Nordic Development Fund

Annual Report 2017

Contents

NDF Milestones

1988

Denmark, Finland, Iceland, Norway and Sweden sign an agreement regarding the establishment of NDF. First capital injection of SDR 100 million.

1989

NDF begins its operations providing soft loans for social and economic development.

1993

31 projects in the credit portfolio. Capital replenishment of SDR 150 million.

31 projects

1995

SDR 74 million outstanding to 26 countries. NDF signs its first private sector loan agreement.

1996

67 projects in the credit portfolio. Capital replenishment of SDR 265 million.

67 projects

2000

SDR 238 million outstanding to 33 countries. Capital replenishment of EUR 330 million.

2005

Nordic Development Cooperation Ministers recommend winding-up NDF after NDF's member countries fail to agree on a fifth capital replenishment for the Fund.

1988 1989 1993 1995 1996 2000 2005

Foreword

During 2017, NDF approved its 100th new project since the organisation was given a new mandate to focus on climate change and development in 2009 - an important milestone. NDF now manages an active project portfolio worth more than EUR 300 million.

Thanks to NDF-funded projects that were completed during 2017, more than EUR 150 million was mobilised in co-financing. Among other results, more than 200,000 people now have improved access to clean energy, and more than 115,000 people are now less vulnerable to climate hazards. Approximately 81 % of the on-going projects are classified as either highly satisfactory or satisfactory in their performance.

On the more general level, the institutional results show a good alignment of NDF operations with, and focused support to, the Sustainable Development Goals, particularly those related to climate action (SDG13), no poverty (SDG1) and gender equality (SDG 5). We can also note a better strategic compliance of new operations to more strongly support NDF's key strategic priorities, such as innovations of various kinds, private sector development, catalytic impacts, a focus on early phases of project development, and a strong focus on Africa.

We have released a summary report for our 2017 results with more detail on these developments.

We are proud that NDF has produced a results-focused system with procedures that suit NDF and holds us accountable for our activities.

Constantly developing and learning is indeed key to any successful international finance institution.

For the first time ever, NDF will administer the funds on behalf of other donor organisations. We welcome this vote of confidence in NDF.

I wish to thank all those in the NDF administration, management and the board of directors who have contributed to this conscious, gradual and positive transformation over recent years. A well-functioning institution provides the best assurances for the future.

Pasi Hellman
Managing Director

2009
NDF shifts focus from soft loans for social and economic development to grants for climate change interventions in low-income countries. NDF Board makes its first grant approvals under the new mandate.

2010
During the first 18 months of operation under its new mandate, NDF allocates EUR 75 million to 22 new projects for climate change interventions.

2012
An external evaluation of NDF's progress under the climate mandate confirms that the reforms have paid off.

2014
NDF's 25th Anniversary. Two NDF-financed projects receive international recognition.

2015
NDF has 85 climate projects with a total value of EUR 236 million. Five NDF-backed projects receive international recognition.

2016
NDF starts to utilise a greater variety of financial instruments, providing equity and loans for selected new projects, in addition to grants.

2017
Financing in other forms than grants accounts for 29% of new commitments. NDF starts to move its liquid assets into green bonds.

more than 100 NDF projects

2009 2010 2012 2014 2015 2016 2017

List of abbreviations used

ACC	*Anticorruption Committee*
ADB	*Asian Development Bank*
AfDB	*African Development Bank*
CIC	*Calvert Impact Capital*
COP23	*Twenty-third Conference of the Parties*
CRAFT	*Climate Resilience and Adaptation Finance & Technology Transfer Facility*
EEP	*Energy and Environment Partnership*
FEI OGEF	*Facility for Energy Inclusion Off-Grid Energy Access Fund*
GCF	*Green Climate Fund*
GGKP	*Global Green Growth Knowledge Platform*
GEF	*Global Environment Facility*
IDB	*Inter-American Development Bank*
MDB	*Multilateral Development Bank*
MoU	*Memorandum of Understanding*
NCF	*Nordic Climate Facility*
NDF	*Nordic Development Fund*
NEFCO	*Nordic Environment Finance Corporation*
NIB	*Nordic Investment Bank*
PPR	*Project Performance Rating*
rAREH	*responsAbility Renewable Energy Holding*
SDGs	*Sustainable Development Goals*
SEA	*Southern and East Africa*
SGF	*Small Grant Facility*
SLoCaT	*Sustainable Low Carbon Transport Network*
SMEs	*Small and medium sized enterprises*
UN	*United Nations*
UNFCCC	*UN Framework Convention on Climate Change*
WB	*the World Bank*
WHO	*World Health Organisation*

The use of solar energy is spreading in rural Honduras thanks to an NDF-backed project. Photo: Aage Jørgensen

Strategy and policy issues

The year 2017 can be described as transformational for NDF. The climate change portfolio has grown to over 100 projects with new types of projects that give NDF an increased role. A prime example is the establishment of the multi-donor Energy and Environment Partnership (EEP) trust fund, which will be managed by NDF and become operational in early 2018. Since the 2015 NDF Strategy was presented, the operations have developed in the direction of a wider use of other instruments than grants including increased use of blended finance. In 2017, the new financing commitments included grants, loans and equity, with 29% being non-grants. By becoming one of the owners in the private equity fund responsAbility Renewable Energy Holding (rAREH), NDF introduced a reflow-generating financing instrument. Furthermore, the strategic orientations have been constantly refined and developed with strengthened emphasis on private sector development and activities.

In the beginning of the year, NDF adopted a new Environmental & Social Policy and Guidelines in its operations. These safeguards ensure that any social and environmental risks are duly identified and then mitigated during the project lifetime.

During the year, the guidelines for procurement in the financing projects and the guidelines for internal procurement were revised. These guidelines enhance transparency, effectiveness, environmental and social sustainability in NDF's activities.

NDF continued to work on preventing, detecting and following up on potential misconduct and misuse of funds in its projects and related activities. As part of the preventive activities, a workshop on business ethics was arranged. During 2017, the Anticorruption Committee (ACC) has continued to investigate cases of alleged misconduct and been able to draw upon the fruitful cooperation with the integrity department of some of its co-financing partners. NDF has a Memorandum of Understanding (MoU) in place with the integrity departments of the World Bank (WB), the Asian Development Bank (ADB), the Inter-American Development Bank (IDB) as well as with the Nordic Investment Bank (NIB) and the Nordic Environment Finance Corporation (NEFCO) to strengthening cooperation in integrity matters and facilitating information-sharing. Also, the Sanctions Committee has held meetings.

Projects and results

At the end of 2017, NDF's project portfolio consisted of 104[1] completed or on-going projects launched under NDF's current climate change and development mandate effective since 2009 with a total NDF financing of EUR 328 million. In 2017, 88 of these projects were on-going at various stages of implementation in sixteen countries across Africa, Asia and Latin America. Twelve projects reached their completion.

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 programme monitoring, (4) Project performance rating, and (5) Evaluation. Based on the assessments, a summary results report is published annually.

