Swiss Sustainable Finance

University of Zurich[UZH]

Department of Banking and Finance
Center for Microfinance

SWISS INVESTMENTS FOR A BETTER WORLD

THE FIRST MARKET SURVEY ON INVESTMENTS FOR DEVELOPMENT

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CONTENT

Investments for development are a growth area for the Swiss financial market.

FOREWORD

ZURICH, APRIL 2016

The year 2015 was an important milestone regarding tangible international commitments for a sustainable future. Four important international conferences defined new frameworks to address some of the world's current pressing issues, emphasising the role of private companies: 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 degrees was finally agreed on by all nations (December 2015). These policy foundations laid important groundwork for regional, national and global initiatives to foster an inclusive economy and protect natural resources.

Yet, without finance, all the ambitious targets will remain well-meant ideas. The financial sector therefore plays an important role in fuelling necessary changes. It 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 investable. 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.

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

This first Swiss Sustainable Finance (SSF) study provides an overview of the Swiss market of investments for development. Such investments aim for a double benefit: investing in economic development is a core prerequisite to fight poverty in the long term; at the same time it can help investors achieve market returns in the current challenging investment environment. Through a survey, SSF managed to collect unique data on the size, dynamics and characteristics of sustainable investments managed by specialised asset managers, banks or institutional investors with a focus on building up sustainable economies in low- and middle-income countries. This report also includes different case studies which illustrate promising and innovative approaches for addressing specific basic needs. The market data illustrates an investment segment that is attractive for both institutional and private clients looking for uncorrelated returns in a low interest rate environment.

Investments for development are a growth area for the Swiss financial market. The development of such specialised services helps to build up a wealth and asset management industry servicing broader client demands focused on impact as well as financial returns. Building on Switzerland's strong experience and using the existing momentum will help provide more investments to help reach the sustainable development goals.

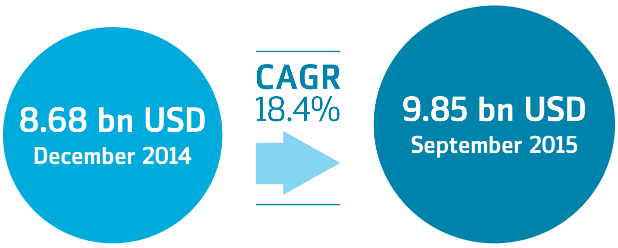
Jean-Daniel Gerber
President SSF

Sabine Döbeli
CEO SSF

1 SUMMARY OF FINDINGS

MARKET VOLUME AND SHARE

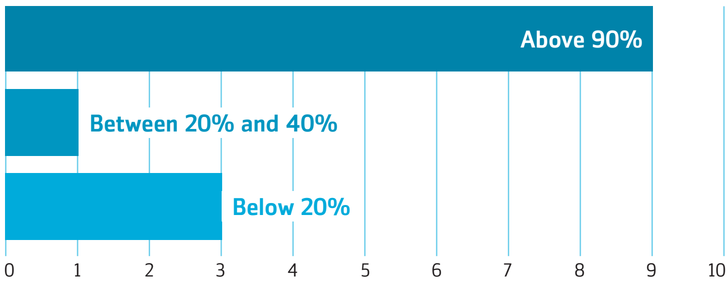
Swiss investments for development totaled USD 9.85 billion as of September 2015 (CAGR = 18.4%).



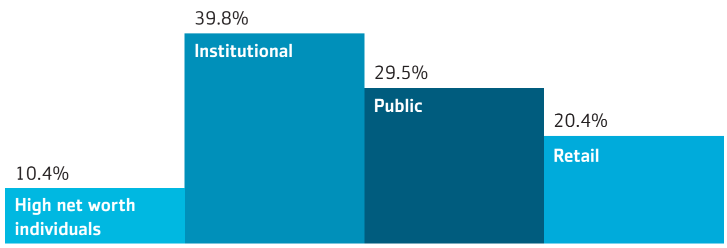
Almost one third of the global market for investments for development is managed through Swiss institutions.

MARKET STRUCTURE

The majority of respondents indicate between 90% and 100% of total firm-wide assets are devoted to investments for development, indicating that currently there are many pure-players.



The majority of invested volumes in investments for development originates from institutional investors (39.8%) followed by public investors (29.5%), retail investors (20.4%) and high net worth individuals (HNWI, 10.4%).



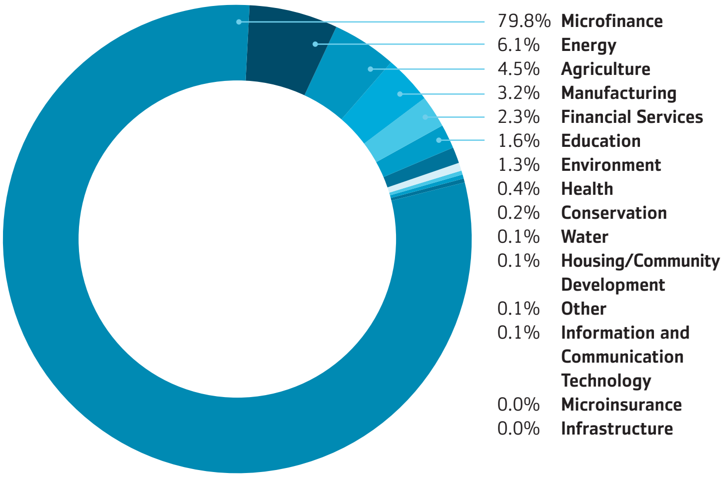
THE DOUBLE BENEFIT

- Target returns range from 3% to 7%, with an average of 4.5% per annum.
- The majority of the investment products offer monthly subscription and redemption possibilities.
- Most respondents have tools in place to assess social and/or environmental performance.
- Over ¾ of respondents define an environmental exclusion list.

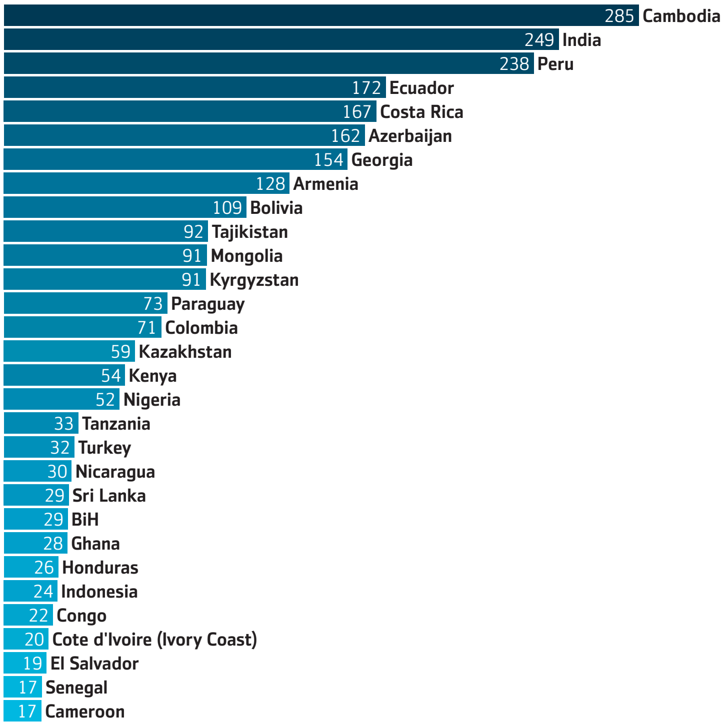
Definition: Investments for development involve a clear intention to improve the social, environmental and/or economic situation within developing countries while aiming for a market return.

