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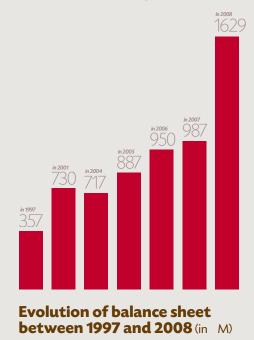


P. 40-45 **Meeting the long-term** financial needs of investors

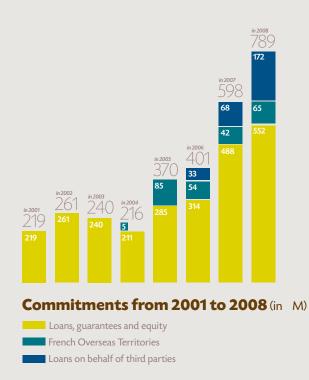
P. 46-57 **Operational** and financial results



PROPARCO's strong growth and financial results once again demonstrate the soundness of a model based on long-term financing for the private sector in emerging and developing economies.



Total balance sheet





Between 2007 and 2008 PROPARCO's financing and cofinancing helped to:

- Connect 290 000 people to an electricity supply network
- Connect 36 million people to a telecoms network
- Contribute 461M to state revenue
- Support 4 555 corporates in their SER processes
- Grant microfinance loans to 160 000 people
- Generate 250 MW of renewable or recuperated energy
- Secure or create 240 000 direct or indirect jobs
- Save 2.4M teq CO₂ of greenhouse gas emissions annually
- Achieve record results in 2008: 20.8M of net income and 42M of net banking income



Investing in a sustainable future

One of the cornerstones of public development policies is to support the private sector. It is indeed the first factor for growth and job creation and provides a fiscal base that allows States to play their role in terms of redistribution and regulation. It also provides basic social services and plays a major role in access to water, energy, transport and communication. Finally, it is a key player in issues related to the environment, social responsibility and governance.

By promoting the model of a patient and accountable investor, PROPARCO catalyses private investment in the economies of emerging and developing countries and gives local and international players incentives to invest in a sustainable future.



Board of **Directors**

Chairman

Mr. Jean-Michel SEVERINO (9)

Vice-Chairman

Mr. Michel JACQUIER

Directors

Mr. Jean-Michel SEVERINO Mr. Michel JACQUIER (3) Mr. Patrice MOLLIE (16) Mr. Pierre JACQUET (14) Mr. Gilles BERGIN (7) Mr. Jean-Jacques MOINEVILLE Mrs. Anne PAUGAM

Permanent representatives

Agence Francaise de Développement Mr. Jean-Michel DEBRAT

Natixis Mr. Jean-Claude GARDETTE (2)

Crédit Agricole SA Mr. Eric HOTELLART (15)

Banque Fédérale des Banques Populaires **Mrs. Josiane LANCELLE** (5)

Development Bank of Southern Africa M. Admassu TADESSE

BNP Paribas Mr. Philippe SECHAUD (11)

CDC Enterprises Portfolio Mr. Pascal LAGARDE

DEG Mr. Winfried NAU (4)

Financière OCEOR Mr. Christian CAMUS

BMCE Mr. Jaloul AYED

Corporate officers

Chairman Mr. Jean-Michel SEVERINO

Chief Executive Officer Mr. Luc RIGOUZZO (10)

Deputy Chief Executive Officer Mr. Philippe BASSERY

Deputy Chief Executive Officer Mr. Laurent DEMEY

Non-voting directors and observers

Statutory non-voting directors

French Ministry of the Economy, Industry and Employment Mr. Stéphane CIENIEWSKI French Ministry of Foreign and European Affairs

Mr. Michel PROM (6)

Non-statutory non-voting directors

Aga Khan Fund for Economic Development **Mr. Lutaf KASSAM**

West African Development Bank Mr. Oumar DIARRA

COFACE Mrs. Maëlia DUFOUR (13)

Suez Mrs. Micheline BOSSAERT

Veolia Water Mr. Patrice FONLLADOSA (12)

Government Commissioner

Mr. Daniel BESSON (1)

Mr. Jean-Louis LECOUFFE

AFD Works Council Representative

Auditors

MAZARS Mrs. Odile COULAUD, M. Guillaume POTEL KPMG Mr. Arnaud BOURDEILLE, M. Malcom MC LARTY



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Jean-Michel Severino Chairman



Chairman's **message**

"In the current context of the global crisis which gained momentum in the second half of the year, PROPARCO's 2008 results underscore once again that its model for patient and sustainable investment in South economies works."

Yet this model stands out from the one that has predominated for the past decade in most financial institutions in OECD countries because:

• investment projects are selected for their high developmental impacts in emerging economies that North institutions often see as being too risky;

• it provides innovative financial solutions for longterm investment in developing countries and, in particular, promotes private sector provision of basic services for the poorest;

• it accepts more conservative financial leverage than classic banks in order to ensure that PROPARCO's equity capital will allow it to both face its risks and maintain medium-term financial profitability;

• it has extremely high requirements in terms of social and environmental impacts.

Yet despite this high level of constraint, in 2008 PROPARCO managed to pursue its strong growth with commitments rising to 800 million euros. It also tripled its share capital and opened it to new shareholders from the North and South and showed satisfactory profitability.

These results are particularly significant in view of the current global crisis which was partly caused by the practically exclusive allocation of global savings to sometimes speculative investments in North economies seen – a little too hastily - as much safer than those of the South, whereas the latter benefit from strong structural growth.

We are at the beginning of a multipolar 21st century and the results of PROPARCO and other development

institutions that finance the private sector in emerging countries show that it is profitable to make long-term investments in developing countries. Indeed, these investments are essential to help emerging economies bring about the global growth that we would all ultimately benefit from.

It is therefore imperative for PROPARCO to fully play its countercyclical role in 2009, and to pursue its mission to invest in the private sector in developing economies despite the crisis. This continued increase in commitments will, of course, go hand in hand with greater vigilance and closer risk monitoring. Indeed, despite a historically low level of non-performing loans in 2008, its portfolio - like those of its sister companies - may be affected by the crisis in 2009.

PROPARCO will not be playing this role alone, but as a European player benefiting from a network of public and private partners that allows it to provide a wide range of solutions for its South clients.

Finally, in 2009 PROPARCO will be extending its geographical area of activity to all countries in Latin America and Asia. This expansion will not be to the detriment of Africa which will remain PROPARCO's top priority.

In the context of the financial crisis, 2009 will be a year of opening, vigilance and reactivity for PROPARCO. Its teams have achieved exceptional results over the past three years and I know I can be fully confident in their capacity to allow PROPARCO to fulfil its countercyclical role and support "green and inclusive" growth in emerging countries.



A North/South platform of investors for development

PROPARCO enjoys a public-private governance that gathers investors from both the North and South and sets it apart from the other European Development Finance Institutions (EDFIs).

This North-South community of investors shares a common commitment to sustainable development and carries potential for strong synergies. Indeed, PROPARCO benefits from both input from its private shareholders in terms of governance and strategic piloting and multifaceted support from Agence Française de Développement (AFD) in terms of financial backing and its experience in different geographical areas, networks, human resources and logistics. PROPARCO can consequently provide innovative solutions to investors

and borrowers and fully play its role as a catalyst for private investment in emerging countries.

PROPARCO's recent capital increase (300M) further opened up its governance to private partners whose share rose from 31% in 2007 to 43% in 2008. The presence of AFD alongside French and European banks and financial institutions and major African partners (DBSA, BOAD, BMCE) makes PROPARCO a real platform of North/South public and private investors that works to support development.

Shareholders

Aga Khan Fund for Economic Development Agence Française de Développement Banque de Tunisie Banque Fédérale des Banques	Dexia Crédit Local Dollfus Mieg & Cie Financière OCEOR Gras Savoye Mr. Xavier de BAYSER
Populaires Banque Marocaine du Commerce Extérieur (BMCE) BNP Paribas Bank of Africa Bouygues CDC Enterprises Portfolio	Natixis Natixis Asset Management Saga Saur International SES SA SIPH Société Générale
Compagnie française d'assurance pour le commerce extérieur (COFACE) Crédit Agricole SA DEG Development Bank of Southern Africa	Socotec International Somdiaa Suez Véolia West African Development Bank

Capital breakdown

59.04

26.01% French financial institutions

Agence Française de Développement

11.16% International financial institutions

3.40% Investors 0.39% Funds and ethical foundations Luc Rigouzzo Chief Executive Officer



2008 results and 2009 outlook

2008 has in many ways been a milestone year in PROPARCO's history.

In a context marked by the global crisis, PROPARCO continued on its rapid growth path that began three years ago and completely overhauled its governance by successfully conducting a major capital increase. It also considerably increased its means of intervention, particularly in terms of its equity. Finally, this paradigm shift led to the decision at the beginning of 2009 to extend the Company's area of activity to all developing countries. Thirty years after it was created, PROPARCO is on the way to joining the group of major development agencies that finance the private sector in all emerging economies, alongside FMO, DEG and IFC.

The first part of the year was dominated by the capital increase which was successfully concluded in May 2008. PROPARCO raised 300M of capital from a wide range of public and private investors and partners from the North and South. This underpins the unique aspect of its North/South and Public/ Private governance and heralds the way forward into a historically unprecedented multipolar world where local players - particularly in Africa - are taking charge of financing their own development in a balanced partnership with donors.

2008 was also once again a year of strong growth for PROPARCO's teams. PROPARCO has been experiencing extremely rapid growth since 2006 – over 30% a year – and in 2008 reached a volume of commitments of 789M (+31% compared with 2007), including 100M in equity.

