Disclosure Statement

Operating Principles for Impact Management

March 31, 2024

The *Swiss Investment Fund for Emerging Markets* (SIFEM) is a founding signatory to the Operating Principles for Impact Management (the Impact Principles). The Impact Principles provide a reference point against which the impact management systems of funds and institutions may be assessed. They draw on emerging best practices from a range of asset managers, asset owners, asset allocators, and development finance institutions.

This Disclosure Statement affirms that SIFEM's core/client business, including (a) impact management systems; (b) policies and practices; and (c) investments (fund investments and loans) are managed in alignment with the Impact Principles.[1] The Disclosure Statement applies to all assets under management for SIFEM.

Total assets under management in alignment with the Impact Principles is **US$ 1 billion** as of December 2023.[2]

Jörg Frieden
Chairman of the Board

[1] The sole purpose of this Disclosure Statement is to fulfill SIFEM's obligations pursuant to Principle 9. This document shall not constitute and should not be construed as an offer, solicitation or invitation to buy or sell any securities, financial instruments or services whether described herein or otherwise, or as any prospectus or investment-related advice in relation thereto, nor is it intended to form the basis of a decision to participate in any investment. SIFEM makes no guarantee or other promise as to any outcomes, including any financial or development impact results that may be obtained from the practices disclosed in this statement. While past performance may be analysed in this Disclosure Statement, past performance should not be considered indicative of future performance. Accordingly, SIFEM shall not have any liability to any of the recipients of this Disclosure Statement, nor to any other party in connection with or arising in any way from, or in relation to, the information or any opinions expressed in this Disclosure Statement, and SIFEM does not accept any responsibility whatsoever for any action taken, or omitted to be taken by any party on the basis of any matter contained in, or omitted from, the Disclosure Statement.
[2] Portfolio exposure includes equity and quasi-equity instruments, as well as current income earning instruments, and represents total active commitments as of December 31, 2022.

Principle 1 – Define strategic impact objective(s), consistent with the investment strategy.

The Manager shall define strategic impact objectives for the portfolio or fund to achieve positive and measurable social or environmental effects, which are aligned with the Sustainable Development Goals (SDGs), or other widely accepted goals. The impact intent does not need to be shared by the investee. The Manager shall seek to ensure that the impact objectives and investment strategy are consistent; that there is a credible basis for achieving the impact objectives through the investment strategy; and that the scale and/or intensity of the intended portfolio impact is proportionate to the size of the investment portfolio.

SIFEM is the development finance institution of the Swiss Confederation and is an integral part of the instruments of international development cooperation. SIFEM provides long-term financing for small and medium-sized enterprises and rapidly growing companies, through local or regional investment funds, to foster private sector development in developing and emerging countries.

The Swiss Confederation sets the Strategic Objectives of SIFEM for four-year cycles, including specific development impact objectives as well as financial objectives.[3] The current strategic framework for the period 2021-2024 includes a variety of development objectives aligned with the United Nations Agenda 2030 for Sustainable Development and with the Paris Agreement, defining quantitative targets for the period.

All SIFEM investments are made with the specific intent to achieve a measurable development impact, guided by a detailed Theory of Change and a results framework to assess, analyse, and monitor its investments. This framework is based on the Sustainable Development Goals (SDGs) and used consistently to optimize the development effects linked to SIFEM's investment decisions throughout the investment cycle, starting with the analysis of investment opportunities.

Central to SIFEM's Theory of Change is the role of financial intermediation in private sector growth in emerging markets.[4] SIFEM focuses on strengthening local intermediaries in their capacity to supply capital to local SMEs. 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.

SIFEM contributes to four key outcomes, all aligned with specific SDGs:[5]

1. **Economic viability and resilience:** Investing in financially viable financial intermediaries, adhering to ESG standards and aligning with the objectives of the Paris Agreement (SDG 17).
2. **Economic opportunities and decent jobs:** Facilitating access to long-term capital and financing for SMEs through these intermediaries to support business growth and decent job creation (SDG 5,8 and 9).
3. **Social inclusion:** Broadening access to essential goods and services for underserved groups, particularly women and entrepreneurs (SDG 3, 4, 5, 9 and 10).
4. **Climate change mitigation and adaptation:** Supporting businesses that contribute to transformative climate outcomes consistent with the Paris Agreement (SDG 7, 12 and 13).

As a key priority among SIFEM's Strategic Objectives and with the urgent need for climate action, SIFEM adopted its Climate Approach in 2023, outlining its commitment to promote climate-resilient development and reduce greenhouse gas emissions.

