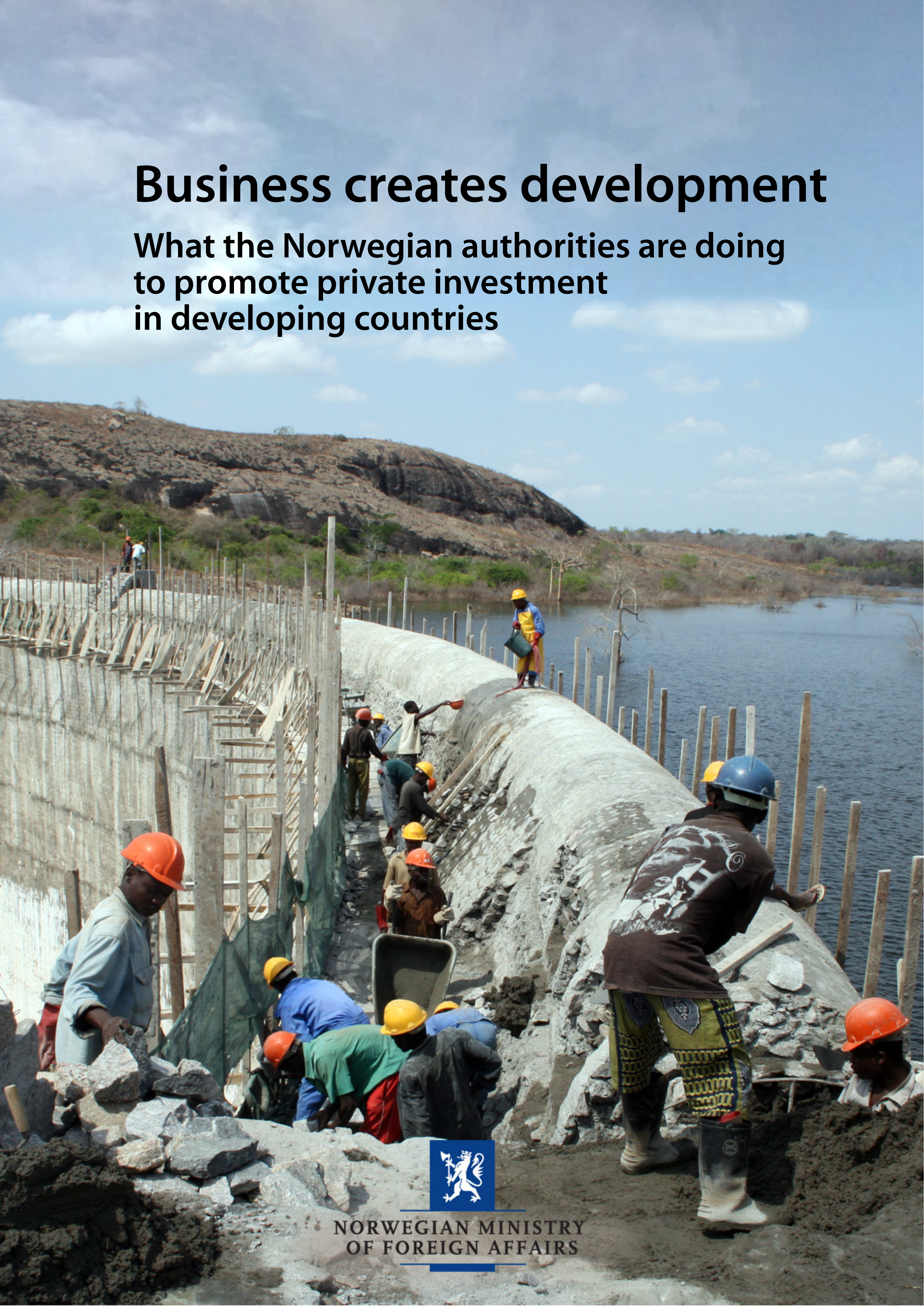
Business creates development

What the Norwegian authorities are doing to promote private investment in developing countries



NORWEGIAN MINISTRY
OF FOREIGN AFFAIRS

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What the Norwegian authorities are doing to promote private investment in developing countries

NORWEGIAN MINISTRY
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Our ambition

The Government of Norway aims to contribute to lifting as many people in the world as possible out of poverty. I am convinced that this can only be done by creating strong, lasting economic growth that benefits the general population in poor countries. In all societies throughout history, the private sector has been the very motor that drives the creation of productive capacity, jobs, incomes and increased welfare. This is also the case in developing countries today. If they are to succeed in reducing poverty, they will need thousands of new businesses that boost value creation, productivity and employment.

Forecasts concerning the global economy indicate that the greatest future growth will occur in Asia, Africa and Latin America. Europe and the other OECD countries are stagnating. Developing countries represent important new markets, which more Norwegian companies should explore.

The most developed developing countries, the so-called "emerging markets", are experiencing rapid growth in the number of new businesses financed by high domestic savings and foreign investment. Several of the less developed developing countries are also experiencing rapid growth. For example, the IMF expects seven of the 10 most rapidly growing economies between 2011 and 2015 to be located in Africa. However, poor business environment, weak infrastructure, low competence levels and production quality, markets with little purchasing power, and weak export capacity mean that most private investors consider the risk associated with investing in the poorest countries to be too high.

The Norwegian Government wishes to contribute to a significant increase in the level of investment in the poorest developing countries. Among other things, we want to encourage Norwegian companies to engage in these markets. That is why the Norwegian authorities have implemented a series of measures intended to help reduce investor risk, in different ways, sufficiently to trigger private investment. These measures facilitate various forms of public-private cooperation. However, public support can only offer limited relief: The companies' investments must be commercially motivated, and the companies must bear most of the risk themselves.

The aim of the aid-financed support schemes is to promote development in developing countries, not to promote Norwegian business interests abroad. They are, therefore, concentrated on the countries and regions with the greatest need for risk-reducing measures. These are not necessarily the countries which Norwegian businesses find most interesting. For the same reason, the measures are not limited to supporting *Norwegian* projects and companies. Much development assistance is also channelled through multilateral institutions, primarily the World Bank/International Finance Corporation and the regional development banks.

The Norwegian Government is particularly committed to contribute to achieving the goal of universal access to modern energy by 2030. We are therefore giving the highest priority to measures aimed at stimulating private investment in renewable energy production in developing countries.

Norwegian companies that invest commercially in developing countries are not expected to do so for charitable reasons. They engage there because they expect to earn money. This is as it should be. However, the Government has the clear expectation that Norwegian companies will also exercise corporate social responsibility when working in poor countries, where standards are lower and the enforcement of laws and regulations is much weaker than in Norway. Among other things, companies must have good social, environmental and governance (SEG) standards in place, and respect workers' rights. The Government's expectations of Norwegian companies are set out in the *Strategy for Decent Work* (launched on 2 September 2008) and in the white paper *Corporate Social Responsibility in a Global Economy* (Report No. 10 (2008-2009) to the Storting (the Norwegian parliament)).

The fight against poverty and for economic growth and private sector development in developing countries requires efforts on many fronts. The work to increase private investment is only one of the Norwegian authorities' efforts. Let me mention some high priority areas which are related to, but nevertheless fall outside the scope of, this document:

- Improvement of developing countries' trade conditions and export capacity
- The fight against illicit and illegitimate capital flows
- Improvement of governance, public administration and the rule of law in developing countries
- Improvement of the business environment in individual developing countries.

The white paper Climate, Conflict and Capital – Norwegian development policy adapting to change (Report No. 13 (2008-2009) to the Storting), provides a thorough account of the Government's policy in each of these four priority areas.

The purpose of this brochure is to provide an overview of the measures the Government will pursue to promote investment in commercial activities in developing countries in the next few years. It is intended for everyone who is interested in Norwegian development policy, but will be of particular use to the business sector.

Erik Solheim

Erik Solheim
February 2012
Minister of Environment and International Development

Brac Bank, Bangladesh
Photo: Norfund

1. Improved assistance to Norwegian companies abroad

Norwegian companies have developed a much stronger interest in exploring market opportunities and establishing businesses in non-OECD countries in recent years. As these markets are more remote and foreign, and because business decisions in these markets in many cases depend on the approval of local political authorities, companies now experience a greater need for assistance from official Norwegian bodies than when operating in western, industrial countries.

