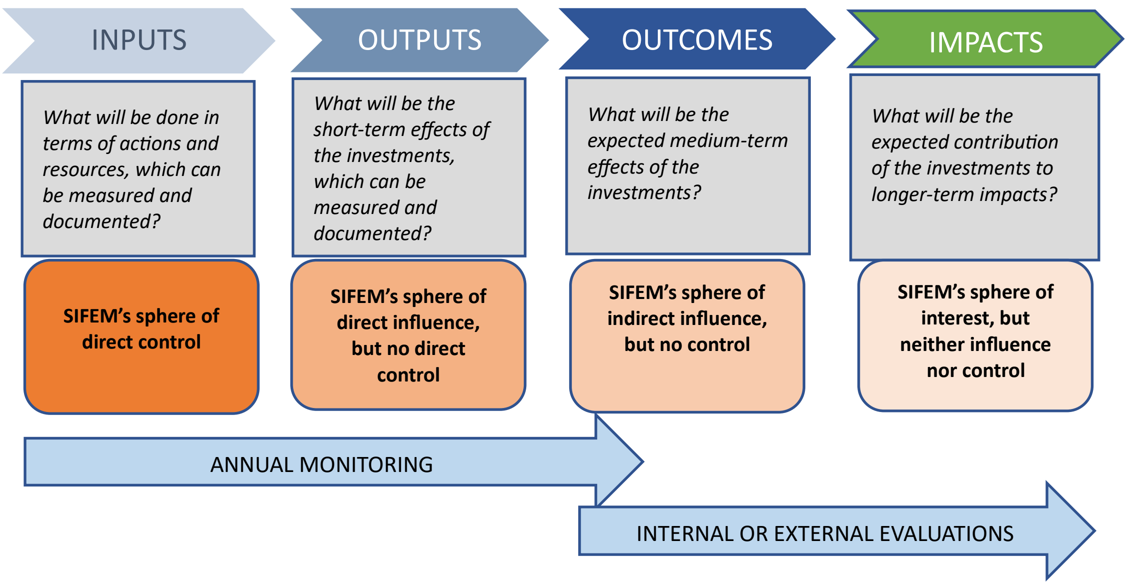
SIFEM's Theory of Change Framework for 2021-24

1. Introduction

SIFEM uses a specific *Theory of Change*[1] at its portfolio level since 2018, which is based on a logical framework model showing the inputs (*What will be done in terms of actions and resources, which can be measured and documented?*), the outputs (*What will be the short-term effects of the investments, which can be measured and documented?*), the outcomes (*What will be the expected medium-term effects of the investments?*) and the impact (*What will be the expected contribution of the investments to longer-term impacts?*).

This model corresponds to a "change process," with a description of how and why change is expected to happen. Given its main business model of investing through financial intermediaries, which then invest or extend credit to businesses and entrepreneurs in the target countries, SIFEM's degree of control over the different effects is mostly indirect and limited to outputs (see Chart 1). Outcomes belong to SIFEM's sphere of influence, while long-term impacts are even more remote from SIFEM's direct actions. This also means that the monitoring of development effects is mostly done at the level of outputs (with some limited outcome elements). Further assessments of outcomes and impacts achievements depend on evaluations, which can focus on specific aspects (e.g. thematic or geographical focus).

Chart 1. Theory of Change Framework



[1] A theory of change aims to comprehensively describe how and why a desired change is expected to happen in a particular context, based on the identification of long-term goals. The concept of theory of change emerged from the field of programme theory and programme evaluation in the mid-1990s as a new way of analysing the theories motivating programmes and initiatives working for social and political change and can be applied to a range of processes.

2. SIFEM's Theory of Change for 2021-24

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 contributes to the sustainability of SIFEM's investment outcomes. In turn, this contributes to the overarching impact priority areas defined in the Strategic Objectives assigned to SIFEM by the Federal Council.

SIFEM invests primarily in funds, which in turn become shareholders in local SMEs and other fast-growing companies in different sectors. SIFEM also acts as direct lender in investing in local financial institutions, which in turn extend loans to individual clients and local businesses. These two different business lines need to be recognised in differentiated theories of change, i.e. one for fund investments (SIFEM as an equity provider), and another for financial institutions (SIFEM as a debt provider).

