Nordic Development Fund

# Annual Report 2018

## Contents



## NDF Milestones

**1988**
*Agreement among Denmark, Finland, Iceland, Norway and Sweden to establish NDF*

**1989**
*NDF begins providing soft loans for social and economic development*

**1991**
*EUR 4 million in credit stock*

**1993**
**31 projects**
*Portfolio of 31 projects with capital replenishment of SDR 150 million*

**1994**
*EUR 60 million in credit stock*

**1995**
*NDF signs its first private sector loan agreement*

**1996**
**67 projects**

**2000**
*EUR 360 million in credit stock*

**2005**
*Nordic Development Cooperation Ministers recommend winding up NDF after member countries fail to agree on a fifth capital replenishment.*

1988 1989 1991 1993 1994 1995 1996 2000 2005



## Foreword

**Unprecedented equity financing level versus traditional grants**
Of the EUR 47.15 million in new financing commitments approved by NDF's Board of Directors in 2018, only EUR 8.65 million (18%) was given out as grant, with the remaining EUR 38.50 million (82%) released as equity financing, loans or reimbursable grants. The corresponding ratio the previous year was almost antithetical at 29% equity versus 71% grants, demonstrating a sizeable shift this year in our funding portfolio towards financing instruments other than grants.

We see the benefits of this profound shift from traditional grants towards blended financing as two-fold. First, it promotes the longevity and viability of NDF-backed projects, and second, the use of equity investments helps enable a climate funding environment that will increasingly spur much-needed private sector involvement.

**NDF higher-risk mandate leads the way for private equity**
NDF as a funding partner is mandated to take on larger risks than many other financing mechanisms, for example in testing new climate technologies or experimenting with new market readiness approaches.

In climate change adaptation, private sector technologies and solutions can be key in helping governments and civil society scale up for transformation. In support of this, in 2018, NDF approved an equity investment in CRAFT, the world's first market-driven fund for climate resilience. This followed on from a preparatory grant given in 2017 to help get this unique fund off the ground and into the investor spotlight. CRAFT has been heralded by the international investor and development communities as one of this year's most promising new funding approaches.

**Climate action has never been more urgent**
During 2018, NDF's newly-approved funding for nine new projects, corresponded to annual avoided $CO_2$ emissions of an estimated 2.3 million tonnes, or the equivalent of 3 million people flying from Helsinki to Paris and back.

In the wake of the 2018 IPCC report and alarming UN predictions that put the window for averting global climate disaster at only 12 years, never has the work of NDF been more urgent or more relevant. With the adoption of the Paris agreement and the subsequent development of the Paris Rulebook, the time for increased action has now come.

To underscore this, NDF's 2018 results were characterised by a strong uptick in funding demand, notably from qualified recipients in all regions, and for viable climate-related projects that reflect NDF's mandated goals. In light of the overwhelming need at the macro- level, and given the growing demand for viable project funding, NDF clearly has a growing and much-needed role to play in global climate change funding and in assisting developing countries in the path towards green growth and climate resilience.

**Leena Klossner**
Acting Managing Director

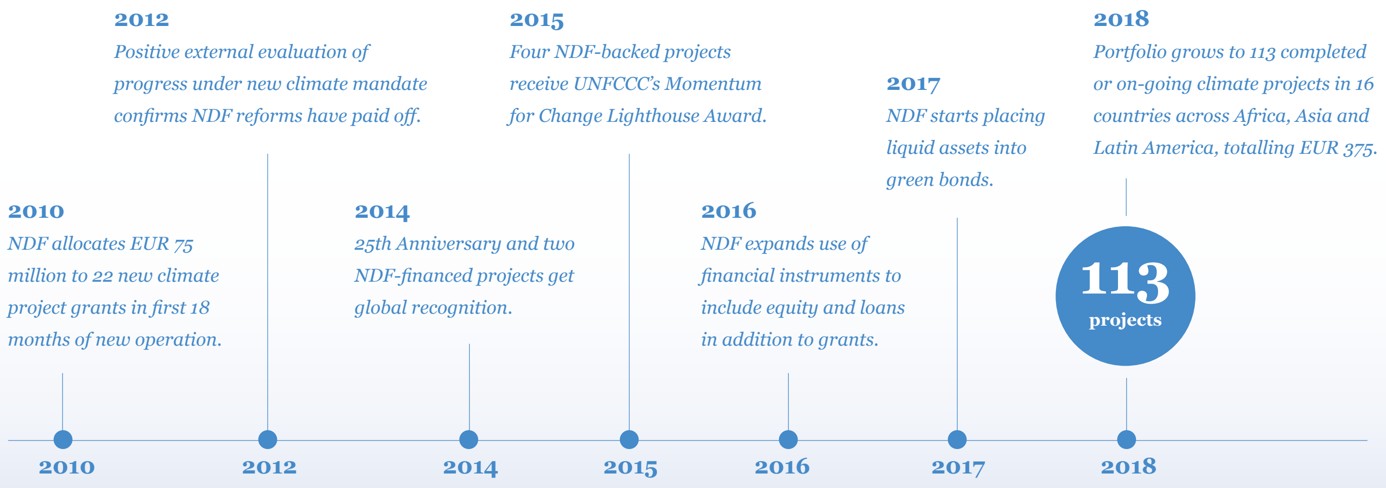
**2008**
*EUR 691 million in credit stock*

**2009**
*New mandate from member countries, backed by strong validation, marks continuation of NDF operations, with focus shift from socio-economic development loans to grants for climate change interventions.*

2008 2009

### *List of abbreviations used*

| | | | |
|---|---|---|---|
| ACC | *Anticorruption Committee* | MoU | *Memorandum of Understanding* |
| ADB | *Asian Development Bank* | NCF | *Nordic Climate Facility* |
| AfDB | *African Development Bank* | NDF | *Nordic Development Fund* |
| AGF | *African Guarantee Fund* | NEFCO | *Nordic Environment Finance Corporation* |
| AIIB | *Asian Infrastructure Investment Bank* | NIB | *Nordic Investment Bank* |
| COP24 | *Twenty-fourth Conference of the Parties* | PPR | *Project Performance Rating* |
| CPI | *Climate Policy Initiative* | OECD | *Organisation for Economic Co-operation and Development* |
| CRAFT | *Climate Resilience and Adaptation Finance and Technology Transfer Facility* | SDGs | *Sustainable Development Goals* |
| EEP | *Energy and Environment Partnership* | SDR | *Special Drawing Right* |
| GCF | *Green Climate Fund* | SGF | *Small Grant Facility* |
| GEF | *Global Environment Facility* | SMEs | *Small and medium-sized enterprises* |
| GDPR | *General Data Protection Regulation* | UN | *United Nations* |
| GGKP | *Global Green Growth Knowledge Platform* | UNEP | *United Nations Environment Program* |
| IDB | *Inter-American Development Bank* | UNFCCC | *UN Framework Convention on Climate Change* |
| IPCC | *Intergovernmental Panel on Climate Change* | WACA | *West Africa Coastal Areas Program* |
| MDB | *Multilateral development bank* | WB | *the World Bank* |






# Report of the Board of Directors 2018

### *Strategy and policy issues*

Climate change, development and the Nordic identity continued to form the core strategic principles for the Nordic Development Fund (NDF) during 2018. Through a strategic focus on catalytic role and leverage, project preparatory funding, support for innovation, support for private sector development and linkages between the public and the private sectors, piloting of interventions with a high-risk level, and identification of emerging climate change issues, NDF was able to provide financing for value-adding programs and projects advancing the global sustainable development agenda.

NDF's 2018 results were characterised by a sizeable shift in the funding portfolio towards financing instruments other than grants. Of the EUR 47.15 million in financing approved by NDF's Board of Directors this year, EUR 16 million was in loans and EUR 17.15 million in equity, and EUR 5 million was a reimbursable grant; only around EUR 9 million was approved as grants. This puts the ratio of non-grants to grants this year at 82:18. In 2017, the corresponding ratio was almost opposite at 29:71. This profound shift away from grants towards blended financing is a very good way to promote the viability of NDF's projects. The increased use of loans and equity investments also serves to enable a development environment that will increasingly be led by the private sector.

Taking on management of the Energy and Environment Partnership Trust Fund covering Southern and East Africa (EEP Africa) marks the first time NDF is administering funds on behalf of other donors. The EEP is a new funding vehicle for NDF and part of a broader portfolio shift toward more private sector-oriented activities and financing.

NDF as a funding partner is also mandated to take on larger risks than many other financing mechanisms, for example in testing new climate technologies or approaches for market readiness. Our new funding commitment this year to the market-driven equity fund, Climate Resilience and Adaptation Finance and Technology Transfer Facility (CRAFT), is a case in point, where NDF has combined a sizeable equity investment with initial preparatory grants to help get this unique fund up and running and in front of investors.

During 2018, NDF's Board of Directors agreed on a road map to take forward the process for considering the future scenarios for NDF. As a part of this process, the Board agreed to conduct an external institution-wide evaluation of NDF, including an evaluation of the already completed projects. The evaluation shall be seen as part of a longer process that leads to the next step in the discussion about NDF's future options and the strengthening of NDF. The evaluation will be coordinated by the Expert Group for Aid Studies and undertaken by the consultancy firm Particip Gmbh.

In late 2018, the Board of Directors initiated the recruitment process for a new Managing Director for NDF.

In the wake of this year's dire report of the UN Intergovernmental Panel on Climate Change (IPCC) and the United Nation's (UN) predictions that the world has just 12 years to turn climate change around, it can be argued that never has the work of NDF been more urgent and, indeed, more relevant. To underscore this urgency, 2018 was marked by a strong uptake in demand for funding for viable climate resilience projects, in line with NDF's mandated goals.

