Theory of Change for Funds

Background note

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Contents

1. Introduction

Norfund's investments focus on four areas, including scalable enterprises, which cover investments in funds. Investing in funds allows Norfund to reach a wider range of businesses, leveraging fund managers' local presence, networks, and sector expertise beyond Norfund's core focus.

We invest in SME funds, purpose funds, venture funds, and large-cap funds to support the development of profitable companies[1]. Through funds, ownership and engagement with investees are entrusted to skilled managers, who play a key role in fostering business growth, providing expertise, and ensuring sound E&S standards are upheld. A critical objective is supporting competent local fund managers who can actively support their portfolio companies.

This document outlines Norfund's Theory of Change for fund investments, including rationale, supporting literature, and key assumptions and risks in these investments.

2. The Theory of Change framework

Box 1: Theory of change concept

A theory of change is a framework that outlines how and why a desired change is expected to happen in a particular context.

The theory starts with a clear problem statement, identifying the specific issue or challenge that needs to be addressed. Inputs are then detailed, which include the resources, activities, and interventions necessary to tackle the problem. These inputs might consist of funding, staff, partnerships, and specific actions or programs designed to drive change.

The theory of change then maps out the logical sequence leading from inputs to outputs, outcomes in the short and longer term, and finally, the desired impact. Outputs are the direct results of the activities and inputs, such as the increase in staff or payment of taxes and fees.

Outcomes refer to the short- and medium-term changes that result from these outputs, such as expansion of firms or establishment of new firms and increased household consumption and resilience. Finally, the impact is the long-term, sustained change that the interventions aim to achieve, such as job creation, economic growth and improved living standards.

This pathway is mapped out in a theory of change, and helps organizations and stakeholders understand the process of change, measure progress, and refine strategies to ensure the desired impact is achieved.

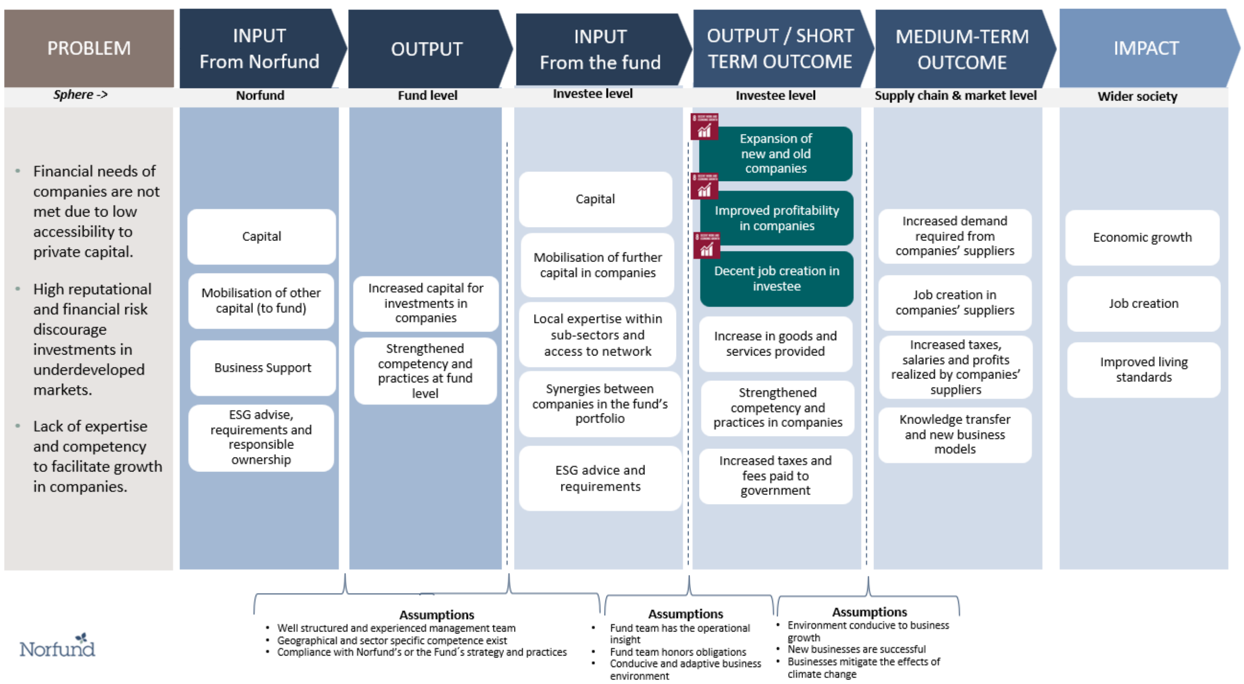
[1] Read more about the different types of funds and why we invest in them in Annex 8.1

