SIFEM
SWISS INVESTMENT FUND FOR EMERGING MARKETS

SIFEM – INVESTING IN SUSTAINABLE DEVELOPMENT

2021/2022 EDITION

Delivering impact in the face of the COVID-19 pandemic

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FOREWORD

Dear readers,

Two years after the COVID-19 pandemic began to sweep through the world, triggering one of the worst economic shocks since the Great Depression, the world economy is struggling to recover. Developing and emerging markets have been hit particularly hard by the lockdown measures and business closures: the ILO estimated a loss of 255 million full-time equivalent jobs in 2020 and close to 120 million full-time equivalent jobs in 2021. This aggregate picture masks great divergences among countries. Working hours in high- and upper-middle-income countries tended to recover in 2021, while both lower-middle and low-income countries continued to suffer large losses, unravelling a substantial share of the jobs created in the last ten years. These trends will have severe implications for the United Nations' Sustainable Development Goals (SDGs), and for the decent job agenda.

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 1,217 million in 155 projects across Africa, Asia, Latin America and South-eastern Europe – and thereby created and supported more than 900,000 jobs. In the last two years, it engaged in 17 new investments totalling USD 170 million. By providing long-term finance to SMEs and other fast-growing companies, SIFEM helps firms expand and strengthen local entrepreneurship.

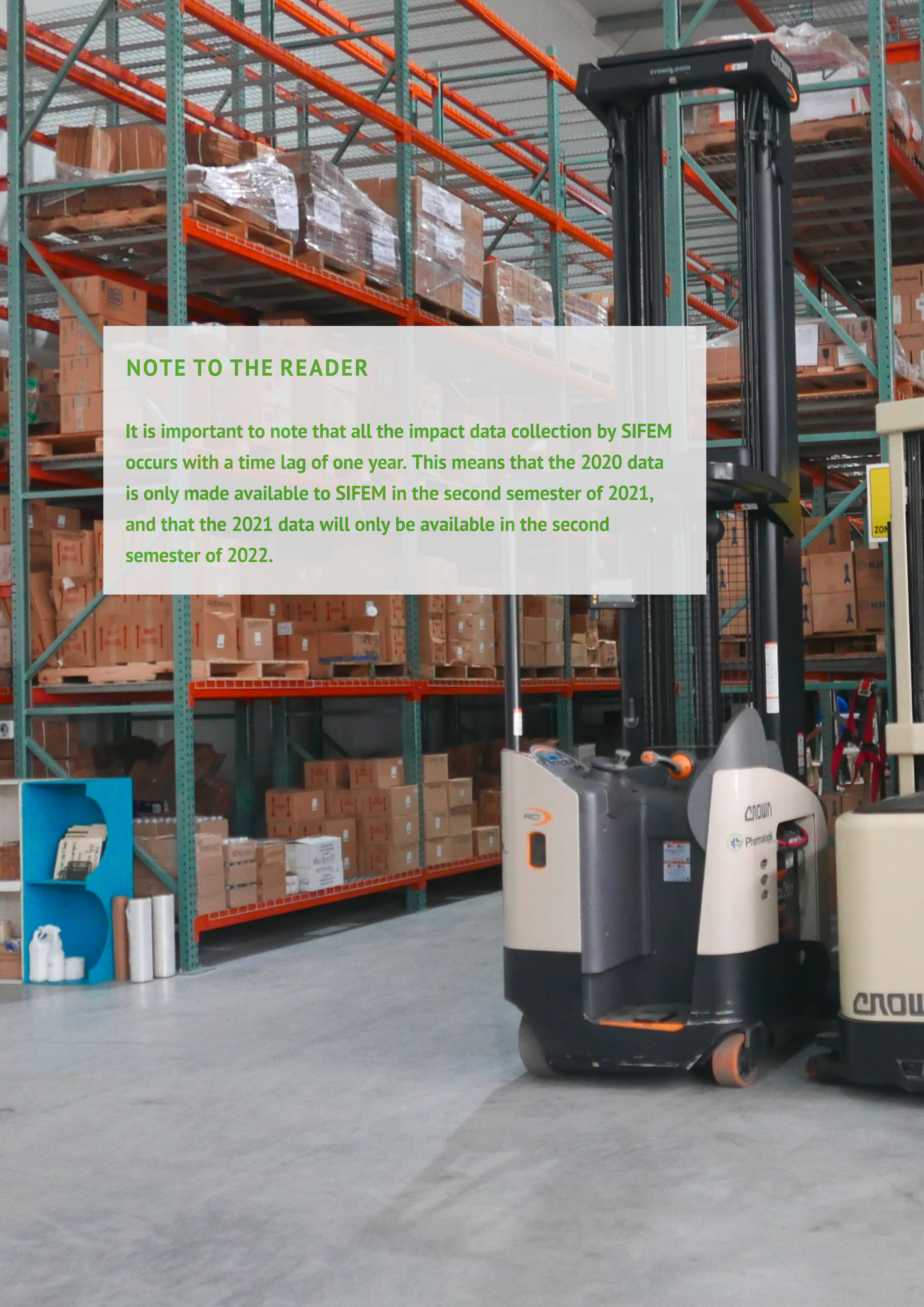
Creating and supporting decent jobs in target countries is one of the main development priorities for SIFEM, in line with the strategic objectives defined by the Swiss Government for 2021-24. For this critical reason, this report explores the social impact of the COVID-19 crisis in 2020, looking first at the global effects of the crisis in developing countries before analysing the job situation in the SIFEM portfolio. At the level of the overall portfolio, it is positive to see that jobs have actually increased during the crisis: there were around 465,000 jobs supported at the end of the 2020, compared to 405,000 at the end of 2019. This positive result is mainly due to changes in the composition of the portfolio and in particular, to new companies entering the portfolio in 2020. However, looking specifically at pre-existing portfolio companies which survived the crisis, some job losses can be observed. Fortunately, these job losses have been relatively moderate, with around 4,000 full-time equivalent jobs lost. This means that this specific category of portfolio companies has been stronger and more resilient than originally feared at the beginning of the crisis. These figures only capture the first year of the crisis and it is still premature to assess how these companies, and in particular SMEs, coped with the second year of the crisis.

One of the main question marks at this stage is to what extent the crisis may impose lasting scars on the labour market structures and aggravate income inequality in the countries in which SIFEM operates. To make matters worse, the Ukraine invasion and its political and economic consequences will heavily affect developing countries' and emerging markets' prospects. Indeed, new shocks are being passed to emerging markets through higher commodity prices, including energy and food prices, higher interest rates and adverse exchange rate effects.

In the face of this unprecedented crisis, DFIs like SIFEM contribute to the preservation of responsible business activities in developing countries. As per their mandate and raison d'être, DFIs must act in a counter-cyclical way in difficult times and invest in promising companies which would otherwise struggle to survive and to access long-term capital and financing in general.

The SIFEM Board is committed to these goals and will work with private and public partners to face these extraordinary challenges.

Jörg Frieden
Chairman of the Board of SIFEM



NOTE TO THE READER

It is important to note that all the impact data collection by SIFEM occurs with a time lag of one year. This means that the 2020 data is only made available to SIFEM in the second semester of 2021, and that the 2021 data will only be available in the second semester of 2022.

THE SOCIAL IMPACT OF THE PANDEMIC

A GLOBAL CRISIS WITH SIZEABLE REGIONAL DIFFERENCESS

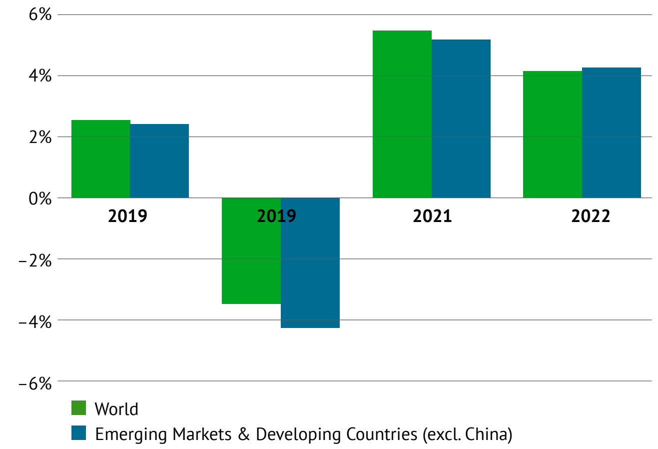
The COVID-19 pandemic which hit the world at the beginning of 2020 not only triggered a global public health crisis but also quickly turned into the largest economic crisis in more than a century, as countries adopted drastic emergency measures, such as travel bans, mobility restrictions, business closures, limitations on public gatherings, and mandatory home-based work, which severely affected economic activity.

Real GDP contracted by more than 3% globally, but the contraction was more severe in developing countries and emerging markets (except in China). The global recovery that followed in 2021, estimated at 5.5%, was largely due to a catch-up effect following vaccination campaigns and the relaxation of pandemic-related restrictions, but the recovery was weaker and more fragile in developing countries. The shock has also been more severe in Latin America and in South Asia, while the recovery is also uneven across regions with uncertain prospects over the medium term.

The crisis disrupted global supply chains and world trade with large variations across economic sectors. Most industrial sectors experienced sharp declines, with the notable exception of essential goods and services, such as food, pharmaceuticals, water, and energy services. The most severely affected sectors were tourism and hospitality, transport, and personal services such as restaurants or hairdressers, which suffered from economic lockdowns and from the interruption of air travel.

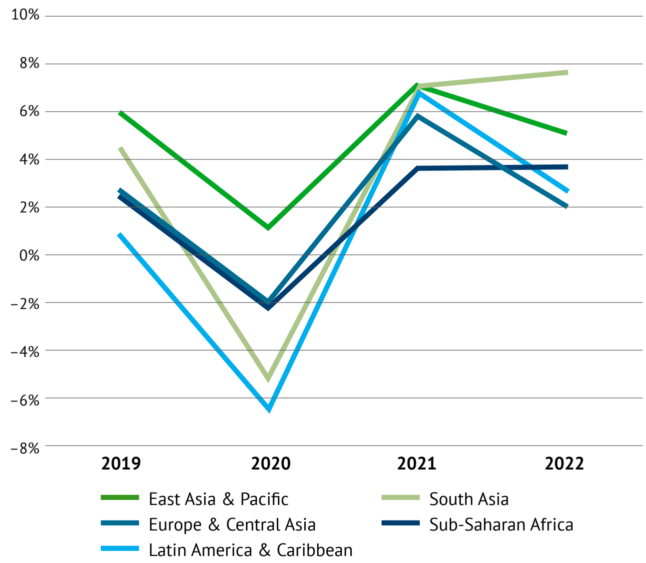
In Sub-Saharan Africa and East Asia, around 70-80% of firms remained fully or partially open despite health restrictions.[1] This proportion was much lower in South Asia and Latin America, where 50 to 60% of firms were reported as fully or partially closed. Despite the majority of firms remaining open, businesses experienced large drops in sales, with significant variations across countries. Globally, firms in developing countries have reported an average reduction in sales by 49% relative to 2019, ranging from almost minus 80% in South Africa to a modest minus 15% in Uzbekistan.

Real GDP (% change from previous year): a sharper decline and weaker recovery in developing countries



Source: World Bank, 2022

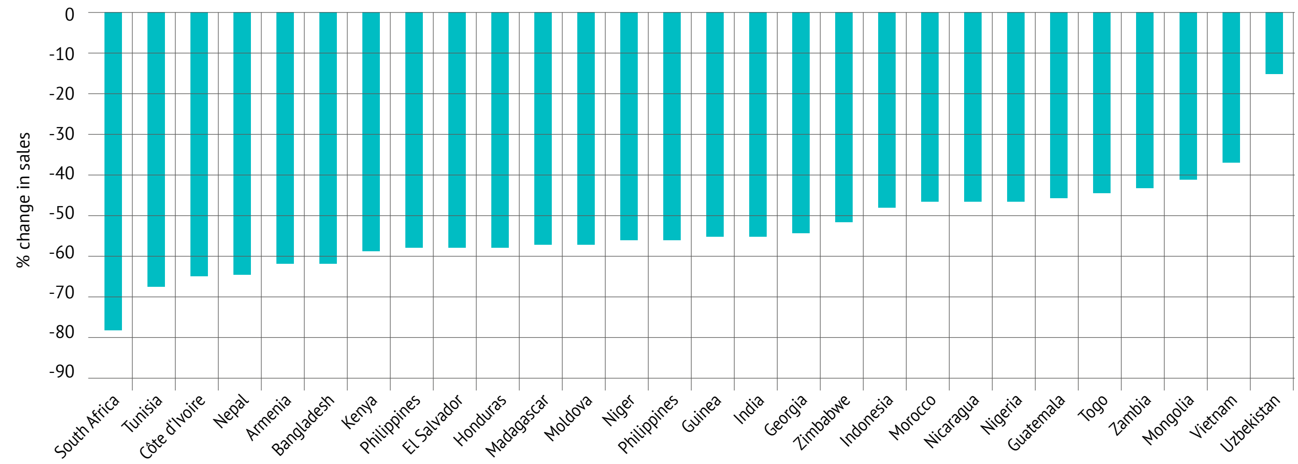
Real GDP (% change from previous year): Latin America and South Asia were the most affected, but the recovery is slower in Africa



Source: World Bank, 2022

[1] Arezki, R., Djankov, S., Panizza, U., Shaping Africa's Post-Covid Recovery, Centre for Economic Policy Research, London, 2021, Chapter 1.

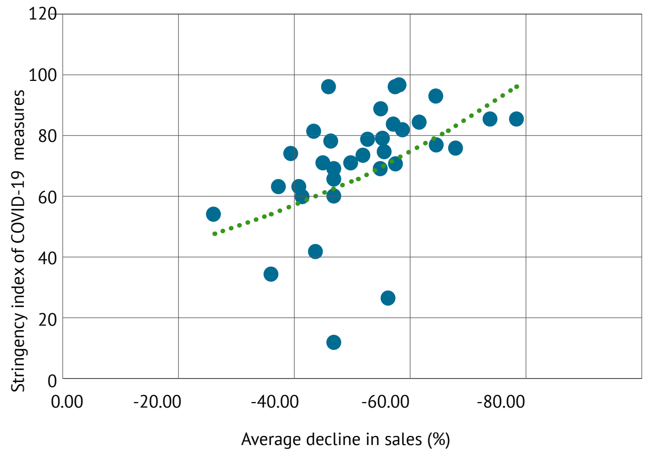
Impact of COVID-19 on businesses: Average decline in sales in 2020 compared to 2019



Source: World Bank, 2022

This heterogeneity in sales declines in developing countries is also related to the differences in the measures adopted by countries vis-à-vis the pandemic, and of course, differences in enforcing such measures. What could be observed in general is a positive correlation between stringent measures adopted in terms of business closures and lockdowns and a higher average decline in sales.

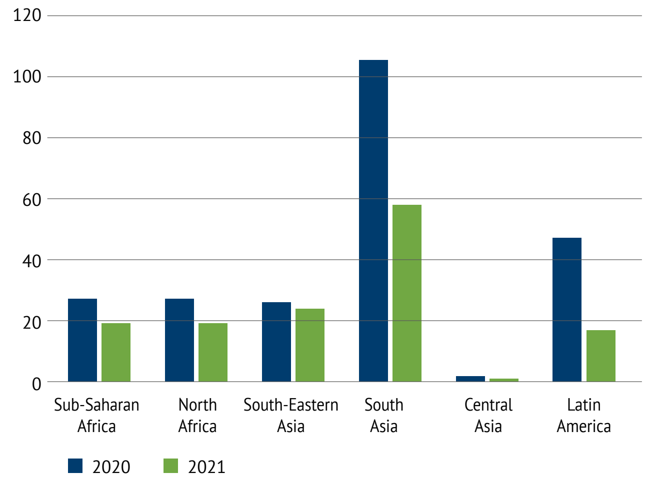
More stringent COVID-19 measures, larger sales declines (40 countries)



Source: COVID-19 Business Pulse Survey Database, the World Bank, 2021

to have taken place in South Asia and Latin America, while losses were much smaller in Central Asia and North Africa. According to ILO estimates, job losses continued in the first half of 2021, especially in lower-middle and low-income countries. With the partial economic recovery following the relaxation of the most stringent COVID-19 measures, Central Asia and Asia seem to have come closer to their pre-crisis labour levels, while the job recovery lagged behind in Sub-Saharan Africa and Latin America.

