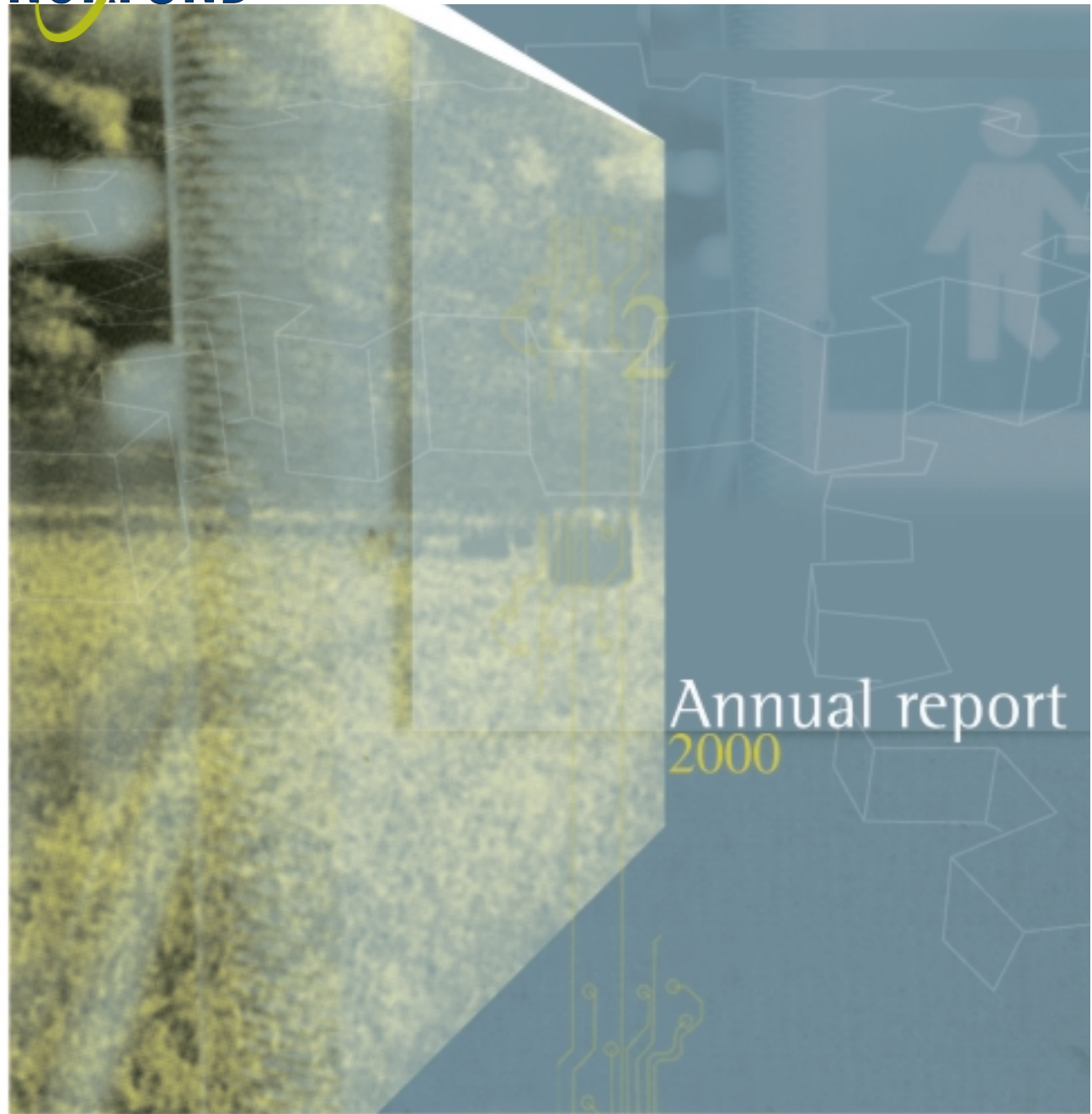


**NORFUND**  
Norwegian Investment Fund for Developing Countries

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The logo for NORFUND, featuring the word "NORFUND" in a bold, blue, sans-serif font. A yellow circular graphic element, resembling a stylized 'O' or a ring, is positioned behind the 'O' in "NOR".The cover of the Annual report 2000. It features a dark blue background with a large, semi-transparent, light blue graphic of a person carrying boxes. The text "Annual report" is in white, and "2000" is in yellow. The background also includes faint white line art of various geometric shapes and a yellow circuit-like pattern at the bottom right.

Annual report  
2000

# 2000

## Projects summary

As of 31 December 2000 Norfund had approved a total of 27 investments with a total value of NOK 534 million. Of these 14 were direct investments and 13 were fund investments. The following 18 investments have been implemented:

Africa	<b>Tanzania</b> USD 1.5 million in the FEDHA Fund which invests in small and medium sized companies.
	<b>Mozambique</b> USD 3 million in the MINCO Fund which invests in small and medium sized companies.
	<b>South Africa</b> USD 2 million in the Msele Fund which invests in small and medium sized companies. Msele places particular emphasis on the development of coloured leadership skills in the region.
	<b>Madagascar – Mauritius</b> USD 3 million in the Indian Ocean Regional Fund, which invests in profitable businesses in Madagascar, Mauritius and in countries in or bordering the Indian Ocean.
	<b>Regional Africa</b> USD 5 million in the African Infrastructure Fund (AIF).
Europe	<b>Bosnia-Herzegovina</b> • USD 0.5 million in Horizonte Enterprise Fund which invests in local private companies • USD 1 million in the fish farming company Norfish Blagaj
	<b>The Balkans</b> USD 5 million in the Trans-Balkan fund which invests in small and medium sized companies in the Balkans.

