ANNUAL REPORT 1999

NORFUND IN BRIEF

Norfund – the Norwegian Investment Fund for Developing Countries – was set up as a limited liability company in 1997.
All the fund’s capital, which stood at NOK 530 million on 1 January 2000, is provided by the Norwegian state. The board is appointed by the Norwegian government and bears full responsibility for the management of the fund.

Norfund invests in profitable private enterprises in developing countries and promotes business development in these markets.

Norfund supports the realisation of viable commercial projects, which balance economic, social and environmental considerations.

Norfund is a professional organisation, which contributes to the success of its co-investors by providing risk capital and expertise.

Two investment strategies

<u>Investments by category</u>
Loans 3%
Local investment funds 46%
Direct investments 51%

<u>Investment by region</u>
Europe 1.0%
Middle East 10.8%
Latin America 20.8%
Asia 24.2%
Africa 43.3%

DIRECT INVESTMENTS
Middle East NOK 39.0 mill.
Africa NOK 45.0 mill.
Latin America NOK 24.4 mill.
Asia NOK 87.4 mill.

LOCAL INVESTMENT FUNDS
Europe NOK 3.5 mill.
Latin America NOK 50.7 mill.
Africa NOK 111.3 mill.

Norfund generally pursues two investment strategies: direct investment and involvement in local investment funds. Direct investments are made in cooperation with Norwegian companies in all countries eligible for Norfund funding. Norfund also invests in local funds in a number of countries, independently of other Norwegian investors. Both strategies aim to stimulate profitable commercial development in developing countries.

DIRECT INVESTMENTS
Direct investments are made jointly with Norwegian companies, often in cooperation with local partners. By providing capital, contacts and expertise, Norfund can actively contribute to the success of its projects. The fund requires a well documented business plan before proceeding with an investment. Here the Norwegian partner must be able to demonstrate good earnings potential, expertise and an awareness of environmental and social considerations. Norfund usually injects equity capital, at most matching the amount invested by the Norwegian sponsor, with its commitment based on shared risk, not subsidies.

LOCAL INVESTMENT FUNDS
As a rule, these investments are made in conjunction with other institutional investors such as the CDC Group plc, International Finance Corporation (IFC), Inter-American Development Bank (IDB) and private financial institutions. These funds invest in local businesses and provide equity and other risk capital. Norwegian companies wishing to set up local operations can apply directly to these funds.

Investing in profitable projects

SCANCEMENT INTERNATIONAL LTD, BANGLADESH. Scancement International Ltd is a joint venture set up to produce cement for the local market in Bangladesh. Given that most cement is currently imported, this project has considerable potential. Norfund has invested USD 5 million in the project, which will see Scancem International assuming responsibility for the construction and operation of the factory. Institutions such as the International Finance Corporation (IFC), the Nordic Development Fund (NDF) and the Norwegian Agency for Development Cooperation have provided debt financing for the project.
Bangladesh is one of the poorest countries in the world and is a priority country for Norway’s development policy as there is a major need for foreign investment here. The Scancement project will create about 200 local jobs, primarily around the capital of Dhaka.

DAIYOO ELECTRONICS, CHINA. Norfund has invested USD 0.9 million in Daiyoo Electronics Co Ltd in China. The company produces bonded magnets, a hi-tech product used in a number of areas, including PCs, printers and cars. The idea is to establish Daiyoo as a highly qualified supplier of this product to the main market in Southeast Asia. The lead sponsor, Ove Nodland, gained extensive experience in China in his previous job with Scana Industries. The local partner is a Chinese entrepreneur with considerable experience in the production of bonded magnets. Daiyoo Electronics will be based in the province of Ningbo, a key area for hi-tech products, and between 200 and 250 jobs are likely to be created over the next three years.

