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NORDIC INVESTMENT BANK OCTOBER 2011

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Photo: Bragi Josefsson


Photo: Tuomo Manninen


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COVER PHOTO:
The wind turbines at the new Anholt wind farm will be erected by means of large, special-purpose vessels with cranes to lift the wind turbine components into place. Photo: DONG Energy.

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The Nordic-Baltic region has to prepare for less favourable growth prospects

Johnny Åkerholm, President & CEO, NIB

Editorial

While the Nordic-Baltic countries have, barring some temporary hiccups, benefitted from good growth in the last two decades, the economic environment will look different in the next two decades.

First, the gravity of growth is shifting out of Europe, and the Nordic-Baltic region will become increasingly marginalised in the world economy. The Nordic-Baltic area makes up only 0.4% of the world's population and somewhat more of the world's output. We cannot offer the benefit of attractive markets.

Second, in order to achieve growth, we have to stay at the technological forefront. But R&D is becoming increasingly expensive.

Third, the Nordic welfare model has provided a solid basis for growth by enabling inclusiveness and diverse utilisation of skills. But the basis of the model will change with the ageing of the population. So far, those working and paying high taxes have also reaped the benefits of free education for their children, good infrastructure and more. In the future, the model will become an instrument for redistribution of income from the active to the passive population. In Finland, annual growth will fall below 2%, and of that, some 40% will go to the passive population. This has a major impact on work incentives.

Fourth, the Baltic countries are no longer attractive to activities which rely on cheap labour. The challenge is to attract activities which have higher added value.

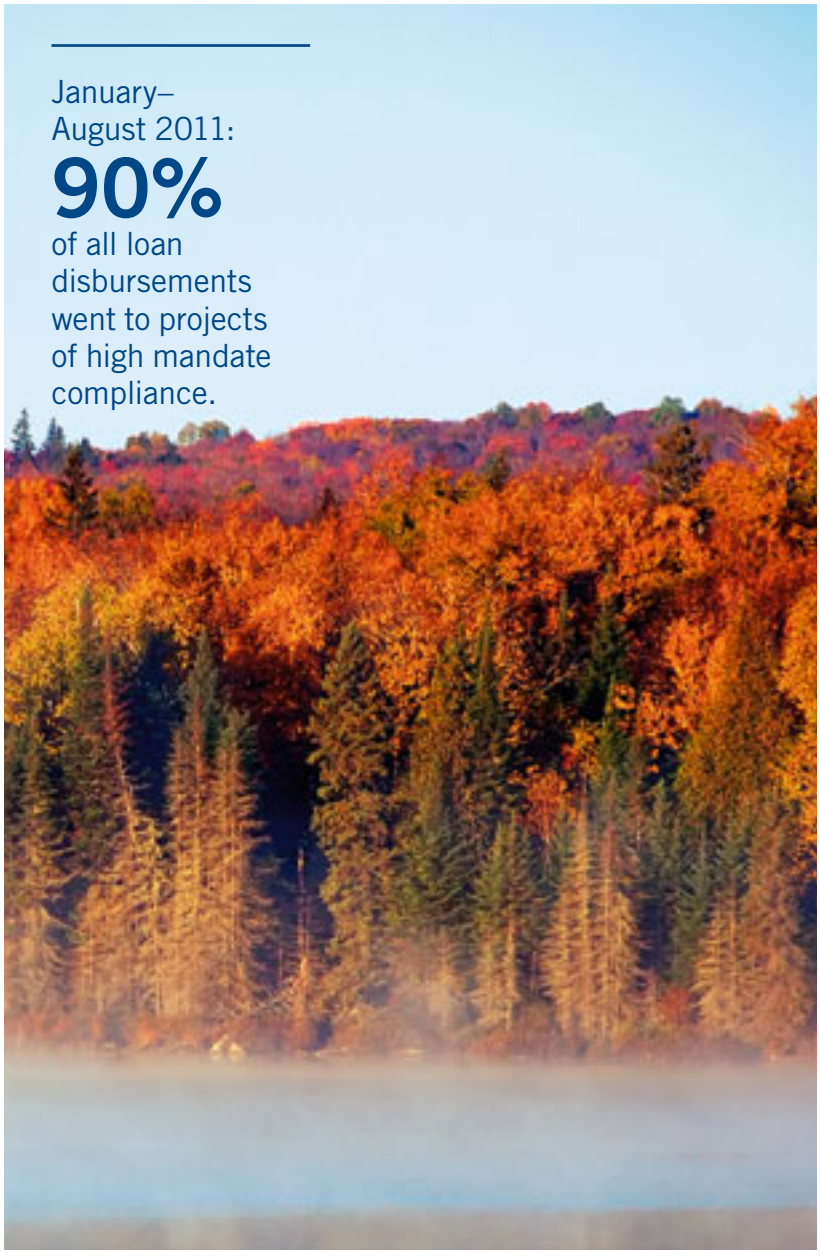
These challenges lead us to two basic conclusions. One, the Nordic countries need to adapt the welfare model to the changes in the population structure in order to ensure incentives for work and mobility, entrepreneurship and risk-taking.

Second, to stay visible on the global map, the Nordic-Baltic countries would benefit greatly from more regional cooperation. By pooling resources and making the right choices in terms of specialisation, the region has a better chance of covering the costs of R&D.

NIB can contribute to enhancing cooperation and regional integration. NIB supports the creation of a regional energy market and the development of renewable energy forms. Moreover, the Bank finances the development of regional transport and logistics, which is necessary for the creation of a more coherent region.

NIB in numbers

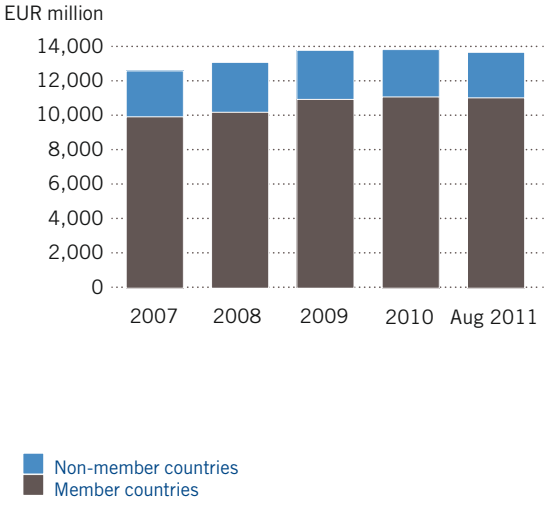
NIB's financial figures January–August 2011



The outlook for the world economy has deteriorated significantly. The sovereign debt crisis has deepened further, increasing the uncertainty in the financial markets. Both real economy and financial intermediation have already been negatively affected.

In these circumstances NIB steadily continued to build up the lending pipeline of projects fulfilling the Bank's mandate to support competitiveness and the environment. During January–August, the Bank signed loan agreements for a total of EUR 1,438 million, compared to EUR 1,117 million during the same period in 2010. Disbursements also picked up, reaching EUR 973 million (January–August 2010: EUR 618 million). Of all loan disbursements during this period, approximately 90% went to projects of high mandate compliance

Loans outstanding



within the sectors of power generation and supply, renewable energy, the development of modern transport infrastructure and some other sectors.

Demand persisted for NIB bonds. During January–August, NIB conducted new funding transactions in the amount of EUR 2.1 billion, which is about 70% of the annual funding in 2011, with the geographical distribution evenly spread between major markets in the world. In January, a benchmark issue, a five-year USD 1 billion bond, was issued.

The Bank's profit for the period amounted to EUR 124 million (January–August 2010: EUR 131 million).

€13.6bn
loans outstanding
in August 2011

Key figures

EUR million	Aug 2011*	Aug 2010*	Dec 2010
Net interest income	153	157	234
Core earnings**	136	149	217
Profit	124	131	211
Loans disbursed	973	618	1,274
Loan agreements	1,438	1,117	1,763
Loans outstanding	13,623	14,146	13,771
Guarantee commitments	8	12	8
New debt issues	2,055	3,127	4,120
Debts evidenced by certificates	17,464	21,703	19,944
Total assets	22,865	26,582	24,898
Equity/total assets (%)	10.4%	8.2%	9.1%
Profit/average equity (%)	8.0%	9.3%	9.8%
Number of empolyees (persons)	177	172	171

* Unaudited figures, to be read in conjunction with NIB's audited financial statements for 2010 and the notes thereto.
** Core earnings consist of the profit before adjustments to hedge accounting, realised and unrealised gains/losses of the trading portfolio, credit losses and reversals thereof.

GOING WINDWARD

Photo: DONG Energy

Energy: DONG Energy is building Denmark's largest offshore wind farm. NIB is financing the project with a EUR 240 million loan.

