



REPORT ON OPERATIONS **2010**

THIS IS NORFUND

Norfund – the Government Investment Fund for Developing Countries – was established by the Norwegian Storting (parliament) in 1997. Norfund's objectives are to contribute equity and other risk capital, extend loans and provide guarantees for the development of sustainable commercial activities in developing countries. Norfund aims to establish viable, profitable activities that would not otherwise be initiated due to the high risk involved. Norfund contributes to reducing poverty and to economic developments in poor countries through investment in profitable enterprises and the transfer of knowledge and technology. Norfund always invests jointly with partners, Norwegian or non-Norwegian.

Norfund is a hybrid state-owned company with limited liability established by a special act of the Storting. Norfund is owned on behalf of the Norwegian Government by the Ministry of Foreign Affairs, and the Minister of International Development has the constitutional responsibility. The activities are to be conducted in accordance with the fundamental principles of Norwegian development cooperation policy. The board of directors is appointed by the King in Council.

Norfund and our international sister organisations are known as development finance institutions (DFIs). Norfund is supplied with capital from the development assistance budget, and is the most important Norwegian instrument for combating poverty by promoting sustainable economic development. A smoothly functioning private sector and access to risk capital are important preconditions for enabling developing countries to expand their economies and achieve the effective integration into the global economy.

Geographically, Southern and East Africa are Norfund's main investment areas, and the Fund has offices in Nairobi and Johannesburg. Norfund also focuses on selected countries in South-East Asia and Central America and has a regional office in San José. In 2011 Norfund will open an office in Bangkok.

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A CHANGING WORLD – NORFUND IN STEP WITH THE TIMES



In 2010, the Western world was still strongly affected by the financial crisis, while the global economic growth engines, China, India, Brazil and Russia (BRIC)

propelled the global economy with almost the same impetus as before. The growth in these countries helps lift millions out of poverty. Developments in the BRIC countries also remain crucial for growth in other developing countries. China's role in Africa is of particular importance. In recent decades, Asian developing countries have topped the growth statistics, but by 2015 no less than 7 of the 10 fastest growing economies will be in Africa. We are witnessing the emergence of a new economic world order.

In 2010, Norfund continued to pursue a strategy well-adapted to a changing world and the needs of the world's developing countries. Our geographical focus is on Sub-Saharan Africa, and the largest investments are in growth-promoting infrastructure in renewable energy and financial institutions. Measured in number of projects, we invest mostly in small and medium-sized companies, which are building blocks in the development of local business and jobs.

The initiatives towards business development within Norwegian development assistance were evaluated last year.

Norfund received a highly positive assessment as an effective policy instrument, and Norfund was recommended to play a more central part in Norwegian development aid. The Office of the Auditor General (OAG) also takes a very positive view of the Fund's development. In its follow-up of earlier performance audits, which was submitted in November 2010, the OAG refers positively to the high share of investment in the least developed countries (LDCs), reporting of development effects and approach to risk management.

Investors who do not have the same development mandate as Norfund view our projects as "interesting – but highly risky". It is self-evident that there is high risk associated with investing in new companies in under-developed economies. In order to succeed with demanding investments, Norfund has a long-term and focused approach to building up expertise. During our 14 years of operations, we have developed Norway's leading competency for investing in developing countries. Good financial results and a return of 11 per cent since inception bear witness to a high level of expertise and solid investment skills.

Buoyed up by the results of recent years, we have set ourselves far more ambitious goals today with respect to acting as a catalyst, i.e. bringing substantial amounts of private capital with us into poor countries. Renewable energy is the area in which we have had our greatest success in this respect: we have succeeded commercially in building hydroelectric power stations in

medium-income countries, and are now seeing growing interest in projects in less developed countries and in collaboration with new partners. Our financial results show that it is also possible to develop profitable projects in other sectors, for example banks and agriculture. We therefore hope that more Norwegian investors will join us to further increase the volume of investment in areas that are sorely in need of economic growth. Africa is in the same place today as China was in the early 1990s. Many private investors regret that the China wave passed them by. Now the same opportunities are to be found in Africa!

Today the greatest challenges are the battle against poverty and curbing global warming. A stable supply of electricity is necessary to create growth and lift people out of poverty. To combat climate change, the largest possible share of this electricity should come from renewable sources. SN Power's successful use of Norwegian hydropower expertise and capital to develop and produce renewable energy in poor countries is one of the main reasons that Norfund was allocated a considerable increase in capital in the state budget for 2011. The resources are earmarked for new renewable energy initiatives. The increased capital and instructions to develop new and better adapted instruments will characterise 2011. Our aim is to motivate for more renewable energy projects and to mobilize new partners.

Norfund as an organisation has consolidated its position as a central player in

Norwegian development aid. At the same time we are constantly developing new partnerships with the Norwegian investor community. Our role as a centre of expertise extends further than our investment activity. Norfund will be a driving force for developing new investment instruments and building a Norwegian community for investments in developing countries. We have an ongoing dialogue with GIEK and various banks with hopes of forming a cluster of agencies and expertise that can invest in fast growing poor countries.

Local expertise is the most important means of identifying, establishing and following up investment projects. To supplement our offices in Johannesburg, Nairobi and Costa Rica, we will establish an office in Bangkok in 2011. Although Thailand is not within our investment strategy, it is the natural hub for work in Laos, Cambodia, Vietnam, and in due course also Myanmar.

In 2010, Norfund received NOK 629 million in capital transfers and invested NOK 844 million. This shows that our general approach has been successful: profitable projects generate more capital which can finance further business activity.

We in Norfund are proud of our contribution to advancing the business sector in developing countries. We will continue our targeted work for profitable and sustainable projects in the years to come, and we will intensify our efforts to convince Norwegian investors and companies of the opportunities in poor countries, particularly Africa.

Happy reading!



Kjell Roland

TABLE 2 – NEW INVESTMENTS IN 2010

Region	Name	Sector	Country	Instrument	NOK mill	
Africa	Family Bank Limited Kenya	Microfinance	Kenya	Equity	18.0	
	Basecamp Explorer Kenya Ltd	Tourism	Kenya	Equity	9.0	
	Banco Terra	Bank	Mozambique	Equity	28.9	
	Socrema	Microfinance	Mozambique	Equity	12.6	
	Matanuska Africa	Agriculture	Mozambique	Mezzanine	4.9	
	TPS Rwanda	Tourism	Rwanda	Equity	12.7	
	TPS Rwanda -USD	Tourism	Rwanda	Loan	15.8	
	Casquip Starch	Agriculture	Swaziland	Equity	2.4	
	Casquip Starch	Agriculture	Swaziland	Loan	3.1	
	Agrica	Agriculture	Tanzania	Equity	60.8	
	Pride Architects	Services	Uganda	Loan	2.5	
	DFCU Limited	Bank	Uganda	Loan	57.7	
	Agri-Vie	Agriculture	Africa	Fund	64.9	
	European Financing Partners SA	Investment fund	Africa	Loan	78.1	
	Asia	Hattha Kaksekar Ltd - KHR	Microfinance	Cambodia	Loan	12.2
		Brac Bank	Financial services	Bangladesh	Mezzanine	40.2
	Frontier Fund	Investment fund	Bangladesh	Fund	58.6	
	ASEAF II	Investment fund	South East Asia	Fund	29.3	
Latin America	SN Power Invest (SNPI)	Renewable energy	Brazil	Equity	292.8	
Rest of the world	Interact Climate Change Facility (ICCF)	Renewable energy	Global	Loan	39.1	
Total					844	

IMPORTANT EVENTS IN 2010

JANUARY

- The fund Fondet Grofin Africa Fund makes eight investments (three in South Africa, two in both Nigeria and Tanzania and one in Rwanda). The investments cover a range of industries, e.g. manufacturing, textiles/furniture, retail and logistics, all in small entrepreneurial companies.

FEBRUARY

- Norfund invests in the textile company CIEL Textile on Madagascar through the fund I&P Capital II

MARCH

- Norfund grants a loan to the housing project of Pride Architects in Uganda through the Small Enterprise Loan facility
- The Norad evaluation of business related development aid gives Norfund a highly positive assessment

JULY

- Norfund invests in the hotel chain TPS Rwanda. The money is used to build new lodges for mountain gorilla tourism
- Norfund agrees to invest in Family Bank in Kenya
- Norfund invests NOK 65 million in the African agricultural fund Agri-Vie

AUGUST

- Norfund organizes the annual summer conference. The topic is the importance of the SME sector in developing countries, and more than 200 participates at the event
- The fund CLDF invests in the broadband company Planet Pry LDT in Cambodia

SEPTEMBER

- Norfund makes an equity investment of NOK 61 million in the rice farm Agrica in Tanzania
- Green Resources is the first forestry company in the world to register carbon credits under Voluntary Carbon Standard (VCS)
- Together with the Nordic sister funds, Norfund organises the conference Business for Development and appoints a commission to examine how to increase investments in developing countries

APRIL

- Norfund organizes a seminar with Javier Santiso, the director of the OECD Development Centre, talking about the changes in the global economy.

MAY

- Aureos Africa Fund invests in the cement factory Athi River Mining in Kenya
- Norfund organises a seminar to present our work with development effects

JUNE

- Norfund invests in the electronic equipment and supply distributor Tran anh Digital World in Vietnam through Aureos South East Asia Fund

OCTOBER

- SN Power opens two new power stations in Chile and the Allain Duhangan project in India
- Norfund invests NOK 40 million in BRAC Bank in Bangladesh
- Norfund acquires a share of the eco-tourism company Basecamp Explorer Kenya
- The state budget is presented, and Norfund receives a capital increase of NOK 415 million for increased investments in renewable energy in 2011

NOVEMBER

- Norfund invests NOK 59 million in Frontier Fund in Bangladesh
- The bank DFCU in Uganda is given a capital increase through a NOK 58 million loan
- The Strategy and Analysis Department is established to strengthen analytical support work
- The Office of the Auditor General gives Norfund good evaluation in the follow up on performance audits

DECEMBER

- Norfund increases its investment in the EDFI co-financing mechanism European Financing Partners (EFP) with an additional NOK 78 million
- The Kenyan IT company Craft Silicon (a Fanisi fund investment) wins an African award for entrepreneurship
- The building of the SN Power hydropower plant Cheves in Peru begins

HYDROPOWER FOR DEVELOPMENT

Many developing countries suffer from a critical lack of power, especially in Sub-Saharan Africa. Without adequate and reliable access to electricity it is impossible to develop businesses and create the economic growth that is essential to alleviate poverty in a sustainable way. Africa has significant untapped hydropower potential, yet over the last two decades harnessing this potential has nearly stalled. Since the beginning of the 1990s, investment in electricity generation has been inadequate and largely based on expensive fossil fuels. Norway has a unique opportunity to play a meaningful role in expanding the use of renewable energy in developing countries, demonstrating that high economic growth on a low-carbon path is possible.

Megawatt, megawatt, megawatt

To grow out of poverty, nothing is more important than access to energy.

Developing countries desperately need more power to operate businesses and meet households' basic needs for cooking, heating and lighting. As many as 1.5 billion people globally have no access to electricity, and up to a billion more have access only to unreliable power supply.

Unreliable power represents a significant obstacle to economic development and can reduce GDP growth by 1-2 percentage points per year. Daily power failures lower sales revenues for many businesses. Further, many have to spend a large share of their earnings on expensive and polluting diesel generators. In the absence of sustainable solutions, authorities resort to short-term alternatives by building large diesel and oil powered generators. For many countries this represents a considerable share of the total production capacity. It costs them a lot – up to four per cent of GDP for some

- and hampers the possibility of financing better, longer term solutions.

The history of developed countries demonstrates the linkage between GDP and electricity consumption (see chart 1). Norway is a case in point – poverty was eliminated through long and continuous economic growth based on access to adequate and reliable electricity. By comparison, electricity consumption per capita today in Mozambique and Uganda is respectively 2 and 16 per cent of what it was in Norway before the Second World War. We believe the slogan “megawatt, megawatt, megawatt” sets the tone for what is needed in Africa.

A key constraint

In Africa, 30 of the 53 countries are affected by chronic power shortages. Lack of electricity is a particularly important issue in Sub-Saharan Africa, where overall access rate is below 25 per cent. According to the World Bank's Enterprise Survey, lack of stable electric-

ity supply is the leading constraint for businesses in region. Almost half of all businesses surveyed in Sub-Saharan Africa see lack of reliable electricity as their most severe constraint. Both access to electricity and finance are ranked much higher than other stereotypical African problems such as corruption and political instability.

If one excludes South Africa, the entire installed generation capacity of the remaining 47 Sub-Saharan African countries is about the same as that of Norway. Extensive investments are needed. Fossil fuels have a role to play, although there is a better option: harnessing the region's vast hydropower and other renewable energy potential.

Two lost decades

At present, only five per cent of the hydropower potential in Africa is utilized (see chart 2).

Despite the large potential, developing countries in Sub-Saharan Africa have

installed little hydropower generation capacity for the past two decades. Since the beginning of the nineties, three quarters of the growth in generating capacity in Sub-Saharan Africa has been based on fossil fuels (see chart 3).

Still, the capacity growth has not increased enough to keep up with the growing population. The generating capacity per capita has decreased by 21 per cent between 1990 and 2008 (see chart 4). Over the last two decades, electricity in Sub-Saharan Africa has continuously become scarcer and more polluting, hampering economic growth.

Accelerating CO₂ emissions

The high atmospheric CO₂ levels are attributable to economic growth in industrial countries – over the period 1850 to 2006, OECD’s share of emissions was 64 per cent. But emissions in non-OECD countries are accelerating fast. Rapidly growing emerging economies, in particular the BRIC countries, will account for the majority of emissions going forward. To move to a low-carbon world without hampering the opportunities for growth in developing countries, it will be crucial to shift to renewable and other sources of clean energy.

The key to success is to show developing countries that economic growth along a low-carbon path is feasible. Renewable energy is the most effective way to help low-income countries shift to low-carbon growth.