### Asia

<b>China</b> • USD 0.9 million in the electronics company Daiyoo • USD 3 million in the investment fund SEAF Sichuan SME Investment Fund
<b>Bangladesh</b> USD 5 million in Scancement a cement production and marketing company.
<b>The Philippines</b> USD 2 million in the fish farming company GenoMar.
<b>Thailand</b> USD 5 million in the investment fund Siam Investment Fund II.

### Latin-America

<b>Nicaragua</b> USD 2 million in the leasing company Finarca.
<b>Central-America</b> • USD 5 million in the Central American Small Enterprise Fund (CASEIF). • USD 1 million in the Central American Investment Facility Ltd (CAIF).
<b>Ecuador</b> USD 0.4 million in the palm oil company Palnorec.
<b>Peru</b> USD 0.5 million in the LA CIF fund which offers loans and guarantees to micro financing institutions in Latin America.

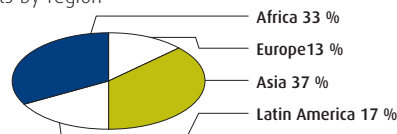
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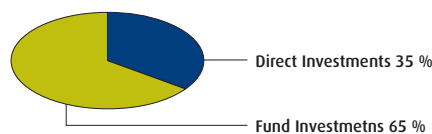
## Norfund in brief

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 770 million on 1 January 2001, is provided by the Norwegian state. The board is appointed by the Norwegian government and bears full responsibility for the management of the fund.

Investments by region



Investment by category



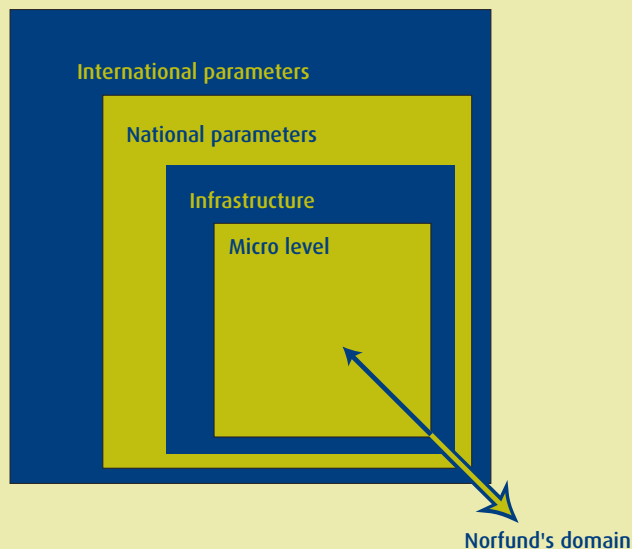
### Key figures:

(NOK mill.)	2000	1999	1998	1997
Profit	3	10	4	1
Capital from owners	150	150	175	50
Equity (31.12.)	543	391	231	51
Employees	10	8	5	2

**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.



## Directors' Report 2000

– strong growth and a focus on the private sector

- Approval of 11 new investments
- Opening of CASEIF, the first Norfund initiated fund in Latin America
- Increased capital base to in total NOK 1.1 billion
- Initiated the establishment of a joint fund management company with CDC
- NORAD'S loan portfolio taken over
- Norfund's scope expanded to include countries with a BNP of up to USD 5280 per population. Focus on poverty remains firm.

### Norfund's activities


Norfund is an investment fund that invests in profitable private businesses in developing countries. The investments are made directly in local businesses together with Norwegian and local investment partners or indirectly via local investment funds based in those countries or regions where Norfund operates.

The portfolio of authorised projects at the end of 2000 amounted to NOK 534 million. The portfolio consisted of 27 investments, 14 in direct investments (12 of these in co-operation with Norwegian companies) and 13 in fund investments. The geographic distribution of investments (in terms of value) was 33 % in Africa, 17 % in Latin America, 37 % in Asia and 13 % in Europe.

### Increase in the capital base and focus on the private sector

The use of the private sector as a powerful means of fighting poverty in developing countries is a primary focus area for our partner countries and international finance institutions. In the Norwegian government's budget for 2001, Norfund was allocated further capital. This raises total capital (as of 1 January 2001) to approximately NOK 800 million.

NORAD's loan portfolio with a face value of approximately NOK 400 million was transferred to Norfund on 1 January 2001. The loan portfolio has been acquired free of charge and payments will be treated as operating income. The loans will be administered by Norfund. This transfer finalises the specialisation of Norad's and Norfund's areas of activity. NORAD will focus on awarding grants and on the general conditions for business development. Norfund will focus on business development based on business criteria. The changes are based on international experience (IFC,



OECD) and the requests made by the Norwegian business sector as expressed in the ECON consultancy report on Norwegian investment.

#### Direct investments in partnership with Norwegian companies

At the end of year, Norfund's portfolio included 12 projects where Norwegian companies are joint investors. Norfund's total committed approved investments were NOK 187 million. Norfund has made joint direct investments with companies where IFC (amongst others) has participated. The total amount committed is NOK 30 million. There were two new joint direct investments with Norwegian companies in 2000. Both are in fish farming companies, Norfish Blagaj in Bosnia and GenoMar in the Philippines.

Norfund will intensify its marketing to companies in 2001.

#### Investments in local investment funds


There is a serious lack of risk capital and skills in the majority of countries in which Norfund operates. Establishing local investment funds increases the flow of risk capital to local businesses and builds up local financial and business skills. Investment in funds allows Norfund to work closely with other multilateral finance organisations such as IFC, CDC and MIF.

The year 2000 has seen investments in four new funds. CASEIF in Latin America, is the first fund Norfund has established alone and was established in the autumn of 2000. Norfund has stationed an employee in Managua to assist in the development of the fund. The opening ceremony, including the signing of agreements, took place in October. Members of Norfund's board were present. Norfund is therefore involved with three funds in Central America, which use different means. LA CIF, which offers financing to the micro sector and CAIF and CASEIF which invest in small and medium sized companies (SME).

