SIFEM IMPACT POLICY

1. SIFEM impact policy

SIFEM, the Development Finance Institution of the Swiss Confederation, is part of Swiss development cooperation. Its investments must fit in the strategic framework defined by Parliament every four years and complement other instruments of Swiss development cooperation. SIFEM is an “impact investor,” since all SIFEM investments are made with the specific intent to generate a measurable development impact, with specific monitoring indicators. For this purpose, SIFEM bases its work on a specific theory of change linked to a results framework to assess, analyze and monitor its investments.

In the context of the management of SIFEM, Obviam commits to working to maximize the development effects linked to its investment decisions throughout the whole investment cycle, from investment analysis, investment decision-making, to investment management and monitoring. Starting in January 1st, 2018, it will do so through the following measures:

1. **Analyze systematically how potential investments are expected to contribute to the different outcome dimensions included in the results framework and integrate this analysis in all investment proposals submitted to SIFEM’s investment committee.**

2. **Carefully assess and monitor the projected financial sustainability of potential investments in order to strengthen the sustainability of the development effects generated by SIFEM’s investments.**

3. **Build up a diversified portfolio from a development perspective in line with SIFEM’s risk diversification targets and with the financial sustainability objective at the level of SIFEM, so as to be able to show meaningful results across the different outcome dimensions.**

4. **Raise the awareness of financial intermediaries (funds + banks and non-banks financial institutions) on how to deliver on the outcome dimensions included in the results framework.**

5. **In complementarity with the standard development indicators collected for all investments, select up to three additional indicators referring to the targeted outcomes pre-investment. The selected additional indicators are to be mentioned in all final investment proposals submitted to the SIFEM investment committee.**

6. **Incorporate all agreed additional indicators in contractual obligations with financial intermediaries.**

7. **Encourage financial intermediaries to develop their own results measurement framework and underlying theory of change in line with the agreed indicators and provide initial guidance to those interested partners through regular dialogue and monitoring.**

8. **Encourage financial intermediaries to make use of available technical assistance opportunities, whenever relevant and applicable.**

9. **Incorporate the attached results framework in the existing communication and reporting structure (e.g. development effects report), in order to provide transparent and relevant information on impact results to the SIFEM board, its shareholder and the general public.**

2. SIFEM's theory of change and results framework

The SIFEM theory of change is based on a logical framework model showing the inputs (*what is invested in terms of resources*), the outputs (*what is being done to generate a future result*), the outcomes (*what is being achieved in the short-medium term*) and the impact (*ultimate long-term expected change*). This model corresponds to a "change process," with a description of how and why change is expected to happen.

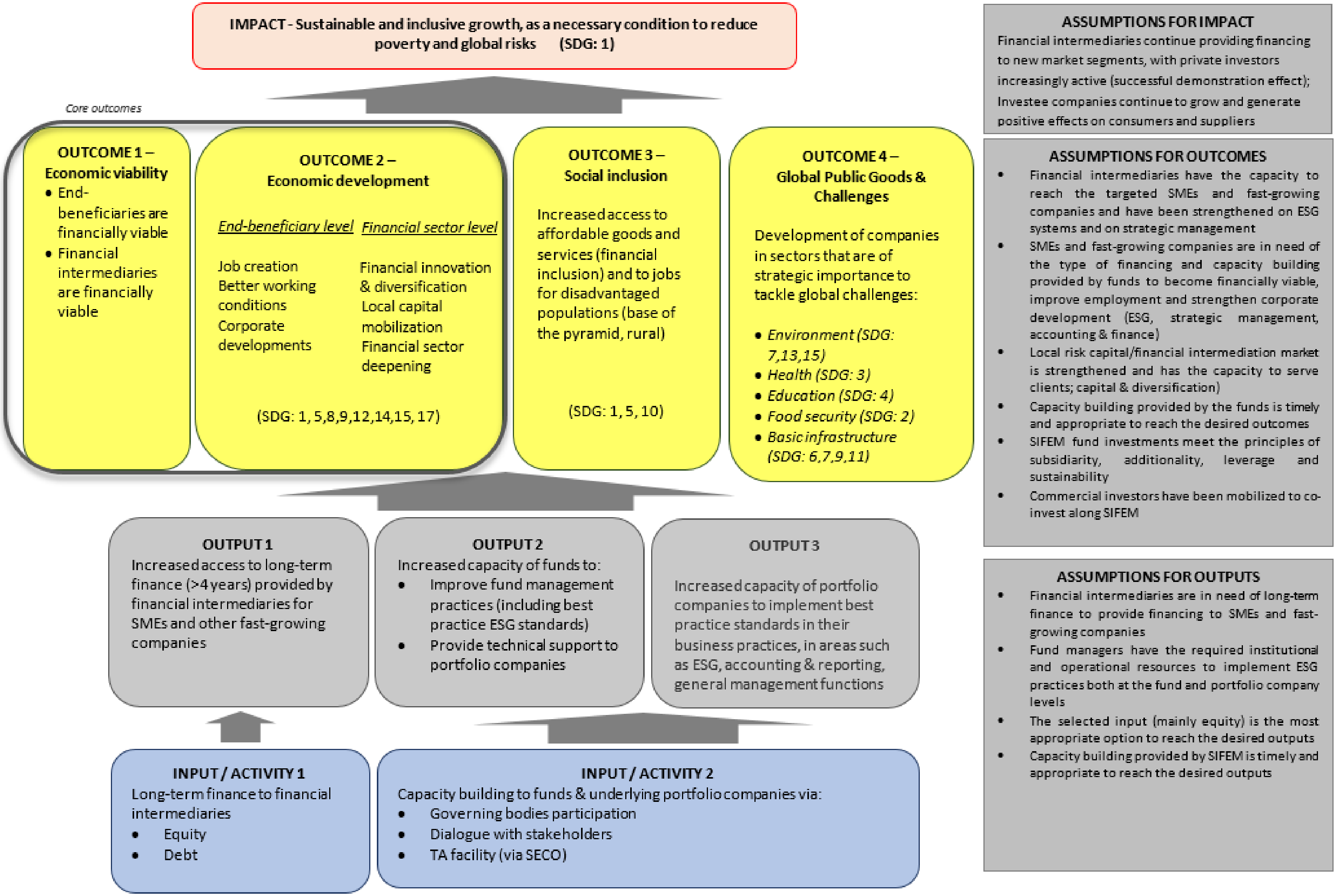
The logic behind the theory of change is that financial intermediaries play a pivotal role in private sector growth – and, therefore, job creation and other development effects in emerging and developing markets. This logic leads the recognition of the importance of strengthening financial intermediaries in their capacity to deliver long-term capital to targeted 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 investment outcomes (see Figure 1).