Depending on local conditions, many forms of renewable energy may be attractive. Hydroelectric power, solar, wind, biomass and geothermal power are alternatives. Solar electricity can be

CHART 1 – CHANGES IN GDP PER CAPITA AND NET ELECTRICITY CONSUMPTION

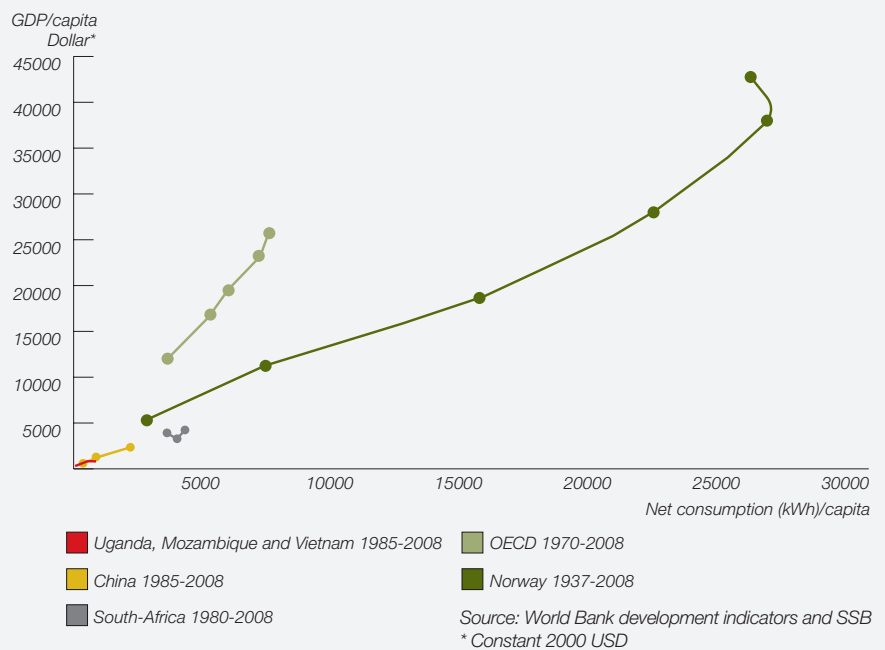


CHART 2 – ACTUAL GENERATION AS A PER CENT OF TECHNICALLY EXPLOITABLE HYDROPOWER CAPABILITY

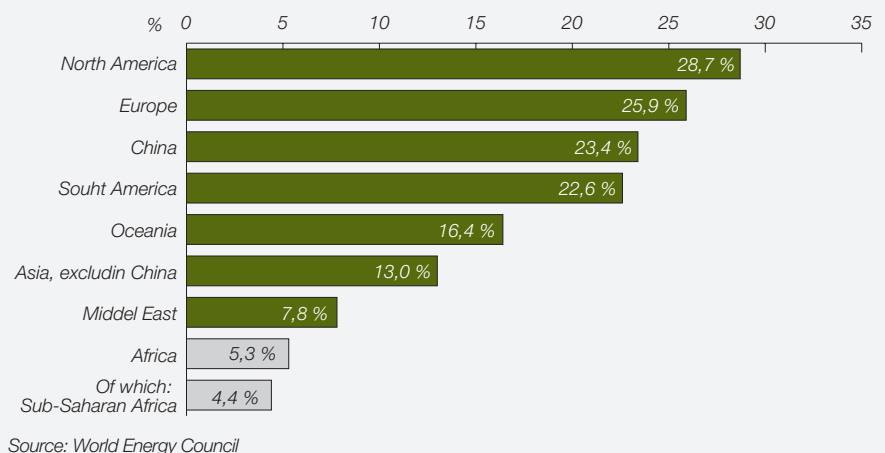
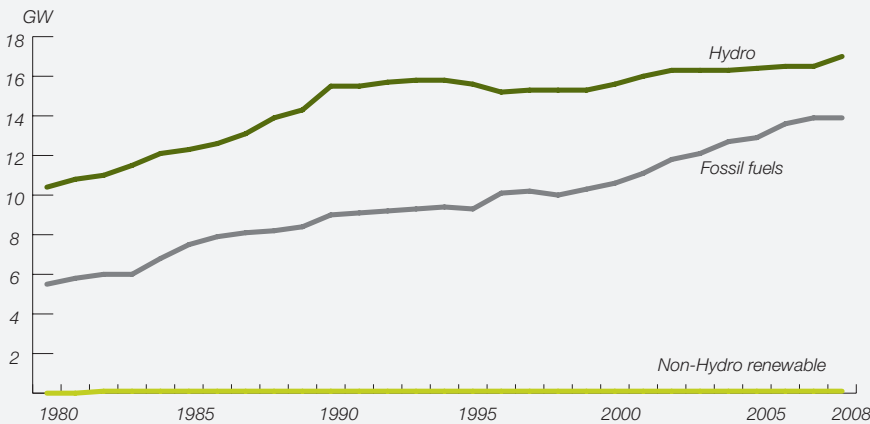
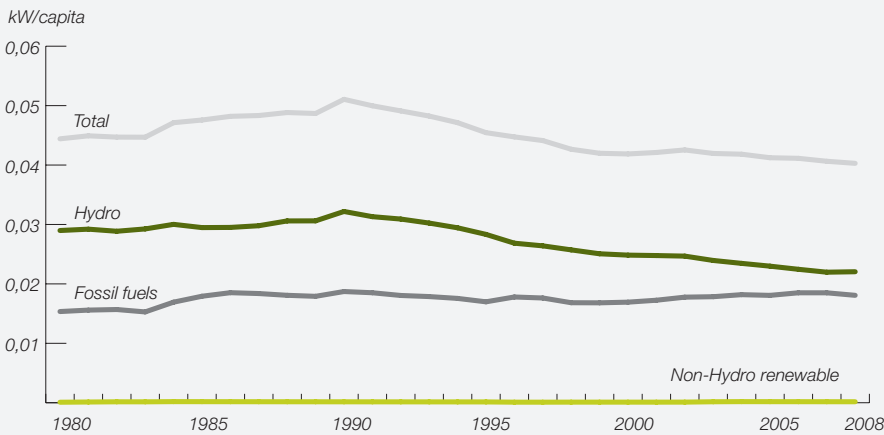


CHART 3 – INSTALLED GENERATING CAPACITY IN SUB-SAHARAN AFRICA EXCLUDING SOUTH AFRICA



Source: U.S. Energy Information Administration

CHART 4 – INSTALLED GENERATING CAPACITY PER CAPITA IN SUB-SAHARAN AFRICA EXCLUDING SOUTH AFRICA



Source: U.S. Energy Information Administration

particularly well-suited for off-grid locations. Wind can also be attractive depending on wind conditions and access to grid infrastructure. But in contrast to other forms of renewable energy, hydropower is an established technology which is competitive with fossil-fuels. As a result, hydropower can provide low-cost electricity without requiring costly subsidies, that can be unsustainable in developing countries over the long-term.

However, significant investment will be required to facilitate a transition to a low-carbon future: It has been estimated that mitigation costs may reach up to USD 175 billion a year by 2030 to curb carbon emissions to a level consistent with an increase in global temperatures of two degrees Celsius. This is only possible if large, private investment funds can be mobilized – grants from already indebted Western governments are not sufficient.

Our success story

In 2002, Norfund and Statkraft established SN Power. SN Power is now a leading commercial investor and developer of hydropower projects in emerging markets. The company is currently operating 17 power plants in five countries, and is producing electricity equal to the consumption of 10 million people. SN Power projects are already reducing the annual CO₂ emissions by 1,6 million tonnes, a figure expected to increase to 10 million tonnes annually by 2016 based on SN Power’s pipeline of new investments an amount equal to the current total CO₂ emissions from all road

traffic in Norway. The NOK 2.3 billion capital that Norfund has invested in SN Power has been matched by more than the tenfold amount from other investors – NOK 24 billion, a perfect example of how public capital can scale up investments in renewable energy to meet the energy needs of developing countries.

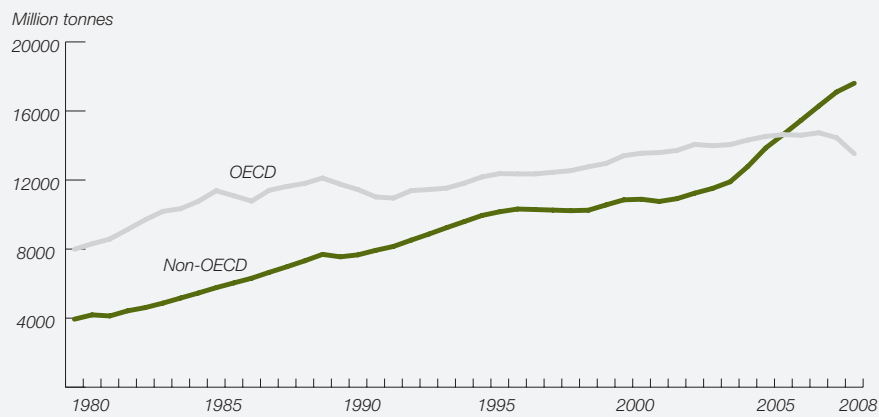
How Norway can make a difference

Developing Africa’s hydro potential is a ‘no regret’ strategy: Without significant growth in electricity generation in the region, no successful and sustainable fight against poverty is possible.

But helping countries take advantage of their untapped hydropower resources requires significant financial resources, specialized technical skills and enough preparation time to manage environmental and social impacts. Such investments face especially high risks related to hydrology, geology and construction, which are accentuated by the capital intensity of the projects. The country’s legal and regulatory framework is also critical, and investors need to find the investment environment stable and attractive enough for long-term exposure.

To scale up investments in renewable energy, limited public funds must be utilized in a way that mobilizes significant private capital and industrial competence. Norway’s deep expertise in hydropower and other renewable technologies, energy companies with the need for new challenges and available investment capital, gives us a unique opportunity to lead the way and demonstrate that clean development is possible.

CHART 5 – ANNUAL EMISSIONS – MILLION TONNES CO₂



Source: BP Statistical Review of World Energy 2010

Construction work at hydropower plant Bugoye, Uganda.





SMALL LIGHTS – BIG IMPACT

More than 580 million people in Africa do not have access to electricity. Common sources to light and energy are candles, kerosene lamps, biomass and diesel generators. These are often expensive and create health hazards. As a result health problems such as asthma, bronchitis and lung cancer are widespread. Burn injuries can also result from accidental fires. Access to modern lighting and electricity can significantly reduce these risks, help families generate more income, and give children more time and better conditions to do their school work.

Electricity is also vital for charging mobile phones, whose usefulness extends far beyond communication and includes access to health information, weather forecasts, and financial services. For many, the costs of charging phones may represent up to one-third of the total costs associated with the phones.

The company ToughStuff has developed robust, cheap, 1 watt solar panels. The panels can be used to charge a lamp; be connected to a radio; charge a spare battery; or they can charge mobile phones. ToughStuff has sold over 700 000 products, and in 2010 Norfund agreed to invest NOK 33 million in the business to support further growth.

ToughStuff has also developed a micro-entrepreneur programme. In collaboration with microfinance institutions and voluntary organisations, they offer entrepreneurs the opportunity to create their own jobs through onward sale or rental of ToughStuff products. In Madagascar, for example, a local village entrepreneur, Tahiry, has started renting out lamps at night for an amount equivalent to that spent by households on paraffin. Today he has two employees and rents out 100 lamps that provide light to over 10 per cent of the villagers.

CHAPTER 2
NORFUND AS A
DEVELOPMENT INVESTOR



NORFUND AS A DEVELOPMENT INVESTOR

No country has alleviated poverty without economic growth. There is therefore no contradiction between working for financial return and for development: profitable local businesses are built through responsible investment in sustainable enterprises. Norfund was established in 1997 to make capital available for good projects that would not otherwise have been initiated because of high risk. To achieve this, Norfund has adopted a strategy of geographical concentration on selected poor regions and sectors with high development effects.

Mandate

Poor countries need investments in profitable enterprises that can create employment, generate tax revenues, attract expertise and technology, and thereby contribute to economic and social development.

Norfund's mandate is to create sustainable commercial activities in developing countries by establishing and developing viable, profitable businesses which would not otherwise have been initiated because of the high risk involved.

This means that Norfund makes investments that are additional to those that would otherwise have been made in the market. In other words, we invest where there is a shortage of capital and expertise.

The objective of being additional has two dimensions:

1. We contribute to more investments in poor countries and projects because Norfund is willing to assume higher risk and costs than most private investors.

2. We contribute to better investments, because Norfund give priority to projects with strong development effects and enhances these effects through active ownership and support for the development of the enterprises.

In addition, Norfund acts as a catalyst by mobilising private capital and expertise that would not otherwise have been available in poor countries.

CHART 6 – BUSINESS DEVELOPMENT AS A MEANS TO POVERTY ALLEVIATION



Strategy

Norfund's strategy is designed to enable fulfilment of the mandate in the Norfund Act, and reflects the overarching priorities in Norwegian development assistance policy.

Establishing profitable and sustainable enterprises in some of the world's poorest and least developed countries is difficult and risky. It requires expertise and knowledge in a number of areas. The cornerstone of our strategy is therefore to develop expertise.

As a financial investor, Norfund must above all possess expertise in investment and risk management. We must be familiar with the framework conditions in the countries and sectors in which we invest, the enterprises and their management, and the partners with whom we invest. In order to have the most thorough knowledge possible of framework conditions and politics, Norfund has concentrated its investment on a limited number of countries. Important criteria for the choice of these countries have been prioritising Africa, ensuring a high share of investment in countries classified as least developed countries (LDCs) and including as many countries as possible that are important in Norwegian development cooperation. These are countries with a particular shortage of capital and expertise (see map in fold out).

In addition, Norfund has chosen to particularly focus on renewable energy and finance, sectors where our activities yield particularly high development effects. Access to electricity and a functioning banking and financial system are crucial infrastructure for development. These are also sectors where expertise of international quality can be mobilised among Norwegian and foreign partners.

CHART 7 – NORFUND'S FOUR INVESTMENT AREAS: DEVELOPMENTAL RATIONALE AND APPROACHES USED

FINANCIAL INSTITUTIONS	SME FUNDS	RENEWABLE ENERGY	INDUSTRIAL PARTNERSHIPS
BUILD FINANCIAL INFRASTRUCTURE	STRENGTHEN SMALL AND MEDIUM SIZED ENTERPRISES	BUILD ENERGY INFRASTRUCTURE	RISK CAPITAL WHERE DEVELOPMENT EFFECTS ARE PARTICULARLY STRONG
<p>Why Many people and small businesses lack access to financial services</p> <p>How</p> <ul style="list-style-type: none"> • Invest in SME Banks, Funds, and Microfinance • Partnership with Norwegian Microfinance Initiative (NMI) 	<p>Why</p> <ul style="list-style-type: none"> • Local PE-funds are good sources of capital for SMEs • Local capital markets need to be strengthening • Weak formal economies <p>How</p> <ul style="list-style-type: none"> • Invest through PE funds, or set up new funds where none are currently available • Mobilise Norwegian capital 	<p>Why Access to electricity is a precondition for economic growth</p> <p>How</p> <ul style="list-style-type: none"> • Set up well-run companies that can supply renewable energy to households and businesses • Mobilize Norwegian capital and expertise 	<p>Why</p> <ul style="list-style-type: none"> • High development effects from start-up and high-risk projects • Attract expertise and technology to LDCs in Sub Saharan Africa <p>How</p> <ul style="list-style-type: none"> • Identify high quality industrial partners • Be a long-term and active owner

Norfund's management team. From left: Rune Selmar, Hege Elisabeth Seel, Ola Nafstad, Elin Ersdal, Mark Davis and Kjell Roland.



CHART 8 – NORFUND'S INVESTMENT PROCESS

	IDENTIFY	INVEST	OWN	EXIT
MAIN FOCUS	Do not expect 'perfect' companies, but projects with the potential for both good financial and developmental results	Make use of the most appropriate investment instruments and establish agreements ensuring good projects	Active ownership to achieve good financial results and high development effects	Realise profits and give the companies the best basis for further sustainable development
REQUIREMENTS	<ul style="list-style-type: none"> • Countries and industries within the strategy: <ul style="list-style-type: none"> – The least developed countries in the world – Financial institutions, renewable energy, and small and medium sized enterprises • Excluded companies: <ul style="list-style-type: none"> – Weapons, tobacco, endangered species etc. – Breaching international laws and conventions 	<ul style="list-style-type: none"> • Equity or loans • Together with partners (Norfund's share normally less than 35 %) • Contractual standards <ul style="list-style-type: none"> – IFC for environmental and social issues – Zero tolerance for corruption 	<ul style="list-style-type: none"> • How active Norfund should be as an owner depends on the individual project • The investment can be cancelled according to defined terms in case of contractual breaches 	<ul style="list-style-type: none"> • Ownership for 4 to 10 years • Achieve the highest possible financial profit • Ensure the best possible basis for further sustainable operations and development of the projects
NORFUND'S CORE COMPETENCIES	<ul style="list-style-type: none"> • Understand the business concept and the profit potential • Understand possible negative effects of the project • Evaluate the quality of partners • Assess all risks related to the project • Utilize extensive networks through our regional offices 	<ul style="list-style-type: none"> • Use the best investment instrument • Find the right investment partners with similar standards • Establish deals that incentivise all parties to deliver both financially and to follow standards • Establish good governance processes 	<ul style="list-style-type: none"> • Follow up and influence through board representation • Develop and follow up on action plans • Improve standards over time. Create corporate cultures for continuous improvements of governance, environmental and social standards • Grant facility to further increase the development effects of the investments 	<ul style="list-style-type: none"> • Identify potential buyers • Conduct valuations • Prepare investment for sale or transfer
PROCESS	<ul style="list-style-type: none"> • Visit company • Engage in thorough dialogue (normally 6-12 months) • Present to investment committee to determine next steps 	<ul style="list-style-type: none"> • Negotiations • Investment decision in the investment committee or Board of Directors • Deal closure 	<ul style="list-style-type: none"> • Continuous follow up through dialogue and board representation • Annual reporting of development effects • Routines for reporting of accidents and fatalities 	<ul style="list-style-type: none"> • Conduct negotiation • Sell equity shares or have loans repaid

A responsible investor

A key element in Norfund's mandate is that investments must be sustainable. Financial sustainability is important because only profitable enterprises can survive in the long term. Social and environmental sustainability are of equal importance for safeguarding people and natural resources. In the long term, there is no clash of interests in this. To Norfund, a good financial return is a prerequisite for development effects, as the investment creates positive ripple effects through jobs, tax revenues etc.