Environmental management systems will be implemented in the construction and operation phases to minimise the risk of chemical and oil spills. Other measures include the use of devices for scaring sea mammals away during driving of the foundation piles. As seen in the picture, the transition piece which is cast onto the foundation pile will be painted yellow for navigation safety.

>>>

Photo: DONG Energy

111 wind
turbines placed
on 88 km²

With an overall capacity of 400 MW, the new Anholt wind farm will cover 4% of Denmark's total power consumption and contribute to Denmark meeting its objective of ensuring that the percentage of renewable energy reaches 30% of total energy consumption by 2020.

"For a small country like Denmark, a 400 MW offshore project covering 4% of the power consumption is a vital contribution. The experiences gained from the Anholt project contribute to the development of the global offshore wind industry," says Flemming Thomsen, Project Director of the Anholt Offshore Wind Farm.

Several factors have to be considered when building a large-scale wind farm in the Kattegat Sea.

"Wind turbines are placed to get maximum wind exposure, but at Anholt we face more challenging soil conditions than normal. Some areas within the wind farm area are dominated by formations of soft clay reaching deep down in the sea bottom, while in other areas we are facing a large number of big stones."

Big energy projects require long-term financing and NIB is contributing to the project with its single largest loan ever.

"We are very pleased with our long-standing relationship with NIB as one of our main lenders. The relationship is based on a common understanding of the direction in which DONG Energy is moving. Many of our infrastructure

"The experiences gained from the Anholt project will contribute to the development of the global offshore wind industry," says Flemming Thomsen, Project Director of the Anholt Offshore Wind Farm."

Flemming Thomsen, Project Director of the Anholt Offshore Wind Farm.

and renewable power projects are aligned with NIB's mandate, namely, to support investments that enhance the environment. The strong relation with NIB provides access to attractive financing for our environmental projects," Mr Thomsen says.

The implementation and development of renewable energy systems is a focus area for NIB and the Bank has previously financed DONG Energy's projects. In 2008, NIB provided a EUR 160 million loan for the Horns Rev II wind park and Horns Rev I received a EUR 40 million loan from NIB.

"Generally, DONG Energy has had good access to financing during the current economic downturn. However, raising specific financing for large offshore wind projects is in general cumbersome due to the scale of the projects and the fact that it is a new industry. The appetite and capacity of the financial institutions to provide financing for these types of projects have been affected to some extend by the financial crisis, and we are pleased that NIB made available financing for our Anholt Offshore Wind project," Mr Thomsen says.

According to him, reliance to subsidies is one of the current challenges in the wind energy market.

"Offshore wind still needs subsidies, especially when one considers the current market price of power. It is vital to reduce the cost of energy from offshore wind. We are dedicated to the industrialisation of the industry, where optimisations through large-scale contracts and a focus on technological development are the priorities," Mr Thomsen concludes.

"One turbine will provide electricity for the normal consumption of about 1,000 households, heating not included."

Mikael Kyrk, Chief Operating Officer of Svevind.

Catching the winds of the north

Energy: "Here in Nordmaling, we found the perfect spot for large-scaled wind power generation," says Chief Operating Officer **Mikael Kyrk** of Svevind AB. He is referring to one of Sweden's largest wind farms, Gabrielsberget, which is being built high on a mountain overlooking the Gulf of Bothnia in northern Sweden.

A five-kilometre long road, narrow and winding, takes our bus up the Gabrielsberget mountain. It is a windy day at the end of June, and the first part of the new wind farm is about to be inaugurated. Later on, when representatives of the project stakeholders jointly press the red start button, the rotor blades of the farm's twentieth windmill slowly start to move.

"This is an outstanding location for a wind farm," Mr Kyrk continues. "The close proximity to the sea in combination with the high altitude gives us very high wind speeds for a long time of the year. Furthermore, the cold temperatures in these northern parts of the country contributes to the efficiency of the power generation, since colder air with higher density is heavier and therefore gives higher production output," he explains.

But the northern location also adds some challenges to wind power generation, as the cold weather during the winter months can cause the rotor blades to suffer from heavy icing.

"This has been foreseen at Gabrielsberget," says Mr Kyrk. "The turbines are equipped with the latest defrosting technology, the so-called cold-climate package that makes it possible to run the wind mills in very difficult weather conditions and still achieve good production".

Mr Kyrk explains that the existing energy infrastructure close to the community of Nordmaling was another crucial factor when deciding on the location.

"This area is already on the energy map, which makes it possible for us to deliver electricity direct to the grid. And a good thing about northern Sweden is that we have a lot of hydropower, and wind and hydropower balances each other very well. When the water levels in the hydropower plants are at their lowest during the winter seasons, the production from the wind mills is at its highest, so we are expecting to achieve a good harmony."

The negative effects of wind energy systems are usually small and local, but even so, aspects like noise and impact on surroundings and wildlife must be taken into account in projects of this magnitude.

"From Gabrielsberget, it is quite a good distance to where people live, so the disturbance is not so big," says Mr Kyrk. "We also have a good relationship with the Sami people who herds reindeers in the area. All in all, I think this is a very positive project from an energy supply point of view as well as for the people who live and have their income here," he concludes.

For NIB's part, Gabrielsberget is a high mandate project with an excellent environmental rating. When the wind farm is completed and in operation, Sweden will enjoy an additional generation of about 260 gigawatt hours of green, emission-free electricity annually. This is expected to result in an indirect CO_2 emission decrease by crowding out energy production from fossil fuels.

Both of the NIB loans are guaranteed by KfW IPEX-Bank GmbH and Skandinaviska Enskilda Banken, and allocated under NIB's climate change, energy efficiency and renewable energy loan facility, CLEERE.

Photo: AnnaKarin Drugge

Powering Iceland to recovery

Energy: The key to revitalising Iceland's economy lies in the country's rivers and geothermal waters. With NIB financing, Iceland's main energy company Landsvirkjun is constructing a new hydropower plant which will feed clean electricity to power-intensive industries on the island.

"The Budarhals hydropower plant is Landsvirkjun's first project after the economic crash," says Hörður Arnarson, CEO of Landsvirkjun.

"Renewable energy is crucial for the revival of the Icelandic economy and NIB's support for the project is not only important to Landsvirkjun but to the country's economy as a whole," he continues.

To realise Iceland's potential in renewable energy, capital-intensive and long-term projects are needed. In 2011, NIB agreed with Landsvirkjun on a USD 70 million loan with a 16-year maturity for a large-scale hydropower project.

Mr Arnarson believes renewable energy will overtake fish as Iceland's most important natural resource. Production of renewable energy in Iceland is extremely cost effective and customers in Europe are expected to be willing to pay extra for clean energy in the future.

"Iceland is unique. It has the highest amount of electricity per capita in the world—and it is all renewable," he says.

Iceland is the only western country that produces all its electricity from emission-free and sustainable natural resources in the form of geothermal energy and hydropower. The economy is to a large extent based on industries that are fuelled by renewable energy.

Iceland now exports its clean energy via aluminium produced with renewable energy. Landsvirkjun is currently examining the possible export of renewable energy via a sub-sea cable to Europe. The company is evaluating the feasibility of building the world's longest submarine electric cable and addressing potential business models, markets and congestion management.

"Today we are producing five times more electricity than Iceland needs. We aim to double that and provide the surplus energy to power-intensive industries. This will have a huge impact on Iceland's economy," says Mr Arnarson.

He foresees that in 15 years time, the electricity industry will have the same impact on Iceland's economy as oil has had on Norway's.

"Our aim is that profit from electricity production should represent at least 6% of Iceland's GDP."

The construction site of Budarhals hydropower project brings to mind Gulliver's observations when washed ashore on the island of Lilliput. Massive machines, weighing several tonnes, look like ants on an anthill, as they are digging away to create the 4 km long tunnel and reservoir needed to get the water flowing into the planned turbines in the power station.

Up to 300 people will be working at the site during the peak period, and by 2014 the turbines at Budarhals will produce 585 GWh of electricity annually. This approximately equals the annual electricity consumption of Reykjavik, the capital city of Iceland.

"All the electricity used at the construction site is renewable and comes from one of Landsvirkjun's other power stations along the same river," says Guðlaugur Þórarinsson, Project Manager for the Budarhals hydropower project.

Hydropower projects are about taming nature in order to create much needed CO_2-free energy. However, in the case of Budarhals, the Tungnaá River and the Köldukvísl River are already turning turbines in four hydropower plants.

Photo: Bragi Josefsson

The new hydropower plant will be in operation by 2014.

>>>

A 4 km long tunnel will lead the water from the 50 million m³ water reservoir to two penstocks and turbines at the power plant.

>>>

"The impact on the environment is small with the Budarhals project. It is a matter of utilising the part of the river which is already used for electricity production," Mr Þórarinsson points out.

The area of the dam and hydropower plant is mostly uninhabited. No protected areas will be affected by the project and the impact on the fishery is insignificant. Landsvirkjun will compensate for the vegetated land that will be covered by the dam by increasing vegetation in other areas.