The report for 2017 shows that the results during 2017 at the institutional, portfolio and project levels 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 2017 are very strongly aligned with all of NDF's focal areas. This is a result of an 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 (56%) of new commitments that have a dual focus on both adaptation and mitigation. Furthermore, project preparation type of activities (100%) and projects with strong catalytic impacts (100%) are prominent in the 2017 portfolio. The strong focus on private

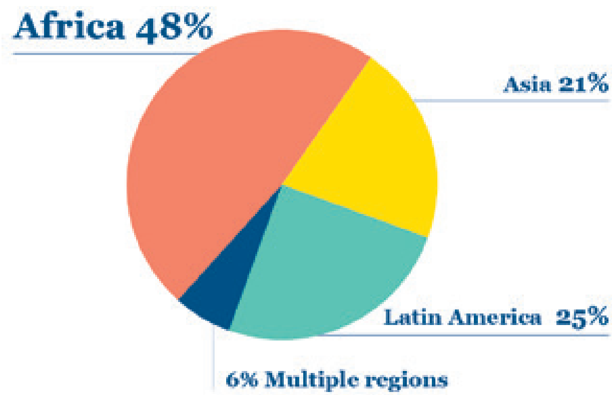
1. NCF sub-projects are not included in this number

sector development and support to linkages between the public and private sector is also evident. In addition, the support for innovative and high-risk activities is clearly visible. The indicator on gender focus and gender mainstreaming also stands at 100%, since gender equality is included as significant or primary objective in all of the newly approved activities.

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 2017 show that approximately 81% 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 2017, twelve projects reached their completion. Eleven of them successfully achieved all their intended objectives and results. One of the projects, co-financed with the World Bank, which was at severe risk of falling short of its objectives, was terminated before it could be finalised. The undisbursed NDF financing will be reallocated to other projects co-financed with the World Bank.

Regional Distribution of Approved Financing by region as of 31 December 2017



Operational Highlights in 2017

In 2017, NDF's Board of Directors approved financing for nine new activities amounting to a total sum of EUR 44.3 million. The new commitments included EUR 13.0 million allocated as equity and EUR 31.3 million as grants. Thus about 29% of the new commitments were made by utilising other instruments than grants. In 2016, the corresponding figure was 22%.

Three of the new commitments, totalling EUR 1.3 million, were allocated from the NDF Small Grant Facility (SGF), which is a financing frame intended for projects with an NDF contribution up to EUR 500,000. Since 2009, a total of EUR 14 million has been allocated to the SGF, of which total commitments amount to EUR 11 million for 25 projects. SGF support is subject to the same criteria as larger NDF investments and often has the nature of preparatory financing with a high leverage and catalytic impact.

New financing commitments in 2017

AFRICA

Country/ project	NDF investment, EUR million
Regional	
Energy and Environment Partnership (EEP), Trust Fund	10.0
responsAbility Renewable Energy Holding (rAREH)	7.5
Off-Grid Energy Access Fund (FEI OGEF)	6.5
Africa Climate Resilient Investment Facility (AFRI-RES)	5.0
Urban & Municipal Development Fund for Africa (UMDF)	4.0
Off-grid Energy Access Fund Preparation Facility	0.3
Tanzania	
Kikuletwa Power Station and Hydropower Training Centre	0.5
Total Africa	33.8

LATIN AMERICA

Country/project	NDF investment, EUR million
Regional	
NDC Pipeline Accelerator	10.0
Total Latin America	10.0

MULTIPLE REGIONS

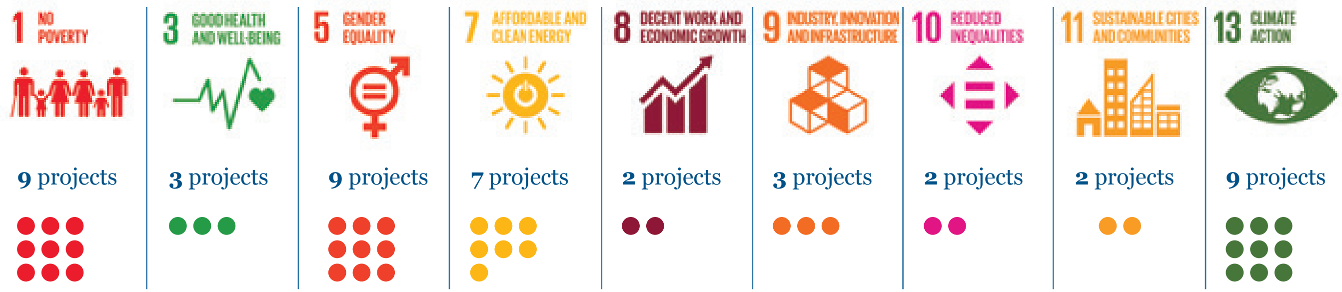
Country/project	NDF investment, EUR million
Climate Resilience and Adaptation Finance and Technology Transfer Facility (CRAFT)	0.5
Total Mutiple Regions	0.5

29%

of NDF's new funding commitments made during 2017 consisted of equity.

Intensified focus on the 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 2017 particularly target the following SDGs.



NDF's current strategy, launched in 2015, contains six selected strategic areas, which continued to guide the operations during 2017:

- 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.

During 2017, NDF has strived to increase the impact of NDF financing in the following ways:

- developing new business models,
- increasing the use of blended financing instruments,
- strengthening linkages between preparatory financing and follow-up investments, and
- finding new ways to support action on emerging issues related to climate change.

Developing new business models

During 2017, the trend towards identification of new ways of leveraging NDF capital through engagement in new business models, and through utilising a greater variety of financing instruments continued. Examples of such activities include a financing commitment to the multi-donor **Energy and Environment Partnership (EEP) Trust Fund**, which NDF is establishing.

EEP is a clean energy financing facility providing early stage and catalytic financing primarily for private-sector-led projects in Southern and East Africa (SEA). EEP was originally established in 2010 as a programme with funding from the Ministry for Foreign Affairs of Finland, the UK Department for International Development and the Austrian Development Agency. In early 2018, the EEP Trust Fund developed from the EEP program will become operational and be managed by NDF.

For the last seven years, the EEP program has been at the forefront of efforts to fast-track energy access and inclusive and sustainable growth across the SEA region. It has established a strong brand for delivery and impact, backing more than 200 pioneering projects leveraging innovative clean energy technologies and energy access business models to transform lives and livelihoods. With the launch of the EEP Trust Fund, NDF will ensure that this proven and effective model will remain relevant in a fast-changing energy financing landscape.

The new Trust Fund will directly help to realise the 2030 Sustainable Development Agenda and the Paris Climate Agreement, while reflecting NDF's mandate and strategic horizons as a climate finance institution providing financing and knowledge for climate and development.

The Trust Fund's more immediate goal is to enhance access to clean energy in the SEA region, especially among poor and underserved communities, by providing direct financing, facilitating investment, supporting business development, sharing knowledge and promoting policy engagement. It is designed to support countries across the region towards a climate-resilient, zero-carbon future.

NDF engages its own capital in the EEP Trust Fund and obtained approval from its Board of Directors in October to contribute EUR 10 million to the first round of fundraising.

