Investments for Development in Switzerland: A Sub-type of Impact Investing with Strong Growth Dynamics

Julia Meyer and Kelly Hess

Introduction

Historically, Switzerland has a strong track-record in fostering development in less privileged countries, be it through public-sector activities, NGO work or—more recently—through financial service providers channelling private funds into developing countries. Switzerland has become an important hub of specialised investment teams, where extensive know-how has been built up on investing in less developed markets to service basic needs (i.e. access to financial services, energy infrastructure or education) while at the same time seeking market returns.

The role of private companies in addressing global pressing issues was especially emphasised in 2015 at four important international conferences,[1] making it imperative to analyse what investment approaches can be best used to foster an inclusive economy and protect natural resources. With its strong background in supporting

The results of this survey were also used by the authors for an article published in the book "Sustainable Financial Innovations" (Meyer and Hess 2018).

[1]At the conference in Sendai (March, 2015) the first framework for disaster risk reduction was adopted, in Addis Abeba (July, 2015) the international community finalised a framework on "Financing for Development", New York saw the adoption of the ambitious Sustainable Development Goals and the Agenda 2030 (September, 2015) and lastly, in Paris the decision to limit Climate Change to 1.5°–2° was finally agreed on by all nations (December 2015).

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development, we take Switzerland as an example to better understand the mechanisms currently used in this field in the private sector.

Given the growing need for investments to finance sustainable development, the role of the financial sector has gained public attention, both on an international and national level—particularly via the advocacy of projects such as the UNEP Inquiry.[2] At the same time, financial service providers increasingly recognise the opportunities resulting from such investments.

The financial sector has the fundamental role to develop tools and instruments that build a bridge between the real economy, looking for affordable and stable funding, and investors, seeking long-term investments and attractive returns. As many of the required investments, i.e. in infrastructure or education, are at the intersection of public service and private business, the public sector also plays a crucial role in making such endeavours attractive for private investors on a risk/return level. While in the long term it is prices—and with that public policy—that are key, there are already mechanisms in the form of technical assistance, de-risking or co-investing at hand for the public sector to create a fertile ground for private investments and contribute to an efficient cycle for more sustainable development.

This chapter is meant to give an overview of how Swiss financial actors are tackling issues around investments for development. The information presented was collected through a Swiss market survey[3,4,5] of investments for development and includes unique data on the size, dynamics and characteristics of sustainable investments managed by specialised asset managers, banks or institutional investors. Also included in this chapter are four case studies, which illustrate the diverse products, actors, partnerships and benefits in the field.

[2]The UNEP Inquiry into the Design of a sustainable Financial System, established in 2014 by the United Nations Environmental Programme, looks into how the financial system can contribute to a green and sustainable economy.

[3]The survey was outlined by the SSF workgroup “Investments for Development”, and refined by Kelly Hess (SSF) and three workgroup: Frédéric Berney (BlueOrchard), Julia Meyer (University of Zurich’s Center for Microfinance) and Marina Parashkevova (Symbiotics). Data collection was organized by Symbiotics. Survey guidelines were partially based on the CGAP MIV guidelines and can be found at: http://www.sustainablefinance.ch/upload/cms/user/20151019_SSF_Inv_for_Dev_Survey_Guidelines.pdf

[4]The full data and methodology can be found in the Market Study at: http://www.sustainablefinance.ch/en/swiss-investments-for-a-better-world-_content---1--3043--1962.html

[5]The results of this work are also currently under review for publication within a special issue of the Journal of Sustainable Finance and Investment.

Investments for Development

Definition

The idea behind the analysis of this specific market segment was developed within a workgroup established by Swiss Sustainable Finance (SSF)[6] in 2015. The workgroup facilitated the exchange and collaboration between experts from different types of investment vehicles, academia and the public sector. Aiming to gain a better overview of this fast-growing segment and the different tools and instruments available, the definition developed and used for "investments for development" highlights three necessary elements: intention, target region and return.

Investments for development must:

- Demonstrate a clear intention to improve the social, environmental and/or economic situation within the investment region;
- Target countries in developing or so-called low- and middle-income frontier countries[7]; and
- Target a performance in line with market return.

This definition is more focused than the concept of impact investing (e.g. Hebb 2013), adopted by institutions such as the Global Impact Investing Network (GIIN) or Eurosif. Figure 1 illustrates the definition of investments for development in comparison with other forms of impact investments.

Fig. 1 Investments for development as a sub-category of impact investing—Investments with a clear intention to improve social/environmental/economic situation

[6] SSF is an association founded in 2014 with the aim to strengthen the position of Switzerland in the global marketplace for sustainable finance by informing, educating and catalysing growth. SSF has representation in Zurich, Geneva and Lugano, and unites over 90 members and network partners from financial service providers, investors, universities and business schools, public sector entities and other interested organisations. More information can be found at www.sustainablefinance.ch

[7] The classification published on the website of the World Bank as of 10.1. 2016 is used to distinguish low-income, (lower and upper) middle-income and high-income countries.

