are needed in the field of education and training to facilitate their entry into the labour market. Another challenge is that young people are often not included in unemployment figures, which can distort the scale of the problem. The ILO estimated before the crisis that 267 million young people, or one in five, were neither in training nor in employment in 2019.

THE ILO'S "DECENT WORK" AGENDA NOT ONLY EMPHASIZES INCREASING THE NUMBER OF JOBS, BUT ALSO THE QUALITY OF THOSE JOBS. HOW DO YOU ASSESS THE PROGRESS MADE IN THIS AREA OVER THE LAST TEN YEARS IN DEVELOPING COUNTRIES? IN YOUR OPINION, WHAT ARE THE AREAS WHERE PROGRESS HAS BEEN THE MOST SUBSTANTIAL?

Generally speaking, it is undeniable that some progress has been made. In the programmes supported by Switzerland's economic development cooperation, particularly at the ILO and in the textile sector, it can be observed that all companies have reported wage increases, but also a reduction in the working hours of their employees. There have also been fewer work-related accidents and fewer abusive conditions at the workplace. Moreover, there has been progress in the training of employees for career development. In the last ten years, we have reached about three million workers in the textile sector where we have been able to see working conditions improve. I have personally been able to visit companies before and after the programmes, and I have noticed clear differences. Beyond that, we also worked towards an increase in social dialogue, both at the company level and at the sectoral and national level. In Vietnam, for example, our measures in 2013 led to a reform of its labour law, which enabled a systematic exchange between employers and employees in the form of committees, which was a good signal for social dialogue.

SINCE THE ARRIVAL OF THE COVID-19 PANDEMIC, THE GLOBAL ECONOMY IS SUFFERING THE WORST RECESSION SINCE THE 1930S, WITH SIGNIFICANT JOB LOSSES IN 2020. HOW IS THIS CRISIS LIKELY TO IMPACT THE ILO'S DECENT WORK AGENDA AND ITS PRIORITIES?

The pillars of the ILO's decent work agenda will remain fundamentally the same, and the crisis has only confirmed their relevance in my view. In 2020, the ILO has closely monitored the evolution of employment figures, and each revision of the figures has been more negative than the previous one. What is at stake is not only the increase in unemployment, but also the increase in "underemployment". This trend has increased the share of the informal sector, which often affects women more than men. 60 percent of the world's workers who are in informal employment and who are unlikely to qualify for social benefits find themselves particularly vulnerable to loss of income and poverty. This is therefore a unique opportunity for the ILO to act where it can make a difference and pursue its agenda. While industrialised countries have already put in place massive stimulus programmes, our developing country partners often do not have the required fiscal leverage. Without international assistance at this level, I think it's going to be extremely difficult for those countries.

ON THE SAME TOPIC, FORMAL WORK APPEARS TO BE THE TIP OF THE ICEBERG IN DEVELOPING COUNTRIES WHILE THE BULK OF THE ECONOMY OPERATES IN INFORMALITY, THAT IS OUTSIDE THE LOCAL LEGAL FRAMEWORK AND ILO STANDARDS. INFORMAL WORK IS EXPECTED TO GROW. HOW IS THE ILO THINKING ABOUT THIS CHALLENGE?

It is a huge challenge. In recent years, we have mainly worked on and with the formal sector. In our reflections for the design of future projects, we are closely analysing the opportunity to act at the level of the informal sector as well. In 2015, the ILO held a series of discussions on the transition from the informal to the formal economy and developed recommendations. Today, the ILO wants to offer advisory services to protect the most vulnerable workers, often women and young people, and is targeting improvements in labour laws. However, the formalisation of the economy is also a fiscal concern, which goes beyond the ILO agenda. The ILO must work with other international partners.

HOW DO YOU ASSESS THE OPPORTUNITIES FOR "GREEN" RECONSTRUCTION IN LINE WITH CLIMATE OBJECTIVES FROM AN EMPLOYMENT PERSPECTIVE?

The ILO has developed an ambitious programme called "Green Jobs", which seeks to support the creation of new jobs that are aligned with climate protection in sustainable technologies, including in construction, and also in factories. The ILO estimates that the transition towards energy sustainability by 2030 will create nearly 25 million jobs, while some 7 million will be lost. Some of these jobs have already been lost before the crisis and will continue to disappear. There are also sectors where consumption is declining and where the profile of workers will dramatically change. This transition must therefore be accompanied by training and skills development, which typically is an area of ILO expertise. This transition also requires enhanced social dialogue and increased exchanges between social partners and the world of training to better prepare the future workforce for these new professions.