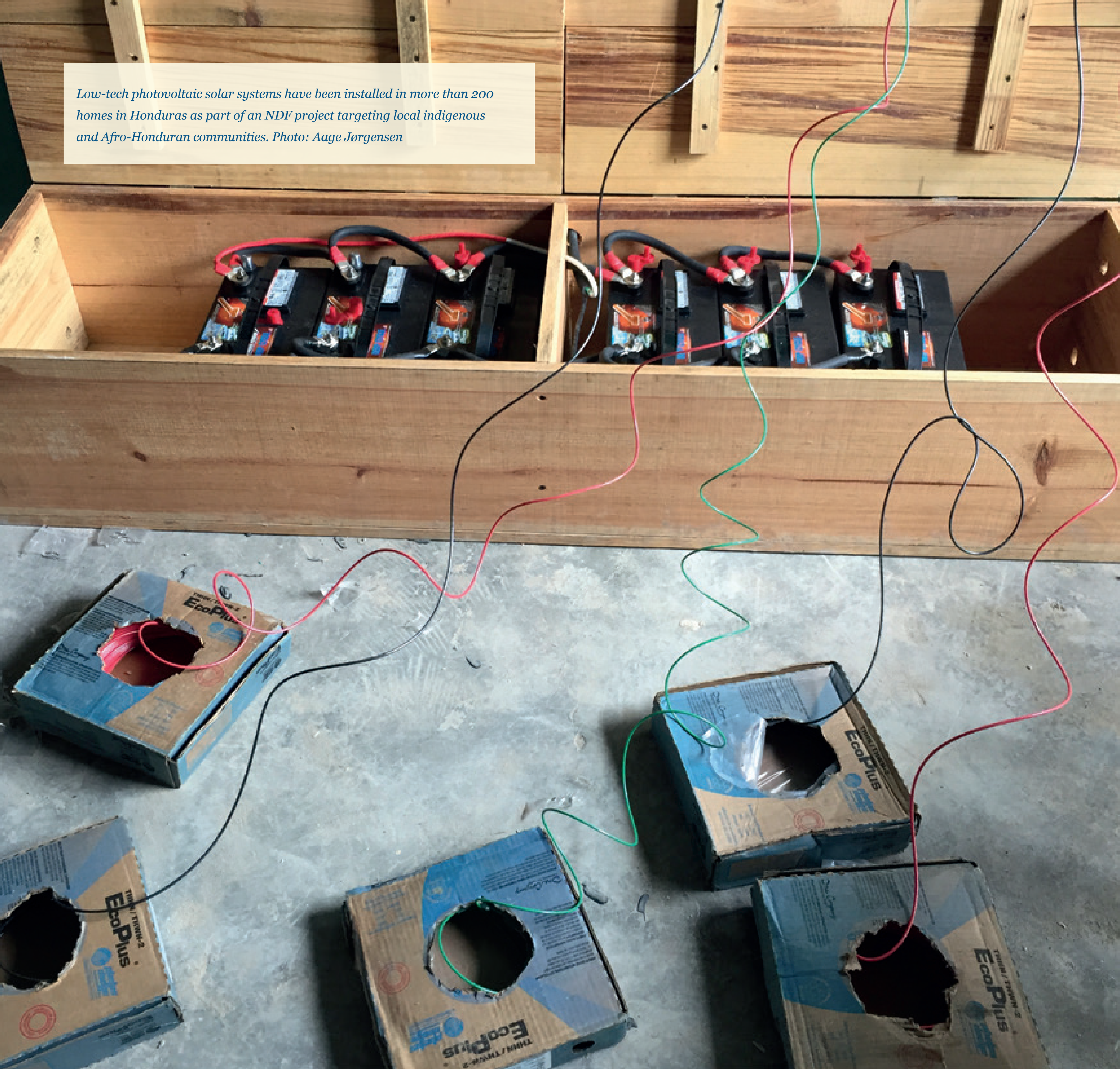
Increasing the use of blended finance instruments

Issues related to climate change continue to gain further momentum in NDF's partner countries also in the private sector, and the demand for various types of non-grant instruments from NDF grew in 2017. NDF's intention to be a front runner in line with its strategic focal areas by financing cutting edge, value-adding projects, led to an increased use of blended instruments in the financing commitments made in 2017, in addition to grants which have been largely used since 2009. Examples of such activities include an investment in **responsAbility Renewable Energy Holding (rAREH)**.

To contribute to filling a gap in demand for financing for renewable energy, NDF made an equity investment of EUR 7.0 million and EUR 0.5 million grant in Technical Assistance in rAREH. This private company was set up in 2013 by Germany's Ministry for Economic Cooperation and Development, the German development bank KfW, and the Swiss-based development investment company responsAbility Investments AG, to take advantage of opportunities in Africa's renewables sector. rAREH is not a typical private equity fund that only manages assets, since the company owns, develops and runs its own projects.

All projects are thoroughly screened to ensure they are relevant from both a climate change and a development perspective, while also being worthwhile investments for owners in the long run. NDF sees rAREH as an innovative way to channel patient capital into smaller solar, hydro and bioenergy projects that might not get off the ground otherwise. In many cases, signing a long-term power purchasing agreement with the national grid operator under a feed-in tariff programme is a crucial step.

Involvement in rAREH fits in well with NDF's ambition to expand into different kinds of green finance. This type of 'green equity finance' has an immediate effect on how projects are developed and



Low-tech photovoltaic solar systems have been installed in more than 200 homes in Honduras as part of an NDF project targeting local indigenous and Afro-Honduran communities. Photo: Aage Jørgensen built while in the long run it creates stable projects with positive cash flows. This gives NDF's involvement a clear leverage effect, since the private sector is already keen to invest in more mature companies with up-and-running assets.

Strengthening linkages between preparatory financing and follow-up investments

Catalytic role and leverage are important cornerstones of the NDF strategy. Through engagement in strategic preparatory grants, which have potential to lead to larger investments, NDF strives to narrow the gap between a project idea and a bankable investment.

During 2017, NDF provided a EUR 0.3 preparatory grant in combination with a matching grant from the African Development Bank (AfDB), to support structuring and establishment of the **Facility for Energy Inclusion Off-Grid Energy Access Fund (FEI OGEF)**. Later in 2017, the NDF Board approved equity financing of EUR 6 million coupled with EUR 0.5 million for technical assistance toward the FEI OGEF's first close. The NDF financing complements a USD 30 million investment made by the AfDB, as well as investments made by Calvert Impact Capital (CIC) and the Global Environment Facility (GEF).

FEI OGEF is a USD 100 million blended finance debt fund designed to provide loans in local and hard currencies to off-grid energy companies with the dual objectives of scaling up access to clean electricity for off-grid households and crowding in local financial institutions as co-lenders. Through the use of clean energy instead of fossil fuels to power communities, the FEI OGEF is expected to result in the reduction of up to 8 million tonnes of CO_2 emissions over its lifetime.

FEI OGEF is a first mover matching local currency debt instruments with recent innovations in off-grid energy business models to scale up energy access for underserved and rural households. It provides a blended capital structure whereby investments in equity provide comfort and risk cushioning to attract early participation and additional investment by development finance institutions and commercial investors.

FEI OGEF will directly contribute to the achievement of providing Affordable and Clean Energy (SDG 7) and support efforts to reduce the number of households in Sub-Saharan Africa lacking access to modern energy.

Finding new ways to support action on emerging issues related to climate change

In addition to the focus on building continuity between preparatory financing and follow-up investments, during 2017 NDF has continued to seek out opportunities to engage in financing initiatives, which push the climate agenda further towards less explored areas. One such initiative, combining the above intended results, was the grant contribution to the preparation of the first global investment fund for climate resilience solutions, the **Climate Resilience and Adaptation Finance & Technology Transfer Facility (CRAFT)**.

