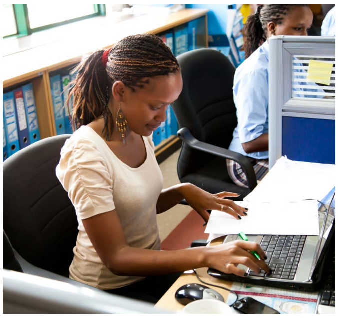
Norfund 20 YEARS 1997–2017
Norwegian Investment Fund for Developing Countries

# REPORT ON OPERATIONS 2016







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NORFUND

REPORT ON OPERATIONS 2016

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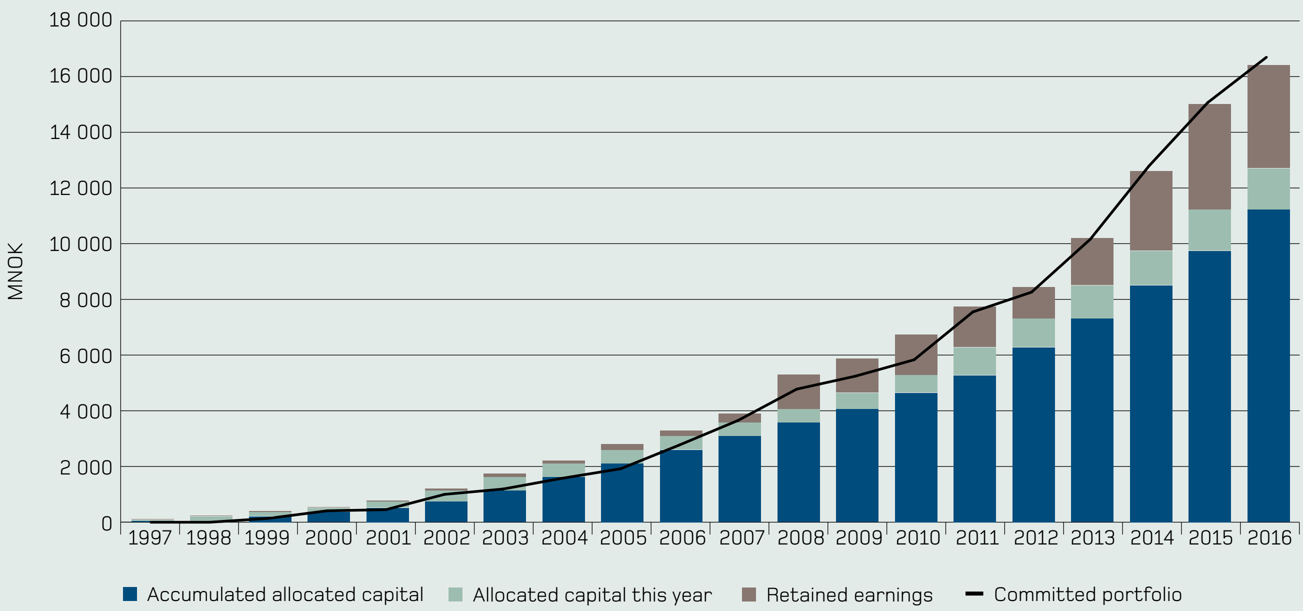
# 20 YEARS OF INVESTING FOR DEVELOPMENT

**IN 1997, NORFUND** – the Norwegian Investment Fund for Developing Countries – was established by the Norwegian Parliament. The purpose was to contribute to building sustainable commercial businesses in developing countries. With Norfund, a new chapter was added to the Norwegian development assistance policy; profitable industry and commerce was seen as a backbone of sustainable poverty alleviation.

Norfund's mandate is to be additional and catalytic. This means that Norfund shall provide additional capital to poor countries beyond what would happen in the market place, and attract additional capital from private sources. For twenty years, Norfund has provided equity, other risk capital, and loans to companies in countries where the need for capital is vast, and to industry sectors particularly important to development. Norfund always invests jointly with partners, both Norwegian and non-Norwegian.

The fund's investments have contributed directly to the development of sustainable businesses, job generation, tax-payments and to increased access to clean energy, risk capital and financial services in poor countries. Today, 770 companies with more than 276,000 employees are included the Norfund portfolio.

Norfund's activities are based on the principles of Norway's development cooperation policy. The graph below shows how Norfund through good returns and annual capital allocations from Norway's budget for development assistance has grown to be a significant investor in our markets. ■



A MESSAGE FROM

# KJELL ROLAND

*Chief Executive Officer*

# 20 YEARS OF INVESTING FOR DEVELOPMENT

The Sustainable Development Goals, potential setbacks in trade and globalisation combined with more risk-averse western investors have created a world with increasing need for development finance institutions. Thus, twenty years after its inception, Norfund's role of supporting economic growth and development is more important than ever.

Ideas about development have changed. In the 1960s and 1970s, transferring capital, building infrastructure, and providing technical expertise were seen as ways to kick-start growth. In the 1980s and 1990s, development was focused more on how best to introduce Western-style institutions and values, and leave infrastructure and jobs to the market.

In 1995, the Norwegian North-South Aid Commission (NOU 1995:5) argued that Norwegian development aid policy needed a new tool to support productive sectors. The Norfund Act was subsequently approved by the Norwegian parliament in 1997.

Since then, through annual capital allocations and good developmental and financial returns, Norfund has become a significant Development Finance Institution (DFI) in emerging markets.

## THE NEW AID ARCHITECTURE

Development finance has evolved dramatically over the last decade. Policymakers have increasingly recognised the need for jobs, tax revenues and exports that earn hard currency. They understand that private sector and economic growth are preconditions for sustainable poverty alleviation.

Donor countries have scaled-up their capital allocations to DFIs. Globally, total amount invested by all DFIs is now equivalent to half of all official development assistance (ODA). Norwegian governments have been a pioneer in this regard, every year since inception increasing Norfund's capital base. The core capital injected so far is NOK 12.7 billion. No dividends have ever been paid. Norfund has accumulated NOK 3.7 billion in profit, and on top of that, we believe NOK 4.3 billion have been created in values that will surface when projects are exited.

DFIs, such as Norfund, are thereby different to all other aid, the money we invest can be redeployed in new projects, again and again.

## FROM BILLIONS TO TRILLIONS … OR TO MILLIONS?

The need to increase capital flow to poor countries, "from Billions to Trillions", was the core message of the Third International Conference on Financing for Development held in Addis Ababa in 2015. It reflected the common understanding that the UN's Sustainable Development Goals will only be achieved if private investors make substantial investments. The global community needs to find ways to spend "billions" in aid to unleash "trillions" in private investments.

However, we are not seeing this happening at scale. In fact, capital flow to poor countries is declining and Western banks are leaving Sub-Saharan Africa. The previous growth of Foreign Direct Investments (FDI) to developing countries has stopped. This is a paradox; Poor countries are desperately short of capital, and can offer high interest rates and opportunities for profitable investments. Yet, private investors are turning back to western markets which are over-liquid and where interest rates are close to, or even below, zero. The UK's Brexit choice and Trump's presidential victory in the USA are signs that globalism may decline further.

## IS THE RISK TOO HIGH – IN NORWAY?

In Norway, the reluctance to invest in poor countries may be aggravated by the high risk of reputational damage when foreign investments fail. Zero-tolerance for corruption is vital, but zero tolerance for failures or wrong doing is damaging!

Companies that are brave enough to invest in poor countries must be given the opportunity to learn from their mistakes and experiences. If we are to succeed in raising investment "from Billions to Trillions", then the public and NGOs must support companies that are willing to invest in developing countries. And, like in traditional aid programs, accept that implementation is difficult and mistakes may happen. Trying to fight poverty is better than simply keeping our investment focus at home.

## MAJOR INVESTMENTS IN 2016

In 2016, Norfund's largest investment was in the new company Arise, formed through a partnership with Rabobank and FMO (the Dutch DFI). The purpose of this new investment company is to build a vibrant and solid banking sector in Sub-Saharan Africa, and by doing so, increase access to capital for SMEs and promote financial inclusion.

Another milestone occurred in 2016 when IFU (the Danish DFI) joined the Norwegian Microfinance Initiative (NMI). With IFU on board, the company was renamed Nordic Microfinance Initiative and aims to become the leading Nordic investor in microfinance.

A third milestone was achieved when Scatec Solar and KLP Norfund Invest AS signed a Power Purchase Agreement that secured the sale of solar power to the state-owned utility company, Electricidade de Mozambique (EDM). Being able to build infrastructure in Mozambique in the present political and economic environment is unique. The planned 40 MW Mocuba solar power plant will be the first of its kind in the country.

## A NORFUND BUZZ WORD: ADDITIONALITY

Our mandate is to be additional by supplying capital and competence that is otherwise unavailable in poor countries and difficult sectors.

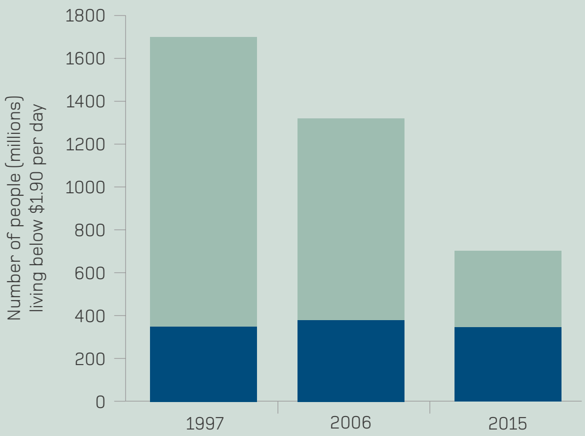
Last year, Norfund invested 86 percent of our capital in developing countries that are ranked as 'difficult' places to do business. By contrast, according to the World Bank, only 11 percent of foreign direct investments (FDI) were deployed to such countries. (see page 26).

At a time when private investors are more reluctant to invest in poor countries, the need for Norfund's investments is growing. Norfund is an active, strategic minority provider of equity in developing countries. We are willing to take high risks and pave the way for private investors. We will help turning the tide of private capital back to poor countries by proving that it is possible and profitable, and by buying down their risk as a partner with capital and skills.

Kjell Roland
Chief Executive Officer

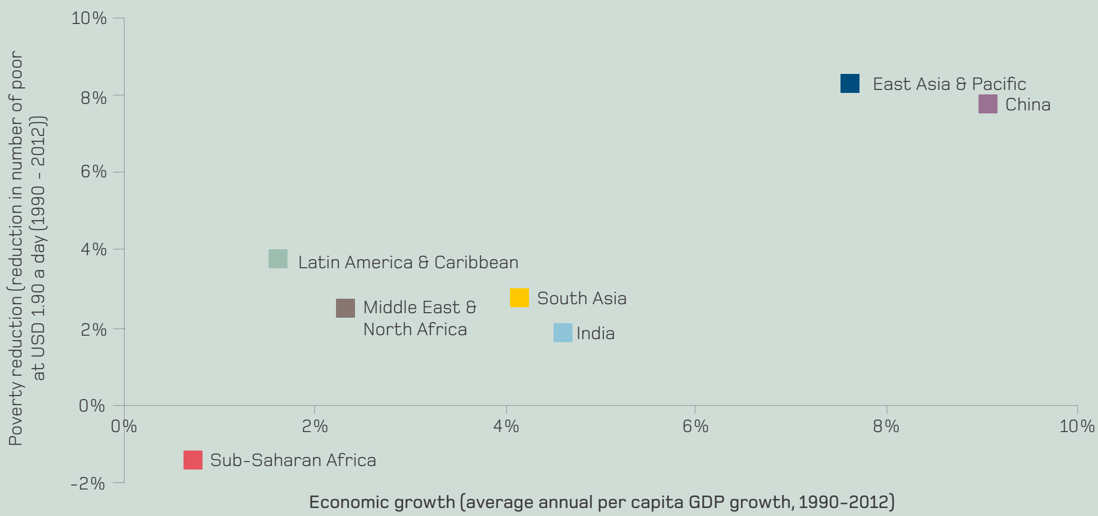
# DEVELOPMENT TRENDS 1997–2017

## THE NUMBER OF PEOPLE LIVING IN EXTREME POVERTY HAS DROPPED BY 50%



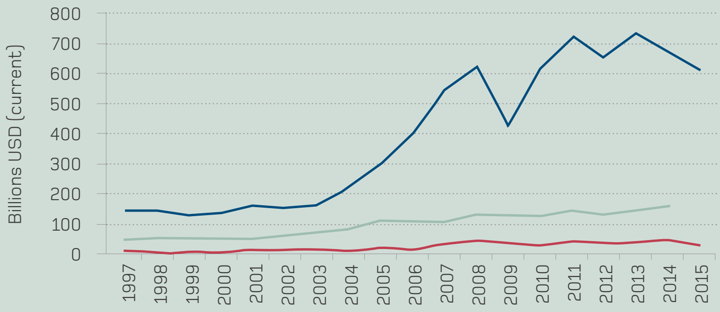

One of the UN's eight Millennium Development Goals was to halve the number of people living in extreme poverty by 2015. This goal was achieved before the deadline. Poverty in Asia dropped substantially, but the number of people living in extreme poverty in Sub-Saharan Africa has remained high.

## SUSTAINED ECONOMIC GROWTH HAS BEEN THE MAIN DRIVER OF POVERTY REDUCTION



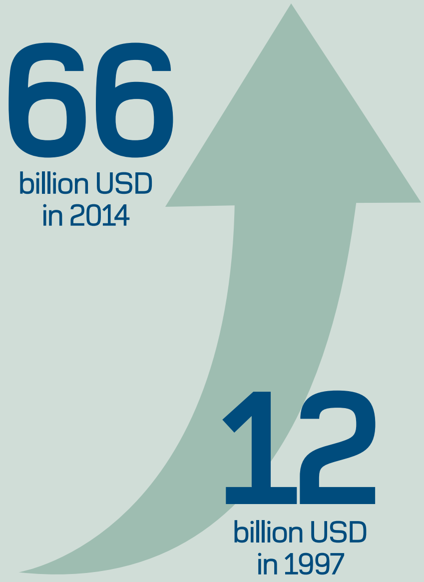

Countries with the strongest economic growth, such as China and countries in East Asia, have achieved the largest declines in poverty. The figure above shows how sustained economic growth is associated with poverty reduction (average 1990 – 2012)

## SURGE IN FOREIGN DIRECT INVESTMENT (FDI), BUT AFRICA LAGS BEHIND




Foreign direct investment (FDI) to developing countries
Net official development assistance (ODA) to developing countries
Foreign direct investment (FDI) to Sub-Saharan Africa

Access to capital is crucial to economic growth. While the overall level of aid to developing countries remained relatively constant in real terms between 1997 and 2014, foreign direct investments (FDI) increased considerably. However, only a minor part of the FDI (1 % in 2015) was in the lowest income countries. In Sub-Saharan Africa, FDI was low during the whole period. Also since 2014, the growth in total FDI to developing countries has decreased.




**DEVELOPMENT FINANCE INSTITUTIONS (DFIS)**
have been the fastest growing source of development finance.

## CREATION OF JOBS IS THE KEY TO REDUCING POVERTY

Economic growth contributes to poverty reduction especially when it generates more jobs. Africa's population growth rate is the highest in the world. Creating sustainable enterprises in Africa that generates more jobs is therefore crucial. Access to finance and access to electricity are two major constraints for the establishment and growth of new enterprises in developing countries.

The needs for future development and further investments are considerable:

**830 MILLION**
youth will enter the African labor market by 2050

**50 %**
of the world's adult population lack access to financial services

More than
**50 %**
of all firms in Sub-Saharan Africa rely on back-up generators for electricity

**200 MILLION**
micro-, small- and medium-sized enterprises in developing countries lack access to credit

**600 MILLION**
people in Sub-Saharan Africa lack access to electricity

In 2008, Norfund and Trønder Energi jointly developed a power plant on a river in Bugoye in the western part of Uganda.

# A BRIEF HISTORY OF NORFUND

**IN 1995, THE NORWEGIAN NORTH–SOUTH AID COMMISSION** (NOU 1995:5) argued for a new tool in the Norwegian development aid policy. An increasing recognition of the private sector's role for economic growth and poverty reduction in developing countries led to support for a new tool in aid policy: *An investment fund for private sector development that could help Norwegian companies to invest in developing countries.*

At that time, Norway was one of very few Western European countries that did not have a development finance institution (DFI). The proposal to establish Norfund was submitted to the Norwegian parliament (Stortinget) as a separate matter in Proposition No. 13 (1996-1997). The Norfund Act was approved by the parliament on 9 May 1997 and defined Norfund's mandate. In 2002, Norwegian development aid and Norfund's investments were untied from the interests of Norwegian companies.

Since inception in 1997, initially relatively small annual capital allocations from the Norwegian aid budget have gradually increased, and have the latest years reached approximately 1,5 billion Norwegian kroner.

The fund's strategy has developed from a relatively broad investment strategy, to a focused strategy, investing mainly equity capital in specific geographies and sectors. Today, Norfund is the government's main instrument for combatting poverty through private sector development.

