Norfund

2017

REPORT ON OPERATIONS

Norwegian Investment Fund for Developing Countries

CONTENTS

NORFUND

REPORT ON OPERATIONS 2017

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Design
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Ombrekk
Von Kommunikasjon

Print
Grøset

INVESTING FOR DEVELOPMENT

NORFUND – the Norwegian Investment Fund for Developing Countries - is a state-owned company with limited liability. It is an instrument for Public Private Partnerships and the government's main instrument for promoting growth and job creation through private sector development. Norfund and similar investment funds in other countries are known as Development Finance Institutions (DFIs).

Norfund's mandate is to "[...] assist in developing sustainable business and industry in developing countries. The object is to establish viable, profitable undertakings that would not otherwise be initiated because of the high risk involved."

Access to energy and capital is crucial for private sector development, job creation and poverty reduction. Although the number of people living in extreme poverty has dropped by 50% since 1997, the number of people living in poverty is still high, especially in Sub-Saharan Africa. ■

Development Challenges →

830 MILLION youth will enter the African labour market by 2050

50 % of the worlds adult population lack access to financial services

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

Achievements of Norfund portfolio companies in 2017 →

28,000 new permanent jobs created, whereof 9,000 in least developed countries. In addition: 12,000 empowered smallholder farmers.

12.4 MILLION loans provided, whereof 9.4 million to microfinance clients, 2.3 million to retail clients and 400,000 to SME clients.

14.7 TWh electricity produced by portfolio companies. In addition: 2.2 million solar-powered solutions sold to household clients.

PORTFOLIO AND RESULTS END OF YEAR 2017

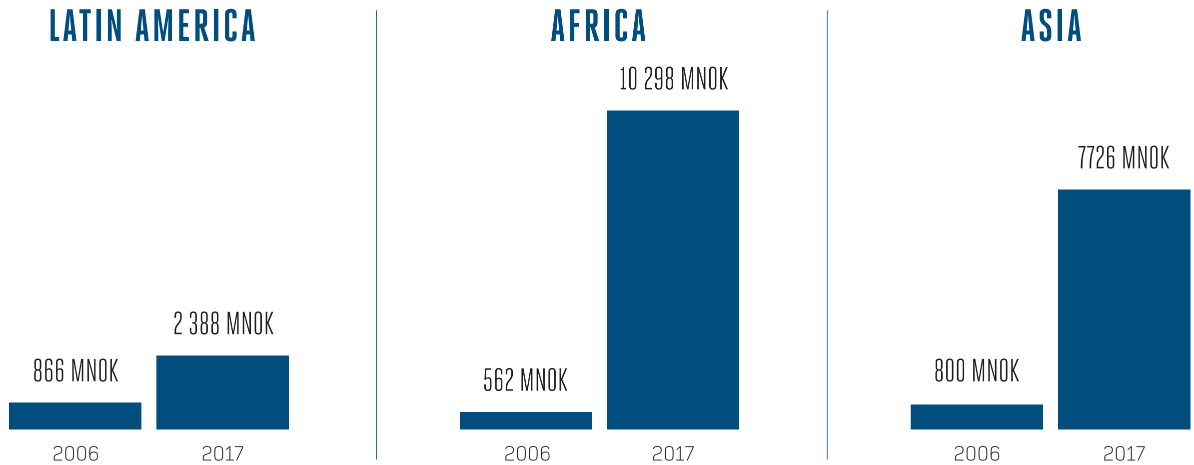
20.4
billion NOK total committed

6%
IRR (investments currency)

9%
IRR (NOK) since inception

292,000
jobs in the portfolio companies

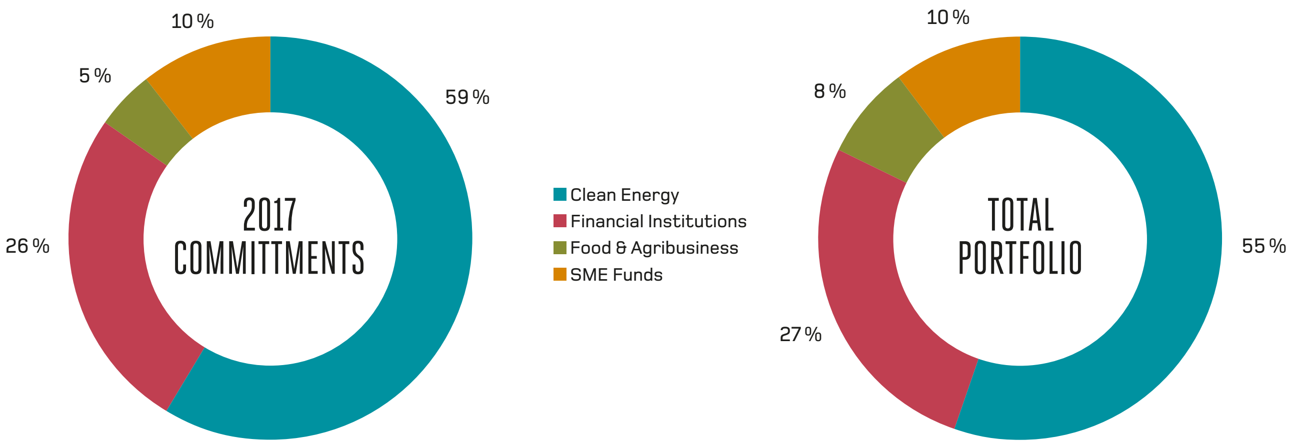
Comitted portfolio per region:



14.7 TWh
electricity produced by portfolio companies

9.3
billion NOK taxes paid by portfolio companies

874
companies in the portfolio



KEY FIGURES NORFUND 2011-2017	2011	2012	2013	2014	2015	2016	2017
Portfolio (MNOK)	7 581	8 295	9 630	12 843	15 127	16 762	20 439
Capital allocated by the owner (MNOK)	1 000	1 030	1 198	1 230	1 480	1 478	1 500
New investments (MNOK)	2 198	1 234	1 872	3 645	2 395	2 784	3 600
Share of new investments in least developed countries	14%	54%	42%	24%	38%	57%	34%
Share of new investments in Africa	46%*	82%*	68%*	72%	85%	73%	35%
Return on invested capital (IRR) in investment currency	8%	10%	-1%	-6%	3.5%	2.9%	14%
Number of direct investments	99	107	118	126	129	124	136
Number of employees in Norfund	49	50	54	61	69	69	71
Number of jobs in portfolio companies	265 000	294 000	314 000	227 000	382 000	276 000	292 000

*excl. SKIHI and SN Power

A MESSAGE FROM

KJELL ROLAND

Chief Executive Officer

INVESTING IN DIFFICULT AND RISKY MARKETS

Norfund invests in profitable enterprises that otherwise would not exist – due to the high risk. We invest in frontier markets, including some of the world's most fragile countries. Still, our investments generated record results in 2017. Profit that will be re-invested in other demanding and high-risk projects. In this way Norfund contributes to job-creation, economic growth and poverty alleviation. →

Working in some of the most challenging markets, I am proud to present an annualised return (IRR) since inception of six per cent measured in invested currency (nine per cent in NOK) on our portfolio. In 2017, IRR was 14 per cent (10 per cent in NOK). Our 2017 income statement reports a profit of almost 1,9 Billion NOK. These record high results are mainly due to realization of values in our hydropower investments, and to good performance and increased value of our financial institutions. For Norfund, profitability is a precondition for development, not the end in itself. We invest in viable businesses in poor countries to create employment and thereby contribute to reduced poverty. At the end of 2017, more than 292.000 people (of which 39 per cent are women) work in companies in our portfolio.

CYCLICAL UPTURN, SOME COUNTRIES LAG BEHIND

The global economy is experiencing a cyclical recovery, reflecting a rebound in investment, growth and trade. The broad-based cyclical upturn in 2017 is expected to be sustained over the next couple of years. According to the World Bank, growth in emerging and developing markets will increase from 4.3 per cent in 2017 to 4.5 per cent in 2018. Economic growth has also been strengthened in many low-income developing countries due to improved commodity prices. Ghana and Ethiopia are countries with especially high growth between five and seven per cent), while some of the largest economies in Africa, such as South Africa and Nigeria, lag behind with a growth of around 1 per cent in 2017.

20 MILLION JOBS NEEDED EVERY YEAR

Un- or underemployment is one of the greatest challenges in most developing countries and the key reason for poverty. In Africa, the population is set to double by 2050. This means that the world's poorest continent alone needs to create 20 million new jobs every year. To achieve this, Africa needs more Foreign Direct Investment (FDI). A key role for development finance institutions like Norfund is to pioneer and demonstrate such investment.

A POLITICAL TURN TO THE BETTER, THOUGH INVESTORS ARE STILL RELUCTANT

In Sub-Saharan Africa, several new governments are pursuing more investment-friendly policies. Angola, Ethiopia, Ghana and South Africa are typical examples. At the same time, local pension funds in countries such as Nigeria, Ghana, Zimbabwe and Kenya are increasingly willing to invest in the private sector in their own country.

However, international investors are still reluctant to turn towards developing markets, especially the poorest countries. FDI in developing countries is declining, and many Western banks and private investors are pulling back from sub-Saharan Africa.

To meet this challenge, the governments in Norway and several other countries are increasing the capital available to their Development Finance Institutions (DFIs). Last year, the Norwegian government expressed its intention to increase its annual capital allocation to Norfund by 50 per cent during this parliamentary term. They do this because they see the role of DFIs as experienced, long-term investors who are able to carry high risk and willing to share their expertise with other private investors. A role that is more important than ever for economic growth and poverty alleviation.

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.

RECORD HIGH INVESTMENTS IN 2017

In 2017, Norfund made record commitments of 3.6 billion NOK, of which 2.1 billion NOK were in renewable energy. This was mainly due to Norfund's taking full control of SN Power as Statkraft withdraw from Sub-Saharan Africa. Combined with the sale of all Norfund's shares in Statkraft IH Invest AS (hydropower assets in South America and South Asia), we will now be able to re-alllocate large sums of capital to Sub-Saharan Africa and selected countries in Southeast Asia.

During the last few years, Norfund has started to move carefully into small-scale and off-grid energy solutions. The rationale is that many local communities in Africa are unlikely to have grid access in the near future. New technology combined with new, viable business models make this an investable market. An example is the commitment in 2017 to provide capital to M-Kopa Solar – a leading provider of pay-go solar home systems to low income off-grid homes in East Africa.

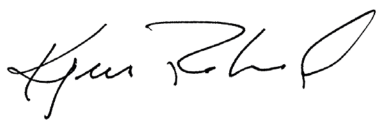
Another milestone was achieved in 2017 when we signed investment agreements with three export-oriented agribusiness companies in Sub-Saharan Africa. Verde Beef in Ethiopia and Nyama World in Malawi produce, process, and sell meat; and Neofresh is establishing and expanding papaya production in Mozambique. All three investments will contribute to increased export revenues for these countries. Norfunds investments contribute to increased productivity and local value creation, and to secured market access and professional support for smallholder farmers.

A RESPONSIBLE INVESTOR

Norfund is a responsible investor. We have zero tolerance for corruption and we set environmental, social and governance issues at the forefront in every investment. In 2017, Norfund continued to develop fruitful cooperation and knowledge sharing with several Norwegian NGOs. The recent investment in Somalia was facilitated by the cooperation with Utviklingsfondet, and the partnership with ZERO has contributed to a mutual better understanding of how our work can help address climate change.

After almost twelve years as CEO of Norfund, I have come to the conclusion that now is time to move on. I am pleased to pass the helm on after years of rapid portfolio growth and building skills, capabilities and scale in the Norfund organization. We have developed into an equity investor with deep sector skills. The portfolio has increased from NOK 3.7 billion in 2007 to NOK 20.4 billion in 2017 and the number of direct investments from 60 to 136. Our staffing has increased from 35 to 71 professionals, of which 20 are locally employed at our five regional offices. Norfund is well positioned for the next stage.

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

ROLE OF DEVELOPMENT FINANCE INSTITUTIONS IN A CHALLENGING WORLD

By Martin Wolf: Associate Editor and Chief Economics Commentator, Financial Times, London

Over the past generation, humanity has achieved remarkable progress in reducing poverty. Yet we need still more progress in the coming years. To achieve its goals, the world must use all the instruments at its disposal. Among these are the development finance institutions (DFIs).

The record of the past generation is extraordinary. According to World Bank data, 37 per cent of the world's population still lived on less than $1.90 a day (at purchasing power parity) in 1990. By 2015, this share was down to 10 per cent. In East Asia and Pacific, the ratio collapsed, quite incredibly, from 61 to 4 per cent. In South Asia, it fell from 51 to 14 per cent. Even in Sub-Saharan Africa, it fell from 57 to 35 per cent.[1]

Fortunately, we know something about how growth is to be achieved: it depends on sensible policies, decent institutions, and adequate finance.

Things are getting better. Yet big challenges remain

This reduction in poverty was an element in the Millennium Development Goals (MDGs). It was not the only one, however. The proportion of undernourished people in developing countries has fallen from 23 per cent in 1990-92 to 13 per cent in 2014-16. Primary school enrollment worldwide reached 91 per cent in 2015, up from 83 per cent in 2000. In southern Asia, 74 girls were enrolled in primary school for every 100 boys in 1990; today the ratio is 103 girls to 100 boys. Since 1990, the global mortality rate for children under five has halved; the maternal mortality rate has fallen by 45 per cent over the same period. Huge progress has also been made against HIV, malaria and tuberculosis. Of the 2.6bn people who gained access to improved drinking water since 1990, 1.9bn had access to piped water. Remarkably, the world had 7bn mobile phone subscriptions in 2000, a tenfold increase over 2000.[2]

In all, things are getting better. We must not forget this. Yet big challenges remain. Some 900m people still live in absolute poverty, the worst affected region being Sub-Saharan Africa, where 35 per cent of the population, a total of 389m, still lived on less than $1.90 a day in 2015. Gender inequality remains pervasive. The threat of climate change is rising. Conflict (much of it triggered by poverty and ecological degradation), had forced 60m people out of their homes in 2014.

