

bulletin *July 2000*





Financial intermediaries

In its operations, NIB cooperates with and supplements other Nordic banks and international financial institutions by providing long-term credits for the financing of viable projects. This focus has been intensified in recent years. In order to reach SMEs NIB acts through financial intermediaries who operate closer to grassroots level than NIB does.

NIB has in recent years achieved a considerable growth of lending to Nordic banks and financial institutes with a view to supplementing their financing of SMEs' Nordic projects not least in the environmental and energy sector.

This system of intermediaries has developed most in Iceland. For many years the principal intermediaries in Iceland were government-owned investment funds for basic industries and local authorities. Following the restructuring and amalgamation of many of these funds with commercial banks in recent years, NIB has now established channels through the commercial banks. We are now doing the same in other Nordic countries.

NIB also has channels to SMEs through a number of regional policy institutes. Regional policy loans are an interesting channel for NIB's lending to SMEs for projects within the Nordic area. At present the bank has ongoing commitments to four regional policy institutes.

Nordic lending

In its lending for 1999, NIB has given priority to loans to financial intermediaries for on-lending to SMEs, and special importance has been attached to the Bank assuming a supplementary role in the market by offering longer maturities and full financing of projects. Last year NIB granted credit lines to banks in all the Nordic countries, e.g. to Ålandsbanken, Sparbanken Finn, Íslandsbanki, Roskilde Bank, Ringkjøbing Landbobank and Sparebanken Rogaland. Drawings on credit lines amounted to EUR 71m., divided between eight counterparties. In addition, regional loans totalling EUR 34m. were disbursed to Finnvera, the Government of Åland and the West-Nordic Foundation. At year-end 1999, credit lines outstanding to 20 intermediaries in the Nordic area totalled EUR 418m.

International lending

Outside the Nordic area, NIB relies on a number of credit-worthy intermediaries, above all for helping to finance small and medium scale projects. Most of these intermediaries in developing countries and transitional economies are state-

owned, and all of them are firmly established in long-term finance.

NIB's multilateral and *preferred creditor*-status has if anything a still more important supplementary role for international lending than for lending within the Nordic area, due to NIB having a reduced country risk there in relation to the commercial banks. Nordic project exporters, both in new high-tech branches and those concerned with more traditional contracts and equipment deliveries feel that Nordic enterprise is often at a disadvantage due to the limited capacity of the Nordic area for financing in the global arena. This applies, not least, to new products and services for technology exports. This is the field in which NIB can contribute long-term finance for important projects of mutual interest to Nordic and borrower countries, supplementing commercial banks and national export credits by means of flexible project loans. The total outstanding under these credit lines at year-end 1999 was EUR 412m., to 12 intermediaries.

The credit lines open opportunities for SMEs to take part in Nordic project exports. The local intermediaries, with their local knowledge and contacts, make an effective supplement to NIB's resources.

New enterprise

New enterprise in the Nordic area today is above all being spurred by SMEs. In this connection, technology-based activity in IT and software production has a vital bearing on future growth.

The credit lines, which NIB has granted to intermediaries, are to be regarded as part of an effort to promote growth and new enterprise. But this method has its limitations, both institutional and financial, and NIB is therefore currently considering the possibilities of mezzanine finance for innovation and technology enterprises. This form of finance, e.g. through mezzanine funds or directly to new businesses, could supplement the financial activities of the commercial banks and present a definite added advantage to newly-started businesses. This could provide NIB with a new instrument for promoting new enterprise in the Nordic area.



Jón Sigurðsson

NIB's intermediaries at year-end 1999

	No.	OUTSTANDING (EUR M.)
Within the Nordic area	20	418
Outside the Nordic area	12	412



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Eesti Energia gets the first environmental loan

The Estonian energy corporation Eesti Energia has signed an agreement with NIB for a long-term credit of EEK 200m, equalling EUR 13m. This is an important milestone for NIB – the first loan to be disbursed under the Bank's Environmental Loan facility.

The loan, agreed on at the end of last year, is intended for environmentally important investments in three Estonian power stations. Two of them are fuelled with oil shale and are located in Narva, in the eastern part of the country, while the third is gas- and oil-fired and located in Iru, near Tallinn. The comprehensive investments programme also includes further upgrading of the national power transmission and regional distribution network.

Eesti Energia is investing nearly EEK 1,600m. into a programme which will benefit not only the company itself and

the Estonian economy but the entire Baltic region as well. The current Narva investment confirms a commitment to energy production based on oil shale and a determination to make it environment-friendly. This has long been a critical factor of stability and development in northeast Estonia, due to the power station's importance as the dominant employer in the region.



Sandor Liive

Thorough investigation

The investment decision is to be viewed in the light of a thorough study initiated by NIB at the beginning of the 90s. A report, entitled "Investment and development plan for the Narva power stations and oil shale extraction in Estonia" was presented in November 1995.

The plan, evolved in close co-operation with Eesti Energia and the Finnish and Estonian authorities, was aimed at securing Estonian power production for decades to come. Further, the possibilities of increasing the capacity of the plants and meeting existing environmental stipulations, were also considered. The plan addressed the Estonian power stations' dependability of supplies of oil shale.

Realisation of the plan would also mean Estonia being able to achieve its aim of reducing sulphur emissions by 50 per cent, and at the same time laying the foundations of further reduction demands.

Through this investment project, which NIB is now financing, Eesti Energia will be able to achieve the direct environmental

targets included in the plan, namely a reduction of annual sulphur dioxide emissions by 20,000 tonnes. Complete plans already exist for a new, still more effective reduction of emissions for the period ending 2008.

Future perspectives

State-owned Eesti Energia accounts today for 95 per cent of energy production and 40 per cent of heat production in Estonia. Following the drastic shedding of 3,000 jobs in two years, the company now has a personnel strength of 5,000.

"Outsourcing of different service functions to external subcontractors hasn't been popular, but it was absolutely necessary," says Sandor Liive, Eesti Energia's Director of Finance.

The company has now come to the cross roads. At the same time as Estonian society is rapidly adjusting to the prospect of EU membership, the commercial situation for Estonia's energy-producing competitors has changed, which also accentuates the situation on the Estonian energy market.

"We have electricity producers in our neighbouring countries who want to get rid of their surplus output and are therefore willing to sell it cheap to our customers," says Sandor Liive. The modification – enjoined by the EU – of previous statutory restrictions is opening up possibilities for Estonian energy consumers to buy imported power.

Sandor Liive points out that the power supply network of the Baltic states and Russia are technically united, which makes it easier for power to be delivered across national boundaries.

"Co-operation in the Baltic region began with the national power distribution systems and production capacity forming part of the Soviet power supply system. Co-operation has deepened over the years, partly with support from the Nordic power companies, and this has generated great economic benefits. Whereas to begin with it had more of a technical emphasis, co-operation is now becoming more and more commercial and market-related."

NIB's Regional Manager for the Baltic countries, Lauri Johnson, says that an improved profitability is important for

Eesti Energia. This will give the company a solid base for further investments in energy production facilities, aiming at a future competitive energy sector in the country.

Through its long-term financing of Eesti Energia, NIB can help the company to obtain credits on favourable terms from the commercial market.



Narva power plants will face a comprehensive investment programme.

Paroc Polska

Poland's building materials market is one of the toughest in Europe. High demand notwithstanding, prices are under strong pressure, as all the leading European producers of insulating materials are established in the country. Tapio Moisala, head of Paroc Polska, describes the conditions under which the company started up in Poland nearly two years ago.

Paroc has a longstanding tradition of rock wool to fall back on, since its former parent company, the Finnish Partek Group, has been manufacturing mineral wool for almost fifty years now. During the 90s, though, Partek sold off its entire building materials operation in order to concentrate on engineering. Partek today has a 38 per cent shareholding in Paroc.

The Paroc Group, whose biggest owner today is one of the capital funds administered by Industri Kapital of Sweden, can now look back on almost two years' operations at Trzemeszno, located some 60 km northeast of Poznan in central Poland.

The start-up in central Poland came about because of Polish state-owned Izopol wanting to sell off its three stone wool production lines. Paroc made a snap decision to enter Poland, and the Trzemeszno plant resumed operations under new auspices in August 1998, after two of its three production lines had been renovated and upgraded.

