

# SWEDFUND'S INVESTMENTS THROUGH FUNDS

– Capital for Economic Growth  
and Development Driven by  
Local Businesses

## Contents

1. Introduction .....	3
2. Overview of Swedfund's investments through funds .....	4
3. Developments effects of Swedfund's investments through funds .....	6
3.1 A framework for monitoring and evaluating development effects .....	6
3.2 Financial performance .....	8
3.3 Economic performance .....	10
3.4 Environmental, social and governance performance .....	13
3.5 Private sector development.....	17
4. Regional reviews.....	21
4.1 Africa.....	21
4.2 Asia.....	23
4.3 Eastern Europe .....	25
4.4 Latin America.....	27
5. Industry sector reviews.....	28
5.1 Financial services (including microfinance).....	28
5.2 Cleaner technologies .....	30
5.3 Information & communication technologies (ICT).....	32
5.4 Brief industry sector reviews .....	34
5.4.i Energy & utilities .....	34
5.4.ii Mining.....	34
5.4.iii Industry & materials .....	35
5.4.iv Agribusiness.....	35
5.4.v Healthcare .....	35
5.4.vi Consumer goods & services .....	36
5.4.vii Infrastructure.....	36
6. Learning benefits from fund investments.....	37
Appendix: Swedfund's 15 fund investments .....	38

## 1. Introduction

### Why investments in emerging markets through funds?

#### Key data for Swedfund's investments through funds:

87 portfolio companies in 26 developing countries

15 funds

12 fund managers

739m SEK committed capital

563m SEK invested capital

322m SEK share in portfolio companies at investment value



Investments through funds are an effective complement to Swedfund's direct investments. Both indirect and direct investments provide much needed capital to companies in developing countries, enabling them to grow and improve their operations, thereby generating employment and tax revenues for their local economies and contributing to economic growth and development.

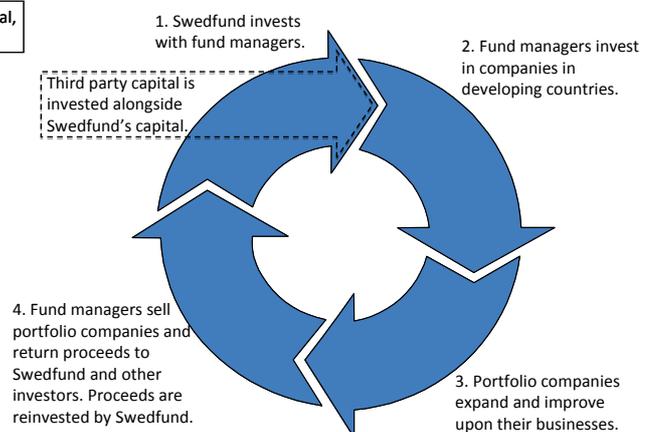
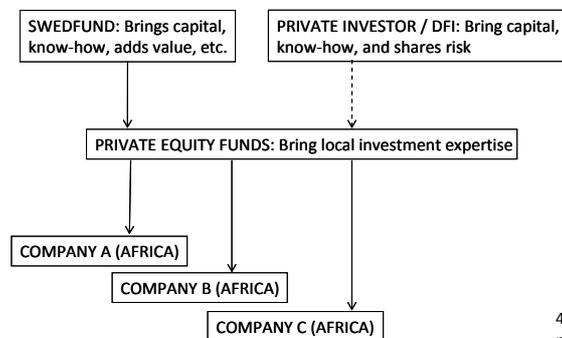
Swedfund's investments in funds are magnified by capital from other investors. Fund managers raise capital from private investors to be invested alongside capital from Swedfund and other development finance institutions (DFIs), expanding the pool of capital available for companies in under-served developing country markets. By investing in funds, Swedfund's capital can thus reach a large number of companies. For each dollar invested by Swedfund in a fund, ten dollars can typically be attracted from other investors.

A fund manager normally invests in a company for a four to seven year holding period. During this period, the fund manager can provide guidance to enable each portfolio company to improve the quality of its operations. Fund managers' local presence and know-how are useful in order to identify the best companies to invest in and to help these companies grow and develop throughout the investment period, not least in terms of improving their management of environmental, social and governance (ESG) matters. By setting standards for responsible investment practices for fund managers, in collaboration with other DFIs that invest in funds alongside Swedfund, and by monitoring the performance of fund managers and their portfolio companies during the investment period, Swedfund can promote better business practices in emerging markets.

A general advantage of fund investments from the investor's perspective is the reduction of investment risk through diversification. By taking a smaller share of a wider pool of companies through investment funds, Swedfund can spread the risk associated with each company. Through engagement with fund managers, Swedfund also gathers intelligence about emerging markets, and thus becomes a more knowledgeable and competent partner for Swedish companies that are interested in expanding their presence in these markets. It is sometimes also possible for Swedfund to capitalize on promising investment opportunities identified by fund managers by making parallel direct investments.

Investments through funds pool Swedfund's capital with other investors'

Funds typically return capital to Swedfund for reinvestment after 10 years



## 2. Overview of Swedfund's investments through funds

### Swedfund's top investment destinations through funds:

India 80m SEK  
12 companies

China 59m SEK  
21 companies

Côte d'Ivoire 30m SEK  
5 companies

Nigeria 24m SEK  
5 companies

Russia 21m SEK  
8 companies

Estonia 21m SEK  
8 companies

Togo 18m SEK  
1 company

At the end of 2009, Swedfund had committed 739m SEK in capital to 15 funds investing in emerging markets. These funds are managed by 12 different fund managers. The amount committed by Swedfund to each of the 15 funds ranges from 8m to 114m SEK. Emerging Capital Partners (ECP) manages three of the Africa focused funds in which Swedfund has invested, representing 278m SEK, or 38%, of Swedfund's total capital committed to funds.

Swedfund's investment share in the 15 funds to which it has committed capital represents nearly 5% of the 15bn SEK in total committed capital from all investors in these funds.<sup>1</sup> Swedfund's investment share per fund ranges from 2% to 48%.

At the end of 2009, Swedfund had invested 563m SEK in the 15 funds to which it had committed capital. These funds are at varying stages of maturity. Eight of the early funds have come to the end of their investment duration and sold all or some of their portfolio companies. At the end of 2009, 122m SEK had been returned to Swedfund from exited or partially sold fund investments. 11 funds had investments in 87 portfolio companies which were located in 26 countries. Swedfund's share of the investments made by the funds in these 87 companies was 322m SEK.<sup>2</sup>

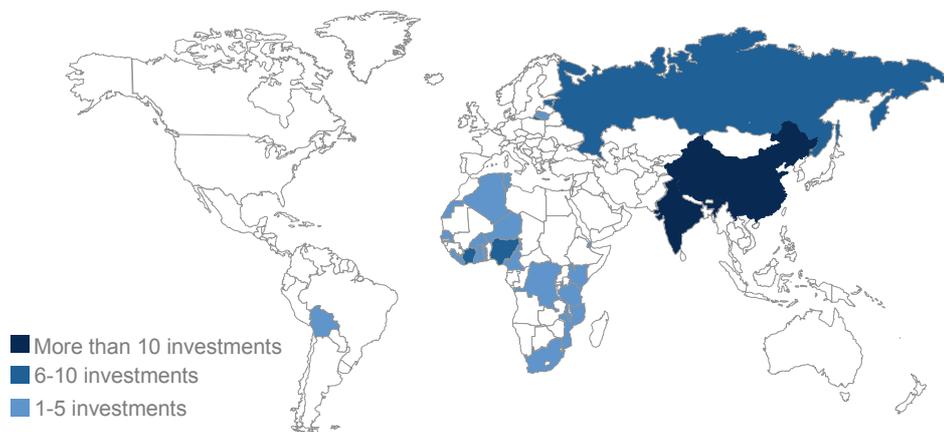
With a portfolio of 87 companies in 26 countries through its fund investments, Swedfund's capital invested through funds reaches a large number of companies in diverse markets.

### Swedfund's 87 portfolio companies are located in 26 countries across the emerging markets

Swedfund invests through funds in the emerging markets of Africa, Asia, Eastern Europe, and Latin America. In terms of investment commitment, Africa is the single largest investment destination for Swedfund's investments through funds, representing 41%, or 306m SEK, of Swedfund's total committed capital to funds. 130m of Swedfund's capital is invested by five funds in 34 African portfolio companies, which are located in 20 different countries. Three of the funds investing in Africa with capital from Swedfund are managed by the fund manager ECP.

Swedfund invests proportionally more in Africa, the poorest region in the world and the region least well served by commercial capital, than any other development finance institution (DFI) apart from CDC of the UK and Proparco of France.

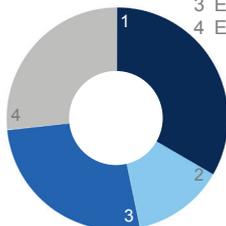
### Broad geographic reach of Swedfund's investments in funds: 87 companies in 26 countries



## 2. Overview of Swedfund's investments through funds

**Swedfund's fund investments by maturity (number of funds)**

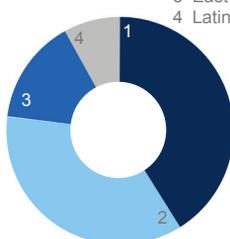
Total: 15 funds	1 Investment phase	5
	2 Monitoring	2
	3 Exits under way	4
	4 Exited*	4



\* Investments sold or written off by Swedfund

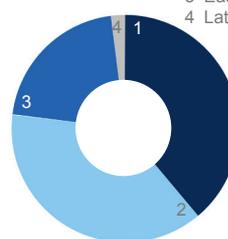
**Swedfund's fund portfolio by region**  
Swedfund investment commitment (m SEK)

Total: 739 m SEK	1 Africa	41%
	2 Asia	36%
	3 East	15%
	4 Latin America	8%



Number of portfolio companies

Total: 87 companies	1 Africa	39%
	2 Asia	38%
	3 East	21%
	4 Latin America	2%



Asia is also an important investment destination for Swedfund's investments through funds, with 36%, or 269m SEK, of Swedfund's capital committed to funds. 139m SEK of Swedfund's capital is invested by four funds in 33 portfolio companies in Asia. Eastern Europe ("East") is the third investment destination for Swedfund, with 108m SEK in committed capital, representing 15% of the total. Latin America accounts for the remainder, with only two remaining portfolio companies.

All of Swedfund's Asian portfolio companies are located in India or China, which represent the first and second largest country destinations for Swedfund's investments through funds. Collectively, Swedfund's invested capital in the 33 Indian and Chinese portfolio companies account for 139m SEK, 43%, of Swedfund's investments through funds. Other large investment destinations for Swedfund's investments through funds include Côte d'Ivoire, Russia, Nigeria, Estonia and Togo. Portfolio company investments in these top seven countries for Swedfund's investments through funds collectively represent 78% of the total amount of Swedfund's capital invested through funds.<sup>3</sup> Some of these markets, including Nigeria, India, Côte d'Ivoire and Togo, are among the poorest countries in the world and in dire need of investment capital to grow, develop and raise income levels for their populations.

Two of the three Latin America funds are exited or written off and the remaining one is in exit process. This is in line with Swedfund's long-term investment strategy to focus on fund investments in Africa, Asia and Eastern Europe.

### Swedfund's investments through funds benefit companies across all sectors

Swedfund's 87 portfolio companies held through funds are active across a wide range of industry sectors. The largest investments are in cleaner technologies, where 77m SEK of Swedfund's capital is invested in 16 companies, followed by financial services, where 60m SEK in capital from Swedfund supports 9 companies (not including microfinance institutions, which account for additional investments of 13m SEK), and information and communication technologies (ICT), with 52m SEK invested in 12 companies.<sup>4</sup> Cleaner technologies are a specific focus area for two of Swedfund's funds: Green Investment Asia Sustainable Fund I and China Environment Fund III.

**Swedfund's 87 fund investment portfolio companies span across industry sectors**

	Number of companies	Portfolio value (m SEK)
Total = 87 companies		
Total value 322m SEK		
Energy & utilities	5	22
ICT*	12	52
Mining	4	18
Industry & materials	8	19
Agribusiness	6	19
Consumer goods & services	10	29
Financial services	9	60
Microfinance	13	13
Healthcare	2	8
Infrastructure	2	5
Cleaner technologies	16	77

\*Information and communication technologies

### 3. Developments effects of Swedfund's investments through funds

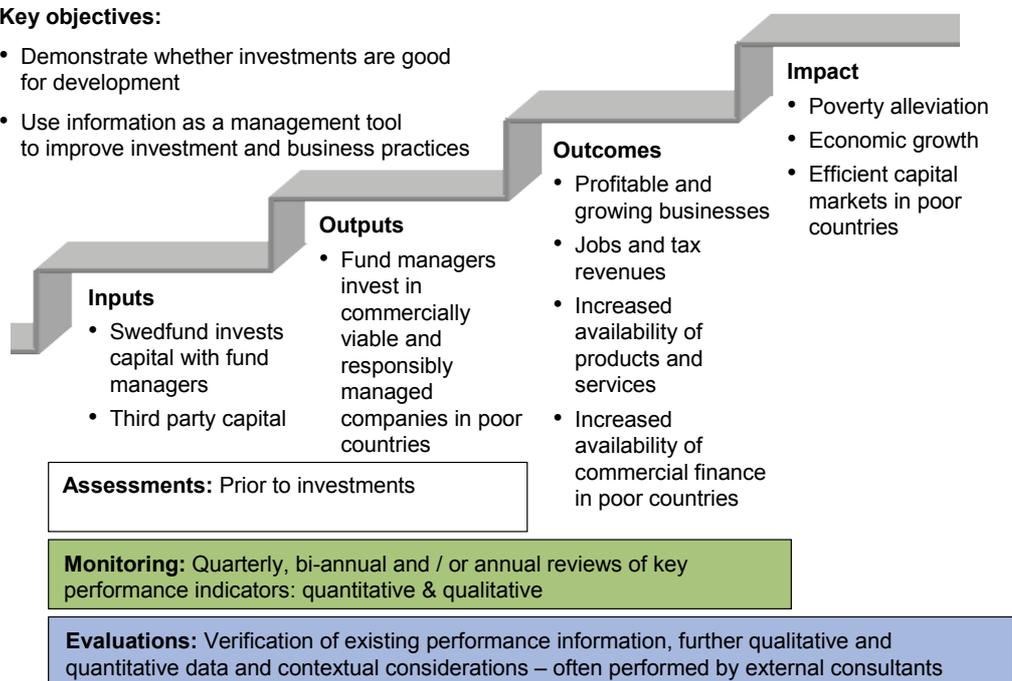
#### 3.1 A framework for monitoring and evaluating development effects

Investing through fund managers, Swedfund is one step removed from the portfolio companies that benefit from its capital. When seeking to measure the development effects of fund investments, it is therefore especially important to focus on key performance matters and to align with other development finance institutions (DFIs) that invest in these funds. Key performance indicators to measure development effects are usually measured according to a input-output-outcomes-impact framework, as illustrated for fund investments in the graph below. Key performance information should be collected at different points in time, and used to assess investments prior to the investments decision, to monitor investments during the investment period, and for periodic evaluations.

**Development effects of investments through funds, as for all investments, have to be systematically captured over time**

**Key objectives:**

- Demonstrate whether investments are good for development
- Use information as a management tool to improve investment and business practices



CDC, the British development finance institution (DFI), which exclusively invests through funds, introduced a framework and processes for monitoring and evaluating the development effects of its fund investments in 2008<sup>5</sup> after benchmarking extensively with other DFIs. CDC's framework for measuring development effects is similar but not identical to the Development Outcome Tracking System (DOTS) used by the International Finance Corporation (IFC), as it was streamlined to focus on key performance parameters. The framework used by CDC is well suited also for Swedfund's investments through funds, and can also be readily applied to direct investments.

The framework for measuring development effects includes four key performance parameters to assess the overall development outcome for each fund investment, based on the performance of a fund as well as of its underlying portfolio companies:

- **Financial Performance** indicates whether investments are profitable; thus returning capital to Swedfund 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. For fund investments, financial performance should be measured by the net IRR of the fund, and the IRR of each realized investment;
- **Economic Performance** indicates 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;

### 3. Development effects of Swedfund's investments through funds

- **ESG Performance** indicates whether fund managers and their portfolio companies adhere to responsible investment and business practices and whether portfolio companies over time improve upon their practices from the environmental, social and governance (ESG) perspectives; and

- **Private Sector Development** indicates whether investments have *broader* positive effects for local economies and communities including increased availability of capital from third party investors; more efficient capital markets; improvements to standards and regulations; and - importantly - increased availability of better quality goods, services and infrastructure for the benefit of local communities.

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#### Framework and indicators to measure development effects of fund investments\*

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Development outcome	Concept	Performance indicators
<b>Financial performance</b>	<ul style="list-style-type: none"> <li>• Fund managers' ability to attract commercial capital to poor country markets</li> <li>➤ Financial return to investors</li> </ul>	<ul style="list-style-type: none"> <li>• Net IRR for funds versus investment target</li> <li>• IRR for each exit</li> </ul>
<b>Economic performance</b>	<ul style="list-style-type: none"> <li>• Contributions to economic growth</li> <li>➤ Commercially viable and growing businesses that generate employment and pay taxes</li> </ul>	<ul style="list-style-type: none"> <li>• Employment</li> <li>• Taxes paid</li> <li>• EBITDA and turnover (increase over time)</li> <li>• SMEs and low income reach (if relevant)</li> </ul>
<b>ESG performance</b>	<ul style="list-style-type: none"> <li>• Responsible investment and business practices with respect to the environment, social matters and governance (ESG)</li> <li>➤ ESG management systems and ESG performance, with improvements over time</li> </ul>	<ul style="list-style-type: none"> <li>• ESG issues and improvements over time</li> <li>• Development outlays (if available)</li> <li>• Environmental products/services (if relevant)</li> </ul>
<b>Private sector development</b>	<ul style="list-style-type: none"> <li>• Broader private sector development effects</li> <li>➤ More efficient capital markets</li> <li>➤ Regulatory improvements</li> <li>➤ Benefits to customers from increased availability of goods, services and infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>• Third party capital</li> <li>• Local capacity building</li> <li>• Enhancements to sectors and benefits for consumers, e.g., increase in telecom penetration, new infrastructure, increased access to power and financial services</li> </ul>

\* Source: CDC (2009) *Growth for Development*, "Measuring the development effects of CDC's investments".

