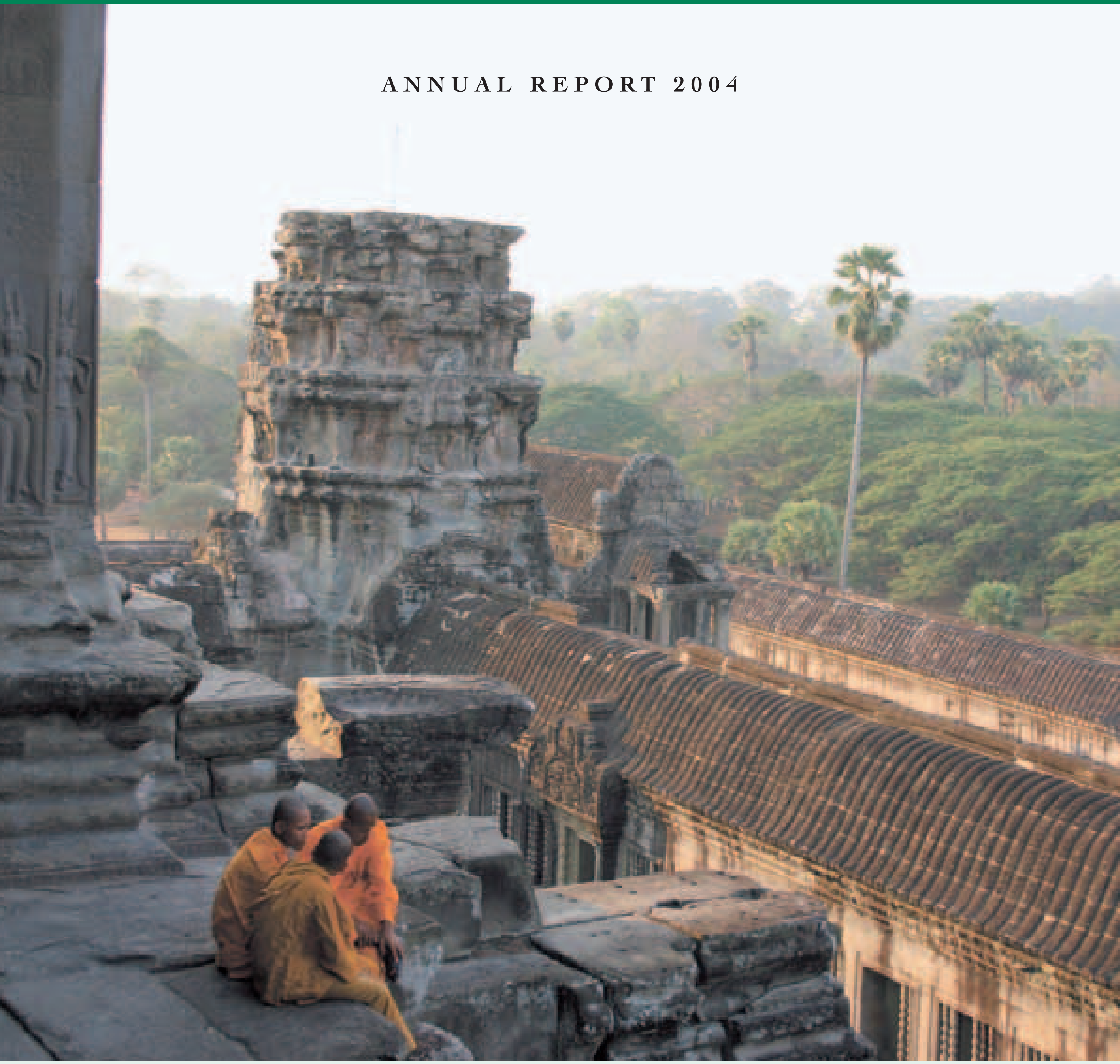
ANNUAL REPORT 2004



NORDIC DEVELOPMENT FUND

## THE NORDIC DEVELOPMENT FUND (NDF)

was established for the purpose of promoting economic and social development in developing countries through participation in financing on concessional terms of projects of interest to the Nordic countries.

Lay-out: Leif Holst, Kubik-Advertising, Finland
Cover picture: Leena Saavalainen
Portraits: Utte Ekholm, Finland
Printed in Finland by Libris Oy

CONTENTS

# ABOUT NDF

The Nordic Development Fund, NDF, is a multilateral development financing organisation with offices in Helsinki. Operations commenced in February 1989 as part of cooperation in the development assistance area between the five Nordic countries - Denmark, Finland, Iceland, Norway and Sweden. The member countries appoint the members of NDF's Board of Directors and Control Committee.

The capital of the Nordic Development Fund amounts to SDR 515 million (Special Drawing Rights) and EUR 330 million, and is financed through the development cooperation budgets of the Nordic countries.

NDF grants very long -term credits on concessional terms to poor developing countries. Credits are granted for high-priority projects which promote economic and social development. NDF's lending strategy is governed by the principles of the Nordic countries' international development co-operation with particular focus on poverty reduction and commitments to the Millennium Development Goals set by the United Nations.

The credit period is 40 years, including a 10-year grace period. The credits are 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 also collected on any undisbursed balance one year after the credit agreement has been signed.

NDF can also provide financial support for private sector activities in developing countries without government guarantee. NDF's financing is oriented towards direct investments with special focus on infrastructure, credit lines to sub-regional and national development banks with special emphasis on promoting the development of small and medium-sized enterprises in development countries and participation in venture capital funds.

Projects in the public as well as in the private sector receiving financing from NDF must be of Nordic interest.

NDF only grants credits that are cofinanced with other sources of funding - primarily other multilateral financial institutions such as the World Bank Group and the major regional development banks. Cofinancing is also undertaken with the Nordic Investment Bank, NIB, and with Nordic bilateral development assistance agencies.

## Summary of 2004

During 2004, the Nordic Development Fund, NDF, signed 13 agreements related to new projects amounting to a total value of EUR 111.7 million. This amount signified an increase by 45% over 2003 as well as representing the highest amount of signed credit agreements in the history of NDF.
Twelve credit agreements (EUR 98.4 million) were credits to new public sector projects in Bangladesh, Cambodia, Ghana, Honduras, Kenya, Lao PDR, Nicaragua, Tanzania and Zambia. NDF extended additional financing for four projects in Ethiopia, Honduras and Senegal amounting to EUR 10.3 million.

Taking into account the credit agreements signed in 2004, Africa accounts for 45% (2003: 44%) of the total project portfolio in terms of number of projects and 50% (2003: 48%) in terms of volume. The number of projects in the economic infrastructure sector increased during 2004 to 48% (2003: 46%) of the total project portfolio.

In the private sector area, one new agreement (EUR 3.0 million) was signed, namely for NDF-financing to the venture capital fund Aureos West Africa Fund.

At the end of 2004, negotiations were under preparation for four new projects in three countries. These projects have been approved by the Board and represent a total contribution by NDF of EUR 33.5 million together with additional financing of EUR 3.0 million for one project. Proposals for six projects have been included to NDF's pipeline for further preparation.

Disbursements under credits and equity investments approved previously or during 2004 amounted to EUR 54.7 million, which is an increase by approximately 23% over the previous year.

Thus the increase in disbursements which started from 2002 to 2003 continued in 2004.

Upon request by the Board, member countries paid in SDR 30 million and EUR 15 million of Fund capital in 2004.

An additional provision of EUR 1.5 million to the HIPC Initiative has been made in the accounts for 2004. This provision is financed out of accrued net income before adjustments for currency exchange fluctuations. Thus the Fund has made allocations for its participation in the HIPC Initiative totalling approximately EUR 24.6 million of its accumulated net income before foreign exchange differences. This amount covers the obligations of the Fund under the enhanced HIPC Initiative.

The net result for the year before adjustments for currency exchange fluctuations was EUR 3.2 million (EUR 5.6 million in 2003). The decreased net result in 2004 is mainly due to lower proceeds from the private sector portfolio than in 2003.

As in previous years, the accounting consequences of the Funds' conversion from SDR to euro as its capital and accounting currency with effect as from January 1, 2001 are also recorded as foreign exchange differences in the accounts for 2004. The effects of currency fluctuations, which during 2003 lead to a negative result of EUR 38 million, show a negative result of EUR 11 million for 2004. The continuously decreasing US dollar rate, which represents 45% of the SDR currency basket, was the main reason for the significant reduction of the purchasing power of the SDR against the euro during 2004.

In connection with the capital replenishment of the Fund in 2000, the Nordic Council of Ministers decided to initiate a new evaluation of the Fund's activities in the course of 2004 to serve as a basis for the Nordic countries' decision on a further capital replenishment in the year 2005.

The Council of Ministers commissioned Nordic Consulting Group to carry out the evaluation. The final report was completed in August 2004.

The conclusions and recommendations of the evaluation are currently under consideration by the Board of Directors as well as representatives of NDF's member countries. On the basis of these deliberations, the Board of Directors will submit a report on the Fund's future activities to the Nordic Council of Ministers together with a request for replenishment of the Fund's capital.

**Agreements signed in 2004**

During 2004, 13 agreements (11 in 2003) were signed relating to new projects to a total value of EUR 111.7 million (EUR 76.1 million in 2003).

The total costs for the 13 projects amount to approximately EUR 1,735 million.

At the end of 2004, NDF had entered into 180 agreements, the total value of which, including additional financing and adjusted for cancellations, amounted to EUR 874.3 million (2003: EUR 780.1 million). Of these agreements, 152 were credits to public sector projects (EUR 824.0 million), 25 were loans with equity features or equity investments (EUR 33.2 million) and three were other loans (EUR 17.1 million).

As at December 31, 2004 disbursements under signed agreements amounted to EUR 448.5 million. Approximately 94% of this amount is denominated in SDR. The weakening of the SDR rate against the euro has resulted in a reduction of the value of disbursements and SDR placements by EUR 11 million.

