

BRIGHT, DARING AND ENGAGING

HELSINKI'S NEW ACADEMIC LIBRARY

PAGE 22

FINANCING HYDROPOWER IN NORWAY

PAGE 6

SURPRISING RENAISSANCE OF THE NORDIC MODEL

PAGE 23



Norwegian farmer Rolf Håland produces electricity sufficient to warm and light up hundreds of family houses.

6



Photo: Foto & Imenning

Creation of new knowledge is always paramount, says Denmark's Dr Haldor Topsøe.

10



Photo: Courtesy of Haldor Topsøe A/S

Construction of Koskenkylä-Kotka stretch of E18 road in Finland well under way.

12



Photo: Paarik Räsänen/berg

TEAM: Director of Communications
Jukka Ahonen, Dimitrijs Alehins,
Kyra Koponen, Pamela Schönberg
and (Editor) Arild Moen.

GRAPHIC DESK: Milton Oy
PRINTED BY: Erweko Painotuote Oy
PUBLISHER:
NORDIC INVESTMENT BANK
Fabiansgatan 34, P.O. Box 249
FI-00171 Helsinki, Finland
Phone: +358 10 618 001
<http://www.nib.int>
<http://annual.nib.int>
Follow us on Twitter: @NIB

COVER PHOTO: Marjo Koivumäki

NIB BULLETIN

Nordic Investment Bank

NIB Bulletin 2012–2013

- 04 NIB's financial figures
January-August 2012
- 06 A smile is his umbrella
- 10 Make science earn money
- 12 Shorter drive from St Petersburg
to Finnish ports
- 16 Connecting northern railways
- 18 Petrozavodsk gets to grip
with sewage treatment
- 20 Sanitised sewage offers relief
for Baltic Sea
- 22 Spectacular design &
30 kilometres of books
- 23 The surprising renaissance
of the Nordic model
- 24 Compliance adds value
- 26 NIB adopts sustainability policy
- 27 Climate Deed 2011
- 28 Passionate about it
- 30 NIB lending organises
around industry sectors
- 31 NIB streamlines its organisation
- 31 NIB new staff &
internal appointments



Boosting competitiveness

Henrik Normann, President & CEO, NIB

EDITORIAL

Nordic industrial competitiveness has weakened. This is mainly due to an unfavourable cost structure amid weakening global demand for Nordic export goods and services. In order to overcome the challenge and accomplish further viable growth, industry has obvious needs to boost investments in a number of areas, including in research and development.

As an example, NIB recently issued a 10-year maturity loan to finance R&D at Danish catalysis company Haldor Topsoe A/S, a frontrunner in developing clean energy solutions. You can read more about it in this edition of the Bulletin.

As a major triple-A rated international financial institution in the Nordic-Baltic region, NIB is well placed to offer complimentary long-term funding. Overall, the Nordic Investment Bank finances projects that stimulate sustainable growth in the Nordic-Baltic region. We do take this mandate seriously and our credit processes are very thorough.

Can we be perceived as too strict? Yes, to a certain extent we can. On the other hand, those projects that do get a loan have plenty of reasons to be proud of meeting strict sustainability demands.

In fact, getting a NIB loan could be seen as a stamp of quality.

The Nordic region has managed to perform relatively well during the financial crisis, despite weakening competitiveness. This is partially thanks to a crisis in the early 1990s which forced banks to renew their operating methods and governments to implement sustainable fiscal policies. That lesson has been crucial in giving the Nordic region ample room to expand fiscal policies during the current crisis.

As a fairly integrated region, the Nordic countries tend to pool risks and share the harvest in their quest to ensure sustainable economic growth, notes Juhana Vartiainen, Director General of Finland's Government Institute for Economic Research, in his column for this edition of the Bulletin.

NIB aims to be a fine example of just this sort of cooperation. ▀

NIB's financial figures Jan–Aug 2012:

Eight-month result up amidst economic uncertainty



Gullfoss Waterfall,
Iceland

The sovereign debt crisis in the euro area continues to be the main concern for the global financial markets. High uncertainty negatively affects current economic and investment activity, and dampens their prospects in the euro area as well as in the Bank's member area.

As of August 2012, the Bank realigned its lending operations into new sectoral divisions and streamlined its organisation to improve operational efficiency. The origination of loans and management of client relationships is now being handled by five industry groups: Financial Intermediaries & SMEs, Energy & Environment, Infrastructure & Telecom, Heavy Industry & Mechanical Engineering, and Consumer Goods & Services.

These changes are also aimed to further integrate mandate considerations in the Lending department that now includes a unit dealing with rating potential loan-takers' compliance with the Bank's mandate.

NIB's operational results for January–August 2012 in terms of profit amounted to EUR 162 million, which was EUR 38 million higher compared to the same period a year ago. The profit increased on the basis of a higher net interest income and due to positive valuations on financial instruments in the Treasury portfolios.

During the period, NIB's lending activities continued on a steady path. The total amount of loans outstanding increased to EUR 14.8 billion, compared to EUR 13.6 billion on end-August a year before. The amount of loans disbursed during the period increased to EUR 1.2 billion, (EUR 973 million in January–August 2011). Loans were provided for projects within the sectors of power generation and supply, renewable energy, sustainable transport infrastructure, research and development and in other sectors. Loan impairment charge for the period amounted to EUR 23.2 million*.

During the first eight months of the year, NIB closed twenty funding transactions, totalling EUR 2.8 billion. In late January, NIB launched a 5-year global USD 1.25 billion benchmark issue. In August, NIB issued its second NIB Environmental Bond, a 20-year security, totalling SEK 500 million. The bond was issued as a private placement addressed towards the Nordic market. ▴

Henrik Normann
President & CEO

** Due to increased uncertainty in the economic environment, NIB has increased its provisions for impairments, even though the Bank has no realised credit losses for the period.*

Key figures

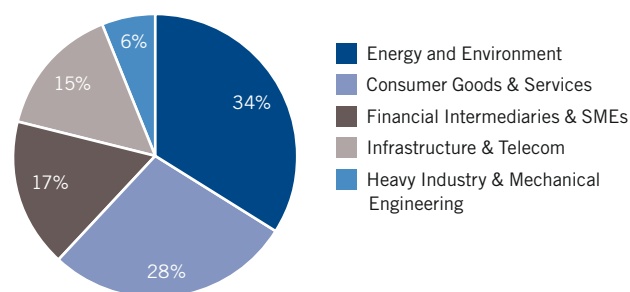
(in EUR million unless otherwise noted)

	Aug 2012*	Aug 2011*	Dec 2011
Net interest income	165	153	228
Profit/loss	162	124	194
Loans disbursed	1,190	973	1,946
Loans agreed	1,490	1,438	2,608
Loans outstanding	14,817	13,623	14,153
Guarantee commitments	4	8	4
New debt issues	2,831	2,055	2,887
Debts evidenced by certificates	20,998	17,464	18,433
Total assets	27,072	22,865	23,802
Equity/total assets (%)	9.7	10.4	10.3
Profit/average equity (%)	9.5	8.0	8.2
Number of employees (persons)	179	177	178

* Unaudited figures, to be read in conjunction with NIB's audited financial statements for 2011 and the notes thereto.

Loans disbursed Jan-Aug 2012

EUR 1.2 billion



Hydropower in Norway:

A smile is his umbrella

Norwegian farmer Rolf Håland produces electricity sufficient to warm and light up hundreds of family houses. Together with his sons, Håland utilises a waterfall on their farmstead in mountainous Western Norway to run a small hydropower plant. In operation since August 2011, the plant appears to be a promising investment—thanks to newly introduced subsidies and a long-term loan from NIB via local Sparebanken Vest.

Every morning, Håland looks out his bathroom window to check on the flowing Gjesdal River. That's a most rewarding routine, as the water flow correlates almost perfectly with the turnover of the plant company.

"When it starts to rain—we call it a ten thousand kroner shower—the plant control system will automatically open a few extra nozzles to handle the stronger river flow," explains the 66-year-old Håland.

His ancestors' farm is situated in the municipality of Jølster, midway between the cities of Bergen and Ålesund. In this scenic region of deep fjords, high mountains and spectacular waterfalls, the Erketunet farm lies on a valley side some 250 metres above sea level. It is a typical-sized homestead for the region with a milk quota of 125,000 litres annually, 25 calves a year and 30 winter-fed sheep.

Gjesdal Kraft AS is one of many hydroelectric power projects financed by the Nordic Investment Bank through financial intermediaries.

In 2011, NIB and Norwegian Sparebanken Vest (SPV) signed a 10-year-maturity loan programme of NOK 500 million (EUR67 million). SPV will use the loan to finance new and upgrade small hydropower projects until the end of 2013.

Of this, SPV has lent NOK 27 million to Gjesdal Kraft. The expected lifetime of small hydropower facilities is 40 years, double the life span of land-based wind mills.

Sparebanken Vest started to finance hydropower projects in 1998, and has so far lent NOK 1.3 billion, of its NOK 100 billion portfolio, to 70 small hydropower projects in its Western Norway region. General Manager Jon Arild Hellebust of SPV's renewable energy operations says the bank plans to increase its total lending by 6 percent in 2012, with a focus on growth in the hydropower sector.

