Issue 13 . December 2009

Newsletter of the

European Development Finance Institutions

www.edfi.eu

CONTENT

NORFUND SIGNS AGREEMENT ON THE ESTABLISHMENT OF EAST AFRICA'S FIRST VENTURE CAPITAL FUND

Fanisi Venture Capital Fund is the first venture capital fund that has been established for investments in Kenya, Rwanda, Tanzania and Uganda. The purpose of the fund is to promote the development of private sector by investing in businesses with high growth potential and sustainable ambitions. The fund will invest in greenfield projects, early stage projects and growth companies.

Norfund has initiated the establishment of the fund with Mister Ayisi Makatiani who is heading the management company. Fanisi is Swahili and means prosperity. Norfund has invested USD 15 million. Other investors are Proparco and Finnfund, who have contributed greatly to the development of the fund. IFC has indicated that they will invest during the first quarter of 2010, bringing the total capital to MUSD 40.

- Fanisi will focus on a market segment that for a long time has been outside the scope of most investment funds that finance businesses in the East African market. Norfund and other investors see a potential for market expansion by introducing risk capital in this area, says CEO Kjell Roland in Norfund.

The fund will perform equity investments for USD 0, 5 – 3 million pr transactions in high growth companies, including greenfield projects and early stage projects. The fund will give substantial support and build competence in the investee companies and will have a TA-facility to strengthen the ability to do so.

Fanisi performed its first investment in Kenya's software and support company Craft Silicon in May 2009 when they invested USD 2, 5 million in equity. This investment has been warehoused by Norfund. Craft Silicon is a pioneer in development, innovation, implementation and software for the financial industry, including solutions for electronic payment and mobile solutions with focus on technology for the micro finance sector. Craft has built up a solid product range that has generated increased demand through its flag ship Banker's Realm. The company's solutions are now in use in 38 countries and have more than 120 customers including micro finance institutions, commercial banks, credit unions and savings- and credit co operations. The company has 160 employees and offices in Kenya, with a partner in Bangalore, India.

Measuring the development effects of CDC's investments

The role of responsible investment in promoting development

No country in the world has been able to sustain poverty reduction and increase income levels without economic growth. Flourishing businesses of different sizes and from different sectors are essential for that growth: they employ and train people, pay taxes that allow governments to finance public services and infrastructure, and invest in research and development. In addition, thriving businesses also provide the poor with increased access to new and higher quality goods and services.

Responsible investment and business practices are critical for ensuing that investments in poor countries generate these development effects without destroying the environment and ensuring safe and fair working conditions for employees. CDC's new *Investment Code*, published in 2008, is a key instrument for ensuring that CDC encourages consistent adherence to minimum requirements for responsible business operations in line with international good practices.

The challenge for CDC

Poor management by businesses of the environment, social matters and governance (ESG) is common in the developing markets of low income countries. Weak laws ineffectively enforced, a culture of corruption and lax corporate governance standards mean that businesses need not necessarily be driven to protect their environment from the external effects of their activities nor their workers or affected communities from unacceptable risks.

CDC's means of fostering sustainable private sector growth is to invest in funds with private equity fund managers. Private equity funds are long-term investment vehicles and are therefore very well suited to promoting improvements in corporate ESG practices over a period of typically ten years. This can result in long-term benefits both to the environment and local populations.

Investing through fund managers makes it more of a challenge for CDC to ensure good business practices since CDC is one level removed from its portfolio companies. The benefits though are several - greater amounts of third party capital can be mobilised and used in regions where it is most lacking, a greater pool of regional and industry sector expertise is utilized, local fund managers and financial markets develop further through CDC's investments in their funds, and CDC is also able to promote responsible business practices across a larger number of portfolio companies. As CDC's fund managers invest large amounts of capital from sources other than CDC, their investments reach a larger number of companies. Fund managers therefore can have a wider influence on responsible business practices than would be possible from CDC's capital alone.