Norway's 100+ embassies and consulates general, and Innovation Norway's 35 country offices, assist Norwegian businesses in different ways. Among other things, they function as "door openers" to facilitate access to local decision-makers. The foundations INTPOW and INTSOK also provide considerable support for the international activities of Norwegian businesses in the areas of renewable energy and petroleum, respectively. Moreover, Norfund's four regional offices in Kenya, South Africa, Thailand and Costa Rica can supply useful information about the markets in their regions.

Strengthening the services offered by embassies to Norwegian businesses

Norway's embassies and consulates general will normally have limited knowledge about local market opportunities, but good knowledge about the political, economic and institutional framework conditions for business activity in their area of service. Their brief is to use this knowledge to assist Norwegian businesses operating abroad.

Today, Norway's diplomatic and consular missions provide extensive services to Norwegian businesses abroad, but the Ministry of Foreign Affairs wishes to further strengthen their capacity to provide highly relevant, high-quality assistance. The Ministry's aim is to ensure that all diplomatic and consular mission websites provide comprehensive, up-to-date information about the framework conditions for business activity in their area of service, including about the rules that apply to trade with Norway (specific WTO obligations, Norway's Generalised System of Preferences and any free trade

Agrica, Tanzania
Photo: Norfund

obligations), any tax agreements and bilateral investment protection treaties, and information about any financial support schemes covering investment in and other financial contact with the country in question. The country notes on corporate social responsibility will be updated regularly.

The Ministry will also implement measures to further strengthen the embassies' networks and expertise on issues of importance to Norwegian companies, and their capacity to provide assistance. Steps will be taken to make more systematic use of Innovation Norway, INTSOK and INTPOW in the training of diplomatic and consular mission staff. The embassies play a key role in building good networks between local Norwegian business representatives. In some cases, it is most expedient to organise such activities on a Nordic basis.

The Ministry's intensified efforts will be focused both on companies that intend to *invest* locally, as well as on businesses that only want to import or export goods and services from/to the country in question. These initiatives will cover all embassies and consulates general, but will be of particular relevance in countries outside the OECD area. The dual aim of the initiatives is to improve the capacity of embassies and consulates general to promote local private sector development in developing countries and to assist Norwegian businesses generally in their international expansion. These two objectives do not always coincide: Although private investment and trade *generally* promote economic growth and development, there is no guarantee that every contract that is profitable for a Norwegian business will necessarily be what best serves the interests of a developing country. Embassies in countries that receive Norwegian development assistance must be aware of their roles in different situations. Nevertheless, the *expertise* and *networks* required at diplomatic and consular missions are generally the same, regardless of whether the aim is to promote Norwegian business interests or local business development.

- The Ministry of Foreign Affairs will strengthen embassies' capacity and expertise to assist Norwegian companies
- The Ministry will intensify its cooperation with Innovation Norway, INTSOK and INTPOW
- Embassy websites will provide good, up-to-date information that is useful for the private sector

Assistance from Innovation Norway, INTSOK and INTPOW

Innovation Norway (IN) has considerable knowledge about the local markets in which it is represented, and offers businesses financing, advisory services, network assistance, competence-building and marketing. IN's country offices cooperate closely with the district offices in Norway. IN's international presence gives Norwegian businesses access to new technology through participation in networks and connections with knowledge centres abroad. IN cooperates with INTPOW and INTSOK to expand international representation further, and to provide services to the business sector efficiently and flexibly.

Innovation Norway currently has nine offices in Asia, one office in Africa (South Africa), one office in Latin America (Brazil), and one in the Middle East (United Arab Emirates). IN regularly considers the establishment of new offices, and gives priority to opening offices in challenging markets. In countries in which IN is not represented, the Norwegian embassy or consulate general assists Norwegian businesses.

Innovation Norway's focus is on:

- ✓ Stimulating business sector growth through a strengthened market perspective
- ✓ Facilitating closer cooperation between small- and medium-sizes enterprises, with a particular focus on releasing the potential of Norway's strong business clusters
- ✓ Encouraging new and established businesses to realise their growth potential and to build up their international competitiveness

More information can be found at: www.innovasjonnorge.no

INTSOK is a non-profit foundation established by the Norwegian authorities and companies in the petroleum industry. It aims to strengthen the long-term foundation for value creation and employment in the Norwegian oil and gas industry through the expansion of the industry's international business activities.

INTSOK has a wide network of business partners all over the world, as well as 13 local oil and gas advisers, including six in Asia and two in Latin America. The organisation offers in-depth knowledge of the most important petroleum markets, and its local advisers assist Norwegian companies in establishing operations in new markets. INTSOK's services include:

- ✓ Market and project information
- ✓ Advice for companies in priority markets
- ✓ Skills catalogues and monitoring of technological needs
- ✓ Network-building and exchanges of experience
- ✓ Training and capacity-building
- ✓ Follow-up directed at new markets in Africa and Asia

More information can be found at www.intsok.no

INTPOW is a non-profit organisation established by the Norwegian authorities and leading Norwegian companies in the renewable energy sector. Its aim is to strengthen the long-term foundation for value creation and employment in the Norwegian energy industry, and make the industry more effective from an international perspective. Global competition in the energy sector is becoming tougher, and small companies will therefore benefit from collaborating when exploring new markets abroad.

INTPOW is to function as a platform for network-building. The organisation creates meeting places for Norwegian and foreign companies in the renewable energy sector, and aims to support the development of the companies' overall competitiveness. INTPOW supports its partners' international efforts through:

- ✓ Network-building, nationally and internationally, through seminars and B2B meetings
- ✓ Market information, project information and advice
- ✓ Dialogue with government authorities in Norway and relevant international markets

More information can be found at www.intpow.com

More accessible information about the markets in developing countries

The Ministry of Foreign Affairs will, in cooperation with other ministries, Norad, Norfund, Innovation Norway and non-governmental organisations like INTSOK, INTPOW and the Norwegian-African Business Association, intensify its efforts to make knowledge about the markets in Africa and other developing countries more readily available in Norway. A key institution in these efforts is the Information Office for Private Sector Development.

- Several targeted seminars will be held, and investment conferences and the further development of networks of value to the business sector will be facilitated.

Veiledningskontoret
for næringsutvikling i utviklingsland

The Information Office for Private Sector Development in Developing Countries

was established jointly by Norfund and Norad in 2007. The office is a frontline service for businesses that plan to invest in or trade with developing countries. It provides specialist advice and guidance, particularly in relation to support schemes and financing opportunities. The office is located in Norad's premises at Ruseløkkveien 26, Vika, Oslo, and has employees with a broad background from the business sector, development work and the institutions managing the support schemes.

The website of the Information Office, www.veiledningskontoret.no, provides comprehensive information about the most relevant instruments for investment in and trade with developing countries. The website is also a useful source of references, containing hundreds of links to international websites that provide information of particular interest to the business community.

In the autumn of 2011, Minister of Trade and Industry Trond Giske and Minister of the Environment and International Development Erik Solheim accompanied a broad-based business delegation numbering almost 100 persons on a tour of Ghana, Angola and Mozambique.

More business delegations to Africa, Asia and Latin America

When making state and other official visits to foreign countries, the Royal Family, the Prime Minister and other ministers are often accompanied by business delegations. This gives Norwegian companies good opportunities to familiarise themselves with new markets and present themselves to potential customers. Politically-led delegations also provide an opportunity to raise the challenges that Norwegian businesses face in meetings with high-level political leaders in the host countries, such as particular barriers to business activity or specific investment offers that are awaiting official approval by local authorities. In recent years, several business delegations to non-OECD countries have been arranged, and these efforts will be continued.

