

# AGILE AND INNOVATIVE NDF LOOKING AHEAD

NDF STRATEGY





Pete Lewis / Department for International Development

# 1 NDF TODAY AND TOMORROW

The Nordic Development Fund (NDF) is the only joint Nordic finance institution focusing exclusively on climate change and development in low-income (LIC) and lower middle income countries (LMIC). Since the launch of its climate mandate in 2009, NDF has built a track record of adding value by investing in drivers of climate change mitigation and adaptation. This has been achieved by extending finance to projects in more than 20 countries across Africa, Asia and Latin America.

NDF has successfully developed innovative financing arrangements that can catalyse additional resources from other development finance partners and the private sector to climate change adaptation and mitigation. Through provision of financing to innovative and evolving financing schemes, NDF has also demonstrated a capacity to mitigate risk often associated with such new, high impact solutions.

The successes and lessons learned from these operations form the backbone of the experience, expertise and comparative advantage that NDF brings to the climate change and development work in the coming years. Combined with NDF's unique features as a fast mover and a joint Nordic initiative, this experience will continue to guide the operational orientation of NDF and its continued role as an impactful mechanism to channel financing to, innovative and exploratory types of climate change-related interventions that reduce poverty in low-income countries.

# 2 NDF MISSION

NDF's mission is to provide financing and knowledge for climate change and development activities primarily in low-income countries, in line with the Nordic countries' priorities in the area.

Following the global sustainable development agenda, and the core objectives of the development policies of the Nordic countries in the context of climate change and poverty reduction, the following core principles form the foundation for NDF's strategic mission:

- 1. CLIMATE CHANGE AND DEVELOPMENT.** NDF provides financing for climate change and development activities in low-income countries. Development and poverty reduction have been the core foundations of NDF since its establishment. These foundations will continue to be guiding principles together with climate change adaptation and mitigation. NDF's activities will be aligned with, and supportive of, the principles of development effectiveness and the Sustainable Development Goals.
- 2. NORDIC IDENTITY.** NDF-financed activities will mirror the priorities of the Nordic countries in the area of climate change and development policy, indicating a strong focus on poverty reduction, development effectiveness, inclusive development and a proactive approach on gender responsiveness. NDF's activities will promote Nordic interests in a variety of ways: NDF supports activities of interest to Nordic countries, and its activities will provide opportunities for internationally competitive Nordic expertise and solutions in the area of climate change and development. Also, NDF activities can be planned and linked to support joint Nordic policy level priorities and initiatives in the area of international development and climate finance. These links can be strengthened.

The core principles of the NDF mission will be implemented through operations based on NDF's key comparative advantages:

- **NORDIC KNOW-HOW.** The Nordic countries have already taken the initiative by funding mitigation and adaptation solutions that can show the way forward. Several of these solutions involve NDF's participation. NDF is well-placed to initiate and support internationally competitive Nordic expertise and technologies. In addition, NDF can provide a plat-

form for increased joint Nordic activities within the area of climate change and development. Moreover, the Nordic Climate Facility (NCF) will, under NDF's management, increasingly serve as a mechanism to maximise this comparative advantage. In addition, it is envisaged that new ways of engaging NCF more directly in development and implementation of interventions to support the strategic objectives will be explored. Co-operation with other Nordic partners can enhance these objectives. Knowhow and learning goes two ways. NDF's close working relationship and interaction with the multilateral development banks provides continuous opportunities for exchanging ideas, learning and dissemination of Nordic solution. The collaboration also provides NDF with a thorough understanding of the MDB operations that the Nordic countries can benefit from.

- **INNOVATIVE FRONTRUNNER.** The mandate to approach sustainable development, poverty reduction and climate change in an integrated way, coupled with an ability to absorb high risk, empowers NDF as an innovative frontrunner. Today, NDF's portfolio already includes activities that support financing mechanisms of an exploratory nature, including support to new technologies and approaches. Through its co-financing, NDF has also engaged in support mechanisms related to climate change for small and medium-sized companies as well as microfinance institutions. These previous successes suggest that NDF is well-placed to build on this experience to reach its objectives.
- **AGILE AND FLEXIBLE.** NDF has demonstrated the ability to be an agile and flexible financier able to quickly mobilise financing in an administratively slim way. NDF's speed enables it to be a first-mover, providing resources to projects at their early stages in coordination with other financing partners finalising their support. This can speed up implementation significantly, and thereby contribute to more rapid achievement of results.
- **REACHING OVER REGIONS.** Through its presence in three regions, Africa, Asia and Latin America, NDF is well-placed to work towards replication of well-functioning development and climate change-related concepts over the regions. Today, NDF is already working to utilise this opportunity, and is envisaged to do so even more in the future to maximise catalytic impact and to promote south-south cooperation.