The world committed itself in 2015 to 17 Sustainable Development Goals (SDGs), which are even more ambitious than the MDGs. Among these are to end poverty, eliminate hunger, ensure healthy lives for all, provide clean water and sanitation for all, deliver access to affordable and sustainable energy for all, promote sustained and sustainable economic growth for all, build resilient infrastructure, reduce inequality within and among countries, combat climate change, conserve the oceans and promote the sustainable use of terrestrial ecosystems.[3]

Rapid, inclusive and sustainable growth is needed

All this, moreover, is to happen by 2030. How is all this to be achieved? One thing we know for certain, from long experience and the progress towards the MDGs: a necessary condition for achieving the SDGs is economic growth. It was the rapid growth in real incomes per head of east Asia that made it possible for this region to make rapid progress. It was the relatively modest growth of Sub-Saharan Africa that delivered more disappointing results in that region.

So, what is needed is rapid, inclusive and sustainable economic growth. Fortunately, we know something about how growth is to be achieved: it depends on sensible policies, decent institutions, and adequate finance. All three are necessary; together, they are sufficient. This does not mean that they need to be perfect. In poor developing countries policies are usually far from fully effective, institutions weak and finance underdeveloped. But even far from perfect policies, institutions and finance can start the process off. Then, as the country develops, all should improve.

Experience also shows that, although government plays an essential role in creating the conditions for development, it is the private sector that drives growth and, still more, employment.

Private sector drives growth and employment

Experience also shows that, although government plays an essential role in creating the conditions for development, it is the private sector that drives growth and, still more, employment. The private sector creates more than nine in ten jobs in low and middle income developing countries.[4] This central role of the private sector is now almost universally understood.

That is also where development finance institutions – public institutions that invest in private sector projects come in. This is especially so in the case of poor countries with weak savings, inadequate financial institutions and limited access to foreign finance, especially risk capital. Aid, public sector loans and private investment are complementary.

Yet, while official development assistance (ODA) has been stagnant in real terms since 1990, activity of DFIs has been growing in scale and importance. In 2014, for example, net ODA was $140bn, while DFIs committed $65bn. The combined portfolio of European DFIs reached €36bn at the end of 2015. This had tripled over the previous decade. Private investors also typically match these commitments between three and four times over.

They [DFIs] will need to do far more in the years ahead. Both policymakers and the public need to understand and support their activities.

The role of Development Finance Institutions

The aims of the European DFIs are job creation, growth and private sector development. Their direct impact is inevitably limited, against the scale of the challenges. The European DFIs claim, for example, to generate 4m direct jobs. While this is a large number, it is insignificant in the context of the number of jobs that must to be created.

Yet lending by DFIs aims to be additional and, still more important, catalytic: it encourages extra funding by private sources, by making these investors, especially foreign ones, feel safer; it promotes sustainability; and, above all, it can lead the way for the private sector as a whole. An important advantage of the DFIs is that they are sources of patient risk capital and longer-term finance. This allows them to support activities with long-term time horizons, such as investment in infrastructure (especially in the power sector).

The world has made much progress towards eliminating extreme poverty and many other symptoms of mass destitution. But it has a long way to go to achieve the ambitious goals for sustainable development. It will need to use many instruments. Given the central role of the private sector in development, the DFIs are particularly important. They have done much already. They will need to do far more in the years ahead. Both policymakers and the public need to understand and support their activities. ■

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1 Development Goals in an Era of Demographic Change, Global Monitoring Report 2015/16, (Washington: World Bank, 2016) p.4.
2 The Millennium Development Goals Report 2015 (New York: United Nations, 2015) pp.4-7.
3 Sustainable Development Knowledge Platform, https://sustainabledevelopment.un.org/. Also Jeffrey D. Sachs, The Age of Sustainable Development (New York: Columbia University Press, 2015)
4 Investing to Create Jobs, Boost Growth and Fight Poverty: European Development finance for private sector projects in low and middle income countries, European Development Finance Institutions, Flagship Report 2016.

BOARD OF DIRECTORS

Norfund's Board of Directors is appointed by the General Assembly. The General Assembly is constituted by the Norwegian Minister of International Development 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 Fund's statutes. The Board defines Norfund's strategy and approves individual investments exceeding specified thresholds. Other investment decisions are delegated to the CEO.

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.

Left to right: Finn Jebsen, Kristin Sandtorv, Martin Skancke, Kristin Clemet, Felix Barwinek, Tove Stuhr Sjøblom, Per Kristian Sbertoli, 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 KRISTIAN 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.

TOVE STUHR SJØBLOM

Director (since 2017)

Ms Sjøblom is geophysicist by training with broad leadership experience from Hydro and Statoil. She has held positions as Asset Manager for the Ormen Lange project, SVP for Statoil's Sub-Sahara Africa assets, Managing Director of Statoil's Aberdeen office and been a part of the Executive Committee as Chief of Staff. She is now Managing Director of The Oslo Energy Forum, and affiliate partner of Systemiq.

KRISTIN SANDTORV

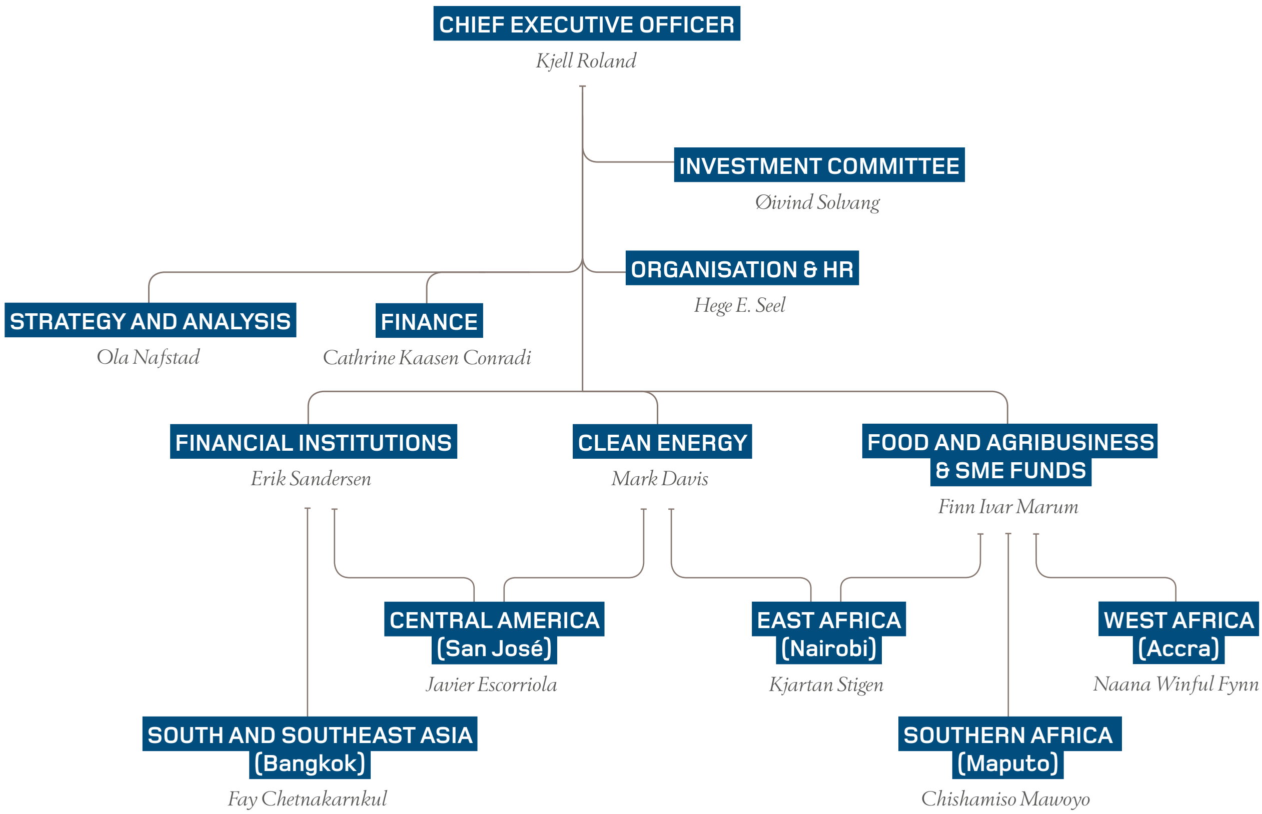
Director (Norfund Employee elected since 2017)

Ms Sandtorv joined Norfund in 2014 and is an Investment Manager in the Financial Institutions team. She has previously worked at J.P.Morgan and SN Power. Ms Sandtorv has a MSc in Management from the HEC Paris.

FELIX BARWINEK

Director (Norfund Employee elected since 2017)

Mr Barwinek joined Norfund in 2013 and is an Investment Manager in the Food & Agribusiness team. He has previously worked at Verdane Capital Advisors, The Financial Times Group, and UNIDO. He has a MSc in International Strategy and Economics from the University of St Andrews.



NORFUND'S ORGANISATION

Investment expertise
Norfund has the country's largest specialist team investing in developing countries. 45 of Norfund's 71 employees work directly with investments and follow projects through all phases of the investment process. Norfund has four sector-based departments: Food and Agribusiness, SME Funds, Financial Institutions, and Clean Energy.

Country presence
Twenty-one Norfund staff members are employed across five regional offices (Nairobi, Maputo, Accra, San José and Bangkok) to ensure local proximity and knowledge. Only two of tem are expats.

Development expertise and administrative support
Norfund has 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 18). The Committee acts as an advisor to the CEO, and is chaired by an external expert to ensure the independence of its assessments. Representatives from Norfund's management team and some internal staff are also included in the Committee. ■

AN ACTIVE, STRATEGIC MINORITY INVESTOR

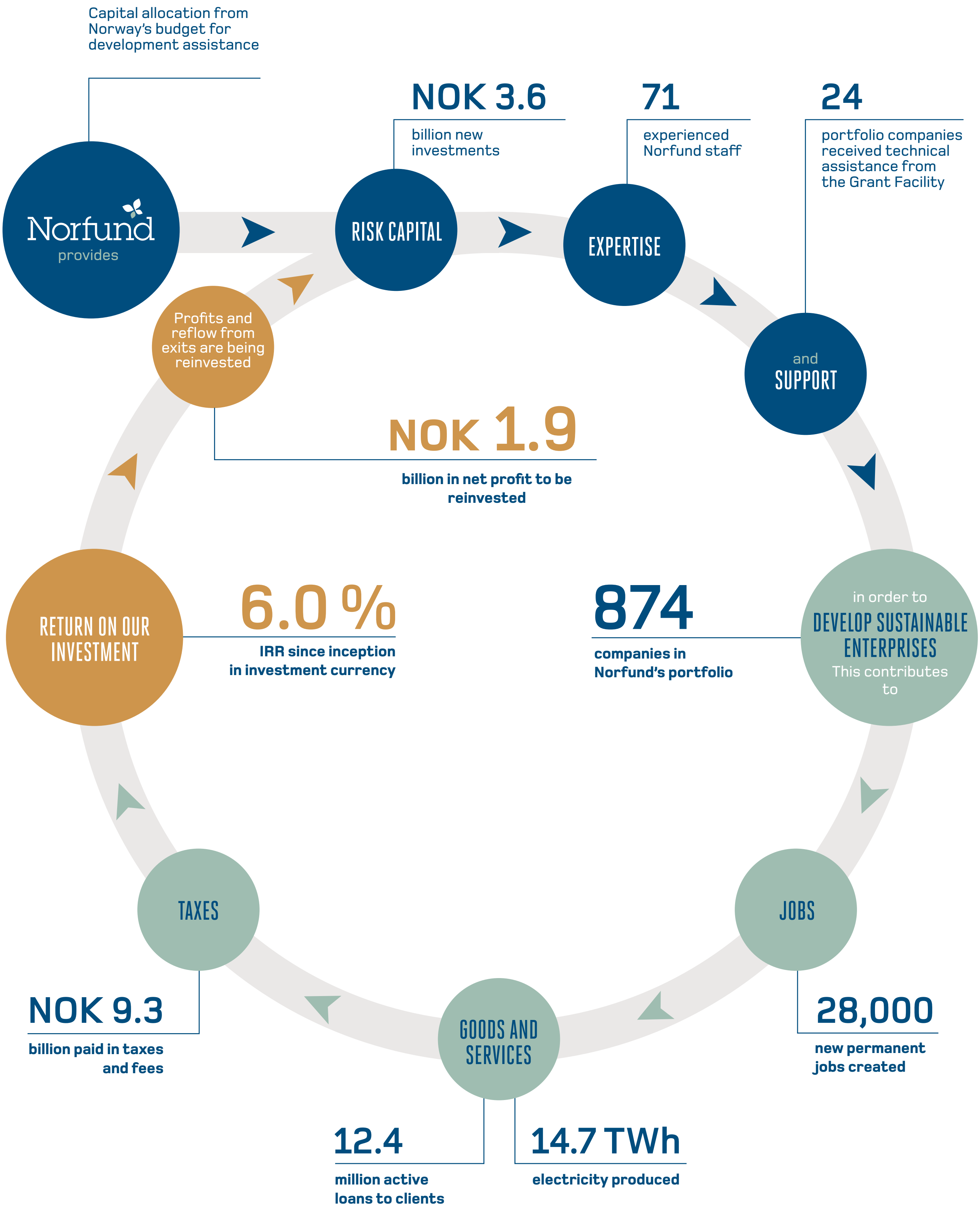
INVESTING IN SUSTAINABLE ENTERPRISES

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

Norfund's mandate is to establish viable, profitable enterprises in developing countries that would not otherwise be initiated because of the high risk involved.

Norfund aims to invest in some of the world's most challenging sectors and countries - in countries where the private sector is weak, jobs are scarce and where we can have the greatest impact.

The graphic on the next page illustrates how Norfund works and how the investments contribute to jobs, important goods and services, and to increased taxes. An investments is exited at the time when Norfund's involvement is no longer additional. The capital and profit generated are then reinvested in new enterprises with greater need for risk capital. ■



Capital allocation from Norway's budget for development assistance
Norfund provides
NOK 3.6
billion new investments
RISK CAPITAL
71
experienced Norfund staff
EXPERTISE
24
portfolio companies received technical assistance from the Grant Facility
and SUPPORT
in order to DEVELOP SUSTAINABLE ENTERPRISES This contributes to
874
companies in Norfund's portfolio
JOBS
28,000
new permanent jobs created
GOODS AND SERVICES
14.7 TWh
electricity produced
12.4
million active loans to clients
TAXES
NOK 9.3
billion paid in taxes and fees
RETURN ON OUR INVESTMENT
6.0 %
IRR since inception in investment currency
Profits and reflow from exits are being reinvested
NOK 1.9
billion in net profit to be reinvested

East Africa Flower Invest, a new consortium exporting flowers from Kenya and Ethiopia.