- The Norwegian authorities will arrange more delegations to Africa, Asia and Latin America in the years ahead, and will encourage foreign delegations to come to Norway to meet Norwegian businesses
- Members of the Government will use meetings with their foreign colleagues to promote Norwegian business interests where relevant

2. Risk-reducing financial instruments

In the white paper *Climate, Conflict and Capital – Norwegian development policy adapting to change* (Report No. 13 (2008-2009) to the Storting), the Government stated that it would use the development assistance budget to influence the large capital flows in the world, among other things to stimulate greater commercial investment in developing countries. In recent years, the Government has increased allocations to such measures in the development assistance budget, and intends to increase them further in the years ahead.

Some of this focus is directed at the Norwegian business sector and administered by Norad, Norfund and FK Norway. However, much of the focus is on mobilising capital for developing countries *in general*, and is managed by multilateral institutions, primarily the World Bank and the regional development banks. A large proportion of Norad's and Norfund's activities also target non-Norwegian stakeholders.

The Norwegian authorities have established a range of financial instruments for the purpose of reducing the risk associated with investments in developing countries sufficiently to make commercial enterprises willing to invest in these markets. The vast majority of the instruments are financed through the development assistance budget, and can be used in countries with a gross national product per capita of up to USD 6 925, which is the World Bank's limit for providing loans on particularly favourable terms. To ensure that the risk-reducing measures are used in the countries that need them most, the Government wants to concentrate their utilisation.

- The Government will concentrate the utilisation of the financial instruments in low-income and lower-middle-income countries, with a particular focus on sub-Saharan Africa. Nevertheless, projects with large expected development effects in more developed countries and other regions may also be included.

Increased risk capital through Norfund

Through Norfund, the Norwegian state provides considerable risk capital for investments in private business activity in developing countries. Norfund's mandate is to use equity capital, loans and guarantees to contribute to the establishment of sustainable, profitable businesses in developing countries that would otherwise not be established due to high risk.

Classification of countries

The World Bank groups all countries in the world based on their gross national income per capita (GNI/C). The classification is updated annually, and is currently based on figures for 2010.
Low-income countries have a GNI/C of up to USD 1 005.
Lower-middle-income countries have a GNI/C of USD 1 006 – USD 3 975.
Upper-middle-income countries have a GNI/C of USD 3 976 – USD 12 275.
High-income countries have a GNI/C of USD 12 276 or higher.

The World Bank's list of **countries that qualify for loans on particularly favourable terms** is also based on GNI/C, but employs a number of additional criteria, including market access and the quality of national institutions and legislation. Almost all developing countries are included on the World Bank list. In Africa, only Botswana and Equatorial Guinea are excluded.

The UN classifies the group of **least developed countries (LDCs)** based on GNI/C and some other development indicators. As per 2012, 48 countries are defined as LDCs. Some 34 of them are in Africa.

Financing good ideas – ToughStuff sells small, robust solar panels in Africa

Based on experience gained from various development assistance projects, British engineer and entrepreneur Andrew Transwell wanted to help solve Africa's great energy challenge. More than 580 million people on the continent lack access to electricity, and more than half use paraffin lamps as their main light source. The price of solar panels has fallen steadily in recent years, and it is now also possible for the poor to use the technology. Transwell founded the company ToughStuff to manufacture and distribute solar panels adapted for this target group. In 2010, Norfund invested NOK 33 million in the company to help to scale up its operations, particularly in East Africa.

ToughStuff has developed robust, cheap 1-watt panels that can be used to charge a lamp, be connected to a radio, charge a spare battery, or charge mobile telephones. In Kenya, a full set, comprising a panel, lamp, radio connection, spare battery and mobile telephone charger, costs around NOK 168. Given the cost of paraffin, candles, single-use batteries and mobile charging, the user recoups the investment in two to three months.

The Government has strengthened Norfund's investment capacity significantly in recent years. For 2011, an allocation of NOK 1 billion was made through the development assistance budget to strengthen the fund's basic capital, and combined with income from earlier investments, Norfund was able to make investments totalling some NOK 2.2 billion. For 2012, the Storting has allocated NOK 1.03 billion to strengthen Norfund's basic capital. The fund has an annual investment capacity of around NOK 1.5 billion.

Norfund plays an important role in the Government's high-priority campaign to promote investment in renewable energy in developing countries. Around half of Norfund's total investment portfolio of NOK 7.6 billion lies in this sector. In connection with the large capital injections of recent years, the fund has been tasked with developing special measures to encourage Norwegian companies to participate in renewable energy projects (see Chapter 3 on renewable energy).

- In the years ahead, the Government will inject significant new capital into Norfund via the development assistance budget

ToughStuff
Foto: Norfund

The Norwegian Investment Fund for Developing Countries (Norfund)

is a wholly-owned state company established in 1997. Norfund's mandate is to contribute to the development of sustainable business activity in developing countries by providing equity capital and other risk capital, and issuing loans and guarantees. The aim is to establish sustainable, profitable businesses that would otherwise not be established due to a high risk.

Norfund's task is to contribute capital during the most high-risk period following establishment, and then subsequently to sell its shares to the other investors or in the market. The fund normally sells its investments within four to 10 years. All income from sales and dividends is reinvested. Norfund is required always to be a minority shareholder in the companies in which it invests (normally up to 35%, in special cases up to 49%), and is therefore always dependent on partners who set high standards in relation to good ownership, operations and results.

Norfund's purpose is to promote development in developing countries, not to support the internationalisation of the Norwegian business sector. The fund is not restricted to cooperating with Norwegian companies, and is mandated to search globally for the most suitable cooperation partners in the priority sectors. At the same time, Norfund is required to work actively to secure the participation of Norwegian companies as partners in its projects. At the end of 2011, a little over half of the fund's capital was invested in collaboration with Norwegian partners, primarily in the form of the joint investment in SN Power with Statkraft.

Norfund's investments are based on commercial assessments, and are made in countries and sectors in which the development effect is expected to be high. Norfund's board has chosen to concentrate the fund's activities in a few selected sectors, and in three geographical regions. This concentration enables the fund administration to have good knowledge of the markets in which it invests. The focus regions are:

Southern and East Africa: South Africa, Swaziland, Mozambique, Lesotho, Namibia, Zimbabwe, Malawi, Zambia, Madagascar, Tanzania, Rwanda, Burundi, Uganda, Kenya and South Sudan.

Central America: Guatemala, El Salvador, Nicaragua, Honduras, Panama and Costa Rica.

Southeast Asia: Bangladesh, Vietnam, Laos and Cambodia.

The priority sectors are **renewable energy**, the **finance sector** and **agribusiness**. The investments are made in companies directly or through private equity funds or jointly owned companies, the largest of which is SN Power. Investments in small- and medium-sized enterprises are primarily made through private equity funds. Around half of the fund's capital is invested in renewable energy.

Norfund's primary focus is on equity investments, and these account for 80% of the invested capital. By bearing the considerable risk that attaches to equity capital in investment projects, Norfund has helped projects to secure significant debt financing. For example, for every krone Norfund has invested in renewable energy, an average of 10 kroner has been invested by commercial sources in the form of equity and loans. When Norfund issues a loan, it does so on commercial terms, but the fund is willing to assume greater risk in its role as lender than commercial banks normally do.

As at the beginning of 2012, Norfund has invested NOK 7.6 billion directly or indirectly in more than 300 companies, which together employ more than 165,000 people. The fund's investments in renewable energy supply electricity equivalent to the consumption of 11.1 million people in developing countries. At the end of 2011, Norfund's assets totalled NOK 7.8 billion.

More information can be found at www.norfund.no

Norad's support scheme for business start-ups

Businesses that are considering establishing operations in developing countries can apply for support from Norad. The objective of the support scheme is to reduce risk and intensify the local development effects of the investment. Businesses can apply for support for:

- Feasibility studies, including pilot studies and test production/pilot projects
- Training of local employees upon start-up
- Necessary infrastructure investments linked to establishment of the business
- Environment, health and safety measures, and measures to strengthen compliance with corporate social responsibility
  Separate guidelines are being developed for climate-related projects.

Support for feasibility studies is clearly most in demand, accounting for almost two-thirds of both applications and supported projects. Norad normally covers up to 50% of the costs of feasibility studies and training, and up to 80% of the other forms of support. Pilot studies function as an important filtering mechanism, as only half of the pilot studies are followed by attempts to establish a new business. However, many of the new businesses appear to be sustainable, and to survive in the market.