The cornerstone of these differentiated theories of change is that all SIFEM investments contribute to the overall impact albeit in different ways, as captured by the different strategic priorities of SIFEM. For 2021-24, they are called "SIFEM Outcomes".

These "SIFEM Outcomes" are defined in the following way for the period 2021-2024:

SIFEM Outcome 1: Economic viability & resilience
Financial intermediaries supported by SIFEM's investments are expected to be financially viable, to comply with ESG standards (as per SIFEM's Approach towards Responsible Investments) – including compliance with all local laws and regulations – and be "Paris-aligned". The same expectation applies to their investee companies or clients. The main contribution of this SIFEM Outcome to the SDGs is to strengthen the viability and resilience of the private sector, especially in a post-COVID-19 environment, thereby strengthening the generation of local financial resources through tax payments (SDG 17 – "Partnership for the Goals", especially SDG 17.1).

SIFEM Outcome 2: Economic opportunities & decent jobs
Local businesses and entrepreneurs – which are mostly SMEs and other fast-growing private companies – are provided with increased access to long-term capital and financing through the financial intermediaries supported by SIFEM. Increased access to finance unleashes business growth opportunities and support the maintenance and creation of decent jobs. The main contribution of this SIFEM Outcome to the SDGs is to support SDG 8 ("Decent jobs & Economic Growth") and to support SDG 9 ("Industry, Innovation and Infrastructure"), especially with respect to providing financing to SMEs. Regarding the decent jobs agenda, a contribution to SDG 5 ("Gender equality") is also expected, focusing on labour rights and labour protection.

SIFEM Outcome 3: Social Inclusion
Underserved individuals (especially women), entrepreneurs and businesses are provided with increased access to essential goods & services (education, healthcare, basic infrastructure such as water, energy, or ICT/communication services) and to financial services (financial inclusion), including through innovative approaches and business models, thereby contributing the long-term reduction of inequalities and access gaps. The beneficiaries of social inclusion are those socio-economic groups suffering from insufficient or no access to these goods and services, i.e. the "base of the pyramid" (BOP), as defined by International Development Institutions, and from broad-based discriminations (e.g. women). The main contribution of this SIFEM Outcome to the SDGs is to support SDG 10 ("Reduction of inequalities", and depending on the investments focus, SDG 3 ("Good Health and Well-Being"), SDG 4 ("Quality Education"), SDG 5 ("Gender equality"), SDG 9 ("Industry, Innovation and Infrastructure"), but also possibly SDG 7 ("Affordable and Clean Energy").

SIFEM Outcome 4: Climate change mitigation & adaptation
The provision of long-term capital to businesses contributes to transformative climate outcomes (e.g. accelerate the energy transition, decarbonisation of production processes, adaptation/resilience

projects), in line with the Paris Agreement on Climate Change. Increased financing to climate change mitigation and adaptation projects is expected to contribute to lower carbon emissions and increased sources of clean energy. The main contribution of this SIFEM Outcome to the SDGs is to support SDG 7 ("Affordable and Clean Energy"), SDG 12 ("Responsible Consumption and Production"), and SDG 13 ("Climate action").

There is an explicit ranking of outcomes in this framework: the different outcomes capture different dimensions contributing to the overall impact, but the first two SIFEM Outcomes (*Economic viability & resilience* and *Economic Opportunities & Decent jobs*) are clearly predominant: **this means that all SIFEM investments must contribute at least to SIFEM Outcome 1 and to SIFEM Outcome 2.** As regards Outcome 1, the justification is that financial sustainability and compliance with ESG standards are preconditions for achieving sustainable development impact. As regards Outcome 2, the justification is that creating business growth opportunities for private sector companies in developing countries and emerging markets, which can translate into decent jobs is at the core of the SIFEM mandate, and is a cross-cutting objective embedded in concrete quantitative targets defined in SIFEM's Strategic Objectives for 2021-24.

The third and fourth Outcomes represent additional development effects on top of SIFEM Outcomes 1 and 2, which may be targeted by SIFEM's investments depending on the investment thesis/focus of the investments concerned, which are also addressed in SIFEM's strategic objectives. An additional dimension does not necessarily imply a superior impact, however, as different investments produce qualitatively and quantitatively different development effects.