The following agreements were signed during the year:

*Credits to public sector projects*

1. Bangladesh, EUR 8.3 million, Power Sector Development Project - cofinanced with ADB (Asian Development Bank).
2. Cambodia, EUR 10 million, Greater Mekong Subregion (GMS) Transmission Project - cofinanced with ADB.
3. Ghana, EUR 7 million, Land Administration Project - cofinanced with IDA (International Development Association in the World Bank Group).
4. Ghana, EUR 9 million, 2nd Urban Environmental Sanitation Project (UESP II) - cofinanced with IDA.
5. Ghana, EUR 4 million, Urban Water Project - cofinanced with IDA.
6. Honduras, EUR 6 million, Programa ProBosque - cofinanced with IDB (Inter-American Development Bank).
7. Kenya, EUR 13 million, Northern Transport Corridor Improvement Project - cofinanced with IDA.
8. Kenya, EUR 10 million, Energy Sector Recovery Project - cofinanced with IDA.
9. Lao PDR, EUR 6.1 million, Roads for Rural Development Project - cofinanced with ADB.
10. Nicaragua, EUR 12 million, Programa Vial para la Competitividad (Transport Program for Improved Competition) - cofinanced with IDB.
11. Tanzania, EUR 5 million, Central Transport Corridor Roads Project - cofinanced with IDA.
12. Zambia, EUR 8 million, Road Rehabilitation and Maintenance Project in Support of ROADSIP II (Phase II) - cofinanced with IDA.

*Additional financing*

Additional financing has been granted for four projects in the public sector: Ethiopia , SDR 3 million (Energy II), Honduras, SDR 1.6. million (Road Reconstruction and Improvement Project), Senegal, SDR 2.5 million (Poverty Alleviation Project) and Senegal, SDR 2 million, (Long Term Water Sector Project).

*Private sector projects*

Aureos West Africa Fund (AWAF), EUR 3 million - cofinanced with Norfund (Norwegian Investment Fund for Developing Countries).

*Projects under preparation*

At the end of 2004, negotiations were under preparation for four new projects in three countries with a total value of EUR 33.5 million together with additional financing of EUR 3.0 million for one project. Proposals for six projects have been included in NDF's project pipeline for further preparation.

**Partner countries**

NDF gives priority to poor developing countries and only exceptionally grants credits to countries other than the least developed, low-income and lower middle-income countries (LDC, LIC and LMIC in accordance with the OECD Development Assistance Committee, DAC, definition). According to DAC, the upper limit for LMIC countries is USD 2.975 per capita.

During 2004, NDF signed cooperation agreements with three new partner countries: Cambodia, Kenya and Rwanda.

At the end of 2004, 152 credits to public sector projects had been extended to 16 countries in Africa, 13 in Asia and six in Latin America and the Caribbean.

Of the credits, 65 (43%) relate to least developed countries (LDC), 64 (42%) to low-income countries (LIC) and 22 (14%) to lower middle-income countries (LMIC), while one (1%) credit relates to a country in the upper middle-income countries (UMIC) category. Of NDF's project portfolio of sovereign credits, Africa accounts for 45%, Asia 35% and Latin America and the Caribbean 20% in terms of number of projects, and 50%, 33 % and 17 % respectively in terms of credit amounts.

Loans with equity features have been granted to 21 projects in Africa, five in Asia and two in Latin America and the Caribbean.

**Sector classification**

At the end of 2004 (and 2003) NDF's project portfolio of credits to the public sector had the following distribution:

| *DAC classification* | *2004* | *2003* |
|---|---|---|
| - Economic Infrastructure | 48 % | 46 % |
| - Production | 12 % | 13 % |
| - Social Infrastructure | 28 % | 29 % |
| - Multisector and Environmental Protection | 12 % | 12 % |

Support to the development of the economic infrastructure in borrowing countries remains the Fund's priority area of operations. Projects in social infrastructure and multisector including environmental protection represent approximately 40 % of the total project portfolio, which is in accordance with NDF's present guidelines.

NDF's private sector financing has primarily been used to support infrastructure and production activities.

**NDF's participation in the HIPC Initiative**

Since the World Bank and the International Monetary Fund (IMF) adopted the "Debt Initiative for Heavily Indebted Poor Countries" (HIPC) in 1996, NDF has participated in this initiative through the HIPC Trust Fund, which is administered by IDA. The enhancement of the debt initiative in 1999 has called for further financial commitments by NDF. To this end, the Nordic Council of Ministers approved in 2000 that NDF's statutes be amended in order to provide a general authorisation for the Fund to provide its part of shared contributions under debt relief mechanisms in the framework of internationally co-ordinated initiatives in which other multilateral organisations participate. At the end of 2004, NDF has made allocations to the enhanced HIPC Initiative for debt relief to nine of the Fund's borrowing countries.

An additional provision of EUR 1.5 million to the HIPC Initiative has been made in the accounts for 2004. This provision is financed out of accrued net income before adjustments for currency exchange fluctuations. Thus the Fund has made allocations for its participation in the HIPC Initiative totalling approx. EUR 24.6 million of its accumulated net income before foreign exchange differences. This amount covers the obligations of the Fund under the enhanced HIPC Initiative.

**Cofinancing partners**

NDF gives priority to cofinancing of projects with other multilateral financial institutions.

Of the public sector agreements signed during 2004, seven are cofinanced with IDA as lead agency, three with ADB and two with IDB. In most cases, financing is provided by more than one institution.

In 1991, a cooperation agreement was signed with the World Bank. A cooperation agreement with IDB was signed in 1994 and in 1995 cooperation agreements were signed with the African Development Bank, AfDB, and ADB. A cooperation agreement was signed in 1998 with IFC (International Finance Corporation) and in 1999 with IIC (Inter-American Investment Corporation). NDF also has project cooperation with EIB (European Investment Bank).

NDF has acquired observer status in the Development Committee and also takes part in various joint meetings of representatives of the multilateral financial institutions and in their annual meetings. Consequently, the Fund is participating in the ongoing work for harmonizing and simplifying policies and procedures between development banks and other multilateral organizations.

**Private sector activities**

Since the end of 2001, the Fund, as an integrated and permanent part of its operations, has been able to provide financial support without government guarantee for private sector activities in developing countries.

During 2004 NDF subscribed for shares in one regional venture capital fund, Aureos West Africa Fund. The purpose of this fund is to support the development of small and medium sized private enterprises in its geographical region. NDF's financial contribution amounts to EUR 3.0 million.

During 2004 NDF has exited from its investments in four of the private sector projects which received loans with equity features during the trial period of the private sector scheme that NDF operated during 1994-2000. After these exits there remain six projects financed during the trial period and it is expected that NDF will be able to exit from its engagements in some of these projects in the course of 2005. In 2004, NDF received remuneration totalling EUR 1,068,139 on five of its loans with equity features and one of its other loans. The corresponding amount in 2003 was EUR 1,358,745.

A provision of EUR 699,822 was made against possible losses on the Fund's other loans, loans with equity features and equity investments. The corresponding amount was EUR 860,269 in 2003.

**Project preparation, monitoring and evaluation**

In 2004, NDF participated in project appraisal and supervision missions, represented by either its own staff or consultants, in close cooperation with financing institutions and implementing agencies. The purpose of NDF involvement is to enhance the developmental aspects of the Fund's project portfolio, with a focus on poverty reduction and securing the Nordic interest.

The application of the new system for Project Performance Rating, which was introduced during 2002-2003, has been extended during 2004. The Fund's entire active project portfolio has been rated, and the individual ratings as well as the outcomes of the system have been discussed at three separate workshops. The in-house consultant of the Fund participated in two of these workshops.

Ratings of individual projects have focused on identifying problems and measures to be undertaken by NDF in order to improve the implementation and to secure the fulfilment of the objectives.

Two completed projects were evaluated in 2004, one by an external consultant and one by NDF. An evaluation of NDF's participation in projects in the transport sector was completed during the year. The study comprised 24 completed and ongoing projects. The results of the study, which have been discussed by the Board of Directors, will serve as a basis for developing guidelines for NDF's future activities in the transport sector.

In early 2004, a gender equality study was carried out with the objective to assess NDF's project portfolio with regard to how gender and equality issues have been dealt with. As a follow-up of the discussions by the Board of Directors and in order to increase the know-how in the organisation, an internal workshop was organised and conducted by ADB's leading expert on gender equality.

**Evaluation of NDF**

In connection with the capital replenishment of the Fund in 2000, the Nordic Council of Ministers decided to initiate a new evaluation of the Fund's activities in the course of 2004 to serve as a basis for the Nordic countries' decision on a further capital replenishment in the year 2005.

In December 2003, the Council of Ministers commissioned the company Nordic Consulting Group to carry out the new evaluation. The final report was completed in August 2004.

The summary of key findings in the report are structured into three separate parts, an assessment of achieved results in relation to guidelines and expectations, conclusions from the analysis of strategic issues and recommendations on future strategies. The main finding of the evaluation is that NDF has performed well. The objectives and guidelines, which were laid down on the basis of the evaluation carried out in 1999, have been fulfilled. Furthermore, NDF is considered to be a professional and efficient organization. However, the report does draw attention to the imbalance between the increase of new tasks, on the one hand, and available resources, on the other. Finally it is pointed out that NDF is standing at a cross-roads.

In this connection, the evaluation report calls attention to the fact that NDF's activities are focused on traditional project financing, while the tendency today is towards budget and programme support. Furthermore, a number of NDF's partner countries will only be eligible for grant financing from the World Bank (IDA) and the African Development Bank (AfDF) during the current capital replenishment periods. At the same time the practice of tying procurement to Nordic suppliers is considered problematic in the long run. The report stresses the importance of finding a role for NDF which is not dependent on a policy where Nordic interest is mainly linked to procurement from the Nordic countries.

The conclusions and recommendations of the evaluation are currently under consideration by the Board of Directors as well as representatives of NDF's member countries. On the basis of these deliberations, the Board of Directors will present a report on the Fund's future activities to the Nordic Council of Ministers together with a request for replenishment of the Fund's capital.

**Nordic cooperation**

NDF maintains close contact with the Nordic Council of Ministers and the Nordic Council and normally attends their annual meetings.

