Norfund

2018

REPORT ON OPERATIONS

Norwegian Investment Fund for Developing Countries

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NORFUND
REPORT ON OPERATIONS 2017

Head office
Oslo Norway

Address:
Fridtjof Nansens plass 4,
0160 Oslo, Norway

Phone:
+47 22 01 93 93

Fax:
+47 22 01 93 94

E-mail:
post@norfund.no

Website:
www.norfund.no

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INVESTING FOR DEVELOPMENT

NORFUND – the Norwegian Investment Fund for Developing Countries – is a state-owned company and the Norwegian government's main instrument for strengthening the private sector in developing countries.

Norfund's mission is to create jobs and to improve lives by investing in businesses that drive sustainable development. Norfund makes equity investments in scalable businesses as well as providing finance to energy companies and financial institutions which is crucial to private sector development.

Norfund's strategy is closely aligned with several of the seventeen UN Sustainable Development Goals (SDGs).

The companies in our focus sectors contribute directly to three of the SDGs; 7,8 and 9 and indirectly to a number of other goals. Our strategic focus on additionality and mobilisation contribute to reducing inequalities between countries (SDG 10) and to mobilise funding to developing countries (SDG 17). ■

THE STRATEGY IS CLOSELY ALIGNED WITH THE SDGs

Norfund and similar investment funds in other countries are known as Development Finance Institutions (DFIs).

SECTOR IMPACT

Increasing energy access and supply, financial inclusion and business development.

STRATEGIC PRIORITIES & CROSS-CUTTING ISSUES

Investing in Least Developed Countries and mobilising commercial capital – with climate action, gender equality, human rights and anti-corruption as cross-cutting issues.

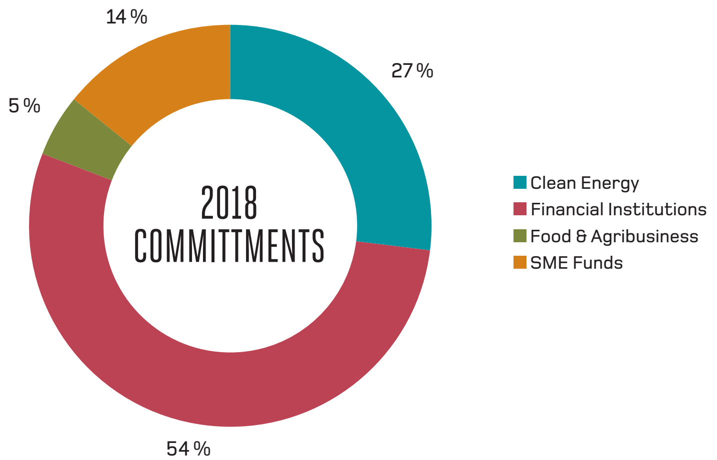
PORTFOLIO AND RESULTS END OF YEAR 2018

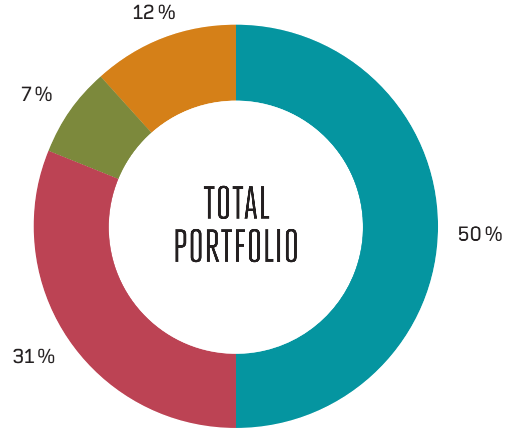
22.3
billion NOK
total committed

6%
IRR since inception
(inv. currency)

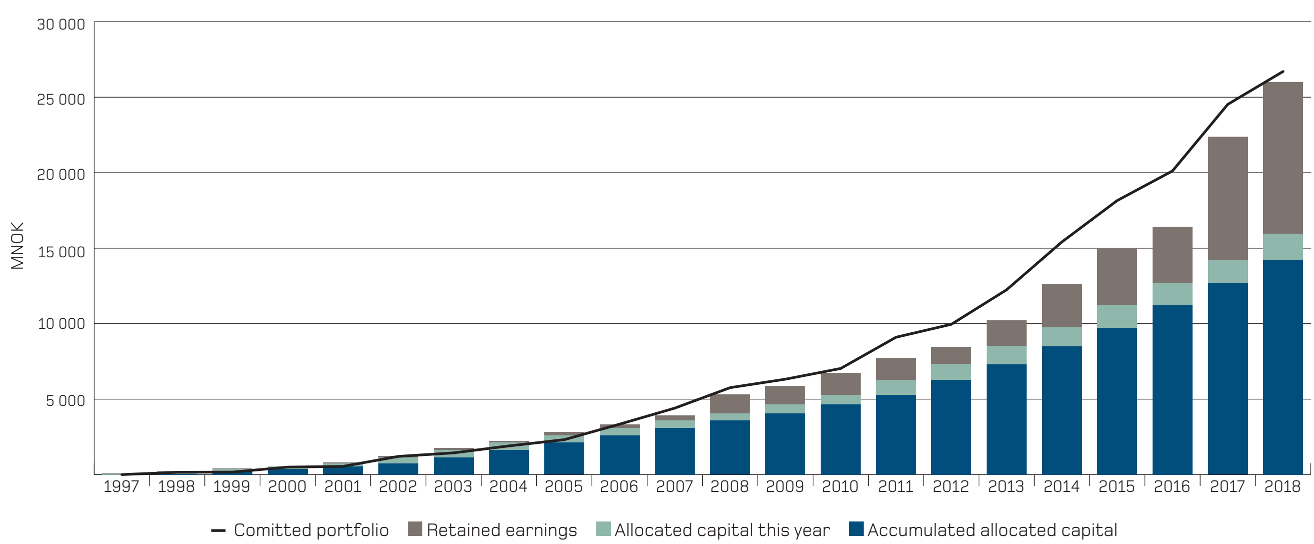
9%
IRR since inception
(NOK)

304,000
jobs in the portfolio companies





NORFUND PORTFOLIO SINCE INCEPTION



17.4 TWh

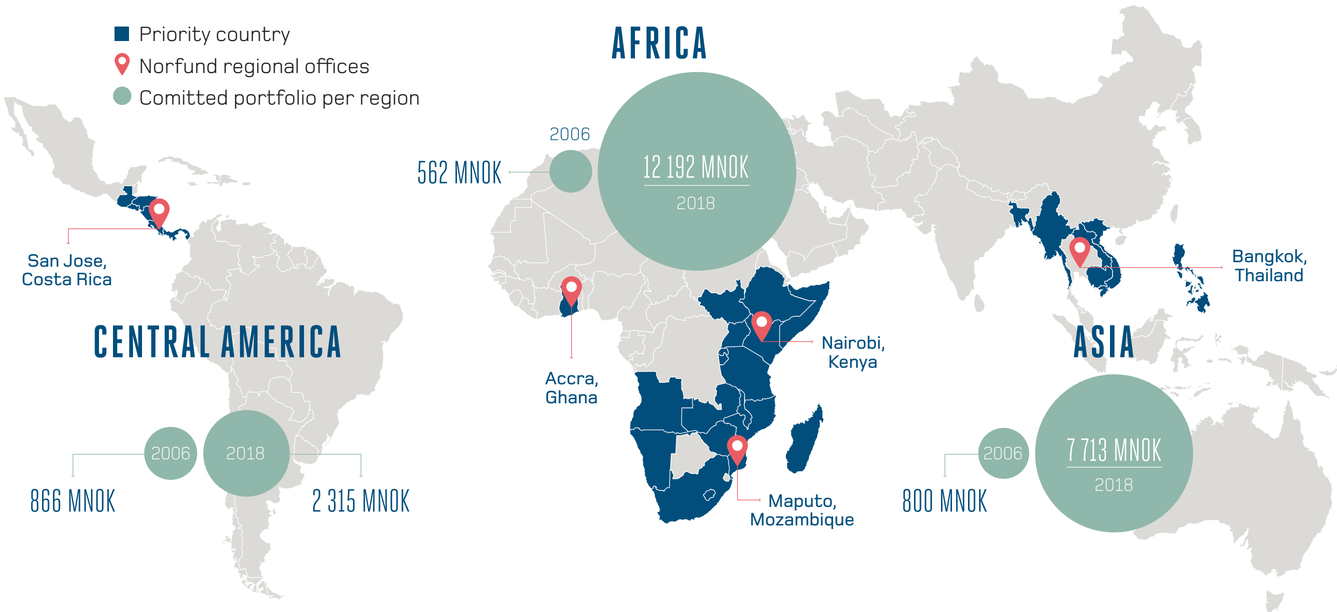
electricity produced by portfolio companies

3.5

billion NOK new investments in 2018

13.9

billion NOK taxes paid by portfolio companies in 2018



KEY FIGURES NORFUND 2012–2018	2012	2013	2014	2015	2016	2017	2018
Portfolio (MNOK)	8 295	9 630	12 843	15 127	16 762	20 439	22 253
Capital allocated by the owner (MNOK)	1 030	1 198	1 230	1 480	1 478	1 500	1 690
New investments (MNOK)	1 234	1 872	3 645	2 395	2 784	3 600	3 511
Share of new investments in least developed countries	54%	42%	24%	38%	57%	34%	47%
Share of new investments in Africa	82%*	68%*	72%	85%	73%	35%	49%
Return on invested capital (IRR) in investment currency	10%	-1%	-6%	3.5%	2.9%	14%	4.6%
Number of direct investments	107	118	126	129	124	136	149
Number of employees in Norfund	50	54	61	69	69	71	75
Number of jobs in portfolio companies	294 000	314 000	227 000	382 000	276 000	292 000	304 000

*excl. SKIHI and SN Power

A MESSAGE FROM

TELLEF THORLEIFSSON

Chief Executive Officer

CREATING JOBS FOR DEVELOPMENT

"Job creation is a pre-requisite for any society seeking to combat poverty. For these companies to get started, they need access to energy, banking services and other key infrastructure. Norfund's strategy is to contribute to this, and I will do my utmost to make sure that our investments continue to provide a sustainable impact." →

Norfund invests in sustainable businesses in developing countries. When meeting politicians from developing countries, they reiterate the importance of having a long term, active investor like Norfund that can support companies providing jobs and local tax income. On this basis, Norfund´s goal of strengthening the private sector is a mission I fully subscribe to. Managing large funds provided by Norwegian taxpayers, comes with a huge responsibility. Joining an experienced team gives comfort, but I still feel humbled by the trust placed in me and I will do my utmost to make sure we reach our goals.

During my first six months, I have met with entrepreneurs and companies across Africa, Central America and Asia. I have witnessed, first hand, how companies that Norfund has invested in are providing real job opportunities, economic development and a better future for many people. I have also been impressed by how Norfund has been able to combine its social mission with steady growth, profitability and a broader reach.

GLOBAL ECONOMIC MOMENTUM MAINTAINED IN 2018

Globally, the economic expansion was robust in 2017, and the economic momentum was largely maintained in 2018 thanks, in part, to the recovery of commodity prices. However, economic progress has been uneven across regions. East and South Asia remain on a relatively strong growth trajectory, while the growth rate in large parts of Africa has failed to keep up with the population growth. In 2018, average GDP growth in the LDCs was approximately five per cent. The economies of other large LDCs within Norfund's geographical priority area are still expanding at an average annual rate of seven per cent or more, including Bangladesh, Cambodia, Laos, Myanmar and Ethiopia.

JOBS FOR AFRICA'S GROWING YOUNG POPULATION

By the end of 2018, the global share of people living in extreme poverty was at the lowest level ever recorded. Rapid population growth in some of Africa's poorest countries has meant that extreme poverty has become increasingly concentrated in Africa.[3] Unless we are able to create jobs and foster livelihoods in Sub-Saharan Africa, we will not succeed in further substantially reducing poverty. The work that Norfund and other DFIs are doing in Africa is increasingly important, especially because the flow of foreign direct investments to Sub Saharan Africa has declined during the last few years.

MARKETS WITH HIGH INVESTMENT POTENTIAL

Most Western companies are under-invested in Africa and South East Asia. In my opinion, they are failing to grasp the growth potential due to a general negative perception of these regions. Private investors allocating funds to Africa and South East Asia may access attractive growth opportunities and attain a risk diversification in their portfolios. There is large untapped potential for private pension funds to shift some of their investments to growth areas outside of Europe, Japan and the USA. Norfund is prepared to assist private investors to invest in some of these areas by sharing our experience, network and dealflow.

As professional value-adding business developers; together we will be able to succeed in creating much needed jobs and make a real difference.

Norfund invests in high risk areas with low investment grades. While investments in least developing countries may provide a promising profit potential, they can also be extremely challenging. Large scale investments such as agricultural- and clean energy projects are typically in remote rural locations. Prudent community engagement is needed to ensure that local stakeholder interests are catered for according to domestic and international standards. The forestry company Green Resources in East Africa, and the solar plant Los Prados in Honduras are examples of investments in which engaging with and understanding the local social, political and environmental context has been particularly challenging.

NORFUND HIGHLIGHTS IN 2018:

Improving access to energy is a prerequisite for economic growth and poverty alleviation. In 2018, Norfund's single largest commitment was the investment in the Bujagali hydropower plant through SN Power. It is Uganda's largest power plant generating almost half of the country's energy supply. Another major energy investment during 2018 was an equity investment, made together with Scatec Solar, for the construction of three new solar power plants in South Africa. The solar power plants will generate a total of 258 MWp and are expected to be completed in 2020. The construction of the first national solar power plant in Mozambique, the Mocuba project, is expected to be operational by medio 2019.

Two other important renewable energy investment milestones were also attained in 2018: Sub-Sahara's largest wind power plant, Lake Turkana Wind Power in Kenya, and the 35MWp Los Prados solar project in Honduras both became operational and are performing well above expectations.

Another milestone was reached when Norfund, together with Shuraako and the Danish development finance institution IFU, established a USD 10 million fund to support small and medium sized companies in Somalia. This is among the first commercial investment funds in Somalia. It is representative of the work Norfund is doing in some of the world's most challenging markets. In 2018, investments in Least Developed Countries (LDC) accounted for 47% of Norfund's total portfolio.

NORFUNDS'S NEW STRATEGY

Since Norfund's inception in 1997, the investment needs of the developing world have shifted significantly. In the energy sector, the solar energy revolution has completely transformed the energy markets. In the financial sector, the fintech transformation forces us to rethink and reconsider the financial value chain. Norfund has also been growing significantly, and we will prepare for further expansion in the years to come.

To ensure that these changes are well managed, we have initiated a strategy process where new investment sectors, geographies and targets are being considered. We are also taking a closer look at our organisation to make sure that we have the competencies required.