Whilst no specific market return is defined, this choice excludes venture philanthropy and similar investments that focus on impact while sacrificing returns. Similarly, all investments targeting developed countries are not considered in this new investment category.

The investors involved in this segment include most investor groups, such as institutional asset owners, retail investors, public entities, family offices and high net worth individuals (HNWI). Investments are made directly into institutions in the respective industries, or indirectly through financial intermediaries using standard instruments such as funds or mandates. They may come purely from the private sector, from public entities only or can involve public-private partnerships (PPPs), and are typically based on asset classes such as private debt, private equity and/or real assets.

The value proposition of such investments clearly resides in the fact that there is a dual outcome. Firstly, a market financial return is paid back to the investors, whilst secondly, the investments offer a benefit in the form of a tangible contribution to development, often measured by specific key performance indicators (KPIs). The investment cycle which creates a return and repays capital at the end of the investment period allows continuing subsequent investments and therewith continual impact.

Case Study 1: Impact Investing Focus SME (IIF SME)

The "Impact Investing Focus SME" (IIF SME) is UBS' first impact fund dedicated to investing in small and medium-sized enterprises (SMEs) in emerging and frontier markets. Its core mandate consists of providing growth capital to SMEs with the aim of fostering economic growth, increasing living standards, and reducing poverty. This mission is supplemented by IIF SME's flexibility to invest in sectors that provide access to the core impact areas of access to finance, agriculture, education, healthcare, basic infrastructure, and clean technology and clean energy. Since 2013, the fund has made strong progress in deploying its mandate by committing to nine private equity funds. In turn these have invested over USD622 million into 55 SMEs across 22 countries as per year-end 2015 (Algeria, Angola, Cape Verde, China, Costa Rica, Egypt, El Salvador, Ghana, Guatemala, Honduras, India, Kenya, Mexico, Morocco, Mozambique, Nigeria, Philippines, Senegal, South Africa, Thailand, Tunisia, and Vietnam). Some of these companies focus on employment creation within local industries, while others additionally expand much-needed basic healthcare and education services. The fund provides socially-minded investors the unique opportunity of investing in these high impact sectors, while at the same time achieving sound financial returns.

The investment portfolio of "IIF SME" is managed by Obviam, an independent investment advisor specialised in long-term investments in emerging and frontier markets, according to best practice environmental, social and

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governance (ESG) standards. The manager can offer private investors opportunities for parallel co-investment as they also advise public development finance.

The investment manager collects sector-specific data from all of the invested funds' portfolio companies. As of year-end 2015, the fund's underlying investee companies were active in the healthcare, education, clean technology and clean energy, agriculture and sustainable forestry, and basic infrastructure sectors. KPIs are identified and collected for these five sectors to measure the impact of the fund. The table below summarises the results for 2015.

IIF SME sector-specific impact results 2015
Healthcare
322 healthcare facilities served
3,301,598 patients reached
11,710 caregivers employed
Education
2123 educational facilities served
3922 teachers employed
5,341,255 students trained
Clean technology and clean energy
139 MW clean energy installed
2100 MWh clean energy produced
Agriculture and sustainable forestry
7665 tonnes of food produced and/or processed
458 farmers reached
Basic infrastructure
60 MWh of energy delivered to offtakers (in addition to clean energy produced)

Source: Obviam, September 2016

Swiss Market Characteristics

Switzerland's Leading Role and Specialized Players

The survey respondents (Fig. 2) report a total of USD9.85 billion (n = 14) assets under management (AuM) for investments for development as of September 2015,[8] with the size of the investments differing largely, ranging from USD6.5 million to

[8]Figures are collected for December 2014, except for the total AuM, where respondents also indicate the level for September 2015.

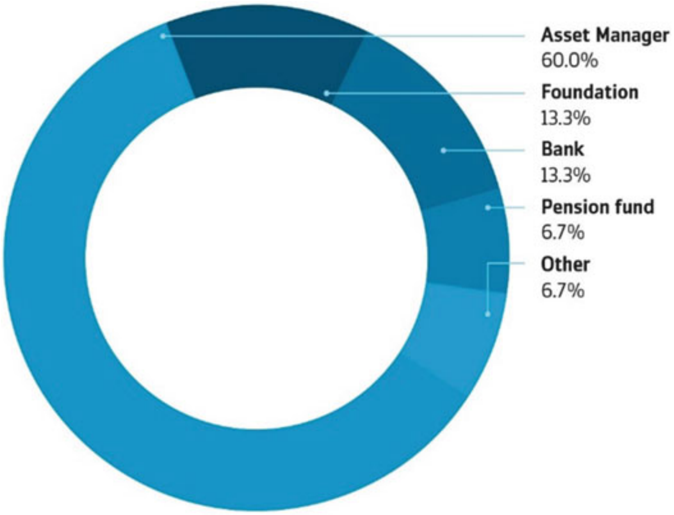

Fig. 2 Investments for development survey respondents by type of organisation (n = 15)

Table 1 Total assets under management by survey respondents (n = 14)

