



Norfund

# BUSINESS SUPPORT

Annual Report 2021



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March 2022

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The Norwegian Investment Fund for Developing Countries, Norfund, is Norway's principal instrument for investing in sustainable businesses and creating jobs in developing countries.

Additional investments in challenging sectors and markets require more than just finance. Norfund therefore aims to be an active owner in portfolio companies in four investment areas, contributing with expertise, establishing sound corporate governance and setting high financial and environmental, social and governance (ESG) standards. Norfund's four investment areas are Scalable Enterprises, Financial Institutions, Clean Energy and Green Infrastructure.

Financed by the Norwegian Ministry of Foreign Affairs (MFA), Business Support is an important tool for Norfund as an active owner. As part of the application procedure for Business Support projects four cross-cutting issues are assessed: human rights, anti-corruption, climate and environment, and gender equality, and the facility is an instrument to deliver on value add in these areas. For this reason, Business Support is incorporated in Norfund's Gender Position and Climate Position.

Exchange of information and partnerships are important for working with Business Support as this ensures more coordinated and integrated efforts across institutions and enhances learning. This report highlights some of these efforts. We are still working on increasing our efforts to work together with partners as for example Norwegian embassies and Norad. In addition, through the 2X Collaborative and the EDFI TA working group, we closely collaborate with other Development Finance Institutions.

Finally, 2021 was a record year for the facility in the amount of funding approved. To continue bringing innovation, this Business Support report for 2021 highlights the strategy process for the facility, in addition to results and three cases from our Business Support portfolio.

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# BUSINESS SUPPORT

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Norfund's Business Support facility was established in 2000 based on a mutual recognition by the MFA, Norad and Norfund for the need for technical and professional assistance in relation to investments in the private sector in developing countries.

The main objective of Business Support is to strengthen the sustainability and developmental effect of Norfund's investments. It is therefore an important instrument to exercise active ownership, in line with Norfund's investment strategy, and a way to support our investments in high risk sectors, markets and segments.

Business Support interventions adhere to the annual assignment letter from the MFA, Norwegian development policy priorities, the OECD/DAC criteria, and Norfund's Investment Strategy.

Interventions focus on sustainability and value add by securing that important issues for which portfolio companies do not have the resources or knowledge, can be addressed and resolved. Projects are furthermore important tools to create awareness on important topics, have constructive conversations

about controversial issues, and strengthen the relationship between a company's owners and management and/or a company and its stakeholders.

Norfund provides in-house expertise and assistance for Business Support applications. These applications are submitted to a Committee which makes a decision on the project.

Together with portfolio companies, Norfund's Project Manager, Environment and Social advisers and Business Support Managers, new projects are identified, developed, and monitored.

As Norfund has a strong emphasis on good internal control and zero-tolerance for corruption, Business Support projects are developed based on standard templates and Norfund receives reporting on each intervention at least once a year.

Finally, Norfund Business Support delivers on several SDGs, beside the cross cutting issues, and results considering the SDGs are presented on page 9 in this report.



CROSS-CUTTING ISSUES

# OUR WORK IN 2021

In 2021, Norfund developed a new Business Support strategy that introduces a new structure, a focus on climate adaptation and mitigation, and a Business Support toolbox. The main aim of this new strategy is to make our Business Support facility fit for the future, and to further incorporate the facility in Norfund's overall work and priorities.

## ANALYSIS

The foundation of this new strategy is the analysis of the use of grants and technical assistance from 2010 to 2020. Based on this analysis we can now ascertain that in the past ten years Business Support projects deliver on the requirements set by the Norwegian MFA. Norfund takes on average 52% of project costs, a project usually lasts between six to twelve months, and most projects are on the African continent. The analysis, in addition, shows that investments where Norfund is an active owner are most likely to receive Business Support.

## STRUCTURE

The new strategy reintroduces the three main target groups for Norfund Business Support, but are slightly adjusted in light of the establishment of the Project Development and Risk Mitigation Facility (PDRMF) in 2019.