AIG AFRICAN INFRASTRUCTURE FUND (AIF). In 1999 Norfund invested USD 5 million in the AIF which, with a total capital of USD 400 million, is the largest equity fund for investment in infrastructure projects in Africa. The lead sponsors are the American Insurance Group (AIG), the International Finance Corporation (IFC) and the African Development Bank (ADB). Nelson Mandela, former president of South Africa, is chairman of the advisory board. Many African countries have paved the way for the privatisation of key infrastructure such as water, telecommunications and electricity over the last few years. The AIF is promoting the improvement of these services across the continent.

MSELE VENTURE FUND, SOUTH AFRICA. Msele Nedventures Ltd was set up in 1995 by the Msele black empowerment group and a division of Nedbank, one of the largest banking groups in South Africa. The fund invests in SMEs with above-average earnings potential. Norfund has invested around USD 2 million in Msele, and other investors include the African Development Bank (ADB), Germany’s DEG and France’s Proparco. Msele Nedventures has a total capital of around USD 12 million and prioritises investment in companies with development potential for black managers.

FINARCA, NICARAGUA. Finarca leases industrial and agricultural equipment to private enterprises in Nicaragua. Norfund has invested a total of USD 2 million in the project, which is co-financed by the International Finance Corporation (IFC). This joint investment is an example of Norfund’s ability to invest directly in projects alongside other multilateral development institutions. Leasing has proved a highly effective tool in helping small companies with the capital they need for investment. By leasing instead of buying equipment, small-scale local investors do not have to take out large loans, thus increasing their investment power and the number of local jobs.

INDIAN OCEAN REGIONAL FUND (IORF). Norfund has invested USD 3 million in the IORF, whose role is to invest in profitable companies in Madagascar, Mauritius and other countries in and around the Indian Ocean. The fund is managed by the CDC Group plc. Mauritius Commercial Bank (MCB), the largest private bank in the region, has also invested in the fund. The IORF wishes to be a minority shareholder in the projects it invests in, and puts up amounts of between USD 250,000 and USD 2.5 million. Madagascar is one of the least developed countries in the world and Norfund’s investment in the IORF is conditional upon a share of the fund equivalent to Norfund’s investment being invested there.

LATIN AMERICA CHALLENGE INVESTMENT FUND (LA CIF). Small family firms make up the bulk of the business community in Latin America and there is a considerable demand for capital for them. From its offices in Lima in Peru, the LA CIF provides debt financing and guarantees to medium-sized microfinance institutions which, in turn, invest equity in small viable commercial projects in Latin America. 1999 saw Norfund investing USD 0.5 million in the LA CIF. Co-investors included the USA based organisation Seed Capital, the Inter-American Development Bank (IDB), Swedfund and Care.
With its new concept and total capital of USD 10 million, the LA CIF is helping to give small businesses a new financing option as well as increasing the expertise of microfinance institutions in the region.

DIRECTORS REPORT 1999 - BUSY YEAR FOR NORFUND

NORFUND'S OPERATIONS
Norfund, the Norwegian Investment Fund for Developing Countries, invests in profitable private enterprises, either directly in local businesses together with Norwegian and local partners, or indirectly through other investment funds set up and run locally in a specific country or region.

Sharp increase in Norfund's investment portfolio The fund's portfolio of concept-approved projects totalled NOK 360 million at the year-end, spread across 19 projects. These break down into nine projects where Norwegian companies and organisations are the principal investors, nine projects involving local investment funds which then invest in profitable local businesses, and one investment in Nicaragua in conjunction with the International Finance Corporation (IFC) and private investors. The geographical breakdown (by value) is as follows: 43% in Africa, 24% in Asia, 21% in Latin America, 11% in the Middle East and 1% in Central Europe.

<u>Focusing on cooperation with international financing institutions</u>
As a new organisation, Norfund considers it important to develop its working relationship with sister organisations in the Nordic countries and the EU and with multilateral investment organisations. Cooperation is vital if we are to improve the coordination of our joint resources and learn from each other in order to adapt our products and services to meet client needs.

1999 saw Norfund signing a cooperation agreement with the IFC which paved the way for closer cooperation on projects, access to IFC expertise and better lines of communication between Norwegian companies and the IFC. Norfund and the IFC also co-financed several projects during the year, both directly with Norwegian partners as lead sponsors and indirectly through local investment funds.
The fund strengthened its alliance with UK's CDC Group plc during the year through joint investments, strategy development and cooperation on the training of professional staff. The two work together on investments in local venture funds and fund management.