Norfund has also established a strong presence in the Balkans during 2000. Norfund had previously invested in the Horizonte Bosnia-Herzegovina Enterprise Fund, the first share capital fund that invests in small and medium sized businesses (SME). Norfund has in 2000 invested in the SEAF Trans-Balkan Fund LLC which invests in all the Balkan states with the exception of Bosnia Herzegovina.

The final two funds in which Norfund invested in during 2000 are the Siam

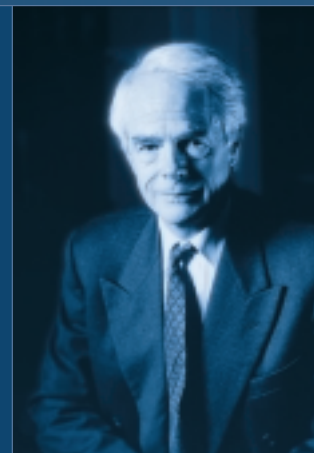
## Board



Arve Johnsen  
Chairman



Gunn Wenche Andersgaard



Borger A. Lenth



Erik Århus



Grete Faremo

Investment Fund II in Thailand and SEAF Sichuan SME Investment Fund in China. The first invests in companies in Thailand that require capital to reposition after the economic crisis. The other invests in companies in the Sichuan province.

Norfund has also expanded its co-operation with IFC and CDC. Norfund and CDC recently established a joint company for the management of funds which invest in small and medium sized companies (SME). This will give Norfund significantly greater influence in business development in the South.

#### Environmental and social aspects

Sustainable development requires that there is a balance between economic development, social responsibility and the protection of the environment. The evaluation of these issues is an integrated part of Norfund's operations. A policy document has been developed giving Norfund's policy on environmental issues, social conditions, human rights and corruption. A routines manual was introduced in 1999.

#### Personnel and organisation

At the end of year 2000, Norfund had 10 employees, each with broad international experience in business development. Two of Norfund's employees are stationed overseas, one in Nicaragua working with the development of CASEIF and the other in Norsad in Zambia. Norfund plans to expand its staff in 2001, adding resources to loan portfolio management, evaluation/technical assistance and investment analysis. Norfund will continue to buy in services and skills from external suppliers as required.

The internal working environment is good. Total leave of absence due to sickness was 1.3 % (25 days) of the total working year. The board would like to thank the employees for their contribution to Norfund in the past year.



In the course of 2000 there were no personal injuries or damage to Norfund's property.

#### Accounts

The board considers that the annual report represents a true and fair description of the company's position at the end of the year.

At the end of 2000, Norfund's managed capital was NOK 559 million.

A total of NOK 79 million NOK had been paid out to projects in 2000.

The income from projects is as budgeted. Income from interest has been higher than anticipated due to higher interest rates.

The profit for the year was NOK 2,985 thousand. This profit has been transferred to Norfund's profit account. Information on remunerations made to the board, the auditor and the managing director are given in note 2 in the accounts.

#### Ongoing concern

The accounts are based on treating the company as an ongoing concern, the board seeing no grounds for treating the company otherwise.

#### The Board

Six board meetings were held in 2000. In October 2000, a group of board members travelled to Latin America to gain first hand experience of the projects and to attend the opening of the CASEIF fund.

Oslo, 13 February 2001

Arve Johnsen  
Chairman

Grete Faremo  
Erik Århus

Gunn Wenche Andersgaard  
Borger A. Lenth

Per Emil Lindøe  
Managing director

## Profit and loss account

		(NOK 1 000)	Note	2000	1999
<b>Operating income</b>		<b>Operating income</b>			
	Other operating income			2 704	504
	<b>Total operating income</b>			<b>2 704</b>	<b>504</b>
<b>Operating costs</b>		<b>Operating costs</b>			
	Salaries and other staff costs	2		5 994	4 250
	Depreciation	3		488	198
	Losses on the sale of tangible fixed assets			0	6
	Provisions for project losses	6		14 532	4 297
	Other operating costs			5 223	3 789
	<b>Total operating costs</b>			<b>26 237</b>	<b>12 541</b>
	<b>Operating profit</b>			<b>(23 533)</b>	<b>(12 037)</b>
	Other interest receivable			26 408	21 685
	Other interest payable			111	0
	Other financial costs			0	3
	<b>Net financial items</b>			<b>26 518</b>	<b>21 682</b>
<b>Net profit for the year</b>		<b>Net profit for the year</b>		<b>2 985</b>	<b>9 645</b>
<b>Application of surplus</b>		<b>Application of surplus</b>			
	Transferred to surplus reserve			2 985	9 645
	<b>Total application of surplus</b>			<b>2 985</b>	<b>9 645</b>

## Balance sheet

		(NOK 1 000)	Note	2000	1999	Note 1
<b>Fixed assets</b>	<b>Fixed assets</b>					
	Operating equipment, fixtures/fittings, etc		3	1 235	1 157	
	<b>Total fixed assets</b>			<b>1 235</b>	<b>1 157</b>	
<b>Current assets</b>	<b>Current assets</b>					
	Total receivables			1 077	575	
	<b>Investments</b>					
	Loan to projects		4	13 316	3 977	
	Equity investments		5	144 297	88 173	
	<b>Total investments</b>			<b>157 614</b>	<b>92 151</b>	
	Cash and bank deposits		7	399 528	299 185	
	<b>Total current assets</b>			<b>558 219</b>	<b>391 911</b>	
	<b>Total assets</b>			<b>559 455</b>	<b>393 068</b>	
<b>Equity</b>	<b>Equity</b>					
	<b>Paid-up capital</b>					
	Primary capital		8	393 750	281 250	
	Statutory reserve		8	131 250	93 750	
	<b>Total paid-up capital</b>			<b>525 000</b>	<b>375 000</b>	
	<b>Retained earnings</b>					
	Surplus reserve		8	18 490	15 505	
	<b>Total retained earnings</b>			<b>18 490</b>	<b>15 505</b>	
	<b>Total equity</b>			<b>543 490</b>	<b>390 505</b>	
<b>Liabilities</b>	<b>Liabilities</b>					
	Long-term liabilities			1 370	1 477	
	<b>Short-term liabilities</b>					
	Trade creditors			664	296	
	Public duties payable			548	461	
	Unused monies (Trust Fund)		9	11 300	0	
	Other short-term liabilities			2 083	329	
	<b>Total short-term liabilities</b>			<b>14 595</b>	<b>1 086</b>	
	<b>Total liabilities</b>			<b>15 965</b>	<b>2 563</b>	
	<b>Total equity and liabilities</b>			<b>559 455</b>	<b>393 068</b>	

