

Danish Organisation Strategy for the Nordic Development Fund (NDF)

Introduction:

NDF is a Nordic international finance institution (IFI) focusing on climate change in developing countries. It was set up in 1988 and given its current climate mandate in 2009. NDF is providing climate financing on concessionary terms in the form of grants, loans, and equity targeted both the public and the private sector.

Key results (2021-2025):

Final targets is currently under development but will linked to below selected indicators from the results framework.

- # of people benefitting from established or improved climate services, adaptation and risk management plan.
- # of people benefitting from established or improved climate- and disaster-resilient infrastructure, services and/or physical assets.
- Ratio of mobilised private and public climate financing,
- #of people with improved access to clean energy
- # of full-time jobs (direct and indirect) created by NDF-funded projects

Justification for support:

- Strategic partner to deliver actions fully aligned with the new Danish Strategy for Development Cooperation.
- NDF provides an agile platform to strengthen Nordic collaboration to deliver innovative climate solution and mobilise private climate financing.
- NDF's can be catalytic convener between Danish supported climate funds, multilateral agencies, research institutions and bilateral projects and institutions by identifying partners and more pro-actively.















How will we ensure results and monitor progress:

- Approval of annual report and progress reporting on results framework.
- Pro-active Danish engagement in the NDF Board and proposals for collaboration with other Danish supported climate agencies.

Risk and challenges:

- Further develop and consolidate NDF's niche position as an agile, innovative and early-stage climate fund.
- Strengthen the institutional framework of NDF

File No.	F2 2021 – 19349					
Responsible Unit	GDK					
	<i>EUR Mill.</i>	2021	2022	2023	2024	total
Commitment						
Projected ann. Disb.		48,5	48,5	48,5	48,5	
Duration of strategy	2021-2030					
Finance Act code.	§ 06.37.03.13					
Desk officer	Morten Blomqvist					
Financial officer	Christina Hedegård Hyttel					

SDGs relevant for Programme					
 1 NO POVERTY	 2 NO HUNGER	 3 GOOD HEALTH, WELLBEING	 4 QUALITY EDUCATION	 5 GENDER EQUALITY	 6 CLEAN WATER, SANITATION
 7 AFFORDABLE CLEAN ENERGY	 8 DECENT JOBS AND ECONOMIC GROWTH	 9 INDUSTRY, INNOVATION, INFRASTRUCTURE	 10 REDUCED INEQUALITIES	 11 SUSTAINABLE CITIES, COMMUNITIES	 12 RESPONSIBLE CONSUMPTION & PRODUCTION
 13 CLIMATE ACTION	 14 LIFE BELOW WATER	 15 LIFE ON LAND	 16 PEACE AND JUSTICE, STRONG INST.	 17 PARTNERSHIPS FOR GOALS	

Budget

Total recapitalization: EUR 350 million
Danish share of recapitalization: EUR
Annual installments 2021-2025: 6.54 mio.
Annual installments 2026 - 2030: 8,72 mill.

Danish involvement in governance structure

- Denmark is Board member of NDF and led the negotiations of the recapitalization as chair of the Board of Directors
- Denmark is engaging NDF pro-actively with other Danish climate supported agencies, funds and programmes.

Strat. objectives	Priority results	Core information	
The purpose of NDF is to advance Nordic leadership in addressing climate change and development challenges through financing, knowledge and partnerships.	Strengthening of climate and disaster-resilience of cities, human settlements and infrastructure.	Established	1988
	Enhance natural capital and water–energy–food security to reduce climate vulnerability.	HQ	Helsinki
	Increase access to and production of affordable and sustainable clean energy	Managing Director	Karin Isaksson
		Division of Funding	60% for Sub-Saharan Africa, 50% for adaptation and 50% mitigation/adaptation, 50% grant financing.
		Human Resources	27 staff per 1 sept (incl. 2 on leave)
		Country presence	Only Helsinki
		Danish ownership	21.8 percent of capital increase Member of Board since 1989 Chair of Board: May 2020 – April 2021

Danish Organisation Strategy
for
The Nordic Development Fund (NDF)
2021-2025

13 September, 2021

File: F2 2021 – 19349
(former F2 2014-7736)

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Abbreviations:

AfDB	African Development Bank
AGF	African Guarantee Fund
C40	C40 Cities Climate Leadership Group
COP	Conference of the Parties (UN Climate Conference)
CRAFT	Climate Resilience and Adaptation Finance and Technology Transfer Facility
DFI	Development Finance Institutions
IFU	Investment Fund for Developing Countries
IFI	International Finance Institution
MDB	Multilateral Development Bank
MFA	Ministry of Foreign Affairs of Denmark
NEFCO	Nordic Environment Facility
NDF	Nordic Development Fund
NIB	Nordic Investment Bank
RMF	Results Management Framework
SDG	Sustainable Development Goals
SME	Small and Medium Enterprises
WACA	West Africa Coastal Area Erosion and Adaptation project
WB	World Bank

1. Objective of the Organisation Strategy

This Strategy for the cooperation between Denmark and the Nordic Development Fund (NDF) outlines the background, justification and key priorities for the Danish contributions to NDF from 2021-2025. It is the main instrument for Denmark's strategic dialogue with NDF and it emphasises specific goals, development targets and results that Denmark will pursue in its cooperation with the NDF. Finally, it also describes the Danish rationale for the recapitalization of NDF and the aim of turning NDF into a high-performing Nordic climate fund providing catalytic and early-stage climate financing targeting developing countries.

NDF is a jointed Nordic International Finance Institution (IFI) focusing on the nexus between climate change and development in developing countries and countries in fragile situations, and with the majority of its funding flowing to sub-Saharan Africa. Since the introduction of its dedicated climate mandate in 2009, NDF has built a track-record of adding value by financing innovative climate mitigation and adaptation projects in close interaction with its extensive network of international partner institutions and funds.

In 2020, the Nordic countries reached the agreement to recapitalize the NDF for the first time in 20 years. It was decided to recapitalize NDF with EUR 350 million from 2021-2031 which allow the Fund to continue and expand its engagement and partnerships with relevant countries and stakeholders to tackle the climate crisis. The total Danish contribution will make up 21.8% of the total recapitalization and the first instalment will be made in 2021 (core contribution). The decision of the recapitalization was made after more than two years of thorough review and strategic discussion about the added value and future role of NDF. The objective of recapitalization is to turn NDF into a high-impact Nordic climate fund providing agile, early-stage and catalytic climate financing based on Nordic priorities and added value in the international climate financing landscape.

