



→ Annual
Report 2011
Investing in a sustainable future

 **Proparco**
GROUPE AGENCE FRANÇAISE DE DÉVELOPPEMENT

Profile

— **PROPARCO, a development finance institution, is a subsidiary of the Agence Française de Développement (AFD) dedicated to financing the private sector.**

Its mission is to promote private investment in emerging and developing economies to support growth and sustainable development.

PROPARCO offers a complete range of long-term, non-concessional financing solutions in the form of loans, equity investments and guarantees.

Financing is provided to private enterprises, financial intermediaries and infrastructure projects, with very high standards in terms of impact on development.

PROPARCO works to supplement the activity of commercial banks, stepping in where market forces prove insufficient. Its goal is to demonstrate that private sector financing solutions can be viable, both in innovative fields and in sectors and geographies that investors consider too risky.

PROPARCO is committed to promoting the highest environmental and social standards./

At 31 December 2011

€2.6bn

in PROPARCO's portfolio
PROPARCO continued to grow with a 24% increase in its portfolio.

300 clients

A wide range of private sector organizations benefit from PROPARCO financing.

60 countries

PROPARCO operates through a network of 12 regional offices to develop its business.

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The President's message

Dov ZERAH /
President of PROPARCO
and Chief Executive Officer of the AFD

The private sector is increasingly involved in financing and delivering basic services. In developing countries, it accounts for nearly half of all infrastructure investments. The private sector not only creates value and jobs; it also generates tax revenue and offers effective leverage for meeting human needs and catalyzing development.

More than 30 years ago, PROPARCO was founded on the belief that the private sector plays a major role in development. Through a wide range of long-term financing tools, our institution encourages initiatives with a high development impact. PROPARCO picks up where the market leaves off – investing in geographic regions and sectors that private investors tend to bypass. Over the past few years, our activity has expanded considerably. Our results in 2011 show that PROPARCO has maintained its status among the leading development finance institutions focused on the private sector. As this successful performance attests, our business model strikes a fair balance between profitability and development impact.

The 2012-2016 Strategic Orientation Plan set by the AFD, our parent institution, reaffirms our key role in development financing and spells out our mission in detail. PROPARCO will be ramping up its activity in Sub-Saharan Africa, with more than half of total financing going to this region. In the Mediterranean area, where the Arab Spring has revealed aspirations for greater social justice

and equitable sharing of wealth, we will be increasing our support for inclusive growth models. In emerging countries, we will continue to back approaches that reconcile environmental balance and the reduction of inequality. Last but not least, PROPARCO plans to reactivate its operations in the French Overseas Territories to encourage endogenous development.

While growth has been flagging in most industrialized countries, it has held up extremely well in Africa, Asia and Latin America. So there are both new opportunities and unprecedented challenges in store for these buoyant economies. Skyrocketing food prices in 2011 highlighted the urgent need to invest in agriculture and related infrastructure, particularly because a population of nine billion will have to be fed by 2050. Today – and even more so tomorrow – agriculture and agribusiness will be crucial in ensuring the stability of countries in the developing world. The public sector cannot meet this challenge on its own; private investment will be essential. For this reason, strengthening agribusiness value chains will remain high on our list of priorities. Because we view small- and medium-sized enterprises (SMEs) as vital contributors, we will be stepping up our efforts to finance them and enhance their capacity. As part of that sharper focus, we will be establishing a special SME division and will be increasing private equity and direct investment in companies.

But achieving these goals requires a robust and efficient institution. This is why we intend to pursue the consolidation dynamic that began in 2010 – by strengthening both our human capital and our financial model, and by striving to uphold the highest possible standards in all of our businesses. I know I can count on the dedicated, highly professional people at PROPARCO to rise to these challenges, and I want to thank each and every one of them for their commitment and for embodying our values and goals so effectively in their everyday work with our partners. /



Interview with the Chief Executive Officer

Étienne VIARD /
Chief Executive Officer of PROPARCO

How do you assess PROPARCO's results in 2011?

→ With a portfolio of €2.6bn – up 24% over the previous year – we showed that we could deepen and broaden our work in a challenging market environment. We also intervened last year in a number of countries either in crisis or emerging from crisis situations like Iraq, the Ivory Coast and Tunisia, and we extended our reach in Latin America to other countries. In all of these different geographies, PROPARCO fully played its subsidiary role. The 9% decrease in commitments compared with 2010 reflects our deliberate focus on geographic regions where it is more complicated to structure financing. In the Mediterranean and Middle East, we have demonstrated our support for regional development, with €250m in new commitments – up 84% compared with the previous year. We also maintained a strong presence in Sub-Saharan Africa, a region all too often bypassed by international investment flows.

What were your most noteworthy initiatives in 2011?

→ To address the issues of climate change and energy security, we financed flagship investment programs in renewable energy, including Latin America's first major solar energy project. We also supported energy efficiency projects at several manufacturing companies in Asia. We diversified our efforts in the financial sector, branching out into insurance and reinsurance in Africa. We also played a significant role in a number of large infrastructure programs, particularly in the fields of telecommunications and transport.

PROPARCO has just adopted a new business plan. What are the priorities for the next two years?

→ To start with, we will be increasing our involvement in Sub-Saharan Africa. We need to contribute to agribusiness growth, help the financial markets achieve greater depth and take part in infrastructure programs through

out the region. To enlarge our footprint in Central Africa and Nigeria, we have re-opened our Douala office in Cameroon. We also intend to get more involved in the fight against climate change through new renewable energy and energy efficiency projects. And last but not least, our business plan calls for stepping up our activity in the French Overseas Territories.

What will be PROPARCO's priority instruments for supporting the private sector?

→ Direct investment is an effective and particularly subsidiary approach to assisting private sector organizations in emerging and developing countries. Accordingly, we want to provide more equity financing in the future while maintaining our lending activity. This will give our clients access to the capital they need to grow their business and hands-on assistance in crafting strategy and improving governance. We are keenly aware of how im-

portant it is to strengthen capacity, above all in SMEs and, for this reason, we also plan to devote greater resources to technical assistance.

What other challenges lie ahead in the years to come?

→ Our growth over the past five years has changed PROPARCO's profile. Since 2008, we have been operating on four continents, and every year we invest in new countries. To maintain this momentum, we need to consolidate our business model. In 2011, we took a number of major steps to reorganize and streamline our institution, and these efforts to consolidate must continue through 2012. We will focus as a matter of priority on improving portfolio management and monitoring environmental and social compliance by our clients. And we will be keeping a close watch on financial market trends. /

Key events

In 2011, PROPARCO confirmed its ongoing commitment to development: this commitment is operational and institutional as well as intellectual./



1 GOVERNANCE
A NEW SHAREHOLDER

WHEN > 05.10.11
WHERE > Paris, FRANCE

The Corporación Andina de Fomento (CAF) acquired a stake in PROPARCO on May 10, marking the first time a Latin-American financial institution has joined the PROPARCO shareholder base. As the financing arm of the Andean Community of Nations, the CAF is one of the main sources of multilateral financing in Latin America. The addition of shareholders like the CAF has helped make PROPARCO a single platform for investors from North and South.

2 MANAGEMENT
TWO APPOINTMENTS

WHEN > 06.24.11
WHERE > Paris, FRANCE

On June 24, the PROPARCO Board of Directors appointed Marie-Hélène Loison as Deputy Chief Executive Officer in charge of Operations. Since 2008, she had served as head of the PROPARCO Private Equity division. At the same board meeting, Colette Grosset was appointed Deputy Chief Executive Officer in charge of the General Secretariat. She was previously Deputy Chief Operating Officer at the AFD.

3 EVENTS
TOURISM AND DEVELOPMENT

WHEN > 06.29.11
WHERE > Cairo, EGYPT

PROPARCO brought together experts, financiers and economic stakeholders from around the world to discuss the challenges facing the tourist industry in Sub-Saharan Africa, the Mediterranean and the Middle East. The conference underscored the importance of tourism for economic development in these regions, and generated valuable insights into how an environmentally friendly tourism might emerge and the role that private initiative can play in this industry.

4 RESPONSIBILITY
PROMOTING GOOD CORPORATE GOVERNANCE

WHEN > 09.23.11
WHERE > Washington DC, U.S.

PROPARCO joined 24 Development Finance Institutions in adopting a Corporate Governance Development Framework for emerging markets. The initiative defines a common set of guidelines that promote good corporate governance among clients and partners of these institutions. Through the Framework, the signatories aim to answer the G20's call for an increased commitment to corporate transparency and accountability.

5 FORUMS
PARTNERING WITH AFRICA

WHEN > 10.18.11
WHERE > Paris, FRANCE

"New Players in Africa: BRICs and the countries of North Africa and the Middle East" was the topic discussed at PROPARCO's third Investors' Club. More than 120 entrepreneurs and financiers from North and South met to discuss the strategies of these new partners and how they perceive Africa. A better business climate, greater regional integration and diversified economies are three factors that will strengthen the role of these partners in the continent's development.

6 AWARDS
TWO WINNING PROJECTS

WHEN > 11.22.11 / 12.2.11
WHERE > Kwale, KENYA / Arequipa, PERU

The renowned international review Project Finance gave the Latin American Renewables Deal of the Year 2011 award to T-Solar, a solar power project co-financed by PROPARCO in Peru. It is the first large-scale photovoltaic energy project in Latin America. In addition, the major Kwale mining project in Kenya was named Mining Deal of the Year 2011 by the review Project Finance International. Co-financed by PROPARCO, the project includes a far-reaching plan that addresses environmental and social impacts.

7 FOOTPRINT
AN EXPANDING NETWORK

WHEN > 12.1.11
WHERE > Douala, CAMEROON / Mexico City, MEXICO

PROPARCO has reopened its Douala Office in Cameroon, boosting its presence in Sub-Saharan Africa. Covering Central Africa and Nigeria, this office is expected to galvanize the institution's efforts in the area, in particular those that benefit small- and medium-sized enterprises. In addition, PROPARCO is developing business in Central America by extending its presence in Mexico.

@ Our press releases can be viewed on our website www.proparco.fr



2011
key figures

With €865m in commitments, PROPARCO is building business while reconciling financial and developmental performance. /



<< From the outset, our bedrock belief has been that economic growth, environmental balance and social impact are entirely compatible goals. This is why we consistently strive to promote the principle of responsible financing. >>

Étienne Viard /
Chief Executive Officer, PROPARCO

Financing and co-financing provided by PROPARCO in 2011 will contribute to:

Connecting 8 million people to telecommunications networks.

Creating or maintaining 89,000 jobs directly and 273,000 jobs indirectly.

Reducing or avoiding greenhouse gas emissions by 2.3 million teq CO₂ per year.

Increasing tax revenue by €670m per year.

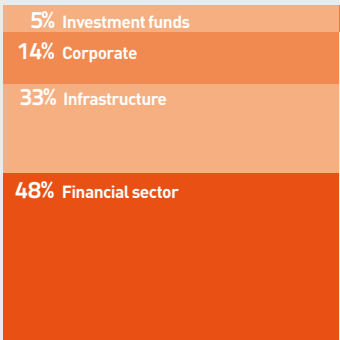
Giving 275,000 people access to microcredit.

Improving the environmental and social performance of 34 projects.

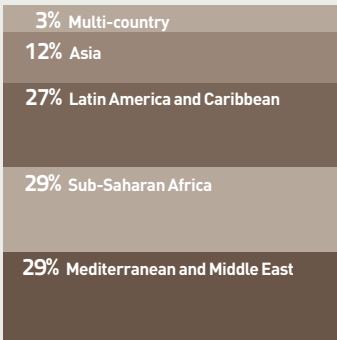
Shipping more than 11 million tons of freight per year.

N.B.: These figures indicate the expected outcomes for each project. Evaluated ex ante, they reflect an overall contribution to development approach.

