Norfund

# 2014

# REPORT ON OPERATIONS

NORWEGIAN INVESTMENT FUND FOR DEVELOPING COUNTRIES

**Norfund**
**Report on Operations 2014**

---

**Head office**
Oslo Norway

**Visiting address:**
Støperigata 2, Aker Brygge,
0250 Oslo, Norway

**Postal address:**
PO Box 1280 Vika.
No-0111 Oslo, Norway

**Phone:**
+47 22 01 93 93

**Fax:**
+47 22 01 93 94

**E-mail:**
post@norfund.no

**Internet:**
www.norfund.no

---

**Design & production**
Dinamo

**E-mail:**
magazine@dinamo.no

**Repro**
Dinamo

**Print**
Merkur Grafisk

# THIS IS NORFUND

Norfund – the Norwegian Investment Fund for Developing Countries – was established by the Norwegian Parliament in 1997. The fund is the government's main instrument for combatting poverty through private sector development. Norfund's objective is to contribute to sustainable commercial businesses in developing countries. Funding is provided via capital allocations from Norway's development assistance budget.

Many countries support development through similar investment funds and Norfund and its international sister organisations are known as Development Finance Institutions (DFIs).

Norfund provides equity, other risk capital, and loans to companies in selected countries and sectors where businesses lack access to sufficient capital to develop and grow.

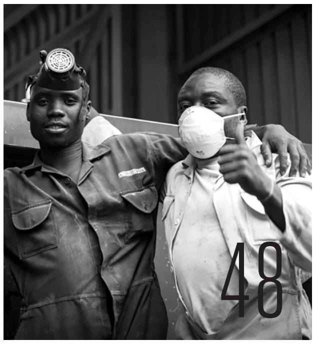
Our main investment regions are Southern Africa and East Africa, and we have offices in Johannesburg, Maputo, and Nairobi. Norfund also invests in selected countries in South-East Asia and Central America via our regional offices in Bangkok and San José.

Norfund always invests jointly with partners, both Norwegian and non-Norwegian. By co-investing with others, we leverage additional capital and can ensure the industrial and local knowledge needed for each investment. Norfund is set up to serve as an instrument for Public Private Partnerships.

All of our activities are conducted in accordance with the core principles of Norway's development cooperation policy.

Norfund is a state-owned company with limited liability, established by a special Act of the Norwegian Parliament. Norfund is owned on behalf of the Norwegian government by the Ministry of Foreign Affairs. The Minister of Foreign Affairs has constitutional responsibility for the organisation. Norfund's Board of Directors is appointed by the King in Council. ■







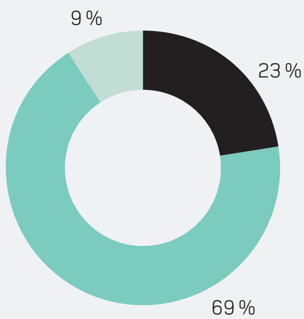
# CONTENTS



# PORTFOLIO END OF YEAR 2014

■ Financial Institutions ■ Industrial Partnerships ■ Clean Energy ■ SME Funds

## LATIN AMERICA
Total investments: **NOK 3.49 billion**

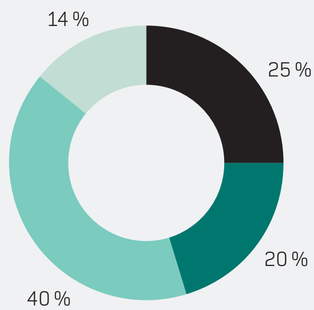



100 COMPANIES

37,000 JOBS

1,400 MILLION NOK
PAID IN TAXES


## AFRICA
Total investments: **NOK 6.04 billion**

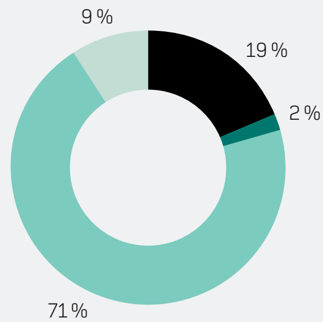



490 COMPANIES

110,000 JOBS

6,300 MILLION NOK
PAID IN TAXES


## ASIA
Total investments: **NOK 3.30 billion**




110 COMPANIES

80,000 JOBS

1,400 MILLION NOK
PAID IN TAXES


## NORFUND´S REGIONAL OFFICES

1 San José, Costa Rica

2 Nairobi, Kenya

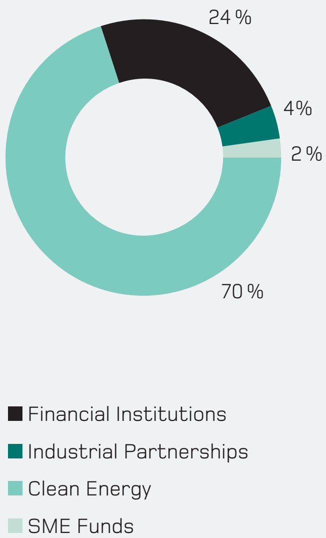
3 Maputo, Mozambique

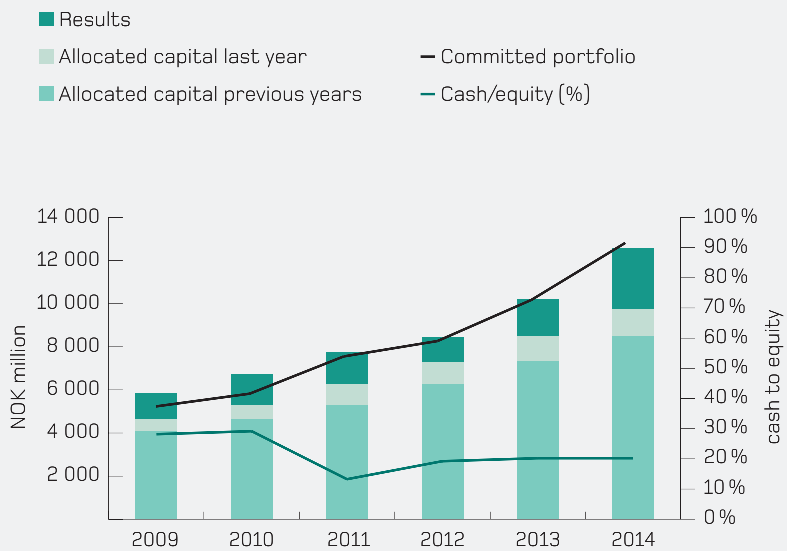
4 Johannesburg, South Africa

5 Bangkok, Thailand

# INVESTMENT ACTIVITIES AND RESULTS 2014

NEW INVESTMENTS IN 2014:
**NOK 3.65 billion**




| KEY FIGURES NORFUND 2009–2014 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|
| Committed investments (NOK m) | 5 264 | 5 844 | 7 581 | 8 295 | 9 630 | 12 843 |
| Number of investments | 81 | 85 | 99 | 107 | 118 | 126 |
| New investments (NOK m) | 944 | 844 | 2 198 | 1 234 | 1 872 | 3 645 |
| Share of new investments in least developed countries | 36 % | 45 % | 14 % | 54 % | 42 % | 24 % |
| Return on invested capital | 4 % | 10 % | 9 % | 10 % | -1 % | -6 % |
| Profit in investment currency (NOK m) | 262 | 153 | - | 203 | 237 | 115 |
| Capital supplied by the owner (NOK m) | 585 | 629 | 1 000 | 1 030 | 1 198 | 1 230 |
| Total equity (NOK m) | 5 871 | 6 747 | 7 735 | 8 439 | 10 201 | 12 597 |
| Number of employees in Norfund | 41 | 45 | 49 | 50 | 54 | 61 |
| Number of employees in Norfund investments | 148 000 | 167 000 | 265 000 | 294 000 | 314 000 | 227 000 |

A MESSAGE FROM

# KJELL ROLAND

*Managing Director*

# LEVERAGING LONG-TERM PARTNERSHIPS

2014 was an exciting year for Norfund. We invested in a record number of new projects, grew existing public private partnerships, and established new strategic platforms. Our partnerships with Scatec Solar and CDC (UK sister fund) will dramatically diversify and expand our energy portfolio and anchor our presence further in Africa.

## DELIVERING TO TARGETS

Norfund committed a record NOK 3.6 billion in 2014 to new investments, and our portfolio stands at NOK 12.8 billion.

Norfund is now supporting the development of 700 companies worldwide, which together employ a total of 227,000 employees. 38 per cent of the investments we made in 2014 were in renewable energy. Of these, 23 per cent were investments in countries classified as 'least developed' and 84 per cent in sub-Saharan Africa.

Our achievements are reflected in an independent external evaluation of Norfund's operations which reported that we are delivering on our mandate, that we are cost efficient, and that we are succeeding in our role as an active owner.

## PUBLIC–PRIVATE PARTNERSHIPS

Our first major strategic partnership was developed in 2002 when Norfund together with Statkraft established SN Power. In the same year, Norfund and CDC created Aureos, a fund management company with mandate to invest in small- and medium-sized enterprises (SMEs). In the last couple of years we have further developed long-term public private partnerships with investors and industrial partners that have enabled us to scale-up efficiently and demonstrated our catalytic ability to mobilise capital.

In 2014, Norfund completed the restructuring of SN Power and began to capitalise fully on new platforms. In partnership with financial investors, Norfinance has invested in two African banks. Furthermore, KLP is now an investor in four Scatec Solar projects as well as the Lake Turkana Wind Power Project.

Among our partnerships with industrial investors, our collaboration with Statkraft has expanded to include hydropower assets in Laos. Our joint portfolio with Scatec Solar also continues to grow, with a commitment to date for a total capacity of 250 MW from solar power plants. In late 2014, we acquired a 30 per cent stake in the African independent power producer Globeleq Africa. Together with CDC, our long-term plan is to strengthen Globeleq as an industrial power developer in a market with significant regional growth potential. In the next ten years, Globeleq aims to build 5,000 MW of generating capacity.

Our recent investment in Kenya's Equity Bank has enabled continued and expanded lending to SMEs and unbanked, those without previous access to banking systems, on a scale not previously seen in East Africa.

All these investments are examples of successful public private partnerships. Norfund, as a government funded institution, has mobilised private partners – both investors and industrial companies – in markets and projects that are contributing to the long-term development of poor countries.

## SMALL- AND MEDIUM-SIZED ENTERPRISES

SMEs play a pivotal role in the development of every economy. They contribute to employment, to economic diversification and growth, and to satisfying rising local demand for products and services. However, SMEs often lack access to capital and skills and banks normally do not offer debt without solid collateral. Investing in SMEs is therefore an important part of Norfund's strategy. Norfund committed NOK 71 million to SME funds in 2014. Our existing portfolio of 40 funds made new investments in 48 companies and 'exited' 36 investments, generating a total turnover in the funds portfolio of NOK 357 million and a net reflow to Norfund of NOK 50 million.

Ten to fifteen years ago, we were pioneers in establishing management companies and funds. These funds are maturing and to an increasing degree attracting mainstream investors. To remain additional, our fund strategy has progressed over the last few years. Where private investors provide capital for growth, we invest in funds willing to support start-ups and early phase investments. In poorer and less developed markets where mainstream funds are not willing to invest, we help to provide capital to SME funds.

We believe that Norfund's nearly two decades of experience and our solid track record will allow us to attract significant private capital in 2015 which can be invested alongside what we do: investing for development with decent financial returns!

Kjell Roland
Managing Director


CULTIVAR-WILLIAMS
W.O.P-WEEK 49
(2011)

REPORT ON OPERATIONS

# THIS IS NORFUND

*Year 2014*

# BOARD OF DIRECTORS

Norfund's board of directors ensures that the Fund is operated in accordance with the Norfund Act and owner instructions, and approves Norfund's strategy. The Board further approves individual investments exceeding certain amounts, and projects considered high-risk. The Board has delegated investment decisions for other projects to the management.

Back Row: Marianne Halvorsen, Margareth Aske, Kristin Clemet, Finn Jebsen, Borghild Holen
Front Row: Stein Tønnesson, Petter Vilsted, Martin Skancke

**KRISTIN CLEMET, OSLO | CHAIR**
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 a number of other directorships.

**MARGARETH ASKE, OSLO | DIRECTOR**
Born in 1979, Master's degree in Political Science. Head of Communications and responsible for change processes at Avinor. Previously an advisor to the start up Sahara Forest Project and global Communications Director at Tomra Systems ASA. She has several years of experience from corporate responsibility in the Telenor Group. She also has experience from the UNDP and the OECD.

**STEIN TØNNESSON, OSLO | DIRECTOR**
Born in 1953, Dr Philos in history. Senior researcher at the Peace Research Institute Oslo (PRIO) and leader of the research programme "East Asian Peace" at Uppsala University. He is the former director of PRIO (2001-09) and has been member of a number of programme committees in the Research Council of Norway, the Danish Innovation Fund, and the Swedish Research Council. His boardroom experience includes CARE Norway and the Institute for Social Research (ISF).

**BORGHILD HOLEN, OSLO | DIRECTOR**
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 Export Credit Guarantee Agency (GIEK).

**FINN JEBSEN, OSLO | DIRECTOR**
Born in 1950, Master's degree in Business and Economics (siviløkonom). Jebsen is self-employed and holds extensive experience from Norwegian industry. He worked for 25 years in the Orkla Group, where he was a member of the Group Executive Board since 1984 and CEO from 2001 to 2005. Extensive board experience, including Kavli Holding AS, Awilhelmsen as, Kongsberg Gruppen and Norsk Hydro ASA.

**MARTIN SKANCKE, OSLO | DIRECTOR**
Born in 1966, Master's degree in Business and Economics (siviløkonom). Self-employed in Skancke Consulting, advising on the design and management of sovereign wealth funds and other long-term investment vehicles. He started in the Norwegian Ministry of Finance in 1990, heading the Section for Monetary Policy and Public Finances from 1994. Director General at the Office of the Prime Minister from 2002. From 2006 to 2011 he was Director General and head of the Ministry of Finance Asset Management Department.

