Interview: Jean-Daniel Gerber – Chairman of the Board, SIFEM (Swiss Investment Fund for Emerging Markets)

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28.09.2016

Tags: Switzerland, Investment, SIFEM, Healthcare,

Jean-Daniel Gerber, chairman of the board at SIFEM, explains why job creation should be the focus of DFIs (Development Finance Institutions) such as SIFEM; how ESG, environmental, social and governance issues, are key to a successful investment, and why we should focus on illnesses that are most prevalent in the developing countries, where the purchasing power is small and pharmaceutical companies lack strong incentives to invest.

Can you start by introducing yourself to our readers? You have had a career working for various parts of the Swiss government. What was it that attracted you to SIFEM?

My career has been as a Swiss civil servant. Throughout my time I have worked in numerous ministries: the ministry of foreign affairs – where I was head of the economic and financial services at our Embassy in Washington DC -, I headed the state secretary for migration for seven years, and I also spent seven years as head of the state secretary for economy. I have also worked as an executive director at the World Bank for five years. I am currently head of the SIFEM board. Why did I decide to accept this position? Within the area of development cooperation, an area I know well, you receive letters from the likes of the Red Cross and Oxfam asking for donations every year. SIFEM is different; with us you get your money back. We look to establish revolving funds that you can invest in, make a profit, and then reinvest. People do not invest in SMEs in developing markets because the risk is too high. We deal with such risks. Another issue when it comes to investing in emerging markets is which sectors to target: infrastructure, healthcare, education? One of the major issues facing the developing world is a lack of jobs. Job creation is key. It is not the government, or even the multinational companies that create such jobs; it is the SMEs, and in particular the M in SME. By creating jobs, you alleviate a series of problems: someone who has a job can pay for their education, they can pay for food, and they can pay for healthcare. As such, job creation should be the number one priority. SIFEM, just like other DFIs (Development Finance Institutions), has understood this.

SIFEM is a fund of funds. How do you select your funds, and are there particular countries that are of interest?

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We are indeed a fund of funds, although we have a few direct investments. When you invest in emerging markets, you need a fund manager who is familiar with the market, and knows where to invest. How do we select the funds? We look for fund managers with a good track record. We also look for someone who knows about ESG, environmental, social and governance issues. If you want to have a development effect, you must meet these three criteria. From a social perspective, where you invest in must fulfil all of the key standards required by the International Labor Organization; from an environment perspective, you must make an environmental analysis, considering whether the investment is environmentally sound; and from a governance point of view, you must have good corporate governance controls in place including a serious board, audit procedures, and be free of corruption. If you meet these requirements, you respect the idea of sustainable development projects. To meet our investment criteria there is usually a fourth element; you must have a return on your investment to be financially stable. SIFEM also invest sometime in newcomers, fund managers without experiences. There the risks are higher. But this is valid from a development point of view.

Your country is well known for it “neutrality” – in this context, what are its DFI’s priorities?

We are neutral from a military point of view, but politically or economically we are not neutral. The countries in which SIFEM is active in are the lower middle income countries according to the World Bank statistics. Within Latin America, our focus is on Central America, as well as Colombia, Ecuador and Peru. Within Africa our focus is on sub-Saharan Africa. We do not invest in the least developed countries, those that still lack the institutional capacity.

You have identified a lot of countries. Do you have the capital and resources to do a good job in such vast geography? Would it not be better to have a more targeted

strategy?

SIFEM has invested around CHF 700 million (USD 718.77 million) on behalf of the Swiss Confederation, but our level of capital will increase over the next few years. We were created five years ago, and have not yet reached our cruising speed. Last year was the first year that we made a small profit on investment. This is only normal, and as the J-curve would predict. Initially when you make an investment, you do not make a profit, and gradually this starts to change.

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Alongside increasing investment from the Swiss confederation over the next few years, SIFEM is also aiming to obtain further funding through the private sector. Already 25 percent of our capital comes from co-financing with the private sector.

How would you qualify your average return on investment today? And is ‘impact investment’ profitable?

At present our rate of return is approximately 7.2 percent; but this is only an average. We had a high rate of return from investments we made in India, with profits of over CHF 100 (USD 205) million. Sometimes our return on investment is high, and sometimes we make a loss. When you invest in a high risk project, not all your investments will work, so you balance your risk by investing in numerous projects. We analyse each investment project by project. 30 to 40 percent of our investments are in less risky portfolios. This may rise to 50 percent due to the number of riskier investments we currently have.

SIFEM has three different types of investments: first, our growth projects, which are predominately co-financed by the private sector, second, our development projects, providing economic development through job creation, and third, the riskier social, or impact projects. In the latter area it is harder to persuade the private sector to participate. Within the growth projects, we do not focus exclusively on making a return, but take care of the ESG requirements. For the high impact projects, we take higher risks and the profits generated are smaller.