ASSET ALLOCATION

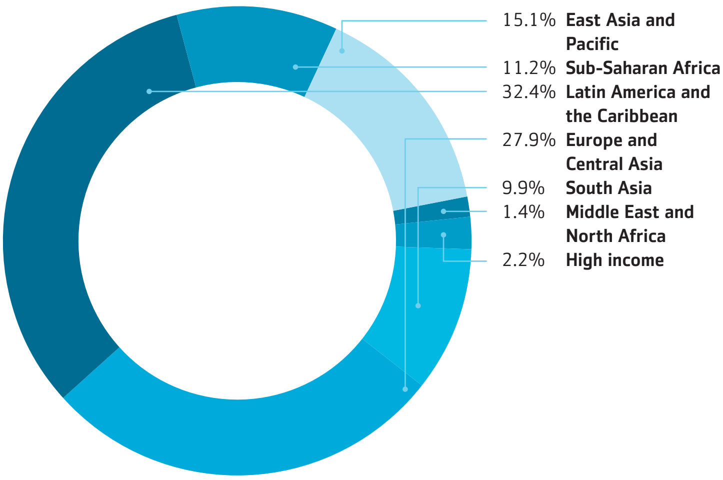
The largest share of investments is in microfinance sector and hence in private debt. Energy and agriculture are the next most important sectors.



Investments for development are regionally very well diversified and flow into 96 different countries.



The majority of the assets flow into the regions Latin America and Central Asia, followed by East Asia and the Pacific.



Women growing organic rice in Nueva Ecija on the Philippines with access to microcredit which was used to finance new water channels and other improvements.

Cover photo:
Seaweed plantation on Mantigue Island in the Philippines supported through microcredit for over 10 years.

2 INTRODUCTION

In light of the growing need for investments to finance development, the role of the financial sector has gained public attention, both on an international and national level. Projects such as the UNEP Inquiry, looking into how the financial system can contribute to a green economy, have led to intense discussions on the role of financial players in contributing to sustainable development. At the same time, financial service providers increasingly recognise the opportunities resulting from such investments.

Aiming to gain a better overview of this fast-growing segment and the different tools and instruments available, the definition[1] used for this study 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.

— Investments for development target countries in developing or so-called low- and middle-income frontier countries.[2]

— Last but not least, investments for development target a performance in line with market return.

This definition is more focused than the frequently used concept of impact investing, defined by institutions such as the Global Impact Investing Network (GIIN) or Eurosif.[3] Figure 1 illustrates the definition of investments for development in comparison with other forms of impact investments.[4]

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

Investments for development cover a wide range of sectors and involve diverse actors and products. Figure 2 represents the landscape showcasing the actors involved, as well as the different investment channels and products, and indicates the double-value proposition.

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, or can involve public-private partnerships, or come from public entities only, and are typically based on asset classes such as private debt, private equity and/or real assets.

Figure 1
INVESTMENTS FOR DEVELOPMENT AS A SUB-CATEGORY OF IMPACT INVESTING
Investments with a clear intention to improve social/environmental/economic situation

		REGION	
		Industrialised	Developing
FINANCIAL RETURN	Market	Products focused on industrialised economies that generate competitive returns	**Investments for Development** Products focused on developing economies that generate competitive returns
	Below Market	Products focused on industrialised economies that require a below market return	Products focused on developing economies that require a below market return

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. 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.

This study sets out to illustrate the current situation of the Swiss market for investments for development based on a market survey, while also giving insights into a growing industry which is already of great importance for Switzerland. SSF's Investments for Development workgroup initiated and coordinated the survey using the data collection and technical infrastructure of Symbiotics,[5] while the compilation and analysis of the data has been provided by the Center for Microfinance of the University of Zurich.

The main part of the publication is a detailed report on the comprehensive survey on investments for development in Switzerland. It provides an overview of the size and diversity of this market within Switzerland and establishes a benchmark to track how the market develops over time.

In addition to the quantitative and qualitative data collected through the survey, four case studies are discussed representing creative and innovative forms of the Swiss investments for development. Each of them focuses on a different sector (healthcare, agriculture, education, financial services) and outlines characteristics and measurable outcomes of the investments. Lastly, the report contains a reflection on the role of public-private partnerships (PPP) within investments for development prepared by the Center for Corporate Responsibility and Sustainability (CCRS). It showcases the necessity for collaboration between state and market players, in order to ensure a more sustainable future.

The present study provides the reader with a comprehensive picture of this emerging and growing industry. It puts Switzerland at the forefront of this trend, highlighting Swiss actors with recognised expertise and valuable innovation.

1 The definition of investments for development used in this report has been developed in 2015 by the workgroup "Investments for Development" consisting of experts and practitioners from the field and working under the umbrella of the industry association Swiss Sustainable Finance.

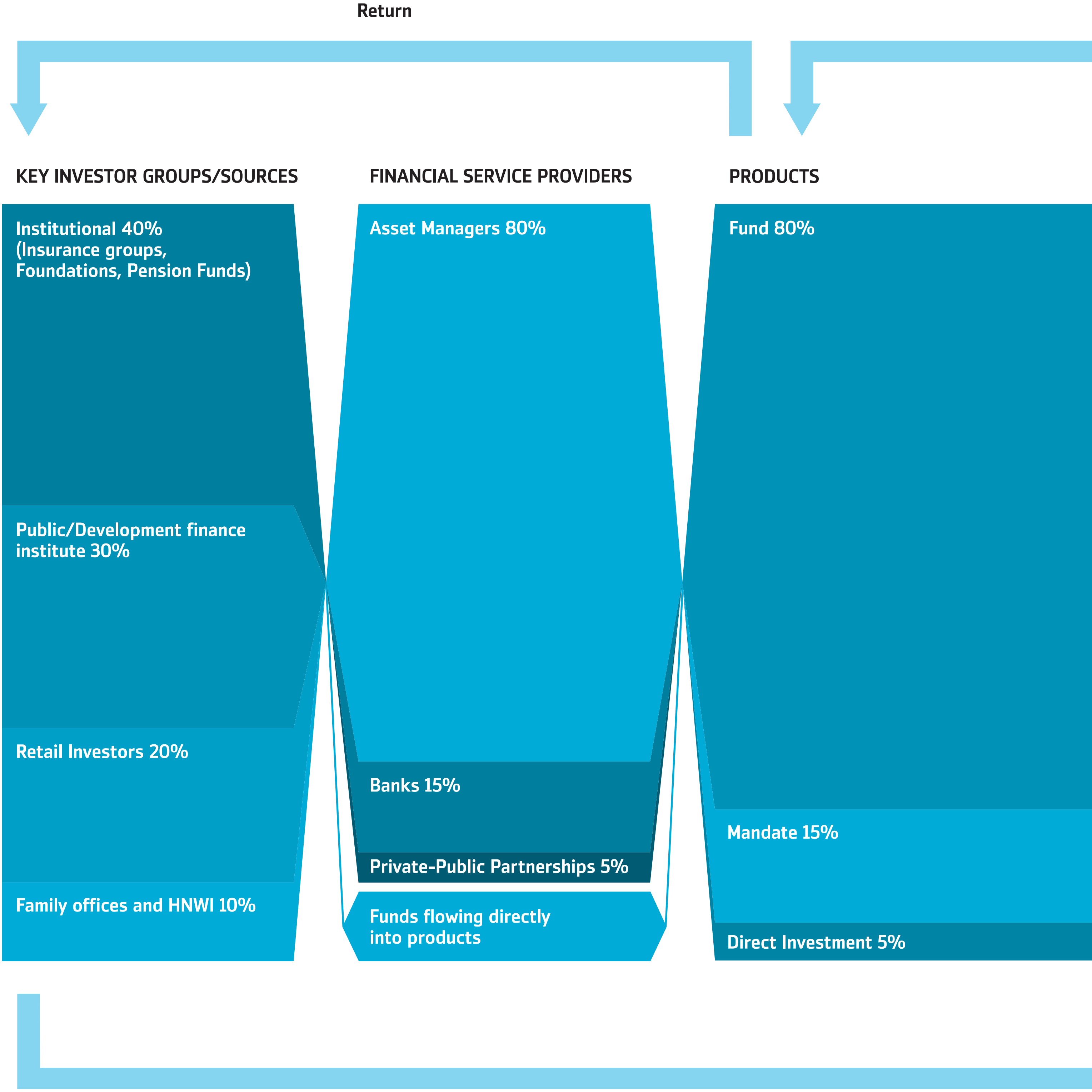
2 The World Bank classification is used to distinguish low-income, (lower and upper) middle-income and high-income countries (World Bank Online, 10.1.2016).