The subsequent sections of this chapter present an overview of Swedfund's investments through funds using the framework for measuring development effects described above as per the information currently available to Swedfund, with illustrative case studies. As Swedfund has not yet systematically requested annual information from its fund managers according to the key parameters in this framework, nor conducted evaluations at the mid-point and the end of a fund's duration, the information upon which this overview is based is not complete. Rather, the subsequent sections provide a limited illustration of the information that Swedfund could systematically seek from its fund investments in the future. This would be especially appropriate to do in future years in collaboration with other DFIs investing in the same funds.

## 3.2 Financial performance



The ability of fund managers to generate strong financial returns on their investments demonstrates to potential investors that it is worth the higher perceived risk of investing in emerging markets. Attracting other investors to underserved poor country markets is one of the key development benefits of fund investments. Strong financial returns would also allow Swedfund to grow the public capital entrusted to it. A successful sale of a portfolio company means that that portfolio company has proven strong enough to attract a buyer or another investor, and no longer needs the financial support from Swedfund's fund investment. Swedfund's fund managers return cash to Swedfund and other investors when they sell their investment share in a portfolio company. Proceeds from successfully exited investments can be used to make new investments for the benefit of new companies in need of capital.

At the end of 2009, 122m SEK had been returned to Swedfund from exited or partially sold fund investments. Apart from two financially successful funds, Swedfund's eight older fund investments have not produced positive returns. However, the two funds which are financially successful were among Swedfund's largest investments through funds. The four oldest funds, for which investments have been sold or written off, have all lost capital. Three of these were relatively small investments, with less than 10m SEK committed by Swedfund to each of the funds. Two of these funds were pioneer investors in Latin America in the second half of the 1990s. Three of the four funds which are in exit phase show positive returns from investments: ECP Africa Fund I,<sup>6</sup> which invested in companies all over the African continent, Askembla Growth Fund, which invested in the Baltic States, and SSEAF's Sichuan Small Investment Fund (SSIF) with 22.7m SEK in committed capital. ECP Africa Fund I is Swedfund's second largest fund investment, with 90m SEK in committed capital. Askembla Growth Fund is also among Swedfund's larger fund investments, with 58m SEK committed. Among the seven newer fund investments, two have thus far made positive returns from exits while there have been write-offs for one fund.

Examples of companies that have been sold by Swedfund's fund manager ECP which returned cash beyond the invested capital are given below:

**Starcomms, Nigeria's fourth largest telecom operator:** During the 3.5 years that the ECP Africa Fund I was invested in the company, Starcomms grew rapidly. At the time of ECP's exit in July 2008, the company had grown its subscriber base by over 15 times to 1.5 million customers. ECP sold Starcomms at 2.9 times its original investment.<sup>7</sup>

**PanAfrican Energy Corporation (PAE), an oil and gas exploration and production company in Sub-Saharan Africa:** The investment by ECP Africa Fund I in PAE allowed the company to expand its production from 900 barrels of oil per day to almost 10,000. During ECP's ownership, revenue increased at a cumulative average annual growth rate of 110%. PAE's rapid production expansion and favorable oil prices provided the opportunity for the company to buy out ECP Africa Fund I's position. The sale resulted in ECP Africa Fund I receiving 1.4 times the capital invested.<sup>8</sup>

### 3. Development effects of Swedfund's investments through funds

#### **Case 1 - Early successful fund investment in Russia: Prosperity Cub Fund**

One of Swedfund's earliest and most successful fund investments is Prosperity Cub Fund. In 1998, when the Prosperity Cub Fund was launched by Prosperity Capital Management, Swedfund invested 15m SEK in the fund. By 2006, Swedfund had sold all of its shares for a total of 205m SEK and consequently made a net profit of about 12.5 times the investment value. The IRR of the fund was 41%.

Prosperity Capital Management was started in 1996 by two Swedish investment professionals, with offices in Moscow and London. The fund manager has subsequently become one of the largest and most renowned foreign investors in Russia. During the holding period, the Prosperity Cub Fund invested primarily in the oil and gas sector. A substantial part of the investments were in energy companies, but the fund also invested in ICT as well as in consumer goods and services.

Prosperity Cub Fund had significant development impact, as it was one of the earliest Western investors in Russia, and contributed to enhance transparency and efficiency through active involvement to improve its portfolio companies. Prosperity also contributed to improving the investment climate in Russia, for example by promoting a Parliamentary decision in 2004 to define accounting rules relating to net returns of Russian companies.

Swedfund exited its investments in the Prosperity Cub Fund in 2006.

Source: Prosperity exit report, February 2007.

#### **Case 2 - Positive financial returns from SME Investments: SEAF Sichuan Small Investment Fund**

SEAF's Sichuan Small Investment Fund (SSIF), with 22.5m USD in total committed capital from investors, including 22.7m SEK from Swedfund, invests in small and medium size enterprises (SME) in China. It is in exit phase and showing positive returns. By the end of 2009, the fund had completed one exit via a management buy-out for one of its nine portfolio companies. By July 2010, the fund had negotiated three additional exits. One of these was a partial exit coupled with a follow-on investment into two merged SSIF portfolio companies at five times their value before SSIF's investment. The other two exits entailed sales of SSIF's shares to strategic buyers and existing shareholders. The realized proceeds from the dividends and the exits equal 75% of the investors' committed capital. The total realized and unrealized fair market value of the fund as of the end of 2009 generated a 27% gross IRR. According to the fund manager's projections of the unrealized value of the remaining four investments in the SSIF portfolio, the net IRR for the fund should be well over 10%.

Companies that have been exited by Swedfund's fund manager SEAF for the Sichuan Small Investment Fund include:

**Hui Ji Snack Foods and Hua Long Food Distribution:** These two investments from 2006 by SSIF, one a manufacturer of branded snacks (sunflower seeds, dried tofu and crunchies) and the other a distributor of branded foods within the Sichuan province, were recently partly exited. With investment by SSIF (totaling 3.2m USD) and growing demand for branded food products, both companies have successfully established themselves as local leaders. To continue growth, the boards of both companies agreed to a merger and to seek additional growth capital. Two well-known investment funds focused on China (Orchid Asia and Shenzhen Venture Capital) agreed to invest over 13m USD in new capital and to purchase part of SSIF's shareholding at a pre-investment company value five times the value prior to the investment by SSIF. SSIF will retain ownership of 20% and work together with the other owners to raise a third round of capital through an a public offering of shares.

**Qi Li Water Treatment Equipment:** This manufacturer of water disinfection equipment for small-scale applications like food processing and hospitals received an investment from SSIF of 544,000 USD in 2004. In order for the company to continue expansion, SSIF worked with the founder to attract financing from a strategic investor who bought shares owned by SSIF. In the first quarter of 2010, a sale of shares was agreed that valued SSIF shares at 2.6 times its original investment cost and yielded an IRR of almost 27%. Qi Li is set to continue providing its products to a wider market in this growing industry.

Source: SEAF.

### 3.3 Economic performance

#### Key economic data from Swedfund's fund portfolio companies:\*

59,800 people employed

1.2bn SEK in tax revenues to local governments

\* As per available data.

#### Top employers among Swedfund's fund portfolio companies:\*

Intercontinental Bank (Nigeria) 10,000 employed

Finagestion (Côte d'Ivoire) 6,300 employed

NSIA (Côte d'Ivoire) 3,300 employed

Central African Gold (Ghana) 3,000 employed

Blue Financial Services (South Africa) 3,000 employed

Sportland Int. Group A.S. (Estonia) 1,600 employed

JRG Securities (India) 1,500 employed

\* As per available data.

Commercially successful businesses provide employment opportunities, which are critically needed in developing countries for their populations to gain a livelihood and support their families. A recent World Bank survey "Voices of the Poor" suggests that 70% of the world's poor believe that the best way of escaping poverty is to find employment.<sup>9</sup> Profitable and growing businesses also generate tax revenues that allow low income country governments to fund their own development programs, including investments in education, health services and infrastructure. Growing and new businesses are an important long-term vehicle for economic growth to lift developing country populations out of poverty.

In some of the companies where Swedfund's capital is invested, Swedfund's fund managers are large shareholders and are thus important facilitators in the creation of jobs and the generation of tax revenues. In other companies, Swedfund's fund managers are smaller shareholders. Swedfund's investment share in the funds also varies. Direct attribution of employment or tax payments to Swedfund's investments is therefore not appropriate. Nevertheless, the employment and tax data generated from Swedfund's investments through funds is an important indicator of the number of people in developing countries that sustain a livelihood with financial backing from Swedfund and the amount of tax revenues that benefit local governments from companies where Swedfund's capital is invested.

The portfolio companies, in which Swedfund's fund managers have invested and for which data was available, employ 59,800 people. 39,700 of these jobs are in Africa, 11,500 in Asia and 7,700 in Eastern Europe.<sup>10</sup> 900 people are employed in the two remaining portfolio companies in Latin America. It is commonly estimated that each worker supports the livelihood of about four family members.<sup>11</sup>

Similarly, and again for companies from which data was available, portfolio companies supported by Swedfund's investments through funds generated 1.2bn SEK in tax revenues for their governments.<sup>12</sup> 0.9bn SEK of these tax revenues were paid to governments in Africa, mostly by the portfolio companies in ECP Africa Fund II.

Below follows successful examples of growing and profitable companies benefitting from Swedfund's investments through funds and showing increases in employment and taxes paid, and growth in turnover and profits.



**India:** The renewable energy provider Greenko, one of the portfolio companies of the Green Investment Asia Sustainable Fund I, has had a significant increase in turnover and profitability (EBITDA) since the fund manager Aloe invested in the company in 2007. Turnover increased threefold, from 3.5m EUR in 2007 to 13.9m EUR in 2009. During the same period, EBITDA increased by 770% from 0.7m EUR to 6.1m EUR. Forecasts indicate that both turnover and EBITDA will continue to increase in 2010, and are estimated to reach 22m EUR and 8.82m EUR respectively.<sup>13</sup>

### 3. Development effects of Swedfund's investments through funds

#### Case 3 - A leading investor in Africa: ECP's Africa funds

Emerging Capital Partners (ECP) manages three funds (ECP Africa Fund I, ECP Africa Fund II, and ECP Africa Fund III) where Swedfund's capital is invested. The total capital invested by Swedfund in the three ECP funds amounts to 278m SEK, or 38% of Swedfund's total commitments to funds.

ECP invests in companies in all sectors across the African continent. Its first Africa focused fund has exited all but one of its portfolio companies. The second fund is fully invested, with 18 portfolio companies. The third ECP fund for Africa is in its investment phase with four portfolio companies thus far.

The 18 companies in the ECP Africa Fund II operate within the financial services, energy & utilities, mining, industry & materials, ICT, and consumer goods and services sectors. Amongst them, these 18 portfolio companies employ 29,100 people and paid almost 0.9bn SEK in taxes to local governments. Intercontinental Bank was by far the largest tax contributor and employer; paying 0.6bn SEK in taxes to the Nigerian government and employing 10,000 persons. The GSM cellular operator MTN Côte d'Ivoire was another huge tax contributor, providing 156m SEK in local tax revenues. For the ECP Africa Fund II portfolio as a whole, the number of employees increased by 12% from 2007 to 2008.

Source: ECP (2008) *Global Capital, Local Impact*.

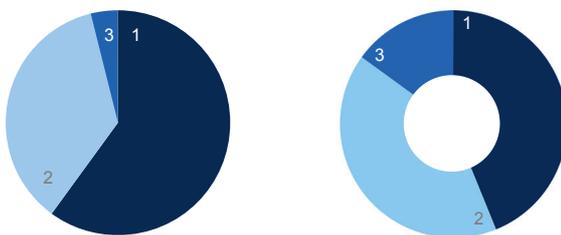
#### Swedfund's fund investments in SMEs

Small and medium size enterprises (SMEs) play an essential role for economic development and poverty reduction. A 2004 study conducted by the Small Enterprise Assistance Funds (SEAF), one of Swedfund's fund managers specializing in SME investments, found that for every USD 1 invested in a small and growing business, another USD 12 is generated for the local economy.<sup>14</sup> In high income countries, SMEs account for about half of GDP. In low income countries, by contrast, the SME sector is underdeveloped and only makes up 16% of aggregate GDP. One of the major challenges for SMEs in developing countries is the lack of access to finance. Investors often find that the amount of time and resources required to investigate an investment opportunity in an SME is disproportionately costly compared to the expected returns. From a development perspective, the difficulty that SMEs experience in attracting capital is a lost opportunity and fund managers investing in SMEs are playing an important role in bridging this gap.

Swedfund invests with two fund managers that specialize in SME investments: the Small Enterprise Assistance Funds (SEAF), which manages the Sichuan Small Investment Fund for investments in Asia to which Swedfund has committed 23m SEK, and Aureos, which has managed the Fedha fund and the Central America Investment Fund. Many of Swedfund's other fund managers also invest in companies that are classified as SMEs.<sup>15</sup> 41% of Swedfund's portfolio companies in funds are SMEs. The total amount of Swedfund's investment share in SMEs is 116.4m SEK or 36% of Swedfund total investment in funds.

Swedfund's fund investments split by large companies, SMEs, microfinance

Portfolio value (m SEK)			Number of companies		
Total: 322m SEK	1 Large	60%	Total: 87 companies	1 Large	44%
	2 SMEs	36%		2 SMEs	41%
	3 Microfinance	4%		3 Microfinance	15%



**Case 4 - Economic performance of SEAF's SME fund in China**

SEAF's Sichuan Small Investment Fund (SSIF), with a 22.7m SEK investment from Swedfund, invests in companies in the Sichuan province with initial annual revenues in the range of 500,000 USD to 15m USD each.

SSIF's investments were made between 2003 and 2006 and all of the companies have had significant positive revenue growth since then. The average annual growth rate in revenues in USD terms from the time of investment to the end of 2009 for SSIF's portfolio companies is 27%. Job creation has also been strong, with an average annual growth rate of 14% from the time of investment to the end of 2009. SEAF's monitoring and data collection shows that along with job creation comes higher wages and job training.

Examples of the strong economic performance of SEAF's SSIF portfolio companies include two Chinese snack food producers: Bang Bang Wa and Hui Ji.

Bang Bang Wa is a producer of branded packaged beef snacks. The company's sales in 2009 were 22.7m USD, more than eight times annual sales at the time of SSIF's investment in 2003. 590 people were employed at Bang Bang Wa in 2009, up from 198 in 2003. The company has contracts with three slaughterhouses that source from small farmers in Sichuan and Chongqing that typically own five to ten cattle each. This serves as a bridge between farmers and national markets, without which the farmers would be selling at local markets for much lower prices. The sourcing includes yak meat purchased from ethnically-Tibetan farmers who would otherwise have little or no access to modern distribution systems and consequently achieve lower prices. Bang Bang Wa sources from over 90 suppliers, also including spices, sugar and packaging materials from a number of manufacturers and distributors in China.

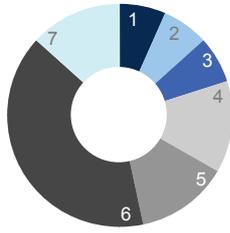
Hui Ji's sales in 2009 were 30m USD, up from 5m USD in 2006, the year of SSIF's investment. Hui Ji, which launched its own brand name snack food in 2000, is now Sichuan's best known snack brand name. The company sources high-quality raw material from local suppliers, which ensure steady, reliable and profitable purchases from local farmers. Hui Ji received a new equity investment of 13m USD in 2010 from well-known investors (Orchid Asia and Shenzhen Venture Capital) to continue its profitable expansion.

Source: SEAF.

### 3.4 Environmental, social and governance performance

#### Swedfund's fund investments according to signed commitment to responsible investment standards ("CSR / ESG")

Total: 15 funds

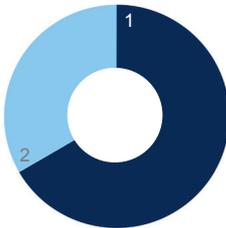


1 Swedfund	1
2 FMO	1
3 CDC	1
4 EBRD	2
5 Other DFI standards	2
6 IFC	6
7 Own/other standards	2

Developing countries often have inadequate regulations and enforcement to protect employees, consumers and the environment. Accordingly, it is of crucial importance that Swedfund's fund managers pay close attention to environmental, social and governance (ESG) matters for their portfolio companies. Swedfund collaborates with other development finance institutions (DFIs) that invest alongside Swedfund in funds to promote responsible investment and business practices. DFIs have similar standards for ESG matters, while often expressed somewhat differently. A common lowest benchmark is that all investments must comply with national legislation. In addition, Swedfund and other DFIs demand that fund managers over time assist the companies in which they invest to improve their management of ESG matters towards international standards, including those developed by the World Bank and the International Finance Corporation (IFC), the International Labour Organization (ILO), and the Organization for Economic Cooperation and Development (OECD).

