Strategic Objectives 2021-2024 of the Federal Council for SIFEM AG

1 Introduction

The SIFEM (*Swiss Investment Fund for Emerging Markets*) is the development finance institution of the Swiss Confederation. As a company limited by shares under private law, it is independent in its organisation and management and keeps its own accounts. Its purpose and basic mandate are defined in the Ordinance of 12 December 1977[1] on International Development Cooperation and Humanitarian Aid and the Ordinance of 6 May 1992[2] on Cooperation with the States of Eastern Europe.

Based on this, SIFEM provides long-term financing for small and medium-sized enterprises and other rapidly growing companies[3] in developing and emerging countries, with a focus on the priority countries of Swiss development cooperation. In this way, SIFEM supports inclusive and sustainable growth of the local private sector, contributes to the creation and safeguarding of decent jobs and to poverty reduction, and contributes to the integration of the target countries into the global economic system.

SIFEM provides financial resources and know-how to private companies in developing and emerging countries by investing in local or regional venture capital funds (private equity, mezzanine or debt funds) and by granting credit lines to local banks and other financial institutions, often in cooperation with other bilateral and multilateral development finance institutions and private investors.

The Federal Government is the sole owner of SIFEM. The shareholder rights are exercised by the Federal Council. In doing so, it recognises the freedom of the Board of Directors to make decisions regarding business strategy and policy. Based on Article 30c of the Ordinance on International Development Cooperation and Humanitarian Aid and in accordance with the priorities of development cooperation, the Federal Council defines the strategic objectives of SIFEM for a four-year period. The Board of Directors of SIFEM is responsible for implementing the strategic objectives.

At the beginning of the strategic period, the Federal Council expects that the economic impact and aftermath of the global Covid-19 crisis will have a noticeable impact on SIFEM and present it with new challenges. The people and entire economies of the emerging and developing countries in which SIFEM is active have been and continue to be hard hit by the pandemic. Both the financial institutions with which SIFEM cooperates and the investment portfolio are being damaged. This will be reflected in SIFEM's financial figures as well as in the results of its operations. The present objectives take into account this special situation, in which priority is first of all given to maintaining the developmental impact achieved so far and to preserving the value of the portfolio. For the recovery and growth phase expected in the years 2022-2024, ambitious targets apply once again.

2 Strategic Areas of Focus

The Federal Council expects that SIFEM:

- takes measures to limit the negative impact of the Covid-19 crisis on the financial and impact results or to strive to preserve the value of the portfolio. To this end, it can pro-

1 SR 974.01, especially section 8a
2 SR 974.11, in particular Art. 11
3 These companies can be larger than SMEs and are characterised by the fact that they create a disproportionate number of new jobs.

vide financial and advisory support to existing private equity funds, financial intermediaries and portfolio companies that combine proven business models, social responsibility and proven development impact;

- contributes to growth in developing countries and emerging markets by encouraging the flourishing of the local private sector, in addition to other economic development cooperation measures;
- focuses on the preservation and creation of decent jobs, the observance of proper working conditions and the strengthening of professional competence - based on the experience that decent jobs are central to poverty reduction and social inclusion in developing and emerging countries and offer an alternative to irregular migration. In this way, SIFEM helps to combat the causes of irregular migration and contributes to Parliament's mandate to strategically link international cooperation with the issue of migration;
- based on internationally recognised environmental, social and governance criteria, supports the establishment of sustainable and responsible companies in developing and emerging countries;
- strengthens the resilience of these countries and companies with regard to global risks such as pandemics and the effects of climate change;
- contributes to the achievement of international environmental goals and in particular to the mitigation of climate change and its associated negative consequences;
- promotes gender equality through the economic empowerment of women
- strives to meet the highest standards of integrity, transparency and professionalism, and accordingly, enjoys a good reputation and high regard among the public.