For the further improvement of capacity and efficiency, Paroc has decided to invest in a completely new third production line, scheduled for commissioning this autumn. Apart from its greater efficiency, the new production line will have less energy input and, thanks to the installation of new purification technology, less environmental impact.

Paroc Group Oy Ab (formerly Partek Insulation AB)

EARLY 90s: Production of insulating materials in Sweden and Finland, with a strong market position in both countries, but modest exports. As both countries enter economic crisis, demand plummets and the company begins looking for new markets, above all in the Baltic countries.

1992-93: Sales units are founded in Estonia, Latvia and Lithuania.

1995: Good sales performance spurs the decision to start up production in the Baltics.

1997: Production begins in Vilnius, Lithuania.

1998: Polish start-up resolved on. Two companies are started: the Paroc Polska Sp sales company, and its manufacturing subsidiary Paroc Trzemeszno Sp. Paroc has a 48 per cent holding in these two companies, while IFC, NEFCO (the Nordic Environmental Finance Corporation) and the Finnish investment finance corporation FINNFUND control 52 per cent.

FINANCE: NIB is financing Paroc Polska's investments with a loan of USD 7.4m. Other financiers are the company's shareholders, IFC, NEFCO and Finnfund, as well as the Paroc Group.

All shapes and sizes

Paroc manufactures stone wool insulating material in a variety of forms and for various applications. The relatively low price of the product leaves only a limited margin for transport costs, and preferably it ought to be manufactured locally. Paroc Group Oy Ab's MD, Peder Biese, puts the delivery limit at 400 km. He goes on to say that the Paroc Group manufactures stone wool, and upgrades products derived from it, in Sweden, Finland and Iceland (27% shareholding) as well as in Poland and Lithuania. To this is added board production in the UK on a joint venture basis. There are sales offices in 14 different European locations.

Stone wool is an insulating material used for keeping out both heat and cold. Industry needs applications of its own, for example for lagging pipes, for soundproofing machinery or as thermal insulation for entire ships and factories.

Trzemeszno factory manager Tapio Moisala says that capital expenditure in connection with the Polish start-up has so far totalled USD 10m. The new production line, commissioning after this summer, will cost about USD 22m., and is being financed with loans from NIB, IFC, NEFCO, Finnfund and other sources.



A group of Nordic journalists visited Paroc's Polish plant last spring, hosted by MD Tapio Moisala, second from right.

Parent company takes over Pakenso's factory

Norwegian Elopak has been in our kitchens right from the start in 1959. Its roof-top milk packagings – indispensable for any household with children, not least – have made Elopak familiar to generations of milk drinkers in all the Nordic countries.

Enso has owned half the Pakenso conversion plant in Lahtis, with Elopak controlling the other half. In connection with the Stora-Enso merger, the EU competition authorities demanded that Enso dispose of the Pakenso factory. So the natural thing for Elopak was to buy Enso out and continue the operation under the new name of Elofin Oy.

Elopak a.s. belongs to Tidemanns, one of the biggest privately owned industrial groups in Norway. Elopak today is a worldwide manufacturer of packaging systems for liquid foods. The well-known roof-shaped container is used by dairies for packing a variety of milk and yoghurt products, squashes and soups. But it can also be filled with wine, spices and treacle. Elopak has factories in 16 countries and sales offices in 20. Sales last year totalled NOK 3,800m.

Long-term co-operation

In Finland, Elopak has worked in close collaboration with the Enso paper company, whose cardboard products are used in manufacturing. The actual process of making a milk container involves cutting, blanking and printing, after which the cardboard sheet is folded and packed in piles for delivery to the dairy.



All-Norwegian. Parent company Elopak took over the company in Finland after the EU had disapproved Enso's part-ownership following the merger with Stora. Timo Virtanen has been manager of the Lahtis factory since last year.

In Finland as in the rest of Europe, Elopak and its main rival, Tetrapak, control about half the market each. Elofin has an annual output of about 700m. packagings, and, says MD Timo Virtanen, can easily raise this to a billion should the occasion demand.

Elofin produces milk and other liquid packagings for the Baltic countries, the Czech Republic, Slovakia, Russia and Croatia as well as for the home market.

Timo Virtanen, who took over as MD last year, reports that Elofin's integration with the Norwegian parent company has gone off smoothly.

"We operate as an independent enterprise, but we get support and assistance in various matters from the Group management in Norway."

Environmentally, Timo Virtanen says that Elofin has a track record to be proud of. At the beginning of this year the factory was awarded an ISO standardisation certificate, confirming the rational management of the production process. All waste generated in the course of production is collected and resold as energy or as raw material for other production. One purchaser transforms the waste into shoe soles.

Elofin produces milk and other liquid packagings for many markets in the Baltic countries and Central Europe.

Historic Munksjö looking for narrow niches

Per Rodert, the company's former Director of Economy and Finance, who became Group President in May this year, describes Munksjö's activities as follows:

"Our core operations are paper, packagings, pulp and hygiene products. Our business concept is the development, based on forest industry, of paper products, and especially international growth products."

Paper (55% of turnover)

Per Rodert has no difficulty in concretising "international growth products". In the speciality paper sector, the company has gained a very substantial share of the international market through its successful commitment to decor base paper, a speciality paper which provides the surface layer for printing patterns on laminated board used in flooring and furniture production and for other interior fittings.

The venture has been so successful that the patterned paper for these laminates today represents 40 per cent of turnover and gives Munksjö a 25 per cent share of the world market. At Munksjö the decor paper market is expected to grow approximately 5-10% annually (latest five-year growth rate: 7.5% annually). New markets are opening up both in the USA and Asia and sales are growing – a trend in which the Group President has every confidence.

Munksjö has opted out of large-scale paper manufacturing, concentrating instead on narrow product niches where an order can only involve a couple of tonnes, which, as Per Rodert laughingly observes, "is less than the amount of waste produced by a big paper machine at the trimming stage."

The rest of Munksjö's speciality paper repertoire comprises thin paper, impregnated Kraft paper (Spantex) and electrotechnical paper for cables.

Corrugated board (25%)

Corrugated board is a mass product, which pays best when manufactured locally. If the finished product has to be carried more than 200 or 300 km, profitability is lost. Munksjö produces corrugated board at 11 factories – in Norway, Denmark and Poland as well as Sweden. Raw materials for the corrugated board come from the company's own factory at Timsfors, Sweden. In this segment too, Munksjö profiles itself by concentrating on higher upgrading in the form of elegant printing on the packagings or, for example, special sleeves for glass products. Packaging today is becoming more and more an integral part of the image of the product mar-

keted, especially in super- and hypermarkets.

Hygiene (8%)

Among Swedes in general, Munksjö is perhaps best known for its hygiene articles, meaning toilet and kitchen paper. The company has two

facilities for this production: the Jönköping unit in Sweden, and a second plant in Drammen, Norway (an expansion partly

funded by NIB previously). Semi-manufactured products are exported in the form of large rolls, today representing a quarter of the output.

Pulp (12%)

Pulp is the company's fourth business area. This production takes place at Aspa Bruk, overlooking the northwest corner of Lake Vättern, while head office in Jönköping is on the south side of the same lake. Aspa produces both bleached and unbleached grades (it was

the first mill in the world to produce entirely chlorine-free pulp), using environment-friendly methods with a high standard of purity. Capacity is 170,000 tonnes annually and will eventually climb to 200,000.

Investments

Munksjö AB strengthened its positions in corrugated board production through the acquisition of Norwegian Norpapp in June 1999. Norpapp's modern facilities at Hønefoss, 60 km northwest of Oslo, turn out about 40,000 tonnes of corrugated board annually. Close co-ordination and integration between Norpapp and Munksjö are in progress, as regards both market, machinery and product development.

Munksjö AB

Ownership: public company, with Irish Smurfit Holdings Ltd as its biggest shareholder (33%). Investment in two corrugated board divisions, one of them in Norway (Norpapp Industri) and one in Sweden (Dalwell AB, Bäckeфорs), totalling MNOK 600.

NIB's loan to Munksjö: MNOK 200.

Founded in 1862, Munksjö AB is one of Sweden's oldest paper manufacturers. Its head office is in Jönköping, in the centre of Sweden, but its operations are global, with production facilities in eight countries. This year will see the company grossing more than MSEK 6,000. Munksjö went public way back in 1919.

Group President Per Rodert believes in new markets for the company's speciality paper.