**MARIANNE HALVORSEN | DIRECTOR (employee elected)**
Born in 1967, Master's degree in Business and Economics (siviløkonom). Halvorsen has worked in Norfund since 2001, first as Finance and Administration Manager, later as Investment Manager in the department for Financial Institutions. She has worked five years in GIEK and had various jobs in insurance and finance. Currently a member of NMI's investment committees, the Lending Committee of Kolibri Kapital and the Boards of the Crimson funds in Macedonia and Kosovo.

**PETTER VILSTED, OSLO | DIRECTOR (employee elected)**
Born in 1973, political scientist. Employed as Senior Sustainability Adviser in Norfund since 2007, working mainly with sustainability and investment projects in clean energy. Vilsted previously worked for seven years in Det Norske Veritas with consulting, research and service development.

# ORGANISATION

**INVESTMENT EXPERTISE.** Norfund has the largest specialised team in Norway for investment in developing countries. Of a total of 61 employees, 38 work directly with the investments and follow the projects through all phases of the investment process. Several of the investment staff have board positions in investee companies, but we also utilise our external network to recruit to such positions.

To build and retain expertise, Norfund is organised in three sector-based departments: Industrial Partnerships and SME funds, Financial Institutions, and Clean Energy.

Our 21 experienced staff members across five regional offices (Johannesburg, Nairobi, Maputo, San José and Bangkok) ensure local proximity and knowledge.

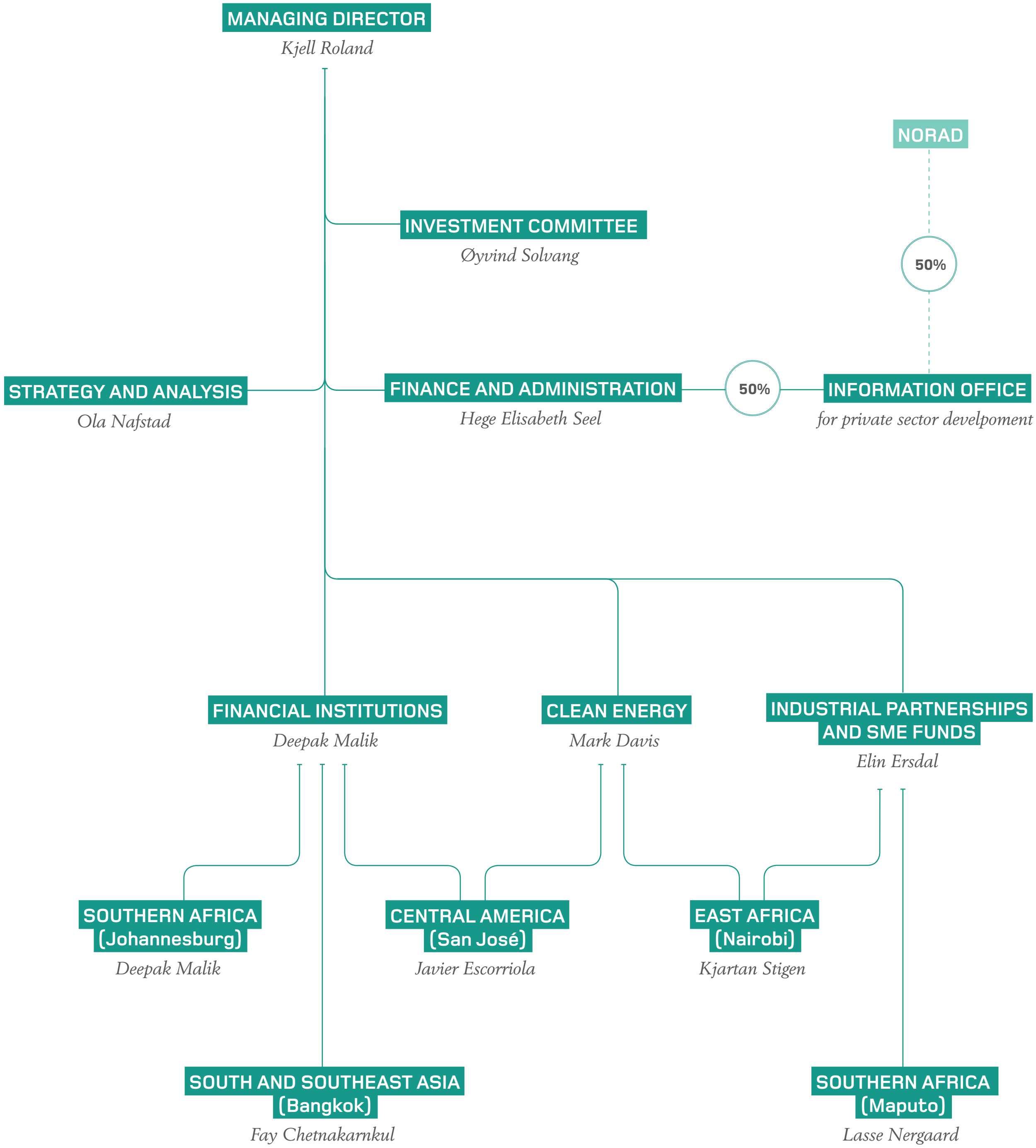
Norfund has three dedicated expert positions to follow up our investments regarding environmental, social and governance aspects.

The Strategy and Analysis department ensures internal and external knowledge management and supplies relevant information to partners and other stakeholders

The Finance and Administration department, located in Oslo, supports the investment projects and facilitates reporting to Norwegian co-partners. To keep the organisation lean and mean, several common services are outsourced.

**INVESTMENT COMMITTEE**

Norfund's investment committee reviews all investment prospects and ensures the quality of investment decisions. The committee is an advisory board for the managing director, and is chaired by an external expert to ensure an independent assessment. The Investment Committee deals with all investments at least twice: First the project is approved in principle at an early stage, while final approval is based on a thorough assessment of risks and development effects.


MANAGING DIRECTOR
Kjell Roland
NORAD
INVESTMENT COMMITTEE
Øyvind Solvang
50%
STRATEGY AND ANALYSIS
Ola Nafstad
FINANCE AND ADMINISTRATION
Hege Elisabeth Seel
50%
INFORMATION OFFICE
for private sector develpoment
FINANCIAL INSTITUTIONS
Deepak Malik
CLEAN ENERGY
Mark Davis
INDUSTRIAL PARTNERSHIPS AND SME FUNDS
Elin Ersdal
SOUTHERN AFRICA (Johannesburg)
Deepak Malik
CENTRAL AMERICA (San José)
Javier Escorriola
EAST AFRICA (Nairobi)
Kjartan Stigen
SOUTH AND SOUTHEAST ASIA (Bangkok)
Fay Chetnakarnkul
SOUTHERN AFRICA (Maputo)
Lasse Nergaard

# INVESTING TO DEVELOP SUSTAINABLE ENTERPRISES

A growing and profitable private sector is fundamental to the development of any country and community. People need jobs, governments need tax revenues, and economies need goods and services to be produced and traded.

**ONE OF THE MAJOR CONSTRAINTS** for the development of strong, sustainable businesses in developing countries is access to capital: Many investors perceive the risks of engaging in such markets as being too high. The result is that good business ideas are not brought to life and enterprise growth is hampered. Development Finance Institutions (DFIs), such as Norfund, support the development of the local private sector in poor countries through the financing of businesses and the transfer of competencies and technologies.

If businesses are economically sustainable over time, they will earn profits and become increasingly attractive to a growing number of private investors. When companies reach this point, DFI finance may no longer be necessary and the DFIs will pull out. Importantly, the contributions of DFIs to the development of sustainable businesses extend beyond concerns about financial profitability. Norfund and other DFI funders adhere to high environmental, social and governance standards. By being active investors, we strive to influence positively both specific business operations and the wider private sector environment.

**NORFUND'S MANDATE** is defined by the Norwegian Parliament. According to the Norfund Act (1997), our purpose is to create sustainable commercial activities in developing countries by establishing and developing viable, profitable enterprises beyond what would otherwise be possible. In short, we supply risk capital in environments in which capital is particularly scarce. Our work can be described as being additional in two key ways by:

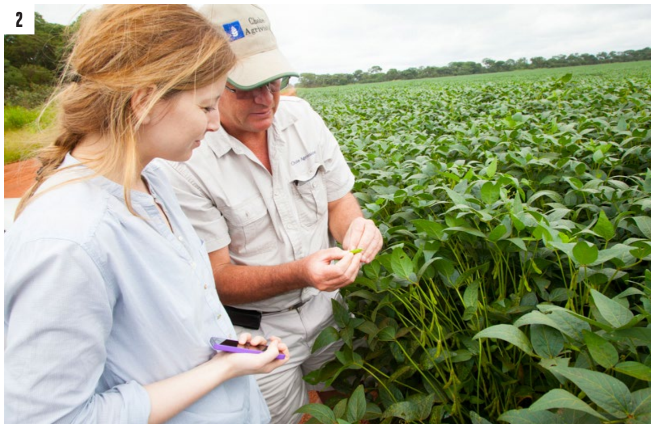
1) Making *more* capital available in particular countries and sectors because we are willing to assume more risk than many other private investors.
2) Contributing to *better* investments by prioritising projects that have strong development effects and by enhancing these effects through active ownership and business development support.

Norfund also acts as a catalyst by leveraging partners and additional private capital and expertise to our projects.

**NORFUND'S STRATEGY** is designed to fulfil our mandate effectively and efficiently, and to reflect the overarching priorities of Norwegian development assistance policy.

**NORFUND PRIORITISES REGIONS** in which the investments can have strong development impacts. The main investment regions are southern Africa and East Africa and selected countries in Southeast Asia and Central America. Our current strategy includes 27 countries, of which 14 are classified as Least Developed Countries.

**NORFUND'S INVESTMENTS** are concentrated in three sectors: clean energy, financial services, and



**1.** Construction of solar power plant which will provide electricity; crucial infrastructure for development.
**2.** Investing in developing countries requires expertise in a number of areas. Norfund employee visiting Agrivision Africa and studying the planted soy beans.

agribusiness. Well-run enterprises in these sectors can have particularly strong developmental effects. The availability of electricity and effective banking and financial systems are crucial infrastructural requirements for development. Similarly, improving agriculture and increasing yields can potentially lead to the creation of jobs, and contribute to greater food security and higher incomes. Norfund also supports the development of small- and medium-sized enterprises (SMEs) through specialised funds. SMEs have a significant impact on local job creation.

**NORFUND GIVES PREFERENCE TO EQUITY** investments. We do this because equity is the scarcest type of capital, and direct ownership in companies enables us access to have more detailed information about these businesses, the opportunity to be an influential stakeholder, and to ensure that we have a direct impact on company governance.

**NORFUND IS ABLE TO MOBILISE** high-quality international expertise among our partners in all three sectors – clean energy, financial services, and agribusiness. Our business model leverages limited public funds by co-investing with private partners. Norfund acts as a minority investor alongside other private investors and cannot normally have an ownership interest of more than 35 per cent. What we offer to investment partnerships is capital in the form of equity and debt, and knowledge about local partners, cultures and business environments.

Establishing profitable and sustainable enterprises in some of the world's poorest and least developed countries is difficult. To do so requires expertise and knowledge in a number of areas. Consequently, developing expertise within our own organisation is also central to our strategy. As a financial investor, Norfund must possess expertise in investments and risk management. We must be familiar with the business environments, enterprises, policies and management in the countries and sectors in which we invest, and the partners with whom we work.

## KEY PERFORMANCE INDICATORS

There are a number of trade-offs between the goals and targets set for Norfund: We are required to be profitable in the long-term and at the portfolio level, while at the same time invest in enterprises in the most challenging markets. This set of indicators work as a tool to follow up on the main lines of the strategy:

- Sub-Saharan Africa (excl. SN Power): > 50 %
- Least Developed Countries (excl. SN Power): > 33 %
- Greenfield investments: > 20 %
- Equity investments: > 60 %
- Renewable energy: > 50 % of allocated capital

PHOTO ISTCOK

Africa has 15 per cent of the world's population but only three per cent of the world's electricity.

# POWERING A BRIGHTER AFRICA

In low-income African countries, electricity is essential for further development and economic growth, and substantial investments are needed in the energy sector.

**FROM 2011–2015, SEVEN OUT OF 10** of the world's fastest growing economies were African,"- notes Professor Anton Eberhard when visiting Oslo. "While the continent has 15 per cent of the world's population, it has only 3 per cent of the world's electricity. In sub-Saharan Africa (SSA) – a region rich in energy resources – only 290 million out of 915 million people have access to electricity."

Private sector involvement is important to complement other sources of investment to effectively deliver new power generation capacity. Professor Eberhard notes that particular countries have been successful at attracting investments – mostly from the Chinese and Independent Power Producers (IPPs). "Some economies are growing fast now," he says, "but a lack of power infrastructure remains a major constraint. There are still large investment gaps."

These gaps impact on efforts to reduce poverty and promote growth. According to the McKinsey & Co report "Brighter Africa – The growth potential of the sub-Saharan electricity sector," countries with electrification rates of less than 80 per cent of the population have consistently lower GDP per capita. Reaching this level is a slow process. It takes, on average, 25 years to progress from a 20 per cent to an 80 per cent electrification rate.

Energy deficits in the SSA region have a detrimental impact on people's lives and on development. To cope with the unreliability of energy supplies, many businesses and households use their own generators. "Electricity is expensive in this region," Eberhard observes, "in part because people need to rely heavily on back-up power. Frequent power outages are not just stopping production but are also damaging equipment. On average, more than half of firms have back-up generators, and in some countries, such as Nigeria, nearly 100 per cent of large companies have their own sources of power."

To achieve the growth required in the SSA region, McKinsey estimates that USD 490 billion of capital investment will be needed to generate new capacity, and an additional USD 345 billion of investments will be needed in transmission and distribution.

**HOW CAN COUNTRIES** attract successful IPP investments? In the last three years, South Africa has developed what is possibly the most successful model for attracting private investments in the renewable energy sector. Successive rounds of bidding have driven down the prices paid to IPPs – by 68 per cent for solar energy, and by 32 per cent for wind energy.

"The contracts were awarded not just on the basis of price," notes Professor Eberhard, "but by using additional economic development criteria such as local content, job creation, and local community development. This made these projects very inclusive." The South African programme has awarded a capacity of almost 4,000 MW to power producers and USD 14 billion has been committed.