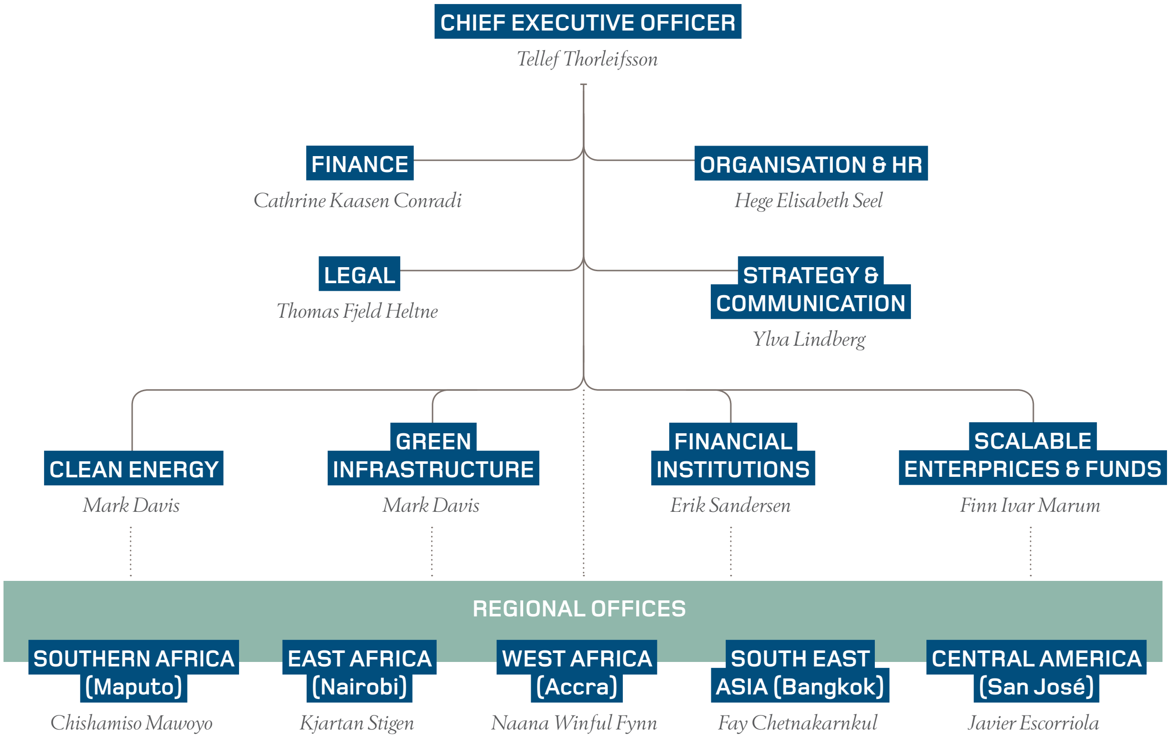
Norfund's continued growth hinges on continued support from our owners, the Norwegian government. The trust from our owners will in turn depend upon our ability to put our capital to work in a responsible manner, and our ability to be additional (as explained on page 32). As Norfund is a minority investor, typically with entrepreneurs or industrial investors being in the lead, we also depend on strong, capable partners sharing our values and goals. As we keep on growing, I believe that Norfund's continued success, increasingly will depend upon our ability to work even more closely with our partners and stakeholders. Together we can succeed in creating much needed jobs and make a real difference.

Tellef Thorleifsson, Chief Executive Officer


LAKE TURKANA
WIND POWER

REPORT ON OPERATIONS

AN ACTIVE, STRATEGIC MINORITY INVESTOR



NORFUND'S ORGANISATION

Investment expertise
Norfund has the country's largest specialist team investing in developing countries. In 2018, 48 of Norfund's 75 employees worked directly with investments and follow projects through all phases of the investment process. Norfund has three sector-based departments: Clean Energy, Financial Institution, Food and Agribusiness, as well as a unit investing in Funds.

Country presence
Twenty-four Norfund staff members are employed across five regional offices (Nairobi, Maputo, Accra, San José and Bangkok) to ensure local proximity and knowledge. The regional offices generate investments, monitor existing engagements and provide support to all the sector based departments.

Development expertise and administrative support
Norfund has dedicated experts monitoring environmental, social and governance issues related to our investments. The Strategy and Communication department analyses development effects and additionality, and manages 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 Norfund's Business Support scheme. A legal department has recently also been established. To keep the organization small and efficient, a number of support functions are outsourced.

Investment committee
Norfund's Investment Committee (IC) is an important entity in Norfund, both for quality assurance and to make better decisions. The IC has eight members, whereof two are external, and is led by the CEO. While the CEO/Management Team can decide on investments up to USD 4 million, the IC is mandated to decide on investments between USD 4 – USD 15 million and commercial exits. The IC shall also review investment proposals above USD 15 million, but final approval is to be made by the Board of Directors. ■

Left to right: Mark Davis, Erik Sandersen, Ylva Lindberg, Tellef Thorleifsson, Hege Elisabeth Seel, Finn Ivar Marum, Cathrine Kaasen Conradi, Thomas Fjeld Heltne.

TELLEF THORLEIFSSON **CEO (Since October 2018)**
Prior to Norfund, he was a co-founder and managing partner of Northzone. Since 1996, Thorleifsson contributed to building Northzone to become a leading international venture-fund. Since inception it has raised more than EUR 1.5 billion through 9 funds and invested in more than 130 companies. Thorleifsson is also a co-founder of the Voxtra Foundation which has been making targeted investments and grants within agribusiness in East Africa. Thorleifsson has had several directorships.

HEGE ELISABETH SEEL **EVP Organisation & HR (since 2008)**
Before joining Norfund, Seel was Assistant Director General at Ministry of Trade and Industry as Chief of Staff. She has experience from international assignments in OECD and the EU and has been working for the Ministry of Foreign Affairs.

YLVA LINDBERG **EVP Strategy & Communication (since 2019)**
Prior to Norfund, she was founding partner of the consultancy SIGLA for 13 years, focusing in sustainable and impact finance. Lindberg is also a senior associate of the University of Cambridge Institute for Sustainability Leadership, board member of Lærdal Medical and member of the Responsible Investment Advisory Council of BMO Global Asset Management.

THOMAS FJELD HELTNE **EVP Legal (since 2019)**
Heltne is General Counsel for the newly established Legal department. Before joining Norfund, he was Director M&A at Norsk Hydro. Heltne has throughout his career worked with transactions, financing and international projects, both from the legal and commercial side. Heltne has been member of and observer to boards of Norwegian industral companies and also served on the Trade Policy Panel for the Confederation of Norwegian Enterprise (NHO).

ERIK SANDERSEN **EVP Financial Institutions (since 2014)**
In addition to being head of Financial Institutions, he sits on the boards of the African bank investment firm Arise, NMI – the Nordic Microfinance Initiative and Norfinance AS where he acts as the Chair. Prior to Norfund, Sandersen was partner and co-founder of Incitia Ventures, a venture fund investing in early- and growth stage Nordic technology companies.

MARK DAVIS **EVP Clean Energy (since 2007)**
Prior to joining Norfund, he was employed at ECON Analysis where he was responsible for a range of energy-related consulting assignments, primarily in developing countries. Davis has worked extensively in Southern and East Africa, as well as selected countries in Asia and Latin America. Davis is on the board for several of the departments investees, among other Globeleq and SN Power.

FINN IVAR MARUM **EVP Agribusiness & Funds (since 2016)**
Marum has extensive experience from private equity investments in Norway and internationally including seven years at HitecVision as a Senior Partner. Marum has served on a number of a portfolio company boards and is currently on the boards of Export Credit Norway and Nortek.

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 visit selected investee companies in priority developing countries.

KRISTIN CLEMET Chair (since 2007)
Ms Clemet is 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 (now Equinor). 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 Head of Renewable Finance 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 (now Equinor). 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.

VIBEKE HAMMER MADSEN Director (since 2018)
Vibeke H. Madsen is educated as radiograph and has extensive management experience. Since 2002 until today, Madsen has built and led Virke, the Enterprise Federation of Norway. Before this, she worked for PA Consulting Group and she was director in Statoil Marketing. Madsen has had a number of directorships, among others in Kværner ASA, Forskningsrådet, Aker Solutions ASA og Storebrand.

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 Clean Energy 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.

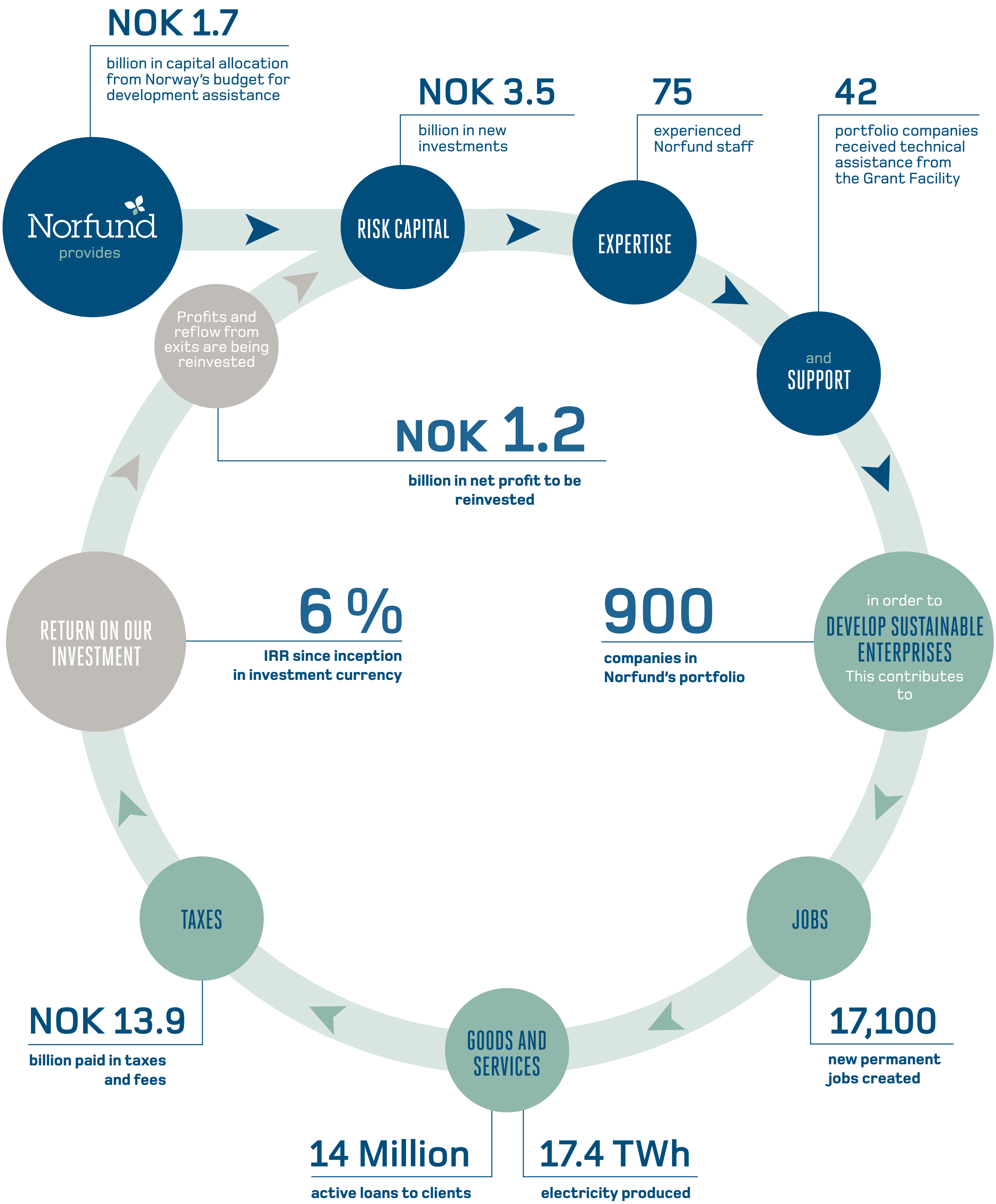
INVESTING IN BUSINESSES THAT DRIVE SUSTAINABLE DEVELOPMENT

The development of sustainable enterprises and jobs is essential to promote economic growth and reduce 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 tax revenues. An investments is exited 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. ■


NOK 1.7
billion in capital allocation from Norway's budget for development assistance
Norfund
provides
NOK 3.5
billion in new investments
RISK CAPITAL
75
experienced Norfund staff
EXPERTISE
42
portfolio companies received technical assistance from the Grant Facility
and
SUPPORT
Profits and reflow from exits are being reinvested
NOK 1.2
billion in net profit to be reinvested
RETURN ON OUR INVESTMENT
6 %
IRR since inception in investment currency
900
companies in Norfund's portfolio
in order to
DEVELOP SUSTAINABLE ENTERPRISES
This contributes to
TAXES
JOBS
NOK 13.9
billion paid in taxes and fees
GOODS AND SERVICES
17,100
new permanent jobs created
14 Million
active loans to clients
17.4 TWh
electricity produced

Solar power accounts for an increasing share of Norfund's clean energy portfolio.

A STRATEGIC INVESTOR

Norfund's **strategy** 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.
In 2018, a set of Key Performance Indicators (KPIs) were 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 no less than 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.

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

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

INVESTMENT EXPERTISE
Norfund continuously 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 invest. Norfund therefore recruits employees in and from our target countries and regions. As an active owner, we recruit experienced external and internal 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 2018 on page 29). ■

[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.

SOCIAL RESPONSIBILITY & HUMAN RIGHTS

Norfund sets high standards for own operations and for the operation of enterprises in the portfolio. Norfund has zero tolerance for corruption, and requires consideration for human rights, gender equality and local communities, as well as safeguarding of the environment and biological diversity. All these factors are thoroughly reviewed before investment agreements are signed. If necessary, action plans are established for the companies to follow up. These factors are always part of Norfund's active ownership and in the required reporting from the companies.

COMPLIANCE REQUIREMENTS
In many of the countries in which Norfund invests, laws and rules to protect employees and the rights of vulnerable groups may be poorly implemented. Norfund therefore often stipulates compliance requirements over and above those that are general practice and commits the enterprises to complying with the environmental and social standards of the IFC (IFC standards). We don't expect the company to be fully compliant from day one, but to be committed to follow the agreed action plan and become compliant over time. These standards cover relevant parts of the Declaration of Human Rights and the UN guidelines for human rights such as indigenous peoples' rights, biodiversity, the interests of local communities and the core conventions of the International Labour Organisation (ILO).

BUSINESS INTEGRITY POLICY
Norfund has established a 'Business Integrity Policy' and reporting procedures that are to be used if financial irregularities or corruption are suspected, and these are constantly followed up in all parts of the organisation. If financial irregularities or corruption are suspected, there is also a special procedure for reporting to the Norwegian Ministry of Foreign Affairs.

AN ATTRACTIVE INVESTMENT PARTNER
A result of the commitment to human rights and anti-corruption is that Norfund has gained a reputation as a responsible, transparent investor, and as such an attractive investment partner.

