Nordic Development Fund

CONVERGENCE
BLENDING GLOBAL FINANCE

Nordic Development Fund:

Blended Finance Approach at a Glance

September 2025

The Nordic Development Fund

The Nordic Development Fund (NDF) is the joint international finance institution of Denmark, Finland, Iceland, Norway, and Sweden. Its mandate is focused on creating impact at the intersection of climate and development, with a specific focus on low-income countries (LICs).

Since adopting its climate and development-focused mandate in 2009, NDF has financed both private and public sector projects. NDF targets opportunities where it is expected to have the most impact.

In the private sector financing, NDF focuses on:

1. supporting early-stage, innovative vehicles that contribute to nascent markets through proof-of-concept projects; and
2. investing in more proven markets that have strong demand for scaled investment.

Through these twin objectives, NDF aims to encourage investment into projects that would otherwise be deemed too high-risk and showcase and streamline the launch of good practice blended finance structures.

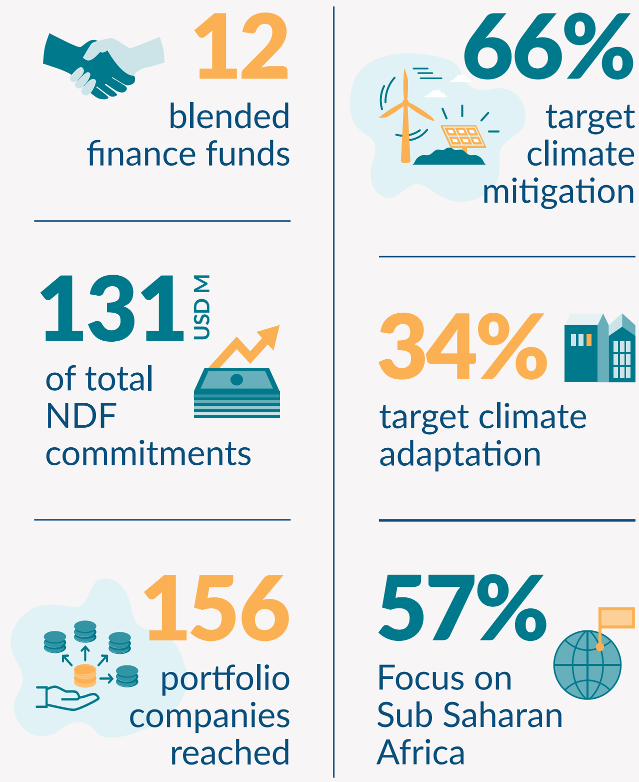

Figure 1: NDF Blended Fund Portfolio, as of September 2025

Investment approach and guiding principles

Without appropriate risk mitigation, investment opportunities in developing economies generally fall outside the mandates of mainstream capital. Few public and philanthropic institutions are expressly mandated to occupy high risk investment positions with the intention to mobilise and drive development impact at scale.

NDF is unique in this respect and stands out as a model for how concessional capital can be deployed efficiently. NDF's activities are guided by three core principles of engagement, or "three C's"; **Complement** – NDF seeks to enhance its value add by complementing the actions of its strategic partners; **Co-create** – engaging early in the investment process and helping to co-design interventions enables NDF to improve efficacy of financial support and the quality of impact; **Convene** – NDF brings together like-minded stakeholders to advance development and climate interests.

These principles are practically implemented in the following ways:

1. **Leveraging intermediated investment over direct investment**, using fund structures to gain access to a broader portfolio of companies and projects, diversify investment exposure, and reduce institutional burden.
2. **Deploying junior equity** to meet the demand for high risk bearing and patient capital and enabling funds to crowd in commercial investors.
3. **Shaping funds through co-creation**, working with managers and co-investors from the outset to embed E&S and impact monitoring frameworks, and climate, gender, and geographic priorities.
4. **Adding targeted grant support**, including technical assistance to reinforce impact outcomes and strengthen performance.

Portfolio overview

The current portfolio includes 12 funds, representing about 40% of all institutional commitments. Climate mitigation investments account for the majority of investments (66%), with adaptation investments at 34%. The latter represents a notably higher share than typically seen in the blended finance market, where adaptation investments account for about 18% of all transactions according to Convergence Market Data. Geographically, the portfolio is oriented towards Sub-Saharan Africa (57%), with a high priority for LICs (64%) and fragile countries (32%). Cumulative fund size amounts to $3.3 billion.

Across its fund investments, NDF typically acts as an anchor junior equity investor and co-invests alongside other like-minded investors. This role is rare among concessional capital providers, but critical for channelling capital at scale into high-impact, high-risk markets. NDF is also part of the Investment Mobilisation Collaboration Alliance (IMCA), a Nordic initiative to pool concessional resources, share risk, and scale mobilisation. It provides NDF with the ability to extend the catalytic reach of its junior equity role through collective action.