Norfund's three main objectives as a responsible investor are: 1) to fulfil the mandate from our owner, 2) to reduce the risk of a negative impact on the environment and on social relations, and 3) to contribute to raising the standards of environmental responsibility, working conditions and corporate governance. Norfund wishes to create and develop well run companies that have good relations with employees, the local community and the authorities.

These criteria are central both in our evaluation of potential investment projects and in our follow-up of projects in our portfolio. To ensure good investment decisions, the investment committee evaluates all projects. It is led by an external person to ensure independent assessment of Norfund's case processing, and the committee functions as an advisory body for the managing director.

Norfund continuously works to improve the HES-standards of our investments. In 2009 there were unfortunately a number of fatal accidents in companies in which we have invested. A number of measures were taken to improve safety. The number of accidents was sharply reduced in 2010, and we

NORDIC COOPERATION FOR INCREASED INVESTMENTS

The Nordic business sector holds extensive expertise as investors and businessmen. Norfund believes this expertise should be better utilized in the effort to develop the private sector in developing countries. We would like to cooperate more with Nordic companies with investments in developing countries, a wish shared by our Nordic sister organizations Swedfund (Sweden), Finnfund (Finland) and IFU (Denmark). To focus on these issues a conference was organized by the Nordic development finance institutions in Oslo in September, and a Nordic advisory council for sustainable economic development headed by former Prime Minister of Norway Kjell Magne Bondevik was launched.

In addition to Bondevik, the commission consists of the following persons:

- Hans Dalborg, former Chairman, Nordea AB
- Anne Brunila, Executive Vice President, Corporate Relations and Sustainability, Fortum
- Christian Rynning-Tønnesen, President and CEO, Statkraft AS
- Sten Scheibye, Chairman, Novo Nordisk AS

The advisory council will work actively to encourage more businesses to see the commercial opportunities that exist in developing countries. At the same time, the council aims to make politicians understand the importance of investment to create sustainable economic growth in poor countries. A follow-up conference will be held in Finland in the autumn of 2011. Meanwhile, the council is working on a report on the subject.



believe that this demonstrates the value of being an active and responsible owner.

Norway's leading development investor

Norfund has the largest specialised team in Norway for investment in developing countries. Of a total of 45 employees, 30 work directly with the investments and follow up the projects through all phases of the investment process. We utilise our extensive external network of senior people with expertise and board experience to recruit to board positions in our portfolio companies.

Norfund is organised in three sector-based investment departments in order best to preserve and build up expertise: Financial Institutions and SME Funds, Industrial Partnerships and Renewable

Energy. The employees at our three external offices (Johannesburg, Nairobi and Costa Rica) report to the department managers in Oslo. In the course of 2011 we will also open an office in Bangkok, to bring us near the Asian countries in which we invest.

We have two dedicated expert positions to follow up work with development effects and environmental, social and governance aspects.

We established a Strategy and Analysis Department in 2010 to strengthen our competencies and enable more targeted work with stakeholders and partners in Norway and the Nordic countries. By virtue of its experience and expertise, Norfund has a prominent part to play as disseminator of information and

participant in the Norwegian discourse on investment and business development in developing countries.

International cooperation

Norfund cooperates with its European sister funds through the organisation European Development Finance Institutions (EDFI). Different working groups are engaged in topics such as measuring development effects, assuring social standards in the projects and guidelines for use of third countries (OFCs). Two cooperative funds, EFP and ICCF, have also been established to enable easier granting of syndicated loans to projects that have been approved by one of the partners. In 2010 Norfund invested in both these facilities. In addition a special Nordic collaboration was initiated to increase interest among Nordic businesses and investor communities for investments in developing countries (see textbox page 15).

Norfund's grant scheme

Norfund has the option of using grant resources in addition to commercial investment capital to boost it in its capacity as development investor. The grant resources are used in three areas:

1. Project development: This category consists largely of support early in the development process for projects that fail to attract start-up financing in the market because they are perceived as too risky or too expensive for other investors.
2. Strengthen development effects: One important effect of Norfund's activities is its contribution to the development of expertise and a culture of sound governance and to take account of environmental and social factors.

3. Broader social responsibility: Our enterprises operate in local communities that are often poorly developed and lack elementary amenities and services. As a result there is a need for the enterprises to accept broader social responsibility for their employees by contributing to the health, education and general development of the community.

For more information on the grant facility, see separate annual report.

Loan portfolio

In 2001 Norfund took over a loan portfolio consisting of 48 loans from Norad. 14 were in Africa, 11 in South-East Asia including China, 18 in southern Asia, four in Latin America and one in eastern Europe. 44 per cent of the loans were for less than NOK 5 million, and the interest conditions for all of them were easy (lower than normal market rates).

The loan balance at the end of 2010 was NOK 18 million, and the estimated value NOK 2 million. The last payment falls due in 2011. By the end of 2010, Norfund had received a total of NOK 385 million in interest and payments on the principal.

Tender Guarantee Scheme

The Tender Guarantee Scheme is administered by GIEK on behalf of Norfund, and is intended to encourage Norwegian companies to invest in poor countries. The least developed countries and Norway's partners have the highest priority. Priority is also given to participation by SMEs. In 2010, four applications were processed and NOK 0.2 million was paid in compensation. The Tender Guarantee Scheme charged NOK 0.5 million to Norfund's account in 2010.



Training in improved planting techniques, Agrica, Tanzania

Information Office

The Information Office for Private Sector Development in Developing Countries facilitates access for Norwegian companies to information and guidance about financial support and funding of commercial activities in poor countries. The office belongs administratively to Norfund and is co-located with Norad. The office received 270 inquiries in 2010 compared with 290 in 2009. More than 60 per cent of the country-specific inquiries concern countries in Africa, with South Africa, Kenya, Uganda and Tanzania at the fore. India, Vietnam and Bangladesh dominated among the Asian countries. There are relatively few inquiries about Latin American countries.

CHAPTER 3
NORFUND'S
INVESTMENT PORTFOLIO



NORFUND'S INVESTMENT PORTFOLIO

In the course of 2010, Norfund committed 20 new investments worth NOK 844 million, and at the end of the year Norfund had a committed portfolio for a total of NOK 5,8 billion. 46 per cent of new investment were in Africa, and 45 per cent in Least Developed Countries (LDCs). Norfund's investments had a return of ten per cent in 2010.

Africa

Norfund has an increasing focus on Sub-Saharan Africa. In 2010 we invested approximately NOK 385 million in the region, and 46 per cent of new engagements were in Sub-Saharan Africa.

Excluding investments in SN Power, the share was 70 per cent (see text box).

The total share of new investments in Africa was higher in 2009 (78 per cent), but as shown in chart 9, excluding our large SN Power engagement shows our increasing Africa focus.

Chart 10 shows the geographical composition of Norfund's committed portfolio at the end of 2010. 37 per cent of the portfolio was in Africa, 34 per cent in Latin America and 27 per cent in Asia. The large shares in Latin America and Asia are mainly due to SN Power's investments in renewable energy. Excluding SN Power's investments, 64 per cent of Norfund's portfolio at year-end 2010 was in Africa.

Least Developed Countries (LDCs)

In general, the poorer the country, the greater the need for Norfund's investment. 45 per cent of Norfund's new investment commitments in 2010 were in LDCs, 9 per cent in low income countries and 4 per cent in middle income countries (see chart 11). 41 per cent of the new investments were in higher

middle income countries, largely due to an SN Power investment in Brazil.

Norfund's total portfolio excluding SN Power's investments had an LDC share of 38 per cent at the end of 2010.

Start-up enterprises

Starting an enterprise from scratch entails high risk. New projects often face challenges in attracting private capital, but may have a great potential for profitability and positive development effects. Start-up enterprises are therefore an important and significant part of Norfund's activities. These types of investment are also the most demanding with respect to corporate governance, and Norfund therefore depends on having good industrial partners in its projects. Of Norfund's new commitments in 2010, 20 per cent were in start-up projects, compared with 31 per cent of the total portfolio at year-end 2009.

Appropriate financial instruments

Norfund strives to work in a manner that will mobilise further capital from other investors. Equity normally carries more risk than loans, and through investing in equity Norfund acts as a catalyst by putting banks and other private players in a better position to extend loans against collateral. In Norfund's portfolio direct equity investments¹ account for 54 per cent, indirect

equity investment through private equity funds 31 per cent and loans 15 per cent. Indirect equity investment means that Norfund invests in private equity funds, which in turn invest equity in companies. Of new investment commitments in 2010, 57 per cent were direct equity, 25 per cent loans and 18 per cent indirect equity through private equity funds.

Payments from and disbursements to investments

In the course of 2010, Norfund disbursed NOK 635 million to its investments. This is close to the 2009-level, when NOK 619 million was disbursed, while the equivalent for 2008 was NOK 883 million. All in all, Norfund received

PRESENTATION OF THE GEOGRAPHICAL DISTRIBUTION OF NORFUND'S PORTFOLIO EXCLUDING SN POWER

Norfund's investment in SN Power accounts for just under half of Norfund's total investments. SN Power invests in different geographical areas from Norfund. To provide a correct view of Norfund's own geographical focus, we therefore present the portfolio excluding SN Power's investments.

Norfund aims for more investment by SN Power in Africa and LDCs. This is the main reason for the establishment of SN Power Africa.

¹ Equity includes pure equity investments and mezzanine loans

NOK 340 million from investments in 2010. The largest contributions were repayments of loans from CIFI at USD 10 million, sales of shares in SN Power Africa to TrønderEnergi and BKK and revenues from the exit of TMP.

Jobs

At the end of 2010, 165 000 people worked in companies in Norfund's investment portfolio. The 2009 equivalent was 148 000. The increase was mainly due to new investments our funds made during 2010, and the fact that some of these investee companies have many employees².

111 000 were employed in companies in which Norfund has invested indirectly through fund managers. 54 000 were employed in enterprises in which Norfund has invested directly, and of these, 34 000 were employed in microfinance institutions.

53 000 of the 165 000 employees were women, i.e. 32 per cent. This is a small increase from last year, when the share of female employees in the portfolio was 29 per cent.

Tax revenues

Companies in Norfund's investment portfolio paid NOK 2.7 billion in taxes to local authorities in 2010. The amount is not weighted according to Norfund's ownership shares in the companies, and it excludes any income tax paid by the companies' employees. By way of comparison, the total tax contribution was NOK 4.2 billions in 2009. The reduction is mainly due to our exit from Grameen-Phone, which, by far, was the largest taxpayer in Norfund's portfolio in 2009.

CHART 9 – SHARE OF NEW INVESTMENTS IN AFRICA

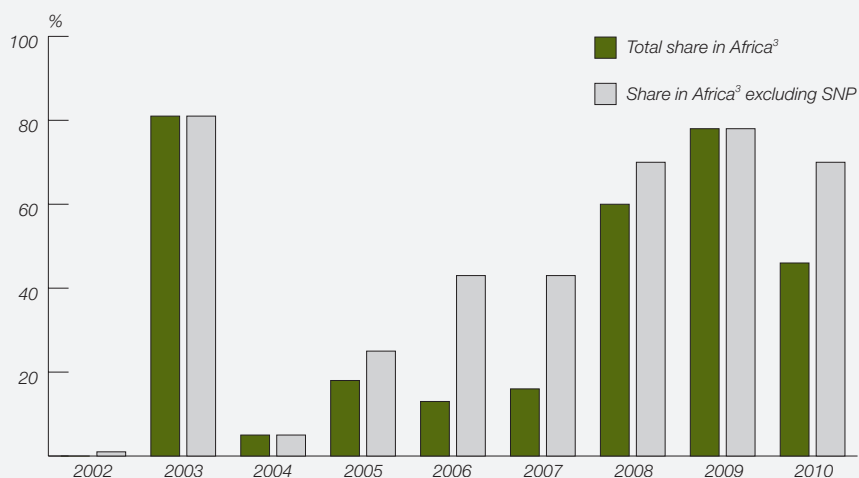


CHART 10 – PORTFOLIO AND NEW INVESTMENTS PER REGION

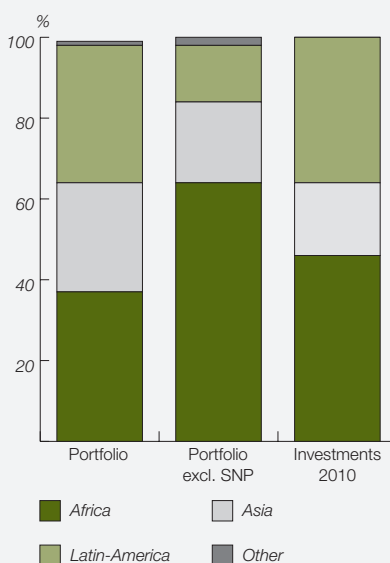
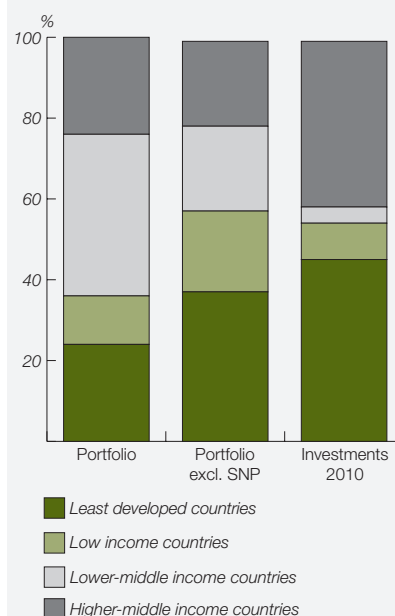


CHART 11 – PORTFOLIO AND NEW INVESTMENTS BY OECD/DAC-CLASSIFICATION



² Due to incomplete reporting from some of the funds' portfolio companies, we expect the actual number of employees to be higher than the reported 165 000.

³ Nearly all investments in Africa are in Sub-Saharan countries. Only one of the PE Funds has one investment in northern Africa.

OECD/DAC CLASSIFICATION OF COUNTRIES

Least developed countries are defined by the UN as countries with very low gross domestic income, underdeveloped use of human capital (quantified by means of a Human Assets Index) and which are assessed as economically vulnerable.

Low income countries have an annual per capita GDI of less than USD 935.

Lower-middle income countries have an annual per capita GDI of between USD 936 and USD 3705.

Higher-middle income countries have an annual per capita GDI of between USD 3706 and USD 11455.