Based on literature and current knowledge of investments in funds, Norfund has developed a Theory of Change (ToC) for how change happens through our fund investments.

The input is what Norfund provides as an investor, while the output is generally monitored during annual reporting. The outcomes are generally measured through case studies and other in-depth analysis on a case-to-case basis. The expected long-term outcomes and impacts are demonstrated through literature.

The elements visualized in the ToC are those that are probable based on literature and knowledge of the sector. However, we do not state that these happen in all cases. Central to being able to move from input and through the steps, all the way to the final impact goals are the assumptions that are further described in section 6 of this document. If these assumptions do not hold, some or all the steps in the ToC might not be realized.

The theory of change for Funds



3. The hypothesis of change for Funds

The following chapter describes the central mechanisms that are outlined in the figure above.

Since Norfund invests in the fund to ensure more capital is allocated to its sub-companies, there are several layers to this hypothesis of change than there are for direct investments in companies. In the first two steps we consider the input from Norfund to the fund and the effects these inputs have on the fund itself. In the following steps, we outline the effects of increased investments by the funds in new or existing companies.

Norfund´s input to the fund

Norfund provides capital (in most cases equity) to funds during their fundraising rounds. In addition to the capital we provide, we also wish to mobilize private capital into the fund. Norfund often takes an responsible ownership approach to ensure value creation and to assist the fund on various aspects of its strategy.

In addition, we offer tailored business support programs, to assist the fund or its portfolio companies if gaps are identified. Such programs could include upskilling of employees in the fund, but most often the means are allocated to ensure support is given to the funds' portfolio companies. In this way we assist the funds to identify both risks and identify and explore opportunities. Finally, Norfund provides advice and requirements to ensure environmental and social risks are properly identified and mitigated through the investments made by the fund.

The output on fund level

With Norfund´s investment in the fund, the fund will have the ability to make investments that align with their strategy. We normally invest early in the fund's lifecycle, coming into the first of second close of the fund, where the fund has none or few portfolio companies. Thus, Norfund´s investment decision is usually made based on the prospects of the fund, and/or potential track record of previous funds.

As a result of our active engagement and/or requirements to the fund, we expect to see that the competency and practices at the fund level are strengthened.

The input from the fund to its portfolio companies

Once the fund has raised enough funds to reach its target or reach the maximum allowed capital in the fund, the fund will start deploying capital to portfolio companies. The funds Norfund is invested in are largely equity funds, but with some exception of mezzanine or debt funds.

The nature of the input from the fund to its investees could depend on the type of fund and its target segment. In general, these could be differences in terms of input from the fund to its portfolio companies:

- For **venture funds** the input provided from the fund managers should contribute in terms of market expertise, **innovation and risk assessments**, in order to scale the portfolio companies successfully. Often these fund managers have a high-risk tolerance and find innovative startups.
- As **large cap funds** invest in established, large companies they tend to focus on macroeconomic trends and portfolio diversification to achieve further growth and steady returns. The inputs provided by the fund generally focus on **risk management and achieving long-term stability** of the portfolio companies.
- **SME funds** in developing regions typically provide its portfolio companies with inputs on **business development, capacity building, and scaling operations**.
- As **purpose funds** are designed to address specific social, environmental or economic objectives, they usually encourage their portfolio companies to **identify target outcomes** with **measurable impact metrics** alongside the financial returns, and to align strategies with these objectives.