On the following pages, you'll see an overview of highlights in Norfund's development since 1997. ■

## 1997

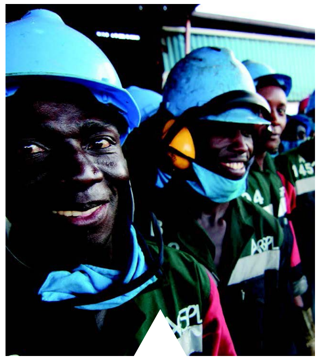
- **Norfund is established**
  Chairman: Arve Johnsen, Managing director: Per Emil Lindøe

## 1999

- **Enters into co-operations with the World Bank's International Finance Corporation (IFC) and the Association of European Development Finance Institutions (EDFI)**

## 2000

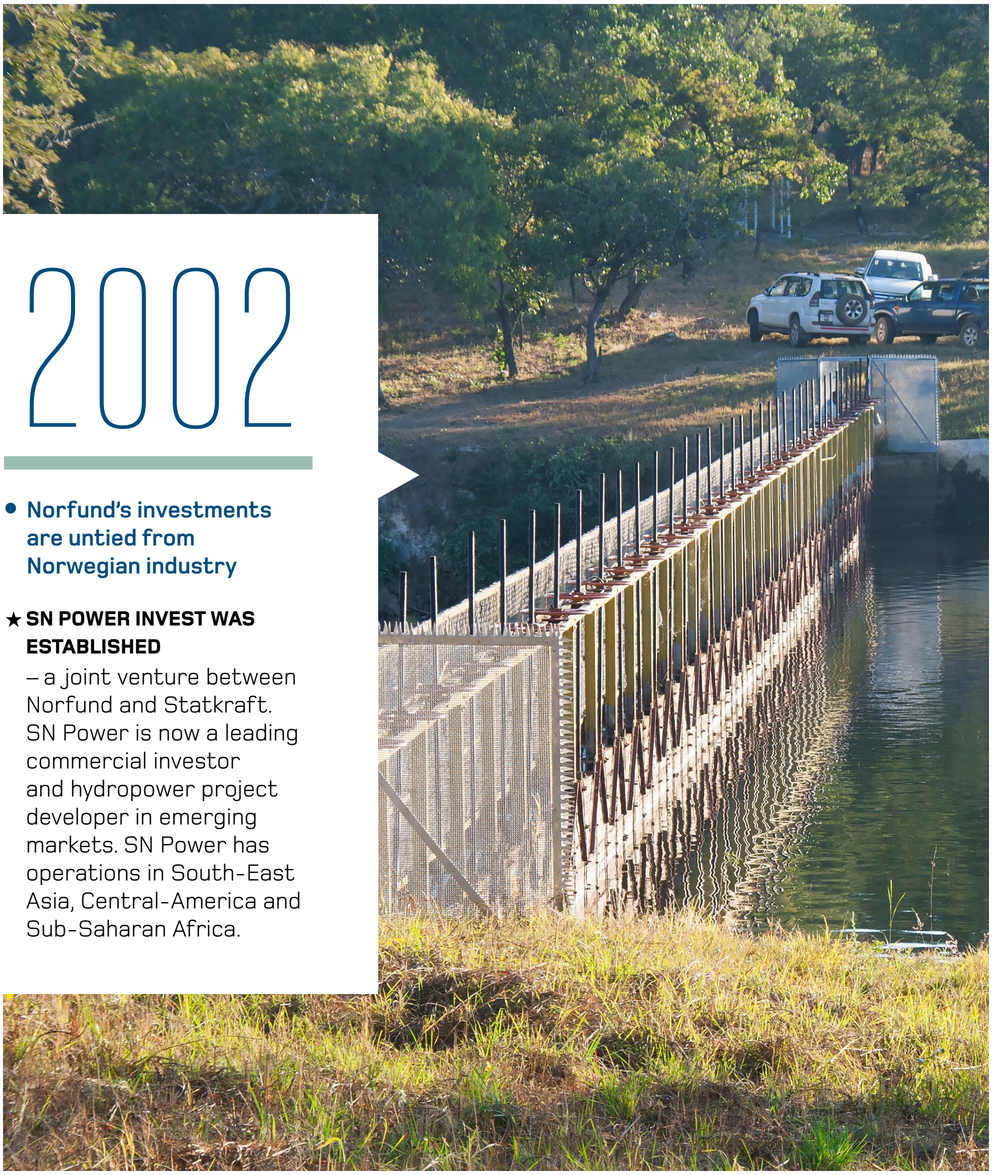
- **A grant facility for Norfund is established by the Norwegian Ministry of Foreign Affairs**



## 2001

- **A regional office for Central America is opened in San Jose**

★ **AUREOS CAPITAL LIMITED WAS ESTABLISHED**
– a joint venture between CDC and Norfund, with the aim to create a strong fund manager in emerging markets. Over time, Aureos became a global leading SME PE fund manager in developing markets. The additional role of CDC and Norfund decreased. Norfund exited Aureos management company in 2009, but is still invested in the funds. Today, Aureos is incorporated in the Abraaj Group.



## 2002

- **Norfund's investments are untied from Norwegian industry**

★ **SN POWER INVEST WAS ESTABLISHED**
– a joint venture between Norfund and Statkraft. SN Power is now a leading commercial investor and hydropower project developer in emerging markets. SN Power has operations in South-East Asia, Central-America and Sub-Saharan Africa.

## 2003

- **A regional office for Southern Africa is opened in Johannesburg**

# 2004

- **A system for measuring development effects is introduced**

★ **DFCU BANK**

Norfund's first bank equity investment was in DFCU. This was a long-term investment and Norfund is still an active owner. DFCU Bank is predominantly an SME bank. Their main strength is in providing long-term funding. *"Norfund gives us the edge, because they think long-term and they also provide us with the money which we need to intermediate"*, said Juma Kisaame, Managing Director, DFCU Bank

# 2006

- **Kjell Roland was appointed as Managing Director for Norfund**

★ **EUROPEAN FINANCING PARTNERS (EFP)**

Norfund invested in EFP - is a private limited liability company owned by 12 European Development Finance Institutions (DFIs) and the European Investment Bank.

# 2007

- **Kristin Clemet is appointed chair of the board of Norfund, and a new focused strategy is adopted**
- **A regional office for East Africa is opened in Nairobi**
- **The Information Office for Private Sector Development in Developing Countries is established in co-operation with Norad**


★ **HATTHA KAKSEKAR (HKL)**

Norfund's equity investments, loans and active shareholding in HKL contributed to its extensive development. Today, HKL is one of Cambodia's leading mid-size microfinance institutions. In addition to rapid growth and financial success, HKL's microfinance services have made crucial economic and social contributions, helping more than 316,000 clients to find their way out of poverty.

# 2008

★ **THE NORWEGIAN MICROFINANCE INITIATIVE (NMI) IS ESTABLISHED.**

NMI gives poor people in developing countries access to financial services by uniting private and public capital. Established in 2008 by Norfund and a group of Norwegian private investors, the Initiative aims to be the leading Nordic microfinance platform. The Danish Investment Fund for Developing Countries (IFU) joined the Initiative in 2016.

# 2009


★ **AFRICADO**
– an agricultural investment that has succeeded in commercialising a traditionally low-value crop. New techniques and agricultural training are creating jobs and new sources of revenue for small-scale avocado-farmers in Tanzania. This also enabled, enabling them to expand production and reach export markets.

★ **BUGOYE HYDROPOWER PLANT** This 13 MW plant in Uganda was a joint development project between Trønder Energi and Norfund.

# 2011

• **A regional office for South East Asia is opened in Bangkok**

# 2012

• **A regional office is opened in Maputo, Mozambique**

★ **SCATEC SOLAR KALKBULT**
The Kalkbult plant in South Africa's Northern Cape region is one of Africa's largest solar plants. The 75MWp plant, developed by Scatec Solar, became operational in late 2013. Norfund owns 21% of the plant.

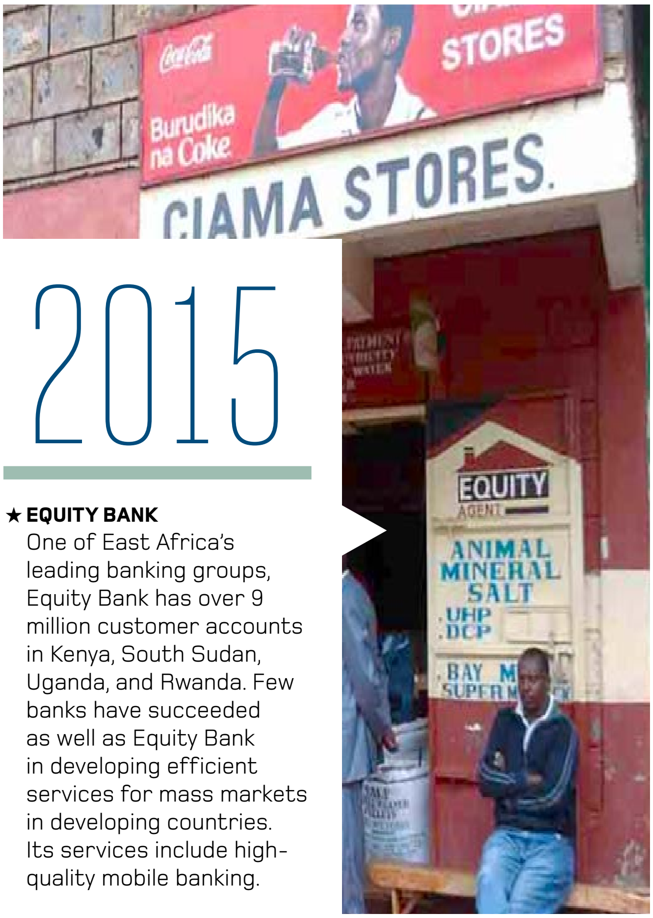
# 2013

★ **KLP NORFUND INVESTMENT AS (KNI) IS ESTABLISHED**
KNI is a co-investment vehicle financed jointly by KLP and Norfund. KNI invests equity in selected finance and renewable energy projects within Norfund's investment strategy.

★ **LAKE TURKANA WIND POWER PROJECT (LTWP)**
LTWP is the largest wind power plant in Africa with 365 wind turbines installed in a dry and arid area in Northern Kenya. The project will provide 310 MW to the Kenyan national grid – 18 percent of Kenya's total electricity capacity today. The LTWP is the largest single private investment in Kenya's history.


# 2014

★ **GLOBELEQ**
In 2014, Norfund and CDC took full ownership of Globeleq, one of Africa's leading electricity generation developers and operators. Globeleq helps to bring more projects to the construction phase and aims to develop more than 5,000MW of new generating capacity over the next 10 years.



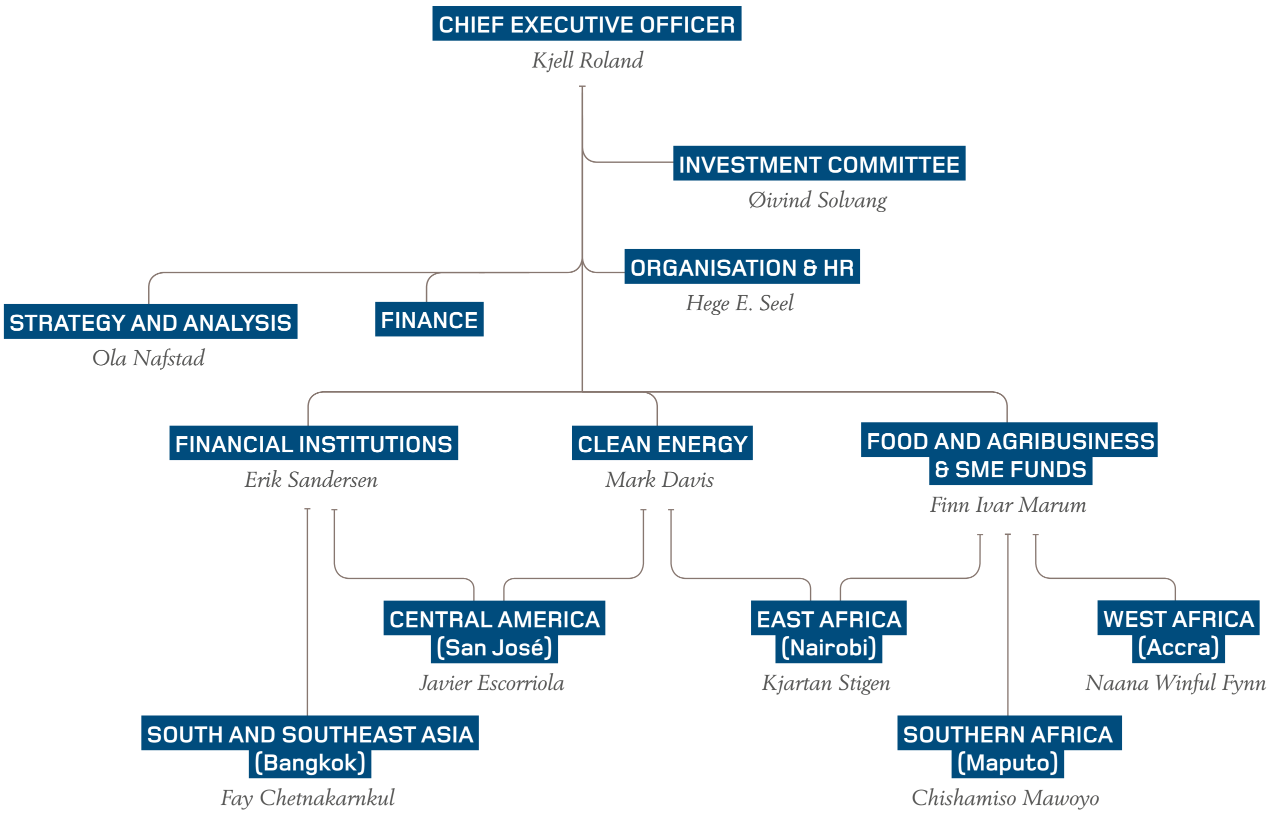

# 2015

★ **EQUITY BANK**
One of East Africa's leading banking groups, Equity Bank has over 9 million customer accounts in Kenya, South Sudan, Uganda, and Rwanda. Few banks have succeeded as well as Equity Bank in developing efficient services for mass markets in developing countries. Its services include high-quality mobile banking.


# 2016

- **The Johannesburg office is closed and staff is transferred to Arise**
- **A regional office for West Africa is decided to be opened in Accra, Ghana**

★ **ARISE**
Norfund, FMO and Rabobank joined forces in establishing Arise. The aim is to strengthening the financial sector in Sub-Saharan Africa and increasing SMEs' and poor unbanked peoples' access to capital. Arise partners with sustainable, locally-owned Financial Services Providers and has become a leading African investment company.
(See page 53)




# NORFUND'S ORGANISATION

**Investment expertise**

Norfund has the country's largest specialist team managing investments in developing countries. 43 of Norfund's 69 employees work directly with these investments and follow projects through all phases of the investment process. Several investment staff hold board positions in investee companies. To build and retain expertise, Norfund has four sector-based departments: Food and Agribusiness, SME Funds, Financial Institutions, and Clean Energy.

**Country presence**

Twenty-one experienced Norfund staff members are employed across five regional offices (Nairobi, Maputo, Accra, San José and Bangkok) to ensure local proximity and knowledge.

**Development expertise and administrative support**

Norfund has three dedicated experts monitoring environmental, social and governance issues related to our investments. The Strategy and Analysis Department provides internal and external knowledge management and communication. The Finance Department supports the investment projects and facilitates reporting to our Norwegian co-partners. The Organisation and HR Department is responsible for staff-related issues as well as internal control and overall compliance. To keep the organization small and non-bureaucratic, a number of support functions are outsourced.

**Investment committee**

Norfund's Investment Committee reviews all prospective investments at least twice to ensure the quality of investment decisions. (See page 22) The Committee acts as an advisory board for the Managing Director, and is chaired by an external expert to ensure the independence of its assessments. Representatives from Norfund's management team, as well as internal and external staff are included. ■

# BOARD OF DIRECTORS

Norfund's Board of Directors is appointed by the General Assembly. The General Assembly is constituted by the Norwegian Minister of Foreign Affairs who governs the state's ownership in Norfund.

Norfund's Board of Directors ensures that the Fund operates in accordance with the Norfund Act of 1997 and the terms set by the owners related to annual capital allocations. The Board defines Norfund's strategy and approves individual investments exceeding specified amounts and projects considered high risk. Other investment decisions are delegated to management. Being an active investor, the Norfund Board of Directors meets 8–9 times a year, and once a year they travel to visit selected investee companies in priority developing countries.

Back row: Per Christian Sbertoli, Vegard Benterud, Finn Jebsen, Martin Skancke. Front row: Kristin Clemet, Borghild Holen, Nina E. Hansen, Brit K.S. Rugland

**KRISTIN CLEMET**
**Chair (since 2007)**
Ms Clemet is at present Head of the Norwegian think tank Civita. She has extensive political experience: she was the Norwegian Minister of Education and Research from 2001-2005, Minister of Labour and Administration from 1989-1990, and a member of the Norwegian Parliament (Storting) from 1989-1993. She was the Deputy Director of the Confederation of Norwegian Enterprise (NHO) from 1998-2001. Ms Clemet has a number of other directorships.

**FINN JEBSEN**
**Director (since 2012)**
Mr Jebsen is self-employed and has extensive experience in the Norwegian industrial sector. He worked in the Orkla Group for 25 years, as CEO from 2001-2005. He has served on the boards of several companies, including Kavli Holding AS, Awilhelmsen AS, Kongsberg Gruppen ASA and Norsk Hydro ASA.

**MARTIN SKANCKE**
**Director (since 2014)**
Mr Skancke is a self-employed consultant at Skancke Consulting. He has worked in the Norwegian Ministry of Finance and headed the Ministry's Section for Monetary Policy and Public Finances. He has been Director General at the Office of the Norwegian Prime Minister and at the Ministry of Finance's Asset Management Department.

**BRIT K.S. RUGLAND**
**Director (since 2015)**
Ms Rugland has broad experience in both equity investments and the industrial sector, including at Statoil. Since 2000, she has been a General Manager of various parts of the Rugland family business. Ms Rugland has served on Norges Bank's Executive Board and chaired the Board of Gassco AS.

**PER CHRISTIAN SBERTOLI**
**Director (since 2016)**
Mr Sbertoli has a background as International Secretary and political advisor for the Christian Democratic Party. He has been Head of Advocacy in Plan International Norway. Now he works as Senior Communications Advisor in the Zero Emission Resource Organization.

**BORGHILD HOLEN**
**Director (since 2007)**
Ms Holen has long experience from the Norwegian financial sector and is at present Head of International Financial Institutions and Trade in DNB Bank. She has previously worked at the Norwegian credit finance institution Eksportfinans, was a member of the North-South Commission for development aid and a GIEK board member.

**NINA ELISABETH HANSEN**
**Director (Norfund Employee elected since 2015)**
Ms Hansen has worked at Norfund since 2012 as the Finance Manager. Previously she worked as Finance Manager in Nets Norway AS, worked in Kværner ASA and is a former Director in Eidsiva Bioenergi AS.

**VEGARD BENTERUD**
**Director (Norfund Employee elected since 2015)**
Mr Benterud has worked in Norfund since 2006 and is a Senior Investment Manager. Previously he worked as a Portfolio Manager at NBIM and as Investment Director at the Norwegian Microfinance Initiative (NMI). He is a member of various boards within the Norfund portfolio.