The vast majority of support recipients are small- and medium-sized Norwegian enterprises. Around half of the projects supported in recent years have been located in the five countries with Business MatchMaking programmes, but other than this, the geographical spread has been wide. In 2010–2011, support was given to projects in more than 30 countries.

Starting in 2012, the conditions of the support scheme have been adjusted in order to increase the probability that the support will result in the establishment of profitable and sustainable businesses. Support will be concentrated to fewer, but larger, projects. Moreover, case-handling procedures have been simplified, which will reduce case-processing times.

Businesses applying for support must normally have an ownership interest of at least 25% in the established/planned enterprise, and must be able to document their technical, administrative and financial ability to realise the project. Only applicants with a turnover of at least NOK 10 million in the last year are considered. Applicants who cannot submit three years' satisfactory accounts must otherwise document their access to the necessary financial resources. Emphasis is given to ensuring that projects that receive support have measurable development effects, such as increases in employment and tax revenues and technology transfer. There is also an emphasis on measures that increase the participation of women in economic activities.

Priority is given to applications from companies that want to establish operations in countries with Business MatchMaking programmes. In the case of other applications, priority is given to projects in the least developed countries, in sub-Saharan Africa, and in selected partner countries for long-term development assistance. In 2012, priority is being given to projects in the following sectors:

- Renewable energy and other climate projects
- Environmental technology
- Agribusiness and forestry
- The marine sector
- The maritime sector

Like other Norwegian development assistance, the application-based support schemes untied. This means that foreign companies can apply for support on an equal footing with Norwegian companies. This is consistent with the recommendations of the OECD Development Assistance Committee. In practice, however, the vast majority of applicants for support from Norad are Norwegian companies.

More information can be found at www.norad.no

Prioritised support from Norad

The Norwegian authorities have established a support scheme for businesses that want to establish or expand business activities in developing countries. The support scheme is administered by Norad, and businesses can apply for grants for feasibility studies, the training of local employees, necessary infrastructure investments and measures to strengthen environment, health and safety standards and corporate social responsibility. In 2011, Norad paid out NOK 45 million in such business start-up support.

The Government wishes to focus the business support scheme geographically on the countries that are participating in the Business MatchMaking programmes (see below), and on the least developed countries, sub-Saharan Africa and selected partner countries for long-term development assistance. The Government also wishes to focus support on sectors in which Norwegian companies have particularly good, relevant expertise. In 2012, priority is being given to the following sectors: renewable energy and other climate projects, environmental technology, agribusiness and forestry, and the marine and maritime sectors.

Norad also manages a number of other measures to promote private sector development, including projects aimed to strengthen the business environment in developing countries and such countries' capacity to participate in international trade.

- In the years ahead, the Government will increase the allocation to Norad's work on private sector development
- Norad's business start-up support scheme will be focused on fewer, but larger, projects in priority sectors
- The procedures for processing applications by business will be simplified, and processing times will be reduced

Fish farming, Vietnam
Photo: Ken Opprann

More Business MatchMaking programmes

In some developing countries, Norad finances Business MatchMaking programmes designed to facilitate contact between Norwegian and local companies that may result in joint ventures and other business cooperation. Such programmes are currently being run in Sri Lanka, India, Vietnam, Bangladesh and South Africa.

The Business MatchMaking programmes have proven to be an effective means of mobilising small- and medium-sized Norwegian companies, and one out of 10 attempts at matching has resulted in a joint venture or some other form of lasting business cooperation. In 2010, 63 Norwegian businesses were approved for matching, while the figure for 2011 is 86. Norad aims to achieve good coordination between the Business MatchMaking programmes and its other support schemes, and a very high percentage of joint ventures also receive other forms of financial support.

In the years ahead, the Government intends to establish more Business MatchMaking programmes in Africa. The initial focus is on establishing a regional programme in East Africa in 2012/2013, and then one in West Africa. However, the Business MatchMaking programmes are not intended to be a permanent instrument in individual countries, and phasing-out is being considered for countries that have had Business MatchMaking programmes for a long time.

- The Government intends to establish more Business MatchMaking programmes in Africa.

The Business MatchMaking programmes

The objective of the Business MatchMaking programmes is to facilitate the establishment of sustainable, profitable joint ventures and other business cooperation between Norwegian and local companies. Such ventures and cooperation must promote technological and economic development and the exchange of business expertise between the companies involved.

Business MatchMaking programmes have been established in the following countries: **India** (since 1992), **Sri Lanka** (since 1994), **South Africa** (since 1997), **Vietnam** (since 2007) and **Bangladesh** (since 2010). The Sri Lankan programme is run by the consultancy firm Advance Business Partner, while the others are run by Innovation Norway. All of the programmes are financed through the development assistance budget, through Norad. In accordance with the principle of untied development assistance, participation in the programme is also open to non-Norwegian businesses, although the active partner searches focus on Norwegian companies.

Advance Business Partners and Innovation Norway have networks of consultants in Norway and the partner countries that help to obtain business profiles for interested, relevant companies. Once satisfactory profiles are available for companies that may benefit from cooperation, a grant is made to facilitate a visit. The initial grant is normally made to the Norwegian company. As a participant in the Business MatchMaking programme, the company has access to consultancy services throughout the process until a final cooperation agreement is signed. It may then apply for support under Norad's other support schemes.

More information can be found at www.innovasjonnorge.no/BusinessMatchMaking and, for Sri Lanka, at www.groos.net/advance/tienester.htm#02

Klaro Lanka – joint venture facilitated by Business MatchMaking and Norad support

Klaro Renseanlegg, a business based in southern Norway, has established the company Klaro Lanka, which manufactures, delivers and operates treatment plants and oil separators in Sri Lanka. The sewage treatment plants are supplied to hotels and households, and help to protect the environment, nature and water resources. The oil separators are supplied to vehicle service stations. Klaro Lanka manufactures primarily for the local market, but also exports to Norway. Alternative export markets are currently being considered, as is the possibility of manufacturing more products locally.

The project is a joint venture with the Sri Lankan company Dhanusha Marine, and was facilitated by participation in the Business MatchMaking Programme (BMMP) and support from Norad. Participation in the BMMP and support for a pilot study conducted in 2009 enabled the identification of possible cooperation partners and the potential in Sri Lanka. After the company was established, a pilot project was implemented to ensure that the technology was suited to local conditions.

Klaro Lanka currently (in 2012), has just under 30 employees engaged in manufacturing, installation, service/maintenance and sales. The employees are participating in a large, Norad-supported training programme intended to ensure technology transfer, so that the operations require as little follow-up by the Norwegian owner as possible. There is some way to go before the investment begins paying dividends, but the chances of success are good. Norad has provided support totalling NOK 1.3 million, to cover travel expenses, the pilot study, pilot/test production and training.

Grant-finance for particularly high-priority projects

In the case of certain high-priority investment projects in particularly difficult markets, the Ministry of Foreign Affairs will grant-finance a considerable part of the costs, in order to reduce the costs and/or risk faced by investors to a level that allows the realisation of the project. Such grant-financing is primarily relevant in connection with the construction of power plants and other projects with a particularly high development effect in fragile states, as it is very difficult to persuade commercial investors to engage in these countries. In such cases, the grant will be given to the authorities of the recipient country. In addition, it must be given in such a manner that that it does not breach EEA rules on public support. As of the beginning of 2012, preparations are being made to make such donations for hydropower plants in South Sudan and Liberia.

The Ministry may also in more stable low-income countries grant-finance certain elements of investment projects involving the establishment of a sought-after public good. This will first and foremost be done in order to promote production of renewable energy, for example where transmission lines can be isolated and funded by a grant while the actual power plant is built commercially. The grant will be made to the authorities of the recipient country. This will only be relevant in countries that are engaged in long-term development cooperation with Norway.

- In especially challenging markets (primarily fragile states), the Ministry will consider grant-funding for high-priority investment projects. This is particularly relevant in the renewable energy sector.
- The Ministry will continue to provide grant funding for transmission lines and other sought-after public infrastructure in partner countries.