If corporate tax from Norfund's direct equity investments were considered separately, Norfund's weighted share according to its holding is NOK 36 million. This relatively low amount is a consequence of the fact that the highest taxpayers in Norfund's portfolio are not equity investments, but rather loan engagements, and are therefore not included in the weighted figure. Moreover, many of the equity investments are in early-phase companies with no accounting profits and therefore little or no corporate tax.

Norfund hardly pays any withholding tax on interest and dividends. This is due to the fact that Norfund is not taxable in Norway, tax agreements between the countries in which Norfund has investments and Norway, and that many countries do not have withholding tax on interest and dividends to foreign investors. Of the tax at source that has been paid, NOK 0.55 million is tax on interest and dividends on Norfund's investments in Cambodia.

Increasing portfolio risk

Norfund's mandate requires that we invest in challenging markets. In order to be an 'additional' development investor, Norfund has in recent years shifted its portfolio withholding tax towards the least developed countries and sectors with high risk, and has been increasingly involved in starting up new companies. In addition Norfund's use of different investment instruments is adapted to support our role as a catalyst, and in many cases this involves investing in more risky instruments, such as equity.

Positive return on the portfolio

A positive return on our investments indicates that we are succeeding in creating profitable enterprises. Since

inception, Norfund has had a return of 11 per cent, where 'return' means the internal rate of return on the cash flow to and from investments, including the assumed value of the investments at the end of the year. As Table 3 shows, the return has varied considerably from year to year. Given Norfund's risk profile, the return will also fluctuate substantially in the future. It is therefore important to look at Norfund's return over an extended period. The investments in financial institutions and renewable energy have yielded the highest returns over time, particularly the investment in SN Power. If SN Power is excluded, Norfund has had a return in investment currency of six per cent since its inception.

The return in 2010 was ten per cent in investment currency, and all investment areas showed a positive return. The returns vary both between our different investment areas, instruments and different regions. Central America has been particularly negatively effected by the economic developments in the USA.

Norfund makes annual valuations of all investments in our portfolio. The valuations are the best estimate of the fair value of the investments at year-end,

TABLE 3 – RETURN (IRR) IN INVESTMENT CURRENCY

	2002	2003	2004	2005	2006	2007	2008	2009	2010	Since inception (1997)
SME-Funds	-5 %	-15 %	-4 %	17 %	1 %	32 %	4 %	5 %	10 %	6 %
Financial Institutions	19 %	4 %	18 %	10 %	9 %	27 %	9 %	6 %	9 %	9 %
Renewable Energy	0 %	17 %	1 %	-3 %	44 %	14 %	25 %	3 %	11 %	13 %
Industrial Partnerships	-9 %	-22 %	-28 %	2 %	-19 %	16 %	10 %	12 %	7 %	-1 %
Total	-4 %	7 %	-1 %	4 %	24 %	17 %	21 %	4 %	10 %	11 %

The table shows investment returns excluding Norfund's operations costs.

and are made pursuant to “International Private Equity and Venture Capital Valuation Guidelines”. The final profitability of our investments will only be clear when the value of our assets are realised at exit. Our valuations often prove to be somewhat conservative, and are therefore often lower than the value obtained through final realisation of the investments.

Termination of investments

Norfund exited four investments in 2010: One fund investment in Vietnam, one fund in Bosnia and Herzegovina, one equity position in Kenya and a loan in Bangladesh.

Norfund invested EUR 0.88 million in Vietnam Equity fund and received EUR 1.81 million, with an annual average IRR at 106 per cent. Through this investment Norfund has contributed with equity to development of Vietnamese businesses in an important readjustment period.

Horizonte BiH was one of the first funds that Norfund entered. The fund has contributed to the establishment of companies in Bosnia and Herzegovina, but did not deliver positive financial returns to Norfund.

Craft Silicon is a technology enterprise in Kenya, and Norfund invested USD 2 million on behalf of Fanisi Venture Capital Fund while awaiting the establishment of Fanisi to take over the investment. Craft Silicon was sold to Fanisi for USD 2.1 million in 2010 according to the plan, and is now one of the fund's portfolio companies. In 2010, Craft Silicon won the ‘Africa Entrepreneurship Award’.

RESULTS AND RETURN IN RELEVANT INVESTMENT CURRENCY

Exchange rate fluctuations between the Norwegian krone and the investment currencies affect Norfund's results in Norwegian kroner substantially from year to year. Norfund reinvests repayments from investments immediately in new investment projects in developing countries and does not invest capital in Norway. The results and return on the portfolio in Norwegian kroner say little about Norfund's achievement of the objective of its mandate – to contribute to profitable enterprises in developing countries. Norfund therefore reports its results before the exchange rate effects on the portfolio, and measures the return (IRR) on the portfolio in the investment currency.

Norfund granted a USD 10 million loan to GrameenPhone in 2004, as a follow up of earlier Norad loans, which Norfund took over in 2001. The last repayment of the loan to Norfund was made in 2010, and the average annual IRR has been 9 per cent. The loan from Norfund was important to ensure bank financing of GrameenPhone in 2004 and was therefore an important contribution to the development of the company. Telenor currently owns 55.8 per cent of the company, which today is the largest mobile phone operator – and the largest tax payer in Bangladesh.

In addition, CIFI has repaid a USD 10 million loan according to plan, and TMP has also made their final payment of a loan. Norfund still has equity positions in both CIFI and TMP.

TABLE 4 – KEY FIGURES: ACTIVITIES IN 2009 AND PORTFOLIO AT 31.12.2010

Investment activity 2010	
New investment agreements (NOK m)	844
Share of least developed countries (LDCs)	45 %
Share in Africa	46 %
Share of start-up enterprises	20 %
Share of equity	57 %
Share of loans	25 %
Share of funds	18 %
Number of new investment agreements	20
Disbursed to investments (NOK m)	635
Paid in from investments (NOK m)	340

Portfolio at 31.12.2010	
Investment agreements (NOK m)	5 844
Share in LDCs (excl. SN Power)	38 %
Share in Africa (excl. SN Power)	64 %
Share of start-up enterprises	31 %
Share of equity	54 %
Share of loans	15 %
Share of private equity fund investments	31 %
Number of investments	85
Investment agreements	
renewable energy (NOK m)	2 693
Investment agreements microfinance (NOK m)	651
Net disbursed investments (NOK m)	4 229
Employment	165 000
Share of women	32 %
Payments to local authorities* (NOK bn)	2.7
Norfund's weighted share of corporate tax (NOK m)	36
Norfund's equity (NOK m)	6 747
Norfund's overall balance (NOK m)	6 790

* Payment to local authorities include corporate tax, charges, licences etc. for all Norfund's investments. The figure is not weighted according to Norfund's share.

NORFUND'S FINANCIAL RESULTS

In 2010 Norfund had an accounting profit in investment currency of NOK 153 million compared with NOK 262 million in 2009. Income was NOK 221 million, compared with NOK 307 million in 2009.

As an investment company, Norfund's operating income are interests paid, dividends and other payments from our investments. For ordinary production companies this will be classified as financial income. Starting in 2010, Norfund will treat incomes from investments as part of our operational income.

The most important contribution to operating income in 2010 was Norfund's share of SN Power Invest with NOK 125 million. The increase compared with the previous year is largely due to good results at their operations on the Philippines. Interest income of NOK 49 million increased from NOK 35 million in 2009 mainly because of a larger loan portfolio. Realised share profits are from the sale of shares in SN Power Africa to BKK and TrønderEnergi. Dividends from private equity funds and equity investments at NOK 25 million were similar to 2009. Other project incomes consisted largely of payments from our loan portfolio from Norad.

Total operating costs were NOK 78 million, one million kroner less than in 2009. The reduction in operating costs were mainly due to reduced use of external assistance in our investment projects compared with 2009. Personnel costs increased by one million kroner in 2010 to NOK 45 million. Reduced pension costs were outweighed by salary adjust-

ments and increased staff. In addition, training has been increased in 2010.

Some large write downs took place in 2010, particularly in Central America.

Interest income at NOK 40 million is somewhat lower than the 2009 amount, due to reduced deposit interest rates in Bank of Norway (an average at 2.1 per cent in 2010 compared with 2.58 per cent in

2009). Other financial incomes are agio profits not related to the investment portfolio.

The total currency effects on the investment portfolio at NOK 29 million kroner are related to the stronger USD and an appreciation of the ZAR, but a weaker Euro compared to the Norwegian kroner. Our profit adjusted for currency effects in the portfolio was NOK 182 million (compared with NOK 130 million in 2009).

TABLE 5 – PROFITS/LOSS IN 2010

(NOK mill)	2010	2009
Interest (investment portfolio)	49	35
Realised gains	9	143
Dividends received	25	25
Other project income	12	21
Share of profit SN Power (40%)	125	82
Total operating income	221	307
Payroll expenses	-45	-44
Other operating expenses	-33	-35
Total operating expenses	-78	-79
Write-downs (-) on investments	-29	3
Operating profit in investment currency	113	231
Interest income liquid assets	40	41
Other financial items	1	-9
Net financial items	41	32
Tax	-1	-1
Net profit in investment currency	153	262
Exchange rate effects portfolio	29	-133
Profit in NOK	182	130

CHAPTER 4
RENEWABLE
ENERGY



RENEWABLE ENERGY – THE BASIS FOR ECONOMIC DEVELOPMENT

Economic growth is strongly linked to increased energy consumption, and in particular, increased electricity usage. Unreliable electricity supply is typically cited as a major constraint to growth, particularly of small and medium enterprises. Without access to a reliable electricity supply, businesses are forced to depend on private diesel or petrol generators, typically costing three or more times grid supplied electricity. Power outages can also cost them significant revenues.

HIGHLIGHTS IN 2010

- SN Power's two hydropower projects in Latin America, La Confluencia and La Higuera, were officially opened by the Chilean president. The Allain Duhangan project in India also started operations.
- TrønderEnergi and BKK, two Norwegian hydropower utilities, invested in SN Power Africa.
- Norfund participated in the establishment of a new mechanism to finance projects that mitigate climate change, the Interact Climate Change Facility.
- Norfund was given a capital increase of NOK 415 million specifically for renewable energy investments.

Despite the robust economic growth seen over the past decade in many emerging markets, investment in new generating capacity has often failed to meet growth in demand (see analysis earlier in report). Many local utilities must therefore rely on emergency solutions, often by installing a large number of diesel or heavy fuel oil generators. Operating costs typically exceed tariff revenues, thereby perpetuating the cycle of poor financial performance in the utility sector. The only way to break this vicious cycle is to accelerate investment in longer term solutions making use of the

natural energy resources available in each country. Despite their capital intensity, the costs of both hydropower and wind technologies have fallen significantly over the recent past years, making these renewable energy solutions even more cost effective.

Much of the hydropower potential in developing countries remains undeveloped, and mapping of wind potential has only just started in some countries. While coal-fired power may often represent the lowest cost of supply, the development of large scale coal power plants is a daunting task, both technically, financially and environmentally. The increased investment in renewable energy that has been experienced in the OECD is also needed in emerging markets.

Strategy

Norfund has a strong sectoral focus on renewable energy. Norfund's strategy is to mobilise sound technical partners while developing a diverse portfolio. SN Power has shown that with the right combination of capital and expertise it is possible to deal with the many risk

factors involved in making renewable energy investments commercially sustainable. The restructuring of SN Power, the establishment of SN Power Africa and the contributions from Statkraft, TrønderEnergi and BKK are important steps towards realising Norfund's strategy in this area.

Activity in 2010

Several of SN Power's construction projects began operations. In Chile both the La Higuera and La Confluencia hydropower projects were officially opened by the Chilean President. Together these projects contribute 311 MW to the grid with an expected annual generation of 1 500 GWh. The Allain Duhangan project in India also started operations, and full generation potential will be realized when a second tunnel is completed in the course of 2011.

Construction began at the Cheves hydropower project in Peru. This 168 MW project has been under development for several years. Financing the project became possible after the project's successful participation in the

public power sales auction in 2010. Financial close was achieved in December with a consortium of banks, including several Nordic banks.

Both the Bugoye and Totoral projects were registered under the Clean Development Mechanism (CDM) of the Kyoto Protocol. The 13 MW Bugoye hydropower plant developed with TrønderEnergi and SN Power's 46 MW Totoral wind project in Chile were successfully validated and registered as CDM projects. This implies that the carbon offsets generated by the projects can be monetized, making a critical contribution to their financial viability.

SN Power AfriCA was further capitalized. The company, which is to focus on African and Central America, is fully operational. On the ownership side, Norfund has sold a combined holding of 35 per cent to BKK and TrønderEnergi, leaving Norfund with a 19 per cent stake in SN Power AfriCA in addition to the holding owned indirectly through SN Power, of which Norfund owns 40 per cent. In 2010, the company was further capitalized by its owners in anticipation of investments in both the company's target regions.

Norfund contributed to the establishment of the Interact Climate Change Facility (ICCF). This is a new co-investment facility of European Development Finance Institutions, the European Investment Bank and AFD. The EUR 350 million fund has the objective to support the financing of projects in developing countries related to climate change. Norfund participated in the design and establishment of the ICCF, and contributed EUR 5 million to its capital.

ICCF

The Interact Climate Change Facility (ICCF) was established in 2010 to increase the supply of capital to projects relating to renewable energy and emission reduction in developing countries. ICCF is a collaboration between European DFIs and it has been established along the same lines as European Financing Partners (EFP). Because of Norfund's expertise and experience in renewable energy projects, Norfund was given a central role in the work of establishing the facility. In total EUR 350 million is expected to be available in the fund during 2011, and ICCF can grant loans and guarantees of the order of EUR 10-45 million per project.

Development effects

In 2010, information on development effects of our Renewable Energy investments was collected for two investments, Bugoye and SN Power.

Share of portfolio in LDCs, Africa, start-up enterprises and equity

Only 6 per cent of Norfund's committed renewable energy portfolio is in Africa, as SN Power's investments are mostly in Asia or South America. Only 10 per cent of investments are in LDCs for the same reason. These shares are expected to increase in coming years following the establishment of the new company SN Power AfriCA, which is dedicated to the development of renewable energy projects in Africa and Central America. 39 per cent is invested in new-build facilities, and a full 95 per cent is invested as equity.

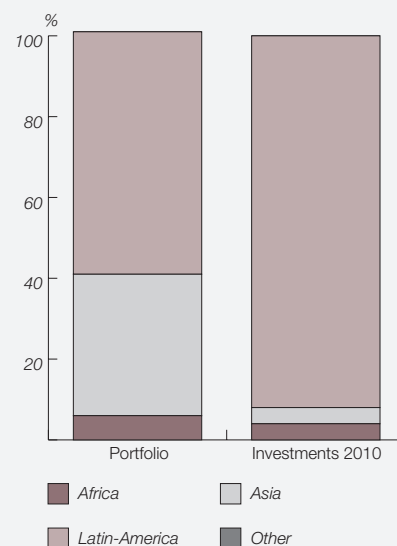
Jobs

In 2010, almost 900 people worked in the renewable energy companies in the portfolio. 140 of them were women, making the share of female employees 16 per

**TABLE 6 – KEY FIGURES
RENEWABLE ENERGY**

Committed investments (MNOK)	2649 mill kr
Net disbursed investments (MNOK)	2 258 mill kr
New investment commitments in 2010 (MNOK)	332 mill kr
Number of investments	5
Share in least developed countries	10 %
Share of start-up enterprises	39 %
Share of equity investments	95 %
Employed	900
Share of women	16 %
Payments to local authorities (MNOK)	61 mill kr
Norfund's weighted share of corporate tax (MNOK)	16 mill kr
Production capacity Equivalent to power consumption for	1 350 MW
CO ₂ reduction	11.1 mill people
	1.6 tonnes

Renewable Energy investments by region





Vannkraftverk, Magat, Filipinene

cent. In addition, more than 5 000 people worked as contractors for SN Power.