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[3] *Strategic Objectives 2021-2024 of the Federal Council for SIFEM AG.* https://sifem.ch/about-us/strategic-objectives.

[4] *Theory of Change.* https://sifem.ch/impact/theory-of-change

[5] *SIFEM Impact Framework.* https://sifem.ch/our-impact/impact-framework/

Principle 2 – Manage strategic impact on a portfolio basis.

The Manager shall have a process to manage impact achievement on a portfolio basis. The objective of the process is to establish and monitor impact performance for the whole portfolio, while recognizing that impact may vary across individual investments in the portfolio. As part of the process, the Manager shall consider aligning staff incentive systems with the achievement of impact, as well as with financial performance.

As detailed under Principle 1, SIFEM's Strategic Objectives are established by the Swiss Government, including development impact objectives.

To monitor and manage the impact of its portfolio, SIFEM relies on:

1. **Internal rating tool, the GPR** (see more details under Principles 4 and 6): The GPR assesses the development performance during the whole investment period. SIFEM's Strategic Objectives include a target that 75% of investments must be rated ex-post as "good" or "very good" under the GPR methodology.
2. **Development indicators** (see more details under Principle 6): These are collected annually after an investment is made and include a set of standard impact indicators for all investees, as well as specific indicators tailored to each investment. In the case of fund investments, the data not only covers the direct investee level (fund managers) but also every portfolio company. In the case of financial institutions, the data collected covers the institution itself, and the development effects such as indirect jobs induced by loans provided to clients.

Both the GPR ratings and the development indicator data are aggregated at a portfolio level to evaluate the impact achievement of the portfolio in line with its Strategic Objectives. The results are reported annually to the Swiss Government and to the public through SIFEM's Impact Report, and its Business & Financial Report.

Performance against the achievements of the Strategic Objectives, including development impact, is built into the staff incentive system of the Portfolio Manager.

Principle 3 – Establish the Manager's contribution to the achievement of impact.

The Manager shall seek to establish and document a credible narrative on its contribution to the achievement of impact for each investment. Contributions can be made through one or more financial and/or non-financial channels. The narrative should be stated in clear terms and supported, as much as possible, by evidence.

As per its mandate and strategic framework, all SIFEM investments need to respect the principles of financial additionality, value additionality and leverage:

- **Financial Additionality:** SIFEM provides finance that cannot be obtained from the private capital markets (local or international) with reasonable terms or quantities and for similar developmental purposes without official support.
- **Value Additionality:** SIFEM offers to its investees, alongside its investment, non-financial value which is supplementary to the private sector with the aim of achieving better development outcomes. To this end, SIFEM is an active investor that participates, whenever possible, in the governing bodies of its investments, to be able to contribute expertise, address challenges and opportunities on sustainability issues, and ensure compliance with core elements of Swiss development assistance policy.
- **Leverage/Mobilization:** SIFEM aims to mobilize additional capital from private and institutional investors for co-investing along SIFEM at the same terms, thereby contributing additional resources for sustainable development. These co-investment resources complement the investment capital of the Swiss Confederation.

SIFEM's development role and expected contribution in line with these principles are assessed during the due diligence process for each transaction, and presented to the Investment Committee are part of each transaction to the Investment Committee, supported by evidence, where possible.

Principle 4 – Assess the expected impact of each investment, based on a systematic approach.

For each investment the Manager shall assess, in advance and, where possible, quantify the concrete, positive impact potential deriving from the investment. The assessment should use a suitable results measurement framework that aims to answer these fundamental questions: (1) What is the intended impact? (2) Who experiences the intended impact? (3) How significant is the intended impact? The Manager shall also seek to assess the likelihood of achieving the investment's expected impact. In assessing the likelihood, the Manager shall identify the significant risk factors that could result in the impact varying from ex-ante expectations. In assessing the impact potential, the Manager shall seek evidence to assess the relative size of the challenge addressed within the targeted geographical context. The Manager shall also consider opportunities to increase the impact of the investment. Where possible and relevant for the Manager's strategic intent, the Manager may also consider indirect and systemic impacts. Indicators shall, to the extent possible, be aligned with industry standards and follow best practice.

SIFEM assesses the contribution of all prospective investments to specific development priorities reflected in its Strategic Objectives, as well as the impact intentionality of fund managers/financial institutions through which SIFEM may invest. This analysis is supplemented by contextual analysis and research to come up with a credible assessment of the expected development effects of the investment, considering the institutional, socio-political, and economic context.