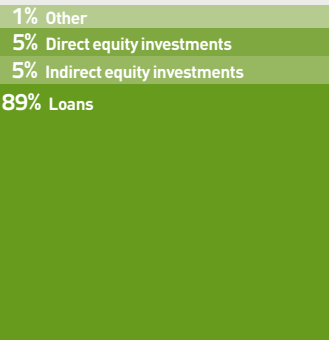
Commitments by sector in 2011
(% of total commitments)



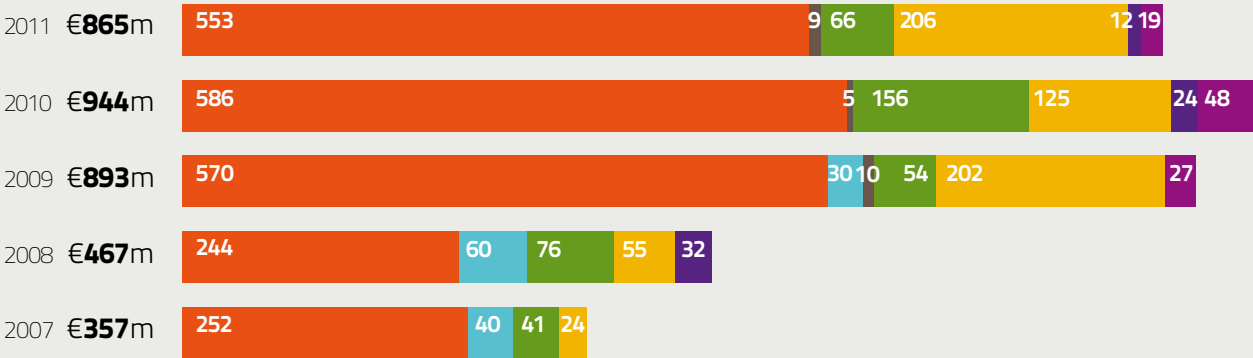
Commitments by geography in 2011
(% of total commitments)



Commitments by product in 2011
(% of total commitments)



Commitments by instrument 2007–2011
(€m)



PROPARCO LOANS AND GUARANTEES
LOANS TO FRENCH OVERSEAS TERRITORIES
OTHER
EQUITY INVESTMENTS
AFD SUB-PARTICIPATIONS
THIRD-PARTY LOANS
FISEA

Trends in 2011

PROPARCO operations span four continents, from major emerging economies to the poorest countries, from politically stable to fragile environments. /



« Catalyzing private investment in support of sustainable growth is the essence of what PROPARCO does on four continents. An approach that is backed by a diversified offer and solutions tailored to each geographic region. »

Colette Grosset /
Deputy Chief Executive Officer in charge
of the General Secretariat, PROPARCO

SUB-SAHARAN AFRICA

In 2011, PROPARCO focused on supporting the financial sector and infrastructure projects. /



ABIDJAN – LAGOS – JOHANNESBURG –
NAIROBI – DOUALA

Despite the weak global economic environment of 2011, Sub-Saharan Africa enjoyed brisk growth, driven by a combination of strong domestic demand, closer ties to Asia and rising commodity prices.

But a number of challenges must be overcome to ensure that this growth is sustainable and beneficial to all. PROPARCO's primary focus in the region has been on building infrastructure and consolidating financial systems. At the same time, it has gradually increased support to agribusiness and financing for SMEs.

Sub-Saharan Africa accounts for

57%
of PROPARCO's equity
investments

In 2011, PROPARCO acquired stakes in several bank groups.

MEDITERRANEAN AND MIDDLE EAST

PROPARCO's actions are oriented toward to job-rich sectors. /



CASABLANCA – TUNIS –
CAIRO

The countries on the Mediterranean rim and in the Middle East are in the throes of change. Reforms undertaken in the past few years have led to substantial economic progress. Yet they were unable to satisfy the political and social aspirations of a rapidly growing population, as suggested by the demands for change voiced during the Arab Spring in 2011. This new political setting offers an unprecedented opportunity to build sustainable and inclusive growth. In this region, PROPARCO has been financing labor-intensive companies and financial intermediaries. It has also contributed to the expansion of renewable energy and telecommunications infrastructure.

The MENA region accounts for

29%
of deals signed

PROPARCO financing in the region was up 84% in 2011.

ASIA

In 2011, PROPARCO continued to take action in support of sustainable and shared growth. /



BANGKOK – DELHI –
BEIJING

Asia has been experiencing the highest growth rates in the world, a situation that brings the region new opportunities as well as unprecedented challenges. The growth strategies of Asian countries will have to reflect both local and global concerns with respect to such issues as protecting the environment, dealing with climate change and sharing the fruits of growth. Accordingly, PROPARCO has been working in Asia to promote sustainable growth models that are designed to protect the environment while reducing inequality. Examples include financing energy efficiency programs at an Indonesian paper company and a Chinese glass manufacturer.

Asia accounts for

77%
of PROPARCO's total
reduction in CO₂ emissions

In 2011, PROPARCO supported energy efficiency programs at several companies in Asia.

LATIN AMERICA AND THE CARIBBEAN

PROPARCO increased its involvement in Latin America and the Caribbean in 2011. /



SAO PAULO – MEXICO CITY

Over the past decade, Latin America has engineered a series of remarkable changes with the help of enhanced macroeconomic management, more effective government policies and successful social innovation. The region's strong growth must now be leveraged to achieve economic and social development. In support of this goal, PROPARCO has been promoting green and inclusive growth. It has contributed to the expansion of education and healthcare infrastructures, the expansion of renewable energy and the development of agribusiness, an industry that poses major environmental challenges. In 2011, PROPARCO stepped up its work in Argentina, Ecuador, Paraguay and Panama.

In Latin America and the Caribbean

45%
of PROPARCO's commitments
go to agribusiness financing

In 2011, PROPARCO granted five credit lines dedicated to agribusiness financing.

The institution

PROPARCO has a unique mode of governance and a seasoned executive team dedicated to development. Backing from the Agence Française de Développement and an international network are key assets to support the private sector in the South.

29 shareholders

Combined public-private governance, representing both the North and the South, distinguishes PROPARCO from its European counterparts.

Governance

Board of Directors



President

Dov ZERAH ⁽⁸⁾

Vice-President

Didier MERCIER

Directors

Dov ZERAH, President

Didier MERCIER,
Vice-President

Jean Jacques MOINEVILLE ⁽¹²⁾
Pierre JACQUET
Gilles BERGIN ⁽¹⁵⁾
Rémi GENEVEY

Agence française
de développement (AFD)
Stéphane FOUCAULT ⁽¹⁶⁾

BNP Paribas
Philippe SECHAUD ⁽¹³⁾

Banque marocaine
du commerce extérieur
(BMCE)
**Brahim
BENJELLOUN-TOUIMI**

BPCE International
et Outre-Mer
Philippe GARSUAULT

Corporación Andina
de Fomento (CAF)
Cornelius Petrus VONK

CDC Entreprises Élan PME
Pascal LAGARDE

Crédit Agricole SA
Éric HOTTELART ⁽⁹⁾

Development Bank
of Southern Africa (DBSA)
Admassu TADESSE ⁽¹⁴⁾

DEG
Karl WEINFURTNER ⁽⁷⁾

Natixis
Jean-Claude GARDETTE ⁽⁴⁾

Executive officers

Chief Executive Officer
Étienne VIARD ⁽¹¹⁾

Deputy CEOs
Colette GROSSET ⁽⁶⁾
Marie-Hélène LOISON

AFD
works council
representative

Tanguy DENIEUL ⁽⁵⁾

Observers
and advisors

Statutory observers:
Ministry of the Economy,
Finance and Industry
Frédéric CHOBLET ⁽²⁾

Ministry of Foreign and
European Affairs
Étienne ROLLAND-PIEGUE ⁽³⁾

Non-statutory observers:
Aga Khan Fund for
Economic Development
Lutaf KASSAM

West African Development
Bank
Éric BIO

BPCE
Josiane LANCELLE

Coface
Maëlia DUFOUR ⁽¹⁰⁾

GDF Suez
Denis SIMONNEAU

Veolia Eau
Patrice FONLLADOSA

Government
Commissioner

Claude WARNET ⁽¹⁾

Auditors

MAZARS
Max DONGAR
Guillaume POTEL

KPMG
Arnaud BOURDEILLE
Malcolm MCLARTY

A unique
shareholder base

PROPARCO brings together some 30 private- and public-sector shareholders from North and South, committed to development. This investor platform offers crucial expertise on strategic direction and corporate governance. /



57% | **Agence française
de développement**

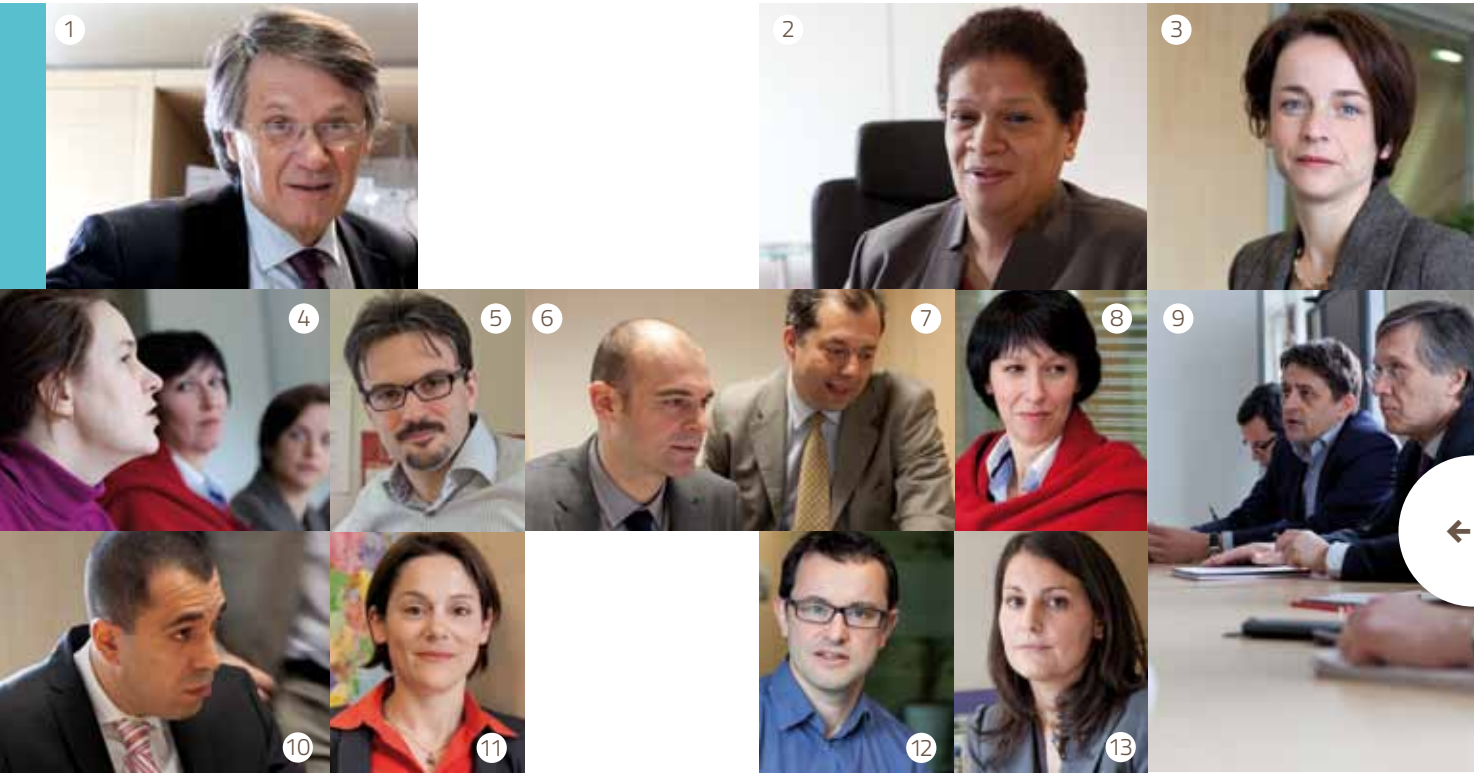
26% | **French financial
organizations**
BNP Paribas
BPCE IOM
CDC Elan entreprises PME
Coface
Crédit Agricole SA
Natixis
Société Générale