IN THE CONTEXT OF POST-COVID-19 RECONSTRUCTION, WHAT ROLE DO YOU SEE FOR DEVELOPMENT FINANCE INSTITUTIONS (DFIS) SUCH AS SIFEM IN IMPLEMENTING THE DECENT WORK AGENDA?

First of all, I very much welcome SIFEM's current role in this area, which has contributed to creating and supporting more than 870,000 jobs since 2005. Secondly, Switzerland has always advocated much closer collaboration and coherence between organisations in the wider UN system, such as the ILO and those of the Bretton Woods system, such as the World Bank's IFC. The complementary of these two organisations has led to the success of a flagship programme in the textile sector – the "Better Work" programme. Strengthening this type of collaboration will be crucial for the future, especially in the post-COVID-19 context.

ONE OF THE FASTEST GROWING AREAS IS THE EMERGENCE OF ONLINE PLATFORMS CONNECTING CONSUMERS AND BUSINESSES, THE SO-CALLED "GIG ECONOMY". HOW DO YOU ASSESS THESE NEW TYPES OF JOBS: IS IT AN OPPORTUNITY OR RATHER A RISK FOR WORKERS IN DEVELOPING COUNTRIES?

I'm an optimistic person and I believe in new technologies, so I remain rather positive. But these changes need to be accompanied by concrete action. One of the challenges for platform workers is that they often work multiple jobs and have no social protection. It is therefore crucial to ensure that these workers benefit from a social safety net that covers them in case of accident or job loss, and that these jobs respect minimum working conditions. International trade unions would like to see strict regulation of work which is related to online platforms. Switzerland, which is a liberal country, has a more pragmatic approach in this regard, but there is clearly a movement towards more regulation. Some recent court decisions have established that these workers are indeed employees and these platforms are indeed employers. Therefore, as employers, they have social obligations and responsibilities just like any other employer. However, at this stage, we cannot generalise the lawmaking in this context as there are many different types of employment and contracts.

VALÉRIE BERSET BIRCHER, Ambassador and representative of Switzerland to the International Labour Organization (ILO) in Geneva since 2019. She is Head of the International Labour Affairs Division at SECO and holds a PhD in Law. Previously, she was a member of the Board of Directors of Swisscom AG and legal expert at the International Organization for Standardization (ISO).

INTERVIEW WITH ADENIA – NEWPACK
"WE SEEK TO OFFER QUALITY JOBS IN MADAGASCAR"

In 2016, SIFEM invested EUR 10 million in Adenia Capital IV, the fourth fund of Adenia Partners, an independent private equity fund manager which focuses exclusively on Africa. The following interview with Koloina Razafindratsita, Investment Manager at Adenia, will focus on some of the key topics of this report, including the situation of casual workers and the impact of COVID-19 on jobs. Koloina Razafindratsita is managing investments of Adenia in Madagascar such as Newpack, the leading cardboard manufacturing company in the Indian Ocean region.

WHY DID ADENIA INVEST IN NEWPACK AND WHAT IS NEWPACK'S LONG-TERM STRATEGY?

Newpack has been the regional leader in cardboard manufacturing for many years. In 2017, its CEO and shareholder decided to retire and leave Madagascar, triggering a sale from his co-investors. Recognising Newpack's potential, Adenia bought out the company and helped it design a long-term strategy that focuses on growth, productivity, and the strengthening of the company's position in the region. Following the arrival of a local competitor who has recently invested heavily in a brand-new factory, Newpack has also been seeking to diversify its product range and propose more services to its client base.

IN ADDITION TO THE ARRIVAL OF A BOLD COMPETITOR, WHAT OTHER CHALLENGES HAS NEWPACK HAD TO FACE?

COVID-19 has been a real challenge for the company's operations. During the pandemic, Newpack was, in principle, allowed to continue its operations because it was considered an essential producer of cardboards that are used for staples such as water bottles, soap, food, and pharmaceutical products. But the Malagasy Government frequently announced new measures, and Madagascar was one of the first countries worldwide to declare a second lockdown in July. It was often unclear whether Newpack would have to close the factory. Potential orders from clients had to be anticipated which caused some weeks to be very busy.