Job losses in 2020–21: ILO Model Estimates
(Millions of Full-time Equivalent (FTE) compared to pre-pandemic levels)



Source: ILO stat database, 2021

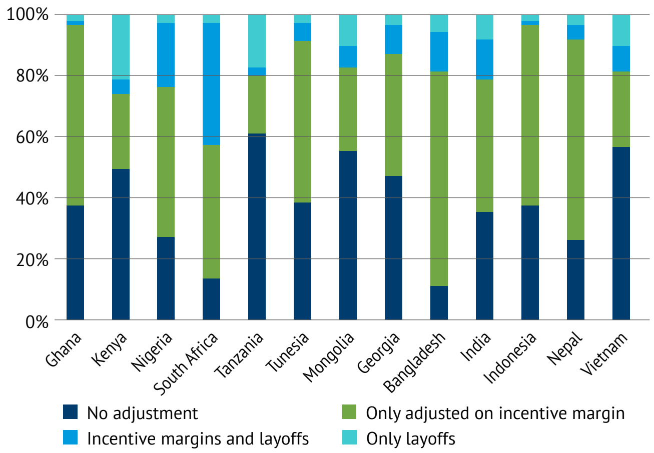
The adverse impact on firms' sales has had direct implications for workers and employment. According to estimates by the International Labour Organization (ILO), 8.8% of total working hours were lost in 2020, which is the equivalent of the hours worked in one year by 255 million full-time workers. The largest job losses were estimated

These model estimates fail to capture the complexity and granularity of the labour market adjustments which took place in 2020 and 2021 across developing countries and emerging markets, hence the need to explore in more detail some specific components of these adjustments.

HOW DID BUSINESSES REACT INITIALLY?

Business surveys conducted by the World Bank in more than 60 countries in 2020 show somewhat unexpectedly that nearly half of formal businesses were mostly holding on to workers rather than resorting to layoffs or other measures. For the other half of businesses, most firms relied on adjustments such as reducing working hours or wages or granting leave to workers. Only 15% of firms overall laid off employees, although there were significant differences across countries.[2] In general, it seems that most businesses relied on a combination of the different measures, starting with granting leave to workers, reducing working hours and wages, and layoffs.

Most firms did not make any adjustment between March and December 2020, or used a combination of measures, including layoffs



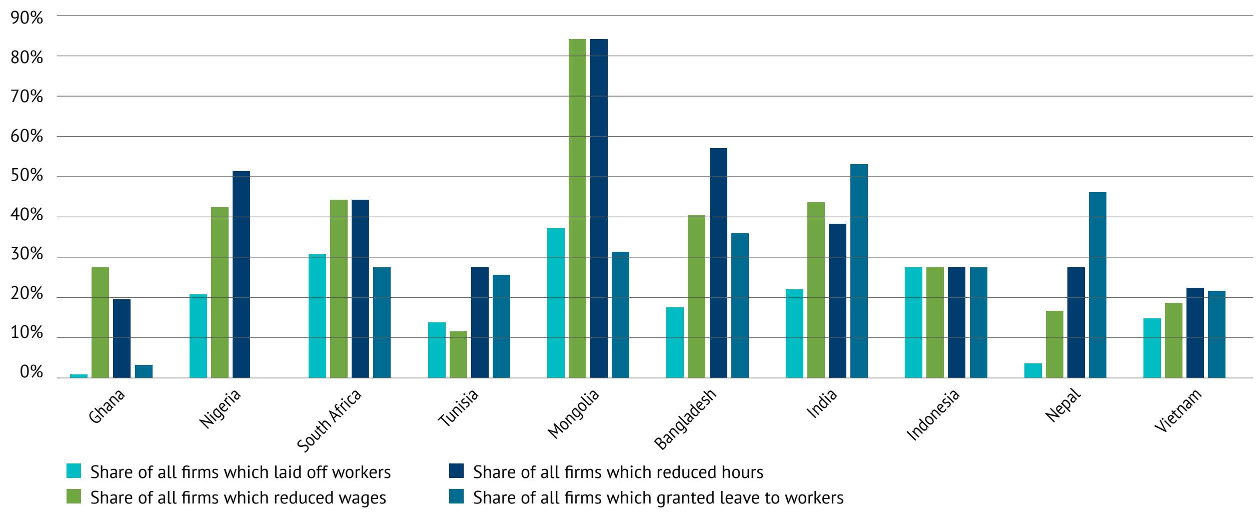
Source: COVID-19 Business Pulse Survey Database, the World Bank, 2021

In other words, layoffs do not capture the whole story. Unpaid work leave and reduced work hours have been more frequent, which – combined with wage reductions – have significantly impacted workers' incomes.

In the case of Latin America, despite the expansion of social protection programmes and other emergency interventions for mitigating the pandemic's socio-economic impacts, the region's economy declined by almost 7% in 2020 and at the height of the pandemic (June 2020), around 30 million jobs were lost (14% of total employment).[3] Even among those who remained employed, working hours declined by 16% while labour income in the region dropped by about 10% compared to 2019.[4] Thereafter, the region began a slow but incomplete recovery, causing job losses to remain at 4.7% of their pre-pandemic levels (as of the end of June 2021).

Another example is South Africa, which entered the COVID-19 pandemic with already relatively low levels of employment and a decade of weak job generation. The economy lost 2.2 million jobs in the second quarter of 2020, and by the end of 2020, 1.4 million jobs had been lost, representing an 8% contraction in aggregate employment. In addition, about 2.3 million workers had to reduce their working hours to zero but they could keep their jobs and return to work once the lockdown eased. Relative to jobs and hours, wages were slower to respond to the crisis, but eventually also adjusted downwards: by the end of 2020, the monthly median wage had fallen by 10% in 2020.[5] As of June 2021, less than 40% of employment losses had been recovered.

Reduction of hours and wages or granting staff leave was more frequent than layoffs in 2020



Source: COVID-19 Business Pulse Survey Database, the World Bank, 2021

[2] "Why did some countries' workforces fare better than others in the early pandemic?", World Bank Jobs & Development Blog #27, June 2021.

[3] "Jobs interrupted: The effects of COVID-19 in the LAC Labor Markets", Policy Note No.2 / May 2021, The World Bank, 2021.

[4] "Observatorio Laboral COVID-19: Como ha evolucionado la recuperación laboral en 2021?", Inter-American Development Bank, November 2021.

[5] "South Africa Economic Update #13: Building Back Better from COVID-19 with a focus on jobs", The World Bank, July 2021

In South-Eastern Europe and the Caucasus, job losses seem to have been slightly more limited than in other regions according to enterprise surveys carried out by the World Bank. Indeed, although most businesses reported massive declines in sales, the decline in the number of permanent full-time workers seems to have been around 10% on average. It seems that businesses adjusted their workforces proportionally less than their drop in sales, in part, because they relied on other mechanisms to adjust output and labour costs, including wage subsidies financed by governments.[6]

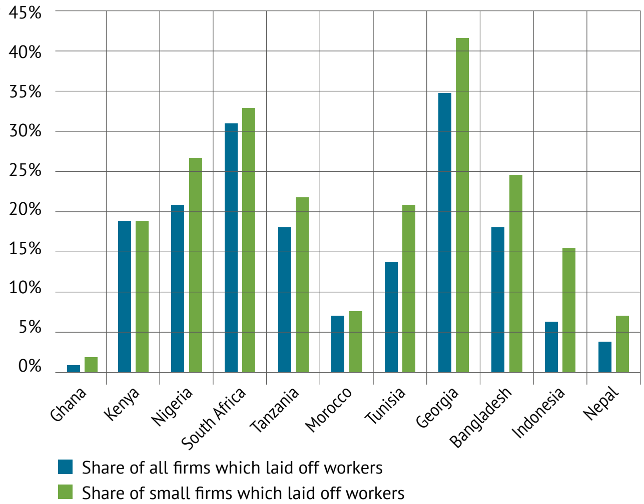
DID COMPANY SIZE MATTER FOR LABOUR ADJUSTMENTS?

In general terms, micro, small, and medium-size enterprises, which often constitute the majority of businesses in developing countries and emerging markets, were particularly impacted by the crisis, since they were overrepresented in the sectors most affected by the pandemic, such as accommodation and food services, retail, and personal services (restaurants, hairdressers, etc.). These businesses were also more likely to suffer from supply chain disruptions that limited their access to inventories or supplies.

Business surveys show indeed that smaller firms have been worse affected by the crisis in terms of sales, and a larger proportion of SMEs resorted to layoffs. It is important to note, however, that there is significant variation across countries, which also reflects the fact that the pandemic struck with different waves which were not necessarily synchronised in all regions. SMEs have also been particularly affected by liquidity management issues, and have been prone to accumulate arrears, with little ability to access alternative financing. This is one of the main reasons why several public measures such as wage subsidies, cash transfers or special credit lines were primarily directed at SMEs, but the support has been heterogeneous across countries, reflecting different fiscal starting points.[7]

Micro Companies had larger sales decline, but SMEs resorted more to layoffs

Layoffs were more frequent in small businesses in 2020



Source: COVID-19 Business Pulse Survey Database, The World Bank, 2021

FORMAL VERSUS INFORMAL SECTOR

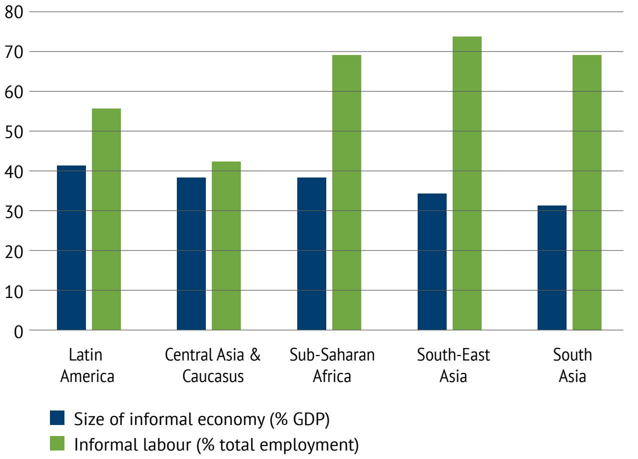
Lockdown measures and business closures have hit all economic sectors, but the shock has been particularly severe for urban market participants in the services sector, where informality is widespread. The magnitude of the challenge comes from the prevalence of informality in developing countries and emerging markets: the informal sector, on average, accounts for almost 40% of official GDP and for about 70% of total employment. While the informal sector is relatively larger in Latin America than in other regions, informal employment constitutes about 70% on average in Sub-Saharan Africa and developing Asia. Informal jobs account for about 90% of total employment in Kenya, Mali, Mozambique, and India.[8]

[6] "Europe & Central Asia Economic Update: Competition and Firm Recovery Post-COVID-19", The Word Bank, October 2021.

[7] Only one in four businesses surveyed across 60 countries has received any type of public support, with the share varying from more than 50% in high-income countries to just over 10% for low-income economies. See "Supporting Firms in Restructuring and Recovery", EFI Insight-Finance, The World Bank, March 2021.

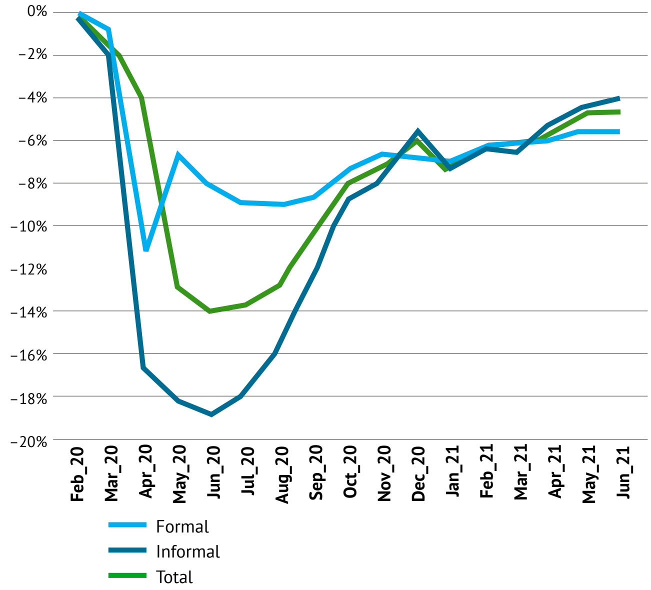
[8] Ohnsorge, Franziska, and Shu Yu, eds., The Long Shadow of Informality: Challenges and Policies, The World Bank, Washington DC, 2021.

The informal economy in developing countries: 40% of GDP and 70% of employment on average

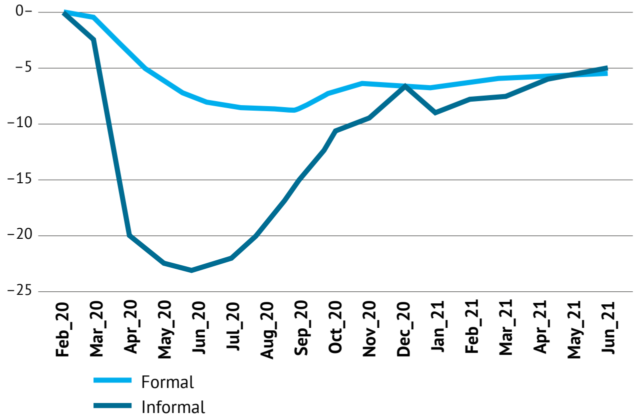


Source: World Bank informality database, 2021

Job Losses compared to pre-pandemic levels in Latin America (%)



Job Losses compared to pre-pandemic levels in Latin America (Millions)



Source: Observatorio Laboral del BID, 2021

Latin America provides for a very concrete illustration of the impact of the crisis on the informal sector. As a result of the lockdowns, informal employment fell by 19% between February and June 2020 compared to a decline of "only" 8% in formal employment. In other words, two out of every three jobs lost were informal. This means that informal employment did not function as an "employment of last resort", as in previous recessions in the region, generating an almost unprecedented phenomenon, where the labour formality rate (i.e. the percentage of employed workers who are formal) increased during a recession.[9] Later, informal jobs rebounded towards pre-COVID employment levels faster than formal jobs. By adjusting both employment levels and hours faster, the informal sector acted as an important adjustment mechanism, particularly in those industries most affected by the first lockdowns: as of July 2020, 80% of recovered employment was informal. The informal sector also appears to have played a role in decreasing the sensitivity of aggregate employment to more recent lockdowns in 2021, as the economy learned to cope with pandemic restrictions.[10]

FORMAL VERSUS INFORMAL JOB LOSSES: THE INFORMAL SECTOR IN THE FRONT LINE

India illustrates another worrying reality of the partial economic recovery, namely an increase in informal employment at the expense of the formal sector. Some studies show a large increase in informal employment in the latter part of 2020, as workers returned from the lockdowns to join more precarious and informal forms of employment. Nearly 50% of formal salaried workers moved into informal work, either as self-employed or daily wage workers between late 2019 and late 2020. Education, health, and professional services sectors saw the highest outflow of workers into other sectors, with agriculture, construction and trade emerging as fallback sectors.[11] Consequently, workers' monthly earnings fell on average by 17% during the pandemic. The same shift towards informality was observed in South-East Asia during the economic recovery.

[9] Observatorio Laboral COVID-19: Como ha evolucionado la recuperación laboral en 2021?", Inter-American Development Bank, November 2021.

[10] Alvarez, J., Pizzinelli, C., "COVID-19 and the Informality-driven Recovery: The Case of Colombia's Labor Market", IMF Working Paper WP/21/235, September 2021.

