

UNIQUE FUND INITIATIVE:

Norfund invests USD 30 million to develop African private sector

June 27th, 2003: The fund management company Aureos Capital Ltd, jointly owned by Norfund and CDC Capital Partners, has established three new regional funds in Eastern, Southern and Western Africa. The funds expect to reach a total capital of USD 150 million. The purpose of the initiative is to contribute to private sector development in Africa through investments in small and medium sized enterprises (SME).

Effective development tool

With a total capital of about USD 250 million, one may ask why Norfund makes such a strong bid for one single continent. "Africa is an important region for Norfund. It holds half of the world's poorest countries, distinguished by a serious lack of risk capital," Norfund's Regional Director for Africa, Katharina Ringen Asting, explains. Tone Wille, Norfund's Investment Director responsible for the investment funds activity, adds: "Locally based SME-funds have proved to be efficient tools to promote private sector development in poor countries. These new funds provide a unique opportunity to reach the SME-sector in Africa, as no other African fund has such extensive geographical coverage in combination with the SME focus. By being involved both as investors in the funds and as shareholders in the fund manager, Norfund is truly "hands on" and in a unique position to follow the investments closely."

Mobilizing capital for Africa

The three regional funds have their main focus on 11 African countries, of which the majority are classified as Least Developed Countries (LDCs). The objective is poverty reduction through private sector development and creation of employment. Aureos contributes both risk capital and a high level of local competence to viable local businesses in the SME-sector. Through the establishment of the funds, Aureos also mobilizes capital from other investors to Africa, investors such as CDC Capital Partners, The European Investment Bank (EIB) and the International Finance Corporation (IFC). In addition, several local investors and other European development finance institutions participate. There is a further gearing effect to this in that the capital mobilized through the funds will be invested as minority shareholder stake in local enterprises, thus mobilizing both further equity and loan capital from other sources.

Experienced fund manager

In addition to the anticipated developmental effects of the



Brookside Dairy, Aureos investment in Kenya

funds, Norfund expects a positive return on its investment. "We have confidence in this concept", says Tone Wille. "The funds will be operative shortly, and they already have interesting project pipelines." The funds will be managed by Aureos Capital, which has seven of its 11 local fund management offices on the continent. With broad experience from investments in the African private sector and a strong local presence, Aureos has established a unique position that provides close contact with the local private sector and thereby better deal flow opportunities and a solid basis for follow up of the projects. The regional focus enables diversification of country risk and thereby better risk management. Including the three new regional funds for Africa, Norfund has now committed a total of USD 50 millions to the SME-sector in developing countries through Aureos Capital.

THIS IS AUREOS

- Fund management company founded in 2001
- Owned 50/50 by Norfund and CDC Capital Partners
- Invests in small to medium sized enterprises
- Manages 15 funds with a total capital of USD 200 million
- 7 of Aureos' 11 local management offices are in Africa
- A total of 86 employees



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THE NORWEGIAN MINISTER OF INTERNATIONAL DEVELOPMENT WELCOMES THE INITIATIVE



The Norwegian Minister of International Development, Hilde Frafjord Johnson

The fight against poverty is the number one challenge for the international community. To meet this challenge and to achieve the Millennium Development Goals by 2015 we must not only provide development assistance, but promote economic growth, investment and private sector development in poor developing countries.

Norfund, the Norwegian Investment Fund for Developing Countries, is one of our main tools for pursuing this aim. The fund provides for risk sharing and investment – directly or via local venture funds – for the development of businesses in developing countries. A recently published evaluation report has concluded that the fund is a suitable mechanism for promoting private sector development, economic growth and poverty reduction in poor developing countries. Thus, I expect Norfund to make a tangible contribution in the fight against poverty.

Norfund was established as recently as 1997, and its capital base of USD

"I see this as a timely and important decision"

250 million is modest by international standards. Nevertheless, through its funds management company Aureos Capital, owned jointly with the UK-based CDC Capital Partners, the fund is managing a portfolio of investments that is considerably larger than its capital base. Norfund and CDC Capital Partners are currently in the process of launching three major new investment funds at the sub regional level in Africa. I see this as a timely and important decision. These funds can serve two purposes. First, they will increase confidence in the markets and help to keep African capital in Africa. Second, through these funds Norfund and CDC Capital Partners have mobilised additional resources from other commercial investors, both national and international.

I welcome the fact that the new funds will cover Africa, the region of the world that is most severely affected by poverty. Out of eleven African countries due to receive investments, seven are either main partner countries or partner countries with respect to development co-operation with Norway. Four of these countries, Tanzania, Uganda, Mozambique and Zambia, are least developed countries. Such a geographical focus and poverty orientation is crucial. We aim to strengthen it further in line with the focus of our development co-operation policy and with the fight against poverty.

Researcher Bjørne Grimsrud: AN IMPORTANT CONTRIBUTION

According to the International Monetary Fund (IMF), Africa is the region most dependent on investments provided by Development Finance Institutions (DFI). "This makes the role of DFIs like Norfund, investing directly or through national or regional investment fund, important", says researcher at Fafo, Bjørne Grimsrud.

"Africa both needs to mobilise its own capital and increased foreign direct investments in the years to come. In a recent World Bank survey, African firms gave lack of financing the highest rating among constraints for growth", Grimsrud informs.

The evaluation of Norfund noted that it gives high priority to investments via national and regional venture capital funds. This may represent an effective way to invest through investors with first hand knowledge of the national markets. Further, that Norfund not only limits itself to investing in funds, but are engaged in fund management of these investments through Aureos, is also important.

"Many domestic investors today prefer offshore investment", Grimsrud says. "For Africa, it is estimated that more than 40 per cent of private capital owned by Africans is placed offshore. By bringing some of the offshore or domestically saved capital into work in viable businesses, this type of venture funds will add value to the private sector development. National venture funds and fund management companies may also be seen as important measures in establishing industrial clusters where such investment banking and active ownership should be an integrated part", Bjørne Grimsrud concludes.

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Norfund – the Norwegian Investment Fund for Developing Countries – was established in 1997.

Norfund invests in private, profitable enterprises in emerging markets.

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