3 Global Impact Investing Network and Eurosif define impact investing as: "Investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return. Impact investments can be made in both emerging and developed markets, and target a range of returns from below market to market rate, depending upon the circumstances" (GIIN, 2016).

4 This study occasionally refers to other analyses using the broader terminology impact investments to facilitate a comprehensive picture of the market.

5 Symbiotics MIV survey 2015

Figure 2
INVESTMENTS FOR DEVELOPMENT CYCLE



Interest rates/Dividends

ASSET CLASSES

- Private Debt/Loans 80%
- Private Equity 10%
- Real assets/Project investments 10%

SECTOR

Microfinance	80%
Energy	6%
Agriculture	5%
Manufacturing	3%
Other Financial Services	2%
Education	2%
Other	2%

Other:
- Conservation
- Environment
- Health
- Housing/Community Development
- Information and Communication Technology
- Infrastructure
- Microinsurance
- Water

BENEFITS FOR SOCIETY

Examples of key performance indicators

- Educational facilities served
- Female active borrowers as percentage of total active borrowers
- Healthcare facilities served
- Jobs supported
- Median loan size of end borrower
- Number of active borrowers financed
- Number of end beneficiaries
- Private capital mobilized
- Taxes paid
- Total number of employees
- Total number of female employees

percentages are estimates based on current survey results

3 RESULTS OF MARKET SURVEY

3.1 SWISS MARKET SIZE

This section highlights the total assets under management for investments for development, the relative amount managed indirectly or directly, the ratio of firm-wide assets to investments for development and lastly, compares the Swiss market to previously published international studies.

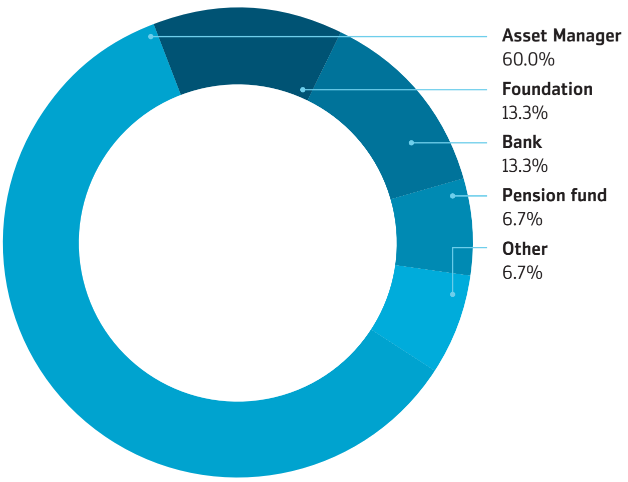
The survey respondents (n=14) report a **total of USD 9.85 billion assets under management for investments for development as of September 2015**,[6] with the size of the investments differing largely, ranging from USD 6.5 million to USD 3.1 billion (table 1).[7] USD 8.68 billion assets under management were reported at the end of December 2014. This indicates a considerable growth rate of 13.5% over the first nine months of 2015, which would imply a **compound annual growth rate of 18.4% for 2015** (figure 4).

The total reported assets at the end of 2014 were USD 8.68 billion, of which USD 5.54 billion in assets is invested directly by the respondents into products, USD 2.87 billion indirectly through intermediaries and USD 0.27 billion was not specified. Additionally, the respective institutions advise[8] on USD 2.33 billion assets (table 1).

Some of the indirectly invested assets are potentially double-counted. 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 total close to USD 8.68 billion in Switzerland.

Among the 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% (figure 5).[9] This data shows the important presence of firms specialising in investments for development in Switzerland and its potential competitive advantage in the global market.

Figure 3
INVESTMENTS FOR DEVELOPMENT SURVEY RESPONDENTS BY TYPE OF ORGANISATION (n=15)



Sample of the market survey
The first survey on Swiss investments for development was sent out to a broad sample of institutions, including asset managers, foundations, banks, pension funds, family offices and others. The majority of respondents to the survey consisted of asset managers (60%), but also included two foundations, two banks, one pension fund and one other type of institution (figure 3). Not every question was answered by all 15 respondents; we therefore indicate the sample size (n) for each sub-section and figure. For details on the methodology and information on respondents see the data and methodology section in the Appendix.

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**

Figure 4

SWISS MARKET SIZE OF INVESTMENTS FOR DEVELOPMENT

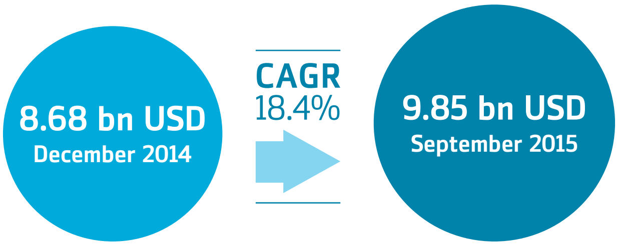
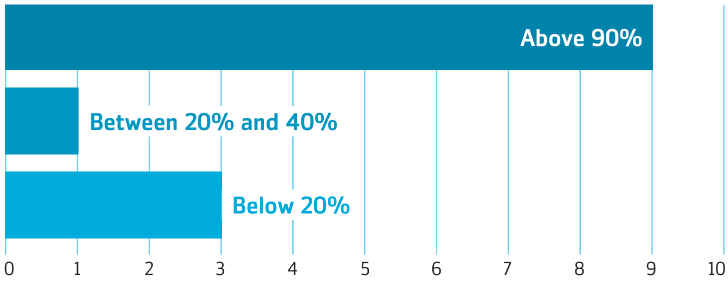


Figure 5

SHARE OF INVESTMENTS FOR DEVELOPMENT COMPARED TO FIRM-WIDE TOTAL INVESTED ASSETS (%) PER SURVEY RESPONDENT (n=13)



On a global level, JP Morgan[10] reports USD 60 billion assets under management, 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 USD 30 billion is currently expected to flow into the sector on a global level.[11] **This indicates that with USD 8.68 billion, almost one third of the global market for investments for development is managed through institutions in Switzerland.** The 2015 FNG market study reports USD 8.82 billion assets under management 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 (USD 8.68 billion) compared to the FNG results, indicates that this survey manages to cover a large part of the Swiss investments for development market.

6 Figures are collected for December 2014, except for the total assets under management, where respondents also indicate the level for September 2015.

7 All currencies were converted to USD using the exchange rate for December 2014 and September 2015 respectively, source: www.oanda.com.

8 Assets under advice are not included under total assets under management for this study

9 Two respondents did not provide this information.

10 JP Morgan, 2015

11 This number is based on estimations by responsAbility Investments and GIIN Impact Base.

3.2 **ASSET ALLOCATION**

This section focuses on the sector distribution of Swiss institutions' investments for development and the structure of their managed portfolio.

Sector and Industry

The majority of assets under management of the respondents (80%) flow into the financial services sector, with a focus on microfinance (figure 6).[12] 10 of the 15 respondents report activities in microfinance, of which five are currently specialised in the field and place over 97% of their investments in microfinance. The following industry sectors are 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, Eurosif[13] states that 55% of impact investments in Europe are made in microfinance. The global J.P. Morgan report finds housing to be the largest sector with 27%, followed by microfinance with 16% of all global impact investments reported.[14] One reason for the lower prevalence of microfinance in the global studies compared with the current Swiss study is that the global 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 global 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.[15] Unlike the Swiss Microfinance Investments Report, survey respondents of this study also included institutions not specialised in microfinance (i.e. institutional investors, general asset managers). Nevertheless, the strong representation of Swiss MIVs in this survey may result in an overestimation of the microfinance share among all investments for development.