1999 also saw Norfund joining INTERACT, a professional cooperation forum for Norfund's sister organisations in the EU, with Norfund playing an active role in this forum.

Flexible financing solutions vital

Norfund is a solution-based finance institution which focuses on flexibility to meet its clients' need to reduce their risk exposure. The development of a viable and profitable private sector in the countries where we work must be founded on the principles of a market-economy. Norfund can contribute to this process by getting involved in commercial investment projects by offering to share the risk and provide expertise in active ownership and business development.

Increase in resources

At the year-end Norfund employed eight members of staff with a broad range of experience in commercial development in an international context. The year 2000 will see the fund recruiting a further four to five employees in its core areas. It will also buy in expertise and services from external sources.

DIRECT INVESTMENTS WITH NORWEGIAN COMPANIES

Greater access to potential projects

The fund's cooperation with Norwegian trade and industry, trade organisations, interest groups and financing institutions, such as the Norwegian Guarantee Institute for Export Credit and Eksportfinans has played a key role in increasing access to potential projects with Norwegian partners. At the year-end Norfund's portfolio contained nine concept-approved joint ventures with Norwegian companies, with Norfund's investment in these projects totalling around NOK 180 million. Including equity put up by partners and external loan financing, the portfolio is equivalent to a total investment volume of around NOK 800 million.

Norfund will be using the year 2000 to make more information available to the Norwegian business community. It will also be taking a proactive approach to seeking out investment opportunities, through both continued active involvement in business seminars and its newsletter "News in Brief".

INVESTMENTS IN LOCAL INVESTMENT FUNDS

Investments in local venture funds important for the development of the private sector in developing countries

There is a real shortage of risk capital and expertise in most of the countries in which Norfund works. The establishment of local investment funds helps to attract risk capital for local businesses while building up local financial and commercial expertise.

Norfund works closely with players such as the CDC, IFC and MIF to inject capital and expertise into such funds. Norfund is actively involved on the boards of these funds and can thus influence their individual investment strategies. Norfund aims to play an active and direct role in the management of the funds and will be sending staff on secondments to some of the fund management companies during the year 2000.

This will ensure even closer follow-up of investments and will increase Norfund's knowledge of local markets. This will be extremely important for the investments Norfund undertakes together with Norwegian companies in the developing world. Norfund had concept-approved investments in eight local investment funds at the end of 1999, totalling around NOK 125 million. Taking partners' investments into account, the total risk capital comes to around NOK 900 million. Norfund has also invested in a regional infrastructure fund for Africa together with the IFC and European partners. Norfund's share is NOK 39 million of a total of around NOK 4 billion.

ENVIRONMENTAL AND SOCIAL ASPECTS

Sustainable development requires a balance between economic development, social responsibility and environmental protection. Evaluating matters associated with these issues is an integral part of Norfund's activities. A separate document has been drawn up which outlines Norfund's policies on the environment, social matters and human rights. A manual setting out practical procedures was produced in 1999.

WORKING ENVIRONMENT

The fund's internal working environment is considered to be good. A company health scheme was introduced in 1999. Absence through illness accounted for 6.34% of working hours.

ACCOUNTS

At the end of 1999 Norfund's fund capital totalled NOK 390 million. At the beginning of the year 2000, its capital base was increased by a further NOK 150 million to NOK 540 million. As can be seen in the policy document "Strategy for private sector development in developing countries", the government clearly wishes to continue to build up Norfund's capital base in the years ahead. A total of NOK 92 million was disbursed to the fund's projects during the year.
The surplus for the year of NOK 9.6 million has been transferred to Norfund's surplus reserve. Information concerning remuneration for the board of directors, the auditors and the managing director is provided in note 2 to the accounts.
The annual accounts have been prepared on the assumption that the fund is a going concern as the board is of the opinion that there is no reason to believe otherwise.