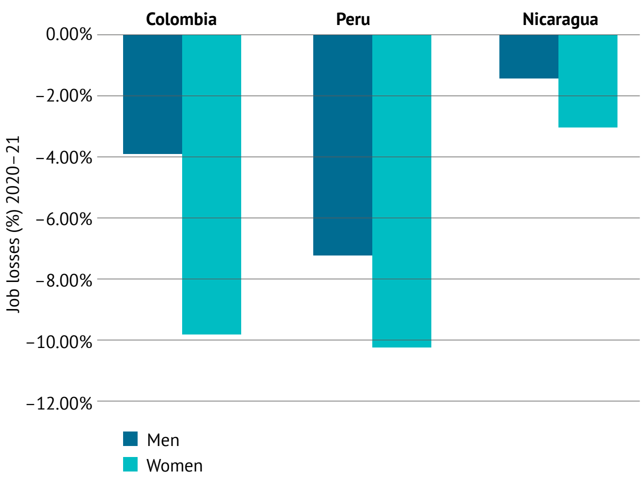
[11] State of working in India: One year of COVID-19, Azim Premji University, 2021.

HAS THE IMPACT OF THE CRISIS BEEN UNIFORM ACROSS THE LABOUR FORCE?

Available evidence shows that the most vulnerable groups to the shock in the labour markets were primarily women, youth and the less educated. Urban versus rural differences also played a role, but it appears that women, youth, and the less educated bore the bulk of the burden from work stoppage, with the urban vs. rural differences being smaller than the other disparities.[12]

One of the key differences of the pandemic recession from previous ones is the gender gap in labour adjustments. Indeed, according to data collected by the World Bank, in the initial phase of the pandemic up to July 2020, 42% of women had lost their jobs, compared with 31% of men, further underscoring the unequal impacts of the crisis by gender. The ILO estimates that the number of women employed in low- and middle-income countries fell by 4.7% between 2019 and 2020, compared to a 3.3% decline for men. In some countries, the gap is even larger. For instance, in Colombia, job losses amounted to almost 10% for women and 4% for men. A number of factors may account for this gender gap, including the disproportionate effect of COVID-19 closures on sectors where women make up a larger percentage of the workforce and the lack of childcare options.

Gender gap in Latin America: more women out of work as a result of the crisis



Source: Observatorio Laboral del BID, 2021

It is important to note that the gender gap does not only apply to the labour force, but also to business ownership: according to some studies, majority women-owned firms[13] were around 1.4 times more likely to close (permanently or temporarily) than majority men-owned firms in 2020. In the case of Indonesia for instance, this is due to the fact that women-owned businesses were concentrated in "consumer facing" activities such as restaurants or retail shops, while proportionately more men operated other types of businesses that weathered the pandemic lockdowns better. It also seems that women-led businesses suffered from pre-existing gender gaps, such as lower capital formation and incomes, as well as more time conflicts due to household and childcare responsibilities, which made their businesses more exposed to liquidity issues.[14] In other words, the pandemic may have revealed as well as amplified pre-existing gender gaps.

Young workers also appear to have suffered more during the crisis. For instance, this group of workers, who represent only 10 to 15% of the workforce in Indonesia, the Philippines and Vietnam, accounted for a disproportionate share (between 22% and 45%) of job losses at the height of the pandemic in these countries. This is due to their overrepresentation in sectors that were heavily hit by the crisis like food and accommodation services, wholesale and retail trade, and also because they were more likely to lose their jobs than adult workers in these same sectors due to more flexible contract arrangements.[15]

The same applies to low-skilled workers – who also happened to be low-wage workers. In South Africa, for instance, employment collapsed by 35% for low-wage workers between the first and second quarters of 2020. For those in the top 20% of the wage distribution, it declined by less than 10%, which suggests that low-wage workers suffered almost four times more job losses than the high-wage ones.[16] This can be explained by the fact that low-skilled workers are often employed in temporary positions or seasonal jobs with more flexible contract arrangements than permanent workers, which made them more vulnerable to layoffs than other categories of workers.

Subsequent surveys suggest that harder-hit groups may have recovered faster after the initial phase of the pandemic, but not enough to cause the initial differential impacts to disappear. Indeed, employment has not yet returned to its pre-pandemic levels.

[12] Kugler, M., Viollaz, M., Duque, D., Gaddis, I., Newhouse, D., Palacios-Lopez, A., Weber, M., "How Did the COVID-19 Crisis Affect Different Types of Workers in the Developing World?", IZA Discussion Paper Series No. 14519, June 2021.

[13] Kenny C., Yang, G., "New Estimates of the Impact of COVID-19 on Women's Jobs and Enterprises", Center for Global Development, June 2021.

[14] Buvinic, M., Knowles, J., Witoelar, F., "Persistent Gender Gaps in Business Profits in Indonesia: Implications for COVID-19 Recovery Policies", Working Paper # 603, Center for Global Development, December 2021.

[15] COVID-19 and Labor Markets in South-East Asia: Impacts on Indonesia, Malaysia, the Philippines, Thailand and Vietnam, ADB, December 2021.

[16] South Africa Economic Update #13: Building Back Better from COVID-19 with a focus on jobs", The World Bank, July 2021.

THE JOB SITUATION IN SIFEM'S PORTFOLIO AT THE END OF 2020: MORE JOBS OVERALL, REFLECTING PORTFOLIO GROWTH

At the end of 2020, SIFEM, together with other co-investors, had cumulatively supported more than 910,000 jobs since 2005. Considering the active portfolio only, there were around 465,000 jobs at the end of the 2020, compared to 405,000 at the end of 2019. The increase in jobs from 2019 to 2020 is mainly due to changes in the composition of the portfolio, and in particular, to the addition of new jobs from portfolio companies which reported for the first time in 2020.[17] A detailed presentation of how pre-existing portfolio companies survived the crisis will be made in the next section on p.14.

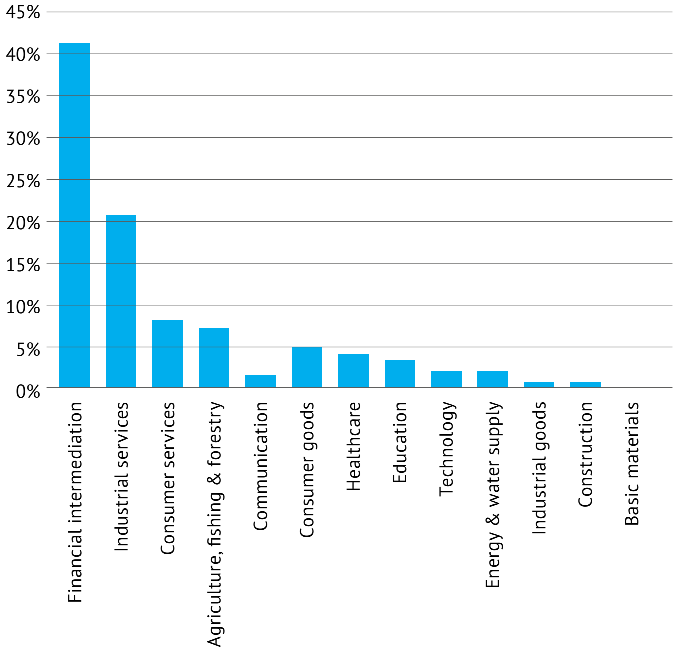
MORE JOBS – THE QUANTITATIVE SIDE

Geographical concentration: around 53% of the jobs in the portfolio were in Africa, 38% in Asia, 4% in Latin America and the remainder were in CEE/CIS and distributed "globally" (or in several regions). The four largest country exposures in terms of jobs supported were India, South Africa, Nigeria, and Kenya. These four countries accounted for 60% of all jobs in the portfolio. These four countries also belonged to SIFEM's top financial exposures. Compared to previous years, the share of Africa has increased markedly in the job distribution at the expense of Asia and Latin America. About 60% of the jobs in SIFEM's active portfolio at the end of 2020 were in the priority countries of Switzerland's development cooperation, and 13% of the jobs supported are in Least Developed Countries (LDCs) and other low-income countries (LICs).

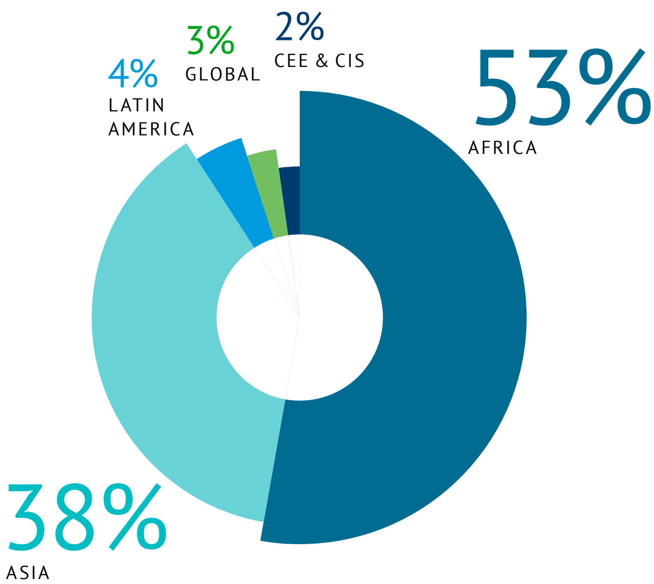
Company concentration: job concentration tends to be fairly high in the SIFEM portfolio, that is, skewed towards a few large companies, in which a handful of funds have invested. The largest 10 investees in the SIFEM portfolio accounted for nearly 50% of the jobs in the entire portfolio.

Sector concentration: 41% of the jobs were concentrated in financial intermediaries, followed by industrial services (21%) and consumer services (8.4%).

Job concentration by sector 2020



Regional distribution of jobs 2020



[17] Around 100'000 jobs were added to the portfolio in 2020, deriving from companies which reported for the first time in 2020. Jobs coming from companies which exited the portfolio in the course of 2020 are not included in the overall job numbers: these jobs represented around 44'000 full-time equivalent jobs.

SME versus large company jobs: SMEs accounted for more than 50% of all fund investees in the SIFEM portfolio. However, these SMEs accounted for only 4% of total jobs in fund investees. When the estimated jobs induced indirectly from the loan portfolios of the financial institutions supported by SIFEM are added to the dataset,[18] the share of SME jobs moved to 16% of total jobs. Again, this shows that while SMEs dominate the portfolio, most of the jobs come from larger companies. This situation is also explained by the fact that the average size of SMEs in the portfolio tends to be small (the average number of jobs per SME was 70) while the average size of the other companies is quite large (the average job number per non-SME was 2,570). This essentially reflects the high concentration of jobs supported in the portfolio in a limited number of large companies.

Job type: 80% of the jobs were direct jobs in the funds' investee companies. The remainder was composed of the staff of the financial institutions (7.3% of total) and of the funds (0.4%), as well as the jobs induced indirectly from the loan portfolios of the financial institutions supported by SIFEM, which represented 12.4% of the total.[19]

Gender concentration: it is estimated that women accounted for approximately 36% of the employees in SIFEM's portfolio companies. Women account 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 basic materials was very low. They also account for more than half of employees in financial intermediation companies.

BETTER JOBS – THE QUALITATIVE SIDE

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 working according to defined time frames to meet the ILO core labour 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.

As a consequence, 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.

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 2020, 65% of SIFEM's companies provided training to their employees, with an average of 30 hours of training per employee. 25% of trained employees were women. In addition, 23 capacity-building and training interventions were provided to 18 Latin American portfolio companies by a Technical Assistance (TA) facility partially financed by SECO. These interventions focused on different areas, such as HR management and remote work during COVID-19, business development and credit risk management.

[18] Based on the methodology used by SIFEM in the last 10 years. However, this methodology will be replaced in the future by the harmonised model approach developed by the European Development Finance Institutions (EDFIs), which could induce some significant changes in the estimates.

[19] See previous footnote.

THE JOB SITUATION WITHIN SIFEM'S PORTFOLIO COMPANIES IN THE WAKE OF THE COVID-19 CRISIS: MORE RESILIENT THAN EXPECTED

The figures presented in the previous section represent a "snapshot" of the job situation in the overall SIFEM portfolio at the end of 2020. These numbers must be interpreted with caution, since the composition of the portfolio evolved in the last two years, with different companies entering or exiting from the portfolio. Therefore, job losses attributed to the COVID-19 crisis in pre-existing companies tend to be hidden behind other changes in the portfolio, such as new investments. A closer look at the impact of COVID-19 is needed, focusing on the 236 fund portfolio companies which were present in the active SIFEM portfolio both in 2019 and 2020. This represents a subset of the total portfolio since companies/institutions which exited or entered the portfolio in 2020 are excluded from the analysis.

What can be observed is that around half of these fund portfolio companies experienced job losses in 2020 compared to 2019, while the other half created new jobs. Around 19,500 jobs were lost, while 15,500 new jobs were created, resulting in net job losses totalling 4,000 full time equivalent positions.

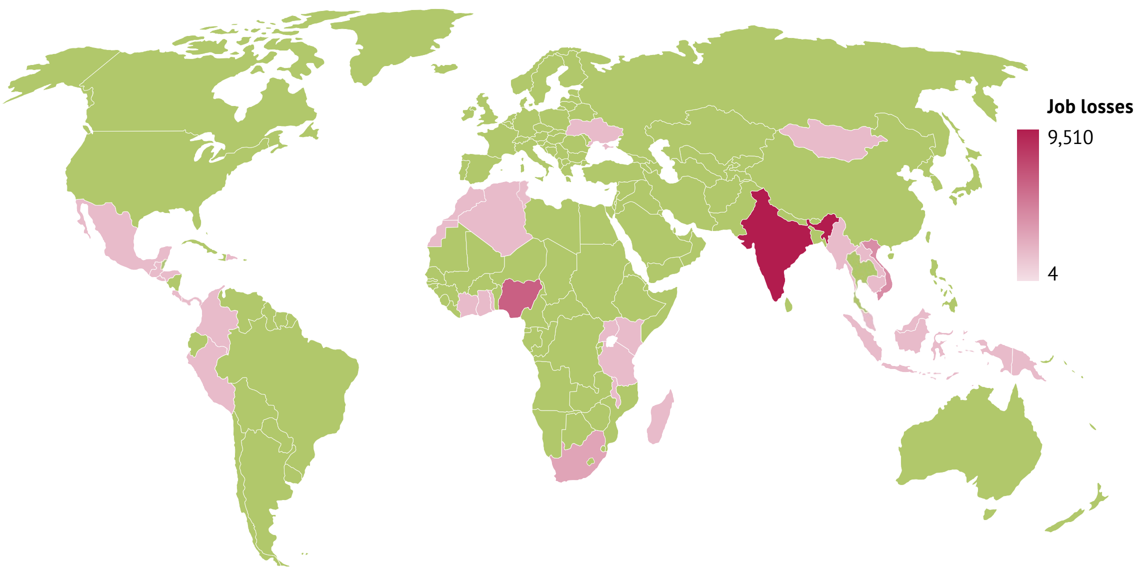
This suggests that even with some job losses, this specific subset of portfolio companies has been stronger and more resilient than what was initially expected. To a certain extent, this reflects the efforts deployed by fund managers and their investees in implementing contingency plans to adapt to the crisis and consider retrenchment as a last resort. For instance, one fund manager took proactive steps throughout the crisis to assist all its portfolio companies, such as coaching investees' Boards of Directors on cash management as an essential business survival strategy. It also helped investees to introduce appropriate COVID-19 safety measures and protective protocols. Other companies also introduced reductions in salaries or measures aimed at cutting labour costs while preserving jobs in the short term, as indicated in the previous section when describing how businesses reacted to the crisis globally.

Looking at the details of the job changes in this subset of the SIFEM portfolio between 2019 and 2020, the following main observations can be made:

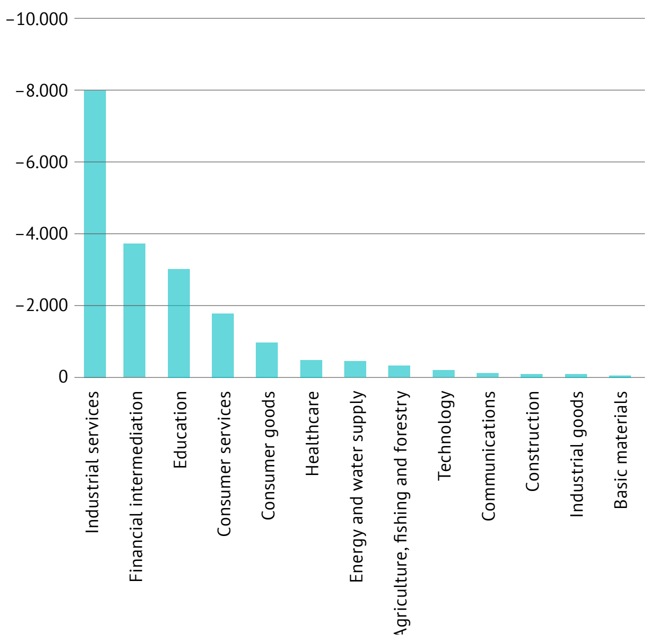
- **In absolute terms, job losses were by and large concentrated in South and South-East Asia and in Sub-Saharan Africa.** Three main countries, i.e. India, South Africa and Nigeria, account for nearly 75% of all job losses, spread around 40 companies in the fund portfolio. This is in line with global trends of regions and countries highly affected by the crisis.