- Investees and prospective investees
- Local community surrounding our investments
- Certain sectors

The strategy, in addition, makes a distinction between two kinds of projects

1. **Tailor-made projects**; projects developed together with investees - mainly demand driven.
2. **Standard offers** through the Business Support toolbox. Standardized projects are readily defined and developed, and available to all Norfund portfolio companies. Existing offers are the Female Future Program, a Business Integrity Assessment and ESG training, that is organized together with the British DFI (CDC).

## THEMATIC FOCUS

ESG/OHS	CLIMATE
CORPORATE GOVERNANCE/ BUSINESS INTEGRITY	OPERATIONAL IMPROVEMENTS
GENDER EQUALITY	TRAINING FOR BOARD, MANAGEMENT AND STAFF

## INCREASED FOCUS ON CLIMATE

One of the main changes of the new strategy is an increased focus on Climate and Environment. In the second half of 2021, we established a framework for how to address this specific topic through Business Support. The framework is two-fold in nature. First, targeted Climate and Environment projects, and second the objective to evaluate climate impact, as a cross cutting issue, in all new projects.

Targeted Business Support projects are those which are specifically designed to address climate issues and are aligned with, and promote, the Norfund Climate Position. These projects must hence address one of the three pillars of this Position to qualify as a climate intervention:

- Resilience – increase capacity of individuals, companies and economies to cope with the effects of climate change
- Reduction – reducing or avoiding greenhouse gas (GHG) emissions
- Risk – reducing physical, transition and reputational climate risks

On the one hand, tailor-made climate Business Support projects, as existent in the portfolio today, will continue to be developed based on the needs and demands of investees. On the other hand the aim is, in the coming years, to develop the content of the standardized offers as part of these targeted climate projects. From our analysis key focus areas will likely be the implementation of TCFD recommendations, measuring and reducing greenhouse gas (GHG) emissions, and climate-smart agriculture.

Finally, new Business Support projects are evaluated on the cross-cutting issues, and in the coming years we aim to increase our assessment if and how a project addresses climate-related issues and what opportunities there are to further integrate a climate focus in the intervention, to enhance the project impact, where possible.



## SMALLHOLDER FARMERS

Smallholder agriculture is an important economic activity and source of employment in Sub-Saharan Africa. Over 50% of the Sub-Saharan African population is employed in agriculture, and the majority of these are smallholder farmers.<sup>1</sup> Enabling the inclusion of smallholders in larger business value chains, through for instance outgrower schemes, can facilitate numerous benefits, including higher incomes and food security.

Ensuring food security and stable incomes for farmers is also a key priority in Norway's foreign and development policy, as laid out in the 2019-23 action plan for sustainable food systems.<sup>2</sup>

In Norfund's Agri & Manufacturing portfolio, the number of reported associated farmers has increased substantially in recent years, with over 35 000 in 2020.<sup>3</sup> This increase has been driven by a strategic shift in the department's focus, from primary agriculture to investing in the value chain. This growth is therefore expected to continue in the coming years.

### PARTNERSHIPS

Smallholder farmers have therefore become a focus area for Business Support, where we see numerous opportunities to drive value through strengthening capabilities and relationships, as well as promoting women's inclusion and climate adaptation. It is, however, important for us to conduct this work together with experienced partners that have the relevant required expertise. 2021 was an important year in this regard, as we entered a partnership with TechnoServe under

the UK government's FCDO Commercial Agriculture for Smallholders and Agribusiness (CASA) Technical Assistance Facility (TAF). Through the TAF, CASA supports agribusinesses on the African continent that source from smallholder farmers and works alongside investors and companies to strengthen upstream supply chains and promote returns, development impact and resilience.