The question is how the South African model can replicated in other SSA countries.

According to Anton's research, there is little or no correlation between classic power sector reforms

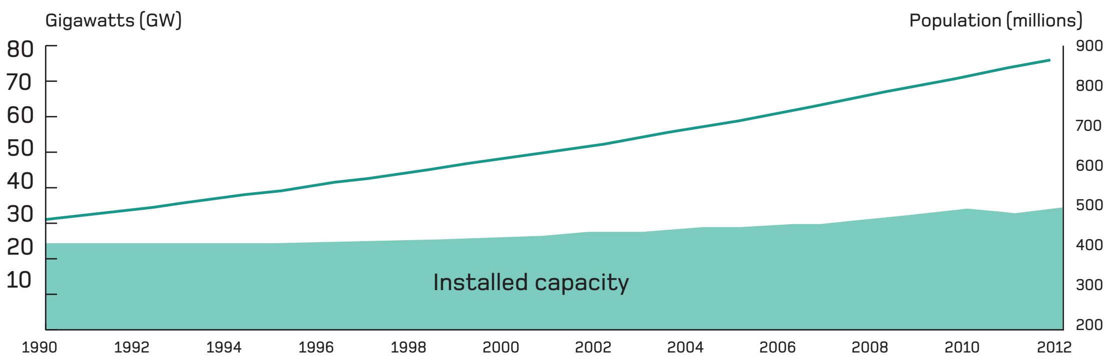
More investments in power generation, such as hydro, is needed.

Professor Anton Eberhard is an energy expert from the University of Cape Town (UCT), South Africa, where he directs the Management Programme in Infrastructure Reform & Regulation at the Graduate School of Business. He has worked in the energy sector for more than 25 years and was the founding Director of the Energy Research Centre at UCT.

– such as unbundling, privatisation and competition – and success with private sector investments. "When we see which countries have been more successful in attracting IPP investments, we have observed that they appear to be better at creating an enabling environment for the procurement of power." He believes improved power planning, transparency, bidding structures and standardised agreements – as well as clearer policies and a clearer distribution of responsibilities – are all important components. "We should probably try to be more pragmatic and less ideological!"

When asked to comment about the use of renewable versus non-renewable energy, Anton Eberhard responds: "In the West today there is often an either/or debate about this issue and it very soon becomes polarised. We should see renewable and non-renewable energy resources as complementary. If you were to introduce large amounts of renewable energy into an already unstable African grid, you might fail. Complementing renewable energy with gas is important. The gas energy will smooth out the intermittency and can help to fill in supplies when the wind isn't blowing."

**INSTALLED CAPACITY IN SUB-SAHARA AFRICA (EXCLUDING SOUTH AFRICA), 1990–2012**




*Source: EIA*

Scatec Dreunberg is one of the successes of the South African renewable energy programme.

## INDEPENDENT POWER PRODUCERS (IPPs)

Independent power producers (IPPs) are plants constructed entirely by the private sector, and the energy they generate is sold to the market through a power-purchase agreement. The agreement is generally structured so that there is a combination of capacity payments (typically covering capital costs, return on investment, and a broad range of risks) and energy payments (covering the plant's marginal operating costs). All of Norfund's investments in the SSA energy sector are IPPs.

# HOW WE WORK – STEP BY STEP

**OUR STRATEGY DIRECTS US** to do the right thing – investing in sectors, countries and enterprises in which the need for development is great and the effects particularly significant. However, it is just as important for development investors to be responsible and do things right.

Development finance institutions such as Norfund face many challenges when investing in demanding markets, including weak legal frameworks and institutions, complex property rights issues, a lack of experience, and poor local infrastructure. Norfund spends considerable time and resources working to strengthen the companies we invest in so that we can help them to become sustainable.

1

**IDENTIFYING PARTNERS AND PROJECTS**

Norfund identifies potential investments and partners within target sectors and geographies by looking at their previous practice and ability to deliver to our standards. We are never a majority shareholder and therefore we assess our co-investors closely to ensure that they are able to support the high standards we demand.

2

**DUE DILIGENCE**

Norfund carefully evaluates potential investment decisions and partners. We require a thorough understanding of our investments and will assess, among other issues: the finances of companies; their future budgets assumptions; their market, customers and competitors; relevant tax issues; ESG-related concerns (environmental, social and governance); as well as an investment's legal and corporate structure.

3

**NEGOTIATIONS**

Norfund negotiates with its partners to ensure that the financing structure is suited for the specific investment. Throughout our negotiation processes, we ensure that those requirements and considerations that are important to us are legally binding, including compliance with environmental standards and requirements for working environment. We do not expect enterprises to be 'perfect' when we invest initially, but we expect a willingness to improve. Plans for the implementation of higher standards are included in our investment agreements.

4

**INVESTMENT**

Larger individual investments and projects considered to be high-risk require approval by Norfund's Board of Directors. For other projects, investment decisions are delegated to the managing director and Norfund's Investment Committee. The Investment Committee reviews all prospective investments to ensure the quality of our investment decisions. The Committee considers the additionality and development rationales for our projects, as well as the commercial and financial viability of investments.

5

**ACTIVE OWNERSHIP**

We actively monitor enterprises and document their development effects – a resource-intensive but important process that ensures responsible ownership. Among other concerns, we monitor whether enterprises are:

- Operating in accordance with domestic laws and international standards
- Taking environmental and social concerns into account
- Ensuring satisfactory working environment
- Practising satisfactory corporate governance and internal control

Norfund manages a grant facility for investments to strengthen their development effects through, for example, training, local community support, project and operational improvements, and other professional and technical assistance.

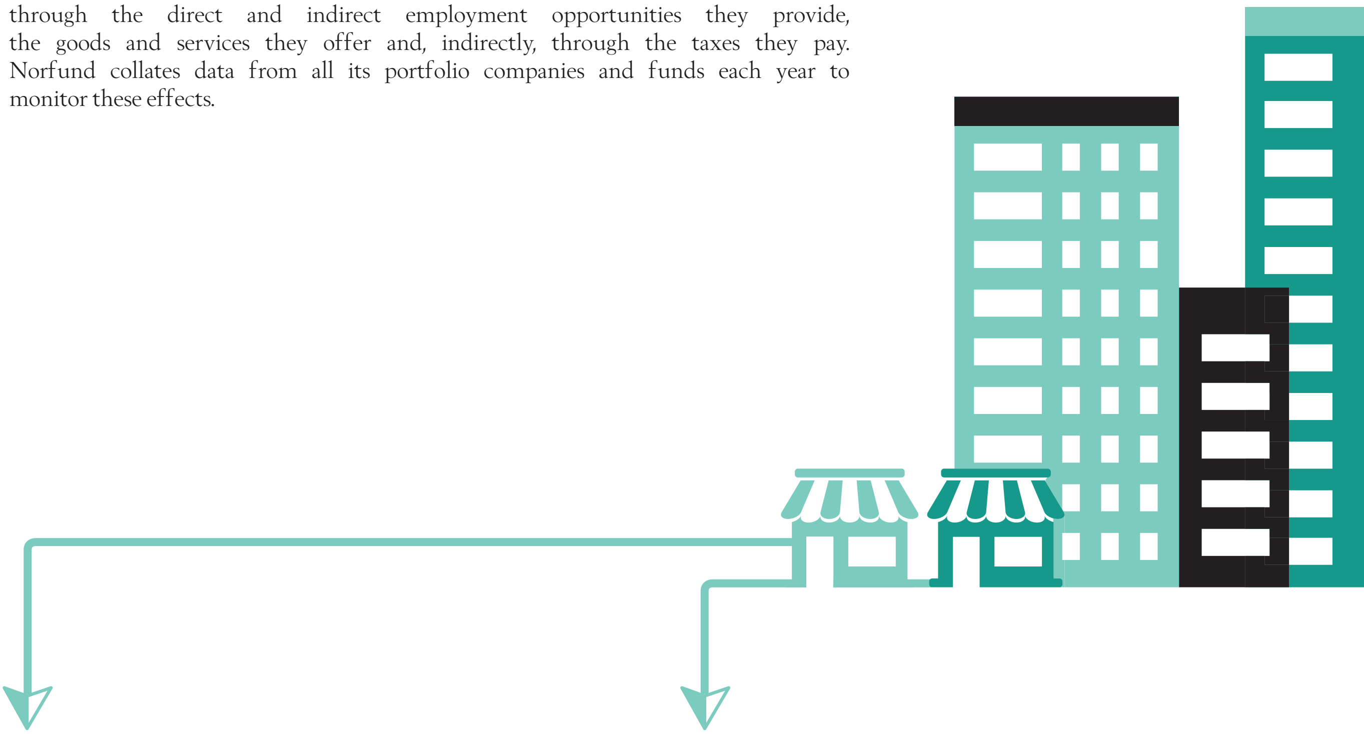
6

**EXIT**

We strive to create investment companies that are, ultimately, able to demonstrate that they can be sustained on their own, are financially viable and well managed, and can remain in business and contribute to jobs and revenue generation over time. Once companies reach this stage, Norfund can exit the investment. The capital released by an exit is then reinvested in other enterprises.

# HOW ENTERPRISES CONTRIBUTE TO DEVELOPMENT

**NORFUND'S MISSION IS** to contribute to development through the financing of profitable enterprises. Companies contribute to economic and social development through the direct and indirect employment opportunities they provide, the goods and services they offer and, indirectly, through the taxes they pay. Norfund collates data from all its portfolio companies and funds each year to monitor these effects.



## JOBS

Jobs are vital to achieving economic development and poverty reduction. They provide income and benefits for people, and offer opportunities to expand knowledge and skills. Norfund monitors the number of permanent and temporary jobs in its portfolio companies and the percentage of female employees.

## TAXES

Governments are dependent on taxes to provide essential public services such as healthcare and education. Income tax, value added tax, licences and customs duties are all important sources of revenue. Norfund collects information each year about the amount of corporate income tax transferred by investees to governments, as well other taxes and fees.

# GOODS AND SERVICES

**ENERGY**
Access to reliable electricity is a precondition for economic growth and human well-being. Energy generated from renewable sources also contributes to limiting the emission of greenhouse gases. The energy companies we work with report on the number of GWhs their power plants deliver annually to the grid.

**RISK CAPITAL**
Small- and medium-sized enterprises (SMEs) are important sources of local employment, contributing both to economic growth and diversification. However, they often struggle to access the risk capital needed for growth and development. The funds we have invested in report on the number of businesses supported and the performance of these enterprises.

**FINANCIAL SERVICES**
Basic financial services – such as bank accounts, credit, and insurance – allow people to start or expand businesses, invest in education, build assets, and shield themselves against risks. Norfund's investees target SMEs and deliver services to individuals previously outside banking systems. The financial institutions in Norfund's portfolio are required to report on the number and volume of loans they provide to their clients.

**AGRICULTURAL PRODUCE**
Agriculture is the main economic sector in most developing countries. Higher agricultural productivity and increased local value creation play key roles in economic growth and poverty reduction in rural areas. Investments in primary agriculture, processing and sale of agricultural products can also contribute to improving food security. The agribusinesses in Norfund's portfolio regularly report on the quality and yields of the crops they produce.

# INCREASED ECONOMIC ACTIVITY

Enterprises can influence local economic activity by engaging with individuals and companies in the value chain. In the agricultural and tourism sectors, such impacts can be particularly strong because companies typically source most of their input locally. To estimate the effects of enterprises on local economic activity, Norfund monitors the value of their domestic purchases, and the number of smallholder farmers associated with the investments.

# NEWS

## ASILIA WON SUSTAINABLE BUSINESS AWARD 2014

World Travel and Tourism Council awarded the Sustainable Business Award 2014 to Norfund's portfolio company Asilia. Asilia is a nature travel operator with 12 destinations in Kenya and Tanzania and about 600 employees. The company offers upmarket safari experiences which contributes to the conservation of the local environment and benefits to the local population.

## 9.5 MILLION

is the number of customers in Equity Bank, Kenya. Norfund and Norfinance's invested in the bank in January 2015. The main customer segments of Equity Bank are "bottom of the pyramid": previously unbanked individuals and small- and medium-sized enterprises.

## ACCIDENT TRACKING

Norfund actively follows up the investments to improve health, safety and environmental issues in their operations. Enterprises in which we invest are obliged to report all serious accidents, and Norfund reports these directly to the Board of Directors and the Owner. Norfund ensures that fatalities are investigated, families are compensated as needed, and safeguard measures are implemented.
The total number of reportable fatalities during 2014 was 38, of which:

- 15 fatalities were traffic related;
- 14 fatalities were due to terrorist attacks;
- 7 fatalities were caused by armed robberies/shootings; and
- 2 fatalities were workplace accidents.

A growing share of fatalities is security related.

## NORFUND BOOSTING POWER GENERATION IN AFRICA

Towards the end of the year, Norfund and CDC entered into a partnership to invest in Globeleq Africa, one of the leading independent power producers in Africa. By addressing the bottleneck at early-stage development, Norfund and CDC aim to bring more projects to the construction phase and expand access to reliable electricity in the region. If successful, the new strategy will result in over 5,000MW of new generating capacity.

## TAX AWARD TO AVOCADO PLANTATION AFRICADO

Norfund's Tanzanian portfolio company Africado won a tax award in recognition of the company's excellent tax compliance in 2014.

# 5% JOB GROWTH IN DIRECT INVESTMENTS (2013-2014)

## EXTERNAL EVALUATION OF NORFUND

In 2014, Norfund was evaluated by an external consultancy, initiated by Norad's evaluation department. The aim was to evaluate Norfund's role as an instrument of the Norwegian development assistance policy in the period 2007-2013. The evaluation was mainly a positive assessment, stating that Norfund delivers on its mandate to increase access to capital and establish sustainable enterprises in developing countries. The evaluation also highlights valuable inputs and recommendations that Norfund will bring into the strategy process in 2015.