Tax revenues

A total of NOK 117 million in corporate tax, charges, licences and other expenses was paid to local authorities in 2010. Weighted according to Norfund's ownership share, renewable energy projects paid NOK 16 million in corporate tax.

Capacity and production

The total capacity SN Power and Bugoye is 1 350 MW. In addition SN Power has projects under development that will increase capacity with 430 MW. Work is also in progress on potential projects which may lead to an additional 1 600 MW increase in capacity.

In 2010, 4 317 GWh of electricity was produced at the SN Power and Bugoye facilities.

Power supply

The electricity produced by SN Power and Bugoye is sold to other companies that deliver power to end-users, both individuals and corporate customers. Based on estimates of annual per capita power consumption in various countries and the amount of electricity produced, estimates of the number of people supplied with power can be made. In 2010 electricity production corresponded to the power consumption of 11.1 million people.

Reduces greenhouse gas emissions

Development of energy sources based on renewable energy in developing countries reduces the need for energy from coal and diesel power stations. As a result of the renewable energy produced by SN Power and Bugoye, approximately 1.6 million tonnes of CO₂ emissions were avoided in 2010. Both Bugoye and a number of SN Power's facilities come under the Kyoto Protocol's CDM scheme. CDM-quotas of 1.6 million tonnes of CO₂ per annum have been approved. In addition, a further 4.8 million tonnes of avoided CO₂ per annum is estimated, and is currently undergoing the CDM approval process.

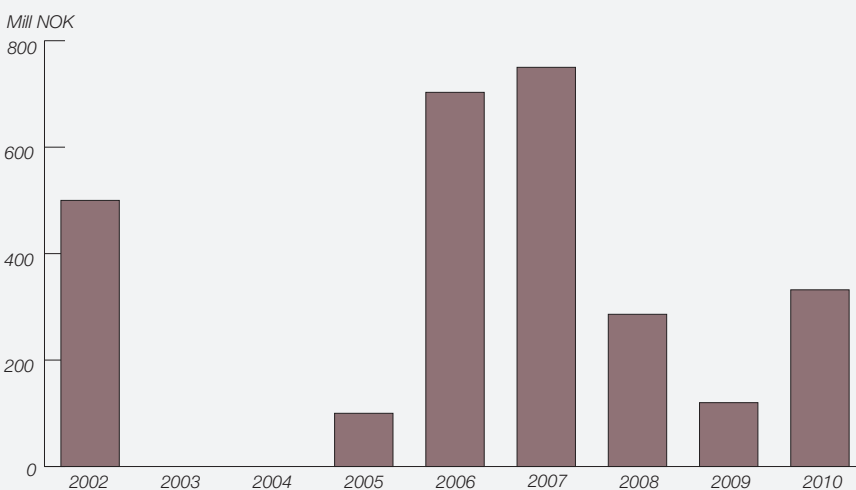
Dialogue with interest groups

Since 2009 Norfund has participated actively in a sustainable energy investment in developing countries administered by Energy Norway (a non-profit industry organization). The project involves government, interest organisations and private businesses. Focus areas in 2010 included dialogue with civil society, compilation and review of international social and environmental standards for hydropower, and assessment of the success factors for renewable energy projects in developing countries in collaboration with Norad.

Outlook

Norfund has been allocated 415 million kroner in additional capital in 2011 with the specific objective of mobilizing new investments in renewable energy.

CHART 12 – NEW INVESTMENTS PER YEAR, RENEWABLE ENERGY



SN Power is Norfund's main instrument for investment in renewable energy in South America and Asia, and SN Power AfriCA in Africa and Central America. Norfund will continue to exercise corporate governance in these companies, and will work in particular for the success of SN Power AfriCA with its corporate and investment targets. Both companies are expected to increase investment in the course of 2011.

In addition, Norfund continues to work closely with other industrial investors in renewable energy, and anticipates that our participation will contribute to increased investment in renewable energy in our target countries. To this end, Norfund has established a project development facility, providing a much needed investment instrument to support the final stages of project preparation prior to full financing.

A welder wearing a protective mask and gear is working on a large, complex metal structure in a workshop. Bright sparks are visible from the welding process. The background shows a window with a view of greenery outside.

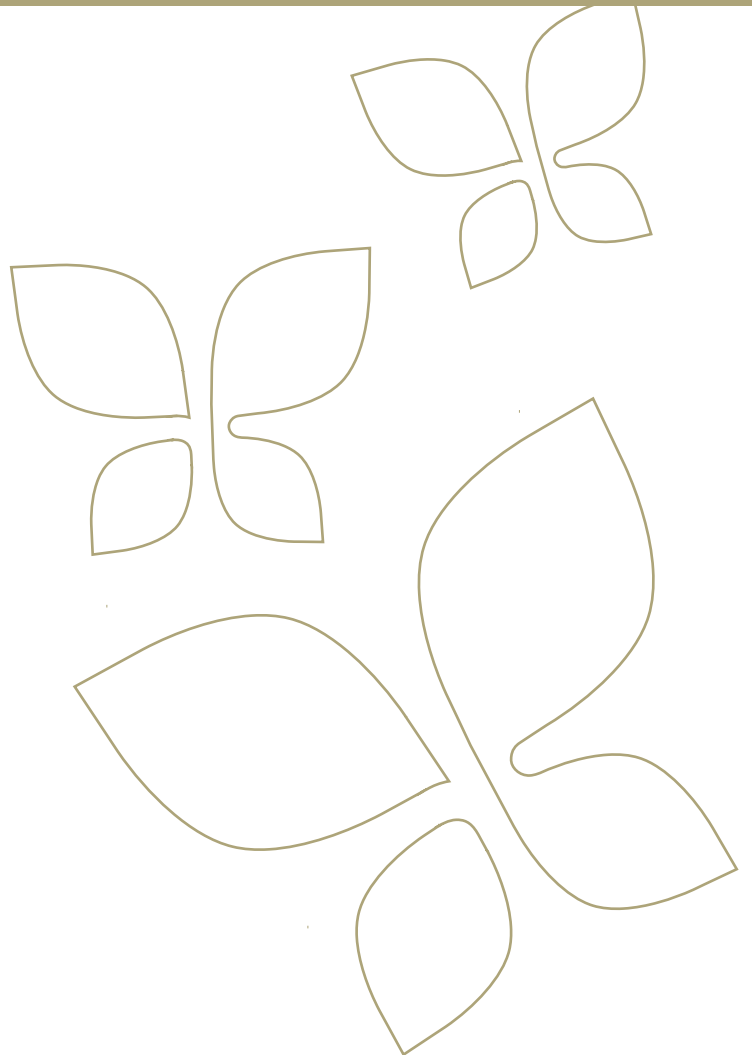
10 YEAR ANNIVERSARY IN NEPAL

The run-of-river hydropower plant Khimti 1 in the Dolakha district in Nepal was opened in 2000, and today produces nearly ten per cent of the total electricity supply in the country. The annual capacity of the power plant is 60 MW and yearly production is 350 gigawatt hours. In total, USD 140 million has been invested in the project in which SN Power owns 57 per cent.

Khimti 1 relied on local employment for construction, as it does today for operations and maintenance. In 2008 a survey licence to expand Khimti 1 with a new plant, Kirne, was granted. The expected capacity of Kirne, now at a feasibility stage, will be 65 MW.

Several projects to support the development of the local area has been implemented: electrification of villages in the area, building of irrigation and drinking water systems, and support to local schools and a clinic are some of the initiatives to support the communities near the plant.

CHAPTER 5
FINANCIAL
INSTITUTIONS



FINANCIAL INSTITUTIONS – DEVELOP FINANCIAL SERVICES TO ENTERPRISES AND INDIVIDUALS

The investment area Financial Institutions invests in banks, microfinance institutions and other financial institutions, as well as funds that invest in the financial sector. The primary objective of investing in and lending to financial institutions is to contribute to expanding the range and improving the efficiency of good financial services for private enterprises and individuals who have limited access to such services today.

HIGHLIGHTS IN 2010

- Norfund invested a total of NOK 170 million in six projects.
- The largest new investment was a convertible bond issue of NOK 40 million to BRAC Bank in Bangladesh. BRAC bank offers financial products and services to individuals and small enterprises with limited access to these today.
- NOK 18 million was invested in a microfinance bank in Kenya.
- Norfund invested NOK 111 million in the further development of our financial institutions in Uganda, Mozambique and Cambodia.

Norfund regards financial institutions as an attractive investment option with a good financial return and strong development effects. Financial institutions are therefore a key investment area for Norfund, particularly with a view to facilitating the access to finance for small and medium sized enterprises (SMEs). At the end of 2010, the portfolio of Financial Institutions consisted of a total of 26 projects in Africa, Latin America and South and South-East Asia. Norfund had committed to a total of NOK 1.18 billion in investments in this area, and a net amount of NOK 930 million was disbursed.

Strategy

Investments are largely in institutions that are owned locally and that have a promising growth potential. Norfund's investments are either direct, in the form of loans or equity, or indirect, through investment funds.

Norfund works with banks and other financial institutions that focus on SMEs and in the microfinance segment. Norfund's strategic alliance with Norwegian Microfinance Initiative (NMI) and partners Ferd, DnB NOR/Vital, Storebrand and KLP constitutes its most important tool for investing in microfinance. Norfund also invests in our high priority regions, where NMI is not active. Norfund has a higher risk investment profile than NMI in the direct investments in microfinance institutions.

In its work with financial institutions, Norfund is particularly concerned with exercising good corporate governance, providing basic banking competencies and encouraging an improvement in internal control and accounting systems.

Activity in 2010

2010 was an active investment year, with the focus on following up existing investments and securing access to new projects in East Africa and South-East Asia. Six investment agreements were signed, two of which were entirely new projects for the portfolio.

New projects

Microfinance bank in Kenya: Family Bank Ltd is a financial institution in Kenya which is active in microfinance, the retail market and the SME sector. Family Bank has a high deposit to loan ratio, which means safer and more reasonable financing, relatively speaking, of the financial institution, which in turn means favourable growth opportunities. Norfund's investment will increase the availability of financial services to the poor and small enterprises in Kenya. In 2010 Norfund invested NOK 18 million, and together with Africa Invest and FMO have a total share in the institution of about 20 per cent. The bank is described in more detail on page 32.

SMEs in Bangladesh: Norfund took part in a listed, convertible bond issue to BRAC Bank together with among others the two Dutch development banks, Triodos and FMO. This is the first time such a bond is issued in Bangladesh and it represents a highly welcomed development of the country's financial markets. Norfund's share was USD 7 million. The institution is described in more detail on page 34.

Follow-up investments:

In addition to investing in two new projects, the investment area made several follow-up investments:

- A new loan of USD 10 million to the SME bank DFCU in Uganda. Norfund has been involved in DFCU since 2004 and owns 10 per cent of the bank. British CDC is the largest shareholder, with 60 per cent of the shares.
- A follow-up investment of USD 29 million in Banco Terra in 2010. Banco Terra focuses on financing agricultural activities and is developing a network of branches in Mozambique. Norfund was one of the founders of the bank in 2006.
- A follow-up investment through a combination of a loan in local currency and equity equivalent to a total of NOK 40.2 million to Hattha Kaksekar, Ltd. (HKL). HKL is a micro-finance institution in Cambodia. Norfund's share is now 17.6 per cent.

Development effects

Share of portfolio in LDCs, Africa, start-up enterprises and equity

The Financial Institutions Department

has invested 64 per cent of its capital in Africa and 42 per cent in LDCs. 35 per cent of investments are in start-up enterprises. Only 30 per cent of the capital is invested in the form of equity directly; 31 per cent is invested indirectly in equity through funds and loans account for 39 per cent. The low share of equity investment is due to banks and financial institutions being more interested in loans than other sectors, and to Norfund having made large investments indirectly through microfinance funds.

Jobs and tax

In 2010, financial institutions in which Norfund has invested employed 58 000 people, of whom around 18 000 were employed in the institutions' portfolio companies. In total, 28 per cent of the employees were women. Excluding the portfolio companies, this gives a ratio of female employees of almost 37 per cent.

The financial institutions paid NOK 675 million in corporate tax, duties and licences to local authorities. Weighted according to Norfund's ownership share, the institutions paid NOK 6.6 million in corporate tax. The weighted number is relatively low because it only includes corporate tax paid from Norfund's equity investments; Norfund's loan portfolio and other forms of taxes are excluded.

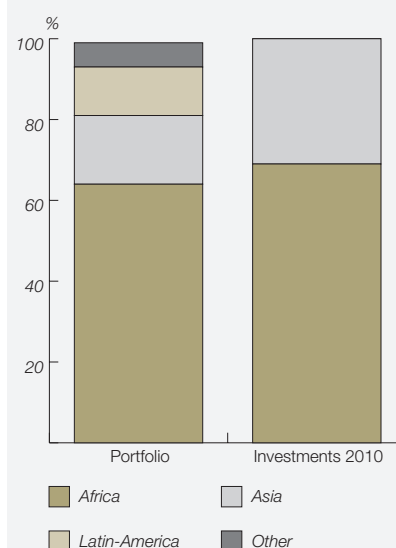
Scope of financial services

One of Norfund's fundamental contributions to development is to invest where there is a shortage of capital. Since women and SMEs have particularly limited access to financial services, the Financial Institutions investment area reports on the number of loans and deposit accounts belonging to

**TABLE 7 – KEY FIGURES
FINANCIAL INSTITUTIONS**

Committed investments (MNOK)	1 179 mill kr
Net disbursed investments (MNOK)	930 mill kr
Investment commitments	
in microfinance (MNOK)	651 mill kr
New investment commitments	
in 2010 (MNOK)	170 mill kr
Number of investments	26
Share in least developed countries	42 %
Share of start-up enterprises	35 %
Share of equity investments	30 %
Employed	40 000
Share of women	36 %
Payments to local authorities (MNOK)	675 mill kr
Norfund's weighted share of corporate tax (MNOK)	6.6 mill kr
Customer deposits in financial institutions (MNOK)	13 800 mill kr
Loans in financial institutions (MNOK)	27 800 mill kr
Average corporate governance score (1 = poor, 5 = best)	2.75

Financial institution investments by region



FINANCING SMALL SCALE BUSINESSES IN KENYA

Family Bank Limited started as a building society 25 years ago and was converted into a fully fledged bank in 2007. Family Bank focuses on the lower end of the market including junior salaried workers, small scale farmers and Micro, Small and Medium sized enterprises. The bank operates with more than 50 branches all over Kenya, and the bank's outreach is complemented by nearly 300 ATMs. Family Bank also targets Youth and Women's Groups. These sectors make up the largest portions of the population, hence providing Family Bank with good growth opportunities. To cater to its target market, Family Bank successfully introduced a "no fee" account which increased customer deposits significantly. This product makes it possible for the low income segment of the market to have access to bank accounts, a very positive strategy with regards to development effects. In 2010 Norfund took part in a total investment in Family Bank of approximately NOK 65 million (Norfund's investment totalled NOK 18 million kroner). To celebrate the investment, a big event was organized in Nairobi in October, with Prime Minister of Kenya Mr Raila Odinga as guest of honour and main speaker.



From left: Titus K. Muya (the founder of Family Bank), Raila Odinga (Prime minister of Kenya), Samuel Kingori (prime minister's office), professor Njunguna Ndungu (Governor of the Central Bank).

these two customer groups. In addition, one of Norfund's objectives is to improve and extend reliable financial services in developing countries. Figures for deposits and loans show how well the financial institutions are achieving this goal.

The financial institutions Norfund has invested in have more than 8.7 million borrowers and over NOK 27.8 billion in loans. Almost 70 per cent of the borrowers were BRAC customers, but BRAC's borrowers only accounted for 14 per cent of the total loan volume because these customers have a large number of small loans. In 2010, the financial institutions reported that they had granted loans to 63 000 SMEs and 1.6 million women⁴.