Structure of portfolio

The majority of assets are invested through direct investments in private debt (figure 7), followed by indirect investments in private debt (together totalling 77.8% of all assets under management). Comparing the findings of this survey with the global impact investing market, according to the J.P. Morgan survey, 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 assets under management. By contrast, the Swiss market is characterised by a much smaller fraction of private equity investments (7.9% direct and 3.0% indirect).

Figure 6
SECTOR AND INDUSTRY EXPOSURES (% OF ASSETS UNDER MANAGEMENT) OF SURVEY RESPONDENTS (n=14)

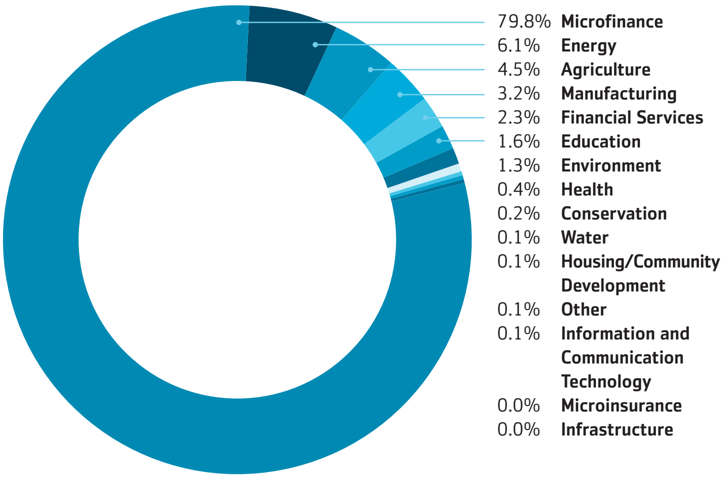
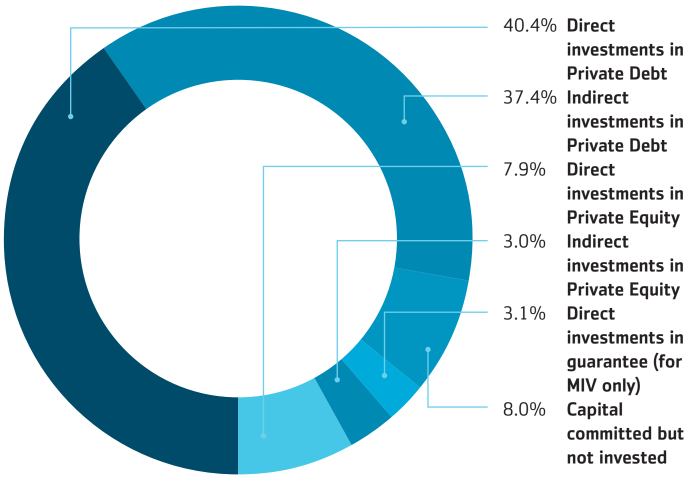


Figure 7
STRUCTURE OF THE MANAGED PORTFOLIO OF SURVEY RESPONDENTS: SHARE OF AGGREGATED ASSETS UNDER MANAGEMENT (n=10)



3.3 CHARACTERISTICS OF THE INVESTMENTS

This section provides more details on the investments by discussing the type of investors involved, share of local currencies, portfolio quality, regional allocation and social and environmental indicators.

Investor type

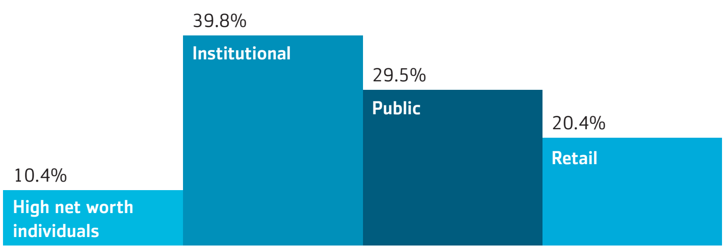
The majority of the invested volumes originate from institutional investors (39.8%) followed by public investors (29.5%) (figure 8). Retail investors also represent a considerable average share across the respondents, with 20.4%. This result is even more noteworthy, as retail investors typically invest 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, focus on one or two types of investors.

The results demonstrating the importance of institutional and public investors in this market, with a share of approximately 70%, are comparable to the findings of the study on Swiss sustainable investments in general (63%).[16] The global study on impact investments finds private investors (HNWIs, family offices, retail investors) to have a smaller stake in the market, with 21%.[17] 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.

Currencies

On average, 29% of the investments by survey respondents are provided in local currency[18] (n=11). Among those investing in local currency, on average a share of 12.2% are not hedged against currency fluctuations, albeit hedging varies largely between respondents, ranging between 0% and 100%. Especially for developing countries, currency hedging is not easily available and if so, mostly at high cost. The investment opportunities differ with regard to currency exposure, hedging strategies and costs. These factors are important for potential investors who, on the one hand, want to understand the associated risk and, on the other hand, want the possibility of being exposed to exotic currencies, which might be part of the investment strategy for certain investors.

Figure 8
DISTRIBUTION OF INVESTOR TYPES AMONG SURVEY RESPONDENTS ACCORDING TO THE VALUE OF INVESTMENTS (n=12)



[12] 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.

[13] Eurosif, 2014

[14] J.P. Morgan, 2015

[15] Symbiotics / CMF 2015

[16] FNG, 2015

[17] J.P. Morgan, 2015

[18] Local currency means that the investment is provided in the currency of the respective developing / frontier country.

Portfolio quality

Questions regarding the portfolio quality, in particular the level of provisioning and write-offs,[19] were answered by eight of the 15 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%.

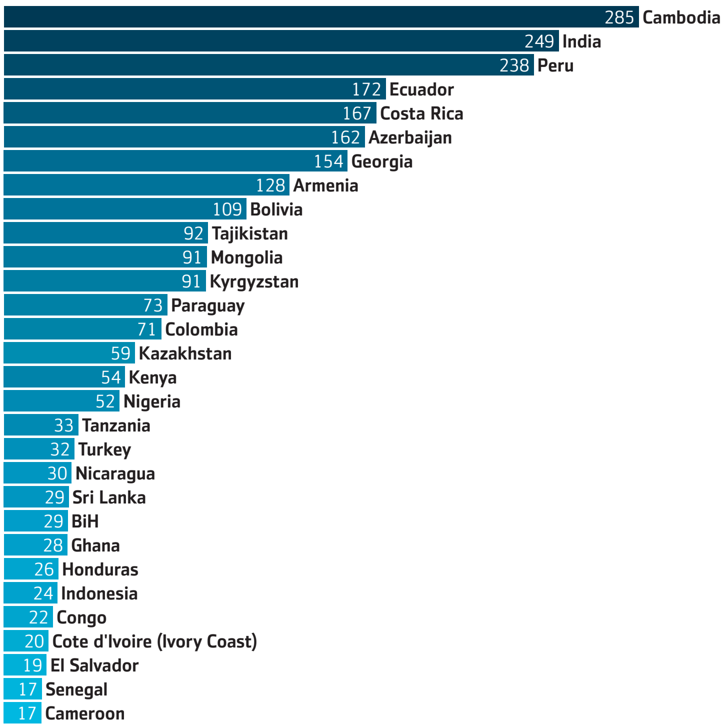
Regional allocation

Among the 15 survey respondents, seven provide information on the regional allocation of their assets (USD 2.9 billion[20]) on a country level. In total, the **reported investments for development are very well diversified regionally and flow into 96 different countries,** as shown in the Appendix (table 5) .

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 9 shows the 30 largest country exposures by volume in USD million. Cambodia receives the largest share of assets invested by the seven institutions (USD 285 million) followed by India (USD 250 million) and Peru (USD 238 million). The large exposures in these three countries are driven by four survey respondents only. 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.[21]

All 30 top countries targeted are categorised as low-income, lower middle-income or upper middle-income countries according to the World Bank definition.[22] 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[23] (figure 10).