CRAFT is based on the premise that there is an immediate opportunity to mobilise substantial amounts of public and private capital to help grow and scale up companies that offer technologies, products and services to help assess and manage the risks and impacts of climate change.

Being the first private investment strategy focused on companies with climate resilience solutions, CRAFT has the momentum to tackle several of the key barriers for private capital to invest in climate adaptation and resilience. CRAFT offers a strategy to direct public and private capital towards scaling up climate resilience solutions. NDF joined the Global Environment Facility in 2017 in providing fund preparatory financing to the Lightsmith Group, sponsor of the CRAFT strategy.

CRAFT will be structured as a single global private equity fund, managed by the Lightsmith Group, with two legally and financially separate vehicles, one for developed countries and another for developing countries. Each investment vehicle is targeting USD 250 million of capital commitments, for a total fund size of USD 500 million. The planned structure of the CRAFT fund will enable the participation of a diverse set of investors, such as development finance institutions, including concessional and non-concessional arms of multilateral development banks (MDBs), institutional investors, and commercial investors.

The added value of NDF participation in the preparation and establishment of CRAFT is significant. Given the limited availability of fund preparatory financing in the market, the grant financing represents an important opportunity for the Lightsmith Group to progress with the implementation of the CRAFT concept. In relation to other grant donors, NDF's participation will catalyse additional fund preparatory financing in the planned timetable and carry a significant signal value.

CRAFT is expected to gain significant international attention. In December 2017, it was profiled as one of the transformative and cutting-edge climate initiatives by the One Planet Summit hosted by France in collaboration with the United Nations (UN) and the World Bank (WB).

Nordic Climate Facility (NCF)

The Nordic Climate Facility (NCF) is a challenge fund set up by NDF to finance early stage innovative climate projects. NCF financing is allocated on a competitive basis with calls for proposals arranged annually. NCF has a portfolio of 68 projects in Africa, Asia and Latin America. By the end of 2017, 51 projects were closed and 17 projects were under implementation. Ten new projects started their implementation during 2017, all under the sixth call for proposals. Fourteen projects were closed, bringing all projects under call 1-4 to a close.

During 2017, the seventh call for proposals was launched under the theme *Climate as business - testing innovative green business concepts*. The call received 138 concept note applications. By the end of the year, 25 applications had been shortlisted and invited to prepare full project proposals.

Knowledge management and outreach

Knowledge management and dissemination of results has remained in focus as one component of NDF's added value. NDF has participated and contributed to high-level conferences, seminars and visits with its current and new partner organisations. 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's projects received a lot of visibility during the year. Together with the African Guarantee Fund and the International Trade Center, NDF contributed to three high level conferences on green finance in Africa. At the twenty-third Conference of the Parties (COP23) to the UN Framework Convention on Climate Change (UNFCCC), the EEP was showcased by NDF. The event was part of the Financing Day organised at the Nordic Pavilion and focused on promoting public climate finance to leverage complementary private sector investments in climate activities in developing countries. In December, two projects with NDF co-financing were among 12 initiatives that were highlighted at the One Planet Summit in Paris. The event was hosted by France in collaboration with the UN and the World Bank Group and aimed at demonstrating how climate actions can be effectively financed. NCF, NDF's unique challenge fund, promoted the 7th call for proposals with a roadshow around all five Nordic countries. The roadshow was attended by around 200 organisations.

Furthermore, NDF has arranged climate-focused seminars and workshops on specific themes, hosted visits made to NDF by delegations from partner institutions and other relevant organisations.

For example, a joint workshop on business ethics war organised for NDF, NEFCO and NIB in December.

NDF is formally an observer in the Board of Directors of the Green Climate Fund (GCF). NDF has various climate readiness activities that help the member countries to access climate finance from GCF. Last spring, a joint initiative with the Inter-American Development Bank (IDB) to learn about the accreditation process and the priorities of the GCF attracted more than 100 representatives from different governmental institutions, universities, civil society, organisations for indigenous people, international entities and private enterprises in Latin America. Several countries already have projects in the pipeline and work is being processed to fulfil the requirements of GCF. Furthermore, several NDF-financed operations can also lead to opportunities for GCF funding in the next phases, and these prospects are being explored actively and encouraged.

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.

Furthermore, NDF is a member in the Sustainable Low Carbon Transport Network (SLoCaT), which promotes the integration of sustainable transport in global policies on sustainable development and climate change.

In line with the internal communication plan, NDF produced one newsletter in English and an electronic newsletter three times during the year. In addition, a Results Report was published as well as a new NDF brochure in English and Spanish.

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 in co-financing

NDF has continued its co-financing with the multilateral development banks (MDBs). In Africa, the main partners have been the WB and the African Development Bank (AfDB). In Asia, the projects have mainly been co-financed with Asian Development Bank (ADB) but also with the WB. In Latin America, NDF has a well-functioning partnership with the Inter-American Development Bank Group.

During the year, NDF has opened a new strategic partnership to comply with its strategic priorities and thematic focal areas. Together with the private equity fund rAREH, NDF is focusing on clean energy and energy efficiency investments in Africa. As one of the owners of the company, NDF also has introduced a reflow-generating financing instrument, which is particularly important in private sector-related activities.

During the year, discussions were also held with a number of other potential Nordic and other collaboration and/or co-financing partners with a view to develop concrete collaboration in 2018. Some Nordic national development finance institutions are also co-financiers in some of the projects that NDF supports.

Cooperation with Nordic institutions

NDF has been in a dialogue with both the Nordic Council and the Nordic Council of Ministers in issues related to climate change and development but also to 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 participant and contributor in all of these discussions to strengthen NDF’s role in any future scenario.

Together with the Nordic Investment Bank (NIB) and the Nordic Environment Finance Corporation (NEFCO), NDF co-financed the Nordic Pavilion at COP23 and jointly hosted a special Financing Day. The event strengthened the cooperation between all three institutions as well as with the Nordic Council of Ministers, who organised the pavilion.

NDF cooperates closely with NIB mainly through shared office premises, HR and IT services, accounting and financial management. Formally, this administrative collaboration is based on a service agreement between NDF and NIB, subject to occasional review. Cooperation and contacts in all these matters between NIB and NDF are regular and frequent, and provide synergies for the two institutions.

All NCF projects under the administration of NEFCO were closed during 2017. A joint 2017 NCF Annual Report has been prepared as part of the cooperation between NDF and NEFCO in 2017.

Farming communities in Honduras, who grow crops including coffee, are benefiting from new tree nurseries and solar drip irrigation systems set up with NDF funding. Photo: Aage Jørgensen

Institutional issues

Policies and Regulations

The Code of Conduct for the Board of Directors and Managing Director was updated during the year. Also, the legal framework for staff including e.g. the Code of Conduct for the staff was updated and revised. These documents are in accordance with NIB's staff policies and regulations, which generally are applicable also to NDF.

Board of Directors

The Chair of the Board of Directors for the period 1 January to 30 April 2017 was Riikka Laatu (Finland), with Egill Heiðar Gislason (Iceland) as Deputy Chair. As of 1 May, Egill Heiðar Gislason took over the chair with Hans Olav Ibrekk (Norway) as Deputy Chair.