NDF also maintains regular contacts with the Nordic bilateral development agencies (The Ministry of Foreign Affairs/Danida and IFU in Denmark, the Ministry for Foreign Affairs and Finnfund in Finland, ICEIDA and New Business Venture Fund in Iceland, NORAD and Norfund in Norway, and Sida and Swedfund in Sweden).

In 1996, NDF signed a cooperation agreement with the Norsad Agency, established by the Nordic and the SADC countries. NDF was appointed as observer on the Norsad Agency Board of Directors.

NDF has a close cooperation with the Nordic Investment Bank, NIB, mainly regarding office premises, staff administration, IT services, accounting, liquidity management and legal assistance. At the same time, the Fund assists NIB and NEFCO (Nordic Environment Finance Corporation) in procurement activities. The general cooperation guidelines are laid down in an agreement between NIB and NDF signed in 1997.

According to the Agreement concerning the establishment of NDF, a project must be of Nordic interest in order to be considered for NDF financing. As a general rule, Nordic procurement should be applied in competition.

In its consultations with partner countries and co-financing institutions on project identification, NDF focuses on components and activities that can be competitively procured within the Nordic resource base, both in terms of quality and price. However, greater emphasis is placed on facilitating local deliveries.

In 2004, the total value of new contracts financed by NDF credits increased by approximately 30% compared with the previous year. Ninety per cent of contracts signed in 2004 were with Nordic companies. The total value of contracts awarded to suppliers from NDF's partner countries fell slightly during the same period.

On the other hand, the relatively high percentage of goods and services of local origin that was recorded in 2003, approximately 33%, was maintained in 2004. This was in large part due to the fact that, during 2004, NDF financed several large civil works contracts with high proportions of local content, primarily in terms of labour and construction material. In accordance with NDF's revised Procurement Guidelines from 2000, greater emphasis is now placed on facilitating deliveries from its partner countries.

At the end of 2004, procurement in the Nordic countries according to the domicile of enterprises had the following distribution: Denmark 25.2%, Finland 20.7%, Iceland 1.0%, Norway 22.9% and Sweden 30.2%.

**Capital and accounting currency**

In 2000, the Nordic Council of Ministers decided that the Fund should change its capital and accounting currency from SDR to euro as from January 1, 2001.

In the annual reports for previous years, the Board of Directors has paid attention to the fact that, since NDF will have outstanding credits denominated in SDR for many years to come, fluctuations in the SDR-euro exchange rates may lead to substantial variations in financial results, positive or negative, from one year to another. Measures undertaken by the

Fund in order to convert SDR denominated credits into euro will gradually reduce the variations caused by exchange rate fluctuations. Since 2001 NDF has approached 28 countries proposing a conversion of fully disbursed SDR denominated credits into euro. 20 countries (Bolivia, Botswana, China, Ghana, Kyrgyz Republic, Lao PDR, Malawi, Maldives, Mauritius, Mozambique, Namibia, Nepal, Pakistan, Philippines, Senegal, Sri Lanka, Tanzania, Tunisia, Uganda and Vietnam) have so far responded positively and a conversion of 48 credits has been carried out in the above mentioned countries. The line of credit to EADB has also been converted bringing the total amount of converted credits up to SDR 174.5 million. Two countries, Bangladesh and Nicaragua, have so far declined the conversion.

The Fund's financial result for 2004 shows a foreign exchange difference of EUR -10.9 million (2003: EUR -37.8 million). This difference is to a large extent due to the fact that the US dollar represents 45% of the SDR currency basket and the reduction of the purchasing power of the US dollar during 2004 against NDF's capital and accounting currency, euro.

These accounting consequences of the Funds' conversion from SDR to euro as its capital and accounting currency do not change the opinion of the Board of Directors that the conversion has been and continuously will be to the benefit of NDF.

**Liquidity and capital**

The liquid assets of NDF are managed by NIB on behalf of NDF. NDF's paid-in capital has mainly been placed in SDR deposits. The average interest rate has been approximately 1.3% (2003: 1.3%). NDF's deposits in SDR are relatively short-term (up to 12 months).

During the year, disbursements amounted to EUR 54.7 million (2003: EUR 44.4 million). At the end of the year, accumulated disbursements amounted to EUR 448.5 million (2003: EUR 407.0 million). Upon request by the Board, member countries paid in SDR 30,000,000 and EUR 15,000,000 of Fund capital in 2004 (2003: SDR 30,000,000 and EUR 15,000,000). The paid-in fund capital has increased accordingly.

During 2004, NDF received repayments under disbursed credits amounting to EUR 3,516,021.

**Board of Directors and administration**

The Chairman of the Board for the period January 1 to April 30, 2004 was Ingrid Glad, Assistant Director General, the Royal Ministry of Foreign Affairs, Norway with Susanne Jacobsson, Senior Adviser, Ministry for Foreign Affairs, Sweden, as Deputy Chairman. As from May 1, 2004 Susanne Jacobsson took over the chairmanship with Christoffer Bertelsen, Minister Counsellor, Ministry of Foreign Affairs, Denmark as Deputy Chairman. The chairmanship will pass to the Danish member on May 1, 2005 and the Finnish member will then become Deputy Chairman. A list of NDF Board members can be found on page 28.

Ingvar B. Friðleifsson, Director, who had served as the Icelandic member of the Board of Directors since 1990, resigned on March 15, 2004 and Egill Heiðar Gislason, adviser, was appointed his successor from the same date.

During 2004, Taisto Huimasalo, Deputy General Director, Ministry for Foreign Affairs, Finland was appointed as the new Finnish member after Pasi Hellman, Director, who resigned from the Board. Pekka Hukka, Director, Ministry for Foreign Affairs, was appointed new Finnish deputy member after Pauli Mustonen, Director.

As from October 1, 2004, Christoffer Bertelsen, Minister Counsellor, Ministry of Foreign Affairs, Denmark, was appointed Danish member of the Board with Trine Rask Thygesen, Head of Section, Ministry of Foreign Affairs as new Danish deputy member.

Jens Lund Sørensen is President of NDF and Carin Wall is Senior Vice President. In all, NDF staff consisted of 16 employees in 2004 (2003: 15 employees). A list of the management and staff can be found on page 29.

**Control Committee**

The Control Committee ensures that the Fund's operations are conducted in accordance with its Statutes and is responsible for its audit. The Committee presents an annual auditors' report to the Nordic Council of Ministers. The Control Committee met twice in 2004. A list of the members of the Committee can be found on page 28.

# REPORT OF THE BOARD OF DIRECTORS 2004

**Financial results and allocation**

NDF's total assets as of December 31, 2004 amounted to EUR 539,781,386 (2003: EUR 502,478,464). This amount includes outstanding credits to public sector projects, other loans, loans with equity features and equity investments to the amount of EUR 438,101,611 (2003: EUR 393,591,023) and placements with credit institutions to the amount of EUR 99,789,494 (2003: EUR 107,060,619). A write-down of EUR 699,822 (2003: EUR 860,269) has been made against possible losses on other loans, loans with equity features and equity investments. Commitments under credits to public sector projects (EUR 395,192,858), other loans (EUR 5,618,212), loans with equity features and equity investments (EUR 9,662,551), signed but not yet disbursed, amounted to a total of EUR 410,473,620 (2003: EUR 369,302,930).

As of December 31, 2004, NDF's capital consisted of SDR 430 million and EUR 30 million (2003: SDR 400 million and EUR 15 million) in paid-in fund capital and EUR - 86,484,556 (2003: EUR -77,223,485) in accumulated net income after adjustments for currency exchange fluctuations and a provision for the HIPC Initiative of EUR 1,701,823 (2003: EUR 5,719,348).

The Fund's income during 2004, amounting to EUR 7,155,337 (2003: EUR 9,644,071), consisted of income from credits to the public sector to the amount of EUR 4,426,525 (2003: EUR 4,198,900), interest on placements with credit institutions of EUR 1,660,673 (2003: EUR 1,714,178) and EUR 1,068,139 (2003: EUR 3,730,993) as remuneration on equity loans and other loans. One of NDF's borrowing countries (Zimbabwe) continues to be in arrears to NDF. All of its accrued, outstanding obligations towards NDF were therefore placed in non-accrual status.

Administrative expenses were EUR 3,293,660 (2003: EUR 3,140,911). The largest single item of expenditure consists of salaries and ancillary expenses of EUR 2,075,026 (2003: 1,970,511). Administrative expenses were equivalent to 2.9 % of signed credits in 2004 (2003: 4.0 %).

The net income for the year, which after adjustments for currency exchange fluctuations of EUR -10,919,459 (2003: -37,842,775) amounts to EUR -7,761,070 (2003: EUR -32,202,391) is carried forward to new account.

The Income Statement, Balance Sheet, Changes in Equity, Cash Flow Statement and Notes to the Financial Statements can be found on pages 10-18.