AN ACTIVE AND RESPONSIBLE INVESTOR

Norfund is an active and responsible investor. This implies carefully assessing 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 considera-tion. 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 32), and overall portfolio considerations. The best prospects are

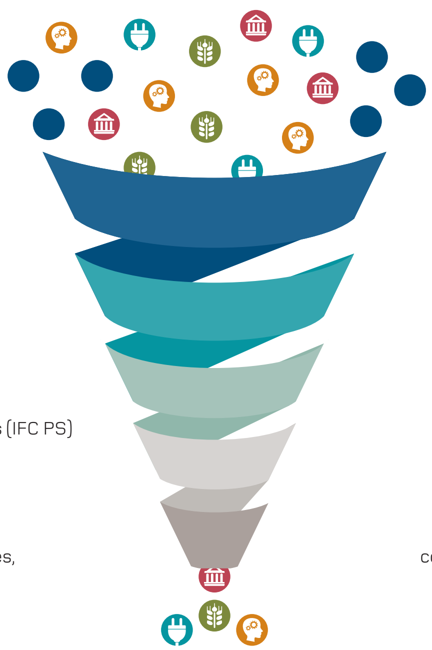
IMPORTANT CONSIDERATIONS

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 43 active prospects under consideration in 2018.

Clearance in Principle (CIP)
At year end, 23 potential investments had received a CIP

Final Approval (FA)
At year end, 22 potential investments had received the FA.

Investments
In 2018, Norfund invested in 16 new companies and made 19 follow-on invest-ments in exisiting portfolio companies.

presented for a Clearance in Principle (CIP) to Norfund's Investment Committee (see page 10) 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/). This is a framework for international best practice in environmental and social risk management for investors.[2]

In 2018, an external evaluation commissioned by Norad's independent evaluation department concluded that Norfund has good procedures in place to ensure that human rights are respected - and that Norfund's approach based on IFC Performance Standards contributes to the same outcomes as an UNGP-based approach. Case studies showed that Norfund has contributed to lifting the standards of human rights and revealed no adverse human rights impacts.

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.

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, deliver on development and additionality, and remain 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
- Practice 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 2018 Norfund was represented on 40 company boards, 33 seats were occupied by external experts.

Norfund Business Support scheme

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. 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 2018, Norfund had 42 on-going business support interventions, of which 18 were initiated during the year. Of the new interventions, 50 per cent were related to ESG and enterprise improvements. 67 per cent were in Sub-Saharan Africa and 57 per cent were in Least Developed Countries. In total, Norfund spent 14.1 million NOK on business support interventions in 2018. ■

[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 influential 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 always depend 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.

TAX POLICY AND OFFSHORE FINANCIAL CENTERS

The fund has developed a responsible tax policy that is at the core of Norfund´s operations. It states among others that Norfund shall exercise great caution in its use of offshore financial centres (OFCs) and only motivated by non-tax benefits.

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 take place and that we in no way contribute to tax evasion or illegal capital flows.

When OFCs are needed, Norfund shall strive to invest through holding companies and funds registered in countries that comply with the standards of Global Forum on Transparency and Exchange of Information for Tax Purposes, including the automatic exchange of tax information, and/or through countries with which Norway has a tax information exchange agreement. ■

Norfund has been a patient, minority investor in Lake Turkana Wind Power Project since it was initiated in 2013.

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 in a defined business area. Below is an overview of investment platforms and partners of specific strategic importance for Norfund's goal achievement:

INVESTMENT PLATFORMS

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 to a large degree done by Arise.

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.

The hydropower production company **SN Power** was established in 2002 by Norfund and Statkraft. The company contributes to economic growth and poverty reduction through enabling increased access to renewable, stable energy for businesses in developing countries. Since 2017, Norfund has been the sole owner of SN Power. This was due to new priorities in Statkraft's strategy and has enabled SN Power to focus more strongly on energy investments in Sub-Sahara Africa and in specific countries in South East Asia.

OTHER STRATEGIC PARTNERS

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.

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 and in Central America.

REPORT ON OPERATIONS

PORTFOLIO AND RESULTS

PART 1 AUDITED FINANCIAL RESULTS & EXITED COMPANIES

Year 2018

PORTFOLIO

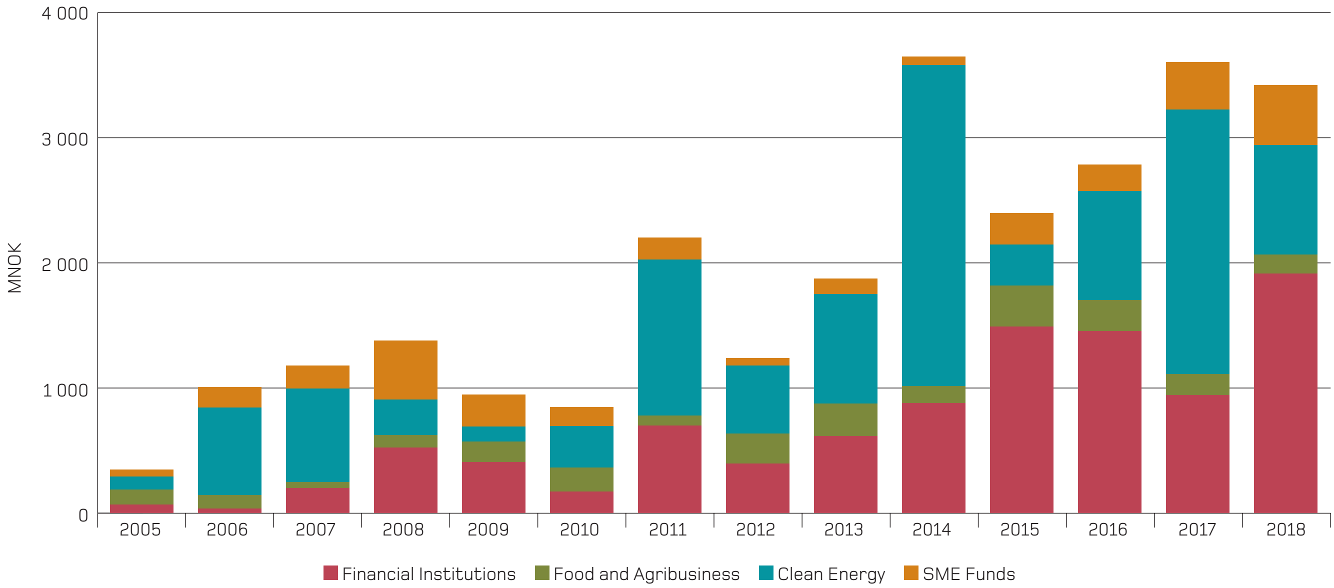
By year end 2018, Norfund had committed investments totaling NOK 22.253 million in 149 projects. Almost half of the portfolio is invested in clean energy projects.

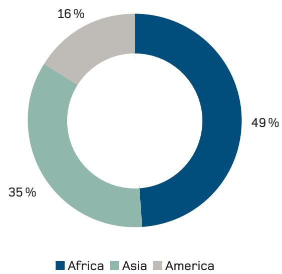
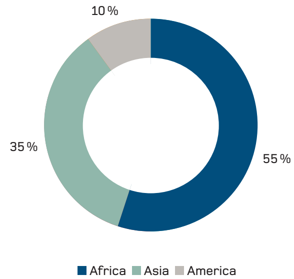
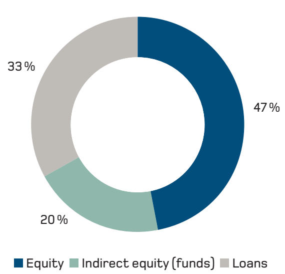
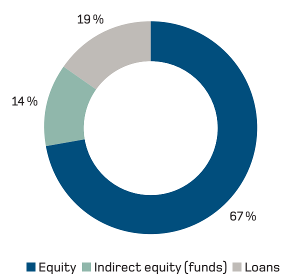
22.3	3.5	1.69	149 / 900	16
billion NOK total committed	billion NOK committed in 2018	billion NOK allocated from owner in 2018	companies received direct / indirect investments from Norfund	new investments and 19 follow-on investments in 2018

ANOTHER YEAR OF HIGH INVESTMENTS

Norfund's yearly investment activity has increased significantly since inception. 47 percent of all new investments in 2018 were done in Least Developed Countries, hereof 400 million NOK in Myanmar. More than 50 percent of the new investments in 2018 were loans and equity investments in financial institutions – which will increase access to capital for small and medium sized companies and thereby contribute to economic growth and job creation.

NEW INVESTMENTS PER YEAR



	INVESTMENTS IN 2018	TOTAL PORTFOLIO
PRIORITY GEOGRAPHICAL REGIONS According to Norfund's strategy, approximately 50 per cent of our investments in 2018 were in Sub-Saharan Africa. However, within the sector financial institutions , most of our new investments were in Least Developed Countries in Asia. (KPI: Sub-Saharan Africa > 50%)		
PRIORITY TO LEAST DEVELOPED COUNTRIES (LDCS) The need for DFI investments is high in LDCs due to scarcity of capital available in these markets. (KPI: Least Developed Countries > 33%)	47 % **NEW COMMITMENTS IN LDCS**	41 % **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. Greenfield investments have often high risk but may be particularly important to development. Financing greenfields can be extremely challenging in developing countries. (KPI: Greenfield>15% of three years moving average)	32 % **NEW COMMITMENTS IN GREENFIELD**	35 % **TOTAL PORTFOLIO IN GREENFIELD**
PRIORITY TO EQUITY Access to equity capital is particularly important to companies in developing countries. Providing equity is Norfund's preferred instrument, strengthening investees' capital structure and enabling Norfund to take a role as an active strategic owner. (KPI: Equity and indirect equity >70%)		

RESULTS

The Internal Rate of Return (IRR) of Norfund's investment portfolio in 2018, (calculated in investment currency) was 4.6 (≈5) percent. This was substantially lower than the IRR of 14 percent in 2017. When calculated in Norwegian kroner, Norfund's IRR for 2018 was 10.5 (≈11) percent.

Significant annual variations mean that the contribution of our investments is better reflected in IRR calculations of investments since inception. As of 31.12.2018, since inception, Norfund's IRR, expressed in investment currency, is 5.8 (≈6) percent. When calculated in Norwegian kroner, the IRR for this period was 9.3 (≈9) percent.

In 2018, Norfund's Clean Energy portfolio had an IRR in investment currency of 7.1 per cent. SN Power and Globeleq made a significant contribution to the IRR due to the profits from their underlying assets. The sale of Norfund's investment in Scatec Kalkbult also provided strong returns. Unfortunately, the Kinangop Wind Park project had a negative effect on the returns as values were set to zero on 31.12.2018 when the operation was shut down.

Our investments in Financial Institutions have performed well. In 2018, the IRR was 3.3 percent in investment currency. This result is somewhat lower than in previous years due to impairments in the portfolio (meaning a reduction in the value of some of the assets). The 6.8 percent return since inception is due to the generally good performance and positive valuations of the banks, microfinance institutions, and other financial institutions in our portfolio.

In 2018, the portfolio of SME Funds has had negative returns, measured in the IRR of - 14.4 percent. In 2018, our fund portfolio experienced significant downward valuation pressure and difficult exit conditions in the underlying portfolio. This was due to challenging capital markets, both globally and in emerging markets.

In 2018, our Food and Agriculture portfolio had an IRR of -5.0 percent measured in investment currency. This is approximately the average IRR since the inception of this portfolio as this is an especially challenging and high risk sector.

The realised values from exits will be reinvested in new investments with high developmental impact.

IRR SINCE INCEPTION

6%

(Local currency)

9%

(NOK)

IRR IN 2018

5%

(Local currency)

11%

(NOK)

Internal Rate of Return (IRR) in investment currency	Since inception 1997–2018	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Clean Energy	7.0	7.1	19.5	0.1	2	-9	-4	12	10	11	3
Financial Institutions	6.8	3.3	5.8	8.2	12	6	4	9	6	9	6
SME Funds	3.1	-14.4	-4.0	-1.6	0	-3	12	9	3	10	5
Food and Agribusiness	-5.2	-5.0	4.1	-5.2	-4	-10	-4	-10	2	7	12
Total	**5.8**	**4.6**	**14.0**	**1.6**	**3.5**	**–6**	**–1**	**10**	**8**	**10**	**4**

NORFUND'S AUDITED RESULTS FOR 2018

Profit & Loss (MNOK)	2017	2018
Interest	123	195
Realized gains	318	151
Dividends received	945	187
Other project income	13	20
Share of profit associated companies	650	768
Total operating income	**2 049**	**1 322**
Payroll expenses	–94	–114
Other operating expenses	–79	–59
Total operating expenses	**–173**	**–173**
Write-downs on investments	2	-295
Operating profit in investment currency	**1 878**	**855**
Net financial items	**13**	**14**
Tax	–20	–1
NET PROFIT IN INVESTMENT CURRENCY	**1871**	**868**
Exchange rate effects portfolio	8	290
Profit	**1 879**	**1 158**

Assets (MNOK)	31.12.2017	31.12.2018
Total fixed assets	**13 843**	**15 535**
Other equity investments	4 189	4 446
Loans	1 933	3 075
Other current assets	151	140
Cash and deposits	2 663	2 869
Total current assets	**8 936**	**10 530**
Total Assets	**22 785**	**26 065**

Equity & liabilities (MNOK)	31.12.2017	31.12.2018
Total Equity	**22 374**	**25 934**
Total allowances for liabilities	**26**	**49**
Grant Facility	**24**	**14**
Total short term debt	**361**	**82**
Total Equity and liabilities	**22 785**	**26 065**

COMMENTS TO THE 2018 RESULTS

- In 2018 total revenue for Norfund ended at NOK 1 322 million. An increase in the loan portfolio during late 2017 and 2018 resulted in a 59% increase in interest income from NOK 123 million in 2017 to NOK 195 million in 2018. Norfund exited two equity investments during the year, Kabul Serena Hotel and Scatec Solar Kalkbult, with realized gains in 2018 of NOK 151 million. In total Norfund received dividends of NOK 187 million where the largest ones where from KLP Norfund Investments, Scatec Solar Kalkbult and CIFI. Net profits from associated companies also increased and contributed with a profit of NOK 768 million in 2018.

- 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 strengthening of the Norwegian Kroner against the US Dollar has had a positive effect on the value of the loan portfolio as a large share of the portfolio is in USD

- In 2018 Norfund had net write-downs of NOK 295 million.

- Norfund's total assets were NOK 26 065 million in 2018 compared to NOK 22 785 million in 2017. Fixed financial assets, which is the shareholdings in the associated companies, was NOK 15 535 million in 2018. The loan portfolio had a net increase of NOK 1 142 million in 2018 up to NOK 3 075 million.The Equity Investments slightly increased by NOK 258 million. Bank deposits amounted to NOK 2 869 million at the end of 2018.

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

GENDER EQUALITY

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.

Globally, fewer women than men participate in the formal economy, women earn less than men, and have fewer assets and economic opportunities. Based on this, 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. We recognize the importance of starting with own organisation, and lately, two new female Executive Vice Presidents were recruited to Norfund's management team.