# PRIME MINISTER SOLBERG OPENED SCATEC SOLAR PLANT IN RWANDA

Scatec Solar, the integrated independent solar power producer, has in partnership with Norfund and its co-investor KLP, Norway's largest life insurance company, and developer Gigawatt Global Coöperatief, successfully developed, financed and built the first solar plant in Rwanda. The Prime Minister visited the site in July and marked the start of a testproduction period. The plant was in full production by August. More than 350 workers received training to work on site during construction and all unskilled labour needed for the project was hired locally. The plant will contribute significantly towards the government's objective to increase fivefold the electricity generation capacity in the country and to give 50 per cent of its population access to electricity by 2017. The cost of the electricity will be significantly lower than today's heavy and costly reliance on diesel generation.

**PHOTO** SCATEC SOLAR

REPORT ON OPERATIONS

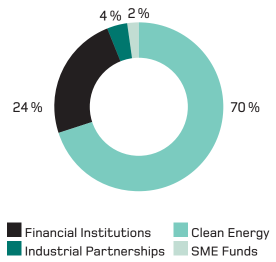
# PORTFOLIO AND RESULTS

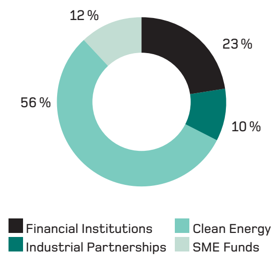
*Year 2014*

# PORTFOLIO

| | INVESTMENTS IN 2014 | TOTAL PORTFOLIO |
|---|---|---|
| **TOTAL CAPITAL**<br>Norfund receives capital from the Norwegian government's development aid budget, and we have been allocated NOK 8.5 billion since we were founded in 1997. Earnings from the investments we make are added to our equity and this money is reinvested. Norfund's total earnings since 1997 stand at NOK 2.9 billion. | 1,230<br>**MILLION NOK NEW CAPITAL ALLOCATED** | 12,597<br>**MILLION NOK TOTAL EQUITY** |
| **INVESTMENTS**<br>New committed investments nearly doubled from 2013 to 2014. Norfund is invested directly in 126 companies; 18 of these were new to the portfolio in 2014. In addition, Norfund has made follow-on investments in 14 companies. Norfund is invested in approximately 570 companies indirectly through investment funds and other companies. | 3,645<br>**MILLION NOK NEW COMMITTED INVESTMENTS** | 12,843<br>**MILLION NOK TOTAL COMMITTED INVESTMENTS** |

**INVESTMENT AREAS**
We invest in four areas: clean energy, financial institutions, industrial partnerships (including agribusiness and tourism) and small- and medium-sized enterprises (SME) funds. In 2014, 70 per cent of our new commitments were in clean energy.



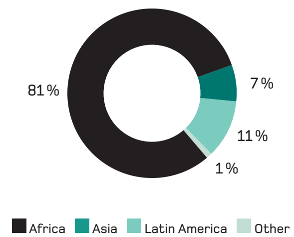

**NEW INVESTMENTS PER YEAR**
Since 2003, Norfund's yearly investment activity has increased significantly. The main drivers of investment capability are available capital, the project pipeline, and staff capacity. However, high year-on-year variations will continue because we work with many partners and with long lead times. The main increases in activity, compared to 2013, were due to our new investments in clean energy.

| New investments per year (mNOK) | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Financial Institutions | 35 | 82 | 67 | 33 | 196 | 522 | 406 | 170 | 696 | 393 | 614 | 878 |
| Industrial Partnerships | 34 | 80 | 120 | 107 | 48 | 98 | 164 | 189 | 81 | 243 | 258 | 132 |
| Clean energy | | | 100 | 703 | 750 | 286 | 120 | 332 | 1 246 | 543 | 877 | 2 565 |
| SME Funds | 256 | 157 | 59 | 163 | 183 | 470 | 254 | 153 | 175 | 56 | 122 | 71 |
| **Grand Total** | **326** | **319** | **346** | **1 006** | **1 177** | **1 376** | **944** | **844** | **2 198** | **1 234** | **1 871** | **3 645** |

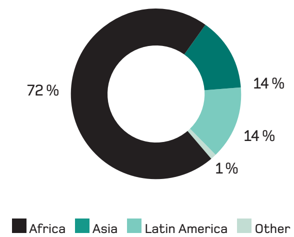
| | INVESTMENTS IN 2014 | TOTAL PORTFOLIO |
|---|---|---|

**GEOGRAPHIES**
Since 2010, Norfund's objective has been to invest 50 per cent* of our capital in sub-Saharan Africa. To achieve this goal, we have increased our activity in the region and strengthened our presence through a significant number of new investments. Both the restructuring of SN Power and the investment in Globeleq have been important to increase the share of energy investments in this region.

INVESTMENTS IN 2014




TOTAL PORTFOLIO




**LEAST DEVELOPED COUNTRIES (LDCs)**
The need for private sector investments is generally highest in LDCs because these countries struggle to attract investment capital. Our aim is therefore to invest 33 per cent* of Norfund's portfolio in LDCs and to increase this overall proportion of investment. We are strengthening our focus on sub-Saharan Africa because this region has a high number of LDCs.

24 %
**OF NEW INVESTMENTS IN LDCS**

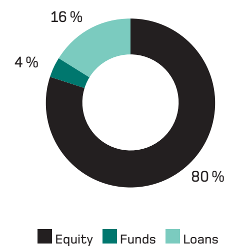
34 %
**OF TOTAL PORTFOLIO IN LDCS**

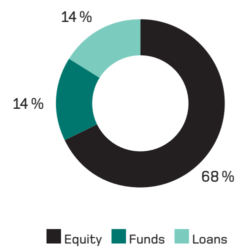
**GREENFIELD INVESTMENTS**
New enterprises are necessary for private sector development. Many start-ups have high profit potential, but many are also high risk and obtaining capital can be extremely challenging for them. While the high-risk/high-impact nature of start-ups makes them suitable investment targets for Norfund, these investments are demanding both in terms of project development and hands-on follow-up. Our 20 per cent* portfolio target for investments in start-ups is therefore appropriate.

16 %
**OF NEW INVESTMENTS IN GREENFIELD**

27 %
**OF TOTAL PORTFOLIO IN GREENFIELD**

**FINANCIAL INSTRUMENTS**
Equity investments have a higher level of risk than debt, and access to high-risk capital is particularly limited in poor countries. When Norfund finances an enterprise with equity, it is easier for the company to obtain debt with collateral, for example from local banks. Equity investments, as a result, also tend to have a greater catalytic effect. Norfund aims to invest 60 per cent of its portfolio as equity. A large share of our investments in 2014 were equity investments.




*Excluding investments through Statkraft International Hydro Invest (SKIHI) and SN Power

# RESULTS

The most important result of Norfund's operations is our contribution to the development of sustainable enterprises in developing countries. Financial returns over time show the extent to which the enterprises are financially viable. Sustainable enterprises contribute to economic and social development in a number of ways, including by providing employment opportunities and paying taxes and fees to national governments.

**RETURN ON INVESTMENTS**

Positive returns from investments indicate that our portfolio companies are economically sustainable and able to continue operating without support. We estimate the returns for each project and for the overall portfolio twice a year. Calculating the actual return on an investment, however, can only be done when the project is exited.

| Return on investments | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2006 –2014 | Since inception 1997–2014 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| SME Funds | 1 | 32 | 4 | 5 | 10 | 3 | 9 | 12 | -3 | 8 | 6 |
| Financial Institutions | 9 | 27 | 9 | 6 | 9 | 6 | 9 | 4 | 6 | 7 | 7 |
| Clean Energy | 44 | 14 | 25 | 3 | 11 | 10 | 12 | -4 | -9 | 5 | 6 |
| Industrial Partnerships | -19 | 16 | 10 | 12 | 7 | 2,4 | -10 | -4 | -10 | -4 | -5 |
| **Total** | **24** | **17** | **21** | **4** | **10** | **8** | **10** | **–1** | **–6** | **5** | **6** |

## 6 PER CENT

**IS NORFUND'S ANNUAL RETURN SINCE INCEPTION.**

**SME FUNDS** saw a negative return of -3 per cent in 2014, which can be attributed largely to the downward-adjusted valuations of a few fund investee companies in South America.

**INDUSTRIAL PARTNERSHIPS** yielded a negative return in 2014. This was due mainly to one large write-down in the portfolio.

**FINANCIAL INSTITUTIONS** yielded a return on investments consistent with previous years. The crisis in the unsecured lending market in South Africa had, however, some negative impact on the returns from the equity investments in the sector.

**CLEAN ENERGY** investments, representing around 50 per cent of the portfolio, are expected to yield long-term returns of approximately 10 per cent. However, the reduction in energy prices and the depreciation of certain currencies that occurred in 2014 had a negative impact on the USD value of our portfolio.

**CALCULATIONS**

Investment returns are calculated as the internal rate of return of the cash flows of an investment, including the assumed value of an investment at the year end. Norfund works to achieve local value creation, and returns are therefore calculated in the investment currency, not in NOK. Of Norfund's total investments, around 80 per cent are denominated in USD, the remainder in other currencies. The Norwegian krone depreciated substantially against the US dollar through 2014. This has a strong impact on the accounting results, the portfolio evaluations and the return calculated in NOK versus USD. Calculated in NOK, the return on the portfolio in 2014 would have been 14 per cent, and nine per cent on average since the inception of the fund.

**EXITS**

An 'exit' occurs either when loans are fully repaid to Norfund, or when Norfund sells its equity in a company. If Norfund exits an investment and the company continues its operations profitably, this demonstrates that its economic activities have been strengthened through the investment period.

## SEVEN EQUITY INVESTMENTS

**WERE EXITED IN 2014.**

In 1999, Norfund invested USD 5 million in the ECP Africa Fund which invests in infrastructural projects in Africa. Norfund received a total return of USD 7.9 million – a solid overall return of 24 per cent.

The Aureos Central America Fund was the first fund established by Aureos Worldwide. Norfund invested USD 10 million in this fund which was severely affected by the financial crisis. USD 5.7 million has been repaid.

In 2004, Norfund invested USD 5 million in the Aureos South Asia Fund I. The fund made two investments, both in companies in Sri Lanka, and these yielded a return of 1 per cent.

When it was established in 2000, CASEIF was a pioneer fund s upporting the development of local talent to manage the fund in Central America. This team is still active and in 2014 established a third fund, known as CASEIF III. Norfund invested USD 5 million and has seen a negative return of -3 per cent.

In 2007, Norfund invested USD 10 million in TCX, a new and innovative enterprise that offers foreign exchange and interest rate derivatives for currencies from less liquid emerging markets. In February 2014, Norfund's shareholding was sold for USD 12.4 million, giving a return of 3.8 per cent, including the dividend received.

Holdings in two companies were transferred to Norfinance AS, of which Norfund owns 48.8 per cent. These were DFCU Ltd in Uganda (a 27.5 per cent holding), and Socremo in Mozambique (a 35.6 per cent holding).

Additionally, six companies – four in financial institutions and two in clean energy - repaid their loans to Norfund and are also exited.

**JOBS**
The private sector provides nine of out of ten jobs in developing countries and is a key player in the fight against global unemployment. In 2014, Norfund's portfolio companies provided 110,000 jobs in Africa, 80,000 jobs in Asia and 37,000 jobs in Latin America. When adjusted for exits and new investments, the number of jobs in Norfund's direct investments increased by five per cent between 2013 and 2014.

227,000

**JOBS IN NORFUND'S PORTFOLIO COMPANIES IN 2014** [1]

**WORKFORCE**
Jobs impact on society by contributing to gender equality and social cohesion. Our local financial institutions have a particularly high share of female employees, but companies in the construction industry remain male-dominated.

In 2014, 90 per cent of the people employed by Norfund's portfolio companies were on permanent contracts. The remaining ten percent were engaged in activities of a temporary nature, such as the construction of power plants or the harvesting of agricultural produce.

35%

**OF JOBS WERE HELD BY WOMEN IN 2014**

**INCREASED ECONOMIC ACTIVITY**
Norfund's portfolio companies contribute to job creation and economic development by engaging with companies both upstream and downstream in the value chain. Such effects are especially strong in agribusiness and tourism because companies in these sectors tend to source most of their inputs locally, including raw materials, and services such as security, gardening, and cleaning. Companies in these two sectors purchased goods and services worth over 1.2 billion NOK in 2014.

1.2

**BILLION NOK WORTH OF DOMESTIC PURCHASES IN 2014**

**TAXES**
In addition to creating jobs, our portfolio companies pay taxes and fees in the countries in which they operate. This revenue enables governments to invest further in infrastructure, for example, and to provide services such as healthcare and education. The tax paid in 2014 includes tax contributions of 4.3 billion NOK from the companies in the portfolio of the European Financing Partners (EFP). The EFP is a partnership between Norfund and 12 other development finance institutions.

9.1

**BILLION NOK TAXES PAID IN 2014**

[1] *Full-time equivalent positions*

# NORFUND'S AUDITED RESULTS

Norfund is an investment fund, and hence, the profit and loss accounts do not cover the true long term value creation in the portfolio. Thus, when reading our financials, be aware of the following:

Our mandate is to create sustainable and profitable business in poor countries. Thus, profitability in investee currency is the success criteria, not the amount of capital returned to Norway. Our bottom line is net profit in investment currency, not profits after conversion to NOK.

As an investment company, our operational income is the sum of the interest, dividends and the sale of shares. Financial items are related to capital not yet invested, but kept in bank deposits in Norway.

According to the Norwegian Generally Accepted Accounting Practise (GAAP), values of investments are booked as original purchase price or lower if impairments have been made. The deviations from purchase prices are write-offs. Being a high risk fund in LDC's and poor countries, significant write-downs should be expected. The calculated returns on page 30 are based on current valuations (including our present valuation of the portfolio) and provide a more realistic representation of the value creation in our portfolio.

Norfund has made a strategic decision to remain a relatively small and lean organisation. Legal support, IT and specialist advice, accounting and other services are sourced from other companies, and this is reflected in the relatively high level of our "other operating expenses".

**COMMENTS TO THE 2014 RESULTS:**

The increase in operating income compared to 2013 is due primarily to higher revenues from Norfund's loans as this part of the portfolio has increased through 2013-2014. In addition gains on sale of shares are realised through 2014. Former SN Power Invest AS was reorganised in June 2014, and consisted of the transfer of Agua Imara to SN Power AS. Following the reorganisation, Norfund owns 50 per cent of SN Power AS, and has reduced its holding in Statkraft IH Invest AS (former SN Power Invest AS) to 33 per cent.