Focus on Kaliningrad



Ralf Friberg, Finland's Ambassador to Copenhagen, is a former MP and member of the Nordic Council, journalist and chief editor and Desk Officer at the Ministry for Foreign Affairs in Helsinki. Before moving to Denmark in 1995, he was Finnish Ambassador to Athens.

The Russian enclave of Kaliningrad, with a population numbering almost a million, is currently in the spotlight, due to its problems and stagnation compared with the economic, democratic and cultural advances in Poland and the Baltic countries and with the flourishing state of the rest of the Baltic region. Several concrete processes in addition to the dynamic development round the Baltic are now causing attention to focus on Kaliningrad. The main preoccupation, at least for Russia's part, is with the Schengen agreement, which is expected to enter into force next March in the Nordic countries and will later pose a direct problem where Russia's links

with Kaliningrad are concerned.

Schengen facilitates the free movement of people and goods within the EU, with the addition of Norway and Iceland – thus preserving the principle and practice of the Nordic passport union. But at the same time it requires effective outer boundary controls, e.g. on Finland's border with Russia. The reference here is to frontiers controls, asylum procedures and immigration, and to the fight against international crime. All traffic crossing the external frontier will be controlled and travel documents will be obligatory, which for travellers from certain countries will also mean visas. It is typical that Russia has not mentioned any problems in relation to Finland joining the Schengen system. The two countries' border controls are considered mutually efficient and in essence have anticipated Schengen.

The second factor is the enlargement of the European Union. Poland and Lithuania may well come to be included in the first group of new Member states. The EU for its part has declared itself ready to admit new members from the New Year 2003, but even before then Poland and Lithuania can apply the Union's Schengen acquis. When this happens, the Oblast of Kaliningrad will find itself

hemmed in by Schengen frontiers. In this respect Kaliningrad can be likened to Switzerland – but in this respect only: the comparison is not all that popular in the EU either.

The Baltic states also have other reasons for taking an interest in Kaliningrad. The incidence of HIV and AIDS has assumed epidemic proportions in the region, which – like the St Petersburg region, for example – is also experiencing an alarming spread of medication-resistant TB. Added to which, Kaliningrad is looked on as a problem region in terms of both environment protection and crime prevention.

Moscow is very much alive to these problems and insists that the enlargement of the Union must not in any way be permitted to impede Russia from supplying Kaliningrad, providing transit facilities, ensuring smooth traffic conditions and enabling Russian citizens in Kaliningrad and Russia to visit each other without, for example, punitive visa costs.

Quite recently, Denmark hosted a conference in Copenhagen on Kaliningrad's problems, as part of the Danish contribution to the EU's northern dimension. In this conceptual framework too, Kaliningrad is clearly an interesting special case. The Russians refer to the possibility of this, the smallest oblast in the Russian Federation, forming, with its special economic zone, a pilot case in Russian EU-contacts. Kaliningrad's situation is unique from both Russian and Union vantage points, and the way ahead goes through uncharted terrain. But here is a region whose incorporation in Baltic co-operation represents a genuine Russian interest, in contrast to Russia's otherwise lukewarm involvement in Baltic co-operation under the aegis of the Council of the Baltic Sea States (CBSS). Another factor to be noted is the reluctance of the European Commission to jump in at the deep end where Kaliningrad is concerned.

One widespread verdict following the Copenhagen conference is that the Russian delegates were well prepared. This applies both to the Kaliningrad delegation, which was entirely made up of regional representatives (nobody from the city itself was present), and to the experts from Moscow.

This is a hopeful sign in itself, strained relations between centre and region notwithstanding. Perhaps President Putin's new deal of keeping the regions on a tighter rein will have the effect of clarifying matters. So too can this autumn's governorship elections, if any can be held at all under the Putin presidency.

A common point of departure for the incipient co-operation between Russia and the EU concerning Kaliningrad lies in the fact of this former East Prussian territory now being indisputably Russian. With no irredentist claims forthcoming from Germany or any neighbouring country, the international

"We in the Nordic countries have perhaps tended to regard Kaliningrad as a post-communist reserve which is off limits, where one cannot get involved... Time is now on Kaliningrad's side."

political situation with regard to Kaliningrad is a stable one.

Kaliningrad today is a problem region from the viewpoint of international investments. SMEs are hampered by a taxation system in a permanent state of flux and, as one Swedish delegate put it, by the difficulties involved in registering firms, leasing building land or renting facilities, obtaining building permits and, above all, arranging finance.

The Swedish delegates in Copenhagen conceded that the main thing now was to utilise existing instruments in order to get things moving. Later on the EU may also come to consider new ways and means of assisting Kaliningrad. "To succeed in all this, we need genuine willingness on the part of the regional authorities in Kaliningrad, and also the federal administration, to bring the region closer to the European Union and to co-operate in a way which is aimed at achieving reforms, is transparent and is founded on law and justice."

As chairman country of the EU for the first half of next year, Sweden has both the interest and the possibility to highlight Kaliningrad in its promotion of the Northern dimension. We in the Nordic countries have perhaps tended to regard Kaliningrad as a post-communist reserve which is off limits, where one cannot get involved and which nothing good can come out of. Time is now on Kaliningrad's side. We must now start to investigate the possibility of a breeding ground for successful manufacturing and business enterprise. The Kaliningrad delegation to the conference particularly stressed the importance of the region now having a BMW assembly plant that was up and running – a fact which was frequently returned to.

NIB and the European Bank for Reconstruction and development (EBRD) already have a toe-hold in Kaliningrad, through Vodokanal's reconstruction of the municipal water supply system. Other projects may become topical within a short period of time. Kaliningrad's unique position is not just a draw-back. There are some fields where Kaliningrad's growth prospects surpass those of the rest of the Russian Federation. We are approaching a sufficiency of case studies and analyses of this region. What is lacking is an efficient, consistent regional and local administration and, consequently, foreign investments.

Ralf Friberg

Nordic-Polish bank co-operation supporting Polish municipalities

BISE's largest shareholders are the Polish government and two French credit institutes. The bank specialises mainly in the SME sector, but Poland's local authorities make up another important sector, with the bank supporting their activities in a variety of ways. It also wants to establish closer relations with NGOs, with a view to helping this sector of Polish society back onto its feet.

Since its foundation in 1990, the bank has gathered a good deal of experience of co-operating with some of Poland's 2,500 municipalities. BISE today is one of the most active banks in this quarter and has contracts with 430 municipalities already. Many of these contracts are concerned with financing an upgrading of the long-neglected and frequently dilapidated local infrastructure. Water supply and sewage treatment upgrading presents a formidable task, because more than half the country's local authorities have no sewage treatment at all, added to which, local government finances are far from robust.

Private customers as well

In addition to investment loans, BISE can offer its customers – who also include private persons – a wide range of more traditional banking services. Its product portfolio includes international credit cards, various plant and vehicle leasing arrangements, real estate mortgage loans and even insurance.

In June 1999 it was decided to merge Bank Energetyki, located in the town of Random, with BISE – a consolidation further strengthening the bank's position in the Polish market.

NIB's frame credit to BISE amounts to EUR 20m. and is intended for environmental improvement projects at local government level. BISE signed a corresponding agreement with the World Bank in 1998.

Martin Relander, NIB's Executive Vice President and Regional Manager for Central and Eastern Europe, says that the new credit programme will offer unique opportunities for helping to finance environmental projects in the Polish municipalities.

"Under this credit programme, NIB can indirectly grant loans with repayment times of up to 20 years. At the same time, indirectly through the credit programme, NIB can offer finance to municipalities whose credit-

worthiness is hard to gauge. "On top of its positive implications for the environment, the credit programme spells opportunities of participation for Nordic industry when these projects are realised," he adds.

BISE's MD Włodzisław Grudziński says that co-operation with NIB can mean a host of business opportunities for Nordic SMEs.



Specialising in windpower

John Fisker says that one of the bank's main commitments is the financing of windpower stations, a form of energy production in which Denmark has become a front-runner, especially in West Jutland, where the bank is located.

"It's no coincidence, everything starting in West Jutland. Denmark can be divided into regions according to wind frequency, and this is the windiest place in the whole country, ideal for windpower production. So it was only natural that we should be one of the first to go in for financing wind farms, and today we can call ourselves experts."