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.

Norfund has 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 in general either the same as the average level in these sectors, or better.

Norfund meets frequently with other DFIs to discuss gender strategies, share lessons learned and discuss approaches for raising awareness internally and with partners.

LEADERSHIP AND BOARDROOM COMPETENCE

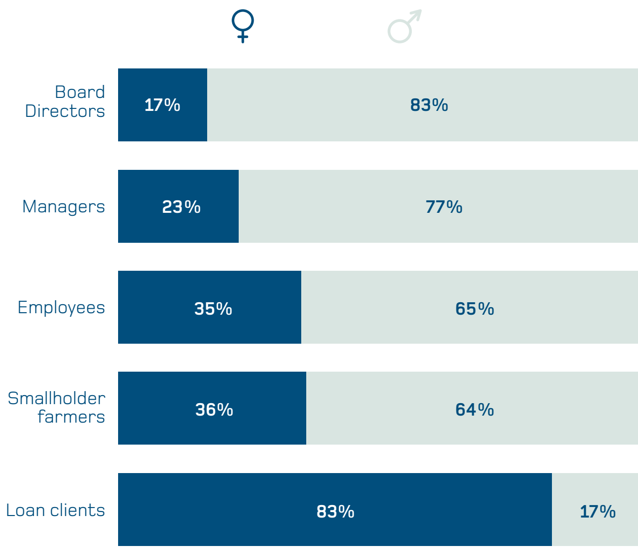
Norfund has noted that women are underrepresented at the management level in many of our investee companies and on corporate boards. In 2018, we continued supporting female talents in our portfolio companies in Uganda, Kenya and Tanzania to participate in Female Future – a leadership and boardroom competence 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.

In 2018, NHO, Norad and Norfund initiated the establishment of a Female Future programme in Ghana, and the programme there will be launched in 2019.

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 the third year. The training programme facilitates the growth of micro-, small- and medium-sized enterprises. Norfund requires at least 50 percent of participants to be women or women-owned enterprises. Together with our investee Arise, the Zambian banking sector and FMO, the Dutch DFI and Development Bank, we also supported the Female Focus on Financial Inclusion Initiative in Zambia in 2018. The initiative provides a platform for female entrepreneurs and bankers to collaborate on female financial inclusion in Zambia. ■

STATISTICS FROM PORTFOLIO COMPANIES



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

EXITED COMPANIES 2018

When an investment is made, its duration and the exit strategy are planned at the same time. Typically, Norfund exits equity investments after 5-10 years, debt holdings after 5-7 years, and fund investments after 10-12 years. A few investments might be exited earlier than originally planned due to unexpected circumstances.

Capital and profits generated by investments are reinvested in new businesses in which there is a greater need for our risk capital.

FICOHSA

Country: Honduras and Guatemala
Business sector: Banking
First investment year: 2012
Investment: NOK 90.6 million
IRR: 5% (Honduras), 6% (Guatemala)

Banco Ficohsa is known for its innovative trend in banking services, providing a wide array of banking products for a diverse customer base. In Honduras, Ficohsa has a commercial bank, FX house, trading desk and insurance. Norfund has been a lender to Ficohsa to assist in the continuing development of the Financial Industry in the region. Additionally, a key component of Ficohsa's strategy is to grow in the SME market, which is aligned with Norfund's mandate. Although Norfund's loans were repaid in 2018, the relation with Ficohsa is expected to continue.

KABUL SERENA HOTEL

Country: Afghanistan
Business sector: Tourism
First investment year: 2005
Investment: NOK 33.8 million
IRR: 4%

In 2005, Norfund made an equity investment in TPS Afghanistan Limited for renovating the Kabul Hotel and expanding it to 176 rooms. This made it at that time the only international standard full-service hotel in Kabul. The performance of the company reflects the significant security challenges in Afghanistan and the hotel struggled to achieve the expected results throughout the period. Due to the challenging operating environments in Afghanistan, Norfund agreed to make a soft exit through a put option spread over 4 annual instalments which began in 2015 and was completed in 2018.

THREE SCATEC SOLAR PLANTS IN SOUTH AFRICA (KALKBULT, DREUNBERG & LINDE)

Country: South Africa
Business sector: Clean Energy, Solar
First investment year: 2012
Investment: NOK 119.8 million

The three plants were built on time and budget. The plants were connected to the grid in 2013 – 2014. The plants have performed above expectation and when other investors showed their interest and there was limited additionality from Norfund in continuing its ownership, Norfund decided to exit. Scatec Solar and the South African infrastructure investment fund, StanLib, purchased all of Norfund's 21 % shares in the solar plant Kalkbult, and KLP Norfund's 16% shares in Linde and Dreunberg. Scatec Solar acquired 33% of the shares and StanLib acquired the balance of the shares. The total capacity of the plants is today 190 MW.

In 2018, another ten loans were repaid by companies within Norfund's active portfolio.

REPORT ON OPERATIONS

PORTFOLIO AND RESULTS

PART 2 ADDITIONALITY & DEVELOPMENT EFFECTS

Year 2018

OUR APPROACH TO ADDITIONALITY

Norfund's investments are additional, helping to enable development effects that might not otherwise be possible because of the high risks involved. In 2018, we refined the framework we use to assess the additionality of investments.

Additionality is a central part of Norfund's mandate. We are additional when we invest in markets and businesses that are characterised by high risk and scarcity of capital, and when we provide financial instruments associated with high risk. We add value that goes beyond capital value, providing active ownership, promoting environmental and social standards, and supporting enterprise improvement.

Norfund participates actively in international networks, strengthening industry standards and the reporting of additionality. In 2018, OECD DAC members agreed on a common definition of additionality. This is an important milestone that now influences our work.

A COMMON DEFINITION OF ADDITIONALITY

Proving the additionality of our investments is challenging because it requires insights into what could have happened had we not invested. The lack of a common definition of what additionality is has complicated efforts to substantiate claims. OECD DAC members therefore developed a common definition of additionality to address this challenge.

The OECD's definition of additionality distinguishes between financial and value additionality. A transaction is considered to be financially additional if it supports capital-constrained markets in which private sector partners are unable to obtain commercial financing due to high risk or if it mobilises investment from the private sector that would not have otherwise invested. Value additionality, in contrast, refers to "the provision or mobilisation of non-financial value that the private sector is not offering, and which will lead to better development outcomes, e.g. by providing or catalysing knowledge and expertise, promoting social or environmental standards or fostering good corporate governance".

A REFINED ADDITIONALITY FRAMEWORK

We have refined Norfund's additionality framework to ensure alignment with the new OECD definition. Our refined framework consists of ten additionality ambitions, reflecting both the financial and value additionality of our investments. Operationalisation is measured using a set of additionality indicators. The framework will be applied on our new investment decisions and how we report additionality.

ADDITIONALITY OF NEW INVESTMENTS

Norfund invested in 16 new companies and funds in 2018. Each investment was assessed using ten additionality ambitions. An additionality overview of each project has been published on our website.

A SNAPSHOT OF OUR ADDITIONALITY IN THE MARGINPAR GROUP

In 2018, Norfund committed NOK 68 million to the Marginpar Group, an East African flower producer. This commitment met six of Norfund's ten additionality ambitions.

The Marginpar Group operates in Ethiopia and Kenya. Both countries are capital constrained. The countries are rated below investment grade (B and B+) by Standard & Poor, indicating high risk.

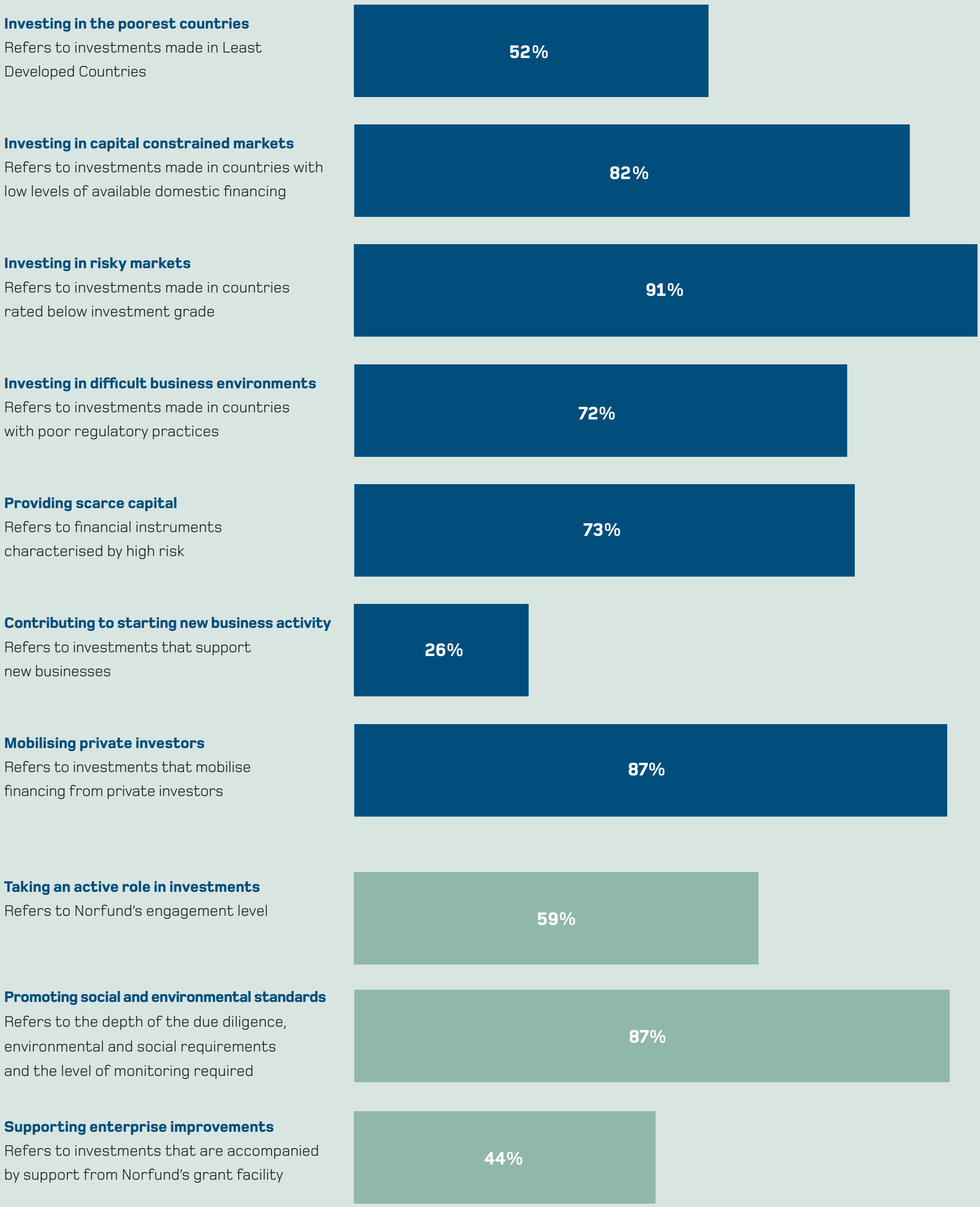
Norfund has provided the project with scarce capital (equity), and our investment has helped to mobilise private investors to the project. Value additionality will be provided through an active engagement level, and through environmental and social advice and requirements.

	AMBITION	
Financial	Investing in the poorest countries	
	Investing in capital constrained markets	✓
	Investing in risky markets	✓
	Investing in difficult business environments	
	Providing scarce capital	✓
	Contributing to starting new business activity	
	Mobilising private investors	✓
Value	Taking an active role in investments	✓
	Promoting social and environmental standards	✓
	Supporting enterprise improvements	

» **To read more about additionality, visit** norfund.no/our-impact/additionality

MEETING EACH ADDITIONALITY AMBITION

Percentage of committed capital to new projects in 2018 meeting additionality ambition.*



* Follow-on investments are not included in this overview.

DEVELOPMENT EFFECTS

Norfund contributes to growing profitable and sustainable enterprises in key sectors that drive development. Each year, we collect data from the companies we invest in so we can monitor their impact.

NORFUND'S IMPACT OBJECTIVES

Norfund's key objective is to contribute to job creation and to improve living standards. We invest in sectors that are important to achieving this mission: clean energy, financial institutions, and agribusiness. We have defined strategic objectives for each of these sectors, which are aligned with the UN SDG agenda. Our investments in clean energy, for example, contribute directly to achieving SDG targets 7.1 and 7.2. Our investments in financial institutions are contributing directly to meeting SDG targets 8.10 and 9.3.

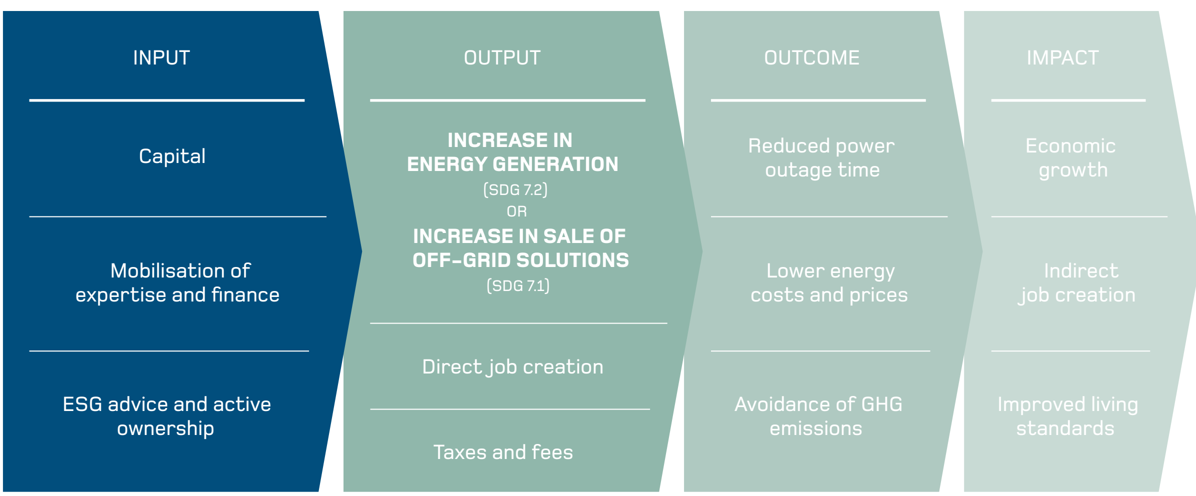
THEORY OF CHANGE

Theories of change are roadmaps of how we believe change happens. We have developed theories of change for each sector in which we work, to explain the relationship between the input we provide to clients, the SDG targets, and the overall impact we want to achieve. These theories of change also highlight other relevant effects of our investments. Each theory of change has three components:

- A narrative with a problem statement, hypothesis of change, and an assessment of the evidence base
- A diagram visualising the causal pathway, and details of the intermediary steps
- A framework for monitoring and evaluation

Our main input is capital, which we provide to companies in the form of equity or debt financing. In some cases, we mobilise financing from other investors. Grant funding is sometimes used to support the development of training programmes or systems, and to help the institutions we finance to improve in key areas.