In addition, the following changes took place in the Board membership in 2017. As of 28 August 2017, Dorthea Damkjaer was appointed member (Denmark) succeeding Niels Hedegaard Jørgensen, and Nis Lauge Gellert was appointed as alternate (Denmark), succeeding Flemming Winther Olsen. As of 7 December 2017, Max von Bonsdorff was appointed member (Finland) succeeding Riikka Laatu, and Heli Mikkola was appointed as alternate (Finland) succeeding Max von Bonsdorff.

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

Control Committee

The Control Committee ensures that the Fund's operations are conducted in accordance with its Statutes and is responsible for the financial audit of the Fund. The audit of the Fund is carried out by professional auditors appointed by the Control Committee. The Committee presented its annual auditor's report to the Nordic Council of Ministers in March 2017 (which the Nordic Council of Ministers approved in autumn 2017). The Control Committee met twice in 2017. A list of the members of the Committee can be found on page 19.

Administration

As of 31 December 2017, sixteen people were employed by NDF. The staff consists of six (38%) male and ten female (62%) members, representing four different nationalities. A list of the employees can be found on page 19.

The NDF office has, along with the NIB headquarters, been certified as a Green Office by WWF Finland since 2009. NDF's carbon footprint in 2017 amounted to 140 tons of CO_2. The biggest share of the carbon footprint comes from air travel, which in 2017 amounted to 115 tons of CO_2 equivalents.

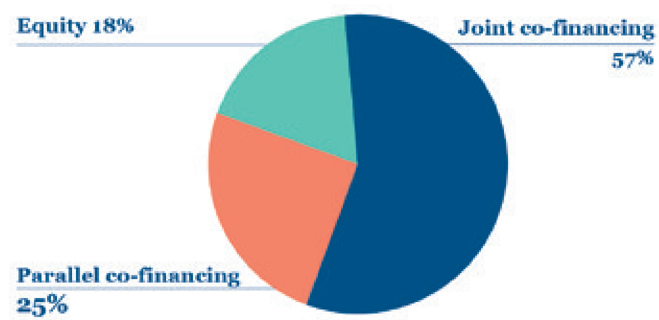
NDF offset its travel and other office operations CO_2 emissions by using remaining funds from the travel budget at the end of the fiscal year.

The direct reduction of greenhouse gases for the NDF mitigation projects approved during 2017 has been estimated at 109,589 tons of CO_2 equivalents per year.

Financial issues

During 2017, total disbursements to climate projects amounted to EUR 37.8 million (2016: EUR 34.1 million), out of which EUR 21.5 million were to joint co-financing projects, EUR 7 million as equity and EUR 9.3 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

NDF disbursments 2017 EUR 37.8 million



projects since 2009 amounted to EUR 222.5 million (2016: EUR 184.7 million).

A total of EUR 0.1 million was disbursed to old credit projects during 2017 (2016: EUR 1.4 million).

The net result for the year before adjustments for currency exchange fluctuations and after disbursements of grant aid totalled EUR -34.7 million in comparison with EUR -18.8 million the previous year. The end net result is EUR -49.9 million for 2017, compared to EUR -18.6 million in 2016.

No new development took place in the question of strengthening NDF's future financial resources, as recommended annually since 2012 by the Nordic Council.

Revised Liquidity Policy

According to the new liquidity policy that was adopted during 2017, NDF targets to place 100% of the Fund's excess liquidity in green instruments such as certified green bonds and green equity funds. As of end 2017, NDF had placed EUR 11.5 million (2016: EUR 0 million) or about 10% of its excess liquidity in green instruments of which EUR 10.5 million was in green bonds and EUR 1.0 million was in a green equity fund.

Update of Hedging policy

Compared to the previous hedging policy, the updated hedging policy adopted in 2017, gives NDF more flexibility in choosing the hedging level relating to the inherent currency exchange risks in the SDR loan portfolio. Primarily, NDF seeks to hedge the SDR portfolio through the existing option agreements that end in 2022. However, NDF can now also choose to increase, maintain or decrease the hedging level or to restructure existing option agreements.

Credits

NDF entered into 188 credit agreements between 1989 and 2006, the total value of which, including additional financing and adjusted for cancellations and calculating the EUR/SDR currency exchange rate as at 31 December 2017, amounted to EUR 913.4 million (2016: EUR 932.8 million). Of these agreements, 160 were credits to public sector projects (EUR 871.9 million), 25 were loans with equity features or equity investments (EUR 29.3 million) and three were other loans (EUR 12.1 million).

In 2016, NDF reintroduced credits among its financing instruments, and entered into a new credit amounting to EUR 6.0 million.

As of 31 December 2017, disbursements under credit agreements amounted to EUR 847.4 million. During 2017, NDF has converted SDR credits to an amount of SDR 79.0 million into EUR 97.7 million, decreasing the amount of outstanding credits denominated in SDR from 38.9% in 2016 to 23.8% in 2017. As a result of the strengthening of the EUR against the SDR, the value of the outstanding SDR credits decreased by EUR 17.6 million. After hedging measures, the decrease in value is EUR 15.2 million.

Capital and accounting currency

NDF changed its capital and accounting currency from 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. About 40% of the credits denominated in SDR are hedged against these effects.

The Fund's financial result for 2017 shows a foreign exchange difference of EUR -17.6 million before hedging and EUR -15.2 million after hedging (2016: EUR 0.6 million before hedging and EUR 0.2 after hedging). This difference is to a large extent due to the fact that the US dollar, which represents 41.9% of the SDR currency basket, weakened during 2017 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. The assets are placed in green bonds, green equity funds, moderate yield funds and deposits, altogether yielding an average interest rate of approximately 0.4% (2016: 0.2%). 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 2017 was EUR 78.9 million (2016: EUR 116.2 million) and other financial placements was EUR 27.7 million (2016: EUR 1.5 million).

The last capital payment from the member countries was made in 2015. Therefore, future operations will build on the existing liquidity and the reflows coming from the outstanding credits. NDF's grant operations will decrease its capital/assets over time and they will eventually be exhausted unless there are future replenishments. On the other hand, the new non-grant operations are expected to produce new reflows to the organisation, and will thereby contribute, though marginally, to strengthening the NDF's financial base.

During 2017, NDF received repayments under disbursed credits amounted to EUR 23.5 million.

Financial results and allocation

NDF's total assets as of 31 December 2017 amounted to EUR 811,384,145 (2016: EUR 860,034,312). This amount includes outstanding credits to public sector projects, other loans with equity features and equity investments to the amount of EUR 697,987,690 (2016: EUR 735,166,690) and placements with credit institutions to the amount of EUR 78,899,583 (2016: EUR 116,173,049). The total net loan losses, write-down on loans and reversals during 2017 totalled EUR 8,153,749 (2016: EUR 0).

Commitments under credits, signed but not yet disbursed, were distributed as follows:

MEUR	2017	2016
Credits	0.2	0.2

As of 31 December 2017, NDF's capital consisted of SDR 515 million and EUR 330 million in paid-in capital and EUR -211,847,054 (2016: EUR -161,948,614) in accumulated net income after adjustments for currency exchange fluctuations.