This involved organising the workforce, some working from home and others are working on-site. Shifts also had to be organised and the behaviour of the employees on-site had to be adjusted completely to include the wearing of masks, regular washing of hands, taking people's temperature and the reorganisation of working space. The number of people in a given area has been limited (including in the canteen or meeting rooms). In this difficult period, Newpack provided its staff with transportation so they did not have to take public buses or taxis and expose themselves to infection. The provision of private transport has been key to managing the pandemic at Newpack. Newpack also distributed aid packages to its employees, containing staples such that employees did not have to risk exposure to the virus by going to crowded markets. It also distributed masks for employees' general use. While the infection rate has been relatively low compared to the rate in Antananarivo, Madagascar's capital, the company has performed COVID-19 testing for the entire staff. When an employee tests positive, they are required to stay home for two weeks and are paid.

People who are not essential to the factory's operation on-site have been provided with laptops and internet connections and were working from their homes. Another major challenge for Newpack, which predates COVID-19, is the fact that the company's operations are exposed to a significant peak which is linked to the lychee harvesting season.

WHY IS SEASONALITY SUCH AN ISSUE FOR NEWPACK? AND HAS ADENIA TRIED TO MITIGATE THIS SITUATION?

In a normal year, Newpack generates around 10 to 15 per cent of its revenues from lychee exporters. The lychee season in Madagascar is limited to a two-week harvest, usually around mid-November, where most of that revenue is made. Most of the cardboard boxes are produced during the few weeks before the harvest because, unfortunately, the majority of Newpack's clients do not wish to engage in long-term contracts and only put in orders shortly before the harvest. One of the reasons for this is that importers in Europe, a pivotal exporting market, are subject to quotas for the import of lychees from Madagascar. They are never able to anticipate the exact quantity they can sell each year and as a result will not commit to any given volume with Newpack. However, Newpack's competitors have started approaching its clients which has increased Newpack's desire to enter more long-term contracts with its most loyal clients. Despite these challenges, it has been Adenia's goal to help Newpack reduce the amount of overtime among its workers and to rely less on casual jobs, which will improve the overall quality of jobs at Newpack.

AND HOW SUCCESSFUL HAS NEWPACK BEEN WITH THIS PUSH TO FORMALISE JOBS?

Adenia has discussed the use of casual workers and overtime a lot. It is a sensitive topic and it is not easy to find a balance. Many of Newpack's employees want or need to work overtime because of the extra income. While the use of overtime is expensive, Newpack also needs to have more experienced and integrated people. Newpack obviously provides casual workers with training, PPE and private transportation. And Newpack has, over the past years, recruited casual workers to fill in vacant positions. Now, with COVID-19, Newpack actually had to increase the number of casual workers and the amount of overtime went up too because of the uncertainties surrounding the Malagasy Government's COVID-19 responses. No workers have been furloughed during this crisis, but the situation is still very fluid, and a third lockdown might push several Newpack customers to the verge of bankruptcy.

DOES NEWPACK DISTINGUISH BETWEEN PERMANENT AND NON-PERMANENT WORKERS IN TERMS OF OCCUPATIONAL HEALTH AND SAFETY (OHS)?

No. The non-permanent workers need to be trained and need to have the same personal protective equipment (PPE) as all the permanent workers. Newpack has a zero-accident policy, so people are incentivised to not have work-related accidents. There is a bonus, a premium paid on the overall accident results of Newpack for factory staff.

OF THE 225 PERMANENT AND NON-PERMANENT EMPLOYEES AT NEWPACK, NEARLY ONE-THIRD ARE WOMEN. IN NEWPACK'S BOARD, HOWEVER, THERE ARE FOUR MEN AND NO WOMEN. HOW DO YOU ADDRESS THE TOPIC OF SDG 5 (GENDER EQUALITY) AT NEWPACK?

This year, we launched an impact scoring methodology at Adenia which encompasses gender representation at the highest level of decision making at a portfolio company. Companies with at least 30 per cent women on the boards and executive committees score the highest on this metric. Those which do not meet this target will score less. Indeed, there are no women on Newpack's board at this moment, but we were able to bring two additional women onto the company's executive committee. Women now represent 43 per cent of this committee, in an industry that has traditionally been very male dominated.