THEORY OF CHANGE – CLEAN ENERGY



We provide advice and requirements to strengthen corporate governance and ensure that our investees have appropriate systems in place to identify environmental and social risks. When we hold equity, we participate actively at the company board level to promote sustainable practices.

Some outputs are sector-specific: in the energy sector, for example, outputs include increases in energy generation and the sale of off-grid solutions. In the financial sector, the outputs include increased availability of financial services and credit both to firms and individuals. More general outputs include direct job creation, and the taxes and fees paid to governments.

Outputs lead to sector-specific and general outcomes. In the clean energy sector, for example, these include reduced power outage time, lower energy costs and prices, and avoidance of greenhouse gas emissions. The final set of impacts includes economic growth, indirect job creation and improved living standards.

ANNUAL REPORTING

Each year, Norfund collects and monitors data on the key development effects of our portfolio companies. In 2018, we collected data from more than 700 companies. Over 80 per cent have reported data for two years or more, and this has allowed us to monitor their progress. Changes in the composition of Norfund's portfolio (exits, loan redemptions and new investments) mean that some of the figures that describe the impacts of our investments fluctuate sharply from year to year. To show the development of our portfolio enterprises more accurately, we are also reporting changes from year-end 2017 to year-end 2018 for those enterprises that were included in the portfolio and submitted reports for both years.

IMPROVING OUR METHODS

Our portfolio companies report on the direct effects of their operations, using the Harmonised Indicators for Private Sector Operations. These metrics identify both sector-specific effects (for example, energy production or financial services) and portfolio-wide effects (jobs, local purchases, and taxes).

We wish to improve our understanding of the indirect effects of our investments. The case studies and independent evaluations we support give us valuable insights into these issues, such as the effects of job creation in the value chain, and the productivity effects of power generation. We are working with other EDFI members to explore available methods and models that could help us to estimate such indirect effects of Norfund's investments more broadly. ■

» **To read the detailed theories of change, visit norfund.no/our-impact**

A NEW MARKET STANDARD FOR IMPACT INVESTING

Development Finance Institutions such as Norfund invest in low- and middle-income countries, and contribute to economic, social and environmental impacts. A growing number of other investors now incorporate impact investments into their portfolios, striving to achieve both financial returns and measurable impacts.

Investors wishing to expand the number of investments that are focused on measurable impacts face a number of challenges. For example, there is no common approach for managing investments for impact or agreement on exactly what systems are needed to support them. This has created complexity and confusion, and the distinction between impact investing and other forms of responsible investing is not always clear. To address this challenge, the International Finance Corporation (IFC), in consultation with a core group of stakeholders, has developed the "Operating Principles for Impact Management". The aim of these Principles is to establish a common discipline and market consensus around the management of investments for impact. This will help to shape and develop the impact investment market. The Principles were adopted in April 2019, and Norfund was among the first signatories.

The Principles reflect best practices across a range of public and private institutions. They integrate impact considerations into all phases of the investment lifecycle: strategy, origination and structuring, portfolio management, exits, and independent verification.

Norfund's current practice of impact management is broadly aligned with the Operating Principles. Our internal processes will be further refined during 2019 to ensure full alignment.

INCREASED ENERGY ACCESS AND SUPPLY

THE PROBLEM

The power sector in Sub-Saharan Africa and other low-income regions is largely underdeveloped in terms of installed capacity, access to energy, and per capita consumption. The amount of installed capacity cannot always meet demand, and power shortages are holding back economic growth and job creation. 79 percent of businesses in Sub-Saharan Africa experience electrical outages and 53 percent depend on generators to meet their electricity needs. 40 percent of businesses report that access to energy is a major operational constraint.

An additional 300 GW of capacity will be needed to meet Sub-Saharan Africa's expected demand for electricity by 2040. This will require an investment of more than USD 490 billion. To contain growth in emissions, this new capacity must come mostly from clean energy sources. At present, the proportion of renewable energy in Sub-Saharan Africa's power sector is below 50 percent.

LINK TO SDGs

Norfund's investments in clean energy are helping to achieve the following targets of the SDGs:

RESULTS 2018

345 MW	68%	2.4 MILLION
CAPACITY ADDED TO THE GRID	OF CAPACITY FROM RENEWABLE SOURCES	SOLAR-POWERED UNITS SOLD TO CLIENTS

Norfund's impact objective is threefold; increasing the supply of energy, increasing the share of energy from renewable sources, and increasing access to energy. Doing so leads to economic growth, job creation, and improved living standards. *

Increased energy supply
In 2018, Norfund's clean energy portfolio included 30 active power plants. Two of these plants were connected to the grid in 2018, adding 310 MW to the grid in Kenya and 35 MW to the grid in Honduras. The total amount of energy capacity in our portfolio is now 4,100 MW. The power plants produced a total of 17.4 TWh of electricity, an amount equivalent to the combined energy consumption of Uganda, Tanzania and Kenya. 64 percent of the power was produced in Sub-Saharan Africa, and 40 percent was produced in Least Developed Countries.

Increased share of energy from renewable sources
A total of 2,800 MW of the electricity capacity in our portfolio was renewable energy sources, such as hydro, wind and solar – 68 percent of the total energy capacity. Together, the renewable power plants have prevented 6 million tonnes of CO_2 emissions compared to standard national grid emissions.

Increased access to energy
Nearly 2.4 million units of solar-powered solutions were sold in 2018 to household clients, which has increased access to energy in off-grid areas in Sub-Saharan Africa.

INCREASED FINANCIAL INCLUSION

THE PROBLEM

The financial sector in low- and middle-income regions is underdeveloped in its depth, inclusion, and the relevance of the products on offer. This prevents firms and individuals from meeting financial needs, such as capitalising on business opportunities, investing in home construction or education and confronting shocks. Only 21 percent of firms in Sub-Saharan Africa have a bank loan/line of credit, and 67 percent of the adult population in the region are unbanked. Investments in financial institutions are clearly needed.

The potential demand for MSME finance in low- and middle-income economies is estimated to be USD 8.9 trillion, but the current credit supply is only USD 3.7 trillion. Despite these needs and the potential opportunities, private investors are often discouraged from investing in financial institutions because of the reputation and perceived financial risk.

LINK TO SDGs

Norfund's investments in financial institutions contribute directly to the following targets of the SDGs:

RESULTS 2018

1.8 MILLION
NEW CLIENTS

24 BILLION
NOK INCREASE IN LENDING TO CLIENTS

274 BILLION
NOK LENT TO CLIENTS BY DIRECT INVESTMENTS

Norfund's impact objective for the business area is twofold; increasing the provision of financial services and increasing the provision of credit to clients. This enables economic growth and job creation in low- and middle-income regions, and helps to improve living standards. *

Increased provision of financial services
At the end of 2018, Norfund had helped to strengthen the capacity of more than 100 financial institutions, either directly or through funds. In 2018, the direct investments in our portfolio provided services to 22.6 million clients. Institutions with two consecutive years of reporting increased the total number of clients by 1.8 million (10 percent) during 2018.

Increased provision of credit to clients
The combined loan book of the direct investments in our portfolio reached a total of NOK 274 billion by the end of 2018. Together, these institutions have provided 3.9 million loans to clients; 2.1 million loans to retail clients, 1.4 million loans to microenterprises, and 300,000 loans to SMEs. Institutions with two consecutive years of reporting have increased their credit provision by NOK 24 billion (17 percent) since 2017.

The financial institutions in which we have invested through funds have provided an additional 10.1 million loans to clients. 9.3 million of these loans were to microfinance clients.

***To read the detailed theories of change, visit norfund.no/our-impact**

JOB CREATION

THE PROBLEM

Jobs are vital to reducing poverty. They generate income and a range of other benefits, and help people to improve their knowledge and skills. The International Labour Organization has noted that 190 million jobs are needed to address current levels of unemployment, and that a further 340 million jobs will need to be created by 2030.

LINK TO SDGs

Norfund's investments contribute both directly and indirectly to the achievement of SDG Target 8.5:

RESULTS 2018

Jobs are created directly in Norfund's portfolio companies and indirectly through their supply chains. By the end of 2018, a total of 304,000 people were employed in the companies in which we have invested, either directly or through funds. Approximately 35 per cent of those employed were women.

Promoting job quality

Norfund promotes job quality using the IFC Performance Standards (PS) on Environmental and Social Sustainability in our investment processes. The IFC PS is the key tool used by development finance institutions, such as Norfund, to assess the environmental and social risks of investments. One of the PS focuses on Labor and Working conditions and includes provisions for issues such as workers' rights, health and safety, and anti-discrimination and equal opportunity. The standards are aligned with the ILO's core conventions.

17,100 new jobs created in 2018

Between the end of 2017 and the end of 2018, the total number of permanent jobs in Norfund's portfolio companies* increased by 17,100, or nine percent.

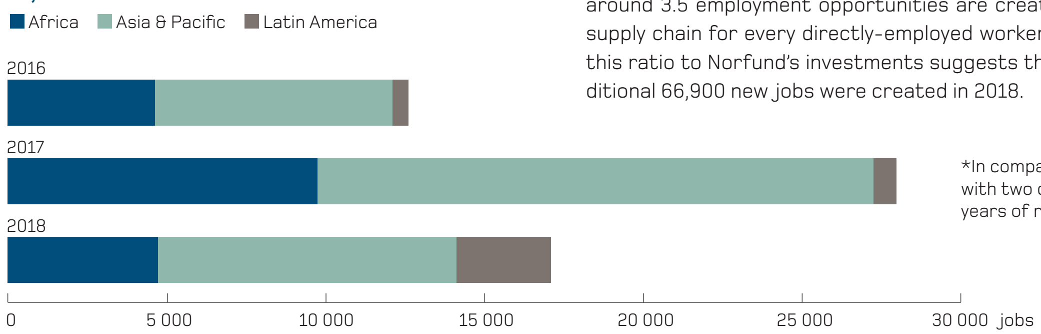
Indirect job creation through domestic purchases

Norfund's portfolio companies also contribute indirectly to job creation when they buy goods and services from other enterprises. In 2018, our investee companies purchased goods and services worth NOK 18.6 billion from local suppliers. In 2018, the companies* increased their collective purchases by NOK 1.3 billion, or by nine percent.

Estimating the number of new jobs in the supply chain

Literature on job creation suggests that direct employment is a fraction of the indirect employment effect in supply chains. Several DFIs have developed methods for estimating the number of such jobs, and Norfund is currently reviewing these approaches. The British DFI, CDC, for example, has developed a model which shows that around 3.5 employment opportunities are created in the supply chain for every directly-employed worker. Applying this ratio to Norfund's investments suggests that an additional 66,900 new jobs were created in 2018.

17,100 NEW JOBS CREATED IN 2018*



*In companies with two consecutive years of reporting

TAX REVENUES

THE PROBLEM

Domestic resource mobilisation is one of the most important ways to facilitate sustainable development. A tax base provides governments with essential resources to spend on infrastructure and public services, such as health and education. As governments in low- and middle-income countries are modernising their tax systems and broadening their tax base, the tax-to-GDP ratio is generally increasing. However, according to the IMF, compared to the OECD country average of over 34 percent in 2017, the tax-to-GDP ratio is less than half in most low- and middle-income countries.

LINK TO SDGs

Norfund's investments contribute both directly and indirectly to achieving SDG Target 17.1:

RESULTS 2018

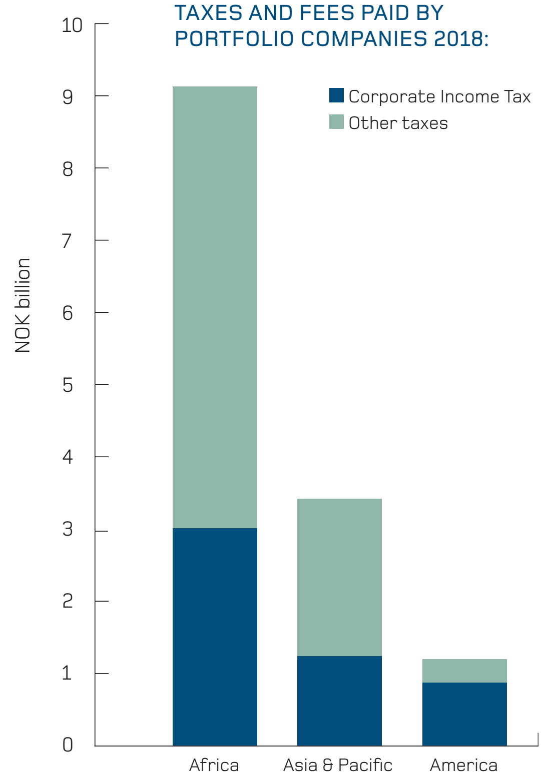
NOK 13.9 billion paid in taxes and fees
Profitable businesses pay taxes to governments in the countries in which they operate. Taxes and fees are paid by Norfund's portfolio companies and by companies in their value chains. In 2018, an amount equivalent to NOK 13.9 billion had been paid in taxes and fees by the companies in which Norfund is invested, both directly and through funds. 37 per cent was paid as corporate income tax and 63 percent was paid as other transfers, such as sales taxes, withholding taxes, net VAT, royalties, licence fees, and social security payments.

NOK 2.5 billion increase in 2018
From the end of 2017 to the end of 2018, the total taxes and fees paid by companies with two consecutive years of reporting increased by NOK 2.5 billion, or 29 percent.

Most taxes paid in Africa
66 per cent of the taxes and fees were paid by companies operating in Africa; Kenya, Tanzania and Uganda alone accounted for 26 percent. 25 percent were paid by companies in Asia, and 9 percent by companies in Latin America. A total of NOK 4.3 billion was paid in taxes and fees by companies operating in Least Developed Countries.

Norfund's tax policy
A responsible tax policy is fundamental to Norfund's operations. Our tax policy is based on the principles of the Norfund Act of 1997, Norfund's statutes, and EDFI's principles for responsible tax in developing countries.

TAXES AND FEES PAID BY PORTFOLIO COMPANIES 2018:



To read more about our tax policy and taxes paid, visit norfund.no/our-impact/tax-revenues

AST (FIPA) supported fishindustry, Angola **Photo:** Daniël J Albertse

REPORT ON OPERATIONS

BUSINESS AREAS

Year 2018


Scatec Solar
75MW DREUNBERG PV PLANT
ACCESS PERMIT CARD

CLEAN ENERGY

DEVELOPMENT RATIONALE

A reliable and stable electricity supply is crucial to economic and social development. In Sub-Saharan Africa and other low-income regions, the power sector is largely underdeveloped.

The amount of installed capacity cannot always meet demand, and power shortages are holding back economic growth and job creation. 40 percent of businesses in Sub Saharan Africa report that access to energy is a major operational constraint.