The Fund's income during 2017, amounting to EUR 5,912,871 (2016: EUR 6,254,185), consisted of income from credits to the public sector to the amount of EUR 5,244,577 (2016: EUR 5,450,477), interest on placements with credit institutions of EUR 272,655 (2016: EUR 186,687) and EUR 422,810 (2016: EUR 617,020) 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. In order to follow the World Bank's recommendations, NDF has made an impairment loss of 50% of Zimbabwe's loans and receivables totalling an amount of EUR 8,153,749.

Administrative expenses were EUR 2,816,326 (2016: EUR 2,751,243). The largest single item of expenditure consists of salaries and ancillary expenses of EUR 2,166,046 (2016: EUR 2,008,823).

The net income for the year, which after adjustments for currency exchange fluctuations and hedging measures of EUR -15,182,763 (2016: EUR 182,450), amounts to EUR -49,898,440 (2016: EUR -18,627,654), is carried forward to the new account.

The income statement, balance sheet, changes in equity, cash flow and notes can be found on pages 20-38.

Projects newly approved in 2017 will on completion result in annual greenhouse gas emission reductions or sequestration totalling

109,589

tonnes of CO_2 equivalent.

Helsinki, 8 March 2018

LARS ROTH

EGILL HEIÐAR GISLASON
Chair of the Board

HANS OLAV IBREKK

MAX VON BONSDORFF

PASI HELLMAN
Managing Director

DORTHEA DAMKJAER

NDF's Board members and administrative staff. Photo: Joakim Östling

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Anders Tagde, Authorised Public Accountant KPMG, Sweden

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Ann-Christin Lundin, Assistant
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Jessica Suominen, Financial Controller
Maria Talari, Administration and Communications Officer
Saija Tyyskä, Temporary Project Officer

* As of 31 December 2017

Income Statement (Amounts in EUR)

Income	Note	1 January to 31 December 2017	1 January to 31 December 2016
Service charges from credits		5,243,185.42	5,437,681.07
Income from loans with equity features		422,810.43	617,020.08
Fee and commission income		1,392.02	12,796.32
Interest income/expenses from placements with credit institutions		-54,699.63	52,528.34
Interest income from other financial placements		5,522.94	-
Interest income from cash and balances with banks		8,725.70	-
Real. and unreal. g/l other financial placements		-41,421.23	-
Total income		5,585,515.65	6,120,025.81
Expenses			
Grant financing for climate projects	(10)	30,813,071.79	28,070,406.85
Refund of grant financing		-1,213,458.06	-5,825,083.80
Fee and commission expenses		1,639.04	549.57
Commission expenses, derivative instruments		23,065.97	25,211.08
General administrative expenses	(11)	2,816,325.68	2,751,242.69
Interest expenses/income		-327,355.64	-134,158.91
Depreciation/amortisation on tangible and intangible assets	(8)	15,890.22	16,440.14
Impairment of loans and reversals, realised impairments	(6)	8,153,748.82	-
Total expenses		40,282,927.82	24,904,607.62
Net result for the year before foreign exchange differences and unrealised/realised gains or losses on derivatives		-34,697,412.17	-18,784,581.81
Foreign exchange differences		-17,622,033.49	601,082.84
Unrealised gains/losses on fair value of derivative instruments	(2)	2,241,073.00	-534,793.00
Realised gains/losses on derivative instruments		198,197.07	116,160.00
Foreign exchange differences, net		-15,182,763.42	182,449.84
Unrealised gains/losses on fair value of forward contracts		-18,264.06	-25,521.98
Unrealised/realised gains/losses on forward contracts		-18,264.06	-25,521.98
Net result for the year		-49,898,439.65	-18,627,653.95

Balance Sheet (Amounts in EUR)

Assets	**Note**	**31 December 2017**	**31 December 2016**
Cash and cash equivalents	(1)	7,265,892.94	7,323,582.55
Other long-term financial placements	(1)	71,633,690.40	108,849,466.73
		78,899,583.34	116,173,049.28
Other assets		3,352,758.39	5,985,348.66
Derivative instruments	(2)	2,092,197.00	-
Accrued income		1,287,847.58	1,164,890.80
Credits with government guarantee outstanding	(3)	679,945,899.16	723,851,607.92
Other loans outstanding	(4)	4,645,950.40	4,919,241.60
Loans with equity features and equity investments outstanding	(5), (10)	13,395,840.40	6,395,840.40
Other financial placements	(7)	27,735,625.00	1,500,000.00
Tangible assets	(8)	28,443.29	44,333.51
Total assets		811,384,144.56	860,034,312.17
Liabilities And Equity			
Liabilities			
Other liabilities		496,902.18	425,710.28
Forward contracts		1,328,815.66	2,859.52
Derivative instruments	(2)	-	148,876.00
Equity	(9)		
Fund capital SDR 515,000,000			
Fund capital EUR 330,000,000			
Paid-in fund capital		1,021,405,480.71	1,021,405,480.71
Accumulated net result		-161,948,614.33	-143,320,960.38
Net result for the year		-49,898,439.65	-18,627,653.95
Total equity		809,558,426.73	859,456,866.38
Total liabilities and equity		811,384,144.56	860,034,312.17

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 2016	1,021,405	-143,321	0	878,085
Result for the year			-18,628	-18,628
Paid-in fund capital	0			0
Transfers between equity items		-18,628	18,628	0
Equity as of 31 December 2016	1,021,405	-161,949	0	859,457
Result for the year			-49,898	-49,898
Paid-in fund capital	0			0
Transfers between equity items		-49,898	49,898	0
Equity as of 31 December 2017	1,021,405	-211,847	0	809,558

Cash Flow Statement (Amounts in EUR 1,000)

Cash flow from operating activities:	31 December 2017	31 December 2016
Net result for the year	-49,898	-18,628
Depreciation/amortisation on tangible and intangible assets	16	16
Foreign exchange differences	17,622	-601
Fair value of derivative instruments	-2,223	560
Fair value of other financial placements	39	0
Changes in accrued income	-123	160
Changes in provision for credit losses and write-down of loans	8,154	0
Cash flow from operating activities	-26,414	-18,492
Cash flow from investing activities:		
Credits disbursed	-98	-1,417
Repayments of credits	23,491	22,914
Credit conversions	-784	-6,000
Disbursed equity loans and equity investments	-7,000	0
Repayments of other loans	273	273
Changes in placements with a maturity longer than 6 months	37,216	2,277
Changes in other assets and liabilities	-326	-763
Changes in other financial placements	-26,274	-1,500
Changes in derivative instruments	1,308	36
Changes in tangible and intangible assets	0	0
Net cash flow from investing activities	27,804	15,822
Cash flow from financing activities:		
Paid-in fund capital	0	0
Foreign exchange differences	-1,448	155
Changes in cash and cash equivalents	-58	-2,516
Cash and cash equivalents consist of:		
Cash and balances with banks	7,266	7,324
Total cash and cash equivalents	**7,266**	**7,324**

Changes in cash and cash equivalents	***-58***

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.

NDF's recently completed Gender and Climate Change project in Lao PDR, Cambodia and Vietnam has helped women to get more actively involved in climate change mitigation and adaptation initiatives that will particularly affect their household work and livelihoods.
Photo: Daniel Roca

Notes to the financial statements

General operating policies

The 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.

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. The Fund 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 organisation.

The headquarters of the Fund are in Helsinki, Finland, at the premises of the Nordic Investment Bank.