REPORT ON OPERATIONS

# AN ACTIVE, STRATEGIC, MINORITY INVESTOR

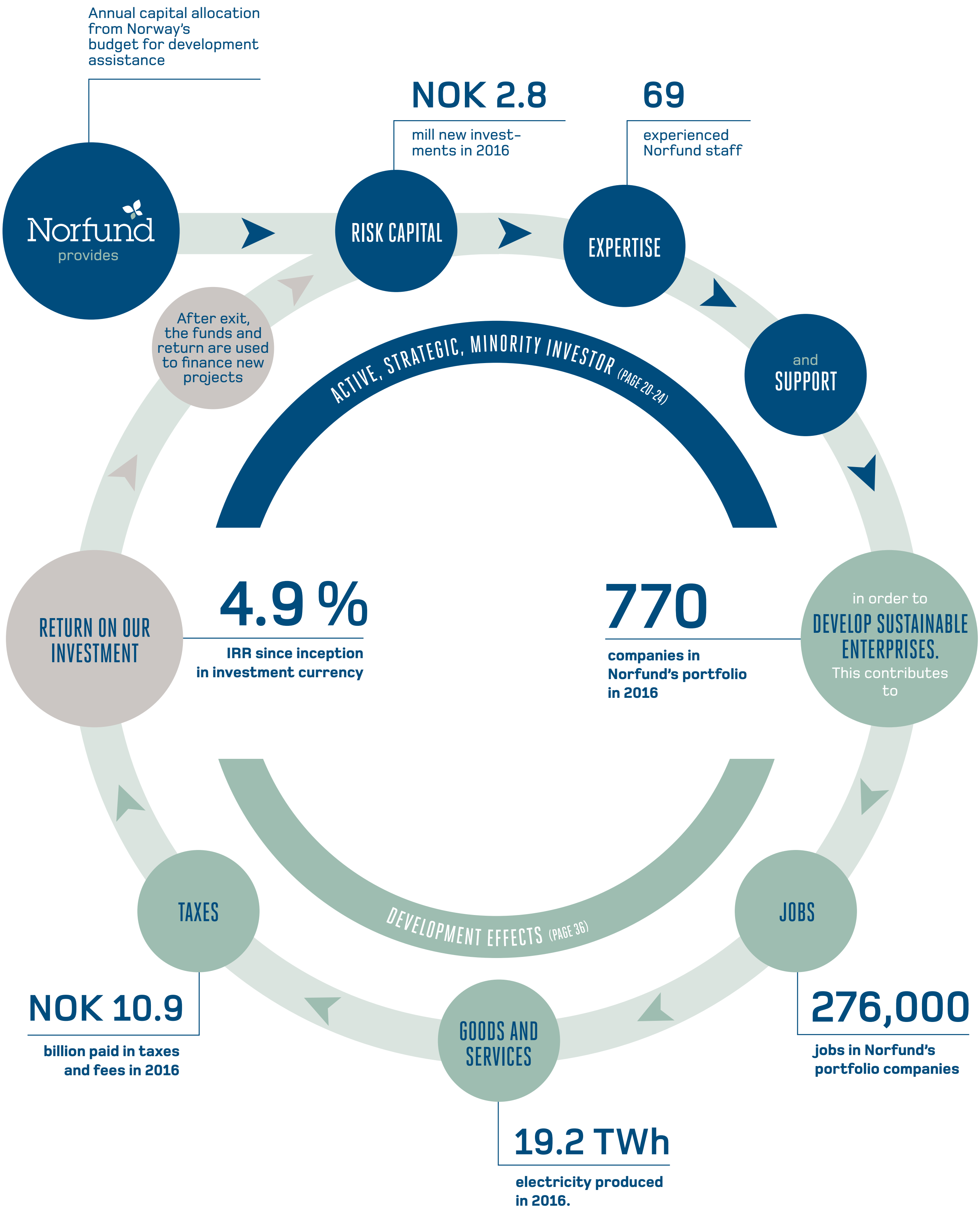
# INVESTING IN SUSTAINABLE ENTERPRISES

The creation of sustainable enterprises and jobs is essential to promoting economic growth and reducing poverty.

Norfund's mandate is to contribute to economic and social development by financing the establishment and growth of sustainable enterprises in developing countries. Focus is on investments that would not otherwise have been realized due to high risk and lack of capital. The fund's mandate is defined in the Norfund Act of 1997, and in the fund's statutes.

Norfund operates in the market space between development aid and commercial markets. Norfund accepts high risks and invest in some of the world's most challenging countries and sectors. The portfolio is therefore diversified to ensure a sufficient total return. The capital and profit generated when exiting an investment are reinvested in new enterprises in which there is a greater need for Norfund's risk capital.

The figure on the next page illustrates how Norfund works, and how the investments contribute to development. ■


Annual capital allocation from Norway's budget for development assistance
Norfund
provides
NOK 2.8
mill new investments in 2016
RISK CAPITAL
69
experienced Norfund staff
EXPERTISE
and
SUPPORT
ACTIVE, STRATEGIC, MINORITY INVESTOR (PAGE 20-24)
After exit, the funds and return are used to finance new projects
RETURN ON OUR INVESTMENT
4.9 %
IRR since inception in investment currency
770
companies in Norfund's portfolio in 2016
in order to
DEVELOP SUSTAINABLE ENTERPRISES.
This contributes to
DEVELOPMENT EFFECTS (PAGE 36)
TAXES
NOK 10.9
billion paid in taxes and fees in 2016
JOBS
276,000
jobs in Norfund's portfolio companies
GOODS AND SERVICES
19.2 TWh
electricity produced in 2016.

*Africado* is today *Tanzania's largest* grower and exporter of avocados.

# A STRATEGIC INVESTOR

Norfund's *Strategy 2016–2020* is anchored in the fund's mandate. It determines how we fulfil our mandate, and guides us to do so effectively and efficiently. It also reflects the overarching priorities of the Norwegian government's development assistance policy, and the Sustainable Development Goals adopted by the United Nations.

**CONCENTRATION AND EXPERTISE:**
Norfund's investments and expertise are focused on particular *countries, sectors and instruments* in which the potential development impacts are likely to be strongest.

**PRIORITY COUNTRIES:**
Norfund's main priority investment region is Sub-Saharan Africa. We are also investing in selected countries in South-East Asia and Central America. Currently, Norfund targets 30 countries. A set of Key Performance Indicators (KPIs) are used as a guide for allocating capital according to Norfund's strategy.

KPIs for Norfund's portfolio:
- Africa > 50 %
- Least Developed Countries > 33 %

**PRIORITY SECTORS:**
Norfund invests in *three sectors:* 1) clean energy[1], 2) financial services, and 3) food and agriculture. In these sectors, well-run businesses have particularly strong potential developmental effects. The availability of electricity, and effective banking and financial systems are crucial infrastructural requirements for development. Improvements in agribusiness – from primary agriculture to food processing, and logistics and distribution – contribute to securing jobs, decreasing import-dependency, and increasing exports and income levels.

KPI for Norfund:
- 50 % of each year's capital allocation from owner should be invested in renewable energy[1]

Supporting the development of small- and medium-sized businesses (SMEs) through specialised funds is also a central part of Norfund's activities. This is particularly important because SMEs have a significant impact on job creation.

**GREENFIELD INVESTMENTS:**
A part of Norfund's portfolio is invested in start-up enterprises – so-called "greenfield investments". New enter-

[1] Norfund distinguishes between the concepts "clean energy", which is the name of the investment department, and covers the whole energy portfolio, and "renewable energy", which only covers energy based on renewable sources. The difference is largely accounted for by investments in gas-fired power plants in East and West Africa.

prises are necessary for the development of local economies. However, starting new enterprises are risky and attracting capital can be challenging. Norfund accepts political and financial risks, but we avoid technology risks. In other words, Norfund prefer to invest in new companies that are based on pre-tested, well-functioning technologies.

KPI for Norfund's portfolio:
– Greenfield Investments > 20 %

**PRIORITY INSTRUMENTS:**
Norfund provides capital mainly in the form of **equity and debt**. Preference is given to equity investments because in most developing countries equity is the scarcest type of capital that enterprises need. Our direct ownership enables us to be an influential stakeholder and to have a direct impact on company governance as well as on decisions related to environmental and social impacts. As an equity investor, we have a long-term perspective of our investments and usually we are willing to stay longer than most other investors.

KPI for Norfund's portfolio:
– Equity Investments > 70 %

**INVESTMENT EXPERTISE**
Norfund constantly builds and develops the expertise needed to do investments and manage risks in order to succeed as a financial investor. We strive to have a thorough understanding of the business environments, enterprises, politics and governance practises in the countries and sectors in which we are investing. Norfund therefore recruits as many employees in and from our target countries and regions as possible. We also focus on mobilising high-quality international expertise of our partners. As an active owner, we recruit highly experienced external board members to our investees.

**EXITS AND NEW OWNERS**
When companies are financially sustainable they earn profits and, over time, become increasingly attractive to private investors. At a certain point, Norfund's involvement may no longer be additional. The life of the investment and the exit strategy is decided at the time of making the investment. Typically, exits occur after 5–10 years for equity investments, after 5–7 years for debt holdings, and after 10–12 years for fund investments. The capital and profit generated are reinvested in new businesses in which there is a greater need for our risk capital. (read about Norfund's exits in 2016 on page 39) ■

## IMPACT INVESTMENTS

Norfund also invests in "impact investments", a special asset class with risk levels that are higher than those we usually accept. These investments are made because the expected development impacts are particularly high. The maximum total committed to such investments is NOK 1 billion.

This asset class is not included in the return calculations associated with Norfund's financial targets. In this report, figures for these investments are shown in *cursive script* in each sector-based portfolio overview.

Investments must meet one or more of the following criteria to qualify for inclusion in this asset class:

**Project development in renewable energy:**
In principle, companies must have comprehensive plans and structures in place before Norfund will invest in them. In the clean energy sector, project development can be costly and take time. Large-scale, complex projects, for example, may involve multiple stakeholders and local authorities. Because there often is a lack of potential clean energy projects, in particular in least developed countries, Norfund may also invest in project development.

**Early engagement in fragile states:**
Fragile states are characterised by particularly poor investment climates and high levels of risk. When countries are emerging from conflict, struggling with weak governance, and in need of new institutions, then development assistance is particularly important. Private sector development contributes to growth and employment.

**Fund management in high-risk locations:**
In poor countries and markets in which SME funds are unavailable, the establishment of new, locally-based investment funds can be an effective way to promote SME development. SMEs' access to capital in such markets can have very high development impacts.

**Loans to Norwegian SMEs:**
Norfund manages a targeted loan facility tailored to smaller projects initiated by Norwegian companies.

# AN ACTIVE AND RESPONSIBLE INVESTOR

Norfund is an active and socially conscious investor. This implies carefully scrutinizing potential projects prior to investments and regularly engagement and monitoring after an investment has been made.

**BEFORE INVESTMENT**

Potential companies and partners are carefully assessed before any investment can be made. Financial, operational, environmental and social concerns are equally important: Without financial and operational viability a company is not commercially sustainable; and a company without sufficient respect for human rights and environmental sustainability is incompatible with Norfund's developmental mandate. The investment funnel illustrates how the number of potential investments identified is gradually narrowed down to the number of investments Norfund actually makes.

**INVESTMENT FUNNEL: Requirements, considerations and decision-making process**

Norfund identifies potential investments either through our own searches or by being approached by companies and investors. Many potential investments are rejected due to lack of strategic fit, e.g. not being within our target countries or sectors, and only a few are chosen for detailed consideration. We call these prospects.[2]

Prospects are screened based on e.g. business plans, the potential partners, Norfund's additionality and catalytic role (see page 23), and overall portfolio considerations. The best prospects are presented for a Clearance in Principle (CIP) to Norfund's Investment Committee and, for the largest and most risky prospects, to Norfund's Board.

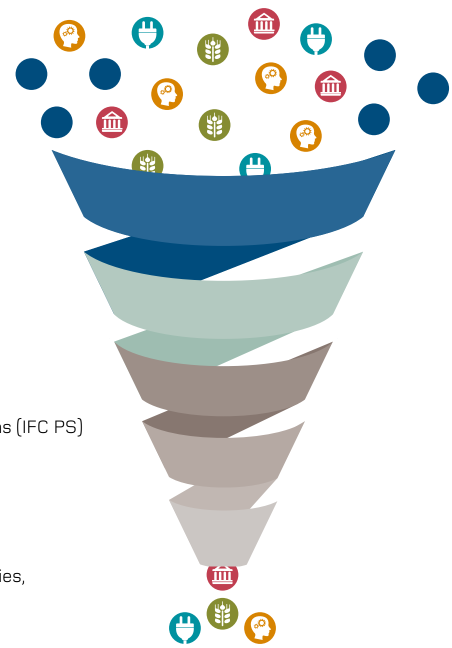
## IMPORTAINT CONSIDERATIONS

**Strategic fit**
Country
Sector
EDFI exclusion list

**Norfunds role**
Additionality
Partners and influence
Portfolio considerations

**Business plan and strategy**
Risk identification/assessment
Environmental and social considerations (IFC PS)
Business integrity
Financial assumptions
Local laws and regulations

**Confimation of conditions**
e.g. licenses, agreements with authorities, action plans, pricing, terms, etc.



## INVESTMENT PROCESS

**Identified investment opportunities**
Most are not relevant and are never entered into the formal investment process

**Prospects**
During the year, Norfund had 125 active prospects under consideration; 55 of these were added during 2016.

**Clearance in Principle (CIP)**
At year end, 20 potential investments had a CIP; 13 of these were CIPed during 2016.

**Final Approval (FA)**
At year end, 12 potential investments had a FA; 7 of these received the FA during 2016.

**Investments**
In 2016, Norfund invested in 7 new companies and made 20 follow-on investments in exisiting portfolio companies.

[2] Note that prospects includes both investments in new companies and follow-on investments in existing portfolio companies.

After a CIP has been given, several issues remain to be assessed: the company's financial viability, including market conditions and relevant regulations; willingness to accept Norfund's requirements; Environmental- , social- and governance (ESG) related risks etc.

In identifying risks to the environment, workers or local communities, Norfund adheres to the IFC's Environmental and Social Performance Standards (IFC PS, see www.norfund.no/a-responsible-investor/category1069.html). This is a framework for international best practice environmental and social risk management for investors[3]. The more complex an investment and its risks are; the more resources are used in due diligence and follow-up. In 2016, Norfund performed due diligences to investigate 36 potential investments.

If no disqualifying circumstances are identified, Norfund will prepare and present the investment proposal to the Investment Committee and, depending on size and risk, the Norfund Board for Final Approval (FA). If FA is granted, then terms and conditions are negotiated with the company and other investors. Norfund's requirements are made legally binding to ensure that the company complies with expected standards and practices. Norfund tailors each investment agreement, e.g. we include the applicable performance requirements, the needed reporting and, often, an action plan to ensure that best practices and responsible operations are reached over time.

### AFTER INVESTMENT: MONITORING, FOLLOW-UP AND SUPPORT

Norfund's goal is to ensure that the companies we invest in are sustainable, well managed, and remain operational over time. We regularly assess the activities of our investee companies from a shareholder's and/or lender's perspective. We monitor, for example, whether the companies:

- Operate in accordance with the agreed strategy
- Perform in line with the business plan and financial projections
- Practise satisfactory corporate governance and internal controls
- Follow national laws and regulations, and required international standards
- Take environmental and social concerns seriously

In addition to our financial involvement as an investor, we offer hands-on operational and technical support to the portfolio companies. For example, when Norfund has an equity stake in a business we usually require a seat on the company's board of directors. Depending on the company's needs the seat is filled either by a relevant Norfund employee or by an external expert. In 2016 Norfund was represented on 33 company boards, 28 seats were occupied by external experts.

The Norfund project teams provide advice and guidance to the investee companies. Norfund can also co-fund company improvements and capacity development initiatives through our business support scheme (Grant Facility). These include specific professional and technical assistance interventions such as occupational health and safety training, improved management information systems, and initiatives to strengthen corporate governance and introduce new policies or routines. The main objective of the support is to strengthen the developmental effects of our investment activities. In 2016, Norfund had 43 on-going business support interventions, of which 14 were initiated during the year. Of the new interventions, 55 percent were related to ESG and enterprise improvements. 73 percent were in Sub-Saharan Africa and 50 percent were in Least Developed Countries. In total, Norfund spent 10 million NOK on business support interventions in 2016. ■

### BEING ADDITIONAL AND CATALYTIC

**An additional investor**
Norfund makes more capital available in selected developing countries and sectors because we are willing to assume more risk than other investors. We contribute to better investments by prioritising projects that have strong development effects, and by supporting the businesses through our active ownership.

**A catalytic investor**
Mobilising capital is an important priority for Norfund. In our investments, we work as a catalyst by leveraging additional capital and expertise. When relevant, we can establish investment platforms in which we partner with private investors. Capital manager Aureos, SN Power, NorFinance, and KLP Norfund Invest are examples of successful platform establishments.

[3] The IFC standards cover e.g., indigenous peoples' rights, biodiversity, the interests of local communities and the core conventions of the International Labour Organisation (ILO). Relevant portions of the Declaration of Human Rights and the UN guidelines for human rights are incorporated in the standards.

# A MINORITY INVESTOR

Norfund invests jointly with other private sector partners, and always as a minority investor. By being a minority investor, Norfund encourages other investors to invest in developing countries and supports local company ownership.

### STRATEGIC PARTNERS AND CO-INVESTORS

Norfund's ownership will normally not exceed 35 per cent of a company. This means we are always dependent on competent and trusted partners. Norfund has clear guidelines for how to analyze and evaluate potential partners. Areas of expertise and knowledge, previous and existing positions and relationships, other roles in the society and eventual criminal records are among the factors that are carefully considered.

Being a minority investor is a principle that is defined in Norfund's mandate. This encourages other international investors to invest in developing countries and it often also enables local ownership.

Co-investing this way also enables Norfund to leverage additional capital and to provide the industrial and local knowledge needed for each investment.

Next page gives an overview of important Norfund strategic partners.

### OFFSHORE FINANCIAL CENTERS

As a minority investor, Norfund's investments are often through structures or funds that have been set up by others. In countries with weak legal systems or where there is a risk of corruption in the legal system, the administration and enforcement of laws and rules is often neither effective nor predictable. In countries like this, it may be difficult to ensure that legal steps can be taken in the event of financial irregularities or disputes. This is a risk that is too high for many investors. It is therefore sometimes necessary to call on a third-party country. The use of such offshore financial centres (OFCs) implies a special responsibility for Norfund to ensure that we have full insight into the transactions that takes place and that we in no way contribute to tax evasion or illegal capital flows.

Norfund is subject to the same guidelines as other state-owned companies and funds with international operations, and exercises great caution in its use of OFCs. The fund follows OECD guidelines on tax-related matters, including avoiding using OFCs that do not comply with the Global Forum standards on transparency and effective information exchange, and countries that have not made tax disclosure agreements with Norway. ■

# STRATEGIC PARTNERSHIPS AND INVESTMENT PLATFORMS

Over the years, Norfund has sought close collaboration with partners and co-investors in specific business areas and geographical regions. Our partners and co-investors are chosen for their specialised expertise and their ability to help us achieve our investment goals. An increasing share of Norfund's investments occurs through strategic cooperation and through so-called "investment platforms". The investment platforms are designed to manage investments with some of Norfund's and the co-investors' funds within defined business areas.

The below investment platforms and partners are of specific strategic importance for Norfund's goal achievement:

## INVESTMENT PLATFORMS

sn power

**SN Power** was originally established in 2002 and is a joint venture between Norfund and Statkraft. Today, the company is a leading commercial investor in, and developer of, hydropower projects in developing countries. Statkraft and Norfund each own a 50% share of SN Power.

nmi NORDIC MICROFINANCE INITIATIVE

**Nordic Microfinance Initiative (NMI)** was created in 2008 as a Norwegian initiative through a partnership between Norfund and the private investors Ferd, Vital (DnB), Storebrand and KLP. Uniting private and public capital, the company provides poor people in developing countries with access to financial services. As of 2016, IFU (the Danish development finance institution) also became a partner and NMI became the Nordic Microfinance Initiative. The objective is to make NMI a leading Nordic player in the field of microfinance.

GLOBELEQ

**Globeleq** is a leading producer of gas power, solar power and wind power in sub-Saharan Africa. The company is owned by Norfund and CDC (the British development finance institution). Through Globeleq, both Norfund and CDC aim to install 5,000 MW of new electricity capacity in Africa over the next decade.

arise Investing In Africa's Local Prosperity

**Arise:** Our most recent platform company was established to strengthen the financial sector in Africa. Arise was established as a joint venture with Rabobank and FMO (the Dutch development finance institution) in 2016. You can read more about this company on page 53.