BOARD OF DIRECTORS

Six board meetings were held during the year.

Oslo, 22 February 2000

Arve Johnsen, Chairman
Gunn Wenche Andersgaard
Borger A. Lenth
Sigrun Møgedal
Erik Århus
Per Emil Lindøe, Managing director

PROFIT AND LOSS ACCOUNT

(NOK thousand)	Note	1999	1998
OPERATING INCOME			
Other operating income:		504	37
Total operating income		504	37
OPERATING COSTS			
Salaries and other staff costs	2	4 250	1 952
Depreciation	3	198	111
Losses on the sale of tangible fixed assets	3	6	0
Provisions for project losses	5	4 297	0
Other operating costs	2	3 789	2 109
Total operating cost		12 541	4 172
OPERATING PROFIT		- 12 037	- 4 136
FINANCIAL INCOME AND COSTS			
Other interest receivable		21 685	8 563
Other interest payable		3	5
Other financial costs		0	0
Net financial items		21 682	8 558
Profit on ordinary activities		9 645	4 422
Extraordinary items		0	0
NET PROFIT FOR THE YEAR		9 645	4 422
Application of surplus			
Transferred to surplus reserve		9 645	4 422
Total application of surplus		9 645	4 422

BALANCE SHEET

(NOK thousand)	Note	31.12.1999	1.1.1999
ASSETS			
FIXED ASSETS			
Tangible fixed assets			
Fixtures and fittings, tools, office machinery, etc.	3	1 157	290
Total tangible fixed assets		1 157	290
Total fixed assets		1 157	290
CURRENT ASSETS			
Receivables			
Other receivables		575	61
Total receivables		575	61
Investments			
Loans to projects	4	3 977	0
Equity investments	5	88 173	13 036
Total investments		92 151	13 036
Cash and bank deposits			
Cash and bank deposits	6	299 185	219 658
Total cash and bank deposits		299 185	219 658
Total current assets		391 911	232 755
TOTAL ASSETS		393 068	233 046

FUNDS AND LIABILITIES

(NOK thousand)	Note	31.12.1999	1.1.1999
FUND CAPITAL			
Paid-up capital:			
Primary capital	7	281 250	168 750
Statutory reserve	7	93 750	56 250
Total paid-up capital		375 000	225 000
Retained earnings:			
Surplus reserve	7	15 505	5 860
Total retained earnings		15 505	5 860
Total fund capital		390 505	230 860
LIABILITIES			
Other long-term liabilities:			
Other long-term liabilities		1 477	1 477
Total other long-term liabilities		1 477	1 477
Short-term liabilities			
Trade creditors		296	203
Public duties payable		461	273
Other short-term liabilities		329	232
Total short-term liabilities		1 086	708
Total liabilities		2 563	2 185
TOTAL FUNDS AND LIABILITIES		393 068	233 046

Oslo, 22 February 2000

Arve Johnsen
Chairman
Gunn Wenche Andersgaard
Borger A. Lenth
Sigrun Møgedal
Erik Århus
Per Emil Lindøe
Managing director

NOTES

NOTE 1 – ACCOUNTING POLICIES

The accounts have been prepared in line with the Financial Reporting Act (Norway). The most important accounting policies applied by the fund are described below.

Income recognition
Operating income includes dividends, gains on the sale of shares/interests in other companies, and interest income from loans to other companies. Other operating income includes gains on the sale of tangible fixed assets.
Gains on the sale of shares/interests in other companies are taken to income in the year in which the sale takes place. Interest is taken to income as it is earned.
If a project is classified as non-performing, any interest relating to the potentially loss-making project is no longer taken to income, and any accrued but unpaid interest is written back.

Shares/interests in companies
The fund does not account for shares/interests in investee companies using the equity method of accounting because the purpose of the fund's investments is to sell all or parts of each investment after structuring and development have been completed. This is in accordance with Norfund's mandate and is regarded as complying with the provisions of the Financial Reporting Act (Norway) and good accounting practice. Good accounting practice is based on the premise that such investments are temporary by nature and should therefore be classified as current assets.