#### Funds by Investment Committee or Advisory Committee participation status (number of funds)

Total: 15 funds

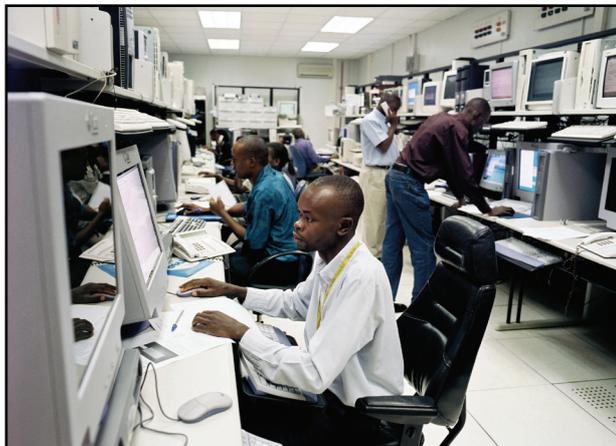


1 Swedfund, other DFI or other investor has a seat on the fund's investment committee	10
2 No investor has a seat on the fund's investment committee	5

Swedfund takes ESG factors into account when deciding which fund managers to invest with and accordingly monitor fund managers during the funds' life. All of Swedfund's investments, including its investments through funds, must comply with national legislation as well as with Swedfund's Environmental Guidelines and Code of Best Practice.<sup>16</sup> Often, Swedfund collaborates with and relies on other DFI investors to promote stronger ESG management systems for fund managers and their portfolio companies. 13 of the 15 funds in which Swedfund invests have signed up to ESG standards from a DFI.<sup>17</sup>

Swedfund, or a representative from another DFI invested in the fund, has a seat on that fund's investment committee or advisory committee in 10 of the 15 funds in which Swedfund's capital is invested. By having a seat on these committees, Swedfund can influence important decisions made by the fund manager as well as the fund manager's approach to ESG matters for portfolio companies.<sup>18</sup>

Although varying from fund manager to fund manager, the general opinion of Swedfund's investment managers is that the ESG management systems of Swedfund's fund managers are largely satisfactory. In some cases, however, ESG aspects could be prioritized more in the fund managers' work with portfolio



companies. In general, there is a shortage of information about ESG practices for portfolio companies. The general impression of Swedfund's investment managers is that DFIs invested in the funds play an important role in bringing ESG matters further up on the fund managers' agenda. According to Swedfund's investment managers, ESG matters are often discussed at investment or advisory committee meetings, and considered when making important decisions, although ESG matters are less often a key point on the agenda.

10 out of 12 of Swedfund's fund managers cover ESG issues, on a regular interval or ad hoc, in their reporting to Swedfund. Six fund managers cover such issues regularly, at least annually. However, most of the reports received by Swedfund do not systematically cover key ESG matters for portfolio companies, including risk ratings, action plans for improvements, and serious incidents and how these were dealt with.

### 3. Development effects of Swedfund's investments through funds

Swedfund's investment managers have visited portfolio companies in nine out of the 15 funds to which Swedfund has committed capital. Portfolio companies in the six funds where Swedfund has seats on the investment committee have had visits by Swedfund's investment managers. However, Swedfund has not yet systematically identified fund portfolio companies that are high-risk from the ESG perspective and which therefore should be prioritized for site visits.

In 2009, Swedfund reviewed its investments through funds to assess the compatibility of the funds' respective portfolio investments with Swedfund's own responsible investment standards with the help of the auditing firm PriceWaterhouseCoopers (PWC). PWC's work was based on a questionnaire to fund managers and did not include any verifying field visits. Responses to the questionnaire were collected for each of Swedfund's 15 funds except for Baring India Private Equity Fund II and the exited Horizonte fund. The three funds managed by ECP were not given separate reviews. Hence, eleven responses from the fund managers were reviewed. According to PWC's report, about half of the funds included investments that would be considered high or medium risk from an ESG perspective, as specified by a list of 32 activities associated with such risk. There were two fatalities or serious injuries reported from portfolio companies managed by two different fund managers. According to Swedfund's investment managers, both incidents were thoroughly investigated and appropriate remedial measures taken. One fund manager reported legal action against a portfolio company. Other conclusions from the PWC review can be summarized as follows:<sup>19</sup>

- 5 funds have formal procedures for monitoring environmental and social issues;
- 7 funds train their staff in environmental and social management and monitoring;
- about half of the funds have regular contact with Swedfund;
- most of the funds have expressed interest in more extensive cooperation with Swedfund.

From the reports received by Swedfund's fund managers, there were several examples of improvements in ESG practices amongst their portfolio companies. Some of these are provided below. Most of these examples were provided by the fund manager ECP, which manages 21 of Swedfund's 87 fund portfolio companies, and the two fund managers which specialize in investments in cleaner technologies, China Environment Fund III and Green Investment Asia Sustainable Fund I.

**SEAF:** SEAF, the manager of the Sichuan Small Investment Fund in China, in which Swedfund is an investor, also manages 20 other emerging market funds with investments throughout the world. SEAF incorporates environmental and social assessments into all stages of its investments, from investment screening and due diligence to ongoing monitoring, following the IFC's social and environmental policies. SEAF conducts periodic social and economic impact assessments, combining the use of a data collection surveys for all companies in its global portfolio with select in-depths case studies. Analysis covers impacts on employment, wages, health coverage and pension benefits for lower skilled employees, opportunities for suppliers, and impacts on other stakeholders, which is presented in quantitative and qualitative terms.<sup>20</sup>

#### Environmental management and cleaner technologies

**Nigeria:** Ocean and Oil Investment (Oando), an oil and gas company where Swedfund's capital is invested through the ECP Africa Fund II, undertook an environmental audit in 2003, in connection with a potential investment by the fund manager. As a result of the report, management increased the strength of the environmental team in terms of numbers and skills, and put in place a major inspection program. An Environment Health Safety and Quality department was formally created as a separate entity within Oando.<sup>21</sup>

**Côte d'Ivoire:** Finagestion, an electrical utility company in which Swedfund's capital is invested through the ECP Africa Fund II, is one of the portfolio companies where ECP has taken an active role in promoting both improved environmental management and improved corporate governance. This includes advancements towards international environmental standards and the appointment of a non-executive director to each subsidiary's board. The company received a positive environmental assessment in accordance with the Ivorian National Environmental Agency's regulations for the construction of a new 110 MW gas fired turbine. When installed, the new turbine will increase capacity from 210 MW to 320 MW, generating 700 GWh in annual output.<sup>22</sup>

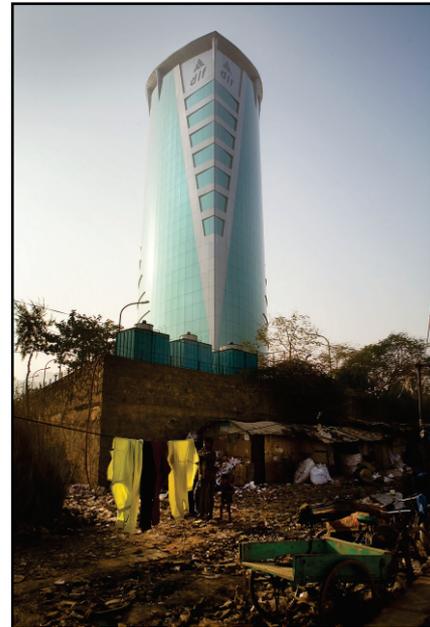
**Tanzania:** Spencon is a regionally leading infrastructure development company where 2.4m SEK in capital from Swedfund is invested through the ECP Africa Fund II. The company invests in high-risk projects from the environmental perspective including sewerage systems, power plants, new roads, and housing estates. Spencon takes steps to mitigate potential impacts on nature at and near project sites by creating new habitats for animals and birds, planting trees to replace any that must be removed, and modifying project designs to accommodate rare and endangered species.<sup>23</sup>

### 3. Development effects of Swedfund's investments through funds

**Tanzania:** The oil and gas exploration and production company Artumas, in which Swedfund's capital is invested through the ECP Africa Fund II, has concessions in sensitive equatorial coastline areas within the Mnazi Bay-Rovuma Estuary National Park. The maritime park is recognized for its high marine biodiversity, and any activity conducted by Artumas must first be approved by the warden and in some cases also the park's board of trustees.<sup>24</sup>

**Côte d'Ivoire:** As part of its fishing practices Thunnus, a fishing company of the ECP Africa Fund III, does not source any fish species that are endangered or overfished. The company seeks to control the origin of its raw fish to ensure that suppliers have fished in adherence to EU regulations regarding fishing methods and sanitary conditions.<sup>25</sup>

**India:** AlphaPET, a portfolio company of Green Investment Asia Sustainable Fund II in which Swedfund's capital is invested, is the owner of a new cutting-edge chemical recycling technology to recycle bottles into top quality recycled materials suitable for use in the bottles, food packaging, films and textile industries. Aloe, the fund manager of the Green Investment Asia Sustainable Fund II, has worked with AlphaPET to create a business plan which minimizes the financial risk inherent in bringing this new technology to market. AlphaPET's subsidiary Polygenta has sought to reduce dependence on diesel to generate electricity and is in the process of obtaining an ISO 14001 environmental certification. Swedfund assisted the subsidiary to raise 15m EUR of loan capital, with 50% of this capital provided by Swefund.<sup>26</sup>



**China:** The renewable energy company ET Solar, where Swedfund's capital is invested through the China Environment Fund III, has developed into one of the fastest growing solar manufacturing solution providers in the world.<sup>27</sup>

**China:** The China Environment Fund III has had several positive reports in the media about its portfolio companies. One portfolio company has been featured several times in industry journals for its innovative and efficient water treatment systems. Two portfolio companies producing "green" snack foods have been covered in the media as innovative examples of outreach to help farmers use environmentally sustainable farming methods.<sup>28</sup>

### Social matters

**Senegal:** The mining company Mineral Deposits, where Swedfund has invested 4.0m SEK through the ECP Africa Fund II, has developed processes to identify and minimize hazards and risks from its mining operations in Senegal. Examples include:

- Traffic and road safety issues were of major concern to the local community. The company upgraded road infrastructure in areas around projects to create a safer environment for employees and the community.
- A malaria control program was established to ensure risks to employees and the community are minimized with targets measured against the World Health Organization (WHO)'s "Roll Back Malaria Program."
- In the villages surrounding mining projects, water containers were installed to provide easy access to clean water for local villagers.<sup>29</sup>

**India:** The fund manager Aloe, which manages the Green Investment Asia Sustainable Fund I, has been influential in improving labor and working conditions in Polygenta, the plastic bottle recycling subsidiary of AlphaPET. In India, where Polygenta operates, very long working hours are common. At Polygenta, staff members who are working in administrative and commercial functions are given the opportunity to manage their own working hours based on a forty-eight hour week. Staff members are entitled to thirty working days paid holiday a year. There are also provisions for parental (both maternal and paternal) leave.

**Aureos Capital Partners** Swedfund has invested in two funds managed by the fund manager Aureos, which has investments in over 50 countries and operates through 25 offices all over the developing world. Aureos has integrated the monitoring of environmental and social criteria into all stages of their investment activities from due diligence to monitoring and reporting. Aureos has also launched an initiative to promote

### 3. Development effects of Swedfund's investments through funds

HIV/AIDS policies and programs for its portfolio companies in Africa to encourage prevention and provide treatment for workers.<sup>30</sup>



#### **Governance**

**Nigeria:** The fund manager ECP has had an important role in improving corporate governance at Continental Reinsurance, a Nigerian insurance company in which Swedfund's capital is invested through the ECP Africa Fund II. The company has brought about several organizational and capacity building changes including the development, recruitment and hiring of key personnel and top management and the installation of new software to improve financial reporting. The fund manager also nominates a majority of the directors to the company's board to shape corporate strategies.<sup>31</sup>

**India:** The fund manager Aloe, which manages the Green Investment Asia Sustainable Fund I, is working with the management of its portfolio companies to improve corporate governance by setting up instructions for their boards of directors and by implementing bonus systems.<sup>32</sup>

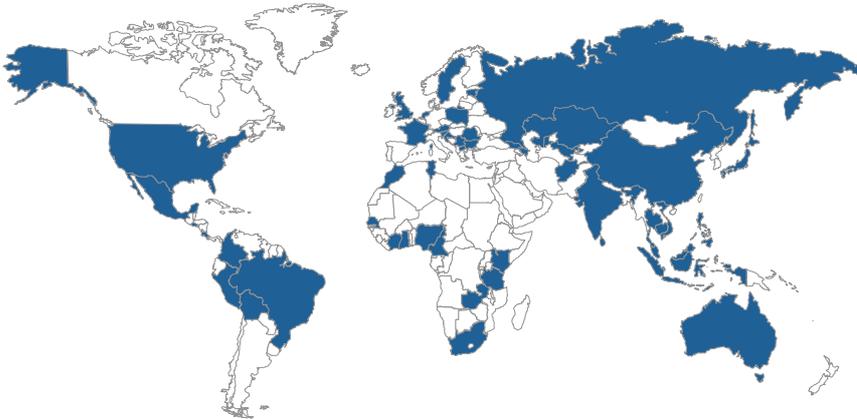
**Aureos Capital Partners:** The fund manager Aureos has launched an initiative to build capacity in its portfolio of SME investees for improved management by partnering with leading business schools in India.<sup>33</sup>

### 3.5 Private sector development

Investments through funds contribute to build local investment capacities and to attract third party capital to developing country markets. An important factor for economic development in poor countries is the strengthening of local capital markets to attract new investments. Fund managers with local offices, staffed with local investment professionals, are particularly suited to make the strongest contribution in this respect. Fund managers and their portfolio companies also contribute in other ways to the development of local capital markets and to the expansion of businesses or investments across low income countries or poor regions. Benefits for consumers from commercially viable and growing businesses importantly include expanded and improved access to goods, services and infrastructure and better and cheaper products and technologies.<sup>34</sup>

#### Local capacity building

Local presence and capacity building: Swedfund's 12 fund managers have 74 offices in 52 countries



Swedfund's 12 fund managers are represented worldwide with 74 offices in 52 countries. With extensive local presence in the emerging markets where they invest, Swedfund's fund managers have direct insight into their portfolio companies' operations and can more easily assist them to expand and improve their operations.

Four of Swedfund's fund managers are

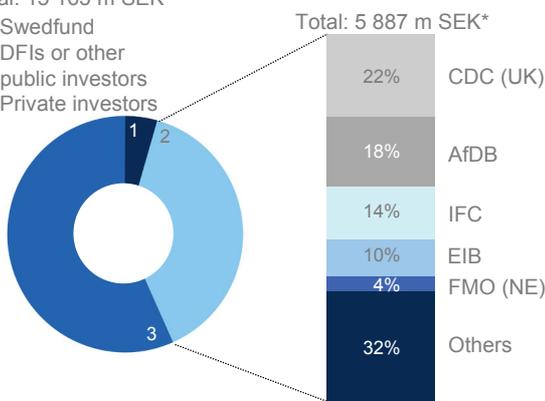
managing private equity funds for the first time. Commercial investors are generally less willing to invest in funds managed by first-time fund managers because such investments are considered to be very risky. Swedfund's investments through funds by new fund managers are therefore an important contribution to the development of new investment capacities in the developing countries where these fund managers operate.

#### Raising third party capital

##### Third party capital invested alongside Swedfund (m SEK)

Total: 15 163 m SEK\*

- 1 Swedfund
- 2 DFIs or other public investors
- 3 Private investors



\*Converted to SEK using the exchange rates USD / SEK = 7,23 SEK and EUR / SEK = 10,21 SEK

The 15 funds to which Swedfund has committed capital have combined investments of 14.4bn SEK in third party capital from other development finance institutions (DFIs), other public sector investors and private commercial investors.<sup>35</sup> The majority of this capital, 8.6bn SEK, was raised from private investors. CDC, the British DFI, is the single largest investor alongside Swedfund, with 1.3bn SEK invested in five of the 15 funds benefiting from Swedfund's capital. Other major DFI investors alongside Swedfund include the African Development Bank (AfDB), the International Finance Corporation (IFC), the European Investment Bank (EIB) and FMO, the Dutch DFI.

Swedfund and other DFIs are often large initial investors in funds and therefore key to their launch. According to Swedfund's investment managers, Swedfund has played an important role in raising capital from other investors for 8 of 15 funds to which it has committed capital. For some of these

### 3. Development effects of Swedfund's investments through funds

#### Local presence and capacity building:

Swedfund's 12 fund managers have 74 offices in 52 countries

33% are first time fund managers

50% of fund managers raised a successor fund

funds, Swedfund's investment managers claim that the fund managers would not have been likely to secure capital from other investors or in some cases raise the fund at all without the commitment from Swedfund.

50% of Swedfund's fund managers have raised successor funds, meaning that the fund managers have been successful in raising capital for new funds after Swedfund invested with them, thus continuing their work to generate capital for investments to poor countries.

By being an active and reliable investor, Swedfund plays an important role in helping fund managers and sometimes also portfolio companies in other ways besides raising capital. Through direct investment experiences, Swedfund's investment managers often have strong knowledge about specific markets and can contribute with sector or region expertise to the fund manager for investments and portfolio management. For some funds, Swedfund has helped the fund managers on corporate governance matters, for example, by insisting that the portfolio companies have hired professional auditing firms.

*"The Swedfund team has been amazing; the investment manager truly understands how to do business in developing countries." (Dr Vivek Tandon, Aloe Private Equity)*

#### Expanding availability of goods, services and infrastructure – at lower cost and better quality

Private sector development arising from successful businesses importantly includes benefits to local consumers from improved access to goods, services and infrastructure. Availability of new technologies, like mobile phones, as well as of basic goods can dramatically improve the quality of poor people's lives. Improved access to services, including healthcare and financial services, is also a crucial element for poverty alleviation. Better and more reliable infrastructure, including physical infrastructure as well as energy distribution, is also critical for development. The private sector is often best suited to expand access to goods, services and infrastructure for poor populations, and can be helped in so doing through development finance and fund investments.