13% | **International financial
organizations**
Aga Khan Fund for Economic Development
BMCE Bank
Bank of Africa (BOA)
West African Development Bank (BOAD)
Corporación Andina de Fomento (CAF)
Development Bank of Southern Africa (DBSA)
DEG

3% | **Corporates**
Bolloré Africa Logistics
Bouygues
Bouygues Construction
DMC
GDF Suez
Saur International
LOCATOM
SIPH
Socotec International
Somdiaa
Véolia Eau - Compagnie générale
des eaux S.C.A

1% | **Funds and ethical
foundations**
Xavier de BAYSER
Amundi AFD Avenir Durables
Natixis Solidaire

Share capital breakdown: €420m



Executive team

Management team

- Étienne VIARD**⁽¹⁾
Chief Executive Officer
- Colette GROSSET**⁽²⁾
Deputy Chief Executive Officer in charge of the General Secretariat
- Marie-Hélène LOISON**⁽³⁾
Deputy Chief Executive Officer in charge of Operations

Operations

- Jérôme Bertrand-Hardy**⁽⁷⁾
Deputy Chief Operating Officer
+33 1 53 44 30 56
bertrand-hardy@proparco.fr
- Jean-Pierre Barral**⁽¹²⁾
Head of Infrastructure and Mining Division
+33 1 53 44 47 81
barraljp@proparco.fr
- Amélie July**⁽¹¹⁾
Head of Banking and Capital Markets Division
+33 1 53 44 35 60
julya@proparco.fr
- Laurent Klein**⁽⁹⁾
Head of Private Equity Division
+33 1 53 44 33 89
kleintl@proparco.fr

- Stéphanie Lanfranchi**⁽¹³⁾
Head of Corporate Division
+33 1 53 44 39 67
lanfranchis@proparco.fr
- Jean-Baptiste Sabatié**⁽⁵⁾
Risk Director
+33 1 53 44 42 75
sabatiej@proparco.fr
- Yazid Safir**⁽¹⁰⁾
Portfolio Director
+33 1 53 44 46 05
safiry@proparco.fr
- Marianne Sivignon-Lecourt**⁽⁸⁾
Legal Director
+33 1 53 44 34 14
sivignon-lecourt@proparco.fr
- Ghislain De Valon**⁽⁶⁾
Deputy General Secretary
+33 1 53 44 35 38
devalong@proparco.fr
- Cécile Couprie**⁽⁴⁾
Finance and Administrative Director
+33 1 53 44 38 31
couprie@c@proparco.fr

General Secretariat



AFD

The Agence Française de Développement (AFD) is PROPARCO's main shareholder, providing support in terms of human resources, financial backing, commercial network and geographic presence. /

An institution serving development

The AFD is a public institution that has been instrumental for 70 years to fight poverty and encourage development in southern countries and the French Overseas Territories. The AFD implements the French government's development policy.

With operations in more than 90 countries and in 12 French Overseas Territories, the AFD finances and supports projects that improve living conditions, support economic growth and protect the planet. Those projects cover such fields as education, maternal health, support for farmers and small enterprises, water supply, infrastructure, biodiversity conservation and mitigation of climate change. Financing approved by the AFD in 2011 totaled €6.8bn, including €1.1bn for French Overseas Territories.

In addition to financing in the form of loans, guarantees and subsidies, the AFD assists its partners with training, analysis and evaluation tools. Sub-Saharan Africa is the primary region for operations, and the AFD also has a strong presence in the Mediterranean and the Middle East, Asia-Pacific, Latin America and the Caribbean.

At the same time, there are distinct programs to address the needs of fragile states.

The AFD also cooperates with French and international academic networks providing analysis and input into discussions on the present and future of development. The AFD collaborates with a variety of French organizations such as local governments, businesses, trade associations and civil society organizations. In the international arena as well, the AFD has established partnerships with a wide array of European development assistance agencies, leading development banks, new donor countries and private foundations.

@ Further information can be found on the website www.afd.fr

An international presence

PROPARCO operates in 60 countries spanning four continents. By closely monitoring the local economic environment through a worldwide network of 12 offices, PROPARCO is able to meet client needs as effectively as possible./

The network

Mexico City

São Paulo

LATIN AMERICA AND THE CARIBBEAN

MEXICO CITY Central America and the Caribbean
SAO PAULO South America

MULTI-COUNTRY

3%
OF TOTAL COMMITMENTS

€25m
IN COMMITMENTS

27%
OF TOTAL COMMITMENTS

€231m
IN COMMITMENTS

Casablanca

PARIS

Tunis

Cairo

**HEADQUARTERS
PARIS**
151, rue Saint-Honoré
75001 Paris

Abidjan

Lagos

Douala

Nairobi

Johannesburg

SUB-SAHARAN AFRICA

ABIDJAN West Africa
JOHANNESBURG Southern Africa and Madagascar
LAGOS
NAIROBI East Africa
DOUALA Central Africa and Nigeria

29%
OF TOTAL COMMITMENTS

€251m
IN COMMITMENTS

MEDITERRANEAN AND MIDDLE EAST

CAIRO Middle East
CASABLANCA North Africa
TUNIS

29%
OF TOTAL COMMITMENTS

€252m
IN COMMITMENTS

ASIA

BANGKOK North and Southeast Asia
BEIJING
DELHI South Asia

12%
OF TOTAL COMMITMENTS

€106m
IN COMMITMENTS

19% of climate impact projects

A total of €165m was provided to a variety of energy efficiency and renewable energy projects in 2011.

The model

PROPARCO's role is to supplement the activity of commercial banks and private investors, stepping in where market forces prove insufficient. Through a broad range of long-term financing tools, technical assistance and environmental and social expertise, it delivers effective, relevant support to the private sector.

- 1. Transmission line at Phu My 2.2 gas-fired power plant.
- 2. Warehouse in Central America.
- 3. Repair shop at Phu My 2.2 power plant. /



A wide range of financial and technical tools

PROPARCO proposes a wide range of long-term financing tools, from loans to equity and guarantees. In addition, this financing is enhanced by a technical assistance offering. /



A CREDIT LINE IN SOUTH AFRICAN RANDS

Sasfin is one of the few banks in South Africa specialized in small- and medium-sized enterprises (SMES) – a focus that has earned it market share of over 10%. The bank was granted a loan of 361m rands, the equivalent of €35m, as part of a credit facility extended jointly by the development finance institutions DEG (Germany), FMO (the Netherlands) and PROPARCO. With this loan, greater long-term financing can be made available to South African SMEs hurt by the recent financial crisis. /

Long-term debt

PROPARCO offers a variety of loan products, including senior loans, mezzanine financing and convertibles. Denominated in foreign or local currencies, its loans range from €3m to €100m, with tenors of between 5 and 20 years. Thanks to a sub-participation agreement with the Agence Française de Développement (AFD), PROPARCO can increase its lending capacity. It also leverages co-financing arrangements with other development agencies and development finance institutions. In order to reduce exchange rate risk for its clients, PROPARCO offers loans in local currency, using a multi-donor hedging mechanism called TCX since 2007. In 2011, for example, PROPARCO granted loans in Mauritanian ouguiya (MRO), Nigerian naira (NGN) and South African rand (ZAR).

Equity

PROPARCO makes equity and quasi-equity investments in companies with the potential to boost growth in the South, using instruments that range

from capital contributions and shareholder current accounts to convertible bonds and participating loans. It also acquires stakes in investment funds and funds of funds to achieve maximum impact. As a result, companies get access to the capital they need to grow their business and hands-on assistance in crafting strategy, improving governance and accessing international business networks. These direct and indirect equity investments range in size from €0.5m to €20m. All are minority interests intended for sale within five to eight years. During this period, PROPARCO strives to promote the highest corporate governance standards at investee entities.

Financial guarantees

THE PROPARCO SIGNATURE provides clients with a solvency guarantee that may take a variety of forms: bond guarantees, interbank loan guarantees and local currency loan guarantees.

Building capacity

THE PRIVATE SECTOR requires more than just funding. To attain greater strength, it also needs support in a broad range of areas that include finance management, human resources, marketing, environmental and social management and corporate governance. Technical assistance not only enhances viability, but also encourages the long-term adoption of responsible business models with a major impact on development.

ALONG WITH its multiple financing tools, PROPARCO offers technical assistance to help clients improve their financial, social and environmental performance. This has proven to be an effective way of facilitating change management and fostering innovation. Technical assistance resources from the FISEA fund and the AFD's Capacity Building Governance Facility (FRCG) are used to finance such projects. They include consulting assignments for PROPARCO clients and technical assistance projects carried out by investment funds to build capacity at their portfolio companies. This combination of financing and technical assistance



FISEA: GETTING INVOLVED AND INVESTING IN AFRICAN BUSINESSES

Set up in 2009, the Investment and Support Fund for Businesses in Africa (FISEA) is an investment fund held by the AFD and managed by PROPARCO. It makes equity investments in businesses, banks, microfinance institutions and investment funds operating in Sub-Saharan Africa. With a five-year investment target of €250m, the fund is one of the key components of France's Initiative to promote growth and jobs in Africa. Its goal is to supplement the investment activity of private sector investment funds. FISEA targets more unstable regions, as well as sectors traditionally bypassed by investors, such as agriculture, microfinance and health care. A €5m subsidy budget has been earmarked for technical assistance to companies in the FISEA investment portfolio.

In 2011, the FISEA fund took part in establishing the European Solidarity Financing Fund for Africa (FEFISOL), and contributed funding to its technical assistance facility.

« The rural microfinance market in Sub-Saharan Africa is still under-served. Microfinance institutions come up against constraints that are inherent in rural areas, like the distance to clients and the seasonal nature of business. Because they are more fragile, these organizations have a hard time refinancing. That is why as a social investor, we took part in creating the FEFISOL fund dedicated to rural financing in Africa. Through the fund, we can meet their refinancing needs in local currency. But we also offer them technical assistance in developing new products and services. And that is the right combination for this sector.



Anne-Sophie Bougouin / FEFISOL Fund Manager, SIDI

1. Employee working on a turbine at the Phu My 2.2 gas-fired power plant./



« Over the years, PROPARGO has built up real expertise in the key areas for development in the South. We further the cause of development with a combination of financial and technical know-how.

>> **Marie-Hélène LOISON** / Deputy Chief Executive Officer in charge of Operations, PROPARGO



1. View of Bangkok.
2. Micro-entrepreneur in Burkina Faso. /



INFRASTRUCTURE

Efficient infrastructure networks are critical to attracting private investment, reinforcing the local economy and delivering essential services to the population. To address these challenges, PROPARGO co-finances large-scale infrastructure projects. The aim is to build and upgrade infrastructure, as well as to make it as widely accessible as possible. With its long-term resources, PROPARGO supports projects in a wide variety of sectors, including energy, telecommu-

nications, transport (by air, rail, sea and road), water supply and sanitation. In the emerging countries, the focus is on financing renewable energy sources like biomass and biogas, as well as wind, geothermal, water and solar power. PROPARGO also supports mining projects that meet high environmental and social standards.