This growth, combined with the effects of the capital increase, led to a sharp rise in the balance sheet which reached 1.6bn against less than one billion in 2007. Despite the cri-

is, risks were also held in check since the rate of non-performing loans reached a historically low level. This once again underscores how PROPARCO's model as a patient and cautious investor in difficult, yet promising, economies works.

This growth has also been African. Despite continuing to extend activities to other economies, PROPARCO remains anchored to Africa which continues to be a priority and represents 55% of its commitments. PROPARCO consequently remains the most Africa-oriented development finance institution.

Finally, this growth has led to ever-increasing developmental impacts. In a context where international financing is becoming increasingly scarce, PROPARCO has maintained and scaled up its support to developing economies and systematically measures the impacts of its operations. Thanks to PROPARCO's financing or cofinancing, over the past two years 290 000 people have been connected to an electricity network, 250 MW of renewable energy have been produced, greenhouse gas emissions have been reduced by 2.4M teq.CO₂ annually, 160 000 people have gained access to microfinance loans, 240 000 jobs have been secured or created and 461M have been contributed to state revenue.

In 2009 we will be building on the achievements of 2008. This strong growth, the size PROPARCO has reached and its increased responsibilities as a development financer in this period of crisis all constitute organisational, human and managerial challenges that the Company must address. PROPARCO will also have to face the crisis - the scale and duration of which is unknown - which will bring immediate opportunities for financing, but will especially carry risks for the existing portfolio. In 2009, PROPARCO will consequently be placing special emphasis on integrating its new staff members, training them, and enhancing quality procedures in all its processes. This is what is required for us to pursue our growth.

PROPARCO's area of activities is expanding, its clients are scaling up their requests for support and the role of development agencies is now more important than it has ever been before. PROPARCO must now successfully achieve its transformation into a global, yet African, institution. It must be more profitable while scaling up its support to development, and it must be both cautious and active in the world's riskiest regions. By building its growth on the sectoral and geographical skills it has gained over the past thirty years, PROPARCO aims to become a company with global expertise that can export its experience in long-term financing to all emerging countries and work for its shareholders, its partners and its clients that together make up this community of investors for development.



Committed teams of skilled professionals

PROPARCO benefits from the know-how and expertise of multidisciplinary teams that are recognised as specialists in risk-taking in developing countries. This allows PROPARCO to operate in geographical areas ranging from very poor countries to emerging countries.



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PROPARCO's activity area

X PROPARCO's Offices



A global **network**

Paris

Tunis

Lagos

Nairobi

annesburg

PROPARCO is today building its own network via eight regional offices in Africa, Latin America and Asia. It also benefits from a network of 40 agencies shared with AFD which allows it to cover over 60 countries worldwide.

Bangkok

In 2008, PROPARCO scaled up its presence in Morocco

PROPARCO has been active in Morocco since 1992. It is scaling up its activity in 2009 and two additional investment officers have joined the Casablanca office which covers Morocco, Mauritania and the entire Maghreb region for private equity investment activities. PROPARCO's main activities in Morocco are to support SMEs via direct equity investments or investments in local and regional investment funds, major banking institutions via equity and refinancing operations, major industry and infrastructure projects via long-term financing and, finally, microfinance institutions via long-term refinancing.



A mission: **to catalyse private investments** in South countries

PROPARCO was created in 1977 on the conviction that the private sector is a key player for the development of South economies.

Indeed, the private sector

is the first factor for growth and job creation and provides a fiscal base for states to play their role as regulators and investors in the general interest,

is a cornerstone for environmental, social and governance concerns,

• can become an intermediary for public policy by directly providing certain basic services in social sectors.

However, productive sector financing in developing

countries has not yet sufficiently risen to the challenge. The recent financial crisis has highlighted the paradox in investment flows between North and South economies.

Savings in the South still provide low amounts of financing to local productive sectors and mainly finance North economies. At the same time, North investors consider that it is risky to finance long-term investment in developing economies. PROPARCO's core mission is therefore to catalyse private investments in emerging and developing countries in order to support growth, sustainable development and the Millennium Development Goals (MDGs).

PROPARCO seeks to promote the model of a patient and accountable investor and to show by its achievements and its impacts that profitability and development go hand in hand. Its activity is tailored to the level of development in each country and focuses on the productive and service sectors, financial systems, infrastructure and private equity investment. The Company invests in geographical areas ranging from major emerging countries to very poor countries - particularly Africa - and has a high level of requirements in terms of Social and Environmental Responsibility.

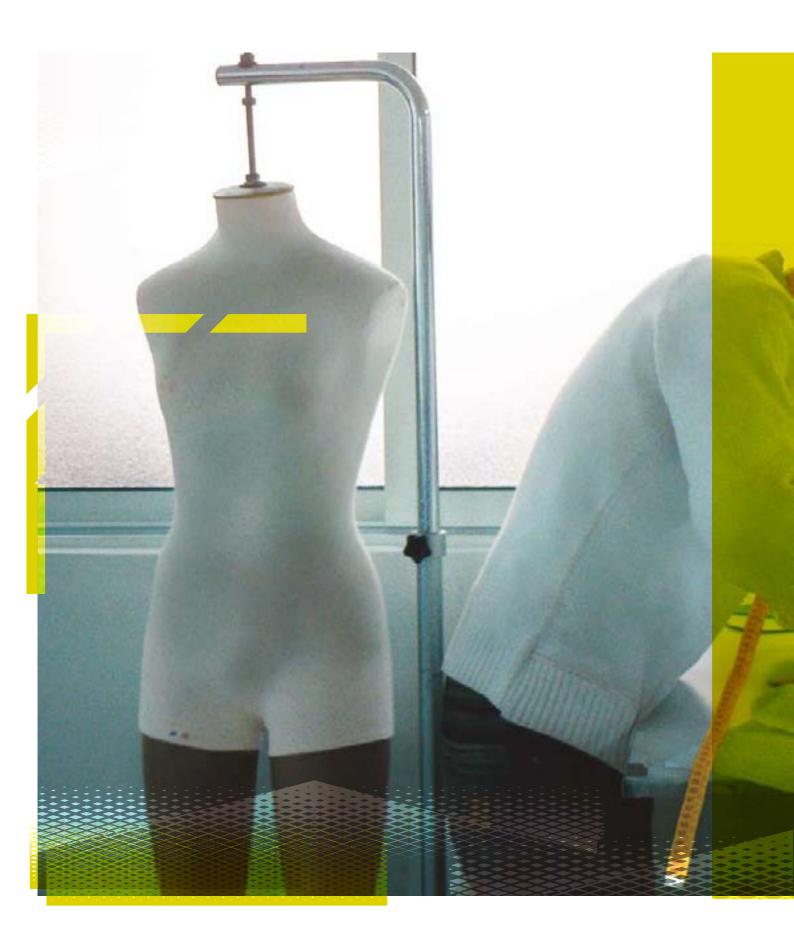
PROPARCO carries out its mission with a wide range of financial products that are tailored to the requirements of private investors in developing countries (loans, equity, guarantees, financial engineering). Thirty years after its creation, PROPARCO, with its developmental impacts and constantly rising results, shows how it is possible to finance activities in emerging and developing countries that are economically viable, socially equitable, environmentally sustainable and financially profitable.

Financing activities that are economically viable, socially equitable, environmentally sustainable and financially profitable. The first factor for growth and job creation

1977

77	Économique (PROPARCO) by the Caisse Centrale de Coopération Économique (now Agence Française de Développement). The initial capital of this entity specialised in private sector equity investments stood at FF10M.
> 1988	Private French shareholders took equity stakes in PROPARCO (banks and private operators mainly working in Sub-Saharan Africa).
1991 91	PROPARCO became a financial institution. It raised its capital to FF22.5M and in addition to equity investments, was able to provide medium or long-term loans, guarantees and all types of expertise and consulting services for business dealings.
> 1993 93	New capital increase to 68.6M.
> 1996 96	Activities extended to all ACP countries (Africa, Caribbean and Pacific), the Maghreb, Cambodia, Lao PDR and Vietnam.
> 2001 01	New capital increase to 142.5M.
> 2002	Launch of AVERROES Finance, the first "fund of funds" in the Mediterranean, comanaged by PROPARCO and CDC SME teams.
> 2003	DEG (Deutsche Investitions-und Entwicklungsgesellschaft) became a shareholder of PROPARCO. Activities extended to China, Thailand, Turkey, Jordan and Egypt.
> 2004 04	Signing of an Establishment Agreement in Jordan, office opened in Bangkok, Private Equity Department set up.
> 2005	Activities developed in French Overseas Territories. Activities scaled up in East Asia.
> 2006	Activities extended to India, Brazil and Pakistan.
> 2007	Offices opened in Lagos and Sao Paolo.
> 2008	PROPARCO tripled its capital to 420M. Casablanca office expanded.

Creation of the Société de Promotion et de Participation pour la Coopération



2008, a year of change

2008 was a milestone year. PROPARCO had been evolving considerably for several years, had experienced strong growth, expanded its activities and geographical areas of activity, and had strengthened its set-up. All this was embodied in a sizeable capital increase that laid the foundations for a new North/South governance.



Capital increase: a stronger base of private partners and shareholders from the South

PROPARCO had been experiencing rapid growth since 2006 which meant its equity needed to be strengthened. A process to increase its capital was launched at the end of 2007.

The operation also provided an opportunity to strengthen PROPARCO's unique public-private nature that sets it apart from other development finance institutions. The capital increase was a new stage in the process to open up to private shareholders that had begun in the 1990s. The 300M operation was concluded in May 2008. Its success bears witness to the interest of this patient, ethical model for investment in emerging or developing countries. AFD's share capital was reduced from 70 to 59% and a number of players from the South, including Morocco's BMCE, South Africa's DBSA, the West African Development Bank (BOAD), Bank of Africa Group and the Aga Khan Group, either took an equity stake or strengthened their inter-

ests. This evolution underscores the increasing importance of African financial players that were former clients and have now become fully-fledged partners in PROPARCO's governance. This distinctive governance - based on shareholders that adhere to PROPARCO's development investor model - allows the Company to benefit from support and advice from market players, to lead a community of investors that share common interests, and also to affirm its development mission.