Oslo 13. February 2001

Arve Johnsen  
Chairman

Grete Faremo  
Erik Århus

Per Emil Lindø  
Managing director

Gunn Wenche Andersgaard  
Borger A. Lenth

### Accounting principles

The accounts are prepared according to the rules in the Norwegian Accounting Act. The most important accounting principles the fund follows are described below.

### Recording income

Operating revenues include dividends, earnings on the sale of shares/ownership interests in other companies, interest received on loans made to other companies, fees for the Board, other income from projects, and earnings on the sale of fixed assets.

Earnings on the sale of shares/ownership interests in other companies are taken to income in the year the sale takes place. Interest is included in income as it is accrued.

When commitments are classified as problem commitments exposed to loss, the interest related to these commitments is no longer taken to income and unpaid interest is written back.

### Financial income

Interest received on the fund's liquidity reserves in for example Norges Bank are entered as financial income.

### Pension obligations and pension costs

The company has a pension scheme which gives the employees the right to agreed future pension payments called benefit plans. Annual payments to the insurance company, including the annual premium and payment to the premium fund, are charged against income as pension costs. The pension costs are classified as ordinary operating costs and are presented with salary and other payments.

### Equity investments

The fund will not incorporate shares/ownership interests in other companies according to the equity method as the purpose of the fund's investments is to sell all or part of the individual investments after structural changes and development have been carried out. This is in compliance with Norfund's objects and is in line with the rules of the Norwegian Accounting Act and good accounting practice. Good accounting practice is based on such investments being by their nature temporary, and they should therefore be included under current assets. Ownership interests in other companies are therefore to be considered as current assets.

Equity investments in companies are evaluated at the lowest of the cost price and the market value based on a specific assessment of each investment so that individual investments are written down when this is regarded necessary due to a

continuous fall in value (specified provisions for bad debts). No general provisions for bad debts are therefore made. See also below - foreign exchange.

### Loans

Loans made are also considered as current assets.

Loans are estimated at the lowest of the face value and the presumed recoverable amount. A commitment is regarded as defaulted in payment at the latest 90 days after the borrower has neglected to pay the instalments due on a loan.

Commitments where bankruptcy proceedings or similar have been instituted are also defined as in default of payment.

### Write-offs

Losses on commitments which are written off on bankruptcy or for similar causes or where the fund has renounced the commitment are entered as write-offs.

### Foreign exchange

Bank deposits are evaluated at the exchange rate at the end of the accounting year. Loans are evaluated together at the exchange rate at the end of the accounting year (the portfolio principle). Unrealised earnings/losses are entered as operating revenues/costs. In the evaluation of equity investments (see preceding), assessment of value changes are also included as a result of changes in exchange rates.

### Accounts receivable

Accounts receivable are entered at their presumed value and reduced for irrecoverable items.

### Tangible fixed assets

Tangible fixed assets are entered at cost price reduced by the business economic depreciation based on the presumed life-cycle of the operating asset.

### Shareholders' equity

The fund's equity is divided into primary capital, statutory reserve and surplus reserve. The division is made in accordance with the frame conditions for the fund's activities governed by the fact that the Ministry shall be notified if the fund's loss is of a size that affects the primary capital. The year's profit will be added to the profit capital, while any corresponding deficit will be deducted from this or from the reserve capital if the first fund is not of a size that can cover the year's deficit.

### Note 2 Salaries and other staff costs

Wages and other staff costs are comprised of:		2000	1999
(NOK 1 000)			
Salaries		4 274	3 033
Directors' remuneration		194	205
Employers' National Insurance contributions		716	519
Personnel insurance		618	446
Other remuneration		192	46
<b>Total salaries and other staff costs</b>		<b>5 994</b>	<b>4 250</b>

Remuneration		MD	Chairman
(NOK 1 000)			
Salaries		769	60
Payments for pension commitments		170	0
Other remuneration		3	0

The Managing Director has no contract for pay after termination of employment beyond the ordinary notice period of 3 months. The Chairman of the Board has no contract for pay after termination of employment.

At the end of the year the company had 10 employees. The average number of employees for the year has been 9. Pension commitments for all employees are covered by a group pension scheme. The commitment has not been entered into the Balance Sheet, and the annual pension premium is regarded as the year's pension expense. Pension premium is entered as an expense in the amount of NOK 617 862 for the year.

The Auditor's fee is expensed with NOK 126 800, of which NOK 85 000 is for auditing services.

### Note 3 Tangible fixed assets

Cost and ordinary depreciation (NOK 1 000)	Operating equipment, fixtures/fittings etc.		Cost and ordinary depreciation (NOK 1 000)	Operating equipment, fixtures/fittings etc.	
	1997	1998		1999	2000
Cost at 1 Jan		1 470	Accumulated ordinary depreciation, 1 Jan		313
+ acquisitions during the year		566	<b>+ ordinary depreciation for the year</b>		<b>488</b>
÷ disposals during the year		0	÷ acc. ord. depr. sold operating assets		0
<b>Costs at 31 Dec</b>		<b>2 036</b>	Accumulated depreciation, 31 Dec		801
			<b>Book value, 31 Dec</b>		<b>1 235</b>

Operating assets are depreciated according to the linear method. Expected useful life of operating assets is 3–4 years.