Regardless of the type of fund, the Fund managers Norfund selects often takes an responsible ownership approach to ensure value creation and to assist scale up of the companies and support the company on various aspects of its growth strategy. This is also done through the offer of strong local expertise within the sub sectors that the fund´s portfolio companies operate and by enabling access to wider networks.

In addition, the investment by the fund often mobilizes further capital into the businesses. Finally, the fund provides advice and requirements to ensure environmental and social risks are properly identified and mitigated in its portfolio companies.

The output on fund level / the short-term outcome on investee level

The capital provided to the portfolio companies by the fund is typically a combination of buy-out to get a large stake in the companies and expansion capital. The increased availability of capital helps to finance investment requirements associated with growth strategies especially for SMEs and start-up companies, aligning with the strategies of SME funds and venture funds. Ensuring capital also to large cap funds ensures that the large companies, employing many people, can facilitate long-term stable growth of the company. Investments through purpose funds, ensure that capital flow to businesses or organizations that have proven models for addressing systemic social issues. In this way, the different funds Norfund invests in reach different segments of the business ecosystem.

Requirements from the fund should ensure that improved systems are in place and be seeking to strengthen the company's environmental and social performance and avoid adverse environmental and social impacts. This, together with the increased access to capital and expansion opportunities, should lead to improved productivity and efficiency, resulting in improved financial results and facilitating formal, decent job creation in the portfolio companies[2].

As companies can start or expand operations, other direct effects include increased supply of the goods and services they supply, and increased payment of taxes and fees to the government, as a result of increased profitability. In general, this is the case for all four types of funds Norfund invests in.

The medium-term outcomes

As the companies in the funds' portfolios grow, they will require more supplies. This increases the production in the value chain, leading to further payments of taxes and fees by the companies in the value chain. As the companies in the value chain expand, they will also require more labour, contributing to job creation in these firms. The expansion of the firms' suppliers should also result in increased salaries, profits and taxes paid to government by these companies.

For the investments in venture funds, supporting start-up companies the medium-term outcomes should also include increased innovation and creation of employment opportunities in new sectors. If the start-up companies are successful, they could inspire a culture of entrepreneurship, attracting more investors and innovation, fostering knowledge transfer and new business models over time. Investments in SMEs foster growth and prospects for a broad spectrum of companies, while investments in the large companies ensure support of "the engines of growth" in the economy.

The impact

As we have seen, the increased productivity and formal job creation in the funds´ portfolio companies affect their suppliers positively. This could be seen as a virtuous circle, where also the suppliers thus demand more inputs from their suppliers, and so the initial access to capital for some selected portfolio

[2] This refers to the compliance with human rights, ILO declaration on Fundamental Principles and Rights at Work and consideration of working conditions, such as terms of employment (including wages), and employee access to grievance mechanisms.

companies can result in broader affects for the rest of the economy, leading to economic growth, job creation and improved standards of living.

This is enabled through investments in SMEs, startups, large companies and mission driven companies, all facilitating job creation and economic growth in different segments of the economy.

4. Rationale for investment

Many businesses in developing countries face significant challenges that hinder their growth, from limited access to capital and managerial expertise to structural market inefficiencies. These barriers constrain job creation, innovation, and economic resilience. Investing through funds offers an effective way to channel capital to a diverse range of companies, whether SMEs, startups, large enterprises, or mission-driven businesses, helping them overcome these constraints. By addressing market gaps and strengthening business capacity, fund investments play a critical role in enabling companies to grow.

Lack of access to capital due to high perceived risks

Investing in developing countries is often seen as high-risk due to challenges such as political instability, weak regulatory frameworks, market volatility, currency fluctuations, and limited access to reliable business data. These factors discourage traditional investors, exacerbating an already significant investment gap. Developing countries now require $4 trillion more annually in investments than they currently attract, a sharp increase from the investment gap of $2.5 trillion in 2015 (World Investment Report, 2023).