**Nigeria:** Notore Chemical Industries is Sub-Saharan Africa's only nitrogen based-fertilizer production facility and benefits from an investment from Swedfund through the ECP Africa Fund II. The Notore plant is among the world's lowest cost fertilizer producers and has the potential to substantially improve Nigeria's agricultural sector where subsistence farming is widespread. Notore sells to the local Nigerian market and also exports to the United States and Europe. Helping Nigeria transition to a sophisticated agricultural economy would help reduce Nigeria's reliance on oil and create food stability.<sup>36</sup>



**West Africa:** The water and electricity distribution company Finagestion, which had capital invested from Swedfund through the ECP Africa Fund II, provides water to almost 1.1 million customers in Senegal and Côte d'Ivoire. It also distributes power to almost a million local customers. Finagestion's operating subsidiaries were formerly state-owned utilities which now operate profitably at reduced prices and with improved customer service.<sup>37</sup>

**Morocco:** A Moroccan subsidiary of the French company Veolia benefits from Swedfund's capital invested through the ECP Africa Fund I. The company provides clean water to 600,000 customers and reliable electricity to over 700,000 customers in four Moroccan cities. It has improved service, reduced leakage and made tens of thousands new connections to low-income households while keeping prices to consumers stable. In communities where individual homes cannot afford a connection, the company has set up communal fountains. The company has established mobile offices to serve customers in rural areas so that they do not need to travel to pay their bills.<sup>38</sup>

**East Africa:** Despite strong demand for television and broadband internet products in East Africa, the supply for these services remains constrained and expensive resulting in low penetration. Wananchi, an ICT company where Swedfund's capital is invested through the ECP Africa Fund III, offers a combination of cable television and internet services to customers in Kenya and Tanzania. The company has started a

### 3. Development effects of Swedfund's investments through funds

massive expansion of its network, which currently reaches approximately 30,000 homes in the cities of Nairobi and Mombasa, to reach 300,000 homes over the next 2-3 years.<sup>39</sup>

**India:** Greenko, in which Swedfund's capital is invested through the Green Investment Asia Sustainable Fund I as well as through a parallel, direct investment, is one of India's fastest growing independent power producers, developing clean energy assets in India to meet the country's ever-increasing demand for power. The investment from the Green Investment Asia Sustainable Fund I and Swedfund enabled the start-up company Greenko to develop and operate hydro, biomass, wind and solar power assets to the current annual power generation capacity of 570 MW. Greenko expects to double its clean energy assets within the next five years.<sup>40</sup> [Please see the Cleaner Technologies industry chapter for a more extensive case study of Greenko.]

**Côte d'Ivoire:** The GSM cellular operator *MTN Côte d'Ivoire* (MTNCI) is the Ivorian branch of the major South Africa-based mobile telecommunications network group, and a portfolio company of ECP Africa Fund II. Travelling in many African regions is difficult, and mobile telecommunications has many positive impacts on daily life. MTNCI facilitates business transactions by allowing users to transfer money from their phones. Where credit cards and ATMs are rare, this kind of transactions is safer and faster than paying in cash.<sup>41</sup>

#### Improved standards and regulations



**China:** Investments in branded food processors in China by the Sichuan Small Investment Fund in which Swedfund's capital is invested, have contributed to improved food quality and safety as a basis of competitive advantage as well as strengthened management skills and brand strategy. Guidance by the SSIF board of directors to invest in quality control, hygiene enhancements and packaging automation has directly contributed to both product quality and the brand equity of invested companies. Swedfund's investment team has noted that these improvements in food quality and safety have been rewarded with commercial success while putting pressure on competitors to raise their own standards in order to keep pace.

**Russia:** Elecsnet, a portfolio company of Mint Capital II in which Swedfund is an investor, operates a major network of self service cash-in terminals in Russia enabling people to make instant payments and money transfers. Terminals of this kind are common in Russia, and they are sometimes used for money laundering. Elecsnet has been one of few companies operating cash-in terminals with a license from the Central Bank of Russia and has worked hard to promote a law that operators must be licensed. The new license procedure has contributed to clean up the Russian cash sector.

**Nigeria:** Starcomms is a leading mobile telephony operator from which Swedfund's fund manager ECP recently exited its investment. It was the first operator to use bio-degradable materials in its prepaid recharge cards in 2002. The Nigerian Communications Commission subsequently called for all operators to begin using bio-degradable materials in their recharge cards.<sup>42</sup>

#### Strengthening capital markets and addressing capital market failures

**Bosnia & Herzegovina:** Swedfund's fund manager Horizonte Venture Management completed the first initial public offering (IPO) ever on the Banja Luka stock exchange when it exited its investment in Fratello Trade, a food distribution company specialized in frozen foods. In 2007 the company had net sales of 5.6m EUR and the company expects to increase its sales to 12.6m EUR by 2013.<sup>43</sup>

**West Africa:** Financial Bank is a retail and commercial bank operating in West Africa and a portfolio company of ECP Africa Fund III in which Swedfund is an investor. Financial Bank plays an important role in providing SME finance, housing credits and other financial services in a region with some of the lowest rates of bank penetration in the world. Financial Bank donates to a variety of causes that benefit the people of the countries it serves.<sup>44</sup>

**Bolivia:** The Carlsson Bolivia Fund was launched on initiative of Sida (the Swedish International Development Cooperation Agency). Sida had provided support through funding consultants to help modernize the emergent Bolivian financial sector. The purpose of the Carlsson Bolivia Fund was to

### 3. Development effects of Swedfund's investments through funds

introduce a qualified fund manager to continue to support the development of the Bolivian financial sector. At the end of the 1990s, the Bolivian stock market grossed only about 10m USD per year; the Carlsson Bolivia Fund was then one of the largest investors in the Bolivian stock market. While the fund made progress during the earlier stage of its investment life, the financial performance was damaged by difficulties in listing companies with the recent nationalization drive of the Bolivian government.<sup>45</sup>

## 4. Regional reviews

### 4.1 Africa

#### Swedfund's investments through funds in Africa:

34 portfolio companies in 20 countries

Investments in 5 funds through 3 fund managers

306m SEK committed capital

230m SEK invested capital

130m SEK share in portfolio companies at investment value

39,700 people employed\*

923m SEK in local taxes paid\*

\* As per available data

Sub-Saharan Africa is home to over 800 million people, with an annual population growth of 2.5%. It is the region with the highest proportion of poor people in the world. Half of the population of Sub-Saharan Africa subsides on less than 1.25 USD a day.<sup>46</sup> This makes up about 30% of all the world's poor. Around 40% of the people in Sub-Saharan Africa are not employed in formal labor markets.<sup>47</sup>

Against a history of economic stagnation, with chronically high unemployment, Africa as a whole experienced steady economic growth during the last decade, with a 6.1% average growth rate in 2007. Kenya, Nigeria and South Africa emerged as strong regional leaders with an expanding and dynamic private sector.

With the global economic down-turn, however, economic growth slowed across Africa in 2008 and is estimated to be only 1.7% for 2009.<sup>48</sup> Lower commodity prices and declining export volumes, as well as declining tourism revenues, remittances and private capital flows have all had negative effects. Remittance inflows, which were about 20bn USD a year to Africa before the financial crisis, have fallen by 4 to 8 percent, hitting countries such as Lesotho, where remittances normally account for 30% of GDP, particularly hard.

Private capital flows, which had surged to 53bn USD in 2007 and were financing much-needed infrastructure and commodity-based

investments, fell by 40% in the second half of 2009.

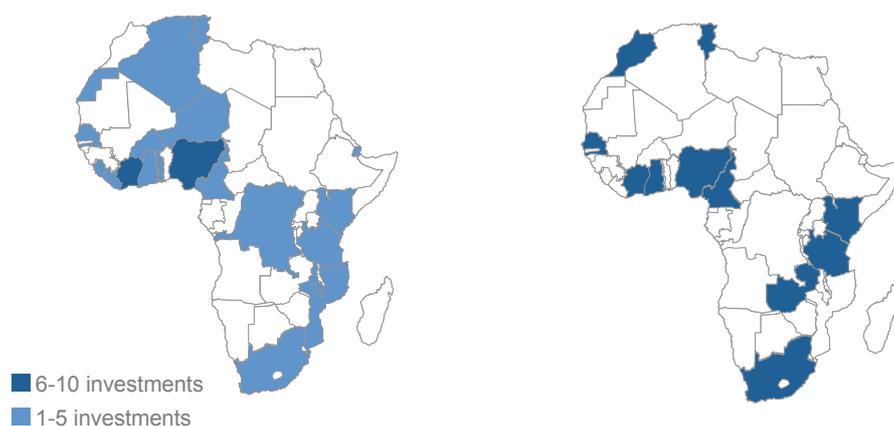
The global recession has highlighted the need for continued investments from development finance institutions like Swedfund in Africa to continue to fuel private sector led growth, employment creation, generation of tax revenues and poverty reduction. From an investment perspective, Africa has vast untapped potential, with ample opportunities to develop and grow businesses to reach new markets. The ICT sector is one of several examples of fast growing and profitable business opportunities in Africa. The telecommunications sector in Nigeria, for example, has exploded from about 400,000 mobile phone subscribers in 2001 to 56 million users today, and continues to grow at 15-20% per year. Modern agriculture, financial services and energy distribution are also fast growing sectors in Africa, which require capital in order to meet currently underserved needs.<sup>49</sup>

#### Swedfund's investments through funds in Africa

Africa, especially Sub-Saharan Africa, is the largest investment destination for Swedfund's investments committed through funds. Swedfund has committed 306m SEK to five funds that invest in Africa, representing 41% of Swedfund's total capital committed to fund investments. The five funds which invest Swedfund's capital in Africa are: AfriCap II, ECP Africa Fund I, ECP Africa Fund II, ECP Africa Fund III, and

Swedfund's investments in funds: 34 portfolio companies in 20 African countries

Swedfund's fund managers have 16 offices in 12 countries in Africa



## 4. Regional reviews

### Swedfund's largest investments through funds in Africa:

Financial Bank, Togo  
Financial services  
18.4m SEK

NSIA, Côte d'Ivoire  
Financial services  
11.3m SEK

Salt Investment SAZF, Djibouti  
Mining  
8m SEK

Thunnus, Agribusiness  
Côte d'Ivoire  
7.1m SEK

Fedha. The fund managers Mecene (AfriCap II), ECP, and Aureos (Fedha) are locally represented in 12 African countries with 16 offices amongst themselves.

By the end of 2009, Swedfund's fund managers had invested 130m SEK of Swedfund's capital in 34 portfolio companies located in 20 countries across the African continent. The majority of these companies are located in Sub-Saharan countries.

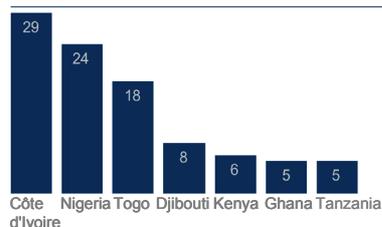
The single largest investment destination for Swedfund's fund managers in Africa is Côte d'Ivoire, which with 29m SEK of capital invested in 5 portfolio companies represents 9% of Swedfund's total fund investments. Nigeria and Togo are the second and third largest destinations for Swedfund's investments through funds in Africa, with 24m SEK of capital invested in 5 Nigerian companies and 18m SEK invested in one Togolese company.

The portfolio companies in Africa where Swedfund's capital is invested through funds are of varying sizes and operate across most different industry sectors. The largest sector is financial services, with 46m SEK of Swedfund's capital invested in 6 companies. Other sectors with a large share of Swedfund's investment through funds are energy & utilities (19m SEK), mining (18m SEK), and information & communication technologies (14m SEK).

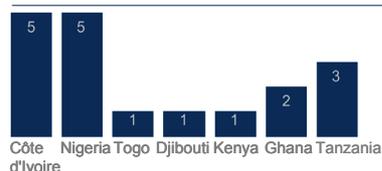
Swedfund's largest investment in Africa through funds is [Financial Bank](#) (18.4m SEK), a financial services provider in Togo and a component of the ECP Africa Fund III. A private banking group operating with a diverse clientele, Financial Bank is heavily involved in the local economy through commercial banking and provision of microfinance services. Swedfund's second largest investment in Africa through funds is another financial services provider in the ECP Africa Fund III, [NSIA](#) (11.3m SEK), an insurance company in Côte d'Ivoire.

39,700 people are employed in portfolio companies in Africa which are supported by Swedfund's investments through funds, as per available data. The majority of these jobs are in the 18 portfolio companies of ECP Africa Fund II, which provide employment opportunities for 29,100 people. Swedfund's fund investments also generate substantial income for local governments in Africa, with 923m SEK in tax revenues from fund portfolio companies, as per available data. Again, the largest tax payers were the portfolio companies in ECP Africa Fund II's portfolio, generating an aggregated 895m SEK in tax revenues with 621m SEK from the single largest tax contributor: Intercontinental Bank in Nigeria.

Largest investment destination by value (m SEK)



Largest investment destination by number of portfolio companies



Portfolio companies by sector (number of companies)

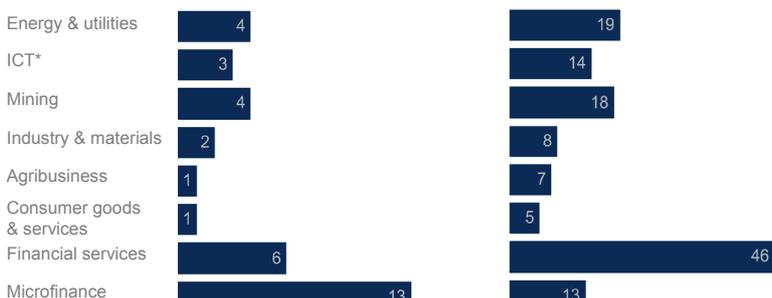
Total = 34 companies



\*Information & communication technologies

Investments by sector

Total value 130m SEK



## 4.2 Asia

### Swedfund's investments through funds in Asia:

33 portfolio companies in 2 countries

Investments in 4 funds through 4 fund managers in Asia

269m SEK committed capital

185m SEK invested capital

139m SEK share in portfolio companies at investment value

11,500 people employed\*

48m SEK in local taxes paid\*

\* As per available data

### Swedfund's largest investments through funds in Asia:

Grenko, India  
Cleaner technologies  
13.5m SEK

Auro Mira Energy, India  
Cleaner technologies  
11.3m SEK

Infrasoft Technologies, India  
ICT  
10.3m SEK

Neo-Neon Holdings, China  
Cleaner technologies  
9.5m SEK

Since the Asian financial crisis in 1998, most of Asia has enjoyed ten years of rapid economic growth and declining poverty, driven by an expanding private sector. The two dominating emerging economies in East and South Asia, China and India, were the most remarkable. China's economy grew by 13% in 2007 and the Indian economy expanded by 9%.

The global economic crisis in 2008 hit the region hard, while most Asian countries were relatively quick to rebound. By 2009, Asia overall was less affected by the crisis than other regions. The growth in South Asia for example decreased from an impressive 9% in 2007 to 6% in 2009; a comparatively small growth decline.

With the world's two largest populations, China and India are projected to become the world's largest economies within a few decades. While remaining home to a large number of poor people, each of these two countries hosts a growing segment of middle-income consumers as well as an increasingly skilled labor force. With growing domestic demand, as well as competitive production costs for export goods and services, investments in China and India are well placed for further growth across all economic sectors, including highly skilled industries such as healthcare and ICT. The region faces a strongly increasing demand for energy and electricity and an important challenge is to meet such needs in an environmentally sustainable way.

### Swedfund's investments through funds in Asia

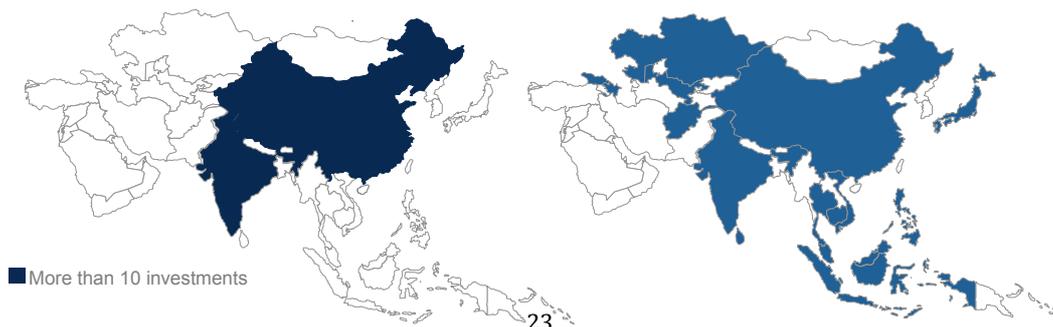
Asia is Swedfund's second largest destination for its investments committed through funds. By the end of 2009, Swedfund had committed 269m SEK to four funds in Asia, which are managed by four different fund managers: Baring India Private Equity Fund II, China Environment Fund III, Green Investment Asia Sustainable Fund I, and Sichuan Small Investment Fund. The fund managers Baring Private Equity Partners, Tsing Capital, Aloe Private Equity, and SEAF are locally represented in 16 Asian countries with 26 offices.

By the end of 2009, the four funds in Asia had invested Swedfund's capital in 33 portfolio companies located in India and China. The total amount of Swedfund's capital which was invested through funds in Asia was 139m SEK, representing 43% of Swedfund's total fund investments.

India and China are the two largest fund investment destinations in Swedfund's entire fund portfolio. India is the largest fund investment destination, with 80m SEK of Swedfund's capital invested in 12 companies, representing nearly 25% of Swedfund's total invested capital through funds. China is Swedfund's second largest fund investment destination with 59m SEK of Swedfund's capital invested in 21 companies, accounting for 18% of Swedfund's total investments through funds.