CDC requires its fund managers to consider ESG matters in all of their investment activities

Fundraising – CDC investment	Due diligence	Investment	Investment management	Exit
• Formal agreement with CDC to commit to the Investment Code – by CDC's standard side letter or equivalent • Investment strategy in line with CDC's exclusion list • Awareness of ESG risks and opportunities and how portfolio companies should address these, e.g. if investment strategy includes high risk sectors like oil and gas, mining, or large scale agribusiness • Awareness of country/ regional ESG risks	• Assess new investments on ESG matters: > sector risks > issues or opportunities to add value > quality of investee company ESG management systems • Give new investments a risk rating on ESG matters to determine the appropriate level of management and monitoring	• Where fund managers have effective control or significant influence, procure investment undertaking from portfolio companies in line with CDC's Investment Code • Assist portfolio companies to develop action plans to address any ESG issues identified during due diligence, with appropriate targets and timetable for improvements	• Encourage managers of portfolio companies to: > adopt and implement sound ESG policies > work towards continuous improvements • Monitor portfolio companies performance on ESG and progress towards action plans for improvements • If ESG issues arise, assist portfolio companies to address them in a timely manner • Report annually to CDC • Monitor and record any serious ESG incidents in portfolio companies and inform CDC	• Consider ESG matters at divestment: > any ESG issues with potential buyers? > will sound ESG practices continue under new owners?

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MEASURING THE DEVELOPMENT EFFECTS OF CDC'S INVESTMENTS

A core objective for CDC therefore is to turn the challenge of promoting responsible business practices through an intermediated investment model into an opportunity for wider reaching development effects.

CDC's new monitoring and evaluation system

During 2008, CDC undertook a major review of its system to assess the contributions of its investments to development. After benchmarking extensively with other development finance institutions (DFIs), CDC decided to adopt a monitoring and evaluation framework which is similar but not identical to that used by the International Finance Corporation (IFC) for investments through financial intermediaries. CDC also actively collaborates on monitoring development effects with the other European Development Finance Institutions (EDFIs).

CDC's new monitoring and evaluation system is intended to be practical, simple and deliver the key information required by CDC for its investment management and communication purposes, as well as for CDC's Board and shareholder, the UK Department for International Development (DFID), for their oversight functions.

The monitoring and evaluation framework used by CDC includes four key parameters to assess the overall **development outcome** for each fund investment, based on the performance of a fund as well as its underlying portfolio companies:

- **financial performance** – indicating whether investments are profitable; thus returning capital to CDC for further investments and demonstrating to other investors that profitable investments can indeed be made in emerging markets where they are traditionally reluctant to invest;

- **economic performance** – indicating the extent to which investments generate benefits for the local economy, in terms of commercially successful and growing businesses that provide employment and generate tax revenues;

- **ESG performance** – indicating whether fund managers and their portfolio companies adhere to responsible investment and business practices in line with CDC's Investment Code and whether portfolio companies over time improve upon their practices from the environmental, social and governance (ESG) perspective; and

- **private sector development** – indicating whether CDC's investments have broader private sector development effects including increased availability of capital for businesses in low income countries from the third party capital invested alongside CDC; more efficient capital markets; improvements to regulatory environments from contributions by fund managers or portfolio companies to new standards and legislations; and increased availability of better quality goods, services and infrastructure for the benefit of local communities.

In parallel with updating and improving upon its monitoring and evaluation (M&E) methodology, CDC started to make use of its new M&E system during 2008 to test and improve upon indicators and templates for reporting and evaluation purposes. Requests were sent to CDC's fund managers for more extensive information on non-financial matters, including employment data in portfolio companies and taxes paid and reports on ESG matters.

Most of CDC's fund managers responded to these requests, providing CDC with an improved understanding of its investment portfolio from the development perspective.

CDC's monitoring and evaluation work in 2008

During 2008 as part of its new M&E systems, CDC completed evaluations of 12 fund investments. These evaluations covered a large and diverse number of companies and contexts: Seven different fund managers and 119 portfolio companies were included. Five of the evaluations covered CDC's investments in sub-Saharan Africa, including 54 different companies, most of them small and medium size enterprises (SMEs). Six evaluations covered funds that invest in Asia, with a focus on India but also including other countries in South Asia, South East Asia and one fund in China. One of the evaluations assessed a global microfinance fund, which invested in 15 different microfinance institutions in many countries, including Bangladesh, Cambodia, India, Kenya, Nigeria, Pakistan, the Philippines and Rwanda.