#### Investments and sales (sales price) of tangible fixed assets

(NOK 1 000)	1997		1998		1999		2000	
	Investment	Sales	Investment	Sales	Investment	Sales	Investment	Sales
Operating equipment, fixtures/fittings, tools, etc.	344	-	61	-	1 086	-15	566	-
<b>Total</b>	<b>344</b>	<b>-</b>	<b>61</b>	<b>-</b>	<b>1 086</b>	<b>-15</b>	<b>566</b>	<b>-</b>

### Note 4 Loans to projects

(NOK 1 000)	Curr.	Committed amount	Book value	Committed value*	Book value
		(curr.)	(curr.)	(NOK)	(NOK)
Finarca, Nicaragua	USD	1 500	1 500	13 316	13 316
Maxi Vigas, Paraguay	USD	750	515	6 537	4 451
<b>Total loans to projects</b>				<b>19 853</b>	<b>17 767</b>

Provision for losses on loans as at 31 Dec 00	- 4 451
<b>Book value loans</b>	<b>13 316</b>

\* When converting to NOK the conversion rate at the time of payment is used for that part of the amount which has been paid. For the part of the amount which has not been paid the conversion rate as at 31 Dec 00 is used.

### Note 5 Equity investments in investment funds and companies

Equity investments in funds (NOK 1 000)	Currency	Ownership interest	Commitment investment (curr.)	Book value (curr.)	Committed amount* (NOK)	Book value (NOK)	Payment plan	
							2001	2002
Horizonte Venture Fund, Bosnia	NLG	3.0 %	1 025	410	3 843	1 540	1 466	837
Minco Fund, Mozambique	USD	15.8 %	3 000	600	25 929	4 627	13 053	8 249
Fedha Fund Ltd., Tanzania	USD	12.0 %	1 500	900	12 489	7 164	5 326	0
LACIF, Latin America	USD	6.0 %	500	500	3 921	3 921	0	0
CAIF, Latin America	USD	3.8 %	1 000	1 000	8 169	8 169	0	0
Msele, South Africa	ZAR	14.6 %	12 000	12 000	15 900	15 900	0	0
African Infrastructure Fund, Africa	USD	1.2 %	5 000	725	44 544	6 599	15 654	22 291
Indian Ocean II, Mauritius/Madagascar	USD	23.1 %	3 000	900	26 819	8 180	9 320	9 320
Trans Balkan, Balkan	USD	20.7 %	5 000	1 122	44 627	10 206	17 211	17 211
CASEIF, Latin America	USD	48.0 %	5 000	133	44 421	1 222	21 406	21 793
Siam Investment Fund II, Thailand	USD	8.3 %	5 000	0	44 380	0	26 628	17 752
SEAF Sichuan SME Investment Fund, China	USD	10.0 %	3 000	0	26 628	0	13 314	13 314
<b>Total investment in funds</b>					<b>301 670</b>	<b>67 526</b>	<b>123 376</b>	<b>110 768</b>

Equity investments in companies (NOK 1 000)	Currency	Ownership interest	Commitment investment (curr.)	Book value (curr.)	Committed value* (NOK)	Book value (NOK)	Payment plan	
							2001	2002
Palnorec, Ecuador	USD	27.7 %	400	400	3 097	3 097	0	0
Maxi Vigas, Paraguay	USD	49.0 %	750	750	5 890	5 890	0	0
Scancement, Bangladesh	USD	24.6 %	5 000	5 005	40 175	40 219	0	0
Sinor/Daiyoo, China	USD	25.0 %	900	900	7 209	7 209	0	0
Norfish Blagaj, Bosnia	DEM	30.7 %	2 000	1 997	8 279	8 266	0	0
Finarca, Nicaragua	USD	16.8 %	600	598	5 684	5 684	0	0
GenoMar, Philippines	NOK	8.3 %	20 000	20 000	20 000	20 000	0	0
<b>Total investments in companies</b>					<b>90 335</b>	<b>90 366</b>	<b>0</b>	<b>0</b>

**Total investments** 392 005 157 892

Provision for losses on investments as at 31 Dec 99 - 4 297  
 Provision for losses on investments as at 31 Dec 00 - 9 298

**Book value investments** 144 297

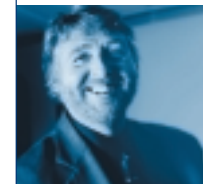
\* When converting to NOK the conversion rate at the time of payment is used for that part of the amount which has been paid. For the part which is unpaid the conversion rate as at 31 Dec 00 is used.

### Note 6 Provision for losses

Provision for losses on loans to projects, cf. Note 4	4 451
Provision for losses on equity investments, cf. Note 5	9 298
Provision for commitments	783
<b>Total provision for losses on projects</b>	<b>14 532</b>

### Note 7 Cash in hand and at bank

NOK 239 110 of the company's total bank deposits are deposited in a blocked account for advance tax deduction.



Per Emil Lindøe

## Activity brings progress! – A message from the Managing Director

**There is an old saying: 'Idleness is the root of all evil'. When an organisation such as Norfund develops goals and strategies, it is important to learn from the wisdom and experience of others. If idle hands are the root of all evil, all work and activity should therefore be the opposite, that is to say a foundation for good.**

Norfund's goal is clear – to create jobs and capital in developing countries through investing in viable private business activities. Jobs are important for the development of a country in several ways. Firstly, they lay the foundation for the taxation of both individuals and businesses. This in turn ensures that social services such as education and health are financed. Taxation is also the central means by which income can be redistributed and infrastructure developed. Infrastructure development is essential if social goals are to be achieved and if new investment, growth and job creation are to be stimulated.