Shareholdings in other companies are regarded as current assets. These items are valued at the lower of cost and market value on the basis of an individual evaluation of each investment, and such that provisions are made against individual investments if this is deemed necessary due to a permanent diminution of value. See also the note on foreign currency translation below.

Loans, loan losses
Loans are also recorded as current assets and valued at the lower of nominal value and the amount deemed recoverable. See also the description below of the criteria applied when calculating how much of a loan is deemed recoverable. Loans in default
A project is deemed to be in default at the latest 90 days after the borrower has failed to pay an instalment due. Projects subject to bankruptcy or similar proceedings are also defined as being in default. All loans in default are assessed in order to determine the amount of the provision to be made.

Specific loss provisions
Since the fund's lending is limited, the only loss provisions made are those relating to individual projects. Consequently, no general loss provisions are made.
Specific loss provisions are made in cases where the debtor is considered unlikely to meet his obligations, and the collateral is insufficient to cover the loan if realised. When assessing the probability of loss, importance is also attached to the borrower’s general financial situation.

All projects are reviewed in order to assess the need for loss provisions. The fund has not classified its loans according to risk.

Realised losses
Losses on a project are realised and recorded in the accounts in cases where the project has entered into bankruptcy or similar proceedings, or in cases where the fund has abandoned the project.

Receivables
Receivables are recorded at their estimated value and irrecoverable items are deducted.

Foreign currency translation
When valuing investments in foreign companies, it is assumed that any decline in the value of the currency will be offset by an increase in the underlying value of the investment in that currency. If this is not the case, the adjusted value of the investment is specified in a note.

Fund capital
Pursuant to the fund's mandate, the fund's capital is divided into primary capital, a statutory reserve and a surplus reserve. The fund must report to the Ministry if the fund's loss is such that its primary capital is reduced. The surplus for the year is added to the surplus reserve, while corresponding deficits are deducted from the surplus reserve, or from the statutory reserve if the former is insufficient to cover the deficit for the year.

Tangible fixed assets
Tangible fixed assets are recorded at cost less depreciation based on the estimated remaining useful life of the asset concerned.

Financial income and costs
Income from interest on the fund's primary capital deposited with the Central Bank of Norway is recorded as financial income. Similarly, interest charges related to the fund's borrowing are recorded as financial costs.

Pension liabilities and costs
The company operates defined benefit plans, whereby employees are entitled to agreed pension payments at a future point. The annual payment to the insurance company – including the annual premium and the payment to the premium fund – is charged as a pension cost. Pension costs are classified as ordinary operating costs and are presented in the accounts together with salaries and other benefits.

NOTE 2 – SALARIES AND OTHER COSTS

Salaries and other staff costs comprise:

(NOK thousand)	1999	1998
Salaries	3 033	1256
Directors' emoluments	205	195
Social insurance	519	239

Staff insurance	446	260
Other benefits	46	2
Total salaries and other staff costs	4 250	1 952

Remuneration (NOK thousand)	MD	Chairman
Salaries	673	60
Pensions	191	
Other benefits	3	0

The managing director is not entitled to any severance pay after the termination of his employment beyond the standard period of notice of three months. The chairman is not entitled to any severance pay after the termination of his employment.
At the year-end the company had eight employees. The average number of employees during the year was six.
Pension liabilities for all employees are covered by a group pension scheme. This liability is not included in the balance sheet, and the annual pension premium is classified as a pension cost. Pension premiums totalled
NOK 44 3540 for the year.
Auditors' fees totalled NOK 38550, of which NOK 24050 related to auditing services.

NOTE 3 – TANGIBLE FIXED ASSETS

Cost and depreciation (NOK thousand)	Fictures and fittings, tools, office machinery, etc.
Cost, 1 Jan	406
+ additions during the year	1 086
- disposals during the year	-21
Cost, 31 Dec	1 470
Accumulated depreciation, 1 Jan	115
+ year’s depreciation charge	201
- accumulated depreciation on assets sold	-3
Accumulated deprecation, 31 Dec	313
Book value, 31 Dec	1 157

Tangible fixed assets are depreciated at 30% per annum on a straight-line basis. The expected usefull life of tangible fixed assets is three to four years.