The strengthening of the US Dollar against the Norwegian Krone has had a positive effect on the value of many of the loans Norfund has provided to banks and other financial institutions.

The total value of the write-downs for some of the companies and funds in our portfolio was significantly higher in 2014 compared to 2013. The figure is affected by the strengthening of the US Dollar against Norwegian Krone. However, the write-downs are at a level that can be expected in a high-risk fund such as Norfund.

Bank deposits amounted to NOK 2.5 billion at the end of 2013. On average, deposits where higher compared to 2013 and the level of income from interest was about the same level. Net financial items include a currency gain effect on the bank deposit in USD.

Detailed accounts have been published in our Annual Report.

| Profit & Loss (mNOK) | 2014 | 2013 |
|---|---|---|
| Interest (investment portfolio) | 146 | 98 |
| Realised gains | 40 | 0 |
| Dividends received | 85 | 64 |
| Other project income | 6 | 4 |
| Share of profit associatied companies | 185 | 270 |
| **Total operating income** | **462** | **436** |
| Payroll expenses | -78 | -69 |
| Other operating expenses | -62 | -67 |
| **Total operating expenses** | **–140** | **–136** |

| *CONT.* Profit & Loss (mNOK) | 2014 | 2013 |
|---|---|---|
| Write downs on investments | -356 | -115 |
| **Operating profit in investment currency** | **–34** | **185** |
| **Net financial items** | **149** | **53** |
| Tax | 0 | 0 |
| **NET PROFIT IN INVESTMENT CURRENCY** | **115** | **238** |
| **Exchange rate effects portfolio** | **483** | **81** |
| **Profit** | **598** | **319** |

REPORT ON OPERATIONS

# BUSINESS AREAS

*Year 2014*

# CLEAN ENERGY

## – infrastructure for economic growth

## DEVELOPMENT RATIONALE

Households, schools, businesses, and hospitals – access to electricity is important to us all. But an unreliable electricity supply can be an obstacle to increased economic activity, particularly for small- and medium-sized enterprises (SMEs). Power outages can cause substantial income loss or damage electrical equipment, and businesses may be forced to use expensive generators or even close.

## INVESTMENT NEEDS

Expanding the supply of electricity is capital intensive. Economic growth and the rising demand for electricity in developing countries mean that massive investments must be made in the power sector. Few local utilities, however, are able to finance renewable energy projects because of the large upfront investments needed and the high risks involved.

Many countries generate oil-fired power. While such schemes have lower capital costs and can be implemented faster, the high operating costs are harder to sustain and may undermine the investment capacity of utilities. In many developing countries, there is significant potential in making better use of local renewable energy resources and engaging the private sector to finance and operate new capacity. The falling costs of solar power, in particular, have made such investments attractive.

## NORFUND'S STRATEGY

Clean energy is the largest component of Norfund's portfolio. While hydropower has dominated the portfolio to date, Norfund has recently made substantial investments in other technologies. In 2014, for example, we invested in Globeleq – a leading developer of independent power plants (including gas-fired plants) in Africa.

Working with sound technical partners is fundamental to our success. Norfund's partnerships with Statkraft and Scatec Solar have demonstrated that with the right combination of capital and expertise, it is possible to manage the many risks associated with renewable energy investments. Investments are made in accordance with our strategy, via equity partnerships with industrial investors such as Statkraft, Scatec Solar, BKK, and others.

# INVESTMENTS AND RESULTS

Our 2014 portfolio saw considerable construction activity. In the SN Power portfolio progress continued on the Cheves and Bajo Frio hydropower plants in Latin America, as well as the Nam Sim small hydropower plant in Laos. All three plants are expected to be completed in 2015. Construction was also completed by Scatec Solar on three solar power plants in South Africa, and work on two wind farms (in Kenya) and a small hydropower plant (in South Africa) has begun.

## HIGHLIGHTS

**IN JUNE 2014,** the restructuring of SN Power was successfully completed. Norfund now has a 50 per cent stake in SN Power (covering the African, Central American and South-East Asian regions), and a 33 per cent stake in Statkraft International Hydropower Invest (covering South America and South Asia). SN Power extended its South-East Asian portfolio with the addition of a 20 per centstake in the THPC power plant in Laos.

**BY END 2014,** Norfund has invested in four solar power plants with Scatec Solar – all of which were successfully operating by year-end.

**THE FINANCING OF** the 310 MW-capacity Lake Turkana Wind Project was executed, and construction activities commenced in late 2014. This project is Norfund's second wind power investment in Kenya. When completed, it will be the largest wind park in Africa. The project was awarded the African Renewables Deal of the Year by Project Finance International.

**OUR FINANCING PARTNERSHIP** with KLP continued to expand, with investments in both the Lake Turkana Wind Park project in Kenya, and a Scatec Solar project in Rwanda.

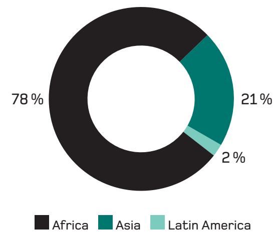
**FINALLY,** Norfund acquired a 30% stake in Globeleq, a power company with a footprint in East, West and Southern Africa, and a gross portfolio of over 1200 MW. Globeleq provides us with an excellent platform for further expansion and, together with CDC – our sister fund in the UK – we anticipate that Globeleq will demonstrate the viability and attractiveness of privately financed power projects in Africa.

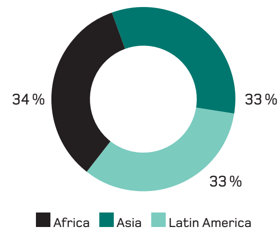
**30% STAKE IN GLOBELEQ**

| | INVESTMENTS IN 2014 | TOTAL PORTFOLIO |
|---|---|---|
| **INVESTMENTS AND PORTFOLIO** Clean energy investments now account for more than half of Norfund's portfolio. In 2014, we committed to investing in six new projects. Our equity share of new investments is 96 per cent, and the equity share of the total clean energy portfolio stands at 95 per cent. | 2,565 MILLION NOK NEW CAPITAL COMMITTED | 7,137 MILLION NOK COMMITTED IN TOTAL |

**REGIONS**

We have significantly re-aligned our portfolio towards Africa and lower-income countries. The restructuring of SN Power is part of Norfund's efforts to reallocate capital from middle-income countries to low-income countries. Our growing partnership with Scatec Solar, for example, is Africa-focused, and the acquisition of Globeleq is a major step towards building our power portfolio in African countries.




## RESULTS[1]

**JOBS**

Energy projects create direct jobs in the operational phase, but most of the posts are temporary and occur during the construction period. 6,200 of the jobs created by Norfund's investments in 2014, for example, were construction-related. Improving the supply of electricity contributes significantly to wider job growth by reducing a major constraint for enterprise growth.

**8,000**
**JOBS IN PORTFOLIO COMPANIES IN 2014**

**TAXES**

Private energy companies contribute to government revenues by paying corporate income taxes, value added taxes, and other fees. The amount of taxes and fees transferred to governments increases when projects become operational and start generating profits.

**900**
**MILLION NOK TAXES PAID IN 2014**

**ELECTRICITY**

The companies in Norfund's energy portfolio have a total power capacity – either already installed or under development – of 4,700 MW. The amount of electricity generated by these projects in 2014 was equivalent to the annual consumption of 18 million people in these markets. The combined portfolio of SN Power and SKIHI produced 10.1 TWh of electricity in 2014.

**13 TWH**
**ELECTRICITY PRODUCED IN 2014**

**EMISSIONS REDUCED**

In many developing countries, electricity production relies heavily on coal and oil. Electricity generated from renewable sources, in contrast, can help to reduce $CO_2$ emissions by displacing fossil fuels. Last year, 84 per cent of the electricity generated by Norfund's investments came from renewable sources. The combined clean energy portfolio of SN Power and SKIHI helped to avoid 3.7 million tonnes of $CO_2$ emissions in 2014.

**4.3 MILLION**
**TONNES OF CO2 AVOIDED IN 2014**

*[1] The investment in Globeleq in late 2014 is excluded from these results calculations*

## ACTIVE INVESTMENTS YEAR END 2014

| Investment | Country/ region | Norfund investment year | Sector | Instrument | Norfund owner share | Domicile | Investee Currency | Commited amount 31.12.2014 (mNOK) |
|---|---|---|---|---|---|---|---|---|
| Globeleq Africa | Africa | 2014 | Energy | Equity | 30 % | Guernsey | USD | 1,784.0 |
| Renewable Energy Holdings | South Africa | 2014 | Hydro | Equity | | South Africa | ZAR | 25.3 |
| San Antonio | Guatemala | 2014 | Wind | Loan | | Guatemala | USD | 37.2 |
| Scatec Rwanda | Rwanda | 2014 | Solar | Equity and loan | 13 % | Rwanda | USD | 20.8 |
| Kinangop Wind Park | Kenya | 2013 | Wind | Equity | 19 % | British Virgin Islands | USD | 82.7 |
| KLP Norfund Investments AS | Africa | 2013 | Invest-ment funds | Equity | 50 % | Norway | NOK | 134.6 |
| *Scatec Linde* | *South Africa* | *2013* | *Solar* | *Equity* | *8%* | *South Africa* | *ZAR* | *11.9* |
| *Scatec Dreunberg* | *South Africa* | *2013* | *Solar* | *Equity* | *8%* | *South Africa* | *ZAR* | *23.7* |
| *Lake Turkana Wind Power Limited* | *Kenya* | *2013* | *Wind* | *Equity* | *6.25%* | *Kenya* | *EUR* | *95.1* |
| *Scatec Rwanda* | *Rwanda* | *2014* | *Solar* | *Equity* | *15%* | *Rwanda* | *USD* | *3.1* |
| SN Power | Africa, Central America, South-East Asia | 2013 | Hydro | Equity | 50 % | Norway | USD | 2,125.9 |
| Lake Turkana Wind Power Limited | Kenya | 2013 | Wind | Guarantee | 6.3 % | Kenya | EUR | 12.9 |
| Scatec Kalkbult | South Africa | 2012 | Solar | Equity and loan | 21 % | South Africa | ZAR | 74.3 |
| Bio2Watt | South Africa | 2011 | Bio | Equity | 11 % | South Africa | ZAR | 9.3 |
| Hidro Santa Cruz | Guatemala | 2011 | Hydro | Loan | | Guatemala | USD | 39.2 |
| Nam Sim | Laos | 2011 | Hydro | Loan | | Laos | USD | 28.6 |
| Interact Climate Change Facility | Global | 2010 | Energy | Loan | | Luxembourg | EUR | 120.4 |
| E+Co | Global | 2009 | Energy | Loan | | Delaware | USD | 11.0 |
| Bugoye HPP | Uganda | 2008 | Hydro | Equity | 28 % | Uganda | USD | 35.4 |
| Statkraft IH International (SKIHI) | South America, South Asia | 2002 | Hydro | Equity | 33 % | Norway | USD | 3,007.2 |

*Investments categorized as "impact investments" can be found in the impact investment chapter page 60.*

The Scatec Solar Project in Rwanda, located at the Agahozo-Shalom Youth Village, is making a significant contribution to meeting energy demand.

# THE SCATEC SOLAR PROJECT IN RWANDA

An 8.5 MW solar plant in Rwanda at the Agahozo-Shalom Youth Village in Rwanda is the most recent addition to Norfund's solar energy portfolio and the first utility scale solar PV power plant in East Africa.

**FINANCED IN FOUR MONTHS** – a record for infrastructural projects of this kind – and completed just six months later, the new plant is already making a significant contribution to power supplies in Rwanda.

Although the power plant is relatively small compared to Norfund and Scatec Solar's other solar investments, its output is close to 10 per cent of the maximum capacity of Rwanda's power grid and the plant is making a significant contribution to meeting the growing demand for power in the country.

Speaking at the opening of the plant, Rwanda's Minister of Infrastructure, James Musoni, said: "Generation and provision of electricity to all Rwandans is a priority for the [Rwandan] government. This plant produces 8.5 megawatts of clean energy and is an important addition to help close our current energy gap."

Through its rental payments, the project provides financial support to the Agahozo-Shalom Youth Village, a local school for orphans of the Rwandan genocide.

Equity for the project was provided by Scatec Solar, Norfund, and KLP. Senior debt financing was made available from the Dutch development bank FMO and the EAIF.

The solar project is the fourth joint investment by Scatec Solar and Norfund and demonstrates the benefits of building partnerships with industrial companies which are able to replicate and expand successful business models. Further joint Norfund and Scatec Solar investments in solar power projects are anticipated, in 2015 and in the years ahead.

# FINANCIAL INSTITUTIONS

– the key to business development

## DEVELOPMENT RATIONALE

An effective financial sector underpins investment and growth and is important to both enterprises and individuals. Access to capital, for example, is vital to private sector development, and access to loans and saving facilities helps to reduce the vulnerability of individual households. However, many businesses and people lack access to basic financial services, such as bank accounts, insurance, and credit facilities. Local players are best suited to designing and delivering the services needed.

## INVESTMENT NEEDS

Financial service providers need capital to develop products and increase their market reach. Banks, for instance, depend on debt in order to extend loans to their customers. Providers also need to make costly but crucial capital investments, for example, in good IT systems, to ensure that the services they offer are underpinned by good security, and are effective, well-controlled, and of good quality.

## NORFUND'S STRATEGY

Our investment portfolio includes a range of financial institutions, including banks and microfinance. Facilitating access to financing for small- and medium-sized enterprises (SMEs) is particularly important to Norfund. Our investments are mostly in locally owned financial institutions that have good growth potential. Norfund's investments are made either directly (in the form of loans or equity) or indirectly (through investment funds).

The Norwegian Microfinance Initiative (NMI) – a strategic alliance between Norfund and Ferd, DnB/Vital, Storebrand, and KLP – is Norfund's most important microfinance investment tool. Direct investment microfinance initiatives have been made as well in some of Norfund's high-priority regions where NMI is not active.

# INVESTMENTS AND RESULTS

Norfund has built a strong portfolio in its investment geographies for over ten years. In 2014, Norfund made nine new investments in financial institutions and increased its stake in several of its existing investments.