Twelve of Norfund's financial institutions are authorised to have deposit accounts. In 2010, institutions that reported their number of deposits had almost 3.5 million customers with deposit accounts, with total deposits of NOK 13.8 billion. Half of them were customers of Capitec Bank, which also is the financial institution that has grown the most since 2009. 106 000 of the deposits belonged to SMEs and 1.2 million to women.

Corporate governance

Good corporate governance is a cornerstone of sustainable growth. As a result, Norfund works actively with financial institutions in which it invests, not only to identify and remediate any corporate governance issues, but to also help these institutions move towards best practices. In some instances, Norfund assumes a board seat (e.g., Banco Terra, DFCU, Family Bank, HLK), while it in other instances engages actively with the financial institutions boards and

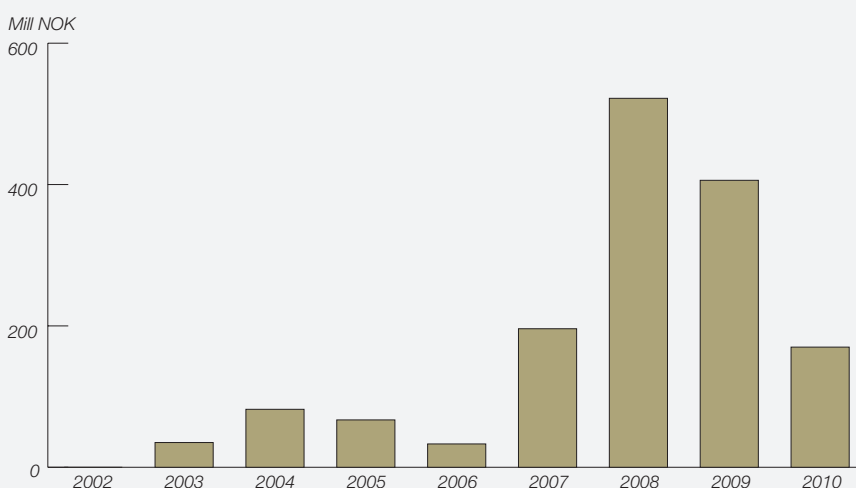
management. Norfund's Grant Facility often supports corporate governance interventions (e.g. training).

On average, our financial institutions have a corporate governance score of 3.75 . While this score implies that our financial institution portfolio on average has satisfactory corporate governance policy frameworks, there are large variations between the institutions. Both the regulated financial institutions that cater to the SME-market (e.g. Real People) and the more mature microfinance institutions are found to have robust frameworks. At the same time, there were large variations in the quality of the frameworks among other funds investing in financial institutions. Norfund will continue to work with some of our microfinance institutions and fund investments throughout 2011 to improve their corporate governance.

Outlook for 2011

In 2011 Norfund will continue its investment in financial institutions, focusing particularly on microfinance and banks that target SMEs. The year 2010 has been used to build networks and acquire insight into possible future projects in important areas such as South-East Asia and East Africa. In 2011 we will concentrate on making a number of new investments in Norfund's strategic focal areas, and aim at reaching the same investment volume as in 2009.

CHART 13 – NEW INVESTMENTS PER YEAR, FINANCIAL INSTITUTIONS



THE NOREX EXPERIENCE AND THE INTEGRATION OF THE EAST AFRICAN COMMUNITY STOCK EXCHANGES

Due to the limited scale of financial infrastructure and functioning exchanges in the East Africa (EA) Region, most SMEs do not have the option of becoming listed on stock exchanges. At the same time, stock exchange listings are the most transparent method of sale, and listing requirements demand an acceptable level of corporate governance, including accounting requirements.

The Nordic markets and Norfund's experience in the regionalization of the relevant exchanges can be a good roadmap for some of the regions in Africa, in particular East Africa. While the road to integration is long, an exploration of how an efficient and viable East Africa Community capital market can be created can go far in mapping the potential for a larger project.

Norex is a cooperation between the Nordic exchanges with the purpose of establishing a joint Nordic securities market. In late 2010, the Norfund Grant Facility decided to support an intervention in which an external consultant was engaged to assist Norfund in presenting the Norex experience to the CEOs of the East African stock exchanges and other stakeholders. A presentation was held at an EA Stock Exchange Association (EASEA) meeting in Uganda. There was also a dialogue on if, and how, Norfund could assist in the integration of the East African exchanges. In follow up meetings, the EASEA is expressed interest in approaching Norfund for assistance in realizing the integration of the East African Exchanges. The first step in this process will be Norfund's facilitation of a two-day workshop to design an implementation plan.

4 The breakdown into number of SMEs does not include BRAC's and Capitec's customers. Female depositors and borrowers are not reported by BRAC. Since these are two of the biggest financial institutions in Norfund's portfolio, this must be taken into account when interpreting the number.



DEEPENING THE FINANCIAL MARKETS IN BANGLADESH

BRAC Bank Ltd. is considered the market leader within Small and Medium sized Enterprise (SME) financing in Bangladesh. A main strategic focus of the bank is to supply bank products and services to areas of the country where smaller companies today have no access to finance. 60 million enterprises are believed not to have access to finance in Bangladesh. To be able to attract affordable and stable funding the bank has become a fully fledged commercial bank. In addition to lending, the bank offers savings and investment banking products to affluent individuals and trade finance products to larger companies. However, management is committed to keep more than 60 per cent of the portfolio in SMEs. For the SMEs in the portfolio, the average loan size is around BDT (Bangladesh Thaka) 650.000 (NOK 53 000), and the maximum tenor is 21 months.

In October 2010 Norfund invested BDT 490 million (NOK 40 million) in BRAC Bank, as part of a 3 billion BDT subordinated listed convertible bond issue. In the Western economies bond issues are an important way of raising funds for banks and larger companies. This is the first time international investors participated in a bond issue in Bangladesh. Norfund believes the participation in and support of listed bond issues is a valuable and important contribution to the deepening of the financial markets in developing countries.

CHAPTER 6

SME FUNDS



SME FUNDS – REACHING SMALL AND MEDIUM-SIZED ENTERPRISES

Small and medium-sized enterprises (SMEs) are central to a well functioning economy. This type of enterprise contributes to local employment, diversification of the economy and economic growth. Investing in funds is an appropriate strategy for reaching out to SMEs. Investing in the SME sector in Norfund's markets is very demanding, and the enterprises require close follow-up. Experience has shown that selected local fund managers can do this job well, and that they contribute to considerable value creation. Norfund has developed expertise on selecting managers and establishing appropriate fund structures.

HIGHLIGHTS IN 2010

- Norfund invested a total of NOK 153 million in three different funds.
- The largest new investment was in Agri-Vie, which invests in agriculture, forestry and aquaculture in Sub-Saharan Africa. Norfund invested NOK 65 million in this fund.
- Norfund has been working to establish a co-investment mechanism to mobilise private capital for private equity fund investments in Norfund's strategic regions and sectors. In our experience, this type of investment can yield a good return, but Norwegian and Nordic private capital do not yet seem ready to invest in this type of fund.

Norfund currently has a portfolio consisting of 36 funds invested in Latin America, Asia and Africa. The funds invest locally in SMEs, primarily in equity instruments. Norfund's total commitments to fund investments amounted to NOK 1.46 billion at the end of 2010, of which a net amount of NOK 0.74 billion had been disbursed. In general, the returns from the SMB funds were good, with a very positive development of a number of funds in Asia and Africa, and an internal rate of return of 10 per cent for the

portfolio over the year. The funds with the largest contributions to the 2010 returns include Aureos Africa Fund, Aureos South Asia Fund, Aureos South East Asia Fund, Horizon Tech Ventures and Horizon Equity partners. The fund portfolio in Central America has had a negative development in 2010. This is particularly because of large write downs in ACAF. Some of our fund investments have had negative IRR in 2010 as they are in the start-up phase. In accordance with international guidelines for fund valuations, a fund in start up phase will typically have a negative return. This applies to Evolution One Fund, Fanisi Venture Fund East Africa and Cambodia Laos Fund.

Strategy

Norfund invests equity in the form of venture capital in private equity funds and in other investment funds (see text box page 37) that target SMEs in need of growth capital and expertise. By investing in SME funds and fund managers, Norfund helps to boost the formal economy and strengthen local capital markets.

Norfund will continue to invest in SME funds, primarily through external fund managers in which Norfund is not an owner, but also in some cases by establishing and owning new fund managers where a need is identified in the market.

Norfund's focus on SMEs and willingness to invest in first-generation fund managers and to establish funds and fund managers where there is a need today are Norfund's greatest contribution in respect of being additional. Norfund works with other investors for increased transparency in its investment funds in terms of both legal framework and fee structures.

Norfund invests in SME funds with a clear development profile and where there is an evident shortage of capital. At the same time, it is important to mobilise private capital for fund investments. Consequently Norfund invests both in funds that lack access to commercial private capital because of their small size, narrow investment

area or a lack of results to refer to, and also in larger, more experienced funds that lack capital Norfund often acts as a catalyst by mobilizing private investors to these funds.

Activity in 2010

The investment area SME Funds made investment commitments in three different funds for a total of NOK 153 million in 2010:

Agri-Vie is a fund that specialises in investing in SMEs within agriculture, forestry and aquaculture in Sub-Saharan Africa. The fund is one of the largest of its type in the region, and may play an important part in the development of these sectors in Sub-Saharan Africa. Norfund has invested ZAR 75 million (NOK 65 million). The total size of the fund is ZAR 796 million (NOK 689 million). The most important co-investors in the fund are Sanlam Life Insurance Ltd and WK Kellogg Foundation.

Aureos South East Asia Fund II (ASEAF II) is Aureos' second fund in South-East Asia. It is a generalist fund which invests in medium-sized companies. Norfund established Aureos jointly with British CDC in 2001, and subsequently divested completely in 2008. Aureos is still Norfund's most important fund manager. Norfund has invested USD 5 million (NOK 29 million) in ASEAF II. The fund has a total size of USD 250 million.

Frontier Fund is a first-generation, private equity fund that invests in SMEs in Bangladesh. The fund is the first of its kind in the country. Norfund has invested USD 10 million (NOK 59 million) in the fund (see separate case study).

PRIVATE EQUITY FUNDS

Investors inject money into funds which are used for investing in companies in the very early phase, growth phase or restructuring phase. The funds operate as long-term and very active owners to create value in the companies.

VENTURE CAPITAL

Sub-category of private equity funds. Investment typically in technology companies in an early phase with potential for rapid growth and expansion.

Another important activity for the investment area SME Funds in 2010 was the work to increase the amount of private capital in Norfund's focal areas. Norfund's strategy for 2010 had a clear aim to mobilise more private capital and expertise for our investments to strengthen Norfund's role as catalyst. Norfund considered several co-investment models, and several private investors showed an interest in learning more about the opportunities in Norfund's investment areas. However, Norfund found it difficult to attract sufficient interest to realise actual investments in a funds-of-funds initiative in 2010. Private investors are cautious about going into unknown markets, and many of the large institutional investors lack the mandate to engage in this type of investment.

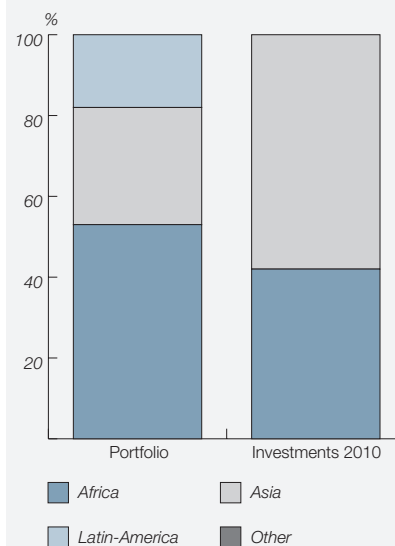
Development effects

Share of portfolio in Africa, LDCs, start-up enterprises and equity
53 per cent of the capital in SME funds is invested in Africa and 21 per cent is invested in LDCs. 15 per cent of the

**TABLE 8 – KEY FIGURES
SME FUNDS**

Committed investments (MNOK)	1 463 mill kr
Net disbursed investments (MNOK)	744 mill kr
New investment commitments in 2010 (MNOK)	153 mill kr
Number of investments	36
Share in least developed countries	21 %
Share of start-up enterprises	15 %
Employed in the funds' investments	93 000
Share of women	38 %
Payments to local authorities (MNOK)	1 146 mill kr
Norfund's weighted share of corporate tax (MNOK)	13 mill kr
Number of first-generation funds	24
Average corporate governance score (1 = poor, 5 = best)	2.75

SME Funds investments by region



capital is invested in newly established fund managers who have set up new funds that are innovative in respect of geography and/or segment. The funds primarily invest equity in the portfolio companies.

Jobs and tax

In 2010, 93 000 people, 37 per cent of them women, were employed in enterprises in which Norfund's SME Funds investment area has investments⁵.

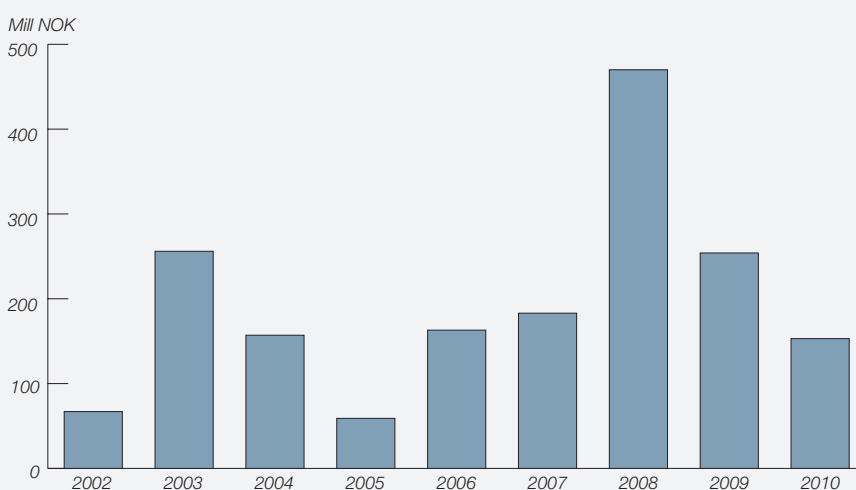
The companies paid a total of NOK 1.1 billion in corporate tax, charges and licences to local authorities. The financial institutions paid NOK 13 million in corporate tax, weighted according to Norfund's ownership share.

First-generation managers

Around two thirds of the SME funds in which Norfund has invested are managed by first-generation managers. The reason for reporting on this indicator is that many first-generation managers have difficulty in attracting funds in the private capital market. By investing in qualified first-generation fund managers, Norfund also plays a part in stimulating competition between fund managers in developing countries.

The SME funds disbursement rate is another development indicator that Norfund monitors carefully. A typical fund is designed to have an investment period of 3 to 5 years during which the fund invests the capital the investors have committed. However, investing the capital in time can be a challenge. This is largely due to the challenges inherent in investing in emerging and poorly developed markets in a prudent manner. The disbursement rate is especially low for

CHART 14 – NEW INVESTMENTS PER YEAR, SME FUNDS



first-generation managers, and Norfund therefore works actively together with fund managers and other fund investors to improve the disbursement rate.

Corporate governance

Good corporate governance is a cornerstone of sustainable growth. As it is commonly defined, corporate governance is the system by which companies are directed and controlled. Most small companies, especially family-owned businesses, can subsist with little to no corporate governance structure. Nevertheless, without adequate structures, the companies will be faced with a myriad of problems as they grow. As a consequence, Norfund works actively with its fund managers not only to identify and remediate any corporate governance hurdles, but to also help these institutions move towards best practices.