2.1 Programmatic priorities

The Federal Council expects SIFEM to adhere to the following basic investment principles:

- Sustainability: In its investment activities, it observes the principles of financial, economic, social and ecological sustainability and responsible corporate governance.
- Financial Additionality: SIFEM provides financing which, without public support, would not be available from private financial markets (local or international) on reasonable terms or in sufficient amounts for comparable development purposes.
- Complementarity: In addition to investments, SIFEM provides or mobilises non-financial support to financial intermediaries and enterprises, which is intended to strengthen development effects and is provided on a subsidiary basis to the private sector, e.g. in the form of know-how transfer, the promotion of social and environmental standards, the improvement of corporate governance or professional skills. Accordingly, SIFEM acts as an active investor by taking a seat in the governance bodies of funds or financial institutions whenever possible. In this way, it should contribute its expertise and take advantage of sustainability risks and opportunities, as well as ensuring the implementation of central concerns of Swiss development cooperation.
- Leverage/Mobilisation: SIFEM aims to mobilise additional funding directly from private and institutional investors who would otherwise not invest. In this way it contributes additional resources for sustainable development. These co-investment resources complement the investment capital of the Confederation.
- Geographical focus: SIFEM focuses its activities on the priority countries and regions of Swiss development cooperation. At least 60% of the annual investment volume should flow into these priority countries. A maximum of 40% of the annual investment volume may be allocated to other developing and emerging countries according to the current list of the OECD Development Assistance Committee (DAC) for investments, if these countries have a gross national income per capita that is below the threshold

value for IBRD classification set annually by the World Bank.[4] On a case-by-case basis, the Board of Directors may decide on investments in countries that are above this limit[5] but meet the criteria for official development assistance, if this is necessary to achieve key impact targets as defined in paragraph 2.2.1 letter b.

2.2 Task and company-related objectives

The Federal Council expects SIFEM to achieve the following objectives:

2.2.1 Offer, performance, impact

a. SIFEM financially supports the survival and economic recovery of viable companies that were particularly affected by the Covid-19 crisis. In order to safeguard jobs and their quality, it takes appropriate measures to minimise negative effects on employment and to ensure fair treatment of those employees who the portfolio companies can no longer employ.

b. SIFEM makes new investments that contribute to the diversification and strengthening of local financial markets or financial intermediation and have a concrete and demonstrable development impact by promoting viable and dynamic SMEs and fast-growing private sector enterprises in the target countries. Within the framework of its legal mandate and taking into account its financial objectives, SIFEM seeks to maximise the development impact of investments, particularly in the following priority areas:

   - Preserving and creating jobs that offer proper, safe and decent employment conditions;
   - Climate and environmental protection with a focus on sectors and measures that actively contribute to energy system transformation in the target countries and to the reduction of CO2 emissions in accordance with the goals of the Paris Climate Convention and the national climate goals of the countries;[6]
   - Subsidiary filling of gaps in the area of essential goods such as health, education, supply infrastructure and financial inclusion, where innovative and forward-looking business models (e.g. Fintech) are particularly effective in development or enable poorer and/or disadvantaged sections of the population to access affordable goods and services;
   - Gender equality across the entire investment portfolio as an active member of the "2xChallenge Initiative.[7]

c. SIFEM is increasing its investments in the least advanced countries (LDCs) and in particularly difficult contexts. Such investments should represent[8] at least 12% of active commitments. To this end, it may make higher-risk investments which, upon request to the SDC, can be secured up to 50% under a separate, partial guarantee programme. Such guarantees are applied in a first step. Other forms of cooperation between SDC and SIFEM to strengthen SIFEM investments in the least advanced countries and particularly difficult contexts will be examined, and, if possible, implemented during this strategy period. The principle of subsidiarity and the principle of avoiding market distortion will also be respected in these investments.

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4 By way of illustration, this threshold was set at USD 6975 for the World Bank's (*International Bank of Reconstruction and Development IBRD*) loans for 2020.

5 With the exception of the People's Republic of China, which is no longer a SIFEM target country.

6 For the respective national goals of the countries, their *Nationally Determined Contributions* (NDCs) are decisive. Both requirements must be met: Consistency with the national targets as well as consistency with the targets of the Paris Climate Convention.

7 www.2xchallenge.org

8 The target is based on a measurement method that has been adapted in the context of the Strategic Objectives 2018-2020

d. In accordance with the common practice of European development finance institutions, SIFEM conducts continuous monitoring of development effects throughout the investment cycle. It reports these effects annually in a separate report both to SECO as the representative of the Federal Government and to the interested public.

2.2.2 Positioning, development

- SIFEM directs its investment activities as a contribution to the objectives of the international cooperation strategy 2021-2024, with particular emphasis on "sustainable economic growth, the development of markets and the creation of decent jobs". It also pursues the goals of "climate change" and "gender equality". SIFEM strengthens synergies with other instruments of international cooperation and ensures coherence.
- With its investment activities and the mobilisation of private sector funding, SIFEM contributes to the implementation of the Agenda 2030 for Sustainable Development.