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 capital is scarce and development impacts are strong.

PRIORITY COUNTRIES:
Norfund's main priority investment region is Sub-Saharan Africa. We also invest 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:

- Sub-Saharan Africa > 50 %
- Least Developed Countries > 33 %

PRIORITY SECTORS:
Norfund invests in *three sectors:* 1) clean energy[1], 2) financial institutions and 3) food and agribusiness. 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:

- Renewable energy investments[1] shall over time account for 50 % of the capital contributed by owner.

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 SME growth is neccessary for job creation.

GREENFIELD INVESTMENTS:
A part of Norfund's portfolio is invested in start-up enterprises – so-called "greenfield investments". Starting new enterprises is risky and attracting capital can be challenging. Norfund accepts political and financial risks, but we

avoid technology risks. In other words, Norfund prefers to invest in new companies that are based on established, well-functioning technologies.

KPI for Norfund's portfolio:
- Greenfield Investments > 15 % of three years moving average of annual commitments

PRIORITY INSTRUMENTS:
Norfund provides capital 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 investor 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 for our investments.

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

INVESTMENT EXPERTISE
Norfund constantly builds and develops expertise needed to invest and manage risks in order to succeed as an 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 employees in and from our target countries and regions. As an active owner, we recruit 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 (see Norfund's exits in 2017 on page 33). ■

[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.

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 the clean energy space, project development is costly and takes time. Large-scale, complex projects involve multiple stakeholders and local authorities. However, in least developed countries potential renewable energy projects are often non-existing. In such cases, Norfund is willing to 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 responsible investor. This implies carefully scrutinizing potential projects prior to investment as well as regular engagement, monitoring and active involvement in value creation after the investment is 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 below 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.

Prospects are screened based on e.g. business plans, the potential partners, environmental and social impact, 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

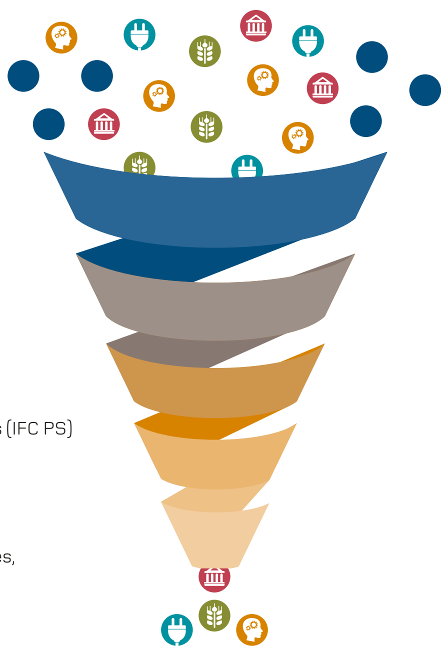
IMPORTANT CONSIDERATIONS

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

Confirmation 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 75 active prospects under consideration; 34 of these were added during 2017.

Clearance in Principle (CIP)
At year end, 29 potential investments had a CIP; 15 of these were CIPed during 2017.

Final Approval (FA)
At year end,15 potential investments had a FA; 11 of these received the FA during 2017.

Investments
In 2017, Norfund invested in 19 new companies and made 13 follow-on investments in exisiting portfolio companies.

Investment Committee and, for the largest and most risky prospects, to Norfund's Board.

After a CIP has been given, a due diligence process is undertaken. This covers amongst others the company's financial viability (including market conditions and relevant regulations); its willingness to accept Norfund's requirements; Environmental-, social- and governance (ESG) related risks, legal issues 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 in environmental and social risk management for investors.[2] In 2017, Norfund performed due diligence to investigate 36 potential investments.

Provided that 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 profitable, well managed, and remain compliant over time. We regularly assess the activities of our investee companies from a shareholder's and/or lender's perspective. We actively follow up that 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 take an active role in value creation and 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 2017 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 development effects of our investment activities. In 2017, Norfund had 42 on-going business support interventions, of which 21 were initiated during the year. Of the new interventions, 52 per cent were related to ESG and enterprise improvements. 62 per cent were in Sub-Saharan Africa and 55 per cent were in Least Developed Countries. In total, Norfund spent 15.4 million NOK on business support interventions in 2017. ■

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. Arise, Globeleq, SN Power and KLP Norfund Invest are examples of successful platforms.

[2] 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 partners, and always as a minority investor. By being a significant minority investor, Norfund can claim a board position and have an influencial role, while supporting local ownership and encouraging other investors to invest in developing countries.

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 analyse and evaluate potential partners. The partner's areas of expertise and knowledge, previous and existing positions and relationships, other roles in the society and reputation are among the factors that are carefully considered.

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

Co-investing this way enables Norfund to leverage additional capital and to provide the industrial and local knowledge needed for each investment. The next page gives an overview of important Norfund strategic partners.

OFFSHORE FINANCIAL CENTERS

As a minority investor, Norfund's investments are sometimes 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 may be neither effective nor predictable. This is a risk that is too high for many investors. It is therefore sometimes necessary to utilise 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. ■

Ananta Apparels Ltd is a leading garment manufacturer and exporter in Bangladesh.

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. Today, Norfund has a number of strategic investments in defined companies ("investment platforms") which both manage a set of assets and are vehicles for growth and capital deployment. Each investment platform is designed to manage investments within a defined business area. Below is an overview of investment platforms and partners of specific strategic importance for Norfund's goal achievement:

INVESTMENT PLATFORMS

Globeleq is a leading producer of gas, solar 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 was established in 2016 as a joint venture between Rabobank, FMO (the Dutch development bank) and Norfund. The aim of Arise is to strengthen the financial sector in Africa through large minority equity investments in local banks and thereby to contribute to financial inclusion. While Norfund continues to offer loans directly to African financial institutions, equity investments in African banks are now primarily done by Arise.

The hydropower production company **SN Power** was established in 2002 by Norfund and Statkraft. The company is one of Norfund's most important investment platforms in emerging markets. It contributes to economic growth and poverty reduction through enabling increased access to renewable, stable energy for businesses in poor countries.

In 2017, Statkraft and Norfund agreed to swap shares in their jointly-owned international hydropower assets. According to the agreement, Norfund sold all its shares in Statkraft IH Invest AS (SKIHI) to Statkraft, and Statkraft sold its shares in SN Power to Norfund. This gave Norfund 100 per cent ownership of SN Power and enabled the hydropower company to focus more strongly on its energy investments in Sub-Sahara Africa and in specific countries in South East Asia.

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. As of 2016, IFU (the Danish development finance institution) also became a partner and NMI became the Nordic Microfinance Initiative. Uniting private and public capital, the company provides poor people in developing countries with access to financial services. The objective is to make NMI a leading Nordic player in the field of microfinance.

OTHER STRATEGIC PARTNERS

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 financial institutions and renewable energy projects in developing countries, mainly in Africa.

Scatec Solar: Norfund has a long-term strategic cooperation with Scatec 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 poor countries need and what the private sector can offer.

Methods for measurement and documentation of additionality of Norfund's investments is an often discussed topic among Norfund's stakeholders. In this chapter we aim to describe how we define additionality and document how and why Norfund's investments are additional.

The value of foreign direct investments (FDI) to low- and lower middle-income countries has increased rapidly over the past decades and now exceeds the value of official development assistance (ODA). However, the percentage of global foreign direct investments to low-income countries remains small and the previous increase has now stagnated. Many private investors are hesitant to invest in the poorest countries because of the high risks involved and inadequate information about such investment environments.

Additionality is an essential feature of Norfund's investment processes. We are additional by focusing strategically on countries and sectors in which capital is scarce, and we scrutinise our role in each investment. A comparison of our investment activities with global FDI flows shows that Norfund takes higher risks than most other investors.

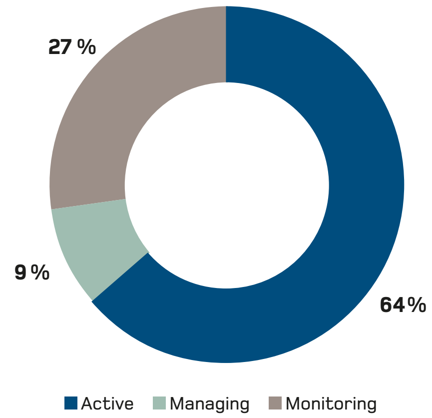
Targeting the poorest countries
Economic growth depends particularly on private sector investments. In 2017, 91 per cent of Norfund's investments were in low- and lower middle-income countries. In 2016, the corresponding figure for global FDI flows was only 6 per cent.

Investing in high risk countries
Sovereign credit ratings indicate the risk level of a country's investing environment. Credit ratings below investment grade usually deter investors. In 2017, 66 per cent of Norfund's investments went to non-investment grade countries or countries without a credit rating; the corresponding figure for FDI in 2016 was just 9 per cent.

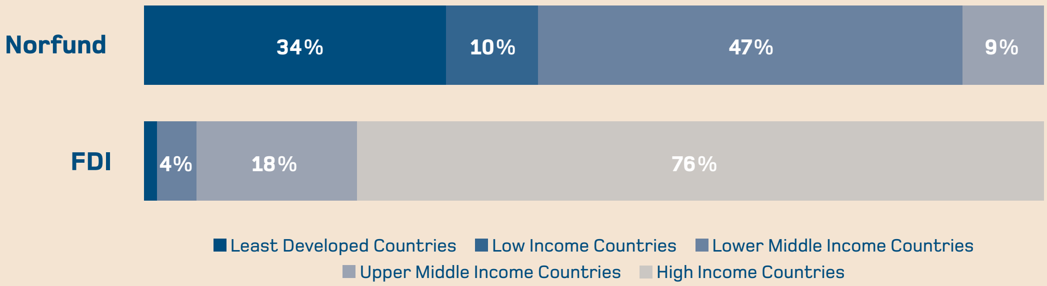
Operating in difficult business environments
Norfund invests a large proportion of its investment funds in companies that operate under difficult regulatory environments. In 2017, 75 per cent of Norfund's investments were in countries in the lower two quartiles of the World Bank's 'Doing Business' rating. Private investors, in contrast, prefer to invest in markets characterised by clear, coherent rules and regulations. The share of global FDI that went to the lower two quartiles was 10 per cent in 2016.

Value additionality
Norfund plays an active role as an owner in portfolio companies. We contribute expertise, help to establish sound corporate governance, and set high standards. We concentrate our resources where we can contribute most to value creation and development impacts. In 2017, we categorised our portfolio into three groups: active, managing and monitoring. Each describes our level of engagement in the portfolio companies. In 2017, 64 per cent of Norfund's investments were categorised as 'active ownership investments' in which we take an active or lead role in determining the game plan. In the managing portfolio group, accounting for 9 per cent of 2017 investments, Norfund is aligned with the lead investor and maintains an asset management liason and monitoring role. ■

ACTIVE ROLE IN INVESTMENTS
Share of commitments by engagement level

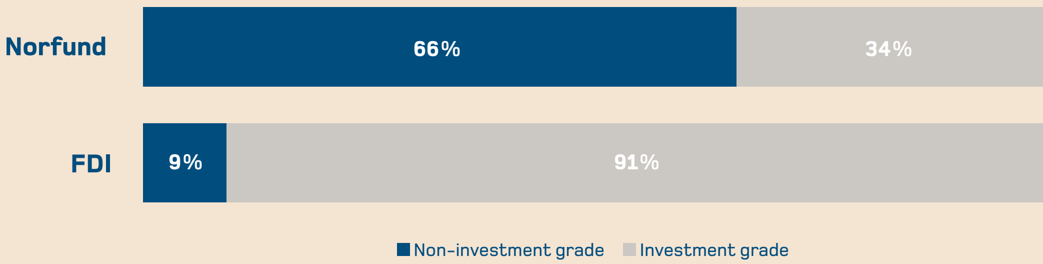


TARGETING THE POOREST COUNTRIES
Share of commitments by DAC classification



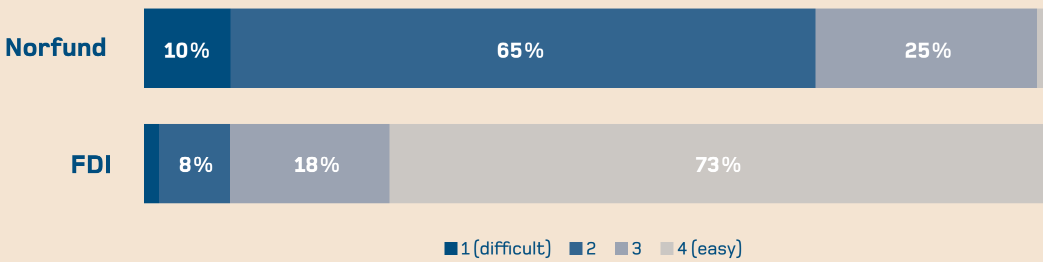
The DAC's list of Official Development Assistance Recipients includes low- and middle-income countries and territories eligible to receive ODA. Classification as a low- and middle-income countries is based on published World Bank data of gross national income (GNI) per capita. The list also includes Least Developed Countries, as defined by the United Nations.

INVESTING IN RISKY MARKETS
Share of commitments by credit rating



Credit rating agencies, such as Standard & Poor's, issue rating grades that range from AAA (prime) to D (in default). Ratings below BBB- are considered non-investment grades or 'junk', and these 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.

OPERATING IN DIFFICULT BUSINESS ENVIRONMENTS
Share of commitments by Doing Business quartile



The World Bank's 'Doing Business' project measures regulations that apply to small- and medium-sized companies, and ranks economies based on the ease of doing business. A high ease ranking indicates that a country's regulatory environment is conducive to starting and operating local firms. For the purposes of our analysis, the ranked countries are divided into four quartiles, ranging from 1 (most difficult) to 4 (easy).

DEFINING ADDITIONALITY

According to the OECD, 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.

An investment is said to be additional in value if it offers non-financial value that the private sector does not offer and which will lead to better development outcomes. This includes providing knowledge and expertise, board participation, and the promotion of social and environmental standards.

Sources: World Bank, World Development Indicators, IHS sovereign credit ratings (medium-term) and World Bank, Doing Business.