### ACTIVE PROJECTS

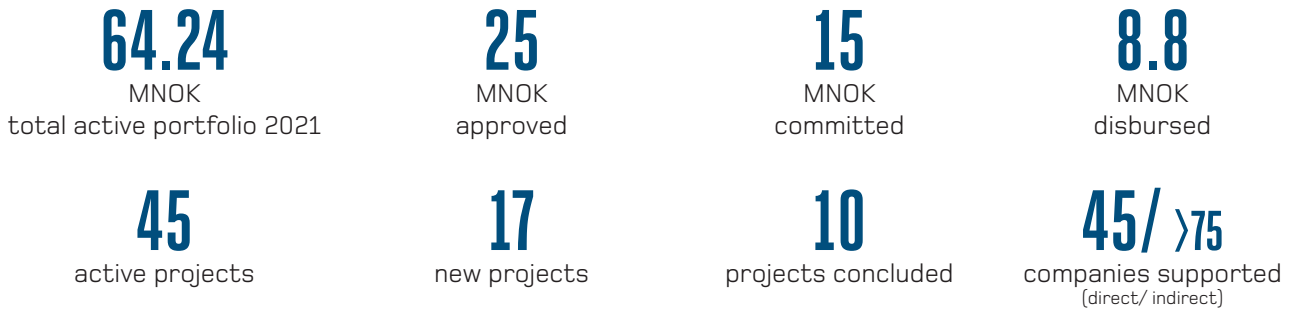
Business Support has conducted several interventions directed at smallholders and associated farmers in our portfolio companies. With Vertical Agro, for instance, Business Support facilitated the expansion of the company's outgrower scheme and provided input supply, training and certification for new contract farmers. With all our interventions we look for opportunities to integrate elements from the Business Support thematic focus areas. For instance, we encourage incorporating a gender component, and as of 2021, 41% of all associated farmers in Norfund's portfolio companies are female. Climate mitigation and adaptation is another key priority within our smallholder focus.



1. World Bank data; 2. Mat, mennesker og miljø; 3. Development Effect Reporting

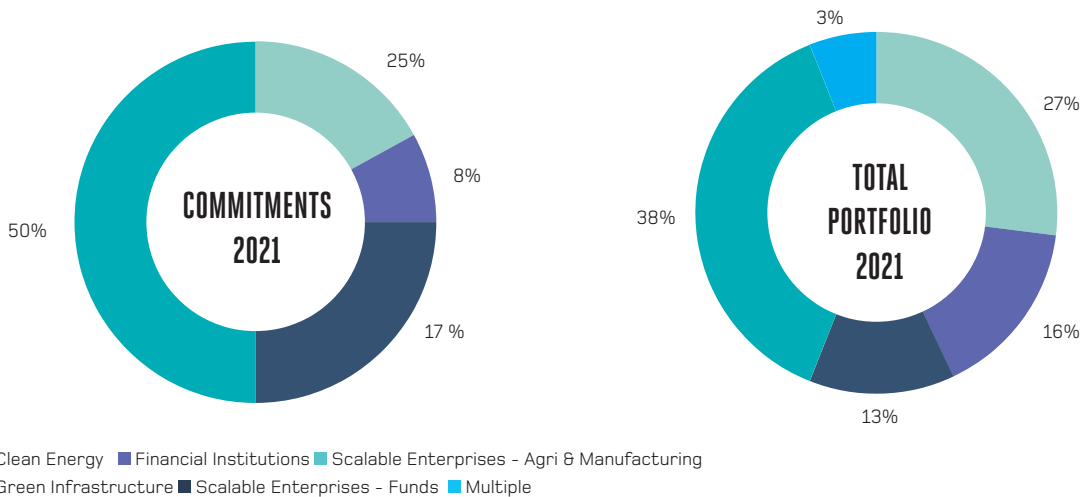
# RESULTS 2021

Norfund approved a record amount of new Business Support projects in 2021 — it was only in 2014 that a similar amount of new projects was approved. At the same time, the largest Business Support project since 2014 was approved in the Scalable Enterprise (SE) - Agri&Manufacturing department.



## Key sectors of operation

The Business Support portfolio is predominant in the SE - Agri&Manufacturing department, followed by the Clean Energy department. In both departments Norfund has gained valuable experience and expertise with Business Support projects. For the SE department this is strengthened by demand for Technical Assistance in these types of investments. In the Clean Energy department, Norfund supports local communities surrounding our investments in light of future investments in new markets (e.g. India). In 2021, growth has occurred in the SE - Funds sector. Technical assistance in this sector is valuable and essential for, amongst others, strengthening SMEs in the regions where Norfund is active.