Investments through local funds reach small- and medium-sized enterprises – Caminos del Sol in Costa Rica

Investments through local SME funds are often the best way of reaching small- and medium-sized enterprises with capital. Norfund has invested NOK 24 million in the CASEIF II SME fund, which invests in Latin American light industry.

Caminos del Sol is one of the businesses in which CASEIF II has invested. In a region with long agricultural traditions, the Costa Rica-based business has found an interesting niche in the processing of fruit and vegetables. Caminos purchases most of its raw materials from local farmers, and processes them to increase their retail value. The finished products are sold on the global market, and Caminos's annual turnover totals more than USD 10 million. Much of the work is performed manually, and Caminos provides stable employment for more than 150 people. The workers primarily come from local villages that have traditionally depended on seasonal employment in connection with harvesting. Caminos offers them much more stable opportunities.

CASEIF II has invested considerable sums in the improvement of production processes and the integration of the value chain in Caminos. This has increased production capacity and made it easier for the products to meet international requirements.

Processing of pineapple at Caminos del Sol, Cost Rica
Photo: Norfund

Simplified loan programme for small Norwegian businesses

To enable risk capital to be provided for smaller projects initiated by Norwegian businesses, a scheme has been established that offers loans of between NOK 250 000 and NOK 2.5 million. The scheme is administered by Norfund. The loans may be given for projects in all sectors and in all of Norfund's focus countries. Among other things, applicants must document performance ability and realistic plans, and have sufficient resources to establish and follow up on the collaboration.

In 2011, the small-business loan programme replaced the former LDC loan programme, of which little use had been made. Both terms and conditions and procedures were simplified to make the loan programme more accessible to the target group. Three loans were made in 2011.

Through its investments in local/regional private equity funds, Norfund makes significant financing available to small- and medium-sized enterprises in its focus countries. This financing can also constitute an important source of risk capital for joint venture companies with Norwegian participants. More information about the funds can be found at www.norfund.no

- Norfund's loan programme for small Norwegian businesses has been simplified and as of 2011 can be used in all of Norfund's focus countries

Mukono Motorgarage, Uganda
Photo: Ken Opprann

Guarantee schemes to reduce commercial risk

Investors are asking for guarantee schemes that can reduce the commercial risk associated with investments in developing countries. This is, for example, one of the measures most frequently requested by potential investors in renewable energy production. Efforts are therefore being made in connection with international climate and energy initiatives, by various countries and multilateral institutions, to develop guarantee schemes that can reduce the most important risks encountered by independent power producers in underdeveloped markets. The involvement of the Norwegian authorities in developing special guarantee instruments is also primarily targeted at investments in renewable energy, and is discussed in greater detail in the next chapter.

GIEK (*Garantiinstituttet for eksportkreditter*) may, in addition to issuing guarantees linked to Norwegian exports, provide guarantees in connection with investments abroad. However, GIEK's investment guarantees only cover political risk. GIEK does not cover commercial risk in investment projects, i.e. the risk of technical problems or insufficient earnings.

In most developing countries, poor access to credit is one of the most important barriers to the expansion of the local private sector. It is among the most frequently named barriers when local businesspeople are interviewed, for example for the World Bank's annual *Doing Business* survey or the World Economic Forum's *Global Competitiveness Report*. Commercial banks rarely provide anything other than short-term loans at very high rates of interest, and are reluctant to make loans to small- and medium-sized enterprises at all. Instead, they invest their capital in Government bonds, which carry a much smaller risk.

Several initiatives are now being developed to stimulate the emergence of a local finance sector that is willing to finance real-sector economic activities. The Norwegian authorities are giving support to several of these, including through Norfund and the multilateral development banks. One interesting new initiative is the ***African Guarantee Fund for Small and Medium-sized Enterprises***, which is mandated to provide loan guarantees to African financial institutions that lend to small- and medium-sized enterprises, combined with competence-building within the financial institutions and borrowing businesses. The guarantee fund was established by the African Development Bank and Denmark, among others, and began operating in 2011.

- The Norwegian authorities will support international initiatives to develop guarantee schemes that reduce commercial risk in connection with investments in developing countries. Priority will be given to schemes that promote investment in renewable energy and schemes that encourage local banks to issue loans to small- and medium-sized enterprises.

GIEK Garanti-instituttet for eksportkreditt

GIEK's investment guarantee against political risk

GIEK (*Garantiinstituttet for eksportkreditter*) can issue guarantees in connection with investments abroad. GIEK's investment guarantees only cover political risk. Political risk may include losses due to expropriation or confiscation, acts of war, revolution or civil unrest, moratoriums, payment prohibitions or currency restrictions, or Norwegian or international boycotts or sanctions.

A guarantee may cover investments in the form of capital, production equipment or other financial payments in connection with establishment abroad. The maximum rate of coverage in respect of political risk is 100%, but normally a smaller percentage is covered. GIEK does not cover any commercial investment risk, i.e. the risk of technical problems or insufficient earnings.

Many developing countries are defined as high-risk countries, and in many such cases GIEK will not issue an investment guarantee under its ordinary scheme. Instead, GIEK will evaluate the application under its **developing country scheme**, under which it can submit projects to Norad for an assessment of the development effect. However, as the risk associated with certain developing countries is deemed to have fallen in recent years as a result of an improvement in national framework conditions for business activity, these countries may now fall under GIEK's ordinary guarantee scheme.

More information can be found at www.giek.no

3. Special efforts to boost investment in renewable energy

The Government gives great emphasis to contributing to the development of renewable energy in developing countries, and will earmark a significant share of the development assistance budget for this purpose in the years ahead. NOK 1.8 billion has been allocated for this purpose for 2012. Through its efforts in this area, Norway wishes to help both to improve access to electricity for people in developing countries and to address the challenges of climate change through increased energy efficiency and production of *renewable* energy. The International Energy Agency has calculated that investments totalling USD 48 billion are needed *every single year* if the aim of universal access to modern energy is to be achieved by 2030.

A significant proportion of the financing must come from the private sector, but private capital owners are unwilling to make many of the necessary investments, as they are currently too unprofitable or carry too high a risk. Many multilateral and national bodies are therefore working actively to develop measures to make the investments sufficiently attractive to enable the necessary capital to be raised.

Norway's energy and climate partnership was launched at the *Energy for All Conference* in Oslo in October 2011 with the support of the UN Secretary-General and various donor countries, developing countries, multilateral institutions, civil society representatives and private businesses. The aim is to use a broad-based international partnership to improve access to energy and promote energy efficiency, reduce emissions and stimulate private sector investment in the energy sector in developing countries.

The Government has also initiated measures to stimulate *Norwegian* energy companies in particular. At least half of the NOK 1.03 billion that has been allocated to increase Norfund's basic capital in 2012 is to be channelled into renewable energy, and Norfund has been tasked with developing suitable mechanisms for involving Norwegian investors in the projects.

Construction of Bugoye hydropower station, Uganda
Photo: Norfund

Project Development Facility

The development of infrastructure projects is a highly demanding task, and significant capital is needed during the project development phase. Many good project opportunities are never developed into investment-ready projects because the developers lack the necessary risk capital. In 2011, a new scheme called the **Project Development Facility** was established to support the development of early-phase projects in the renewable energy sector.

The scheme involves cooperation between Norfund and Norad to minimise the risk faced by project developers by offering a seamless transition between the different public support mechanisms, and to increase the number of projects that reach the investment-decision stage. Norad will channel its share of the support, totalling up to USD 1 million per project, through its existing support schemes. Norfund is authorised to invest up to USD 2 million in each project, normally in the form of equity capital or convertible loans, subject to a maximum financing share of 49%.

Project development funding is given to energy projects where Norfund also intends to invest in the realisation of the project. The scheme is therefore concentrated on Norfund's focus countries, although projects outside the focus regions will also be considered. In 2011, three projects were approved under the Project Development Facility.

Once more experience has been gained of project development funding for renewable energy projects, an evaluation will be undertaken of whether the scheme should be expanded to include other priority sectors.