VALLEY

REPORT ON OPERATIONS

PORTFOLIO AND RESULTS

Year 2017

PORTFOLIO

By year end 2017, Norfund had committed investments totaling NOK 20,460 million in 136 projects. Many of the new investments made in 2017 were done in the world's least developed countries (LDCs).

20.4
billion NOK total committed

3.6
billion NOK committed in 2017

1.5
billion NOK allocated from MFA in 2017

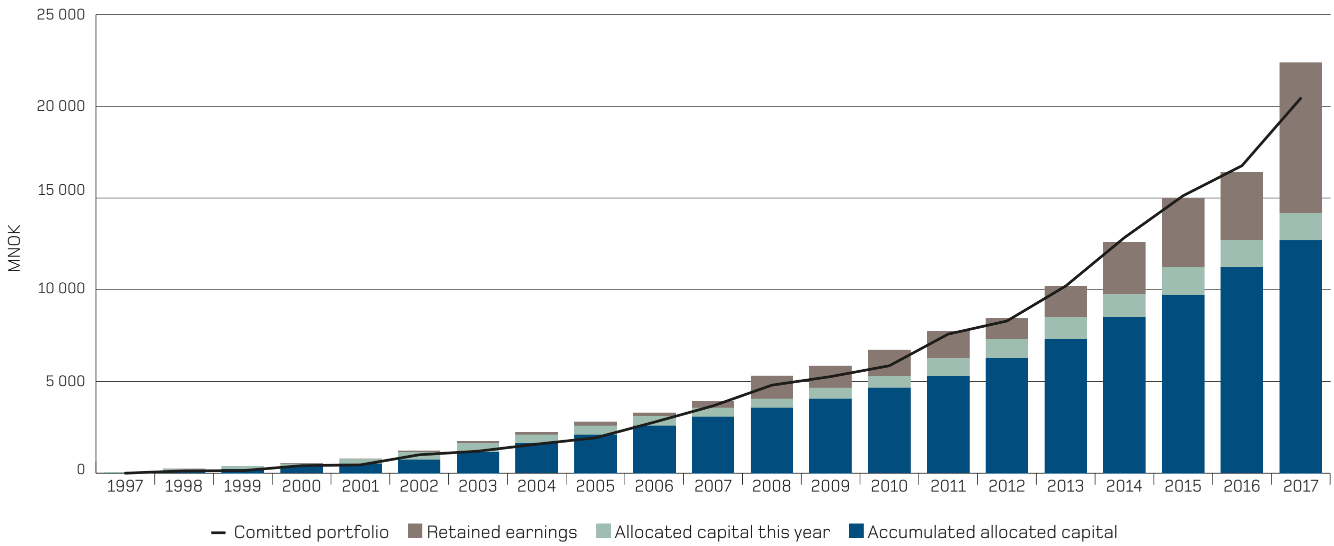
136/738
companies received direct / indirect investments from Norfund

19
new investments and 14 follow on investments in 2017

A YEAR OF RECORD HIGH INVESTMENTS

Norfund's yearly investment activity has increased significantly, with 2017 being "all time high". The single largest investment in 2017 was in SN Power. This was a result of the swapping of shares between Statkraft and Norfund (see page 21). The graph below shows how Norfund through good returns and annual capital allocations from Norway's budget for development assistance has grown to become a significant investor in our markets. Since inception, the investments have in total generated 8,1 billion NOK in retained earnings which are being reinvested in new projects in poor countries that are in great need of risk capital.

NORFUND PORTFOLIO SINCE INCEPTION

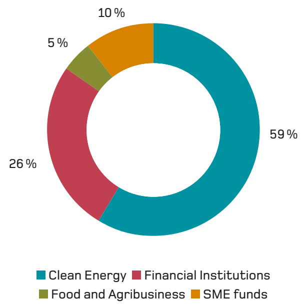


	INVESTMENTS IN 2017	TOTAL PORTFOLIO

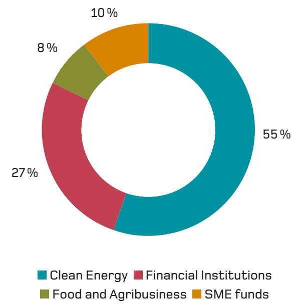
PRIORITY BUSINESS AREAS
In 2017, 59 per cent of all new commitments were in the clean energy sector. This is mainly due to the SN Power transaction (see page 21).

Also in Norfund's total portfolio, clean energy is the single largest component.

INVESTMENTS IN 2017



TOTAL PORTFOLIO



PRIORITY TO LEAST DEVELOPED COUNTRIES (LDCS)
The need for DFI investments is high in LDCs because these countries struggle to attract investment capital. In 2017, measured in numbers most of the new investments was done in LDCs. Measured in commited amounts, 34 per cent of all new investments were in LDCs, while the per centage was 91% of all agribusiness commitments in 2017.

34 %
NEW COMMITMENTS IN LDCS

36 %
TOTAL PORTFOLIO IN LDCS

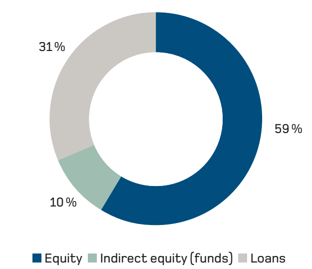
HIGH SHARE OF GREENFIELD INVESTMENTS
Employing capital to new physical facilities, power plants, startups and first generation funds are classified as greenfield investments. Financing greenfields can be extremely challenging in developing countries and have high risk. However, greenfield investments may often be particularly important to development in low-income countries.

38 %
NEW COMMITMENTS IN GREENFIELD

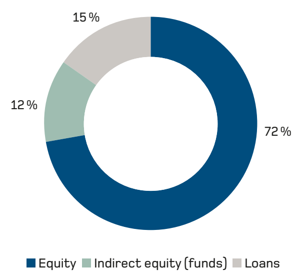
36 %
TOTAL PORTFOLIO IN GREENFIELD

PRIORITY TO EQUITY
Access to equity capital is particularly important to companies in developing countries as this often is the scarcest type of capital needed. Providing equity is Norfund's preferred instrument as it strengthens investees' capital structure and enables Norfund to take a role as an active strategic owner.

INVESTMENTS IN 2017



TOTAL PORTFOLIO



RESULTS

Return on portfolio (IRR) was higher this year than in the previous eight years. Due to significant annual variations, returns since inception give the best understanding of the long-term contribution of Norfund's investments.

Expressed in investment currency, IRR is now calculated to be 6.0 per cent since inception. Calculated in Norwegian kroner, IRR is 9.3 per cent.

For 2017, IRR expressed in investment currencies was record high at 14.0 per cent, while it was 9.8 per cent in Norwegian kroner. The explanation for the lower figures calculated in Norwegian kroner compared to the figures in investment currency in 2017 is mainly due to weakening of the US dollar.

The explanation for the high return on investment compared to previous years is mainly due to the SN Power/ Statkraft Hydro Invest (SKIHI) transaction (see page 21). The sale of Norfund's share in SKIHI is an example of the considerable positive unrealised values in the Norfund portfolio.

In 2017, the Food and Agribusiness investments performed better than in previous years. This lifted the Food and Agribusiness investments from -5,2 per cent return in 2016 till 4.1 per cent return in 2017. However, the return since inception is still at -5.2 per cent as this has been a challenging high-risk sector.

The investments in Financial Institutions have performed well for several years. The 7.3 per cent return since inception is due to general good performance and positive valuation of the banks, microfinance institutions and other financial institutions in the portfolio.

6.0%

IRR SINCE INCEPTION

14%

IRR IN 2017

"The positive 2017 results reflect both the unrealised values in Norfund's portfolio as well as the generally low losses of our investments"

Kjell Roland, CEO Norfund

Internal Rate of Return (IRR) in investment currency	Since inception 1997–2017	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Financial Institutions	7.3	5.8	7.3	12	6	4	9	6	9	6	9
Clean Energy	7.0	19.5	2.6	2	-9	-4	12	10	11	3	25
SME Funds	4.6	-4.0	-0.4	0	-3	12	9	3	10	5	4
Food and Agribusiness	-5.2	4.1	-5.2	-4	-10	-4	-10	2	7	12	10
Total	**6.0**	**14.0**	**2.9**	**3.5**	**-6**	**-1**	**10**	**8**	**10**	**4**	**21**

NORFUND'S AUDITED RESULTS FOR 2017

Profit & Loss	2017	2016
Interest	123	137
Realized gains	318	201
Dividends received	945	240
Other project income	13	23
Share of profit associated companies	650	–173
Total operating income	**2 049**	**428**
Payroll expenses	–94	–91
Other operating expenses	–79	–62
Total operating expenses	**–173**	**–153**
Write-downs on investments	2	–200
Operating profit in investment currency	**1 878**	**75**
Net financial items	**13**	**–32**
Tax	–20	–5
NET PROFIT IN INVESTMENT CURRENCY	**1871**	**38**
Exchange rate effects portfolio	8	25
Profit	**1 879**	**64**

Assets(TNOK)	31.12.2017	31.12.2016
Total fixed assets	**13 843**	**6 199**
Other equity investments	4 189	7 368
Loans	1 933	1 995
Other current assets	151	159
Cash and deposits	2 663	2 385
Total current assets	**8 936**	**11 907**
Total Assets	**22 785**	**18 105**

Equity & liabilities (TNOK)	31.12.2017	31.12.2016
Total Equity	**22 374**	**16 410**
Total allowances for liabilities	**26**	**27**
Grant Facility	**24**	**4**
Total short term debt	**361**	**1 665**
Total Equity and liabilities	**22 785**	**18 105**

COMMENTS TO THE 2017 RESULTS

- During 2017 Norfund bought 50 per cent of SN Power which at year end was a fully owned subsidiary. In parallel we sold our shares in Statkraft International Hydro Invest (SKIHI). Norfund had a realized gain of NOK 363 million from the sale of shares. The book value of SN Power increased, also on the first 50 per cent of the shares. The book value 31.12.2017 is based on the equity value in the transaction.

- The formal transfer of shares in Real People, Equity Bank and NMBZ to Arise BV went through in 2017. The transfer resulted in balance sheet reductions of NOK 1,6 billion as both equity investments and short-term debt are reduced.

- Norfund increased revenues both on dividends, realized gains and profits from associated companies. SKIHI paid dividends of NOK 832 million and other equity investments like Scatec Solar, Aureuos Africa Fund, KLP NorfinInvest, Evolution Fund and The African Helath fund paid dividends during the year. Net profits from associated companies also increased and contributed with a profit of NOK 650 million in 2017.

- 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 weakening of the US Dollar towards Norwegian Kroner has had a negative effect on the value of many of the loans Norfund has provided to banks and other financial institutions (exchange rate effects portfolio).

- In 2017 Norfund had net write-ups of NOK 2 million as a combination of this year's impairments, reversed previous write-downs and currency effects.

- Norfund's total Assets was NOK 22.8 billion in 2017 compared to NOK 18,1 billion in 2016. Fixed financial assets, which is the shareholdings in the associated companies and SN Power, was NOK 13.8 billion in 2017. The other equity investments decreased from NOK 7.4 billion to NOK 4.2 billion mainly due to the sale of shares in SKIHI and the transfers of assets from Norfund to Arise BV. Bank deposits amounted to NOK 2.7 billion at the end of 2017.

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

DEVELOPMENT EFFECTS

Sustainable enterprises drive economic growth and contribute to development by creating jobs and increasing government revenues. In 2017, our investees hired 28.000 new workers and paid NOK 9.3 billion in taxes and fees.

Each year, Norfund collects and monitors data on the key development effects of our portfolio companies. In 2017, we collected data from more than 700 companies. Over 80 per cent have reported data for two years or more, and this enables us to monitor their progress.

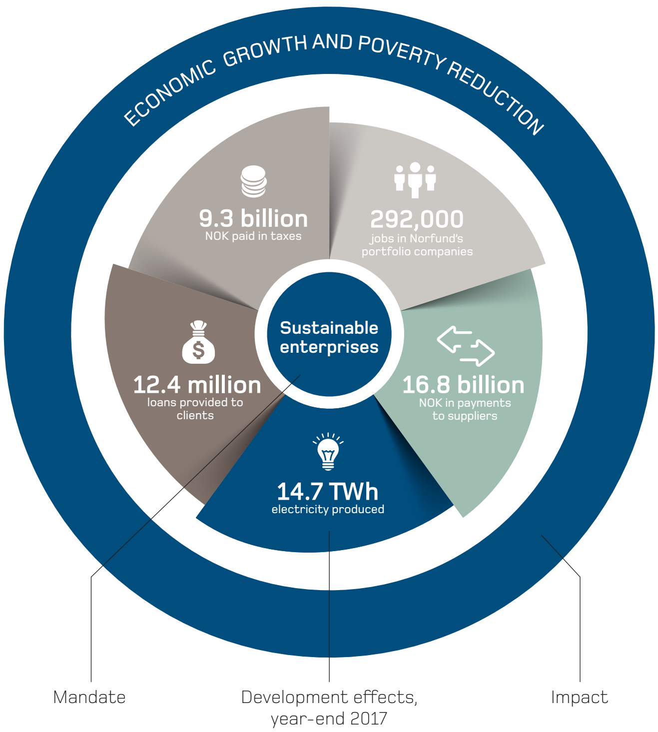
JOB CREATION THROUGH MULTIPLE CHANNELS

Jobs are vital to reducing poverty. They provide income and benefits to people and offer opportunities to improve knowledge and skills. Jobs are created directly in Norfund's portfolio companies, in their supply chains, and through the goods and services the companies provide:

- By the end of 2017, 292,000 people were employed in the companies in which we have invested, either directly or through funds. Women accounted for 39 per cent of those employed. In the companies with two consecutive years of reporting, the total number of permanent jobs increased by 28,000 between the end of 2016 and the end of 2017. Over 40 per cent of these enterprises increased the number of people they employed in this period.

- By buying goods and services from other enterprises, Norfund's investee companies contribute indirectly to business growth and job creation. In 2017, our investee companies purchased goods and services worth NOK 16.8 billion from local suppliers. More than half of the enterprises reported increased local purchases in 2017, compared to 2016.