Every year Norfund performs a qualitative assessment of its funds' and finance institutions' corporate governance. Fund managers' and financial institutions' corporate governance frameworks are assigned scores from 1 to 5 depending on the level of their respective corporate governance frameworks and control mechanisms. A 5 rating (the highest), implies that a fund manager or financial institution can document a robust framework and good controls, whereas a rating of 1 implies that the manager or institution does not have an adequate corporate governance framework. The average score for the SME funds in 2010 was 2.75. Norfund's SME fund managers are placing increasing attention on corporate governance by ensuring that their respective portfolio companies have robust corporate governance frameworks. For example, during the course of 2010 we have observed improvements in this area in most of our Aureos funds. At the

same time, there is still room for improvement in several of our funds, particularly in our newer funds. Norfund will place special attention on these fund managers during 2011.

As an effort to contribute to improved corporate governance, the Norfund Grant Facility provided support to a training program for CASEIF II's portfolio companies. CASEIF II hired a corporate governance expert with experience in working with SMEs to provide solutions to the individual portfolio companies and help them implement these solutions. It was particularly important to combine family and business interests in the training, as most of the companies are family businesses. The project has been valuable both for the portfolio companies and the CASEIF II fund.

Outlook for 2011

SME funds will continue to be a central investment area for Norfund. Norfund will continue to invest in SME funds in accordance with its investment strategy. In 2011 and 2012 we expect that a number of the early investment funds will realise higher values, and this could free up capital for new investment projects. Norfund will work further on mobilising private capital and expects interest in private equity funds in emerging markets to increase among Norwegian private investors.

FRUITFUL BUSINESS

In a region that has had a tradition of agriculture, Caminos del Sol, based in Costa Rica, has found an interesting niche in food processing. Caminos purchases most of its raw materials from local farmers (many of them are indigenous people) and processes their fruits and vegetables to add value to the final product. The final product is sold to the global market. Much of the processing is done by hand from local workers in the region. Caminos provides stable jobs to more than 150 people, of which 95 are women. These employees come from small towns that have traditionally depended on the picking season, while at Caminos, they have more stable opportunities. Camino's revenues currently exceeds USD 10 million.

This is an investment made by CASEIF II, a PE fund Norfund has invested NOK 24 million in. Caseif II funds have also been used in streamlining the processing facility, certifying it, and vertically integrate the value chain.



5 By the end of 2010 Norfund had invested in 37 SME-Funds, whereof 29 had reported on its development effects.



FRONTIER FUND

Frontier Fund offers equity to SMEs in Bangladesh, one of the world's poorest countries. As one of the first specialised SME funds in Bangladesh, Frontier offers entirely new opportunities for growth and development of companies in need of capital. Many young, dynamic leaders with higher education from Europe or the US take over traditional enterprises and change the activity with the aid of innovative thinking. With a population of more than 150 million inhabitants and a large supply of labour, there are many possibilities. Norfund has invested USD 10 million of a total of USD 88 million in this fund, which is managed by a Bangladeshi subsidiary of Swedish Brummer and Partners. The fund is an example of a collaboration between DFIs such as Norfund, CDC, IFC and FMO and private Swedish investors, which together account for 50 per cent of the capital.

CHAPTER 7
INDUSTRIAL
PARTNERSHIPS



INDUSTRIAL PARTNERSHIPS

– DIRECT INVESTMENTS WITH ESPECIALLY STRONG DEVELOPMENT EFFECTS

Through the investment area Industrial Partnerships, Norfund grants loans to and invests equity in individual companies in sectors other than energy and finance, solely focusing on southern and eastern Africa. Industrial Partnerships committed to investments of NOK 189 million in 2010, and contractual investments at the end of 2010 amounted to NOK 551 million, in a total of 33 projects.

HIGHLIGHTS IN 2010

- Increased focus on agricultural investments in Africa, including a large investment in rice farming in Tanzania
- Two investments made in the tourism industry in East Africa: A hotel chain in Rwanda and a eco-tourism project in Masai Mara, Kenya

Norfund invests directly where established banks do not dare, in start-up companies and in other projects with high risk and high development effects. This type of investment gives Norfund the greatest opportunity for choosing partners and projects, but it is resource-intensive and highly demanding with regard to project and partner evaluation, and sector and country understanding. Owners, management, authorities and often also customers are involved in the work of making the company viable. If they are successful, profits and development effects may be substantial both the local community and the country.

Strategy

Industrial Partnerships' remit is to make investments that have especially strong development effects, engage in active ownership, and have a local network and presence. The geographical focus is on sub-Saharan Africa.

Agriculture and related industry are most important, but Norfund also invests in other sectors, such as tourism and industry. Norwegian companies can potentially contribute a great deal to growth in Africa, and Norfund wish to make more investments in collaboration with Norwegian companies. In addition to capital, Norfund assists partners in understanding countries and markets, provides locally anchored investment expertise through our experienced project managers, and a local business network.

In Industrial Partnerships we seek equity positions that confer influence. Norfund does not normally own more than 35 per cent of the shares in a company, but in special cases we have up to a 49 per cent stake.

Activity in 2010

In 2010, Norfund took on investment commitments worth NOK 189 million in the area of Industrial Partnerships. The investments went to three new enterprises, two follow-up investments in Matanuska and Casquip and to broader financial involvement in the European co-financing mechanism, European Financing Partners (EFP).

The financial return from this demanding portfolio was 7 per cent in 2010, and this made it the fourth consecutive year with good returns.

Two projects were concluded in 2010, Grameenphone and Craft Silicon (see page 21).

Agriculture in Africa

Norfund invested in a rice farm in Tanzania in 2010. The company Agrica will produce rice for the domestic market (see case on page 47). Norfund's total agriculture and forestry portfolio has now reached 205 million kroner in direct investments. In addition we have provided a loan to the agricultural bank



Avokado tree nursery, Africado, Tanzania

LAAD and have invested in the private equity fund Agri Vie, which is targeting agriculture. We have also some other indirect agri investments through other equity funds. The total agriculture portfolio amounts to about 335 million kroner.

In 2010, Norfund spent a considerable amount of resources following up and developing other agri investments in the portfolio in 2010, like Casquip in Swaziland, Matanuska in Mozambique and Africado in Tanzania.

Tourism – one of the world's key industries
Norfund invested in two new tourism projects in 2010. With this, the total

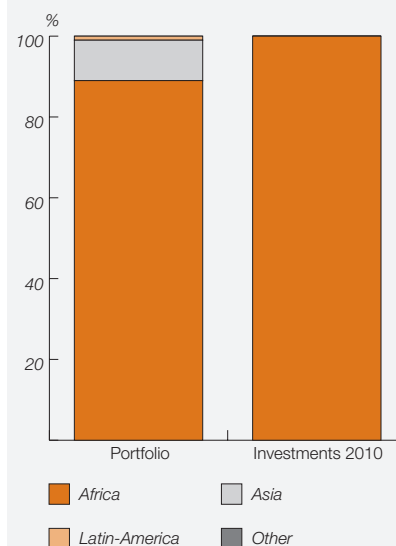
tourism portfolio amounts to 150 million kroner. Today Basecamp Explorer Kenya runs three safari camps in the Masai Mara, and has won a number of international awards for their pioneering work within eco-tourism and responsible travel.

TPS Rwanda is a tourism and hotel company which owns the Kigali Serena Hotel and Lake Kivu Serena Hotel in Gisenyi, and is building a new lodge in the north-western corner of Rwanda. The Aga Khan Fund for Economic Development (AKFED) owns the majority stake in the company, which is managed and promoted by the Serena hotel chain. Kinigi Lodge will serve the important mountain gorilla tourism sector, which is

**TABLE 9 – KEY FIGURES
INDUSTRIAL PARTNERSHIPS**

Committed investments (MNOK)	552 mill kr
Net disbursed investments (MNOK)	297 mill kr
New investment commitments in 2010 (MNOK)	189 mill kr
Number of investments	18
Share in least developed countries	67 %
Share of start-up enterprises	30 %
Share of equity investments	51 %
Employed	12 500
Share of women	13 %
Payments to local authorities (MNOK)	755 mill kr
Norfund's weighted share of corporate tax (MNOK)	0.4 mill kr
Domestic purchases (MNOK)	200 mill kr

Industrial partnership investments by region



a very important income source for Rwanda. Norfund will invest about 30 million kroner in the project.

As a labour-intensive industry, tourism generates major economic ripple effects

and has high development effects. This is particularly important in the world's poorest countries: Today tourism is the largest export industry in 47 of the 50 least developed countries. Nature, animal life and local cultures are often

the greatest assets in these areas. Well organised tourism results in sustainable use of resources and can ensure opportunities for local communities that have few alternative sources of income. The number of tourist arrivals internationally rose by 7 per cent in 2010, and annual growth of 4 per cent is expected up to 2020. Growth is particularly strong in developing countries, and 47 per cent of tourists travelled to developing countries in 2008.

However, tourism is an industry that requires substantial equity to absorb the financial fluctuations that the sector is subject to. There are also high fixed costs in the industry. As a result of these challenges, private investors often regard such investments in poor developing countries as high risk. For Norfund, tourism is therefore an important area where our long-term capital is often crucial for creating new businesses.

Norfund is considering a number of new projects in countries like Kenya, Tanzania, Burundi and Mozambique. Experience shows that cooperation with solid partners and a long-term horizon are important success factors.

Strengthened European cooperation

Since 2005, Norfund has taken part in the EFP co-financing mechanism along with Norfund's sister organisations and the European Investment Bank (EIB).

EFP was evaluated in 2009 and received positive feedback as a non-bureaucratic and efficient facility reaching companies in developing countries.

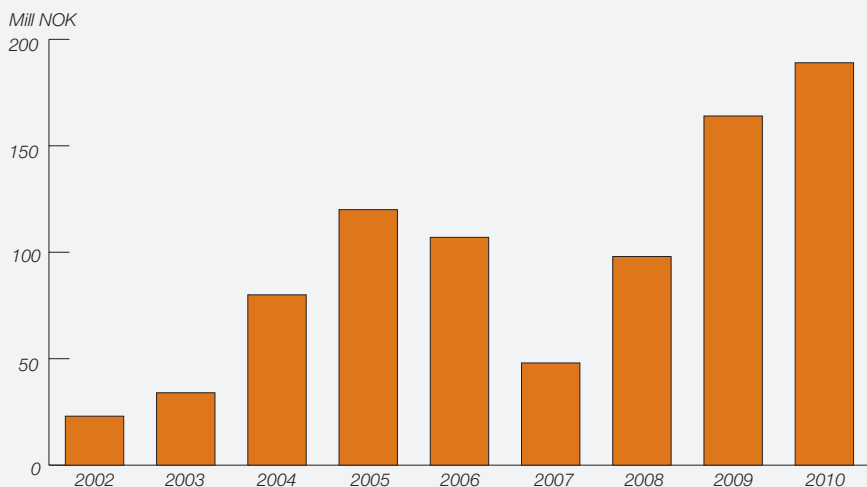
AGRIBUSINESS IN AFRICA

Agriculture is important because investments in the sector have strong development effects. Studies show that growth in agricultural industries is at least twice as efficient to alleviate poverty compared with growth in other sectors. Investments in agriculture can give substantial employment, export incomes or reduced imports, and cash income to small scale farmers. The growth potential for farming in Africa is large, both because vast areas lie fallow, and because the average yields are way below what we see on other continents.

Investments in agriculture have shown highly risky, and there have been many failures. There are agronomical risk related to weather, diseases and pests. It is also demanding to recruit competent management. The agricultural markets are prone to substantial price fluctuations and can often be tightly linked to politics through public regulation. Access to land is a sensitive area. The local population can be subject to major harm if the rights to the land are not dealt with in responsible manner. It is also important to ensure that the business is run in an environmentally sustainable way to prevent damages to the soil or water resources.

Agribusiness is a focus area of Norfund, and we are continuing to develop competencies within the field for it to become one of our areas of expertise.

CHART 15 – NEW INVESTMENTS PER YEAR, INDUSTRIAL PARTNERSHIP



Norfund has invested in 11 projects through EFP, all of them in Africa and 55 per cent of them in LDCs. Besides making it possible to finance major projects in developing countries, EFP is also important to cooperation and transfer of expertise among the European DFIs. In 2010 Norfund committed itself to a EUR 10 million contribution to EFP.

Small enterprise loans

As instructed by the Storting (the Parliament) Norfund has established a loan scheme for providing small loans to Norwegian companies that invest in LDCs (previously known as LDC loans). The objective is to realise risky projects with a high development effects. Emphasis is placed on local anchoring and transfer of expertise. In the course of 2010, one new loan to Pride Architects in Uganda was issued under this scheme. The facility was also revised to apply for all countries within Norfund's strategy (see overview in fold out), and the granting policies simplified somewhat. This means that loans can be given in a number of new countries, such as Vietnam, Kenya, Zimbabwe, Namibia and South Africa, in addition to six Central American countries.

Development effects

Share of portfolio in LDCs, Africa, start-up enterprises and equity
89 per cent of committed capital is devoted to Africa and all new investments are to go only to Africa. The LDC share is 67 per cent. 30 per cent of the capital is in start-up projects, but among investments made since Norfund's new strategy took effect in 2007 the share is 43 per cent. Nearly half of the capital, 44 per cent, is invested as equity.



Green Resources' sawmill, Sao Hill, Tanzania.

Jobs

An important development effect of Norfund's operations is that business establishments and expansions create employment opportunities for poor people. Jobs in the formal economy contribute to increase stability for the workers, enabling them to plan their lives more easily and borrow on the basis of future earnings.

The investment area Industrial Partnerships had 14 active investments in 2010. The companies differ considerably. For instance, three are very small, and funded through the Small Enterprise Loan scheme. They have only a handful of employees, whereas TPS Pakistan and Matanuska have several thousand

employees each. A total of 12 700 people, 13 per cent of whom are women, worked in enterprises invested in through Industrial Partnerships. The share of female employees is highest in Casquip and Nicafish, which are enterprises related to primary industries, and lowest in service enterprises like TPS Pakistan and Kabul Serena Hotel.

Apart from those formally employed in the companies, there are many others who benefit indirectly from them, such as vendors, contractors and suppliers of services to the companies. It is difficult to determine how many this applies to, but Agrica and Matanuska, for example, estimate that in addition to their own employees, 350 and 400 persons

respectively, had their main income from jobs connected with the farms' operations in 2010. Nicafish also provides a living to almost 2 000 local fishermen who sell their catch to the company.

Tax revenues

Both the enterprises Norfund invests in and their employees pay taxes, duties and other charges to local authorities, which are important to render the financing of collective benefits possible. In 2010 the companies within this investment area contributed with more than NOK 750 million in taxes, charges and duties. Weighted according to Norfund's ownership share in the companies, the contribution was only NOK 0.4 million. This number is low because it only includes companies where Norfund has a direct equity investment, and only corporate tax is taken into account. In addition many of Norfund's Industrial partnerships are companies still under development, and only four of these investments paid corporate tax in 2010.

Domestic purchases

An expected development effect of Norfund investments is the creation of opportunities for other commercial activities. Therefore, Norfund asks companies to report purchases of goods and services, and the relative proportions of domestic purchases and imports.

In 2010 the companies made domestic purchases for approximately NOK 200 million, and most of them bought more than half their purchases nationally. For some, like Nicafish and TPS Pakistan, the share of national procurement was over 70 per cent, while it for Matanuska was only 16 per cent. These differences

are due to the fact that the companies are in different phases of operation. Start-up enterprises, like Matanuska, often need to import more specialised goods and materials than companies that are fully operational. Moreover, LDCs often do not have domestic industry to supply export-oriented companies with the necessary factor inputs.