"Landsvirkjun has analysed all possible risks involved with hydropower plants in general. Of all the risks involved in such large-scale, long-term projects, including environmental risks, reputational risks and safety risks, one of the biggest risks is the financial risk," continues Mr Þórarinsson.

The Budarhals hydropower project was initiated in 2002, but then put on hold, only to be brought to life again with the help of NIB financing in 2011.

Energy projects help kick-start other enterprises—those that receive the energy—further multiplying the impact on the economy. The clean electricity produced at the Budarhals hydropower station will be used for energy-intensive aluminium production and a silicone plant.

Power intensive industries such as the aluminium industry have traditionally been the recipients of Iceland's cheap energy, but recently more segments are joining the race for the best electricity prices in Europe, including the silicone industry, chemical companies and data centres.

"The investment of the aluminium industry is two-and-a-half times higher than Landsvirkjun's. This project will get the economy rolling again," Mr Arnarson concludes.

585 GWh
of electricity will be produced annually.

The Budarhals hydropower plant will be located in the lower highlands of southern Iceland, about 150 km east of Reykjavik. The area is largely uninhabited.

Photo: Bragi Josefsson

The Bank of Greenland is offering its customers a new, partly NIB-financed, environmental loan facility for improving energy efficiency in private households. The goal is slashed electricity bills for the customers and a better environment for everyone.

Photo: Jørgen Chemnitz

Nutarsaaneq to keep Greenland's homes warm

"The environment and the economy go hand in hand. At the Bank of Greenland we have combined environmental thinking with good economy in the new loan facility we call Nutarsaaneq, meaning renewal in Greenlandic," says Martin Kviesgaard, CEO of the Bank of Greenland.

"Keeping homes in Greenland warm is hard on the environment and expensive for the inhabitants. With this new loan facility, which is offered at a low interest rate, we give private home owners a possibility to improve their homes and make them more environmentally friendly and energy efficient," Mr Kviesgaard explains.

The Bank of Greenland started looking into the idea of an environmental loan facility about a year ago as there was a lack of incentives for energy optimisation of badly insulated private households on the Arctic island.

During the spring of 2010, the bank allocated a total sum of DKK 50 million for the environmental facility. In February 2011, NIB provided the Bank of Greenland with a DKK 25 million loan (EUR 3.35 million) for this purpose.

Photo: Jørgen Chemnitz

"We have combined environmental thinking with good economy in a new loan facility called Nutarsaaneq, meaning renewal in Greenlandic."

Martin Kviesgaard, CEO of the Bank of Greenland.

"People in Greenland use a lot of energy to heat their houses, which is damaging the environment and reducing the value of their homes," Mr Kviesgaard says.

The public's response to the initiative has been positive. According to Mr Kviesgaard, the response to the facility in terms of new environmental loans has been much greater than expected. There are many loans in the pipeline averaging about DKK 200,000 (EUR 27,000).

In addition to improved insulation of private homes and their heating systems, qualifying projects include installation of new windows, heat pumps and solar panels. The latter sounds contradictory for an island mainly covered by ice, but Mr Kviesgaard disagrees.

"We have enough sun. In fact, solar energy is more relevant than wind energy in Greenland. Here in the north, the sun hardly sets during the summer," Mr Kviesgaard concludes.

Operations

"Investments into transport, logistics and comunications are large-scale and require long-maturity financing, which fits NIB's profile."

Stefan Fridriksson,
Senior Manager,
Business Development.

Photo: Marjo Koivumäki

New lending strategy to focus on transport, logistics and communications

NIB has adopted a new lending strategy that will guide the Bank's operations in the sector of transport, logistics and communications. The new approach will help identify opportunities to finance qualified projects.

"Developed transport, logistics and communications infrastructure increases mobility, connects markets and regions together and creates conditions for the economies to improve efficiency and productivity," says Stefan Fridriksson, Senior Manager at Business Development, who was responsible for drafting the lending strategy.

It is expected that in the period 2007-2013, the countries of the Baltic Sea region will commit up to EUR 95 billion in projects of infrastructure development related to transport, logistics and communications.

"The new approach will help identify opportunities to finance qualified projects. We are taking into account the most recent policies of the Bank's member-countries, EU policies and the Baltic Sea region and inter-governmental initiatives in this area," Mr Fridriksson continues.

In identifying eligible projects, NIB is committed to regional cooperation under the umbrella of the recently established Northern Dimension Partnership on Transport and Logistics as well as the EU Strategy for the Baltic Sea region, including the development of trans-European networks as the most significant element of the EU transport policy for infrastructure.

Speaking about the Bank's priorities, Mr Fridriksson stresses that NIB will continuously focus on projects that deal with the environmental burden caused by transports and logistics, such as the reduction of CO_2 emissions and pollutants.

Research in creating alternatives to oil and petrol engine vehicles, investments in traffic control systems, the constant improvement of the road system in the region are in line with NIB's lending strategy in this sector. Lending will be aimed at projects located to connect major transport corridors.

In logistics, NIB will put emphasis on financing the integration of freight transport modes and promote the use of environment-friendly technologies in this area. As an example of a logistical project eligible for NIB financing, Mr Fridriksson names logistical centres, or hubs.

The new lending strategy also promotes the member countries' leadership in telecommunications, investments in state-of-the-art technologies developed by domestic producers, broadband data exchange, the rollout of 3G and 4G mobile networks.

"The investments into a well-functioning sector of transport, logistics and communications are large-scale, have long payback times and require long-maturity financing. NIB is well positioned for servicing these investments," concludes Mr Fridriksson.

From concept to reality

With its new Secretariat Director in place, the new Northern Dimension Partnership on Transport and Logistics (NDPTL) moves from vision to practice.

Photo: Pamela Schönberg

"The transmission of the first project from a concept to a real-life project will be an important milestone for the NDPTL," says Oddgeir Danielsen, the new Director of the Secretariat for the partnership.

As the new Director, he will emphasise the importance of making the Secretariat fully operational in order to build a solid foundation for working on the priority areas.

"The Steering Committee sets the priorities. My role will be to ensure that the administrative work is solved in the best possible way and to provide the necessary background material in order for the Steering Committee to take the right decisions," Mr Danielsen says.

NDPTL's goal is to improve, in compliance with the ecological needs of the region, the major transport connections and logistics in the Northern Dimension region to stimulate sustainable economic growth at the local, regional and global levels by focusing on a limited number of priorities that reflect both regional and national priorities in a balanced way.

"Continued mapping of bottlenecks, and getting acquainted with other projects and initiatives working with similar challenges as NDPTL will be high on the agenda," Mr Danielsen adds.

"In a modern economy, effective transport and logistics is of vital importance. A good transport infrastructure is the main link in every logistics chain and is of vital importance to ensure sustainable development. Efficient solutions will have a positive impact on the environ-

> "Differing national policies often make up a bigger stumbling block for effective transport than infrastructure."
>
> **Oddgeir Danielsen**, new Secretariat Director of the Northern Dimension Partnership on Transport and Logistics (NDPTL).

ment in a number of ways, such as shortened transport routes," he continues.

But even though infrastructure is key, it cannot alone lead to improved transport solutions within the Northern Dimension according to Mr Danielsen.

"Differing national policies often make up a bigger stumbling block for effective transport than infrastructure. Therefore working to streamline rules and practises for customs, transits, guarantees, as well as various permits and other transport documents will be an important focus area for us," Mr Danielsen explains.

Mr Danielsen points out that the regional approach—the backbone of the Northern Dimension— is the best way to find good solutions to challenges in the transport and logistics sector.

"The best view is often obtained by seeing a case from many different angles. By taking the regional as well as the local perspective into consideration, you can base your decision on solid ground," he says.

This frame of mind is something Mr Danielsen carries with him from his former position within the Barents Cooperation.

"In the regional Barents Cooperation I obtained experience with working in forums made up of different nations with various standpoints. Finding good solutions, which are acceptable for all, can be demanding. I believe this experience will be useful in my new position as Director of the NDPTL Secretariat," he says.

However, he admits that the regional approach also has its disadvantages, one of the biggest being the lack of financial instruments to solve urgent problems. Working close to NIB could help ease this challenge.

"Having NDPTL placed at NIB has many advantages. We are placed in the heart of an important international financial institution with great competence on financing cross-border projects and knowledge of the challenges linked to cooperation projects."

Having projects that are financeable is a precondition for improving the transport systems. In this regard, NIB and other IFIs may play a key role.

"NIB has extensive knowledge of the transport and logistics sector, and by cooperating closely with the Bank, I believe NDPTL could increase its professionalism and technical know-how within the partnership's field of activity," Mr Danielsen concludes.