"We have come to specialise in financing wind farms for two different groups. One of them consists of private individuals. Most often nowadays it is a farmer who has a place where he wants to construct a wind farm. It costs him about DKK 5m. to do so. The other group consists of associations of people, perhaps 100 at time, who join forces to buy a wind farm, which means an average capital outlay of DKK 50,000."

What made the Landbobank interested and not its rivals?

"First and foremost, I think, our having in-house expertise, with most wind farms having been constructed in our region, West Jutland, added to which, we had an expansive philosophy. Liquidity has never been a problem. We realised

quite soon that if we achieved this at low risk, then by the same token we could offer the customer a low price. The combination of knowing something about the area – what we call competence – and then getting the price right has given us a huge number of new customers, not only in West Jutland. Wind farms are now being constructed all over Denmark, and we are part of the action."

Today there are a large number of wind farms, together producing 660 kW. They are about ten times larger than the wind farms constructed ten years ago, and in the meantime the technology has noticeably improved. Wind farms now have in-built electronics, whereas earlier they employed more conventional technology.

John Fisker of the Landbobank: "The world's biggest wind farm fabricator is located in Ringkjøbing, which of course was one reason why we jumped at the chance of financing windpower production."



John Fisker goes on to say that wind farms have developed rapidly, and that, starting with units producing 0.66 MW, outputs of 1.5-2 MW or more will eventually be reached.

"Wind farms are already being designed to produce 3 MW, which is five times the present-day output level. They are thirty or forty times bigger than the

wind farms that were constructed ten years ago. Not in physical size, but in output capacity. They are also five times as tall, they really stand out in the landscape. I believe the rotor blade tips reach a height of 120 metres."

John Fisker says that the advantage of these large wind farms is that old, inefficient units can be dismantled and several of them replaced with a single large facility.

Doctors instead of farmers

But the Landbobank's programme includes other things besides windpower. Originally the bank concentrated on financing farmers and their acquisitions. Today half of its customers consist of businesses, and half of working people. The bank has branches in 11 Jutland towns, which makes it the biggest in the west of Denmark.

"We also help to finance doctors' surgeries. When a newly qualified doctor wants to set up a practice, he often has to buy equipment for his surgery. This may cost DKK 2-4m. and the Landbobank can offer the necessary finance.

"We also have private banking services. House mortgages, for example, are also our business."

What do you feel NIB has to offer the Landbobank?

"We are tremendously pleased about our co-operation with NIB. It has given us long-term finance which dovetails excellently with our own long-term financial activities – windpower finance, for example."



Landshypotek – farmer's friend

“Our roots are in farming. As we see it, credits and borrowers must be given the same practical and natural treatment as growing crops.”

This turn of phrase, in Lantbrukskredit AB's latest annual report, aptly summarises the company's approach to existing and potential customers in Sweden.

It goes almost without saying that it is Swedish farmers to whom Lantbrukskredit turns to. The company is to be regarded as a supplementary subsidiary of Landshypotek, which is Sweden's number one agricultural financier.

With a turnover exceeding MSEK 30,000, the Landshypotek Group has a market share of about 60 per cent for first mortgage loans to agriculture and forestry in Sweden.

At Landshypotek, the parent company, MD Ulf Fredrikson remarks that with more and more credit providers entering the market, competition is growing keener. But Landshypotek was an early starter – founded in 1836 – and the experience gained between then and now still gives it a strong market position.

“We have about 70,000 members backing us through their membership of the co-operative economic association. That enables us to keep a lower credit threshold than our rivals can manage. With credit control based locally, we have access to all vital information concerning our borrowers, which means lower costs and fewer credit losses.”

Landshypotek can also offer its customers another telling advantage. Borrowers get a refund on their interest pay-

ments. This refund is geared to Landshypotek's performance, and last year it equalled 9.1 per cent of interest payments. So at the end of the day the refund reduces the interest paid to Landshypotek by the customer.

Lantbrukskredit's business concept is to supplement Landshypotek's lending to agriculture and forestry for investment finance in the upgrading sector. This can mean, for example, investments in the food industry, forest industry and convenience goods retailing. Lantbrukskredit is also one of Sweden's leading wind power financiers.

A special mission for Lantbrukskredit

Anders Bjering, the company's MD, points out that Swedish agriculture is going through a rapid transformation, partly due to technical progress in general, partly in response to the demands of EU membership. He goes on to remark that a similar structural rationalisation is to be seen in other industries. Purchasing is narrowing down to fewer and larger suppliers.

“Our owners,” he says, “want us to take part in the conversion of Sweden's energy system to greater use of renewable energy.”

As part of that development, Lantbrukskredit has decided to finance local bio-fuelled CHPs (combined heating and power plants). Together with NIB, the company has financed district heating plants in Söderköping, Trosa and Vingåker which, as MD Anders Bjering observes, are designed to meet exacting requirements of technology, economics and environmental safety.

Anders Bjering has figures showing the Swedish agriculture in a face of rapid change.



Vingåker – a warm neigh- bourhood!

Åke Lundqvist of
Närvärme Sverige
AB presenting the
Vingåker Plant –
the newest of its
kind in Sweden.



Vingåker Närvärme AB is one of the three “neighbourhood heating plants” which Lantbrukskredit has elected to join NIB in financing. Vingåker itself lies some 20 km west of Katrineholm, the central locality. Vingåker Närvärme (literally, “Vingåker Neighbourhood Heating”) was formed in the autumn of 1998 by the Federation of Swedish Farmers (LRF) and Värmeland Teknik AB. At present some 100 properties, including nearly all those belonging to the municipality, are served by the company’s 8 km long network.

The business concept of companies like this one is based on local enterprise in partnership with local farmers, the object being to offer local landlords a district heating service which is both economically competitive and ecologically sustainable. The farmers are responsible for operation, maintenance and local fuel procurement. The input material is biofuel, which can mean pre-separated wood waste, timber chips, wood from energy forests or straw.

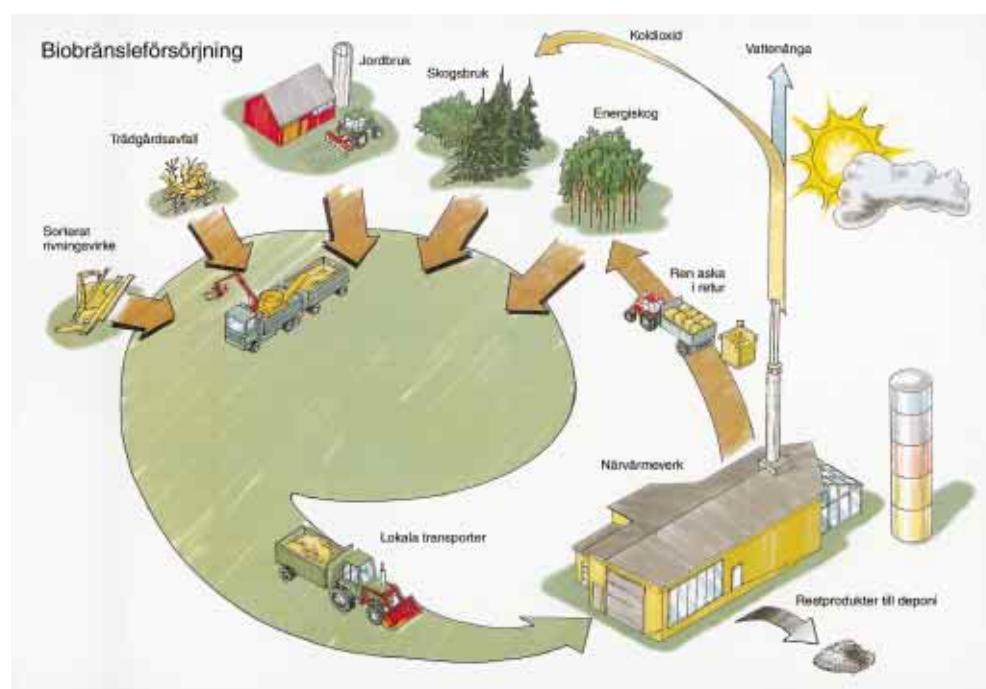
Everything possible is done to create a closed production cycle. This is achieved by means of efficient purification

and condensation of the flue gases coming from the furnaces. The limited quantities of ash, which the furnaces produce, are restored to the land and forest, while residual products from the flue gases are collected and disposed of on landfill sites.