- **In proportion of regional jobs in the fund portfolio, there were more jobs lost in Latin America and South Asia than in other regions in the SIFEM fund portfolio:** in Latin America, job losses account for nearly 15% of

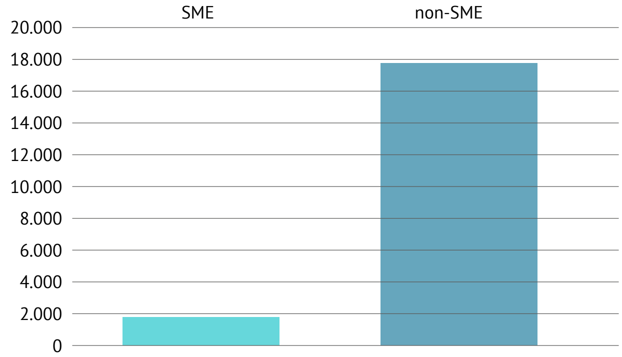
Job losses in 2020 in SIFEM Fund's portfolio companies: concentrated in South Asia and Africa



Job losses by sector in SIFEM's Fund portfolio companies in 2020: mostly in industrial services



Absolute job losses in 2020: losses driven by **large companies**



all jobs in Latin American fund portfolio companies operating in both 2019 and 2020. In South Asia, the corresponding figure is close to 10% while it is only 4% in Sub-Saharan Africa.

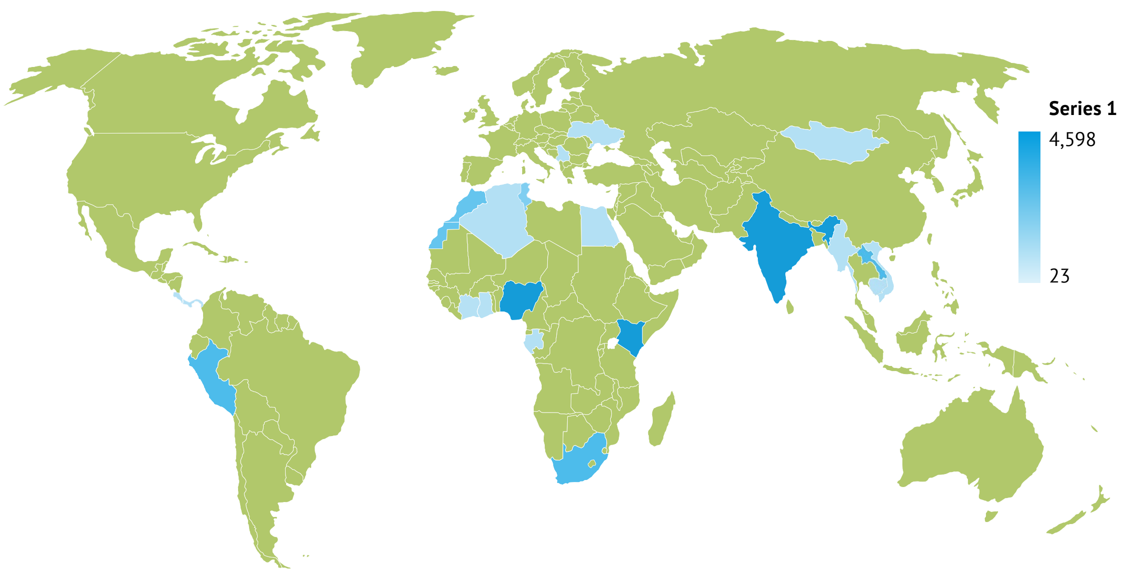
- **Jobs losses were concentrated in a handful of investments, with 3 funds accounting for nearly 75% of all jobs lost.** This is not a surprise given the job distribution in the portfolio, which is skewed towards a limited number of large job contributors.

- **Job losses were largely concentrated in 3 economic sectors, i.e. industrial services, financial services, and education**, and in particular, on three individual companies operating in those sectors.

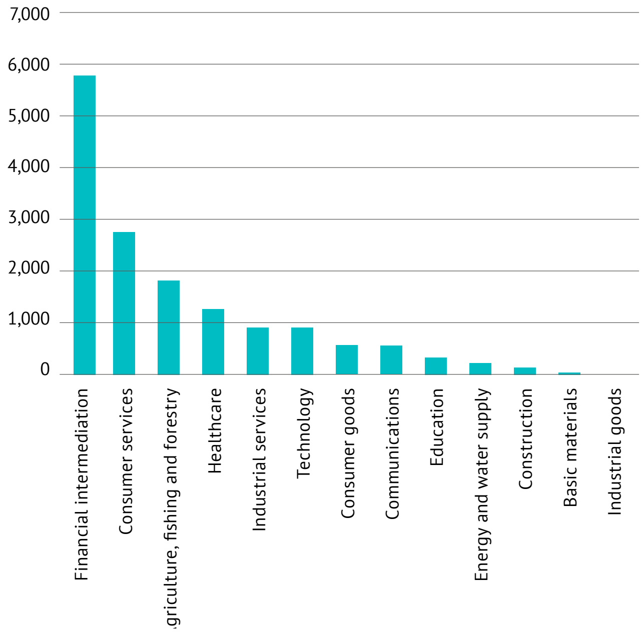
- **In absolute terms, there were more job losses in large companies than in SMEs, which essentially reflects the difference between "large employers" and "small employers".** As mentioned earlier, SMEs in the SIFEM portfolio tend to be on the small side while non-SMEs are rather large. However, there were more SMEs than larger companies which reduced employment between 2019 and 2020.

- **In terms of gender breakdown, more men than women lost their jobs in portfolio companies in absolute terms.** However, in relative terms – that is in proportion to total employment by gender – a slightly higher proportion of women lost their jobs than men.

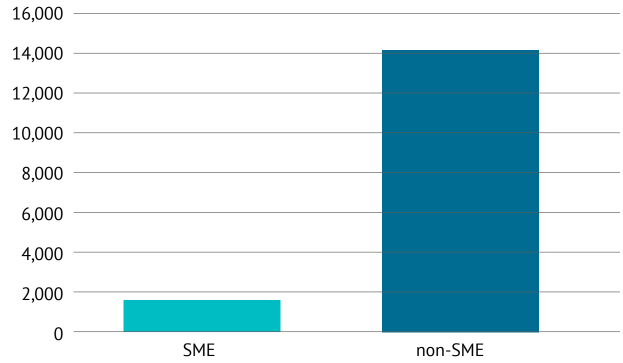
Job creation in 2020 in SIFEM's Fund portfolio companies: South Asia and Eastern Africa in the lead



Jobs added in SIFEM's Fund portfolio companies in 2020: diversified opportunities



Absolute job creation in 2020: non-SMEs in the lead



- **In terms of job creation in 2020 compared to 2019, companies adding jobs were also fairly concentrated in a handful of countries, including India, Kenya, and Laos.** This reflects the fact that the crisis had very differentiated effects across countries and sectors.

- **Among funds, job creation was more evenly spread out than job losses, with 5 funds contributing to 70% of new jobs.**

- **Job creation took place in a large number of sectors, especially in financial intermediation, energy & water supply, consumer services, agriculture and forestry, and also healthcare services.** For example, one investee in Kenya operates a supermarket chain in Kenya. During the COVID-19 crisis, it adapted its business hours to the curfew rules introduced by the government and hired more than 300 people to satisfy the growing demand from local consumers.

- **In absolute terms, there were more jobs added by non-SMEs than by SMEs, which essentially reflects the difference between "large employers" and "small employers".** As discussed earlier, this mainly reflects the type of businesses present in the SIFEM portfolio.

- In terms of gender breakdown, 70% of new jobs in existing companies were given to men and 30% to women. 20% of new female jobs were part-time jobs versus 3% for men. There was, however, no change in the type of job contracts used: 90% of new jobs benefited from permanent contracts (full time or part-time), while on 10% of new jobs were temporary or contracted out.

PRELIMINARY CONCLUSIONS AND LESSONS LEARNED

1. **The analysis presented in the previous section tends to show that the group of portfolio companies of SIFEM's fund investments that went through the first year of the COVID-19 pandemic has been stronger and more resilient than originally feared at the beginning of the crisis.** In particular, it is striking to see that many new business opportunities materialised across different sectors, leading to sizeable job creation, which contributed to limited net job losses at the level of these specific companies.

2. **Job losses in this specific group of companies tended to be fairly concentrated in 2020 in a few companies and sectors, in line with the existing concentration of the SIFEM portfolio.** This is also one of the limitations of the analysis, since changes in a few underlying companies may tilt the overall results in one direction or another. This is the reason why SIFEM is paying particular attention to the "large job contributors" of its portfolio in terms of monitoring and engagement with partners.

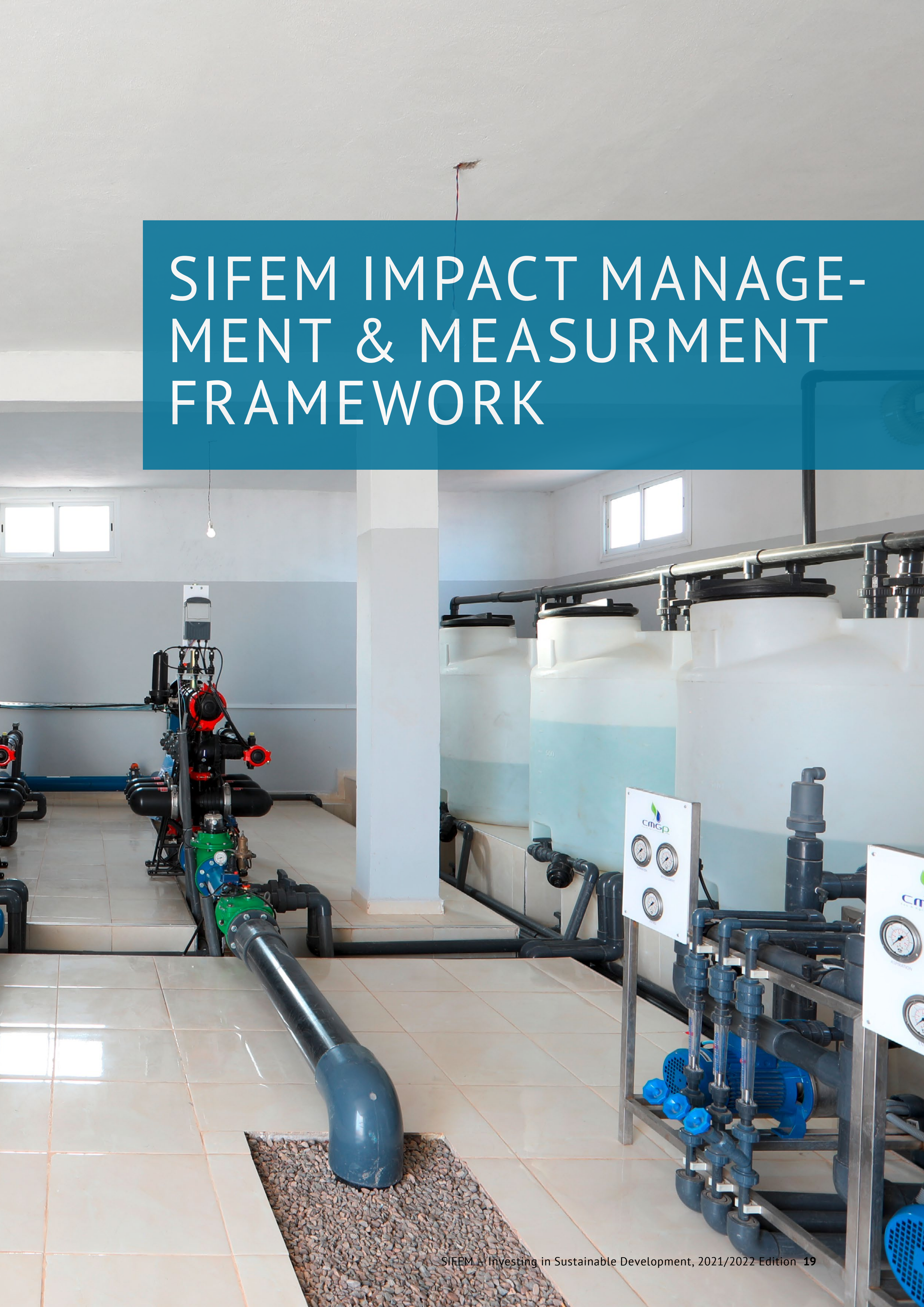
3. **It is still premature to assess how these companies, and in particular SMEs, coped with the second year of the crisis.** Accordingly, the data presented in the previous section only covers the initial effect of the crisis but does not yet cover the uneven recovery path across regions shown in the global context presentation. 2021 data will only be collected during 2022, allowing a deeper dive into the dynamics of the last three years.

4. **Both SME jobs losses and job creation have been limited in absolute terms, reflecting their relatively small size and role in the SIFEM portfolio. However, surviving SMEs may struggle more in the future to continue operating in uncertain environments, as they have probably exhausted all available cost efficiency measures that could be implemented.** They also may struggle more to have further access to finance in the future. Therefore, they will require support from development finance institutions (DFIs) such as SIFEM in order to broaden the opportunities for job creation. 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. **One of the main question marks at this stage is to what extent the crisis may impose lasting scars on the labour market structures of the countries in which SIFEM operates.** In particular, the most serious risk – already observed in the broader context but not yet in the SIFEM portfolio – is that businesses would shift towards lower quality jobs or working conditions (i.e. lower salaries, temporary contracts). SIFEM will therefore continue to closely monitor the compliance of local partners with international labour standards and actively engage with them on the strengthening of the human resources management function and active management of labour risks.


ASSOCIATION TIWIZI
FILTRATION A DISQUES AUTOMATIQUE
POMPES D'IRRIGATION
NMC-PRO

SIFEM IMPACT MANAGE-MENT & MEASURMENT FRAMEWORK



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 uses a holistic and comprehensive impact management approach, based on two main pillars:

→ Avoid negative impacts, combining thorough context assessments, integrated ESG & Impact due diligence checks, legal compliance with SIFEM's Approach to Responsible Investment,[20] and the development of action plans for financial intermediaries to properly manage and mitigate potential risks.

→ Enhance positive impacts, through active engagement with financial intermediaries through which SIFEM invests, by focusing on core development priorities (e.g. decent jobs, gender equality, climate change), and on capacity building for fund managers and financial intermediaries either directly or through external consultants.

Avoiding negative impact – which corresponds to a "do-no-harm" approach – is a prerequisite to claim positive impact. The main feature of this approach is the full integration between ESG and Impact considerations at the level of SIFEM's manager. SIFEM's unique value proposition as per its business model and impact investing mandate is not only to provide financing to promising local financial intermediaries (fund managers and financial institutions), but also to strategically engage with them in order to strengthen their capacities in managing risks and achieving impacts. This work is often undertaken alongside other DFIs and likeminded investors.

The cornerstone of this "do-no-harm" approach is SIFEM's Approach to Responsible Investment, which is based on internationally accepted, best practice standards, including: the UN Guiding Principles for Business and Human Rights; International Labour Organization Core Labour Standards; International Finance Corporation (IFC) Standards on Social and Environmental Sustainability (2012); the associated Environmental, Health and Safety (EHS) Guidelines; the Corporate Governance Development Framework; and the Client Protection Principles. The Policy applies to SIFEM, its fund managers and their underlying portfolio companies (as well as financial institutions) and extends across the entire investment process, from deal sourcing and initial screening to exit.