New international guarantee instruments

In most developing countries, independent power producers depend on selling all or most of the power they produce to the national electricity agency, often an uncertain payer with weak finances and no creditworthiness. This constitutes a major risk for the power companies, and efforts are being made internationally to develop suitable guarantee instruments to reduce the *off-taker risk*. The most important projects include the ***GET FiT initiative*** administered by the German development bank KfW and Deutsche Bank (www.kfw-entwicklungsbank.de), the **World Bank's *Partial Risk Guarantee* programme** (www.worldbank.org), and other programmes run by the World Bank Group's **Multilateral Investment Guarantees Agency (MIGA)** (www.miga.org).

The **African Trade Insurance Agency (ATI)** also offers relevant guarantees to its 18 member countries, but has limited guarantee capacity (www.ati-aca.org).

Efforts are also being made to strengthen the range of guarantees offered for loans in local currencies. These are of great interest to power producers, who often receive income in local currencies but are only able to obtain loans in international currencies. One interesting issuer of such guarantees is **GuarantCo**, a non-profit company owned by the donor foundation *Private Infrastructure Development Group (PIDG)*. PIDG is a trust established by, among others, the development authorities in the United Kingdom, Germany, Sweden and the Netherlands to promote commercial investment in infrastructure in developing countries. For more information, see www.guarantco.com

The Government attaches great importance to strengthening the range of guarantees on offer that can promote renewable energy development.

- As a co-owner of MIGA, Norway will work actively to strengthen this aspect of MIGA's operations.
- Norfund will seek closer cooperation with MIGA, at both strategic and project level.
- Norway will consider the possibility of strengthening the guarantee capacity of the African Trade Insurance Agency. One option may be for Norfund to test the ATI's services in selected energy projects.
- Norway will support initiatives that strengthen the range of guarantees on offer for loans in local currencies for renewable energy investments. The measures Norway will consider in this context include cooperation with GuarantCo and PIDG.
- Norway will give consideration to closer cooperation with the GET FiT initiative. Among other things, support is being considered for the GET FiT pilot programme in Uganda.

Support for multilateral funds and programmes to increase public-private cooperation in the renewable energy sector

Along with the EU Commission and Germany, Norway is supporting the **Global Energy Efficiency and Renewable Energy Fund (GEEREF)**, an innovative public-private partnership that aims to improve access to safe, renewable and inexpensive energy for people in poor countries. GEEREF invests risk capital in regional funds, which reinvest it in mature-technology projects focused on renewable energy and energy efficiency that are expected to be profitable. GEEREF is administered by the European Investment Fund, and at the beginning of 2012, the greater part of the donors' total contribution of EUR 108 million was invested in projects. Norway's contribution is NOK 80 million over four years. For more information, see www.geeref.com

Norway is supporting the **Scaling Up Renewable Energy Program in Low Income Countries (SREP)**, which is administered by the World Bank and the regional development banks. The objective of SREP is to create new economic opportunities and improve access to modern energy, in close partnership with the private sector. The programme is initially focusing its efforts on the pilot countries of Ethiopia, Kenya, Mali, Honduras, Maldives and Nepal, where it is seeking to demonstrate that renewable energy solutions (solar, wind, geothermal, biomass and wind power up to 10 MW), are economically, socially and environmentally sustainable in poor countries. Norway's contribution totals NOK 300 million over five years. More information can be found at www.climateinvestmentfunds.org/cif/srep

- The Ministry will support multilateral funds and programmes that aim to increase investment in renewable energy through various forms of public-private cooperation

Electrification in Nepal
Photo: Ken Opprann

Loans for energy projects outside Norfund's focus countries

GIEK's investment guarantees normally cover up to 80% of the need. The remaining risk must be covered by the lender or the owner. GIEK and Norfund therefore plan to collaborate in the financing of renewable energy projects, in that Norfund will cover the risk which GIEK cannot assume.

- Norfund will issue senior loans to energy projects on a selective basis, including outside the fund's focus countries, provided that the investment in question otherwise falls within Norfund's mandate

The Lunsemfwa hydropower company in Zambia

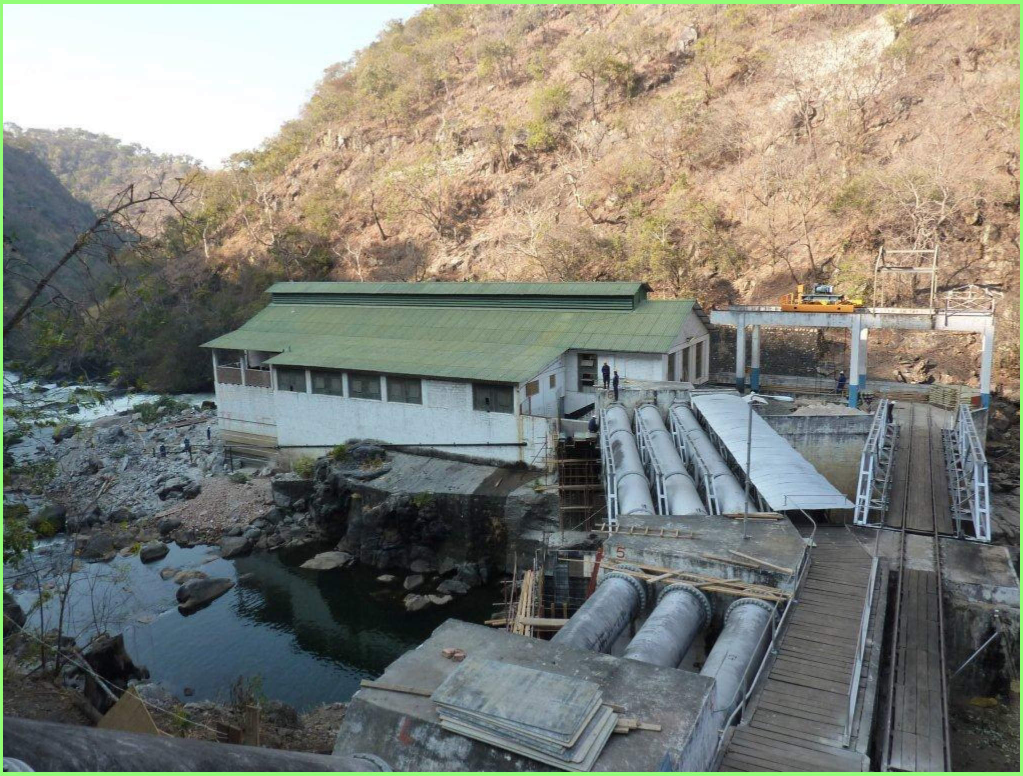
In 2002, Norfund and Statkraft established SN Power, which today operates or is building more than 20 power plants on three continents. SN Power has developed top expertise in the development and running of hydropower projects in developing countries. The subsidiary Agua Imara was established in 2009 to exploit this expertise in Africa and Central America. In addition to SN Power and Norfund, TrønderEnergi and BKK also own shares in the company. Thus far, Agua Imara has invested in two projects, in Zambia and Panama.

Zambia is one of the countries in southern Africa that has experienced solid economic growth in recent years. However, like other countries in the region, it suffers from a severe power shortage. In 2011, Agua Imara purchased 51% of the local company Lunsemfwa Hydro Power Company (LHPC). At the time of acquisition, LHPC owned two older power plants with a production capacity of 46.5 MW. The facility dates back to 1925, and was gradually expanded until 1961. Since then, little has been invested in it.

Through the purchase, LHPC received capital for upgrades, and efforts are now being made to increase the production capacity to 52.5 MW. Agua Imara has identified several upgrade opportunities, and is working on a long-term plan for further capacity increases. LHPC also owns a stake in the rights to a 120 MW project downstream, which is currently at the study stage.

Read more at www.aguaimara.com

Lunsemfwa hydropower station, Zambia
Photo: Lars Ødegård, Agua Imara



4. Businesses that exercise social responsibility contribute most to development

Profitable businesses contribute to development because they create value, jobs and incomes. However, businesses that protect human rights, take account of environmental and climate considerations, offer decent working conditions, pay taxes, avoid corruption, build up local capacity and stimulate the growth of local suppliers of goods and services through their purchases generate much better economic and social ripple effects than businesses that simply maximise their own, short-term profits.