A roundtable on the topic "Private Investment, a Vehicle for Sustainable Growth in South Countries" was held on 19 June 2008 to mark PROPARCO's capital increase and gathered leaders from French, African and Mediterranean banks that are PROPARCO's shareholders. The event was chaired by Mrs Christine Lagarde, France's Minister of the Economy, Industry and Employment and participants included Mrs Dominique Aubernon (BNP Paribas), Mr. Philippe Dupont (Banques Populaires Group), Mr. Charles Milhaud (Caisses d'Epargne Group), Mr Abdoulaye Bio-Tchane (BOAD), Mr. Othman Benjelloun (BMCE), and Mr. Admassu Tadesse (DBSA).

> By raising its share capital to over 500M, PROPARCO now has the resources to pursue its growth and develop its equity investment activities.







Mrs Christine Lagarde, France's Minister of the Economy, Industry and Employment made a point of underscoring how PROPARCO had evolved, "30 years ago it was a small subsidiary, but it has built on its successes and grown into a key player for France's official development assistance as we see it".





South African bank raises equity interest in PROPARCO



"We are thrilled about the idea of strengthening our partnership with PROPARCO and AFD"

By Admassu Tadesse, Development Bank of Southern Africa

"We are thrilled about the idea of strengthening our partnership with PROPARCO and AFD, as we are doing with a number of financial institutions in Europe and elsewhere. Today everyone knows that Africa has high growth rates. We are all also aware of the need to scale up productive investments in order to make this growth sustainable. Yet the level of local savings is still too low. It is therefore imperative to find financial resources elsewhere. We have been keenly following PROPARCO's investment levels on the continent and we decided to raise our equity interest to 5% of its capital. This equity investment first gives us an opportunity to create leverage on our own investment capacities via PROPARCO. It also allows us to be part of the EDFI European network and to help extend it. It is an opportunity to build a form of region-to-region cooperation.

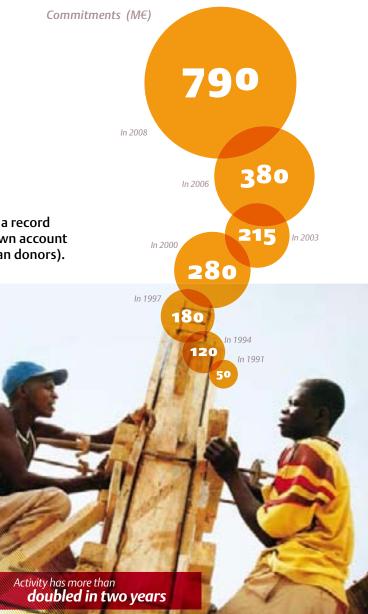
The aim of our presence is to help create a catalytic effect on investors in order to raise the level of private sector financing in Africa."



A year of **exceptional** growth

Total gross commitments at 31 December 2008 reached a record €789.4M, i.e. up 31% on 2007, and included €617M on own account and €172.4M on behalf of third parties (AFD and European donors).

PROPARCO's activity has doubled in two years and quadrupled in four years. Disbursements have also risen to an exceptional 494*M*, more than double the 2007 figure. This growth has been backed up by improvements both in productivity and in the risk division. The number of projects submitted has indeed risen considerably (59 projects) which means the average size of own account loans has been reduced. It is the first time that PROPARCO has managed to both grow and reduce the size of its individual risks at the same time. Equity investments have also risen to a record level of almost 100M.



This growth has been underpinned by a combination of factors

• in-house factors: constant field network expansion (offices opened in Lagos and Sao Paulo in 2007 alone) and increase in size of Paris teams,

continued growth in Africa,

• and partly by opportunities brought about by the global financial crisis in the second half of 2008. This strengthened donors' countercyclical role and led PROPARCO to take over from commercial banks that had withdrawn from some major infrastructure projects. Commitments on behalf of third parties also saw fast growth thanks to the effectiveness of the subparticipation agreement signed with AFD and the use of the European Financing Partners (EFP) cofinancing vehicle for European donors. The activity on behalf of third parties generates recurrent commission fees for PROPARCO and allows it to invest in large-scale projects and share the associated risks. This growth led PROPARCO to review its Business Plan since medium-term targets had already been exceeded in 2008.



Bigger teams a new set-up

PROPARCO had to strengthen its teams due to this continued growth and the need to control it in terms of both risk and quality. The teams were already among the most productive in the sector prior to this growth.

A recruitment program was launched with AFD support and in 2008 PROPARCO hired some thirty new staff members for Paris and its offices abroad. A new inhouse integration and training program was designed in early 2009. It is worth nothing that AFD Group and its activities attract skilled and motivated candidates. This development has been balanced between investment, control and support activities. The recruitment program

will continue in 2009 with a target of a 110-strong staff in Paris and roughly thirty in the international network by the end of the year. PROPARCO has also made changes to its set-up in order to implement this growth



A new management team

strategy and has overhauled its management team. A General Secretariat has been set up to group financial, risk, portfolio and legal activities. It is managed by one of the Deputy CEOs, the other Deputy CEO supervises operational teams and the international network. This set-up will enhance risk control and further support PROPARCO's rapid growth.

It is worth nothing that AFD Group and its activities attract skilled and motivated candidates



Addressing the specific challenges of emerging and developing countries

PROPARCO's activities are tailored to each geographical area and aim to address three priority challenges:

- ▶ to boost African growth,
- ▶ to promote regional integration and employment
- in the Mediterranean,
- to improve energy efficiency in major emerging countries.



A priority: **to boost growth in Africa**

Africa has been experiencing strong and steady growth for several years. This highly-positive trend was confirmed in 2008 with a 5.4% growth rate compared to 2007.

The continent is, however, particularly exposed to the unstable global economy, despite fundamentals that give signs of strong growth. Indeed, Africa has been hit hard by the global surge in oil and food prices and urban populations have been badly affected. In addition, the recent financial crisis may have had little effect on Africa's banking and financial systems, but it will herald the return of a credit crunch and will constitute an ad-

ditional stumbling block to investors' already restricted access to financial resources. PROPARCO's mission to support and boost sustainable growth in Africa is consequently more than ever before a priority.



In 2008, PROPARCO committed 398M in Africa (including 280M in Sub-Saharan Africa, i.e. four times the 2004 figure). This accounts for 55% of allocations to foreign countries and includes 115M for infrastructure, 35M for corporates, 225M for the financial sector and 21M for investment funds. These figures make PROPARCO the most Africa-oriented European Development Finance Institution.

BMCE, a major player in Africa's banking sector

"Africa is calling us and we have an exceptional advantage, we are African."

By Othman Benjelloun, Chairman of BMCE*

"The African continent, market and population are booming. In 25 years the continent will be home to two billion men and women. Our experience in Morocco and with our partner BOA has helped us to extend our activities to twelve African countries and we now have a 2 000-strong staff. Over the next ten years we plan to cover Africa's 55 nations via a network of branches that will specifically develop banking and insurance products. Africa needs infrastructure. We want to invest in this sector alongside PROPARCO and other partners. Africa is calling us and we have an exceptional advantage, we are African."

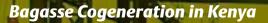
*BMCE holds 2.5% of PROPARCO's capital.

In 2008, PROPARCO focused its activities on the main sectors that create sustainable growth in Africa:

- The development of reliable and accessible infrastructure.
- Direct financing for corporates and support for local entrepreneurs.
- Support for banking and financial intermediation.
- Environmental preservation.

Bagasse cogeneration plant in Kisumu, Kenya





Kenya's sugar market is to be opened to imports from COMESA countries (Common Market for Eastern and Southern Africa) and import quotas will be phased out as early as in 2010. Mumias Sugar Company (MSC), Kenya's biggest sugar producer, is consequently implementing a program to review its production policy and diversify its activities, in particular via a bagasse cogeneration project. MSC has now become

almost entirely energy independent thanks to the construction of a bagasse-based cogeneration plant in 2000. Since May 2005 it has been selling a production surplus of roughly 2 MW of electricity to the national electric utility, KPLC, and aims to pursue this activity by building a new plant. It will subsequently be able to sell almost 25 MW to KPLC and develop bagasse surpluses that are currently unused. PROPARCO is financing the whole project via a \$35M senior loan with AFD subparticipation. The project will directly raise Kenya's energy capacity thanks to renewable energy development. CO₂ emissions will consequently be reduced in line with the Millennium Development Goals and planters' incomes will increase since MSC is planning to reallocate 10% of the value of electricity sales to them.





Solar Panel Manufacturing in China

"Climate change is today seen as a threat by all – with the exception of a handful of radical sceptics."

By Mr. Liansheng Miao, Chairman and CEO of YINGLI SOLAR

"Climate change is today seen as a threat by all, with the exception of a handful of radical sceptics. New regulations on the world's main markets testify to this concern and show there is a political will to support the development of renewable energies and ensure energy supplies for countries.

Yingli Green Energy Holding Company Limited is today one of the world's leading photovoltaic module manufacturers and retails solar panels on several markets which include China, Germany, Spain, Italy, South Korea, Belgium, France, and the USA.

Yingli will rapidly reach grid parity - mean-

ing it will be able to offer renewable energy at a price that matches, or is cheaper than, electricity currently distributed on the market – thanks to the recent fall in polysilicium prices, controlled manufacturing costs and its impending acquisition of polysilicium manufacturing capacities.