Most developing countries have considerable domestic hydro, wind, and solar resources. Utilising these is essential to meet the 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 1000 MWp of solar power has been financed with Scatec Solar. 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. The journey from the planning and development of clean energy projects to implementation is complex and long. Therefore, patient and risk-tolerant investors, such as Norfund, are needed to ensure commercial success. In total, the power plants in our portfolio generated 17.4 TWh in 2018.

HIGHLIGHTS 2018

The closing of the Bujagali hydropower plant investment was a major achievement in 2018. This plant alone generates almost half of Uganda's energy supply.

→ **Planning three new solar plants in South Africa**
Together with Scatec Solar, Norfund has provided equity capital for the construction of three new solar power plants in South Africa, totalling 258 MWp. These projects will contribute significantly to the expansion of the renewable energy industry in the country. The power plants started construction in early 2019 and are expected to be completed in 2020.

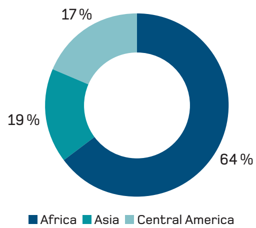
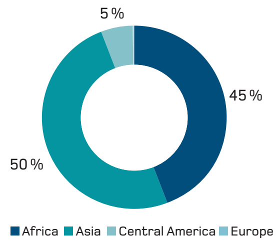
→ **Construction of solar power plants in Mozambique and Egypt**
The construction of Mozambique's first solar power plant is progressing and is expected to be operational in early 2019. In early 2018, Norfund provided guarantees supporting the financing of the power plant, in addition to equity contributed in 2017. In Egypt, six solar plants are under construction and will provide a total of 400 MWp. The plants, also financed and executed with Scatec Solar, are expected to be completed over the course of 2019.

→ **Two new power plants are connected to the grid**
The 310 MW Lake Turkana Wind Power plant in Kenya, and the 35 MWp Los Prados solar project in Honduras became operational and connected to the grid in 2018. Lake Turkana is the largest wind project in Sub-Saharan Africa and contributes to app. 17% of installed capacity in Kenya. (see page 47)

→ **Sale of three operational solar plants in South Africa**
Three Norfund funded solar projects with Scatec Solar were completed in 2013/14 as part of the early stages of the South African renewables programme. The plants have operated consistently well and contributed to the development of the South African renewables industry. In 2018, Norfund sold its shares in these assets to Scatec Solar and to a local infrastructure fund. The sale released capital for other projects in need of funding.

→ **Financing the off-grid sector**
In recent years, Norfund has increased its financing of off-grid energy providers. d.light is one of our off-grid investee companies that provides solar energy to more than 88 million people in 62 countries worldwide. New equity investments from Norfund and other investors in 2018 will enable the company to expand its Pay-Go consumer finance business in Africa, providing affordable solar solutions to off-grid households. In 2018 we also increased our equity commitment to Yoma Micropower – a company installing mini-solar power plants in off-grid areas of Myanmar, providing power to telecoms towers and nearby communities.

→ **Support for project development**
Development of new power projects is costly and time consuming. In addition to supporting the development of new power projects through our ownership in SN Power, Globeleq and RAREH, Norfund also supports other partners with project development. With Scatec Solar, we continue to support the development of new projects in Kenya and Lesotho, and with Renewable Energy Holdings we are supporting development of small hydro in Zambia.

	INVESTMENTS IN 2018	TOTAL PORTFOLIO
INVESTMENTS AND PORTFOLIO Clean energy accounts for 50 percent of Norfund's portfolio. The equity share of the total clean energy portfolio is 94 percent. 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, through Globeleq.	956 **MNOK COMMITTED** (only renewable energy)	11,033 **MNOK COMMITTED** (whereof 9,559 MNOK in renewable energy)
REGIONS Norfund prioritises investments in countries classified as LDCs and countries in Sub-Saharan Africa. Norfund's single largest capital allocation in 2018 was the closing of the Bujagali hydropower plant investment in Uganda.		

RESULTS IN 2018

ELECTRICITY

By end 2018 there were 30 operational power plants in Norfund's portfolio that produced in total 17.4 TWh. This is equivalent to approximately all electricity consumption in Uganda ,Tanzania and Kenya. Our investments in the off-grid sector also contribute to increasing access to energy and sold 2.4 million solar-powered solutions to household clients in 2018.

17.4 TWh

ELECTRICITY PRODUCED

EMISSIONS AVOIDED

Electricity generated from renewable sources helps to avoid CO_2 emissions by displacing fossil fuels. However, in many low- and middle-income countries, electricity production still relies heavily on coal and oil. In 2018, our investments in clean energy helped to avoid CO_2 emissions by 6 million tonnes.

6 MILLION

TONNES OF CO_2 AVOIDED

JOBS

Power plants create direct and indirect employment opportunities in the construction and operating phase. Improving the supply of electricity contributes considerably to wider indirect job growth by allowing businesses to be more productive. Norfund's portfolio companies in the off-grid sector employ a large number of direct employees and sales agents, and account for a large part of the jobs reported in 2018.

18,800

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.

2,700

MNOK IN TAXES PAID

Investment	Country/ region	Investment year	Sector	Instrument	Norfund owner share	Domicile	Investee currency	Committed (MNOK)
PRODERSSA	Honduras	2018	Solar	Equity	40 %	Honduras	USD	175.9
Scatec Lesotho PDF	Lesotho	2018	Solar	Equity	21 %	Lesotho	USD	7.4
M-Kopa	Africa	2017	Solar	Loans		United States of America	USD	111.8
New Africa Power	Zambia	2017	Hydro	Equity	31 %	Mauritius	USD	15.8
responsAbility Renewable Energy Holding	Africa	2017	Hydro	Equity	14 %	Mauritius	USD	86.9
Sunshine	America	2017	Solar	Loans		Costa Rica	USD	13.0
Yoma Micopower	Myanmar	2017	Solar	Equity	15 %	Singapore	USD	26.0
Central Solar de Mocuba S.A.	Mozambique	2016	Solar	Equity and Loans	23 %	Mozambique	USD	116.9
d.light design, Inc.	Global	2016	Solar	Equity	4 %	United States of America	USD	44.0
Egypt Solar B.V.	Egypt	2015	Solar	Equity	15 %	Netherlands	USD	113.6
Fotovoltaica Los Prados SA	Honduras	2015	Solar	Equity	15 %	Honduras	USD	122.2
Rwimi EP Company Ltd	Uganda	2015	Hydro	Loans		Uganda	USD	21.7
Scatec Norfund Investments Ltd	Kenya	2015	Solar	Equity	15 %	United Kingdom	USD	12.6
Scatec Solar SA Netherlands BV	South Africa	2015	Solar	Equity and Loans	30 %	Netherlands	USD	191.9
Cape Dairy Biogas Plant Pty Ltd	South Africa	2014	Biomass	Loans		South Africa	ZAR	6.2
Gigawatt Global Rwanda Ltd	Rwanda	2014	Solar	Equity and Loans	16 %	Rwanda	USD	35.4
Globeleq Ltd	Africa	2014	Energy	Equity	30 %	United Kingdom	USD	1910.0
Renewable Energy Holdings Pty Ltd	South Africa	2014	Hydro	Loans		South Africa	ZAR	32.1
Kinangop Wind Park Limited	Kenya	2013	Wind	Equity	19 %	British Virgin Islands	USD	94.3
Lake Turkana Wind Power Limited	Kenya	2013	Wind	Equity	6 %	Kenya	EUR	112.1
SN Power	Global	2013	Hydro	Equity	100 %	Norway	USD	7444.5
Bronkhorstspruit Biogas Plant Pty Ltd	South Africa	2011	Biomass	Equity	11 %	South Africa	ZAR	22.0
Nam Sim Power Company Ltd	Laos	2011	Hydro	Loans		Laos	USD	37.8
Interact Climate Change Facility	Global	2010	Energy	Loans		Luxembourg	EUR	270.1
E&Co (Persistent Energy)	Global	2009	Energy	Loans		Delaware	USD	8.6

CASE

REDUCING THE NEED FOR FOSSIL ENERGY IN KENYA

In 2018, the Lake Turkana Wind Power project was connected to the national grid in Kenya. The wind farm is the largest of its kind on the African continent.

In Kenya, new, clean and affordable energy sources are being developed to expand power supply and to displace more expensive and polluting energy produced by fuel oil and diesel power plants. Today the Lake Turkana Wind Power Plant generates almost 17 percent of the country's installed capacity. President Kenyatta has expressed that by 2020 Kenya will use only clean energy.

"The connection to the national grid was a huge milestone for this ground-breaking and transformational project. We hope the project will inspire investors and governments to follow suit and help realise the potential of renewable energy in Africa," said Norfund EVP for clean energy, Mark Davis.

THE MOST COMPLEX ENERGY PROJECT IN AFRICA?

The 310 MW Lake Turkana Wind Power (LTWP) is Kenya's largest single private sector investment and one of the most challenging power financing in Sub-Saharan Africa. Norfund was among the first investors, supporting both the development of the project and providing equity. Now that the plant is operational, more international investors, including Google, are looking to invest.

Constructing 365 wind turbines and a high voltage substation in an arid and remote area was challenging. In addition, more than 200 km of road was upgraded to transport equipment from Mombasa to the site. To enable the plant to be connected to the national grid, the Kenyan government built a 428 km long transmission line.

NATONAL AND LOCAL IMPACT

Since becoming operational, the electricity from LTWP has enabled Kenya to save costs and reduce CO_2 emissions by shutting down three fuel oil plants.

In addition to providing a reliable, low-cost source of clean energy for Kenya's population, the LTWP project provides opportunities for the local communities near the plant. The construction of the new road has had positive impacts on local communities by reducing the time and costs of transport and has helped to increased trade in the region. A number of initiatives to improve the local population's access to drinking-water, health services and education is established. In addition, more than 2,500 people were employed during the LTWP construction period, 75 percent of whom were local residents. ■


service
meeting
room
DELL

CAL Bank, Ghana
Photo: Thought Leader Global Media

FINANCIAL INSTITUTIONS

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.

In low- and middle-income regions, the financial sector is often underdeveloped. Firms and individuals have limited access to basic financial services, such as bank accounts, payment services and credit facilities.

In Sub-Saharan Africa, only 21 percent of firms have a bank loan/line of credit, and 67 percent of the adult population in the region are unbanked.

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

When investing in banks, microfinance providers, and other financial institutions, Norfund focuses 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. Arise, a bank investment company in Sub-Saharan Africa in which Norfund has more than 40 percent of the shares, is our main vehicle for equity investments in African banks.

INVESTMENTS AND RESULTS

Over the last twenty years, Norfund has built a strong portfolio of loan and equity investments in financial institutions in Asia, Central America, and Sub-Saharan Africa. In 2018, Norfund signed 17 investments in this sector – the highest number ever, and double the amount committed in 2017. The objective of increasing investments in financial institutions in all our priority regions was most successfully realised in Asia. Fifty percent of our investments in 2018 were in this region, particularly in Myanmar and Bangladesh.

HIGHLIGHTS 2018

- **Investing in microfinance institutions in Myanmar:** In 2018, fifty percent of our investments were in Asia, particularly in Myanmar and Bangladesh. Read about Norfunds investments in financial institutions in Myanmar on page 53.

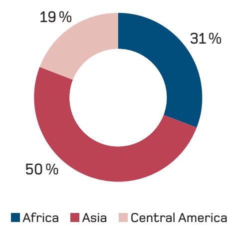
- **Eight new medium-sized loans to banks and microfinance institutions**
  Financial institutions that lack access to debt are often unable to extend loans to their clients. To increase access to capital for micro-, small and medium sized companies in developing countries, Norfund committed medium-sized, senior and subordinated loans to six banks, one microfinance institution, and one leasing institution in 2018.

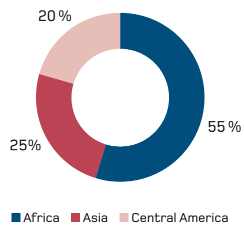
- **Follow-on investments to five microfinance institutions.**
  Norfund believes that providing microfinance is an important way to give poor and unbanked micro-entrepreneurs' access to capital, especially in countries in which the financial sector is poorly developed. Norfund committed five follow-on investments to microfinance institutions in 2018, three of which were in Myanmar. Our follow-on equity investment in Financiera Fondo de Desarrollo Local (FDL) in Nicaragua was made as a response to the challenging economic situation in the country last year due to the political crisis.

- **Equity investments in funds and investment companies to strengthen financial institutions in Africa**
  Norfund aims to strengthen the development of Africa's financial sector. In 2018, we have committed substantial equity investments to the bank investment platform Arise, and to two financial institution funds: AfricInvest Financial Sector Holding (FIVE), and NMI IV.
  Arise was established in 2016 by Norfund, FMO, Rabobank and Norfinance and has a total portfolio of USD 750 million. All four shareholders committed themselves to providing Arise with additional equity by the end of 2018.
  AfricInvest Financial Inclusion Vehicle (FIVE) is an evergreen investment firm which targets equity investments in Tier II and Tier III financial institutions. FIVE's core targets are established mid-size African banks and insurers, as well as microfinance and leasing institutions, and in the future the unbanked and SME segments.
  The Nordic Microfinance Initiative (NMI) is a fund owned by several Nordic private investors and Norfund. This is Norfund's main vehicle for investing in microfinance in Africa and Asia. In 2018, the investors agreed to increase their equity investments in the fund to enable the fund to support more microfinance institutions in developing countries where a majority of the population still lack access to capital.

	INVESTMENTS IN 2018	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 31 percent of Norfunds total portfolio.	1,910 MNOK COMMITTED	6,989 MNOK COMMITTED

REGIONS
Investments in financial institutions are of high priority for Norfund on all three continents. In 2018, we made several new investments in Least Developed Countries in Asia and Africa, as well as some investments in lower middle-income countries in Central America.