Helsinki, March 3, 2005

SUSANNE JACOBSSON
Chairman

CHRISTOFFER BERTELSEN

PEKKA HUKKA

EGILL HEIÐAR GISLASON

INGRID GLAD

JENS LUND SØRENSEN
President

# INCOME STATEMENT

(amounts in EUR)

| | Jan.1-Dec. 31, 2004 | Jan.1-Dec. 31, 2003 |
|---|---|---|
| *Income* | | |
| Service charges from credits | 3,001,384.18 | 2,681,924.87 |
| Income from loans with equity features | 1,068,138.94 | 3,730,993.01 |
| Fee and commission income | 1,425,141.02 | 1,516,975.22 |
| Interest income from placements with credit institutions | 1,656,528.25 | 1,709,146.83 |
| Interest income from cash and balances with banks | 4,144.97 | 5,031.06 |
| Total income | 7,155,337.36 | 9,644,070.99 |
| *Expenses* | | |
| Fee and commission expenses | 3,466.80 | 2,506.65 |
| General administrative expenses (Note 7) | 3,293,659.85 | 3,140,911.36 |
| Provision for loan losses and write-down of loans (Note 5) | 699,821.90 | 860,269.39 |
| Total expenses | 3,996,948.55 | 4,003,687.40 |
| Net result for the year before foreign exchange differences | 3,158,388.81 | 5,640,383.59 |
| Foreign exchange differences | -10,919,459.29 | -37,842,774.98 |
| Net result for the year | -7,761,070.48 | -32,202,391.39 |

# BALANCE SHEET

(amounts in EUR)

| | Dec. 31, 2004 | Dec. 31, 2003 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents (Note 1) | 94,130,409.42 | 74,015,175.59 |
| Other long-term financial placements (Note 1) | 5,659,084.16 | 33,045,442.98 |
| | 99,789,493.58 | 107,060,618.57 |
| Other assets | 758,778.44 | 671,746.69 |
| Accrued income | 1,131,502.44 | 1,155,075.81 |
| Credits with government guarantee outstanding (Note 2) | 419,512,096.37 | 377,100,973.79 |
| Other loans outstanding (Note 3) | 9,754,369.02 | 9,754,369.02 |
| Loans with equity features and equity investments outstanding (Note 4) | 8,835,145.96 | 6,735,680.29 |
| Total assets | 539,781,385.81 | 502,478,464.17 |
| **LIABILITIES AND EQUITY** | | |
| *Liabilities* | | |
| Other liabilities | 577,178.58 | 579,051.19 |
| *Equity (Note 6)* | | |
| Fund capital SDR 515 000 000 | | |
| Fund capital EUR 330 000 000 | | |
| Paid-in fund capital | 623,986,940.30 | 573,403,550.62 |
| Accumulated net result | -86,484,555.76 | -77,223,485.28 |
| Appropriation to HIPC Initiative | 1,701,822.69 | 5,719,347.65 |
| Total equity | 539,204,207.23 | 501,899,412.99 |
| Total liabilities and equity | 539,781,385.81 | 502,478,464.17 |

## CHANGES IN EQUITY

(amounts in EUR 1,000)

| | Paid-in fund capital | Accumulated net income | Appropriation to HIPC Initiative | Result for the year | Total |
|---|---|---|---|---|---|
| ***Equity at 1 January 2003*** | **520,220** | **-39,421** | **3,244** | **-** | **484,042** |
| Transfers between equity items | | -37,802 | 5,600 | 32,202 | - |
| Paid-in fund capital | 53,184 | | | | 53,184 |
| Paid to HIPC Initiative | | | -3,125 | | -3,125 |
| Result for the year | | | | -32,202 | -32,202 |
| ***Equity at 31 December 2003*** | **573,404** | **-77,223** | **5,719** | **-** | **501,899** |
| Transfers between equity items | | -9,261 | 1,500 | 7,761 | - |
| Paid-in fund capital | 50,583 | | | | 50,583 |
| Paid to HIPC Initiative | | | -5,518 | | -5,518 |
| Result for the year | | | | -7,761 | -7,761 |
| ***Equity at 31 December 2004*** | **623,987** | **-86,485** | **1,702** | **-** | **539,204** |

## CASH FLOW STATEMENT

(amounts in EUR 1,000)

| | **2004** | **2003** |
|---|---|---|
| ***Cash flow from operating activities:*** | | |
| Net result for the year | -7,761 | -32,202 |
| Foreign exchange profit/loss | 10,919 | 37,843 |
| Changes in accrued income | 24 | 324 |
| Changes in provision for loan losses and write-down of loans | 700 | 860 |
| Net cash from operating activities | 3,882 | 6,825 |
| ***Cash flow from investing activities:*** | | |
| Credits disbursed | 51,949 | 38,885 |
| Repayments of credits | -3,516 | -2,366 |
| Disbursed other loans, equity loans and equity investments | 2,799 | 5,541 |
| Repayments of other loans and equity loans | - | -3,651 |
| Paid to HIPC Initiative | 5,518 | 3,125 |
| Placements with credit institutions longer than 6 months | -27,386 | -13,846 |
| Changes in other assets and liabilities | 89 | 126 |
| Net cash used in investing activities | 29,453 | 27,814 |
| ***Cash flow from financing activities:*** | | |
| Paid-in fund capital | 50,583 | 53,184 |
| Foreign exchange loss | -4,896 | -10,929 |
| *Changes in cash and cash equivalents* | *20,116* | *21,266* |
| ***Cash and cash equivalents consist of:*** | **31.12.2004** | **31.12.2003** |
| Cash and balances with banks | 880 | 1,412 |
| Placements with credit institutions up to 6 months | 93,251 | 72,603 |
| **Total cash and cash equivalents** | **94,131** | **74,015** |

**General operating policies**

The purpose of the Nordic Development Fund, "the Fund", is to promote economic and social development in the developing countries through participation in financing, on concessional terms, of projects of interest to the Nordic countries.

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

On November 9, 1998, a new Agreement regarding NDF was signed by its member countries. The new Agreement, which replaced the earlier Agreement of November 3, 1988, entered into force on September 18, 1999. The new Agreement contains provisions concerning the Fund's immunity and the exemption of the Fund's assets and income from all taxation.

The Fund has the legal status of an international legal person, with full legal capacity.

A Headquarters Agreement between NDF and the Government of Finland was signed on October 14, 1999. This agreement is connected to the new Agreement regarding NDF.

**Summary of significant accounting policies**

***Basis of preparation of financial statements***

The Fund's Financial Statements have been prepared in accordance with the *International Financial Reporting Standards* (IFRS) laid down by the *International Accounting Standards Board* (IASB). As from January 1, 2001 the Fund's Financial Statements are presented in euro in accordance with the decision of the Nordic Council of Ministers of August 24, 2000 (previously SDR). The paid-in fund capital has been converted into euro.

The Fund's Financial Statements are presented in euro. With the exceptions noted below, they are based on historical cost.

***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 materially differ from the assessments made.

***Foreign currency translation***

Monetary assets and liabilities denominated in currencies other than euro are translated into euro at the euro rate quoted by the European Central Bank (see Note 8). 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-euro rate may lead to the Income Statement showing substantial foreign exchange differences since these currency positions are not hedged against changes in foreign exchange rates.

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

***Cash and cash equivalents***

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

***Placements with credit institutions***

NDF has invested its monetary assets with the Nordic Investment Bank at current market interest rates. The placements are mainly in SDR and are initially recognised at cost (normally nominal value) at settlement date. Placements are recorded at cost in the Annual Report, too. Accrued interest on placements is recorded within Accrued Income in the Balance Sheet. The difference between the fair value and the book value including accrued interest is immaterial due to the short maturity of the placements.

Placements with credit institutions 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 poor 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 December 31, 2004 one of the Fund's borrowing countries (Zimbabwe) was more than 180 days overdue with payments.

There is a considerable concessionality in the credits from NDF as they are interest-free and have very long maturities. Since there are no relevant market rates for these credits it has not been possible to disclose their fair value.

***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 institutions.

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, which is considered to be equal to their fair value at Balance Sheet date. 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 Nordic Development Fund has during a trial period operated a facility which enables it to provide loans with equity features to private sector projects in developing countries. In September 2001 the Nordic Council of Ministers approved a proposal from the Board of Directors to amend the statutes of NDF enabling 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 fair value, which is estimated to be equal to the cost after write-down. The value of outstanding loans with equity features and equity investments are continuously revalued by the Fund. If the book value exceeds the valuation made, a corresponding write-down is made. Write-downs are presented separately in the Income Statement.

***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 the Nordic Development Fund amounts to SDR 515 million and EUR 330 million. As of December 31, 2004, SDR 430 million, the equivalent of EUR 594 million, and EUR 30 million, totalling EUR 624 million has been paid in by the owners. Payment of the remainder of the subscribed capital will take place upon request by the Fund's Board of Directors.

Since the World Bank and the International Monetary Fund (IMF) initiated the "Debt Initiative for Heavily Indebted Poor Countries (HIPC) in 1996, NDF has participated in this debt relief initiative through the HIPC Trust Fund which is administered by IDA. The enhancement of the initiative carried out in 1999 has called for further financial commitments by NDF. To this end, the Nordic Council of Ministers in 2000 approved the amendment of NDF's statutes in order to provide a general authorisation for the Fund to provide its part of shared contributions under debt relief initiatives in the framework of internationally co-ordinated initiatives in which other multilateral organisations participate. For 2004 the Board has decided to make an allocation of EUR 1.5 million (2003: EUR 5.6 million) for payment to the HIPC Trust Fund. Thus in the course of eight years the Fund has made allocations for its participation in the HIPC Initiative totalling EUR 24.6 million of its accumulated net income before foreign exchange differences.

***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.

***General administrative expenses***

NDF receives a host country payment from the Finnish government equal to the tax levied on the salaries of the Fund's employees. The host country payment, which the Fund received in 2004, amounted to EUR 565,744 (2003: EUR 530,748). The payment is accounted for as a reduction in the Fund's administrative expenses.

***Employees' pensions and insurance***

The Fund is responsible for offering pension protection to its personnel. In accordance with the host country agreement between the Fund and the Finnish Government, the Fund has adopted the Finnish government employee pension plan for the Fund's personnel. The Fund's liability in respect of pension rights is completely covered. Contributions to the pension plan, which are paid to the State Pension Fund, are calculated as a percentage of the salaries. The Finnish Government determines the basis for the contributions, and the Republic of Finland State Treasury establishes the actual amount of the contributions.

Under the Finnish pension system at present, the usual age of retirement is 65. NDF has also introduced an additional pension system for its permanent employees. The additional pension insurance is a group pension insurance plan that is based on a defined contribution plan.

In addition to the Finnish social security system for its employees, NDF has subscribed to a comprehensive accident insurance, life and health insurance programme.