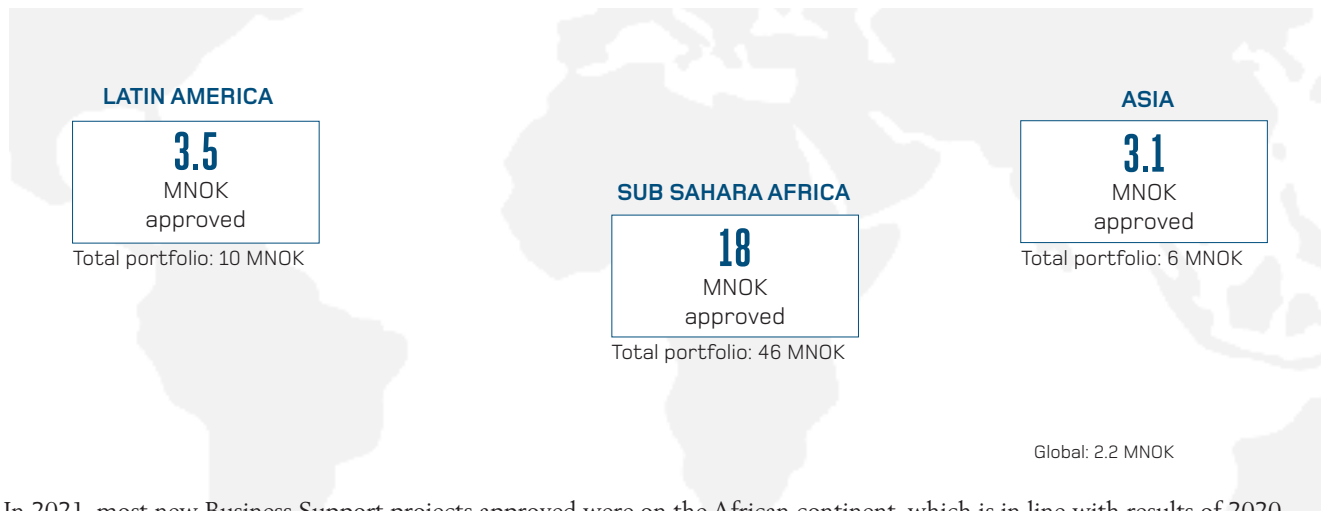
## Categorization of total active portfolio

Based on our Business Support strategy, the 2021 active portfolio can be categorized as follows.

**42**  
Tailor made projects

**3**  
Standard offers  
(Business Support Toolbox)

## New projects per region



In 2021, most new Business Support projects approved were on the African continent, which is in line with results of 2020 and the Norfund’s mandate. Of the total active portfolio there are three projects that are standard offers and can hence be deployed across regions.

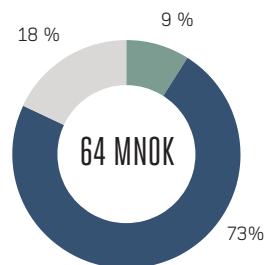
## Supporting our investees

The core objective of Business Support is supporting Norfund’s investees, through the creation of more robust businesses focusing on corporate governance, E&S, risk management and business integrity. Secondly, we support our investees’ capacity building for employees on topics such as gender and leadership. Such initiatives are categorized under ‘enterprise improvements’. In 2021, 88 percent of new projects (23 MNOK) was approved within this core category. For a detailed description of examples of these kinds of project, please see page 5, 10 and 12 in this report.