"Hydropower is the fastest growing sector in percentage, and our ambition is for this to continue as the sector has a good risk profile for Sparebanken Vest," says Jon Arild Hellebust.

Encouraged by the Norwegian government's introduction of subsidies for renewable energy production, the Håland family decided to apply for a licence from the Norwegian Water Resources and Energy Directorate (NVE). In 2008, they received the licence and production got underway in August 2011.

The Gjesdal Kraft dam is built across the Gjesdal River 280 metres above sea level. It allows parts of the old waterfall to run free while directing a separate water



Photo: Foto Almenning



SWEDEN–NORWAY COMMON GREEN CERTIFICATE MARKET

SUBSIDY

In 2012, Norway and Sweden established a common green certificate market to boost investments into renewable energy.

Producers of renewable energy are given a certain amount of certificates which the industry and electricity distribution companies are obligated to buy.

The extra income helps make investing into renewable electricity generation a profitable undertaking, and allows the countries to meet clean power targets at lower costs.

The new Norwegian–Swedish system is expected to generate 26.4 TWh from new renewable energy projects by 2020, with each country financing 13.2 TWh.

stream into a pipeline. The pipeline runs 1.1 kilometres underground down the valley to a turbine generating electricity some 150 metres below the dam.

The turbine's capacity is three cubic metres of water per second, but most often less than half is used. That's because the water intake at the dam is automatically adjusted to the natural river flow, which needs to be 1,500 litres per second during the period from 1 May to 1 October. During the winter time only 100 litres per second is required. The limits are decided by NVE to preserve a part of the old river flow.

The precipitation area above the dam is about 25 square kilometres and collects rain water, melted snow and smaller rivers from smaller lakes as high as 1,200 metres above sea level. This means great seasonal and daily variations in the river flow. So far, the daily average water flow has surpassed the calculations made prior to the dam being built.

"That's why we plan to get acceptance from the authorities to reduce the minimum water flow in the river to 800 litres per second from 1,500 litres as of today," Håland says.

Gjesdal Kraft had annual energy sales of about 12 GWh during its first 12 months of operation. That is enough to heat, light up and serve the use of electronic appliances in 600 detached family houses.

In Norway there are some 1,100 similar small hydropower plants with a total output of 8.2 TWh annually. That corresponds to 6.3 percent of Norway's 130 TWh annual electricity outputs, of which 95–99 percent comes from hydropower.

Gjesdal Kraft has a five-year electricity contract with Statkraft, Europe's largest renewable energy company and fully owned by the Norwegian state. During the first three years, Gjesdal Kraft will receive a set price for 70 percent of the annual output, and market price for the remaining 30 percent. For the following two years the mix is 50/50.

For 2012, Håland estimates that Gjesdal Kraft will have an annual turnover of NOK 4.0–4.5 million. Of this, about NOK 1.5 million is expected to be made up of subsidises in the form of Green Certificates sold on the Swedish–Norwegian electricity certificate market (See box.)

Rolf Håland typically takes one-week turns with his two sons to monitor the power plant. His third son lives in Oslo. The week on duty, he says, is not demanding as the hydropower plant is automated, packed with various sensors that monitor the process. It logs the water flows and electricity produced and a robot arm even cleans out debris from the intake grind at the dam. All data and events are displayed on the family's mobile handsets.

Being boss of your very own hydropower plant thus appears to be a fairly relaxing undertaking. ▀

Table. NIB countries' share of renewable energy in gross final energy consumption:

(In percentage)

	2010	Target 2020
Sweden	47.9	49.0
Latvia	32.6	40.0
Finland	32.2	38.0
Denmark	22.2	30.0
Estonia	24.3	25.0
Lithuania	19.7	23.0
EU (27 countries)	12.4	20.0
Norway	61.1	67.5
Iceland	67.0*	64.0

(Sources: Eurostat, European Commission)

*=2009

A GLOBAL ENERGY TECHNOLOGY REVOLUTION

NEEDED:

According to the Intergovernmental Panel on Climate Change (IPCC), limiting global warming to two degrees demands that the world's greenhouse gas emissions must peak in 2015 at the latest and be reduced by 50–85 percent by 2050, compared with 1990 levels. With the International Energy Agency forecasting global energy demand to increase by 40% in 2030 from 2007, there is a real need to improve energy efficiency and to promote renewable energy as well as carbon capture and storage.

EUROPE 2020

AMBITIOUS:

Europe 2020 is the European Union's ten-year growth strategy for jobs and smart, sustainable and inclusive growth, of which three out of seven major initiatives relate to energy and climate:

- Increase in the share of renewable energy sources in final energy consumption to 20%
- Reduction of greenhouse gas emissions by 20% compared to 1990
- 20% increase in energy efficiency



Make science earn money

Success in a catalyst business is all about fundamental research. It's the science that earns money, says Dr Haldor Topsøe, chairman of Haldor Topsøe A/S, which has signed a loan agreement with NIB to finance a new investment in R&D.

Dr Haldor Topsøe's advice to political leaders is very much in line with the above: take your time and research to understand the world better. The 99-year-old doyen of the Danish business community has given an interview to the NIB Bulletin.

Your company has signed a loan agreement with NIB totalling DKK 250 million. What are you planning to achieve in the new investment programme?

"Research and technology development require large investments, because there are so many things you want to investigate and understand better. Our company spends about DKK 400 million every year to support technology development. We have plans to expand our own R&D division, invest in new equipment, and expand the cooperation with research groups abroad. We are constantly in touch with research bases in Scandinavian universities. This network is expanding to other European countries, Far East, Russia, the US, South America and many other places."

You said in an interview you are keen on creating new knowledge. How important is this in the new R&D investment?

"Creating of new knowledge is always paramount. Very few processes are being conducted in the same way and for the same purposes—using the same unchanged knowledge—as five or ten



"Success in a catalyst business is all about fundamental research"

Dr Haldor Topsøe, Chairman of Haldor Topsøe A/S

years ago. If we hadn't had prioritised creation of new knowledge, many of the technologies we are now using wouldn't exist. If you want your business to be competitive and survive anything that may happen on the market, you have to base your operations on funda-

mental research. You can't lose, because everything that is created now or will be created in the future is based on fundamental research."

Why did you decide to cooperate with NIB in this project?

“One reason is historical. I’ve been involved with NIB ever since it was started. I participated in discussions on NIB prior to when the Bank was established. Another reason is that NIB’s philosophy and experience fits what we want to achieve. In my opinion, we, NIB and ourselves, think alike. I believe this was true when NIB began its activities, when we had our first arrangement with NIB back in 1995, and it is still true today. It had no meaning to have relations with a bank like NIB if we were miles apart in our philosophies.”

life. We were a small group of people interested in theoretical physics and theoretical chemistry, so we decided to start a business to amalgamate our passion for research into something useful. Since then our company has focused on fundamental and applied research that could luckily be combined with and financed by selling catalysts and catalysis-based technologies for industries. In other words, we found a way how to make science earn money. I can say today that the hope we cherished back in the 1940s when started the business has come true.”

How important is the environmental component in your operations?

“We are developing catalysts that reduce harmful content, such as NO_x and SO₂, in exhaust to the atmosphere. Each step in the value chain from the generation of energy all the way to the production of heat or manufacturing goods, which is a sequence of catalytic steps, create exhaust that needs to be purified – again through catalysis. Catalytic processes can be combined with other approaches in order to remove not only obnoxious products from the exhaust, but also particles, and reduce the impact of vibration, noise and so on.”

How does one encourage innovation in a company?

“Some hope they can manage innovation. I don’t believe that. It is very much a situation of having colleagues who think alike and want to create something new. It is crucial for any company to have employees who are motivated by ideas and plans. I don’t know how to achieve that, unless you have a place where people like to work.”

You established your company 72 years ago and you are still at the head of it. What is your vision for your company for the years to come?

“To grow.”

You are 99 years old. People retire from active work life at much earlier ages, what is your formula of endurance?

“I have no personal recipe. I’ve always considered it a privilege that I still can work and I am grateful for the way my colleagues in the company treat me, for the opportunities I have to participate in planning and discussing the future of the company as well as discussing, on a large scale, how we in the Nordic countries can create a good future for people.”

This echoes what you once said about business having little meaning if it doesn’t improve people’s lives and help poor countries. What is your idea of a responsible corporate citizen?

“The real thing about social responsibility is to help people have a decent life. Therefore the wealthy should focus on helping the poor more than anything else. There are millions of street children in many different countries and we don’t see how the world can be a good place to live if millions of street children live in extreme poverty. Ever since we established the company 72 years ago, we have considered helping street children as one of the best ways of combating poverty. But we are modest enough to understand that however large we think our contribution is, it’s just a pittance compared to what’s needed to help street children in the world.”

Looking at the big picture throughout history, from one crisis to another, from war to war, do you think the world is becoming better or worse off?

“I think political leaders need to work hard at formulating long-term views, not only focusing the next elections. For long-term views they have to do their research. They need to understand global processes. Like we in our business, they also need to widen our horizons. I even wrote a book 15 years ago that discussed the role of knowledge in modern society. As to the uneasy situation we are in, there has to be a balance between financial austerity, which will create an awful lot of social problems, and investing, which will create temporary financial problems. Slashing budgets is simply not enough. You should always be on the lookout for an opportunity to create something new.” ▀



Photo: Courtesy of Haldor Topsøe A/S.