**Notes to the Income Statement and the Balance Sheet**

***(Note 1) Placements with credit institutions***

The maturity profile for placements with credit institutions calculated from Balance Sheet date to maturity are as follows:

| (EUR 1,000) | Dec. 31, 2004 | Dec. 31, 2003 |
|---|---|---|
| Up to 3 months | 98,910 | 73,661 |
| 3-6 months | - | 17,664 |
| Over 6 months | - | 14,324 |
| Total placements with credit institutions | 98,910 | 105,648 |

**(Note 2)** ***Credits with government guarantee outstanding***

Credits according to lending currency:

| (Face value in EUR 1,000) | Dec. 31, 2004 | Dec. 31, 2003 |
|---|---|---|
| EUR | 216,519 | 97,269 |
| SDR | 202,993 | 279,832 |
| Total, outstanding credits | 419,512 | 377,101 |

| (EUR 1,000) | Dec. 31, 2004 | Dec.31,2003 |
|---|---|---|
| Bangladesh | 8,523 | 7,718 |
| Benin | 3,878 | 3,565 |
| Bolivia | 13,313 | 13,114 |
| Botswana | 6,158 | 6,306 |
| Cape Verde | 2,329 | 2,416 |
| China | 5,447 | 5,550 |
| Colombia | 1,590 | 1,067 |
| Dominican Republic | 5,635 | 5,935 |
| Ethiopia | 11,229 | 9,930 |
| Ghana | 25,737 | 26,475 |
| Honduras | 8,701 | 6,673 |
| Indonesia | 13,695 | 14,389 |
| Jamaica | 6,525 | 6,151 |
| Kyrgyz Republic | 5,053 | 5,053 |
| Lao PDR | 38,179 | 33,807 |
| Malawi | 18,751 | 15,869 |
| Maldives | 10,800 | 10,920 |
| Mauritius | 3,655 | 3,736 |
| Mozambique | 27,522 | 21,570 |
| Mongolia | 16,039 | 14,280 |
| Namibia | 1,972 | 1,972 |
| Nepal | 17,398 | 17,671 |
| Nicaragua | 26,063 | 24,115 |
| Pakistan | 13,575 | 14,002 |
| Philippines | 8,621 | 7,773 |
| Senegal | 21,372 | 13,477 |
| Sri Lanka | 10,078 | 8,391 |
| Tanzania | 17,051 | 15,044 |
| Tunisia | 6,092 | 6,125 |
| Uganda | 25,119 | 21,878 |
| Vietnam | 16,850 | 11,915 |
| Zambia | 7,495 | 4,434 |
| Zimbabwe | 15,606 | 16,190 |
| Credits outstanding | 420,048 | 377,513 |
| Credits in default (Zimbabwe) | 536 | 412 |
| Total, credits outstanding | 419,512 | 377,101 |

In addition, agreements have been signed on a further EUR 395.2 million (2003: EUR 345.7 million) in credits not yet disbursed.

Amortizations on credits outstanding as at December 31, 2004 show the following maturity profile:

| (EUR 1,000) | Dec. 31, 2004 | Dec. 31, 2003 |
|---|---|---|
| 2005 | 4,520 | 8,200 |
| 2006-2010 | 34,100 | 33,009 |
| 2011-2015 | 54,927 | 50,694 |
| 2016-2020 | 75,253 | 69,559 |
| 2021-2025 | 84,916 | 75,958 |
| 2026-2030 | 84,229 | 75,024 |
| 2031-2035 | 60,639 | 51,190 |
| 2036-2040 | 20,128 | 13,133 |
| 2041-2045 | 801 | 334 |
| Total, credits outstanding | 419,512 | 377,101 |

**(Note 3)** ***Other loans outstanding***

Other loans outstanding are distributed as follows:

| (Amounts in EUR 1,000) | Dec. 31, 2004 | Dec. 31, 2003 |
|---|---|---|
| East African Development Bank | 8,932 | 8,932 |
| Maputo Port Development Corporation | 1,096 | 1,096 |
| Total, other loans outstanding | 10,028 | 10,028 |
| Provision for loan losses | -274 | -274 |
| Total, other loans outstanding after provisions | 9,754 | 9,754 |

In addition, agreements have been signed on a further EUR 5.6 million (2003: EUR 5.6 million) in other loans not yet disbursed.

Amortizations on other loans outstanding as at December 31, 2004 show the following maturity profile:

| (Amounts in EUR 1,000) | Dec. 31, 2004 | Dec. 31, 2003 |
|---|---|---|
| 2005 | 137 | 137 |
| 2006-2010 | 1,883 | 1,883 |
| 2011-2015 | 2,542 | 2,542 |
| 2016-2020 | 1,366 | 1,366 |
| 2021-2025 | 1,366 | 1,366 |
| 2026-2030 | 1,366 | 1,366 |
| 2031-2035 | 1,093 | 1,093 |
| Total, other loans outstanding | 9,754 | 9,754 |

**(Note 4)** ***Loans with equity features and equity investments outstanding***

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

| (Amounts in EUR 1,000) | Dec. 31, 2004 | Dec. 31, 2003 |
|---|---|---|
| African Infrastructure Fund | 1,237 | 872 |
| Benin | 1,014 | 1,014 |
| China | 2,195 | 2,195 |
| Ghana | - | 783 |
| Nepal | 2,913 | 2,913 |
| South Africa | 60 | 60 |
| Tanzania | - | 420 |
| Uganda | 2,038 | 2,038 |
| Aureos Southern Africa Fund | 339 | 121 |
| Aureos West Africa Fund | 991 | - |
| Central American Small Enterprise Investment Fund | 1,532 | 1,121 |
| Mekong Enterprise Fund | 1,956 | 1,142 |
| Total, loans with equity features and equity investments outstanding | 14,275 | 12,679 |
| Write-down | -5,440 | -5,943 |
| Total, loans with equity features and equity investments outstanding after write-down | 8,835 | 6,736 |

As at December 31, 2004, the write-down for impairment totalled EUR 5,439,508 (2003: EUR 5,943,390) based on assessment of the risk of losses which exists or may exist. The write-down during 2004 amounted to a total of EUR 699,822. Out of previous write-down, EUR 1,203,704 have been used to cover realized losses. Loans with equity features and equity investments amounting to a total of EUR 9.7 million (2003: EUR 17.9 million) have been signed but not yet disbursed.

**(Note 5)** ***Provision for loan losses and write-down of loans***
No provisions for loan losses for other loans outstanding were made in 2004 (2003: EUR 274,030). The write-down during 2004 for loans with equity features and equity investments outstanding totalled EUR 699,822 (2003: 586,239).

**(Note 6)** ***Equity***
The total Fund capital amounts to SDR 515.0 million and EUR 330.0 million. Of this, the paid-in capital as of December 31, 2004 amounted to SDR 430.0 million, equivalent to EUR 594.0 million and EUR 30.0 million, i.e. a total of EUR 624.0 million. The payments by the member countries in 2004 amounted to SDR 30.0 million, equivalent to EUR 35.6 million and EUR 15.0 million, i.e. a total of EUR 50.6 million.

The member countries have subscribed the following amounts of the total Fund capital:

Subscribed fund capital as at December 31, 2004:

| (Amounts in 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 following amounts of the total fund capital:

| (Amounts in EUR 1,000) | Fund capital Dec.31, 2003 in SDR | Translated into EUR | Fund capital Dec.31, 2003 in EUR | Fund capital Dec.31, 2003 Total | % |
|---|---|---|---|---|---|
| Denmark | 87,467 | 122,080 | 3,750 | 125,830 | 22 % |
| Finland | 77,636 | 108,416 | 2,670 | 111,086 | 19 % |
| Iceland | 4,188 | 5,846 | 150 | 5,996 | 1 % |
| Norway | 79,166 | 110,534 | 3,375 | 113,909 | 20 % |
| Sweden | 151,543 | 211,529 | 5,055 | 216,584 | 38 % |
| Paid-in fund capital | 400,000 | 558,404 | 15,000 | 573,404 | 100 % |

| Paid-in fund capital (Amounts in EUR 1,000) | Paid-in during 2004 in SDR | Translated into EUR | Paid-in during 2004 in EUR | Paid-in total during 2004 |
|---|---|---|---|---|
| Denmark | 7,200 | 8,540 | 3,750 | 12,290 |
| Finland | 4,980 | 5,907 | 2,670 | 8,577 |
| Iceland | 330 | 391 | 150 | 541 |
| Norway | 5,850 | 6,939 | 3,375 | 10,314 |
| Sweden | 11,640 | 13,806 | 5,055 | 18,861 |
| Paid-in fund capital | 30,000 | 35,583 | 15,000 | 50,583 |

| Paid-in fund capital (Amounts in EUR 1,000) | Fund capital Dec.31, 2004 in SDR | Translated into EUR | Fund capital Dec.31, 2004 in EUR | Fund capital Dec.31, 2004 Total | % |
|---|---|---|---|---|---|
| Denmark | 94,667 | 130,620 | 7,500 | 138,120 | 22 % |
| Finland | 82,616 | 114,322 | 5,340 | 119,662 | 19 % |
| Iceland | 4,518 | 6,238 | 300 | 6,538 | 1 % |
| Norway | 85,016 | 117,472 | 6,750 | 124,222 | 20 % |
| Sweden | 163,183 | 225,335 | 10,110 | 235,445 | 38 % |
| Paid-in fund capital | 430,000 | 593,987 | 30,000 | 623,987 | 100 % |

### (Note 7) *General administrative expenses including compensation for the Board of Directors, the Control Committee and the President*

| General administrative expenses (Amounts in EUR 1,000) | 2004 | 2003 |
|---|---|---|
| Personnel costs | 1,778 | 1,706 |
| Pension premiums in accordance with the Finnish state pension system | 388 | 352 |
| Other pension premiums | 92 | 83 |
| Office premises costs | 144 | 144 |
| Other general administrative expenses | 899 | 871 |
| Cost coverage, NIB | 559 | 515 |
| Total | 3,860 | 3,671 |
| Host country reimbursement according to agreement with the Finnish Government | -566 | -530 |
| Net | 3,294 | 3,141 |

The average age of the staff was 45 years.
Compensation for the Board of Directors and the Control Committee is set by the Nordic Council of Ministers. Compensation for the Fund's President is set by the Board of Directors and is paid in the form of a fixed annual salary and usual salary-based benefits.
The President is permitted to borrow from the Nordic Investment Bank at interest rates that are the same for all of the Fund's employees. The rates are set with reference to the so-called base rate determined from time to time by Finland's Ministry of Finance.