RESULTS IN 2018

	RESULTS IN 2018
LOANS At the end of 2018, Norfund had invested in approximately 100 financial institutions directly or through funds. Together these institutions had provided 10.7 million loans to microfinance clients, 2.6 million loans to retail clients, and 500,000 loans to SMEs. 83 percent of retail and microfinance clients are women.	14 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.	27.6 MILLION BANK ACCOUNTS HELD BY CLIENTS
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.	122,300 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.	5,400 MNOK IN TAXES PAID

FINANCIAL INSTITUTIONS

Investment	Country/ region	Norfund investment year	Sector	Instrument	Norfund owner share	Domicile	Investee currency	Committed (MNOK)
AfricInvest Financial Inclusion Vehicle LLC	Africa	2018	Banking	Equity	30 %	Mauritius	EUR	197.5
Banco Promerica Costa Rica	Costa Rica	2018	Banking	Loans		Costa Rica	USD	130.3
CAL Bank Limited	Ghana	2018	Banking	Loans		Ghana	GHS	86.9
Mutual Trust Bank Limited	Bangladesh	2018	Banking	Loans		Bangladesh	USD	173.8
NMI Fund IV	Global	2018	Microfinance	Funds	25 %	Norway	NOK	216.0
NMI GP IV AS	Global	2018	Microfinance	Equity	29 %	Norway	NOK	24.0
ONE Bank Limited	Bangladesh	2018	Banking	Loans		Bangladesh	USD	130.3
Access Bank Nigeria	Africa	2017	Banking	Loans		Nigeria	USD	130.3
An Binh Commercial Joint Stock Bank	Vietnam	2017	Banking	Loans		Vietnam	USD	173.8
Banco BDF	Nicaragua	2017	Banking	Loans		Nicaragua	USD	108.6
City Bank Limited	Bangladesh	2017	Banking	Loans		Bangladesh	USD	86.9
Diaconia, Liberia	Liberia	2017	Microfinance	Loans		Liberia	USD	17.4
Arise B.V.	Africa	2016	Banking	Equity	33 %	Netherlands	USD	2379.6
Banco Promerica Guatemala	Guatemala	2016	Banking	Loans		Guatemala	USD	86.9
Fedecredito	El Salvador	2016	Microfinance	Loans		El Salvador	USD	72.4
Advans MFI Myanmar Company Limited	Myanmar	2015	Microfinance	Equity	40 %	Myanmar	MMK	37.8
ARREND Central America	America	2015	Other financial services	Equity and Loans	22 %	Guatemala	USD	112.4
Banco Promerica El Salvador	El Salvador	2015	Banking	Loans		El Salvador	USD	52.1
Myanmar Finance International Limited	Myanmar	2015	Microfinance	Equity and Loans	25 %	Myanmar	MMK	36.2
Acleda Bank Lao Ltd.	Laos	2014	Banking	Loans		Laos	LAK	99.2
BANCO INDUSTRIAL SALVADOR	El Salvador	2014	Banking	Loans		El Salvador	USD	29.0
Confianza	America	2014	Microfinance	Loans		El Salvador	USD	10.9
Focus Financial Services Limited	Zambia	2014	Other financial services	Loans		Zambia	ZMW	18.1
HFC Limited	Kenya	2014	Banking	Loans		Kenya	KES	53.0
LAFISE NICARAGUA	Nicaragua	2014	Banking	Loans		Nicaragua	USD	225.9
Trustco Group Holdings Ltd	Namibia	2014	Microfinance	Loans		Namibia	ZAR	22.7
Alios Finance Zambia	Zambia	2013	Other financial services	Loans		Zambia	USD	6.5
Amret II (USD)	Cambodia	2013	Microfinance	Loans		Cambodia	USD	130.3
FDL	Nicaragua	2013	Microfinance	Equity and Loans	11 %	Nicaragua	USD	106.8
First Finance Plc.	Cambodia	2013	Microfinance	Equity and Loans	15 %	Cambodia	USD	43.2
LOCFUND II	America	2013	Microfinance	Funds	26 %	Delaware	USD	53.8
NMBZ Holdings Limited	Zimbabwe	2013	Banking	Loans	9 %	Zimbabwe	USD	12.2
NMI Fund III	Global	2013	Microfinance	Funds	26 %	Norway	NOK	183.9
Norfinance AS	Africa	2013	Banking	Equity	50 %	Norway	NOK	420.0
Prasac Microfinance Institution	Cambodia	2013	Microfinance	Loans		Cambodia	USD	130.3
Alios Finance Tanzania Ltd	Tanzania	2012	Other financial services	Loans		Tanzania	USD	4.3
Desyfin	Costa Rica	2011	Other financial services	Equity and Loans	23 %	Costa Rica	USD	45.5
HEFF	America	2011	Microfinance	Funds	33 %	Delaware	USD	34.7
Norsad	Africa	2011	Other financial services	Equity	15 %	Botswana	USD	56.8
Prospero	America	2011	Microfinance	Funds	22 %	Cayman Islands	USD	21.4
Brac Bank	Bangladesh	2010	Banking	Equity	0 %	Bangladesh	BDT	11.6
Real People Investment Holdings (Pty) Limited	Africa	2009	Other financial services	Equity and Loans	12 %	South Africa	ZAR	126.3
NMI Frontier Fund	Global	2008	Microfinance	Funds	45 %	Norway	NOK	72.0
NMI Global Fund	Global	2008	Microfinance	Funds	45 %	Norway	NOK	53.8
Nordic Microfinance Initiative AS	Global	2008	Microfinance	Equity	33 %	Norway	NOK	24.2
Norwegian Microfinance Initiative AS	Global	2008	Microfinance	Equity	24 %	Norway	NOK	30.0
Sathapana	Cambodia	2008	Banking	Loans		Cambodia	USD	86.9
AfriCap Microfinance Investment C	Africa	2007	Microfinance	Funds	7 %	Mauritius	USD	18.4
CIFI	America	2004	Other financial services	Equity	32 %	Panama	USD	116.2
LAAD	America	2004	Other financial services	Loans		Netherlands Antilles	USD	210.0

SUPPORTING FINANCIAL INSTITUTIONS IN MYANMAR

Lack of access to capital is a major barrier for micro and small entrepreneurs in Myanmar to develop their businesses. Although the demand for capital is high, the microfinance industry is underdeveloped.

In Myanmar, only 26 percent of adults have an account at a formal financial institution. Banks seldom lend to micro and small companies (MSMEs), and although microfinance companies were legalised in 2011, the number of microfinance institutions is low. Informal lenders are thereby still the main source of financing for most entrepreneurs.

Lack of access to capital is also a main reason why microfinance institutions have limited ability to give loans and expand in Myanmar. In 2013, Norfund was the first international lender to a Myanmar-based microfinance operator. The loan was invested in Proximity Design, a social enterprise that had supported rural farmers and families in Myanmar since 2004.

NEW COMMITMENTS TO MICROFINANCE INSTITUTIONS

In 2018, Norfund made several new commitments in Myanmar's microfinance sector.

Firstly, Norfund and two international partners, succeeded in creating a new, innovative funding agreement for a microfinance institution named Myanmar Finance International Limited (MFIL). What is unique with this agreement is that it opens up for one of Myanmar's largest banks, Yoma Bank, to give loans to MFIL due to that Norfund and partners are providing the security the bank requires. With this agreement, MFIL will be able to double its loans portfolio and reach more than 100,000 micro entrepreneurs in Myanmar.

"We are excited by the opportunity to work with Yoma Bank to further increase our outreach to continue to grow our business", said Mr. Po Yort, Managing Director of MFIL

Secondly, a follow-on equity investment to another microfinance institution, Advans MFI Myanmar, was closed in 2018. Advans MFI Myanmar is an experienced actor with focus on rural financing. Norfund's equity investment will enable the company to attract additional funding to grow its loan book.

"Our goal is to serve clients who have insufficient access to formal banking services, with the ultimate aim of contributing to private-sector led economic and social progress in Myanmar." Jana Kadian, CEO of Advans MFI Myanmar

Finally, Norfund made an investment in 2018 in the Myanmar Opportunities Fund II, an investment fund targeting SMEs in Myanmar. ■

FOOD AND AGRIBUSINESS

DEVELOPMENT RATIONALE

The food and agribusiness sector is vital because it facilitates local economic growth and reduces poverty through job creation.

The food and agribusiness sector is highly labour intensive and provides 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.

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

On average, returns from the food and agribusiness portfolio has been poor over time. In 2018, our main focus has been on creating value by being an active owner in our existing investments. This has among others resulted in a successful turnaround of the fish farming company African Century Foods and in important changes to improve the performance of the forest company Green Resources. The complexities of agribusiness investments mean that identifying environmental and social risks is particularly important when considering new projects.

HIGHLIGHTS 2018

→ **Blooming flower production and exports in East Africa**
Marginpar Group is a new, integrated group consisting of flower producers in Kenya and Ethiopia, and a Dutch distribution company. Risk capital from Norfund and the Agri Vie Fund II was crucial to establishing the Marginpar Group. Through our investment, Norfund contributes to increasing the efficiency of flower production in East Africa, and to increasing the level of exports to Europe. (see page 59)

→ **Fish Farming in Sub-Saharan Africa**
African Century Foods (ACF) is the holding company of Lake Harvest, the largest producer of tilapia fish in Sub-Saharan Africa. ACF has farms in Zimbabwe, Zambia, and Uganda and exports to neighbouring countries. Its operations are fully integrated, and range from feed, fingerlings, grow out, processing, sales and distribution. After a few difficult years, Norfund's contribution as an active owner bringing in Norwegian expertise, has made a difference and the company is now showing positive results. Future focus will be to reduce ACF's production costs. This will be achieved, for example, through the best-in-class aquaculture training programme currently being developed in collaboration with experts from the Norwegian salmon industry.

→ **Commercialising livestock farming in Malawi**
Nyama World is a high-quality meat producer in Malawi. Its operations cover the full value chain, from cattle breeding and smallholder farmer programmes, to running feedlots, abattoirs, a processing plant, and retail outlets. As an active investor, Norfund aims to contribute to the company's expansion and export strategies. A Norfund investment in 2017 ensured that Nyama World's new abattoir met European Union standards and enabled the company to start exporting. Another important result from Norfund's involvement and financial support is the establishment of 40 new smallholder cooperatives. In total 2,000 farmers that receive assistance and training in cattle breeding and a good price when selling their cattle to Nyama World.

In 2019, Nyama World's achievements were recognised by the London Stock Exchange Group.

→ **Forestry in East Africa**
Green Resources, East Africa's largest company in forest development and wood processing have experienced financial challenges for several years. In 2018, Norfund used its investor step-in rights to take 50,7 percent share ownership of the company. We are now developing a turnaround strategy that will be implemented by a new Board of Directors. Norfund and the Finnish DFI, Finnfund, will work together to facilitate the networks and competencies needed to lead the turn-around and secure long-term financing.

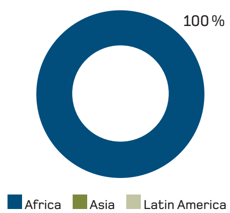
	INVESTMENTS IN 2018	TOTAL PORTFOLIO

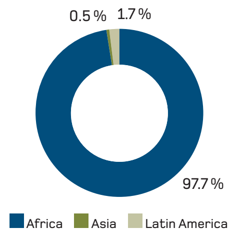
INVESTMENTS AND PORTFOLIO
By the end of 2018, this portfolio included 30 companies, whereof 14 companies from the agribusiness sector, 7 companies from the tourism sector and some companies from other sectors (due to investments in previous strategy periods).

Investments in 2018: **163** MNOK COMMITTED

Total portfolio: **1,632** 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 IN 2018

LOCAL PROCUREMENT
Companies in agribusiness and tourism contribute indirectly to growth and job creation through purchases of goods and services from local suppliers.

1,400
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. In 2018, 11,400 smallholder farmers were engaged with companies in Norfund's portfolio in the form of outgrower contracts or other types of cooperation.

11,400
SMALLHOLDER FARMERS LINKED WITH PORTFOLIO COMPANIES

JOBS
Job creation in agribusinesses is important for poverty reduction as the majority of the poor live in rural areas. The investees in which Norfund has invested directly employed 14.00 people in 2018. European Financing Partners, a co-financing mechanism with participation from several European DFIs, supported the major part of the jobs in this portfolio in a variety of sectors.

41,000
JOBS IN PORTFOLIO COMPANIES

TAXES
Enterprises in Norfund's portfolio pay income taxes, other taxes and fees to the countries in which they operate and where the income occurs. A large share of the taxes paid in this business area came from European Financing Partners' investees.

3,800
MNOK TAXES PAID

FOOD AND AGRIBUSINESS

Investment	Country	Investment year	Sector	Instrument	Norfund owner share	Domicile	Investee Currency	Committed (MNOK)
Marginpar Group	Global	2018	Agriculture	Equity	20 %	Mauritius	USD	68.0
African Century Nampula		2017	Real estate activities	Equity	34 %	Mozambique	USD	4.9
Neofresh	Africa	2017	Agriculture	Equity	34 %	Mauritius	USD	40.6
Nyama World Malawi Ltd	Malawi	2017	Crop and animal production	Loans		Malawi	USD	27.4
Verde Beef Processing	Ethiopia	2017	Crop and animal production	Loans		United Kingdom	USD	64.3
Associated Foods Zimbabwe (Pvt) Ltd		2016	Manufacture of food products	Loans		Zimbabwe	USD	17.4
African Century Real Estates Ltd.		2015	Construction of buildings	Equity	14 %	Mauritius	USD	33.3
Freight in Time	Africa	2015	Transportation and storage	Equity and Loans	24 %	Mauritius	USD	70.5
African Century Infrastructure Services Ltd.	Tanzania	2014	Other service activities	Equity and Loans	20 %	Mauritius	USD	56.8
Vertical Agro (Sunripe & Serengeti Fresh)	Africa	2014	Agriculture	Loans		Mauritius	USD	40.8
African Century Foods Ltd.	Africa	2013	Fishing and aquaculture	Equity and Loans	35 %	Mauritius	USD	105.0
ASILIA (African Spirit Group Limited)	Africa	2013	Tourism	Equity and Loans	32 %	Mauritius	USD	50.7
UAP Properties Limited	South Sudan	2013	Real estate activities	Loans		South Sudan	USD	26.1
Across Forest AS		2012	Real estate	Loans		Norway	NOK	1.8
Agrivision	Zambia	2012	Agriculture, forestry and fishing	Equity	23 %	Mauritius	USD	161.6
GLAD Ltd	Uganda	2012	Agriculture, forestry and fishing	Loans		Uganda	USD	5.1
Kinyeti Capital Ltd	South Sudan	2012	Other financial services	Equity and Loans	49 %	South Sudan	USD	39.5
Yara fertiliser terminal Dar	Tanzania	2012	Manufacture of chemicals and chemical products	Loans		Tanzania	USD	5.2
TPS Dar es Salaam	Tanzania	2011	Tourism	Equity and Loans	29 %	Kenya	USD	49.0
Agrica	Tanzania	2010	Agriculture, forestry and fishing	Equity and Loans	27 %	Guernsey	USD	142.7
Basecamp Explorer Kenya Ltd	Kenya	2010	Tourism	Equity	39 %	Kenya	NOK	16.4
TPS Rwanda	Rwanda	2010	Tourism	Equity	11 %	Rwanda	RWF	12.5
Green Resources USD	Africa	2009	Forestry and logging	Loans		Norway	USD	243.6
Africado Ltd.	Tanzania	2009	Agribusiness	Equity and Loans	40 %	Mauritius	EUR	26.2
European Financing Partners SA	Global	2006	Investment funds	Equity and Loans	6 %	None	EUR	294.1
Afrinord Hotel Investments	Africa	2005	Tourism	Equity and Loans	20 %	Denmark	EUR	39.0

"WE GROW PEOPLE, OUR PEOPLE GROW FLOWERS"

In East Africa, the climate is well-suited to flower production, and the potential for growth is high. Norfund's new investment supports the utilization of this growth potential.

Kenya is one of the biggest flower exporters in the world. The industy employs around 100,000 people directly, and 2 million people indirectly. One of the most successful and profitable flower businesses is Kariki Ltd Kenya. They are specialising in the production and marketing of selected summer flowers.