How has your company become a global leader in catalyst production?

“You wouldn’t find an industry that doesn’t somehow depend on catalysis. Without catalysis there would be no life on earth. Even sun rays can do very little without basic photosynthesis to help create

Shorter drive from St Petersburg to Finnish ports

The construction of the Koskenkylä–Kotka stretch of the E18 corridor crossing from the west coast of Finland to the Russian border is well underway. The heavily trafficked road is increasingly important for the Finnish economy.

This is the largest infrastructure project currently under construction in Finland,” says Jaakko Kouvalainen, CEO of Tieyhtiö Valtatie 7 Oy. “The budget is almost EUR 350 million and there are around 500 people working on site. During the summer the number of persons will go up to 700.”

The E18 is the busiest and internationally most important road in Finland and stretches from Turku via the Helsinki Metropolitan Area to Vaalimaa at the Russian border. Converting the E18 into a motorway has been a long project and Mr Kouvalainen envisions that the final parts will be completed 2018–2019.

The current project comprises the construction and maintenance of 53 kilometres of motorway, of which 36 kilometres will be newly built and 17 kilometres will be a two-lane road converted into a motorway.

The construction began in December 2011 and the first parts of the road will be ready and taken into use by the end of 2013. With financing for the entire project in place and work progressing

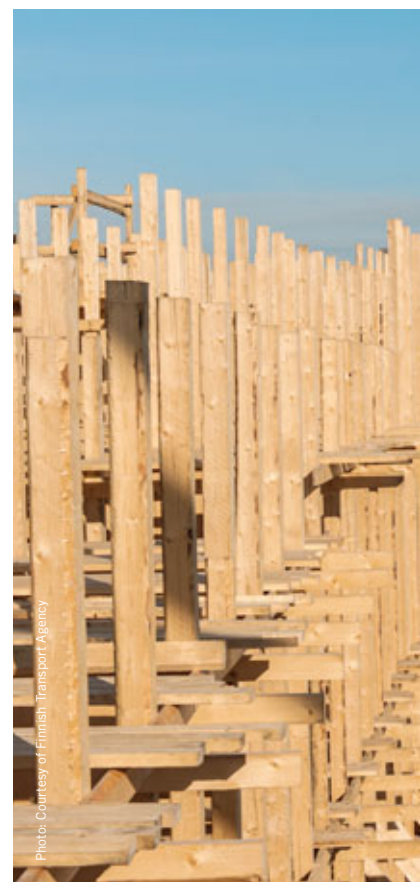
simultaneously on all six parts of the road, it enables efficient and timely completion of the project. By the end of 2014 the whole 53 kilometres will be in use and the following year all light traffic lanes and similar connections will be completed.

Tieyhtiö Valtatie 7 Oy is the project company set up by YIT, Destia, Meridiam Infrastructure and Ilmarinen Mutual Pension Insurance Company. The project company is in charge of executing the project based on the Finnish Transport Agency’s plans. The project is financed as a public–private–partnership, also known as a lifecycle model.

According to Mr Kouvalainen the benefits of the lifecycle model are substantial.

“The core benefit from the society’s point of view is the fact that a large road can be built very fast and taken into use quickly. This project would take significantly longer if financed through budget funding.”

The Koskenkylä–Kotka motorway will be built in three years followed by a maintenance period of 12 years during which



Ahvenkoski bridges under construction.

the project company is responsible for the roads availability for use. Compared to similar projects in Finland and abroad the period is extremely short, as it commonly is as long as 20 to 30 years.

“The PPP model also forces the service provider to produce an excellent end result as the liability period is much longer than in conventional projects where it normally is two years,” he continues.

The current project is the third PPP road project in Finland. The most recent



Photo: Courtesy of Finnish Transport Agency



"This is the largest infrastructure project currently under construction in Finland"

Jaakko Kouvalainen, CEO of Tieyhtiö Valtatie 7 Oy



Photo: Patrik Rastenberger

one was the Lohja–Muurla distance, completed in 2009, also a part of the E18 corridor. NIB has co-financed all three projects.

"One challenge of the PPP model is the vast amount of documentation required and the management of it. Another one is the fact that eight years in between projects is a long time and the experience gained during previous projects is at least partly lost. For the future I hope that some standardisation of

the documentation would be reached," Kouvalainen concludes.

The road was planned in collaboration with the "Green motorway" initiative, started by the municipalities and businesses in the area. The aim is to promote sustainable development by, for example, using renewable energy in traffic and road maintenance.

"We are going for more environmentally friendly solutions, such as using solar

panels for electricity generation for the service buildings and cafes along the road, LED lighting with an intelligent steering system. In addition, the use of wood is favoured both in service buildings, bridges and sound barriers. A special feature is the installation of tubing for electric car charging stations," Mr Kouvalainen explains.

The project's land mass balance is good. As the necessary grit is produced onsite, there is less need to transport material to

the site, resulting also in significant petrol savings. Over-digging, which sometimes is a challenge in similar projects, is minimised by an excavator system controlling the digging depth and area.

Improving the safety of the heavily trafficked road is another important aspect of the project and welcomed by the population in the area.

“A big part of the traffic consists of large trucks passing through residential areas. It is really a very dangerous stretch of road, with over 100 accidents resulting in two to three casualties a year,” Kouvalainen continues.

The traffic safety will also be improved by telematic surveillance offering information on weather conditions and speed limits. The system will be partly installed also beyond the current road project.

Safety and environmental responsibility is also stressed throughout the construction phase. Training is compulsory for all staff members as well as visitors at the sites. Big signs in various languages remind of the protection gear to wear and booklets for reporting safety breaches are handed out to everyone. The management reports weekly on safety statistics and keeps track of accident free days.

Converting the existing road to a motorway also leads to socio-economic benefits for the region. The municipalities, towns and villages understand the potential of business opportunities that the constantly growing traffic from Russia brings. Future plans include, among other projects, to develop services such as housing, tourism and logistics. ▴

FACTS

- 36 km of new road
- 17 km old road converted into motorway
- 68 new bridges
- 3 resting areas
- 35 km of noise fences
- 6 new motorway junctions
- A 497 m long tunnel connecting to a bridge
- Public-private partnership financing
- 8 minutes shorter travel time



Photo: Patrik Rastenberg





PPP in NIB's member countries

Joe Wright, Senior Director, Head of NIB's Transaction & Portfolio Management

ALTERNATIVE

Generally a public-private-partnership (PPP) involves the private sector being contracted to deliver a public sector project or service. In NIB's member countries PPP projects involve mostly road infrastructure and social infrastructure such as school buildings and hospitals. NIB is a long-term debt financier of many of the larger projects in its member country region.

The key contrast between PPPs and conventional public procurement is that with PPP's private sector, returns are linked to service outcomes and performance of the asset over the contract life. The private sector service provider is not only responsible for financing and building the infrastructure, but also for the quality and efficiency of its operation for several years thereafter.

PPP projects in the infrastructure sector usually fit well with NIB's mandate of enhancing competitiveness. NIB's strengths in providing long-term finance is well suited to the PPP model as infrastructure assets have long lifetimes and the private sector service provider has a long period of responsibility for their operation and maintenance.

An in-house study at NIB, covering the period 1994–2012, identified 60 PPPs within its member country region. During the same period, NIB has lent EUR 590 million to eight of these. The total cost of these projects is EUR 4.2 billion, equalling 70% of the entire PPP market value in the Nordic-Baltic region. NIB's financing thus constitutes 15% of the total project costs.

While NIB's involvement in PPP financed projects is substantial in the context of its member countries, elsewhere in Europe the number of PPP projects is low compared to the Nordic and Baltic region. In Europe in 2011, for example, 84 PPP transactions were carried out with a total value of EUR 17.9 billion. While in NIB's member countries the total value of PPP projects in the period 1994–2012 is just EUR 5.9 billion.

NIB's experience of the PPP projects it has financed is that they have been built ahead of schedule, and delivered high quality infrastructure and services. The projects have also achieved significant risk transfer to the private sector, and given public authorities certainty with regard to life-cycle costs.

NIB hosted a round-table meeting for public authorities involved in PPP procurement in May 2012. The key question for public authorities when choosing between PPP and conventional public procurement is value for money over the life-cycle of an infrastructure asset, taking into account the transfer of construction, operation and maintenance risk to the private sector. The main challenge for public authorities is to maximise the benefits of PPP projects by promoting competitive tender procedures, lowering transaction costs, and retaining expertise in the public sector to procure PPP projects efficiently.

Since the financial crisis the number and value of PPP projects in Europe has decreased, as it has become more costly for banks to provide the long-term financing needed for PPP infrastructure. This trend may be expected to continue as banks adjust to the requirements of Basel III regulation. However, there is potential for this gap to be filled by long-term debt from institutional investors seeking new long term assets and diversification of the risk in their investment portfolios. There are several interesting developments in this regard, including initiatives for PPP projects to be financed in bond markets, the emergence of specialist infrastructure debt funds, and direct investment by pension funds in the debt of infrastructure assets. ▀



Connecting northern railways

“Railway infrastructure planners need to stop staring themselves blind on national borders, and start to see the big picture,” says Oddgeir Danielsen, Director of the Nordic Dimension Partnership on Transport and Logistics (NDPTL). NIB Bulletin met with the director to discuss developments of the Nordic-Baltic railway infrastructure.