In recent years, foreign direct investment (FDI) in developing economies has been steadily declining. In 2022 and 2023, FDI flows dropped by 12% and 7%, respectively, signalling a concerning trend of reduced capital inflows. The impact is particularly severe in critical sectors, with water, sanitation, and hygiene services seeing a 17% decline, and renewable energy projects experiencing a 5% drop (World Investment Report, 2024).

This lack of capital due to high perceived and real risks is an issue for all the companies supported through Norfund's funds but can be a particular challenge for SMEs and start-ups. SMEs are critical engines of economic growth, accounting for 90 % of the private sector in developing countries according to the World Bank (Kumar, 2017). However, they struggle to access the financing needed for expansion due to the perceived risks associated with lending to smaller, less established businesses. SME funds address this financing gap by providing more patient capital, often offering longer-term equity that allows SMEs to grow without the pressure of immediate repayment. In addition, the funds mitigate this issue by supporting capacity building efforts to improve operational efficiency and aim to facilitate local job creation.

For startups, the challenge of accessing capital is often even greater. Without the collateral or credit history required by traditional lenders, early-stage companies struggle to attract financing. Venture funds are therefore essential in supporting these companies through enabling them access to patient capital. By offering capital to such companies the venture funds are encouraging and enabling technological advancements and entrepreneurship.

Limited stock exchange and public equity markets

In many developing countries, underdeveloped public equity markets limit businesses' ability to raise capital through initial public offerings, restricting their growth and job creation. Without public equity financing, companies may struggle to secure long-term capital for expansion, innovation, and competitiveness.

Private equity funds offer an alternative, providing growth capital without requiring companies to go public. Large-cap funds support established firms with broad supply chain effects, while SME funds and venture capital funds help SMEs and startups that lack the collateral or track record for traditional bank loans.

Lack of local expertise and capacity to scale

In the markets where Norfund operates, many businesses struggle to scale due to a lack of expertise in management, operations, and strategic growth. This includes gaps in management structures, necessary skills, and access to networks essential for long-term success.

To address these challenges, the funds Norfund invests in provide targeted support to its portfolio companies. For SMEs, technical assistance and managerial training help improve productivity, streamline operations, and foster innovation. For larger companies, Large-Cap Funds leverage fund managers' sectoral and local expertise to strengthen capacity, enhance market understanding, and sustain their portfolio companies' role as major employers of quality jobs.

Startups also benefit from access to expertise, where fund managers typically provide mentorship and strategic guidance, drawing on their entrepreneurial and industry experience. This support helps startups navigate challenges, scale efficiently and professionalize their operations.

The need for inclusive and purpose-driven Investments

Many of the countries where Norfund invests face persistent challenges such as poverty, inequality, and the growing impact of climate change. Investing through purpose funds, reaching impact-driven companies is essential to addressing these systemic issues while creating jobs and fostering economic growth.

Purpose funds focus on businesses that generate both financial returns and measurable social or environmental benefits. These funds often help reduce investment risk by leveraging partnerships with philanthropic or public capital, making it possible to finance projects that might otherwise be considered too risky or unviable for an investor to take on.

Population growth and employment needs

Africa's population is expected to double by 2050, creating an urgent need for job growth to prevent unemployment crises and meet rising demand for goods and services. Investing in businesses through funds is critical to scaling enterprises at the scale needed and driving economic development.

SMEs are particularly important, as they account for a large share of employment in developing countries. However, they often struggle with low productivity and wages due to their inability to leverage economies of scale. Large companies, though fewer in number, play a key role in economic growth. In Africa, where large enterprises remain scarce, fostering their expansion can create a ripple effect, benefiting suppliers, distributors, and entire value chains (McKinsey, 2016).

With Africa's rapid population growth, scaling both SMEs and larger enterprises to create jobs both directly and indirectly in their value chains is essential to meet employment needs and ensuring economic resilience.