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MEASURING THE DEVELOPMENT EFFECTS OF CDC'S INVESTMENTS

71% of companies had significant ESG issues at investment, something that indicates the challenging nature of the market. At the same time the evaluations in 2008 also revealed that 86% of the portfolio companies covered by the evaluations made improvements on ESG practices during the fund manager's investment period, thus showing that businesses practices can improve even in challenging circumstances.

During 2009, CDC will use its findings from the evaluations conducted during 2008 to further strengthen its evaluation processes and, through further experience, improve upon the guidance notes used for evaluations and ensure consistency in evaluation ratings. Going forward seven of the 20 evaluations completed or underway in 2009 will be conducted by independent consultants for the purpose of verifying the processes that CDC has started to establish, and to give an external perspective on CDC's methodology as well as the findings coming out of it.

Summary of CDC's evaluation ratings in 2008

	Excellent	Successful	Satisfactory	Below expectations	Unsatisfactory	Poor	% satisfactory or better
Development outcome*	0	9	2	1	0	0	92%
Financial performance	2	4	4	0	2	0	83%
Economic performance	2	7	2	1	0	0	92%
ESG performance	1	7	4	0	0	0	100%
Private sector development	3	8	1	0	0	0	100%
CDC effectiveness**	0	8	4	0	0	0	100%
Added value	0	6	6	0	0	0	100%
Catalytic	4	3	2	3	0	0	75%

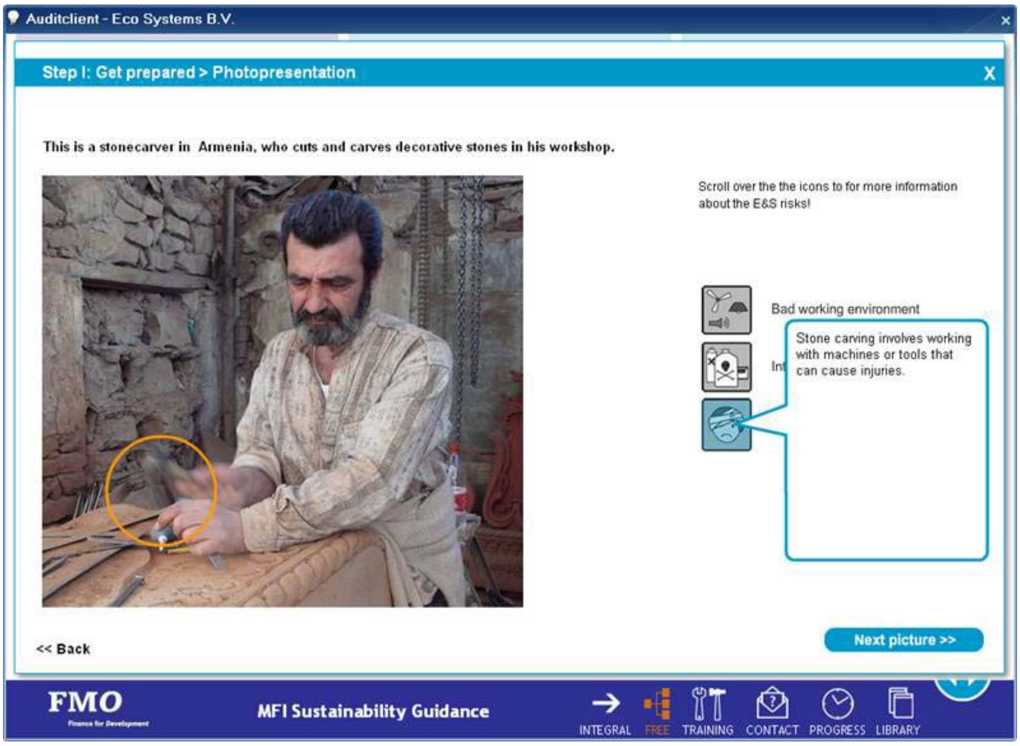
CDC's monitoring and evaluation framework and indicators