### *Projects and results*

At the end of 2018, NDF's project portfolio consisted of 113 completed or on-going projects[1] launched under NDF's current climate change and development mandate effective since 2009, with a total NDF financing of EUR 375 million. In 2018, 85 of these projects were on-going at various stages of implementation in sixteen countries across Africa, Asia and Latin America. Ten projects reached their completion in 2018.

NDF has a strong focus on monitoring the progress and results of its activities. The Results-Based Management Framework serves as a management tool to assess the achievements both on the portfolio and on the individual project level. The framework consists of (1) Institutional level results management indicators, (2) Guidelines for project management and screening, (3) Continuous project and

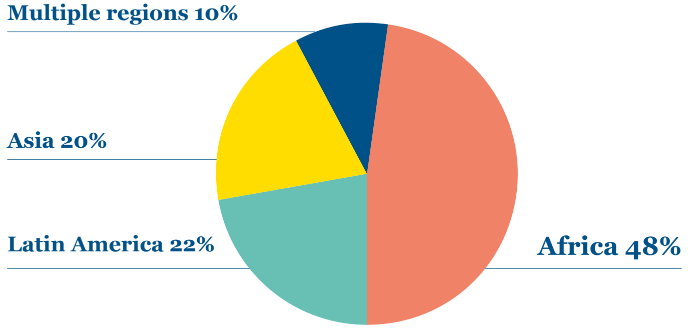
*1 NCF sub-projects are not included in this number* programme monitoring, (4) Project performance rating, and (5) Evaluation. Based on the assessments, a summary results report is published annually.

The 2018 Results report shows that the institutional, portfolio and project levels results can be described as highly satisfactory overall. The institutional level indicators illustrate how well the activities are aligned with the current strategy. The indicators show that the projects approved in 2018 are very strongly aligned with all of NDF's focal areas. This consistency is a result of a continued intensified focus on comprehensive strategic compliance. The aim to finance projects that promote adaptation to climate change and climate change mitigation is clearly reflected in the large share (64%) of new commitments that have a dual focus on both adaptation and mitigation.

The Project Performance Rating (PPR) system is part of the framework and the main tool used to report progress and results at the portfolio level. Each project is assessed once a year. The results from ratings made during 2018 show that approximately 77% of the on-going projects are classified as highly satisfactory or satisfactory regarding progress towards objectives, overall project process and risk.

A final PPR is also made for all completed projects. In 2018, ten projects reached their completion. All of them successfully achieved all their intended objectives and results.

*Figure 1. Regional Distribution of Approved Financing (EUR 375 million) by region as of 31 December 2018*








## Operational Highlights in 2018

During 2018, NDF's Board of Directors approved financing amounting to EUR 47.15 million for nine new projects. These new commitments included EUR 16 million as loan, EUR 17.15 million as equity, EUR 5 million as a reimbursable grant and EUR 8.65 million as grants. This means that about 82% of NDF's new commitments were made utilising instruments other than grants. In 2017, the corresponding amount was 29%.

Of the new commitments, two were made through NDF's Small Grant Facility (SGF), which supports grants of up to EUR 500,000. SGF grants, while being subject to the same criteria as larger grants, often involve preparatory financing, designed to have high leverage potential and catalytic impact.

During 2018, the following themes predominated NDF's new funding initiatives:

• **Blended financing:** in line with the strategy to expand NDF's portfolio towards blended financing, NDF increased equity financing instruments versus traditional grants. In particular, NDF is using blended financing to spur clean energy investments in developing countries and expand market-based climate resilience solutions globally.

• **Private sector adaptation**: in support of the need for governments and civil society to urgently scale up knowledge, technologies, and financing options for climate resilience, NDF has invested in CRAFT, the world's first market-driven climate change adaptation fund.

• **Catalytic financing for coastal resilience:** NDF is providing catalytic funding for climate resilience solutions along the heavily populated West African coastline, where the extent and impact of climate change, particularly coastal erosion, has reached a critical juncture.

The following projects benefitted from different NDF financing instruments during 2018:

**AFRICA**

| Country/ project | NDF investment, EUR million |
|---|---|
| **Regional** | |
| African Guarantee Fund, Green Guarantee Fund additional financing | 10.3 |
| West African Coastal Areas Program | 5.1 |
| **Benin** | |
| West African Coastal Areas Program | 4.0 |
| **Kenya** | |
| Nordic Green Hub | 0.5 |
| **Senegal** | |
| West African Coastal Areas Program | 4.0 |
| **Total Africa** | 23.9 |

**ASIA**

| Country/project | NDF investment, EUR million |
|---|---|
| **Laos** | |
| Laos National Road 13 North | 8.0 |
| **Total Asia** | 8.0 |

**LATIN AMERICA**

| Country/project | NDF investment, EUR million |
|---|---|
| **Regional** | |
| Cloud Forest Blue Energy Mechanism | 0.3 |
| **Total Latin America** | 0.3 |

**MULTIPLE REGIONS**

| Country/project | NDF investment, EUR million |
|---|---|
| **Regional** | |
| Climate Investor One | 5.0 |
| Climate Resilience and Adaptation Finance & Technology Transfer Facility (CRAFT) | 10.0 |
| **Total Multiple Regions** | 15.0 |

***Blended finance to fast track renewable energy investments***

NDF has made a EUR 5 million investment into Climate Investor One (CIO) to finance the development phase of profitable and sustainable renewable energy projects - in this case, wind, solar and hydro - while bringing down the cost of clean energy for consumers in Africa, Asia and Latin America.

CIO's blended structure is a unique whole-of-life approach offering investment opportunities to a range of investors with varying risk-return profiles and mandates, from public donors to commercial and institutional investors. This approach matches the varying capital requirements and levels of risk of different stages of the lifecycle of renewable energy projects.

NDF has committed an additional grant of EUR 1.25 million and equity financing of EUR 9 million to the African Guarantee Fund (AGF), to support scale-up of AGF's pioneering Green Guarantee Facility, tasked with unlocking access to finance for Small and medium-sized enterprises (SME) -led low-carbon, climate-resilient green growth across Africa.

***Uniquely targeted equity enabling private sector adaptation***

The Climate Resilience and Adaptation Finance and Technology Transfer Facility (CRAFT) has been set up to rapidly mobilise private and public capital for climate adaptation investments around the world, and has been heralded by the international investor and development communities as one of this year's most promising new funding approaches.

Climate change is increasingly affecting global economies and the need for adaptation is urgent. What sets CRAFT apart is that it has identified 20 target market segments where companies already offer climate resilience solutions. These opportunities are in areas such as weather and agricultural analytics, disaster risk modelling, and distributed water solutions.

CRAFT will be the first private equity fund to approach resilience from a purely private sector point of view. That means focusing on growth equity investments in companies already active in the climate adaptation space that are ready for scale.

NDF's newly-approved EUR 8.5 million equity investment, together with a EUR 1.5 million grant, are following on from an initial preparatory grant of EUR 0.5 million, made together with a grant from the Global Environment Facility (GEF), to help get this unique fund on its feet.

While the mitigation gap has largely been closed, we still have a long way to go on the adaptation gap. The United Nations Environment Program (UNEP) has identified three barriers to adaptation: financing, technology and knowledge; CRAFT addresses all three.

***Catalytic climate funding for a resilient West African coastline***

NDF is supporting the West Africa Coastal Areas Program (WACA) with the goal of strengthening climate resilience along the coastal regions of Benin and Senegal, as well as promoting more integrated and joint action in combating climate change in a further 17 coastal countries. NDF's contribution, provided in partnership with the World Bank (WB), will also go towards the establishment of a WACA platform, with the goal of leveraging public and private financing of USD 2 billion for coastal resilience investments between now and 2023. The program presents a good example of how a small amount of seed funding from NDF can catalyse much larger investments.

There are rapidly growing coastal populations, including capital cities, dependent on the coast and sea for their livelihoods, and who are increasingly vulnerable to climate change, including sea level rise, extreme weather events, flooding and coastal erosion.

The WACA platform will focus, among others, on supporting infrastructure projects by promoting a knowledge base for governments and businesses dealing with changing conditions. Examples include early warning weather systems for fishers and farmers as well as green infrastructure planning. Port construction is a case in point, known to speed up coastal erosion but good for tourism and trade.



*Access to water is a major challenge in remote off-grid Tanzania, where NDF funding has helped pioneer and test climate smart water ATMs to tackle water access in ways communities can bank on.*
*Photo: Chris Morgan*

***Nordic Climate Facility (NCF)***

The Nordic Climate Facility (NCF) is a challenge fund set up by NDF to finance early-stage climate projects while stimulating local business and employment opportunities in the developing world. NCF financing is allocated on a competitive basis with thematic calls for proposals arranged annually.

The theme of NCF's eighth call for project proposals (NCF 8), issued in August 2018, is 'Testing the business viability of climate solutions,' which is very much in keeping with NCF's organisational tagline, *Climate as Business*. The goal of this call has been to discover bankable climate solutions with clear and measurable impacts that can be further developed into sustainable business models beyond NCF's grant financing. NCF 8 received 121 applications and 26 have been selected to submit full proposals.

During 2018, the 13 signed and selected projects from NCF's seventh call began their implementation, or preparation for implementation. Several of these projects provide climate adaptation solutions for farmers and other communities affected by climate change. These include affordable mobile weather forecasting technologies, probiotics for livestock for increasing milk productivity and thus enhancing farmers' resilience, as well as a fast-response flood barrier, which inflates using the flood water itself. Other projects aimed at mitigating or avoiding greenhouse gas emissions include pay-as-you-go solar solutions for off-grid areas; replacing up to 50% of the plastic granules used for plastic production with natural fibres; and testing solar-powered industrial heaters for tea processing. A notable 77% of the lead implementers of these starting projects are companies operating on a commercial basis, indicating a strong private-sector element. The predominant sectors cover agriculture, energy, construction, and information and communication technologies.

Overall, NCF's portfolio comprises 82 projects, including two projects which closed at the end of 2018 and 29 projects under implementation.