Category	Volume (billion USD)	Share of investments for development (%)
Assets managed directly by respondents		
Managed funds	4.00	46.1
Managed mandates and accounts	1.14	13.1
Assets invested directly	0.40	4.6
Total direct investments	**5.54**	**63.8**
Assets invested through intermediaries		
Externally managed funds	2.87	33.0
Externally managed mandates and accounts	0	0
Total indirect investments	**2.87**	**33.0**
Unspecified	**0.27**	**3.2**
Total investments for development	**8.68**	**100**
Additional assets under advice	**2.33**	**n/a**

USD3.1 billion (Table 1).[9] USD8.68 billion AuM were reported at the end of December 2014. This indicates a considerable growth rate of 13.5% over the first 9 months of 2015, which would imply a compound annual growth rate of 18.4% for 2015. Of the total reported assets as of 2014 (USD8.68 billion), USD5.54 billion was invested directly by the respondents into products, USD2.87 billion indirectly

[9]All currencies are converted to USD using the exchange rate for December 2014 and September 2015 respectively, source: www.oanda.com

through intermediaries and USD0.27 billion was not specified. Additionally, the respective institutions advise[10] on USD2.33 billion assets (Table 1).[11]

Among 13 respondents, the majority (9 respondents) indicate between 90% and 100% of total firm-wide assets are devoted to investments for development. Three investors have below 20% of their total assets in investments for development and one between 20% and 40%.[12] This data shows the important presence of specialization within this industry in Switzerland and its potential competitive advantage in the global market.

On a global level, J.P. Morgan (2015) reports USD60 billion AuM, including all types of impact investments as well as investments by development-finance institutions. When narrowing down the analysis to investments for development, a total of USD30 billion is currently expected to flow into the sector on a global level.[13] This indicates that with USD8.68 billion, almost one third of the global market for investments for development is managed through institutions in Switzerland.

This is further supported by the 2015 FNG market study, which reports USD8.82 billion AuM in impact investments for the Swiss market by the end of 2014. Bearing in mind that investments for development are defined more narrowly for this study than impact investments, the estimated Swiss market size (USD8.68 billion) compared to the FNG results, indicates that this survey manages to cover a large part of the Swiss investments for development market.

Case Study 2: Regional Education Finance Fund for Africa (REFFA)
BlueOrchard Finance's Regional Education Fund for Africa (REFFA or "the Fund") is the first education fund of its kind targeting the African continent and having an objective to increase equal access to secondary, vocational and higher education, as well as to enhance education quality. Due to the fact that the quality of public school education is often undermined by teacher strikes or absenteeism, successful private education providers are key to enabling access to quality education for a broader number of students, including low income families. In providing financing to partner institutions, the Fund intends to foster the ability of final beneficiaries to profit from:

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[10] Assets under advice are not included under total assets under management (AuM) for this study.

[11] Indirectly invested assets imply a risk of double-counting. However, due to the structure of the respondents, with less than a quarter being asset owners, it is unlikely that a large share of third-party managed assets are also represented within the direct investments of the banks and asset managers. Furthermore, in case indirectly managed assets flow through non-Swiss intermediaries, double-counting is not an issue. It is therefore fair to assume that double-counting is negligible and total investments for development in 2014 amount to USD8.68 billion in Switzerland.

[12] Two respondents did not provide this information.

[13] This number is based on estimations by responsAbility Investments and GIIN Impact Base.

– Loans to education providers to satisfy working capital and fixed assets funding needs;
– Education finance products for learners and their families with Micro, Small and Medium Enterprises (MSMEs) as well as salary income;
– Education finance products for learners with a focus on students.

The Fund has been structured as a public-private partnership driven by the German Development Bank (KFW) and the German Ministry for Economic Cooperation and Development (BMZ). The objective is to have bilateral donors in the junior tranche, development financial institutions in the mezzanine tranche, and private investors in the senior tranche and notes. Senior tranches benefit from the credit enhancement provided by the subordinated tranches.

In parallel to the Fund investments, a Technical Assistance Facility (TA) has been established to procure and finance specific and tailored assistance to ensure that partner institutions are supported in the development of their education finance portfolios and activities. As of today, the TA amounts to around USD1 million.

The impact measurement of the goals and objectives of the REFFA Fund are carefully monitored. Education portfolio indicators are collected on a quarterly basis from partner institutions. These indicators measure the outreach of the Fund in terms of borrowers financed and types of borrowers (schools, students from families with salary income, students from families with business income and students directly). Other indicators include number of students enrolled in schools supported via REFFA funding and types of investments made by the schools financed (e.g. working capital, fixed assets, overdraft financing).

Source: BlueOrchard Finance SA, September 2016

Asset Allocation

Sector and Industry

The majority of AuM of the respondents (80%) flow into the financial services sector, with a focus on microfinance (Fig. 3).[14] Ten of the fifteen respondents report activities in microfinance, of which five are currently specialised in the field, having over 97% of their investments in microfinance. The following industry sectors are

[14]Microfinance was not defined in detail for the purpose of the survey. The distinction between financial services to micro-customers as opposed to SMEs (small and medium enterprises) lacks clarity and probably both types of services are captured in this category.