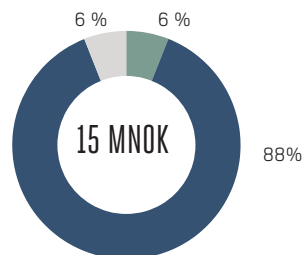
Business Support can furthermore support in building resilient communities and environment around our investments. These kinds of project fall within the category ‘local community development’. In 2021, one new project in this category was approved, supporting the local community around a future investment in India. Supporting the community around some of Clean Energy investments at an early stage is important. The particular project in India focuses on women, strengthening of the community through (amongst others) education, support to local farmers and support to maintaining biodiversity in the area. Where necessary, these local community projects aim to bridge the gap between the local development and the investment project, and can, in some cases, be a local license to operate.

Finally, for (potential) investees, Norfund can provide support to project development. In 2021, only one such project was approved. This low number of pre-investment projects is a result of the establishment of the PDRMF in December 2019.

Total active portfolio



New projects committed in 2021



- Project Development
- Enterprise improvements
- Local community development





# DELIVERING ON THE SUSTAINABLE DEVELOPMENT GOALS

Human rights, gender equality, climate and environment, and anti-corruption are cross-cutting issues in Norway's development policy. These issues are to be assessed in all international development projects and programmes. Business Support delivers on this requirement, and hence on the sustainable development goals. The figure below shows the amount and number of projects of our active Business Support portfolio in 2021 per SDG.



## SDG 13 - CLIMATE ACTION

The 2021 active Business Support portfolio consisted of one targeted climate project. The first is the FDL farmers advisory service, with the objective to train clients/farmers on climate change and risks. Results for this training is that after one year 30% of clients had diversified their crops. More information about this project can be found in the 2020 Business Support report.

Climate and environment were in addition introduced as a important new area under the Business Support strategy. And as a first step in implementing this, a specific Climate Business Support framework was developed. More information about our strategy can be found on page 4 in this report.



## DIGITAL TRANSFORMATION IN LATIN AMERICA

Locfund II is a second generation local currency debt fund which is exclusively focused on the Microfinance sector. Beside providing mid-term local currency loans to smaller MFIs in Latin America, and financial services to MFIs that are ready to access capital markets, the fund manages a Technical Support Facility.

Since 2007, Norfund has, in addition to its investment, supported Locfund's MFIs through technical assistance. One of the largest achievements through this TA funding (Technical Support Facility) is the progress that has been made in supporting MFIs in their digital transformation.

### DIGITAL ASSESSMENT

To make MFIs market ready, and competitive, digital transformation is essential. For this purpose, the management company responsible for Locfund II (BIM) developed a digital assessment tool in 2019 together with an external consultant. This tool allows MFIs to get insight into where progress can be made and change is needed in comparison on a country and portfolio level. Based on this assessment, with support from the Locfund TSF digital expert, a technical support project is developed in collaboration with the MFI. Where needed external experts are hired, and Locfund II has for this purpose collaborated in various instances with FinTech in the region.

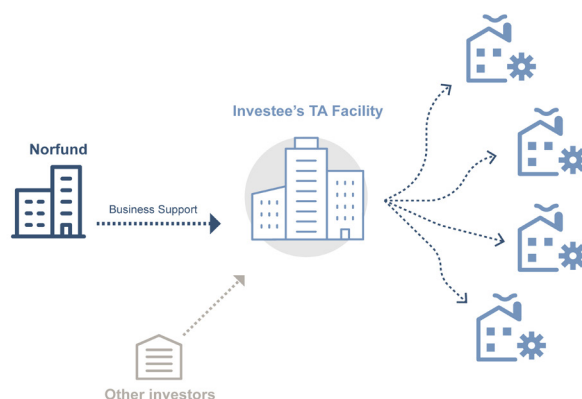
### OUTCOME

Since 2019, the digital assessment tool has been used by 54 MFIs, and, following the results of this assessment, 17 projects were approved across eight countries. Projects that are developed and focus on digital transformation include roadmap development mobile banking apps and training but also digital onboarding. One of the most crucial steps is developing a digital roadmap, which includes key performance indicators and is an important first step in further digitalization.

In 2021, of the 27 new projects approved under the Locfund II TSF II, 13 projects focus on digital transformation. These initiatives that drive technological development and disruption have become even more important as a result of the pandemic. The support through the TSF can therefore provide a gentle push towards creating a level playing field.