***Energy and Environment Partnership (EEP)***

Launched in 2018, The Energy and Environment Partnership Trust Fund covering Southern and East Africa (EEP Africa) has become NDF's newest blended finance vehicle for mobilising private sector resources and partnerships for clean energy and green growth. EEP Africa currently receives funding support from Austria, Finland and NDF.

Taking on the management of EEP Africa marks the first time NDF is administering funds on behalf of other donors. This is an exciting new funding vehicle for NDF and part of a broader portfolio shift toward more private sector-oriented activities and financing.

During 2018, EEP was built into a fully operational trust fund vehicle, with governance structure and project selection processes up and running and a strong implementation team with a hands-on presence in the region. The first call for proposals went live in May and was massively oversubscribed, demonstrating clear demand as well as strong brand recognition across the market landscape.

EEP has a strong brand recognition, strong demand, sound institutional setting and a proven working model closely aligned with achieving the SDGs and there are investors downstream looking for investible pipeline coming out of the EEP portfolio. Moving into the second year, the next call for proposals will be rolled out early in the year with a focus on gender as well as prioritising a push to mobilise additional capital and bring on new donors.

The EEP Africa knowledge component launched a new mini-grid study, *Opportunities and Challenges in the Mini-grid Sector in Africa - Lessons learned from the EEP portfolio*, in September in Nairobi together with a number of partners. The study drew lessons learned from the more than 40 early stage mini-grid projects financed in previous phases of EEP and highlighted improvements in bankability for the sector as well as continued challenges in terms of regulation and integration with national electrification plans and rural development strategies. The study followed a similar knowledge product released the previous year providing an analysis of gender impact in the EEP portfolio. Both studies are available on the EEP Africa website.

In 2018, EEP Africa approved 29 new projects, representing EUR 14 million in new financing commitments. This newly approved portfolio is characterised by a high share of projects targeting renewable energy for productive or business use like agricultural processing, irrigation, pumping, freezing, drying, or running electric motorbikes, amongst others. Gender is also a strong feature in many of the projects selected.

***Big impacts with small financing***

The Small Grants Facility (SGF) is an important cornerstone of NDF's strategic niche, backed by NDF's focus on higher-risk-bearing preparatory phase financing. The objective of the facility is to provide small-scale, up-stream financing of up to EUR 500,000 for climate change-related projects which are innovative and exploratory in nature. The idea of SGF is to identify projects focusing on the early stages of project development and which have the capacity to be catalytic in that they aim to leverage additional financing from other sources. This type of high-risk, targeted financing is scarce and cannot be easily accessed.

Through SGF, NDF can efficiently channel financing to projects that address some of the key climate change-related concerns. At the strategic and policy level, SGF advances further innovative, exploratory and transformative climate change solutions through the financing of activities that are catalytic in paving the way for additional public and private sector financing. Combined with the capacity of SGF to mobilise financing in a short time frame, in an administratively slim way, the facility is expected to continue to be an impactful mechanism to channel financing from NDF to interventions related to climate change.

The entire facility is financed by NDF. Individual projects under the facility may include various activities related to climate change adaptation and mitigation. Individual projects are expected to include co-financing by a partner agency, and if possible, also from the country involved.

During 2018, NDF approved financing for two new interventions under SGF:

• The Cloud Forest Blue Energy Mechanism in Latin America – a forest restoration and conservation project in the context of private hydropower production and has significant scale-up potential in Africa and Asia. The goal of NDF's preparatory grant, in partnership with Conservation International and The Nature Conservancy, is to commercialise the concept of rehabilitating forests for water flows into a pay-for-success financing mechanism.

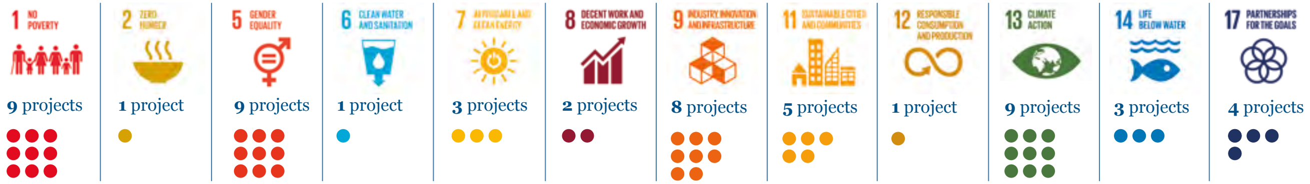
•The Nordic Green Hub in Kenya – a testing platform bringing proven Nordic know-how to Nairobi with the goal of curbing emissions and promoting climate resilience. This project is interesting in that it combines not just Nordic technologies but also smart Nordic business and financing models, with the business sector taking the lead.

**82%**

of new NDF funding provided in the form of equity and loans rose in 2018, up from 29% in 2017, demonstrating a marked shift towards blended financing.

### *Contribution to UN's Sustainable Development Goals (SDGs)*

NDF is increasingly seeking to ensure that its activities contribute towards the achievement of many of the UN's SDGs. The nine new projects approved by NDF in 2018 particularly target the following SDGs.




### *Knowledge management and outreach*

Knowledge management and dissemination of results has remained in focus as one component of NDF's added value. Through various activities, NDF has strived to share the results and lessons learned from on-going and completed projects while at the same time promoting overall knowledge and awareness of NDF among different stakeholders.

NDF has participated in and contributed to high-level conferences, seminars and visits with its current and new partner organisations such as the third Africa Climate Resilient Infrastructure Summit (ACRIS) in Marrakech in Morocco in February. Another example is the first partner meeting of the City Resilience Program (CRP) in September 2018 in Bern, Switzerland to which NDF was invited by the World Bank.

NDF has also arranged climate-focused seminars and workshops on specific themes in the context of visits made to NDF by experts from partner institutions and other relevant organisations. For example, NDF hosted a seminar on climate change and transport between representatives from the National Road Administration (ANE) in Mozambique and consultants from Finnish Overseas Consultants (FINNOC). The visit was part of an overseas study tour to Finland and Sweden for Mozambican road authorities financed under the NDF-funded project: "Developing Capacity for a Climate Resilient Road Sector in Mozambique."

NDF's projects received strong visibility during the year: An example of strong project visibility was the high-level green finance conferences supported by NDF and jointly arranged with the African Guarantee Fund (AGF), International Trade Center and African Development Bank in Abidjan, Cote d'Ivoire, in June. Also the NCF roadshow to the Nordic capitals in the spring created positive attention for NDF. Under the banner of the EEP Africa, NDF sponsored a series of clean energy investor events, one in Cape Town, South Africa, in May and a second in Nairobi, Kenya, in December.

The twenty-fourth Conference of Parties (COP24) to the UN Framework Convention on Climate Change (UNFCCC) took place in Katowice, Poland in December 2018. NDF participated in a number of events focusing on a broad range of topics relating to NDF's activities and strategic core areas. NDF also co-hosted the Finance Day as a joint event of NDF, Nordic Investment Bank (NIB) and Nordic Environment Finance Corporation (NEFCO), in collaboration with the Nordic Council of Ministers at the Nordic pavilion.

NDF has continued to be an active member of the Global Green Growth Knowledge Platform (GGKP). GGKP is a global partnership of international organisations and experts that identifies and addresses major knowledge gaps in green growth theory and practice. NDF also participated in the GGKP 6th Annual Conference


*Unique Nordic side event hosted by NDF at COP 24 in Poland put innovation front and center with a high energy, climate financing debate game.*
*Photo: Joel Sheakoski*

at Organisation for Economic Co-operation and Development (OECD), Paris in November 2018.

NDF produced two newsletters in English and an electronic newsletter four times during the year. In addition, a Results Report for 2017 was published in March and a publication under the theme "Spurring climate innovation through challenge funds" in November.

NDF has continued to monitor the outreach of its electronic communications - the website, the electronic newsletter, LinkedIn, Facebook and Twitter. The monthly monitoring reports and statistics have guided the planning of the communications activities during the year.

***Partner Institutions***

NDF has continued its co-financing with the multilateral development banks (MDBs). In Africa, the main partners have been the World Bank (WB) and the African Development Bank (AfDB). In Asia, NDF continues to have a good partnership and a well-performing portfolio with the Asian Development Bank (ADB) where several new leads for potential co-financing were identified during 2018. With the World Bank, NDF continued to work on transport sector financing in Laos which also opened up a collaboration with the Asian Infrastructure Investment Bank (AIIB). In Latin America, NDF has a well-functioning partnership with the Inter-American Development Bank Group (IDB).

During the year, NDF has also opened selected new strategic partnerships to comply with its strategic priorities and thematic focal areas. Together with the fund manager Lightsmith Group, NDF is supporting the creation of the first global investment fund for climate resilience (CRAFT). Through collaboration with the Climate Investor One, NDF supports development of renewable energy investments. Other new partners include the Conservation International, the Nature Conservancy and the Confederation of Danish Industries, to name a few.

The Global Innovation Lab for Climate Finance identifies, develops, and launches innovative financial instruments for sustainable development and action on climate change. The Lab is a network of public and private institutions, including NDF, that helps develop well-designed financial instruments that, with appropriate public support, can reduce private investors' risks in global efforts to address the adaptation and mitigation needs of developing countries. The Lab Secretariat, Climate Policy Initiative, has been an important knowledge partner for NDF in providing analytical input on these instruments. Supporting the core principles of the NDF strategy, the Lab provides a good channel for NDF to identify innovative climate financing initiatives for further financing and development in the risky early phases. During 2018, NDF participated in the Lab Innovation Summit hosted by the Rockefeller Foundation and organised in the margins of the New York Climate Week. In this context, NDF was noted as the institution which, to date, has funded the largest number of early-stage financial instruments developed through the Lab.

The Nordic Climate Facility and the Energy and Environment Partnership for Africa Trust Fund continued to provide a large number of new partnerships with a number of new stakeholders predominantly in the private sector.