SIFEM's main development effects are reported to Parliament as contributions to the target outcomes ("Wirkungsziele") of Switzerland's economic development cooperation framework.

SIFEM'S RESULT MEASUREMENT FRAMEWORK

SIFEM is relying on a result measurement framework in line with the practice of other Development Finance Institutions (DFIs), allowing for the monitoring and aggregation of results. This framework is composed of three different levels:

- First, an internal rating tool (SIFEM GPR) originally developed by DEG, the German Development Finance Institution, is used to appraise investments and track their development performance over time. The GPR assessments are based on the investment contribution to eight development areas or pillars. A standardised scorecard is assigned for each of the sub-indicators in the individual pillars based on internal discussions, as well as subsequent discussions with financial intermediaries during annual monitoring calls.

- Second, specific indicators are collected for each investment to measure development effects as well as compliance with ESG standards, which can be aggregated at the portfolio level and reported to Parliament. In the case of funds, the data not only covers the direct investee level (fund manager), but also each and every portfolio investee (550 companies in more than 80 countries as of December 2021). In the case of financial institutions (no capital), the data collected covers the institution itself, and the development effects such as indirect jobs induced by loans provided to clients by the financial institution (no capital) are estimated via model calculations. SIFEM uses internationally accepted harmonised approaches and indicators whenever possible, such as metrics coming from

[20] https://sifem.ch/our-task/investing-responsibly

the IRIS+ catalogue of indicators managed by the Global Impact Investing (GIIN) network – of which SIFEM is an active member – and harmonised indicators used by the EDFI institutions. 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.

- 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.[21] This is complemented with impact stories which are also intended to illustrate the development effects of SIFEM's investments and to provide insights into the local context in which investee companies are operating.[22]

The main metrics and indicators collected annually by SIFEM for development effects tracking and reporting are shown below, in relation to their corresponding SDGs:

SDG 2 – Zero Hunger
- Food produced
- Farmers reached

SDG 3 – Good Health & Well Being
- Healthcare facilities served
- Caregivers employed
- Patients reached

SDG 4 – Quality Education
- Education facilities served
- Teachers employed
- Students trained

SDG 5 – Gender equality
- Share of women ownership – Business founded by a woman
- Share of women in senior management
- Share of women on the Board or Investment Committee
- Share of women in the workforce
- Products or services specifically or disproportionately benfiting women

SDG 7 – Affordable & Clean energy
- Clean energy installed
- Clean energy produced
- GHG emissions (for investees with more than 25,000 tCO_2e per year)
- GHG emissions avoided during reporting period

SDG 8 – Decent Work & Economic Growth
- Employment (Permanent, Temporary, Outsourced and Construction, disaggregated by gender)
- Employee Turnover (Involuntary, Voluntary, disaggregated by gender)
- Formal training provided to employees
- Number of employees trained and hours of training
- Grievance Mechanism (number of complaints)
- Number of serious incidents (no capital)

SDG 9 – Industry, Innovation & infrastructure
- Number of subscriptions (mobile phone, Internet)
- Volume of potable water produced
- Passenger use
- Number & amount of SME loans
- Number of clients/beneficiaries

SDG 10 – Reduced Inequalities
- Amount of outstanding microfinance loans
- Number of outstanding microfinance loans

SDG 11 – Sustainable Cities & Communities
- Housing units constructed
- Number & amount of housing loans

SDG 12 – Responsible consumption & production
- Waste disposed through reuse/recycling (tons)

SDG 15 – Life on Land
- Forestry managed (hectares)
- Planted area (hectares)

SDG 17 – Partnership for the goals
- Corporate income taxes
- Other taxes and governmental fees

Note: standard metrics collected for all investments managed by SIFEM essentially capture SDG 5, SDG 8, SDG 9 and SDG 17. For sector-specific investments, additional metrics are collected capturing the other SDGs mentioned.

[21] http://sifem.ch/impact/case-studies/

[22] https://sifem.ch/impact/impact-stories

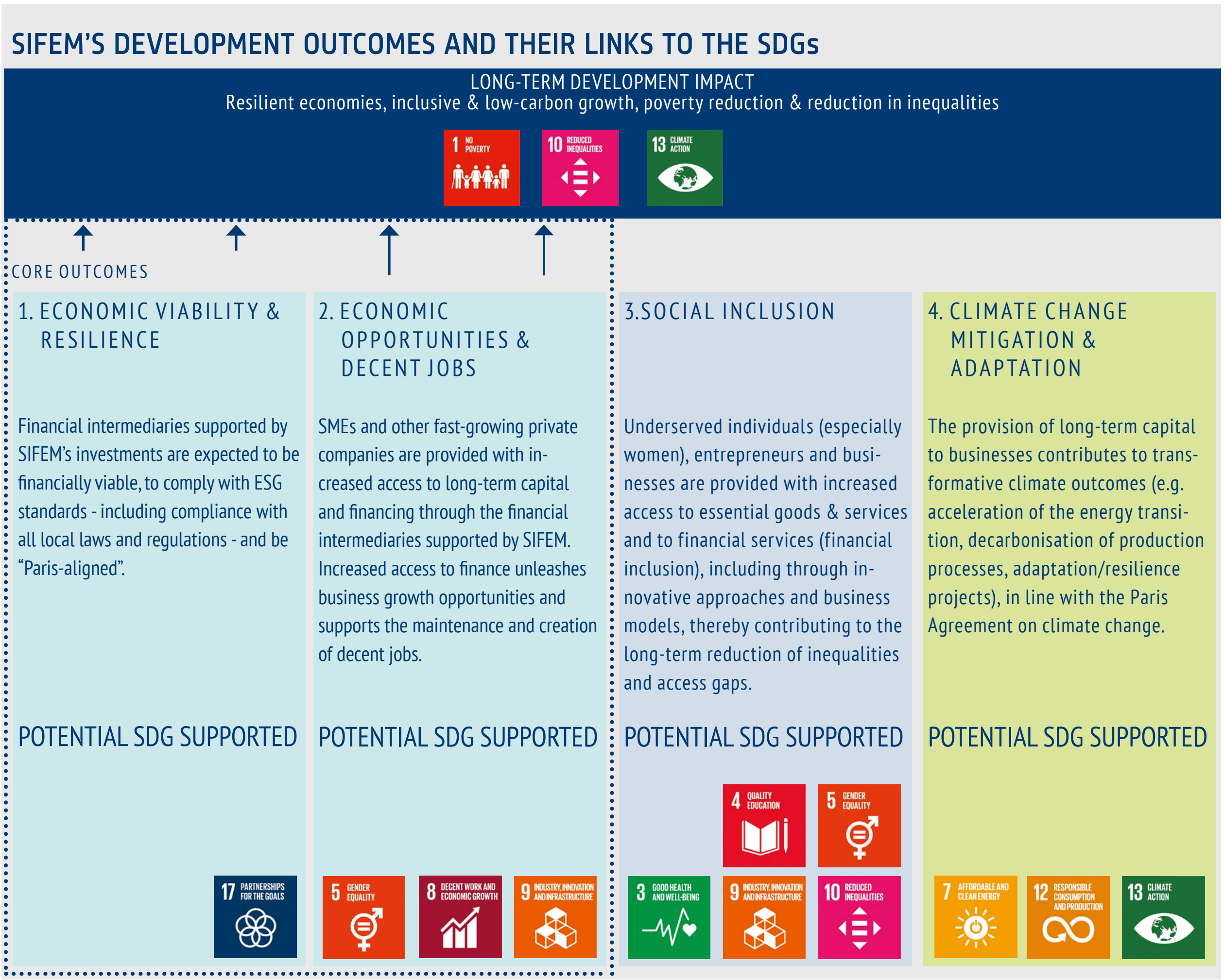
SIFEM'S THEORY OF CHANGE FOR 2021–24

SIFEM commits to working to maximise the development effects linked to its investment decisions 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 outcomes, which reflect the strategic objectives assigned to SIFEM by the Swiss Government[23], and which are fully in line with the 2030 Agenda for Sustainable Development adopted by the United Nations in 2015 and with the Paris Agreement on Climate Change. SIFEM's performance against the strategic objectives is assessed each year and disclosed in a special annex of SIFEM's Business & Financial reports, available on the SIFEM website.

SIFEM has used a specific theory of change at the level of its portfolio since 2018, which is based on a logical framework model. SIFEM's theory of change underpins all of SIFEM's investments with the logic that financial intermediation plays a pivotal role for private sector growth in developing countries and emerging markets. SIFEM focuses on strengthening local intermediaries in their capacity to deliver long-term capital to SMEs and fast-growing companies. SIFEM's role is thus both financial (provision of long-term finance) and non-financial (hands-on advice to financial intermediaries), and the combination of these two roles contribute to the sustainability of SIFEM's outcomes.

All SIFEM investments contribute to the overall impact in the long run, albeit in different ways, as captured by the different outcomes depicted in the figure below. Every SIFEM investment contributes at least to the first two outcomes (economic viability & resilience, economic opportunities & decent jobs). Furthermore, some SIFEM investments may also contribute to additional developments effects captured by outcomes 3 (social inclusion) and 4 (climate change mitigation & adaptation), depending on the characteristics of each investment.

The SIFEM outcomes are linked to specific SDGs, as shown below.



[23] The complete list of strategic objectives for the 2021-24 period can be found on SIFEM's website under the following link: https://sifem.ch/about-us/strategic-objectives

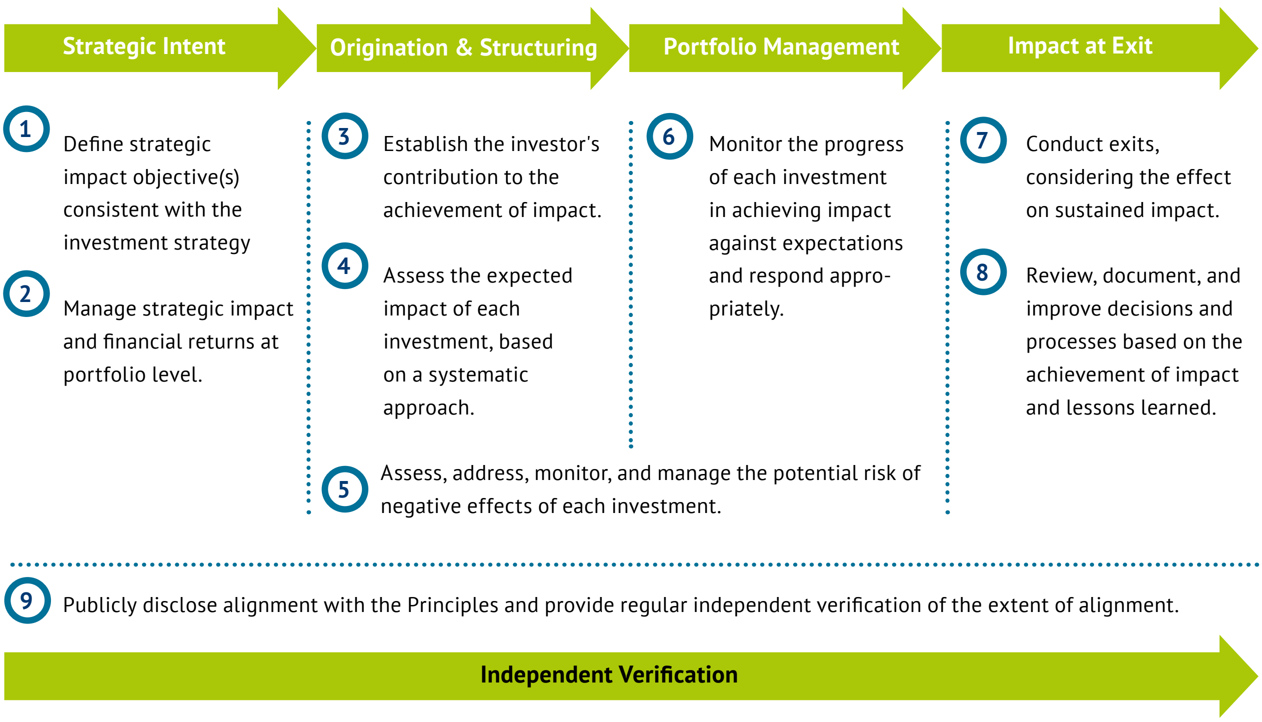
The above-mentioned results measurement framework is used to track SIFEM's contribution to these different outcomes.

SIFEM'S IMPACT MANAGEMENT

SIFEM's current practice of impact management is 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 Impact 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 Impact Principles call for annual disclosure as to how signatories implement them, including independent verification, which will provide credibility to the adoption of the Impact Principles.

SIFEM was among the first adopters of these Impact Principles, committing to manage its impact assets in accordance with the Impact Principles. As of December 2021, more than 144 investors in 35 countries have become signatories of this standard, covering more than USD 420 billion of assets under management.[24] SIFEM's alignment with the Impact Principles has been confirmed through an independent verification process carried out in November 2020.[25]

IFC OPERATING PRINCIPLES FOR IMPACT MANAGEMENT



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

[25] https://sifem.ch/fileadmin/user_upload/sifem/pdf/en/Verification_Letter_IFC_OPIM_SIFEM.pdf

LATEST DEVELOPMENT HIGHLIGHTS

EMPLOYMENT

8 DECENT WORK AND ECONOMIC GROWTH

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

910,900
jobs created and supported since 2005 (together with investment partners)[a]

90%
of jobs within SIFEM portfolio companies have permanent contracts[b]

65%
of SIFEM portfolio companies provide training to their employees[b]

GENDER

5 GENDER EQUALITY

CREATING ECONOMIC OPPORTUNITIES FOR WOMEN

Through its investments, SIFEM promotes gender equality and equal opportunities

36%
of the employees in SIFEM portfolio companies are women[b]

65%
of the SME loan clients are women[c]

25%
of SIFEM portfolio companies' employees receiving training are women[b]

ACCESS TO FINANCE & FINANCIAL INCLUSION

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

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
173,300 SME loans
outstanding at the level of SIFEM partner institutions and their underlying portfolio companies[b c]

CLIMATE CHANGE MITIGATION

7 AFFORDABLE AND CLEAN ENERGY

13 CLIMATE ACTION

ACCELERATING THE ENERGY TRANSITION

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

6,479 GWh
of clean energy produced[d]

7.6 mn tons
of $C0_2$ emissions avoided (together with investment partners)[d]

Notes:

a. Data covers all investments from 2005 until 2020. This is a cumulative figure calculated without pro-rating the share of SIFEM in the underlying fund investments.
b. For post-August 2013 investments as of end 2020.
c. For investments reporting on this indicator, for instance financial institutions, as of end 2020.
d. For investments reporting on this indicator, for instance renewable energy funds, as of end 2020.

DOMESTIC REVENUE MOBILISATION

17 PARTNERSHIPS FOR THE GOALS

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 1,440 mn

Corporate and other taxes paid locally by underlying portfolio companies[e]

PRIVATE INVESTMENT MOBILISATION

17 PARTNERSHIPS FOR THE GOALS

REDUCING THE FINANCING GAP

SIFEM leverages further private investment for development

1 to 6.3

For each dollar invested by SIFEM (fund investments), there were USD 6.3[f] coming from private investors

Notes:

e. For post-August 2013 investments as of end 2020.The data covers all fund investees as well as funds and financial intermediaries.

f. As of end 2021, calculated without pro-rata attribution. This number simply reflects the proportion between SIFEM's commitments and private investors' commitments in fund investments.

The metrics reported are aggregated across the whole portfolio, with a 5% error margin.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家興人興事業興
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INTERVIEWS

EXTERNAL VIEW

INTERVIEW WITH BRUNO WENN, EDFI CHAIRMAN

"WE ARE WORKING ON A HARMONISED GLOBAL STANDARD FOR THE MEASUREMENT OF IMPACT"

EDFI (European Development Finance Institutions) is an association of fifteen European development finance institutions (DFIs), including SIFEM, which operate in emerging and developing countries. EDFI was founded by six DFIs in Brussels in 1992 with the aim to enhance cooperation and facilitate knowledge-sharing between its members and other bilateral, multilateral and regional DFIs. In the interview below, Bruno Wenn, EDFI Chairman, speaks among other things about the European development finance environment, the future of EDFI, the challenges arising from the global COVID-19 crisis, and the opportunities for DFIs in the post-COVID-19 period.