*'For MFIs to continue to be able to compete with other actors, as for example tech start-ups, the drive to digitalization is crucial' - digitalization expert Locfund*





## SUPPORTING OUR FUND MANAGERS AND INDIRECT INVESTEES

Investments through Funds is an important part of Norfund's total investment portfolio, and is an instrument used across all sectors. For Business Support the capacity building focuses on both the fund managers and their portfolio companies. Through this structure we are able to strengthen our fund managers, increase their capacity on Technical Assistance, lean on their local expertise in certain sectors and reach an increasing number of companies, beyond our own capacity.

During 2021, Norfund's Business Support Committee approved the support of five new Technical Assistance Facilities (TAF), thereby increasing the number of TAFs we support to a total of nine. The new projects target Fund managers, SMEs and MFIs from both the Scalable Enterprises and Financial Institutions departments.

Through the Scalable Enterprises department, Business Support has been allocated to funds investing in early-stage enterprises and SMEs in challenging markets, and for a fund investing in agribusinesses on the African continent. In the department for Financial Institutions, the key focus for the support has been, and will be, Micro Finance Institutions (MFIs). Norfund also supports the Arise investment banks through the Arise TAF.

Supporting our fund managers' TAFs is an opportunity for us to reach companies beyond our investment, building local business sectors and strengthen the portfolio companies of our investment funds. Topics that will be covered by the TAFs range from improving E&S capabilities, strengthening financial controls and heightening efforts in key topics such as Climate and Gender.

### NOVASTAR

Novastar is one example of a Fund Manager receiving Business Support in 2021. Novastar is a venture capital manager dedicated to finding and developing the next generation of exceptional entrepreneurs designing and executing innovative business models to profitably serve Africa's mass market. In 2020 Norfund invested USD 8

million in Novastar Ventures Africa Fund II. The strategy of the fund is designed to manage the specific risks related to start-up and early-stage companies, whilst meeting the needs of the entrepreneurs for financial and management support.

The objective of the TAF is to support capacity development of Novastar's portfolio companies through ten projects. The focus is on providing technical assistance for ESG improvements, feasibility studies, leadership training and operational improvements. Through providing this support, Novastar can address certain specific challenges and opportunities that are faced by early-stage companies in the Fund's geographies, and which are difficult for commercial capital to fund.

### OUTCOME

Through supporting TAFs, Norfund has since 2018 supported over 70 indirect investees. These projects have for example resulted in the development of Gender Action Plans, increased ownership of ESG standards, capacity development training of managers, improved corporate governance and knowledge sharing through seminars for Fund managers' portfolio companies. This reach in capacity building would not be possible without the establishment of the TAF vehicle and through support to new TAFs approved this year it is expected that this impact will increase. Page 9 in this report describes how this structure in providing technical assistance in has made a difference for MFIs in Latin America.