## HIGHLIGHTS

**WE MADE OUR FIRST** investments through NorFinance – an investment company that mobilises private Norwegian capital for Africa's financial services.

**FOLLOWING AN INCREASE** in Norfund's equity stake in CIFI (Corporacion Interamericana para el Financiamiento de Infraestructura), we became the organisation's largest shareholder. This is strategically important step because CIFI finances a range of small- and medium-sized infrastructural projects (including clean energy projects), in the Central America region.

**NORFUND INCREASED ITS COMMITMENTS** to the recently established Norwegian Microfinance Initiative (NMI) fund III, so that we can contribute to its financial success and help to extend the developmental impacts. The funds NMI Global and NMI Frontier are fully invested and have started to show positive returns.

**WE INCREASED OUR** equity stake in HKL (Hattha Kaksekar Limited), Cambodia – a leading microfinance provider targeting micro-entrepreneurs in Cambodia's semi-rural and urban areas. Building on its microfinance operation, HKL aims to expand its products and services so that it becomes a full-service commercial bank, serving micro, small and midsized enterprises (MSMEs).

NORFUND SHAREHOLDING IN HKL WAS 19.9 PERCENT AS OF YEAR END 2014.

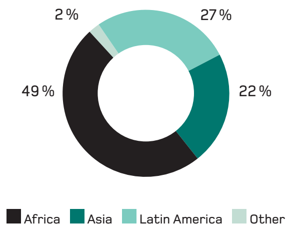
| | INVESTMENTS IN 2014 | TOTAL PORTFOLIO |
|---|---|---|

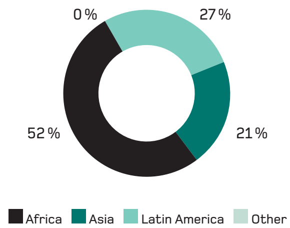
**INVESTMENTS AND PORTFOLIO**
Norfund has invested directly in 43 financial institutions, ranging from regional bank groups and funds that invest in banks, to local microfinance institutions. All the investments target small- and medium-sized enterprises (SMEs) and deliver products and services to those who have not previously had access to banking services.

**878**
**MILLION NOK NEW CAPITAL COMMITTED**

**2,957**
**MILLION NOK COMMITTED IN TOTAL**

**REGIONS**
Three of our regional offices (Johannesburg, Bangkok and San José) work primarily with investments in financial institutions.




## RESULTS

**JOBS**
The direct employment effects of investments in the financial sector are high: these companies employ a large number of people, 40 per cent of whom are women – a large share relative to other sectors. The indirect effects of investments can be significant, too. Providing access to loans enables enterprises to grow and to create new jobs.

**69,000**
**JOBS IN PORTFOLIO COMPANIES IN 2014**

**TAXES**
Most of the financial institutions in Norfund's portfolio make good profits and pay significant taxes to local and national governments. Many of their loan customers are small companies. Over time, and with the help of access to finance, many of these small companies will grow and also pay taxes.

**1,600**
**MILLION NOK TAXES PAID IN 2014**

**LOANS**
Norfund invests in financial institutions to increase access to credit among local businesses and individuals. At the end of 2014, these clients had borrowed 394 billion NOK from the financial institutions in Norfund's portfolio. More than 70 per cent of these loans are held by female clients.

**39 MILLION**
**LOANS PROVIDED TO CLIENTS**

**DEPOSITS**
Approximately 20 of the financial institutions (direct investments) in Norfund's portfolio are authorised to take deposits from customers. Bank accounts provide safe and easy access to funds, encourage savings, and facilitate participation in the modern economy.

**15 MILLION**
**BANK ACCOUNTS HELD BY CLIENTS**

# ACTIVE INVESTMENTS YEAR END 2014

| Investment | Country/ region | Norfund investment year | Sector | Instru- ment | Norfund owner share | Domicile | Investee Currency | Commited amount 31.12.2014 (mNOK) |
|---|---|---|---|---|---|---|---|---|
| Acleda Bank Lao Ltd. | Laos | 2014 | Banking | Loan | | Laos | LAK | 54.3 |
| BANCO INDUSTRIAL SALVADOR | El Salvador | 2014 | Banking | Loan | | El Salvador | USD | 74.3 |
| Confianza | Regional | 2014 | Microfinance | Equity | | El Salvador | USD | 18.6 |
| Focus Financial Services - debt | Zambia | 2014 | Financial services | Loan | | Zambia | ZMW | 57.8 |
| Housing Finance Company Limited (debt) | Kenya | 2014 | Banking | Loan | | Kenya | KES | 80.6 |
| LAFISE NICARAGUA | Nicaragua | 2014 | Banking | Loan | | Nicaragua | USD | 74.3 |
| Trustco (Debt) | Namibia | 2014 | Microfinance | Loan | | Namibia | ZAR | 64.3 |
| Norfinance AS | Regional | 2014 | Investment fund | Equity | 49.82 % | Norway | NOK | 407.6 |
| *DFCU Limited* | *Uganda* | *2014* | *Banking* | *Equity* | | *Uganda* | *UGX* | *82.5* |
| *Socremo* | *Mozambique* | *2014* | *Microfinance* | *Equity and loan* | | *Mozambique* | *MZN* | *16.1* |
| Alios Finance Zambia | Zambia | 2013 | Financial services | Loan | | Zambia | USD | 33.4 |
| Amret II (USD) | Cambodia | 2013 | Microfinance | Loan | | Cambodia | USD | 22.3 |
| FDL | Nicaragua | 2013 | Microfinance | Loan | | Nicaragua | USD | 18.6 |
| Ficohsa Gua | Guatemala | 2013 | Banking | Loan | | Guatemala | USD | 20.1 |
| First Finance Plc. | Cambodia | 2013 | Microfinance | Loan | | Cambodia | USD | 22.3 |
| LOCFUND II | Central America | 2013 | Microfinance | Fund | 27 % | Delaware | USD | 53.2 |
| NMBZ Holdings Limited | Zimbabwe | 2013 | Banking | Equity and loan | 9 % | Zimbabwe | USD | 39.2 |
| Prasac Microfinance Institution | Cambodia | 2013 | Microfinance | Loan | | Cambodia | USD | 74.3 |
| Alios Finance Tanzania Ltd | Tanzania | 2012 | Financial services | Loan | | Tanzania | USD | 26.0 |
| Ficohsa | Honduras | 2012 | Financial services | Loan | | Honduras | USD | 67.4 |
| African Banking Corporation Zambia | Zambia | 2011 | Banking | Loan | | Zambia | USD | 14.9 |
| Desyfin | Costa Rica | 2011 | Financial services | Equity and loan | 23 % | Costa Rica | USD | 70.2 |
| HEFF | Central America | 2011 | Microfinance | Fund | 33 % | Delaware | USD | 35.6 |
| Norsad | Regional | 2011 | Financial services | Equity | 11 % | Botswana | USD | 56.8 |
| Prospero | Central America | 2011 | Microfinance | Fund | 22 % | Cayman Islands | USD | 29.6 |
| Sacombank Leasing Limited | Vietnam | 2011 | Financial services | Loan | | Vietnam | USD | 22.3 |
| Techcombank | Vietnam | 2011 | Banking | Loan | | Vietnam | USD | 93.0 |
| Brac Bank | Bangladesh | 2010 | Banking | Equity | | Bangladesh | BDT | 45.8 |
| Real People Investment PTY | Africa | 2009 | Microfinance | Equity | 15.7 % | South Africa | ZAR | 309.0 |
| Sathapana | Cambodia | 2008 | Microfinance | Loan | | Cambodia | USD | 52.0 |
| AfriCap Microfinance Investment C | Africa | 2007 | Microfinance | Fund | 7 % | Mauritius | USD | 18.2 |
| EXIM Bank (Tanzania) Ltd. | Tanzania | 2007 | Banking | Loan | | Tanzania | USD | 9.3 |
| Hattha Kaksekar Ltd (HKL) | Cambodia | 2007 | Microfinance | Equity and loan | 18 % | Cambodia | USD | 73.9 |
| LOCFUND | Central America | 2007 | Microfinance | Fund | 10 % | Delaware | USD | 3.3 |
| Banco Terra | Mozambique | 2006 | Financial services | Equity | 8.4 % | Mozambique | MZN | 100.7 |
| Solidus Investment Fund S.A. | Central America | 2005 | Microfinance | Fund | 6 % | Panama | USD | 2.5 |
| CIFI | Regional | 2004 | Financial services | Equity and loan | 32 % | Panama | USD | 209.1 |
| DFCU Limited | Uganda | 2004 | Financial services | Loan | | Uganda | UGX | 32.5 |
| LAAD | South America | 2004 | Financial services | Loan | | Panama | USD | 102.2 |

*Investments categorized as "impact investments" can be found in the impact investment chapter page 60.*


1. A customer of ACLEDA Bank Lao. 2. The ACLEDA Bank Lao lends to small businesses.

# THE ACLEDA BANK LAO

The ACLEDA Bank Lao, a wholly owned subsidiary of ACLEDA Bank Cambodia, started its operations in the Lao People's Democratic Republic (Laos) in July 2008. By December 2014, ACLEDA Bank Lao had assets worth USD 145 million and more than 18,000 borrowers.

**THE MARKET FOR** financial services in Laos is underdeveloped and institutions such as Acleda Lao are crucial to providing micro, small- and medium-sized enterprises (MSMEs) opportunities to grow and develop. MSMEs are an important target group for Norfund. To support the local MSMEs, Norfund provided a local currency loan of USD 7.5 million to Acleda Bank Lao. The Norfund loan provides Acleda Bank Lao with the funding to be on-lent to the local MSMEs.

The transaction was one of the first long-term local currency loans provided to a financial institution in Laos.

This project is providing excellent additional value because it is helping Acleda Bank to diversify its funding base and thus helping to increase the availability of local currency funding to local MSMEs.

Speaking about the investment, Deepak Malik, Head of Norfund's department for Financial Institutions, said: "We are pleased that we are helping to channel more funding to local MSMEs in Laos. Laos is classified as a Least Developed Country and is therefore a priority for us. The local currency loan from Norfund will encourage more local currency funding to other local banks. Local SMEs will also be able to get more access to funding, without having to face foreign exchange risks."

# INDUSTRIAL PARTNERSHIPS

## – agribusiness and other direct investments

## DEVELOPMENT RATIONALE

Agriculture is one of the most important economic sectors – and one of the largest sources of employment – in developing countries. Favourable climatic conditions offer opportunities to increase food production. Tourism and agriculture are highly labour intensive and can provide job opportunities for unskilled workers. By utilising local resources, and through creating business opportunities for small-scale businesses and generating tax and export revenues, agriculture and tourism help to facilitate local economic growth and development.

## INVESTMENT NEEDS

Farming in developing countries is often characterised by low productivity, low income levels, and a lack of access to capital and market access. The risk of external shocks, such as bad weather and diseases, is high. Investors face many challenges, including both a lack of infrastructure and lack of experienced managerial capacity. Long-term investors can provide the patient high levels of upfront capital required.

## NORFUND'S STRATEGY

Our portfolio includes investments in agribusiness, tourism and other high-impact industrial projects in Eastern and Southern Africa. The majority of our target companies in the agribusiness sector are medium-sized enterprises operating in local and/or export markets. We invest in enhanced crop processing in the agricultural sector to increase productivity and local value creation. Doing so helps smallholder farmers gain better market access for their produce. Norfund also invests in the tourism sector and actively encourages the use of local suppliers and staff, and we have two active investments in South Sudan.

# INVESTMENTS AND RESULTS

Agribusiness has been a key investment sector for Norfund since 2011. Our specialist teams offer expertise and our projects shall comply with the International Finance Corporation's (IFC) Performance Standards on Sustainability to ensure that environmental and social risks are identified and managed. This includes important land, community and labour issues.

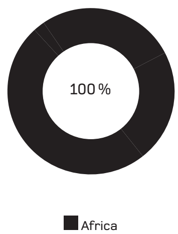
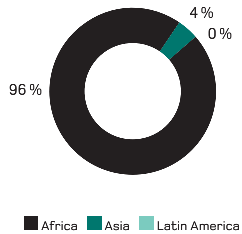
## HIGHLIGHTS

**VERTICAL AGRO** farms fruit and vegetables in Kenya, Tanzania and Ethiopia. The company is also engaged in packing, wholesale, and marketing operations. Vertical Agro produces 6,500 tonnes of fruit and vegetables annually, and is the largest exporter of organic vegetables in Kenya. Through its wholesale and marketing company in the United Kingdom, Vertical Agro also sells ready-to-eat and ready-to-cook products in several European countries.

**OUR INVESTMENT IN VERTICAL AGRO** will help to create local employment and provided market access to many smallholder farmers in East Africa. Through its export earnings and tax payments, Vertical Agro is contributing both to the regional and local economies. Norfund will continue to be an anchor investor and provide long-term growth capital. We are the first external investor in this local family business.

**NORFUND ALSO INVESTED IN** Mpongwe Mill in Kitwe, Zambia through Chayton Africa. This maize and wheat mill represents a strategic vertical integration for the cereal and soya growing farms in the company. The mill also gives stallholders a market for their maize.

**NORFUND INVESTED IN** Africa Century Infrastructure Services (ACIS) – a rapidly growing rental business specializing in heavy lifting equipment, which provides operational leasing or spot hire services. ACIS's target market is the emerging oil and gas sector in East Africa and the company operates in Tanzania and Mozambique. Norfund's investment will enable ACIS to transition from being a start-up company to a mature operation, and will facilitate the transfer of Norwegian oil and gas expertise to these settings.

| | INVESTMENTS IN 2014 | TOTAL PORTFOLIO |
|---|---|---|
| **INVESTMENTS AND PORTFOLIO** At the end of 2014, Norfund's portfolio included 19 companies: Nine in agribusiness, six in tourism, and four in other sectors. We invested in two new companies in 2014. In addition, Norfund has granted loans to 18 enterprises through the co-financing scheme European Financing Partners (EFP). | 161 MILLION NOK NEW CAPITAL COMMITTED | 1,268 MILLION NOK COMMITTED IN TOTAL |
| **REGIONS** Our industrial partnership investments are in Southern and Eastern Africa, and Norfund's staff in Maputo (Mozambique) and Nairobi (Kenya) play key roles in identifying and monitoring these projects. |  |  |





## RESULTS

### JOBS

The significant employment benefits of agribusiness and tourism are central to the rationale for our investments in these sectors. The majority of the businesses are in rural areas, where unemployment is particularly high. European Financing Partners has invested in a variety of sectors, including communications and financial institutions. A large share - 41,000 - of the jobs are in the portfolio of European Financing Partners.