WHAT HAVE INSTITUTIONAL INVESTORS AND DFIS SUCH AS SIFEM DONE TO SUPPORT YOU?

A crucial aspect of the collaboration with DFIs is that we get to benefit from their experience and knowledge because they have invested in many different companies and across many different sectors. Their technical assistance and expertise has been most valuable to us. For instance, thanks to a technical assistance programme, we were able to conduct a management coaching programme at Newpack in 2020. The DFIs have also supported us with reflections around ESG and impact, for example during the elaboration of our impact scoring methodology. And finally, we got some good support from the DFIs during the COVID crisis through technical assistance funding that was used to pay for masks and other COVID-related expenses.

HOW WILL THE COVID-19 CRISIS AFFECT ADENIA'S PORTFOLIO IN THE MEDIUM- TO LONG-TERM AND IN A POST-COVID WORLD, WHERE DO YOU SEE FUTURE INVESTMENT OPPORTUNITIES?

Overall, our portfolio companies, including Newpack, have proven to be relatively resilient in the face of the current crisis, compared to other regional companies whose revenues dropped by up to 60 per cent in the last few months. Newpack's revenues have fallen below last year's, but it is still performing better than many other companies in the region. I could say the same for the retail market in Kenya. Our retail businesses in Kenya are doing relatively well, so really, it is sector by sector. This will of course influence the kinds of investments we will make in the future. The way a company has coped with COVID-19 may serve as a benchmark for a company's resilience. Basically, anything about the general life of people in an emerging market will remain attractive for investments. I am more sceptical regarding accommodation, airlines, and travel-related businesses that the pandemic will likely change for some time to come.

FACTS & FIGURES ADENIA CAPITAL IV

- **EUR 230 million fund size**
- **SIFEM investment of EUR 10 million in 2016**
- **Around 30 employees at Adenia Partners**
- **3 portfolio companies**

FACTS & FIGURES NEWPACK:

- **Around 225 permanent and non-permanent employees, around 1/3 are women**
- **formal training provided for staff, plus enhancement of professional expertise of senior management**
- **almost 100% recycled paper used; 2,665 tonnes of wastepaper recycled**

KOLOINA RAZAFINDRATSITA is a national of Madagascar, with around eight years of investment experience. Currently, she is Investment Manager at Adenia, where she is in charge of investments in Madagascar. Koloina completed her Master's degree in Finance and Management at Université Paris Dauphine – PSL and her MBA at INSEAD.

INTERVIEW WITH ALTRA
"CREATING VALUE THROUGH A SUSTAINABILITY MODEL"

In 2009, SIFEM invested USD 8 million in Altra Private Equity Fund I, the first fund of Altra, a private-equity fund manager in Bogotá, Colombia, whose investment focus is on Colombia and Peru. The following interview with Mauricio Camargo, Managing Director, and Gladys Helena Vega Valencia, Head of Sustainability and HR at Altra, will focus on Altra's Sustainability Model and how the Fund Manager was able to accompany its portfolio companies during the COVID-19 crisis.

WHAT IS ALTRA'S STRATEGY AND WHAT SETS ALTRA APART FROM OTHER FUND MANAGERS IN THE REGION?

(M. CAMARGO) We have been in the market for fifteen years, focusing on the mid-market in Colombia and Peru. We firmly believe that our strength as a firm is to be able to invest in SMEs with a lot of potential, but which are not necessarily fully developed as commercial companies. We undertake our risk assessment with a strong commitment to SDGs and want to make sure that we are not getting into things we cannot handle. Our idea is to deploy a combination of capital and our experience to be able to strengthen these companies so we can take fully institutionalised companies into the market for a sale on exit. Over the years, the knowledge provided by investors like SIFEM and our experiences and lessons learned have led us to develop our own Sustainability Model. As well as bringing these SMEs up to an international standard, it provides us with an orderly way of assessing the starting point of these companies and of defining the priorities on which we need to work while they are in our ownership. It has become an integral part of our value proposition.

COULD YOU ELABORATE MORE ON ALTRA'S SUSTAINABILITY MODEL AND ADDRESS PARTICULARLY ITS HR DIMENSION?

(M. CAMARGO) The Sustainability Model guides our journey as investors in these companies. It consists of four dimensions: Governance, People, Society/Community and Environment. The model entails a value creation driver that stems from making sure not only that we have very high-quality companies at the outset but also a risk mitigation angle where we need to ensure that we are not exposing ourselves to liabilities, price retentions or discounts at the time of exit.