Vingåker’s new district heating plant has reduced the oil burn by 4,000 cu. m. But 20,000 cu. m. of chips or other biofuel are needed instead. During the coldest winter period the plant needs topping up with between 5 and 10 lorryloads of chips a week.

Steam for energy

Combustion in the heating plant generates hot flue gases, which are led off to a boiler where the steam drives a steam engine. The water vapour formed drives a generator producing electricity. The electricity mainly powers the district heating plant, but any surplus can be sold to the local power supply network. In this way all the energy produced at the district heating plant is made use of.



THE BIOFUEL CYCLE

The Vingåker “Neighbourhood Heating Plant” aims at reaching a closed production cycle with only residual products remaining.

West-Nordic Foundation looking for new ways ahead

Whereas the Nordic Investment Bank has the task of strengthening and developing co-operation at Nordic level, the West-Nordic Foundation, alias the Nordic Development Fund for the West-Nordic area, shoulders the same responsibility for its region, comprising the three island nations of Iceland, the Faeroes and Greenland. The fund, which has already been operating for 15 years, is now acquiring a new Managing-Director, the second in its history, namely Faeroese Sverri Hansen.



Sverri Hansen

The West-Nordic Foundation was founded in 1986 by the Nordic countries together with the Faeroes and Greenland. Its task is to promote economic development in the three West-Nordic communities. Regional policy is a key word in this connection.

Over the years, Iceland has been the Foundation's dominant borrower with a share of 57 per cent, followed by the Faeroes (27%) and Greenland (16%). By the end of 1998 the Foundation had 68 borrowers, with loans outstanding totalling DKK 75m. The Foundation's authorised capital at 31st December 1999 amounted to DKK 91m. Its total lending guarantee commitment is limited to twice the amount of equity, which means a credit ceiling of DKK 182m.

The new statutes adopted for the Foundation in 1997 are aimed at equalising the distribution of credits. The plan now is to put more emphasis on joint projects.

The new Managing-Director Sverri Hansen, sees it as his task to find new areas in which the foundation can make itself useful. He believes in the importance of co-ordinating internal relations within the West-Nordic region. Nor is he foreign to the role of operator in the individual countries. "If nothing is done, nothing happens," he remarks, reminding us that we are in fact talking about a region with 350,000 inhabitants.

At the time of our interview, in mid-May, Hansen had just returned to his Reykjavik office from an initial, week-long journey to Greenland, where it became clear to him that the Foundation had a real part to play there.

"I think the Foundation can be useful as a sparring partner to the people running the projects," he says. Current projects, which the West-Nordic Foundation may conceivably support in Greenland, relate to sectors like tourism – the borrowers include three hotels – crafts and projects utilising the skill of the Inuit.

Fisheries in the Faeroes

Fishing is the industry, which tops a sectorial breakdown of the Foundation's credit customers: fisheries 26%, manufacturing industry 24% and tourism 23%.

Sverri Hansen is an economics graduate and, during the Faeroese crisis between 1995 and 1998, served as Board Chairman of the Faeroese Business Development Institute, which was tasked with radically reconstructing the Faeroese fishing industry to save it from bankruptcy.

"A tough job and it didn't make me all that popular," he recalls. "But it was a matter of survival. Today we are harvesting the fruits of that restructuring, and the Faeroese fishing industry is back into top gear."

The West-Nordic Foundation is represented in all three island communities. Head Office is in Reykjavik, with two employees to assist the Managing-Director. There is another office in Torshavn in the Faeroes, and one in Nuuk in Greenland.

NIB's lending to the Foundation consists of a loan facility of DKK 20m.



Stykkishólmur goes in for geothermal heating

Half the houses in town are already connected to the central heating plant which pumps up water at a temperature of 87°C.

A 5 km pipeline transfers the volcanically heated water to the town, and heat exchangers transmit the heat to the subscriber households, giving them a year-round supply of hot (55°C) running water.

Oli Jón Gunnarsson, Mayor of Stykkishólmur, recalls, however, that this was formerly classed as a 'cold' region and the chances of striking hot springs were rated very small.

But the new technique developed for the purpose inspired hope. The presence of hot springs can now be detected, through bore holes 60 metres deep, from tell-tale temperature differences in the bedrock. Test drilling began, and almost at once a promising area, measuring 1 x 3 km, was discovered outside the town.

"The first bore hole confirmed our expectations," Oli Jón Gunnarsson recalls. "Up came water at a temperature of 87°C.

After that, all we had to do was keep drilling. The wells that are now being used are 900 metres deep."

Stykkishólmur is a community of 1,400 souls located on the southern shore of Breiða Fjord in the northwest of Iceland. Its economy, like that of so many other Icelandic communities, depends on fishing, and Stykkishólmur has four factories, which upgrade the local fishing vessels' catches. The municipality has chosen to solve its heating problems by plugging into the geothermal capacity of which Iceland has such an abundance.

Government has advanced the project with 75m. NIB, acting through the Icelandic local government credit fund (Lánasjóður sveitarfélaga), has granted ISK 200m. for the project.



Not a big plant. It takes very little in the way of extra equipment to raise water from the depths of the earth. A bore hole, a pump and a few gauges for reading the water temperature.

But households in the town are not the only beneficiaries. The town's children and youngsters now have a swimming pool close to the school.

The Mayor hopes that one day Stykkishólmur will also be able to make a tourist attraction out of its natural asset. It is an established fact that the sulphurous water – which also has quite a high saline content – is good for skin diseases. He imagines some kind of spa, offering visitors both relaxation and an invigorating health cure. But the whole idea hinges on finance.

The Stykkishólmur heating plant, now nearing completion, has cost the municipality ISK 400m. The Icelandic

When every house is connected to the central heating plant, Oli Jón Gunnarsson, Mayor of Stykkishólmur, has a smokeless town.



Hi-tech enterprises united in Technopolis



Technopolis' MD, Pertti Huuskonen, gives the following concise definition of the company's operating principles. "We offer our customers appropriate facilities with a service concept to match."

"Landlords and property investors abound in every city, but Technopolis is not just in the business of ordinary office rentals. Our competitive strength," Pertti Huuskonen explains, "is based on effective interaction and a beneficial atmosphere for our IT enterprises." He has made a study of similar growth centres, in both Europe and America. "In our facilities," he continues, "we plan meeting points for everyone working in the building. The tenants – companies, that is – are co-ordinated thematically, so that a natural interaction will develop between them. And we don't forget the private needs of the employees – such as tennis courts and day nursery facilities for their children."

Important decisions

Oulu's path to becoming one of Finland's most important growth centres emanates to a great extent from a decision taken at the end of the 1950s: to found a university there. This, Pertti Huuskonen remarks, was mainly a question of proactive regional policy. "When process industry in the north of Finland needed more engineers in the 60s, the University responded by setting up a faculty of technology. When the faculty in turn was looking for a speciality of their own, they settled on electronics. And on top of that, when the Technical Research centre of Finland (VTT) decided in the 70s to station its unit in Oulu, all the main pieces fell into place."

Beyond expectation

The Technology Park was founded near the University, in an old dairy. The long-term plans drawn up at the time – in 1982 – envisaged a floor space of 15,000 sq.m. by 2000. In fact the enterprise now commands 125,000 sq.m., with more to come. The tenants, including many of Finland's most famous export enterprises – Nokia, for example, with more than a thou-

Technopolis Oyj

MAIN SHAREHOLDERS:

City of Oulu	20.9 %
Sampo-Group	5.7 %
Finnvera	5.0 %
Norvestia	3.7 %
Fortel Invest	3.7 %
Foreign shareholders	7.0 %

sand employees at Technopolis, Sonera and many others besides – are expanding at breakneck speed and of course need more space.

The Technopolis Board has therefore resolved on the addition of a new wing to its Smarthouse

building, thereby increasing its floor space by 8,000 sq.m. at an estimated cost of EUR 21m.

"Useful" is MD Pertti Huuskonen's verdict on NIB's involvement. "Several banks have helped to finance our investments. The NIB financial model of long-term loans and a clear structure of guarantees has suited us perfectly." He also underlines that the bank's good reputation "rubs off" onto the project.