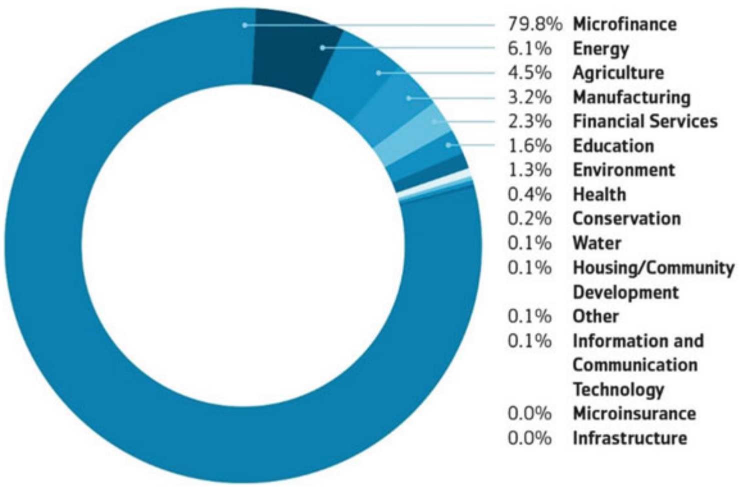

Fig. 3 Sector and industry exposures (% of assets under management) of survey respondents (n = 14)

also important in Switzerland: energy (6.1%) with seven respondents, agriculture and food (4.5%) with six respondents, and manufacturing (3.2%) with three respondents being invested. Six respondents are engaged in investments in education, but with rather small exposures leading to a share of only 1.6% of all investments for development.

In comparison, the study by Eurosif (2014) finds that 55% of impact investments in Europe are made in microfinance, while the global J.P. Morgan (2015) report finds housing to be the largest sector with 27%, followed by microfinance with 16% of all global impact investments reported. One reason for the lower prevalence of microfinance internationally, compared to Swiss data, is that the international studies also include investments in the developed/industrialised countries where the need for microfinance is lower. Similarly, housing investments likely represent a higher percentage of total investments in the international studies, as low-income housing projects are common forms of impact investments in developed/industrialised countries.

The results confirm that microfinance is an important theme for Swiss institutions focusing on investments for development. This is consistent with the latest Swiss Microfinance Investments Report, describing solely investments through Swiss microfinance investment vehicles (MIVs), and finding that Switzerland manages 38% of global microfinance investments (Symbiotics and CMF 2015). Unlike the Swiss Microfinance Investments Report, survey respondents of the current analysis also included institutions not specialised in microfinance (i.e. institutional investors, general asset managers).

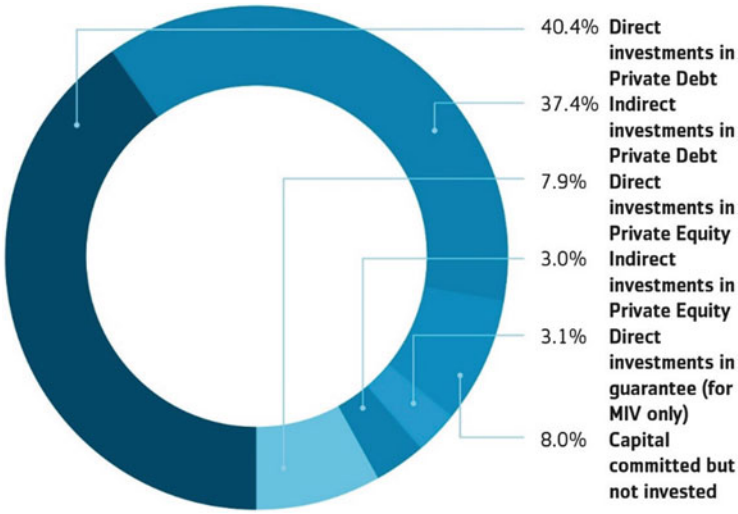

Fig. 4 Structure of the managed portfolio of survey respondents: Share of aggregated assets under management (n = 10)

Structure of Portfolio

The majority of assets are invested through direct investments in private debt (Fig. 4), followed by indirect investments in private debt (together totalling 77.8% of all AuM). Comparing the findings of this survey with the global impact investing market, according to the J. P. Morgan survey (2015), two aspects can be highlighted: Firstly, the share of private debt of 40% found for the global impact investment market is significantly lower than the above-mentioned 77.8% for the Swiss market. Secondly, the global impact investing market has a stronger focus on private equity, with a share of 33% of all AuM. By contrast, the Swiss market is characterised by a much smaller fraction of private equity investments (7.9% direct and 3.0% indirect).[15]

Case Study 3: responsAbility Fair Agriculture Fund
The Fair Agriculture Fund, managed by responsAbility Investments AG, targets private and institutional investors, and aims to provide financing to the diversity of actors along the agricultural value chain such as suppliers,

(continued)

[15]This result is driven by the above-mentioned fact that Switzerland is one of the pioneer markets for microfinance. Its leading position in this industry clearly affects the distribution of funds between private debt and private equity, considering that microfinance largely involves investments in private debt.