Yingli Solar decided to pursue its expansion strategy by launching the construction of a new integrated production line for 200 MW modules. The total investment cost amounts to \$200M. PROPARCO, FMO and DEG are participating in the financing, each via a \$25M senior loan."



Improving energy efficiency in emerging countries

The extension of PROPARCO's activities to major emerging countries in 2004 marked a major turning point for the Company. It has since extended its activities to China, Thailand, Indonesia, India, Pakistan and Brazil and has opened offices in several of these countries.

AFD Group's target in these major countries is to tackle - in partnership with local players - the negative externalities of their strong growth, particularly those that have global impacts. This "Global Public Goods" strategy focuses on preserving biodiversity and combating major pandemics and climate change. PROPARCO's activities in these countries mainly focus on climate change: renewable energies (production or equipment manufacturing), energy efficiency in businesses...

The amount of carbon saved by PROPARCO's activities in these major emerging countries must consequently be measured and projects approved in

2008 will help save 508 000 teq CO_2 . These activities to improve energy efficiency in the growth of emerging

countries are systematically designed with support from local players. Since 2008, PROPARCO has consequently developed an intermediation component alongside its direct project financing. This component now accounts for almost half its activity in the

Preserving biodiversity, combating major pandemics and climate change. area. It aims to support banks or local investment fund teams and help to raise their awareness in terms of climate issues and encourage them to develop a profitable financing activity for this type of project. It also includes the dissemination of technical tools to measure the carbon balance of projects.

Since 2004, thanks to the development of its activities in emerging countries, PROPARCO has built up "climate" expertise that is unique among the donor community. This expertise is now deployed for projects in both Africa and the Mediterranean.



Manufacturing natural gas compressors for fleet vehicles in Brazil

One of the main targets for PROPARCO's activities in emerging countries is to reduce greenhouse gas emissions. The Aspro project is in line with this target and promotes the use of gas as an alternative source of energy to petrol for road transport in Brazil. The project involves participating - via a senior loan - in financing the acquisition of a company that manufactures natural gas for vehicle (NGV) compressors retailed under the Aspro label. The project cost is estimated at \$90M with \$25M financed by PROPARCO and FMO. The company is a market leader and roughly one compressor out of five retailed in the world carries the Aspro label. It has been a high technology label for

30 years now and is reputed for its reliability, the value for money of its products and its pre- and after-sales technical service. The acquisition is in line with a strategy to create value by combining Axxon's input as a financier with Lupatech's input as a major high-tech industrial group. Based on conservative hypotheses, AFD's team of environment specialists has calculated that compressors manufactured and sold by Aspro worldwide should save 240 000 tons of equivalent CO, every year.



Supporting long-term investment in France's overseas territories

The development of the productive and service sectors constitutes the main engine for growth in France's overseas territories.

PROPARCO's key target in Overseas France is to support business start-ups and their balanced development and enhance their competitiveness on a regional scale. PROPARCO provides long-term financing – directly or in intermediation with the local banking system – to support the growth of France's overseas territories. In 2008, PROPARCO financed projects to strengthen local banks in New Caledonia and Haiti and to reduce the digital divide in the French West Indies.

PROPARCO's strategy is based on three core areas:

- **To boost economic growth** by providing support to regionally oriented banks for long-term financing for the economy,
- To combat inequalities by helping to create employment via support for the productive and service sectors in the overseas territories,
- To help preserve the environment via infrastructure and renewable energy development projects.



Promoting the development of banking intermediation in New Caledonia

In New Caledonia, local banks are dependent on their mother companies in Metropolitan France due to the absence of an interbank market. Due to the acute financial crisis, PROPARCO wanted to support New Caledonia's banking market, particularly the Banque Calédonienne d'Investissement (BCI) a former AFD subsidiary that focuses on productive sector development by implementing a new 20M line of credit over 15 years.

PROPARCO's operation aims to give BCI the resources to continue to finance its clients' needs at conditions that are not prejudicial to their activities and will consequently support New Caledonia's economy. PROPARCO's activities are also helping to reduce the chronic imbalance between the source and application of funds observed on New Caledonia's market and, as a result, to promote the development of banking intermediation on the territory.





Promoting regional integration and employment in the Mediterranean

The Mediterranean and Middle East area covered by PROPARCO includes Algeria, Egypt, Jordan, Lebanon, Morocco, the Palestinian Territories, Syria, Tunisia, Turkey and Yemen.

The region has seen a sharp fall in inflation over the past ten years, the current account balance has gone from deficit to surplus and debt has been greatly reduced. Between 2007 and 2008, growth in the region's countries averaged 5%. However, it will be necessary to create almost 100 million jobs over the next twenty years in order to face strong population growth and all recent studies point to the fact that a constant 7% growth rate will hardly suffice to maintain unemployment rates at their current

> level. The increased presence of major industrial groups and the development of a local job-creating SME fabric are the main catalysts for growth and poverty reduction in the region. Market flaws are the first target of PROPARCO's activity, particularly deficiencies in financial intermediation that hamper the development of this nursery for employment. Private equity investment provides one of the best solutions to this situation.

> It is an alternative to overindebtedness and gives businesses in expansion a financial base and access to expert technical assistance, new partnerships, new markets and new technologies. It is also a way for the region's businesses to upgrade to international standards and it

helps them to gradually integrate markets on both sides of the Mediterranean. In 2008, PROPARCO continued to scale up its activities to support the growth of SME fabric in the region by taking a 6M stake in the SGAM AI KANTARA regional fund and a \$15 M stake in the INTAJ regional fund managed by SWICORP. Private equity investment funds in the area specifically aim to create regional champions via their activities that cover all or part of the Mediterranean and their investment strategies. They achieve this by strengthening financial structures with equity injections that allow share transmission mechanisms to be set up and they support management in the most dynamic SMEs. With funds investing in their capital, SMEs can boost their growth, for instance via acquisitions outside their national territories. PROPARCO today supports a group of eight asset management teams in the Mediterranean that operate in Morocco, Algeria, Tunisia, Egypt and the Middle East, either directly or via the Averroès Finance fund of funds comanaged with the Caisse des Dépôts et Consignations. PROPARCO and Averroès Finance give priority to supporting local teams that develop sustainable private equity investment in the area



Boosting Morocco's regional SME fabric

Access to financial resources for dynamic SMEs particularly via private equity investment - is a key issue for the development of Maghreb countries. In May 2008, PROPARCO took a 6M stake in the SGAM Al Kantara private equity investment fund. The fund, with a total size of 150M, includes a Moroccan investment vehicle and will invest in the Maghreb and Mashreq regions. It is supported by a local team established in Morocco, Tunisia and Egypt that has good knowledge of the economy and local players and a SGAM Parisbased team with extensive experience in structuring and supervising private equity

investment transactions in emerging economies. The local management team targets mature mediumsized enterprises. The fund will conduct between 10 and 15 transactions of between 5M to 15M spread out over various geographical areas. These investments will help boost the regional SME fabric. It is positioned on equity enhancement operations - as well as transfers and takeovers in order to strengthen the financial structure of these businesses during a critical phase of their development. The fund is actively involved in the management and governance of all the businesses in its portfolio.



The accessibility and reliability of basic infrastructure, the structuring and deepening of banking and financial markets and support for corporates are all key vehicles for the development of South economies. In all these sectors and in all its activities, PROPARCO systematically places importance on measuring the economic, social and environmental impacts of the projects it finances.

Selecting projects for their impacts



Tools for systematic impact **measurement**

PROPARCO's first project selection criterion is the contribution it will make to development; the second is a positive constraint and concerns the project's economic and financial viability.

PROPARCO uses tools and methods designed to enhance the systematic measurement and assessment of the institutional, economic, environmental and social impacts of financed projects.

The first tool is used for the financing decision. GPR (Geschäftspolitishes Projectrating ^(C)) is used selectively prior to the financing decision and throughout the project life. The tool, using a multidimensional approach, assesses the economic viability and profitability of the operation, PROPARCO's additionality, and the developmental impacts of the project. It is used by the main EDFIs which means impact measurements by different European partners can be harmonised. The assessment of developmental impacts is indeed based on common criteria: net currency effects, current public revenue, the

number of jobs created, technology and know-how transfer, social effects (health, education, continuous training...), compliance with environmental standards, positive environmental impacts. PROPARCO also produces a set of sectoral indicators in common with Agence Française de Développement. These aggregatable indicators meet the dual requirement of accountability and measuring project effectiveness.

Finally, field evaluations are conducted over the long-term on certain projects. For instance, in 2008 PROPARCO launched a study on Haiti's mobile phone sector and the direct and indirect consequences of the development of the activity: economic consequences (contribution to growth, job creation...), sociological consequences (consumer profiles, consequences on family relations or relations between genders, size of mobile phone budgets...). These evaluations aim to both capitalise on PROPARCO's experience in certain sectors and to enhance current practices.

Between 2007 and 2008 PROPARCO's financing and cofinancing helped to:

- Connect 290 000 people to an electricity supply network
- **Connect** 36 million people to a telecoms network
- Contribute 461M to state revenue
- Support 4 555 corporates in their SER processes
- Grant microfinance loans to 160 000 people
- Generate 250 MW of renewable or recuperated energy
- Secure or create 240 000 direct or indirect jobs
- Save 2.4M teq CO, of greenhouse gas emissions annually

Solution The dual requirement of accountability and measuring project effectiveness.