Technopolis is the centre of the new technology in the north of Finland, a country where this sector has shown an outstanding growth rate. When the Oulu Technology Park was founded in 1982, the idea was to gather all technical talent from this part of the country under a single roof. Today the Technology Park, since renamed Technopolis, with its 140 companies and 4,000 employees, ranks among the front runners in its field. Technopolis went public, on the Helsinki stock exchange, in June 1999.

In the front line

Pertti Huuskonen believes in dynamic growth to come. Last year Technopolis' investments totalled FIM 140m. rising this year to about 200m. Technopolis intends staying in the front line of development as a service company for sectors with growth potential. To this end it has founded a new centre, Medipolis, for a sector already marked down as Finland's next growth area, namely biotechnology, medicine and research focusing on human wellbeing.



*Managing Director
Pertti Huuskonen has a strong
belief in further expansion.*

Loans to women in the Baltic countries

The Nordic Investment Bank has signed an agreement with three Baltic banks on a loan facility for women entrepreneurs in Estonia, Latvia and Lithuania. The bank has signed a credit agreement with Hansabanka in Riga, and similar agreements have been concluded with Optiva Bank in Estonia and the Lithuanian Development Bank.

At a conference entitled "Women and Democracy" in Reykjavik in October 1999, delegates from the Nordic countries, the Baltic countries, Russia and the USA discussed ways of increasing women's involvement in politics and business.

In conjunction with the conference, NIB announced that for this purpose it would be funding a loan facility of EUR 1m.

to finance women's entrepreneurial activities in Estonia, Latvia and Lithuania. At the conference the USA also announced that it would be providing USD 1m. for the same purpose in Russia.

Through this credit arrangement with the three intermediary banks in the Baltic countries, NIB has created a practical means of supporting women entrepreneurs in these countries. The loan facility gives the women entrepreneurs access to medium-term loans for commercial projects.

"We assume," says NIB's Senior Vice President Siv Hellén, "that the loan facility will be fully subscribed this year, so that we will be able to report tangible results at the follow-up conference in Vilnius next year." She hopes that this initiative will prove an effective means of encouraging entrepreneurship among women in the Baltic countries.

Optiva Bank distributing NIB loans in Estonia

Jelena Hlebnikova finds that NIB's women's facility, agreed with Optiva Bank at the beginning of this year, ties in very well with the bank's product range. When the bank announced the new women's credit, the switchboard was jammed by incoming calls from women entrepreneurs wanting to know more.

Optiva treats the women's credits like any other ordinary loans, the criteria being exactly the same in both

Estonia's Optiva Bank has now been operating for just over a year since it was formed through a merger of the Estonian Investment Bank and Foreks Pank. Today Optiva Bank considers itself one of the main Estonian banks – third largest next to Hansabank and Unibank. Senior Analyst Jelena Hlebnikova says that Optiva has found its niche as a financier of Estonian SMEs. But the private customer sector is also important to it.

cases. As Jelena Hlebnikova puts it: "The businesses chosen must have profitable operations and their documents must be in good order."

During the spring Optiva Bank granted 14 credits under the women's facility for a total of EEK 3.5m. (EUR 0.22m.). Lending amounts range between EEK 100,000 and 200,000.

Optiva Bank's female borrowers are to a great extent employed in the service sector. Often this means beauty parlours or ladies' hairdressing, but pharmacies and building

materials retailers are also represented.

Optiva Bank is very pleased with the new customer category. Jelena Hlebnikova sums up by saying: "Our female borrowers are often experienced entrepreneurs who fight shy of excessive risk exposure. Generally speaking they are very solid business people indeed."

Daam Koolitus – training tour leaders

During the short time they can spare for chatting with us, there is no mistaking the enthusiasm and go-ahead spirit of Inga Jagodkina and Reet Kivi. Between them they represent a completely new line of business in Estonia initially started by Marina Laikjõe. The country's tour leaders have no knowledge of destinations and customer service, and Daam Koolitus is the name of a tour leader training centre (and a travel agency, as well), which has been established in Tallinn to remedy



There is no mistaking the enthusiasm and go-ahead spirit of Inga Jagodkina and Reet Kivi.

this deficiency. The Optiva Bank credit is the company's first and is being used to fit out new training premises.

Marina Laikjõe initially comes from Tartu, where she started a travel agency six years ago. During the journeys – mainly to Paris, Egypt and Hawaii – she noticed that many of the Estonian couriers she engaged had a poor knowledge of basics. She wanted to give her package customers a better deal, but there were no tour leaders who really knew the meaning of personal service.

Marina Laikjõe focused all forces to form RRA, "the

Training Centre for Tour Leaders and Recreation".

The first course, advertised last spring, attracted 250 applicants, of whom only 30 could be admitted. During the next training period, which totals 300 hours of lectures, the participants will among other things learn about customer service, the culture of different countries and any amount of facts about travel destinations, as well as first aid, group psychology and ecology.

The next project the ladies have in mind is the training of tour leaders for Russian-speaking groups.

Nordic loans for women entrepreneurs in Latvia

At the headquarters of Latvia's Hansabank, Baiba Circene, head of the Commercial Banking Department, has had a busy time of it this spring. NIB's loan facility for women entrepreneurs in the Baltic countries has come in for widespread publicity and has attracted a great deal of interest, with Hansabank fielding a large number of inquiries about credit opportunities.

"We have had many calls from women wanting to start up on their own," says Baiba Circene, "but if their financial plans have been incomplete we have had to turn them down." Loans under the women's facility are granted at a lower rate of interest than ordinary loans, but otherwise the terms are the same as with Hansabank's regular lending.

"The real target group for women's loans," Baiba Circene continues, "is small firms outside Riga. In Riga itself, entrepreneurs often have access to ordinary loans, whereas outside the capital things are more difficult. This is a very lopsided situation, with 75% of the country's economic activity located in Riga, which also commands most of our skilled manpower."

So far, women's loans have been approved to nine firms, mainly in the service sector. These women entrepreneurs run food stores and train hairdressers, for example. By definition, the firms are owned by or mainly employ women. Most of the firms have contracted loans for the renovation of their facilities. Baiba Circene predicts that the programme will soon be fully subscribed. Out of a total credit frame of 200,000 Latvian lats, 180,000 have been disbursed already.

Successful IT consultants

One of the Latvian firms obtaining a women's loan is PC Konsultants, which offers software and training courses to other businesses. PC Konsultants, which operates in Kuldiga, a typical small town in the west of Latvia, has been granted a loan for the renovation of its new office and trading premises in the town centre.

Antra Dilāne and her husband, Aldis Dilāns, have worked hard and succeeded. Antra Dilāne describes the op-



Aldis Dilāns and Antra Dilāne – keen IT entrepreneurs in Latvian Kuldiga.

eration. "Our town has other IT companies which specialise in the Internet and technical satellite links. Our niche is IT training and courses. We sell software and we offer training courses to our customers. And we run a phone-in user support service."

Their services are employed mainly by corporate customers but also by public authorities. They have an estimated 150 active customers at present.

"In this business, nothing stands still and we have to keep up with developments," says Aldis Dilāns, who is in charge of the technical side of the business. New legislation, e.g. on accounting records, has, he says, put new demands on businesses and at the same time created a demand for new accounting programs. "Our job, then, is to keep abreast of the situation and offer our customers the latest software in this field as well."

The company now has six employees, and will soon be expanding and taking on two more women workers. "But," says Antra Dilāne, "attracting skilled labour to our town isn't easy."

The couple sees a bright future ahead of them. They want to develop their Internet services and hope to be able to offer an on-line connection. Today one-third of PC users in Kuldiga has access to the Internet. Aldis Dilāns predicts that, as time goes on, more and more private persons will come to be included among their customers.

Women entrepreneurs active in Lithuania

“We had more than 60 applications from Lithuanian women entrepreneurs, but we had to do a lot of weeding out,” says project manager Donatas Germanavičius of the Lithuanian Development Bank (LDB), who co-ordinates the women’s business loan facility in Lithuania.

The firms applying for loans through the LDB include cafés and small shops, dental clinics, hotels and a magazine. One-third of the applications comes from the bigger cities. The fact is that city-dwellers can obtain guarantees more easily and, consequently, have less difficulty in obtaining credits. Donatas Germanavičius says that many entrepreneurs have difficulties in providing adequate security.

The climate for women’s enterprise in Lithuania is friendly, and women have good chances of actively participating in the country’s economic development.