BANKS AND FINANCIAL MARKETS

Insufficient access to finance is one of the primary obstacles encountered by companies. In fact, business growth is dependent on the existence of an efficient banking sector and smoothly operating financial markets. To help build sustain-

able local financing capacity, PROPARGO therefore supports financial institutions. Most of the support goes to banks and specialized financial institutions. In the region where it has the longest history of involvement, PROPARGO offers clients long-term credit lines and equity financing. In the emerging countries, the emphasis is on credit lines dedicated to specific sectors like renewable energy and agriculture. PROPARGO also supports microfinance institutions as a means to have a

CORPORATE

Businesses drive growth, generate tax revenue for states and create significant employment opportunities. Their substantial environmental and social impact is also recognized. PROPARGO finances local, regional and international businesses with a significant and lasting effect on development. The issue of food security and the expansion of consumer markets have made support for agribusiness a key priority. PROPARGO is also involved in manufacturing, building materials, sustainable tou-

rism, higher education and health care. In addition to financing, it supports its clients in the improvement of their environmental and social performance. PROPARGO's offering enables businesses to access long-term resources that may be unavail-

Encouraging low-carbon development

CLIMATE CHANGE is a core focus for PROPARGO – as attested by its efforts to promote low-carbon business models. There is a dual rationale behind this strategy: combating climate change and contributing to sustainable development. PROPARGO supports a large number of projects centered on renewable energy, energy efficiency and biomass recovery. Its approach also includes disseminating high environmental standards and promoting them among its clients and investors.

PROPARGO has adapted the AFD's Climate Development strategy to the private sector, selecting projects that will have a positive impact on climate change. The carbon footprint of projects is systematically measured on the basis of ex ante estimates of how much greenhouse gas will be emitted, avoided or reduced each year.

<< Supporting our clients as they improve their environmental and social performance – that’s what we know how to do and are committed to doing.

>> **Odile CONCHOU** / Head of the Environment, Social and Impact Unit, PROPARCO



PROPARCO strives to uphold responsible financing principles in all projects. This approach, which is deeply rooted in the institution, is overseen by PROPARCO’s Environment, Social and Impact Unit. /



A SUCCESSFUL SOLAR ENERGY PROJECT WITH A BOLD ENVIRONMENTAL AND SOCIAL PLAN

PROPARCO granted a loan of US\$7.15m to the T-Solar group to finance two photovoltaic farms in Peru. Following an E&S assessment of the project, the scope of the farms was adjusted to protect nearby archaeological vestiges and livestock breeding areas. T-Solar also committed to implementing an E&S program covering such issues as employee safety and waste management. An external consultant will be monitoring implementation on an ongoing basis. /

In 2009, PROPARCO signed the declaration on Principles for Responsible Financing endorsed by European Development Finance Institutions. How is this commitment reflected in your operations?

→ First and foremost, we follow the AFD Group’s approach to managing environmental and social (E&S) risk in every one of our projects. Our policy is to support responsible business models, which means paying careful attention to E&S risks in the projects we finance. It is each client’s responsibility to manage those risks. But we have to make sure the client is committed to eliminating them and, when they can’t be avoided, to mitigating or offsetting them. Our job consists primarily of supporting the client in that process.

What other commitments does your endorsement of these Principles entail?

→ A commitment to go much further than strict risk management. Our role also involves helping our clients improve their E&S performance. For example, we can finance technical assistance to support their efforts to obtain certification.

What benefits does this approach offer the client?

→ We believe that effective E&S management enhances the operational performance of businesses, and there is a considerable body of evi-

dence backing this belief. Controlling natural resource consumption, reducing stressful working conditions and preventing accidents are all ways of lowering long-term costs. The private sector can and should play an active part in these areas.

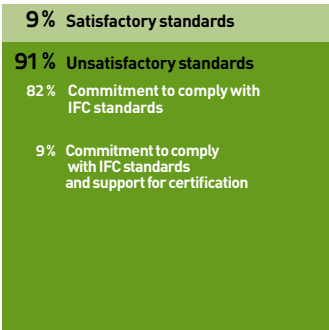
How are the E&S measures set for a given project?

→ They are established after completing an E&S evaluation conducted by external consultants or by in-house specialists. E&S analysis is an integral part of the appraisal process. Based on this analysis, our Environment, Social and Impact Unit works out an action plan with the client that specifies its responsibilities, what actions are to be undertaken and within what timeframe. This creates a contractual obligation that is included in the financing agreement.

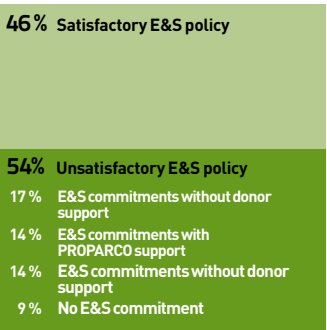
How do you work with financial intermediaries?

→ We always take a similar approach, whether we are dealing with banks, investment funds or micro-finance institutions. We estimate their resolve and ability to manage E&S risk in their portfolios and then assist them, as needed, in designing appropriate policies. In 2011, we signed five technical assistance agreements with African and Latin American banks.

E&S commitments by PROPARCO clients (excl. financial intermediaries) (2011)



Commitments to implement E&S policy by PROPARCO financial intermediary clients (2011)



MANAGING RISK
Don't harm

Compliance with local regulations

Compliance with international standards

IMPROVING PROJECT QUALITY
Adding value

Business certification: FSC (forests), ISO 14001 (environmental management), OHSAS 18001 (occupational health and safety), etc.

Policy development on client protection, HIV/AIDS policy, gender policy, etc.

Greater population access to services like electricity and healthcare.

How do you monitor compliance with E&S commitments?

→ Clients are expected to provide us with E&S reports so that we can judge how well they meet their commitments within the agreed timeframe. For higher-risk projects, on-site compliance monitoring will be carried out by PROPARCO staff or external consultants.

Methodology

PROMOTING HIGH PERFORMANCE STANDARDS

At the identification stage, projects are divided into three categories of potential E&S risks. Financial institutions are classified on the basis of how much risk their portfolio is exposed to. The level of risk assigned to a project will determine the scope of E&S due diligence and the benchmark standards to be applied. In every case, each project is assessed against the relevant country’s own regulations. With high-risk projects, PROPARCO applies the performance standards set by the International Finance Corporation (IFC), a member of the World Bank Group, and by the International Labor Organization. Developed in 2006 and updated in 2012, the IFC standards have become the benchmark for the private sector. They set standards in eight key areas:

- Assessment and management of E&S risks and impacts
- Respecting workers’ rights and ensuring decent working conditions
- Resource efficiency and pollution prevention
- Community health, safety and security
- Land acquisition and population resettlement
- Biodiversity conservation and sustainable management of living natural resources
- Defending rights of indigenous peoples
- Safeguarding cultural heritage.

Over the past several years, PROPARCO has been stepping up its efforts to measure results and impacts. The overriding goal is to make a greater contribution to development in the South./

Measuring results

Selecting projects

PROPARCO has made developmental impact a major factor in project selection. At the same time, it considers profitability, the level of risk and fit with the institution’s strategy. All these factors are analyzed during the project review process. The PROPARCO staff uses the GPR® methodology developed by the German development finance institution, to measure the expected results and impacts of projects in a standardized, transparent way. Enriched with qualitative analysis, these indicators enable ex ante project quality assessments and feed into the decision-making process.

Capitalizing on know-how

PROPARCO has introduced a monitoring and evaluation framework. Its clients are requested to track a series of indicators on results and impacts as long as PROPARCO holds the project in its portfolio. Ex post evaluations are selectively conducted to analyze outcomes and help learn from experience. Whether based on ordinary feedback or more extensive cross-cutting analysis, these evaluations make a valuable contribution to the learning curve. In 2011, for example, PROPARCO took part in a retrospective analysis of three independent power producer projects in East Africa. This approach to



1. Wind farm in Tetouan, Morocco.
2. School in Burkina Faso. /



GPR® rating of projects approved in 2011

leveraging knowledge and skills is essential to enhancing operational practice at PROPARCO.

Reporting and steering

EACH YEAR, PROPARCO consolidates the GPR® ratings, at their ex ante value, for all projects it has approved. These results yield a comprehensive view of project activity and targeted performance, and provide PROPARCO with valuable strategic insights. The consolidated results also enable reporting to both shareholders and the general public on the institution’s contribution to development.



Developmental impact of projects approved in 2011

Improving measurement of results

MEASURING RESULTS, in combination with capitalization of know-how, is essential to designing projects more effectively and maximizing their long-term contribution to development. As no standardized tools currently exist for reporting results in a consistent fashion, PROPARCO has been working with other development finance institutions to devise common indicators for measuring contributions to development. Shared discussions of project takeaways have helped fuel this initiative. This has given PROPARCO an opportunity to take part in improving and disseminating effective practices for measuring results and financing the private sector.

IMPACT OF PROPARCO FINANCING

>ROLE OF PROPARCO	>EFFECTS ON DEVELOPMENT		>DEVELOPMENTAL IMPACT
	DIRECT EFFECTS	INDIRECT EFFECTS	
Finance projects on a subsidiary basis	Direct job creation	Indirect job creation	Inclusive and sustainable growth
Mobilize further funding	Tax revenue	Enhanced local value chains	
Achieve non-financial impact (e.g., environmental, social and governance improvements)	Training, technology and know-how	Enhanced local infrastructure	
	Social and environmental standards	Energy efficiency and renewable energy	
	Governance and management best practices	Ripple effect and improved competitiveness	
	Access to new products and services	Deeper and stronger local financial systems	

Source: based on the Swedfund Sustainability Report (2009) and the GPR® benchmarks

In 2011, the FISEA fund financed a technical assistance facility for the Africa Health Fund, managed by fund manager Aureos Capital.

« We manage the Africa Health Fund, which is a sector-specific fund specializing in financing the health sector in Africa since 2009. This multi-donor initiative, joined by PROPARCO, aims to support the development of affordable and high-quality healthcare provision to communities at the base of the pyramid. We are extremely demanding about building sustainable businesses which are impactful and profitable. This imperative is reflected in our operational processes, from the selection criteria of the investments to the remuneration system. The originality of the fund is that it rigorously measures the development impact of our portfolio on the basis of an independent evaluation. This all ties together to form part of the managers’ remuneration.



Jacob Kholi / Fund Manager, Aureos Capital



Operations in 2011

With substantial investments in renewable energy, a revamped offering to the financial sector and an expanding presence in politically unstable areas, PROPARCO had a good year in 2011.

71
facilities

PROPARCO maintained a high level of activity in 2011, with 71 facilities in more than 30 countries.

1. Workers constructing a sluice in Guinea.
2. RVR train from Mombasa, Kenya, to Kampala, Uganda.
3. Rice grower in Vietnam. /



Supporting **railway development** in East Africa

RESPONSIBILITY A JOINT INITIATIVE

Five financial institutions have joined forces to design a series of measures aimed at mitigating environmental and social risks. RVR has specifically committed to improving working conditions for its employees, cleaning up a number of work sites and increasing the safety of local communities. In addition, three resettlement and relocation action plans for the inhabitants living along the railway line are under way. Their implementation is essential to the success of the project, and the financial contributors will be observing it closely. /

THE RAIL LINE between Kenya and Uganda is back on the map after decades of under-investment. Rift Valley Railways (RVR), a private-sector company with a concession to operate the Mombasa–Kampala rail line, has undertaken major rehabilitation work. This large-scale program will re-establish a strategic transport corridor between the two countries. Freight conveyed on this line fell from 4.5Mt in 1975 to less than 2Mt today, and with inadequate maintenance recognized as the cause of numerous accidents, distrust of rail transport grew. The RVR investment plan is designed to bring about a return to reliable operations and quality service for passengers.

RAIL TRANSPORT has unquestionable advantages over road transport: it is faster, more cost-competitive, protects freight more effectively and has a smaller carbon footprint. These advantages were what prompted Citadel Capital, an African private equity firm, to get involved in East Africa’s rail sector. Acquiring a controlling interest in RVR was the first step in its investment strategy for the region. As a legacy partner of Citadel Capital, PROPARCO was called on to participate in this large-scale project. Through the Investment and Support Fund for Businesses in Africa (FISEA), it committed \$US10.7m as a co-investor with the International Finance Corporation (IFC), FMO, DEG and the ALAC fund managed by the IFC. Because it will cut freight transport costs and reduce traffic congestion in the Port of Mombasa, this investment plan should have a powerful economic impact. It thereby opens up whole new vistas for regional economic integration in East Africa.