# PROJECT LIST 2021

Project name	Company	Country	Department	Year	SDG	Amount (USD)
ACF Aquaculture Training Program*	ACF	Zimbabwe	SE - A&M	2019	9.2	335 000
ACIS Emergency grant*	ACIS	Mozambique	SE - A&M	2021	8.8	34 000
ACRE continuous operations after Palma attacks*	ACRE	Mozambique	SE - A&M	2021	8.8	85 000
Advans Capacity Development Program	Advans Myanmar	Myanmar	Financial Institutions	2021	8.10	159 000
Africado Dahani school dining room	Africado	Tanzania	SE - A&M	2019	11.C	35 000
AgDevCo TAF	AgDevCo	Sub Sahara Africa	SE - A&M	2021	8.2	1 000 000
Agri Vie ESG training 2019 - 2020*	Agri Vie	East Africa	SE - A&M	2019	12.6	12 000
Arise TA Facility	Arise	Sub Sahara Africa	Financial Institutions	2019	8.10	250 000
Arnergy management skills training	Arnergy Ltd	Nigeria	Clean Energy	2019	8.3	12 000
Artcaffe HMS digitization*	Artcaffe	Kenya	SE - Funds	2020	8	13 000
Ascent AVRf II TAF	Ascent AVRf	East Africa	SE - Funds	2021	8.3	185 000
Basecamp development in Pardamat*	Basecamp	Kenya	SE - A&M	2019	9.1	250 000
CASEIF IV TAF	CASEIF IV	Latin America	SE - Funds	2021	5.A	150 000
CDC ESG Training II (2019 - 2021)	CDC	Asia, Africa	Multiple	2019	12.6	100 000
Central America banking sector initiative	Multiple	Latin America	Financial Institutions	2020	12.6	450 000
d.light energy ladder study	d.light	Kenya	Clean Energy	2019	7.1	95 000
ENEL Project Coral support to local community	ENEL	India	Clean Energy	2020	11.C	193 000
ENEL Project Thar local community development	ENEL	India	Clean Energy	2021	11.C	185 000
EPS Comores establishment grant*	EPS	Comores	Clean Energy	2018	7.1	150 000
FDL farmer advisory service	FDL	Nicaragua	Financial Institutions	2019	13.3	120 000
Female Future Program support 2020 - 2024	Multiple	East + West Africa	Multiple	2020	5.5	45 000
FES ES Risk Management	FES	Malawi	SE - A&M	2020	9.2	110 000
Globeleq Malindi Covid community relief	Globeleq - Malindi	Kenya	Clean Energy	2020	11	110 000
GRAS Sustainability strategy	Green Resources	Tanzania	SE - A&M	2021	12.6	25 000
Greenlight Planet ABM training	Greenlight Planet	Kenya	Clean Energy	2021	5.5	29 000
Hibis - Business Integrity 2020 - 2021	Multiple	Multiple	Multiple	2019	16.6	112 000
LHG - Business Integrity and implementation of MIS*	Lake Harvest Group	Zimbabwe	SE - A&M	2021	16.6	50 000
Lilongwe Dairy Capacity Building on ESMS*	Lilongwe Dairy	Malawi	SE - A&M	2021	12.6	23 000
Locfund II TSF	Locfund II	Latin America	Financial Institutions	2018	8.2	164 000
Locfund Next TSF	Locfund Next	Latin America	Financial Institutions	2021	8.2	250 000
Marginpar Kaizen, Leadership and Team development	Marginpar	Ethiopia	SE - A&M	2019	8.2	125 000
Novastar cross-portfolio projects	Novastar	East Africa	SE - Funds	2021	8.3	50 000
Novastar TA 2021 - 2022	Novastar	East Africa	SE - Funds	2021	8.3	250 000
ResponsAbility ACPF TAF	ResponsAbility ACPF	Africa, Asia	Clean Energy	2020	7.1	250 000
Scatec Covid-19 relief efforts*	Scatec	Rwanda, Lesotho, Mozambique	Clean Energy	2020	11	71 000
Scatec Egypt local community development	Scatec Benban	Egypt	Clean Energy	2020	11	150 000
Scatec Lesotho legal & ES counsel	Neo1 Power	Lesotho	Clean Energy	2018	12.6	60 000
Scatec Lesotho project development Rural Electrification Project	Neo1 Power	Lesotho	Clean Energy	2021	7.B	30 000
Spear TA Facility	Spear II	SSA	SE - Funds	2019	9.2	500 000
Special Ice - Plastic Waste Collection Scheme	Special Ice	Ghana	SE - A&M	2021	12.5	151 000
Sundry Foods OHS	Sundry Foods	Nigeria	SE - A&M	2019	12.6	175 000
TechnoService CASA partnership	Multiple	Sub Sahara Africa	SE - A&M	2021	9.2	200 000
VAL Covid-19 and climate adaptation	Vertical Agro	Kenya	SE - A&M	2020	9.2	169 000
VAL outgrower expansion	Vertical Agro	Kenya	SE - A&M	2019	9.2	200 000
Yoma Bank Business Integrity Policy and Stakeholder Management	Yoma Bank	Myanmar	Financial Institutions	2020	16.6	88 000

\*completed in 2021