Development outcome	Concept	Performance indicators
Financial performance	Fund managers' ability to attract commercial capital to poor country markets > Financial return to investors	Net IRR versus fund investment targets IRR for each exit
Economic Performance	Contributions to economic growth > Commercially viable and growing businesses generate tax and employment	Employment; taxes; EBITDA and turnover SMEs and low income reach if applicable
ESG performance	Responsible investment and business practices with respect to the environment, social matters and governance (ESG) > fund managers' ESG management systems and company ESG performance	ESG issues and improvements over time Development outlays (if available) Environmental products and services (if relevant)
Private sector development	Broader private sector development effects: > More efficient capital markets > Regulatory improvements > Benefits to customers from increased availability of goods and services	Third party Capital Local Capacity building Sector enhancements and consumer benefits e.g. telecom penetration or increased access to power
CDC effectiveness	**Concept**	
Catalytic effects	CDC's direct role in bringing in other investors > focus on commercial capital	
Added Value	CDC's direct contributions to improve the way fund managers invest CDC's capital, e.g.: > to shape a fund's investment thesis or terms > to improve fund managers' ESG management systems > to recruit or contract key technical expertise for responsible and successful investment management	

MICROFINANCE INSTITUTIONS LEARN HOW TO DEAL WITH SUSTAINABILITY

Development bank FMO introduces e-learning toolkit for MFIs

On October 22, 2009 Dutch development bank FMO launched an e-learning toolkit on sustainability for microfinance institutions (MFIs) during a global roundtable in South Africa. MFIs that until recently had no practical tools to deal with sustainability issues, can now work with this web-based 'how to' program.



Loan officers and environmental and social coordinators working for MFIs are often confronted with daily practices of their clients that are far from desirable from a sustainability point of view. These stone carvers, fishermen or shop owners may not know how to dispose of chemicals properly or what protective gear to wear when working with dangerous equipment. The FMO toolkit is a simple step-by-step interactive manual with easily understandable icons and practical tips for improvement of the day-to-day business of these entrepreneurs. Photo-exercises, examples and case studies feature real-life MFI clients. The program identifies environmental and social risks, taking into account the specifics of the sectors involved.

For MFIs, the process of awareness raising, training staff and developing and implementing environmental and social risk management can be quite hard. But, considering the almost 100 million clients these institutions have globally* , it is worthwhile promoting a more sustainable way of doing business. The First MFI toolkits have been offered to FMO's Cambodian MFI clients during an Environmental and Social Risk Management implementation training held in Phnom Penh in April 2009. Currently, the toolkit is rolled out in the regions where FMO works with MFIs. Besides this, other development finance institutions have stated their interest in the program. A description and download of the tool are available for FMO clients and others who are interested at **www.fmo.nl/smartsite.dws?id=2805**.

In 2007, FMO already developed environmental and social risk management guides for microfinance institutions (MFIs) in English, Spanish, French and Khmer. These guides formed the basis for the e-learning toolkit and are available at **www.fmo.nl/smartsite.dws?id=531**. A number of FMO client MFIs have already implemented the methodology.

About FMO

The Netherlands Development Finance Company (FMO) is the international development bank of the Netherlands. FMO invests risk capital in companies and financial institutions in developing countries. With an investment portfolio of € 4.2 billion, FMO is one of the largest bilateral private sector development banks worldwide. Thanks in part to its relationship with the Dutch government, FMO is able to take risks which commercial financiers are not - or not yet - prepared to take. FMO's mission: to create flourishing enterprises, which can serve as engines of sustainable growth in their countries.

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* Rough estimation by The Mix, Dec 2008: 99.4 million

AFRICA: THE GROWTH CONTINENT FOR PRIVATE EQUITY

From 15-17 November the 8th Annual Private Equity Conference took place in Cairo, Egypt. This year's theme was Africa: the Growth Continent for Private Equity. Amongst the 280 attendees was Minister Elton Mangoma, Minister of Economic Planning for Zimbabwe as well as a list of high profile international investors, key Egyptian and other African government officials and a significant number of Africa focused private equity funds. FMO's CEO Nanno Kleiterp addressed the attendees with a welcoming speech.