A digital agenda for the Baltic Sea region

Hans Brask, Director of the Baltic Development Forum


Photo: BDF

Column

The Baltic Sea region needs to develop its own digital agenda. It was one of the recommendations of the report that presented by the Baltic Development Forum at the Summit in Vilnius in June 2010.

The Baltic Sea region has strengths in information technology, e-Government and a well educated work force, providing a good basis for further expansion. It is the interest of the smaller and open economies of the Nordic and Baltic region to continue insisting on the virtues of the single European market.

Due to substantial differences in national regulations, few technology starts-ups expand their businesses to neighbouring EU countries. Lacking the benefits of a large-scale home market slows the rate of innovation, and hinders European firms from benefiting fully from investments in high-speed internet infrastructure.

A study argues that a truly integrated European digital single market will enable EU companies to grow to scale and increase their global competitiveness. The same study has identified that the failure to create a digital single market will cost Europe at least 4.1% of GDP by 2020.

In other words, most of the initiatives have to be taken on an EU-27 level. Does that leave much room for a Baltic Sea regional dimension where the cooperation instruments do not include legal instruments? Yes, I would argue.

The euro crisis is leaving no time for top EU decision-makers to discuss the long-term development of European competitiveness. The Baltic Sea region cooperation has a role to play in insisting on the competitiveness agenda.

The new EU macro-region could use its new platform to take initiatives on its own. We need to identify the barriers that are rooted in national practices and where the region could lead efforts to break down such barriers. The way to proceed should be to present policy actions.

The Baltic Development Forum and the Baltic Chamber of Commerce Association have taken the initiative to identify some of the barriers and the first steps to be taken. The result of the initiative will be presented in the first half of 2012. The review of the EU strategy is high on the agenda of the Baltic Development Forum Summit in Gdansk in October 2011. We need a regional digital agenda in order to support the digital single market in Europe.

Reducing discharges to the Baltic Sea

A grant from NIB's Baltic Sea Action Plan Fund to the Swedish Water and Wastewater Association is laying the ground for a number of investment projects which will reduce nitrogen and phosphorus discharges to the Baltic Sea.

The project covers studies in five different wastewater plants around Sweden, including two of the country's biggest plants in Stockholm. The main goal is to reduce nitrogen and phosphorus discharges to the Baltic Sea.

"The wastewater plants are of varying sizes. They range from Henriksdals wastewater treatment plant in Stockholm, treating wastewater from about 700,000 persons, to a new plant in Åtvidaberg in southern Sweden covering less than 10,000 people," says Daniel Hellström, Research Manager at the Swedish Water and Wastewater Association (SWWA).

"Different plants need different methods for optimal results and the demonstration project is about finding the most suitable method for each wastewater plant," he continues.

The grant funding totalling SEK 7.5 million from NIB's BSAP Fund pays for studies to develop the wastewater plants to further reduce discharges of phosphorus and nitrogen.

"The demonstration projects will help spot the right areas for further investments," Mr Hellström says, adding that more than SEK 700 million will eventually be invested in these wastewater plants.

"These investments will then result in decreased discharges of nitrogen and phos-

"The project is about finding the most effective method for each wastewater plant."

Daniel Hellström,
Research Manager, Swedish Water and Wastewater Association (SWWA).

phorus and will contribute to Sweden meeting its Baltic Sea Action Plan commitments by covering 25% of the wastewater plant's share of the Swedish discharge quota of nitrogen," Mr Hellström continues.

Anders Alm, Senior Manager at NIB's Lending Department and responsible for the Bank's BSAP Fund, says the demonstration projects are at the core of what the fund should be used for.

"The projects include both large and smaller wastewater treatment plants and have a good technical difference from wetlands to new and relatively advanced nitrogen removal processes. If planned investments are realised the expected effect is a decrease of 700 tonnes of nitrogen per year, 1.4 tonnes of phosphorus per year and 24 tonnes of suspended substance per year," Mr Alm explains.

He adds that the coordination through SWWA provides good opportunities for distributing the results about nitrogen removal more widely among wastewater plants, both in Sweden and other Baltic countries.

And the Baltic Sea needs all the attention it can get. According to Mr Hellström, even when the nitrogen and phosphorus discharges are removed it would take 40–50 years before the phosphorus level in the Baltic Sea is acceptable, as there is so much phosphorus on the sea bottom.

"SWWA is Sweden's biggest environmental organisation. We are working for clean water, whether it is drinking water or the Baltic Sea," Mr Hellström concludes.

Baltic Sea Action Plan Fund

The BSAP Fund is a fund managed by the Nordic Investment Bank (NIB) and the Nordic Environment Finance Corporation (NEFCO). The fund provides grants for technical assistance to projects that support the implementation of the HELCOM Baltic Sea Action Plan (BSAP). The aim of the BSAP is to help restore the ecological status of the Baltic Sea.

Recipients eligible for financing through the BSAP Fund include both public and private entities operating in the agricultural and wastewater treatment sectors, shipping and ports, as well as those working to reduce hazardous waste in the Baltic Sea catchment area. A key purpose of the fund is to facilitate and speed up the preparation of bankable projects. The fund provides grant financing for the following:

- Expenditures for project preparation and development, including feasibility studies, development of business ideas, and cash-flow models
- Technical assistance for institutional support, that is, training and support needed for project preparation, development and implementation
- Improving efficiency and quality in project implementation through, for example, supporting the acquisition of equipment for demonstration purposes.

Intermediaries play key role in non-member financing

Cooperation with local authorities and financial institutions is an essential component in NIB's lending operations in non-member countries.

In 2010, NIB adopted a number of strategies for its operations in focus non-member countries. Since then, the Bank has agreed on fourteen long-term loan programmes with twelve intermediaries in Brazil, China, India, Russia, and some other focus countries and regions.

"Each sub-project in loan programmes placed with financial intermediaries is carefully scrutinised. NIB seeks to identify and finance those projects in particular that enable technology transfer and new market entrances from NIB's member countries," says Søren Mortensen, Head of Non-member Lending at NIB.

In China and Vietnam, NIB operates through the national authorities of these countries. The two most recent 15-year-maturity loan programmes, one of a general purpose and an environmental one, have been agreed with the Chinese Ministry of Finance for a total amount of USD 200 million. A new general-purpose credit line totalling USD 40 million has been opened for the government of Vietnam.

"The general-purpose lending facilities are normally used for financing modernisation projects that can benefit from state-of-the-

art technologies and equipment supplied by companies from NIB's member countries," Mr Mortensen continues.

India has become an important target for NIB's member country companies with regard to both investment and technological cooperation. A loan programme totalling USD 35 million has been provided to India's Infrastructure Development Finance Company Ltd for onlending to infrastructure projects, particularly within telecommunications (see story on page 25). A credit facility to the YES Bank is intended for projects in renewable energy, engineering, infrastructure and logistics, telecommunications and health care.

Three loan facilities of general purpose earmarked for investments within energy and infrastructure have been placed with NIB's partner banks in Latin America. A credit line totalling USD 30 million was agreed with the Central American Bank for Economic Integration (CABEI). The other loan programmes in this region, totalling USD 60 million each, have been recently signed in Brazil: with Banco Itaú BBA S.A. and Banco Nacional de Desenvolvimento Economico e Social (BNDES).

"This is already the third loan programme to BNDES. The Brazilian partners help us allocate financing to projects that are compliant with NIB's mandate and which best serve the local economy," says Mr Mortensen.

In Central and Eastern Europe, NIB has agreed several facilities with commercial and international banks in Russia as well as the Black Sea region. A multicurrency loan programme in an amount equivalent to EUR 100 million has been allocated to Russia's state-owned bank VTB for onlending to projects within the sectors of energy efficiency, transport and logistics. Another Russian financial institution, Gazprombank is administering a EUR 60 million facility primarily aimed at replacing old district heating plants with co-generation plants (see story on page 27). A EUR 20 million loan programme has been agreed with the Bulgarian Development Bank.

A 30 million loan facility has been provided to the regional Black Sea Trade and Development Bank. At least 70% of the loan programme is to be allocated for the purpose of reducing the emissions of greenhouse gases in countries around the Black Sea. Sub-projects are expected to be implemented in the sectors of renewable energy, energy efficiency and energy saving as well as public transportation (see story on page 24).

Two earmarked loan facilities totalling EUR 60 million have been placed with South African Nedbank Limited. Sub-projects to be financed include financing low-emission city busses, wastewater treatment projects, as well as investments in a nationwide modernisation and expansion of mobile telecom networks.

"We believe that clean technologies and well-functioning broadband services are an important pre-requisite for further economic development in South Africa, a driver for the whole continent. Another important benefit of the projects financed in cooperation with Nedbank is that they will increase energy efficiency," concludes Mr Mortensen.

Photo: BSTDB

The Eolica wind farm in Bulgaria is an end recipient of one of the NIB-financed environmental loan programmes of the Black Sea Trade and Development Bank.