Swedfund's investments in funds: 33 portfolio companies in 2 Asian countries

Swedfund's fund managers have 26 offices in 16 countries in Asia



## 4. Regional reviews

The portfolio companies in Asia are of varying sizes and operate in several sectors. Cleaner technologies and ICT are the two largest sectors, with 77m SEK of Swedfund's capital invested in 16 companies, and 27m SEK invested in 5 companies, respectively. These two sectors combined represent 75% of Swedfund's fund investment portfolio in Asia. Other sectors where Swedfund's capital is invested in Asia through funds are financial services (11m SEK), agribusiness (9m SEK), healthcare (8m SEK) and industry and materials (7m SEK).

Swedfund's largest investment in Asia through funds is [Greenko](#) (13.5m SEK), which is described in detail in the Cleaner Technologies industry chapter. Swedfund's second largest investment in Asia through funds is [Auro Mira Energy](#) (11.3m SEK), a cleaner technologies company in India with an investment from Baring India Private Equity Fund II. Auro Mira Energy generates and distributes renewable energy, including wind-power, hydroelectricity and biomass projects. Swedfund's third largest investment in Asia through funds is another company of the Baring India Private Equity Fund II, [Infrasoft Technologies](#) (10.3m SEK), an Indian ICT company.

Swedfund's investments through funds in Asia provide employment opportunities and generate tax revenues to the local governments. Swedfund's 33 portfolio companies in Asia through fund investments employ 11,500 people and paid 48m SEK in taxes to local governments.

Largest investment destination by value (m SEK)

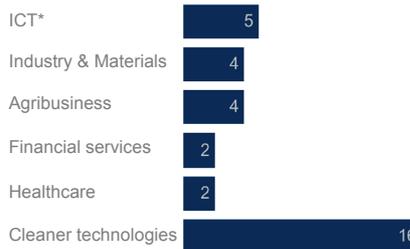


Largest investment destination by number of portfolio companies



Portfolio companies by sector (number of companies)

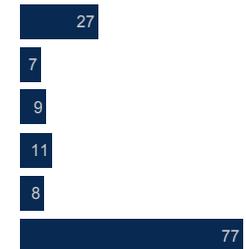
Total = 33 companies



\*Information and communication technologies

Portfolio value by sector

Total value 139m SEK



### 4.3 Eastern Europe

#### Swedfund's investments through funds in Eastern Europe:

18 portfolio companies in 3 countries

Investments in 3 funds through 3 fund managers in Eastern Europe

108.3m SEK committed capital

91m SEK invested capital

48m SEK share in portfolio companies at investment value

7,700 people employed\*

75m SEK in local taxes paid\*

\* As per available data

Swedfund's investments through funds in Eastern Europe include portfolio companies in the Balkans, the Baltic countries, and Russia. Most of the countries in Eastern Europe experienced rapid growth and major economic progress during the last decade, but have been worse hit by the global financial and economic crises than other emerging market regions.

The Baltic countries (Estonia, Latvia, and Lithuania) are now members of the European Union, and in the process of entering the EMU. These countries averaged almost 10% annual growth during the last decade, but have experienced dramatic declines of 10-20% during the last two years of economic recession. In Russia, the largest economy of the region, GDP has followed a similar pattern; unemployment is predicted to rise to 13% by the end of 2010. Since the peace agreement in 1995, Bosnia & Herzegovina has made remarkable progress in its transition to become a mid-income country. After several years of steady GDP growth, poverty has decreased substantially, although it is by no means extinct. With an estimated GDP per capita of 1,759 EUR, Kosovo is one of the poorest economies in Europe.

#### Swedfund's investments through funds in Eastern Europe

Eastern Europe represents Swedfund's third largest investment region through funds. Swedfund has committed 108m SEK in capital to 3 funds that invest in the region: Askembla Growth Fund, Horizonte and Mint Capital II. The 3 fund managers Askembla Asset Management, Horizon Venture Management, and Mint Capital are locally represented in 9 countries with 11 offices in Eastern Europe. By the end of 2009, Swedfund's fund managers had invested 48m SEK of Swedfund's capital in 18 portfolio companies in Eastern Europe.

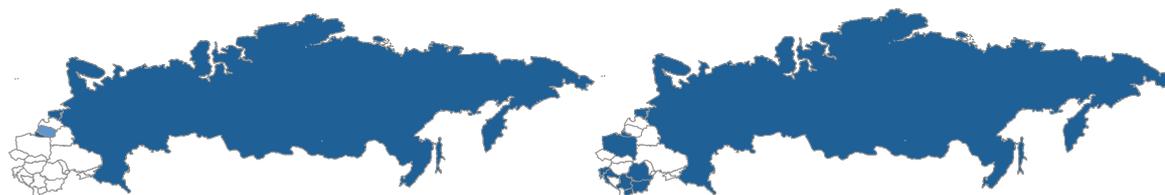
The portfolio companies of Swedfund's fund managers in Eastern Europe are currently all located in Russia and the Baltic states. The Horizonte fund, which has been exited and partly written off by Swedfund, was invested in portfolio companies in Bosnia & Herzegovina and in Kosovo. The single largest investment destination for Swedfund through funds in Eastern Europe is Russia, with 21m SEK of Swedfund's capital invested in 8 companies. Russian fund portfolio companies represent 7% of Swedfund's total fund investments. Some of the Russian portfolio companies also have operations in other countries in the region, including in Ukraine. The second largest investment destination in Eastern Europe for Swedfund's fund investments, and Swedfund's sixth largest fund investment destination globally, is Estonia, with 21m SEK of Swedfund's capital invested in 8 companies. The third investment destination for Swedfund in the region is Lithuania, with 6m SEK of Swedfund's capital invested in 2 companies.

Swedfund's largest investment in Eastern Europe through funds is **Bauhof** (4.8m SEK), an Estonian consumer goods & services company which benefits from an investment from the Askembla Growth Fund. The company is a home improvement, garden equipment and construction material retailer. Swedfund's second largest investment in Eastern Europe through funds is another portfolio company of the Askembla Growth Fund, **Sportland** (4.3m SEK), a consumer goods & services company in Estonia.

Swedfund's fund managers' portfolio companies in Eastern Europe are of different sizes and operate in several sectors. Consumer goods & services is by far the largest investment sector, with 23m SEK of Swedfund's capital invested in 8 companies. This sector represents almost half of all Swedfund's

Swedfund's investments in funds: 18 portfolio companies in 3 Eastern European countries

Swedfund's fund managers have 11 offices in 9 countries in Eastern Europe



■ 6-10 investments  
■ 1-5 investments

#### 4. Regional reviews

##### Swedfund's largest investments through funds in Eastern Europe:

Bauhof (Ehitus Service), Estonia  
Consumer goods & services  
4.8m SEK

Sportland, Estonia  
Consumer goods & services  
4.3m SEK

Property Development Invest, Estonia  
Infrastructure  
4m SEK

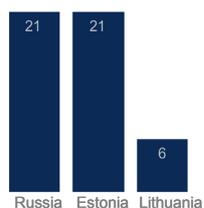
Verysell, Russia  
ICT  
3.4m SEK

investments through funds in the region. Other large sectors where Swedfund's capital is invested in Eastern Europe through funds are industry & materials (9m SEK), ICT (9m SEK), and agribusiness (8m SEK).

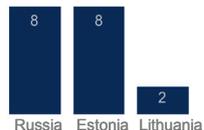
Swedfund's 18 portfolio companies through fund investments in Eastern Europe employ 7,700 people and paid 75m SEK in taxes to local governments.

As Swedfund's current policy is to invest in countries outside the European Union, Swedfund cannot make any new investments in Estonia, Latvia, or Lithuania. The current investments in the Baltic States are associated with the Askembla Growth Fund, which was initiated in 2002.

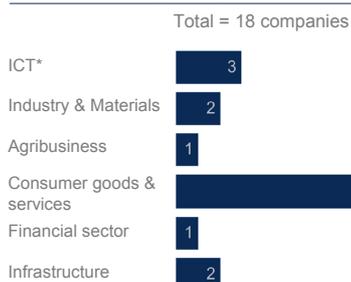
Largest investment destination by value (m SEK)



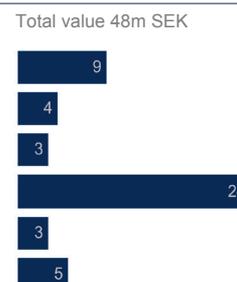
Largest investment destination by number of portfolio companies



Portfolio companies by sector (number of companies)



Investments by sector



\*Information & communication technologies

## 4.4 Latin America

### Swedfund's investments through funds in Latin America:

2 portfolio companies in 1 country

Investments in 3 funds through 3 fund managers in Latin America

56m SEK committed capital

56m SEK invested capital

4.8m SEK share in portfolio companies at investment value

907 people employed\*

130m SEK in local taxes paid\*

\* As per available data

Swedfund had committed 56m SEK to three funds which invested in Latin America: Corporacion Financiera Ambiental, Central America Investment Fund and Carlsson Bolivia Fund. The former two funds are fully exited, and Carlsson Bolivia Fund is in the process of exiting its remaining two portfolio companies.

Swedfund's investments in Latin America are all relatively old and have not been financially successful. Going forward, Swedfund does not plan to prioritize Latin America as an investment destination for funds.

Swedfund's investment share in the two remaining portfolio companies in Latin America is 4.8m SEK. 907 people were employed in these businesses, which paid 130m SEK in taxes to the Bolivian government.

Swedfund's investments in funds: 2 portfolio companies in 1 Latin American country



## 5. Industry sector reviews

Swedfund's investments through funds span across many industry sectors.<sup>50</sup> The sectors with the largest investments from Swedfund through funds are financial services (including microfinance), cleaner technologies and information and communication technologies (ICT).

### 5.1 Financial services (including microfinance)

#### The importance of financial services for development<sup>51</sup>

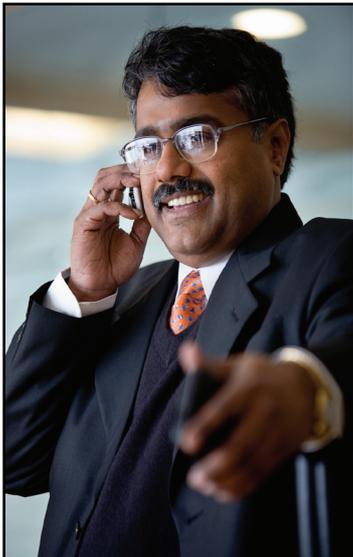
**Swedfund's investments through funds in financial services (including microfinance):**

73m SEK invested

9 portfolio companies and 13 MFI investments in 16 countries

5 funds invest in financial services

Financial services are often underdeveloped and in short supply in poor countries, especially in sparsely populated rural areas. The lack of access to financial services is an important barrier to economic growth. Businesses need access to financial services to invest, grow, and develop, but credit is often limited or expensive, especially for small businesses. Individuals in poor countries often also lack access to financial services for their savings and insurance purposes. In Uganda, for example, only 15% of households save in financial institutions. Numerous studies have shown that the development of the financial services sector leads to higher rates of capital accumulation and higher levels of per capita income. Financial institutions also provide relatively high-skilled jobs and are an important source of tax revenues for governments.



Microfinance institutions (MFIs) provide financial services to low-income clients, often persons that previously lacked access to banking and related services. Small borrowers are often self-employed or managers of small firms, and use credit to start or grow their small businesses and generate income for themselves and their families. Microfinance has proven to be one of the most effective means of reducing poverty: effectively helping poor people to help themselves. Microfinance has also proven to be commercially viable and thereby an interesting investment opportunity beyond its development value. Women are prominent users of microfinance products, and often demonstrate very high repayment rates for their loans.

#### Swedfund's investments in financial services through funds

Five of the funds to which Swedfund has committed capital have invested in financial services. Through these funds, Swedfund has 73m SEK invested in financial service institutions, including small and large banks and microfinance institutions. Capital invested in microfinance institutions accounts for 13m SEK. Swedfund's investments through

Swedfund's fund managers have investments in financial services companies and microfinance institutions in 16 countries



funds in financial services comprise 9 financial service companies and 13 microfinance institutions, which are located in 16 countries: Algeria, Burkina Faso, Cameroon, Côte d'Ivoire, Ghana, India, Malawi, Mozambique, Niger, Nigeria, Russia, Senegal, Sierra Leone, South Africa, Tanzania, and Togo.

Swedfund's largest investment through

5. Industry sector reviews

**Swedfund's largest fund investments in financial services:**

- [Financial Bank \(Togo\) 18.4m SEK](#)

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- [NSIA \(Côte d'Ivoire\) 11.3m SEK](#)

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- [JRG Securities \(India\) 7.8m SEK](#)

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- [Intercontinental Bank \(Nigeria\) 5.6m SEK](#)

funds in financial services is an investment by ECP Africa Fund II: [Financial Bank](#) (18.4m SEK), a Togo-based regional commercial banking holding company with operations spanning 5 countries in West and Central Africa. Financial Bank covers regions with some of the lowest rates of bank penetration in the world, and ventures into the microfinance sector through its local affiliates. Swedfund's second largest fund investment in financial services is an investment by ECP Africa Fund III: [NSIA](#) (11.3m SEK), an Ivorian group comprising two banks and 19 insurance companies covering 11 countries in Africa. Through Baring India Private Equity Fund II, Swedfund's capital is invested in [JRG Securities](#) (7.8m SEK), which through its subsidiary JRG Fincorp operates brokerage of equities, derivatives and commodities on the leading stock exchanges in India and also runs insurance brokerage. Through ECP Africa Fund II, Swedfund's capital is invested in Nigeria-based [Intercontinental Bank](#) (5.6m SEK). Having experienced a rapid increase of assets since an industry-wide merger in 2005, Intercontinental Bank is currently rated as the fifth largest bank in Sub-Saharan Africa by the Financial Times.

Swedfund's investments through funds in microfinance institutions (excluding large banks venturing into microfinance through affiliates) amount to 13m SEK, which is invested in 13 African microfinance institutions. All of these investments are in the AfriCap II fund portfolio. The largest of Swedfund's microfinance investments through the AfriCap II fund is [SOCREMO](#) (2.9m SEK), a regionally leading microfinance institution jointly owned by local and private organizations and the government of Mozambique, which offers SME loans, savings accounts, foreign exchange, money transfers and time deposit accounts. Such services are also offered by Swedfund's second largest microfinance investment through the

**Investments by region (m SEK)                      Number of companies by region**

<p>Total: 73m SEK</p> <table border="0"> <tr><td>1 Africa</td><td>81%</td></tr> <tr><td>2 Asia</td><td>15%</td></tr> <tr><td>3 East</td><td>4%</td></tr> </table>	1 Africa	81%	2 Asia	15%	3 East	4%	<p>Total: 22 companies</p> <table border="0"> <tr><td>1 Africa</td><td>86%</td></tr> <tr><td>2 Asia</td><td>9%</td></tr> <tr><td>3 East</td><td>5%</td></tr> </table>	1 Africa	86%	2 Asia	9%	3 East	5%
1 Africa	81%												
2 Asia	15%												
3 East	4%												
1 Africa	86%												
2 Asia	9%												
3 East	5%												



AfriCap II fund, [Susu Microfinance Bank](#) (1.9m SEK), which was established in June 2006 as a privately owned microfinance bank with the objective of providing microfinance services in Lagos under the new microfinance policy prepared by the Central Bank of Nigeria.

**Case 5 - An example of successful expansion of micro-finance across Africa: AfriCap**

The AfriCap funds provide capital to microfinance institutions (MFIs). Swedfund committed 20m SEK to AfriCap fund II, which has invested in 13 MFIs providing financial services across Africa to low-income clients. The informal sector in Africa hosts many promising entrepreneurs who often face complications in accessing the capital required to start-up, run and expand their businesses. The fund was initiated in order to mobilize such capital in a manner that delivers high financial returns to its investors.

Between 2007 and 2008, the number of borrowers grew remarkably for many of the MFIs in AfriCap fund II's portfolio. For MFI Afrique Emergence & Investment in Côte d'Ivoire, the number of borrowers grew by 470%, from 1,100 to 6,300. OIBM Malawi and Women's World Banking Ghana also demonstrated impressive growth in the number of borrowers: 250% from 13,361 to 34,000 and 80% from 3,500 to 6,400, respectively. The typical loan size in the MFI portfolio of AfriCap's fund II ranges from USD 50-100 for the MFIs that focus on the smallest companies, to about USD 1,100 for those that focus on larger companies. An estimated two-thirds of the clientele of the MFIs in the AfriCap fund II portfolio are women.

Sources: Mecene Investment (2009) *Social and Environmental Report of the AfriCap Portfolio*; updated as per AfriCap Microfinance Investment Portfolio Review 2009-12-31.

## 5.2 Cleaner technologies

**Swedfund's investments through funds in cleaner technologies:**

76.9m SEK invested

16 portfolio companies in 2 countries

4 funds invest in cleaner technologies



### The importance of cleaner technologies for development

The term cleaner technologies refers to products or services that reduce inputs, energy consumption, waste, or pollution while improving operational performance, productivity, or efficiency. In the light of increasing concern for the environmental impact of human activities, cleaner technologies has become a fast growing investment sector. Global revenues for solar photovoltaics, wind power, and biofuels expanded from 75.8bn USD in 2007 to 115.9bn USD in 2008, and new global investment in clean energy increased 4.7% from 148.4bn USD in 2007 to 155.4bn USD in 2008.<sup>52</sup> Carbon emissions trading has encouraged raised demand for alternative sources of energy, such as solar or wind energy from developing countries. Carbon markets are currently worth about 126bn USD, and the value is expected to rise further.<sup>53</sup>

The expansion of cleaner technologies has multiple benefits for local populations. New sources of energy can prove to be not only cleaner, but also more cost efficient. Improved solutions for waste management can significantly improve the livelihoods of people in poor regions, where sewage or industrial wastes are often discharged into open lots or waterways without treatment.