2.2.3 Risk policy and risk management

SIFEM has a risk management system based on the ISO 31000 standard, a compliance management system (CMS) based on the ISO 19600 standard and a business continuity management system (BCM). The SIFEM informs the owner about its main risks and the main points of focus in the CMS.

- SIFEM does not take excessive financial risks in developing additional sources of income or in liquidity management.
- It holds cash and cash equivalents that cover the obligations entered into but not yet called upon in accordance with the resolution of the Federal Council of May 14, 2014.[9]

3 Financial Objectives

The Federal Council expects SIFEM to achieve the following objectives:

3.1 Operating efficiency

SIFEM keeps its operating expenses in proportion to the size of its investment portfolio. The net annual ceiling on operating costs may not exceed 1.5 percent of active commitments.

3.2 Financing

SIFEM ensures its long-term self-financing by covering operating costs and annual obligations for new investments through returns (consisting of capital, interest, dividends and profits) from completed investments as well as through an adequate level of cash.

3.3 Financial result

SIFEM achieves a positive operating result (operating profit/EBIT according to IFRS) cumulated over the period 2022-2024.

In 2021, SIFEM shows a significantly improved operating result compared to the previous year.

3.4 Portfolio Development

- SIFEM strives for a positive return on all investments.
- At the portfolio level, it achieves an annual return of more than 3% and an annual value multiplier[10] of more than 1.15.

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[9] "SIFEM may enter into investment commitments of up to 15% of the total portfolio which are not covered by cash. It is committed to a countercyclical use of this instrument".

[10] The return compares the performance of the portfolio, taking into account the investment period, with the outstanding investment amount. The value multiplier divides all returns received to date plus the current market value of the investment portfolio by the capital invested, without taking the time dimension into account.

4 Objectives related to Human Resources and the Occupational Pension Plan

The Federal Council expects SIFEM to achieve the following objectives:

- SIFEM works with Obviam AG, which has been entrusted by the Board of Directors with the management and portfolio management, to ensure that the company
  - pursues a forward-looking, socially responsible, transparent and reliable personnel policy and offers competitive working conditions for all age groups in a working environment that promotes personal development and performance;
  - promotes a work ethic based on integrity among supervisors and employees;
  - cultivates a management practice that is based on appreciation, offers and demands performance and creates trust through internal and external communication;
  - includes the relevant parts of the strategic objectives in the annual performance targets for the personnel of Obviam AG and takes them into account in the performance assessment.
- SIFEM regulates the compensation of the privately organised Obviam AG in a Management Agreement. The compensation consists of a fixed component (which covers the management and administrative costs) and a variable component, which may not exceed 20 percent of the fixed component. The variable component is based on the average performance of the investment portfolio over at least two years and increases and decreases accordingly. Both financial targets and development objectives are to be considered as assessment criteria.
- SIFEM ensures that at Obviam AG, the portion of the highest individual fixed salary resulting from the SIFEM mandate does not exceed the maximum amount of the federal wage class 32.
- SIFEM ensures that Obviam AG discloses to it the income from third-party mandates (total amount).

5 Cooperations

The Federal Council expects SIFEM to become involved in suitable networks and associations of organisations with similar objectives, insofar as this contributes to the achievement of the Strategic Objectives.

6 Adjustment of the Strategic Objectives

If necessary, the Federal Council can adjust the Strategic Objectives within the period of validity. It decides on an adjustment after consultation with the Board of Directors of SIFEM.

7 Reporting

The Federal Council expects SIFEM to report in writing to the Federal Council at the same time and in addition to the annual report on the achievement of the strategic goals in the previous year. It collects the necessary data and key figures.

In addition, SIFEM maintains a regular exchange with representatives of the Federal Government during the year, namely in the context of the discussions with the owner and portfolio review meetings that take place at least every six months.