The long-term Danish core support through the capital increase to the NDF is also demonstrating a strategic decision to establish a closer Nordic collaboration around international development cooperation and climate action. Therefore, the recapitalization of NDF aims at concretely strengthen the only dedicated Nordic climate fund targeted developing countries, consolidate its niche position in the international climate financing architecture and to support a climate-smart Build Back Better and Greener approach to development in the context of the Covid-19 pandemic.

2. The organisation

2.1. Background for capital increase

NDF was set up as a joint international development financing institution in 1988 by the governments of Denmark, Finland, Iceland, Norway and Sweden to strengthen the development cooperation between the Nordic countries. From its inception in 1988 and until 2004, NDF extended loans on highly concessional terms in co-financing arrangements with its partners, mainly with the Multilateral Development Banks (MDB's). Following the decision of not increasing the capital reached by the member countries in 2005, a consensus was reached in 2008 that NDF should focus on providing financing for climate change and development in developing countries based on the existing financial resources.

Since the adopted climate mandate in 2009, NDF has built a track-record of adding value by financing climate mitigation and adaptation projects in close interaction with its extensive network of strategic partners. NDF provides financing on concessionary terms in the form of grants, loans, and equity under its climate mandate.

NDF engages with both the public and the private sector, and uses its financial instruments, alone or in multiple combinations, to match the needs of the project and partner. Size of financing starts from smaller “booster grants” below EUR 500.000 targeted early-stage and innovative project designs, capacity building and studies to larger project and co-investments where NDF contributions typically vary between EUR 5-10 millions.

An external evaluation was carried out from 2018 to 2019 with twofold purpose of evaluating the performance of NDF in accordance with its mandate and to assess NDF’s potential and future role as a joint Nordic financing instrument. The evaluation found that NDF has delivered on its mandate, that NDF has developed a valuable niche in the international climate finance architecture and there is good case for strengthening NDF as an ambitious high-impact Nordic climate institution. The evaluation also pointed to areas of development such as improving the Nordic profile of the organisation and improving results monitoring (see brief summary in Annex 5).

Based on the evaluation, the NDF 2025 Strategy was developed and approved in April 2020. Shortly after, the process to negotiate a capital increase was launched under Danish Chairmanship which was successfully completed and approved by the Nordic Council of Ministers the 27 October 2020. The total recapitalization was EUR 350 million over a 10-year period (2021-2031)

2.2. NDF’s mandate, purpose and strategy

The new NDF Strategy 2025 was approved by the NDF Board in April 2020. The Strategy outlines the roadmap that will take NDF from its Mandate to the fulfilment of its Purpose. The Strategy is composed by four overall components: Mandate, Principles, Pathways and Purpose which collectively form the Strategy (see also figure 1)

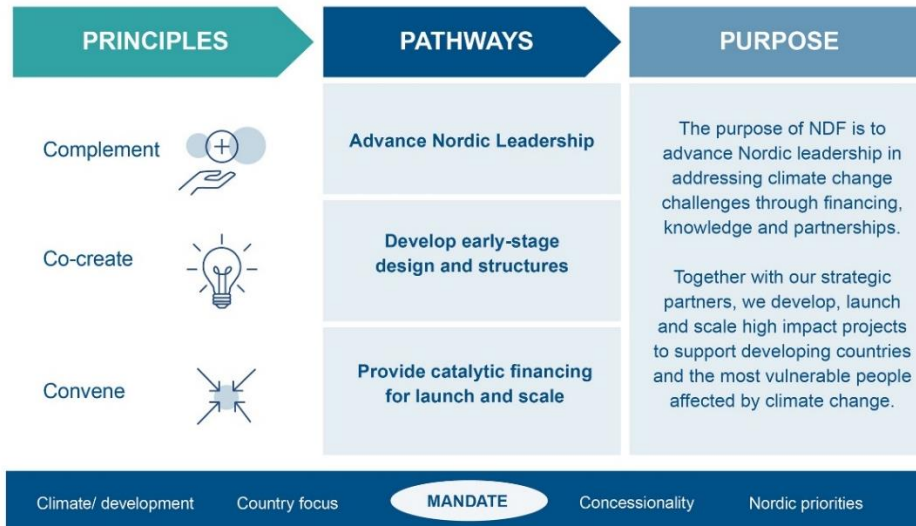
The *purpose* of NDF was defined as advancing Nordic leadership in addressing climate change and development challenges through financing, knowledge and partnerships. This will be done with strategic partners, with whom NDF will develop, launch and scale high-impact projects to support developing countries and the most vulnerable people affected by climate change.

The Board updated the mandate of NDF in the Strategy 2025 which reflects agreed priorities of the member countries and is divided on four overall priorities:

- *Nexus between climate and development:* NDF’s operations target the nexus between climate and development. This core foundation recognises that climate change and poverty reduction are closely interlinked and NDF is well-placed to support this agenda as Nordic finance institution. At least 50% of funding will be targeted climate change adaptation.
- *Focus on lower-income countries and countries in fragile situations:* NDF’s country focus is on lower-income countries and countries in fragile situations, including possibilities of supporting climate vulnerable countries such as Small Island Developing States (SIDS). At least 60% of new commitments during the Strategy Period should be targeted Sub-Saharan Africa.
- *Concessionary financing:* NDF’s statutory Mandate allows the use of grants, loans and equity. These instruments can be used as stand-alone or blended depending on specific intervention. NDF strives to keep a high grant element and at least 50% of the funding should be through grants.

- *Nordic priorities and values:* With respect to NDF’s Mandate, Nordic priorities are most importantly understood as advancing Nordic policy priorities in the sphere of climate and development including human rights, gender equality, non-discrimination and inclusiveness. It also includes building synergies to Nordic solutions to tackle climate change, including technologies, innovations and support joined Nordic policy priorities for development cooperation.

Figure 1: NDF’s Strategy 2025



NDF has defined three strategic pathways underpinning and supporting achievement of its Purpose. The pathways are intended to be integrated and mutually re-enforcing, and together, they capture NDF’s value proposition in the global climate and development finance landscape.

The first pathway will *advance Nordic leadership*. As a climate-focused joint Nordic institution, NDF can further drive and support the objectives and actions of the Nordic countries’ development and climate policy agendas, and to provide assistance in closing identified financing deficits in priority focus areas, or cross-cutting areas.

The second pathway is to *develop and support early-stage interventions*. The lack of climate financing to developing countries is often hindered by the perceived risks related to early-stage financing. Effective risk mitigation will help unlocking such financing into a larger scale. NDF will engage with strategic partners in the design, preparation and delivery of emerging early-stage projects, investments and climate solutions.