The pension benefits for the President are based on the Finnish State pension system, with certain additions.

Compensation for the Chairman of the Board of Directors, the Board, the Control Committee and the President appears from the table below:

| (Amounts in EUR) | 2004 Compensation/ emolument | 2004 Pension premiums | 2003 Compensation/ emolument | 2003 Pension premiums |
|---|---|---|---|---|
| Chairman of the Board of Directors | 5,689 | | 5,685 | |
| Other members of the Board | 18,175 | | 18,594 | |
| President | 293,894 | 93,379 | 269,299 | 86,865 |
| Control Committee | 1,956 | | 1,530 | |

### (Note 8) *Currency exchange rates*

| | | EUR rate on Dec. 31, 2004 | EUR rate on Dec. 31, 2003 |
|---|---|---|---|
| DKK | Danish krone | 7.4388 | 7.445 |
| ISK | Icelandic króna | 83.6 | 89.46 |
| NOK | Norwegian krone | 8.2365 | 8.4141 |
| SEK | Swedish krona | 9.0206 | 9.08 |
| USD | US dollar | 1.3621 | 1.263 |
| SDR | Special Drawing Rights | 0.88000105* | 0.84823* |

* The exchange rate is calculated in such a way that the market rate for USD/relevant currency provides the EUR/relevant currency rate. The exchange quotation USD/relevant currency is per December 30, 2004.

# AUDITORS' REPORTS

## Auditors report to the Control Committee of the Nordic Development Fund

In our capacity as auditors appointed by the Control Committee of the Nordic Development Fund we have audited the financial statements, the accounting records and the administration of the Fund, for the year 2004. The Board of Directors and the President are responsible for the accounting documents as well as the administration. Based on our audit it is our responsibility to express an opinion on the financial statements and the administration of the Fund.

Our audit was conducted in accordance with International Standards on Auditing as issued by the International Federation of Accountants. Those standards require that we plan and perform the audit in order to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates as well as evaluation of the overall financial statement presentation. Our audit also included a review of whether the Board of Directors' and the President's administration have complied with the statutes of the Fund. We believe that our audit provides a reasonable basis for our opinions below.

In our opinion the Financial Statements give a true and fair view of the financial position of the Nordic Development Fund as at December 31, 2004 and of the results of its operations and its cash flows in 2004 in accordance with International Accounting Standards as issued by the International Accounting Standards Board. It is also our opinion that the administration of the Board of Directors and the President complied with the statutes of the Fund.

Helsinki, March 3, 2005

| Kristian Hallbäck | Torbjörn Hanson |
|---|---|
| Authorised Public Accountant | Authorised Public Accountant |
| Ernst & Young, Helsinki | Ernst & Young, Stockholm |

## 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 § 9 of the Statutes of the Nordic Development Fund, we have been appointed to ensure that the activities of the Fund conform with the Statutes and to be responsible for the auditing of the Fund's accounts. After having completed our assignment for the year 2004, 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. Control and examination measures considered necessary were then performed. The Annual Report of the Fund was examined at a meeting in Helsinki on March 3, 2005, at which time we also received the Auditor's Report, submitted on March 3, 2005, by the authorised public accountants appointed by the Control Committee.

Following our audit, we note that:

the Fund's operations during the financial year have been conducted in accordance with the Statutes, and that

the Financial Statements give a true and fair view of the financial position of the Fund as at December 31, 2004, and of its results and financing in 2004. The Financial Statements show a deficit of EUR 7,761,070.48, which will be carried forward to new account.

We recommend to the Nordic Council of Ministers that:

the Income Statement and Balance Sheet be adopted, and that

the Board of Directors and the President be discharged from liability for the administration of the Fund's operations during the accounting period examined by us.

Helsinki, March 3, 2005

| | Guðmundur Snorrason | |
|---|---|---|
| Olavi Ala-Nissilä | Jónína Bjartmarz | Bill Fransson |
| Trond Helleland | Per Kaalund | Riitta Prusti |
| Gitte Seeberg | Tuve Skånberg | Anders Talleraas |

**Monitoring and evaluation policy**
NDF established procedures for evaluation of completed projects almost from its foundation. The present policy outlines a mixture of reviews carried out by NDF staff and external, independent evaluations of individual projects or by sector combining many projects. The policy has served NDF well, but evaluation is an evolving field. Traditional evaluation does not always furnish information on time, nor does it satisfy all the needs for decision-making. Eventually it became clear that NDF would need to supplement its evaluations with something more timely, concrete and direct, and also something more standardised to allow for comparison between projects, and to enable NDF and project executing agencies to mitigate problems at an early stage in the project cycle.

**International developments**
In November 2001, the Inter-American Development Bank invited NDF and a number of other development agencies to a seminar in Washington D.C to share experiences on project performance rating systems. At the time, NDF did not have any such system, but it was felt that performance rating could be a useful extension of the evaluation policy. At the seminar, it became clear that there were many ways to design a project performance rating system but so far little evidence on what could constitute good practice. As most of NDF's partners were still in the process of introducing such systems, NDF decided to develop a system of its own - on trial.

**What is performance rating?**
Rating is a part of performance management, that is, an approach to planning and management for the sake of ensuring quality, accountability, and efficiency. One of the major activities in designing performance management systems is to develop performance indicators. The idea is to assess the performance of projects according to agreed and well defined quality criteria based on some common standard of performance.

**A process more than a system**
NDF began developing its project performance rating system in 2001 with the assistance of an external expert on evaluation, Dr Kim Forss. After a period of development and testing, the system was presented to NDF's Board of Directors in September 2003. The system has now been operational for a year and a half. The main features of the rating system are:

- All projects are rated once a year
- The rating is done by the NDF staff member handling the project
- Each rating is discussed and verified with a team in charge of the system - as a form of quality control and to make sure ratings are valid and reliable
- The ratings are done in respect of five areas as mentioned in figure 1, with a number of indicators in respect of each area
- The same six-graded scale is used for all ratings, see figure 2
- The rating format leads to a Summary sheet that specifies particular aspects or problems in project implementation including recommended actions to be taken, as well as lessons learned.

**Purpose of the rating system**
The purpose of NDF's rating system is to detect and mobilise support to solve problems. It is meant to be an instrument for effective and efficient management of NDF's portfolio, and in its final analysis contribute to the achievement of development objectives. Apart from this, the aggregate statistics also allow for comparison between project performance across sectors, countries and regions, and in relation to Nordic interests. In the long run, NDF's "portfolio management" could, through the project performance ratings, be provided with information and improved analysis for decision making. Likewise, NDF staff and other stakeholders would rapidly get a good overview of the projects' performance at various stages in the project cycle for different aspects, and not least how the performance changes over time.

**Lessons learned**
It has been useful to develop and introduce the rating system, first and foremost by establishing a dialogue on objectives and indicators and sharing experiences from a wide range of projects. It also contributes to institutional learning. Furthermore, the system provides input to portfolio reviews undertaken with borrowing countries, as well as indispensable information to project evaluations and reviews in the sense that the base line and next steps for post evaluations are readily identified. However, there are also constraints.

- The rating of projects is a time-consuming activity for staff members who already have a heavy work load, which can mean that the activity is not always prioritised.
- Despite clear guidelines for standardised assessment, the rating system is to a certain extent still vulnerable to subjective interpretation of rating aspects.
- The linkage between specific indicators, lessons learned and recommendations requires further development to ensure that problems detected during the rating exercise are properly followed up and resolved.

The positive effects, nevertheless, outweigh the constraints, and NDF is determined to continue with its project performance rating, including developing the system further, and, in the process, to continue to share experiences with other development agencies.

*Figure 2. The scale used for all indicators in the system*

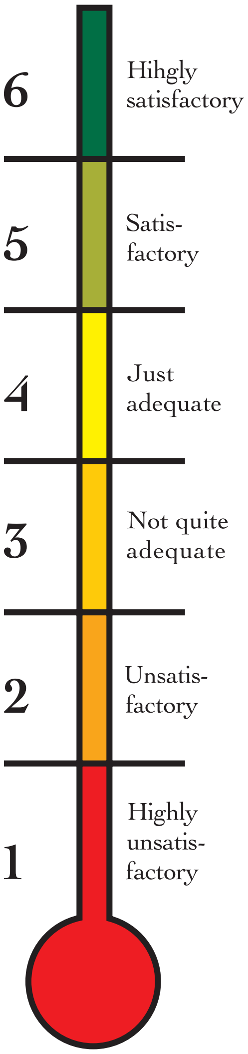



*Figure 1. Areas that are assessed in the performance rating system*

| Areas of assessment | Extent of assessment |
|---|---|
| Preparatory activities | 4 indicators to assess the process to approve the credit and sign the project agreement |
| Cooperation with Lead Agency | 5 indicators that assess different aspects of communication, joint missions and response to NDF concerns |
| Implementation | 9 indicators that assess each contract in respect of tendering process, contract award, delivery of service and equipment |
| Nordic interest | 3 indicators concerning the future business prospects of Nordic firms |
| Project objectives | Indicators to assess the likelihood that project objectives are reached, that they are sustainable, and that there is institutional development |

**GHANA**
**Project: Land Administration Project**
**NDF credit: 7 million EUR**
**Lead agency: IDA**
**Total cost: 45 million EUR**

Land administration in Ghana is characterized by scarce land resources and conflicts between modern legislation and traditional types of land tenure and administration, which give rise to lengthy litigations of land ownership and block development of economic investments. The objective of the project is to establish a system for land administration which is fair, decentralized and will assure citizens of security of tenure to land, which can be used as collateral for credits to promote income generating activities.

NDF will finance surveys and cadastral mapping, including criteria for existing property rights, and development and testing of models and processes for land use planning and management in selected priority areas as a basis for establishment of a coherent land titling, registration and valuation system for the country.

