Investing for development

Presentation at the Symposium on SDG 7 (Energy) in preparation for the 2018 High-Level Political Forum on Sustainable Development

Oslo - October 19th, 2017
OUTLINE

• About Norfund

• What we have achieved

• Financing energy in developing markets
NORFUND AT A GLANCE (AS OF 30.06.2017)

Committed portfolio

USD ~2 billion

New commitments

USD 53 million

Direct investments

129

Number of companies

750

IRR since inception

6% in investment currency

9% in NOK


USD 2.4 billion

Value adjustments
USD 500 million

Retained earnings
USD 430 million

Capital allocated by owner
USD 1470 million
CATALYTIC AND ADDITIONAL

• Mobilizing private capital and expertise that would not otherwise have been available in poor countries

• Making more capital available because we are willing to assume more risk than many other private investors.

• Contributing to better investments through active ownership and business development support.
FOCUS WHERE WE CAN SUCCEED AND MAKE A DIFFERENCE

Geography: Five regions, priority to Africa and LDCs, local presence
Sector focus: Clean energy, financial institutions, food and agribusiness, and SMEs
Instruments: Preference for equity/direct investments where we have direct influence and responsibility

As of 30.06.2017

- San José, Costa Rica
  - 2006: MNOK 866
  - 2017: MNOK 3,931
- Accra, Ghana
  - 2006: MNOK 562
  - 2017: MNOK 8,930
- Maputo, Mozambique
  - 2006: MNOK 800
  - 2017: MNOK 3,892
- Bangkok, Thailand
  - 2006: MNOK 800
  - 2017: MNOK 3,892

Strategic investment areas
Norfund regional offices
INVESTMENT AREAS

CLEAN ENERGY
Reliable electricity supply is a precondition for economic growth and poverty alleviation

8.4
NOK bn. invested

FINANCIAL INSTITUTIONS
An effective financial sector underpins investment and growth – for both enterprises and individuals

4.9
NOK bn. invested

FOOD AND AGRIBUSINESS
Agriculture is fundamental to economic transformation and a major source of employment in developing countries

1.6
NOK bn. invested

SME FUNDS
SMEs employ a large share of the workforce and contribute to economic diversification

1.9
NOK bn. invested

As of 30.06.2017
WHAT WE HAVE ACHIEVED
KEY PERFORMANCE INDICATORS AS OF 30.06.2017

PORTFOLIO

Least Developed Countries (LDC) 33%

Greenfield 28%

Equity 84%

Africa 53%

Renewable energy\(^1\) 62%

\(^1\)Share of allocated capital 2016  X% Target
COMMITTED INVESTMENTS PER YEAR

MNOK


2.4 bn. NOK
2.8 bn. NOK

SME Funds
Food and agribusiness
Financial Institutions
Clean Energy
CLEAN ENERGY – HALF OF NORFUND’S PORTFOLIO

COMMITMENT

960 MUSD in equity, loans and fund structures

CAPACITY

4,960 MW installed
+ 600 MW under construction

TECHNOLOGIES

- Hydro: 67%
- Natural gas: 19%
- Wind: 5%
- Solar: 6%
- Other: 3%
FINANCING ENERGY IN DEVELOPING MARKETS
DFIs – CAN SCALE AT LOW COST TO ODA

Total EDFI Portfolio: €36 billion

New investments 2015: €6 billion

Staff: 1,800

42 overseas offices in 20+ developing countries

Funding sources, 2005-2015

- Shareholders’ equity
- Loans etc.
- Retained profits
- Capital replenishments
- Increase in loans etc.

2005
- €11 billion

2015
- Loans from institutional investors and other liabilities / €17 billion

Average annual growth: 11.4%

Capital replenishments = ~0.7% of net ODA
FDI FLOWS – SHIFTING TO HIGHER INCOME COUNTRIES

Share of investments by income group

<table>
<thead>
<tr>
<th>Income Group</th>
<th>FDI Flows</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low income</td>
<td>1%</td>
</tr>
<tr>
<td>Lower middle income</td>
<td>6%</td>
</tr>
<tr>
<td>Upper middle income</td>
<td>23%</td>
</tr>
<tr>
<td>High income</td>
<td>70%</td>
</tr>
</tbody>
</table>

Source: World Bank Group
BLENDING

AID
- Grants and technical cooperation for humanitarian and development assistance
  - Donor agencies

PUBLIC SECTOR LOANS
- Concessional and non-concessional loans to states and state institutions
  - Development banks

PRIVATE SECTOR INVESTMENT
- Equity, loans and guarantees to commercially sustainable private sector projects
  - DFIs

BLENDING: Grants and subsidies provided alongside public sector loans and private sector investments

Source: EDFI
BUMPY ROAD - IMPACT ON PORTFOLIO

Norfund portfolio

Political stability 2010-2016

- Improved
- Stable
- Deteriorated

Government debt 2010-2016

- Increased
- Stable
- Decreased

Ease of doing business 2010–2016

- Improved
- Stable
- Deteriorated

Source: Business Monitor International

Source: Business Monitor International

Source: World Bank Group
OFF GRID SEGMENT STILL LARGE

Off grid population by region

Urban and rural population of African countries

Source(s): Bloomberg New Energy Finance – Off-grid solar market trends report 2016; United Nations Department of Economic and Social Affairs
CAN RECENT INVESTMENTS CONTINUE TO GROW?

Challenges:

• Returns, pricing issues and hype

• Profitability vs. growth

• Demand and scalability – why has no company succeeded?

• Grid expectations, free systems and soft(er) money

Source(s): Power Africa, Kenya off-grid power accelerator program Innovation Lab; Bloomberg New Energy Finance – Off-grid solar market trends report 2016; company websites, Board packs from D.light and M-Kopa
UTILITY SCALE PROJECTS

• IPPs and China are now fastest growing sources of funding for power projects
  – But still insufficient to meet power demand

• Grid connected renewable energy markets taking off
  – Experiences from Uganda and South Africa

• Investor challenges:
  – Market reforms (unbundling, privatisation, competition, independent regulation)
  – Bankability of projects
  – Planning, competitive procurement and contracting