Figure 9
LARGEST 30 COUNTRY EXPOSURES OF SURVEY RESPONDENTS, USD MILLION (n=7)



[19] 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).

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

[21] Economist Intelligence Unit, 2015

[22] http://data.worldbank.org/income-level/

[23] Classified according to the World Bank, http://data.worldbank.org/income-level/

Figure 10
SHARE OF INVESTMENTS FLOWING INTO COUNTRIES OF DIFFERENT INCOME LEVELS

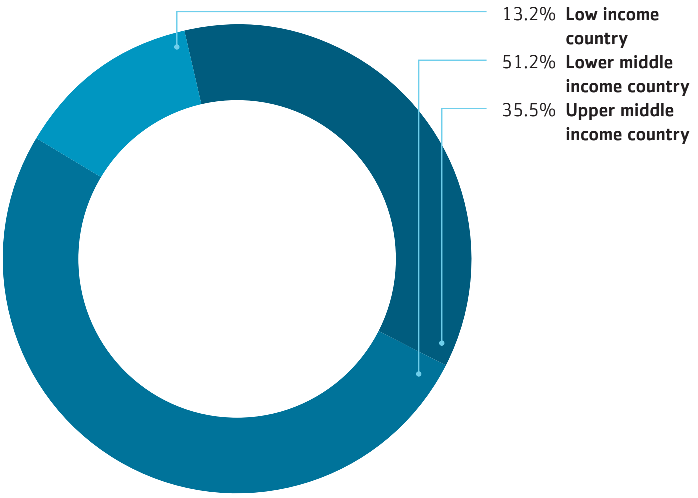
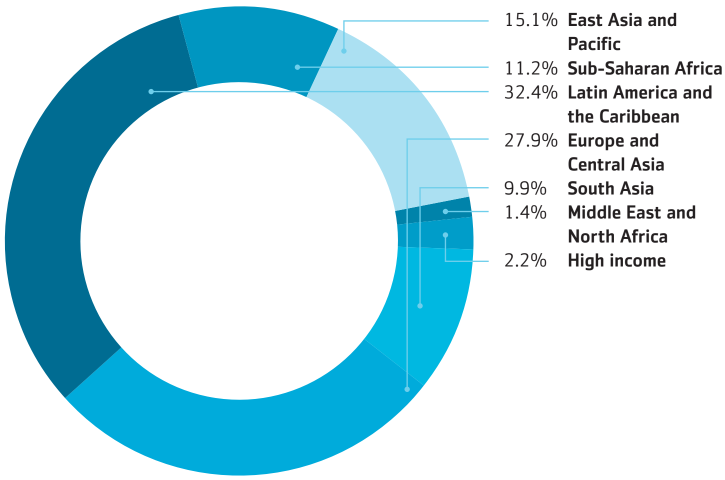


Figure 11
REGIONAL DISTRIBUTION OF SURVEY RESPONDENTS' ASSETS UNDER MANAGEMENT (%) (n=7)



Regarding the regional distribution of assets under management (in terms of investment volumes), the majority flows into the regions Latin America & the Caribbean (32.4%), Europe and Central Asia (27.9%) followed by East Asia and the Pacific (15.1%) (figure 11). According to the global study on impact investments, the majority of global assets flowing into developing countries target Sub-Saharan Africa, followed by Latin America & the Caribbean and Eastern Europe, Russia and Central Asia.[24]

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 USD 4.5 million. Furthermore, all the respondents active in high-income regions have very small exposures in those countries.[25]

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 socially responsible investments, it is very difficult to measure and capture this intention and even more so, the resulting impact. 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 **most respondents except for one (not stating an answer) have a tool or methodology in place to assess social and/or environmental performance.** 71% 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[26] (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.[27]

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).

24 J.P. Morgan, 2015

25 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.

26 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).

27 J.P. Morgan, 2015

28 The average TER is calculated based on the number of products and not weighted by volume.

3.4 PRODUCT-SPECIFIC INFORMATION

This section takes a closer look at the investments for development products' financial and non-financial performance analysis.

Return, Risk and Liquidity

Financial performance data was collected at the product level in order to ensure comparability of data. Ten of the participating institutions provided information at the product level, six of them on more than one product. In total, information on 33 products was supplied, among them 29 funds, three direct investments and one managed account. As previously discussed, most products use private debt or private equity instruments for investment (table 2). The managed account and the three direct investments are invested through private debt instruments. Among the funds, the majority place their assets in private debt (51.7%), followed by private equity (24.1%), and direct investments (20.7%).

Total expense ratios range between 1.4% and 3.5% – averaging 2.4%.[28] These observations do not include private equity vehicles, which do not provide this information. 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%**. Product performance is valued on a monthly, quarterly or annual basis, except for one direct investment that is valued daily. 32.1% of the products (9 of the 28 products for which this information is provided) come with the offer of technical assistance for the investees.

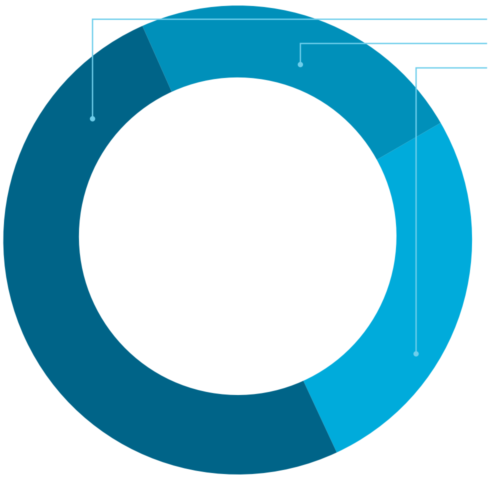
With regards to liquidity, **the majority of the investment products offer monthly subscription (58.3%) and redemption (34.8%) possibilities.** Nevertheless, a large share of products are organised as closed-end products (37.5%) for which the investment period is fixed. Three products offer a daily redemption possibility.

Table 2
FUND CHARACTERISTICS REPORTED BY SURVEY RESPONDENTS (n=29)

		NUMBER OF FUNDS	PERCENT OF FUNDS
Investment instrument (29 PRODUCTS)	Private debt:	15	51.7%
	Private equity:	7	24.1%
	Direct investments:	6	20.7%
	Unspecified	1	3.5%
Total expense ratio (10 PRODUCTS)	Average:		2.4%
	MIN:		1.4%
	MAX:		3.5%
Target return[29] (22 PRODUCTS)	Direct investment / private debt (21 products):		
	Average:		4.5%
	MIN:		3.0%
	MAX:		7.0%
	Private equity (1 Product):		20%
Liquidity (23/24 PRODUCTS)	Subscription		
	Monthly:	14	58.3%
	Biannual:	1	4.3%
	Closed-end:	9	37.5%
	Redemption		
	Daily:	3	13.0%
	Monthly:	8	34.8%
	Quarterly:	4	17.4%
	Biannual:	1	4.3%
	Closed-end:	7	30.4%

The assets invested directly (three products) are either fully unhedged or partially hedged against currency risk, whereas the managed account is fully hedged. Half of the funds are fully hedged against currency risks, 23.3% partially and 26.3% are fully unhedged (figure 12). This result could indicate that some of the products are not using local currency and therefore hedging is not required.[30]

Figure 12
HEDGING STRATEGIES ON THE PRODUCT LEVEL



The three direct investments are offered only to high net worth individuals and the managed account is targeting private-sector institutional investors only. Among the funds, the majority also target private-sector institutional investors (63.0%) and HNWIs (18.5%), 11.1% focus on public investors and 7.4%, namely two products, are open to retail investors.

Social Performance Measurement

The survey captures the types of social performance indicators that are measured at the product levels for 15 products. 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.[31] 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 3).