SIFEM – SINCE THE FOUNDING OF EDFI, YOU HAVE BEEN INVOLVED IN THIS ORGANISATION IN A VARIETY OF FUNCTIONS. WHAT ARE SOME OF THE MOST IMPORTANT DEVELOPMENTS AND SUCCESSES YOU HAVE EXPERIENCED DURING THIS TIME?

Bruno Wenn - First, our association has seen strong membership growth. We started with six members, today we have fifteen. Second, the volume of investment has grown markedly. The combined portfolio of all our members now stands at nearly USD 50 billion. Third, we have become much more relevant, thanks to the United Nations Sustainable Development Goals (SDGs). The issue of job creation puts the spotlight on the private sector, which we successfully support. Fourth, we have succeeded in broadening our connections with similar organisations such as FinDev in Canada and the DFC in the US. An example of such a collaboration is the 2X Challenge, which we have jointly launched with the aim of strengthening women's participation in the economy. We are also in a position to lay down principles that are adopted by multilateral development banks, for instance in blended finance. As an association, we conduct joint training sessions and make a substantial contribution to the much-needed harmonisation of standards. Lastly, one other important milestone was the establishment of the EDFI Management Company (EDFI MC) in 2016, which operates European Union schemes for financing business development.

YOU TOOK OFFICE IN 2018. APART FROM THE COVID-19 CRISIS, WHAT ARE SOME OF THE BIGGEST CHALLENGES YOU HAVE FACED IN YOUR ROLE AS EDFI CHAIRMAN?

One major challenge was the debate on the European financial architecture for the promotion of development. We had to think about how we wanted to position ourselves as an association and how to bring our viewpoints into the discussion. As a member of the so-called "Wise Persons Group",[26] we were able to make a direct contribution to the debate. The second challenge was to intensify our collaboration with similar institutions outside EDFI, where we still have to develop a common understanding of how we can work together. A third challenge concerns the measurement of impact. Uniform standards to tackle this issue remain an important need. Within EDFI, we have a common understanding of what impact means. However, persuading others outside EDFI to share this understanding is a challenge. Fourth, as we grew, we have had to adapt our own structures.

HOW DO YOU RATE THE CURRENT LEVEL OF COLLABORATION BETWEEN EDFI MEMBERS COMPARED TO BEFORE? AND IN PARTICULAR, WHAT IS YOUR VIEW ON THE COLLABORATION BETWEEN EDFI AND SIFEM?

Cooperation between members is now very strong and close. Whereas in the past, it was the larger members who mainly led the way, today the smaller ones are also getting involved, bringing their own experiences, viewpoints and problems to the table. SIFEM may be one of the smaller members, but it has always taken on responsibility within EDFI, for instance by actively participating in task forces, networking groups and on the supervisory board. SIFEM also took the lead on the issue of Responsible Tax Behaviour and Transparency. At EDFI, we benefit from SIFEM's knowledge and engagement.

[26] This high-level expert group was set up by the Council of Europe in 2019 with the mandate to establish an independent report on possible options for strengthening the financial architecture for development in Europe.

SOME WESTERN EUROPEAN COUNTRIES, SUCH AS IRELAND OR LUXEMBOURG, STILL DO NOT HAVE A DFI. DO YOU SEE ANY SIGNS OF INTEREST IN FORMING NEW INSTITUTIONS THAT COULD JOIN EDFI?

Several European countries are currently contemplating setting up a development finance institution. We assist with this thought process and we are currently in discussions with Luxembourg, for example. We are also ready to make our advice and experience available to other countries. At the end of the day, of course, we hope to attract more members along the way. However, there are a lot of countries in Europe that currently have no development banks at all, either nationally or for international activities.

THE EDFI MANAGEMENT COMPANY (EDFI MC) MANAGES ELECTRIFI AND AGRIFI, TWO EU-FUNDED INSTRUMENTS FOR PROMOTING RENEWABLE ENERGY AND SUSTAINABLE AGRICULTURE IN DEVELOPING COUNTRIES, AS WELL AS OTHER CO-FINANCING SCHEMES SUCH AS EUROPEAN FINANCING PARTNERS (EFP) AND THE INTERACT CLIMATE CHANGE FACILITY (ICCF). HOW DO YOU THINK THESE ARRANGEMENTS HAVE PERFORMED SO FAR? WHAT KIND OF INVESTMENTS MIGHT FUTURE FACILITIES FOCUS ON?

The EDFI Management Company was founded to operate blended finance facilities for the European Commission, which we have successfully done. ElectriFI and AgriFI are highly valued “market development facilities”, as they are called. The Commission is therefore going to give us additional funding: almost half a billion euros for ElectriFI and AgriFI. That makes sense, because it allows us to finance measures that no other EDFI member would take on, because the risks are just too high. Future initiatives will most likely target Africa, for instance in private equity funding.

THE EU ALREADY HAS ITS OWN DEVELOPMENT INSTITUTION, THE EUROPEAN INVESTMENT BANK (EIB), AND THE LONDON-BASED EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT (EBRD), FOUNDED IN 1991, IS ALSO A MAJOR INTERNATIONAL FINANCIAL INSTITUTION. ISN’T THE EUROPEAN DEVELOPMENT FINANCE MARKET A BIT CROWDED?

EDFI’s unique selling point is that our members work exclusively with the private sector and have an immense amount of knowledge in this area, as they have successfully demonstrated in recent years. Members operate in some very tough countries, yet they still manage to achieve a return and have an impact on development policy. That’s why we play a special role within Europe and the European institutions, and it’s also why, for example, 74% of EU funding[27] for the private sector in sub-Saharan Africa goes through us.

THREE OF EDFI’S FIFTEEN MEMBERS ARE OUTSIDE THE EU, INCLUDING THE BRITISH CDC, WHICH IS ONE OF THE THREE BIGGEST MEMBERS IN TERMS OF PORTFOLIO SIZE. DOES THIS AFFECT THE RELATIONSHIP BETWEEN THE EU AND EDFI?

No, this does not affect our relations with the EU, because it is clear that these three non-EU members cannot use European Union instruments. Having non-EU members in EDFI is also a big plus: it makes our network even stronger.

EUROPEAN DFIS CURRENTLY HAVE A COMBINED PORTFOLIO OF ALMOST EUR 50 BILLION IN COMMITTED INVESTMENTS. YET THE ANNUAL FUNDING GAP FOR BUSINESSES IN AFRICA ALONE IS ESTIMATED BY THE IFC AT WELL OVER USD 300 BILLION. SO WOULD THE COMBINED PORTFOLIO OF EDFI MEMBERS NEED TO BE SIX TIMES LARGER JUST TO MEET THE FUNDING NEEDS IN AFRICA? OR DO DFIS SIMPLY NEED TO MOBILISE MORE PRIVATE CAPITAL TO MEET DEVELOPING COUNTRIES’ NEEDS FOR FINANCE?

Both must be done. EDFI’s substantial growth rate, which has averaged 10% per year over the last ten years, must be maintained. To do this, our members need additional capital and guarantees from their owners. But we also need to mobilise more private capital. In the long run, we ought to be able to sell DFI investments as a distinct asset class. In other words, private investors would buy into DFIs’ knowledge of how to make investments that are risk-managed, generate good returns and rank as development policy successes. To achieve that, however, we need to keep growing because big investors aren't looking for the USD 5-20 million tickets we are used to, but for USD 50-500 million.

CHINA HAS BEEN PLAYING AN INCREASINGLY IMPORTANT ROLE IN AFRICAN DEVELOPMENT IN RECENT YEARS. CHINESE DEVELOPMENT BANKS AND COMPANIES HAVE DOMINATED THE FINANCING AND DEVELOPMENT OF CRITICAL INFRASTRUCTURE IN AFRICA SINCE 2017. WHAT IS EDFI’S VIEW OF THE CHINESE DEVELOPMENT AGENDA FOR AFRICA? DOES IT REPRESENT COMPETITION FOR EDFI OR DOES IT COMPLEMENT EDFI’S LONG-TERM GOALS?

EDFI has not addressed this issue to date, since the Chinese development policy largely concerns the public sector. My own assessment of the Chinese involvement in Africa is somewhat ambivalent. On the one hand, I can see that African public debt has gone up dramatically as a result of Chinese investments. The macroeconomic benefits of investing in a road, for example, can be reaped more slowly than the rate at which the debt has to be serviced. On the other hand, China’s substantial engagement has shown that Africa is a continent of

[27] Europe in the World: The future of the European financial architecture for development (Wise Persons Group Report), Council of the European Union, p. 45, https://www.consilium.europa.eu/media/40967/efad-report_final.pdf

opportunity, while in Europe, Africa is still very much perceived as a continent of risk. The roads, ports and railways built with Chinese support have opened up market opportunities for private companies. This interest in Africa is also good for us, as it makes it easier to find private investors who want to work together with us in Africa.

WHAT IS EDFI DOING TO MOBILISE MORE PRIVATE CAPITAL? IS THERE ANY INSTITUTIONAL COOPERATION BETWEEN EDFI AND PRIVATE SECTOR ORGANISATIONS?

On average, our members mobilise some six to seven billion US dollars of private capital every year. Some of our members also have specific targets in this regard. EDFI has an institutional partnership with the Climate Finance Leadership Initiative (CFLI), which includes several major players such as AXA, Bloomberg and Goldman Sachs. They are all looking for sustainable, impact-oriented investments in developing countries and have come to us because we have the experience they need.

ALL OVER THE WORLD, JOB LOSSES DUE TO THE CURRENT COVID-19 CRISIS ARE HAVING DEVASTATING EFFECTS ON VULNERABLE GROUPS, ESPECIALLY WOMEN AND YOUNGER WORKERS. THESE GROUPS OFTEN SUFFER FROM UNDEREMPLOYMENT AND THEY CONSTITUTE AN IMPORTANT PART OF THE WORKING POPULATION. WHAT HAS EDFI BEEN DOING TO TACKLE THIS PROBLEM?

In late 2020, we succeeded in forming a coalition for MSMEs in Africa. This includes the members of EDFI, FinDev Canada, the DFC (USA), the African Development Bank, the West African Development Bank and the Islamic Development Bank. The coalition has a very strong focus on young businesses and especially on women. The 2X Challenge has also proved to be a very successful platform in this crisis. Since it was set up, it has raised several times the amount it originally targeted. Lastly, we are also seeing substantial growth in the proportion of women-oriented finance among our members.

THE CRISIS HAS NOT HIT ALL THE REGIONS AND COUNTRIES IN THE WORLD EQUALLY HARD. WHAT REGIONAL DIFFERENCES HAVE YOU SEEN IN TERMS OF THE IMPACT OF THE CRISIS?

The effects did indeed vary. In Africa, for instance, cash flows suddenly turned negative. In many African countries, we also saw how lockdowns imposed in the absence of adequate social and economic support indirectly led to serious problems. In our estimation, Africa has been more badly affected than Latin America or Asia. However, a number of our members who have very close relations with Latin America or Asia have also expanded their involvement there in connection with the crisis.

WHAT CONTRIBUTION HAS EDFI MADE TOWARDS BETTER GLOBAL ACCESS TO COVID-19 VACCINES?

The major development banks are heavily involved in the COVAX initiative, which aims to ensure access to COVID-19 vaccines. Meanwhile, our members are providing support for vaccine manufacturing, especially in Africa. We are helping to build commercial organisations that can produce vaccines and other pharmaceutical products. Our members are also involved in the construction and maintenance of hospitals, as well as in logistics. Logistics is really a major challenge. In the Democratic Republic of Congo, for instance, large volumes of COVAX-supplied vaccination kits had to be destroyed because the lack of cold chains made it impossible to distribute them throughout this vast country.

HAS THE CRISIS LED TO A NEW STRATEGIC DIRECTION FOR EDFI?

COVID-19 has not changed the focus of our strategy. On the contrary, it has reinforced it. We are continuing to focus on the harmonisation of standards and on intensifying cooperation, not only within EDFI but also beyond it, with the European institutions, which have become even more important to us.

WHAT ROLE CAN EDFI PLAY IN CONNECTION WITH THE "BUILDING BACK BETTER" AGENDA – ESPECIALLY AS REGARDS CLIMATE?

We have always helped our customers to develop business models that are financially, environmentally and socially sustainable. EDFI has a leadership function in this area. In the midst of the COVID-19 crisis, some of our members helped their customers make their business models even more resilient. Skills development, for instance, plays an important role here. We encourage businesses to invest in the ongoing training of their workforces. A more qualified workforce enables firms to steer through the challenges of the future more effectively. With regard to cutting greenhouse gas emissions, we agreed on an ambitious policy statement at the end of 2020. We have gone further than other similar institutions and have set the target of being in line with the Paris Climate Agreement by the end of 2022 and restructuring our entire portfolio by 2050 at the latest. Of course, we have chosen to exit from financing coal and oil. Nevertheless, the private sector needs a reliable energy supply with 24-hour availability. Some countries also have quite limited opportunities to rely on renewable energy at this stage. Intermediate solutions therefore need to be found, and we still see an important role for gas in that regard.

MEASURING AND REPORTING ON IMPACT PLAYS A SIGNIFICANT PART IN UNDERPINNING THE CREDIBILITY OF DFIS AS TRANSFORMATIVE ACTORS. WHAT HAS EDFI DONE TO HELP IDENTIFY AND HARMONISE IMPACT INDICATORS THAT COULD BE USED BY ALL IMPACT INVESTORS?

Firstly, the EDFI members agreed among themselves on a harmonisation initiative in 2019. The latter is very ambitious and covers five key areas of the United Nations Sustainable Development Goals (SDGs): gender equality, economic growth, decent work, social inequality and climate. We have made great progress in agreeing standards for measuring development impacts. However, many different standards still exist around the world. A local partner working together with several DFIs shouldn't have to use and master five to seven different systems. For this reason, we also established a steering committee in 2019 together with the IFC (private sector investment arm of the World Bank Group) and the GIIN, the global association of impact investors, with the aim of harmonising standards. To begin with, we have managed to harmonise indicators in relation to jobs, gender and climate. For those areas, we now have joint impact indicators. And we are working progressively on other areas, with the aim to produce a harmonised global standard for the measurement of impact that would become a reference for reporting, following the same model as financial reporting. We want to continue to be a leader in this area, because we have the experience of what is practically possible and what is not.

ONE LAST QUESTION: WHERE DO YOU SEE EDFI IN 2030? WILL THE WORLD STILL NEED DEVELOPMENT FINANCE INSTITUTIONS BY THEN?

From a development policy point of view, I am afraid that we will be needed for some time to come and will probably be needed even more in the future. Many of the UN Sustainability Goals (SDGs) will not have been achieved. In the future, there will also be an even greater focus on the Least Developed Countries (LDCs). Countries in this group are characterised by fragile systems and post-conflict situations. In other words, DFIs have to take even more risks to demonstrate that the private sector can contribute to the development of these countries even under extremely difficult conditions. This is a major challenge.

FACTS AND FIGURES ABOUT EDFI – EUROPEAN DEVELOPMENT FINANCE INSTITUTIONS

- **EDFI: founded 1992, headquartered in Brussels**
- **SIFEM: joined EDFI in 2005 (before SIFEM was established in its present form in 2011)**
- **EDFI Secretariat: 8 employees – 63% women (as of 30 June 2021)**
- **EDFI Management Company (EDFI MC): established by EDFI in 2016 to manage schemes such as ElectriFI and AgriFI, two EU-funded instruments for promoting renewable energy and sustainable agriculture, and the European Financing Partners (EFP) co-financing scheme.**
- **EDFI Management Company: 37 employees – 47% women (as of 31 December 2020)**

FACTS 2020

EDFI
CONSOLIDATED PORTFOLIO

€43.8bn

–4.7% compared to 2019

TOTAL NUMBER OF INVESTMENTS

6,140

–10% compared to 2019

NEW INVESTMENTS 2020

€7.4bn

–18% compared to 2019

NEW INVESTMENTS 2020

1,334

+43% compared to 2019

BRUNO WENN has nearly four decades of experience in the field of development finance and development cooperation. He has been the Chairman of EDFI in Brussels since 2018, and previously, was the CEO of the Deutsche Entwicklungs- und Investitionsgesellschaft (DEG), the German Development Finance Institution and a subsidiary of the KfW Group (Kreditanstalt für Wiederaufbau), one of Europe's largest development banks. From 1982 until 2009, he held several leading roles at KfW. Bruno Wenn holds a university degree in economics as well as a postgraduate degree from the German Development Institute in Berlin.