25 November 2020

Appendix: Catalogue of key figures and indicators

2 Strategic Areas of Focus

2.1 Programmatic priorities

Target field	Indicators/Key figures	Measurement
Sustainability	SIFEM requires all financial intermediaries to adhere to the Responsible Investment Policy[11] and demands that the relevant standards and guidelines are enforced at the level of portfolio companies and clients. The portfolio companies comply with national regulations and work to apply the relevant international criteria as defined in the Responsible Investment Policy and the Standards and Principles of Responsible Corporate Governance	Annually, all SIFEM investments meet the environmental, social and governance criteria of the Responsible Investment Policy and are in line with the objectives of the Paris Convention on Climate Change Investments in the coal industry are excluded. A gradual phase-out of investments in power plants is targeted, based on other fossil energy sources SIFEM intervenes quickly and specifically in cases of risk or non-compliance with the specifications
Financial Additionality	At least half of the investment commitments serve • To maintain the economic activity of existing and proven SIFEM partners • the achievement of the first closing date of the target funds	 2021 2021-2024, annually
Complementarity	SIFEM is an active investor in fund investments and, where possible, takes part in the supervisory bodies (advisory board) of the funds	Annual; *qualitative reporting without target*
	SIFEM advises financial intermediaries on a case-by-case basis and provides them, as well as the portfolio companies, with access to technical support for the • responsible management of the economic and social impact of the Covid 19 crisis and for resilience measures; • Improving strategic and management capacities at the level of financial intermediaries in areas such as environmental and social standards and good governance (ESG), gender equality and working conditions; • Improving the management of portfolio companies, especially with regard to ESG, climate protection, gender equality, and digitisation of business processes.	Annual, *qualitative reporting including on the use of the SIFEM Technical Assistance Facility*, *without target*

[11] sifem.ch > Task > Invest responsibly

Leverage/Mobilisation	SIFEM mobilises at least CHF 60 million from private and/or institutional co-investors	About the validity of the Strategic Objectives
Geographical orientation	• At least 60% of SIFEM's investments are made in priority countries or regions of Swiss development cooperation • Regional or global funds are considered to be investments in priority countries if, on the basis of credible evidence and information on the *deal pipeline*, it can be assumed that at least 50% of the fund's investments will be made in priority countries (for Sub-Saharan Africa, this proportion is set at 20%)	Annual; ex-ante Annual; ex-ante

2.2 Task and company-related objectives

Target field	**Indicators/Key figures**	**Measurement**
2.2.1 Offer, performance, impact		
Coping with the Covid 19 crisis	At the portfolio level, the total number of jobs in the companies that survive the crisis remains at least the same as in the previous year	2021; Development Monitoring System
Priorities Development Impact	<u>Decent jobs</u> *"More jobs"* • SIFEM creates or supports at least 10 000 jobs (pro rata)[12] • Employment in the portfolio companies is growing by at least 6% per year on a four-year average *"Better jobs"* • All portfolio companies take the necessary measures to comply with labor law regulations in accordance with the *core standards* of the International Labor Organization (ILO) and the principles of environmental, occupational and health protection • The portfolio companies document their efforts to improve occupational safety above and beyond the nationally applicable basic requirements and to ensure working conditions that allow women and men to live and develop with dignity.	2022-24 Three-year average; Development Monitoring System Annual; Development Monitoring System
	<u>Climate: mitigation and adaptation</u> • SIFEM actively contributes to the implementation of the goals of the Paris Climate Convention. All investments	About the validity of the strategic objectives

[12] This means that if a fund has created 1000 jobs and SIFEM has a 10% stake in the fund, 100 new jobs are reported.

	are compatible with these goals and the national climate targets of the countries. • At least 25% of the new investments are fully dedicated to climate protection	
	Essential goods / Innovation At least 30 % of the investment commitments target the subsidiary provision and closing of gaps in the area of essential goods (health, education, supply infrastructure) as well as financial inclusion and innovative business models (e.g. Fintech)	About the validity of the strategic objectives
	Gender equality At least 20% of the investment commitments qualify for the 2xChallenge initiative to strengthen the role of women in the establishment and management of businesses and as employees or consumers of products and services that improve their economic participation	Annually, according to 2xChallenge initiative
Investment spectrum	LDCs Actual investments in Least Developed Countries (LDCs) and other low-income countries should account for at least 12% of active commitments	4-year average; the current list of the OECD Development Assistance Committee applies to the target countries
Development impact in total	At least 75% of the investments in the portfolio must be *subsequently* rated *"good"* or *"very good"* according to the development monitoring system implemented by SIFEM	Annual, Development Monitoring System
2.2.2 Positioning, Development		
Message on the Strategy for International Development Cooperation 2021-2024	• Reporting obligation: SIFEM's contribution to the following goals and subgoals of the message: o *A. "Economic development"* *Subgoal 1:* ▪ Local tax revenue in US dollars *Subgoal 2:* ▪ Number of newly created or preserved jobs ▪ Mobilised private funds in US dollars according to OECD DAC reporting requirements o *B. "Environment", Subgoal 3* ▪ Saved or avoided CO2 emissions in t CO2eq ▪ Additional KWh from renewable energy o *D. "Gender equality", subgoal 9* ▪ %-Number of female employees in the SIFEM portfolio company	Annual, *key figures without targets*