producers, farmer cooperatives and retailers in developing countries. This investment strategy is based on the rationale that 70% of the world's low-income population live in rural areas with agriculture as a main source of income and employment. Consequently, strong developmental impact can be achieved by financing organisations that provide this population with access to higher-paying markets, improved inputs, services and added-value capabilities. In order to select its clients, the fund has developed strong internal tools and processes to maximize the impact of its investments. The eligibility of potential counterparties is reviewed during the investment process, using a list of obligatory eligibility criteria: creation of economic opportunities for low-income population in rural areas, sustainable business model, commitment to environmentally and socially responsible production, owner and management integrity, and a real financing need. Furthermore, the counterparty must have operational systems in place to ensure compliance with responsAbility's environmental and social guidelines.

In order to measure the effects of the invested capital, the following KPIs are currently measured on a monthly basis: number of smallholders farmer suppliers (December 2015: 275,158), number of permanent employees (December 2015: 10,463), of which women (December 2015: 2167), number of countries (December 2015: 47), number of commodities (December 2015: 51), number of hectares under certified cultivation (December 2015: 201,474)* Further development related indicators across all agriculture investments are measured and published in the annual company publication "Perspectives."

*This data is purely indicative and is not a guarantee of future results, and there can be no guarantee that the fund will achieve the same or similar results in the future.

Source: responsAbility Investments AG, September 2016

Characteristics of the Investments

The majority of the invested volumes originate from institutional investors (39.8%) followed by public investors (29.5%) (Fig. 5). Retail investors represent a considerable average share across the respondents, with 20.4%. This result is noteworthy, as retail investors typically invest smaller amounts than institutional or public investors. Consequently, the number of retail investors involved must be large. This is explained by the inclusion of two asset manager respondents in the survey, which have issued products particularly attractive for retail investors (i.e. easy to invest, liquid etc.). Retail investors are not targeted by all the institutions participating: three survey respondents largely focus on public investors, two target solely high net worth individuals (HNWIs), and one only concentrates on private institutional investors. Generally speaking, all survey respondents, except three, have a narrow focus, managing assets from one or two types of investors.

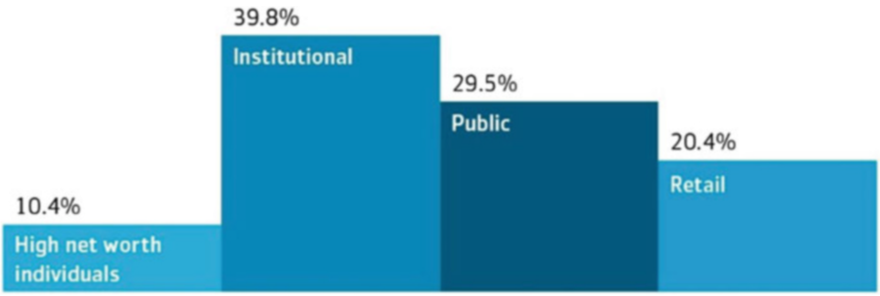

Fig. 5 Distribution of investor types among survey respondents according to the value of investments (n = 12)

The results demonstrating the importance of institutional and public investors in this market, with a combined share of approximately 70%, are comparable to the findings of the study on overall Swiss sustainable investments (63%) (FNG 2015). The global study on impact investments finds private investors (HNWIs, family offices, retail investors) to have a smaller stake in the market, with 21% (J.P. Morgan 2015). These findings could indicate that Swiss private investors are more interested in the sector of investments for development, or that the market is easier to access for them than in other regions.

Questions regarding the portfolio quality, in particular the level of provisioning and write-offs,[16] were answered by 8 of the 14 respondents. Those eight institutions have used provisioning in 2014 with an average of 3.82%, with a minimum of 0% and maximum levels over 25%. With regards to write-offs during the period, the average was 1.9%, again with large differences ranging between 0% and over 15%.

Regional Allocation

Among the 15 survey respondents, seven provide information on the regional allocation of their assets (USD2.9 billion[17]) on a country level. In total, the reported investments for development are very well diversified regionally and flow into 96 different countries.

Nevertheless, the assets are largely concentrated in the top 10 countries (60% of all assets) respectively the top 20 countries (80% of all assets). Figure 6 shows the 30 largest country exposures by volume in USD million. Cambodia receives the largest share of assets invested by the seven institutions (USD285 million) followed

[16]Provisioning is the accounting process used when an expense is recognised to reflect critical investments that are expected to (partially) fail. As soon as the failure of an investment is certain, a write-off occurs, where an investment (earning asset) is removed from the books and its book value is written down to zero (Fitch 2000).

[17]Some of the seven respondents did not provide the regional allocation for their whole portfolio in investments for development.