The Government wishes to ensure that private investment promotes development in investment countries. It expects Norwegian companies to exercise social responsibility both in Norway and abroad. This means seeking to adhere to international best practice as regards protection of human rights and environmental considerations, ensuring decent working conditions, acting transparently and avoiding all forms of corruption. Companies are expected to respect workers' rights, particularly the ILO core conventions, to have good SEG standards in place, and to pay decent wages. They must, of course, always comply with national laws and regulations, but where these are weak, the companies are expected to apply internationally recognised standards. Dialogue between the social partners is also encouraged.

Companies that receive support from Norad, Norfund, GIEK or Innovation Norway commit contractually to exercising corporate social responsibility and adhering to international best practice.

Norwegian companies that operate internationally can be reported for breaches of the OECD Guidelines for Multinational Enterprises. Complaints are dealt with by the *OECD National Contact Point Norway*, which assesses whether a company has breached the guidelines. The contact point is not a legal body, and is mandated to facilitate the resolution of complaints and conflicts by helping to mediate between the parties. Alternatively, it may issue a final statement if dialogue is unsuccessful.

Ahi River Steel, Kenya
Photo: Norfund

The Government's expectations of Norwegian companies

The Government's Strategy for Decent Work, launched on 5 September 2008, states that:

- Norway will strengthen its efforts to promote workers' rights locally
- Norway's policy relating to ILO will be further developed
- The promotion of workers' rights in other countries will be given higher priority in foreign and development assistance policy
- Norway will also actively promote recognition of the importance of decent working conditions in trade policy, including in bilateral trade agreements and multinational and regional agreements
- Safeguarding workers' rights in other countries will be a central element in the Government's industrial policy, and in its policy to help ensure that Norwegian companies exercise corporate social responsibility
- Special efforts will be made to strengthen monitoring and enforcement of laws and regulations relating to labour standards
- Norway's experiences will be used to improve working environment monitoring in other countries

The white paper *Corporate Social Responsibility in a Global Economy* (Report No. 10 (2008–2009) to the Storting) states that the Government expects Norwegian companies that engage in activities abroad to:

- Respect fundamental human rights, including those of children, women and indigenous peoples, in all their operations, as set out in international conventions
- Base their operations on the ILO core conventions regarding the right to organise and the abolition of forced labour, child labour and discrimination
- Maintain SEG standards that safeguard employees' safety and health
- Seek to establish other arrangements that enable employees' views to be heard in countries where universal rights such as freedom of association and the right to collective bargaining are not upheld
- Take into account environmental considerations and promote sustainable development, for instance by developing and using environmentally friendly technology
- Actively combat corruption by means of whistleblowing or notification schemes, internal guidelines and information efforts
- Exhibit the maximum possible degree of transparency in connection with financial flows.

The white paper *Active Ownership* (Report No. 13 (2010–2011) to the Storting) expresses the Government's expectation that state owned companies must be in the forefront with regard to corporate social responsibility efforts.

Workers at Matanuska banana plantation, Mozambique
Foto: Norfund

5. Strengthening competence in the businesses

A shortage of competent staff, whether skilled labour, administrative personnel or middle managers, is a risk factor when starting a new venture, particularly in the least developed countries. Developing countries also give great emphasis to ensuring that foreign investment results in increased local expertise and the development of locally owned businesses, and many impose strict requirements on foreign companies with regard to *local content*. Such requirements may, for example, limit the use of foreign labour. The training of local labour is therefore a significant challenge for businesses.

Norad can cover up to 50% of the costs incurred by a newly established or newly expanded/modernised business in training local personnel. Norfund also has access to grant funds that can be used for training and other measures to promote development in businesses in which the fund has invested.

FK Norway (Fredskorpset, Norwegian peace corps) represents an opportunity for exchanges of personnel between businesses that could probably be utilised more effectively than at present. Such exchanges are intended to support the institutional development of the partners, and may function as an incentive to personnel. Currently, only 11% of FK Norway's partners are in the private sector, but FK Norway's programme strategy aims to strengthen its private sector efforts. This applies both to exchanges between partners in Norway and the South and exchanges between partners in different developing countries.

- FK Norway will facilitate increased personnel exchanges between businesses in Norway and developing countries, and between partners in different developing countries

In some countries, Norway funds more comprehensive development assistance programmes through its embassy or Norad to build up local competence in a priority sector. Most of the large, ongoing projects are focused on the petroleum sector. One of these projects involves vocational training in Angola, for which Rogaland Training & Education Centre (RKK), is the technical partner. Another project is the development of the local supplier industry in Ghana, where SINTEF is the technical partner. Through the Oil for Development programme, Norway is financing different competence-building measures in various countries, including East Timor, Bolivia, Lebanon and Bangladesh, and in several countries in Africa.

- The Ministry will fund training programmes in sectors that are of great importance to local private sector development in partner countries

:fk fredskorpset

FK Norway (Fredskorpset)

funds exchanges of personnel between a partner in Norway and a partner in a developing country, and between partners in two or more developing countries. The partners may be private companies, organisations or public institutions. The prerequisites for participation are that the partners aim to engage in relatively long-term cooperation (three to five years), and that the participating companies have at least five employees each.

An exchange normally lasts 12 months, but in special cases FK Norway may approve exchanges of six or 18 months' duration. The participants must normally be aged between 22 and 35. FK Norway covers expenses such as pay supplements, transportation, housing and insurance, and contributes to administrative expenses.

More information can be found at www.fredskorpset.no

Nkosoo 2015 – development of the local supplier industry for the petroleum sector in Ghana

Petroleum extraction is a new, rapidly growing sector in Ghana, and the Ghanaian authorities wish to generate the greatest possible local business development in connection with the oil and gas industry.

Nkosoo, which means “progress”, is the name of a Norad-financed cooperation project involving the Norwegian research foundation SINTEF and the Ghanaian research institute STEPRI. The project has a three-year timeframe (2010–2012), and the objective is to develop the local supplier industry through measures on three levels:

- ✓ Business development: An interdisciplinary team of Norwegian and Ghanaian experts is analysing, proposing and assisting in the implementation of concrete improvement measures in 10 selected local companies.
- ✓ Cluster/network cooperation: Efforts are being made to get the businesses to work more closely together to increase their competitiveness vis-à-vis international competitors.
- ✓ Improved institutional conditions: In cooperation with local trade associations, studies are being undertaken and specific recommendations are being made regarding measures to reduce barriers and to secure institutional improvements, both in the private sector and in the associations’ relations with public authorities and financial and knowledge institutions. Standards and values that influence cooperation, management and innovation capacity are also being examined.

The national oil company, GNPC, is participating actively alongside STEPRI, and the project includes concrete capacity-building measures intended to enable the two partners to continue some of the activities after the project has been concluded.

The participating companies vary a great deal. Some are small and some large. Some are well-established, most are relatively new. Some are pure manufacturing businesses, while others focus on logistics, catering and hospitality, recruitment, training, engineering, environmental technology/waste management or clothing/textiles, or are local suppliers of more specialised offshore equipment.

Most of the companies have made considerable progress since becoming involved in the project, and several have already won contracts with key oil-industry enterprises. However, access to capital is an important limitation for most of the companies. Technical expertise and quality also constitute major challenges for many of them. The majority of the companies would like to have greater knowledge about the oil industry and access to oil-industry networks, and are requesting contact with potential partners in Norway.

Foto: Vadym Drobot iStockPhoto

6. Efforts through multilateral development banks

The main goal of the development banks is to contribute to the reduction of poverty through specialist services, loans and grant-based development assistance for public authorities and the private sector. Private sector development is an important focus area, and improving the framework conditions for business activity is a major aspect of the efforts in this field. This includes strengthening public institutions and legislation, developing infrastructure for the finance sector, the customs service, certification, transport and energy supply. The banks also support the private sector directly, by offering risk capital for investments, guarantee schemes, etc. Norway is engaged in extensive cooperation with the World Bank and its investment arm, the International Finance Corporation (IFC), and the three regional development banks for Asia, Africa and Latin America.