Table 3
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

3.5 **PROJECTIONS**

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 three years. Furthermore, all expect their own assets under management to grow considerably over the next three years. **Total assets are expected to grow to USD 14.1 billion in three years, equivalent to a compound annual growth rate of 15.9% over the next three years.** This seems to be a conservative estimate, as the growth rate measured last year was higher (18.4%).

Farmer watering his organic potato field in Comunidad los Horcones, Nicaragua. A microcredit helped to fund the new irrigation system.

3.6 **CONCLUSIONS AND OUTLOOK**

With this first study on the Swiss investments for development market, Swiss Sustainable Finance 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 USD 10 billion, with investments ranging between USD 6.5 million and 3.1 billion and a compound annual growth rate of 18.4% for 2015. This indicates firstly, the considerable growth which has perpetuated since a few years, and secondly, the important market position of Switzerland, holding about 30% of the global market of investments for development.

A very large portion of this (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,[32] 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 USD 250 syndication loan to Sri Lanka's Lanka Orix Leasing group, where three Swiss players had an important role.[33]

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 Swiss 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.

It is interesting to see that 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, the 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 emerge, and there will be further growth within larger financial organisations, too. 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. With this study, Swiss Sustainable Finance contributes to further insights into this interesting emerging investment segment, aiming to raise awareness of the importance of this sector for the current Swiss financial market, as well as the notable growth potential and chances to innovate and create further investments opportunities.

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[29] All funds providing target return information are organised either as direct investments or funds. One PE fund providing information was excluded (20% target return).

[30] The share of local currency was not recorded at the product level through the survey.

[31] Furthermore, it is very difficult to compare social performance measurement across investment vehicles in one sector (Krauss / Meyer 2015) and others; and it is even more challenging – and would require a large data base – to compare social performance across different sectors and different investment product types.

[32] Symbiotics MIV survey 2015

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

Product Name:	Impact Investing Focus SME
Purpose/goal or strategy:	A fund contributing to the long-term economic growth of developing and emerging economies by providing growth capital to SMEs which provide basic products and services primarily to local communities in the areas of: access to finance, agriculture, clean technologies (including clean energy), education, healthcare and basic infrastructure
Inception date:	First close December 2012, Vintage Year: 2013
Volume (in Millions):	USD 51.1 million (as of December 2013)
Asset allocation: (as of 31.12.2015 with 76 % of committed capital invested)	**Country/region exposure:** Developing countries in AFRICA 54 % ASIA 31 % LATIN AMERICA 15 % **Sector exposure:** Access to finance (59 %), agriculture, clean technologies and clean energies (18 %), education (8 %), healthcare (15 %) and basic infrastructure **Asset class allocation:** Private equity fund of funds
Product Liquidity:	The Fund has limited duration (10+2 years) but there is no secondary market, no redemption is available to the investor and permission to transfer is rarely, if ever, granted.
Target Returns / Return expectations:	8–10 % p.a. net of fees (IRR) / 1.5 multiple (MOIC)* * The target return is not a projection, prediction or guarantee of future performance and there is no guarantee that the target will be achieved.

Sankara Eye Hospital in Coimbatore, India, providing medical services to detect and treat eye diseases such as eye scans or cataract operations.

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, infrastructure, and clean technology & 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 USD 540 million into 53 SMEs across 15 countries (Angola, China, Egypt, El Salvador, Guatemala, India, Indonesia, Mexico, Morocco, Nigeria, Philippines, Thailand, Tunisia, South Africa 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 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 2014, the fund's underlying investee companies were active in the Healthcare, Education, and Clean Technology and Clean Energy sectors. KPIs are identified and collected for these three sectors, to measure the impact of the fund. The table below summarises the results for 2014.

IIF SME sector-specific impact results 2014

HEALTHCARE
143 healthcare facilities served
959,584 patients reached
1,865 caregivers employed

EDUCATION
1,882 educational facilities served
2,959 teachers employed
4,227,486 students trained

CLEAN TECHNOLOGY AND CLEAN ENERGY
3 MW clean energy developed
2 GWh clean energy produced
13,100 tons of waste disposed through reuse and recycling

A success story of the Fund is the investment in BioVeda China Fund III (BVCF III), which is a private equity fund investing in the healthcare and life sciences industries in China. The BVCF III portfolio currently includes 19 investments across these industries ranging from laboratory research and development activities to manufacturing pharmaceuticals and medical devices and the delivery of healthcare products and services. All of BVCF III's investees are driven by innovation, operating in either niche markets or supplying otherwise limited generic products and services, where new formulas and improved efficiencies are sought.

Source: Obviam, February 2016

4 CASE STUDIES Regional Education Finance Fund for Africa

School in the Ketu district of Lagos, Nigeria, providing education to the rapidly growing population in sub-Saharan Africa.

Product Name:	Regional Education Finance Fund for Africa (REFFA)
Purpose/goal or strategy:	A fund facilitating the sustainable provision of education finance services, supporting secondary, higher and vocational education in fields that are in high demand, and promoting the development of the financial system in the region by opening up a new market segment for the participating financial institutions
Inception date:	December 2012
Volume (in Millions):	USD 25 million (as of December 2015)
Asset allocation: (as of 31.12.2015 with 76% of committed capital invested)	**Country/region exposure:** African countries (100%) that are eligible to receive official development assistance and which are listed in the OECD Development Assistance committee list **Sector exposure:** Education finance (100%; beneficiaries as shown on the chart below) **Asset class allocation:** Debt, subordinated debt, portfolio guarantees, and deposits
Product Liquidity:	SICAV-SIF structure in different tranches with different maturities from 3 to 20 years.
Target Returns / Return expectations:	1.5–5% p.a. net of fees (equity, mezzanine and senior tranche)* * The target return is not a projection, prediction or guarantee of future performance and there is no guarantee that the target will be achieved.

The 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:

- 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 USD 1 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).

One of the Fund's success stories is the partner institution ProCredit Congo (PCG) in the Democratic Republic of Congo, which has received funding (USD 2 million) as well as TA/capacity building by REFFA consultants. Given its focus on SME finance, PCG has mostly focused on financing education providers. PCG has also run an impact study on its borrowers to see the dynamics of repeat clients and to assess the sustainability and use of its financing overtime. The study shows that the funding provided by REFFA has improved the quality of education. More precisely, the study records an increase in learning and working space with more suitable teaching resources (books, computers, equipment) among the schools interviewed, as well as an increase in the number of students enrolled.

Source: BlueOrchard Finance SA, February 2016

4 CASE STUDIES responsAbility Fair Agriculture Fund

Female farmer in Media Luna, District of Cabanaconde, Peru, was able to afford a tractor to more efficiently maintain her potato and corn fields thanks to microcredit.

The Fair Agriculture Fund, managed by responsAbility Investments AG, targets private and institutional investors, and aims to provide financing for local agriculture value chains (AVCAs) such as suppliers, producers, farmer cooperatives and retailers. This investment strategy and its decisions are based on the rationale that 70% of the world's low-income population live in rural areas with agriculture as their main source of income and employment. Consequently, strong developmental impact can be achieved by financing organisations that grant them access to higher-paying markets, improved inputs, services and added-value capabilities.

responsAbility invests only in sectors and business models that have a strong impact on development, i.e. a clear link between the outputs of the financed institution and the positive effect on society. The eligibility of a potential counterparty is reviewed during the investment process, using a list of obligatory eligibility criteria: sustainable business model, empowering the "Bottom of the Pyramid", 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 the responsAbility ESG Compliance List.