(G. H. VEGA VALENCIA) One of our perspectives for the Sustainability Model is indeed based on people. We promote and develop leadership skills as we have realised that one of the most important things to contribute to an investment is the leadership of the company. We need the right people who are in the right place for each company and for this reason, we pursue a robust talent management system which seeks out and helps to develop hands-on leaders with an entrepreneurial behaviour and mindset. Equally important is a proper organisational culture and a positive attitude towards diversity and inclusion, and labour and working conditions. The model can vary from one company to another as they all have different levels of maturity and they operate in different business environments. Together with each company, we design a suitable model which is in line with its strategy. It is very important for all the managers to understand the importance of these models because value can be created or destroyed depending on their buy-in.

In our interactions with portfolio companies, we tailor action plans to the reality of each one of them, but we use a common, standardised approach. As a matter of example, we conduct leadership assessments of CEOs every two years. Through this activity, leaders clearly identify the leadership style that companies require, and we develop a plan to close existing gaps in relation to this topic. In some specific cases, we also carried out a comprehensive restructuring of the human resources operating model by conducting a headhunting process, on our own, to identify the appropriate leaders for the company and accompanied them on the development of a human resources platform that effectively met the recruitment demands that an expanding business model in the retail industry required.

HOW SUCCESSFUL HAS THE SUSTAINABILITY MODEL BEEN AT THE LEVEL OF YOUR PORTFOLIO COMPANIES?

(G. H. VEGA VALENCIA) For us, the most important thing is that all our portfolio companies are continuously improving and developing their models, leveraging the inputs we provide. While some of our companies have matured their capabilities quickly, others require our involvement and support. The speed of implementation is very much driven by the buy-in of the senior

management. Those who put the Sustainability Model at the centre of their strategic agenda have tended to perform better and to manage problems in a more structured, effective and efficient manner.

THE COVID-19 CRISIS HAS ENGULFED THE WORLD. HOW DID YOU RESPOND TO THE CRISIS AND HOW HAS THE CRISIS AFFECTED YOUR PORTFOLIO?

(M. CAMARGO) When the lockdown came, we immediately activated crisis management plans across many of our portfolio companies. We created crisis teams with the CEOs and Altra's investment professionals. At the same time, the leaders of our cross functions activated their network, integrating the conversations with experts. For example, Gladys and all the HR managers of the portfolio companies were meeting on a weekly basis to share knowledge and review pressing issues. We obviously needed to protect our companies from an economic and cash perspective. At the same time, we were concerned for the health and safety of the employees. Through our interactions on the legal, financial and HR fronts, we were able to generate immediate best practice and experience sharing across the portfolio.

The impact on our portfolio was mixed. Some companies have had a harder time and were affected more than others. Two retail companies in our portfolio had almost four months of complete shutdown of their stores, which led to severe economic and employment impacts. Our level of support varied depending on the company, but in general we reviewed organisational models and value propositions to employees, provided training to leaders, and supported talent teams to minimise layoffs. A coffee shop operator – with over 500 stores and 2,500 employees – had to close over 100 stores due to the reduction in traffic caused by the pandemic. This required our intervention as we anticipated a significant number of layoffs. Accordingly, we were able to temporarily reallocate 568 employees through alliances with other retailers, suppliers and other related companies until operations had been relatively normalised.

HOW MANY JOBS IN YOUR PORTFOLIO ARE POTENTIALLY AT RISK BECAUSE OF THIS CRISIS AND HOW LONG WILL IT TAKE YOUR COMPANIES TO BE BACK TO PRE-CRISIS LEVELS OF BUSINESS?

(G. H. VEGA VALENCIA) Across our entire portfolio, including both Fund I and Fund II active investments (16,838 employees), we have had a total of 1,320 dismissals, of which 982 were attributable to COVID-19. The latter represented 5.8% of the total work force as per February 2020, prior to the crisis. This period has been very difficult for some of our companies, but we hope that we have got past the worst.

(M. CAMARGO) I think the current situation will take us through to the end of 2021. Contrary to some of the European countries and the US, where there were much more dramatic peaks and not necessarily such stringent lockdowns, Latin American countries – with the exception of Brazil – had almost six months of lockdown and the recovery appears to be very gradual. Companies are taking a very conservative approach in terms of upscaling their general activities. There is also significant financial strain in the system.