**57,000**
**JOBS IN PORTFOLIO COMPANIES IN 2014**

### TAXES

A large share of the taxes paid by the sector came from the companies in the portfolio of European Financing Partners (NOK 4,300 million). We anticipate that the agribusinesses in our portfolio will generate more taxable income in the years ahead as production reaches stable levels, and processing and distribution facilities are built.

**4,500**
**MILLION NOK IN TAXES PAID IN 2014**

### ASSOCIATED SMALLHOLDER FARMERS

Enabling local small-scale farmers to deliver produce to larger businesses can be beneficial both to local communities and to companies. Norfund works actively to support associated smallholder farmers, and three of our agribusiness investments have such engagements in the form of 'out grower contracts' or other types of close cooperation.

**13,000**
**SMALLHOLDER FARMERS LINKED WITH PORTFOLIO COMPANIES**

### AGRICULTURAL PRODUCE

Investments in agribusiness can help to improve food security by increasing the availability of food in local markets. In 2014, the companies in Norfund's portfolio produced a variety of foods including bananas, avocado, fish, chicken, rice and wheat.

**120,000**
**TONNES OF FOOD PRODUCED IN 2014**

## ACTIVE INVESTMENTS YEAR END 2014

| Investment | Country/ region | Norfund investment year | Sector | Instrument | Norfund owner share | Domicile | Investee Currency | Commited amount 31.12.2014 (mNOK) |
|---|---|---|---|---|---|---|---|---|
| African Century Infrastructure Services Ltd. | Tanzania | 2014 | Other service activities | Equity and loan | 30 % | Mauritius | USD | 56.6 |
| Vertical Agro (Sunripe & Serengeti Fresh) | Africa | 2014 | Agriculture, forestry and fishing | Equity | | Mauritius | USD | 38.7 |
| African Century Foods Ltd. | Africa | 2013 | Agriculture, forestry and fishing | Equity | | Mauritius | USD | 52.2 |
| ASILIA (African Spirit Group Limited) | Africa | 2013 | Tourism | Equity | 19 % | Mauritius | USD | 30.7 |
| UAP Properties Limited | South Sudan | 2013 | Real estate activities | Equity | | South Sudan | USD | 37.2 |
| Chayton Atlas Investments | Zambia | 2012 | Agriculture, forestry and fishing | Equity | 23 % | Mauritius | USD | 95.8 |
| Yara fertiliser terminal Dar | Tanzania | 2012 | Manufacturing | Loan | | Tanzania | USD | 40.1 |
| TPS Dar es Salaam | Tanzania | 2011 | Tourism | Equity | 29 % | Kenya | USD | 62.1 |
| Agrica | Tanzania | 2010 | Agriculture, forestry and fishing | Loan | 29 % | Guernsey | USD | 101.0 |
| TPS Rwanda | Rwanda | 2010 | Tourism | Equity and loan | 11 % | Rwanda | RWF | 32.6 |
| Africado Ltd. | Tanzania | 2009 | Agriculture, forestry and fishing | Equity | 40 % | Mauritius | EUR | 21.4 |
| Green Resources USD | Tanzania | 2009 | Agriculture, forestry and fishing | Equity and loan | | Norway | USD | 146.2 |
| Casquip Starch | Swaziland | 2008 | Agriculture, forestry and fishing | Equity and loan | 29 % | Swaziland | SZL | 38.3 |
| Matanuska Africa | Mozambique | 2008 | Agriculture, forestry and fishing | Equity and loan | 33 % | Mauritius | USD | 216.8 |
| TPS Pakistan | Pakistan | 2007 | Tourism | Equity and loan | 5 % | Pakistan | USD | 21.1 |
| European Financing Partners SA* | Regional | 2006 | Investment funds | Equity and loan | | Luxembourg | EUR | 165.9 |
| Afrinord Hotel Investments | Africa | 2005 | Tourism | Equity | 20 % | Denmark | EUR | 51.4 |
| Kabul Serena Hotel | Afghanistan | 2005 | Tourism | Equity and loan | 17 % | Afghanistan | USD | 33.8 |
| AMSCO | Regional | 2001 | Financial services | Equity | 5 % | Netherlands | EUR | 1.8 |

*Investments categorized as "impact investments" can be found in the impact investment chapter page 60.*

**Norfund has granted loans through the EFP co-financing scheme to 18 enterprises (domicile in parentheses): Olkaria III (Caymen Island), Cement du Sahel (Senegal), Precision Air (Tanzania), Equity Bank (Kenya), Maputo Hospital (Mozambique), Rabai Power (Kenya), Zambeef (Zambia), PTA Bank (Kenya), AFL (Nigeria), Jamaica Public Services (Jamaica), Co-operative Bank (Kenya), Indor. Eleme Fertilizer (Nigeria), ETG (Mauritius), AFC (Nigeria), Bharti Airtel (ACP regional), NMB Tanzania (Tanzania), Fidelity Bank (Ghana), Chase Bank (Kenya). EFP is subject to the jurisdiction in Luxembourg.*

Tilapia feeding at African Century Foods' Lake Harvest Zimbabwe, Lake Kariba. The pellets come from the company's own factory.

# AFRICAN CENTURY FOODS (ACF)

African Century Foods (ACF) is a fully integrated producer and distributor of farmed fish and chicken, and its supply of affordable, high quality fresh protein is important in countries facing challenges related to the availability and affordability of food supplies.

**IN 2013,** Norfund invested in ACF to strengthen and expand ACF's operations in Zimbabwe, and to fund the company's expansion in Zambia, Uganda and Mozambique.

Operating through its subsidiary companies (Lake Harvest Zimbabwe, Lake Harvest Zambia, and Lake Harvest Uganda), ACF farms and produces 10,000 tonnes of tilapia – a freshwater fish – annually, and has full control over the key production processes involved. The demand for quality fish products is increasing, and aquaculture provides a sustainable response to the increasing challenge of overfishing in the lakes of Zambia, Uganda and Zimbabwe.

ACF's subsidiary company in Mozambique, Frango King, produces fresh and frozen broilers, and day old chicks which are sold to local small-scale farmers in the Nampula region of Mozambique together with a feed pack. The availability of quality day old chicks is helping to strengthen the local supply of food and providing extra income for local farmers.

The majority of ACF's products are sold through its regional network of wholesale and retail distribution outlets. The company is targeting specifically the lower end of the market, and provides quality jobs to over 1,400 people through its regional operations. In addition, hundreds of entrepreneurial trading jobs have been created. Most are undertaken by women who, for example, purchase fish supplied through ACF's local distribution centres in Zambia, Zimbabwe and Malawi.

The company has adopted a systematic approach to employee training, particularly regarding Health, Safety and Environment (HSE) issues and employee well-being.

# SME FUNDS

## – growing and strengthening small-and medium-sized enterprises

Angola Environmental Services, a waste management company providing services to the oil industry in Angola.

## DEVELOPMENT RATIONALE

Small- and medium-sized enterprises (SMEs) play important roles in developing countries: they contribute substantially to industrial development and, more widely, to economic diversification and growth. SMEs help to satisfy local demand for services, offer local employment, and can provide larger firms with inputs and services.

SMEs are engines of sustained long-term development but close supervision and follow-up are required when investing in the SME sector. Norfund's SME funds provide an important link between local expertise and international capital, and we invest with local management teams that are able to identify and support suitable local businesses.

## INVESTMENT NEEDS

SMEs in developing countries often lack access to risk capital, particularly compared to larger enterprises. Growth in the SME sector is also hampered by poorly developed business environments, such as excessive bureaucracy, inconducive regulatory environment, human resource challenges and difficulties of enforcing legal contracts. By investing in SMEs through local fund managers and providing access to risk capital, Norfund builds and improves businesses, and help to develop local business environments.

## NORFUND'S STRATEGY

Norfund invests in private equity and venture capital funds that target SMEs in need of early phase or growth capital. We seek to identify funds in which Norfund's participation will have a significant additional effect. The investments must offer something distinctly different to what is already available in the target markets. We often find that Norfund's participation and active involvement makes a real difference to the fund raising, setup, and performance of the funds.

An important and integral part of the investment strategy is to give significant attention to how the portfolio of fund investments is managed. Norfund always seeks to be an active participant in the governance of investor boards and committees.

# INVESTMENTS AND RESULTS

The purpose of Norfund's SME investment funds is to build and grow SMEs in our target geographies. Since 1997, Norfund has invested in a total of 55 SME-funds, 40 of which were active at the end of 2014. Norfund made one new fund investment and one follow-on investment in 2014. Our funds showed record levels of activity, both in terms of new investments and realizations. In total, we disbursed NOK 155 million to investment funds and NOK 205 million was returned.

## HIGHLIGHTS

**NORFUND'S SME FUNDS PORTFOLIO** is broadly diversified across countries and sectors. We are able to reach out to so many SMEs by investing through a large network of managers who have local presence and expertise. These local SMEs employ a significant number of people. They also play a central role in local communities through paying company taxes and fees.

**INVESTMENTS WERE MADE** in 48 new SMEs in 2014, and we exited from 36 SMEs. The new investments were made primarily in East and Southern Africa (74%) and this is a reflection of our continued focus on Africa in the past few years. The largest investment we made in 2014 was in an Angolan SME providing waste management services to the oil industry. A substantial investment was also made in a chain of primary schools that provides education to more than 100,000 children in Kenya for just USD 5 per child per month. Other investments were made in the information technology, real estate development, and manufacturing sectors.

**IN 2014 WE EXITED** from a number of more seasoned SMEs in countries outside of our current focus areas. These were SME investments in settings in which Norfund was previously more active, including investments in Peru, Indonesia and India.

**AMONG OUR NEW** fund activities was an investment of USD 10 million in CASEIF III – a fund which invests in SMEs throughout Central America. CASEIF III is the third fund managed by Lafise Investment Management. Norfund also invested further capital in Voxtra, a Norwegian initiative which makes investments designed to reach smallholder farmers in East Africa. This investment formed part of a capital expansion when a large new investor came into the fund.

INVESTMENTS IN **48** NEW SMEs

| | INVESTMENTS IN 2014 | TOTAL PORTFOLIO |
|---|---|---|
| **INVESTMENTS AND PORTFOLIO**<br>There are 40 active SME funds in Norfund's portfolio. In 2014, we invested in one new fund and made one follow-on investment. Norfund owns a significant share in three fund management companies in Nicaragua, Angola, and Kenya. 59 per cent of the SME funds invest in Africa while 20 per cent is invest Asia and 21 per cent in Latin America. | 71<br>**MILLION NOK NEW CAPITAL COMMITTED** | 1,481<br>**MILLION NOK COMMITTED IN TOTAL** |
| **INVESTEE COMPANY PORTFOLIO**<br>The strategic and financial effectiveness of our funds relies first and foremost on the characteristics and performance of their underlying investments, the SMEs. In 2014, our funds made new investments in SMEs of approximately USD 144 million, of which Norfund's indirect share is USD 10.6 million. | 48<br>**NEW SME INVESTMENTS** | 423<br>**SME INVESTMENTS IN TOTAL PORTFOLIO** |

| | RESULTS |
|---|---|
| **JOBS**<br>SMEs have significant employment effects. We find that a large proportion of employees – 39 per cent - are women. As Norfund is funding primarily growth capital, our investments contribute to new jobs. | 93,000<br>**JOBS IN PORTFOLIO COMPANIES IN 2014** |
| **TAXES**<br>All the investee companies pay local taxes and other local fees. Many of the funds are registered in third party countries. This is to ensure fair and equal legal treatment of all parties, and not for internal profit transfers and tax planning. Norfund follows guidelines given by the Norwegian Ministry of Foreign Affairs on the use of third party domiciles. | 2,100<br>**MILLION NOK TAXES PAID IN 2014** |
| **PORTFOLIO DIVERSITY**<br>Investing in a broad network of local managers enables the funds portfolio to invest efficiently in SMEs in many sectors. Manufacturing is the largest sector, while trade, financial services and information services are also significant. | 20 % **MANUFACTURING**<br>47 % **OTHER SECTORS**<br>11 % **FINANCIAL SERVICES**<br>11 % **TRADE**<br>11 % **COMMUNICATION** |
| **LDC AND AFRICA**<br>Over the past years we have focused the SME funds portfolio more towards Africa and least developed countries (LDC). In 2014 we see a larger proportion of new investees in LDCs, while exits take place in lower and upper middle income countries. The LDC share in the total funds portfolio is now 24 per cent. | 32 %<br>**SHARE OF NEW SME INVESTEES IN LDCS IN 2014** |