**GHANA**
**Project: Second Urban Environmental Sanitation Project**
**NDF credit: 9 million EUR**
**Lead agency: IDA**
**Total cost: 68 million EUR**

This is the second phase of a project in which NDF participated also in phase one. The objective of the project is to improve urban living conditions with regard to environmental health, sanitation, drainage, vehicular access and solid waste management in a sustainable fashion, with special emphasis on the poor.

NDF will finance capacity building in central and regional government agencies related to the institutional framework, sanitation planning and links between the urban environment and health, capacity building in metropolitan and municipal assemblies for implementation and administration of various investment components and activities aiming at malaria vector control and HIV/aids prevention and reconditioning of waste management equipment.

**GHANA**
**Project: Urban Water Project**
**NDF credit: 4 million EUR**
**Lead agency: IDA**
**Total cost: 98 million EUR**

Access to safe drinking water in rural as well as urban areas has high priority in Ghana's poverty reduction strategy. The objective of the project is to increase access to the piped water system in Ghana's urban centers, with an emphasis on improving access, afford-

Photo: Arnthor Thordarson

ability and service reliability to the urban poor - the project goal is to accomplish at least 50 000 new household connections - and contribute to a financially viable water sector with private sector participation in water distribution.

NDF will finance a dam safety upgrade subcomponent including rehabilitation needs and safety assessments of dams and channels, civil works and preparation of emergency plans for larger dams.

**KENYA**
**Project: Energy Sector Recovery Project**
**NDF credit: 10 million EUR**
**Lead agency: IDA**
**Total cost: 184 million EUR**

Investments in infrastructure, including energy, are identified as critical factors in the government's Economic Recovery Strategy for Wealth and Employment Creation after the poor economic development during the 80's and 90's, largely due to bad governance and corruption. The project objectives are to support enhancement of the policy, institutional and regulatory basis for sector development, expansion of power generation capacity and to increase access to electricity in urban and peri-urban areas.

Photo: Arnthor Thordarson

The project is together with a transport project NDF's first engagement in Kenya, which was adopted as a new partner country in 2003. NDF will finance part of a component for upgrading of the distribution system consisting of rehabilitation and construction of substations in Nairobi.

**KENYA**
**Project: Northern Transport Corridor Improvement Project**
**NDF credit: 13 million EUR**
**Lead agency: IDA**
**Total cost: 233 million EUR**

In the 80s, Kenya had a well functioning transport system. Bad governance and lack of maintenance have resulted in large investment needs for recovery and upgrading of transport infrastructure. The Northern Transport Corridor, which connects the port of Mombasa with Nairobi to the border with Uganda is of key importance, also for landlocked neighbouring countries. The project objectives are to increase efficiency of road transport along the corridor to facilitate trade and regional integration, enhance civil aviation safety and promote private sector participation in financing and maintenance of roads.

The project is together with an energy project NDF's first engagement in Kenya, which was adopted as a new partner country in 2003. NDF will finance rehabilitation of 35 km of the corridor near Mombasa and institutional support to Kenya Roads Board, i.a. for development of a road classification system and a road user charges study.

**TANZANIA**

**Project: Central Transport Corridor Roads Project**

**NDF credit: 5 million EUR**

**Lead agency: IDA**

**Total cost: 114 million EUR**

A large part of the road network in Tanzania is considered to be in a poor condition. The government has adopted a national transport sector policy aiming at investments in infrastructure, mainly roads, increased competition, synergies between different means of transport and introduction of user charges for recovery of part of the costs. The objectives of the project are to upgrade strategic sections of road links, enhance road management capacity and improve operations of Tanzanian railways.

NDF will finance feasibility studies and detailed design of four road sections linked to or part of the Great North Road Corridor, which will improve transports to and from important areas for agriculture and tourism, and a fifth section up to the Kenyan border, which is part of the road from Dar es Salaam to Mombasa in Kenya.

**ZAMBIA**

**Project: Road Rehabilitation and Maintenance Project**

**NDF credit: 8 million EUR**

**Lead agency: IDA**

**Total cost: 320 million EUR**

Zambia has a relatively extended network of roads, many of them though in a poor condition due to lack of maintenance. This project is the first phase in the second extensive programme for investments in the road sector. Road transport has been identified as a major factor in the government's policy to enhance economic development and growth. The objectives of the project are to develop and maintain institutional capacity for an efficient and financially sustainable management of the public road infrastructure, including new mechanisms for user fees and fuel tax, extension of access to public transports and local community involvement in management of road infrastructure.

NDF will finance maintenance and upgrading of two road sections, technical construction and engineering support for i.a. environmental impact assessments,

Photo: Arnthor Thordarson

design and supervision, and support to institution and capacity building in the Road Development Agency and the Road Transport and Safety Agency including studies regarding  i.a. user fees and road classification.

**AFRICA REGIONAL**
**Project: Aureos West Africa Fund (AWAF)**
**NDF investment: 3,5 million USD (equity)**
**Lead sponsors: Norfund, CDC, EIB**
**Total capital: 50 million USD**

AWAF is a private-equity fund targeting small and medium-sized enterprises in West Africa, with three target countries, Nigeria and NDF's partner countries Ghana and Senegal. NDF's partners Benin and Burkina Faso are also among eligible countries. The most important sponsors are Norfund, British CDC and EIB. Some local banks also participate. The fund is managed by Aureos Capital Limited, owned by Norfund and CDC and a leading manager of risk capital funds in developing countries, including Aureos Southern Africa Fund, where NDF is also an investor.

The regional approach and portfolio diversification are cornerstones in Aureos' strategy to reduce risks and  be able to respond to changing market conditions in target countries. The objective is to support the private sector as an engine for economic growth and development through investments in businesses with a potential to grow fast and become regional players, in particular in connection with management buy-outs or buy-ins, privatisations, expansions or in cofinancing with strategic investors, normally in the range of 0,5-4 million USD per investment. AWAF started its operations in 2003 and has several investments in its portfolio.

**BANGLADESH**
**Project: Power Sector Development Program**
**NDF credit: 8,3 million EUR**
**Lead agency: ADB**
**Total cost:  280 million EUR**

The energy sector has been characterized by low efficiency and poor performance. The government has adopted a strategy to eliminate the constraints. The objectives of this program are to support restructuring of the sector with focus on two major transmission and distribution companies and investments to increase access to electricity. The main investment components will be undertaken in the Dhaka area, i.a. through installation of new gas turbines, and  in the poor northwestern part of the country, through upgrading and extension of transmission and distribution,  including 170 000 new connections.

NDF will finance eight new substations in the northwestern region, where the investments financed under the program are expected to increase employment opportunities and improve social service, e.g. through access to electricity in schools and health clinics and improved access to safe drinking water.

**CAMBODIA**
**Project: Greater Mekong Subregion Transmission Project**
**NDF credit: 10,0 million EUR**
**Lead agency: ADB**
**Total cost:  81 million EUR**

Photo: Arnthor Thordarson

Electricity supply in Cambodia is highly fragmented after extensive destruction during the Khmer Rouge period and lack of maintenance and generation capacity is low. Hydropower potential is largely underdeveloped and imported petroleum products are the basis for supply of the balance of electricity demand. The major energy source nationwide is fuel wood. The poor have rarely access to electricity neither in rural nor in urban areas. Development of the energy sector is a central objective in the government's strategy for poverty reduction to promote income generating activities and increased access to social services. The objective of the project is to increase access to reliable electricity through investments in transmission lines and interconnection with and imports of electricity from Vietnam, electrification of villages along the lines and capacity building i.a. in the state owned electricity company.

The project is NDF's first engagement in Cambodia, which was adopted as a new partner country in 2003. NDF will finance transformers and related equipment for two larger and two smaller substations along the lines.

**LAO PDR**

**Project: Roads for Rural Development Project**

**NDF credit: 6,1 million EUR**

**Lead agency: ADB**

**Total cost: 32 million EUR**

Transport in the Lao PDR is almost exclusively by road. The landlocked country lacks ports and the Mekong river is only partly navigable. The road network is a prerequisite for regional and international trade. Density of the road network is, however, low and much of the local network is impassable during the wet season. Most of the poor live in rural areas and limited access has been identified as one important reason for poverty in remote rural areas. The rural development roads component of the project will upgrade provincial and national roads to provide access to rural areas, which now have no or inadequate access to road transports, and thus reduce regional inequalities, promote income generating opportunities, access to markets and improve social services. The project will ensure connection of all district and provincial centers to each other and the national economy.

Photo: Leena Saavalainen

Photo: Jesper Andersen

NDF will finance construction supervision of three road sections, detailed design of two subprojects for rehabilitation of other road sections and consultancy services for a road safety program.

**HONDURAS**
**Project: Sustainable Forest Development Program**
**NDF credit: 6,0 million EUR**
**Lead agency: IDB**
**Total cost: 22 million EUR**

Forestry has always been important for the Honduran economy, representing approximately 10 per cent of GDP in the 90's and a source of export incomes. Forest production has, however, been diminishing gradually. The sector is highly informal and most of the operations continue to use traditional practices. Uncontrolled and in many places illegal operations have resulted in inefficient exploitation of forest resources and devastation of forests for agriculture production in ways which are detrimental to the environment. Uncertainty of land tenure and lack of recognition of possession rights are major reasons behind this situation, which in some regions have resulted in social conflicts. The objectives of the project are to improve the regulatory and institutional framework, improve the management and monitoring of forest lands and increase productivity all along the production chain.

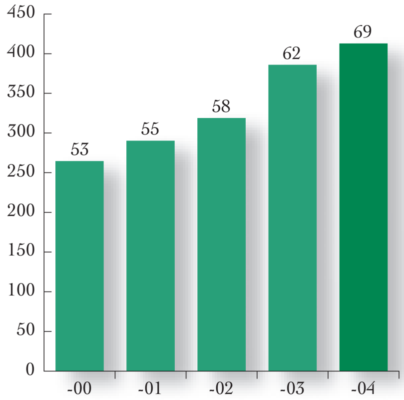
NDF will finance activities to support regularization of tenure of forest lands (mapping, establishment of cadastres etc.) in identified sustainable forest economic development zones.