Funds as a solution

SME and venture funds empower small and emerging businesses, fostering innovation and job creation. Purpose funds align capital with social and environmental goals, while large-cap funds contribute to driving systemic economic growth and infrastructure development. The investments through these funds all stimulate job creation and broader economic development.

Given the challenges in developing markets, ranging from capital access issues to a lack of local expertise to scale businesses, using funds to deploy capital is a crucial strategy to be able to leverage local expertise and reach far more companies in diverse geographies than would be possible through direct investments by Norfund or other investors. Funds can find and invest in businesses that would be too small for Norfund to make direct investments, as finding these investments independently would both require much larger investment teams, and a repositioning of ideal ticket sizes for investments.

Furthermore, the nature of the capital the funds Norfund invests in is central. Most of the funds invest equity in their portfolio companies. Compared to debt, equity is more patient and risk bearing, allowing companies to undertake more ambitious business plans. A recent report by British International Investment, considering their funds portfolio found that the average growth rates of companies backed by their fund is much higher than other African businesses on average[3] (Carter & Ayres, 2024).

Additionally, these investments often play a catalytic role by attracting additional private capital to the companies and the sector. This drives more resources into critical sectors and regions that need capital to grow.

Lastly it is important to build the funds as resilient financial institutions. By building competence and improved business practices in the fund, the aim is that this positively affects how the whole ecosystem of businesses and other funds operates.

5. Literature

This section considers how investments in different types of funds - large cap, SME, venture, and purpose funds - contribute to job creation and economic growth by considering some of the available literature on this topic.

Large Cap Funds: Investing as a means of building large and resilient businesses

Norfund´s investments in funds aims at channeling funds to a large number of businesses, so that resilient businesses with the capabilities to scale up their operations are supported. To support this transition, the funds can incorporate technical assistance programs, mentorship, and support their portfolio companies in areas like governance, marketing, and technology adoption. Thus, the fund is often offering more than just access to capital to its portfolio companies. This holistic approach

[3] We acknowledge that selection bias is present in this analysis. Meaning the selection of businesses through BIIs funds are different from those that are not part of this group.

empowers businesses to develop the skills and infrastructure they need to become more competitive and scalable over time (Carter & Ayres, 2024) (Bertanzetti, Mondal, Nasir, & Teachout, 2024).

There are several reasons why we wish to support businesses with the aim of increasing their size. Larger companies benefit from enhanced access to capital, allowing them to invest in new projects, expand their operations, and create more formal jobs. This ripple effect helps to strengthen local economies and reduce poverty in the long run (Bertanzetti, Mondal, Nasir, & Teachout, 2024) (McKinsey, 2018).

As previously stated, in Africa there is on average a scarcity of large companies, especially in the poorer countries. Larger companies are vital for a country's´ economic development as they typically exhibit higher productivity compared to their smaller counterparts. According to McKinsey, this productivity effect in larger companies is even more pronounced in Africa than in other developing regions (McKinsey, 2016).

Furthermore, wages in larger companies tend to be higher than those in smaller companies, due to the productivity effect. Large companies enable economies of scale, allowing for cost reduction, increased efficiency, and enhanced global competitiveness. Thus, investing in companies with the potential to scale up can significantly contribute to job creation and boost productivity. Unlike smaller companies, larger firms often possess more resources and have a greater capacity for innovation, which leads to increased operational efficiency and market competitiveness (McKinsey, 2018).

This growth translates into more job opportunities, supporting broader economic development. Moreover, larger companies are more likely to adopt advanced technologies and management practices, enhancing productivity and creating high-quality jobs (McKinsey, 2018). The existence of such companies also has a ripple effect on the economy, indirectly stimulating the growth and productivity of small and medium-sized businesses within their value chains.