An element that is often overlooked when discussing the effects of creating profitable and viable businesses is jobs. Work is often a condition for the development of a democracy, where justice can be striven for and human rights respected. Salaries provide a basis for independence both in the choice of consumption patterns, investment in personal development and not least by providing the basis for building courage of conviction. Money is power and economic dependence is a hindrance to freely formed opinions.

Norfund has clear views on the social and environmental responsibilities of the private sector. One approach is to document environmental billboards and their associated manuals. This is important. However, results are only achieved through the professional evaluation of investment projects prior to investment and by taking responsibility for how a business is run. Norfund has initiated an awareness program for local management in the companies in which it invests, to focus on management responsibility in the fight against AIDS and HIV.

The problems are many. It is easy to be disheartened. Norfund will however meet the challenge and work with the possibilities. Our goal and strategy reflects this. Results are only achieved through constructive co-operation with our national and Norwegian investment partners, other financial organisations and, of course, the owner of Norfund.

**It is important to acknowledge the know-how and experience** documented by organisations such as IFC. IFC published a report in connection with the World Bank meeting in Prague in 2000 – Paths out of Poverty: The Role of Private Enterprises in Developing Countries. We will not repeat the report's conclusions, however we encourage as many of our contacts as possible to obtain a copy of this report.

### Note 8 Movements of capital

(NOK 1 000)	Primary capital	Statutory reserve	Surplus reserve	Total equity
Capital 31 Dec 99	281 250	93 750	15 505	390 505
Capital inflow	112 500	37 500		150 000
Profit for the year			2 985	2 985
<b>Capital as at 31 Dec 00</b>	<b>393 750</b>	<b>131 250</b>	<b>18 490</b>	<b>543 490</b>

Capital reserves represent 25 % of the total contributed capital. Capital reserves may only be allocated for settlement of losses which cannot be settled by allocations other than primary capital. The company has received NOK 525 million in capital from the State, of which NOK 150 million has been paid in 2000.

### Note 9 Unused monies (Trust Fund)

In the year 2000 Norfund has received NOK 15 million in Trust Fund monies. The Trust Fund is intended to cover Norfund's costs, over and above normal operating costs, as a measure to stimulate increased investments in developing countries, and to ensure success for the investments which will be undertaken. Costs are covered by the Trust Fund subsequent to application in each case. The Trust Fund is treated as a short-term debt, and amounts paid are included in Norfund's liquid assets. Any coverage of costs by the Trust Fund will reduce the debt by the equivalent amount. Costs in the total amount of NOK 3.7 million have been charged against the Trust Funds in 2000.

### Note 10 Commitments

Norfund has provided a guarantee to Eksportfinans, with a ceiling of USD 30 934 in connection with export of machinery and equipment to Maxi Vigas.

### Note 11 Leases

(NOK 1 000)	Rental period	Annual rental costs	Income from subletting
Premises in Munkedamsveien 45	01.08.99–31.07.2009	1 674	667

## Auditors' report for 2000

### Responsibilities of management and auditors

We have audited the annual report and accounts of NORFUND for the financial year 2000, showing a profit for the year of NOK 2 984 886. We have also reviewed the information contained in the Board of Directors' report regarding the annual accounts, the assumption for continued operations and proposal for the allocation of profit. The annual accounts consist of the profit and loss account, balance sheet and notes to the accounts. The annual accounts are the responsibility of the Fund's Board of Directors and its managing director. Our responsibility is to report on the annual accounts and other affairs in accordance with the Norwegian Auditing and Auditors Act.

### Basis for our report

We have conducted our audit in accordance with the Norwegian Auditing and Auditors Act with appurtenant regulations, and generally accepted auditing standards in Norway. Generally accepted auditing standards require that we plan and perform our audit to provide confirmation that the annual accounts are free of material errors. Our audit includes examination of selected parts of the evidence supporting the information in the annual accounts, evaluation of the accounting principles applied and principal accounting estimates, as well as an examination

of the presentation of the annual accounts. To the extent required by generally accepted auditing standards, we have reviewed the Fund's asset management and accounting and internal control systems. We are of the opinion that our audit gives a proper basis for our statement.

### Statement

We are of the opinion that

- the annual accounts have been prepared in accordance with applicable laws and regulations, and present fairly the Fund's financial position as at 31st December 2000 and the result for the financial year in accordance with generally accepted accounting principles in Norway
- management has carried out its duties of ensuring proper and clear entry and documentation of accounting information in accordance with applicable legislation and generally accepted accounting principles
- the information contained in the Board of Directors' report regarding the annual accounts, the assumption for continued operations, and proposal for allocation of profit is consistent with applicable laws and regulations.

Oslo, 13th February 2001

Tom Myhre, State Authorised Public Accountant **KPMG AS**

Note: This translation from Norwegian has been prepared for information purposes only.



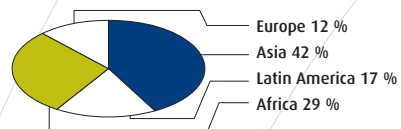
## Two investments strategies

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 support (countries with a BNP under USD 5280 per capita). 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.

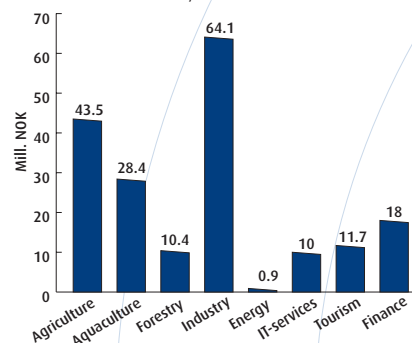
### DIRECT INVESTMENTS

Direct investments are made jointly with Norwegian companies, often in cooperation with local partners. Norfund can offer capital, a network and skills that can contribute to the success of a project. Norfund require a thorough business plan which clearly defines the profitability, skills and environmental and social awareness of their potential Norwegian partner. Norfund normally invests share capital and a maximum amount equivalent to the amount invested by the Norwegian sponsor. Norfund's participation is based on the sharing of risk with our Norwegian partners and not the subsidising of projects.