During the last three years, NIB has financed several railway projects in its owner countries, including train stock upgrades in Sweden and rail infrastructure investments in Latvia and Lithuania. Electrified rail traffic is without a doubt the most environmentally sustainable way of travelling today, and supporting a greener transport infrastructure strongly corresponds with the Bank’s mission of promoting sustainable growth.

But when looking at the overall picture of rail investments in the Nordic-Baltic region, NDPTL Director Oddgeir Danielsen is not satisfied with the current pace. There are both technical and financial barriers on the way, he says.

“One of the major problems when developing the Nordic-Baltic railway infrastructure network is that the track systems don’t fit together, they are not compatible,” says Mr Danielsen. “The track gauge in the Baltic countries and Finland are harmonised to the Russian system, while the rails in the rest of the region follow the European standard. So in order for trains to cross between these two systems, their wheels need to be

adjusted, or otherwise the trains must be reloaded to other trains.”

“Finland and the Baltics are using the Russian rail system to what it is worth, since they are handling transit cargo to and from Russia and the Far East, even China. This is a great market benefit for them, since in the railway business the money comes from cargo, not passenger traffic,” Mr Danielsen notes.

“But despite the income factor, most of the investments in the region have focused on improving passenger transport. For example in Finland, this has resulted in a situation where we don’t have enough capacity for cargo trains. There are no railroad tracks that can carry the actual volumes, which in turn has a negative effect on the industries in the northern parts of the country”.

Still, when planning the rail infrastructure in this region, it is also a European affair, Mr Danielsen notes.

“The EU is concerned about the situation with the two different gauge systems, and they want, for example, to see the new Rail Baltica project built with Euro-



Oddgeir Danielsen would like to see new financing models for railway investments.



The NDPTL Regional Transport Network extends the European TEN-T rail network to reach outside the EU’s northern borders.



Photo: Pamela Schönberg

"Railway infrastructure planners need to stop staring themselves blind on national borders, and start to see the big picture."

Oddgeir Danielsen, Director of the NDPTL

pean tracks. That will be an extremely expensive project, and for the time being several project initiatives are looking into this in order to find a viable solution."

Another crucial factor when planning railway investments is the EU Trans-European Transport Network (TEN-T), a European network comprising all transport modes and defining the major nodes, such as border

crossing points, airports and ports. The European Commission agreed on this prioritised network in spring 2012.

"Major investments are expected in the routes and connections of this network, and the projects are entitled to EU transport funding. The states that deploy the funding, also have an obligation to complete their projects within a time frame, which is set to 2030," Mr Danielsen says, and adds that the EU

funding in combination with the states' liabilities will offer many attractive and low-risk financing projects.

"But obviously, the TEN-T-network is not very dense here in the northern parts of the EU, so what we are doing within the NDPTL is to provide financial support to projects that develop railway extensions to reach outside the union's northern borders, to Norway, Russia and Belarus."

"In this connection" Mr Danielsen stresses "we are lacking some fundamental elements; one example is a railway link between Helsinki and Tallinn. Both a railroad tunnel and railroad ferries have been introduced at the discussion table, and such a solution would provide a good transportation infrastructure for both passengers and cargo. And simultaneously, improving the routes for cargo transport would have a strong positive impact on the industrial development of the north."

“What it all comes down to in the end is financing,” says Oddgeir Danielsen.

"Most of the railroad investments are bound to state financing, which makes the processes and projects both slow and ineffective. New models of financing are what we need in order to speed up the investments".

"We have already seen railway projects in the form of public private partnerships, where the risks are divided between the state and the private sector. But PPPs are only one model of financing. I see that expert institutions, such as NIB, could play an important role here as developers and coordinators of new and innovative finance structures in order to reduce railways' heavy dependence on state funds," Mr Danielsen concludes. ▀

Petrozavodsk gets to grips with sewage treatment

Together with a group of international financiers, NIB has agreed on an investment package for financing the rebuilding of a wastewater treatment plant in Petrozavodsk, the capital of the Republic of Karelia in Northwest Russia. The contractor company, PKS, the city and the regional government see many advantages in cooperating with the Nordic international financial institutions.

“It’s a miracle this plant is still functioning,” says Vladimir, a journalist from a local newspaper, as we take a guided tour at the Petrozavodsk wastewater treatment plant just a few hours before signing a loan agreement with NIB and other international financiers on actually reconstructing this same plant.

The plant was launched in 1979. Every day, it releases some 120,000–140,000 cubic metres of the city’s treated effluent into the lake Onega, just a hundred metres away. Onega is Europe’s second largest lake and part of the Baltic Sea catchment area.

“The reconstruction couldn’t come any sooner. This plant won’t last much longer,” says Vladimir. We are looking into a large empty sedimentation tank. The metal parts of the tanks as well as most of the other machinery are heavily corroded and look very much worn out. It does feel like the plant is barely breathing.

Our host, Alexandr Safronov agrees: “It’s obvious the reconstruction is long overdue.” Some equipment was upgraded in the mid-1990s, for instance the dewatering machine, but even that has already become obsolete and a danger to the environment.

Mr Safronov is the Chief Managing Director of Petrozavodsk Communal Utilities Systems (PKS), a company that takes care of the drinking water supply and wastewater treatment in the city.

“In general, the effluent treated at the plant meets requirements but the concentration of nutrients exceeds the recommended value,” he continues. He also admits a high risk of emergency release of untreated wastewater into the lake from the long-time obsolete plant.

“We do whatever we can to prevent the emergency, fixing up here and there every now and then, but this is not enough,” Mr Safronov adds.

In order to meet international standards on water and wastewater quality and apply modern technologies, PKS is embarking on an investment programme to be completed in 2015. It is estimated that the revamped treatment plant will reduce the amount of phosphorus in discharges by more than 60 tonnes a year.

“This result will allow us to comply with the HELCOM requirements,” says Mr Safronov.

For this purpose, the company has secured financial backing from the Government of the Republic of Karelia



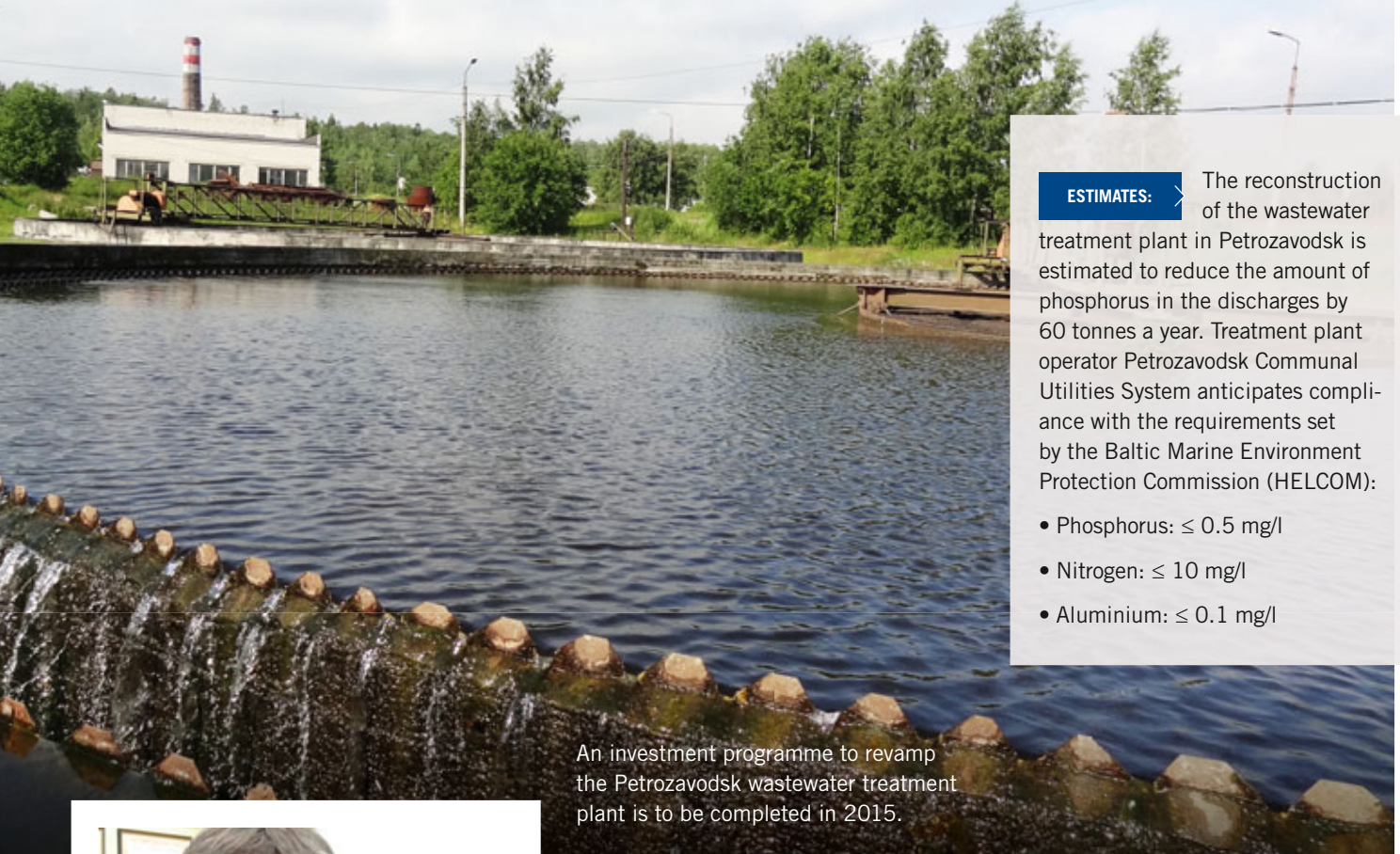
Evgeny Zhuravlev, First Deputy Mayor of Petrozavodsk