***Cooperation with Nordic institutions***

NDF has been in a dialogue with both the Nordic Council and the Nordic Council of Ministers in issues relating to climate change and development but also regarding the overall structure of the Nordic development and climate finance architecture. There have been several on-going discussions on NDF's role in this context. NDF strives to be an active partner in these discussions to strengthen NDF's role in the future.

As part of the close cooperation with NIB, NDF rents office premises from and acquires administrative services from NIB in the field of e.g. HR and IT services, accounting and financial management. Formally, this administrative collaboration is based on service agreements between NDF and NIB, subject to review from time to time.



Report of the Board of Directors 2018

In the field of anti-corruption and integrity issues, the cooperation with NIB and NEFCO has continued throughout 2018. The most visible form of this cooperation, which formally is based on a tripartite Memorandum of Understanding, was an integrity seminar arranged for the staff of all three organisations in November.

During the latter half of 2018, a visible interest to find new ways for a closer collaboration between NIB, NEFCO and NDF has developed. The work has been organised through working groups, which started their work in August 2018. During 2019, areas and opportunities for an intensified collaboration will be explored in more detail.

## Institutional issues

*Policies and Regulations*

In view of entry into force of the EU General Data Protection Regulation (GDPR) in May 2018 concerning the collection, use and storage of personal data, NDF has in 2018 adopted a Privacy Policy and revised its Access to Information Policy. The preparatory work for the Privacy Policy took place in collaboration with NIB, which introduced a similar policy for the bank.

*Board of Directors*

The Chair of the Board of Directors for the period 1 January to 30 April 2018 was Egill Heiðar Gislason (Iceland), with Hans Olav Ibrekk (Norway) as Deputy Chair. As of 1 May 2018, Hans Olav Ibrekk took over the chair with Lars Roth (Sweden) as Deputy Chair.

In addition, the following changes took place in the Board membership in 2018. As of 15 May 2018, Henrik Silkjaer Nielsen was appointed alternate (Denmark), succeeding Nis Lauge Gellert. As of 17 January 2018, Marita Olson was appointed alternate (Sweden), succeeding Linda Nilsson.

A list of NDF Board members and their alternates can be found on page 19.

*Control Committee*

The Control Committee ensures that NDF's operations are conducted in accordance with its Statutes. The Committee is responsible for the financial audit of the Fund. The audit of NDF is carried out by professional auditors, appointed by the Control Committee. As of March 2018, Jan-Erik Enestam succeeded Bill Fransson as Chairman of the Control Committee. In accordance with an audit firm rotation policy, Ernst &Young succeeded KPMG as external auditors.

The Control Committee presented its annual auditor's report to the Nordic Council of Ministers in March 2018 (which the Nordic Council of Ministers approved in June 2018). The Control Committee met twice in 2018. A list of the members of the Committee can be found on page 19.

*Administration*

Pasi Hellman's term as Managing Director ended 31 October 2018. Leena Klossner was appointed Acting Managing Director. A recruitment process for a new Managing Director was initiated by the Board of Directors.

As of 31 December 2018, NDF had eighteen full time positions, of which the position of Managing Director and Procurement Specialist/Program Manager were vacant pending finalisation of recruitment processes. Out of the full-time employees, five were employed on temporary contracts financed by the NCF and the EEP Africa challenge funds. In addition, NDF had at year-end two temporary part-time trainees.

The staff consists of seven (39%) male and eleven female (61%) members, representing four different nationalities. A list of the employees can be found on page 19.

The growing portfolio and related activities have required increased input from the staff and accentuated the importance to carefully monitor the overall workload and efficient resource utilisation to ensure the well-being of staff.

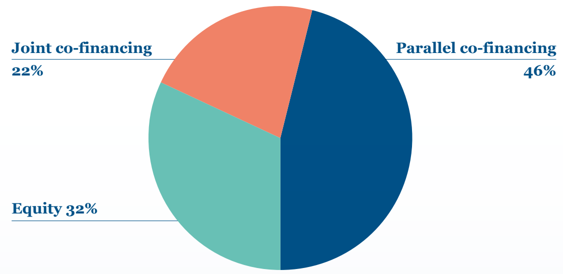
The NDF office has, along with the NIB headquarters, been certified as a Green Office by WWF Finland since 2009. In 2018, improved follow-up on use of paper was introduced. NDF's carbon footprint in 2018 amounted to 168 tons of $CO_2$. The biggest share of the carbon footprint comes from air travel, which in 2018 amounted to 143 tons of $CO_2$ equivalents.

The direct reduction of greenhouse gases for the NDF mitigation projects approved during 2018 has been estimated at 2,319,420 tons of $CO_2$ equivalents.

*Financial issues*

During 2018, total disbursements to climate projects amounted to EUR 28.5 million, of which EUR 6.25 million were joint co-financing projects, EUR 9 million as equity and EUR 13.2 million to parallel co-financing projects. The total sum also includes disbursements to sub-projects under NCF. At the end of the year, accumulated disbursements to climate change projects since 2009 amounted to EUR 251 million.

*NDF disbursments 2018 EUR 28.5 million*




A total of EUR 0.2 million was disbursed to old credit projects during 2018 (2017: EUR 0.1 million).

The net result for the year before adjustments for currency exchange fluctuations and after disbursements of grant aid totalled EUR -15.9 million in comparison with EUR -34.7 million the previous year. The end net result is EUR -11.5 million for 2018, compared to EUR -49.9 million in 2017.

*Instruments*

NDF operates with several types of financing instruments. Depending on project type, NDF can contribute and blend grants, credits and equity. Historically, NDF has focused on credits, but with the climate mandate established in 2009 both grants and equity have played an increasingly large role as seen in 2018.

*Capital and accounting currency*

NDF changed its capital and accounting currency from Special Drawing Right (SDR) to EUR on 1 January 2001. Fluctuations in the SDR/EUR exchange rate lead to variations in financial results, positive or negative, from one year to another. Since 2012, hedging measures have therefore been taken to decrease the effect from the exchange rate fluctuations.

The Fund's financial result for 2018 shows a foreign exchange difference of EUR 5.2 million before hedging and EUR 4.4 million after hedging (2017: EUR -17.6 million before hedging and EUR -15.2 after hedging). This difference is largely due to the fact that the US dollar, which represents 41.9% of the SDR currency basket, strengthened during 2018 against NDF's capital and accounting currency, the euro.

*Liquidity and capital*

The liquid assets of NDF were managed by a commercial bank on behalf of NDF. Based on NDF's Liquidity Policy, the assets are placed in green bonds, green equity funds, moderate yield funds and deposits, altogether yielding an average interest rate of approximately 0.6% (2017: 0.4%). The green bonds have an average maturity of six years and NDF's deposits are placed on





1 to 12-month intervals. The liquidity as per 31 December 2018 was EUR 105.8 million (2017: EUR 106.6 million) of which EUR 24.1 million was placed in green instruments.

The last capital payment from the member countries was made in 2015. Therefore, current operations build on the existing liquidity and the reflows coming from the outstanding credits.

During 2018, NDF received repayments under disbursed credits amounting to EUR 24.6 million.

*Financial results and allocation*

NDF's total assets as of 31 December 2018 amounted to EUR 798,551,729 (2017: EUR 811,384,145). This amount includes outstanding credits to public sector projects, other loans with equity features and equity investments to the amount of EUR 685,807,823 (2017: EUR 697,987,690) and placements with credit institutions to the amount of EUR 105,755,930 (2017: EUR 106,635,208). The total net loan losses, write-down on loans and reversals during 2018 totalled EUR 265,194 (2017: EUR 8,153,749).

As of 31 December 2018, NDF's capital consisted of SDR 515 million and EUR 330 million in paid-in capital and EUR -223,323,286 (2017: EUR -211,847,054) in accumulated net income after adjustments for currency exchange fluctuations.

The Fund's income during 2018, amounting to EUR 5,609,474 (2017: EUR 5,912,871), consisted of income from credits to the public sector to the amount of EUR 5,041,902 (2017: EUR 5,244,577), interest on placements with credit institutions of EUR 561,339 (2017: EUR 272,655) and EUR 170,282 (2017: EUR 422,810) as remuneration on equity loans and other loans. Zimbabwe continues to be in arrears to NDF. All of its accrued, outstanding obligations towards NDF have therefore been placed in non-accrual status, and in line with the World Bank's recommendations, an impairment loss of 50% has been made.

Administrative expenses were EUR 3,083,292 (2017: EUR 2,816,326). The largest single item of expenditure consists of salaries and ancillary expenses of EUR 1,724,208 (2017: EUR 1,665,180).

The net income for the year, which after adjustments for currency exchange fluctuations and hedging measures of EUR 4,379,754 (2017: EUR -15,182,763), amounts to EUR -11,476,232 (2017: EUR -49,898,440), is carried forward to the new account.

The income statement, balance sheet, changes in equity, cash flow and notes can be found on pages 20–37.

Projected emission reductions for newly-approved projects totalled

**2.3 million tonnes of $CO_2$**

which is the emissions equivalent of

**3 million people**

flying from Helsinki to Paris and back.