Africa's first private geothermal energy production **project**

The security margin for production capacity in Kenya's electricity sector is below 10% which means there are risks of shortages. This risk is heightened by the fact that electricity production is highly dependent on rainfall since 57% of production comes from hydropower. The Olkaria III project aims to help create an accessible and reliable electricity sector. This is essential for the country's future economic development and growth. Ormat Group has built a 13 MW geothermal power plant in the Rift Valley, 100km from Nairobi, and has been operating it since 2000. It is the only privately built and operated geothermal power plant in Africa. In 2008, Ormat and Kenya's electricity utility KPLC agreed to raise the capacity of Olkaria III to 48 MW and consequently sought financing from several European financial institutions. PROPARCO allocated a 15 million dollar direct loan to finance this operation. The project will eventually save 150 000 teq CO₂ annually. It complies with World Bank environmental and social standards and is currently being registered under the Clean Development Mechanism (CDM).





Promoting the widest possible access to bank and financial services

Banking and financial systems in the poorest countries and - to a lesser extent - in developing countries have a low level of depth. This first leads to very low rates in terms of the use of banking facilities and consequently a limited mobilisation of local savings and, second, to a lack of any hierarchy for risks and therefore a banking offer mainly focused on short-term products.

systems in these countries, provides local banking and financial actors with resources that give them the means to boost the economic fabric of their countries themselves. In 2008, PROPARCO committed 400M for banking establishments and other financial institutions which represents a 64% rise compared to 2007. It accounts for half PROPARCO's total commitments and 57% of its loan port-

folio at 31 December 2008 (excluding equity investments). Thirty financings were allocated to PROPARCO's financial clients in 2008 with an average ticket per operation at 12M. 2008 also marked the beginning of a differentiation of activities by sector. PROPARCO's activities were extended to include emerging countries and lines of credit to banks in this area were allocated to finance or refinance projects with positive impacts in terms of reducing greenhouse gas



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The development of East Africa's banking sector

Some East African countries saw double digit growth in 2008 (26% in Kenya, 21% in Uganda...). Due to dynamic local demand, banks have considerable financing needs which cannot be met in full by local financing. In 2008 PROPARCO scaled up its support to developing East Africa's banking sector by providing debt, quasi equity and equity financing. It consequently supported the development of banks such as Ie7M

in Kenya, BOA (Bank of Africa) in Uganda and Kenya as well as Zanaco in Zambia. With these new operations PROPARCO has raised its total outstanding amount to 48M for ten counterparties in the sub-region and has become a major player in financing East Africa's banking sector. PROPARCO's financing is subject to specific requirements that aim to contribute to the sound development of the sector by promoting SME financing and

the integration by banks of social and environmental aspects. **PROPARCO** has scaled up its presence in three countries where it has traditionally operated -Kenya, Tanzania, Uganda – but also aims to extend operations to neighbouring countries where the banking sector remains relatively underdeveloped and highly dependent on external resources. Several projects have already been identified in Burundi, Sudan and Djibouti.

PROPARCO, by supporting different banks or financial emissions or protecting the environment. Loans allocated to preserve Global Public Goods (GPGs) represented almost 100M in 2008, i.e. almost 25% of the volumes committed for financial clients. These lines earmarked for environmental protection will be increasing in volume.

> The end of 2008 was marked by a serious liquidity and confidence crisis that shook the financial world and will have longterm repercussions. At 31 December 2008 no systemic risk had been observed in any of the countries where PROPARCO is exposed, since the banking markets showed strong resistance thanks to their consolidation and support from central banks. However, the financial crisis is eventually expected to lead to a slowdown in growth in these countries, particularly as a result of the sharp drop in net capital flows. PROPARCO plays its countercyclical role in this disrupted financial context.

> A considerable number of projects for banking establishments

were observed during the last quarter and this trend has continued at the beginning of this year. PROPARCO has a whole host of ambitions visà-vis its financial clients: to consolidate its presence in Africa where the systemic risk on banks seems more limited and where PROPARCO is a well-known player; to continue the multi-product approach by focusing on potential equity investments in certain banking establishments considered as strategic; and finally, to strengthen its capacities to support microfinance.

In a downgraded economic context, PROPARCO aims to support the banking and financial sector in the countries where it operates and to strengthen its role in terms of its subsidiarity.

Supporting a major microfinance actor in Cambodia

Access to finance for microenterprisés is made difficult in Cambodia due to the lack of depth in the market, yet they account for the bulk of the economic fabric. Most of them must consequently resort to microfinance institutions. Amret is one of the major players by its client base (over 200 000) and the size of its rural and semi-rural network. In 2008, Amret allocated a total of 41M in loans.

PROPARCO, by financing the development of Amret's activity, is also contributing to the economic development of the country via support for the creation and development of micro activities. In March 2008, PROPARCO made a 1.4M investment in Amret's capital increase in order to actively support its institutionalisation and help it face current issues in the sector. PROPARCO has also just provided a \$4M loan to finance the institution's growth and allow it to reach a wider client base. This loan is important in view of the global financial and banking crisis and will allow the MFI to reach its 2009 targets. Amret is expected to help maintain or create some 20 000 jobs including 83% for women.



Banking systems and microenterprises

"Unfortunately I cannot think of any bank today that can - or wants to - meet the demands of this unserved world of small and very small enterprises" By Fouad Abdelmoumni, CEO of Al Amana

"It is extremely dangerous to assume that microfinance is the solution to all problems of under-development, but it is a tool that can make a significant contribution.

The bulk of loans allocated by Al Amana have a 2000 ceiling whereas the bulk of loans allocated by Moroccan banks exceed 20000. The gap is so huge that we will have to raise the level of our loans and the banks will have to lower their thresholds. Unfortunately I cannot think of any bank today that can - or wants to - meet the demands of this unserved world of small and very small enterprises.

If you take them individually, microenterprises and very small enter-

prises do not carry much weight. But when we begin to speak about hundreds of thousands of production units served by Al Amana, there is a sizeable contribution to GDP, wealth creation, job creation, living conditions for households, education, access to health and, more generally, to improving prospects for the future."

In 2007 PROPARCO guaranteed a 100 million dirham subordinated loan to the institution in order to strengthen its equity and thus give it easier access to bank refinancing.



Financing the infrastructure **required for growth**

A country's attractiveness, economic growth and social progress for its population often depend on the accessibility of its infrastructure and the reliability of its service provision.

PROPARCO finances projects that increase access

to quality services in the energy, telecommunications

and modern transport sectors. Its financing in the energy sector respects the environment via projects that use renewable energy or promote greater energy efficiency. PROPARCO is also specifically interested in projects eligible under the Kyoto Protocol Clean Development Mechanism and uses carbon finance instruments to facilitate project financing. In order to promote



economic growth and combat poverty, PROPARCO gives priority to developing infrastructure in Sub-Saharan Africa where it finances access to electricity, transport and telecommunication.

In major emerging countries, PROPARCO has specialised in financing renewable energies.

In 2008, infrastructure development projects cofinanced by PROPARCO helped to:

• Connect 100 000 people to an electricity supply network or give them access to electricity

- Connect 13 million people to a mobile phone network
- Create or preserve 30 000 jobs

Bagasse cogeneration in East Africa

"Injection of this power into our national grid will go a long way in bridging the energy deficit in Kenya."

By Dr. Evans Kidero, Managing Director MUMIAS Sugar Company

"Mumias Sugar Company is the market leader in sugar production in Kenya and accounts for 60% of output. We are excited about expanding our electricity energy export from 3 MW to 26 MW, in addition to sugar production. Our bagasse-based cogeneration power project is the first of its kind in East and Central Africa. It is a renewable energy project implemented in the Agricultural Sector and is the first Carbon Credit Compliant project in Kenya registered as a Clean Development Mechanism Project by the UNFCC. Injection of this power into our national grid will go a long way in bridging the energy deficit in Kenya. Once in operation, we will realise twofold benefits in improved factory time efficiencies (FTE). This will increase sugar production and improve profitability from electricity energy and CER sales. We are most grateful to PROPARCO which has provided us with USD35 million for this project. "



Supporting productive and service sectors

One of PROPARCO's core targets, more than ever before, is to directly provide businesses with long-term resources that are consistent with the life span of financed assets and that are often lacking on local banking markets.

PROPARCO focuses its efforts on financing investments that aim to improve production yields and the quality of the environments for employees by modernising equipment and diversifying activities. It finances

The four core sectoral areas for PROPARCO's activities are:

• The agribusiness sector in general: plantations, sea industry, livestock raising, initial processing, cogeneration. PROPARCO focuses on supporting the major players in subsistence industries,

• Support for the development of businesses in the manufacturing sector. In 2008, projects mainly concerned equipment manufacturers for the renewable energy sector and the cement industry,

• **Private social sectors,** in particular the health and higher education sectors,

• Tourism, for which PROPARCO has adopted a comprehensive strategy based on the sustainable development of medium and high-end tourism in Africa. a wide range of businesses that range from major international industrial groups seeking to set up in business or develop in difficult areas to major local industrial groups that often control a national or regional industry, to local large and medium-sized enterprises that are in the start-up or development phase. Finally, all the projects financed must contribute to disseminating and promoting Corporate Social and Environmental Responsibility, in particular by systematically integrating environmental protection, biodiversity preservation and by improving their governance.



Upgrading a hotel in Mozambique

One of the key focus areas of development policies in **Central and Southern Africa** is to develop infrastructure for business travellers and tourists. PROPARCO has been financing hotel upgrading projects for several years, particularly via a partnership with AKFED (Aga Khan Fund for Economic Development). The POLANA project falls within this process. The POLANA Hotel in downtown Maputo was acquired by AKFED which launched a full refurbishment program for the hotel building in 2008. The project cost stands at US\$24.4M

and the 5 star hotel's 152 bedrooms will have been completely refurbished by 2010. PROPARCO and DEG are participating in financing the project via a US\$6.4M investment and an US\$18M long-term loan. The project will directly create almost 300 jobs and is part of a process to transfer skills and develop sustainable tourism in line with the social and environmental responsibility principles that PROPARCO promotes.