Marginpar BV is a successful Dutch flower import agent. They hold exclusive rights to import of a number of summer flower varieties from growers - such as Kariki - in Kenya, Ethiopia, Tanzania and Zimbabwe.

COOPERATION TO INCREASE PRODUCTIVITY

To strengthen its position, Kariki Ltd wanted to acquire two underperforming producers of summer flowers in Kenya and Ethiopia. To increase the company's access to international markets and improve efficiency of their distribution, they also wanted a closer integration with their distribution partner Marginpar BV.

In 2018, Norfund allocated USD 8.5 million in equity through Kariki Ltd for them to acquire the two East African flower producers Carzan Flowers Kenya and Marginpar Ethiopia, as well as the Dutch import agent Marginpar BV.

This has resulted in a new consortium, known as the Marginpar Group, which will facilitate a common strategy of sustainable growth and innovation. Norfund will provide expertise in business development and focus on the company's development and monitoring of corporate governance and environmental and social issues.

"WE GROW PEOPLE, OUR PEOPLE GROW FLOWERS"

In Kariki Ltd, the workers are called 'the value adders'.

> "Kariki's high productivity and positive development is a result of the implementation of the Japanese leadership model 'Kaizen'," says CEO Richard Fernandes.

The Kaizen model stresses the importance of delegating responsibility to the workers – the 'value adders'. Following the acquisitions in 2018, the kaizen management model was also introduced to the new assets in the Marginpar Group, now comprising more than 2,800 permanent staff in Kenya and Ethiopia. "We grow people, our people grow flowers" is their new common motto and it has already contributed to increases in productivity. ■

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.

AST (FIPA) supported fishindustry, Angola
Photo: Daniël J Albertse

INVESTMENTS AND RESULTS

Norfund contributes to building and growing sustainable and profitable companies through its SME fund investments. By investing through a large network of SME Fund managers who have local expertise and presence, we are able to reach many more SMEs than we could on our own.

In 2018, Norfund successfully invested in five new SME funds, ranging from funds investing in small businesses in some of the world's most challenging and underdeveloped markets, to funds focusing on medium and large companies in more developed countries in Africa.

HIGHLIGHTS 2018

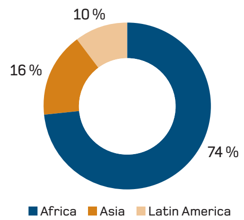
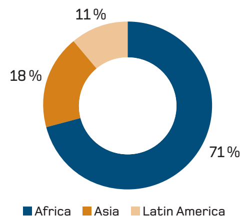
- **Myanmar Opportunities Fund II**
  Lack of access to capital is a major constraint for business development in Myanmar. The banking sector is underdeveloped and there are few other kinds of financial institutions. In 2018, Norfund successfully invested in Myanmar Opportunities Fund II (MOF II), a Yangon-based investment fund which targets SMEs in Myanmar. The fund focuses primarily on consumer products and services, technology, and financial services. (see page 53)

- **First investment fund in Somalia**
  Norfund, together with Shuraako and the Danish development finance institution, IFU, has established a USD 10 million fund to support small and medium sized companies in Somalia. The Nordic Horn of Africa Opportunities Fund is among the first commercial investment funds in Somalia and the business environment in Somalia is extremely challenging. In this setting, the Fund will fill an investment gap by funding SMEs that have no other sources of capital, and a positive return on investment is expected. (see page 65)

- **Cepheus Growth Capital Fund – Ethiopia**
  Ethiopia urgently needs capital and enhanced financial and operational skills. In 2018, Norfund made an investment in the first close of the Cepheus Growth Capital Fund, an investment fund targeting small and medium sized companies in Ethiopia. Cepheus Growth Capital Fund was founded by Ethiopian-born partners who have extensive local networking and private equity experience. Cepheus target export-oriented or import-substituting small and medium sized companies. It focuses on investments in companies operating in some of Ethiopia's most rapidly growing sectors such as manufacturing, agri-processing and services.

- **EcoEnterprises Partners III, LP**
  The Eco Enterprises Fund III provides capital to local community-based businesses in Latin America that are focused on the sustainable use of natural resources. The fund will be used to construct a diversified portfolio, targeting sustainable growth stage ventures in environmental sectors. SMEs working in the conservation and biodiversity sector often have limited access to growth capital and lack adequate business management skills. EcoEnterprises is taking an holistic approach, by measuring financial benefits as well as environmental and community development impacts.

- **ECP Africa Fund IV**
  ECP Africa Fund IV is an investment fund that targets mid-sized, high-growth companies in Africa. Its main focus is companies which serve basic African consumer needs and/or vital African business requirements. ECP's strategy is to be an influential investor, and the Fund will assist companies in addressing the opportunities and challenges they face. The Fund is managed by the management company Emerging Capital Partners (ECP) which has offices in Abidjan, Johannesburg, Lagos, Tunis, Nairobi, and Douala.

	INVESTMENTS IN 2018	TOTAL PORTFOLIO
INVESTMENTS AND PORTFOLIO In 2018, Norfund made 5 new investments in SME Funds. There are now 47 active SME Funds in Norfund's portfolio.	482 MNOK COMMITTED	2,600 MNOK COMMITTED
REGIONS A majority of our new investments new investments in 2018 were in Africa, reflecting our geographical focus on this region.		

LOCAL PROCUREMENT
Growing businesses contribute indirectly to growth and job creation through purchases of goods and services from local suppliers.

9,100
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 offshore financial centres (OFCs). This is to ensure fair and equal legal treatment of all parties, and not for internal profit transfers or tax avoidance. (See page 20)

2,000
MNOK IN TAXES PAID

INVESTEE COMPANY PORTFOLIO
In 2018 the SME Funds in Norfund's portfolio were invested in 600 SMEs. The effectiveness of the funds relies first and foremost on the characteristics and performance of their underlying investments, the SMEs.

600
SME INVESTMENTS IN SME FUNDS PORTFOLIO

JOBS
SMEs have significant employment effects. A large proportion of employees in our portfolio companies – 40 percent - are women. As Norfund is funding primarily growth capital, our investments contribute to job creation.

122,100
JOBS IN PORTFOLIO COMPANIES

SME FUNDS

Investment	Country	Investment year	Sector	Instrument	Norfund owner share	Domicile	Investee currency	Committed (MNOK)
Cepheus Growth Capital Fund	Ethiopia	2018	Investment funds	Funds	30 %	Mauritius	USD	129.9
EcoEnterprises Partners III, LP	America	2018	Investment funds	Funds	9 %	United Kingdom	USD	52.1
ECP Africa Fund IV	Africa	2018	Investment funds	Funds	8 %	Mauritius	USD	252.5
Myanmar Opportunities Fund II	Myanmar	2018	Investment funds	Funds	15 %	Cayman Islands	USD	84.5
Nordic Horn of Africa Opportunities Fund	Somalia	2018	Investment funds	Funds	11 %	Canada	USD	6.8
Agri-Vie II	Africa	2017	Crop and animal production, hunting and related service activities	Funds	15 %	Mauritius	USD	122.5
Fanisi Capital Fund II	Africa	2017	Investment funds	Funds	35 %	Mauritius	USD	130.0
Fanisi Management II	Africa	2017	Investment funds	Equity and Loans	25 %	Mauritius	USD	21.7
Oasis Africa Fund	Africa	2017	Investment funds	Funds	10 %	Ghana	USD	42.8
Spear Africa Holding II	Africa	2017	Manufacturing	Funds	21 %	Mauritius	USD	65.0
FIPA II	Africa	2016	Investment funds	Funds	38 %	Luxembourg	USD	155.9
Frontier Fund II	Bangladesh	2016	Investment funds	Funds	10 %	Cayman Islands	USD	67.9
BPI East Africa LLC	Africa	2015	Investment funds	Funds	17 %	Mauritius	USD	50.9
Cambodia Laos Myanmar Development Fund II	Asia & Pacific	2015	Investment funds	Funds	16 %	Singapore	USD	84.0
GroFin SGB Fund Limited Partnership	Africa	2015	Investment funds	Funds	19 %	Mauritius	USD	125.6
CASEIF III	America	2014	Investment funds	Funds	24 %	Canada	USD	82.0
Ascent Rift Valley Fund Ltd	Africa	2013	Investment funds	Funds	13 %	Mauritius	USD	80.3
Novastar Ventures East Africa Fund	Africa	2013	Investment funds	Funds	13 %	Mauritius	USD	77.2
CORECO	America	2012	Other financial services	Funds	22 %	Delaware	USD	74.9
Africa Health Fund (Aureos)	Africa	2011	Investment funds	Funds	9 %	South Africa	USD	48.7
Vantage Mezzanine Fund II	Africa	2011	Investment funds	Funds	5 %	South Africa	ZAR	52.8
Voxtra East Africa Agribusiness Ini	Africa	2011	Agriculture, forestry and fishing	Funds	30 %	Norway	NOK	31.7
Agri-Vie	Africa	2010	Agriculture, forestry and fishing	Funds	9 %	South Africa	ZAR	42.7
Aureos South-East Asia Fund II	Asia & Pacific	2010	Investment funds	Funds	2 %	Canada	USD	37.6
Frontier Fund	Bangladesh	2010	Investment funds	Funds	11 %	Cayman Islands	USD	63.7
Angola Capital Partners LLC	Angola	2009	Investment funds	Equity	48 %	Delaware	USD	1.4
Cambodia-Laos Development Fund	Cambodia	2009	Investment funds	Funds	20 %	Luxembourg	USD	18.9
Evolution One Fund	Africa	2009	Energy	Funds	7 %	South Africa	ZAR	7.3
Fanisi Venture Capital Fund	Africa	2009	Investment funds	Funds	34 %	Luxembourg	USD	96.6
Fanisi Venture Management Company	Africa	2009	Investment funds	Equity and Loans	50 %	Luxembourg	USD	3.1
Fundo de Investimento Privado-Angol	Angola	2009	Investment funds	Funds	26 %	Luxembourg	USD	60.9
Aureos Africa Fund	Africa	2008	Investment funds	Funds	11 %	Mauritius	USD	130.8
GroFin Africa Fund	Africa	2008	Investment funds	Funds	9 %	Mauritius	USD	59.8
Adenia Capital Ltd II	Africa	2007	Investment funds	Funds	13 %	Mauritius	EUR	6.7
Aureos Latin America Fund (ALAF)	America	2007	Investment funds	Funds	14 %	Canada	USD	55.2
CASEIF II	America	2007	Investment funds	Funds	14 %	Bahamas	USD	9.0
Horizon Equity Partners Fund III	South Africa	2007	Investment funds	Funds	9 %	South Africa	ZAR	10.0
Aureos CA Growth Fund (EMERGE)	America	2006	Investment funds	Funds	14 %	Mauritius	USD	8.7
Aureos South Asia Fund (Holdings)	Asia & Pacific	2006	Investment funds	Funds	24 %	Mauritius	USD	71.5
APIDC Biotech Fund	India	2005	Investment funds	Funds	8 %	Mauritius	USD	16.0
China Environment Fund 2004	China	2005	Investment funds	Funds	10 %	Cayman Islands	USD	4.5
Aureos South-East Asia Fund	Asia & Pacific	2004	Investment funds	Funds	29 %	Mauritius	USD	15.9
Aureos East Africa Fund	Africa	2003	Investment funds	Funds	20 %	Mauritius	USD	4.5
Aureos Southern Africa Fund	Africa	2003	Investment funds	Funds	25 %	Mauritius	USD	18.9
Aureos West Africa Fund	Africa	2003	Investment funds	Funds	26 %	Mauritius	USD	12.3
SEAF Sichuan Small Investment Fund	China	2000	Investment funds	Funds	13 %	Delaware	USD	4.2
Lafise Investment Management	Bahamas	1999	Investment funds	Equity	20 %	Bahamas	USD	0.017

INVESTING PROFITABLY IN SOMALIA

The Nordic Horn of Africa Opportunities Fund is one of the first commercial investment fund in Somalia. It focuses on investing in small and medium sized companies and aims to demonstrate Somalia's investment potential.

The business environment in Somalia is one of the most challenging in the world. Access to capital is constrained, electricity supplies are limited, and the protection of minority investors is problematic. Some areas face severe security challenges, and international investments are few. However, Somalia is now recovering from civil war and is rebuilding the legal framework to attract more investments.

"Somalia has a lot of opportunities, and investments are important for building peace and prosperity in our country," says Prime Minister, Mr. Khaire.

In this context, Norfund has initiated a USD 10 million Fund to support small and medium sized companies. The Nordic Horn of Africa Opportunities Fund is one of the first commercial investment fund in Somalia, and will fill an investment gap by funding SMEs that have no other sources of capital.

The Fund was created together with the Danish development finance institution, IFU, and Shuraako, a US-based NGO and fund manager with a local presence across Somalia. Another important Fund enabler was the Norwegian Development Fund (Utviklingsfondet), an NGO which operates in Somalia.

"Any country needs a profitable private sector and in order to achieve this, you need investors. This fund is therefore a very important start for Somalia," said Nikolai Astrup, prev. Minister of International Development.

The Nordic Horn of Africa Opportunities Fund seeks to create positive development effects while also generating a positive return on capital. By adding risk capital to the Somali region, the Fund will enable Somali entrepreneurs to build sustainable businesses, create jobs, and contribute to the country's economy and tax base.

By the end of 2018, the Fund had invested in 14 companies across Somalia. The investments were made in different sectors, including fisheries, agriculture, light manufacturing, hospitalities, and energy. One of the investees is Maandeeq Poultry Company, a chicken producer with a stock of 35,000 chickens. Maandeeq Poultry Company has 50 employees, about half of whom are women. The company has received a Sharia compatible loan from the Fund, for the purpose of expanding the company significantly.

"With this loan, we will be able to expand our company in a sustainable manner and hopefully double the number of employees," says a manager at the Maandeeq Poultry Company. ■

Norfund

NORFUND'S HEAD OFFICE OSLO, NORWAY
Fridtjof Nansens plass 4
0160 Oslo, Norway
Phone: +47 22 01 93 93
E-mail: post@norfund.no

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

NORFUND'S OFFICE IN SAN JOSÉ, COSTA RICA
Escazu Corporate Center
Costado Sur, Multiplaza Escazu
San José, Costa Rica
Phone: +506 2201 9292

NORFUND'S OFFICE IN ACCRA, GHANA
6th Floor, One Airport Square,
Airport City, Airport
Redevelopment Scheme,
Accra, Ghana
Phone: + 233 (0) 302 906 774

NORFUND'S OFFICE IN NAIROBI, KENYA
14th Floor, The Address,
Muthangari Drive, Off Waiyaki Way,
(as of 1. Aug. 2019) Nairobi, Kenya
Phone: +254 722-209156/7
+254-20-4207000

NORFUND'S OFFICE IN MAPUTO, MOZAMBIQUE
Rua Joseph Ki-Zerbo
n.º 253 Maputo
Mozambique
Phone: +258 214 949 65