

## *Summary*

Swedfund International AB – Is the company  
efficiently financed seen from the State's  
perspective? (RiR 2014:16)



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## **Swedfund International AB – Is the company efficiently financed seen from the State’s perspective?**

The Swedish National Audit Office (NAO) has examined the Government's governance with regard to how the capital requirement has been met in the company Swedfund International AB, hereafter called Swedfund. The Swedish NAO has also followed up on a previous audit of Swedfund conducted by NAO in 2009.

### **Audit background**

Swedfund is a wholly state-owned limited company that through investments in companies shall contribute to reducing poverty through sustainable business activities/operations, thus the company is a Development Finance Institution. Swedfund's investments are mainly located to Sub-Saharan Africa.

During the period 2009-2013, Swedfund has received on average SEK 360 million in capital contributions per year (in total EUR 1.8 billion), which has corresponded to approximately one per cent of the Swedish aid budget annually. The capital contributions have been large relative to the company's equity. The Government has justified the capital contributions with the wish for an increase in the company's operations. However, the company has not increased its investment volumes at the forecasted rate during the period. Consequently, the company's unused capital has accumulated. At the end of 2013 the available liquidity was approximately SEK 800 million.

The main purpose of this audit is to shed light upon whether the Government's governance of Swedfund has been effective in terms of capital supply. In focus is whether there are other, and for the State as a whole, more efficient ways to finance the company than through capital contributions and whether these have been considered. A further purpose is to follow-up a previous audit of Swedfund conducted by NAO in 2009.

The audit is based on document studies and interviews. This includes a comparison of the funding of Swedfund's equivalents in Denmark, Finland, France, Norway and Germany.



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## Audit results

### *Alternative financing of Swedfund to avoid unused capital has not been taken into consideration*

The Government has not had sufficient underpinning information during the years 2009 to 2013 to consider alternative financing methods for Swedfund. Such considerations should, according to the NAO, be made in order to achieve an efficient use of capital for the state as a whole as well as for Swedfund. Up until now Swedfund has been financed by capital contributions from the owner. This, in combination with a lack of increases in investment volumes, has led to an increase in unused capital in Swedfund. This implies that another financing of Swedfund could have been more efficient for the State.

The analyses of Swedfund's capital requirements lack any descriptions or cost estimates for the financial effects that the capital contributions may have for the State, for example, the interest expenses that capital contributions result in for the State. Such cost estimates should be included in the underpinning information for decisions about how to finance Swedfund.

The Development Financial Institutions in Finland, France and Germany are all partly loan-financed and find it to be suitable for their operations. If the Government, during the period 2009 to 2013, instead of capital contributions had partially financed Swedfund with loans, a part of Swedfund's unused capital could have been used in other governmental development aid activities. Another financing alternative could also have led to a better balance between access to capital and the need of capital in Swedfund.

The Swedish NAO believes that the Government should have considered different financing alternatives while analysing Swedfund's capital requirements during the audited period.

### *Swedfund has improved several key areas but there is still room for improvements*

Swedfund and the owner have improved areas that the central recommendations of NAO's audit in 2009 covered. The changes and improvements were mainly implemented in 2012 and 2013.

The improvements mainly concern the introduction of a more advanced follow-up system of the development effects that the investments results in. The improvements also consists of the Government clarifying several formulations in the ownership instructions that are central to the company's governance. One example of this is that the Government has added a description of how additionality, i.e. Swedfund's market-complementary role, should be interpreted.

Although the system for the follow-up of development effect has been significantly improved there are still some measures to be taken. One example of what remains is to expand the basis of Swedfund's follow-up of sustainability, as currently the data is based on about a third of the investments. Another example is that the company should have considered setting up more



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objectives for the follow-up indicators. A systematic evaluation by an independent body could also facilitate the owner's and other stakeholders' assessment of the company's result.

Another area that could be improved is the evaluation of Swedfund's market-complementary role. It is difficult to measure whether Swedfund is additional to the market or not. As being market-complementary is a central basis for Swedfund's investments, the need of independent evaluation is increasing within this area. Yet it is of great importance for the company and the owner to weigh the costs of such external evaluation against the increased transparency and credibility it would give the stakeholders.

## Recommendations

### *Recommendation to the Government*

The Government should produce sufficient underpinning information as a basis to consider alternative forms of financing when analysing Swedfund's capital requirements. This in order to gain knowledge about which capital structure is most effective for the State as well as for Swedfund. NAO notes that the Ministry of Finance has initiated such work during the course of this audit when the management of Swedfund was transferred to the Ministry of Finance.

### *Recommendation to Swedfund*

Swedfund should continue to work on developing its follow-up procedures and set more objectives for the development effects of its investments. Swedfund should consider the possibility of periodically allowing an independent body to assess the development effects of the company's investments