Direct investments by region



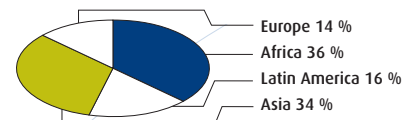
Direct investment by industrial sector



### LOCAL INVESTMENT FUNDS

Norfund usually invests in funds with other institutional investors such as CDC, IFC, IDB (see page 13) and private financial institutions. These funds invest in local businesses. Norwegian firms that wish to establish local companies are welcome to contact these funds directly.

Fund investment by region



## Principles for environmental and social responsibility

Sustainable development requires a balance between financial considerations, social responsibility and protection of the environment. Environmental considerations and social conditions are a part of Norfund's work in the investment in profitable business activities in developing countries. Norfund therefore wishes to exert a positive influence through its investment projects.

**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.

Norfund will develop and expand its skills in evaluating and following up the social and environmental aspects of investment projects. Norfund's operational guidelines will ensure that social and environmental aspects will be taken into consideration in all phases of a project. Norfund will report fully and openly the results of its role in this area. During the course of 2001 Norfund will employ one person, who will be responsible for the continuous evaluation of Norfund's goal achievement in this area.



## The projects in more detail

### Investments through local funds

**Norfund has invested in four new funds in 2000:**

- **Siam Investment Fund II (SIF II)** in **Thailand**.

Norfund has invested **USD 5 million** in this fund, which invests in companies in Thailand that require capital for repositioning after the economic crisis.

- **SEAF Sichuan SME Investment Fund (SSIF)** in **China**.

Norfund has invested **USD 3 million** in this fund, which invests in small and medium sized businesses in the Sichuan province.

- **SEAF Trans-Balkan Fund LLC** which invests in the **Balkan region**.

Norfund has invested **USD 5 million** in the fund, which invests in private business activities to assist in the restoration of the economy after the war.

- **Central-American Small Enterprise Investment Fund (CASEIF)** in **Nicaragua**.

Norfund has invested **USD 5 million** in this fund, which invests in smaller companies in South America. CASEIF is established in association with MIF (Multilateral Investment Fund).  
(See definition IDB page 13)



## Norfund and CDC joint fund management company

In January 2001 Norfund and CDC signed a letter of intent outlining the goals for the formation of a joint company for the management of funds which invest in small and medium sized companies. (SME). The company will begin operating in the first half of 2001 and will be comprised of CDC's management companies in Papua New Guinea, Sri Lanka, Mauritius, Mozambique, Zimbabwe, Zambia, Tanzania, Kenya, Ghana and Central America. The company has approximately 50 employees and is responsible for the management of fourteen funds with a total value of around USD 175 million (NOK 1,5 billion).

Norfund, in line with its strategy, plans to invest USD 50 million (NOK 450 million) in new fund investments to be managed by the new company. By building upon CDC's significant investment expertise in the SME sector, this will contribute greatly towards Norfund's strategy for the development of skills and stronger networks in this sector in developing countries. This is a central component in Norfund's goal to invest in viable and profitable private businesses in these markets.

## Direct investments



### **Norfish Blagaj, Bosnia**

In August 2000 Norfund together with the Norwegian investor group Balkan Invest AS (NBI), invested DEM 2 million in the fish farming company Norfish Blagaj. Norfund and NBI own 70 % of the company.

Norfish Blagaj is located on the outskirts of Mostar in Bosnia and has more than 40 years of experience in trout farming. A detailed investment plan has been implemented to expand the company's production capacity and product range to meet the quality demands of the international market.



### **GenoMar, Philippines.**

Norfund has invested NOK 20 million into GenoMar, a company that employs genetic technology in the farming of Tilapia fish in the Philippines. The technology provides the company with advantages of breeding a fish stock which has greater resistance to disease, higher rates of weight increase and better salt water tolerance. South East Asia is the predominant market, though the demand for Tilapia is expected to increase significantly in the USA, which implies a new important market for GenoMar. The company has also developed a DNA chip which recognizes the genetic identity of fish, and is also working with the development of a DNA vaccine to enable fish to fight disease.





## What are we looking for? – Criteria for success

To successfully invest in developing countries, several key criteria should be met. The elements we are looking for in an investment partner are:

- A clear strategy and vision for the project
- A thorough business plan and a realistic view of the market
- A pure commercial project in the private sector without need for subsidisation to ensure short term survival
- An investment partner prepared to bear risk
- Strong evidence of profitability to ensure all investors an acceptable risk-adjusted return
- An 'equal risk gives equal return for investors' approach
- Openness and honesty – free access to relevant information
- Skilled and experienced project leaders
- Projects that lead to local development, in terms of jobs and capital



## How can Norfund contribute?

Norfund offers risk capital and skills on a commercial basis. Norfund's staff come from the private business sector and our approach to projects is professional, rational and customer orientated. Our activities are commercially based. We have substantial experience of international business development in demanding markets and have the know-how needed to achieve successful investments.

Business and ownership skills are Norfund's main areas of competence. We can assist in all phases of a project and offer financial, legal and network skills.

One of the most important contributions Norfund can make to a project's success is its links to an international network of institutions, each with knowledge of business development in developing countries. Norfund has a cooperation agreement with International Finance Corporation (IFC) which includes the joint financing of projects, access to information on potential projects, joint project analysis, co-operation on project follow up, use of IFC skills and access to training.

Norfund co-operates closely with the British CDC Group PLC. Norfund has recently set up a joint company with CDC to manage funds investing in small and medium sized enterprises (SME).