In order to measure the effects of the invested capital, the following KPIs are currently measured on a monthly basis: the number of farmers reached (October 2015: 74,234), number of farmers of fair agriculture organisations (October 2015: 418,549), number of countries (October

Product Name:	responsAbility Fair Agriculture Fund (formerly responsAbility Fair Trade Fund prior to October 1, 2015)
Purpose/goal or strategy:	The Fund's investment strategy is primarily to invest worldwide, both indirectly and directly, in carefully selected actors along the agriculture value chain (AVCAs) such as suppliers, producers, farmer cooperatives and retailers, aiming to improve the economic position of the rural population in developing and emerging economies.
Inception date:	December 2011
Volume (in Millions):	USD 166 (as of October 2015)
Asset allocation:	**Country/region exposure:** Fund (October 2015) was invested in 44 different countries in the following regions:

SOUTH AMERICA	31.3 %
ASIA PACIFIC	27.8 %
SUB-SAHARAN AFRICA	18.6 %
MIDDLE EAST & NORTH AFRICA	5.6 %
CENTRAL AMERICA	4.6 %
EASTERN EUROPE	3.4 %
CENTRAL ASIA	0.8 %
OTHER	7.8 %

Sector exposure: Agriculture (96.43 %) and finance (3.57 %)
Asset class allocation: Fixed Income

Product Liquidity:	The product offers monthly subscriptions and redemptions are offered given a 2-month notice period.
Target Returns / Return expectations:	3–5 % p.a. net of fees over a horizon of five years* * The target return is not a projection, prediction or guarantee of future performance and there is no guarantee that the target will be achieved.

2015: 44), number of commodities (October 2015: 40).* Further development related indicators across all agriculture investments are measured and published in the annual company publication "Perspectives."

One success story of responsAbility's Fund is the investment in Irupana Andean Organic Foods (since 2013), which works with over 200 affiliated smallholder producers. The company, founded in 1985 and headquartered in Bolivia, seeks to boost local consumption of grain crops grown in the Andes, thereby increasing the production of organic and value-added products. These products in turn give producers access to higher-paying markets and promote the long-term success of the industry through increased commitments to organic and sustainable practices.

The quinoa sector for example, remains too fragmented, artisanal and volatile to attract mainstream financial institutions. Irupana closes this gap using investments from partners such as responsAbility. Namely, they still are the only source of pre-harvest financing for most of their quinoa producers and supply prompt payments as well as good prices for the crops after harvest. Irupana guarantees higher, more predictable income for the suppliers and strengthens its relationship of trust with producers.

Source: responsAbility Investments AG

* 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.

Symbiotics' Microfinance Bond Platform

Product Name:	Symbiotics' Microfinance Bond Platform
Purpose/goal or strategy:	A bond issue supporting financial inclusion in developing countries
Inception date:	December 2010
Volume (in Millions):	25 bond issues for a total of >USD 250 million (as of December 2015)
Asset allocation:	**Country/region exposure:** Country/region exposure: Developing countries in the following regions:

Region	Share
EASTERN EUROPE AND CENTRAL ASIA	14 %
LATIN AMERICA AND CARIBBEAN	17 %
EAST ASIA AND PACIFIC	23 %
SOUTH ASIA	42 %
SUB-SAHARAN AFRICA	4 %

Sector exposure: Micro, Small and Medium Finance institutions
Asset class allocation: Impact bonds

Product Liquidity:	Possibly liquid through the arranger of Symbiotics or through specialised brokers
Target Returns / Return expectations:	4%–7% p.a. net of fees*

* The target return is not a projection, prediction or guarantee of future performance and there is no guarantee that the target will be achieved.

The secretary of a cooperative helping a client measure and check the quality of the grain in Kikundi, Tanzania, at the central grain storage facility.

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 to 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 USD 10 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.

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.

One success story of the Symbiotics MSME is, for example, its links to companies such as LOLC Micro Credit (LOMC). LOMC is Sri Lanka's leader in the lower segment of the leasing market and also offers micro-lending products. LOMC's vision is to be the private sector catalyst in promoting sustainable development in Sri Lanka by empowering people to achieve their dreams through the provision of access to finance and related services. LOMC operates in all nine Sri Lankan provinces through more than 30 branches, several fuel station centres and post office centres. The bulk of its portfolio is in rural areas.

LOMC has provided loans in the range of USD 260 on average for micro-enterprise loans to USD 1,970 on average for small and medium enterprise loans reaching more than 250,000 beneficiaries in total. In terms of the borrower demographics, LOMC finances more than 180,000 women borrowers and 65,000 men.

Source: Symbiotics SA, February 2016

5 AN ACADEMIC VIEW
The importance of public-private partnerships in the provision of global public goods

PHILIPP AERNI | Director of Center of Corporate Responsibility and Sustainability (CCRS) at the University of Zurich

The 2030 Agenda for Sustainable Development with its 17 Sustainable Development Goals (SDGs) was adopted at the UN Sustainable Development Summit on 25 September 2015 in New York. The new SDGs address the root causes of poverty and the universal need for inclusive, sustainable and resilient development. They reference a wide array of essential basic needs related to public goods such as eradicating hunger and poverty and improving access to quality education, water, housing and sanitation, affordable and clean energy, and decent employment opportunities, all to be achieved by 2030.

It is clear that improving people's lives, enabling peaceful societies and protecting natural resources can only be achieved through joint collective action. For this reason, the envisioned 'Global Partnership for Sustainable Development' (Goal 17) includes all major actors in the public and the private sector. The emphasis on "partnership" is based on the insight that the SDGs cannot be achieved by the public sector alone.

Public-private partnerships stirring change

Numerous examples illustrate how public-private partnerships (PPPs) can enhance access to basic human rights (Aerni 2015a) and improve the provision of environmental services (Aerni 2015b) if they operate in a favourable institutional environment. They do so by looking for solutions that are not just sustainable but also scalable. Scalability is achieved once local entrepreneurs are able to make a business out of a sustainable solution. The project M-KOPA was able to convince over 300,000 households in Africa to substitute dangerous and polluting Kerosene stoves with affordable home solar systems that provide fume-free, uninterrupted electricity. The high scalability of this project is due to the fact that customers pay in tiny instalments via cell phones, which, for rural, poor communities makes payments feasible. Customer expenses for energy remain the same with the additional benefit that they will own a climate-friendly energy system once the solar system is fully paid for. The success of such projects is often dependent on the role of the government. If governments can offer a reliable and undiscriminating regulatory environment, entrepreneurs can capture the business potential and further disseminate promising technology and solutions. Furthermore, the public sector should focus on creating an appropriate infrastructure that lowers transaction costs and thus barriers to market entry for local companies. Policy-makers should also ensure that scalable solutions addressing basic needs in life are reaching even those who lack purchasing power. Voucher schemes or conditional cash transfer programmes are means to promote such inclusive policies. The same philosophy of making sustainable solutions scalable through entrepreneurship can and has been applied to many other business areas in agriculture, education and public health.

Despite the numerous success stories, PPPs are sometimes viewed with scepticism based on the assumption that the private sector would mainly produce private benefits. If the global partnership for development, as envisioned by the SDG 17, is to succeed, there needs to be more public commitment to enhance public awareness of the potential of global partnerships to contribute to social welfare and sustainable development.

Self-regulation and sustainability initiatives in the private sector

The global business community has responded pro-actively to public distrust in business through self-regulation and numerous initiatives to improve their social and environmental record. Today most large multinational corporations submit to voluntary global oversight institutions, such as the Global Reporting Initiative (GRI), the UN Global Compact, OECD Guidelines on Multinational Enterprises, ISO-based management standards, international investment standards, and industry-specific codes of conduct and certification schemes. Companies that truly have embedded such principles in their DNA are innovative and demand-oriented companies. They make use of new knowledge to produce innovative new goods and services that do not just generate profits but also, depending on the type of innovation, large benefits for society and the environment (Warsh 2006).

Much of the advancement in human well-being over the past century is due to the ability of the state to create institutions that encourage the private sector to invest in long-term technological change in areas that are of general public interest (Desai 2015, Aerni 2007). Even though technological innovation can be a disruptive force and a source of inequality in the early stage of commercial release, it may become a source of economic empowerment and political equality in the long run (Schumpeter 1942). This applies to basic household goods such as refrigerators, computers, laundry machines and toilets as well as to contraceptive pills that led to huge societal changes in terms of health benefits as well as cultural shifts.