## OTHER STRATEGIC PARTNERS

KLP

**KLP:** Norway's largest life insurance company is an important strategic financial partner for Norfund. Since 2013, KLP and Norfund have co-invested in several finance institutions and renewable energy projects in developing countries, mainly in Africa.

Scatec Solar Improving our future™

**Scatec Solar:** Norfund has a long-term strategic cooperation with Sc atec Solar - an integrated independent solar power producer in developing countries. The partnership provides a framework for collaborative project development and joint investments. As partners, Scatec Solar and Norfund have contributed to the realization of several solar PV projects in Africa.

# INVESTING IN UNDERSERVED MARKETS

Norfund's investments are additional, helping to fill the gap between what markets in poor countries need and what the private sector offers.

Economic growth that provides jobs is the main driver of global poverty reduction. Ninety percent of all jobs in the developing world are created by the private sector. Surveys show that access to finance is a major obstacle for business growth, and is particularly pronounced in the poorest countries. Investing in these countries is therefore important to stimulate growth and job creation.

Foreign direct investments (FDI) have grown rapidly over the past two decades and now exceed official development assistance (ODA) to low- and lower middle-income countries. However, the percentage of global foreign direct investments to low-income countries remains small. Many private investors are hesitant to invest in the poorest countries because of the high risks involved and inadequate information about these investment environments.

Financial additionality is an essential part in Norfund's investment processes. We achieve additionality by focusing strategically on countries and sectors in which capital is scarce, and scrutinise our role in each investment. A comparison of our investment activities with global FDI flows shows that Norfund takes higher risks than many other investors.

### DEFINING ADDITIONALITY

An investment is said to be financially additional if it supports capital-constrained markets in which private sector partners are unable to obtain commercial financing because of the high-risk nature of investment environments. Financial additionality is characterised by an avoidance of market distortions – investors such as Norfund, for example, do not seek to compete with commercial finance providers.

An investment is said to be additional in value if it offers non-financial value that is otherwise not available and that leads to better development outcomes.

**Investing in the poorest countries**
The World Bank classifies countries in four income groupings: low, lower-middle, upper-middle, and high. Income is measured using gross national income (GNI) per capita, and expressed in USD. Economic growth in low-income countries, in particular, depends on private sector investments.

Norfund's performance: 85 percent of Norfund's investments in 2016 went to low- and lower middle-income countries. In 2015, the corresponding figure for FDI flows was only 7 percent.

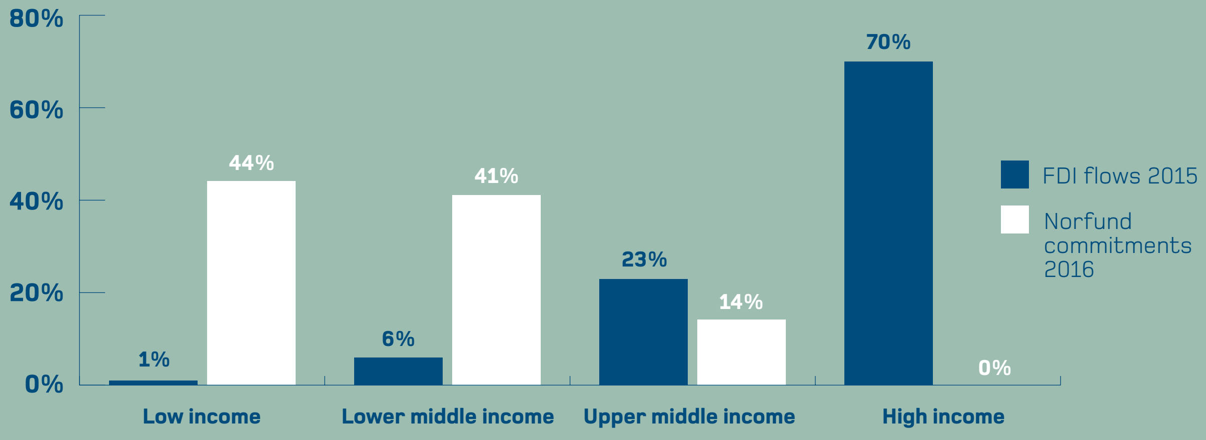
**Risky markets**
Sovereign credit ratings indicate the risk level of a country's investing environment. Credit rating agencies, such as Standard & Poor's, issue rating grades ranging from AAA (prime) to D (in default). Ratings below BBB- are seen as non-investment grades or "junk", and usually deter investors. A good sovereign credit rating is important for countries wanting to attract foreign direct investment and access funding in international bond markets.

Norfund's performance: 93 percent of Norfund's investments in 2016 were invested in non-investment grade countries or countries without a credit rating; the corresponding figure for FDI in 2015 was just 23 percent.

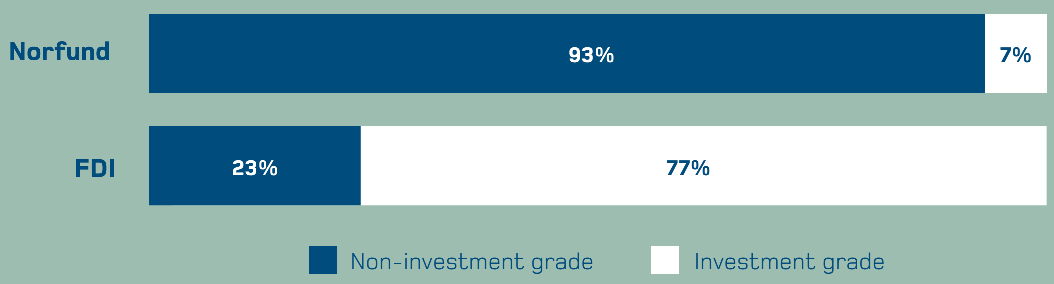
**Difficult business environments**
The World Bank also ranks economies according to the ease of doing business. A high ease ranking indicates that a country's regulatory environment is conducive to starting and operating local firms. High ease markets are more attractive to businesses and private investors. For the purposes of this analysis, ranked countries are divided into four quartiles, ranging from 1 (easy) to 4 (most difficult).

Norfund's performance: 86 percent of Norfund's investments in 2016 were in countries in the lower two quartiles; the corresponding figure for FDI in 2015 was 11 percent.

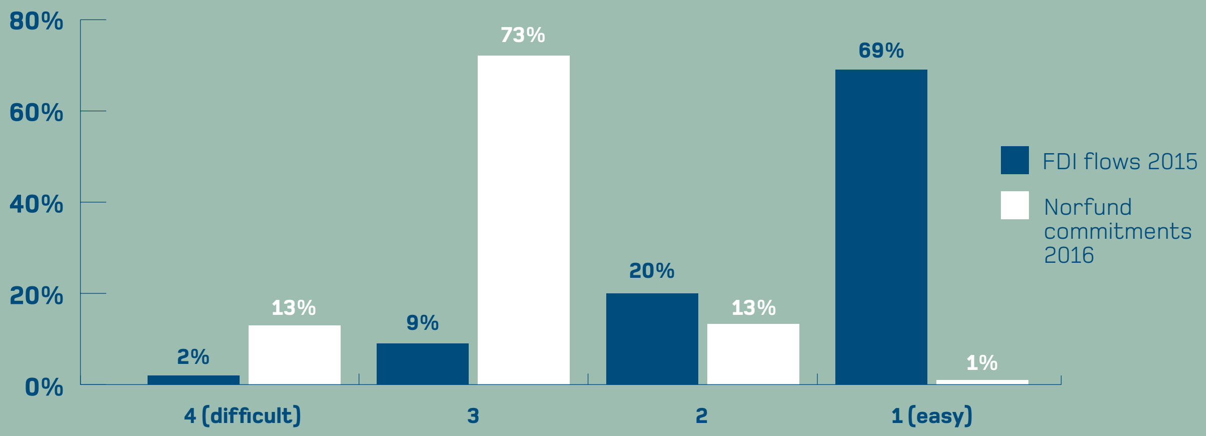
## INVESTING IN THE POOREST COUNTRIES
Share of investments by income group




## RISKY MARKETS
Share of investments by credit rating




## DIFFICULT BUSINESS ENVIRONMENTS
Share of investments by ease of doing business quartiles




*Sources: World Bank, World Development Indicators, Standard & Poor's credit ratings and World Bank, Ease of Doing Business ranking*

# WHY GO BEYOND AID AND CONCESSIONAL BORROWING

Justin Yifu Lin[1]
*Director, Peking University*

Yan Wang
*Senior Visiting Fellow, Peking University*

Developing countries have for decades been trying to catch up with the industrialized high-income countries, but only few have succeeded. Historically and theoretically, structural transformation is the nature of modern economic development. Yet, structural transformation has been neglected by the Washington Consensus and the World Bank.

In our new book, *Going beyond aid: Development Cooperation for Structural Transformation,* published by Cambridge University Press, we point out that Traditional development aid has failed to address the bottlenecks for structural transformation, and is hence ineffective. After providing aid and concessional loans for 60 years and over $3 trillion dollars, many low-income countries, especially in Africa, are facing staggering electricity shortages and other infrastructure bottlenecks for structural transformation and fail to generate jobs in modern sectors to raise productivity, increase income, and eradicate poverty.

**The idea that Official Development Assistance (ODA) must be concessional is questionable.** Economic development is the main purpose of ODA, yet some of the more effective instruments of facilitating structural transformation, such as equity investment and large non-concessional loans for infrastructure are excluded from the OECD definition of ODA. Thus, in our view, we need to go beyond aid with a broader concept including trade, aid and investment for development objectives. Given that the activities contribute to structural transformation and improving recipients' well-being, this will be a win-win framework, allowing both sides to utilize their comparative advantages and align the incentives of donors and recipients.

**The New Structural Economics** (NSE) starts with the observation that the nature of modern economic development is a process of continuous structural change in technologies, industries, and hard and soft infrastructure, which makes possible the continuous increase in labor productivity and thus per capita income in an economy (Lin 2010, 2011). The optimal industrial structure in an economy at a specific time—the industrial structure that makes the economy most competitive domestically and internationally at that time—is endogenous to its comparative advantage, which in turn is determined by the economy's given endowment structure at that time.

According to the NSE, the most effective and sustainable way for a low-income country to develop is to jump-start the process of structural transformation by developing sectors in which it has latent comparative advantages. The government can help transform the sectors with latent comparative advantages into the nation's competitive advantages by reducing transaction costs through special economic zones or industrial parks with good infrastructure and an attractive business environment. If a developing country adopts this approach, it can immediately grow dynamically

[1] Respectively, Former Chief Economist of the World Bank, Director of Center for New Structural Economics and Honorary Dean of National School of Development, Peking Univeristy; and Senior Fellow, Center for New Structural Economics, Peking University.

and launch a virtuous circle of job generation and poverty reduction, even though overall infrastructure and business environment in the nation may be poor.

In our view, developing countries are all at various stages of climbing the same "mountain" of structural transformation. In a globalized world no one can climb that mountain without learning and helping each other. For the objective of structural transformation, China, Brazil, India and other emerging market economies are located closer to low-income countries and in good position to utilize their comparative advantages in infrastructure and in light manufacturing to help others. In particular, China has demonstrated comparative advantages in building infrastructure, including hydroelectric power stations, highways, ports, railways, and telecomm, as well as in most manufacturing sectors, and is using these comparative advantages to help other developing countries to achieve win-win.

**South-South Development Cooperation** (SSDC) combines trade, aid and public and private investment, utilizes comparative advantages of each countries and their intimate know-how on development, and hence is more effective in overcoming bottlenecks in partner countries. In particular, as labor cost rises in China and other emerging economies, their labor-intensive industries are relocating to other lower-wage developing countries, providing millions of job opportunities. This is already happening in Southeast Asia and in East Africa as shown by examples of Huajian Shoemaking Company in Ethiopia, and China JD Group, A giant apparel firm in Tanzania (chapter 6 in Lin and Wang 2017).

*...the most effective and sustainable way for a low-income country to develop is to jump-start the process of structural transformation by developing sectors in which it has latent comparative advantages.*

**The world has become a multipolar world** where China and other successful catching-up economies have been and will continue to contribute to global development via new ideas, theories, experiences, tacit knowledge, as well as development financing. In the post-2015 era, development finance will come less from traditional aid, but more from Development Financial Institutions (DFIs) and from other official flows such as development banks and sovereign wealth funds in emerging economies. China for example has committed $60 billion development assistance in Africa in the three years between 2016 and 18, including both concessional, non-concessional loans as well as equity investment.

In particular, equity investment by Sovereign Wealth Funds will play a more significant role in structural transformation and job creation. One example is Singapore's Temasek. With significant portfolio investment in emerging and developing Asia, Temasek's financial performance is stellar: its annual shareholder return has been 16 percent since inception, much higher than other SWFs investing purely in industrial countries. Also the role of DFIs will increase. Since 2005, the European DFI portfolio of investments in Sub-Saharan Africa has quadrupled. The Norwegian government has been a pioneer in this regard boosting Norfund's capital base for many years. Last year the British, Finnish and Dutch governments also significantly increased the capital base of their DFIs.

**Redefining development finance,** from grant and concessional loans only, to a set of multilayered concept, including both concessional and non-concessional and equity financing for development will help sway public opinions toward SWFs and DFIs investing in developing countries, and expand the sources of development finance for SDGs.

**The shift of China and other emerging market economies** from bilateralism to multilateralism is a welcoming trend, showing their willingness to work with other partners from the North and the South. The establishment of AIIB and New Development Bank provides new momentum in the global development arena. China, and these South-led institutions are learning to become better development partners, overcoming their own constraints in governance, labor and environmental standards. And during the two-way learning process, new ideas, new theories and new concepts/definitions are emerging — Our book being one of them. We are cautiously optimistic that a common ground can be found for partners from the North and the South to work together on multiple win solutions for structural transformation to achieve the goals of sustainable development by 2030. If all countries work together investing in bottleneck-releasing infrastructure and providing global public goods, the prospects for achieving global peace and development will be enhanced. ■

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REPORT ON OPERATIONS

# PORTFOLIO AND RESULTS

*Year 2016*

# PORTFOLIO

By end of year 2016, Norfund had committed investments totaling NOK 16,762 million in 124 companies. The majority of the investments made in 2016 were in the least developed countries in the world (LDCs). Measured in capital, Norfund's largest investments are in SN Power, Statkraft International Hydro Invest AS and Globeleq renewable energy projects, as well as in Arise - the newly established investment company for financial providers in Africa.

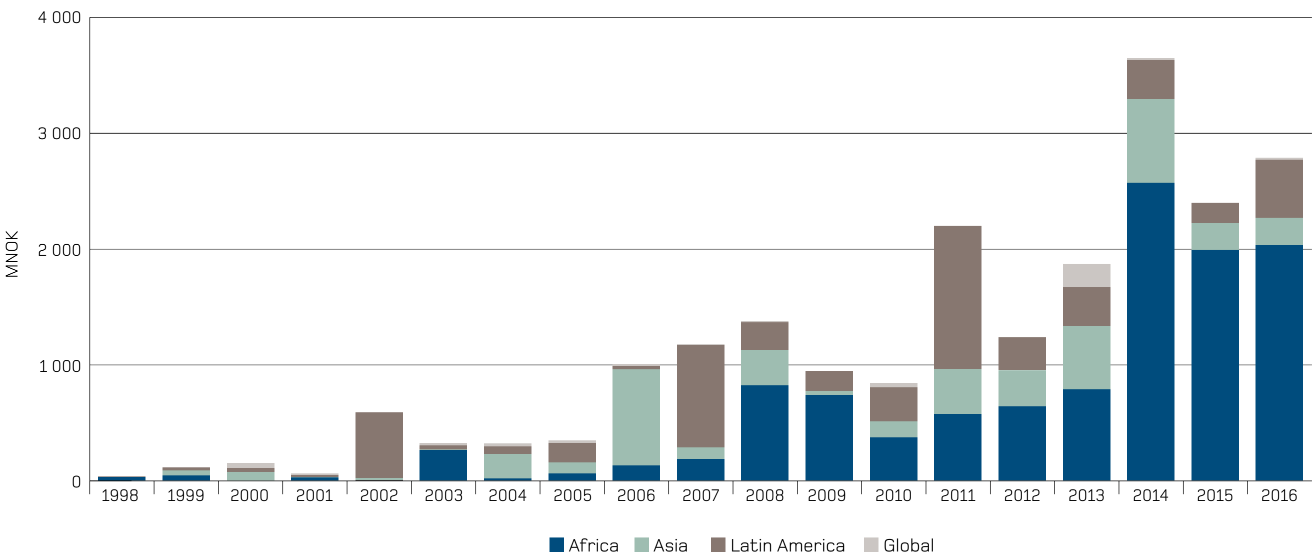
| 16.8 | 2.8 | 1.48 | 124 | 7 |
|---|---|---|---|---|
| billion NOK total committed | billion NOK committed in 2016 | billion NOK allocated from MFA in 2016 | companies in the portfolio that have received direct investments from Norfund | new investments and 14 follow on investments in 2016 |

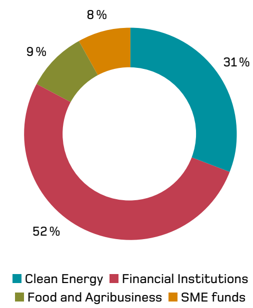
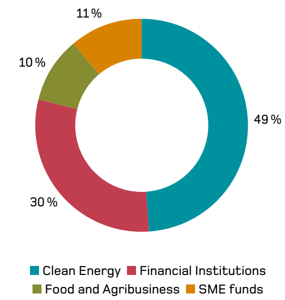
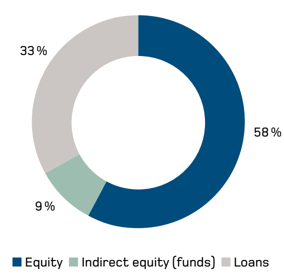
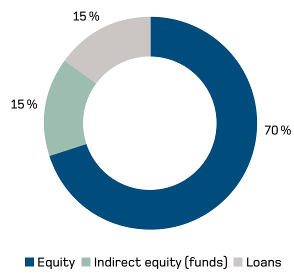
### INCREASED FOCUS ON SUB-SAHARAN AFRICA

Norfund's yearly investment activity has increased significantly. Since 2010, Norfund's objective has been to invest minimum 50 per cent of our capital in Sub-Saharan Africa. To achieve this goal, we have gradually increased our activity in the region and strengthened our presence through a significant number of new investments.

52 percent of the total portfolio is now in Sub-Saharan Africa, and in 2016, 73 percent of Norfund's new commitments were made in this region. However, new investments have also been made in selected countries in Asia and Central America.