Meeting the long-term financial needs of investors

PROPARCO provides a full range of financial products to meet the three types of financing requirements expressed by private corporates seeking to invest in emerging countries:
▶ access to long-term financing,

- hedging or mitigation for certain risks, particularly
- for political risks,
- > solutions tailored to issues specific to developing countries.





Directly strengthening corporate equity

In a context where bank loans are becoming increasingly scarce, PROPARCO is continuing to provide corporates with alternative solutions for long-term financing and risk-sharing.

Equity investments make it possible to build partnerships with operators that are key players in their sectors. They also allow family-run businesses to open their capital so that they can become sustainable and continue to grow with the aim of transferring or institutionalising their businesses.

PROPARCO always acquires minority investment stakes which are destined to be transferred to other shareholders after a five to eight year period, when the busi-

ness has reached a level of maturity that allows it to raise capital on the markets and seek private investment. Products are tailored to the specific needs of each business and integrate different criteria such as the desired levels of control and revenues, the regulatory framework or the risks the business may face. PROPARCO uses a wide range of equity products: equity, preferential shares, convertible bonds, participative loans.



Bridging the digital divide in Overseas France

PROPARCO has invested 5M in Loret Telecom (Lortel), alongside CDC Enterprises, Oceor and BRED. LORTEL is part of the telecoms branch of the Guadeloupian group, Loret, and aims to become the biggest alternative landline operator and broadband internet service provider in France's Overseas Departments (DOMs) under the name of Mediaserv. With this operation PROPARCO is helping the DOMs catch up in terms of digital infrastructure development. Lortel has been awarded public delegation contracts for the regions of Martinique, Guadeloupe and French Guiana under which it is required to cover 98 to 100% of these areas in order to provide the entire population with broadband internet access. Lortel will contribute to developing a cheaper, higher quality range of telecoms services for both businesses and the general public.



Promoting a fund manager that develops innovative products in inland China

China's GDP ranked third in the world in 2007 thanks to years of exceptional growth (9% annually since 1978). Yet rising inequalities remain a concern for the authorities, in addition to the ageing population and environmental degradation. In this context, two partners launched a first investment fund in 2006 with active support from FMO: Development Principles Fund I (DPF1). With

DPF1 100% invested, the management team raised a second fund in 2008: Development Principles Fund II (DPF2). PROPARCO invested \$20M in DPF2 as a benchmark investor alongside FMO, DEG and Itochu. The fund aims to provide medium-sized enterprises (turnover between 10M and 100M) in inland China with hybrid financing that gives them access to long-term resources. This will allow them to reach the best international standards in terms of governance and social and environmental responsibility. The businesses financed are mainly in the photovoltaic energy, clean coal and biodiesel production sectors. They must comply with a plan to improve working conditions for their employees and the environmental impacts of their activities.

All statements of the second



[] Wind turbine field in China

Using leverage from investment funds

Private equity investment is continuing to develop in most of the countries where PROPARCO is active, particularly thanks to the emergence of independent fund management teams that are experienced and well-established and can consequently catalyse sizeable public and private investments.

PROPARCO has been instrumental in building some of these teams and supports them over the long term - often via several successive funds - and as a local player by promoting market deepening. For example, in 2008 PROPARCO supported four management teams in the Mediterranean. These teams are implementing complementary strategies in order to promote better management and governance standards in firms and the emergence of regional champions. These operations conducted along-side investment funds also increase the impacts of PROPARCO's investments and mean it can reach the whole small and medium-sized enterprise sector. In 2008 the funds in which PROPARCO invested will support 92 businesses that employ 60 000 people.

In terms of quality, theses businesses benefit from support that helps them extend their networks, improve their management systems, develop growth strategies and conquer new markets. Finally, PROPARCO is recognised for its high-level of requirements in terms of anti-money laundering and, more generally, for institutionalising the practices of these teams. It consequently creates confidence and has a knock-on effect on other private investors. In order to better evaluate the impact of its investments in these funds, PROPARCO encourages managers to use tools to monitor long-term evolutions in the businesses they finance as well as their effects on the ecological and social environment.



Providing loans tailored to each project

Loan activities focus on strengthening physical infrastructure (energy, telecoms, transport) and financial infrastructure (banks) and on financing projects in industry and service sectors which create high levels of employment or are structuring for a region (agribusinesses and tourism in particular).



In this activity, PROPARCO positions itself – as it does with equity investments - as a long-term investor and has the same target for all its products: to support responsible long-term investments. Its loan activities aim to be complementary to those of commercial banks.

PROPARCO consequently does not provide short-term loans, which are always available from local banking systems, and its medium-term loans are tailored to the depth of each market. PROPARCO therefore provides senior, subordinated and participative loans.

Since 2007, PROPARCO has scaled up its capacities for loan activities thanks to a subparticipation agreement with AFD which comes in addition to cofinancing and risk-sharing mechanisms that are already in place with the other European development agencies.

PROPARCO can therefore provide loans ranging between 5M and 100M (with a 13M average) with maturities of between 5 and 20 years depending on the requirements of the project.



Support in local currency to an Ivorian leasing company

Alios Finance group provides credit and leasing products to finance productive equipment in Sub-Saharan Africa via a network that comprises several subsidiaries. For the past 15 years, the group has been a key vehicle for PROPARCO's activities to support SMEs in the franc zone. Alios Finance is mainly made up of three entities: Alios Finance Côte d'Ivoire that groups

together the activities of Safca in Cote d'Ivoire, Sobfi in Burkina Faso and Somafi in Mali, Alios Finance Cameroon and Alios Finance Gabon. In 2008, PROPARCO overhauled and renewed the existing 30M guarantee framework agreement in partnership with its Finnish counterpart Finnfund. Alios Cote d'Ivoire had previously been excluded from the agreement due to the situation in the country but was included once again. This entity benefited from FCFA3 billion of direct financing. The loan in local currency allows exchange risks to be controlled and is a key factor for the stability of these companies that have highly volatile activities. PROPARCO's renewed commitment to Alios is fully in line with its objectives to finance Sub-Saharan African SMEs in local currency.



Developing financing in local currency

An extremely large number of projects require financing in local currency and a long-standing constraint for donors has been their inability to lend in local currencies. This exposed their clients to exchange risks that were often difficult - or even impossible - to manage in markets that continued to lack sophistication.

Moreover, in a large number of countries local financial markets are not sufficiently developed to offer loan maturities that are long enough to finance heavy investments or infrastructure projects. PROPARCO is consequently working with support from other donors to deepen local currency markets.

PROPARCO was one of the pioneers when it developed guarantee products in local currencies back in the 1990s, first in the franc zone in Africa, then in all the countries where it is active. It was consequently the first to guarantee bond issues denominated in local currencies in Africa.

In addition to guarantee activities, PROPARCO has been implementing a system for two years now by which it can develop direct loan products in local currency. PROPARCO has, indeed, been a shareholder of TCX since 2007. This multi-donor initiative, set up by the Netherlands' FMO in 2007, allows its members to offer exotic currency swaps and therefore loans in local currency in a large number of countries. Moreover, AFD carries out bond issues in a wide range of currencies and



operates directly on markets. This means PROPARCO can use resources in currencies such as the FCFA or the South African rand. In 2008, almost 20% of the number of loans allocated by PROPARCO were made in local currency: the Tunisian dinar, CFA franc, South African rand, Kenyan shilling... This enabled PROPARCO to help strengthen and deepen local markets by tailoring its products still further to the needs of its clients.

PROPARCO, through its signature, provides a guarantee of solvency and facilitates resource mobilisation in local currencies by private borrowers and in doing so allows banks to develop loans with longer maturities. This guarantee may take several forms

Bond guarantees or guarantees for other market products (securitisation for example): PROPARCO offers a guarantee to savers (institutional or private investors) that lend to a bank or a corporate that issues a bond on the market in order to finance itself,

• The interbank loan guarantee: PROPARCO guarantees the conclusion of loans that banking establishments with liquidities can make to other establishments (leasing or microfinance institutions in particular),

• The guarantee for loans in local currency: PROPARCO guarantees the conclusion of loans allocated in local currencies by banks to local firms,

• The mutual fund liquidity guarantee: PROPARCO provides a liquidity guarantee for the different products to mobilise long-term resources that aim to finance productive investments and directly contribute to boosting financial markets.



Operational and financial results

2008 was another year of strong growth for PROPARCO. This underscores its countercyclical role. Such strong growth and positive financial results once again demonstrate the soundness of a model based on long-term financing for the private sector in developing economies.



Operational *results*

In FY 2008, PROPARCO's total commitments in equity, loans and guarantees reached 789.4M, up 31% on 2007. This figure includes 32.2M of subparticipations with entities external to the Group (FMO, EFP) and €140.2M of AFD subparticipations.







Investment approvals

Seventeen equity investments were approved in 2008, the same figure as in 2007, accounting for an investment volume of 99.1M, i.e. an average of 5.8M per operation (average up by over 26% on the previous year). Eight direct investments were approved in 2008 for a total of 20M (compared to 9M in 2007), in particular in Sub-Saharan Africa in the banking sector (one project in each of the following countries: Kenya, Benin and Congo), the tourism sector (one project in Mozambique), the communication sector (one project for several countries in the region) and the agribusiness sector (one project in Central and Eastern Africa). A direct investment was also concluded in Tunisia in the insurance sector and another in Overseas France

in the telecommunications sector. Nine equity investments were made in investment funds in 2008 (against eight in 2007) with an average of 8.8M per project. These activities mainly concern the Mediterranean and Middle East (four equity investments) and Asia (three equity investments in China and Vietnam).

Investments in 2008 (approved in or prior to 2008) concern: eight investment funds, a financial company, an insurance company, two banks, a publishing house, a company in the agribusiness sector, a company in the telecommunications sector and a hotel group.