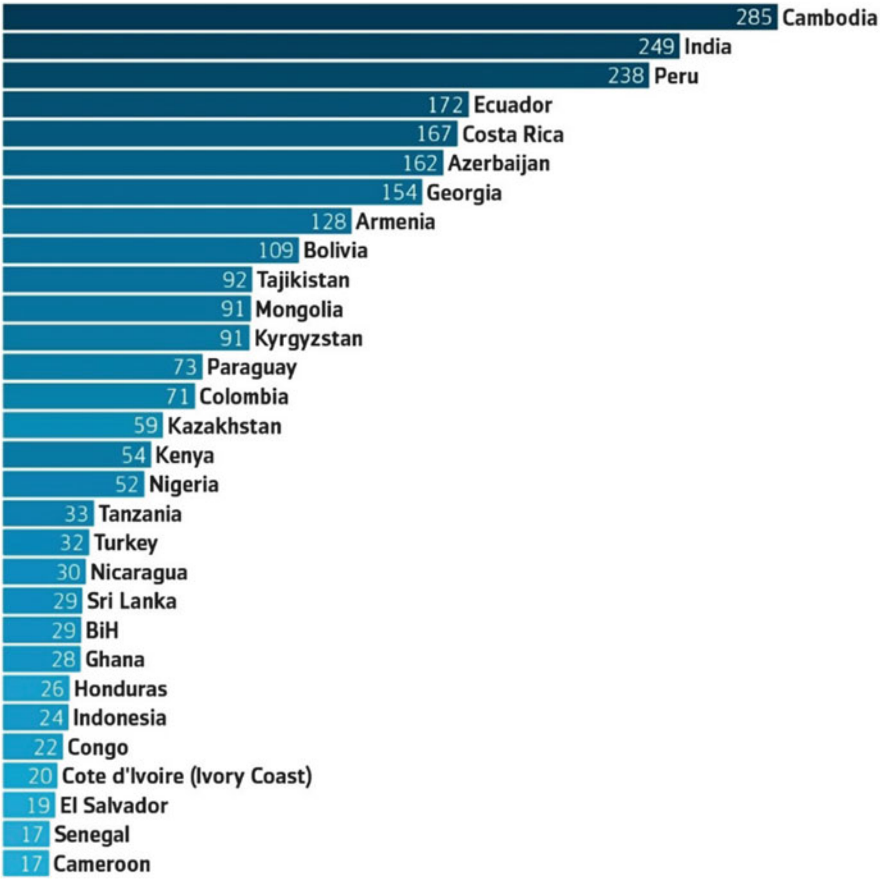

Fig. 6 Largest 30 country exposures of survey respondents, USD million (n = 7)

by India (USD250 million) and Peru (USD238 million). The large share of microfinance in the data used for this section probably explains the focus on those three countries as they all receive top scores with regards to the regulatory environment for financial inclusion (Economist Intelligence Unit 2015).

All 30 top countries targeted are categorised as low-income, lower middle-income or upper middle-income countries according to the classification listed on the website of the World Bank (as of 10.1.2016). Looking at the volume invested in those countries, the majority of the assets (51.2%) flow into lower middle-income countries, 35.5% into upper middle-income countries and also a share of 13.2% into low-income countries.

Regarding the regional distribution of AuM (in terms of investment volumes), the majority flows into the regions Latin America and the Caribbean (32.4%), Europe and Central Asia (27.9%) followed by East Asia and the Pacific (15.1%) (Fig. 7). According to the global study on impact investments, the majority of global assets flowing into developing countries target Sub-Saharan Africa, followed by Latin

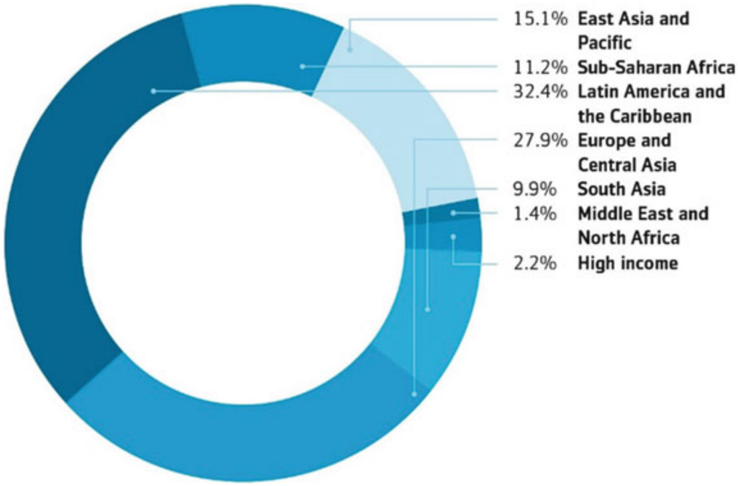

Fig. 7 Regional distribution of survey respondents' assets under management (%) (n = 7)

America and the Caribbean and Eastern Europe, Russia and Central Asia (J.P. Morgan 2015). 2.2% of reported investments flow into high-income countries, which are not applicable for this report. Nevertheless, the volume flowing into high-income countries is small and only 14 such countries were targeted, with the largest exposure in Hong Kong, followed by Russia, Poland and Switzerland with an average exposure of USD4.5 million. Furthermore, all the respondents active in high-income regions have very small exposures in those countries.[18]

Social and Environmental Indicators

According to the definition coined in this report, investments for development should involve a clear intention to improve the social, environmental and/or economic situation within the investment region. Similar to other fields of sustainable investments, it is very difficult to measure and capture this intention and even more so, the resulting impact. In fact, there are international organisations (i.e. Global Social Impact Investment Steering Group, OECD[19] social impact investment project) currently dedicated to developing common definitions and standards and facilitating data collection. In the microfinance sector approaches to evaluate social performance at the level of the investment fund are undertaken (e.g. SPI 4 ALINUS[20]), but there is currently no widely-accepted consensus on a set of metrics or standards to be applied across different fields of impact investments.