### NEW INVESTMENTS PER YEAR



| | INVESTMENTS IN 2016 | TOTAL PORTFOLIO |
|---|---|---|
| **PRIORITY BUSINESS AREAS**<br>Clean energy is the single largest component of Norfund's portfolio. However, in 2016, 52 percent of the new commitments were in financial institutions. This is due to the establishment of Arise. (see page 53) |  |  |
| **FOCUS ON LEAST DEVELOPED COUNTRIES (LDCS)**<br>The need for DFI investments is generally highest in LDCs because these countries struggle to attract investment capital. Strengthening our focus on Sub-Saharan Africa contributes to meet this goal as this region has a high number of LDCs. 52 percent of the total portfolio was invested in Sub-Saharan Africa by end of year 2016. | 57 %<br>**NEW COMMITMENTS IN LDCS** | 33 %<br>**TOTAL PORTFOLIO IN LDCS** |
| **GREENFIELD INVESTMENTS**<br>New enterprises are necessary for private sector development. Investments in enterprises that are brand new/ about to start up are often called greenfield investments. Many greenfield investments have high profit potential and high risk. Obtaining capital can be extremely challenging. While the high-risk/ high-impact nature of greenfields makes them suitable investment targets for Norfund, this type of project work is demanding both in terms of execution and hands-on follow-up. | 20 %<br>**NEW COMMITMENTS IN GREENFIELD** | 28 %<br>**TOTAL PORTFOLIO IN GREENFIELD** |
| **FINANCIAL INSTRUMENTS**<br>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 a company with equity, it is easier for the company to obtain debt, for example from local banks. Equity investments, as a result, also tend to have a greater catalytic effect. |  |  |

# RESULTS

The return on the investment portfolio, expressed in the investment currencies since inception, is calculated to be **4.9** percent. Calculated in Norwegian kroner, return is 9.0 percent.

In 2016, return in investment currencies was 2.9 per cent, while it was 1.3 in Norwegian kroner. The lower figure calculated in Norwegian kroner is partly due to the weakening of the US dollar.

Norfund estimates the returns for each project and for the overall portfolio twice a year. Due to the significant annual variations, returns since inception give better understanding of the long-term contribution of Norfund's investments.

The relatively weak figures for 2016 are mainly due to weak energy prices in markets where our energy investments are subject to market exposure, and write-downs on a limited number of projects, including several investments in primary agriculture and energy.

The 7.3 percent return on our investments in Financial Institutions is due to good performance and positive valuation of banks, microfinance institutions and other financial institutions.

**4,9%**

**IRR SINCE INCEPTION**

| Internal Rate of Return (IRR) | Since inception 1997–2016 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Financial Institutions | 7.9 | 7.3 | 12 | 6 | 4 | 9 | 6 | 9 | 6 | 9 | 27 | 9 | 10 | 18 | 4 | 19 |
| Clean Energy | 5.3 | 2.6 | 2 | -9 | -4 | 12 | 10 | 11 | 3 | 25 | 14 | 44 | -3 | 1 | 17 | 0 |
| SME Funds | 5.1 | -0.4 | 0 | -3 | 12 | 9 | 3 | 10 | 5 | 4 | 32 | 1 | 17 | -4 | -15 | -5 |
| Food and Agri-business | -6.3 | -5.2 | -4 | -10 | -4 | -10 | 2 | 7 | 12 | 10 | 16 | -19 | 2 | -28 | -22 | -9 |
| **Total** | **4.9** | **2.9** | **3,5** | **–6** | **–1** | **10** | **8** | **10** | **4** | **21** | **17** | **24** | **4** | **–1** | **7** | **–4** |

***CALCULATION OF IRR**
Norfund uses both the "since inception internal rate of return" (SI IRR) and the "horizon performance calculation" (Horizon IRR) in its IRR calculation.

The SI IRR is a since inception calculation that solves for the discount rate, which makes the net present value of an investment equal to zero. The calculation is based on cash-on-cash returns over equal periods modified for the residual value of the portfolio company's NAV. The residual value attributed to each respective area being measured is incorporated as its ending value. Transactions are accounted for on a quarterly basis, and annualized values are used for reporting purposes.

Norfund uses the Horizon IRR calculation to calculate the annual IRR figures. The Horizon IRR performance calculation is a money-weighted return similar to the SI IRR; however, it is measuring performance between two points in time. The calculation incorporates the beginning NAV, interim cash flows and the ending NAV. All interim cash flows are recorded on a quarterly basis.

In order to aggregate cash flows and calculate pooled returns for the Norfund portfolio and sub portfolios, the cash flows and NAVs pertaining to individual investments are converted to one currency using the end-of-period exchange rate for all historical cash flows and NAVs. The numbers are then aggregated for calculation of Horizon IRR and SI IRR. Such aggregation allows for a money-weighted local currency portfolio IRR without taking into account currency fluctuations during the measured periods. As a cross reference Norfund will also calculate Horizon IRR and SI IRR in NOK taking account in-period currency fluctuations.

# NORFUND'S AUDITED RESULTS FOR 2016*

| Profit & Loss (MNOK) | 2016 | 2015 |
|---|---|---|
| Interest (investment portfolio) | 137 | 178 |
| Realised gains | 201 | 1 |
| Dividends received | 240 | 87 |
| Other project income | 23 | 8 |
| Share of profit associatied companies | -173 | 66 |
| **Total operating income** | **428** | **340** |
| Payroll expenses | -91 | -85 |
| Other operating expenses | -62 | -88 |
| **Total operating expenses** | **–153** | **–173** |
| Write downs on investments** | -200 | -326 |
| **Operating profit in investment currency** | **75** | **–159** |
| **Net financial items** | **–32** | **164** |
| Tax | -5 | 0 |
| **NET PROFIT IN INVESTMENT CURRENCY** | **38** | **5** |
| Exchange rate effects portfolio | 25 | 421 |
| **Profit** | **63** | **425** |

* Detailed accounts are published in our annual report, see norfund.no
** Excluding currency effects. With foreign exchange effects, the write downs in 2016 were -163 MNOK

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 34 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 2016 RESULTS**

- The increase in operating income compared to 2015 is due primarily to higher revenues from gains of sale of shares, mostly gains from Hattha Kaksekar Ltd (Cambodia). In addition, Norfund received higher dividends from some of the fund- and equity investments.

  The share of profit from associated companies is negative due to write-downs of assets both in Norfininvest AS (owner of 12.2% share in Equity Bank Ltd), Norfinance AS (owner of 35,6% in Socremo S.A, 27,5% in DFCU Ltd and 25% of Norfininvest AS) and in SN Power AS (owner of 32,5% in Bajo Frio in Panama).

- As a knowledge-based enterprise, most of our operating costs are personnel-related. Other costs include office rent, fees for hired services, and travel. In addition other costs include early stage costs accrued in developing projects to a stage where an investment decision can be made.

- The marginal strengthening of the Norwegian Kroner against the US Dollar (-2,1 % through 2016) has had a slightly negative effect on the value of many of the loans Norfund has provided to banks and other financial institutions (exchange rate effects portfolio).

- The total value (inclusive currency effects) of the write-downs for some of the companies and funds in our portfolio was NOK 166 million in 2016 compared to NOK 139 million in 2015. The figure in 2015 was strongly affected by the strengthening of the US Dollar against Norwegian Kroner. However, the write-downs are at a level that is acceptable in a high-risk fund such as Norfund.

- Bank deposits amounted to NOK 2.4 billion at the end of 2016. The deposits where higher compared to 2015 due to lower disbursements to investments.

- The level of income from interest was lower because of lower interest rates on the bank deposits. Net financial items include a currency loss on a short term liability on USD 187 million, and in addition a currency gain effect on the bank deposit in USD.

*Detailed accounts have been published in our Annual Report and can be found on Norfund's website, www.norfund.no.*

# DEVELOPMENT EFFECTS

Norfund's mission is to contribute to development. We do this by financing sustainable enterprises that create jobs and increase government revenues.

Every year, Norfund collects and monitors data on the key development effects of its investees. Collecting data requires time and resources, and we seek to find the right balance between getting the information we need and minimising the reporting burden on investees. Our reporting system is aligned with the IFI Working Group's best-practice approach for Indicator Harmonisation.

**JOB CREATION THROUGH MULTIPLE CHANNELS**

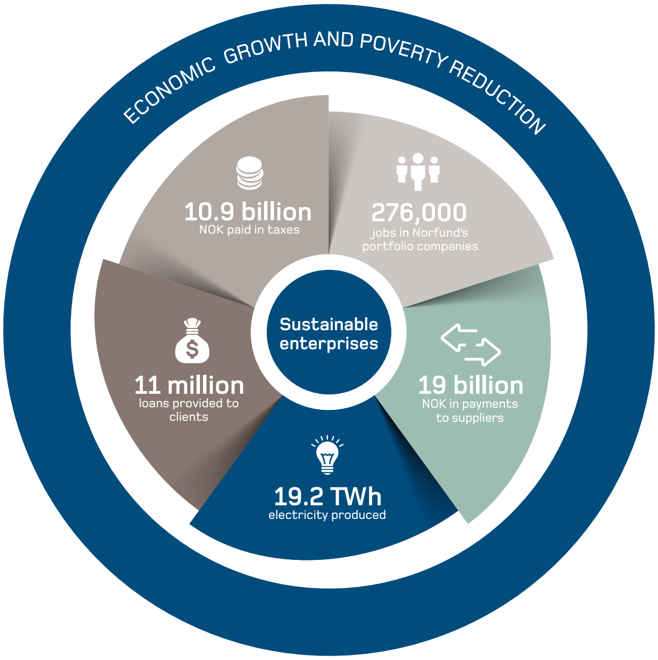
Jobs are vital to reducing poverty. They provide income and benefits to people, offering opportunities for them to improve their knowledge and skills. Jobs are created directly in our portfolio companies, in their supply chains, and through the goods and services the companies provide:

→ By the end of 2016, 276,000 people were employed in the companies in which we have invested, either directly or through funds. 36 percent of those employed were women. The number of permanent jobs in companies with two consecutive years of reporting increased by 6 percent from the end of 2015 to the end of 2016.

→ Norfund's investees also contribute to business growth and job creation by purchasing goods and services. In 2016, our investees purchased goods and services worth NOK 19 billion from local suppliers. Enterprises with two consecutive years of reporting increased their purchases by 29 percent.

→ The companies in Norfund's portfolio contribute to job creation by reducing critical obstacles to the development of other enterprises. The energy companies in Norfund's portfolio, for instance, produced a total of 19.2 TWh of electricity in 2016. By increasing electricity supplies, our investees make it easier to establish new firms and for existing firms to expand.

Providing access to finance also helps to support enterprise growth. By December 2016, the financial institutions in which we have invested had issued loans to 11 million customers. Institutions with two consecutive years of reporting increased the total number of loans they provided by 17 percent.




Development effects from Norfund's portfolio, year-end 2016

**INCREASING TAX REVENUES**

Profitable companies pay taxes to governments. This increases the tax base in the countries in which the companies are operating, enabling governments to spend more on public services, such as health and education, that benefit the poor directly. In 2016, Norfund's investees paid NOK 10.9 billion in taxes and fees. Enterprises with two consecutive years of reporting increased the collective total of taxes paid by 33 percent. An overview of taxes paid per country is available on Norfund's website. ■

# INVESTING FOR DEVELOPMENT REPORT


Many of Norfund's stakeholders are interested in learning more about how we contribute to development. In 2014, Norad initiated an evaluation of Norfund to better understand the fund's role as an instrument of Norway's development assistance policy.

The findings of the evaluation, conducted by Gaia Consulting Ltd, were very positive. The report found that Norfund is fulfilling its mandate. The instruments Norfund uses, and our focus on specific sectors and geographies, have generally matched the policy's objectives.

The report, published in 2015, identified both quantitative and qualitative development effects of Norfund's investments. It noted, however, that in comparison with many other DFIs, Norfund has produced relatively little external information and documentation of these effects. The report proposed, for example, that Norfund should review its exited investments to learn lessons about their developmental outcomes and their sustainability. It also suggested that we conduct in-depth assessments of selected investments. The evaluators indicated that they would welcome more macroeconomic level analysis of the effects of Norfund's DFI investments.

After the publication of Gaia's recommendations, Norfund initiated a study of the macroeconomic impact of DFIs. The study showed that DFI investments have had a positive effect on the rate of GDP per capita growth in Sub-Saharan Africa. We also reviewed our exited investments, and we found that 85 percent of the companies that were operational when Norfund exited are still operational today. Four case studies of our portfolio companies were conducted.

The results were presented as part of Norfund's Investing for Development report which was published in August 2016. ■

# GENDER EQUALITY

Globally, many economic gender disparities remain stark: fewer women than men participate in the formal workforce and women are still underrepresented in management positions and on corporate boards. Gender equality is therefore a part of Norfund's agenda.

Norfund demonstrates its focus on gender equality among other things by targeting sectors that are important for women's livelihoods, empowerment and employment, such as agribusiness and microfinance.

In 2016, Norfund introduced a strategy for gender equality which focuses on addressing gender gaps in employment, leadership and entrepreneurship – both within our own organization and in our portfolio companies. Norfund is committed to:

1. Promoting equal opportunities for women and men within our organisation and among our portfolio companies;
2. Encouraging female participation in management and on corporate boards in our portfolio companies. We plan, for instance, to increase the number of Norfund's female external board representatives; and
3. Supporting women's enterprise and self-employment by improving access to financial services.

Norfund identifies priority areas and initiatives to support gender equality, and will be monitoring progress each year throughout the Strategy period from 2016 to 2020.

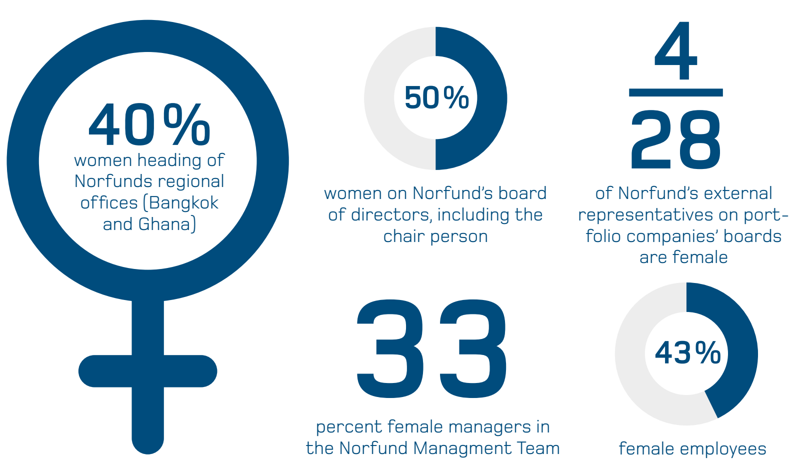
**THE FEMALE FUTURE PROGRAMME**

One such initiative is an offer to our portfolio companies to co-finance female managers, board representatives and leadership talents in the Female Future Programme in Kenya, Tanzania and Uganda. The Female Future Programme was developed by the Confederation of Norwegian Enterprise (NHO) in 2003 in response to the Norwegian government's policy requiring the boards of public limited companies to have at least 40 percent representation of both genders. The Programme is ranked by the International Labour Organization (ILO) as one of the world's 10 best programmes for advancing female leadership and board participation. See also www.nho.no/prosjekter-og-programmer/Female-Future/

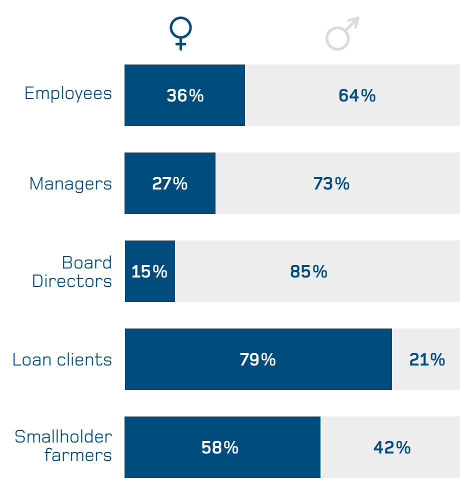
**PART OF THE NORWEGIAN MINISTRY OF FOREIGN AFFAIRS'S ACTION PLAN**

Anchored in the Sustainable Development Goals, the Norwegian Ministry of Foreign Affairs recently launched Freedom, Empowerment and Opportunities – An Action Plan For Women's Rights And Gender Equality In Foreign And Development Policy 2016-2020. Norfund's CEO participates in a task force of public and private sector representatives who are responsible for monitoring and following-up on the Action Plan. ■

GENDER EQUALITY IN NORFUND AT A GLANCE:




STATISTICS FROM PORTFOLIO COMPANIES



# EXITED COMPANIES 2016

### HATTHA KAKSEKAR LIMITED (HKL)

**Country:** Cambodia
**First investment year:** 2007
**Investment:** NOK 125.3 million
**IRR:** 34%

HKL is a microfinance institution in Cambodia. The institution has grown from being a small NGO to becoming the fourth largest microfinance institution in the country. HKL provides financial services to micro-, small- and medium-sized enterprises (MSMEs) that are largely unserved by commercial banks. Norfund's equity investments, loans and active shareholding have been crucial to HKL's rapid development. Since 2007, the number of HKL's active borrowers has increased from 23,000 customers to 113,000. In addition to contributing to increased access to capital for MSMEs, HKL contributes to development by creating direct employment opportunities (HKL's staffing increased from 248 people in 2007 to 2,300 people in 2016) and educating its customers about finance. In 2016, the institution was ready for investment from an experienced shareholder in the banking sector. The Bank of Aydhya – a top tier bank in Thailand – bought all HKL's shares. The Bank of Ayudhya is a subsidiary of Bank of Tokyo Mitsubishi (BTMU), one of the world's largest banking groups.

### AFRICAN BANKING CORPORATION ZAMBIA LIMITED

**Country:** Zambia
**First investment year:** 2011
**Investment:** NOK 29.3 million
**IRR:** 5,1%

African Banking Corporation Zambia Limited (ABCZ) is a commercial bank in Zambia that provides a full range of banking services and credit products to SMEs and microfinance clients. Norfund's loan facilitated the growth of ABCZ's loan book, enabling the bank to provide better and longer-term loans to its SME-customers. The loan is now fully repaid.

### MATANUSKA AFRICA

**Country:** Mozambique
**First investment year:** 2008
**Investment:** NOK 173.5 million
**IRR:** Negative

Matanuska Mozambique is a greenfield banana plantation project in Northern Mozambique. It started in 2007 on an existing cotton farm, with the aim of planting 3 000 Ha of bananas, mainly for export. Significant achievements were made, and in 2014 Matanuska employed 2 500 people and exported 50,000 tons of bananas, being the first large scale fruit exporter from Northern Mozambique. Unfortunately, the presence of the devastating Panama Disease TR4 was confirmed at Matanuska in 2013. Norfund's decision to exit from this investment was due to the difference in views on the future strategy following the development of the Panama Disease between Norfund as a minority investor and the majority investors. The plantation is still in operation and is growing bananas resilient to the disease.

### SACOMBANK LEASING LIMITED

**Country:** Vietnam
**First investment year:** 2011
**Investment:** NOK 27.5 million
**IRR:** 3.2%

Sacombank Leasing (SBL) is a locally-owned leasing company in Vietnam. It is a subsidiary of Sacombank, one of Vietnam's leading commercial SME banks. Leasing is an important financing tool for SMEs, but in 2011 the sector was extremely small in Vietnam. Norfund's loan to SBL helped the company to expand its business, to promote greater financial deepening in the country and to increase SMEs' access to capital. The loan is now fully repaid.