The cornerstone of the theory of change is the assumption that all SIFEM investments contribute to the overall impact albeit in different ways, as captured by the different Outcomes. It is expected that all SIFEM investments will contribute at least to Outcome 1 (all investments must generate a financial return as a precondition for sustainability and for demonstration effects purposes) and to Outcome 2 (all investments must contribute to economic development effects measured by indicators, either at the company level or at the financial sector level). The third and fourth Outcomes represent additional development effects, which may be targeted by SIFEM's investments depending on the investment thesis/focus of the investments concerned.

These Outcomes are linked to the *Sustainable Development Goals* adopted in 2015 by all members of the United Nations with a view to end poverty, protect the planet, and ensure prosperity for all[1].

[1] For more information on the SDGs, see https://sustainabledevelopment.un.org/sdgs

Annex 1. Impact Theory of Change: & Result logical framework



DEFINITION AND GLOSSARY OF TERMS USED IN THE CONTEXT OF THE SIFEM IMPACT POLICY

BETTER JOBS*: this refers to jobs that reflect two specific dimensions of the overall quality of jobs, i.e. their compliance with minimum requirements defined in national labor laws and regulations as well in international standards, and continuous improvements in staff development and safety at work.*

Note: Job quality is a multidimensional concept, which explains why there is no agreed definition of what constitutes a "better job" internationally. The term "Better jobs" is frequently used to refer to the qualitative aspects of the "*decent work agenda*" developed by the International Labor Organization[2]. There is no operational definition of "better jobs" in the SECO Framework Credit on economic development cooperation 2017-2020 either, and no simple methodological framework currently exists to deal with job quality measurement. At the level of the European Development Finance Institutions, the quality of jobs tends to be captured by measuring the compliance with minimum labor requirements only.

GLOBAL PUBLIC GOODS & CHALLENGES: *these refer to the main issues and challenges highlighted in the Sustainable Development Goals (SDGs), and which typically involve taking collection actions. Namely: environment & climate, food security, healthcare, education, and basic infrastructures.*

Note: The term "global public goods" is used in the economic literature to describe those goods and services whose benefits could be consumed by the society at large in a non-rival and non-excludable manner. In practice, however, very few goods and services perfectly meet those "global public goods" requirements. Development economists usually refer to "global public goods" aspects or characteristics when describing global challenges linked to the sustainable development goals.

IMPACT INVESTMENT: *this refers to investments intended to create positive impact beyond financial return and which can measure and report on their development effects. SIFEM is an "impact investor" since all SIFEM investments are made with the specific intent to generate a measurable development impact, with specific monitoring indicators.*

Note: Impact investments can be made in both emerging and developed markets, and target financial returns that range from below market (sometimes called concessionary) to risk-adjusted market rate, and can be

[2] http://www.ilo.org/global/topics/decent-work/lang--en/index.htm

made across asset classes, including but not limited to cash equivalents, fixed income, venture capital, and private equity.

SOCIAL INCLUSION: *this refers to the efforts made to enable underserved/excluded socio-economic groups to have access to markets (land, housing, labor, credit) and services (health, education, transport, water and sanitation, energy, information, financial services).*

Note: The term "social inclusion" exposes the multidimensional nature of chronic lack of access to education, health, financial services and other services facing some socio-economic or ethnic groups of the society. The process towards inclusion seeks to ensure that previously excluded people have a voice in decisions which affect their lives, and that they enjoy equal access to markets and services.[3]

SUSTAINABLE AND INCLUSIVE GROWTH: *sustainable growth refers to an economic growth process that can be maintained over time without depleting production resources or creating adverse effects in the future. Inclusive growth refers to an economic growth process that creates opportunity for all segments of the population and distributes the dividends of increased prosperity.*

Note: Sustainable growth implies the responsible use of resources and environmental capital, so as not a generate environmental problems for future generations. Inclusive growth implies leveling the playing field for investment and increasing productive employment opportunities for all segments of the population.

[3] See Inclusion matters – The foundation for shared prosperity, The World bank, 2013