A Host Country Agreement between NDF and the Government of Finland was signed on 15 October 2013 and entered into force on 11 May 2014. This agreement replaced the Headquarters Agreement as of 14 October 1998.

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

Pursuant to the recommendation of the NDF Board of Directors to the Nordic Council of Ministers, the Nordic Cooperation Ministers approved the amendments to NDF's Statutes on 5 May 2009, making it possible for NDF to provide financing also in the form of grants, in addition to interest-free loans, subordinated loans and equity capital. NDF's financing focuses on climate change and development related interventions in low-income and lower-middle income countries.

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. As from 1 January 2001, the Fund's financial statements are presented in EUR in accordance with the decision of the Nordic Council of Ministers of 24 August 2000 to replace SDR with EUR as accounting currency. All of NDF's paid-in capital has been converted into 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 the European Central Bank (see Note 13). 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, measures have been taken to reduce the effects from the foreign exchange differences by hedging 40% 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 40% 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 utilizes 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 2017 invested monetary assets with commercial banks 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". The amount is included in the balance sheet as "Other long-term financial placements".

Credits with government guarantee outstanding
The recipient countries for NDF credits are primarily low-income developing countries. The credit period for credits with government guarantee is 40 years, including a 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 2017, 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 with government guarantee outstanding 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 outstanding
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 outstanding 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 without government guarantee.

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

Equity from the NDF-backed responsAbility Renewable Energy Holding Company (rAREH) is used to realise projects like this small hydropower development currently under construction on the River Rwaza in Rwanda. Photo: rAREH 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.

Intangible assets

Intangible assets mainly consist of investments in software and software licenses for ICT-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 3 to 5 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 2017, SDR 515 million - the equivalent of EUR 691.4 million- and EUR 330.0 million, totalling EUR 1.021 billion has been paid in by the member countries. Future operations will build on the existing liquidity and the reflows coming from mainly the 188 outstanding credits which NDF granted during the years 1989-2005. The last repayment for these credits is due in 2045. As NDF's operations are predominantly grant based, the capital will decrease over time and will eventually be exhausted unless there are future replenishments or changes in the operations towards a more financially sustainable approach.

Income from service and commitment charges, loans with equity features and equity investments

The Fund's long-term lending with government guarantee is interest-free, but a service charge of 0.75% per annum is collected on outstanding amounts. A commitment charge of 0.5% per annum is collected on any undisbursed balance one year 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 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 outstanding". 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

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 2017, amounted to EUR 636,672 (2016: EUR 618,753). The payment reduces the Fund's administrative expenses as shown in Note 11.

Employees' pensions and insurance

The Fund is responsible for arranging pension security for its employees. In accordance with the Host Country Agreement between the Fund and the Finnish Government, and as part of the Fund's pension arrangements, the Fund has decided to apply the Finnish public sector pension system (JuEL) (formerly the Finnish state pension system). The JuEL pension is calculated on the basis of the employee's annual pensionable income and the applicable age-linked pension accrual rate.

NDF also provides its permanent employees with a supplementary pension insurance scheme arranged by a private pension insurance company. 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.

The climate vulnerability of Mozambican fishing communities is being reduced through a wide-ranging five year project co-financed by NDF and the World Bank.
Photo: Aage Jørgensen

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. 2017	31 Dec. 2016
Cash and cash equivalents		
Cash and balances with banks	7,266	7,324
Total, cash and cash equivalents	7,266	7,324
Other long-term financial placements		
Other long-term financial placements	71,634	108,849
Total, other long-term financial placements	71,634	108,849
Total, cash and cash equivalents and other long-term financial placements	78,899	116,173

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

(EUR 1,000)	31 Dec. 2017	31 Dec. 2016
Up to and including 3 months	37,550	32,000
More than 3 months and up to and including 6 months	33,627	43,006
More than 6 months and up to and including 12 months	-	33,502
Total	71,177	108,508

(Note 2) Derivative instruments

(EUR 1,000)	31 Dec. 2017	31 Dec. 2016
Fair value of option contracts at beginning of year	-149	386
Fair value of option contracts at end of year	2,092	-149
Change in fair value	2,241	-535

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

Panellists from a discussion on "Clean Energy Investments through Public-Private Collaboration" hosted by NDF in the Nordic pavilion in the COP 23 event in Bonn: (top, left to right) ***Monojeet Pal*** *(African Development Bank),* ***Pasi Hellman*** *and* ***Charles Wetherill*** *(NDF),* ***Pekka Ohanen*** *(Finnish Ministry for Foreign Affairs), (bottom)* ***Naeeda Crishna Morgado*** *(OECD),* ***Mahua Acharya*** *(Global Green Growth Institute),* ***Sheila Oparaocha*** *(ENERGIA International Network on Gender and Sustainable Energy) and* ***Franz Breitwieser*** *(Austrian Ministry for Foreign Affairs).*
Photo: Joel Sheakoski

Notes to the financial statements

(Note 3) Credits with government guarantee outstanding

Credits according to lending currency:

(Face value in EUR 1,000)	**31 Dec. 2017**	**31 Dec. 2016**
EUR-credits	521,952	440,554
SDR-credits	163,117	283,297
Total, outstanding credits	685,069	723,852

Credits outstanding:

(EUR 1,000)	**31 Dec. 2017**	**31 Dec. 2016**
Bangladesh	31,228	32,699
Benin	17,538	18,153
Bolivia	26,566	28,932
Botswana	3,567	3,826
Burkina Faso	9,694	9,898
Cambodia	8,521	8,707
Cape Verde	1,655	1,882
China	3,568	3,790
Colombia	1,021	1,156
Dominican Republic	6,341	7,138
Ethiopia	23,991	25,788
Ghana	46,694	49,014
Honduras	29,000	30,356
Indonesia	9,569	10,189
Jamaica	4,720	5,341
Kenya	24,411	24,930
Kyrgyz Republic	3,941	4,093
Lao PDR	45,549	47,901
Malawi	19,771	21,178
Maldives	7,619	7,967
Mauritius	1,949	2,112
Mongolia	22,211	23,822
Mozambique	54,157	56,655
Namibia	1,341	1,420
Nepal	18,194	19,084
Nicaragua	41,256	43,302

(EUR 1,000)	**31 Dec. 2017**	**31 Dec. 2016**
Pakistan	7,664	8,179
Philippines	9,980	10,971
Rwanda	11,850	12,099
Senegal	43,587	47,676
Sri Lanka	18,466	19,750
Tanzania	20,480	21,750
Tunisia	4,228	4,473
Uganda	49,270	51,178
Vietnam	23,546	24,567
Zambia	21,683	22,171
Zimbabwe	16,307	17,514
Credits outstanding	691,130	729,660
Credits in default (Zimbabwe)	6,061	5,808
Total, credits outstanding	685,069	723,852

In addition, agreements have been signed on a further EUR 0.2 million (2016: EUR 0.2 million) in credits not yet disbursed.