**Helsinki, 8 February 2019**

DORTHEA DAMKJAER

HANS OLAV IBREKK
Chairman

MAX VON BONSDORFF

EGILL HEIÐAR GISLASON

LEENA KLOSSNER
Acting Managing Director

LARS ROTH
Deputy Chairman

Photo: Marjo Koivumäki

*NDF's Board members and administrative staff.*





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Observer:
Johan Ljungberg, Chief Environmental Analyst,
Nordic Investment Bank

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**DENMARK** Sjúrður Skaale, Member of Parliament
**FINLAND** Arto Pirttilahti, Member of Parliament
**ICELAND** Viljhálmur Árnason, Member of Parliament
**NORWAY** Michael Tetzschner, Member of Parliament
**SWEDEN** Johan Andersson, Member of Parliament

**AUDITORS APPOINTED BY THE CONTROL COMMITTEE**
Until 7 March 2018

KPMG, Finland, Responsible partner: Marcus Tötterman,
Authorised Public Accountant
KPMG, Sweden, Responsible partner: Anders Tagde,
Authorised Public Accountant

Secretary to the Control Committee
Marcus Tötterman, KPMG, Finland

As of 8 March 2018

Ernst & Young Finland, Responsible partner: Terhi
Mäkinen, Authorised Public Accountant
Ernst & Young Sweden, Responsible partner: Mona
Alfredsson, Authorised Public Accountant

Secretary to the Control Committee
Terhi Mäkinen, Ernst & Young Finland

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Leena Klossner, Acting Managing Director
Christina Stenvall-Kekkonen, Vice President,
Chief Counsel

Martina Jägerhorn, Program Manager
Aage Jørgensen, Program Manager
Isa Kujansuu, Legal Trainee
Per Lagerstedt, Program Manager
Isabel Leroux, Program Manager
Aleksi Lumijärvi, Program Manager
Ann-Christin Lundin, Assistant
Emeli Möller, Manager of Nordic Climate Facility
Mats Slotte, Manager, Financial Administration
Jessica Suominen, Financial Controller
Maria Talari, Administration and Communications Officer
Elena Tamminen, Trainee
Visa Tuominen, Project Officer, Nordic Climate Facility
Jussi Viding, Project Officer, Energy and Environment
Partnership
Charles Wetherill, Manager of Energy and Environment
Partnership
Johanna Zilliacus, Project Officer, Nordic Climate Facility

*As of 31 December 2018

## Income Statement (Amounts in EUR)

| Income | Note | 1 January to 31 December 2018 | 1 January to 31 December 2017 |
|---|---|---|---|
| Service charges from credits | | 5,029,730.22 | 5,243,185.42 |
| Income from loans with equity features | | 170,281.50 | 422,810.43 |
| Fee and commission income | | 12,171.37 | 1,392.02 |
| Interest income/expenses from placements with credit institutions | | -21,600.62 | -54,699.63 |
| Interest income from other financial placements | | 54,899.03 | 5.522,94 |
| Interest income from cash and balances with banks | | 45,602.20 | 8.725,70 |
| Real. and unreal. gains/losses other financial placements | | -264,549.50 | -41.421,23 |
| Total income | | 5,026,534.20 | 5,585,515.65 |
| **Expenses** | | | |
| Grant financing for climate projects | (9) | 19,458,621.46 | 30,813,071.79 |
| Refund of grant financing | | -1,380,100.65 | -1,213,458.06 |
| Fee and commission expenses | | 58,327.43 | 1,639.04 |
| Commission expenses, derivative instruments | | 19,713.86 | 23,065.97 |
| General administrative expenses | (10) | 3,083,291.96 | 2,816,325.68 |
| Interest expenses/income | | -582,939.57 | -327,355.64 |
| Depreciation/amortisation on tangible and intangible assets | (7) | 14,725.43 | 15,890.22 |
| Changes in provision for credit losses, write-down of loans and reversals | (6) | 265,194.31 | 8,153,748.82 |
| Total expenses | | 20,936,834.23 | 40,282,927.82 |
| Net result for the year before foreign exchange differences and unreal./real. gains/losses derivatives | | -15,910,300.03 | -34,697,412.17 |
| Foreign exchange differences | | 5,165,195.58 | -17,622,033.49 |
| Unrealised gains/losses on fair value of derivative instruments | (2) | -1,110,677.00 | 2,241,073.00 |
| Realised gains/losses on derivative instruments | | 325,235.58 | 198,197.07 |
| Foreign exchange differences, net | | 4,379,754.16 | -15,182,763.42 |
| Unrealised gains/losses on fair value of forward contracts | | 54,314.30 | -18,264.06 |
| Unrealised/realised gains/losses on forward contracts | | 54,314.30 | -18,264.06 |
| Net result for the year | | -11,476,231.57 | -49,898,439.65 |



## Balance Sheet (Amounts in EUR)

| Assets | Note | 31 December 2018 | 31 December 2017 |
|---|---|---|---|
| Cash and cash equivalents | (1) | 6,433,319.49 | 7,265,892.94 |
| Other long-term financial placements | (1) | 52,475,337.38 | 71,633,690.40 |
| Other financial placements | (1) | 46,837,273.00 | 27,735,625.00 |
| | | 105,755,929.87 | 106,635,208.34 |
| Other assets | | 3,777,851.38 | 3,352,758.39 |
| Forward contracts | | 698,590.74 | - |
| Derivative instruments | (2) | 981,520.00 | 2,092,197.00 |
| Accrued income | | 1,516,295.95 | 1,287,847.58 |
| Credits to sovereign states | (3) | 659,435,164.49 | 679,945,899.16 |
| Other loans | (4) | 4,372,659.20 | 4,645,950.40 |
| Loans with equity features and equity investments | (5), (9) | 22,000,000.00 | 13,395,840.40 |
| Tangible assets | (7) | 13,717.86 | 28,443.29 |
| Total assets | | 798,551,729.49 | 811,384,144.56 |
| **Liabilities And Equity** | | | |
| ***Liabilities*** | | | |
| Other liabilities | | 469,534.34 | 496,902.18 |
| Forward contracts | | - | 1,328,815.66 |
| ***Equity*** | | | |
| Fund capital SDR 515,000,000 | | | |
| Fund capital EUR 330,000,000 | | | |
| Paid-in fund capital | (8) | 1,021,405,480.71 | 1,021,405,480.71 |
| Accumulated net result | | -211,847,053.98 | -161,948,614.33 |
| Net result for the year | | -11,476,231.57 | -49,898,439.65 |
| Total equity | | 798,082,195.16 | 809,558,426.73 |
| Total liabilities and equity | | 798,551,729.49 | 811,384,144.56 |

## Changes in equity (Amounts in EUR 1,000)

| | Paid-in fund capital | Accumulated net result | Result for the year | Total |
|---|---|---|---|---|
| **Equity as of 1 January 2017** | 1,021,405 | -161,949 | 0 | 859,457 |
| Result for the year | | | -49,898 | -49,898 |
| Transfers between equity items | | -49,898 | 49,898 | 0 |
| **Equity as of 31 December 2017** | 1,021,405 | -211,847 | 0 | 809,558 |
| Result for the year | | | -11,476 | -11,476 |
| Transfers between equity items | | -11,476 | 11,476 | 0 |
| **Equity as of 31 December 2018** | 1,021,405 | -223,323 | 0 | 798,082 |



## Cash Flow Statement (Amounts in EUR 1,000)

| ***Cash flow from operating activities:*** | **31 December 2018** | **31 December 2017** |
|---|---|---|
| Net result for the year | -11,476 | -49,898 |
| Depreciation/amortisation on tangible and intangible assets | 15 | 16 |
| Foreign exchange differences | -5,165 | 17,622 |
| Fair value of derivative instruments | 1,056 | -2,223 |
| Fair value of other financial placements | 229 | 39 |
| Changes in accrued income | -228 | -123 |
| Changes in provision for credit losses and write-down of loans | 265 | 8,154 |
| **Cash flow from operating activities** | -15,304 | -26,414 |
| | | |
| ***Cash flow from investing activities:*** | | |
| Credits disbursed | -223 | -98 |
| Repayments of credits | 24,578 | 23,491 |
| Credit conversions | 0 | -784 |
| Disbursed equity loans and equity investments | -9,000 | -7,000 |
| Repayments of equity loans and equity investments | 131 | 0 |
| Repayments of other loans | 273 | 273 |
| Changes in placements with a maturity longer than 6 months | 19,158 | 37,216 |
| Changes in other assets and liabilities | -854 | -326 |
| Changes in other financial placements | -19,331 | -26,274 |
| Changes in derivative instruments | -1,973 | 1,308 |
| **Net cash flow from investing activities** | 12,759 | 27,804 |
| | | |
| ***Cash flow from financing activities:*** | | |
| | | |
| Foreign exchange differences | 1,723 | -1,448 |
| | | |
| Changes in cash and cash equivalents | -823 | -58 |

| ***Cash and cash equivalents consist of:*** | **31 December 2018** | **31 December 2017** |
|---|---|---|
| Cash and balances with banks | 6,443 | 7,266 |
| **Total cash and cash equivalents** | **6,443** | **7,266** |

| | |
|---|---|
| **Changes in cash and cash equivalents** | ***-823*** |

The cash flow statement has been prepared using the indirect method and cash flow items cannot be directly concluded from the balance sheet and income statement.


*Laos is dependent on road transport for its economy but its roads are increasingly degraded by climate change impacts like flooding and land and mud slides. This NDF project is making the country's most heavily trafficked road safer, more accessible and more climate resilient.*
*Photo: Aage Jørgensen*

# Notes to the financial statements

## Reporting entity

The statutory purpose of the Nordic Development Fund ("NDF" or "Fund") is to promote economic and social development in developing countries through participation in financing, on concessional terms, of projects of interest to the Nordic countries. As the Nordic countries' joint international development financing organisation, NDF focuses on climate change and development-related interventions in low-income and lower-middle income countries. NDF flexibly provides financing in the form of grants, interest-free loans, subordinated loans and equity.

NDF was established by an agreement between the five Nordic countries namely Denmark, Finland, Iceland, Norway and Sweden, signed on 3 November 1988. The Fund's operations commenced on 1 February 1989. A new Agreement on the Nordic Development Fund was signed on 9 November 1998, replacing the agreement of 1988.

NDF is governed by the provisions of the 1998 Agreement and the pertaining statutes (the "Statutes") as amended from time to time. In addition, there is a Host Country Agreement between NDF and the Government of Finland ("Host Country Agreement"), which was signed on 15 October 2013 and entered into force on 11 May 2014.