EXTERNAL VIEW

INTERVIEW WITH DR HATEM DENGUEZLI, LAND'OR CEO (AFRICINVEST – MAGHREB PRIVATE EQUITY FUND MPEF IV)

"WE HAVE MAJOR EXPANSION PLANS IN SUB-SAHARAN AFRICA"

In 2017, SIFEM invested EUR 10 million in Maghreb Private Equity Fund (MPEF) IV, the fourth fund in this series from AfricInvest, an independent private equity fund manager that specifically focuses on Africa. In 2018, MPEV IV invested in the Tunisian company Land'Or, which produces fresh cheese and spreadable cheese. The following interview with Dr. Hatem Denguezli, co-founder and CEO of Land'Or, covers various topics related to the development, strategy and management of the company and also addresses the impact of the COVID-19 crisis. Dr. Hatem Denguezli has run Land'Or since it was founded in 1994. The company has been present in Morocco since 2013 through a commercial subsidiary. In 2020, it embarked on a plan to open a production site there, which is expected to be up and running by early 2022.

SIFEM – ALMOST THREE DECADES AGO, YOU CO-FOUNDED LAND'OR. AT THE TIME, WHAT MOTIVATED YOU TO CO-FOUND A CHEESE COMPANY?

H. Denguezli – Myself and my fellow co-founder are veterinarians. I specialised in surgery on large animals and my colleague specialised in agrifood. After an initial foray into halal meats, which unfortunately did not work out due to the mad cow disease, we set up a cheese company. With AfricInvest's support (Tuninvest at the time), we began producing spreadable cheese under an industrial assistance contract with an Austrian cheese maker. Since then, Land'Or has been able to overcome a number of obstacles to become a successful and financially sustainable company.

HOW HAS DEMAND FOR CHEESE PRODUCTS EVOLVED IN TUNISIA OVER THE PAST THREE DECADES?

The market has grown threefold in the last 30 years and still holds a lot of potential. Tunisians consume less than three kilogrammes of cheese per year, whereas Europeans consume seventeen kilogrammes, almost six times more.

WHAT IS LAND'OR'S WINNING STRATEGY AND HOW DO YOU COMPARE TO YOUR COMPETITORS?

We opted for innovation, which is now part of our DNA. For example, we introduced grated cheese to the Tunisian market. We also developed cheese slices, which are used in the food service sector, and created fifteen-gram snacks as well as melted cream cheese. Land'Or is number one in Tunisia in the cheese products sector in terms of volume, and we rank second in terms of revenue. We have two competitors, one of which is a Tunisian family group and the other the leading dairy producer in the country.

LAND'OR WAS LISTED ON THE TUNIS STOCK EXCHANGE IN 2013. HOW DID THIS MILESTONE HELP YOU ON YOUR GROWTH PATH?

At the time, we were undercapitalised and saw the IPO as a way to get out of that situation. I do not regret the IPO experience, but we are a little disappointed by the obtained results. For instance, in our last capital increase, the stock exchange only participated to the tune of 5%.

WHAT ROLE DID INVESTORS SUCH AS AFRICINVEST AND DEVELOPMENT FINANCE INSTITUTIONS (DFIS) SUCH AS SIFEM PLAY IN SUPPORTING THE DEVELOPMENT OF YOUR ACTIVITIES?

They supported us throughout our journey. We share the same values and they are always attentive to our concerns and very logical in their thought process. We industrialists like to take risks, whereas the financiers prefer to err on the side of caution. Excessive risk-taking should be avoided, as should excessive caution. That makes us a good fit!

IN 2020, LAND'OR EXPANDED INTO MOROCCO. WHY DID YOU CHOOSE MOROCCO IN PARTICULAR?

We set up a commercial subsidiary in Morocco in 2013. At the time, Tunisia was experiencing its "Arab Spring" and Libya had become too unstable, prompting us to seek other options. There were limited prospects in Algeria because the legal framework did not allow foreign investors to acquire majority stakes in Algerian companies. In contrast, Morocco offered attractive investment opportunities and a large domestic market, three times the size of the Tunisian market. Today, exports to Morocco account for 40% of our revenue. However, we realised that it made even more sense to produce on site, which is why we are investing in a local factory that should be up and running soon. This is a major step for Land'Or.

WHAT FUTURE OPPORTUNITIES DO YOU SEE IN THE MEDIUM AND LONG TERM? ARE YOU PLANNING OTHER EXPANSIONS LIKE THE ONE IN MOROCCO MOST RECENTLY?

We have some major expansion plans in Sub-Saharan Africa for the coming years, but this means that we will have to adapt our product line. Cheese consumption is very low in Africa, except in North Africa. There are two reasons for this. Firstly, eating habits in Africa do not include cheese, and secondly, it is still an expensive product. We are already working with foodservice operators, and we are considering branching out into sauces for example. This strategy should enable us to gradually gain a foothold in different markets and create new eating habits. The Tunisian plant will focus on the Tunisian, Libyan and Middle Eastern markets, while the Moroccan plant will cater for the Moroccan market and Sub-Saharan Africa.

IN TERMS OF PRODUCTION, WHAT PROCESSES HAVE YOU PUT IN PLACE TO COMPLY WITH INTERNATIONAL FOOD SAFETY AND HYGIENE STANDARDS?

We have two certifications: FSSC 22000 Food Safety System Certification and HACCP (Hazard Analysis and Critical Control Points) certification, which is another widely accepted international standard. We are very attentive to overall quality in our production processes. It is worth mentioning that Kraft Heinz, the world's 5th largest agrifood group, outsourced production to us in 2018 and 2019. Producing for the Kraft brand puts us under a great deal of pressure to deliver products of the highest standard. Moreover, in the Middle East and Africa, we were the only company to be audited and accepted by Kraft.

HOW HAS THE COVID-19 CRISIS AFFECTED LAND'OR'S ACTIVITIES, PARTICULARLY IN TERMS OF SUPPLY CHAIN MANAGEMENT? AND ARE WE CORRECT IN SAYING THAT LAND'OR WAS CONSIDERED A CRITICAL INDUSTRY DURING THE PANDEMIC AND WAS THEREFORE ABLE TO CONTINUE TO OPERATE?

Yes, Land'Or was permitted to continue operating during the pandemic in strict compliance with public health measures, to ensure food availability. Despite the crisis, 2020 marked the strongest growth in our history. The dairy products market flattened out, but we managed to bite off market share from our competitors, mainly thanks to the mutual trust we have built up with our suppliers. This meant that we were able to deliver our products without hindrance.

HAVE YOU HAD TO RESORT TO SHORT-TIME WORKING OR FURLOUGH SCHEMES – OR REDUNDANCIES IN THE WAKE OF THE CRISIS?

Not at all. On the contrary, we had to recruit 133 temporary workers between 2020 and 2021, who are still on the payroll as we speak.

IS IT RELATIVELY EASY TO FIND QUALIFIED WORKERS IN TUNISIA OR MOROCCO? AND HOW DOES LAND'OR GO ABOUT PROVIDING IN-SERVICE TRAINING FOR ITS EMPLOYEES?

In Tunisia, it is not hard to find suitable candidates. We have yet to see if the same can be said of Morocco. We have three types of in-service training programmes: in-house training, training provided by specialised external agencies, and foreign training sessions with our international suppliers. We are ISO 9001-certified and FSSC 22000-certified. This requires us to have a modicum of training in place. We attempted distance training during the COVID-19 crisis, but it has not been ideal. We are therefore waiting for the resumption of in-person training.

THE UNEMPLOYMENT RATE AMONG YOUNG PEOPLE IS PARTICULARLY HIGH IN TUNISIA AT MORE THAN 40% ACCORDING TO THE NATIONAL STATISTICS INSTITUTE. WHAT IS THE PROPORTION OF "YOUNG WORKERS" (AGED 18-25) AT YOUR COMPANY AND WHAT DOES LAND'OR DO TO PROMOTE THE EMPLOYMENT OF YOUNG PEOPLE? DO YOU HAVE AN APPRENTICESHIP PROGRAMME FOR EXAMPLE?

18 to 25-year-olds currently make up 11% of our staff, and the apprenticeship programme is mandatory. This programme is our main channel for hiring young workers. Depending on their capabilities, an individual may be given the opportunity to move to a fixed-term contract and, ultimately, a permanent contract.

ONE OF THE MAJOR PROBLEMS IN RECENT YEARS IS THE FAST-PACED AUTOMATION OF CERTAIN INDUSTRIAL PROCESSES AND THE RESULTING IMPACT ON JOBS. HOW DO YOU FEEL ABOUT THIS, AND WHAT MIGHT BE THE CONSEQUENCES ON EMPLOYMENT?

I see automation as a huge opportunity, because it is clear that some tasks are particularly hard for workers. Packing bags of grated cheese in boxes for eight hours straight is not very rewarding. A machine could perform such repetitive tasks. The challenge will be to change workplaces in order to best harness workers' skills.

WHAT IS LAND'OR'S PHILOSOPHY WHEN IT COMES TO LABOUR RELATIONS?

There are lines that must not be crossed at Land'Or. First of all, people must be respected at all times. Everyone must be respected, regardless of whether he or she has committed an intentional or unintentional error for example. There is no hierarchy among humans. There is only a professional hierarchy. Secondly, employees' rights must be respected by promoting safety in the workplace and ensuring the protection of all workers.

HOW DOES THE SALARY PAID BY LAND'OR COMPARE TO THE AVERAGE TUNISIAN SALARY (AROUND EUR 250/MONTH)?
We are 20% above the market. Our salaries average EUR 300 per month.

LET'S MOVE ON TO ANOTHER TOPIC THAT AFFECTS ALL COMPANIES: CLIMATE CHANGE. TUNISIA IS PARTICULARLY EXPOSED TO THIS PHENOMENON, ESPECIALLY IN TERMS OF WATER STRESS, AS WELL AS OTHER ENVIRONMENTAL ISSUES SUCH AS SOIL EROSION AND SOIL POLLUTION. WHAT IMPACT DO THESE ISSUES HAVE ON THE COMPANY'S OPERATIONS AND HOW DOES LAND'OR INTEND TO DEAL WITH THIS GOING FORWARD?
Land'Or is committed to reducing its environmental footprint. Our new plant in Morocco, for example, will have state-of-the-art refrigerated production equipment capable of keeping CO_2 emissions to a minimum. In Tunisia, we have tried to reduce our electricity consumption through cogeneration. However, Tunisian law does not encourage manufacturers to use cogeneration to any significant extent. We are also working to reduce our water consumption as much as possible, by using a closed-circuit equipment cooling system for example. But we need to do more. We are keenly aware of this. The entire dairy industry is facing major environmental challenges, beginning with livestock farming. In fifty years from now, it is highly likely that we will be facing a shortage of meat and milk and will need to turn to plant-based alternatives that are less water-intensive. Plant-based protein is still a small market with a "health" angle, but I think that in a few decades it will become the mainstay of human food. This is a global trend and has prompted us to enter negotiations with a soybean producer to prepare the food production of the future.

LAND'OR

- **Founded in 1994**
- **Headquartered in Tunis**
- **629 permanent and temporary employees – 80% permanent and 20% temporary**
- **41% of staff are women**
- **Production of 17,500 tonnes of cheese in 2020, with more than 30% for export**
- **Systematic training of staff, development of the professional expertise of senior managers**

MAGHREB PRIVATE EQUITY FUND IV

- **SIFEM invested EUR 10 million in the Maghreb Private Equity Fund (MPEF) IV in 2017**
- **Maghreb Private Equity Fund (MPEF) IV – a fund with a volume of EUR 230 million**
- **Fund Manager – AfricInvest**

DR. HATEM DENGUEZLI is a Tunisian businessman with more than three decades of experience in the cheese industry. He is the co-founder of Land'Or, which he has managed since it was founded in 1994. Dr. Denguezli has a PhD in Veterinary Medicine from the École nationale de médecine vétérinaire de Sidi Thabet (ENMV) in Tunisia.


AgroStar
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APPENDIX:

SIFEM: SWITZERLAND'S DEVELOPMENT FINANCE INSTITUTION

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. Finally, when global economic conditions deteriorate and when the risk appetite of international investors vis-à-vis emerging markets weakens, DFIs can play a useful role in acting in a "counter-cyclical" way, that is, in continuing to invest in those markets.

THE ASSOCIATION OF EUROPEAN DEVELOPMENT FINANCE INSTITUTIONS (EDFI)

In 1992, seven European DFIs agreed to establish the Association of European Development Finance Institutions (EDFI),[28] 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 includes fifteen members, including SIFEM. The consolidated investment portfolio of EDFI was USD 52 billion across 6,140 investments as of December 2020.

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. SIFEM invests around USD 80-100 million each year in new operations[29]. 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.

28 Association of European Development Finance Institutions (EDFI), www.edfi.eu

29 The historical list of investments made by SIFEM over time can be found on SIFEM's website under the following link: https://sifem.ch/investments/portfolio, or in SIFEM's Business & Financial reports issued on an annual basis.

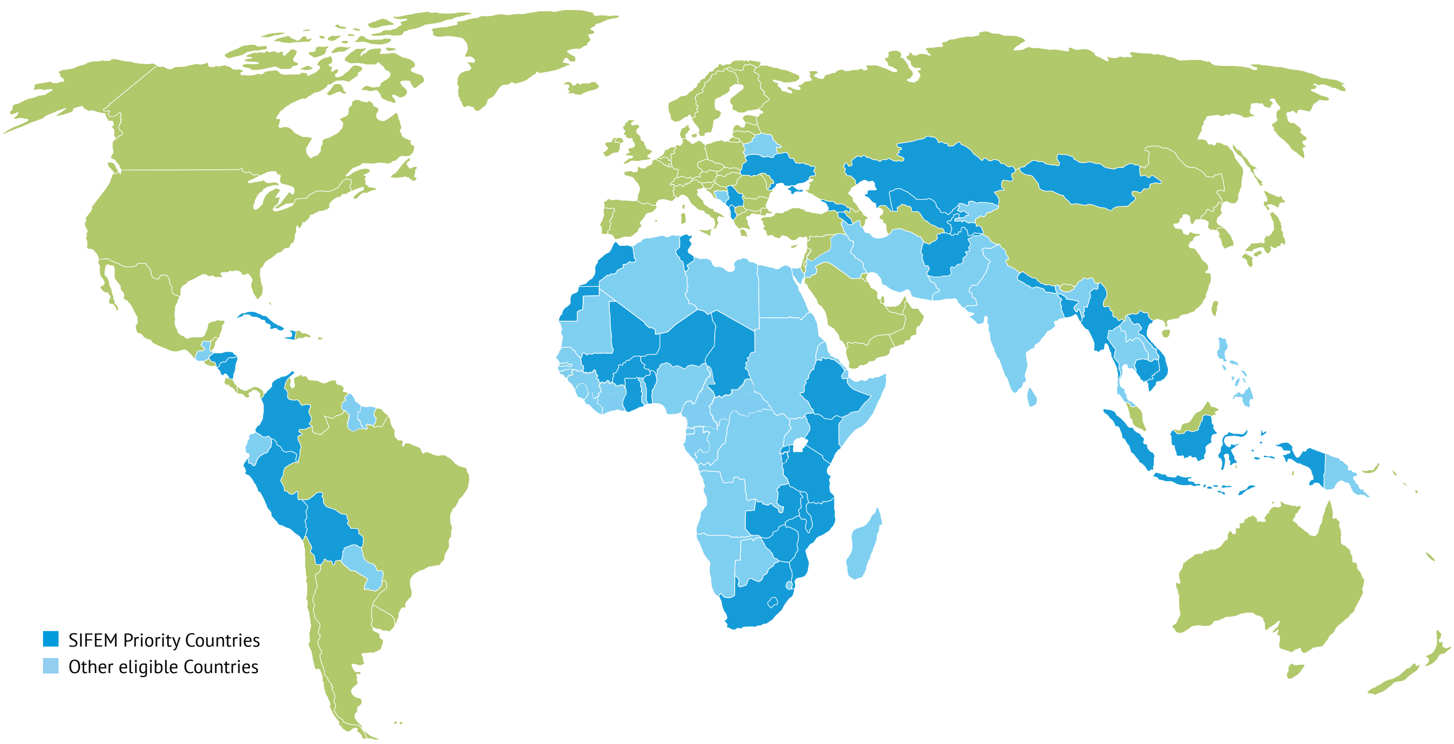
SIFEM is working together with fund managers and financial institutions not only to deliver relevant financing solutions, but also to add value to local businesses. In fact, SIFEM's role goes beyond the provision of long-term finance: for example, it seeks to strengthen the capacity of local fund managers 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 organisations (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.