Equity portfolio structure

At 31 December 2008, the gross value of PROPARCO's equity portfolio stood at 215.7M (including operations on behalf of third parties) and included 89 shareholdings in ten banking establishments, forty-four investment funds, seventeen financial establishments or insurance companies, nine industrial or commercial

enterprises, three hotels and six infrastructure and mining enterprises. Total provisions for equity investments reached 6.6M, i.e. 3.1% of the gross portfolio and 4.6% of paid-up investments excluding investments made on behalf of third parties.

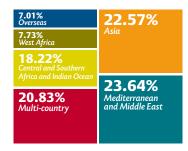
Sectoral and geographical breakdown

stood at 144.5M at 31 December 2008 against 95.7M breakdown of paid-up investments. at 31 December 2007.

Paid-up capital, including on behalf of third parties, The graphs below show the sectoral and geographical

11% Infrastructure and mining	56%
12% Corporates	Funds
21% Financial sector	

Equity investments: sectoral breakdown (paid-up investments)



Equity investments: geographical breakdown (paid-up investments)



Lending operations

Approvals and disbursements

Forty-eight loans were approved during FY 2008 amounting to 683.5M in gross approvals, i.e. an average 14.2M per transaction. Total disbursements stood at 411.2M.

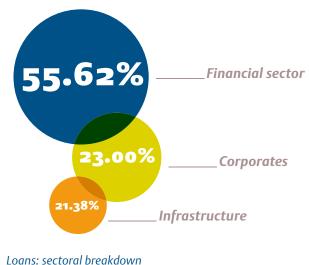
Sectoral breakdown

The percentage of loans granted to banking establishments stood at roughly 60% against 39% in 2007. The amount of commitments in this sector (406.8M) included 60M of financing granted to banking establishments in French Overseas Territories.

Financing committed in the infrastructure and mining sector fell compared to 2007: 133.3M (221.9M in 2007), i.e. roughly 19% of the total amount (against 48% in 2007). Commitments in the corporate sector in 2008 rose sharply to reach 143.4M against 61.5M in 2007. They now account for 21% of approved financing (against 13.2% in 2007).

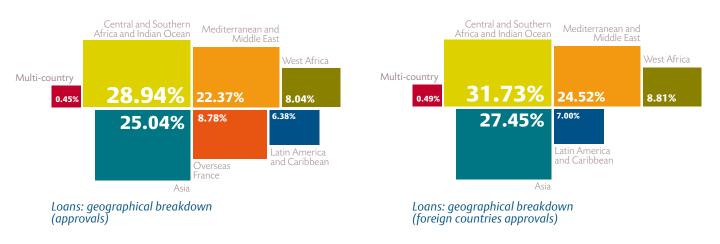
Geographical breakdown

Commitments in foreign countries covered nineteen countries, the largest being India (77.2M), South Africa (57.5M), Tunisia (52.9M), Kenya, Morocco and Turkey (50M each). These figures do not include multicountry commitments. Moreover, PROPARCO granted three financings to French Overseas Territories: two in French Polynesia (40M) and one in New Caledonia (20M). Sub-Saharan Africa - PROPARCO's traditional activity area - remained the main sector for new loan activity with roughly 40.5% of approvals in foreign



(approvals in foreign countries)

countries in 2008. Taken as a whole, the continent makes up 57% of commitments in foreign countries in 2008. The most important operations in this region concerned a bank in South Africa, a bank in Nigeria, financing in the hotel sector in Mozambique and an infrastructure project in Tanzania.





Outstanding loans as at 31 December 2008

Sectoral breakdown

Gross outstanding loans at 31 December 2008 (including loans on behalf of third parties) totalled 1029.8M in gross value (736.9M at year end 2007) with 57.8% for loans to banking establishments and 42.2% to nonfinancial corporates.

Outstanding amounts from banking establishments were made up of 165 lines of credit granted to 57 clients for a total of 594.8M at 31 December 2008 (421.2M at year end 2007). The remaining outstanding amounts totalled 435M (315.2M at year end 2007) broken down into the infrastructure and mining sector (322.1M) and corporates (112.9M). It was made up of 87 loans granted to 66 clients.

Outstanding amounts from banking establishments in foreign countries, excluding French Overseas Territories, stood at 410.4M at 31 December 2008. Outstanding amounts in foreign countries from infrastructure/mining clients and corporate clients accounted for 300.8M and 112.0M respectively.

Geographical breakdown

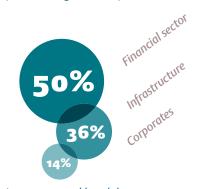
As we can see from the following graph, outstanding loans to foreign countries were quite equally divided between PROPARCO's geographical areas.

The eight largest foreign countries for outstanding loans

Loans: sectoral breakdown (outstanding amounts)

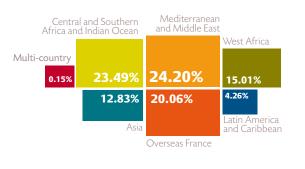
Financial sector

unrastruct Corporates

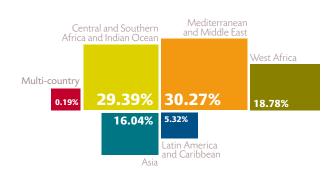


Loans: sectoral breakdown (foreign countries outstanding amounts)

were, in descending order: Turkey, Morocco, Ghana, Kenya, South Africa, China, Tunisia, Nigeria and Tanzania, each making up over 4% of total outstanding amounts to foreign countries and almost 60% when taken together.



Loans: geographical breakdown (outstanding amounts)



Loans: geographical breakdown (foreign countries outstanding amounts)



Guarantees

One project guarantee was approved in 2008 for a total commitment level of 6.8M, the figure is lower than in 2007 (55.7M). Guarantees issued in 2008 totalled 21M against 7.6M in 2007. Outstanding guarantees issued by PROPARCO concern 30 operations for a total amount of 55.8M (against 44.9M at 31 December 2007). This breaks down into 52.3% for banking establishments and 47.7% for non-financial clients.

The geographical breakdown shows that 6.6% of guarantees were issued in West Africa, 41.4% in the Central and East Africa and Indian Ocean area, 8.71% in Asia, 35.64% in the Mediterranean and Middle East, 3.6% in French Overseas Local Authorities and 4.13% were multi-country.

Financial Statements Analysis

Balance Sheet

1 629.3M compared with 31 December 2007, i.e. a 65% rise. This increase reflects various factors:

• the simultaneous rise in loans approved to banking lio (from 135.2M at 31 December 2007 to 215.7M establishments (from 425.1M to 599.3M in gross at 31 December 2008) value at the end of December 2008) and loans ap- > the 300M capital increase conducted in 2008.

Income Statement

Net banking income reached 42.1M against 34.7M at 31 December 2007, i.e. a 21.3% increase. Gross operating income at 31 December 2008, before integrating the cost of risk and results on immobilised assets, stood at 25.2M against 21.2M at 31 December 2007, i.e. a rise of roughly 19%. Net income at 31 December 2008 stood at 20.8M, i.e. slightly above business plan fore-

The 2008 balance sheet rose from 987.5M to proved to non-financial clients (from 319.7M to 467.7M in gross value),

the 23.5% rise in gross value in the equity portfo-

casts for the year (19.8M), but was slightly lower than in 2007 (23.7M). This can be explained by the cost of risk which rose sharply, partly due to the conservative collective risk provisioning policy adopted following the global financial crisis.

Off-Balance Sheet

Commitments approved

Financing and guarantee commitments approved reached 229.8M at the end of the year (against 219.7M in 2007). Financing commitments, which correspond to undisbursed amounts on signed agreements, reached 173.7M (against 174.8M at year end 2007). Commitments were divided between banking

Commitments received

Financing commitments from AFD and guarantee commitments from other banking establishments and financial establishments to support loan production, re-

establishments (16.7%) and other non-financial companies (83.3%). They include 1M of undisbursed amounts on doubtful outstanding loans. Outstanding guarantees made by PROPARCO stood at 56.1M against 44.9M at year end 2007.

spectively totalled 235.2M (against 196.5M in 2007) and 500.9M (against 545.7M in 2007).



Financial statements

Balance Sheet Assets as at 31 December 2008 (in thousands of euros)

Assets	31 Dec 2007	31 Dec 2008
RECEIVABLES FROM FINANCIAL INSTITUTIONS	0	0
RECEIVABLES FROM FINANCIAL INSTITUTIONS		
SHORT-TERM	27 359	107 849
related parties on behalf of third parties	27 182 177	107 664 185
LONG-TERM	525 341	859 517
related parties	100 276	260 206
TRANSACTIONS WITH NON-FINANCIAL INSTITUTIONS	302 098	449 576
on behalf of third parties	386	28 334
INVESTMENTS AND OTHER LONG-TERM SECURITIES	129 744	209 131
on behalf of third parties	641	588
INTANGIBLE ASSETS	9	6
PROPERTY, PLANT AND EQUIPMENT	49	669
OTHER ASSETS	1 4 3 5	1384
related parties	0	0
PREPAYMENTS AND ACCRUED INCOME	1 427	1 159
related parties	70	179
TOTAL ASSETS	987 462	1629 291

Off-Balance Sheet	31 Dec 2007	31 Dec 2008
FINANCING COMMITMENTS	174 770	173 670
in favour of financial institutions in favour of non-financial institutions	69 416 105 354	29 074 144 596
GUARANTEE COMMITMENTS in respect of financial institutions in respect of non-financial institutions	44 915 16 600 28 315	55 804 29 207 26 597
TOTAL COMMITMENTS GIVEN	219 685	229 474



Balance Sheet Liabilities at 31 December 2008 (in thousands of euros)