# 3 FROM MISSION TO STRATEGIC FOCAL AREAS

The NDF mission will be implemented through operations, with focus on the following selected strategic areas. The listed focal areas will form key criteria in the selection of interventions considered for NDF financing. Relevant indicators or criteria will be developed to support project identification and screening.

- a. CATALYTIC ROLE AND LEVERAGE.** NDF has successfully developed innovative financing arrangements which have provided catalytic leverage by mobilising additional financing from other financing institutions and the private sector. This will continue to form a central focus area. NDF will be actively looking for opportunities where NDF's financing can, for example, create blended financing products that attract private sector financing. Catalysing larger flows of financing through provision of seed investments will be continued through the Nordic Climate Facility (NCF), as well as climate finance readiness activities. Replication and scaling up of successful projects will be a priority. A methodology to assess NDF's catalytic role will be integrated in the project selection criteria.
- b. PROJECT PREPARATORY FUNDING** for development projects with the primary purpose of securing a sufficient focus on aspects related to climate change. Examples of activities include collaboration with MDBs in their climate change agenda, as well as activities supporting the operations of the Green Climate Fund (GCF). NDF's existing partners, the MDBs, will constitute important channels for GCF financing. Through co-financing with MDBs, NDF is thus well-placed to support the operations of the GCF in a very concrete way. Project preparatory funding will be focused on interventions with a high potential for follow-up investment, replication and scaling-up, also by the GCF through its accredited MDBs, ie. NDF's co-financing partners. Preparatory activities are also expected to contribute to the capacity of the recipient countries' ability to provide good quality funding proposals for a variety of funding agencies and the private sector. Relevant capacity-building activities to enhance partner countries' ability to formulate financing proposals should be considered in projects in general.
- c. SUPPORT FOR INNOVATION.** In view of NDF's demonstrated ability to contribute to the introduction of innovative activities and financing mechanisms across regions, the role of NDF as a lab for testing innovative schemes shall be strengthened.

ened. NDF will have the flexibility to embark on such initiatives through an extensive collaboration with other partners, or through interventions initiated by NDF.

- d. SUPPORT FOR PRIVATE SECTOR DEVELOPMENT AND LINKAGES BETWEEN THE PUBLIC AND THE PRIVATE SECTORS.** NDF will actively look for ways to directly support the private sector, with a particular focus on micro, small and medium-sized enterprises (MSMEs). NDF already finances, for example, various guarantee schemes, small loan facilities, or technical assistance for renewable energy or energy efficiency, where MSMEs are direct beneficiaries. More of these type of opportunities will be sought. In addition, it is envisaged that several activities to be financed by NDF will indirectly benefit private sector development and strengthen the environment that enables development to be increasingly led by the private sector. In the assessment of interventions considered to be financed by NDF, the capacity to leverage additional financing from the private sector will be in focus.
- e. PILOTING OF INTERVENTIONS WITH A HIGH RISK LEVEL.** Pilot projects are often risky by nature. NDF can mitigate risk relating to uncertainties in, for example, the testing and use of emerging approaches and technologies. NDF will actively look for opportunities that can be replicated and scaled-up by other financiers, particularly from the private sector, of successful pilots.
- f. IDENTIFICATION OF EMERGING CLIMATE CHANGE ISSUES.** NDF will continually look for areas where climate change issues are evolving and gaining attention, but where few initiatives have been launched. In such areas, NDF's flexibility can be used as an advantage to encourage partners to explore new areas of support. Such areas have in the past included, for instance, intensified efforts for assessing the impact of climate change in health. Additional areas could, for example, include the nexus between climate change, ecosystems, biodiversity and natural capital.



# 4 FROM STRATEGIC FOCAL AREAS TO OPERATIONS

NDF focuses its activities on low-income (LIC) and lower middle income (LMIC) countries with a particular emphasis on Sub-Saharan Africa<sup>1</sup>. In regional or sub-regional projects involving several countries, a greater flexibility regarding countries is envisaged.