FMO has supported the African Venture Capital Association since the very beginning. The AVCA brings together all those involved in private equity across Africa, as well as those interested in Africa's emerging market potential. It serves as a platform to generate ideas, exchange knowledge and connect visions. Africa is FMO's largest region, with a portfolio of just over USD 1.0 billion. FMO started investing in African private equity funds in 1996, when there were only 3 funds operational.

Today this number is 140 and FMO is active in 38 funds. Private equity funds are an excellent intermediary for FMO and other development banks, to reach the African private sector entrepreneurs and create development impact.

www.avcaegypt2009.com

from left to right: Hisham El-Khazindar, Managing Director and Co-Founder of Citadel Capital, Nanno Kleiterp, CEO FMO, Rotimi Oyekanmi, AVCA Chairperson and Tokunboh Ishmael, Co-Founder of Alitheia Capital.

COFIDES IN CHILE AND PERU

A COFIDES' trade mission made up of Remedios Romeo (Chairwoman) and Fernando Aceña (Deputy Manager of Strategy and Business Development) visited Chile and Peru recently.

Under the framework of the partnership agreement signed with the Spanish Chambers of Commerce in Latin America, COFIDES promoted the financial instruments and resources managed to support investment projects in Chile and Peru. Organised by the Chambers of Commerce with the support of the Spanish Economic and Commercial Offices, daily events were held to promote financial services provided by COFIDES in both countries.

One of the priorities of the commercial activity in Chile and Peru was the identification of new projects with financial needs. The increasing number of Spanish subsidiaries that are expanding in Chile and Peru constitutes an important source of potential clients for COFIDES. The COFIDES' trade mission visited the projects of the Spanish companies PESCANOVA and EDUARDO VIEIRA in Chile and Peru respectively.

Chile is one of the countries that hosts one of the largest shares of the investment projects supported by COFIDES (11% of the total portfolio). Since COFIDES began to conduct business in 1990, COFIDES has committed more than 60 million euros in 18 investment projects in Chile, mainly in the agribusiness sector. As far as Peru is concerned, the Spanish FDI grew with particularly high rates in 2008.

The third issue of Private Sector and Development is now available

What balance between financial sustainability and social issues in the microfinance sector?

Building on the success of the second issue of *Private Sector and Development*, which covered the topic of access to water, Proparco has chosen to devote this issue to the challenges facing the microfinance sector today. You will find in this issue contribution of Esther Duflo (J Pal) Elisabeth Littlefield (C GAP), Fouad Abdelmoumni (Al Amana), Elodie Parent, Luc Rigouzzo (Proparco), Claus-Peter Zeitinger (ProCredit), Jacques Attali (PlaNet Finance), Jérôme Audran, Yannis Berthouzoz (Symbiotics S.A.), Iris Lanao Flores (FINCA Peru), André Laude (IFC), William Parienté (J-PAL), Philippe Serres (Agence française de développement)

The overarching virtue of microfinance is that in recent years it has managed to demonstrate that it is not only possible and necessary to implement services tailored to the poorest – it can also be profitable. Indeed, to quote the "Bottom of the Pyramid" concept coined by the economists S.L. Hart and C.K. Prahalad, moving into the market of low-income populations – and serving them – may constitute "the biggest business opportunity in the history of commerce" and at the same time helps combat poverty. Microfinance would seem to embody this concept. Although it may lead to higher costs in order to reach the poorest borrowers, this can be offset by the profitability of the investments financed.

The microfinance sector has also often proven more "resilient" than the banking sector, particularly in crisis countries – this is, for instance, the case in the Democratic Republic of Congo. However, the current crisis has brought several systemic weaknesses in the sector to the fore and underscored the need to consolidate fundamentals, strengthen sector regulation and better control microfinance institutions' (MFIs) quest for growth and profitability. Without these improvements, there is a real risk of client overindebtedness and the sector will develop at the expense of its poverty reduction targets.
More information on : **www.proparco.fr/jahia/Jahia/Accueil_PROPARCO/secteur-prive-developpement**

Next issue of *Private Sector and Development* will focus on the real impacts of the expansion of the mobile phone sector on the economic and social development of developing countries. The mobile phone sector has seen an impressive boom in recent years, including in developing countries. However, it would appear that this expansion may have more questionable impacts on some aspects of economic development.