## ACTIVE INVESTMENTS YEAR END 2014

| Investment | Country/region | Norfund investment year | Investment focus | Norfund owner share | Domicile | Investee Currency | Commited amount 31.12.2014 (mNOK) |
|---|---|---|---|---|---|---|---|
| CASEIF III | Central America | 2014 | SME | 35 % | Canada | USD | 74.2 |
| Ascent Rift Valley Fund Ltd | Africa | 2013 | SME | 21 % | Mauritius | USD | 73.8 |
| Novastar Ventures East Africa Fund | East Africa | 2013 | Venture Capital | 22 % | Mauritius | USD | 72.5 |
| CORECO | Central America | 2012 | SME | 19 % | Delaware | USD | 69.7 |
| Africa Health Fund (Aureos) | Africa | 2011 | Health | 9 % | South Africa | USD | 62.3 |
| Vantage Mezzanine Fund II | Africa | 2011 | Mezzanine Financing | 5 % | South Africa | ZAR | 54.3 |
| Agri-Vie | Africa | 2010 | Food and Agribusiness | 9 % | South Africa | ZAR | 54.6 |
| Aureos South-East Asia Fund II | South-East Asia | 2010 | SME | 2 % | Canada | USD | 34.1 |
| Frontier Fund | Bangladesh | 2010 | SME | 11 % | Cayman Islands | USD | 59.1 |
| Cambodia-Laos Development Fund | Cambodia | 2009 | SME | 20 % | Luxem-bourg | USD | 25.3 |
| Evolution One Fund | Africa | 2009 | Clean Technology | 7 % | South Africa | ZAR | 31.3 |
| Aureos Africa Fund | Africa | 2008 | Investment funds | 11 % | Mauritius | USD | 158.3 |
| SEAF Blue Waters Growth Fund | Vietnam | 2008 | SME | 20 % | Cayman Islands | USD | 28.4 |
| Adenia Capital Ltd II | Africa | 2007 | SME | 13 % | Mauritius | EUR | 12.4 |
| Aureos Latin America Fund (ALAF) | Latin America | 2007 | SME | 13.6 % | Canada | USD | 130.5 |
| CASEIF II | Central America | 2007 | SME | 14 % | Panama | USD | 16.5 |
| Horizon Equity Partners Fund III | South Africa | 2007 | SME | 9 % | South Africa | ZAR | 18.7 |
| Aureos CA Growth Fund (EMERGE) | Africa | 2006 | SME | 14 % | Mauritius | USD | 15.1 |
| Aureos South Asia Fund (Holdings) | South Asia | 2006 | SME | 24 % | Mauritius | USD | 97.1 |
| Business Partners Madagascar SME Fu | Madagascar | 2006 | SME | 14 % | Mauritius | EUR | 10.3 |
| APIDC Biotech Fund | India | 2005 | Early stage Biotechnology | 8 % | Mauritius | USD | 16.4 |
| China Environment Fund 2004 | China | 2005 | SME | 10 % | Cayman Islands | USD | 4.7 |
| Aureos South-East Asia Fund | South-East Asia | 2004 | SME | 29 % | Mauritius | USD | 29.2 |
| Aureos East Africa Fund | East Africa | 2003 | SME | 20 % | Mauritius | USD | 4.4 |
| Aureos Southern Africa Fund | Southern Africa | 2003 | SME | 25 % | Mauritius | USD | 33.4 |
| Aureos West Africa Fund | West Africa | 2003 | SME | 26 % | Mauritius | USD | 20.8 |
| SEAF Sichuan Small Investment Fund | China | 2000 | SME | 13 % | Delaware | USD | 7.7 |
| Lafise Investment Management | Latin America | 1999 | Fund Manager | 20 % | Bahamas | USD | 0.2 |

*Investments categorized as "impact investments" can be found in the impact investment chapter page 60.*


The operators run the toilet facilities as small franchises. They generate extra income, while at the same time addressing the sanitation challenge in the slums.

# SANERGY IN KENYA

In Nairobi, almost 95 per cent of all solid waste is untreated and ends up in local waterways. This degrades water supplies and causes damage to the lives and livelihoods of communities downstream. Sanergy, a Kenyan company, has developed an innovative and profitable way to address this environmental and health hazard.

**ITS ECO-FRIENDLY,** low-cost, and high-quality sanitation toilets are franchised to local partners – or operators – who receive training, access to financing, ongoing operational and marketing support, and a daily waste collection service. The operators are responsible for maintaining and cleaning the facilities, and Sanergy collects the waste and delivers it to a central processing facility where it is converted into organic fertilizer that can be used by farmers.

Sanergy's business offers both a systematic and integrated business approach to improving slum sanitation, and a safer, more hygienic approach to treating human waste. This business model generates higher local levels of income, by enabling franchise holders to achieve an annual average income of USD 2,000. Asset ownership levels are also increased among operators. There are other benefits, too: the fertilizer used by farmers is helping to increase food yields and improving soil resilience.

Sanergy's operations currently serve nearly 30,000 people in Nairobi's urban slums every day, and its client base is expanding rapidly. Between 30 and 40 new facilities are sold each month, and the company removes more than 50 metric tons of human waste each week.

Norfund's investment in Sanergy was made through the Novastar Ventures East Africa Fund in 2014. Thus far, Novastar Ventures has invested USD 425,000 in Sanergy. Further investment is anticipated dependent on Sanergy's growth.


Street in Juba, South Sudan.
South Sudan is one of the fragile states Norfund has invested in.

# IMPACT INVESTMENTS

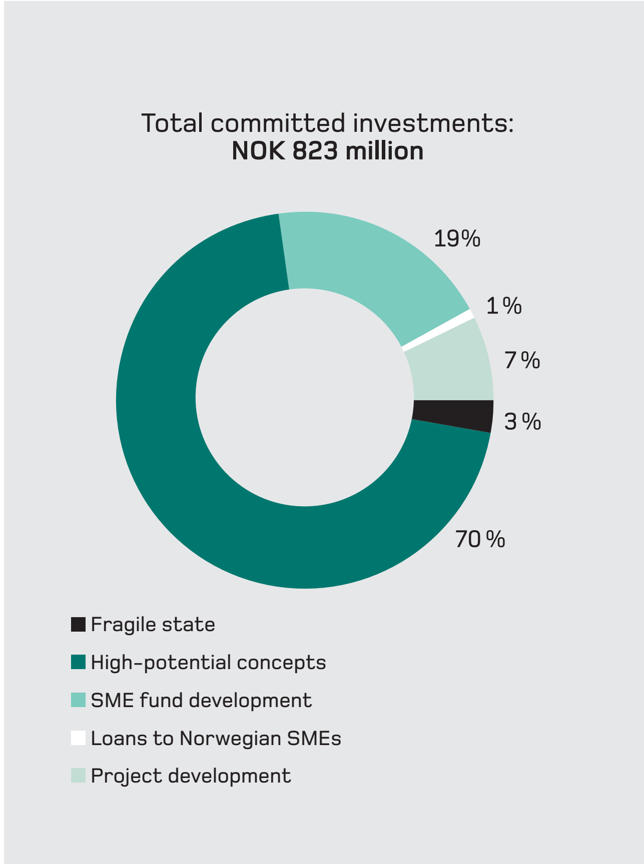
Some of Norfund's investments are exceptionally high-risk, are made under particularly uncertain conditions, and may have uncertain investment returns. Norfund classifies investments meeting one or more of these criteria as "impact investments".

**THE PROJECT DEVELOPMENT PHASE** of innovative and complex impact investments may take several years, and drive up costs over long periods before any income-generating activity begins. To accelerate innovation and to enable business development, long-term business developers and first movers must be found. They must be willing to spend significant resources on the project and concept development work required and, potentially, to go beyond the traditional roles and responsibilities expected of investors.

**NORFUND ENGAGES IN FIVE DIFFERENT IMPACT INVESTMENT CATEGORIES:**

**HIGH-POTENTIAL CONCEPTS:** Norfund may contribute, in special instances, to the development of new commercial concepts that have a high potential development impact. Basecamp Explorer Kenya, for instance, is a tourism company that was established as part of a high-impact wildlife conservation and community project. Norfund also invests in microfinance institutions in poor countries via the Norwegian Microfinance Initiative (NMI) – a Norwegian public-private partnership. By the end of 2014, the microfinance institutions had provided close to 35 million loans to customers, of which 26 million were held by women.

**SME FUND DEVELOPMENT:** In certain poor countries and markets, no SME funds are available. This makes it more difficult for Norfund to extend capital to SMEs. In instances where there is considerable need, we may actively support the establishment of private equity funds. Managing SME funds demands deep knowledge about local markets, fund investments, and active ownership. Norfund has established local SME funds in East »


**1.** Proximity Designs in Myanmar is a social enterprise, providing income boosting products and services to rural smallholders, including irrigation and energy products, farming advisory services, and most recently, microloans.

» Africa (through the venture capital fund Fanisi) and Angola (through the equity capital fund FIPA). Norfund was also a driving force in the establishment of Aureos Capital, a leading investor for SMEs in developing countries.

**PROJECT DEVELOPMENT** in renewable energy: Businesses must have comprehensive plans and structures in place before Norfund will invest in them. In the renewable energy sector, project development can be long and costly, and large-scale, complex projects may involve multiple stakeholders and local authorities in their construction and distribution work. In Least Developed Countries (LDCs), in particular, there may be few potential investments.

**EARLY ENGAGEMENT IN FRAGILE STATES:** Fragile states are characterised by particularly poor investment climates and by high levels of risk. Development assistance and humanitarian aid are particularly important when such countries are emerging from conflict, struggling with weak governance, and in need of new institutions and stability. Private sector development can also help to ensure growth and employment. Thus far, Norfund has invested in both South Sudan and Myanmar.

**LOANS TO NORWEGIAN SMES:** Norfund manages a targeted loan facility tailored to smaller projects initiated by Norwegian companies. Our Small Enterprise Loan Facility extends loans to small projects that have Norwegian participation and which are undertaken, preferably, alongside local businesses. Loans combined with Norfund's expertise can leverage investments made by Norwegian businesses in developing markets. Norfund is normally not limited to making investments with Norwegian partners only.

## ACTIVE INVESTMENTS YEAR END 2014

| Investment | Country/ region | Norfund investment year | Sector | Instrument | Norfund owner share | Domicile | Investee Currency | Commited amount 31.12.2014 (mNOK) |
|---|---|---|---|---|---|---|---|---|
| Biotherm Solar Zambia | Zambia | 2014 | Energy | Loan | | Zambia | USD | 5.6 |
| BioWatt Cape Dairy PDF | South Africa | 2014 | Energy | Loan | | South Africa | ZAR | 3.1 |
| NMI Fund III | Africa | 2013 | Financial services | Fund | | Norway | NOK | 124.9 |
| Proximity Designs | Myanmar | 2013 | Financial services | Loan | | Myanmar | MMK | 13.8 |
| Fula Rapids HPP PDF | South Sudan | 2013 | Energy | Loan | 33 % | South Sudan | USD | 9.5 |
| Kikagati HPP PDF | Uganda | 2012 | Energy | Loan | 49 % | Uganda | USD | 10.4 |
| Kinyeti Capital Ltd | South Sudan | 2012 | Financial services | Equity | 49 % | South Sudan | USD | 22.1 |
| Nsongezi Hydropwer Project PDF | Uganda | 2012 | Energy | Equity and loan | 49 % | Uganda | USD | 4.2 |
| Across Forest AS | Nicaragua | 2012 | Agriculture, forestry and fishing | Loan | | Norway | NOK | 1.8 |
| GLAD Ltd | Uganda | 2012 | Agriculture, forestry and fishing | Loan | | Uganda | USD | 4.5 |
| Hydel Hydropower PDF | Kenya | 2011 | Energy | Loan | | Kenya | USD | 11.1 |
| Voxtra East Africa A gribusiness Ini | East Africa | 2011 | Agriculture, forestry and fishing | Fund | 30 % | Norway | NOK | 33.1 |
| Basecamp Explorer Kenya Ltd | Kenya | 2010 | Tourism | Equity and loan | 40 % | Kenya | NOK | 13.0 |
| OMEGA SmartBuild | Uganda | 2010 | Financial services | Loan | | Norway | NOK | 2.0 |
| Angola Capital Partners LLC | Angola | 2009 | Investment funds | Equity | 48 % | Delaware | USD | 1.4 |
| Fanisi Venture Capital Fund | Africa | 2009 | Investment funds | Fund | 31 % | Luxembourg | USD | 93.0 |
| Fanisi Venture Management Company | Africa | 2009 | Investment funds | Fund | 50 % | Luxembourg | USD | 2.2 |
| Fundo de Investimento Privado-Angol | Angola | 2009 | Investment funds | Fund | 26 % | Luxembourg | USD | 63.7 |
| Scanwater AS | Uganda | 2009 | Construc-tion | Loan | | Norway | NOK | 2.5 |
| Euro TechBridge | Kenya | 2008 | Information and com-munication | Loan | | Norway | NOK | 2.3 |
| GroFin Africa Fund | Africa | 2008 | Investment funds | Fund | 9 % | Mauritius | USD | 73.2 |
| NMI Frontier Fund | Global | 2008 | Financial services | Fund | 45 % | Norway | NOK | 108.0 |
| NMI Global Fund | Global | 2008 | Financial services | Fund | 45 % | Norway | NOK | 162.0 |
| NMI Portfolio Manager AS | Global | 2008 | Financial services | Equity | 50 % | Norway | NOK | 58.4 |

Norfund

**NORFUND'S HEAD OFFICE OSLO, NORWAY**
Postal address:
P.O. Box 1280 Vika
NO-0111 Oslo,
Visiting adress:
Støperigata 2
Oslo, Norge
Phone: +47 22 01 93 93
Fax: +47 22 01 93 94
E-mail: post@norfund.no

**NORFUND'S OFFICE IN SAN JOSÉ, COSTA RICA**
Postal address:
P.O. Box 5848-1000
San José, Costa Rica
Visiting adress:
Escazu Corporate Center
Costado Sur, Multiplaza Escazu
San José, Costa Rica
Phone: +506 2201 9292
Fax: +506 2201 5028

**NORFUND'S OFFICE IN JOHANNESBURG, SOUTH-AFRICA**
Postal address:
Postnet Suite 411,
Private Bag X153,
Bryanston 2021, Johannesburg,
South Africa
Visiting adress:
1016 Oakhill, Fourways Golf Park,
Roos Street, Fourways 2055,
Johannesburg, South Africa
Phone: +27 11 467 4070
Fax: +27 11 467 4079

**NORFUND'S OFFICE IN NAIROBI, KENYA**
Postal address:
P. O. Box: 66162-00800,
Nairobi, Kenya
Visiting adress:
4th Floor Arlington Block,
14 Riverside Drive, Nairobi, Kenya
Phone: +254 (724) 256 947

**NORFUND'S OFFICE IN MAPUTO, MOZAMBIQUE**
Address:
Rua Joseph Ki-Zerbo
n.º 253 Maputo
Mozambique
Phone: +258 214 949 62/5

**NORFUND'S OFFICE IN BANGKOK, THAILAND**
Address:
Level 25th, Exchange Tower,
Suite 2501-2 Sukhumvit Road,
North Klongtoey, Wattana,
Bangkok 10110, Thailand
Phone: +66 2 663 5112

www.norfund.no