[18]Examples of exposures in high-income countries would also include investments in larger institutions with activities in different countries being headquartered in a high-income country.

[19]http://www.keepeek.com/Digital-Asset-Management/oecd/finance-and-investment/social-impact-investment_9789264233430-en#page14

[20]http://www.cerise-spi4.org/alinus/

Therefore, the questions on non-financial performance in the survey were kept rather general, especially because they should be applicable for different types of institutions and investment sectors.

Results show that all but one respondent (not stating an answer) have a tool or methodology in place to assess social and/or environmental performance. Seventy-one percent of those also have a specific team responsible for social performance measurement. The majority of those respondents measure social performance using proprietary metrics (40%). Others use metrics in line with IRIS[21] (20%) or other methodologies (33%). On a global level, IRIS indicators seem to have even more importance, with 60% of respondents being involved in impact investments stating to have their metrics aligned with IRIS (J.P. Morgan 2015).

Similarly, environmental issues seem to be closely monitored by survey respondents, with 78.6% of the respondents (n = 14), having defined an environmental exclusion list that they comply with, and almost all respondents (92.3% or 12 of the 13 institutions replying to this question) stating that they review environmental issues of investee companies. The majority of the respondents (69.2%) also actively inform their investors about ESG issues (n = 9).

The survey captures the types of social performance indicators that are measured at the product levels for 15 products.[22] Typically, respondents analyse two to three indicators to assess the social impact of their products. Most frequently, the indicators used focus either on the share of female clients or employees, or the number of beneficiaries served, by counting either end-clients (borrowers, jobs, beneficiaries) or institutions (facilities) served.

The results also include the absolute value of these indicators, but this information is not examined in detail here due to lack of comparability or aggregation across different products. It is very difficult to compare social performance measurement across investment vehicles in one sector (Krauss and Meyer 2015) and so it is even more challenging and would require a large data base to compare social performance across different sectors and investment product types. Nevertheless, it is remarkable that for almost half of the products reported (45.5%), specific social performance metrics are measured at the product level. Three of the metrics mentioned are clearly specified for the microfinance sector only, one for education and one for health, and the remaining six indicators would be applicable for different sectors (Table 2).

[21]IRIS metrics are managed by the Global Impact Investing Network (GIIN) with the intent to measure social, environmental and financial performance (https://iris.thegiin.org/metrics).

[22]More information at the product level is available in the report published by Swiss Sustainable Finance and CMF (2016) and the article submitted to the Journal of Sustainable Finance and Investment.

Table 2 Social indicators for different sectors

Sector	Indicators
Microfinance	Female active borrowers as percentage of total active borrowers Number of active borrowers financed Median loan size of end-borrower
Education	Educational facilities served
Health	Healthcare facilities served
Different sectors	Total number of female employees Total number of employees Private capital mobilised Number of end-beneficiaries pro rata Jobs supported Taxes paid

Case Study 4: Symbiotics' Microfinance Bond Platform

MSME Bonds contribute to sustainable development by providing access to capital in underserved markets to the benefit of micro-, small and medium enterprises (MSMEs), and low- and middle-income households. By investing in the real economy, the investment aims to promote the social function of finance and seeks long-term value creation. The investment universe for this product is composed of the 100–200 leading microfinance institutions worldwide. With growth rates of about 20–40% per year for the past decade, these institutions require substantial financing to develop their activities. They have progressively diversified their funding structure, evolving from mainly international funding to local savings—some also developed local capital markets. MSME Bonds SA provides these institutions with access to international capital markets. This is done at low costs and in an efficient manner, as each bond is cleared and settled through Euroclear/Clearstream, the most common clearing system for European bonds.

This private initiative effectively expanded access to microfinance beyond fund investments to include direct debt exposure, which previously was not part of the traditional microfinance offer (see figure). The bond issue program is intended for volumes of USD10 million and above and is not only suitable for microfinance asset managers and impact investors, but also emerging or traditional fixed income asset managers looking for diversification. The bonds can be listed at the Luxembourg Stock Exchange, the largest bond listing platform in Europe.

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Symbiotics uses an internal social responsibility rating tool to evaluate the contribution of financial intermediaries to the sustainable socio-economic development of their end-clients. This consists of >100 indicators that cover the following seven dimensions: social governance, labour climate, financial inclusion, client protection, product quality, community engagement and environmental policy. Afterwards a weighting system is applied in order to rate the overall social performance of the microfinance institution. Each financial intermediary must prove an appropriate track record, sound governance and a sustainable approach to growth and society.