Renewable energy in China is often cited as a commercially very promising cleaner technologies opportunity, due to increasing demand for electricity, the negative side-effects of conventional energy sources such as coal, and the Chinese government's willingness to promote domestic technologies.<sup>54</sup> With a large and rapidly growing economy, China is adding the equivalent of 2,000 MW to its energy-generating capacity every week. China hosts advanced technologies in solar power and photovoltaic production, which with appropriate financial and political backing has the potential to obtain a globally leading position. India similarly is making advancements in renewable energy as the only domestic energy alternative to its highly polluting coal.

### Swedfund's investments in cleaner technologies through funds

Swedfund's investments through funds in cleaner technologies amounts to 77m SEK, invested in 16 portfolio companies through four funds. Swedfund's 16 portfolio companies in cleaner technologies through fund investments are located in China and India.

Swedfund's largest fund investment in cleaner technologies is [Greenko](#) (13.5m SEK), which is described in

Swedfund's fund managers have investments in cleaner technologies companies in 2 countries



detail below. Swedfund's second largest fund investment in cleaner technologies is [Auro Mira Energy Company Private Limited](#) (11.3m SEK), through an investment by Baring India Private Equity Fund II. The company was founded in December 2005 to develop projects in

**Swedfund's largest fund investments in cleaner technologies:**

[Greenko \(India\) 13.5m SEK](#)

[Auro Mira Energy \(India\) 11.3m SEK](#)

[Neo-Neon Holdings Ltd. \(China\) 9.5m SEK](#)

[AlphaPET \(India\) 9.3m SEK](#)

the renewable energy sector such as wind-energy, small-hydroelectricity and biomass projects. Swedfund's third largest fund investment in cleaner technologies is [Neo-Neon](#) (9.5m SEK), a producer of LED illumination products and a portfolio company of China Environmental Fund III. Through the same fund, Swedfund's capital is also invested in [China Hydroelectric Corporation](#) (6.3m SEK), a fast growing consolidator, operator and developer of hydropower plants, [Eastern Well](#) (6.3m SEK), a renewable energy services provider, and [ET Solar](#) (4.9m SEK), a vertically integrated solar energy equipment manufacturer and turn-key solutions provider with operations and offices throughout China and the rest of the world.



**Case 6 - Providing clean energy to India: Greenko**

Through Green Investment Asia Sustainable Fund I, 13.5m SEK of Swedfund's capital is invested in the diversified clean energy developer Greenko. The company has become one of India's fastest growing independent power producers since it was started "from scratch" by Green Investment Asia Sustainable Fund I's manager Aloe in 2006. By 2007, the company employed 226 people, and more than twice as many after another two years. Sales reached 13.9m EUR in 2009. Greenko now has a track record of developing and operating clean energy assets throughout India.

Greenko's portfolio features a well diversified mix of cleaner energy technologies, including hydro, biomass, wind and solar power. Greenko operates in geographically diverse regions of India, which hedges weather related risks for hydro and wind power as well as dependence on the regulatory systems of individual states. In addition to income from power sold to state electricity boards, Greenko generates revenues from the sale of Certified Emission Reductions (CERs), generated from registered clean energy projects, and traded through the European Emission Trading Scheme (ETS). Future income is expected from direct sale of electricity to industrial users and trading of green power from third party renewable assets. Greenko currently has an annual power generation capacity of 570 MW, and annual emission reductions of 388,000 tons of CO<sub>2</sub>. The company aims to build a portfolio of clean energy assets of 1,000 MW by 2015.

Greenko's expansion strategy involves a combination of purchasing green energy projects and winning concessions to develop new green-field power assets, which requires a significant amount of investment capital. The fund manager Aloe made a second investment in Greenko during 2009, after ensuring that the company complied with key ESG conditions.

Being an operator of large hydro power stations, Greenko is involved in projects with significant environmental and social impacts. Through social initiatives aimed at local communities, the company seeks to ensure strong positive net effects locally. Greenko actively seeks participation by qualified local individuals, contractors and businesses in its operations. Charitable activities include providing blankets, clothes, and utensils to flood affected people in Andhra Pradesh, and donations to schools. Local communities benefit from Greenko with access to more electricity. Farmers sell their agricultural residues to Greenko for biomass energy.

Sources: [www.greenkogroup.com](http://www.greenkogroup.com); AESMR from Aloe Private Equity and PWC. Interview with Aloe.

### 5.3 Information & communication technologies (ICT)

#### Swedfund's investments through funds in ICT:

52.2m SEK invested

12 portfolio companies in 7 countries

6 funds invest in information and communication technologies

#### Swedfund's largest fund investments in ICT:

Infrasoft Technologies (India)  
10.3m SEK

Injtegra Software Serv. (India)  
7.9m SEK

Secova E-services (India)  
6.4m SEK

Wananchi Group (Kenya)  
6.1m SEK



#### The importance of ICT for development

Information & communication technologies (ICT) can allow companies in developing countries to operate more efficiently, reach new customers and suppliers, and discover new opportunities for investment and finance. For individuals, ICT can improve access to goods, services and knowledge. People can connect with their families and discover new opportunities. Skilled manpower and human resources can be used more efficiently and extensively through ICT, and ideas can be exchanged to build competences and promote innovation. Governments can improve control of their administration, and citizens can gain influence into political decision processes, thus manifesting opportunities to fight corruption and promote democracy.

An increase in telephone and internet penetration is both directly and indirectly associated with economic growth. A study by the International Finance Corporation (IFC) on the impact of mobile phones in developing countries indicates that a 10% increase in telephone usage can lead to a direct GDP gain of 0.6%.<sup>55</sup> The popularized term "global digital divide" refers to the disparities in rates of internet access between developed and developing countries in the world; internet penetration (users per capita) is still less than 7% in Africa, compared to 52% in Europe and 74% in North America.<sup>56</sup> Africa has the lowest rate of fixed telephone lines worldwide, which in turn constrains broadband access via ADSL but makes it a fast growing market for mobile telephony.

India illustrates the potential for ICT investments in emerging markets. India's 300 million mobile phone users have increased by almost ten million new subscribers every month over the last few years, which makes the mobile telecommunications market in India one of the largest and fastest growing in the world. With centers of highly skilled ICT competence in Mumbai and Chennai, and large underserved rural populations, India has become a test bed for innovations in ICT serving rural users.<sup>57</sup>

#### Swedfund's investments in ICT through funds

Swedfund's investments in ICT through funds amount to 52m SEK invested in 12 companies through 6 funds. Swedfund's ICT portfolio companies through fund investments are located in seven countries: India, Russia, Côte d'Ivoire, Liberia, Estonia, Kenya, and Bolivia.

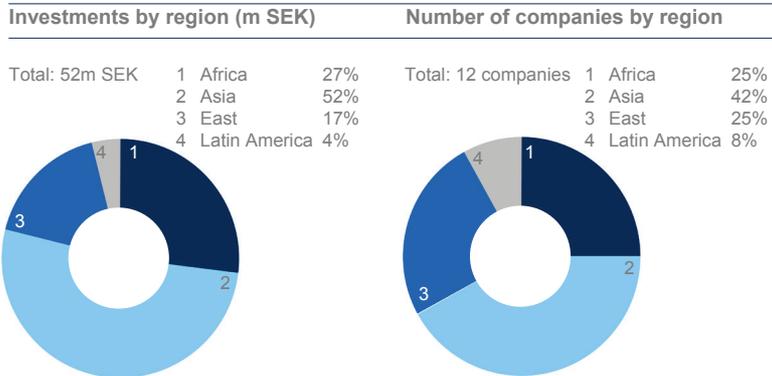
Swedfund's fund managers have investments in ICT companies in 7 countries



Swedfund's largest fund investment in ICT is the Indian company [Infrasoft Technologies Limited](#) (10.3m SEK), a provider of IT services and software products to the financial services industry worldwide with an investment from Baring India Private Equity Fund II. Through Baring, Swedfund is also invested in two other Indian ICT companies: [Integra Software](#)

## 5. Industry sector reviews

**Services Private Limited** (7.9m SEK), a provider of offshore pre-press services to the global publishing industry, and the human resources outsourcing services firm **Secova eServices Limited** (6.4m SEK). Through the ECP III fund, Swedfund's capital is invested in **Wananchi Group** (6.1m SEK), a leading East African media and telecommunications company specializing in pay television and high-speed internet services in Kenya and Tanzania. Through ECP Africa Fund II, Swedfund's capital is invested in **MTN Côte d'Ivoire** (4.3m SEK), the Ivorian branch of the major South Africa-based mobile telecommunications network group with operations in 21 countries in Africa and the Middle East.



### Case 7 - An IT and publishing company from the Baring portfolio: Integra Software Services

Baring India Private Equity Fund II invested 7.9m SEK of Swedfund's capital in Integra in 2006, making the company one of Swedfund's largest individual investments through funds. Led by the Indian husband-wife duo Sriram Subramanya and Anu Sriram, Integra Software Services (Integra) was founded in 2000 and now serves several major global publishers. Through its delivery center in Pondicherry, the company serves corporate clients in the United Kingdom and the United States, who benefit from the lower costs of out-sourcing pre-press services. Integra offers relatively high-skill services including proof reading, coding and typesetting of the content in a document in order to make it ready for printing. The global publishing industry is currently experiencing a growth of 5% per year, and the share currently outsourced to India is far below its potential given the country's low cost and high quality manpower. Integra's strategy is to continue to strive for higher value added services for its customers, increase the productivity of its employees, and enhance its marketing to continue to grow sales. Integra also is looking to expand its operations through merging with other complementary service providers, and has identified potential targets for acquisition in editorial development for the school market or the e-learning space. Integra has provided funds for various charitable organizations. The company has a sewage treatment plant which recycles water from its Pondicherry facility.

Sources: Baring India Private Equity Fund II Limited: Consolidated Annual Report for the year ended December 31, 2009. [www.integra-india.com](http://www.integra-india.com).

## 5.4 Brief industry sector reviews

### 5.4.i Energy & utilities

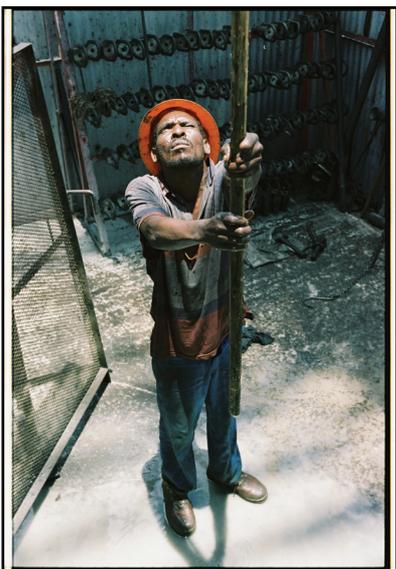
Lack of access to energy is a key impediment for people and business in poor countries. Access to reliable electricity is a prerequisite for any industry and enterprise, as well as to operate healthcare clinics and education facilities. The World Bank reports that power is Africa's largest infrastructure challenge. 30 African countries face regular power shortages and pay high premiums for emergency power. The electrification rate in Sub-Saharan Africa is only 26%, and as low as 8% in rural areas.<sup>58</sup> 700 million people in South Asia similarly do not have power to their homes and businesses.

Without electricity to homes, millions of people are still forced to rely on firewood as their energy source. Gathering firewood is often a daily task which takes hours out of the working and school day for women and children. Burning the wood can result in severe indoor air-pollution. Schoolchildren and students are prevented from studying due to lack of electric light. Frequent power-outs in developing countries force businesses to rely on generators, which substantially increase their operating costs and cause pollution. Illegal connections often cause safety hazards. According to the World Bank, serious infrastructure gaps in reliable access to power can reduce GDP growth by up to 2% every year, and cut business productivity by as much as 40%.<sup>59</sup>

Access to drinking water and basic sanitation remain two of the most urgent problems in developing countries. According to the World Health Organization (WHO), more than one billion people still lack access to safe drinking water, including up to two thirds of the African population. Failure to remove waste is a direct cause of much of the disease burden and child mortality in developing countries. More than two billion people lack access to basic sanitation.

Through investments by three funds, Swedfund has 21.5m SEK invested in five portfolio companies in energy & utilities. Two of the three funds with investments in this sector are focused on Africa and managed by ECP. Swedfund's five fund portfolio companies in energy & utilities are located in five countries: Morocco, Côte d'Ivoire, Nigeria, Bolivia and Tanzania.

Swedfund's largest fund investment in energy & utilities is [Ocean & Oil Investments](#) (6.9m SEK), Nigeria's largest indigenous diversified oil and gas company, which is a portfolio company of ECP Africa Fund II. Another investment of ECP Africa Fund II fund is Swedfund's second largest fund investment in energy & utilities, [Finagestion](#) (5.8m SEK). Through a Paris-based holding company, Finagestion controls several concessions in the water and electricity sectors in Côte d'Ivoire with local subsidiaries operating in water production and distribution as well as power generation, transmission and distribution. Swedfund's investments in energy & utilities also include [Veolia Waters Maroc](#) (3.9m SEK), an investment by the ECP Africa Fund I in the Moroccan subsidiary of the French company Veolia which develops, acquires, and operates companies in the water distribution, wastewater treatment, and electricity distribution sectors, [Corani](#) (2.5m SEK), an investment of the Carlsson Bolivia Fund, and [Artumas](#) (2.4m SEK), another investment by the ECP Africa Fund II in Tanzania.



### 5.4.ii Mining

Mining involves extraction and exploration of natural resources and requires substantial amounts of capital investment. Mining can generate significant government revenues and jobs as well as positive local spin-offs in infrastructure improvements, including improved roads, power, communication, and other facilities. The mining industry can, however, inflict severe damage on the environment if appropriate safeguards are not followed. Mining workers are also often exposed to high health and safety risks. Concession negotiations with governments run the risk of corrupt practices. Criminality and prostitution are frequent issues around mining sites. Provided that mining companies can manage these ESG challenges appropriately, the sector is promising for investments and can be an engine for local development.<sup>60</sup>

Swedfund's fund investments in mining amount to 18.4m SEK, with investments in four companies through the ECP Africa Fund II. The four mining companies are located in four countries: Djibouti, Senegal, Ghana,<sup>61</sup> and the Congo.

Swedfund's largest fund investment in mining is [Salt Investment](#) (8.2m SEK), a Djibouti-based salt production and export company harvesting, washing and exporting salt extracted from Lake Assal, the largest undeveloped salt reserve in the world. Swedfund's second largest fund investment in mining is [Mineral Deposits Limited](#) (4m SEK), which extracts gold and zircon resources in Senegal. Swedfund's two remaining fund investments in mining are [Central African Gold](#) (3.9m SEK) in Ghana and [Anvil Mining](#) (2.4m SEK) in the Congo.

### 5.4.iii Industry & materials

Developing countries and transitional economies are gaining an increasing share of global industrial production, partly because of competitive wage levels compared to richer countries. China, for example, saw a growth in industrial production by 8% during 2009, and Bosnia & Herzegovina experienced a growth of more than 11% during 2008.<sup>62</sup> China and India accounted for 30% of the world's industrial production in 2008, compared to 16% in 1990.<sup>63</sup> Industrial production often provides relatively secure and well-paid jobs compared to traditional sectors like agriculture. With increasing demand for workers in industry, wages are gradually driven up and the people in these countries become wealthier.<sup>64</sup>

[Swedfund's fund investments in industry & materials amount to 18.5m SEK](#) through investments by four different funds. These investments include eight portfolio companies in five countries: Russia, China, Nigeria, Tanzania, and Lithuania.

Swedfund's largest fund investment in industry & materials is [Notore Chemical Industries](#) (5.6m SEK), where Swedfund's capital is invested through the ECP Africa Fund II. Notore is a nitrogenous fertilizer business, which owns and operates an ammonia/urea fertilizer plant in Nigeria. Swedfund's second largest investment in industry & materials is [Spenco](#) (2.4m SEK) in Tanzania. Swedfund's remaining investments in industry & materials include [Fengtai Packaging](#) (2.4m SEK) in China.

### 5.4.iv Agribusiness

Agribusiness includes large and small scale farming, forestry, food processing, and agricultural services. Attention to conservation, labor and working conditions and health and safety are essential to ensure that agribusiness and forestry minimize harm to the environment and safeguard conditions for workers and communities. Another important challenge is to ensure the quality and safety of food products, which has become a growing concern in China where there have been a number of food safety incidents during the last few years. Local competence required to manage the risks involved in agricultural production is often scarce. Fund managers can contribute to improve local standards by bringing know-how of international best practices to their portfolio companies.

[Swedfund's fund investments in agribusiness amount to 19.1m SEK](#), with six portfolio companies from investments by three funds. The six portfolio companies are located in three countries: China, Côte d'Ivoire, and Russia.

Swedfund's largest fund investment in agribusiness is [Thunnus Overseas Group](#) (7.1m SEK), a tuna processing and distribution group with two processing factories in Côte d'Ivoire, in which the ECP Africa Fund III has invested Swedfund's capital. Swedfund's second largest fund investment in agribusiness is [Bai Jia Food](#) (4.0m SEK), a branded instant noodle manufacturer in China, with an investment from the Sichuan Small Investment Fund. Swedfund's remaining fund investments in agribusiness include the fund portfolio companies [Fruzhe](#) (3.0m SEK) in Russia and [Bang Bang Wa](#) (1.8m SEK) in China.