Over the long term, delivering on these different Outcomes is expected to contribute to a more inclusive and green growth in developing and emerging markets, resilient and sustainable private businesses, and to the reduction of poverty and inequalities.

Chart 2 & 3 in annex present the articulation of the theory of change for both fund investments and financial institutions.

*** 10.2021

Chart 2. SIFEM Theory of Change for investments in funds

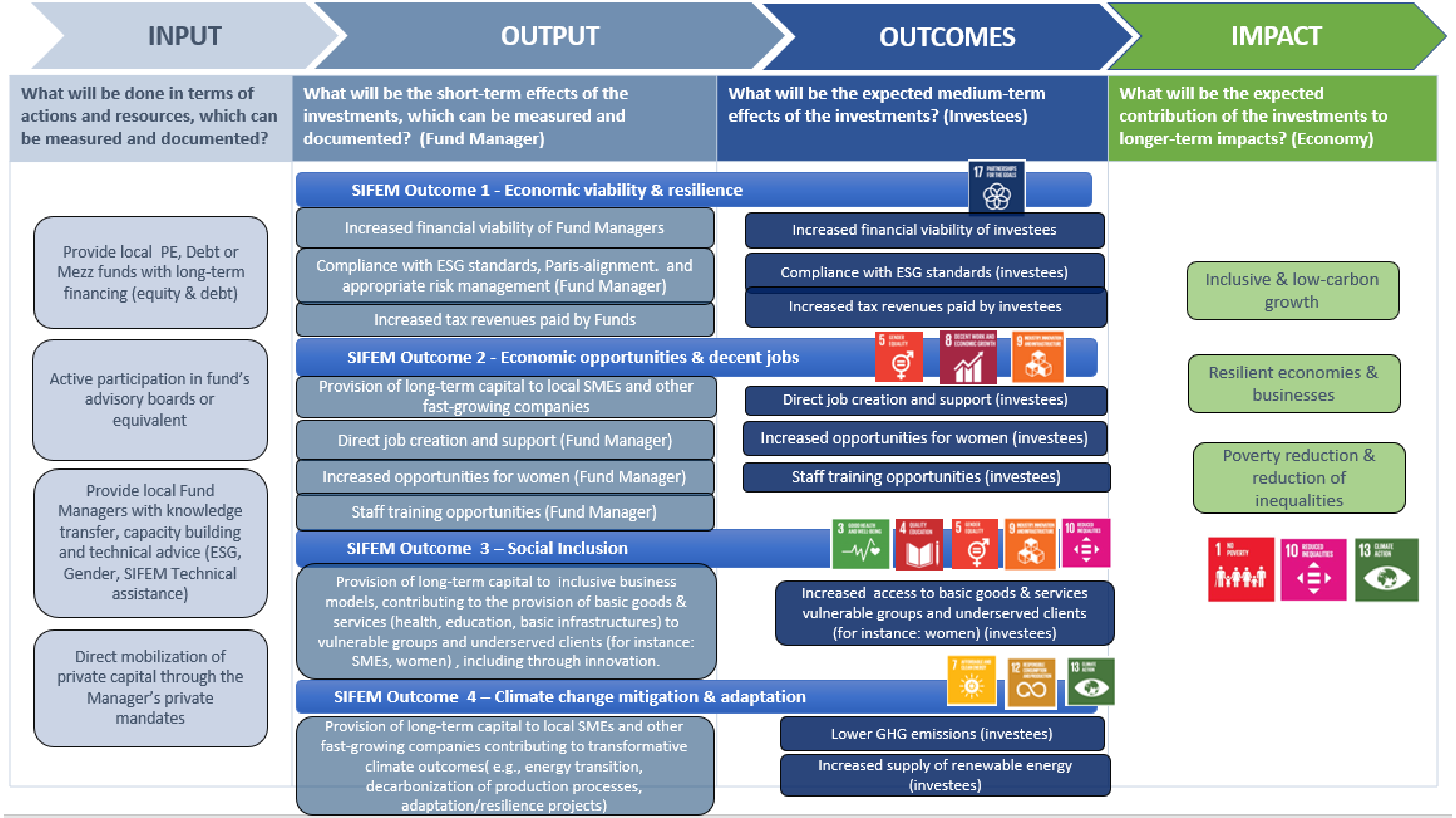


Chart 3. SIFEM Theory of Change for investments in financial institutions