	• Synergies with the economic and private sector activities of SECO and SDC in their priority countries, which increase the impact of SIFEM investments	If possible annually, *without target*
Selected UN goals for sustainable development	Reporting obligation: Contribution mainly to the following UN goals: *5. Gender equality* • %-Number of female employees in the SIFEM portfolio company *7th/13th affordable and clean energy* • Saved or avoided CO2 emissions in t CO2eq • Additional KWh from renewable energy *8. Decent work & economic growth* • Number of jobs created or supported • Local tax revenue in US dollars	Annual; *key figures without targets;* to be reported in the SIFEM report on sustainable development
	13. Measures for climate protection • Private climate investments in USD mobilized by SIFEM in accordance with the reporting requirements of the OECD DAC *17. Partnerships* • Ratio of SIFEM investments to mobilised private co-investments at the target fund level	Annual; *key figures without targets*
2.2.3 Risk policy and risk management		
Target, standard, scope	• SIFEM conducts systematic risk management that is appropriate to the type of business and the size of the company (balance sheet total, personnel). The system contributes to sustainable business success and supports the management bodies in achieving the Strategic Objectives • SIFEM is based on ISO 31000:2018 and ISO 19600 • The risk and compliance management guidelines extend to SIFEM and its manager.	Every four years or once per strategy period: External audit of the risk management (implementation of the system, functionality in practical operation) by an independent audit body on behalf of the SIFEM Board of Directors Information of the Federal Council (audit report, statement of the Board of Directors) within the scope of reporting on the fulfilment of the strategic objectives
Tolerance thresholds Investment risks	The proportion of investments classified as "high" and "very high" risk projects is • lower than 45% for funds • lower than 20% for fixed interest investments	2022-2024 Annual; weighting by *net asset value*

3 Financial Objectives

Target field	Indicators/Key figures	Measurement
3.1 Operating Efficiency	Operating cost ceiling of 1.5% net of active commitments	Annually
3.2 Financing	• The operating costs of SIFEM and the annual new commitments can be fully covered over the target period from the returns from successfully completed investments, uncommitted cash reserves and a reduction in cash coverage below 100% (in accordance with the decision of the Federal Council of 14 May 2014) • The average annual returns will increase by at least 10% from 2022 onwards compared to the average returns during the target period 2018-2020	Annually About the validity of the Strategic Objectives
3.3 Operating result	Positive operating result according to IFRS	Accumulated over the period 2022-2024
3.4 Portfolio development	• Internal Rate of Return (IRR) greater than 3%. • Total value over paid-in greater than 1.15	Annually

4 Objectives related Human Resources and the Occupational Pension Plan

See point 4 in the main text

5 Cooperations

Target field	Indicators/Key figures	Measurement
Networks	• SIFEM actively participates in sectoral organizations (especially EDFI[13] and its working groups), in particular to contribute to greater harmonisation and progress on definitions and key indicators related to the Decent Work Agenda • SIFEM shares the experience gained from operational cooperation with multilateral actors, in particular the International Finance Corporation (IFC), with the relevant federal agencies and thus contributes to the steering of these multilateral development banks.	About the validity of the strategic objectives

[13] Association of the European Development Finance Institutions (EDFI)

6 Key figures box

Key figures	**Reporting year**	previous year
Finances and personnel		
Operating income (million CHF)		
Total comprehensive income (CHF million)		
Profit / loss brought forward (CHF million)		
All reserves (CHF million)		
Balance sheet total (CHF million)		
Equity ratio in %		
Number of employees (full-time equivalents)		
Company specific key figures		
Multi-year average return - Internal Rate of Return (%)		
Value multiplier - total value over paid-in (%)		
New investment commitments (USD million)		
Return on investments (USD million)		
Total volume of investment commitments (USD millions) - Total Active Commitments		
Paid-in investments (at market value, USD million) - Residual Value		
Federal contribution and fee income		
Federal contribution (CHF million)		
Fees (CHF million)		
Increase in share capital (CHF million)		