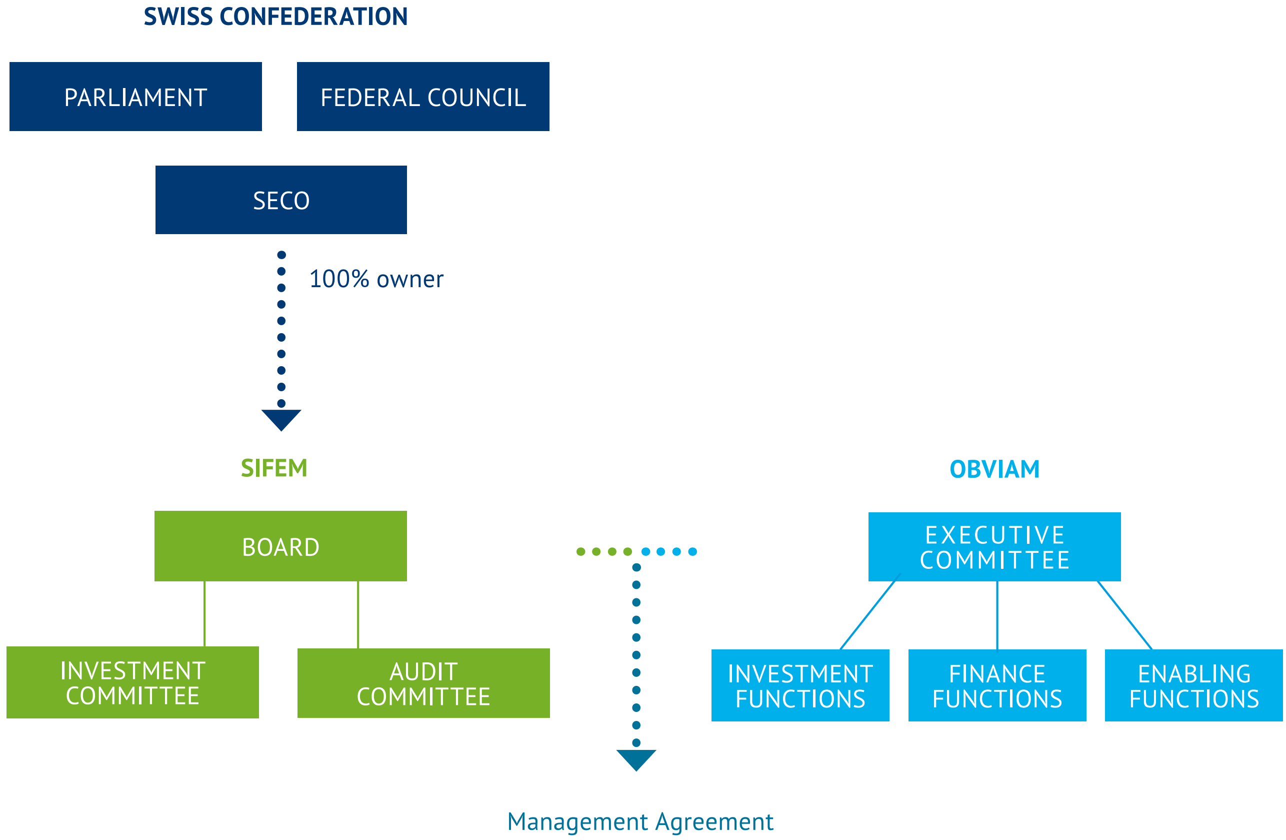
IN WHICH COUNTRIES IS SIFEM ACTIVE?

SIFEM closely follows the geographical priorities of Switzerland's development cooperation but also requires some flexibility to diversify its portfolio risks. SIFEM's investment universe includes all developing and emerging markets with a Gross National Income (GNI) per capita smaller than USD 7,065 (in 2021), as shown in the chart below.

As of December 2021, 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.



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

DOMINIQUE BIEDERMANN
Member of the Board, since 2021

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

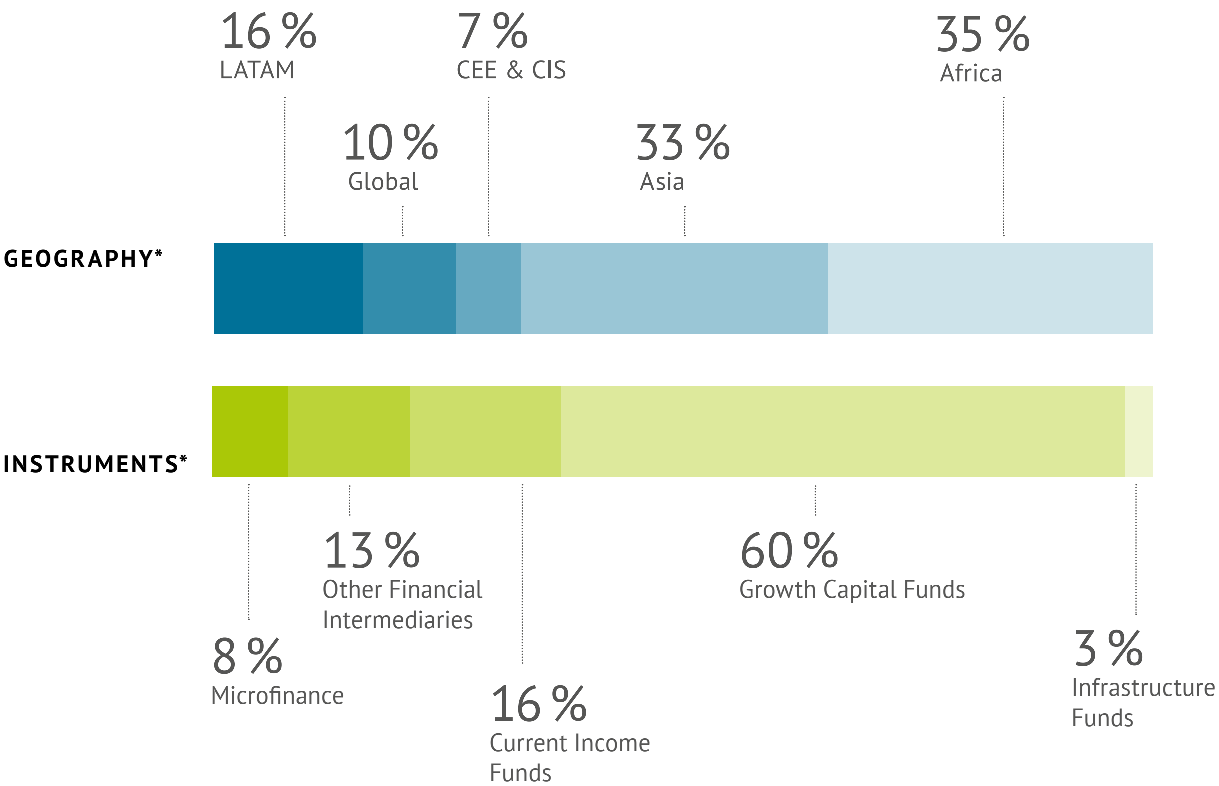
GEOFF BURNS
Member of the Investment Committee, Member of the Audit Committee, since 2014

ANGELA DE WOLFF
Member of the Investment Committee, since 2017

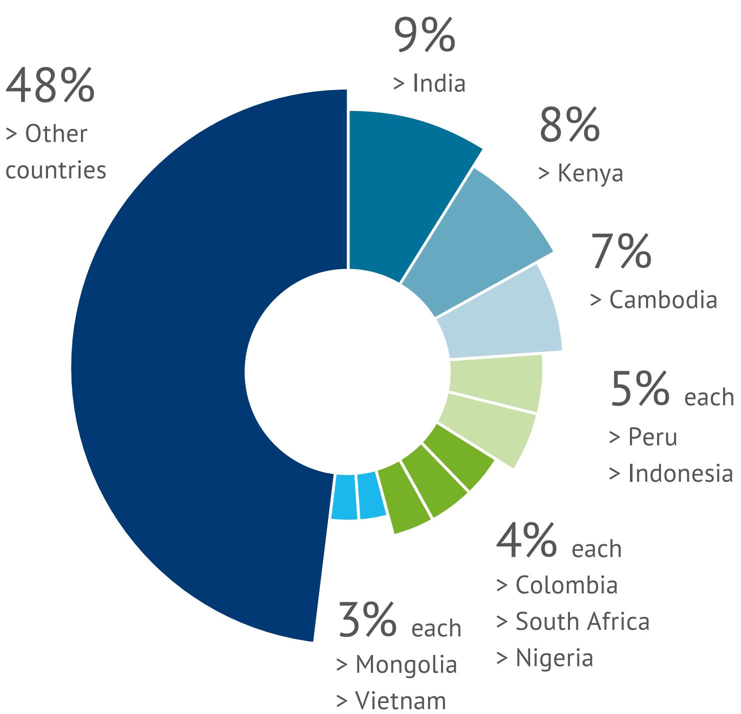
KATHRYN IMBODEN
Member of the Investment Committee, since 2014

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

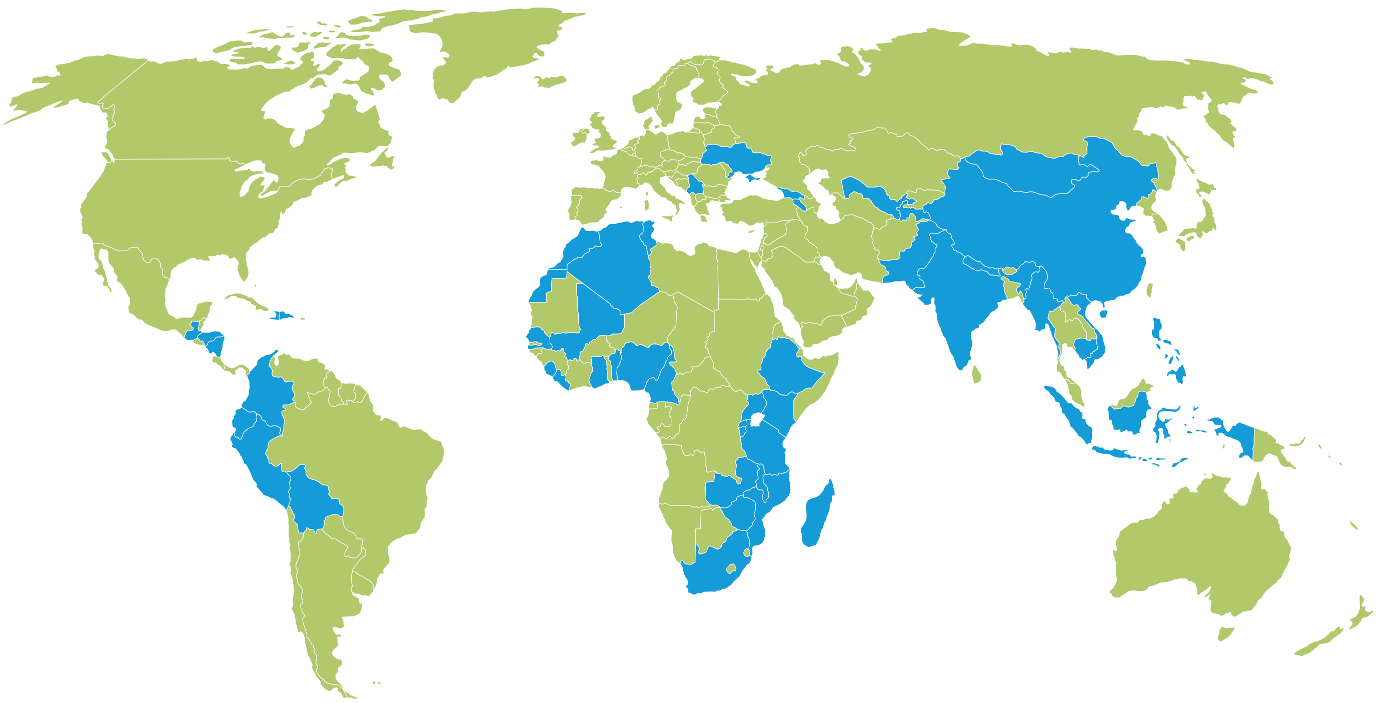
PORTFOLIO OVERVIEW 2021



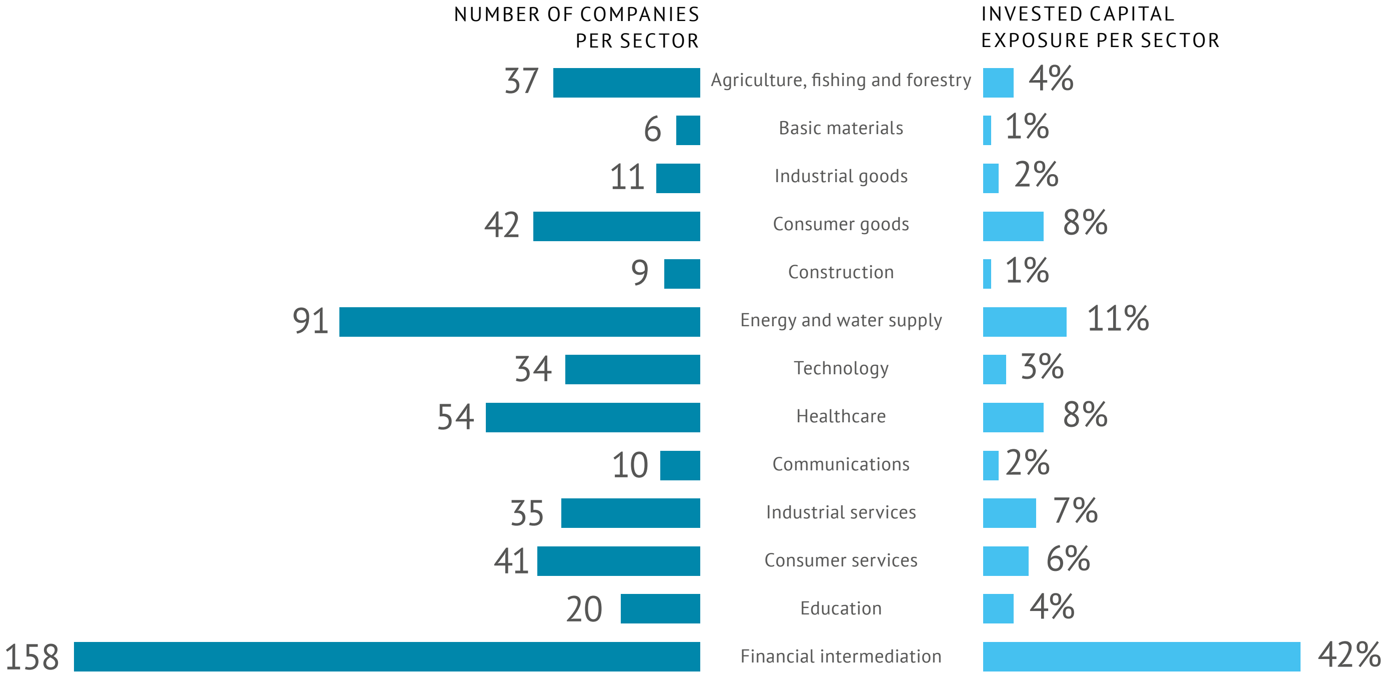
LARGEST COUNTRY EXPOSURE (PAID-IN)



COUNTRIES WITH SIFEM INVESTMENTS (CAPITAL)



INVESTED PER SECTOR



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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