Karim SADEK /
Managing Director,
Citadel Capital



Because East Africa depends heavily on long-distance trucking, transport costs there are among the highest in the world. They can account for 50% of product selling prices in landlocked countries like Uganda. The problem goes back to insufficient investment in infrastructure, which has resulted in rail capturing less than 10% of the transport market. An efficient rail network could cut transport costs by 35% in East Africa, so that is what we aim to achieve with the support of PROPARCO and other investors in RVR projects.

Developing **agribusiness** value chains

Food security and the expansion of consumer markets will represent major challenges for agriculture and agribusiness in the coming decades. Because meeting those challenges is a vital priority, PROPARCO promotes private investment across the entire agricultural and agribusiness value chain, from farming and agricultural inputs upstream to processing, marketing and distribution downstream.

Supporting agricultural production

It is essential to develop agricultural production for the market, which means supporting productivity and improving profit margins for farmers. PROPARCO provides both debt and equity financing in support of well-established producers. For example, in 2011, a €8m loan with nine-year tenor was provided to Sucrivoire – a sugar subsidiary of SIFCA in the Ivory Coast – to be used for upgrading production facilities. Preserving the production potential of farmland through optimal resource stewardship is also an important focus at PROPARCO.

Developing the food supply chain

Enhanced logistics and transport infrastructure is one of the keys to success in agribusiness. Ensuring access to high-quality services – from inputs to training and consulting – also leads to greater efficiency for the sector as a whole. PROPARCO



works with commodity trading firms and with specialists in supply-chain assets and planter certification programs. It also funds local processing businesses. PROPARCO granted a US\$15m loan to support the growth of Wadi Holding, an Egyptian agribusiness group.

Promoting agribusiness diversification

PROPARCO promotes diversification projects into areas like biomass cogeneration. At a time of food-price volatility, such projects can provide a source of additional revenue for producers.

Encouraging funding for agriculture and agribusiness

Inadequate access to funding for farmers and agribusiness companies often stands in the way of agricultural growth. To strengthen local lending capabilities, PROPARCO provides commercial banks with specific lines of credit for agribusiness financing. In 2011, it granted a US\$30m facility to Banco Regional, a Paraguayan bank, to enlarge its agribusiness loan portfolio.



BOOSTING THE DAIRY SECTOR IN MONGOLIA

PROPARCO extended a US\$2.5m loan to Mongolia’s leading dairy company, SUU, an organization with a unique business model based on direct sourcing from 2,500 local livestock breeders. Thanks to this funding, SUU is now poised to increase production, extend its local collection network and improve its quality control system. /

Supporting low-carbon projects is a core component of PROPARCO's strategy. In 2011, its financing will contribute to reducing and avoiding greenhouse gas emissions by 2.3 million teq CO₂ per year. /

<<
Access to long-term financing is crucial to increasing the use of renewable energy in the emerging and developing countries.
>>

Emmanuelle Matz /
Head of Infrastructure and Mining Division, PROPARCO



1. Recycled paper rolls.
2. Waste paper inventory. /



An energy efficiency project in Indonesia

In 2011

421MW

Renewable energy projects will enable the production of 421MW and the avoidance of more than 500,000 teq CO₂ in emissions per year.

40%

Nearly 40% of all PROPARCO Infrastructure and Mining Division financing goes to renewable energy projects.

What part did renewable energy play in PROPARCO's overall activity in 2011?
→ Renewable energy addresses not only the problem of climate change but also the lack of secure energy for countries in the South. And because the private sector has a vital role to play in this area, we have been steadily increasing our focus on renewables. After providing substantial support to wind and geothermal power in 2010, we moved on to hydropower. In 2011, PROPARCO backed the development of a range of small- and medium-sized hydroelectric plants operated by the Brennand Group in Brazil and the Bajo Frio run-of-the-river plant in Panama. We have also invested in Peru's up-and-coming solar power sector, taking part in Latin America's first large-scale solar energy project. Thanks to our 15-year mezzanine loan, Isolux was able to structure the project financing package on optimal terms and sell the power generated at a more competitive rate.

Why finance renewable energy development in Latin America?
→ The region includes economies with high growth rates that require considerable power generation capacity. Most Latin American countries still depend heavily on fossil fuels, although they have major potential as water, wind and solar power producers. Whenever governments adopt proactive policies in support of renewable energy, the role of a development finance institution like ours is to help turn those policies into actual projects.

Could you describe PROPARCO's renewable energy work in Sub-Saharan Africa?
→ In most countries in the region, increasing access to electricity and limiting power outages are the main concern, which requires relatively inexpensive baseload production capacity. This is why we promote hydroelectricity – a source of power whose potential is still largely untapped. Over the past few years, we have also financed geothermal and biomass cogeneration projects. Solar and wind power projects with private sector financing are less common, but we hope to be able in the future to provide funding to them in the region.

RESPONSIBILITY
A BOLD ENVIRONMENTAL AND SOCIAL PLAN
This energy efficiency project is accompanied by a bold environmental and social plan. Although not required to by Indonesian regulations, FAJAR PAPER has pledged to measure and control dioxin and furan emissions from its two waste paper incinerators. In 2011, the company also introduced a system for monitoring environmental and social compliance by its subcontractors, improved storage conditions for hazardous products and ensured the access to a hazardous landfill site. /

WITH ITS FOREST LAND diminishing by nearly two million hectares each year, Indonesia has one of the highest deforestation rates and is the third-largest emitter of greenhouse gases in the world. FAJAR PAPER, an Indonesian packaging paper manufacturer, has responded with strong environmental and social commitment.

THE COMPANY obtained ISO 14001 (Environment Management System) certification in 2010. As the second-largest industrial packaging paper producer in Indonesia, FAJAR PAPER distinguishes itself from its competitors by using recycled paper exclusively. It sources 50% of its supply locally through a network of hundreds of waste paper collectors.

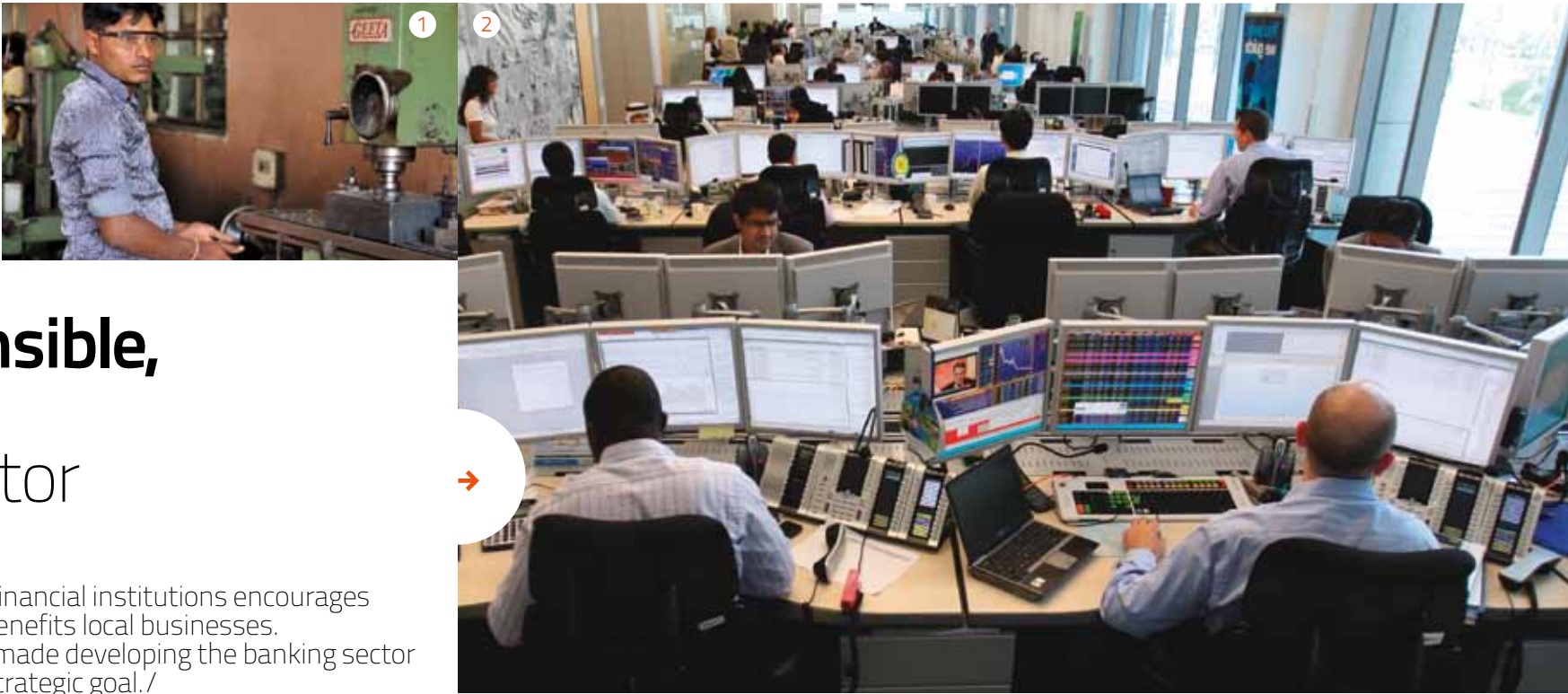
PROPARCO granted FAJAR PAPER a US\$10m senior loan facility to support its energy efficiency project. The facility is to be used to finance the construction of an incinerator that can treat all of the company's waste paper. Together, FAJAR PAPER'S two incinerators will be able to generate 34 tons of steam, accounting for 10% of the steam used in the paper production process. As a result, the company will be consuming less energy and conveying less waste to dumps in the area.

PROPARCO FINANCING has not only brought FAJAR PAPER the long-term resources it needs; it also represents a contribution to the fight against climate change. With the help of the new incinerator, FAJAR PAPER will be cutting its greenhouse gas emissions by 80,000 teq CO₂ per year.

Marco Hardy /
Head of Investor Relations, FAJAR PAPER

<<
FAJAR PAPER has made a considerable effort in the last several years to reduce the ecological footprint of its manufacturing activity. We have invested in a waste-water treatment system that allows us to recycle and reuse 80% of the recycled water. Reduction in energy consumption is guaranteed through the new incinerator and the two co-generators.
>>

1. Small machine shop in India.
2. Trading room in the Middle East./



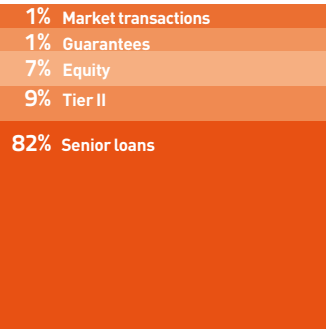
For a responsible, sustainable financial sector

Supporting banks and other financial institutions encourages long-term investment that benefits local businesses. Accordingly, PROPARCO has made developing the banking sector and financial markets a key strategic goal./

WHEN QUESTIONED about their main bottlenecks, businesses in developing countries consistently mention access to financing. Their ability to grow clearly depends on an efficiently operating financial system. In broader terms, bank and financial intermediation also promotes optimal resource allocation. A number of studies have established a statistical correlation between financial sector development and economic growth.

PROPARCO considers support for banks and other financial institutions a vital component of its work. In 2011, it provided €435m in financing to this sector alone. In Sub-Saharan Africa, a few Mediterranean countries, and Asian countries like Laos, Vietnam and Cambodia, PROPARCO strives to consolidate the financial sector with long-term resources. A wide range of tools are mobilized, from equity investments to mechanisms for stimulating financial centers to refinancing credit lines. In other geographic regions, PROPARCO focuses on a few specific business sectors. The concept of dedicated credit lines prevails for supporting the fight against global warming, the growth of agribusiness, microfinance and the environment. In 2011, for example, PROPARCO extended a €50m credit line dedicated to clean energy financing in Turkey.