Many international organisations recognise the positive role of technology, innovation and entrepreneurship for human development and sustainable global change (UNDP 2001, Juma and Lee 2005, UNCTAD 2014). They regard the innovation process in the private sector as a source of global prosperity and economic empowerment, which eventually increases access to public goods beyond national borders.

The nature of public goods and how they evolve

Neoclassical economics defines public goods as non-rival in consumption and as non-excludable when it comes to the distribution of its benefits. These features, it is argued, would render public goods inadequate for market transactions, since no one has an incentive to buy or sell something that cannot be exclusively owned. In view of this presumed market failure, the state must tend to the provision of public goods, and the private sector to private goods.

A seminal booklet published by the United Nations Development Programme (UNDP) in 2002 questioned this textbook assumption (Kaul et al. 2002). It argues that the definition of what is public and

Students constructing a water tank in a rural village in Kenya contributing to improved water supply.

Young woman cooking food for the family meal on a solar cooker, a much cleaner way to prepare food than traditionally used methods.

what is private is essentially a social construct. For example, land is rival and excludable in its original state. As such, it is often treated as a private good and has been a source of conflict ever since. However, many traditional societies maintain open and non-exclusive grazing and hunting grounds. This makes grazing and hunting land a common property resource, a public good that is non-excludable. With increasing population growth rates, common property becomes increasingly rivalrous. The overuse of common property resources leads to a process of degradation, better known as the tragedy of the commons (Hardin). This affects all users of common property and diminishes the non-exclusive benefits. As a consequence, many societies have introduced property rights regimes to ensure a better resource management and to encourage more investment in the productive and innovative use of these resources. In such a context, private-sector investments did not just generate profits through the production and sale of private goods but also resulted in positive welfare effects for society at large. The positive effects were, for example, more abundant knowledge creating new markets and new jobs for the younger generations, as well as enhanced affordability of food and other essential goods. The observed supply-side expansion effectively responded to a growing demand caused by population growth and increasing affluence. Hence, rules set by the public sector, such as property rights, can create beneficial effects for the public at large.

The need to understand public-private partnership in a holistic and dynamic context

Throughout history, markets and states were the two mechanisms in society designed to coordinate economic activity. Each plays a role in the provision of private and public goods. In fact, all public goods we enjoy today, especially in the area of public health and education, have their roots in private initiatives (Kaul et al. 2002). In return, many states are involved in the production of private goods, as seen in energy production, finance, telecommunications and transportation.

The 'public-good' character of private sector investment and innovation cannot be understood if the economy is implicitly assumed to be separate from society. Considering that every single individual in society is also part of this society's economy, it is futile to talk about 'society versus the economy' or 'people versus profits'. It is this type of dualistic thinking that makes it difficult to communicate in public why PPPs are so important for the provision of public goods.

The design of effective rules that create incentives for sustainable PPPs must therefore be based on holistic and dynamic understanding of the economy within society. A precondition for the legitimacy of such rules is however the public endorsement of a global partnership for sustainable development that is based on collaboration rather than confrontation.

There are many examples that illustrate what collaboration can achieve. The case studies included in this report highlight some promising approaches.

Not every private-sector initiative with the objective to improve a particular public good will be equally effective. But each one of them will help bring understanding to the type of financial and institutional arrangements that work best in a particular context to encourage effective collaboration for sustainable development.

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APPENDIX DATA AND METHODOLOGY

The data underlying this report were collected through an online survey in November 2015.[34] Survey guidelines and invitations to participate were sent out by SSF. The invitations were distributed to a total of 57 institutions, of which 15 participated in the survey (table 4), 6 institutions replied that they had no activities in this field and were therefore considered ineligible for the study, 10 declined to participate, and 26 institutions did not respond. This represents a participation rate of 30% of the 51 eligible companies, which largely meets expectations. Companies that refused to participate mentioned high sensitivity of data and limited resources as reasons for non-participation.

Table 4
RESPONDENTS IN THE SURVEY WHO HAVE CONSENTED TO HAVE THEIR NAMES INCLUDED

AlphaMundi Group
Blue Harvest S.A.
BlueOrchard Finance S.A.
Credit Suisse AG
ECLOF International
Fundo SA
LGT Venture Philanthropy
Lombard Odier
Nest Sammelstiftung
Obviam AG
responsAbility Investments AG
SECO Start-up Fund
South Pole Group
Symbiotics

This report collects investment data from different types of institutions involved in the field of investments for development, an industry where intermediary financial institutions are common. It thus needs to address the issue of potential double-counting of assets. For example if a pension fund invests through an investment vehicle managed by a specialised asset manager, and they both reply to the survey, those respective assets would be integrated twice in the results. In order to avoid such double-counting, the survey clearly differentiates assets being managed directly and indirectly. The following categories are used in the survey:

Total direct investments for development (assets managed internally)
— managed funds
— managed mandates and accounts
— assets invested directly (i.e. project, institution etc.)

Total indirect investments for development (assets managed by third party)
— externally managed funds
— externally managed mandates and accounts

The report looks at different types of sectors and industries and applies a slightly modified industry classification than the one developed for J.P. Morgan's (2015) impact investor survey. Investments for development are thus differentiated into 15 categories.[35]

Regarding the investment for development products, the study does not consider public equities and debt from emerging and frontier markets as part of investments for development. This is because these types of investments are typically in companies with a global reach where there is a smaller direct effect on the economy of the target markets and are normally subsumed under broader classifications of ESG or sustainable investment categories (for instance, under ESG integration or Best-in-Class).

The survey results primarily give an overview of the current Swiss market for investments for development, but also include some projections for the market based on respondents' market views.

Table 5
LIST OF COUNTRIES TARGETED BY INVESTMENTS FOR DEVELOPMENT (7 RESPONDENTS)

Afghanistan	Haiti	Palestine
Albania	Honduras	Panama
Angola	Hong Kong S.A.R.	Paraguay
Argentina	India	Peru
Armenia	Indonesia	Philippines
Azerbaijan	Isle of Man	Poland
Bangladesh	Jordan	Romania
Belgium	Kazakhstan	Russia
Benin	Kenya	Rwanda
BiH	Kosovo	Senegal
Bolivia	Kyrgyzstan	Serbia
Brazil	Laos	South Africa
Bulgaria	Lebanon	Sri Lanka
Burkina Faso	Liberia	Switzerland
Cambodia	Luxembourg	Syria
Cameroon	Macedonia	Tajikistan
Chad	Madagascar	Tanzania
Chile	Malawi	Thailand
China	Malaysia	Togo
Colombia	Mali	Tonga
Congo	Mexico	Tunisia
Costa Rica	Moldova	Turkey
Cote d'Ivoire (Ivory Coast)	Mongolia	Uganda
Dominican Republic	Montenegro	Ukraine
East Timor	Morocco	United Arab Emirates
Ecuador	Mozambique	United Kingdom
El Salvador	Myanmar	United States of America
France	Netherlands	Uzbekistan
Georgia	Nicaragua	Vietnam
Germany	Niger	Worldwide
Ghana	Nigeria	Zambia
Guatemala	Pakistan	Zimbabwe

34 The survey was outlined by the SSF workgroup on Development Investments, and refined by three workgroup members together with Kelly Hess of SSF: Frédéric Berney of BlueOrchard, Marina Parashkevova of Symbiotics and Julia Meyer of the University of Zurich's Center for Microfinance. Data collection was organised 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_Guidelines1.pdf

35 agriculture and food, education, energy, environment, financial services, financial services: microfinance, financial services: microinsurance, health, housing/community development, infrastructure, conservation, information and communication technology, manufacturing, water and others

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Swiss Sustainable Finance (SSF) strengthens the position of Switzerland in the global marketplace for sustainable finance by informing, educating and catalysing growth. The association, founded in 2014, has offices in Zurich, Geneva and Lugano. Currently SSF unites 88 members and network partners from financial service providers, investors, universities and business schools, public sector entities and other interested organisations.

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