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Cooperation for a cleaner Black Sea region

Cooperation between NIB and the Black Sea Trade and Development Bank (BSTDB) has evolved and expanded over the past seven years to cover various business areas. The most recent loan programme, with a specific environmental focus, has confirmed BSTDB's place as one of the preferred financial intermediary partners in NIB's non-member countries.

BSTDB is an international financial institution, established in 1999 by the eleven Black Sea Economic Cooperation countries consisting of Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, Russia, Turkey and Ukraine.

NIB has signed three loan programmes with BSTDB to date. The first general loan programme, in the amount of EUR 15 million, was signed in 2004. The second, in the amount of EUR 30 million, was signed in 2009. NIB's previous loan programmes with BSTDB have been used, for example, in developing energy-efficient public transport in Turkey and a wind farm in Bulgaria.

In June 2011, NIB signed its third long-term loan programme agreement with BSTDB for the amount of EUR 30 million.

"The long-standing cooperation between NIB and BSTDB sparked a move to more sector-specific cooperation. In line with NIB's mandate to enhance the environment, the most recent loan programme has a distinct environmental focus," says Taina Ulkoniemi, Senior Manager, Origination at NIB.

The loan programme has a particular purpose to reduce greenhouse gas emissions in the countries around the Black Sea. At least 70% of the funds will thus be directed to renewable energy, energy efficiency and energy saving as well as public transportation projects, with an equivalent part of the loan programme being allocated under NIB's Climate Change, Energy Efficiency and Renewable Energy (CLEERE) lending facility.

The remaining 30% of the loan programme can be allocated to projects involving advanced technologies from NIB's member states, thus also increasing the competitiveness of NIB's member area.

"Protecting the environment is a priority for BSTDB and NIB. BSTDB favours operations with a strong positive environmental impact and stands to gain from NIB's long-term financing, which is essential as environmental and renewable energy projects are relatively large investments with often long payback periods," says Mustafa Boran, Vice President Banking at BSTDB.

Furthermore, sharing knowledge, views and best-practices between the environmental experts of BSTDB and NIB is one practical example of increased and mutually beneficial cooperation. That NIB was granted observer status at BSTDB in 2008 is a further testament to the enhanced relationship.

Teaming up these two IFIs means that companies from both regions' member countries stand to benefit from the pooling of experiences on a practical level. NIB's and BSTDB's cooperation is a powerful tool for promoting sustainable growth of both the Baltic and Black Sea regions.

Photo: BSTDB

Wind turbine for the Eolica wind farm, Bulgaria.

India's Infrastructure Development Finance Company (IDFC) has received a USD 35 million loan facility from NIB for onlending to infrastructure projects in India. IDFC combines the role of an infrastructure advisor to the national government with that of a financial institution.

NIB finances Indian infrastructure

"The two sectors, energy and integrated transportation, will continue to lead economic development and be the main priority for IDFC."

Mr S. J. Balesh,
Senior Director
Resources, IDFC.

Established by the Indian government in 1997, IDFC facilitates private capital investments into the infrastructure sectors. Under the current five-year plan until the end of 2012, the Indian government estimates the need for direct investments in these sectors at USD 445 billion. For the next five-year period, starting in 2013, the amount of investments sought will increase by a third.

"We very much welcome NIB in financing the needs of Indian infrastructure development, particularly in telecommunications, clean energy and environmental technologies, ports and logistics, in which Nordic companies have traditionally been active," says Mr S. J. Balesh, Senior Director Resources at the IDFC.

Photo: IDFC.

He adds that these types of investments need reliable long-term sources of funding, which loan facilities from NIB can provide. The international investment market is one of the major sources for financing the investments into the Indian infrastructure. IDFC has a tradition of strong relations with the International Financial Corporation (the World Bank Group) and the Asian Development Bank, both of which used to be the IDFC's shareholders.

The IDFC is active in four large areas. One of them is energy. It includes power production, renewable resources, oil and gas, pipelines, etc., which constitutes 45% of IDFC's exposure. The second biggest sector is integrated transportation, which includes roads, ports, airports, airlines and container terminals, accounting for 25%. The next one is telecoms followed by the commercial and industrial infrastructure that also includes special economic zones.

"The two largest sectors, the energy and integrated transportation, will continue to lead the economic development and be the main priority for IDFC," says Mr Balesh.

A year ago, IDFC was the first in India to obtain the special status of an infrastructure financial company. That has defined the company's unique role as a private lender to infrastructure projects and also as a policy advisor to the government on initiatives necessary to facilitate the flow of money.

"This status gives us diversified access to funding in both the domestic and international markets. It has helped to increase the flow of funds from both private investors in India and loans from banks. Once the regulatory framework was clear, we had access to the international lending market, and NIB became one of IDFC's first counterparties for negotiations," says Mr Balesh.

Economic prospects for Russia's recovery

"Lending by institutions such as NIB helps by bringing in best practices and important processes which can positively add to the economic development of Russia in the long-term."

Odd Per Brekk, Senior Resident Representative, IMF, Moscow.

Odd Per Brekk, a Norwegian national with a long and geographically varied career in the International Monetary Fund (IMF), has since 2009 acted as the Senior Resident Representative of the IMF in Moscow, Russia. In this interview with NIB, he talks about the determinants of long-term economic growth in Russia.

What is the current economic outlook for Russia?

In the short run, the Russian economy is recovering, but fairly modestly despite the high oil prices. General uncertainty in the world markets is compounded in Russia by the approaching parliamentary elections in December 2011 and presidential elections in March 2012, and the IMF is projecting 4.3% growth for this year.

Looking further, the economic growth outlook will clearly depend on the economic policies in place. In the medium term, there are two possible scenarios. In the pessimistic scenario, if Russia continues with its current policies—meaning a fairly modest reduction in its reliance on oil in the budget, continued inflation around of 10% and slow reforms regarding the investment climate—the lack of investments will stall productivity, with the result of growth slowing to 3.5% per annum.

In the optimistic scenario, Russia gets its economic policies successfully in place. This means, first of all, reducing the country's reliance on the use of oil resources to finance the budget, so as to limit the scope for Dutch disease. It also means crowding in private investment and the adoption of credible measures targeting inflation, which would improve the domestic banking system and mobilise savings and lending in roubles. In such a case of productive investment recovery, the growth rate may be closer to 6% per annum. Furthermore, as reserve funds are built up, government debt is low and inflation is well-anchored, the economy will be more robust and better equipped for shocks.

What are the biggest risks in the current forecast?

Problems and plans are well understood amongst the political leadership, but which scenario will materialise is, of course, dependent on to what extent the economic policies are implemented.

Russia managed the 2008–2009 crisis well and fairly ample buffers still exist in the economy. The current exposure to Greece and Europe in general is not large, but spillover effects may come through traditional channels of financial markets and oil price risk, acting as reminders of problems. If there is a new shock, the main vulnerability is on the credit side, but Russian banks would still be quite well positioned as they are small. This, however, is more a question of short-term instability.

In the longer term, inflation is a big risk. Currently, expected inflation adjusts quickly to actual inflation and even when compared to other transition economies, variability of the inflation rate is particularly high in Russia. As the only G20 country with double-digit inflation prior to the crisis, there is a need to focus on reducing its volatility, with a suggested inflation target of 3%–5%.

You mentioned Russia's dependence on oil as a particular stumbling block for growth. How could the negative effects of commodity dependence be tackled?

As long as the budget remains heavily oil dependent, the Russian economy will be very vulnerable to swings in the international commodity and financial markets. Any shock in the world economy that leads to a drop in oil prices or creates risk aversion could easily lower growth and create higher instability in Russia.

Resource-based economies are faced with very unique fiscal policy challenges. Countries with large resource bases tend to have worse than average growth performance and weaker institutions, and in that sense Russia may not be doing so badly. Some countries, such as Norway and Chile, have however shown how resources can be successfully managed. The main lesson they can provide is the need to have strong institutions and a clearly defined, politically supported medium-term anchor for fiscal policy.

The IMF has recommended that Russia focus on its non-oil budget deficit: this will insulate the budget in the short run from swings in the oil markets and impede automatic pro-cyclical poli-

cies. Clearly and actively striving for the anchor is even more important in the medium term, as it helps build consensus in internal policy-making while building credibility to the outside.

To support such a move in Russia, the IMF recommends setting up an independent fiscal agency, like the UK has done recently, with no practical policy-implementation role but one that will assess assumptions in the budget, monitor developments, add transparency and generate discussion regarding the formulation of fiscal policy.

How does the investment climate affect productive investments in the Russian economy?

This is a long-term and important issue. The Russian banking system, as well as its capital markets, is not sufficiently developed and well-equipped to service large parts of potential domestic clients simply because it is too small, so what you typically see is that bigger Russian companies borrow from international banks or international capital markets. This creates drawbacks. For example, large external borrowing by enterprises before the crisis left them very exposed to the depreciation of the rouble after the crisis.