NDF has the legal status of an international legal person, with full legal capacity and is vested with some privileges and immunities typical for an intergovernmental financial organisation, such as exemption from credit policy measures and payment restrictions, protection from search and seizure of its property and assets, inviolability of its premises, and broad tax exemptions.
The headquarters of the Fund are in Helsinki, Finland, at the premises of the Nordic Investment Bank.

The capital base of the Fund, which has been subscribed and paid-in by the Nordic countries is equivalent to EUR 1,021,405,000.

## Summary of significant accounting policies

***Basis of preparation of financial statements***
The financial statements have been prepared in accordance with methods of valuation and recognition of income and expenses as described below. With the exceptions noted below, they are based on historical cost. The Fund's financial statements are presented in EUR.

***Assessments in preparation of financial statements***
The preparation of financial statements requires management to make assessments and estimates that affect the result, financial position and additional disclosures. Such assessments and estimates are based on available information. Actual results may differ materially from the assessments made.

***Foreign currency conversion***
Monetary assets and liabilities denominated in currencies other than EUR are converted into EUR at the rate quoted by a leading market data provider (see Note 12). Any gain or loss arising from the valuation appears in the income statement as "Foreign exchange differences" and are mainly related to the SDR rate. As NDF will for many years to come have outstanding credits denominated in SDR, changes in the SDR-EUR rate may lead to the income statement showing substantial foreign exchange differences since these currency positions are not 100% hedged against changes in foreign exchange rates. However, in accordance with the Hedging Policy, measures have been taken to reduce the effects from the foreign exchange differences by hedging 50% of the credits denominated in SDR.

Non-monetary assets are recorded in EUR at the EUR rate prevailing on the date of their acquisition.

# Notes to the financial statements

***Cash and cash equivalents***
"Cash and Cash Equivalents" consist of monetary assets and placements with an original maturity of up to 6 months.

***Derivative instruments***
Approximately 50% of the SDR loan portfolio is protected against exchange rate effects through currency options.
The derivative instruments are valued at fair value at the end of the year and the change in fair value is recognised in the income statement.

NDF utilises both forward and deposition contracts for liquidity management purposes. NDF has forward and deposition contracts with a commercial bank.

***Placements with credit institutions***
NDF has during 2018 invested monetary assets with a commercial bank at current market interest rates. The placements are initially recognised at cost (normally nominal value) at settlement date. Placements are also recorded at cost in the annual report. Accrued interest on placements is recorded within "Accrued Income" in the balance sheet. Placements with credit institutions for longer than 6 months are shown as investments in the Cash Flow Statement."

***Credits to sovereign states***
The recipient countries for NDF credits are primarily low-income developing countries. The credit period for credits to sovereign states is 25-40 years, including a 5-10-year grace period. The loans are interest-free.

The credits are initially recognised at cost at settlement date. For payments, which are more than 180 days overdue, the Fund places all credits to the borrower in question in non-accrual status, whereupon the Fund stops recording accrued service charges and fee and commission revenue as income on the income statement. All accrued but unpaid income in respect of the borrower in question that had been recorded as income is then deducted from the income statement. As of 31 December 2018, Zimbabwe was more than 180 days overdue with payments. In line with the World Bank's principles for handling Zimbabwe's credits, NDF has made a 50% impairment loss on Zimbabwe's outstanding credits and payables to NDF.

There is considerable concessionality in the credits from NDF as they are interest-free and have very long maturities.

***Provision for loan losses***
NDF's lending conditions allow for a long-term view to be taken of the repayment capacity of recipient countries. In the event of debt consolidation, it is assumed that credits from NDF will be treated in the same manner as loans from other multilateral financing institutions (preferred creditor status).

Credits outstanding are recognised in the balance sheet at their recoverable amount. Loans to sovereign states are recorded net of provisions for possible loan losses and actual loan losses. Provision for possible loan losses is established based on the assessment of the nature and maturity structure of the credit portfolio.

***Other loans***
Other loans outstanding consist of loans with financial liability features to the private sector. The loans are initially recognised at cost at settlement day. In the balance sheet, other loans are recorded net of provisions for actual and possible loan losses. A provision for possible loan losses, is established based on the assessment of the nature and maturity structure of the loan portfolio.

***Loans with equity features and equity investments***
The Statutes of NDF enable the Fund, as an integrated and permanent part of its operations, to provide financing to private sector activities in developing countries in the form of loans with equity features and equity investments.
Loans with equity features and equity investments are recognised in the balance sheet at cost after write-down. The value of outstanding loans with equity features and equity investments are continuously revalued by the Fund. If the book value exceeds the valuation made, a corresponding write-down is made. Write-downs are presented separately in the income statement.




*Climate change in Tegucigalpa, Honduras means dealing with drought, heavy rains and landslides. In two low-income neighbourhoods, NDF has successfully worked in partnership with planners and locals to complete a climate change adaptation project, putting affordable upgrade plans like this retention wall into action. Photo: Aage Jørgensen*

***Intangible assets***
Intangible assets mainly consist of investments in software and software licenses for IT systems. The investments are carried at historical cost and are amortised over the assessed useful life of the assets, which is estimated to be between 3 and 5 years. The amortisations are made on a straight-line basis.

***Tangible assets***
Tangible assets are recognised at historical cost, less any accumulated depreciation based on their assessed useful life. The depreciation period for tangible assets is determined by assessing the individual item, usually three to five years.

Write-downs and impairment of intangible and tangible assets

The Fund's assets are reviewed annually for impairment. If there is any objective evidence of impairment, the impairment loss is determined based on the recoverable amount of the assets.

***Equity***
In August 2000, the Nordic Council of Ministers passed a resolution to increase the capital of NDF by EUR 330 million. After this replenishment, the capital of NDF amounted to SDR 515 million and EUR 330 million. As of 31 December 2018, SDR 515 million - the equivalent of EUR 691.4 million- and EUR 330 million, totalling EUR 1.021 billion that has been paid in by the member countries.

Future operations will build on the existing liquidity and the reflows coming mainly from the 188 outstanding credits, which NDF granted during the years 1989-2005. (see note 3). The last repayment for these credits is due in 2045.

***Income from service and commitment charges, loans with equity features and equity investments***
The Fund's long-term lending to sovereign states is interest-free, but a service charge of 0.75%-1.25% per annum is collected on outstanding amounts. A commitment charge of 0.5% per annum is collected on any undisbursed balance commencing 12- 18 months after the loan agreement has been signed. Income from other loans is presented within Service charges from credits in the income statement. Income from loans with equity features is normally related to the return received by the shareholders of the company.

Income from service charges on lending and income from loans with equity features and equity investments are presented as separate items in the income statement. Commitment charges are presented within Fee and commission income.

***Financing of grant projects***
Disbursements to climate projects that are in the form of grants, are recorded as a cost under "Grant financing for climate projects" in the income statement. Disbursements in the form of equity, are accounted for in the balance sheet under "Loans with equity features and equity investments." Upon completion of a project or cancellation of a grant, any refund is written back as a reduction of the total costs for the year under "Refund of grant financing."

***General administrative expenses and host country reimbursement***
On the basis of the Host Country Agreement, NDF receives a host country reimbursement from the Finnish government equal to the tax levied on the salaries of the Fund's employees. The host country reimbursement, which the Fund received in 2018, amounted to EUR 652,083 (2017: EUR 636,672). The payment reduces the Fund's administrative expenses as shown in Note 10.

***Employee pensions and insurance***
The Fund is responsible for arranging pension security for its employees in accordance with the Host Country Agreement. As part of the Fund's pension arrangements, the Fund has decided to apply the Finnish public sector pension system. Contributions to this pension system, which are paid into the Finnish State Pension Fund, are calculated as a percentage of salaries. The Finnish Ministry of Finance determines the basis for the contributions and establishes the actual percentage of the contributions according to a proposal from the local government pension institution Keva (see Note 10).

NDF also provides its permanent employees with a supplementary pension insurance scheme, arranged by a private pension insurance company. This is a group pension insurance based on a defined contribution plan. The Fund's pension liability is completely covered.

In addition to the applicable local social security systems, NDF has taken out for example comprehensive, accident, life, medical and disability insurance policies for its employees in the form of group insurances.



Notes to the financial statements

*The BioLite cookstove is a unique value proposition, scaling up commercially now in Uganda and Kenya. This EEP innovation model combines faster, cleaner cooking while capturing waste heat as an energy source for lighting or charging devices. Photo EEP Africa*

## Notes to the Income Statement and the Balance Sheet

### *(Note 1) Cash and cash equivalents and other long-term financial placements*

| (EUR 1,000) | **31 Dec. 2018** | **31 Dec. 2017** |
|---|---|---|
| **Cash and cash equivalents** | | |
| Cash and balances with banks | 6,443 | 7,266 |
| Total, cash and cash equivalents | 6,443 | 7,266 |
| **Other long-term financial placements** | | |
| Other long-term financial placements | 52,475 | 71,634 |
| Total, other long-term financial placements | 52,475 | 71,634 |
| **Other financial placements** | | |
| Fixed income | 22,730 | 10,828 |
| Equities | 1,323 | 1,019 |
| Money market | 22,785 | 15,889 |
| Total, other financial placements | 46,837 | 27,736 |
| **Total, cash and cash equivalents, other long-term financial placements and other financial placements** | **105,756** | **106,635** |

Fixed income consists of green bonds issued by financial institutions with a credit rating above A (48% AAA, 43% AA and A 9%). Equities consist of a placement in a global climate and environment fund managed by a Nordic commercial bank. Money market is placements in a highly liquid moderate yield fund managed by a Nordic commercial bank.