and the city budget, as well as a EUR 18 million international package. The international part of the financing includes a EUR 7 million loan from the Nordic Investment Bank, as well as a EUR 4 million loan from the Nordic Environmental Finance Corporation (NEFCO), a EUR 5 million grant from the Northern Dimension Environmental Partnership and a EUR 2 million grant from the Ministry of the Environment of Finland. The loans from NIB and NEFCO are being guaranteed by the Republic of Karelia.

The Deputy Minister of Finance in the regional government, Alexey Maximov, says attracting a financing package from reputable international institutions is a valuable experience for the Republic of Karelia.

“This is our first experience in dealing with international investments in infrastructure projects of this scale. The Republic of





ESTIMATES: > The reconstruction of the wastewater treatment plant in Petrozavodsk is estimated to reduce the amount of phosphorus in the discharges by 60 tonnes a year. Treatment plant operator Petrozavodsk Communal Utilities System anticipates compliance with the requirements set by the Baltic Marine Environment Protection Commission (HELCOM):

- Phosphorus: ≤ 0.5 mg/l
- Nitrogen: ≤ 10 mg/l
- Aluminium: ≤ 0.1 mg/l

An investment programme to revamp the Petrozavodsk wastewater treatment plant is to be completed in 2015.



Alexandr Safronov, Chief Managing Director of Petrozavodsk Communal Utilities Systems

Karelia is now a step closer to the European financial institutions,” he says.

“The government has decided to provide guarantees for the loans, because the importance of this project for the region is very significant. At the same time, despite the costs, we are doing our best to keep the tariffs at their current level. The trust of our international partners gives the region access to long-term money at competitive interest rates. We need it for projects in water management to relieve the burden from the regional budget,” Mr Maximov explains.

The conditions of the long-term loans provided and the grants from the NDEP Fund and the Finnish Ministry of the Environment will help ease up the prospective pressure on

tariffs. The grant money will be used for the acquisition of up-to-date technologies and equipment.

The First Deputy Mayor of Petrozavodsk, Evgeny Zhuravlev, hails the technological upgrade of utilities and the transparency of the loan agreement.

“Technologies and transparency are as important as money. The efficient treatment of Petrozavodsk’s sewage is in the interest of the whole Barents and Baltic Sea region. But we are, of course, the first to benefit. After all, Lake Onega is the source of drinking water for the city,” says Mr Zhuravlev.

The modernisation of the drinking water and wastewater treatment is one of the largest projects in the public utility services in Petrozavodsk. Besides its positive environmental effect, it will also create some 300 new jobs in building and maintenance. Mr Zhuravlev hopes the project will give a green light for investors to come to the city.

“The loan agreement proves that we are a reliable partner for investors. We also count on the multiplication effect. Investors are more prone to build up their business on infrastructural improvements,” he says.

The city has a number of other urgent needs for environmental investments, including the upgrade of smaller wastewater treatment facilities and building up storm water treatment. Mr Zhuravlev believes that the experience from close cooperation with international financial institutions in this project will help in negotiations for more loans in the future.

“It may seem easier to land a loan from a commercial bank, but we are learning how to deal with IFIs, how to make our projects eligible for their financing. It’s well worth it if the outcome allows us not to dip into the pockets of the inhabitants,” says the deputy mayor.

All partners on the Russian side—the contractor, the city and the regional government—are speaking with one voice about the prestige of the project. Mr Safronov has been in his job for more than seven years after a long career in public administration. He sees the implementation of the investment programme as a matter of honour.

“We have a perfect opportunity to excel,” he says. ▴

Sanitised sewage offers relief for Baltic Sea

A grant from the Baltic Sea Action Plan Fund to a pilot treatment facility sanitising housing sewage into nutritional farm fertilisers provides a much needed catalyst for raising investor interest to reduce phosphorus and nitrogen discharges to the Baltic Sea.

Started in August, the Telge Nät treatment plant in Södertälje, Sweden, receives household sewage from almost 700 private closed tanks into its processing cisterns.

“The waste is treated with air and urea to kill undesirable microorganisms, and the end result is valuable manure fully accepted by the Federation of Swedish farmers,” says product manager Anna Calo at Telge Nät AB.

In addition to reducing scarce global phosphorus resources in chemical fertilisers, the recyclable sewage system means new areas in the Södertälje municipality, located just outside, Stockholm could be opened for settlement.

The new facility is part of the Swedish Government’s plan to recycle 60% of phosphorus from sewage back to productive agricultural land by 2015.

“I would like to have facilities like this in every city and every community around the whole Baltic Sea,” Swedish Minister for the Environment Lena Ek said at the inauguration of the facility.

That would definitively reduce the eutrophication and pollution of the plagued Baltic Sea, as indicated by excessive algal blooms, dead sea-beds, and depletion of fish stocks.

According to the Baltic Marine Environment Protection Commission, usually known as the Helsinki Commission (HELCOM), failure to react now will affect vital resources for the future economic prosperity of the whole region and cost substantially more than the cost of action.

In 2007, it adopted a Baltic Sea Action Plan (BSAP) to restore the good ecological status of the Baltic marine environment by 2021.

“We have a very structured action plan that steers both the government’s work and sets the framework for what our municipalities can do and how we cooperate with other HELCOM members,” Ek says.

Members of HELCOM are Denmark, Estonia, the European Union, Finland, Germany, Latvia, Lithuania, Poland, Russia and Sweden.

“The Baltic Sea action plan is extremely concrete, perhaps the world’s most transboundary environmental



At the plant inauguration: Anna Calo, Product manager at Telge Nät AB, and Lena Ek, Swedish Minister for the Environment



strategy, so it’s all about making it happen,” says Ek.

Since 2009, environmental projects supporting the BSAP have been able to seek grants from the BSAP Fund managed by the Nordic Investment Bank (NIB) and the Nordic Environment Finance Corporation (NEFCO). Having almost granted total fund contributions of EUR 9 million from Sweden and EUR 2 million from Finland on 25 projects, the fund is



"The Baltic Sea action plan is extremely concrete, perhaps the world's most transboundary environmental strategy"

Lena Ek, Swedish Minister for the Environment

currently being evaluated by an external consultant on whether it should continue with fresh means or not.

Minister Ek (Centre Party) says there is still a will in Sweden to continue the BSAP Fund, as evident in ongoing budget negotiations.

"Yes, naturally there is. At the same time we're also working with the question

of financing Baltic Sea projects within the EU system framework," says Ek.

The Danish EU Chairmanship worked hard to address the Baltic Sea questions in negotiations on the EU's Multiannual Financial Framework 2014–2020.

"That is also an important procedure as much needs to be done in order to save the Baltic Sea," Ek. ▀

BALTIC SEA ACTION PLAN FUND

IN DETAIL

The BSAP Fund is a fund managed by the Nordic Investment Bank (NIB) and the Nordic Environment Finance Corporation (NEFCO).

The fund started in 2009 by providing 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.

Sweden has committed SEK 90 million (EUR 9 million) to the BSAP Fund and Finland EUR 2 million.

Funds have now been used for grant financing of about 35 projects of the following:

- 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
- Measures that improve efficiency and quality in project implementation (e.g. the acquisition of equipment for demonstration purposes).

New Helsinki University Main Library: Spectacular design & 30 kilometres of books

Finland's largest academic library, the new Helsinki University Main Library, opened to the public early in September, 2012.

"This is Helsinki's amazing new living room," said Thomas Wilhelmsson, Rector of the University of Helsinki, in his opening speech.

The library doesn't just look amazing. It's also the new home of 30 shelf-kilometres of books and ready to serve more than 20,000 students, researchers and interested residents of Helsinki.

It's no coincidence the library is opened in 2012, the year when Helsinki is the World Design Capital. It's a part of the official design capital programme and clearly embodies the main aspects of the year: rethinking design to create better societies.

One might think that libraries are a thing of the past now that a book can easily be ordered by the click of a button from the convenience of home. But according to Rector Wilhelmsson the physical library buildings are needed as a meeting point and as a sort of living machine that supports creative thinking.

The library, partly financed by NIB with a EUR 27 million loan, also constitutes an important part in the University of Helsinki's strategic and ambitious goal to become a top 50 university globally.