Mobilisation of private capital in NDF's portfolio has averaged around 20%, a strong outcome given its focus on high-risk markets where private and institutional investor exposure has historically been limited. Given the sectoral and market diversity of the portfolio, mobilisation rates have been highly variable. Larger, diversified climate infrastructure funds have attracted 45–60% of capital from private sources, including pension funds and insurance companies. Meanwhile, smaller, specialised vehicles operating in niche markets like adaptation and LICs tend to have lower mobilisation rates, as these markets often involve smaller projects, less predictable revenue models, and present higher perceived or actual risks for private investors. In these cases, commercial funding mainly comes from multilateral development banks (MDBs) and bilateral development finance institutions (DFIs).

66%

Climate mitigation investments account for the majority of investments

With all fund investments, NDF aims to participate in fund design and investment governance to ensure ongoing alignment with its impact mandate. Beyond selecting funds with aligned missions and local presence, NDF has found that representation in the fund's governance structure has proven particularly beneficial, allowing them to guide compliance, investment criteria, and impact delivery.

NDF also provides grant contributions in the form of design-stage grants, reimbursable investment-stage grants, and technical assistance (TA). Its portfolio investments in funds are frequently complemented by TA facilities, which have delivered core business strengthening and impact-related outcomes such as improving E&S management systems, developing impact measurement frameworks, conducting targeted studies, and enabling managers to hire impact staff.

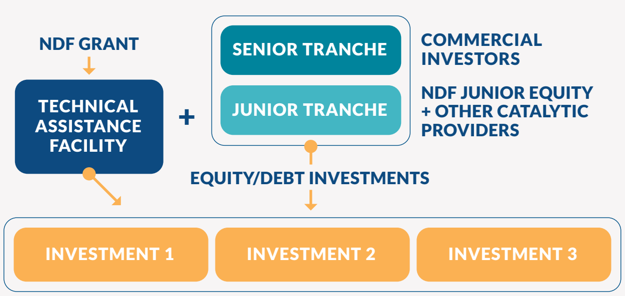

Figure 2: Indicative NDF fund participation

Learnings for catalytic and concessional capital providers

NDF's blended finance approach to date provides good practice examples for effective, efficient, and institutionally implemented catalytic and concessional capital allocation:

For small institutions with high risk tolerance mandates, funds can offer a pragmatic path to scale, efficiency, and impact.

- The decision to invest via funds or directly in development projects involves weighing several factors; such as the institutional capacity to execute the investments internally; ability to pay fees to external managers; and the desired degree of control over portfolio investments.
- Funds likely provide greater risk diversification benefits by pooling enough projects, and allow investors to shift the implementation of the investments to General Partners (GPs) that possess adequate experience identifying, assessing, and monitoring portfolio companies. Both benefits are particularly critical in markets that are nascent and have high perceived risk, such as those targeted by NDF.

Co-creation strengthens fund design, but flexibility is vital to secure Limited Partner (LP) buy-in and preserve market viability.

- Early engagement provides investors with a window to influence the investment strategy.
- NDF has been able to influence core fund features such as LIC allocation targets, gender action plans, and E&S policies aligned with international standards.
- Flexibility has been essential. Respecting GP judgment keeps impact ambitions feasible and aligned with LP expectations on risk-adjusted returns, liquidity, and portfolio diversification.
- Looking ahead, co-creation may hold even greater potential with less established managers, where a clean slate could be used to push the agenda of the fund strategy toward a stronger focus on delivering development outcomes.

Equity investment is critical to mobilising private investors into and developing economies.

- MDB and DFI participation in blended finance investments is dominated by senior debt financing, given their preference for predictable cash flows, higher security, and balance sheet management.
- Opportunities in developing economies require longer-term, risky capital. Likewise, private and institutional investors require adequate risk mitigation and stable funding sources to enable their participation in high perceived risk assets. This makes NDF's equity investments particularly valuable.
- By supplying this scarce equity layer, NDF enables funds to launch, attract additional investors, and create the conditions for sustained private capital flows.

Technical assistance facilities can be a sweet spot for impact and strengthen fund performance.

- NDF's sidecar TA facilities have provided capacity-building to investees, shaped outcomes, and strengthened gender integration and environmental standards.
- GPs welcome TA because it provides non-dilutive resources for activities essential to performance and impact: financing impact measurement systems that generate credible data for LP reporting, supporting E&S and gender plans that embed inclusion and reduce compliance risks, and funding studies that validate assumptions and filter out weak projects.
- Together, these interventions raise portfolio quality and lock in more credible development outcomes.