Amortisations on credits outstanding as at 31 December 2017 show the following maturity profile:

(EUR 1,000)	**31 Dec. 2017**	**31 Dec. 2016**
2017		52,794
2018-2020	77,228	50,062
2021-2025	154,491	158,297
2026-2030	171,267	175,074
2031-2035	147,489	151,007
2036-2040	98,597	100,551
2041-2045	35,997	36,066
Total, credits outstanding	685,069	723,852

(Note 4) Other loans outstanding

Other loans outstanding are distributed as follows:

(EUR 1,000)	31 Dec. 2017	31 Dec. 2016
East African Development Bank	4,646	4,919
Total, other loans outstanding	4,646	4,919

Amortisations on other loans outstanding as at 31 December 2017 show the following maturity profile:

(EUR 1,000)	31 Dec. 2017	31 Dec. 2016
2017		273
2018-2020	820	820
2021-2025	1,366	1,366
2026-2030	1,366	1,366
2031-2035	1,093	1,093
Total, other loans outstanding	4,646	4,919

(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. 2017	31 Dec. 2016
African Guarantee Fund (AGF)	6,000	6,000
Mekong Enterprise Fund	528	528
responsAbility Energy Holding Company (rAREH)	7,000	-
Total, loans with equity features and equity investments outstanding	13,528	6,528
Write-down	-132	-132
Total, loans with equity features and equity investments outstanding after write-down	13,396	6,396

As at 31 December 2017, the write-down for impairment totalled EUR 131,947 (2016: 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 2017 totalled EUR 8.2 million (impairment losses on Zimbabwe) (2016: EUR 0). No realised loan losses occurred during 2017 (2016: EUR 0).

(Note 7) Other financial placements

(EUR 1,000)	31 Dec. 2017	31 Dec. 2016
Fixed income	10,828	
Equities	1,019	
Money market	15,889	1,500
Total, other financial placements	27,736	1,500

Fixed income consists of green bonds issued by financial institutions with a credit rating above A (48% AAA, 43% AA and 9% A). 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.

(Note 8) Intangible and tangible assets

(Amounts in EUR)	**31 Dec. 2017**	**31 Dec. 2016**
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	5,755
Amortisation according to plan for the year	0	42
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	62,639	46,198
Depreciation according to plan for the year	15,890	16,440
Accumulated depreciation at end of year	78,529	62,639
Net book value	28,443	44,334
Intangible and tangible assets total	28,443	44,334

(Note 9) Equity

The member countries have subscribed and paid in the total Fund capital:

Subscribed capital as at 31 December 2017

(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%

The member countries have paid in the subscribed Fund capital as at 31 December 2017.

Paid-in Fund capital

(EUR/SDR 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%

Notes to the financial statements

(Note 10) Financing for climate projects

Disbursements for financing of climate change projects amounted to EUR 30.8 million in 2017 (2016: EUR 28.1 million) and EUR 7 million in equity contribution (2016: EUR 6 million) totalling EUR 37.8 million in disbursements in 2017.

The geographic distribution is as follows:

Grant financing:

(EUR 1,000)	**31 Dec. 2017**	**31 Dec. 2016**
Africa	15,435	6,486
Asia	2,196	10,216
Multiple regions	1,305	833
Latin America	11,877	10,535
Total	30,813	28,070

Equity financing:

(EUR 1,000)	**31 Dec. 2017**	**31 Dec. 2016**
Africa	7,000	6,000
Asia	-	-
Latin America	-	-
Multiple regions	-	-
Total	7,000	6,000

In addition, financing to projects for the total amount of EUR 113.5 million (2016: EUR 105.4 million) has been approved but not yet disbursed.

(Note 11) General administrative expenses including compensation for the Board of Directors, the Control Committee and the Managing Director

General administrative expenses (EUR 1,000)	**2017**	**2016**
Personnel costs	1,767	1,656
Pension premiums in accordance with the Finnish public sector pension system (in 2016 Finnish state pension system)	414	359
Other pension premiums	109	84
Office premises costs	170	185
Other general administrative expenses	627	783
Cost coverage, NIB	367	303
Total	3,453	3,370
Host country reimbursement according to agreement with the Finnish Government	-637	-619
Net	2,816	2,751

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 permantely 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.

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 e.g. in finding accomodation, usually by renting a house or a flat in its own name. The staff reimburses the Fund 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)	**2017 Compensation/ taxable income**	**2016 Compensation/ taxable income**
Chairman of the Board of Directors	5,144	5,144
Other members of the Board	17,026	18,049
Managing Director	298,058	295,342
Control Committee	1,500	1,500

During 2017, NDF paid a total of EUR 84,172 (2016: EUR 83,848) in pension premiums for the Managing Director.

(Note 12) 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 self- cost price 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
2017	0	30	0	146
2016	0	4	25	146

(Note 13) Currency exchange rates

		EUR rate on 31 Dec. 2017	EUR rate on 31 Dec. 2016
DKK	Danish krone	7.4449	7.4344
ISK	Icelandic króna *	124.7	118.8
NOK	Norwegian krone	9.8403	9.0863
SEK	Swedish krona	9.8438	9.5525
USD	US dollar	1.1993	1.0541
SDR	Special Drawing Right**	0.84213	0.78411

* Reuters closing.

** IMF (International Monetary Fund) closing per 31 December 2017 and per 31 December 2016.

An ongoing Nordic Climate Facility project in Bolivia is helping rural communities to increase their income from non-timber forest products such as essential oils. Photo: Morten Bo Johansson/ Forests of the World

Independent Auditor's Report

To the Control Committee of the Nordic Development Fund

Independent Auditor's Report on the Audit of the Financial Statements

Opinion

In our capacity as auditors appointed by the Control Committee of the Nordic Development Fund we have audited the accompanying financial statements of the Fund for the year ended 31 December, 2017. The financial statements comprise the balance sheet as at 31 December 2017, the income statement, statement of changes in equity and statement of cash flows, a summary of significant accounting policies and other explanatory notes.

In our opinion, the financial statements give a true and fair view of the Fund's financial performance and financial position 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 International Standards on Auditing, and we have fulfilled our other 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 opinion.

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 of financial statements that give a true and fair view in accordance with the accounting principles described in the notes to the financial statements. The Board of Directors and the Managing Director are also responsible 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 a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the Fund or cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities 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 ISAs 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 ISAs, 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.

Independent Auditor's Report

• 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 company 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 that the financial statements give a true and fair view.

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.

Other Reporting Requirements

Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises 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 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. Our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed, we conclude that there is a material misstatement of the report of the Board of Directors, we are required to report that fact. We have nothing to report in this regard.

Report on the other requirements

In accordance with the Terms of Engagement our audit also included a review whether the Board of Directors' and the Managing Director's administration have complied with the Statutes of the Fund. It is our opinion that the administration of the Board of Directors and the Managing Director complied with the Statutes of the Fund.

Helsinki 8 March, 2018

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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

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 2017, 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 8 March 2018, at which time we also received the Auditors' Report submitted on 8 March 2018 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 2017, 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 49,898,439.65 which will be carried forward to new account.

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

Helsinki 8 March, 2018

Jan-Erik Enestam
Chairman

Staffan Danielsson

Vilhjálmur Árnason

Arto Pirttilahti

Sjúrður Skaale

Michael Tetzschner

Rainwater harvesting reservoirs and flood defences are being built in Nicaragua as part of an NDF project designed to reduce the vulnerability of local communities to extreme climate events. Photo: Aage Jørgensen

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The revamped Energy and Environment Partnership Trust Fund, now under NDF management, is supporting innovative clean energy projects like Nuru Energy in Rwanda (pictured) and transforming lives and livelihoods across Southern and East Africa. Photo: Nuru Energy

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