Subscriptions to the bimonthly magazine Private Sector and Developement is free. To subscribe, please go on Proparco's website: **www.proparco.fr**

The Growing Role of the DFIs in International Development Policy

As a contribution to the discussion about the bilateral DFIs' involvement in private sector development, the four Nordic DFIs, FINNFUND, IFU, Norfund and SWEDFUND launched a report in October with the title "The Growing Role of the Development Finance Institutions in International Development Policy". The report provides an introduction to the Nordic DFIs and their work. It also puts them into the context of current international development policy priorities, including fighting poverty in Africa and preventing the worst effects of the global financial crisis on the world"s poor. The report concludes that the DFIs are an important "Third Pillar" in the international development policies of the Nordic countries with aid and multilateral development banks being the two other pillars and play a growing role in reaching the development goals of the Nordic governments. The report is available from the EDFI website **www.edfi.eu**

„AA+" Rating for Oesterreichische Entwicklungsbank AG (OeEB)

As one of very few EDFI members, OeEB received an external rating this year. On 28 September 2009, Standard & Poor's Ratings Services assigned its 'AA+' long-term credit rating to OeEB. The outlook was set at "stable". The agency states that OeEB has a very important role in implementing Austria's international development policy because it is the government's sole agent for financing private-sector investments in developing and transition countries.

Oesterreichische Entwicklungsbank AG (OeEB) Receives Award for Sustainability Reporting

OeEB's very first Combined Annual and Sustainability Report of 2008 was awarded with the 3rd price of this year's Austrian Sustainability Reporting Award (ASRA). The jury explained that the report provides the reader with a consistent presentation of all business activities, a professional description of OeEB's strategy as well as good performance indicators. The sustainability process is being shown as a good practice example of well-balanced reporting.

The two members of the board, Andrea Hagmann and Michael Wancata, commented proudly: "Sustainability is our core business. The price confirms that our entire team also lives up to this principle and reports on it accordingly."

OeEB-Annual-Report-Sustainability-Report-2008.pdf

EDFI members endorse ILPA Private Equity Principles

European and Asian development finance institutions (DFIs), including 8 EDFI members, have publicly endorsed the Institutional Limited Partners Association's Private Equity Principles (Principles), a set of guidelines intended to strengthen the long-term viability of private equity as an asset class.

The endorsement takes the form of statements written by development finance institutions (DFIs). These have been sent to the editors of various emerging market private equity and financial publications. The DFIs join a group of 50 institutional investors who have recently endorsed the Principles.

The International Limited Partners Association (ILPA) is a not-for-profit association representing the interests of institutional private equity investors. DFIs believe that ILPA's efforts to reinforce best practice through the Principles is an important initiative worthy of support. The Principles, first released on 8 September 2009, outline practices focused on enhancing fund governance, strengthening alignment of interests and improving investor reporting and transparency for the private equity industry. It is important for them to be endorsed by key emerging market investors.

As DFIs supporting the emerging market fund management community by committing capital to private equity funds focused on developing markets, the Asian Development Bank, BIO (Belgium), CDC (UK), DEG (Germany), FINNFUND (Finland) , FMO (The Netherlands), IFU (Denmark), Norfund (Norway) and PROPARCO (France) wholeheartedly endorse the Principles noting their close alignment with good environmental, social and governance (ESG) practices.

Association

EDFI is the Association of European Development Finance Institutions, a group of 16 bilateral institutions which provide long-term finance for private sector enterprises in developing and reforming economies. Since its foundation in Brussels in 1992, EDFI's mission has been to foster co-operation among its members and to strengthen links with institutions of the European Union.

2008 figures

The consolidated portfolio of EDFI stood at €16 billion at the end of 2008, invested in 3,900 projects.

In geographical terms, 24% of the global portfolio was in the ACP region and South Africa, 27% in South-East Asia, South-Asia and China, and 16% in South and Central America.

Members

AWS—Austria
BIO—Belgium
CDC—United Kingdom
COFIDES—Spain
DEG—Germany
FMO—The Netherlands
FINNFUND—Finland
IFU—Denmark
Norfund—Norway
OeEB—Austria
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SIMEST—Italy
SOFID—Portugal
SWEDFUND—Sweden

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