Source: Symbiotics SA, September 2016

Performance and Projections

Financial performance data was collected at the product level in order to ensure comparability of data. In total, information on 33 products was supplied, among them 29 funds, three direct investments and one managed account. Target returns differ largely across the 22 different products providing information on this question, ranging between 3% and 7%, with an average of 4.5% per annum and one private equity product targeting a return of 20%.

The survey respondents involved in investments for development are optimistic overall about the future growth of this market segment. Out of 13 responses received, a majority of 53.8% expect that the performance of this market will slightly or clearly improve above the current level, while 38.5% expect a stable development over the next 3 years. Furthermore, all expect their own AuM to grow considerably over the next 3 years. Total assets are expected to grow to USD14.1 billion in 3 years, equivalent to a compound annual growth rate of 15.9% over the next 3 years. This seems to be a conservative estimate, as the growth rate measured last year was higher (18.4%).

Conclusions and Outlook

This first analysis of the Swiss investments for development market gives a general overview of a diverse and growing market, focusing specifically on asset allocation, investment characteristics and performance of certain investments.

Overall the Swiss market for investments for development is worth around USD10 billion, with a compound annual growth rate of 18.4% for 2015. These results point to the following conclusions: firstly, the considerable growth, which has perpetuated since a few years and largely exceeded growth figures of other asset classes; and secondly, the important market position of Switzerland, holding about 30% of the global market of investments for development.

A very large portion (approx. 80%) currently flows into microfinance, as this sector is one of the most established sources for investments for development, and Swiss institutions have been pioneers in this field. With Switzerland managing about one third of all global microfinance assets (Symbiotics 2015), it is well positioned to build on this experience and expand even further into investments for development. Compared with the global investments for development market, the Swiss market is less diversified regarding sector and asset class exposure, with high exposures to microfinance and private debt. There would be room for innovative Swiss players to re-orient towards other sectors and/or other asset classes—which again, could provide significant growth potential. An example of this growth potential is the increasing importance of syndicated loans, seen for instance in the recent landmark USD250 syndication loan to Sri Lanka's Lanka Orix Leasing group, where three Swiss players had an important role.[23]

The regional spread of investments over 96 different countries is a positive sign that these types of investments can be widely applied. There is a large concentration within countries with sound regulatory environments conducive to foreign investments. Thus, supportive local regulatory frameworks and stable economic and political environments are important factors for investors to channel their funds towards those countries. Based on this, it will be interesting to see the regional distribution of Swiss investments for development as foreign markets evolve over time.

Swiss investment products in this segment manage to attract a fair share of retail investors (more so than in other countries). Yet, against the backdrop of tightening financial regulation it has generally become more difficult to establish products that are authorised for public distribution. In order to further meet the apparent demand from retail investors for such investments, it is crucial not to build up more regulatory hurdles for public distribution, but instead to eliminate some of the existing ones.

The average reported target return of 4.5% per annum illustrates that investments for development can be an interesting add-on to an investment portfolio. In the current low interest environment investors are looking for new opportunities. An increasing appetite for investments for development is therefore a logical consequence, which is reflected in above-average growth rates.

Lastly, information on the product level, especially the non-financial information, was difficult to access. There is a lack of consensus regarding the environmental and social performance of products and adequate indicators. It will be imperative for products in this area to be transparent and have clear reporting to investors in order to track and communicate measurable outcomes. The success will strongly depend on the ability of the industry to provide evidence that its efforts lead to concrete benefits to local economies, contributing to sustainable development while providing returns to investors.

This current report covers 15 different Swiss actors, the majority being specialised asset managers in this area. In time, more players will enter the market and there will be further growth within larger financial organisations. A future study will therefore most likely cover more actors, both because of a growth in the number of players and due to an even higher response rate.

There is a wide gap between the variety of investments undertaken by the practitioners and the research and knowledge being gathered on a national and global level. This study contributes to further insights into this interesting emerging investment segment, aiming to raise awareness of the importance of this sector for

[23]LOLC plc. 2016 (http://www.lolc.com/news.php?id=225).

the current Swiss financial market, as well as the notable growth potential and chances to innovate and create further investment opportunities.

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Disclaimer The content of this paper is meant for research purposes, with an aim to broaden and deepen the understanding of Investments for Development in Switzerland. On a few occasions, this paper refers to specific collective investment schemes. Such references are made for research purposes only and are not intended as a solicitation or recommendation to buy or sell any specific investment instruments. The case studies in this document have been issued by SSF in cooperation with BlueOrchard Finance SA, Obviam, responsAbility investments AG, Symbiotics SA and UBS AG (the "Parties"). The Parties have taken all reasonable measures to ensure that the information and data presented in this document are complete, accurate and current. The Parties make no express or implied warranty regarding such information or data, and hereby expressly disclaim all legal liability and responsibility towards persons or entities who use or consult this document.

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