If one should draw lessons from this, over the longer term macroeconomic and financial stability needs to be complemented by protection of property rights, bankruptcy resolution, credit recovery, and domestic resource mobilisation. Dealing with these more structural policy issues supports a more stable financing of investments.

What possible role does NIB's lending have on the economic development of Russia?

International financing in Russia can particularly contribute to knowledge transfer. Lending by institutions such as NIB, which in volume terms to Russian markets is small, helps by bringing in best practices and important processes which can positively add to the economic development of Russia in the long-term.

Promoting energy efficiency in Russia

A loan programme extended by NIB to Russian Gazprombank will be used for improving energy efficiency in Russia's industries.

The loan agreement totalling EUR 60 million is structured as a credit line with a 7-year-maturity. At least 70% of the NIB-provided funds will be on lent to energy-efficiency projects, while the remainder may be utilised for projects complying with NIB's competitiveness mandate.

The credit line will mainly finance the replacement of district heating plants with co-generation plants generating both electricity and heat. The programme may also finance industrial energy-efficiency projects within, for instance, the steel, chemical, forestry and cement industries.

NIB loans

The Helsinki Metro heads west

Länsimetro Oy is building a metro stretch westward from Finland's capital city, Helsinki, to its satellite Espoo. This is the country's largest infrastructure project.

The days are getting shorter in Helsinki, but in the dark tunnel 50 metres under the seabed in Ruoholahti there are no signs of autumn. In less than five years, bright orange Metro cars will shuttle tens of thousands of passengers daily from Espoo to Helsinki through this tunnel.

"Excavation work was particularly challenging in this area as we are in the middle of a city and very close to the already operating metro line," says Länsimetro Oy's Timo Kotineva, who is in charge of supervising the site.

At the end of the bumpy road we see some lights. Different kinds of vehicles and machines are now casting shadows. Soon they start moving and we see a spray of concrete hitting the tunnel walls, giving them a smooth, gray cover.

Matti Kokkinen is sitting in his office in Tapiola, Espoo. He is the in charge of the largest infrastructure project in Finland—the extension of Metro traffic in the Helsinki Metropolitan Area from Ruoholahti to Matinkylä in Espoo via Lauttasaari.

Upon completion, the West Metro will transport over 100,000 passengers every day. The project includes the building of seven new stations, two tunnels each nearly 14 kilometres in length and the removal of around three million cubic metres of blasted rock.

Photo: Tuomo Manninen

Excavation work should be finished in 2013. After that all the stations will be built. When this is done, test runs will start.

Such large infrastructure projects require not only technical competence but also financial resources. The financing of the project has caused some debate in Finland as cuts in state spending have threatened to leave some holes in the budget.

The current cost estimate for the West Metro is EUR 780 million. The state will contribute 30 percent of the cost, while the rest will come from debt financing. NIB will provide a loan of EUR 120 million with 30-year maturity.

"The city councils of Espoo and Helsinki decided already at an early stage that the project will be financed with debt assumed by the joint project company Länsimetro," Matti Kokkinen says.

"We are aware that not all projects receive funding from NIB. We now know that Länsimetro has passed the NIB filter, which sets strict requirements especially for environmental aspects," he continues. "Another advantage is the long-term character of the loan. Commercial banks can hardly fill that gap."

The main environmental benefit of the project is the transfer of passengers from road to rail and the reduction of traffic congestion in the city centre of Helsinki.

Once the West Metro is completed, bus traffic from southern Espoo to the centre of Helsinki along the Western Motorway will be discontinued. Feeder buses will transport passengers to the Metro stations. The ride from Matinkylä to Ruoholahti will take 16 minutes.

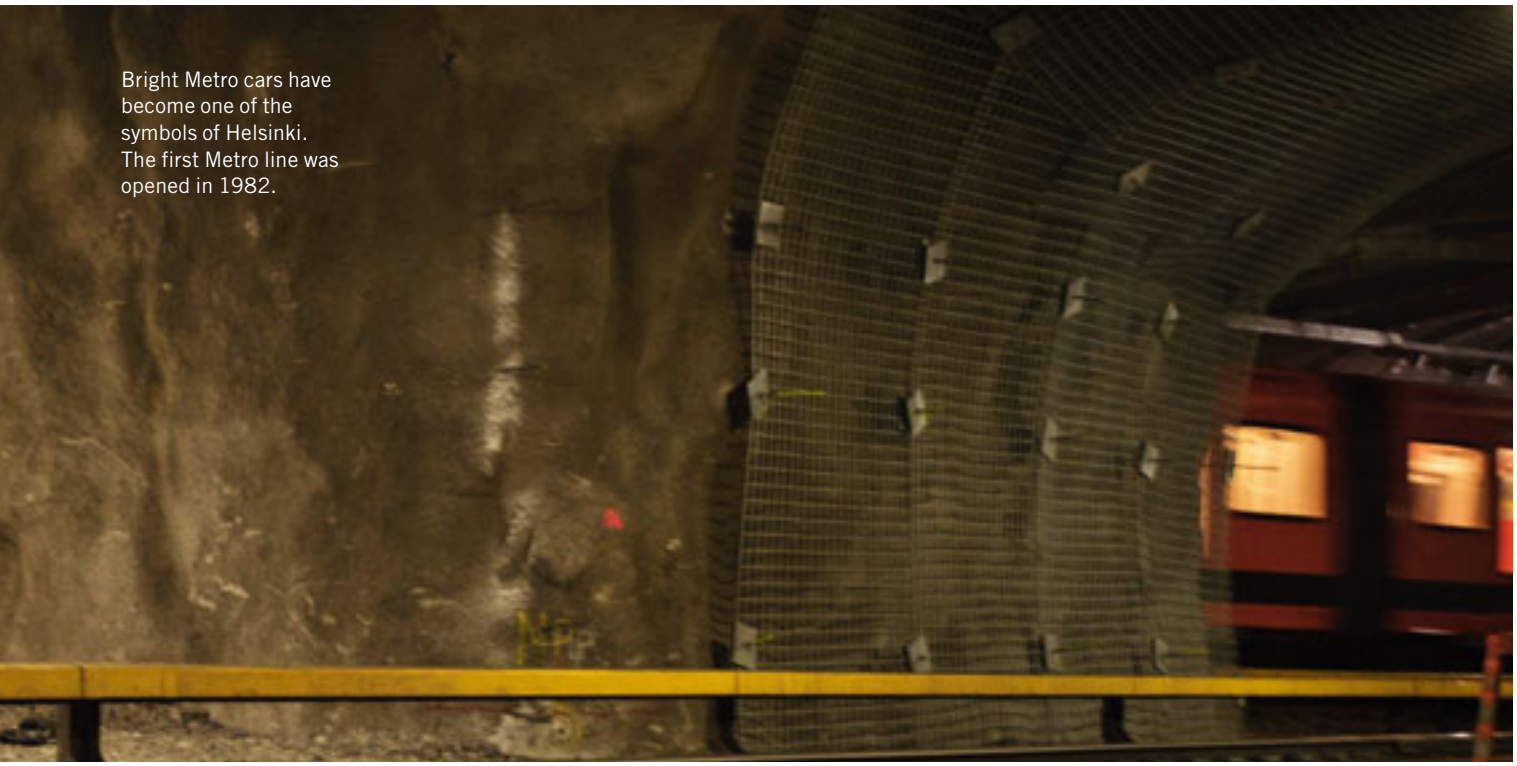
"The Metro is convenient, efficient and environmentally friendly. This will attract people to using it," Kokkinen explains.

"In the short run, the extension of the Metro line will, of course, cause some inconveniences for people who are afraid of the blasting. We try to mitigate this by informing the public as much as possible," Kokkinen says.

The West Metro will open for service at the end of 2015.

"The Metro is so convenient and efficient that more and more people will start to use it."

Matti Kokkinen, CEO, Länsimetro.



Bright Metro cars have become one of the symbols of Helsinki. The first Metro line was opened in 1982.

Breaking the

The facade of the new library breaks the mould of city centre design.

mould

Illustration: Anttinen Oiva Arkkitehdit Oy

Innovation:

Long corridors of dusty books, unimaginative decor and outdated facilities have long bolstered the general unattractiveness of libraries. Incorporating leading energy and environmental design and state-of-the-art, user-friendly facilities, the University of Helsinki is set to break the mould as the new central campus library opens for use in 2012.

The University of Helsinki is aiming to develop more cohesive library structures and integrated services. The improvement process started at the beginning of 2010, when all faculty and department libraries of the university were formally joined together to form a single entity, Helsinki University Library, consisting of four campus libraries and centralised administration and support services.