– “Women in Lithuania are used to taking part in business and so they do not feel discriminated against, but the early stages of starting up a new business are difficult for everyone,” says Vida Gintautaitė, herself a former entrepreneur and now project co-ordinator at the Nordic Council of Ministers’ Information Office in Vilnius. She co-ordinates various Lithuanian and Nordic women’s projects and liaises with women’s organisations in Estonia, Latvia and other countries.

Vida Gintautaitė says that Lithuanian women are well organised into associations and NGOs and that various women’s networks are operating in many parts of the country. In these organisations women can obtain training, for example in accounting and management, and, she adds, they really need it.

“Lithuanian women are progressive and active. They

are quick to absorb new ideas and better than men at adjusting to the prevailing economic situation. Just consider that our country introduced a market economy less than ten years ago!”

Alexandra Voronova and Jūratė Zabielaitytė, both women entrepreneurs in Vilnius, agree with her. They applied to the LDB after reading about the loans for women entrepreneurs in a newspaper article.

Many of the law offices in Vilnius are run by women. Jūratė Zabielaitytė’s law office has done well and is growing steadily. She specialises in commercial customers. “70% of our customers are foreign investors who need help with starting up in Lithuania,” she says. She can also serve her customers in English, and has pursued further studies in Britain and the USA among other places.

Alexandra Voronova’s company, Alma, sells office supplies in five localities throughout the country. The company has almost 100 employees and further expansion is planned. The loan through the women’s facility is its first real bank loan.

“We started trading eight years ago,” Alexandra Voronova recalls, “with the aid of a loan from one of our friends. The interest on that loan was 600%.” Now the time is ripe for a normal bank loan on normal terms.

“We are confident of the future. The young generation thinks on completely different lines from us older ones. Young people have objectives and know what they want. There are many sceptics, but we ourselves believe that Lithuania will manage and,” she adds, “hope that others will believe in us as well.”



Jūratė Zabielaitytė and Alexandra Voronova (right) are active entrepreneurs in Vilnius.

The Baltic Investment Programme – expectations and experiences

The establishment of BIP had been preceded by two comprehensive surveys of the investment climate and of the need for financial mechanisms in the Baltic countries. These surveys had already begun before the countries concerned regained their independence. The following observations, among other things, were made on the basis of the surveys and of the situation in the three countries at the time of start-up:

- The transition to a market economy hinges on the development of the private sector.
- SMEs occupy a key position.
- Market-based financial mechanisms should be established as instruments for channelling long-term capital to the Baltic countries.

The BIP programme was intended to provide for these needs. It was further assumed that specialised credit institutions receiving state support in one form or another would have a long-term mission to accomplish and that for a long time these institutions would remain a relatively unique source of long-term capital. It was also assumed that a natural division of labour would materialise between these institutions and the local commercial banks.

The process of transition was also expected to be long-lasting, offering ample time for the development of skills and knowledge and for adjusting to new conditions. Accordingly, the market was not to expect too rapid credit decisions. The legal infrastructure was also expected to develop in step with the general process of adjustment to the market economy.

Lastly, it was assumed that providers of multilateral and bilateral assistance, together with other partners, would share a common aim for the development of financial mechanisms.

Rapid development – lost market shares

It soon became clear, however, that in certain fields economic developments were moving very fast. New banks and enterprises were founded and the privatisation of enterprise continued, though not always in the most appropriate way. Legislation was unable to keep pace with developments generally.

To meet the competition from the commercial banks, the specialised credit institutions were forced to reduce their margins, a reduction which, unlike the commercial banks, they were unable to offset with earnings from other products and other kinds of services. The specialised credit institutions became less profitable than the commercial banks and even-

tually lost their market shares, due to the narrowness of their product range. The universal banks gained ground. The banks' owners could not agree on the banks' future strategy. The state no longer wished to play an active part in financial activities, and eventually in the process the banks turned into ordinary commercial banks.

This, however, roughly coincided with the Asian crisis, which also had ripple effects in the Baltic, the flow of financial investments came to a halt, and share prices plummeted. Then came the Russian crisis, which conclusively pushed

The Baltic Investment Programme (BIP) was established by the Nordic countries in 1992, on the basis of a joint Nordic-Baltic declaration. In 1995 BIP was extended until the end of 1999. It was administered by three institutions: NIB, the EBRD and the Nordic Project Export Fund (Nopef).

BIP, totalling some EUR 175m. altogether, comprised six different partial components, of which NIB was responsible for three:

1. A credit facility of EUR 60m., for lending to SMEs.
2. A technical assistance fund of EUR 8.25m. for building up the three Baltic investment banks.
3. An equity investment fund of EUR 7.5m. for subscribing share capital in the investment banks (added in 1996).

the three countries and the banking system into a re-think. Perhaps after all, an efficient specialised credit institution could have had a part to play in a long-term perspective.

Flexibility

It is always easy to be wise after the event, but there are certain conclusions which we in NIB can draw from these seven years, based partly on our own experience and partly on viewpoints received from the recipients of our assistance to the Baltic countries.

Programmes for new economies like the Baltic ones should be made flexible, with the possibility of changing direction. Where these countries are concerned, it is impossible to tell in advance exactly how developments are going to pan out.

The responsible participants must be given equal opportunities of influence, and the common objective should be reaffirmed. Conflicts of interest should be avoided. The ideal would have been to have just one institution responsible for implementing the programme. Here, as in many other cases,

too many cooks spoil the broth.

Care should be taken to ensure that implementing a programme can provide sufficient and appropriate resources. With the direction of the banks' activities changed, NIB did not always have the right resources available either.

More publicity

But those to whom the programme was addressed have also pointed out that success is possible only if the recipients are also willing and able to utilise the advice given and measures taken.

As the head of one of the Baltic banks put it, "Looking back, we have perceived in almost every way the value of the measures taken by NIB and the true quality of the advice that was once given."

The Baltic countries have also pointed out that the programme did not receive the publicity and weight that it deserved. Then again, NIB should have been allowed to become a shareholder in the banks from the very beginning. It has also been generally agreed that the structure and implementation of the credit facility were a success, which could have been marketed still better.

Now that the programme is practically concluded for NIB's part, it remains to ponder the future. Here our Baltic colleagues see an important role for NIB: the SME sector still needs long-term capital, and there is a place for niche banks. The BIP programme is only the end of Chapter 1, not of the whole story. Finally, NIB has been asked: "Can the Baltic countries become members of NIB?"

Siv Hellén



"BIP veterans" from the Baltic banks gathered in Lapland for a brainstorming session, hosted by NIB, on the subject of BIP and NIB's future in the Baltic countries. Close harmony was the order of the day!

New appointments



Ann Damström (FIN)

until now Senior Counsel in the Bank's Nordic Department, has been appointed Vice President (Legal Affairs) in the Nordic Department.



Seija Hallavo (FIN)

has taken over as NIB's IT Manager. She comes to NIB from OKOBANK, where she served as Director for the Treasury and Capital Markets Division and, most recently, as OKO Group Director of Information and Technology Management.



Timo Harjanne (FIN)

has been appointed Technology Manager in charge of the Technology Unit set up recently as part of the Bank's IT Department, in which he served previously as an NT specialist.



Asko Heilala (FIN)

has been appointed Loan Officer in the Finnish Region of the Nordic Department. Previously he worked with private sector projects in the Bank's International Department.



Jørgen Ilsøe (DK),

Vice President, has been appointed Regional Manager for Africa and the Middle East. He now returns to the Helsinki office from Singapore, where he was stationed as Regional Manager for Asia.



Per Klaumann (DK)

has taken up an appointment with the Bank's Nordic Department as Vice President and Regional Manager for Denmark. He joins NIB from Unibank, where he worked as Senior Relationship Manager in the department 'Corporate Banking — Large Corporates'.



Stina Kontro (FIN)

up till now in charge of NIB's Bank Accounting, has been appointed NIB's Chief Accountant and as such will be in charge of the bank's accounting and of its Accounting Department.



Jamima Löfström (FIN)

Deputy Manager of the Information Department, is to be NIB's new Information Manager.



Magnús Thór Ágústsson (IS)

has taken up a permanent appointment as Financial Analyst in the Treasury Department, where he served previously in the Analysis and IT Section.