Additions and disposals (selling price) of tangible fixed assets

	1997		1998		1999	
(NOK thousand)	Additions	Disposals	Additions	Disposal	Additions	Disposals
Fixtures and fittings, tools, office machinery, etc.	344	-	61	-	1 086	-15
Total	344	-	61	-	1 086	-15

NOTE 4 – LOANS TO PROJECTS

(Thousands)	Currency	Book Value (relevant currency)	Amount committed (relevant currency)	Book value (NOK)
Finarca, Nicaragua	USD	500	2 100	3 977

NOTE 5 – EQUITY INVESTSMENTS IN FUNDS AND COMPANIES

Equity investments in investment funds

(Thousands)	Currency	Stake	Book value (relevant currency)	Investment commitment (relevant currency)	Book value (NOK)
Horizonte Venture Fund, Bosnia	NLG	3.0 %	205	1 025	775
Minco Fund, Mozambique	USD	16.0 %	600	3 000	4 627
Fedha Fund Ltd, Tanzania	USD	12.0 %	600	1 500	4 537
LACIF, Central America	USD	6.0 %	500	500	3 921
CAIF, Central America	USD	4.0 %	810	1 000	6 484
Msele, South Africa	ZAR	15.0 %	12 000	12 000	15 900
Total investment in funds					36 244

Equity investments in companies

(Thousands)	Currency	Stake	Book value (relevant currency)	Investment commitment (relevant currency)	Book value (NOK)
Palnorec, Ecuador	USD	27.7 %	400	400	3 097
Maxi Vigas, Paraguay	USD	49.0 %	750	800	5 890
Scancement, Bangladesh	USD	24.6 %	5 000	5 000	40 030
Sinor/Daiyoo, China	USD	25.0 %	900	900	7 209
Total investment in companies					56 227
Total investment					92 471
Provisions for losses					-4 297
Book value					88 173

NOTE 6 – CASH AND BANK DEPOSITS

NOK 292 206 of the company's total bank deposits is deposited in a blocked tax account.

NOTE 7 – MOVEMENTS OF CAPITAL

(NOK thousand)	Primary capital	Statutory reserve	Surplus reserve	Total capital
Primary capital, 1 Jan 1999	168 750	56 250	5 860	230 860
Additions to capital	112 500	37 500		150 000
Surplus for the year			9 645	9 645
	281 250	93 750	15 505	390 505

The statutory reserve constitutes 25% of the fund's capital and may be used only to cover losses that cannot be covered by reserves other than the company's primary capital.

NOTE 8 – GUARANTEES

Norfund has provided a guarantee of up to USD 500000 for Bamble Mekaniske Industri AS in connection with the production of machinery and equipment for Maxi Vigas.

NOTE 9 – LEASES

(NOK thousand)	Term of the lease	Annual rent
Premises at Munkedamsveien 45B	1 Aug 99–31 Jul 09	998

NOTE 10 – ADDITION OF CAPITAL

The fund has received NOK 375 million in capital from the Norwegian State, of which 150 million was disbursed in 1999.

AUDITOR’S REPORT FOR 1999

Respective Responsibilities of Directors and Auditors
We have audited the annual financial statements of NORFUND Særlovselskap as of 31 December 1999, showing a profit of NOK 9,644,869. We have also audited the information in the Board of Directors' report concerning the going concern assumption and the proposal for the allocation of the profit. The financial statements comprise the balance sheet, the statements of income and the accompanying notes. These financial statements are the responsibility of the Company's Board of Directors and Managing Director. Our responsibility is to express an opinion on these financial statements and on the other information according to the requirements of the Norwegian Act on Auditing and Auditors.

Basis of Opinion
We conducted our audit in accordance with the Norwegian Act on Auditing and Auditors and good auditing practice in Norway. Good auditing practice require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. To the extent required by law and good auditing practice an audit also comprises a review of the management of the Company's financial affairs and its accounting and internal control systems. We believe that our audit provides a reasonable basis for our opinion.