For many of the humanities, social sciences, law and psychology libraries, the change is even more dramatic. With faculty libraries having been spread out over 11 locations in the city centre, the university is currently reorganising and combining these to form one central campus library, which, when ready for use by autumn 2012, will be the biggest academic library in Finland. NIB is financing the project with a loan totalling EUR 27 million via the University of Helsinki Funds.

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Measured in floor space, the library will take up over two thirds of the 26,500 m² building being constructed, with the remaining areas offered for modern rental space for commercial properties and services. Measured in numbers, the library will serve over 20,000 students, teachers and researchers, processing an estimated 1.5 million loans per year from its open collections spanning almost 30 shelf-kilometres.

Located in the centre of Helsinki, the construction bears significance not only for its use, but also for its appearance. Commanding views all the way to the central railway station from its boldly designed, large arched windows, the new library is also shaping the architectural look of the city. Indeed, while the new 11-storey library stands on the location of an office and parking building erected in the 1970s, only the underground floors and the main entrance level, notably situated next to NIB's headquarters, remain of the old building.

Tearing down the old to make way for something new has not, however, been an easy task. "The centrality of the location makes any construction work on the library challenging, particularly for logistics," says University of Helsinki's Director of Properties Teppo Salmikivi.

For example, demolishing parts of the old building, crushing and sorting the resulting concrete on location and then transporting it away from the construction site has been a demanding and time-consuming activity.

Photo: Nina Näsman

Appearance is not the only remarkable thing about the building. The project comprises important infrastructure investments aimed at enhancing the environment. The energy savings created by the new library building are expected to reduce annual CO_2 emission by some 2,000 tonnes per year. Green design elements include water saving fittings, district cooling, use of recycled construction materials and, given the excellent public transport links in the city centre, there will be no provision of parking space.

"While the project fits well with NIB's lending strategy, we have particularly high requirements when it comes to environmental assessments, and the Helsinki University Library has responded well," says Sebastian Påwals, Senior Manager in the Member Country Lending unit at NIB. In fact, NIB has constantly pushed for higher environmental standards for the project, and the library is now looking to have its efforts in this field acknowledged with an official recognition.

Helsinki University Library is seeking to attain the internationally-recognised Leadership in Energy and Environmental Design (LEED) for New Construction gold certification, the second highest level possible, for its new library. This would be the first gold certificate awarded to a public building in Finland.

Receiving a LEED certificate means hard work and planning. "It forces one to think about every material choice, its lifecycle and origin, one step at a time," says Salmikivi.

The new library building's energy consumption will be 46% less compared to the building it has replaced, realised, for example, through the building of a roof, linked to the air conditioning pipes, which binds carbon dioxide

and so makes the air conditioning system environmentally-friendly. This fits well with the main focus of the environmental certificate on energy and water usage, indoor environment and chemical substances.

While profiled as a scientific library, hosting the archive for nationally important historical books ensures that the collections are open for everyone. However, with the constant increase of information available online and through computer-based learning, libraries still have to defend their existence. Will Helsinki University Library stand the test of time?

To meet the current and future demands of its users, a crucial consideration for the new central campus library has been to create a distinctive, flexible and functional library world. Various end-user brainstorming groups have been formed to feed in to the planning process, with further ideas being drawn in from libraries worldwide by the core design team.

By realising that libraries are no longer simply places to store books but also places to meet people, the central campus library has opened up the top floor for functional group study spaces with comfortable sofas, offering splendid views of the Helsinki skyline and harbour, thus enhancing the study experience.

With smart and green solutions, the Helsinki University Library is breaking the mould with regard to dusty books on shelves and the concept of what a library should be, thus ensuring it remains a relevant source of information also for future generations.

"The centrality of the location makes any construction work on the library challenging."

Teppo Salmikivi,
University of Helsinki's Director of Properties.

Organisation

NIB 35 years: Building Nordic economic cooperation

After almost 35 years as NIB employees, Chief Compliance Officer **Siv Hellén** and Loan Administration Specialist **Barbro Eriksson** look back at an important era in the history of Nordic economic cooperation—the foundation and development of the Nordic Investment Bank.

Stockholm, November 1975: The delegates of the Nordic Council are called in for an extra session. The Council is to vote for or against the founding of a new investment bank, jointly owned by the five Nordic countries.

More than twenty years of discussions and debate about the existence of such a bank have led up to this moment. Now, in 1975, the Nordic countries are suffering from considerable deficits and unemployment as a result of the recent oil crisis and the related recession.

NIB's management committee anno 1977. From the left: Peter Laurson, Finland; Svend Kræmer, Denmark; Petter Skouen, Norway; Erik Rindal, Norway; Siv Hellén, Finland; Bert Lindström (Managing Director), Sweden; and Annikki Saarela, Finland.

Photo: Leif Weckström

There is an urgent need for outside capital to speed up investments, and the plans to establish a Nordic investment bank have finally been brought to the table. The Council votes in favour of the new bank with the clear majority of 59 to 10.

Helsinki, June 2011: The Nordic Investment Bank celebrates its 35 years of activity. The Bank, which started its operations in Helsinki in 1976, is today a triple-A-rated, well-established international finance institution with some 180 employees.

Barbro Eriksson started her career at NIB in October 1976, right after the establishment of the Bank. She was the sixth employee to be recruited by the Bank.

"I had finished my studies in international finance, and was looking for a job within an international organisation. Before NIB, there was no such institution in Finland, so when I read in an advertisement that a new Nordic bank was looking for a secretary, I immediately applied," says Ms Eriksson.

A few months later, in spring 1977, she was joined by Siv Hellén.

"My first recollection of NIB is reading a newspaper interview with Bert Lindström, from Sweden, who had been chosen to be the Bank's first managing director. The article was presenting the new Nordic financial institution, and I remember thinking that this is a place where I want to work," says Ms Hellén.

"I was interested in Nordic cooperation ever since my law studies when I got a lot of contacts among law students in other Nordic countries," she continues. "When I later read in an advertisement that NIB was looking for

Siv Hellén and Barbro Eriksson recollect more than 30 years of NIB's history and development.

Photo: Pamela Schönberg

a banking lawyer, I knew at once that it was the job for me, even though at the time I was considering a diplomatic career."

It was generally felt that it was Finland's turn to host a Nordic institution, as all the other Nordic countries already had such institutions in their capitals. Still, some discussions and debate preceded the new bank's location in Helsinki, says Siv Hellén.

"Finland was seen as being quite peripheral geographically, and the Finnish language was thought to prevent the recruitment of foreign staff. The battle stood between Stockholm and Helsinki, and it is said that the Swedish and Finnish prime ministers Olof Palme and Kalevi Sorsa reached a final agreement in a smoke sauna in Finnish Lapland during a ministerial meeting."

After the location had been settled and the Helsinki office opened, the newly recruited staff started to build up the Bank's operations. The Managing Director Bert Lindström had started his work in August 1976, and it was time for the first member country payments of the Bank's capital.

"Administering the equity payments was quite a dramatic affair," Barbro Eriksson remembers. "All communications were handled by telex, and the transfer of funds was not all that easy in those days as NIB's capital was in an artificial currency, SDR (Special Drawing Rights)."

"Yes, I remember that we were quite concerned about the technical problems with the payments, not least because of the effect reporting delays could ultimately have had on the Bank's creditworthiness", Siv Hellén adds.

"Of course, at the same time we also worked hard on raising the awareness of NIB in the financing world and among potential investors. We published a lot of press releases and arranged seminars, road shows and receptions," explains Ms Eriksson. "And as it turned out, the Helsinki-location was no obstacle in attracting new staff members. The Bank raised a lot of interest among the international banking community."

The first company to apply for a loan from NIB was the ferrosilicon producer Icelandic Alloys, and that loan, financing a new production plant, was the second to be granted. The first approved loan went to the Finnish power company Imatran Voima, for the building of a power cable between Finland and Sweden.

"My first task as a lawyer at NIB was to close the deal with Icelandic Alloys," says Siv Hellén. "It was the first project finance loan, and NIB was the biggest creditor."

"At the same time, I also worked on the Bank's first borrowing in US dollars on the European capital market," she continues. "In that context, our challenge was to decide on the governing law and jurisdiction for the issue. Finding a jurisdiction that clearly recognised an organisation without a domicile in one particular country was not all that easy in those days."

As stated in the mission and mandate given by the member countries at the time, NIB was to strengthen the Nordic economies by giving loans and guarantees to projects of Nordic interest. But both Barbro Eriksson and Siv Hellén remember the 1980s as a decade when NIB worked intensively on further specifying the Bank's added value on the financing arena.

"In 1982, two important events took place, says Siv Hellén. "First, the Bank was awarded its top credit rating AAA/Aaa, something we had worked very hard to achieve. And in the same year we launched our Project Investment Loan facility, which took us into financing outside our membership area, and also led us into a stronger cooperation with the World Bank and other international finance institutions."