- Norfund's investments also contribute to growth by reducing critical obstacles to the development of other enterprises. Unreliable access to electricity, for example, is a major obstacle to growth and job creation in the poorest countries. Surveys conducted by the World Bank report that 79 per cent of enterprises in Sub-Saharan Africa experience regular electrical outages. The lack of a stable electricity supply is a major operational constraint for 40 per cent of firms in this region. The energy companies in Norfund's portfolio are helping to reduce this obstacle and, in 2017, produced a total of 14.7 TWh of electricity.



- Providing access to finance helps us to support enterprise growth. By December 2017, the financial institutions in which we have invested had issued 12.4 million loans to customers. Institutions with two consecutive years of reporting increased the total number of issued client loans by 7 per cent.

INCREASING TAX REVENUES

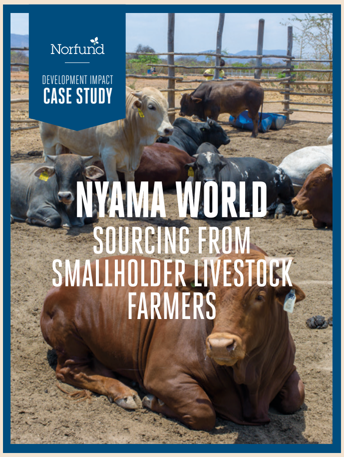
Profitable companies pay taxes to governments. This increases the tax base in the countries in which these companies operate, enabling governments to spend more on public services that benefit the poor directly, such as health and education. In 2017, Norfund's investees paid NOK 9.3 billion in taxes and fees. ■

To see an overview of the taxes paid per country, visit norfund.no/our-impact/tax-revenues/

DEVELOPMENT IMPACT CASE STUDIES

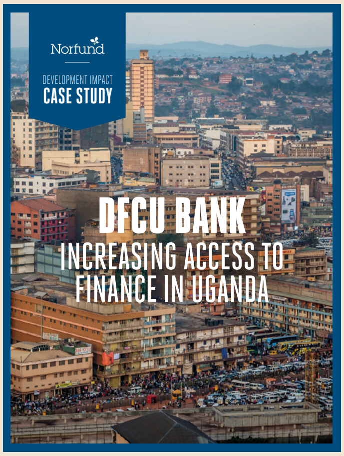
Nyama World
SOURCING FROM SMALLHOLDER LIVESTOCK FARMERS

Commercialising smallholder farms, increasing agricultural diversification, and promoting exports are key agricultural priorities for the government of Malawi. Norfund is financing the expansion of Nyama World, a domestic brand of high-quality meat which is sourced, produced and processed in Malawi. Nyama World increased its staff by 19 per cent in 2017, and is helping to increase the income of the 5,000 smallholder livestock farmers who are taking part in its Bonsmara cattle cross-breeding programme.



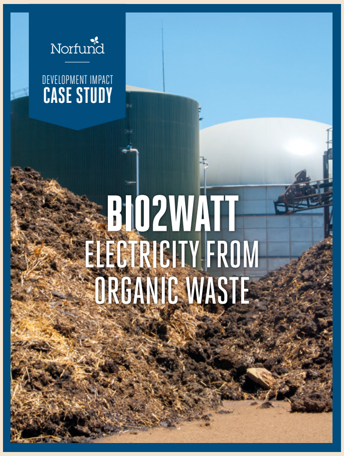
DFCU Bank
INCREASING ACCESS TO FINANCIAL SERVICES IN UGANDA

Micro, small and medium enterprises play an important role in Uganda's growth strategy, but their development is hampered by inadequate financial services. DFCU is a Ugandan bank which offers a variety of products tailored to the needs of such enterprises. Norfund's investments, expertise and technical support have supported the bank, helping it to become a sound and sustainable financial institution. During Norfund's investment period, the bank increased its customer loans by 718 per cent, hired more than 500 new employees, and paid USD 28 million in corporate income taxes.



Bio2Watt
ELECTRICITY FROM ORGANIC WASTE

Energy constraints are impeding South Africa's economic growth. The Bio2Watt plant is the first industrial scale biogas waste-to-energy operation in South Africa. Norfund provided project development financing, one-third of the equity capital required, and played an instrumental role in structuring the deal. The 4.4 MW plant is helping to reduce both the nation's electricity deficit and the amount of landfill waste in the country. Bio2Watt has created a total of 60 new jobs – at its plant, and in other external feedlot and waste companies. ■



» To read the full case studies, visit
norfund.no/our-impact/case-studies/

GENDER EQUALITY

Globally, fewer women than men participate in the formal economy, women earn less than men, and have fewer assets and economic opportunities. Norfund is committed to supporting the economic empowerment of women, and we follow Norway's foreign and development policies and guidelines on women's rights and gender equality.

Norfund's strategy for gender equality and women's economic participation has three objectives:

1. Promote equal opportunities for men and women
2. Encourage female participation in management and on corporate boards
3. Support women's enterprises and self-employment

Norfund is committed to addressing gender equality in our own organisation, in our investments, and through our grant interventions and external communications. In 2017, Norfund implemented several initiatives to promote gender equality.

TAKING STOCK AND RAISING AWARENESS
Each year, we collect data on the gender balance of our portfolio companies. Gender balance varies in different business areas, and data shows that financial institutions and funds typically have a better gender balance than the energy and agribusiness sectors.

In 2017, Norfund benchmarked data from our investee companies in energy, financial institutions and funds and compared these to global trends in these sectors. The benchmarking exercise showed that the gender balance in our investee companies is either the same as the average level in these sectors, or better.

Workshops were held in Norfund's investment departments to discuss barriers to women's participation and ways Norfund's can work to promote gender equality. Norfund also met with other DFIs and Norwegian NGOs to discuss gender strategies and to share lessons learned. The participants agreed on the importance of starting with own organisation to ensure credibility and discussed approaches for raising awareness internally and with partners.

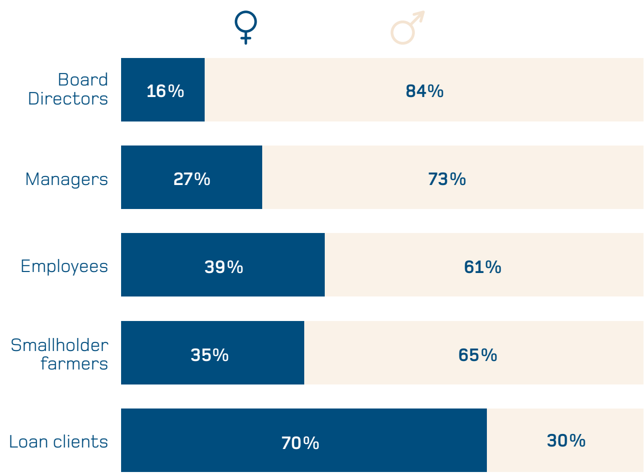
LEADERSHIP AND BOARDROOM COMPETENCE
Norfund has noted that women are underrepresented at the management level in our investee companies and on corporate boards. We are supporting female talent in our portfolio companies in Uganda, Kenya and Tanzania to participate in Female Future – a leadership and boardroom competence development programme created by the Confederation of Norwegian Enterprise (NHO). The programme was established in Norway in 2003 and has since been rolled out to other countries in cooperation with national employers' organisations.

NHO and Norfund are currently exploring local interest in establishing the Female Future programme in Ghana, and plan to launch the programme there in 2018.

CONFERENCE ON WOMEN IN LEADERSHIP
In November 2017, Norfund partnered with Care Norway and NHO to organise a conference on women in leadership. The conference aimed to strengthen participants' understanding of the barriers that hinder women's participation in management. The conference showcased successful initiatives that investors and businesses have implemented to promote women's leadership.

ENTREPRENEURSHIP TRAINING
Supporting women's entrepreneurship is another priority area for Norfund. We have provided funding from our Grant Facility to support Equity Bank's Entrepreneurship programme for a second year. The training programme facilitates the growth of micro-, small- and medium-sized enterprises. Norfund requires at least 50 per cent of participants to be women or women-owned enterprises. ■

STATISTICS FROM PORTFOLIO COMPANIES



» **Read more about Norfund's gender strategy and initiatives at** norfund.no/our-impact/gender-strategy/

EXITED COMPANIES 2017

Norfund is a long-term investor and typically exits investments after 5 - 12 years. A few investments might be exited earlier or later than planned due to unexpected circumstances.

STATKRAFT INTERNATIONAL HYDRO INVEST AS (SKIHI)

Country: Regional
Business sector: Clean Energy
First investment year: 2002
Investment: NOK 3,010.8 million
IRR: 3.8 %
In 2017, Statkraft and Norfund closed an agreement to swap shares in their jointly-owned international hydropower assets. The agreement required Statkraft to sell its shares in SN Power to Norfund, while Norfund sold all its shares in SKIHI to Statkraft. Through these transactions, Norfund increased its presence in Africa and Southeast Asia, and Statkraft strengthened its position in South America and South Asia.

PROXIMITY DESIGNS

Country: Myanmar
Business sector: Microfinance
First investment year: 2013
Investment: NOK 12.1 million
IRR: 11.4 %
Proximity Designs is a not-for-profit organisation that designs and develops low cost financial products and services for small-scale rural farmers in Myanmar. The loan Norfund committed to Proximity Design in 2013 was our first investment in Myanmar. Today, Proximity has repaid all of its Norfund loans and has been able to secure loans from other commercial investors.

TECHOMBANK

Country: Vietnam
Business sector: Banking
First investment year: 2011
Investment: NOK 87.1 million
IRR: 3,7 %
The Vietnam Technological and Commercial Joint Stock Bank (also known as Techombank) has grown to become one of the country's leading commercial banks. Its focus is on retail, small and medium enterprises. Norfund's loans to Techcombank have helped the bank to provide much needed financing to SMEs in Vietnam. The loans received have also assisted the bank in diversifying its funding base and in supporting its ambitious SME-based expansion plans. By February 2017, Techcom Bank had repaid all the loans it had received from Norfund.

NSONGEZI POWER COMPANY LTD.

Country: Uganda
Business sector: Clean Energy
First investment year: 2012
Investment: NOK 3.2 million
IRR: -100 %
Nsongezi is a 40 MW hydropower project which is under development in Uganda. Norfund provided early phase project development financing to the company. However, after the main developer, TrønderEnergi, pulled out of the project and Tanzania indicated that it may take back the water rights and develop Nsongezi as a public-sector project, Norfund decided to exit the Nsongezi project for a nominal fee.

KIKAGATI POWER COMPANY LTD.

Country: Uganda
Business sector: Clean Energy
First investment year: 2012
Investment: NOK 3.9 million
IRR: -46.5 %
Kikagati is a 16 MW hydropower project which is under development in Uganda. In 2012, Norfund provided early phase project development financing to the Kikagati Power Company. In 2016, the main developer, TrønderEnergi, was replaced by Berkeley Energy. The project development progress became very slow due to the cross-border nature of the project. Norfund therefore decided to exit the project in 2017.

CASQUIP STARCH

Country: Swaziland
Business sector: Agribusiness
First investment year: 2008
Investment: NOK 43 million
IRR: -16.8 %
Casquip was a 1,600 ha cassava plantation and cassava starch processing factory that was founded in Swaziland in 2008. Performance fell far below expectations. In 2015, the company was taken into liquidation. The liquidation process in Swaziland has been a lengthy one and Norfund only received the dividend late in 2017.

SEAF BLUE WATERS GROWTH FUND

Country: Vietnam
Business sector: SME Funds
First investment year: 2008
Investment: NOK 32.4 million
IRR: -9.41 %
The SEAF Blue Waters Growth Fund is an investment fund that provides growth capital combined with strategic and operational support to small and medium enterprises in Vietnam. Over its lifetime, the fund has encountered multiple challenges, both financial and non-financial. The initial plan to turn the fund into a financial institution was therefore abandoned, and the fund was restructured in 2015. The investors exited the fund in December 2017 by selling its shares back to SEAF for a nominal amount, to reduce fund costs. Further potential dividends from the two remaining loans will be distributed pro rata among the former shareholders. Norfund held a 20% stake in the fund, the other shareholders were all DFIs.

In 2017, further six loans were repaid by companies within Norfund's active portfolio.

CAL Bank, Ghana
Photo: Thought Leader Global Media

REPORT ON OPERATIONS

BUSINESS AREAS

Year 2017

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 supply affects enterprises' revenues, and can damage electrical equipment. Using back-up 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.

With the continued reduction in costs of solar solutions, we increasingly see commercial and industrial companies looking to captive power solutions, i.e. dedicated on-site power generation. Such smaller scale projects require different financial products to the typical project finance solutions for large-scale projects.

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. SN Power is now a 100% subsidiary of Norfund and our goal is to focus on greenfield hydropower developments in Africa and South East Asia. Approximately 250 MWp of solar power has been built with Scatec Solar, and over 400 MWp will be under construction in 2018. 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 key platforms are significant and will be re-invested in growth. Norfund is also prioritising small-scale hydropower and off-grid solutions.

INVESTMENTS AND RESULTS

Clean energy is the largest component of Norfund's portfolio. In 2017, we made five new commitments in this sector. The power plants in our portfolio generated 14.7 TWh electricity in 2017. Norfund's power investments in Sub-Saharan Africa (excluding South Africa) produced 8 TWh, an amount equivalent to 40 per cent of industrial consumption in these seven countries.

HIGHLIGHTS 2017

- **Restructuring Norfund's hydropower investments.**
 In late 2017, Norfund restructured the investments in large-scale hydropower. We transferred all our interests in South America and South Asia to Statkraft, and we acquired Statkraft's shareholding in SN Power. This is in line with Norfund's strategy which is to increasingly concentrating energy investments in Sub-Saharan Africa and in selected countries in South East Asia - in countries where the need for capital is greatest and increased energy supply is necessary for development.

- **Continued expansion in solar:** Norfund has continued to invest in the deployment of both large scale and small scale solar technologies. Our co-operation with **Scatec Solar** has been strengthened and expanded through the investments in Honduras (Los Prados) and Egypt (Egypt Solar B.V.). The Egyptian investment, undertaken together with KLP, includes 400 MWp of new capacity which will be built as part of Egypt's renewable energy programme. We hope that the Egyptian programme will encourage other countries to engage in the deployment of similar large scale solar projects.
 Norfund also made a new investment in distributed generation through a convertible loan to **Sunshine** – a company that provides rooftop solar installations to industrial and commercial customers in Central America.