SIFEM uses an internal rating tool (GPR), originally developed by the German Development Finance Institution (DEG), which is used to assess investments and track their development performance over time. The GPR assessments are based on the investment contribution to eight development areas:

1. employment
2. gender equality
3. training
4. mobilization of local capital/savings
5. financial sector diversification
6. diversification of credit allocation
7. institution building
8. company development

A standardized scorecard is developed for each prospective investment based on its scores on each of the sub-indicators in these eight areas. This tool allows SIFEM to consistently evaluate the expected impact of each investment, as well as benchmarking the scores compared to other investments in the portfolio. In addition, SIFEM ensures that all investees commit to reporting on development outcomes annually to monitor their performance throughout the life of the investment (see Principle 6).

SIFEM is currently developing an updated Impact Rating Tool to replace the GPR, which has been used for the past 15 years, with the aim of reflecting changes to SIFEM's strategic priorities and improving the evaluation methodology. The new tool is being developed and tested in 2024, and is planned to be used for all new investments as of January 2025.

Each investment proposal submitted to SIFEM's Investment Committee contains a development impact section, which establishes the expected contribution to specific development outcomes and SDGs. Opportunities to enhance the impact are also part of the Investment Committee decision process.

Principle 5 – Assess, address, monitor, and manage potential negative impacts of each investment.

For each investment the Manager shall seek, as part of a systematic and documented process, to identify and avoid, and if avoidance is not possible, mitigate and manage Environmental, Social and Governance (ESG) risks. Where appropriate, the Manager shall engage with the investee to seek its commitment to take action to address potential gaps in current investee systems, processes, and standards, using an approach aligned with good international industry practice. As part of portfolio management, the Manager shall monitor investees' ESG risk and performance, and where appropriate, engage with the investee to address gaps and unexpected events.

SIFEM commits all its investees (funds and financial institutions) to comply with its Approach to Responsible Investment and requires those investees to ensure that their respective underlying portfolio companies also adhere to the Approach.[6] Investees must abide by national regulations and work towards the adoption of the relevant international standards defined in the Approach to Responsible Investment.

In addition to assessing investees' compliance with its Approach to Responsible Investment, SIFEM identifies and assesses the ESG risks of each of its investments using criteria that is harmonized among European Development Finance Institutions (EDFIs) and based on the IFC Performance Standards on Environmental and Social Sustainability.[7] This includes a risk assessment of the sector of investment, macroeconomic indicators, and the investee's governance practices. Each investment is subsequently assigned a risk rating, which is considered in the investment decision and monitored throughout the life of the investment. After identifying the potential risk, SIFEM assesses the ability of the institution to manage and mitigate those risks.

SIFEM maintains distinct ESG requirements for funds and financial institutions, as detailed in its Approach to Responsible Investment. To enforce these standards, all investees are required to develop and implement an Environmental and Social Management System (ESMS) prior to their making their first investment. This entails, among other things, adhering to a set of excluded activities aligned with the Harmonized EDFI Exclusion List[8] and Fossil Fuel Exclusion List.[9]

Recognizing that some of our partners may need time to reach compliance with internationally accepted standards, SIFEM may draft Environmental and Social Action Plans (ESAPs) that outline the steps and timeframes needed to meet requirements. These ESAPs are integrated into the investment legal agreements, which are binding documents. The SIFEM ESG & Impact team monitors the progress of the ESAPs and engages with investees in case of any delays or difficulties.

In line with its procedures, SIFEM regularly monitors the ESG performance of its investments and intervenes whenever necessary to ensure compliance with its Approach to Responsible Investment.

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[6] *SIFEM's Approach to Responsible Investment.* https://sifem.ch/fileadmin/user_upload/sifem/pdf/en/Other_Documents/200303__SIFEM_Approach_to_Responsible_Investment.pdf

[7] *IFC's Performance Standards on Environmental and Social Sustainability.* https://www.ifc.org/en/insights-reports/2012/ifc-performance-standards

[8] *Harmonized EDFI Exclusion List.* https://edfi-website-v1.s3.fr-par.scw.cloud/uploads/2021/02/EDFI-Exclusion-List_-September-2011.pdf

[9] *Harmonized EDFI Fossil Fuel Exclusion List.* https://edfi-website-v1.s3.fr-par.scw.cloud/uploads/2021/02/EDFI-Fossil-Fuel-Exclusion-List-October-2020.pdf

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

The Manager shall use the results framework (referenced in Impact Principle 4) to monitor progress toward the achievement of positive impacts in comparison to the expected impact for each investment. Progress shall be monitored using a predefined process for sharing performance data with the investee. To the best extent possible, this shall outline how often data will be collected; the method for data collection; data sources; responsibilities for data collection; and how, and to whom, data will be reported. When monitoring indicates that the investment is no longer expected to achieve its intended impacts, the Manager shall seek to pursue appropriate action. The Manager shall also seek to use the results framework to capture investment outcomes.