Each country in the world has certain attributes or is perceived to be better in certain skills sets. How are the Swiss perceived when it comes to development?

Swiss investments are attractive because we are not a big power. Countries do not fear political interference from Switzerland. We are also a fairly stable country, meaning there is stability around our policies. We are also a leader in innovation, and can provide excellent advice in the projects where we invest. We have relations across the world and can connect different investors through our network and bring investments into a country. We seldom go it alone in a country; we go with others. When we have identified a good project, we look to have other investors participate: both other DFIs, as well as private capital investors.

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For a country that is so strong in innovation, particularly in the pharmaceutical sector, SIFEM does not seem to invest much in healthcare. Why is this the case?

We have a few healthcare investments, constituting seven percent of our portfolio. We may increase our activity in this area; however, it is true that you have to be particularly prudent in this field. There is a debate internationally as to whether the same healthcare should be open to everyone, including the poorest among us and or whether we have hospitals that only the wealthy can afford to use (one tier or two tier health care systems). I take the view that both private as well as government run hospitals are required. You need to have a leading hospital in a country, to serve as an example to all others. As such, I do not exclude that we also finance top hospitals while not neglecting the public hospitals. Striking the right balance is never easy.

In the future, after ten years of having run SIFEM, what would you like this fund to become? What sort of recognition, in terms of positioning do you believe SIFEM should have among other institutions?

SIFEM is only a small DFI. I would like us to become more important. Across Europe you have governments that are increasingly investing money into DFIs. They see the results from a development point of view, as well as from a financial point of view. DFIs also have one big advantage over development assistance; it is not a big burden on the budget. When the Swiss government invests in SIFEM through equity, this is on the passive side of its balance sheet. The counter position is the shares SIFEM owns in the different funds and enterprises. SIFEM has not seen an increase in its capital to the same extent as other European DFIs. This is due in part to the fact that SIFEM is new, and has yet to truly establish itself.

To move the discussion to the Swiss mentality of business and investment, the majority of Swiss pharma companies we have met with here are directed by non-Swiss citizens. Is this true in other sectors, and what about the Swiss mentality explains this?

There is a difference between Switzerland and other OECD countries. Over 70 percent of our multinational companies are headed by non-natives; in Germany it is around 22 percent, and in France and Italy it is even less. This can be explained by the fact that Switzerland has more multinational companies than any other country in Europe, perhaps with the exception of Luxembourg. We also have a two-tier education system in Switzerland. This results in only around 20 to 25 percent of Swiss students going to university; the others take on apprenticeship. Such a system helps to explain why Switzerland has such a low level of unemployment. While we may have fewer executives at leading companies; we excel at the middle level jobs. We are proud of our apprenticeship program and many countries, including the US and India, are looking to establish such a system.

Notwithstanding what I just said on apprenticeship, Switzerland, on a per capita basis, has the greatest number of Nobel Prize winners in the world. 50 percent of these Nobel Prize winners have a birth certificate that does not come from Switzerland. Among the leading 25 universities in the world, 23 are Anglo-Saxon; the other two are located in Switzerland: ETH Zurich and The École Polytechnique Fédérale de Lausanne. This demonstrates the high number of foreigners that work at our leading universities, and that a number of them stay here and make a vital contribution to society.

Switzerland invests a striking amount of money into innovation, in pharmaceuticals, and beyond. Today the world economy is undergoing a rebalancing – especially with research teams distributed across the globe. Can this become a challenge for your country?

20 years ago I would have said Switzerland may be overtaken in the future as a leading innovative country. Today I am less sure. Of course, there is a danger that the high costs of being active in Switzerland may lead to many multinational companies relocating to other markets. At the same time, if Switzerland is still competitive, it is because we go into areas where there is not a lot of competition, where the focus is on excellent quality. Pharmaceuticals are the perfect example of this.

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Switzerland´s relationship with the EU is another major concern. Today we can still hope to participate in research programs such as Horizon 2020, but this relationship is now under threat due to a Swiss immigration initiative. We may become just another third country for the EU, like the US, or Japan. This would be extremely damaging to our economy. Research does not depend purely on money, but on different people working together. Finding a solution to this relationship will be key to Switzerland´s future, providing stability and predictability to businesses that want to invest here. The second issue facing the Swiss economy is one we cannot do anything about: the high-value of the Swiss Franc, which makes us less competitive against the euro and the US dollar.

Do you have a final message that you would like to send to the international healthcare and life sciences community?

We have made great improvements globally in terms of healthcare development over the last few decades. Mortality rates have decreased tremendously over the last 50 years. We have pharmaceutical products for all sorts of illnesses. In the future we should focus on illnesses that are most prevalent in the developing countries, where the purchasing power is small and therefore the pharmaceutical companies lack strong incentives to invest. I do not understand why it has taken so long to find a cure for illnesses such as malaria and tuberculosis. This is an economic issue. However, ultimately the healthcare industry has done an excellent job in advancing human development.

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