**NICARAGUA**
**Project: Puebla-Panama Plan Highway Project**
**NDF credit: 12,0 million EUR**
**Lead agency: IDB**
**Total cost: 53 million EUR**

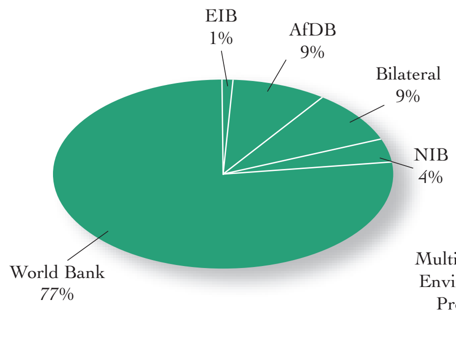
Regional integration has high priority for Nicaragua and its neighbouring countries in order to promote trade, production and growth. Lack of transportation infrastructure offering levels of service and interconnectivity compatible with market access and the achievement of the region's growth potential to enhance economic and social development is a major obstacle. The objective of this project is to upgrade transportation infrastructure in one of four zones in Nicaragua identified as having the largest growth potential, namely the north western region with good potential for production of shrimp, agro industry and tourism. The project will finance highway upgrading, paving of gravel roads, maintenance and technical assistance.

NDF will finance reconstruction and improvement of two highway sections and construction of a new bridge.

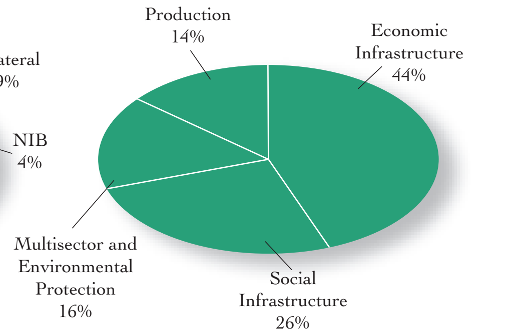
## PROJECT PORTFOLIO / AFRICA




Signed Credit Agreements
Sovereign lending: Volume (million EUR)
and number (cumulative)

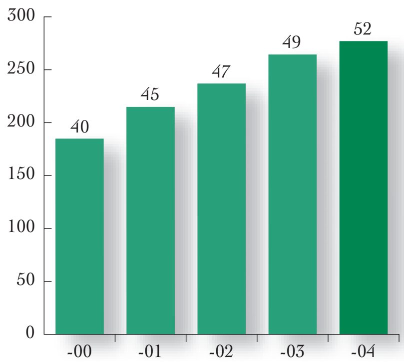



Distribution by Lead Agency
(sovereign lending, number- %)

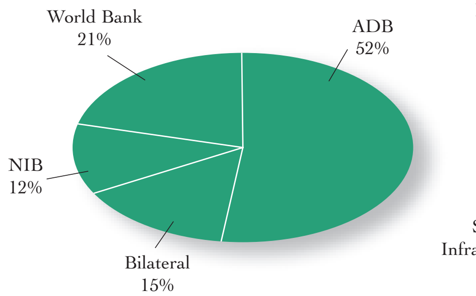



Distribution by sector
(sovereign lending, number- %)

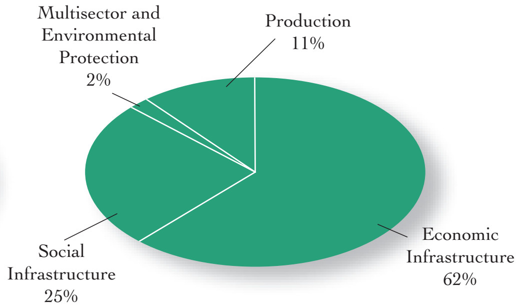
## PROJECT PORTFOLIO / ASIA




Signed Credit Agreements
Sovereign lending: Volume (million EUR)
and number (cumulative)

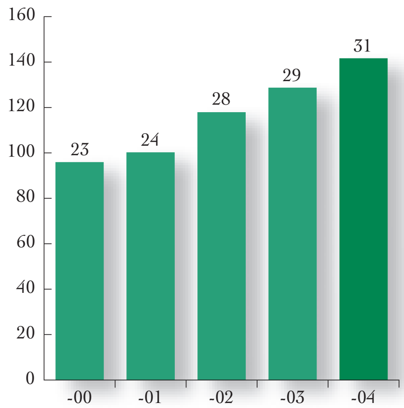



Distribution by Lead Agency
(sovereign lending, number- %)

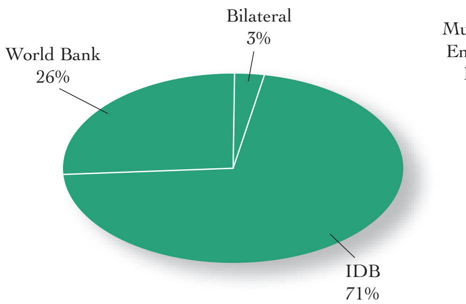



Distribution by sector
(sovereign lending, number- %)

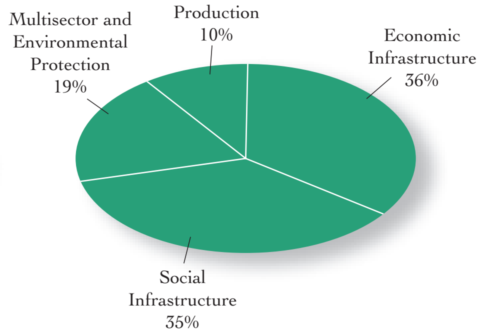
## PROJECT PORTFOLIO / LATIN AMERICA AND THE CARIBBEAN




Signed Credit Agreements
Sovereign lending: Volume (million EUR)
and number (cumulative)




Distribution by Lead Agency
(sovereign lending, number- %)




Distribution by sector
(sovereign lending, number- %)

*The picture was taken at the NDF Board of Directors' meeting in Helsinki in March 2005.*
*From top, left to right: Egill Heiðar Gislason, Ingrid Glad, Christoffer Bertelsen, Pekka Hukka, Susanne Jacobsson.*

## BOARD OF DIRECTORS *)

**DENMARK**
Christoffer Bertelsen, Minister Counsellor,
Ministry of Foreign Affairs, Deputy Chairman of the Board
Deputy: Trine Rask Thygesen, Head of Section,
Ministry of Foreign Affairs

**FINLAND**
Taisto Huimasalo, Deputy General Director,
Ministry for Foreign Affairs
Deputy: Pekka Hukka, Director, Ministry for Foreign Affairs

**ICELAND**
Egill Heiðar Gislason, Advisor
Deputy: Sighvatur Björgvinsson, Director, ICEIDA,
Icelandic International Development Agency

**NORWAY**
Ingrid Glad, Assistant Director General, the Royal Ministry of Foreign Affairs
Deputy: Olav Seim, Senior Adviser, the Royal Ministry of Foreign Affairs

**SWEDEN**
Susanne Jacobsson, Senior Adviser, Ministry for Foreign Affairs,
Chairman of the Board
Deputy: Gunilla Hesselmark, Director, Sida

*Observer:*
Jón Sigurðsson, President and CEO, Nordic Investment Bank
Deputy: Lars-Åke Olsson, Senior Vice President, Nordic Investment Bank

## CONTROL COMMITTEE *)

**DENMARK**
Gitte Seeberg, Member of European Parliament
Per Kaalund, Member of Parliament

**FINLAND**
Olavi Ala-Nissilä, Member of Parliament
Riitta Prusti, former Member of Parliament

**ICELAND**
Guðmundur Snorrason, Authorised Public Accountant,
Chairman of the Committee
Jónína Bjartmarz, Member of Parliament

**NORWAY**
Anders Talleraas, Civil engineer
Trond Helleland, Member of Parliament

**SWEDEN**
Bill Fransson, Managing Director
Tuve Skånberg, Member of Parliament

*Auditors appointed by the Control Committee:*
Kristian Hallbäck, Authorised Public Accountant,
Ernst & Young, Helsinki
Torbjörn Hanson, Authorised Public Accountant,
Ernst & Young AB, Stockholm

*Secretary to the Control Committee:*
Per-Olof Johansson, Authorised Public Accountant,
Ernst & Young, Helsinki

**) as at December 31, 2004*

*From top, left to right: Bengt Moreau, Siv Ahlberg, Stella Eckert, Ann-Christin Lundin, Rasmus Holm Lauridsen, Thor-Jürgen Greve Løberg, Carin Wall, Marina Unnérus, Jens Lund Sørensen, Per Eldar Søvik, Heidi Dettmann, Joakim Holmström, Leena Saavalainen. Not pictured: Mats Borgenvall, Magnus Magnusson and Arnthor Thordarson.*

## MANAGEMENT AND STAFF

Jens Lund Sørensen, President
Carin Wall, Senior Vice President
Per Eldar Søvik, Vice President

Mats Borgenvall, Regional Manager, Africa
Thor-Jürgen Greve Løberg, Regional Manager, Africa
Magnus Magnusson, Regional Manager, Africa
Arnthor Thordarson, Regional Manager, Africa

Bengt Moreau, Regional Manager, Asia
Leena Saavalainen, Regional Manager, Asia

Jesper Andersen, Regional Manager, Latin America and the Caribbean, until January 31, 2005
Rasmus Holm Lauridsen, Regional Manager, Latin America and the Caribbean, from March 1, 2005
Marina Unnérus, Regional Manager, Latin America and the Caribbean

Siv Ahlberg, Manager, Loan Administration
Joakim Holmström, Officer, Loan Administration

Stella Eckert, Executive Assistant, Administration and Information
Ann-Christin Lundin, Secretary
Christina Luukkonen, Secretary (on leave of absence)
Heidi Dettmann, Secretary

Nordic Development Fund (NDF)
P.O. Box 185
FI-00171 Helsinki, Finland
Offices: Fabianinkatu 34

Telephone +358 9 1800 451
Telefax +358 9 622 1491
E-mail: info.ndf@ndf.fi
Internet: http://www.ndf.fi