Opinion
In our opinion,

- the financial statements are prepared in accordance with the law and regulations and present the financial position of the Company as of December 31, 1999, and the results of its operations for the year then ended, in accordance with good accounting practice in Norway
- the company's management has fulfilled its duty to produce a proper and clearly set out registration and documentation of accounting information in accordance with the law and good accounting practice
- the information in the Board of Directors' report concerning the going concern assumption and the proposal for the allocation of the profit are consistent with the financial statements and comply with the law and regulations.

Oslo, 22 February 2000
KPMG AS
Tom Myhre
State Authorised Public Accountant
Note: This translation from Norwegian has been prepared for information purposes only

NORFUND'S AREAS OF EXPERTISE

Norfund provides risk capital and expertise for the profitable establishment of commercial enterprises in developing countries. We aim to be a valued business partner that contributes to the success of projects. All staff are recruited from the private sector and offer extensive experience in international commercial development in difficult markets, thus ensuring that we can provide the expertise required in order to succeed in this area.

Norfund was founded due to a lack of private risk capital in developing countries. Given that the fund is run on a commercial basis, this must be reflected in the way we organize ourselves. Professional expertise in the field of project development and experience of the developing world are both vital to our success.

Norfund's strength lies primarily in its commercial expertise. We will be able to assist in all phases of the development and establishment of a project, as well as in the exercising of our function as a shareholder. We also offer financial, legal and networking expertise, with our international network in particular being strengthened in 1999. Close relationships with key multilateral organisations are consolidated through agreements and investment alliances.

Norfund's staff are all recruited from the private sector and our approach to projects is efficient and customer-oriented: critical success factors must be identified at an early stage and the requisite contacts in our national and international networks quickly established. We focus on ensuring that customers and partners perceive us as a professional business partner.

Experienced staff

Per Emil Lindøe
Managing director. Degree in business administration from the Norwegian School of Management. Extensive experience of international commercial development in areas such as Africa and Eastern Europe.

Thorbjørn Johan
Responsible for investment funds.
Gaarder MBA from the International Institute for Management Development (IMD) in Switzerland. Solicitor, qualified in the UK and Norway. Has headed financial operations in several countries.

Mehraz Rafat
Responsible for direct investments. Degree in business administration from the Norwegian School of Economics and Business Administration. Seven years' experience as project manager for the consulting firm McKinsey & Co in Europe, Africa and Latin America.

Vidar Holm
Investment manager. Ph.D all but dissertation from the Norwegian School of Economics and Business Administration. A variety of experience in banking and consulting environments, most recently at Innovation Strategic Consulting.

Vegard Halvorsen
Investment manager. MSc in business from the Norwegian School of Economics and Business Administration and an MSc in African Studies from Edinburgh University. International experience from British Steel (UK) and Scancem International.

Zhen Qin
Investment analyst. MBA from Manchester Business School.
Previous posts include project analyst for Mitsiu & Co in Beijing.

Mie Skarpaas
Project coordinator. MA in mass communication from the University of Bergen. Previous posts include radio and TV journalist and project manager at an information bureau.

Camilla Bakke
Secretary. BA in development studies with politics from the University of Leeds. Secretarial and sales experience.

International network

IFC
The International Finance Corporation is the private investment arm of the World Bank Group in Washington DC and seeks to promote economic growth in the private sector in developing countries. The IFC has around 170 member countries and provides financing in cooperation with both foreign and local capital.

CDC
The CDC Group plc is a UK financial institution with 27 overseas offices and invests risk capital in profitable businesses in developing countries. CDC also acts as manager for a number of local investment funds.

IDB
The Inter-American Development Bank is based in Washington DC and issues long-term loans to various types of development projects in Latin America and the Caribbean, focusing on the social sectors. The IDB encompasses both the Inter-American Investment Corporation (IIC) and the Multilateral Investment Fund (MIF).