Vesa Oiva, from Anttila Oiva Architects, explains that the inspiration for creating their winning concept was how to combine the functionality of the building with the very central location in the city of Helsinki. The space itself was the starting point of the whole concept. According to Mr Oiva, the most challenging part was to create an atmosphere that would suit all users.

Olli Lampinen, a fourth-year theology student at University of Helsinki, is writing a lecture diary on one of the daybeds close to the large windows overlooking Kaisaniemi street. During his previous visits to the library, he has already identified his favourite place to study by the large window on the first floor, preferably in one of the comfortable armchairs designed by Finnish designer Yrjö Kukkapuro. Unfortunately, they were all taken this time.

"The building is stylish and works well with the three other university buildings it is linked to via a corridor for easy access," Olli concludes. "As a street, Kaisaniemi itself is quite ugly but the designers have managed to create a building suitable for the space."



Photo: Marjo Koivumäki

Helsinki University Main Library: Legal students Niko Aarnio and Piia Nyström are frequent users of the library partly financed by NIB.

The legal students Piia Nyström and Niko Aarnio are frequent users of the newly opened library. They are both thrilled by the amount of light and the open main lobby with its oval hole going all the way to the top of the building, bringing daylight to all floors.

"I continuously find new details and am surprised by their ingenuity, and the incredible automated check-out stations that are able to read bar-codes from at least five books in one go," Piia adds with enthusiasm.

Pinja Kankare is looking for a book on organisational management on the second floor. The second-year social psychology major is amazed by the new library.

"Helsinki has gotten its Guggenheim," Pinja praises. ▀



The surprising renaissance of the Nordic model

Juhana Vartiainen, Director General, Government
Institute of Economic Research, Helsinki, Finland

COLUMN

During the Cold War, the opposition between Communism and liberal democracy dominated Western politics. Liberal democracy eventually won the big contest of ideas, but there has been another Cold War winner, too: the Nordic welfare state. Nordic societies have been able to combine the best elements of market liberalism and European socialism to produce wealthy yet egalitarian societies. Time after time, the Nordic countries emerge on top of international rankings, both in quality of life as well as in overall material well-being.

This success has also become acknowledged in the international economic policy discussion. Under the Cold War, there was less room for nuances. Communists tended to see Nordic social democracy as class treason, whereas rightwing politicians were suspicious of the Nordic welfare state as a halfway station to communism.

From the 1990s onwards, a remarkable change of perspective has taken place. Nowadays, mainstream business papers such as the *Financial Times* heap praise on Nordic economic policies. Even the economics profession increasingly seems to like the Nordic states. And why not? Many studies indicate how market-friendly the Nordic societies are. As small and open economies, they have always been pro-trade and suspicious of protectionism. Yet, in European comparison, they also display less product market regulation and a greater appetite for privatisation than many other countries. True, they have regulated labour markets and strong unions, but even there the outcomes seem benign: encompassing collective agreements restrain local industrial conflicts and provide tools for effective labour market adjustment.

Furthermore, few economists fail to notice how most Nordic countries have been able to implement sustainable fiscal policies as well as credible monetary arrangements – precisely as economic textbooks would advocate.

Be open but share the fruits of openness

The modern view is that the Nordic welfare state

works in tandem with the market economy, not against the market economy. In short, the Nordic countries have understood that international openness is the only guarantor of material well-being; but, in contrast to many other countries, they also have understood that the continued success of pro-market policies requires popular consent. This means that the fruits of openness must be shared between citizens. The Nordics want to use the global economy to become wealthy, but they also pool the risks and share the fruits of this inherently risky undertaking.

Learning from one's mistakes

Another ingredient of success is policy experimentation. Many scholars have seen the Nordic economic model as a set of fixed institutions like high taxes, ambitious redistribution, strong unions and state-provided basic services. Yet Nordic history suggests that remarkable policy reorientations have taken place even as the general pursuit of material well-being and egalitarian objectives has remained unchanged.

For example, in the 1960s and 1970s, economic redistribution was sought by extremely solidaristic wage policies, in Sweden in particular. This means that low-wage groups did get systematically higher pay increases than high-wage professionals. This ambitious wage compression, however, was clearly at odds with the allocative function of the labour market. It led to a crisis and a breakdown of centralised pay bargaining. Since then, Sweden has gradually implemented rather individualistic and decentralised pay bargaining, while redistribution is mostly taken care of by taxation and the provision of welfare services.

Another broad reorientation is the turn of labour market policies and social policies towards activation, i.e. fewer transfers and more emphasis on measures that push and even cajole individuals into employment. The Danish “flexicurity” policies, as well as Swedish labour supply measures during the 2000s, are prime examples of this approach. Even here, we see a rational response to an economic

challenge: the Nordic countries get older, and the fiscal sustainability of the welfare state can only be ensured if employment and participation rates are high. The Nordic model provides a great package of services to its citizens, but it cannot let them get away with too many leisure years.

Challenges ahead

What about threats and challenges? Nordic success can breed complacency. Yet there are grounds for some optimism as to the continued success of the Nordic countries. With their low level of corruption, decent infrastructure, generally competent education systems and an acceptance of the market economy, they cannot but be winners in a global economy full of opportunities.

The Nordics are not all alike, however. Sweden and Norway display very solid economic fundamentals, with no sustainability problems, to speak of, in their public finances. Finland, however, has been less proactive in adjusting to the current demographic shock. Painful decisions on the retirement age remain to be taken, and the country generally lags behind the other Nordics in the employment rate of senior groups.

In my view, the main threats and challenges of the Nordics are internal and related to the political support of responsible policies. Firstly, as mentioned, a deterioration of the dependency ratio requires a stringent approach to labour market policy. Such activation policies contradict the values of many workers and trade union members who then may become attracted to populist anti-immigrant parties. Another factor that may undermine the political support of responsible policies is excessive executive pay. Lastly, the integration of young people as well as immigrants into the labour market is a continuous challenge. The Nordic countries need immigrants to keep their economies growing and their welfare states robust. In none of them, however, is the labour market integration of immigrant youth completely satisfactory. There is ample need for the Nordics’ ability for social innovation even in the future. ▀

A portrait of Per Eldar Søvik, NIB's Chief Compliance Officer. He is a middle-aged man with grey hair and a beard, wearing a grey suit jacket, a blue shirt, and a patterned tie. He is standing outdoors with trees and a building in the background.

NIB's Chief Compliance Officer:

Compliance adds value

"I truly appreciate the way compliance can benefit the functioning of institutions and their relationship with stakeholders," says Per Eldar Søvik NIB's Chief Compliance Officer.

Per Eldar Søvik joined the Nordic Investment Bank as Chief Compliance Officer early in 2012. His task is to ensure that NIB meets the high expectations that markets place on it, and that the Bank adheres to the best practices of accountability, transparency and business ethics.

In his role, Søvik reports to NIB's President and CEO and has direct access to the chairperson of the Bank's Board of Directors and Control Committee. Søvik also chairs NIB's Committee on Fighting Corruption, which is responsible for investigating allegations of fraud and corruption.

Prior to NIB, Søvik worked with the African Development Bank (AfDB) from 2006 in Tunisia, where he established and directed its compliance review and mediation mechanism.

Back then, compliance was a new concept to AfDB and Søvik was instrumental in educating the bank's staff and civil society, says a former colleague, Professor Daniel D. Bradlow, chairperson of the first external expert panel of AfDB's review mechanism.

"Building credibility was very important to ensure the respect and independence of the compliance and mediation functions," Bradlow says, "and Mr Søvik was very successful in doing this."

Since February 2012, Søvik has been working with NIB in Helsinki, a city he knows well.

From 1996 to 2006, Søvik worked for the Nordic Development Fund (NDF) in Helsinki, the hub for common Nordic and Baltic investment instruments. One of his tasks there was to help establish anti-corruption guidelines for the Nordic institution and later to chair its anti-corruption committee.

How did you get into compliance?

"I've always had an interest in governance issues. I truly appreciate the way compliance can benefit the functioning

of institutions and their relationship with stakeholders."

Besides having earned a degree in economics and management in his home country Norway, Søvik also has a master's degree in development economics from the University of Manchester in England, with a focus on the administration of public funds.

After his university studies, Søvik worked in several African countries where he witnessed the many negative consequences stemming from poor education and health services and inadequate infrastructure sites due to the illegal diversion of funds.

"I have seen how destructive corruption can be for social and economic development, so I'm happy now that fighting corruption is once again high on the agenda of international financial institutions."

He emphasises that corruption always involves at least three parties: those who pay bribes, those who take them and those who, in the end, receive reduced or more costly services.

What does compliance contribute to NIB and its stakeholders?

"For NIB, the value of its compliance function is that it seeks to ensure that the Bank is accountable in all instances, and that the projects it finances are of good quality and contributing to economic and social development that benefits all."

As an international financial institution, it is important that NIB goes beyond simply providing funds, but also makes sure that the projects it finances really add value in a sustainable way.

"Compliance really is about adding value to the organisation and its stakeholders."

However, that is generally not how compliance is always perceived?

"Unfortunately not, and neither do we want to be perceived as watchdogs. Compliance to me is about learning lessons in order to improve performance."

Søvik reminds that people working with compliance share the same overall goals as other bank staff in bringing the organisation forward, they are only using different means.