Several of the funds Norfund invests in are large cap funds, aiming to provide capital for scaling up businesses to create powerful engines of growth. A 2021 study in the United States revealed that during the COVID pandemic, almost one third of new jobs were created by just 2 % of companies (Wakefield Research, 2021), further underscoring the immense potential of large companies, which, with sufficient capital and competencies, can employ many people.

While small firms may demonstrate high rates of gross job creation, several studies note that this is often offset by equally high rates of job destruction (Bertanzetti, Mondal, Nasir, & Teachout, 2024). As seen, in contrast, large firms offer more stable and high-quality employment, coupled with the potential for large-scale job creation. These characteristics underline the essential role that large firms play in economic development. While most jobs are held in small businesses the stability and growth potential in larger firms are crucial for long-term economic prosperity (Bertanzetti, Mondal, Nasir, & Teachout, 2024). This underscores the importance of investing in both large and small and medium-sized enterprises, to both sustain and create jobs.

SME Funds: A tool to sustain and create jobs, bridge social gaps and promote formal employment

Even though much of job creation takes place in larger companies, a large share of jobs is held in SMEs. Supporting SMEs is therefore important to sustain jobs. The importance of supporting SMEs in developing regions is demonstrated by the International Finance Corporation, who in 2021 estimated that for every $1 million lent to SMEs in African countries, an average of 16.3 jobs is created over two years (International Finance Corporation, 2021). This statistic underscores the importance of supporting SMEs, which not only serve as a backbone for many African economies but also play a crucial role in both sustaining and creating jobs.

In many developing markets, SMEs often operate within the informal sector or in a grey zone, where they may not comply with tax regulations or provide adequate working conditions for employees (ILO, 2019). The introduction of a professional or institutional owner can serve as a catalyst for formalization, encouraging compliance with tax obligations and the adoption of more structured employment practices.

Findings also suggest that SMEs in particular offer employment opportunities for marginalized and rural populations, contributing significantly to local employment. In addition, these companies often operate in areas where larger firms do not due to high transaction costs or low demand, helping bridge economic and social gaps. Thus, SMEs play a vital role in supplying goods and services to rural and smaller communities (Bertanzetti, Mondal, Nasir, & Teachout, 2024).

Venture funds: Investing to spur innovation

A broad range of studies connects start-up companies and the success of entrepreneurship to innovation and economic growth (Cameron, 1996; Ulku, 2004) (Sahho, Khudhair, & Abdullah, 2024). Supporting startups in developing countries is critical for fostering economic growth, driving innovation, and addressing unemployment as startups have the potential to create jobs, introduce new technologies, and enhance competitiveness in sectors vital for development. Especially important is the effect of new knowledge generated from the success of a new business, and how this then benefits other businesses in the same sector, spurring economic growth (Carre & Thurik, 2010).

As the new or expanded business transfer knowledge to other firms and sectors, this could contribute to attracting increased direct foreign investment, enhancing the prospects for further economic growth.

Purpose funds: Investing to accelerate social and developmental goals

Purpose funds target investments in businesses with clear social and environmental objectives, aligning economic growth with broader development goals. These funds are vital in channeling capital to sectors or regions that may otherwise be overlooked, such as rural or underserved communities.

Overarching: The importance of providing equity

The funds Norfund invests in provide mostly equity for their portfolio companies. There exist several studies connecting the availability of equity to the rate of innovation and growth in an economy.

In a study of several Eurozone countries, Peter (2021) finds that limited access to equity financing harms companies' economic performance more than limited access to debt (Peter, 2021). This is attributed to the risk-bearing nature of equity, which enables companies to take larger risks to expand operations.

Extensive research links equity financing to higher rates of innovation and economic growth. Gorodnichenko and Schnitzer (2013) analyzed data from nearly 15,000 firms across 27 countries to explore why poorer countries struggle to catch up. Their study provides clear evidence that financial constraints, particularly limited access to equity, hinder firms' ability to innovate, adopt new technologies, and close development gaps. They conclude that risk-bearing capital, such as equity, plays a crucial role in facilitating technology adoption and driving innovation.