Notes to the financial statements

The remaining maturity of placements, counted from the balance sheet date to maturity, is as follows:

| (EUR 1,000) | **31 Dec. 2018** | **31 Dec. 2017** |
|---|---|---|
| Up to and including 3 months | 33,354 | 37,550 |
| More than 3 months and up to and including 6 months | - | 33,627 |
| More than 6 months and up to and including 12 months | 18,665 | - |
| Total *) | 52,019 | 71,177 |

**) Placements without a fixed maturity are excluded in the Total.*

### *(Note 2) Derivative instruments*

| (EUR 1,000) | **31 Dec. 2018** | **31 Dec. 2017** |
|---|---|---|
| Fair value of option contracts at beginning of year | 2,092 | -149 |
| Fair value of option contracts at end of year | 982 | 2,092 |
| Change in fair value | -1,111 | 2,241 |

NDF has received adequate collateral that covers the derivative instruments' market value.

### (Note 3) Credits to sovereign states

**Credits outstanding according to lending currency:**

| (Face value in EUR 1,000) | 31 Dec. 2018 | 31 Dec. 2017 |
|---|---|---|
| EUR credits | 503,712 | 521,952 |
| SDR credits | 160,629 | 163,117 |
| Total, outstanding credits | 664,341 | 685,069 |
| SDR credits, impairment | -4,905 | -5,123 |
| Total, outstanding credits including impairment | 659,435 | 679,946 |

**Credits outstanding:**

| (EUR 1,000) | 31 Dec. 2018 | 31 Dec. 2017 |
|---|---|---|
| Bangladesh | 30,498 | 31,228 |
| Benin | 17,034 | 17,538 |
| Bolivia | 25,922 | 26,566 |
| Botswana | 3,309 | 3,567 |
| Burkina Faso | 9,490 | 9,694 |
| Cambodia | 8,336 | 8,521 |
| Cape Verde | 1,593 | 1,655 |
| China | 3,346 | 3,568 |
| Colombia | 988 | 1,021 |
| Dominican Republic | 6,138 | 6,341 |
| Ethiopia | 23,571 | 23,991 |
| Ghana | 45,218 | 46,694 |
| Honduras | 28,553 | 29,000 |
| Indonesia | 8,921 | 9,569 |
| Jamaica | 4,542 | 4,720 |
| Kenya | 23,891 | 24,411 |
| Kyrgyz Republic | 3,739 | 3,941 |
| Lao PDR | 43,891 | 45,549 |
| Malawi | 18,952 | 19,771 |
| Maldives | 7,224 | 7,619 |
| Mauritius | 1,787 | 1,949 |
| Mongolia | 21,680 | 22,211 |
| Mozambique | 52,735 | 54,157 |

| (EUR 1,000) | 31 Dec. 2018 | 31 Dec. 2017 |
|---|---|---|
| Namibia | 1,262 | 1,341 |
| Nepal | 17,324 | 18,194 |
| Nicaragua | 39,520 | 41,256 |
| Pakistan | 7,150 | 7,664 |
| Philippines | 9,964 | 9,980 |
| Rwanda | 11,600 | 11,850 |
| Senegal | 42,985 | 43,587 |
| Sri Lanka | 17,898 | 18,466 |
| Tanzania | 19,848 | 20,480 |
| Tunisia | 3,982 | 4,228 |
| Uganda | 47,521 | 49,270 |
| Vietnam | 22,943 | 23,546 |
| Zambia | 21,176 | 21,683 |
| Zimbabwe | 16,675 | 16,307 |
| Credits outstanding | 671,205 | 691,130 |
| Credits in default (Zimbabwe) | 6,864 | 6,061 |
| Total, credits outstanding | 664,341 | 685,069 |

Amortisations on credits outstanding as at 31 December 2018 show the following maturity profile:

| (EUR 1,000) | 31 Dec. 2018 | 31 Dec. 2017 |
|---|---|---|
| 2018 | | 24,487 |
| 2019-2020 | 53,081 | 52,741 |
| 2021-2025 | 155,502 | 154,491 |
| 2026-2030 | 172,300 | 171,267 |
| 2031-2035 | 148,443 | 147,489 |
| 2036-2040 | 99,173 | 98,597 |
| 2041-2045 | 35,842 | 35,997 |
| Total, credits outstanding | 664,341 | 685,069 |



Notes to the financial statements

### (Note 4) Other loans

**Other loans outstanding are distributed as follows:**

| (EUR 1,000) | 31 Dec. 2018 | 31 Dec. 2017 |
|---|---|---|
| East African Development Bank | 4,373 | 4,646 |
| Total, other loans outstanding | 4,373 | 4,646 |

Amortisations on other loans outstanding as at 31 December 2018 show the following maturity profile:

| (EUR 1,000) | 31 Dec. 2018 | 31 Dec. 2017 |
|---|---|---|
| 2018 | | 273 |
| 2019–2020 | 547 | 547 |
| 2021–2025 | 1,366 | 1,366 |
| 2026–2030 | 1,366 | 1,366 |
| 2031–2035 | 1,093 | 1,093 |
| Total, other loans outstanding | 4,373 | 4,646 |

### (Note 5) Loans with equity features and equity investments outstanding

**Loans with equity features and equity investments are distributed as follows:**

| (EUR 1,000) | 31 Dec. 2018 | 31 Dec. 2017 |
|---|---|---|
| African Guarantee Fund (AGF) | 15,000 | 6,000 |
| Mekong Enterprise Fund | - | 528 |
| responsAbility Energy Holding Company (rAREH) | 7,000 | 7,000 |
| Total, loans with equity features and equity investments outstanding | 22,000 | 13,528 |
| Write-down | - | -132 |
| Total, loans with equity features and equity investments outstanding after write-down | 22,000 | 13,396 |

As at 31 December 2018, the write-down for impairment totalled EUR 0 (2017: EUR 131,947) based on assessment of the risk of losses which exists or may exist.

### (Note 6) Impairment of loans and reversals, realised impairments

The total net impairment of loans and reversals, realised impairments on loans during 2018 totalled EUR 0.3 million (2017: EUR 8.2 million). During 2018, realised loan losses amounted to EUR 0.4 million and reversal of impairment losses totalled EUR -0.1 million (2017: EUR 0).

### (Note 7) Intangible and tangible assets

| (Amounts in EUR) | 2018 | 2017 |
|---|---|---|
| *Intangible assets* | Computer software | Computer software |
| Acquisition value at beginning of year | 5,797 | 5,797 |
| Acquisitions during the year | 0 | 0 |
| *Acquisition value at end of year* | 5,797 | 5,797 |
| Accumulated amortisation at beginning of year | 5,797 | 5,797 |
| Amortisation according to plan for the year | 0 | 0 |
| *Accumulated amortisation at end of year* | 5,797 | 5,797 |
| Net book value | 0 | 0 |
| *Tangible assets* | Office Equipment | Office Equipment |
| Acquisition value at beginning of year | 106,972 | 106,972 |
| Acquisitions during the year | 0 | 0 |
| *Acquisition value at end of year* | 106,972 | 106,972 |
| Accumulated depreciation at beginning of year | 78,529 | 62,639 |
| Depreciation according to plan for the year | 14,725 | 15,890 |
| *Accumulated depreciation at end of year* | 93,254 | 78,529 |
| Net book value | 13,718 | 28,443 |
| Intangible and tangible assets total | 13,718 | 28,443 |

### (Note 8) Equity

**The member countries have subscribed and paid in the total capital of NDF:**

Subscribed capital as at 31 December 2018

| (EUR 1,000) | SDR | % | EUR | % |
|---|---|---|---|---|
| Denmark | 115,067 | 22 | 82,500 | 25 |
| Finland | 96,726 | 19 | 58,740 | 18 |
| Iceland | 5,453 | 1 | 3,300 | 1 |
| Norway | 101,591 | 20 | 74,250 | 23 |
| Sweden | 196,163 | 38 | 111,210 | 34 |
| Subscribed fund capital | 515,000 | 100% | 330,000 | 100% |

Paid in subscribed capital of NDF as at 31 December 2018

**Paid-in Fund capital**

| (EUR 1,000) | in SDR | Converted into EUR | in EUR | Total | % |
|---|---|---|---|---|---|
| Denmark | 115,067 | 153,858 | 82,500 | 236,358 | 23 |
| Finland | 96,726 | 130,592 | 58,740 | 189,332 | 19 |
| Iceland | 5,453 | 7,303 | 3,300 | 10,603 | 1 |
| Norway | 101,591 | 136,354 | 74,250 | 210,604 | 21 |
| Sweden | 196,163 | 263,299 | 111,210 | 374,509 | 37 |
| Paid-in fund capital | 515,000 | 691,405 | 330,000 | 1,021,405 | 100% |





### (Note 9) Financing for climate projects

Disbursements for financing of climate change projects amounted to EUR 19.5 million in 2018 (2017: EUR 30.8 million) and EUR 9 million in equity contribution (2017: EUR 7 million) totalling EUR 28.5 million in disbursements in 2018.

**The geographic distribution is as follows:**

Grant financing:

| (EUR 1,000) | 31 Dec. 2018 | 31 Dec. 2017 |
|---|---|---|
| Africa | 8,961 | 15,435 |
| Asia | 1,191 | 2,196 |
| Multiple regions | 8,141 | 1,305 |
| Latin America | 1,165 | 11,877 |
| Total | 19,459 | 30,813 |

Equity financing:

| (EUR 1,000) | 31 Dec. 2018 | 31 Dec. 2017 |
|---|---|---|
| Africa | 9,000 | 7,000 |
| Asia | - | - |
| Latin America | - | - |
| Multiple regions | - | - |
| Total | 9,000 | 7,000 |

In addition, financing to projects for the total amount of EUR 133.1 million (2017: EUR 113.5 million) has been approved but not yet disbursed.