"A general challenge, as I see it, is how to make people not fear compliance but to see it as an important cooperative partner to achieve these common goals."

How prepared is NIB to handle compliance issues?

"I'm very pleased that NIB has a policy on fighting corruption with zero tolerance. The Bank should also be proud of adhering to the principles of the uniform framework for preventing and combating fraud and corruption agreed upon by the major international financial institutions," Søvik says.

Søvik adds that if something goes wrong in a project or within the institution, it is important for NIB to learn about it in order to address the problem.

"For that reason, all NIB staff is obliged to report without delay any suspicion of fraud and corruption to the Chief Compliance Officer." ▀

For more information visit:
<http://www.nib.int>

NIB adopts sustainability policy



"The new sustainability policy helps NIB engage in projects that contribute to a sustainable future, says Johan Ljungberg, Head of Sustainability & Mandate at NIB.

NIB's new "Sustainability Policy and Guidelines" contains precise requirements to help NIB and its potential clients to better evaluate the sustainability of specific projects.

The new policy replaces the environmental policy from 2008, to better mirror NIB's mission to promote sustainable growth in its member countries. The revised policy covers environmental and social aspects and complements NIB's other financial policies on economic issues.

"The social dimension is important for the long-term viability of projects, and the shift from a pure environmental policy to a sustainability policy is a natural response to this," says Johan Ljungberg, Head of Sustainability & Mandate at NIB.

NIB uses the revised policy as a compliance and strategy tool to provide long-term complementary financing, based on sound banking principles, to projects that strengthen competitiveness and enhance the environment. It is also a promise to our customers that policies and guidelines are harmonised with those of other international financial institutions (IFIs) to make processes simpler, especially in cases of co-financing.

For NIB, the term sustainability fits well with its mandate and focus on funding projects for renewable energy and resource efficiency, green buildings and public transportation.

The sustainability policy and guidelines provide criteria for assessing environmental and social impacts of every investment project, also specifying activities not suitable for NIB financing.

"Such an exclusion list is a clear statement of projects that should not be part of NIB's lending portfolio," Ljungberg says, adding: "That helps us to engage in projects that contribute to a sustainable future."

Examples of NIB's lending include a 20-year maturity loan of EUR 67 million to finance a combined heat and power plant for the Swedish energy company Vaxjö Energi. The new bio-fuelled power plant will replace fossil fuels and significantly decrease greenhouse gas emissions.

A recent EUR 24 million loan to finance Danish Ringkjøbing Landbobank's wind energy projects are another example of NIB's focus on sustainability. Crowding out the fossil-fired electricity generation and expanding wind power contributes to a target set by the Danish government, saying that half of all elec-

tricity consumed in the country should be produced from renewable sources by 2020.

In July 2012, the Finnish and Russian governments, together with the Petrozavodsk Communal Utilities Systems and a group of international financial institutions including NIB, signed a EUR 32 million loan package to reduce the amount of untreated wastewater being discharged into Lake Onega, in North-western Russia.

A fourth example of NIB's lending is a 15-year maturity loan of EUR 133 million to Norwegian Sparebank 1 SMN for onlending to small and medium-sized enterprises engaged in building and upgrading projects for hydropower plants.

Overall, NIB's participation in a project is widely perceived as a mark of quality.

"Other co-financers know that when NIB participates in projects, the environmental issues have been double checked and dealt with in detail," says NIB's Head of Origination Søren Kjær Mortensen.

In response to investors' readiness to support environmentally sustainable projects, NIB has introduced a framework allowing investors to provide funds for the Bank's environmental lending. Funds raised through the NIB Environmental Bond fixed-income issuance are held in a separate portfolio until they are disbursed to eligible projects. Projects qualify if they meet the strict environmental sustainability criteria described in the new Sustainability policy and guidelines.

Read more about NIB's new Sustainability policy, guidelines and the NIB Environmental Bond at www.nib.int ■

Kymijärvi II:

Climate Deed 2011



Recycling for tomorrow.



The price-winning waste-to-energy plant in Lahti.

AWARD

The Climate Deed 2011 was awarded by the Finnish Energy Industries. Eligible parties include actors within the energy sector making climate change mitigating investments, development projects or other projects targeted at slowing climate change. Special attention is given to projects that reduce CO₂ emissions.

Lahti Energy awarded Climate Deed 2011 to the new Kymijärvi II waste-to-energy power plant.

The new plant is the first gasification-based power plant efficiently producing electricity and district heating from solid recovered fuel (SRF). The primary energy sources are pre-sorted waste that burn well, such as paper, wood and plastic from both households and industry. Once the waste has been gasified, it gets cleaned and burned as eco-gas.

The project is partly financed with a 20-year-maturity loan of EUR 50 million from NIB.

“We are very happy to receive the Climate Deed 2011 award acknowledging

the long-term work at Lahti Energy. We have succeeded in taking energy production technology to the next level by building this full-scale gasification power plant,” says Janne Savelainen, CEO of Lahti Energy Ltd.

Lahti Energy received the award due to the innovation and replicability of the project. The project has already aroused interest abroad and many wish to visit the plant. There have been inquiries from Asia and other parts of Europe and America. Mr Savelainen believes it will not be long before similar power plants are built elsewhere. The technology will certainly be a great export product for the supplier.

The new waste-to-energy plant took one-and-a half years to build and was launched during the spring of 2012. The plant is expected to utilise 250,000 tonnes of SRF annually, waste that otherwise would be piling up at dumps and in landfills. The actual consumption varies based on how much electricity and district heating needs to be produced.

The estimated CO₂ emission cuts are 410,000 tonnes a year, compared to producing the same amount of energy using coal. In addition, the usage of the older coal-fired power plant will diminish and that will result in additional cuts of 230,000 tonnes of CO₂ emissions. ▲

Thomas Wrangdahl: Passionate about it

Thomas Wrangdahl, the Swede who recently was appointed NIB's First Vice-President and Head of Lending, arrives in Finland with his wife and a good portion of expectations.

Wrangdahl says he is passionate about learning the history of client companies, and from what he else he tell us, we can see his passions also include vintage cars, hiking, snowboarding and golf.

Wrangdahl is responsible for NIB's lending operations both within and outside the Nordic and Baltic member countries, and he is also a member of the Bank's Executive Committee. Prior to NIB, Wrangdahl worked as General Manager of the BNP Paribas Branch in Stockholm from 2006 to 2012. In 2010, he also managed the Copenhagen Branch.

What attracted you to NIB?

"It was the opportunity to do something outside business as usual, where the only driver is to earn money. NIB has another aspect to it, obviously its mandate, and that attracts me, both the environmental and the competitiveness part."

NIB finances projects that stimulate sustainable growth in the Nordic-Baltic region. Its mandate is to provide long-term complementary financing to projects that strengthen the competitiveness and enhance the environment.

Mr Wrangdahl, who has worked in the financial sector since 1984, has witnessed the increasing significance of environmental thinking.

"It's funny to think that just 20 years ago, those focused on so-called green issues were frowned upon and seen as a bit ridiculous. There was a lot of scepticism at that time, not the least from capital financial markets. Today, however, environmental thinking is at the forefront of developments. If you're not green and

take your social corporate responsibilities seriously, you are losing out."

One of Wrangdahl's immediate tasks is to complete a reorganisation of NIB's Lending department. A major change was the decision to make the Bank's environmental analysis group a part of the Lending department.

"I merged the two groups to streamline processes, and I think the change is very positive for the lending department, the environment mandate group and the bank as such," Wrangdahl explains.


Wrangdahl holds a Master of Laws degree from the University of Lund and a Master of Science degree in Business Administration from the Stockholm School of Economics. Before his post at BNP Paribas, Wrangdahl has held various managerial positions, including at HSH Nordbank and ABB Financial Services, both in Sweden and abroad.

How do you see the difference between NIB and commercial banks?

"One main difference is that commercial banks are geared to sell a multiple of products. It's all about being able to provide loans upon which they can sell other products. With NIB, lending is the only product and everything revolves around that. And that's fine with me. I've always thought the most interesting part is to provide capital as such."

A good share of Wrangdahl's career has been in providing export finance to companies, something which naturally involves thorough analysis.

"Understanding the basis of companies has always interested me the most," Wrangdahl says, adding, "I really love it!"



Thomas Wrangdahl,
NIB First Vice-
President and
Head of Lending



Photo: Marjo Kavimäki

“I always look at the history of companies, that’s at the very top of my priorities. It is both important and interesting to see how companies develop in order to have a full understanding of what they are today. And so financing their activities today is something I think is interesting to be a part of.”

How do you see NIB’s role in the euro crisis?

“The euro crisis has evolved and developed for quite some time, and this early autumn it looks like we’re heading in the right direction. The German high court rulings, the Dutch election which saw pro-EU parties win—these are all good news. But we’ve also seen very bad news coming out quickly and unexpectedly. In such a scenario NIB has a very important complementary role to play.

“Being a complement means that NIB is working to provide financing together with commercial banks. We can do this in several interesting ways, the most natural way being the fact that we can provide long maturities. It is very interesting for commercial banks to have that kind of cooperation.