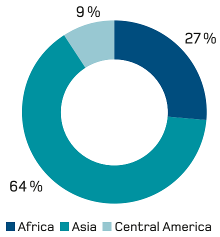
- **Focus on smaller scale projects:**
 Norfund teamed up with responsAbility, KfW, and the Nordic Development Fund as equity investors in **rAREH** – an investment company which focuses on developing and implementing smaller scale renewable energy projects in Africa. The company's first investments are mini-hydropower projects in Rwanda, currently under construction.

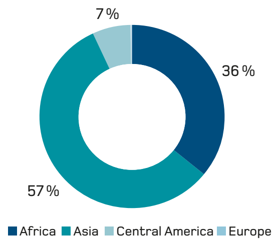
- **Local currency debt for the off-grid sector:**
 In 2017, Norfund was part of a lender consortium that provided **M-Kopa** with USD 80 million in local currency debt to expand its business of supplying pay-go solar home systems in Kenya and Uganda. This was the largest single financing to date in the off-grid segment. Providing local currency financing is key to the success of the off-grid businesses. The M-Kopa instrument shall facilitate future capital flows to other companies operating with pay-go micro-solar solutions.

	INVESTMENTS IN 2017	TOTAL PORTFOLIO
INVESTMENTS AND PORTFOLIO Clean energy accounts for 55 per cent of Norfund's portfolio. The equity share of the total clean energy portfolio is 94 per cent. 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.	2,114 **MNOK COMMITTED** (only renewable energy)	11,334 **MNOK COMMITTED** (whereof 9,860 MNOK in renewable energy)

REGIONS

Norfund prioritises investments in countries classified as LDCs and countries in Sub-Saharan Africa. The consequence of the restructuring of Norfund's hydropower investments 2017 is that capital previously tied to hydropower investments in South America and India, is now reallocated to investments in Africa and Southeast Asia. This will enable Norfund to do more targeted investments in poorer countries based on SN Power's considerable experiences in Asia.





RESULTS IN 2017

JOBS

Norfund's portfolio companies in the off-grid sector employ a large number of direct employees and sales agents, and accounted for 68 per cent of the total jobs reported in 2017. The power plants in our portfolio create direct jobs in the operational phase, but most of the posts are temporary and occur during the construction period.

14,000

JOBS IN PORTFOLIO COMPANIES

TAXES

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

1,700

MNOK IN TAXES PAID

ELECTRICITY

Improving the supply of electricity contributes to wider job growth by allowing businesses to be more productive. Our investments in the off-grid sector also contribute to increasing access to energy and sold 2.2 million solar-powered solutions to household clients in 2017.

14.7 TWH

ELECTRICITY PRODUCED

EMISSIONS AVOIDED

Electricity generated from renewable sources helps to avoid CO2 emissions by displacing fossil fuels. However, in many low- and middle-income countries, electricity production still relies heavily on coal and oil. In 2017, our investments in electricity from renewable sources helped to avoid CO2 emissions by 4.7 million tonnes. This is equivalent to approximately 10 per cent of Norway's annual CO2 emissions.

4.7 MILLION

TONNES OF CO_2 AVOIDED

Investment	Country/ region	Investment year	Sector	Instrument	Norfund owner share	Domicile	Investee currency	Original Committed (MNOK)
M-Kopa	Regional	2017	Solar	Loans		USA	USD	102.4
responsAbility Renewable Energy Holding (rAREH)	Kenya	2017	Hydro	Equity	14 %	Mauritius	USD	10.0
Sunshine	Regional	2017	Solar	Mezzanine loan		Costa Rica	USD	12.3
Central Solar de Mocuba S.A. (through KNI*)	Mozambique	2016	Solar	Equity	11 %	Mozambique	USD	19.2
Central Solar de Mocuba S.A.	Mozambique	2016	Solar	Guarantee		Mozambique	USD	91.1
d.light design, Inc.(through KNI*)	Global	2016	Solar	Equity	6 %	USA	USD	22.4
Rwimi EP Company Ltd	Uganda	2015	Hydro	Loans		Uganda	USD	31.8
Fotovoltaica Los Prados SA (through KNI*)	Honduras	2015	Solar	Equity	15 %	Honduras	USD	110.6
Egypt Solar B.V. (through KNI*)	Egypt	2015	Solar	Equity	15 %	Netherlands	USD	138.2
Gigawatt Global Rwanda Ltd	Rwanda	2014	Solar	Equity, Loan, Guarantee	16 %	Rwanda	USD	33.9
Gigawatt Global Rwanda Ltd (through KNI*)	Rwanda	2014	Solar	Equity	15 %	Rwanda	USD	4.1
Globeleq Ltd	Regional	2014	Energy	Equity	30 %	United Kingdom	USD	1985.3
Renewable Energy Holding Pty Ltd	South Africa	2014	Hydro	Loans		South Africa	ZAR	31.4
PRODERSSA (through KNI*)	Honduras	2014	Solar	Equity	15 %	Honduras	USD	53.7
Kinangop Wind Park Limited	Kenya	2013	Wind	Equity	19 %	British Virgin Is.	USD	94.3
Lake Turkana Wind Power Limited (through KNI*)	Kenya	2013	Wind	Equity	13 %	Kenya	EUR	97.6
Lake Turkana Wind Power Ltd	Kenya	2013	Wind	Guarantee		Kenya	EUR	14.1
Simacel 155 Pty Ltd (through KNI*)	South Africa	2013	Solar	Equity	9 %	South Africa	ZAR	12.1
Simacel 160 Pty Ltd (through KNI*)	South Africa	2013	Solar	Equity	9 %	South Africa	ZAR	24.2
SN Power AS	Regional	2013	Hydro	Equity	100 %	Norway	USD	7936.8
Scatec Solar Kalkbult Pty Ltd	South Africa	2012	Solar	Equity	21 %	South Africa	ZAR	43.4
Bronkhorstspruit Biogas Plant Pty Ltd	South Africa	2011	Biomass	Equity	11 %	South Africa	ZAR	22.1
Nam Sim Power Company Ltd	Laos	2011	Hydro	Loans		Laos	USD	33.0
Interact Climate Change Facility	Regional	2010	Energy	Loans		Luxembourg	EUR	318.5
E&Co (Persistent Energy)	Regional	2009	Energy	Loans		USA	USD	18.9

Impact Investments/PDF*								
Yoma Micopower PDF	*Myanmar*	*2017*	*Solar*	*PDF***		*Singapore*	*USD*	*8.0*
New Africa Power	*Zambia*	*2017*	*Hydro*	*PDF***		*Mauritius*	*USD*	*15.1*
Scatec Solar Nigeria B.V. (through KNI)*	*Nigeria*	*2016*	*Solar*	*PDF***		*Netherlands*	*USD*	*8.4*
Scatec Norfund Investments Ltd (through KNI)*	*Kenya*	*2015*	*Solar*	*PDF***		*United Kingdom*	*USD*	*4.2*
Scatec Solar SA Netherlands B.V.	*South Africa*	*2015*	*Solar*	*PDF***		*Netherlands*	*USD*	*20.5*
Cape Dairy Biogas Plant Pty Ltd	*South Africa*	*2014*	*Biomass*	*PDF***		*South Africa*	*ZAR*	*4.9*
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*

CASE

RWIMI SMALL HYDROPOWER PLANT INCREASES SUPPLY OF CLEAN ENERGY

Unreliable electricity supplies make it challenging to establish and grow enterprises in Uganda. The Ugandan government hopes to solve this by increasing the country's hydro power generation capacity. Norfund has provided a loan for a new small hydropower plant, Rwimi, in western Uganda.

The power sector in Uganda is developing rapidly. Access to electricity increased from 9 per cent to 26 per cent between 2006 and 2016. However, the power supply is still unreliable in many regions, blackouts occur frequently and commercial and industrial enterprises consume two-thirds of the electricity. Therefore, there is a need for increased local generation.

Rwimi is a new 5.5 MW hydropower plant in western Uganda. Developed, built and operated by the Sri Lankan company, Eco Power, it is an excellent example of a well-functioning South-South collaboration. Norfund and the Belgian Investment Company for Developing countries (BIO) have debt financed the project, and supported the environmental and social performance of the project. The plant became operational in 2017 and is selling electricity to the Ugandan national transmission company UETCL. Rwimi will contribute to stabilising the Ugandan power system and increasing power supply to a growing economy.

Rwimi was one of the first projects selected under the Ugandan "GET Fit" Program– a program aiming to foster the development of small-scale renewable energy projects in Uganda, and providing a subsidy payable on top of the standard feed-in-tariffs. The programme is supported by international donors including the Norwegian Government.

"Electricity has greatly improved our community welfare through the provision of light and security, especially at night times. Electric power has reduced our cost of living," said Esther Muthaka, one of the local inhabitants in Rwimi.

As a part of the project, Norfund's grant facility supported the construction of a gravity water supply line, bringing clean water to a total of 6,771 people in 7 villages. The project was implemented in close cooperation with the local communities and is now managed by local water tap committees. This water supply project has improved the lives of local communities, mitigated one of the impacts of extracting water from the river, and helped support good relations with local communities.

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. Entrepreneurs 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. Increased capital also helps 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 banks 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 contributed to the establishment of Arise, a new bank investment company in Sub-Saharan Africa. Arise is now our prioritized vehicle for new equity investments in African banks. However, we will continue to provide loans to financial Institutions in Sub Saharan Africa.

CAL Bank, Ghana
Photo: Thought Leader Global Media

INVESTMENTS AND RESULTS

In 2017, Norfund signed nine new senior loans with banks and MFIs, worth a total of USD 112.5 million. Five were new relationships and four were pre-existing. A follow-on equity investment in Myanmar was also signed last year.

Over the last decade, Norfund has built a strong portfolio of loan and equity investments in financial institutions in Asia, Central America and Sub Saharan Africa. We continue to offer loans to African financial institutions, but from 2016 equity investments in African banks became the primary responsibility of the investment company Arise (see page 21). Our strategy of providing loan and equity investments in Asia and Central America remains unchanged.

HIGHLIGHTS 2017

- **Strengthening Latin American agribusinesses:** Latin American Agribusiness Development Corporation (LAAD), a private investment company, provides small loans of less than USD 3 million to underserved farmers running small- and medium-sized farms. Norfund´s long-term financing has helped LAAD to grow its loan portfolio. In 2017, Norfund provided LAAD with a further USD 20 million loan (see page 47).

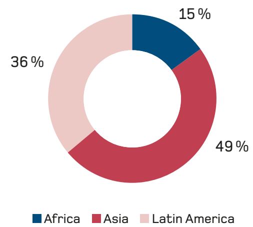
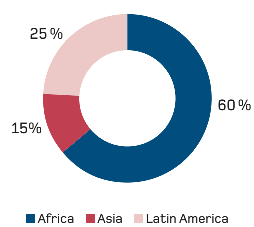
- **Banco BDF – focusing on SMEs in Nicaragua** Norfund has committed to providing a 6-year senior loan to Banco BDF, Nicaragua – a bank known for its consumer and small business orientation. Norfund's loan will enable the bank to offer loan structures suitable for industries in this country, and to provide financing for the country's many underserved SMEs.

- **Supporting microfinance in Liberia** Norfund has committed a USD 2 million loan to Diaconia MDI, a Microfinance Institution in Liberia. Diaconia is fully owned by Norwegian Alliance Microfinance[1] and is located in a post-conflict country with a very low level of financial services penetration. Our objective is to strengthen Diaconia's provision of financial services to low income households and to micro and small enterprises. We believe that our loan is additional and catalytic; Diaconia has no other external funders so far, but our loan is expected to help it to find additional lenders to finance further growth.

- **Financing export-oriented agribusinesses in Nigeria.** Access Bank is one of Nigeria's four largest banks. We have committed a syndicated loan to help it to contribute to financing exporting agribusinesses in Nigeria. The financing Norfund and other DFIs are providing to Access Bank forms part of our focus on supporting larger agricultural companies engaged in exports. Doing so helps to create and support employment in the agricultural industry and to increase FX income in Nigeria.

- **New loan agreements with banks in South East Asia.** Norfund has signed a USD 10 million loan agreement with City Bank in Bangladesh. By doing so, Norfund is helping to increase access to USD financing for local export/import companies in the country. In Vietnam, Norfund signed a USD 20 million loan agreement with AB Bank that is increasing access to capital for underserved MSMEs. 30 per cent of the loan is dedicated to female entrepreneurs.

[1] A non-profit limited liability company fully owned by the Norwegian Mission Alliance.

	INVESTMENTS IN 2017	TOTAL PORTFOLIO
INVESTMENTS AND PORTFOLIO Norfund has invested directly in 46 financial institutions, ranging from regional bank groups and funds that invest in banks, to local microfinance institutions. Financial institutions accounts now for 27 per cent of Norfunds total portfolio.	939 **MNOK COMMITTED**	5,520 **MNOK COMMITTED**
REGIONS Investments in financial institutions are of high priority for Norfund on all three continents. In 2017, we made several new investments in least developed countries (LDCs) in Asia and Africa, as well as some investments in lower middle-income countries in Africa and Central America.		