As described under Principles 2 and 4, SIFEM relies on two tools to monitor its impact at both an investment and portfolio level.

Internal rating tool, the GPR: To track the progress of an investment over time, the GPR is used to establish an ex-ante benchmark at the investment appraisal stage. After disbursing an investment, SIFEM conducts the GPR assessment every other year for each investment to monitor and track the development effects (ex-post). SIFEM's ESG & Impact team is responsible for conducting these assessments by collecting the relevant data from investees. SIFEM will use its new Impact Rating Tool (see Principle 4) in a similar way to monitor impact performance starting in 2025.

Development indicators: SIFEM annually collects a set of standard impact indicators from all investees, as well as up to three specific indicators tailored to each investment. Investees' reporting obligations are included in the investment agreements, including the list of indicators required. SIFEM uses internationally accepted harmonized approaches and indicators whenever possible. This includes indicators from the IRIS Catalogue of Metrics managed by the Global Impact Investing Network (GIIN) – of which SIFEM is an active member – and the Harmonized Indicators for Private Sector Operations (HIPSO), which are used by multilateral development banks and development finance institutions, as well as the Joint Impact Indicators (JII), which are harmonized between both the GIIN and HIPSO.

These metrics capture portfolio-wide effects applicable to all investments, as well as sector-specific effects, demonstrating SIFEM's commitment to the SDGs identified in its Theory of Change

Using these tools, SIFEM monitors the progress of each investment in achieving impact against pre-investment expectations.

Principle 7 – Conduct exits considering the effect on sustained impact.

When conducting an exit, the Manager shall, in good faith and consistent with its fiduciary concerns, consider the effect which the timing, structure, and process of its exit will have on the sustainability of the impact.

SIFEM considers the effect on maintaining development impact when making exit decisions in its equity portfolio. This can affect the timing, structure, and choice of whom to sell to.

During due diligence, a Responsible Exit Policy is required or recommended for the investees to ensure the long-term impact after the investment exit.

SIFEM invests primarily in local or regional investment funds as a Limited Partner (LP). When a fund reaches the end of its expected life with no underlying assets remaining, the fund structure is dissolved.

Direct debt investments are self-liquidating without exit decisions. Future investment decisions for a debt investment may be affected by the investment's impact performance and adherence to ESG standards.

Principle 8 – Review, document, and improve decisions and processes based on the achievement of impact and lessons learned.

The Manager shall review and document the impact performance of each investment, compare the expected and actual impact, and other positive and negative impacts, and use these findings to improve operational and strategic investment decisions, as well as management processes.

SIFEM uses its rating tool to analyse the expected development effects of SIFEM's new commitments, compares actual development effects measured through ex-post data collection of the active investments versus expectations formed before investment, and presents conclusions for investments exited during the year. SIFEM's Impact Reports also demonstrate the lessons learned from the impact performance of the portfolio, which are discussed with the Board of Directors.

In addition, SIFEM conducts case studies periodically to take a closer look at the effects and value-add of SIFEM's investments in specific contexts. External reviews, evaluations or thematic studies are also carried out during each strategic cycle, which are either commissioned by the Board or the Shareholder.

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

The Manager shall publicly disclose, on an annual basis, the alignment of its impact management systems with the Impact Principles and, at regular intervals, arrange for independent verification of this alignment. The conclusions of this verification report shall also be publicly disclosed. These disclosures are subject to fiduciary and regulatory concerns.

This Disclosure Statement re-affirms the alignment of SIFEM's procedures with the Impact Principles and will be updated annually.

SIFEM plans to conduct an independent verification of its practices every four years (i.e., once per strategic cycle) unless there are significant changes to its practices that warrant a more frequent review. The first independent verification of SIFEM's alignment took place in November 2020 and the next one will be in Q1 2025.

Information on the current independent verifier is as follows:

Name and Address:

Steward Redqueen

Kinderhuissingel 4a/b

2013 AS Haarlem, The Netherlands

Qualifications: Steward Redqueen is a specialized consultancy that works across the globe advising organizations on impact and sustainability, with 20 years of experience working for multilateral development institutions and bilateral development finance institutions.

Most Recent Review: November 20, 2020