NDF will continue to work with the multilateral development banks through co-financing and will actively look for opportunities that match with the focal areas. NDF will actively seek out opportunities in which it can add significant value beyond financing, either in collaboration with other financiers or through initiatives where NDF can take a larger or a more independent role. Co-financing and resource mobilisation with other entities may also be considered. In addition, NDF will continue to explore new partnerships, including new ways to collaborate with the Green Climate Fund. Through co-financing with MDBs, NDF is well-placed to support the operations of the GCF in a very concrete way. In the short term, NDF will continue to support climate finance readiness activities, which will be coordinated with the GCF, and which will directly benefit GCF in being able to channel its funds into climate change projects at the country level. Overall, NDF financing will be focused on interventions with a high likelihood for follow-up investment, replication and scaling-up.

The role of the Nordic Climate Facility will be strengthened and opportunities for scaling up the facility itself and the projects that have been developed in NCF will be in focus. This follows the success of NCF projects in harnessing the development and catalytic potential of non-governmental stakeholders and the explicit involvement of Nordic institutions. Additional gains are expected to be achieved from a closer integration of NCF activities more systematically into other NDF operations. Collaboration with other financing institutions and donors through the NCF will be explored.

Grants will continue to be the main instrument of NDF but the use of grants will be flexible and innovative when relevant, for example, in connection to blended finance, guarantee operations, forms or returnable capital, and adapted to the needs of different types of projects. NDF already has gained some expe-



Toffael Rashid

rience on these type of arrangements, for example with the IDB, but further possibilities will also be explored with other partners. NDF may also consider the use of other instruments following the rapid development of tools in climate finance.

NDF will continue to focus on how to deploy its resources efficiently. Available capital resources determine the level of yearly commitments of NDF. The size of individual interventions will depend on the type of the intervention in question and NDF's role.

<sup>1</sup>) NDF intends to focus its activities on the following countries: Benin, Ethiopia, Ghana, Kenya, Mozambique, Rwanda, Senegal, Tanzania, Uganda, Zambia, Bangladesh, Cambodia, Laos, Nepal, Vietnam, Bolivia, Honduras and Nicaragua.





Travis Lupick

## 5 FROM OPERATIONS TO RESULTS

Measurement of results remains in focus at NDF. The monitoring, evaluation and results documentation activities will continue to rely on the following main pillars:

- 1. PROJECT IDENTIFICATION AND SCREENING METHODOLOGY,**
- 2. CONTINUOUS PROJECT MONITORING,**
- 3. PROJECT PERFORMANCE RATING, AND**
- 4. EX-POST EVALUATIONS**

The project identification and screening methodology will help to ensure that the projects selected for funding are in line with NDF's mandate and strategic priorities. The existing screening criteria related to climate change and definitions for both climate change mitigation and adaptation will remain a key starting point in project identification. Thus, the screening methodology will continue to focus on the climate and development aspects, but be substantially updated to reflect and to include indicators in line with the new strategic focal areas.

NDF's climate change-focused portfolio is starting to mature, and some projects have already reached completion. The current Evaluation Guidelines will be revised. It is envisaged that selected thematic and sector-specific evaluation can contribute well to the existing self-evaluation tools, such as the Project Closing Reports.

NDF will continue to put effort on developing ways to enhance the results monitoring aspects. It is envisaged that a framework with indicators to measure results at the institutional level will be developed in a way that takes into consideration NDF's role as a co-financing organisation and with maximum utilisation of existing data available through partners. Together with the Project Performance Rating (PPR) system, this framework will constitute NDF's results-based management framework.

NDF is an international development financing institution established in 1989 by the five Nordic countries (Denmark, Finland, Iceland, Norway and Sweden), and based in Helsinki. NDF provides financing for climate-related projects in Africa, Asia and Latin America.



**NORDIC DEVELOPMENT FUND**, P.O. Box 185, FIN-00171 Helsinki, Finland (Visiting address: Fabianinkatu 34), Tel. +358 10 618 002, Fax: +358 9 622 1491, Email: [info.ndf@ndf.fi](mailto:info.ndf@ndf.fi), [www.ndf.fi](http://www.ndf.fi)



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