The third pathway underpins the relevance of *providing catalytic financing for launch and scale climate projects and investments*. NDF will support development of innovative financing mechanisms, which addresses the existing climate financing gaps in developing countries. These mechanisms need to constructively address financing deficits and needs for both public and private partners. NDF will co-finance

projects in the public sector through grants and concessionary loans and support early-stage and higher-risk positions with the private sector to catalyse financing and act as a first-mover to help raise further financing.

NDF is relatively small player in the international climate financing architecture. However, its ability to provide flexible financing instruments with high concessionality allows NDF to add value and become a trusted relevant partner. NDF there builds on the three guiding principles to Complement, Co-create and Convene with other partners from governments, international organisations and the private sectors.

2.3. Structure and management

The structure of NDF's governing bodies reflects NDF's status as an international financial institution owned by the five Nordic countries.

The main governing body of NDF is the Board of Directors (the Board), which makes policy decisions concerning the operations of NDF and approves the financing of projects proposed by NDF's Managing Director. The Board also approves the annual budget and is responsible for NDF's financial statements. Each member country appoints one ordinary member and is entitled to appoint an alternate member. The Board elects a Chairman for a one-year term, which rotate among the member countries. The Nordic Investment Bank (NIB) has an appointed Observer without the right to vote in the Board.

The Control Committee is NDF's supervisory body. It ensures that NDF's operations are conducted in accordance with the Statutes of NDF. The Control Committee is responsible for the audit of NDF and submits its annual audit report to the Nordic Council of Ministers. The Nordic Council appoints one member of each of the five Nordic parliaments to the Committee. The Chairman of the Committee is appointed by the Nordic Council of Ministers. The Control Committee appoints two professional external auditors for the purpose of assisting the Committee in carrying out its work and responsibilities. One of the appointed professional auditors is from NDF's host country (Finland) and one from another member country.

The Nordic Council of Ministers (i.e. the five Ministers of Nordic Cooperation) is the body responsible for, among other things, amendments to NDF's Statutes and capital. The Nordic Council of Ministers also approves the annual report of the Board of Directors and the audited financial statements of NDF.

As of September 2021, NDF has 27 staff members (17 females and 10 males ,including substitutes for persons on leave), which reflect the recent strengthening of NDF's human resources . NDF is headed by a Managing Director, who is appointed by and accountable to the Board (see NDF organigram in Annex 1). The Headquarter of NDF is located in Helsinki, Finland adjacent to the headquarter of Nordic Investment Bank (NIB) and the Nordic Environment Finance Cooperation (NEFCO). As decided by the member countries when NDF was established, NDF acquires some administrative services from NIB. Therefore, certain parts of NIB policies and procedures are applied also by NDF.

3. Key strategic challenges and opportunities

3.1. Status of NDF

At the end of 2020, the accumulated climate project portfolio consisted of 122 on-going or completed projects with total NDF financing of EUR 427.95 million. The portfolio includes 74% public sector and 26% private sector projects. 69% of the activities are in partnership with the multilateral development banks and 31% with other partners. 17% of the portfolio focus on mitigation, 21% on adaptation and 62% contributes to both mitigation and adaptation benefits. Geographically, 53% of the accumulated portfolio is targeted Sub-Saharan Africa.

NDF's capital is based on EUR 1.026 million in paid-in capital under previous capital increases and EUR 350 million to be paid in 2021-2031 under the fifth capital increase. NDF's total assets amounted to approximately EUR 752 million by the end of 2020, which includes outstanding credits to public sector projects, climate loans, other loans with equity features, equity investments and investments with credit institutions. Annual commitments and disbursements have been approximately EUR 40-50 million annually. As result of the capital increase, the commitment level is expected to increase by up to 50%.

3.2. NDF as a catalytic convener in the international climate financing landscape

NDF's partnership approach to co-create and co-covene with other stakeholders allows NDF to become a trusted partner to many stakeholders. NDF can also be an efficient broker to increase collaboration between different Danish supported international agencies, policy-oriented research institution and private-sector mechanisms promoting climate solution and financing. The re-organisation of NDF and the capital increase will allow NDF to further consolidate this role in the years to come.

NDF is already a trusted partner for the MDB's and has demonstrated an ability to influence designs of large-scale projects through early-stage financing which can attract larger-scale financing from other Danish supported climate funds. This approach is illustrated with some cases in the box below:

Examples of NDF support

- Through an early EUR 500,000 'booster-grant', NDF has contributed to enable, leverage and design a EUR 200 million investment from the World Bank, Global Environment Facility which NDF also has supported with a larger grant for implementation stage. NDF was the first external donor. Today the project is supporting coastal resilience in eight countries and currently supporting coastal protection at 22 sites in the countries and has initiated more than 1,000 social development micro-projects. Further, more countries are expected to join the regional project and key milestone is to mobilise \$2 billion for coastal resilience. NDF has since then supported WACA and several specific coastal protection activities with additional financial contributions.
- Another more recent booster grant to support the design and development of the Rwanda Catalytic Green Investment Bank together with AfDB with the purpose of preparing a full grant-proposal to the Green Climate Fund (GCF). To deliver catalytic impact, it is important that NDF add value and complements its partners in all co-financed projects.
- NDF has also supported the African Guarantee Fund (AGF) - co-founded by Denmark in 2011– to launch a Green Guarantee Facility in 2016 which specifically could unlock green financing for SMEs that invest in low-carbon technologies. NDF can also catalyse investment by acting as an anchor investor which it

has done together with IFU and some of the other Nordic DFI's in the blended finance facility Climate Investor I which mobilizing private investment for renewable energy projects.

- NDF's support The Climate Resilience and Adaptation Finance and Technology Transfer Facility (CRAFT) is a good example how NDF increasingly can support new and innovative financing instruments and tech solutions for climate change adaptation by providing early-stage financing. The Facility is the first commercial investment vehicle dedicated to expanding the availability of technologies and solutions for climate change adaptation and climate resilience in developing countries.

In this context, NDF is considered to play an important convener role in the international climate finance architecture with ability to fairly quickly tailor-make flexible financing to the needs of specific projects and partners. It allows NDF to combine innovative approaches and test new business models for adaptation while building on Nordic values for development assistance. It can also be broker between many of the Danish supported partners in the field of climate change. For example, Denmark has the past year already established dialogue between NDF and Danish supported partners such as the Global Commission on Adaptation, C40 and the Global Green Growth Institute. Currently, Denmark also collaborates with NDF on Covid-19 response contribution to African Water Facility. Going forward, there also is a significant potential in securing synergies between bilateral engagements and NDF investments. In short, the smaller size and lean governance structure with likeminded Nordic countries allows for opportunities to build closer dialogue and alignment to Danish climate and development priorities.