Norway is supporting the efforts of the development banks to promote private sector development in the poorest countries, and has in the banks' boards of directors given particular emphasis to the following:

- Giving priority to support for low-income countries and smaller businesses
- Improving the business environment, including through harmonisation of measures at national, regional and global level

Norway has contributed to a large number of grant-funded special funds (*trust funds*) administered by the IFC and the regional banks. The purpose of these funds has primarily been capacity-building, including in areas such as sustainable business activity, company formation, corporate governance, the petroleum sector and climate change.

International Finance Corporation

The International Finance Corporation is mandated to promote open, competitive markets in developing countries, support companies and other private businesses, create productive jobs and deliver essential services, create opportunities for people to escape poverty and improve their lives, and catalyse other financial resources for private sector development.

Since its establishment in 1956, the IFC has invested a total of USD 22.1 billion in 2 100 businesses. The IFC has increased its activity levels significantly in recent years, partly because it been able to mobilise more funds from third parties. The IFC is only authorised to invest in a company for a few years, and is required to sell its interest to commercial buyers once the business is firmly established and the risk has been reduced sufficiently to enable a sale. Thus far, the IFC has sold its interests in 1 385 businesses, largely with a good return on its investment. The total return on the IFC's investments in the period 1956–2011 was USD 19.3 billion, and the average IRR was 15.9% (23.9% for the last 10 years).

The IFC also provides extensive expert advisory services. These are grant- funded, and cover policy advice for national authorities, the design and implementation of public-private cooperation projects, and capacity-building for companies, sectors and public bodies. The IFC's advisory services are growing rapidly, and in 2011 had a budget of USD 207 million.

By virtue of its dominant position, the IFC has become the standard-setter for global requirements concerning companies' protection of, for example, environmental and social interests.

The IFC's *Asset Management Company* was established in 2009 to mobilise capital from third parties for the IFC's investments. At the end of 2011, the company was managing USD 4.1 billion for various organisations including pension funds, national oil funds and development banks.

The IFC manages a share capital of USD 2.4 billion, of which Norway's share is 0.74%. Norway's support for the IFC is channelled both through its cooperation with the World Bank and directly through the IFC. The Ministry, Norad and individual embassies all support the IFC in their work. Norway is the fourth-largest contributor to the IFC's grant-funded advisory services.

More information can be found at www.ifc.org

The Asian Development Bank (ADB)

Over the past decade, the Asian Development Bank has become an important source of financing for private sector activities in developing countries in Asia. The ADB has the aim of ensuring that, by 2020, at least 50% of its loans are made for private sector development projects. The priority sectors are the capital market and finance sector, along with infrastructure, including renewable energy. The bank's private sector investments increased 20-fold in the period 2001–2010. In 2010, the ADB approved new private sector projects totalling over USD 1.9 billion.

Loans are the most important form of financing, but the bank may also make equity investments in companies and private equity funds, and issue guarantees. Moreover, in the context of projects in which the ADB itself invests, it seeks to mobilise credit from third parties, who channel their capital through the ADB in the form of B loans. The ADB also has an extensive trade finance programme, and provides grant-funded advisory services to both public authorities and commercial companies.

The ADB only participates in larger projects with direct financing. The bank seeks to help small- and medium-sized enterprises (SMEs) by arranging lines of credit with established banks and by investing in private equity funds that target SMEs. It does not hold a controlling interest in any company, and rarely finances more than 25% of a company's total capital. Once a business is firmly established and the private capital is ready to take over, the ADB is required to sell its shares. The bank prefers to sell to national owners in order to support the development of local ownership and a local capital market.

More information can be found at www.adb.org

The African Development Bank (AfDB)

The African Development Bank's main efforts to promote private sector development involve supporting infrastructure development, engaging in capacity-building and providing policy advice to political authorities in order to improve framework conditions for business activity. The AfDB's financing window for the private sector has the primary aim of mobilising commercial investors to invest in productive projects. The bank may issue loans, invest equity capital and issue guarantees, but gives particular emphasis to acting as a channel for third-party credit. In 2010, the AfDB approved funding totalling USD 726 million for 28 new projects run by private operators.

The AfDB may fund projects in all sectors, but thus far most projects have been in the finance sector, industry and infrastructure. A company must be registered in one of the bank's member countries, and at least 30% of the project costs must be covered by equity capital. The bank may finance up to 40% of the costs associated with a new project, and a higher percentage when the project involves the expansion, modernisation, etc., of an existing business. The AfDB only participates in larger projects with direct financing, but seeks to help SMEs by arranging lines of credit with banks, by investing in private equity funds and through grant-funded capacity-building. A very large number of the AfDB's private sector projects lie in the area where the public and private sectors meet, and include private-public partnership.

More information can be found at www.afdb.org

The investment arm of the Inter-American Development Bank – the Inter-American Investment Corporation (IIC)

The IIC is an independent unit within the Inter-American Development Bank Group, and provides financing in the form of loans and equity investments to the private sector, and SMEs in particular. The IIC also offers paid advisory services focused on the financing and restructuring of companies. The IIC has committed to intensified efforts in the poorer countries in the region, particularly those that do not have access to the international capital markets.

Norway is a member of the IIC. The IIC's mandate to promote the role of the private sector in the development process by offering financing and consultancy services, particularly to small- and medium-sized enterprises in the region, is coincides closely with Norway's development policy priorities.

More information can be found at www.iic.int

7. Increasing predictability through international agreements

Unpredictable business environments represent a significant risk for investors. When a country adopts and commits to complying with international, regional and bilateral agreements and rules, business activity can take place in a more predictable environment. Such agreements also establish bodies and arenas that offer an opportunity to make complaints on behalf of businesses and/or to request that a conflict be resolved in accordance with the dispute resolution provisions in the agreements.

For many years, Norway has worked to strengthen the international legal order in the economic field through global, regional and bilateral agreements. The Government wishes to help ensure that the business environment encountered by Norwegian companies operating abroad is as predictable as possible.

- Norway will continue to engage actively in efforts to strengthen the global rule-based trade system, including by working to conclude the Doha Round of the World Trade Organization

Regional and bilateral **free trade agreements** are an important supplement to the global trade regime.

- The Government will continue to engage actively in negotiations through EFTA, including with developing countries such as India, Indonesia and Vietnam, and with countries in Central America, and is ready to resume and conclude its bilateral negotiations with China
- Through EFTA, the Government will investigate opportunities for free trade agreements with certain African countries, like Angola and Nigeria. This will support the significant engagement of Norwegian businesses in these countries.

Norway currently lacks agreements that regulate tax relations with a number of developing countries that are home to sizable Norwegian investments, including Angola, Ghana and Nigeria.

- The Government will consider the need to conclude **double-taxation agreements** with more countries in Africa, Asia and Latin America

Photo: Arne Thaysen/iStockPhoto

Useful links

Africa Trade Insurance Agency (ATI): www.ati-aca.org

African Development Bank (AfDB): www.afdb.org

Agua Imara: www.aguaimara.com

Asian Development Bank (ADB): www.adb.org

Business MatchMaking programme in Sri Lanka:
www.groos.net/advance/tienester.htm#02

Business MatchMaking programmes in India, South Africa, Vietnam, and Bangladesh:
www.innovasjonnorge.no/BusinessMatchMaking

FK Norway (*Fredskorpset*): www.fredskorpset.no

GIEK (*Garantiinstituttet for eksportkreditter*): www.giek.no

Global Energy Efficiency and Renewable Energy Fund (GEEREF): www.geeref.com

GuarantCo: www.guarantco.com

Information Office for Private Sector Development: www.veiledningskontoret.no

Innovation Norway: www.innovasjonnorge.no

Inter-American Investment Corporation (IIC): www.iic.int/home.asp

International Finance Corporation (IFC): www.ifc.org

INTPOW: www.intpow.com

INTSOK: www.intsok.no

KfW Entwicklungsbank: www.kfw-entwicklungsbank.de/ebank/EN_Home

Multilateral Investment Guarantees Agency (MIGA): www.miga.org

Norad: www.norad.no

Norfund: www.norfund.no

Scaling Up Renewable Energy Program in Low Income Countries (SREP):
www.climateinvestmentfunds.org/cif/srep

World Bank: www.worldbank.org

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