Liabilities	31 Dec 2007	31 Dec 2008
BORROWINGS OWED TO FINANCIAL INSTITUTIONS		
SHORT-TERM	0	5
related parties	0	0
LONG-TERM	723 133	988 115
related parties	712 226	981 556
OTHER LIABILITIES	43 584	100 608
on behalf of third parties	1 189	29 095
ACCRUALS AND DEFERRED INCOME	3 376	3 847
related parties	1256	2 489
PROVISIONS FOR CONTINGENCIES AND LOSSES	18 981	28 613
FUND FOR GENERAL BANKING RISKS (FGBR)	3 993	0
EQUITY EXCLDING FGBR	194 395	508 103
capital subscribed	142 560	485 330
legal reserve	3 005	1948
other reserves	6 160	0
special reserve for long-term capital gains	0	0
retained earnings	18 944	0
income for the year	23 726	20 825
TOTAL ASSETS	987 462	1629 291

Off-Balance Sheet	31 Dec 2007	31 Dec 2008
FINANCING COMMITMENTS received from financial institutions	196 546 196 546	235 163 235 163
related parties	191 546	230 163
GUARANTEE COMMITMENTS	545 744	500 862
received from financial institutions related parties	545 744 468 640	500 862 373 923
TOTAL COMMITMENTS RECEIVED	742 290	736 025



Income Statement as at 31 December 2008 (in thousands of euros)

Result	31 Dec 2007	31 Dec 2008
INTEREST AND SIMILAR INCOME		
ON OPERATIONS WITH FINANCIAL INSTITUTIONS related parties	29 676 5 795	42 059 12 021
ON OPERATIONS WITH NON-FINANCIAL INSTITUTIONS	24 594	26 683
ON BONDS AND OTHER FIXED INCOME SECURITIES	0	11
INTEREST AND SIMILAR CHARGES		
ON OPERATIONS WITH FINANCIAL INSTITUTIONS related parties	-31891 -31286	-36 434 -35 629
INCOME FROM VARIABLE INCOME SECURITIES	8 716	5 390
FEE INCOME	2 745	4 394
FEE EXPENSE	-302	-524
OTHER BANKING OPERATING INCOME ITEMS related parties	1208 761	517 0
OTHER BANKING OPERATING EXPENSE ITEMS	-5	-4
NET BANKING INCOME	34 741	42 092
OTHER ADMINISTRATIVE EXPENSES	-13 533	-16 896
related parties	-10 424	-12 663
ALLOCATION TO DEPRECIATION & AMORTISATION	-14	-31
GROSS OPERATING INCOME	21 194	25 165
COST OF RISK	-178	-11 137
OPERATING INCOME	21 016	14 028
GAINS AND LOSSES ON PROPERTY AND EQUIPMENT GAINS LOSSES	9 211	9 226
INCOME FROM ORDINARY ACTIVITIES BEFORE TAX	30 227	23 254
ALLOCATIONS/RECOVERIES OF FGBR	11 794	3 993
EXCEPTIONAL ITEMS EXCEPTIONAL REVENUE EXCEPTIONAL EXPENSES	21 -10 777	1378 0
CORPORATE INCOME TAX	-7 539	-7800
NET INCOME	23 726	20 825



List of projects approved in 2008

West Africa

Benin: FCFA75M equity investment in the capital of a young Beninese bank specialised in home loans.

▶ Nigeria: \$30M line of credit, including a \$17.5M AFD subparticipation, earmarked to finance SMEs, and an ARIZ guarantee.

 Senegal: FCFA5bn line of credit to consolidate the balance sheet of a major bank and support its growth
 FCFA8bn line of credit for a local bank to finance its medium and long-term loans.

► Multi-country: 8.5M equity investment in an investment fund specialised in medium-sized businesses in Africa (particularly in the North and West)

- \$19.5M loan to finance the acquisition and overhaul of planes for an African air transport company.

Central And Southern Africa and Indian Ocean

DRC: Support to an African banking group for the creation of its subsidiary in DRC via a \$2M equity investment.

Djibouti: \$23M senior loan to finance the construction of a container terminal.

• Kenya: KSH107.4M subscription to a commercial bank's capital increase

- 3M line of credit to support a Kenyan bank's growth strategy, particularly for its loan portfolio

- Allocation of three loans, a 19.75M senior loan (including a 10M AFD subparticipation), a 2.82M subordinated loan and a 7.75M EFP subparticipation in order to finance the construction and operating of a power plant

- \$15M of financing via a direct loan to raise the MW capacity of a geothermal power plant

- two delegated lines of credit for 1M and \$5.5M respectively to finance growth in foreign currency activities in a bank.

• **Uganda:** \$3M loan to the Ugandan subsidiary of an African banking group to strengthen its equity and support the company's growth strategy.

▶ **Tanzania:** \$40M loan (including an EFP subparticipation) to strengthen the telephone network of one of Tanzania's main mobile phone operators.

South Africa: ZAR150M line of credit to increase the volume and maturity of the loan portfolio of a retail bank specialised in microfinance and banking services for low-income populations

- ZAR100M line of credit to help a South-African retail bank specialised in microfinance for low-income populations maintain an optimal solvency ratio

- ZAR75M subordinated loan to finance a South African investment bank's acquisition of shares in a life insurance company listed on the Johannesburg stock exchange

- 30M line of credit allocated to one of the country's main banks to allow it to finance growth in its SME loan portfolio and infrastructure projects in Sub-Saharan Africa.

▶ **Mozambique:** \$9M senior loan and \$3.2M equity investment to promote the refurbishment of a hotel.

Zambia: \$5M subordinated loan convertible into a line of credit as well as a \$12.5M line of credit to strengthen a bank's additional equity and medium and long-term activities.

▶ **Multi-country:** \$25M loan approved for a public-private debt fund to finance long-term private infrastructure projects in Sub-Saharan Africa

- \$8M equity investment in an investment fund dedicated to the mining sector in Sub-Saharan Africa – equity investment of over 9.4m in a major company in the sugar and flour industry in Central Africa.

Mediterranean and Middle East

• Algeria: Final loss guarantee for up to 75% of a DZD700M loan allocated by the Algerian branch of a banking group to a leasing company.

Morocco: 50M subordinated loan (including a 20M AFD subparticipation) to a major private Moroccan bank, one of PROPARCO's historical partners, to allow it to strengthen its equity.

Tunisia: Subscription to a capital increase by a multibranch insurance company and to a bond issue for a total amount of TND2.25M

 TND18M loan in local currency with TCX coverage to support the growth strategy of a Tunisian leasing company
 TND15M loan in local currency with a TCX swap to refinance home loans allocated by a commercial bank to private customers

– TND7.5M loan in local currency with TCX exchange rate coverage to finance Tunisia's first private cancer treatment clinic

- 30M direct loan to a Tunisian company specialised in operating airports to finance equipment and infrastructure for a new airport.



Turkey: 50M subordinated line of credit (including a 25M AFD subparticipation) to a Turkish bank.

> Multi-country: \$15M equity investment in an investment fund dedicated to taking stakes in companies in expansion in the North Africa / Middle East region

- Two equity investments each worth \$10M in investment funds investing in companies in the North Africa and Middle East region

- 6M equity investment in a generalist investment fund in the Mediterranean region.

Asia

Afghanistan: \$20M loan (including a \$10M AFD subparticipation) to a mobile phone operator to allow it to extend and strengthen its network.

China: \$20M equity investment in a mezzanine debt fund active in the carbon finance sector in China - \$25M senior loan (including a \$10M AFD subparticipation) in order to participate in the creation of an integrated production line for photovoltaic modules

- \$15M line of credit allocated to a bank to finance global public goods.

India: \$20M subordinated loan to strengthen the equity of an Indian bank and support its environmental strategy

- \$100M loan (including half in AFD subparticipation) to a gas transport company to finance a methane terminal.

Indonesia: \$30M (including a \$15M AFD subparticipation) to an industrial plantation and wood processing company to finance the extension of its land areas.

• Vietnam: \$15M delegated line of credit to finance a local bank's growth strategy

- A maximum \$15M equity investment in a fund investing on Vietnam's bond market

- \$20M delegated line of credit to finance the growth of a bank.

▶ Multi-country: 6m participative loan allocated to an American non-profit making investment firm, which aims to promote private projects in the sector of renewable energies and energy efficiency in emerging countries, in order to participate in financing the Asian part of its business plan

 \$20M equity investment in a co-investment entity dedicated to PROPARCO.

Latin America and Caribbean

▶ **Brazil:** Refinancing of loans allocated by two local banks in sectors eligible under PROPARCO's mandate in emerging countries (particularly for biofuel production) via subparticipation loans with FMO, \$20M and \$15M respectively

- \$25M loan to refinance the acquisition of a company manufacturing natural gas compressors for vehicles.

Dominican Republic: \$5M senior earmarked line of credit to a bank to promote the activity in dollars of exporting companies.

Other Countries / Regions

▶ **Multi-country:** 3M loan to one of PROPARCO's European counterparts (EDFI) in order to strengthen the partnership between the two institutions.

• Multi-country Sub-Saharan Africa: 10M loan to an African banking group to strengthen the longterm resources of the holding and support the group's expansion strategy

 50 000 investment in the form of ordinary shares and a loan for a similar amount to promote the pan-African development of a publishing house.

French Overseas Territories

New Caledonia: 20M line of credit for the balance sheet of a bank in order to refinance its long-term loans.
 French Polynesia: 20M delegated line of credit to a bank to promote the allocation of investment loans
 20M delegated line of credit to a major commercial bank to support growth in its long-term activities.

▶ **Multi-country:** 5M equity investment in a landline telephone operator and internet service provider in the Guadeloupe-Martinique-French Guiana-Reunion area to finance its telecommunications infrastructure.

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