3.3. Opportunities and challenges for NDF

The Nordic countries' commitment to the international climate and development agenda is recognised internationally. The Nordic Prime Ministers' declaration on Nordic Carbon Neutrality from January 2019, confirms a clear intention to continue to intensify focus on climate change in development cooperation and mobilising climate financing. Further, during 2020, a closer collaboration between the Nordic Ministers for Development Cooperation has been established as a joined response to the Covid-19 pandemic and to support developing countries in Building Back Better and Greener.

NDF is well-placed to drive forward part of the Nordic-led climate ambitions targeted to support low-income developing countries. It has found its niche as a smaller but more agile and flexible financing institution than other climate funds such as GCF, LDCF and GEF. Moreover, it is also less political in nature than many other international climate funds which enables NDF to be a first-mover organization and finance innovative approaches with higher risks.

The external evaluation found that there could be a risk that NDF follows rather than leads, and by this will have limited additional value and will be missing out on the possibility of becoming a high-impact climate fund. Therefore, NDF needs to demonstrate its ability to provide agile, early-stage and catalytic financing by contributing with medium sized concessional finance and grants, which is very scarce in the international climate landscape. It should also ensure sufficient capacity to navigate in international climate architecture and continue to identify a clear profile in the international climate architecture consisting of MDB's, climate funds, UN, private sector and policy-oriented organisations. NDF should continue to be a learning

organisation with an adaptive approach to adjust to new risks, trends and opportunities. The new organisational structure has been an important step to build capacity for turning NDF into well-managed and adaptive organisation (see Annex 3 for organisational structure). It also needs to demonstrate how it will co-create and complement the larger development partners such as the MDB's.

Finally, NDF will only succeed in becoming a high-impact Nordic climate fund if it is backed with strong support from the Nordic countries. It is important that NDF is brought closer to the Nordic policy dialogues as it has been the case with the Nordic Build Back Better and Greener agenda. Further, NDF should proactively establish closer dialogue with Nordic institutions but also with private sector and civil society.

4. Danish support and priorities

4.1. Justification for support

The consequences of a warmer planet will have wide ranging and irreversible impacts, and the world is not track to limit global warming to either 1.5°C or 2°C warmer world. Almost 4 billion people already live in regions that experience severe water stress and climate-related natural disasters will reduce the productivity of local economies significantly in many low-income countries. Climate change threatens to push more than 100 million people into poverty by 2030 and as many as 143 million people could become climate migrants by 2050. There is an urgent need for bold action on the ground to increase climate resilience and adapt to the impacts of climatic changes. NDF is well positioned to walk-the-talk and deliver catalytic financing to support innovative and scalable climate solutions to low-income countries.

NDF's strategy 2025 and institutional commitments in the Capital Increase Memo will deliver results fully aligned with the four climate-related goals in the new Danish Strategy for Development Cooperation 2021-2025, *The World We Share* (June 2021). NDF will increasingly target its financing towards climate change adaptation and resilience, while still supporting a green energy transition. Furthermore, the core mandate of NDF is to provide catalytic funding to mobilise both public and private climate change financing by providing grants and concessional funding. Further, NDF will also support effort to Build Back Better and Greener in the midst of the Covid-19 pandemic. The strengthened Nordic values and stakeholder engagement will also allow to engage Danish competencies. Finally, NDF will also increase the share of climate funding targeted Sub-Saharan Africa, and will build nexus between climate, biodiversity and security. In this sense, the NDF is also aligned with the Danish Government's long-term Strategy for Global Climate Action, and will also deliver concrete actions to increase access to clean energy and water as well create green jobs.

NDF is primarily targeted SDG7 on Affordable Clean Energy and SDG13 on Climate Action A main objective is to accelerate climate adaptation planning, investments and innovation but also continue to support scaling access to green energy as an integrated solution for strengthening climate resilience in many countries. However, co-benefits to other SDG will also be priority such as SDG1 on No Poverty, SDG5 Gender Equality, SDG8 on Decent Jobs and Economic Growth and SDG11 on Sustainable Cities and Communities. It is expected that NDF with its main focus on climate change adaptation can play a catalytic role to mobilise more funding and innovative solutions to build climate resilience in the most vulnerable developing countries.

Finally, NDF builds on a Nordic value mandate which means building social inclusive and gender-sensitive approaches to design climate change actions. NDF will mainly target low-income countries and fragile states,

and by this support a leave-no-behind approach. NDF has also spelled out that co-benefits to nature, biodiversity and ecosystems will be strengthened through supported interventions.

4.2. Danish priorities

2020 was a decisive year for NDF's future strategic direction and financial resources as both NDF's Strategy 2025 and capital increase was approved by the Board of Directors and the Nordic Council of Ministers. Danish priorities are well-reflected in the Strategy 2025 and in the Capital Increase Memo. Further, the Board and NDF management team has already agreed on 24 institutional and policy reform projects to be able to deliver on its increased annual turn-over, strengthen its Nordic profile and meet international compliance standards (see list in Annex 4). Progress on internal reforms have been impressive the last two years but pro-active Danish engagement will continuously be important to support NDF in unleashing its potential role of becoming a strong Nordic climate fund with a high-impact project pipeline with an international footprint for poorest and most climate vulnerable countries.

The Danish priorities for the period 2021-25 consist of the following areas:

- (i) Advancing NDF climate leadership based on Nordic values,
- (ii) Positioning NDF as an international high-impact Nordic climate fund, and
- (iii) Planned results and impact aligned to Danish policy priorities.