### 5.4.v Healthcare

Improved access to basic healthcare is crucial for development, with poor health and malnutrition still a sad fact of life for large segments of the population in Africa and South Asia. In India, the mortality rate is 76 per 1,000 live births for children under five, and the maternal mortality ratio 450 per 100,000 births. In comparison, the corresponding figures for Sweden were three in both cases.<sup>65</sup> More sophisticated healthcare services are increasingly demanded as emerging economies grow richer. The private healthcare sector in emerging economies is growing. Public health services fall short of meeting the



## 5. Industry sector reviews

needs of the populations in most developing countries and investments in the private healthcare sector are required to provide for these needs.<sup>66</sup> Healthcare in emerging economies also constitutes an important job market for skilled labor including women. In addition to traditional jobs as nurses, physicians, and researchers, an expanding healthcare sector offers job opportunities in business administration, IT and marketing. The Indian healthcare market is expected to grow rapidly, with annual healthcare expenditure projected to grow at 10%, and the number of persons covered by healthcare insurance expected to rise from 100 million to 220 million.<sup>67</sup>

Swedfund's fund investments in healthcare amount to 8.2m SEK, with two portfolio companies through the Baring India Private Equity Fund II. The two portfolio companies are both located in India: [PharmARC Analytic Solutions](#) (5.6m SEK), a growing firm offering market research, analytics and consulting services to the global pharmaceutical industry, and [ReaMetrix](#) (2.6m SEK), an early stage developer of diagnostic solutions for patients with HIV and cancer.

### 5.4.vi Consumer goods & services

Domestic demand for all goods and services increases with income levels. With large populations and increasing income levels, domestic demand for consumer goods and services in emerging economies is projected to grow substantially during the next few years. In poor countries, basic consumer goods such as clothes, toys, furniture, and toiletries are often of low quality, unavailable, or imported at high costs. Local production and increased competition can drive down prices and improve the quality of products offered. The service sector is an important employer, notably also for women.

Swedfund's fund investments in consumer goods & services amount to 29.1m SEK, and include investments in ten portfolio companies through three funds. The ten companies are located in three countries: Estonia, Russia, and Tunisia.

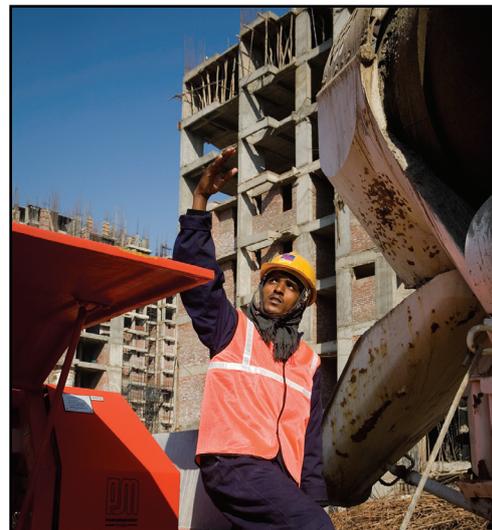
Swedfund's largest fund investment in consumer goods & services is [Bauhof](#) (4.8m SEK), a home improvement, garden equipment and construction material retailer in Estonia, with an investment by Askembla Growth Fund. Swedfund's second largest fund investment in consumer goods & services is [Soci t  d'Articles Hygi niques](#) (4.5m SEK), Tunisia's leading producer of absorbent hygiene products, with an investment by ECP Africa Fund II. Swedfund's remaining investments in consumer goods & services include [Sportland](#) (4.3m SEK) and [Starman](#) (3.0m SEK) in Estonia, and [Mone](#) (2.7m SEK) in Russia.

### 5.4.vii Infrastructure

Lack of adequate infrastructure, including roads, airports, railways and real estate is a serious obstacle to economic growth for developing countries. Efficient commerce requires transportation at reasonable costs, and businesses need office space to operate. Middle income countries such as the Baltic states increasingly demand housing and leisure facilities similar to those of richer countries, which can present attractive investment opportunities.

Swedfund's fund investments in infrastructure amount to 5.2m SEK, through investments by the Askembla Growth Fund in two companies in Lithuania and Estonia.

Swedfund's largest fund investment in infrastructure is [Property Development Invest](#) (4.0m SEK), which designs and builds golf facilities and leisure housing in Lithuania. Swedfund's other fund portfolio company in infrastructure is [Coral Club Arendus](#) (1.1m SEK), a real estate company renting its premises to tenants in Estonia.



## 6. Learning benefits from fund investments

Through engagement with fund managers, Swedfund gathers intelligence about emerging markets, and becomes a more knowledgeable and competent partner for Swedish companies interested in expanding their presence there. There are also opportunities for Swedfund to capitalize on promising investment opportunities identified by fund managers by making parallel direct investments, which illustrates the important complementary benefits of direct and indirect investments.

Through fund investments, Swedfund can share knowledge and contacts about emerging markets with other Swedish investors. Swedish private investors that invest alongside Swedfund include SEB and Länsförsäkringar in Askembla Growth Fund. Sida (the Swedish International Development Cooperation Agency) has been a partner with Swedfund in its investments in the Central America Investment Fund, Corporacion Financiera Ambiental, Fedha Fund, and ECP Africa Fund I.

Overall, Swedfund's investment managers expressed positive experiences in terms of learning through fund investments. Most of the investment managers interviewed for this report were of the opinion that they had gained valuable knowledge about regions or sectors through their fund investments. The case of the ICT industry in India was especially mentioned in terms of the value of lessons learned from the investment activities of the Baring India Private Equity Fund II. Green Investment Asia Sustainable Fund I, which invests in renewable energy in India, was also mentioned as particularly interesting from a learning perspective. Swedfund's investment managers stressed the value of gaining networks and contacts through interactions with fund managers and other investors, important to gauge issues and new opportunities in remote markets and to be able to check the reliability of specific individuals and organizations.

Fund investments have allowed Swedfund to learn from companies which would otherwise be difficult to reach, for example some of the Russian companies in the Mint Capital II fund and the wide-reaching African portfolios of ECP's funds.

Maybe the most important benefit of fund investments, as noted by one of Swedfund's investment managers, is that the local investment professionals managing these funds can demonstrate to Swedfund and other investors that it is actually possible to invest successfully in the most remote markets and act as key reference points for future investment decisions. This is the way for poor countries to become perceived as exciting emerging markets.

*“Investing in funds has proven that it actually works to invest in companies in emerging markets. It is important to have concrete examples as starting points for future successful investments.” (Swedfund investment manager)*

### Case 8 - Establishing a local presence: the Acacia fund and Swedfund's new office in Nairobi

Aureos is a fund manager with investments in small and medium size enterprises (SMEs) in over 50 developing countries, which operates through 25 offices throughout Africa, Asia and Latin America. Aureos was the manager of Acacia, one of the first venture capital funds in Kenya, in which Swedfund was an investor. In 2008, Swedfund bought out the other shareholders of the Acacia fund. The USD 10m deal turned Swedfund into a major direct shareholder in five companies in Kenya, representing a cross-section of the country's industry including a steel company, a manufacturer of bricks and roofing tiles, a microfinance company, a retail company and a manufacturer of food products. The steel company Ahtis is the largest steel producer in the country, with about 900 employees, while the manufacturer Kenya Clay and the retailer Deacons have 300 and 200 employees respectively.

Swedfund had for some time sought to expand its investment presence in East Africa, a mission requiring substantial knowledge about the local markets. Kenya is the strongest economy in the region and a natural hub for commercial and investment expansion. By buying out the other shareholders of Acacia, Swedfund immediately became an important SME investor in Kenya. Some of Swedfund's new directly held portfolio companies, including the retailer Deacons, have started expanding into neighboring countries. Swedfund gained seats on the boards of its new portfolio companies, an ideal platform for learning and influencing. In January 2009, a few months after taking over Acacia, Swedfund opened a local office in Nairobi to serve as a base for further expansion in the region. From its new office in Nairobi, Swedfund is well placed to invest in the region. Private equity is always a local business, which requires presence on the ground.

Sources: Interviews with staff from Swedfund, Aureos and CDC.

### AfriCap II

Fund manager: Mecene Investment

Region: Africa

Total fund size: 42m USD

Swedfund's committed capital: 19.7m SEK

Vintage year: 2007

Investment phase

Capital invested in MFIs: 34m USD

Total number of MFIs: 13

Net IRR: -20.4% (Q4-09)

### Askembla Growth Fund

Fund manager: Askembla Asset Management

Region: Eastern Europe (Baltic)

Total fund size: 867m SEK

Swedfund's committed capital: 58.0m SEK

Vintage year: 2002

Exits under way

Capital invested in portfolio companies:  
751.0m SEK

Total number of portfolio companies: 16

Current number of portfolio companies: 10

Net IRR: n/a

### Baring India Private Equity Fund II

Fund manager: Baring Private Equity Partners

Region: Asia (India)

Total fund size: 176.8m USD

Swedfund's committed capital: 89.3m SEK

Vintage year: 2005

Investment phase

Capital invested in portfolio companies:  
139.5m USD

Total number of portfolio companies: 15

Current number of portfolio companies: 10

Net IRR: negative\*

\* Estimate by Swedfund's investment manager.

## Appendix: Swedfund's 15 fund investments<sup>68</sup>

**AfriCap II:** AfriCap II invests in microfinance and microfinance related institutions that are dedicated to serving those excluded from traditional financial services and committed to commercial viability. AfriCap, which was initiated in 2007, invests across the entire African continent. Being based in Africa allows the fund manager to be close to and have a good understanding of the markets that the fund invests in. The fund's mean investment in a microfinance institution is 1.5m USD. Equity stakes range from 15-30%. By the end of 2009 the fund had succeeded in raising 42m USD in commitments, and had invested in 13 microfinance institutions in 12 countries.<sup>69</sup> The fund is in investment phase. The net IRR for the fund was -20.4% by Q4 2009. Swedfund has committed 19.7m SEK to the fund.

**Askembla Growth Fund:** The Askembla Growth Fund is Askembla Asset Management's second Baltic fund, and was initiated in 2002. The investment activity focuses on majority stakes in established businesses across industries with focus on consumer goods and services. Askembla Growth Fund's portfolio companies have been heavily affected by the recent financial crises in the Baltics. It is too early to forecast the fund's overall financial outcome. The fund has completed exits in some companies, and will continue the exit process as the market improves. The fund has invested in 16 portfolio companies, of which 10 are still held. Swedfund has committed 58.0m SEK to the fund.

**Baring India Private Equity Fund II:** Baring Private Equity Partners has since its founding in 1984 managed several pioneering investments in India. Swedfund has committed 89.3m SEK in Baring's second India fund. The majority of the fund's portfolio companies are ICT companies, or financial services institutions, with highly

### Swedfund's fund investments by fund, year end 2009 (m SEK committed capital)

Total: 739m SEK (87 portfolio companies)

Name of the fund	Fund manager	Region
Fedha Fund	Aureos Capital www.aureos.com	Africa
Corporacion Financiera Ambiental S.A.	EACA	Latin America
Horizonte	Horizon Venture Management www.horizonte.at	East
AfriCap II	Mecene Investment www.meceneinvestment.com	Africa
Sichuan Small Investment Fund	SEAF www.seaf.com	Asia
Central America Investment Fund	Aureos Capital www.aureos.com	Latin America
Carlsson Bolivia Fund	Bolivian Fund Management	Latin America
Mint Capital II	Mint Capital www.mintcap.ru	East
Askembla Growth Fund	Askembla Asset Management www.askembla.se	East
China Environment Fund III	Tsing Capital www.cefund.com	Asia
ECP Africa Fund II	Emerging Capital Partners www.ecpinvestments.com	Africa
Green Investment Asia Sustainable Fund I	Aloe Private Equity www.aloe-group.com	Asia
Baring India Private Equity Fund II	Baring Private Equity Partners www.bpep.com	Asia
ECP Africa Fund I*	Emerging Capital Partners www.ecpinvestments.com	Africa
ECP Africa Fund III	Emerging Capital Partners www.ecpinvestments.com	Africa

\* Also called AIG African Infrastructure Fund as AIG was a large investor in the fund.

<b>Carlsson Bolivia Fund</b>
Fund manager: Bolivian Fund Management
Region: Latin America
Total fund size: 6.2m USD
Swedfund's committed capital: 24.0m SEK
Vintage year: 1998
Exits under way
Capital invested in portfolio companies: 6.2m USD
Total number of portfolio companies: 20
Current number of portfolio companies: 2
Net IRR: n/a (negative)

<b>Central American Investment Fund</b>
Fund manager: Aureos Capital
Region: Latin America
Total fund size: 26.4m USD
Swedfund's committed capital: 23.8m SEK
Vintage year: 1996
Exited*
Capital invested in portfolio companies: 26.4m USD
Total number of portfolio companies: 10
Current number of portfolio companies: 0
Net IRR: -17.2% (Q1-09)
* Investments sold by the fund manager or written off by Swedfund.

<b>China Environmental Fund III</b>
Fund manager: Tsing Capital
Region: Asia (China)
Total fund size: 228.8m USD
Swedfund's committed capital: 73.2 SEK
Vintage year: 2008
Investment phase
Capital invested in portfolio companies: 126.5m USD
Total number of portfolio companies: 12
Current number of portfolio companies: 12
Net IRR: n/a

<b>Corporacion Financiera Ambiental</b>
Fund manager: EACA
Region: Latin America
Total fund size: 10m USD
Swedfund's committed capital: 8.2m SEK
Vintage year: 1996
Exited*
Capital invested in portfolio companies: 26.4m USD
Total number of portfolio companies: 17
Current number of portfolio companies: 0
Net IRR: n/a (negative)
* Investments sold by the fund manager or written off by Swedfund.

skilled employees. Many of the companies' valuations have been written down as a consequence of the financial crisis, resulting in a negative net IRR. The fund has invested in 15 portfolio companies, of which 10 are still held.

**Carlsson Bolivia Fund:** Initiated in 1998, Carlsson Bolivia Fund was Swedfund's first fund investment with a focus on Bolivia. Swedfund has committed 24m SEK to the fund. The fund's investments span several industries in companies with a book value of minimum 1m USD all ready for resale on the Bolivian stock exchange. The fund began exiting its portfolio companies in 2006 at about the same time the newly elected left-wing government began nationalizing the companies that had been privatized in the 1990s, which led to a considerable fall in share prices and liquidity. It has therefore been difficult to sell the shares, and prices have dropped sharply. All but two of the 20 fund portfolio companies have been sold or written off, not giving the investors their money back.

**Central American Investment Fund:** The UK development finance institution CDC was the initiator of Central American Investment Fund (CAIF) in 1996. The fund was later managed by Aureos Capital. CAIF invested primarily in small and medium size enterprises with growth potential in eight countries in Latin America. The fund's investments ranged from 0.5m USD to 5m USD. CAIF invested in 10 companies across the sectors ICT, consumer goods and services and healthcare, among others. Two of the fund's portfolio companies, both in the ICT sector, generated a profit when sold whereas eight companies have been sold or liquidated with a negative result causing a negative net IRR for the fund. Swedfund has committed 23.8m SEK to the fund.

**China Environmental Fund III:** Raised in 2008 China Environmental Fund (CEF) III is managed by Tsing Capital. CEF III has a diversified portfolio in cleaner technologies including solar photovoltaics, energy storage, wind energy, hydroelectric power generation, sustainable agriculture and sustainable transportation. The fund is in the investment phase. It has invested in 12 companies, several of which are small and medium size companies. Swedfund has committed 73.2m SEK to the fund.

**Corporacion Financiera Ambiental:** The fund Corporacion Financiera Ambiental was initiated In 1996 and focused on Latin American small and medium size cleaner technology companies, for example within organic farming and renewable energy. Swedfund has committed 8.2m SEK to the fund. All the 17 portfolio companies have been sold and the fund's financial performance has been weak, not returning the invested capital to its investors.

<b>ECP Africa Fund I</b>
Fund manager: Emerging Capital Partners
Region: Africa
Total fund size: 364.2m USD
Swedfund's committed capital: 90.0m SEK
Vintage year: 2000
Exits under way
Capital invested in portfolio companies: 360m USD
Total number of portfolio companies: 14
Current number of portfolio companies: 1
Net IRR: 17.9% (Q4-09)

<b>ECP Africa Fund II</b>
Fund manager: Emerging Capital Partners
Region: Africa
Total fund size: 453m USD
Swedfund's committed capital: 74.3m SEK
Vintage year: 2005
Monitoring phase
Capital invested in portfolio companies: 377m USD
Total number of portfolio companies: 18
Current number of portfolio companies: 16
Net IRR: 5.2% (Q4-09)

<b>ECP Africa Fund III</b>
Fund manager: Emerging Capital Partners
Region: Africa
Total fund size: 447.5m USD
Swedfund's committed capital: 113.7m SEK
Vintage year: 2008
Investment phase
Capital invested in portfolio companies: 193.0m SEK
Total number of portfolio companies: 4
Current number of portfolio companies: 4
Net IRR: 2.9% (Q4-09)

<b>Fedha</b>
Fund manager: Aureos Capital
Region: Africa
Total fund size: 11.9m USD
Swedfund's committed capital: 7.9m SEK
Vintage year: 1998
Exited*
Capital invested in portfolio companies: 10.4m USD
Total number of portfolio companies: 8
Current number of portfolio companies: 0
Net IRR: -12.29% (Q2-09)

\* Investments sold by the fund manager or written off by Swedfund.

**ECP Africa Fund I:** The ECP Africa Fund I or AIG African Infrastructure Fund was established in 2000 to invest primarily in infrastructure and related industries in Africa. It raised 364.2m USD in commitments from investors, with 90m SEK from Swedfund, and invested in 14 companies. ECP Africa Fund I's investments span across numerous sectors throughout Africa including: telecoms, natural resources, agribusiness, transportation, power and water. The fund's investments typically range in size from 10m USD to 50m USD, in companies having valuations of 25m USD to over 500m USD. ECP Africa Fund I takes significant minority positions, generally 10% to 50% of the company's equity, which typically provide strong minority rights and board representation. The fund is expected to generate a net IRR of 17.9% with the expected exit valuation of the remaining portfolio company.