THE PRIME FOCUS of financing is on local and international banks as well as more specialized



Banking and financial market portfolio in 2011 – by product (% of total portfolio) at Dec. 31, 2011

financial institutions. In 2011, PROPARCO branched out into the insurance sector, investing in the Nigerian insurance company GTA and in the reinsurance company AFRICA RE.

PROPARCO confirmed its ambitions in Sub-Saharan Africa, a region that received 35% of its banking and financial sector financing in 2011. Two banks in Ghana, Fidelity Bank and Cal Bank, were



REINSURANCE – A DRIVER OF DEVELOPMENT

Because the insurance industry in Sub-Saharan Africa is under-capitalized, the need for reinsurance is even more acute. As the leading reinsurance group in Sub-Saharan Africa, AFRICA RE reinsures more than 1,000 insurance and reinsurance companies, primarily on non-life risks like fire and accident. PROPARCO subscribed US\$15m for the capital increase carried out by AFRICA RE. Reinsurance promotes the development of the insurance industry and improved risk management. /

granted credit lines to support the country's burgeoning banking industry.

PROPARCO acquired an equity stake in Oragroup, a banking network with operations in six countries in West and Central Africa. In addition, Sasfin, one of the few banks in South Africa to focus primarily on the SME market, obtained a seven-year loan of €35m as part of a credit facility extended jointly by PROPARCO, DEG and FMO. PROPARCO granted a US\$15m senior credit facility to Zanaco, a universal bank in Zambia whose defining trait is a focus on penetrating rural areas and under-banked segments of the population. By supporting these banks, PROPARCO fulfils its function as a catalyst in areas that have so far attracted too few private investors.

IN 2011, PROPARCO increased its footprint in Latin American banking, awarding Argentine, Brazilian and Paraguayan banks a total of five credit lines dedicated to agribusiness financing. For some of these banks, environmental and social action plans have been developed in parallel. For example, Banco Regional, Paraguay's number one bank, has pledged to implement a system for assessing environmental and social risks. Significant deals were also signed in Asia's banking sector, including a loan to Sacombank in Vietnam and another to Panin Bank in Indonesia.



<< The vision of microfinance we convey to our clients combines social responsibility with financial performance.

>>
Élodie Parent /
Senior Investment Officer,
PROPARCO

How did PROPARCO support the microfinance sector in 2011?

➔ 2011 was a great year for our microfinance work, with nearly €50m in new commitments. Through debt and equity financing, we provided support to four microfinance lending organizations. All are mature institutions striving for a proper balance between financial and social performance. We also financed two investment funds specializing in rural microfinance. We see this as an effective way of supporting promising smaller organizations.

How do you measure balance between financial and social performance?

➔ Together with the network CERISE, we have developed new evaluation tools that give us a deeper understanding of how microfinance institutions address such sensitive social issues as over-indebtedness and product pricing. These tools also help us engage each institution in constructive dialogue on its social performance.

PROPARCO has signed an important deal with the Fondation Banque Populaire pour le Micro-crédit (FBPMC) in Morocco. What was the rationale behind this decision?

➔ We got involved after the FBPMC acquired Zakoura Foundation. We granted a €10m loan to enable the FBPMC to rebuild its capital and develop a loan portfolio commensurate with its enlarged scope and workforce. Our goal was to take part in the consolidation of Morocco's microfinance sector after the serious crisis it underwent in recent years.

Why support rural microfinance?

➔ There is not much of a market yet in the countryside, and the low rate of access to financial services holds back local business initiatives. That's why we are making a special effort to develop rural financing. Along with other institutions, we have invested in the European Solidarity Financing Fund for Africa (FEFISOL), and in Rural Impulse Fund II (RIF II), both of them focused on microfinance in rural areas.



Expanding available healthcare in **Brazil**

Myriam Bouslama /
Head of the São Paulo Regional Office,
PROPARCO



The private sector has a key role to play in expanding and improving available healthcare. With our long-term resources, we want to support reference hospitals like HCor. The current investment program will increase operating capacity by 30%, adding 75 beds and five new operating rooms. Moreover, the two new buildings will obtain LEED certification. This will deepen the environmental and social commitment of HCor.

AN AGING POPULATION and the expansion of healthcare coverage have led in the past few years to growing demand for quality healthcare in Brazil. With the prevalence of chronic and degenerative diseases rising steadily, the country's hospital facilities have been unable to keep pace with increasing demand for care, particularly in the area of cancer treatment. The private sector, with its high-tech equipment, therefore has a major role to play in enhancing healthcare delivery in Brazil.

PROPARCO has granted a 10-year senior loan of US\$20m to the Brazilian Hospital do Coração de São Paulo (HCor) in support of its expansion and modernization program. Specialized in treatment of cardiovascular disease, this center of clinical excellence has earned Joint Commission International accreditation for quality and safety in healthcare delivery. PROPARCO's financing, alongside the Brazilian bank BNDES, will help HCor diversify its activity.

THE PROJECT will create 15 additional beds in pediatric cardiology and involves the construction of two buildings for oncology and cardiology. The new integrated oncology center will provide cancer patients with comprehensive care and access to all medical examinations at a single location. This financing will thus contribute to improving cancer patient care in Brazil.

IMPACT STRENGTHENING THE HEALTHCARE SECTOR

HCor has a partnership with Brazil's Ministry of Health under the country's Hospitals of Excellence program. Under this partnership, HCor provides institutional support to public hospitals by training healthcare professionals and disseminating clinical and medical best practices. At the same time, HCor develops other philanthropic initiatives like research programs and the establishment of care protocols. For example, HCor has supported a program for improving care for children with complex heart diseases. /

Supporting **economic reconstruction** in post-conflict countries



1. Container ship at port terminal.
2. Worker on building site in the Palestinian territories. /



Boosting the SME sector

Years of conflict can weaken the private sector and leave it severely undercapitalized. In addition, a sluggish business climate, dwindling capacity and the informality all tend to limit the role of private enterprise. Yet private sector involvement is crucial to any reconstruction process. A well-structured, energetic private sector boosts growth and helps maintain the peace. Accordingly, the private sector has an essential role to play in the economic recovery of countries in or emerging from conflict situations. In 2011, PROPARCO supported private initiatives in the Ivory Coast, Iraq, the Democratic Republic of Congo and Zimbabwe.

SMEs are particularly vulnerable to conflict situations. Although a vital component of the private sector, they suffer from limited access to funding and from organizational weaknesses. To assist such businesses, the Maris Africa Fund acquires majority stakes in early-stage SMEs in post-conflict African countries. In addition to its contributions to the Fund, PROPARCO financed in 2011, the related technical assistance facility, whose purpose is to enhance the technical and institutional capacity of the businesses in the portfolio. This combination of equity and technical assistance has proven to be a particularly effective recipe for supporting SMEs.

Developing telecommunications

In regions with major restrictions on the movement of persons and goods, access to high-quality mobile telephone service can be critical to economic activity and personal security. Alongside the IFC, PROPARCO extended a US\$75m loan to the mobile network operator Zain Iraq to help it expand and upgrade its network in Iraq. The operator will be using this funding to deliver high-quality phone service across the entire country. Efficient mobile phone networks produce positive spillover effects on the rest of the economy.

Building production capacity

Years of conflict also take their toll on industrial facilities. At the Ivory Coast sugar company Sucrivoire, productivity lagged as a result of obsolete plant and equipment. PROPARCO granted this subsidiary of SIFCA an €8m loan so that it could rehabilitate and upgrade its production facilities. Such a large-scale investment program, in a key industry for the country, should help bring about a return to economic growth in the Ivory Coast. It is backed up by a bold environmental and social plan under which Sucrivoire has committed to managing water resources more effectively and protecting biodiversity.



SUPPORTING IRAQ'S CONSTRUCTION INDUSTRY

After long years of conflict, Iraq faces a tremendous need for reconstruction. With large-scale investment now expected in housing, infrastructure and energy production, construction materials will be in great demand. Alongside the IFC, PROPARCO granted a US\$20m loan to Bazian Cement Corporation, a Lafarge subsidiary in Iraq, to boost national cement output. /



Results in 2011

In 2011, PROPARCO sustained the momentum. With €865m in new commitments and a portfolio totaling €2.6bn, PROPARCO has reaffirmed its status as a leading development finance institution focused on the private sector.

€3bn
on the
balance sheet

PROPARCO's balance sheet at December 31, 2011, was 21% larger than at December 31, 2010.

Operating results in 2011



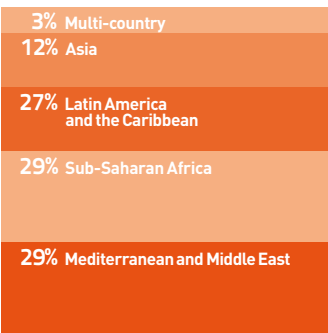
PROPARCO's commitments in 2011

In 2011, PROPARCO maintained its high level of activity, with €865m in total commitments. As this result confirms, PROPARCO stands out as a responsible investor of the first rank in the South./

TOTAL COMMITMENTS

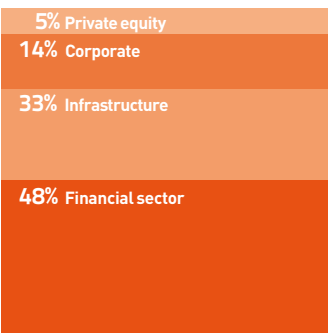
In the 2011 fiscal year, the total amount of PROPARCO commitments in the form of loans, equity and other securities reached €865.3m. This total includes €19.3m in equity commitments for the Investment and Support Fund for Businesses in Africa (FISEA) managed by PROPARCO. Lending activity continues to be largely predominant, accounting for 89% of all deals signed.

Commitments by geography in 2011 (% of total commitments)



In the 2011 fiscal year, PROPARCO signed 71 facilities in more than 30 countries. Africa remains very much the focus of this activity, with close to 40% of commitments going to Sub-Saharan Africa and the Mediterranean area. PROPARCO also strengthened its presence in Latin America and the Caribbean in 2011, a region that now accounts for nearly 27% of total commitments. Business was maintained in Asia, a region that saw €106m worth of commitments.

Commitments by sector in 2011 (% of total commitments)

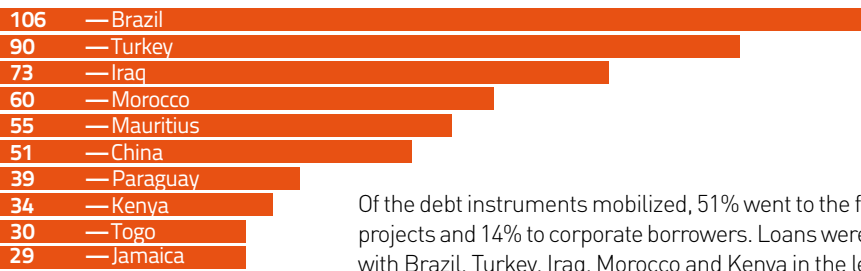


PROPARCO continued to support financial institutions in 2011. This activity, which represents 48% of its total business volume in 2011, enables PROPARCO to promote long-term investments in the countries of the South. A total of 12 infrastructure projects totaling €280m were also financed in 2011 in the energy, telecommunications, transport and mining sectors.

LOAN COMMITMENTS IN 2011

In 2011, PROPARCO primarily mobilized debt instruments. It signed 46 loan agreements for a total amount of €770.9m, versus €734.1m in 2010. This total includes €206.1m in sub-participations on behalf of the AFD and €11.6m on behalf of third parties. For 2011, the average loan amount came to €16.8m.