(i) Advancing NDF climate leadership based on Nordic values

The Danish decision to recapitalize NDF builds on the objective of providing NDF with sufficient resources to unleash its potential of becoming a high-impact Nordic climate fund while still maintain a lean organisational set-up. The new Danish Strategy for Development Cooperation aims to strengthen Nordic collaboration on shared values such as climate, sustainability, transparency, human rights, inclusiveness and gender equality. Denmark will work for integrating Nordic values and innovation in the way NDF operates. This will be done through active participation in the Board of Director and support implementation of Danish/Nordic positions through work with the MDB's and other stakeholders. Denmark will also seek to engage NDF as part of the Danish climate diplomacy, e.g. towards COP's, Denmark's engagement in the Global Commission on Adaptation, the Danish SDG7 leadership or Global Commission on People Centred Clean Energy Transition headed by the Danish Prime Minister. Denmark will monitor progress on agreed work as outlined below:

Danish Priorities	Means of verification
# of projects, and % of portfolio where NDF is a co-funder alongside Nordic-funded bilateral projects	Results framework
# of initiatives, networks and engagements with Nordic institutions initiated or actively supported by NDF.	Results Framework
Social inclusion, safeguard policies, whistleblower and level of transparency reflects expectation by Nordic countries and similar international climate funds.	Board monitoring and institutional projects
Anti-corruption management and policies	Internal auditors report and institutional projects
Approach to add value to MDB's climate actions and support Nordic climate and energy positions.	Proposal for Board and NDF secretariat

(ii) Positioning NDF as an international high-impact Nordic Climate Fund

Denmark will closely monitor progress related to the agreed content in the NDF Strategy 2025 and the Recapitalization Memo adopted by the Board on 15 September 2020, where key priorities are outlined to turn NDF into a strong and well-positioned Nordic climate fund based on Nordic values. Denmark will work for NDF be an early-stage climate fund with a clear catalytic impact to mobilize public and private climate financing. In order to achieve this, a number of institutional reform projects were identified in the process of recapitalization. Denmark will monitor and influence the development and implementation of these projects. NDF's key asset is its staff and Denmark will continue to prioritise building a good and efficient work environment at NDF to deliver on its mandate. Further, Denmark will work for NDF being a learning organisation with room for adaptive management. The following indicators and agreed targets will monitored through active engagement in the Board and in establishing ongoing dialogue with the NDF management team.

<i>Indicator/target</i>	<i>Mean of Verification</i>
# and type of early-stage projects supported and % of total annual commitments by NDF	<i>Results Framework</i>
Co-finance ratio - private and public projects	<i>Results Framework</i>
Meeting agreed targets in recapitalization memo: (a) at least 50% directed towards adaptation projects, (b) at least 60% targeted towards Sub-Saharan Africa, (c) at least 50% of financing with grants.	<i>Annual financing report (internal Board)</i>
24 agreed policy and institutional reforms implemented by 2022 to strengthen NDF as a high-performing and quality-based organization.	<i>Board monitoring of implementation institutional reform projects and processes (see list in annex)</i>
Staff rating on NDF as an effective knowledge and learning organization	<i>Internal Board presentation (results framework)</i>

(iii) Planned results and impact aligned to Danish policy priorities

Denmark has played an active role as the Chair of the Board during the recapitalization and during the initial stage of elaborating the Theory of Change and Results Management Framework (RMF). The Results Management Framework consist of a Policy (subject to approval by the Board in the September meeting) and Guidelines (to be subsequently approved by the Managing Director).

The RMF Policy reflects priorities in Danish strategy for development cooperation adopted in June 2021. Denmark will particular play an active role in defining criteria for selecting pipeline projects whereas the monitoring of progress on implementation will focus on three immediate outcomes. Further, specific outputs related to creating access to clean energy and water as well as job creation will be monitored closely as they match Danish targets. Denmark will also use the informal access to dialogue with the Board and NDF management to present ideas for projects and partnerships with different institutions. The following outcome and output indicators of particular interest to Denmark have been selected from the results framework.

<i>RMF statements/indicators</i>	<i>Means of verification</i>
Climate- and disaster-resilience and adaptability of cities, human settlements and infrastructure strengthened	Immediate outcome in Results Framework
Natural capital and water–energy–food security enhanced	Immediate outcome in Results Framework
Access to and production of affordable and sustainable clean energy increased	Immediate outcome in Results Framework
Ratio of mobilised private and public climate financing,	Immediate outcome in Results Framework
# of direct/indirect jobs supported or created for women and men.	Output indicator in Results Framework

The Danish priorities will be pursued through an active engagement in Board meeting but also through informal dialogue with the NDF management to promote synergies with other Danish development partners and policy priorities. Denmark will continue present new ideas, projects and partners to NDF management but also encourage collaboration at country level with relevant Danish representations. Further, Denmark will also support NDF to achieve an active role in Nordic development aid and encourage NDF to support Nordic positions in relevant MDB's, UN and climate funds.

A joined-donor mid-term review of the Strategy is also planned where Denmark expects to play an active role and influence the content of the terms for reference for the review. Further, the responsible unit of the Danish MFA will also produce a brief annual narrative stocktaking reports on key issues in relation to Denmark's cooperation with NDF. The objective of this report is to monitor progress, results and the learning from the cooperation with NDF that can feed into internal learning and planning. The stocktaking should also analyse how responsive the organisation has been to Danish priorities and synergies to Danish policy priorities and other Danish instruments. The internal MFA ad-hoc task force will meet to discuss the stocktaking report and provide inputs to the annual action plan for the coming year.

Finally, it is also a priority that NDF is strengthening its communication and Nordic brand. This include extending and strengthening communication social media, targeting communication through Nordic media platforms and events. Annual results will reported in the annual report which will also be provided link to through the Danish OpenAid platform.

4.3. Budget and financial management

NDF's capital base as well as the formal statutory requirements for capital increase are set out in the NDF constituent documents. The allocation scheme for the year 2020 is determined by Nordic Council of Ministers and is calculated on the basis of each country's proportion of the Nordic Region's total GNI at factor cost for the last two years available. This Danish part of the recent capital increase of NDF makes up 21.8% of NDF's capital.

Table 1: Payment of recapitalization 2021-2031

In EUR million	EUR*	Allocation of increase
Denmark	76.3	21.8%
Finland	58.1	16.6%
Iceland	5.3	1.5%
Norway	97.3	27.8%
Sweden	113.1	32.3%
Capital Increase	350.0	100 %

The total Danish contribution for the ten-year recapitalization will be EUR 76.3 million (approx. DKK 571 million). The instalment schedule for the Danish contribution is planned to be EUR 6.54 million annually for 2021-2025 and EUR 8.72 million annually from 2026-2030. The first Danish contribution to NDF will be made in 2021.

Considering the relatively long capital payment period of ten years, the Base Case Payment Schedule approved by the Board may require adjusting due to reasons stemming from NDF's liquidity needs or the individual member countries' need for flexibility under changing circumstances and for budgetary reasons. This has been the case also in previous capital increases in NDF and adjustment should be approved by the Board.