**ECP Africa Fund II:** ECP Africa Fund II was established in 2005 and is the successor fund to ECP Africa I. The fund has raised 453m USD in commitments from investors, with 74m SEK from Swedfund. The fund has invested in 18 companies in various sectors throughout the African continent including: telecoms, natural resources, financial services, power and water, agribusiness and transportation among others. 16 of these companies are still held. The fund's investments typically range in size from 15m USD to 50m USD. Target companies are generally EBITDA positive and have total valuations in the range of 40m USD to over 500m USD.<sup>70</sup> The fund is in monitoring phase, and the net IRR was 5.2% by Q4 2009.

**ECP Africa Fund III:** Established in 2008 ECP Africa III is the successor fund of ECP Africa II. The fund has raised 447.5m USD in commitments and had invested in 4 companies by year-end 2009. The fund invests in industries that have developed positively due to increased liberalization, improved world market conditions, consolidations, low market penetration and relatively high entry barriers and high growth potential, such as telecommunications, financial services, energy, natural resources, agribusiness, transport, distribution and logistics.

**Fedha:** Initiated in 1998, the Fedha fund is one of the early venture capital funds in Africa created by the UK development finance institution CDC and later managed by Aureos Capital. The fund invested in small and medium size enterprises in Tanzania, mainly across the sectors agribusiness and consumer products and services. The fund's 8 portfolio company investments have typically ranged in size from 0.2m USD to 1m USD. Swedfund has committed 7.9m SEK to the fund. Due to a legal dispute in one of the portfolio companies the fund has not been able to exit the last portfolio company; as a consequence, Swedfund has written off the fund. With a negative net IRR the fund will not give its investors their money back.

**Green Investment Asia Sustainable Fund I**

Fund manager: Aloe Private Equity
Region: Asia
Total fund size: 26.5m EUR
Swedfund's committed capital: 83.9m SEK
Vintage year: 2007
Investment phase
Capital invested in portfolio companies: 7.4m EUR
Total number of portfolio companies: 2
Current number of portfolio companies: 2
Net IRR: n/a

**Horizonte**

Fund manager: Horizonte Venture Management
Region: Eastern Europe (Balkan)
Total fund size: 15.5m EUR
Swedfund's committed capital: 8.6m SEK
Vintage year: 1998
Exited*
Capital invested in portfolio companies: 11.9m EUR
Total number of portfolio companies: 6
Current number of portfolio companies: 0
Net IRR: n/a

\* Investments sold by the fund manager or written off by Swedfund.

**Mint Capital II**

Fund manager: Mint Capital
Region: Eastern Europe
Total fund size: 128.8m USD
Swedfund's committed capital: 41.7m SEK
Vintage year: 2004
Monitoring phase
Capital invested in portfolio companies: 97.6m USD
Total number of portfolio companies: 9
Current number of portfolio companies: 8
Net IRR: -27.95% (Q4-08)

**Sichuan Small Investment Fund**

Fund manager: SEAF
Region: Asia (China)
Total fund size: 22.5m USD
Swedfund's committed capital: 22.7m SEK
Vintage year: 2000
Exits under way
Capital invested in portfolio companies: 21.6m USD
Total number of portfolio companies: 9
Current number of portfolio companies: 9
Net IRR: 29% (Q4-09)

**Green Investment Asia Sustainable Fund I:** Aloe Private Equity manages a number of environment funds. The Green Investment Asia Sustainable Fund (GIASF) I, which was initiated in 2007 and to which Swedfund has committed 83.9m SEK, invests in growth companies, mainly in India and China, in the cleaner technologies sectors: clean energy (biomass, biofuels), waste recycling and energy saving processes (air and water cleaning). The fund typically invests between 5m to 25m EUR per company. The fund is in the investment phase and had invested in two companies by year-end 2009.

**Horizonte:** The Horizonte Fund invests in small and medium size growth companies in Bosnia & Herzegovina and Kosovo. The fund's investments span several sectors including industry and materials, agribusiness and healthcare. Horizonte has invested in 6 portfolio companies since its initiation in 1998, and Swedfund has committed 8.6m SEK to the fund. The fund is in the process of exiting its remaining portfolio companies, and Swedfund has completely written off the fund. Net IRR is still not available for the Horizonte fund.

**Mint Capital II:** Established in 2004, Mint Capital II was the second fund raised by the fund manager Mint Capital. The fund's portfolio companies operate mainly in Russia, while some companies also have business operations in Ukraine, Kazakhstan, Poland and Hungary. The fund invests in manufacturing companies, for example within packaging and confectionary, and in business service companies, for example within logistics, financial services and ICT. Mint Capital seeks to acquire controlling or significant minority stakes, generally above 20%. The fund has invested in 9 portfolio companies, of which 8 are still held. Swedfund has committed 41.7m SEK to the fund. The investment size is normally between 5m USD and 15m USD per company. Like many Russian companies, several of the fund's portfolio companies were heavily affected by the financial crises of 2008, resulting in a net IRR of -28% (Q4-08) for the fund.<sup>71</sup>

**Sichuan Small Investment Fund:** The Sichuan Small Investment Fund invests in small and medium size Chinese companies. The fund was initiated in 2000, and Swedfund has committed 22.7m SEK to the fund. The majority of the 9 portfolio companies, which are all still held, are manufacturing companies producing food and other consumer goods, industry goods and materials. Investment size ranges from 0.5m USD to 2.25m USD per investment. The fund manager SEAF invests in more than 30 countries around the world through an international network of 19 offices. SEAF currently manages 5 Asian funds. The Sichuan Small Investment Fund's portfolio companies are profitable overall. Forecasted net IRR is 29% (Q4-09).<sup>72</sup>

## Endnotes

<sup>1</sup> For all SEK / USD and SEK / EUR conversions, we have used the spot exchange rates as of August 18, 2009. Exchange rates: SEK / USD = 7.23, SEK / EUR = 10.21.

<sup>2</sup> Amount invested by the fund multiplied by Swedfund's investment share in that fund and converted to SEK as per note 1 above.

<sup>3</sup> Amount invested by the fund multiplied by Swedfund's investment share in that fund and converted to SEK as per note 1 above.

<sup>4</sup> Amount invested by the fund multiplied by Swedfund's investment share in that fund and converted to SEK as per note 1 above.

<sup>5</sup> Marie Rosencrantz, founder of Rosencrantz & Co, helped CDC develop and implement its monitoring and evaluation framework and processes.

<sup>6</sup> ECP Africa Fund I is also called AIG African Infrastructure Fund as AIG was a large investor in the fund.

<sup>7</sup> [www.ecpinvestments.com](http://www.ecpinvestments.com).

<sup>8</sup> [www.ecpinvestments.com](http://www.ecpinvestments.com).

<sup>9</sup> *Voices of the Poor*, The World Bank, 2009.

<sup>10</sup> Where available, the employment data is from Q4 2009. From this date, data was available for 7 of the 11 funds with current portfolio company investments, reporting employment data for 50 of their 52 portfolio companies. For the remaining 4 funds with 35 portfolio companies, employment data is from mid-year 2009.

<sup>11</sup> The International Labour Organisation (ILO) *In search of a new indicator for labour market analysis: The labour dependency ratio and the labour dependency ratio*.

<sup>12</sup> Where available, the tax payment data is from Q4 2009. From this date, data was available for 5 of the 11 funds with current portfolio company investments, reporting tax payment data for 28 of their 32 portfolio companies. For 4 funds with 40 portfolio companies, tax payment data is from mid-year 2009. Data was not available for 2 funds and 15 portfolio companies.

<sup>13</sup> Data from Greenko on financial performance.

<sup>14</sup> *From poverty to prosperity: understanding the impact of investing in small and medium enterprises*, SEAF, 2007  
[www.seaf.com](http://www.seaf.com)

<sup>15</sup> As per the IFC / World Bank definition on SMEs.

<sup>16</sup> Swedfund's Environmental Guidelines were approved by the Board of Swedfund on December 16 1998 and revised on October 28, 2005. Swedfund's Code of Best Practice was approved by the Board of Directors of Swedfund on February 11, 2003 and revised on October 28, 2005.

<sup>17</sup> Swedfund *Sustainability report 2008*.

<sup>18</sup> Swedfund *Sustainability report 2008* and [www.swedfund.se/en/this-is-swedfund/environment-and-ethics](http://www.swedfund.se/en/this-is-swedfund/environment-and-ethics).

<sup>19</sup> Review of fund managers by Price WaterhouseCoopers (PWC) for Swedfund 2009 based on Annual Environment and Social Monitoring Reports.

<sup>20</sup> The most recent reports are available at [www.seaf.com/impact](http://www.seaf.com/impact), and SEAF expects to have a new report published this year.

<sup>21</sup> Annual Environmental and Social Monitoring Report (AESMR) requested by PWC from ECP for the reporting period 2008-06-30 to 2009-06-30.

<sup>22</sup> ECP (2009) *Development Impact Report 2009. Contributing to Africa's Development One Company at a Time*.

<sup>23</sup> ECP (2008) *Global Capital, Local Impact. Facilitating Africa's Development One Company at a Time*.

<sup>24</sup> ECP (2008) *Global Capital, Local Impact. Facilitating Africa's Development One Company at a Time*.

<sup>25</sup> Review of fund managers by Price WaterhouseCoopers (PWC) for Swedfund 2009 based on Annual Environment and Social Monitoring Reports (AESMR).

<sup>26</sup> Review of fund managers by Price WaterhouseCoopers (PWC) for Swedfund 2009 based on Annual Environment and Social Monitoring Reports (AESMR).

<sup>27</sup> [www.cefund.com](http://www.cefund.com)

<sup>28</sup> Review of fund managers by Price WaterhouseCoopers (PWC) for Swedfund 2009 based on Annual Environment and Social Monitoring Reports (AESMR).

<sup>29</sup> ECP (2009) *Development Impact Report 2009. Contributing to Africa's Development One Company at a Time*.

<sup>30</sup> [www.cdcgroup.com/Aureos\\_Capital\\_Partners.aspx](http://www.cdcgroup.com/Aureos_Capital_Partners.aspx).

<sup>31</sup> ECP (2009) *Development Impact Report 2009. Contributing to Africa's Development One Company at a Time*.

<sup>32</sup> Communication with Aloe.

<sup>33</sup> [www.cdcgroup.com/Aureos\\_Capital\\_Partners.aspx](http://www.cdcgroup.com/Aureos_Capital_Partners.aspx).

<sup>34</sup> CDC (2009) *Growth for Development*.

<sup>35</sup> Converted to SEK as per note 1 above.

<sup>36</sup> ECP (2008) *Global Capital, Local Impact. Facilitating Africa's Development One Company at a Time*.

<sup>37</sup> ECP (2008) *Global Capital, Local Impact. Facilitating Africa's Development One Company at a Time*.

<sup>38</sup> ECP (2008) *Global Capital, Local Impact. Facilitating Africa's Development One Company at a Time*.

<sup>39</sup> ECP (2009) *Development Impact Report 2009. Contributing to Africa's Development One Company at a Time*.

<sup>40</sup> AESMR from Aloe Private Equity and PWC, and communication with Aloe.

<sup>41</sup> ECP (2009) *Development Impact Report 2009. Contributing to Africa's Development One Company at a Time*.

<sup>42</sup> ECP (2008) *Global Capital, Local Impact. Facilitating Africa's Development One Company at a Time*.

<sup>43</sup> [www.horizonte.at](http://www.horizonte.at)

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- <sup>44</sup> Review of fund managers by Price WaterhouseCoopers (PWC) for Swedfund 2009 based on Annual Environment and Social Monitoring Reports (AESMR).
- <sup>45</sup> During the 1990s, several companies were privatized in Bolivia; when the government led by President Evo Morales' Movement for Socialism (Movimiento al Socialismo) was elected in 2005, these companies were again to be nationalized. The Carlsson Bolivia Fund, which was initiated in 1998 and began exiting in 2006, has experienced complications in selling its stocks and has as a result had to sell at unfavorable prices.
- <sup>46</sup> World Bank *Global Economic Prospects* 2010 and [www.worldbank.org/afr/](http://www.worldbank.org/afr/).
- <sup>47</sup> [www.ilo.org](http://www.ilo.org) and [www.worldbank.org/afr/](http://www.worldbank.org/afr/).
- <sup>48</sup> *Regional brief*, [www.worldbank.org/afr](http://www.worldbank.org/afr). GDP at market prices (2005 USD).
- <sup>49</sup> "Africa's Golden Moment Has Come," Says World Bank Vice President for Africa, [www.worldbank.org](http://www.worldbank.org).
- <sup>50</sup> In this chapter, the division into industrial sectors resembles the CDC (2009) report *Growth for Development*. The CDC report provided important input for the sections describing development impacts of the sectors.
- <sup>51</sup> [www.wikipedia.org/wiki/Microfinance](http://www.wikipedia.org/wiki/Microfinance). CDC (2009) *Growth for Development*.
- <sup>52</sup> CleanEdge (2009) *Clean Energy Trends* [www.cleaneedge.com](http://www.cleaneedge.com).
- <sup>53</sup> Capoor, K., and Ambrosi, P. (2009) *State and Trends of the Carbon Market 2009*, World Bank.
- <sup>54</sup> Caprotti F. "China's cleaner technologies landscape: The renewable energy technology paradox", *Sustainable Development Law & Policy*, 2009.
- <sup>55</sup> IFC 2008 Annual Report *Creating Opportunities*
- <sup>56</sup> Internet World Stats [www.internetworldstats.com/stats.htm](http://www.internetworldstats.com/stats.htm).
- <sup>57</sup> Dossani, R., D.C. Misra, and R. Jhaveri *Enabling ICT for Rural India*, Shorenstein APARC/National Informatics Centre.
- <sup>58</sup> ECP (2009) *Development Impact Report 2009. Contributing to Africa's Development One Company at a Time*.
- <sup>59</sup> The World Bank *Energy Access* [www.worldbank.org](http://www.worldbank.org)
- <sup>60</sup> CDC (2009) *Growth for Development*.
- <sup>61</sup> Central African Gold is a Pan-African gold producer with production assets in Zimbabwe and exploration assets in Mali and Botswana. Following political and economic instability in Zimbabwe, fund investments were used to expand the company's production in Ghana.
- <sup>62</sup> The World Fact book (CIA) [www.cia.gov/library/publications/the-world-factbook/rankorder/2089rank.html](http://www.cia.gov/library/publications/the-world-factbook/rankorder/2089rank.html). These figures are not exact as the CIA includes construction, manufacture, and mining, whereas the present report treats mining and industry as two separate industry sectors.
- <sup>63</sup> UNIDO [www.unido.org](http://www.unido.org)
- <sup>64</sup> CDC (2009) *Growth for Development*.
- <sup>65</sup> [www.mdgmonitor.org](http://www.mdgmonitor.org).
- <sup>66</sup> CDC (2009) *Growth for Development*.
- <sup>67</sup> India Brand Equity Foundation, [www.ibef.org/industry/healthcare.aspx](http://www.ibef.org/industry/healthcare.aspx).
- <sup>68</sup> IRR from Swedfund's investment managers.
- <sup>69</sup> [www.meceneinvestment.com](http://www.meceneinvestment.com).
- <sup>70</sup> [www.ecpinvestments.com](http://www.ecpinvestments.com).
- <sup>71</sup> [www.mintcap.ru](http://www.mintcap.ru).
- <sup>72</sup> [www.seaf.com](http://www.seaf.com).

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## Photos

- p. 3: The village phone system at MTN Uganda enables coffee traders in rural areas to check market prices on cell phones.
- p. 8: Call center at MTN Uganda in Kampala.
- p. 10: South Asian street scene.
- p. 13: The main switch center at MTN Uganda head quarters in Kampala.
- p. 15: Local contrasts of the developing world.
- p. 16: Knowledge transfer and education at Quipo, India.
- p. 18: The Maputo port in Mozambique is a central trading hub for all of South East Africa.
- p. 19: Beef snacks processing in China.
- p. 28: Executive at work at Quipo, India.
- p. 30: Hydroelectric power from Greenko, India.
- p. 31: Wind power from Greenko, India.
- p. 32: There are more than half a million mobile phone users in Uganda and the number is steadily increasing.
- p. 34: The company Reflex manufacture instruments for measuring drilling holes.
- p. 35: Quality control at a Sino-Swedish pharmaceutical company in Wuxi, China.
- p. 36: The company Quipo is renting out machinery and equipment for construction work.

Photos by Victor Brott/Swedfund, except for the photos on p. 30 and p. 31 which are from [www.greenkogroup.com](http://www.greenkogroup.com).

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This report provides an overview of Swedfund's investments through funds in emerging markets. Investments through funds have a number of positive development effects for local economies and populations. This report illustrates the effects of Swedfund's investments in funds from the perspectives of their financial performance, positive effects for local economies, the environmental, social and governance (ESG) performance of their underlying investee companies, and broader private sector development effects in terms of increased availability of products, services and infrastructure which benefits local populations. Aggregated data from Swedfund's fund investment portfolio is presented, along with a number of case studies. Swedfund's investments in funds are presented in terms of their geographic spread as well as for different industry sectors.

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Swedfund ([www.swedfund.se](http://www.swedfund.se)) is Sweden's development finance institution, with a mandate to contribute to sustainable economic growth through private sector investments in developing and transition countries.

Rosencrantz & Co ([www.rosencrantzandco.com](http://www.rosencrantzandco.com)) is a consulting firm providing advisory services within development finance, responsible and social impact investments, CSR, evaluations, and related areas.