6. Assumptions

Investing in funds supports job growth and economic development, but several conditions must be met for inputs to translate into impact. This section outlines key assumptions underpinning our theory of change. Many of the assumptions are challenging to achieve in Norfund's markets and if expected outcomes are not realized, gaps in these assumptions may be a contributing factor

From inputs from Norfund to outputs on fund level and inputs to the portfolio

There are several key assumptions to be able to transition from Norfund's inputs to the fund, through to the inputs that the fund can provide to the portfolio companies.

Firstly, having a well-structured and experienced management team is essential for effectively executing the fund's strategy, navigating challenges, and making sound investment decisions that lead to sustainable growth in the fund's portfolio companies. Secondly, the presence of geographical and sector-specific competence ensures that the fund can capitalize on local knowledge of regulatory environments, and market dynamics, which are critical for identifying opportunities and managing risks in their target regions and sectors. Finally, compliance with Norfund's strategy and practices ensures alignment with overarching goals of development, ensuring that investments contribute to broader impact objectives, such as job creation, sustainable growth, and poverty reduction.

Together, these assumptions form the foundation that enables Norfund´s inputs to the fund to result in increased capital provision and other inputs to reach the portfolio companies.

From input from the fund to its investees to short-term outcomes

To ensure that inputs at the portfolio level translate into short-term outcomes, several key assumptions are necessary.

Firstly, the fund team's operational insight is crucial for driving the success of portfolio companies. This expertise enables the team to provide tailored support, guiding companies through operational challenges and facilitating improvements in efficiency and growth. Secondly, the assumption that the fund team honours its obligations is vital to maintaining trust and collaboration between the fund and its portfolio companies, as well as between Norfund and the fund. Meeting commitments ensures the smooth execution of agreed-upon strategies, fostering an environment where companies can focus on performance and growth. Lastly, a conducive and adaptive business environment is essential to enable portfolio companies to thrive and expand. This assumption ensures that regulatory, market, and economic conditions are favourable and responsive to change, allowing businesses to seize opportunities and overcome challenges, ultimately contributing to achieving the short-term outcomes.

From short-term outcomes to medium-term outcomes

For short-term outcomes to transition into medium-term outcomes, several assumptions are critical.

Firstly, an environment conducive to business growth is still essential for sustaining the success of portfolio companies and ensuring that this results in increased demand and value creation among the portfolio companies' suppliers. This includes supportive regulatory frameworks, access to capital, and market stability, also for the suppliers, which together foster a situation where businesses can expand and scale their operations.

Secondly, the assumption that new businesses are successful ensures that the enterprises supported by the fund and its suppliers can achieve profitability, expand their market presence, and create lasting economic impact. This success is pivotal to driving growth, job creation, and innovation in the medium term.

Finally, the assumption that businesses manage the effects of climate change is increasingly important, as climate-related risks can disrupt operations and affect long-term sustainability. Businesses that adapt to and mitigate these risks are better positioned to thrive and contribute to broader economic and environmental resilience, ensuring that medium-term outcomes are achieved.

7. Impact risks

Investing in funds offers significant potential for economic growth but also presents impact risks, particularly in developing countries. These risks stem from uncertainties in emerging markets, which can lead to discrepancies between expected and actual outcomes. Each individual investment will have different impact risks. Managing these risks is crucial to ensuring meaningful and sustainable impact. The below outlined risks are not an exhaustive list.

One key risk is misalignment between fund goals and portfolio company capacity. Many businesses may lack the resources or operational experience to scale, resulting in lower-than-expected job creation and productivity improvements.

Regulatory and business environment risks can also hinder growth. Weak governance, shifting policies, and political instability create uncertainty, increasing costs and limiting expansion opportunities for portfolio companies. Market shocks, including economic downturns, currency fluctuations, and commodity price volatility, can destabilize businesses in emerging markets, disrupting supply chains and reducing profitability.