NDF is assessed to have adequate anti-corruption policies and procedures in place. NDF is guided by NDF's anticorruption and integrity work is governed by NDF's Policy on Anticorruption and Integrity ("Policy") and the Anticorruption Guidelines ("Guidelines") for the Anticorruption Committee. The Policy incorporates integrity and anticorruption principles, which are similar to those of NDF's main co-financing partners. NDF also prevents anti-corruption through capacity building of relevant partners and by improving the due diligence system on an ongoing basis. NDF has also a whistleblower mechanism where all cases of misconduct and corruption can be reported. All cases of corruption will be reported to Board of Directors and Control Committee. Annual review of anti-corruption policies and cases is an integrate part of Board meetings. Denmark will accordingly to Danish regulations and policies publicly disclose cases of corruption

5. Risks and assumptions

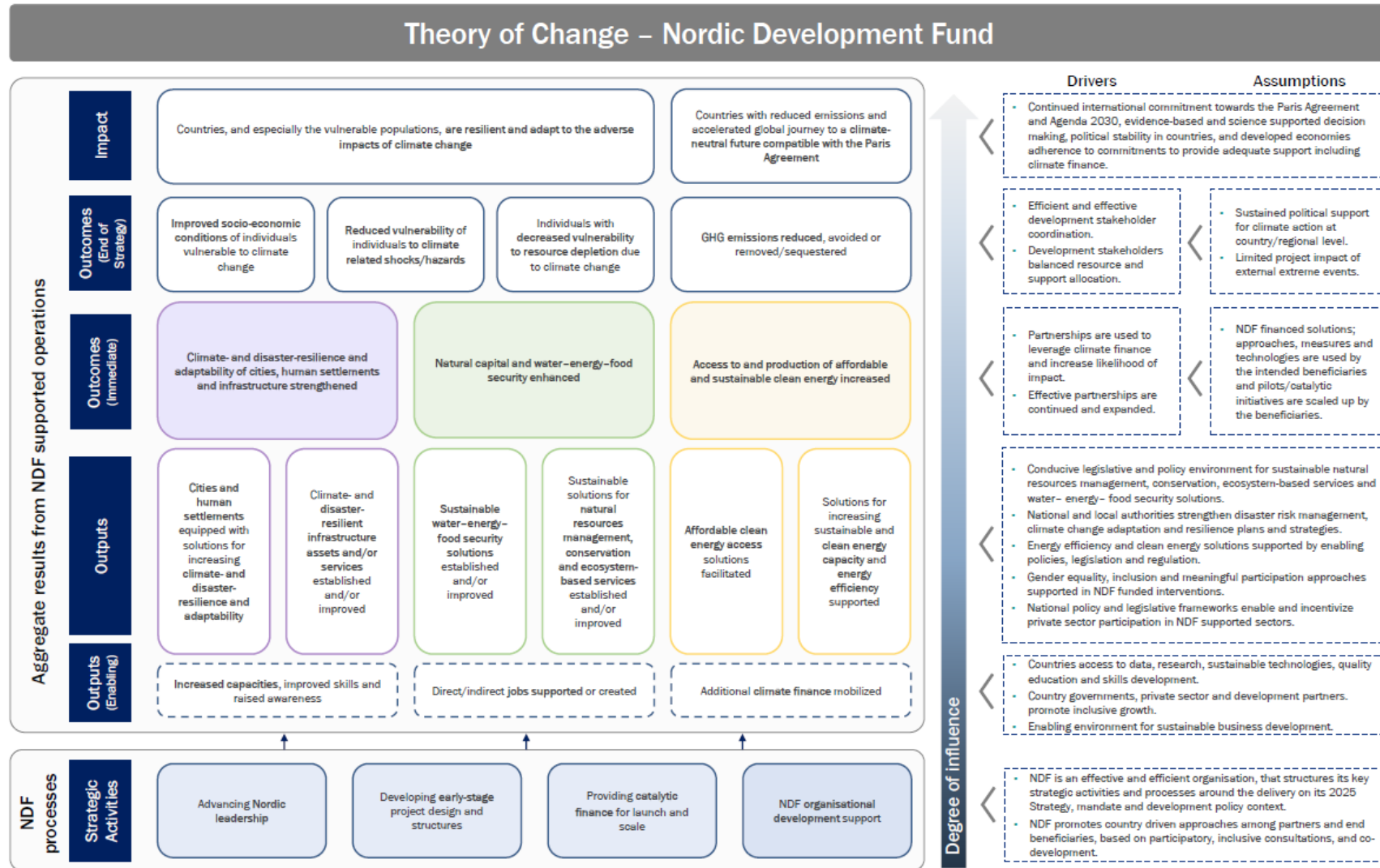
A central assumption in NDF's Theory of Change is that NDF is an effective and efficient organisation that structures its key strategic activities and processes around the delivery on its 2025 Strategy, mandate and development policy context. Further, from a Danish perspective, it considered that a Nordic climate fund can play positive role on influencing the international climate landscape, demonstrate Nordic leadership and be more agile climate fund than the larger funds. The below outlined risks will particularly be followed and monitored by the Danish representative in the Board.

Type of Risk	Context	Ways to mitigate risks	Level of risks
Institutional	Significant number of institutional projects and policies are currently under development and implementation to strengthen NDF as a Nordic climate IFI.	Implementation of institutional projects and reforms are agreed with the Board. A 3-year implementation plan is developed (see annex 4). Progress is presented at Board meetings and each project is approved by or discussed with the Board. Progress is current rated as very satisfactory.	Low-medium
Programmatic	Implementation of NDF's new results framework will be fundamental for its ability to demonstrate progress and results. It will also be a key tool for the Board's ability for decision-making and for NDF to become a high-impact climate fund and a learning organization.	A new department for quality assurance and reporting has been established to ensure adequate resources for the implementation of results framework. The implementation of the Results Framework is a priority for both NDF management and the Board.	Low-medium
Contextual	NDF's Nordic profile is important to consolidate and strengthen NDF's niche in the international climate financing architecture.	Demonstration of added value is an integrated part of the process for Board approval. The Board will also follow a new process to discuss the project pipeline in an early stage which allow more room for strategic direction of NDF's financing, Nordic profile and strategic partnerships.	Medium

A risk management framework (Policy and Guidelines) is also expected to be completed and approved by the Board and the managing director respectively end of 2021 (see list of institutional projects in Annex 4).