### TOURISM PROMOTION SERVICES (TPS) PAKISTAN

**Country:** Pakistan
**Business sector:** Hotels and Tourism
**First investment year:** 2007
**Investment:** NOK 21.2 million
**IRR:** 3%

TPS Pakistan owns a group of businesses, tourist hotels, and lodges in Pakistan under the Serena brand. The majority of TPS Pakistan is owned by the Aga Khan Fund for Economic Development. In 2007, Norfund invested equity in TPS Pakistan, providing patient capital for the expansion of the Islamabad Serena Hotel. This was in accordance with the Norfund strategy at this time. TPS Pakistan's performance was good and Norfund's investment has had a number of development impacts, including the creation of new jobs and greater gender equality. TPS Pakistan has also had positive environmental impacts, including the implementation of a waste segregation, recycling and composting project at the Islamabad Serena Hotel.

**Additionally, 7 loans were repaid from companies within Norfund's active portfolio during the year.**

REPORT ON OPERATIONS

# BUSINESS AREAS

*Year 2016*

# CLEAN ENERGY

## – Infrastructure for economic development

### DEVELOPMENT RATIONALE

A reliable and stable electricity supply is crucial to economic and social development. In low- and middle-income countries, small- and medium-sized enterprises (SMEs) are particularly vulnerable to power outages and shortages. Unreliable and unstable supplies can cause substantial losses to income and damage to electrical equipment, and using petrol or diesel generators is expensive.

Most developing countries have considerable domestic hydro, wind, and solar resources. Utilising these is essential to meet rising energy demand.

### INVESTMENT NEEDS

Substantial investments are needed to meet the rising demand for electricity. The sector is capital intensive: in particular, renewable energy projects require large amounts of capital upfront, and this magnifies the risks associated with investments.

Almost all independent power projects in developing countries are public-private partnerships. The power sector remains dominated by state-owned utilities which are typically the only purchaser of independent power. These utilities are a credit risk given their often vulnerable financial status, and the pressures they face to keep electricity prices low. Additional project risks, and the long pay-back times of investments, mean that commercial capital in this sector is scarce.

### NORFUND'S STRATEGY

While hydropower has dominated Norfund's energy-portfolio until recently, solar and wind power have become more competitive and account for an increasing portion of the portfolio. We continue to see cost reductions in solar power, which can represent the cheapest source of new build in high irradiation conditions. Nevertheless, the power system requires both base-load and balancing power which intermittent sources such as wind and solar cannot provide.

Norfund's strategy is to invest with – or via – industrial partners. In the hydropower sector, we have continued our partnership with Statkraft in a 50/50 joint venture with SN Power. Approximately 250 MWp of solar power has been built with Scatec Solar, and further growth is expected. Norfund has a 30% stake in Globeleq, one of Africa's leading independent power companies. Globeleq aims to build 5.000 MW of generating capacity in Africa within the next ten years. Cashflows within these three key platforms are significant and will be re-invested in growth. Norfund is also prioritising small-scale hydropower and off-grid solutions and established new partnerships in this area in 2016.

PHOTO: **Mette Fiske Tronvoll, Songo Songo #1, 2016**

# INVESTMENTS AND RESULTS

Clean energy is the largest component of Norfund's portfolio. In 2016, we made three new commitments in this sector. The amount of electricity generated by the power plants in Norfund's portfolio in 2016 was equivalent to the annual electricity consumption of 30 million people in these markets.

## **HIGHLIGHTS** 2016

Developing and building power plants in emerging markets is complex and high risk. Success depends on the ability to combine technical, commercial, legal and environmental/social competencies. In settings where the institutional frameworks are weak, multi-disciplinary approaches are particularly important.

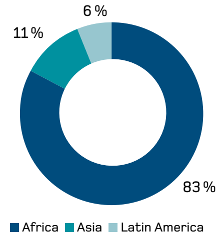
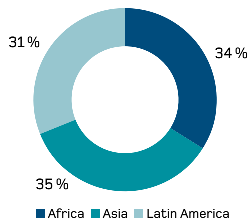
Below are the main highlights in 2016:

→ **Commitment to Mozambique's first large scale solar plant.** Scatec Solar and Norfund signed a Power Purchase Agreement for Mozambique's first planned large scale solar plant. The 40 MWp Mocuba solar plant will be the first utility scale solar power plant in the country. The plant is expected to deliver enough energy to serve about 175,000 households. (see page 47)

→ **Increased commitment to the Interact Climate Change Facility (ICCF).** The ICCF is an investment vehicle targeting climate change mitigation projects, and finances renewable energy and energy efficiency projects in developing countries. The ICCF is an effective instrument to debt finance larger clean energy projects and has committed €378 million to projects since 2010. Norfund's commitment in 2016 was our third investment in the facility. Co-investors are ten European Development Finance Institutions, Agence Française de Développement (AFD) and the European Investment Bank (EIB).

→ **Investment in off-grid energy supply company d.light.** d.light is a leading off-grid solution provider in emerging markets with focus on Africa and Asia. The company sells solar-powered lanterns and household solar systems in villages with unreliable or no electricity supply. More than 65 million people in 62 countries benefit from d.light's products. While Norfund's energy portfolio focuses mainly on utility-scale projects connected to the grid, such off-grid investments form an important addition to our portfolio.

→ **Completion of the Stortemelk Hydropower Plant.** The Stortemelk Hydro Power Plant was developed as a greenfield project in South Africa and became fully operational in July 2016. The plant has an installed capacity of 4.5 MW and operates as a run-off-river power station. Its annual output is 28 GWh.

| | INVESTMENTS IN 2016 | TOTAL PORTFOLIO |
|---|---|---|
| **INVESTMENTS AND PORTFOLIO**<br>Clean energy accounts for 49 % of Norfund's portfolio. The equity share of the total clean energy portfolio is 93 %.<br><br>Norfund distinguishes between "clean energy", which covers the whole energy portfolio, and "renewable energy", which only covers energy based on renewable sources. The difference is largely accounted for by investments in gas-fired power plants in East and West Africa. | 870<br>**MNOK COMMITTED**<br>(only renewable energy) | 8,288<br>**MNOK COMMITTED**<br>(whereof 6,914 MNOK in renewable energy) |
| **REGIONS**<br>Norfund is prioritising investments in countries classified as LDCs and countries in Sub-Saharan Africa. Norfund's partnership with Scatec Solar and the acquisition of Globeleq are important steps towards building our power portfolio in African countries. |  |  |

| | RESULTS IN 2016 |
|---|---|
| **JOBS**<br>Energy projects create direct jobs in the operational phase, but most of the posts are temporary and occur during the construction period. Improving the supply of electricity contributes significantly to wider job growth by reducing a major constraint to enterprise growth. | 7,000<br>**JOBS IN PORTFOLIO COMPANIES** |
| **TAXES**<br>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. | 3,700<br>**MNOK IN TAXES PAID** |
| **ELECTRICITY**<br>The companies in Norfund's energy portfolio have installed a total power capacity of 5,000 MW. Another 600 MW is currently under construction. Last year, 61 percent of the electricity generated by Norfund's investments came from renewable sources. | 19.2 TWH<br>**ELECTRICITY PRODUCED** |
| **EMISSIONS REDUCED**<br>In many low- and middle-income 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. | 7.5 MILLION<br>**TONNES OF $CO_2$ AVOIDED** |

| Investment | Country/ region | Investment year | Sector | Instru-ment | Norfund owner share | Domicile | Investee currency | Original Committed (MNOK) |
|---|---|---|---|---|---|---|---|---|
| Central Solar de Mocuba S.A. | Mozambique | 2016 | Solar | Guarantee | | Mozambique | USD | 95.7 |
| Central Solar de Mocuba S.A. (through KNI*) | Mozambique | 2016 | Solar | Equity | 23% | Mozambique | USD | 26.7 |
| d.light design, Inc. (through KNI*) | Global | 2016 | Solar | Equity | 6 % | USA | USD | 21.8 |
| Rwimi EP Company Ltd | Uganda | 2015 | Hydro | Loans | | Uganda | USD | 32.0 |
| Fotovoltaica Los Prados SA (through KNI*) | Regional | 2015 | Solar | Equity | 30 % | Honduras | USD | 42.3 |
| Scatec Norfund Investments Ltd | Global | 2015 | Solar | Equity | 30 % | United Kingdom | USD | 21.6 |
| Renewable Energy Holdings Pty Ltd | South Africa | 2014 | Hydro | Loans | | South Africa | ZAR | 30.7 |
| Globeleq Ltd | Regional | 2014 | Energy | Equity | 30 % | Guernsey | USD | 1989.2 |
| Gigawatt Global Rwanda Ltd | Rwanda | 2014 | Solar | Equity and Loans | 13 % | Rwanda | USD | 34.2 |
| Gigawatt Global Rwanda Ltd (through KNI*) | Rwanda | 2014 | Solar | Equity | 30 % | Rwanda | USD | 4.0 |
| PRODERSSA (through KNI*) | Honduras | 2014 | Solar | Equity | 30 % | Honduras | USD | 53.1 |
| Lake Turkana Wind Power Limited | Kenya | 2013 | Wind | Guarantee | | Kenya | EUR | 12.9 |
| Lake Turkana Wind Power Limited (through KNI*) | Kenya | 2013 | Wind | Equity | 13 % | Kenya | EUR | 94.1 |
| Simacel 155 Pty Ltd (through KNI*) | South Africa | 2013 | Solar | Equity | 17 % | South Africa | ZAR | 11.9 |
| Simacel 160 Pty Ltd (through KNI*) | South Africa | 2013 | Solar | Equity | 17 % | South Africa | ZAR | 23.7 |
| Kinangop Wind Park Limited | Kenya | 2013 | Wind | Equity | 19 % | British Virgin Islands | USD | 94.3 |
| SN Power AS | Regional | 2013 | Hydro | Equity & Guarantees | 50 % | Norway | USD | 2646.4 |
| Scatec Solar Kalkbult (RF) Pty Ltd | South Africa | 2012 | Solar | Equity | 35 % | South Africa | ZAR | 43.4 |
| Nam Sim Power Company Ltd | Laos | 2011 | Hydro | Loans | | Laos | USD | 33.3 |
| Bronkhorstspruit Biogas Plant Pty Ltd | South Africa | 2011 | Biomass | Equity | 11 % | South Africa | ZAR | 16.1 |
| Interact Climate Change Facility | Regional | 2010 | Energy | Equity and Loans | | Luxembourg | EUR | 299.2 |
| E&Co (Persistent Energy) | Regional | 2009 | Energy | Loans | | Delaware | USD | 18.9 |
| Statkraft International Hydro Invest AS | Regional | 2002 | Hydro | Equity | 18 % | Norway | USD | 2606.7 |

| Impact Investments/PDF** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| *Scatec Egypt* | *Egypt* | *2015* | *Solar* | *PDF*** | | *Egypt* | *USD* | *25.9* |
| *Scatec Solar Nigeria B.V.* | *Nigeria* | *2016* | *Solar* | *PDF*** | | *Netherlands* | *USD* | *8.6* |
| *Cape Dairy Biogas Plant Pty Ltd* | *South Africa* | *2014* | *Biomass* | *PDF*** | | *South Africa* | *ZAR* | *4.9* |
| *Nsongezi Power Company Ltd* | *Uganda* | *2012* | *Hydro* | *PDF*** | | *Uganda* | *USD* | *3.4* |
| *Kikagati Power Company Ltd* | *Uganda* | *2012* | *Hydro* | *PDF*** | | *Uganda* | *USD* | *10.1* |
| *Pure Power Ltd, Uni-Power Ltd, Young Power Ltd* | *Kenya* | *2011* | *Hydro* | *PDF*** | | *Kenya* | *USD* | *8.4* |

** KNI = KLP Norfund Investments*
*** PDF = Project Development Facility investment*

# SOLAR POWER IN MOZAMBIQUE

Capital and expertise from Scatec Solar, KLP and Norfund will enable the construction of Mozambique's first large-scale solar power plant. When it becomes operational, the Mocuba plant will provide over 77 GWh of electricity annually, enough energy to serve about 175,000 households.

**IN 2016 SCATEC SOLAR** and Norfund signed a Power Purchase Agreement that secured the sale of solar power over a 25-year period to the state-owned utility, Electricidade de Mozambique (EDM). The plant will be built in the Zambezia Province in north-central Mozambique.

### LACK OF ELECTRICITY

Mozambique is one of the poorest countries in the world and access to electricity is extremely limited. In rural areas only 1 percent of the population has an electricity supply. National demand for electricity is growing significantly due to industrial and commercial growth.

Many district capitals depend on expensive and often unreliable diesel power generation, but Mozambique's potential power generating capacity is substantial. Transmission bottlenecks mean that decentralised power plants based on local energy resources such as solar and hydro are important in supplying remote regions.

### THE MOCUBA PROJECT SOLAR PLANT

The Mocuba Project is part of the Government of Mozambique's Economic and Social Development Plan for 2015/16. The Mocuba plant was identified as part of a least-cost supply plan to improve the capacity, reliability and diversity of electricity supplies in northern Mozambique.

The project will contribute to the economic and social development of one of the Special Economic Development Zones designated by the Government of Mozambique, and facilitate new private sector investments. It will also give EDM a unique opportunity to gain technical, commercial and practical experience in utility-scale solar solutions.

### FINANCING AND SHAREHOLDERS

Scatec Solar will be the majority investor in the Mocuba Project with a 52.5 percent stake. Mozambique's government-owned utility (EDM) will have a 25 percent stake, and the KLP/Norfund partnership will have a 22.5 percent share. The Project will be financed on a non-recourse project finance basis by the International Finance Corporation and the Emerging Africa Infrastructure Fund.

"This is an excellent example of how private-public partnerships can deliver renewable energy and support further economic growth in Mozambique. EDM and the Government of Mozambique have demonstrated strong leadership in taking this project forward, paving the way for further investments in renewable energy in the country," says Scatec Solar CEO, Raymond Carlsen.

Mozambique is one of Norfund's focus countries. This investment reflects Norfund's strategy of investing equity in renewable energy projects in the world's least developed countries. ■

# FINANCIAL INSTITUTIONS

## – The key to business development

### DEVELOPMENT RATIONALE

Accessing capital via loan and equity investments is crucial to economic growth and for the development of businesses. For individual households, loans and saving facilities can help to reduce economic vulnerability.

Starting and growing businesses in developing countries is difficult. People often have limited access to basic financial services, such as bank accounts, payment services and credit facilities.

### INVESTMENT NEEDS

Banks and microfinance institutions rely on access to debt and equity when extending loans to their clients. Capital helps financial institutions, enabling them to develop products, increase market reach, and pay for costly yet crucial capital investments. IT systems, for example, need to be of high quality, effective, well-managed, and ensure a high degree of security.

### NORFUND'S STRATEGY

Norfund supplies capital indirectly to small- and medium-sized enterprises (SMEs). When investing in banks, microfinance providers, and other financial institutions, we focus on locally owned financial institutions with good growth potential and those suited to creating and delivering valuable services.

Our investments in banks target medium-sized and large institutions with focus on SMEs, the retail market and clients that have not previously had access to financial services. Norfund's investments in non-bank financial institutions concentrate on those providing services such as leasing, factoring and lending to SMEs.

In 2016, Norfund together with NorFinance acquired a 48 percent stake in Arise, a new investment company. Through this partnership with Rabobank and FMO, Norfund is contributing even more to strengthening and developing an effective and inclusive financial sector in Africa.

PHOTO: Mette Fiske Tronvoll, Nairobi # 4, 2016

# INVESTMENTS AND RESULTS

In 2016, Norfund contributed to the establishment of Arise, a new bank investment company in Sub-Saharan Africa. This is an important initiative for the strengthening and development of an effective and inclusive financial sector in Africa. (see page 53).

In the coming years, Norfund will continue to provide loans to financial institutions in Sub Saharan Africa, while Arise will be the prioritised vehicle for new equity investments in African banks. Our strategy for loan and equity investments in financial institutions in Asia and Latin-America will remain unchanged.

## **HIGHLIGHTS** 2016

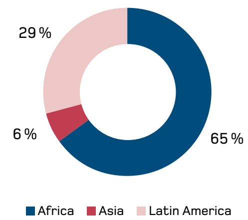
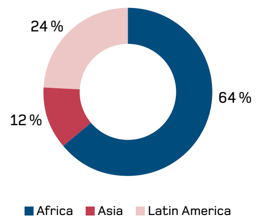
→ **Strengthening the banking sector in Guatemala**
Banco Promerica Guatemala is a regulated multi-product bank that provides financial services to SMEs. In 2016, Norfund provided a subordinated loan to support its continued growth within the SME sector. This is a relatively new financial product in this region, and Norfund had good use of its wide experience with similar investments in Africa.

→ **NMI – from Norwegian to Nordic Microfinance Initiative**
Since 2007, the Norwegian Microfinance Initiative (NMI) - a strategic alliance between Norfund, Ferd, DnB/Vital, Storebrand and KLP – has been Norfund's most important channel for microfinance capital. In 2016, the Danish Investment Fund for developing countries, IFU, joined the alliance. With IFU on board, the aim is to build NMI to become a leading Nordic microfinance platform with the participation of private investors from several Nordic countries.

→ **Fondo de Desarrollo Local in Nicaragua**
A new equity investment and loan from Norfund will contribute to strengthening the microfinance institution Fondo de Desarrollo Local's ability to provide financial services to micro, and small businesses in rural and urban areas in Nicaragua.

→ **Fedecredito in El salvador**
A senior secured debt investment to Fedecredito (FDC) will strengthen microfinance services in El Salvador. Fedecredito is a cooperative bank owned by 48 Salvadoran credit unions and 7 workers' banks. These entities are cooperative MicroFinance Institutions (MFIs) to which FDC profitably provides financing and financial services. The member MFIs have more than 950,000 clients, mainly low income families and micro-, small- and medium sized enterprises.