Geographical factors also play a part: an enterprise like Matanuska has an particularly high development effect because of its isolated location in northern Mozambique, but its location also makes it easier to import goods from markets in neighbouring countries such as Zimbabwe and Malawi than to purchase goods with longer transportation distance within Mozambique.

Training

An important development effect of Norfund's activities is enhancement of skills and expertise. Employees who acquire new skills, knowledge and insight are more valuable to the companies and more attractive employees.

With the exception of two, all portfolio companies, have carried out extensive training activities in 2010, e.g. work related training programs in farming, foreman training, personnel management, and occupational health, safety and environment (HSE). More than ten per cent of the 12 700 employees also received training not directly related to their positions, such as fire fighting and first aid, as well as courses related to private health and HIV/AIDS.

Transfer of technology

Technology transfer is an important development effect, and business

establishments and activities are effective ways of achieving such effects. Therefore, Norfund takes the assumed potential for technology transfers into account when making investment decisions. In 2010, eight of the 14 active investments contained elements of technology transfer. For example, Green Resources has introduced a new, mechanised three nursing technology in Tanzania, and Agrica teaches local small-scale rice farmers more efficient farming techniques to help them achieve better yields.

Infrastructure improvement

The establishment of companies can also benefit local communities by improving the physical and social infrastructure in the area. Examples are better roads and easier access to electricity and water. The companies report on this type of activities to Norfund, and six companies reported that they had contributed to infrastructure improvements in 2010. Several of Norfund's investments have build wells, improved schools and roads, and introduced renewable solar technology for power and heating.

Outlook for 2011

Industrial Partnerships is to continue the work of building a portfolio of projects with a high development effect and high additionality.

Agriculture and industry related to agriculture receive priority, and we intend to build up expertise in this field. It is also crucial to build up an organisation that can handle demanding projects in difficult markets.

RICE FARMING TO HELP FEED A NATION

In September 2010 Norfund invested USD 10 million in a rice production farm in the Kilombero Valley of Tanzania. Kilombero Plantations LTD (KPL) is located in an area believed to be one of the best rain-fed sites of Eastern Africa. The 5 000 hectares of farm land has the potential to produce 30 000 tons of rice per annum.

Tanzania is currently not able to produce sufficient food to meet demand. Agriculture is still dominated by small-scale farmers; about 70% of its farming is dependent on hand-hoe, 20% on ox-plough, and 10% on tractors. Given the government's efforts of supporting the rural poor and reducing malnutrition, the development of agriculture is a clear favourite to help alleviate the country's poverty. The growth in food production has been sluggish due to poor supporting infrastructure, inadequate extension services, poor technology of production, and a lack of appropriate agricultural financing mechanisms.

Many of the required conditions for growing rice are given by nature, but technology can also make a vast difference. KPL is privileged to boast distinctive facilities such as a mini hydro-power plant, around 150 km of roads and drainage, staff housing, offices, workshops, weigh-bridge, storage rooms, primary & first aid room, and a 6 200 sq.m rice factory & warehouse with a first-class milling plant. Norfund's investment allows KPL the ability to

purchase much needed vehicles, machinery, equipment, drying-bins, silo bags & machines, chemicals, seeds and fertilisers, among others to improve yield and harvest quantity.

Agrica has initiated 'System of Rice Intensification programme' (SRI) to facilitate mentoring of small scale farmers to increase the quality and quantity of yields, and contribute to ensuring work for the young adults in the area. Norfund is one of several parties funding the programme through grants. The long-term goal of the SRI Extension program is to increase the number of participant farmer families from 15 to as many as 2700 by 2013. By doubling or tripling rice yields for a farmer family, SRI will essentially double or triple the annual family income, helping to relieve and reduce the poverty levels in the vicinity.

With its large production capacity KPL will represent a significant increase in security to the supply of rice in Tanzania. This project is therefore an important investment for Norfund to help contribute to the nation's supply of rice, employment, and import substitution. Promoting the role of the country's smallholders remains a clear goal of the Tanzanian Government, and it is therefore reliant on local projects such KPL. This farm project will be the bench-mark for future Tanzanian Government sector activity.



SUSTAINABLE TOURISM THROUGH BASECAMP EXPLORER KENYA

Norfund invested in the Norwegian-owned company Basecamp Explorer Kenya Ltd, which operates three safari camps in the Masai Mara area of Kenya. Masai Mara borders on the Serengeti National Park and is one of the best known tourist destinations in Africa. The ecosystem has the highest density of wild animals on the continent, and provides the setting for the last major animal migration in the world. The livelihood of the nomadic Masai, relies on herding cattle and other livestock in the area. In recent years warning lights have been blinking for both the great migration and the traditional way of life of the Masai. Water shortages, privatisation of grazing land, overpopulation and poverty are significant challenges in the area.

Tourism accounts for 15 per cent of Kenya's GDP, and given the country's fantastic nature and animal life, the sector has great potential. The goal is to find 'win-win' solutions that lift the local population out of poverty while conserving the natural environment.

In addition to its business activities, Basecamp Foundation has been established to contribute to social and environmental measures in the area. The foundation has contributed to formal cooperation between over 500 Masai landowners. They have converted their properties into a private nature reserve, Mara Naboisho, and have a regular inflow of revenues from tourism in the area. This has made the Masai less economically dependent on cattle herding and improves their management of natural resources. A managed form of safari tourism consistent with the Masai way of life and increases the return on their land. And at the same time ensures conservation of natural resources and is an effective adaptation to climate changes.

In its 12 years of history, Basecamp in Masai Mara has gained wide recognition and has won a series of prizes for its engagement in responsible tourism. The company has won the Responsible Tourism Award, the SKÅL Eco Award, and in 2009 it was selected by National Geographic as one of the 10 best savannah experiences in the world.



CHAPTER 8

ORGANISATION AND GOVERNANCE



ORGANISATION AND GOVERNANCE

The Board of Directors

Norfund's Board of Directors ensures that the Fund is operated in accordance with the Norfund Act, owner instructions and defined strategy. The Board approves individual investments that exceed specified amounts, and projects that are considered to be high-risk. The Board has delegated investment decisions for other projects to the Managing Director.

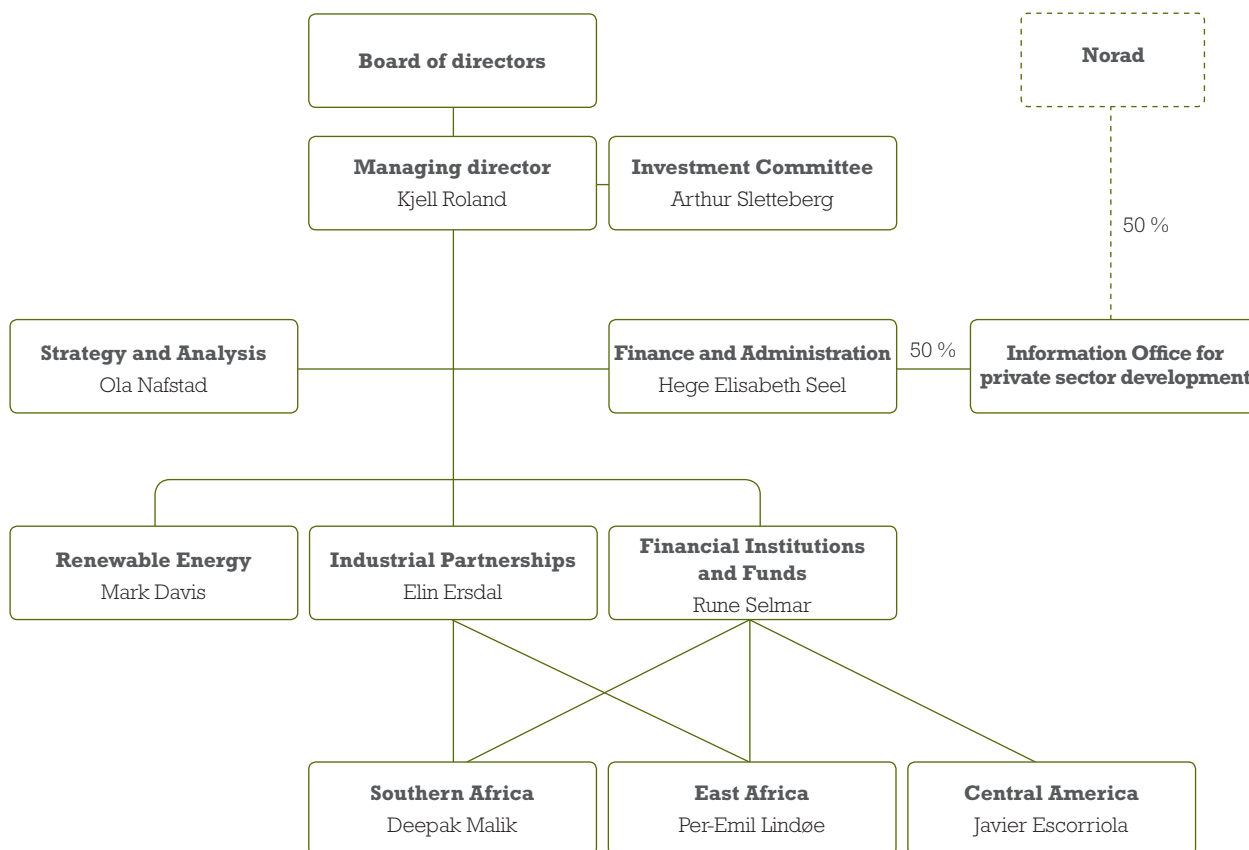
Investment Committee

The Investment Committee serves as an advisory body for the Managing Director, and is chaired by an external person. The Investment Committee deals with all investments at least twice: First the project is approved in principle, then final approval is given based on a thorough assessment of risks and development effects.

Investment departments and regional offices

Norfund is organised in three investment departments as different expertise and networks are necessary to make investments in the focal areas of the strategy. Local expertise is also important, and Norfund therefore has three regional offices with a total of eleven employees. They report directly to the heads of department in Oslo.

NORFUND'S ORGANISATION



NORFUND'S BOARD OF DIRECTORS 2010



Kristin Clemet, Chair, Oslo

Born in 1957, Master's degree in Business and Economics (siviløkonom) Heads the think tank Civita. Ms Clemet has extensive political experience and was Minister of Education and Research from 2001 – 2005, deputy director of the Confederation of Business Enterprise (NHO) from 1998-2001, Minister of Labour and Administration from 1989 -1990 and a member of the Storting (parliament) from 1989 - 1993. Ms Clemet also has other a number of other directorships.



Karl-Christian Agerup, Deputy Chair, Oslo

Born in 1962, MSc in management. Managing director of Oslo Innovation Centre. Founder and partner of Northzone Ventures. Extensive experience from the financial sector, including Hugin AS, McKinsey and Company and Milipore Corporation. He also has boardroom experience from the Norwegian Children and Youth Council (LNU) and Schibsted ASA.



Borghild Holen, Director, Oslo

Born in 1955, Master's degree in Business and Economics (siviløkonom). Head of the international section of the International Corporates and Institutions Division of DnB NOR bank. Ms Holen has a background from the Norwegian credit finance institution Eksportfinans, was a member of the North-South/Development Assistance Commission (1993-1995) and is a former director of the Norwegian Guarantee Institute for Export Credits (GIEK).



Mari Skjærstad, Director, Hamar

Born in 1969, degree in law. Ms Skjærstad is a lawyer and partner in the firm of lawyers Johnsrud, Sanderud & Skjærstad AS, and has worked as a commercial lawyer since 1995. She has experience from transactional law, mergers and acquisitions, finance and start up companies both from Norway and international. Her other directorships include Mesta, Flytoget, Scana Industrier and Forsvarsbygg.



Stein Tønnesson, Director, Oslo

Born in 1953, PhD in history. Senior researcher at the International Peace Research Institute, Oslo (PRIO) and director of the research programme East Asian Peace at Uppsala University. Dr Tønnesson has extensive research experience, with a particular focus on Asia. He is a former chair of the board of the programme "Development Paths in the Global South", under the auspices of the Research Council of Norway. His boardroom experience includes CARE Norway.



Svein Tveitdal, Alternate Director, Froland

Born in 1947, civil engineer. Director of Klima 2020 AS and ambassador for the environment of Arendal Municipality. Mr Tveitdal is a former director of GRID Arendal and divisional director of the UN Environmental Programme (UNEP), at its head office in Nairobi, Kenya. He is currently chairman of the boards of the Asplan Foundation, Sørlandets Europakontor AS, Frameworks AS and Purity AS and is a board member of the University of Agder, Earthprint Ltd and the environmental foundation ZERO.



Anett Hollum Valsvik, Alternate Director, Oslo

Born in 1966, Master's degree in Business and Economics (siviløkonom). Ms Valsvik is employed with Det Norske Veritas and has previously worked in the Asian Development Bank and in the Norwegian Agency for Development Cooperation (Norad). She has more than 10 years of experience from development cooperation projects and international finance institutions. Ms Valsvik was on the board of Norplan from 2003-2005, and has also served as a director of Scan-Water AS.

DEFINITIONS AND ABBREVIATIONS

Additionality – Value added over and above what the market or private sector commercial agents normally supply.

BRIC – Abbreviation referring to the four main growth economies in the world: Brazil, Russia, India and China

Catalytic – Mobiliser of private capital and expertise that would not otherwise have been available to poor countries.

CDM – Clean Development Mechanism. A mechanism from the Kyoto Protocol to promote emission reductions in developing countries through international trade with emission quotas.

Committed investment – Norfund has committed to invest the cited amount. This is what we use for all portfolio numbers.

DAC – Development Assistance Committee: a coordination body for development assistance within the OECD (see explanation below).

DFI – Development Finance Institution: A collective name for institutions that invest in developing countries with the object of combating poverty by contributing to economic growth. Norfund is a DFI.

EDFI – European Association of Development Finance Institutions: a European association of development investors of which Norfund is a member.

EFP – European Financing Partners. A co-financing mechanism for EDFI-members.

ESG – Environmental, safety and governance

Exit – The termination of an investment project by the investor through sales of shares or repayment of loans.

FDI – Foreign Direct Investment

GDI – Gross domestic income

GDP – Gross domestic product: Indicates the size of a country's economy, measured as both total amount and per capita (per inhabitant)

GIEK – Norwegian Guarantee Institute for Export Credits

HSE – Health, safety and environment

ICCF – Interact Climate Change Facility. Financing mechanism to reduce climate change impact in developing countries established through collaboration between European DFIs

IFC – International Finance Corporation: part of the World Bank group and invests in the private sector in developing countries.

IMF – International Monetary Fund

IRR – Internal Rate of Return. A measure of the returns from the project to the investor

LAAD – Latin American Agribusiness Development Corporation

LDCs – Least developed countries. These are usually defined as having a GDP per capita of less than USD 750.

NMI – Norwegian Microfinance Initiative. A co-operation between Norfund, DnB NOR, Storebrand, KLP and Ferd to invest in microfinance.

OECD – Organisation for Economic Cooperation and Development. an international organisation of economically developed countries (industrial countries).

OFC – Overseas finance centres. Also known as closed jurisdictions or tax havens.

Private equity funds – Investors inject money into funds that are used for investing in companies in the very early phase, growth phase or restructuring phase. The funds operate as long-term and very active owners to create value in the companies.

SMEs – Small and medium-sized enterprises. According to the IFC's definition, small enterprises in developing countries have up to 50 employees and a turnover of up to NOK 18 million. Medium-sized enterprises have between 50 and 300 employees and a turnover of NOK 18-45 million.

Venture funds – Category of private equity funds. Investments in technology companies in an early phase, with potential for growth or expansion, typically prior to internationalisation.



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