Søren Kjær Mortensen (DK),

Vice President, takes over as Regional Manager for Asia. He will be stationed in Singapore and will be responsible for the Bank's international lending in Asia. Søren Kjær Mortensen was formerly NIB's Regional Manager for Denmark.



Samu Slotte (FIN)

has taken up an appointment as Funding Officer in the Treasury Department. He has previously served as a dealer in the Cash Management Section.



Per Eldar Søvik (N)

has been appointed Vice President in charge of procurement and loan administration in the Bank's sister organisation Nordic Development Fund, NDF.

This is NIB

The Nordic Investment Bank (NIB) finances private and public projects, which have high priority with the Nordic countries and the borrowers. NIB finances projects both within and outside the Nordic countries.

NIB is a multilateral financial institution owned by the five Nordic countries. The bank operates in accordance with commercially sound banking principles. The member countries appoint the representatives of the Bank's Board of Directors and of its Control Committee.

NIB offers its clients long-term loans and guarantees on competitive market terms. NIB acquires the funds to finance its lending by borrowing on the international capital markets. NIB's bonds enjoy the highest possible credit rating, AAA/Aaa, with the leading rating agencies Standard & Poor's and Moody's.

NIB has its headquarters in Helsinki and offices in Copenhagen, Oslo, Reykjavik, Stockholm and Singapore. The Bank has approximately 130 employees, recruited from all the five Nordic countries.

NIB's financing possibilities

The Nordic Investment Bank grants loans and guarantees on commercial banking terms within and outside the Nordic countries for projects, which are of mutual interest for the Nordic countries, and for the borrower country. Loans and guarantees are granted to finance investments that assure energy supply, improve infrastructure or support research and development. High priority is also given to projects which improve the environment in the Nordic countries and their neighboring areas. NIB participates in the financing of foreign investments which provide employment in the Nordic countries. NIB finances various international projects in emerging markets as well as within the OECD area. The Bank grants loans to projects that support economic development in the Nordic countries' neighboring areas as well as to finance investments of mutual interest in various parts of the world.

In addition to loans, NIB also grants guarantees for projects that meet the Bank's conditions.

Nordic loans

Investment loans

NIB offers medium and long-term loans with maturities of 5 to 15 years. The loans are granted in various currencies at fixed or floating marketbased interest rates, for up to half of the project's total cost.

NIB finances projects in:

- The manufacturing sector, including investments in facilities and machinery,
- Infrastructure, including transportation, telecommunica-

tions, energy, water supply, sewerage and waste treatment,

- Environmental improvement, both in the private and the public sector,
- Research and development,
- Crossborder investments, such as mergers and corporate acquisitions,
- Foreign investments in the Nordic countries.

Regional loans

Regional loans are granted to national, regional credit institutions for the further development of business in priority regions.

International loans

The core of NIB's international lending operations consists of project investment loans. These are long-term loans—up to 20 years—for projects in emerging markets in Asia, the Middle East, Central and Eastern Europe, Latin America as well as Africa.

Project investment loans are usually granted on a sovereign basis but may also be granted without a government guarantee, particularly to private sector infrastructure investments. The loans are granted for up to half of the project's total cost. Project investment loans can be utilized to finance all types of project costs, including local costs. The loans are granted at marketbased interest rates in a currency preferred by the customer. Project investment loans have been granted for projects in more than 40 countries.

NIB can also provide loans to investments, including joint ventures and corporate acquisitions, within the OECD area.

The neighboring areas

NIB gives priority to the financing of public and private infrastructure and industrial investments in the neighboring areas to the Nordic region. Further, NIB participates in the financing of projects in the Baltic countries through investment loans to companies, which are investing in the Baltic countries.

NIB is authorized to grant special environmental investment loans to public and private sector environmental projects in the neighboring areas to the Nordic region, i.e. to Poland, the Kaliningrad area, Estonia, Latvia, Lithuania and northwest Russia (St. Petersburg, the Leningrad area, the Karelian Republic and the Barents region). The projects are to help in reducing environmental degradation, and thereby also in reducing crossborder pollution. The environmental investment loans are granted on the basis of commercial banking terms to governments, governmental authorities, institutions and companies.

Continuing good results

The Annual Report of the Nordic Investment Bank for 1999 shows continuing good results. NIB's net interest income rose to EUR 140 million (1998: ECU 137 million) while the profit for the period amounted to EUR 106 million (ECU 115 million)

During the year, the Bank financed Nordic projects totalling EUR 1,000 million, while loans to international projects amounted to 322 million. This year again, NIB had no credit losses, but a provision of EUR 1.75 million was made for a potential loan loss. During the year, the Bank borrowed EUR 2,478 million in the international capital markets.

NIB President and CEO Jón Sigurðsson emphasises that the Bank's role as a supplementary financier to SMEs in the Nordic area has been strengthened during the year.

"Through extensive co-operation with local banks," he says, "we have been able to serve this important customer category in all five Nordic countries."

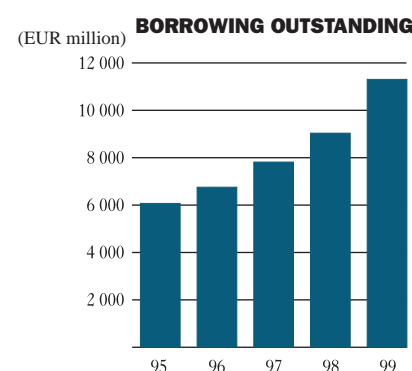
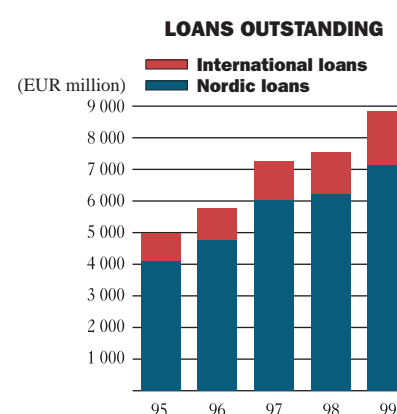
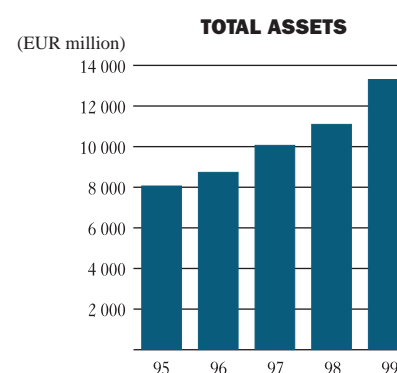
Apart from Nordic lending, the Bank gives priority to projects in the neighbouring regions to the Nordic area, specifically to the Baltic countries.

"Our strategic focus on environmental finance," Jón Sigurðsson continues, "is reflected, among other things, by the loan of EUR 13 million granted by NIB to the Estonian energy company Eesti Energia. Our financing is helping the Estonian company to achieve a substantial reduction of sulphur-dioxide emissions from the power production, coupled with improvements in productive efficiency."

"During the year," he adds, "we have entered into new co-operation agreements with a number of transitional and developing countries as a preparation for future Nordic activities in new markets."

At present, NIB has loans outstanding to 32 countries outside the Nordic area.

The Bank's stock of loans outstanding at year-end amounted to EUR 8,854 million, which, excluding exchange rate effects, was 7 per cent up on the preceding year. The Bank's authorised capital and lending ceiling was increased at the beginning of the year, raising its lending capacity from EUR 9.2 billion to 13.5 billion. A new agreement between the Nordic countries, consolidating and strengthening the Bank's multilateral status, came into force in July 1999.



Key figures for NIB (in EUR million)

	1999	1998
Profit	106	115
Net interest income	140	137
Loans disbursed	1,322	1,344
Guarantees issued	0	9
Loan agreements	1,438	1,191
Loans outstanding	8,854	7,568
Guarantees outstanding	31	29
New debt issues	2,478	2,484
Debts evidenced by certificates	11,336	9,059
Net liquidity	2,781	1,902
Total assets	13,337	11,122
Number of employees	131	123

NIB 1999

The year in brief

- Profit EUR 106 million and net interest income EUR 140 million
- High quality of loan portfolio sustained, no credit losses
- The new agreement on NIB entered into force
- Strengthened lending capacity, ca. EUR 13.5 billion
- Dividend of EUR 35 million to NIB's owners
- First environmental investment loan to the neighboring areas disbursed
- Increased co-operation with other financing sources



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