	RESULTS
JOBS The direct employment effects of investments in the financial sector are high: these institutions employ a large number of people. The indirect effects of investments are even more significant. Providing access to loans enables enterprises to grow and to create new jobs.	105,000 **JOBS IN FINANCIAL INSTITUTIONS**
TAXES Most of the financial institutions in Norfund's portfolio make profits and pay income tax. They also contribute to government income by paying other taxes and fees, such as withholding tax, value added tax and licenses.	4,300 **MNOK IN TAXES PAID**
LOANS At the end of 2017, Norfund had invested in approximately 100 financial institutions directly or through funds. Together these institutions had provided 9.4 million loans to microfinance clients, 2.3 million loans to retail clients, and 400,000 loans to SMEs. The institutions with two consecutive years of reporting increased their aggregate loan book by 14 per cent, and the total number of loans provided by 7 per cent.	12.4 MILLION **LOANS PROVIDED TO CLIENTS**
ACCOUNTS 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.	23.5 MILLION **BANK ACCOUNTS HELD BY CLIENTS**

Investment	Country/ region	Norfund investment year	Sector	Instrument	Norfund owner share	Domicile	Investee currency	Original Committed (MNOK)
Access Bank	Nigeria	2017	Banking	Loans		Nigeria	USD	123.1
An Binh Commercial Joint Stock Bank	Vietnam	2017	Banking	Loans		Vietnam	USD	164.1
Banco BDF	Nicaragua	2017	Banking	Loans		Nicaragua	USD	102.6
City Bank Limited	Bangladesh	2017	Banking	Loans		Bangladesh	USD	82.1
Nordic Microfinance Initiative AS	Global	2016	Microfinance	Equity	33 %	Norway	NOK	28.4
Arise B.V.	Regional	2016	Banking	Equity	33 %	Netherlands	USD	2156.3
Banco Promerica	Guatemala	2016	Banking	Loans		Guatemala	USD	81.8
Fedecredito	El Salvador	2016	Microfinance	Loans		El Salvador	USD	87.2
Advans MFI Myanmar	Myanmar	2015	Microfinance	Equity	40 %	Myanmar	MMK	9.7
ARREND Central America	Regional	2015	Other financial services	Equity and Loans	22 %	Guatemala	USD	60.1
Banco Promerica	El Salvador	2015	Banking	Loans		El Salvador	USD	86.8
Myanmar Finance International Limited	Myanmar	2015	Microfinance	Equity	25 %	Myanmar	MMK	14.5
Acleda Bank Lao Ltd.	Laos	2014	Banking	Loans		Laos	LAK	55.8
Banco Industrial	El Salvador	2014	Banking	Loans		El Salvador	USD	74.2
Confianza	El Salvador	2014	Microfinance	Loans		El Salvador	USD	16.0
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	2014	Banking	Loans		Nicaragua	USD	69.7
Trustco Group Holdings Ltd	Namibia	2014	Microfinance	Loans		Namibia	ZAR	55.2
NMI Fund III	Regional	2013	Microfinance	Funds	26 %	Norway	NOK	184.0
Alios Finance	Zambia	2013	Other financial services	Loans		Zambia	USD	30.6
Amret	Cambodia	2013	Microfinance	Loans		Cambodia	USD	52.9
FDL	Nicaragua	2013	Microfinance	Equity and Loans	11 %	Nicaragua	USD	107.4
Ficohsa	Guatemala	2013	Banking	Loans		Guatemala	USD	17.9
First Finance Plc.	Cambodia	2013	Microfinance	Equity and Loans	15 %	Cambodia	USD	35.0
LOCFUND II	Regional	2013	Microfinance	Funds	26 %	Delaware	USD	53.8
NMBZ Holdings Limited	Zimbabwe	2013	Banking	Loans		Zimbabwe	USD	8.1
Norfinance AS	Regional	2013	Financial services	Equity	50 %	Norway	NOK	419.9
Prasac Microfinance Institution	Cambodia	2013	Microfinance	Loans		Cambodia	USD	182.7
Alios Finance	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	48.3
HEFF	Regional	2011	Microfinance	Funds	33 %	Delaware	USD	38.8
Norsad	Regional	2011	Other financial services	Equity	15 %	Botswana	USD	56.8
Prospero	Regional	2011	Microfinance	Funds	22 %	Cayman Is.	USD	31.7
Brac Bank	Bangladesh	2010	Banking	Equity and Loans		Bangladesh	BDT	122.2
Real People Investment Holdings	Regional	2009	Financial services	Equity and Loans	12 %	South Africa	ZAR	123.8
Sathapana	Cambodia	2008	Banking	Loans		Cambodia	USD	83.5
AfriCap Microfinance Investment	Regional	2007	Microfinance	Funds	7 %	Mauritius	USD	17.4
CIFI	Regional	2004	Other financial services	Equity and Loans	32 %	Panama	USD	324.3
DFCU Limited	Uganda	2004	Banking	Loans		Uganda	UGX	54.7
LAAD	Regional	2004	Other financial services	Loans		Antilles (NL)	USD	225.9

Impact Investments (see page 17)								
Diaconia	*Liberia*	*2017*	*Microfinance*	*Loans*		*Liberia*	*USD*	*16,4*
NMI Frontier Fund	*Regional*	*2008*	*Microfinance*	*Funds*	*45 %*	*Norway*	*NOK*	*108,0*
NMI Global Fund	*Regional*	*2008*	*Microfinance*	*Funds*	*45 %*	*Norway*	*NOK*	*162,0*
Norwegian Microfinance Initiative AS	*Regional*	*2008*	*Microfinance*	*Equity*	*50 %*	*Norway*	*NOK*	*30,0*

Agroindustrial Las Mellizas is a LAAD client that produces coffe in Costa Rica.

FINANCING SMALL AGRIBUSINESS COMPANIES IN LATIN AMERICA

Many small and medium sized agribusiness companies in Latin America struggle to get access to capital and financial services. Commercial banks often perceive the costs and risks of serving them as being too high. Yet microfinance institutions may not be able to provide loans that are large enough to meet their needs.

Latin American Agribusiness Development Corporation (LAAD) is a specialized lender that finances small and medium-sized agribusiness companies in Latin America. Norfund's long term financing has enabled LAAD to continue to grow their loan portfolio and to improve its funding maturity profile.

"Farmers and other agribusiness actors have limited access to finance due to the inherent risks in this sector. LAAD has a focused mandate and provides loans solely to SME agribusiness in Latin America", says LAAD CEO, Benjamin Fernandez.

LAAD's portfolio is spread across twelve countries and fourteen agri-sectors. LAAD is a lender to agribusiness companies that operate in agriculture, livestock, forestry and fishing. Typical clients include Fruticola Montegiallo, a kiwifruit producer in Chile; Agroindustrial Las Mellizas, a Costa Rican coffee producer; and Agricola Angy Rose, a company producing flowers in Equador.

LAAD is an active investor and is involved in all phases of production, processing, storage, services, technology and marketing. The company provides loans of less than USD 3 million to farmers, helping them to modernise and expand their operations.

Norfund committed its first loan to LAAD in 2004. In 2017, Norfund supported LAAD further by providing an additional loan of USD 20 million. The funds will contribute to job creation and forex exchange revenues in the Latin American region.

"LAAD is a committed and experienced investment company. Most of their loans are for expansion and have led to job creation in Latin America. Being a lender to LAAD is in line with Norfund's strategic objectives. Our loans are helping to promote and expand agribusiness SMEs in the region," says head of Norfund's department for Financial Institutions, Erik Sandersen.

FOOD AND AGRIBUSINESS

DEVELOPMENT RATIONALE

The food and agribusiness sector is vital because it facilitates local economic growth and reduces poverty through job creation. FAO notes that investments in this sector are more effective in reducing poverty, especially among the very poor, than investments in any non-agricultural sector.[1]

The main reason is that the food and agribusiness sector is highly labour intensive, providing an important source of employment in most developing countries. Growth in this sector contributes to increases in productivity, better market access for smallholder farmers, the import-replacement of processed foods, greater local value creation, higher tax generation, and higher export income.

[1] "Ending poverty and hunger by investing in agriculture and rural areas" http://www.fao.org/3/a-i7556e.pdf

INVESTMENT NEEDS

The agricultural sector in Africa has significant potential, but it is underperforming. Sub Saharan Africa is currently a net importer of food, even of some staple foods that have naturally favourable local growing conditions.

Agribusinesses, both upstream and downstream in the value chain, have development potential, and investments in primary agriculture, food processing industries and infrastructure are needed. However, the sector is high-risk and is particularly vulnerable to the effects of extreme weather, diseases, and changes in the global demand for goods. Many commercial investors are discouraged by these risks. The volume of foreign direct investment in this sector is therefore still low in Africa.

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 2017, Norfund made three new agribusiness investments and increased our stake in a number of Norfund's existing food and agribusiness investments.

The agribusiness team has also been searching for further potential investments in Sub-Saharan Africa, in accordance with the Norfund Strategy 2016-2020. Several new projects are in the pipeline. Investments in the agribusiness sector are complex and the identification of potential environmental and social risks is particularly important.

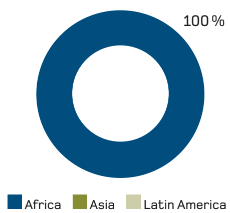
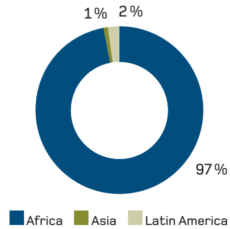
HIGHLIGHTS 2017

- **Beef processing and export in Ethiopia.**
  Verde Beef Processing PLC is an integrated beef producer in Ethiopia, with feed production capacity and feedlot operations. Norfund's investment will enable Verde Beef to finish building its own abattoir and take more control across the value chain. The company exports beef to the Middle East, and an increase in production will generate higher revenues from this export market.

- **Meat production in Malawi**
  Nyama World is a recognised domestic brand of high-quality meat in Malawi. The company is growing steadily and developing an integrated value chain. Its operations include a feedlot and fattening farm for livestock, a processing plant, and retail outlets.

  The company plans to expand its domestic business and exports to neighbouring countries, and to target the Middle East market. Norfund's investment will enable Nyama World to develop a modern, Halaal-certified abattoir and provide refrigerated transport services for its meat products.

- **Increasing papaya production and export in Mozambique**
  Neofresh is a South African company that specialises in the production, packing and marketing of papaya and other sub-tropical fruit. Norfund's investment will support the company in replicating its professional skills and technology to Mozambique. This will contribute to the generation of new jobs in the formal sector and to raise export earnings in Mozambique (see pages 53).

	INVESTMENTS IN 2017	TOTAL PORTFOLIO
INVESTMENTS AND PORTFOLIO By the end of 2017, this portfolio included 26 companies, of which four were new in 2017. The portfolio includes now 14 companies from the agribusiness sector, 6 companies from the tourism sector and 6 companies from other sectors (due to investments in previous strategy periods).	169 **MNOK COMMITTED**	1,528 **MNOK COMMITTED**
REGIONS Norfund decided some years ago that investments in food and agribusiness will be done in Africa only. Norfund's staff in Mozambique, Kenya and in Ghana play key roles in identifying and monitoring these projects.		

	RESULTS
JOBS Job creation in agribusinesses is important for poverty reduction as the majority of the poor live in rural areas. Norfund's investees in this sector employed close to 7,500 people in 2017. European Financing Partners, a co-financing mechanism with participation from several European DFIs, supported 20,000 jobs in a variety of sectors.	31,000 **JOBS IN PORTFOLIO COMPANIES**
TAXES The enterprises in this business area increased the overall amount of taxes and fees paid by 13 per cent in 2017. A large share of the taxes paid came from European Financing Partners' investees (NOK 1,400 million)	1,700 **MNOK TAXES PAID**
LOCAL PROCUREMENT Companies in agribusiness and tourism also contribute indirectly to growth and job creation through purchases of goods and services from local suppliers.	1,200 **MNOK IN LOCAL PURCHASES**
ASSOCIATED SMALLHOLDER FARMERS 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. 35 per cent of these smallholder farmers are women.	12,000 **SMALLHOLDER FARMERS LINKED WITH PORTFOLIO COMPANIES**

FOOD AND AGRIBUSINESS

Investment	Country	Investment year	Sector	Instrument	Norfund owner share	Domicile	Investee Currency	Original committed (MNOK)
African Century Nampula	Mozambique	2017	Real estate	Equity	34 %	Mozambique	USD	5.0
Neofresh	Regional	2017	Agribusiness	Equity	34 %	Mauritius	USD	36.8
Nyama World Malawi Ltd	Malawi	2017	Agribusiness	Loans		Malawi	USD	22.3
Verde Beef Processing	Ethiopia	2017	Agribusiness	Loans		United Kingdom	USD	62.5
Associated Foods Zimbabwe (Pvt) Ltd	Zimbabwe	2016	Manufacture of food products	Loans		Zimbabwe	USD	16.7
African Century Real Estates Ltd.	Mozambique	2015	Real estate	Equity and Loans	14 %	Mauritius	USD	26.1
Freight in Time	Regional	2015	Agribusiness	Equity and Loans	24 %	Mauritius	USD	68.8
African Century Infrastructure Services Ltd.	Tanzania	2014	Other service activities	Equity and Loans	20 %	Mauritius	USD	58.3
Vertical Agro (Sunripe & Serengeti Fresh)	Regional	2014	Agribusiness	Loans		Mauritius	USD	37.7
African Century Foods Ltd.	Regional	2013	Fishing and aquaculture	Equity	35 %	Mauritius	USD	100.0
ASILIA (African Spirit Group Limited)	Regional	2013	Tourism	Equity and Loans	19 %	Mauritius	USD	50.2
UAP Properties Limited	South Sudan	2013	Real estate	Loans		South Sudan	USD	34.5
Agrivision	Zambia	2012	Agribusiness	Equity	23 %	Mauritius	USD	161.6
Yara fertiliser terminal Dar	Tanzania	2012	Agribusiness	Loans		Tanzania	USD	36.6
TPS Dar es Salaam	Tanzania	2011	Tourism	Equity and Loans	29 %	Kenya	USD	55.6
Agrica	Tanzania	2010	Agribusiness	Equity and Loans	27 %	Guernsey	USD	136.4
TPS Rwanda	Rwanda	2010	Tourism	Equity	11 %	Rwanda	RWF	12.5
Africado Ltd.	Tanzania	2009	Agribusiness	Equity and Loans	40 %	Mauritius	EUR	26.2
Green Resources USD	Regional	2009	Forestry	Loans		Norway	USD	153.0
European Financing Partners SA	Regional	2006	Investment funds	Equity and Loans	5.6%	*see below	EUR	371.2
Afrinord Hotel Investments	Regional	2005	Tourism	Equity and Loans	20 %	Denmark	EUR	51.2
Kabul Serena Hotel	Afghanistan	2005	Tourism	Equity	17 %	Afghanistan	USD	33.8

Impact investments (see page 17)								
Across Forest AS	*Nicaragua*	*2012*	*Forestry*	*Loans*		*Norway*	*NOK*	*1.8*
GLAD Ltd	*Uganda*	*2012*	Agribusiness	*Loans*		*Uganda*	*USD*	*4.6*
Kinyeti Capital Ltd	*South Sudan*	*2012*	*Other financial services*	*Equity and Loans*	*49 %*	*South Sudan*	*USD*	*38.8*
Basecamp Explorer Kenya Ltd	*Kenya*	*2010*	*Tourism*	*Equity*	*39 %*	*Kenya*	*NOK*	*16.4*

** EFP is subject to the jurisdiction of Luxembourg. Norfund has granted loans through the EFP co-financing scheme to the following enterprises (domicile in parentheses): Precision Air (Tanzania), Rabai Power (Kenya), PTA Bank (Kenya), Jamaica Public Services (Jamaica), Co-operative Bank (Kenya), Indor. Eleme Fertilizer (Nigeria), ETG (Mauritius), AFC (Nigeria), 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) .*

CASE

HIGH-QUALITY PAPAYAS BRING JOBS AND EXPORT EARNINGS TO MOZAMBIQUE

Neofresh is a South African company that specialises in the production, packing and marketing of papaya and other sub-tropical fruits. In 2017, Norfund made an investment in Neofresh to support the company in replicating its skills and technology to Mozambique. This will contribute to the generation of new formal jobs, and to raise the country's export earnings.