Loans commitments by country in 2011 (for the top 10 countries in terms of volume) in €m



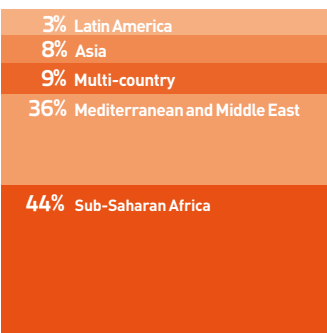
Of the debt instruments mobilized, 51% went to the financial sector, 35% to infrastructure projects and 14% to corporate borrowers. Loans were granted to recipients in 29 countries, with Brazil, Turkey, Iraq, Morocco and Kenya in the lead.

PROPARCO EQUITY INVESTMENTS IN 2011

Equity investments accounted for 8% of total financing in 2011 and for nearly 30% of new facilities for the year. PROPARCO signed 16 investment projects in 2011, for a total investment volume of €66.1m, versus €156.3m in 2010. The average investment amount was €4.1m.

In 2011, PROPARCO made 11 direct investments for a total of €33.3m. Eight projects were rolled out in Sub-Saharan Africa, primarily in the banking and insurance sectors. Three other projects were funded in the Mediterranean and in the Caribbean. PROPARCO also invested €32.8m in five investment funds: one generalist fund operating in North Africa, one fund specializing in microfinance, one agribusiness fund in India and one carbon assets fund in the Mediterranean.

Equity investments by geography in 2011 (as a % of total equity investments)



FISEA'S INVESTMENT LINES IN 2011

The FISEA fund, which invests exclusively in Sub-Saharan Africa, underwrote eight projects in 2011 for a total of €19.3m, versus €47.6m in 2010. These underwritings comprise two investments in pan-African funds focusing on the forestry sector and microfinance; two direct investments in the transport sector and microfinance, and four technical assistance projects.

1. A water and sanitation project in Jordan. /



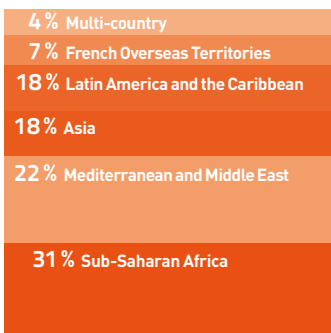
Operating results in 2011



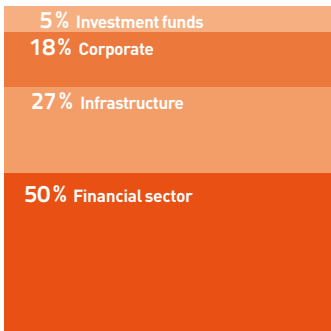
PROPARCO's portfolio

PROPARCO's portfolio continued to grow in 2011, thanks to its robust lending activity. The total value of the portfolio at December 31, 2011, reached €2.6bn. /

Portfolio by geography – loans and equity (% of the total portfolio) at December 31, 2011



Portfolio by sector – loans and equity (% of the total portfolio) at December 31, 2011



TOTAL PORTFOLIO

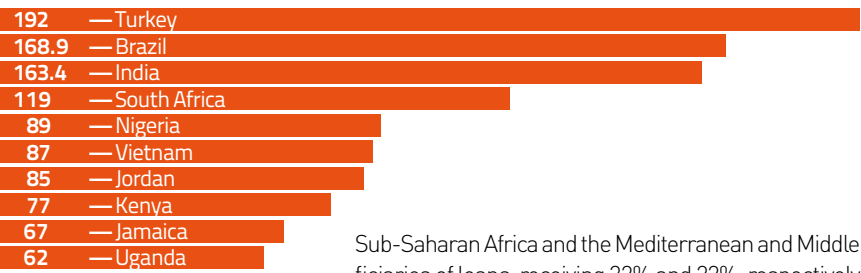
PROPARCO's portfolio was worth €2.6bn at December 31, 2011, an increase in value of 24% compared with December 31, 2010. Sub-Saharan Africa remains the main focus of PROPARCO's activity, with €806m in the portfolio. The Mediterranean and Middle East region accounts for nearly 22% of the portfolio. With the expansion of its geographic scope, PROPARCO has been able to develop its work rapidly in additional geographies. Asia and the Latin America and Caribbean region now represent, in equal measure, more than one third of PROPARCO's total portfolio.

PROPARCO's portfolio is diversified, ranging from financing for small- and medium-sized enterprises (SMEs) to air transport, higher education and geothermal energy. Half of the portfolio goes to the financial sector, followed by the infrastructure sector. Projects related to transport, hydroelectric energy and telecommunications are well represented. Corporate financing accounts for 18% of the portfolio, notably in the cement, tourism and agribusiness sectors. Despite growth in the private equity business, lending remains predominant in the PROPARCO portfolio. Gross outstanding loans came to €2,360.1m, compared with €278m in paid-in equity investments. Unpaid equity investments to be called totaled €164.8m.

OUTSTANDING LOANS

PROPARCO's gross outstanding loans (including third-party loans) came to €2,360.1m at December 31, 2011, compared with €1,856.4m at December 31, 2010. This total outstanding amount comprises 278 loans granted to 179 clients. Loans to banks account for 51.6% of total outstanding loans, while loans to non-financial institutions account for 48.4% of the total outstanding, distributed among the infrastructure, mining and corporate sectors.

Outstanding loans by country at December 31, 2011 (for the top 10 countries in terms of volume) in €m



Sub-Saharan Africa and the Mediterranean and Middle East region remain the principal beneficiaries of loans, receiving 32% and 22%, respectively, of total outstanding loans.

PROPARCO'S EQUITY PORTFOLIO

The gross value of PROPARCO's paid-in equity portfolio (including third-party transactions) was €278m at December 31, 2011. Unpaid equity investments totaled €164.8m at the same date, bringing the total portfolio to €442.7m, versus €405.3m at December 31, 2010. The total portfolio includes 114 equity investments in 34 banks and financial or insurance companies, 58 investment funds, 6 infrastructure companies and 16 corporations.

PROPARCO serves as an advisor and sponsor of the Averroès Finance II fund of funds, alongside CDC Climat. The gross value of the portfolio was €10.8m at December 31, 2011.

FISEA'S EQUITY INVESTMENT PORTFOLIO

The gross value of FISEA's portfolio was €92.1m at December 31, 2011. Paid-in equity subscriptions totaled €32.6m at that date, versus €16.5m at December 31, 2010. The equity and quasi-equity portfolio included 17 securities in 11 investment funds, three microfinance institutions and three businesses.

Operating results in 2011

Balance sheet

PROPARCO's balance sheet totaled €3bn at December 31, 2011, up 21% compared with the previous year. And that growth went hand-in-hand with good risk control and higher net income./

BALANCE SHEET AT DECEMBER 31, 2011 (€m)

ASSETS	Dec 31, 2011	Dec 31, 2010
Receivables (short- and long-term)	235	260
Total loans outstanding	2,360.8	1,858.6
- Loans to financial institutions	1,228.4	992.6
- Loans to non-financial institutions	1,132.4	866
Bonds and other fixed-income securities	25	14.7
Investments	428	393.2
Other assets	13.6	11.3
TOTAL ASSETS	3,062.4	2,537.8

LIABILITIES AND EQUITY	Dec 31, 2011	Dec 31, 2010
Debt	2,214.5	1,743.7
Provisions	52	44.8
Equity	550	534.9
Other liabilities	245.9	214.4
TOTAL LIABILITIES AND EQUITY	3,062.4	2,537.8

BALANCE SHEET 2007–2011 (€m)

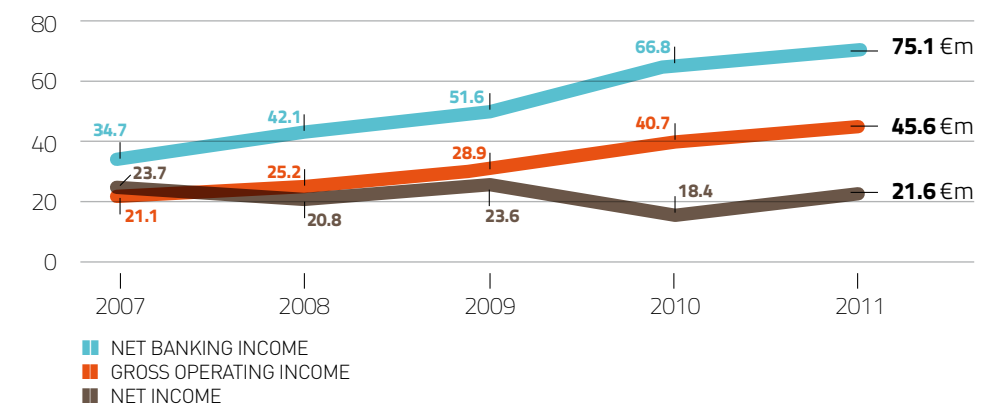
2011	3,062
2010	2,538
2009	987
2008	950
2007	887

BAD DEBT 2007–2011 (in %)

2011	1.3%
2010	1.6%
2009	2.6%
2008	3.9%
2007	4.5%

Income statement

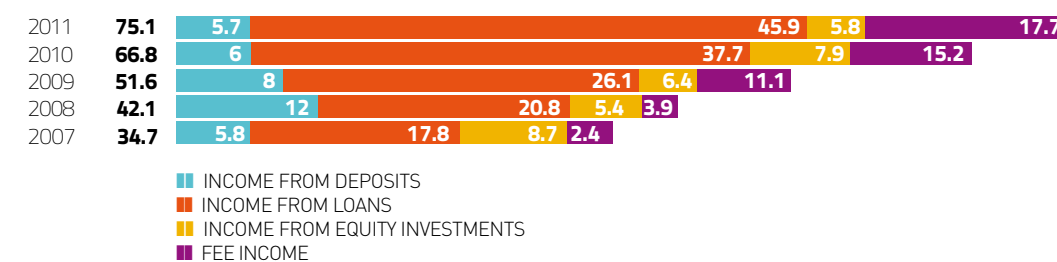
FINANCIAL RESULTS 2007–2011 (€m)



INCOME STATEMENT 2011 (€m)

	2011	2010
Income from deposits	5.7	6
Income from loans, guarantees and other securities	46.3	37.2
Income from equity investment	5.8	7.9
Net fee income	17.7	15.2
Other (foreign exchange gains, etc.)	-0.4	0.5
NET BANKING INCOME	75.1	66.8
Other administrative expenses	-29.5	-26.1
GROSS OPERATING INCOME	45.6	40.7
Cost of risk	-12.7	-11.1
OPERATING INCOME	32.9	29.6
Income from sale of assets	1.2	2
INCOME FROM ORDINARY ACTIVITIES BEFORE TAX	34.1	31.6
Exceptional items	0.2	0.2
Corporate income tax	-12.7	-13.4
NET INCOME	21.6	18.4

NET BANKING INCOME 2007–2011 (€m)



Appendices

PROPARCO teams interact daily with clients on four continents. Detailed information on projects is available on the corporate website and in institutional brochures.

155
staff members

PROPARCO is supported by highly professional and committed staff located at the home office in Paris and in the international offices.