Ms Eriksson comments that the Project Investment Loan facility was a result of a political discussion that had a big impact on the Bank's further activities.

"First when NIB was established, we were not allowed to finance any borrowers outside the Nordic area. But the new loan facility lifted that restraint, and because of the member countries' guarantees, we could start to finance investments also in middle-income countries. It really changed the whole picture a lot."

The political and historical events in Europe in the early 1990s also changed the course of history for NIB. Soon after the Baltic countries regained independence, the Nordic and Baltic countries established the Baltic Investment Programme.

"That was a major thing for NIB, a result of the biggest research and studies made in the Bank since the implementation of the Project Investment facility," says Siv Hellén. "Things happened very fast in the political arena, and we had to change our assumptions all the time. But the programme became reality in 1992, and

NIB's headquarters are located in Helsinki, Finland.

Photo: Pernilla Schönberg

NIB's activities were very much hands on. We granted special loans, administered technical assistance and took equity positions in the three Baltic investment banks that were established. Already then, the Baltic countries expressed an interest in becoming members of NIB, and I am still sorry that it took as long as ten years before that happened."

When the three Baltic countries became members of NIB in 2005, a new supreme decision-making body was established for the Bank; the Board of Governors formally replacing the Nordic Council of Ministers.

"Having its own Board of Governors strengthened NIB's position as a true IFI, but on the other hand the Bank also became somewhat alienated from the political debate," says Siv Hellén. "When NIB formally was a part of the Nordic cooperation, it was constantly on the agenda. Even if our projects were sometimes criticised, in the end the Bank always got the praise of being the best example of practical Nordic economical cooperation. I hope that NIB, also with its new owner structure, finds a prominent place in the political debate and discussions as a useful tool in the regional cooperation."

After more than three decades of service at the Nordic Investment Bank, both Barbro Eriksson and Siv Hellén will retire in the coming year. Looking both back and forwards, how do they see the future of NIB and its operations?

"I see the environmental sector as a very important part of NIB's activities, both now and in the future," says Ms Eriksson, and adds that she is especially proud of what the Bank has done for the Baltic Sea in the St Petersburg region, referring to the financing of the South-west Wastewater Treatment Plant inaugurated in 2005.

Siv Hellén agrees, and notes that visible regular support from the owners continues to be very important.

"Even if NIB has been successful there is no place for complacency. Against many larger players a small institution can easily be marginalised. But I still think there is a great demand for NIB's financing because it is flexible and provides a good complement to other funds, primarily those from the private sector," she concludes.

Supporting competitiveness during unsteady times

"Working with NIB's mandate is far from a one-man show; I am surrounded by a great team of analysts."

Pascal Gauthier,
newly appointed Director and Head of the Country & Competitiveness Analysis Unit, NIB.

Photo: Marjo Koivumäki

Pascal Gauthier joined NIB in June as Director and Head of the Country & Competitiveness Analysis Unit within the Credit and Analysis Department. According to him, NIB, with its public ownership and private sector business approach, has an important role in supporting competitiveness also in unsteady times.

What is your professional background?

"I came to NIB from Canada where I worked for five years in commercial banking at TD Bank in Toronto. By training I am an economist but I have also been heavily involved in risk management and business planning."

You have both an academic and a business background. Is NIB a good fit for you taking into consideration your professional background?

"For me it was a very good fit as NIB, as I see it, operates in a hybrid space between the private and public sector, being owned by the governments while operating with a private sector approach, in both business operations and management. So I felt very comfortable stepping into the organisation. My academic background gives me the tools to do country analysis on macroeconomics as well as the country risk side and the competitiveness."

Is it different working for an IFI rather than a commercial bank?

"I would say the main difference is one of scale. NIB is small but the activity per person is quite large. I am used to an environment where a small unit serves large needs. The fact that the lending activity is geared to a specific purpose and mission was an attractive dimension for joining the Bank, as well as the possibility to participate in the development and strengthening of the two-pronged mandate. Not only that the Bank has this mandate but that I will be directly participating in refining it and achieving the high levels set by our owners."

How do you see that the two parts of NIB's mandate can be best combined?

"We look at the competitiveness side, or you could say the productivity side, on the individual company level, within an industry, and for larger infrastructure projects also at the national or even regional, member country level. We aim at enhancing and generating sustainable growth. This means in particular that we would think differently of investments in natural resources where there is a strong environmental component and that we would not tend to rate very highly projects that boost growth just for a few years but rather, enhance long-term prosperity in nations knowing that it is really related to the productivity of the employees, which, again, is very much related to education, the quality of the social infrastructure and the sophistication of the business practice. Our focus is to link economic growth and environmental sustainability."

Do you have some views on what role NIB can play in financially unsteady times?

"As a financial intermediate NIB has a role to play on the macro level, and more precisely on a customer level. When there is a need for financing but the climate is such that it dies out even for the good credits and customers, then there is arguably a need for institutions like NIB. Succeeding during a financial and

economic downturn requires management of customer relations by thinking of the big picture rather than just their near-term bottom line.

The ability for economies to rebound and for firms to weather a difficult economic environment is an illustration of competitiveness. Those who survive are ready to take advantage of the next growth period.

As long as there is demand for projects and investments which we know can be beneficial in the long-term, we should be there to supply that credit. And if we can do that, we can partially offset the contractions in the private sector. That is an important role, and a tool not every region or every country has at its disposal." ◣

NEW STAFF

CREDIT AND ANALYSIS DEPARTMENT

Pascal Gauthier (CA) has been appointed Director and Head of the Country and Competitiveness Analysis Unit. He joined NIB from a position as Senior Economist and team leader in TD Bank Group in Toronto, Canada.

Elina Aartola-Mäkelä (FI) has been employed as Senior Corporate Analyst in the Corporate Analysis Unit. She joined NIB from a position as a Head of Division, Financial Sector, at the Financial Supervisory Authority in Finland.

Matts Grönholm (FI) has been employed as Senior Corporate Analyst in the Corporate Analysis Unit. He has previously worked at Evli Alexander Management as Deputy Managing Director.

Karlis Caunitis (LA) has been appointed Senior Corporate Analyst in the Corporate Analysis Unit. He has previously worked as Corporate Development Manager at DnB Nord A/S in Denmark.

OTHER DEPARTMENTS

Anders Alm (SE) has been employed as Senior Manager in the Lending Department. He joins the Bank from the Swedish Ministry of Environment and he will work with the Baltic Sea Action Plan Fund (BSAP Fund) administered by NIB and NEFCO.

Alexander Ruf (GE) has been appointed Senior Funding Manager in the Funding and Investor Relations Unit at the Treasury Department. He has previously worked for several years at UniCredit Bank AG in Germany, within the Capital Markets Area.

Axel Berglund (SE) has been appointed Legal Counsel in the Lending Operations Unit within the Legal Department. He joined NIB from a position as Legal Counsel at Swedfund International AB.

Simo Heliövaara (FI) has been employed as Risk Analyst in the Risk Management Unit of the Risk and Accounting Department. He joined NIB after finishing his PhD thesis at Aalto University.

Bettina Lönnholm (FI) has been employed as Assistant in the Office of the President and CEO. Bettina joins the Bank after working for NOPEF as Communications Officer.

Joanna Södergård (FI) has been employed as HR Specialist in the HR Unit. She has previously worked at Efecte Oy as HR Specialist.

Bianca Mecklin (FI) has been appointed Financial Controller at the Accounting and Financial Planning Unit.

Janne Papinsaari (FI) has been employed as System Specialist within the ICT Unit. He joins NIB from a position as Application Specialist at Samlink.

PROMOTIONS

CREDIT AND ANALYSIS DEPARTMENT

David Bäck (FI) has been appointed Senior Corporate Analyst in the Corporate Analysis Unit.

Katariina Vartiainen (FI) has been appointed Senior Environmental Analyst in the Environmental Analysis Unit.

Martin Lundström (FI) has been appointed Senior Credit Officer in the Credit Unit.

RISK AND ACCOUNTING DEPARTMENT

Kai Arte (FI) has been appointed Senior Manager, Head of Credit Portfolio, in the Risk Management Unit.

Tom Hagström (FI) has been appointed Senior Manager, Operational Risk, in the Risk Management Unit.

TREASURY DEPARTMENT

Thomas Radeborn (SE) has been appointed Chief Portfolio Manager within the Asset and Liability Management Unit.

PLANNING AND ADMINISTRATION DEPARTMENT

Monica Wilenius (FI) has been appointed HR Specialist in the HR Unit.

Jon Eriksson (FI) has been appointed Senior Manager, Head of Real Estate and Facilities.

RETURNING STAFF

Tore Emanuelsson (SE) returned from his two year secondment at EIB. He will continue as Senior Manager in the Lending Department.

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