Norfund also co-operates closely with Multilateral Investment Fund (MIF), the Inter-American Development Bank (IDB), the European Investment Bank (EIB) and our European sister organisations. In addition, Norfund has a co-operation agreement with NORSAD, where NORSAD can offer loans to businesses that local funds, where Norfund is share holder, have invested in.

Norfund has regular contact with the authorities in hosting countries as well as close contact with Norwegian and international consultants, institutions and companies that supply the necessary project support functions; The Norwegian Agency for Developing Countries (NORAD), the Guarantee Institute for Export Credit (GIEK), Eksportfinans and the Norwegian Trade Council (Eksportrådet).

### International network

**IFC**  
The International Finance Corporation is the private investment division of the World Bank Group based in Washington DC. The IFC works to promote economic growth in the private sector in developing countries. IFC has 170 member countries and contributes through investment in joint financing with foreign and local capital.

**CDC**  
CDC Group Plc is a British finance institution with 27 overseas offices. CDC invests risk capital in profitable companies in developing countries and serves as a fund manager in a number of local investment funds.

**IDB**  
The Inter-American Development Bank in Washington DC provides long term loans to different types of development projects in Latin America and the Caribbean, with particular emphasis on the social sector. IIC, Inter-American Investment Corporation and MIF, Multilateral Investment Fund, are both subsidiaries of IDB.

**SEAF**  
Small Enterprise Assistance Fund (SEAF) is an American fund management company based in Washington DC. SEAF has specialised in making profitable investments in small and medium sized companies (SME) in developing countries.

**NORSAD**  
A loan institution jointly owned by SADC (Southern African Development Community) and the Nordic Countries

# Project phases

Successful investment in profitable, viable companies requires thorough analysis of the business and the development aspects of a project including an analysis of the environmental and human rights issues.

## 1. Project identification → 2. Screening → 3. Investment study →

- Applicant contacts Norfund
- The basic conditions for a Norfund investment must be met:
  - The project country must have a BNP of under USD 5280
  - Norfund primarily supplies share capital and does not provide subsidies
  - Norfund does not invest more than 49 % of the projects total share capital
- The applicant's business idea, experience in the area and expected results in terms of return and local value generation are evaluated
- Norfund responds quickly, notifying applicants whether we are interested in taking the project further. The main potential environmental problems are identified jointly with the applicant.

- ### 2. Screening
- The applicant supplies the information necessary for Norfund to carry out a general evaluation of the project, in particular:
    - the business idea
    - profitability
    - skills
    - long term viability
  - A project description of 2–3 pages is sufficient at this stage.

- ### 3. Investment study
- Norfund examines the detailed investment plan. Any adjustments in assumptions are made and complementary initial research necessary is conducted.
  - Meetings are held with Norwegian executive project management and partners in investment countries. Norfund uses its extensive international network to add value to the project.
  - The project is submitted for final approval by Norfund's board. The submission includes a documentation of the environmental and social responsibility aspects.

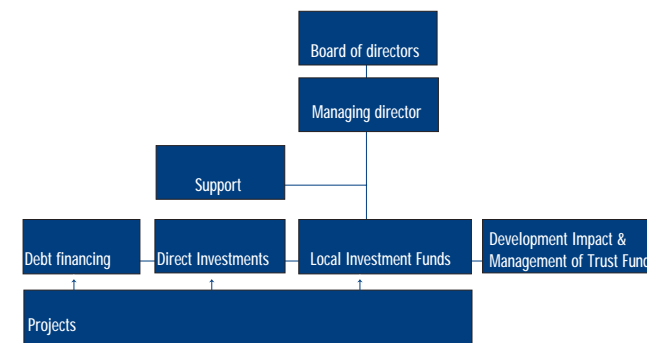
## 4. Negotiations and contracts → 5. Start, operation and exit

- 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.
- An environmental and social responsibility requirement will be included in the contract, including routines for reporting on environmental issues.

- The capital is transferred to the project
- Norfund works actively with the co-investors to achieve maximum value generation for the company and normally participates in the company at board level
- Norfund normally withdraws when a project is able to finance further growth itself, usually after four to seven years.

# Norfund's organisation

Norfund had 11 employees at the start of 2001. All have a background from the private business sector and broad experience in business development in demanding markets.



### DEFINITIONS:

<b>Project approval:</b>	Norfund's board of directors approves the project in principle.
<b>Legal agreement:</b>	Norfund's board of directors approves project agreements.
<b>SME:</b>	Small and medium sized enterprises
<b>OECD:</b>	Organisation for Economic Co-operation and Development
<b>CASEIF:</b>	Central American Small Enterprise Fund
<b>CAIF:</b>	Central American Investment Facility
<b>LA CIF:</b>	Latin America Challenge Investment Fund
<b>SEAF:</b>	Small Enterprise Assistance Fund
<b>IDB:</b>	Inter-American Development Bank
<b>MIF:</b>	Multilateral Investment Fund, a part of IDB

Norfund's expertise



**Per Emil Lindøe**  
Managing Director. Degree in business administration from the Norwegian School of Management. Broad experience in international business development, including from Africa and Eastern Europe.



**Vidar Holm**  
Product manager for direct investments. Ph. D all but dissertation from the Norwegian School of Economics and Business Administration. Broad experience from the banking and consultancy sectors.



**Thorbjørn Johan Gaarder**  
Product manager for investment funds. MBA from IMD in Switzerland. Solicitor, qualified in Norway and the UK. Has headed financial operations in several countries.

**Birgitte Kolrud**  
Investment analyst

**Henning Nestegard**  
Investment analyst

**Zhen Qin**  
Investment analyst

**Vibekke Hellesund**  
Controller

**Mie Skarpaas**  
Information Manager

**Ingvill Bjarøy**  
Office Coordinator

**Mehraz Rafat**  
seconded to CASEIF in Nicaragua (Executive Advisor)

**Vegard Halvorsen**  
seconded to NORSAD in Zambia