1. Dried fruit seller in Morocco. /



Project commitments in 2011

← A broad spectrum of projects

Southern Africa and Madagascar			
South Africa	Credit line extended to a bank specializing in SMEs financing	Banking	ZAR 1m
Mauritius	Credit line to support growth of a commercial bank	Banking	€55m
Zambia	Credit line to support foreign currency financing of a commercial bank	Banking	US\$15m
Zimbabwe	Loan to finance the extension of a mobile phone network	Telecommunications	US\$20 m
Central and East Africa			
Cameroon	Loan to finance the construction of a gas-fired power plant and transmission line	Energy	€10m
Kenya	Credit line for the long-term refinancing of a commercial bank	Banking	US\$21.4m
Kenya	Senior loan to finance the construction and operation of a mine	Mining	US\$22.5m
Kenya	Equity investment in a fund to finance the rehabilitation of a railway line	Transport	US\$10.7m
Democratic Republic of Congo	Equity investment in an African bank group in connection with a capital increase	Banking	US\$1m
Tanzania	Credit line for the long-term refinancing of a commercial bank	Banking	US\$4m
Tanzania	Equity investment in a tourism promotion company for a hotel acquisition	Tourism	US\$4.9m
West Africa			
Cape Verde	Credit line for the long-term financing of a commercial bank	Banking	€5m
Ivory Coast	Shareholders' loan for the investment program of a sugar company	Agribusiness	€8m
Ghana	Credit line extended to a universal bank	Banking	US\$10m
Ghana	Credit line to help strengthen the capital base of a universal bank	Banking	US\$8m
Mauritania	Equity investment in a bank group subsidiary in connection with a capital increase	Banking	MRO 780m
Nigeria	Equity investment in a microfinance institution	Microfinance	NGN150m
Nigeria	Equity investment in an insurance company	Financial institutions	€0.2m
Nigeria	Credit line extended to an insurance company	Financial institutions	€6.7m
Togo	Loan to finance a new container terminal	Transport	€30m

Latin America and the Caribbean			
Argentina	Credit line to finance a commercial bank's agriculture and agribusiness activity financing	Agribusiness	US\$20m
Brazil	Loan to finance the hydropower plants of an energy group	Energy	€20m
Brazil	Loan to finance the hydropower plants of an energy group	Energy	€20m
Brazil	Loan to finance the expansion and modernization of a hospital	Healthcare	US\$20m
Brazil	Credit line to finance a commercial bank's agriculture and agribusiness activity financing	Agribusiness	US\$25m
Brazil	Tier II subordinated loan to help a commercial bank strengthen its capital base and grow its agriculture and agribusiness portfolio	Agribusiness	US\$40m
Ecuador	Credit line extended to a microfinance bank	Microfinance	US\$10m
Jamaica	Loan to finance the extension of the Trans-Jamaica highway network	Transport	US\$38m
Jamaica	Equity investment in a company with a concession to operate the Trans-Jamaica highway network	Transport	US\$2.4m
Panama	Loan to finance the construction of a run-of river hydroelectric plant	Energy	US\$30.5m
Paraguay	Credit line to finance a commercial bank's agriculture and agribusiness activity financing	Agribusiness	US\$30m
Paraguay	Credit line to finance a commercial bank's agriculture and agribusiness activity financing	Agribusiness	US\$20m
Peru	Loan to finance the construction of two photovoltaic power plants	Energy	US\$7.15m
Asia			
Cambodia	Credit line extended to a microfinance institution	Microfinance	US\$5m
China	Loan to restructure a glass manufacturer and finance an energy efficiency project	Manufacturing	US\$40m
China	Loan to help a bamboo company finance its investment program	Agribusiness	€20m
India	Subscription for convertible bonds issued by a paper and pulp manufacturer	Manufacturing	€9m
India	Equity investment in an investment fund focusing on agribusiness SMEs	Agribusiness	US\$7.5m
Indonesia	Credit line to finance a universal bank's microfinance activity	Microfinance	US\$25m
Indonesia	Loan to help a paper manufacturer finance its energy efficiency program	Manufacturing	US\$10m
Mongolia	Loan to help a dairy company finance its investment program	Agribusiness	US\$2m
Vietnam	Tier II subordinated loan to help a commercial bank strengthen its capital base	Banking	US\$10m
Mediterranean and Middle East			
Egypt	Equity investment in a holding company to finance a software development and IT service company	Services	US\$0.4m
Iraq	Loan to finance the extension of a mobile phone network	Telecommunications	US\$75m
Iraq	Loan to finance a cement company's investments and refinance its loans	Construction materials	US\$20m
Morocco	Subordinated loan to help a microcredit association strengthen its capital base	Microfinance	€10m
Morocco	Credit line extended to a financial and bank group	Banking	€50m
Tunisia	Equity investment in a pharmaceuticals company	Healthcare	€5m
Turkey	Loan to an energy company to finance renewable energy infrastructure construction	Energy	€40m
Turkey	Credit line extended to a universal bank to finance clean and renewable energy projects	Banking	€50m
Multi-country			
Sub-Saharan Africa	Equity investment in a reinsurance group	Financial institutions	US\$15m
Sub-Saharan Africa	Equity investment in an African bank holding company	Banking	€1.3m
Sub-Saharan Africa	Equity investment in an investment fund focusing on forestry	Timber industry	US\$10m
Sub-Saharan Africa	Technical assistance facility financing for an investment fund focusing on healthcare	Healthcare	US\$0.6m
Sub-Saharan Africa	Equity investment in an investment fund focusing on microfinance	Microfinance	€2.4m
Sub-Saharan Africa	Technical assistance facility financing for an investment fund focusing on rural microfinance	Microfinance	€0.2m
Sub-Saharan Africa	Technical assistance facility financing for an investment fund focusing on financing East Africa SMEs	SMEs	€0.03m
Sub-Saharan Africa	Technical assistance facility financing for an investment fund focusing on financing frontier markets	SMEs	US\$0.15m
Sub-Saharan Africa	Equity investment in a multi-donor facility to co-finance projects to combat climate change	Energy	€0.006m
Sub-Saharan Africa	Equity investment in an African bank group in connection with a capital increase	Banking	€10m
Eastern Europe and the Caucasus	Loan to an international financial institution to support its lending activity in the Caucasus and Eastern Europe	Financial institutions	€20m
Global	Equity investment in an investment fund focusing on rural microfinance	Microfinance	€5m
Global	Equity investment in a carbon assets management company	Carbon finance	€1.4m
Mediterranean	Establishment of a carbon assets investment budget	Carbon finance	€15m
Mediterranean	Equity investment in a fund of funds dedicated to the Mediterranean	SMEs	€0.04m
Mediterranean	Equity investment in an investment fund focusing on North Africa	SMEs	€7m

Organization
chart

March 31, 2012



PRIVATE SECTOR
& DEVELOPMENT MAGAZINE

Private Sector & Development (PS&D) is a unique bimonthly publication that provides analysis and insights into the mechanisms through which the private sector can contribute to the development of countries in the Southern hemisphere. Each issue presents opinions and analysis from a variety of authors working in research, the private sector, development institutions and civil society. Edited by PROPARCO, the review includes six to eight articles on a single theme. Through the diversity of the topics covered, e.g., access to water, mobile telecommunications, financial markets, *PS&D* has gradually emerged as a benchmark publication on the role of the private sector in furthering development. Available for free in English and French, *PS&D* today enjoys a readership of 10,000, including 3,000 subscribers.

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- N° 12** Can private equity boost African development?
- N° 11** Technical assistance – a development tool serving the private sector
- N° 10** Cement, caught between ecological responsibility and economic imperatives
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PROPARCO's website and institutional brochures feature in-depth, comprehensive information on its activity./

INSTITUTIONAL BROCHURES

PROPARCO publishes a range of institutional brochures on its work in the various regions and sectors.

- PROPARCO in the Mekong region
- PROPARCO in Sub-Saharan Africa
- PROPARCO in the North Africa region and the Middle East
- Supporting responsible microfinance
- Financing access to sustainable energy
- FISEA: Getting involved and investing in African businesses

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INSTITUTIONAL WEBSITE

Launched in early 2011, our website features a wealth of information on PROPARCO's offer, approach and work with the private sector. Clear, straightforward and user-friendly, the website includes factsheets, photos, videos and testimonials about PROPARCO projects. Periodic press releases also keep website visitors up to date on what PROPARCO is doing on four continents. In addition, all it takes is one click to access our regional portals for detailed information about PROPARCO in each region. The aim of the website is to provide content that consistently highlights the significance and purpose of PROPARCO's work.

FEEL FREE TO DISCOVER OUR WEBSITE AND FIND OUT THE LATEST ABOUT PROPARCO.

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151, rue Saint-Honoré - 75001 Paris
Tel. : (33) 1 53 44 31 08
Fax : (33) 1 53 44 38 38

www.proparco.fr



HEADQUARTERS

PARIS

151, rue Saint-Honoré
75001 Paris

Tel.: (33) 1 53 44 31 08
Fax: (33) 1 53 44 38 38
Email: proparco@proparco.fr

ASIA

DELHI

South Asia

1A Janpath
Delhi, 110 011 India

Tel.: (91) 11 2379 3747
Fax: (91) 11 2379 3738
afdnewdelhi@afd.fr
Emmanuelle Riedel Drouin

BANGKOK

North and South-East Asia

Exchange Tower, Unit 3501-02,
35th floor
388 Sukhumvit Road, Klongtoey
Bangkok 10110, Thailand

Tel.: (66) 02 663 6090
Fax: (66) 02 663 6077
afdbangkok@afd.fr
Pierre-Alain Pacaud

BEIJING

China

7th Floor, Block C,
East Lake Villas,
35 Dongzhimenwai Dajie,
Dongcheng District
100027 Beijing, China

Tel.: (86) 10 8451 1200
Fax: (86) 10 8451 1300
afdpekin@afd.fr

SUB-SAHARAN AFRICA

NAIROBI

East Africa

Royal Ngao House
Hospital Road, Upper Hill
P.O. BOX 45955 -
00100 Nairobi, Kenya

Tel.: (254) 20 271 12 34
(254) 20 271 10 58
Fax: (254) 20 271 79 88
afdnairobi@afd.fr
Guédi Aïnaché

ABIDJAN

West Africa

Boulevard François Mitterrand
01 BP 1814 Abidjan, Ivory Coast

Tel.: (225) 22 40 70 40
Fax: (225) 22 44 21 78
proparcoabidjan@proparco.fr
Julien Lefilleur

LAGOS

Nigeria

C/o Consulate General of France
1, Oyinkan Abayomi Drive,
Ikoyi, Lagos, Nigeria

Tel.: (234) 1 462 84 65
afdabuja@afd.fr

JOHANNESBURG

Southern Africa and Madagascar

Ballywoods Office Park
Ironwood House 1st Floor
29 Ballyclare Drive - Bryanston
P.O. Box 130067 - Bryanston
2120 Johannesburg
South Africa

Tel.: (27 11) 540 7100
Fax: (27 11) 540 7117
proparcojohannesbourg@afd.fr
Christophe Blanchot

DOUALA

Central Africa and Nigeria

96, rue Flatters
Flatters Building
2nd floor, Suite 201
BP 2283 Douala, Cameroon

Tel.: (237) 33420626
Fax: (237) 33420625
Ludovic Joncheray

MEDITERRANEAN
AND MIDDLE EAST

TUNIS

Tunisia

Melika Building
Rue du Lac Vindeurmere
Tunis, Tunisia

1053 Les Berges du Lac
Tel.: (216) 71 861 799
Fax: (216) 71 861 825
afdtunis@afd.fr

CASABLANCA

Mediterranean

15, avenue Mers-Sultan
20130 Casablanca, Morocco

Tel.: (212) 522 29 53 97
Fax: (212) 522 29 53 98
afdcasablanca@afd.fr
Amaury Mulliez

CAIRO

Middle East and the Caucasus

10 Sri Lanka Street
Zamalek Cairo, Egypt

Tel.: (202) 27 35 17 88
Fax: (202) 27 35 17 90
afdlecaire@afd.fr
Thomas Eloy

LATIN AMERICA
AND THE CARIBBEAN

SÃO PAULO

South America

Edifício çiragan Office
Alameda Ministro Rocha de
Azevedo, 38 - 11° andar
01410-000, São Paulo, SP, Brazil

Tel: (55) 11 2532 - 4751
Fax: (55) 11 3142 - 9884
afdsaopaulo@groupe-afd.org
Myriam Bouslama


MEXICO

Central America and
the Caribbean

Torre Omega -
Campos Eliseos 345, piso 5,
Col. Chapultepec Polanco,
11560 Mexico D.F., Mexico

Tel.: (52) 55 91 388953
afdmexico@afd.fr
Matthew Saville

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