→ **Strengtening microfinance institutions in Cambodia**
Cambodia is a priority country for Norfund. In 2016, Norfund committed additional long term loans to two microfinance institutions in Cambodia; AMRET and Sathapana. Both are Norfund investees since 2008. Sathapana is today an advanced financial institution and aspires to become a fully-fledged bank. AMRET has also evolved into a leading micro-finance institution and is the largest in rural areas. The successful exit from the microfinance institution Hattha Kaksekar was also a highlight in 2016. (see page 39).

| | INVESTMENTS IN 2016 | TOTAL PORTFOLIO |
|---|---|---|
| **INVESTMENTS AND PORTFOLIO**<br>Norfund has invested directly in 43 financial institutions, ranging from regional bank groups and funds that invest in banks, to local microfinance institutions. Financial institutions accounts now for 30 percent of Norfunds total portfolio. | 1,452<br>**MNOK COMMITTED** | 5,048<br>**MNOK COMMITTED** |
| **REGIONS**<br>Investments in financial institutions are of high priority for Norfund on all three continents. The major investment in Arise in 2016 has increased the portfolio's representation in Africa. New investments in least developed countries (LDCs) in Asia and Central America were also important for Norfund in 2016, though with smaller values. |  |  |

| | RESULTS |
|---|---|
| **JOBS**<br>The direct employment effects of investments in the financial sector are high: these institutions employ a large number of people, 36 percent of whom are women – a large share relative to other sectors. The indirect effects of investments are even more significant. Providing access to loans enables enterprises to grow and to create new jobs. | 95,000<br>**JOBS IN FINANCIAL INSTITUTIONS** |
| **TAXES**<br>Most of the financial institutions in Norfund's portfolio make profits and therefore pay income tax. They also contribute to government income by paying other taxes and fees, such as withholding tax, value added tax and licenses. | 3,600<br>**MNOK IN TAXES PAID** |
| **LOANS**<br>At the end of 2016, Norfund had invested in approximately 100 financial institutions directly or through funds. Together these institutions had a combined loan book of more than 234 billion NOK. The institutions with two consecutive years of reporting increased their aggregate loan book by 13 percent, and the total number of loans provided by 17 percent. In addition, through our investment in NMI, Norfund supports the growth of another 253 microfinance institutions. | 11 MILLION<br>**LOANS PROVIDED TO CLIENTS** |
| **ACCOUNTS**<br>Bank accounts provide safe and easy access to funds, encourage savings, and facilitate participation in the modern economy. Several of Norfund investees offer mobile money accounts, which have proven effective in increasing financial inclusion. | 19 MILLION<br>**BANK ACCOUNTS HELD BY CLIENTS** |

| Investment | Country/ region | Norfund investment year | Sector | Instrument | Norfund owner share | Domicile | Investee currency | Original Committed (MNOK) |
|---|---|---|---|---|---|---|---|---|
| Arise B.V. (partly via Norfinance) | Regional | 2016 | Banking | Equity | 40 % | Netherlands | USD | 2171.5 |
| Banco Promerica Guatemala | Guatemala | 2016 | Banking | Sub-debt | | Guatemala | USD | 81.8 |
| Fedecredito | El Salvador | 2016 | Microfinance | Loans | | El Salvador | USD | 87.2 |
| Advans MFI Myanmar Company Limited | Myanmar | 2015 | Microfinance | Equity | 40 % | Myanmar | MMK | 9.8 |
| ARREND Central America | Regional | 2015 | Other financial services | Equity and Loans | 22 % | Guatemala | USD | 60.1 |
| Banco Promerica El Salvador | El Salvador | 2015 | Banking | Loans | | El Salvador | USD | 86.8 |
| Myanmar Finance International Limited | Myanmar | 2015 | Microfinance | Equity | 25 % | Myanmar | MMK | 12.4 |
| Acleda Bank Lao Ltd. | Laos | 2014 | Banking | Loans | | Laos | LAK | 55.8 |
| BANCO INDUSTRIAL SALVADOR | El Salvador | 2014 | Banking | Loans | | El Salvador | USD | 74.2 |
| Confianza | Regional | 2014 | Microfinance | Convertibles | | El Salvador | USD | 16 |
| Focus Financial Services Limited | Zambia | 2014 | Other financial services | Loans | | Zambia | ZMW | 48.3 |
| HFC Limited | Kenya | 2014 | Banking | Loans | | Kenya | KES | 71.3 |
| LAFISE NICARAGUA | Nicaragua | 2014 | Banking | Loans | | Nicaragua | USD | 69.7 |
| Trustco Group Holdings Ltd | Namibia | 2014 | Microfinance | Loans | | Namibia | ZAR | 55.2 |
| Alios Finance Zambia | Zambia | 2013 | Other financial services | Loans | | Zambia | USD | 30.6 |
| Amret II (USD) | Cambodia | 2013 | Microfinance | Loans | | Cambodia | USD | 52.9 |
| FDL | Nicaragua | 2013 | Microfinance | Equity and Loans | 11 % | Nicaragua | USD | 59.5 |
| Ficohsa Gua | Guatemala | 2013 | Banking | Loans | | Guatemala | USD | 17.9 |
| First Finance Plc. | Cambodia | 2013 | Microfinance | Equity and Loans | 15 % | Cambodia | USD | 35.2 |
| LOCFUND II | Regional | 2013 | Microfinance | Funds | 26 % | Delaware | USD | 53.8 |
| NMBZ Holdings Limited | Zimbabwe | 2013 | Banking | Sub-debt | | Zimbabwe | USD | 8.1 |
| Prasac Microfinance Institution | Cambodia | 2013 | Microfinance | Loans | | Cambodia | USD | 59.6 |
| Alios Finance Tanzania Ltd | Tanzania | 2012 | Other financial services | Loans | | Tanzania | USD | 27.8 |
| Ficohsa | Honduras | 2012 | Other financial services | Loans | | Honduras | USD | 72.7 |
| Desyfin | Costa Rica | 2011 | Other financial services | Equity and Loans | 23 % | Costa Rica | USD | 63.2 |
| HEFF | Regional | 2011 | Microfinance | Funds | 33 % | Delaware | USD | 38.8 |
| Norsad | Regional | 2011 | Other financial services | Equity | 11 % | Botswana | USD | 56.8 |
| Prospero | Regional | 2011 | Microfinance | Funds | 22 % | Cayman Islands | USD | 31.9 |
| Techcombank | Vietnam | 2011 | Banking | Loans | | Vietnam | USD | 87.1 |
| Brac Bank | Bangladesh | 2010 | Banking | Equity and Loans | | Bangladesh | BDT | 122.2 |
| Real People Investment Holdings (Pty) Limited | Regional | 2009 | Other financial services | Sub-debt | | South Africa | ZAR | 132.8 |
| Sathapana | Cambodia | 2008 | Banking | Loans | | Cambodia | USD | 41.9 |
| AfriCap Microfinance Investment C | Regional | 2007 | Microfinance | Funds | 7 % | Mauritius | USD | 17.5 |
| CIFI | Regional | 2004 | Other financial services | Equity and Loans | 32 % | Panama | USD | 331.7 |
| DFCU Limited | Uganda | 2004 | Banking | Loans | | Uganda | UGX | 54.7 |
| LAAD | Regional | 2004 | Other financial services | Loans | | Netherlands Antilles | USD | 61.8 |
| Trustco Group Holdings Ltd | Namibia | 2014 | Microfinance | Loans | | Namibia | ZAR | 55.2 |

| Impact Investments | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| *Proximity Designs* | *Myanmar* | *2013* | *Microfinance* | *Loans* | | *Myanmar* | *MMK* | *12.1* |
| *NMI Fund III* | *Regional* | *2013* | *Microfinance* | *Funds* | *26 %* | *Norway* | *NOK* | *184.0* |
| *Norwegian Microfinance Initiative AS* | *Regional* | *2008* | *Microfinance* | *Equity* | | *Norway* | *NOK* | *30.0* |
| *NMI Frontier and Global Funds* | *Regional* | *2008* | *Microfinance* | *Funds* | *45 %* | *Norway* | *NOK* | *270.0* |
| *Nordic Microfinance Initiative AS* | *Global* | *2008* | *Microfinance* | *Equity* | *32 %* | *Norway* | *NOK* | *28.4* |


# ARISE – A NEW INVESTMENT COMPANY TO EMPOWER AFRICAN BANKS

Arise is a new investment company created in 2016 as a joint partnership between Norfund, FMO (the Dutch DFI) and Rabobank. This alliance consolidates the banking, technical and managerial expertise of three experienced investors. It reflects a collective long-term commitment to developing an effective, inclusive, financial sector in Africa.

Each partner pooled their existing stakes in financial service providers (FSPs) in Sub-Saharan Africa into Arise. This meant that Arise started its operations with USD 660 million in assets and a presence in more than 10 countries.

### DEVELOPING EFFECTIVE, INCLUSIVE FINANCIAL SYSTEMS

The aim of Arise is to contribute to the building of economic growth and poverty reduction by developing strong and stable financial service providers. These FSPs will support retail enterprises, SMEs, companies in rural areas, and other clients lacking access to financial services. Arise will thereby strengthen their ability to empower themselves.

### STIMULATING GROWTH

The mandate of Arise is to invest and stimulate growth across all financial services sub-sectors within Sub-Saharan Africa. The joint establishment of Arise allows each partner to contribute to development on a scale that is far beyond what each could achieve separately.

### AN ACTIVE OWNER

Arise gives priority to equity investments and is an active owner. It claims board positions in the investees, organises technical assistance programmes, supports investees financially and helps the banks to improve the services they provide to their clients. Arise focuses particularly on improving the compliance functions of investee companies and ensuring adherence to the highest environmental, social and governance standards.

"We are excited to partner with CAL Bank, a listed company on the Ghana Stock Exchange. The institution has a strong track record of delivering high growth and solid performance. With the support of Arise, Cal Bank is well-positioned to deliver future growth in Ghana, one of Africa's core emerging economies," says the CEO of Arise, Deepak Malik.

### A FIRST ACQUISITION IN GHANA

The first acquisition made by Arise was a 27.7 % stake in CAL Bank, Ghana, a deal initiated and negotiated by Norfund.

It is anticipated that Arise will grow to a company with assets in excess of USD 1 billion over 5 years. ■

# FOOD AND AGRIBUSINESS

## DEVELOPMENT RATIONALE

The food and agribusiness sector is vital to facilitating local economic growth and reducing poverty through job creation. It is highly labour intensive and an important source of employment in most developing countries.

The agricultural sector in Africa is underperforming but has significant potential. Sub-Saharan Africa is today a net importer of food, including staple foods that have naturally favourable local growing conditions. Agribusinesses, both upstream and downstream in the agricultural value chain, also have development potential.

## INVESTMENT NEEDS

In most developing countries, there is a growing need for investments in the food processing industries and infrastructure, in addition to investments in primary agriculture. The establishment and growth of this business sector contribute among others to import-replacement of processed food, increased local value creation, increased tax generation and higher export incomes.

## NORFUND'S STRATEGY

Norfund is building a substantial portfolio in Africa's food and agribusiness sector. This includes investments in aquaculture. Most of our target companies are medium-sized businesses that operate in local and/or export markets, and the main focus is on investments in the agribusiness value chain. Norfund invests in food processing industries, but also in logistics and distribution. Our investments contribute to increased productivity and local value creation, and help smallholder farmers and companies to gain better market access for their produce. Our future investments in primary agriculture will mainly be done to secure supply to the food processing industry in which we have invested.

Norfund works closely with partners, agricultural funds, and NGOs with similar interests to ours.

# INVESTMENTS AND RESULTS

In 2016, Norfund made one new agribusiness investment and increased our stake in a number of Norfund's current food and agribusiness investments.

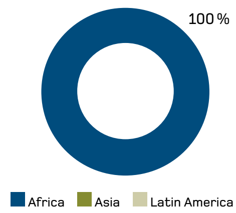
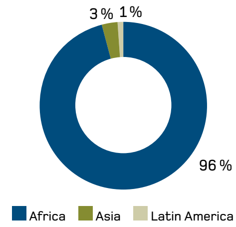
In accordance with the Norfund Strategy 2016-2020, Norfund's agribusiness team used the year 2016 searching for new potential investments in Sub-Saharan Africa. Several projects are in the pipeline for implementation in 2017, including projects in Malawi and Ethiopia. The complexities of these investments mean that identifying potential environmental and social risks is particularly important.

## **HIGHLIGHTS** 2016

- **Associated Foods Zimbabwe Ltd (AFZ)** AFZ is Zimbabwe's leading producer of peanut butter and jam spreads. Norfund invested a 17 million NOK loan in AFZ in 2016. This provided working capital and investments, including the construction of a new state-of-the-art peanut butter production line. The AFZ investment forms part of Norfund's increased strategic focus on the agribusiness value chain in developing countries (see also page 59)

- **African Century Foods (ACF)** Africa's largest fish producer operates tilapia fish farms in Zimbabwe, Zambia and Uganda. The investment in ACF is an example of Norfund's commitment to supporting our portfolio companies with active, strategic ownership and expertise. Norfund's experienced staff and nominated board directors have helped to develop a more sustainable business model and facilitated the reorganisation of ACF's management and governance structure. In 2016, Norfund also enabled a joint venture between ACF and the Norwegian aquaculture feeds company, Skretting. This led to the construction and establishment of Zambia's first dedicated fish feed plant.

- **Africado won the Global Good Agricultural Practice Prize** for its achievements in growing and exporting avocados in a sustainable manner. With Norfund as an investor since 2009, Africado has introduced avocados as an alternative cash crop to coffee and has thereby created employment – direct and indirect – for local communities in Tanzania. Modern irrigation systems and water harvesting techniques have given small-scale farmers opportunities to grow this new export crop. Africado provides access to training and to export markets, and is a reliable source of income for farmers. Africado's business success has contributed to the generation of increased private investor interest in the agribusiness sector.

| | INVESTMENTS IN 2016 | TOTAL PORTFOLIO |
|---|---|---|
| **INVESTMENTS AND PORTFOLIO**<br>At the end of 2016, this portfolio included 23 companies, of which one was new in 2016. The portfolio includes 12 companies from the agribusiness sector, 6 companies from the tourism sector and 5 companies from other sectors (due to investments in previous strategy periods). | 248<br>**MNOK COMMITTED** | 1,584<br>**MNOK COMMITTED** |
| **REGIONS**<br>Norfund decided some years ago that investments in food- and agribusiness will be done in Africa only. Norfund's staff in Mozambique and in Kenya play key roles in identifying and monitoring these projects. |  |  |





| | RESULTS |
|---|---|
| **JOBS**<br>The significant employment benefits of agribusiness and tourism are central to the rationale for our investments in these sectors. In addition to direct jobs, these companies create a high number of jobs in the supply chain. In 2016 they purchased goods and services worth NOK 1.4 billion from local suppliers. 32,000 of the jobs in the portfolio are from one of Norfund's investees - European Financing Partners. This is a co-financing mechanism with investments in a variety of sectors (see page 10) | 43,000<br>**JOBS IN PORTFOLIO COMPANIES** |
| **TAXES**<br>A large share of the taxes paid by the sector came from the companies in the portfolio of European Financing Partners (NOK 1,800 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. | 2,100<br>**MNOK TAXES PAID** |
| **ASSOCIATED SMALLHOLDER FARMERS**<br>Enabling local smallholder farmers to deliver produce to larger businesses can be beneficial to both local communities and companies. Ten of our agribusiness investments have such engagements in the form of outgrower contracts or other types of cooperation. 58 percent of these smallholder farmers are women. | 11,000<br>**SMALLHOLDER FARMERS LINKED WITH PORTFOLIO COMPANIES** |
| **FOOD PRODUCTION**<br>Investments in agribusiness can help to improve food security by increasing the availability of produce in local markets. In 2016, the companies in Norfund's portfolio produced 56,000 tonnes grain, 8,000 tonnes fruits and vegetables, 18,000 tonnes beans and 9,000 tonnes fish. | 91,000<br>**TONNES OF FOOD PRODUCED** |

| Investment | Country | Investment year | Sector | Instrument | Norfund owner share | Domicile | Investee Currency | Original committed (MNOK) |
|---|---|---|---|---|---|---|---|---|
| Associated Foods Zimbabwe (Pvt) Ltd | Zimbabwe | 2016 | Food manufacturing | Loans | | Zimbabwe | USD | 16.9 |
| African Century Real Estates Ltd. | Mozambique | 2015 | Construction | Equity and Loans | 14 % | Mauritius | USD | 129.6 |
| Freight in Time | Africa | 2015 | Transport & storage | Equity and Loans | 24 % | Mauritius | USD | 87.6 |
| African Century Infrastructure Services Ltd. | Tanzania | 2014 | Other services | Equity and Loans | 20 % | Mauritius | USD | 59.5 |
| Vertical Agro (Sunripe & Serengeti Fresh) | Africa | 2014 | Agriculture | Equity | | Mauritius | USD | 38.3 |
| African Century Foods Ltd. | Africa | 2013 | Aquaculture | Equity | 34 % | Mauritius | USD | 100.5 |
| ASILIA (African Spirit Group Limited) | Africa | 2013 | Tourism | Equity | 19 % | Mauritius | USD | 30.7 |
| UAP Properties Limited | South Sudan | 2013 | Real estate | Loans | | South Sudan | USD | 34.5 |
| Agrivision | Zambia | 2012 | Agriculture | Equity | 23 % | Mauritius | USD | 161.6 |
| Yara fertiliser terminal Dar | Tanzania | 2012 | Manufacturing | Loans | | Tanzania | USD | 3.6 |
| TPS Dar es Salaam | Tanzania | 2011 | Tourism | Equity and Loans | 29 % | Kenya | USD | 55.6 |
| Agrica | Tanzania | 2010 | Agriculture | Equity and Loans | 27 % | Guernsey | USD | 136.4 |
| TPS Rwanda | Rwanda | 2010 | Tourism | Equity | 11 % | Rwanda | RWF | 12.5 |
| Africado Ltd. | Tanzania | 2009 | Agriculture | Equity and Loans | 40 % | Mauritius | EUR | 26.2 |
| Green Resources | Tanzania | 2009 | Forestry & logging | Equity and Loans | | Norway | USD | 133.9 |
| Casquip Starch | Swaziland | 2008 | Agriculture | Equity and Loans | 29 % | Swaziland | SZL | 42.6 |
| European Financing Partners SA | Global | 2006 | Investment funds | Equity and Loans | | * see below | EUR | 353.5 |
| Afrinord Hotel Investments | Africa | 2005 | Tourism | Equity and Loans | 20 % | Denmark | EUR | 51.2 |
| Kabul Serena Hotel | Afghanistan | 2005 | Tourism | Equity | 17 % | Afghanistan | USD | 33.8 |

| Impact investments | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| *Across Forest AS* | *Nicaragua* | *2012* | *Forestry & logging* | *Loans* | | *Norway* | *NOK* | *1.8* |
| *GLAD Ltd* | *Uganda* | *2012* | *Agriculture* | *Loans* | | *Uganda* | *USD* | *4.8* |
| *Kinyeti Capital Ltd* | *South Sudan* | *2012* | *Other financial services* | *Equity and Loans* | *49 %* | *South Sudan* | *USD* | *39.4* |
| *Basecamp Explorer Kenya Ltd* | *Kenya* | *2010* | *Tourism* | *Equity* | *40 %* | *Kenya* | *NOK* | *16.4* |

** EFP is subject to the jurisdiction in Luxembourg. Norfund has granted loans through the EFP co-financing scheme to the following 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), Stanbic Bank (Nigeria) and Mobisol (Germany, operations in Tanzania), Helios Towers (DRC), Eaton Towers (Niger), Olkaria IV (Kenya) .*

# INCREASING LOCAL PRODUCE AND EXPORTS IN ZIMBABWE

Associated Foods Zimbabwe Ltd (AFZ) is Zimbabwe's leading producer of peanut butter, jams, nut spreads, and canned tomatoes and fruit. After successfully installing a new state-of-the-art production line, the company is now eyeing the export market in addition to serving the domestic market.