Ensuring strong E&S compliance could be another challenge. Portfolio companies may struggle to meet environmental and social standards, in the worst case leading to unintended negative impacts such as labor rights violations or environmental degradation. Furthermore, climate change risks pose an increasing threat. Extreme weather and resource scarcity can reduce productivity and limit business sustainability, yielding a different outcome than what was expected at time of investment.

Cultural and social barriers may slow the adoption of new technologies and business practices. Local norms can both support and hinder growth, particularly in sectors behavior change is critical to realize the outcomes.

By recognizing and addressing these risks, Norfund can enhance the effectiveness of its fund investments, ensuring they contribute to sustainable development, job creation, and economic growth.

8. Annex

8.1 Different types of funds and why we invest in them

SME Funds: dedicated to supporting small and medium-sized enterprises.

Norfund is financial additional by facilitating capital flows into underserved market, that would have otherwise not happened due to the high risks associated. By doing this it is also expected that other investors are mobilized to provide further funding, thereby enhancing the effect of the initial financing.

Norfund is further value additional by active participation in Advicory Comittees . We also contribute by providing expertise and experience to the fund, that can transfer this to their portfolio companies, focusing on, among other aspects, improving ESG performance. This includes offering training and developing robust Environmental and Social Management Systems (ESMS).

By investing in SME Funds, we wish to drive the development of SMEs and enable them to create more decent job opportunities. These companies would have otherwise been to small and too time consuming for Norfund to invest in directly. We also wish to support labour-intensive sectors, promote job formalization, and institutionalize businesses to improve their procedures and practices.

Large Cap Funds: invest in medium and large-cap companies, often focusing on scaling up established businesses.

Norfund is financial additional in these funds primarily by providing top-up capital (to not crowd out other investors). This capital ensures that the fund can increase the range and impact of its operations, while also mobilizing further investments into the fund. Unlike the approach for the other fund types, Norfund intentionally limit our value additionality when investing in large cap funds. This is because we here prioritize working with managers who already possess high competencies and has an active approach towards its portfolio companies.

By investing in large cap funds, we wish to achieve growth of large companies that play a pivotal role in the business ecosystem. These companies drive economic growth through high value-added activities and job creation, both directly and indirectly through their value chains. Additionally, we wish to support the funds aim to improve and maintain of sound procedures and practices within its larger portfolio enterprises, ensuring their continued success and sustainability.

Purpose Funds: focus on investing in micro and small companies operating in high-risk markets. These markets are often characterized by informal and insecure job conditions, and the funds aim to address these challenges.

The investment in these funds aim to be financial additional by serving as an anchor investor or initiator in these high-risk environments, paving the way for other investors to participate. Through Norfund´s involvement, these funds should mobilize further capital and thus enable further investments in underserved regions.

In terms of value additionality, Norfund is a responsible owner. We participate in, or nominate General Partner (GP) boards and fund advisory committees (ACs), contribute to fund structuring, and support the implementation of Environmental, Social, and Governance (ESG) standards. Additionally, we provide targeted business support to portfolio companies, helping them achieve sustainability and scalability.

By investing in Purpose Funds Norfund wishes to promote job formalization in high-risk markets, where informality often prevails, and fostering institutionalization of companies to ensure financial viability and improved business practices.

Venture Funds: focus on investments in early-stage companies that require higher-risk capital to drive their growth and development. These investments are critical for fostering innovation and establishing sustainable business practices in emerging markets.

Norfund is financially additional in these transactions as we bring capital to support these higher-risk investments in these early-stage companies and play a key role in mobilizing other investors to join, thereby enabling investments that likely would not otherwise have been realised.

Norfund is value additional by actively participating or nominating representatives for fund advisory committees (ACs), ensuring robust governance. Additionally, Norfund supports the introduction of ESG standards to help the companies adopt sustainable and responsible business practices from the outset.

By investing in Venture Funds we typically wish to support the building of local innovation capacities and environments, and establishing good procedures and practices in new companies, setting them on a path for long-term success and sustainability.

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