*Helping local people capture and retain some of their wealth locally has been a big success factor in the NDF-backed Mipesca project in Mozambique, designed to reduce vulnerability of local fishing communities to climate change. Photo: Aage Jørgensen*

### (Note 10) General administrative expenses including compensation for the Board of Directors, the Control Committee and the Managing Director

| **General administrative expenses** (EUR 1,000) | **2018** | **2017** |
|---|---|---|
| Personnel costs other than pension premiums | 1,801 | 1,779 |
| Pension premiums in accordance with the Finnish public sector pension system | 459 | 414 |
| Other pension premiums | 117 | 109 |
| Office premises costs | 169 | 158 |
| Other general administrative expenses | 739 | 627 |
| Cost coverage, NIB | 451 | 367 |
| Total | 3,735 | 3,453 |
| | | |
| Host country reimbursement according to agreement with the Finnish Government | -652 | -637 |
| Net | 3,083 | 2,816 |

Compensation for the Board of Directors and the Control Committee is set by the Nordic Council of Ministers. Compensation for the Fund's Managing Director is set by the Board of Directors and is paid in the form of a fixed annual salary and usual salary-based benefits.

As for other permanently employed Fund staff, the pension benefits for the Managing Director are based on the Finnish Public Sectors Pension Act and a supplementary group pension insurance policy. The Finnish Public Sectors pension is calculated on the basis of the employee's annual taxable income and the applicable age-linked pension accrual rate. The employer's pension contribution in 2018 was 15.77% of the pensionable income. The employee's pension contribution was either 6.35% or 7.85%, depending on the employee's age. NDF pays this contribution for its permanent staff, and it is taxed as a benefit for the employee. This pension is accounted for as a defined contribution plan.

In addition to the applicable local social security systems, NDF has taken out for example comprehensive, accident, life, medical and disability insurance policies for its employees in the form of group insurances.

Professional staff (including the Managing Director) who move to Finland for the sole purpose of taking up employment in the Fund, are entitled to certain expatriate benefits, such as an expatriate allowance and a spouse/family allowance. In addition, NDF assists the expatriate, for example, with accommodation, usually by renting a house or a flat. The staff member reimburses the Fund the part of the rent, which is equal to at least the taxable value of the accommodation benefit established annually by the Finnish National Board of Taxes.

Staff loans can be granted to permanently employed staff members (including the Managing Director) who have been employed by the Fund for a period of at least one year. The staff loans are granted by a commercial bank, subject to a recommendation from the employer.

At present, the maximum loan amount is EUR 200,000. The employee pays interest on the loan in accordance with the official base rate established by the Ministry of Finance in Finland or 0.25% whichever is higher. The same interest rates, terms and conditions are applicable to all the employees of the Fund, including the Managing Director.





Compensation for the Chairman of the Board of Directors, the Board, the Control Committee and the Managing Director appears in the table below:

| (amounts in EUR) | **2018 Compensation/ taxable income** | **2017 Compensation/ taxable income** |
|---|---|---|
| Chairman of the Board of Directors | 5,144 | 5,144 |
| Other members of the Board | 17,384 | 17,026 |
| Managing Director | 276,945 | 298,058 |
| Control Committee | 2,375 | 1,500 |

During 2018 (1.1–31.10.2018), NDF paid a total of EUR 78 209 (2017: EUR 84 172) in pension premiums for the Managing Director.

### (Note 11) Related party disclosures

According to the constituent documents of NDF, the Fund's principal office shall be located at the principal office of Nordic Investment Bank (NIB). Furthermore, the Statutes of NDF set out that that the Fund's Control Committee members appointed by the Nordic Council shall be the same persons as appointed by the Council to the Control Committee of NIB. In addition, the Statutes of NDF set out that the powers vested in the Board of Directors may to the extent appropriate be delegated to the Fund's Managing Director and/or to NIB.

NDF acquires services at cost from NIB and enters into transactions with NIB. The outstanding balance of claims and debts between NDF and NIB as well as interest charged during the year are presented in the table below. The interest charged corresponds to the normal market rate.

| (EUR 1,000): | Interest income | NDF's outstanding debt to NIB | NDF's outstanding claim on NIB | Rental expenses |
|---|---|---|---|---|
| 2018 | 0 | 77 | 0 | 147 |
| 2017 | 0 | 30 | 0 | 146 |

### (Note 12) Currency exchange rates

| | | EUR rate on 31 Dec. 2018 | EUR rate on 31 Dec. 2017 |
|---|---|---|---|
| DKK | Danish krone | 7.46741 | 7.4449 |
| ISK | Icelandic króna | 133.2286 | 124.7 |
| NOK | Norwegian krone | 9.94588 | 9.8403 |
| SEK | Swedish krona | 10.24248 | 9.8438 |
| USD | US dollar | 1.14557 | 1.1993 |
| SDR | Special Drawing Right | 0.82356 | 0.84213 |

NDF uses exchange rates acquired from a leading market data provider based on rates prevailing at 13:00 GMT at 31 December except for Special drawing right (SDR) which is based on the International Monetary Fund (IMF) last published rate of the year.

**To the Control Committee of Nordic Development Fund**

***Report on the Audit of the Financial Statements***

**Opinion**

We have audited the financial statements of Nordic Development Fund (the Fund) which comprise the statement of financial position as at 31 December 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the financial statements present fairly, in all material respects, the Nordic Development Fund's financial position as at 31 December 2018 and its financial performance and its cash flows for the year then ended in accordance with the accounting principles described in the notes to the financial statements.

**Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Financial Statements section of our report.

We are independent of the Fund in accordance with the International Ethics Standards Board of Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Other matter**

The audit of the financial statements for 2017 was performed by another auditor who submitted an auditor´s report dated 8 March 2018, with unmodified opinions in the Report on the Audit of the Financial Statements.

**Other Information than the annual accounts**

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises information included in the report of the Board of Directors, but does not include the financial statements and our auditor's report thereon. We have obtained the report of the Board of Directors

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Responsibilities of the Board of Directors and the Managing Director for the Financial Statements**

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of the financial statements in accordance with the accounting principles described in the notes to the financial statements, and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the Fund's ability to continue as going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the





Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

***Auditor's responsibility for the Audit of Financial Statements***

Our objectives are to obtain reasonable assurance on whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with ISA's, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

# Auditor's Report

***Report on other requirements***

**Opinion**
In addition to our audit of the financial statements, we have also audited the administration of the Board of Directors and the Managing Director of Nordic Development Fund for the year 2018 in accordance with the Terms of the Engagement. In our opinion the administration of the Board of Directors and the Managing Director, in all material aspects, complied with the Statutes of the Fund.

**Basis for opinion**
We conducted the audit in accordance with generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the Fund in accordance with professional ethics for accountants and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Responsibilities of the Board of Directors and the Managing Director

All the powers of the Fund shall be vested in the Board, which may delegate these powers to the Managing Director or the Nordic Investment Bank or both to the extent considered appropriate based on Section 7 of the Statutes.

The Managing Director is responsible for the conduct of the ordinary operations of the Fund and shall follow the guidelines and instructions given by the Board.

Auditor's responsibility

Our objective concerning the audit of whether the Board of Director's and the Managing Director's administration have complied with the Statutes of the Fund, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect has acted in contravention of the Statutes.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing will always detect actions or omissions that can give rise to liability to the Fund.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. The examination of the administration is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the Fund's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion.

**Helsinki 14 February, 2019**

Ernst & Young Oy
Authorized Public
Accountant Firm

**Terhi Mäkinen**
Authorized Public
Accountant

Ernst & Young AB
Authorized Public
Accountant Firm

**Mona Alfredsson**
Authorized Public
Accountant



*An NDF project in Bolivia shows how the use of organic fermented feed based on beneficial microorganisms can mitigate greenhouse gas emissions, while improving livelihoods and building climate resilience among farmers. Photo: NCF*

## Statement by the Control Committee

### Statement by the Control Committee of the Nordic Development Fund on the audit of the administration and accounts of the Fund

**Statement by the Control Committee of the Nordic Development Fund on the audit of the administration and accounts of the Fund**

**To the Nordic Council of Ministers**
In accordance with section 9 of the statutes of the Nordic Development Fund, we have been appointed to ensure that the operations of the Fund are conducted in accordance with the Statutes and to bear responsibility for the audit of the Fund. Having completed our assignment for the year 2018, we hereby submit the following report.

The Control Committee met during the financial year as well as after the Fund's financial statements had been prepared, whereupon the necessary control and examination measures were performed. The Fund's Annual Report was examined at a meeting in Helsinki on 14 February 2019, at which time we also received the Auditors' Report submitted on 14 February 2019 by the authorised public accountants appointed by the Control Committee.

***Following the audit performed, we note that:***
— the Fund's operations during the financial year have been conducted in accordance with the Statutes, and that
— the financial statements, which comprise the balance sheet as at 31 December 2018, and the income statement, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, are prepared in all material respects in accordance with the accounting principles described in the notes to the financial statements. The financial statements show a loss of EUR 11,476,231.57 which will be carried forward to new account.

***We recommend to the Nordic Council of Ministers that:***
— the income statement and the balance sheet will be adopted, and
— the Board of Directors and Managing Director wil l be discharged from liability for the administration of the Fund's operations during the accounting period examined by us.

**Helsinki 14 February, 2019**

| | |
|---|---|
| Jan-Erik Enestam<br>*Chairman* | Johan Andersson |
| Vilhjálmur Árnason | Arto Pirttilahti |
| Sjúrður Skaale | Michael Tetzschner |



*NDF is active in Africa's largest slum, Kibera, in Nairobi, with notably: a safe water access project for that received both the Momentum for Change award (UN) and the Polhem prize; and a biogas project converting human waste into clean energy and fertilizer, while mitigating climate change and increasing quality of life for the slum's 13,000 residents.*
*Photo: Otto Helkama*

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*Nordic Development Fund, Annual Report 2018*
*Layout: Sanna Turunen*

*In climate change mitigation and adaptation, private sector participation, like this greenhouse agriculture business, is key to helping governments and civil society scale up. That's why NDF is investing in CRAFT, the world's first market-driven fund for climate resilience. Photo: Miguel Oliveira*


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