One of Norfund's key contributions to the success of its projects is its links with an international network of institutions with expertise in commercial development in developing countries. This network was further strengthened in 1999.

The year saw Norfund signing a cooperation agreement with the International Finance Corporation (IFC) which paved the way for the co-financing of projects sharing of, information on prospective projects, joint project analyses, cooperation on follow-ups, the use of IFC expertise and access to training opportunities. The agreement has also given Norfund greater influence in the international development environment, with the result that Norwegian companies wishing to invest in developing countries now have greater opportunities in terms of access to risk capital and international expertise.

Norfund also strengthened its relationship with the CDC Group plc. during the year. The two institutions have worked extensively together on training and local investment funds, and have also discussed extended cooperation on fund management.

Norfund also works closely with the Multilateral Investment Fund (MIF) on setting up an investment fund in Latin America. Our other partners include the Inter-American Development Bank (IDB), the European Investment Bank (EIB) and our European sister organisations.

Norfund has regular dealings with the authorities in its partner countries and works closely with Norwegian and international advisers, institutions and companies that provide the support functions needed for Norfund projects, such as the Guarantee Institute for Export Credit, Eksportfinans and the Norwegian Trade Council.

PROJECT ASSESSMENT

If Norfund is to succeed in its bid to set up profitable viable enterprises in developing countries, it must thoroughly analyse both commercial aspects and development considerations such as the environment and human rights. Not only do we undertake thorough market research, look into local production technology and value the company, we also consider the anticipated development impact of projects. By integrating financial assessments with environmental and social responsibility in the individual project phases, we ensure that all aspects of the project are taken into account and that we produce the best possible assessment for both investors and society at large.

Principles for environmental and social responsibility

Our investment projects must comply with recognised international environmental and social standards, as well as with national legislation and regulations.

We will strive to ensure that the health, safety and human rights of employees are valued and protected.

We aim to highlight and enhance the positive social and environmental consequences of our investment projects.

We seek to identify any negative social and environmental consequences of our investment projects and contribute towards mitigating any adverse effects.

We require our partners to implement appropriate procedures to deal competently with the social and environmental aspects of their projects. These issues must be considered prior to an investment decision.

Project phases

1. Project identification Applicants submit a brief description of their projects to Norfund outlining their business concept, experience in the area and expected results in terms of return on investment and local wealth creation. On the basis of this description, Norfund quickly informs applicants as to whether it is interested in proceeding with the project or not.

Norfund informs co-investors of its policies on environmental and social responsibility. These guidelines are taken into account in all subsequent work on the project. The parties work together to identify the most important potential environmental problems.

2. Screening This phase sees applicants producing the information needed for Norfund to carry out a rough evaluation of the project, focusing on its business concept, profitability, expertise and long-term viability. This involves a two to three page description of the project in the first instance.

Norfund's board carries out an initial review of the project, including the preliminary environmental documentation.

3. Investment study
Norfund reviews the detailed investment plan.
Any amendments to fundamental premises must be made and, if necessary, a new feasibility study carried out. Meetings are held with Norwegian executive project management and partners in investment countries, and Norfund draws on its extended international network to add value to the project. Once this phase is complete the project is forwarded to Norfund's board for final approval.

Social and environmental responsibility studies are carried out and the final documentation on these factors is submitted to the board.

4. Negotiations and contracts
The parties agree on the final terms and jointly draft the necessary agreements. Given that the intentions behind the various terms already will have been discussed, this phase is to some extent the formalisation of matters that have been agreed verbally.

All problems relating to environmental and social responsibility should now have been resolved. The contract sets out requirements for these areas, as well as procedures for environmental reporting.

5. Implementation, operation and exit
This phase sees the transfer of capital to the project. Norfund works actively with co-investors to promote optimal value creation for the company and is normally involved at board level. It generally withdraws when a project can finance further growth itself, normally after four to seven years.

The environmental and social aspects of the project are followed up as a matter of course. Norfund believes in open communication on development considerations with all partners. Experience shows that those companies, which take environmental and social matters seriously, will also create most value for investors.

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