Annex 1: Theory of Change and selected indicators

(subject to final approval later in 2021)



Results Management Framework (subject to final approval in Q4 2021)

NDF's organizational systems, processes, and capacity determine its performance in managing its internal resources and processes (Level - *Strategic activities*). The effective management of internal resources and processes leads to better selection, design, financing, and implementation of operations. Efficient and effective operational performance, in turn, leads to achievement of results in Strategy key priority areas and increases in the performance of the quality of completed operations of the projects (Levels - *Outputs and Outcomes*).¹

Level	Statement	Indicator
Strategic activities	Advancing Nordic leadership	Financing structure
		Adaptation focus
		Geographic coverage
		# of projects, and % of portfolio where NDF is a co-funder alongside Nordic-funded bilateral projects
		# of initiatives, networks and engagements with Nordic institutions initiated or actively supported by NDF.
	Developing early-stage project design and structures	# and type of early-stage projects supported and % of total annual commitments by NDF
		# of projects and % of total annual commitments where NDF is in the first round of external financing (private) or "among the first" funders (public)
	Providing catalytic finance for launch and scale	Co-finance ratio - public projects
		Co-finance ratio - private projects
		# of projects and % of total annual commitments in which NDF participates in the highest risk segment of the financing structure
	NDF organisational development support	Investment process effectiveness - project origination performance
		Equality, Diversity and Inclusion plan implementation rate (TBD)
		Satisfaction rate on stakeholder/partnership engagement
		Staff rating on NDF as an effective knowledge and learning organization

¹ Impact level (see RMF) tracks development progress in the countries, regions or clusters of countries as articulated in the Strategy. As such, indicators at this level do not monitor NDF's contribution to country/regional/country cluster development progress. Purpose is to assess whether performance on these indicators has improved, stayed constant, or regressed and reflect that in the continuous monitoring and adaptive management efforts. This will be assessed through country/regional [SDG VNRs/VRRs](#).

Outputs	Increased capacities, improved skills and raised awareness	# of individuals with increased capacities, improved skills and /or raised awareness
	Direct/indirect jobs supported or created	# of direct (and indirect) full-time (equivalent) jobs supported or created
	Additional climate finance mobilized	Change in amount of climate finance mobilized
	Cities and human settlements equipped with solutions for increasing climate- and disaster-resilience and adaptability	# of disaster risk management, adaptation strategies, plans and/or weather and climate and/or early warning system/services established or improved
	Climate and disaster-resilient infrastructure assets and/or services established and/or improved	# of new and existing infrastructure, assets and/or services made climate and disaster resilient
	Sustainable water–energy–food security solutions established and/or improved	# of policies, plans and strategies developed in support for integrated resource management addressing specific water– energy– food -related concerns and efficiency measures
	Sustainable solutions for natural resources management, conservation and ecosystem-based services established and/or improved	# of measures on conservation, sustainable use and/or management of natural resources supported to benefit the habitat, biodiversity, and/or ecosystems
	Outputs (cont.)	Affordable clean energy access solutions facilitated
Solutions for increasing sustainable and clean energy capacity, use and energy efficiency supported		Installed renewable energy generation capacity
		# of public and/or private entities supported with measures to increase their capacity to promote energy efficiency
Outcomes (immediate)	Climate- and disaster-resilience and adaptability of cities, human settlements and infrastructure strengthened	# of people benefiting from established or improved weather and climate services, adaptation, and disaster risk management (DRM) plans and/or early warning systems (EWS).
		# of people benefiting from established or improved climate- and disaster-resilient infrastructure, services and/or physical assets
		Size of area brought under climate change adaptation and disaster risk management (DRM) plans
	Natural capital and water–energy–food security enhanced	# of people benefiting from improved conservation, sustainable management and use of natural resources
		Size of area brought under improved conservation, sustainable management and use of natural resources
		# of people with improved access to clean energy

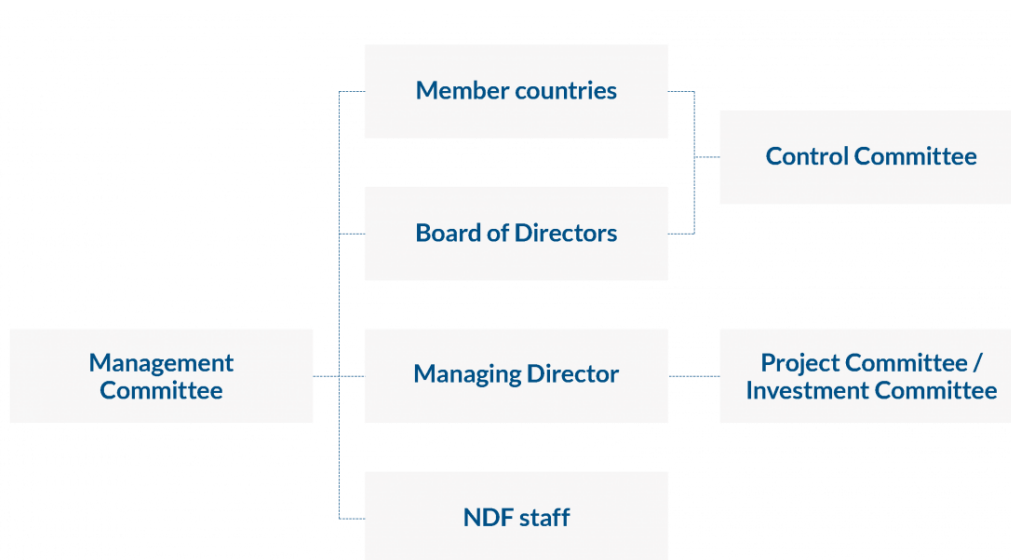
	Access to and production of affordable and sustainable clean energy increased	Annual energy generated by installed clean energy capacity
Outcomes (End of Project)	Improved socio-economic conditions of individuals vulnerable to climate change	<i>Level of improved living standards and well-being in end beneficiaries, especially the vulnerable (TBD)</i>
	Reduced vulnerability of individuals to climate related shocks/hazards	<i>Level of reduced vulnerability to climate related shocks/hazards in end beneficiaries, especially the vulnerable (TBD)</i>
	Individuals with decreased vulnerability to resource depletion due to climate change	<i>Level of decreased vulnerability to resource depletion due to climate change in end beneficiaries of the projects (TBD)</i>
	GHG emissions reduced, avoided or removed/sequestered	Tons of carbon dioxide equivalent emissions reduced, avoided or removed/sequestered (tCO ₂ eq)