In 2015, Neofresh secured and started a new papaya farm, Carthage, in the Moamba district of Mozambique. The site was chosen because of its favourable climatic conditions, good soil quality, and the availability of water. With Neofresh' expertise the farm has already built an efficient production line and value chain: the farm has a modern pack-house, and the papayas are processed from planting and harvesting, all the way through to sorting, cleaning and packing. By February 2017, the farm had exported 110 tons of papaya to South Africa, and achieved record yields.

"What we see here is tangible proof that Mozambique has great potential for agriculture," said Mozambique's President, Filipe Nyusi, during his visit to the Carthage farm in 2017.

Neofresh invests significantly in genetic research and the development of new papaya varieties for its in-house propagation. This helps the company to grow high-yielding, disease resistant and well-shaped varieties that are well-suited to the local climate and are in high demand.

CREATING JOBS, INCREASING EXPORT EARNINGS

90 per cent of the papayas produced at Carthage will be exported to South Africa. The remaining papayas will be sold in Mozambique. Further expansion of the farm will require more labour and lead to new employment opportunities. Norfund's investment is thereby contributing to job creation, skills development, and to reduce rural poverty. It is also increasing Mozambique's income tax and export revenues.

NORFUND'S INVESTMENT IS ADDITIONAL

Norfund's equity contribution provided a financing tool at a critical time in Neofresh's expansion. Financing would have been difficult for Neofresh to obtain elsewhere, and in countries like Mozambique, land cannot be collateralised for loans by agricultural entities.

To enhance the development impacts of the investment, Norfund requires compliance with high quality ESG standards. Norfund provides Neofresh with advice on business and governance issues. Through our Maputo office, we also offer knowledge about local networks and the regulatory environments in Mozambique. ■

SME FUNDS

Growing and Strengthening Small- and Medium-Sized Enterprises

DEVELOPMENT RATIONALE

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

Facilitating the establishment and growth of viable SMEs in developing countries is important because doing so generates new jobs and helps to reduce poverty.

INVESTMENT NEEDS

Growth in the SME sector can be hampered by a lack of access to capital, by poorly developed and excessively bureaucratic business environments, and by a lack of business development expertise.

Local commercial banks regard many SMEs as too risky to qualify for traditional loans. Yet, often SMEs are too large to qualify for support from microfinance programmes.

Investing in SMEs through local private equity and venture capital funds contributes to building and developing local businesses. Local fund managers are well positioned to provide entrepreneurs with access to risk capital. They can also help to build value creation through active ownership and professional expertise, and provide local knowledge to support SME development and growth.

NORFUND'S STRATEGY

Norfund invests in private equity and venture capital funds that target SMEs. Investing through funds enables us to reach more SMEs than we could do through a direct investment strategy.

Our strategy is to invest in funds in which our participation can have a significant additional effect. In countries in which there are no existing fund managers, but the need for SME investments is high, Norfund may support the establishment of new private equity funds, such as the Kinyeti Fund in South Sudan. Norfund also invests with more established fund managers with a proven track record. Such managers will provide the SMEs in these challenging markets with greater growth prospects through well-founded investments and active ownership. Norfund always seeks to be an active owner and places particular importance on how our portfolio of fund investments is managed.

INVESTMENTS AND RESULTS

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

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.

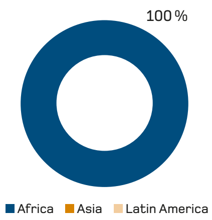
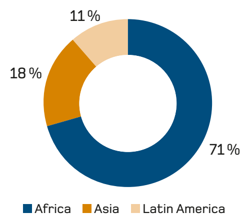
HIGHLIGHTS 2017

- **Agri Vie II – for SMEs in the agri sector in Sub-Saharan Africa**
  Agri-Vie is a private equity investment fund focused on food and agribusiness in Sub-Saharan Africa. Norfund has been an investor in Agri-Vie Fund I since 2010. The first close of the second Agri-Vie Fund was announced in February 2017 after attracting commitments of over $100 million - one third more than the initial target.

- **Oasis Africa Fund – for SMEs in Ghana and Côte d'Ivoire** Oasis Africa Fund is an investment fund targeting small and medium sized enterprises in Ghana and Côte d'Ivoire. The Fund invests in five key sectors: education, financial services, healthcare, food services, and housing and hospitality.
  The Oasis Africa Fund is one of Norfund's first investments in West Africa. Our involvement will promote access to capital and competence for rapidly growing businesses, and provide more jobs and economic growth in Ghana and Côte d'Ivoire.

- **Fanisi Capital Fund II – for SMEs in East Africa**
  This fund focuses on early-stage, growth, and change-oriented SME opportunities in East Africa. Fanisi is the result of an initiative taken by Norfund in 2009 to establish a fund that could partly fill the financing gap experienced by SMEs in East Africa. The Fanisi Capital Fund II is the successor to the Fanisi Venture Capital Fund. The fund management is particularly notable in the East African context because it is a indigenous African team.

- **Spear Africa Fund II – for SMEs in Southern Africa**
  Spear Capital is a Norwegian private equity fund manager targeting small and medium sized enterprises (SMEs) in Southern Africa. The Spear Africa Fund II will focus primarily on SMEs in the fast-moving consumer goods sector. The primary geographic focus will be Malawi, South Africa Zambia, and Zimbabwe.

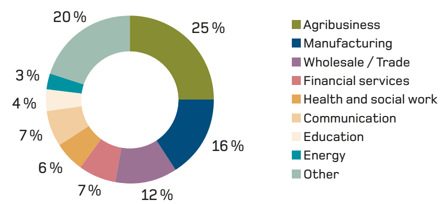
	INVESTMENTS IN 2017	TOTAL PORTFOLIO
INVESTMENTS AND PORTFOLIO In 2017, Norfund made 5 new investments in SME Funds. There are now 43 active SME Funds in Norfund's portfolio.	**378** **MNOK COMMITTED**	**2,056** **MNOK COMMITTED**
REGIONS All new investments in 2017 were in Africa, reflecting our geographical focus on this region.		

RESULTS

INVESTEE COMPANY PORTFOLIO
In 2017 the SME Funds in Norfund's portfolio were invested in 632 SMEs. The effectiveness of the funds relies first and foremost on the characteristics and performance of their underlying investments, the SMEs.

632
SME INVESTMENTS IN SME FUNDS PORTFOLIO

A DIVERSIFIED SME PORTFOLIO
The SMEs in Norfund's portfolio are broadly diversified with agribusiness, manufacturing and Wholesale/ trade as the largest sectors.



JOBS
SMEs have significant employment effects. A large proportion of employees in our portfolio companies – 46 per cent - are women. As Norfund is funding primarily growth capital, our investments contribute to job creation. The aggregate number of permanent jobs in enterprises with two consecutive years of reporting increased by 15 per cent in 2017.

142,000
JOBS IN PORTFOLIO COMPANIES

LOCAL PROCUREMENT
Growing businesses also contribute indirectly to growth and job creation through purchases of goods and services from local suppliers. 57 per cent of the SMEs in our portfolio reported increased purchases from domestic suppliers in 2017.

9,300
MNOK 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 20)

1,500
MNOK IN TAXES PAID

Investment	Country	Investment year	Sector	Norfund owner share	Domicile	Investee currency	Original Committed (MNOK)
Agri-Vie II	Regional	2017	Agriculture fund	15 %	Mauritius	USD	122.9
Fanisi Capital Fund II	Regional	2017	Investment funds	35 %	Mauritius	USD	123.1
Fanisi Management II	Regional	2017	Investment funds	25 %	Mauritius	USD	20.5
Oasis Africa Fund	Regional	2017	Investment funds	10 %	Ghana	USD	41.0
Spear Africa Holding II	Regional	2017	Manufacturing	0 %	Mauritius	USD	61.5
Frontier Fund II	Bangladesh	2016	Investment funds	8 %	Cayman Is.	USD	65.3
BPI East Africa LLC	Regional	2015	Investment funds	17 %	Mauritius	USD	49.8
Cambodia Laos Myanmar Development Fund II	Regional	2015	Investment funds	16 %	Singapore	USD	82.6
GroFin SGB Fund Limited Partnership	Regional	2015	Investment funds	19 %	Mauritius	USD	125.6
CASEIF III	Regional	2014	Investment funds	24 %	Canada	USD	82.5
Ascent Rift Valley Fund Ltd	Regional	2013	Investment funds	13 %	Mauritius	USD	82.2
Novastar Ventures East Africa Fund	Regional	2013	Investment funds	13 %	Mauritius	USD	79.5
CORECO	Regional	2012	Other financial services	22 %	Delaware	USD	74.4
Africa Health Fund (Aureos)	Regional	2011	Investment funds	9 %	South Africa	USD	67.7
Vantage Mezzanine Fund II	Regional	2011	Investment funds	5 %	South Africa	ZAR	64.7
Agri-Vie	Regional	2010	Agriculture fund	9 %	South Africa	ZAR	54.6
Aureos South-East Asia Fund II	Regional	2010	Investment funds	2 %	Canada	USD	34.7
Frontier Fund	Bangladesh	2010	Investment funds	11 %	Cayman Islands	USD	62.3
Cambodia-Laos Development Fund	Cambodia	2009	Investment funds	20 %	Luxembourg	USD	25.9
Evolution One Fund	Regional	2009	Energy	7 %	South Africa	ZAR	35.7
Fundo de Investimento Privado-Angol	Angola	2009	Investment funds	26 %	Luxembourg	USD	65.1
Aureos Africa Fund	Regional	2008	Investment funds	11 %	Mauritius	USD	248.5
GroFin Africa Fund	Regional	2008	Investment funds	9 %	Mauritius	USD	94.7
Adenia Capital Ltd II	Regional	2007	Investment funds	13 %	Mauritius	EUR	41.4
Aureos Latin America Fund (ALAF)	Regional	2007	Investment funds	14 %	Canada	USD	142.2
CASEIF II	Regional	2007	Investment funds	14 %	Bahamas	USD	24.6
Horizon Equity Partners Fund III	South Africa	2007	Investment funds	9 %	South Africa	ZAR	18.3
Aureos CA Growth Fund (EMERGE)	Regional	2006	Investment funds	14 %	Mauritius	USD	18.9
Aureos South Asia Fund (Holdings)	Regional	2006	Investment funds	24 %	Mauritius	USD	112.8
APIDC Biotech Fund	India	2005	Investment funds	8 %	Mauritius	USD	16.7
China Environment Fund 2004	China	2005	Investment funds	10 %	Cayman Is.	USD	18.2
Aureos South-East Asia Fund	Regional	2004	Investment funds	29 %	Mauritius	USD	120.2
Aureos East Africa Fund	Regional	2003	Investment funds	20 %	Mauritius	USD	49.1
Aureos Southern Africa Fund	Regional	2003	Investment funds	25 %	Mauritius	USD	69.9
Aureos West Africa Fund	Regional	2003	Investment funds	26 %	Mauritius	USD	96.9
SEAF Sichuan Small Investment Fund	China	2000	Investment funds	13 %	Delaware	USD	20.0
Lafise Investment Management	Bahamas	1999	Investment funds	20 %	Bahamas	USD	0.02
Impact investments							
FIPA II	*Regional*	*2016*	Investment funds	*38 %*	*Luxembourg*	*USD*	*148.6*
Voxtra East Africa Agribusiness Ini	*Regional*	*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	*Regional*	*2009*	Investment funds	*34 %*	*Luxembourg*	*USD*	*101.0*
Fanisi Venture Management Company	*Regional*	*2009*	Investment funds	*50 %*	*Luxembourg*	*USD*	*2.9*

AFRICAN VENTURE CAPITAL FUND HELPS BUINESSES GROW IN WEST AFRICA

Oasis Africa Fund is an investment fund targeting small and medium sized enterprises in Ghana and Côte d'Ivoire. With equity investments, expertise and support, Oasis helps companies to become viable, to grow and to generate jobs.

West Africa became a new priority region for Norfund in 2016. In most West African countries, long-term financing of equity capital is virtually non-existent in the SME sector[1].

Typically, SMEs lack collateral, have limited cash flows, and face difficulties when proving their creditworthiness. Many face serious constraints in accessing financing from banks or other financial institutions. SMEs are a cornerstone of job creation and improving access to capital for SMEs in this region is therefore in keeping with Norfund's strategy.

"Oasis Africa Fund is one of Norfund's first investments in West Africa. This is an investment that will promote access to capital and competence to rapidly growing businesses in West Africa," says Norfund's CEO, Kjell Roland.

Oasis invests in five key sectors: education, financial services, healthcare, food services, and housing and hospitality. One of the Fund's recent investment is Everpure Ghana Limited, a company that produces high quality purified drinking water for Ghana and the West African region.

Established in 2008, Everpure has grown significantly year-on-year and is now one of the leading water bottling companies in Ghana. The company produces, distributes and markets purified drinking water. The Oasis Africa Fund's recent investment will support Everpure's construction of a third factory. It will also help the company acquire additional equipment and meet its need for working capital. Since 2008, the number of employees has increased from 7 to 450 persons. In the coming years, Everpure plans to generate more than 1,000 direct and indirect jobs through the creation of formal water vendors and distributors.

When investing in SME Funds, Norfund reaches a larger number of businesses than we could do as a single investor. ■

"This transaction underscores our strategy of investing in businesses on the cusp of significant growth and operating in essential service sectors. Our expectation is that this transaction will improve the supply of clean drinking water to the population, since more than 70 per cent of the company's product is targeted at lower-income earners," says Investment Manager of Oasis Capital, Mr Richard Kwame Siaw.

[1] 2017 Africagrowth Institute, "Financing the growth of SMEs in Africa: What are the constraints to SME financing within ECOWAS?"

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