AFZ was established on 1 January 2016, as a result of a merger between Zimbabwe's leading producers of jams and peanut butter - Honeywood Enterprises Ltd and Spread Valley Ltd.

Norfund's 17 million NOK investment contributed to partly-finance the merger and provided capital expenditure to facilitate improvements, such as the installation of a new peanut butter production line. In addition, Norfund's investment also provided working capital.

> "The new state-of-the-art production line is all computerised, with human hands only at the packing stage. More importantly, the quality of our products has vastly improved. It is now world class," said AFZ's Director and majority shareholder, Mr Simba Nyabadza.

By combining the manufacturing strengths of Honeywood Enterprises, and the sales, marketing and distribution skills of Spread Valley, the new company is now benefiting from economies of scale and is adding value for stakeholders, including its customers. The company is now also able to developing products for export.

**MORE JOBS AND REDUCED NEED FOR IMPORTED GOODS**.

AFZ plans to expand its local raw material sourcing via out-grower schemes. This will result in increased employment throughout the agribusiness value chain in Zimbabwe.

> "This investment is in line with Norfund's strategy to support profitable and sustainable, local enterprises in developing countries. We look forward to being an active, strategic minority investor in AFZ with a long term perspective," said Finn Ivar Marum, head of Norfund's Food and Agribusiness department.

Improved productivity and product quality will increase the consumption of local produce and thereby reduce dependence on imported goods. This is especially important as most African countries struggle to build their foreign currency reserves, and must therefore promote processing and consumption of quality local goods, while limiting imported goods. ■

# SME FUNDS

## Growing and Strengthening Small- and Medium-Sized Enterprises

### DEVELOPMENT RATIONALE

Small and medium-sized enterprises (SMEs) contribute substantially to industrial development and to economic diversification and growth in developing countries. They help satisfy local demand for services, offer local employment, and provide larger firms with inputs and services.

Growth in the SME sector is often hampered by a lack of access to capital and by poorly developed and excessively bureaucratic business environments. Challenging regulatory environments and difficulties in enforcing legal contracts are other hampering factors.

### INVESTMENT NEEDS

SMEs frequently suffer from insufficient access to financing, particularly compared to larger enterprises.

Local commercial banks often perceive SMEs as being too 'risky' to qualify for traditional loans. Yet, SMEs are also often too large to qualify for support from microfinance programmes.

Investing in SME funds through local fund managers contribute to building and developing local businesses: local managers can provide SME entrepreneurs with access to risk capital, as well as advice and support.

### NORFUND'S STRATEGY

Norfund invests in private equity and venture capital funds that target SMEs in need of growth capital. Our investments in SME funds are important because they help us to reach more enterprises than we would on our own.

We invest in funds in which our participation can have a significant additional effect. The investments in the target market must offer something distinctly different to what is currently available or target unserved sections of the market.

Norfund always seeks to be an active owner and places particular importance on how the portfolio of fund investments is managed.

PHOTO: Mette Fiske Tronvoll, Masai Mara # 1, 2016

# INVESTMENTS AND RESULTS

Norfund contributes to building and growing sustainable and profitable companies through its SME fund investments. By using a large network of managers with expertise and local presence, we are able to reach more SMEs.

SME funds typically have a period of 4-5 years to identify SMEs and invest their capital. Norfund is a long-term investor and prefers to follow Fund managers for longer periods. For us, the close monitoring of all fund investment and divestment activities is critical.

## HIGHLIGHTS 2016

→ **Frontier II – Bangladesh**
Frontier II is the successor to Frontier Fund I – a Bangladesh-focused SME fund in which we invested in 2010. Frontier I was the first PE fund in Bangladesh; Frontier II continues the support of Bangladesh's pioneering investment activities. Norfund has invested in Frontier II together with the British, the Dutch and the German DFIs (CDC, FMO, DEG), IFC and Swedish private investors. (read more on page 65). Frontier II's first close of USD 65 million took place in 2016. The target size for the Fund is USD 100 million.

→ **Agri-Vie II**
Agri-Vie is a sector based fund focused on the agribusiness sector. We have been investing in Agri-Vie Fund I since 2010, and in 2016 we prepared for an investment in Agri-Vie Fund II. Agri-Vie has a proven track record of identifying strongly performing food and agribusiness portfolio companies in Sub-Saharan Africa. Investments have been made across whole value chains in the agricultural, forestry and aquaculture sectors, capitalising on Africa's thriving markets for processed food. Export opportunities have also been pursued.

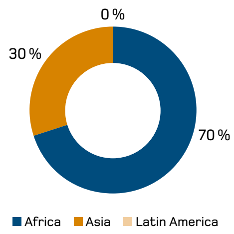
→ **FIPA II**
FIPA II is the successor to the Angola-focused SME fund which Norfund launched together with a local partner (BAI) in 2009. FIPA is the only provider of risk capital to SMEs in Angola. Despite the challenging macroeconomic conditions in Angola, FIPA II successfully reached its first close in 2016 at USD 45 million. The fund will continue to invest in growth-orientated SMEs in sectors across Angola's economy.

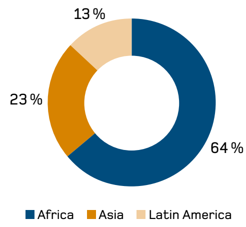
→ **Kinyeti Venture Capital Limited** is a small financing company in South Sudan and was jointly established by Norfund and Swedfund in 2012. Kinyeti provides funding to 10 small businesses operating in the infrastructure, health, industry and trading sectors. Despite the extreme political and economic challenges in South Sudan, Kinyeti's results are encouraging. In 2016, Norfund and the Dutch company Triple Jump provided further loan financing, enabling Kinyeti to support more SME businesses in South Sudan.

| | INVESTMENTS IN 2016 | TOTAL PORTFOLIO |
|---|---|---|
| **INVESTMENTS AND PORTFOLIO**<br>There are 38 active SME Funds in Norfund's portfolio. | 214<br>**MNOK COMMITTED** | 1,843<br>**MNOK COMMITTED** |

**REGIONS**

The new investments in 2016 were primarily in Africa, reflecting our geographical focus on this region.




## RESULTS

**INVESTEE COMPANY PORTFOLIO**

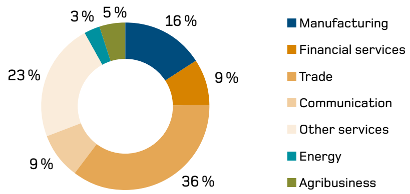
In 2016 the SME Funds in Norfund's portfolio made investments in about 100 new SMEs. The effectiveness of the SME Funds relies first and foremost on the characteristics and performance of their underlying investments, the SMEs.

603

**SME INVESTMENTS IN TOTAL PORTFOLIO**

**SMALL AND MEDIUM ENTERPRISES**

The SMEs in Norfund's portfolio are broadly diversified, with trade (36 percent), manufacturing (16 percent) and communication (9 percent) as the largest sectors.




**JOBS**

SMEs have significant employment effects. A large proportion of employees – 40 percent - are women. As Norfund is funding primarily growth capital, our investments contribute to new jobs. The aggregate number of jobs in enterprises with two consecutive years of reporting increased by 6 percent in 2016.

131,000

**JOBS IN PORTFOLIO COMPANIES**

**LOCAL PROCUREMENT**

The enterprises in our SME portfolio purchase goods and services from local suppliers, thereby contributing to the growth of these companies.

10,9

**BNOK IN LOCAL PURCHASES**

**TAXES**

SMEs pay taxes and fees to the countries in which they are located. 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 or tax avoidance. (See page 24)

1,600

**MNOK IN TAXES PAID**

| Investment | Country | Investment year | Sector | Norfund owner share | Domicile | Investee currency | Original Committed (MNOK) |
|---|---|---|---|---|---|---|---|
| Frontier Fund II | Bangladesh | 2016 | Investment funds | 8 % | Cayman Islands | USD | 68.9 |
| BPI East Africa LLC | Africa | 2015 | Investment funds | 17 % | Mauritius | USD | 51.5 |
| Cambodia Laos Myanmar Development Fund II | Asia & Pacific | 2015 | Investment funds | 16 % | Singapore | USD | 86.1 |
| GroFin SGB Fund Limited Partnership | Africa | 2015 | Investment funds | 19 % | Mauritius | USD | 128.2 |
| CASEIF III | America | 2014 | Investment funds | 24 % | Canada | USD | 84.8 |
| Ascent Rift Valley Fund Ltd | Africa | 2013 | Investment funds | 13 % | Mauritius | USD | 84.7 |
| Novastar Ventures East Africa Fund | Africa | 2013 | Investment funds | 13 % | Mauritius | USD | 81.8 |
| CORECO | America | 2012 | Financial services | 22 % | Delaware | USD | 77.0 |
| Africa Health Fund (Aureos) | Africa | 2011 | Investment funds | 9 % | South Africa | USD | 68.7 |
| Vantage Mezzanine Fund II | Africa | 2011 | Investment funds | 5 % | South Africa | ZAR | 66.3 |
| Agri-Vie | Africa | 2010 | Agriculture fund | 9 % | South Africa | ZAR | 57.7 |
| Aureos South-East Asia Fund II | Asia & Pacific | 2010 | Investment funds | 2 % | Canada | USD | 34.8 |
| Frontier Fund | Bangladesh | 2010 | Investment funds | 11 % | Cayman Islands | USD | 62.3 |
| Cambodia-Laos Development Fund | Cambodia | 2009 | Investment funds | 20 % | Luxembourg | USD | 26.1 |
| Evolution One Fund | Africa | 2009 | Energy fund | 7 % | South Africa | ZAR | 35.3 |
| Fundo de Investimento Privado-Angol | Angola | 2009 | Investment funds | 26 % | Luxembourg | USD | 65.6 |
| Aureos Africa Fund | Africa | 2008 | Investment funds | 11 % | Mauritius | USD | 248.6 |
| GroFin Africa Fund | Africa | 2008 | Investment funds | 9 % | Mauritius | USD | 95.5 |
| SEAF Blue Waters Growth Fund | Vietnam | 2008 | Investment funds | 20 % | Cayman Islands | USD | 33.0 |
| Adenia Capital Ltd II | Africa | 2007 | Investment funds | 13 % | Mauritius | EUR | 41.2 |
| Aureos Latin America Fund (ALAF) | America | 2007 | Investment funds | 14 % | Canada | USD | 140.1 |
| CASEIF II | America | 2007 | Investment funds | 14 % | Bahamas | USD | 24.8 |
| Horizon Equity Partners Fund III | South Africa | 2007 | Investment funds | 9 % | South Africa | ZAR | 18.5 |
| Aureos CA Growth Fund (EMERGE) | America | 2006 | Investment funds | 14 % | Mauritius | USD | 19.0 |
| Aureos South Asia Fund (Holdings) | Asia & Pacific | 2006 | Investment funds | 24 % | Mauritius | USD | 111.5 |
| APIDC Biotech Fund | India | 2005 | Investment funds | 8 % | Mauritius | USD | 16.7 |
| China Environment Fund 2004 | China | 2005 | Investment funds | 10 % | Cayman Islands | USD | 18 3 |
| Aureos South-East Asia Fund | Asia & Pacific | 2004 | Investment funds | 29 % | Mauritius | USD | 120.1 |
| Aureos East Africa Fund | Africa | 2003 | Investment funds | 20 % | Mauritius | USD | 48.7 |
| Aureos Southern Africa Fund | Africa | 2003 | Investment funds | 25 % | Mauritius | USD | 68.9 |
| Aureos West Africa Fund | Africa | 2003 | Investment funds | 26 % | Mauritius | USD | 97.0 |
| SEAF Sichuan Small Investment Fund | China | 2000 | Investment funds | 13 % | Delaware | USD | 20.0 |
| Lafise Investment Management | Nicaragua | 1999 | Investment funds | 20 % | Bahamas | USD | 0.2 |

| Impact investments | | | | | | | |
|---|---|---|---|---|---|---|---|
| *FIPA II* | *Africa* | *2016* | *Investment funds* | *40 %* | *Luxembourg* | *USD* | *155.2* |
| *Voxtra East Africa Agribusiness Ini* | *Africa* | *2011* | *Agriculture fund* | *30 %* | *Norway* | *NOK* | *33.1* |
| *Angola Capital Partners LLC* | *Angola* | *2009* | *Investment funds* | *48 %* | *Delaware* | *USD* | *1.4* |
| *Fanisi Venture Capital Fund* | *Africa* | *2009* | *Investment funds* | *34 %* | *Luxembourg* | *USD* | *101.7* |
| *Fanisi Venture Management Company* | *Africa* | *2009* | *Investment funds* | *50 %* | *Luxembourg* | *USD* | *1.0* |


Ananta Apparel s Ltd is one of Frontier Fund's investees.

# PRIVATE EQUITY FUND HELPS BUSINESSES GROW IN BANGLADESH

The Frontier Fund is the first private equity fund dedicated to Bangladesh. Designed to address the country's lack of risk capital, the Frontier Fund has successfully financed a range of growing SMEs and has helped to improve the financial infrastructure of SMEs.

Bangladesh has experienced a consistent economic growth rate of 5%-6% p.a. over the past 20 years. This development has been driven primarily by growth in export manufacturing industries, low labour costs, a large remittance base and significant financial aid from NGOs.

Much of the country's growth is financed by local banks, but borrowing rates are high (15% - 16% p.a). This indicates the need for alternative capital such as private equity funds. However, Bangladesh is still seen as a high risk country and few financial actors has entered the country.

The Frontier Fund provides long-term growth capital and expertise to private companies in Bangladesh. The Fund invests in managements teams and companies that have a good track record. Examples include Ananta Apparels Ltd, a leading garment manufacturer and exporter, and Popular Pharmaceuticals Ltd, a manufacturer of hormone, insulin and vaccine products.

The Frontier Fund leverages its local and international networks to support the growth of the companies in which it invests. Khalid Quadir is co-founder and managing partner of the company Brummer & Partners Asset Management, Bangladesh, which manages the Frontier Fund.

In 2016, Norfund invested in the Frontier Fund II, leveraging the experiences gained in the management of the first fund. The new fund is targeting industries and sectors in the growing domestic economy, providing growth capital to private businesses that is not otherwise available. The Frontier Fund is also helping to change local consumption patterns and develop export-oriented industries in which Bangladesh has a comparative advantage.

> "Bangladesh has been a model country for inclusive growth. When we launched our fund in 2008, GDP per capita was about USD 650. Within 5 years it grew by 62 %. That's very impressive growth! I think international investors are beginning to understand and see Bangladesh in a different light", said Mr Quadir.

When investing in SME Funds, Norfund reaches a larger number of businesses than we could do as a single investor. To date, Norfund has invested a total of NOK 132 million in Frontier Funds I and II. ■

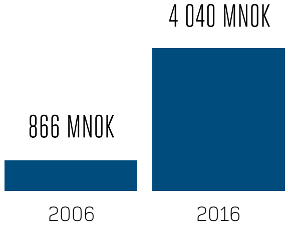
# PORTFOLIO AND RESULTS END OF YEAR 2016

**16.8**
billion NOK
total committed

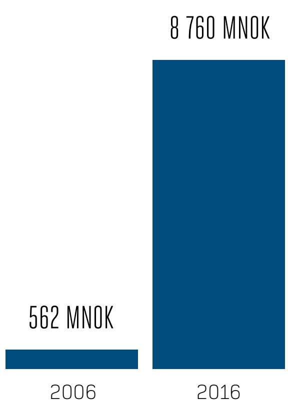
**770**
companies
in the portfolio

**276,000**
jobs in the portfolio companies

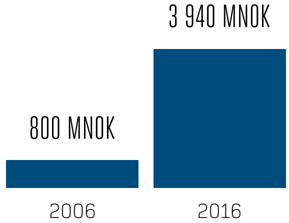

## LATIN AMERICA




## AFRICA




## ASIA



**19.2 TWh**

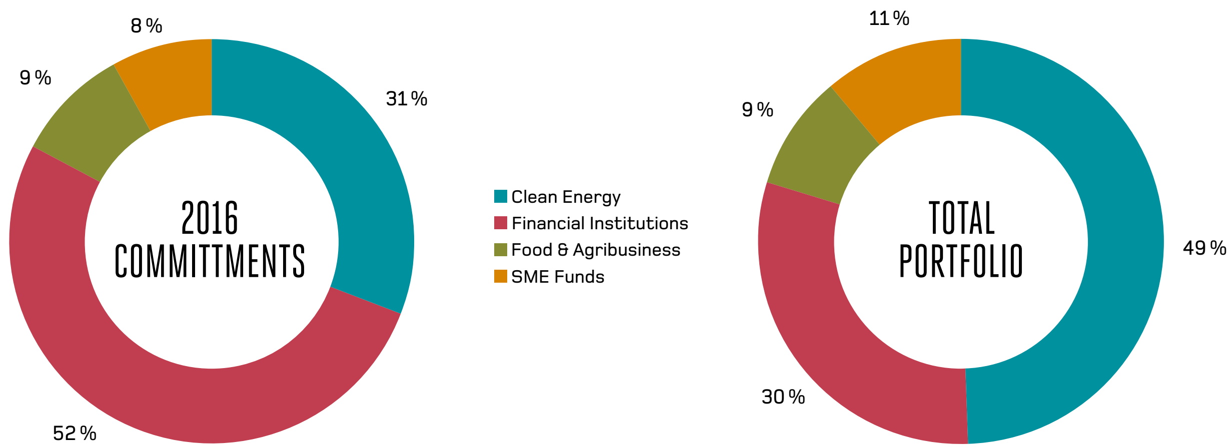
electricity produced by portfolio companies

**2.8**

billion NOK
new investments in 2016

**10.9**

billion NOK taxes paid by
portfolio companies in 2016




| KEY FIGURES NORFUND 2010–2016 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|
| Total portfolio (MNOK) | 5 844 | 7 581 | 8 295 | 9 630 | 12 843 | 15 127 | 16 762 |
| Capital allocated by the owner (MNOK) | 629 | 1 000 | 1 030 | 1 198 | 1 230 | 1 480 | 1 478 |
| New investments (MNOK) | 844 | 2 198 | 1 234 | 1 872 | 3 645 | 2 395 | 2 784 |
| Share of new investments in least developed countries | 45% | 14% | 54% | 42% | 24% | 38% | 57% |
| Share of new investments in Africa | 67%* | 46%* | 82%* | 68%* | 72% | 85% | 73% |
| Return on invested capital (IRR) | 10% | 9% | 10% | -1% | -6% | 3.5 % | 1.6% |
| Total equity (MNOK) | 6 747 | 7 735 | 8 439 | 10 201 | 12 597 | 15 006 | 16 410 |
| Cash to equity | 29% | 13% | 19% | 20% | 20% | 8% | 15% |
| Number of direct investments | 85 | 99 | 107 | 118 | 126 | 129 | 124 |
| Number of employees in Norfund | 45 | 49 | 50 | 54 | 61 | 69 | 69 |
| Total number of jobs in portfolio companies | 167 000 | 265 000 | 294 000 | 314 000 | 227 000 | 382 000 | 276 000 |

*excl. SKIHI and SN Power

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