Annex 2: Process Action Plan

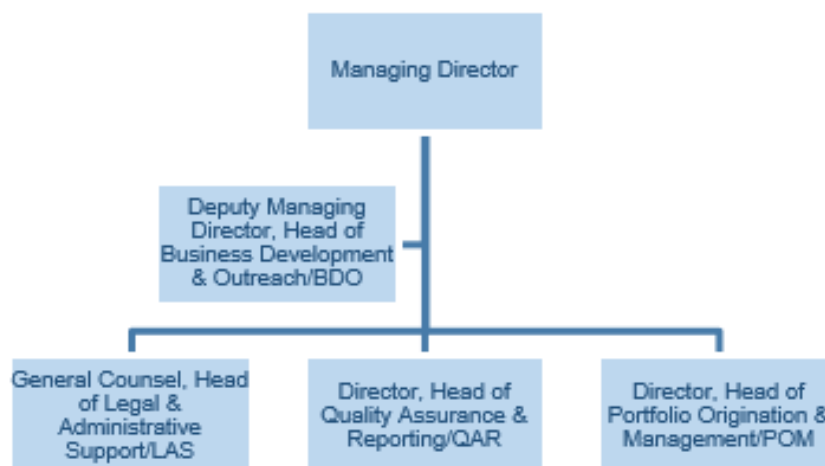
Action/product	Deadlines	Responsible/involved Person and unit	Comment/status
Prepare draft organisational strategy	April		
Confirm agenda item for Programme Committee	22 April		
Submit concept note to Danida Programme Committee including public consultation	17 May		
Danida Programme Committee	10 June		
Adopt initial recommendations	10-20 June		
Meeting with relevant internal technical MFA stakeholders	21-25 June		
Management and key stakeholder comments and recommendations incorporated	30 June –30 August		
Internal ad-hoc task force meeting	22 juni		
Internal ad-hoc task force meeting	26 september		
Programme document to management approval	1 – 12. September		
Confirm submission to Council for Dev. Policy	19. August		
Submit to Council for Development Policy	13 September		
Council for Development Policy meeting	30 September		
Approval of the programme by the minister	Mid October		
Prepare “aktstykke”	Mid October		
Meeting in the Finance Committee	October		
Signing of first payment	October		

Annex 3: Governing bodies and organisational structure

The structure of NDF’s governing bodies reflects NDF’s status as an international financial institution owned by the five Nordic countries.



New organisational management structure of NDF



Annex 4: NDF internal institutional and policy reform projects

Project name	Decision	Commitment	Status
Gender Equality Policy	Board	Commitment under Capital Increase	Completed. Adopted November 2020
Liquidity and Investment Management Policy	Board	Internal Auditor	Completed. Adopted November 2020
Rules on Issuance of Legal Framework Documents	Managing Director	N/A	Completed. Adopted August 2020
NDF Staff Legal Framework - changes to performance premium	Board	Commitment under Capital Increase	Completed. Adopted November 2020
NDF Staff Legal Framework - non-applicability of car benefit in new contracts	Board	Commitment under Capital Increase	Completed. Adopted November 2020
Internal Audit of the NCF	Managing Director	Internal Auditor	Completed.
Guidelines on the use of non-grant financial instruments	Managing Director	Commitment under Capital Increase	Completed. Adopted January 2021
Development of the visual identity of NDF	Managing Director	N/A	Completed.
Renewal of NDF's website	Managing Director	N/A	Completed.
Liquidity and Investment Management Guidelines	Managing Director	Internal Auditor	Completed. Adopted March 2021
IFRS Accounting Standards	Board	N/A	Completed. Adopted June 2021
Gender Equality Guidelines	Managing Director	Commitment under Capital Increase	August 2021
Results Management Framework, Policy	Board	Commitment under Capital Increase	September 2021
IDD Policy	Board	Internal Auditor	September 2021
E&S Policy	Board	N/A	September 2021
E&S Guidelines	Managing Director	N/A	September 2021
Risk Management Framework, Policy	Board	Internal Auditor	November 2021
Results Management Framework, Guidelines	Managing Director	Commitment under Capital Increase	November 2021
Procurement Policy	Board	N/A	November 2021
GHG emission, Reporting and Calculation Guidelines	Managing Director	N/A	November 2021
Risk Management Framework, Guidelines	Managing Director	Internal Auditor	December 2021
IDD Guidelines	Managing Director	Internal Auditor	December 2021
Procurement Guidelines	Managing Director	N/A	December 2021
Access to information Policy	Board	Commitment under Capital Increase	2022
People Policy	Board	Commitment under Capital Increase	2022
Safety and Security Arrangements - Travel	Managing Director	Internal Auditor	2022
Service agreement with NIB (IT issues)	Managing Director	N/A	2022

Service agreement with NIB (Other issues)	Managing Director	N/A	2022
Project cycle process - origination&management	Managing Director	N/A	2022
NDF Staff Legal Framework - Travel Policy	Board	Commitment under Capital Increase	2022
Conflict and Fragile Situations Policy	Board	Commitment under Capital Increase	2022

Annex 5: Lessons-learned and summary of evaluation of NDF

In 2018, the Board made the decision to initiate an extensive evaluation of NDF as available capital and income from historical loans would begin to decrease from 2022. Therefore, the evaluation team explicitly asked for a view on whether further financing could be justified and would provide a key basis for owner countries' decision on whether to replenish NDF or not.

The evaluation found that NDF has a strong and influential record of partnership with the Multilateral Development Banks (MDBs) and it has developed a valuable niche in the provision of flexible financing to support innovation and new business models, particularly with respect to climate adaptation. NDF's ability to move quickly, and deploy climate finance with different levels of concessionality (e.g. grants, loans and equity) tailored to particular projects is unusual and makes it an attractive strategic partner that can work with many different stakeholders.

NDF has also demonstrated an ability to support risky, early-stage climate financing approaches and attract commercial investors through lower returns expectations and first-loss capital. It has also shown that it can support early design of climate projects with high catalytic impact together with the MDB's. Project preparation or pilot projects that at a later stage have been scaled up with funding from the MDB's, the Green Climate Fund and the Global Environment Facility. In this way, NDF has demonstrated an ability of influencing and supporting up-coming activities, projects and ways of operation for long-standing MDB partners, and more recently also in promoting innovative private sector partnerships and business models.

The evaluation also found areas where NDF needed to strengthen its operations. It is emphasized that NDF needs to develop a stronger strategic focus and a clear theory of change to support. Further, NDF needs to build a closer collaboration with partners in the Nordic countries and it should also improve its monitoring and evaluation framework.

In conclusion, the evaluation found that NDF has found a unique niche in the international climate financing landscape and there is a good case for strengthening NDF as an ambitious pan-Nordic institution on climate change and development. NDF is a highly valued organisation that successfully 'punches above its weight', contributes to climate change and development goals, and enhances the reputation of Nordic countries. If the recommendations by the evaluation team are adopted, it is considered that NDF has the potential to become a high-impact Nordic international climate institution.

Link to full evaluation report can be found on the NDF webpage ([here](#)). Further, details and background regarding the climate mandate of the NDF can be found in the 'recapitalization memo' and 'Strategy 2025'.