HOW WERE YOU ABLE TO COLLABORATE WITH YOUR PORTFOLIO COMPANIES AND ACCOMPANY THEM GIVEN THAT YOU COULD NOT MEET THEM PHYSICALLY?

(G. H. VEGA VALENCIA) I have been in constant dialogue with the HR professionals, management teams and the CEOs. They were all extremely concerned and sometimes just needed personal advice that helped them to realign. There have been countless team conversations, and the regular monthly or bi-monthly meetings became weekly affairs. We also had conference calls across the entire portfolio which brought together up to 300 leaders. Two of those focused on economic perspectives in the region, and one about leadership in this "new normal". Even though the portfolio companies represent very different sectors, they often share many challenges, especially during a time of crisis.

(M. CAMARGO) Those conferences served as a forum for sharing best practices, Q&A and enhancing relationships between portfolio companies. Especially at the beginning of the crisis, we had to ensure that the many labour-related decrees by the government could be adequately interpreted. Instead of everybody trying to read them individually or hiring lawyers, this was a forum where everybody could align, and we could make use of the best information available. I think it was hugely effective and clearly allowed us to support the companies in a very decisive manner through all this.

HOW HAVE YOU WORKED WITH THE PORTFOLIO COMPANIES TO ENSURE THAT ADEQUATE WORKPLACE SAFETY HAS BEEN PUT IN PLACE?

(G. H. VEGA VALENCIA) Our priority has always been the safety of our employees. For this reason, we began to increase our conversations with the health and safety teams – which in most portfolio companies are different from the HR teams. Our companies regularly report their COVID situation and the status of the implementation of all the health and safety measures. If we notice any irregularity, we follow-up immediately. Until now, we have unfortunately had three COVID-19 related fatalities.

HOW HAVE YOUR INSTITUTIONAL INVESTORS SUCH AS SIFEM HELPED YOU DURING THE CURRENT CRISIS?

(M. CAMARGO) We have been interacting with them on many different fronts. We received a significant amount of information and guidance in terms of best practices that they had seen across other portfolio companies. They also made general suggestions in terms of how to address the crisis. I think that information helped us shape our thinking and refine our processes and procedures. But I would also say that the dialogue went both ways, with us providing relevant information for aggregation by institutional investors.

LOOKING AHEAD, HOW DO YOU SEE COLOMBIA'S AND PERU'S CHANCES OF A SPEEDY RECOVERY AND WHERE CAN YOU SEE THE LARGEST POTENTIAL IN TERMS OF INDUSTRY SECTORS?

(M. CAMARGO) I believe that across Latin America, Colombia and Peru have a solid macro environment base. Even though we are facing significant challenges, these are resilient economies with a very good work culture, and people will make it through the crisis. The crisis has significantly impacted everyone but overall, the ability to recover is there and investor confidence in Colombia and Peru has remained strong. Second, I do not think there will be major shifts in terms of sectoral growth. Certainly, there is a clear trend towards cleaner energy and stronger corporate social responsibility. And there is also the impact of technology and digitalisation with a push for more e-commerce solutions. But fundamentally, it is a company's underlying business model which matters as well as the need to remain flexible and competitive.

FACTS & FIGURES ALTRA PRIVATE EQUITY FUND I

- **USD 105 million fund size**
- **SIFEM investment of USD 8 million in 2009**
- **Around 27 employees at Altra**
- **2 active portfolio companies in Fund I (6 investments)**

MAURICIO CAMARGO is the Managing Director of Altra. He is a national of Colombia, with a long-standing track record in consulting, strategy, and private equity investments in the Andean region and the Caribbean. He co-founded Altra in 2005 and holds a Master of Science in Management from MIT Sloan School of Management and a Civil Engineering degree from Lehigh University in the USA.

GLADYS HELENA VEGA VALENCIA is the Head of Sustainability and HR at Altra. She has worked at Altra for five years and has 25 years of experience in HR, leading the perspective of Human Resources and organisational change in companies in the financial, goods and services sectors, added to experience in management consulting and executive coaching. She completed her studies at Colombia's Pontificia Universidad Javeriana.


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Editing: Obviam AG
Design: Push'n'Pull, Bern
Photos: 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