“The combination of commercial banks and NIB’s experience, skills and ability to provide longer term capital is something that is beneficial for the corporations and therefore for society, also from an economic point of view.”

What about weary investors?

“Yes, there is a certain hesitation from municipalities and the industrial side to invest in new projects. For NIB, the disbursement of loans to the heavy industry and mechanical engineering

sectors are currently lower than expected. For us, that is a clear sign that the corporate world is holding back on investments.

“Experience however tells us that this will create a certain overhang after a certain time. That will be a very significant investment cycle at that point in time when they get willing and ready. And when that happens NIB will be ready to act.”

What are the expectations for your new life in Helsinki?

“I was in Singapore for three years and very much liked that experience. We just looked around in Helsinki with my wife and we got a little bit of the same feeling. It is a new adventure, even if it’s geographically very close to Sweden.”

Their son and three daughters will continue their studies at universities in Sweden.

“I have tried to persuade them that there are excellent schools and universities in Finland and that they should consider doing part of their studies here, so we will see if they will take the opportunity.”

Wrangdahl hopes to find time in Finland to continue to enjoy his outdoor activities, among them hiking, skiing, skating, and canoeing. “It seems to be the perfect place for being outdoors, all year around!” ▲

NIB lending organises around industry sectors

NIB has reorganised its lending department to strengthen its presence and enhance the service to its clients.

As of August 2012, the origination of loans and management of client relationships is handled by five industry groups: Financial Intermediaries & SMEs, Energy & Environment, Infrastructure and Telecom, Heavy Industry & Mechanical Engineering, and Consumer Goods & Services.

These groups serve all clients, both in the Bank's member countries and beyond. The previous division of lending operations between member and non-member countries has been discontinued.

The new origination unit will be co-managed by the two former heads

of origination until Lars Selenius' forthcoming retirement, after which Søren K. Mortensen will continue as Head of Origination.

"The new lending structure enables NIB to deepen the understanding of the key sectors in the economies. By working across the full range of member countries and other countries of operation, the sector groups will be better equipped to identify opportunities and deal with challenges in an increasingly integrated economic environment," says Thomas Wrangdahl, First Vice-President and NIB's new Head of Lending.

As a consequence of the new organisational set-up, NIB's offices in Copenhagen, Stockholm and Oslo will be closed.

"As NIB now operates on a cross-cutting industry sector basis, there is a reduced benefit from small local offices which cannot have the full scope of expertise. Thus in order to maximise efficiency and professional interaction, the Bank has decided to concentrate its operations to its headquarters. This does not imply fewer client contacts. On the contrary, there will be more proactive communication than before," says Mr Wrangdahl.

NIB will continue with its local representatives in China and Russia due to the special nature of the Bank's operations in these countries.

NAME	TITLE / RESPONSIBILITY	PHONE
LENDING		
Thomas Wrangdahl	Head of Lending	+358 10 618 001
ORIGINATION		
Søren Kjær Mortensen	Co-head of Unit	+358 10 618 0249
Lars Selenius	Co-head of Unit	+358 10 618 0502
Nicolas Audibert	Consumer goods and services	+358 10 618 0689
Marjo Harri	Financial intermediaries and SMEs	+358 10 618 0227
Tarja Kylänpää	Infrastructure and telecom	+358 10 618 0237
Vidar Omholt	Heavy industry, mechanical engineering	+358 10 618 0286
Sebastian Påwals	Energy and environment	+358 10 618 0527
Igor Kovtun	Chief representative, Russia	+7 985 643 2264
Xuemin Shao	Chief representative, China & East Asia	+86 10 853 25694

Staff e-mail addresses: firstname.lastname@nib.int

NEW STAFF	
CEO'S OFFICE	LENDING
Henrik Normann (DK) has been appointed President and CEO of NIB. He joined NIB from a position of Managing Director of Danske Markets in Copenhagen, Denmark.	Thomas Wrangdahl (SE) has been appointed as First Vice-President, Head of Lending. He has previously worked as General Manager of BNP Paribas' Stockholm branch, Sweden.
TREASURY	COMPLIANCE
Juha Silvennoinen (FI) has been employed as Senior Portfolio Manager. He joined NIB from credit trading and sales at Svenska Handelsbanken in Helsinki, Finland.	Per Eldar Sjøvik (N) has been employed as Chief Compliance Officer. He joined NIB from a position as Director of the Compliance and Mediation Unit of the African Development Bank in Tunisia.
COMMUNICATIONS	OFFICE SERVICES & FACILITIES
Arild Moen (N) has been appointed Senior Communications Officer at NIB. He joined NIB from a position as journalist with The Wall Street Journal, Dow Jones in Helsinki, Finland.	Petter Ramm-Schmidt (FI) has been employed as handyman at NIB. Before joining NIB he worked at construction firm PR-Pintaremontti Oy in Helsinki, Finland.

NIB streamlines its organisation

The NIB Executive Committee has decided on further organisational changes following the restructuring of the Lending department.

These changes include further integration of mandate considerations in Lending. The department will host units dealing with rating potential loan-takers' compliance with the Bank's mandate.

In line with normal banking compliance that includes the segregation of duties, the title of the Chief Finance Officer will be assigned to the Head of Risk & Finance, Juha Kotajoki. The Head of Treasury, Lars Eibeholm, will continue to have responsibilities for Treasury operations and investor relations.

NIB has also established a new Asset and Liability Committee with the objective to assess all risks and overall capital adequacy. The operation of the new committee will be anchored with the CFO.

"The key driver for these adjustments is to improve operational efficiency and streamline the functions of the various departments in the Bank. It is also a step in the process of breaking down the silos," says Henrik Normann, NIB President and CEO, explaining the changes in the Bank's organisation.

Adjustments have been introduced in most departments of the Bank. The new organisation is in force as of 1 October 2012.

INTERNAL APPOINTMENTS

LENDING

Søren Kjær Mortensen (DK) has been appointed Co-Head of Origination.

Lars Selenius (FI) has been appointed Co-Head of Origination.

Nicolas Audibert (SE) has been appointed Head of Consumer Goods and Services.

Marjo Harri (FI) has been appointed Head of Financial Intermediaries and SMEs.

Tarja Kylänpää (FI) has been appointed Head of Infrastructure and Telecom.

Vidar Omholt (N) has been appointed Head of Heavy Engineering and Mechanical Engineering.

Sebastian Pāvāls (FI) has been appointed Head of Energy and Environment.

Joe Wright (GB) has been appointed Senior Director, Head of Transaction & Portfolio Management.

TREASURY

Kristian Kullberg (FI) has been appointed Senior Money Market Dealer.

BUSINESS INTELLIGENCE & ADMINISTRATION

Matts Grönholm (FI) has been appointed Head of Business Intelligence.

Thomas Eriksson (FI) has been appointed Senior System Specialist, Bank Systems.

Christer Holmström (FI) has been appointed Senior System Specialist, Bank Systems.

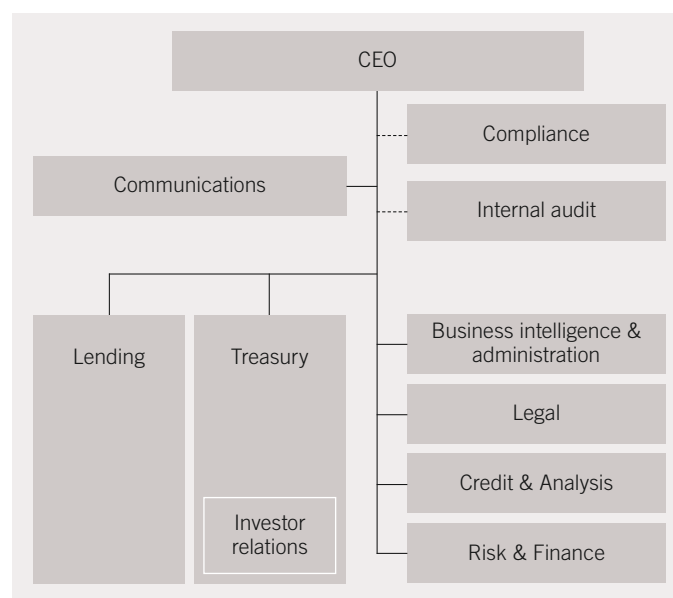
Jaana Ijas (FI) has been appointed Senior System Specialist, Bank Systems.

Joakim Östling (FI) has been appointed Driver/Administrator.

CREDIT & ANALYSIS

Elina Aartola-Mäkelä (FI) has been appointed Deputy Head of Corporate Analysis.

NIB'S ORGANISATION AS OF 1 OCTOBER 2012





NORDIC INVESTMENT BANK

Fabiansgatan 34, P.O. Box 249
FI-00171 Helsinki, Finland
Phone: +358 10 618 001

Email: info@nib.int
<http://www.nib.int>
<http://annual.nib.int>
Follow us on Twitter: @NIB

Subscribe to the NIB Newsletter

You can subscribe to the NIB Newsletter at www.nib.int. We distribute the newsletter by email at least six times a year. It contains links to news, case stories, recent loans and other resources on the Bank's website.

Visit us at www.nib.int

We update the website constantly to keep it relevant for our customers, owners, the media and everyone interested. The website also explains the eligibility criteria for receiving a NIB loan.